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SWEDISH–VIETNAMESE RELATIONS: SHIFTING TERMS OF COOPERATION

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Swedish-Vietnamese Relations: Shifting Terms of Cooperation

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Abstract:

While Sweden has been Vietnam's major supporter among the market economies, the partnership has relied heavily on official development assistance rather than trade. With the adoption of extensive market reforms in Vietnam, Swedish exports have plummeted in absolute as well as relative terms. There is a need of adjusting and upgrading the cooperation between the two countries, with a more intense exchange of information and establishment of fora through which multiple commercial contacts can be initiated.

Introduction¹

Following many years of struggle for independence, civil war and regional conflicts, Vietnam stood in the 1980s as an impoverished nation with an acute need to rebuild its economy. Instead of being engaged in ordinary commercial exchange, however, international interactions have become heavily distorted. Up to the present time, the US has imposed a strict trade embargo, and also blocked any agreements with the International Monetary Fund or the World Bank. Meanwhile, the European Community has applied strict quotas on imports, as it does with regard to most developing countries. The quotas have been particularly painful for Vietnam, however, due to its lack of access to the US market.

Throughout the difficult years, close cooperation was upheld with a single market economy, Sweden. The exchange has been confined to official assistance, however, and the commercial exchange has stagnated as Vietnam has turned into a market economy. It is time for the two countries to expand and upgrade their partnership by adjusting it to the new circumstances. Following a survey of aid and trade relations between Sweden and Vietnam, this study outlines the need for such change.

The reforming economy

The Vietnamese government has sought ways to reform the economy since the early 1980s. The process did not start with a drastic overhaul of the old system, but economic incentives were gradually introduced and intensified.² From 1989 onward, extensive policy reform on both the micro- and the macro-level has rapidly transformed the economy. Farmers and industrialists have been confronted with effective incentives to work, save and invest, and macro-economic stability has been achieved. The government has shown that it understands the need of a consistent macro-economic framework, sound infrastructure and economic incentives for its well educated and capable work force.

Increased attention has rapidly been paid to trade and investment policies. Located in the most dynamic part of the world, Vietnam now forms yet another link in the so-called "flying wild geese" process, following its neighbouring countries of Japan, the four tigers, Thailand, Malaysia, Indonesia and, most recently, China. As foot-loose companies exploit

1 The author is grateful for all information kindly provided by public institutions and private companies in Hanoi and Ho Chi Minh City. The Swedish Ambassador in Hanoi, Mats Åberg, has also provided invaluable support. Håkan Hellström has assisted with data compilation.

2 See Beresford (1988) and Vylter (1991).

country-differences in comparative advantage, operations are relocated when countries move up the ladder of industrialization towards higher levels of income and social welfare.

Vietnam is not only seeking expanded relations within its own region. Due to the US embargo and EC quotas, Vietnam has actually been in a weak bargaining position vis-à-vis its Asian partners. More direct links with the rest of the world will enable the corporate sector to diversify its international commitments, increase its bargaining power in international commercial interactions and thereby retain more economic rents. The lifting of the US-embargo improves the prospects for such action.

Old partners

During the years of isolation, Vietnam's major western partner was a smaller country, however. Situated outside the economic and military 'blocs', Sweden provided about 50 percent of all official development assistance (ODA) to Vietnam from outside the Eastern Bloc in the 1980s. Sweden also accounted for almost 10 percent of all Vietnam's imports from OECD-countries in the early 1980s.

