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External Affairs and
International Trade Canada

VIETNAM, LAOS, AND CAMBODIA: A BUSINESS GUIDE

Canadian International
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développement international

Canada

Vietnam, Laos, and Cambodia: A Business Guide is a joint effort between External Affairs and International Trade Canada (EAITC) and the Canadian International Development Agency (CIDA). All of the information was compiled during the last half of 1992 and early 1993.

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ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
ASEAN	Association of Southeast Asian Nations
Baoviet	Vietnamese Insurance Company
BCEL	Banque pour le commerce extérieur Lao
BC TRADE	British Columbia Trade Development Corporation
CGDK	Coalition Government of Democratic Kampuchea
CIDA INC	Canadian International Development Agency, Industrial Cooperation Division
CMEA	Council for Mutual Economic Assistance
DGPT	Directorate General of Posts and Telecommunications
EAITC	External Affairs and International Trade Canada
EPZ	Export Processing Zone
FIL	Foreign Investment Law
FIMC	Foreign Investment Management Committee
FISC	Foreign Investment Service Company
FTAC	Foreign Trade Arbitration Council
Funcinpec	National United Front for an Independent, Neutral, and Cooperative Cambodia
GCAA	General Civil Aviation Administration
GDP	Gross Domestic Product
GNP	Gross National Product
IMC	Investment and Management Consulting Company
IMF	International Monetary Fund
Infisco	Industrial Foreign Investment Service Company
Investcon	Vung Tau-Con Dao Investment Consultancy
Investconsult	Investment Consultancy and Technology Transfer
Investip	Company for Promotion and Development of Industrial Property Activities
KPNLF	Khmer People's National Liberation Front
LIPCO	Lao Investment Promotion Company
LPDR	Lao People's Democratic Republic
LPRP	Lao People's Revolutionary Party
MAC	Marine Arbitration Committee
MOC	Ministry of Construction
MOE	Ministry of Energy
MOFER	Ministry of External Economic Relations
MOF	Ministry of Finance
MOHI	Ministry of Heavy Industry
MOT	Ministry of Trade and Tourism
MOTC	Ministry of Transportation and Communications
NEM	New Economic Mechanism
NCFI	National Committee for Foreign Investment
NPESD	National Plan for Environmental and Sustainable Development
PDK	Party of Democratic Kampuchea

Petrovietnam	Vietnam Petroleum Corporation
PIP	Public Investment Program
NGC	National Government of Cambodia
SCCI	State Committee for Cooperation and Investment (Vietnam)
SOC	State of Cambodia
SNC	Supreme National Council
SPC	State Planning Committee
SIDA	Swedish International Development Agency
TAC	Technical Advisory Committee
UN	United Nations
UNDP	United Nations Development Program
UNIDO	United Nations Industrial Development Organization
UNTAC	United Nations Transitional Authority in Cambodia
Vietcochamber	Vietnamese Chamber of Commerce and Industry
Vinacontrol	Vietnam Superintendence and Inspection Company

PREFACE

Vietnam, Laos, and Cambodia, also known as Indochina, embarked on economic reform in 1986 aimed at granting management autonomy to state-owned enterprises. Their eventual goal is to transform their state-controlled economies into more liberal market economies and to become integrated with the world economy.

In February 1991, EAITC and CIDA published the first business guide on Vietnam. The guide was conceived as a response to the reforms taking place in the Vietnamese economy and to the growing number of inquiries from Canadian businesses interested in investigating Vietnam's business opportunities to learn how they could position themselves in this new and emerging market.

Since 1991, Vietnam and neighbouring Laos and Cambodia have advanced towards establishing liberal market economies. Their constant development has made it a challenge for Canadian business and government organizations to remain abreast of the region's economic progress. Thus, EAITC and CIDA initiated this follow-up guide as a service for Canadian business.

The purpose of this expanded handbook is to revise the original Vietnam guide as that country continues to convert to a liberal market economy, and to update the opportunities and issues that have evolved with the development of the country over the past two years. The handbook also includes overviews on the surfacing markets of Laos and Cambodia which, like Vietnam, are undergoing economic transformations and facing similar difficulties and challenges in opening up to the western world.

In addition, the text is complemented by case studies of firms that have worked in the region, thereby augmenting the theory of doing business in Indochina with some of the realities. The cases describe the types of ventures being undertaken and some of the on-going lessons non-Vietnamese and Vietnamese companies are learning in their attempt to position themselves in the region.

General Introduction

The new-found openness in Vietnam, Laos, and Cambodia to liberal market principles is attracting companies from all over the world in search of business opportunities in one of Asia's last untouched markets.

The changes taking place in the region are also the first steps for Vietnam, Laos, and Cambodia toward acceptance into the Association of Southeast Asian Nations (ASEAN) which includes Thailand, Malaysia, Singapore, Indonesia, the Philippines, and Brunei. In August 1992, Laos and Vietnam signed the Treaty of Amity and Cooperation in Southeast Asia, granting both countries "observer" status before becoming full members of ASEAN. Once the political situation is resolved in Cambodia, that country is likely to follow suit.

The Southeast Asia region will have the fastest growth in the world during the next decade with expanding opportunities for Canadian companies. ASEAN and Indochina combine to make up a market of 415 million people. As the nine countries develop closer interrelationships, the ensuing governmental integration will be a driving force for economic development in the entire region. With the likelihood of regional trading blocs forming during the next decade, it makes Indochina an area that Canadian companies should examine thoroughly, as it marks the first time Canadians can position themselves on the ground floor in Southeast Asia.

Regardless of the opportunities that exist in the region, it is not an easy place in which to do business and companies should be prepared for difficulties. Vietnam is not a quick profit centre, but a country where opportunities will evolve within a company's regional business strategy. The Indochina market is not realizable for all Canadian companies. Interested firms should have experience in conducting business in Asia and should have the financial strength to accept the risk of doing business in a developing country.

There are factors that could impede the development of the Indochina region. In Vietnam, the crucial issue is the continued United States (US) trade embargo which blocks financial assistance for development from the international financial institutions. Steps toward the normalization of relations between the US and Vietnam are progressing. As of December 1992, the US government announced that it would permit US companies to sign contracts with Vietnam that would go into effect after the embargo is lifted. Companies are also able to open offices, hire staff, and conduct marketing and feasibility studies in the country. When the US does lift the embargo, it will give the International Monetary Fund (IMF) and other international financial institutions the occasion to resume lending to Vietnam, which badly needs the capital to rebuild the economy.

In Cambodia, the concern is the ability of the United Nations peacekeeping staff (known as UNTAC) to succeed in its role as police while trying to establish country-wide elections. At issue are the consequences that could result from the departure of the UN and the ensuing power vacuum left for the local factions. The stability of Cambodia will remain uncertain.

Poverty is another factor; Vietnam, Laos, and Cambodia have a per capita Gross Domestic Product (GDP) between US$200 and US$300 which constrains any serious consumer market development for many years to come. Other problems include infrastructure inadequacies that will require massive investment to improve the business environment.

There also exist historical rivalries between the countries over boundaries and geography. The three countries are viewed as one region because they were grouped together by France during its colonialist period in Asia.

The 1990s offer slow and scattered development for Vietnam, Laos, and Cambodia. All of the countries are undergoing an adjustment phase as they shift from a centrally-planned economy to a more liberal market economy and will require development assistance to meet their infrastructure and institutional needs. For Canadian companies, the immediate opportunities will be in bilateral- or multilateral-funded projects. Payment will be secure and the risk will be greatly reduced.

For export industries that require a large labour input, the region is one of the last remaining areas in Southeast Asia where a company can obtain skilled and inexpensive labour. Due to the region's economic state and level of industrial development, opportunities exist for Canadian companies that have experience, are well-financed, and have a long-term commitment to the region.

The trend over the last few years has seen an increasing number of companies visiting Vietnam and its neighbours in search of opportunities to launch an entry strategy into the region (see Chapter 9 on Case Studies). The consensus among firms working in the region is that any short-term problems in the country's economic systems that they might have to endure to position themselves will be alleviated by long-term profits. The question Canadian companies must ask themselves is whether they have the resistance and initiative to endure countries like Vietnam, Laos, and Cambodia.

SECTION I: VIETNAM
Chapter 1
A PROFILE

1.1 Introduction

Vietnam is an exciting and intriguing place in which to conduct business. The country is spearheading the region's development and, due to its size, location, low-cost labour, and natural resources, offers Canadian companies the most immediate opportunities

Nevertheless, directing the Vietnamese economy towards the West has been a difficult task. The government's introduction of economic reforms in 1986 known as "doi moi," started the transition from a centrally-planned economy towards a greater reliance on liberal market principles, and has caused vast changes after years of isolation since the country was reunified in 1976.

Vietnam is distinct from other socialist countries that have introduced economic reforms because, as a Southeast Asian country, it is strategically located in one of the fastest growing regional markets of the world. Vietnam will have a population of 80 million by the year 2000 and is rich in natural resources, making the long-term prospects for the country positive.

In coordination with the economic reforms, the government of Vietnam has established priority areas in its 1991-1995 Five-Year Plan, focusing on three sectors to maintain growth. The Five-Year Plan highlights the agriculture and food industry, the expansion of light industry for export, and infrastructure improvement. Opportunities exist for Canadian companies in all three sectors.

Vietnam's adjustment from a centrally-planned economy to a liberal-market system makes it a peculiar and complicated market. Canadian companies seeking to enter Vietnam must have financial resources, long-term strategies, and market commitment. Vietnam's business environment is not favourable to companies that want immediate returns on their investment. After five years of introducing one of the most liberal foreign investment laws in Asia, only a small percentage of foreign companies has invested in projects. However, more and more companies are beginning to cautiously participate in Vietnam's investment and trade opportunities.

Business visitors from Great Britain, France, the Netherlands, Canada, Australia, Hong Kong, Taiwan, Singapore, Japan, South Korea, and Thailand are investigating investment and trade opportunities. Companies are seeking to gain a firm position in the Vietnamese market; however, all companies learn quickly that they require patience to be successful.

The limited success of foreign investment can be attributed to factors such as the US embargo, bureaucratic constraints such as delayed approval of projects, and a reluctance to allow companies to hire local labour at realistic rates. The country also has an inadequate infrastructure, travel constraints, unreliable information, poor communication and transportation systems, and foreign exchange problems. These factors will have to be significantly improved if Vietnam wants to become attractive to Canadian investors and exporters.

Vietnam has been unable to maintain normal relations with international financial institutions such as the World Bank, the IMF, and the Asian Development Bank (ADB) -(the significant lenders for the development of poorer countries), due to the US trade embargo. Vietnam therefore finds it difficult to deal with most other currencies of the world which severely restricts its ability to import and purchase services from other countries. Normalization of relations between Vietnam and the US is progressing; however, until the trade embargo is lifted, development in Vietnam will be limited.

1.2 Geography and Climate

Vietnam is located in the south east corner of what has been traditionally called Indochina. It has a total area of 331,688 km² and is bordered by China in the north, and Laos and Cambodia in the west. It stretches along the coast meeting the Gulf of Tonkin and the South China Sea.

The distance from the northern tip of Vietnam to the southernmost tip is 1,650 km. The maximum width is 600 km in the north from Quang Ninh to Lai Cháu, and the narrowest portion is 50 km in the central region in the Binh Tri Thien province.

The coast of Vietnam stretches over 3,200 km with bays jutting deep into the mainland creating natural seaports in the central part of the country and good natural beaches. Over 40 percent of the country is forested with 17 percent cultivated. Mountains, hills and highlands characterize 80 percent of the country.

Vietnam's geography comprises two large fertile land tracts dominated by two major river systems. The first is Bac Bo in the Red River delta located in the north near Hanoi and flows 500 km. The second is Nam Bo in the Mekong River delta located in the area south of Ho Chi Minh City. The Mekong River passes through 250 km in Vietnam and flows through Cambodia, Laos, and Thailand.

Vietnam has a tropical monsoon climate which is generally hot and humid. The rainy season exists from May until October and is distinguished by high temperatures and winds from the south, while the cold season is from November until April, and is characterized by dryness and winds from the north.

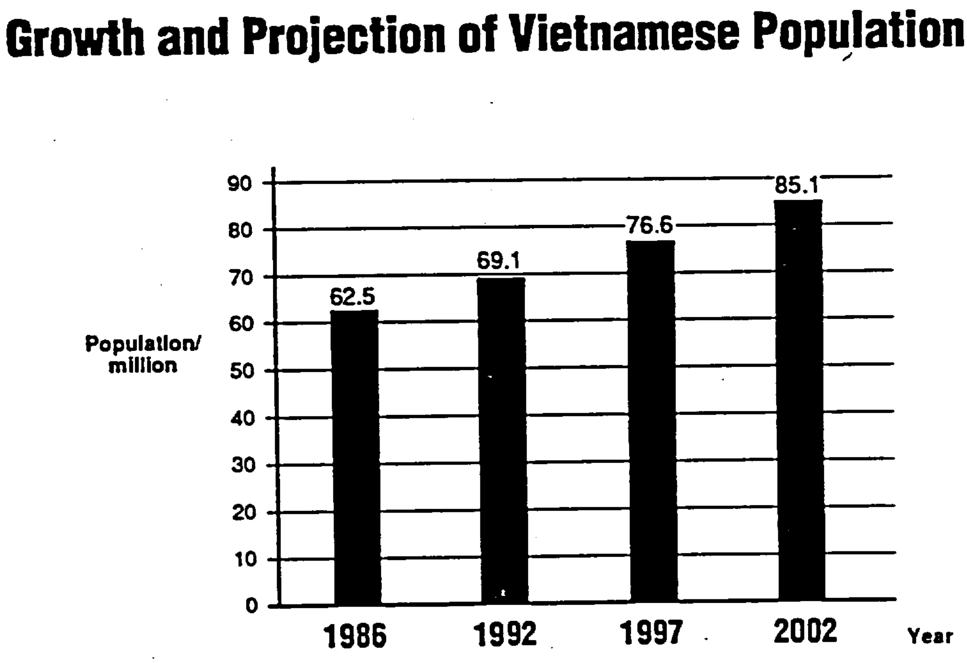
Vietnam's capital city, Hanoi, is located in the northern region of the country near the Red River delta, and is situated 150 km from the northern border with China. Hanoi is located at an altitude of 216 metres above sea level and is hottest in June when the temperatures range between 26 to 33 degrees celsius. It is coldest in January with temperatures between 13 to 20 degrees celsius. Average rainfall during the wettest month, in August, is 343 mm, while January, the average is only 18 mm during the driest month.

Ho Chi Minh City (formerly called Saigon) is the commercial capital of Vietnam and is located in the south about 140 km from the coastal town of Vung Tau. Temperatures are hottest in April when they range from 24 to 35 degrees celsius, while it is coldest in January when temperatures range between 21 to 32 degrees celsius. Average rainfall during the wettest month, September, is 335 mm, and during the driest month, February, the average is 3 mm.

1.3 Population

Vietnam is estimated to have a population of 71 million people as of March 1993 with an annual growth rate of approximately 2 percent, that is projected to reach 85.1 million by 2002.

Diagram 1.1



Average growth rate estimated at 2.1% per annum.

Vietnam's population is predominantly rural with only 14 million located in cities. The majority of the people are concentrated in the two main deltas of Vietnam, the Red River in the north and the Mekong River in the south.

Ho Chi Minh City (formerly Saigon) is the largest city in Vietnam with a population over 4 million, followed by Hanoi with a population of 3 million. Other major cities include Haiphong at 1.5 million, located 75 km east of Hanoi; Danang with 500,000; Nha Trang with 250,000; Qui-Nhon with 250,000; and Hue with 250,000.

1.4 Education

Vietnam's education system is well-developed given its level of economic development. It has near-universal levels of attendance at the primary school level and a national literacy rate estimated to be 90 percent which is comparable to the more economically advanced nations in Asia.

The biggest roadblock in developing the education system is the lack of resources such as inadequate facilities, a shortage of teachers, and a need for educational equipment and teaching aids. The demands on the education system will grow as the country continues to undergo reform.

1.5 Language and Religion

The national language is Vietnamese, which has minor regional variations. English is the most prevalent foreign language, followed by French, Russian, and other East European languages. Older officials, particularly in Hanoi, prefer French to English as a second language.

The main religion in Vietnam is Buddhism. Many of the rural population follow Animism, which is a belief that a governing spirit dwells in living and nonliving things. Confucianism, the belief in the family setting where the father receives the greatest respect, followed by the eldest son is also a major influence. Catholicism also exists and was introduced to the Vietnamese by the Portuguese and the French as early as the 16th century.

Table 1.1

VIETNAM - A Statistical Profile	
Land Area	331,688 km²
Political Structure	The Socialist Republic of Vietnam is a one-party system ruled by the Communist Party of Vietnam. The executive is the Council of Ministers which is responsible to the National Assembly. The Head of State is the Chairman of the Council of State.
Population (1993)	71 million
Hanoi	3 million
Ho Chi Minh City	4 million
Population Growth Rate	2.1 % per annum
GDP Per Capita	US$200 (est)
GDP Growth Rate (1992)	5.3 %
Social Indicators	
Life Expectancy at Birth	64 years
Infant Mortality Rate	35 per 1,000 live births
Adult Literacy Rate	90 %
Structure of Production	
Agriculture	55 %
Industry	22 %
Trade	18 %
Construction	4 %
Others	1 %
Labour Force	30.0 million
Unemployed	3.5 million
Underemployed	5.0 million
Inflation Rate (1992)	20 %
Currency (1992)	US$ = Dong 10,500
Trade (1992)	
Export	US$ 2.45 billion
Import	US$ 2.38 billion
Balance	US$ 70.0 million
Main Export Items	Rice, coal, wood, clothing, coffee, rubber, and shrimp
Main Import Items	Petroleum, fertilizer, metal goods, motors, and consumer items.
Opportunities	Infrastructure, food industry, chemicals and pharmaceuticals, garments and textiles, oil and gas, plastics, wood, mining, fisheries, and tourism.

Source: The information was compiled from various interviews and Vietnamese statistics

Chapter 2
POLITICAL ENVIRONMENT

The political environment of Vietnam will ultimately affect a company's profits through the government's introduction of market-oriented policies. During the past five years, the government has introduced some of the most liberal investment policies in Asia, thereby attempting to address uncertainties that an environment is being created in which it is unprofitable to do business.

Factors to Consider

- Political stability
- Government attitudes
- Foreign investment climate
- Repatriation of profits
- Taxation
- Expropriation
- Labour

The goal of Vietnam's government is to develop an infrastructure of private industry which will permit a high degree of economic self-sufficiency. In the absence of hard currency and free-market management expertise, the government of Vietnam has recognized that they must create a healthy environment to attract foreign investment and expertise to assist in its development.

The government's role in Vietnam's economic transition is as an extensive and active player in the business environment. It is important for a company to recognize that the government is an essential component to include in its Vietnam business strategy.

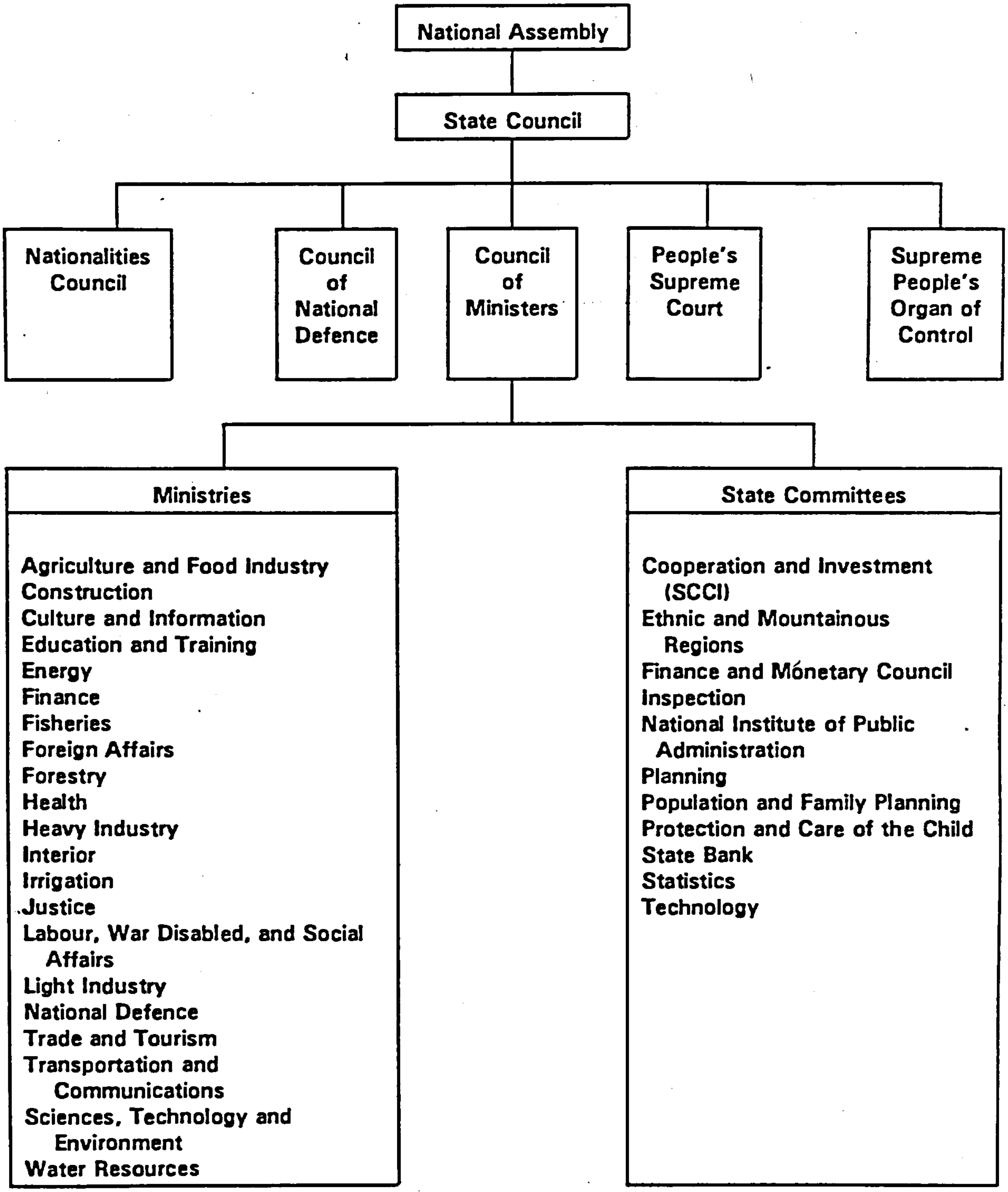
2.1 Government

Vietnam's most recent constitution was adopted by the National Assembly in April 1992 and covers the political system of Vietnam, the basic rights and obligations of citizens, as well as the organizational structures and activities of the state. It also emphasizes the economic system and the promotion of the multi-sector economy within a state-controlled market mechanism. Approximately two-thirds of the 1980 constitution has been revised, amended or rewritten in the new constitution. The constitution also reaffirms the leadership of the Communist Party, but seeks to distinguish the Party from the state. The Party is not to interfere with matters relating more particularly to the state.

On the economic front, private ownership of the means of production is recognized. Actual land ownership is not recognized, but the constitution does provide for the long-term use of land, and the right both to inheritance and transfer of such land use.

Diagram 2.1

GOVERNMENT STRUCTURE OF VIETNAM



Organizations and individuals are allowed to set up business enterprises without limitations on the size and types of operation. Private individuals or collectives are allowed to enter joint ventures with state economic and business organizations or with foreign parties.

Vietnam is in an adjustment phase as it transforms from socialism to a more liberal market system, so even though the constitution reaffirms the position of the Communist Party and state ownership, it does provide stronger and more specific references to private enterprise, private ownership, and land use. It also enshrines the rights of foreign investors and protection against nationalization.

2.2 Political Structure

Executive power is exercised by the Council of Ministers under the leadership of the Prime Minister who is responsible to, and must be a member of, the Legislative National Assembly. A small State Council represents the presidency and serves as the permanent office of the National Assembly. Local government is vested in elected provincial, municipal, and District People's Councils, headed by People's Committees.

2.3 National Assembly

The National Assembly is the highest legislative body of the government and has 496 members who are elected for five-year terms by constituencies based on provincial and municipal boundaries. The National Assembly is responsible for voting on legislation composed by the Communist Party, the Council of Ministers and organizations such as trade unions, farmer associations, women's organizations and youth unions. The National Assembly meets bi-annually for one week.

2.4 State Council

The State Council manages the National Assembly, facilitates the legislative process, and oversees the activities of the People's Councils. It also assumes the functions of the National Assembly when the Assembly is not in session. The State Council has 15 members elected by the National Assembly. Chairing the State Council is the country's president, who is also Head of State.

2.5 Council of Ministers

The Council of Ministers is similar to the cabinet in western governments and is elected by, and responsible to, the National Assembly. The Council of Ministers includes the chairman (the Prime Minister), the deputy Prime Ministers, as well as ministers and heads of various State Commissions and the State Bank. The Council issues decrees and directives that are legally enforceable.

2.6 Communist Party of Vietnam

The Constitution's reaffirmation that the Communist Party is the only leading force in state and society demonstrates the important role it plays in the functioning of the government and day-to-day life.

The Communist Party is represented by the Central Committee at the national level. The committee is elected by periodic congresses that culminate in the National Party Congress held every five years. The Seventh Party Congress was held in 1991. Further elections were scheduled for June, 1993.

The Central Committee elects the Political Bureau (Politburo) as its executive body. The members include the party Secretary-General, the President, the Prime Minister and other party leaders. It is the most powerful party institution and maintains the power to issue directives to the government.

2.7 Administration

There are three levels of administration below the central government: the provincial, municipal, and district levels. Each level has corresponding People's Councils whose members are elected directly.

The administrative regions of Vietnam consist of three self-governing municipalities: Hanoi, Ho Chi Minh City, and Haiphong as well as 44 provinces and 1 special zone in the Vung Tau-Con Dao area. Hanoi and Ho Chi Minh City are each administered by separate People's Committees responsible to the central government. Each province is also administered by a People's Committee, which is responsible to Hanoi.

The Vung Tau-Con Dao Special Zone has the same administrative status as the other provinces and municipalities under central authority. It was formed in 1980 as the supply base for oil and gas exploration and production on the continental shelf of south Vietnam.

Provincial governments represent an important source of power and play a major role formulating regional development strategies. The provinces are separated into districts which maintain between 100,000 and 200,000 people.

2.8 Hanoi

Hanoi is administered by the Hanoi People's Committee, but is also the capital city and home to the Communist Party. Hanoi has a population of approximately 3 million people and an average population density of 1,373 persons per km². It is the second largest urban centre after Ho Chi Minh City.

Hanoi is the commercial centre for heavy industry in Vietnam. The major industries are steel, machine tools, chemicals, fertilizer, cement, and paper. Many of the factories in the north are up to 30 years old and require overhauls and refurbishing.

By virtue of geography, history, and politics, Hanoi also reveals the difference between north and south Vietnam. Due to the Chinese influence over the Vietnamese in the north, and the fact that the north has been communist since 1954, Hanoi is more confucian, traditional, and disciplined. On the other hand, Ho Chi Minh City is relaxed, entrepreneurial, and liberal, influenced by the effects of French colonialism and the presence of Americans during the Vietnam War.

Table 2.1

Growth Centres In Vietnam

City	Population	Activities
Hanoi	3 million	Capital City
Ho Chi Minh City	4 million	Commercial Centre, Agro-Industry, Trade, and Port Facilities
Danang	500,000	Fisheries
Haiphong	1.5 million	Port City
Dalat	N.A.	Tourism, Agriculture, and Forestry
Vung Tau	N.A.	Tourism, Oil and Gas, and Port City
Can Tho	N.A.	Agriculture
Nha Trang	250,000	Tourism

2.9 Ho Chi Minh City

Ho Chi Minh City is the commercial centre of Vietnam situated 1,726 km south of Hanoi. It is the most urbanized city in Vietnam with a population over 4 million. The city encompasses an area of approximately 2,000 km², of which 140 km² forms the city centre comprising 12 districts. The periphery of the city is mostly rural.

It is located at the centre of the region that includes the Mekong Delta, the nation's most important food-producing centre; the eastern part of the south sustains industrial crops such as rubber, coffee, pepper and cacao, as well as deposits of oil and bauxite; the coastal regions of central and south Vietnam have the greatest reserves of sea products.

Ho Chi Minh City is the largest industrial, trade, and communications centre in the country, contributing 35 percent of the national production. The major industries include manufacturing, handicrafts, food processing, garment and leather production, electronics and chemicals. Most oil drilling is directly offshore from the city, making it the centre of the petroleum industry. Most industries, with the exception of food processing, have had to import raw materials and intermediate products to make full use of their capacity.

Ho Chi Minh City has also attracted a net immigration of people from poorer provinces in the north and central regions. This has created problems such as housing shortages, poor health conditions, and a surplus of untrained labour, typical of any urbanized city in a developing country.

Chapter 3
ECONOMIC ENVIRONMENT

The government of Vietnam has been implementing a program of economic reforms that aims to provide a suitable environment for growth and productive utilization of its resources. The reform process will create both challenges and opportunities for Vietnam. As one set of economic problems is resolved, new economic challenges will appear.

Factors To Consider

- Per capita income of approximately US$200
- 71 million people in 1993
- 85 million people by 2002
- Literacy rate of 90 percent
- Limited consumer products
- US$35 per month minimum wage
- Low technological capacity
- Wide range of natural resources
- Evolving legal infrastructure

The challenges of Vietnam's developing economic environment are not going to be favourable for all Canadian companies. Due to the evolving legal, tax, customs and licensing requirements, and the lack of reliable information in Vietnam, assessing and accessing opportunities requires more planning and strategic thinking than companies are typically accustomed to in penetrating new markets. Additional management time and money is required by a company to identify and develop the business opportunity.

As Vietnam explores "socialistic capitalism," the privatization of industries will undoubtedly open the door to competitive markets for a variety of products. Consumer products, capital goods, and technology development will eventually be in high demand in Vietnam; however, companies must look closely at the economic conditions of the country as one aspect in their strategy to position themselves in the Vietnam market.

3.1 The Economy - General Description

Vietnam is one of the least developed countries in the world. The country was surpassed by most South Asian countries in per capita income 10 to 15 years ago. The economy is primarily agricultural as 80 percent of the population live in rural areas with 72 percent of the work force employed in the agriculture sector. According to the 1991 census, the total work force consists of 30 million workers.

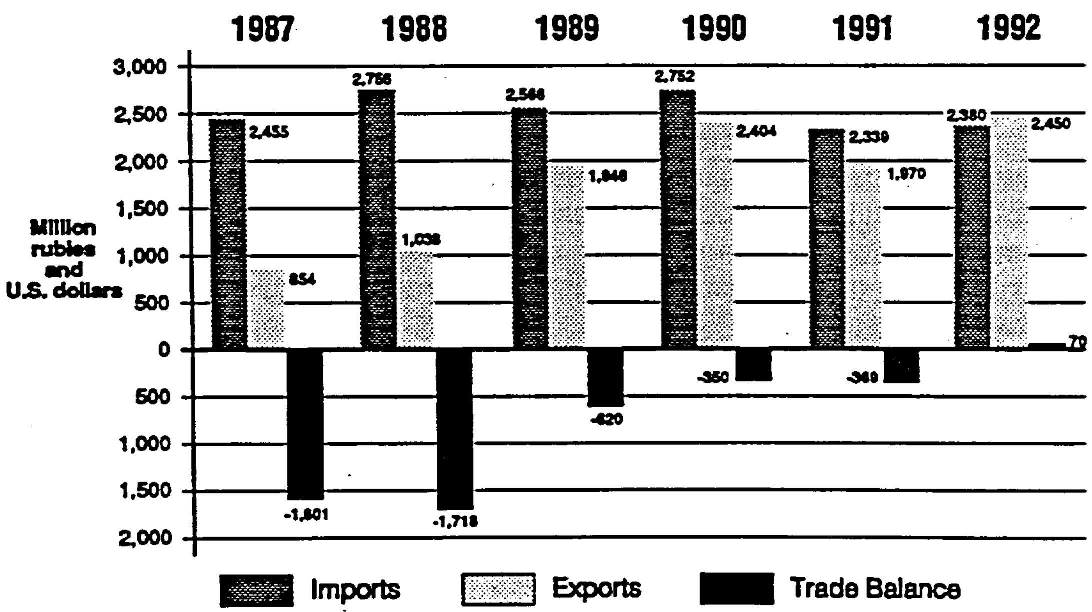
Vietnam's economy is in a state of transition as it shifts to a market-oriented economy. The gradual shift is resulting in the decentralization of the economic decision-making process from the control of the ministries to the individual enterprises. During this transition, the government of Vietnam has been consulting with the IMF to adopt stricter monetary and fiscal policies.

The economy grew by over 5 percent in 1992, while industrial development grew by 16 percent. Inflation, at one time over 700 percent, is now estimated to be less than 20 percent. In addition, since it introduced its economic reforms in 1986, Vietnam attained its first trade surplus in 1992, estimated at US$70 million. These positive effects on the economy can be viewed as an impetus for the government to continue its commitment to building a system mixing private and state ownership.

Since the introduction of reforms, and a tighter monetary and fiscal policy, consumer goods shortages have been alleviated; rice exports are strong; convertible currency exports have doubled, improving, but not solving, foreign exchange shortages; and companies are being forced to rationalize production and reduce costs to remain competitive.

Diagram 3.1

Overall Export Performance In Vietnam

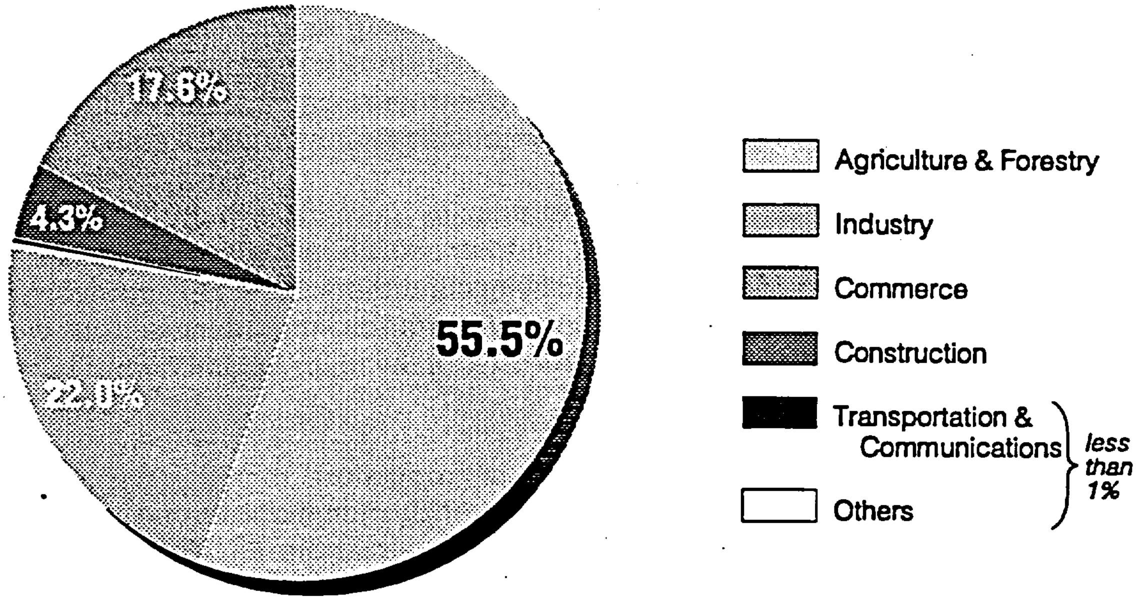


Source: ***Economy of Vietnam: Reviews and Statistics,*** Statistical Publishing House, Hanoi, 1992

Diagram 3.2

Share of GDP in Vietnam

for 1991



Source: General Statistical Office, Economy and Finance of Vietnam, 1991

Vietnam's economic achievements are positive; however, a delicate optimism continues among analysts. The economy has been forced to rely on oil and gas, chemical fertilizers, and cement to contribute to its growth. The economy remains resource dependent with the majority of Vietnam's exports concentrated on rice, unprocessed agricultural products, and crude oil, while industrial exports perform poorly. The number of unemployed is estimated at 3.5 million and the underemployed at roughly 5 million. In addition, the country requires capital to renovate its infrastructure and other support services.

The economy is adjusting from losing the secure markets of the Soviet Union and Eastern Europe. Vietnamese companies are also losing their subsidies from the Vietnamese government and are thus being to become more efficient in their production. As a result, companies are trying to become more competitive to penetrate new markets in Asia, Europe, and North America.

3.2 The North-South Divide

The economy can be divided into two separate regions: the less developed and austere north, and the richer, dynamic, and enterprising south. During the early 1980s, Ho Chi Minh City had already been revitalized through free-market reforms; however, it was not until 1986 that foreign investment, private business, and a more open economy for farmers and factories became a nationwide policy.

There has been a resurgence of private enterprise in Vietnam, especially in Ho Chi Minh City. Nonetheless, the majority of Vietnamese people have yet to see a dramatic improvement in their impoverished living conditions. The gap between the north and south is further demonstrated by the different income levels between Hanoi and Ho Chi Minh City; estimates on the cost of living in Ho Chi Minh City are twice as high as those for Hanoi.

The south has a higher ratio of arable land to population than the north, and receives more hard currency remittances from family members abroad than the north due to the exodus of boat people that left Vietnam in the 1970s and 1980s. In addition, infrastructure, such as roads and ports, is superior to the north's facilities, which were extensively damaged during the war. The south also has a stronger tradition of entrepreneurs and business managers who are more familiar with international business practices.

The north has traditionally relied on Russian and Chinese aid to develop its heavy industry; however, the termination of Russian aid in 1991 and the absence of adequate technology has prevented the exploitation of resources.

The south had developed a very competitive manufacturing sector by 1975 similar to that of Bangkok and Hong Kong; however, with little investment since that time, most of the plants have become outdated and require renovation.

Exports consist mainly of agricultural products such as rice, marine products, timber, coffee, and cashews. The government is promoting the export of manufactured goods and the further processing of agricultural goods. Vietnam is also rich with natural resources, many of which remain unexploited such as mineral and ocean resources.

Table 3.1

Main Export Items

Hanoi	Ho Chi Minh City
Weaving	Rice
Hosiery	Beans
Fibre Shoes	Duck Feathers
Gloves	Coffee
Wool Carpets	Frozen Pork
Jute Mats	Frozen Shrimp
Vegetable/Fruit (Fresh)	Wood
Electric Fans	Peanuts
Bicycles	Sandals
Peanuts	Canned Vegetable/Fruit

Source: General Statistical Office, Economy and Trade of Vietnam, 1991

State-owned companies, cooperatives, and private companies are being encouraged to compete with each other in manufacturing and trading activities.

Ho Chi Minh City has experienced astounding growth during the last two years. Evidence of the changes taking place can be seen in the renovation of hotels and new hotel developments, restaurants, and entertainment facilities. Construction is also booming, a strong indication of the economic confidence in the country, and the anticipation of expanding foreign investment.

Trading activities are also increasing. The majority of exports are in agricultural production, which makes up some 60 percent of Vietnam's exports; however, the manufacturing sector is becoming more diverse. Local manufacturers are beginning to experience competition from foreign goods, which is making them invest to improve their productivity and product quality.

Vietnam has recognized that its best interests will be served by acting as a member of the international community. It will be looking towards international development institutions such as the World Bank, the IMF, and the ADB for assistance in its economic development.

3.3 Foreign Trade

Prior to Vietnam's recent economic reforms, the government pursued an inward-looking development strategy which focused on the domestic market rather than the export market and maintained a tradition of running a trade imbalance. In the wake of economic reforms, state companies are faced with competition from the public and private sector and are performing more efficiently.

Vietnam's major exports are rice, crude petroleum, coal, timber, rubber, shrimp, tea, coffee, peanuts, and rattan goods. It also produces silk, embroidery, ceramics, jewellery, and lacquerware. The country's main export destinations are Japan, Hong Kong, Poland, Malaysia, and Australia.

Table 3.2

Export Categories By Industrial Groups
(million rubles and US dollars)

Industry Group	Export Value		
	1988	1989	1990
Heavy Industrial Products	50.3	300.8	577.8
Light Industrial Products	383.4	533.9	557.9
Agricultural Products	271.2	447.5	403.5
Forest Products	41.5	55.6	52.8
Aquatic Products	105.6	103.1	105.8
Total	852.0	1,440.9	1,697.8

Source: General Statistical Office, Economy and Finance of Vietnam, 1991

NOTE: Due to the economy's use of convertible and non-convertible currencies, official trade statistics are often expressed in Russian rubles and US dollars.

Vietnam's main imports are tractors, trucks, steel, oil and gas, tires and tubing, fertilizers, cotton, pharmaceuticals, cement, textiles, sugar, and food. The majority of imports originate in Japan, Hong Kong, France, Poland, and Sweden.

Vietnam began to change its trading patterns in 1989, away from its traditional trading partners from the Council for Mutual Economic Assistance ((CMEA) consisting of countries from Eastern Europe). During the last two years, trade with the former Soviet Union has dropped dramatically. Vietnam is forced to find new markets and suppliers with hard currency. Imports have been reduced to a minimum and hard currency is only allowed for priority products. The former Soviet

Union remains Vietnam's major trading partner in non-convertible currencies such as rubles, while Japan is its main trading partner in convertible currencies such as US dollars.

