Open for business

Trade booms in Vietnam after last year's historic agreement with the US

By Sesto Vecchi*

THE TRADE agreement between Vietnam and the United States, ratified last year, is already changing the economic face of Vietnam. The pact normalises trade relations between the two former enemies. Vietnam's prime objective — a larger market for its exports is already being realised. Although overall exports were down by 12 percent in the first quarter of 2002, garments and textile exports to the US in the first quarter of 2002 exploded, equalling the total value of such exports in all of 2001. FedEx has seen a 30 percent increase in its US-bound priority cargo since December. Nike reports increased production of footwear bound for the US in the first quarter.

None of this is surprising. Vietnam is an excellent export platform; it has vast numbers of workers, and jobs must be created for 1.2 million new employees each year. Foreign investors acknowledge

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Exports will expand well beyond the present mix dominated by commodities and crude oil, where little value is added, predict businessmen. Vietnam will have to manoeuvre around China which is well ahead of Vietnam even in those areas where Vietnam's immediate strengths seem to lie — garments, footwear, and light manufacturing. Even so, investors in Vietnam should easily find pockets of opportunity.

Vietnam has also agreed to a broad relaxation of investment conditions, the results of which will be profound, if less immediate, say analysts. Although Vietnam has a period of time for phased adjustment, the clock has begun to tick.

Beyond the commercial effects of the US trade agreement, however, the impact on Vietnam will be even more dramatic.

First, the sheer scale of what Vietnam must do to comply: almost every area which the pact touches — transparency, investor protection, and streamlining procedures — will change the way Vietnam regulates business.

Vietnam has agreed to the concepts of open market access, Most Favoured Nation treatment, and national treatment for American companies. The cosy protection of state-owned enterprises will be challenged. Few service sectors including banking, insurance, engineering and distribution will be untouched. In reality, few companies are prepared.

The large winners will be not only the Americans. Many benefits are not American-specific; for example, elimination of many conditions to qualify for an investment licence. Even those provisions which are American-specific, will probably not remain so.

Vietnam's internal politics and pressure from the EU, Japan and China, are not likely to allow America to retain its advantage for very long. Expect broad access to be extended to all foreign investors.

The greatest gainer is likely to be the tiny but dynamic Vietnamese private sector. Many small firms are survivors from the 1980s when guile, trickery and savvy kept them afloat. They were rarely parties to the much maligned joint ventures which foreign investors formed, mostly with SOEs, in the early 1990s.

Private companies are now out of the closet and determined to succeed. At $2.5 billion in 2001, new foreign investment in Vietnam was up 35 percent on the year before. So too is private Vietnamese investment. During the same period, nearly 18,000 new Vietnamese companies were formed. Many are small, but at $1.5 billion the capital they have invested is

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significant.

Private companies should be able to overcome many of the special advantages given to SOEs. Many private companies have become quite sophisticated. Many have refined their marketing skills. Many have taken advantage of the past 10 years of openness and have cultivated relationships abroad.

Workshops on exporting to the US are over-subscribed. Competitive pressures exerted by an agile private sector will be a more effective vehicle for SOE reform than all of the government's blueprints and decrees.

The cynics with long memories still outnumber the optimists. Foreign investors are unwilling to give Vietnam more than passing credit for effort, but they do recognise the freshness of the private sector. The mutual problems of private and foreign investors and their objectives are not so different.

As the two sectors move to take advantage of the trade agreement, there is every reason to believe that the private and foreign sectors will complement each other.

There is anxiety among Vietnamese at large. To be sure there will be job losses. But not everyone sees this as bad. It's the acknowledged price of an open economy which most Vietnamese want, say observers. As one Vietnamese lawyer put it: "Up to now we have had to look only to the state to solve our problems. Now the private sector will be able to help."

The Vietnamese leaders who took office last year have accelerated change. Although laws may still not be adequate, they are less likely to be misdirected. There is a healthy realisation that changes are occurring so fast that the government can no longer manage each step. There is also a generational change occurring among bureaucrats who are seen to be resisting less. One battle-scarred foreign investor observed: "I was in a meeting at the Ministry of Finance, and they were actually all looking for reasons to say 'yes'."

In many ways, the government has become more realistic, more familiar with the international environment, more confident, and so less timid. Equally important, there is a general recognition that market principles also apply to countries and that Vietnam is competing with its neighbours.

Foreigners who have urged patience may yet have reason to smile. ■

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