VIETNAM

By a Special Contributor

The 1997-1998 financial crisis left many economies within Southeast Asian in a vulnerable state, and Vietnam, although relatively less exposed to the crisis, was no exception. As Asian investors have, historically, accounted for more than 70% of foreign direct investment (FDI) in Vietnam, the financial crisis sent many of them packing; compounding this was the fact that many foreign investors did not find the economic environment conducive at the time. As a result, FDI in Vietnam nose-dived: implemented FDI between 1998 and 2001 decreased year-on-year by 35%, 15%, 8% and 17%.

Since 2001, however, the declining rate of FDI has bottomed out, and last year implemented FDI increased by 62%. Compared to the years before 1997, commitments in FDI have been steadily lower but the number of project approvals has been higher, and implemented FDI has also been stable, indicating a changed pattern towards smaller but realisable FDI projects.

In 2002, some 70% of the total FDI projects was directed towards the industrial and construction sectors, a significant number of which are located in Ho Chi Minh City and the southern provinces of Dong Nai, Binh Duong and BaRia-Vung Tau. The US and Japan are key trading partners for the Asean region and the major investors in Vietnam so far have been Singapore, Taiwan, Japan, South Korea, Hong Kong, China and the US.

The East Asia crisis amplified deep structural flaws within the system, serving as a catalyst for the government to have carried out further and deeper structural reforms. As a result, the economy is growing again, with foreign investors reacting positively to the reforms implemented and committed by Vietnam. Various sovereign-risk rating agencies have given Vietnam better grades, and the macroeconomic situation has remained stable: exports have maintained a steady growth of about 7% and can be expected to pick up as a result of the Vietnam-US Bilateral Trade Agreement, and GDP growth rates of the order of 7% per year are likely over the next few years, according to World Bank sources.

Mineral rights in Vietnam flow from a licence system, rather than the claim-staking common to Canada, the US and other common-law jurisdictions. Central to the system in Vietnam is a comprehensive legislated mineral regime which has been developed partly with Western technical assistance: its framework is quite similar to many other jurisdictions in which the mineral sector is fairly developed. However, although the mineral regime provides an adequate legislative foundation to build upon, it has been largely untested, having been in effect for only a few years.

One of the concerns of foreign investors is that the mineral regime confers on the exploration licence holder the ‘special right’ to apply for an extraction licence for the area covered by the exploration licence but does not provide a clear definition of the term ‘special right’. Hence, investors are left second-guessing whether they have an ‘exclusive right’ to mine what they have discovered, despite strong assurances from policy makers that they do.

Another concern is that exploration expenses do not constitute foreign investment in Vietnam; a foreign investment licence can only be obtained at the extraction stage. Given this lack of investment recognition at the exploration stage, exploration projects are not entitled to any of the benefits offered by the Foreign Investment Law. For instance, without an investment licence, an investor is not allowed to carry forward losses from the exploration stage to the extraction stage, losing tax incentives; also, the authorities do not recognise the foreign investor’s exploration investment as part of its capital contribution at the extraction stage. These central concerns are cited by many as major reasons why foreign investment in mining has been lagging.

The Vietnamese Government’s development policy has been one of a gradual opening of the mineral sector in conjunction with its overall economic reform policies, the objective of which is the eventual integration of Vietnam’s economy into the world economy.

Vietnam’s principal mineral activity at the present time is coal mining. Rich deposits of anthracite occur in the north of the country and total reserves are estimated at 20,000 Mt, of which 3,600 Mt are proved. Vinacoal, the government-owned umbrella organisation controlling all the mines and distributors, has been given extensive areas to explore and develop anthracite in the Quang Ninh region, where reserves are of the order of 4,000 to 4,500 Mt. Vietnam was planning to raise its washed coal output to 10 Mt/y by 2000. Expansion and development work was undertaken in the Khe Tam, Nui Beo, Mao Khe, Cao Son, Yen Tu, Khe Cham and South Ha Tu mines, all located in the northeast. Considerable investment has been proposed for coal-processing facilities, and the ports of Cua Ong and Hon Gai have been developed and expanded.

Vietnam has estimated reserves of 5-6 billion barrels of oil and crude output is running at around 350,000 bbl/d. The bulk of production is exported and much of its domestic consumption is based on oil imported from the Middle East. Oil and natural gas resources are believed to be extensive and India has a 45% stake in an oil and natural gas exploration project in southern Vietnam. Its eventual investment in the energy sector could total US$300 million. The Nam Con Son gas project is expected to deliver nearly 3 billion m^3/y of natural gas to power stations in the south of the country.

Apart from fuel minerals, geological exploration in recent years has identified over 5,000 mineral occurrences including bauxite, iron ore, copper, lead, zinc, titanium, tungsten, chromite, gold, tin, antimony, fluorspar, apatite and rare earths. The country has some seven major tin-producing areas with estimated reserves of 85,000 t of metal, and there are also sizeable deposits of ilmenite, notably Catkhanh, which was jointly explored by Malaysian Mining Corp. and state-owned Binh Dinh Mineral Co.

The Canadian company Tiberon Minerals Ltd has high hopes for its Nui Phao tungsten polymetallic project. The deposit is located 90 km northwest of Hanoi and extensive drilling has outlined 27.1 Mt at an average grade of 0.68% WO_3 equivalent in the measured category, an indicated resource of 22.3 Mt at 0.6% and an inferred resource of 24.0 Mt at 0.55%. The deposit contains copper, gold, bismuth and fluorite in addition to tungsten. An independent prefeasibility study envisages a US$140 million open-pit mine producing 3.5 Mt/y over 16 years for an annual production of 6,000 t of WO_3, 196,000 t of CaF_2, 5,600 t of copper and 360 t of bismuth.

Another Canadian company, Olympus Pacific Minerals Inc., is exploring the Phuoc Son polymetallic deposit in northwest Quang Nam Province in central Vietnam. As a result of successful exploration to date, Olympus is said to have applied for an extraction licence while continuing its exploration efforts. Two types of mineralisation have been recognised: low-temperature Au-Ag-Pb-Zn associated with quartz vein breccias, and high-temperature Au-Ag-Cu-Mo skarn associated with a syenite intrusion. Drilling has encountered numerous high-grade gold intersections (15-21 g/t Au) in vein breccias and the proposed Dak Sa gold mine could commence development this year with initial production possible by March 2004.

In northern Vietnam there are eight goldfields in the vicinity of Hanoi, and National Gold, Silver and Precious Metals Corp. handles over 1,000 kg/y of gold produced there. In Thai Nguyen Province, a joint venture between the Russian Geology Federation and Thai Nguyen Colour Metal Co. produces around 0.5 kg/d of gold.

Further north, the Ban Phuc nickel mines, 70%-owned by the New Zealand company Asian Mineral Resources, is currently proceeding with an active exploration programme in an effort to enlarge the resource and to investigate the nickel and copper potential of local volcanic successions.

Rubies occur in the northern town of Luc Yen and near Quy Chau in central Vietnam. Gemtec Vietnam runs a factory in Hanoi to cut, polish and market rubies. Vietnam Gold & Precious Stones Corp. has commenced sapphire mining at two new sites, Khe Ngang and Truc Lau in Nghe An Province.

In conclusion, Vietnam's minerals sector is characterised by a disproportionately low level of development and foreign investment in comparison to the country's geological potential. This can be attributed to several factors which include the recent Asian crisis and the global recession in the resources sector. Vietnam has its own share of contributing factors which have further depressed the development of its minerals sector, among them, some important uncertainties concerning the interpretation and implementation of the mineral regime.

