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The Australian: Greater Mekong

14/11/2011

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Item ID:	00122853914
Circulation:	133,081
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Item ID:	00122853908
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Expanding scope for IT multinationals amid rapid urbanisation and growth
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University hopes to increase range of courses offered
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Article Information	
Item ID:	00122853915
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RMIT's Asian study hub a global education operation
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Challenges bring openings for business
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Item ID:	00122853918
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ANZ makes headway in a tough climate
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Item ID:	00122853919
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Something for everyone
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By: Louis White

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Item ID:	00122853921
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AUD:	1,786

Banks struggle to control inflation
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By: Mark Eggleton

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Item ID:	00122853922
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Middle classes keen on red meat as a source of protein
Australian, 14/11/11, Supplements, Page 4
By: Mark Eggleton

Article Information	
Item ID:	00122853920
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Growing scope for audacious investors
Australian, 14/11/11, Supplements, Page 5
By: James Dunn

Article Information	
Item ID:	00122853927
Circulation:	133,081
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Dramatic transformations since the end of the Cold War
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By: Luke Hunt

Article Information	
Item ID:	00122853925
Circulation:	133,081
Number of words:	985
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Gloria Jean's a big hit in coffeeland
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By: Cassandra Murnieks

Article Information	
Item ID:	00122853923
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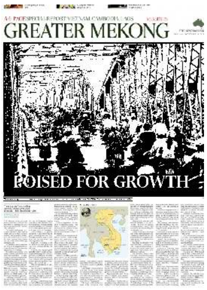

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Vietnam's growth pains in key areas such as transport, construction, finance and retail sectors are at the centre of the Mekong's mounting fortunes — and of its vulnerability

There is scope for expanding Australia's relatively modest economic role in this vibrant region

ROWAN CALLICK
ASIA-PACIFIC EDITOR

MEKONG TRIO

THE Mekong is the principal source of life and livelihood for more than 100 million people, in a region gaining steadily in economic dynamism.

The world's tenth longest river, it winds almost 5000km from the Tibetan plateau down through China's Yunnan province, Burma, Laos, Thailand, Cambodia and Vietnam — where it finally drains into the South China Sea through its massive delta.

As Australia seeks to broaden and deepen its engagement with Asia beyond China, the Mekong region is an obvious target.

Its markets are evolving from comparatively basic levels, and many Australian skills — in engineering, in agriculture, in resources, in tourism, in energy, in finance — are especially prized as the principal Mekong countries seek development and investment partners.

To meet the needs of the core Mekong countries — Vietnam, Laos and Cambodia — requires special focus by Australian players, and a high degree of collaboration with official agencies.

For their governments are culturally socialist — the former two remain countries dominated by their communist parties, while Cambodia has been ruled by Hun Sen and his Cambodian People's Party since 1985. All three countries are growing economically at a reasonable speed, and continued to do so through the global financial crisis — except for Cambodia.

This country of 14.3 million suffered a 2 per cent decline in gross domestic product in 2009, though it bounced right back to 6 per cent for 2010, with 6.7 per cent expected in 2011.

Laos, with a population of just 6.4 million, has been growing at 7 per cent or more for the last six years.

Vietnam, the regional giant with 88.3 million people, is growing at a steadier pace, at about 6 per cent, in part because it was the first of the three to pursue the now well-trodden road of "opening and reform" pioneered by Deng Xiaoping in China 33 years ago.

This process is known in Vietnam as doi moi.

This Mekong grouping forms a subset within the 10-country Association of South-East Asian Nations, which has itself been enjoying a resurgence under the chairmanship of its largest member, Indonesia.

But minor conflicts are playing out as the Mekong countries step up in confidence and as tensions grow with domestic expectations, resurgent nationalism, and increased military capacity — with unresolved colonial legacies compounding the issues.

Cambodia has been squabbling with Thailand over 4.6sq km on their border, which contains a UNESCO World Heritage listed temple.

Hun Sen aggravated the situation by inviting deposed Thai leader Thaksin Shinawatra — whose sister has recently become Prime Minister of Thailand — to become an economic adviser to Cambodia.

Vietnam is also involved in skirmishes of its own — with its neighbour China, with which it disagrees about sea borders and about access to the South China Sea. They signed an agreement last month to manage the dispute, but relations remain awkward, with Vietnam rapidly building close military links with its former adversary, the US.

Farmers in the Mekong Delta, a great regional rice and vegetable bowl, have also blamed China for the impact on river flows that has resulted from the construction of dams near the river's source, where it flows through narrow, deep gorges.

It is Vietnam's rise that is at the centre of the Mekong's mounting fortunes — and of its vulnerability.

Its chief challenge at present is to contain inflation, which is running at 18 per cent this year and is expected to continue through 2012 at 15 per cent. Last month the government increased the minimum wage by 27 to 68 per cent, depending on the location and the industry, in order to contain potential civil unrest.

According to business analysts IMA Asia, "as one of Asia's low-cost exporters, Vietnam appears to be doing well as buyers from Europe and North America look for cheaper suppliers" — meaning, essentially, cheaper than China, where costs are rising rapidly.

The large textile sector has been doing especially well recently, with its exports surging 37 per cent, year on year, in September. Industrial production overall increased 11 per cent that month. And Vietnam has rapidly become the world's second biggest grower of coffee after Brazil.

Exports comprise about 70 per cent of Vietnam's GDP, a massive increase on the 30 per cent share 15 years ago.

IMA blames "bad fiscal and monetary policy settings over the last few years" for the inflation, and for the property bubble that has burst over the last few months. The damage, however, has been limited because companies as well as households tend to keep their savings in US dollars, while the dong, the Vietnam currency, looks set to continue sliding by 5 to 8 per cent a year.

Although Australian trade with Vietnam has risen 25 per cent in the last five years, it remains modest given the country's high population: $4.5 billion during the last financial year.

Wheat, copper, gold, and scrap iron, in that order, comprised Australia's major exports, and oil, telecommunications equipment, furnishings and fruit and nuts the major imports.

Australian investment in Vietnam is a modest $714 million out of total foreign investment there of about $23bn, while there is no significant investment from Vietnam in Australia.

Tim Harcourt, Austrade's chief economist, who is shortly joining the Australian School of Business at the University of NSW, says Australia has strong positions in the finance sector, chiefly due to ANZ, and in the education sector, with RMIT University running a campus in Ho Chi Minh City (still widely known in Vietnam as Saigon) as the first foreign-owned university in the whole country.

Harcourtsays hopes for expanding ties came from these sectors, and from agriculture and energy, as well as from the transfer of technology. About 10,000 Vietnamese are studying Australian courses inside Vietnam, and a further 23,000 are studying in Australia.

Australia is helping to train 55 Vietnamese workers at a new shipyard built in the southern city of Vung Tau, the nearest centre to the site of Australia's most famous battle during the Vietnam war, at Long Tan.

Two years ago, Australia completed the building of the economically strategic $150m Phu My bridge across the Saigon River in Ho Chi Minh City.

Australian aid to the region is increasing as the overall aid budget rises. This financial year, aid to Vietnam rises to $138m.

Overall, the relationship is being developed within the framework of a Comprehensive Partnership agreed between the countries two years ago.

Australia's relations with Cambodia are built on Australia's strong support for the Cambodian peace process 20 years ago, with the country taking a leading role in the running of the UN's Transitional Authority there following the end of the genocidal Pol Pot regime and the Vietnamese invasion.

Since then, Australian Federal Police support has remained strong — countering, for instance, people-smuggling and child sex tourism — while Australia has contributed $14m so far to the trials of Pol Pot regime rulers.

Trade remains extraordinarily modest — just $58m overall, in the last financial year — in part because of the country's continuing poverty, with income per head about two-thirds that in Vietnam and 80 per cent that in Laos. Australia's aid to Cambodia this financial year totals $77.4m.