AGRICULTURE, FISHERIES, AND FORESTRY

3.4 Agriculture

Vietnam remains a predominantly rural society with approximately 80 percent of its work force engaged in agriculture and related activities; therefore, success in the agricultural sector is important for the country to reach its economic goals.

Agricultural development requires an intricate structure between agricultural production and the rest of the economy, with government involvement an important aspect of that structure. The agricultural sector is administered by the Ministry of Agriculture and Food Industry. Its main responsibility is to establish broad policy guidelines and to function as a facilitator between foreign companies and Vietnamese companies. A large number of Vietnamese state companies remain under the umbrella of the Ministry; however, officially, they are financially autonomous and unconstrained in their day-to-day management and decision-making. Cooperatives possess capital equipment, such as tractors and trucks.

Agriculture made up 40 percent of Vietnam's GDP in 1991. Vietnam has an agricultural land area of 6.9 million ha. Estimates indicate that an additional 2.8 million ha can be brought under cultivation, of which over 1 million ha are regarded as having irrigation potential.

Rice is Vietnam's main crop and staple food. In 1991, rice output totalled 19.5 million tonnes. Secondary crops include cereals, sweet potatoes, and cassava. Industrial crops include sugar cane, peanuts, soya beans, rubber, tea, coffee, coconuts, and tobacco. The country also offers a wide variety of fruits and vegetables such as pineapples, bananas, oranges, grapefruit, onions, cauliflower, carrots, and cabbage.

Production potential is the highest in the Mekong Delta where rice is grown in two-thirds of the cultivated area. Nearly 60 percent of the paddy-irrigated area is in the Mekong and Red River deltas. The remaining agricultural land includes a long and narrow densely-populated coastal strip far less developed than the two deltas but with good potential.

The potential for the agricultural sector is high but production and consumption have remained at subsistence levels. In the past, growth in the agricultural sector was curtailed due to the government's focus on developing the industrial sector, which directed resources away from agriculture. This policy was reversed in 1987.

Table 3.3

Agriculture Production for Vietnam in 1991

Crop	'000 Tonnes
Rice	19,141
Sugar Cane	5,400
Vegetables	3,204
Cassava	2,525
Sweet Potato	1,950
Maize	728
Peanut	218
Beans	106
Soya Bean	85
Rush	78
Rubber	52
Coffee (beans)	45
Tea	31
Jute	29
Tobacco	17
Pepper	8
Cotton	4

Source: General Statistical Office, Economy and Trade of Vietnam, 1991

The official goals of Vietnam's agricultural policy in 1992 are food self-sufficiency, generation of foreign exchange earnings through surplus production, and repayment of foreign debt from exports of agricultural products and processed food.

3.5 Livestock

The livestock sector in 1991 made up approximately 21 percent of the total agricultural output. The rearing of livestock has been introduced at a basic industrial level with the adoption of some advanced technologies in genetics, veterinary science, and animal feed. Nevertheless, the industry is not adequate to produce enough animals for the protein-deficient Vietnamese.

Table 3.4

Livestock and Poultry in Vietnam for 1991

(million head)

	1991
Buffalo	2.9
Cattle	3.2
Pigs	12.1
Poultry	108.2

Source: Economy of Vietnam: Review and Statistics, Statistical Publishing House, Hanoi, 1992

During the Vietnam War, the livestock industry developed quickly in response to the dietary demands of American personnel in south Vietnam. Investment and training were introduced in animal breeding farms and feed factories. In addition, local stock was improved by the introduction of foreign breeds and artificial insemination. Once the US withdrew from Vietnam, the livestock industry became stagnant.

Currently, the majority of livestock production is centred on swine and chicken, with limited production in dairy and beef cattle. A number of feed-manufacturing and livestock breeding companies specialize in raising pigs and growing plants for feed-processing factories.

3.6 Fisheries and Aquaculture

Due to Vietnam's vast marine resources, the fish and seafood industry is growing rapidly. Production for 1991 was 1,066,000 tonnes, a nine percent growth from 1990.

The waters off the coast of Vietnam contain over 30 species of commercial value, including such mainstays as shrimp, tuna and sardines. Most fish are currently caught off the coast of Vietnam. Large potential remains to harvest fish at 20 to 100 metres. The fishing industry consists of small boats that are not equipped for deep waters; therefore, improved fishing vessels and equipment are needed.

Opportunities for inland fisheries development have been adversely affected by the use of chemicals during the war, the use of fertilizers and pesticides in agriculture, and the expansion of irrigation and hydropower facilities. The main development potential in aquaculture exists in pond culture, cage and pen rearing, and brackish water culture.

3.7 Forestry

Vietnam's forest industry has traditionally played an important role in Vietnam's agricultural economy; however, the industry's growth over the last 30 years has been restricted due to such factors as the residual effects of wartime herbicide agent orange, slash and burn techniques, fuel demands for a rapidly growing population, and the unrestricted use of timber for construction.

In 1943, 44 percent of Vietnam was forested. In 1992, less than 25 percent of Vietnam was forested. Forestry's share of industrial production has been on the decline and is forcing the Vietnamese to expand their logging practices in Laos and Cambodia.

Vietnam's forestry products include aloewood, bamboo, cinnamon, lacquer, resins, and quinine. Over 50 percent of Vietnam's forestry products go to socialist countries; however, exports to socialist countries are on the decline, while the balance is increasing to Thailand, Japan, Taiwan, Indonesia and Singapore.

As a response to the declining forestry resources in Vietnam, the National Conservation Strategy was introduced in 1985 giving reforestation top priority for ecological reconstruction. Uncertain plans to implement the conservation strategy in the absence of regulations and monitoring controls will remain an obstacle to sustainable development.

Large amounts of capital investment and a consistent conservation policy are required in order for forestry to contribute to the country's development. One of the industry's biggest obstacles is wastage with only 20 percent of the tree being utilized once it is cut down. Wastage also occurs during transport and storage. The industry's main requirements are equipment and technology to process wood; management expertise, technology transfer, and training.

In summary, Vietnam will depend on the agriculture, fisheries, and forestry sectors for much of its future economic development. Areas where Canadian firms can contribute include:

- Improvement of production techniques.
- Development of fruit orchards for domestic and export sale.
- Freshwater fish-raising facilities.
- Importation of pig breeding stock to improve domestic herds.
- Aquaculture.
- Rubber processing facilities.
- Crop drying facilities in processing mills.
- Processing facilities for starch and noodles from root crops.
- Upgrading and expansion of facilities for soybean processing such as beancurd and milk.
- Upgrading and expansion of wood processing facilities.
- Improvement of pest control programs for storage facilities.
- Land and water development such as irrigation extension programs.
- Small-scale farm equipment, post-harvest processing, and storage. storage, and
- Training in the marketing of agricultural products.

TRANSPORTATION AND COMMUNICATIONS

The development of Vietnam's infrastructure is one of the government's main objectives under its 1991-1995 Five-Year Development Plan. Due to the economic hardship endured by the country after the war with the US and the ensuing financial constraints imposed by the international financial institutions, funding has not existed for large transportation projects. As a result, infrastructure development has occurred on an ad-hoc basis.

Vietnam's geography necessitates the use of different modes of transport from inland water transport in the delta regions to road and rail for land transportation. The renovation and reconstruction of existing road, rail, port and air facilities will be essential if Vietnam wishes to meet its economic goal to attract foreign investment. (see Case Studies No. 3 and No. 8)

The Ministry of Transport and Communications (MOTC) is responsible for all sectors of transportation with the exception of civil aviation, which is under the jurisdiction of the General Civil Aviation Administration. Both work within budgets established by the State Planning Committee, which allocates the overall country resources. In addition, the Committee of External Relations with Foreign Countries controls external financial assistance which is often a requirement for many large infrastructure initiatives.

Since the largest constraint facing infrastructure development is the lack of domestic financing, projects will need large amounts of external assistance from foreign sources. Overall, the construction and maintenance capabilities are insufficient; assistance and training will be required in organization and management, technology transfer, and training of the work force.

3.8 Roads

Vietnam's road network consists of approximately 115,000 km of roads at various levels. There is 10,000 km of asphalt-surfaced road with widths up to 7 metres, without shoulders, while the remaining 105,000 km is single track, unsurfaced, with a width of 3.5 metres. Sixty percent of the highways and roads urgently require reconstruction.

In southern Vietnam, many roads are adequate due to the large wartime investment by the US in the 1960s. Roads such as the Bien Hoa Highway, the Vung Tau Route, and Route 4 from Ho Chi Minh City to Can Tho, which is located in the centre of the Mekong Delta, have been maintained in relatively good condition.

Roads are becoming damaged as the use of cars and trucks become prevalent. There are about 200,000 registered vehicles in Vietnam and over one million motorcycles. All cars and trucks are imported. The capacity of most trucks ranges from five to eight tonnes.

3.9 Rail

The rail network consists of 2,530 km of single-track line covering six main routes. The longest route is 1,726 km between Hanoi and Ho Chi Minh City, known as Route 1. Route 2 is from Hanoi to Lao Cai covering 296 km, Route 3 is from Hanoi to Dong Dang covering 162 km, Route 4 is from Hanoi to Quan Trieu covering 75 km, Route 5 is from Hanoi to Haiphong Port covering 102 km, and Route 6 is from Luu Xa via Kep to Bai Cay covering 166 km.

There are three rail track types in Vietnam: 166 km of standard gauge track (1,435 mm), 2,124 km of metre gauge track (1,000 mm), and 237 km of dual gauge track, which uses both gauges. There is also 750 km of branch lines maintained by 260 stations.

Vietnam has a total of 480 locomotives with only 50 percent in working condition. In addition, 100 are operating as steam-driven engines. The government will eventually phase out the steam engines.

The rail system suffers from a number of capacity constraints such as damage to the system during the war, deterioration and lack of maintenance, and inadequate construction standards. Many of the sections throughout the system are in poor condition. It is more economical to transport goods via ship from Hanoi to Ho Chi Minh City than transporting by rail.

3.10 Shipping

The two main ports that handle international traffic are Haiphong in the north and Saigon Port in the south. Intermediate ports are located along the coast in Danang and Cam Ranh Bay. The port facilities are a weakness in Vietnam's infrastructure.

Haiphong Port maintains a 34 km entrance channel which is covered by heavy deposits of silt. The dredging capacity is limited so the depths of the channel are not more than 3.5 metres, restricting the port to vessels less than 10,000 tonnes. Haiphong has 11 berths with 8 in a subsidiary container port. There is also one passenger berth used for coastal traffic. The facilities are dilapidated and deteriorating. Saigon Port has a shorter access channel than Haiphong and can accommodate larger vessels up to 16,000 tonnes and handles twice the cargo of Haiphong. Nevertheless, the facilities are also in poor condition.

Vietnam also has 7,000 km of navigable inland waterways, with 2,500 km located in the north and 4,500 km in the south. The northern channels suffer from insufficient depth of stream channels in the dry season. The southern channels are more stable with deeper but narrower channels. A fleet of 700 barges operates in the inland waterways ranging from 50 to 500 tonnes.

3.11 Airways

The General Civil Aviation Administration (GCAA) is responsible for all aspects of aviation and airport operation and controls the three international airports: Noi Bai Airport in Hanoi, Danang Airport and Tan Son Nhat Airport in Ho Chi Minh City. Air traffic control and terminal facilities are not at international standards and require upgrading.

Air Vietnam is the country's national carrier. The majority of its aircraft are deteriorating Russian-made planes. Air Vietnam flies to 15 domestic destinations, plus Thailand, Cambodia, Laos and the Philippines. Vietnam is increasing its number of civil air arrangements with foreign countries. International carriers operating in Vietnam include: Aeroflot, several East European airlines, Air France, Thai Airways, Cathay Pacific, Singapore Airlines, Lufthansa, Malaysian Airlines, Garuda, Philippines Airlines, China Air, Eva Air, Pacific Airlines, and Qantas. The addition of more major airlines will create an urgent need to upgrade the airport facilities (see Case Study No. 12).

3.12 Telecommunications

The telecommunications sector is under the MOTC, but is controlled by the Directorate General of Posts and Telecommunications (DGPT), an autonomous agency of the government. A Director General heads the agency and is responsible directly to the central government. The DGPT has the overall corporate planning and management role, while a number of semi-autonomous provincial departments have day-to-day management responsibility for their respective areas with accountability to the respective provincial governments and the DGPT.

Vietnam's telecommunications system deteriorated greatly during the north-south conflict which ended in 1975. Since 1975, the system has further decayed from heavy use without maintenance and a lack of equipment and parts. The operating costs are high due to the large workforce, inadequate equipment, unfavourable climate and geography, and a poor transportation system. The end result is poor service.

Nevertheless, the system has made rapid gains during the early 1990s, which have improved service immensely. Linkages have been made with satellite communications in Hanoi, Ho Chi Minh City, and Danang; however, improvement of internal communications is still required.

The DGPT has outlined the following priorities for the current 1991-1995 Five-Year Development Plan:

- Development should focus on providing basic telephone service.
- Provide automatic integrated digital networks for all cities.
- Install automated/switched mobile cellular radio for main cities.
- Establish national subscriber trunk dialling (STD).
- Improve international direct dialling (IDD).
- Correct and expand facsimile transmission.
- Link the national data network to international data networks.
- Develop a network of broadcast radio, television, transmitter and transmission lines.

The telecommunications network must be further developed for the country to progress through its industrialization. The government has completed its National Telecommunications Network Development Plan, which provides the framework for the ongoing development of the system. The financial requirements for the system to develop are tremendous and will only be met with external assistance.

ENERGY, MINING, AND CONSTRUCTION

Vietnam is one of the smallest producers and consumers of energy in the world. The country's per capita consumption at 88 kilograms is extremely low compared with the average of 297 kilograms for all low income countries. Vietnam's energy resources include large coal (anthracite) deposits, hydropower, and oil and gas, providing the country with various means to meet its energy needs for the future. Ministerial responsibility for long-term planning in electricity and coal rests with the

Ministry of Energy (MOE). The MOE is accountable for production, exploration, and consumption; planning for power stations and transmission lines; and the coal industry. The oil and gas industry is under the auspices of the Ministry of Heavy Industry (MOHI).

3.13 Oil and Gas

Vietnam is viewed as one of the last frontiers in the world for oil exploration. The outlook for offshore petroleum exploration and development in one of the largest unexplored basins in the world is encouraging. Offshore, there is over 500,000 km^2 of continental shelf worth exploring, while onshore the Red River delta in the north and the Mekong delta in the south have potential basins.

The discovery of natural gas has been limited to a small gas field in the Red River delta used primarily for power generation. Long-term potential for natural gas is seen in the north, while short-term potential lies with the production of gas in association with oil in the south (see Case Study No. 5).

In 1974, oil discoveries were made offshore by Shell and Mobil; however, the Vietnamese were unable to take advantage of the discovery until 1986 when the Russians entered into a joint venture with the Vietnamese government and began to produce oil from the Bach Ho (White Tiger) field where the Mobil discovery was first made. Production began in June 1986 and reached 100,000 barrels a day in 1991.

One early policy introduced in 1988 by the Vietnamese government under the MOHI and its Oil and Gas General Department, was to invite foreign oil companies to explore offshore. Since that time, Petrovietnam (the state-owned petroleum company) has signed production sharing contracts with oil companies from Canada, England, India, Finland, Belgium, France, and Japan. (see Case Study No. 4) To date, exploration by companies has been largely limited to offshore areas off the southeast coast of Vietnam, while onshore activities have remained limited.

General terms of the contracts between the foreign oil companies and Petrovietnam include a 25-year lease and a 5 year exploration period divided into three phases with the option to withdraw at the end of each phase. Requirements for exploration expenditures, fees and bonuses can be negotiated with Petrovietnam and the Oil and Gas General Department.

At the end of 1991, approximately 50 percent of Vietnam's foreign investment had occurred in the oil and gas sector. Vietnam's extensive exploration programs translate into good potential for suppliers in upstream equipment. Vietnam requires gas processing technology, materials for drilling and refining crude oil, production equipment, pipelines, and separation and treatment facilities for by-products such as fertilizers. Per capita oil consumption is one of the lowest in the world and any growth in consumption will depend on increased economic activity.

3.14 Coal

Coal is Vietnam's major source of energy and is used in thermal power, accounting for roughly 65 percent of total electricity production. Vietnam boasts large reserves of anthracite coal in the north totalling 3.5 billion tonnes with the potential for greater discoveries. The largest deposits are found in the Quang Ninh province in the north near the ports of Hong Gai and Cam Pha.

Production of coal in 1990 was 4.6 million tonnes. Approximately 60 percent is recovered from open cast mines with the remainder from underground mining. As long as the economy continues to grow, the demand for coal will also increase. Between 1991 and 2000, coal output is estimated to increase by 6 percent annually.
The industry is constrained by a lack of equipment and a shortage of trucks, poor transport and communication facilities, and obsolete technology. These constraints contribute to the low levels of product quality and productivity.

3.15 Hydropower

The hydropower infrastructure was damaged significantly during the war prior to 1975. As a result of its damaged condition and its importance in fuelling industrial development, it has been allocated top priority for reconstruction and rehabilitation. Vietnam has been plagued with electric power shortages, particularly in the south where demand for power is high and increasing.

There are three power companies under the MOE responsible for the design, construction and operation of plants. Power Company No. 1 is responsible for the north, which has the most hydroelectric potential and has received the most investment in the sector. Most northern provinces have access to electric power; however, the available power is only at 60 percent of installed capacity.

The southern provinces below the 12th parallel are controlled by Power Company No. 2 serving 25 million people. The south has had low levels of investment in developing new sources of power generation; therefore, it has a low level of supply and consumption. The energy mix in the south is 57 percent hydropower, 38 percent thermal power, and 5 percent diesel power. The south has hydropower potential estimated at more than 1,500 MW, excluding development on the Mekong River.

Power Company No. 3 covers the provinces in the centre of Vietnam between Dong Hoi in the north and Cam Ranh in the south, and is the most poorly served area in the country. The area is lacking a unified grid and the power network is hampered by unconnected localized networks. Much of the power is generated by diesel generators originating from various countries, which makes it difficult to acquire spare parts.

Overall, the power sector is in major need of renovation and improvement. Transmission and distribution systems have limited capacity and are in poor condition. Power shortages and disruptions are constraining industrial output. In the past, the inability to receive external assistance has also played a role in slowing down the development of large-scale networks. Substantial investments will be required to ensure that power supply constraints do not inhibit industrial and commercial development.

Some of the priority areas for development include:

- Completion of the North-South transmission lines linking cities and grids.
- Ya Li Hydropower Plant with a capacity of 600 MW.
- Vinh Son Hydropower Plant with a capacity of 66 MW.
- Rehabilitation of existing diesel generators and plants.
- Increasing power capacity in the central and southern regions.
- Expansion of the capacity of distribution networks in urban areas.
- Expansion of power facilities in rural areas with high irrigation capacity.

3.16 Mining

One of the growth opportunities in Vietnam that the government is promoting is mining, an industry where Canadian technology ranks with the best in the world. The mining sector is under the responsibility of the General Department of Mines & Geology and the MOHI. The MOHI also administers the metallurgy, chemical, mechanical, oil and gas, and electronics industries.

The majority of the identified mineral resources in Vietnam are located in the north, but even these remain underdeveloped. Vietnam's principal mineral resource is anthracite coal and is mined in Hou Gai, near Haiphong, while steel and iron are located in Thai Nguyen in the north. The minerals that offer the highest exploitation ratios are tin, zinc, and antimony with a 33 percent known reserve, and coal and apatite with a 5 percent known reserve. Other minerals such as iron, titanium, copper, nickel, bauxite, rare earths, chromite, gold, and kaolin are unexploited.

There has been limited investment in Vietnam's mining sector primarily due to a lack of awareness concerning the strategic metals that are available and the poor infrastructure facilities that make it difficult to obtain the information. The majority of the strategic metals surveyed are alluvial, so heavy outlays of capital for activities such as shaft-sinking and underground mining are not required to gain access to the metals.

Long-term development remains promising, particularly in the North; however, the industry is constrained by a lack of infrastructure resulting in small-scale investments.

The following is a list of unexploited mining areas in Vietnam:

- Tin and tungsten alluvial ore located in Qui Hop and Dalat.
- Gold Deposits in Tra Nang, Na Tum, Cam Tam, and Lang Neo.
- Mineral sands.
- Rare earths to purify steel and glutamate, a food additive.
- Lead and zinc mining.
- Chromium for the manufacturing of stainless steel.
- Nickel, copper, and bauxite.

3.17 Construction

The Ministry of Construction (MOC) is responsible for policy development and standards in the construction industry which can be divided into three main sectors: civil and industrial construction, industry of building materials, and urban development and management. The construction industry encompasses all levels of Vietnam's industry; therefore, the Ministry is the largest and one of the most important in Vietnam.

The civil and industrial construction sector includes the development of thermal and hydropower stations, metallurgical and cement projects, chemical projects, foodstuff production, light industry, civil housing, and public works such as water supply, sanitation, hotels, hospitals, universities, and government offices. The industry of building materials is concerned with cement production, building materials, roofing, and sanitary equipment. Urban development and management focuses on water supply treatment, drainage, and sewage. The MOC is also responsible for the regulations for tendering on construction projects.

Priority development areas include:

- Development of the building materials industry.
- Cement production (see Case Study No. 15).
- Glass production.
- Sanitary ware products (washing basins, toilets).
- Joint ventures to export raw materials.
- Urban infrastructure development (housing, sanitation, water).

The construction industry must improve its standards in terms of upgrading operations, improving city codes on buildings, land use, city management, and housing. It also requires human resource development in the management of a multi-sector economy in areas such as marketing, management of infrastructure services, land use, and taxation.

3.18 Environment

Vietnam's environmental policy is being driven by its National Plan for Environmental and Sustainable Development (NPESD) which originated from Vietnam's National Conservation Strategy. The Plan outlines Vietnam's environmental strategy for the next 10 years. It provides the gradual development of a comprehensive framework for national and sub-national environmental planning and management; and it will identify actions that are required in the short-term to address the immediate priority problems. (see Case Study No. 7)

The framework will include the development of organizational structures, integrated environmental policies at the sectoral level, legislation, priority projects and programs, management, environmental impact assessment procedures, and monitoring systems.

Vietnam is a developing country with limited resources available to address environmental matters; therefore, it will be important for resources to be allocated to priority projects.

The following is a list of obstacles to sustainable development in Vietnam:

- Lack of environmental and natural resource planning.
- Lack of integration between conservation and development.
- Lack of suitable organization.
- Weak environmental legislation.
- Difficulty to obtain reliable information.
- Lack of conservation awareness.
- Shortage of experienced personnel.
- High population growth.
- Lack of cultural taboos.

MANUFACTURING

The promotion of processed and manufactured goods for export is a high priority of the Vietnam government. It is well situated to serve the rapidly growing markets of Asia, and its rich and varied natural resources are yet to be fully developed.

Vietnam's low labour costs also give it a comparative advantage in the assembly and manufacture of a wide range of labour-intensive goods.

Vietnam's industrial profile can be divided into heavy industry and light industry.

The heavy industry sector consists of iron, steel, mining, chemicals, cement, fertilizer, engines, and agricultural machinery, and centres around Hanoi and Haiphong. The firms that dominate the heavy industries are primarily state-owned.

Light industry has grown significantly faster than heavy industry during the last five years, while provincial and local state industry has grown faster than centrally-managed industry. The majority of Vietnam's light industry is in manufacturing and includes food processing, textiles, garments, footwear, and handicrafts. Light industry is situated mainly in the south and has been traditionally owned by provinces, cities and cooperatives. The private sector has gradually become more involved with the provincial and city enterprises and has been allowed to form competing enterprises.

Other light industry sectors include: plastic processing, ceramics, bicycles, light engineering goods, electric items, diesel motors, agricultural tools, bicycle tires and tubes, and light chemicals.

Development policies in the past have focused on heavy industry, thereby directing resources away from light manufacturing for export. Nevertheless, manufacturing output and employment have remained concentrated in the labour-intensive light industries. The labour force is therefore well placed as Vietnam shifts its concentration toward export development.

The development of light industry is a priority in Vietnam because it has the potential to make a vital contribution to increasing exports and foreign currency, employment and overall economic growth. With high productivity and low wages, Vietnam could become very competitive across Asia in a number of light industry products for export. Ministerial responsibility for the majority of the manufacturing sectors resides with the Ministry of Light Industry, while food processing is under the responsibility of the Ministry of Agriculture and Food Industry.

Table 3.5

Structure of Industrial Production by Percentage

Industry	Year				
	1986	1987	1988	1989	1990
Electricity	4.8	4.8	4.2	4.9	5.1
Fuel Industry	1.6	1.3	1.4	3.5	5.5
Metallurgy	1.5	1.4	1.5	1.5	1.8
Machinery and Machinery Equipment	8.3	8.7	9.7	8.2	8.0
Electric and Electronic Industry	1.8	1.9	2.4	2.4	3.3
Metallic Products Manufacturing	4.8	4.8	5.2	4.9	4.6
Chemical, Mineral, Fertilizers and Rubber	9.9	10.0	9.4	9.2	9.4
Building Materials	6.9	7.0	6.4	6.3	7.0
Wood Processing and Forestry Products	6.7	6.7	6.6	5.7	5.4
Cellulose and Paper	3.7	3.4	3.3	2.6	2.7
Glass and Porcelain	1.7	1.6	1.5	1.3	1.1
Foodstuffs	23.7	23.5	23.1	24.0	22.1
Weaving	13.7	13.3	12.5	11.9	11.5
Sewing	2.3	2.3	2.9	2.9	2.8
Tanning/Leather Products	1.2	1.4	1.6	1.7	1.6
Printing	0.4	0.4	0.6	0.5	0.5
Other (see note)	7.0	7.5	7.7	8.5	7.6
Total	100.0	100.0	100.0	100.0	100.0

Source: General Statistical Office, Economy and Trade of Vietnam, 1991

Note: Due to the inaccuracies of Vietnamese statistics, the percentages entered under the "Other" category have been adjusted so the columns will equal 100 percent. We regret that these numbers do not accurately represent the role of the "Other" industry category used, for example, in Canadian statistics.

Initial opportunities in manufacturing will be in exporting to neighbouring countries, as the Vietnamese consumer does not have the purchasing power to spend on consumer products. The product types available to, and affordable by, the population during the next few years will remain limited.

Following are brief summaries of some of Vietnam's light industries:

3.19 Chemicals

The chemical industry in Vietnam occupies approximately 9 percent of Vietnam's industrial production and comprises: fertilizers, pesticides, rubber, acid, batteries, accumulators, and other plastic consumer goods.

It has the capacity to produce only organic chemicals such as: acetylene, carbon dioxide, sodium compounds, hydrochloric acid, sodium sulphate, sodium hydroxide, sulphuric acid, oxygen, and ammonium chloride. Manufactured products include: toothpaste, soap, soap powder, and cosmetics. Facilities also exist that produce printing ink and matches.

Insecticide products such as liquid and powder insecticides for household use and agriculture have great potential for development due to the increasing demand in response to the expansion of light industry and agriculture. Chemical and organic fertilizers also have great potential for growth and should be developed in conjunction with the program for food production, which will require a large supply of fertilizers.

3.20 Pharmaceuticals

The pharmaceuticals industry began large-scale production in the late 1950s and has developed a base of factories with modern machinery. Over the years production has fluctuated due to the availability of raw materials; however, the demand for medicines for both humans and animals remains high, offering good possibilities for investment.

3.21 Plastics

The plastics industry has developed three divisions of production: polyethylene products, polystyrene, and PVC compounds. After 1975, production diminished due to the lack of imported materials but has recently been on the upswing with growing foreign investment. Plastics is an industry with good potential but must compete with foreign goods smuggled into Vietnam. Opportunities exist for plastic products, such as insecticide atomizers, equipment for the textile industry, and cases for radios and televisions, for the high-technology industry.

3.22 Rubber

The rubber industry can be divided into the production of latex and the manufacture of rubber products. The majority of the rubber industry has been dependent on the manufacture of bicycle tires, motorcycle tires, and inner tubes; nevertheless, with the growth of new industries and exports, there are good prospects to diversify in the industry.

3.23 Electric and Electronic Products

Vietnam has a limited capacity in the manufacture of electric and electronic products. Firms have the capability to produce incandescent and fluorescent lights, dry cells and batteries, while the manufacture of electronic devices has been limited to the assembly of radios and televisions. Similar products are being introduced slowly by other companies from Taiwan and Singapore. Prior to 1975, the technical basis for electronic assembly was established by the Japanese, which is now providing the industry with good prospects for development. Recently, assembly lines have been imported to build a variety of television and radio-cassette players.

3.24 Food Processing

The agro-processing sector is one of Vietnam's priority sectors for development, particularly for the export market. The industry contributes to roughly 22 percent of Vietnam's industrial production, and consists of mostly small-scale industries; however, since 1988 the government's focus has been to promote integrated development in agriculture.

Low cost labour and abundant raw materials make Vietnam a good opportunity for a company to expand its food processing operations. Existing industries include rice milling, sugar, vegetable oil, frozen shrimp, wheat flour products, animal feed, beverages, coffee, and tea.

Specific products that have the capacity for further development are the cookie and candy industry, edible oils, canned foods (meat, fish, vegetables, and fruit), noodles, beverages, milk processing, and animal feeds (see Case Study No. 14).

3.25 Handcrafts and Fine Arts

Traditional art and handcrafts is another established industry throughout Vietnam and includes: wood sculpture, lacquerware, embroidery and tapestry, mother-of-pearl inlays, and handwoven products made of rattan and bamboo.

3.26 Leather

The tanning industry has existed in Vietnam since the 1940s and is well established with small-scale handicraft companies and large-scale tanneries. Products include handbags, gloves, shoes, and hats. There is good potential for continued development, as demand for leathergoods on the world market is constantly growing.

3.27 Mechanical Engineering

Vietnam has the capacity to manufacture machine tools such as: lathes, drills, saws, planes, grinders, polishing machines, perforators, and dies. Assembly industries for sewing machines, bicycles, bicycle spare parts, watches, and clocks also exist.

Mechanical engineering in Vietnam is constrained due to a lack of equipment and technology to manufacture semi-finished products in areas such as: moulding, forging and pressing, precision tools, and heat treatment.

To help develop the agriculture industry, mechanical engineering must begin to produce machinery that would assist in the cultivation process, such as: ploughs for soil preparation; pumps for irrigation; threshing and husking machines for harvesting; and mixers, mills, and slicers to sustain agro-food processing.

The immediate objective is to improve farm and processing equipment and to manufacture spare parts for tractors and other farm machines. Priority is also being given to developing joint ventures between agriculture and industry. For example, combining the farming of jute, sugar cane, and tobacco with the production of bags, sugar, and cigarettes.

3.28 Metal Products and Metallurgy

The manufacture of metal products is divided into two categories. The first category is the manufacture of iron and steel for products such as: zinc-coated iron sheets, nails, barbed wire, and wire nets; bolts, nuts, and rivets; iron and tin boxes; and iron pipes and zinc-coated iron pipes. The second category is the manufacture of: aluminum products, including household goods, and aluminum pipes and utensils.

Metallurgy is in its infancy relying on small furnaces to purify cast iron, wrought iron, steel, and copper. Factories produce metal boxes, bottle caps, tin sheets for canning, iron sheets for kitchen utensils, metal desks, chairs, cabinets, and bicycles. Steel production includes: iron in bars, rods, rings, cylindrical bars, and polygonal prisms. Copper production is used primarily to manufacture electric wire.

3.29 Paper

The production of pulp and paper from domestic raw materials began in the 1960s and has developed consistently throughout the 1980s; however, it does not satisfy the demands of the population. The pulp and paper industry has potential for further investment.

3.30 Textiles and Clothing

The textile industry is one of Vietnam's most developed industries. Textile plants of all sizes and technology levels exist. The industry has continued to grow and has become better equipped with the introduction of modern machinery from Germany, Japan, and Korea. The industry produces: thread, fabric (silk, canvas, terries), and knit clothing.

The clothing industry offers good potential for investments for export. Approximately half of Vietnam's clothing production is exported. Canadians interested in this sector will note that a number of markets, including the European Community and Canada, have already implemented a system of quantitative restrictions on Vietnam garments.

Chapter 4
BUSINESS ENVIRONMENT

Factors To Consider

- Economic reforms
- Young and abundant labour force
- High literacy rate
- Low cost labour
- Shortage of trained personnel
- Agricultural economy
- Role of government in business

4.1 Industrial Climate

Vietnam was unsuccessful in its previous development strategy during the first half of the 1980s when the economy was centrally-planned and the focus was towards heavy industry. Since the beginning of the reform process in 1988, the strategy has shifted from heavy industry to the development of light industry for export. Vietnam is now beginning to develop into a multi-sector commodity economy concentrating on agricultural and mineral products.

Vietnam is focusing on light industry so it can use its labour cost advantage to export simple manufactured products to world markets, followed by incorporating technology and managerial skills to produce more sophisticated products.

Ho Chi Minh City has become Vietnam's light industry capital leaving Hanoi, the country's traditional industrial centre, in the background. The combination of high productivity and low wages could make Vietnam very competitive in a range of light industrial products provided the necessary infrastructure is put in place (see Case Study No. 13).

Industry has traditionally been controlled by ministries and state enterprises under their respective ministries; however, there is now a trend towards privatizing state enterprises as the economy shapes to liberal market forces.

ORGANIZATION OF INDUSTRY

The organization of industry in Vietnam falls into three broad categories:

- State Companies
- Private Companies
- Cooperatives

Large-scale manufacturing is predominantly state-owned, while the small-scale manufacturing sector is managed by the collectives and private companies. Every ministry, state enterprise and People's Committee in every city, province and district has its own companies. Some companies have diverse business activities, while others have a fixed focus. Some companies are independent, while others are tightly controlled.

The government has also undertaken a privatization program aimed at medium-sized, state-owned companies in the manufacturing, trade and service sectors; however, the implementation of the program remains gradual.

4.2 State Companies

State companies in Vietnam play an important role in the national economy. They contribute approximately 40 percent of the Gross National Product (GNP), 30 percent of the national income, and dominate the power, coal, oil and gas, metallurgy, cement, fertilizer, and pesticide industries.

Table 4.1

Production of State Companies vs. Private/Cooperative Companies

Million Dong	1986	1987	1988	1989
State	61,728	67,442	77,866	75,956
Private/Cooperative	47,904	53,108	59,952	57,355

Source: General Statistical Office, Economy and Trade of Vietnam, 1991

The majority of the state companies in Vietnam are owned and administered by ministries belonging to the central government. The structure is typically organized with the ministries at the top directing the enterprises in the middle and factories at the bottom.

Prior to the introduction of reforms, production was organized through a central plan distributed by the government. Each firm received a specified production target from the government, and sold the product at a government-controlled price.

Since the reforms of 1988, state companies remain under the administrative umbrella of ministries; however, management, production and accounting have become the responsibility of the individual company which reports back to the relevant ministry. A number of state-owned firms cover various product groups such as Seaprodex (marine products) and Textimex (textiles). The Ministry of Trade and Tourism (MOT) administers general merchandise companies.

Provincially-owned companies, which are owned and managed by the People's Committees and administered by the MOT, also exist to import and export goods. They are entitled to retain some of their convertible currency earnings and required to turn the rest over to the State Bank.

The government has introduced a policy of halting subsidies for various state-owned enterprises, allowing enterprises to go bankrupt if they are unable to exist without government support. The government's aim is to enhance the efficiency of state management.

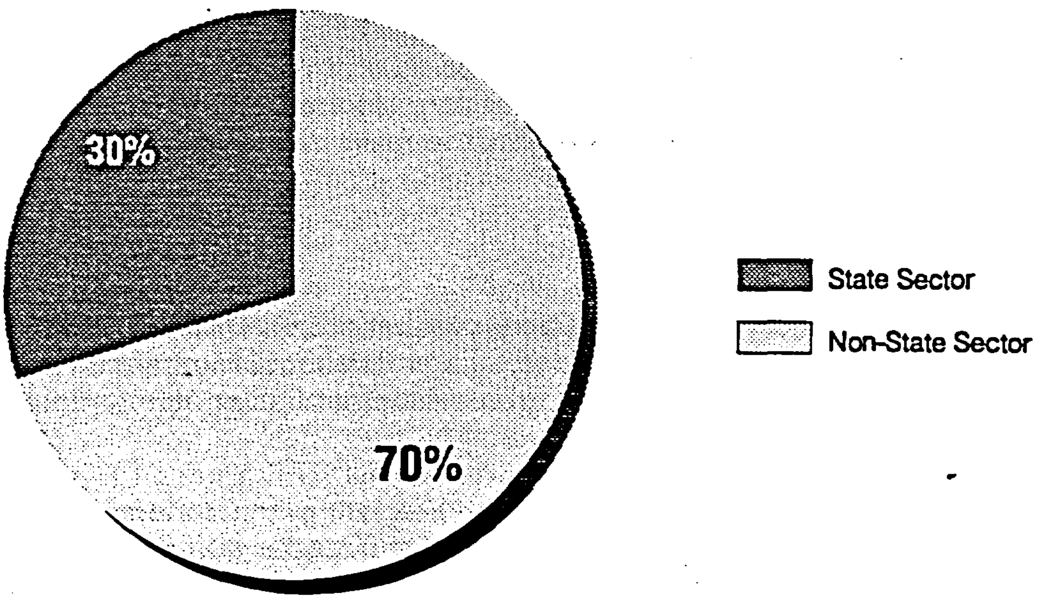
4.3 Private Companies

The Law on Private Enterprises in Vietnam came into effect in April, 1991. According to the Law, a private enterprise is a commercial unit that has a level of capital no less than that of its legal capital, owned by an individual(s). The new company is responsible for its business activities with the purpose of generating profits. The right to own the means of production, to inherit capital and assets, and other legal rights shall be protected by the State.

Diagram 4.1

Contribution of National Income in Vietnam

State vs. Non-State



Source: *Economy of Vietnam: Reviews and Statistics,* Statistical Publishing House, Hanoi, 1992

Private companies have generally been small, family-run operations and have had poor access to investment funds and working capital so their development has been restricted. Until the establishment of the Law on Private Enterprises, private companies also lacked the legal framework to operate in Vietnam.

4.4 Cooperatives

Cooperatives have traditionally been a part of Vietnamese society, primarily in wet rice agriculture. The system incorporates collective rice transplanting and harvesting methods and the public use of tools and draft animals.

The majority of collectives in Vietnam have developed in the agriculture sector where enterprises have been arranged to gain a shared economic benefit. The land and means of production are provided to the cooperatives in exchange for labour. The income is then distributed to workers after state payments in the form of taxes and delivery of quotas. Cooperatives contribute approximately 25 percent of production output.

GOVERNMENT POLICY

Government policies are directed toward attracting foreign investment, with a view to further developing the light industrial base of the country. Vietnam's mix of light industry includes: textiles, garments, footwear, plastic processing, bicycles, light engineering goods, electrical items, diesel motors, agricultural implements, bicycle tires/tubes and light chemicals.

As Vietnam is a socialist country, the government plays a unique role in the economy compared with the Government of Canada. The government is actively seeking to decentralize the decision-making process by providing companies with more individual autonomy and by implementing reforms. The role of the government is decreasing; however, it remains the main player when it comes to the bureaucracy of conducting business.

4.5 The Law on Foreign Investment

The National Assembly passed a new Foreign Investment Law (FIL) on December 29, 1987 designed to attract and promote foreign investment in Vietnam. It also lays the legal foundation for Vietnam's future development as an internationally-oriented, multi-sector economy.

The FIL is one of the most progressive in Asia offering the foreign investor attractive investment conditions. The legislation includes a guarantee against expropriation or nationalization, and guarantees the right to repatriate capital and profits. It imposes no minimum or maximum investment limits, requires no minimum levels of Vietnamese participation or equity in Vietnamese projects, and permits 100 percent foreign-owned ventures.

The FIL allows foreign companies and private investors to invest in Vietnam in any sector of the economy. The local People's Committee, provincial authorities or relevant ministries must support a project; however, final approval for any investment project resides with the State Committee for Cooperation and Investment (SCCI - see section 5.9).

4.6 Economic Development Plans

Underpinning all government policy is Vietnam's development guideline for the 1991-1995 Five-Year Plan, which is the blueprint to sustain its current growth. The Five-Year Plans set out Vietnam's ongoing plans for economic development. The current plan provides for increased emphasis on the agriculture and food industry, expansion of light industry manufacturing for export production, and rehabilitation and construction of infrastructure facilities.

4.7 Trend Towards Privatization

The sharing of industry between state and non-state companies has created an economic imbalance. In the past, state companies have had access to low-cost credit, while non-state companies have had to find financial resources outside of the normal channels. In addition, a lack of expertise in management and financing has led to poor investment decisions and inefficiency in a number of state firms, while non-state firms are lacking in equipment and supplies.

Vietnam took its first steps towards privatization in 1992 by initiating the privatization process with a select group of state-owned enterprises at the central, provincial, municipal and ministerial levels. The aim of the government is to transform the state-owned enterprises into shareholding companies with the goal of raising production and business efficiency, promoting employee ownership, and attracting domestic and foreign capital.

Shares will be sold directly from the enterprise or through commercial banks and financial companies until such time as a stock market is organized. Shares will be of small value in order that Vietnamese workers and business people can make purchases. In addition, foreign investors would be eligible to purchase shares; however, they must pay in convertible currencies and foreign ownership must not exceed 30 percent. Other state-owned enterprises, banks, insurance companies and financial companies would also be eligible. Private businesses are permitted to hold no more than 15 percent of the total shares of an enterprise.

