

The
Economist

Half-way from rags to riches

A special report on Vietnam
April 26th 2008



Half-way from rags to riches

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Exchange rates

Dong, April 14th 2008

\$1=	16,521	€1=	26,110
¥100=	16,361	£1=	32,539

Acknowledgments

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A list of sources is at

www.economist.com/specialreports

An audio interview with the author is at

www.economist.com/audiovideo

A country briefing on Vietnam is at

www.economist.com/vietnam



Vietnam has made a remarkable recovery from war and penury, says Peter Collins. But can it change enough to join the rich world?

KNEES and knuckles scraping the ground, the visitors struggle to keep up with the tour guide who is briskly leading the way through the labyrinth of claustrophobic burrows dug into the hard earth. The legendary Cu Chi tunnels, from which the Viet Cong launched waves of surprise attacks on the Americans during the Vietnam war, are now a popular tourist attraction (pictured above). Visitors from all over the world arrive daily at the site near the city that used to be called Saigon, renamed Ho Chi Minh City after the Communists took the south in 1975.

Alongside the wreckage of an abandoned M41 tank another friendly guide demonstrates a dozen types of improvised booby-traps with sharp spikes that were set in and around the tunnels to maim pursuing American soldiers. The Vietnamese not only welcome the tourist dollars Cu Chi brings in, but are also rather proud of it. They feel it demonstrates their ingenuity, adaptability, perseverance and, above all, their determination to resist much stronger foreign invaders, as the country has done many times down the centuries.

These days Vietnam also has plenty of other things to be proud of. In the 1980s Ho Chi Minh's successors as party leaders damaged the war-ravaged economy even more by attempting to introduce real communism, collectivising land ownership and repressing private business. This caused the country to slide to the brink of

famine. The collapse soon afterwards of its cold-war sponsor, the Soviet Union, added to the country's deep isolation and cut off the flow of roubles that had kept its economy going. Neighbouring countries were inundated with desperate Vietnamese "boat people".

Since then the country has been transformed by almost two decades of rapid but equitable growth, in which Vietnam has flung open its doors to the outside world and liberalised its economy. Over the past decade annual growth has averaged 7.5%. Young, prosperous and confident Vietnamese throng downtown Ho Chi Minh City's smart Dong Khoi street with its designer shops. The quality of life is high for a country that until recently was so poor, and its larger cities have retained some of their colonial charm, though choking traffic and constant construction work are beginning to take their toll.

An agricultural miracle has turned a country of 85m once barely able to feed itself into one of the world's main providers of farm produce. Vietnam has also become a big exporter of clothes, shoes and furniture, soon to be joined by microchips when Intel opens its \$1 billion factory near the capital, Hanoi. Imports of machinery are soaring. Exports plus imports equal 160% of GDP, making the economy one of the world's most open.

All this has kept government revenues buoyant despite cuts in import tariffs. The ▶▶

The making of modern Vietnam

Date	Event
1959-65	Gradual build-up to Vietnam war
1968	Communists launch Tet Offensive against American and South Vietnamese forces My Lai massacre by American troops
1969	President Richard Nixon announces gradual troop withdrawal
1973	Paris peace accords signed
1975	Communists capture south and reunite country
1979	Vietnam invades Cambodia and topples Pol Pot. Brief war with China ensues
1986	<i>Doi moi</i> economic liberalisation launched Pro-Moscow diplomatic policy replaced with "friends everywhere" doctrine
1989	Number of "Vietnamese boat people" fleeing penury hits peak
1991	The Soviet Union, Vietnam's cold-war sponsor, disintegrates
1994	America lifts trade embargo UN brokers pact on resettling and repatriating Vietnamese boat people
1995	Vietnam joins ASEAN America and Vietnam restore diplomatic relations
2000	Vietnam creates stockmarket and legally recognises private enterprises America-Vietnam trade pact signed
2006	Vietnam hosts Asia-Pacific summit
2007	Vietnam joins World Trade Organisation
2008	Vietnam wins temporary seat on UN Security Council

Source: The Economist

▶ recent introduction of company taxes is also helping to fill the government's coffers. Spending on public services has surged, yet public debt, at an acceptable 43% of GDP, has remained fairly stable.

Having made peace with its former foes, Vietnam hosted Presidents Bush, Putin and Hu at the Asia-Pacific summit in 2006 and joined the World Trade Organisation in 2007. This year it has one of the rotating seats on the UN Security Council.

Vietnam's Communists conceded economic defeat 22 years ago, in the depths of a crisis, and brought in market-based reforms called *doi moi* (renewal), similar to those Deng Xiaoping had introduced in China a few years earlier. As in China, it took time for the effects to show up, but over the past few years economic liberalisation has been fostering rapid, poverty-reducing growth.

The World Bank's representative in Vietnam, Ajay Chhibber, calls Vietnam a "poster child" of the benefits of market-oriented reforms. Not only does it comply

with the catechism of the "Washington Consensus"—free enterprise, free trade, sensible state finances and so on—but it also ticks all the boxes for the Millennium Development Goals, the UN's anti-poverty blueprint. The proportion of households with electricity has doubled since the early 1990s, to 94%. Almost all children now attend primary school and benefit from at least basic literacy.

Vietnam no longer really needs the multilateral organisations' aid. Multilateral and bilateral donors together have promised the country \$5.4 billion in loans and grants this year, but with so much foreign investment pouring in, Vietnam's currency reserves increased by almost double that figure last year. At least the aid donors have learned from the mid-1990s, when excessive praise discouraged Vietnam from continuing to reform, prompting an exodus of investors. Now the tone in private meetings with officials is much franker, says a diplomat who attends them.

Vietnam has become the darling of foreign investors and multinationals. Firms that draw up a "China-plus-one" strategy for new factories in case things go awry in China itself often make Vietnam the plus-one. Wage costs remain well below those in southern China and productivity is growing faster, albeit from a lower base. When the UN Conference on Trade and Development asked multinationals where they planned to invest this year and next, Vietnam, at number six, was the only South-East Asian country in the top ten.

The government's programme of selling stakes in publicly owned firms and exposing them to market discipline has recently gathered pace. At the same time the switch from a command economy to free competition has allowed the Vietnamese people's entrepreneurialism to flourish. Almost every household now seems to be running a micro-business on the side, and a slew of ambitious larger firms is coming to the stockmarket.

Much of the praise now being showered anew on the country is deserved. The government is well on course for its target of turning Vietnam into a middle-income country by 2010. Its longer-term aim, of becoming a modern industrial nation by 2020, does not seem unrealistic.

But from now on the going may get tougher. As Mr Chhibber notes, few countries escape the "middle-income trap" as they become richer. They tend to lose their reformist zeal and see their growth fizzle. A study in 2006 by the Vietnamese Academy of Social Sciences concluded that further

reductions in poverty will require higher growth rates than in the past because the remaining poor are well below the poverty line, whereas many of those who recently crossed it did not have far to go.

The stench of corruption

The Communist Party leadership openly admits that the Vietnamese public is fed up with the endemic corruption at all levels of public life, from lowly traffic policemen and clerks to the most senior people in ministries. In 2006, just before the party's five-yearly congress, the transport minister resigned and several officials were arrested over a scandal in which millions of dollars of foreign aid were gambled on the outcome of football matches. The leadership insists it is doing its best to clean up, but a lot remains to be done.

Almost as bad as the corruption is the glacial speed of legislative and bureaucratic processes. Proposed laws have to pass through all sorts of hoops before taking effect, with endless rounds of consultations to build consensus. The dividing line between the Communist Party, the government and the courts is not always clear. The justice system is rudimentary. Lawyers have no formal access to past case files, so they find it hard to use precedent in legal argument.

The government is part-way through a huge project to slim the bureaucracy and streamline official procedures. It recently cut the number of ministries from 28 to 22. Yet for the moment the bureaucratic logjam is stopping the country building the roads, power stations and other public works it needs to maintain its growth rate. ▶▶



► Nguyen Tan Dung, the prime minister, says that if growth is to continue at its current rate, the country's electricity-generating capacity needs to double by 2010. That seems a tall order, to put it mildly.

Soaring car-ownership is leaving the country's underdeveloped roads increasingly gridlocked. In an admirably liberal attempt to limit price distortions as oil surged above \$100 a barrel, the government slashed fuel subsidies in February. But one effect will be to stoke inflation, already worryingly high at 19.4% in March. Bank lending surged by 38% last year as firms and individuals borrowed to speculate on shares and property.

The government is finding it much harder to manage an economy made up of myriad private companies, banks and investors than to issue instructions to a limited number of state institutions, especially as the public sector is currently suffering a drain of talent to private firms that are able to offer much higher pay.

