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Vietnam opens its markets at its own pace

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Walking the streets of Hanoi, you won't find a single McDonald's outlet or a Starbucks. Far from being a sign that Vietnam isn't ready for globalization's biggest names, their absence is a reason to be bullish on the nation's $45-billion economy.

Last year's 8.4-per-cent growth and a doubling of per-capita income since 1996 explain why the world's attention is turning this way. Yet Vietnam's gradual pace of market opening is complicating efforts to tap this thriving nation of 84 million, and that's just fine.

Through the lens of the "Washington consensus," the word "gradual" is a dirty one. For well over a decade, it argued that a speedy embrace of free trade, deregulation and privatization was the best recipe for success.

Vietnam's take is different. The energy on its streets leaves no doubt the nation is hungry for its share of global prosperity. Ask the average noodle vendor, shopkeeper or taxi driver if they want the benefits that come from the increased movement of capital, goods and people, and they will answer with an emphatic "yes."

They want globalization, but not a KFC or 7-Eleven on every corner. It isn't an anti-Western view -- just a sense that Vietnam should remain, well, Vietnamese as it opens to a curious world.

"There's no doubt about the direction we're moving in, but we are doing things our own way," said Vu Tien Loc, president of the Vietnam Chamber of Commerce and Industry.

Vietnam needs to accelerate the lowering of trade barriers and cut production costs to boost competitiveness. It's been slow to eliminate public subsidies, reduce protectionism, modernize state-owned enterprises and strengthen the financial system.

As countries like Indonesia and Argentina learned, dutifully following the Washington consensus has its risks. They become cautionary tales of nations taking the free-trade plunge and being chastened by markets. They were disappointed by the dearth of long-term investment. When they were flooded with foreign money, corruption often flourished as public officials lined their pockets.

The trouble isn't free trade and globalization; it's that the parts of the world that need them most aren't getting enough. Still, recent years have shown the dynamic can be a temptress. In the 1980s and 1990s, economies opened enthusiastically. While they saw lots of Burger King outlets and Western-style shopping malls go up, stable growth and reduced poverty remained elusive.

Such experiences show why Vietnam is taking its time. It wants to avoid the boom-and-busts experienced by so many Asian nations during the last 20 years. If the go-slow strategy works -- and so far it has -- it could provide the economic blueprint that developing nations have sought for decades. There can be little debate that a more balanced, sustainable model is needed.

Vietnam is hoping to join the World Trade Organization this year, something that could pull in more foreign direct investment. WTO membership is both a "Good Housekeeping" seal of approval for developing nations and an economic Trojan horse.

On the one hand, it's a sign a nation is moving toward international norms on trade, labour and the protection of intellectual-property rights.

On the other, the WTO gives a Communist party-ruled country like Vietnam political cover to welcome foreign competition or sell state-owned assets.

That doesn't mean Vietnam is about to give away the store, so to speak. You can count on its WTO negotiators to make their U.S. counterparts work hard. A WTO deal is expected this year, though. For a developing nation like Vietnam, greater access to the world's biggest economy is too important to pass up.

What's unique about Vietnam is the clear trajectory. How many poor countries can you say with certainty will be rich in a decade or two? On any such list, Vietnam warrants a place at the very top.

Vietnam aims to keep growth at more than eight per cent to push per-capita incomes to $1,000 by 2010 and move out of the class of the world's underdeveloped nations. Chances are, it will succeed.

While many would put China there, too, it faces daunting challenges that Vietnam doesn't. Vietnam doesn't have to create hundreds of millions of jobs to maintain social stability. Nor is Vietnam's banking system shackled with untold numbers of bad loans. China's aging population also raises questions about whether its people can become rich quickly enough.

Scale is a key difference. China's population is almost 17 times Vietnam's, explaining why executives around the globe are anxious to tap the market of the world's most-populous nation. Yet investors increasingly view Vietnam as a chance to diversify investments in Asia. So are companies like Nike Inc.

"We see lots of potential in Vietnam -- challenges, but lots of potential," said Amanda Tucker, general manager of Nike's Vietnam unit. In the fiscal year ended May 31, 2005, about 26 per cent of Nike-brand footwear was made in Vietnam.

It's a reminder that the world should pay close attention to Vietnam, an unlikely vanguard of the next phase of globalization. The country will offer a fascinating test case of the movement's pros and cons. The odds favour Vietnam experiencing more of the former than the latter.