Title: The Evolution of Large Domestic Businesses and Oligarchs in Vietnam

Author: Nguyen Xuan Thanh

This paper has been submitted to the conference 'Vietnam: political and economic challenges and opportunities' at the Australian National University on 3 October 2019

The Evolution of Large Domestic Businesses and Oligarchs in Vietnam

Nguyen Xuan Thanh
Fulbright School of Public Policy and Management

May 2019

Introduction

The economic transition in Vietnam from a centrally planned to a market economy and from one of the world's poorest nations to a middle-income country over the last 30 years has been driven by the rapid growth of a dynamic private sector. Vietnam today has almost 550,000 domestic private companies. According to the government and the Vietnam Chamber of Commerce (VCCI) classification, large companies account for only 1.2 percent of the total number of enterprises in Vietnam.[1] But in 2018, one third of the top 100 companies ranked by sales were private firms.[2] With the growth of these large domestic private companies, there emerges a number of wealthy individuals who are now billionaires and multi-millionaires in Vietnam.

According to Winters (2011), oligarchs are actors who command and control massive concentrations of material resources that can be deployed to defend or enhance their personal wealth and exclusive social position. Using this framework, I will classify many of the Vietnamese billionaires and multi-millionaires as oligarchs because they have (i) active control of large private companies, (ii) accumulated wealth by focusing their businesses in industries that offer opportunities for rent-seeking such as real estate and banking, (ii) support and protection from the political elites, and (iii) various strategies and mechanisms to defend their wealth.

In the following sections of the paper, I will identify oligarchs in Vietnam and research their wealth origins, their roads to material power, and their strategies for wealth defense.

[1] Vietnam Chamber of Commerce (VCCI), Vietnam Annual Business Report, 2017/2018, accessed at http://vbis.vn/bao-cao-thuong-nien-doanh-nghiep-viet-nam-2017-18.html on 13 April 2019. According to the 2018 ranking, of the top 100 companies ranked by sales, 34 were private, 48 were either state-owned or equitized (i.e. partially privatized), and 18 were FDI.

[2] The list of top Vietnamese companies is compiled annually by Vietnam Report, http://vnr500.com.vn.

Searching for Vietnamese Oligarchs

In March 2013, for the first time, Forbes magazine named Vietnamese first billionaire, Pham Nhat Vuong, whose net worth was estimated at US$1.5 billion.[3] Since then, the number of Vietnamese billionaires whose wealth can be verified through their ownership of shares in Vietnam's stock exchanges has risen to five. Table 1 lists these five individuals. As all of them have accumulated wealth from real estate and banking and are shown in the later section of the paper as actively building political connections and protection, they are considered oligarchs.

Table 1: Vietnamese Billionaires Based on Ownership of Shares Traded on Vietnam's Stock Exchanges, May 2019

Name	Companies under Control					Market Value of Owned Shares (US$ million)	Net Worth Estimated by Forbes (US$ million)
	Company Name	Industries	Rank in Vietnam's Top 500 Firms (1)	Market Capitalization (US$ million)	Ownership Control (2)		
Pham Nhat Vuong	Vingroup	Real estate (retail, healthcare, education, automotive, technology)	6	15,828	58.4%	9,250	7,500
Nguyen Thi Phuong Thao	Vietjet Air	Airlines	28	2,749	38.4%	1,255	2,200
	HDB	Banking	73	1,165	17.0%		
	Sovico	Real estate					
Ho Hung Anh	Masan Group	Consumer products	30	4,327	21.7%	1,561	1,700 (Mar 2019)
	Techcombank	Banking	45	3,459	17.0%		
Nguyen Dang Quang	Masan Group	Consumer products	30	4,327	21.7%	1,121	1,300 (Mar 2019)
	Techcombank	Banking	45	3,459	0.3%		
Tran Ba Duong	Thaco	Automotive	22	4,688 (3)	71.0%	3,328	1,700
	Dai Quang Minh	Real estate					

Source: Author's estimation based on data from Hanoi and Ho Chi Minh City's Stock Exchanges and ownership disclosed by the Vietnam's State Securities Commission. Forbes' data are taken from the 2019 List of World Billionaires, accessed at https://www.forbes.com/billionaires/#6026c68a251c on 13 April 2019.

Note:
(1) Vietnam Report, List of Top 500 Vietnamese Companies 2018, http://vnr500.com.vn. Companies are ranked based on annual volume of sales. Vietnam Report ranks the top 500 including state-owned, domestic and FDI companies.
(2) Ownership control is based on combined ownership of shares by individual billionaires and their relatives either directly or indirectly through investment vehicles.

[3] *Forbes*, 2013, "Vietnam's First Billionaire And The Triumph Of Capitalism", March 25, 2013 issue of Forbes, http://www.forbes.com/sites/michaelnoer/2013/03/04/vietnams-first-billionaire-and-the-triumph-of-capitalism/, accessed 2 June 2014.

[(3)] Thaco is not listed. The market capitalization of Thaco is based on the prices of Thaco's share traded on the over-the-counter (OTC) market.

Table 2 lists Vietnamese multi-millionaires whose market value of listed shares under ownership exceeds US$200 million. Of the five people in this list, Trinh Van Quyet and Bui Thanh Nhon can be considered oligarchs since they get most of their wealth from real estate businesses. Trinh Van Quyet and his FLC group have also been actively cultivating political support for wealth defense.

Table 2: Vietnamese Multi-Millionaires Based on Ownership of Shares Traded on Vietnam's Stock Exchanges, May 2019 (> US$200 million)

Name	Companies under Control					Market Value of Owned Shares (US$ million)
	Company Name	Industries	Rank in Vietnam's Top 500 Firms [(1)]	Market Capitalization (US$ million)	Ownership Control [(2)]	
Tran Dinh Long	Hoa Phat Group	Steel	23	2,960	32.4%	960
Trinh Van Quyet	FLC Group	Real estate		142	21.2%	566
	FLC Faros	Construction		796	67.3%	
	Bamboo Airlines	Airlines				
Bui Thanh Nhon	Novaland	Real estate	90	2,341	20.5%	480
Ho Xuan Nang	Vicostone	Construction materials		426	77.1%	329
Nguyen Duc Tai	Mobile World	Trading, Tech	14	1,658	14.1%	234

Source: Author's estimation based on data from Hanoi and Ho Chi Minh City's Stock Exchanges and ownership disclosed by the Vietnam's State Securities Commission.

Note:
[(1)] Vietnam Report, List of Top 500 Vietnamese Companies 2018, http://vnr500.com.vn. Companies are ranked based on annual volume of sales. Vietnam Report ranks the top 500 including state-owned, domestic and FDI companies.
[(2)] Ownership control is based on combined ownership of shares by individual millionaires and their relatives either directly or indirectly through investment vehicles.

Despite some rapid growth in recent years, Vietnam's stock market capitalization is still only 71 percent of GDP and there are just 752 joint-stock companies listed in the Ho Chi Minh City and Hanoi Exchanges. In addition, there 814 companies traded in the OTC market.[4] There are more oligarchs who control Vietnam's large unlisted companies. Table 3 lists the oligarchs who control the largest unlisted private companies in Vietnam. While the exact value of their

[4] Vietnam State Securities Commission, Number of listed companies in Vietnam as of April 2019, accessed at http://www.ssc.gov.vn on 10 May 2019.

wealth cannot be determined using market prices, the large sizes of the real estate companies or banks under their control very likely make them multi-millionaires and oligarchs.