Cambodia's Royal Bank opened six years ago, a joint venture with ANZ, as ANZ Royal Bank. Other commercial opportunities besides further finance industry involvement include offshore oil and gas exploration and development.

Australia's trade with Laos, a land-locked country, is even smaller than with Cambodia — just $30m overall.

Like Vietnam with its doi moi, Laos is also following the Chinese path of economic liberalisation with a strategy dubbed New Economic Mechanism.

Laos receives assistance from its fellow communist neighbour Vietnam. And Australian aid is rising this financial year to $42.1m.

Four years ago, ANZ bought 60 per cent of the Vientiane Commercial Bank, which has been operating as a joint venture since then.

The biggest Australian involvement in Laos has been in mining. The massive Sepon gold and copper mine was developed by OZ Minerals in Australia, which has been taken over by Chinese giant Minmetals.

However, its Australian management team, which runs Minmetals subsidiary MMG, continues to operate the mine.

And PanAust Ltd has been running two gold operations in Laos for the last few years.

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Companies line up to explore for gas and oil

PAUL GARVEY

SOME of the biggest names in the global energy business and a collection of Australian companies have converged on the waters off the Vietnamese coast, with huge oil and gas targets in their sights.

The likes of ExxonMobil, Chevron, Gazprom and Petronas are among the companies exploring, with Australia represented by companies such as Santos, Origin Energy and Perth-based junior explorer Neon Energy.

The flurry of activity is going a long way to undoing some of the damage done to the country's reputation in the 1990s, when the then BHP lost out substantially on its foray into the country.

BHP notoriously invested more than $500 million in the Big Bear oil field as part of a joint venture with Vietnam's state-owned energy giant PetroVietnam. The field delivered only a small fraction of the oil and gas that BHP had predicted, with the company eventually having to write-down the entire value of its investment.

It's indicative of Vietnam's emerging reputation as an oil and gas exploration hot spot that there is even talk of BHP Billiton, as it is now known, returning to explore in the country.

The prospectivity of the country's offshore acreage has long been known. The crucial change has been Vietnam's willingness to welcome foreign investors.

Roger Donnelly, the chief economist of the Australian government's Export Finance and Insurance Corporation, tells *The Australian* that Vietnam's embrace of foreign oil and gas investment contrasted with its less enthusiastic welcoming of foreign investment into its onshore mining industry, where doing business has proved difficult.

He says the work of the major oil and gas companies in Vietnam and the work of the likes of Santos has shown that when it comes to oil and gas exploration, Vietnam is open for business.

Santos is the most active Australian oil and gas company in Vietnam to date.

Last month, the Adelaide-based company announced it had started production at its 31.9 per cent-owned Chim Sao project off Vietnam's southern coast.

The project was delivered on time and under budget, and is expected to produce around 25,000 barrels of oil a day.

Origin Energy also has high hopes for its exploration prospects, and has been carrying out seismic surveys over its Vietnamese block in preparation for drilling.

Neon, which holds its acreage in a 50-50 joint venture with private company KrisEnergy, is preparing for a big year in Vietnam. The company has interests in two exploration blocks immediately adjacent to big oil and gas discoveries, and it is confident of attracting a significant joint venture partner that will help cover the cost of drilling on its prospects.

Independent studies have identified structures on Neon's acreage that, if found to contain oil and gas, could boast trillions of cubic feet of gas or hundreds of millions of barrels of oil. While such exploration is high risk, the payday in the event of a discovery could be immense.

The recent confirmation of a discovery by ExxonMobil immediately north of one of Neon's prospects has helped the junior company's chances of securing a partner soon.

Adding a layer of complication to the oil and gas activities is an ongoing dispute between Vietnam and China over the maritime boundaries between the two countries.

Tensions escalated earlier this year when a Chinese patrol boat cut cables being towed by a Vietnamese seismic survey vessel. The incident, coupled with inflammatory rhetoric from both sides, led to repeated protests in Vietnam.

The Australian companies have tried to steer clear of the dispute. Santos's projects are in the south, away from the disputed areas, while Neon and its partner have concentrated their efforts on the western portion of their northernmost block, also away from the disputed area that runs through the eastern portion.

Neon managing director Ken Charsinsky says he is confident of a smooth resolution.

The unrest between the two countries is nothing compared to the risk routinely seen in the global oil and gas industry, he says, which sees companies involved in far more challenging jurisdictions such as Nigeria, Libya and Iraq.

The strong interest shown by a number of major oil and gas companies in Neon's ongoing search for a joint venture partner shows the situation has done little to dampen interest in the country. Also helping Vietnam's rise as an oil and gas investment destination has been the growth of PetroVietnam.

Charsinsky says Petro-Vietnam is well positioned to grow into a significant player in the global oil and gas industry.

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Laos takes the lead in mining

Vietnam, Cambodia struggle to keep up

PAUL GARVEY

A WELCOMING approach to foreign investment has helped Laos rapidly outpace its bigger neighbours when it comes to expanding its mining industry, with a number of Australian companies at the forefront of the country's emergence as a mining centre.

Despite ranking among the poorest countries in Southeast Asia, Laos has leapt ahead of its neighbours when it comes to embracing foreign investment and helping its fledgling economy grow in the process.

Oxiana, a market darling during the early to mid-2000s, put Laos on the map for Australian investors when it identified and developed the Sepon copper project.

While Sepon has since been sold to Hong Kong-listed Minmetals Resources, another Australian company, Brisbane-based PanAust, proved Sepon wasn't a one-off for Laos when it successfully developed its Phu Kham copper-gold mine. PanAust is further growing its presence in the country by building its Ban Houayxai gold-silver mine just 25km from Phu Kham.

Landlocked Laos has a smaller economy than Vietnam or Cambodia: it generated just $US15.7 billion in GDP last year, almost half that of Cambodia ($US30.2bn) and a fraction of Vietnam's $US276.6bn.

Yet its ability to outshine its larger neighbours in attracting foreign investors has helped drive the emergence of a mining industry in the country, delivering jobs, economic growth and diversification to its mainly agrarian economy in the process.

In contrast, Vietnam and Cambodia have a much lower profile among the international mining investment community. The few stories of foreign companies investing in Vietnam and Cambodia that do emerge tend to involve the companies being hit by new taxes or being squeezed out by local competitors.

So why have Vietnam and Cambodia struggled to keep up with their smaller, poorer neighbour when it comes to mining?

Roger Donnelly is the chief economist of Australia's Export Finance and Insurance Corporation, which provided political risk insurance to Oxiana when it was developing Sepon.

Donnelly, who has spent time based in Vietnam, believes there are a number of reasons that have contributed to Vietnam's sluggish emergence as a destination for mineral investment.

For one, he says, Vietnam has an established domestic mining industry, including substantial state-owned players that are wary of competition from foreign companies.

"The onshore mining sector is dominated by a whole bunch of essentially quarrying firms, local private companies as well as some big state-owned firms. They don't like the competition," Donnelly tells *The Australian*.

On top of that, he says, there is a strong current of public opposition to foreign companies — both western and Chinese — coming into Vietnam to exploit the country's natural resources.

"The overarching problem is there's a mindset of 'we fought several long and bloody wars with foreign invaders to protect the Vietnamese soil and our national birthright, so we're blowed if we're going to allow foreigners to come in with their dollars and take over our resources through backdoor means'," he says.

The few foreign miners that have entered Vietnam have encountered problems with the local authorities. In 2008, Donnelly says, a Canadian firm called Asian Mineral Resources withdrew plans for a nickel mine in northern Vietnam after the government proposed to quadruple an export tax. That new impost was announced after it had invested $40 million in exploratory work.

Last December another Canadian company, Olympus Pacific Minerals, warned that it may have to hold back on $100m of additional investment if the government imposed a new 10 per cent export tax on gold. The firm operates two goldmines in central Vietnam and is the country's largest gold producer.

