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In the Paddies of Vietnam, Americans Land in Quagmire

By **ROBERT FRANK**

Staff Reporter of THE WALL STREET JOURNAL



Richard McCombs

CAN THO, Vietnam -- When U.S. companies parachuted back into Vietnam in 1994, the popular slogan was: "Vietnam is no longer a war. It's a market." Try telling that to corporate veterans like Richard McCombs.

Two years ago, Mr. McCombs packed up his belongings in the former Saigon, waved goodbye to his Vietnamese friends and boarded a plane back to the U.S. His multimillion-dollar effort to build a rice business in the Mekong delta -- one of the first and most prominent U.S. ventures in Vietnam -- had collapsed. His local business partners had become enemies, the police were threatening to put his employees in prison, and the Communist Party attacked his company as the latest example of American imperialism.

Even now, American Rice Inc., the company Mr. McCombs worked for, and the Vietnamese government continue to fight over the liquidation of the company's in-country assets. Sitting over a bowl of Vietnamese chicken soup in his house near San Francisco recently, the soft-spoken Mr. McCombs tries to make sense of his three-year ordeal.

"I ask myself, 'Could I have done things differently?' " he says. "I'm not sure of the answer. But I do know that Vietnam is not ready to allow foreign businesses to be successful."

Twenty-five years ago this month, the last American soldiers and diplomats beat a chaotic retreat from Vietnam. Now, a second American withdrawal is on. After hundreds of American businesspeople piled into Vietnam in the mid-1990s, spending more than \$1 billion on everything from auto factories and cola bottlers to power plants and steak houses, many are calling it quits amid heavy losses. U.S. investment has dropped more than 80% since 1996, to \$127 million last year. U.S. companies that haven't closed altogether are cutting back their business and pulling out expatriate staff.

The problems that did in American Rice are the same ones threatening many U.S. companies in Vietnam today -- poor legal protection, hostile joint-venture partners, heavy bureaucracy and a deep-seated suspicion of capitalism and foreign interests. Despite

incremental legal reforms in Vietnam, Moody's Investor Service last month pointed to the country's "hesitance to allow further foreign participation in the economy" as a threat to progress.

Some of the corporate casualties: Chrysler Corp., now part of **DaimlerChrysler**, shelved plans for a \$189 million automobile assembly plant after the Vietnam government decided to allow 14 auto makers to set up shop in the country, instead of the original three. **Ford Motor** Co. built a \$102 million joint-venture factory with the capacity to make 14,000 cars a year. Last year it sold 400. **Procter & Gamble** Co. has racked up more than \$30 million in losses since it set up shop, and **PepsiCo** is bleeding cash.

The once-lively community of American expatriates has also dried up. Keith Nolan, a guitar player who once belted out funk tunes in the bars of Ho Chi Minh City (formerly Saigon), got tired of singing to empty chairs and recently moved to Bangkok. "Most of our gigs were going-away parties," he sighs.

Investors from plenty of other countries, such as Taiwan, Korea and Japan, are also hurting in Vietnam. Companies bear part of the blame; yes, Vietnam has 77 million people, but does it make sense to try to sell \$20,000 cars to people with an average income of \$300 a year?

There are some success stories, like **Citigroup's** Citibank unit, **Caterpillar** Inc.'s heavy-equipment business and apparel companies such as **Nike** Inc.

Yet for the U.S., with its anguished history in Vietnam, the large number of corporate losses is especially painful. American Rice tells the story.

Of all the U.S. companies that flocked to Vietnam in 1994, few seemed to hold as much promise. The Houston-based rice company -- the largest in the U.S. -- planned to team up with a local partner to sell Vietnamese rice overseas. With American Rice hungry for supply, and Vietnam desperate for customers, the venture seemed ideal for both sides and for millions of struggling Vietnamese farmers.

On a steamy spring morning in 1994, Mr. McCombs, then American Rice's 53-year-old chief financial officer, and his wife, Claire, touched down at Ho Chi Minh City to begin their new life in the East. He was greeted by his new business partner, the elegant and powerful Duong Tyhi Ngoc Trieu, known as Madame Trieu.

