2010

COMMERCIAL COUNSELLORS

REPORT ON VIETNAM

EUROPEAN UNION ECONOMIC AND COMMERCIAL COUNSELLORS

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The report can be downloaded from the website of the Delegation of the European Union (www.delvnm.ec.europa.eu)

Hanoi, June 2010

FOREWORD

Each year the Working Group of Economic and Commercial Counsellors of the European Union publishes a report on the economy of Vietnam. This "Green Book" aims to provide the private sector as well as European institutions and governments with an analysis of the recent economic performance of Vietnam as well as an overview of the development in certain sectors of the Vietnamese economy. The "Green Book" is not an official publication of the EU. It is a joint initiative of the EU Embassies and the Delegation of the European Union to Viet Nam.

The publication covers a wide range of issues and consists of three parts:

The first part is dedicated to a general overview of the most important developments in Viet Nam in 2009. It features an overview of the economic performance of Vietnam as well as an analysis of major economic indicators such as foreign trade, investment, employment as well as sectoral and monetary policies.

The second and third parts provide on the one hand information about industries (garments and textiles, footwear, fishery products, agro-industry and alcoholic beverages, pharmaceuticals, machinery and financial services) and on the other hand the development of infrastructure (air traffic, land transportation, harbours and marine transport, IT and telecommunications, energy, the environment and construction and real estate).

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GLOSSARY OF ACRONYMS

ADB	Asian Development Bank
ADSL	Advanced Digital Subscriber Line
AFTA	Asean Free Trade Area
AIA	American Insurance Association
ASEAN	Association of South East Asian Nations
BCC	Business Cooperation Contract
BOT	Built-Operate-Transfer
BP	British Petroleum
BTA	Bilateral Trade Agreement
C/O	Certificate of Origin
CDMA	Code Division Multiple Access
CEPT	Common Effective Preferential Tariff
CIEM	Centre for Institutional and Economic Management
CIF	Cost, Insurance, Freight
CNC	Centre of Numeric Control
CPI	Consumer Price Index
DANIDA	Danish Agency for Development Assistance
DGPT	Department General of Post and Telecommunications
DSL	Digital Subscriber Line
EC	European Commission
EVN	Electricity of Vietnam
EU	European Union
FAO	Food and Agricultural Organisation
FDI	Foreign Direct Investment
FIE	Foreign-Invested Enterprise
GDP	Gross Domestic Product
GOV	Government of Vietnam
GSO	General Statistics Office
GSP	Generalised Scheme of Preferences
HCMC	Ho Chi Minh City
HSBC	Hong Kong and Shanghai Banking Corporation
HP	Horse power
IDA	International Development Association
IFI	International Financial Institution
IL	Inclusion list
IMF	International Monetary Fund
IMI	Institute of Machinery and Industrial Instruments
IPR	Intellectual Property Rights
ISP	Internet Services Provider
IT	Information Technology
JV	Joint Venture
KT	Korea Telecom
LDC	Least Developed Country
LEFASO	Vietnam Leather and Footwear Association

MFN	Most Favoured Nation
MPI	Ministry of Planning and Investment
MPT	Ministry of Post and Telematics
NGO	Non-Government Organisation
NPL	Non-Performing Loan
NTB	Non-Tariff Barrier
ODA	Official Development Assistance
OLAF	European Anti-Fraud Office
PNTR	Permanent Normal Trade Relations
PRGF	Poverty Reduction and Growth Facility
PRSC	Poverty Reduction Support Credit
R&D	Research & Development
SBV	State Bank of Vietnam
SCB	Standard Chartered Bank
SER	Special Economic Region
SME	Small and Medium Enterprises
SOCB	State Owned Commercial Bank
SOE	State Owned Enterprise
SRV	Socialist Republic of Vietnam
TBT	Technical Barriers to Trade
TEL	Temporary Exclusion List
TRIPS	Trade Related Aspects of Intellectual Property Rights
UCLAF	Anti-Fraud Coordination Unit
UNCTAD	United Nations Conference on Trade Development
UNDP	United Nations Development Programme
USBTA	United States Bilateral Trade Agreement
VAT	Value Added Tax
WB	World Bank
VINATEX	Vietnam Garment and Textile Corporation
VITAS	Vietnam Textile and Apparel Association
VINACOAL	Vietnam Coal Corporation
VNPT	Vietnam Post and Telecommunications Corporation
VIETTEL	Vietnam Military Telecommunications Company
WTO	World Trade Organisation
YOY	Yean-On-Year

Currencies

EUR or €	Euro
USD	United States Dollar
VND	Vietnam Dong

1. GENERAL OVERVIEW

VIETNAM'S OVERALL ECONOMIC PERFOMANCE IN 2009 AND FIRST QUARTER 2010

Introduction

2009 witnessed Vietnam's success in weathering the global economic crisis whose negative impact, albeit partially mitigated by appropriate government action, will continue to be felt throughout 2010. Imbalance of the national accounts, re-emerging inflation, and a widening trade deficit were the greatest challenges that the country faced in 2009 and early 2010. The crisis has exposed weaknesses in the economy and the need for swift re-structuring to bring about sustainable growth and increased competitiveness. Improvements have been observed in certain sectors and regions but a wide-ranging reform of the economy, including of SOEs, has not taken place as many had hoped.

Growth

The impact of the global economic recession hit Vietnam later than other countries in the region. Nonetheless, the impact, while somewhat cushioned by government policies, is great and some argue that the effects will last much longer[1]. The government has largely contributed to 2009's very good 5.32% GDP growth via strong public spending and generous stimulus measures. Such a performance, although 0.86% lower than that of 2008, keeps Vietnam among the fastest growing economies[2] in the region. The 2009 trend continued in Q1 2010, with growth of 5.83% despite the halting of industrial production during the Lunar (Tet) New Year celebrations.

2009 saw the services sector grow by 6.63% to become the leading force in the economy while manufacturing[3] and agro-forestry-fishery expanded by 5.52% and 1.83% respectively. Within the manufacturing sector, industrial production was hit hard by falling external demand, whereas construction grew by 11.4%, driven by higher lending, a drop in costs, and a surge in government infrastructure projects. The service sector rebounded in late 2009 after a sluggish start caused by domestic and foreign consumer uncertainty. The dominance of services and manufacturing sectors remained in Q1 2010, i.e. services up 6.64%, manufacturing 5.65% and agro-forestry-fishery 3.45%.

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1. According to Justin Yifu Lin, Senior Vice President and Chief Economist of the World Bank, the effects of the global slowdown are likely to be felt by developing countries (DCs) in two successive waves. In the first wave, DCs would confront declining exports, dwindling external investments and reduced remittances. In the second wave, DCs might expect: (i) a rise in uncompleted projects due to falling external investments; while (ii) completed projects may add to excess production capacity, thereby adding to the risk of deflation. Justin Yifu Lin's analysis is presented in the research paper “The Impact of the Financial Crisis on Developing Countries”, 31 October 2008.

2. Vietnam's GDP growth of 5.32% in 2009 is second only to China whose growth amounted to 8.7% according to the Xinhua News Agency. In Q1 2010, Vietnam's economy remained the second fastest growing in the region after the 6.1% growth registered by China (Reuters). By comparison, growth of other ASEAN economies in Q1 2010 include Thailand (4.5%), Indonesia (5%), Singapore (-3.5%), the Philippines (2.6%) and Malaysia (2.9%).

3. Manufacturing is defined by the Vietnam General Statistic Office as comprising of industrial and construction activities.

In the context of global decline of trade and exports, the government's pro-active decision to roll out a stimulus package[4], totalling USD8bn, in tandem with loose monetary policy was necessary to trigger a significant recovery of the manufacturing sector (5.65% in Q1 of 2010 from 5.52% in Q4 of 2009, 4.5% in Q3 and 3.9% in Q2, on cumulative basis) and bring some impetus to the economy and labour market (establishment of 76,400 new enterprises, 1.5 million new jobs). However, the move was not risk-free; while retail sales for goods and services increased by 18.6% for the whole year, they also contributed to (i) a significant hike in imports of consumer goods (to 9.9% year-on-year in Q1 of (2010 from 8.7% in 2009 as a whole), thus expanding the trade deficit (see below) and, (ii) the re-emergence of inflation.

Inflation

While 2009's Consumer Price Index (CPI) eventually eased at an annual 6.52% (below the National Assembly's (NA) target of 10%), Q1 2010 saw a 9.46% year-on-year increase and in May the government raised the target from 7% to 8% for 2010. This was a considerable blow to the marginalised poor segments of the population and cast some doubt as to the government's ability to rein in inflation.

While no more stimulus packages are envisioned by the GoV, inflation is likely to be revised upwards, given the sizable pressure from a number of sources, among which are: the devaluation of the dong, increases in retail energy prices[5], the pending revision of the minimum salary[6] and increasing money supply see below.

Credit and Currency Tensions

The 2009 stimulus measures[7] resulted in an annual credit growth of 37.73% - well above the 20% GoV target - which in turn began to exert strong upwards pressure on inflation during the second half of 2009. While Q1 2010 figures show that credit growth has somewhat been curbed at 3.34% - slightly up from the GoV's 2.95% target, inflationary tensions remain a very high concern. Indeed, further credit expansion might well be unavoidable and a further increase in liquidity might be necessary to face the problem of costly loans arisen in Q1 2010.

Faced with a widening trade deficit (and declining FOREX reserves), the GoV resorted to successive devaluations[8] of the local currency, the Dong, with a view to

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4. By 24 December 2009, credit institutions and commercial banks in Vietnam had provided VND446,952bn in government subsidised loans to corporate borrowers (at exchange rate VND18,50069:USD1).

5. The GoV officially approved a request by the Vietnam Coal and Mineral Industries Group, Vinacomin, to raise coal prices by 47% from 1 March 2010. As regards the retail electricity prices, the GoV approved an average increase of 6.8% to VND1036/kWh from VND970.9/kWh in 2009, applicable from 1 March 2010.

6. According to a government decree the minimum monthly salary of a civil servant in Vietnam is set to increase to VND730,000 (USD38.4) from the current VND650,000 as of 1 May 2010. Pensions, welfare benefits and monthly allowances shall also increase at an average of 12.3% from this date.

7. The stimulus package included a 4%-subsidy loans programme effective from January 2009, followed by a second 2% interest subsidy loans scheme later in 2010.

8. The State Bank of Vietnam devalued the dong by 5.44% in November 2009 after the gap between official and black market rates increased to more than 11%. A further devaluation of 3.35% took place in February 2010, which represents the fourth such move since June 2008.

boosting exports and curb imports of consumer goods and demand for USD. This measure, however, has been ineffective: demand for consumer goods (most of them luxury goods) comes froma wealthy elite that is unlikely to change its purchasing habits because of a devaluation. To make matters worse, the devaluation made imports of intermediate goods or key commodities more expensive. Imports of raw materials have continued and, in fact, have spurred a higher demand for credit in USD - up 14% - and Dong-denominated credits remained at very high interest rates (16-20% per year). The State Bank of Vietnam in 2010 faced the dilemma of either (i) pumping more money into circulation to reduce loan costs (in particular, Dong-denominated loans) or, (ii) maintaining the current low liquidity, but slowing down growth and employment creation.

Employment and Poverty

Sustained growth levels have contributed to Vietnam doing fairly well in terms of job creation - i.e. finding jobs for the some 1.5 million people joining the workforce annually. In this respect, the fairly low official unemployment rate[9] (2.9%) is remarkable, particularly in the context of a global recession.

The private sector, which witnessed the creation of 76,400 new enterprises in 2009, played a crucial role. The role of the private sector was all the more important in a year where only 70,000 Vietnamese workers were sent abroad - 22% short of the GoV target[10].

Official statistics show that Vietnam succeeded in bringing down the poverty rate to 12.3% in 2009 from around 13.4% in 2008 - almost on target (12% in 2009). However, the actual picture may not be as rosy as the official figures suggest. Firstly, the poverty threshold[11] applied by Vietnam is far lower than the international norm, which suggests that the actual number of poor as defined by international standards is greater than Vietnam's official figure. Secondly, there are a large number of near-poor households which could easily fall-back into poverty nonetheless, for example as a result of natural disasters, which tend to be recurrent in Vietnam.

Investment

FDI decreased sharply throughout 2009 and continued to fall in Q1 of 2010. To date, there has been no sign that the trend has bottomed out. In 2009, overall FDI

9. The latest population survey indicates that up to 1.3 million people of working age (2.9% of the total 55 million people at working age) in Vietnam are jobless. The unemployment rate is higher than the 2.38% registered in 2008. Unemployment was worse in urban areas where as many as 4.64% were registered as unemployed in 2009. Although rural areas registered lower unemployment than urban areas in 2009, at 2.25%, the rate is still quite high compared to the 1.53% registered in 2008.

10. At the start of 2009, the Ministry of Labour, War Invalids & Social Affairs planned to send 90,000 Vietnamese workers to overseas markets. Data compiled by the Ministry in November 2009 indicated that only around 70,000 successfully secured work permits, working visas and jobs in foreign countries. Taiwan remained the biggest ex-patriate labour market for Vietnam, creating jobs for more than 58,200 workers from January to the end of October. Other important destinations for Vietnamese guest workers were South Korea, Japan, the United Arab Emirates, Macao and Malaysia.

11. The official poverty line corresponds to monthly earnings of VND241,000 or less in city and VND200,000 in rural areas (USD11-14 per month). By contrast, the international poverty line is USD1 per day.

commitments plunged by 70% year-on-year to nearly USD21.5bn[12]. Fortunately, the drop in new FDI commitments (down to USD16.3bn - a 75.5% decline) was somewhat cushioned by additional commitments in existing projects (down USD5.1bn - a relatively small decrease of 1.7%). Throughout 2009, real estate continued to be the most attractive sector to investors, attracting USD7.4bn in FDI commitments, which represents 45.1% of new commitments[13].

The disbursement of FDI in 2009 stayed at a level similar to that of 2008, standing at USD10bn, only a 13% decline. The USD10bn in disbursed funds represented 46.5% of the FDI committed in 2009, a clear improvement on the 17% commitment/implemented ratio in 2008. The GoV attributes this phenomenon to administrative and legal reforms as advised by foreign donors and private investors. Nonetheless, it remains doubtful whether the government reforms and infrastructure improvements instigated in 2009[14] really had such a significant impact on the significant improvement in the FDI committed/implemented ratio during that year. FDI disbursement in Q1 2010, reportedly at USD2.5bn, continues to improve with a 13.6% increase against the same period of 2009. The most significant increase was seen in March 2010 when up to USD1.4bn in FDI was disbursed, with Southern business hubs in particular succeeding in attracting significant sums of FDI[15].

According to the GoV[16] EU-implemented investment surpassed USD7bn in 2008. The GoV has not been able to provide a statistical breakdown of FDI disbursement by country/region of origin for 2009. EU investment, however, has historically grown at an average USD1bn annually, and given that significant new EU investments have been implemented during the last year (e.g., Piaggio factory, new expansion of EU banks and retailers, we estimate that the EU will soon reach the USD8bn mark.

Foreign Indirect Investment (FII) and local stock exchanges remained in a state of a flux. The VN index rose sharply to 633 points in October (from 235.5 points in February, its lowest point in 2009) before easing to around 500 points by the end of March 2010 on

12. Admittedly, this figure must be taken in context given that FDI commitments in 2008 reached an all time high of USD64bn.

13. According to official figures, the US is the largest investor in terms of committed FDI in 2009 (USD5.9bn, representing 36.4% of the newly registered FDI), followed by the Cayman Islands (USD2bn), Samoa (USD1.7bn) and South Korea (USD1.6bn). Officially, the EU ranked 9th on the list of important FDI partners in 2009, with USD390.4mn committed in 95 projects. In all probability, much EU investment continued to be channelled via tax havens. In Q1 2010, the EU rose up the rankings to become the fourth largest investor in the country, with USD126.8mn in committed FDI. Nevertheless, for the authors of this report, the reliability of the geographical distribution of FDI commitments remains doubtful, at best.

14. Importantly, a majority of investors believe that there is significant room for improvement in terms of infrastructure in Vietnam, According to a survey published in November 2009 by the auditing company Grant Thorton Vietnam, up to 95% of investors consider the limitations of infrastructure to be a problem while 77% say that access to loans remain a difficult in the current business environment. The survey took comments from more than 200 investors and investment consulting specialists in Vietnam.

15. Ho Chi Minh City and Ba RiaVung Tau province in Q1 2010 were the most successful in attracting FDI, contributing as much as 68.6% to total FDI in the period.

16. MPI presentation at the ASEM business forum in HCM city.

the basis of stronger purchase by domestic investors. This marked a significant improvement vis-à-vis the two first quarters of 2009, when some USD500mn was withdrawn from the local stock exchanges - mainly by foreign investors[17]. Local stocks seemed to follow somewhat erratic trends, ostensibly driven by short term speculation strongly influenced by sentiment and rumour. Irregular and illegal trading[18] of stocks has not yet been resolved with some serious violations being handled in a rather lenient way.

Given the current macroeconomic climate, Official Development Assistance (ODA) became increasingly important to the economy of Vietnam, particularly as a source of foreign currency. Data from the Ministry of Planning and Investment indicates a record disbursement of USD3.6bn in ODA[19] in 2009, far exceeding the targeted USD1.9bn by 89.47%. In light of the global financial crisis, several donors made substantial one-off increases to their ODA contributions, particularly through budget support operations or concessional loans for crisis recovery assistance. In the context of scarce hard currencies, ODA therefore remains an indispensable source[20] of capital for Vietnam's sustainable development. International donors, fully aware of this need, committed a record of more than USD8bn in ODA to Vietnam for 2010. The EU with around USD1.4bn is among the four biggest donors after the WB (USD2.498bn), Japan (USD1.64bn) and the Asian Development Bank (USD1.479bn).

Overseas Remittances only reached USD5.8bn in 2009, down 20-25% year-on-year. The decline was the result of the reduced demand for Vietnamese overseas workers and the redundancy faced by the foreigners of Vietnamese origin, both due to the economic contraction in the EU, US, Japan and Australia, where most workers and overseas people of Vietnamese-origin are established. Given Vietnam's dependence[21] on this crucial source of capital, the fall of remittances accompanied by the declined FDI and FII made a strong hit on the country's balance of payments.

Balance of Payments, Account and Budget Deficits

In June 2009, Vietnamese foreign exchange reserves[22] reportedly fell to USD17.6bn (equivalent to around 2.5 months of imports) from USD23bn in December 2008, prompting the GoV to seek assistance from the international

17. Signs of the realisation of portfolio began in early 2009 but only became real with the prominent capital withdrawals by Indochina Capital Vietnam (which announced its realisation of portfolio in the first week of September) and Deutsche Bank (which lowered its holding rate on 25 September in FPT Group from 5.04% to 4.27%).

18. According to a report by the Hanoi Securities Commission, 115 cases violating requirement of information announcement and 38 other violations were identified among 484 transactions carried out by 280 Vietnamese major stock owners in 2009.

19. Of the total USD3.6bn in ODA disbursed in 2009, USD3.25bn took the form of loans with the remainder provided as grants. Total ODA commitments signed between GoV and donors in 2009 totalled over USD6.14bn with nearly USD5.93bn to be provided as loans and USD215mn as grants.

20. Since international donors began providing ODA to Vietnam in November 1993, USD22bn has been disbursed from the USD42.5bn originally committed.

21. According to the WB, Vietnam ranks 10th amongst remittance-receiving countries. Remittance flows to Vietnam has been steadily increasing from USD1.6bn in 2002 to USD2.6bn in 2003, USD3.2bn in 2004, USD4.29bn in 2005, over USD5bn in 2006 and USD5.5bn in 2007.

22. Data on FOREX reserves is considered a State secret and, although information is widely disseminated by the press, it cannot be officially verified from Government sources.

community. In October, it was announced that Vietnam would borrow a total of USD3bn from Japan, with an additional USD1bn being provided under a credit arrangement called “public investment reform loan” from the World Bank. There were also unconfirmed reports that China provided a further loan. This, however, only temporarily alleviated the situation, as Vietnam closed the year with FOREX reserves down to USD15.2bn. Forecasts for FOREX reserves in 2010 vary[23].

The 2009 budget deficit of Vietnam rose to around 7% GDP from 4.1% in 2008, with 81.2% of the budget deficit being funded by domestic loans and the remaining 18.8% by foreign debts.