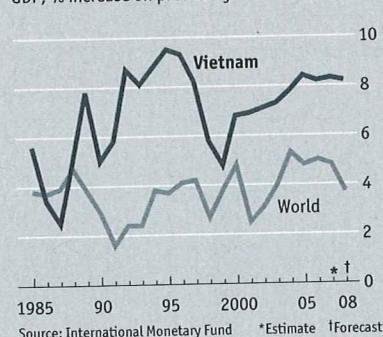
What could go wrong

All this leaves Vietnam's continued economic development exposed to a number of risks:

- Rising inflation—which is hurting low earners in particular—and a growing shortage of affordable housing could create a new urban underclass among unskilled

Bounding ahead

GDP, % increase on previous year



workers who have left the land for the cities. Combined with rising resentment at official corruption and the increasing visibility of Vietnam's new rich, this could cause social friction and bring strikes and protests, chipping away at the political stability that has underpinned Vietnam's strong growth and investment.

- Trade liberalisation and increased domestic competition will benefit some firms and farmers but hurt others—especially inefficient state enterprises. These could join forces and press the government to halt or even reverse the reforms.
- The slumping stockmarket or perhaps a property crash could cause a big firm or

bank to fail. Given the country's weak and untested bankruptcy laws and financial regulators, the authorities may find it hard to deal with that kind of calamity.

- Natural disasters, from bird flu to floods, could cause chaos.
- The economy could come up against the limits of its creaking infrastructure and the shortage of people with higher skills. Jammed roads, power blackouts and the inability to fill managerial and professional jobs could all bring Vietnam's growth rate crashing down.

Vietnam has set itself such demanding standards that even if some combination of these factors did no more than push annual growth below 5%, it would be seen as a serious setback. The foreign minister, Pham Gia Khiem, notes that Vietnam's current growth of around 8-9% is lower than that in Asia's richest economies at the same stage in their development.

Despite the risks ahead, Vietnam has already provided the world with an admirable model for overcoming war, division, penury and isolation and growing strongly but equitably to reach middle-income status. This model could be followed by many impoverished African states or, closer to home, perhaps by North Korea. If it can be combined with gradual political liberalisation, it might even offer something for China to think about. ■

A bit of everything

Vietnam's quest for role models

ABELL chimes at noon in the pastel-coloured Cao Dai Grand Temple, about 100km (63 miles) from Ho Chi Minh City, and hundreds of worshippers in coloured robes and a variety of headgear file in. They sit cross-legged among pink columns with carvings of gaudy green-and-white dragons. All around them is their religion's symbol, the all-seeing eye. The place looks like a cross between a Chinese temple, a mosque and a Catholic church, with a touch of the Wizard of Oz's Emerald City.

Cao Dai, Vietnam's syncretistic home-grown religion, mixes Buddhism, Taoism, Christianity, Islam and other religions, teaching that all faiths are manifestations of "one same truth". The religion was founded in 1926 by Ngo Van Chieu, a government official. By the 1940s it had become a powerful force, maintaining its

own private army. It supported the Japanese occupation and at times the pro-American South Vietnamese regime, so after 1975 it was repressed by the Communists. Now, as the government eases up on religion, Cao Dai is back in favour, albeit strictly controlled. In February members of the government committee for religious affairs joined 200,000 Caodaists for a grand ritual at the temple.

Cao Dai's sunny, ecumenical message chimes well with Vietnam's foreign policy of seeking "friends everywhere". More broadly, the faith reflects a quintessentially Vietnamese trait: casting around for role models, then trying to meld the best aspects of several of them into something uniquely suited to Vietnam.

That may come naturally to a country that has been occupied and influenced by

so many foreign powers. The Vietnamese legal system is based mainly on Napoleonic principles but with bits adapted from the Chinese and Soviet models. When Vietnam was under the Soviet Union's wing during the cold war, it copied its collectivist economic model, with disastrous results. Next, it emulated Deng Xiaoping's market socialism. More recently it has grafted on elements of the World Bank's and UN agencies' anti-poverty growth models and, increasingly, the rudiments of a welfare state along European lines.

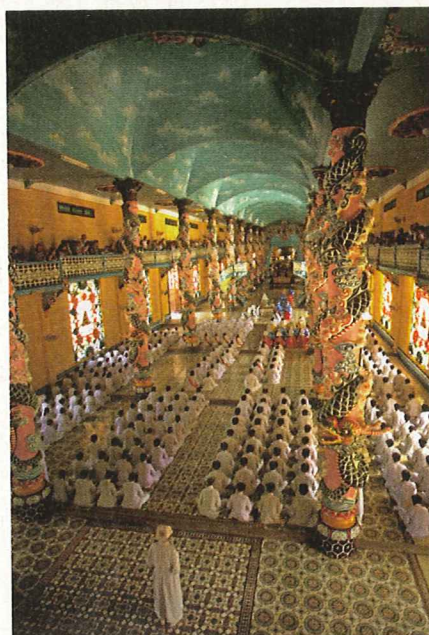
China lite

It is tempting to view Vietnam as a mini-China, since both countries are run by ardently capitalist communists, but there are differences. A foreign diplomat in Hanoi who used to serve in Beijing says that ►

▶ “everything here is more moderate than in China.” Vietnam is a bit less harsh with dissidents than China, and its capitalism too is less red in tooth and claw. Its health and education services have adapted more successfully to the transition to a market economy. Its press is strictly controlled, as in China, but the growing numbers of internet surfers have free access to most foreign news websites: there is no Vietnamese equivalent of the Great Firewall of China.

Whereas China is led from the top down and one man is clearly the paramount leader—Hu Jintao, who is both the head of the Communist Party and the state president—Vietnam has a consensual leadership. Its triumvirate of president, party boss and prime minister must reach accommodations with an increasingly independent national assembly and a host of other forces, and avoid upsetting the many surviving heroes of Vietnam’s independence wars. China’s leadership can ram through public-works projects regardless of the consequences. In contrast, the decision-making process in Vietnam can seem painfully slow—but also more equitable.

China enforced a one-child policy harshly; Vietnam had a two-child policy, pursued half-heartedly. Whereas China is already greying, Vietnam’s post-war baby-boomers are now coming into their prime, and rapid economic growth has been providing jobs for them all. HSBC’s chief in Vietnam, Tom Tobin, notes that in a decade



All-encompassing Cao Dai

or two, when much of the rest of the world will be ageing rapidly, Vietnam’s boomers will still be at the most productive phase of their careers.

China remains the most obvious role model for combining market reforms with communist ideology, though most Vietnamese would be loth to admit to copying their ancient foe. But Vietnam’s ruling party also looks to rich Singapore, nominally a free-market democracy but in practice a one-party state whose government still controls the commanding heights of the economy. For example, Vietnam has created a carbon copy of Temasek, a Singaporean investment agency, to retain its stakes in part-privatised firms.

Clearly Vietnam is too big and too decentralised to be able to copy tiny Singapore, but its Communist Party hopes to pull off the same trick as Singapore’s People’s Action Party (PAP), persuading the voters to accept its continued rule as the price of prosperity. Like the PAP, the Vietnamese Communists seek to recruit academic high-flyers and budding thinkers to their inner circle at an early stage.

Noting that higher education and scientific innovation were the keys to riches for Japan, South Korea and Taiwan, Vietnam is wooing foreign high-tech firms and inviting rich countries to set up universities and training facilities on its soil. An Australian university, the Royal Melbourne Institute of Technology, has already opened state-of-the-art campuses in Ho Chi Minh City and Hanoi. A German university and several South Korean technical colleges are planned. Meanwhile families from the prime minister’s downwards are sending their youngsters to study abroad.

So what shape will Vietnam’s synthetic economy take? As the country seeks to build strong national companies, it is as yet unsure whether to model them on Japanese *keiretsu*, Korean *chaebol* or Anglo-Saxon companies that focus on their core business. Maybe it will manage to take the best bits of each model. But Tony Salzman, an American businessman in Vietnam, worries about the danger of “the collars not matching the cuffs”. ■

Two wheels good, four wheels better

The rich are ever more visible—but where are the poor?

AS OSTENTATIOUS gestures go, splashing out \$1.5m (including taxes) to have a custom-made Rolls-Royce Phantom airmailed to you half-way around the world takes some beating. But Duong Thi Bach Diep, one of Vietnam’s new breed of property tycoons, was tiring of being driven round in a mere BMW. “I cried when I first saw it,” she told reporters in January. “All the security and customs officials at the airport shared the joy with me when it arrived.” Naturally her motives were patriotic and noble: “This will show the world that Vietnam is not a country of poverty and war but a lucrative market.”

