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Vietnam: Potential Market and New Opportunities

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Abstract

During the past five years, Vietnam has achieved the best economic development in its independent history. Vietnam is also experiencing increased levels of foreign investment and export trade. Normalization of relations between the United States and Vietnam will create more favorable conditions for trade and investment between the two countries. In 1991, the Government of Vietnam approved the Strategy for Socio-Economic Stabilization and Development Until the Year 2000 (”Strategy”). The basic concept of the Strategy is to place human beings at the center of development and to promote the potentials of individuals, communities, and the whole nation. The strategy also seeks to harmoniously combine economic development with socio-cultural development, allowing the Vietnamese people’s cultural and spiritual lives to improve together with their material well-being. Under the Strategy, economic development is considered the basis, a tool, and a prerequisite for the realization of social policies.

VIETNAM: POTENTIAL MARKET AND NEW OPPORTUNITIES

*Ngo Quang Xuan**

More than thirty years of war has taken its toll on Vietnam.[1] For a variety of reasons, Vietnam fell into a long and serious socio-economic crisis in the late 1970's and early 1980's.[2] In December 1986, to overcome this crisis, the Sixth National Congress of the Communist Party of Vietnam[3] developed the policy of *doi moi* — a policy for a comprehensive renovation of the whole country,[4] *doi moi* is based on three fundamentals:

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* Acting Permanent Representative of the Socialist Republic of Vietnam to the United Nations. This Essay was adapted from an Address given on June 29, 1995, at a Symposium sponsored by Gilbert, Segall and Young. Footnotes to this Essay have been supplied by the *Fordham International Law Journal* and do not necessarily reflect the opinion of the Author.

1. *See, e.g.*, FREDERICK R. BURKE & DAVID HOWELL, VIETNAM: A LEGAL BRIEF 161 (Baker & McKenzie and the State Political Publishing House, Hanoi 1993). The Socialist Republic of Vietnam is located in South-East Asia and covers an area of more than 331,000 square kilometers. In 1994, it had a population of 72.5 million, of whom 51.48% were female, and a population density of 219 persons per square kilometer. The annual population growth is 2.2%. The work force is 38.2 million or 52.6% of population. The average life expectancy of males and females is 63 and 67.5 years respectively. More than 20% of the total population lives in urban areas. *Id.*

Hanoi is the capital of Vietnam with 2.16 million inhabitants. There are more than 50 different ethnic groups of which the Kinh (commonly called Viet) make up 86.8% of the total population. Today, nearly 90% of the Vietnamese people are literate. *Id.*

The GDP per capita is estimated to be about US$220 annually. About 80% of Vietnamese people still earn their living mainly from agriculture. Agriculture, forestry, and fisheries together constitute 25.7% of the country's GDP. Industry and construction contribute another 31% and the services industry contributes 43.3%. *Id.*

2. *See* MICHAEL C. WILLIAMS, VIETNAM AT A CROSSROADS 41-43 (1992) (discussing various factors in Vietnam's economic crisis, such as: isolation from the international community, the U.S. embargo, and failure of economic policies).

3. *Id.* at 19.

4. UNDP HANOI, BRIEFING NOTE ON THE SOCIALIST REPUBLIC OF VIETNAM 2 (July 1994) [hereinafter UNDP REPORT]. "One of the most striking characteristic of today's Viet Nam is the fact that a communist regime is promoting radical renovation (known in Vietnamese as "Doi Moi") in the economic strategy." *Id.*

> [H]anoi . . . embarked upon a course of reforms known as *doi moi*. This process was launched at the Sixth Party Congress in December of 1986, and involved an ambitious program of shifting the economy away from central planning while attracting foreign investment to facilitate the development of a market economy.

F. Gayle Connor, *Vietnam: Trading with the Enemy or Investing in the Future?*, 25 L. & POL'Y INT'L BUS. 481, 482 (1994).

> (1) Shifting from a highly centralized planned economy based chiefly on public ownership of the means of production to a multi-sector economy operating under a market mechanism with state management and a socialist orientation;
> (2) Democratizing social life with the aim of developing the rule of law in a state which is of the people, by the people, and for the people;
> (3) Implementing an open-door policy and promoting cooperation and relations between Vietnam and all other countries in the world community in the spirit of developing amiable relations for peace, independence, and development.

