# VIETNAM: TRADE & INVESTMENT BULLETIN No. 12

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## GENERAL REVIEW



## INVESTMENT



## TRADE



## ANALYSIS



## FINANCE – BANKING



## NEWS IN BRIEF



## COMING EVENTS in Dec 2008

* Conference on investment in developing infrastructure
* The 3rd Supporting Industry Exhibition in Ho Chi Minh City

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## GENERAL REVIEW

### Mekong River Delta lacks storehouses; HCMC has abundance of storehouses

“Our storehouses can only keep paddies for one crop, while Thailand’s storehouses can keep for three years. We want to have storehouses to keep 4-5 mil tons of rice, which can help control rice prices. However, it will take time to turn our desire into reality”. Prime Minister Nguyen Tan Dung answered the question raised by a National Assembly’s deputy at the National Assembly’s session in mid November.

While Mekong River Delta, a rice granary in Vietnam that produces over 90% of the total rice exports, is hoping for USD 200 mil to build a rice storage depot in HCM City, in one district alone, while there are nearly 100 unused depots, many of which belong to the Southern Food Corporation.

**Bils of VND left to sit in rain and sun -** In a fact-finding trip to verify the use of storehouses in district 8 of HCM City, People’s Council members saw the hundreds of thousands of square meters left fallow, or leased for other uses. The Southern Food Corporation alone has thousands of square meters of unused depots. However, Nguyen Minh Hoang, Head of the Economics and Budget of the HCM City People’s Council, insisted that the land plot needs to be taken back to be allocated to those who really need the land.

**What to do?** Experts said that it will take time and effort to deal with the agencies and businesses that are managing the storehouses. It would be easier to settle the issue now by putting them under the management of the city’s authorities, while it would be more complicated to deal with the land under the central management. This also spells that thousands of bils of VND will still be left wasted.

It is estimated that Mekong River Delta needs approximately USD 200 mil to build the food storage depot system, a figure which is not big when compared to the high export turnover the rice can bring. The settlement of the idle storehouses would provide the solution to the rice storage problem.

*(Source: PL TP HCM)*

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### Vietnam’s material prices twofold higher than world prices

Industry Department under the Ministry of Planning and Investment (MPI), when reviewing the production and business of industry and trade enterprises, pointed out that the price of materials on the domestic market is still two times higher than the world’s prices.

The department said that the price decreases in the domestic market have not yet come into accordance with the decreases in the world’s market. For example, the construction steel price has decreased to VND 10-11 mil/ton, or USD 600/ton, according to the Vietnam Steel Corporation, while the ingot steel price is as low as USD 300-320/ton on the world’s market. The A92 petrol retail price has decreased to VND 13,000/litre, or USD 750/ton. Meanwhile, according to the Ministry of Industry and Trade, the average import price of A92 petrol has dropped to USD 490/ton. When counting the taxes and fees, the retail price of petrol should be only VND 9,000/litre.

The Industry Department has forecasted that the price of these commodities will continue decreasing to come closer to the world’s prices. The report on the socio-economic development of HCM City in November also pointed out that when the world’s prices went up, the domestic prices also went up accordingly; however, as the world’s prices have been declining sharply, the domestic prices have just gone down slightly.

The report said that the current steel price in the world is USD 300-350/ton, which means that the domestic price of the import should be USD 400-500/ton, or VND 8 mil/ton. Meanwhile, suppliers are still selling at VND 11-12 mil/ton. The General Statistics Office has released a figure for the consumer price index for November, which showed that the CPI decreased by 0.76% in November in comparison to the previous month.

Nguyen Van Quang, Deputy Director of the HCM City Development Studies Institute, said that in principle, when the world's prices decrease, the domestic prices have to go down accordingly. However, December is a high shopping season to prepare for Tet, therefore, the purchasing power is expected to increase. Quang said that it is difficult to forecast the price performance in the upcoming month. Quang also said that the price decreases in the last two months have helped people feel more comfortable. He said that the CPI decreases prove to be worrying only if they occur continuously, causing production stagnation.

