



STATE BANK OF VIETNAM

## Reform of state-owned enterprises and banks on the cards for 2012

The government's new prevailing wisdom is that Vietnam must reform its economy, and especially its state-owned enterprises (SOEs), if high rates of economic growth are to continue into the next decade. Some now see the necessity for a new raft of reforms potentially as significant as the *doi moi* reforms of 1986, which changed Vietnam from an isolated and centralised economy into a more market-oriented one that was open to the rest of the world

Both the foreign and local state-owned media have been reporting on government plans for the most significant economic overhaul of the past 25 years. State-owned enterprises, which run everything from shipping to power, are the main targets.

Prime Minister **Nguyen Tan Dung** raised the issue of an overhaul of underperforming SOEs at a recent conference in Hanoi, saying, 'It's necessary to identify which [state-owned] companies need to be equitised and which should be retained. **Vietnam Oil and Gas Group [PetroVietnam, or PVN]**, for example, will not go through equitisation in the next five years, as it has to fulfil its task of ensuring energy security.'

While an overhaul is on the cards, the premier has also praised the role of many sluggish SOEs, such as **Electricity Vietnam (EVN)**, for their contributions to keeping the economy stable and reining in inflation. He went as far to say, in a statement on a government website, that

both the banks and SOEs need a 'drastic' overhaul if they are to survive.

The fact that state-owned enterprises are underperforming is old news. The ongoing and rather embarrassing saga of state-owned **Vietnam Shipbuilding Industry Group (Vinashin)**, which is currently being sued by the US hedge fund **Elliott Advisors** after defaulting on its first repayment of a \$600 million loan, is only the most public example. Right across the board SOEs are losing money hand over fist.

Productivity is generally low in these government companies and so these days many young and well-educated Vietnamese pursue jobs in the private sector or with international

companies. The higher wages and greater opportunities for promotion are preferable to the low wages but lifetime job security typically offered by SOEs or government departments. Many also express their distaste for the heavy-handed and endemic corruption within public sector entities.

### Getting a grip on toxic loans

A major overhaul of the banks is also on the cards. Vietnam's banking system has 52 commercial banks, 51 branches of foreign banks, and many other non-bank credit institutions. Many are burdened by toxic loans caused by the massive growth in credit that has underwritten the country's fast and furious economic development. >>>

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Bank loans have increased 14-fold since 2000 and have now reached nearly 250 per cent of gross domestic product. Most of the banks are not well capitalised and have limited access to cash.

**Le Tham Duong**, from the Ho Chi Minh City's Banking University, told AFP in late December, 'There are too many small banks ... The challenges are enormous.'

Vietnam's proportion of toxic loans varies depending on who's doing the accounting. Government statistics put it at only 3.2 per cent of the total but many foreign experts believe that it could be over 10 per cent and that the government is still using its general transparency to conceal the true figures.

Even some in government, however, believe the rate could easily top 5 per cent and some estimate it's already as high as 15 per cent. **Cao Si Kiem**, vice-president of the Consulting Committee for National Monetary Policy which advises the government, has said that the government plans to halve the number of banks by 2015. Kiem is a former central bank governor.

### Let the restructuring begin

Restructuring will begin in incremental stages in 2012. Fewer than half of the country's 1,309 SOEs are expected to remain government owned by 2015 and those that are will be restructured into 44 corporations by then.

**Le Dinh Yen**, a former director of the **Centre for National Information and Socio-Economic Forecasts**, told Ho Chi Minh City-based newspaper **Sai Gon Giai Phong** that the plan is to boost SOE competitiveness, which falls far, far below that of their private counterparts.

'We have to reform,' Cao Si Kiem told Reuters in mid-November. 'If not, it would be dangerous. The economy would be stuck behind and the faith of the people would decrease.'

Many analysts have cautioned, however, that a slower transition is needed. Although *doi moi* is regularly credited with getting things off the ground a quarter century ago little real change took effect until the late 1980s and early '90s, when Vietnam rode the Asian boom and began the significant economic growth that turned it into one of the world's fastest-growing economies by about 2005.

Most analysts and Vietnam watchers agree that one of the reasons the Communist Party has held onto power with relatively little dissent has been its economic management. Inflation first became a problem in 2008, since when it has exceeded 20 per cent on a number of occasions as the tiger economy boomed. It has once again stabilised at around 20 per cent, after reaching a peak of 23 per cent in August.

Since *doi moi* began in 1986 Vietnam has turned from a basket-case economy of rationed food and collectivised farming to a lower-middle-income country. As long as people kept growing wealthier they could overlook a sometimes inefficient and corrupt one-party state. There have been other, quieter signs of change. The Communist Party is now allowing business people to join and candidates for the National Assembly have included some of Vietnam's wealthiest people.

If the current economic situation continues to worsen, however, it may present a threat to the government.

## What is doi moi?

*Doi moi* was introduced in 1986 and received wisdom credits it with Vietnam's exponential growth of the past 25 years.

Eleven years after the communists took control of then-Saigon and the war officially ended, poverty was crushing the country and pragmatists realised that without some global integration shortages and poverty would only get worse. The largesse of Soviet nations - then Vietnam's biggest supporter - would not alone be enough. Instead a 'socialist-oriented market economy' was introduced, private commerce allowed, and collectivisation forgotten.

*Doi moi*, or 'renovation,' oversaw rapid growth in the early 1990s until the Asian financial crisis in the middle of that decade. Some in government saw greater integration into the world economy as a danger but despite the setback of the crisis Vietnam continued with its socialist capitalism.

The government has acknowledged these shortcomings publicly and at the highest level. At the 11th Party Congress in mid-January 2011, outgoing general secretary **Nong Duc Manh** acknowledged that mistakes had been made and that government corruption continued to be a problem. Fighting inflation and improving the economy were pillars of the 2011-16 five-year plan.

The 12th Party Congress will be held in 2016.

## Turbulence in the blogosphere

In early December 56-year-old French national **Pham Minh Hoang**, who is a member of US-based democracy advocacy group **Viet Tan**, had his sentence reduced from three years to 17 months, following a ruling by an appeals court in Ho Chi Minh City. He will now serve three years of house arrest following his release.

His lawyer, **Tran Vu Hai**, told reporters that the court had based its decision on his renunciation of Viet Tan – which the government views as a terrorist organisation – and his cooperation with police. Both US and European governments and rights groups criticised his arrest.

Hoang had written numerous blog posts calling for transparency and democracy in Vietnam. A 2008 law effectively banned any ‘political’ blogging, telling the population (whose bloggers then numbered in the millions) to stick to the personal.

