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How swelling debts give rise to a new type of politics in Vietnam

Viet-Ha T. Nguyen, Hong-Kong T. Nguyen, Thu-Trang Vuong, Manh-Tung Ho and Quan-Hoang Vuong

Vietnam has seen fast-rising debts, both domestic and external, in recent years. This paper reviews the literature on credit market in Vietnam, providing an up-to-date take on the domestic lending and borrowing landscape. The study highlights the strong demand for credit in both the rural and urban areas, the ubiquity of informal lenders, the recent popularity of consumer finance companies, as well as the government's attempts to rein in its swelling public debt. Given the high level of borrowing, which is fueled by consumerism and geopolitics, it is inevitable that the amount of debt will soon be higher than the saving of the borrowers. Unlike the conventional wisdom that creditors have more bargaining power over the borrowers, we suggest that—albeit lacking a quantitative estimation—when the debts pile up so high that the borrowers could not repay, the power dynamics may reverse. In this new politics of debt, the lenders fear to lose the money's worth and continue to lend and feed the insolvent debtors. The result is a toxic lending/ borrowing market and profound lessons, from which the developing world could learn.

Keywords: debt, credit, financial system, Vietnam, consumerism, geopolitics, political economy, government finance.

JEL Classifications: E03, E26, E44, E51, F34, H63.

CEB Working Paper N° 18/026
August 2018

Université Libre de Bruxelles - Solvay Brussels School of Economics and Management
Centre Emile Bernheim
ULB CP114/03 50, avenue F.D. Roosevelt 1050 Brussels BELGIUM
e-mail: ceb@admin.ulb.ac.be Tel.: +32 (0)2/650.48.64 Fax: +32 (0)2/650.41.88

ULB

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Viet-Ha T. Nguyen
Viet Panorama Media Monitoring, Hanoi, Vietnam

Hong-Kong T. Nguyen
Viet Panorama Media Monitoring, Hanoi, Vietnam

Thu-Trang Vuong
Sciences Po Paris, 21000 Dijon, France, and
Universität Wien, 1010 Wien, Austria

Manh-Tung Ho
Institute of Philosophy, Vietnam Academy of Social Sciences

Quan-Hoang Vuong(*)
Université Libre de Bruxelles, Brussels 1050, Belgium

(*) Corresponding author: qvuong@ulb.ac.be

Abstract

Vietnam has seen fast-rising debts, both domestic and external, in recent years. This paper reviews the literature on credit market in Vietnam, providing an up-to-date take on the domestic lending and borrowing landscape. The study highlights the strong demand for credit in both the rural and urban areas, the ubiquity of informal lenders, the recent popularity of consumer finance companies, as well as the government's attempts to rein in its swelling public debt. Given the high level of borrowing, which is fueled by consumerism and geopolitics, it is inevitable that the amount of debt will soon be higher than the saving of the borrowers. Unlike the conventional wisdom that creditors have more bargaining power over the borrowers, we suggest that—albeit lacking a quantitative estimation—when the debts pile up so high that the borrowers could not repay, the power dynamics may reverse. In this new politics of debt, the lenders fear to lose the money's worth and continue to lend and feed the insolvent debtors. The result is a toxic lending/ borrowing market and profound lessons, from which the developing world could learn.

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This manuscript version: August 17, 2018; v.10

Introduction

In a popular Vietnamese folk story, one character owed others so much money that he was even "revered" for it. Hence, Lord Chổm is synonymous with indebtedness ("Nợ như Chúa Chổm" [As Deeply in Debt as Lord Chổm]). The character, based on the real Le Trang Tong – the first emperor of the Revival Le dynasty (1533-1789), lives on today just as the creditor-debtor relationship in Vietnam is being normalized. The story rings true for both denoting the ease of borrowing, which can be through relations and self-reputation, and the power of debt in setting the narrative. It also aptly denotes the new politics of debt that this paper sets to explore: the reversal of power when the borrower becomes deeply insolvent and the lender has to continue feeding in fear of default. This indebtedness is the result of consumer lending being increasingly popular across Vietnam—getting a loan has grown so comfortable and convenient that a person can pick up the phone and, within just an hour, someone will go straight to their home to lend them several thousands of dollars. The identification card may be the sole piece of collateral required.

The question is: how has this practice taken place just three decades after Vietnam embarked on its transition to a market economy? Perhaps one of the first explanations is Vietnam's stable and strong macroeconomic performance during this transition, in comparison to those of most economies in Eastern Europe and of the former Soviet Union (Dollar, 1994). Between 1989 and 1992, the Southeast Asian country recorded an average annual growth rate of 7%, with inflation sliding from over 400% in 1988 to 17% in 1992 and exports surging at more than 30% per year during this period (Dollar, 1994). The banking system in the early 1990s was said to be at its "most tragic" point and "on the brink of collapse" for its insolvency (Nguyen, 2008; Vuong, 2010). Though the decades of reforms have worked wonder on the whole economy, including the banking sector, they also gave way to unconstrained spending behavior (Vuong, 2019; Vuong & Tran, 2011). At the macro level, the National Assembly, the country's highest legislative body, seeks to raise the public debt ceiling to mobilize more money for the State budget.

Given that debt is a product of power relations that can widen inequality, this study will review whether the borrowing and lending behavior of the Vietnamese is sustainable. The study seeks to provide a well-rounded picture of debts in Vietnam, upon which some policy implications will be given.

The lending and borrowing landscape

In thorough research into the creditor-debtor state relations in Europe in the late 20th century and early 21st century, Kenneth Dyson (2014) calls for the need to contextualize the interests of these states within the larger political issues as well as to understand the bargaining power of creditor states. For instance, within the European monetary union, creditor states such as Germany and the Netherlands wield considerable power, and thus, can frame policies, overtake agenda, bring forward proposals, and to an extent, exert control over debtor states (Dyson, 2014). This perspective is useful when looking at the case of Vietnam, a developing middle-income country and also a debtor state. Given that Vietnam's ruling communist party

bases its political legitimacy on multiple grounds, including strong economic growth (Thayer, 2010), it faces the pressure to keep the debt issues under control, whether that be at the microfinance or macroeconomics levels (Vuong, 2016). Figures 1 and 2 show that Vietnam's debts have been rising dramatically, both in domestic and external terms, from the 1990s to 2016.

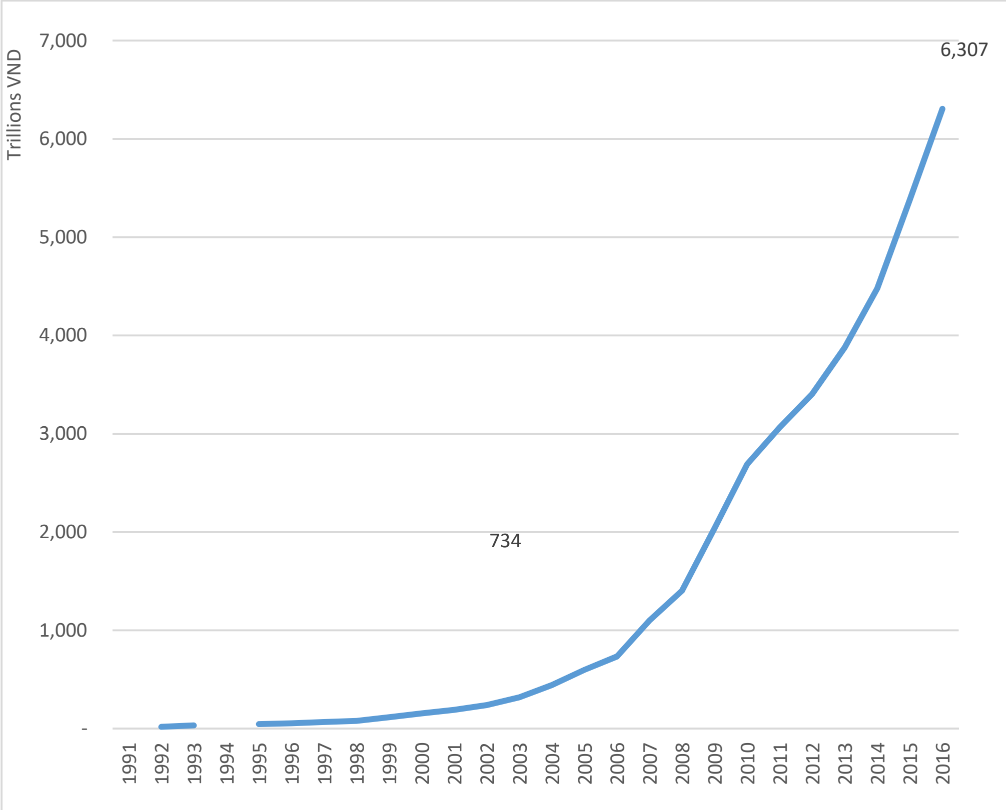

Figure 1: Total domestic credit in Vietnam from 1991 to 2016 (Source: World Bank)

