

Business Advantage Vietnam

2010



ABOUT BUSINESS ADVANTAGE VIETNAM 2010

Business Advantage Vietnam is the first international business and investment guide about Vietnam to have a genuinely global distribution. It is designed to provide business leaders around the world with an overview of economic conditions in the country and the opportunities for business, trade and investment.

The publication is available both in print, and online at www.businessadvantagevietnam.com.

This first edition of *Business Advantage Vietnam* is part of an ongoing commitment to promoting this important and growing economy. Future editions will be published on an annual basis, with the intention that there should always be an up-to-date resource available on the country.

We'd like to thank our publishing partner, the Ministry of Planning and Investment's Foreign Investment Agency for its invaluable assistance with preparing this first edition.

If you have comments, suggestions, or editorial/promotional enquiries relating to future editions of *Business Advantage Vietnam*, please email us at info@businessadvantageinternational.com. (You can also request additional copies of our publications, or subscribe to our regular South East Asian business e-news service.

We hope you find *Business Advantage Vietnam* useful and inspiring.

Andrew Wilkins

Publisher, Business Advantage International



Business Advantage Vietnam 2010 is published by Business Advantage International Pty Ltd
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This publication is available free online at www.businessadvantagevietnam.com. Additional printed copies can be purchased for AUD\$33.00 (incl GST and postage) from the above address or by emailing info@businessadvantageinternational.com

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ISSN 1837-6177(Print)

ISBN 9780980608168

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Cover images: Business Advantage International, iStockphoto

Business Advantage International would like to thank the following for their assistance with the preparation of this publication: Vietnam's Foreign Investment Agency, especially Bui Quoc Trung and Thai Thu Phuong; and all at Austrade Vietnam, especially Shannon Leahy and Hoa Nguyen.



Produced in partnership with the Foreign Investment Agency,
Ministry of Planning & Investment, Vietnam

Printed in Vietnam. Tran Phu printing company.
QDXB No. 378-09/QXB/08-66/THTPHCM. 08/01/2010

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Business Advantage Vietnam is a general guide to some potential business opportunities in Vietnam and is not designed as a comprehensive survey. The opinions expressed herein are not necessarily those of the publisher and the publisher does not endorse any of the business or investment opportunities featured, nor does it accept any liability for any costs or losses related to dealings with entities mentioned in this publication. Readers are strongly advised to pursue their own due diligence and consult with qualified advisors before making any investment decisions.

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ASIA'S NEXT TIGER ECONOMY?

Vietnam has become an export powerhouse on the back of major economic reforms over the past 20 years. Proving itself resilient in the face of the global financial crisis, it is now set on further reforms and the broadening of its industrial base.

The southeast Asian country of Vietnam is the world's 13th most populous country and, with over 46 million workers, has the world's 13th largest workforce. Crossing 13 latitudes from north to south, Vietnam is a country of immense natural beauty, and geographic and geological diversity.

Under the rule of the Communist Party of Vietnam, the country has been transforming itself since 1986 into a vibrant, modern market economy.

MAJOR ACHIEVEMENTS

While this reform process (known as *Doi Moi* or 'renovation') is ongoing, progress has been remarkable in such a short time. Vietnam's gross domestic product has trebled in the last decade, from US\$27.5 billion in 2008, and its very high import and export volumes make it one of the world's most open economies. As the United Nations Conference on Trade and Development (UNCTAD) 2008 Investment Policy Review of Vietnam puts it:

'During the 20 years since *Doi Moi*, Vietnam has undergone an extraordinary transformation from an isolated, poor and collectivised agriculture-based economy into a booming nation on the verge of becoming a new Asian Tiger. It has achieved an extraordinary reduction in poverty and is becoming a significant player in world trade.'

KEY LAWS REFORMED

'One of the attractions here is a stable government that is becoming more business-friendly,' says Thomas Siebert, Chairman of the American Chamber of Commerce in Vietnam.

