

Vietnam's Roaring Economy, the World Stage and the US

Keith Bradsher

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By Keith Bradsher

Keith Bradsher's article rightly emphasizes the rapid progress that the Vietnamese economy has made since the adoption of reform policies (doi moi) twenty years ago, and its bright future prospects. Of course, positioning Vietnam's growth rate between those of China and India does sacrifice a sense of proportion. While it is ranked fifteenth in world population, just ahead of Germany, Vietnam's GDP adjusted for purchasing power is the equivalent of Algeria or Hong Kong. China's Guangdong Province, with a similar population, has a provincial product four times the size of Vietnam's GNP, and Thailand's economy is twice the size. In 2005, moreover, the IMF ranked Vietnam 123rd in the world, with GNP per capita estimated at \$3,025 (adjusted for purchasing power), just below India.

But why is a tale of a poor nation with an ongoing record of development but still severe problems of poverty related with such breathless enthusiasm? If the American war in Vietnam was, as George Herring put it, "America's longest war," then its post-war attitude toward Vietnam might be described as "America's longest ignore." The Paris Peace Accords were signed in January 1973, Vietnam was reunified in 1975-76, but the United States long blocked Vietnamese access to the regional and world economies and it did not officially recognize Vietnam until July 1995, the same month that Vietnam joined ASEAN. The first ambassador did not arrive until almost two years later, and a general trade agreement, one

of the toughest and most detailed that the US has ever negotiated, wasn't signed until July 2000. What has never been on the table: official apology, reparations, or reconstruction aid for the nation destroyed by the U.S. invasion and war. Now the Bush administration is laboring to extend normal trade relations (PNTR) status to Vietnam before its formal admission to WTO in December. If President Bush's impending visit marks America's final realization that Vietnam is a country, not a war, then Bradsher's enthusiasm may be justified. Brantly Womack

HO CHI MINH CITY, Vietnam — Nearly four decades ago, South Vietnamese leaders mapped out their battle plans inside the presidential palace here. When they lost the war, the palace became the base for the Ho Chi Minh City People's Committee, which worked to impose tight Communist control.

But in September it was the scene of a very different gathering: a board meeting of the Hongkong and Shanghai Bank.

In the three decades since Vietnam has gone from communism to a form of capitalism, it has begun surpassing many neighbors. It has Asia's second-fastest-growing economy, with 8.4 percent growth last year, trailing only China's, and the pace of exports to the United States is rising faster than even China's.

American companies like Intel and Nike, and investors across the region, are pouring billions of dollars into the country; overseas Vietnamese are returning to run the ventures.



Nike in on the ground floor

In the latest sign of Vietnam's economic vitality, trade negotiators from around the world are preparing, after more than a decade of talks, to put the finishing touches on an agreement, possibly by Oct. 26, for Vietnam to join the World Trade Organization. President Bush, President Hu Jintao of China, President Vladimir V. Putin of Russia and other heads of state plan to come to Hanoi in mid-November for an Asia-Pacific Economic Cooperation summit meeting.

For Vietnam, the meeting will be a coming-out party, critical to its pride in much the way the 2008 Olympics in Beijing are for China.

"I think they are the next China," said Michael R. P. Smith, chief executive of the Hongkong and Shanghai Banking Corporation. "It's not the scale of China, but it's a significant economy."

Through the end of last year, Vietnam's growth rate exceeded that of Thailand, Malaysia, Taiwan, South Korea and even India, its closest rival.

The latest Asian economic tiger, Vietnam now produces and uses more cement than France, its former colonial ruler. The main index for the

Ho Chi Minh City stock market and a smaller exchange in Hanoi have nearly doubled in value this year. Vietnam has become the talk of investment bankers and investors across Asia.



The Ho Chi Minh City Stock Exchange

But with such growth has come controversy, here and in the United States. Republicans in Congress are divided over a coming vote soon after the midterm elections: Should the United States grant permanent, full trade relations to Vietnam, given the two countries' history and Vietnam's current position, where it sells almost nine times as much to Americans as it buys?

Corporate America is divided, too, over a Bush administration initiative to win votes for full trade status by throwing a bone late in September to Southern senators representing states where textiles are made. Vietnamese officials are furious with Washington over what they see as a last-minute protectionist attempt to limit the exports of their country's booming garment industry.

In Vietnam, nearly double-digit growth is starting to produce the same shortages of skilled labor as in India and China. Executives at multinationals like Groupe Lafarge of France and Prudential of Britain say that local accountants, human relations managers and other professionals are so scarce that salaries are soaring 30 percent to 50 percent a year.

Many educated Vietnamese now are like Ha Nguyen, 34, a chemical engineer who is working at his third job in three years, having received big raises each time he changed companies. "Right now, it's easy in Vietnam to find a job," he said, pausing while doing a chemical analysis of cement quality at a corporate laboratory here.

Roads and ports in this country are increasingly choked with cars and ships, the congestion worse than China's but not yet as bad as India's. Yet deep-seated corruption has slowed construction; the government has put the brakes on highway building across northern Vietnam this year after uncovering a graft scandal that led to resignations and detentions all the way to the top of the Transport Ministry.



Rush hour scene

Balanced against these problems is a government that, like China's, has embraced capitalism after becoming disillusioned with the widespread poverty and sometimes hunger that accompanied tight state control of the economy.