*(Source: PL Tp.HCM)*

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## VN Income per Capita may exceed USD 1,000 in 2008

In 2008, The GDP per capita of Vietnam is estimated at USD 1,000 -1,030. The figures do not consider the whole year's inflation and the currency devaluation. The GDP per capita of over USD 1,000 would be a surprise for many Vietnamese people.

Deputy Prime Minister Nguyen Thien Nhan wrote that in 2008, the GDP per capita of Vietnam will exceed USD 1,000 per annum for the first time. He wrote "Vietnam will escape from the list of poor countries in the world".

The GDP per capita figure has been calculated by the General Statistics Office (GSO) based on the market prices and the national economy's performance in the first nine months of the year. In 2007, the average income per capita was USD 835. According to the Ministry of Planning and Investment, Vietnam's will see the economic growth rate of 6.5-7% this year. GSO has calculated macroeconomic indicators, including GDP per capita, to serve the government's building of economic scenarios for 2009.

Experts of an international institution in Vietnam said that it was necessary to consider the actual impacts of economic growth on people's lives based on the purchasing power of the currency. According to the World Bank, when GDP per capita exceeds USD 950, countries are removed from the group of countries with low incomes and become countries with medium incomes.

*(Source: VNE)*

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## Economic scenario looks bleak for 2009

Prime Minister Nguyen Tan Dung said at a meeting last Monday (24/11) that the global economy is expected to go through more difficulties next year and this will affect FDI flows into Vietnam as well as the country's exports.

The global economy is estimated to grow at 2.2% next year from an anticipated 3.7% this year, according to IMF. Many countries have decided to spend huge amounts of money to rescue their economies but Vietnam has not done so, he said, adding that the risk of deflation could also threaten the economy next year. Deflation is dangerous to an economy because when prices are falling, consumers have an incentive to delay purchases until prices fall further, which in turn reduces overall economic activity, setting off a deflationary spiral. Consumer prices are estimated to drop 0.76% this month on the back of lower fuel and food prices.

The US, Japan and European countries, Vietnam's biggest importers, are expected to see an economic slowdown and reduced purchasing power, impacting Vietnamese exports. But the Vietnamese government is reconciled to a slower pace of export growth of 13% next year. This year export revenues will rise 31.8% to USD 64 bil, the Government Office forecasts.

80% of small and medium-sized enterprises, which account for 95% of firms in Vietnam, are having difficulty finding markets for their products due to the economic meltdown and lack funds to remain in operation as a result of the recent tight monetary policy, according to the Vietnam Association of Small-and Medium-Sized Enterprises.

Some experts said that the next few months could see some of them going bankrupt. To overcome these challenges, the government should take comprehensive and long-term measures, experts said. “We should take advantage of the lower prices of fuel and construction materials to develop infrastructure,” an expert said. The government targets economic growth of 6.5% next year against an anticipated 6.7% this year.

*(Source: Ngan Anh)*

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## Distributors milking consumers

Dairy products have become more expensive of late but industry insiders claim the price hikes are a marketing ploy by producers and distributors. Distributors have increased the retail prices of milk powder by VND 10,000 to VND 30,000 for a 900-gram pack over the past few weeks. However, global prices of skimmed milk powder and whole milk powder have actually fallen by USD 1,000 per ton since mid-year to respectively USD 2,000-2,500 and USD 2,400-2,900.

A manager of one of the top milk companies, who wished to remain unnamed, said the recent melamine scare has led to consumers not “trusting” products at lower price ranges. His company, for instance, was unable to sell its VND 70,000 products but sales improved significantly when distributors decided to double the price, he said.

Local retailers say the competition among big names like Abbott, Mead Johnson, Dutch Lady, Dumex and even Vinamilk is mostly in the upscale products segment, including milk products advertised to be able to bolster children’s immune systems and smartness. With customers in this market segment highly loyal to brands, sellers raise prices without fear of alienating them. A market insider said, “When a company sees another increasing price, immediately it has to figure out a way to do the same.”