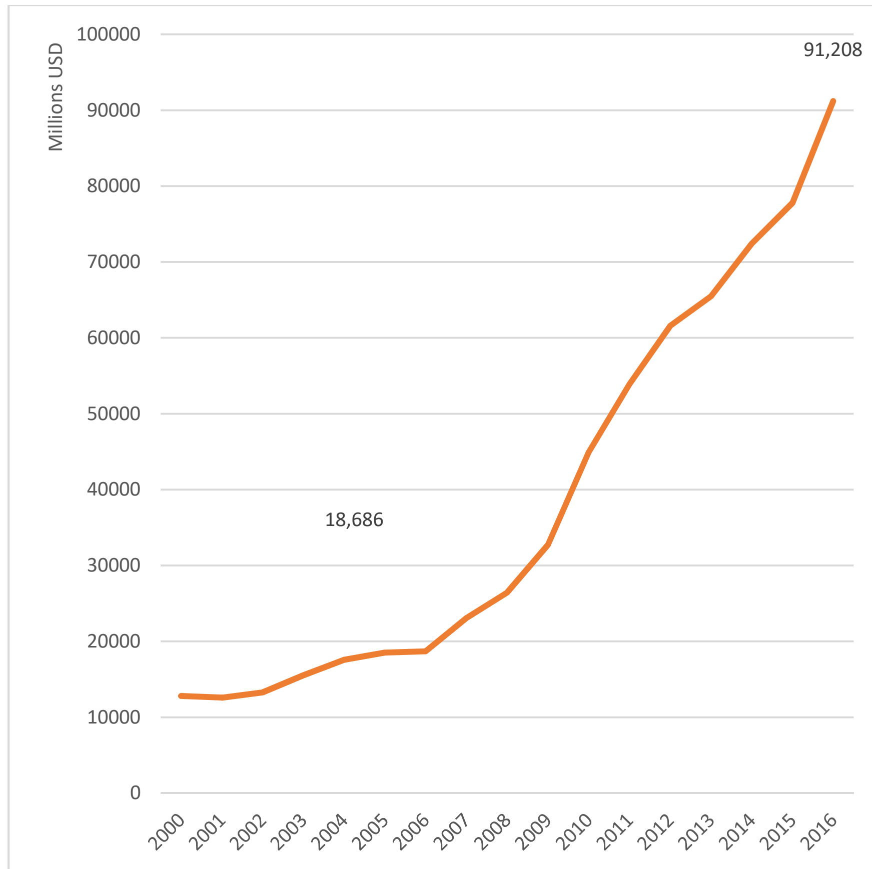

Figure 2: Total external outstanding debt in Vietnam from 2000 to 2016 (Source: ADB)

Here, the country recorded a relatively low amount of debts in the early 2000s. The uptrend started around 2006 as the slope of the lines started to look much steeper than previous years. As of end-2016, Vietnam has VND6,307 trillion worth of domestic debts and USD91.2 billion external debts. Vietnam's credit-to-GDP ratio is estimated at 120% in December 2016, signaling a rapid expansion of credit amid the alarmingly high non-performing loans (World Bank, 2017, p. 169).

To understand the causes of the rising debts as well as their implications, we must grasp the structure of the Vietnamese financial system, as outlined in Figure 3. Like most developing countries, Vietnam marks the co-existence of the formal and informal sectors, in addition to a semi-formal sector which constitutes of lenders that do not exactly fit into the former two groups (Pham & Lensink, 2007, 2008). The trend is in line with the literature on credit market in the development world, as Hoff and Stiglitz (1993, p. 33) describe:

> "There is typically a dual rural credit market in developing countries. In the formal market, institutions provide intermediation between depositors (or the government) and lenders and charge relatively low rates of interest that usually are government subsidized. In informal credit markets, money is lent by private individuals, - professional money lenders, traders, commission agents, landlords, friends, and relatives – generally out of their equity."

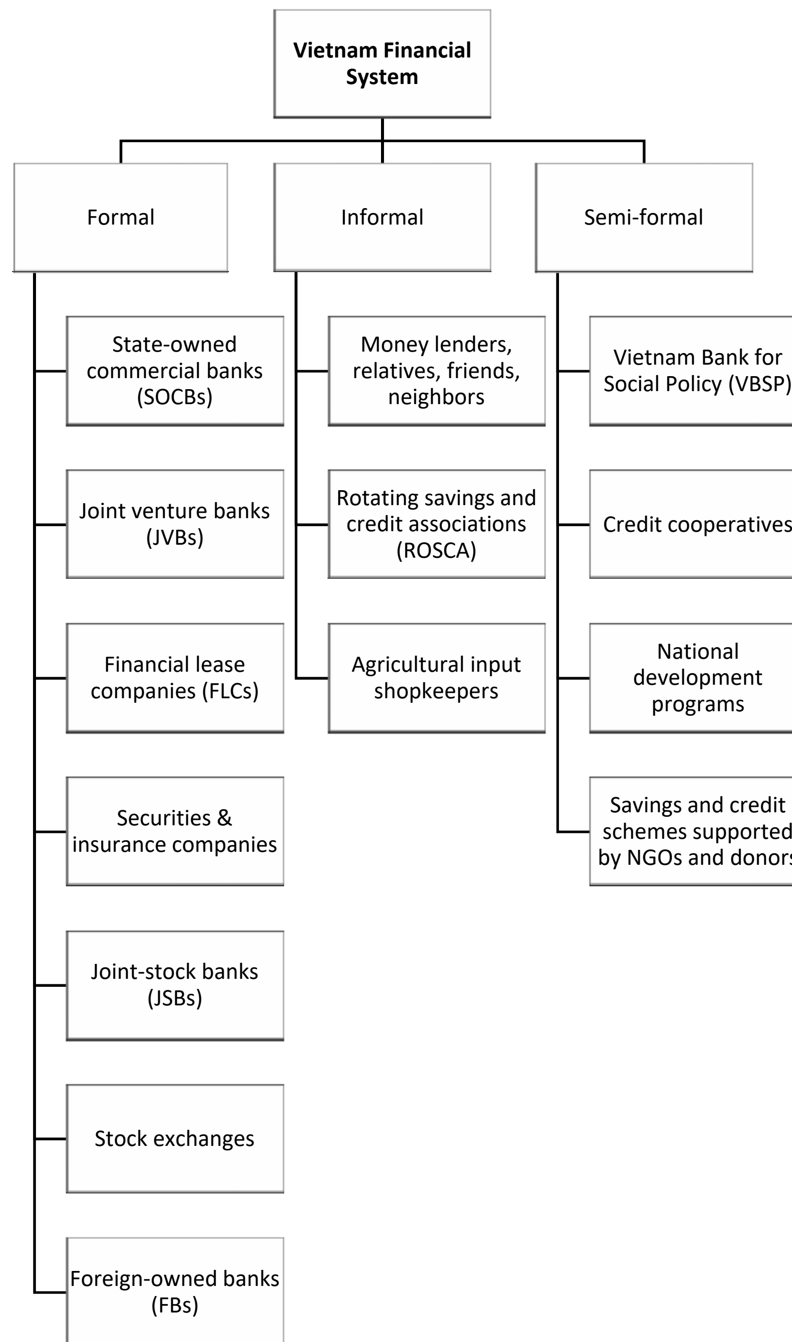

Figure 3: Overview of the Vietnamese financial system

The formal financial sector is dominated by state-owned commercial banks (SOCBs), with the government holding the majority shares in three top commercial banks, namely Bank for Investment and Development of Vietnam (BIDV), Joint Stock Commercial Bank for Foreign Trade of Vietnam (Vietcombank), and Vietnam Joint Stock Commercial Bank for Industry and Trade (Vietinbank). The three big banks' assets account for 45% of the total assets of the whole system as of end-2017 (Reuters Staff, 2017). SOCBs also lead the credit market with around 45% of total lending to the economy as of January 2013 (Tran, Ong, & Weldon, 2015). The main

customers of these banks have been state-owned enterprises (SOEs) which contribute 30% of the economic output (Thanh Tung, 2017) and hold over half of the whole banking system' loans (Tran et al., 2015). To sum up the formal sector, SOCBs primarily serve SOEs but are also extending their credit programs to the private sector, especially small and medium enterprises (SMEs) and households; joint-stock banks (JSBs) focus on SME lending and individual clients while joint venture banks (JVBs) mainly serve foreign-invested enterprises and joint ventures (Pham & Lensink, 2008; Vuong & Tran, 2011). By comparison, the informal financial sector in Vietnam accounted for about one-third of the credit transaction (Barslund & Tarp, 2008). Informal lenders, though constrained by resources, at higher risks of default and lacking legal protection, fill the gap left by the formal sector by serving households and small private enterprises (Pham & Lensink, 2008). The third one, the semi-formal sector, lends targeted groups at low-interest rates, mostly subsidized by the state or non-governmental organizations (NGOs). As a major actor in this sector, the Vietnam Bank for Social Policy (VBSP) had provided VND181 trillion to 6.7 million households as of end-June 2018 (BT, 2018).

