

CHAPTER ONE

INTRODUCTION

1.1. GENERAL PERSPECTIVE OF VIETNAM

The Vietnamese economy has made great strides since the government embarked on its “doi moi” programme of reform 11 years ago. Capital and expertise from foreign sources have played key role in this development.

In particular the year 1995 was an eventful year for Vietnam to mobilize into the world economic scene.

Firstly it normalized its relationship with Washington which was seen as the biggest stumbling block for Vietnam to play an active role of an economic community in the world. Secondly it was also the year Vietnam gained full membership status in the Association of Southeast Asian Nations (ASEAN).

Changes in the administration and economic structure of Vietnam since 1986 have provided opportunities for many companies throughout the country. These changes, together with geographical proximity of ASEAN and the current good diplomatic relations between the two countries, provide a golden opportunity for ASEAN business to penetrate the Vietnamese market and to take advantage of cheap labour and material resources.

But today with external relationships greatly improved, Vietnam has to seriously look at domestic issues which is the very foundation of "doi moi"'s success.

Although reformation has shown relatively consistent performance results, but managing these reformation in line with facilitating foreign investment has become a problem.

There is gross economic inefficiencies endured under the centrally planned system now largely (although not wholly) removed, the government has to enact new initiatives that will generate new growth through building confidence of foreign investors.

Today investors are growing impatient. Returns have been dissapointing and in some cases non existent. Investors put the blame on red tape, corruption and official foot dragging on opening up the economy.

Vietnam's reputation in international business circle has suffered as a result.

Vietnam also faces strong competition from other equally attractive investment opportunities in the region but the country does have several advantages over its competitors including its huge domestic market of 70 million, vast and varied natural resources and the ability to tap on the business and management expertise

of the many Viet Ques who are returning home as expatriates or to establish their own business. The risk is definately there and it may even be higher than investing in another country but the returns also look equally optimistic.

1.2 GEOGRAPHIC PERSPECTIVE OF VIETNAM

Vietnam is situated in the east of Indo-China, the north being bordered by China and the west by Laos and Cambodia. In the east it is washed by the Eastern sea, and in the southwest by the Gulf of Thailand. Vietnam's territorry also includes a multitude of islands and its total area is over 331,000 square kilometres. Vietnam is a country of mountains, plateaus and rivers. It has many rivers , the longest being the Mekong and the Song Hong (Red River). The climate is tropical and monsoonal, with strong winds and typhoons in Autumn.

Vietnam's forest are rich in valuable plants and wild life.

There are significant mineral resources in Vietnam including coal, oil, iron ore etc. The country also possesses apatite deposits which rank among the world's largest.

Crops include rice, sweet potatoes, manioc, bananas, coconuts, coffee, tea, tobacco, black and red pepper and rubber plantation.

Livestock is bred in every region of the country. These are mostly buffaloes, pigs, and poultry.

Vietnam's population is nearly 70 million with 35 million of working age. By the year 2000, its population will be 80 million with over 40 million of working age.

Vietnam's major cities are Ha Noi, the capital (population of 2,770,000), Ho Chi Minh City (Formerly known as Saigon with a population of 3,550,000), Hai Phong (population of 1,370,000) followed by Da Nang, Nam Dinh and Hue (Statistics not available).

1.3 ECONOMIC PERSPECTIVE

During the past few years, with an open policy in the field of economic cooperation, external trade volume and foreign investment has grown considerably.

In spite of the undesirable effects of a developing economy, economic reforms have brought forth some remarkable results : inflation has slowed down; infrastructure, postal services, industrial and commercial facilities as well as electric power and water supplies are under renovation or being developed; supporting institutions such as banks, insurers and communications have been restored and strengthened.

Since December 1990 chartered flights from Australia have begun operations. At present there are twelve international airlines serving Vietnam.

Important steps are underway to promote further international economic cooperation. For example, trade and investment related laws are being revised. Namely, Law on Foreign Investment, Labour Law, Land Proprietary Law, Foreign Exchange Law and Import-Export Tax Regulation.

As a result of these concerted efforts, more companies , enterprises, investors and businessmen have started or renewed their business interest in Vietnam.

The Trade Ministry ⁵ in November 1996 reported a near record trade deficit of US\$3.49 billion for the month of that year and predicted that the gap was set to widen even further .