Table 3: Vietnamese Oligarchs Who Control Large Unlisted Private Companies in Real Estate or Banking

Name	Companies under Control		
	Company Name	Industries	Rank in Vietnam's Top 500 Firms
Duong Cong Minh	Him Lam Group	Real estate, finance	
	Lien Viet Post Bank	Banking	102
	Sacombank (*)	Banking	47
Truong My Lan	Saigon Commercial Bank	Banking	40
	Van Thinh Phat	Real estate	
Thai Huong	TH Milk	Dairy products	
	North Asia Bank	Banking	175
Do Quang Hien	SHB (*)	Banking	59
	T&T	Finance, real estate, trading	133
Do Minh Phu	Doji Group	Jewelry	21
	Tien Phong Bank (*)	Banking	154
Nguyen Thi Nga	Seabank	Banking	159
	BRG	Real estate	
Vu Van Tien	An Binh Bank	Banking	200
	Geleximco	Real estate, trading, finance	
Dang Van Thanh	Thanh Cong	Sugar, trading, finance, real estate	
Doan Nguyen Duc	Hoang Anh Gia Lai (*)	Real estate, rubber, sugar, hydropower	183
Vu Quang Hoi	Bitexco	Real estate	
Dang Thanh Tam	Tan Tao	Real estate	
	Kinh Bac	Real estate	
	Saigontel	Telecommunication	

Source: Author's determination based on large unlisted real estate companies and banks drawn from Vietnam Report's Top 500.

Note: (*) These companies are listed. However, the oligarchs' main source of wealth comes from the unlisted companies.

Lastly, I compiled a list of three people under the category of former oligarchs. They were multi-millionaires up until recently but have now been put in jail as they failed in their wealth defense.

Table 4: Vietnamese Former Oligarchs

Name	Companies under Control		
	Company Name	Industries	Rank in Vietnam's Top 500 Firms (1)
Ha Van Tham	Ocean Group	Real Estate, Trading	
	Ocean Bank	Banking	
Nguyen Duc Kien	Asia Commercial Bank	Banking	51
Tram Be	Southern Bank	Banking	
	Sacombank	Banking	47
	Binh Chanh Construction	Real estate, construction	

Given the lack of publicly available information, there above lists are certainly not exhaustive, but they do include the most prominent oligarchs in Vietnam. In the following sections, I will focus on some of these oligarchs to research their wealth origin, the growth of their businesses, and various mechanisms deployed by them to defend their wealth.

The Rise of Vietnam's Private Sector and the Origin of Private Wealth

The Multi-Sectoral Economy

Unlike the Soviet Union and China which largely collectized the entire economies once the communist parties gained power, private economic activities still existed in Vietnam during the period of central planning. Before 1992, the private sector already played a very important role in agriculture and services; it was mainly in Vietnam's industrial sector where the government's role was disproportionately large. By early 1990s, the agricultural sector was almost entirely private. Household farms accounted for 97.1 percent of agricultural value-added in 1990. In the service sector private firms (mostly in trade) accounted for 55.8 percent of value-added in 1990. In the industrial sector, non-state enterprises accounted for 37.2 percent of value-added in 1990. A significant proportion of HCMC's economic activities in trade and small-scale manufacturing continued to exist outside of the state plans and were subject to market forces during the 1980s (Lich 1996). However, almost all private businesses existed as household-based and/or informal units. In 1991, there were only 122 formal private enterprises in Vietnam. With the adoption of a new constitution in 1992 that formally defined the economy as "a multi-sectoral commodity economy functioning in accordance with market mechanisms under the management of the state and following a socialist orientation", the formal domestic private sector was recognized legally. Within a year, the number of private enterprises increased from 122 to 4,361.[5]

However, throughout the 1990s, setting up a private business was very difficult and time- and resource-consuming with a complicated licensing regime. Each and every new private enterprise had to be approved and license signed by the chairman of the city or provincial Peoples' Committee. During this process, promoters and founders of new private enterprises had to obtain many sub-licenses from various government agencies with authorities at various levels of government having excessive discretionary power.

[5] Data provided by the former State Planning Commission of Vietnam.

Another big constraint facing the private sector in Vietnam during the 1990s was access to credit as the banking system was dominated by state-owned banks which catered mostly to state-owned enterprises (SOEs) with directed lending. In 1992, state-owned banks accounted for 84 percent of the banking system's total asset and 83.6 percent of the domestic credit went to the government and SOEs. By 1999, the numbers were still 82 percent and 63 percent respectively.[6]

However, even in this very difficult business environment, some private companies were established and grew big making its owners the richest people in Vietnam today. Two main factors contributed to the origin of private wealth and the rise of oligarchs in Vietnam, namely, businesses in Ho Chi Minh city taking advantage of the Renovation (Doi Moi) Policy and money from Vietnamese doing business in Eastern Europe.

Origin of Private Wealth: Ho Chi Minh City (HCMC) and Doi Moi Policy

Just like Russia and China, Vietnam had no oligarchs under socialism and central planning. As the communists took power in North Vietnam in 1954, local oligarchs had no choice but to either move south or emigrate abroad. A very few wealthy families that chose to remain in Hanoi had to quickly turn over their assets to the state. After 1975, when the country was unified, a similar process happened in the south with much of private wealth destroyed. But throughout the second half of the 1970s, Hanoi was unable to fully install central planning in the south. As already mentioned, a significant proportion of HCMC's economic activities in trade and small-scale manufacturing continued to exist outside of the state plans and were subject to market forces. Vo Van Kiet, chairman of HCMC Peoples' Committee, who later became the city's party chief and Vietnam's prime minister, appreciated the importance of market forces and allowed prominent businesspeople in the city to trade in order to keep the city economy alive. As a result, while there were no large private material resources, entrepreneurship still existed in the south during 1980s.

When many market-oriented reforms as part of the Doi Moi policy were implemented in the early 1990s, there was already a group of businesspeople in HCMC who stood ready to take advantage of price liberalization and lack of competition to seek profits from arbitrage trading. They would later become the first generation of Vietnamese oligarchs.

---

[6] Data from World Bank, Vietnam Financial Sector Review, World Bank Country Report, 1995 and IMF, Vietnam Selected Issues, IMF Staff Country Report No 99/55, 7/1999.

Truong My Lan, who built Van Thinh Phat Group, belongs to this generation. She first started in the restaurant and trading businesses, then moved into real estate and hotel. She gained prominence with the redevelopment of An Dong Market and new investment in Windsor Plaza Hotel in the mid-1990s. During this time, she played up her business skills and the Hong Kong financial backing through the connections of her husband's Eric Nap Kee Chu. Only towards the late 1990s, she began to rely on various political connections to seek new business opportunities and defend her wealth.

