

# CAPITALISM: THE COMMUNIST WAY

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From Saigon to Ho Chi Minh City is no distance at all, except a journey in time, from the end of the Vietnam War in 1975, or the American war as the Vietnamese call it, to the communist-ruled but capitalist-intensive country that surprises visitors 34 years later. Canadian businessman Daniel Veniez reports on his impressions of the country he saw through not only his eyes but also his partner's, former boat person Bac Nguyen, who returned to his native land as a Canadian entrepreneur.

Un voyage dans le temps sépare Saigon et Hô Chin Minh-Ville, depuis la fin de la guerre du Vietnam en 1975 — ou la « guerre américaine », comme l'appellent les Vietnamiens — jusqu'au pays communiste à l'économie capitaliste qui étonne 34 ans plus tard tous ses visiteurs. L'homme d'affaires canadien Daniel Veniez livre ses impressions de ce pays qu'il a vu de ses yeux mais aussi à travers le regard de son compagnon de voyage, Bac Nguyen, qui avait fui sa terre natale parmi les « boat people » et y est retourné en tant qu'entrepreneur canadien.

**T**he Museum of the American War is in the heart of Ho Chi Minh City (formerly Saigon). It is a major attraction, but mostly for foreign tourists. Displays chronicle the human toll and unimaginable horror of what we know as the Vietnam War. The gruesome pictures of civilian casualties are the most wrenching — and riveting — to look at. We're reminded that by war's end in 1975, 58,000 US troops had been killed, 4 million Vietnamese had lost their lives, and 98 percent of the country's infrastructure was destroyed.

Thirty-four years after the fall of Saigon, Vietnam still conjures haunting images of that horrific war a generation ago. While they are seared into the consciousness of most North Americans, the war's emotional vestiges are disappearing from today's Vietnam. Some physical ones remain, but they, too, are fading away.

A poignant example is the office and villa that once housed General William Westmoreland, commander of all US forces in Vietnam. Few who pass 129 Pasteur — located in a bustling neighbourhood in Ho Chi Minh City — would know it as the strategic epicentre of America's presence in Vietnam. It was here that US Defense Secretary Robert S. McNamara, during his frequent visits to Saigon, was briefed by Westmoreland and his generals. It is now the head office of a homegrown diversified conglomerate, Saigon Investment and Commerce Ltd. The company will soon move across the street into a new office tower that it built and owns, and this landmark will soon be torn down

to make way for — you guessed it — a hotel, condo and office complex.

**F**or this country and its young population the war is largely relegated to history books and family lore. There's none of the animosity toward America that I expected to find here when I first arrived earlier this year. Quite the contrary. Ironically, it was the normalization of relations between the United States and Vietnam on July 11, 1995, that ushered in a new spirit of optimism and possibility in Vietnam. This decision, the culmination of years of diplomatic activity, put the war behind a generation of Vietnamese and served as closure on a tragic and painful chapter of the history of the late 20<sup>th</sup> century. It unleashed a hope and a concerted governmental effort that culminated in Vietnam's admission into the World Trade Organization in 2007.

Today, another revolution is gripping the heart of Southeast Asia. In many ways, it is one that mirrors China's remarkable transformation into an economic and financial colossus. Vietnam has become one of the world's fastest-growing economies. This is a quiet economic revolution that's fuelling seismic shifts in this country. Political ideology has taken a back seat to the power of the most human of needs — the ambition for a better life.

Yet, North American businesses appear to remain apprehensive about investing in Vietnam. Poor experiences in the early phases of China's development are fresh in many

minds. The Vietnamese leaders have been keen students of China's remarkable trajectory. They have learned many valuable lessons from the growing pains of the neighbour to the north, and are apparently determined not to repeat them.

My partner, Bac Nguyen, is the chairman of Daison Joint Stock Company in Hanoi. The company has interests in real estate, rubber plantations, hotels, ports, textiles, furniture, a primary school and a new vocational school.

Bac's story is one of an ever-increasing number of Vietnamese. In the early 1980s, after having tried and failed to flex his entrepreneurial muscles and build a business, he decided that he couldn't make it in the rigidity of the country. He was part of the wave of Vietnamese boat people in the 1970s and early 1980s seeking a better life. Bac used his life savings for a boat ride out of the country. He was on a crowded and disease-infested boat for a week. Many died on the voyage, which ended once they reached the shores of Malaysia. The boat people were herded into UNHCR refugee camps across the region, in Hong Kong, Thailand, Indonesia and the Philippines.