Then, earlier this year, reports suggested the Vietnamese government had put on hold bauxite projects held in a joint venture including Chinalco of China and US-based Alcoa.

While Vietnam may not yet have the record to show for it, the country's government has said it wants to attract more foreign capital. "They're substantially revising their mining laws to make [the environment] more modern and welcoming for foreign investment," Donnelly says.

Both EFIC and London-based risk consultancy Exclusive Analysis noted that Vietnam had a worrying tendency to regulate businesses in the country through administrative decree.

The prospect of a minister making a snap, one-off ruling on an individual project is a major concern for companies considering spending tens of millions of dollars on a project development.

"So much of the regulation that business is subject to arises from administrative decree. The government is seeking to pass a new minerals law that on paper looks pretty good and welcoming to foreign investors, but nonetheless you're still seeing a lot of regulation by arbitrary decree," Donnelly says.

Research prepared for *The Australian* by Exclusive Analysis says

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the judicial system represents a risk to foreign companies doing business in Vietnam.

"Although considerable improvements have been made in legislation related to investments, contracts and arbitration over the past four years, contract risks are high in Vietnam," Exclusive Analysis says.

"In addition, corruption and political interference is rife at all levels, from trial to enforcement. Although licences are unlikely to be arbitrarily revoked given the government's intent to attract investment, foreign firms are unlikely to win a contract dispute with the government."

One thing common to all three countries has been the rise of pockets of community and environmental protest movements against mining projects.

Cambodia in particular has been the subject of unrest linked to the reclamation of land for mining, according to Exclusive Analysis.

Both Vietnam and Cambodia have struggled to deliver a project that can be to them what Sepon was to Laos, and demonstrate that their mining industries are open for business.

But as Sepon showed, it only takes one project to turn the perceptions of a country around very quickly.

Laos's ability to outshine its larger neighbours in attracting foreign investors has helped drive the emergence of a mining industry, delivering jobs, economic growth and diversification to its mainly agrarian economy

A heavy-truck driver at the Sepon mine in Laos, a copper and gold project that was identified and developed by Oxiana

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IAN GRAYSON

Expanding scope for IT multinationals amid rapid urbanisation and growth

AMBITIOUS government plans coupled with rising business and consumer demand are creating growth in the Greater Mekong information technology sector.

Public-sector initiatives and private-sector IT investments are supporting the region's rapidly developing economies and positioning countries for growth.

Most technology-sector investment is taking place in Vietnam. Local firms are responding to growing demand while international firms are ramping up capital investments and sales teams.

Across Vietnam, a rise in urban populations is leading to increased need for IT systems and services.

Government departments are pushing to modernise their systems and make use of the internet to improve service levels.

Private businesses are searching for ways to improve efficiency and competitiveness, and are investing in everything from desktop computers and servers to networking and mobile devices.

"Vietnam has high potential," says Les Williamson , Asia-Pacific head of networking company Cisco. "There is great urbanisation occurring and this brings opportunities. It signals a move to a more internet-enabled society."

The growth in Vietnam's IT sector can be traced back to the Doi Moi economic reforms initiated in 1986. Since then, significant government stimulus spending has generated big opportunities for multinational technology companies. Government departments, banks and telecommunications companies all continue to spend significant amounts on IT equipment and services.

Last year the Vietnamese government announced a 10-year technology plan, worth $US8.5 billion, to build a national fibre-optic network. For businesses this will mean improved domestic communications as well as more reliable links to other countries.

Eyeing the region's increasing potential, international IT companies are making strategic investments to ensure they are well positioned to take advantage of rising demand.

Chip giant Intel invested $1bn in a computer processor assembly and testing plant in Ho Chi Minh City which opened last year.

"This is the largest and most sophisticated assembly test facility in Intel's global manufacturing network," Intel chief executive Paul Otellini said at the opening.

Meanwhile, IBM has invested heavily in cloud computing infrastructure, creating a cloud technology lab facility. In 2009, it agreed to provide a cloud computing platform for the Ho Chi Minh City government.

As a result of such investments, economic analysts predict the region's technology industry could contribute up to 22 per cent of GDP by 2020.

Cisco's Williamson says growing numbers of IT companies are also using Vietnam as an outsourcing base, as an alternative to countries such as China and India. Labour costs in Vietnam are between 25 and 30 per cent lower than in China.

Companies with a corporate headquarters in Singapore or Hong Kong can readily set up an outsourced contact centre or help desk facility.

"The Philippines is probably leading in this space, but Vietnam is a close second," says Williamson.

Industry watchers point out that there is still plenty of scope for expansion as long as economic conditions remain favourable.

"Vietnam is a small but emerging IT services market with strong growth potential due to a relatively young growing population and an urgent need to modernise ageing national infrastructure," says Gartner analyst Freddie Ng.

"However, short-term prospects are somewhat clouded by an uncertain economic environment caused by monetary, national fiscal deficits and currency volatility issues."

Williamson agrees, saying it is only through solid relationships with governments in the region that international companies will be able to help foster a stronger IT sector. "With economies such as Vietnam, it is about relationships with government," he says. "This is what [will decide] whether the growth in IT will be achieved and whether its impact on national GDP will be achieved."

He says he remains positive about the future of the technology sector in the region and forecasts it will grow in importance for firms such as Cisco. At the moment around 10 per cent of the company's revenues comes from the Asia region but this could increase to between 15 to 20 per cent during the next two to three years.

IT activity in Laos and Cambodia is somewhat more constrained, but there are still opportunities appearing. One, identified by Gartner, is the prospect of introducing widespread mobile payments systems. Because relatively few people have bank accounts, mobile payment systems could provide another method for people to pay for goods and receive payment for work.

"Cambodia is an ideal place for mobile payment, as banking services have a penetration of less than 5 per cent of the population and mobile services have a penetration of 46 per cent," says Gartner analyst Andy Shen.

He points to Wing, a subsidiary of ANZ Bank, which has become an established mobile payments player in Cambodia.

It has established partnerships with seven mobile carriers in Cambodia and has some 250,000 registered users.

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'Vietnam has high potential. There is great urbanisation occurring and this brings opportunities. It signals a move to a more internet-enabled society'

LES WILLIAMSON
ASIA-PACIFIC HEAD, CISCO

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More than just aid for schools

Laos and Cambodia are benefiting from Australian donations and expertise

MARGOT SHAVE

AUSTRALIAN educators and policy-makers have been working behind the scenes in Laos and Cambodia for the past several decades, providing English language teachers, building schools and helping to shape education curriculums in these two countries as they strive to overcome their past.

While the government's development agency, AusAID, has education connections in Cambodia and Vietnam, it has a larger role in Laos as the leading donor in this field. Having worked in education development in Laos for six years, AusAID is in the position of being able to count many successes, including attracting other big donors such as the World Bank.

"The World Bank brings to that program significantly more resources than we were able to provide," says Michael Wilson, AusAID's minister counsellor for Mekong and the region. "We're still seen as the lead donor, both in contribution and the ideas and intellectual effort behind it."

Australia's role includes assistance with basic primary education and the construction of over 550 schools; perhaps more significantly, there is also a co-operation between the aid agency and the Education Ministry of Laos in planning the national curriculum and education policy, with the involvement of Australian experts.

This work on the Education Sector Development Framework is vital to the future of Laos, according to Wilson.

"It's a very productive and stimulating conversation and, of course, we can't pay for the entire education system in Laos, but we're having a real influence in every dollar spent in basic education, and that means a pretty significant impact," he says.

'We're carrying more of the weight, but it is our neighbourhood and we're happy to do it'

MICHAEL WILSON
AUSAID

Part of AusAID's assistance with the curriculum framework is to achieve donor harmonisation — that is, making sure the efforts of other donors are aligned with the program.