So it is, these days. And despite remaining nominally communist, Vietnam, like

China, is now a country where it is all right to flaunt what you have. Ms Diep’s Roller arrived two months after the first consignment of Porsches landed in Vietnam. In the cities, sleek black Mercedes cars glide among the buzzing swarm of motorbikes on the ever more congested streets. The Mercedes factory in Ho Chi Minh City has a five-month waiting list for some models. The country’s state-controlled press enthusiastically prints league tables such as the top 20 stockmarket tycoons and the 50 richest women in Vietnam (Ms Diep is not even in the top ten).

Even in the countryside, signs of wealth are becoming increasingly visible. Visiting Quang Ngai, a quiet town set

among rice paddies, your correspondent was startled by a snappily dressed young Vietnamese couple flashing down the main street in an open-topped red Ford Mustang. The town has quite a few bank branches (farmers are coining it, thanks to high rice prices) and smart shops selling fancy clothes.

Watch the extremes

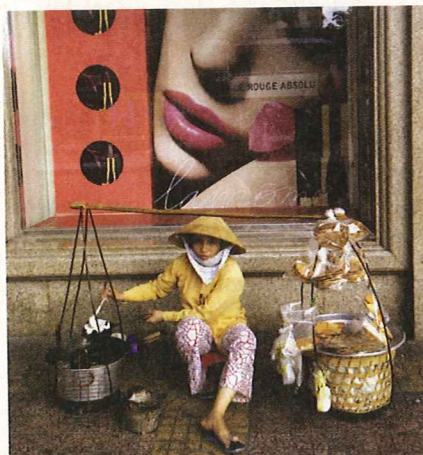
All this prosperity is hard to square with the official figure for Vietnam’s GDP per person, a mere \$839. Even after allowing for higher purchasing power in a low-cost country, the World Bank puts national income per person at only \$3,300, below that of several sub-Saharan African states. ▶▶

► There must be huge numbers of dirt-poor people to bring the average down, but where are they? Despite waves of migration to the cities, there are no shantytowns to be found on their peripheries. There are a few beggars and pavement-dwellers on the city streets, but notably fewer than in officially richer Bangkok.

Ralf Matthaes, the boss in Vietnam of TNS, a market-research firm, thinks there must be something amiss with the figures. In a recent survey of the country's "deep rural" zones he found surging numbers of consumers: one-third of the people in such areas already have mobile phones, which cost at least \$100 apiece—a whole month's income for this slice of the population, according to the official figures. More than nine out of ten rural homes now have cookers and televisions.

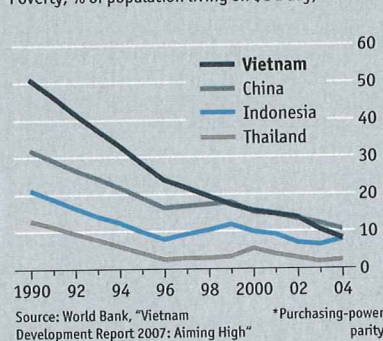
The explanation may lie in Vietnam's age-old tradition of hiding wealth from the authorities. When TNS asked a sample of consumers to keep spending diaries, the incomings and outgoings of the very poorest roughly tallied but better-off consumers were spending up to seven times their declared incomes. Plenty of people run micro-businesses alongside their formal jobs. Until 2000, when private firms were officially recognised, many prosperous people had no legal way to explain their wealth, so they got used to hiding it.

A big rural electrification programme has brought power supplies to more than 90% of Vietnamese homes. Almost all children now enter lower secondary school and nearly two-thirds stay on to upper secondary level. Increasingly, deep poverty is confined to small communities of ethnic minorities in remote mountain areas. Health services are expanding, though



Sweet and low

Poverty, % of population living on \$1 a day, at PPP*



from a low base: a recent study by the *Lancet*, a medical journal, found that around a third of Vietnamese children under five years old were still below their expected height because of poor nutrition.

A welfare system along European lines is slowly emerging. In 2003 the social-security system, providing cover against sickness and work accidents as well as pensions, was extended from state employees to private-sector workers. A national unemployment-insurance scheme is due to start up next year. A 2006 study by the Vietnamese Academy of Social Sciences concluded that the country could

now afford a universal old-age pension.

Over the past decade or so of rapid growth, the country's Gini coefficient, a measure of inequality, has hardly budged. But then the coefficient is an attempt to sum up all income differences in a single number. In Vietnam it may be the rapid expansion of the middle class that has kept the index steady, despite the creation of so many limousine-buying millionaires. What the government may need to start worrying about in the coming years is not the average but the two extreme ends of the income scale.

In recent months rising world commodity prices and Vietnam's economic boom have sent prices soaring: in the year to February, food prices rose by over 30% and housing and construction costs by more than 20%. Low-income workers who have moved from the country to the city no longer grow rice but still want to eat it. If they are tenants, they are facing steep rent rises and the possibility of eviction, whereas property owners stand a fair chance of compensation when their home is demolished for redevelopment. Rising prices and a growing shortage of affordable housing may be helping to create a new low-paid urban underclass.

A small but visible underclass; an ever more ostentatious millionaire set; and a concerned middle class in-between. Could this one day cause social unrest in placid Vietnam? Richer countries have found that the extreme ends of the income spectrum can cause disquiet even when, overall, everyone is pretty well off and getting more so. Despite its attempts to create social safety-nets, Vietnam's government may increasingly have to contend with this particular problem of success. ■

Entrepreneurs unbound

Business of all kinds is booming

VINAMILK is a company based in Ho Chi Minh City, made up of various dairies left behind by the Swiss, Dutch and Chinese after America withdrew from Vietnam in 1975. A recent study of Vietnam's leading firms by the UN Development Programme describes how the firm was shuttled from one ministry to the next after being nationalised. Despite this neglect, the firm became one of the first state enterprises to extend its operations across

the whole of the reunified country. Today Vinamilk is a flagship for the government's huge programme of "equitising" state firms, and most of its shares are privately held. TNS, a market-research firm, reckons that Vinamilk is the second-fastest-growing brand in the country.

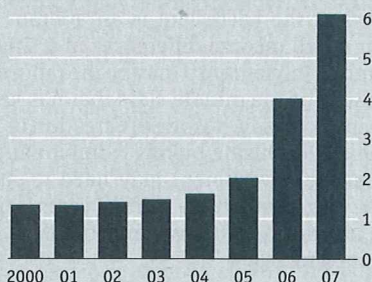
In the dark post-war days all that Vinamilk could offer its customers was tinned sweet condensed milk. Gradually it expanded into powdered milk and later fresh

milk. Now that it is free to set its own strategy, the firm is pushing upmarket. Tran Bao Minh, its marketing chief, says it is promoting a "Pure Premium" fresh milk brand that costs 10% more than the equivalent product of Dutch Lady, a European competitor. It is also moving into drinking yogurts, fruit juices and other health drinks. Under state control it could never have been so bold, says Mr Minh.

Thanks to Vietnam's rapid economic ►

Ready for take-off

Foreign direct investment, inward flows, \$bn



Sources: Economist Intelligence Unit; World Bank

► development, demand for dairy products has been soaring, though from a low base: as yet only one in five Vietnamese drinks milk. Last year consumption rose by 20%. There is growing competition from big foreign dairy groups, but at least Vinamilk is in there with a chance.

The privatisation programme has moved in fits and starts. The government has been anxious to avoid accusations of selling state assets too cheaply but has sometimes leant too far the other way. The number of state firms, about 12,000 in the early 1990s, has dropped spectacularly. Counting them is tricky because many are bunched into holding companies, subsidiaries and sub-subsidiaries, but Vu Tien Loc, the chairman of Vietnam's Chamber of Commerce and Industry, says only about 2,000 are still fully owned by the state. By 2010 only some 500 will be left, mainly in sensitive areas such as defence.

Late last year the government launched an initial share offering in Vietcombank, one of five state-owned commercial banks. The rest will follow in the next few years. They are having to shape up quickly against competition from fast-growing privately owned Vietnamese banks and from foreign giants such as HSBC.

Foreign multinationals are now piling into a huge range of projects across the country, from golf courses to microchip factories. America's General Electric is opening its first plant in Vietnam this year, to make turbine components. Stuart Dean, the firm's South-East Asia chief, says the main consideration was the quality of the workforce, not its low cost. But the multinationals also see Vietnam as an attractive market in itself.

Perhaps the most dynamic sector of the economy is made up by the Vietnamese-owned private firms that have come from nowhere since being legally recognised in

2000. The country's latent entrepreneurialism has burst back into life.

This private-sector activity is difficult to measure. Some workers in state enterprises are holding on to their jobs, despite pitiful salaries, waiting to get their share allocations when the firms are equitised. Meanwhile they are running private firms alongside their jobs, sometimes siphoning business from their state employers.

