

30 Years of Foreign Direct Investment in Vietnam

APFL & Partners Legal Vietnam LLC Law Firm

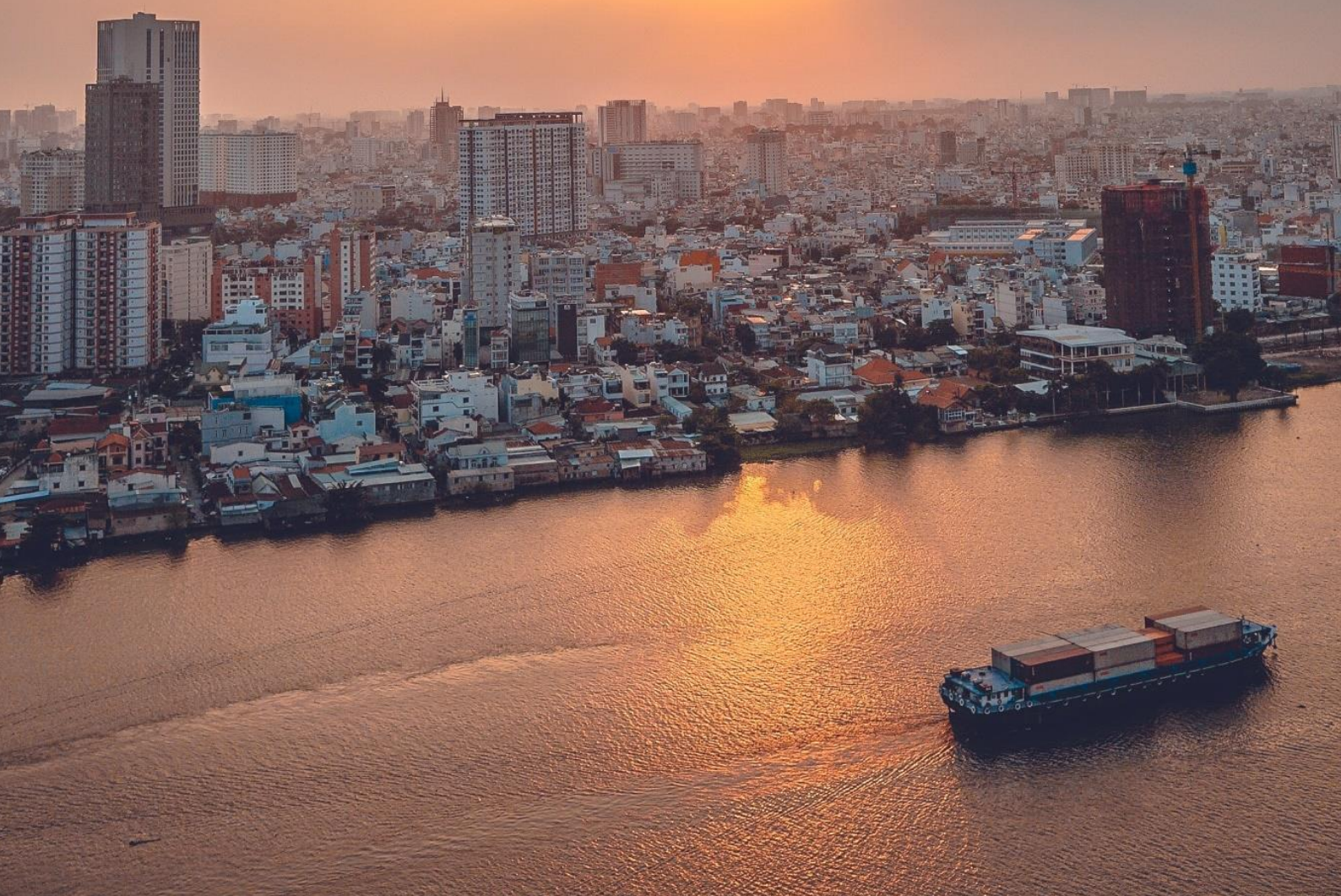


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Chapter One: Introduction



Chapter One: Introduction

This report is not a rigorous piece of academic work. Instead, it is the personal reflections of the authors who have both been working in Vietnam since the groundbreaking reforms of Doi Moi and who have had the chance to witness the fantastic transformation of Vietnam over the last three decades; not just in economic terms but also its major political, social, and cultural changes.

The authors have seen first-hand the launch of the first law on foreign direct investment; the end of technical assistance from the Soviet Union after the fall of the Berlin Wall; Vietnam opening itself up to the international community by joining the ASEAN Economic Community and the World Trade Organisation; the signing of more than a dozen free trade agreements, such as the EU-Vietnam Free Trade Agreement (EVFTA) and Investment Protection Agreement (EVIPA); and Vietnam's chairmanship in 2020 of both the Non-Permanent Countries of the United Nations and the Association of Southeast Asian Nations (ASEAN).

In this report, the authors wanted to record the situation in Vietnam from before the "Open Door" policies up to the present, and to describe all the changes that have occurred since their arrival in Vietnam. On top of their personal observations and experience, the authors have used papers, books and articles from historians, journalists and academics on the situation in Vietnam before and after the launch of Doi Moi (all of which are cited).

Over the years, the authors have worked on many sensitive cases. One of the first was a judicial action on behalf of a prominent UK insurance company in the Hai Phong court back in the early 1990s relating to a former Soviet Union enterprise doing business in Vietnam. Others notable cases include negotiating a massive investment in a fixed telephone line in HCMC, sensitive arbitration court cases within the framework of bilateral investment, and various significant M&A deals, not to mention other non-economic projects such as the management of the SRAS issue where the Hanoi French Hospital was at the centre of the crisis. The authors have been involved in preparing many reports for donor organisations such as the World Bank, Asian Development Bank, the European Union, and AFD; and participated in numerous seminars and conferences to help Vietnam build a sustainable legal framework and fully open itself to the global economy.

Historians, economists and social scientists might find small inconsistencies, imperfections or inaccuracies in what follows. That is because this is a personal

reflection; a first-hand account of the huge changes that have taken place in Vietnam's trade and investment environment over the last three decades. It is also a testament to the wonderful people the authors have had the pleasure of meeting throughout their time living and working in Vietnam, and to their contributions to its transformation and success.

1.01: Introduction

It is often said that the past is a different country, unrecognisable from the present. Nowhere is this truer than in Vietnam, which in three short decades has transformed itself from a low-income, war-torn nation to one of the most remarkable socio-economic success stories of recent times. For the first foreign investors arriving in the 1990s, Vietnam still conjured the images of conflict, refugees and reunification broadcast on western news and reported in newspapers around the globe. To the outside world, at this time Vietnam was still best known as the face of the Cold War in Asia.

The trade and investment environment of today, not to mention the living standards of the population, would have been unimaginable then, before the government's landmark social and economic reforms. These policies - known as "Doi Moi" - opened the door to Vietnam's markets and the floodgates to foreign direct investment. This kick-started a decades-long period of sustained economic growth, in which average salaries, access to basic services, job opportunities, and international integration have grown at an unprecedented scale and pace.

To put this in perspective: over half of all people in Vietnam lived on less than US\$2 a day in 1993. Today, fewer than 3% of people live below the breadline. Meanwhile, average per capita income has risen from US\$360 in 1998 to over US\$2,000 in 2018.¹ The last few decades have also seen a dramatic increase in access to basic services: 99% of people now have electric lighting, up from just 14% in 1993. Clean water is also now much more available: 95% of people in urban areas and 70% of people in rural areas now have clean water, up from just 17%. Vietnam's middle class, which makes up 13% of the population, is set to double in size between now and the middle of the next decade. And Vietnam is second in ASEAN in international education rankings, behind Singapore.²

The first international investors, entrepreneurs and business people arriving in Vietnam had an important role in this transformation. The scars of war etched on

¹ World Bank data, available at: <<https://data.worldbank.org/indicator/NY.GDP.PCAP.CD>> last accessed on 15 October 2019.

² 'The World Bank in Vietnam', available at: <<https://www.worldbank.org/en/country/vietnam/overview>> last accessed on 15 October 2019.

buildings and boulevards, not to mention the personal tragedies of their Vietnamese friends and colleagues, inspired a generation of foreigners to help build a new, more prosperous Vietnam; one in which basic goods and services taken for granted at home would be available to all. Today, streets that were once crammed with hundreds of bicycles now hum with Japanese motorbikes and European cars. Foreign media is now accessible, and international brands line the high streets.

So, how did we get here? How did Vietnam achieve this social and economic transformation, which is even more remarkable in light of the turbulent domestic conditions and period of seismic global change in which it took place? And how has this impacted the trade and investment environment for foreign investors in this fast-growing, developing market? This report is an attempt to answer that question. Over the next eight chapters, we will take readers through the major milestones on Vietnam's journey from frontier market to middle-income nation.

1.02: About APFL & Partners

APFL & Partners is an international law firm founded in 2008. Our team has decades of experience advising clients on local and international legal matters in Vietnam and South East Asia.

Our firm comprises talented lawyers and advisers from various countries including France, the United Kingdom and Vietnam, who have a broad range of technical skills and expertise gained from working on landmark deals in Vietnam and across the region. Our team has particular expertise in real estate, manufacturing, hospitality, agribusiness, infrastructure, distribution and media.

Chapter Two: Vietnam Before 1986



Chapter Two: Vietnam Before 1986

In 2020, more than three decades since the launch of Doi Moi, Vietnam's relationships with major global powers such as the European Union and Japan are strong and growing stronger. Japan, the EU and its member states - France and Sweden in particular - have had an important role in the domestic reconstruction and international rehabilitation of Vietnam. These countries helped finance and build essential infrastructure after reunification and maintained crucial lifelines to the outside world, even during the diplomatic blackout of the US trade embargo. Indeed, some of the first foreign investors in Vietnam came from Europe, building on the historic links established in the times of French Indochina and kept alive throughout the Cold War. Meanwhile, major regional actors like South Korea and Singapore, which could be considered a model for Vietnam's future, are now some of its biggest foreign investment partners. This is quite a turnaround from a time, not so long ago, when Vietnam was an isolated state in Southeast Asia.

Meanwhile, the recent withdrawal of the United States from the Trans-Pacific Partnership agreement, designed to circumvent China, was not perceived as good news for Vietnam. The current trade war between the US and China will fuel Vietnam's trade deficit with the US. Even so, bilateral trade and foreign direct investment reached US\$60 billion in 2018, up from just US\$220 million in 1994.³ President Obama's 2016 state visit to announce the end of the US arms embargo - part of his "Pivot to Asia" - was met with enthusiastic crowds lining the streets of Hanoi. Then, in 2019, President Trump confirmed Vietnam's position on the international stage when he chose its capital to host his second meeting with the leader of North Korea, Kim Jong-un. But this relationship is about more than just trade and politics: It is about culture as much as capital.

Over 680,000 US tourists visited Vietnam in 2018, an annual increase of more than 11%.⁴ Meanwhile, 84% of people in Vietnam have a positive view of the United States, and 71% believe that the spread of US ideas and customs is a good thing. This sentiment is far higher than in most European countries.⁵ Of course, statistics do not tell the whole story. But the fact that Vietnam now ranks among the top-five

³ 'Big Potential for Bilateral Trade Between Vietnam and the US: Experts', *Vietnam News*, 1 March 2019. Available at: <<https://vietnamnews.vn/economy/506285/big-potential-for-bilateral-trade-between-viet-nam-and-the-us-experts.html#K7tV3GX8sQMhXmZX.97>> last accessed on 17 June 2019.

⁴ 'International Visitors to Vietnam in December and 12 Months of 2018', *Vietnam National Administration of Tourism*, 03 January 2019. Available at: <<http://vietnamtourism.gov.vn/english/index.php/items/13551>> last accessed on 17 June 2019.

⁵ Wike, R. Stokes, B. Poushter, J. and Fetterolf, J. 'US Image Suffers as Publics Around the World Question Trump's Leadership', *Pew Research Center*, June 2017.

countries for the number of students and investors it sends to the US⁶ is clear evidence that these old enemies are now becoming fast friends.

This is a remarkable turn of events for two countries that, just a few short decades earlier, were stuck deep in the quagmire of one of the bloodiest conflicts of modern times; and one which would see Vietnam isolated from much of the rest of the world. So it is important to step back for a moment and ask how we got here: How have relations between Vietnam and the rest of the world come so far in such a short time?

2.01 / 1964: The US Imposes a Trade Embargo on North Vietnam

Over the last few decades the origins, actions, and aftermath of the war in Vietnam - or the "American War" as it is known here - have been discussed and debated in great detail. From academics to journalists to big-screen blockbusters, the causes and consequences of the conflict have been poured over at length in both fact and fiction. The episodes described below are not intended to repeat this. Instead, historical incidents are presented to set the stage for the social, political, and economic reforms that followed. Our purpose here is to show how the events of the past foreshadowed the policies of the present and shaped the direction of the future.

Following independence from France a decade earlier in 1954 and the outbreak of full-scale hostilities between North and South Vietnam after the failed referendum of 1956 (see section 2.04), the US government imposed a complete trade embargo on the North of Vietnam.⁷ Washington began to leverage its influence with international organisations like the IMF and World Bank in order to block international lending, and made efforts to restrict commercial, financial and investment capital flow.⁸ This cut the North off from global trade, and left it in need of new friends.

2.02 / 1965: Dependence on the Soviet Union

During the Cold War, much of the world was divided between its two great superpowers: The United States and the Soviet Union. The three most visible manifestations of this were in Europe, where the Yalta agreement continued to cast

⁶ Luong, D. 'American Dream Lives on in Vietnam Despite the Past', *Al Jazeera*, 10 November 2017. Available at: <<https://www.aljazeera.com/news/2017/11/dream-lives-vietnam-171110121736556.html>> last accessed on 17 June 2019.

⁷ 'US-Vietnam Economic and Trade Relations: Key Issues in 2018', *Congressional Research Service*, 16 April 2018, page 1.

⁸ Burki, S. J. (2005) 'Transforming the State in Socialist Economies' in Burki and Ericson (eds) *Transforming Socialist Economies: Lessons for Cuba and Beyond* (2005) Palgrave Macmillan, pp. 217-218.

a long shadow; as well as in Latin America (Cuba); and Southeast Asia, where reports from Vietnam remained on the front pages of most international newspapers.

Countries like North and South Vietnam and North and South Korea found themselves at the heart of this battle of ideas in Asia: With western societies on the one hand, and communist states on the other. But the twin communist powers of China and Russia had a long, complicated and often fractious relationship. This culminated in a split in 1963 over whether the west should be confronted or contained.⁹ Compounding this, North Vietnam has long-held mistrust of China, going back centuries to the long period of Chinese occupation. Despite these difficulties, North Vietnam remained impartial during the Soviet Union-China conflict of the mid-1960s, but later that decade took a decisive pro-Soviet Union position after the US and China normalised relations.

Despite their often complicated relationship, the fortunes of North Vietnam became ever-more entwined with those of the Soviet Union during this time. Throughout the decade to 1973, its entrenched and deep-rooted economic problems (see section 2.09) meant that financial support from the Soviet Union became a literal lifeline for Vietnam and its people. Meanwhile, the Soviet Union needed North Vietnam – and, in particular, its bases – to project power in the region and act as a counterbalance to China and the United States.¹⁰

This period also saw a rise in post-colonial, nationalist independence movements. Some movements in Southeast Asia took as their inspiration a famous 1966 speech of French President Charles De Gaulle made in the capital of Cambodia, Phnom Penh. In this landmark address, President De Gaulle outlined his political beliefs in decolonisation and self-determination, while also backing Cambodia's neutral stance concerning the war in Vietnam. In doing so, he offered a diplomatic rebuke to the US.¹¹ This speech became a call to arms for independence movements throughout the region, who used it to legitimise their struggle amongst the western world. However, even though Vietnam was destined to achieve self-determination, it could not hope to be self-sufficient. It would need a powerful patron.

The Soviet Union first began to provide financial aid to Vietnam in 1955 after the first Indochina war. Subsequent agreements, signed in 1958 and again in 1978,

⁹ 'Rupture Between USSR and China Grows Worse', *History*, available at: <<https://www.history.com/this-day-in-history/rupture-between-ussr-and-china-grows-worse>> last accessed on 1 August 2019.

¹⁰ Morris, S. J. (1999) 'The Soviet-Chinese-Vietnamese Triangle in the 1970s: The View from Moscow', *Woodrow Wilson International Center for Scholars*, April 1999, pp. 5-41.

¹¹ Hayes, M. and Vittachi, I. 'De Gaulle's Famous 1966 Speech Remembered', *The Phnom Penh Post*, 6 September 1996. Available at: <<https://www.phnompenhpost.com/national/de-gaulles-famous-1966-speech-remembered>> last accessed on 29 December 2019.

saw Vietnam become a full member of the Soviet bloc alongside other communist states such as Cuba and countries in Eastern Europe. This brought much-needed investment, which was spent on infrastructure projects such as ports, factories and railroads. Of the 300 Soviet-backed projects, 30% were in the industrial sector, and their financial backing helped to produce almost 50% of electric power and 85% of coal in Vietnam. Fast forward to 1988, and the Soviet Union made up 60% of Vietnam's total foreign trade and 68% of its foreign imports.¹²

From the mid-1970s to the mid-1980s, annual financial support from the Soviet Union to Vietnam doubled from US\$500 million to reach US\$1 billion. It would double again in the next Five-Year Plan, ending in 1990. Over 90% of Soviet aid to less-developed countries found itself in Vietnam, Cuba, or Mongolia. But this aid caused tensions, with the Soviet Union growing more impatient at Vietnam's unsuccessful domestic economic reforms, its failure to tackle inflation and its mismanagement of the support it received. Rice subsidies alone were said to have cost the government millions of rubles, as it bought rice from farmers at a high price and then sold it to the wider population for far less (see section 3.02). This compounded Vietnam's growing and unsustainable budget deficits and further strained relations with the Soviet Union.¹³

But these loans, credits and subsidies could not continue forever. Moscow was facing serious financial problems of its own as the 1980s turned into the 1990s and the break-up of the Soviet Union loomed large on the horizon. Some estimates put the total financial aid provided to Vietnam at US\$11 billion, a huge sum which could not be repaid. This might have been good politics from the Soviet point of view – providing essential support to its communist partners – but there is no doubt that it had been bad economics from the perspective of Vietnam's socio-economic development.¹⁴

2.03 / 1970: Vietnam Joins the Organisation of the Francophonie

The idea of the International Organisation of the Francophonie started in the late 19th century and now describes a group of 68 countries who each share French as a common language. For the member countries – including West and North African as well as some Caribbean, Middle Eastern and European countries, and French-speaking provinces like Quebec – it provided an international link based on

¹² Hoan, B. (1991) 'Soviet Economic Aid to Vietnam', *Contemporary Southeast Asia*, Vol. 12, No. 4, March 1991, pp. 360-375.

¹³ Stoecker, S. (1989) 'Clients and Commitments: Soviet-Vietnamese Relations, 1978-1988', *RAND*, December 1989, pp. 1-27.