The story of Dang Van Thanh and his Thanh Cong Group is also very similar. Dang Van Thanh started out as an owner of a small factory producing sugar syrup and rubbing alcohol. Market reforms allowed him to supply his products to many state-owned enterprises (SOEs) that were previously prohibited from procuring supplies outside of the central planning system. From there, Thanh was able to develop his family-based production unit into a sugar empire. At the same time, he also moved to create a credit cooperative that eventually turned into one of the largest private banks in the country. By the mid-1990s, Dang Van Thanh and Truong My Lan already became very wealthy and were in a position to deploy their material resources.

Tram Be and Doan Nguyen Duc are two southern businessmen who both made their first fortunes in forestry products and wood processing. Doan Nguyen Duc grew up in Vietnam's south central coast. He started out producing tables for schools in the central highlands, then moved into wood processing, and eventually built Hoang Anh Gia Lai, a diversified business group with businesses in real estate, rubber, and hydroelectricity generation. Tram Be grew up in the Mekong Delta in a very poor family, moved to Saigon as a boy working in the city's major traditional markets. His first business was in wood processing and then construction, real estate and finance. Both Tram Be and Doan Nguyen Duc needed the entire 1990s and early 2000s to truly become oligarchs.

Origin of Private Wealth: Eastern Europe

The second road through which Vietnamese oligarchs first built their wealth was Eastern Europe. During the 1980s, Vietnam managed to send many of its brightest high school graduates to the former Soviet Union and other Eastern European countries for university education. The process was fairly merit-based through the implementation of a very competitive university entrance examination.[7] Many Vietnamese students who graduated in Eastern Europe in the early 1990s decided to stay and go into private business in the post-Soviet market liberalization. Young, smart and supported by strong Vietnamese community networks, many of them built successful ventures in export-import, restaurants, and food processing often through borrowings in informal financial markets.

Eventually, they brought their money and their own business style back to Vietnam, which means (i) doing risky deals for large expected profits, (ii) using high financial leverage, (iii) and sparing no financial expenses in securing political support.

Pham Nhat Vuong, Vietnam's first billionaire, is in this category. Vuong went to study mineral extraction in Moscow in the late 1980s. After graduating in 1993, he moved to Ukraine to start his restaurant and then food processing businesses. After becoming Ukraine's processed-food king, he sold his instant noodle business to Nestlé for a reported US$150 million. The money was then channeled back to Vietnam to help Vuong developing major real estate projects in Hanoi, HCMC, the coastal city of Nha Trang and Phu Quoc island, eventually making the company the largest real estate developer and Mr. Vuong the richest person in Vietnam.

Similar to Pham Nhat Vuong, Ho Hung Anh and Nguyen Dang Quang co-founded an instant noodle business in Russia. Unlike Vuong, Anh and Quang brought their original business back to Vietnam by establishing Masan Group, which started by producing instant noodles and soya source. The money from Russia was also used by Mr. Anh to gain majority ownership of Techcombank. Masan is now one of the largest domestic consumer product company and Techcombank is one of the largest joint-stock banks in Vietnam.

Pham Thi Phuong Thao and her husband Nguyen Thanh Hung setup Sovico company in 1992 as a trading company with wealth originated in the former Soviet Union where they did their undergraduate and graduate studies. Using business connections in Russia, Sovico's business was imports of heavy machinery and industrial materials in the early 1990s. From 1997, it moved into real estate and banking. In 2007, Thao founded Vietjet Air, the first truly private and budget airline in Vietnam. With Sovico as a holding company investing in banking, real estate and airlines, Thao became the first female billionaire in Vietnam in 2017 when Vietjet was listed in Ho Chi Minh city Stock Exchange.

[7] According to the Ministry of Education and Training, only 5 percent of high school graduates could pass the entrance exam at that time and only those with the top score could go to Eastern Europe.

Nguyen Duc Kien can also be seen as having the Eastern European connection. Kien passed the university entrance exam to Vietnam's Military Technical Academy and was sent to Hungary for undergraduate education in communication in early 1980s. Graduating in 1985, some years before the collapse of the Soviet Union, Kien came back immediately to Vietnam and started working at the General Corporation of Textile (Vinatext) which engaged heavily in garment trading between Vietnam and Russia in the late 1980s. By early 2000s, he has managed to take control of Asia Commercial Bank (ACB), the largest joint-stock commercial bank in the country at that time and three other smaller banks.

SOEs, Privatization and Oligarchs

The rise of many oligarchs in the world, and Russia in particular, was through privatization of SOEs. Braguinsky (2009) documented that of 296 Russian oligarchs, 132 were SOE managers, political elites and their relatives. During a period of mass privatization and lack of a strong legal framework, public officials and senior managers of SOEs using insider information, manipulation in asset valuation and loan/share swaps to take control of privatized SOEs.

Vietnam's SOE equitization policy also gave some opportunities for the managers and their connected parties to accumulate wealth. However, the Party and the government of Vietnam chose the name equitization instead of privatization to mean that the state would continue to hold major stakes in the equitized firms. As a result, the opportunities were really limited for either SOE managers or outside investors to take control and/or engage in asset stripping.

In any case equitization in Vietnam has proceeded very slowly. The Party still designates the state sector as having the leading role in the economy. The defining feature of the Vietnamese economy has been dualism, a strategy that sought to retain the dominance of the state sector while opening to foreign investment and permitting the emergence of a vibrant private sector (Dapice 2003). Dualism was thought to be necessary to ensure political support for the transition to a market economy. Under this strategy, state economic groups were established. Diversifying into non-core businesses, setting up new subsidiaries, and securing contracts in non-competitive ways were channels for the managers to accumulate private wealth. At the local level, HCMC and many other cities and provinces also saw the accumulation of private wealth by public sector officials and managers through many newly established local SOEs and siphoning of public funds and assets into private firms (Gainsborough 2003). While many public sector officials and SOE managers became very wealthy, but their wealth was still not large enough for them to turn into oligarchs. There is no manager or former manager of SOEs who appear in the top 40 richest people in Vietnam's stock market. The richest former SOE managers and their families own shares of the equitized firms under their management that worth only between US$50-120 million.[8] There are richer public sector officials and SOE managers whose wealth are hidden and cannot be verified. And there are public sector officials and managers or their relatives who built their own private businesses, but none of them became multi-million-dollar companies. Their main source of power remains their position as agents of the state to manage state-owned assets, which cease to exist upon job transfers or retirement.