One of the challenges the agency faces is that many other donors are winding up operations in the region and focusing instead on poorer countries, such as in Africa, Wilson says.

"We're finding ourselves, in the sectors we're engaged with, carrying more of the weight, but that's to be expected as Southeast Asia is our neighbourhood and we're happy to do it," Wilson says.

Another large contribution by the Australian government to education in this region involves postgraduate scholarships to study in Australia; last year, 255 Vietnamese students, 40 Cambodian students and 90 students from Laos received full academic scholarships to Australia.

The purpose is to broadly support skills development in key areas such as engineering, health, finance, public policy and science. The scholarships also enhance the reputation of Australian universities in the region, potentially paving the way for research agreements between these countries and Australian institutions.

Wilson expects AusAID to remain active in Laos and Cambodia for the next 10 years.

"Both Laos and Cambodia have really looked to Vietnam's experience and seen what benefits have been derived from such a clear focus on education and they now want to emulate that, but not copy it," he says.

AusAID also has an active presence in Cambodia, but it is not the leading donor in education. Australian education is represented, however, by an English-language schools run by IDP Education, which is owned by 38 Australian universities and facilitates studies in Australia for foreign students.

One language school has been

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operating in Cambodia since 1992, having been set up not long after the UN began helping the country to move towards democracy.

Initially, IDP Education reached an agreement with Cambodia's Ministry of Education to teach English to government officials. When Australia set up an embassy in Phnom Penh in 1994, IDP was commissioned to open the first English-language school, the Australian Centre for Education, and by 1999 had taught English to 6000 ministry officials.

IDP Education operates three English-language schools, two in the capital, Phnom Penh and one in the northern city of Siem Reap, with 7000 students, 1000 of whom are sponsored by NGOs or international companies.

Each year about 200 graduates of IDP schools head to Australian universities for further study; many of the others study at Cambodian universities or find good jobs.

While IDP operates in a highly competitive environment in Cambodia, the school is the dominant player in English-language study, due to its reputation for quality as well as its longevity, says Paul Mahony, country director for IDP Education.

"It's also a relatively unregulated environment and a huge number of schools and universities have sprung up; while a more regulated environment would add to our status, as it is we have an opportunity to lead and be more competitive," he says.

Another factor is IDP's annual Camtesol professional development conference, in conjunction with Cambodia's Ministry of Education. As the Cambodian economy continues to grow, Mahony hopes IDP Education will be able to open more language schools and send more graduates to Australia for university.

"Our focus is really on the international student journey, it's really for students orienting themselves — if not for travel, then to work for an international organisation," he says. "There's also a big demand for lower levels of English, so I guess we'll remain on that pathway of growth. Now there are a significantly larger number of students enrolling, and that's a positive sign for the future."


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University hopes to increase range of courses offered

RMIT University has made quite a splash since setting up in Ho Chi Minh City in 2001.

RMIT's president and pro vice-chancellor in Ho Chi Minh City, Merilyn Liddell, says RMIT's involvement in Vietnam started in 1990s, with the "south Saigon" campus proper beginning in 2001.

She says it was quite something for the Vietnamese government to do for a foreign institution: "[It] put through special legislation to allow us to set up. It was a big thing for them to allow a foreign university to set up a campus within their national borders. And they have been supportive ever since, as has the Australian government in terms of advice, problem-solving and troubleshooting along the way. It's been a relatively smooth ride for us but it's [had] its challenges along the way."

RMIT offers degrees in its traditional areas of comparative advantage, such as business and IT, accounting, business information systems, media and communications. RMIT, after all, was originally known as "the working man's college" when it was set up as the Royal Melbourne Institute of Technology, and has always had reputation for offering practical courses with strong application to industry. This tradition has continued in Vietnam.

According to Liddell: "Eventually I'd like to expand into RMIT's traditional strengths in engineering, but produce business-ready engineers by combining technical skills with teamwork, creative skills, problem-solving and other strengths that Australian engineering schools typically provide."

Liddell also wants to increase the depth of academic staff at RMIT Saigon.

"Many academics come here for idealistic reasons — they want to help a developing country and clearly they have an affinity with Vietnam — but I want to grow the pool of human capital, both international and local, to build up the research capability as well as the teaching resources."

RMIT also hopes to expand its courses over the next decade.

By 2020, it hopes to add areas such as biotechnology and health sciences to the courses it provides, as those areas will be important to Vietnam as the economy develops and the country's population becomes more affluent.

Tim Harcourt is chief economist at the Australian Trade Commission.

'I want to grow the pool of human capital, both international and local, to build up the research capability as well as the teaching resources'

MERILYN LIDDELL
PRESIDENT AND PRO VICE-CHANCELLOR, RMIT INTERNATIONAL UNIVERSITY, VIETNAM

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CHRISTIAN BERG

Merilyn Liddell is impressed by the support RMIT has received from the Vietnamese and Australian governments


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RMIT's Asian study hub a global education operation

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PAULINE WEBBER

THERE could be no better demonstration of RMIT's commitment to its venture in Vietnam than the university's "Saigon south" campus, a few kilometres from the centre of bustling Ho Chi Minh City.

The buildings, set in extensive grounds planted with lush tropical vegetation, are modern, bright and bold, reflecting the lively energy of this dynamic environment.

RMIT Vietnam was established a decade ago, after the Vietnamese government extended an invitation to RMIT to establish a private international university in the rapidly developing Southeast Asian nation.

The Ho Chi Minh City campus opened in 2001. A second opened in the heart of Hanoi three years later. High-quality sporting facilities have since been added to the first campus, its playing fields regularly used by Vietnam's national AFL team, the Vietnam Swans.

RMIT describes its Vietnamese arm as the Asian hub of a global operation. It's a description that aptly reflects the blending of local and international influences that the university aims for.

Degrees are offered in business, design and social context, science, engineering and technology. Students are taught in English and awarded degrees from RMIT University in Australia, allowing them to receive an international education without leaving home. The degree programs are recognised by the Vietnamese Ministry of Education and Training, and audited by Australian Universities Quality Agency.

Interaction with the Vietnamese business community is strong and the university orientates its research towards regionally relevant projects such as food technology and safety and the control of infectious diseases.

Academic staff are drawn from a wide range of countries, including the US, Canada, Britain, Australia, Singapore and Thailand. A complete command of English is essential for teachers and a good command of the language is required from students.

At present, the university has about 6000 students and 500 staff. About 90 per cent of students are Vietnamese, which suggests the university is achieving its goal of providing quality education to local people. The remaining 10 per cent are a mix of Australian and international students.

Ultimately, RMIT Vietnam hopes to provide Southeast Asians with an affordable regional alternative to going far away to the US or Australia for their tertiary education. In family-oriented cultures, the idea of children receiving a high-quality education without leaving home is an attractive one.

Vietnamese universities are usually very specialised and one attraction of RMIT is the wide range of disciplines on offer. Figures vary but an undergraduate degree costs in the region of $US20,000 to $US25,000. The university is fully private, receiving no subsidies or funding from either the Vietnamese or Australian government. Balancing costs is always a concern as it's crucial the facility should remain accessible to Vietnamese people.

About 30 scholarships are offered each year, most going to local Vietnamese. They are awarded on the basis of achievement and performance academically and also within the community. Secondary school teachers encourage and assist students to apply.

With a decade's worth of graduates behind it, RMIT is now able to say with certainty that its system is working. About 96 per cent of graduate students obtain full-time employment or go on to further study. Many are employed by multinational corporations in Vietnam, where Vietnamese employees with international cultural and language skills are much in demand. Others are engaged in tourism, hospitality and other businesses that involve interaction with foreigners.

Though it is set up as a separate business entity, in academic terms, RMIT Vietnam is a campus of its Melbourne parent. There is plenty of exchange and interaction between the two countries. The international focus of both institutions means the Vietnamese campuses are significant in their own right and not seen as little satellites of RMIT.