¹⁴ Radchenko, S. 'Why Were the Russians in Vietnam?', *New York Times*, 27 March 2018.

their shared linguistic heritage. Vietnam also shares this common historic bond: It was part of the French presence in Indochina from the late 1800s until the Geneva agreement of 1954.

Unlike most other Western countries during this time, France maintained diplomatic contact with North Vietnam throughout the conflict and its immediate aftermath. It continued to do so throughout the US trade embargo and even after the reunification of Vietnam. Thus, with North Vietnam under siege at home and isolated abroad, France became one of North Vietnam's few international interlocutors. France arbitrated talks to bring the war between North and South Vietnam to an end, leading to the signing of the "Paris Peace Accords" in 1973.

In the decades that followed, France was one of the countries most active in bringing Vietnam in from the diplomatic cold. La Francophonie was the first non-socialist global association Vietnam joined. France and its banks later took a leading role in helping Vietnam to join international organisations, such as the IMF, that would mark its return to the international stage. And the first international conference to be held in Vietnam would be a summit of La Francophonie in 1997 in Hanoi (see chapter 4.05). Despite this, from the mid-1970s onwards, Vietnam remained a communist state cut off from much of the world.¹⁵

2.04 / 1975: The End of the War and Reunification

The war between North and South Vietnam ended on the 30th of April 1975, when a National Liberation Front tank crashed through the gates of the Presidential Palace in downtown Saigon. One of the most iconic images of the decade thus closed the book on one of its longest and bloodiest conflicts. Since the outbreak of war in 1965, the fighting had claimed the lives of over 50,000 US soldiers and between one and a half to two million people in Vietnam on both sides.¹⁶ The 1968 "Tet Offensive" had turned the tide in favour of the communist forces, and brought both sides to the negotiating table. The peace talks that began in Paris later led to the "Paris Peace Accords" of 1973 and the eventual withdrawal of US troops. The final assault on South Vietnam began in late 1974 which, without the protection and support of the United States, was unable to stop the communist forces reaching Saigon the following Spring.¹⁷

¹⁵ Wright, S. (2008) 'Allegiance, Influence and Language: The Case of Francophonie and Vietnam', *Synergies Europe*, No. 3, pp. 51-57.

¹⁶ Dumbrell, J. (2012) *Rethinking the Vietnam War*, Basingstoke: Palgrave Macmillan, page 2.

¹⁷ Dumbrell, J. (2018) 'Vietnam War', *The Encyclopedia of Diplomacy*, 27 February 2018. Available at: <<https://onlinelibrary.wiley.com/doi/full/10.1002/9781118885154.dipl0309>> last accessed on 25 June 2019.

With the liberation of Saigon, the struggle for Vietnam's independence was over. Now, the struggle for peace and reunification would begin. One of the first tasks would be to establish a new administrative infrastructure, including national political leadership and provincial government. Nationwide elections were held on the 25th of April 1976 and the first session of the new National Assembly was held over the following two months. This session debated and passed a resolution on a new national flag, capital, anthem, emblem and name. Thus, the Socialist Republic of Vietnam was born, and with it, the former southern capital of Saigon was renamed in honour of its most revered leader, Ho Chi Minh.

Legislative and judicial power was now embodied in the State President, two Vice-Presidents, the National Assembly, and the Supreme People's Court. Meanwhile, provincial People's Councils and People's Committees provided local government and administration. The 1959 Constitution of the Democratic Republic of Vietnam (North Vietnam) was used as the constitutional basis for this new state until a new document could be agreed.¹⁸

But reunification is neither simple nor straightforward: Two sides torn apart over three decades of conflict are hard to stitch back together again. On top of this, Vietnam's economic prospects were bleak and the government was dependent on financial aid from the Soviet Union. Some reports suggest that the Soviet Union had pledged to fund much of the reunification effort, as part of a post-war package of economic development cooperation.¹⁹ The domestic economic and industrial reforms that followed reunification would compound this poor financial situation still further (see chapter 2.09).

2.05 / 1975: The US Trade Embargo Intensifies

The liberation of Saigon and eventual unification of North and South Vietnam after 1975 brought further sanctions from the US government. The trade embargo which was first imposed on the North in 1964 was then broadened to include the whole of the now-unified Vietnam. This embargo compounded the difficult economic conditions in which the new government found itself.

¹⁸ Diem, P. 'The Vietnam States's Structure and Operation During the 1975-1986 Period', *Vietnam Law and Legal Forum*, 25 February 2011. Available at: <<http://vietnamlawmagazine.vn/the-vietnam-states-structure-and-operation-during-the-1975-1986-period-4503.html>> last accessed on 26 June 2019.

¹⁹ Thayer, C. (1975) 'North Vietnam in 1975: National Liberation, Reunification and Socialist Construction', *Asian Survey*, Vol. 16, No. 1, pp. 14-22.

Since the tactic of using “hard” power in Vietnam had failed, the US now tried “soft” power instead. The huge importance of the United States to global trade gives it significant, direct leverage over individual countries. But it also gives the US considerable indirect leverage through their trade partners, since third countries prefer not to upset their largest commercial market. The US government has used this influence to further its international agenda ever since the 1917 “Trading With the Enemy” Act gave the US president power to restrict or suspend commercial or financial activities with specific countries.²⁰

In short, it introduced a blanket ban on US citizens or companies trading with Vietnam. This included international subsidiaries and third-parties subject to US jurisdiction, as well as goods sold through third countries. The sale of foreign goods manufactured from US know-how was prohibited to stem the flow of knowledge transfer and to stop new technical information reaching Vietnam. Meanwhile, financial and commercial dealings were also banned, as were direct air flights between the two countries. The US government froze assets and introduced strict penalties for those found to be in breach of the embargo, including fines of up to US\$50,000 and prison sentences of up to a decade. These restrictions were observed in principle and enforced in practice right up until their abolition in 1994, their overriding objective to destabilise Cold War adversaries of the United States. This legislation was also used to restrict trade and investment to countries from communist China to Fidel Castro’s Cuba.

The fact that the US embargo lasted so long is testament to the tangled web of issues that had to be resolved before, almost two decades later, the Clinton administration could, at last, normalise relations in 1994. Despite agreeing to provide aid to Vietnam to help with reconstruction in the “Paris Peace Accords” of 1973, the US Government failed to do so. Congress refused to provide aid to Vietnam until Hanoi shared information about US soldiers still missing in action, while Vietnam’s leaders refused to hand over this information until the US honoured its commitments on aid. In this high-stakes diplomatic stand-off, neither side wanted to blink first.

2.06 / 1978: The Council for Mutual Economic Assistance

In the late 1970s, with the US trade embargo in full force, Vietnam’s allies were few and far between. Despite its membership of the Organisation of the Francophonie, Hanoi soon found itself in urgent need of new allies. So, in 1978, Vietnam joined the Council for Mutual Economic Assistance (CoMECON). First

²⁰ Stauch, T. R. (1994) ‘The United States and Vietnam: Overcoming the Past and Investing in the Future’, *The International Lawyer*, Volume 28, No. 4, pp. 995-1037.

founded in 1949, this pact was designed as a counterweight to the Marshall Plan and a platform to facilitate trade, development and cooperation between countries in the Eastern bloc and elsewhere in the Soviet sphere of influence. Vietnam joined a group of nine other like-minded states including Romania, Bulgaria, Poland, Cuba, and Mongolia.²¹ This block brought together around 450 million people across three continents: That's a market not too far from the size of the European Union. China had become separated from this group following a visit from US President Richard Nixon in 1972, a trip which marked the normalisation of diplomatic relations between the two countries.

The least-developed countries in the group, including Vietnam, received financial aid from others in the group to bolster support for communism elsewhere in the world. In the decade following Vietnam's decision to join, it had received US\$2 billion in aid. It also received preferential subsidies from the Soviet Union when importing commodities like fuel, which was sold at cheaper rates than those given to richer countries in the group. For its part, Vietnam provided labour for infrastructure projects in the Soviet Union, though in truth this was of little benefit to the rest of the group.²² ²³ Thus, Vietnam became dependent on aid from the Soviet bloc for both its economic and political survival.²⁴

2.07 / 1978: Vietnam Launches a Counter-Offensive against Cambodia

Southeast Asia in general, and Vietnam in particular, was the Cold War in a microcosm. In this literal battleground of ideas, taking sides in regional conflicts enabled the US, China and the Soviet Union to advance their own political agendas on the international stage. Thus, the aid sent to Vietnam described in chapter 2.02 did not come without strings attached. Up until this point, the Soviet Union had provided weapons and other support to Vietnam for two clear strategic reasons: To contain China and to diminish the influence of the United States. Now, with the American War over, Cambodia was set to become the next chapter in this global tug-of-war. But, once again, Vietnam would take centre stage.

²¹ 'Warsaw Pact and Comecon: Formal Ties', *New York Times*, 3 January 1988. Available at: <<https://www.nytimes.com/1988/01/03/world/warsaw-pact-and-comecon-formal-ties.html>> last accessed on 19 June 2019.

²² Dumitriu, R. and Stefanescu, R. (2015) 'Economic Development of Comecon Countries', *Munich Personal RePEc Archive*, No. 89012, pp. 1-20.

²³ Goodrich, M. K. (1992) 'The Council for Mutual Economic Assistance' in *Czechoslovakia: A Country Study*, Federal Research Division of the United States Congress, pp. 273-302.

²⁴ 'A Guide to Investing in Vietnam', *Vietnam Insider*, 23 November 2017. Available at: <<http://vietnaminsider.vn/a-guide-to-investing-in-vietnam/>> last accessed on 19 June 2019.

Like most conflicts, the conclusion of the war in Vietnam left a lot of loose ends. Two of the most significant included an unresolved border dispute with Cambodia and the treatment of Chinese residents living in Vietnam. The border dispute escalated throughout the late 1970s as both armies built up troops on either side. Clashes between Vietnamese and Cambodian Khmer Rouge forces followed, ratcheting up tensions still further. Meanwhile, Hanoi's decision to relocate Chinese citizens and their businesses to new "economic zones" near the border with Cambodia infuriated the government in China. Over 150,000 people soon fled Vietnam on ships sent from Beijing.²⁵

So, with the logistical assistance of Soviet ships and equipment, as well as further financial aid, Vietnam intervened in Cambodia in December 1978. This counter-offensive followed repeated incursions of Khmer troops into sovereign Vietnamese land, and its prime objective was to protect Vietnamese citizens. The Khmer Rouge regime fell just a few short weeks afterwards. Hanoi's armed forces grew over 50% to reach 900,000 people during this intervention, and over 180,000 soldiers remained stationed there. Meanwhile, the Soviet presence in Vietnam more than doubled, as did the amount of raw materials it sent to support Hanoi during this time.^{26 27}

But the politics of the region during this period were built on shifting sands. Earlier, we saw how Vietnam had to walk a tightrope between China (its most powerful neighbour) and the Soviet Union (its largest benefactor). It was a delicate balancing act: A step too far in one direction risked creating powerful new enemies in the other. In this three-dimensional chess game, one move could have significant consequences for other powerful pieces elsewhere on the board. And so it was that Vietnam's action in Cambodia - which strengthened the position of the Soviet Union in Southeast Asia - would lead to a new conflict on its Northern border.

2.08 / 1979: The Sino-Vietnamese War

For China, the events in Cambodia were the latest in a long line of frustrations with the government in Hanoi. From the relocation of Chinese residents to the decision to join the Soviet Union bloc, this was the last and final straw. China's retribution was swift. It wanted to "teach Vietnam a lesson", and one which it would not soon forget. In doing so, it also wanted to counter growing Soviet influence in the region. China began to prepare the ground for an invasion in the summer of

²⁵ Stoecker, S. (1989) 'Clients and Commitments: Soviet-Vietnamese Relations, 1978-1988', *RAND*, December 1989, pp. 1-27.

²⁶ Kelemen, P. (1984) 'Soviet Strategy in Southeast Asia: The Vietnam Factor', *Asian Survey*, Vol. 24, No. 3, pp. 335-348.

²⁷ Chanda, N. (2018) 'Vietnam's Invasion of Cambodia, Revisited', *The Diplomat*, 1 December 2018.

1978, building support inside the politburo and state media, and among other countries in the region.

The decision to launch an offensive into North Vietnam was taken at a special conference around Lunar New Year. But, even after months of build-up and escalation, the attack came as a complete surprise. Despite their mutual suspicion and often fractious relationship, Vietnam did not believe that one socialist state would invade another. But invade it did. The first phase of the campaign saw China cross into Vietnam in significant numbers and take control of towns such as Lao Cai and Cao Bang with subsequent phases of engagement targeting bases elsewhere across the border region. China's invasion lasted just a few short months, culminating with the fall of Lang Son in March 1979. But, while never intended to be more than a smash-and-grab raid, the invasion did not go quite to plan. China bloodied Vietnam's nose, but failed to deliver a knock-out blow. That left both sides claiming the win.

In truth, China underestimated its opponent and sustained heavier casualties than anticipated. It also paid a large price for the small towns it captured. However, in forcing Vietnam to fight on two fronts, it did succeed in stretching Hanoi's thin resources still further and checking its ambitions. It also showed that, while the Soviet Union was prepared to provide Vietnam with financial and logistical support, it was not prepared to put boots on the ground.²⁸

Casualties on both sides remain disputed. China claimed to have killed or injured 50,000 Vietnamese soldiers, and Vietnam claimed to have done the same to 42,000 on the Chinese side.²⁹ However, neither side disputes the huge imbalance in the number of combatants. Hundreds of thousands of soldiers are estimated to have crossed the border from China, around ten times the size of Vietnam's own ground troops. But even this huge, overwhelming force could do little more than achieve limited success measured against quite modest goals. Vietnam was able to maintain its presence in Cambodia throughout this period, and so was not forced to back down on the main issue that first lit the touch-paper on the conflict. Despite this slight reprieve, however, Vietnam's troubles were far from over.³⁰

2.09 / 1980: Economic Reforms and Financial Problems

²⁸ Zhang, X. (2005) 'China's 1979 War with Vietnam: a Reassessment', *The China Quarterly*, No. 184, pp. 851-874.

²⁹ Chen, K. (1983) 'China's War Against Vietnam, 1979: a Military Analysis', *Journal of East Asian Affairs*, Vol. 3, No. 1, Spring/Summer 1983, pp. 1-33.

³⁰ Nguyen, M. Q. 'The Bitter Legacy of the China-Vietnam War', *The Diplomat*, 23 February 2017.

The global economic and political forces that defined the Cold War period had a profound impact on Vietnam during this time. Together, the US trade embargo and the crippling cost of post-war reconstruction – despite financial aid worth billions of US dollars, denominated in roubles, from the Soviet Union – left Vietnam in a parlous state. The new, unified government now set about wholesale industrialisation, nationalisation and centralisation, following in the footsteps of the Soviet “command and control” model. In short, collective ownership replaced private enterprise. State-owned enterprises were now responsible for industrial development, and agricultural collectives for farming.³¹ Growth soon stalled, and stagnation followed not long after.

Population growth far outstripped economic growth, while production on the ground continued to fall short of Hanoi’s central economic targets. Food production reached just 70% of the target set in the first Five-Year Plan, while annual population growth was around 3%. During this period, Vietnam remained dependent on agriculture. Eight-in-ten people lived in rural areas and 70% worked in agricultural jobs. But, just as in China where collectivist agricultural reforms under Chairman Mao led to widespread famine, this did not produce enough to feed Vietnam’s growing population. Food production fell 4.4% in 1987 alone, and food shortages stuck soon after. The government imported large amounts of produce to compensate, but this led to an over-dependence on foreign aid and a mounting burden of national debt.

Meanwhile, restrictions on international trade meant that Vietnam began to build up significant trade deficits. On top of this, low wages and poor living standards were made even worse as a result of high inflation. This eroded the value of the dong and increased the cost of basic, essential goods. For instance, in the 12 months from 1985 to 1986, inflation rose from 92% to an astonishing 775%. This left around 60% of the population living far below the breadline. In short, in the first decade after reunification, Vietnam had seen failed reforms, missed targets, and stagnating growth.^{32 33} It was a desperate situation, and something had to change.

In the next chapter, we will look at how a new series of economic reforms would transform Vietnam from one of the poorest countries in the world to one of

³¹ Barker, T. and Ungor, M. (2018) ‘Vietnam, the Next Asian Tiger?’, *University of Otago Business School, Economics Discussion Papers* No. 1803, March 2018.

³² Thang, B. T. (2000) ‘After the War: 25 Years of Economic Development in Vietnam’, *NIRA Review*, Spring 2000, pp. 21-25.

³³ Nguyen, T. ‘Vietnam’s Agrarian Reform, Rural Livelihood and Policy Issues’, *Rimsip*, pp. 1-19.

the fastest-growing economies on earth. In just a few short decades, “socialist-oriented market economics” would, for the first time since reunification, open up Vietnam’s markets to foreign investment and improve the livelihoods and living standards of millions of people.

Chapter Three: “Doi Moi” and Vietnam’s Opening Up



Chapter Three: “Doi Moi” and Vietnam’s Opening Up

3.01 / Doi Moi and National “Renewal”

High inflation, inefficient industries and economic stagnation defined the decade after reunification. Food shortages and failed reforms threatened to create a humanitarian crisis. And with Soviet aid now growing thin, Vietnam stood on the precipice. Thus, “reform or die” - the famous words of Party General Secretary Nguyen Van Linh - became not just a political call to action but an act of economic survival. Therefore, as the 6th National Congress approached in December 1986, the government prepared to adopt a radical set of policies to address these burning issues and ensure a national “renewal”.

This process of reform - known as “Doi Moi” - saw Vietnam move from a centralised “command and control” model to embrace “socialist-oriented market economics”. This new model would combine state intervention and the principles of the free-market, with private enterprise and international trade both now encouraged. The three main strands of Doi Moi were agricultural reforms, price-control reforms, and the opening up of the market to foreign investment. The government would dismantle the agricultural cooperatives which had caused food production to collapse and give control back to individual farmers and households, with new incentives to increase production. Vietnam’s inefficient state-owned enterprises would see their subsidies cut and the price of goods and services more aligned with market rates. Last but not least, the government would reverse decades of dependence on international imports and instead focus on selling its goods to the world.^{34 35} For the first time in decades, Vietnam was now open for business.

The reforms adopted at the 6th National Congress in 1986 were implemented soon after and continued to gain momentum as the decade drew to a close. One piece of legislation in particular marked a watershed moment in this new era. The 1987 “Law on Foreign Investment” established the first legal framework enabling foreigners to invest in Vietnam. It led to a significant increase in the inflow of global capital from its implementation in 1988 until the financial crisis in 1997.³⁶ This law increased the rights of foreign investors, improved the trade and investment environment and put domestic and international investors on a more equal footing.

³⁴ Nguyen, A. Luu, D. and Trinh, C. ‘The Evolution of Vietnamese Industry’, *The Brookings Institute*, pp. 4-7.

³⁵ Keough, A. (2016) “‘Reform or Die’: Doi Moi, TPP and the Legitimacy of Power in Vietnam”, *Journal of Political Inquiry*, Fall 2016, pp. 1-8.