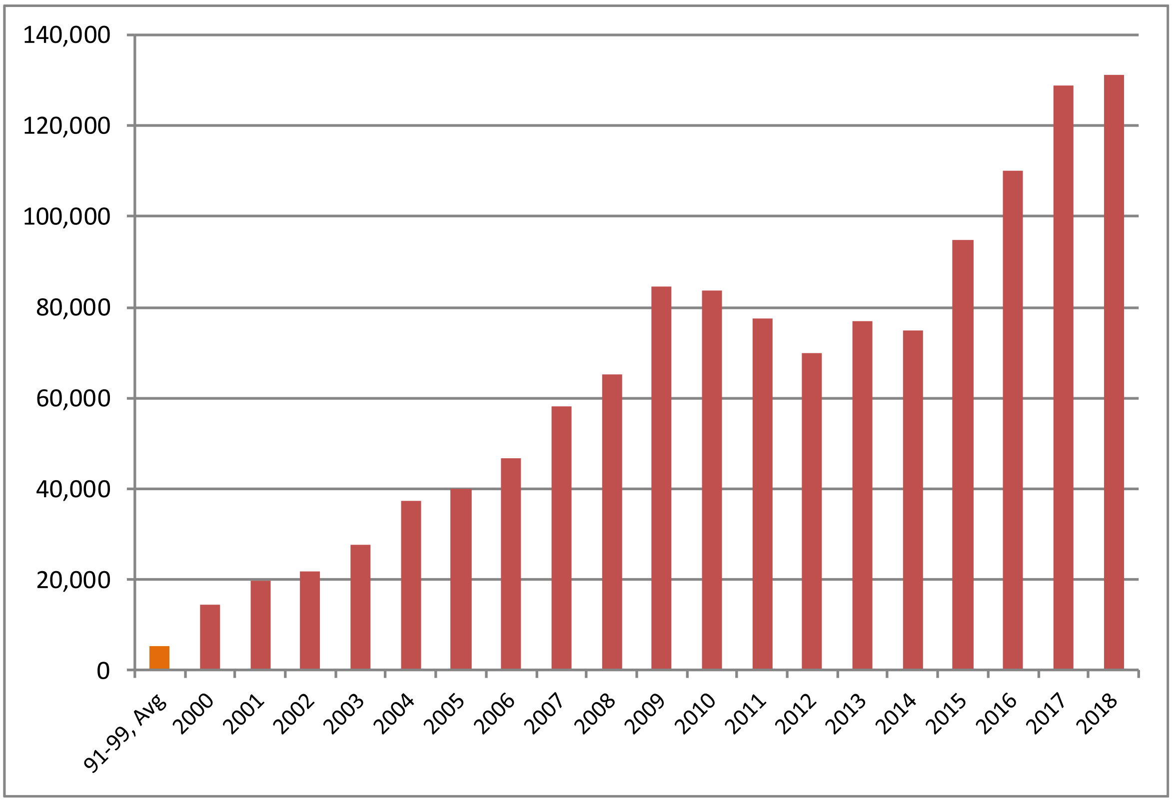
The Growth of Large Private Firms and Oligarchs

Private Sector with the 1999 Enterprise Law

Overall, Vietnam had done very well over a decade since the launch of *Doi Moi*. The economy grew rapidly up to 1997, averaging 8.3% per year during 1991-1997. While avoiding serious damage from the Asian Crisis and the slowdown in the world economy, Vietnam's GDP growth fell to 5.8% in 1998 and 4.8% in 1999. A positive response to the crisis was the promulgation of a new enterprise law in 1999. The law was drafted and passed as the government increasingly recognized that the economy needed a larger formal private sector in addition to foreign direct investment to create jobs and GDP growth. The main effect of the new law was the simplification of the procedures needed to start a new business and abolishment of sub-licenses. An explosion of new private companies was recorded immediately after the implementation of the Enterprise Law (Figure 1).

[8] Cafef.vn, "Top 200 người giàu nhất trên thị trường chứng khoán" (Top 200 riches in the stock market), accessed at http://s.cafef.vn/top/ceo.chn on 13 April 2019.

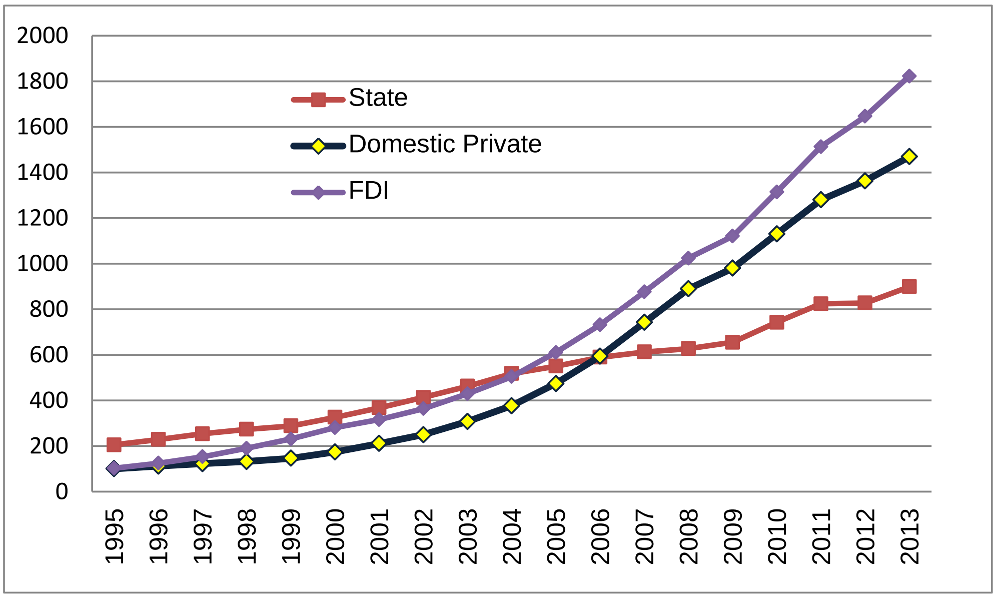
Figure 1: Number of Newly Registered Private Companies



Source: Agency of Business Registration, Ministry of Planning and Investment.

The successful implementation of the enterprise law and expanded global market access provided by new trade agreements were the driving forces for the growth of export-oriented domestic private companies. Figure 2 shows the growth of industrial output by SOEs, FDI companies and domestic private companies from 1995 to 2013. The domestic private sector really took off around 2000 and surpassed the SOE sector by 2006 in terms of output value. A high concentration of labor-intensive garment companies is found the southeast comprising of Ho Chi Minh City, Dong Nai, and Binh Duong. The region also attracts local private investments in plastics, rubber, and chemicals. Outdoor furniture products and animal feeds businesses developed in the south-central coast. An export-oriented seafood processing cluster emerged in the Mekong Delta. Lagging a dynamic market economy and constrained by the central planning mindset of local leaders, northern provinces lagged behind their southern counterparts in terms of private sector development throughout the 1990s and early 2000s (Dapice et al. 2004). The 1999 Enterprise Law helped created a wave of new private companies in the north. The emergence of the formal private sector northern provinces surrounding Hanoi with immediate positive impact on tax revenue and job creation in turn helped change attitude of public officials toward local private businesses there.

Figure 2: Growth of Industrial Output by Form of Ownership (Domestic Private Sector in 1995 = 100)



Source: Authors' calculation based on data published by Vietnam's General Statistics Office.

However, it is important to note from Figure 2 that the FDI sector has grown much faster than the domestic private sector. On the one hand, FDI companies enjoy much more generous preferential treatment from the government in terms of tax incentives and access to land and infrastructure services. On the other hand, FDI companies can use external institutions to avoid many institutional obstacles facing the domestic private sector such as protection of property rights, access to credit, and access to technology (FETP 2013).