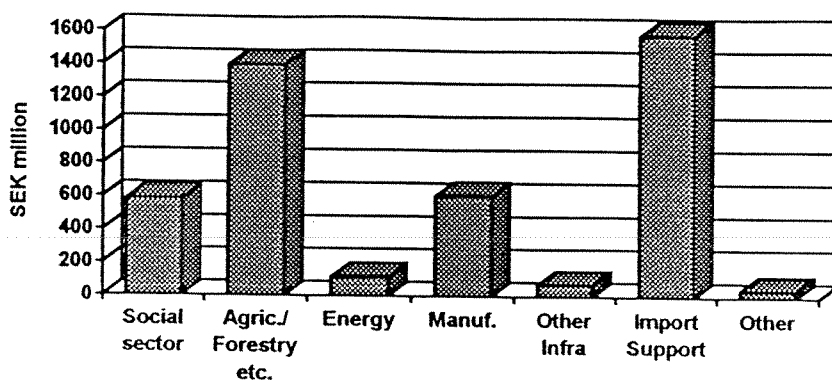
Even following the introduction of market oriented policies, Sweden has remained the by far largest donor country in Vietnam. The commercial exchange, on the other hand, has shrunk drastically in relative as well as absolute terms. Obviously, the partnership between Vietnam and Sweden never became oriented towards commercial interactions.

Given that Vietnam and Sweden represent two relatively small economies in their respective regions, and are located far apart in terms of physical, institutional and cultural distance, it may appear natural that cooperation dwindles as the wind of development embraces the Vietnamese society. On the other hand, it is possible that the extensive exchange during past hardships may be a key to future partnership. If this is to happen, however, it is high time that the nature of cooperation is adjusted to the new situation which has emerged.

Swedish ODA and exports

Virtually all Swedish ODA to Vietnam has been offered by the Swedish International Development Agency (SIDA). As can be seen from Figure 1, most has taken the form of import support and support of agriculture. A fairly large amount has also been provided to manufacturing and the social sector. In manufacturing, the assistance has more or less been confined to the Bai Bang-project, i.e. the construction of a large paper mill. Regarding energy, support has been directed to power generation as well as distribution.

Figure 1: Swedish aid disbursements to Vietnam by sector 1979/80-1991/92 (SEK million, current prices)



Source: SIDA

While the level of ODA remained high, the already small Swedish exports to Vietnam plummeted in the late 1980s. This occurred parallel to the liberalization of Vietnam's economy, and its subsequent expansion of trade in general. The special Swedish position as one of a few foreign partners eroded as a number of others stormed in to exploit the commercial opportunities, particularly from neighbouring countries in Southeast Asia.

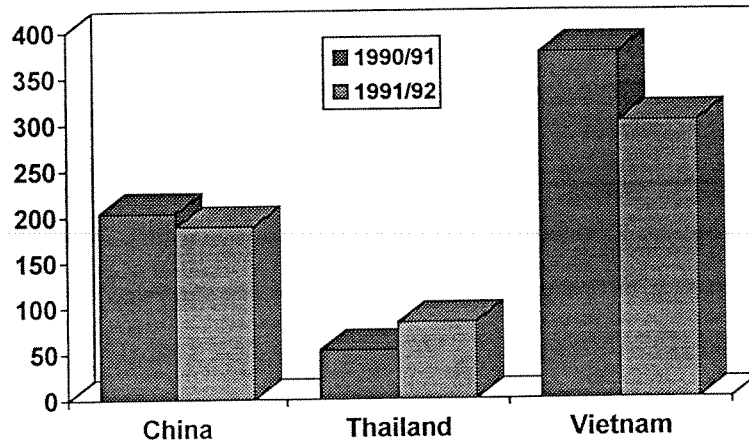
The absence of a complementary relationship between the provision of Swedish ODA and exports to Vietnam is obvious from country-comparisons. The value of Swedish ODA to China, Thailand and Vietnam as of the early 1990s (Figure 2) can be contrasted with the trends in Swedish exports between 1980 and 1992 (Figure 3). Swedish aid was considerably larger to Vietnam than to the other countries. The exports to Vietnam declined even in nominal terms, however, while increasing tremendously in Thailand and China. The picture is even more striking when Swedish exports are related to the OECD-total. Figure 4 shows a remarkable reduction of the Swedish market share in Vietnam, from almost 10 percent in 1982 to less than one percent in 1992. In China and Thailand the Swedish market share grew, and ended up at higher levels than in Vietnam.