Many bloggers have been arrested in Vietnam in recent years. Not all of them have been professional activists such as Hoang. **Nguyen Ngoc Nhu Quynh**, for example, was merely a concerned citizen, not an activist. But the law drew little distinction.

In 2009 **Me Nam** (Mother Mushroom) was arrested and held for blog posts she had written detailing her dissatisfaction over her country’s dealings with China. Most bloggers arrested

for writing on that topic argue the same point: Vietnam must stand up to its larger neighbour.

Also in December several members of the same family from Tam Ky city, in central Vietnam, were harassed by local authorities for blogging, according to **Radio Free Asia**, a US-funded, multilingual, pro-democracy broadcaster whose website is blocked in Vietnam. A hundred officers arrived at their home, blocking the road and beginning a search.

**Huynh Ngoc Tuan**, 48, and his daughter **Huynh Thuc Vy** and nephew **Huynh Ngoc Le** are all bloggers. Vy has written on the Vietnam-China relationship, South China Sea issues, and human rights in Vietnam. Tuan served a 10-year sentence for criticism of the government. He was released in 2002. He has been a member of **Bloc 8406**, a conglomeration of pro-democracy groups under government scrutiny.

Paris-based **Reporters Without Borders** estimates there are ‘at least’ three journalists and 17 bloggers in jail.

## Religious repression

Both Catholic and Buddhist groups have been in trouble with authorities lately. Catholics of Thai Ha parish in Hanoi held a demonstration early on 2 December to protest a sewage works on land over which the church claims ownership. It was broken up by police, and many demonstrators were led to buses. Catholic news sites have alleged unnecessary violence against some protestors.

## What is the US-based Viet Tan?

The US-based **Viet Tan**, which also has chapters in Australia and France, says that it is a peaceful pro-democracy organisation. In the 1990s, however, it had some extremist elements, including members of the former South Vietnamese army, who were keen to overthrow the Communist government, by force if necessary.

These days non-violent struggle is central to the organisation’s message and the US government has denied that Viet Tan is a terrorist organisation.

Many of its members have been arrested and tried by the Vietnamese government. Most tend to be middle-aged, but the hardline military men of yesteryear are gone, replaced

by a younger and savvier group who are well versed in publicity.

Many spokespeople, such as **Duy Hoang**, write articles on Vietnamese politics for well-respected journals like the **Asia Times Online** or give interviews to radio stations. Dr **Phong Nguyen**, the spokesperson for the Australian chapter, often comments on Vietnamese politics for the Australian government-funded **Radio Australia** service in Asia.

Most of the time the Viet Tan are well informed and accurate but they incorrectly attributed the hacking of the **VietnamNet** online news agency to the regime because of its criticism of the government. Sources closer to the publication instead blame the Chinese or other ‘groups from overseas’ because of VietnamNet’s continued support for Vietnam’s claims to sovereignty over the contested Spratly-Paracel archipelago.

There have been protests and arguments between government and Thai Ha Catholics since 2008.

Vietnam has the largest Catholic population in Southeast Asia, after the Philippines, at some 6 million. Although protests and problems do occur, to characterise the Catholic population as a bloc of dissidents would be simplistic.

Vietnam and the Vatican have been repairing relations for some time now and papal non-resident representative to Vietnam **Archbishop Leopoldo Girelli** concluded his most recent visits to the country in late November.

Catholic online news services are keen to detail any government abuse, but it must be kept in mind that religious repression in Vietnam can sometimes be piecemeal and on the whim of local authorities who are not always acting on orders from above.

In the Buddhist context, 71-year-old **Nguyen Van Lia** received a five-year prison sentence from courts in southern An Giang province for distributing anti-government fliers and CDs, according to the **BBC**. Lia is a member of the **Hoa Hao** sect, a relatively recent and home-grown iteration of Buddhism established in 1939 in southern Vietnam. >>>

The sect has 4 million members. Although it is state sanctioned - all religions must be government approved - this simplistic form of Buddhism has a history of conflict with the Communist government, having opposed the Viet Minh, which was the precursor to the Viet Cong.

**Human Rights Watch** said of Lia's sentencing, 'That kind of harsh sentence is outrageous and unacceptable against an elderly activist who was peacefully professing and defending his faith.'

## Bomb removal project

The government has announced that removal of unexploded ordnance from the 20-year Second Indochina War could cost up to \$500 million. Known as the American War in Vietnam and the Vietnam War in the rest of the world, the conflict began in 1955 and finally ended with the fall of Saigon on 20 April 1975.

The plan would clear 14 provinces and a total of 20 per cent of the land. Some 16 million tonnes of ordnance were dropped on Vietnam during the war. Bombs still take lives today and many farmers scavenging or simply unlucky are killed or injured. Prime Minister **Nguyen Tan Dung** announced that 42,000 people have been killed and 62,000 injured.

According to mine-removal charity **Mines Advisory Group (MAG)** website, 'At the end of hostilities with the US, the Vietnamese military estimated that there were between 350,000 to 700,000 tonnes of UXO still scattered across the country.'



US HELICOPTER SPRAYING AGENT ORANGE OVER VIETNAM

## Agent Orange clean-up

The United States has recently begun a cleanup of dioxin from Agent Orange at Phu Cat, a former US airbase in Vietnam's south that is one of three storage areas of the chemical defoliant and today designated a 'hotspot.' Dioxin levels there are hundreds of times higher than is considered safe.

Agent Orange was dropped by the United States to deny the enemy ground cover. The fast-acting chemical defoliant destroyed millions of acres of forestland. The by-product from its production, dioxin, is considered to be one of the most harmful chemicals in the world, and some scientists allege that even a few parts per billion have the potential to damage.

The Vietnamese government alleges that 3 million people have been affected by Agent Orange, something the United States denies. Hotspots such as Phu Cat and Danang airbase all contain high levels of dioxin in the soil. Both fish and waterfowl fat can hoard the substance, meaning that it can be ingested by humans later in the food chain.

August marked the 50th anniversary of US forces first using the toxic defoliant. Local media marked the occasion but events were low key.

## Hand, foot, and mouth outbreak

Vietnam's Ministry of Health says 156 have died from an outbreak of hand, foot, and mouth disease this year, most of them children.

This is a sharp increase from previous years and ministry officials and World Health Organization (WHO) representatives say they have no explanation for the rapid increase. Previous death tolls have been in the tens, usually among small children.

There are usually two cycles each year: April to May and October to November. This year, infections were up 55 per cent in September over the previous month. Government officials blamed the spike on the end of summer holidays, when small children returned to kindergarten and were able to spread the disease faster via close contact.