Economic liberalization policies have been pursued in earnest since the early 90's, after poor harvests and economic mismanagement left millions facing malnutrition in 1990.



The agrarian economy

Among the architects of this change are a handful of bright economists like Le Dang Doanh, a top adviser to the government and the Communist Party who studied in the old Soviet Union and East Germany but became deeply disillusioned with the corruption and inefficiency of state-owned industries.

"The reform is definitely irreversible," Mr. Doanh said. "Any attempt to come back to a centrally planned economy, to overplay the state sector, is economically irrational, inefficient and psychologically is counterproductive."

If anything, Vietnam has leaned in the other direction. The Finance Ministry has just produced a draft personal-taxation law, expected to be approved by January, that offers more tax breaks for the wealthy than the United States does. Inheritances among immediate family members will be entirely exempt from taxation. So will interest on all but the largest bank accounts, and a fierce debate is under way over whether capital gains should be taxed.

And in some ways, Vietnam is more pro-business than China. Reluctant to anger city dwellers, state-owned power companies in

China minimize blackouts in residential areas but cut off power to factories as much as three days a week, forcing them to run on costly diesel generators.

Vietnam takes the opposite course. Takashima Masayuki, general director of a Japanese-owned factory that makes shirts and jackets in Bien Hoa city, said the factory did not even have a generator because the authorities never allowed power to be cut off in the industrial zone where it is situated. By contrast, Ho Chi Minh City residents say they have brief power interruptions as often as twice a day.

Like China and India, Vietnam has benefited enormously from the return of a diaspora — people who had fled the country. Thousands of overseas Vietnamese have come home after learning English, gaining entrepreneurial experience and acquiring technical skills.



A Conference in Ho Chi Minh City in June to encourage diaspora investment

Phu Than, Intel’s country manager for Vietnam and Indochina, was 14 when he was evacuated in the last days before the fall of Saigon, leaving by helicopter with his mother, an employee of the old American Consulate in Danang.

He earned an electrical engineering degree from the University of California, Davis, then joined Intel and now oversees the largest foreign investment in Vietnam, the construction of a semiconductor assembly and test factory that will cost \$300 million for the first phase and another \$300 million for a likely expansion later.

American businesses are catching on to Vietnam’s attractions, but they still lag behind Taiwan companies, which are the biggest foreign investors in Vietnam, followed by Singapore.

Vietnam’s appeal to foreign companies rests on its young labor pool. Three-fifths of its 84 million people are under 27. And with a policy of limiting families to two children, as distinct from China’s one, Vietnam will continue for many years to have a large proportion of hard-working low-skill employees.

Typical is Nguyen Thi Hong, 30, who rides each morning on her rusty bicycle to stand outside factories and look for work in Bien Hoa, 15 miles northeast of Ho Chi Minh City; in China, factories advertise far and wide even for unskilled workers.

A brightly patterned kerchief protecting her from air pollution, Mrs. Hong said she and her husband, a mechanic who has found work here, have left their year-old son with his parents in their hometown in the central part of the country.

Vietnam has reduced the percentage of its people living in abject poverty — less than \$1 a day — to 8 percent from 51 percent in 1990, a greater advance than either China or India.

But incomes are still far short of Western levels. Few of these Vietnamese can afford to eat American beef or fly in Boeing jets. The country’s trade surplus with the United States has soared — it exported \$5.56 billion worth of

goods to the American market in the first eight months of this year while importing \$625.9 million.

That imbalance, much of it in the garment industry, has complicated the Bush administration's effort to persuade lawmakers to approve normal trade relations with Vietnam. The administration tried to shore up support by sending a letter on Sept. 28 to two Republican senators, Elizabeth Dole of North Carolina and Lindsey Graham of South Carolina, saying that the Commerce Department may file its own antidumping cases against low-price shipments of Vietnamese clothing without waiting for American companies to do so.

But the letter has upset retailers and other importers, who worry that they may end up paying any punitive duties that are imposed.

"The retail industry is really split on this," said Brad Figel, the government affairs director at Nike, which remains in favor of the bill and is seeking clarification of administration policy.

Antidumping duties are an emotional issue in Vietnam, after the United States imposed them on catfish exports three years ago and the European Union recently imposed them on Vietnamese and Chinese shoe exports. Vietnamese officials warn that dumping cases could hurt the regulatory environment for American businesses and cause layoffs at

garment factories, where most workers are low-income women.

"These people suffered from the war a lot already, and we would not want them to suffer again," said Nguyen Anh Tuan, vice director of Vietnam's Foreign Investment Agency. "American investors should not lose their foothold in Vietnam."

Talk to garment-factory workers in Vietnam these days, though, and they are looking forward to a future where their children live far better than they do. "My parents were very poor," said Nguyen Thu Hoai, 28, said as she folded green Nike jackets in a state-owned factory in Ho Chi Minh City.

"But I will be able to give my son a good education," she said, describing a modest Prudential life insurance policy she bought for her 2-year-old son that includes a savings fund for educational expenses. "He will have more opportunities."

Keith Bradsher has been the Hong Kong bureau chief of The New York Times since 2002. This article appeared in the New York Times, October 25, 2006. Posted at Japan Focus on November 7, 2006.

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