*(Source: TT)*

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## Expert said Vietnam encouraging *DIRTY INDUSTRIES*

General Director of the Institute for Industry Policy and Strategy (IPS) under the Ministry of Industry and Trade (MIT), said that Vietnam has become the ‘waste container’ of the world as it has been admitting polluting industries. During a press conference introducing the national workshop on environmentally-friendly products held recently, he said that many industries which Vietnam is trying to develop are considered by developed countries to be ‘dirty industries’ because they pollute the environment. These include steel and cement production.

“Vietnam has been admitting many industries that make the environment dirty,” he concluded. Cement industry development has also been threatening water resources. The exploitation of limestone for making cement will lead to the loss of ‘the God-given filtration funnel’.

In IPS’s report, Vietnam will need USD 7.6 bil to protect the environment by 2020. This needs to be spent on the 18 groups of industries which have the biggest impacts on the environment, such as aquaculture, paper, construction, mechanical, ore mining and cement production. The protection of big lakes in Hanoi alone will consume several hundred mil dollars.

*(Source: VNE)*

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## Inflation Rate Continues to Fall

While measures are helping curb inflation, export revenues are also flagging. Viet Nam's Consumer Price Index (CPI) has dropped for the second month in succession, preliminary General Statistics Office (GSO) statistics show. The fall in November was 0.76% against October. In October, the CPI fell 0.19%. The falls followed 18 months of increases.

The average CPI for the first eleven months of the year was still 23.25% higher than the end of November last year. Preliminary GSO figures also show that export revenue continued its downward trend of the past three months in November to USD 4.8 bil. The figure was USD 300 mil less than October and USD 500 mil less than September.

**Oil knocks down exports -** Economists attributed the fall in export revenue to falling prices for several key exports, especially crude oil. Crude oil exports fell by USD 164 mil compared with the previous month, to USD 505 mil; rice exports earned USD 130 mil, a drop of USD 14 mil and seafood USD 460 mil, down USD 14 mil.

**Garment and textile** export revenue was USD 780 mil - unchanged from October but is expected to receive a boost in December when Japan drops its 10% import tax in accord with the Viet Nam-Japan Economic Partnership Agreement.

**Footwear** defied the trend and increased to USD 400 mil from USD 396 mil.

Still the USD 58.5 bil earned in **export revenue** for the first eleven months of the year is just shy of Government's USD 59 bil target. The cost of imports fell USD 400 mil against October to USD 5.3 bil.

Automobiles and vehicle parts, steel, paper, computers and electronic components, machines and equipment, plastic materials, milk and dairy products predominated among the imports. **Imports** have cost USD 75.4 bil so far this year, up 38.4 per cent against the first 11 months of last year.

The **trade deficit** stood at USD 16.88 bil, equivalent to almost 29 per cent of the country's total export revenue. But economists forecast that if exports increase and imports fall further, the trade deficit could fall within the Government target of USD 19-20 bil.

*(Source: Vietnam News)*

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## India deepens Trade Partnership

Indian President Pratibha Devisingh Patil said at a **Business Forum** that India & Viet Nam will continue to be superb partners. She hoped the ties between Viet Nam and India would deepen even further with the signing of the India-ASEAN Free Trade Agreement.

Opening the Viet Nam-India Business Forum held in HCM City as part of her first visit to Viet Nam, president Patil said she believed close bilateral co-operation would open more opportunities for the two countries' business communities. Opportunities for partnership included transfers in technology and experience in tertiary education, research and development and public-private investment in infrastructure development, the president added.

According to a local senior trade official, the friendly relationship between the two countries, which established diplomatic relations in 1972, are bearing fruit. India has emerged as Viet Nam's largest market in South Asia.

Bilateral trade between Viet Nam and India surged in 2003 through 2007. Two-way trade reached USD 490 mil in 2003, shot to USD 697 mil in 2005, and exceeded USD 1 bil in 2006. The growth in trade volume between the two countries fulfilled the Viet Nam-India action programme for 2004-2006, set out by the 12th joint committee.

**Viet Nam** is a strong exporter of farm, aquaculture, and fine handicraft products as well as footwear, textile and garments, furniture, electronic components and engineering items.