The next section will provide some background into the situation of microfinance across these three sectors in Vietnam, focusing on household and rural credit, consumer lending, business financing, and macro-level debts. These different market components co-exist with each other and are both complements and substitutes for one another. People can approach the informal segment when they cannot get a loan from the bank or a credit company. This diverse network of credit agencies had made it easy for Vietnamese to have access to credit.

Where informal and semi-formal lenders lead

Rural credit

Official data show that 65.49% of Vietnam's population of nearly 93 million live in the rural areas and depend on agriculture for their livelihood (General Statistics Office of Vietnam, 2017). There is a high demand for credit in the rural market, where informal players often dominate. Households are found to obtain credit through both formal and informal lenders, with the former for production and asset accumulation and the latter for consumption (Barslund & Tarp, 2008). Additionally, Pham and Izumida (2002) point out that rural households are willing to borrow from the informal sector at high-interest rates to finance their production. Meanwhile, the determinants of borrowing include total farming area (Quach & Mullineux, 2007), total value of livestock, the dependency ratio of households and total farming area (Pham & Izumida, 2002), household size and agricultural work (Ho, 2004; Nguyen, 2007), savings, education level (Nguyen, 2007; Quach & Mullineux, 2007), loan terms and household characteristics (Ho, 2004). Other factors affecting the probability of borrowing are private capital investments, marital status, distance to the market center, and locations (Vuong, D'Haese, Lemba, & D'Haese, 2012).

Regarding accessibility, there are regional differences in nearly every aspect of the credit market, which means credit access remains low in some areas due to the absence of formal institutions (Barslund & Tarp, 2008, p. 501; Quach & Mullineux, 2007, p. 292). Another study notes the gender discrimination in the formal rural credit market, with women having poorer access to loans than men (Tran et al., 2018). Furthermore, landholding status, informal interest,

and informal loan duration influence access to informal credit, whereas factors affecting microcredit accessibility include local government employee status, credit group membership, a "poor" certificate, educational attainment, working skills and village road access (Phan, Gan, Nartea, & Cohen, 2013). These three studies share the observation that credit rationing is worse for the lowest income group. A survey of 403 marine fisheries stakeholders in five Vietnamese provinces finds that fisheries households often lack the collateral required in the formal sector, and thus, depend on the informal sector for credit (Ruddle, 2011). In case of incomplete rural credit markets, Stampini & Davis (2009) show that participation in non-agricultural labor may help relax credit constraints and provide cash for market purchases of agricultural inputs. This finding further highlights the dependence of rural development on the interaction between agricultural and non-agricultural activities.

Informal lenders: pawn shop, ROSCA

As noted in the previous section, informal lenders dominate the rural credit market primarily because of their low requirement for collateral (Pham & Lensink, 2007; Ruddle, 2011). The informal financial sector, therefore, is segmented and has a big room for growth. It was estimated to account for around 60%-70% of the total credit in the country in the early 1990s (Pham & Lensink, 2008, p. 242). The accessibility of borrowing from informal lenders is most evident in the ubiquity of pawn shops in many cities across Vietnam. Several streets in Hanoi are famous for having so many pawn shops such as Đặng Dung and Đê La Thành streets. Students, low-income earners, or those in quick need of cash could go to pawn shops to take a fast loan. They can use their motorbikes, cars, laptops, mobile phones, and ID card as collateral for the loan. Nowadays, one can find money lending posters on almost every electricity posts around across the country. These posters, illustrated in Figure 5, often come in the form of a large-printed phone number to reach with bullet points such as no collateral needed, quick loan, and low-interest rates. Borrowing has become so easy that people have to pick up their phones to call these numbers without having any collateral (Barslund & Tarp, 2008; Hoàng Thanh, 2018).

Figure 4: Photos showing the ubiquity of informal lending ads and posters around Vietnamese streets (Researchers' photos)

Also, Vietnam has seen a rising number of broke people in suburban areas due to their participation in the form of microfinancing, a rotating savings and credit association (ROSCA) that is called "*hụi*" in the south and "*họ*" in the north. People in this kind of groups often contribute money to a person on a monthly basis, and this person would give out the money to those in need of emergency spending. No official statistics on this service is available, though one study in 2003 estimates 60% of credit in the urban areas was provided by "*họ/hụi*" (Le Khuong, 2003; Pham & Lensink, 2008). However, there has been a surge in media reports about the collapse of these financing models as the person responsible for holding the money has run off (Mạnh Cường, 2018; Ngọc An, 2018; Ngọc Thành, 2018).

The non-governmental Vietnam Microfinance Working Group has noted that, due to the high transaction costs and complex procedures at formal credit institutions, Vietnamese consumers often resort to informal sources, such as private money lenders, "*hụi họ*", pawn shops, friends or relatives, to meet their financial needs (VMFWG, 2014). The group believes that microfinance institutions enable consumers to access a loan below VND30 million from the semi-formal sector at a lower interest per annum than that of "hui ho," thus, relieving the low-income clients from a debt burden when borrowing from the informal sector (VMFWG, 2014, p. 101). However, it is worth noting that the semi-formal credit providers described by the group have their target groups of borrowers, which means that the low-interest rate loans are not available to everyone, even if they are low-income clients (Pham & Lensink, 2008, p. 243).

Where formal lenders fit in

Household debt

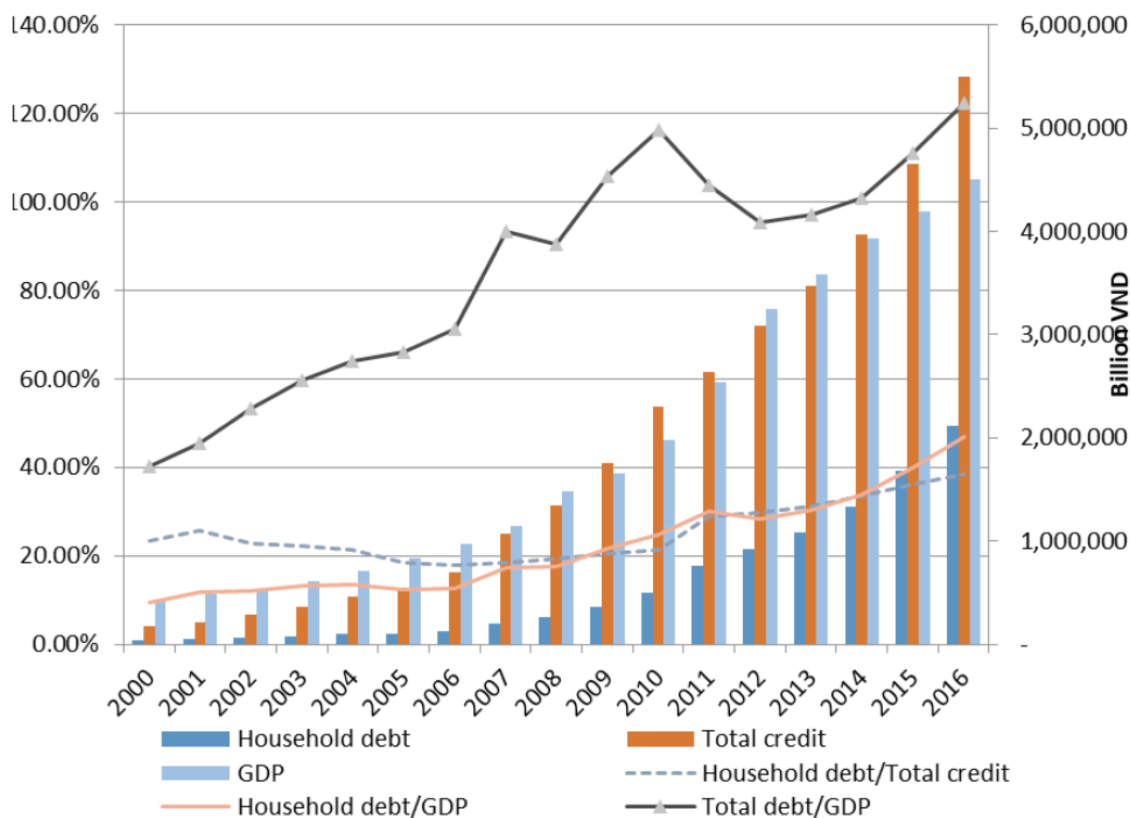

Figure 5: Household debt to GDP & total outstanding loans (Le Phu Loc et al., 2016)

There is a lack of data on household debt in the non-banking system, possibly because it is difficult to keep track of lending and borrowing transactions in the informal sector. However, statistics on household debt in the banking system, as shown in Figure 4, is worth examining as it provides both the trend and a comparative perspective. Between 2000 and 2016, household debt surged by 51-fold to VND2,116.2 trillion, marking an average annual growth rate of 28.58% (Le Phu Loc et al., 2016). The ratio of household debt to total credit has consistently hovered above 20% from 2010 and picked up to nearly 40% by 2016. The ratio of household debt to GDP has similarly risen fast in the last five years to even exceed 40% as of end-2016. The increasing household debt, reflecting a larger trend of swelling total outstanding loans, is associated with a hike in housing prices (Le Phu Loc et al., 2016; Punzi, 2016).