"She was very nice ... at first," says Mr. McCombs.

To crack the Vietnamese rice market, American Rice needed a strong local ally. Rice isn't just a business in Vietnam; it's a political tool, food staple and kernel of Vietnamese culture. Employing more than 75% of Vietnamese workers, the rice business relies on extensive government subsidies and export permits to survive.

Madame Trieu seemed a promising partner for such a delicate business. As head of the largest government-owned rice exporter, Vinafood II, her empire stretched from the emerald-green paddies of the south to the marble halls of the Hanoi government. As the daughter of a former government minister and war hero, she also maintained strong ties to then-Prime Minister Vo Van Kiet.

But what started as a partnership quickly became a contest. On a hot day in mid-1994, Mr. McCombs sat on a wooden chair in Madame Trieu's meeting room for more than eight hours as she slowly chipped away at the terms of the original business plan. She refused to grant the company permits for exports, saying they would receive such quotas "as you need them." She charged American Rice new fees that more than doubled the costs of the joint venture, and required American Rice to provide the \$14 million in financing.

Madame Trieu, who declined to comment directly for this story but authorized several staffers and translators to speak for her, says the contract clauses were all part of the original agreement, and were "fair to both sides." Vinafood adds that export quotas can never be guaranteed to any company, since they vary according to economic circumstances.

After months of negotiating, the two companies reached agreement, and the joint venture -- 55%-owned by American Rice and 45%-owned by Vinafood -- opened for business in late 1994. Mr. McCombs moved to Tra Noc, in the heart of Vietnam's "rice bowl," and settled into an old U.S. Army food warehouse near the rice mill.

He usually awoke at dawn and spent 12 to 13 hours a day at the mill, turning what was once a government-run supplier into an entrepreneurial start-up. He installed \$1.5 million worth of high-tech equipment, raised management salaries to help stem graft and required the accountants to keep detailed records.

With no other Americans nearby, he adapted to simple village life. At sunset, he and his wife often motored down the Mekong in a small wooden boat, gazing at the bamboo huts, longboats and families bathing their children in the river. An avid naturalist, he also built an aviary for his new collection of tropical song birds.

No Worries

Yet a few months into the new venture, Mr. McCombs got an unwelcome surprise. A global shortage of rice caused a huge demand for Vietnamese exports, but American Rice received permits to sell only 30,000 tons of rice, well below the 120,000 planned. Unable to meet its costs, American Rice demanded an explanation from Madame Trieu.

"Don't worry, this was an unusual year," she responded, according to Mr. McCombs. "You'll get more next year." Representatives for Madame Trieu and Vinafood say American Rice was given as much quota as possible under the circumstances.

With their first season a washout, Mr. McCombs and his colleagues took a bold gamble. Turning to one of its biggest former customers, the government of Iran, American Rice won a contract to sell the country \$100 million of rice, fetching the highest-ever price for Vietnamese rice. Since the Vietnam joint venture was considered a foreign entity, it was exempt from U.S. sanctions on Tehran.

American Rice was ecstatic. Madame Trieu was livid. On the eve of Tet, Vietnam's New Year, Madame Trieu, Mr. McCombs and his boss, Gerry Murphy, called a meeting to discuss the deal. Madame Trieu insisted that the contract was hers -- that is to say, the government's -- since "such contracts were always negotiated between governments."

American Rice said the deal was theirs, won by costly marketing. Mr. Murphy said to Madame Trieu: "If you don't want to be our partner, then fine, we'll go it alone." Madame Trieu stormed out of the meeting and slammed the door. Mr. McCombs turned to Mr. Murphy and said, "I think we just won the battle and lost the war."

American Rice received about half of the Iran contract; the rest went to Vinafood and other exporters. Making matters worse, Mr. McCombs was forced to farm out much of the work to competing government exporters and to buy rice from Thailand, since it couldn't get enough export permits from Vietnam.