Home-grown sparklers

Until 2000 the country had no stockmarket, but by the end of last year 221 firms (including partly privatised ones) with a combined market capitalisation of \$28.7 billion had listed on the Ho Chi Minh market and the smaller one in Hanoi. A slew of recent laws will remove the current bias in favour of state firms, making it easier for private companies to raise capital.

Until a couple of years ago most of these private firms were small, but some of them are growing rapidly. For example, THP, a drinks firm that started out brewing beer, moved into fizzy soft drinks and is now, like Vinamilk, slaking the growing thirst for healthy beverages. The firm's Khong Do ("Zero Degree") carbonated tea drink is thought to be the country's fastest-growing brand, with sales almost doubling last year. The firm's owner, Tran Qui Thanh, is determined to build THP into a multinational using world-class marketing and distribution techniques.

Back in the mid-1990s, when most private firms were technically illegal, he set up in business with the army, at first using home-made machinery. When the business reached a point where heavy investment was needed, the military men pulled out, says Mr Thanh, leaving him to raise money from friends and relatives. This remains a popular way of financing business in Vietnam. But it has become much easier to raise money from banks: HSBC's boss in Vietnam, Mr Tobin, reckons that businesses with good collateral can now borrow up to \$50m without much trouble.

By 2000, as THP was moving from beer to soft drinks, Coca-Cola and Pepsi had entered Vietnam and were using their financial strength to create big distribution chains. THP sought to tap into Pepsi's distribution chain, selling small quantities of an energy drink called Number 1. As sales gradually rose, distributors insisted on continuing to carry it despite Pepsi's objections. Mr Thanh says that when he got started in the 1990s, he had to spend a lot of time persuading the authorities just to let him do business. Now, he says, the gov-

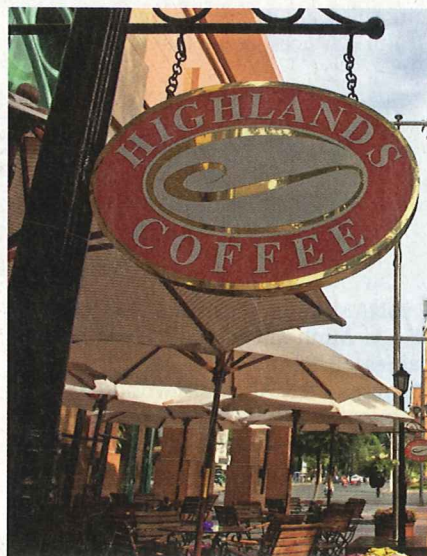
ernment sees people like him as "soldiers in an economic war".

Some businesses are taking advantage of the growth of an aspiring class in Vietnam's cities. One such is VTI, which owns a chain of fancy coffee shops, Highlands Coffee, as well as a smaller chain selling genuine Nike sportsgear. The firm's owner, David Thai, fled Vietnam with his family in the 1970s but returned when things were beginning to look up. He says that when his smartly furnished Highlands Coffee shops first opened, selling drinks for up to \$4, people could not believe that his targets were Vietnamese customers, not expats. Mr Thai thinks affluent urban consumers are looking for something—whether it is a tall latte or a pair of expensive trainers—that says "I have arrived".

Some Vietnamese firms now hope to compete internationally. The largest, PetroVietnam, is already exploring for and producing oil in several countries, from Algeria to Cuba. Its contribution to the government is equal to 30% of the state budget, so its continued success is vital to Vietnam's future. Vinamotor, a state-run maker of cars (among other things) is building a bus factory in Dominica and two lorry factories and an asphalt works in Venezuela, but as yet Vietnam is not a mass producer of cars.

A mountain still to climb

Private firms are bounding ahead despite bureaucracy, corruption, poor regulation, a feeble legal system and a creaking infrastructure. In the World Bank's latest annual league table measuring the ease of ►



An aspirational latte, please

▶ doing business in different countries, Vietnam does not come out well, though overall it now beats Indonesia, the Philippines and India. Compiling tax returns in Vietnam takes longer than in almost any other country, according to the World Bank. Likewise, the corruption index produced by Transparency International, a not-for-profit organisation, shows Vietnam as a poor performer, but better than some of its local

competitors. At least it is an orderly sort of place, so businesses may be able to find out whom they must bribe, how much and how often, which makes it somewhat more bearable if still costly.

Investors excited by opportunities in Vietnam should note that standards of corporate governance are pitiful. Even stock-market-boosters admit that companies' accounts are largely works of fiction. The

World Bank says that there is no legal mechanism to hold rogue directors to account and it is extremely hard to enforce contracts. Sin Foong Wong of the World Bank's private-sector arm, the International Finance Corporation, explains that with the stockmarket booming until recently, it was so easy to raise money that firms were under little pressure to improve standards of governance. Now that the ▶▶

The return of the boat people

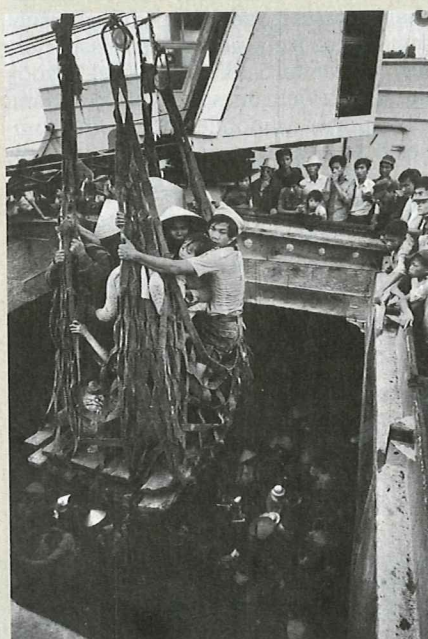
Former refugees bring back skills and money

THEY cast themselves on the seas in leaky boats in their hundreds of thousands, so desperate to escape penury and oppression that they would risk being drowned, murdered or shot. There was a time when the word "Vietnamese" was almost invariably followed by "boat people". They began arriving soon after the fall of Saigon in 1975. By 1994 liberalisation in Vietnam was lifting the economy, the flood of refugees had become a trickle and the UN had found a way to resettle or repatriate them.

Millions of others left Vietnam by less risky means during and after the country's independence wars of the mid-20th century. But in recent years many of the estimated 2.7m *Viet kieu* (overseas Vietnamese) have begun trickling back, encouraged by the government. The initiative to welcome them back comes from the very top. In January Nong Duc Manh, the general secretary of the Communist Party, said Vietnam's recent economic achievements were partly due to the efforts of "patriotic" returned exiles.

Among them is Philip Owings, who fled on a boat when he was eight, ending up in a refugee camp separated from his family. He was adopted by Americans and grew up on the West Coast but is now back as assistant manager at one of Hanoi's top hotels. Mr Owings first returned seven years ago as an exchange student and admits it was a culture shock. Now, with a promising career, he has married a Vietnamese and feels settled. Locals still charge him "foreigners' prices" when they hear his accent, but he says it is not hard to be accepted by his compatriots.

David Thai, the coffee-shop entrepreneur mentioned in the accompanying ar-



In unhappier days

ticle, was born in Saigon to a family that had fled the north after the war to expel the French, left on a boat in 1975 and ended, via the Philippines and Vanuatu, in America. He describes growing up aspiring to be American but later longing to seek out his Vietnamese identity. Returning as a student, like Mr Owings, he was met with polite curiosity, not the hostility he had feared.

Tracy Le, a Vietnamese-Australian from Melbourne with an accent straight out of "Neighbours", visited the country her parents left in the 1970s for a holiday, but accepted a job at Indochina Capital, a Ho Chi Minh City firm that is channelling

foreign investors' cash into Vietnamese businesses. She reckons she is typical of younger exiles: planning only a brief visit, they end up staying. But most of them see no need to tear up their foreign passports yet. The government plans to offer them dual citizenship.

Vietnam does not have a super-rich diaspora like China's. Last year the Vietnamese government recorded business investment by *Viet kieu* of only \$89m, though they are probably spending much more on personal consumption, from cars to property. A much more important contribution are the remittances—officially \$5.5 billion last year, but probably more—that Vietnamese emigrants send home to their families.

The large number of well-educated professionals returning from the rich world are just what Vietnam needs to relieve its shortage of higher-level skills. Ms Le's boss at Indochina Capital, Tung Kim Nguyen, a Vietnamese-American, reckons there is a bigger wave to come as older exiles return to spend their final years back in their homeland. They will not need jobs, but will bring their pension money with them and build retirement homes in the suburbs.