Foreign Trade

After registering a record trade deficit of USD18bn in 2008, the country's trade imbalance narrowed to USD12.2bn in 2009, a 32.1% year-on-year decline, and 21.6% of the total exports revenue, before increasing again, to USD3.5bn in Q1 of 2010.

The trade deficit in 2009 was partly attributed to the declining world commodity prices as the impact of the economic slowdown was felt worldwide. Worthy of note, however, is that the lion's share of such deficit was incurred from Vietnam's trade deficit with China (USD11.3bn out of the Vietnam's total trade deficit of USD12.2bn).

Import-export structure by commodity:

2009 marked the first year within the past two decades that Vietnam saw a decline in export performance, at -9.7% year-on-year in export value. Throughout the year GoV tried in vain to reverse the trend by introducing a number of initiatives to significantly increase the volume of exports. Vietnam earned a total USD56.6bn from exports of which foreign invested enterprises (FIEs), including oil & gas exploitation ventures, contributed USD29.9bn (-13.5% y-o-y) and domestic companies USD26.7bn (-5.1% y-o-y).

The fall in global commodity prices had a significant impact on the revenue earned from Vietnamese exports. For the first time, textiles and garments became Vietnam's top revenue earning export in 2009, surpassing crude oil, traditionally Vietnam's biggest export commodity. According to the General Statistic Office of Vietnam (GSO), textiles & garments reaped USD9bn (-1.3% in value) in export revenue while crude oil, earned only USD6.2bn (- 40% in value)

Seafood overtook footwear to become the second most important non-oil export item, earning USD4.2bn in revenue[24] (-6.7% from 2008) while footwear brought in USD4bn (-15.8% y-o-y)[25].

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23. In its mid March 2010 report, Fitch Ratings, a New York-based global rating agency, predicted that Vietnam's FOREX reserves were likely to drop to 2.6 months of imports “on weakening confidence in the local currency and a lack of transparency for key economic data”. By contrast, the World Bank estimated that reserves would go up to the equivalent to 2.9 months of imports, given “that the external position of Vietnam is sustainable”

24. The US remained the largest importer of Vietnamese textile and garment products, buying apparel products worth USD4.9bn (-3% against 2008). The EU is the second most important market for Vietnam-made apparel, importing USD1.7bn (-3.1% y-o-y).

Rice, coffee and coal all posted significant falls in export revenue, although exports increased remarkably in terms of volume. Rice exports in 2009 brought in USD2.7bn (-8% in value; +25.4% in volume), coffee reaped USD1.7bn (-19% in revenue; +10.7% in volume), and coal earned USD1.3bn (-4.5% in revenue; +29.9% in volume).

In the first three months of 2010, Vietnam earned USD14bn from exports (only 1.6% y-o-y decline). The relatively weak performance[26] of exports is reflected by the performance of the State sector, whose export revenues dropped by 25% to USD6bn. FIEs (including oil & gas exploitation ventures) performed well, achieving growth of 28.6% and earning USD8bn in terms of export revenues. Traditional labour-intensive industries continued to be the best performing although the declining world commodity prices continued to affect some key sectors, notably rice and coffee, whose revenues respectively dropped by 16.8% and 31% year-on-year.

Imports of goods during 2009 were down in value but significantly up in terms of volume. Goods imported totalled USD68.8bn - a 14.7% year-on-year decline. Raw materials continued to account for the largest share of imports in terms of value, representing 61.3% of Vietnam's total import spending. It was followed by imports of machinery and equipment (29.5%), consumer goods (8.7%) and gold (0.5%).

The minimal, albeit growing share of consumer goods as part of Vietnamese imports does not justify the attention that GoV is giving to making such goods (mostly of EU origin) less affordable for Vietnamese citizens (e.g., via increased registration fees, etc.) as a means of curbing the trade deficit. Increased spending on imported consumer goods over the period was a direct consequence of the Government's stimulus package (in particular the credit expansion), in combination with the widely held perception that imports are products of higher quality.

In terms of reducing the trade deficit, there would appear to be far more scope for improvement through investing resources in facilitating the establishment of a local supply chains for Vietnam's export-oriented industries, than focusing on reducing imports of consumer products. In this respect, 2009 saw some initial progress as imports[27] of almost all raw materials fell, although an important part of this reduction was probably due to shrinking external demand[28]. 2010 Q1 figures seemed to confirm this trend as imports again rose strongly by 37.6% to an estimated USD17.5bn[29]. The

25. The EU continues to be the leading market for these two key products, purchasing seafood worth USD1.1bn (-5.7%) and footwear worth USD1.9bn (-23.2%). Japan and the US are the second and the third biggest importers of Vietnamese seafood, respectively consuming USD760mn (-8.4%) and USD$710mn (-3.9%). As regards footwear, the US maintained the second position, buying shoes worth USD1bn (-2%). Timber products earned USD2.6bn, a year on- year drop of 9.9% in revenue.

26. From Jan to Mar 2010, major export items continued to be: textiles & garments (revenue: USD2.2bn; +12.3% in value); footwear (USD1bn; +10.1%); seafood (USD861mn; +14.5%); electronics and computers (USD703mn; +40.7%); timber products (USD716mn; +26.3%); rice (USD677mn; -30.7% in volume & -16.8% in value); and coffee (USD461mn; -25.3% in volume & -31% in value)

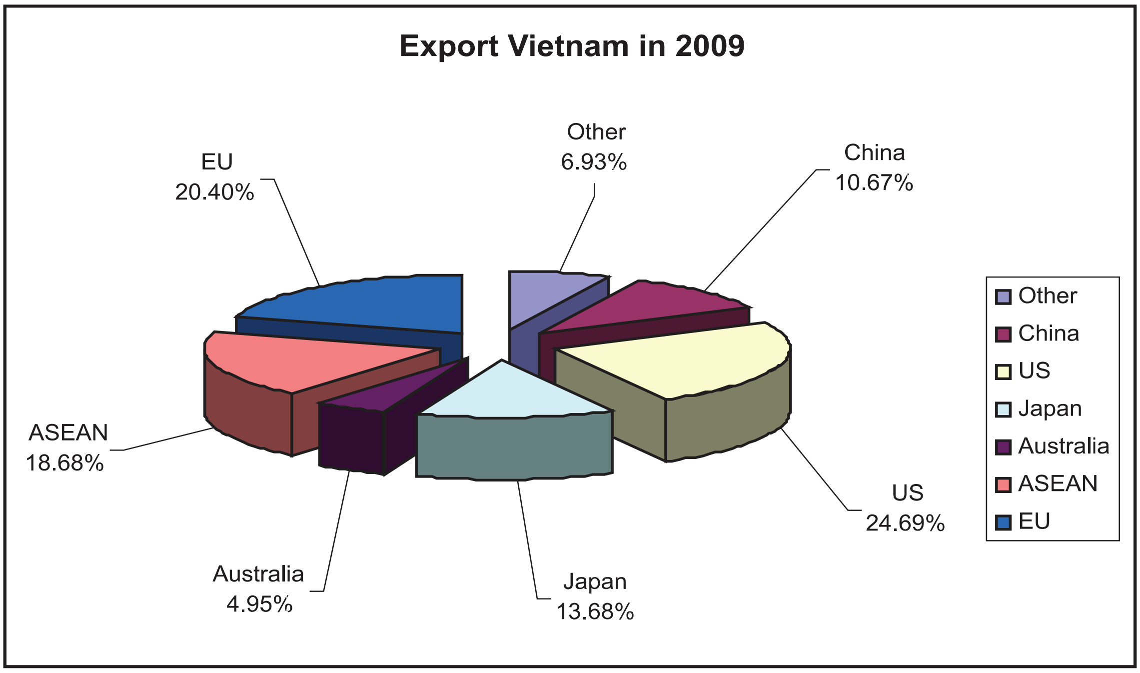
27. The main items that Vietnam imported from in 2009 comprise of: refined oil/ petroleum (value: USD6.2bn; -43.8% y-o-y); steel (USD5.3bn; -22.9%); cloth (USD4.2bn; -5.2%); plastic (USD2.8bn; - 4.1%); materials for footwear & textile sectors (USD1.9bn; -17.8%); animal feed (USD1.7bn; -1.4%); CBU cars (USD1.2bn; +12.6% in value and 49.4% in volume); and computers (USD3.9bn; +5.9%)

import structure[30] in Q1 remained largely unchanged from 2009, with raw materials accounting for 88.8% of imports, consumer goods 9.9% and gold 1.3%.

Import-export Structure by Country:

According to the General Statistic Office of Vietnam (GSO), the EU (destination of 20.4% of Vietnam-made products) closely trailed the US as the most important overseas market for Vietnam.

For exports, 2009 witnessed USD9.3bn (-14.4% vs. 2008) worth of goods from Vietnam being exported to the EU[31]. The US remained the most important destination



for Vietnamese goods, importing commodities worth USD11.2bn (- 5.5% y-o-y) in 2009. Other notable trading partners included ASEAN countries (importing Vietnam-made goods worth USD8.5bn; -16.4%), Japan (USD6.2bn; -27.7% y-o-y), China (USD4.8bn; + 4.9% y-o-y), South Korea (USD2.5bn; +15% y-o-y) and Australia (USD2.2bn; - 48% y-o-y).

Regarding imports, GSO figures indicate that China remained the largest exporter

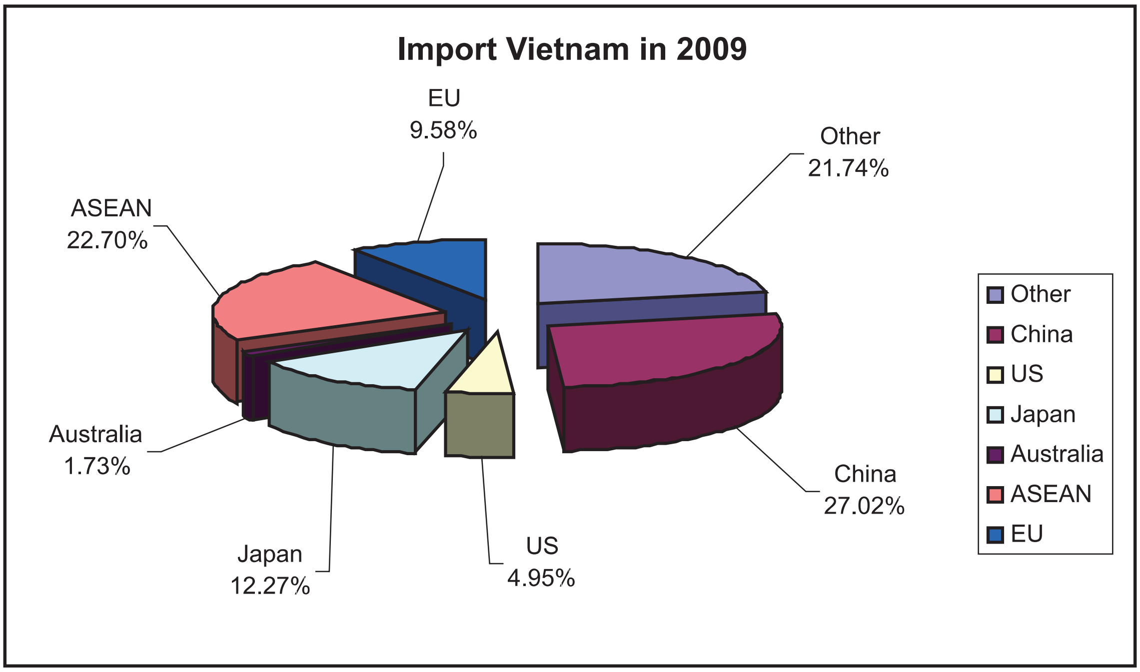
28. Vietnam imports raw materials and machineries for local companies' processing/ assembling/ manufacturing, whose products are later be exported to overseas markets. The shrinking external demand certainly wields a big influence on Vietnam's imports.

29. Import spending by the State sector increased by 28.7% to USD10.4bn, while that of the foreign invest–ed sector increased by 53.1% to USD7.1bn.

30. The main items that Vietnam imported in Q1 2010 include: machinery & equipment (USD2.8bn; +10.8%), refined petroleum (USD1.6bn; +33.2%), steel (USD1bn; +26%), electronics and computer accessories (USD1bn; 53.1%); cloth (USD955mn; +13.2%), plastics (USD758mn; +53%), animal feed (USD623mn; +136.9%), car & car parts (USD$582mn; +66%), and material for footwear & others (USD483mn; + 21.6%).

31. Eurostat shows a 20.39% decline in Vietnam's exports to the EU, putting the value at nearly 6.55bn (about USD9.12bn).

to Vietnam since it overtook Japan in 2003, followed closely by the group of nine ASEAN countries. Vietnam imported goods valued at USD16.1bn from its northern neighbour, a 2.7% increase against 2008 in spite of the global crisis. Almost all other trading partners of Vietnam saw a reduction in terms of the value of their exports to Vietnam in 2009: Japan (USD7.3bn; -11.3%), South Korea (USD6.7bn; -5.3%), Taiwan (USD6.2 bn; -25.9%), EU (USD5.5bn; +2.2%), the US (USD2.8bn; +9.1%) and Australia (USD1bn; -24%). Intra-ASEAN trading appeared to have lost momentum in 2009 after several years of continuous growth, with imports to Vietnam registering a significant 31.3% decline year-on-year in 2009.



According to Eurostat data[32], GSO figures re-confirm the trade surplus, albeit at a lower level than previous years, that Vietnam enjoyed in its trading links with the EU, estimated at USD3.8bn.

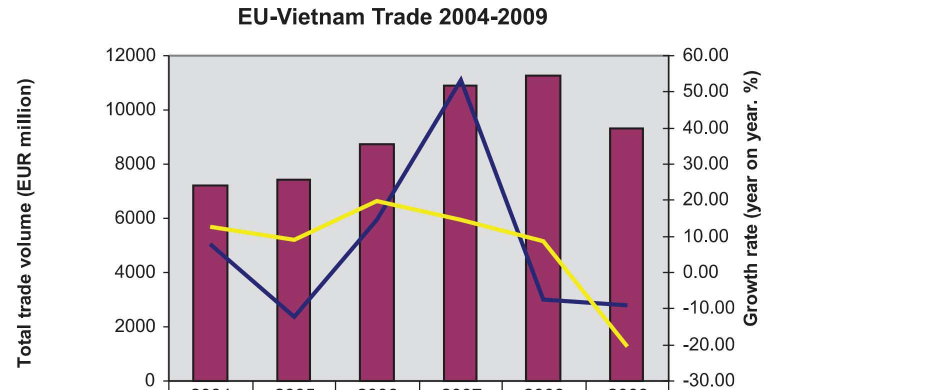
Eurostat also notes that while labour intensive products continued to dominate Vietnamese exports to the EU, the top five commodities exported from the EU to Vietnam in 2009 continued to be high-tech products. The main goods that Vietnam imported from the EU in 2009 were boilers-machinery & mechanical products (€689.4mn), electrical machinery and equipment (€343.8mn), pharmaceutical products (€222.16mn), iron & steel (€187.12mn), and vehicles (€115.29mn).

On balance, the EU slightly reduced its trade deficit with Vietnam (down 27% from 2008) but at the cost of an overall decrease to total bilateral trade terms. Compared to other trading partners, the EU has cushioned moderately well the effects of the crisis on trade with Vietnam. This, in tandem with the strategic position of the EU as second

32.The EU, in commercial links with Vietnam, ran a trade deficit at around €3.77bn (USD5.25bn) in 2009, down 27% from 2008. According to Eurostat figures, EU exports to Vietnam suffered a 9.11% decline, standing at €2.78bon.

largest investor (in many export oriented industries), puts the EU firmly as a strategic partner of Vietnam and gives comfort to Europeans as to their key commercial position in the country.

The impact of the economic crisis on trade between Vietnam and its main commercial partners does not seem to follow the traditional developed/developing countries cleavage. Furthermore, we noted that, while Vietnam has concluded a number of FTA agreements (which have begun entering into force: China-ASEAN, Korea: -ASEAN and Japan-ASEAN-Vietnam), their impact on trade flows appears to be minimal and certainly has not outweighed the trade contraction stemming from the crisis.



	2004	2005	2006	2007	2008	2009
Total trade volume (€ million)	7214.124	7397.921	8754.647	10877.02	11285.06	9329.257
Exports to VN (% growth)	8.06	-12.43	14.56	53.13	-7.59	-9.11
Imports from VN (% growth)	12.53	8.92	19.63	14.78	8.71	-20.39

It is very significant that the USD12.2bn trade deficit registered in 2009 was due to the USD11.3bn deficit (up USD500mn from 2008) that Vietnam is running with China. To date, the full effect of the ASEAN-China FTA (the Early Harvest Agreement at present only applies to a handful of agricultural commodities) is yet to be felt, with the impact on Vietnam difficult to predict. However, available data (which excluded "grey" trade) confirmed that Vietnam´s dependence on imports from China is increasing. This fact alone provides Vietnam with enough commercial and geopolitical reason to seek to counterbalance the disparity by developing closer relations with other trading partners. In this sense, the early 2010 announcement of the forthcoming FTA negotiations with the EU was timely.

Conclusion

The GoV deserve credit for the country's relatively successful economic performance in 2009. In the context of world trade contraction and economic crises, GDP growth in Vietnam was maintained and export performance was above the regional average, partly as a result of bold policy measures taken by the authorities. The challenges in 2010 are, however, as daunting as ever. Vietnam might well have missed the opportunity to restructure its public sector, which continued to produce less, export less and create less employment than private companies and FIEs throughout 2009. The stimulus measures, while necessary to maintain growth, may have gone a little bit too far, as they appear to have provided a cushion to uncompetitive SOEs and stoked inflationary pressures for the remainder of 2010 and beyond. Given the country's weak social safety net, fragile communities of poor and near-poor are likely to continue to face a tough times in 2010.

For the year 2010, Vietnam will need to focus on improving its competitiveness. This will require vision and commitment on the part of the authorities, particular as it will require a massive overhaul of its state industrial sector and a resumption of the equitisation/privatisation process. Furthermore, narrowing the trade deficit will demand a clear focus on creating local supply chains for Vietnam's export oriented industries (rather than reducing imports of a handful of luxury cars), and a strong endeavour to improve terms of trade with partners such as the EU. In this sense, the announcement of the start of negotiations for a bilateral EU-Vietnam FTA, endorsed by Prime Minister Nguyen Tan Dung in his meeting with visiting EU Commissioner for Trade Karel De Gucht, which is set to benefit Vietnam to the tune of 2% GDP growth opens a window of opportunity for this country.

2. ANALYSIS BY INDUSTRY

2.1. GARMENTS AND TEXTILES

Introduction

After Vietnam's accession to the World Trade Organization (WTO) in January 2007 and strongly increasing exports hereafter, its textile and garment industry, the country's largest foreign currency earner, struggled in 2009. Vietnam was not able to reach its target of garment and textile exports of USD9.5bn. Revenue in 2009, according to VITAS (Vietnam Textile and Apparel Association, a non-governmental and non-profit organization representing the interests of textile and apparel firms in Vietnam) was USD9.1bn, the same as in 2008.

Contrary to the general trend in exports, the domestic demand for garments rose. The campaign for Vietnamese people to buy domestic products supported domestic sales of Vietnamese garment and fashion, especially in rural areas. After joining WTO, most companies concentrated on exports and tended to neglect the domestic market. This has changed; the biggest company in the garment and textile sector (Vietnam National Textile and Garment Group, VINATEX), with a workforce of 120,000, increased its domestic turnover by 26% year-on-year.

The whole workforce in this sector is more than 2mn, with high numbers still working for state-owned or partly state-owned enterprises. However, the number of private owned enterprises is increasing (be it through domestic or via foreign direct investment). Most enterprises are located in the South-East (58%) and in the Red River Delta (27%) of Vietnam.

Domestic/Import market

By 2009, Vietnam's population of about 86mn with an annual growth rate of 1.2% rendered the domestic market more important for Vietnam's garment and textile producers. Thus, companies recognized the importance of the domestic market when exports were shrinking at the beginning of 2009. Domestic year-on-year sales increased by 20 % in 2009. Increasing salaries and improving living standards made the Vietnamese market more attractive for domestic as well as foreign enterprises.