Mr. McCombs' radical rice-buying program stirred further controversy. Rather than buying from pricey state-owned brokers or traders, Mr. McCombs decided to purchase straight from the growers, thereby cutting costs and delivering higher prices to the farmers. He set up buying stations in remote villages and launched a "frequent seller" promotion where farmers could win radios and TVs if they came with large amounts of quality rice.

When word of the plan reached the fields, farmers poured in from around the countryside. Mr. McCombs woke up one morning to find hundreds of small wooden boats, piled with rice, tied up at the docks of the mill. An aide to Mr. McCombs whispered that some of the state-linked traders were infuriated. "He said, 'You know, it would be better politically to buy from this middleman,' " recalls Mr. McCombs.

Smiles on the Farm

Yet many rice farmers were delighted. Nguyen Van Von, a 49-year-old rice grower in the small village of Phuoc Thoi, loaded up a truck and waited outside the American Rice mill for 12 hours to make a sale. He got his highest price ever.

"The Americans were good for the rice business," says Mr. Nguyen, sitting under a mango tree on a recent morning with his wife and daughters. The government was less pleased. Said one official to American Rice: "We gave you a license to sell rice, not start a social revolution."

With poor sales, however, the joint venture's losses soared to \$2 million and Vinafood officials began attacking American Rice's spending -- even though Mr. McCombs' salary was \$14,500 a year. During a weekly staff meeting, a former Vietcong jungle fighter who had become a Vinafood manager stood up and yelled to Mr. McCombs, "You are not doing things the Vietnamese way. The American way has failed."

Mr. McCombs shot back: "I will not have this conversation in this meeting. This is a matter for the board of directors."

It was already too late. In October 1996, the government announced that the national Inspectorate, a widely feared ministry responsible for investigating large-scale embezzlement, was launching a probe of the American Rice venture.

Mr. McCombs was baffled. "We certainly hadn't stolen anything," he says. "The only thing we could be accused of was losing money on the business, and that was because we were denied the export permits."

Investigators questioned the entire staff and combed through stacks of company receipts. American Rice staffers were threatened with jail for approving certain expenses. One of Mr. McCombs' lieutenants was asleep one night when burglars slipped in through the roof, sprayed sleeping gas on his two dogs and stole several company files and a laptop computer. The robbers were never found.

The Inspectorate concluded that American Rice had "materially violated its investment license, the laws of Vietnam and ... caused serious damage" to Vinafood. It said many of the company's expenses -- including electricity bills and phone charges -- were unapproved and that American Rice owed the government \$1.1 million in taxes from transactions with the rice farmers.

When the report was leaked to the local press, American Rice became a lightning rod for anti-Americanism. Former U.S. Treasury Secretary Robert Rubin, touring Vietnam in 1997, was told about the case and asked the then-prime minister: "Why are you treating American Rice like this?" according to diplomatic officials who witnessed the exchange. (Through a spokesman at Citigroup, where Mr. Rubin now works, he says he doesn't recall mentioning American Rice specifically, but did stress to Vietnamese leaders the importance of creating a good environment for foreign investors.)

After incurring more than \$3 million in losses, and well past his two-year commitment, Mr. McCombs called it quits. In early 1998, he packed his things in Ho Chi Minh City and boarded a plane back to San Francisco.

Today, his rice mill in Tra Noc sits quiet, with only a few workers peddling past the empty warehouses. His old aviary is gone and the birds have vanished. The government and American Rice are squabbling over the liquidation of some of American Rice's old assets. American Rice itself just emerged from bankruptcy court; its former parent company, Los Angeles-based Erly Industries, had sought bankruptcy-law protection due to a legal dispute unrelated to Vietnam. American Rice is under new management. Officials there have no comment on the company's Vietnam experience.

Mr. McCombs, who left the company in 1998, recently took a job at a plastics-recycling company. Sitting in his kitchen, with Vietnamese folk songs playing on the CD player, Mr. McCombs pores over photographs from his Mekong days. He grows silent when he spots a photo of his former Vietnamese deputy.

"These are the people I worry about," Mr. McCombs says. "I was able to leave, but my Vietnamese friends ... they have to live with the consequences of helping me."