The Ministry of Finance (MOF) is responsible for the privatization program and will choose likely candidates based on size, profitability and sector. The program is experimental and will be carried out on a selective basis.

Problems, such as the design of an international accounting system, will have to be addressed in order to avoid confusion.

4.8 Export Processing Zones

The Government of Vietnam places high priority on the promotion of processed and manufactured goods for export. To promote and attract investment in Vietnam, the government has established industrial zones to produce commodities for export, known as Export Processing Zones (EPZs) (see Case Study No. 2).

Two areas in Ho Chi Minh City have been designated as EPZs. The Saigon EPZ located in Thu Duc District and the Tan Thuan EPZ located in Tan Thuan District. Another is being planned for Danang.

Investment in the EPZs can take the form of wholly-owned enterprises, joint venture companies or business cooperation contracts. Investors who choose to set up in an EPZ are permitted to operate in the manufacturing, subcontracting and assembly of export products, as well as provide services for such operations. Investors wishing to apply must contact the respective EPZ Administration Board. Applications are refused or accepted within three months.

Incentives for firms locating in the EPZs include:

- Special Corporate Tax Rates: (a) 10 percent of profit for manufacturers; and (b) 15 percent of profit for service companies.
- Tax Exemption: (a) manufacturers are allowed a tax exemption for the first four years after the first profitable year; and (b) service companies are allowed a tax exemption for the first two years after the first profitable year.
- Duty-free importation of equipment, raw materials and commodities used in the zone, and no duties on items produced in and exported from the EPZ.
- A reduced remittance tax: 5 percent of the amount transferred.

CONSTRAINTS

Vietnam must overcome difficulties if it is to grow as a base for export production in the region. The quality of all manufactured goods must be improved. Many companies do not have export experience and will require access to foreign exchange to modernize their facilities, raise labour productivity and improve the quality of goods. Additionally there is a lack of information on marketing, insurance, shipping and international banking. As well, telecommunication facilities are poorly developed making easy communication with overseas trading partners difficult. Nevertheless, the government has committed to resolving these problems.

4.9 Black Market

The "unregulated" economy does exist in Vietnam, but it is impossible to accurately measure the extent to which illegal bartering and smuggling occur in the country, particularly for consumer goods. This not only damages Vietnam's economy, but is counterproductive to the development of industry, and is a significant concern for potential investors in, and exporters to, Vietnam.

The government realizes smuggling is a problem that has been difficult to control in the past and it has introduced proposals to control it; nevertheless, the problem remains and must be restrained if the country wants to continue to attract foreign business people.

4.10 Graft and Corruption

There are no written rules or policies to contend with graft and corruption, but it is established throughout Asia and very resistant to change. In June 1990, the Government of Vietnam mounted a campaign to fight corruption. However, anyone contemplating trade with or investment in Asia must learn to live with the perils of corruption by recognizing and dealing with it appropriately.

To be successful in Asia, the business person must differentiate between corruption, tips, rewards, and special payments. For these reasons, it is advisable to employ able personnel who can handle company dilemmas, who know the system and can assist in recognizing the suitable form of action, who have good communication skills and contacts, and are able to communicate effectively in Vietnamese. A good employee can expedite many processes from government appointments to visa acquisitions.

It is not only important to understand the economic and political realities of the country, but the conflicting cultural considerations as well (see Case Study No. 12).

4.11 Import and Export Tariffs

All imported and exported goods are subject to tariffs. Exemptions on import duties on various items exist for companies with foreign invested capital and those engaged in business cooperation contracts. Import duties and sales tax may be applicable if any of the imported products are sold in Vietnam.

TAXATION

The taxation system in Vietnam is administered by the Tax Department of the Ministry of Finance. Five forms of taxation are applicable to foreign investors in Vietnam:

- Direct taxation of profits
- Tax on profits remitted abroad
- Business and sales tax
- Taxes on the exploitation of natural resources
- Taxation of employee income

4.12 Direct Taxation of Profits

Companies with foreign investment in Vietnam are liable for a corporate income tax between 15 and 25 percent of actual profits. The rate of tax will depend on whether the enterprise has invested in a priority category, which has a rate between 15 and 20 percent, or a standard category, which has a rate between 21 and 25 percent.

To qualify for the priority category rate, the venture must satisfy two of the following six standards:

- The prescribed capital must be at least US$20 million.
- The technology transfer must increase the quality of production.
- The company must export a minimum of 80 percent, or earn at least 80 percent of its earnings in foreign currencies.
- The rate of return must be expected to be low, or the project must be unattractive to other investors, but important to the country.
- The investment must be located where natural, economic and social conditions are poor.

The actual tax rate is determined by the SCCI (see section 5.9). SCCI can grant a tax exemption to joint ventures in the priority category for a maximum of two years from the time the joint venture is initiated, and a 50 percent reduction of tax for another two years.

A corporate tax rate between 10 and 14 percent may be granted with a four-year tax exemption status, followed by a four-year 50 percent tax reduction if the venture satisfies the requirements for a priority category rate, in addition to meeting other criteria assuring it "special treatment".

4.13 Tax on Profits Remitted Abroad

Foreign investors are liable to pay a withholding tax on profits remitted abroad when an investor's capital contribution is greater than 50 percent of the total capital or when invested capital is greater than US$10 million. The withholding tax rate is 5 percent, while in all other cases, the rate is 10 percent of the amount remitted.

A foreign company that reinvests its share of profits for three years or more is entitled to a refund on the amount of income tax already paid on the profits to be reinvested.

4.14 Business and Sales Tax

Companies in business cooperation contracts, which provide services and obtain earnings in Vietnamese currency, must pay a business tax under the regulations taxing industrial and commercial profits. If the company is selling the products within Vietnam, sales tax must be paid at the applicable rate. For any product not subject to sales tax, the company must pay a business tax.

4.15 Taxes on the Exploitation of Natural Resources

Foreign companies involved in investment projects exploiting or developing natural resources are subject to royalties in addition to income tax. A company engaged in the exploitation of mineral resources, natural forest products such as timber and wood, and agricultural products is subject to royalty payments to be determined by the Council of Ministers.

Depending on the mineral resource type, royalties can range from 2 to 20 percent. For natural forest products, royalties range from 10 to 40 percent, and for fish, aquatic products and others, royalties can range from 1 to 10 percent.

Exemptions from paying royalties can occur if the Vietnamese partner in a joint venture provides the natural resource as its capital contribution. In addition, royalty rates can be reduced if after the first three years the project is not viable, or if the project is reactivated where previous exploitation ended prior to 1975.

4.16 Taxation of Employee Income

Foreigners and Vietnamese nationals employed by a company with foreign invested capital or working under a business cooperation contract are required to pay personal income tax under Vietnamese law.

LABOUR

The labour force in Vietnam is estimated to be 30 million and is growing at an annual rate of 3.5 percent. These figures translate into about a million people entering the labour market every year. The labour force in Vietnam offers skilled, educated, and low-cost labour. The literacy rate is estimated to be well over 90 percent, which is much higher than most developing countries at similar stages of development.

Characteristics of the Vietnamese worker include craft skills, dexterity, ingenuity, and a tradition of work discipline. The resilience of the labour force has been demonstrated by the relative success of the country which has achieved significant national goals under very difficult economic and social conditions.

There exists an ample supply of labour; however, difficulties exist in recruiting trained professionals, technicians, and managers.

4.17 Recruiting Vietnamese Personnel

A foreign company is permitted to recruit its own Vietnamese employees through a variety of means. Employees may be introduced to the company by a labour agency such as the Foreign Service Company in Ho Chi Minh City or the Diplomatic Core Services Department in Hanoi, or introductions can be made by a government-owned investment service company (see Appendix B for contact details).

If the agent or organization cannot meet your employee requirements, you may advertise and recruit directly as long as local employment agents are informed.

Labour relations between a foreign investment enterprise and Vietnamese employees must be regulated by individual labour contracts or a collective labour contract with a trade union. Every foreign investment enterprise employing Vietnamese must allow workers to establish a trade union. The enterprise may also have a combination of individual and collective agreements.

4.18 Employment of Foreign Personnel

Employment of foreign personnel will be allowed if the foreign investor is able to justify the need relative to the project in Vietnam. This will usually be done at the time of application for a business or investment license.

A foreign employee will be entitled to a multiple re-entry residence visa for a period that will not exceed one year, but can be extended every year for the duration of the project. Similar visas will be issued to foreign employee spouses and children.

Holders of a residence visa are entitled to free travel in the areas necessary for conducting business. They may also travel in other areas if authorized by the General Department of Tourism.

Foreign employees are guaranteed the right to repatriate their incomes abroad; however, they are subject to Vietnamese taxes and foreign exchange regulations.

4.19 Land Use and Land Ownership

The private ownership of land is not recognized in Vietnam; however, the concept of a land-use right does exist.

According to socialist legal principles, all land belongs to the State so real property cannot be owned by an individual. Land in Vietnam belongs to the people and, under socialist precepts, the State and the people are one. Thus the land is administered by the State, on behalf of the people.

The State will grant land-use rights to companies and individuals, while at the same time protecting the use of those rights. The State will also make sure that the use of the land follows the country's development plans. Failure to use the land-use right after six months could result in the State repossessing the land and reallocating the land-use right.

The State Bureau of Land Administration is responsible for land-use regulations. It has the following authority: survey and classify land; draw up land maps; zoning and land-use planning; enforcing rules and regulations; registration of land-use; inspection; and the resolution of land disputes.

Foreigners may not own or purchase buildings, but may lease them from a Vietnamese owner through eligible leasing authorities.

Foreign companies or individuals engaged in investment or contractual business must pay rents for land and water-use rights in US dollars or Vietnamese dong. Rents will be calculated annually according to acreage.

Since property available to foreign companies and individuals is controlled by government agencies, rents are not inexpensive in Vietnam.

4.20 Patents, Trademarks, and Copyrights

Vietnam has signed the Paris Convention for the Protection of Industrial Property consenting to the protection of patents and trademarks. The National Office of Inventions under the State Commission for Science and Technology offers protection by supplying inventor's certificates and patents.

A patent or inventor's certificate is valid for 15 years. Foreigners who register their trademark will be granted a certificate of registration which will protect the mark for a period of 10 years when the patent can then be renewed. It is necessary to use an industrial property agent such as the Vietnamese Chamber of Commerce and Industry (Vietcochamber), Investconsult, or the Saigon Patent Agency when registering with the National Office of Inventions.

The applicant will have to pay a fee to be granted a patent or trademark, and will pay annual fees to maintain the certificate's validity.

Unlike patents and trademarks, which are protected by laws, copyrights are only addressed by a decree or proclamation which addresses the rights of authors regarding the creation of works of art, literature, science and technology. The Ministry of Culture is responsible for administering the Copyright Decree.

A foreigner who has suffered copyright infringement should apply to the Vietcochamber or one of the authorized organizations to seek assistance in protecting rights.

4.21 Insurance

The Vietnamese Insurance Company (Baoviet) is the only insurance company in Vietnam responsible for domestic business. The assets of a joint venture must be insured by Baoviet, or by an insurance company agreed to by both parties.

Baoviet has a monopoly on domestic Vietnamese business; however, in foreign business, joint ventures can exercise their independence and Baoviet's involvement is negotiable.

4.22 Business and Trade Dispute Procedures

The Government of Vietnam has established two arbitration committees under the auspices of the Vietcochamber to resolve business and trade disputes. The Foreign Trade Arbitration Council (FTAC) is the economic arbitration body, and the Marine Arbitration Committee (MAC) settles disputes arising over sea transportation.

The FTAC and the MAC are not the only dispute mechanisms available. If both parties agree, they may choose an arbitration body from a third country, an international arbitration body such as the International Chamber of Commerce, or an arbitration tribunal. The SCCI (see section 5.9) must approve the dispute mechanism in an investment contract and has set precedent by approving contracts calling for the settlement of the dispute in a foreign country.

Chapter 5
DOING BUSINESS IN VIETNAM

Factors to Consider

- Liberal foreign investment law
- Changing rules and regulations
- Poor infrastructure
- Dual economy
- Insecure currency and shifting inflation rates
- Indecisive economic management
- Lack of hard currency
- Rich natural resources
- Large labour pool
- Guarantees against nationalization of foreign companies
- Gradual implementation of a market economy
- Repatriation of capital limitations

5.1 Investment Climate

All typical investment considerations must be effected by a company before seeking opportunities in a country like Vietnam. These considerations include a full understanding of: the political and economic environment, the business environment (such as audit, tax, legal, and licensing rules), banking procedures and laws, communications, and availability of professional advisers and insurance. The current investment climate in Vietnam can be described as undeveloped and unsophisticated, but striving to reach a more mature state.

Vietnam has implemented one of the most liberal foreign investment laws in Asia to attract investment and foreign exchange from abroad (see section 4.5). The law is a signal to the international business community that Vietnam is available for business and keen to attract foreign investment in all sectors of the economy. The government recognizes that increasing investment is essential for a country which does not have the capital to purchase the technology required to develop its infrastructure. The introduction of such an ambitious reform program will not succeed without full government commitment.

On the other hand, Vietnam remains one of the poorest countries in the world with a virtually devastated economy, a creaking bureaucracy, confusing and inadequate laws and regulations, massive unemployment, rampant corruption, smuggling and black markets, and a broken down infrastructure. As a result, the outlook for economic development is mixed.

By the end of 1992, Vietnam had granted 555 foreign-investment licences worth US$4.6 billion. The main business activities in which foreigners have invested since the inauguration of the foreign investment law in 1988 are: oil and gas; hotel projects and tourist services; agro-food processing; posts and telecommunications; the manufacture of consumer goods (aluminum, plastic, electricity, electronics); infrastructure construction; agricultural production; exploitation and processing of forest products; farming, fishing and seafood processing; and the manufacture of rubber, leather, and artificial leather products.

During the last five years, three types of foreign investment enterprises have been established: (1) joint ventures (80 percent); (2) contractual business cooperation enterprises (15 percent); and (3) wholly-owned companies (5 percent).

Approximately 50 percent of the investment projects mentioned above have been implemented. Roughly 25 percent have faced difficulties such as a shortage of capital, low market demand, or shortages of materials. The remaining 25 percent have not been implemented due to changes in the relevant markets, lost business opportunities, inability of the parties to make their capital contributions, and the nonavailability of materials needed for production.

Recent developments that favour Vietnam's investment climate include the resumption of Japanese aid to Vietnam which will be followed by Japanese investment, heavily increased French aid program, and the partial lifting of the US embargo to the point where American companies can open offices, sign contracts and hire staff in Vietnam. Such developments are positive steps toward ending the US embargo on Vietnam.

5.2 Investment Policy

The Government of Vietnam is encouraging investment in the following areas:

- Export-oriented production and import substitution.
- High technology industries using skilled labour or raising the production capacity of existing Vietnamese companies.
- Investment in labour intensive industries using raw materials and natural resources available in Vietnam.
- Construction of infrastructure and foreign exchange earning services, such as tourism, ship repair, airport and port services.

In addition, all authorities at the provincial and city levels are required to outline their priority investment projects in the above areas for the years 2000 to 2005.

5.3 Investment Incentives

The government designated export-oriented production and import substitution in the manufacturing sector as key economic areas when formulating its long-term development plans. Vietnam's foreign investment legislation has been introduced to attract foreign companies to take advantage of the opportunities.

During the next decade, development will continue to emphasize export-oriented industrialization, renovation of existing Vietnamese enterprises, investment in labour-intensive industries utilizing the country's natural resources, construction of infrastructure; and foreign exchange earning services such as tourism, ship repair, airport and port services.

The Government of Vietnam recognizes the need for foreign investment capital and experience in many fields. The regulations on foreign investment are interpreted with flexibility by the SCCI (see section 5.9), depending on the merits of the individual project.

The following incentives are available for business cooperation contracts, joint ventures, and wholly-owned enterprises. (see Sections 5.5, 5.6, and 5.7 for details)

- Exemption from all import and export duties for equipment, machinery, spare parts, production and business facilities, including vehicles that either contribute to the capital of the venture or are bought with the funds of the company and form part of its total investment capital.
- Exemptions from/special rates for corporate profit (income) tax.
- Special rates for profit remittance tax.
- Tax rebate on reinvested profit.
- Exemption from turnover (sales) tax for sales outside Vietnam.

The following conditions also exist for representative offices. (see Section 5.8)

- Representative offices are allowed to rent office space, residences and facilities necessary for working and living in Vietnam. They are also permitted to employ Vietnamese citizens.
- Bank accounts can be opened in foreign currencies and in freely convertible currencies at the Foreign Trade Bank of Vietnam or at a branch of a foreign bank established in Vietnam (see Chapter 7 for information on the banking industry). Any conversion of foreign currencies and any foreign exchange remittance abroad is subject to foreign exchange control regulations.
- Representative offices are permitted to import and re-export after the cessation of the office's activities any equipment and articles used for working and living.

5.4 Investment and Trade Opportunities

Vietnam's trading and investment opportunities will evolve as the country develops economically with a resultant increase in purchasing power. For the next decade, the government has selected 10 priority investment areas:

- Agriculture and food processing development.
- Farming, fishing, and seafood processing.
- Oil and gas production, including exploration and exploitation, and the processing of oil and gas products.
- Construction of infrastructure facilities (including the construction, enlargement and modernization of airports, seaports, bridges, road systems, information and telecommunication systems, electricity and water production facilities).
- Export-oriented production and import substitution.
- Consumer goods, textiles, electronics and household appliances.
- Exploitation and processing of mineral products and construction materials (iron, bauxite, coal, precious stones, silica, construction materials).
- Foreign currency earning services such as tourism, ship repair, airport services
- Hotel, office building and residential construction and development for foreign investors.
- Manufacturing and handcraft production.

The United Nations Industrial Development Organization (UNIDO) assisted authorities from the State Planning Committee (SPC), the SCCI, the State Committee for Science and Technology, the Ministry of Finance, the State Bank and other ministries in preparing a list of 187 priority projects aimed at attracting foreign investment.

The trend towards utilizing low-cost manufacturing in Asia began 20 years ago with Japan, Korea, Taiwan, Hong Kong, Thailand, and currently in Indonesia. Vietnam will surely have its turn as the low-cost production base for a variety of industrial and consumer goods.

LEGAL FORMS OF BUSINESS ORGANIZATION

The following are the principal forms of business organization in Vietnam available to a foreign enterprise:

- Business Cooperation Contract
- Joint Venture Company
- 100% Foreign-Owned Company
- Representative Office

5.5 Business Cooperation Contract

A business cooperation contract is an agreement between two or more parties to conduct joint business operations without incorporating a company in Vietnam. The contract will include the rights, obligations, and responsibilities of the parties. A new company is not created; therefore, the foreign company can withdraw with little inconvenience, and the parties can agree on their own conditions.

The nature and scope of the contract will be examined by the SCCI (see section 5.9). The contract will become effective once the SCCI has approved it.

The SCCI will examine the following aspects of the contract before approval:

- The economic and technical underpinnings of the contract explained through a feasibility study.
- The nature of the business activities to be conducted
- Inputs required by each contractor
- Products or services and their markets
- Foreign exchange considerations
- Conformity to the law
- Rights of parties, duration of contract, modification and termination of the contract and the means of settling disputes.

Prospective partners are advised to ensure that future business responsibilities, risks and rewards will be equal between them.

A business cooperation contract will allow the parties flexibility. The parties can agree on an array of matters such as the duration of the contract and the management of operations, which are regulated under a corporate structure (see section 5.6). A foreign company can also withdraw and repatriate its capital more easily than under a corporate structure, provided the contract is properly concluded.

A foreign company involved in a business cooperation contract has no separate legal existence in Vietnam and cannot employ Vietnamese nationals. It is not entitled to the same tax holidays and concessions available to joint ventures and wholly-owned companies.

5.6 Joint Venture Company

A joint venture company must be incorporated according to Vietnamese laws. The liability of each party is limited to its share of the capital. The total foreign contribution must be no less than 30 percent, but no limit is set for the maximum contribution. The capital contributions of the foreign party may include: foreign exchange; infrastructure; equipment and machinery; patents; technology transfer; technical services; technical and management training; and marketing and distribution (see Case Study No. 6).

The Vietnamese partner's capital contributions may consist of any of the following: Vietnamese currency; natural resources; building materials; land-use rights, or the right to use water or sea surface; building structures; existing equipment and machinery; construction services; technical services; and labour.

Management of the joint venture company is the responsibility of the board of management, whose members are appointed by the parties in proportion to their capital contribution presumably up to 99 percent. Each party must be represented. Either the general director or the deputy general director must be a Vietnamese residing in Vietnam. The profits and risks of the joint venture company must be shared by the parties in proportion to their share of capital. The normal duration of a joint venture is 20 years, but a duration of up to 50 years can also be permitted.

The joint venture will be established after the SCCI has issued an investment license and a certificate of registration.

5.7 Wholly-Owned Company

The wholly-owned company must be established in the form of a limited liability company and is a Vietnamese legal entity subject to the laws of Vietnam. The 100 percent investment is regarded as the same as an investment in a joint venture, except for the extent of the capital contribution from the foreign investor.

5.8 Representative Office

Representative offices are not established under the FIL but come under the jurisdiction of the MOT.

The main function of a representative office in the country is to liaise with companies, government, and clients. There is no profit tax on the operations of a representative office since it is only able to engage in liaison activities and not transact any business. A company that would like to undertake business that requires an ongoing long-term presence in Vietnam should consider opening a representative office. The office is allowed to rent office space and living facilities, to employ Vietnamese citizens, and to open bank accounts in Vietnamese currency and convertible currencies. It may also import any equipment and articles required for its operation and its staff.

A foreign company that has established relations with a Vietnamese economic and trading organization, and has programs for developing economic and scientific-technical cooperation may be allowed to establish a representative office. (See section 5.11 for further information.)

ESTABLISHING A BUSINESS IN VIETNAM

5.9 State Committee for Cooperation and Investment (SCCI)

The SCCI was established under the Council of Ministers to manage and administer Vietnam's foreign investment legislation. Its prime function is to examine and approve business applications for foreign investments and contracts for the formation of joint ventures, cooperative businesses, and wholly-owned investment companies.

A state organ comprising representatives from the Council of Ministers, Ministry of Finance, State Planning Committee, MOT, Central Bank and the Scientific and Technical Commission, the SCCI is structured to draw upon the expertise of government departments in evaluating and approving investments.

There are four departments in the SCCI: the Investment Transaction Centre, the Project Evaluation Centre, the Law Research Department, and the Document Translation Section.

The Committee is the sole institution responsible for reviewing and approving investments in Vietnam. A collective process is used in approving investment applications; therefore, it is important to receive input on an application from the various levels of government (central, provincial and municipal). The SCCI will work with people from other ministries when appropriate. Although an office in Ho Chi Minh City is maintained, it cannot approve applications, only review them, as the head office in Hanoi has the final approval.

In addition to being the sole authority issuing business licenses and registration certificates, the SCCI can assist with negotiations and provide advice to firms on contract preparation and identifying partners, and assist when disputes arise between partners before they are submitted to arbitration. The SCCI also prepares guidelines, laws and legal documents relating to foreign investment, and issues policy directives that conform with development strategies. It may also set guidelines for projects using public sector funding.

5.10 Establishing a Joint Venture or a Wholly-Owned Company

(a) General Information

All business cooperation contracts, joint venture, and wholly-owned companies must apply with and obtain the approval of the SCCI (see section 5.9).

Formation procedures are very similar for a joint venture or wholly-owned company; however, the procedures for the latter are less detailed because there is no Vietnamese partner involved.

In the case of a joint venture, Canadian companies should locate an eligible Vietnamese company that has obtained the approval to negotiate a commercial agreement. (see Diagram 5.1)

To determine whether or not a Vietnamese firm is eligible to negotiate a commercial agreement, contact the SCCI or the Vietcochamber for company listings.

(b) The Foreign Investment Process

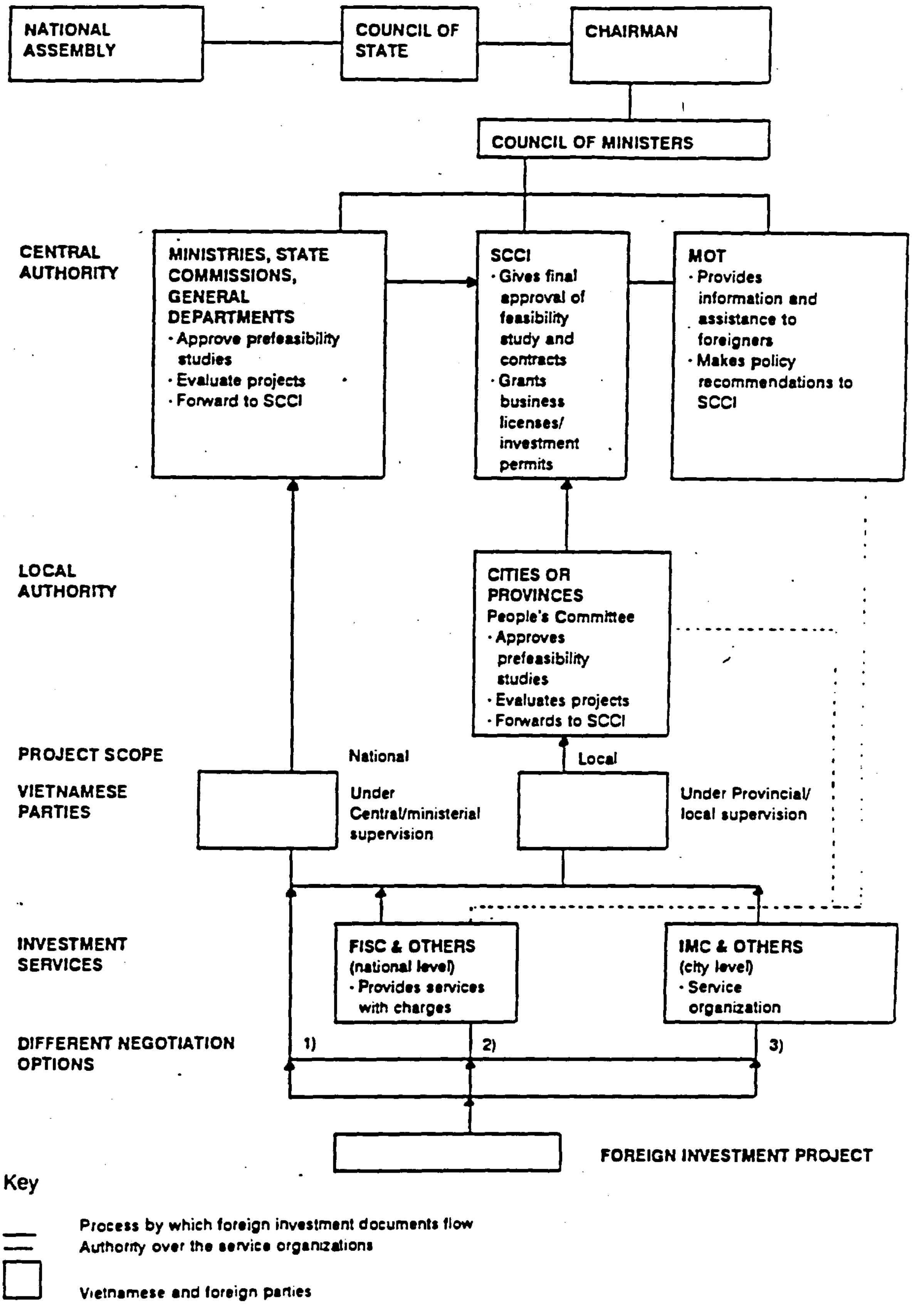
The investment process begins with the foreign company either negotiating directly with a potential Vietnamese partner or being assisted by an investment service company (see section 5.12 for details). These companies will act as a facilitator for the investor, and assist in the preparation of appropriate documents for a consulting fee. The Vietnamese partner can also assist in liaising with authorities to obtain proper consent.

Before an investment application is submitted to the SCCI, it is recommended that consent for the proposed project be obtained from the local People's Committee of the city or municipality where the project is to be located, and from the relevant authority at the central government level which may have direct involvement in the project. This should be done by either the Canadian or Vietnamese company once a memorandum of understanding (MOU) has been signed, or by the investment service company.

All investors are advised to provide all details required when completing documentation published in the "Guide for Establishing Forms of Investment in Vietnam," which can be obtained from the Vietcochamber or the SCCI.

Diagram 5.1

THE FOREIGN INVESTMENT PROCESS



Source: State Committee for Cooperation and Investment

(c) Pre-Feasibility Stage

To receive an early evaluation of the project, a firm must submit a pre-feasibility study and an MOU between the Canadian and Vietnamese partners to the People's Committee at the city or provincial level, or to the central government, depending on who has supervision of the project. To determine which level of government a project should be submitted to for pre-approval, the Canadian and Vietnamese partners must examine the following factors: the nature of the project, the particular economic sector it involves, the importance of the project to government planning, and the amount of investment involved.

The pre-feasibility study is an outline of the feasibility study to be undertaken indicating the type of project and its potential. The MOU is not binding but it outlines the proposed cooperation between the parties. Approval is given by the People's Committee that they agree with the project proposal in principle.

If the project is under the supervision of the central government, then the appropriate ministries, state commissions, or departments approve the pre-feasibility study, evaluate the project, and forward their recommendations to the SCCI. If the project is under the supervision of the provincial or municipal government, the People's Committee of the city or province evaluates and approves the study.

(d) Submitting the Final Investment Application - Feasibility Stage

A formal application is then submitted to the SCCI to establish a foreign investment enterprise. A feasibility study for the project and a draft charter for the new joint venture company should be completed along with other relevant information required by the SCCI for either a business license in the case of a business cooperation contract, or an investment license, in the case of a joint venture.

The company charter must contain the name of the enterprise, a description of the product or service, the total amount of invested capital and legal capital, the duration of the company, the organization of day-to-day management, the accounting and auditing principles, and the appointment of a non-resident representative in Vietnam.

(e) Registration and Licensing

The SCCI will approve or reject the application within three months of the date of submission. The SCCI has one month to raise questions, request further information, and seek amendments to submitted documents before making a decision. It will then approve the project, register the investment, and issue the appropriate license depending on the type of project being undertaken.

5.11 Establishing a Representative Office

(a) General Information

The Vietcochamber or other firms offering professional advice will provide assistance to a foreigner wishing to establish a representative office.

Applications are distributed and permits issued by the MOT. It requires the name and address of the applicant, main business activities, issued capital, the applicant's purpose, the proposed address of the office in Vietnam, the name of the representative who will manage the office and the names of Vietnamese or foreign employees, and the principal assets such as office equipment and computers.

(b) Documents Required

The applicant will have to supply a letter of introduction from the Vietcochamber, documents confirming the legal existence of the applicant, curriculum vitae for each proposed employee, a bank certificate confirming the applicant's issued capital, and other documents required by the MOT.

(c) Registration and Licensing

The MOT must act upon the application within two months. Once the application is approved a permit is issued outlining the representative office's activities. The office must register with the MOT within 30 days after receiving its permit. A registration fee is required to receive the permit.

5.12 Finding a Vietnamese Partner

Foreign companies are allowed to invest with both state enterprises and local private sector partners. A firm can identify a Vietnamese partner through the SCCI, the Vietcochamber, or its own efforts by utilizing existing contacts and recommendations, or with the assistance of an investment consulting company.

The SCCI has formally licensed six investment consulting companies, in addition to its own Investment Transaction Centre (see Appendix B). A large number of informal consulting companies will claim to be able to assist you. There is no fixed schedule of costs that may be charged by investment consultants so the fees are at the discretion of each company.

It is important for Canadian companies to recognize that if they want to be successful as investors in Vietnam, they must deal with the proper organizations in the government because all business is channelled through Hanoi.

5.13 Operating Costs in Vietnam

An important point to recognize when establishing an office and home in Vietnam is that there are prices for foreigners and prices for Vietnamese nationals. Even though it remains one of the poorest countries in the world, the operating costs for a foreign companyare not what would be expected of a developing country. It can be expensive to operate a foreign company.

Foreign companies currently operating in Vietnam have compared the rental costs for office space in Ho Chi Minh City to the costs found in more developed cities such as Bangkok, Thailand or Kuala Lumpur, Malaysia.

The rent in Ho Chi Minh City can range from US$10 to US$15 per m^2 per month. Electricity, lighting, and airconditioning are not always included. In Hanoi, office rent is slightly less expensive. Rents for villas and homes can range from US$3,000 per month to US$14,000 per month.

Chapter 6
EXPORTING TO VIETNAM

Factors to Consider

- Limited consumer demand
- Distribution challenges
- Population by the year 2002 - 85.1 million
- Great long-term potential
- Relatively stable government
- Adjustment phase of the economy
- Inability to purchase non-essential goods
- Foreign currency shortages
- Undeveloped infrastructure
- Limitations on local agents
- Uncommon practice to appoint sales agents

Rules and regulations applying to agents and distributors have not received high priority by the government. Investment has been the main preference of the government while the purchase of goods and services has received low priority.

Nevertheless, Vietnam offers Canadian exporters long-term opportunities that will eventually provide access to a market population of over 71 million. Many companies are excited over the opportunities in a relatively new market which needs goods and services in all sectors.

Even though the long-term potential in Vietnam is great, there are difficulties in reaching satisfactory deals. Exporters will have to learn about the market before selling their products. Presently, Vietnam is a very weak export market for Canadian firms as it has limited foreign exchange to purchase goods and services. Nor is the country technologically advanced enough to be positioned for the types of goods and services Canadians traditionally export. Export opportunities for Canadian companies already active and/or familiar with the region are to be found in in essential items such as: vehicles and parts, basic telecommunications equipment, marine equipment, and pharmaceuticals.

6.1 Export Environment

The average per capita income in Vietnam is difficult to determine; however, estimates range between US$200 and US$300. For instance, Ho Chi Minh City and the southern portion of the country have higher income levels than Hanoi and the north.

At the same time, some Vietnamese have benefitted from receiving remittances of foreign currency from relatives living in Canada, the United States, the United Kingdom, France, and Australia.

In the past, inadequate banking facilities created a scepticism towards placing money in banks, which has led people with hard currency to participate in the black market.

Many consumer goods are smuggled into Vietnam. Canadian exporters will have to compete against those goods, which are sometimes counterfeit and usually offered at a cheaper rate, which reduces the marketability of legitimate goods (see section 4.9 for more about the black market).

One of the biggest obstacles to selling to Vietnamese companies remains their inability to access foreign exchange to pay for imports. Given their longstanding trading relationship with the former Soviet Union, Vietnamese firms are traditionally more comfortable engaging in two-way trade.

Vietnam is not a technologically advanced country; therefore, most things are very basic and outdated. Canadian exporters will have to focus on supplying products and services that are appropriate for the market in which they will be used. Factors such as skill availability, raw material quantity and quality, availability of replacement parts, power supply, and overall market conditions should be considered.

6.2 Export and Import Controls

The Ministry of Trade (MOT) reports to the Council of Ministers and exercises control over all export-import trading in Vietnam. The MOT is responsible for coordinating with the State Planning Committee (SPC) the country's strategy and objectives, and for planning exports and imports so they match the national socio-economic goals. The MOT will assist exporters and importers by providing information on markets and prices. It is also responsible for export-import quotas and licenses, and the inspection and control of export-import activity (see section 6.6). Companies are responsible for researching any restrictions relating to goods or services.

6.3 Finding a Trading Partner

Not every enterprise is authorized to be involved in foreign trade; therefore, it is essential to confirm that the Vietnamese partner can legally trade. The Vietcochamber and the MOT can provide Canadian companies with a list of Vietnamese corporations allowed to participate in foreign trade.

International trade has been traditionally regulated by the Government of Vietnam. Trading companies managed by the state and approved by the MOT to engage in trade were established under ministries with the administrative responsibility for production of the traded goods to act as middlemen for state exporters.

Trading partners able to participate in foreign trade exist at the state, provincial and semi-private levels. Private organizations or individuals are not allowed to directly import foreign goods.

The following groups of Viet companies can generally participate in foreign trade:

- General State Trading Enterprises: companies that work at the state level and deal with a variety of import/export products

- Specialized State Trading Enterprises: companies that specialize in certain products or industrial sectors, such as agricultural and food products, coal, leather, seafood, electronics, beverages

- General Provincial Enterprises

- Specialized Provincial Enterprises

A Canadian company should not expect to contact a Vietnamese company by facsimile to arrange distribution or agency agreements. A visit to the market is mandatory to determine market potential and to evaluate prospective partners. A firm must learn the capabilities of their Vietnamese trading partner. Due to foreign exchange shortages, some Vietnamese companies are more familiar with countertrade, while others are able to open, and comply with, letters of credit. Each company will vary with experience; therefore, a Canadian exporter should begin with small shipments to test the trader and the market.

It is also advisable to determine the terms of trade at the time of export: terms of payment, amount of down payment, and the financial ability of the importer.

6.4 Steps in Exporting to Vietnam

Vietnam is currently a limited export market for Canadian companies; however, if a firm is keen on exporting, it must research the market thoroughly to identify priorities before attempting any sales or signing any agency agreements. The typical exporting steps followed in most countries are very difficult to emulate in Vietnam.

(a) Evaluate Export Potential

A company that does not have extensive experience in exporting to Southeast Asia should reassess its export potential in Vietnam. Exporting is not for everyone, particularly in Vietnam, so the company must have experience in the region. Do not make Vietnam the first or even second foreign market. The product must not only be ready to enter the international market, it must be ready to enter one of the poorest international markets in the world. The company must ask itself what needs does its product or service satisfy in the Vietnamese market? Does its product satisfy the Government of Vietnam's priorities?

(b) Select and Target the Market

If a company concludes that exporting to Vietnam is possible, the next step is to research the market and determine the product potential, tariff and non-tariff barriers, and local distribution options. Currently, Vietnam's distribution networks are very limited. Since there are no agency or distributor regulations, determining the market accessibility will be a challenge.

(c) Learn the Technical and Financial Elements of Exporting

Determine the overseas shipping routes, packaging requirements and principal trade terms. Vietnam lacks foreign currency, making it very difficult for local firms to purchase foreign products and services.

(d) Assessing Market Entry

The traditional options for entering the Vietnamese market exist, such as direct sales to foreign distributors, or to end users; however, using a foreign agent or representative and relying on an intermediary can be difficult.

(e) Determine Your Price and Promote Your Product

The export price must cover a company's costs and yield an acceptable profit. To promote the product, traditional routes like advertising, trade and business journals, and catalogues are inadequate. A company must be established in Vietnam to promote itself through face-to-face interaction and through trade shows and fairs.

(f) Arrange Financing

Financing the transaction can pose special challenges in Vietnam since the country has limited hard currency. Usual options exist such as cash in advance, open account transactions, bills of exchange, and letters of credit. Barter trade is also used to overcome hard currency limitations. If a Canadian company's cash flow cannot withstand such an investment, it should not be trying to penetrate the Vietnamese market.

(g) Get the Product to the Market

It is essential to find a trustworthy and reliable partner in Vietnam to ensure the goods are received, customs documentation procedures are complete, and that storage and transportation are secure.

(h) Modest Initial Sales

For the first-time exporter to Vietnam, modest initial sales are the only way to proceed since this will allow the Canadian company to become familiar with the Vietnamese export process, while limiting the risks.

6.5 Technology Transfer Agreements

Vietnam encourages foreign companies to transfer technology into the country and guarantees the rights and interests of the company transferring the technology. The 1988 Decree Law on Transfer of Foreign Technology allows the transfer of technology in the "forms of industrial process, design documents, formulae, and technical data with or without equipment". It also includes the transfer of ownership, or the license to use patents, or industrial property rights.

The transfer of technology to Vietnam must follow certain requirements. It must be capable of bringing about an improvement in the appearance and quality of the product and increase production; it must efficiently utilize energy, natural and human resources; and it must not adversely affect the environment.

The technology transfer is governed by an economic contract and must comply with Vietnamese laws. The methods of payment are to be set by the parties in the agreement and should be clearly outlined in the provisions of the contract.

The National Office of Inventions of the Ministry of Sciences, Technology, and Environment has the authority to approve technology contracts.

6.6 Customs

The General Department of Customs is responsible for all activities related to import and export, as well as immigration and emigration (see section 6.2). It has the authority to inspect all imports and exports, including commodities, currency, postal packages, and transport or shipments passing through Vietnam.

When undergoing customs procedures, the importer or exporter is responsible for completing a declaration form and submitting it to the Customs Office. Certain commodities will require permits and/or import-export licenses. The party importing or exporting will be responsible for paying any duties or fees that Customs imposes. Once the procedures are complete, the importer or exporter will receive a Customs Declaration certifying that Customs procedures have been completed.

Tariff rates and duties are subject to frequent change so it is advisable to consult the Customs Service to confirm current rates and duties before importing or exporting goods.

Ventures established under business cooperation contracts are exempt from import duties on equipment, machinery, spare parts, production and business facilities, and other materials that form part of either party's contribution to the venture. They are also exempt from import duties on raw materials, spare parts, accessories and other materials imported for export production. If the imported products are sold within the country, the exemption of import duties no longer applies and goods may be subject to sales tax (see sections 4.12 to 4.16 on taxation).

The FIL does not provide specific exemptions for exports; however, at the time of applying to the SCCI for a business or investment license, the investor can apply for favourable treatment on a case-by-case basis.

6.7 Documentation Procedures

Applications for import/export licenses must be made to the MOT. Applications must include the identity of the purchaser and supplier, a description of the goods and their market value, and the tariff heading and number code.