The university is proud of the Golden Dragon awards it has won each year since 2003. These are given to foreign-invested companies by the government of Vietnam in recognition of a substantial contribution to the country's development.

With eight of these coveted awards in its trophy cabinet, RMIT Vietnam would seem to be doing its job very well.


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Challenges bring openings for business

DEREK PARKER

THE changes taking place in Vietnamese society are creating opportunities for Australian businesses but a good measure of patience and a willingness to look to the long term are essential, according to specialists.

"We are starting to see a middle class developing in Vietnam, and there is a generation of people who are looking for a better quality of life," says Geoff Sutherland, a member of the board of the Australian Chamber of Commerce Vietnam, which operates offices in Hanoi and Ho Chi Minh City (still called Saigon by many people). "It is a very young society, with about 65 per cent of the population under the age of 30 — the proportion in Ho Chi Minh City is probably considerably higher.

"The economy is still fairly underdeveloped. Fifteen years ago, for example, it was a cash-only economy. You can see this as a problem, or you can see the potential for growth here."

One of the key drivers of change is education, with a significant number of Vietnamese who have received tertiary education in Australia or have studied at Australian institutions operating in Vietnam. They are now earning decent money and want to spend it. Ho Chi Minh City and the surrounding area, with a population more than twice that of Hanoi, is a good place to start, although there are also opportunities in regional centres such as Da Nang.

An important growth area for Australian exports is premium-level food, especially seafood, wine, olive oil and cheese. Some Australian companies have done well by establishing links with the increasing number of five-star hotels in Vietnam but other avenues are also developing.

"There used to be one gourmet food store in Ho Chi Minh," says Sutherland. "That store recently doubled its size and set up two other stores. You also see more young Vietnamese people in upmarket restaurants, which formerly mainly served expatriates and tourists.

Those changes suggest increasing demand for the sorts of niche products that Australians do well."

Establishing a presence in Vietnam is by no means easy. There is a huge amount of government regulation, and in some cases there are no English translations available. The regulations give local officials a great deal of discretion, and transit delays for no apparent reason are common. This can be a serious issue for companies seeking to bring perishable goods into the country.

"Some Australian companies try to move into Vietnam without much preparation, capital or expertise," Sutherland notes. "That's not really the way to go, especially in a country which is still trying to understand how a market economy works. You need to have some Vietnamese experience. Fortunately, there is a pool of young Vietnamese who are familiar with Australia, usually because they studied there. You need someone who can reliably translate not only the language but the culture.

"It's not an easy place for an importer to make money. But you get the feeling that the country has a bright future, especially when you look at the demography. If you can accept that, now could be a good time to start establishing a foothold."

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ANZ makes headway in a tough climate

MARK EGGLETON

WHEN Australian companies talk about business in Asia nowadays, it seems everything revolves around the China story. It's not only the pachyderm in the room but there are couple of others waiting outside; it sucks the air out of conversation. Yet while it does seem like the main game, ANZ realises the China story goes well beyond its relationship with Australia.

Moreover, in the finance sector China remains a tough nut to crack. Its banking sector is still rather opaque, and strong opposition to deregulation or changes in its foreign investment rules means it is not a viable option at present, with most foreign banks restricted to capped investments in smaller regional players.

The key for the Australian banks is to find opportunities where the growth stories remain positive and where inter-Asia trade is rising rapidly.

For ANZ, those opportunities lie across Asia, including in the Greater Mekong area, which, according to the bank's managing director of commercial banking, Mark Whelan, "is an important part of the ANZ story".

That story is a good one because the Greater Mekong's GDP has grown at about 7 per cent over the past decade. What's more, the region's demographics make it ripe for exponential growth. Vietnam has 89 million people with an average age of 29 while in Cambodia 300,000 young people enter the workforce every year.

Whelan is keenly aware that China is still growing at a phenomenal rate and that growth story will continue, with 350 million more people expected to urbanise, with all the infrastructure investment that will involve. Furthermore, as urban growth continues, wealth will spread as wages grow and Australia will continue to reap the rewards of China's increased demand for our agricultural products as well as our resources.

It's all good news for Australia but there's a bigger story to tell and that's the trade between China and the rest of Asia. For example, the trade between the Greater Mekong and China is $29 billion a year. Furthermore, the Greater Mekong's trade with the rest of Asia amounts to $110bn, and that's the big story for ANZ.

Without discounting the importance of the Australian market, Whelan says the bank's super regional strategy goes beyond its home market. He says inter-Asia trade dwarfs Australian trade. "Sure, we are closely aligned with the growing opportunities available to Australian companies, but it's also inter-Asia. Our footprint is now Asia beyond Australia.

"The opportunities are massive. We are just at the pointy end. We are a AA-rated Australian bank so we're trusted in the region. A lot of companies in the region are retreating from the US and European banks and we're privileged in a sense because the reputation of Australian banks is very strong — and for us, we've been in Asia for awhile," Whelan says.

The bank opened its first Greater Mekong office in Bangkok in 1985. Through steady growth and strategic partnerships, ANZ now has more than 1300 staff, 35 branches, and over 260 ATMs across Vietnam, Cambodia, Laos and Thailand.

The bank offers a wide range of products and services to corporate and retail customers and it's committed to continue delivering market-leading capabilities in corporate, commercial, online and retail banking including credit cards.

As for the individual countries, Whelan says, the bank is the strongest in Cambodia.

"Vietnam and Laos both have very competitive state-owned retail banks as well as local regional banks. The foreign banks are not strong in retail but the large multinationals tend to work with the bigger foreign players such as HSBC and Standard Chartered."

He says the Greater Mekong is also starting to see a lot of direct investment from China, India and South Korea, "particularly in ports investment and manufacturing. The rapidly growing workforce in Greater Mekong offers cheaper labour costs than China and it is starting to be seen as an alternative manufacturing base to China."

He cites Mazda, Intel and Foxconn, which makes products for Apple, as examples of multinationals taking advantage of lower wages and strong government incentives.

According to Whelan, as the leading bank in the region, ANZ has considerable local expertise and deep insights into each market.

"We offer a full range of transactional banking, trade services, lending, local currency services and personal banking.

"For Australian companies we can offer plenty of local advice such as ensuring companies adhere to the right trade document regulations in these countries. With trade driving the growth in these countries, it's important to be up-to-date."

He says there are many Australian companies ramping up their presence in the region, including larger players such as Toll Group, as well as smaller manufacturers.

Toll took over management of the Cambodian railway concession in October 2009; the Toll Royal Railway is a joint venture between the Toll Group and the Royal Group.

ANZ helped TRR with a better understanding of the local economy and industry, which helped the firm manage some of the issues with the local regulatory landscape.

"We will continue to look at opportunities in the region," Whelan says.

"Our strategy is to strengthen our presence in the Asian growth corridors, from the Greater China corridor of China, Hong Kong and Taiwan to the Greater Mekong triangle, Indonesia with its over 240 million people, and obviously India as well."

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Something for everyone

Tourism is growing rapidly in the region

LOUIS WHITE

IT is often said that the simplest ideas are the best. Penny Street can subscribe to that saying.

Twenty-three years ago, Street established Narrowcasters to provide multilingual audio tours in museums, galleries, historic sites and wildlife parks across Australia, India and the Asia-Pacific.

Narrowcasters has now ventured into the Viengxay Caves in northeastern Laos. Viengxay is a small town located just 52km from the Vietnamese border.

In the 1960s Laos was caught up in the Vietnam War and from 1964 to 1973 more than 20,000 people lived in a "hidden city" built inside the limestone peaks, to protect them from US bombing.

Farmers, political leaders and locals lived in the caves and created an underground world.

"It is amazing when you look at what they built inside the caves to survive," Street says. "There were schools, a hospital, markets and even a radio station. People gave birth in those caves.