Since 1989, Vietnam's renovation process has accelerated and profoundly impacted all aspects of Vietnamese life. In continuation of this process, the Government of Vietnam, in 1991, approved the Strategy for Socio-Economic Stabilization and Development Until the Year 2000 ("Strategy").

The basic concept of the Strategy is to place human beings at the center of development and to promote the potentials of individuals, communities, and the whole nation. The strategy also seeks to harmoniously combine economic development with socio-cultural development, allowing the Vietnamese people's cultural and spiritual lives to improve together with their material well-being. Under the Strategy, economic development is considered the basis, a tool, and a prerequisite for the realization of social policies. In return, implementation of proper policy is seen as the driving force creating the socio-political stabilization necessary for sustained economic growth.

The general objectives of the Strategy are: (1) to overcome the economic crisis and to stabilize the country's socio-economic situation; (2) to move beyond the status of a poverty-stricken and under-developed country; (3) to improve the living standards of the population and to create favorable conditions for more rapid development in the early twenty-first century; and (4) to double gross domestic product ("GDP") by the year 2000 as compared with 1990.

I. *TANGIBLE RESULTS*

Today, Vietnam has achieved many important economic successes that usher the country into another period of development, cooperation, and business opportunity for foreign companies.

This year is the last year of Vietnam's current five-year plan.[5] During the past five years, Vietnam has achieved the best economic development in its independent history. For the first time, economic development has surpassed the estimated targets of Vietnamese officials and foreign economic analysts.

A. *Economic Development*

Vietnam's average annual GDP growth rate, which was targeted to reach 5.5% to 6.5%, has risen to 8.3% this past year. Vietnam's industrial output has grown 13.3% in comparison with the targeted 7.5% to 8.5% output growth. Further, agricultural output growth reached 4.3%, well within the targeted level of 3.7% to 4.5%.

Vietnam is also experiencing increased levels of foreign investment and export trade. The average annual growth of exports is now 20% with a total five-year value of US$15-16 billion. This total is significantly higher than the planned target of US$12-15 billion. Previously, Vietnam's export value equaled one-fourth to one-third of imports, but, since 1991, the trade deficit has gradually narrowed to a very small margin. Foreign investment has increased annually at a rate of 40% to 50%, and approximately 1300 foreign investment projects, with capital totalling US$13 billion, are now licensed to operate in Vietnam.

B. *Economic Transformation: Agriculture to Industry*

During the first quarter of 1995, Vietnam's economy has continued this trend of development. Notably, industrial output increased by 13.8%, exports increased by 44%, and foreign investment accounts increased by 50% over last year's figures.

To facilitate this growth, Vietnam's economic structure has undergone certain transformations. The agricultural share of the GDP has decreased from 38.8% in 1990 to its current level of 25.7%, while the industrial share of the GDP increased from 22.6% to 31% and the services share from 38.6% to 43.3%.

5. D.R. SARDESAI, SOUTHEAST ASIA: PAST AND PRESENT 293 (3d ed. 1994). "In December 1976, Vietnam adopted an ambitious second five-year plan. It was termed second in relation to the first five-year plan for the [North Vietnam] during 1961-1966." *Id.*

As a result of the restructuring process, the number of state-owned enterprises has been reduced by half, to 6000. Yet, the GDP contribution of these state-owned enterprises has increased from 33.6% to 47%. This increase is due to the state-owned enterprises' ability to provide essential products, such as: petroleum, electricity, iron and steel, railways, airlines, maritime transportation, and cement. Non-state sectors account for 28% of industrial output, 98% of agriculture-forestry-sea products, 76.5% of retail sales, and 91% of services.

C. *Expanding Financial Markets*

Vietnam has also made significant progress in the financial and monetary sphere. Vietnam's success in controlling inflation has been widely reported.[6] Though the 1994 inflation rate was higher than the 1993 index[7] and the target level of less than 10%, it is still within controllable limits. The budget deficit has been reduced from 2.3% of GDP in 1991 to 1.5% today. Domestic capital accumulation has been growing, the ratio of investment to GDP is up from 10% to 20%, and tax revenue is up from 60% of the total domestic income in 1990 to 96.7%. Due to the stabilization of Vietnam's currency, a manageable rate of inflation, and expanded international financial markets, people's living conditions have been improved and positive changes have taken place in health care, education, culture, and other fields.