The General Department of Customs is responsible for the Customs Entry Form, Customs Invoice and Commercial Invoice. The Certificate of Origin and the Certificate of Value fall under the auspices of the Vietcochamber.

The Vietnam Superintendence and Inspection Company (Vinacontrol) can provide the exporter with a Quality Control Inspection Certificate and can provide services in all export ports throughout Vietnam. Health and Sanitary Certificates are the responsibility of the Sanitary Bureau Office in the Ministry of Agriculture. Insurance Certificates are the responsibility of Baoviet (Vietnamese Insurance Company - see section 4.21).

To cope with bureaucratic delays, established agents or representatives are necessary to make sure the goods get through customs and physically off the dock or out of the warehouse.

6.8 Port of Entry and Inland Transportation

There are three international airports in Vietnam: (1) Noi Bai Airport in Hanoi; (2) Danang Airport; and (3) Tan Son Nhat Airport in Ho Chi Minh City. Air traffic control facilities are not up to international standards and terminal and cargo facilities require substantial upgrading.

The two main ports handle 80 percent of the international traffic and container cargo: Haiphong Port located 70 km east of Hanoi, and Saigon Port located in Ho Chi Minh City. Also, seven ports are dotted along the coast of the country with the main intermediate ports located at Danang and Cam Ranh Bay. Overall, the port facilities are a serious weakness in Vietnam's transportation system.

A select group of international freight forwarding services in Vietnam is able to forward cargo from various points in the world. These freight forwarders are able to offer services in freighting, port/customs clearance, warehousing, etc., and operate through their overseas agents.

Companies operating in Vietnam or that have experience in Vietnam as shipping agencies and freight forwarders include Germartans, East Asiatic (EAC) Saigon Shipping Company, Maersk, Evergreen-Uniglory, Hutchinson Hong Kong International Terminals, International Container Services, Pacific International Lines, Regional Container Lines, and Neptune Orient Lines.

6.9 Market Surveys

The financial capability to import foreign products in Vietnam is very weak and limited; therefore, a Canadian exporter must identify the export priorities of the government to determine sectors that have been allotted foreign exchange to purchase essential products.

To determine what products the Government of Vietnam deems essential to purchase from overseas, it is necessary to make a marketing trip to the country to meet with the appropriate ministries responsible for the industry. Local consulting companies are available to prepare market surveys for foreign companies.

6.10 Local Agents

Foreign producers can appoint a local sales agent in Vietnam to handle the distribution of their goods; however, there is no official regulation or law detailing the procedures and guidelines for an agent. The distribution network is very weak and is just beginning to take shape.

6.11 Information Sources on Export Opportunities

Exporters may obtain information and assistance from the Vietcochamber or any number of government-authorized consulting companies. In addition, ministries and People's Committees can advise an exporter on what the priorities are for their jurisdiction. Obtaining information on sectors, statistics, and current data can be difficult. The Commercial Division of the Embassy of Canada in Hanoi will provide as much support as possible toward starting or expanding Canadian companies' export sales in the Vietnam market. (See Appendix B for contact details).

6.12 Countertrade

Countertrade or barter trade has been a traditional form of trade between socialist countries. It is used by countries like Vietnam that want to import but lack the currency to purchase products, and therefore offer goods or commodities as replacements for currency. Firms may be unable to open letters of credit, or if they are able, there are often problems accepting such letters of credit by overseas banks.

Chapter 7
BANKING AND FINANCE

The banking system has improved over the last two years in terms of capability and credibility. In 1992, the first foreign bank branches opened in Vietnam and additional joint venture banks will be allowed (see Case Study No. 9).

7.1 The State Bank

The State Bank of Vietnam is the central bank and is responsible for supervising the banking system. Between 1988 and 1990, it was transformed from a centralized and institutionalized system, to one including commercial banks.

The State Bank is managed by the Board of Management, which includes the governor for the State Bank, who is a member of the Council of Ministers; the deputy governor; and four deputy minister representatives from the Ministry of Finance, Ministry of Commerce, State Planning Committee, and the SCCI. In addition, four monetary and economic experts are members.

The State Bank's main function is macro-economic management and it is responsible for the following: monetary and credit policy, payments and settlements, foreign exchange controls and general banking operations; issuing Vietnamese currency; acting as a central bank for other credit institutions; establishing foreign currency reserves; representing the government on international monetary and credit organizations; and conducting training in banking operations and techniques.

7.2 Commercial Banks

The Commercial Banking Decree, promulgated in May of 1990, outlines the types of banking and financial activity permitted under Vietnamese law. In general, a commercial bank is formed as a company with limited shares controlled by the State Bank. Authorization is required by the State Bank for a commercial bank to operate in the international banking arena.

Commercial banks consist of state-operated, foreign-owned, joint venture or equity commercial banks, and all have standard commercial banking operations.

Commercial banks are permitted to conduct the following services for their customers: collect deposits and grant credit; lend; trade precious metals and stones; maintain facilities to store customers' valuables; trade or transfer commercial paper; manage customer portfolios; lease real estate and other assets; and provide consulting services on personal financial management.

The Bank for Foreign Trade of Vietnam is a state-owned commercial bank that lends in foreign currencies, guarantees in foreign currencies, provides credit lines as working capital in Vietnamese currency, opens foreign currency accounts, and buys and sells foreign currencies.

7.3 Investment and Development Banks

Investment and development banks are state-operated banks instituted to receive state money and invest in state projects. Their operations are administered by the State Bank in conjunction with the Ministry of Finance. Until their foreign currency reserves are substantial the likelihood of investing in foreign instituted projects is minimal.

7.4 Credit Cooperatives

A credit cooperative is owned collectively with the purpose of utilizing funds accumulated from members. The scope of their operations must be approved by the State Bank. The cooperatives are managed by a board of management selected through a general meeting. They are collective credit organizations that mobilize money from and lend to their members.

7.5 Private/Public Finance Companies

Finance companies grant loans for trading in goods and services. They can be either limited companies or state companies and, with permission from the State Bank, can operate much as a commercial bank does.

7.6 Foreign Banks

Foreign banks are permitted to establish branch offices or joint ventures with local Vietnamese banks and must be authorized by the State Bank and approved by the SCCI. The foreign bank must have minimum capital requirement of US$10 million to receive a license.

The license is initially granted for a 20-year period and may be renewed at the end of the term. Foreign banks are allowed to repatriate their profits and must follow the FIL and the foreign exchange regulations.

Foreign banks operating in Vietnam include: Banque Indosuez, Banque Française du Commerce Extérieur, Credit Lyonnais, Banque Nationale de Paris, Indovina Bank, Société Générale. Among those foreign banks with representative offices are: Thai Military Bank, Krung Thai, United Overseas Bank Ltd. (Singapore), ABN Armo (Holland), Citibank (USA), Shearson Lehman Brothers (USA), and the Standard Chartered Bank(UK). Ching Fong Bank (Taiwan) will be operational later in 1993.

7.7 Stock Exchange

At the time of writing, Vietnam does not yet have a stock exchange. The State Bank will be the body responsible for establishing stock exchanges in the future.

7.8 Foreign Exchange

Foreign exchange shortages have been one of Vietnam's largest obstacles to development. Foreign exchange will be essential if the country wishes to import the equipment and technology required to develop its infrastructure. The country also must cope with a growing internal and external debt, which has resulted in a strict monetary policy trying to reduce the outflow of foreign currency.

Three organizations formulate policy regarding Vietnam's foreign exchange reserves, credit and foreign exchange transactions. The State Planning Committee frames the overall budget for the country and establishes targets for imports and exports. To organize the budget, the Committee must consider the amount of foreign reserves in the country and the requirements of the country to balance the foreign currency flows. The Ministry of Finance (MOF) regulates and implements the foreign currency plans of the State and maintains the reserves. The State Bank's role is to implement and manage the plans as they are regulated by the MOF.

7.9 Opening a Foreign Exchange Account

Once a company has received its business license from the SCCI, it must open a foreign exchange account at a bank established within Vietnam. Once approved by the State Bank, foreign companies are free to choose the bank at which they will open their account.

All capital contributions and revenues from production or services must be deposited with an approved bank in either a foreign exchange or domestic currency account. In addition, all disbursements must be channelled through these accounts. The account will be standard interest-earning. Interest rates are set by the State Bank. Foreign currency can be used to purchase imports and services, as well as to buy dong from the bank where the account is maintained.

7.10 Repatriation of Profits and Capital

The State Bank of Vietnam authorizes the repatriation of foreign currency. According to the FIL, foreign companies are permitted to repatriate in the following areas: profits from their business operations, approved payments for providing technology or services, both the principal of and any interest received on loans made to Vietnam, the original capital invested by a foreign individual or entity, and any other assets that the enterprise or individual legally owns.

Although it is possible to repatriate profits when generated after tax, problems may arise. Companies should be cautioned that if an investment in Vietnam relies on getting profits out of the country immediately, then this may not be the most appropriate investment location for them in Southeast Asia.

7.11 Foreign Exchange Restrictions

Vietnam's restrictions on foreign exchange are aimed at reducing the chances of a sudden and large drain on its limited currency reserves.

Therefore, joint ventures must have enough foreign exchange to meet all their foreign currency needs, including amounts needed for remitting profits and converting foreign currency into local currency to pay employees.

Exceptions exist for enterprises involved in the production of import substitutes or the construction of infrastructure projects.

When a company is dissolved, all existing debts of the firm must be paid before the invested capital can be remitted abroad. In ordinary cases, capital transferred overseas will be spread out over three years in equal parts. In special cases, a shorter period may be granted by the State Bank when the capital to be repatriated is equivalent to or less than US$1 million or the company exports at least 80 percent of its products.

7.12 Accounting

Financing, accounting, and auditing principles are to be provided for in the joint venture contract, charter, or in the wholly-owned charter. The law remains vague, but there appears to be a fair amount of freedom given to the foreign enterprise to determine accounting methods.

Companies are to keep their book of accounts in accordance with generally accepted international principles and standards approved by the MOF, and are subject to the control of the MOF in Vietnam. Rules and regulations are still in the process of evolving. Thus, the accounting principles followed by foreign investors are normally those of the country of origin.

Chapter 8
INFORMATION FOR THE BUSINESS VISITOR

8.1 Your First Visit

Contacts listed in the Appendices can help a business visitor make visa and travel arrangements and hotel bookings, provide interpreters, identify Vietnamese companies to contact, and provide expertise on the FIL or trade regulations.

Due to the difficulty in assessing the strength and reliability of a Vietnamese company, Canadians should approach companies with discretion and research potential partners thoroughly by contacting the SCCI and the Vietcochamber before signing any agreements.

8.2 Entry Regulations

All visitors must possess a valid passport stamped with an entry visa issued by a Vietnamese Embassy. Applications should be filled out and submitted to the Vietnamese Embassy in Ottawa or submitted to any Vietnamese Embassy throughout the world. Canadians who do not have the time to have their visa processed in Ottawa (the process generally takes about 10 days) are recommended to use the Vietnamese Embassies in entry cities such as Hong Kong, Singapore, Kuala Lumpur, or Bangkok.

8.3 Business Visas

To obtain a business visa an application must be accompanied by a letter of invitation from a sponsoring Vietnamese organization such as the Vietcochamber, a ministry or a State corporation.

First-time visitors who have not made any contacts within the country can approach the Foreign Investment Service Company (FISC) at the MOT or the Vietcochamber. A fax or telex should be forwarded to the organization explaining the purpose of your visit and background on your company, along with your name, date and place of birth, nationality, passport number and date of expiry.

This procedure can be lengthy, so to allow ample time for communication, you should make your request at least 3 to 4 weeks before departing on your trip. Upon approval of the application, a fax or telex will be forwarded to you confirming your trip and advising you which Vietnamese Embassy will have your visa. The duration of the visa can range from 1 to 3 weeks; however, extensions can be applied for once you are in Vietnam. The sponsoring organization will handle any additional formalities.

8.4 Travel Within Vietnam

All visitors must register with the police within 24 hours of arriving at every town, for public security. Typically, the sponsoring organization will take care of the registration requirements. The visitor's passport is checked and a form is required to be filled in.

To travel within Vietnam, an individual or group must have a travel permit issued by the Police Department or the Ministry of Interior when visiting overnight. The travel permit allows the traveller to visit designated areas listed on the permit. The sponsoring organization will assist in obtaining a travel permit.

Vietnam Airlines flies to most major cities in Vietnam and bookings can be made by your sponsoring organization or your travel agent.

8.5 Holidays

Holidays in Vietnam are based on the lunar year and the calendar year, so the days will vary from year to year depending on the holiday.

Tet Nhat	Lunar New Year occurs between January 19 and February 20 on the first new moon of the lunar calendar. Tet Nhat means the first day of spring between the harvest and planting time. It is officially a three-day holiday.
February 3	Founding of the Communist Party
Trung Sisters Day	The sixth day of the second lunar month in late February or early March celebrating the deeds of the two sisters who fought the Chinese in AD 49.
April 30	Liberation Day celebrates the anniversary of the liberation of Saigon from US control on April 30, 1975.
May 1	May Day/International Workers Day
May 7	Defeat of the French at Dien Bien Phu in 1954 commemorating the end of the first Indochina War.
May 19	Ho Chi Minh's Birthday
September 2	Independence or National Day marking the founding of the Democratic Republic of Vietnam in 1945 on the day of the Japanese surrender.

8.6 Business Hours

Vietnam operates on a six-day work week. Government offices are usually open from 7:30 am to 4:30 pm with lunch from noon to 1:00 pm. Banks are open Monday through Friday from 8:00 am to 3:00 pm and Saturday until 1:00 pm.

8.7 Communications

The number of facsimile machines in Vietnam is on the rise; however, outgoing faxes can be expensive ranging from US$10 to $20 per page depending on the destination.

Telexes are also prevalent and remain the easiest form of international communication. The majority of organizations will have access to a telex machine.

Due to the high cost of sending faxes or telexes from Vietnam, many Vietnamese companies and ministries are slow in responding to communication from Canada. The international country code is 84. For Hanoi, dial 84-42 and for Ho Chi Minh City, dial 84-82. Vietnamese telephone numbers typically have five digits.

8.8 Interpreters

Interpreters are a necessity for most meetings in Vietnam. Many older officials, particularly in Hanoi, have a limited knowledge of English; however, some may be able to speak French. Most directors and administrators have gone to school in Eastern European countries or the former Soviet Union. As a result, they can speak Russian, Czechoslovakian or Romanian. One is more likely to encounter English than French among the younger generation.

Service organizations such as the Vietcochamber can provide interpreters for a fee.

8.9 Electricity

The power supply varies between 110 and 220 volts with both two-pin plugs and flat-pin plugs.

8.10 Car Rental and Taxis

Hotels or service organizations will supply a car and a driver for approximately US$40 a day and a minibus for US$50 to $55 per day. In Ho Chi Minh City and Hanoi, unofficial taxis are on the increase.

Local transportation (particularly in Hanoi) is on a pedicab or push cycle which can usually be hired in the city for US$2 to $4 depending on the trip. They can also be hired by the day or the week with the price dependent on negotiating skills. The Vietnamese drive on the right-hand side of the road.

8.11 Credit Cards

Credit cards and traveller's cheques can be used in Vietnam at major hotels and tourist attractions; however, only Visa and MasterCard are currently accepted. At the time of writing, credit cards issued by US banks such as American Express cannot be used.

8.12 Currency and Exchange Rate

The official currency is the Vietnamese dong. The highest denomination (released in March 1993) is 50,000 dong which is equivalent to approximately US$7.00. There are also 20,000 and 5,000 dong notes. Individuals should be careful not to exchange a large sum of money at once or they will have a large stack of money to carry around. Many of the hotels, restaurants, shops, and drivers prefer US currency, so take small denominations in US currency. Change is often returned in US currency as well.

Due to the liberalization of the exchange rate, there is very little difference between the black market rate and the official rate. At the time of printing, US$1 equalled approximately 10,500 dong.

Chapter 9
CASE STUDIES
Background

Vietnam is beginning to mature as a place to do business in Southeast Asia. Companies investing in and trading with Vietnam have been predominantly from neighbouring Asian countries testing the market over the last few years with mostly small projects. Trade has been restricted, particularly with western companies, due to Vietnam's lack of foreign exchange to purchase goods and services, while investment has been limited due to the lack of legal and physical infrastructure.

The majority of the investment that has occurred in the country has been in oil and gas exploration by companies that include Petro-Canada (see Case Study No. 4) and Sceptre Resources (Canada), BHP (Australia), Enterprise Oil (UK), Total (France), Shell (Holland) and Petrofina (Belgium). Other large investment projects have been in the areas of hotel construction, shrimp farming, reforestation, and telecommunications.

Out of the 555-plus investment projects approved by the SCCI from 1988 until 1992, approximately 80 percent have gone to small businesses in light industries and services, which together make up 70 percent of the industrial output. This small-scale investment pattern occurring in Vietnam is very similar to the development that occurred in Thailand, Malaysia, and Indonesia during their earlier stages of development, with a focus on food production and food processing for export, textile, and garment industries, rattan and wood furniture, beverages, shoes, tobacco, and precious stones.

During the last five years, investors and business people have visited Vietnam in great numbers to explore opportunities. However, the real trail blazers have been expatriate Vietnamese, many of whom returned in the early 1980s to do business. (see Case Study No. 10) Others at the forefront include business people from Hong Kong, Singapore, Malaysia (see Case Study No. 14), Taiwan, Japan (see Case Study No. 13), and Thailand. This is due to their familiarity with the region and their willingness to conduct business relying more on personal relationships than on established legal and institutional frameworks on which North American and European business people tend to rely. Overseas Vietnamese living in Canada and in other parts of the world now have the opportunity to use their wealth in their native land to contribute to the country's development.

Overall, western countries have been more cautious than Asian countries to establish their presence in Vietnam. Development has been handicapped by inadequate roads, railways, air transport, sea transport, warehousing and seaports. These problems will be corrected once the World Bank, the IMF, and the ADB begin their financial programs in Vietnam.

Since 1987, companies from around the world have tried to position themselves in Vietnam. There are undoubtedly more stable environments in which to trade and invest in Southeast Asia, yet the number of companies seeking opportunities in the region is increasing consistently. The one common denominator to all of these companies is the belief that Vietnam will become a thriving country that will play a critical part in their overall Southeast Asia strategy in the next 20 years.

The following case studies are examples of companies that are working in Vietnam and have experienced the successes and frustrations in conducting business there. These are, by no means, the only active companies. We have selected a range of sectors and business circumstances and have included, to the best of our ability, all available information. We regret any errors or omissions which may have occurred.

Case No. 1
THE USE OF NON-CANADIAN FUNDING AGENCIES

Stothert Enterprises Private Ltd., a member of the Stothert Group which services a broad range of resource industries in industrial consulting, is headquartered in Vancouver, BC. Stothert has extensive experience in international work and has been very successful in exporting its service around the world.

Prior to its work in Vietnam, the management of Stothert had already made a commitment to working in Southeast Asia and other developing countries. In 1991, Stothert was awarded a $4.2 million, three-year contract by the Swedish International Development Agency (SIDA) to provide technical assistance to the Vinh Phu Paper Union in Bai Bang, near Hanoi. The key to Stothert's initial success in Vietnam has been its solid international reputation and familiarity with the international financial institutions such as SIDA and the World Bank. Management is promoting Stothert and developing business around the world seven months out of the year.

Stothert's support will help the Vinh Phu Paper Union through a critical period in its development as the company is being forced to operate independently, and is an example of what the government of Vietnam is trying to accomplish by moving from a centrally-planned economy to a liberal market economy.

Stothert is assisting in this transition by providing long-term advisers to assist in the management of the mill, and a number of short-term technical specialists for the project. The objective of the project is to turn the Vinh Phu Paper Union into an efficient, profitable, and autonomous enterprise. Guidance is to be provided in such areas as: strategic planning, management of foreign exchange, financial planning, accounting practices, marketing, mill maintenance, operations management, and training services.

Prior to working in Vietnam, Stothert had already carried out projects in over 50 countries, including recent initiatives in Bangladesh, the Philippines, Thailand, Nigeria, Tanzania, and Malaysia. The experience gained by Stothert working in other developing countries proved invaluable for its project in Vietnam.

Stothert's education in Vietnam has had a steep learning curve and has included minor frustrations along the way. Difficulties in clearing customs and learning to operate within a unique set of management practices have been the biggest challenges, along with the standard communications pitfalls. But, overall, the experience has been very worthwhile.

The Stothert case demonstrates how a company can establish a foothold in Vietnam through a multilateral-funded project, where payment to the firm is secure, thereby reducing the risk involved. As a result, this contract will allow Stothert to learn the "rules of the game" in Vietnam and to pursue other opportunities in the country.

Stothert is now confident that it is in a position to monitor the ongoing changes in Vietnam, which will allow it to seek additional work in the region through a similar channel.

Case No. 2
VIETNAM'S EXPORT PROCESSING ZONES

Vietnam's export processing zones (EPZs) are aspiring to provide excellent facilities and privileges for foreign companies seeking convenient, low-cost manufacturing sites.

While free trade zones (FTZs) are aimed at accommodating warehousing and providing a trading centre at which goods are imported and re-exported without incurring duty, the EPZs are being designed for ventures engaged in the manufacture, processing and assembly of export products from imported raw materials and components. Vietnam is competing with the rest of Southeast Asia to establish its EPZs to attract vitally-needed export industries.

The government's main objectives in setting up the EPZ system is to attract foreign investment and to promote exports. The EPZ is therefore reserved for enterprises that are either exclusively foreign-owned, or more than 80 percent foreign-owned. All enterprises must be engaged in the manufacture, processing or assembly of goods that have definite export prospects, high potential for foreign exchange earnings, and are labour-intensive.

One EPZs is being built in the Tan Thuan District, 20 minutes from downtown Ho Chi Minh City by the Tan Thuan Corporation, a Taiwanese group, which is investing US$80 million in the Tan Thuan Industrial Promotion Company. The EPZ encompasses 3 km^2 and is bordered by the Saigon River. The EPZ will be operational by 1993, for use by 40 companies. It will also have access to a 675 MW thermal power plant located 20 kilometres away.

The EPZ will be constructed in three stages. The first stage will include 76 hectares, the second stage will encompass 102 hectares, while the size of the third stage has yet to be determined. The smallest site will be 2,500 square metres.

To access the EPZ and its benefits, a company must submit a registration form, accompanied by an investment plan, to the Government Administrative Committee of the EPZ. The committee manages and licenses the economic enclave. Approval usually takes between 1 and 3 months.

The first enterprise to establish itself in the EPZ is a company from Taiwan, which has formed a 100 percent-owned facility that manufactures cartons and packaging for shipping. The types of industries eligible to locate in the EPZ include those in light industry, such as: textiles, garments, plastic, food and beverage, and semi-conductors.

Additional EPZs will be situated in Danang, Haiphong and in the Thu Duc District (25 km north of Ho Chi Minh City), with the object of servicing foreign manufacturers.

Case No. 3
IDENTIFYING AND PURSUING CONSULTING PROJECTS IN VIETNAM

Associated Engineering and Crippen Consultants of Vancouver, B.C. are unique in their approach to Vietnam because they have formed an alliance to enter Vietnam instead of penetrating the market as competitors.

Both companies are engineering consultants and are examples of firms accessing an emerging market through bilateral/multilateral-funded projects. They combine capabilities and expertise in areas such as: water supply and treatment, waste treatment and disposal, water resources, transportation, urban development and industrial services. Their projects in Vietnam include a waste management study for Hanoi, Haiphong, and Ho Chi Minh City financed by the Canadian International Development Agency's Industrial Cooperation Division (CIDA INC).

The objective of CIDA INC is to promote "sustainable development" in eligible developing countries, by encouraging the Canadian private sector to become involved. CIDA INC offers financial support to encourage firms to conduct a preliminary analysis of the factors relevant to establishing a long-term business cooperation arrangement in a developing country. In addition, it offers support for pre-feasibility studies performed by consulting firms like Associated Engineering and Crippen Consultants, which have identified sources of foreign exchange or untied funds at an international financial institution. Such studies often identify opportunities for other Canadian suppliers to sell goods and services.

Crippen Consultants had already performed work for the Asia Development Bank (ADB) in Vietnam on the status of the water system in Ho Chi Minh City. In early 1991, as interest in Vietnam began to increase, Associated Engineering and Crippen Consultants, through their membership in the Asia Marketing Group of the British Columbia Trade Development Corporation (BC Trade), agreed to cooperate by signing an exclusive agreement on Vietnam to share in business development and communication costs.

In May 1991, Associated Engineering accompanied a BC Trade-sponsored mission to Vietnam where it began to cultivate relationships with appropriate Vietnamese officials at the local and national levels. As a result of the trip, Associated had the opportunity to discover what Vietnam's priorities and demands were in infrastructure development. The company began pursuing projects in Vietnam through its already-established connections with the multilateral financial institutions.

Due to the US embargo on Vietnam, the international financial institutions have been unable to fund large-scale projects, thereby delaying the country's development. However, CIDA INC has taken the initiative, in cooperation with financial institutions such as the ADB and the World Bank, to begin funding feasibility studies before the larger-scale projects are permitted.

In July and August 1992, Associated and Crippen performed work which originated out of the World Bank (but was financed by CIDA INC) on the Vietnam Highway Rehabilitation Project. This project is designed to improve the capability of the road units to manage and maintain their road networks and ferry operations. The Canadian group will also work together on the Ho Chi Minh City Supply System Rehabilitation Investment Plan.

Case No. 4
PETRO-CANADA'S VIETNAM EXPERIENCE

Petro-Canada was one of Canada's first companies to knock on Vietnam's "open door". In May, 1990, it signed a three-year production-sharing contract with Petrovietnam. Oil and gas are Vietnam's main source of foreign exchange and have therefore been given a high priority by the government. To date, the majority of investment in Vietnam has occurred in the oil and gas industry in the Red River basin near Hanoi in the north, and in the Mekong basin extending into the South China Sea in the south. The Foreign Investment Law encourages offshore exploration.

Petro-Canada, along with Husky Oil and the Kuwait Exploration Company, possesses exploration blocks 3, 12 and 20. It has had no commercial success to date; however, due to the "hit and miss" nature of the oil exploration business, the risk is high, as are the rewards. Big rewards can come to those who have the perseverance, patience, and money. Oil exploration companies are confident that Vietnam will contain large rewards.

British Petroleum (BP), which like Petro-Canada made its claim to Vietnam in the late 1980s, will have spent $90 million by the end of 1992 searching for oil in Vietnam. To date, it has drilled 18 dry wells. During BP's second phase of operations, it will spend another $150 million.

Petro-Canada works closely with the Vietnamese National Oil and Gas Corporation (Petrovietnam) that controls all petroleum research and development in Vietnam's oil and gas industry. Petrovietnam negotiates all production-sharing contracts with foreign companies and is headquartered in Hanoi under the responsibility of the Ministry of Heavy Industry. Petrovietnam has ministerial status and reports directly to the Council of Ministers.

Prior to 1985, Vietnam did not have any oil production capability. When Petro-Canada first went in with the wave of other foreign investors, exploration activities were just beginning to take off. Almost 75 percent of the investment was in oil and gas development.

Vietnam's first major oil discovery was by the American company Mobil in 1975. It is currently being exploited by Vietsovpetro, a joint venture with Russia. For political reasons, all foreign companies left in 1981 after fulfilling their contractual agreements. The oil companies that re-entered Vietnam realized the industry's potential and jumped on the opportunity to come to Vietnam when the country began to introduce new foreign investment legislation.

Petro-Canada feels it received a preferential deal in Vietnam during the unexplored days in 1989 and 1990, compared with what some of the companies are receiving today. The vast majority of the high calibre blocks have already been selected, and most of the remaining sites are in deeper waters. American firms have expressed interest in investing in oil and gas; however, due to the American embargo they were unable to pursue any role in such projects until late 1992.

Petro-Canada's head office for Vietnam is in Ho Chi Minh City and its logistical office is in Vung Tau, 129 km from Ho Chi Minh City. Vung Tau is in the Vung Tau-Con Dao Special Zone established under the central government as the supply base for oil and gas exploration and production. Total staff can reach 50 at peak drilling periods; however, even then, approximately half are either compound guards or radio/immersat operators.

Petro-Canada's Canadian staff works seven days a week. Staff in Vietnam include a Finance Manager, Operations Superintendent and a Chief Exploration Officer supported by technical people in their head office in Calgary. The number of Canadian staff can swell to seven during drilling.

Assumptions that Vietnam is a low-cost place to establish a company are inaccurate. Currently, office space in Ho Chi Minh City is at a premium. Companies in the region are beginning to compare the office prices in Ho Chi Minh City to those in Bangkok.

Due to Vietnam's raw level of development, an unreliable communications system has been one of the obstacles Petro-Canada has had to overcome. It has established its own 100 kvi generator to circumvent any power shortages that may arise, particularly during the dry season. It also maintains a voltage rectifier because the power supply in Ho Chi Minh City often fluctuates. In addition, all essential staff carry UHF walkie talkies. Communications have caused and continue to cause headaches; however, the system has improved immensely during the last two years.

Most non-oil companies are not required to go to such lengths; however, due to the potential for an emergency situation, it is imperative that oil company personnel be prepared with radio backup.

Petro-Canada is fully aware that Vietnam is in its infancy when it comes to economic development; however, its main reason for being in Vietnam is because it sees the potential of the oil and gas industry, which will most likely pilot the country's growth. Vietsovpetro pumped 3.94 million metric tonnes or 27.6 barrels of crude oil in 1991 from Bach Ho, Vietnam's only oil producing field. Estimates for 1992 are 5.4 million metric tonnes of crude oil.

Petro-Canada has been able to look beyond the distractions and still anticipates a big discovery and commercial success. However, it or any other company that wants to play the game in Vietnam, must persevere and be patient to achieve success.

Case No. 5
CIDA INC SUPPORTS LIQUIGAZ/SNC ENTRY INTO VIETNAM

In 1990, when Liquigaz, one of Canada's biggest natural gas recovery companies, made its first trip into Vietnam, it did not achieve what it had expected. In fact, it ended up with much more.

Liquigaz, based in Montreal, was aware of the potential in oil and gas in Vietnam and made its first exploratory visit with the idea of working on a natural gas distribution network. During discussions with Petrovietnam, the Vietnamese suggested that they needed a way to recover the natural gas from Vietnam's offshore oil fields, which could then lead to the construction of a gas plant and associated pipelines.

Vietnam produced roughly 5.4 million tonnes of crude oil in 1992, but has no way to capture the natural gas that is being released off its rigs in the South China Sea. Liquigaz returned to Canada and made contact with SNC International Ltd., a unit of the SNC Group Inc. also located in Montreal, to form a strategic alliance to chase the project in Vietnam.

Due to the financial uncertainties in working in Vietnam, particularly with a project of this magnitude, Liquigaz/SNC approached CIDA INC to support their project. CIDA INC's assistance was crucial in convincing the Vietnamese that the conditions were suitable, and in assuring them that Liquigaz/SNC had the best technology, reputation, engineering, and financial scheme to complete the recovery project.

The result was the signing of a $256 million contract by Liquigaz/SNC to recover natural gas from Vietnam's offshore oil fields. The agreement involves the state oil and gas company, Petrovietnam. The deal also involves the construction of a gas plant and pipelines to be completed around 1995. CIDA INC has also funded an environmental study for the project.

The project has taken two years of patience and perseverance by Liquigaz/SNC, but the rewards appear rich. Building the relationship with Petrovietnam during this period and developing trust took time. The Vietnamese are cautious and it takes time to build the necessary trust in a business relationship to work efficiently in the country. Canadian companies must be patient and demonstrate their commitment to the country.

The group's immediate task is to install compressors on the existing platforms and to pump the gas onshore through a 120 km pipeline. The liquified petroleum gas plant would be located in southern Vietnam and would produce butane, propane, condensates and residual gas.

The group is currently capitalizing the joint venture and completing the final stages of the engineering work, while raising the financing. During the first eight years of the operation, 90 percent of the plant's production will be exported to pay off the loans initially used to finance the project. Eventually, Vietnam would keep 100 percent of the production.

Any company involved in Vietnam must understand that the country has been isolated from the outside world and is new to many of the ventures and dealings. A project of such magnitude and profile is not an easy undertaking in any country, let alone Vietnam. Consequently, Vietnamese officials do not want to make any mistakes, so they are often not willing to make commitments. They are hard bargainers, but they are often unclear about what to bargain hard for. Explaining why interest must be paid on a bank loan and the need for financial checks on companies can be tedious. Companies must be prepared for these frustrations.

One of the keys for Liquigaz/SNC was that they had access to the right decision makers. Liquigaz/SNC gained this access by working with an agent who had an engineering background, a Canadian of Vietnamese origin, who had already successfully completed projects in Vietnam. It was his responsibility to access the right people and provide follow-up for the Canadian group.

It is difficult to do business in Vietnam from Canada because the Vietnamese place a great deal of value on face-to-face meetings, which means lots of travel; therefore, follow-up from someone is important. Deals of this size are also very complicated and politically sensitive, so all the nuances must be considered and taken care of by the proper people. In other words, companies should be prepared. To be prepared, a company must find a reputable conduit in Vietnam to assist in all aspects of the undertaking.

Case No. 6
ESTABLISHING A JOINT VENTURE IN VIETNAM

Establishing a production joint venture is not an easy task in Vietnam. A company has to identify the opportunity, find a reliable and capable partner, contend with bureaucracy, and struggle with an inadequate infrastructure, while daring to make a profit.

Industries Lassonde Inc. is based in Montreal. It has been in existence for over 50 years and is the largest fruit juice processor in Canada, with factories in Quebec and Nova Scotia. In 1991, it employed 500 people and reached sales of over $125 million.

Lassonde is comprised of a group of subsidiaries and divisions covering a number of specialized areas that include the manufacture and marketing of pure juices and fruit drinks for the retail food service markets.

Typical of most companies working in Vietnam, Industries Lassonde is not a newcomer to Southeast Asian nor to international work. In 1987, it established a joint venture in Thailand with a local partner to manufacture ready-to-drink juice for the growing Thai market. Industries Lassonde's presence in Thailand allowed it to monitor Vietnam's development and to position itself in Indochina.

Industries Lassonde made the first exploratory trip into Vietnam in 1990 in order to establish a joint venture to produce a juice concentrate from the cashew nut. The cashew nut grows in an apple that grows on a tree. Typically, the nut is picked from the apple and then the apple is discarded because it has a bitter taste. Industries Lassonde has developed a process to extract the juice from the apple and treat the juice to remove the bitter taste. The concentrate would then be exported to Canada and processed in Industries Lassonde factories.

Finding a partner in the food processing industry was not difficult in the case of Industries Lassonde since the majority of the fruit and vegetable processing factories are state-controlled. It chose the most capable enterprise - Vegetexco or the Vietnam National Vegetables and Fruit Corporation with offices in Hanoi, Ho Chi Minh City and Danang. Vegetexco controls approximately 50 factories in Vietnam.

Prior to the Russians cancelling many of their contracts with Vietnamese state companies, Vegetexco was functioning at close to capacity levels; however, once the contracts were cancelled, business slowed down immensely. When Industries Lassonde approached Vegetexco and the Ministry of Agriculture and Food Industry with its concept, both received the proposal with open arms, particularly since Lassonde is utilizing an apple traditionally left as waste.

Industries Lassonde employed a Vietnamese Canadian consultant to assist in its entry strategy, negotiations and liaison with the SCCI and other government groups. It proved very useful to have an interpreter who was not only trustworthy, but also knowledgeable about the intricacies of conducting business in Vietnam. Industries Lassonde currently has one Canadian-Vietnamese based in Ho Chi Minh City. It was also assisted by CIDA INC in a preliminary study, which provided the impetus for Industries Lassonde to continue its venture and confirm the opportunity.

In typical Vietnamese fashion, Vegetexco's contribution to the joint venture is the land, the factory and the supply network, while Industries Lassonde is providing the technology, the expertise and the management.

The facility itself will employ roughly 80 people and is located 30 miles south of Ho Chi Minh City. In addition, the joint venture will also be purchasing the cashew apple from over 6,000 sources, thereby creating new economic opportunities for producers.

Industries Lassonde is still undergoing long-term negotiations in Vietnam, but would eventually like to transfer the technology to the Vietnamese. A test run for the factory was completed in 1992 and the facility should be operating at full scale in 1993.

Lassonde has avoided the challenge of repatriating capital because the profit centre will remain in Canada. The Ho Chi Minh City plant will serve as a supply base for the concentrate with the final processing completed in Canada, along with the end product, which will be sold to the consumer in North America.

So far the process has gone smoothly because the project has had all the key ingredients such as the cost-effective use of a natural resource and a good partner; nevertheless, it must remain patient and proceed cautiously. Companies must do their homework before going to Vietnam. The Vietnamese have high expectations of a visiting Canadian company, so a firm has to be prepared. At the same time, a company must be observant because the Vietnamese will say "yes" to almost everything.

Case No. 7
BUILDING A SUSTAINABLE ENVIRONMENT IN VIETNAM

As one of the poorest countries in the world, Vietnam is one of the least adept countries in the world at addressing environmental matters. Its limited resources and experience have made it very difficult to develop a comprehensive framework for environmental planning and management.

One Canadian company that has been able to position itself in Vietnam in the environmental area has been ESSA (Environmental Social Systems Analysts) based in Vancouver. ESSA's main line of work is in environmental impact assessment, project management and source planning, environmental literacy, policy analysis, ecological monitoring, and computer software development related to environmental and resource management.

Its experience in Southeast Asia and developing countries began in 1980 with the Mekong Secretariat on a project located in northeast Thailand. The Mekong Secretariat is an interim committee established by the United Nations to coordinate development of the lower Mekong basin. Subsequently, ESSA performed work on an ad-hoc basis in other developing countries such as Malaysia, China and in countries in Africa.

The Mekong Secretariat's basic mandate is to carry out regional projects for the development of water resources in the Mekong basin that reflect the development priorities of the member countries, which include Thailand, Laos, Cambodia and Vietnam. The Committee's development activities are strongly influenced by environmental and socio-economic considerations.

In Vietnam's National Development Plan, the government has identified food, consumer goods and commodities for export as its main objectives for national economic development up until the year 2000. The plan gives high priority to agriculture and fish production, particularly in the Mekong Delta.

ESSA had previously worked in Asia with the UNDP (United Nations Development Program) and the Swedish International Development Agency (SIDA). SIDA put ESSA in contact with the Secretariat in the fall of 1988.

Back in 1974, Vietnam targeted the resource rich Quan Lo/Phung Hiep area, in the southwestern part of the Ca Mau Peninsula, for intensive agricultural development. In 1988, the government and the Mekong Secretariat initiated a project to identify and assess the opportunities for eco-development of the area. They recommended that a thorough analysis of the biological, physical, social and economic issues in the region be undertaken to develop a strategy that supported the needs of sustainable development.

In January 1989, the Mekong Secretariat contracted ESSA to implement the eco-development project for the Quan Lo/Phung Hiep area, which was completed in December 1989. It was during this period that ESSA realized the true potential Vietnam has and began formulating its Indochina strategy. Through the work in the Mekong Delta, the company was able to work closely with the Ministry of Water Resources and other Vietnamese ministries and departments, establishing contacts and laying the groundwork for future work.

Following its work with the Secretariat, ESSA received a UNDP contract with support from CIDA INC to complete the Master Plan for the Mekong Delta. With its experience and contacts, it is now in a position to pursue other projects in the country.

ESSA recognized early that personal relationships and face-to-face exchanges are very important to the Vietnamese; therefore it started early to cultivate relationships with proper follow-up. In other words, if you say you are going to do something - do it. Networking with all the ministries and departments at the appropriate levels is essential.

Building relationships included an invitation to the Minister of Water Resources to Globe '90, participating in a BC Trade-sponsored mission to Vietnam in 1991, and co-sponsoring an International Trade Centre/BC Trade infrastructure mission to Vancouver in 1992.

The social side of doing business is also very important to the Vietnamese. Becoming a colleague through friendship and establishing a trusting alliance make conducting business much easier, because the bureaucracy can be impenetrable at times. It is important to have a solid working relationship with your Vietnamese counterparts to help you work through the business procedures.

Case No. 8
AIRPORT DEVELOPMENT IN HANOI

Inadequate infrastructure is listed by foreign investors and consultants as one of the major constraints in conducting business in Vietnam. Vietnam's infrastructure needs include: roads, railways, bridges, airports, ports, electricity projects, water plants, industrial estates, housing,and urban renewal.

Financial support from CIDA INC has enabled Canadian companies to take the lead in infrastructure work, such as port development, water resources, roads and bridges, and airports. One particular company working on developing Hanoi's Noi Bai International Airport is Architects Crang and Boake Inc. from Toronto.

The large architectural firm has been in practice since 1952 and has an established record of working offshore for the last 20 years in places, such as the Caribbean, Saudi Arabia, United Arab Emirates, the United Kingdom, France, Turkey, and the Ukraine. Its interest in Southeast Asia is to assist local clients and consultants in the design and construction of building projects, such as airports, hotels, hospitals, office buildings, and retail complexes.

Crang and Boake's interest in Vietnam began when a Hong Kong-Vietnamese entrepreneur approached them in 1990 with the rights to develop a joint-venture project for the General Civil Aviation Administration of Vietnam (GCAA) under the MOTC Noi Bai International Airport.

After conducting preliminary research verifying the project and the client (GCAA), Crang and Boake undertook a CIDA INC funded study to analyze the airport situation in Hanoi, in partnership with Acres International Limited and Sypher Mueller International Inc.