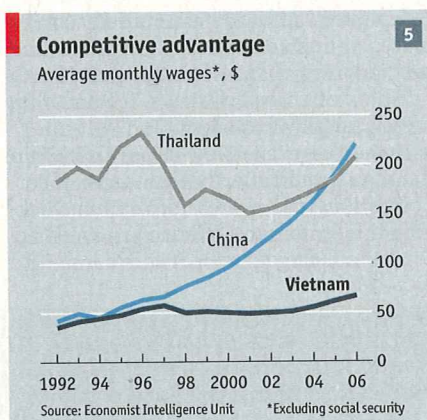
Might the waves of returning exiles who have got used to living in democracies also help transform Vietnam's politics? So far most of them are keeping their heads down. One says that although they are officially welcomed, he is sure that they are closely watched by the authorities to see if they belong to exiled pro-democracy groups (some of which are indeed sending in *Viet kieu*). Yet in the longer term they are bound to become a force for political liberalisation.

► equity bubble has deflated, companies may have to do more to coax investors back. Tung Kim Nguyen, a director of Indochina Capital, an investment bank, says the lack of openness in companies and financial markets still makes it hard to find good firms to invest in, despite the obvious potential for growth. Office space and industrial land is scarce.

Against all that, Vietnam's labour costs have remained pretty low as China's have taken off, despite increasing numbers of wildcat strikes over pay claims. Highly skilled people are hard to find, but that is true everywhere. At least, say foreign firms, their Vietnamese staff are hard-working, disciplined and eager to learn.

Plenty could still go wrong. Vietnam's novice regulators have not yet had to prove themselves in an Enron or Northern Rock disaster, but the time may come. Who knows if some of the country's shining corporate stars, and some of the fast-growing private banks, have taken shortcuts on the way up? Many firms have been dabbling in property and shares, but with the stockmarket now sliding and talk of the property bubble bursting, some could be sitting on big, undisclosed losses. The country's bankruptcy laws are rudimentary and if there were a high-profile failure the authorities might well mishandle it.

Political risk is significant, even though there is little prospect of a change in the ruling party. Regulators sometimes overreact, criminalising civil disputes or suddenly coming down hard on fairly widespread fiddles. In 2006 staff at ABN AMRO,



a Dutch bank, were put under house arrest after the firm was blamed for foreign-exchange losses it had run up (though a subsequent report by government inspectors held the central bank responsible). In 2005 the French-Vietnamese boss of Dong Nam, an importer of mobile phones that competed with a big part-state-owned firm, was sentenced to 20 years in jail for dodging \$6m of taxes.

Many foreign investors and multinationals have paid large sums for stakes in firms that are still controlled by the government, with foreign ownership remaining restricted. The government talks of continuing liberalisation but there is no guarantee that this will happen. Some investors may find that their fingers get burned.

As a big exporter, Vietnam would be hurt by a global downturn, but its economy is already fairly diversified and be-

coming more so. Besides exporting a wide variety of farm produce, it is also a sizeable producer of furniture, clothes, shoes and crude oil. Exports of electronic components and software will rise as factories built with foreign money come on stream. Dominic Scriven of Dragon Capital, an investment firm, sees five driving forces that will propel Vietnam's economy in the next ten years: the China-plus-one strategy for multinational manufacturers; producing and processing food and drink; non-food agriculture (eg, rubber); tourism; and the "intellectual economy". To demonstrate Vietnam's potential in this last area, Mr Scriven notes that the country won all eight gold medals for chess at the 2005 South-East Asian Games.

The biggest risk facing Vietnamese firms may be that they will end up like many in the rest of South-East Asia: bloated, over-diversified, too dependent on their contacts with those in power and not especially good at what they do. Such "crony capitalist" firms in neighbouring countries may struggle as globalisation advances and stronger, more focused firms encroach on their turf.

So far the signs in Vietnam are good: instead of handing monopolies to cronies, the government is encouraging free competition. A few promising Vietnamese firms are trying to professionalise their management, business plans and marketing to reach for world-class status. THP's Mr Thanh dreams of creating a renowned Vietnamese brand on a par with Japan's Sony one day. But it won't be soon. ■

From basket case to rice basket

Can the agricultural miracle last?

NOTHING illustrates Vietnam's remarkable turnaround better than its farm sector. In the mid-1980s, with farm collectivisation going horribly wrong, the country was on the brink of famine. But by the early 2000s Brazil, the world's largest exporter of robusta coffee, was astounded to find itself being overtaken by a country most of its people had barely heard of. More recently, Vietnam has surpassed India as the world's second-largest rice exporter after Thailand.

Vietnam's farmers have become important competitors in all sorts of agricultural produce, from nuts to peppers to rubber.

They are even selling tea to the Indians. Its fishermen and foresters are also doing well by feeding the world's growing demand for seafood and timber (though not always sustainably). Vietnam's exports of farm, forest and fisheries produce rose by 21% last year, to \$12.5 billion, and further growth is expected.

The success of Vietnam's economic transformation is often measured by the falling share of agriculture in the country's gross domestic product. Industry and services are indeed growing even faster than farming and absorbing its surplus labour. Agriculture, forestry and fisheries now

provide barely half of all jobs in Vietnam, compared with over two-thirds only ten years ago. Even so, over 70% of the population still live in the countryside, so a successful rural economy will remain the key to maintaining Vietnam's impressive progress on cutting poverty.

Vietnam's agricultural miracle was achieved by a simple but powerful device: the invisible hand of Adam Smith's free market. Having snatched the land from the people in the disastrous collectivisation, the government gave it back to them (evenly shared among households) on longish leases, starting in the late 1980s. ►►

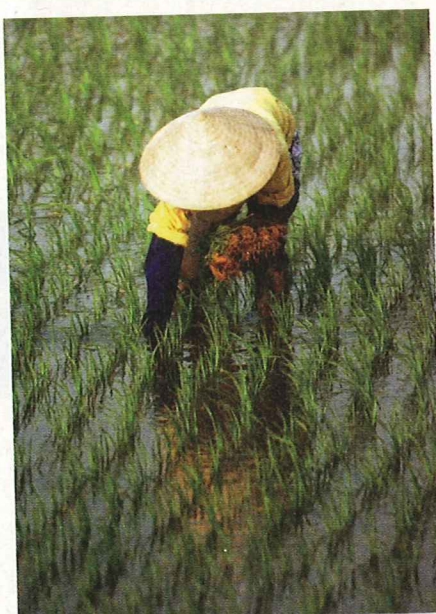
► This was similar to China's agricultural reforms around the same time, which also greatly reduced poverty by giving small farmers exclusive rights to work their plots. However, in China the freehold of the land remains vested in local collectives, without a clear indication of who represents them. That allows unscrupulous local officials to sell land to developers from under the feet of farmers. In Vietnam the freehold remains with the central government, so such problems are rarer.

Creating large-scale and equitable land ownership—one of the biggest privatisations yet seen—was one of several steps that freed Vietnamese farmers to conquer the world, explains Vo Tri Thanh of the Central Institute of Economic Management in Hanoi. Another was the stabilisation of the economy in the mid-1980s, bringing inflation down from a hair-raising 1,000% or so. A third was the gradual liberalisation of farm prices. Also important, says Mr Thanh, was Vietnam's increasingly open trade policy.

None of this would have happened had Vietnam not had fertile soil and plentiful rains, with large tracts of coastal plain and river deltas ideal for cultivation. But Vietnam's experience shows that economics is as important as geography for agricultural success. One reason why the remaining pockets of poverty in Vietnam are concentrated in the forested highlands is that the market-based agricultural reforms have been slowest to reach those parts. Some of the country's diverse ethnic minorities depend on foraging in the forests and until fairly recently were regarded by the authorities as wreckers rather than guardians of the woodlands. In truth, say academics, plantation owners migrating from the lowlands have been more of a threat to the trees. The solution, being worked on rather slowly, is to give minority communities patches of forest to tend.

Stick with it

Until now the government and the international agencies advising it wanted farmers to move away from bulk commodities and diversify their crops faster. However, says Mr Chhibber, the World Bank's boss in Vietnam, the recent recovery in commodity food prices should prompt a rethink. Perhaps, with the world crying out for just the sort of staples Vietnam is good at growing, it should stick to them. In February President Gloria Macapagal Arroyo of the Philippines, which is struggling to feed its growing population, publicly asked Vietnam to guarantee its supplies of



Watching the profits grow

rice. The Vietnamese government is beginning to worry that diversification may have gone too far, with many rice growers in the Mekong Delta having switched to shrimp farming.