"We have original interviews with survivors who give fascinating insights into how people survived through the war years."

Tourism is one of the fastest growing industries in Laos. In 2009, more than 16,000 Australians visited Laos, 5000 more than visited in 2006, according to the Lao National Tourism Administration.

Tourism numbers generally have been growing steadily in Laos in the past 18 years. In 1993, 103,000 people visited the country. They spent $US6 millionand stayed for an average of 3½ days.

In 2009, two million people visited Laos. They spent $US268m and stayed for an average of seven days.

Tourism authorities predict the market will grow to 3.6 million visitors in 2020 and they will spend more and stay longer.

"People love travelling to Laos, Vietnam and Cambodia because of the people, the culture and the cuisine," says Paul Hole, Travel Indochina managing director.

"The relative inexpensiveness, safety and reasonable proximity also add to each country's attractiveness."

Travel Indochina first started offering small-group holidays to Vietnam in 1993 after Hole, who co-founded the business, fell in love with Asia during his first trip to the region.

Laos and Cambodia were added the following year.

"We have three offices in Vietnam, in Hanoi, Saigon and Danang, employing a total of almost 60 staff looking after everything from managing our tour leaders and local guides to reservations and customer service, and a 24-hour emergency contact," Hole says.

"Vietnam, Laos and Cambodia can be experienced at all budget levels, from economical through to indulgent, and that's part of the reason Australians love visiting there."

In the early tom mid-1990s liberalisation measures resulted in rapidly expanding exports and high economic growth, with real GDP growth averaging 9 per cent per year.

Growth slowed in the late 90s but the momentum picked up, with GDP growth averaging about 7.5 per cent per a year since 2001, reaching a high of 8.5 per cent in 2007. Real GDP is forecast to grow by 6.3 per cent in 2011.

Poverty rates are now less than 20 per cent, down from almost 60 per cent in the early 90s.

Australia's total overseas development assistance to Vietnam in 2011-12 is expected to reach $137.9m, making Vietnam Australia's sixth largest development assistance partner.

Tourism is booming, too, with 4.3 million arrivals up to September, representing a 15.5 per cent growth over the corresponding period last year.

Australians come seventh in terms of frequency of visits; 20,000 of us had travelled there this year by the end of September.

"Vietnam has a young, aspirational population," says Tony Burchill, Austrade's senior trade commissioner for Vietnam. "I think that two-thirds weren't even born when America left in 1975, and that reflects a different attitude to tourism."

Cambodia is yet another country in the Greater Mekong region that has experienced an influx of visitors from abroad.

Tourism figures have grown from 118,000 in 1993 to 2.1 million in 2009, according to the Cambodian Ministry of Tourism.

Almost 27,000 Australians visited Cambodia from January to March last year and that number has been rising every year.

"We expect that the number of Australians visiting Cambodia in both 2010 and 2011 will [be higher than in] previous years," says Maurine Lam, Austrade's senior trade commissioner for Bangkok.

"The economy is growing here and there are a lot of positive things happening in Cambodia. Exports are rising in terms of garments and general agricultural foods."

There can be little doubt that the Greater Mekong area offers plenty of naturally rich landscape, unique history and good value for money for any Australian traveller.

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'People love travelling to Laos, Vietnam and Cambodia because of the people, the culture and the cuisine'

PAUL HOLE
MANAGING DIRECTOR,
TRAVEL INDOCHINA

La Marguerite is a French colonial-style vessel that carries passengers on eight-day cruises in the Mekong Delta between Ho Chi Minh City and Siem Reap

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A magnet for cruise operators

THE Mekong, one of the world's great rivers, is becoming an increasingly popular waterway for cruises. From its source in China's Qinghai province, it flows more than 4000km to the South China Sea.

The Mekong crosses China's Yunnan province and forms the border between Burma and Laos as well as most of the border between Laos and Thailand. It then flows to the sea across Cambodia and Vietnam.

The Mekong is the longest river in Southeast Asia, the 12th longest in the world and the 10th largest in terms of volume. No wonder cruise companies are flocking to take people there.

"We built the AmaLotus ship with a Vietnamese local partner, Indochina Sail, and AMA Waterways of Europe for cruise voyages along the Mekong River," says Debra Fox, APT general manager, marketing.

"The new 62-suite luxury boutique river ship can hold 124 passengers and we have already been inundated with inquiries. Australians love to travel to Vietnam and Cambodia."

Official statistics show that in 2000-09, the number of Australians travelling overseas rose by 80 per cent.

Total expenditure by domestic tourists in Australia was worth $59 billion in 2009, down 3 per cent in real terms compared to spending in 2004. Meanwhile, total spending by Australians travelling abroad rose 50 per cent to $32bn. Trends suggest Asia is likely to continue to serve as a popular destination for Australians.

Another company offering cruises down the Mekong River is Globus. "We have been involved in river cruises since 2004," says Christian Schweitzer, the company's marketing manager, Australasia. "We have been adding two ships a year and now we have the Avalon Angkor, which is specifically designed to cruise where other ships are unable to go.

"[Its] design allows us to be the first to cruise all the way from Ho Chi Minh City to Siem Reap.

"The design also lends itself to a more intimate experience."

LOUIS WHITE

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MARK EGGLETON

Banks struggle to control inflation

INFLATION is the prime issue facing the banks in the Greater Mekong nations of Cambodia, Laos and Vietnam. This is particularly the case in Vietnam, where inflation — sitting above 20 per cent — is the fastest rising in Asia as a result of increasing commodity prices and internal aggregated demand across a number of sectors.

In recent weeks, parliamentarians in the National Assembly have been urging the government to bring inflation down to single figures even if it means sacrificing economic growth.

Ratings agencies Moody's and Standard & Poor's recently warned that unless inflation is curbed, the asset quality of local banks will be at risk and funding will become even more difficult.

But curbing inflation could put the brakes on growth as companies struggle to find new capital with loan rates rising even further.

According to the International Finance Corporation's regional manager for Vietnam, Laos, Cambodia and Thailand, Simon Andrews, the central bank's tight monetary package will take time to drive down inflation but as it begins to hurt business it's walking a tightrope.

"It's a very fine line between controlling inflation and growth," he says.

Looking across the three countries, Andrews says each nation varies significantly in its banking sector but they do share a number of attributes.

"The banking sector in these countries is evolving rapidly and has grown significantly in the last 10 years.

"A lot of the foreign banks are coming in and making strategic investments with the local banks and some, such as Australia's ANZ, are pretty well established and trade under their own name.

"Mostly though, the foreign banks are following their clients in and bringing a little more sophistication into local markets. They are able to mobilise capital onshore and offshore, which is important as local banks look to increase their capital bases," Andrews says.

He says while foreign banks will serve a purpose in regard to long-term capital raising and the development of new products, the local sectors will be mostly driven by domestic banks.

Part of the role the IFC is playing in the three countries is offering advice to local banks through supporting the growth of a strong regulatory framework and by promoting sustainable business practices. And, as local banks look to raise capital, the IFC has invested in long-term capital raisings and assisted in their moves to privatise.

"It's known as equitisation and we have taken an investment in some state-owned banks," Andrews says. "We've also helped banks move into the loan market at the small to medium business level and in the growing energy efficiency financing space."

And as the economies of these countries open up further and grow, the IFC has also invested in ports, logistics and hydropower (especially in Laos). As each nation's infrastructure spending grows the IFC has played an advisory role as local banks and businesses have worked to bring in more foreign investors.

What's more, during the GFC the IFC sponsored a trade finance program because so much of these countries' growth relies on trade.

While the IFC has strongly supported the development of the banking sector in these countries, the Chinese have also looked to extend their influence and in recent weeks have flagged the idea of setting up an ASEAN Bank. Operating in a similar vein to the Asian Development Bank, the proposal involves member nations investing in small to medium business rather than programs designed to alleviate poverty.