The vast growth of VINATEX is partly based on a new domestic distribution system, established in spring 2009, with 55 supermarkets and 20 fashion shops in 22 cities and provinces.

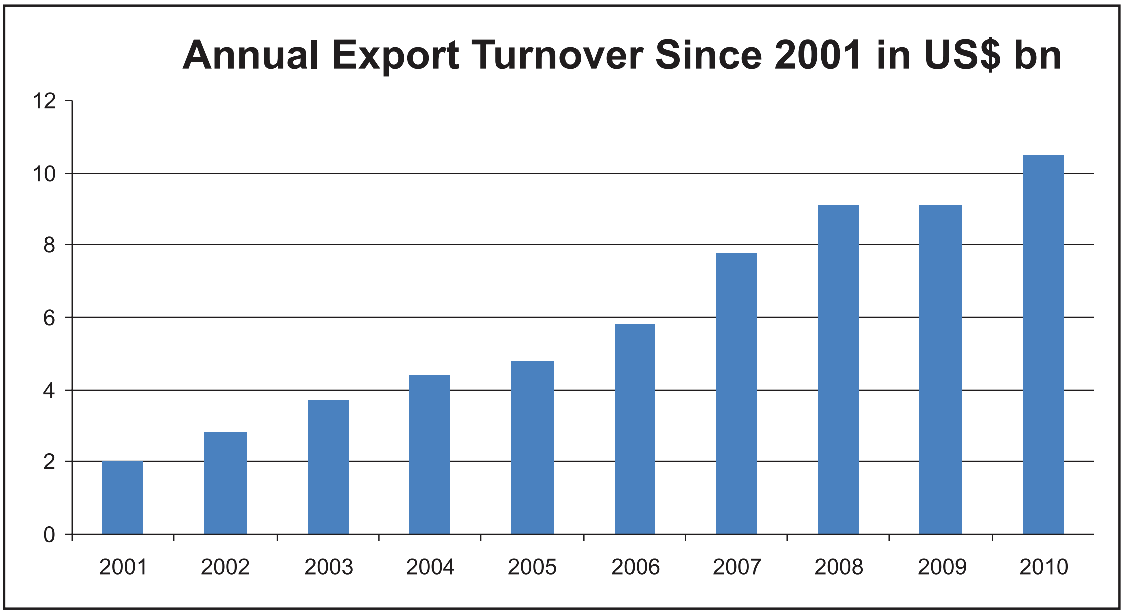
Imports of material and accessories reached USD6.5bn in 2009, whereas Vietnam imported material and accessories worth of USD7bn in 2008. Most raw materials are produced abroad.

Overseas/Export markets

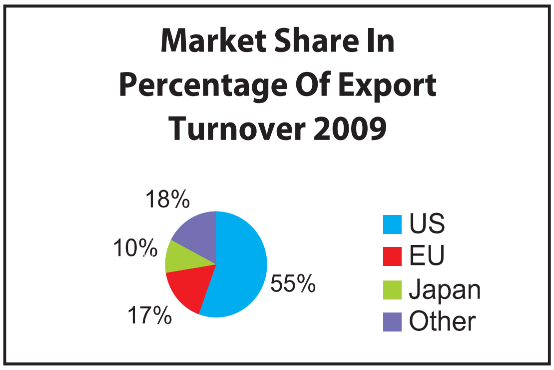
2009 began rather unfavourably for Vietnam's garment and textile exporters. Exports went down by 4.7 % in the first half of 2009, compared to the first half of

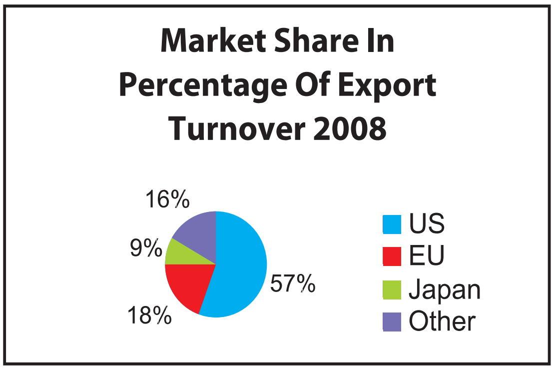
2008, to USD4bn. The performance for the second half improved so that the export volume for 2009 as a whole was almost the same as in 2008. Companies with strong exports to the US and Europe faced challenges because exports to the bulk purchaser USA (-2.4%) and EU (-4.5 %) declined. With a demand of nearly USD5bn, the US market remains the biggest for Vietnamese exporters. Many apparel and textile exporters were trying to enter markets in the Middle East, Africa and Eastern Europe to avoid dependencies on the US and Western Europe as well as to offset the shortfalls in turnover. Additionally, Japan has become increasingly important as an export market. Vietnamese exports to Japan increased by 16.3 % to USD0.95bn - one reason being the bilateral trade agreement between the two countries with preferential treatment on export taxes on garments.

Whereas the exports of cheap and moderately priced garments were growing (export share of 75% in 2009), the consumption of expensive garments fell remarkably. The global economic crisis has had a considerable effect on Vietnam's luxury garment products. In general the export- prices of garments declined by 15 % in 2009 compared to 2008.



Source: VITAS, 2010's turnover is estimated





Source: Vitas and handbook 2008

Challenges and Opportunities

Vietnam's textile and garment industry had a good start in 2010 and obtained long-term orders in January, especially from the US and Japan. Sales increased and investments in new factories were planned (and partially realised). Companies seemed ready to invest in market research activities in order to find out more about customers' tastes and expectations.

VINATEX pledged USD61mn to generate technological progress and to add value to its products. All companies engaged in the garments and textiles sector seek to reduce production costs by reorganising structures as well as by implementing new technologies. Vietnam is about to build up more domestic cotton plantations to become increasingly independent from cotton prices abroad.

Exports and domestic sales are expected to increase significantly over the next years. Experts predict export revenues of USD10.5bn for 2010 (and, by 2015, between USD16-18bn).

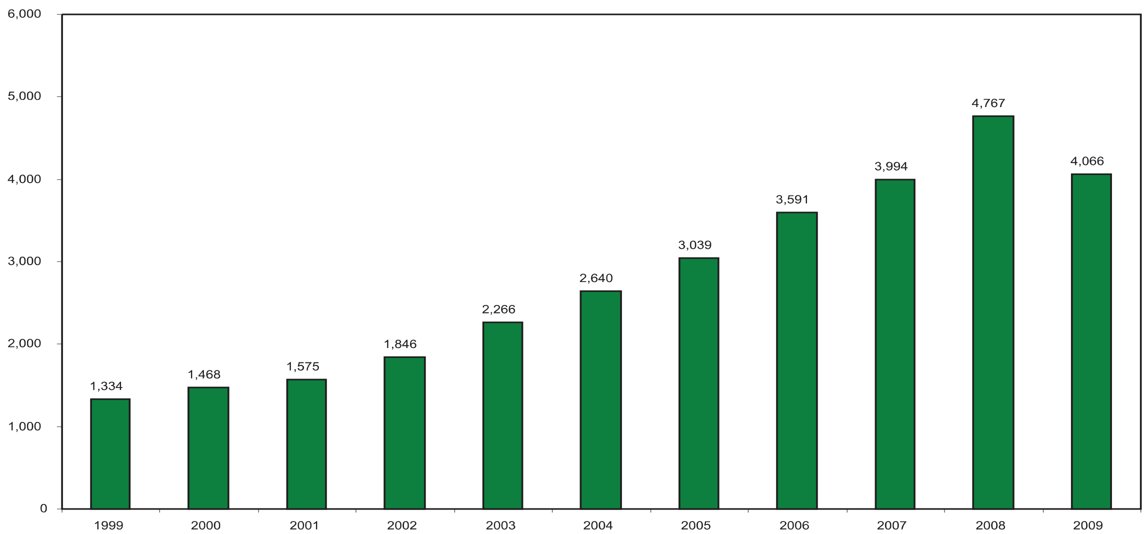
The Vietnamese government has set an annual export growth target for the coming decade of 15%. VINATEX's export target for 2010 is to gain around USD1.9bn, i.e. an increase of 12 %. Other companies have similar targets.

2.2. FOOTWEAR

Overview

Vietnam's footwear industry has been growing since the mid-nineties and has gained the role of one of major foreign currency earner for the country, reaching a record export value of USD4.97bn in 2008. This continuous positive trend came to a halt in 2009, when Vietnam shipped USD4.02bn worth of footwear, a decline of around 15% on the previous year. The slowdown in demand for Vietnam's manufactured goods, including footwear, on the most important world markets is due most probably to the effects of the global economic crisis, which hit its peak in mid 2009.

Chart 1. Vietnamese Footwear Export Turnover 1999 2009 (million USD)



Source: General Department of Vietnam Customs/LEFASO

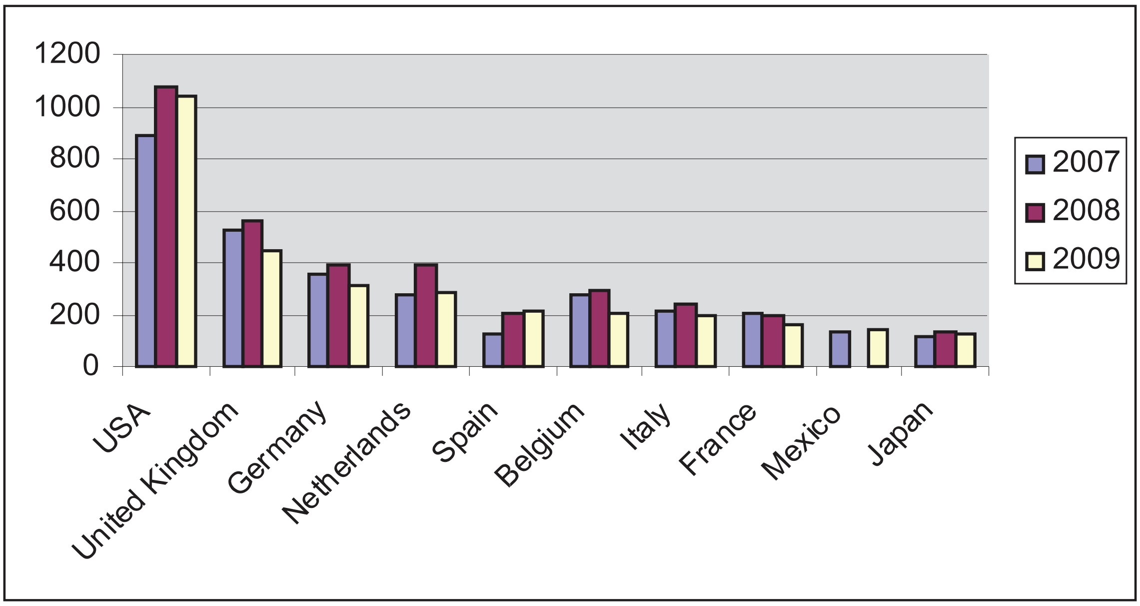
On the other hand, it is now expected that the improved conditions of the world economy will lead to an increase in the footwear export in the year 2010. In the first two months of 2010 exports were up 10% over the same period 2009.

Production of three-quarters of the exported footwear is concentrated in the three southern provinces of Ho Chi Minh City, Dong Nai and Binh Duong, which are the key supply hubs where the largest share of manufacturing companies in the sector is located. The industry is strongly export-oriented and export volume accounts for most of the total output. According to the Viet Nam Leather and Footwear Association, Vietnam currently ranks fourth in the world among footwear manufacturers.

Most Vietnamese enterprises operate on processing contracts, while foreign partners provide materials and designs and market the finished products. About 80% of materials and other inputs need to be imported. Foreign-owned enterprises, mainly from Taiwan and Korea, account for more than half of the total export turnover. The high value added stages of the supply chain are managed mainly by foreign partners, while Vietnam hosts the processing stages where cheap labour represents the main advantage.

In 2009 the EU retained its position as the main market for Vietnam - made footwear. However the ratio of export to the EU of total footwear export value has been continuously declining from almost three-quarters of the total in 2001, to less then a half in 2009, as a result of increased diversification of markets. Among EU Member States, the United Kingdom, Germany, the Netherlands, Spain, Belgium, Italy and France are the main importers of Vietnamese shoes. The U.S. is the single largest importer of footwear from Vietnam, accounting for 25% of export value (it was 22.5% in 2008) and over USD1bn in turnover (small decrease compared to the previous year).

Chart 2. Top ten export markets 2009 (million USD)



Source: LEFASO

Following European Commission proceedings that found evidence of unfair competitive practices and injury to the European industry, the EU imposed from 6 October 2006 antidumping duties for two years on certain footwear with leather upper produced in Vietnam and China. In the case of Vietnam, duties were set at a level of 10%. After an expiry review launched by the Commission in 2008, new investigations on existing conditions and business practices in Vietnam were carried out. At the end of the review process, in December 2009, a fifteen month extension of the application of antidumping duties was agreed. According to Eurostat figures, about 30% of all Vietnamese footwear exports to the EU are affected by the duties.

Since 1st January 2009, Vietnam's footwear exports to the EU lost the benefit of preferential treatment under the Generalized System of Preferences (GSP). Figures had demonstrated the reduced dependence of footwear (below 50% of total GSP covered exports) of Vietnamese origin to the EU and, thus Vietnam's success in diversifying exports.

Opportunities and challenges

Vietnam has proved itself mainly due to low labour cost as one of the most attractive locations for the production of low-value added shoes for export, through assembling imported components. Vietnam positions itself as a main source of moderately and competitively priced products even while cooperation with foreign partners has brought about an improvement in the quality level of production and manufacturing skills.

A relevant obstacle faced by Vietnamese footwear industry is the low supply of locally produced high-quality leather, canvas, PVC and other materials used in the industrial process, which must be imported from foreign markets. This reliance on imported materials leads to higher production costs and has made Vietnam's footwear industry an important market for the producers of these materials, mainly from China, South Korea, Japan and also EU. It is to be noticed that rising labor cost faced by local companies could be an issue in the forthcoming months, since the hike in salaries which took place both for state employees and private and foreign companies could potentially cause a decrease in competitiveness of Vietnamese made footwear.

The European machinery industry, despite strong Asian competition, has seized on opportunities over the past years, as efforts have been made by local and foreign-invested footwear companies in order to expand and upgrade production lines, adapting to technological change, growing competition, demand from foreign partners to improve quality. In response to the challenges of the market, it is expected that the footwear industry will increasingly try to penetrate new export markets and, in order to reach that goal, will continue the process of upgrading of production lines by procuring modern imported equipment.

Recommendations

In order to increase the competitiveness of Vietnam's footwear industry vis-à-vis other low labour cost countries, there is an urgent need to promote exchanges of experiences, know how and technologies in order to address the traditional weaknesses of the Vietnamese footwear industry such as:

- poor technical skills of the local management and workers
- poor capacities in the fields of design and marketing
- need to import most of materials and inputs.

A stronger trade promotion activity in different markets and increased presence of Vietnamese companies in specialised international fairs is necessary. Moreover, favourable conditions should be created to attract investment in the production of needed materials and tanneries. As a final consideration, which generally applies to all industrial sectors of the Country, Vietnam's authorities should keep a strong focus on the development of infrastructures, such as roads and seaports, in order to meet the requirements of its export-oriented industries.

2.3. FISHERIES

An analysis of the 2009 production year with comments on 2010 trends

Overview

2009 was perhaps the biggest test to date for Vietnam's Fisheries sector. A global financial crisis, new international regulations and aquatic product quality issues all had an effect. However, despite a drop in export turnover Vietnam consolidated its position as a major seafood exporting country and is now ranked 5th worldwide.

Fish and shellfish production in 2009 increased 4% from 4.58 to 4.78mn tonnes (2.51mn tonnes from aquaculture and 2.27mn tonnes from capture fisheries - marine and inland combined).

In terms of value the total fisheries exports amounted to USD4.2bn, a drop of USD300mn, 6.6% down on 2008 export turnover figures.

As with previous years the main export earner was shrimp with a total of around 209,000 tonnes worth USD1.68bn, an increase of 9% by volume and 3% of value.

Pangasius exports reached 607,665 tonnes, worth close to USD1.34bn, a decrease of 5% and 8% in terms of volume and export value respectively when compared to 2008.

Dried fish products saw the greatest increase: volume up 31% and value up10%, whereas squid saw the greatest drop in both volume (-11%) and value (-14%). The volume of tuna exported increased by 6% yet the value declined 4% mainly due to quality issues.

Increase in aquaculture production shows the trend of aquatic products coming mainly from culture systems rather than from capture.

With a closer focus on climate change events in Vietnam, there have been a series of studies carried out to generate vulnerability maps identifying which provinces are most susceptible to the potential impacts of climate change regarding their fishery and aquaculture production systems.

Markets

Vietnam continued to export to over 150 countries. The main importer of Vietnamese aquatic products was the EU with 26% of Vietnam's export turnover. Japan was second with 18% followed by the USA with 17%.

Processing overcapacity

Processing overcapacity is still an issue of concern. At the end of 2009, plans were unveiled to upgrade technological aspects of cold-storage systems to help meet the export target of USD5.5 billion by 2015. 584 facilities with a capacity of <100 tonnes, 254 of <300 tonnes and 50 of >500 tonnes will be built. The ability to fast freeze will be incorporated in all updated units. This will go some way to improve quality and take advantage of seasonally high yields, freeze now and market when the price improves. Those companies building new facilities will receive preferential loans and advantageous land use leases.

Subsidies

Fisheries sector subsidised loans of up to 24 months duration and 2% interest rate subsidy were to have been phased out but were continued throughout 2009 and into 2010. They will be available on long and medium-term Vietnam Dong loans for fisheries (aquaculture, capture and processing). By December 2009, USD3.7bn worth of long-term subsidized loans to the agriculture, forestry and fisheries sectors were outstanding, with USD21.6bn outstanding on short-term loans.

Quality

As mentioned above the ability to Individually Quick Freeze (IQF) and rapid freeze volumes of fish will be increased.

Scaling back production and focussing on quality should help both pangasius and shrimp production with cleaner production, reduced mortalities and better market acceptability/price.

2010

Technical requirements constituted new challenges for the pangasius industry with the 2008 USA Farm Bill, taking effect on 01.01.2010. Under the bill, Vietnamese pangasius species are named 'catfish', previously (Farm Bill 2002), the fish was correctly called pangasius. This will probably cause the USA catfish producers association to complain about 'unfair' competition.

EC regulation 1005/2008 to prevent, deter and eliminate illegal, unreported and unregulated (IUU) fishing also came into effect on 1 January 2010. Reportedly, this has already had an impact on fish prices in 2010 with tuna being rejected from those boats without catch certificates or being accepted only for the local market at prices 15% below those paid in December 2009.

Insurance

In February 2010, Vietnam Agribank announced its intention to start an insurance project underwritten by Swiss Reinsurance. It stated that in 2009 1.5% of GDP was lost due to natural disasters impacting on the Agricultural sector (including fisheries). Currently there is a default rate of about 2% of loans to Agriculture and fisheries households.

Consumer demand

As with 2007 and 2008 there was increased demand for pangasius fillets in 2009. However competition at production, processing and exporting levels has combined to drive the price for this normally high quality product down. With many producers barely breaking even and some even making a loss, the tendency to 'cut-corners' and use banned antibiotics to avoid mortalities has lead to complaints about quality from some buyers. The industry would do best to reduce production, increase quality and subsequently the price. This would also help mitigate potential losses due to climate change impacts.

Sustainability

Data collection

The VietFishBase software currently being used by the Department of Capture Fisheries Resource Exploitation and Protection (DECAFIREP) is capable of storing data on fishing boat registration (license), fishing activity, fish landed (volume and value by species), cost of fishing trips, quota and more. This software is in use at both central and coastal Provinces (28) and will also be used to assist with the compliance with the mitigation of Illegal, Unreported and Unregulated (IUU) fishing.

However many boats are still not registered or too small to need registration e.g. the 1.5m diameter round split-bamboo constructed 'coracles' used as fishing boat tenders but also for night fishing from most beaches in Vietnam. These 'craft' are often towed out to sea (up to 1km offshore) and left for 5-6 hours squid jigging or setting small drift nets. The 10kg or so catch per craft is landed on the beach and not recorded. There may be 50 or more such 'craft' for each 10km of coastline (over 20,000 landing 200 tonnes fish a day for around 180 days a year, over 30,000 tonnes fish most for direct consumption and part as feed for aquaculture).