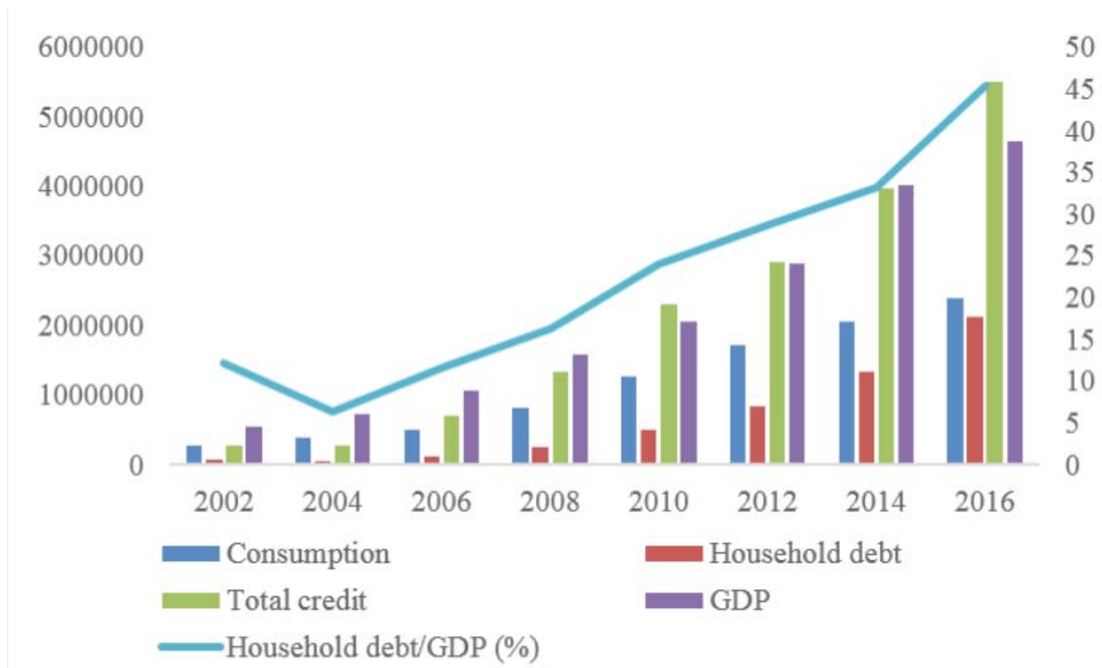

Figure 6: GDP, Consumption, and Household Debt in Billion VND. Source: Le Phu Loc et al., 2016

Figure 6 shows that GDP growth was in line with the credit growth and household debt growth between 2002 and 2016. It is reasonable to assume a rise in household debt helped boost consumption in the period and hence spur the economic growth.

Consumer finance

Statistics from the State Bank of Vietnam show that consumer finance in the banking system has become one of the fastest growing markets. By the end of 2016, consumer finance accounted for 15.7% of the VND960 trillion of the total outstanding loans in the Vietnamese banking sector. Of the figure, consumer lenders had total outstanding loans of VND74 trillion and had recorded an average growth of 44% in the previous three years.

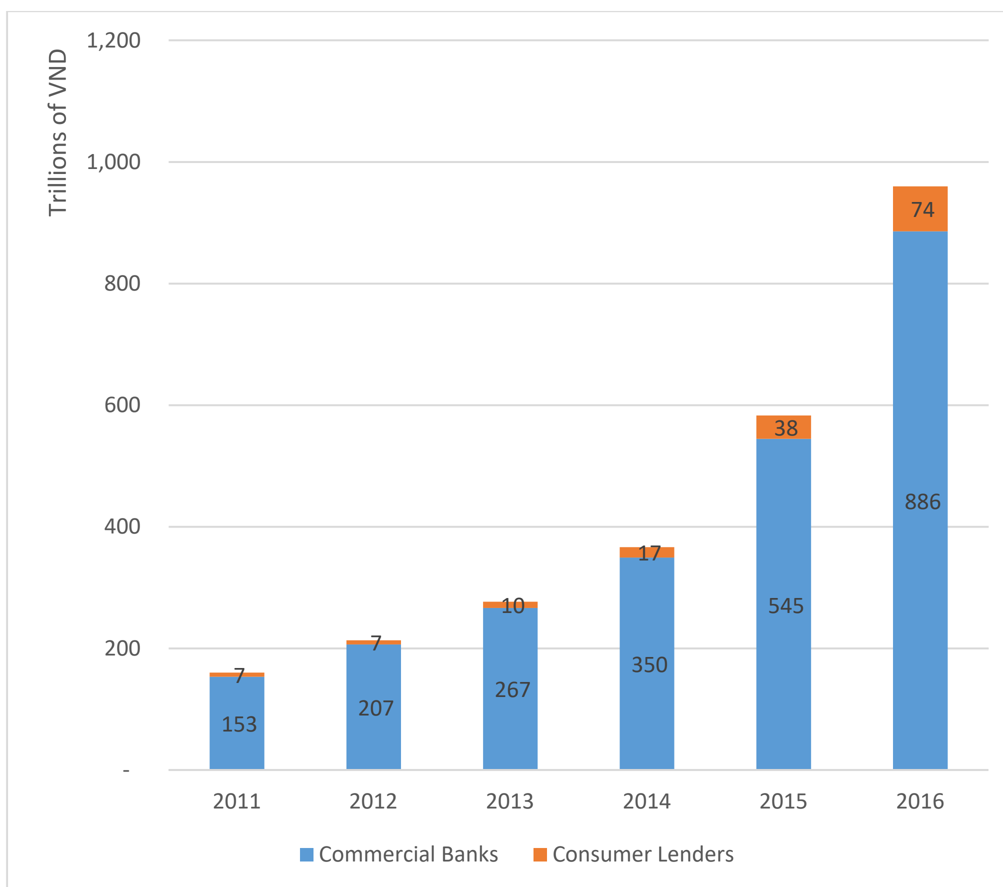

Figure 7: Outstanding loans of credit Institutions by end-2016. Source: Mai Ngọc (2017); and State Bank of Vietnam.

Studies on consumer lending in Vietnam have noted the locals' high appetite for shopping, whether that be household goods or automobile, housing or luxury goods, which means consumer finance providers are working to meet the demand of the low to average income earners (Iwase, 2011). As noted previously, the banks' stringent requirement for collateral such as land use certificate or house ownership certificate may drive potential clients to borrow from the informal and semi-formal sectors instead. While the formal sector remains inadequate to fulfill this thirst for consumer credit, it nonetheless has seen remarkable growth in recent years. This happened thanks to their adaptation of a consumer finance model targeting retail clients with high demand for consumer credit. Three key players who make up over half of the country's consumer finance market. They are: (i) HD Saison - a consumer lending arm of Ho Chi Minh City Development Joint Stock Commercial Bank (HDBank), (ii) FE Credit – the consumer finance arm of Vietnam Prosperity Joint Stock Commercial Bank (VPBank), and (iii) Home Credit Vietnam, a unit of Russia-based Home Credit Group.

In particular, VPBank has designed FE Credit to be its main cash earner in recent years. The bank made a consolidated net profit of VND6.43 trillion in 2017, up 64% from a year earlier, of which 51% came from its consumer lender FE Credit. As of end-2017, the bank said

that FE Credit was monitoring 250,000 loans. Since FE Credit made profits, it had contributed a considerable amount to the bank's earnings.

By comparison, as of end-September 2017, HD Saison had a total outstanding loan of VND8.98 trillion, the second highest outstanding loan behind the figure reported by FE Credit at the time. The firm said that all of its credit approval decision came from a branch in Hanoi. HD Saison had a system of 10,285 points of sales in 63 provinces nationwide at the time. The credit firm said it was serving 3.2 million customers. Up to 53% of the company's loans have terms over 12 months. Loans valued over VND30 million accounted for 24% of the sum while those between VND15 million and VND30 million accounted for 33% (Minh An, 2017; Minh Đức, 2017; Tùng Lâm, 2018).

Business/ Private Sector

This part focuses on the private sector of the economy since the state-owned data had shown their dominance. The private sector in Vietnam faces the same discrimination in credit access as in other developing countries. However, the rising credit to the private sector had proved the strengthening position of credit institutions.