Although the 1999 Enterprise Law did a great deal in reducing the licensing costs and entry barriers for domestic private businesses, it did not create a level-playing field in the business environment of Vietnam. As a result, while many private firms were established, they were small in size and unable to become larger. In 2002, an average private company in Vietnam had 74 employees and US$1.5 million in capital. Also, in that year, super-small companies, those that have no more than 10 employees, US$130,000 in either revenue or capital, accounted for 53.1 percent of the total number of private companies. In 2011, an average private company in Vietnam had only 34 employees and US$2.2 million in capital. And the share of super-small companies went up to 65.6 percent in the 10-year period.[9]

[9] The data were taken from Vietnam Chamber of Commerce (VCCI), Vietnam Business Annual Report 2012.

In this still difficult business environment, most of the private companies that managed to become larger were those that moved aggressively into real estate and banking.

Oligarchs and Their Real Estate and Banking Businesses

The earlier section has shown that most of Vietnam's current biggest oligarchs made their first money based on their own entrepreneurial spirits and risk-taking behavior either in the most economically dynamic parts of Vietnam or in Eastern Europe during the early 1990s. This experience sets Vietnam apart from China and Russia where major roads to riches were being top SOE managers with insider access to strip assets or being relatives/subordinates to senior party leaders. During the next phase of evolution, they moved into real estate and/or banking, exploiting loopholes in the government land policy and financial regulation for rent seeking and accumulation of material resources.

As a real estate developer, Mr. Vuong's Vingroup possesses the unique capacity in securing land titles at prime locations and executing projects on time with quality. Unlike many of his peers, Vuong did not go into banking but chose to focus on real estate. Up until 2006, Vingroup financed its projects using equity finance, borrowings from sources outside of the formal banking system, and advances from customers. The rapid expansion of Vietnam's banking system since 2006 allowed Vingroup to tap credit provided by commercial banks. During 2009-2012, the state-owned Vietinbank became the biggest lender to Vingroup. Through loans disguised as corporate bonds, the bank financed Vingroup's biggest residential and commercial real estate developments in both Hanoi and Ho Chi Minh City. BIDV is another large state-owned bank that helped finance Vingroup. From 2005 to 2018, Vingroup grew 642 times in total assets, 1,207 times in total debt, and 90 times in after-tax profits.

Ho Chi Minh City Housing Development Bank (HD Bank) was originally founded and owned by a number of local SOEs under the direction of the city government. Nguyen Thi Phuong Thao began buying shares of the bank in 2003 and became its largest shareholder. Pham Thi Phuong Thao also turned her Sovico into a holding company and started investing in real estate and banks during this time. In 2005, Sovico acquired the Furama Resort complex in Da Nang and set up Phu Long Real Estate to develop Dragon City Project in Saigon South. Saigon Sovico Phu Quoc was set up in 2008 develop resorts in Phu Quoc island. In 2007, Vietjet Aviation JSC was established. Its three major shareholders were Sovico, HDBank, and T&C Investment JSC. In 2009, Sovico acquired all of Vietjet shares from T&C. After this transaction, Sovico owned 70% and HDBank owned 30% of Vietjet charter capital. As air travel boomed in Vietnam, Vietjet expanded and became the largest domestic carrier. Thao became Vietnam's first female billionaire when the airline was listed in the Ho Chi Minh city Stock Exchange in 2017.

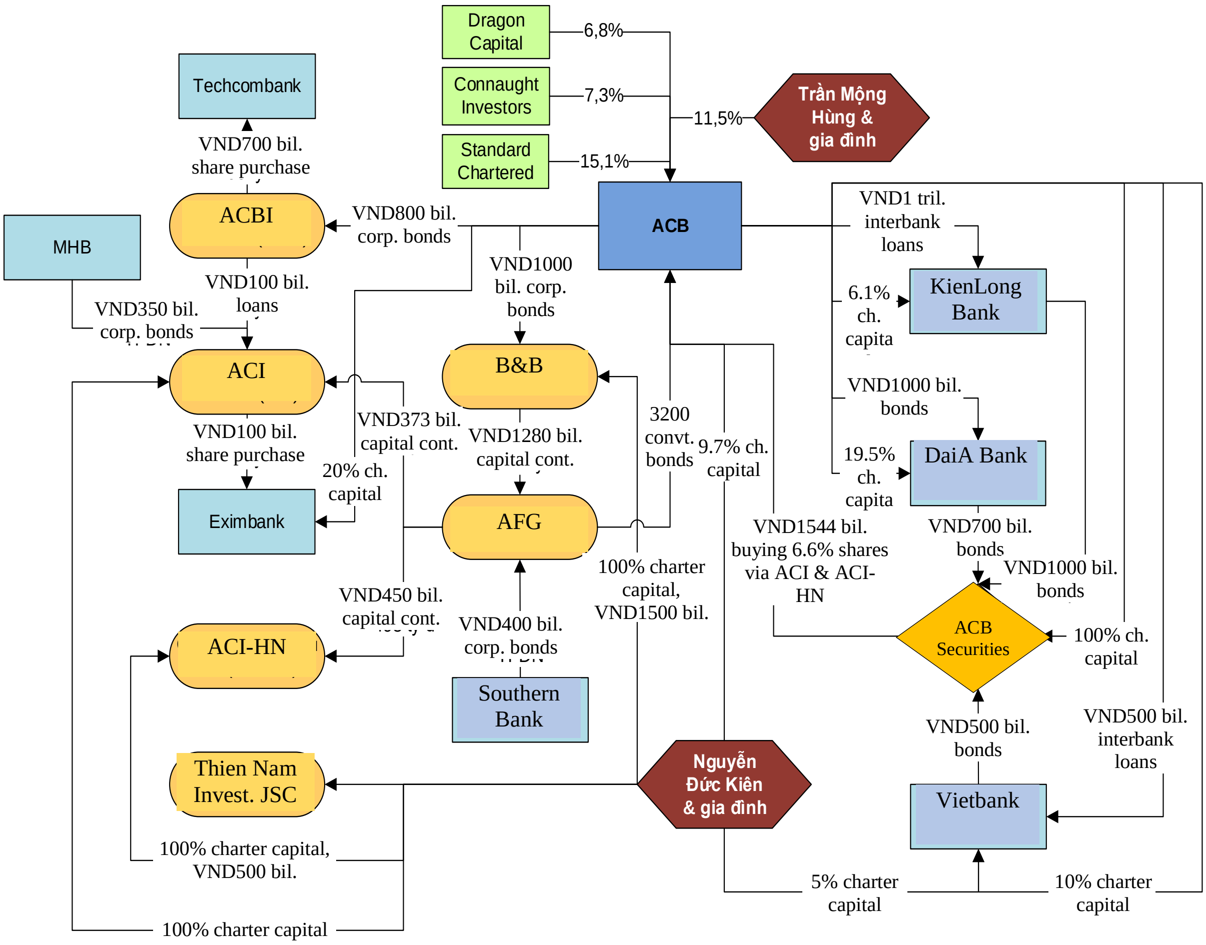
Techcombank was originally controlled by Le Kien Thanh, the son of Le Duan, Vietnam's former Party General Secretary. Ho Hung Anh bought into the bank in early 2000s and quickly increased his stake. Le Kien Thanh left in 2005. Another major shareholder, Nguyen Thi Nga left in 2007 leaving Ho Hung Anh in total control of the bank. Under Mr. Anh, Techcombank grew extremely fast and was known for its aggressive lending strategy during the asset bubble years of 2006-2008. Corporate and individual borrowers consider it to be an "easy" bank to get financing for their speculative investments. Headquartered in the north, by 2012 the bank had surpassed its more well-known southern peers like ACB and Sacombank in terms of total assets. From 2005 to 2018, Techcombank's assets and after-tax profits increased by 30 and 41 times respectively.

