

Experiencing volatility of global market

By C. Rammanohar Reddy

The flight from Singapore to Ho Chi Minh City is full. Two flights a day and seats are hard to come by. Tourists and returning Vietnamese are the largest number. But most conspicuous are the occupants of the Business Class. Foreign consultants in economic policy, investment bankers, prospective investors, and development consultants.

A less than charitable remark is that "Vietnam is now run by consultants". But it is true, the consultants seem to be everywhere and full of advice about everything. Vietnam has been under IMF-World Bank programmes during much of the 1990s.

Advice and aid, however, come at a price. Some western countries insist that the production from any programme that they fund in Vietnam cannot be exported to their markets. This is the Vietnamese introduction to western-style protectionism. Until now, the Government has turned down aid with such strings.

After the East Asian financial crisis broke in 1997, the country is learning the hard way that there is a downside to engagement with the world market. Export growth which was 25 per cent in 2000, plummeted to 4 per cent in 2001 and is under 3 per cent so far in 2002. Meanwhile, imports have boomed, growing by 16 per cent in 2002 and widening the trade deficit. Annual economic growth is now under 5 per cent.

Over 90 per cent of exports are primary commodities such as crude oil (the country

is a small oil exporter), rice, marine products, coffee, rubber, pepper and tea. Falling commodity prices and export competition (India is squeezing Vietnam in rice with its exports sold at BPL prices!) have brought the export sector down with a thud.

Unfortunately, novices that the Vietnamese are in the world market, they do not know how to cope. When global coffee prices were very high in the mid-1990s, there was a wild expansion of area under

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coffee. Now prices have slumped by 30 per cent and more. So senior officials have been advising the hapless small farmers to destroy their coffee plants.

The Vietnamese are also learning the hard way about the dirty practices in world trade. Cat fish is an example. Some 400,000 people in the Mekong Delta are dependent on cat fish farming. Yet, cat fish farmers in southern U.S. first raised the unreasonable complaint that the Vietnamese product could not carry the same name. The Vietnamese were forced by law not to use the name "cat fish". But when that did not slow imports, U.S. farmers raised the dumping flag. Anti-dumping investigations are now on with demands to impose 190 per cent customs duty! This is a bitter pill for Vietnam which thought that the 1994 bilateral trade agreement with the U.S. would bring it equal, if not favoured, treatment.

Foreign Direct Investment in Vietnam boomed during the 1990s. From under \$400

million in 1992, it rose to \$2.6 billion in 1997. Funds have been concentrated in oil exploration, creation of Vietnam's first refinery, heavy and light industry (automobile assembly). Hotels and real estate too have received fairly large amounts.

But the FDI boom has ended. Inflows are now only around \$1.3 billion a year. In this small country, FDI earlier played a major role in fresh domestic investment. At its peak, FDI accounted for as much as a third of total investment. Today the share is only 15 per cent.

Investment in the auto sector is a reflection on a larger scale of the Indian experience. There are as many as 11 automobile joint ventures (only seven in motorcycles where there are more than 40 local manufacturers). All the big names are there: Mercedes, Ford, Toyota... But many have read the market wrong. Ford, which has an installed capacity of 25,000 vehicles, last year sold less than 2,000.

A visitor to Vietnam will leave as much troubled as optimistic about the future of the economy. It has embarked on an ambitious but also very risky engagement with the world market. An export basket loaded with primary products is tossing the Vietnamese around. Diversification into manufactures (textiles and footwear) is not proving easy. And FDI has turned fickle.

A country at war for more than half a century during the 20th century — with the French, Japanese, then again French, the U.S. and even China — needs some respite and a measure of prosperity.

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A nation in transition

S & Asia, Vietnam

By C. Rammanohar Reddy
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An Indian visitor to Ho Chi Minh City should be prepared to be surprised as well as feel at home. The surprise is that the war that led up to liberation and re-unification in 1975 seems a distant memory. A handful of excellent museums in this southern city remind visitors of the savage war which saw the United States drop more bombs here than it did during all of World War II. But the Vietnamese want to put the war behind them. This is not surprising since more than half the population was born after 1975.

The familiar is the noise, the bustle and chaos on the streets, which is much like what one would find in any Indian city. Of course, Ho Chi Minh City, a sprawling city of over 5 million which is Vietnam's largest urban centre and its commercial hub, cannot be any more representative of the country than Mumbai is of India.

And, while a brief visit of a few days is hardly enough to form a perceptive view of the country, it is apparent that this is a society in transition. The Vietnamese are loosening the strings that have tied them to socialism and are hoping that their version of "market socialism" will accelerate development.

India may claim to have been one of the fastest growing economies during the 1990s. But Vietnam had a greater claim to that record — at least until a couple of years ago. Between 1990 and 2001, Vietnam's GDP grew by over 7.5 per cent a year, compared to India's average of under 6 per cent.