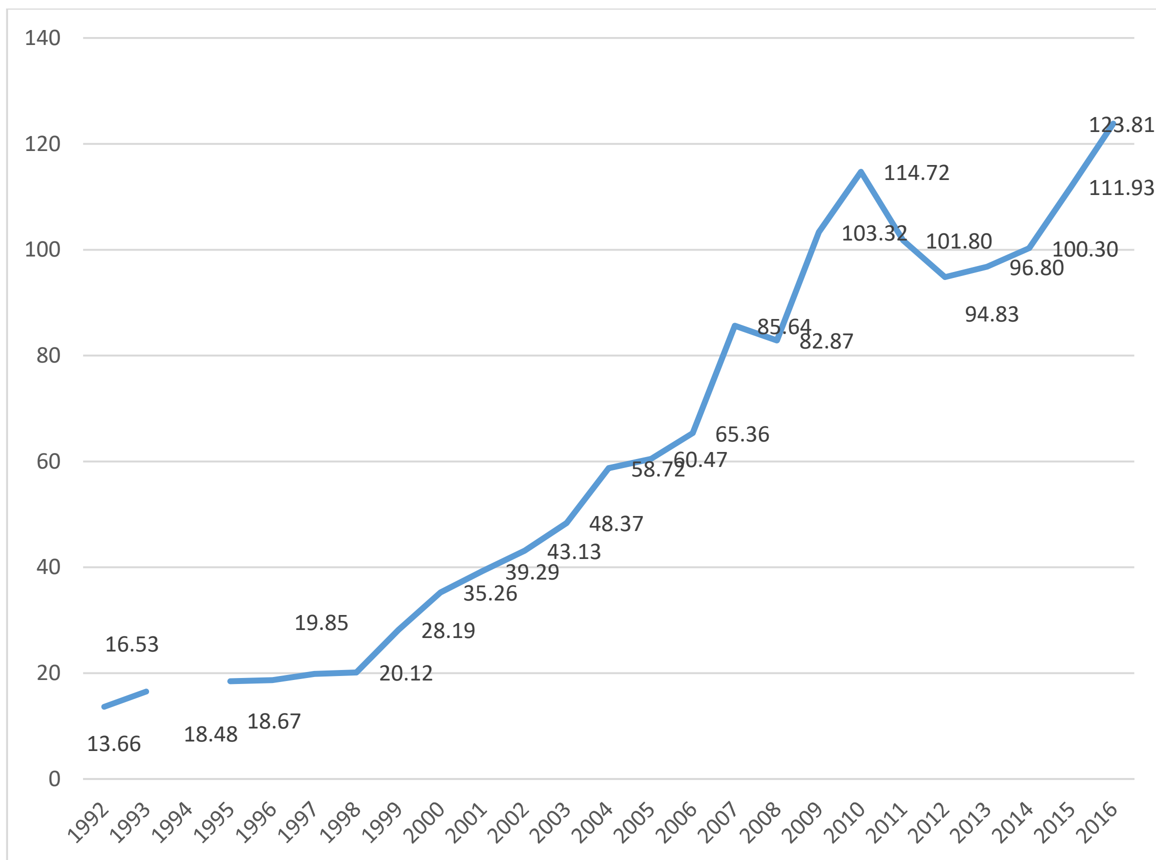

Figure 8: Domestic credit to the private sector in percentage to GDP (Source: World Bank)

Figure 8 shows the rising loans to the private sector in the percentage of GDP over time. The line was not continuous in 1994 because there was no data (by World Bank) for that year.

The domestic credit to private sector peaked in 2010 with the rate reaching 114.72% of GDP before dropping down to 94.83% in 2012 and rebounded to 123.81% in 2016.

There are two normal ways for businesses in Vietnam to take out loans, either by contacting banks or issuing bonds. The formal sector plays an important role in the business community as credit institutions in either case act as the intermediator for capital mobilization for businesses.

Though corporate bonds have long been a popular type of debt finance around the world, they appeared in Vietnam in around 1992-1994 and remained “not popular” to both the business sector and academic circle (Vuong, 2000; Vuong & Tran, 2011). Vuong and Tran point out in their research that the government not only intervenes in the bond markets with its budget and policies but also competes directly with enterprises. There were only 12 ‘corporate’ bond issuances between 1992 and 2003 that are considered notable regarding size and socioeconomic effect (Vuong & Tran, 2009). The Vietnamese seemed to remain indifferent about the debt market until late 2017 when it announced a 2030 vision to enhance the bond market by strengthening legal framework and improve transparency on the market. Vietnam only recorded a small number of corporate bond issuances in the years leading to 2017 (Noonan, 2017).

Regarding the traditional method to take out loans at banks, various reports have pointed out the discrimination between lending targets in Vietnam, which can be separated into following groups: state-owned enterprises, large private corporates, small and medium enterprises, and foreign-invested firms (Nguyen & Freeman, 2009; Thành Trung, 2018; Thúy Hà, 2017; Uyên Phương, 2017; VTV24, 2017). State-owned enterprises and large corporates are often in front of the queue for any loans while foreign-funded firms can often finance their operations. This discrimination leaves the small and medium-sized enterprises (SMEs) in thirst for capital.

Some researchers have tried to tackle the relationship between credit institutions and firms in Vietnam. Nguyen & Ramachandran (2006) find empirical evidence supporting the viewpoint that SMEs use short-term liabilities to finance their operations. The authors note that the capital structure of SMEs in Vietnam is positively related to growth, business risk, firm size, networking, and relationships with banks, but negatively associated with tangibility. Here, profitability seems to have no significant impact on the capital structure of the firm, but the determinants should be ownership, firm size, relationship with banks, and networks (T. D. K. Nguyen & Ramachandran, 2006).

From a Vietnamese business survey, Rand (2007) shows that 14%-25% of enterprises in Vietnam were credit constrained and these firms would increase their debt holdings by between 40% and 11% if constraints were relaxed. Notably, informal credit markets play an essential role for fast-growing firms, especially those do not have the time to go through administrative difficulties in the formal credit system. Moreover, collateralized loans often face larger interest rates due to the significant influence of “policy lending” in the local credit markets (Rand, 2007).

On the trading relations within Vietnam’s private sector, companies are found to offer credit to customers once the customers find it hard to locate an alternative supplier; the longer this relationship lasts, the larger credit the customers would gain (McMillan & Woodruff, 1999).

The network of relationships is indeed useful for companies, especially SMEs that seek access to bank financing for development. In this case, networking with customers and government officials promote the use of bank loans while networking with suppliers and social ties reduces the need for loans (Le & Nguyen, 2009).

A potential explanation for the formal sector's hesitation in lending to the private business sector is the high level of uncertainties, rather than risks, resulted from the lack of trust in the clients (Nguyen, Le, & Freeman, 2006). This fear is understandable given the absence of effective market institutions and business data, which has prompted Vietnamese banks to employ a combination of uncertainty avoidance and reliance on trust in lending.

Macro-level debts

On the macroeconomic front, in the last couple of decades, the government has spent significantly on infrastructure development, leading to the new highways, tunnels, factories, airports, and metro systems being built throughout the country. To meet this demand for capital, Vietnam's public debt, the main tool for capital funding and production encouragement, has been rising fast.

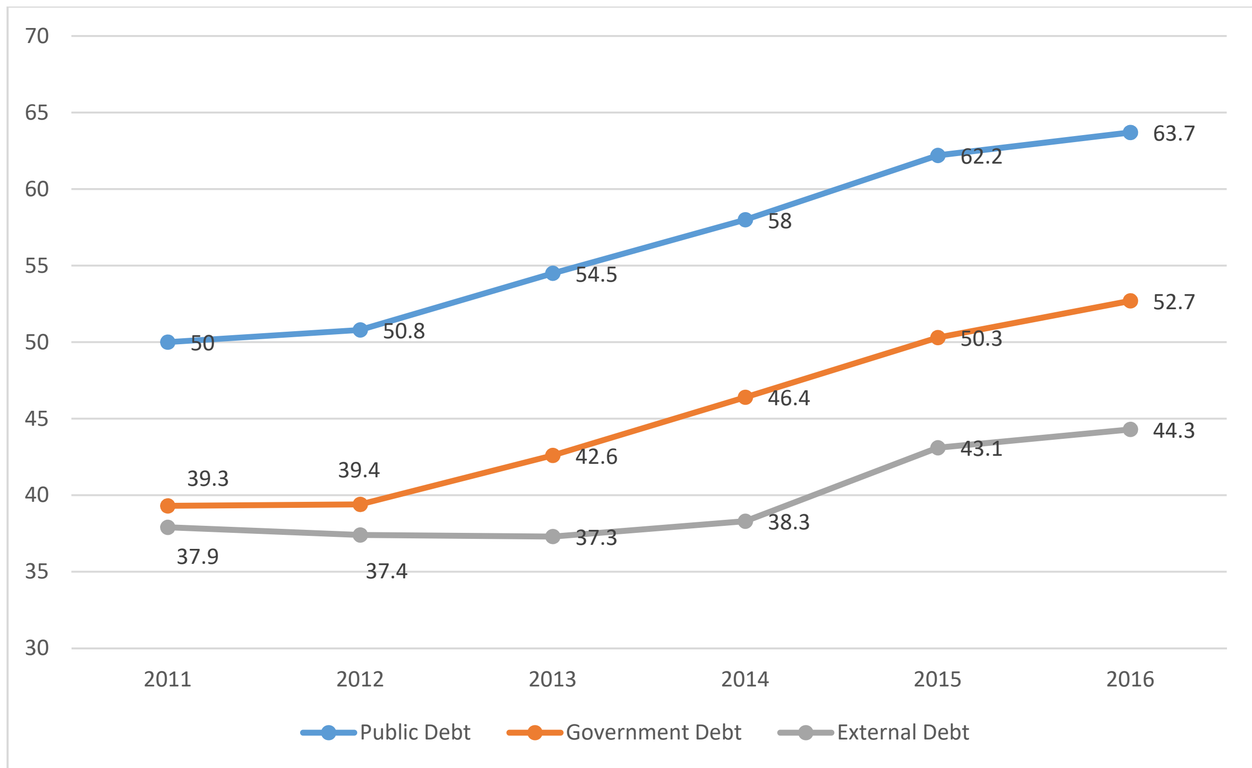

Figure 9: Public debt, government debt, and external debt (% of GDP) in Vietnam, 2011-2016