As of late 2011, Asia Commercial Bank (ACB) was the largest joint-stock bank both in terms of total assets and loans. ACB was also seen by the market and depositors as having the best financial health with high profitability. Its average ROE during 2006-2011 was 28.0%. In its ownership structure, ACB had three major shareholder groups – Tran Mong Hung's family, Nguyen Duc Kien's family, and a group of foreign shareholders (including Standard Chartered Bank, Dragon Capital, and Connaught Investors). However, Nguyen Duc Kien managed to dominate both the board and management of the bank ACB. Kien and his family founded and owned 6 companies – Asia Investment JSC (ACI), B&B Trading Investment JSC, ACB Hanoi Investment JSC (ACBI), Asia Hanoi Finance Investment (ACI-HN), Asian Group (AFG), and Thien Nam Export-Import Commercial JSC. By controlling the board and the management of ACB, Kien directed the bank to finance his companies to invest in securities (including shares in ACB itself) and gold accounts directly and indirectly through ACB Securities Company (ACBS) and commercial banks in which ACB was a major shareholder. Cross-ownership and connected financing were used by Kien to accumulate wealth (see Figure 3).

Truong My Lan, Dang Van Thanh and Tram Be in Ho Chi Minh City also setup similar cross-ownership structures among their real estate and banking businesses in the aggressive drive to grow their businesses.

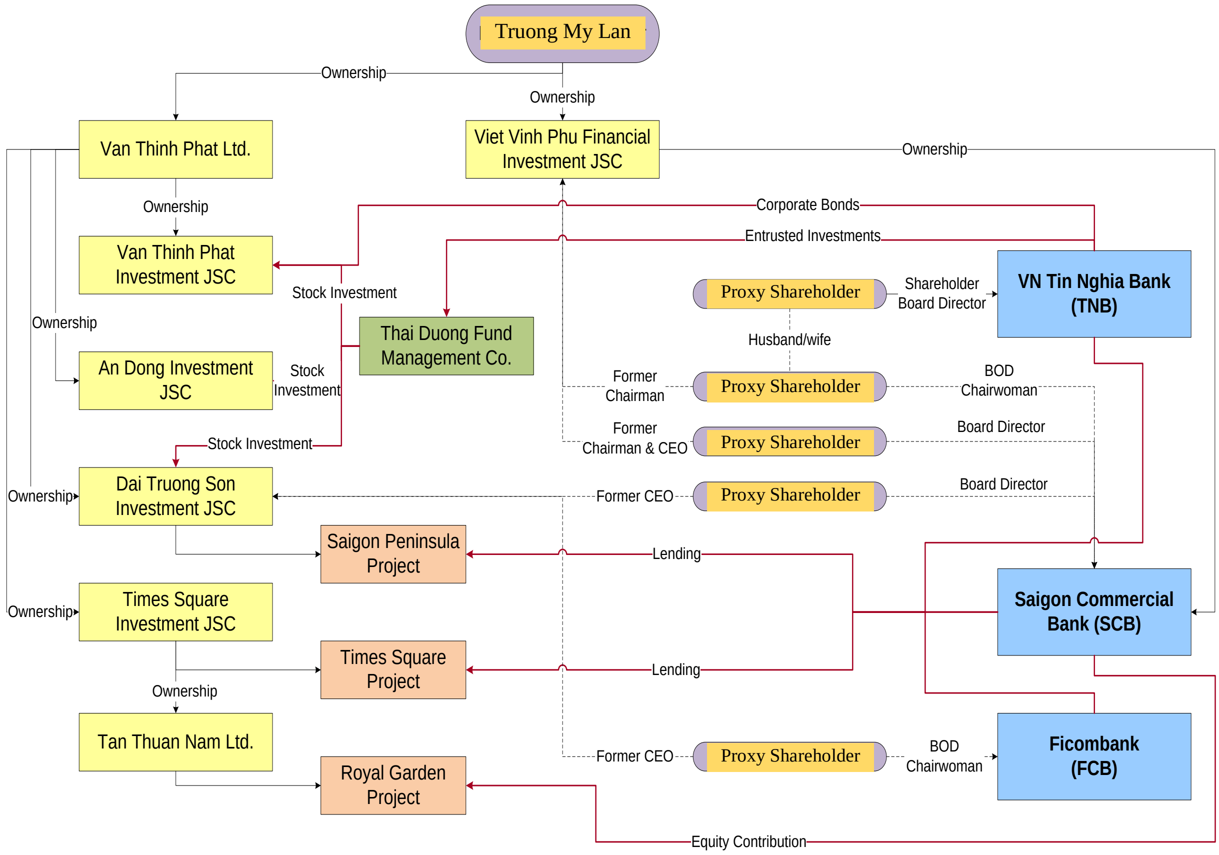
Truong My Lan acquired control of three Ho Chi Minh city-based banks, SCB, Tin Nghia and Ficombank, by using loans from one bank to buy shares in the others. The three banks in turn financed real estate companies under her Van Thinh Phat Group (see Figure 4).

Figure 3: The structure of ownership, investment and lending between ACB and affiliated institutions, 31/12/2011



Notes: The ownership ratios were as of 31/12/2011; loans and investment trusts took place during 2010-2011.
Source: Author's estimation based on the financial statements, annual reports, prospectuses, and management reports by ACB and affiliated institutions, 2010-2011.