**India** in return boasts its strength in pharmaceuticals, medical equipment and information technology.

Businesses in the two countries should seek to import and export the above goods and seize more opportunities for investment and co-operation. Indian businesses should increase investment in Viet Nam in such fields as oil and gas exploration, processing and production; petrochemical; IT; and mineral and feedstock processing. "This would help tap into the local market and create a resource of products for re-export to India, contributing to the narrowing of the bilateral trade deficit."

*(Source: Vietnam News)*

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## Vietnam's 500 Biggest Businesses in 2008 announced

The 2008 list of the 500 biggest businesses in Vietnam (the VNR500) is just released. Petro Vietnam tops the VNR500. VNR500 has been compiled based on the database developed and updated by Vietnam Report and statistics provided by relevant agencies, including the General Statistics Office and General Department of Customs.

The figures were updated through December 31st 2007. The rankings of enterprises were determined based on turnover. Besides VNR500, which honors the 500 biggest enterprises in Vietnam, no matter state-owned, foreign-invested or private, has also released a list of Vietnam's 500 biggest private-run businesses. In order to be considered for the VNR500, businesses need to have the minimum turnover of VND 800 bil (about USD 4.7 mil).

The 2008 VNR500 shows some several outstanding features:

**Firstly**, the VNR500 demonstrates the domination of the state-owned economic sector. Economic groups and general corporations have been playing the key role in Vietnam's national economy. State-owned corporations have high rankings and account for more than half of the enterprises on the list. **Secondly**, the VNR500 shows the big changes of Vietnam's economy. 21.5% of businesses in the 2007 VNR500 are not in the 2008 VNR500. **Thirdly**, the 2008 VNR500 reflects changes in the rankings of businesses in the fields of oil and gas, fuel, gold, steel, seafood and real estate due to the fluctuations of domestic and international market prices. **Fourthly**, the private economic sector, though having obtained encouraging results, is still not strong enough. They account for 24% of total businesses on the list of the top 500 businesses.

### Top 10 businesses of VNR500

| Ranking | Corporation / Holdings / Company / etc |
|---|---|
| 1 | The Vietnam National Oil and Gas Group (PetroVietnam) |
| 2 | The Vietnam National Petroleum Corporation (Petrolimex) |
| 3 | The Electricity of Vietnam (EVN) |
| 4 | The Vietnam Coal and Mineral Industries Group (Vinacomin) |
| 5 | The Vietnam Post and Telecommunication Group (VNPT) |
| 6 | Petrolimex Saigon |
| 7 | The Vietnam Shipbuilding Industry Group (Vinashin) |
| 8 | The Vietnam Textile and Garment Group (Vinatex) |
| 9 | Vietnam Airlines Corporation |
| 10 | Honda Vietnam |

*(Source: Vnr500)*

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### Nation seeks to Double Sea – Trade by 2010

By 2010, Vietnam plans to pump VND 60 trillion (over USD 3.5 bil) into developing its seaport system, aiming to double its current cargo handling capacity to 250 mil tonnes. Under the terms of the Transport Ministry's plan, 20.5 trillion VND will be allocated for the northern region, 14 trillion VND for the central region, 20.1 trillion VND for the southern region, and 2 trillion VND for the southwestern region. The maritime sector is currently developing at an astonishing rate, with recent plans for the construction of ten seaports, including several deep-water ports capable of receiving ships with a capacity of up to 100,000 DWT. Out of these, four projects are still due to commence construction; Sai Gon port, with total investment capital of 791 mil USD is expected to become operational by 2010, and the 165 mil USD Vung Tau port, which is scheduled to be completed next year.

Additional projects include Nhon Hoi GemaDept international port in Binh Dinh province, with total capital of USD 230 mil and a 120 mil USD project to build three wharfs in Cai Lan port in the northern province of Quang Ninh.

The Government has entrusted the Transport Ministry with completing adjustments to the plan by early 2009 with the aim of maximizing the performance of the seaports. Many seaports, particularly those in Ho Chi Minh City, are becoming overloaded due to high levels of import-export activity. In an effort to cope with this urgent issue, the HCM City's People's Committee has recently approved a project to dredge the Soai Rap canal in order to open a deep-water port in Nha Be, capable of receiving vessels of 50,000-70,000 DWT.