Laws encouraging foreign investment and domestic private investment started to appear in the late 1980s. These culminated in July 2006 with a new Law on Investment and a Law on Enterprises, both of which went a long way towards ensuring that both foreign and domestic companies are treated equally under one set of laws.

Tax, accounting and land incentives have also been put in place to encourage the development of strategic sectors such as information technology, bio-technology, infrastructure, agricultural

'One of the attractions here is a stable government that is becoming more business-friendly.' — Thomas Siebert, Chairman, American Chamber of Commerce

processing and labour-intensive manufacturing. These incentives apply particularly to businesses locating in Vietnam's specialised industrial zones and in less-developed provinces. Such incentives, together with competitive labour rates, persuaded US chip manufacturer Intel to establish a major presence in Vietnam (see page 30).

Vietnam's accession to the World Trade Organisation (WTO) in 2007 demonstrates that the country's Government is committed to continuing the opening up of its economy. In particular, this will involve wide-ranging tariff and subsidy cuts/caps, the opening up of more industry sectors to greater foreign investment (most notably, perhaps, in banking and finance—see page 14), and the gradual privatisation or equitisation of state enterprises.

MAJOR EXPORTER

Vietnam is now a major source of the world's manufactured goods, especially garments and textiles, a major producer of agricultural commodities such as rice, coffee and rubber and has rapidly developing tourism, mining, services and high-technology sectors.

This diversity in the economy, partly enabled by rich natural resources, and backed by the development of a dynamic domestic market, is a major reason why investors are attracted to Vietnam.

REGIONAL CONNECTIONS

Another attraction is Vietnam's proximity to southeast Asia's other major and developing markets. It is no island: China is a five-hour truck drive from Hanoi; Vietnam borders the developing economies of Laos and Cambodia; and it is close to major markets such as Malaysia, Thailand and the Philippines. Many manufacturers with Chinese-based plants have also located a second in Vietnam for redundancy, under a 'China plus one' policy.

ECONOMIC UPDATE



VIETNAM IN BRIEF

Official Name:	The Socialist Republic of Vietnam
Head of State:	His Excellency President Nguyen Minh Triet
Head of Government:	His Excellency Prime Minister Nguyen Tan Dung
Area:	331,690 sq km
Coastline:	3,260km
Capital:	Hanoi
Official language:	Vietnamese
Population:	86.5 million (2009)
Literacy:	90.3%
Currency:	Vietnam dong (VND)
GDP per capita:	US\$1109 (2009 estimate)
Major industrial Sectors:	Manufacturing, agriculture
Exports:	Crude oil, marine products, rice, coffee, rubber, tea, garments, shoes, pepper
Major export markets:	USA, Japan, Australia, China, Singapore
Imports:	Machinery & equipment, petroleum products, fertilizer, steel products, raw cotton, grain, cement, motorcycles
Major import markets:	China, Singapore, Taiwan, Japan, South Korea

MAIN SOURCE: VIETNAM'S FOREIGN INVESTMENT AGENCY



CREDIT: JANELLE WARDY



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VIETNAM'S PRIME MINISTER, NGUYEN TAN DUNG

RECORD LEVELS OF FDI

In 2007, the country reached record levels of foreign direct investment, as more and more overseas companies saw potential in utilising Vietnam's competitively priced workforce, and in targeting Vietnam's rapidly growing middle class.

This rapid growth put its own pressure on the Vietnamese economy before the global financial crisis, as Dominic Scriven, Director of investment firm Dragon Capital, explains:

'Vietnam did peak in cyclical terms in the end of 2007—nine months before the rest of the world tipped—due to overheating domestically. That brought about a very rapid process of adjustment. The Government had to impose some fairly restrictive policies.'

STIMULUS PACKAGE

That timely intervention was followed in early 2009 by the announcement of a major US\$8 billion economic stimulus package targeted primarily at infrastructure and development projects, bank loan subsidies and tax breaks.