Vietnam was hailed for responding so well to a far greater threat a few years ago: H5N1, or bird flu, as it's better known. With its dense urban populations and large numbers of fowl and waterfowl, the country was thought to be in great danger from the possible pandemic. Outbreaks did occur but were handled well by authorities. Huge numbers of birds were slaughtered and though there has been the occasional death year to year, international

health organisations praised Vietnam's efforts at containment.

It should be noted that health officials have not been blamed for the hand, foot, and mouth outbreak. The WHO says that they have responded as well as they can. Containing the disease is difficult given the wide areas of infection: over 45 provinces concentrated in the south.

Avian flu, by contrast, has been found in groups of people who have eaten the same sick bird.

## Moto racers netted in Thanh Hoa

Police in the northern province of Thanh Hoa, south of Hanoi, have been using fishing nets to catch motorbike racers in what turned into one of the more bizarre and popular news stories of the past several weeks. Police fired the nets into the back wheels of racers. Thanh Hoa's head of the traffic police, **Luu Thien Minh**, told local media that this method was safer than chasing down riders or erecting barricades, which they usually drive through.

Motorbike racing has been a problem in Vietnam for well over a decade. Racers tend to be helmet-less young men on souped-up **Honda** scooters. (Helmets became mandatory in Vietnam from the beginning of 2008.)

The government has vowed to crack down many times but has difficulty corralling the groups of racers who take to the streets in groups of a hundred bikes or more. >>>



MOTO RACERS FLYING THE VIETNAMESE FLAG

According to the General Statistics Office website, traffic accidents killed over 9,000 people this year. The toll has dropped from 14,000 in 2006, a development many attribute to the helmet law, even though most helmets are flimsy plastic things that don't meet even local safety standards.

The World Health Organization believes that the number is in fact higher, thanks to holes in data collection. Though government-collected statistics are vague on demographics, information gathered by hospitals such as Hanoi's Viet Duc suggest that young males make up a large portion of those killed in road accidents.

There are some 1.3 million road deaths worldwide each year and 80 per cent of those occur in the developing world.



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## INTERNATIONAL AFFAIRS

### Chinese VP visits Vietnam

China's Vice-President **Xi Jinping** visited Vietnam late December, to the excitement of China's press and the general indifference of Vietnam's. Xi also visited Thailand.

Xi Jinping's visit was interpreted as an important one by foreign press in Beijing and Hanoi after a year of strife and tension over sovereignty issues in the South China Sea. The politician is pipped to be next in line to the presidency and this was one of the highest-level visits by a Chinese politician this year.

Disputes over the South China Sea seemed to be off the agenda. State news media, China's especially, wrote at great length but with little solid detail about the terrific friendship between the nations and the strengthening of diplomatic relations and mutual understanding.

After the concerted overtures to Vietnam by the United States last year and this (US Secretary of State **Hillary Clinton** visited twice in 2010 alone), China wants to shore up its position. Prior to the latest diplomatic rendezvous, **Nguyen Phu Trong**, general secretary of the Vietnamese Communist Party, visited China in mid-October.

One of the more concrete things put forward on the agenda by Prime Minister **Nguyen Tan Dung** was a reduction of the trade imbalance, which heavily favours China at close to \$4 billion. Total

trade is some \$6.3 billion. Small-time land border agreements were also talked over, such as that concerning tourist site Ban Gioc waterfall, in Vietnam's far north, as was the use of water resources the two nations share.

South China Sea issues were referred to only in the oblique legalese used to diffuse drama. One stunning example read, 'The two sides agreed to establish a mechanism to discuss the implementation of the agreement on basic principles guiding the settlement of sea issues between Vietnam and China.'

The issue has been dormant in Vietnam for some months now after the fiery rhetoric of the press on both sides for many months of this year. Chinese organs have also kept to the softly-softly party line, and blistering editorials from firebrand state papers like the *Global Times* (which has previously recommended that China 'teach Vietnam a lesson') were absent.

Tellingly, what made headlines in the international press had little to do with diplomacy. To welcome Xi Jinping, Vietnam used Chinese flags that had one too many stars. The gaffe, as it was termed, was let slip by China.

The flags showed six stars rather than the typical five, with four smaller stars surrounding one large. Though some wags suggested the extra star was a tacit agreement by Vietnam that it is ready to become part of China, the 'technical error' as the government referred to it, was most likely down to carelessness.

This is the second or third time the defective flags have been used at official events.

### Getting friendly with Cambodia

General Secretary of the Communist Party **Nguyen Phu Trong** paid a three-day state visit to Cambodia from 6 December. His brief trip, the first since he took office after the 11th Party Congress in January 2011, included numerous high-level meetings and was at the invitation of Cambodia's King **Norodom Sihamoni**, to whom he presented 100 computers as a gift.

Trong, who replaced **Nong Duc Manh** as general secretary, is part of the ruling troika in Vietnam. The president's role is mostly ceremonial, but the general secretary often exerts as much influence as the prime minister - though in general he has a less public role.

Trong met with the current king's father, the former king **Norodom Sihanouk**, and the former queen. Visits with leadership included Prime Minister **Hun Sen**, Senate president **Chea Sim**, and acting National Assembly chair **Nguon Nhel**.

Vietnam's state news was full of the usual superlatives without substance when reporting the visit - 'great friendship'; 'attaches great importance'; 'solidarity and tradition of friendship' - but the two nations do have strong trade ties and each hosts a large community of the other's citizens. There is also much cross-border trade. Earlier this year, for example, Cambodian media reported on the large numbers of Vietnamese using Cambodia's US-dollar-dispensing ATMs to take advantage of black market rates offered for the US dollar against the dong. >>>

**Vietnam News**, one of the more 'correct' state news organs, reported that leadership figures 'expressed their deep gratitude to the Party, State, army, and people of Viet Nam for their great, wholehearted, and effective support and assistance, especially in helping the Cambodian people escape a genocidal regime.' It made no mention of the current trials of three Khmer Rouge leaders on charges of war crimes and genocide, nor that 'Brother Number Two' **Nuon Chea, Pol Pot's** second-in-command, blamed nearly every atrocity on Vietnamese actions and Vietnam.

Despite the rhetoric the two nations did make some concrete agreements. Among those, Vietnam will support Cambodia's 2012 mission as the ASEAN chair, bilateral annual trade will be increased to \$5 billion by 2015, and the two nations will work together to ensure security in the region. Maintaining joint sea patrols, combating illegal immigration, and locating Vietnamese missing in action (MIAs) in Cambodia were other priorities.