Aid instead of trade

The weak performance of Swedish exports to Vietnam may appear surprising, as a number of studies have demonstrated positive effects of ODA on exports of goods and services.³ The Swedish aid provided to Vietnam is not really comparable with that offered to Thailand and China, however, since these countries have cooperated with other Swedish aid

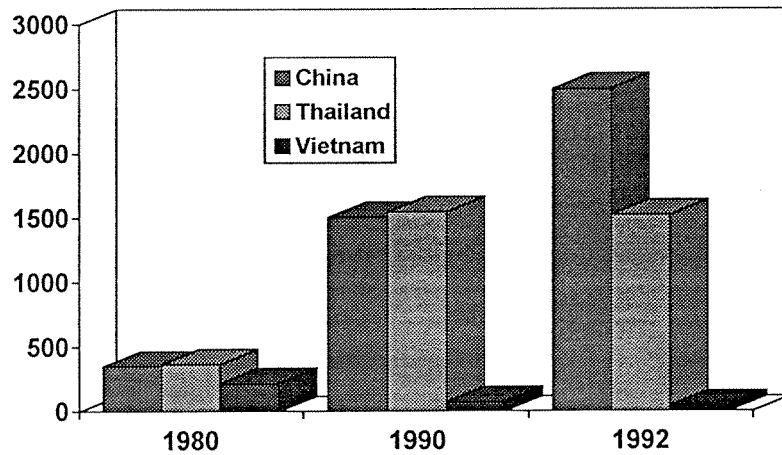
³ See, e.g., Grundmann (1978), Schumacher (1981), May & Dobson (1979), and Jepma & Quist (1985).

Figure 2: Swedish ODA to China, Thailand and Vietnam 1990/91 and 1991/92 (SEK million, current prices)



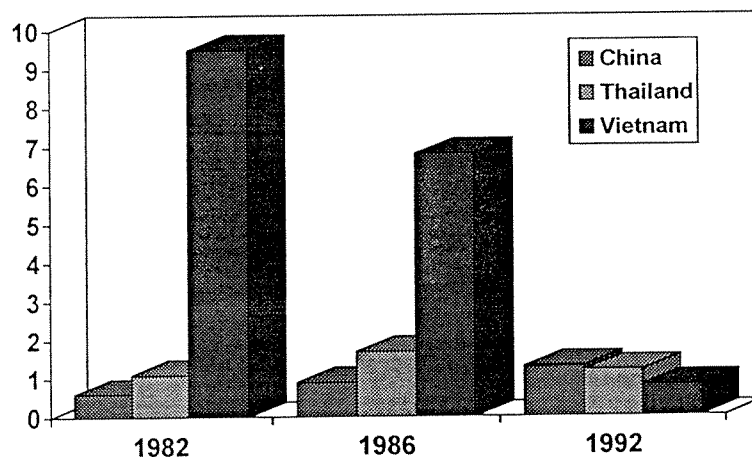
Source: SCB

Figure 3: Swedish total exports to China, Thailand and Vietnam 1980 to 1992 (SEK million, current prices)



Source: SCB

Figure 4: Swedish share of OECD exports to China, Thailand and Vietnam 1980 to 1992 (percent)