Diversification

Vietnam has been attempting to diversify its aquaculture production with considerable funding given to research and development (R&D) at its research establishments. There is a long list of new species successfully developed in hatcheries but none of these are coming close to challenging shrimp and pangasius in terms of production tonnage or export potential.

Some of the 'new' species being produced are exotics and will only supply niche markets, for example rainbow trout and sturgeon. However the potential for large scale seaweed, bivalve mollusc and rabbit fish culture has not, as yet, been developed. The prospective here is even more interesting when considering the ability of these species to be cultured in systems that are less prone to the negative impacts of climate change and can draw on increased primary productivity generated by sea temperature rise and increased nutrient levels produced from increased run-off from agriculture systems.

Focus on Fish

The Vietnamese Ministry of Agriculture and Rural Development (MARD) has recently established a Directorate of Fisheries (D-Fish) with 9 Departments. The intention being to ensure that the focus on Fisheries is as it was under the now merged Ministry of Fisheries. It remains to be seen how effective this move will be. Danish International Development Assistance (Danida) will assist with the establishment of the D-Fish and information communication technology upgrading in 2011.

2.4. AGRO-INDUSTRY

Overview

Agriculture remains an important sector of Vietnam, accounting for the largest proportion of the work force, approximately 56%. This sector has made a significant contribution to the economic growth of Vietnam, bringing the country from the famine situation in the eighties to one of the world's leading exporters in various agricultural products. Vietnam is the biggest exporter in pepper and cashew nuts, the second in rice (after Thailand) and coffee (after Brazil), the fourth in rubber and the sixth in fisheries. Agriculture makes up 21.4% of the country's total GDP in 2009. Key agricultural products are concentrated in the following areas:

- Aquaculture in the Mekong River Delta
- Rice areas in the Mekong River Delta and Red River Delta
- Coffee areas in the Central Highlands and Northeast part of the South
- Tea areas in the Northeast and Northwest
- Rubber areas in the Northeast part of the South
- Fruits areas in the Northeast part of the South and Mekong River Delta.

Vietnam's agriculture is export-oriented and centred around major crops such as coffee, rubber, rice, tea, etc… that are suited to the subtropical climate.

Table 1: **Exports of major agricultural products from Vietnam in 2009**

Products	2008		2009		% growth in 2009 over 2008 (value)	% growth in 2009 over 2008 (volume)
	Volume (thousand tonnes)	Value (USD$mn)	Volume (thousand tonnes)	Value (USD$mn)		
Coffee	994	2003	1183	1731	-13.58%	19.01%
Rubber	650	1593	731	1227	-22.98%	12.46%
Rice	4670	2869	5958	2664	-7.15%	27.58%
Tea	103	146	134	179	22.60%	30.10%
Cashew nuts	165	908	177	847	-6.72%	7.27%
Pepper	89	309	134	348	12.62%	50.56%
Fishery products		4502		4251	-5.58%	
Forestry products		2996		2550	-14.89%	

Source: General Statistics Office

Vietnam's agricultural sector, which is export-focused, has been affected greatly by the global financial crises and economic recession. The decrease in world prices of agricultural products in 2009 has led to the decrease in export value of major products, even though the volume of exports increased over 2008. In addition, climate change has posed a serious threat to the agricultural sector, while storms (more precisely Nos. 9 and 11, as storms in Vietnam are characterised by numbers, not names) as well as flooding, caused great damage to farmers. The total export value of the agro-industry for 2009 was USD15.34bn, a decrease of 5.54% over 2008 when export value reached USD16.24bn. However, according to Vietnam's Ministry of Industry and Trade, it is expected that the export value of the sector will pick up and reach USD16.5bn in 2010.

Table 2: **Export of major agricultural products from Vietnam Jan-April 2010**

Products	2009 (Jan-April)		2010 (Jan-April)		% growth Jan-April 2010 over Jan-April 2009 (value)	% growth in Jan-April 2010 over Jan-April 2010 (volume)
	Volume (thousand tonnes)	Value (USD mn)	Volume (thousand tonnes)	Value (USD mn)		
Coffee	540	809	475	655	-19.04%	-12.04%
Rubber	158	219	173	470	114.61%	9.49%
Rice	2482	1162	2093	1123	-3.36%	-15.67%
Tea	32	40	36	49	22.50%	12.50%
Cashew nuts	41	184	45	232	26.09%	9.76%
Pepper	39	92	43	132	43.48%	10.26%
Fishery products		1058		1275	20.51%	
Forestry products		774		1007	30.10%	

Source: General Statistics Office

Opportunities

Inherent opportunities are present at various levels of the value chain in the agricultural sector, as evidenced by the rising imports of animal feed, fertilizer and farm inputs. The total value of imports of animal feed and raw materials in the first quarter of this year rose to USD613mn, 133% higher than the same period last year. Domestic supply of animal feed inputs is small, insufficient and unstable and thus the animal feed industry imports most of its input needs.

The same situation is experienced in the food processing industry whereby a large portion of inputs are imported. Greater development in the food processing industry will push for more investment in mechanised equipments.

Vietnam is set to phase out small scale farming through the introduction of new technologies that are expected to result in higher yields and more competitive farm produce. The total value of the high tech sub-sector has been targeted to reach 10-15% of total agricultural production over the next five years and 30-35% by 2020. This is part of the scheme approved by the Vietnam government to industrialise the agricultural sector. High tech agriculture is expected to grow, particularly given that many arable farming areas are being cleared and used for industrial zones.

Rising concern on food safety by both domestic and international market will create and further strengthen the demand for traceability technologies and certified chemicals. Vietnam will put greater effort into food safety programs for domestic consumption and export to push for higher quality and safer products for consumers. Concrete activities shall include but not be limited to reviewing the legal framework, regulations and standards on food safety, hygiene and promoting the application and certification of GAP, GMP, GAHP, etc… These in turn open opportunities for technical assistance, know-how transfer and certification related services.

Challenges and Recommendations

While productivity of agricultural products has been enhanced, Vietnam's agriculture sector still lags behind in terms of quality and competitiveness. Vietnam is the second biggest coffee exporting country in the world in terms of quantity, but only the fourth biggest in terms of quality. While productivity should be the core of the agricultural sector, quality should also be given more attention as the demand of consumers, both domestic and international, is getting higher.

Under-developed marketing channels hinder the development of agricultural sector of Vietnam. The importance of and need for branding of Vietnamese agricultural products has been recognised. However, branding of these products in the international market is weak. In this sense, more effort should be given to the marketing aspect of products in order to raise their prices which in turn will improve the lives of farmers and the agricultural sector of Vietnam overall.

Weak infrastructure in terms of transport and cooled storage slows down the development of the sector. An estimated 40% of Asian fresh produce is subject to shrinkage and degradation. A good cold chain distribution network and better logistics are required in order to preserve the quality of food and faster delivery to the market.

2010 has also witnessed the emergence of new technical requirements on certain types of fish exports such as the IUU regulation, to prevent illegal, unreported and unregulated fishing. Under this new EU law, seafood export shipments to the EU must clearly show the origin of products, including the sea area where the fish are caught and the names of the fishing boats. The IUU law could be seen as a challenge, on the one hand, and as an opportunity, on the other, for Vietnam's fishery industry to reach international standards and sustain development in foreign markets (see also Chapter 2.3 on Fisheries).

2.5. PHARMACEUTICALS

Healthcare Sector

The government is committed to developing the healthcare sector rapidly and to provide basic healthcare coverage for a population that should reach 100 million inhabitants by 2018. To do so, Vietnam has adopted an ambitious new Law on Health Insurance. This law should provide a broader coverage of compulsory health insurance for Vietnamese and foreign employees. The new law came into effect in July 2009. The law governs eligibility and the scope of health insurance coverage, health insurance funding, rights and obligations of insurers and insured and a roadmap for universal health insurance. As of 2010 all workers are subject to a compulsory Health Insurance Contribution, HIC. The monthly HIC is 4.5% of the contractual salary (capped at 20 times the minimum wage) of which 2/3 is contributed by the employer. Needless to say such an ambitious plan will face many hurdles on the short term starting with the very poor, inadequate, and insufficient current health sector facilities.

Currently, Vietnam provides 25.5 beds per 10,000 inhabitants, still a very low figure compared to main ASEAN countries. The health sector is managed mainly by the Ministry of Health and provincial Departments of Health. In 2008, they accounted for 94% of the 13,460 healthcare entities in Vietnam. These entities include hospitals (974), regional polyclinics (781), sanatorium and rehabilitation hospitals, medical service units in communes and precincts (10917, all under MOH management), medical service units in offices and enterprises. The number of patient beds, excluding private establishments, totals 219,800 of which 69% are in hospitals.

Even though public healthcare spending is increasing by 50% on a yearly base since 2005, it still accounts for less than 6% of the total government budget. UNDP and UNICEF experts suggest that the spending should reach 10% to have a viable health system but the MoH estimates that such a target cannot be reached before 2015. By then, hopefully, the Law on Health Insurance will have started to show encouraging results.

In recent years, Vietnam is developing foreign partnerships to bolster the development of the health sector. Cooperation agreements have been signed with Indonesia (technology transfer, new vaccines production), with the United States (emphasis on infectious diseases such as HIV/AIDS and avian flu), Bulgaria (outpatient care, medical education), Singapore (enhance medical network, medical insurance, hi-tech training), and last year with Argentina (exchange research, training).

Pharmaceutical Sector

There are around 720 pharmaceutical entities (state-owned enterprises, joint stock companies and private pharmaceutical firms), 7,500 private drug stores and more than 12,000 retailers in Vietnam. Most of the retailers do not comply with the minimum health requirements and have improper storage facilities.

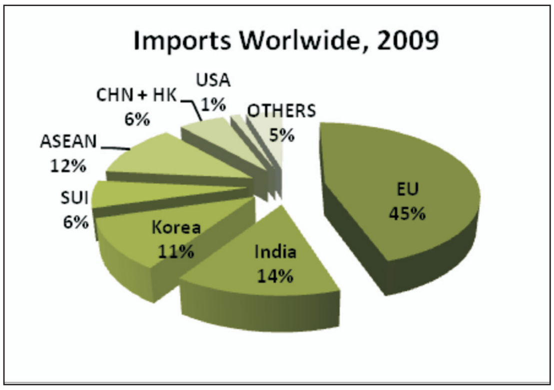
In 2005 the Government launched an ambitious program aiming to have 60% of pharmaceutical needs supplied by local manufacturers by 2015. However, 5 years on, it is clear that this target is still facing two main obstacles: lack of capacity of local industry in supplying key raw materials and the lack of adequate human resources. All R&D programs of the SOEs are far from reaching their targets.

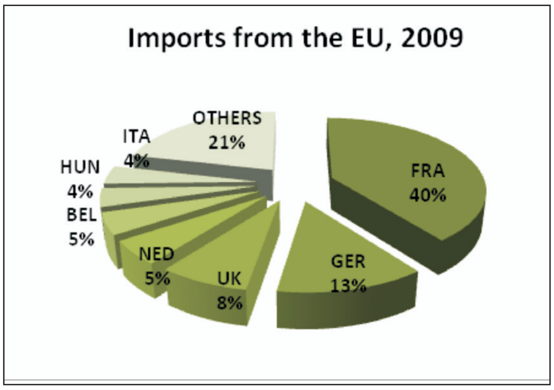
The improvement can be seen through the GMP certifications plan which should help the local manufacturers to survive and compete locally and globally. All Vietnamese manufacturers should obtain GMP certification by the end of 2010. Obvious results came from the WHO which gave, recently, international GMP certifications for products and materials as well as Good Laboratory Practice (GLP) and Good Safety Practice (GSP) certificates to some Vietnamese companies. Most new production facilities are now GMP certified.

Import of Pharmaceutical Products

According to the figures from Vietnamese customs, the total import of pharmaceutical products (HS code 3002, 3003 and 3004) reached USD1bn in 2009. The EU is still by far the main partner with 45% (USD475mn) of the market, followed by India (14%), South Korea (11%), Switzerland (6%) and ASEAN bloc (12%). New players are emerging to tap into this lucrative market, mainly from South America and Cuba, already totalling 2% of the market.

From an EU perspective, France is by far the biggest exporter with up to 40% of the export volume followed by Germany (13%), and the United Kingdom (8%), and Belgium and the Netherlands (5% each). The presence of French and German production facilities in Vietnam certainly has an impact on these figures (Sanofi Vietnam, J-V between Sanofi-Synthélabo and Central Pharmaceutical Manufacturing Enterprise, and Stada Vietnam, J-V between Stada and Khuong Duy Pharmaceutical Company). European countries should, in general, maintain a strong market position in the coming years, particularly due to rising demand for quality pharmaceutical products. However, competition particularly from India and South Korea should not be underestimated. The United States might also emerge strongly in the coming years.





Export of Pharmaceutical Products

Increased harmonisation with international GMP standards should provide a major boost for exports by those manufacturers with sufficient capital to make the necessary investments. Another positive impact for the domestic industry is the increased FDI by multinationals in the pharmaceutical sector, backed by the government.

Like firms from regional neighbours, Bangladesh and Pakistan, Vietnamese drug manufacturers are targeting markets with low barriers to entry. South East Asian countries such as Laos and Cambodia are prime targets, while African states are growing in popularity. Meanwhile, the Middle East and the ex-Commonwealth of Independent States (CIS) are both being considered as potential future customers for Vietnamese-made pharmaceuticals. Exports of Vietnamese pharmaceutical products are still low in value (USD 43.6mn in 2009) but are growing fast (54% in 2009 versus 40% in 2008). Nonetheless, Vietnamese pharmaceutical exports represent just 4% of the pharmaceutical trade. The EU is already the biggest export market second to the ASEAN bloc. Surprisingly Germany is the largest export market, with a 13.3% market share or USD5.8mn, followed by India (12.5%), Nigeria (10.3%), Myanmar (10.1%), Cambodia (6.9%) and Moldova (5.7%).

Import and Distribution

Under WTO commitments, foreign-invested companies and branches of foreign firms are allowed to import drugs directly into Vietnam since 1 January 2009, but are still not allowed to distribute them to the end-user. They have to work with intermediary local companies. Only these companies have the right to supply the market and have direct access to hospitals and pharmacies. Nevertheless some foreign-owned companies active in the wholesale sector have managed to control a vast segment of the market, particularly regarding the imported drugs. Through their large brand portfolios they have become key players in the supply-chain (Diethelm Vietnam, Zuellig Pharma Vietnam, Mega Lifesciences).

Regulatory Regime

Regulations governing the pharmaceutical industry traditionally have been unclear and often implemented on a case-by-case basis, representing a market entry barrier to foreign companies.

Advertising

Advertising is still very restricted especially for prescription drugs. Direct marketing to consumer is not allowed but promotion of prescription drugs through seminars and conferences, promotion via health officers can be done under certain conditions. In any case, permission has to be granted by the local health department. The marketing of over-the-counter (OTC) drugs is much easier. Direct advertisement can be done via any paper support (magazines, newspapers, brochures, etc) and even on television, radio, mass media outlets with the approval of the Ministry of Health (MOH).

Intellectual property, trade barriers and WTO commitments

Since Vietnam joined the WTO it has made serious efforts to implement guidelines that follow the TRIPS pact (Trade-Related Aspects of Intellectual Property Rights) but a lot of work remains to be done:

Drug registration: Unfortunately Vietnam does still not automatically recognise foreign CPPs (Certificates of Pharmaceutical Products). This implies that time-consuming, costly and rather unclear procedures have to be followed for drugs already registered and accepted worldwide. Vaccines still have to go through local clinical trials.

Patent protection and enforcement: Patents last 20 years with market exclusivity of undisclosed data for 5 years. Practically, enforcement of the law is complicated as too many agencies are involved (MOF, MPI, NOIP) with no real coordination. IP enforcement remains disorganised as a result. In addition, the legal system has very little experience, with guidelines on these issues lacking.

Counterfeits: The number of counterfeits and “trade dress” drugs has a strong impact on the general public health in addition to the severe market distortions it creates. Control is rather difficult because most of the drugs are handled through private dealers and not through recognised pharmacies. Counterfeit products are also pouring into Vietnam via Laos, Cambodia and China. Even though the MoH is taking measures to tackle the issue, few results are being observed.

Prescription, OTC and generic drugs

There is no proper distinction between prescription and non-prescription drugs.

Additionally, it is very easy to buy a prescription drug without a medical prescription, which makes it difficult to obtain decent market figures. Still, the growth of prescription drugs should remain solid, boosted by the increase of the number of hospitals and the modernisation of the existing ones. Prescription drugs should continue to account for over 70% of the total market in the coming years mainly due to a tighter control from the MoH and the import of newer, expensive patented products. Demographic and environmental trends will heavily impact the prescription drug market. A strong increase of respiratory problems (worsening air quality in urban centers and high smoking rates), alimentary tract and metabolism, cardiovascular diseases will be the main illnesses to be treated. The future market is estimated to be worth USD2bn at consumer prices in 2013.

The OTC market consists mainly of analgesics (25%), cough and cold remedies (19%), digestives (19%), vitamins and minerals (17%), skin treatments (15%) and others (5%). The market of OTC drugs is expected to double in the coming 5 years to USD700mn. The liberalisation of the market will put extra pressure on the local manufacturers since they will remain heavily dependent on import of APIs needed for their industry. Due to the lack of family doctors in Vietnam, most Vietnamese families rely heavily on OTC drugs for self-medication.

Medical Device Market

The medical device market in Vietnam can reasonably be estimated at USD220mn and is expected to grow on a y-o-y basis by 10% for the coming three years, fuelled by the continuous increase demand for healthcare services and by the increasing of a significant number of private hospitals and joint-venture buying of state of the art equipment. Government funded hospitals are purchasing more and more expensive foreign systems to install in very large hospitals. This is usually funded by ODA or other cooperation funds from the main donors.

The market could easily double to USD400mn in the next 5 years even though Vietnam seems less focused on the unrealistic goal of competing with Singapore, Thailand, Malaysia and India for overseas medical tourism. Still, the MoH is pushing hard to improve overall standards and therefore pushing regulations for better medical equipments.

Local production of medical devices is extremely limited and accounts for only 5% of the market. Local manufacturers are producing low-end products of decent quality. 48 agencies are manufacturing more than 620 basic pieces of hospital equipment. This is very far from the 2002-2010 strategy targets of manufacturing 60% of the market's need by 2010. A couple of strong joint ventures with Japanese, German and South-Korean partners are active in the sector as well. The remaining 95% are imported mainly from Japan, EU, USA, South Korea and Taiwan. Unfortunately most of the hospital staff is insufficiently trained to handle this hi-tech equipment.

The market share of EU equipment keeps on shrinking year after year. The value of EU exports of equipments under custom code HS 9018 fell to roughly USD47mn in 2009 from USD52mn in 2008, in an expanding market. Germany still accounts for 50% of EU exports, posting very healthy growth figures for the last 4 years, followed by Austria, France, Spain and the Netherlands.

Regulations for importing second-hand equipment are still unworkable. Second-hand equipment must retain at least 80% of its life expectancy and have a maximum 110% energy consumption compared to new equipment.

Import and Distribution of Medical Equipment

Within the MoH, the Department of Medical Equipment and Health Works (DMEHW) is in charge of medical devices, whereas the Ministry of Science and Technology (MoST) performs some regulatory functions for domestically made medical devices.

Imported devices are not subjected to registration but to an import license. Only certain categories of medical devices have to go through that procedure (see MoH's circular No. 08). Traders wishing to import such appliances must satisfy a number of particular conditions, including having technical staff capable of guiding through installation and maintenance. In some cases, clinical trials will be requested. Foreign clinical trials can be accepted but, in the end, still do need to be approved by the MoH.

2.6. MACHINERY

Overview

Mechanical engineering industry

There are about 3,100 enterprises in the sector mechanical engineering throughout the country, including state-owned companies, private companies and foreign-direct-investment (FDI) companies. Nearly half are larger scale companies manufacturing or assembling machinery and equipment. The other half are much smaller scale and do mostly repairing and maintenance works. The total capital of the state-owned mechanical enterprises is estimated at USD380mn, FDI companies at USD2.1bn. FDI companies invested mainly in assembling cars, motorbikes and household items.