Speaking to Vietnam's National Assembly in October 2009, Vietnam's Prime Minister, Nguyen Tan Dung, said the Government would do its utmost to foster economic growth to exceed the economy's performance in 2008, promote macroeconomic stability, keep prices down, and ensure social welfare.

'The Government was quick and decisive in responding to the global financial crisis, putting together a fiscal stimulus package, providing liquidity to the banking system and expanding the creation of credit,' notes Simon Andrews, Regional Manager for Vietnam, Cambodia, Laos and Thailand at the International Finance Corporation.

FUTURE GROWTH

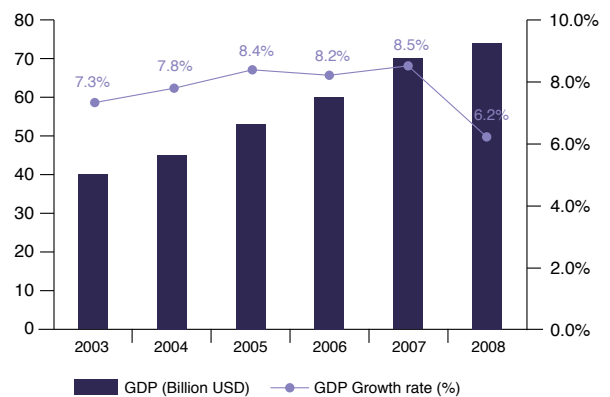
While GDP growth for 2009 was the lowest in a decade, at just over 5%, it was still positive at a time when most of the world's economies were in recession. Given the relative weakness of its key export markets, Vietnam looks likely to have to contend with slower-than-usual growth in the short-to-medium term.

There was, however, a consensus among the business people that *Business Advantage* talked to in preparing this publication that the worst was over:

'We are very positive, you can tell by the investment that we are putting in,' enthuses Thomas Tobin, Chief Executive Officer of HSBC, which in 2009 became the first 100% foreign-owned bank

to incorporate in Vietnam, thanks to new regulations aimed at opening up the financial services sector to foreign investment (see page 14). 'We see the market growing internally and we see trade growing within the region. We can see pretty strong growth over the next 10 years. Vietnam is entering its most productive period.'

'We are focusing mostly on companies that are in cyclical industries such as financials, consumer non-durables and industrials. We believe these sectors should experience a positive earnings bump as demand and trade activities continue to pick up,' notes Madame Nguyen Thanh Phuong, Chairperson of investment firm Viet Capital.



VIETNAM'S GDP GROWTH, 2003 TO 2008

CREDIT: FOREIGN INVESTMENT AUTHORITY

LOCAL MARKET

As Vietnam's economy has expanded, so too have the opportunities to supply the expanding needs of its population. In the past decade alone, the size of Vietnam's metropolitan middle-to-upper class



VIETNAM'S POPULATION HAS GROWN BY MORE THAN 10% IN THE PAST DECADE. SIXTY PERCENT OF PEOPLE ARE UNDER 35.

has grown from 36% of the urban population to 55%. With 60% of the population under 35, there is a strong demand for mobile phones, branded consumer goods and financial services (see box on page 10 for more on Vietnam's consumer market).

CHALLENGES AND REFORMS

Notwithstanding its impressive economic achievements, there are challenges to doing business in Vietnam. The 2010 World Bank Doing Business survey lists Vietnam 93rd out of 183 world economies for ease of doing business. Particular areas of concern for the World Bank were lack of investor protection and the bureaucracy surrounding taxes.

Lack of capacity in infrastructure, which partly caused the overheating of 2007 and even now causes power cuts, continues to be an issue, and is one reason why foreign direct investments, while impressive on paper, are not always fully disbursed.

'Foreign investment is surging, reaching US\$71.7 billion in 2008. However, disbursement inefficiencies and infrastructure limitations meant only US\$11.5 billion was actually disbursed,' notes Richard Burrage, Managing Director of market research company Cimigo.