As it marks 45 years of diplomatic ties between the two nations, 2012 has been designated Cambodia-Vietnam Friendship Year. One former US diplomat to Cambodia and Vietnam described the two nations as like 'oil and water.' Both countries would probably agree with that analysis.

## Thai PM in Vietnam

Thailand's Prime Minister **Yingluck Shinawatra** paid her first visit to Vietnam after being elected in October. On her one-day visit she



YINGLUCK SHINAWATRA

met with counterpart **Nguyen Tan Dung** for bilateral talks centring on trade, energy, and food security. Two-way trade between the two nations is higher than either Cambodia or Laos, with which Vietnam shares borders, standing at \$7.2 billion in 2010, an 18 per cent increase from the previous year.

Vietnam is the world's biggest rice producer and second-largest exporter after Thailand. Both nations have suffered from floods that have damaged rice crops this year.

Vietnam and Thailand established relations on 6 August 1976. These were strengthened in the 1990s, especially after Vietnam's entrance to ASEAN in 1995. High-level visits and exchanges have been frequent and friendly, as many of Vietnam's senior leadership figures have met senior members of Thailand's government and royal family.

Risk assessment  
by Menas Associates >>>

## ENERGY & ECONOMY

### Trade deficit may rise

Vietnam's trade deficit is still a major concern despite having fallen by 23 per cent, to US\$9.5 billion, in 2011. That figure represents 9.9 per cent of the total value of its exports, the lowest level for 10 years.

In late December, Industry and Trade Minister **Vu Huy Hoang** warned, however, that the trade deficit in 2012 could rise to US\$13 billion, or 12 per cent of export revenues. He said that the deficit has been controlled by effective government measures that include monetary policies, public spending, and restricting the import of some luxury goods such as cars, motorbikes, and auto parts. These have increased by only 2.5 per cent.

Hoang said that Vietnam may need to increase gold imports by 9.6 per cent to US\$2.5 billion in 2012 but that, if the gold market can be stabilised, imports will be sharply reduced. Gold and precious stones are included in the restricted category of products.

According to the latest General Statistics Office (GSO) figures, exports rose by 33.3 per cent this year to reach US\$96.26 billion, the highest level since 1995 and treble the 10 per cent target set by the National Assembly. Of the total, the foreign direct investment (FDI) sub-sector rose by 39.3 per cent over last year to earn US\$54.46 billion, while the purely Vietnamese domestic sub-sector rose by over 26 per cent to export US\$41.8 billion.

### Table 1: Exports over \$1 billion, 2011

	VALUE (\$ BILLION)
Textiles and garments	14.28
Crude oil	7.24
Footwear	6.5
Seafood products	6.1
Electronics, computers, spare parts, machinery	4.1
Rice	3.6
Coffee	2.7
Cassava products	2.6

Of Vietnam's main exports items textiles and garments rose by 25.1 per cent to US\$14.28 billion followed by crude oil exports of nearly US\$7.24 billion. Another 19 other export categories earned more than US\$1 billion, and the primary ones are shown in Table 1.

Imports rose by 24.7 per cent to US\$105.77 billion, of which 90.6 per cent was production materials and only 7.6 per cent consumer goods. The main imports are shown in Table 2.

## PetroVietnam tops in size

At the end of November, local news reported that the **Vietnam National Oil and Gas Group (PetroVietnam, or PVN)** is the largest of >>>

**Table 2: Imports over \$1 billion, 2011**

	VALUE (\$ BILLION)
Machinery, equipment, devices	15.2
Fuel	9.9
Electronics, computers, spare parts	7.2
Fabrics	6.7
Steel	6.3
Plastics	4.7
Automobiles	3.1

Vietnam's top 500 firms. Most that headed the list were SOEs, with some joint stock or foreign-invested firms also. The list appeared in on-line newspaper *Dan Tri* on 30 November. The top 10 are

- > Vietnam National Oil and Gas Group (PetroVietnam)
- > Vietnam National Petroleum Corporation (Petrolimex)
- > Vietnam Posts and Communications Group (VNPT)
- > Saigon Jewellery Limited Company (SJC)
- > Electricity of Vietnam Group (EVN)
- > Vietnam-Russia Oil and Gas Joint Venture (Vietsovpetro)
- > Military-run Telecom Group (Viettel)
- > Vietnam National Coal-Mineral Industries Group (Vinacomin)
- > PetroVietnam Oil Corporation (PV Oil)
- > Vietnam Bank for Agriculture and Rural Development (Agribank).

## Property prices continue slump

Property prices in Vietnam's two major cities, Hanoi and Ho Chi Minh City, are set to continue falling next year after drops between 15 and 50 per cent this year, following a trend across the Asia Pacific. Leading independent global property consultancy **Knight-Frank** believes weaker sales volume will continue across the region and prices for residential may drop by another 5-10 per cent after a slump of 10-20 per cent in 2011.

This is part of a wider trend and five other major cities - Sydney, Shanghai, Singapore, Mumbai, and Hong Kong - will also be hit with negative growth in 2012.

Knight-Frank attributes this to 'government regulation, which was brought in after 2008 in an attempt to cool housing markets before they experienced US and European style crashes.' However, many have been expecting a sharp cooling in Vietnam's overheated property market for some time.

Commercial space in Ho Chi Minh City - valued at around \$100 per square metre in 2007-08 - has now dropped to half that or even less. The residential property market is facing the same issues.

Many newly built residential apartment tower blocks have cut prices over the past year. According to financial journal **Vietnam Investment Review**, some in Hanoi's fast-developing outlying districts such as Hoang Mai have cut

prices from VND32 million (\$1,600) per square metre to VND25 million (\$1,180) in the past seven months.

Vietnam's tallest building, the Bitextco Tower in Ho Chi Minh City's central District 1, is 40 per cent full despite being opened over a year ago. The landmark tower, the first in the nation with its own helicopter pad, is struggling to attract more tenants right now. Many people are living in newly minted apartments that they now realise they paid too much for.

**Reuters** has reported that the trend is something of a boon for opportunistic developers optimistic enough to buy up low.

## Overseas remittances at all-time high

Overseas remittances may total \$8.5 billion by the end of this year, up 6.3 per cent from the last. This beats previous estimates by banks and the government.

Vietnam has a large Diaspora - a result partly of the 'boat people' who left after 1975 and partly of successive waves of migration mostly to Western countries such as the United States, Canada, and Australia and also former coloniser France - and it is the driving force behind this much-needed injection of foreign capital.

