Future forte

Mr Damien Duhamel, Managing Director of KAE Asia, tells VET's Thu Trang that Vietnam is less of a risk as a manufacturing location than elsewhere in Asia Pacific but needs to adopt innovative policies to carve out a long-term niche.

■ KAE has released figures showing that Vietnam is now a more attractive investment opportunity than Thailand. What research methods were used to reach this conclusion?

According to our figures, 63 per cent of senior business executives believe that Vietnam is now a more attractive investment opportunity than Thailand, 21 per cent chose Thailand as their favoured investment destination and 15 per cent believed that the two showed equal promise.

The research was not focused on Vietnam and was conducted regionally. We extracted interesting bits of the research on Vietnam and Thailand involving interviews with CXOs (Chief Experience Officers) and senior level executives across the region. Interviewees were either based in Asia or outside of Asia but with a clear investment decision-making power. There is no specific ratio of interviewees in Thailand or Vietnam. We actually focused on companies not in Thailand or Vietnam, and across sectors to avoid possible bias.

■ What influence does the global financial crisis have on foreign investment in Vietnam?

The obvious one is access to capital. These days, it will be a lot harder for all firms to obtain financing. But that affects Vietnam, Thailand, Singapore and every other possible FDI destination. It is not restricted to Vietnam in particular. There will be, by default, a fall in FDI around the world.

If you want to find a silver lining, it is that companies will now need to look even more carefully about manufacturing costs. At the moment Vietnam is well placed as a manufacturing hub, with attractive manufacturing costs and a stable government. FDI will fall because of the current environment but will not completely disappear. If it does, it will only be for a short time and FDI to Vietnam should rebound. In principle, it could rebound even stronger than before because Vietnam provides a cost efficient manufacturing destination for companies selling into the US and Europe.

There are still firms who are not averse to risks and still investing. If you look around you'll find firms investing, opening new plants or entering your market. Because of the crisis, firms really want to make sure that a country is stable, has a bright future and is nearly risk-free. Typically, firms aim to minimise risks when they invest. But right now, they want to take even less risks; absolute minimum or close to zero risk. Vietnam does not offer close to zero, but in the region in terms of manufacturing locations it potentially offers a lower risk than other countries. There is general consensus about the sound future prospects of Vietnam's economy. Much less can be said about other key countries in ASEAN. Of course, one must balance cost versus risk. Singapore by default offers even less risks but the costs are not comparable. Comparing apple to apple, in terms of manufacturing locations, we can compare China, India, Thailand, Indonesia, Vietnam and the Philippines. This is almost funny to say, because Vietnam has always been seen as a risky investment - lack of governance, murky laws, excessive corruption and so on. But when you compare it to other countries, Vietnam is a country where the next five years have been well defined, unlike in other countries.

■ What are disadvantages within Vietnam's business environment for attracting foreign investment?

Vietnam still lacks a specific country brand, or specific image. If there is no image, the country can be interpreted in many ways. When you talk about China, you will think of it as a manufacturing hub, when you think of Thailand, you will think of its tourism industry. Vietnam you just don't know. There is no brand. For that reason, it lacks appeal. It could gain a lot more if the country had a global brand building program.

The country is still suffering from a lack of infrastructure, lack of trained talent, and lack of clear and enforceable laws. That scares investors away. They do not like such risks and uncertainty.

Maybe another disadvantage for Vietnam is that it requires a lot of diligence. It's not a place where you will make corporate earnings overnight. It was never the case and probably will never be the case. So it is a country where you need to invest for the long run.

The lack of corporate rights and IP protection is another disadvantage. That remains the case in many Asian countries. Vietnam could possibly carve a niche as a developing country with stronger respect for IP and copyright than other countries. Right now it is following the same route of every other Asian country, which has had limited respect for IP for about 20-30 years. That is a non-negotiable impediment to many industries, i.e. media, IT, life science, etc. These industries won't come to invest in a big way if the core of their business is not protected.

■ Are their advantages?

Yes, of course there are plenty. The country is definitely one of the most industrious nations in Asia and is politically very stable - which is a change for most of Southeast Asia. At least from that side, Vietnam wins the competition in terms of political stability and is comparable to China and Singapore. You know what the government will be like five years from now, and investors favour that.

If domestic costs are managed carefully, i.e. labour, rents, property prices etc., Vietnam will have a very significant cost advantage for the short to medium term. Combine that with a growing consumer market, a fairly open economy, sound leadership, high literacy, and the overall desire of the population to do well and you have fantastic opportunities in front of you.

■ What do you forecast for the country's econ-

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Damien Duhamel

In 1990, at 20 years of age, he was the first French student admitted to the Hanoi University in Vietnam since the country's independence in 1954. In 1995 he returned to Vietnam and set up a boutique business-consulting firm helping foreign companies to enter Vietnam. Damien Duhamel is now Managing Director Asia at KAE.

omy in 2009? What are the main opportunities and challenges?

I think the consensus for 2009 in Vietnam is cautious optimism. Definitely the country will face tremendous challenges in terms of reduced exports, access to local and international capital, likely growth in unemployment, and a (welcomed) fall in urban property prices, etc.

The impact will be a fall in GDP growth to more humble levels of 3-4 per cent at maximum, a fall in foreign currency reserves and, of course, a momentary painful drop in commodity export prices, which will hurt the inlands of Vietnam.

The challenges are to remain an attractive FDI location when people at the moment are not looking at spending but more about cutting costs. It is a double-edged sword that can prevent people from investing. However, if companies do invest they will look for suitable locations with elements of political stability. The ultimate challenge is to leverage on that, not to rest on your laurels, as Vietnam has done in the past, but to have a real long-term policy that attracts FDI from around the world.