The report concluded that the airport can be commercially viable through landing fees and hard currency items, and was cost-recoverable. In the spring of 1992, the report was accepted by the Government of Vietnam. The next step is to assist the client to obtain US$120 million to finance the project. Crang and Boake is currently trying to conclude a financing arrangement. If a project can be demonstrated as viable, financing can be found. However, there is more uncertainty in Vietnam than in Thailand or Malaysia so it is more difficult to obtain guarantees for projects with such magnitude.

International work is essential to Crang and Boake's business so they are familiar with how to evaluate projects and they have the experience to ascertain whether or not a project is good. Obtaining accurate market intelligence is critical to the decision-making process. Government sources are often utilized but they will not rely on them. To be successful, a company must develop its own private sources.

This also means making recurring trips to the region to nurture relationships. If a company does not have the financial resources to fund an exploratory trip on its own, it should not be operating overseas. This applies especially in Vietnam, where personal relationships and an established presence are very important.

The need to have a consultant Crang and Boake could trust to introduce them to the appropriate ministries and departments, and to access the right channels was essential, particularly due to the government's involvement in the venture. A company owes it to themselves in any business relationship to be sure it is working with representatives who have the right contacts.

Crang and Boake's reason for being in Vietnam is because it recognizes the economic benefits of being involved in Southeast Asia's growth, and it views Vietnam as one of the countries that is poised to take off in the region. The entire process has taken almost three years, but Crang and Boake remain committed to Vietnam.

Case No. 9
VIETNAM'S BANKING AND FINANCIAL SYSTEM

In 1988, the Government of Vietnam concluded that its banking system required an overhaul if it was to keep pace with the ongoing reforms taking place in economic management. The legal framework was put in place in 1990 by the introduction of two banking laws: the State Bank of Vietnam (the Central Bank) and the Commercial Banks, Financial Companies and Credit Cooperatives (Credit Institutions). The most recent development in banking law was in 1991 with the introduction of the Regulations on Foreign Bank Branches and Joint Venture Banks operating in Vietnam.

A number of foreign banks have established in Vietnam including: Standard Chartered Bank, Banque Indosuez, Banque Nationale de Paris, Credit Lyonnais, Banque Française du Commerce Extérieur, Société Générale, and the Thai Military Bank.

One Canadian financial institution which has been involved in Vietnam during the last three years is the Mouvement des caisses Desjardins, Quebec's largest and most respected financial institution. The Mouvement des caisses Desjardins is a network of financial institutions founded in 1900 and based on cooperative principles, which offers a wide array of financial services. Its current assets stand at more than $50 billion and it has 4.9 million members.

There is a large cooperative movement in Vietnam, so Desjardins has been discussing cooperative development projects with Vietnamese financial institutions. Desjardins has worked in cooperative development for over 25 years in developing countries, such as Zaire, Burkina Faso, Cameroon and countries in Latin America. They embarked on Asia in 1989 and are also discussing projects with China.

Desjardins' involvement in Vietnam is aimed at assisting in setting up retail cooperative banking networks for individuals. Most of their focus in Vietnam thus far has been to provide advice and assistance to develop and restructure the cooperative sector in Vietnam. Desjardins also provides objective advice to Canadian firms interested to conduct business in Vietnam.

In 1992, Desjardins was supported by CIDA INC to undertake a study to determine the feasibility of using an electronic link between North America and Vietnam to facilitate the transfer of capital from the Canadian-Vietnamese community to Vietnam. The long-term goal of the project is to assist Canadians to access the commercial opportunities in Vietnam. Desjardins is also engaged in training Vietnamese bankers at its Montreal office to help them familiarize themselves with international banking practices.

The Vietnamese business environment is changing quickly and must be constantly monitored. One of the biggest challenges in Vietnam is collecting reliable trade information. Companies must be able to obtain access to accurate sources of information to remain competitive in an emerging market like Vietnam. It is important for Canadian companies to test the market for their product as many Vietnamese government officials and consumers are not aware of Canadian products.

According to Desjardins, the key to being successful in any country is demonstrating that you have something the others need. With reference to Vietnam, a company must ask the questions, does a market exist and can the market be serviced cost-effectively from Canada? Foreign exchange shortages make it important for a Canadian company to identify what Vietnam considers as essential products and services.

Mouvement des caisses Desjardins is proceeding cautiously with Vietnam by building relationships through time and trust. Initially, the Vietnamese were very suspicious of their suggestions; however, after three years, they are now becoming more responsive.

Case No. 10
CANADA'S FIRST WAVE TO VIETNAM

The first Canadian companies to enter the Vietnam market in the 1980s were led by Canadians of Vietnamese origin who returned to their country of birth. These firms recognized the opportunities for business in Vietnam and were the first companies to begin to encourage Canadian companies to do business in the country. Today, there are a number of established Canadian companies positioned in Vietnam, managed by Canadians of Vietnamese origin. Some of these are: Cavimedic, CIIC, Deltamex, and TTQ & Associates International Corporation.

CAVIMEDIC

Cavimedic was one of the first companies to establish a representative office in Vietnam in 1977 and was called Vinamedic. Today, it trades for finished products and raw materials for the pharmaceutical industry, and acts as a agent for a number of pharmaceutical firms. It maintains offices in Ho Chi Minh City and Montreal.

CIIC

CIIC was established in Vietnam in 1980 by a group of Canadian Vietnamese who had returned to Vietnam with the goal of contributing to the development of the country. The company is currently engaged in three main activities: export-import, investment, and repatriation of capital. CIIC maintains an office in Montreal staffed with 15 employees, and an office in Ho Chi Minh City, the commercial centre of Vietnam, staffed with 37 employees. They also maintain small offices in Danang and Hanoi.

During the first 8 years of operation, CIIC's main line of business in Vietnam was importing polyester, plastic products, and agricultural raw materials, and exporting rice, ground nuts, and coffee. It was not until the Government of Vietnam introduced the new FIL in 1988 that they began to expand their business efforts. They are currently engaged in a joint venture with a Singapore company to import computers and they also offer investment services to firms wishing to locate to Vietnam.

DELTAMEX

Deltamex began conducting business in the early 1980s from its office in Montreal. Its initial focus was exporting to Vietnam medicine and personal parcels for Canadian Vietnamese, but as the business climate became more receptive, it expanded into communications equipment, aquaculture, furniture and pharmaceuticals. Deltamex also assists companies that want to invest and establish a presence in Vietnam. It maintains an office in Ho Chi Minh City.

TTQ & ASSOCIATES INTERNATIONAL CORPORATION

TTQ & Associates is a group of consultants specializing in Vietnam and Southeast Asia with offices in Quebec City and Ho Chi Minh City. TTQ offers business consulting services in export-import, marketing, and feasibility studies for companies seeking to export to Vietnam. In addition, it provides investment services such as identifying joint venture partners, assisting in the negotiation of contracts, and facilitating necessary trade permits and licenses.

TTQ & Associates represent Canadian companies in Vietnam in a number of sectors including electricity, natural gas, water resources, and transportation. The company acts as an exclusive agent for manufacturers or distributors of fibre optic testing equipment, elevators, geological instruments, cotton, paper, heavy equipment, and construction materials.

The company is also active in the construction industry and is in the final stages of setting up a joint venture company to provide construction quality control services in Vietnam.

Case No. 11
REAL ESTATE DEVELOPMENT OPPORTUNITIES IN VIETNAM

Groupe Capital is a Montreal-based firm involved in land development and its activities include the design and construction of residential, commercial, and industrial projects. It made its first visit to the country in June 1991 to explore opportunities and to determine the type of business that could be established in Vietnam. The individual who spearheaded the opportunity was one of the directors of the company, a Canadian of Vietnamese origin. After returning from the first trip, Groupe Capital realized the potential for its work and began developing its strategy.

Its next trip to Vietnam was in December 1991 with a Quebec Trade Mission, which marked the Quebec government's signing of a memorandum of understanding with Vietnam. It was during this trip that Groupe Capital began cultivating its relationship with the Ho Chi Minh City People's Committee, one of the decision-makers in land-development plans for the city.

Groupe Capital responded by inviting members of the Ho Chi Minh City People's Committee to visit its operations in Montreal and to introduce the Committee to some of its proposed projects. A subsequent visit by Groupe Capital was made to some of the project sites in search for potential partners. Two additional visits were made in 1992 to prepare feasibility studies and formalize agreements.

Groupe Capital has identified projects in Hanoi and Ho Chi Minh City to manage. In Hanoi, it has established a joint venture with the Centre of Research and Application for Science and Technology, and in Ho Chi Minh City, it is working with the Ho Chi Minh City Construction Service Company. Groupe Capital will provide the capital and expertise, and the Vietnamese will provide the land and the infrastructure renovation.

Due to the shortage of housing for foreigners, Groupe Capital is focusing on projects that develop semi-detached bungalows for foreigners. The buildings will include both residential and commercial properties.

One of the keys to Groupe Capital's success has been its commitment to cultivating relationships. Trips were made to Vietnam roughly every 3 to 4 months to maintain the relationships and to remain knowledgeable about the evolving market. In order to obtain both official approval for its projects and unofficial endorsement, Groupe Capital also had to spend time meeting with appropriate officials such as the SCCI, the Hanoi and Ho Chi Minh City People's Committees, the Ministry of Construction in Hanoi and Ho Chi Minh City, district people's committees, and its joint venture partners.

Groupe Capital has a number of phases to implement for the project to be complete, but it appears to be on the right path to success. Offices in Vietnam are planned to be established in 1993.

Case No. 12
ESTABLISHING AN AIRLINE IN VIETNAM

The operation of scheduled air services in any country is a political activity that receives a great deal of attention. It requires government involvement and often means the strengthening of ties between countries.

Hong Kong-based Cathay Pacific had to persuade the Hong Kong government that there would be a net benefit from establishing air services to Vietnam. Once the Hong Kong government supported Cathay's move, it proceeded to initiate a joint service agreement with Vietnam Airlines, the country's only national carrier.

Cathay ran into very few obstacles to establishing in Vietnam because the government considered the opening of an alternative gateway to Vietnam to that of Bangkok to be a high priority. Cathay Pacific began operations in Vietnam in mid-December 1991 with flights to Ho Chi Minh City and Hanoi.

Cathay was quick to realize that the key to the success of any venture in Vietnam is stressing the benefits that the venture will present for the Vietnamese to develop their own expertise and infrastructure, rather than simply creating an opportunity to collect a fee, royalty, or share of the profits.

The following lessons were articulated in a seminar presentation to business people by a Cathay Pacific official after successfully setting up in Vietnam:

- Companies should be well prepared with market intelligence and make frequent visits to meet with the widest spectrum of people long before the start of operations. Building positive relationships is very important.
- Establish an understanding on both sides that any joint venture will be based on "cooperation for mutual benefit", a phrase often used by the Vietnamese.
- Establish firm relationships at all levels - from ministerial levels in Hanoi, to provincial, and city authorities, to local/industry-specific organizations, because the power to solve your problems often lies in unexpected places.
- Hanoi is the political centre of Vietnam and should not be overlooked, even if your business is concentrated in the south.
- Learn from established foreign companies if they are willing to teach you.
- Be prepared to donate obsolete equipment that shows no immediate return to your company.
- Avoid conflict. Many rules, regulations, and business practices are incomprehensible to the visitor to Vietnam and can occasionally create frustrations. The Vietnamese are warm, friendly, and cooperative, but suspicious to a certain degree. They are sensitive about practices they know are indefensible, but which they are obliged to defend. It is up to the foreigner to anticipate potential conflict, and be prepared to back down, without implying

weakness. Be direct, but sensitive to reactions, and always maintain a sense of humour.

- Be patient and take the time to demonstrate what you are trying to achieve and how it will benefit both sides.
- Socialize without lavish hospitality and ostentatious presents. Gifts can embarrass the Vietnamese, particularly if the presents are handed over in front of colleagues or other officials. Often simple items such as technical publications or household gadgets are more appreciated.

Case No. 13
A JAPANESE TRADING COMPANY REVEALS HOW IT CONDUCTS BUSINESS IN VIETNAM

Tomen Corporation is one of the "Big 7" trading companies in Japan with 5,600 staff spread over 130 subsidiaries, branches, and representative offices throughout 26 domestic offices and 104 overseas offices.

It is one of the world's leading general trading companies and, as such, is one of the leaders in Vietnam over other Japanese companies such as JVC, Sanyo, Nissho Iwai, Sumitomo Corporation, Nippon Mining Co. Ltd., and Mitsui.

The Japanese government has officially supported the US attempt to block assistance to Vietnam through the IFI's; however, it has also stated that it cannot control the private participation of Japanese private sector in trading activities. As a result, Japan has become Vietnam's leading trading partner. The Japanese government's decision, in late 1992, to establish its development assistance program is an illustration that normalization of international financial relations with Vietnam is forthcoming.

Tomen is involved in a wide array of industries, including: iron and steel, non-ferrous metals, machinery, general merchandise, real estate and construction, food and produce, chemicals and plastics, energy, and textiles. It is also involved in two-way trade, acts as an organizer in various projects from the initial feasibility study stage to the arrangement of transportation linkages, and the formation of project consortia and joint ventures.

Incorporated in Tokyo in 1920, Tomen began exploring opportunities in Vietnam in 1989 by trading (under a different name) with enterprises such as Textamix, Seaprodex, Union of Cement Products and Vinametal. The second phase of its entry strategy was to establish a representative office in Hanoi, in 1990. Tomen had already made numerous trips into Vietnam prior to establishing the representative office in order to gather information to formulate its strategy. The main purpose of the representative office was to remain abreast of the changing business climate in the country and to identify business opportunities on an on-going basis.

Tomen's first joint venture in Vietnam was with the Gum Resin Industry in Quang Ninh, 200 km east of Hanoi, and began operations in April 1991. The Japanese rehabilitated an existing plant with a modest US$1 million investment to produce gum resin for export from pine trees. The resin is exported to Japan where it is used to manufacture paper. The next phase will include starting a gum resin factory in southern Vietnam located in the Lam Dong province four hours north of Ho Chi Minh City.

Tomen's rationale for establishing its joint venture originated from its difficulty in obtaining its resin supply from China, so it approached the Vietcochamber to look at the potential of establishing a project in Vietnam. The Vietcochamber provided Tomen with market information on pine trees and a number of potential joint venture candidates. Once it chose the Gum Resin Industry as its partner, there followed a whole year of negotiations. One of the roadblocks Tomen experienced was that its Vietnamese partner had not even read the FIL.

Once Tomen firmed up its proposal, it was submitted to the SCCI and granted in one month. The joint venture was shared 50/50 with the Vietnamese contributing the land and the building, in addition to a 10 percent capital contribution. The venture is projected to begin making a profit in three years.

Some of the difficulties Tomen encountered included communication problems in training the Vietnamese due to the technical nature of the manufacturing process; it was also difficult to convince the MOF to accept the western style accounting principles over the Russian method traditionally used by the Vietnamese. Tomen also initially experienced delays in shipping the goods out from Haiphong Port; however, the situation improved markedly in 1992.

Tomen's gum resin venture is just the beginning of its Vietnam strategy. This was a test case to learn how the game is played in Vietnam. Now that it is more familiar with the country's regulations, it is pursuing other projects such as a food canning factory, a crude oil refinery, a cement factory, a fertilizer plant, a pulp and paper project, and a hospital water supply system financed by the Japanese government.

Case No. 14
MALAYSIA HELPS DESIGN THE ROUTE TO VIETNAM

Taiwan, Hong Kong, Singapore, and Malaysia are the countries which are beginning to take advantage of Vietnam as a low-cost manufacturing base.

Malaysia is one of the regional investors establishing a presence in Vietnam. Golden Hope Plantations is one of Malaysia's largest holding companies. It began its operations in resource-based industries, managing and operating its own palm oil, rubber, and cocoa estates in Malaysia. Since that time, the group has become diversified and maintains subsidiaries involved in fruit cultivation and processing, palm oil refining, the manufacture of rubber products, property development and investment, and agricultural and computer consultancy services.

Malaysia has a population of 20 million and maintains one of the most favourable business climates in Southeast Asia. In development terms it is quickly becoming a "newly industrialized country" (NIC). As Malaysia's standard of living rises in conjunction with its high economic growth rates, the private sector is being encouraged by the Malaysian government to cooperate with other Southeast Asian countries to jointly develop the Indochina region. Vietnam has been identified by Malaysian industry as a country that best offers opportunities for low-cost manufacturing in the region.

The Government of Malaysia has assisted Golden Hope and other Malaysian companies by initiating solid intergovernmental relations with the Government of Vietnam. In effect, there has be great success in paving the way for companies like Golden Hope.

Golden Hope has dedicated the last three years to establishing a joint venture in southern Vietnam to process oils such as peanut, coconut, and palm into edible oils for domestic consumption and regional export.

It made its first visit to Vietnam in 1990 on an exploratory trade mission, searching for general opportunities. The area of edible oils was identified by Golden Hope personnel as a good opportunity to pursue.

A large company like Golden Hope has the resources to determine the opportunity and the type of partnership that is necessary; however, in order to find a partner that complemented its capabilities, it contacted the MOT for assistance in identifying appropriate joint venture partners. The MOT suggested a number of candidates; however, the chosen one was the Nhabe Vegetable Oil Factory (see section 5.13 for information on "Finding a Vietnamese Partner").

The first few months of the relationship were very critical because during this period were formed the building blocks for the entire operation. In early 1991, both companies signed a memorandum of understanding outlining the general action plan for the establishment of the company. The process was slow, but later in 1991, a contract was signed between the two parties. In April 1992, the joint venture company called Golden Hope-Nhabe Edible Oils Co. Ltd. received its investment license.

Golden Hope is rehabilitating older facilities and constructing a new plant that will be 26,000 $metres^2$ in size. Renovation will be completed and new equipment installed by 1993.

Golden Hope's experience in Vietnam has not been without challenges. One problem is the change in work culture. Foreign companies are introducing a democratic management style to the Vietnamese who have usually worked under a centrally-controlled, autocratic management style. This often leads to communication difficulties among lower-management decision makers such as misinterpreting translations and misunderstanding business language.

The banking system and the legal framework are antiquated because the Vietnamese have been trained under a command economy and they simply do not understand the manner in which western banks operate. Nevertheless, the financial facilities are constantly improving as the banks become more familiar with international business transactions.

The labour force provides an excellent foundation for Vietnam's development. Workers are easily trained, willing to learn, and maintain a literacy rate of 90 percent. These characteristics will be important in improving productivity efficiency that was lacking under the state system where workers lacked incentives and responsibilities.

Importing material and equipment (export-import controls) into Vietnam also presented problems. The bureaucratic red tape and high import duties on certain equipment forced recurring visits to the Ministry of Trade to relieve the customs obstacles.

Vietnam's distribution network is also a problem because Vietnam does not have any large wholesalers or distributors to transport their product to the market. Golden Hope responded to this obstacle by using their own fleet of trucks from Malaysia to transport their goods.

In order for a company to overcome the obstacles it must have its own personnel on the ground in Vietnam to take the necessary decisions. Company representatives must also be positioned in the country for the long-term to build the required personal relationships within Vietnam to solve any problems that arise.

Case No. 15
AUSTRALIA POSITIONS ITSELF FOR VIETNAM'S GROWTH

During the last five years, the Australian government has focused its international business activities on Southeast Asia. It has recognized that a region consisting of over 400 million people cannot be overlooked. Realizing that Vietnam will have a role to play in Southeast Asia's development, Australia began taking a more friendly, long-term approach to its relationship as early as 1983.

Australia has since established excellent intergovernmental relations with Vietnam and opened an official trade representative office in Ho Chi Minh City in early 1990. Australia ranks among the top 5 investors in Vietnam and has been involved primarily in large projects such as telecommunications, mining and oil exploration. It has also formed an Australian-Vietnam Business Council that will work closely with Australian industry and government to assist in the restructuring of Vietnam's economy.

One Australian company that has demonstrated the entrepreneurial spirit is Bytenet Proprietary Limited of Australia out of Brisbane. Bytenet formed a joint venture company with General Construction Company No. 1 of Vietnam called Mekong Ready Mixed Concrete Limited to produce pre-mixed concrete to use for construction projects in Vietnam.

The idea was initially presented to a group of investors on a golf course in Brisbane by an Australian-Vietnamese who advised that the need for ready-mixed concrete was immediate for the burgeoning construction market.

The potential of Vietnam attracted the group to make an exploratory visit in January, 1991. During this first trip, Bytenet contacted the appropriate organizations at the various administrative levels and concluded that an opportunity existed to produce quality, pre-mixed concrete. In addition, it believed it was an excellent time to position itself while the US embargo was still in place.

Consultations with the SCCI, the Ministry of Construction, and the Ho Chi Minh City People's Committee were necessary during the search for a joint venture partner, and to gain acceptance for the proposed project at the local and national levels. Bytenet did not use the services of a consultant to guide them through the investment procedures but instead relied on the SCCI and the Ministry of Construction to provide them with support.

Once it had identified the General Construction Company No. 1 as its partner, it worked closely with the SCCI in detailing the legalities of the joint venture and obtaining relevant information for the submission of its investment application. The SCCI issued the investment license in October 1991. Construction of the plant began in February 1992, followed by the opening of the plant in June 1992.

Bytenet contributed capital, equipment, technology, and management expertise to the joint venture, while the General Construction Company contributed the land, equipment and labour.

One of the keys to Bytenet's success is the staffing of its venture with a capable expatriate representative. The problems foreign companies experience in Vietnam are similar to problems experienced in other less developed countries; however, to rise above the difficulties, foreign companies must have capable people on the ground to solve problems as they arise. It is crucial to have someone who has been involved in similar projects in other developing countries.

The three success principles in Vietnam according to Bytenet are: (1) finding a sound joint-venture partner that is respected by government decision-makers; (2) financial commitment by the investor - action by the Vietnamese will be delayed until the foreign partner confirms its financial commitment; and (3) patience - without patience, a company has no future in Vietnam.

Bytenet is confident that once the US embargo is lifted and development assistance begins to channel its way into the country for infrastructure projects, demand for its product will increase dramatically. Its plan is to compete with a quality product that is competitively priced.

The lack of support infrastructure such as typical marketing norms, standard tendering procedures, and even yellow pages remain a problem. These minor hurdles can cause problems in any company's marketing plan; however, the solution is to simply adapt to what is available, because sooner or later, the infrastructure will be put in place.

With a total invested capital of US$1.2 million, Bytenet has installed state-of-the-art technology and computers that will produce 130 cubic metres of concrete per hour. Mekong Ready Mixed Concrete Limited is optimistic that once the embargo is lifted, the construction industry will take off, along with the demand for concrete.

SECTION II: LAOS
Chapter 10
A PROFILE

10.1 Introduction

Compared to Vietnam and Cambodia, Laos is the forgotten country in Southeast Asia, particularly when it comes to conducting business in the region.

Landlocked, rugged, and inaccessible, Laos remains not only one of the most isolated countries in Southeast Asia but one of the most socially and economically fragmented as well.

The population consists of many ethnic groups. The country's small population (4 million), geography, and the size of its economy have enabled it to implement economic reforms more efficiently than Vietnam. The government chose not to adopt a phased or gradual approach towards its move to a market system but instead wanted to achieve the transition almost immediately. The result was the rapid decentralization of economic decision-making, the granting of financial autonomy to companies, the promotion of private sector participation, the removal of price restrictions, and control of the exchange rate.

Rapid liberalization put the system in place; however, it also weakened the government's financial structures and administrative abilities. Even though the government installed the framework for the reforms, the quality of their design and composition suffered.

Laos has been fortunate to have received financial support through international financial institutions and the UN, which have been essential in supporting the transition to the liberal-market system. Currently there are over one hundred UN advisors and consultants situated throughout various ministries and government organizations assisting Laos in its economic conversion.

The New Economic Mechanism (NEM - see section 13.3) introduced in 1985 has piloted the Lao People's Democratic Republic's (LPDR) market transition; however, due to the country's economic, infrastructure, and resource constraints, the increase in trade and investment has been limited. A major challenge will involve providing technical training for government staff to maintain the transition, while at the same time utilizing staff to implement the projects and programs necessary for sustained development, and improving the efficiency of both the public and private sectors.

The current Five-Year Plan (see section 13.4) which will end in 1995, highlights the country's desire to strengthen its institutions and train human resources to implement the economic reforms, develop the economic and physical infrastructure of the country, and augment social services, particularly for health and education.

The development plan gives priority to six economic sectors: agriculture and forestry, manufacturing, mining, electricity, transport, and telecommunications. The purpose of the plan is to strengthen the infrastructure and promote private sector activity.

Unlike Vietnam, which swarms with business visitors, Laos lingers quietly as it opens its doors to the West; therefore, the race to enter the market has been less fierce, making business easier and more relaxed. Nevertheless, bureaucratic obstacles such as the delayed approval of projects, inadequate institutional and transportation infrastructure, travel constraints, unreliable information, poor communications, and foreign exchange problems are inconveniences in Laos, as elsewhere in the region.

Laos will probably not grow significantly in the immediate future due to its lack of financial resources. Firms wanting to invest in the economy will have to thoroughly research and cultivate investment opportunities which will most likely be found in niche areas until the country recovers financially and improves its infrastructure.

The construction of a bridge across the Mekong River linking Laos and Thailand, its main trade and investment partner, is an important development that will affect the country's growth in the future. When completed in mid-1994, it will be the first international bridge to cross the river. The bridge will improve access to Laos and reduce transportation costs for commercial freight to and from Thailand.

Most analysts agree that the new bridge will play an important part in further opening the country to the market system; however, the government will have to face many other challenges before the country is properly equipped for the foreign business person.

Following the death, in 1992, of the president, who had been in power for 17 years, and who led the Communist Party since it was founded in 1955, the government has reaffirmed its commitment to reform. The Party maintains such a strong hold on power that no one expects any policy changes that might upset the political balance, particularly now that the country's new constitution is entrenched. Economic realities will dictate, so most analysts are confident that Laos will continue to plod along its peaceful path of reform.

10.2 Geography and Climate

Laos is a landlocked country with an area of 236,800 km², stretching more than 1,700 km from north to south and between 100 km and 400 km to the east and west. It maintains an eastern border of 1,957 km with Vietnam, a western border of 1,730 km with Thailand, a southern border of 492 km with Cambodia, and northern borders of 416 km with China and 230 km with Myanmar. More than 70 percent of the country is mountainous, ranging in elevation from 200 to 3,000 metres. The country is heavily forested, rich in natural resources and fertile land.

Although Laos has no direct access to the sea, it has many rivers, including the 1,500 km long Mekong River, which defines the borders with Thailand and Myanmar. The river and its tributaries are mostly navigable and provide alluvial deposits for some of the fertile plains.

The country's physical features pose difficulties for transportation and communication, and complicate economic development, but they have enormous potential for hydroelectric power.

Laos has a tropical monsoon climate with a dry season from December to April and a rainy season from May to November. It is always humid. Temperatures can be close to freezing in the northern mountains while, in the plateau areas, range from 15 to 32 degrees celsius, with January the coolest month and April the hottest.

10.3 Population

Laos has a population of about 4.2 million (1990). The crude birth rate is 44 per 1,000, the infant mortality rate is 104 per 1,000 live births, and life expectancy is only 50 years.

Most people live on the fertile plains along the Mekong River which runs along the Lao-Thai border and into Cambodia. The population of Laos has been growing at 2.9 percent per year, though the country has one of the lowest population densities in the region at 17 people per km². Population growth is encouraged to meet labour force needs for development. It is estimated that 80 percent of the people base their existence on agriculture.

The capital city of Laos is Vientiane, located in Vientiane Prefecture, and is inhabited by roughly 442,000 people. It has a population density of about 118 per km². Other major cities include Luang Prabang (pop. 44,000) to the north and Pakse (pop. 45,000), Savannakhet (pop. 51,000), Khongsedon and Champassak to the south, near the Thai border. The population is mostly rural.

The country's physical characteristics and its lack of development have led to wide disparities in economic conditions, health, and education. Over 45 percent of the population is under the age of fifteen.

The ethnic diversity of the country is reflected in 68 groups that can be divided into three broad categories: (1) the Lao Loum, who occupy the lowland plains and constitute 55 percent of the population; (2) the Lao Theung, who occupy the mountain slopes and comprise about 27 percent of the population; and (3) the Lao Soung, who occupy the high mountain tops and constitute about 18 percent of the population.

10.4 Language and Religion

Lao is the national language of Laos and has become the main language used between all Lao and non-Lao ethnic groups. Different dialects are spoken in different regions of the country though the Vientiane dialect is most widely used. Lao is closely related to the Thai language as spoken in northeast and central Thailand, and the two are mutually intelligible.

French is the official second language of the government. Many documents are published in French as well as in Lao. Most people who speak French are either elderly or had attended high school prior to 1975. French is understood in Luang Prabang, Vientiane, and other main cities scattered along the Mekong River. English is also understood but to a lesser extent than French.

The most popular religion in Laos is Buddhism which is followed by over 85 percent of the population. The highland ethnic minorities practice animism which emphasizes a reverence for all living things. Buddhism is a strong force in Lao culture and remains a major influence in everyday life.

10.5 Education

The state provides free education from ages six to seventeen. The system includes five years of primary school and six years of secondary school. Enrolment in the rural areas tends to decline after primary school.

Adult literacy is estimated at 65 percent for males and 35 percent for females. There exist both gender and regional differences indicating that the literacy rate for ethnic minorities living in remote areas is significantly lower for both men and women.

Table 10.1

LAOS - A Statistical Profile	
Land Area	236,800 sq km
Political Structure	The Lao People's Democratic Republic is a one-party system ruled by the Lao People's Revolutionary Party (LPRP). The President is the Head of State and the political and administrative responsibilities are connected to the LPRP.
Population Vientiane Populatin Growth Rate	4.7 million 442,000 2.9 % per annum
GDP Per Capital GDP Growth (1992) Total GDP	US$180 6.5 % 377.5 billion kip
Social Indicators Life Expectancy at Birth Infant Mortality Rate Adult Literacy Rate	 49.7 years 117 per 1,000 live births 50 %
Structure of Production Agriculture Industry Services	 60 % 16 % 24 %
Labour Force	2 million
Inflation Rate	10 %
Currency	US$ = Kip 700
Trade (1990) Export Import Balance	 US$ 68.2 million US$ 239.8 million US$ -171.6 million
Main Export Items Main Import Items	Electricity, timber, wood, coffee, gypsum and tin Transport, fuel, cement, textiles, iron and paper
Opportunities	Agro-forestry, meat processing, mining, infrastructure, and textiles.

Source: The information was compiled from various interviews and Lao statistics

Chapter 11
POLITICAL ENVIRONMENT

During the last five years, the Government of Laos introduced its economic reforms at a faster pace than its neighbours in Vietnam and Cambodia. The Lao government wants to develop an infrastructure of private industry along market-oriented policies which will eventually permit a high degree of economic self-sufficiency.

Factors to Consider

- Commitment to reforms
- One-party state
- New constitution
- Political stability
- Government attitudes
- Foreign investment climate
- Isolation
- Weak administration

11.1 Political Background

Laos has a one-party system, ruled by the Lao People's Revolutionary Party (LPRP).

On December 2, 1975 the LPRP established the Lao People's Democratic Republic (LPDR) following communist victories in bordering Vietnam and Cambodia earlier that same year. The new rulers allied themselves with Vietnam and the Soviet Union and commenced the collectivization of agriculture and the elimination of the private sector. Anti-government insurrection was precipitated by numerous factors, including: the Party's attempt to transform Laos into a socialist state, a shrinking economy which had resulted from the abrupt withdrawal of large wartime subsidies from the US, and the inability of the industrial sector to produce a surplus.

To help overcome these difficulties, Laos signed the Treaty of Friendship and Cooperation with Vietnam in 1977. This allowed for Vietnamese military forces to come to the assistance of the Lao government in fighting the insurgents and introduced thousands of civilian advisers. In 1979, the government halted its collectivization strategy and initiated reforms to expand agriculture.

In 1986, out of economic necessity, liberal reforms were introduced which began to dismantle the centrally-planned and managed economy. This finally resulted in the quiet abandonment of the country's goal to build a purely socialist state. In response to international opposition to military intervention in Laos and Cambodia, Vietnam withdrew most of its 50,000 forces and 6,000 advisers in 1989.

11.2 The Constitution

In August 1991, Laos passed its first constitution since the previous one was abolished in 1975. The constitution formalized the Party's monopoly over Laos politics, and reaffirmed the move towards a free-market economy.

The constitution defines the political regime, the socio-economic system, and the rights and obligations of citizens. Further, it states that the Communist Party is the "leading organ" of the country's political system.

11.3 Political Structure

The government is the administrative agency of the party and is controlled by the Politburo. The President is the head of state and the armed forces. The position of President is the most powerful in government (see Diagram 11.1).

The constitution of 1991 abolished the main organ of government, the Council of Ministers, in order to streamline government decision-making and to increase the power and responsibilities of the Prime Minister and individual ministers.

The constitution also gave a greater role to the legislature, renamed the National Assembly, which is the legislative and governing body of the country and which directly oversees all executive and judiciary processes. The National Assembly is the only body authorized to adopt, amend, or abolish laws, or to amend the constitution. A new law on elections was adopted under which a new National Assembly was to have been elected for a five-year term beginning in 1992.

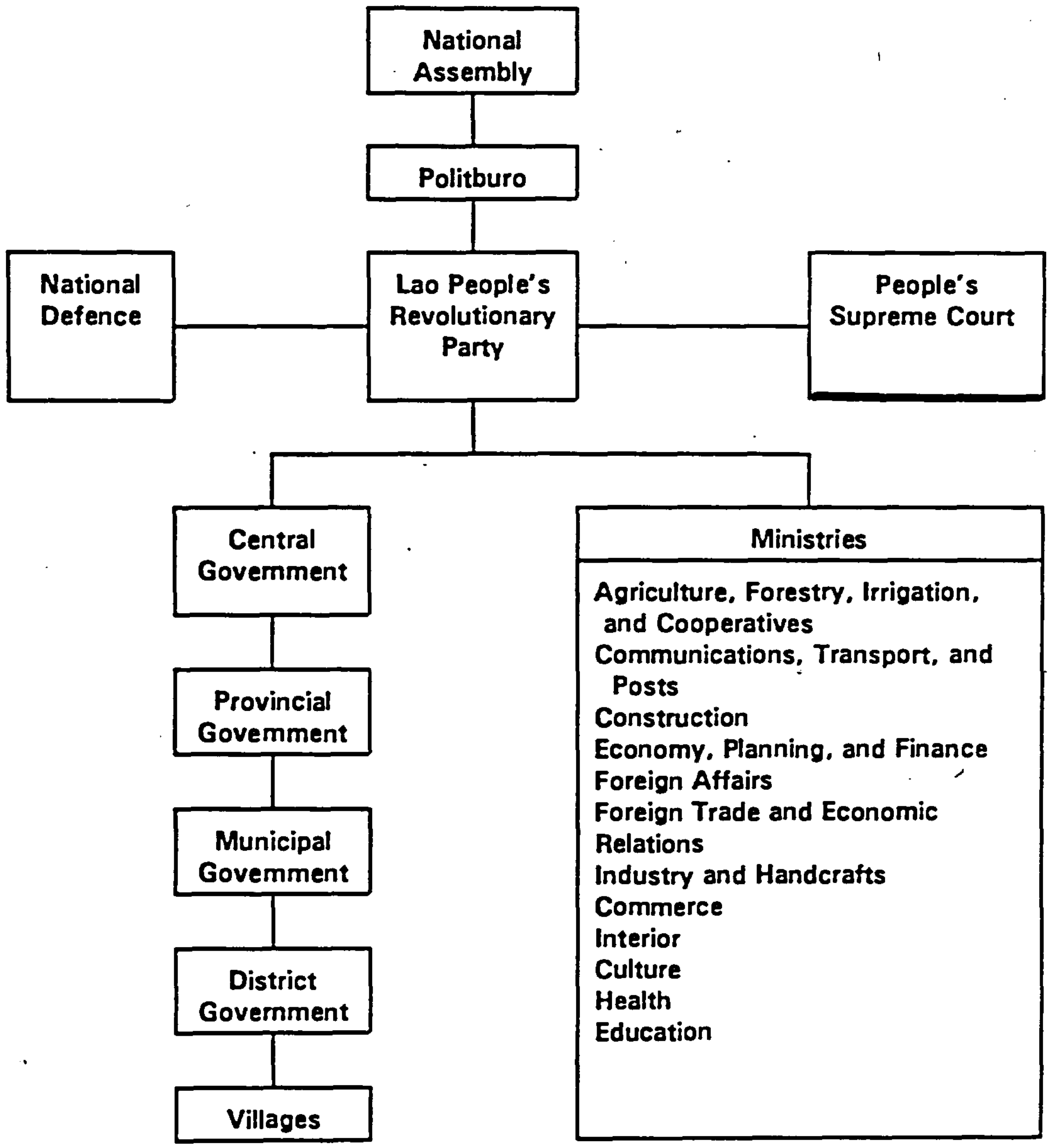
11.4 Administration

The local government structure includes the provincial, district, and village levels. There are 16 provinces comprising 112 districts, 950 sub-districts and 11,424 villages. Each province consists of 3 to 13 districts. The provincial and district administration levels have the same jurisdiction as the central ministries, except in the areas of national defence and foreign affairs. Many of the provinces and districts are isolated from the central government, and as a result have not been able to fulfil their administrative functions effectively.

The LPRP abolished the party secretariat in 1991 in a move designed to increase the power of central government ministries and departments involved in the daily management of public affairs.

Diagram 11.1

GOVERNMENT STRUCTURE OF LAOS



Chapter 12
ECONOMIC ENVIRONMENT

Factors to Consider

- Per capita income less than US$200
- New Economic Mechanism
- 4.17 million people
- Agriculture based economy
- Restricted consumer products
- Isolation
- Small industrial base

12.1 Economy - General Description

The Lao government's NEM (see section 13.3) is aimed at transforming its centrally-planned system to an economy that relies on market forces. The government is strongly committed to the success of the NEM, in spite of many obstacles that accompany such a transition. The economy will continue to experience short-term adjustment costs over the next decade.

Despite the ongoing adjustment costs, the reforms have displayed signs of success in revitalizing economic activities. The real GDP growth rates between 1988 and 1991 averaged 8 percent a year, while inflation declined from 75 percent to 10 percent in 1991. The rate of GDP growth for 1992 is estimated at 6.5 percent with a reduction in the rate of inflation to 6 to 7 percent. Economic growth can be attributed to expansion of the private sector and increased crop production.

The broad-based economic reform has been implemented swiftly in Laos' small economy and population. The country's small industrial base has allowed the government to focus on new industries, as opposed to revitalizing an antiquated industrial sector like that of its neighbour Vietnam. Unlike Vietnam and Cambodia, which have had to contend with economic embargoes, Laos' economy has had the favourable condition of being assisted with financial and technical support from the international community such as the UN, World Bank, and ADB.

Laos' economy remains one of the least developed in the world. The annual per capita income was estimated to be less than US$200 in 1990. The per capita income understates the living standards in Laos because the non-monetized segment of the economy (subsistence farming) is not part of the income data.

There are 5 main sectors that make up the Lao GDP:

- Agriculture, forestry, and fishing
- Manufacturing
- Construction
- Energy
- Service

Agriculture accounts for 60 percent of the real GDP, while the industrial and service sectors accounted for 16 percent and 24 percent, respectively, in 1990. Rice production contributed 48 percent to total agricultural output, other crops 24 percent, livestock and fisheries 13 percent, and forestry 15 percent.

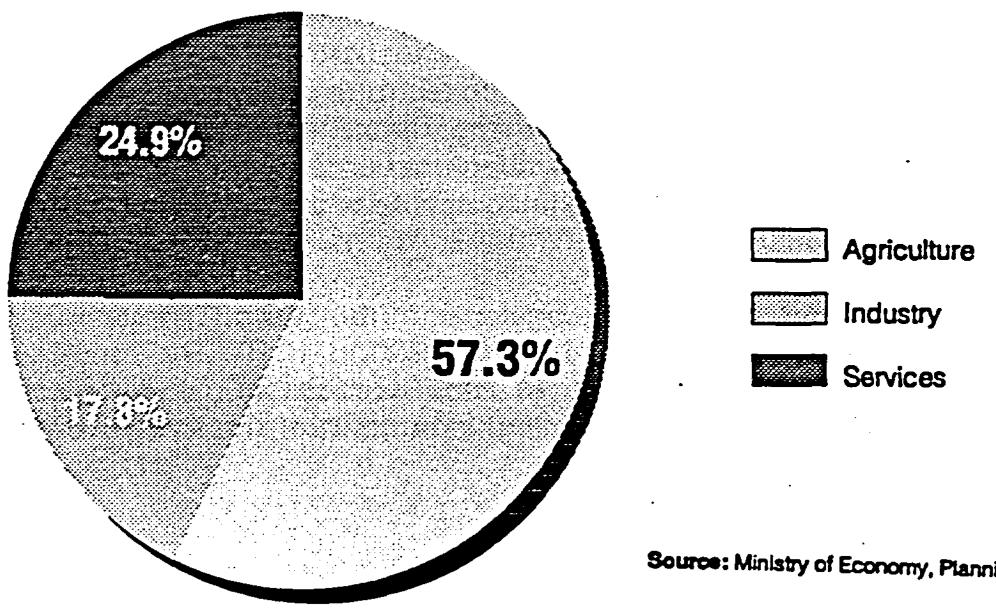
The manufacturing sector accounted for 62 percent of total industrial output, construction 23 percent, electricity, gas, and water 13 percent, and mining and quarrying 2 percent.

