

22.06.1992

THE WALL STREET JOURNAL

Traps Hobble Unwary Investors in Vietnam

Manager's Journal

By Ton That Thien

Vietnam is being pushed as the next boomtown. The Singapore Developments Board estimates that Vietnam needs to invest some \$2.5 billion in infrastructure in the next five years. Nguyen Van Huan, Vice Chairman of the Ho Chi Minh City People's Committee, says Vietnam will require some \$30 billion in investment between now and 2005. The pickings look rich indeed. Foreign investors are warned to step right up because "the slow water buffalo has to drink muddy water."

In the long term, Vietnam's abundant natural and human resources provide reason for optimism. But investors should be aware of the traps that now await them.

First, there is the inadequate infrastructure. According to the Vietnam Electricity Co., the country needs to generate 1.3 billion kilowatt hours a year. But current production is only 2.2 billion. And production has been going down steadily. For Ho Chi Minh City and its suburbs, this means no power three days a week. Since last June, individuals have had to reduce consumption by 20%; stores, hotels and commercial firms by 30%; textile mills by 33%, and paper mills by 36%.

Second, it takes months to get a telephone installed. And you have to go to the post office to make international phone calls, on a first-come, first-served basis. Faxing is difficult and costly. One Singapore-bound page costs \$13 from Ho Chi Minh City and \$16 from Hanoi. The need for instant communication has driven businessmen to the Saigon Floating Hotel, despite its higher rates, because of its satellite facilities.

Third, the country's transportation networks are in disrepair. Less than 30% of the surfaced roads are usable, many bridges have not been rebuilt since the war, and potholes endanger both vehicles and people. Trains are slow. A trip from Saigon to Hanoi takes two days (compared with 24 hours before 1945). Shipped goods are prey to loss and theft. Domestic air transportation is the monopoly of the state-run Air Vietnam. That many foreign travelers prefer to fly from Ho Chi Minh City to Hanoi via Bangkok tells a great deal about the services of this company.

Most business people are familiar with these problems, which are not unique to Vietnam. But other, more subtle traps could ensnare the unwary investor.

One is the serious breakdown of social discipline in Vietnam. Pilfering and other theft is common, even of such public property as telegraphic and electrical wires. Many

people feel no guilt or shame in stealing because they have no other way to feed their families.

There is also widespread corruption. The most common form is the expectation of a “gift” as a proof of your “reasonableness” in return for a service, even one for which you have already paid. No formal demand is made. But without a gift, don’t expect quick service, or any at all. A high official of the national bank explained: “If I do not demand anything from you, and you offer me \$5,000, then it is not a bribe, but a welcomed gift, considering that my monthly salary is only \$12.” Another form of corruption is the imposition of a charge, formal or implied, for every service.

The most annoying trap is the country’s splintered administration. The central government has no effective control over the provincial authorities, nor the provincial authorities over the district authorities. Vietnam has 40 provinces, 452 districts and 2,361 villages. That means you may have to go through the same procedure dozens of times, and suffer the pangs of constant uncertainty.

Another trap is the refusal of one official to honor an agreement concluded by another one. Take the real-life case of Company X, as I shall call it. Company X entered into a joint-venture agreement with the chairman of the executive committee of a province near Saigon to build a supermarket. When the company sent an agent to collect money for the merchandise supplied, the agent was told by the incumbent chairman of the provincial committee that the agreement was invalid because it had been signed with an official who had disappeared. There was no court to which this company could turn for redress. It had to choose between writing off its investments or pumping in more money. It quit.

This disregard for business ethics is no surprise. Although Vietnam’s Communist leaders have been shaken by the collapse of communism elsewhere, they have retained the Leninist reflexes that dismiss such traditional values as integrity as “bourgeois morality.”

Under existing conditions, the businessman who ignores Vietnam’s political, legal and moral weaknesses in his quest for gold runs a considerable risk of losing his shirt, or his peace of mind, or both.

Mr. Thien, who now lives in Montreal, was managing editor of the *Vietnam Guardian* and associate dean of the Graduate School Business and Government of Dalat University before 1975.