

# **VIETNAM** **Assessment**

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**Creating a Sound  
Investment Climate**

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edited by

**Suiwah Leung**

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**CURZON PRESS**

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The **National Centre for Development Studies** of the Australian National University provides an Australian focus for the study and evaluation of development and aid issues. Its geographic focus is Asia and the South Pacific, reflecting Australia's substantial trade, investment and cultural links with its immediate region. Graduate teaching in the economics of development, development administration, and environmental management and development are at the core of the Centre's activities. The Centre also acts as an independent research body for the Australian Agency for International Development.

In addition, the Centre pursues an active dissemination program working with governments, international organisations and the business community as well as other academic institutions to increase understanding of development issues. It welcomes this opportunity to publish jointly with the Institute of Southeast Asian Studies in Singapore.



The **Institute of Southeast Asian Studies (ISEAS)** was established as an autonomous organization in 1968. It is a regional research centre for scholars and other specialists concerned with modern Southeast Asia, particularly the many-faceted problems of stability and security, economic development, and political and social change.

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## Foreword

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In 1990 the Australian National University's Research School of Pacific Studies convened a major conference on current conditions in Vietnam, and each year since then has held a Vietnam Update Conference. This has rapidly established itself as one of the leading international conferences of its type on contemporary Vietnam.

In engaging leading scholars to explore major policy issues relating to Vietnam, the Update Conference provides an invaluable focus for academic research, with direct spin-offs for policy development processes both in Australia and Vietnam. At the same time, it serves to inform the broader Australian community of important recent events and trends in what is an increasingly significant—and rapidly changing—regional neighbour. It also provides a unique opportunity for interchange between groups with diverse backgrounds and differing perspectives. The Update Conference enables academics, business people, public servants, aid workers and others with an interest in Vietnam to engage in wide-ranging and thought-provoking dialogue on political, social and economic issues of concern to both Vietnam and Australia.

From the outset, the conference organisers have encouraged the participation of scholars, commentators and officials from Vietnam. Indeed, in any one year up to half of the conference participants are Vietnamese. This effort has not only maximised the quality of the discussions at the Update Conference, but also facilitated the establishment of important and productive links between Vietnamese and Australian scholars and institutions.

*Vietnam Assessment: Creating a Sound Investment Climate* is an important contribution to the understanding of Vietnam's development prospects. Vietnam is confronted with critical choices about its future. The papers in this volume help chart the challenges and opportunities facing Vietnam as it continues on its path of economic transformation.

In introducing this selection of papers from the 1995 Vietnam Update Conference, I am also pleased to note the inclusion of papers from the second Vietnam Economic Research Project Workshop, an initiative of the National Centre for Development Studies. It is aimed at producing and publishing quality research on the Vietnam economy through a teaching and research program conducted with postgraduate students drawn from the National Economic University and the Central Institute for Economic Management in Hanoi, and the University of Economics in Ho Chi Minh City. The contribution of papers to this volume is an excellent indication of the Project's success.

A handwritten signature in cursive script, reading "Trevor Kanaley". The signature is fluid and stylized, with a large loop at the end of the last name.

*Trevor Kanaley*

*June 1996*

## Contributors

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**Bui Kim Chi** is a lawyer from the Vietnam Ministry of Water Resources, seconded to the Melbourne office of Deacons Graham & James. This law firm is a member of an international network that has branches in Australia, the Asia-Pacific region and the United States. It has had representative offices in Hanoi since 1992 and in Ho Chi Minh City since 1994.

**Le Dang Doanh** is President of the Central Institute for Economic Management (CIEM), a key economic thinktank within the Ministry of Planning and Investment in Vietnam. The CIEM offers policy advice, and has recently been involved in the drafting of several pieces of economic legislation. Mr Doanh is a prominent commentator on developments in the Vietnamese economy and frequently expresses his own position on economic matters.