The challenge is to encourage foreign investors to come in now as they will benefit from falls in rents, property prices, salaries, etc. Thanks to falling costs, now is the ideal time to invest in the country. In terms of sectors, if you look at construction materials, they are still growing in Vietnam. The automotive industry around the world is suffering but is enjoying positive growth of 8-10 per cent in Vietnam. Healthcare is also rising quickly, at nearly 30 per cent year-on-year, and e-commerce is a high double-digit growth industry. It is a tough environment, but there is still a lot of growth to be captured in Vietnam. The only question for firms is: will you be part of that growth? To be part of that growth requires a rethink of your Vietnam strategy. It cannot be the same as it was few years ago. It will be more difficult, it will be tougher, and it will be more challenging.

Now is the time to promote Vietnam as an attractive destination for FDI. There should be a bureau in key markets around the world, like Europe and the US, to promote investing in Vietnam. If there are such bureaus already, they are certainly not very effective.

■ What should local companies and authorities do to attract more foreign investment?

The country should invest more in national infrastructure because if the ports and airports are not working then investors will move to places where they are working. That is a deal-breaker, basically. Compared to the roads you have in China, Vietnam lags far behind. In terms of roads, power, telecommunications, infrastructure etc., Vietnam is just not there yet. That needs to be the key focus to sustainably attract foreign investment.

Another key element is talent. The country will suffer a lot if it cannot employ people to do the work. These jobs should go to Vietnamese, and it should be done in a market efficient way. Money can flow elsewhere, where talent exists, is attractive and is effective. What you want and need is to have more and more jobs that require more and more skills - skills within the population.

A country that is cost effective doesn't remain like that forever. Within 10 years, 15 years, its edge fades away. ■

Foundations to be laid

Mr Justin Wood, Director - Southeast Asia with the Economist Intelligence Unit's Corporate Network, told VET's Le Cam Le that suitable policies are required if Vietnam is to fulfil its potential.

■ At the global level the EIU is substantially more pessimistic for 2009 than the consensus forecast. Why is that?

I think most people are expecting the global economy to perform poorly this year. Our forecast for global growth in 2009 is -2.6 per cent. We are coming out of the greatest credit bubble the world has seen, a time when money was plentiful and cheap. On the back of all that credit, economies in the West (especially places like the US and the UK) took on record amounts of debt. Now we are going through the unwinding of that period of excess. Banks are shrinking their balance sheets and not lending. Consumers are also reducing debts and so not spending. Risk aversion is extremely high and the financial markets remain highly stressed. In this sort of environment, economies will suffer. While many parts of the emerging world, and Asia in particular, did not engage in this debt build-up, they are nonetheless hit hard too. Demand for their exports is falling and investors are pulling back, putting currencies and stock markets under pressure and making it harder to raise capital.

■ With the global crisis catching growth forecasters by surprise, can forecast models really be trusted?

Macroeconomic models are never 100 per cent accurate. They represent our best effort to predict how an economy will do, based on the data we have. In the case of Vietnam, the models may be less accurate than for other countries because there is a large "informal" sector that is not always included in the official data. For example, it is often said that Vietnam has large amounts of unrecorded wealth. This may well act as a social safety net as people lose their jobs this year.

■ Do you still subscribe to the upbeat assessment given in The Economist's special report "Asia's Other Miracle" in April 2008?

Our view is that, in the short-term, Vietnam will face a very challenging economic environment, and growth will be low. However, in the medium-term and beyond, Vietnam presents a very compelling case for foreign investors. The ongoing industrialisation of the country, the build-out of infrastructure, the rising wealth and wages, the continued reform of the economy, and the young demographic profile of the work-force are just some of the reasons to be optimistic. However, a bright future is not guaranteed - it will rely on the government pursuing the right policies and laying the right foundations for business to flourish. Among the biggest challenges will be improving education, improving infrastructure, fighting corruption, and reforming state owned enterprises.

■ Your growth forecast for Vietnam is 0.3 per cent 2009, almost 5 percentage points below the lowest figure on record, during the East Asian crisis. Why do you expect the current global slowdown to be harder on Vietnam than the East Asian crisis was?

Vietnam has increasingly integrated into the global economy over the past decade. So today Vietnam is much more buffeted by global events than it was ten years ago. For the Asia region as a whole, during the financial crisis in 1997/98 the region was to a degree able to export its way out of trouble. In 1998, for example, the US grew by 4.2 per cent, which meant strong demand for Asian exports. This year, the US will contract by -2.5 per cent, which means very weak demand for Asian exports.

■ Participants at the Business Roundtable generally gave a more positive view of the current situation, with most growth forecasts for 2009 closer to 5 per cent. Did discussions at the Roundtable make you reconsider your own forecast?

We have not changed our view on the Vietnamese economy. Our forecast is still at 0.3 per cent. In my final comments I mentioned that I "hoped" Vietnam would do better than our forecast but I "feared" our forecast would turn out to be accurate. Against a terribly weak economic backdrop, the expectations for Vietnam are relatively positive.

■ How appropriate do you think the policy response of government to the global slowdown is?

I think Vietnam is taking the right steps. It is loosening monetary policy and providing fiscal stimulus. All of that will help in these challenging times. But it is not a guarantee of success. If you look around the world, every other government is doing the same and yet most will still see their economies contract in 2009. These sorts of measures can help to soften the blow, but they cannot stop it completely. ■