Eventually, he landed in Canada and was settled in North Bay, Ontario, where he worked as a janitor cleaning toilets during the day and attended night school to learn English. Within five years, he had made his way to Toronto, where he started an import-export business and became a Canadian citizen. In 1996, just after President Bill Clinton's historic trip to Hanoi, Bac decided that he wanted to return to his homeland to take part in its rebuilding. Today, at 50, he is the sole owner of Daison, which employs almost 3,000 people across Vietnam.

His story, impressive as it is, is also far from unique. Boat people who ended up in Europe and North

America armed with education and experience have been returning to Vietnam in larger numbers for the same reasons Bac did. They are intent on seizing a piece of the abundant business opportunities that a new openness has spawned. For the most part that is not their primary motivation. Building their country is.

Notwithstanding the current global economic slowdown, Vietnam is the new Asian Tiger. This is not your father's Vietnam. It is a new one — young, vibrant and full of promise. A fierce and disciplined work ethic is pervasive. You can see it from the diminishing number of rice fields to the attitude and vision of the new titans of business, like Bac Nguyen.

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in today's Vietnam. Prosperity based on ingenuity, education and hard work has become the overarching ambition of this people. It has also become the litmus test for government policy. Behind it is a powerful desire at every level of Vietnamese society to improve the quality of life and standard of living. From the political leadership and its technocrats there is a focused, almost visceral determination to lift the country out of the relative poverty of the past 50 years.

World Bank data underline the strength of Vietnam's economy over the last decade. Real GDP has on average grown by a robust 7.3 percent per year from 1995 to 2005 and per capita income by 6.2 percent per year. The economy has taken multiple body blows from the SARS

outbreak, avian influenza, poor weather, high commodity prices, inflation and anti-dumping suits, and has proven highly resilient in the face of those setbacks. In US-dollar terms, income per capita rose from US\$260 in 1995 to a 2007 level of US\$835. At this pace Vietnam would enter the ranks of middle-income countries by surpassing US\$1,000 per capita in 2010.

Roughly the size of New Mexico, Vietnam is a densely populated developing country that in the last 30 years has had to recover from the ravages of war, the loss of financial support from the former Soviet bloc, and the rigidities of a centrally planned economy. Since 2001, the Vietnamese government has strengthened its policies of economic liberalization. Membership in the ASEAN Free Trade Area (AFTA) and entry into force of the US-Vietnam Bilateral Trade Agreement in December 2001 have led to even more rapid changes in Vietnam's trade and economic regime. Vietnam's exports to the US increased 900 percent from 2001 to 2007. Vietnam joined the WTO in January 2007, which has provided an anchor to the global market. It has also reinforced and intensified the domestic economic reform process.

Canada's bilateral merchandise trade with Vietnam is more than five times greater than in 1997. Canada-Vietnam bilateral trade hit an all-time high of \$1 billion in 2007, up 21.2 percent from 2006. Merchandise imports from Vietnam were valued at \$758.4 million, while exports were worth \$288.7 million (up 36.1 percent from 2006). According to the Department of Foreign Affairs and International Trade Canadian investment in Vietnam reached \$4.2 billion in the first half of 2008, making Canada the fifth to largest investor in Vietnam.

Once a staple of life here, agriculture has seen its share of economic

output continue to shrink from about 25 percent in 2000 to less than 20 percent in 2008. Deep poverty has declined significantly and is now lower than in China, India and the Philippines. Movement toward a market economy is creating jobs to meet the challenge of a labour force that is growing by more than 1.5 million people every year. Between 1995

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and 2005, the share of industrial activity in GDP has increased from 29 percent to 41 percent. The role of the state sector in manufacturing activity has declined appreciably: from 52 percent in 1995 to under 35 percent in 2006. But this has resulted more from the emergence of a vibrant private sector than from the dismantling of the public sector, which is being restructured and focused on more "strategic" activities such as key infrastructure in telecommunications. The central government has also learned from past policy mistakes. Its fiscal and monetary stance is prudently geared to keeping a lid on inflation, which hit over 25 percent in 2007.

Like China, Vietnam has used manufacturing for export to transform a stale, closed economy. Hit by the global recession and weakened demand from the West, Vietnam is embarking upon an aggressive stimulus program and has boosted spending this year by 23 percent (almost 100 trillion dong, or \$6 billion, about 6 percent of GDP).

In an economy that must accommodate a huge number of new entrants a year into the labour force, slow growth is not a viable policy alternative. The population is young (the

average age is 27 years old) with over 70 percent born following the Communist takeover in 1975. That necessarily requires the government to open up and liberalize even more. It has recently announced an ambitious program to fund vocational training for farmers.