**Suiwah Leung** is Director of Graduate Studies in Economics of Development at the National Centre for Development Studies at the Australian National University (ANU). She is also Convenor of the Vietnam Economic Research Project, which is in part funded by a grant from the Australian aid agency, AusAID. The Project promotes research on the Vietnamese economy by scholars and researchers at the ANU and various institutions in Vietnam. The three Vietnamese institutions to which the ANU is specifically linked through the Project are the Central Institute of Economic Management, the National Economic University in Hanoi and the Economic University of Ho Chi Minh.

**Elizabeth Maitland** is a lecturer in the Department of Business Development and Corporate History at the University of Melbourne. Her chapter in this book represents part of her PhD research on Australian investment in India, Indonesia, Vietnam and the Philippines. Ms Maitland conducts extensive fieldwork in Australia

and Vietnam, and participates actively in professional conferences and seminars.

**Nguyen Tri Khiem** is Head of the Department of Agricultural Economics at the University of Cantho in Vietnam. Being an agricultural economist, Dr Khiem has presented numerous papers on Vietnam's rural economy at conferences. He also publishes widely in books and journals.

**Nguyen Tuan Dung** is a member of the research staff at the Central Institute for Economic Management (CIEM), under Vietnam's Ministry of Planning and Investment. He is currently a PhD scholar at the Australian National University. His chapter on foreign direct investment is based on research for his PhD thesis. Mr Dung is also a member of the Vietnam Economic Research Project at the National Centre for Development Studies of the Australian National University.

**Trevor Kanaley** is Director-General of the Australian Agency for International Development (AusAID).

**Thaveeporn Vasavakul** is a post-doctoral fellow in the Department of Political and Social Change, Research School of Pacific and Asian Studies, Australian National University. Her current research focuses on institution-building in Vietnam and the role of state institutions in shaping Vietnamese political and economic culture.



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The Vietnam Economic Research Project links the Australian National University (ANU) to three major institutions in Vietnam: the National Economics University in Hanoi (NEU), the University of Economics in Ho Chi Minh City (UEH), and the Central Institute of Economic Management (CIEM) in the Ministry of Planning and Investment in Vietnam. I would like to thank the respective Heads of the three institutions for their participation in the Conference, and for their support throughout the Project. A special vote of

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A special vote of thanks goes to my editorial assistant, Ms Beth Thomson, whose professionalism is highly valued and appreciated. Finally, I would like to thank my husband, Ronald Dean, for his support and help throughout the years, and in particular, during the more stressful periods in the production of this book.

*Suiwah Leung*  
*June 1996*

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# 1

## Introduction

*Suiwah Leung*

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This volume comprises a selection of papers presented at the Sixth Vietnam Update Conference and the Second Vietnam Economic Research Workshop, both held at the Australian National University in November/December 1995. The theme of the volume is 'creating a sound investment climate in Vietnam'. Although its economy has made a decisive turnaround this decade, Vietnam is still one of the poorest countries in the world. In terms of GDP per capita, it ranks 151st among the world's 174 countries, although, according to the UNDP's Human Development Index, it is in 121st place. Even at the current growth rate of 9.5% per annum, it will still take Vietnam 15 years to reach the standard of living presently enjoyed by Indonesia, and 28 years to reach that of Thailand.

Macroeconomic reforms and structural adjustments over the past 10 years, together with successful resource exploitation, have certainly brought impressive results, including sustained rapid growth and moderate inflation levels. However, rapid growth has also meant that most of the excess capacity in capital equipment and infrastructure created under central planning has been utilised. Continued growth of 9–10% per annum would thus require higher rates of investment than in the past. A sound investment climate is essential for the fulfilment of Vietnam's ambitions to catch up with other rapidly growing countries in the Asia-Pacific region.