In Ba village, in the central province of Quang Ngai, Bach Ngoc Re, a 61-year-old farmer, is more than happy to go on growing rice on the two small plots that he and his wife were given in the land redistribution. Standing barefoot in one of them, measuring just 810 square metres (8,700 square feet), he says he now comfortably gets 200kg of rice in each of the year's two harvests. And the price has been rising for four years. He got 3,000 dong a kilo for his last crop, against 2,500 dong a year earlier.

The local officials who managed the land redistribution tried to share out the best and worst land fairly, so families often got several tiny scattered plots. Mr Re is lucky to have only two; in northern Vietnam the average family has six or seven. More recent land reforms have aimed to consolidate holdings to improve productivity: Vietnam's output may be impressive, but it takes far more input of labour than in neighbouring countries (see chart 6).

Scott Robertson, an economist at Dragon Capital, says that time will solve the problem, because the children of today's farmers are getting an education and will find better jobs off the land. Moreover, many leases will come up for renewal in the next decade—Mr Re has only nine years left on his—which will provide opportunities for consolidation. A further leap in productivity will be needed just to maintain the current output because industrialisation is chewing up farmland on the edges of towns.

Vietnam's free-trade policies have increasingly exposed farmers to volatile

world markets. They might enjoy more bargaining power if they clubbed together in producer co-operatives, says Atsuko Toda of the UN's International Fund for Agricultural Development, but farmers are resisting the idea because it reminds them of the failed collectivisation of the past.

Farmers in Vietnam are vulnerable not only to price swings but also to floods, drought and other natural disasters, yet attempts by insurance companies to create policies for them have not got far. Their best insurance policy might be to diversify into non-farm cottage industries. Vietnam's government, like Thailand's, has been promoting "craft villages" specialising in homespun products. The country's booming tourism industry (see next article) could bring hordes of rich customers eager to buy such things.

Vietnamese farmers have concentrated so hard on quantity that they may be neglecting growing concerns about food quality and hygiene among rich-country consumers. Mr Nguyen of Indochina Capital, which is keen on investing in agribusiness, predicts that Vietnamese agriculture will soon face a "quality-control crunch". Consumer pressure will force farmers and food processors to make it easier to trace foodstuffs and use fertilisers and antibiotics more sparingly.

In the longer term, however, another, far bigger risk looms. Climate change could devastate Vietnam. Most of its farmland and population are near sea level and there is evidence that the sea is rising already. The latest forecast by the UN climate-change panel envisages a 28-58cm rise in the sea along Vietnam's coast by 2100 but does not rule out a 100cm rise. Vietnamese scientists say that would submerge one-eighth of Vietnam's land area, as well as making extreme (and crop-destroying) weather more common. ■

Grow more

Output per worker in agriculture, \$'000
2000 prices



Source: International Labour Organisation, "Labour and Social Trends in ASEAN 2007"

*Latest available year

Revealing its hidden charm

Tourism could do a lot of good if Vietnam handles it properly

IT IS not so long since Vietnam was a place to escape from at all costs, not one that people would pay to visit. However, like its industry, agriculture and diplomacy, its tourism is now firmly on the map. In the latest annual survey by the World Travel and Tourism Council (WTTC), it moved up from sixth to fourth place in the league table of the world's fastest-growing destinations. Last year it had 4.2m foreign visitors, 16% more than in 2006. After the backpackers and a few nostalgic American war veterans, tourists with fatter wallets are now arriving in large numbers.

A fair chunk of the foreign investment currently pouring into Vietnam is going into new hotels, resorts and golf courses, many aiming at the top end of the market. InterContinental, an American hotel operator, has just opened its first project in the country, an opulent waterside hotel on Hanoi's West Lake. Jon Nielsen, its general manager, says the firm has four other big projects under way and its development team is scouring the country for more. Rival international hotel companies such as France's Accor have similarly big plans. The expansion cannot come soon enough: the best hotels in Hanoi and Ho Chi Minh City can get booked up weeks in advance and room rates have soared.

You name it, we've got it

Along the central coast, from Danang's China Beach (a famous rest spot for American troops in the Vietnam war) down to the historic city of Hoi An, new beach resorts are rising from the sands. Besides endless stretches of as yet untouched beach, the country has a wealth of attractions for all tastes and pockets: the ruins of ancient civilisations such as the vanished Hindu Champa culture; quaint tribal villages with wooden stilt-houses, colourful festivals and craftwork; historic cities and churches from French colonial times; war sites like the Cu Chi tunnels and the grisly but informative museum on the site of the My Lai massacre; and enormous potential for ecotourism, with many new species still being discovered in the remote forested mountains.

Vietnam is fortunate in being sur-



A sustainable crop

rounded by populous countries with rising spending power. China is the biggest source of visitors, sending over half a million of them last year. South Korea, Taiwan and Japan sent hundreds of thousands. The budget for the government's worldwide marketing campaign, "Vietnam: the Hidden Charm", is tiny compared with the sums spent plugging "Amazing Thailand" and "Incredible India". But Amir Girgis, the WTTC's South-East Asia analyst, is not worried: "In tourism, word of mouth is the strongest advertising."

Vietnam's best bet, says Mr Girgis, is to concentrate its resources on "sustainability"—in particular, ensuring that the country's most picturesque sites are protected. This is already a worry, for example, on Mount Fansipan, Indochina's highest peak, where uncontrolled tourism is degrading the top of the mountain. The same is true in Hanoi, where the city authorities are battling to stop new housing and retail developments encroaching on historic buildings in the old quarter.

For a young country that needs to find jobs for over a million people joining the workforce each year, tourism is the perfect

industry because it creates employment at all levels, from master chef to bottle-washer. Patrick Basset of Accor says his firm's 15 hotels in Vietnam already employ 3,000 people and he expects the staff to double in the next three years. The Vietnamese hunger for learning will be an asset: almost 95% of the staff that the InterContinental's Mr Nielsen recruited speak some English. In a previous assignment, in Bangkok, he was lucky to get 50%.

One often overlooked benefit of tourism is the boost it can give to exports. Many of the richer visitors to Vietnam come looking for contemporary art. Mr Nielsen expects to spend much of his time organising gallery tours for his guests. The great thing for small exporters is that their customers seek them out, pay on the spot and often make the shipping arrangements themselves.

Having discovered tourism's hidden charms, every town and province in Vietnam now wants a share. In rural Quang Ngai province the authorities are seeking hoteliers to develop its golden, palm-fringed and empty beaches, and dream of building spa resorts around the hot-water springs that bubble up through the province's rice paddies. Some developments sound rather ambitious, such as the film studio cum holiday village that is being planned for one of Quang Ngai's beaches. In Vietnam's false dawn of the mid-1990s, when investors rushed in, then out again as economic reform stalled, several giant tourism projects were abandoned. The same thing could happen again.

Vietnam's tourism may be booming, but its transport infrastructure is nowhere near ready for the onslaught. Ho Chi Minh City's new airport terminal has only just opened but is already close to capacity. Quang Ngai is a three-hour drive from the nearest airport along a dangerous single-lane highway. Partly because of poor transport, the World Economic Forum's latest travel and tourism competitiveness index ranks Vietnam a lowly 96th out of 130 countries. But if properly managed, the rush of tourists could provide the revenue for improvements to road, rail and air transport that would benefit the whole economy. ■

We want to be your friend

And yours, and yours, and yours too: foreign policy made simple

HAVING won what they called the "American war", chased off a brief Chinese incursion and reunited the country, Vietnam's Communist leaders chose a diplomatic policy that turned out to be a disaster: cosying up to Moscow. As the party's general secretary told the 1982 congress, "the unity and comprehensive co-operation with the Soviet Union are always the cornerstone of the foreign policy of our party and country." Even before Soviet communism's collapse, a near-starving Vietnam had begun switching from collectivisation to a market economy—and rethinking its foreign policy. By the 1986 party congress, a new policy, "to be friends with all people", was under discussion.

That line has been followed with increasing conviction ever since, as Vietnam has emerged from isolation to become a significant presence on the diplomatic stage. In 1993 an American-led boycott on aid was eased. Two years later relations between the governments in Washington, DC, and Hanoi were restored and Vietnam joined the Association of South-East Asian Nations (ASEAN).

Since then the country's diplomacy, like its economy, has come on in leaps and bounds. In 2006 it won admission to the World Trade Organisation and hosted Presidents George Bush, Vladimir Putin and Hu Jintao, among other world leaders, at the Asia-Pacific (APEC) summit in Hanoi. A senior Western diplomat says Vietnam had a wobbly start to its year of chairing APEC but, as people often say about the Vietnamese, they learned extremely quickly and by the time of the summit they had become a supremely smooth diplomatic team. This year Vietnam won a temporary seat on the United Nations Security Council, causing its views to be more assiduously courted than perhaps at any time in the country's history.