With all these economic achievements, Vietnam has overcome its economic crisis and created the preconditions and foundation for a new period — that of industrialization and modernization.

II. *A NEW ERA: INDUSTRIALIZATION & MODERNIZATION*

The Government of Vietnam understands that industrialization and modernization is a very complicated and enduring task. Vietnam is still facing many serious challenges. Among the most serious, is the danger of falling behind in economic development compared to other countries in the region and in the world. Despite Vietnam's growth, there are other elements evi-

6. *See, e.g.*, *Asian-Pacific Brief: Vietnam Inflation*, ASIAN WALL ST. J., Jan. 6, 1994, at 4. "The country has been much more successful in controlling inflation than the other transitional economies in Eastern Europe and the former Soviet Union." *Id.*

7. The inflation rate in 1994 was 14% compared with a rate of 5.2% in 1993.

dencing the backwardness of the Vietnamese economy. Vietnam's GDP per capita still remains very low in comparison with that of other countries in the region and its infrastructure is poor. Out of an average area of one square kilometer, there is only 0.03 kilometers of transportation road in Vietnam. The proportion in other countries in the region is three kilometers per one square kilometer.

A. *The Goal of Modernization*

Vietnam is fully aware of the difficulties it faces, but is determined to carry out industrialization and modernization with the objective of augmenting 2.5 to 2.7 times the 1990 GDP by the end of this century. In order to achieve these goals, the annual GDP growth rate must reach 10-12%. Accordingly, industrial output must grow by 15-16% per year and account for 35% of total GDP by the year 2000.

To carry out industrialization, Vietnam has studied the models of several other countries, especially those that are newly industrialized. Vietnam can not copy any one country's model, but can only introduce aspects applicable to Vietnam's particular conditions: a large population, limited natural resources, and only partial international economic integration. Vietnam, therefore, chose to build an open, strongly export-oriented economy and, at the same time, substitute efficient domestic products for the demand of imports.

The Government of Vietnam believes that Vietnam can attain these objectives because:

(1) Recent achievements have created a momentum for further development;
(2) Vietnam has a favorable geographic position, diversified national resources, and an abundant labor force with relatively high level of education;
(3) Vietnam is a late-comer that can learn from the other newly industrialized countries' experiences, make the most of scientific-technological advancement, and benefit from the achievements and current trend towards regionalization and internationalization for the sake of development;
(4) Vietnam's international relations have improved.

B. *Problems Impeding Modernization*

Vietnam understands that there will be a series of complex problems that confront it along the way to industrialization and modernization. Vietnam is now concentrating on developing long-term solutions.

The first issue is a lack of sufficient capital resources. To obtain the above-mentioned objectives, Vietnam needs to receive US$50-55 billion in foreign investment in the next five years. This figure is three (3) times higher than the investment in the past five years, and accounts for 28-30% of the GDP. While foreign capital is important, domestic capital resources must necessarily play a decisive role. Vietnam is adopting measures to augment the mobilization of both foreign and domestic capital resources. Given Vietnam's capital constraints and the need for more foreign investment, Vietnam naturally needs to invest in quick-return projects. At the same time, however, Vietnam needs to invest in infrastructure, which does not necessarily show the same short-term returns.

The second issue confronting Vietnam is the structure of its industries. As an agricultural country, Vietnam continues to pay much attention to agricultural development. At the initial stage of the industrialization process, Vietnam plans to promote processing industries of agricultural, forestry, and sea products, and such labor-intensive industries as light industry and export-processing. In the long-term, however, Vietnam must also build heavy industries such as metallurgy, machine, and chemical manufacture. Vietnam faces a difficult choice in determining a reasonable balance of investment between light and heavy industry.