The \$10 billion trade deficit that the country experienced this year is offset somewhat by such remittances, typically from relatives in the West. They are one of the country's most

importance sources of foreign exchange along with official development aid (\$7.4 billion for 2012, down from \$7.9 billion in 2011 according to state media) and foreign direct investment (a rather low \$12.7 billion this year, according to the Ministry of Planning and Investment, down from the hoped-for \$18 billion).

## Risky future for EVN

The Ministry of Investment and Planning has publicly stated that the future of state-power company **Electricity Vietnam (EVN)**, which holds a monopoly on power, is 'risky.'

The company raised prices on 20 December from VND1,242 (almost 6 cents) per kilowatt hour (kWh) to VND1,304 (just over 6 cents). Prices were already raised by 15 per cent this year and may be raised again next year. The company has nonetheless stressed that 'poor' households will not be affected.

The company posted losses of \$1.12 to \$1.19 billion last year alone (differing media have given different figures), with about one-third of loss coming from production and sale and the rest blamed on fluctuations in the exchange rate. Losses from what is euphemistically referred to as the 'non-core' sector (i.e., ventures outside power, which in EVN's case included securities and property) were not counted in audit, though losses did occur there as well, according to the Minister of Finance **Vuong Dinh Hue**.

It has also been acknowledged that despite price hikes, the cost of power has been kept >>>

artificially low to stabilise inflation. The low cost of power – and state control of it – is often cited by foreign investors as a barrier to greater involvement in the sector.

The plan, Hue told the National Assembly, is to divest all non-core interests next year. How this will be done and what will take over these interests has not been mentioned.

The company's debt-to-equity ratio is more than double that of most SOEs, standing at 4.25 compared to 1.98, according to the Ministry of Investment and Planning, which considers 3 to be an unsafe rating. EVN's rating is worse than any other SOE, with the second-worst performer, the **Vietnam Construction Industry Group**, coming in at 3.91.

*Thanh Nien News* explained it thus: 'The report said that the high ratio means the debt is really large, considering the group's equity was valued at VND56.4 trillion (US\$2.68 billion) last year.' **Vietnam Audit** apparently totalled the company's debt, as of 31 December 2010, at around \$11.4 billion.

EVN apparently pays employees an average salary of VND13.7 million per month (\$660), which is almost double the VND7.3 million (US\$360) that CEO **Pham Le Thanh** previously announced.

The minimum monthly wage in Vietnam is VND700,000 (US\$35) and most lower-level state employees are notoriously poorly paid. When Thanh earlier announced the lower salary figure many were incredulous, or jealous, according to comments in local media.

## Vinashin sued by US hedge fund

It seems that proposed reforms to state-owned enterprises are coming at an especially salient time. Sinking SOE shipbuilder **Vinashin**, which has also diversified into the hotel business with poor results, is being sued by US hedge fund **Elliot Advisors** for defaulting on a \$600 million loan.

Vinashin defaulted on its first payment of \$60 million in December last year. **Malayan Banking Bhd**, **Credit Suisse** (which arranged the loan) and Dublin-based **Depfa Bank** are also investors in the loan. The filing was made in late November and made public by the *Wall Street Journal* in December. The total being claimed is \$13.2 million.

Why would such groups get involved with a shaky state-owned enterprise already haemorrhaging money? The loan was made in 2007, before Vinashin's multiple woes came to light and before the global financial crisis left the shipbuilder some \$4.4 billion down. And, more to the point, the Vietnamese government guaranteed it.

Such a strong guarantee was a vote of confidence, but after the travails of the past year the government has since said that the debts of the SOE are not the business of the state.

Vinashin's diversification into other, decidedly non-shiplike areas has included beer (the company got a loan for a brewery in 2007), finance, and resorts such as the Belvedere, in former French hill station Tam Dao in northern

Vietnam. Though the Belvedere does host company parties, it's still generally empty most weekends despite being the only luxury hotel in the popular holiday spot.

It's thought that this helped to sink the shipbuilder, though such diversification is hardly unique among Vietnam's SOEs. The government has had to warn many groups into moving into areas completely outside their experience.

## HSBC predicts trouble ahead

Although Vietnam escaped the global financial crisis in 2008–09 relatively unscathed compared to others in the region it may not be so lucky a second time, if indeed there is a second recession. That, at least, is the opinion of **HSBC Holdings Plc**, which rated Vietnam at the bottom of five Southeast Asian countries, the others being Indonesia, Malaysia, Thailand, and Singapore.

Vietnam still relies heavily on foreign trade and investment, something which will cause problems should another crisis come to pass.

The narrow miss of a couple of years ago was put down to Vietnam's lack of integration into the world economy. Though exports and industries like tourism did suffer, the greater pinch came from domestic problems like galloping inflation.

The General Statistics Office (GSO) put the number of arrivals to Vietnam at over 5 million in

2011, but that figure does not reflect the tourist market as all arrivals are counted, from citizens returning after holidays abroad to people crossing the Vietnam–China border for trade.

Inflation, now stabilised at 20 per cent, will cause greater harm to the economic picture, as will a wide current account deficit and low reserve coverage.

## Inflation to slow?

According to Prime Minister **Nguyen Tan Dung**, inflation will slow to just 9 per cent next year, down from the 20 per cent rate that it maintained for much of 2011. It peaked at 23 per cent in August 2011.

Speaking at a meeting of the Consultative Group on Vietnam in early December, Dung also said the government was aiming for 6 per cent GDP growth next year, lower than the National Assembly's November target of 6.5.

The Consultative Group provides a forum for participants drawn from government, the private sector, bilateral and multilateral donors, and foreign NGOs to discuss policy, poverty reduction, and the effectiveness of official development assistance. Meetings have been held in-country in December since 1999; since 1998 informal meetings have been held mid-year also.

The group has helped Vietnam to move towards a more market-based economy. It pledged \$7.3 billion in assistance to the country for 2012, down from \$7.9 billion previously. >>>

Both the IMF and World Bank released reports at the meeting calling on Vietnam to tighten monetary policy and raise interest rates, if necessary. Many in the Vietnamese government wish to do the opposite, which the IMF says 'casts doubt on the government's resolve to sustain tight policies.'

'The authorities need to move rapidly and decisively to ensure financial sector soundness while re-establishing macroeconomic stability,' said **Sanjay Kalra**, chief representative of the IMF in Vietnam. 'Failure to do so, or even loosening policies now, would jeopardise the gains already made.'