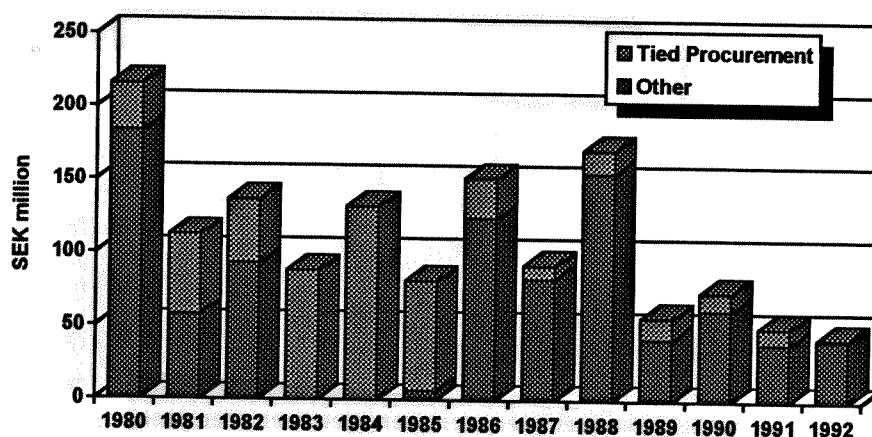
Source: OECD

agencies, mainly BITS (Swedish Board for Investment and Technical Support) which is more commercially oriented than SIDA. In China, the aid has mainly taken the form of concessionary credits offered in connection to commercial projects, while Thailand has received mostly technical support. This reflects the varying income levels of the Asian countries, which have spurred different forms of Swedish aid.

Figure 5 illustrates the source of financing for Swedish exports to Vietnam over the years. In the early 1980s, as much as 100 percent of exports was paid for by tied import support. Starting in 1986, the tied component dwindled, followed by a big drop in total exports from 1989. During 1987/88-1991/92, a mere 21 percent of total disbursements for import support were used for exports from Sweden, while 31 percent of exports were financed by the import support scheme (57 percent of which was untied). Evidently, the declining Swedish exports were to a very large extent financed directly by aid, leaving little scope for indirect effects of aid on exports up to the present time.⁴

Regarding Vietnamese exports, there is a similar picture of underdeveloped interactions with Sweden, although the trend goes in the "right" direction. The Swedish share of OECD imports from Vietnam increased from only 0.1 percent in the early 1980s to 0.5 percent in 1991/1992. At the later date, Vietnamese exports to Sweden corresponded to almost 80 percent of Swedish exports to Vietnam.

Figure 5: Swedish exports to Vietnam by source of financing
(SEK million, current prices)



Source: SIDA

⁴ See Andersson and Hellström (1994) for further analysis.

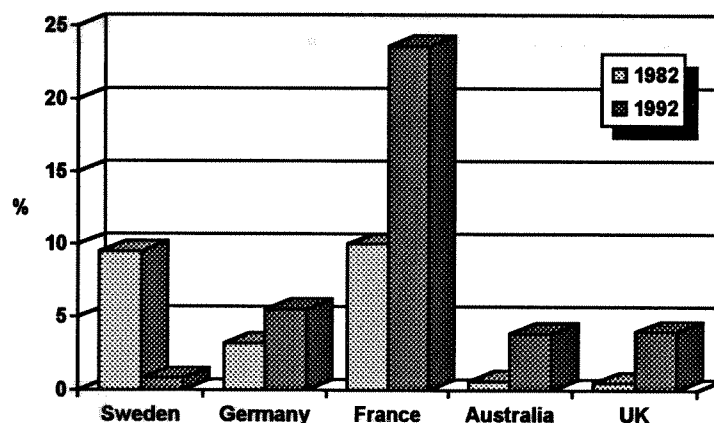
Greater commercial efforts by others

It is obvious that other countries have been more active in paving the way for commercial relations with Vietnam. Above all this applies to neighbouring countries, which has led to the rapid integration of Vietnam with the Asia-Pacific region since 1989. The largest trading partners as of 1992 were Japan, Singapore, Hong Kong and South Korea. This involved a dramatic expansion first and foremost of Vietnamese exports, enabling the country to record its first current account surplus in 1992.

The European countries have also been active in promoting trade, however, including the other major donors except for Sweden. Germany and France contributed 15 and 11 percent respectively of the bilateral aid to Vietnam in 1990. Both performed considerably better than Sweden in terms of exports. Of other successful exporters, Australia accounted for a mere 1 percent of ODA and the UK nil. Compared with all these countries, the Swedish trade record is bleak, as seen from Figure 6.

Like the neighbouring Asian countries, the other Europeans have actively supplied information about their national companies and special products. The British, for example, have opened a "special library" with information about their corporate sector within the Chamber of Commerce in Hanoi. Broadly speaking, a firm presence has been accomplished within key domestic organizations which can provide fora in which potential business partners are identified and partnerships initiated.