Foreign experts have also warned Vietnam of the need of the need to develop its seaports to in order to keep pace with economic growth. At a seminar on Vietnam's seaports held in Hanoi several months ago, First Secretary of the Japanese Embassy in Vietnam Jin Kimoto stressed the need to develop the country's seaports in order to reach its investment and import-export import targets. With support from the Japan International Cooperation Agency (JICA), the Vietnam Maritime Administration has been carrying out a project to improve the management capacity of Vietnam's seaports in order to create an advanced model of seaport management. This model is due to be tested initially in Cai Mep-Thi Vai port in the southern province of Ba Ria-Vung Tau province, then extended to other ports.

*(Source: VNA)*

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## TRADE

### Vietnam the World's Top Pepper Producer and Exporter – again

Despite the global economic downturn, Vietnam has retained its place – for the fifth year in a row – as the world's top pepper producer and exporter, the International Pepper Community (IPC) said.

The IPC said Vietnam exported about 75,000 tons of black and white pepper in 2007/2008. During that period the country produced about 85,000 tons of the spice.

Vietnam's production of pepper accounts for 29% of the world's production, while the country's exports make up 34% of the world's exports, the IPC said. Although holding onto its top ranking, Vietnam's share of the global pepper market has dropped since 2006.

Indonesia and Brazil are the world's second and third-biggest exporters of pepper, while India and Indonesia are the world's second and third-largest producers.

The IPC, which is holding its annual meeting in Ho Chi Minh City this week, said the global price of black and white pepper has slumped since March. The price of black pepper has dropped 24% over the period and the price of white pepper has fallen 18% as a result of slowing US and European economies.

The three-day annual meeting will discuss the impacts of the global economic downturn. The IPC sponsors a UN Food and Agriculture Organization-funded project which helps small Vietnamese producers improve their livelihood by enhancing pepper production and processing.

*(Source: Vinh Son)*

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## Exporter says Africa Promising Rice Market but Problems

Africa is a promising market for Vietnamese rice exporters but long distances and associated costs and payment delays have discouraged them from exploring the continent. Vice Chairman of the Vietnam Chamber of Commerce and Industry (VCCI), told African, Vietnamese, Cambodian and Lao rice industry executives attending a meeting held by the International Organization of Francophonie (OIF) that mainly small-and medium-sized exporters struggle to cope with these problems.

The meeting was held to establish direct links between rice sellers in the Greater Mekong Sub-region and buyers from Economic and Monetary Community of Central Africa (CEMAC) and the West African Economic and Monetary Union (UEMOA).

Vietnam has a rice surplus and exporters target the African market to diversify away from their traditional markets in the US, Europe and Japan which are facing an economic slowdown.

Africa, which imports about 9 mil tons of rice a year, is eyeing Asia for rice imports with focus on Vietnam and Pakistan, the world's leading exporters of low-priced rice, according to Reuters.

Vietnam has exported more than 4 mil tons, including 1 mil tons to Africa, in the year to date, according to the ministry. It said member states in UEMOA and CEMAC imported USD 121 mil and USD 30 mil worth rice from Vietnam in the first nine months.

*(Source: Minh Quang)*

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## Trade Deficit tops USD 16.9 bil

The trade deficit has widened to USD 16.9 bil in the first 11 months, up 20% year on year, the government said Monday.

**Exporting 'necessities'**

Exports were led by oil shipments, which grew 31% by value to USD 9.9 bil, even while slipping 10% by volume. Garment shipments rose 19% to USD 8.4 bil, while footwear exports advanced 18% to USD 4.2 bil. "Garments and footwear are necessities, so exports in these categories may not suffer as much," said Raymond Mallon, an independent economist who has been based in Hanoi since 1991. Seafood shipments climbed 25% to USD 4.3 bil, while furniture exports rose 20% to USD 2.6 bil. Rice exports surged 89% by value to USD 2.7 bil and coffee shipments added 7% by value to USD 1.8 bil, even while slumping 21% by volume.