³⁶ Nguyen, N. and Nguyen, T. (2007) ‘Foreign Direct Investment in Vietnam: an Overview and Analysis of the Determinants of Spatial Distribution across Provinces’, *Munich Personal RePEc Archive*, No. 1921, 10 June 2007, page 6.

Foreign investment soon began to pour into Vietnam, anticipating significant new commercial opportunities in this market of over 70 million potential new consumers. Foreign direct investment reached a pre-financial crisis peak of almost US\$9 billion in 1996, with much of this coming from countries such as France, Japan, South Korea and Taiwan.³⁷

The “Law on Foreign Investment” and other economic reforms unlocked an entrepreneurial spirit which, in turn, provided an immediate boost to Vietnam’s economic growth. GDP per capita - or the average income of the population - rose tenfold from just US\$100 in 1986 to just over US\$1,000 in 1995, while GDP growth averaged over 7% throughout the 1990s. This rising tide also saw significant improvements in Vietnam’s infrastructure and living standards. More and more people had access to essentials like clean water, power and basic health care. Meanwhile, food shortages were almost eliminated as new incentives saw food production increase from 281kg per person in 1987 to 400kg per person a decade later in 1997.³⁸

However, although the government loosened its grip on economic ownership, it did not give up political control. The economic changes introduced during Doi Moi followed intense debate and much soul-searching among high-ranking officials as to the shortcomings of central planning and its impact on the population. This was also a period of political change, with a new Prime Minister being appointed not long before the 6th National Congress. The government remained resolute in its commitment to communism. But its leaders were pragmatic enough to recognise when their policies had not achieved their objectives and proactive enough to learn lessons from elsewhere around the world. So, unlike similar regimes in Cuba or North Korea, Hanoi did not double-down. Instead, it opened up. Thus, Vietnam began to acknowledge the situation of the past and - like China before it - embrace new policies of the future, but on its own terms.³⁹

3.02 / The Role of Cooperatives

Since the liberation of Saigon in 1975 and Vietnam’s reunification, agricultural production methods in the south had been centralised to match those of the north. Landowners and farmers saw their land brought under state ownership, and control of it handed to agricultural “cooperatives” who managed the cultivation and

³⁷ Nguyen et al. (2006), *The Impacts of Foreign Direct Investment on the Economic Growth in Vietnam*, Hanoi, pp. 1-14.

³⁸ ‘National Human Development Report 2001: Doi Moi and Human Development in Vietnam’ (2001), *National Centre for Social Sciences and Humanities*, the Political Publishing House, Hanoi, 2001, pp. 27-42.

³⁹ Van Arkadie, B. and Mallon, R. (2004) ‘Vietnam - a Transition Tiger?’, *Australian National University*, ANU Press, pp. 65-78.

distribution of food. Meanwhile, farmers were required to sell a certain percentage of their produce to the government in return for subsidised goods such as gasoline, bricks, fertiliser and other essential items. Southern farmers resented and resisted this change and as a result - like most other industries during this time - agricultural production was inefficient and growth was slow.⁴⁰

Before Doi Moi, the first seeds of change in Vietnam were sown in its agriculture sector. Most people - around 80% of the population - worked in farming. Thus, the fall in food production resulting from agricultural cooperatives had a significant impact on the living standards of millions of some of its poorest people. The first, tentative steps towards opening up agriculture to a more market-based approach took place in 1980 in Hai Phong. Here, despite deep suspicion from traditionalists, the authorities ran a small-scale trial of “end-product contracts” with farming households. For the first time in more than a decade, these contracts gave farmers the right to sell their surplus produce on the private market. This small step from cooperative towards individual production created new incentives for farmers to work harder and increase their output. Thus, in the rice fields of one small corner of North-East Vietnam, free enterprise began to take root.

These seeds of change soon began to grow and bear fruit. “End-produce contracts” saw farming in Hai Phong become much more efficient, and in 1981 “Directive 100” was issued to give the concept official recognition. However - like other reforms during this period of national renewal - the process was slow, deliberate and incremental. Cooperatives remained the national model of agricultural production up until 1988 when, with Doi Moi now in full flow, the Politburo approved “Resolution 10” on the “Renovation of Economic Management in Agriculture.”⁴¹

Meanwhile, in Ho Chi Minh City, People’s Committee Chairman Vo Van Kiet began to introduce groundbreaking reforms of his own. Under his stewardship, state-owned enterprises were permitted to borrow foreign currencies to purchase materials and agricultural produce. Despite these policies being against state regulations, his bold, “fence-breaking” reforms provided much-needed support to Ho Chi Minh City’s population. In the decades that followed, Vo Van Kiet rose up the ranks of Vietnam’s political leadership, eventually becoming Prime Minister in 1991, a position he held until 1997. During this time, he introduced a range of liberal economic reforms, building his reputation as a reformer. These included giving business rights to individuals and more freedom to state-owned enterprises. Two

⁴⁰ Vo, A. and Le, V. (2014) ‘Governmental Influences on the Evolution of Agricultural Cooperatives in Vietnam: an Institutional Perspective with Case Studies’, *Asia-Pacific Business Review*, Vol. 20, No. 3, pp. 401-418.

⁴¹ Pham, B. ‘The Economic Reform in Vietnam in 1989: “Shock Therapy” or Gradualism?’ *University of California*, pp. 13-14.

pieces of legislation in particular stand out: The “Law on Private Enterprises” and the “Law on Joint Stock Companies”, both of which Vo Van Kiet directed. These laws would help to set the stage for the liberalisation of the Doi Moi era.

Like other sectors, Doi Moi would see agriculture moving towards a more open economic model. The major steps in this process included dismantling the bureaucratic farming cooperatives and giving longer-term land-use rights back to individual households. New legislation such as “Resolution 10” and the “Law on Land” meant that individual households still had to meet targets for agricultural production, but these were spread out over a longer period. The purchase of machines, equipment and animals was also now permissible, as was the marketing of food products. Over time, the government introduced further reforms, including giving up its control of prices and opening its agricultural markets to international trade. The devaluation of the dong during this time also helped Vietnam’s food products become more competitive on global markets.

These reforms transformed a sclerotic agricultural sector into an engine of economic growth. The “invisible hand of the market” meant that farmers - now unshackled from cooperative control - had new incentives to plant, grow and sell more. Farming saw an average annual growth rate of almost 4% between 1989 and 1992 as a direct result. This helped turn around some of the widespread and deep-rooted economic problems discussed in chapter 2.09. From 1987 to 1989, Vietnam went from importing almost half a million tons of rice to feed its starving population to being one of the world’s largest rice producers.⁴²

But the government’s agricultural reforms would not be simple or straightforward to replicate elsewhere. Other sectors would be much more difficult to pull out of their deep malaise. The reform of state-owned enterprises, as we shall see in the next chapter, would prove to be a more significant challenge.

3.03 / The Role of State-Owned Enterprises

Like most developing economies, agriculture and manufacturing made up the largest share of Vietnam’s economic output during this period. Both sectors were thus essential to a government determined to reform this new, unified Vietnam along strict socialist lines. So, alongside agriculture, Vietnam’s industrial sector was also brought under state control after 1975. Private enterprise was prohibited and foreign-owned business was appropriated. Now, state-owned enterprises -

⁴² Nguyen, T. ‘Vietnam’s Agrarian Reform, Rural Livelihood and Policy Issues’, *Rimsip*, pp. 1-19.

companies under government control - became the instrument through which Vietnam's leaders could implement their bold socialist transformation. These companies had preferential access to assets like land and could borrow capital at subsidised rates in return for meeting specific production targets and industrial objectives set out in the government's national strategies.⁴³

However, like agricultural cooperatives, state-owned enterprises were also inefficient and unproductive. Most ran on old, out-of-date equipment and few ever returned a profit. To put this in perspective: Just 300 enterprises (out of more than ten thousand) made up 80% of SOE contributions to the state budget. Monopolies meant that these companies did not have to compete, either in local or international markets. So, there was no incentive for them or their managers to innovate or become more efficient. The subsidised capital borrowed from the government - through state banks - began to create a growing mountain of debt that these unprofitable enterprises could not hope to recover. But, since state-owned enterprises were a bedrock of the socialist model of development, the government continued to bail them out.⁴⁴

The reform of state-owned enterprises thus became the second stage of Doi Moi. Through a gradual process of equitisation and divestment, the government hoped to encourage private enterprise and the private sector, make its inefficient industries more productive, and in so doing improve job creation and economic growth. The first step in this process involved converting the special status state-owned enterprises into regular legal entities governed by the company law, including limited liability and joint stock companies. However, progress was slow, with just a handful of small, unprofitable companies being converted in the earliest stages.

State-owned enterprises continued to dominate the industrial landscape into the 1990s, when the government tried to emulate the success of Japanese and Korean "national champions". It began to consolidate its largest state-owned enterprises into group companies or "conglomerates", with 17 reporting to the Prime Minister and a further 77 reporting to line ministries and People's Committees. These conglomerates were designed to dominate their respective "strategic sectors" and enable Vietnam to innovate and compete in the international marketplace. However, this principle did not quite work out in practice.⁴⁵

⁴³ Minor, P. et al. (2018) 'State-Owned Enterprise Reform in Vietnam: a Dynamic CGE Analysis', *Journal of Asian Economics*, Vol. 55, p. 43.

⁴⁴ Sjöholm, F. (2006) 'State Owned Enterprises and Equitisation in Vietnam', *Stockholm School of Economics*, pp. 14-15.

⁴⁵ 'State Owned Enterprise Reform in Vietnam: Lessons Learnt and Future Directions' (2015), *ADB*, pp. 2-3.

So, if reforming agricultural cooperatives unlocked a dormant entrepreneurial spirit in Vietnam's farming households, would reforming state-owned enterprises do the same for its industrial workers? Not quite. Southern farmers in particular had long resisted the imposition of cooperatives, and their enforcement had often been sporadic and ineffective. Dismantling agricultural cooperatives created an incentive to work harder. But the same could not be said for state-owned enterprises, where competing interests and power structures continued to represent a roadblock to reform.

First, like other public-sector jobs, wages in state-owned enterprises remained low compared to their private-sector counterparts. Salaries that had been eroded through the high inflation of the 1980s had never recovered. This led to both low motivation and the potential incentive for corruption. Meanwhile, the leadership of state-owned enterprises remained subject to political influence, while the complicated and unclear nature of the equitisation process compounded the situation still further. These issues account - at least in part - for the slow progress of SOE commercialisation which began in 1981 when "Decree 25" permitted state enterprises to participate in private markets for the first time.⁴⁶

Even three decades after Doi Moi, the reform of state-owned enterprises remains unfinished business. Progress has been slow, and it was not until the 2000s that Vietnam began to privatise in earnest as part of its bid to join the World Trade Organisation. The earliest reforms in the 1990s focused on low-hanging fruit (loss-making small and medium-sized enterprises) while the larger and more profitable companies were consolidated into strategic "national champions".

Despite this slow progress, there has been some success. The number of state-owned enterprises fell from over 12,000 in 1990 to around 600 in 2017. But, with Vietnam now classified as a "middle-income" nation, it will no longer be able to depend on "official development aid" to fund economic growth as it has in the past (see chapter 3.04). So, the government will need to finish the job of reforming state-owned enterprises if it is to continue its recent record of economic growth in the future.⁴⁷

⁴⁶ Fforde, A. (2004) 'Vietnamese State Owned Enterprises: 'Real Property', Commercial Performance and Political Economy', *Southeast Asia Research Centre*, City University of Hong Kong, pp. 4-5.

⁴⁷ Takeyama, Y. (2018) 'Reform of State Owned Enterprises: a Big Challenge to the Vietnamese Economy', *Institute for International Monetary Affairs*, No. 12, pp. 1-14.

3.04 / The Role of International Organisations and Donors

The US trade embargo described in chapter 2.03 was designed to isolate Vietnam and prevent international financial support reaching its government, enterprises and people. However, some international organisations, such as the UNDP and World Bank, managed to maintain a relationship during this time. Once Vietnam reunified, it inherited membership of the World Bank from the former Republic of South Vietnam. The World Bank visited Vietnam in 1976 and prepared a report on its economic situation, and in 1978 approved the first credit line of US\$60 million for two major infrastructure projects: A dam on the Saigon River and a 14,000 hectare irrigation project in Dau Tieng, a district of Binh Duong Province.⁴⁸ Following Doi Moi and the end of US sanctions, this support began to grow after official re-engagement in 1993, and after Vietnam settled its outstanding debt of around US\$10 billion to the Russian Federation at the 1999 “Paris Club” for US\$1.7 billion.⁴⁹ The World Bank became one of Vietnam’s largest international donors, granting loans and working with the government and others to support social and economic development and to improve the living standards of some of its poorest people.⁵⁰

Other international institutions also had an important role in supporting Vietnam’s social and economic development during this time. Japan has been one of the largest donors, providing almost US\$20 billion in official development aid since 1992. This financial and technical support has helped to build major infrastructure improvements, including thousands of kilometers of roads and bridges. The European Union and Japan supported Vietnam in the initial stages of its independence, with technical cooperation in hospitals and irrigation projects.

But, since 1993, Japan has provided significant assistance for rebuilding Vietnam and supporting its transition to a more market-based approach. This included major engineering projects such as the Hanoi–Ho Chi Minh City rail bridge rehabilitation project and Hai Phong Port, as well as technical assistance to support legal reforms and economic development. From 1992 to 2011, Japan provided 30% of all official development aid to Vietnam, making it the largest donor ahead of the World Bank (22%) and far ahead of other countries such as France (6%) and the United States (2%).⁵¹

⁴⁸ ‘The World Bank and Vietnam: a Strong and Enduring Partnership’, *The World Bank*, available at: <<http://www5.worldbank.org/eap/media/vietnam-strong-enduring-partnership-english/>> last accessed on 30 June 2019.

⁴⁹ Alpert, W. (2005) *The Vietnamese Economy and its Transformation to an Open Market System*, London, England, p. 146.

⁵⁰ Cling, J. P. et al (2009) ‘Desperately Seeking Model Countries: The World Bank in Vietnam’, *Institute for Research and Development*, pp. 1-29.

⁵¹ ‘Japan-Vietnam Partnership to Date and From Now On’, *Japan International Cooperation Agency*, pp. 1-24.

Even organisations of which Vietnam was a founding member, such as the Asian Development Bank, cut ties during the period of the US trade embargo. But in 1993, with the end of the embargo in sight, the bank could once again resume its engagement in Vietnam. Like the development aid from Japan and France (such as Agence Française de Développement and the House of Law established in Hanoi under the technical support of the Paris Bar, which had a significant role in the drafting of substantial legal documents including the Civil Code) this took the shape of rehabilitation and support for the government's economic reform program. Later, it grew to include tackling issues such as governance and sustainable development. Over the decade or so since Vietnam rejoined the Asian Development Bank, it was one of the largest recipients of the Asian Development Fund, and received hundreds of grants and technical assistance.⁵²

3.05 / The Role of Multilateral Institutions

Like the international organisations described above, multilateral institutions also began to re-establish formal ties with Vietnam during this period. The World Trade Organisation began to negotiate accession with the government of Vietnam in 1996.⁵³ It would take more than a decade for Vietnam to achieve this historic milestone, becoming the 150th member state in 2007. However, the reforms it introduced during this time - reducing tariffs and the effective rates of protection on goods - prepared the ground for Vietnam's eventual accession.⁵⁴

The United Nations, meanwhile, was one of the few multilateral institutions to maintain a relationship with Vietnam during the difficult period from reunification to Doi Moi. Vietnam was accepted as a member of the UN in September 1977, and in the decade that followed the UN was responsible for around 60% of the aid given to Vietnam. The UN's annual financial contribution - worth hundreds of millions of dollars - helped the government achieve its social and economic development goals, while Vietnam used its membership of the UN as a platform to advocate against US trade sanctions.⁵⁵ The government's growing relationships with these global institutions and multilateral organisations helped Vietnam to take the first, tentative steps towards international integration.

⁵² 'Asian Development Bank and Vietnam', *Asian Development Bank*, 31 December 2009, pp. 1-5.

⁵³ Le, A. (2017) 'Effects of WTO Membership on Vietnam's Trade: the Gravity Model Approach', *University of Oslo*, p. 10.

⁵⁴ Cling, J. P. et al (2009) 'The Distributive Impact of Vietnam's Accession to the WTO', *Economie Internationale*, No. 118, pp. 43-71.

⁵⁵ 'Vietnam's 40-Year UN Membership', *Bao Anh Vietnam*, 29 September 2017. Available at: <<https://vietnam.vnnet.vn/english/vietnams-40-year-un-membership/333093.html>> last accessed on 30 June 2019.

3.06 / The Role of the Vietnamese Diaspora

Civilian casualties are an inevitable consequence of war. Not just those caught in the crossfire, but also those who become displaced during the heat of battle or the refugees forced to flee its aftermath. Decades of conflict and the eventual liberation of Saigon saw millions of people leave Vietnam for foreign shores, either to escape the fighting itself or the upheaval that followed. Most who left before 1975 made their new home in surrounding countries such as China, Laos or Cambodia. Meanwhile, most who left after 1975 sought to make a new life in places like the United States, France or Australia - mirroring migration flows of the earlier French period.

The United States alone has a diaspora of 1.8 million people, making ethnic Vietnamese one of its largest immigrant populations. More than 200,000 people arrived between 1975 and 1977, with over half a million more following in their footsteps between 1978 and 2003. Since then, the children and families of first-generation immigrants have followed too. Most settled in places like California and Texas, growing the diaspora in the US still further.⁵⁶ Outside of the United States, there are also significant numbers of first and second-generation Vietnamese living in France (300,000), Canada (250,000), and Australia (245,000).⁵⁷

Over the last few decades, these communities have made a significant contribution to the household incomes of their families and to Vietnam's broader economic growth through international remittances. Overseas Vietnamese sent US\$120 million home in 1990, rising to US\$3.8 billion in 2005 - accounting for 6% of GDP - and then US\$12.2 billion in 2015. This was the second-largest inflow of capital after foreign-direct investment, far ahead of official development aid described in the previous chapter.⁵⁸

3.07 / The End of Conflict in Cambodia and Restoration of Diplomatic Ties

The diplomatic stand-off between Hanoi and Washington described in chapter 2.03 would remain unresolved as long as Vietnam still had a presence in Cambodia. Normalising relations and securing peace in the region thus hinged on finding a political resolution to this intractable problem. This, in turn, would help to diffuse longstanding tensions between China, which had backed the old Khmer regime, and

⁵⁶ 'The Vietnamese Diaspora in the United States', *The Migration Policy Institute*, June 2015, pp. 1-4.

⁵⁷ 'Review of Vietnamese Migration Abroad', *Consular Department, Ministry of Foreign Affairs of Vietnam*, pp. 53-55.