The government's development plan since 2002 shows that by end-2010 local mechanical engineering must cover 45-50% of the country's demand and export 30% of the total production output. To reach this ambitious goal, apart from the restructuring of the state-owned corporations in order to increase their production capabilities, Vietnam is attracting foreign direct investment, assisting the state-owned enterprises in new investment and encouraging the private enterprises to grow.

The priority for development should be given to the following 8 sectors:

- complete equipment / production lines engines
- machinery for processing of agricultural products

- machine tools
- construction machines
- shipbuilding industry
- electronics and electrical equipment
- auto industry and transport engineering

Vietnamese companies have made significant steps forward in manufacturing capability of mechanical products. Vietnam's mechanical industry in the period 2001 - 2007 had an annual average growth of 22% in value and met 40% of the domestic demand. The table below shows the production of machinery and mechanical products which are mainly used in the agricultural, forestry- and the processing industries:

Product		**2003**	**2004**	**2005**	**2006**	**2007**
Agricultural hand tools	Thousand Unit	21,752	20,756	21,549	22,421	24,663
Improved vehicles	Unit	11,696	18,257	19,435	20,523	22,575
Agricultural pump	Unit	7,787	10,038	11,440	11,672	12,839
Water pump engine	Thousand Unit	761	460	555	576	634
Pesticide pumping	Thousand Unit	51,7	52,7	54	55,3	-
Tractors & transport vehicle	Unit	7,889	8,607	9,415	9,871	-
Rice harvesting machines	Unit	10,021	17,571	18,853	18,935	-
Rice harvesting machine with engines	Unit	6,722	10,903	11,605	12,406	13,647
Rice threshing and husking machines	Unit	10,112	5,749	6,480	6,857	7,547
Machine tools	Unit	8,666	5,831	7,769	7,920	8,712
Diesel engines	Unit	184,418	182,443	145,450	152,521	-
Electric motor	Unit	95,779	132,320	134,445	135,843	-
Machine transformer	Unit	33,364	50,146	45,541	46,876	51,564
Wire	Million Meter	1,151	1,032	1,136	1,214	-

Source: Vietnam General Department of Statistics

Vietnamese mechanical engineering companies, meanwhile, have taken part in most of the important industry projects such as cement plants, thermal and hydropower plants, Dung Quat refinery, shipbuilding, and many other industry fields. However, they are just competitive enough for mainly simple works such as welding, making frames and non-standard steel structures. The auto industry and the shipbuilding industry are good examples of this. Experts see weaknesses on all levels for the development of local contributions, such as in casting, forging, creating of big semi products, heat treatment, surface treatment and manufacturing of high quality standard products. Factors hampering the Vietnamese engineering companies to be competitive internationally include the following:

● Many machines are equipped with very old technology

● Lack of information and ability for internal cooperation

● Lack of confidence in quality of local products

● Companies are too slow in moving to the market economy, not able to compete in a highly competition world

● Lack of investment capital - companies are often not willing to take the responsibility for bigger investment capital

● Lack of international market information

Vietnam's import of machinery

Year	1986	2000	2001	2002	2003	2004	2005	2006	2007	2008 Prel.
USD $mn	749	4 781	4 949	5 880	7 983	9 207	9 285	11 040	17 966	21 500

Source: General Statistics Office

Vietnam's export of machinery

2008: USD1.86bn

2009: USD2.028bn

2010: USD2.4bn (expected)

Source : Ministry of Industry and Trade

Electronics industry

Vietnam's electronics industry has been in existence since the 1970s when Sanyo opened a TV and radio factory that is now run by Vietronics Bien Hoa under a licensing agreement. However, it has really shown significant growth after Doi Moi. In the 1990s, a series of joint ventures with foreign companies had been set up. In recent years, more and more foreign companies have been setting up their subsidiaries here. Examples are Canon Vietnam Co. Ltd, Fujitsu Vietnam Ltd., or Intel Products Vietnam Co. Ltd.

Like the mechanical engineering industry, the electronics industry has a development master plan until 2010 and a vision until 2020, defined in the Decision No.75/2007/QD-TTg dated 28 May, 2007. The goals are:

● Turnover of USD4-6bn from local electronics production by 2010

● Export volume of electronics products to rise to USD3-5bn

- Creation of 300,000 jobs
- Annual growth rate of between 20-30%

Electronics production and export

Electronics output (USD$mn)	**2006**	**2007**	**2010f**	**2011f**	**2012f**	**2013f**	**2014f**
Electronics industry output	1,770	2,200	4,451	5,510	7,181	8,818	10,722
Electronics export volume	1,606	1,880	2,174	2,478	2,934	3,485	4,120

Source : Business Monitor International , f = forecast

According to reports of the Ministry of Industry and Trade, the export and import figures for electronics products (including computers, electronics devices and components) in 2009 were as follows:

Export: USD2.76bn, an increase of 4.6% over 2008. The main markets were the US, Japan, Thailand and China.

Import: USD3.95bn, an increase of 6.5% over 2008. The main importers are the foreign direct investment enterprises with USD2.55bn, (64.5% of the total import volume).

According to experts, Vietnam's electronics industry uses backward technologies and equipment. Vietnam is still in phase 1 (import of components and assembly for domestic demand) while other countries in the region (Thailand, Singapore, Malaysia, Indonesia and the Philippines) are in phase 3 (R&D, high-tech, export oriented). Industry capabilities are limited mainly to assembling, lack a developed support sector that would provide components. Thus, local companies find it difficult to achieve cost-competitiveness with foreign brands.

Recommendations

There is an urgent need to focus on the development of supporting industries for sectors such as electronics and informatics, automobiles and motorbikes, textile and garment, shoes and leather and mechanical engineering.

As the engineering sector is considered to be a key factor in achieving the country's goals of industrialisation and modernisation, the government will make significant efforts to expand this industry. Estimates are that the recent demand of engineering industry in Vietnam is around USD16bn per year and this will continue to grow not less than 20% per year.

The electronic devices market is forecasted to grow 13% through 2014, with key areas including low-priced handsets, notebook computers and LCD TV sets. Low labour costs and a large emerging domestic market make Vietnam a potentially interesting location for global vendors. Foreign companies are encouraged to set up their production in Vietnam. The Government provides support and incentives for investment, particularly for semiconductors.

Vietnamese companies are compelled to increase the quality of their equipment and should be able to manufacture mechanical quality products which comply with international standards before long.

Several European companies already cooperate closely with Vietnamese partners; more and more companies regard Vietnam as a persuasive alternative to China. Therefore, there is plenty of potential for a mutually fruitful partnership.

At the same time Vietnamese companies frequently lack know-how, technology and capital in contrast to internationally-active European companies. On the other hand, European labour costs are relatively high and thus not competitive in a global context. The cost structure of Vietnamese companies is highly attractive and even withstands comparison with China. Vietnam's advantages are manifold, since it offers a better quality of work as well as better protection for intellectual property rights than many other countries in the region.

Consequently, the teaming up of European and Vietnamese partners can be a profitable business for both sides, offering Vietnamese companies access to Western know-how and, at the same time, European companies a reliable and cost-efficient production base in Asia.

2.7. BANKING AND FINANCE

Summary

The Banking and Financial services sector is controlled by the State and supervised closely by the State Bank of Vietnam (banking services), Ministry of Finance (insurance services), and the State Securities Commission (stock exchange and securities). Foreign businesses in the sector that have adopted a long-term approach have managed to develop a profitable business. Whilst this sector is not fully developed, there is potential for suppliers to make sales. Vietnam looks carefully at cost but is not put off by a high price if the quality is what they require. A significant amount of aid money is being spent on developing and reforming Vietnam's banking and finance sector. Consultancy and service provider companies with a good track record in this sector will be well positioned to win such business.

Banking Sector

In 1990 Vietnam adopted the Ordinance on the State Bank and the Ordinance on Banking, Credit Co-operatives and Financial Institutions in order to create a legal framework for the banking system. Since then, the banking system in Vietnam has made considerable progress. The re-organisation of the banking system in May 1990 has strengthened the role of the State Bank of Vietnam as the central bank (i.e. regulatory body in charge of development policies, licensing, etc.) and thus transferred the credit function to state-owned commercial banks (SOCB) which are: the Vietnam Bank for Agriculture and Rural Development (AgriBank), the Vietnam

Bank for Investment and Development (BIDV), the Bank for Foreign Trade of Vietnam (VietcomBank), the Vietnam Industrial and Commercial Bank (VietinBank), and the Mekong Housing Bank. In 2002, the government of Vietnam decided to establish the Bank of Social Policies whose primary functions are to provide concessional and directed credit to poor people, provide subsidised funding to create jobs for the poor, i.e. not for profit purposes.

The organisational and financial restructuring of SOCBs to support their commercial orientation is expected to happen alongside with their equitisation, due to be completed by 2010. However, so far only VietcomBank and VietinBank have been equitised (in 2007 and 2008 respectively) through Initial Public Offerings (IPO) with the state's shareholding in both banks remaining at 70% to date.

The AgriBank, BIDV and Mekong Housing Bank have postponed their equitisation until at leaset 2011 - 2012 due to the poor performance of the stock market. Since 1 April 2007, Vietnam was required to allow, under its WTO commitments, foreign banks to locally incorporate on condition that there must be an agreement between the State Bank of Vietnam and the financial services supervision authority of the foreign banks home countries. So far, British banks (Standard Chartered Bank and HSBC), ANZ of Australia, Hong Leong of Malaysia and Shinhan Bank of South Korea have been licensed to “locally incorporate” set up as wholly foreign - owned “local” banks. Banks from other countries, including Taiwan and Russia are also interested, though the world economic recession has slowed the process.

Another way for foreign banks to penetrate the local market is to buy shares of local banks. To date, most of local joint stock banks with good reputation and market share (such as Techcom Bank, Asia Commercial Bank, Maritime Bank, Exim Bank, etc.) have sold up to 15% - 20% of their shares (the cap allowed by the State Bank of Vietnam) to foreign banks. This is a win-win solution for both parties as the local banks will have access to foreign expertise and technical experience in banking sector while foreign banks will be able to tap wider customer bases in the retail segment.

Asia Commercial Bank, one of the established joint stock banks, was first listed in the Ho Chi Minh City Securities Trading Centre in late 2006. That was a bold move which helps the bank to raise equity faster, easier and at a cheaper rate when required.

Other newly established joint stock banks (Global Bank, An Binh Bank, Saigon Hanoi Bank) were able to expand their market share by signing strategic alliance agreements with Vietnam's big state owned corporations, such as Petro Vietnam, Electricity of Vietnam, Vietnam Rubber Corporation, respectively. This also helps banks raise funding, when required.

To date there are 174 banks and finance companies operating in Vietnam (of which there are five SOCBs, three foreign banks that have locally incorporated, thirty nine foreign bank branches, five joint-venture banks, thirty eight urban joint stock banks, thirteen leasing companies, fifty four representative offices of foreign credit institutions in Vietnam and seventeen finance companies)

The Goverment's Decree 14 which states that banks must have at least 3,000 billion dong chartered capital (around USD 150 million) by 31 December 2010 or will be dissolved. As a result all small banks have been racing to raise their chartered capital in 2009 and especially in 2010. However, it is believed that at least a dozen banks will not be able to meet the minimum legal capital requirement by the deadline and hence some mergers will happen soon. The State Bank of Vietnam has set a deadline of 30 September 2010 for banks who think that they cannot meet the minimum legal capital requirement to submit their plans to either dissolve or merge with another one.

Stock Market

Overview

The government has developed its equitisation plan since 1992. The State Securities Commission (SSC) is headquartered in Hanoi and has a representative office in Ho Chi Minh City. Ho Chi Minh City Securities Trading Centre, now Ho Chi Minh City Stock Exchange (HOSE), the first ever exchange of Vietnam, was officially inaugurated in 2000.

The Hanoi Securities Trading Centre (HaSTC) and HOSE constitute the official mechanism through which new government bonds are issued, and they function as the secondary market for a number of existing bond issues. All securities traded on HaSTC and HOSE are denominated in Vietnamese Dong.

SSC, a body established formally in 1996, is responsible for capital markets development, licensing of participants, and the issuing and enforcement of regulations. A wide range of regulations, with significant input from multilateral bodies such as the International Finance Corporation, have been promulgated, including those dealing with such issues as insider trading, take-over trigger points and margin lending. In order to be listed, a company must have been profitable for at least two years, have a minimum capitalisation of approximately USD 300,000, and have at least 50 shareholders who are not employees of the company, holding at least 20% stake. Foreign invested joint venture companies are technically qualified to list, but in order to do so, they must be reorganised into joint stock companies.

Eight banks have been licensed to accept custody of securities. Custody is based on a central depository, central registry book entry system.

Vietnam's stock market saw a sharp drop last year. The once high-flying stock VN-Index market fell from 1,170.67 points (on 12th March 2007) to below 300 points in 2009. Slight improvement was seen in the begining 2010 but no robust recovery is expected soon.

Legal framework

- The Securities Law and Stock Law were passed by the National Assembly in June 2006 which took effect from 1 January 2007. Implementation guidelines were drafted by SSC.
- Ministry of Finance signed the Decision 898/QD-BTD on 20 February 2006 to promulgate the Stock Market Development Plan 2006-2010.
- Ministry of Finance issued the Circular No. 11/2006/TT-BTC on 21 February 2006 to amend the Circular No. 110 dated 12 December 2004 to provide advice on how to collect, manage and use all fees and charges in the banking, stock and insurance activities.

Some outstanding issues

- Although market capitalisation has grown strongly over the last few years (it reached USD 38.83 billion as of 4 May 2010) making up 45% of the country's 2009 GDP, it is still tiny when compared with other countries. The reason being companies listed are not big enough in size and in capital.
- The legal framework is still in its infancy stage, hence there are a lot of amendments, and additions are still required to accommodate new products (such as OTC transactions, derivatives, etc.).
- Market transparency through quality information delivered in a timely manner and available to investors is not high.
- Infrastructures, especially the IT technology of the securities trading centres and companies, were left behind given the strong growth of the market.
- Supervision and law enforcement capabilities of government bodies.

Insurance

On 9 December 2000, the National Assembly passed the Law on Insurance Business. This law, which was drafted with the help of the European Commission's Eurotap programme, is the main law regulating the industry, regulating the obligations and rights of organisations and individuals. The previous Decree (18 December 1993) had become outdated because of the rapid development of the industry. The National Assembly will discuss the first revision of this law in its June 2010 sitting.

Although the insurance industry has developed strongly in recent years growing at a annual rate of 28-29%, insurance premiums are still only a modest 1.5-2.0% of GDP. A number of reforms announced by the Ministry of Finance (MoF) along with the rising pressure of integration are expected to spur insurance firms into seeking a greater share of the domestic market. The equitisation of Bao Viet in 2007, the dominant player in the insurance market with around 40% market share, has paved the way for a more level playing field in the insurance sector.

There are currently 27 insurance enterprises operating in Vietnam, of which two are state owned enterprises, 15 joint stocks, and 10 foreign invested ones. In addition, there are over 30 representative offices of foreign insurance firms.

After 10 years of implementing an open policy, enhancing international integration, attracting foreign investment in combination with promoting internal forces, Vietnam's insurance market has achieved great progress both in quantity and quality. Average growth rate of insurance premium during 1993-2004 was about 30% annually. The ratio of insurance premium on GDP has increased from 0.37% in 1993 to 1.86% in 2004, and targeted to reach 4.2% in 2010. The industry has seen 20% growth in turnover in 2009 reaching VND25.5 trillion (USD1.3 bilion) in 2009.

Life insurance: In 2005 Vietnam's life insurance market stabilised after a period of rapid development, according to the Ministry of Finance (MoF). The stablity was considered a main factor that would help the Vietnamese life insurance market to be competitive during the process of international economic intergration since WTO in 2007. The stability has also made the domestic life insurance market more attractive to foreign companies. Three new life insurers that were licensed in 2009 include Cathay Life (Taiwan), Eastern Life (Singapore) and Ping An (China).

This fact, however, has placed competitive pressure on local life insurance companies. As a result, many of them have changed from short-term to long-term investments, purchasing government bonds and investing directly in projects to develop infrastructure facilities and production.

There are currently eleven life insurance companies operating in Vietnam, of which Bao Viet is the only state-owned enterprise (although 30% of its shares are now publicly held) and ten foreign invested ones. Prudential is believed to have the lion's share of the market with over 40%, followed by Bao Viet (over 30%). The other nine companies share the remaining 30% of the market.

Statistics show that domestic life insurance companies have poured up to 50% of their total investment into government bonds and about 40% into credit organisations. The MoF has co-ordinated with relevant agencies to take measures, including offering investment incentives and commercial loans, in order to facilitate insurance companies' investment activities.

Accountancy

The history of development of accounting in Vietnam correlates with the accounting practices of countries, which, over the years, have formed strong military, social or trade links with Vietnam. In the period 1960-1969, the Vietnamese accounting system was strongly influenced by China. During the period of 1969-1989, the former Soviet Union played a catalytic role and from 1989 to 1995, France and the United States of America had some influence.

However, a move to gradually alignment to International Accounting Standards (IAS) by the Ministry of Finance commenced in the 1990s. The complete set of Vietnamese Accounting Standards (VAS) was issued by end of 2003. VASs were based on IASs, knowledge of regional countries' standards, experience of practising auditing services over the recent years by Vietnamese auditors, and Vietnam's prevailing legal provisions and requirements.

Auditing

External auditing activities came into existence and substantially developed in the later part of 1990s. With a view to creating a legal framework for the establishment, development and management of external auditing activities, the State promulgated the Regulation on Independent Auditing in the National Economy, the Regulation on the Examination and Issuance of Audit Certificate, and the Regulation on Registration and Practising Audit Profession a few years ago. However, many local and international experts claim that it is high time for Vietnam to improve its overall legal framework to ensure the independent auditing process and the national's law are in line with international rules.

As scheduled, a draft of the Law on Independent Auditing will be submitted to the National Assembly in May 2010.

The UK's big four audit firms dominate accountancy in Vietnam. With the never ceasing work of ODA projects foreign accountants continue to maintain strong business results in Vietnam. Their workload has also increased significantly with the implementation of the Enterprise Law, as well as with the opening of the stock market. These two factors have given many Vietnamese companies the chance to become legitimate. Previously, they had operated in a manner that was "tax efficient" by avoiding the attention of the authorities. Since the passing of the Enterprise Law and the opening of the stock market, the number of private Vietnamese companies continues to grow rapidly. Accountants are regularly advising well-established Vietnamese businesses on how to become a limited company especially after a number of years of operation, and how to qualify as a listed company.

Conclusion

The plan for the development of the financial services sector in Vietnam seems well established. The role of foreign businesses and their scope for operation will probably dictate the pace of expansion of this industry. Membership of WTO has forced Vietnam to realise its commitment to allow European banks and companies to compete on a level playing field.

Whilst there is still an element of uncertainty within the Vietnamese government as to how to take forward the financial services industry, especially in relation to foreign involvement, it seems that the pendulum has now swung more to the side of those who believe that a vibrant financial services sector is for the overall good of the Vietnamese economy and its development.

2.8. RETAIL SECTOR

Overview

Despite the fact that Vietnam's retail sector is still in its infancy, it is proving to be a booming sector. The transformation from traditional retail to what can be called "the retail industry" has been remarkable. Rapid growth has been experienced in this sector. There are more than 8,300 markets of all kinds and approximately 400 supermarkets and trade centres now compared to only 10 supermarkets and two trade centres in 1995. The sector has undergone a deep structural change moving from predominantly state owned businesses to a more diversified structure including private, businesses joint ventures, cooperatives and 100 percent foreign invested businesses. The emergence of new and modern forms of retailing, though gradual, can be noted. Besides the traditional "mom and pop" shops and wet markets, which still make up the majority of the sector, other forms like department stores, shopping centres, specialised stores, catalogue and internet selling have made their presence in Vietnam.

Retail is becoming one of the increasingly important sectors. On average, it contributes to 15% of GDP annually and employs approximately 5.4 million people, equivalent to the processing industry. Vietnam's total retail sales and services value was more than USD67bn in 2009, recording a growth of approximately 18.6% in 2009 compared to 2008. Based on Vietnam's General Statistic Office, the total increased of retail sales of goods and services for the first two months of 2010 was 27.4% compared to the same period in 2009. According to RNCOS, a US-based market research firm, it is estimated that the retail sector in Vietnam would become worth USD85bn by 2012. This is quite a remarkable achievement in times of global recession and post economic crisis.