Four themes emerge from the following chapters as necessary components of a sound investment climate. First, Vietnam must continue to provide a stable macroeconomic environment. Second, it must persist with its agenda for microeconomic reform. Third, there must be greater clarification of its laws, particularly in relation to property rights. In this regard, the administration of laws affects

the investment climate almost as much as the laws themselves. Underpinning these three factors is the need for the political leadership to redefine its concept of the 'leading role of the state' to one in which the state provides the economic, legal and administrative framework for the functioning of a market economy. If these conditions are met, then there could emerge in Vietnam a vibrant domestic corporate sector that could undertake domestic investments as well as act as a conduit for foreign investments.

### **Providing a stable macroeconomic environment**

In Chapter 2, Le Dang Doanh compares Vietnam's success in macroeconomic stabilisation with that of other transitional economies. He emphasises the government's commitment to inflation control, while stressing the need for Vietnam to pursue micro-economic reforms and to counter inefficient state monopolies that are being created in the current climate. In Chapter 5, Nguyen Tuan Dung identifies macroeconomic stability, rather than special investment incentives, as the key determinant of foreign direct investment in Vietnam. Elizabeth Maitland, who studies the case of Australian companies investing in Vietnam in Chapter 6, again emphasises long-term growth and political and economic stability as being important for Australian companies' decisions to invest in Vietnam. This is reinforced in Chapter 7 by the experience of Bui Kim Chi, a legal practitioner providing advice to foreign investors in Vietnam. A willingness to stay for the 'long haul' and a belief in the long-term stability of Vietnam are clearly recognised to be significant in decisions to invest. Finally, in Chapter 4 Thaveeporn Vasavakul discusses the politics and motivations behind Vietnam's reform of public administration (which commenced in earnest in 1995). There is seen to be a desire to shift the balance of power from the middle and lower-ranking cadres in the provinces back to the central government administration. The reform gives power to the technocrats in central economic ministries such as the Ministry of Finance. This is seen as reflecting the government's commitment to economic stability.

### **Agenda for microeconomic reform**

The political will to undertake microeconomic reforms is less certain. Le Dang Doanh argues in Chapter 2 that, in order for Vietnam to maintain real growth of 10% per annum, it will need to invest



about 30% of its GDP annually. Net domestic savings, however, are only about 6–7% of GDP. The financial sector is dominated by state banks, the majority of whose loans go to unprofitable state-owned enterprises (SOEs). Reform of the financial sector is essential for boosting domestic savings, but the apparent commitment on the part of the government to the SOEs makes such reforms politically controversial.

Furthermore, the chapter points out that 98% of foreign joint ventures are currently with enterprises in the state sector. This has the potential to create large state monopolies backed by foreign capital, and obstruct the efficiency gains necessary for Vietnam to maintain rapid growth with low inflation. This point is brought out vividly in the examples given in Chapters 3 and 4. Nguyen Tri Khiem cites the fact in Chapter 3 that the import of agricultural inputs is dominated by several SOEs in joint venture with foreign firms, and that the marketing costs of these enterprises are estimated to be at least 10% higher than those of private traders. In Chapter 4 Thaveeporn Vasavakul discusses examples in the construction industry where projects commissioned by SOEs have tended to cost 20–30% more than those in the non-state sector. Micro-economic reforms are indeed necessary to maintain economic growth and a healthy investment climate.

While Nguyen Tri Khiem assesses the rate of rural–urban migration as not yet giving cause for alarm, it has the potential to increase rapidly. To maintain political stability, the development of labour-intensive manufactures in the cities would then be necessary to absorb the labour force from the countryside. This, in turn, would require reform of the international trading regime and the structure of importing industries—fundamental elements of structural reforms to create a sound investment climate in Vietnam.

### Clarification of laws

The importance of property rights for the investment climate is emphasised throughout the book—both the legal recognition of property rights and the administration of the laws themselves. The granting of long-term leases (or land use rights) in 1988 to farm households is identified by Nguyen Tri Khiem in Chapter 3 as the main impetus behind land improvement and development resulting in rapid agricultural growth between 1988 and 1992. The prohibition on transfers of land use rights until 1993, when the Land Law was enacted, was not a major impediment to this process as extra-legal