Vietnam's soaring trade and large population are making it an increasingly important commercial partner. Hardly a week passes without a foreign leader visiting Hanoi. Vietnamese leaders, for their part, find themselves welcomed in the world's capitals. In March the prime minister, Nguyen Tan Dung, toured Europe, getting warm receptions from his German,

British and Irish counterparts.

Vietnam has carefully rebuilt relations with both America and China. It is probably more enthusiastic about its friendship with America, which has more to offer it in terms of foreign investment and expertise. In November two American warships became the first to visit northern Vietnam in peacetime. Even before the restoration of relations Vietnam was co-operating with America in searching for the remains of soldiers missing in action.

There is still friction over paying compensation to the many Vietnamese said to be suffering the ill-effects of Agent Orange, a defoliant that America and its allies used in the Vietnam war. In February Vietnam criticised the rejection by an American federal appeals court of a case that Vietnamese sufferers brought against the chemical's makers. But Vietnam's leaders are not allowing such disputes to hold up progress in other areas.

Vietnam has also learned to tread carefully in its relations with China, a serial invader and dominator down the centuries. Again, it does not want to let old enmities get in the way of doing business. But there is still a dispute over who owns the Spratlys and the Paracels (to the Vietnamese, the Truong Sa and the Hoang Sa), two potentially hydrocarbon-rich archipelagoes in the South China Sea which other nearby

countries also claim. In 1988 China and Vietnam fought a brief naval battle off the Spratlys. Last December Vietnamese students held "spontaneous" anti-Chinese protests in Hanoi, after reports that China was creating a new municipality incorporating the islands.

Even so, the exchanges between Hanoi and Beijing have remained restrained and the two are trying to finish the long-delayed job of demarcating their land borders by the end of this year. Despite heavy investment by Taiwanese firms in Vietnam, the Hanoi government continues to appease the government in Beijing by firmly supporting a "one China" policy. With their own country having so recently been reunited, the Vietnamese feel obliged to support a close neighbour that harbours similar ambitions.

Finding its voice

Fellow ASEAN members, on whose territory Vietnam had encroached during its centuries-long southwards expansion from the Red River delta, long saw it as an expansionist "Prussia of Indochina", but these days relations are relatively smooth. Vietnam's main interest in ASEAN is pushing the block to hurry up and become a proper single market. Vietnamese firms are investing in Cambodia and Laos, with which relations have greatly improved, ►



And how was reunification for you, Mrs Merkel?

▶ but Cambodia's opposition remains virulently anti-Vietnamese.

Vietnam's bosses recently bade a fond farewell to Fidel Castro, their fellow revolutionary, when he resigned as Cuba's leader, but the days when Vietnam clung to the diminishing band of communist countries are long gone. "It's amazing how they really do convince you that they are your best friend," says a Western diplomat in Hanoi. It used to be hard to get the Vietnamese government to comment on anything of more than parochial concern, but now it has become an enthusiastic issuer of statements on world affairs, especially since joining the Security Council.

Vietnam has tried to keep to a multilateralist line, for instance urging compliance with UN resolutions in various African conflicts, but it is now discovering that in diplomacy it is not possible both to be important and to stay friends with everyone. Sitting on the Security Council involves making controversial choices. In February Vietnam came down against recognising Kosovo's independence, disappointing Western powers which had tried to persuade it that the Balkans were a special case and recognition would not set a precedent for separatism elsewhere.

Shortly afterwards the vote on sanctions against Iran over its nuclear programme set another test for Vietnam's diplomacy. The Vietnamese insisted on changing the wording, but they then joined Russia, China, America, Britain and

France in supporting the resolution, whereas Indonesia, a fellow ASEAN member that also currently holds a Security Council seat, abstained.

Vietnam's overriding interest in its foreign relations has been to accelerate its economic development. The main point of having "friends everywhere" is to seek their investment and their technical help. Another goal is seeking and maintaining trade access for Vietnamese farm produce and manufactures. Vo Tri Thanh, a trade economist in Hanoi, argues that Vietnam could play a positive role in the Doha round of world trade talks as a fairly poor country that nevertheless strongly supports freer trade. In the absence of progress on the Doha round, Vietnam is seeking bilateral and regional trade deals. It has started talking to Japan about a free-trade agreement, and diplomats say there is a chance that the limited trade-liberalisation pacts struck with America could develop into a full-blown free-trade deal.

Some ASEAN members, such as the Philippines, would like the block to develop a stronger security aspect. The Filipino military commander, General Hermogenes Esperon, recently called on neighbouring countries to join his country's annual war games with America. But Vietnam is likely to remain wary about such things. Its leaders still remember being vilified over their intervention in Cambodia in the 1970s, even though it brought down the ghastly Pol Pot regime. Still, with

a big well-disciplined army and no domestic conflicts, Vietnam would make a good provider of UN blue helmets. In March its ambassador to the UN announced that Vietnam was preparing for some involvement in peacekeeping missions.

Vietnam could play a broader role in some of the world's destitute and conflict-ridden zones. Having emerged from war and penury to become peaceful, stable and increasingly prosperous, Vietnam sets an example for others. Because it is clearly not in the pocket of a former colonial power, it is more likely to be listened to. It is already chairing the Security Council's committee on Sierra Leone and is helping the country with its agriculture.

Vietnam is also edging towards becoming an important intermediary between North Korea (with which it has unusually good relations) and the outside world. In October the Communist Party's Mr Manh got the red-carpet treatment from North Korea's Kim Jong-il on a visit to Pyongyang. America is gently encouraging Vietnam to offer the North Koreans advice on reforming their economy.

Vietnam's leaders, along with its youthful and optimistic population, genuinely seem to have overcome any bitterness about past conflicts and are looking firmly to the future. If the country can show other starving and war-ravaged nations how to escape from their predicament, its seat at the diplomatic top table will be richly deserved. ■

How long can the party last?

The Communists have relaxed everything except their grip on politics. Might that be next?

AQUEUE of people hundreds of metres long, mainly Vietnamese but including some foreigners, shuffles into the Ho Chi Minh mausoleum in Hanoi, shepherded by stern guards in white uniforms and peaked caps. They file silently into a room where the revolutionary leader's embalmed corpse lies in a well-lit glass case with a guard at each corner, his long, grey-white beard extending over his black tunic. The guards usher small children on to a ramp alongside the glass case. This gives them the best view of the illustrious Uncle Ho, the visionary nation-builder with the "exemplary morals" that they will be instructed to revere from kindergarten to university.

Vietnam's leaders have embraced the parlance of the market economy and the trendy development-speak of the UN agencies, but when they talk politics they revert to cold-war communist language as embalmed and stiff as the old man's body. Party meetings still pass declarations that "the working class is the leading class of the revolution" and the party itself is "the vanguard class in the socialist building". As for those "hostile forces" who question the party's right to a monopoly on power, they are "terrorists", however mildly they may advocate change. The huge propaganda posters in the rice paddies along the main highways read as if they were devised by Marxist-Leninist chartered ac-

countants. "Organisations and individuals paying tax is a factor to push national economic growth and the national budget!", declares one.

Since the start of the *doi moi* reforms 22 years ago a great deal has changed in Vietnam, almost all for the better. Most significantly, its people have been given sweeping economic freedoms, whether in setting up their own business or choosing between a growing variety of providers of goods and services. They can travel abroad and are positively encouraged to send their children to foreign universities, and increasingly they can afford to do both. Many are able to receive foreign television and radio and look at foreign websites. ▶

Yet even as the government tolerates a wide range of outside influences, it still tries to keep control over all things political and cultural. Foreign universities are being encouraged to build campuses in Vietnam, yet a recent official circular stipulates that they have to teach "Ho Chi Minh ideology" to all Vietnamese students. Bookshops are full of the translated works of authors from Mother Teresa to Jackie Collins, yet under a 2004 regulation actors are banned from dyeing their hair or even appearing bareheaded on stage.

It remains difficult to know what to make of all this because the internal workings of the Communist Party's leadership remain as mysterious as ever. In China, Hu Jintao is clearly the paramount leader, combining the jobs of president, party chief and head of the party's military commission. Vietnam, by contrast, is led by a rather self-effacing triumvirate: Nong Duc Manh, the party's general secretary; Nguyen Minh Triet, the president; and Nguyen Tan Dung, the prime minister. No individual is praised except the late Uncle Ho. The national assembly and the party's central committee are forces in their own right, not rubber stamps.