The third issue confronting Vietnam arises from its international economic relations. Experience has proven that Vietnam's open-door stance is the correct policy for development and conforms to the general trend. Vietnam is going to join the ASEAN[8] and will participate in AFTA.[9] Vietnam has submitted

8. Terry Atlas, *U.S., Vietnam Prepared to Walk into Future*, CHI. TRIB., Aug. 6, 1995, at 3. Vietnam was welcomed by its neighbors into ASEAN, the regional organization of asian states. *Id.*

9. Harish Mehta, *Young Turks are Nudging Hanoi's Old Hands*, BUS. TIMES, Aug. 9, 1995, at 5. Vietnam is a participant under AFTA, the Asean Free Trade Area. *Id.*

its application for membership in the WTO.[10]

It is a problem that the Vietnamese economy is still so weak and that the competition in the international market is so fierce. The competition among approximately 600 export-producing and 650 export-dealing enterprises has created chaos in the domestic market, and brought about losses to these firms and the international market. In this context, Vietnam has to face the question of how to solve the contradiction between the need for trade liberalization and the need to protect our domestic market.

C. *U.S.-Vietnam Relations*

U.S. President Bill Clinton has lifted the U.S. embargo against Vietnam and recently announced the normalization of relations between our two countries. Vietnam welcomes the normalization of relations between the United States and Vietnam. Vietnam believes this normalization to be in the interests of both our countries. My understanding is that the United States is now paying more attention to the Asia-Pacific region. Vietnam is a developing country with remarkable potential in this region. Furthermore, the Vietnamese community in the United States is quite considerable.

It is regrettable to note that U.S.-Vietnam economic relations have not yet returned to normal. According to the statistics issued by the U.S. Department of Commerce, in 1994, U.S. exports to Vietnam reached US$172 million and Vietnam's exports to the United States reached US$50 million. These are small figures, just equal to a relatively small company's income.

Vietnam needs to import U.S. machinery, airplanes, and agricultural products for various industries. Vietnam wishes to export to the United States various agricultural and sea products, textiles, consumer goods, and various other products.

U.S. investment in Vietnam is increasing but still remains at a moderate level. So far, the United States has invested in only thirty-three projects in Vietnam with a total value of US$525 million. This ranks the United States eighth among countries in-

10. Harish Mehta, *Copyright Mars Hanoi's Bid to Join WTO*, BUS. TIMES, June 21, 1995, at 15. "The World Trade Organization (WTO) has said it is considering Vietnam's bid for membership." *Id.*

vesting in Vietnam, whereas U.S. investment in Vietnam's neighboring countries has a much higher ranking.

The above-mentioned facts show that the development of commercial and economic ties between Vietnam and the United States is still far below its potential and the aspirations of business groups. This is not beneficial to either the United States or Vietnam, and is counter to the trend towards cooperation in the Asia-Pacific region.

Normalization of relations between the United States and Vietnam will create more favorable conditions for trade and investment between the two countries. There still is much work ahead for both the United States and Vietnam. Businesses in both countries would like to see MFN,[11] OPIC,[12] and EX-IM Bank[13] status granted for Vietnam. Only then will U.S. companies be able to compete equally with other foreign companies and Vietnam will be treated in the normal manner of other U.S. trade partners.

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11. Jim Mann, *As Ties to U.S. Are Knotted, Hanoi Seeks Economic Help*, L.A. TIMES, Aug. 6, 1995, at A1.

> At the top of the list of benefits Vietnam wants is most-favored nation trade status, a benefit enjoyed by most of the nations with which the United States has diplomatic relations. So-called MFN status would enable Vietnam to export goods to the United States with the same low duties enjoyed by other countries.

Id.

12. Harish Mehta, *All Hope to Gain as Hanoi Plugs into the World*, BUS. TIMES, July 19, 1995, at 15. "[T]he Overseas Private Investment Corporation (Opic) [is] a US agency that will insure, reinsure, guarantee and finance [investment] projects." *Id.*

13. Evelyn Iritani, *Diplomatic Limbo Hinders U.S. Investment in Vietnam*, L.A. TIMES, Apr. 30, 1995, at D1. The U.S. EX-IM Bank guarantees are crucial to U.S. companies' participation in pending infrastructure projects in Vietnam. *Id.*