## Price gouging at Ha Long Bay

Ha Long Bay, in Vietnam's north, was last month named one of the new seven natural wonders of the world. The UNESCO World Heritage Site, named in 1996 for its stunning geological feature of some 2,000 limestone karsts rising out of the waters of the bay, was chosen by voters.

Many of them were Vietnamese government employees, told to SMS their votes repeatedly. Since the win, ticket prices into the bay have doubled from VND100,000 (\$5) per head to VND200,000 (\$10). Ha Long management has cited the need for higher revenues to manage the bay and also noted that prices are commensurate with the prestige conferred by the win.

Travel operators are annoyed by the move, which they see as opportunistic and



HA LONG BAY

short-sighted. Bay management has been capitalising on the competition for some time. Large posters detailing the nomination have been pasted across beauty spots such as the Surprising Cave, a huge, lit-up cave network inside one of the karsts that is a stop-off point for most of the 400 boats that visit the bay daily.

Some two million tourists visit the bay each year, according to government figures, and the bay swarms with boats, usually Chinese 'junk' style, seven days a week. Government management of tourism is already famously haphazard and that of the bay is no exception.

The best, and most horrifying example, is a boat sinking in early 2011 that killed 12: 11 foreign tourists and one local. The boat was poorly maintained and crewed and should never have been allowed out onto the water with passengers, but such things have long been common in Vietnam's leading tourist spot.

## Airfare hike

State-owned **Vietnam Airlines** has raised fares for a second time this year on domestic routes,

beginning 15 December. Economy class tickets will rise by 15-20 per cent, while business class tickets will rise 5 per cent.

Longer and more trafficked routes such as Hanoi-Ho Chi Minh City will be hit with a smaller increase, while routes that are shorter or to smaller cities such as northern port city Hai Phong, which are generally less trafficked, will earn the higher increase of 20 per cent.

Vietnam Airlines was the first to announce increases after the Ministry of Transport raised the ceiling for fares. Other domestic carriers such as **Jetstar Pacific** and **Air Mekong**, a smaller carrier that began operations only last year and has its main base on Phu Quoc Island, a tourist destination in the country's south, are expected to follow suit, according to luxury travel company **Exotissimo's** general manager for Vietnam, **George Ehrlich-Adam**.

An economy class seat on a Vietnam Airlines one-way flight from Hanoi to Ho Chi Minh City was listed as \$146 as of 27 December. Budget carrier Jetstar Pacific's flights, in comparison, ranged from \$78 to \$120 for the same service. The average flight time between cities is under two hours.

The flagship air carrier has an 80 per cent share of the domestic market and a 70 per cent share in **Qantas** venture **Jetstar** (whose domestic franchise is Jetstar Pacific). It is likely Jetstar will merge with Vietnam Airlines in the future, according to recent local news reports.

Jetstar Pacific has been beset by problems. It flies many of the same routes as Vietnam

Airlines, though smaller destinations such as Dien Bien Phu (the capital of the far north-western province Dien Bien, famous for the final defeat of the French in 1954) are not on its flight map. More than 10 flights per day between Hanoi and Ho Chi Minh City are offered and cheap one-way specials to seaside resorts such as Nha Trang or Danang are common.

## First wind farm approved

Vietnam is in the middle of building its first wind farm in the Mekong Delta's Bac Lieu province, 200 km south of Ho Chi Minh City. US **General Electric** announced its plans mid-July this year to offer assistance. The company indicated in late November that construction of the 10-turbine wind farm is now underway and will be operational at a still-unspecified date.

General Electric says the endeavour will produce 16 MW of power, according to the **Earth Island Journal**. Wind-generated power is in infancy in Vietnam. Most of the power supply comes from hydropower, coal, and natural gas, but shortages are driving the decision to pursue other energy sources, such as nuclear power.

Hydro dams have faced problems in recent years due to long-running droughts, making summer blackouts in the capital more common. These power outages have made foreign businesses think twice about operations in Vietnam. Tourists were famously stuck in an elevator at a Hanoi hotel in summer 2010 thanks to a blackout. >>>

The blackouts have also caused civil unrest, with farmers storming government offices to drag officials out into the hot sun. They were incensed that their power supplies were cut for the day, making farming more difficult while local government offices kept their power, and air conditioning.

Hydro dams have also had to release large amounts of water downstream during heavy storms, contributing to already severe floods, usually in the central region. In October 2010 officials were called to account by media and local NGOs for releasing their flood gates.

Vietnam's coal supply is also slated to run out in a couple of decades after more than a hundred years of exploitation.

General Electric believes its wind-powered turbines will help to resolve the power outages, but questions have been raised about the viability of the project and it is debatable whether it will actually go ahead. Though Vietnam is making efforts to green its economy, the Communist government does not do transparency or efficiency well, said one insider.

State-owned power company **Electricity Vietnam (EVN)** is the nation's sole provider but it is notoriously inefficient, corrupt, and - like many other SOEs - unable to balance its books despite government breaks. Last year its chair, **Dao Van Hung**, famously said, 'Only the God can answer whether power is cut off or not.' This did not inspire confidence.

Of course EVN is not directly involved with this venture, but any substantial wind power project



VIETNAM IS BUILDING ITS FIRST WIND FARM

will have to involve the company. That could prove difficult without substantial reforms.

## Nuclear power on agenda

Nuclear energy projects and partnerships between Vietnam and other nations are still at the forefront of the local media. Most reports have been reasonably uncritical, but some scientists have pointed out that the first nuclear plant to go online in Ninh Tuan province will lie near the coast and not far from a major fault line - though Vietnam has never been particularly earthquake prone.

A story from mid-December in local online news site **VietnamNet** ran with the headline 'Vietnam prioritises nuclear safety.' The government's

message is clear: these projects will go ahead with a minimum of dissent. Nuclear power is seen as key to the nation's development and was first agreed to by the National Assembly in its 9th Congress, in the mid-1990s.

Power shortages have long been identified as a hurdle to development by the government, and nuclear power is considered a good option. The first reactor was in fact built by the United States in the 1960s but has not been used for power generation for decades. Now a series of reactors are to be built with Russian, Japanese, and American help.

### Safety and nuclear plants priority

Vietnam attended the 12th ministerial meeting of the Forum on Nuclear Cooperation in Asia (FNCA) in Tokyo on 16 December. Attended by the Deputy Minister of Science and Technology **Le Dinh Tien**, the event hosted officials from all FNCA member countries.

The meeting gathered officials in charge of science and technology and nuclear experts from FNCA member countries, which include Japan, Australia, Bangladesh, China, Indonesia, Kazakhstan, Korea, Malaysia, Mongolia, Philippines, Thailand, and Vietnam.