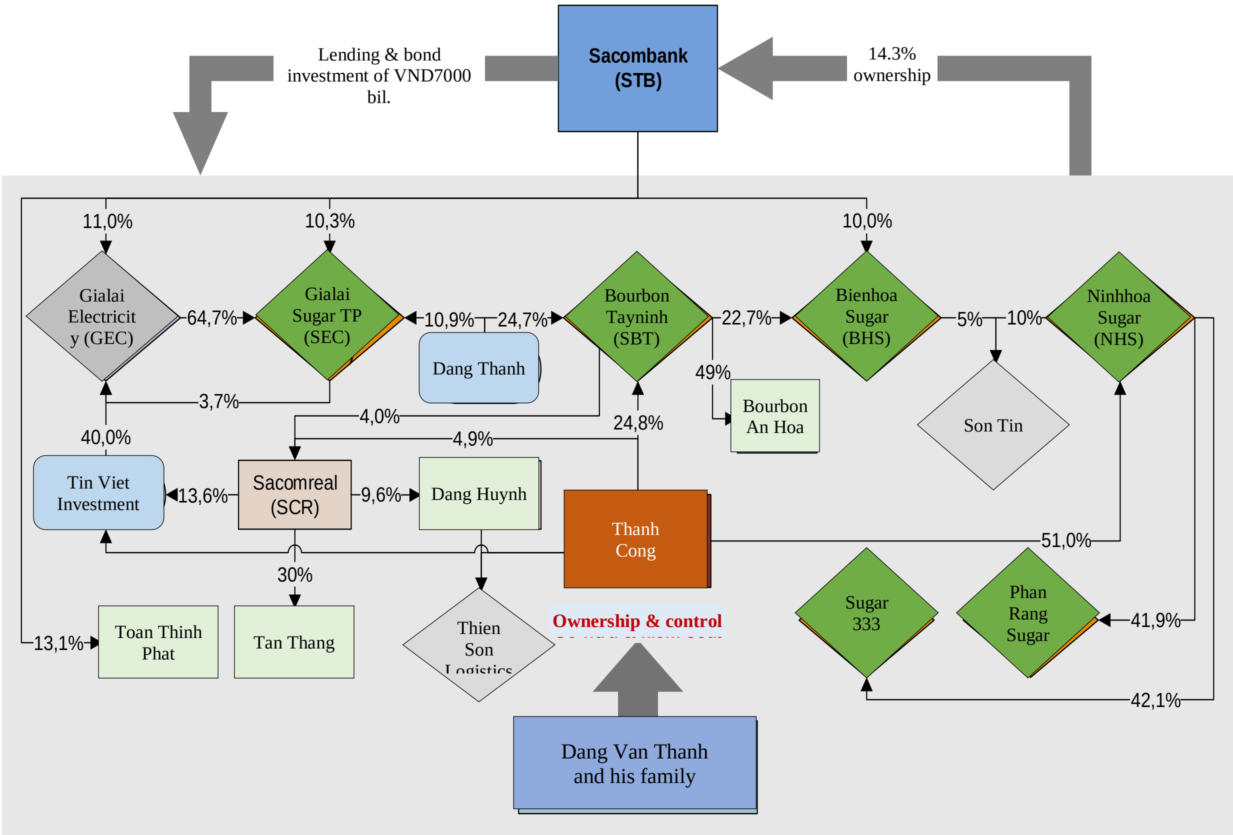
Figure 4: The structure of ownership, lending, and investment between SCB, Tin Nghia Bank, and Ficombank



Source: Author's estimation based on the financial statements, annual reports, prospectuses, and press releases by the banks and affiliated companies as of 30/9/2011.

Sacombank was founded in late 1991 as the State Bank of Vietnam gave out licenses to setup a dozen of Vietnam's first joint-stock commercial banks. It was formed after the merger between Go Vap Economic Development Bank and three credit cooperatives – Tan Binh, Lu Gia, and Thanh Cong– the last of which was founded by Mr. Dang Van Thanh. Under Thanh's leadership, Sacombank became one of the largest private banks between the mid-1990s until 2011. Parallel to the development of Sacombank was the expansion and interlocking ownership structures between non-financial companies under control of Dang Van Thanh. The Thanh Cong Household Business Unit was transformed into Thanh Cong Co., Ltd. in 1999 and Thanh Cong Manufacture Trading JSC in the mid-2000s. In 2011, Thanh established Thanh Cong Group with Thanh Cong Investment JSC as the core and the 5 original member companies in trading and sugar production - Bourbon Tay Ninh, Ninh Hoa Sugar, Thanh Cong Trading, Dang Huynh, and Thanh Ngoc. These businesses all received financing directly or indirectly from Sacombank (see Figure 5).

Figure 5: The structure of ownership, lending, and investment between Sacombank and companies affiliated to Dang Van Thanh's family, 31/12/2011



Source: Author's estimation based on financial statements, prospectuses, and annual reports of Sacombank and businesses affiliated to Dang Van Thanh's family, 2010-12.

Oligarchs and Political Connections

To continue to build up their material resources and defend their wealth, almost all of the oligarchs had to develop strong political connections which happened during the late 1990s and the entire 2000s. Their experience with building political connections has resulted in it being the key method to defend wealth. Many oligarchs strategically built relationships with one or a group of senior leaders from one political institution. They betted on the rise of this center of power for the continuation of protection and further growth of their wealth.

To protect her banks and real estate empire, Truong My Lan has been carefully building a very close relationship with the HCMC's leaders. Because of large exposure to the real estate market, Mrs. Lan's three banks became insolvent in the late 2011 and were forced by the government to merge into one big bank. Discovering improper transactions in connected lending, high levels of NPLs and overdue borrowings in the interbank market by the three banks, the State Bank of Vietnam (SBV) officials first recommended for closure or a large state-owned bank to take them takeover. Supporting Mrs. Lan, HCMC Party and Peoples'

Committee were totally against this solution and used their political power to force for the merger solution with liquidity support from the government.

At the start of Doi Moi, Nguyen Duc Kien already used his relationship with key figures in Russia to help the Vietnamese leadership in the negotiation for the resolution of Soviet-era debt and the import of military hardware. His rewards were lucrative business opportunities whose profits were used by him to acquire major stakes in Vietnam's private financial institutions. Later, his strategy for wealth defense was to build relationships with senior leaders in the central government and the State Bank of Vietnam (SBV), the regulator of commercial banks in Vietnam. In exchange for their support, Kien helped provide different businesses of the relatives and associates of these political leaders with easy and cheap financing.

Tram Be also adopted Kien's strategy. With the support of the central government and banking regulator, Tram Be made a hostile takeover of Sacombank. Tram Be's wealth came under threat when his Southernbank suffered from a serious liquidity problem and losses incurred in many of his real estate projects in 2011. To hide the problems and seeking recovery, he took over Sacombank, a much larger bank than Southernbank. He then forced a merger of the two banks to hide Southernbank's problems and used the bigger merged bank to continue financing his real estate projects.

Ha Van Tham, who controlled Ocean Group and Ocean Bank, built strong relationships with PetroVietnam, the national state-owned oil company. PetroVietnam became a strategic shareholder in Ocean Bank. Ha Van Tham grew Ocean Bank's assets financed by deposits mobilized from many subsidiaries of PetroVietnam.

Also build and defense wealth based on political connections, but oligarchs like Pham Nhat Vuong and Ho Hung Anh were able to cultivate relationships with multiple political leaders or institutions. They deployed their material resources even to competing political factions and thus ensured broad-based support for their businesses. It is not a coincidence that oligarchs in this group are those that made their wealth first in Eastern Europe. Their larger initial wealth allowed them to pursue the costly strategy of buying support from multiple state leaders.

Pham Nhat Vuong was known for rarely being seen in the public and behind the scene skillful in securing support from many senior leaders in the central government. He also built strong relationships with senior managers of two state-owned banks to have them finance his real estate projects rather setting up his own banks or using cross-ownership. Support of local political leaders in Hanoi, Ho Chi Minh and provinces with tourism potential allowed Vuong's Vingroup to secure land and build residential and commercial properties quickly there. The case of Bason Shipyard illustrates Vuong's deal making capability. Bason was a military shipyard that was no longer used by the Ministry of Defense since 2000. However, the land could not be redeveloped for many years because of disagreement between the military and Ho Chi Minh city's government about its land use and who could hold the development right. In 2015, Vingroup came and skillfully negotiated with both these two powerful institutions and paid them both to become the project developer.