Wholesale and retail trade accounted for 40 percent of the service sector while transportation, storage, and communications represented 19 percent. Banking, insurance, real estate, and ownership of dwellings accounted for 6 percent of total services. Public administration, defence, and non-profit institutions accounted for the remaining 35 percent.

Diagram 12.1

Share of GDP in Laos

by Sector Groups in 1991

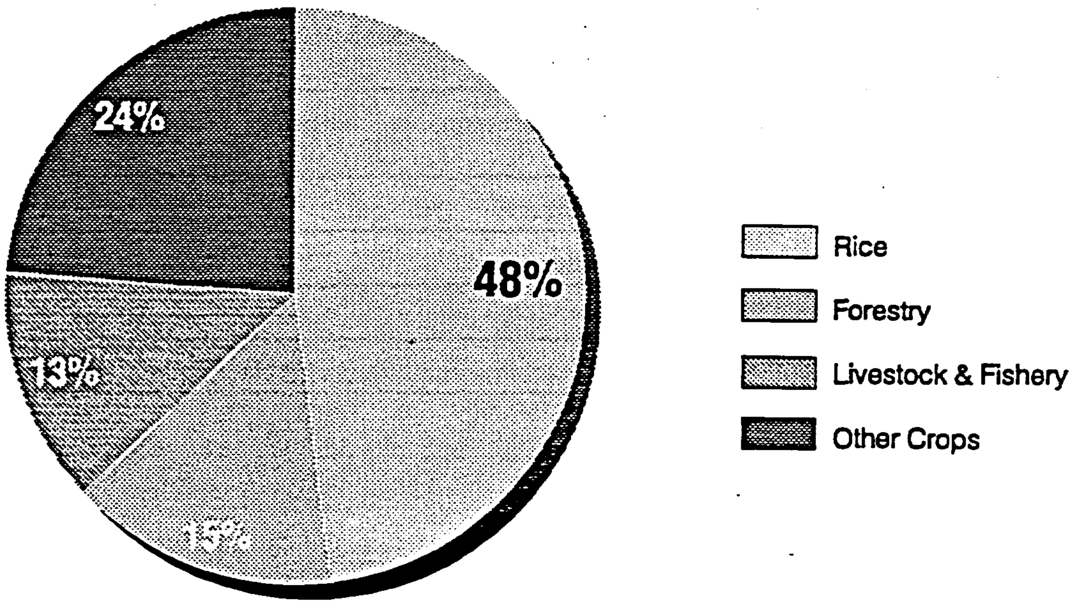


Source: Ministry of Economy, Planning and Finance, Vientiane, 1991

Diagram 12.2

Agricultural Composition of Laos

in 1990



The economy relies heavily on external assistance to support its programs. In 1991, the government received US$177.3 million, roughly 80 percent of the government's budget.

12.2 Foreign Trade

Laos has a trade deficit of US$145 million with exports in 1990 at US$70 million and imports totalling US$215 million. The main exports include electricity to Thailand, agricultural commodities, timber and wood products, coffee, and tin.

Trade can be divided into two main groups: (1) trade in convertible currencies with capitalist countries; and (2) trade in non-convertible currencies with socialist countries. Unofficial trade exists between Thailand and Laos by means of the Mekong River.

12.3 Main Growth Areas

The majority of economic development has been in the main population centres of the country, particularly in the major towns along the Mekong River.

Table 12.1

Main Growth Areas in Laos, By Province

Province	Population (1990)	Major Functions and Activities
Vientiane Prefecture	442,000	Capital City, Commercial and Industrial Centre, and Tourism
Savannakhet	640,000	Trade, Agriculture
Champassack	469,000	Trade, Agriculture
Luang Prabang	339,000	Tourism
Vientiane Province	312,000	Agriculture, Agro-Industry, Industrial Hinterland

AGRICULTURE AND FORESTRY

12.4 Agriculture

Agriculture is the mainstay of the Lao economy. Forest products and cattle are major export items. Agriculture represents over 60 percent of the total GDP and employs 80 percent of the country's 2.0 million labour force.

Rice is the main crop, making up 75 percent of agricultural production. Farmers diversify their crops when they feel secure with a rice surplus. Rice substitutes include maize and cassava. Farmers grow vegetables and raise water buffalo, cattle, pigs, and chickens. Opium is grown in the northern mountains and is a major source of cash income. Coffee is the only important export crop and offers good potential. There is also potential for tea as an export crop and for oil seed crops for import substitution.

Agricultural development has been adversely affected by erosion and deforestation; Policy reforms are encouraging more intensive, efficient production and processing practices. Capabilities exist to further develop the agricultural industry, but examination of the most profitable areas is required due to the lack of available information.

12.5 Livestock

Livestock contributes almost 30 percent of the total agricultural output. It is one of the most promising opportunities for high-value export products. Increasing incomes in the expanding economy of Thailand has created a strong and growing demand for beef. An estimated 30,000 to 40,000 head per year are sold to Thailand.

Extensive lands are well-suited for pasture and fodder crop production, but an estimated 2 million hectares of grazing land is underutilized. Mortality and morbidity losses remain a problem. Rinderpest, foot-and-mouth disease, cholera, and other diseases are widespread. Nearly all animals have intestinal parasites. Animal health care, vaccination, feed supplements, and genetic improvement of local breeds have been neglected.

Table 12.2

Agriculture Production for Laos in 1991

Crop	'000 tonnes
Rice	1,223.0
Sweet Potato/Cassava	132.1
Sugar Cane	80.5
Maize	69.0
Vegetables	51.2
Tobacco	45.3
Coffee	8.0
Soybeans	6.0
Peanut	5.6
Cotton	4.8
Mung Bean	2.1
Tea	1.7

Source: Ministry of Economy Planning and Finance, State Statistical Centre

12.6 Forestry

The forests are one of the country's major resources providing opportunities for economic development. Nevertheless, there is a trend toward deforestation through legal and illegal harvesting for export and domestic use. There are less than 10 million ha of forests remaining in Laos. There has not been a complete forest survey performed on the country.

Approximately 50 percent of the timber is wasted due to inefficient harvesting and processing. The demand for sustainable management is becoming more compelling as the government will soon have to determine the right mix of low technology harvesting, and high technology processing. Log harvesting is done primarily by state and provincial forestry enterprises which has been hindered by inefficient management and poor financial planning.

The forestry resource will only be able to play a role in the government's development plan if it can achieve sustainable development. Taxation, export restrictions, and quotas on logging have been introduced, but the problem continues. Government policy weaknesses and the conflict between the role the government plays as a policy regulator and harvester have impaired effective regulation.

There are 24 programmes outlined by the Ministry of Agriculture and Forestry that present Laos' priority areas for development in agriculture and forestry.

Table 12.3

National Agricultural and Forestry Master Plan for Laos

Type	National Program	Priority
Systems	Farming Systems	Medium
	Agro-forestry	Medium
	Socioeconomics	High
Crops	Rainfed Lowland Rice	High
	Upland Rice	High
	Irrigated Rice	Low
	Maize	High
	Grain Legumes	High
	Oil Seeds	Medium
	Roots and Tubers	Medium
	Coffee	High
	Fiber Crops (Cotton)	High
	Sericulture	Medium
	Fruits, Nuts, Vegetables	Medium
	Sugar Cane	Low
Livestock and Fisheries	Pastures	High
	Indigenous Fish	High
Forestry	Plantation Forestry	High
	Natural Forestry	High
	Wood Technology	Low
Support	Integrated Pest Management	N.A.
	Soil Fertility	N.A.
	Agricultural Meteorology	N.A.
	Irrigation Water Management	N.A.

Source: National Agricultural Research Centre, Vientiane, 1991

TRANSPORTATION AND TELECOMMUNICATIONS

The Ministry of Communication, Transport, Post, and Construction (MCTPC) is responsible for transportation and communications. Laos must contend with burdensome, high-cost transport routes to external markets because it is a landlocked country and an inefficient telecommunications system. Domestic markets have also been neglected due to the poorly-developed local road network and transport infrastructure. The development of the transportation infrastructure is the government's top priority.

In 1991, the UNDP assisted the Lao government to complete its National Transport Study which outlines the country's investment program from 1991 until 2000. The Study estimates that the planned transportation costs for the 1991-1995 National Development Plan (see section 13.4) would be at US$328 million, of which US$298 million would have to be funded externally.

12.7 Roads

The roads are the main transport system in Laos and they remain in poor condition, particularly during the rainy season. External assistance is being provided for their rehabilitation. The road network is estimated to include 3,387 km of national roads (1,571 km are paved and 1,055 km are gravel roads), 5,640 km of provincial roads, and 4,000 km of local roads. Most of the bridges are steel with over 50 percent requiring replacement. An Australian group is constructing Laos' first bridge to cross the Mekong River from Thaduea (near Vientiane) to Nong Khai, Thailand. Access to roads is limited during the wet season, particularly for the roughly 45 percent of the population living in the mountains.

The road transport industry is organized into government-operated state and provincial transport companies, and privately-owned transport associations for carrying passengers and cargo within the country. The state companies have a monopoly on transport to the Vietnamese seaports. The private sector is limited by restrictive government regulations.

12.8 Inland River System

River transport is along the Mekong River which runs some 2,000 km along the Lao border and represents a small but important portion of the local transport system. Truck ferries are the main type of river transportation being used between Thailand and Vientiane and at other major provincial capitals along the river. The most important river route is Vientiane to Savannakhet, which links to Road No. 9 and to ports in Vietnam. Dredging along this route could open it to all-year passage.

12.9 Airways

The Department of Civil Aviation under the MCTPC is responsible for air transport. Lao Aviation is responsible for civil air transport and the National Airports Authority manages the country's airports. The main international connection is between Vientiane and Bangkok. Provincial airports are in poor condition and lack the resources for maintenance. Rehabilitation, equipment, and training are required.

12.10 Telecommunications

The telecommunications system in Laos requires upgrading and companies must contend with inadequate international and domestic telephone and facsimile linkages. The majority of direct circuits connect Vientiane to Thailand, while most international calls are transmitted from Vientiane by satellite through Sydney, Australia. Other direct linkages include Hanoi and Moscow. In 1992, international direct dialing (IDD) was introduced but is currently limited to only 1,000 subscribers.

International communications are possible from Vientiane with 1.6 telephones per 1,000 people. Provincial capitals are poorly connected to Vientiane and provide sporadic service with 2,500 local telephone lines. The majority of the equipment is out-of-date and requires restoration. Only 20 percent of Vientiane's 6,064 lines are part of a new digital exchange, making communicating for international business difficult.

The Enterprise d'Etat des Postes et Télécommunications Lao (EPTL) under the MCTPC is responsible for domestic and international post and telecommunications services.

In 1992, the Lao government prepared a medium-term Master Plan for telecommunications highlighting the following areas as priorities:

- Expand the domestic telecommunications network and improve the quality of equipment and systems by extending the digital exchange in Vientiane by linking the system to five provincial capitals.
- Improve the management of the EPTL.
- Upgrade and extend the international communications network.
- Human resource development in the operation and maintenance of the new equipment and systems.

The telecommunications sector's largest constraint is the inability of the government to commit to further development due to the lack of capital. The isolation of the country and its people make connecting modern telecommunications systems expensive.

ENERGY AND MINING

12.11 Hydropower

Laos has an abundant supply of hydropower due to its mountainous terrain and heavy rainfall. The potential for the generation of hydroelectricity is high.

Electricité du Lao (EDL) owns and operates the major power generation and distribution systems in Laos. EDL is a state enterprise supervised by the Ministry of Industry and Handicrafts. Small systems are operated by provincial authorities and are assisted by EDL.

Nam Ngum station is the largest hydroelectric plant with four turbine units with a total capacity of 150 MW, and an annual generating capacity of 860 GWh. Nam Ngum supplies Vientiane with power and will be extended north to Luang Prabang via a 115 kV transmission line. Approximately 80 percent of the power is exported to Thailand and is Laos' major foreign currency earner.

Selabam station is located in the south and utilizes imported Thai power to supply Saravane, Sekong, Attapeu, and Champassak Provinces. Xeset station, also in the south, has a capacity of 45 MW with a generation capacity of 150 GWh for use in the wet season. It will link with Selabam to export power to Thailand in the wet season and import Thai power in the dry season.

12.12 Mining

The geology of the country indicates there is good mineral potential in Laos; however, very little exploration has been done to demonstrate the size and quality of deposits. Laos' isolation and distance from seaports, world markets, and the lack of infrastructure all raise questions about the feasibility of mining heavy deposits.

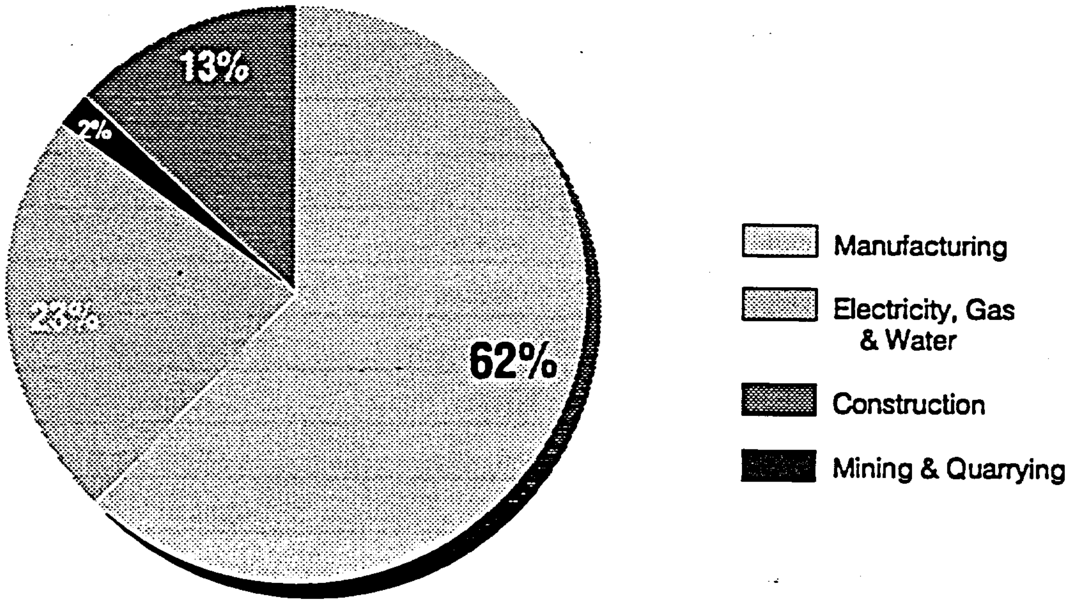
Major deposits include: iron ore, potash, gypsum, limestone, coal, and gold. Other minerals identified are: silver, lead, zinc, copper, bauxite, antimony, chromium, and manganese. In addition, there are sapphire and gemstone deposits. Potential oil reserves are also being explored in the south.

Surveys and exploration have been haphazard due to the poor infrastructure, unmanageable terrain, and minimal legislation; however, the outlook is improving as new transportation systems are developed.

Diagram 12.3

Industrial Composition of Laos

in 1990



MANUFACTURING AND CONSTRUCTION

12.13 Manufacturing

Manufacturing is concentrated in the processing of agricultural and forestry products, and is centred around Vientiane. Most manufacturers are state or cooperative enterprises.

The leading manufacturing sectors are: textiles and leather, food processing, metalworking, sawmills, building materials, ceramics and glass, forestry and wood products, chemicals, and pharmaceutical. There are also paper, printing, and artisan industries on a smaller scale.

Table 12.4

Main Industrial Products in Laos

Electricity	Detergent	Fabrics	Bread
Lead	Pharmaceuticals	Clothing	Noodles
Agriculture Tools	Vaccines	Handcrafts	Coffee
Tin Plates	Bricks	Timber	Fermented Fish
Nails	Blocks	Lumber	Alcohol
Buckets/Watering Cans	Concrete	Plywood	Liquors
Electrical Wires	Stones	Thinwood	Beer
Air Conditioners	Coal	Furniture	Soft Drinks
Barbed Wire	Porcelain	Rattan	Fish Sauce
Oxygen	Gypsum	Flooring	Cigarettes
Mosquito Killers	Note Books	Salt	Battery Acid
Plastic Goods	Chalks	Ice	Soaps

Source: Ministry of Economy, Planning and Finance, Statistical Centre, 1991

Manufacturing has a number of constraints such as: shortage of capital, raw material supply bottlenecks, lack of skilled technicians and managers, and limited markets. Improvements are being made in these areas through the introduction of the NEM and the government's attempt to attract foreign investment.

12.14 Construction

Construction made up 23 percent of the industrial output in 1990. Policies holding domestic timber prices below export prices have promoted the domestic use in the building trades. Due to the restructuring of the economy, the construction industry will expand as the increase in the cash economy leads to a greater demand in housing, stimulating the local production of construction material, further increasing manufacturing activities.

Chapter 13
BUSINESS ENVIRONMENT

Factors to Consider

- Inadequate infrastructure
- Shortage of technical and managerial skills
- Chronic lack of domestic and foreign savings
- Landlocked
- No commercial code
- Rich in mineral resources
- Vast agricultural and hydroelectric potential
- Decentralized economic decision-making
- Trend toward privatization

Even though Laos is one of the poorest countries in the world, there is potential for economic growth. The country possesses an abundance of water resources providing scope for the development of hydroelectric power facilities. Improving the irrigation capability is necessary to increase food production to allow for crop diversification.

Opportunities exist to develop high-value timber products if forest resource management and reforestation practices improve. There is also potential for the export of non-wood forest products such as: cardamom, benzoin, sticklac, and other resins. Opportunity exists for mining and exporting minerals which are now being identified.

The business environment in Laos remains underdeveloped with the majority of the population engaged in subsistence farming and barter exchange. It also has an insufficient transportation and communications system. Due to its landlocked position, companies must incur high transportation costs for export items.

There is also a lack of information on the country's key physical, social, and economic factors, making it difficult to examine capabilities and resources. The lack of information on markets, technologies, and investment opportunities places the country at a disadvantage in its attempt to promote itself to the international business community.

Like all of Indochina, Laos has limited financial resources which prohibits the country from purchasing goods and services from around the world. The lack of capital forces the country to be dependent on external assistance to finance essential projects and programs.

There is a lack of skilled labour and insufficient institutional infrastructure to support a growing economy. Training is required to educate the Lao to manage their economic transformation effectively.

13.1 Industrial Climate

This is an agricultural economy, where industry makes up only 15 percent of the country's GDP and employs an estimated 19,000 workers. Due to its constrained industrial base, the government's focus is to develop its natural resource base including minerals, forests, and crops to manufacture value-added products.

Laos is trying to emphasize light industries so it can use its labour-cost advantage to produce goods. The main obstacle to developing light industry is the country's isolation from transportation and ports. Vientiane Prefecture is the centre for light industry in Laos and will soon be connected to Thailand by bridge (see section 12.7).

13.2 Organization of Industry

The organization of industry in Laos falls into four categories:

- State Economic Organizations
- Cooperatives
- State/Private Companies
- Private Companies

Industry has traditionally been controlled by the ministries and state enterprises. There are over 250 state-owned enterprises under various levels of government ministries, central organizations, and the Vientiane Prefecture. Inefficient management, weak financial guidance, and the use of accounting methods that do not meet international accounting standards, have hindered operations. Auditing procedures and management techniques are vitally needed to build the confidence of investors.

Laos has undertaken a privatization campaign and requires capital to expand. Private enterprises outnumber state enterprises; however, these are mostly small, cottage-industry producers. No accurate count of the private enterprises exists but the number is expanding.

GOVERNMENT POLICY

13.3 New Economic Mechanism (NEM)

The NEM is the cornerstone of the Lao government's economic reforms. It was introduced to transform the economy from a centrally-planned system to a market-oriented system. Economic reforms began in 1985 when a few state companies were allowed to operate autonomously, both financially and managerially. The introduction of the NEM brought legislation and regulations aimed at advancing the country's transformation to a liberal, market economy.

The following policies describe some of the reforms extended to companies since the introduction of the NEM:

- Independence in determining levels of employment, production, investment, prices, and salaries.
- Decentralization of decision-making regarding budget and planning.
- Abolition of internal trade barriers and a reduction in external trade barriers.
- Promotion of mixed state and private companies.
- Deregulation of prices.
- Opening to private sector of areas at one time under exclusive state control.
- State and private companies to be taxed the same and have equal access to credit facilities.
- Restructuring of the banking system.

The industrial investment strategy is concentrated on the export-oriented sectors of mining, electricity, and wood processing. Its purpose is to stimulate production in small and medium-sized companies.

13.4 National Development Plan

In March 1991, at the Fifth Party Congress of the LPRP, the government drafted its third Five-Year Plan (1991-1995) which details its investment plans, sectoral strategies, and the government's commitment to reform. The development plan is designed to implement the economy's shift away from direct government involvement in most areas of production towards activities that will provide the legal and regulatory framework, physical infrastructure, and economic environment conducive to the growth of the private sector.

The main objectives of the National Development Plan are as follows:

- To ensure food self-sufficiency and food security.
- To develop forestry with a view to conservation and reducing the areas subjected to slash and burn cultivation.

- To expand agro-forestry industrial processing.
- To improve the balance of payments by reducing non-food imports and increasing exports.
- To strengthen administrative and managerial capabilities and to overcome the lack of qualified personnel.

The investment budget calls for disbursements in three major areas addressing the constraints involving inadequate physical, institutional, and social infrastructure:

- Strengthening institutions and training human resources to implement economic reforms.
- Developing the economic infrastructure of the country.
- Providing social services, particularly for health and education.

A major challenge involves providing technical training for government staff, while at the same time utilizing the staff to implement the projects and programs necessary for sustained development. In general, the investment plan targets the major constraints that have inhibited growth.

Six economic sectors have been highlighted as priorities in the development plan: agriculture and forestry, manufacturing, mining, electricity, transport, and telecommunications. The overall purpose of the sector focus is to strengthen the infrastructure to facilitate private sector activity.

13.5 Export Processing Zones and Industrial Estates

The government has plans to develop an Export Processing Zone in the southern city of Savannakhet which would have access to the Vietnamese port at Danang. There are also plans to develop industrial estates located at Vientiane where the land would be leased to foreign participants.

13.6 Trend Towards Privatization

Privatization was introduced by decree in 1990 to convert state companies to other forms of ownership through leasing, selling, joint shareholding, or contracting with workers' collectives. Some state companies are to be maintained that are seen as essential to the economy. The purpose of privatization is to separate the administrative and management roles and discontinue government support for those state companies which are encountering difficulties.

A small number of state enterprises have been privatized. Several have been contracted to private operators under long-term leases. The leasing process is likely to stop because the operators have no incentive for maintaining the capital and equipment.

Accompanying the trend towards privatization is the reduction of state companies' jurisdictions on "strategic goods" reserved for export. State companies control coffee, logs, gypsum, and tin, with the remaining sectors open for competition between state and private companies.

The privatization scheme has been slow in implementation due to the government's decision to keep international bidding closed and refrain from declaring the terms of agreements.

13.7 Law on Foreign Investment

The Law on Foreign Investment (LFI) forms the basis on which a foreign company may start and operate a business in Laos. Since July 1988, when enactment of the LFI signalled the opening of Laos' economic doors, Laos has officially authorized and encouraged private direct foreign investment. This policy was reaffirmed by the National Assembly's adoption of the new constitution in August, 1991.

The LFI details the following topics of interest to foreign companies: the legal structure and procedures of companies, rates and rules of corporate and personal taxation, customs duties, guidelines for the importation, conversion and repatriation of foreign currency, accounting, immigration, labour, arbitration, property, insurance and mining.

13.8 External Assistance

The government's Public Investment Program (PIP) under the National Development Plan (see section 13.4) is the plan for public investment using domestic and foreign sources of financing. The PIP is the best source of information about planned development projects in Laos. Companies should also contact the UNDP, ADB and the World Bank for information about projects in the pipeline for Laos.

The three priority areas for external assistance under the PIP are institutional support, economic infrastructure, and social services. The priority projects listed in the PIP include: infrastructure (roads, aviation, river, electricity, and water supply), agriculture (irrigation, livestock, and technology), mining, tourism, and health.

13.9 Taxation

Companies involved in contractual business or companies with foreign investment must pay a profit tax ranging from 20 to 50 percent depending on the sector.

Tax Rate	Category
20 percent	Construction of roads, bridges, irrigation, tree planting, agricultural products, and livestock processing.
25 percent	Mineral exploitation and processing, forestry products (not including wood), pharmaceuticals industry, agro-chemical, medical equipment, power, and electrical equipment.
30 percent	Oil and wood exploitation, and processing.
35 percent	Consumer goods, construction of buildings, and repair service.
40 percent	Exploitation and processing of metal, precious stones, hotels, tourism, deluxe restaurants, and entertainment business.
50 percent	Trade, banking, and insurance.

Tax exemptions apply when a project meets at least three of the following criteria:

- More than 70 percent of the products are exported.
- More than 70 percent of the raw materials utilized are from within Laos.
- Use of advanced technology.
- Investment in companies with unfavourable natural, socio-economic conditions.
- Low profit percentage, but still a priority of the government.
- Projects established before 1995.

13.10 Labour

The selection and employment of workers, and their benefits must be clarified by a labour agreement. Hiring employees should be completed in concert with the Lao Salary and Workforce Committee and a contract should be made with each worker.

Workers' wages must be agreed on by both sides in conformity to the sector, work productivity, and quality. The lowest wage must be higher than the lowest wage of key personnel and workers of state enterprises engaged in the same sector and area. Employees also have the right to organize trade unions to ensure good labour relations. A civil servant in the government makes approximately US$20 per month.

13.11 Patents, Trademarks, and Copyrights

The Ministry of Science and Technology is responsible for the legal and procedural system for the protection of industrial property. The government will protect the industrial patent on technology if the patent holder is licensed at the Foreign Investment Management Committee (FIMC - see section 14.8). Agreement on a technological grant or technology transfer must be submitted to the FIMC with the rights, interests, and obligations of both parties clearly defined.

Chapter 14
DOING BUSINESS IN LAOS

Laos' poverty, size, remoteness, and anonymity have made it very difficult to attract foreign companies to invest and do business in the country. It has therefore been very difficult to sustain the economic growth necessary for development.

Factors to Consider

- Landlocked and relatively isolated
- Poor infrastructure
- Commitment to the New Economic Mechanism
- Existence of a market economy and private enterprise
- Bridge over the Mekong River connecting Laos with Thailand
- Improved communications
- Untapped natural resource potential

14.1 Investment Climate

The LFI provides the framework for the country's investment strategy. Investment is recognized as essential for the development of the economy.

The flexibility and openness of the Lao people never allowed the communist ideology the chance to become entrenched in society as it did in Vietnam. As a result, there exists a stronger commitment to change aimed at improving the attractiveness of Laos to potential investors. This was recently reflected in improvements in the legal structure resulting from the adoption of the new constitution and updated business legislation. Commitment to reform by the government is strong. Whether or not the implementation of the reforms will result in business opportunities for Canadian companies has yet to be determined.

The biggest positive development affecting business in Laos is the construction of a bridge across the Mekong River connecting Vientiane to the Thai road and rail system at Nong Khai to be completed in mid-1994. It will be the first bridge to cross the Mekong River in all of Southeast Asia, and will contribute greatly to ending Laos' isolation and improving its access to international markets.

Development potential exists if manufacturers in Thailand transplant their facilities in Laos to take advantage of low-cost labour and availability of raw materials. Since the establishment of the LFI in 1988, 201 foreign investments had been approved by March 1992, including 25 business by contracts, 98 joint ventures and 88 wholly foreign-owned investments totalling US$359.6 million. Most projects range between US$100,000 and US$500,000.

General manufacturing represents 22 percent of the investment in Laos, followed by 20 percent in import-export investments in the form of trading companies. Garments and textiles represent 14 percent, followed by wood-based industries at 9 percent, and hotels and tourism at 9 percent. The remaining investment areas, in descending order, are: consulting, mining and petroleum, agribusiness, transportation, construction, banking, insurance, and telecommunications.

The top twelve countries to have invested in Laos include:

Thailand	US$127.4 million
United States	US$72.03 million
Taiwan	US$17.80 million
Soviet Union	US$15.69 million
France	US$14.28 million
Hong Kong	US$12.70 million
Great Britain	US$11.92 million
Korea	US$5.9 million
China	US$3.9 million
Singapore	US$3.3 million
Japan	US$3.2 million
Canada	US$776,000

The two main investors in Laos, Thailand and the United States account for about 55% of total investment. Many approved projects have yet to be implemented.

14.2 Investment Policy

The Government of Laos welcomes foreign investment and seeks to expand its economic cooperation with western countries. Its LFI follows Vietnam in being one the most liberal in Asia (see section 13.7). Investment priorities include the further development of the economy from subsistence to commodity production; the promotion of export industries; and the utilization of its natural resources.

There are a number of criteria used by the government in judging a foreign investment proposal. These include:

- Introduction of advanced technologies and management expertise to produce goods.
- Efficient utilization of energy, raw materials, and equipment.
- Ability to earn foreign exchange while utilizing domestic resources.
- Inclusion of a training program for its employees.
- Impact on the environment.
- Emphasis on infrastructure development such as roads, bridges, and irrigation.
- Promotion by the government.

In general, promoted projects should conform with the economic and social development of the country, as outlined in the Five-Year Plan.

14.3 Investment Incentives

The FIMC (see section 14.9) is the department responsible for providing incentives for projects on a case-by-case basis. Incentives are available for investment undertakings that meet the following conditions:

- More than 70 percent of production is exported.
- More than 70 percent of raw material inputs are from domestic sources.
- Utilization of advanced technology.
- Investment is intended to overcome unfavourable natural or socio-economic conditions.
- Profit margins may be low but the project contributes to national economic development.
- Project is established before 1995.

Incentives include: a 2 to 5 percent reduction in the company's profit tax; exemption from the profit tax for 2 to 5 years starting from the first year of making a profit; subsequent reduction of 50 percent for two years under certain conditions. The conditions examined by the FIMC will include the sector involved, scale of capital investment, volume of exports, project duration, and project location.

14.4 Investment and Trade Opportunities

The key sectors for exporters and investors listed by the FIMC are: mining, energy, agribusiness, wood-based industries, small-scale tourism, light manufacturing, and services. The following is a review of the promoted sectors by the Lao government. Companies should approach any opportunity with discretion.

(a) Food Processing and Production

- Stimulant plants such as coffee, cocoa, tea, and tobacco
- Fibrous plants such as jute, cotton, kapok, and sericulture
- Oil plants such as sesame seeds, groundnuts, sunflowers, and coconuts
- Resinous plants such as cardamom, benzoin, sticklac, and rubber
- Starch plants such as peanuts, cassava, soya, yam, taro, and potatoes
- Vegetables and fruit
- Rattan and bamboo
- Livestock production

(b) **Livestock**

- Cattle, pigs, sheep, rabbits, poultry, fish, and shrimp

(c) **Electricity**

- Develop and establish electric power sources, particularly hydroelectric power, and alternative sources of energy
- Installation of electric transmission networks

(d) **Geology and Mining**

- Exploration and charting of geological and mining maps throughout the country
- Exploration for the exploitation and extraction of mineral ores such as iron, copper, tin, gypsum, potash, bauxite, natural gas, crude oil, coal, salt, phosphorous, and gemstones
- Improvement and installation of mineral-analyzing laboratories with modern technical equipment

(e) **Light Industry**

- Manufacture of agro-forestry process machinery and equipment
- Develop mineral processing, chemicals, construction materials and equipment, electrical equipment, medical equipment, telecommunications, and transport
- Textile industry, carpets, garments, and fertilizers
- Factory and plant rehabilitation

(f) **Communications, Transport, and Construction**

- Improve and upgrade roads, bridges, ports and water routes, airports and storage systems
- Construction of hotels, houses, and tourist facilities

(g) **Tourism and Service Industry**

- Hotels, guest-houses, banking and trade facilities, storage facilities, and cold storage
- Hospital services and vocational schools

LEGAL FORMS OF BUSINESS ORGANIZATION

The following are the principal forms of business organization in Laos available to a foreign company:

- Joint Venture Company
- 100% Foreign-Owned Company
- Business Cooperation Contract

The features pertaining to the three types of foreign investment in Laos are similar to Vietnam and Cambodia (see sections 4.5 and 21.4 for comparison).

14.5 Joint Venture Company

A joint venture company is the formation of a new juridical entity incorporated under Lao law. The LFI places no limit on the maximum amount of capital which the foreign partner may contribute; however, a minimum contribution must be no less than 30 percent. The duration of the venture cannot exceed 20 years. In cases where the joint venture is in mining, tree planting, and large-scale investment, longer periods can be requested.

14.6 Wholly-Owned Company

The wholly-owned company must be established in the form of a limited liability company and is a juridical entity subject to the laws of Laos. Duration is limited to 15 years but can be extended, depending on the type of business.

14.7 Business Contract

Business by contract is a cooperation agreement between a foreign investor and a Lao company. The Lao partner can be a state company, a state-private company, or a private company.

ESTABLISHING A BUSINESS ORGANIZATION

14.8 Foreign Investment Management Committee

The FIMC was formed in March, 1989 to manage and administer the foreign investment legislation. This includes assessing all foreign investment applications and approving business organizations. The FIMC is under the authority of the Ministry of Commerce and Foreign Economic Relations. It is chaired by the Chairman of the Council of Ministers and is divided into administrative and research departments. There are also local investment committees at the municipal level to liaise in the management of local projects and to report to the FIMC.

The FIMC can provide companies with information and advice pertaining to the country's investment laws, regulations, and procedures. It also receives investment applications and requests for business licenses for all three forms of business organization.

14.9 Company Formation Procedures

Depending on the type of legal organization being established and the nature of the business, a company applying for an investment license to the FIMC should include the following documents:

- Request For Authorization
- Regulations of the Participating Investor(s)
- Financial, Economic, and Technical Analysis; Feasibility Study of the Proposed Investment
- Joint Agreement Establishing the Proposed Investment
- Regulations of the Proposed Investment
- Agreement on Transfer of Technology
- Any other documents viewed as necessary by the FIMC

Note: Companies should contact the FIMC about company formation procedures (see Appendix B for contact details).

A decision on the approval of a business contract will be granted after 30 days of receipt of documents. Approval on a joint venture or wholly-owned company will be granted after 90 days of receipt of documents.

14.10 Finding a Lao Partner

Foreign companies are permitted to engage in business with state companies, cooperatives, mixed state-private companies, and private companies. Firms can identify a Lao partner through their own efforts by utilizing contacts, recommendations, or with the assistance of professional services.

A company should not expect to be able to receive complete information through the facsimile machine. Face-to-face meetings are essential, not only due to the value placed on establishing personal relationships in Asia, but also because it is the most efficient and reliable method to investigate both the proposed partner and the opportunity.

A firm's best source to assist in identifying a suitable partner in Laos is the FIMC; however, there also exist a number of consultants who can help. It is also strongly suggested that contact be made with the Canadian Embassy in Bangkok which has diplomatic and trade responsibility for Laos.

Chapter 15
EXPORTING TO LAOS

Factors to Consider

- A market population of 4.2 million
- Foreign exchange shortages
- Undeveloped infrastructure for distribution of goods
- No direct access to port facilities
- Inability to purchase foreign products
- Undeveloped banking facilities

The export opportunities for Canadian companies to Laos are minimal. Like most countries during their early stages of development, Laos is characterized by a lack of foreign exchange. It is more interested in attracting investment than purchasing non-essential products. With a market of only 4.2 million people widely dispersed over a large area, low incomes, and limited purchasing power, the prospect for Laos developing into a burgeoning export market is remote. Nevertheless, there remain opportunities in niche markets for a limited group of companies.

15.1 Export Environment

Laos, like Vietnam and Cambodia, is one of the poorest countries in the world with a per capita income estimated at only US$180. Approximately 85 percent of the people are engaged in mostly subsistence agriculture, with negligible buying power. The market is fragmented; transportation and communications require extensive development.

Laos is a landlocked country and therefore with no access to port facilities nor to international shipping system. As a result, Laos must rely on the nearest port located in Bangkok or Danang (Vietnam).

The trade policies of Laos are aimed at improving the balance of payments by reducing non-food imports and increasing exports; renovating and rebuilding the transport and communication system; and expanding the agro-forestry industrial processing sector.

The Lao government maintains a monopoly on imports through the state import-export companies; however, each state firm has the independence to make economic agreements with foreign partners. Since the introduction of the NEM (see section 13.3) there has also been a growing number of private companies entering the trading business.

Due to the lack of foreign exchange, many State import-export companies are allowed to purchase goods and services; however, they still may require import approval and guidance regarding state planning goals and market needs. There are no specific quota systems for imported products.

15.2 Finding a Trading Partner in Laos

All trading organizations must have a business license issued by provincial or municipal authorities. There are two categories of business license: (1) domestic business license and (2) import-export business license.

The National Chamber of Commerce and Industry (see Appendix B for contact details) and the Ministry of Commerce can assist to identify trading partners and provide business information on trade-related items for a company. The Canadian Embassy in Bangkok is responsible for promoting Canadian exports and services in Laos and can assist a company in identifying a trading partner.

It is important to identify a partner that is aware of the import-export regulations and is cognizant of the procedures required to conduct international business.

15.3 Documentation Procedures

All exports to Laos are required to have an import permit issued from the Ministry of Commerce and Tourism. In addition, certain products will require permission from specific ministries. For example, fertilizers and agricultural chemicals require authorization from the Ministry of Agriculture and Forestry.

15.4 Customs Duties

Customs duties for imports are charged as a percentage of the value of the goods, as opposed to a fixed duty system. Depending on the product classification, duties can range from 2 percent to 50 percent. It is suggested the exporter review the tariff rates for Laos to obtain current information. There also exists a business turnover tax applied to imported products and income tax.

The Ministry of Economy, Planning, and Finance, in coordination with the Ministry of Foreign Economic Relations, is responsible for customs valuation.

15.5 Port of Entry and Inland Transportation

Since Laos is a landlocked country which lacks a sea port, the country relies on air and road transport to provide access to ports of entry from Bangkok or from the port at Danang. The port at Bangkok is 640 km from Vientiane and the port at Danang is over 1,000 km from Vientiane. There is also the Vietnamese port located at Cua Lo which is 460 km from Vientiane. Packages and containers must be transshipped overland, either by rail to the border, or by truck to the ferry, and ferried across the Mekong River. The first bridge to cross the Mekong River is currently being constructed and will provide a more efficient transportation network (see section 12.7).

River transportation also remains a vital link in the Lao trading infrastructure. The length of the Mekong River in Laos is 1,970 km and has varying handling capacity during the wet and dry seasons ranging from 50 tonnes in the rainy season to 15 tonnes in the dry season.

15.6 Local Agents

The Council of Ministers has designated Laos-based trade agents available to foreign companies requiring information about markets and prices. There are also private companies that can assist in making business arrangements. Agents should be able to demonstrate to the Canadian company that they are capable and efficient.

15.7 Countertrade

Countertrade typically occurs with socialist countries and is often within the framework of economic agreements covering trade, loans, and other forms of assistance. Laos is engaging in other types of arrangements, such as an agreement with a foreign joint venture company for construction of a road in exchange for delivery of forestry products equal to the cost of the road.

15.8 Information Sources on Export Opportunities

Exporters may obtain information and assistance in Laos from the following trade information sources: (1) Ministry of Commerce and Tourism, Trade Information Service; (2) Lao National Chamber of Commerce and Industry; (3) Foreign Investment Management Committee; (4) Banque pour le commerce extérieur Lao; (5) State Bank of Lao People's Democratic Republic; and (6) Canadian Embassy in Bangkok. Contact details can be found in the Appendix.

Chapter 16
BANKING AND FINANCE

Since Laos introduced its new policy of economic reform, the State Bank has been given the responsibility to supervise all banks and establish the country's financial policy. In 1988, the State Bank was separated from the commercial banks and made responsible for monetary policy, licensing, and regulations for banks and financial institutions. Authorities have recognized the need for a strong financial system, characterized by a strong central bank and modern commercial banks.

The government's objectives have been to separate the central bank from the commercial banks, reinforce the powers of the central bank to regulate and supervise the commercial banks, provide new monetary policy instruments for the central bank and eliminate the central planning of credit allocation through the banking system.

16.1 Central Bank

The Central Banking Law passed in 1990 established the Bank of the LPDR to conduct monetary policy operations, and to regulate and supervise the commercial banks.

16.2 Commercial Banks

There are six commercial banks operating in Laos. The most experienced in terms of international banking is the Banque pour le commerce extérieur Lao (BCEL) located in Vientiane. Most standard banking services are available such as savings accounts, deposits, checking accounts in foreign currency (Thai baht, US dollars, convertible kip and domestic kip), letters of credit, bank drafts, certified cheques, money transfers, and traveller's cheques.

The banking services in the provinces are limited and it is not recommended that any international banking transactions be attempted in the provincial banks due to lack of experience in transactions.

16.3 Foreign Exchange

According to the Law on Foreign Exchange and Precious Metals, no individual or enterprise is allowed to use foreign exchange directly for transactions, but must use the commercial banks. The kip (domestic currency) is fairly stable due to the stringent monetary policy imposed by the government to control inflation.

Chapter 17
INFORMATION FOR THE BUSINESS VISITOR

17.1 Entry Regulations

All foreigners require a visa from a Lao Embassy to enter Laos. Laos is the most difficult country in Indochina for which to obtain a visa. It is important for the applicant to provide details on the type of business they are expecting to pursue in Laos.