It said the full year deficit in 1997 was expected to be US\$4 billion, compared with US\$2.3 billion in 1995, its highest ever level.

In the same statement by the Trade Ministry , they projected that Vietnam may face a budget deficit to equal 3.5% of the nations domestic product (GDP).

Vietnam's economy is forecast to grow 9% to 10% in 1997. In 1995 Vietnam's GDP was about US\$20 billion, and the budget deficit was 4.3% of the GDP.

Promoting exports is seen as an urgent priority, Where exports continue to grow robustly, by more than 20% a year (Refer table 1.1).

Further according to the Trade Ministry the average annual export growth from 1996 - 2000 is 28%, and the average annual import growth for the same period is 24% (Refer Table 1.2).

According to an October 1995 World Bank report it states that Vietnam has recorded an impressive result with strong growth, inflation brought under control and progress has been made in the transition to a market economy.

The biggest problem faced by the Vietnamese economy is the continued budget deficit, with an unclear fiscal policy to counter the current imbalance.

Basically 20% ²⁸ of the total budget income is reported to come from import taxes. Therefore it would be burden for Vietnam now as it has to streamline its trade tariffs with ASEAN countries, being a member of the association.

One of the biggest success of Vietnam in 1996 was to bring down the inflation. The Consumer Price Index (CPI) rose only 2.9% in the year ending in September, compared with 17.1% in the year ending in September 1995.

The value of Vietnamese “dong” against the US dollar and gold was held broadly steady in 1996. Although it was suggested that a devaluation of currency may make exports more competitive but the Vietnamese government was not too keen about the idea.

Generally it can be concluded that there is an air of optimism towards a more positive and stable economy in the years to come.

1.4 SOCIAL ENVIRONMENT

One of the most important attraction of Vietnamese market is the pool of cheap labour “Giang Vo”. But it is also seen as a symptom of the social upheavals taking place in Vietnam due to “doi moi”.

According to Stefan Nachuk¹ a consultant for several Non Governmental Organization (NGO) , the people in the rural area’s are ignorant of the “doi moi” concept whatmore extracting benefit from it. He further sites that in 1995, Vietnam’s largest city, Ha Noi in the north and Ho Chi Minh city in the south absorbed 80% of Vietnam’s economic growth.

As for religion, the communist party for decades saw it as state enemy. But over the past few years the government has softened its position by allowing greater freedom for various sects while maintaining close control over religious orders.

The economic reform has brought a sense of uncertainty to the social strata of Vietnam. Before , when the economy was carefully planned and centrally controlled, everyone knew what they had to do and what pay they would receive in return for their work. But with the free market, today it has changed all that.

Technically the Vietnamese society is going through a social overhaul. In this respect foreign presence would definately have its contribution in shaping a new Vietnam, both socially and psychologically.

The increasing gap between rich and poor is more than an economic problem for the Vietnamese government; it also raises uncomfortable social and political questions as well. It was socialism that was supposed to eliminate these gaps, but now with “doi moi” socialism is only encouraging them. Nevertheless according to Jason Folkmanis⁸ from Bloomberg Business News , Most Vietnamese understand that such disparities are inevitable features of a shift to a market economy.

1.5 POLITICAL PERSPECTIVE

In 1995 the Communist Party (CP) was emphasizing “ideological unanimity”, where it tries to absolve disputes within both the party and state structure, as well as any external challenges to their authority.

All these are necessary in the wake of “doi moi” which some believe may have adverse social and political side effects, through the ordaining disparities in income, both between regions and between the rural and urban sectors.

CP leadership are today increasingly debating the extent and pace of economic reform, and the degree to which it can be allowed to alter various aspects of the country’s socialist system.

While attempting reformation, CP ideologist want to certainly maintain socialism but at the same time reduce bureaucracy to facilitate reformation.

1.6 INVESTMENT PERSPECTIVE

Since 1986, the government of Vietnam has embarked on the implementation of economic renovation policy aimed at creating an environment suitable for

stimulating economic development and effectively utilizing foreign capital flow into the country, including aid and investment. The core of the renovation system consist mainly of :

- Switching state enterprise operation to a business basis and thereby abolishing the regime of subsidies which has long contributed to economic imbalance;
- establishing market oriented pricing mechanism in the state enterprise factor and using such price signals in investment planning and macroeconomics policies;
- Transforming the open economy conducive to the stimulation of all development efforts by the application of arealistic exchange rate for the Vietnamese currency and actively promoting foreign investment in Vietnam;
- Improving agricultural policies to create a incentive driven system and thereby ending the past tendency toward extraction of agricultural surplus;
- Improving financial policies and institutions, especially interest rates and credit policies in support of the renovation endeavour.