⁵⁸ Nguyen, P. (2017) 'Remittances and Competitiveness: A Case Study of Vietnam', *Journal of Economics, Business and Management*, Vol. 5, No. 2, pp. 79-82.

the Soviet Union, which had backed Vietnam. In short, Vietnam's withdrawal from Cambodia was the missing piece of the puzzle.⁵⁹

Following diplomatic efforts, including the "Informal Jakarta Talks" in 1988, softening opposition from Thailand and Indonesia, and a growing desire for détente with the United States, Vietnam withdrew from Cambodia.⁶⁰ The removal of the last remaining soldiers in September 1989, under the supervision of international observers, thus brought to an end a decade-long intervention. In doing so, it also opened the door to a normalisation of diplomatic relations with important international institutions, and also to the essential new financial aid and economic assistance that would follow.⁶¹ This was formalised in the 1991 "Paris Peace Agreement", when 19 countries came together to sign an international political settlement bringing the issue to an end and mandating a UN taskforce to oversee the ceasefire and establishment of a new constitution.⁶²

Thus, Doi Moi marked a line in the sand: On one side, the "command-and-control" policies of the past; on the other, the "socialist-oriented" market reforms of the future. The bonds between communist countries that had sustained Vietnam through decades of hardship had begun to splinter. Soon, those bonds would break altogether. But the economic reforms introduced in 1986, and the new international relationships that those reforms enabled, helped Vietnam to find its feet in this new world. During this time of transition, Vietnam went from being on the peripheries of the global stage to a fledgling participant in international affairs. And in the decade that followed, it would go further and faster on this path of reform.

⁵⁹ Erlanger, S. 'Vietnam Promises Troops Will Leave Cambodia by Fall', *New York Times*, 6 April 1989. Available at: <<https://www.nytimes.com/1989/04/06/world/vietnam-promises-troops-will-leave-cambodia-by-fall.html>> last accessed on 30 June 2019.

⁶⁰ Leifer, M. (1990) 'Cambodia in Regional and Global Politics', pages 4-18, in Klintworth, G. (eds) *Vietnam's Withdrawal from Cambodia: Regional Issues and Realignment*, Strategic and Defence Studies Center, Research School of Pacific Studies, Australian National University, Canberra.

⁶¹ Cima, R. (1989) 'Vietnam in 1989: Initiating the Post-Cambodia Period', *Asian Survey*, Vol. 30, No. 1, p. 89.

⁶² 'Cambodia - 20 Years on From the Paris Peace Agreement', *United Nations Human Rights*, 21 October 2011. Available at: <<https://www.ohchr.org/EN/NewsEvents/Pages/Cambodia-20yearsonfromtheParisPeace.aspx>> last accessed on 29 December 2019.

Chapter Four: Vietnam in the 1990s



Chapter Four: Vietnam in the 1990s

4.01 / The Fall of the Soviet Union

Just as the rise of the Soviet Union had shaped political, economic and social changes in Vietnam, so its fall would also have a profound impact on the government, its domestic reforms and international agenda. The Soviet Union, for so long a literal lifeline to Vietnam and its people, had begun to collapse under its own weight in the late 1980s with the fall of the Berlin Wall. Stagnation plagued economies across the USSR, just as it had in Vietnam. Mikhail Gorbachev, the Soviet president, introduced the twin reforms of “glasnost” (openness) and “perestroika” (economic rebuilding), hoping to turn around these failing fortunes.

However, instead of placating regional unrest, it just added fuel to the fire. The protests that began in peripheral states like Estonia in 1987 demanding greater self-determination soon spread to other Baltic countries like Latvia and Lithuania. Nationalist movements then began to pop-up across Central Asia, each one further undermining confidence and control in Moscow. Fast forward to Christmas 1991 and, after a botched and short-lived coup, Gorbachev resigned. The Soviet Union collapsed the following month, dissolving into the “Commonwealth of Independent Republics”.⁶³

The economic support provided to far-flung communist countries like Vietnam ebbed along with the crumbling political power of the Soviet Union. The writing had been on the wall for the Council for Mutual Economic Assistance for some time. The trading bloc’s 45th session in Sofia in 1990 had debated the urgent need to reform, with delegates agreeing on the need for member states to trade at global market prices using hard currencies. This was a significant departure from the centralised Five-Year Plans, subsidies and artificial market rates that had defined the Soviet era.⁶⁴ Then, after the domino-like fall of communist governments across Eastern Europe, the trading bloc became redundant. It was disbanded in 1991 at the 46th session in Budapest, a little over four decades since its inception.⁶⁵

⁶³ ‘Fall of the Soviet Union’, *Cold War Museum*. Available at: <http://www.coldwar.org/articles/90s/fall_of_the_soviet_union.asp> last accessed on 20 August 2019.

⁶⁴ Smith, T. (1990) ‘Communist Trading Bloc Comecon Agrees it Needs Overhauling’, *Associated Press*. Available at: <<https://www.apnews.com/905c063ac562b3d4642821424244a613>> last accessed on 20 August 2019.

⁶⁵ Lazlo, E. (1991) ‘COMECON Ends its Four-decade Existence’, *UPI*. Available at: <<https://www.upi.com/Archives/1991/06/28/COMECON-ends-its-four-decade-existence/4898678081600/>> last accessed on 20 August 2019.

During this time, the world was changing fast. Together, the fall of the Soviet Union and the end of the Council for Mutual Economic Assistance had removed the twin political and economic foundations of Vietnam's international relations. However, just as the bonds between Vietnam and its old friends had started to break, the government was beginning to build bridges with its former adversaries across the old Cold War divide.

4.02 / The End of the US Trade Embargo

The end of the intervention in Cambodia described in chapter 3.07 now opened the door to restoring formal diplomatic ties with the United States. President George H.W. Bush had outlined a roadmap to normalisation following the signing of the "Paris Agreement" between Vietnam and Cambodia in 1991. This four-step plan described a gradual building of bridges, beginning with the release of remaining US prisoners of war and allowing tourists from Vietnam to visit the United States. Over time, relations continued to improve and both sides took further, tentative steps towards normal diplomatic relations. The US sent US\$3 million to Vietnam in humanitarian aid for orphaned children and prosthetics, began to establish telecommunications, and started to lift restrictions on non-governmental organisations. For its part, Vietnam was required to help find a political settlement in Cambodia and cooperate with efforts to resolve cases of US servicemen still missing in action.

Once President Clinton entered office in 1992, it became more difficult to resist international calls for Vietnam to receive financial support from organisations like the World Bank and the IMF, as had been the case under the terms of the US trade embargo. However, almost 100 cases of missing servicemen remained unresolved or their remains unreturned. It was not until a Congressional Delegation visited Vietnam and concluded that it would be impossible to close these cases that progress could be made.⁶⁶ The United States and Vietnam had established diplomatic offices in their respective capitals in 1993. Once the trade embargo was lifted in 1994 - not including the sale of arms, which remained prohibited until 2018 - these became full-fledged embassies. Then, in 1995, three decades after the US had first imposed sanctions after the liberation of Saigon, the long process of resuming normal diplomatic relations could at last be completed.⁶⁷

⁶⁶ Castelli, B. (1995) 'The Lifting of the Trade Embargo Between the United States and Vietnam: The Loss of a Potential Bargaining Tool or a Means of Fostering Cooperation?' *Penn State International Law Review*. Vol. 13: No. 2, pp. 297-328.

⁶⁷ Kelly, P. 'The US and Vietnam: Old Enemies, New Friends?', *Japan Forward*, 17 April 2018.

Even before this normalisation process had been completed, a state visit from French President Francois Mitterrand in 1993 - the first from a western leader since 1975 - presaged Vietnam's international rehabilitation. France had normalised relations with Vietnam back in 1989, and the French president brought with him a delegation of 200 business leaders to help Vietnam re-engage with global markets.⁶⁸

4.03 / Vietnam joins ASEAN

With the trade embargo now over, and normal diplomatic relations with the US restored, Vietnam could, at last, take its seat at the table of international affairs. The institutions from which it had been locked out soon started to open their doors. Now, Vietnam could begin to build the new relationships it needed and achieve the international integration it had lacked for so long. This had been a clear desire of the government since at least the end of the previous decade: A resolution passed at the 13th National Congress in 1988 had outlined a desire for Vietnam to have "more friends and fewer enemies".⁶⁹

One of the most important milestones was membership of the Association of Southeast Asian Nations (ASEAN). Founded in 1967 at the height of the war in Vietnam, the original members of ASEAN include Singapore, Thailand, Malaysia, the Philippines and Indonesia, with Brunei becoming the 6th member in 1984.⁷⁰ The group was first established to contain the influence of communism in general, and the Soviet Union in particular, of which Vietnam was the main conduit in the region. So the decision of ASEAN to admit its 7th member and first communist state marked a turning point not just in Vietnam's international integration, but also in the strategic make-up of the region.

Membership of ASEAN was attractive to Vietnam for a number of important reasons. First, it would confirm Hanoi's growing reputation as a positive influence in the region and a legitimate actor on the global stage. Second, it would help to increase confidence in its domestic market. And third, it would give the government greater leverage and support on issues of regional conflict, such as competing claims on islands in the South China Sea. Meanwhile, the accession of Vietnam would also have reciprocal benefits for the other ASEAN countries. Foremost among these was

⁶⁸ 'Mitterrand Visits Vietnam, Promises More French Aid', *Los Angeles Times*, 10 February 1993. Available at: <<https://www.latimes.com/archives/la-xpm-1993-02-10-mn-1349-story.html>> last accessed on 29 December 2019.

⁶⁹ Chauhan, S. (2013) 'Vietnam's Role in ASEAN', *East Asia Forum*. Available at: <<https://www.eastasiaforum.org/2013/10/23/vietnams-role-in-asean/>> last accessed on 20 August 2019.

⁷⁰ US Commercial Service Memo available at: <<https://globaleledge.msu.edu/trade-blocs/asean/memo>> last accessed on 21 August 2019.

the fact that the region would be more unified, not least in light of the growing influence of China.⁷¹

Over the previous few decades, Vietnam's membership of the communist bloc had strained relationships with its neighbours to breaking point. The Paris Agreements, signed in 1991, began the process of bridge-building between the government in Hanoi and its counterparts in other Southeast Asian capitals. This process soon gained momentum as Vietnam sought new markets to compensate for the loss of subsidies from its old Soviet sponsors. So much so that, in 1994, Singapore would become its largest trading partner.

Following the Paris Agreements, the government of Vietnam took a number of important steps that would clear a path to its eventual accession to ASEAN. The first step was the 1992 signing of the "Treaty of Amity and Cooperation" which signified Hanoi's recognition of regional partnership. Then, in quick succession, Vietnam was granted observer status in 1993 and became one of the founding members of the Regional Forum 12 months later. The government applied for full membership of ASEAN in 1994 and, just two weeks after normal diplomatic relations with the United States had resumed, it became the 7th ASEAN member state.

Over and above broad political and strategic considerations, membership of ASEAN also had some more concrete advantages for Vietnam in terms of international trade and investment. On the surface, joining this regional bloc granted it better access to financial markets, and made its domestic market more attractive to investors. But it was also one of the earliest steps in Vietnam's alignment with international trade standards through membership of multilateral free-trade agreements. In joining ASEAN, Vietnam also had to sign up to and adopt the obligations of the ASEAN Free Trade Area (AFTA).

Signed in Singapore in 1992, AFTA was designed to eliminate tariffs and barriers within the region. In doing so, it aimed to make the manufacturing industries of member states more competitive and attractive to foreign investment. Through the Common Effective Preferential Tariff (CEPT) scheme, member states agreed to reduce tariffs to 5% over the decade from its inception in 1993. Members also agreed to a gradual harmonisation of standards and phasing out of non-tariff barriers on goods. Vietnam, as one of its newest and least-developed countries, was given time to adapt to and phase in these measures.⁷²

⁷¹ 'Vietnam Joins ASEAN', *Strategic Comments*, Volume 1, Issue 5, June 1995.

⁷² Frost, F. (1995) 'Vietnam's Membership of ASEAN: Issues and Implications', *Australian Parliament Research Service*, Current Issues Brief, No. 3, 1995-1996, pp. 1-19.

4.04 / The New “Law on Foreign Investment”

Now Vietnam was beginning to integrate into international markets, the government needed to address some of the shortcomings of the original “Law on Foreign Investment”. First introduced in 1987 as one of the cornerstones of Doi Moi, the law had been successful in attracting investors to Vietnam. Foreign direct investment saw strong growth from the late 1980s onwards, both in cash terms and in the number of projects registered. In fact, FDI represented 25% of the total capital in Vietnam between 1991 and 1995. In the pre-crisis peak of 1996, Vietnam was able to attract US\$8.6 billion in foreign capital. This investment became the engine of Vietnam’s socio-economic growth, providing funds for essential development and modernisation.⁷³

However, despite this progress, more remained to be done. Much of this first-wave FDI was concentrated in low-risk sectors such as tourism, or high-risk, capital-intensive industries such as the oil refineries in Central Vietnam or telecommunications and mobile network projects in Ho Chi Minh City. These projects brought much-needed capital, created new jobs and increased knowledge transfer. However, foreign investors faced a bureaucratic quagmire in which progress was slow and success far from guaranteed, not least in complicated international projects such as Build-Operate-Transfer projects in the power and waste-water sectors. The Law on Foreign Investment had been amended since 1987, first in 1990 and then again in 1992. However, to address these issues, and in the face of some big-name international companies pulling out of Vietnam after the Asian Financial Crisis, the government now embarked upon a more comprehensive reform of its flagship foreign investment legislation.

The 1996 amendments to the Law on Foreign Investment clarified the term “foreign direct investment” in legislation, and more than doubled the legal lifespan of foreign companies from two to five decades. Tax privileges, meanwhile, were made available to 100% foreign-owned enterprises, not just joint ventures, as had been the case in the past. The new law also tried, with various degrees of success, to resolve some of the question marks for foreign investors around land-use rights, corporate governance and bureaucratic procedures.⁷⁴ In macroeconomic terms, the 1996 amendments attempted to address some of the problems of the original law, in that it highlighted high-tech, labour-intensive industries, exports, and infrastructure

⁷³ Foreign Investment Policy of Vietnam in the Process of International Economic Integration’, *The World Bank*, pages 1-8.

⁷⁴ Thuyet, P. V. (1998) ‘Vietnam’s Legal Framework for Foreign Investment’, *The International Lawyer*, Vol. 33, No. 3, pp. 765-775.

as priorities for attracting foreign investment.⁷⁵ However, despite some of these issues remaining unresolved, the reformed law was another step in the right direction, making Vietnam a more attractive investment destination for foreign enterprises.

4.05 / The 1997 Financial Crisis

Vietnam's progress in liberalising its domestic market, reforming its legal framework and improving its business environment was about to meet its toughest test since Doi Moi in the shape of the Asian financial crisis. In the summer of 1997, Thailand was forced to float the baht, as it had an insufficient reserve of foreign currencies to underpin its peg to the US dollar. The government in Bangkok asked the IMF for "technical assistance", and spooked investors in the process. Capital flight soon followed, and the baht crashed in value. This unleashed a chain of events that would affect countries throughout the region. Governments from the Philippines to Indonesia were forced to intervene to protect their own currencies from depreciating, and the contagion soon spread to Taiwan, Hong Kong and Singapore.

This crash in currencies had a knock-on effect on both share prices and the value of real estate across the region. In a few short months, it led to historic falls on global stock exchanges, as over-leveraged foreign investors saw the value of their assets drop through the floor. The causes of the financial crisis, though complicated, boil down to a gradual over-valuation of currencies and a speculative investment bubble in which the value of assets in the region (not least real estate) became over-inflated. Once this bubble had burst, the cost of office rental fell over 50% in Bangkok, 37% in Manila and 27% in Hong Kong.⁷⁶

Vietnam was not immune from this crisis, though it was not hit as hard as some other countries in the region. This is because, despite its growing international integration, Vietnam was not as entwined into global financial markets as some of its neighbours.⁷⁷ Indeed, at this point in time, foreign direct investment was still subject to some restrictions. Meanwhile, the government retained a tight grip on private foreign debt, and its current account deficit remained manageable. That said, Vietnam did see some of its foreign-invested projects postponed⁷⁸ as FDI fell around 25% between 1997 and 1999.⁷⁹

⁷⁵ Tran, T. Q. (2011), 'Reforms in FDI Policy and the Investment Climate in Vietnam', pp. 116-117, in Keyuan, Z. and Chen, J. (eds) *International Law in East Asia*, Routledge, New York.

⁷⁶ Richardson, D. (1998) 'Asian Financial Crisis', *Parliament of Australia*, Current Issues Brief, No. 23, 1997-1998.

⁷⁷ Fforde, A. (2002). 'Light Within the ASEAN Gloom? Vietnam's Economy Since the Asian Financial Crisis', *Southeast Asian Affairs*, p. 362.

⁷⁸ Truoc, V. P. (2007). 'Decade after Crisis, Vietnam has Lessons to Learn', *Vietnam News*. Available at:

Even in the face of a regional financial crisis, however, Vietnam managed to maintain an impressive record of economic growth during this time. GDP continued to increase at around 6% after 1997. Though below pre-crisis levels, that was a much stronger rate of return than countries like the Philippines or Thailand, who both saw negative growth in 1998. In fact, between 1996 and 2000, Vietnam's GDP grew 28% compared to 11% in the Philippines and -2% in Thailand. So, through a combination of its relative lack of contact with global capital markets and tight government controls, Vietnam managed to weather the storm and emerge unscathed, at least when compared with other countries in the region.⁸⁰

4.06 / Hanoi Hosts the First-Ever Francophonie Summit in Asia

Over the previous few decades, Vietnam's membership of the Organisation of the Francophonie had been one of its few lines of contact with the non-communist world. Now, with Vietnam growing in stature on the international stage, it would go from being one of its peripheral members to hosting the first-ever summit of French-speaking countries in Asia. In November 1997, the government of Vietnam welcomed more than 2,000 delegates from 47 member countries to discuss their shared economic and cultural bonds.

In fact, this was not just the first-ever summit of the Francophonie in Asia, it was also the first-ever international summit to be held in Vietnam. The conference welcomed high-profile foreign dignitaries including French president Jacques Chirac, Canadian prime minister Jean Chretien and former leader of the United Nations Boutros Boutros-Ghali.⁸¹ The conference was a success for two reasons. First, it gave Vietnam the chance to showcase itself in a position of leadership on the world stage. Second, while the purpose of the summit was to promote the French culture and language, it also enabled Vietnam to promote itself as an attractive destination for foreign investment and international trade.⁸²

<<https://vietnamnews.vn/economy/business-beat/166284/decade-after-crisis-vn-has-lessons-to-learn.html#Bl7yrLvAsAuyZugU.97>> last accessed on 20 August 2019.

⁷⁹ 'Foreign Investment Policy of Vietnam in the Process of International Economic Integration', *The World Bank*, p. 1.

⁸⁰ Fforde, A. (2002). 'Light Within the ASEAN Gloom? Vietnam's Economy Since the Asian Financial Crisis', *Southeast Asian Affairs*, pp. 358-361.

⁸¹ 'Vietnam Opens Summit of French-Speaking Nations', *CNN*, 14 November 1997. Available at: <<http://edition.cnn.com/WORLD/9711/14/vietnam.francophone/>> last accessed on 20 August 2019.

