Vietnam – The New Tiger: Lessons for the Gulf

By Dr Mohamed A. Ramady

Monday, 20, November, 2006

With Vietnam's accession as the 150th member of the World Trade Organization, the global economy is witnessing the birth of one more "economic tiger". The hosting of the Asian Pacific Economic Cooperation (APEC) Summit in Hanoi, and the presence of world leaders such as President Bush and Hu Jintao only goes to illustrate how far Vietnam has traveled from being a war-raged country and economy in the mid 1970's, to establishing itself as one more miracle "Asian Tiger", with the second highest rate of economic growth in the world after China. The lessons of Vietnam's progress up the world's economic ladder has been a painful one, requiring necessary structural, social and political adjustments to achieve the country's stated development goals. The lessons of Vietnam are valid for the Gulf countries and Saudi Arabia, as it shows that, in the final analysis, by changing the capacity and productivity of a country's single most important resource – its people – that can and will transform any economic landscape, however painful the journey.

Vietnam is already been described, with its population of 83 million, as being the next China, although on a smaller scale. The accolades seem to be in place, with economic growth in that country averaging at between 7.8% a year between 2001 and 2005, with only China growing faster. Poverty has declined in Vietnam, to under a fifth of the population in 2004, from 58% in 1993. Foreign Direct Investment (FDI) exceeded $5 billion for the first nine month of 2006, outstripping FDI to Saudi Arabia, and with international companies such as Canon and Intel building factories in Vietnam. Intel has gained the right to boost its initial investment in Vietnam from $300 million to $1 billion.

The WTO accession will open new markets for Vietnam's garments and textile industries, long subject to quotas from the European Union and the USA. Unlike the Chinese, the Vietnamese have signaled that they do not wish to provoke a protectionist backlash against their exports from the EU or the USA. WTO accession could open up more FDI inflows, especially from IT companies wishing to establish production units in a relatively low labor cost environment. The Vietnamese themselves are confidently talking big numbers, and predict export revenues to reach $100 billion in the next five years, up from $32 billion in 2005. If such forecasts are correct, this will represent around 65% of Saudi Arabia's bumper 2005 revenue of around $150 billion, but unlike Saudi Arabia, the Vietnamese revenue will be from a more diversified economic base rather than major oil dependency.

Vietnamese leaders are realists however, and do not try to oversell the benefits of WTO membership to their population, as they fully understand that WTO membership will entail both successes and failure, especially in severe competition to their banking, insurance and financial service sectors. Like China, state supported industries will no longer be shielded, and will have to fight to survive against more efficient international rivals. Again, like China, Vietnam must ensure that a booming economy's benefits must be spread more equitably amongst the country's regions; otherwise there could be political and social resentment and turmoil.

To their credit, the leaders of Vietnam are aware of these challenges and the nation is being prepared for the hard slog ahead. The Vietnamese, who persevered and fought so hard over decades to unify their country, are a patient and hardy nation who are used to challenges. Nothing better illustrates this attitude than the words of their Chief WTO negotiator who said that post-WTO entry is "like farming a vast rice field. We will have to plough and harvest together, otherwise we cannot enjoy the bumper crop." That is the language the majority of Vietnamese, who are in agriculture, will readily understand.

While the Gulf countries and Saudi Arabia are making a fast track to establish relations with the so-called *BRIC* economies of the world – Brazil, Russia, India and China – especially China, it is not inconceivable that *BRIC* could be changed to *BRIVC* to include Vietnam in this fast evolving global trade partnership. Now is the time for enterprising Saudi businessmen to be taking the road to Hanoi, to establish strategic relationships with the growing Vietnamese Tiger. Some have already done so like the enterprising *Al Zamil Group*, but they are far and few. The alternative, is that while "baby tigers " are born and grow into ferocious economic giants around the world, the Gulf states might find themselves sidelined more as sickly kittens that are dependent on one natural non –renewable resource for their economic development. Let us hope that Middle East economic tigers, and lions, are being raised right now, nurtured by the same vision and hardiness of the Vietnamese people.

Dr. Mohamed Ramady is Visiting Associate Professor, Finance and Economics at King Fahd University of Petroleum and Minerals