The proposal is designed to improve China's relations with its ASEAN neighbours over the next few years before ASEAN's mooted single market along the lines of the European Union comes into play in 2015.

'It's a very fine line between controlling inflation and growth'

SIMON ANDREWS
FINANCE CORPORATION

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Trade is vitally important for the growth Mekong nations

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Something for everyone

Banks struggle to control inflation

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Middle classes keen on red meat as a source of protein

MARK EGGLETON

IT takes an innovative industry body with an eye on the future to see the benefits of trade with the Mekong region, and that is the kind of leadership the nation's peak meat export representatives have shown. "It is an area of high priority for us," says Aaron Iori, the Meat and Livestock Association's regional manager for Southeast Asia and greater China.

"It's a very exciting region — and there is such positivity. It is one of the big opportunities we have." Iori says the market has been on an upward trajectory since the mid-2000s. "It began with exports to top hotels and resorts, and we are continuing to meet demand there."

He says it has continued to boom as the region becomes more affluent, with the rising middle class demanding more beef and lamb as a protein source.

"As the market becomes more affluent there are more opportunities to get into retail. We know that will continue — people's aspirations grow and they have more purchasing power."

Last year Australia exported 1000 tonnes of beef to Vietnam and, according to Iori, it's becoming an increasingly important market. He says the MLA also helps educate consumers in the region about how to get the most out of our meat.

"We do technical training for retailers and people in the service industry. We help people understand the product."

Moreover, Iori says beef and lamb are an expensive source of protein compared with traditional protein sources such as fish and chicken. "We teach them how to get the most out of it and how to adapt it to local cuisine and customs, cultures and cooking styles. We take them step by step through all the things we take for granted in Australia, from hygiene to food preparation, so they start with what might seem like a chunk of meat and turn it into something which is appropriate for local consumption."

So, is there a limit to how many of the world's teeming billions Australia can feed? "It comes down to: we have limitations to our production — it's limited by our herd size. We can respond to increases in demand, but we can only produce a certain percentage and we have other markets that need to be serviced.

"But you have to understand that there are other global suppliers of beef — the US, Argentina, even China."

About 60 per cent of Australia's beef is exported and, according to Iori, we are in a healthy position, but we have to worry about food security and sovereignty in Australia first. He says we do have enough capacity to respond to spikes in demand, though, with European and US markets potentially declining.

He suggests the Mekong does present opportunities for the industry at a time when uncertainty exists in other export markets.

"As these markets come on line it gives Australian exporters more choice and more opportunity to place their product. The strategy we have got is about harnessing emerging markets to support the overall future and prosperity of the industry," Iori says.

Another of the MLA's crucial roles in the region is to help in breaking down the entry barriers our exporters potentially face. "We are trying to open freer access to these markets." Iori says Vietnam invoked technical restrictions on our exporters, "which pose a bit of a challenge". He says it is not the job of the MLA to break down trade barriers, but to help the federal government to do so. "Our job is to provide industry intelligence on the ground to the government and support the government in their efforts to break down barriers.

"The biggest challenge is understanding what the barriers are to our exporters and having our position put forward."

On the plus side of the equation is the nation's reputation as a "clean and green provider of beef".

"The future is very bright. We know that as economic prosperity increases you get not just increased protein consumption but increased beef consumption. Our challenge is to harness that demand, using nutrition as the trigger, and to also provide education, as well as support the government's efforts on free markets."

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Growing scope for audacious investors

The economic climate is uncertain but there are prospects for good returns

JAMES DUNN

AUSTRALIAN investors wanting to invest in the newly emerging economies of Southeast Asia don't have many direct avenues available on their own stock market, but Vietnam Industrial Investments Limited (VII) is certainly one.

Listed on the ASX in 1995, VII does what it says on the tin: it has five industrial subsidiaries in Vietnam, which operate two steel rolling mills at Haiphong in the north of Vietnam, as well as a steel roofing factory in Hanoi and a weldmesh factory in Ho Chi Minh City.

The steelmaking division comprises two of the businesses, the wholly owned SSE Steel and Vinausteel, a joint venture with state-owned Vietnam Steel (VII owns 70 per cent). SSE Steel owns and operates a fully automated rolling mill producing high-tensile reinforcing bars (rebar) and wire rods for the construction industry. It was the first company in Vietnam to introduce this advanced technology.

Vinausteel, which produces hot rolled steel reinforcement bars, operates the other mill at Haiphong. is the first steel rolling mill in Vietnam to receive ISO 9002 certification, the international standard of quality production. The steel products division consists of joint venture Austnam, which produces cold rolled steel roofing, wall cladding and associated materials at its factory in Hanoi; the fully owned VRC Weldmesh, which makes electrically welded wire products for concrete reinforcement, screens, fences and partitions, at its factory in Ho Chi Minh City; and the fifth business, Total Building Systems Limited, which supplies engineering services, building systems and construction services to both industrial and residential customers in Vietnam.

From an all-time high of 66c in October 2010, the stock has slipped back to 29c, hit by unfavourable currency movements and the struggling Vietnamese economy. Significant depreciation of the Vietnamese dong and US dollar and appreciation of the Australian dollar is the worst combination for VII's profitability.

VII had its best year in 2009, when it earned a net profit of $24 million on revenue of $371m, but profitability dropped away in 2010 when it increased revenue to $492m but only earned $7m in net profit. Operating cash flow and free cash flow turned negative.

VII chief operating officer Alanl Young says the company has suffered from currency translations, lifting earnings before interest, tax, depreciation and amortisation (EBITDA) by 35 per cent in the June 2011 half in dong terms, but that translated into a 4 per cent fall in A$ terms. For the half-year, VII reported a net loss of $4.03m, after a foreign exchange translation loss of $4.3m.

The travails of the Vietnamese economy have also not helped. Vietnam is trying to bring down Asia's highest rate of inflation — running at an annual pace of nearly 22 per cent — reduce its trade deficit and strengthen the dong, which has seen four devaluations in 15 months. The government has hiked interest rates to try to cool the economy and curtail speculation, with lenders now charging upwards of 20 per cent.

"The Vietnamese economy is struggling at the moment, inflation is very high, we're having to borrow money at 20 per cent and we have quite a high working capital requirement because raw ma-

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terials are 80 per cent of our costs," says Young. "At the moment there is a bit of oversupply in the property sector — people are slowing down on developing apartments and so on."

Longer-term, Young says Vinausteel and SSE Steel are the "larger parts of the business", and that's where the main emphasis of the company will be.

"This is a developing country with a lot of growth ahead of it and thus a lot of requirement for steel. As a bet on a developing ASEAN economy with good demographics, we feel confident that there's a future here, there's a long way to go in terms of developing infrastructure. The economy has hit a speed bump at the moment, it's a real crunch time for Vietnam, but we take a longer-term investment horizon and we would hope that our investors do, too," he says.

Despite expecting "tough times ahead" in the short term, VII is moving ahead with a new project, called Australian Steel Billet Company, which will operate an electric arc furnace (EAF) to make steel billets from scrap. The furnace, which will have a capacity of 500,000 tonnes a year, will be located on a 7.4ha site adjacent to the Vinausteel and SSE Steel rolling mills in Haiphong.

Australian Steel Billet Company has been planned since 2008, but the global financial crisis hit Vietnam hard, and it has been delayed. But Young is confident that it will get off the ground.

"The furnace will provide the mills with a stable supply of billets, which is critical to their operating capacity. We won't have to look for outside customers, it's really to supply ourselves," he says.