Opportunities

The modern retail system, like supermarkets (Big C, HaproMart) and specialised shops (SJC, PNJ, Best Caring) has increasingly gained the acceptance of Vietnamese consumers. According to the survey by Nielsen Vietnam, 65% of Vietnamese consumers surveyed occasionally bought goods at supermarkets in 2007. However, the rate has gone up to 95% in 2009. This provides the right boost for the development of the modern retail system.

There is a gradual switch from traditional market place to a modern retail system by Vietnamese consumers. This could be explained partly by the increase in GDP per capita (approximately USD1,100 in 2009). Higher disposable income earned by Vietnamese ultimately leads to a higher standard of living and is the core driver for increased spending. With a population of over 86 million people, Vietnam is emerging as a promising market for the retail sector. There is a high propensity to spend, especially in the young population which accounts for around 70% of the population as a whole. This young generation is ready to embrace new and foreign products and services. Considered by many as a lucrative market, the retail sector in Vietnam has been receiving special attention from foreign investors.

Driven by globalisation and WTO commitments, Vietnam is geared towards considerable openness in its foreign direct investment policy. As from 1 January 2010, foreign entities conducting activities of distribution, amongst them retail activities, have been able to extend their scope of business to all legally imported and domestically produced goods, including cement, tyres, papers, iron and steel, wines and spirits which were formerly under restriction. The roadmap for the opening up of the retail market has been as follows:

- 01/2007: Foreign retailers are able to found joint-venture with foreign capital of less than 49%.
- 01/2008: The cap on foreign capital contribution for foreign retailers is removed in joint venture.
- 01/2009: 100% foreign-owned retailers are allowed.
- 01/2010: Scope of business activities is extended for foreign retailers; they can now extend their business operations to previously restricted products such as cement, iron and steel, wines and spirits.

It is expected that more foreign retailers will tap into the ever increasing willingness of the domestic population to experience new and foreign products. Foreign labels appeal strongly to Vietnamese as they confer a status and lifestyle connotations to these. The market is still developing and is not as competitive as other developed markets. The opening up of this sector together with other favourable economic indicators such as consistent economic growth and expected salary increase will position Vietnam as one of the most lucrative markets in Asia.

Challenges and Recommendations

Clearly, the retail sector in Vietnam is growing in terms of quantity. However, the main question is how to maintain the sustainable growth and take this still under-developed sector forward. There are many issues present in the retail market in Vietnam, both in terms of "hard" and "soft" factors. The infrastructure is largely underdeveloped and poses an obstacle to the development of the retail sector. There needs to be a long term plan for the provision of sufficient infrastructure serving the retail business needs and a strategy, which is currently lacking in the sector, for its development.

The application of IT is essential to everyday management, especially now that online transactions are gradually emerging. Statistics have shown that less than 1/3 of enterprises have made use of IT in their businesses. To this end, more attention should be given to getting retailers understanding the importance of and use of IT applications to enhance the effectiveness of their operations.

Another challenge that the retail sector is facing is the lack of a well trained workforce. Many employees working in this sector lack sales and marketing skills and even interpersonal skills. "Customer focus initiatives" are increasingly receiving recognition by Vietnamese retailers. However, the process has been very slow. This challenge provides an opportunity in itself for foreign investors in the retail sector, if they concentrate more on training their workforce and better branding for their products to better serve their target consumers. Consumers have higher expectations nowadays, not just in terms of quality but also in terms of service and environmental friendliness.

One of the major challenges for international retailers in their business operations in Vietnam is the ENT (Economic Needs Test). The ENT is the test whereby local authorities assess local conditions before deciding whether to issue an authorisation to an existing foreign invested company to establish any additional retail sales outlet. The ENT is based on three criteria: the current number of service providers within a geographical area, the market stability and the size of the geographical area. Plans for a second Lotte Mart in Hanoi were rejected under the ENT. It is worth noting that there are up to this point no regulations published to clarify the criteria of ENT. This is seen as an obstacle for foreign investors in their plans for business expansion. In the interest of investors as well as the development of the retail sector itself, more clarification should be given in the identification of the scope of ENT and local authorities should adopt a uniform and comprehensive interpretation of ENT.

3. DEVELOPMENT OF INFRASTRUCTURE

3.1. TRANSPORT

3.1.1. AIR TRAFFIC

Air traffic in Vietnam is managed and regulated by Civil Aviation Administration of Vietnam (CAAV). Since 1998 the CAAV has been internally divided into three public subsidiary companies responsible for the general administration and the construction of airports in the north, middle and south region of the country: Northern Airports Authority in Hanoi, Middle Airports Authority in Da Nang and Southern Airports Authority in Ho Chi Minh City.

There are 23 airports in Vietnam in total. Six of them are located in the north, eight in the centre and nine in the south. The number of international airports has been increased to nine due to step-by-step reconstruction and upgrade of domestic airports to international service level. The most important airports are Noi Bai International Airport in Hanoi, Tan Son Nhat International Airport in Ho Chi Minh City, Da Nang International Airport in Da Nang, Cam Ranh in Nha Trang and Cat Bi International Airport in Hai Phong. There are another four airports with international status in Can Tho, Chu Lai, Da Lat and Hue, but they are less important owing to their shorter runways.

Comprehensive development plans defined in the Masterplan 2020 include an upgrade at most airports. The upgrade includes buildings (terminal) and runways as well as modern navigation equipment and security protection required to raise standards to acceptable levels. The airport infrastructure is underdeveloped, and is not capable of fully handling the sharp rise in passengers and cargo expected in the years to come. Passenger traffic is expected to grow by 12%-15% annually. The capacity of the airports will be increased to handle about 33 million passengers before 2020.

The most important project for the next decade will be the new Long Thanh International Airport planned to be built outside Ho Chi Minh City to replace the present Tan Son Nhat airport inside the city. Currently, many of the main airports are under reconstruction, or are in the preparation process for reconstruction. The Ministry of Transport estimates the total investment in air transport to 2020 at around USD13.4bn.

Vietnam lacks the means to finance all these projects and ODA has been and will be requested. The government of Vietnam is open to foreign investment in airports and airport construction (BOT and other models) as a necessary means of accelerating the modernisation of this important service industry.

There are four Vietnam-based airlines. The biggest one is Vietnam Airlines Corporation operating as Vietnam Airlines. It is the national flag carrier of Vietnam and was established as a state enterprise in April 1989. Vietnam Airlines Corporation was subsequently formed in 1993, after bringing together several service companies.

It is a member of IATA since 2006. Vietnam Airlines doesn't currently belong to an airline alliance, but signed an Access Agreement with SkyTeam in the middle of April 2009 and is expected to become a member in June 2010 making it the sole Southeast Asian carrier to join that airline alliance. Vietnam Airlines Cargo is the cargo division of Vietnam Airlines, providing cargo services to hundreds of destinations in Asia, Europe, North America and Oceania, through their own network as well as partners' networks. In 2008, Vietnam Airlines transported 5.3mn passengers on domestic flights (an increase of 12.7% over 2007), 3.5mn passengers on international flights (an increase of 6.9% over 2007) and 123,800 tonnes of cargo (an increase of 7.3% over 2007). Vietnam Airlines has been the major stakeholder in Vietnam's second largest carrier, Pacific Airlines, but its share was first transferred to the Ministry of Finance, and subsequently to the State Capital Investment Corporation (SCIC). Vietnam Airlines wholly owns Vietnam Air Service Company (VASCO), a regional airline in southern Vietnam.

Jetstar Pacific Airlines Joint Stock Aviation Company (operating as Jetstar Pacific) is a low-cost airline based in Ho Chi Minh City. It operates domestic and international services, as well as charter flights. Formerly known as Pacific Airlines, the airline was renamed Jetstar Pacific in May 2008, to become part of the Jetstar LCC network operated by one of its shareholders, the Australian airline, Qantas. The airline was established in 1991, started operations in April 1991 and has undergone a number of corporate restructurings since then. As a result of the July 2007 ownership change, Jetstart Pacific Airlines Joint Stock Aviation Company is owned by State Capital Investment Corporation (SCIC) of Vietnam, Saigontourist, Mr. Luong Hoai Nam (CEO) and Qantas of Australia.

Vietnam Air Service Company (VASCO) is a chartered and scheduled airline, operating regional flights. It is a fully-owned subsidiary of Vietnam airlines. It is based in Ho Chi Minh City and operates scheduled passenger services in the south of the country. It also conducts charter flights, medical evacuations, SAR operations, oil platform flights, and other aviation services. VASCO was established by a government directive in 1987, and was originally a part of Vietnam Airlines. It began scheduled passenger flights independently of Vietnam Airlines in 2004, and approval has been given for it to be partially privatised. It has been reported that Vietnam Airlines wishes to use VASCO as a basis for a low-cost carrier, established in conjunction with foreign partners.

VietJet Aviation Joint Stock Company, trading as VietJet Air, is a planned airline based in Hanoi and the first private operational airline in the country since the already extinct project of Indochina Airlines. It received approval to proceed with its plans from the Vietnamese Minister of Finance in November 2007 and is currently negotiating its future brands, logo and license with the CAAV since Air Asia announced on February 2010 that it had purchased a 30% stake in the airline.

Another two domestic carriers: Mekong Aviation Joint Stock Co. and Vietnam's first private cargo airline Trai Thien Air Cargo (which received its licence in 2009) will have to postpone their first commercial flights at least until August 2010 as they have not yet submitted their business plans to the competent authorities.

3.1.2. LAND TRANSPORTATION AND PUBLIC TRANSPORT

Overview

Transport infrastructure or rather the lack of it has been one of the main challenges for Vietnam in the past decades and it is still one of the main issues concerning the future steady economic and social development of the country. Even if the upgrading of the transport sector appears to be one of the principal policy axes of the government policies since the early 1990s, some bottlenecks in the major cities and the continuous economic growth prove that transport infrastructure is going to need heavy investment in the coming years.

Funding has been one of the main problems faced by the developers of transport infrastructure. Although the importance of public investment has steadily fallen due to the increase of other funding sources (ODA, and to a lesser extent private investment), public spending and other traditional forms of funding hold the leading position. Conditions offered for private investors (BOTs, PPP schemes) still seem less favourable or attractive than those found in other countries. However, the Vietnamese government, aware of the importance of promoting private investors, especially foreign, through new and clearer BOTs, BTOs and BTs regulations (Decree 108, approved in November 2009 and effective from 15 January 2010).

As mentioned, an important feature of public works financing in Vietnam is the role played by ODA. Multilateral donors, especially the ADB, World Bank as well as the bilateral donors (in particular Japan but also Korea and various European countries), are very active in supporting the development of new infrastructure. New financing and cooperation schemes for infrastructure have been sought in 2010, among which the ASEAN Infrastructure Fund (AIF) and the ASEAN+3 Credit Guarantee Facility signed by the ASEAN members plus China, Japan and Korea stand out.

Public spending priorities have been focused on rehabilitation and upgrading of the main long-distance corridors. From 2006, the Ministry of Planning and Investment (MPI) and the Ministry of Transport (MOT) have set various objectives, mainly concerning highways and international linking roads. The central authorities are keen on boosting the BOT and BTO schemes, approved under the MOT Decision Nº 2667/QD-BGTVT of August 2007. So far, interest from private sector funding partners has been rather scarce but it is likely to change soon as several pilot PPP projects have been selected and will be implemented in the framework of the WB's assistance provided through PPP Development Office (PDO) at the Ministry of Planning and Investment. The recently announced government backing for the Phu My Bridge BOT Corporation international bond issue marks a turning point in transport infrastructure financing for Vietnam.

Infrastructure

Roads

At the end of 2008, Vietnam's road system was about 223,290 km long, 17,295 km of which were national roads at the best conservation status (83,5% paved). Barely one quarter of the whole network had more than one lane. MOIT efforts were therefore concentrated on the upgrade of existing roads and the construction of major national expressways (prospected total network of 6,313 km). The establishment of the Vietnam Expressway Corporation as a replacement to the PMU model aims to impulse the development of transnational connections and intermodal transport (both main objectives of the Road Masterplan 2020) by mobilising funds from three sources: 100% government financing, local BOT and foreign PPP arrangements.

Under the Expressway Master Plan, the short-term program (2006 - 2015) consists of 21 projects covering 1,968 km (estimated budget of USD11.556bn), while the medium-term program (2016 - 2025) includes another eight projects covering an additional 875 km (estimated budget of USD5.238bn). VEC has published the main projects calling for foreign investment.

The main projects under implementation in 2009-2010 are the Cau Gie-Ninh Binh expressway of 56 km and a budget around USD400mn provided by VEC, the Noi Bai-Lao Cao highway mostly financed through ADB loans (245km, USD1.249bn) and the HCMC-Long Thanh-Dau Giay Expressway (55km with a budget of USD932.4mn) financed with a JICA ODA loan and an ADB OCR loan.

Several projects are currently under preparation, most of them, expected to be implemented from 2011 onwards. Among these projects, to name just a few, are the Ben Luc-Long Thanh expressway (45km), the Hanoi-Lang Son expressway (130km), the Ha Long-Mong Cai expressway (128km), the Da Nang-Quang Ngai expressway (131.5km) and the Noi Bai-Mai Dich expressway (20.2km) which will require a total investment of USD4.642bn.

Railways

With a total railway network of 2,632 km (82% of it 1m gauge), the railway system is the least relevant of the means of transport as it accounted for just 5% of the passenger transportation in 2008 and 4% of goods transportation.

Since 2003 the Vietnam Railways Administration (VNRA) is responsible for planning and supervising all the railway projects in the country while the Vietnam Railways Corporation (VRC) is in charge of the business operations. Both, under responsibility of the MOIT, are expected to develop a Master Plan on Railway Transport Development of Vietnam up to 2020 with a vision towards 2030.

The objectives set up for railway transport for the period 2010-2020 include increasing passenger usage and freight transport to 13% and 14%, increasing the rail ratio (to 15-17km per 1000km² and 50-70km per million inhabitants) and rising the proportion of double-gauge (35-39%). The railway industry is due to manufacture and assembly new wagons and locomotives (meeting international standards) in order to reach 50-60% of national supply.

As of the network itself, there are two main programs concerning railway system:

The “Two Corridors and One Economic Belt Program” linking North Vietnam and China (Lao Cai-Hanoi-Hai Phong and Hanoi-Dong Dang; see Ministerial Official Letter 6824/VPCP-CN, November 2006), whose first stage will be the rehabilitation and upgrade of the Yen Vien-Lao Cai railway, due to be initiated in 2010 and financed by ADB and AFD (USD160mn).

The so called Reunification Line includes an ambitious plan for the 1,570 km-long high speed line linking HCMC and Hanoi. The final report was presented on February 2009 by Vietnam-Japan Consulting Joint Venture (VJC) and was due to be submitted for approval of the National Assembly in May 2010. With an estimated cost of USD55.8bn, the project will last until 2035, though the first two phases are expected to be initiated in 2011: Hanoi-Vinh (double gauge 320 km, USD12.9bn) and HCMC-Nha Trang (400 km, USD6.5bn).

A third big project would be the Singapore-Kunming Project (SKRL), an east-west line which intends to connect Vietnam with Malaysia and Singapore through Cambodia. The governments of Australia and Japan, in collaboration with the ADB are especially active in this project which is still in a very early stage (rehabilitation of railway infrastructure in Cambodia).

Connecting socio-economic centres in the country, integrating with other transport modes and involving economic sectors in railway investment and operation has become the goal of VNRA and VRC. To that purpose, a land demand of 12,685 ha, an energy demand of 4,972mn KWh/year and USD71bn will be needed to the year 2020. The funds will be provided by the state budget, ODA, government bonds and private investors.

Urban Transport

The People's Committees of Ho Chi Minh City and Hanoi and their Transport Departments face several challenges regarding their transportation systems. Both cities have continued to grow over the last years, but they lack some form of modern mass transport system and show important problems related to environment protection, traffic congestion and energy consumption.

A public entity dependent on the Transport Department was created in both cities to manage the development of urban railway lines. The Management Authority for Urban Railways (MAUR) in Ho Chi Minh City and the Hanoi Authority for Tram and Public Transportation Development Management (HATD) are responsible for planning and implementing three mass transport systems: BRT, elevated railway and subways: 4 lines in Hanoi and 6 lines in Ho Chi Minh City.

Most of the necessary funds (around USD15bn) for these huge projects will come from international donors, mainly ADB, Japan, China and European countries which have already financed several feasibility studies. The projects currently under way are suffering a steady increase in costs and time delay due to complex financial arrangements and difficulties in the land clearing process.

Opportunities and Recommendations

European companies working on the transport infrastructure sector have been very active in the planning and feasibility studies, especially regarding the mass urban transport systems but also roads and railways. There have also been several landmark projects where European companies have supplied highly sophisticated equipment. As mentioned, most of the projects have been funded by multilateral donors or by bilateral donors, who usually have their own bidding and procurement procedures for their soft loans or technical assistance.

Vietnamese commitment to infrastructure development makes it an important and promising market. Competition is tough, however; any European engineering, consulting, equipment provider or construction companies interested will need time, international references, local knowledge and resources to set the appropriate strategy for a successful entrance into the market. Attention should be paid to the new push for PPP and the increasing private sector involvement in the market.

3.1.3. PORT DEVELOPMENT AND MARINE TRANSPORT

The maritime sector is playing an increasingly crucial role in Vietnam's economic development and has the potential for robust growth for the foreseeable future. Despite many lingering challenges, the sector presents an overall auspicious outlook for foreign entrepreneurs' involvement. The following section gives an overview of Vietnam's marine transportation sector, analyses a number of challenges facing it, and points out potential opportunities for the EU maritime companies' participation.

Ports in Vietnam

Vietnam is strategically situated along important international marine transit routes and has a coastline that stretches 3260 km. There are currently 39 seaports in Vietnam, including 17 national ports, 23 local ports and 9 specialized industry ports. The network of port clusters around Ho Chi Minh City is by far the largest and most technologically advanced such facility in Vietnam, accounting for 61% of the country's container throughput and 48% of its total cargo throughput. Due to increasing congestion and environmental problems, since 2005, ports in the vicinity of HCMC have been undergoing gradual relocation to more convenient settings within this network more distant from the city itself and closer to the focal southern economic zone (Ba Ria-Vung Tau port cluster) and industrial zones (Dong Nai port cluster). The second most important seaport in Vietnam is Haiphong, which is situated in the north and which services inter alia the capital city of Hanoi. This port accounts for 31% of the country's container and 13% of its total cargo throughput.

Vietnam's seaports are divided into six regional groups (see the table below) and are more or less evenly spread across the country's elongated coast. They are all small by international standards; even the largest Vietnamese ports still have but a fraction of the capacity - both in terms of maximum vessel size and storage capacity - of competitive seaports in other Southeast Asian countries. Up to the end of 2009, the largest port in Vietnam could service bulk vessels of up to 50,000 DWT and container vessels of up to 6,000 TEU, while most other Vietnamese ports were geared to service bulk vessels below 30,000 DWT and generally lacked the requisite facilities to service container vessels. As a result, disproportionate amount of traded goods continued to be transferred to and from Vietnam via large regional hubs such as Singapore, Kaohsiung and Hong Kong. The situation is scheduled to improve somewhat in the coming years due to increased maximum vessel capacity of Cai Mep terminal in the Ba Ria-Vung Tau port cluster, leading to the pioneering launch of direct connections with North America and Europe.

Insufficient access to deepwater terminals and container servicing facilities is not the only challenge facing Vietnamese seaports. Other shortcomings often include: insufficient connectivity with other transportation networks; inadequate logistic and auxiliary facilities; mediocre service quality; shortage of skilled professionals; substandard harbour management and excessive administrative burdens; etc. Despite these deficiencies, however, Vietnamese ports have experienced rapid development in recent years and their official growth forecasts (measured in terms of throughput) are impressive:

Total cargo throughput in Vietnam by regional seaport groups and by cargo types (in million tonnes):

Region/Cargo Type	**2005**	**2007**	**2008**	**2009**	**2015**	**2020**	**2030**
1- North[1]					86-90	118-163	242-313
2- Northern Central[2]					69-80	132-152	212-248
3- Middle Central[3]					41-46	84-104	154-205
4- Southern Central[4]					63-100	142-202	271-384
5- Eastern South[5]					185-200	265-305	495-650
6- Mekong Delta[6]					54-74	132-156	206-300
TOTAL – all Vietnam	139	181	197	251	498-590	870-1083	1580-2100
General & container					254-280	410-488	880-1180
Container			55	62			
Container (mln TEU)	2.9	4.5	5.0	5.5	13.5-15.2	24.5-29.0	57.5-79.0
Dry bulk		79	88	126			
Coal & Ore					164-210	350-463	563-745
Liquid bulk		35	36	42	80-100	110-132	137-175
Transshipment		17	18	20			
TOTAL–all cargo types	139	181	197	251	498-590	870-1083	1580-2100

Sources: 2009 Master Plan on Development of Vietnam's Seaport System Through 2020, with Orientations Toward 2030; Vinamarine.