Vietnam's growth was fuelled by liberalisation which opened the economy to foreign investment, encouraged domestic private investment and continued with the mid-1980s policy of encouraging private initiative in agriculture. Most important, Vietnam has decided to engage with the south-east Asian and world market in a major way. It is a signatory to the Asian Free Trade Agreement, it has signed a trade

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agreement with the U.S. and is anxious to join the World Trade Organisation at the earliest.

The signs of rapid growth and an opening up are to be found all over Ho Chi Minh City. Hotchpotch architecture, houses with loud colours and a disorganised spread of the city is an indication. The more striking indicator is the traffic on the roads. This is a city where traffic moves slower during the rush hour than in India and the reason is an explosion not of cars but of motorcycles and mopeds.

The streets are a chock-a-block with office-goers, students and mothers with school-going children — all on motorcycles. Ho Chi Minh City has some 2 million motorcycles. Vietnam itself has 9 million motorcycles today, compared to just 5,00,000 a decade ago! There is no public transport worth the name in the city, so only 2 per cent of the population uses the rare buses on the roads.

The Vietnamese economy might have

grown strongly during the 1990s, but lately the growth has slowed down considerably. Independent estimates place growth in the past two years at 4.5 to 5 per cent, a far cry from the 8 per cent plus growth before the East Asian crisis and the falling commodity prices felled the economy.

Yet, there is one sector that is still booming — tourism. Vietnam expects to get some 2.5 million tourists this year — which is quite something considering that India gets roughly the same number.

The visitors come from all over — China, Singapore, Australia, West Europe and the U.S. The miles and miles of beaches, discovery of an "unknown" destination and perceptions of a safe country to visit have made Vietnam a new favourite on the world tourism map.

Vietnam remains a poor country. Its annual per capita income of \$410 is just about 10 per cent less than India's. Measured on a purchasing power parity basis, the Vietnamese average is in the same range as India's (\$2,100 to \$2,400).

But the signs of extreme deprivation, which one can hardly miss when travelling for more than half a kilometre on Indian roads, are difficult to locate in Ho Chi Minh City. Incomes seem more evenly distributed than in India though this is not what the statistics say.

Literacy is above 90 per cent, life expectancy is half a dozen years more than in India and the result is that though the two countries have similar per capita incomes, Vietnam stands well above India in the global ladder of human development.

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Vietnam votes in landmark polls

HANOI (VIETNAM), MAY 19. Prodded by hours of loudspeaker appeals, Vietnamese voted on Sunday for a new National Assembly that will complete a sweeping revamp of the communist nation's legal system.

A total of 759 candidates — all approved by the Fatherland Front, a party-controlled group — vied for the Assembly's 498 seats.

Red banners and flags decorated Hanoi's streets, as loudspeakers relentlessly replayed a song urging citizens to honour the 112th birthday on Sunday of the late revolutionary hero, Ho Chi Minh, by casting their ballots.

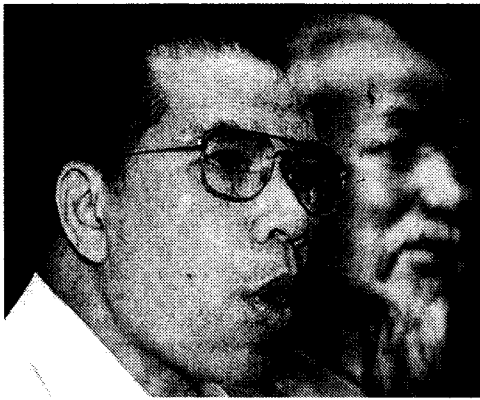
By law, all citizens over age 18 are required to vote.

The new Assembly is to complete a sweeping revamp of the country's legal system, shifting Vietnam from a closed communist state governed by a web of decrees to one the Government says will be ruled by transparent laws. "We need

to build a strong and transparent Government system, fighting against corruption and bureaucracy," the Prime Minister, Phan Van Khai, said after casting his ballot. "We must bring our Government close to our people to serve them and serve business. By doing so, we will be able to develop our country in a rapid and sustainable way."

Officials have identified thousands of laws and regulations that must be revised to achieve "rule by law," and to bring the legal system into compliance with a historic trade pact with the United States that took effect in December.

This year, 135 candidates are non-party members, up from 112 in the last election five years ago. Thirteen candidates are "self-nominated" — Vietnam refuses to use the term "independent" — up from the previous 11. Just two self-nominated candidates won seats in the previous Assembly. — AP



The Vietnamese Communist Party chief, Nong Duc Manh, speaks at a campaign meeting in Hanoi recently seated next to a bust of the revolutionary hero, Ho Chi Minh. — AP

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