

Vietnam: Emerging Market, Emerging Tiger

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Is Vietnam the new China?

Thinking About Foreign
Investment in the Asia-Pacific

Definitions

- What is the “new China” to which Vietnam is being compared?
 - A formerly centrally planned economy that is embracing market reform through economic liberalization and decentralization
 - An opportunity to promote global economic growth and provide for profitable US foreign investment.
 - A challenge to ensure the embrace of the “rule of law” and “market economy” as set out in the modern processes of globalization.

Reform

- Household responsibility system in rural areas served as domestic model for economic reform
- Open Door Policy(1978)
 - Investment/Export led Development
 - Special Economic Zones
 - Tax Preferences
 - Corporate vehicles for FI (WFOE, JV)
 - (Cheap Land, Cheaper Labor)

Opportunity

- Original Strategy
 - Over last 30 years, fastest growing economy in the world, averaging 10% growth annually.
 - Real GDP in 2005, 12 times the amount at the start of reform in 1978
 - Investment averages about 40% of GDP
 - Net exports of goods expanded from \$32 b(1.7% of GDP) in 2004 to \$177.5 b (6.7% of GDP) in 2006.
- New Strategy for Economic Growth
 - Expansion of domestic consumption is more sustainable
 - More efficient use of resources
 - Increase employment
 - Balance regional development
 - Reduce environmental/energy demand
 - Enhance banking system

Challenge

- As Chinese economy has grown, new challenges have arisen that will impact foreign investment
 - Trade surplus (1/08 up 23%) with the US provokes increased vigilance (ie “rule of law” and “market economy”) by USG
 - Claims of manipulation of foreign currency valuation
 - Claims of trade violations (1/08 WTO auto parts)
 - Claims of lack of enforcement of intellectual property
 - Concerns about Chinese investment in the US (ie ports, oil, sovereign wealth funds)
 - Tit for Tat claims of protectionism

Toward Legalism

- Domestic Reform
 - Common Investment Law (2006) (protecting investor rights against adverse government interference)
- Regional Politics
 - China-ASEAN Free Trade Zone (limited dispute resolution)
 - 2006 Steering Committee for Vietnam-China Cooperation (defense, territories, cross border trade & Kunming Corridor)
 - BTA with US(2001) and WTO(2007)
- ASEAN Legal Culture
 - “Involves processes including intensive informal and discreet discussions behind the scenes to work out a general consensus which then acts as the starting point around which the unanimous decisions is finally accepted in more formal meetings, rather than across the table negotiations involving bargaining and give and take that result in deals enforceable in a court of law.” --Paul Davidson