Tien pointed out that ensuring 'the highest standards of nuclear safety is the first priority'

in light of the recent Fukushima disaster. 'We understand that nuclear power is a clean energy source with no carbon dioxide emissions and it could be considered as a feasible option to meet the country's demand for energy,' he said.

The first plant, in Ninh Thuan province in the central south of the country, will be online by 2020, after being officially adopted by the government in July last year. By 2030 Vietnam's proposed eight plants will generate 10.1 per cent of the nation's total power.

Tien pointed out that a solid programme would have to be developed and would need everything from sound infrastructure to properly functioning legal and regulatory systems, human resource development, technical support, and international cooperation for safety.

Some have wondered how Vietnam will staff these plants. Vietnam expert Professor **Carl Thayer** of the **Australian Defence Force Academy** has pointed out in several media stories that many scientists would have to be trained to higher standards to operate the plant and that foreign oversight will be required, at least to begin with.

According to **Preventing Nuclear Dangers in Southeast Asia and Australasia**, a paper published in 2009 by the **International >>>**

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**Institute of Strategic Studies (IISS)**, 'Vietnam's nuclear programme to date has been transparent and met all international standards.' The report noted, however, that the one-party system and constraints on dissent meant plans could in theory be more easily implemented but that in some ways, this 'advantage' was not necessarily in Vietnam's interest, 'if it were to mean that less attention would be paid to safety issues.'

### Switching to low-enriched uranium

Vietnam's first ever atomic reactor was this month fully converted from high-enriched uranium (HEU) to low-enriched uranium (LEU), as part of the country's commitment to non-proliferation (something it has also pursued with the United States at the United Nations). Built under former president **Dwight Eisenhower's** 'Atoms for Peace' programme, the US-built reactor went online in 1963 in Dalat in Vietnam's central highlands.

It missed the worst of the war and was never a target of the Viet Cong but US forces allegedly removed unused fuel rods from the reactor in a covert operation. The plant was revived with Soviet help in the 1980s using HEU, which is also used in nuclear weaponry.

Removal of HEU was made a priority under a trilateral agreement between the United States, Russia, and the Vienna-based **International Atomic Energy Agency (IAEA)**, which identified some 20 reactors with HEU from Soviet times across 18 countries. The programme began in 1999. In September 2007 the **National Nuclear Security Administration** removed more HEU to Russia, replacing it with LEU.

## GREATER MEKONG

### Species in, species out

Over 200 new species were discovered in the Greater Mekong last year, a region that includes China's Yunnan province, Vietnam, Laos, Cambodia Myanmar, and Thailand.

A new species is found every two days in the Greater Mekong according to the **World Wildlife Fund (WWF)**, which has published a report outlining many of last year's finds. One exceptional example is an all-female lizard species that can clone itself. It was found by foreign scientists during lunch at a restaurant in southern Vietnam.

Southeast Asia possesses some of the most bio-diverse areas on the planet and has been called by the WWF 'one of the last frontiers' for new species. Most of the new species were plants but 28 reptiles, one bird species, and seven amphibians have been discovered.

Many species may become extinct before they can be studied because of hunting, deforestation, and pollution. The report made note of the drop in tigers - 70 per cent in 10 years - and the now-official extinction of Vietnam's Javan rhino after it was last spotted in April 2010.

Vietnam is home to many endangered species. Conservation efforts such as ongoing protection of the golden-headed langur, a unique species of primate found only in Cat Ba Island's national park in northern Vietnam, are up against the status-conferring property of consuming them.

The **Red Book**, a publication modelled on **International Union for the Conservation of Nature (IUCN)** list of endangered species, is said to function as an esoteric menu for some diners.

### Khmer Rouge trials

Trials of three former Khmer Rouge leaders for genocide and war crimes continued through December. Many in the international community have questioned the usefulness of this astonishingly expensive legal exercise, whose total now hovers around \$150 million.

The three on trial are **Nuon Chea**, **Ieng Sary**, and **Khieu Samphan**. All are in their 80s. Nuon Chea (often known as Brother Number Two) was deputy secretary of the party, Ieng Sary foreign minister, and Khieu Samphan served as Cambodia's head of state, a titular role he says meant he had little to do with the emptying of Phnom Penh.

Giving evidence at his landmark atrocities trial alongside the two other senior members of the brutal 1970s regime, Nuon Chea said there 'was no such thing' as a numbering system within the Khmer Rouge and he had never been known as Brother Number Two. All three deny the charges.

The first phase of the trial, known as Case 002, concentrates on the forced evacuation of 2 million residents from Phnom Penh to work in the countryside as part of the Marxist regime's plans for an agrarian utopia. The Khmer Rouge abolished money, banned religion, and persecuted religious groups, including Buddhist



NUON CHEA

monks and ethnic Cham Muslims, who were in some cases forced to eat pork.

It's estimated that a quarter of the population - some 2 million people - died from execution, starvation, or overwork. Hundreds of Cambodians attended the trials, many of them farmers who had travelled long hours from distant rural districts. Some broke down and had to leave the courtroom, according to observers.

The Extraordinary Chambers in the Courts of Cambodia, the UN-backed court that is conducting the trials, has already convicted 'Comrade Duch' and handed out a 30-year sentence. Some Cambodians thought that too lenient despite the age of the former overseer of Tuol Sleng prison.

There has been muted international interest in the lengthy trials, which according to observers have been mired in procedure and rhetoric. Some have pointed out that the money could be better spent on badly needed infrastructure or addressing the nation's still dire poverty rate.

Others believe the trials are giving Cambodians a way to close a book on their painful past >>>

and address past wrongs. They may also set a precedent for future genocide trials.

The trials are not being broadcast within the nation, however, and news of them remains thin on the ground. It's believed Prime Minister **Hun Sen** has no plans to allow a third trial. Hun Sen was installed by the Vietnamese army after it invaded in 1978 to oust the Khmer Rouge.

Though he 'climbed to power on a ladder of Vietnamese bayonets' he's a former cadre himself, as is much of the current government.

More trials could involve him or his allies.

Much has been blamed on Vietnam by Nuon Chea, who defended his actions as a response to fear of Vietnam taking over or even annihilating the small nation. Longstanding fear of being 'swallowed up' by Vietnam, which already occupies lands that were once part the Khmer empire, are commonplace.

## Mekong joint patrols

Joint patrols of the Mekong River by China, Thailand, Laos, and Myanmar have begun as a way to combat crime and drug trafficking on the major waterway.