> 'Vietnam is a developing country with a lot of growth ahead of it . . . As a bet on a developing ASEAN economy with good demographics, we feel confident that there's a future here'
>
> **ALAN YOUNG**
> CHIEF OPERATING OFFICER, VIETNAM INDUSTRIAL INVESTMENTS

A depreciating dong and a high rate of inflation are among the downsides in Vietnam, but conditions are expected to improve


Growing scope for audacious investors

Australian
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Supplements
Market: Australia
Circulation: 133081
Type: Australian National
Size: 465.67 sq.cms
MTWTF

Dramatic transformations since the end of the Cold War

LUKE HUNT

WHEN the Cold War ended, the communist regimes of Indochina were in disarray and in danger of following precedents in Moscow and imploding. Fiscal realities had forced the Russians to abandon Vietnam, Cambodia and Laos, which were left to fend for themselves.

It was a far from ideal situation.

On Dong Du Street in Ho Chi Minh City, along Sisowath Quay in Phnom Penh or Vientiane's Fountain Square, only a handful of Westerners, mainly traders, could be found in the bars where the music, the menu and the vodka came with a politburo stamp of approval.

A cyclo was the most common form of transport, an international phone call cost $US15 a minute and was off limits to all but a handful of the paranoid elite who had access to one of the two landlines out of Hanoi or Ho Chi Minh City. Water was boiled and stored in jugs.

The likes of General Tran Van Tra and Brigadier-General Pham Xuan An were far from impressed. They had fought French colonialism and US-led troops in Indochina and had expectations of a better life once the conflict ended in 1975. North and South Vietnam were unified the following year.

Tra would sit, sullen, and decline to say much, but was happy to let An vent the odd frustration.

An had a habit of waving a nicotine-stained finger while drawing on a Lucky Strike and deriding the leaders in Hanoi for their inability to look beyond themselves. Sometimes embittered, he would say back then: "Look, just look, look at what they have done to my country."

Communism offered a common belief structure and unifying purpose for more than 100 ethnic groups, in particular the Khmer, Laos and Viet, and minorities like the Muslim Chams, Montagnards and Hmong hill tribes that were divided by the Mekong River, its delta and the Annamite mountain range. But as the grumpy old men An and Tra would discover, communism cared little for centuries-old traditions and practices.

French was the second language of choice. That changed with unification and their children were taught Russian and indoctrinated with Stalinist dogma amid routine food shortages.

Contact with the outside world effectively ended, travel restrictions prohibited people even from moving outside their home provinces. Ethnic Chinese were purged from Vietnam after Hanoi went to war against Pol Pot.

Anything foreign was viewed with deep suspicion and An's complaints earned him regular bouts of house arrest.

Most important, modernisation had failed to take place. The economy was allowed to bumble along on US Army surplus, which, along with the crumbling infrastructure, was almost spent by the time Soviet president Mikhail Gorbachev decided enough was enough and ended the Cold War.

Two decades later, the contrasts could not be greater. Western aid and foreign investment, combined with a rejuvenation of the economies and the advent of the digital age, did for Indochina what the Maoists and Leninists could only dream about.

Toyota replaced the Lada and motorbikes displaced the cyclos, although they remain popular among the millions of tourists who arrive each year. In places such as Phnom Penh, the tap water is as clean as in Singapore, and brand names from KFC to Gucci have taken up residence.

And a baby boom delivered a tech-savvy youth culture that follows the fortunes of Manchester United on the latest iPhone or a second-hand Nokia. One recent survey indicates more than 90 per cent of Cambodian youths have access to a mobile phone.

In remote provinces, 12-volt car batteries, a satellite dish and a cheap second-hand computer have hooked up remote villages to email, Facebook and Skype. Cambodia's former commerce minister, the affable Sok Sophana, ambitiously described this phenomenon as "skipping the kerb".

Essentially, he meant, that the Greater Mekong had not been saddled with technology upgrades and transfers, as in the West. It was easier to build a satellite mobile phone service than worry about hooking each house up to a telephone line.

His critics argued how could a country build complicated communication systems when it couldn't prosecute the former leaders of the Khmer Rouge for genocide? Or make a shirt?

However, the digital era gave the countries of the Greater Mekong a head start, and in the meantime the construction of major infrastructure projects got under way.

The Asian Highway project will link Singapore to China and London through a network of all-weather roads, at this stage being completed in Cambodia. Planning for a rail network following a similar route is in the advanced stages, with the Greater Mekong at the regional crossroads.

The economies have expanded from timber and tourism and now include textiles, mining, oil and gas. There are stock markets in Hanoi, Ho Chi Minh City, Phnom Penh and Vientiane, while sectors ranging from education to hotel management have grown dramatically.

But old issues die hard and would have An and Tra turning in their graves. Corruption and a culture of impunity among government leaders and the nouveau riche remain the biggest drawbacks.

In Cambodia, people who lived in slums are bullied out of their homes to make way for developers; in Vietnam, Montagnards have seen their forests stripped for coffee plantations; while dam construction in Laos and the upper reaches of the Mekong threatens to displace thousands.

The authorities, however, don't have it all their own way. Within hours of the Vietnamese government deciding to block any unwanted website, a geek in a cyber cafe will have written the software to bypass the firewall.

It is a plucky disrespect for authorities that arrived with the internet, and which An approved of. Shortly before his death nine years ago, he told me his country had improved far more under a decade of opening-up than in the years of closeted communism.

"The corruption can be bad, really bad, but the people are tough and clever," he said. "We've had the French, the Americans, the Russians, now it's our turn."

Luke Hunt is a foreign correspondent who has lived in Indochina for many years.

A rice-tractor taxi in Laos, where improvements in transport are on the developmental agenda

MEDIA MONITORS

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Gloria Jean's a big hit in coffeeland

CASSANDRA MURNIEKS

GLORIA Jean's Coffees is an Australian success story.

The coffee-house started in the US 1979 when Gloria Jean and Ed Kvetko opened a specialty gourmet coffee outlet in a small town near Chicago.

Australians Nabi Saleh and Peter Irvine bought the Gloria Jean's brand and brought it home, opening the first store in Sydney in 1996. There are now 1000 Gloria Jean's outlets in 39 countries, including Vietnam.

"Vietnam has been one of the key emerging markets in the world. After BRIC [Brazil, Russia, India, China], there has been a new term coined by HSBC — CIVETS, standing for Columbia, Indonesia, Vietnam, Egypt, Turkey and South Africa," Gloria Jean's group CEO Keith Brown tells *The Australian*.

"Vietnam is now included in the top 10 emerging markets worldwide. This is certainly not a market to be missed. With a growing middle class and the second youngest population in Asia, Vietnam was ready to host international brands.

"[After] launching Gloria Jean's in Vietnam, our strategy was to gain the first-move advantage in this very viable market."

The company has six coffee houses in Vietnam and has plans to open 20 more within the next five years.

Expanding a local brand into an international brand can be a costly and time-consuming exercise, with possible logistical and operational problems, but Gloria Jean's has weathered the storms," Brown says.

"As Gloria Jean's Coffees was one of the first international brands entering the market, there were some challenges, but certainly none were insurmountable, including the supplier base, an established legal framework in franchise operations and, from a consumer perspective, the introduction of a foreign coffee culture into Vietnam, which has a very established coffee heritage given it is the second biggest exporter of coffee in the world." he says.

Also, the Vietnamese have been drinking coffee since it was introduced to the country by French colonists in the 19th century.

"The issue we faced was not so much the locals' sweet taste profile," Brown says. "Rather, it was the taste profile of robusta versus arabica; 97 per cent of Vietnam's coffee production is robusta and, as such, the locals have been used to the strong profile of robusta beans.

"We have addressed this challenge by targeting our primary market segment as the young middle class, who are open to new taste profiles and are willing to try new products and brands, especially those [of them who] have experienced more global culture through travel or mass communication channels," he says.

When Gloria Jean's was first launched in Vietnam in 2006, the key customer base was expats working and living in Vietnam, as well as tourists who were already familiar with the brand. This has now changed, with the client base now being 20 per cent foreigners and 80 per cent locals.

Gloria Jean's Coffee