⁸² '7th Annual Francophonie Summit Ends: Roundup', *Associated Press*, 17 November 1997.

So, if the 1980s concluded with Vietnam taking the first, tentative steps towards economic reform on the domestic front and greater integration on the international stage, the 1990s concluded with Vietnam becoming a more active reformer at home and a more confident participant in global affairs. This set the stage for the next phase of Vietnam's development, and one which would confirm its status as a full member of the global economy and the international community.

Chapter Five: Further Reform in Vietnam



Chapter Five: Further Reform in Vietnam

5.01: Important Dates

Over the next decade, Vietnam would encounter a series of important milestones on its long road of reform. Some, such as membership of the World Trade Organisation, would see the government consolidate its position as a more open and active participant in international trade and global affairs. Others, such as the 2008 global financial crisis, would put these reforms to the test.

5.01(a): Vietnam's 2007 Accession to the World Trade Organisation

Perhaps the most important of these milestones was Vietnam's membership of the World Trade Organisation (WTO), the international arbiter of global trade rules. Vietnam applied to join the WTO in 1995, and this set in train a long and complicated series of negotiations beginning in 1998 and concluding, 14 rounds later, in 2006. The end of negotiations thus opened the door for Vietnam to become the 150th member of the WTO, a historic milestone which was achieved in 2007 following the approval of its General Council in Geneva.⁸³

Joining the WTO required Vietnam to open up its market and, in doing so, further align its trade and investment environment with international standards. The government made a number of important commitments as part of its WTO membership. For goods, Vietnam agreed to a "ceiling" on duties of 0% to 35%, phased in between 2007 and 2014. Higher-ceiling goods included products such as coffee, tobacco and motor vehicles. The government also agreed not to subsidise agricultural exports, though it could continue to support domestic farmers. Meanwhile, for services, Vietnam committed to a gradual opening up of access. Some sectors, however, would still be subject to restrictions on foreign ownership. Telecommunications, for instance, would be subject to caps of between 49% and 65%.⁸⁴

Membership of the WTO provided an immediate boost to foreign investment. FDI doubled almost overnight, rising from US\$10 billion in 2006 to US\$21.3 billion in 2007. That figure then tripled over the next 12 months, reaching US\$64 billion in 2008. Meanwhile, the value of foreign trade almost quadrupled, growing from

⁸³ 'Vietnam', *World Trade Organisation*. Available at: <https://www.wto.org/english/thewto_e/acc_e/a1_vietnam_e.htm> last accessed on 20 August 2019.

⁸⁴ 'General Council Approves Vietnam's Membership', *World Trade Organisation*, 7 November 2006. Available at: <https://www.wto.org/english/news_e/pres06_e/pr455_e.htm> last accessed on 20 November 2019.

US\$84.7 billion in 2006 to US\$327.7 billion in 2015. Global companies including Honda, Canon and Samsung soon began to open large manufacturing operations in Vietnam.⁸⁵ On top of these clear economic benefits, however, Vietnam's WTO membership also helped to consolidate important reforms to its legal framework and business environment. First, it cemented the principles of rules-based trade. Second, it increased investor confidence through the introduction of dispute-settlement measures. And third, it encouraged further domestic reform in areas such as transparent governance, economic freedoms and the rule of law.⁸⁶

5.01(b): The 2008 Global Financial Crisis

Vietnam's fledgling participation in global markets had shielded it from the worst of the 1997 Asian financial crisis. However, fast-forward to 2008 and, with membership of the WTO now confirmed and Vietnam thus more intertwined with international capital flows, it was about to feel the full force of the global financial crisis.

Ground zero of this international economic disaster was the US mortgage market, where irresponsible lending had created a "subprime" market in which banks gave loans to low-income borrowers. These mortgages were then repackaged into "low-risk" securities and sold to investors as triple-A rated "collateralised debt obligations". In a low-inflation world, this was an attractive asset class for investors hunting better returns. However, once the US housing market began to fail, these "safe" assets soon became toxic as people began to default on their mortgages. This led to a collapse in trust, bankrupt institutions and the spread of panic throughout the international financial markets.⁸⁷

Unlike other countries in Southeast Asia, Vietnam did not go into recession in the immediate aftermath of the global financial meltdown. But the crisis did slam the brakes hard on its impressive record of economic growth. Vietnam's annual GDP growth rate fell from 8.5% in 2007 to 6.3% in 2008 and 5.3% in 2009. Meanwhile, the 2008 consumer price index hit 28%, rising as high as 65% for some food items such as rice.⁸⁸ The crisis also highlighted some of the inherent weaknesses of

⁸⁵ Nguyen, H. 'A Decade of WTO Membership: Vietnam's Star Rises', *Vietnam Economic News*, 29 January 2017. Available at: <<http://ven.vn/a-decade-of-wto-membership-vietnams-star-rises-25198.html>> last accessed on 20 August 2019.

⁸⁶ 'Vietnam's Accession to the World Trade Organisation' (2006), *Office of the United States Trade Representative*. Available at: <https://ustr.gov/archive/assets/Document_Library/Fact_Sheets/2006/asset_upload_file521_9445.pdf> last accessed on 20 August 2019.

⁸⁷ 'The Origins of the Financial Crisis', *The Economist*, 7 September 2013. Available at: <<https://www.economist.com/schools-brief/2013/09/07/crash-course>> last accessed on 20 August 2019.

⁸⁸ 'How Deep was the Impact of the Economic Crisis in Vietnam?' (2010), *The World Bank*, p. 2.

Vietnam's economic environment at that time, including the inefficiencies of public sector investment.

The collapse in orders for goods such as furniture, footwear and garments also hurt Vietnam, in light of its over-reliance on exports. For instance, garment orders from the US in quarter 4 of 2018 fell 20% compared to the same period in 2017, and similar stories emerged from other important markets like the European Union. Vietnam's stock markets, meanwhile, slumped to historic lows in 2008, leading to fears of capital flight. With businesses feeling the strain, tens of thousands of people lost their jobs, and consumer spending fell as much as 50% over the critical Tet (Lunar New Year) period.⁸⁹

The government introduced a financial stimulus package to arrest this economic decline. Measures included subsidising interest rates, granting tax breaks and increasing capital spending. This package pulled Vietnam out of its post-crisis slump, with the construction sector and domestic consumer spending leading the charge for a renewed period of economic growth. The World Bank later concluded that Vietnam had managed to weather the storm better than other countries in the region.⁹⁰

5.01(c): The Continued Challenge of State-Owned Enterprises

One of the unintended consequences of this stimulus package was that it compounded the problems of Vietnam's influential but often ineffective state-owned enterprises. Much of the new capital that had been injected to stimulate economic growth had found itself not in the private sector but in the hands of government-backed companies. State-owned enterprises used it to branch out to other sectors and industries, often without the specialist knowledge required to succeed in them.

Perhaps the most infamous case was Vinashin. Vietnam's state-owned shipbuilder had a huge workforce of more than 60,000 people, and from 2007 onwards it began to use almost US\$1 billion of new investment to enter industries as diverse as hotels and motorbike manufacturing. The government had hoped that Vinashin would follow in the footsteps of conglomerates like Samsung, which had been so successful in driving South Korea's recent economic growth. However, in 2010, Vinashin found itself crippled with over US\$4 billion of debt - almost 5% of Vietnam's GDP. To make matters worse, it was found to have falsified its financial

⁸⁹ Le, T. T. V. 'The Global Crisis and Vietnam's Policy Responses', *East Asian Policy*, pp. 63-67.

⁹⁰ 'Vietnam' *The World Bank*, pp. 1-2. Available at: <<http://siteresources.worldbank.org/INTVIETNAM/Resources/VDR.pdf>> last accessed on 20 August 2019.

reports, and later defaulted on a loan worth hundreds of millions of dollars from Credit Suisse bank.

This became an embarrassment for the government. Vinashin's loan default led to a fall in Vietnam's sovereign credit rating to the "high-risk" grade of B1. The Prime Minister, who had invested a lot of his political capital in the enterprise, later apologised for the incident in the National Assembly. Though it was the most public incident, Vinashin was far from an isolated case. Other state-owned enterprises such as Vinalines also amassed significant debts and defaulted on loans.⁹¹ The reform of state-owned enterprises, which had begun as part of the Doi Moi reforms in the late 1980s, continued to be an intractable problem for the government, and one which would remain unresolved for some time to come.

5.01(d): Vietnam's First Trade Surplus in Two Decades

Despite these bumps in the road, trade and investment continued to rise following the global financial crisis. Economic growth also continued to climb, with GDP increasing between 5.4% and 6.4% from 2009 to 2012.⁹² Soon, Vietnam would pass one more important milestone on its path of economic development.

Vietnam had recorded its first trade surplus back in 1993, just as it began to open its doors to the world. From that date onwards, however, it had run a consistent trade deficit, importing more goods from overseas than it sold to the rest of the world. Then, in 2012 - and for the first time in two decades - Vietnam recorded its first trade surplus. This had a number of benefits, including encouraging GDP growth, stabilising the value of the dong against the dollar, and boosting Vietnam's reserves of foreign currencies. Some of the surplus could be attributed to multinational foreign-invested companies such as Samsung assembling mobile phones and accessories for export,⁹³ while overseas remittances - estimated at around US\$10 billion - also made a significant contribution.⁹⁴

This was quite a turnaround. Not so long ago, at the height of the global financial crisis in 2008, Vietnam's trade deficit had peaked at US\$18 billion (or 20%

⁹¹ Cain, G. 'The End of the Vietnamese Miracle', *Foreign Policy*, 11 July 2012.

⁹² Data from the World Bank, available at: <<https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=VN>> last accessed on 20 August 2019.

⁹³ 'Vietnam Exports More Than Imports in 2012', *Vietnam Bridge*, 30 December 2012. Available at: <<https://english.vietnamnet.vn/fms/business/55743/vietnam-exports-more-than-imports-in-2012--titled-but-penniless.html>> last accessed on 20 August 2019.

⁹⁴ 'Nation Turns Around Current Deficit', *Vietnam Investment Review*, 10 December 2012. Available at: <<https://www.vir.com.vn/nation-turns-around-current-account-deficit-17436.html>> last accessed on 20 August 2019.

of GDP). Now, that had become a current account surplus of 5.9% of GDP.⁹⁵ This was a sure sign that Vietnam was becoming more competitive in the global marketplace.

5.01(e): The 2013 WTO Trade Policy Review

So, on the surface, Vietnam's financial indicators looked positive. On top of its first trade surplus in two decades, the prospects for long-term economic growth remained strong. Meanwhile, reforms to the legal framework continued to see foreign investment increase and the competitiveness of the domestic market improve. Now, the WTO's first review of Vietnam's trade and investment policies since it was granted membership in 2007 was about to go beneath the surface and provide a detailed assessment of its legal framework, business environment and economic outlook in 2013.

In its comprehensive, 180-page audit, the WTO praised the government's economic reforms since Doi Moi, and highlighted their success in improving the welfare, livelihoods and living standards of the population. It pointed out Vietnam's growing attractiveness to foreign investors, as well as its openness, competitiveness and diversification. The report also welcomed the government's active engagement with the WTO, noting that Vietnam had not rested on its laurels after being granted full membership and was instead using this momentum to drive further reform.⁹⁶

However, the report also outlined some specific weak points in Vietnam's economic outlook. These included the long-running problem of equitising state-owned enterprises, addressing concerns about risk in the finance sector and improving infrastructure in the logistics and power industries. The WTO urged the government to pursue trade policies through a legislative framework that is predictable, transparent and stable.⁹⁷ On the whole, however, the WTO review was another seal of approval for Vietnam's economic growth, legal reform and social development. It confirmed that the government was on the right track and heading in the right direction, even if it had not quite reached its final destination.

⁹⁵ 'Taking Stock: An Update on Vietnam's Recent Economic Developments' (2013), *The World Bank*, pp. 25-26.

⁹⁶ 'Trade Policy Review: Vietnam', *The World Trade Organisation*, 19 September 2013. Available at: <https://www.wto.org/english/tratop_e/tp_r_e/tp387_crc_e.htm> last accessed on 20 August 2019.

⁹⁷ 'Trade Policy Review: Vietnam' (2013), *The World Trade Organisation*, pp. 8-12.

5.01(f): The Conclusion of the EU-Vietnam Free Trade Agreement

Membership of the WTO in 2007 set the stage for Vietnam to begin negotiating bilateral free trade agreements with other countries and regions around the world. One of the most ambitious and far-reaching of these is the EU-Vietnam Free Trade Agreement (EVFTA) and EU-Vietnam Investment Protection Agreement (EVIPA). Negotiations began in June 2012 and, fourteen rounds later, the final text was concluded in December 2015. The EVFTA is the most comprehensive free trade deal ever concluded between the European Union and a developing nation, and it is just the second such agreement between Europe and an ASEAN member state, after Singapore.

Trade and investment between Vietnam and the EU had seen strong growth over the previous decade. For instance, just as it became the 150th member of the WTO in 2007, EU imports from Vietnam were worth less than €10 billion, while its exports amounted to around half that figure. Then, following a small dip during the financial crisis of 2008-2009, both imports and exports saw a sharp rise until, when the text of the EVFTA had been agreed in 2015, EU imports from Vietnam had more than doubled to reach €30 billion and its exports had almost doubled to just under €10 billion.

This positive trend is set to continue now that the EVFTA has been implemented. In the agreement, both parties have promised to eliminate almost 99% of tariffs over the course of the decade-long implementation period. The moment it entered into force, Vietnam removed tariffs on 65% of the value of goods imported from Europe, with the remaining tariffs set to be phased out over the following decade. On the other hand, the EU eliminated tariffs on 71% of imports from Vietnam as soon as the EVFTA entered into force, rising to 99% over the implementation period.

Meanwhile, customs duties will also be slashed, and Vietnam has offered greater access to EU service providers than the WTO baseline. Over and above the commitments on trade and investment, the EVFTA includes important provisions on labour standards and sustainable development. This should ensure that increased trade does not come at the cost of environmental protection. The agreement also requires the government to further align its labour laws with international standards, including ratification of the outstanding core ILO standards.

So, while the EVFTA and EVIPA will boost trade and investment between Europe and Vietnam, it will also have a significant impact on the livelihoods, living

standards and welfare of millions of people in Vietnam. Over the implementation period, the EVFTA is predicted to add 7% to 8% to Vietnam's economic growth. Meanwhile, Europe is set to import 50% more goods from Vietnam, and this will help both the real wages of workers and household incomes rise.⁹⁸

The European Chamber of Commerce in Vietnam has been at the heart of the EVFTA and EVIPA negotiation process. The chamber, representing more than one thousand investors and enterprises, has had an instrumental role in advocating for the deal from the moment negotiations began in 2012 with the Government of Vietnam and the institutions of the European Union. Throughout the 14 rounds that followed to the moment it was signed in June 2019, the chamber has continued to push for a positive vote with the European Commission, the Council of Ministers and, up to its ratification, with the European Parliament. The European Chamber of Commerce will be also involved in the implementation phase of the EVFTA and EVIPA.

5.01(g): Completion of the ASEAN Economic Community

With the text of the EVFTA and EVIPA agreed, and Trans-Pacific Partnership negotiations in progress - see chapter 5.01(h) - Vietnam's integration with international trade and global markets was gathering pace. Now, it was about to become a founding member of one of the world's largest free trade areas. Greater economic integration had been a strategic goal for ASEAN member states for some time. This ambition had been formalised at the 2007 Singapore summit with the publication of a "blueprint" or roadmap to a free trade area known as the ASEAN Economic Community (AEC). This document outlined four priorities for the region: To create a single market and production base; to improve economic competitiveness; to encourage equitable development; and to increase economic integration with the rest of the world. These policies were designed to facilitate the free movement of goods, services, skilled labour and investment throughout the 10-member bloc.

Member states set in train a range of measures to achieve this goal. For goods, a trade facilitation framework known as the ASEAN Single Window (ASW) was introduced to reduce processes and harmonise customs standards across the region.⁹⁹ Meanwhile, tariffs were phased out so that almost three-quarters of trade within the bloc was 0% rated and just 5% of goods had tariffs of more than 10% in 2014. Greater alignment on the movement of capital was achieved through a 2012

⁹⁸ 'The EVFTA: Perspectives from Vietnam' (2018), *The European Chamber of Commerce in Vietnam*, pp. 10-43.

⁹⁹ Rynhart, G. and Chang, J. (2014) 'The Road to the ASEAN Economic Community 2015: The Challenges and Opportunities for Enterprises and their Respective Organisations', *International Labour Organisation*, p. 2.

agreement on investment, while increased cooperation on issues ranging from transport to small and medium-sized enterprises continued to bring member states' business communities closer together. The region also began to negotiate free trade deals with major global markets around the world, from Japan to China and from India to Australia. In doing so, it made significant progress against the fourth and final aim of the 2007 blueprint.¹⁰⁰

The inauguration of the AEC at the 27th ASEAN summit in Kuala Lumpur in 2015 marked a new era of economic integration and cooperation in the region. To put this in perspective: At this point in time, the AEC contained over 620 million people, making it larger than the US or the EU. Meanwhile, its market size - at over US\$2.6 trillion - made the AEC the world's 7th- and Asia's 3rd-largest economies. Since the AEC blueprint had been published in 2007, the region's GDP had almost doubled and GDP per capita had grown 74%. The agreement had also succeeded in attracting more foreign investment to ASEAN: The region brought in 11% of global FDI in 2014, up from just 5% in 2007.¹⁰¹

However, the inauguration of the AEC in 2015 was not the end of the road for economic integration. This fast-growing, forward-looking part of the world was not about to stand still. So, as the ink dried on the AEC, member states published a new roadmap for the future of ASEAN: The AEC Blueprint 2025. This set out the region's ambition to be even more competitive, innovative, integrated and connected both with itself and the rest of the world.¹⁰²

5.01(h): Conclusion of the Trans-Pacific Partnership

On top of the EVFTA and AEC, another major international free trade agreement was being negotiated during this time. However, this one would be global in scale, including countries from New Zealand to Canada and from Japan to Peru. The Trans-Pacific Partnership (TPP) aimed to become the largest free-trade agreement in the world, and one which would encompass 40% of global trade. Negotiations began in 2008, when President George W. Bush opened talks with four Pacific Rim countries. This led to other nations such as Australia and Vietnam joining the bandwagon, and before long a total of 12 countries had signed up to be part of the deal. President Obama then picked up the mantle of the TPP and made it the

¹⁰⁰ Balboa, J. and Wignaraja, G. (2014) 'ASEAN Economic Community 2015: What is Next?', *Asian Development Bank Institute*. Available at: <<https://www.asiapathways-adbi.org/2014/12/asean-economic-community-2015-what-is-next/>> last accessed on 20 August 2019.

¹⁰¹ 'A Blueprint for Growth. ASEAN Economic Community 2015: Progress and Achievements' (2015), *Association of Southeastern Nations*, pp. 1-2.