The Golden Triangle has long been a centre of drug production, trafficking, and piracy. Gangs often hijack boats, which they then use for trafficking or smuggling and to kidnap people.

Earlier nine Chinese crew members were killed and nine Thai soldiers arrested. (They assert their innocence.) The murders finally prompted an agreement between the four nations in Beijing on 31 October.

The launch of these joint patrols is part of a plan to increase security in the increasingly busy river and shipping lane. They have set a precedent for more transnational cooperation in security issues in the region.

On the first venture out, on 10 December, five armed police boats escorted 10 Chinese cargo ships along a stretch of the Mekong from China's southwesterly Yunnan province to Thailand's Chiang Rai, heavily armed with machine guns and hundreds of soldiers.

The four nations will patrol 24 hours a day and provide convoy escort for cargo ships in an area that is rapidly becoming an important trade route for regional trade. One enthusiastic English-language Chinese newspaper called the plan 'a blessing to the 70 million people living in the river basin and the international commercial vessels travelling along the river.'

An important shipping route linking China to Southeast Asia, the Mekong River is playing a growing role in regional trade. As China and the **Association of South East Asian Nations (ASEAN)** continue to strengthen ties, better transport via land, sea, and river is important.

The ASEAN-China free trade area takes in 1.9 billion people.

## Laos dam stoppered - for now?

The Laos Xayaburi dam has been delayed, but most likely only temporarily. Despite the recommendation of the **Mekong River Commission (MRC)** that the controversial project be put on hold while further studies are conducted on its 'transboundary effects,' the small nation's big power project will still, it's believed, go ahead.

Meeting in Cambodia's Siem Riep in December, the MRC's water and environment ministers recommended more study and media reports suggested that the project had been halted. Others have pointed it out that the recommendation was neither binding nor concrete but more in the order of a suggestion.

The MRC, which coordinates dam projects along

the river, said that 'there is a need for further study on the sustainable development and management of the Mekong River including impacts from mainstream hydropower development projects.'

It had earlier been agreed to seek international support for more study of the dam, looking especially for Japanese support. The **Japan International Cooperation Agency (JICA)** gives large amounts of overseas development aid to these Southeast Asian countries, with a particular focus on infrastructure.

Vietnam has long and loudly been opposed to the \$3.7 billion Xayaburi hydro project, worried about the possibly serious effects it may have on its agriculture and aquaculture, both huge industries.

The country has recommended a 10-year delay for Mekong power projects generally, though it makes ample use of hydropower domestically. Some 40-50 per cent of the nation's power comes from hydro sources. Sixty million people in Vietnam, Laos, Cambodia, Thailand, and Myanmar depend on the river and its tributaries for their livelihoods.

Laos may now have to delay up to 10 other hydropower plants along the river. Similarly, in November plans for the Myitsone dam on the Irrawaddy River in Myanmar were halted. After the Chinese company building the dam inspired outrage in the local populace, the government took the unusual move of abandoning the project, citing civilian concerns. As with the Xayaburi project, all the power to be produced was slated to go to a different nation. >>>

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Cambodia's Kam Chay dam, however, opened on the same day as the MRC conflag in Siem Riep. The Cambodian government, unlike the Laotian, has weathered criticism over Chinese involvement and environmental concerns.

There has been widespread opposition to the Xayaburi dam, not just from neighbouring Vietnam but also from NGOs across the world and from people living in the area. In total some 263 NGOs from 51 countries have urged the cancellation of the project.

'Today the Mekong governments responded to the will of the people of the region. We welcome the recognition that not nearly enough is known about the impacts of mainstream dams to be able to make a decision about the Xayaburi dam,' said **Ame Trandem**, Southeast Asia program director for the environmental group **International Rivers**.

The same group asserted that between 23 and 100 fish species may be affected; the Mekong area is home to the largest concentration of fresh water fish in the world.

Sections of Vietnam's media has taken up the call, writing in-depth reports on the potential impact of such projects on residents, environment, and agriculture. Environmental reporting is an area in which reporters have more freedom of expression than is typical and the dam, which is also opposed by Vietnam's government, is a popular topic.

Ultimately, however, Laos is not likely to abandon the project entirely as construction has already begun. Access roads and >>>

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construction of the foundation are already done, according to International Rivers.

### Battery power nation

The Laotian plan is that some 1,280 MW power from the Xayaburi dam will be sold to Thailand, via the **Electricity Generating Authority of Thailand (EGAT)**. Thailand has assisted with the construction.

The Laos government's primary goal has been to build something capable of generating large amounts of foreign currency reserves. The small, impoverished, landlocked nation was ranked 138 on the Human Development Index of the United Nations Development Programme and lags behind neighbours Thailand, Vietnam, and even Cambodia.

Though both Vietnam and China invest heavily

in Laos - Vietnam has long seen itself as a kind of big brother to the nation - its exports are still low and much cheap labour is, according to reports, supplied by Chinese and Vietnamese working in the nation.

By 2020 Laos might be generating 15 times its own needs in power, said state-owned power company **Electricité du Laos (EDL)** at a September conference in Hanoi, according to **Bloomberg**. Mining, along with hydropower, should foster economic growth reaching over 7.5 per cent according to the **Asian Development Bank**.

Power - being the region's 'battery' - is one way to generate the crucial revenue for development of the country, which is still ruled by a communist government.

## Opium production up

The United Nations Office on Drugs and Crime (UNODC) said in mid-December that opium cultivation in Laos and Myanmar increased in 2011. The land used for poppy growing increased by some 16 per cent in Southeast Asia this year, as both nations sought to cash in on higher prices.

After Afghanistan, Myanmar grows most of the world's opium and 96 per cent of the region's, according to UNDOC.

The organisation's annual report stated that Southeast Asia's total production was valued at about \$319 million, some \$275 million of which was grown in Myanmar. Most comes from Shan state, also the scene of the recent killing of three Burmese soldiers in a firefight with a

group thought to be part of drug lord **Nor Kham's** gang.

The UNODC says opium prices in Myanmar since 2010 have shot from \$300 to \$450 per kilogram with the lowering value of the currency, the kyat, and demands from neighbouring countries. Farmers can make far greater profits from poppies than from other crops, a situation similar to Afghanistan, whose income from opium is estimated to be close to \$1.5 billion.

Cultivation dropped in the Golden Triangle - Laos, Myanmar, and Thailand - by a reported 86 per cent from 1998 to 2006 thanks to crop substitution programmes. It has not increased in Thailand. UNODC says that more international funding is needed to address the problem and wean farmers off lucrative poppy crops.

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