Some foreign diplomats and experts in Hanoi think it is Mr Dung who is driving the continued economic liberalisation; others reckon the party leadership as a whole is pushing reform against a reluctant government bureaucracy. What is clear is that in terms of personal freedom, cautious liberalisers seem to have the upper hand. Vietnam's regime can be less nasty than those of some of the country's democratic neighbours: anti-government activists and clerics are in little danger of being murdered, as in the Philippines, and orderly protests are more readily tolerated than in uptight Singapore.

The Communist Party has all but given up religious persecution, though Buddhist monks, Catholic priests and Cao Dai followers are still arrested for political activities. Indeed, senior officials now praise the positive contribution of religion to society, though they still insist on vetting senior clerical appointments.

Ethnic minorities are being treated better too. In the 1990s, as Vietnam's agriculture was expanding, little was done to stop lowland ethnic Vietnamese grabbing land traditionally farmed by minorities in the mountains. Big protests in 2001-04 in Central Highlands province forced the government to provide more protection for the rights of minorities, some of which still live in poverty. Provision of electricity and



Dreamt up by a Marxist-Leninist chartered accountant

water to minority villages has been stepped up. An American academic who has made a close study of Vietnam's minorities says they have an easier time than in most other South-East Asian countries.

Newspapers and broadcasters are still tightly controlled by the party, but reasoned criticism of government policy—for instance, the recent handling of inflation—is now permitted. A recent study of the Vietnamese press by Catherine McKinley, a former Dow Jones correspondent, found many upstanding young editors and reporters who want the country to be better-run. Quite senior people may face corruption probes and often prosecutions.

Clean up

Party leaders are well aware that public disgust with official corruption is the biggest threat to their continued rule. However, as Ms McKinley's study notes, it is not clear whether the latitude given to journalists really amounts to the "no-holds-barred corruption crackdown" that senior leaders like to talk about. For example, one editor was told to stop reporting a scandal in the transport ministry if it "reached beyond ministerial level". The authorities have allowed the media to expose corruption since the start of *doi moi*, and two decades later Vietnamese public life is not obviously cleaner. Still, in its reporting of stories embarrassing to important people and its comments on policy, Vietnam's press is no less free than its neutered Singaporean counterpart.

The legal system is unreliable and chaotic, and even the cautious World Bank expresses worries about a tendency to "criminalise" civil disputes. This often seems to happen in cases where one side is a state enterprise. America's State Department, in its annual human-rights report published in March, expressed worries at the Communist Party's continuing influence over the selection of judges, but then it says much the same about Singapore and its ruling People's Action Party. The govern-

ment insists that there are no political prisoners in its jails, though some detained dissidents have done nothing more than call for democracy. But China has a worse record of using the courts as political tools and treats its dissidents more harshly.

A diplomat with experience of China and Vietnam notes two other key differences. In China the revolutionaries are mostly dead, and party chiefs are cut off from reality by layers of sycophantic bureaucrats. Vietnam's revolutionaries, who were young men in the 1950s-70s wars, are still around—in government, business, academia and elsewhere. Continuing social links between these "war heroes" may make the leadership more sensitive to ordinary people's concerns. If so, rising tensions such as those that caused China's Tiananmen Square protests may be dealt with and detected sooner—and a Chinese-style crackdown would also be less likely.

So where is the party heading? As the state becomes less important as an employer and a provider of goods and services, the party also matters a little less, particularly in the cities—until someone runs afoul of it. It is still feared, despite the relative mildness of the regime. Vietnamese are reluctant to talk about it, even if they are living abroad, in case it hurts their families back home. They worry that if they say the wrong thing they will be jailed on trumped-up charges. One Vietnamese businessman interviewed for this report visibly squirmed when asked about the party cells that remain mandatory for all businesses, even private ones. Another affected not to know about this requirement, then remembered when pressed.

As Vietnam continues to open its economy to business and meet the UN's poverty-reducing Millennium Development Goals, both foreign investors and the multilateral agencies like to play down the iron fist that still inhabits the velvet glove. There are no reliable polls on what the Vietnamese public thinks of its country's politics. Perhaps the nearest is a recent poll

► by TNS and its affiliates, which found Vietnam's youthful population to be the most optimistic in Asia. That seems to support the view that the public, however grudgingly, gives the party credit for reuniting and rebuilding the country and, more recently, improving living standards. But continuing corruption and rising inequality may be using up this goodwill. A recent World Bank report notes that big business can afford the bribes but most individuals have trouble finding the money.

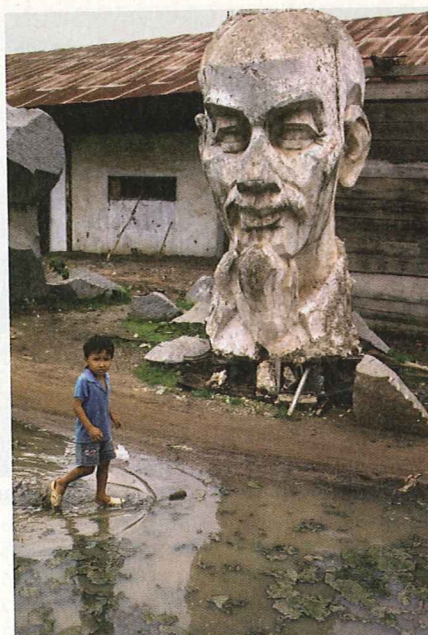
An economic setback that reverses the recent rise in living standards might make people turn against the party. Or, as they get used to economic freedom and learn more about richer, freer countries, they may hanker after more political freedom too. Unlike, say, the Thais, the Vietnamese are not at all deferential. If, one day, they get too fed up with the party, they may lose their fears and ditch it.

A flicker of democracy

A university student says her generation is "interested in doing business, not politics" and does not have much respect for those in power. Like some of the returned exiles interviewed for this report, she feels that the government will have to open up to change one day. A Catholic priest says many people want change now but, having suffered so much in war, they have become peace lovers and are "making do" with the current government.

In the past two years there have been glimmers of a pro-democracy movement. As the Communist Party held its tenth congress in April 2006, a new dissident group, Bloc 8406, emerged with a "manifesto on freedom and democracy". An exile-backed political party, Viet Tan, is sending members back home to recruit members and agitate for change, and several have been detained or expelled. When Hoang Minh Chinh, the leader of another group, the Democratic Party of Vietnam (DPV) and one of the founders of Bloc 8406, died in February, hundreds of activists turned up for his funeral in Hanoi.

Having spent so much effort making Vietnam respectable, the leadership might find it hard to know how to react if the nascent pro-democracy movement gathered momentum. Would it tell the army to shoot its own people if confronted with the equivalent of China's Tiananmen Square, and would the army obey? So far all the party has done is to allow some debate about whether it should drop the obsolete "C"-word from its name and become the Labour Party or some such.



Uncle Ho is still watching

David Koh, a Vietnam expert at Singapore's Institute for South-East Asian studies, says some degree of political liberalisation is being considered, though perhaps not as much as the West would like. Mr Koh thinks there might be change from within once it is seen to have become inevitable. He quotes a Vietnamese saying to the effect that "it is time to jump when the water reaches the feet."

The party, which claims almost 3.2m members, still recruits from among the high schools' brightest pupils, a student says, but those who join are resented by their classmates for the privileges they get. It may be that most of them are motivated by a desire to make useful political connections for their own advancement rather than a wish to serve the nation. The danger is that Vietnam may end up like some other South-East Asian countries, stuck firmly in the middle-income trap it is try-

ing so hard to avoid, and suffering from predatory elites, weak institutions, crony capitalism and a pseudo-democracy.

Fortunately it has two much more attractive models close by. In both Taiwan and South Korea, one-party dictatorships in the late 1980s embarked on gradual political liberalisation. These countries' politics can be rather rough-edged, but their democratic transition helped them develop a high-prosperity, high-tech economy of just the sort that Vietnam wants.

One possible route is already becoming clear. Elections for national-assembly seats are often contested, sometimes by people who are not party members. Allowing more non-party candidates to run would be a good first step.

As the Vietnamese leadership is finding, running a vibrant market economy is much harder than running a stunted command economy. The question is whether it can accept that a market economy works best when there is a free market in politics too, as in almost all the world's rich countries. Exiled dissidents are often pessimists, but Ngai Nguyen, the DPV's spokesman in America, sees some hopeful signs. Some members inside Vietnam have identified themselves as belonging to his party without being arrested so far, he says. He even thinks there may be a chance of the DPV being allowed to run candidates in the 2011 national-assembly elections.

This may all seem rather optimistic now. But if the Communist Party, which inherited a war-racked, divided and impoverished nation, could deliver a united, prosperous and, at long last, free and democratic Vietnam, it would surely be rewarded at the ballot-box. ■

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