1: Hai Phong, Hon Gai; 2: Nghi Son, Nghe An, Son Duong-Vung Ang; 3: Da Nang, Dung Qua; 4: Van Phong, Quy Nhon, Nha Trang-Ba Ngo; 5: Ba Ria-Vung Tau, HCMC, Dong Nai; 6: Can Tho.

Total cargo and container throughput in Vietnam has almost doubled since 2005 and in 2009 reached 251 million tonnes and 5.5 million TEU respectively. In 2008 the growth of total cargo throughput dipped to 8%, but in 2009 rebounded to 28%. This reflects the solid performance of the Vietnamese economy in the wake of the global financial crisis (GDP growth of 5.3% in 2009) and ever-increasing investments in the expansion of seaport capacities. The Vietnamese authorities forecast a 12% growth in total cargo throughput in 2010. In 2009, dry bulk cargo accounted for approximately 50% of Vietnamese seaports' total throughput, container cargo - 25% and liquid cargo - 17%. Dry bulk cargo experienced the fastest growth, whereas passenger turnover declined sharply from 511,000 to 303,000 persons. International oil shipments are likely to decline in Vietnam in the coming years due to the 2009 launch of operations of the country's first oil refinery, which utilises abundant domestic resources.

Vietnamese seaports are subject to the supervision of the Ministry of Transportation, Vietnam Maritime Administration and provincial governments. They are also subject to a diversified system of management by provincial governments and large state-owned companies such as Vinalines, Vinashin and Petrovietnam. Some ports also operate under joint-venture agreements, with foreign companies never holding controlling stakes.

In December 2009 the Prime Minister approved the Master Plan on Development of Vietnam's Seaport System Through 2020, with Orientations Toward 2030 (Decision No. 2190/QD-TTg) which delineates a detailed and very ambitious schedule for the expansion and improvement of the country's seaports.

3.2. IT AND TELECOMMUNICATIONS

Telecommunications

Vietnam's telecom sector has made remarkable achievements in recent years. The recent rolling out of the 3G network and services will open up potential business for added-value services such as internet banking, entertainment and media.

Facts and Figures

Fixed line penetration in Vietnam has improved considerably from 4.8 fixed line subscribers per 100 inhabitants in 2000, to 17.3 in 2008. Almost every municipality in Vietnam has access to the fixed-line telephone network.

About 61.4 per 100 households had fixed telephone lines in 2008. There are approximately 12mn fixed lines in the country, a number that is not expected to grow significantly as other solutions are taking over; fixed wireless-networks have become popular, especially in urban areas.

The rapid development in mobile phone subscriptions in recent years is impressive. At present, there are about 130mn Vietnamese telephone subscriptions in a country of 87mn inhabitants. It should be noted that there is a high number of inactive subscriptions and that mobile subscriptions, mostly prepaid, grew quickly in the last couple of years. In 2009 there were 92mn mobile subscriptions. It should be noted that about 50% of the mobile subscription are “virtual” subscribers, which means that subscribers take advantage of promotions offered by mobile phone operators. The Law on Telecommunications and Radio Frequency entering into force on 1 July 2010 will control aggressive promotional campaigns by mobile operators.

Two state owned enterprises, Vietnam Post and Telecommunications Group (VNPT) and Ministry of Defence (Viettel), dominate the market with 85% of the fixed and 92% of the mobile telephone market.

Vietnam has seven telecom operators. Vinaphone and VMS Mobifone belonging to VNPT, Viettel, GTel (under Ministry of Public Security) and Ha Noi Telecom (HT Mobile) provide GSM-based network while two operators, S-Telecom (S-Fone) and EVN Telecom, use CDMA network. Recently the first mobile virtual network operator (not having their own infrastructure), Dong Duong Telecom, received a licence to operate. FPT Telecom and VTC have still not obtained their licences.

One of the foundations for e-government, e-commerce and e-transaction are digital signature certificates and Vietnam has two such providers VNPT and NacencommSCT under Hanel.

In an effort to ensure sound development of the telecom market, the Ministry of Information and Communication is now considering the proposal that mobile phone subscribers should be able to keep their phone number when switching to another operator.

3G in Vietnam

In 2009, four licences for 3G mobile phone services were granted to VNPT (Vinaphone and VMS Mobifone), Viettel and to a consortium of EVN Telecom and Ha Noi Telecom. The total investment for 3G infrastructure from these companies is about USD2.1bn.

To date, 3G services including mobile internet, video call and mobile TV, are available to subscribers from Vinaphone, VMS Mobifone and Viettel. VNPT reported having more that 13mn 3G subscribers registering for the pay-as-you-go services. However, 3G still has a lot of initial problems such as network congestion, scarce memory capacity, poor sound and image quality etc. Up to now, only 10% of VMS Mobifone's 3G capacity has been used.

According to the UK-based market monitor BMI, Vietnam has presently around 100,000 3G service subscribers. The main obstacles for the growth of 3G services in Vietnam are cost-related and a shortage of 3G compatible handsets. BMI forecasts that there will be 4.5mn 3G service subscribers by 2013, accounting for 2% of the total mobile subscribers.

By May 2009, only 9.17 per 100 households had internet access at home but the number of internet users reached 21.4mn or about one fourth of the population. There are internet cafes all over the country, even in the most remote areas.

Vietnam ranked 15 on the Connectivity Scorecard, passed China and India, in the 2010 ranking report comprising 50 countries, released by Nokia Siemens networks.

Future and potentials

According to US based Pyramid Research, the provision of mobile internet services is the quickest way for the operators to gain future competitive advantage in the telecom sector. Even though the market in Vietnam for value added internet services is still small, the areas of internet banking, entertainment, media etc. will create future business potential.

Between 2004 and 2009, the entertainment and media market in the country increased threefold driven by the availability of multi-channel television, broadband internet and mobile phones. In the tenth "Global Entertainment and Media Outlook" report released by PriceWaterhouseCoopers, Vietnam will achieve an estimated market value of over USD2.3bn by 2013 at a maximum 16.7% growth rate.

Research and Markets forecasts in the "Online Games Market in Vietnam" report that the users of game online in Vietnam will surpass 11mn by 2013 driven by higher incomes, increasing internet penetration and the young population.

Information Technology

The IT industry in Vietnam is still at an early stage of development with about 200,000 employees working with hardware, software and digital content business. About 15,000 employees are high skilled IT specialists.

Vietnam has 500 active software companies of which 19 of these companies are joint ventures, with a total over 57,000 employees. About 300 companies are involved in outsourcing. Most of the companies are small sized with 10-50 employees providing web-based applications, specific customer solutions and IT consultations. Top 20 companies have 100-500 employees.

About 40 companies have obtained international quality certificates such as ISO 9001, ISO 27001 and about 20 companies have Capability Maturity Model (CMM) - level 3 or 4 or 5 certificates. FPT Software, CSC, TMA, Lac Viet, CMC, Tinh Van are leading in software outsourcing. The main clients are from Japan, USA, Australia and the EU. In 2000, the total revenue for software was just USD50mn and reached USD880mn in 2009, with a steady growth rate of about 20-25% each year.

The total revenue of the IT industry in 2009 was USD6.26bn, a 20% increase over 2008. The hardware industry contributed most to this increase with 75%. The hardware industry employed 110,000 in 2008, working mainly in electronics and computer assembling.

Famous global ICT companies such as Intel, IBM, Cisco Nortel, Compaq, Hewlett-Packard, Sony, Fujitsu, Hitachi, Canon, Daiwa, Fuji, NTT, Panasonic, NEC, Foxconn, Compal, Hon Hai have factories in Vietnam. Vietnam has over 30 computer assembling factories.

Vietnam aims to become a strong IT nation by 2015 targeting a total revenue of 17-20% of GDP. About USD53mn will be spent on IT human resource development. Vietnam aims to have one million IT engineers and 23 high-tech parks in 2020. About 10 high-tech parks are already in operation.

3.3. ENERGY

Overview

The energy sector remains dominated by public ownership. However, market forces have been brought to bear in recent years and private sector participation is expanding. Since 1995, energy sector operations have been organised into three general companies, which are among the largest firms in Vietnam; PetroVietnam, Vinacomin (former Vinacoal) and Electricity of Vietnam (EVN).

Vietnam is endowed with various energy resources, notably petroleum, coal, and hydropower. It has been a net energy exporter since 1990. Output in the three sectors has been growing strongly, as has Vietnam's energy consumption, in line with the country's industrialisation and integration into the global economy. Primary energy consumption, excluding biomass, grew at an annual rate of 10.6% in the 2000-2005 period. Despite this fast growth, a large part of the rural population still relies heavily on non-commercial biomass energy sources, which still account for almost half of total energy consumption.

Strong economic growth, urbanisation and demographic growth increase energy needs considerably. Until 2015, EVN expects a 15% annual increase in electricity demand. The Ministry of Industry and Trade, the line ministry responsible for the energy sector, has the task of supervising the State-owned companies and of developing policies. To ensure that the supply of energy meets the rise in consumption, Vietnamese policy emphasizes the need to diversify the country's energy mix whilst maximizing the use of local energy reserves.

Coal

Coal is Vietnam's largest primary energy reserve, with exploitable resources estimated at 150mn metric tonnes. The bulk of this is anthracite concentrated in the northern part of the country (especially Quang Ninh province). The coal industry is controlled by the State-run Vinacomin (former Vinacoal). Private companies and foreign investment enterprises may obtain leases for up to two years to mine coal reserves, which are renewable if they meet agreed performance targets.

Production has increased significantly in the last years, from 15.9mn tonnes in

1995 to 42mn tonnes in 2009 (according to General Statistics Office). This strong growth trend is expected to continue, as a result of modernized coal mining methods and significant investment on the part of Vinacomin. Production could reach 48 - 50mn tonnes by the end of 2010, according to the Vietnam coal industry development plan 2006-2015 reviewed in July 2008.

Coal exports, mainly destined for Japan (steel sector) and China (power production, paper and cement industry) have soared from 5.9mn tonnes in 2002 to 20mn tonnes in 2008. According to Vinacomin, local demand, which reached more than 20mn tonnes in 2009, could grow to 63.2 and 196mn tonnes in 2010, 2015 and 2020. It is expected that Vietnam will import 8.2 and 12.8mn tonnes of coal by 2012 and 2015, and up to 100mn tonnes by 2020. The country has planned to gradually cut coal exports to meet rising domestic demands. Power plant consumption is expected to strongly increase in the upcoming years with the construction of new large scale coal-fired power plants. Most of these future power plants will use imported coal with high colorific efficiency. For example, coal imports for the thermal power plants in the south only are expected to rise to 28mn and 66mn tonnes by 2015 and 2020.

Oil

Exploration of oil and gas in Vietnam has been carried out since 1959, but large-scale exploitation took off only in the late 1990s, when Vietsovpetro, a joint-venture between PetroVietnam and the Russian firm Zarubezhneft started production, i.a. at the country's largest oil field Bach Ho. Today, Vietnam is Southeast Asia's third-largest petroleum producer.

Estimations of Vietnam's proven recoverable oil reserves vary, but according to Petrovietnam, they stood at 75mn tonnes at the start of 2009, excluding reserves at foreign oil fields. The company plans to raise it by 35mn tonnes in 2010, stepping up exploration abroad to meet rising domestic energy demand.

Production peaked at 20mn tonnes in 2004, shrank to 14.8mn tonnes in 2008 and rose again in 2009 by 10% up to 16.3mn tonnes. Petrovietnam has forecasted that crude oil production would fall again by 6% in 2010, to 15mn tonnes, as the country produced 3.58 mn metric tonnes of crude oil, down 14.5% from January-March of last year. The company plans to expand its production by putting six new oil fields into operation in 2010, but also by looking abroad; of the fifteen contracts signed in 2009, two concern oil production abroad. The company also said to have signed in 2009 seven oil cooperation agreements with state oil firms from Nicaragua, Bolivia, Argentina, Kazakhstan, Mozambique, Angola and Sudan.

Crude oil is Vietnam's second highest cash earner export item, representing over a fifth of all export earnings in recent years. Until 2009, almost all crude oil was exported (14.6mn tonnes in 2008, and 12.67mn tonnes in the first eleven months of 2009) as Vietnam lacked refining capacity. With the opening of Vietnam's long-awaited first refinery in Dung Quat in February 2009, exports are expected to fall, and during the first quarter 2010 they sank by nearly 50%.

In 2009, Vietnam imported 13mn tonnes of petroleum products worth USD6.3bn. The drop in imports is attributed to the fact that the Dung Quat refinery produced a total of 936,000 tonnes from February to November last year (selling 803,000 tonnes). When operating at full capacity, the refinery will be able to process 6.5mn tonnes of crude oil per year and will meet 30% to 40% of the domestic fuel demand.

Petroleum consumption is forecasted to rise to 16.3mn tonnes in 2010, and could reach 34-35mn tonnes by 2020. The government hopes to have at least three major refineries in operation by 2020 to satisfy the country's demand. Given the rapidly growing demand and the maturity of some of its best-producing oil fields and despite efforts to bring new fields on-stream, Vietnam is likely to become a net oil importer in the next 10-15 years, a situation of some concern to the government. This has prompted the country to invest increasingly in oil exploration and exploitation abroad. Vietnam pumped its first barrels of crude oil from an overseas well in 2006 (Malaysia's Cendor field, in which PetroVietnam holds a 30% stake), and has also invested further afield, in projects in Indonesia, Algeria, Iraq, Cameroon, Mongolia, Venezuela, Cuba, Peru, Nicaragua and Kazakhstan.

Gas

Vietnam has significant offshore natural gas resources, recently estimated at 2,000-2,800bn m^3 by Petrovietnam. Natural gas production and consumption have been rising rapidly from a low level since the late 1990s and are expected to increase further in the coming years.

Vietnam's first gas pipeline went into operation only in 1995, bringing associated gas ashore from the Bach Ho oil field. Since then, production has soared from 700mn m^3 to 6.86bn m^3 in 2007 and 7.5bn m^3 in 2008[33]. Production was around 7bn m^3 in the first eleven months

The Main Gas Basins in Vietnam

Source: GCA

33. Source: Ministry of Industry and Trade, Energy and Petroleum Department.

of 2009, down 0.6% from a year earlier. So far, only two fields have been developed principally for their natural gas potential, but other fields are likely to develop in the foreseeable future, and natural gas production and consumption is targeted to increase to 542 and 616bn m^3 by 2014 (Vietnam Oil and Gas Report Quarter 2, 2010).

The O Mon gas pipeline project was launched in November 2009, and will transport natural gas from Block B and 52/95 located in the Malay-Thochu basin to fuel the O Mon and Tra Noc power plants, and for local distribution. This new pipeline, with a total investment of USD1bn, will be 400 km long of which offshore pipeline is some 246 km long and the onshore pipeline, 152 km.

New and renewable energies

80% of the rural population still relies on non-commercial biomass, such as wood and rice husks, as an important fuel source for cooking and other purposes. However, there is no significant commercial production from other renewable energy sources geothermal, solar, wind, tidal, wood and waste so far, but there is some potential for future development. Low temperatures beneath Vietnam mean geothermal energy may generate only 200-400 MW by 2020. Wind power is largely underdeveloped, mainly because of lack of appropriate policies for wind energy. Production costs are too high to be attractive to the single buyer: EVN. However, Decision 130 issued by the Prime Minister in 2007 develops some economic incentives for CDM projects, including wind power plants. Solar energy remains costly in Vietnam, and is best-suited for use in rural and remote areas. Renewable energy sources are still largely untapped in Vietnam, but will play an increasingly important role in the government's energy policies within the next few years.

Over the last year, the Vietnamese government has become more and more aware and involved in the renewable energies development. For example, the Ministry of Industry and Trade has submitted to the government projections to increase the percentage of renewable energy in the total amount of primary commercial energy in Vietnam to 3% in 2010, 5% in 2020 and 11% in 2050. EVN has also been instructed to draft a project on wind power to submit to the government for consideration before May 2010.

Nuclear

Exploration for uranium has been undertaken, and uranium ore found in the northern and central regions of Vietnam. These uranium deposits could hold up to 210,000 tonnes of U3O8, with a low average uranium oxide content of 0.06%. Proven recoverable reserves are only 1,337 tonnes. No production of uranium has so far been achieved. Vietnam has operated a nuclear research reactor in Dalat since the 1960s, but there is no commercial nuclear power production in Vietnam. The Vietnamese government plans to build its first nuclear plant in central Ninh Thuan province, which, according to official indications, could go into service as early as 2020.

In June 2008, the National Assembly approved the Law on Atomic Energy which came into effect in January 2009. In October 2009, the Vietnamese National Assembly adopted the investment report submitted by the government and prepared by EVN. This report plans the construction of the two nuclear power plants Ninh Thuan 1 and 2, each with an installed capacity of 2,000MW.

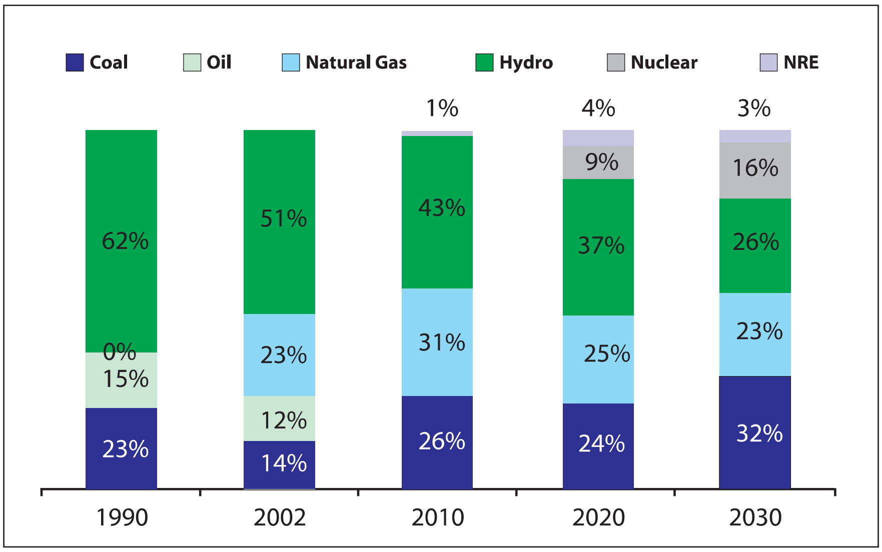
This nuclear project offers large opportunities of cooperation for foreign countries, from legal, training and technical assistance to plant construction. Some countries, including Japan, France, USA, China, SouthKorea, Russia, India, Canada and their affiliated companies, have already expressed interest in cooperation with Vietnam in this area. Some of them have signed a memorandum of understanding for bilateral cooperation.

Electricity

Vietnam's total installed generating capacity is 13,512MW (as of 2007). It generated an estimated 70.8 TWh in 2008(3% increase over 2007), and consumed an estimated 68.1 TWh of electricity. To ease power shortages in the north, Vietnam in 2004 started purchasing electricity from China, 3 TWh in 2009, and 3.2 TWh in 2008, transported through 110kV lines linking the country to China's Yunnan and Guangxi provinces. Vietnam also plans to start buying power from Laos, where it has already hydropower plant projects, and is conducting feasibility studies for other hydro projects. To boost its own capacity, Vietnam is constructing a series of new plants, ranging from the 2,400MW Son La hydro project and a number of other medium hydro plants in the Central Highlands, some large-scale coal-fired plants in the North and the Centre, and additional gas-fired plants in the South. In total, over 11,000 MW in additional capacity are planned to come on-stream by 2010. Issued in 2007, EVN's Master Plan 6 aims at developing about 135 power plants by 2015. In November 2008, the Vietnamese government allowed foreign partners to work with local companies to undertake 13 power projects that had been given back by EVN earlier in August.