Figure 9 shows a sharp rise in public debt from 50% of GDP to 62.2% of GDP in only five years. With a continuous debt growth rate, estimated at around 5% in the 2011-2016 period, the public debt could soon break the debt ceiling of 65% set by the National Assembly, the country's top legislative body. It is noteworthy that under Vietnamese legislation, public debt includes government debt, foreign debt, government guarantees, and debts owed by local

governments, while debts of by the central bank, state-owned enterprises, and other state-run entities are excluded from the tally. Hence, if the government counts those debts, the public debt figure would have broken the threshold already. Additionally, the Vietnamese Ministry of Finance is known to have multiple accounting and management systems, which lead to the publication of unreliable data for fiscal planning (Leung, 2010).

Meanwhile, the budget deficit has also put mounting pressure on public debt repayments. Among the primary reasons for rising public debt is a budget deficit, which was mainly caused by high demand for capital. The International Monetary Fund statistics show that the government budget deficit had accelerated from VND22.1 trillion (USD996 million in 2018 exchange rate), or 5% of gross domestic product (GDP), in 2000 to VND293 trillion (USD13.1 billion), or 6.5% of GDP, in 2016. This results in borrowing to afford the necessary infrastructure development.

Regarding foreign debts, given that Vietnam has become a middle-income country in 2009, its economy is facing increased risks in servicing financial obligations from foreign loans, even if the rate is low compared to that of domestic debts (D. T. Nguyen & Nguyen, 2017). According to official data, between 2010 and 2015, the proportion of floating-rate loans in total outstanding external debt of the government rose from 7% to 11% (Ministry of Finance, 2017). Furthermore, effective from July 2017, Vietnam is no longer eligible for official development assistance (ODA) loans from the World Bank and soon other development partners. The implication is clear: Vietnam would need to borrow more loans at a less preferential rate and with market conditions.

Many local and foreign experts are concerned that, although Vietnam has been seen as a spotlight for economic growth, its debts have also risen at a significant rate and are threatening to derail the growth. Part of the efforts to keep the public debt low compared to the GDP is the amendment of the law, which changes what types of debts to be included in the category and the use and management of such loans and payments. In late 2017, the Vietnamese parliament passed the revised Law on Public Debt Management, which confines public debts to include government debts, government-guaranteed debts and local administration debts (VLLF, 2018; VNA, 2017a). Another notable change is the designation of the Ministry of Finance as the sole agency vested with authority over public debt management, instead of three agencies namely the Ministry of Finance, the Ministry of Planning and Investment, and the State Bank of Vietnam, as currently prescribed (VLLF, 2018).

Bad debts

In addition to the government-related debt, another noteworthy issue in the macro level debt is the rise of non-performing loans in the first half of the 2010s. In a bid to spur growth, the Vietnamese authorities had set high credit growth targets of over 20% per annum in the early 2000s and slight around 20% early 2010s. The peak credit growth rate was over. However, Vietnam’s fast growth came at the expense of the stability of the banking system. High credit growth equals a rapid accumulation of debts.

State media reported that the amount of NPLs started stacking up from 2007 but only attracted attention in late 2011 (Chau, 2015). During the early 2010s, there were multiple reports

on the ratio of NPLs against outstanding loans at banks, but the general understanding was that NPLs then posed a major threat to the banking system. Commercial banks reported at the end of May 2012 that bad debts ratio was only 4.47% while the State Bank of Vietnam thought it was 8.6% and Fitch Ratings was more pessimistic by issuing reports saying the real rate might be 13%.

Among the steps to tackle the NPLs, the central bank set up Vietnam Assets Management Company (VAMC) which purchases debts at banks at either normal or lower than market prices and recovery itself by selling collaterals. However, due to legal issues, VAMC mainly acted as a purchaser of debts to improve the bookkeeping of commercial banks in the first few years. Only until 2017 when the National Assembly approved Resolution 42/2017/QH on piloting the function to sell debts and collaterals that VAMC performs its tasks. VAMC bought over VND309.71 trillion worth of bad debts from credit institutions as of end-2017, and the agency had resolved VND90.65 trillion worth of NPLs, of which VND30 trillion was resolved after the issuance of Resolution 42.

Identifying the determinants of rising debts

The picture presented thus far is quite clear: Vietnam is incurring a sharp, almost unstoppable, increase in both domestic and external debts. In this section, we identify three factors determining the Vietnamese lending and borrowing behavior, namely (i) consumerism, (ii) geopolitics, and (iii) rent-seeking tendency.

Consumerism

As previously pointed out, the rapid demand for capital from consumers and businesses has led many banks and financial institutions to turn to this sector as their spearhead cash earner. However, credit has never been the problem; it is the irresponsible use of credit that has wrecked many.

According to the National Financial Supervisory Commission (NFSC), Vietnam recorded a 65% growth in consumer finance in 2017, following an acceleration of 50.2% in 2016. The fast growth pushed the ratio of the total consumer credit to total outstanding loans to 18% in 2017 from 12.3% in 2016. NFSC figures show that 52.9% of the consumer lending in 2017 was for house purchase and repair, followed by a 15.3% of the credit to household appliances purchase, and 8.3% for personal vehicles.

The fact that housing-related transactions took up the largest share of consumer lending in 2017 is no surprise. It is not an overstatement to claim that every Vietnamese person is raised with the belief of "*an cư lạc nghiệp*" (one must have a house to have a life with a stable job) – an old but popular proverb. The idea is ingrained so deeply that it has become a significant motivation for people today, even if housing prices in big cities like Hanoi and Ho Chi Minh City have spiked through the roof. This is evident in the high housing ownership rate in Vietnam: according to the results of the mid-term Population and Housing Survey, the homeownership rate was 90.8% in 2014, versus 92.8% in 2009 (Ministry of Planning and Investment, 2015). The importance of owning a house in Vietnam is further manifested in the involvement of the people

in building their houses. Small-scale developers, micro-builders, and households build about 75%-80% of housing units (World Bank, 2015, p. xiii). While it is true that the older generation usually pushes for economic stability via asset ownership, and thus, would support their children or grandchildren in case of financial shortage, consumerism has also driven people to buy more luxurious houses or apartments. The increasing availability of mortgage for young couples supports this viewpoint.

Besides from house ownership, automobiles are also in higher demand today, given that public transportation is underdeveloped in Vietnam. With a population of over 93 million, Vietnam records about 46 million motorbikes, equivalent to two people per motorbike. When sales of motorbikes slowed down in the 2013-2015 period, several motorbike producers and assemblers in the country had predicted a saturated market. Vietnam nonetheless remains the world's fourth largest motorcycle market, with its people continuing to buy up to 3 million bikes annually in recent years (Dennis, 2017). The taste is also changing to luxury scooters and high-end motorcycles with large engine displacement. The number of motorbikes in the capital city of Hanoi is so high that the local government is planning to ban such bikes by 2030 (Dennis, 2017; Hunt, 2017). The plan has faced some backlash and uncertainty over its implementation. In addition to the motorbikes, the country now owns around 10 million automobiles. With higher incomes, some are turning to cars. Vietnam continuously set new records on car sales in recent years (VNA, 2017b; Xinhua, 2017). Some wealthy people even develop a taste for sports cars, which can often be seen on the streets of major cities like Ho Chi Minh City and Hanoi.

This is happening both thanks to the improved living standards and the ease of consumer finance. The convenience of consumer loans—which require only an ID card or a driver license and take up half an hour—makes it attractive to Vietnamese consumers borrow and splurge at their costs. Fueling this demand is the lucrative offers along with promotion programs by credit companies. Thanks to installment payments, consumers can now borrow money to buy smartphones, motorbikes, home appliances, and even travel tours. The surge in consumer demand resulted in Vietnam losing its first place regarding cash saving to Hong Kong for the first time in 2017 after holding the title for three consecutive years, according to consumer confidence reported by Nielsen (Ha Phuong, 2017).