¹⁰² 'ASEAN Economic Community', *ASEAN*. Available at: <<https://asean.org/asean-economic-community/>> last accessed on 20 August 2019.

cornerstone of his strategic “Pivot to Asia”, hoping to use it as a counterweight to China and to increase US power and influence in the region.

Nineteen rounds of negotiation concluded in 2015, with the TPP being signed not long after in 2016. The agreement included provisions on a range of trade-related issues including tariffs on goods and services, labour and environmental standards, and dispute resolution. Member states agreed to cut tariffs on manufactured parts, agricultural produce and textiles. Meanwhile, restrictions on cross-border service provision were eased in areas including retail, finance and communications; and new rules would be introduced to protect investors from discrimination.¹⁰³

The TPP held out significant advantages for Vietnam. Some estimates put its impact on GDP growth at between 6% to 7%. Meanwhile, exports were predicted to rise as much as 15%, with imports increasing over 10%.¹⁰⁴ In fact, Vietnam was said to be one of the biggest benefactors of the TPP. One of the contributing factors here is the importance of its garment, leather and textile industries. These would see some of the highest rates of export growth to larger TPP members such as Canada, Japan and the US. Over and above trade, Vietnam would also gain more than other, more developed countries like Singapore from an uplift in environmental and welfare standards.

So far, so good. But the election of Donald Trump in 2016 pulled the rug out from under the agreement. The subsequent withdrawal of its largest market would see a huge reduction in the prospective benefits for Vietnam. Though the TPP would later be rebranded as the Comprehensive and Progressive Partnership for Trans-Pacific Cooperation (CPTPP), the loss of the United States dealt a significant blow to the benefits countries like Vietnam anticipated from this agreement.¹⁰⁵

5.02: Enterprise Reform in Vietnam

Just as Vietnam was negotiating free-trade agreements with overseas markets, the government was also reforming its legal framework to attract more foreign investment at home. Several landmark pieces of legislation were passed during this time, including the “Law on State Owned Enterprises” (2003), the “Law on Enterprises” (1999), the “Law for the Promotion of Domestic Investment” (1994

¹⁰³ McBride, J. and Chatzky, A. ‘What is the Trans-Pacific Partnership (TPP)?’, *Foreign Affairs*, 4 January 2019.

¹⁰⁴ Das, K. ‘TPP Revived as CPTPP: What it Means for Vietnam’, *Vietnam Briefing*, Dezan Shira & Associates. Available at: <<https://www.vietnam-briefing.com/news/tpp-revived-cptpp-means-vietnam.html/>> last accessed on 20 August 2019.

¹⁰⁵ Dasgupta, P. and Mukhopadhyay, K. (2017) ‘The Impact of TPP on Selected ASEAN Economies’, *Economic Structures*, 6:26, pp. 1-34.

and amended in 1998), and the “Law on Foreign Investment in Vietnam” (1996 and amended in 2000). However, before 2005, Vietnam had a two-tier investment framework in which foreign investment was encouraged but local industries were protected. This created an uneven field in which there were significant differences in the treatment of foreign and domestic investors.

For instance, domestic investors wishing to start a business could choose from a range of legal structures, from cooperatives to joint stock companies. Foreign investors, on the other hand, had no choice but to establish more restrictive limited-liability companies (LLCs) in Vietnam. On top of this, locals faced few constraints on their investment while sectors such as insurance and telecommunications were closed to international investors, who also had to ask permission from the government before establishing an enterprise.

These discrepancies continued until 2005, when the government evened the field with the introduction of two major pieces of legislation: The “Law on Investment” and the “Law on Enterprises”. These reforms were a cornerstone of Vietnam’s bid to join the World Trade Organisation, and smoothed the path for foreign enterprises to invest in its domestic market with greater freedom. The laws removed the discrimination between domestic and international investors, aligned the regulations on decision making in local and foreign entities, and removed restrictions on corporate forms and licensing regulations. Together, the Law on Investment and the Law on Enterprises gave Vietnam a more modern legal framework, and one which was closer than ever to international standards.

There is still much to do to ensure that Vietnam’s legal framework reaches the highest international standards, including the judicial system. However, in a sign that the government is more open than ever in this regard, it has welcomed foreign legal assistance in helping to draft major new laws.

5.03: Remaining Challenges

So, the government had continued to make unprecedented progress over the course of the last decade. From membership of the WTO to negotiating free-trade agreements with some of the world’s largest economies to the introduction of landmark domestic reforms, Vietnam had achieved the international integration and domestic growth it had been working towards for so long. However, despite this undoubted success, some important challenges remain.

5.03(a): State-Owned Enterprises

The reform of state-owned enterprises continues to be one of the historic hangovers of Vietnam's old economic order. The process of equitisation/privatisation remains unfinished business, and one which needs to accelerate if Vietnam is to unlock its full potential as an open and competitive market. State-owned enterprises continue to weigh down economic growth rates, and compound problems in other sectors from banking to infrastructure. For instance, much of the debt burden described in chapter 5.01(c) is a result of state banks lending to inefficient state-owned enterprises which, for political reasons, continue to control the implementation of national infrastructure projects. Thus the government - as both lender and borrower - is left saddled with non-performing loans, unsustainable debts, and unproductive industries.

However, reforming state-owned enterprises requires unpicking the conflicting and often overlapping interests of government ministries, state agencies, and provincial people's committees. This accounts for the slow progress of equitisation and the continued failure to meet the government's own targets. Other contributing factors include the need to attract new foreign investment, since Vietnam's pool of investors is too small to meet the demand. This requires further reform to Vietnam's legal framework, such as reducing the restrictions on foreign ownership and better protecting the rights of foreign investors.¹⁰⁶ On top of this, the equitisation of state-owned enterprises faces further challenges. These include the lack of mature equities markets in Vietnam as well as transparent corporate governance. Both these issues should be addressed in order to stop state-owned enterprises acting as a drag on Vietnam's economic growth in the future.¹⁰⁷

5.03(b): The Banking and Securities Sectors

Considering the close relationships between Vietnam's state-owned enterprises and the banking sector, it is no surprise that the problems described above have also affected its government-backed financial institutions. To set the scene: The State Bank of Vietnam (SBV) - Vietnam's central bank - is responsible for financial regulation. Meanwhile, state-owned commercial banks like BIDV or Agribank make up a significant share (around 40%) of the domestic market. Joint-stock

¹⁰⁶ 'Vietnam: State-Owned Enterprise Reform' (2014), *UK Foreign and Commonwealth Office*. Available at: <<https://www.gov.uk/government/publications/vietnam-state-owned-enterprise-reform/>> last accessed on 20 August 2019.

¹⁰⁷ Trien, L. and Hartley, K. 'Privatising State-Owned Enterprises in Vietnam: Government Dilemmas', *The Diplomat*, 26 November 2017.

companies, joint-venture commercial banks, and a handful of foreign-owned banks make up the rest.¹⁰⁸

During the global financial crisis, the state-owned enterprises which had used government stimulus to over-leverage did so with credit from Vietnam's state-owned banks. So, when these projects failed to become profitable, state banks were left holding large, non-performing loans and had no hope of recouping them. This situation snowballed from concern to crisis around 2009, when some banks reached the brink of collapse. Once again - with the state acting as lender, borrower, and regulator - it presented an embarrassing problem for the government.¹⁰⁹

The central bank was quick to act. In 2010, SBV published the first of two Five-Year Plans to clean up the banking sector. These plans aimed to cut the number of bad debts on the books of state-owned banks through a process of mergers and acquisitions. Between 2013 and 2018, these non-performing loans fell from 13% to just 2%. Meanwhile, some high-profile bankers were sent to jail for their part in the banking crisis. However, challenges remain for the sector. The State Bank of Vietnam, while given greater powers of oversight, remains under the control of the government. Moreover, despite the second Five-Year Plan aiming to stabilise the sector through requiring banks to meet the international Basel II standards on minimum capital and risk, these remain ambitious goals.¹¹⁰

These problems also affect Vietnam's securities sector. The stock market continues to suffer from insider trading, with hundreds of information-disclosure violations reported. Meanwhile, corporate governance standards lag behind other economies in the region, with Vietnam lowest-ranked among ASEAN-6 members and one of just 12 countries around the world not to follow international financial reporting standards.¹¹¹ Despite this, the government has set out ambitious reforms to make the sector more transparent and efficient, with the ultimate aim of lifting its status from a "frontier" to an "emerging" market.¹¹²

¹⁰⁸ 'Banking Sector in Vietnam', *ANT Lawyers*. Available at: <<http://www.antconsult.vn/news/banking-sector-in-vietnam.html>> last accessed on 20 August 2019.

¹⁰⁹ Wilson, E. 'Vietnam Deals with its Problem Banks', *Asia Money*, 1 October 2018. Available at: <<https://www.euromoney.com/article/b1b49s6tt646xj/vietnam-deals-with-its-problem-banks>> last accessed on 20 August 2019.

¹¹⁰ Larsen, N. 'The State of Banking in Vietnam', *International Banker*, 17 July 2019. Available at: <<https://internationalbanker.com/banking/the-state-of-banking-in-vietnam/>> last accessed on 20 August 2019.

¹¹¹ 'Transparency a Big Concern in Securities Market', *Vietnam News*, 5 April 2019. Available at: <<https://vietnamnews.vn/economy/518367/transparency-a-big-concern-in-securities-market.html#1F8mXK3zVMxWkXzS.97>> last accessed on 20 August 2019.

¹¹² 'Measures Sought to Lift Vietnam's Securities Market Status in 2019', *The Voice of Vietnam*, 22 February 2019. Available at: <<https://english.vov.vn/economy/measures-sought-to-lift-vietnam-securities-market-status-in-2019-392549.vov>> last accessed on 20 August 2019.

5.03(c): The Legal Framework

Foreign direct investment has been the engine of Vietnam's economic growth over the three decades since Doi Moi. However, while landmark legislation such as the "Law on Foreign Investment" and "Law on Enterprises" had opened the first floodgates to overseas capital after decades of dependence on Soviet subsidies, Vietnam's legal framework remains in need of continued reform in order to further align it with international standards and unlock a new-wave of FDI in the future.

Mergers & Acquisitions (M&A): M&A transactions have continued to grow over the last decade, reaching a cumulative total of US\$55 billion in 2018 and US\$7.6 billion in the first half of 2019 alone.¹¹³ One reason for this is that foreign companies consider M&A to be one of the most effective methods of entering the Vietnamese market. Joining or acquiring a local business enables foreign enterprises to side-step the bureaucratic procedure of establishing a 100% foreign-owned enterprise. It also enables them to tap-into current distribution networks and contacts. Popular sectors for foreign investors include retail, F&B, and manufacturing, but this looks set to grow to new sectors such as real estate as the value of M&A transactions is predicted to grow 14% in 2019.¹¹⁴

However, in spite of this growth, inconsistencies and duplication in Vietnam's legal framework - and in particular the Law on Investment and Law on Enterprises - present a legal minefield for potential investors. Foreign enterprises entering the market must navigate a bureaucratic investment and enterprise registration process at the provincial Department of Planning and Investment and, for certain sectors, this requires approval from the relevant People's Committee and government ministries. This can drag on for up to 4 months, or even longer for enterprises investing in one of 300 "conditional business sectors" which require stricter checks.¹¹⁵

Infrastructure Projects and Public-Private Partnerships (PPP): The pace of change in Vietnam, not just in terms of its economic growth but also its rapid urbanisation and industrialisation, is driving huge demand for public infrastructure

¹¹³ 'Vietnam M&A Forum 2019 Awards Winners of 2018-2019', *Vietnam Investment Review*, 6 August 2019. Available at: <<https://www.vir.com.vn/vietnam-ma-forum-2019-awards-winners-of-2018-2019-69779.html>> last accessed on 20 August 2019.

¹¹⁴ 'Mergers & Acquisitions in Vietnam: An Introduction to Key Guidelines and Processes', *Dezan Shira & Associates*, 23 July 2019. Available at: <<https://www.vietnam-briefing.com/news/mergers-acquisitions-vietnam-introduction-key-guidelines-processes.html/>> last accessed on 20 November 2019.

¹¹⁵ Le, N. 'Mergers & Acquisitions in Vietnam - Pitfalls and Resolutions', *Financier Worldwide*, November 2014. Available at: <<https://www.financierworldwide.com/mergers-and-acquisitions-in-vietnam-pitfalls-and-resolutions#.XWs75igzbIU>> last accessed on 20 August 2019.

improvements. Over the last few decades, most of the finance for this has come either from overseas development aid or from government funding siphoned through state-owned enterprises. However, these resources are no longer sufficient to meet the huge levels of investment required to modernise Vietnam's infrastructure, estimated at around US\$150 billion. In a sense, Vietnam has become a victim of its own success: In graduating from a "developing" to a "middle-income" nation, it is no longer eligible for the same levels of international aid as it once was. To bridge this funding gap, the government hopes to attract more foreign investment through public-private partnerships.

Once again, however, shortcomings in the legal framework present real obstacles to foreign investment in public infrastructure projects. To date, there have been precious few successful PPP projects with foreign investors. Meanwhile, bidding processes remain unpredictable and the outcomes uncertain. Furthermore, for sectors like power, transport or water, investors also have the added complications of price subsidies and perceived unfair competition from state-owned enterprises.¹¹⁶ To address these problems and increase foreign investment, the government issued two PPP decrees in 2015. However, these fell short of providing a comprehensive and predictable legal framework and thus further reform is needed in the future.¹¹⁷

Judicial Reform: Courts of first instance and courts of appeal make up Vietnam's two-tier judicial framework. District People's Courts hear lower-level cases, while the Provincial People's Court presides over higher-profile, more specialist cases such as criminal, civil, and economic-commercial lawsuits. Like economic reform, judicial reform has come far since the old Soviet-era. Taking legal action against the state, for instance, would once have been unthinkable. Now, the government understands that an open, transparent, and rules-based judicial process is essential to economic development and international integration. To this end, a gradual series of legal reforms have been implemented, from the 1992 state constitution to the introduction of Administrative Courts in 1996 which reduced the discretion of officials and gave greater protection to investors.¹¹⁸

However, there is still more to do if Vietnam's judicial procedures are to reach the highest international standards. Vietnam ranks 84th for "judicial independence" in the World Economic Forum's Global Competitiveness Index, behind Laos (69), Thailand (62), and China (46). It scored a total of 3.7 in 2017, on a scale of 1 (not

¹¹⁶ 'Assessment of Public-Private Partnerships in Vietnam: Challenges and Opportunities' (2012), *Asian Development Bank*, pp. 7-10.

¹¹⁷ 'The Whitebook: Trade and Investment Issues and Recommendations' (2018), *EuroCham Vietnam*, p. 94.

¹¹⁸ Dung, T. (2014) 'Vietnam's New Administrative Procedural Rules - An Analysis From a Judicial Reform Perspective', *Ho Chi Minh City University of Law*, pp. 29-31.

independent at all) to 7 (independent).¹¹⁹ Some reasons for this include the fact that, while courts are independent in principle, questions remain about how often this is observed in practice. Meanwhile, the courts are subject to the supervision and direction of the Communist Party and the salaries of judges are quite low, raising concerns about the potential for political influence on their rulings. These important issues will need to be addressed in the future.

Recognition and Enforcement of Foreign Arbitral Awards: For the reasons described above, most foreign investors prefer to settle their disputes through arbitration rather than pursuing legal action through the courts.¹²⁰ However, international arbitration is still under-developed in Vietnam. It was not introduced to the statute book until 1995, following Vietnam's ratification of the 1958 New York Convention. The government has since introduced a number of reforms in order to ensure the enforcement of foreign arbitral awards in Vietnam, from the "Ordinance on Recognition and Enforcement of Foreign Arbitral Awards" in 1995 to the "Civil Procedure Code" in 2004, the "Law on Commercial Arbitration" in 2010, and the current "Civil Procedure Code" of 2015.

Once again, as is so often the case in Vietnam, the real challenge is not the legislation itself but the enforcement and consistent application of the law. In practice, Vietnamese courts often fail to enforce international awards, with just half being accepted between 2005 and 2014, according to official figures. One reason is a broad interpretation of the "basic principles of Vietnamese law", which courts have often used as a justification for rejecting a foreign award. Judges have also been known to reconsider the merits of a case and overturn the original court's decision, contradicting the basic principles of international law.¹²¹

Intellectual Property Rights (IPRs): Vietnam has a good legal framework to protect IPRs. The government introduced a "Law on Intellectual Property Rights" in 2005,¹²² and has signed up to a number of international treaties such as the Trade-Related Aspects of IPR (TRIPS), the Paris Convention, the Madrid Agreement, the Rome Convention, and the BERNE Convention. The free-trade agreements to which Vietnam is a member, such as the EVFTA and CPTPP, also contain important

¹¹⁹ Data from the World Economic Forum, available at: <<http://reports.weforum.org/global-competitiveness-index-2017-2018/competitiveness-rankings/#series=EOSQ144>> last accessed on 20 August 2019.

¹²⁰ 'The Whitebook: Trade and Investment Issues and Recommendations' (2018), *EuroCham Vietnam*, p. 78.

¹²¹ Dridi, N. (2017) 'The Enforcement of Foreign Arbitral Awards in Vietnam: Overview and Criticisms', *Harvard International Law Journal*. Available at: <<https://harvardilj.org/2017/12/the-enforcement-of-foreign-arbitration-awards-in-vietnam-overview-and-criticisms/>> last accessed on 20 August 2019.

¹²² Barbour-Lacey, E. 'A Foreign Investors Guide to Understanding Intellectual Property in Vietnam', *Dezan Shira & Associates*, 20 October 2014. Available at: <<https://www.vietnam-briefing.com/news/foreign-investors-guide-understanding-intellectual-property-vietnam.html/>> last accessed on 20 August 2019.

provisions on IPR protection. Once implemented, these agreements should further improve the legal framework in this area.¹²³

However, counterfeit goods can still be found in the markets of Vietnam, where fake brands and pirated products are widespread. On a larger scale, international companies have had problems protecting their IP through the courts, where a lack of specialist knowledge and failure to keep up with fast-changing digital trends has hampered efforts to implement domestic legislation and international agreements.¹²⁴ For this reason, Vietnam ranked 92nd in the world (out of 125 countries) and 16th in the region (out of 19 countries) in 2018 for IPR protection, according to the International Property Rights Index.¹²⁵

5.03(d): Administrative Reform

The reform of Vietnam's public administration faces some unique challenges as it continues the long transition from central planning to socialist-oriented market economics. Established centuries ago in the mandarin tradition, and later reorganised in the mould of Soviet cadres, Vietnam's civil service has undergone a series of transformations. Moreover, the lack of independence of government officials from political structures poses another roadblock to reform.

That said, the government has made efforts to professionalise and modernise the civil service, introducing reforms from the "Ordinance of Cadre and Civil Servants" in 1998 (revised in 2000 and 2003) to the "Law on Public Officials and Civil Servants" in 2008. On top of this, the "Public Administration Reform Master Program 2001 to 2010" was designed to make public administration more efficient and effective, and better able to support the government's market reforms, sustainable development, and international integration. In spite of these changes, however, the civil service remains in need of reform. The low wages of public servants has created an environment in which bribes, fraud, and corruption persist; while administrative oversight remains weak.¹²⁶

¹²³ 'IP Factsheet: Vietnam', *Southeast Asia IPR SME Helpdesk*. Available at: <<https://www.southeastasia-iprhelpdesk.eu/sites/default/files/publications/Vietnam%20Factsheet.pdf>> last accessed on 20 August 2019.