For Bac Nguyen, training and education are the central planks of

his business strategy. He has invested in the building of a state-of-the-art vocational training school, called VCS, located in the community of Chi Linh, north of Hanoi. He expects to ramp up enrolment in 2010 to 1,500 full-time students, and his plans call for it to be at full capacity by 2015, serving 3,000 students in programs as varied as computer sciences, engineering, and finance and administration. The objective will be to export graduates to labour markets in North America, Europe and the Middle East. Bac calculates that, as it did for him, the time working abroad will broaden and deepen the skills of his students. This will benefit Vietnam when they return.

The policy calculus is based on the realization that political power can be secured only by more open and vigorous economic activity. That's a core contradiction of 21<sup>st</sup> century Communism. Government is deliberately and systematically dismantling controls on economic activity, and that is strengthening the overall investment climate. That, in turn, is giving birth to a new entrepreneurial class, growing a middle class and accelerating even more reform. And together, the expecta-

tion is that political stability will become entrenched.

Yet one should be under no illusions: the Communist Party controls the levers of power. It is also true that this is far from a Marxist police state. The reality of this fledgling economy is quite the opposite. There is the wide, deep and vibrant merchant class in this country of 86 million

people where consumerism — and the dream of it — thrives. Travel anywhere and you'll find literally thousands of miles of streets lined with shops selling anything imaginable — from power tools to brassieres, and everything in between. The shops,

stores and markets run through every city, town and village, from the Chinese border in the north to the resort towns in the south. They form an essential fabric of life. In Ho Chi Minh City, flagship stores of the global luxury brands are here. You might as well be walking along Rodeo Drive in Beverly Hills. What these freely available and abundant goods and services mean is that sophisticated networks of supply chains exist throughout the country. That could not be said for China a short time ago, or Russia, even today.

There is a fierce debate being waged within the upper reaches of the ruling elite. That discussion is not centred on whether economic liberalization is desirable. There is far-reaching agreement that it is. The question for them is how to achieve it. The model is to develop partnerships with world-class businesses to build basic competences in strategic areas such as telecommunications and information technologies. It's a formula that will provide strong incentives for the government to make it attractive for foreigners to invest, and local entrepreneurs to be trusted partners. As this transition accelerates and gains momentum, the growing pains will



Bac Nguyen in Pulau Bidong Camp in Malaysia, 1987, and with his mother in Tu Ky Dist, Haiduong Province, Vietnam, in 2009.

become even more evident. The sophistication and finesse needed to achieve these goals in a synchronized fashion is the obvious policy challenge.

Because Vietnam is an emerging market, corruption is not rampant, but it is a fact of life. Transparency International, for instance, ranks Vietnam 121<sup>st</sup> out of 180 countries, right between Togo and Eritrea. While this is more perception than reality, the government doesn't like that label and is pushing hard to eliminate it by creating more transparency and loosening central control. Management skills and experience are lacking. The legal system has not kept pace with the growth of the economy. Major reform is needed to construct the architecture for a modern legal framework. Key international standards such as in health care, information technologies, education, transportation and construction have yet to be comprehensively introduced, and administrative and regulatory regimes to enforce them are weak. All of these components are the essential building

blocks for sustainable development. Vietnamese leaders recognize these inherent deficiencies and are determined to correct them. They also acknowledge that it will take some time.

Vietnam is where China was 15 years ago. The basic difference is that Vietnam has a thriving and deeply entrenched entrepreneurial culture and merchant class. That will make the transition to full integration into the global economy faster, smoother and likely more enduring. It will also contribute to political stability in a strategic corner of the globe. What Vietnam needs today more than anything is for the West to give it the benefit of the doubt. The country is changing hard and fast, and its leaders want to prove to the world that it's open for business.

The Harper government's recent trade policy resulted in new agreements with Jordan, Peru and Colombia. For a variety of reasons,

the Vietnamese admire and respect Canada. Their strong desire to build closer and more cooperative economic relations with us is clear. For Canada, this presents a unique set of opportunities that we should seize. Vietnam needs partners for its major infrastructure projects such as hydroelectric plants. Partial privatizations are on the agenda of a number of state-owned enterprises in a variety of areas such as ports, energy and telecoms. In all these areas, Vietnam is looking for trusted partners who can provide operational depth and financial capacity. Ottawa should turn its attention to vital strategic relationships in Asia. At the top of that list should be Vietnam.

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