In most cases, business people will be granted a seven-day, single-entry visa, for a fee. Extensions can be granted once in the country. It is also possible to obtain a three-month, multiple-entry business visa or, if establishing an office in Laos, it is possible to receive a visa ranging from six months to one year. The Lao Embassy nearest to Canada is located in Washington, D.C. (see Appendix B).

Foreigners living and working in Laos on investment projects can receive a one-year, multiple-entry visa which can be extended every year for one-year periods. If residing in Laos, the resident requires authorization from the Ministry of Interior or from the Defence and Security Section of the province or prefecture where they live.

17.2 Business Hours

Laos operates on a six-day work week. Office hours are generally from 7:30/8:00 am to 11:30 am and 2:00 pm to 4:30/5:00 pm, Monday through Friday; and Saturday from 8:00 am to 12:00 noon. Banks are typically open from 8:00 am to 11:30 am, and from 2:00 pm to 5:00 pm Monday through Friday.

17.3 Health

Medical facilities in Laos are sparse and almost nonexistent in rural areas so health standards are poor. Life expectancy is from forty-eight to fifty-one years and the infant mortality rate is 128 per 1,000. Malaria, trachoma, typhoid, hepatitis, tuberculosis and dysentery are problematic in some areas. Water is not safe and must be boiled. Bottled water is available.

17.4 National Holidays

January 1	New Year's Day
January/February	Tet (Vietnamese) and Chinese New Year
April	Lao Traditional New Year - 3-day celebration
May 1	International Labour Day

October	End of Buddhist Lent
November	That Luang Festival - 3-day celebration

Note: Traditional holidays are based on the lunar calendar so the dates will vary.

17.5 Currency

The currency in Laos is the kip. The Thai baht is also widely accepted. US cash is also accepted. Credit cards are only accepted at selected hotels. US$1 equals roughly kip 700.

17.6 Communications

Communications can be difficult in Laos. Long-distance calls can be made to Thailand and international calls via Hong Kong. The government operates a facsimile and telex centre in Vientiane for public use.

17.7 Car Rentals and Taxis

Hotels will supply cars or mini-vans with a driver for US$25 to US$30 per day. Private taxis can also be arranged for approximately US$20 per day.

17.8 Interpreters

Interpreters are beneficial for most meetings. French is spoken by many ministry personnel, in addition to various East European languages. Visits outside of Vientiane will require an interpreter. Interpreters can be arranged by sponsoring ministries or by private consultants, for a fee.

17.9 Hotels

Accommodation in Laos is adequate. There are a number of state-owned and private hotels from which to choose. Costs can range from US$25 to US$60, depending on the hotel. Suggested hotels in Vientiane include: the Lane-Xang Hotel, Vansana Hotel, Chaemchanh Guest House, Lani Guesthouse, Ambassador, Ekkalath Metropol (Imperial), and Santiphab (Apollo).

Finding available accommodation is rarely a problem in Laos. If an individual is unhappy with one hotel, it is relatively easy to find an alternative.

SECTION III: CAMBODIA
Chapter 18
A PROFILE

18.1 Introduction

Cambodia remains the most unstable country in Southeast Asia after over a decade of civil strife. The country is guided by the "Declaration on the Rehabilitation and Reconstruction of Cambodia", a United Nations document which originated from an international peace conference in 1991 in Paris culminating in the "Paris Peace Agreement". The declaration was envisioned to end Cambodia's internal power struggle by providing the country with a peaceful environment to permit economic, social, and political development. The future of Cambodia's economic and political development is now at a pivotal juncture.

The UN declaration called for the presence in Cambodia of 20,000 UN soldiers and representatives whose purpose is to assist and establish peace in the country, and prepare the political system for country-wide democratic elections in 1993.

Unlike Vietnam and Laos where there was relative peace after 1975, the Cambodian people were forced to endure the Pol Pot regime (Khmer Rouge) between 1975 and 1979. The regime attempted to transform the country into an agrarian society which resulted in devastating the population, industry, and commerce. In 1979, Vietnam invaded Cambodia, ousting the Khmer Rouge. The ensuing Vietnam-supported government (called the People's Republic of Kampuchea (PRK)) was preserved by the presence of roughly 180,000 Vietnamese troops. During the country's liberal economic and constitutional reforms in 1989, the name of the regime was changed to the State of Cambodia (SOC). Throughout the 1980s and to date, Cambodia has been characterized by an internal fight between various factions (see section 19.1) vying for political control of the country.

While striving to resolve the political predicament, Cambodia must at the same time contend with challenges and opportunities similar to those affecting Vietnam and Laos during the transformation from a planned to a market-oriented economy. State enterprises in Cambodia are being privatized and property rights are being restored. Agricultural production is improving, trade with non-socialist countries is on the rise, and foreign investment is being encouraged through the introduction of a Foreign Investment Law (FIL - see section 21.4).

Cambodia is also one of the poorest countries in the world and requires rehabilitation of the economic, social, and political systems. The economy remains fragile, and the balance of payments and inflation are at unsustainable levels.

Over the short term, Cambodia is one of the most uncertain countries in which to do business in Southeast Asia. For the long term, it is a country rich in natural resources such as agriculture, forestry, fisheries, and minerals. Once the political situation is resolved, a new government will be able to commit to implementing development plans for its resource-based industries. And, with the achievement of political stability, should come the international development assistance necessary to fund the reconstruction of the country.

18.2 Geography and Climate

Cambodia covers an area of 181,035 km² and is bordered by Thailand to the west, Laos to the north, Vietnam to the east, and the Gulf of Thailand to the south. The central plain is one of the most fertile areas for agriculture due to the rich sediments that are deposited by the Mekong River which enters Cambodia from Laos. Approximately two thirds of the population lives in the central plains. The southwest, between the Gulf of Thailand and Tonle Sap Lake, consists of the Chaîne des Cardamones Mountains and the Elephant Mountains.

Cambodia has a monsoon climate with distinct wet and dry seasons. The dry season is between November and April. The rain falls mainly in May and June, and September and October. The temperatures range from 21 to 35 degrees celsius with the hottest time of year in March and April. January is the coldest month. Typhoons that often devastate Vietnam rarely cause damage in Cambodia.

18.3 Population

The last census in Cambodia was carried out in 1962, so there is no official data on the changing demographic situation of the country. In 1991, the estimated population of Cambodia was 8.7 million people with an annual population growth rate calculated at 2.8 percent. The 1968 estimated population of 7.3 million fell to approximately 6.6 million in 1980.

The birth rate in 1987 was estimated to be 40.4 per 1,000, with a death rate at 12.4 per 1,000. Infant mortality is the highest in the region at 120 per 1,000 live births. The life expectancy at birth for males is 46.5 years and for females 49.4 years. Females make up approximately 64 percent of the population due to the high death rate of males in civil wars. Therefore, women play an important role in national development. Another important statistic is that nearly half of the population is under fifteen years of age, while the work force consists of approximately 4 million people.

Cambodia is primarily an agricultural country with 88 percent of the people living in rural areas. The urban population tends to fluctuate with the wet and dry seasons with many seeking work in the informal economy. For example, Phnom

Penh's population is approximately 1 million in the dry season, while it declines to about 800,000 in the wet season.

The majority (about 95%) of the population is of Khmer ethnic origin, with minorities made up of Vietnamese, Chinese, Cham, and Malay Muslims, along with some highlanders from various tribal origins. Cambodia must also cope with 400,000 refugees returning from Thai border camps and approximately 200,000 internally displaced people. The majority will be settled in the north and northwest provinces of the country.

18.4 Language and Religion

Cambodia's official language is Khmer. French is Cambodia's second language, particularly for those who grew up before 1975. English is becoming widely popular and more in demand than French.

Until 1975, the state religion was Thervada Buddhism. Between 1975 and 1979, the Khmer Rouge killed the majority of monks and destroyed most of the wats (temples). During the 1980s, Buddhism was reinstated as the state religion. Hinduism, Islam, and Caodaism are also practised in Cambodia.

18.5 Education

Cambodia's formal education system developed during the 1950s and 1960s with the introduction of primary and secondary school. However, all of the early gains made in education were abruptly cancelled during the Khmer Rouge period (from 1975 until 1979) when most schools were closed. Cities were evacuated, libraries and publishing houses dismantled, and the entire urban population forced into farming. It was during this time period that the majority of intellectual and trained people had been killed or left the country.

In 1980, the new Cambodian government had to reconstruct the education system. Today, school begins at kindergarten and ends at university. The system must contend with poor quality teachers, inadequate facilities, lack of resources, and poverty.

Table 18.1

CAMBODIA - A Statistical Profile		
Land Area	181,035 sq km	
Political Structure	Since the Paris Peace Agreement in October 1991, Cambodia has been governed by two groups: the State of Cambodia (SOC), and the UN recognized coalition, the National Government of Cambodia (NGC). Both groups administer the country through the Supreme National Council. Prince Norodom Sihanouk is the Head of State.	
Population Phnom Penh Population Growth Rate	8.7 million 950,000 2.8 %	
GDP Per Capita	US$190	
Social Indicators Life Expectancy at Birth Infant Mortality Rate Adult Literacy Rate	 48 years 120 per 1,000 live births 60-70 %	
Structure of Production Agriculture Manufacturing Construction Commerce Others	 45 % 12 % 13 % 10 % 20 %	
Trade	Non-Convertible (millions of rubles)	Convertible (million US$)
Export Import Balance	42.0 132.5 -90.5	16.6 37.6 -21.0
Main Exports Main Imports	Rubber, timber, beans, tobacco, fish and fish products Food, fuel, fertilizer, raw materials, equipment and spare parts	
Inflation Rate	150 % (1991)	
Currency	US$ = Riel 850	
Opportunities	Opportunities are limited to infrastructure development, agriculture and tourism. Potential may exist in oil and gas and mining.	

Source: The information was compiled from various interviews and Cambodian statistics

Chapter 19
POLITICAL ENVIRONMENT

Factors to Consider

- Two decades of civil war
- Uncertain political future
- Fighting between political parties
- Presence of UN troops and representatives
- Government attitudes
- Government in transition

19.1 Political Structure

The current political structure in Cambodia is complicated. The Paris Peace Agreement (see section 18.1) prescribes that the country be administered by the Supreme National Council (SNC - see section 19.4), headed by Prince Norodom Sihanouk. The SNC consists of: the State of Cambodia (SOC), led by President Hun Sen and based in Phnom Penh, and the National Government of Cambodia (NGC), a coalition consisting of the following parties: the Khmer Rouge, whose party is known as the Party of Democratic Kampuchea (PDK), the National United Front for an Independent, Neutral, Peaceful and Cooperative Cambodia (Funcinpec) headed by Prince Ranariddh, the son of Prince Sihanouk, and the Khmer People's National Liberation Front (KPNLF). The framework for this structure is preserved by the United Nations Transitional Authority in Cambodia (UNTAC - see section 19.5).

19.2 Political Background

Cambodia became an independent, sovereign state in November, 1953. The country was ruled by Prince Norodom Sihanouk for 17 years. During the first half of his tenure, the country experienced moderate economic growth and reached a level where industry was beginning to diversify away from agriculture, social services were expanding, and infrastructure was being improved. However, in the 1960s, Sihanouk ended US aid and economic growth slowed down.

In 1970, the Sihanouk government was overthrown by a military regime headed by General Lon Nol. This was the first of three government takeovers throughout the decade and the beginning of more than twenty years of civil war between the Phnom Penh government and the Khmer Rouge. As a result, social and economic development was severely retarded. Political instability has been a constant characteristic of Cambodia during the last twenty years.

The communist Khmer Rouge headed by Pol Pot overthrew the Lon Nol regime and established the Democratic Kampuchea from 1975 until 1979. The Khmer Rouge goal was to create a "new agrarian society" so people were evacuated from the cities to work in collectivized agriculture. Most of the economic and social infrastructure that had been put in place was disassembled.

Vietnam invaded Democratic Kampuchea installing the PRK in Phnom Penh in January, 1979. The PRK began to reconstruct and renew the infrastructure and the economy, but it was a difficult task given the continued fighting and the international isolation of the country. In 1982, factions opposed to the Vietnam-installed Phnom Penh government formed the Coalition Government of Democratic Kampuchea (CGDK) consisting of the Khmer Rouge, Funcinpec, and the KPNLF. In 1989, the name of the Phnom Penh government was changed to SOC.

International peace negotiations between the fighting parties and members of the international community progressed to the point when in 1990, the CGDK and the SOC agreed to form the Supreme National Council (SNC) as the legitimate authority in Cambodia until a new government could be formed. In October 1991, the SNC and the UNTAC were authorized by all parties during the signing at the Paris Conference on Cambodia of the "Agreements on a Comprehensive Political Settlement of the State of Cambodia". This marked the completion of a long negotiation process.

19.3 Constitution

In 1989, the SOC amended its 1981 constitution that ended the one-party state structure. The constitution was further amended in 1991 which granted UNTAC the right to call a general election.

Parliament is organized as a bi-cameral system with an upper house being the State Council and the lower house being the National Assembly. The National Assembly is the legislative body of the country. Once a law is passed, it is sent to the State Council for promulgation. The Council of Ministers may also announce decrees in order to realize laws.

There is a provision in the Paris Peace Agreement for a new constitution which has already been agreed upon in principle by the four political parties. The Agreement states that the constitution will be adopted by the party in power following the election in 1993. Following the elections, the Assembly will be responsible for finalizing and passing the new constitution, and converting itself into a National Legislative Assembly.

19.4 Supreme National Council (SNC)

The SNC was established in October 1991, following the signing of the Paris Peace Accords with Prince Norodom Sihanouk being designated as the President. The Accords are the equivalent of an international treaty. Representatives of the SNC are drawn from the four above-mentioned political groups and UNTAC.

The SNC and UNTAC have authority over administrative matters throughout the transitional period until elections are held in 1993 to select the future government of Cambodia; however, the SOC maintains its day-to-day activities of running the government in consultation with UNTAC in key ministries. Any major policy decisions are delivered to the SNC for approval.

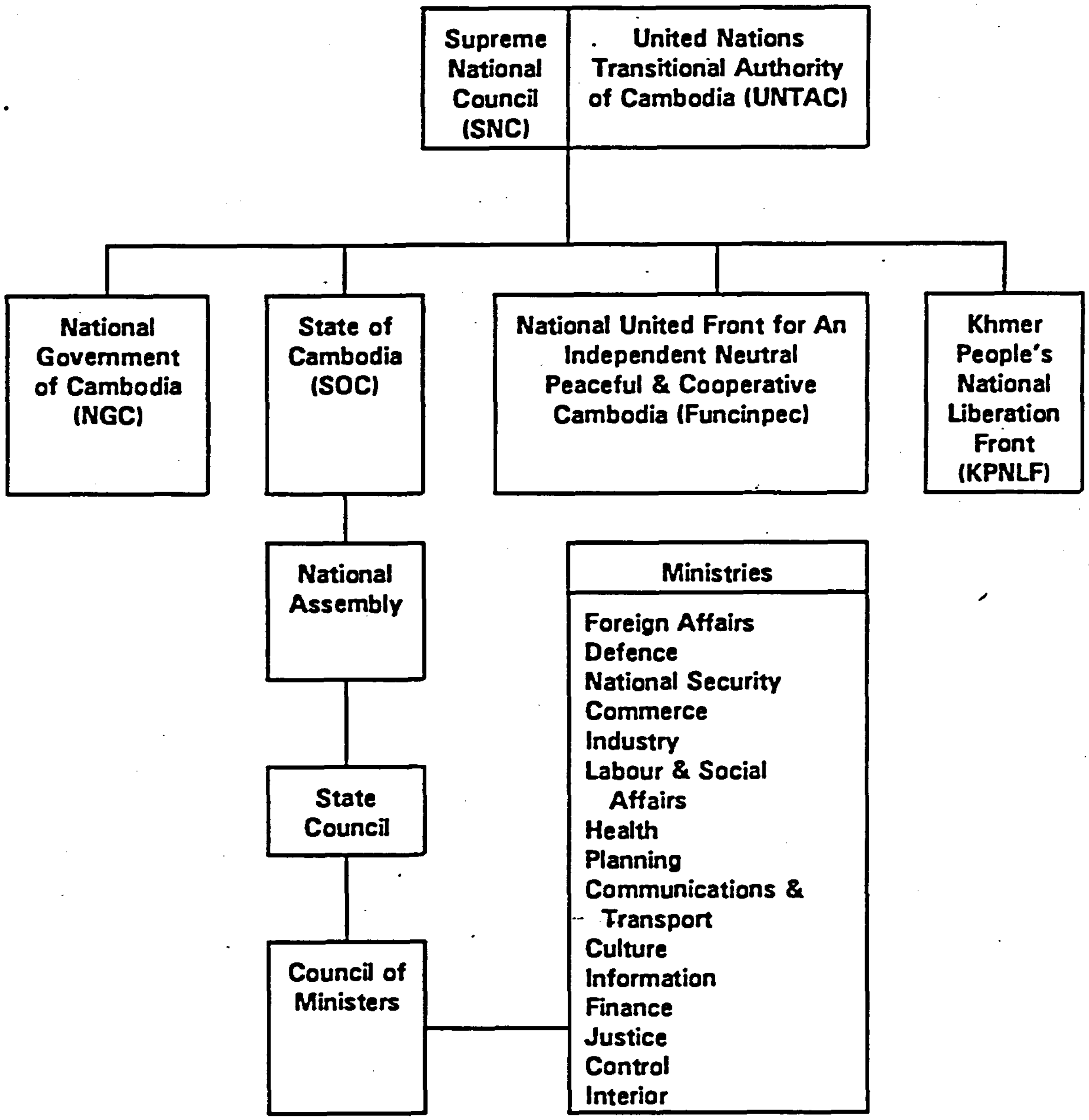
19.5 United Nations Transitional Authority in Cambodia (UNTAC)

During the transitional period, UNTAC will ensure the Accord is being implemented, including the organization of free and fair elections and the administration of Cambodia.

Efforts to resolve the conflict have faltered repeatedly due to the large number of Cambodian factions and the number of international parties involved in the dispute. Neither of the rival factions has either conclusively won or lost what appears to be an eternal confrontation for power and popular support. Foreign countries have diplomatic relations with the SNC, while only a select few recognize the SOC.

Diagram 19.1

GOVERNMENT STRUCTURE OF CAMBODIA UNDER THE PARIS PEACE AGREEMENT



Chapter 20
ECONOMIC ENVIRONMENT

Factors to Consider

- Per-capita GDP at US$190
- Reliance on agricultural economy
- Inadequate infrastructure facilities
- Liberal foreign investment law
- Economic growth will depend on political stability
- Three-digit inflation
- Presence of UN troops

20.1 Economy - General Description

In attempting to develop a market-oriented economy, Cambodia's biggest challenge has been overcoming the devastation the country incurred from almost two decades of armed conflict and isolation from the world economy. In 1992, following the Paris Peace Agreement, the US embargo against the Vietnamese-supported government was dropped.

In the past, resources and income have been utilized to finance conflict rather than maintain essential social and economic infrastructure, roads, and telecommunications. During the fiscal year 1990-91, Cambodia's defence expenditure reached 80 percent of its total domestic revenue.

The country's productive capacity during the 1990s is below the levels that were achieved in the 1960s. In order to increase the economic productivity of the country, the government has instituted policies designed to increase the role of the private sector in the economy.

Cambodia began taking steps towards a market economy in 1985 when the private sector began to play an official role. This change was followed by individual land-use rights in 1989, providing people with the right to own, sell, and inherit houses. The FIL was also adopted in 1989, followed by a privatization program in 1990 (see sections 21.4 and 21.5).

The traditional source of revenue for state-owned enterprises has decreased with the liberalization of the economy. Budgetary gaps have been filled by printing money, causing inflation to reach three-digit levels. The per-capita GDP is estimated at US$190, which reflects Cambodia's position as one of the poorest countries in the world. Overall, Cambodia's recent economic development policies have had a positive effect on the economy; however, the country is just beginning to reach the levels of development it had achieved in the 1960s.

The economy is reliant on agriculture and, specifically, on rice. Rice-paddy production is an important determinant in total economic output. In 1989, rice production reached 2.6 million tonnes compared to 0.57 million tonnes in 1979. However, from 1990 to 1992, production decreased due to the cutback of financial support from the Council for Mutual Economic Assistance (CMEA) (ie. former Soviet Union and Eastern Europe) and a number of poor growing seasons.

Even though some progress has been made on the economic front, a number of problems remain that could hurt the economic stability of the country:

- Government revenues cover only 70 percent of expenditures.
- Inflation figures have reached triple digits.
- Need to improve tax administration and government revenue performance.
- The withdrawal of assistance from former CMEA countries has aggravated the balance of payment situation making it difficult to finance essential imports.

From 1979 to 1989, foreign trade was dependent on the former CMEA countries, particularly the Soviet Union. Trade was based on the barter system, with Cambodia exporting rubber to the Soviet Union in exchange for fuel and fertilizer.

Expanding the private sector's ability to trade allowed the country to shift its trading partners to countries dealing with convertible currencies. As a result, trade with neighbouring countries increased, particularly border trade with Thailand and Vietnam, while trade with CMEA countries has almost disappeared.

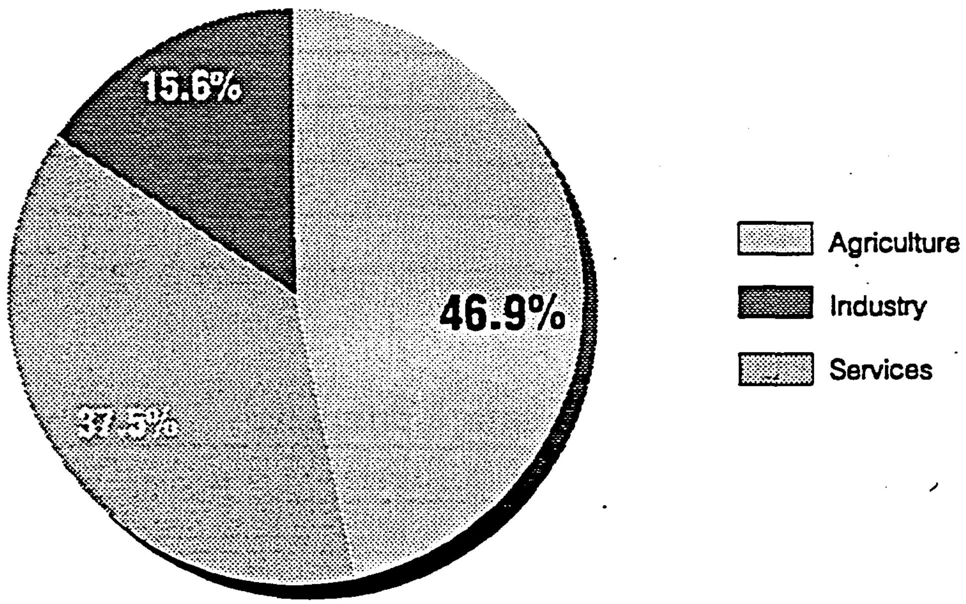
Cambodia's main exports are primary commodities such as: rubber, timber, soybeans, maize, and fish. The main imports are: food, fuel, fertilizers, raw materials, equipment, spare parts, and consumer goods.

In 1992, there were no recorded imports or exports between Canada and Cambodia.

Diagram 20.1

Share of GDP in Cambodia

by Sector Groups in 1991



Source: Ministry of Planning, Phnom Penh, 1991

Table 20.1

Volume of Exports from Cambodia

Exports	Unit	1987	1988	1989	1990
Kapok	tonnes	433.0	252.0	210.0	155.7
Rubber	000 tonnes	25.2	26.7	32.9	23.8
Car tires	000	4.0	2.9	3.5	5.3
Sandals	000	30.0	300.0	700.0	170.00
Timber	000 m3	24.7	52.6	91.1	96.9
Tobacco	000 tonnes	0.6	0.1	0.4	0.3
Pepper	tonnes	31.6	13.6	90.0	49.0
Soybeans	000 tonnes	10.0	0.0	16.3	13.7
Maize	000 tonnes	6.7	18.6	15.4	5.5
Lacquer	000 tonnes	141.0	99.0	50.0	0.0

Source: Ministry of Planning, Department of Statistics

Table 20.2

Volume of Imports into Cambodia

Imports	Unit	1987	1988	1989	1990
Rice	000 tonnes	19.2	5.7	0.0	0.0
Condensed Milk	000 cans	1,665.0	1437.0	0.0	0.0
Sugar	000 tonnes	1665.0	1437.0	0.0	0.0
Beer	000 bottles	198.0	93.4	0.0	0.0
Fabric	000 metres	13,358.0	13,976.0	15,122.0	13,259.0
Mosquito Nets	000 metres	943.0	280.0	0.0	0.0
Cotton Fiber	tonnes	3,150.0	1500.0	928.0	295.5
Cement	000 tonnes	28.4	21.9	23.3	17.2
Oil and Petroleum Products	000 tonnes	117.6	166.9	187.6	205.9

Source: Ministry of Planning, Department of Statistics

20.2 Main Growth Areas in Cambodia

The majority of Cambodia's development is occurring in the main population centres: Phnom Penh, Battambang, Kampong Som, Siem Reap, and Kompong Cham.

(a) Phnom Penh

Phnom Penh is the capital city of Cambodia and the centre for economic, social, political, and administrative functions.

(b) Battambang

Battambang is the second largest city located in the western part of the country, and is a commercial and trade centre dealing in agro-products. Its long-term potential lies in agriculture and fisheries, and as a regional growth centre linking Cambodia with the Thai border by rail and road.

(c) Kampong Som

Kampong Som is Cambodia's only port city, located southeast of Phnom Penh on the Gulf of Thailand. It has a population estimated at 74,000. It is likely that free-trade zones and export processing zones will develop around Kampong Som, but at this time, no plans have been initiated.

(d) Siem Reap

Siemreap is located in the northwest part of the country with roughly 15,000 people and is destined to become a tourist centre due to its proximity to Angkor Wat. Airport, tourist accommodation, and infrastructure work will be required.

(e) Kompong Cham

Kompong Cham is one of the major agricultural centres, located north of Phnom Penh and connecting to Ho Chi Minh City by road. It maintains an inland water port on the Mekong River and is a secondary port (after Phnom Penh port) connecting trade with Vietnam.

Table 20.3

Growth Centres in Cambodia

City/Province	Population (1992)	Major Functions and Activities
Phnom Penh	950,000	Capital City, Commercial Centre, Industrial Centre and Tourism
Battambang	510,000	Trade, Agriculture, Fisheries, Agro-Industries
Kompong Cham	1.7 million	Agriculture, Agro-Industries, Livestock
Siemreap	592,000	Tourism, Agriculture, Agro-Industries, Fisheries
Kompong Som	67,000	Transportation, Industry, Trade, Export Processing Zone, Tourism

Source: Economic and Demographic Statistical Assessment Mission to Cambodia, UNDP, March 1991

AGRICULTURE, FISHERIES, AND FORESTRY

The agriculture sector, as in Vietnam and Laos, is the base of the Cambodian economy. Over 85 percent of the population is engaged in agricultural activities which contributes to approximately 45 percent of the GDP and 70 percent of the labour force. The agriculture sector includes: livestock, fisheries, and forestry. Major agricultural products are: rice, rubber, timber, soybeans, maize, and fish products.

20.3 Agriculture

The total cropped area in 1990 was estimated at 2.1 million ha of which 89 percent was in rice production. Rice production in 1990 is 20 percent below the production figures for 1967. Approximately 25 percent or 4.5 million ha of Cambodia's land is arable.

The agriculture sector can be divided into four areas: (1) rice production; (2) subsidiary crops such as corn, beans, cassava, groundnuts, sweet potatoes, sesame, and soy; (3) fruit production including bananas, pineapples, mangos, oranges, grapefruit, limes, mandarins, brazil nuts, longone, rambutan, and durian; and (4) coffee, jute, and tobacco.

Agriculture in Cambodia has been characterized by poor soils, unstable rainfall, irregular flood receding patterns, and inefficient techniques; however, the soils and natural irrigation system around the Mekong River and Tonle Sap Lake provide for promising planting conditions to grow crops. Conditions exist for Cambodia to become self-sufficient in food production.

Table 20.4

Crop Production in Cambodia

(tonnes)

Crops	1988	1989	1990	1991
Rice	2,074.0	2,278.0	2,150.0	2,400.0
Sugar Cane	139.0	245.0	150.0	304.0
Vegetables	193.0	193.0	170.0	249.0
Cassava	72.0	64.0	58.0	75.0
Maize	45.0	54.0	36.0	56.0
Sweet Potatoes	40.0	24.0	34.0	54.0
Soybeans	12.0	20.0	21.0	33.0
Mungbeans	22.0	17.0	14.0	27.0
Rubber	31.0	33.0	23.0	24.0
Tobacco	10.0	6.0	11.0	9.0
Jute	3.0	2.0	1.0	6.0
Sesame	4.0	6.0	4.0	6.0
Groundnuts	5.0	3.0	3.0	4.0
Cotton	0.0	0.0	0.0	1.0
Black Pepper	0.0	1.0	0.0	0.0

Source: Ministry of Agriculture and Ministry of Planning, Department of Statistics

20.4 Livestock

The livestock industry in Cambodia is characterized by small-scale production units derived from subsistence farms consisting of cows, buffaloes, pigs, chickens, and ducks. The livestock numbers are determined by the availability of feed and land for foraging. Any opportunities in the livestock industry remain limited.

20.5 Fisheries

Fisheries play an important role in supplying the population with its main protein source. The main fisheries include one of the world's richest inland fishing resources in Tonle Sap Lake located in the centre of the country, freshwater aquaculture in Tonle Sap Lake, and marine fisheries from the coastal waters.

Tonle Sap Lake experienced serious degradation of the ecosystem during the Khmer Rouge regime, while other agricultural activities were virtually eliminated. When the current regime took control in 1979, the fisheries system had to be rehabilitated from scratch.

While production in aquaculture recovered in 1991, inland and marine fisheries remain below 1930 levels.

Table 20.5

Livestock and Fishery Production

Livestock (head)	1990
Cows	2,234
Buffalo	737
Pigs	1,516
Poultry	8,164
Draught Oxen	1,017
Draught Buffalo	483
Fishery (tonnes)	
Fresh fish	111
Dried fish	1
Salted Preserved Fish	0

Source: Ministry of Agriculture and Ministry of Planning, Department of Statistics

20.6 Forestry

Cambodia has over 10 million ha of forested area with nearly 60 percent of its land area still under forest cover. The most heavily forested areas are in the north and northeast bordering Vietnam, Laos, and Thailand, and in the southwest. There are a number of land use possibilities which are suitable for Cambodia's forestry management such as cash-cropping, reforestation, and livestock. The mixed deciduous forest ecosystem in Cambodia is the largest undisturbed area in Asia.

Table 20.6

Forestry Production in Cambodia for 1990

Round Logs	m3	257
Sawn wood	m3	16
Fire wood	steres	105
Charcoal	tonnes	7
Bamboo	000	N.A.

Source: Ministry of Agriculture and Ministry of Planning, Department of Statistics

Many of the provinces have lost most of their forests due to deforestation, logging, fires, and shifting cultivation, and are now experiencing wood fuel supply difficulties. Southeast provinces located near the hill sides are almost completely deforested, with soil erosion on the rise.

Even though Cambodia's forestry inventory is decreasing, timber remains one of the major export items. In 1989, Cambodia exported 90,000 cubic metres compared to only 20,000 cubic metres in 1986.

MANUFACTURING

The manufacturing sector in Cambodia made up 12 percent of the country's GDP in 1989. Much of the industrial capacity fell into disrepair or was destroyed during the Khmer Rouge period between 1975 and 1979, so industry had to be revived during the early 1980s.

Prior to the civil war, the small industrial sector consisted of: rice milling, food processing, cigarette factories, pottery, bricks, basket-ware, metal-ware, and wood products. By 1989, most of the industrial production was under state control. There has been an increase in private sector activity due to the introduction of economic reforms.

In 1990, the main sectors in industrial production were food processing with 43 percent of the GDP, textiles and garments with 25 percent, chemicals with 16 percent, engineering with 11 percent, light industries with 5 percent, and construction materials with 1 percent.

20.7 Food Processing

The food processing sector is dominated by cigarette manufacturing, followed by beverage processing including milk, soft drinks, and liquors. Additional areas that supply the domestic market are rice, flour, and sugar processing.

20.8 Textiles and Garments

The textile and garment industry maintains seven factories under the Ministry of Industry. The industry is currently facing raw material shortages and supply problems.

20.9 Chemicals

The chemicals industry consists primarily of rubber-processing facilities including crepes, tires, inner tubes for bicycles, cars and trucks, rubber sandals, hoses, and belts. The non-rubber industries comprise a phosphate fertilizer factory, a flashlight battery factory, and several gas factories.

20.10 Engineering and Machining

The engineering and machining industry produces simple products including household items, agricultural implements, water tanks, tools, and spare parts.

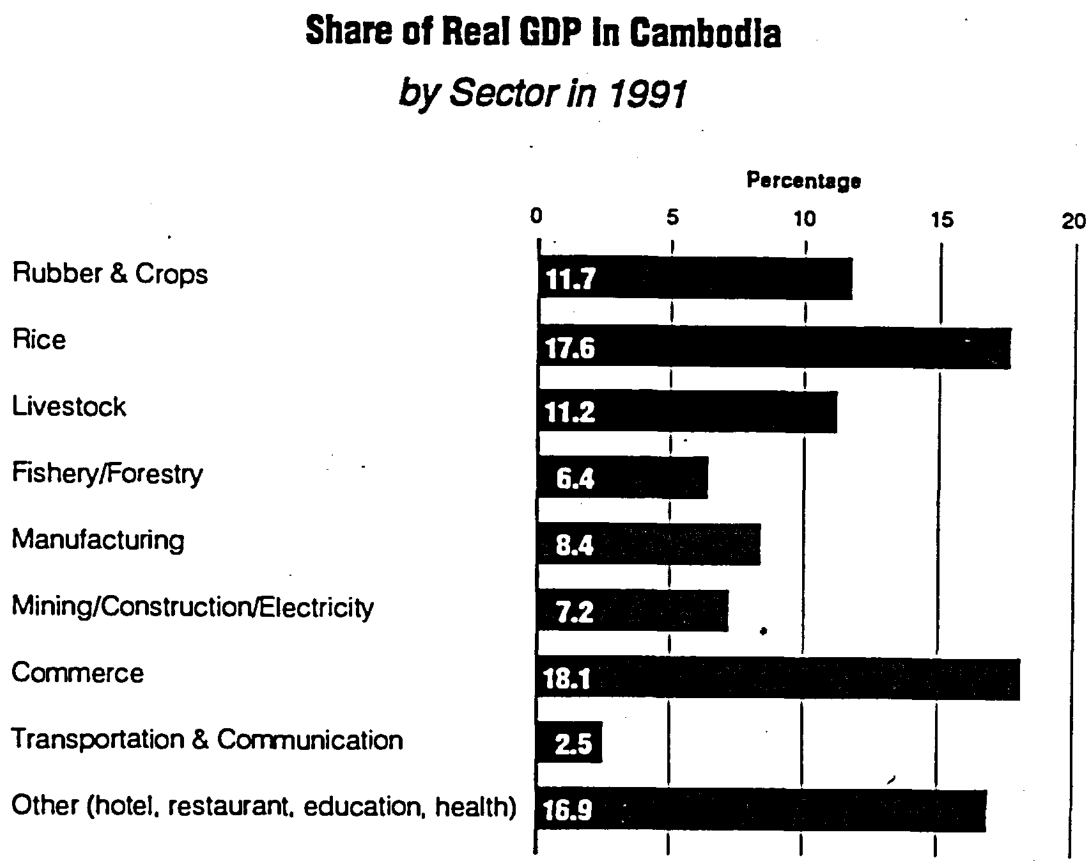
Table 20.7

Industrial Production of Cambodia

	Unit	1988	1989	1990	1991
Agriculture engines (plows)	000 units	271.0	218.0	300.0	350.0
Spare parts	tonnes	288.0	170.0	143.0	139.0
Cooking utensils	000 units	107	12	74	85
Nails	tonnes	1,841.0	1,829.0	1,342.0	230.0
Car tires	000 units	25.0	31.0	31.0	19.0
Bike/motorcycle tires	000 units	546.0	1,463.0	560.0	367.0
Soap	tonnes	631.0	890.0	935.0	279.0
Tank truck (citerne)	units	634.0	549.0	400.0	292.0
Rice flour oil	tonnes	202.0	219.0	307.0	353.0
Fabrics	000 metres	4,603.0	3,345.0	1,392.0	287.0
Bricks	000 units	14,550.0	20,929.0	3,636.0	30,000.0

Source: Department of Statistics, Ministry of Planning

Diagram 20.2



Source: Ministry of Planning, Phnom Penh, 1991

TRANSPORTATION AND TELECOMMUNICATIONS

As in Vietnam and Laos, the development and upgrading of Cambodia's infrastructure is a key to economic growth. Cambodia's infrastructure remains one of the worst in Asia. The road network requires restoration. The telecommunications network has been either destroyed or the equipment is so obsolete that spare parts cannot be obtained. The country's electric power system is one of the least developed in the world, with the rural areas receiving no service. The rail network, ports, urban water supply and sanitation, fuel depots, and air services require reconstruction and rehabilitation.

The transportation network requires primary and secondary roads, river and ocean ports, airports, and rail services. All have implications on developing trade and distribution networks.

20.11 Roads

Cambodia's primary road network consists of 3,000 km of road. There are eight major road routes that originate from Phnom Penh and connect to almost all the regional centres. The major roads in Cambodia are:

Route No. 1: Phnom Penh - Svay Rieng - Vietnam border (167 km)
Route No. 2: Phnom Penh - Cambak - Takeo - Vietnam border (135 km)
Route No. 3: Phnom Penh - Kampot - Veal Renh - P. Ream (202 km)
Route No. 4: Phnom Penh - Kompong Speu - Kompong Som (226 km)
Route No. 5: Phnom Penh - Kompong Chhnang - Pursat - Battambang - Sisophan - Poipet - Thai border (407 km)
Route No. 6: Skun - Kompong Thom - Siemreap (Angkor Wat) - Sisophon (385 km)
Route No. 7: Skun - Kompong Cham - Vietnam border - Snoul (180 km)
Route No. 8: Snoul - Kratie - Stung Treng - Lao border (299 km)

The secondary network consists of 3,100 km of poor roads, with average speeds limited to under 15 km/hr. The majority of the 28,000 km of tertiary roads are subject to flooding during the rainy season and are inaccessible to light vehicles. A large number of Cambodia's 4,100 bridges have been destroyed or damaged and require renovation. Ferries are running at overcapacity, causing long delays at major crossings.

20.12 Rail

The Cambodian railway system has two lines. The Phnom Penh-to-Poipet Line runs 385 km to the northwest, on the Thai border. The Phnom Penh-to-Kompong Som Line runs 263 km to the country's only deep maritime port on the Gulf of Siam. Both lines are single track and one-metre gauge and have deteriorated roadbeds, rotted sleepers, bridges and tracks blown up and repaired, old rolling stock and loading equipment, all of which is poorly maintained.

20.13 Shipping

There are two major ports in Cambodia: the Kompong Som Port and the Phnom Penh Port. The ocean port of Kompong Som is operating at 11 percent of its potential capacity. In 1991, it handled 132,000 mt of freight. The access channel and inner harbour are in need of dredging and require cargo handling facilities and equipment. The Phnom Penh Port is located at the junction of the Mekong and the Tonle Sap rivers and, in 1991, handled 180,000 mt of freight.

The East Asiatic Shipping Company (EAC) began operations in Cambodia in 1991.

20.14 Airways

Civil aviation in Cambodia consists of four airports in Phnom Penh, Siem Reap, Stung Treng, and Battambang. Air traffic control is inadequate and lacks navigational aids, communications equipment, runway lighting, and basic technical manuals (see section 25.3).

20.15 Telecommunications

Cambodia's telecommunications system is in poor condition. Like most of the country's infrastructure, the telecommunications system suffers from an unreliable power supply. An international telephone link has been established in Phnom Penh via satellite. Communication with the rest of the country is only possible through individual radio connections.

ENERGY AND MINING

20.16 Oil and Gas

The Department of Geology and Mines under the Ministry of Industry is responsible for mining, and oil and gas. Foreign companies are only permitted to invest in the natural resource sector through a business cooperation contract. There have been limited exploration attempts for oil and gas due to Cambodia's political constraints.

Nevertheless, oil companies are beginning to revisit Cambodia to explore opportunities. Companies from Great Britain, France, Japan, Spain, and Australia have begun seismic surveys in the Gulf of Thailand. All have agreed to do a collective broad-grid regional survey of their five offshore blocks. Other groups that are in the process of bidding include Great Britain and Taiwan. A number of American companies have expressed interest but have not submitted bids.

Uncertainty over the validity of pre-1993 contracts with the post-election government and potential attacks from bandit groups have curtailed any onshore activity. Another problem to contend with is a lack of information on the country's oil and gas reserves. Foreign consultants have indicated that there is high potential for commercial deposits of natural gas and a modest potential for oil with the majority of the potential offshore.

The only legislation that exists for the governing of minerals in Cambodia is the Petroleum Regulations, established in 1991.

The following incentives exist for exploration companies:
- The sole right to explore for and produce petroleum discovered in the site area.
- Guarantees that the property rights of the oil company will not be nationalized.