In line with these development it can be concluded that Vietnam is serious in trying to create an environment suitable for foreign investment.

1.7 PERSPECTIVE IN RELATIONS TO GLOBAL ECONOMY

The geographical location of Vietnam is blessed with great potential advantages to be derived from the international economy. Vietnam stays adjacent to the economic regions which have, in the past two decades, attained highest growth rates in the world and achieved a quite extraordinary structural transformation. Most of these countries have been engaged in global trade and finance to exploit their dynamic comparative advantage and have therefore laid the foundation for their development policies over a period of time.

The proximity of Vietnam to these dynamic economies of south east asia generates plenty of specific opportunities, especially as the rising labour costs in such economies oblige them to switch to a new trading orientation. As a matter of fact, this region has witnessed businessmen's growing interest in Vietnam, particularly since its renovation policy in 1986.

1.8 MALAYSIAN BUSINESS INTEREST IN VIETNAM

According to Tran Quan Ngoc²⁶ the Vice Director of Foreign Investment, Ministry of Planning and Investment (MPI), as up to July 1996 Malaysia ranked 7th in terms of investment in Vietnam with a total of US\$931 million (RM2,318.1 million).

For the year 1996, five Malaysian firms had been granted investment licences involving total investment of US\$13.1 million, he added.

Eight projects have been implemented under the Business Cooperation Contract (BCC) with Petroliam Nasional (Petronas) accounting for the major share of US\$65 million for a duration of 25 years.

There are about 41 joint venture projects between Malaysia and Vietnam to develop industrial zones, housing, golf course, building of a port.

Besides these projects, both Public Bank Bhd. and Maybank Bhd. have successfully established their branch in Vietnam. This is definately a boost to Malaysian investors.

1.9 OBJECTIVE OF THE STUDY

The primary objective of this study is to determine the extent of involvement of Malaysian companies in Vietnam. We would like to test the following research question:

- Are Malaysian companies in Vietnam there for long term business ventures?

- Is the greatest barrier for business investment in Vietnam for Malaysian Businessmen the complicated and contradictory nature of the investment laws?

The secondary objective of this study is to identify the type of business venture Malaysian investors are currently undertaking in Vietnam. We will test the following research question:

- Do most Malaysian investors undertake infrastructural development projects?

Table 1.0**BALANCE OF TRADE**

| Vietnam's major exports, in US\$ millions | 1994 | 1995 | First 6 months 1996 |
|---|-------|-------|---------------------|
| Crude Oil | 1,000 | 1,200 | 605 |
| Rice | 530 | 550 | 390 |
| Garments | na | 700 | 320 |
| Marine products | 551 | 600 | 301 |
| Coffee | 310 | 560 | 208 |
| Rubber | 174 | 170 | 71 |
| Coal | 77 | 98 | 57 |
| Peanuts | na | 71.5 | 31 |
| Tin | 19.2 | 24.5 | 8.1 |
| Tea | 31 | 20 | 6.4 |
| | | | |
| Major imports, in US\$ millions | | | |
| Petroleum products | 810 | 930 | 440 |
| Steel | 286 | 310 | 286 |
| Clinker | 378 | 550 | 240 |
| Motorcycles | 271 | na | 210 |
| Urea | 370 | 350 | 132 |
| Automobiles | na | na | 84 |
| Electronic accessories | na | na | 63 |
| Cement | 36 | 81 | 57 |
| <i>Source: Ministry of Trade, Vietnam</i> | | | |

Table 1.1

TRADING UP

Vietnam's projections for exports and import growth from 1996 to 2000

| |
|--|
| Average annual export growth: 28% |
| Exports of heavy industry products and minerals: 33% annually |
| Exports of light industry products and handicrafts: 38% annually |
| Exports of agricultural, forestry and sea products: 16% annually |
| |
| Average annual import growth |
| Imports of machinery, equipment and spare parts: 25% annually |
| Imports of inputs, including petroleum: 25% annually |
| Imports of consumer products: 14% annually |
| |
| <i>Source: Ministry of Trade, Vietnam</i> |