¹²⁴ 'The Whitebook: Trade and Investment Issues and Recommendations' (2019), *EuroCham Vietnam*, pp. 71-76.

¹²⁵ IPRI, available at: <<https://www.internationalpropertyrightsindex.org/country/vietnam>> last accessed on 20 August 2019.

¹²⁶ 'The Reform of the Civil Service System as Vietnam Moves Into the Middle-Income Country Category' (2009), *The United Nations Development Program in Vietnam*, pp. 2-5.

5.03(e): Education and Training

Vietnam performs better than most of its neighbours on international test scores. The World Bank “Human Capital Index” ranked Vietnam 48th in the world for education - an impressive return for a developing nation. Two reasons could account for this: First, the government spends more on education than some of its contemporaries at 6% of GDP. Second, Vietnamese culture places a premium on educational success, with children under intense pressure to achieve good grades and win places at top universities.¹²⁷

However, these impressive figures mask some important challenges. One-third of children do not complete their education. Since it tends to be the poorest children who drop out before the age of 15, this skews the international test scores as richer children become over-represented in the statistics. Meanwhile, Vietnam’s schools are successful at preparing their students to pass tests, not least in maths and sciences. However, there is a significant gap in soft skills and critical thinking.¹²⁸ The government has introduced new legislation to raise standards to the regional average, including “Resolution 29 on the Comprehensive Reform of Education and Training”. The state is also looking to international investors to help increase per-pupil funding from its current level of US\$630, around a quarter of that spent on each student in Thailand. Meanwhile, international schools continue to increase in some of Vietnam’s largest cities, bringing with them new, innovative teaching methods.¹²⁹

5.03(f): Over-Dependence on China

The relationship between China and Vietnam remains complicated. Despite their political and economic similarities, centuries-old enmities continue to stoke tensions in the region. Now, just as China is becoming more powerful, Vietnam is negotiating free-trade agreements with other global powers to counterbalance the rise of its historic rival. That said, a high-income consumer market of more than a billion people is impossible to ignore. For this reason, Vietnam’s closest neighbour remains its biggest trade partner, ahead of other large economies such as South Korea, Japan, or the United States. Vietnam also runs a significant trade deficit with

¹²⁷ Reed, J. ‘Education in Vietnam: Very Good on Paper’, *The Financial Times*, 11 October 2018. Available at: <<https://www.ft.com/content/da4387d0-aba8-11e8-8253-48106866cd8a>> last accessed on 20 August 2019.

¹²⁸ ‘Education in Vietnam: Strengths, Challenges, and Opportunities’, *Global Center for Education*. Available at: <<https://asiasociety.org/global-cities-education-network/education-vietnam>> last accessed on 20 August 2019.

¹²⁹ ‘Vietnam’s Education Making the Grade’, *Vietnam Investment Review*, 20 November 2018. Available at: <<https://www.vir.com.vn/vietnams-education-making-the-grade-63952.html>> last accessed on 20 August 2019.

China, and remains dependent on cheap imports for the goods it manufactures such as clothing, textiles, and machine parts.¹³⁰

However, the world is becoming less predictable. The protection and participation of the United States in the region can no longer be taken for granted, as Barack Obama's "Pivot to Asia" has become Donald Trump's "America First". Meanwhile, China is using its own economic miracle to increase its power and influence, and ratchet up tensions over issues such as disputed islands in the South China Sea. So, it is now more important than ever that Vietnam completes the process of domestic reform and international integration it began back in 1987. Once implemented, free trade agreements like the EVFTA and CPTPP will open up new markets, while further domestic reforms will help attract new investors from around the world. Together, this will reduce Vietnam's over-dependence on trade and investment with China, and better protect it against the slings and arrows of trade wars and regional tensions in the future.

¹³⁰ Truong-Minh, V. (2019), 'The Politics of "Struggling Co-Evolution": Trade, Power, and Vision in Vietnam's Relations with China', *The ASAN Forum*, Vol. 7, No. 5.

Chapter 6: The Role of Foreign Investors and International Business



Chapter 6: The Role of Foreign Investors and International Business

6.01: The Vietnam Business Forum

The government's engagement with foreign enterprises is perhaps best embodied in the Vietnam Business Forum (VBF). Established in 1997, the VBF is a consultative platform in which international business can meet with government officials on a bi-annual basis to encourage economic development and facilitate foreign direct investment. On top of these regular meetings, the VBF also includes a number of sector-specific "working groups" in industries such as banking and human resources. The Forum aims to improve the trade and investment landscape in Vietnam, and it does this through utilising the practical insights of foreign business and creating a space for these to be shared with the government and its ministries.

The VBF has come far since it was first established at a meeting between the government and international donors in Japan, at once formalising lines of communication between ministers and international businesses and consolidating their often disparate suggestions for reform. Twelve months later, a Private Sector Forum was established to give foreign enterprises - through their chambers of commerce - a platform to discuss issues of common concern and share them with the government. This later grew to include domestic business representatives in 2000, and then in 2012 the secretariat function was handed over to the Forum's affiliated chambers of commerce: The European Chamber of Commerce (EuroCham), including its nine business affiliates such as the French Chamber of Commerce and the German Business Association; the American Chamber of Commerce (AmCham); the British Business Group (BBGV); the Japanese Chamber of Commerce and Industry (JCCI); the Korean Chamber of Commerce (KoCham); and the Vietnamese Chamber of Commerce and Industry (VCCI).

The VBF celebrated two decades of operation in 2017, and it continues to provide an invaluable platform for foreign business communities to advocate on common trade and investment issues, through regular position papers and meetings with the government.¹³¹

¹³¹ Vietnam Business Forum. Available at: <<https://vbf.org.vn/about-us/introduction/>> last accessed on 10 October 2019.

6.02: Chambers of Commerce

Foreign chambers of commerce have grown in number and influence in lock-step with Vietnam's economic growth and international integration. For instance, EuroCham was formed in 1996 with just 20 members. Now, a little over two decades later, it represents over one thousand companies and investors from small and medium-sized enterprises to some of the world's leading companies. It also represents national business associations from across Europe including the French, Dutch, German, Spanish, Nordic, Portuguese, Central European, Belgian-Luxembourg, and Italian chambers of commerce.¹³² Likewise, AmCham was first established in 1994, just after the US trade embargo had been lifted, and now represents around 650 companies through two offices in Ho Chi Minh City and Hanoi.¹³³

One of the earliest foreign business associations was JCCI, which was founded in 1992 and which has grown from just 26 members to over 600 in 2015.¹³⁴ Together with Japan, South Korea is one of the largest international investors in Vietnam and KoCham, the Korean Chamber of Commerce, has been representing Korean investors since its establishment in 2004.¹³⁵ The growth of Vietnam as a more attractive trade and investment destination over the last few decades has seen companies from all over the world come together to create chambers of commerce, with active chambers representing enterprises from India, Hong Kong, Canada and others.

6.03: Dialogue between the Government and Foreign Business

Vietnam is now home to some of the world's largest enterprises. International companies have chosen to base their operations here to take advantage of Vietnam's competitive wage costs, large and skilled workforce, favourable strategic location in one of the fastest-growing regions on earth, strong integration into global markets, and stable political leadership.

One of the largest such companies is Samsung. The South Korean conglomerate has a workforce of over 100,000 people in factories across the north

¹³² EuroCham Vietnam. Available at: <<http://www.eurochamvn.org/About-us>> last accessed on 10 October 2019.

¹³³ AmCham Vietnam. Available at: <<http://www.amchamhanoi.com/about-us/>> last accessed on 10 October 2019.

¹³⁴ JCCI Vietnam. Available at: <<http://jbav.vn/en/jcci-overview/history>> last accessed on 10 October 2019.

¹³⁵ KoCham Vietnam. Available at: <<http://kocham.kr/content/introduce/greeting.php>> last accessed on 10 October 2019.

of Vietnam, where it assembles mobile phones for sale around the world. In fact, Samsung alone is responsible for around one-quarter of Vietnam's exports. Meanwhile, its annual turnover - at US\$58 billion - is larger even than that of the state's oil producer, making Samsung the most profitable enterprise in Vietnam. Samsung's huge factories have had a positive knock-on effect on their local economies, with support services such as restaurants and hotels springing up to feed and house the armies of workers who have made Vietnam the second-largest mobile phone producer in the world.¹³⁶ Samsung might be the biggest foreign enterprise in Vietnam, but other large multinational companies such as Honda and Heineken have a significant footprint here, and make up some of the top-10 highest contributions to annual state tax receipts.¹³⁷

The importance of these large multinational companies in particular and foreign investment in general to Vietnam and its economic growth gives them a strong voice and a seat at the table in meetings between business and government. Over the period described in this report, the government has become much more open to dialogue with international business. So much so that, when Vietnam hosted the 2018 World Economic Forum ASEAN Summit, the Prime Minister held a high-profile meeting with major international enterprises and called for foreign companies to share their concerns about doing business in Vietnam and their proposals to improve the trade and investment environment.¹³⁸ This is just the tip of the iceberg. The government now holds regular meetings and dialogues with international business communities, and considers foreign enterprise an indispensable part of Vietnam's future economic growth and development.

¹³⁶ 'Why Samsung of South Korea is the Biggest Firm in Vietnam', *The Economist*, 12 April 2018. Available at: <<https://www.economist.com/asia/2018/04/12/why-samsung-of-south-korea-is-the-biggest-firm-in-vietnam>> last accessed on 10 October 2019.

¹³⁷ 'Non-State Enterprises Dominate V1000 Biggest Taxpayers in 2018', *Vietnam News*, 10 October 2018. Available at: <<https://vietnamnews.vn/economy/536717/non-state-enterprises-dominate-v1000-biggest-taxpayers-in-2018.html#rkvQ7bovqoZMKzT0.97>> last accessed on 10 October 2019.

¹³⁸ 'WEF ASEAN 2018: PM Holds Dialogue With Global Corporation Leaders', *Nhanh Dan*, 12 September 2018. Available at: <<https://en.nhandan.com.vn/politics/external-relations/item/6600702-wef-asea-2018-pm-holds-dialogue-with-global-corporation-leaders.html>> last accessed on 10 October 2019.

Chapter 7: 30 Years in Vietnam in 10 Themes



Chapter 7: 30 Years in Vietnam in 10 Themes

7.01: The People

Vietnam is home to almost 100 million people, making it one of the most populous countries in Southeast Asia. Most of these people are ethnic Vietnamese (or “Kinh”), though there are also 54 recognised minorities who together account for around 12 million people¹³⁹ and tend to live in remote or highland areas. From a cultural perspective, Vietnamese are said to have more in common with China than their close neighbours in countries such as Thailand, Laos or Cambodia owing to the influence of Confucianism on Vietnamese culture.¹⁴⁰

The population of Vietnam is changing. Over two-thirds of people are now aged under 35, but demographic and social changes will see the average age of the population soon begin to rise. Meanwhile, the rapid economic growth of the last few decades has led to the emergence of a growing, affluent middle class which will make up 26% of the population in 2026, according to the World Bank. Economic growth has also led to drastic improvements in the living standards and livelihoods of the average person. Most people are now better educated, healthier, and living longer than ever before. Meanwhile, access to basic services such as water, sanitation, and power is now available even in remote areas.¹⁴¹

Strong economic growth has also led to rapid urbanisation, with more people than ever moving to the cities to take advantage of new commercial opportunities. Hanoi and Ho Chi Minh City alone have seen average annual growth rates of around 4% each, making them some of the fastest-growing cities in the region.¹⁴² The fast-changing nature of these cities reflects one of the defining characteristics of the Vietnamese people: Their strong work ethic and entrepreneurial spirit. This has been confirmed in a range of recent studies, which all rank Vietnam as one of the most entrepreneurial countries both in the region and the wider world.¹⁴³

¹³⁹ ‘Ethnic Minorities in Vietnam’, *The Economist*, 4th April 2015. Available at: <<https://www.economist.com/asia/2015/04/04/out-of-sight>> last accessed on 10 October 2019.

¹⁴⁰ More information available at: <http://factsanddetails.com/southeast-asia/Vietnam/sub5_9c/entry-3373.html> last accessed on 10 October 2019.

¹⁴¹ ‘The World Bank in Vietnam: Overview’, *The World Bank*. Available at: <<https://www.worldbank.org/en/country/vietnam/overview>> last accessed on 10 October 2019.

¹⁴² ‘Sustainable Urbanisation a Vital Goal’, *Vietnam Investment Review*, 7 September 2018. Available at: <<https://www.vir.com.vn/sustainable-urbanisation-a-vital-goal-62231.html>> last accessed on 10 October 2019.

¹⁴³ ‘Vietnam Third in ASEAN for Entrepreneurial Spirit’, *Tuoi Tre News*, 17 August 2019. Available at: <<https://tuoitrenews.vn/news/business/20190817/vietnam-third-in-asean-for-entrepreneurial-spirit-wef-survey/51011.html>> last accessed on 10 October 2019; ‘Entrepreneurial Spirit Rising in Vietnam’, *VN Express*, 23 September 2016. Available at: <<https://e.vnexpress.net/news/business/entrepreneurial-spirit-rising-in-vietnam-survey-3473191.html>> last accessed on 10 October 2019; ‘More Than Any Other Country, Vietnam Means Business’. *VN Express*, 10 September 2018. Available at: <<https://e.vnexpress.net/news/business/data-speaks/more-than-any-other-country-vietnam-means-business-3804428.html>> last accessed on 10 October 2019.

7.02: The Major Cities: Hanoi and Ho Chi Minh City

Vietnam's two major cities, Hanoi and Ho Chi Minh City, are a contrast of cultures, histories, and architecture. Hanoi is the historic and cultural capital and the centre of government; Ho Chi Minh City is the thriving financial and business hub with an ever-changing horizon of high-rise buildings. Together, these two cities represent Vietnam's traditional past and its modern future.

Located in the north of Vietnam along the banks of the Red River, and with a population of around 6 million people, Hanoi has been the national capital ever since 1010 AD, not including a brief hiatus from 1802 to 1945 when that title was transferred to Hue in central Vietnam. Hanoi's original name was "Thang Long", or "Rising Dragon". This was later changed to Dong Kinh - or Tonkin, as Europeans called it - before being named Hanoi in 1831. Long at the centre of political power in the region, Hanoi was the capital of French Indochina during the colonial period, and it remained significant during subsequent periods of Japanese occupation and, later, the struggle for independence.¹⁴⁴

Now, Hanoi is a blend of old and new. The bustling Old Quarter, historic Temple of Literature, and striking Turtle Tower are remnants of its ancient origins. Colonial-era architecture can be seen in buildings like the Opera House, Hotel Metropole, and National Museum. Meanwhile, the towering monument that is the Ho Chi Minh mausoleum stands testament to the influence of modern history on ancient Hanoi. Local authorities have tried to preserve these historic influences, an effort which was recognised with a UNESCO award in 1999,¹⁴⁵ while also encouraging foreign enterprises and international investment in order to boost economic growth and development. Two decades later, Hanoi is home both to big business and global political events - such as the summit between Donald Trump and Kim Jong-un - highlighting the capital's growing role on the world stage.

Like Hanoi, Vietnam's largest metropolis also has a turbulent past. However, Saigon - or Ho Chi Minh City as it has been known since 1976 - does not have the same long heritage as its capital in the north. Vietnam's financial centre, located on the banks of the Saigon River above the Mekong Delta, and with a population of around nine million people, was in fact part of Cambodia until the 1600s. It was not until traders and missionaries arrived from France in the 1800s, with colonial forces later taking Saigon and the surrounding area in 1859, that it would become a thriving port and commercial hub. During this time, French administrators set about

¹⁴⁴ 'Hanoi', *Encyclopedia Britannica*. Available at: <<https://www.britannica.com/place/Hanoi>> last accessed on 10 October 2019.

¹⁴⁵ 'Hanoi a Modern City for Peace', *Voice of Vietnam*, 21 July 2019. Available at: <<https://english.vov.vn/society/hanoi-a-modern-city-for-peace-400265.vov>> last accessed on 10 October 2019.

building the wide boulevards and historic landmarks, such as the Opera House and Presidential Palace, that still define this bustling metropolis.¹⁴⁶

Even after the liberation of Saigon, the Soviet-era subsidies, the Cold-war crisis, and the Doi Moi economic reforms, Ho Chi Minh City has retained its defining entrepreneurial spirit. It is Vietnam's financial and commercial centre, responsible for over 20% of GDP and almost 30% of financial capital in 2018. Tens of thousands of new businesses are registered here on an annual basis, putting Ho Chi Minh City far ahead of other cities in Vietnam.¹⁴⁷ Ho Chi Minh City's welcoming attitude towards business has enabled it to attract more foreign-direct investment than Hanoi, and seen it ranked 8th in a 2019 list of the most energetic cities worldwide.¹⁴⁸ Local authorities are keen to capitalise on this momentum, and have ambitious plans to transform Ho Chi Minh City into an international financial centre in the future.¹⁴⁹

7.03: The Provinces

Outside of the two major conurbations of Hanoi and Ho Chi Minh City, Vietnam is split into 8 regions, 63 provinces, and three other top-tier cities: Can Tho, Da Nang, and Hai Phong. Some of these, such as rural or remote regions, retain their traditional industries such as fishing, coffee growing, or rice farming. Meanwhile others, such as coastal or mountainous areas, have utilised their stunning natural resources to become hotspots for domestic and international tourists. For instance, the ancient port town of Hoi An received around 6 million visitors in 2018,¹⁵⁰ while the small mountain town of Sapa received almost one million tourists in 2017.¹⁵¹

Outside of these traditional occupations and the growth in tourism, different areas of Vietnam are notable for particular industries. The northern region is home to large manufacturing companies who have chosen to locate their operations in the area to take advantage of its large workforce and competitive wages compared to China. Often, these companies use their Vietnamese base as part of a "China +1"

¹⁴⁶ 'Ho Chi Minh City', *Encyclopedia Britannica*. Available at: <<https://www.britannica.com/place/Ho-Chi-Minh-City>> last accessed on 10 October 2019.

¹⁴⁷ 'Ho Chi Minh City: How Vietnam's Emerging Megacity Will Develop', *Dezan Shira & Associates*, 11 March 2019. Available at: <<https://www.vietnam-briefing.com/news/ho-chi-minh-city-how-vietnams-emerging-megacity-will-develop.html/>> last accessed on 10 October 2019.

¹⁴⁸ 'Hanoi and Ho Chi Minh City among the Top-10 Most Dynamic Cities in 2019'. *Jones Lang LaSalle*. Available at: <<https://www.joneslanglasalle.com.vn/en/trends-and-insights/cities/hanoi-and-ho-chi-minh-city-among-the-global-top-10-most-dynamic-cities-in-2019>> last accessed on 10 October 2019.