The political connection of Ho Hung Anh was brought into play when the central government gave his company, Masan group, the green light to buy Nui Phao mine (which has the world's largest identified tungsten deposits outside China) from Dragon Capital. This was a reward for Ho Hung Anh's role in resolving a major foreign debt owed by the now bankrupt state-owned shipbuilding group, Vinashin. After failing to make the first three repayments on a syndicated loan of US600 million, Vinashin offered its international creditors 35 cents on the dollar. Hedge Fund Elliot Advisers, having purchased part of the debt, refused and asked for the full face value. The news that Elliott Advisers filed a lawsuit against Vinashin and the Government of Vietnam in November 2011 caused a lot of concern for the Prime Minister. Legal proceedings would reveal details about the Prime Minister's last-ditch effort to save Vinashin. He decided to transfer assets, many of which are guarantors in the loan, to two other state-owned groups, namely, PetroVietnam and Vinalines. This action could provide a strong ground for proving the government's intervention in Vinashin, affecting the company's ability to service its debt. Techcombank entered the deal in early 2012, offering to buy the debt with 35 percent in cash and the rest in Masan convertible debt. On 16 March 2012, Vinashin received a letter from Elliott Advisers informing that it had dropped the lawsuit.

Dang Van Thanh was one oligarch who did not actively seek political protection from the city's political establishment or from the central government. His only attempt was to pay for some of the leaders' children to study abroad. Instead his wealth defense strategy was mainly based on business diversification (into real estate and security trading) and ever expanding his Sacombank's assets to become too big to be destroyed. What happened in 2010-2011 was that when his vulnerabilities were exposed as the real estate bubble busted and strategic investors left his bank, Mr. Thanh was powerless in preventing his Sacombank from being taken over.

The predator of his bank was Tram Be mentioned earlier. Without political protection, Dang Van Thanh was forced to leave Sacombank's board and sell his stakes in the bank.

Threat from the State and New Mechanisms for Wealth Defense

Suffering from macroeconomic instability during 2008-2011, Vietnam's economic growth slowed down significantly. Losses in SOE and public investment projects and wrong economic decisions made by different political leaders were exposed. That set up the stage for an intense infighting and open competition among different political leaders and institutions in the Vietnam's political system. The political infighting posed tremendous challenges to the oligarchs, making the wealth defense strategy based on a single relationship with one political leader or institution less effective or even disastrous. That was the fall of three oligarchs listed in Table 5.

Kien's problem began when his ACB was investigated for irregular financial dealings with other banks. In 2012, Nguyen Duc Kien was arrested on charges of fraud and illegal trading of shares and gold. In June 2014, Kien was sentenced to a 30-year prison term.

In October 2014 Ha Van Tham and several senior managers of PetroVietnam were arrested together during an investigation that first focused on deposits from PetroVietnam's subsidiaries to Oceanbank but later expanded to widespread corruption at the state-owned business group. Tham received a life-in-prison sentence in May 2018.

After the merger between Southernbank and Sacombank, Tram Be was seen as firmly in control of the new largest joint stock bank in Vietnam. But in 2015, he was forced to hand all of his shareholder rights at the merged bank to the State Bank of Vietnam. He was arrested in August 2017 and a year after that was sentenced to 4 years in prison.

During this turbulence time, the oligarchs that hedged their political risks by building relationships and support on a broader base continued to flourish. But even this strategy of wealth defense has become vulnerable as anticorruption investigations intensify. Officials arrested are not just oligarchs or senior managers of SOEs, but senior officials in local government and central governments, members of the Party Central Committee and Politburo.

Transferring funds to offshore accounts and securing foreign citizenship by oligarchs have been reported. However, these actions are seen not as wealth defense, but as measures to maintain a minimum level of living standards in case their oligarchic empires are destroyed. Moving the oligarchs' companies abroad or listing them on foreign stock exchanges prove to be infeasible as Vietnamese companies are yet to be global or even regional players.

Two new wealth defense strategies have emerged recently. One strategy is to invite the participation of large international strategic investors and subject the business interests to the framework of international law (British or Singapore) instead of Vietnamese one. All businesses of the five Vietnamese billionaires are now listed and have large international investors and funds as major shareholders.

The other new strategy is for the oligarchs to replace the role of SOEs as instruments of the State to implement its industrial policy. Facing the spectacular collapse of Vinashin and then the massive losses incurred by other state-owned conglomerates, the Party and the Government at the start of a new political term in 2016 could no longer deny the failure of their past industrialization strategy. While still not abandoning the leading role of the state sector officially, leaders in the Party and the government have been quiet about giving support and preferential treatment to SOEs. A new relationship is being formed between the state and the oligarchs and this time it is official: the oligarchs are encouraged to go into new industries such as heavy industries, automotive, and technology, as part of the government's new industrialization policy. VinFast producing cars and VinTech in AI and high-tech applications are two of the most frequently mentioned company names these days in Vietnam.

Conclusion

This paper presents an analysis of the formation and evolution of oligarchs and the businesses under their control during the last 30 years of transition from central planning to market economy in Vietnam. Based on the initial identification of a number of well-known oligarchs, I look at two distinct sources of original wealth, namely, the dynamism of the market economy already existed to some extent in Ho Chi Minh City before the economic reform and the Eastern European connection. Detailed case studies show that many oligarchs resort to the building of cross-ownership structures and political connections to ensure further wealth accumulation and wealth defense. Vietnam's economic growth slowdown after the global financial crisis and internal political fighting within the state system are posing tremendous challenges to the oligarchs, making many of their existing political relationships much less effective or even disastrous in defending their wealth. In response, the oligarchs are now actively inviting the participation of large international investors and employ the protection of international legal systems. And most recently, a new cozy relationship is being forced between the government and the oligarchs as their businesses are encouraged to invest in new industries with the government's official support.

Reference

Braguinsky, Serguey. 2009, "Postcommunist oligarchs in Russia: Quantitative analysis." *Journal of Law and Economics* 52.2: 307-349.

Dapice, David. 2003, Vietnam's Economy: Success Story or Weird Dualism? A SWOT Analysis, Paper prepared for the United Nations Development Programme and the Prime Minister's Research Commission of Vietnam.

Dapice, David, Nguyen Dinh Cung, Pham Anh Tuan and Bui Van. 2004, History or Policy: Why don't Northern Provinces Grow Faster? Paper prepared for the United Nations Development Programme.

Fulbright Economics Teaching Program (FETP) and the Harvard Kennedy School's Ash Center for Democratic Governance and Innovation. 2013, Unplugging Institutional Bottlenecks to Restore Growth, A Policy Discussion Paper Prepared for the Vietnam Executive Leadership Program (VELP).

Gainsborough, Martin. 2003, Changing Political Economy in Vietnam: The Case of Ho Chi Minh City, London: RoutledgeCurzon.

Lich, Tran Du. 1996. Kinh Tế Việt Nam Giai Đoạn Chuyển Đổi (Vietnam's Economy During Transition), Ho Chi Minh City: Saigon Times Press.

Thanh, Nguyen Xuan, Tran Thi Que Giang, Do Thien Anh Tuan, and Nguyen Duc Mau. 2012, The Merger of Three Commercial Banks, Fulbright Economics Teaching Program Case Study.

Winters, Jeffrey. 2011. Oligarchy. New York: Cambridge University Press.