FURTHER REFORMS

The Vietnamese Government is aware of the need to reform business-related processes and in 2007 commenced Project 30, an ambitious plan to reduce red tape by 30%, and improve the performance and responsiveness of Vietnam's bureaucrats. This project is due for completion by the end of 2010, by which time it is expected that individuals and organisations will be able to access an online database of all administrative procedures and related forms for all Government levels across the country.

VIETNAM GETS SECOND STOCK EXCHANGE



The continued progress of Vietnam financial markets reached a major milestone in June 2009 with the formal re-launching of the Hanoi Securities Trading Centre as the country's second stock exchange.

While the Ho Chi Minh City Stock Exchange (HSX) will remain the country's main marketplace for listed stocks, the Hanoi Stock Exchange (HNX) will focus on listed medium and small shareholding companies and government bonds.

Also launched at the same time was Vietnam's new Unlisted Public Company Market—or UPCoM—which is designed for security companies seeking to sell unlisted shares.



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‘Vietnam must continue to develop its corporate governance and transparency, especially in public services, but I think the Government understands that,’ says ANZ’s Chief Executive Officer in Vietnam, Thuy Dam.

In a related area, Vietnam has recently ratified the UN Convention Against Corruption and in 2009 issued a national strategy to combat what many see as widespread corruption. A revision of the country’s labour laws is also under way (see page 9).

CONSULTATION WITH BUSINESS

While the typically consensual approach to decision-making in Government may mean reforms don’t occur as quickly as they could, improved ongoing dialogue between the Government and the business community, through its very active chambers of commerce, is likely to deliver more business-focused outcomes in future.

‘We have a very good dialogue with the Government,’ asserts Ashok Sud, Vice-Chairman of the European Chamber of Commerce. ‘We are invited to give our views.’ A single window for investment approvals is on many business people’s wish list.

POSITIVE OUTLOOK

As Vietnam’s economy emerges from the economic slowdown, what kinds of opportunities should we expect in the country’s next phase of development?

‘I see opportunities in consumer goods and services, and also in infrastructure, although care is needed there,’ says ANZ’s Thuy Dam (see page 22).

‘Health and education are potential areas for investors since the living standard of Vietnamese people has been significantly improved in recent years, which means their demands for these services become more consistent,’ adds Bui Thi Mai, Vice-Chairman and Chief Executive Officer of Habubank (which became Vietnam’s first private bank back in 1989).

In spite of labour law reforms, Vietnam’s competitiveness in exports is also likely to continue for some time:

‘Vietnam’s labour costs are still competitive, and although they will rise as Vietnam’s workers move up the skill curve and as the country expands its infrastructure, Vietnam should remain competitive in exports for some time,’ notes the International Finance Corporation’s Simon Andrews. ■

VIETNAM’S ADMINISTRATION

The Socialist Republic of Vietnam is divided into 63 provinces and cities, inclusive of five centrally-run cities (Hanoi, Hai Phong, Ho Chi Minh City, Da Nang and Can Tho).

In keeping with the country’s culture, Vietnam’s leadership is consensual rather than autocratic. The governing structure of Vietnam consists of four levels: central, provincial, district and communal.

The central level comprises the National Assembly, the country’s President, the Government, the People’s Supreme Court and the Supreme People’s Procuracy (responsible for legality and compliance).

The National Assembly is the highest representative organ of the people and the highest organ of state power. The people directly elect members of the National Assembly to working terms of five years. The National Assembly has the authority to elect the country’s President, the Prime Minister, the President of the People’s Supreme Court and the Director of the Supreme People’s Procuracy.

At local government level (ie in provinces, districts and communes), the people directly elect the People’s Council for five-year terms. People’s Committees, which are elected by the People’s Councils, are state’s administrative agencies at local level.



THE REUNIFICATION PALACE IN HO CHI MINH CITY.

CREDIT: CARAVELLE