¹⁴⁹ 'Building a Financial Hub for Vietnam', *Vietnam Investment Review*, 24 July 2019. Available at: <<https://www.vir.com.vn/building-a-financial-hub-for-vietnam-69475.html>> last accessed on 10 October 2019.

¹⁵⁰ 'Popularity is its Own Enemy: Hoi An Overrun by Tourist Buses', *VN Express*, 16 January 2019. Available at: <<https://e.vnexpress.net/news/news/popularity-is-its-own-enemy-hoi-an-overrun-by-tourist-buses-3868950.html>> last accessed on 10 October 2019.

¹⁵¹ 'Is Over-Tourism Threatening Sapa?', *Saigoneer*, 20 July 2017. Available at: <<https://saigoneer.com/vietnam-travel/10713-is-over-tourism-threatening-sapa>> last accessed on 10 October 2019.

approach, and these manufacturing clusters have encouraged investment in infrastructure and skills to further facilitate growth. The central region of Vietnam, with its long coastline, is more focused on seafood and food processing. However, Da Nang also has a reputation for high-tech industries, and counts among its investors several international tech companies. The southern region of Vietnam, which includes Ho Chi Minh City, has been a magnet for foreign direct investment, attracting more than the North, Central, or Mekong Delta. Meanwhile, the Mekong Delta region of Vietnam, a more traditional rural area around 250 km south-west of Ho Chi Minh City, has attracted the least amount of foreign investment.¹⁵²

The government has also utilised a set of financial incentives through special economic zones (SEZs) to encourage growth and development outside of the two big traditional centres of commerce and finance. Over 300 of these SEZs have been established across the length and breadth of Vietnam, offering tax breaks and reduced rents to entice investors. The government estimates that these SEZs could bring an additional US\$10 billion to the state budget.¹⁵³

7.04: Religion

Like other communist countries, Vietnam is an atheist state. However, it has a long tradition of religious belief stretching back over centuries. Buddhism, which was introduced as the national religion as long ago as 1000 AD, is the most popular religion. Lots of people, while not practising Buddhists themselves, still follow its practices and traditions, such as visiting the pagoda during significant cultural or national occasions. Other major world religions are less popular, though Vietnam has a notable population of practising Christians,¹⁵⁴ and there are churches and cathedrals across its towns and cities, including the famous Notre Dame Cathedral in Ho Chi Minh City and Cathedral Saint Joseph in Hanoi.

Religious freedom is protected in the constitution of Vietnam, which states that all forms of faith are considered equal and that the government must protect the right to religious belief. However, the law does give the state some control over religious practice, if such practices undermine peace or incite violence. Buddhists make up the largest group of believers, at around 15% of the population. That's

¹⁵² 'Vietnam's Key Regions and Economic Zones' in Vietnam Briefing, Issue 31, November 2017, *Dezan Shira & Associates*, pp. 1-14.

¹⁵³ Nguyen, M. Q. 'SEZs in Vietnam: What's in a Name?', *The Diplomat*, 14 September 2018. Available at: <<https://thediplomat.com/2018/09/sezs-in-vietnam-whats-in-a-name/>> last accessed on 10 October 2019.

¹⁵⁴ 'Religion in Vietnam', *Asia Highlights*, available at: <<https://www.asiahighlights.com/vietnam/religion.htm>> last accessed on 10 October 2019.

around twice as large as the proportion of Catholics (7.3%) and far ahead of other religions such as Protestants (1%) and Hindus (less than 1%).¹⁵⁵

7.05: The Communist Party

The Communist Party of Vietnam traces its roots back to 1920s China, when Ho Chi Minh - the defining figure of Vietnamese communism - established a "Revolutionary Youth League" in Canton in 1925. The "Indochina Communist Party" was later founded in 1930, with the "League for the Independence of Vietnam" ("Viet Minh") following in 1941 to resist Japanese occupation.¹⁵⁶ Ho Chi Minh was born in 1890 in Central Vietnam. He received a French-Vietnamese education at school in Hue and, after a brief period as a teacher, boarded a French ship in 1911, taking a job on board as a cook. Ho Chi Minh travelled first to Paris, where he became involved in anti-colonial movements and communist organisations, before moving to the UK, Russia, China, and Hong Kong. He did not return to Vietnam until 1940, where he led insurgent fighters throughout the Japanese occupation and, later, the war for independence against returning French forces.¹⁵⁷

The reunification of Vietnam in 1975 brought both north and south together under communist leadership for the first time. The 4th national congress in 1976 - the forum at which policies are formalised and the national direction is outlined - had adopted the name "The Communist Party of Vietnam", replacing the earlier title of the "Vietnamese Workers Party". Then, in 1980, the new state constitution made clear the balance of power in this new, unified Vietnam. Stating that the party is "the force leading the state... and the main factor determining all successes of the revolution" it put the party above the government, whose role was to follow and implement the decisions of the politburo. Following reunification, the central committee grew to almost double its original size (from 77 to 133 members), while the politburo increased from 11 to 17. Membership rose too, reaching over 1.5 million people, equivalent to around 3% of the population.

The Communist Party has continued to change and evolve over the decades described in this report. The 5th congress in 1982 and 6th congress in 1986 saw leading lights of the war and post-war periods depart the stage, with reformers and modernisers taking their place and implementing the economic and social reforms that continue to shape modern Vietnam.¹⁵⁸ The strong economic growth and positive

¹⁵⁵ 'International Religious Freedom Report for 2017 - Vietnam', *US Embassy and Consulate in Vietnam*. Available at: <<https://vn.usembassy.gov/international-religious-freedom-report-2017-vietnam/>> last accessed on 10 October 2019.

¹⁵⁶ 'Vietnam', *Lonely Planet*. Available at: <<https://www.lonelyplanet.com/vietnam/history>> last accessed on 10 October 2019.

¹⁵⁷ 'Ho Chi Minh: Major Events in the Life of a Revolutionary Leader', *Columbia University*, New York.

¹⁵⁸ 'The Vietnamese Communist Party', *US Library of Congress*. Available at: <<http://countrystudies.us/vietnam/52.htm>> last

social change that followed has solidified and legitimised the control of the Communist Party, both inside Vietnam and on the international stage.¹⁵⁹

7.06: The State of Vietnam and the Government

If the politburo is the true power-broker in Vietnam, the government and its ministries are the legislators and administrators, proposing and implementing laws through the 498-member National Assembly. Members of the National Assembly, who are each chosen through a democratic process in their own area and elected for a five-year term, elect the top-two government positions: The President-Head of State and Prime Minister. The President is responsible for nominating other senior government posts, such as the Vice-President and the Chief Justice of the Supreme People's Court. These nominations are subject to the approval of the National Assembly, as are the Prime Minister's nominations for members of his cabinet. The Prime Minister also has the power to veto or overturn the decisions of his ministries.¹⁶⁰

In 1992, Vietnam amended its original 1980 constitution, giving greater powers to the President, Prime Minister, and cabinet. The cabinet is responsible for directing and managing their respective line ministries and other state organisations, and for supervising local administrative committees. The office of the Prime Minister oversees cross-departmental projects that impact on more than one portfolio area. Meanwhile, Vietnam's local administration is broken up into 64 provinces, which are themselves divided into urban districts and rural districts. Local political decision making power is vested in elected People's Councils, which then elect from their number a People's Committee.¹⁶¹

7.07: The Private Sector

While state-owned enterprises continued to face the intractable problems of slow equitisation and inefficient management, private enterprise has thrived over the last three decades. The entrepreneurial spirit described in chapter 7.01 has led lots of people to start their own business. So, it is not surprising that around 96% of the over 700,000 companies registered in the private sector in 2018 are small and medium-sized enterprises. Just 2% are large enterprises, with the last 2% being

accessed on 10 October 2019.

¹⁵⁹ Hiep, L. H. (2012) 'Performance-based Legitimacy: The Case of the Communist Party of Vietnam and Doi Moi', *Contemporary Southeast Asia*, Volume 34, No. 2, p. 145.

¹⁶⁰ 'Government Structure', *Embassy of the Socialist Republic of Vietnam in the United States of America*. Available at: <<http://vietnamembassy-usa.org/vietnam/politics/government-structure>> last accessed on 10 October 2019.

¹⁶¹ 'Vietnam: Government and Society', *Encyclopedia Britannica*. Available at: <<https://www.britannica.com/place/Vietnam/Government-and-society>> last accessed on 10 October 2019.

super-small enterprises. The private sector contributes 30% of the state budget and 40% of GDP. Over a hundred thousand new enterprises were registered in 2018 alone, an increase of 3.5% compared to 2017.¹⁶²

The government, once so wedded to state planning and central control, now promotes private enterprise as an essential ingredient of economic growth. The Prime Minister, at a recent Private Sector Economic Forum, announced a target of 100,000 private enterprises in 2020. To achieve this ambitious goal, issues of corruption need to be addressed, as do overlapping laws and conflicting regulations in the legal framework.¹⁶³ In 2017, the government introduced “Resolution 10” on developing the private sector as an impetus of economic growth. For the first time, this put private enterprise on an equal footing with the state sector as an engine of national economic growth and development. It also marked the government’s desire to create a level field for private enterprise, and a business environment which is free, fair and rules-based.¹⁶⁴

Though just 2% of private enterprises are considered large corporations, Vietnam is home to some huge, and fast-growing businesses. Of the 500 largest enterprises, 15% are in the financial sector; 14% in the food, beverage, and cigarette industries; another 14% in the construction, real estate, and building materials sector; 11% in steel; and 9% in telecommunications. Of the ten largest private enterprises in Vietnam, the VinGroup conglomerate comes top of the list, and 6th when state-owned enterprises are taken into account.¹⁶⁵

The largest real estate developer in Vietnam, VinGroup is invested in a wide range of sectors and industries, from shopping malls to schools, and hotels to hospitals. It is also Vietnam’s “national champion” in the field of automotive manufacturing, having just launched a range of cars and motorbikes. With a market capitalisation of around US\$3 billion, VinGroup began making instant noodles in Ukraine’s food processing sector. The founder of VinGroup, Pham Nhat Vuong, moved his business to Vietnam in 2000 in order to contribute to the growth and development of his home.¹⁶⁶ Though VinGroup is the largest private enterprise in

¹⁶² ‘Private Sector Important for National Development’, *Vietnam News*, 26 January 2019. Available at: <<https://vietnamnews.vn/opinion/484583/private-sector-important-for-national-development.html#L0ovcGCvhhxlbHw.97>> last accessed on 10 October 2019.

¹⁶³ ‘Vietnam Private Sector Economic Forum 2019’, *Grant Thornton*, 7 May 2019. Available at: <<https://www.grantthornton.com.vn/insights/articles/chairmans-insights/vietnam-private-sector-economic-forum-2019/>> last accessed on 10 October 2019.

¹⁶⁴ ‘Maintaining a Strong Private Sector’, *Vietnam Investment Review*, 5 January 2019. Available at: <<https://www.vir.com.vn/maintaining-a-strong-private-sector-67414.html>> last accessed on 10 October 2019.

¹⁶⁵ ‘Top 500 Largest Enterprises in Vietnam Announced’, *Vietnam News*, 10 December 2018. Available at: <<https://vietnamnews.vn/economy/481629/top-500-largest-enterprises-in-viet-nam-announced.html#POs1uEkpTVLyeMyP.97>> last accessed on 10 October 2019.

¹⁶⁶ ‘VinGroup JSC’, *Nikkei Asian Review*. Available at: <<https://asia.nikkei.com/Companies/Vingroup-JSC>> last accessed on 10 October 2019.

Vietnam, it will not be the last. With strong economic growth showing no signs of slowing down, other big companies will soon follow in its footsteps, and in doing so will continue to shape economic growth and development in the future.

7.08: Foreign Embassies

The long process of Vietnam's international integration is a success not just of the government (essential though their role has been). It has also been built on the quiet diplomatic activities of foreign ambassadors, consuls general, and their staff working out of the spotlight and behind the scenes. Their efforts to build relationships between governments and navigate sensitive political issues has laid the path for Vietnam to once again take its seat at the table of global trade and international affairs. These diplomatic missions also have an important economic role, encouraging bilateral trade between their respective countries and promoting investment opportunities on both sides.

Throughout the US trade embargo, most non-communist countries did not have official diplomatic representation in Vietnam, though informal lines of communication and back channels did provide an indirect connection to the western world. This all changed once normal diplomatic relations with the United States resumed in 1995. Since then, most major countries have established formal diplomatic operations in Vietnam. These embassies facilitate international travel and tourism, and promote the cultural, business, and educational opportunities of their own countries.

The European Union re-established links with Vietnam in 1990, with a textile agreement following in 1992.¹⁶⁷ Then, in 1995, both sides signed a "Framework Cooperation Agreement" (FCA). This came into force in 1996, at the same time as the EU established diplomatic representation in Hanoi. This took the relationship between the EU and Vietnam one step further, over and above one based just on humanitarian issues.¹⁶⁸ The European Union soon became a strong advocate of Vietnam's economic liberalisation. The bloc provided grants and loans to support market reforms, and also offered preferential treatment to some Vietnamese goods, enabling them to be sold to the market with reduced or zero duties.¹⁶⁹

¹⁶⁷ 'Chronology of Bilateral Relations', *European External Action Service*, available at: <https://eeas.europa.eu/sites/eeas/files/chronology_of_bilateral_relations.pdf> last accessed on 30 June 2019.

¹⁶⁸ 'Vietnam and the EU', *Delegation of the European Union to Vietnam*, available at: <https://eeas.europa.eu/delegations/vietnam_en/1897/Vietnam%20and%20the%20EU> last accessed on 30 June 2019.

¹⁶⁹ 'Guide to the EU-Vietnam Free Trade Agreement', *Delegation of the European Union to Vietnam*, p. 16.

7.09: Culture and Entertainment

Vietnam has a rich cultural heritage. Some of its traditional cultural practices have received global recognition on UNESCO's "List of the Intangible Cultural Heritage", such as "Nha Nhac" - or Vietnamese court music - which was performed from the 15th to the 20th centuries at the courts of the king. Other aspects of traditional Vietnamese culture which have received UNESCO recognition include "Quan ho Bac Ninh" folk songs, which are often performed at gatherings or festivals, as well as "Ca Tru" singing, originating from the northern highlands. With 12 aspects of cultural heritage receiving UNESCO recognition in total, Vietnam is among the top-10 countries (out of 177 around the world) in the "Convention for the Safeguarding of Intangible Cultural Assets" list.¹⁷⁰

Perhaps the most important cultural event in the Vietnamese calendar is "Tết" or Lunar New Year. Celebrated between January and February, depending on the lunar calendar, it marks the coming of Spring. Traditional activities during this time include preparing a special meal to be shared with close relatives, with millions of people travelling back to their hometowns to spend time with their families. Other traditions include honouring ancestors, spring-cleaning the house, and giving small amounts of cash (known as "lucky money") in little envelopes to children.

Vietnam has also embraced modern cultural trends and entertainment found elsewhere across Asia. Karaoke bars are widespread, from the largest cities to the smallest towns. Even outside these establishments, people can often be found singing into speakers strapped to the back of an old motorbike parked next to street-side restaurants. Brand new shopping malls are becoming more ubiquitous, as Vietnam's growing middle class follows in the footsteps of their more affluent neighbours in countries like Singapore. Meanwhile, cafe culture remains important, from plastic-chair coffee shops on the side of the road to new air-conditioned chain stores. However, perhaps the longest and most enduring part of Vietnamese culture is not found in its traditions or celebrations, but in its cuisine.

7.10: Food

Food is an integral part of Vietnamese culture. Each region has a distinctive dish, perfected over centuries and passed down through the generations. From the delicate rice cakes of central Hue to the hot broths of southern Ho Chi Minh City and the noodles of northern Hanoi, food is a source of both nourishment and national

¹⁷⁰ "Vietnam's UNESCO-recognised Intangible Cultural Heritage", *Voice of Vietnam*, 4 February 2019. Available at: <<https://english.vov.vn/culture/vietnams-unescorecognised-intangible-cultural-heritage-391681.vov>> last accessed on 10 October 2019.

pride in Vietnam. So pervasive is food in Vietnamese culture, that asking if someone has eaten (“ăn chưa?”) is often used as a greeting.

Vietnamese cuisine is also a literal melting pot, which is not surprising considering the number of countries who have imposed themselves here over the centuries. One of the most famous “fast foods” - banh mi - is a unique combination of French baguettes and Vietnamese meats and spices. And Vietnamese cuisine is becoming more and more popular around the world. This is true not just in those areas with strong diaspora communities like France, the United States, or Australia but also in fashionable food capitals where it has been able to capitalise on trends for fresh flavours and simple, authentic “street food”.

However, while Vietnamese cuisine has absorbed international influences and foreign flavours, overseas imports have struggled to succeed in the Vietnamese market. Some global names, such as Starbucks and McDonalds, have faced strong competition from local brands and consumer’s strong and enduring affection for their own home-grown tastes. This is testament to the importance of food to Vietnamese culture, and to the central role it has in national life.

Chapter 8: Conclusion



Chapter 8: Conclusion

8.01: What Does the Future Hold?

Looking back over the last three decades of trade and investment in Vietnam, one thing becomes clear: What was once one of the poorest countries on earth is now one of its biggest success stories. The livelihoods, living standards, and future prospects of its people have been transformed in little more than a generation as Vietnam has become a middle-income nation almost overnight. The annual GDP per habitant has risen from just over US\$100 in 1992 to over US\$2,000 in 2018. Meanwhile, GDP continues to rise, and is predicted to maintain an average annual growth rate of over 6% in the short-term. This economic growth has led to people living longer and healthier lives, and with better access to essential basic services like water, power and sanitation. Standards of education have also continued to improve, with the number of children attending school growing hand-in-hand with Vietnam's rising position in the World Bank Human Capital Index.¹⁷¹

Now, a new and affluent middle class is emerging, one which is richer and more prosperous than their parents could ever have imagined. The number of middle-class people in Vietnam is predicted to rise over the next decade. This growing consumer spending power will help to further attract international brands across a range of consumer segments. It will also fuel spending in sectors such as private education and private healthcare, as consumers begin to demand better services than those that the state can provide. However, Vietnam is not just growing richer; it is also growing older.¹⁷² So the competitive advantages that have helped Vietnam to come so far in such a short space of time - its large, low-wage, competitive labour force - will not sustain its past record of growth and development into the future.

The jobs and growth of the next three decades will not come from the low-skilled, low-cost manufacturing industries of the past. Instead, to succeed in the future, Vietnam will need to embrace the opportunities of free trade around the world and continued modernisation at home. In other words, it needs to stick to the path that the government set for itself three decades ago. Even though the world has changed - so much so that it is now almost unrecognisable from the period in which we began this report - the solutions to the problems Vietnam faces remain the same.

¹⁷¹ World Bank data. Available at: <<https://data.worldbank.org/country/vietnam>> last accessed on 10 October 2019.

¹⁷² 'The Future of ASEAN: Vietnam Perspective', *PWC*, p. 20.

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