Fear not the rise of debt or the loss of the first-place saver, owning a house, a scooter, a car, some branded clothing, and a smartphone has become the "Vietnamese dream" today. This outlook is worrisome for Vietnam has a young population, whose focus should include education, hard work, and ethics, not the materialistic lifestyle. The ease of borrowing loans means quicker access to debts, which in turn open the door to consumerism here. In an in-depth study of capital accumulation and its relations to the social and political change in urban areas globally, Baltimore-based geographer David Harvey (2012) found a connection between indebtedness by ordinary households, mainly through mortgage borrowing, and the occurrence of urban economic crises in modern capitalist societies in the last century. For instance, home mortgage debt accounts for 40% of the accumulated private debt in the U.S. and contributes to the 2008 housing crisis (Harvey, 2012, p. 39). In the case of Vietnam, the mortgage debt is not

yet a problem at the household level, but lessons from more developed countries should pose as cautionary tales for the country's brewing housing bubble.

Rent seeking groups

The ease of borrowing is not only reserved for household consumptions, but major Vietnamese companies are also enjoying this phenomenon as the economy is rightly characterized as a rent-seeking one (Ngo & Tarko, 2018). As many studies have pointed out, as Vietnam has gradually transitioned from the central planning model to a more decentralized market system, rent-seeking has always been a major feature. Many have argued understanding the mechanism through which developing countries such as Vietnam create and manage rents is essential for explaining their economic development (Beeson & Pham, 2012; Ngo & Tarko, 2018; Ngo, 2016; Wong, 2011). In this part, we will look at how rampant rent-seeking activities contribute to the worsening of the country's debt situation.

There are three ways in which rent-seeking behaviors of Vietnamese firms that contribute to the increase of debts in Vietnam. First of all, the close relationship between SOEs and state-owned commercial banks (SOCBs) and the ease with which SOEs can borrow capital to carry out state-led developmental projects have worsened the situation of debts. The case of Vietnam Shipbuilding Industry Group (VinaShin) illustrates this point most clearly. With the ambitious goal of making Vietnam the No.4 shipbuilder in the world, VinaShin received extraordinary backing from the state. Vietnam issued USD750 million worth of sovereign bonds in 2006, this amount of capital went into building VinaShin, and in 2008, the Deutsche Bank and the Swiss Bank Credit Suisse lent the company respectively USD2 billion and USD1 billion (Hayton, 2010). In the end, VinaShin went bankrupt with over USD4.5 billion in debt (Zhang, 2015), the case went down in history as a prime example of mismanagement of SOEs' rents. VinaShin is far from the only case that SOEs can borrow money from the state banks with little accountability. For example, it is estimated that SOCBs owned 90% of SOE debt in the construction and transportation sectors (Beeson & Pham, 2012). A study was done by Nguyen and Freeman (2009) on the effects of SOEs on private companies in 42 out of 64 provinces found that indeed state-owned companies are more favored in getting access to bank loans and lands. The results are in agreement with the observation made by Vuong & Nancy (2014); Vuong & Tran(2011). As noted by Wong (2011), rent-seekers in Vietnam do not have to demonstrate the ability to perform well economically, rather, rent-distribution is based on bargains. Interest groups as described in Vuong (2014) or powerful business/political elites in Wong (2011) heavily influence the creation and allocation of rent. This feature combines with the liberalization of the financial market in Vietnam contributes to the increase in debts nationwide.

Secondly, as the government seeks to mobilize capital for infrastructure development projects, the Public-Prive Partnership (PPP) model and the Build-Operate-Transfer (BOT) model are increasingly employed (Vu, Wang, Min, & Nguyen, 2015). This situation has created a ripe condition for rent-seeking behaviors not only in public companies but also in private sectors. Private companies often leverage their relationship with government officials to borrow capital to fuel the construction of these infrastructure projects. In the most recent audit of BOT projects,

the state audit office exposed the fact that the selection process of developers and contractors has not been carried out improperly and there is often inaccurate estimation of total investment capital (Tuoitrenews, 2017).

As these infrastructure projects are usually chosen based on political criteria rather than economic viability (Lovells, Boots, & Harris, 2016), it leads to two outcomes. The banks are often inclined to lend money to private companies who win these projects. These projects are often carried out with minimal attention paid to the quality of its operations and economic performance. The construction of the BOT projects are often slow (Vu et al., 2015), and once completed, private companies usually take much longer than planned to transfer the management of the project to the public sectors. Hence, though PPT and BOT are seen as a way to diversify away from the reliance of ODA, which have been the main source of finance for these infrastructure projects (Likhitruangsilp, Do, & Onishi, 2017; Lovells et al., 2016), the government might nevertheless take on more debt.

From 2011 to 2016, the Ministry of Transport and 43 localities mobilized respectively VND169 trillion (USD7.27 billion) for a total of 57 BOT road projects and VND80 trillion (USD3.44 billion) for BOT investments (VLLF, 2017). In a recent audit of seven BOT projects, it is found that the approved unit prices, salaries, and allowances were VND316 billion (USD13.58 million) higher than the actual cost. Moreover, the misplaced toll station and the high toll fees of BOT roads have caused strong protests in many places around the country, leading to the Prime Minister ordering some toll stations to stop collecting fees temporarily to review the situation (Tuoitrenews, 2017; VLLF, 2017). Without an improvement in the management of the BOT projects, it is likely that the credit situation in Vietnam would further worsen and society bears the cost of this bad lending practice.

Another area that is ridden with rent-seeking activities is the real estate sector (Han & Vu, 2008; Phuc, Van Westen, & Zoomers, 2014; Vuong, 2014), and this has played a major part in the increase of debts in Vietnam. Similar to China, in Vietnam, all lands are owned by the state. Thus there has always been a large reserve of cheap, peri-urban land that can be easily converted for commercial use. Phuc et al. (2014), analyzing the process of land conversion in Hue city, concludes that the process has resulted in rent-seeking behaviors of stakeholders. As the local governments rely on land conversion as the source of income, in many cases, the developers have exploited a close relationship with local officials to acquire the land under market price and gain huge rents when using the land commercially. This pattern has also been pointed out in other studies (Labbé, 2016; Labbé & Musil, 2014; Thu & Perera, 2011).

How does the rent-seeking real estate sector increase debts in Vietnam? As shown in a study by Nguyen, Nguyen, and Dang (2017) that investigates the capital structure of real estate listed companies in Ho Chi Minh stock exchange from 2010 to 2015, the companies tend to use debts to finance their projects. Moreover, data also shows that since 2012 the credit growth in real estate has been steadily over 10% (Do, Nguyen, & Le, 2017). In the most recent report, the total outstanding loans in real estate of credit institutions have reached VND471 trillion (USD20.72 billion), and lending into this sector in some major banks is higher than 10% of total outstanding loans; in some cases such as for Sacombank and Techcombank, the figure is 17.6%

and 12.6% respectively (VNS, 2018). Many experts have raised concerns over this rising figure, fearing another housing bubble burst similar to the one in 2011 (Cameron, 2018). To prevent this gloomy scenario, recently, the government has enacted Circular No.06/2016/TT-NHNN and No.19/2017/TT-NHNN which would implement several measures to reign in the excessive growth of credit in the risky market.

Geopolitics

"There are two ways to conquer and enslave a nation. One is by the sword, and the other is by debt." – *John Adams, 1826*

Taking a walk down memory lane, it is clear that Vietnam had struggled in dealing with debts from the early days. The country normalized relations with the U.S. in 1995, which is considered among the milestones in the country's history before its economic growth started to take off. One of the major steps of preparation for the normalization of U.S.-Vietnam ties at the time was the Vietnamese government's pledge to repay the debt left from Ngo Dinh Diem's regime. On April 7, 1997, U.S. Treasury Secretary Robert Rubin and Finance Minister Nguyen Sinh Hung signed an accord in Hanoi for Vietnam to repay debts of USD145 million for the former government of South Vietnam (U.S. Department of State). Vietnam began its first day without U.S. embargo with a USD145 million in the payable account its balance sheet.

Debt, corruptions and economic inefficiencies were contributing to the malfunctioning of the South Vietnam economy (Lederer, 1968). A well-known study has found empirical evidence proving that the U.S. tends to provide aid for governments and regimes associated with corruption while Scandinavian countries and Australia gave to less corrupt governments (Alesina & Weder, 2002). Here, there is even tentative evidence suggesting an increase in aid results in more corruption, which is in line with the "voracity effect." Back to the case of Vietnam, the amount of U.S. aid to the government of South Vietnam hit USD6.1 billion in 1960-1961, of which 78.7% or USD4.8 billion went back to the U.S. for supplies purchases (Đặng, 1991). Had it not been for the aid, this author argues, the U.S. exports would have slumped by 12% (Đặng, 1991). Therefore, helping the government of South Vietnam was helping the U.S. economy.