- Importation of tools and equipment are tax free.
- Exemption from most government taxes.

Negotiations for a petroleum agreement are made with the Ministry of Industry; however, final approval rests with the government. Cambodia has created a model contract used as the basis to begin negotiations with a foreign company which details the maximum initial duration of an exploration period as four years which can twice be extended for periods up to two years. There are 26 blocks in Cambodia. No company is permitted to have more than two blocks.

20.17 Electricity

Cambodia's electric power system is one of the least developed in the world. Nearly all distribution systems are insufficient to maintain a reliable supply of power. The administration of the system is inefficient.

The unreliable electricity supply has led to an increase in privately-owned diesel generators resulting in losses of close to 50 percent of energy generated. Payment for energy distributed to central and municipal agencies has not been collected, leaving the utility without financial resources.

The other power problem is the supply of fuel for vehicles. The system suffers from insufficient storage facilities, an inadequate number of tankers, trucks and vessels, lack of spare parts and maintenance facilities, and a shortage of operating capital.

Further development is required to strengthen the existing power facilities and planning is needed for long-term power requirements in order to support domestic industry and attract foreign investment and trade.

20.18 Mining

Cambodia appears to have limited mineral resources (including limestone, kaolin, tin, bauxite, silver, gold, and iron ore) that have not yet been exploited. Gems such as sapphires and rubies are mined near Battambang in Pailin and are controlled by the Khmer Rouge.

20.19 Tourism

Tourism has excellent potential in Cambodia with its rich cultural background (Angkor Wat), excess of forest (see section 20.6), and coastal natural resource attractions such as beaches along the Gulf of Siam. Tourism development will provide the country with much-needed foreign exchange.

Chapter 21
BUSINESS ENVIRONMENT

Cambodia has demonstrated its willingness to proceed towards a market-oriented economy by accepting and encouraging private sector activity. The government realizes that the private sector is a key element required for economic recovery, and has moved quickly to lift restrictions on private companies. The removal of CMEA assistance, coupled with the rapid introduction of economic reforms and a government that is unsure of its future, has created a virtually unregulated environment.

Factors to Consider

- Economy in transition
- Trend towards privatization
- Weak government structure
- Lack of institutional capacity to execute programs
- Lack of management skills and training
- Lack of financial management, auditing, and taxation
- Liberal foreign investment law
- Lack of financial resources

A number of problems exist that constrain private sector expansion and development. The process of privatization has been rapid but uncontrolled and unguided. A gradual, well-planned system of management change is necessary. Government help and support is required to maintain a balance between state companies and private firms. Company personnel must be trained to better manage their operations in a competitive environment.

21.1 Industrial Climate

Cambodia's industry plays a minor role in the economic make-up of the country. Industrial activity has been limited, contributing 5 to 12 percent annually to the nation's GDP over the last thirty years.

The major industries are predominantly resource-based and include food processing, furniture, sawmilling, and chemicals. Most plants operate at low capacity due to poor management and periodic shortages of electricity, raw materials, and spare parts.

21.2 Organization of Industry

There are approximately 80 factories in Cambodia involved in the production of: textiles, rubber processing for tires, food processing, and pharmaceutical products. All facilities are inadequately equipped. Many state-owned companies are in the process of privatization; however, due to the country's financial constraints, support and development of small-to-medium-sized companies will be limited.

In order for the private sector to expand, the country will require support organizations such as business and trade associations, a Chamber of Commerce, and other organizations that facilitate the exchange of information.

Economic entities in Cambodia with the status of "corporate bodies" include: state companies, mixed state-private companies, private companies, and administrative economic entities which are not permitted to associate with foreign companies in any investment projects.

GOVERNMENT POLICY

The government began its reorganization of state companies in 1989. Companies are supposed to be able to operate without state interference, be financially self-sufficient, and receive no operating subsidies. They are able to keep their after-tax profits, and they can seek additional financing from commercial banks. They are supposed to be private entities in a market economy.

In practice, state companies have yet to receive their autonomy due to the economic problems facing the country, and the political uncertainty over the 1993 elections. The result is that there are two agendas in Cambodia: (1) to support and complete the economic restructuring toward a market economy; and (2) to remain in power through the 1993 elections. These two agendas are in competition with one another resulting in a stagnant state sector and an uncoordinated government policy.

The SOC and the state companies do not possess the proper instruments to operate as financially independent entities. Problems to be addressed include a weak legal framework and judicial system, poor financial management, and inadequate accounting principles.

21.3 National Development Plan

The government has attempted to formulate a development policy for the country through a series of Five-Year Plans. Limited resources have caused its strategy to be misdirected. Work to identify the country's fundamental needs is required.

National planning is the responsibility of the Ministry of Planning which reports directly to the Council of Ministers.

Cambodia's first Five-Year Plan from 1985 to 1990 set the country's course towards economic development by introducing private enterprise, the FIL (see section 21.4), price controls, and joint venture laws aimed at attracting foreign companies.

The second Five-Year Plan from 1990 to 1995 establishes priorities for development to complete the transition from a centrally-planned to a market-oriented economy. The Plan has yet to be implemented. It specifically outlines agriculture, industry (energy and processing facilities), handicrafts, transportation, and tourism as the main economic priorities. The following targets are in place for the industrial sector:

- Increase industrial output annually by an average of 15 percent.
- Conduct research in mineral resources, petroleum, and precious stones.
- Restore and replace production lines in the main factories.
- Increase product quality for export.
- Manufacture agricultural implementation to increase productivity.
- Promote industrial schemes for exploitation of strategic crops such as tobacco, cotton, sugar cane, and jute.

21.4 Foreign Investment Law (FIL)

The SOC passed its FIL on July 20, 1989. The law, accompanied by a number of decrees from the Council of Ministers, forms the foreign investment legislation of Cambodia, and the basis for starting and operating a business in Cambodia. It is assumed that any new government installed after the elections will maintain the law. The FIL is liberal and, with refinement, will be like the laws in Vietnam and Laos.

21.5 Trend Towards Privatization

The state encourages privatization in all sectors of the economy. The trend towards privatization began in 1988, when a tire factory and a textile plant were permitted to retain a percentage of their profits to be utilized for investment, bonus incentives, and the procurement of parts, services and raw materials outside the state supply system. By 1992, many of the former state companies had changed from being state-subsidized to economically self-managed. Other state companies are beginning to be leased to private sector investors.

A number of imperfections remain in the privatization process. During the transformation, quotas have fallen short of targets and industrial improvements in sectors such as agriculture have been slow. New equipment and technology has not been thoroughly incorporated into production systems due to limited financial resources and inefficient state investment.

State companies have yet to play a leading role in the economy due to the fact that they are operating below capacity and are not profitable.

21.6 External Assistance

Financial assistance will contribute to Cambodia's reconstruction. The extraordinary political situation and the presence of UNTAC during the transition period resulted in the establishment of a donor's consultative group. The group originated with the Paris Peace Agreement and has been organized to manage external assistance.

The group consists of foreign representatives located in Phnom Penh or Bangkok, and includes delegates from Australia, Belgium, Canada, China, France, Germany, Great Britain, India, Italy, Japan, the Netherlands, Russia, Sweden, Thailand, and the United States. It also includes members from various UN agencies, International Red Cross, Asian Development Bank (ADB), and several NGO's.

In order for the business environment to improve for companies, financial assistance will have to take effect on the country and be targeted at the priority sectors. A committee called the SNC/UNTAC Technical Advisory Committee (TAC) has been formed to evaluate external assistance projects.

Project development opportunities exist in the following areas:

- Institution and Human Resource Development
- Urban and Regional Development
- Agriculture
- Forestry
- Livestock
- Fisheries
- Industry
- Tourism
- Infrastructure (Road, Rail, Civil Aviation, Port, Inland Waterway)
- Energy
- Telecommunications
- Water Supply and Sanitation
- Education
- Health Care

TAXATION

Any foreign legal form of business is subject to taxes according to the FIL (see section 21.4). Products that are exported are exempt from taxes, but will have to pay export duties in compliance with Cambodia's import-export law. Products that are for the domestic market are liable to taxation.

21.7 Direct Taxation of Profits

Priority investment projects will be subject to a rate of tax on their profits between 15 and 20 percent. Other investment projects will have to pay a percentage rate of tax on profits between 15 and 25 percent.

To be eligible for priority treatment, a company must be active in one of Cambodia's preference areas and have either a minimum of US$5 million invested in total capital or be exporting at least 70 percent of its products or services, thereby collecting 70 percent of its income from foreign exchange.

Companies that fulfil the above conditions may be eligible to be completely released from taxes on profits or shall receive a 50 percent tax reduction on their profits for a period of two years from when they began to make a profit.

In special cases where investment is greater than US$10 million and the investment is in a priority sector, and its profits are less than 10 percent of its total invested capital, an additional two-year exemption may be granted.

Profits that have been allocated for reinvestment in Cambodia shall be exempted from taxes if the reinvestment is over the course of three years or more.

21.8 Taxation on the Exploration of Natural Resources

Companies involved in investment projects that exploit or develop natural resources such as petroleum, gas, precious stones, and gold or silver are subject to a profit tax to be determined on a case-by-case basis, but will be rated at a minimum 25 percent.

21.9 Import/Export Items

Imports in the following cases will be exempt from taxes:

- construction materials, spare parts, and equipment used for the construction of a company's facility, or for operating the business cooperation venture.
- spare parts and equipment utilized in the modernization and upgrading of production lines.

- spare parts, raw materials, fuel, equipment employed to produce export items.

All other imported spare parts, raw materials, and equipment used in the manufacture of goods for the domestic market will be subject to tax, unless the items are designed for import by the state. If the project is considered to be fundamental to the national economy, it will be allowed to have a 50 percent reduction on import duty.

Foreign personnel (and their families) working in a joint venture, foreign company or contractual business cooperation venture are permitted to import and export materials and equipment for their own use, completely exempt from taxes.

COMMERCIAL LAW

21.10 Legal Framework

Cambodia currently lacks the legal system to manage change and to create a positive environment for private sector growth and development. Issues that have to be addressed include: business law and company registration requirements, taxation system, labour laws appropriate for the new economic structure, intellectual property rights, etc. Many of the existing laws require redrafting and more detailed legislation, particularly in economic and industrial areas.

21.11 Labour and Employment

In order to employ Cambodians, a foreign company must follow the provisions of the labour law. The foreign firm can make either an individual labour employment contract or a collective labour employment contract.

The labour employment contract must not exceed three years and must specify the working hours, days off, labour security, wages, and social security. The salary is to be determined by both parties. The company must establish a set of internal rules which must be approved by the relevant ministries.

Employees are also permitted to create trade unions to ensure good working conditions and to defend the interests of labourers. The employer will have to contribute to retirement pensions and social insurance costs.

It is estimated that 47 percent or 3.7 million of the population is economically active. Roughly 80 percent are engaged in agriculture, forestry, or fisheries, while 15 percent are employed in services.

21.12 Land Use and Ownership Rights

The property law regulating the use of land and buildings was announced in 1989. According to the law, the land belongs to the people of the SOC and is to be administered on their behalf by the State.

Foreign individuals and companies cannot own land in Cambodia. They are permitted to lease land and/or buildings for unlimited leasing periods from the land holder; however, it is difficult to determine the owner of the land or buildings due to the mismanagement of the Land Titles Registry and the Lands Department under the Ministry of Commerce.

The government also seeks tenders for the lease of state-owned buildings for a period of 25 years. There are also tenders for the lease of factories, equipment, and factory employees.

21.13 Patents, Trademarks, and Copyrights

No procedures exist for the registration of patents and copyrights. As of 1992, trademarks can be registered under the Ministry of Commerce. Trademark registration will remain in effect 10 years after the date of registration.

The government is considering a Trademark Act and other legislation related to intellectual property.

Chapter 22
DOING BUSINESS IN CAMBODIA

Factors to Consider

- Infrastructure difficulties
- Unstable security situation
- Lack of commercial laws
- Undeveloped banking facilities
- Strategically located between Thailand and Vietnam
- Rich in agricultural resources
- Liberal foreign investment regulations
- Restructuring the economy
- Potentially large amounts of development assistance available

22.1 Investment Climate

Cambodia is moving towards a free-market economy. After two decades of armed conflict, the country is near ground zero in terms of development, and remains a political risk. It is difficult for some companies to justify doing business in the country. On the other hand, like any country that is undeveloped, opportunities do exist over both the short and the long term.

Since the inauguration of the FIL (see section 21.4) in 1989 and the apparent short-term settlement of the Cambodian conflict, there have been approximately 400 proposals submitted to the NCFI (see section 22.9). In 1992, it was estimated that over 263 companies had expressed an interest in investing in Cambodia. The leading foreign investors are from: Thailand, France, Hong Kong, Singapore, the United States, Taiwan, Hungary, Australia, Japan, and Malaysia.

The majority of projects have focused on the following industries: tourism, banking, forestry, textiles, water supply, electricity, telecommunications, cement, petroleum, and sugar.

The liberal investment regulations have attracted many companies exploring business opportunities. However, the limited commercial apparatus and the uncertainty as to whether the post-election government will honour agreements signed by the current regime, make Cambodia a risky venture.

The fragile state of the government has led companies to circumvent regulations and enter into commercial contracts with local partners or to purchase state-owned assets directly from the government authorities that control them, without having projects confirmed by the Council of Ministers. Without authorization from the Council of Ministers, projects are illegal .

A company considering investing in Cambodia should be in a position to monitor the direction that the future government of the country will follow after the elections in 1993. Existing investment agreements that are seen as detrimental to the country will be scrutinized by the new government. Until a clear course is charted by the new government, investment should be viewed as uncertain.

22.2 Investment Policy

The FIL details five sectors for investment that are encouraged by the State of Cambodia:

- Production of goods for export or goods which can replace essential imported goods.
- Services which can promote income in foreign exchange.
- Construction of infrastructure such as power stations, particularly hydroelectric dams, bridges, ports, and airports.
- Utilization of raw materials and natural resources existing in the country.
- Agriculture and animal breeding.

22.3 Investment Incentives

The foreign investment legislation in Cambodia is very similar to the investment code of Vietnam which provides two important guarantees:

- The capital and property of a foreign investor shall not be expropriated, or requisitioned by administrative procedure or nationalization.
- Foreign investors will be entitled to remit abroad the following: profits, principal and interest on loans taken out in the course of operations, invested capital, and other monetary and fixed assets legally defined as their properties.

The foreign investment projects that follow the groupings mentioned in Section 22.2 are promoted activities encouraged by the government and may be allowed advantageous conditions.

Priority is also provided to foreign investors of Cambodian origin who want to contribute to the reconstruction of the country.

22.4 Trade and Investment Opportunities

Any long-term potential in Cambodia depends on the security situation and on settling political uncertainties. Until the political question in Cambodia is resolved with a firm commitment to opening the country, investment and trade opportunities will be limited.

With substantial aid money being provided in the short-term by bilateral and multilateral sources, there remain a number of opportunities in a range of equipment supply and service industries such as: agricultural machinery (tractors, power tillers, harvesters, and threshers), agricultural implements (sowers, weeders, metallic ploughs, and hand tools), irrigation equipment, food processing technology, wood processing machinery, aquaculture, road engineering (construction technology), and port equipment (cargo handling equipment and container services). Economic development opportunities will focus on agriculture, food processing, labour-intensive manufacturing, and rebuilding infrastructure (road, rail, port, airways, and telecommunications).

The development of the tourism industry in Cambodia has some of the best long-term prospects of any industry. Phnom Penh, like Hanoi, has had little investment to work with during the last 15 years so many of the buildings are dilapidated and require renovation; however, the city has the potential to be very charming. Most visitors to Cambodia come to visit Angkor Wat, one of the "Wonders of the World." The potential for resort and hotel development on the Gulf of Siam is also great.

LEGAL FORMS OF BUSINESS ORGANIZATIONS

Under the FIL, there are three principal types of business organizations that can be established by foreigners in any sector of the economy, with or without a specified Cambodian partner (see also section 21.4):

- Joint venture with a minimum of 30 percent foreign capital.
- Wholly-owned company.
- Contractual business cooperation.

22.5 Joint Venture Company

A joint venture is a legal Cambodian entity established as a limited liability company. The FIL refers to a joint venture as an enterprise jointly set up in Cambodia by foreign and Cambodian partners, based on a joint venture contract or an agreement reached by the SOC and a foreign government.

The Cambodian joint venture partner may be a private legal entity or a state entity. Once a Cambodian partner is identified, both parties are required to submit their investment project to the NCFI (see section 22.9) which will review and submit to the Council of Ministers.

The capital contribution from the foreign investor cannot be less than 30 percent of the total capital of the enterprise. The contribution by the Cambodian partner can be made in riel (Cambodian currency) or by way of natural resources, materials, rights of usage to land, water or sea surfaces, factories, buildings, services for the construction and commissioning of production methods, or any other form of capital contributions that the parties may agree upon. In addition, a foreign investor should note that the Cambodian party is not allowed to contribute foreign currencies to the capital of the enterprise.

If the joint venture is formed to conduct import and export activities, the foreign contribution to the equity may not exceed 49 percent of the total.

There are no limits to the duration of a joint venture which may be determined by agreement between the parties. A joint venture enterprise may also cease its business activities prior to its designated period by requesting and obtaining the consent of the Council of Ministers.

Whether or not the items are produced for export, other regulations require the new joint venture company to allocate a percentage of their product to the local market based on government priorities. Moreover, each partner shall be liable for acts of its co-partner, the enterprise, or a third party, but only up to the limits of its own contribution to the legal capital.

22.6 Wholly-Owned Company

A foreign enterprise in the SOC is a foreign investment with 100 percent foreign capital. It is the property of the investor who maintains the right to manage it individually. An agent can be designated to act on behalf of the foreign investor who chooses not to live in the country.

22.7 Business Cooperation Contract

A business cooperation contract is defined as "an agreement between the investor in Cambodia and a state entity in Cambodia for the purpose of undertaking activities of production and business in the state and to share between themselves the profits resulting from their activities." Trade and barter agreements are excluded from the contract. Private Cambodian companies are not able to enter into a business cooperation contract.

22.8 Representative Offices

Foreign companies are also permitted to establish representative offices in Cambodia; however, as in most Southeast Asian countries, representative offices may not directly import, export, or sell goods. There is no limit as to how long the representative office may exist nor is there a requirement for the senior official to be a Cambodian national. The office can sign contracts with Cambodian entities.

Applications should be submitted to the Ministry of Commerce and should include a copy of the foreign company's "Articles of Association", a power of attorney granted to the representative, a certificate of ownership for the building where the office is to be located, and a copy of the leasing contract. The most difficult step in the application procedure is to obtain a letter from the local People's Municipality verifying that the office premises have been obtained and are in fact being rented from the owner.

ESTABLISHING A BUSINESS IN CAMBODIA

22.9 National Committee for Foreign Investment (NCFI)

The NCFI is based within the Department of International Cooperation under the Ministry of Planning and is responsible for managing foreign direct investment. All foreign investment proposals go to the NCFI and the Secretariat of the Investment Committee, and are obliged under the law to be reviewed and given a reply within three months.

Once an application is received, the review process follows two basic steps: (1) agrees in principle to the soundness of the proposal; and (2) conducts a detailed review of the proposal. The detailed review, and the role of the municipalities and provinces in the review process remains obscure. The NCFI should be contacted for details. Provincial authority is given for most small projects.

The NCFI is headed by a deputy prime minister, and includes representatives from the Council of Ministers, the Ministry of Planning, Finance and Commerce, the General Office for Construction, the State Bank, Phnom Penh's People's Committee, and the General Office of Tourism.

22.10 Company Formation Procedures

The following steps are outlined in the FIL as the process for pursuing investment projects:

- Notify the Ministry of Foreign Affairs for authorization to enter the State of Cambodia, indicating the objective, background, and status of the proposed project.
- Contact the Ministry of Planning to receive information on areas available for foreign investment. The Ministry of Planning will also provide details on the relevant local organizations to contact, information on the investment law, and the required formalities to complete an application.

- The foreign company must have a representative living in Phnom Penh to facilitate communications with the appropriate organizations and ministries.
- Applications must be made by the foreign company in Cambodia to the NCFI under the Ministry of Planning.

22.11 Key Ministries

The ministries which are key to the process of economic development of the country are: the Ministry of Finance (see sections 23.2, 24.1, and 24.6), the Ministry of Commerce (see sections 21.3, 23.2, and 23.3) and the Ministry of Planning. The latter is of prime interest to the foreign firm preparing to establish itself in Cambodia.

The Ministry of Planning is responsible for planning and guiding the country's economic development. The Department of General Production is responsible for planning agriculture, industry, transportation, and communications.

The Department of Statistics in the Ministry of Planning is the central institution for the collection of statistics on the national economy, data from all ministries, companies, and information as it relates to agriculture, industry, construction, trade, transport, telecommunications, and finance.

The Department of International Cooperation coordinates state investments with the Council of Ministers and prepares official letters for projects. The National Committee for Foreign Investment (NCFI - see section 22.10) is under the responsibility of the Ministry of Planning.

22.11 Finding a Cambodian Partner

Due to the unregulated nature of the economy, determining the capability of a partner is difficult. Credit checks and financial summaries on companies do not exist, making choosing a partner a risky venture.

A company should consult with the NCFI and the Ministry of Commerce for potential partners, and consult with foreign companies already operating in the country.

Chapter 23
EXPORTING TO CAMBODIA

Factors to Consider

- Lack of foreign exchange
- Country in a period of instability
- Poor distribution of goods
- Limited purchasing power
- Undeveloped infrastructure
- Political uncertainties

23.1 Export Environment

Cambodia's export environment is poorly regulated and inexperienced in international trade, and offers Canadian companies limited opportunities. Due to the country's lack of foreign exchange, very few companies are capable of purchasing Canadian goods or services. Similar to Vietnam and Laos, investment is the government's top priority.

With a population estimated at 8.7 million and a per capita income level at US$190, Cambodia's purchasing power is almost non-existent; nevertheless, opportunities to provide goods and services will increase as the level of financial assistance multiplies in the coming years. The UN manages a fund of over $800 million for development. Additional support will be upcoming through the ADB, the World Bank, and the IMF.

23.2 Export and Import Controls

The control of exports and imports, and other laws related to international trade is the responsibility of the Foreign Department under the Ministry of Commerce. Export and import control is administered through the granting of licenses from this department in coordination with the Customs House based in the Ministry of Finance.

Prior to 1991, the department only dealt with socialist countries; however, after 1991, a system of trade was introduced which follows the capitalist model of trade with the distribution authority transferred to state and private companies. The current trade and commercial law is based on French law.

Timber and rubber are the only two commodities on which state-owned companies maintain a monopoly; therefore, they are the sole exporters. Nevertheless, foreign companies in the past have received leases on forested areas where they are given the right to export timber directly.

Other goods which are exclusively exported by state-owned enterprises include rubber, rice, timber, fish products and soy.

In order for a foreign investor to establish a trading company it is required to form a joint venture in which it cannot hold more than 49 percent of the equity. Trading companies are required to have a minimum capital reserve of 50 million riels (roughly US$60,000), 10 percent of which is to be deposited with the Treasury Department of the Ministry of Finance, and reclaimed at the termination of the company.

23.3 Finding a Cambodian Partner

The Ministry of Commerce can assist Canadian companies to identify trading partners and provide business information on trade-related items. There are over 140 private companies registered with the Ministry of Commerce who are eligible to engage in international trade. The government plans to establish reporting systems for private companies and to form a Chamber of Commerce.

To be eligible to import or export goods, a company must apply to the Ministry of Commerce for a license. An application must include a copy of the selling agreement or the invoice. Traders are required to use letters of credit or bank transfers for payment. Export and import licenses are valid for a period of two and three months, respectively. Duties must be paid on the importation of goods.

Chapter 24
BANKING AND FINANCE

The banking system in Cambodia is a two-tier system including a central bank and an emerging commercial banking sector. The major constraint in the banking sector is the lack of expertise.

24.1 State Banks

The financial sector consists of two banks.

The State Bank of Cambodia is responsible for regulating the banking system, printing money, and controlling foreign exchange. The Foreign Trade Bank of Cambodia is the international branch of the State Bank and works closely with the Ministry of Finance. The second bank is the Commercial Bank of Cambodia controlled by the Council of Ministers and is the country's main monetary authority.

There is a limited capacity to conduct financial analysis for credit applications or financial checks on companies that could be potential partners. In addition, the shortage of banking legislation restricts the development of the banking system and discourages foreign investment.

24.2 Foreign Banks

Regulations on foreign banks are currently being drafted; nevertheless, the State Bank has already granted several licenses to foreign investors who want to set up branches of foreign banks or form joint venture banks in Cambodia. In 1992, the Council of Ministers had approved over 10 applications for new banks or branches. Most of the applicants are from Thailand, Malaysia, and Cambodians from Australia and France.

24.3 Foreign Exchange Controls

As with Vietnam and Laos, a lack of foreign exchange is characteristic of Cambodia. The State Bank is the official regulator of all foreign exchange.

24.4 Opening a Foreign Exchange Account

Foreign investors are allowed to open bank accounts in riels (local currency) or in foreign currencies with the Foreign Trade Bank or with foreign licensed banks.

24.5 Repatriation of Profits

The repatriation of profits to a foreign country shall be taxable at a rate between 5 and 10 percent. The rate will be charged in accordance with the approval of the investment project. Transfer taxes will be exempt when credit is being reimbursed to a foreign country. Any terms for loans from outside Cambodia must have approval from the Council of Ministers.

Remittances have to be approved by the State Bank. Foreign companies are required to be self-sufficient in their foreign currency needs. Riels are not officially convertible; however, in practice, the riel and foreign currencies are freely traded in the markets.

Foreigners working in Cambodia in a legal business organization are permitted to repatriate their salaries and other incomes in foreign exchange once they have paid taxes on their income. Individuals should contact the NCFI for details (see section 22.9).

24.6 Accounting

Foreign enterprises are to follow standard international accounting procedures recognized by the Ministry of Finance in maintaining their accounts (companies are advised to contact the Ministry of Finance for details). Foreigners are allowed to open bank accounts in riels or in foreign currencies with the Foreign Trade Bank or foreign-licensed banks. All account books must be kept in the Khmer language, unless permission is granted by the Ministry of Finance to use a foreign language.

Yearly accounting reports will be submitted to the Council of Ministers and the Ministry of Finance within a period not later than three months after the closing date of each financial year which must coincide with the fiscal year. Audits will be undertaken once a year by the Ministry of Finance.

Chapter 25
INFORMATION FOR THE BUSINESS VISITOR

25.1 Your First Visit

It is recommended that Canadian business people contact the North American Department of the Ministry of Foreign Affairs in Phnom Penh for assistance with arrangements. The Ministry of Foreign Affairs will arrange for car rentals, interpreters, hotel bookings, and meetings.

25.2 Entry Regulations

All visitors require a visa to enter the SOC. Visas are issued by the Ministry of Foreign Affairs. The SOC maintains embassies or consulates general in Hanoi, Vientiane, and Ho Chi Minh City.

The best way to obtain a visa is by direct application in person at any of the above locations. Three to five days are required from the time of application to the time of issue. Unlike Vietnam, sponsorship from Cambodia is not required; however, a letter of invitation from the Ministry of Foreign Affairs expedites matters.

Visas can also be issued for a cost upon arrival at Pochentong Airport in Phnom Penh. In addition, applications can be made directly to the Ministry of Foreign Affairs or to the General Tourism Office in Phnom Penh. Airline companies flying into Cambodia also provide a visa application service and the visas are issued upon arrival at Pochentong Airport.

Foreign investors may be granted multiple-entry visas for a six-month period. Foreign expatriates working in Cambodia are granted a multiple-entry visa valid for one year which is renewed on a yearly basis.

25.3 Getting There

Access to Cambodia can be gained from Vietnam, Thailand, Laos, or Singapore. All bookings can be done from Canada; however, confirmation for some of the flights can be difficult. From Bangkok, visitors can make the 50-minute flight on Bangkok Airways, Air Vietnam, or Cambodian Airlines to Phnom Penh. From Vientiane, visitors can fly Lao Aviation to Phnom Penh and from Ho Chi Minh City they can fly Air Vietnam or Cambodian Airlines.

Visitors can travel to Cambodia by land from Ho Chi Minh City; however, special permits are required. It is recommended to contact the nearest Cambodian Embassy or Consulate in the region for details.

25.4 Business Hours

Government offices work short days, usually from 8:30 am to 11:00 am and from 2:30 pm to 4:30 pm. It is often difficult to make more than two or three appointments per day.

25.5 National Holidays

January 7	National Day commemorates the Vietnamese overthrow of the Khmer Rouge in 1979
February 18	Anniversary of the signing of a treaty of friendship between Cambodia and Vietnam in 1979
April 17	Victory Day commemorates the fall of the Lon Nol government in 1975
May 1	International Workers Day (May Day)
May 9	Genocide Day is a memorial day for the atrocities of the Khmer Rouge during their rule from 1975 - 1978
June 19	Anniversary of the founding of the Revolutionary Armed Forces of Kampuchea in 1951
June 28	Anniversary of the founding of the People's Revolutionary Party of Cambodia in 1951
December 2	Anniversary of the founding of the Front for National Reconstruction (FUNSK) in 1978

25.6 Currency

The official currency in Cambodia is the riel; however, US dollars and the Thai baht are also widely accepted. It is suggested to take small denominations of US dollars which can be used as a substitute for riels. US$1 roughly equals 850 riels.

25.7 Credit Cards

Credit cards and traveller's cheques are not accepted in Cambodia so US dollars must be carried.

25.8 Communications

International telephone, fax, and telex services are available at the main hotels.

25.9 Car Rentals and Taxis

Cars can be rented from the Ministry of Foreign Affairs, The General Department of Tourism or selected hotels such as the Hotel Cambodiana. There are a limited number of taxis in Phnom Penh. Some can be found at hotels.

25.10 Interpreters

Interpreters are required for most meetings with government officials and companies. Interpreters can be arranged by the Ministry of Foreign Affairs. Many older officials also speak French.

25.11 Hotels

There is a shortage of quality establishments in Phnom Penh due to the large number of UN staff in the country. Companies should contact the Ministry of Foreign Affairs for assistance in bookings.

Hotel Cambodiana (approximatley US$175 per night)
313 Karl Marx Quay
Phnom Penh
State of Cambodia
Tel: (855) 23-26392
Fax: (855) 23-26392

Pailin Hotel (approximately US$50 per night)
219-BC Acharmien Street
Phnom Penh
State of Cambodia
Tel: (855) 23-22475
Fax: (855) 23-26376

Appendix A
GOVERNMENT DIRECTORIES

VIETNAM GOVERNMENT DIRECTORY

State Committee For Cooperation and Investment (SCCI)
56 Quoc Tu Giam
Hanoi
Tel: (84-42) 53666, 54970
Fax: (84-42) 59271

State Planning Committee
6B Hoang Dieu
Hanoi
Tel: (84-42) 58241
Fax: (84-42) 32494

Ministry of Agriculture and Food Industry
Bach Thao
Hanoi
Tel: (84-42) 68161

Ministry of Construction
37 Le Dai Hanh
Hanoi
Tel: (84-42) 54171, 54951, 55497

Ministry of Culture and Information
51-53 Ngo Quyen
Hanoi
Tel: (84-42) 62395
Fax: (84-42) 67101

Ministry of Education and Training
49 Dai Co Viet
Hanoi
Tel: (84-42) 62395
Fax: (84-42) 64085

Ministry of Energy
18 Tran Nguyen Han
Hanoi
Tel: (84-42) 63725, 53522, 57644, 53813

VIETNAM GOVERNMENT

Ministry of Finance
8 Phan Huy Chu
Hanoi
Tel: (84-42) 62061, 53869

Ministry of Fisheries
57 Ngoc Khanh
Hanoi
Tel: (84-42) 54714
Fax: (84-42) 57702

Ministry of Foreign Affairs
1 Ton That Dam
Hanoi
Tel: (84-42) 58201

Ministry of Health
138 Duong Giang Vo
Hanoi
Tel: (84-42) 63463, 264050
Fax: (84-42) 64051

Ministry of Heavy Industry
54 Hai Ba Trung
Hanoi
Tel: (84-4) 58311

Ministry of Interior
1 Tran Binh Trong
Hanoi
Tel: (84-42) 58300, 58131

Ministry of Justice
25 Cat Linh
Hanoi
Tel: (84-4) 25316, 254658
Fax: (84-42) 54835

VIETNAM GOVERNMENT

Ministry of Light Industry
7 Trang Thi
Hanoi
Tel: (84-42) 52852, 55132, 53831
Fax: (84-42) 65303

Ministry of National Defence
1 Hoang Dieu
Hanoi
Tel: (84-42) 68101

Ministry of Sciences, Technology, and Environment
39 Tran Hung Dao
Hanoi
Tel: (84-42) 52731, 252970

Ministry of Trade and Tourism
31 Trang Tien
Hanoi
Tel: (84-42) 62523
Fax: (84-42) 64696

Ministry of Transport and Communications
80 Tran Hung Dao
Hanoi
Tel: (84-42) 52079, 253301, 254075, 252805
Fax: (84-42) 67291

General Company of Civil Aviation
Gia Lam Airport
Tel: (84-42) 71513

Union of Vietnam Railways
118 Le Duan
Hanoi

VIETNAM GOVERNMENT

General Department of Post
and Telecommunications (DGPT)
18 Nguyen Du
Hanoi
Tel: (84-42) 62707
Fax: (84-42) 55851

Ministry of Water Resources
21 Lo Su,
Hanoi
Tel: (84-4) 58141, 254785, 258144
Fax: (84-42) 56929

LAO GOVERNMENT DIRECTORY

There is no official document listing government addresses and contact details; however, information can be obtained through the Foreign Investment Management Committee or the National Chamber of Commerce in Laos. The Lao Embassy in Washington, D.C. can also provide contact details for appropriate ministries. The following is a list of ministries in the Lao People's Democratic Republic:

Ministry of Agriculture, Forestry, Irrigation, and Cooperatives
Ministry of Communications, Transport, and Posts
Ministry of Construction
Ministry of Economy, Planning, and Finance
Ministry of Foreign Affairs
Ministry of Foreign Trade and Economic Relations
Ministry of Industry and Handicrafts
Ministry of Commerce
Municipality of Vientiane
Ministry of Interior

CAMBODIAN GOVERNMENT DIRECTORY

The following is a listing of the ministries currently under the State of Cambodia:

Ministry of Foreign Affairs
Ministry of Defence
Ministry of National Security
Ministry of Commerce
Ministry of Industry
Ministry of Labour and Social Affairs
Ministry of Health
Ministry of Planning
Ministry of Communication and Transport
Ministry of Agriculture
Ministry of Culture
Ministry of Information
Ministry of Finance
Ministry of Education
Ministry of Justice
Ministry of Control
Ministry of Interior

Appendix B
BUSINESS ADVICE AND INFORMATION

IN VIETNAM

Vietnamese Chamber of Commerce and Industry (Vietcochamber)
33 Ba Trieu Street
Hanoi
Tel: (84-42) 52961
Fax: (84-42) 56446
Tlx: 411257 VIETCO

171 Vo Thi Sau, Quan 3
Ho Chi Minh City
Tel: (84-82) 30339, 31499
Fax: (84-82) 94472
Tlx: 811215 CHAMMER HCM

172 Bach Dang
Danang
Tel: (84-82) 22930

Branches will also be opening in Haiphong, Nha Trang, and Can Tho

State Committee for Cooperation and Investment (SCCI)
Investment Transaction Centre
56 Quoc Tu Giam
Hanoi
Tel: (84-42) 58261
Fax: (84-42) 59271

178 Nguyen Dinh Chien
Ho Chi Minh City
Tel: (84-82) 30145

The Investment Transaction Centre belongs to SCCI and offers investment consultancy services.

The following companies are authorized by SCCI to act as investment service organizations to foreign companies:

--Foreign Investment Service Company (FISC)
12 Nam Ky Khoi Nghia, Quan 1
Ho Chi Minh City
Tel: (84-82) 91100
Fax: (84-82) 98434
Tlx: 811495 FISC

FISC is the Trade Ministry's main investment service company with a focus on projects in the south of Vietnam. They also have a branch office in Hanoi.

--Investment and Management Consulting Corporation (IMC)
1 Nam Ky Khoi Nghia, Quan 1
Ho Chi Minh City
Tel: (84-82) 99062
Fax: (84-82) 96125
Tlx: 811479 IMC

IMC is under the Ho Chi Minh People's Committee and is responsible for projects in Ho Chi Minh City.

--Industrial Foreign Investment Service Company (Infisco)
D7A Thanh Cong, Ba Dinh
Hanoi
Tel: (84-42) 43961
Tlx: 4122333 BCNN

146 Nguyen Cong Trai
Ho Chi Minh City
Tel: (84-82) 95072

Infisco belongs to the Ministry of Light Industry and acts as an investment consultancy company.

--Vung Tau-Con Dao Investment Consultancy (Investcon)
6 Tran Hung Dao, Ving Tan
Tel: 2502 (Contact can only be made through the local Post Office)

Investcon is the consultancy company for the Vung Tau-Con Dao special zone.

State Bank of Lao PDR
Yonnet Road
P.O. Box 19
Vientiane, Lao PDR
Tel: 2268 - 2000 (50)

Bank BCEL (Banque Pour le Commerce Extérieur Lao)
Pang Kham Road
P.O. Box 2925
Vientiane, Lao PDR
Tel: 2546 - 3646
Fax: 3676

Burapha Development Consultants
14 Fangum Road (Mekong)
P.O. Box 3144,
Vientiane, Lao PDR
Tel: 5071 - 2604
Fax: (856)-2604

Lao Investment Promotion Company (LIPCO)
Luang Prabang Road
Quarter Sithaneua
P.O. Box 795
Vientiane, Lao PDR
Tel: 4466 - (16) 9645
Fax: (16) 9646

Vientiane International Consultants
234 Samsenethai Road
Vientiane, Lao PDR
Tel: 3106
Fax: (856) 4841

IN CAMBODIA

The Ministry of Foreign Affairs will accept faxes for other ministries and deliver them to the appropriate individuals, departments, and organizations.

National Committee for Foreign Investment (NCFI)
Ministry of Planning
Phnom Penh
State of Cambodia

--Investment Consultancy & Technology Transfer Company (Investconsult)
91 Ly Nam De
Hanoi
Tel: (84-42) 64554
Fax: (84-42) 52282
Tlx: 411502 INCO

63 Pham Ngoc Thach, Quan 3
Ho Chi Minh City
Tel: (84-82) 91184

Investconsult is backed by the National Centre for Scientific Research and also acts as a patent agency.

--Company for Promotion & Development of Industrial Property Activities (Investip)
1 Bis Yet Kieu Street
Hanoi
Tel: (84-42) 64707
Fax: (84-42) 66185
Tlx: 412287 UKKN

31 Han Thuyen, Quan 1
Ho Chi Minh City
Tel: (84-8) 230291, 292400
Fax: (84-8) 298540
Tlx: 811270 PBTLX

Investip is supported by the State Committee for Science and is also an authorized patent agency.

IN LAOS

Foreign Investment Management Committee (FIMC)
Ministry of External Economic Relations
Vientiane, Lao PDR
Tel: 2532
Fax: 16-9810

Lao National Chamber of Commerce and Industry
Vientiane, Lao PDR
Tel: 3254 - (16) 9045
Tel: 2540 - 3814

Ministry of Foreign Affairs
State of Cambodia
North America Department
Phnom Penh
State of Cambodia
Fax: (855) 232-6011

Ministry of Commerce
Foreign Trade Relations
Phnom Penh
State of Cambodia
Fax: (855) 232-6396

Foreign Trade Bank of Cambodia
24 Tou Samuth
Phnom Penh
State of Cambodia
Fax: (855) 232-6108

The East Asiatic Company Ltd. (Representative Office)
No. 35, rue 222
Phnom Penh
State of Cambodia
Fax: (855) 232-6582

Indoswiss Ltd.
16, Boulevard Achar Mean
Phnom Penh
State of Cambodia
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Appendix C
KEY CONTACTS

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K1J 6L7
Tel: (613) 744-4963
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Embassy of the Lao People's Democratic Republic
2222 South Street, N.W.
Washington, D.C.
U.S.A. 2008
Tel: (202) 332-6416
Fax: (202) 332-4923

Department of External Affairs
East Asia Trade Division (PNC)
125 Sussex Drive
Ottawa, Ontario
K1A 0G2
Fax: (613) 943-1068

Canadian International Development Agency (CIDA)
200 Promenade du Portage
Hull, Quebec
K1A 0G4
Fax: (819) 953-5024 (Industrial Cooperation Division)
(819) 953-3350 (Asia Branch - Bilateral)

Agriculture Canada
Agri-Food Development Branch/1st Floor West, C.D. Howe Building
240 Sparks Street
Ottawa, Ontario
K1A OC5
Fax: (613) 995-0949

Department of Communications
300 Slater Street
Ottawa, Ontario
K1A OC8
Fax: (613) 990-4215

Export Development Corporation (EDC)
151 O'Connor Street
P.O. Box 655
Ottawa, Ontario
K1P 5T9
Fax: (613) 598-2503

Canadian Commercial Corporation (CCC)
50 O'Connor Street, 11th Floor
Ottawa, Ontario
K1A 0S6
Fax: (613) 995-2121

The Canadian Embassy
Commercial Division (effective August 1993)
39 Nguyen Dinh Chieu Street
Hanoi,
Socialist Republic of Vietnam
Fax: (84-42) 65837

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