Power generation by source

In view of the immense investment needs in the sector, the mobilization of the necessary finance is not a trivial matter. To develop its planned new power generation projects, as well as some 4,000 km of 500kV transmission lines along with 100,000 km of lower voltage distribution lines, an investment of at least USD2-4bn will be needed each year. The role of the private sector is seen as increasingly central in achieving this aim, and the government has decided to open electric power generation to investment from other domestic investors other than the erstwhile monopoly EVN, as well as to foreign players, under various forms, including independent power producers (IPP), Build-Operate-Transfer (BOT) projects, and joint ventures. EVN will buy around 33 TWh from independent power producers, BOT projects and from abroad in 2010.



Source: APERCE Analysis 2006

Moreover, the government plans to liberalise the electricity transmission and distribution sectors partially between 2009 and 2015, and totally by 2020. In the transmission sector, EVN has concluded the merging of four transmission companies and three power network project management boards into the National Power Transmission Company.

Investment

It is estimated that a total of USD3.2bn in ODA support has been allocated to the power sector from 2000 to 2007. During this period, the energy sector receives 15% of the total ODA amount (USD20.9bn)[34]. The World Bank estimates that donor support is likely to be divided by two for the period 2004-2010, which means that the power sector will receive an average ODA of around USD300mn annually.

According to the Master Plan Development for the Power Sector of Vietnam, between 2006 and 2025, the electricity sector requires a total investment of around USD79.9bn to 2025. Around USD52bn of this amount will be invested in power generation and the rest in the electricity transmission and distribution network.

Energy conservation and efficiency

Between 1990 and 2004, energy consumption in Vietnam rose by 11.2% each year, 1.5% higher than than average annual GDP growth during the same period. According to forecasts, energy demand will keep growing at the rate of 8.1% annually until 2020, which could jeopardise Vietnam's economic growth. For this reason, energy efficiency has become a priority for the Vietnamese government, which issued a Master Plan for Energy Conservation and efficiency for the period 2006-2015. In addition, the creation of the Energy Efficiency and Conservation Office (EECOV) aims at implementing this Master Plan, as well as the Energy Efficiency Decree of Vietnam (Decree of the government No.102, 2004). A new Law

34. Source : Website DAD Vietnam (MPI)

on Energy Efficiency and Conservation is expected to be promulgated in 2010.

b) Opportunities market access opportunities for foreign players

In view of the very substantial investment needs, which Vietnam cannot easily meet on its own, and of the requirement for state-of-the-art technologies, the modernisation of Vietnam's energy sector will necessitate the increased involvement of foreign players. Foreign commercial actors, including EU firms, are already active in various parts of the energy sector.

Enhanced market access under Vietnam's WTO accession terms will facilitate foreign participation in the sector in the medium term. EU operators are well-placed to benefit from increased market access not least due to the foothold they already have in the sector. However, problems remain including their Vietnamese counterparts (primarily State-owned) performance, legal stability, foreign exchange convertibility and assistance in removing administrative hurdles.

3.4. ENVIRONMENT

Environmental issues

Vietnam's environment is under considerable stress from rapid economic growth, urbanisation and rising human pressure on relatively scarce natural resources. Vietnam's surface, ground and coastal waters are threatened by pollution, and water supply systems are often old and inefficient. The water treatment capacities are extremely weak and most of the polluted water goes directly to the rivers and to the sea. Waste treatment capacities are low: only about 10% of medical wastes are collected. Air pollution in cities and industrial areas causes increasing respiratory problems. Greenhouse gas emissions are rising, as a consequence of the industrialisation of the country. Competition is increasing for scarce resources such as land, water, and forests, from competing users and for urban development.

Water sector

The major issues of the water sector may be summarised as follows:

- The integrated approach to water resources' management, defined in Agenda 21, is poorly implemented.
- Water resources' assessment is low and there is a lack of water resources' data and information management.
- Water quality is getting poorer, water resources are affected by pollution which threatens biodiversity.
- The water supply and sanitation network is progressively bigger and renewed, but a significant number of people in rural areas still have little option but to use polluted water and the rate of non-revenue water (NRW) in urban areas is high.

The actual projects, which will be implemented from 2006 to 2013, mainly concentrate on the improvement of the management of water resources. Nevertheless, strengthening institutional capacities is necessary too.

Increased coverage of rural water supply and sanitation is a major priority for the government and is a crucial part of the fight against poverty. 21mn people do not have access to a hygienic water supply, and 41mn people do not have a supply that meets MoH clean water standards.

The urban water supply and sanitation situation is failing the majority of people. Around 8.5mn urban people do not have access to clean water and for those that do have supply, the current standard of service is poor.

Waste treatment

Vietnam produces over 15mn tonnes of waste each year from various sources. More than 80% is from municipal sources, including households, restaurants, markets, and businesses. Industries generate over 17% each year, making it the second most significant source. About 160,000 tonnes/yr (1%) of Vietnam's waste is considered hazardous, including hazardous healthcare waste from hospitals; toxic or flammable waste from industrial processes; and pesticide containers from agriculture. Dramatic increases in waste generation are expected, due to the urbanisation process and a higher level standard. Most hazardous waste is not treated or is treated in a very primary way and then dumped together with municipal waste at landfill sites. Most of the municipal waste in Vietnam is not safely disposed of. However, there have been significant improvements by the public urban environmental companies that are responsible for municipal waste collection and disposal.

Air and land pollution

Air quality is getting poorer because of the development of industrial zones and urban areas. The number of motorbikes and cars is increasing significantly, continuously and rapidly. As a consequence, air is polluted by lead and carbon monoxide particles in urban areas. The construction sector is the major source of pollution, as it produces a large amount of dust. To reduce urban pollution, the development of public mass transit systems such as buses and subways are regarded as a priority by the Vietnamese authorities. The largest cities of Vietnam Ho Chi Minh City and Hanoi, plan to have subway networks before 2013.

Land pollution is an issue, due to an intensive agriculture (about 85 kgs of fertiliser per ha), heavy industry, and urban areas. In addition, natural degradation processes such as erosion threaten Vietnamese land.

Institutional and policy framework

Vietnam has very limited capacity for implementation, although the Vietnamese government, supported by international donors, has been developing an institutional and policy framework for about ten years. There is need for substantial improvements in the policy framework for environmental sustainability and in the institutional arrangements. There is a lack of environmental integration at planning and programmatic levels, especially in the public investment planning process and in regional plans for land and resource use. Progress has been slow due to the weak commitment by sector agencies, low awareness in local departments and officials, and capacity challenges at all levels. In addition, existing environmental laws have not sufficient power to levy protection because of very low fines. It is easier for companies to pay fines than spend money on environment protection even though they have already built environment protection facilities.

Institutional framework

The Ministry of Natural Resources and Environment (MoNRE) was created in 2002. It performs the function of State Management for land-use planning, water resources, mineral resources, sea and islands, environment, hydro-meteorology, and mapping. In each province of Vietnam, a Department of Natural Resources and Environment (DoNRE) attached to the People's Committee supports locally the action of MoNRE.

The Ministry of Agriculture and Rural Development (MARD) manages forestry and fishing resources. Until the amendment of the Law on water resources (expected in May 2010), MARD still has responsibility for clean water and sanitation in rural areas. According to the legislation development programme, this competence will be transferred to MoNRE.

The Ministry of Planning and Investment (MPI) manages the provincial People's Committees' demand for investment projects.

The notion of "sustainable development", of which one pillar is the environment, has been developed in Vietnam's Strategic Orientation for Sustainable Development (Agenda 21) issued in 2004. This document raises the challenges facing Vietnam, sets out orientations, policies, legal instruments, and the priority activities that need to be implemented in the 21st century. On the basis of the existing planning system, the Strategic Orientation for Sustainable Development in Vietnam focuses on the priority activities that need to be selected and implemented in the coming 10 years. The Ministry of Planning and Investment (MPI), helped by a National Council on Environment, is in charge of checking the implementation of Agenda 21.

The main laws on environment protection and resources management

The Amended Law on Environment Protection became effective in July 2006. This law provides a general framework for the use of natural resources, environmental impact assessment (EIA), waste treatment, and international environmental cooperation. In particular, the revised law:

- requires polluters to clean up pollution and compensate those affected
- introduces a license system for waste producers
- regulates generators of "hazardous waste".

Other environment-related laws complete this framework, such as the Maritime Law (1990) or the Law on the Development and Protection of Forests (1991).

The Law on Biodiversity was approved by The National Assembly in November 2008 and came into effect in July 2009. On December 1, 2008, a Decree was promulgated on river basins management (nine basins have been identified : Red River-Thai Binh, Bang Giang-Ky Cung , Ma, Ca, Vu Gia, Thu Bon, Ba, Dong Nai and Mekong).

According to the Department of Legislation of MoNRE, several laws are to be amended (Land, Water Resources, Minerals, Survey and Mapping, Hydrometeorology, Marine Resources and Environment Protection).

The institutional and policy framework related to climate change

Recent UNDP and World Bank reports indicate that Vietnam is one of five countries world-wide most vulnerable to sea-level rise as a result of climate change. In a scenario of a 1m rise in sea level, assessments show that Vietnam would lose 5% of its land, 11% of the population would be seriously affected, agricultural production would decrease by 7%, and GDP would decrease by 10%. A 1m rise would flood more than 11,000 km2 of the Cuu Long Basin, representing some 38% of the land in the basin. Some provinces would lose nearly half of their land area.

Vietnam signed the Kyoto Protocol in 1998 and ratified it in 2002. Vietnam is not an "Annex B country" and has no obligation to reduce its greenhouse gases (GHG) emissions. However an "Implementation Plan of the Kyoto Protocol" in the period of 2007 - 2010 was approved by the Prime Minister in 2007.

In December 2007, the government assigned the Ministry of Natural Resources and Environment to lead the development of a "National Target Program on Climate Change Adaption". It was later approved by Prime Minister as Decision No. 158/2008-QD-TTg "National Target Program to Respond to Climate Change" on 2 December 2008. This longterm strategy describes the potential impacts of climate change in Vietnam and proposes some objectives - such ad preservation of natural resources and development of technologies, and measures - such as financial incentives and new laws, to adapt to the negative consquences of climate change.

More and more "Clean Development Mechanisms" (CDM) projects are proposed by the Vietnamese authorities. The Clean Development Mechanism Designated National Authority (DNA) and the National Office for Climate Change and Ozone Protection (NOCCOP) aim at selecting and approving CDM projects in Vietnam.

Vietnam was active during the Copenhagen Environmental Summit at the end of 2009. Vietnam also took advantage of its ASEAN Presidency at the Hanoi ASEAN Summit in to push forward this issue in the region by means of ASEAN Climate Change Initiative (ACCI) and effective implementation of Reduced Emission from Deforestation and Forest Degradation (REDD).

3.5. CONSTRUCTION AND REAL ESTATE

General market situation

Vietnam is more deeply integrated into the world economy than ever before. As a result, the fluctuations of the global market now have more of an impact on the country's economy. Vietnam's real estate market was hard hit by the global financial crisis in 2008 and the beginning of 2009 to the extent that that it had been frozen. This was a bad period for many property enterprises in Vietnam; some had even been forecasted to go out of business or completely bankrupt.

However, amid the global economic turbulence, Vietnam still maintained positive GDP growth. It was one of the few countries in Asia with strong positive economic growth and also had the third quickest economic recovery after China and India. Inflation is now re-emerging, providing impetus to put cash to work e.g. in real estate. Interest rates increased by 1% (at the rate of 8%) on 1 December 2009, helping to limit credit growth and rein in inflation. While FDI dropped dramatically compared to 2008, it was still the second highest year on record. In this context, Vietnam's real estate market has shown signs of recovery and potential high growth rates, particularly in urban areas, helping property developers overcome a difficult period and grow again, though perhaps with a bit more caution.

Besides USD1bn of the stimulus package to provide businesses with an interest rate subsidy, the government has also raised its level of investment for constructing schools and traffic infrastructure. Moreover, USD223mn of the national budget has been devoted to satisfying 60% of student's demand for accommodation by 2015 in accordance with the Decree 65/2009/QD-TTg.

The government has issued preferential policies on rent, tax and credit support to encourage the private sector to invest in constructing social housing for workers and low-income earners. The second half of 2009 saw two new significant laws being passed: (1) Consolidation of the land use right certificate and land ownership certificate into one singly copy, and (2) Broadening of the rights of overseas Vietnamese to purchase and own a house in Vietnam. A pilot program was implemented that allows certain types of expatriates to buy and own residential property. A sweeping decree amended a number of provisions governing land use planning, land prices, land recovery and compensation for land clearance. Following growing tension between residents and apartment developers/ managers, a Circular was issued regulating apartment service fees. The banking sector has returned to supporting property enterprises by creating more new home loans for low-income people.

The commercial property market is becoming active again thanks to the active participation of thousands of domestic enterprises and the dramatic increase of foreign investment. The domestic real estate markets showed signs of activity in 2009 with new groundbreaking ceremonies, project restarts and down-ward price adjustments after the credit extension to the sector was eased. Average land price increases have reached 20-30%. 2009 witnessed improvements in Vietnam's real estate market, with greater transparency, market-orientation and a growing participation by the private sector; further improvements in the business climate are however needed and corruption is still a big problem in construction sector.

Wholly foreign-owned firms or joint venture companies in which foreign parties took major stakes had once been the main players in Vietnam's real estate sector, leaving domestic investors to make up only a small proportion of the market. The picture has since diversified. Currently, activity in the market is dominated by the increasing prominence of local investors and a new found confidence to commit to much larger lot sizes such as Hoang Anh Land, Thu Duc House, Nam Long, Bitexco, Van Phat Hung or Nam Bay Bay, who have steadily grown and taken on very large and significant projects, proving they can be very competitive against foreign business rivals. Vietnamese investors have generally focused on developing office buildings, but are now realizing that oversupply is a real concern and have switched interest to other sectors including hotels and retail centres. While strata purchases are difficult for foreigners, this has been another area of increasing interest for local investors, who have been actively buying both retail podiums and office floors. Foreign investors have shown concern at the rising number of resort developments, particularly along the central coast, however local developers have shown continued interest on the back of recent successes by the large funds such as Indochina Capital and VinaCapital with their Hyatt Regency and Danang Golf Course projects respectively. Local investors will in general not look at the yield that the property is generating, but will be more focused on the price per square metre and some will consider the time they estimate it will take to recover their initial investment. They are very often speculating on the capital gain only.

The tough lessons of the global financial crisis and the ups-and-downs of Vietnam's real estate market in 2008 and 2009 may have helped real estate investors and buyers become 'smarter' and more prudent in property transactions. Property buyers tend to investigate more carefully the properties they want to buy before making decisions, or even hire reliable brokers and legal consultants in their property transactions. Currently, the price of real estate is not the first priority for buyers; the emphasis is put more on finding reliable sellers, transparent projects and legal contracts.

The introduction of new personal income taxes of 25 percent on real estate transactions, which has been criticised for being very high, is also a contributory factor to filtering out 'fake' property projects, helping the real estate market become more transparent.

In general, the property market slumped in 2009 and the contrary movements in Hanoi and Hochiminh City, the two largest markets in Vietnam, caused instability on the market. The widest fluctuations occurred in the office-for-lease segment, with a drop of 20-30%, even 50% at some points of time. The global economic crisis dragged down the office rentals. This was a good time for many to purchase or lease offices and demand rebates.

Despite market slumps in 2009, many new big projects, big in scale and investment, were launched in major localities, especially Hanoi and Da Nang. A number of apartment, office, shopping centres and golf course projects started by VinaCapital, Indochina Capital and other giants kept the market active and attracted interest and participation of foreign investors. However, the selling times have grown longer and vacancy rates are higher in 2010 than 2009. The lowering price of apartments is highlighted by the following examples: Hoang Anh Gia Lai took the lead in slashing apartment prices, even luxury apartments in the area of Hochiminh City, followed by Nam Cuong Group, which reportedly sold apartments at original selling price to buyers through lucky draws.

However, systemic problems to a certain extent distorted the market. Although the reform of public administration in construction investment is continuing, in reality, projects in Vietnam are implemented at a slower progress rate due to, though not only to, administrative procedures and site clearance. Inflation was another cause for the hesitance of investors in putting funds into construction.

Future Trends and Opportunities

For 2010, analysts suggest that the real estate market will have a brighter outlook, while for the next few years, prospects for Vietnam's property market are optimistic overall.

The return of foreign investors and multinational corporations will lay the groundwork for the Vietnamese retail market. The retail sector is set to undergo a transformation with an increased focus on shopping malls. However, not all malls turn into business successes. Location and design are crucial, and design must be tailored to the local market. Added to this is the need to carefully plan the concept and tenancy mix well before hiring architects. Over the next three years, large, multi-floor shopping malls in suburban locations have a real chance to transform the retail sector in Vietnam, with entertainment, dining options and a wide choice of shopping.

With government backing, domestic investors are set in coming years to target housing projects for low-income and medium-income earners. There are some investors in this segment currently, but supply is not meeting demand. The government expects this segment to be attractive for both domestic and foreign investors.

The tourism property sector is also becoming attractive, and is developing rapidly with a series of villas, spas and hotels currently under construction. An advantage for Vietnamese tourism property developers is pre-possession of land. However, many property projects suffer from insufficient capital as well as short-term investment vision. With government policy actively encouraging foreign investment, as well as Vietnam's geographical advantages, this market segment promises to be attractive for foreign property investors, though it also carries the potential risks of over-development and environmental concerns.

However, real estate experts pointed out that the office market segment will encounter significant over-supply in 2010. Hanoi will have over 150,000m^2 of additional office space available in 2010, whereas in HCMC, it is expected that the available office space will grow by more than 350,000m^2. With the supply plentiful, competition is set to become more fierce and lessees will have greater choice.

Localities like Dong Nai, Nha Trang, Ba Ria, Vung Tau, Binh Duong and Hai Phong are expected to become more interesting destinations for investors. Accessibility to other major localities, lower land costs, large populations, presence of many industrial parks, factories, hospitals, schools, seaports and airports, etc. create needs to build, expand and upgrade. Contributing factors to the emergence of new investment opportunities within the major cities as well as the emerging cities include infrastructure developments, such as building of major regional highways. Bridges, tunnels and metro system plans, as well as the increasing number of cars on the streets, will change the way cities grow and people live and work.

According to the Ministry of Construction, over the coming time, the real estate market in Vietnam could become overheated locally. Sustainability will become increasingly important, as will the safety and quality aspects of the market. In Hanoi, when the master plan for urban zones will be considered and approved by the National Assembly, a number projects will be licensed and construction carried out. In addition, as the largest urban centre with a population of around 3,400 people per square kilometre (excluding non-resident), HCMC's real estate market will also attract large investment capital from both domestic and foreign investors to satisfy increasing demands for each type of property product.

The sustainable and high economic growth rate, young and dynamic workforce, reform policies of the government, planned large-scale urban infrastructure development projects and new laws and regulations relating to property market all create improved environment for foreign investors with significant opportunities.

However, lessons learnt from the bubble in 2009 require investors and consumers to define their approaches, viewpoints and thoughts about the market. According to Savills Vietnam, opportunities abound, but investors need to do thorough homework and consider all of the following:

- Employ experienced professional consultants with a long term Vietnam presence.
- Always complete thorough due diligence before committing funds.
- Consider working with an experienced local development partner.
- Open an office in Vietnam, with staff that have emerging market experience and who can then build a strong Vietnamese team.

In the mid- to long-term, several segments of the property market will, according to the Ministry of Construction, show good growth. Firstly, the rapid urbanisation will lead to increased construction and trading in the residential market especially in new urban areas. That is the key to the development of Vietnam's property market in the next years.

Secondly, the industrial property market will rapidly develop after the master plan of economic and industrial zones towards 2020 is fully regulated and supplemented.

Thirdly, the commercial housing market, particularly tourism properties, is expected to expand as developers exploit the country's long, beautiful coastline and landscapes. In the future, it is expected that there will be a detailed master plan for tourism property development in order to take advantage of the country's strategic geographical and economic position in the international market.

Fourthly, residential market for low-income earners, workers and students will continue to enjoy government support. The development of social housing projects will contribute to social stability and the sustainability of the real estate market.

Designed & Printed by VTECOM.JSC
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