Before the settlement with the U.S. government, Vietnam had to pay about USD140 million in arrears in previous loans for the International Monetary Fund in 1993. The payment, made possible thanks to the help of France and Japan, enabled the country to be eligible to borrow another USD223 million from the fund (Bater, 1993; Reuters, 1993).

Foreign aid

International donors provided Vietnam with ODA funds worth some USD45 billion between 2005 and 2015, which means Vietnam is paying an average of USD1 billion annually for both the original loan and the interest, according to Truong Hung Long, head of the ministry's Department of Debt Management and External Finance (Bạch Dương, 2016). As noted in the macro-level debts section, the new middle-income country status Vietnam gained in 2009 has made it ineligible to borrow development aid from the World Bank, the IMF, and the

Asian Development Bank (ADB) at preferential rates starting July 1, 2017. The inefficient implementation of many projects across Vietnam signals a continuous need to borrow capital, albeit at a higher interest rate.

The local economist Vo Dai Luoc had said that lenders offering ODA often require Vietnam to hire contractors from their countries, which raises costs due to the monopoly factor (Anh, 2016). As a result, many projects using ODA become more expensive than those not using ODA funds. Pham Sy Liem, vice chairman of the Vietnam Construction Federation, concurred, saying while ODA interest rates may be lower than those of bank loans, contractors often have to fulfill conditions stipulated by the lenders — like using high-priced design, consultancy, and supervisory services provided by companies from their country.

In one example, Japan, one of the largest donors to Vietnam, suspended official development aid in March 2013 after the head of Tokyo-based Japan Transportation Consultants (JTC) admitted to bribery. Mr. Tamio Kakinuma told Japanese prosecutors that he paid JPY80 million to win the over-ground rail link's bid. A court in Hanoi then arrested six men related to the case. JTC was also found to have paid hundreds of thousands of dollars in kickbacks to officials in Vietnam, Uzbekistan, and Indonesia. Earlier in December 2008, Japan suspended aid to Vietnam for four months during a similar scandal that led to a 20-year jail term for the deputy head of Ho Chi Minh City's transport department (AFP, 2015).

Among the problematic issues for not having preferential loans since becoming a middle-income country for Vietnam is the lack of funding from foreign donors for HIV/AIDS fights in the country. UNAIDS (2012) estimated that the country's funding shortfall for these programs was at USD1.5 million in 2013. As more donors pulled out from the country following the status change, the gap was estimated to reach USD1.07 billion between 2014 and 2020. This dearth of funding could make it difficult for Vietnam to keep its track record of HIV/AIDS prevention, especially when the number of people infected with the disease is still rising, over 267,000 people in 2011 versus just over 91,000 in 2000 (Ministry of Health, 2013).

As a debtor state, Vietnam undoubtedly faces the pressure to either adapt ex-ante to creditor states or foreign donors generally, which would lead to convergence or to seek alternative arguments or protection from various instruments (Dyson, 2014). Foreign aid offers that window into the way donors could dictate its borrowers. Alesina & Dollar (2000) find evidence that foreign aid allocation is determined by political and strategic considerations, instead of the economic needs and policy performance of the recipients. A non-democratic former colony receives twice as much aid as a democratic non-colony, the authors note in their landmark research.

This finding shed light on the flows of foreign aid to Vietnam, especially from the World Bank's private sector arm, the International Finance Corporation (IFC). The Inclusive Development International organization in 2017 pointed out several "dodgy deals" by IFC in the Southeast Asian region for exacerbating poverty, polluting the environment, and contributing to climate change in the region (IDI, 2017).

Discussion

The new politics of debt

The paper had presented the landscape of the credit market in Vietnam with the participation of multiple parties. The common trend across the three sectors of the Vietnamese financial system appears to be fewer requirements, less collateral, for their loans, which means the risk for indebtedness is higher than ever. Paradoxically, this high risk also presents a new type of politics in Vietnam where the debtors are now having more power than the lenders. In this new politics, which can be seen as part of the "too big to fail" epithet, debtors have so much power that if they turn bankrupt, no one will repay the debts. Consequently, the lenders will have to keep feeding them, enacting a vicious cycle of borrowing and lending that would eventually leave both sides worse off—the debtors near default while the lenders full of bad debt. The underlying cause is no other than people having more behaviors to add up debts than behaviors to add up equities.

At the individual, household and business levels, it appears that the Vietnamese are indeed borrowing under the drive of consumerism. When assessing this borrowing behavior, Vietnamese households are found to borrow more for consumption, which differs from the traditional view that people often spend their income rather than borrowing (Le Phu Loc et al., 2016). With regard to the probability of Vietnamese households default on loans, Tra Pham & Lensink (2008) find that the higher probability of default rests on loans: (i) of a larger size, (ii) on a secured basis, (iii) not regularly paid, (iv) for business and consumption instead of for housing, and (v) for urban-based households. The level of loan repayment varies across the three financial sectors, with informal lenders at higher risk of default than their counterparts.

Here, it is important to note that in Vietnamese culture, as in other cultures around the world, being in debt is considered a vice and one ought to get out of debt as quickly as possible. We need to learn how during the transition to market economy, Vietnamese people, both at the macro and the individual levels, started to become more comfortable with debt. As previous studies have suggested, to give a fuller account of the behaviors of Vietnamese people, one should investigate the socio-cultural dimensions (Vuong, Ho, La, et al., 2018; Vuong & Napier, 2015; Vuong & Tran, 2009). Perhaps, under some specific circumstances, the culture, which has predominantly condemned the vice of being in debt financially and praised frugality, could bring about a mindset that tolerates exactly the opposite.

Policy implications

Seeing the rate of rising debts, the authors of this paper find no policy that would be able to resolve the current situation without causing a clash in the society. If the policy implication is to put a warning sign on the lending market, this would create a bad image for the lenders and worsen their revenues. On the other hand, government, businesses, households, and individuals cannot stop borrowing as their revenues could never catch up with the demand for spending.

The addiction towards spending and borrowing to spend poses a question on the sustainability of the current anti-corruption campaign led by General Secretary of Communist

Party of Vietnam Nguyen Phu Trong. The Party Chief had succeeded in the early days with the punishment of several high-profile officials. However, the addiction to consumption and cash will remain a major challenge to this campaign.

The government had recently started a conversation on whether it should allow gambling for Vietnamese people. In fact, the National Assembly on June 13 approved a law that would allow Vietnamese nationals to participate in sports betting (VNA, 2018). Some had argued that the permit for locals to gamble and play in the casino for Vietnam would help spur economic growth. Although it is difficult to verify this argument, it is certain that those who gamble are risk-seekers and will only seek to borrow more money to bet a few dollars more.

Here, we think instead of going for a policy that would exacerbate the spending tendency; it is arguably better to search for a policy that would encourage people to look at spending differently. For example, a recent study in healthcare spending propensity has found that Vietnamese people do not often see spending as a form of investment for their future, at least not consciously (Vuong, Ho, Nguyen, & Vuong, 2018). Thus, by introducing propaganda campaigns that target this specific area, one might indirectly reign in the unabashed and extravagant borrowing and spending across Vietnam.

Conclusion

This paper has shown Vietnam's strong demand for credit in both the rural and urban areas, the ubiquity of informal lenders, the recent popularity of consumer finance companies, as well as the government's attempts to rein in its swelling public debt. A close look at the borrowing and lending landscape in Vietnam highlights the lack of barrier to borrowing money in all three sectors of the financial system: credit institutions increasingly lower the requirements, i.e., less collateral, for borrowing. The finding, thus, rings alarm over the ease of falling into indebtedness and possibly destitution in Vietnam today due to reckless spending and zero saving.

An important takeaway from this paper is the new type of politics of debt in Vietnam where the debtors are now having more power than the lenders to the point that they may be "too big to fail." Given the continually rising debt, it is inevitable that one day the amount of debt will be higher than any borrowers could manage to pay back. Unlike the conventional wisdom that creditors have more bargaining power over the borrowers, we suggest here, albeit lacking a quantitative estimation, that when the debts pile up so high that the borrowers could not repay, the power dynamics may reverse. If the borrowers default on the debts, the lenders will lose as well, and thus, would continue to lend and feed the debtors. We now come back to the story of Lord Chổm as we touch on in the Introduction ("Nợ như Chúa Chổm" [As Deeply in Debt as Lord Chổm]). The man was so indebted and insolvent that all his creditors couldn't do anything but continue to let him have his way—to eat on credit.

While there are many other reasons attributable to the increase in debt, this paper suggests that this situation is driven mainly by political forces, both domestic and international. Consumerism plays an important role in the behavior to borrow money. Further in-depth analyses will help to identify the radical empowerment of lending.

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