Figure 6: Shares of OECD exports to Vietnam for selected countries (percent)



Source: OECD (1985,1993)

The establishment of business contacts in a foreign country generally requires a local presence, and there is an evident relationship between investment by foreign firms and the expansion of international trade in the case of Vietnam. Explanations behind the weak Swedish record are mainly to be found in the late arrival of commercial representatives. The Swedish Trade Council has not had any locally based activity, and private investments by Swedish companies have been meagre, putting the country down in 16th place among foreign investors in Vietnam as of 1994. Another Swedish aid agency, SWEDECORP, has tried to fill the gap by setting up an investment office in Ho Chi Minh City, which represents the first Swedish presence in the economic heart of the country.

Agenda for change

Vietnam still need foreign development assistance, but above all the country is rapidly developing into a potentially important supplier, purchaser and gateway in the dynamic East Asian region. For some reason, Vietnam and Sweden seem to have been unable to adjust their relationship in accordance with this changed situation. This is due to the way attitudes and the exchange of information have developed on both sides.

A sound communication has generally been lacking between SIDA and Swedish private companies. Vietnam appears to have been viewed as a partner in 'aid' instead of 'trade'. As of now, Swedish firms are starting to realize the potential significance of Vietnam as a market and business partner. However, representatives of the Swedish government appear not to have fully understood the importance of prominent Vietnamese delegations. Meanwhile, some actors on the Vietnamese side have become used to associate representatives of Sweden with official aid, presenting private Swedish firms with difficult problems when trying to get something done without support from the aid agency.

The prevailing situation is unfortunate since Vietnam and Sweden have been partners for a long time, and have highly complementary assets and abilities in their respective business sectors. Swedish firms have achieved leading technological positions in many of the sectors that are now booming in East Asia, such as telecommunications, energy, construction, environmental protection, and so forth. Still, Swedish companies have merely begun to make themselves established within East Asia. Vietnam, on the other hand, has an inexpensive but highly qualified labor force, and private firms from all over the region are now present in the country.

On the basis of past interactions, there is a high awareness of the other side in both Vietnam and Sweden. The business communities are currently demonstrating a mutual interest in

getting to know each other better. In order to bridge the distance between the two societies, a range of steps should be taken to expand the flows of information about the prevalence of business opportunities on the other side.

Making the Swedish aid effort attain a more complementary rather than hampering role in this context, there should be conscientious efforts to move away from the emphasis on government to government relations in Swedish-Vietnamese cooperation. The formation of a Swedish-Vietnamese Business Council represents an important item on such an agenda. There is an overriding need to achieve more cooperation between various interests on the Swedish side, commercial as well as official, to coordinate the provision of information. This is not least necessary to break the extreme dominance of just a handful large firms in aid-related projects. On this basis, collaboration with Vietnamese representatives of commercial interests should enable the creation of appropriate fora which can pave the way for multiple business contacts.

The public good nature of basic information suggests that it should be spread without charging full cost by each client. It is only when this stage has been coped with, that it becomes desirable to make full charges for fulfillment of specific assignments in data collection. Other major donor countries, such as Japan, Great Britain, France and Germany, appear to have made an effective division between these functions. Thus, it is a matter of high priority in the collaboration between Sweden and Vietnam to review the mechanisms for spreading information about business opportunities on the other side.

In the provision of Swedish aid to Vietnam, there should be a stronger involvement by other aid agencies than SIDA, so as to broaden the base for exchange. Opportunities for spin-off effects from aid projects in the form of expanded commercial linkages should be evaluated carefully. A certain degree of experimentation will be useful to identify appropriate mechanisms. However, it is vital to maintain a strong emphasis on competition, and avoid subsidization of individual firms.

Summing up, both Vietnam and Sweden could benefit from an adjustment and upgrading of their cooperation. The potential for commercial exchange will not be fulfilled spontaneously between societies so far apart. Above all, there is a need to improve the exchange of information and establish appropriate fora through which multiple contacts can be initiated. The availability of soft financing through Swedish official support of various projects or programmes can be justified to facilitate the entry stage, but it must consciously be designed so as not to lock relations between the two sides into a continued state of aid-dependency.

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