Imports were led by machinery and equipment, purchases of which climbed 35% to USD 12.6 bil. Petroleum-product imports jumped 58% by value to USD 10.6 bil, while steel purchases from overseas rose 46% by value to USD 6.4 bil.

Recent import growth "was partly foreign-investment financed" said TN. "As industrial expansion and foreign-investment inflows slow, import growth rates are likely to slow."

*(Source: TN)*

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## Blue Dragons Arrive in California

A shipment of more than 6 tonnes of fresh Thanh Long (Blue Dragon fruit), sent by the Duy Lan Export Company in Ham Thuan Nam district, Binh Thuan province, had a good landfall at the Long Beach Port in California, USA, on October 28, 2008. Two other shipments totaling 26 tonnes of Thanh Long of Binh Thuan province are also on their way to the US. The price that farmers are receiving for Thanh Long in Binh Thuan has risen to VND 15,000 - 20,000 per kilo, VND 6,000 - 8,000 higher than one month ago, farmers in the province said.

Representatives of the Animal and Plant Health Inspection Service (APHIS) of the United States Department of Agriculture came to Binh Thuan many times to tell farmers how they need to harvest, preserve, pack and transport Thanh Long to avoid problems with US inspectors. APHIS agreed to inspect and certify the Thanh Long fruit right there in Binh Thuan. It agreed that farmers that grew the fruit under GAP (Good Agricultural Practice) standards could be certified to ship their fruit to the US. Vietnam is the third country in Asia, after Thailand and India, in which such on-the-spot certification is being granted by APHIS prior to export of agricultural products to the US. Specialists at the quarantine center of the Vietnamese Ministry of Agriculture and Rural Development worked with APHIS to help farmers comply with requirements regarding production, harvesting, preservation, packaging and transportation.

Thanh Long from Binh Thuan has been exported to many Asian countries/territories, the Netherlands, Germany and Canada but the US has the strictest standards for agricultural imports of these countries. The produce must be APHIS certified and irradiated with APHIS-certified equipment before being loaded onto a ship. US customs and agricultural inspectors check the fruit when it reaches the first US port of arrival. There should be a central production area for Thanh Long fruit in Binh Thuan so that production, harvesting, packaging, preservation and transportation can be dealt with consistently. Ministry of Agriculture and Rural Development authorities are assisting farmers in this matter.

Exporters and farmers are working together to fill contracts on time.

Vietnamese trade promotion organizations inside and outside of Vietnam need to advertise Vietnamese Thanh Long fruit abroad and learn what foreigner think of Vietnamese Thanh Long in terms of quality and price to be able to forecast Vietnamese Thanh Long sales in foreign markets. Vietnamese Thanh Long needs to be registered for copyright protection in foreign countries and territories./.

*(Source: Nguyen Duy Nghia)*

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## Crude-oil Exporters face Price Slump

A sharp fall in world oil prices is likely to adversely affect the crude-oil export industry this year, according to officials. The prices have dropped from more than USD 140 to around USD 50 per barrel, a record low, in the last two decades. Vu Ngoc Hai, chairman of the management board of the Vietnam National Petroleum Import-Export Corporation (Petrolimex), said over the last nine months Vietnam exported 10.43 mil tonnes of crude-oil, earning a turnover of USD 9.09 bil, an increase of 66% compared with the targeted plan.

Export growth came on the back of skyrocketing global oil prices in the past few months, with Vietnam's crude oil exports selling for an average of USD 116 per barrel. In late October 2008, however, the global economic recession began to take its toll and a sharp drop in world oil prices followed as a result of a slump in energy consumption.

According to the Vietnam Oil and Gas Group (PetroVietnam), in early October, PetroVietnam was planning to sell crude oil for USD 70 per barrel, but the sudden drop in global prices prevented this. Vietnam expects to export 14.68 mil tonnes of crude oil, accounting for 94% of the year's target in 2008.

Oil industry officials said despite the drop in export volume, export turnover from crude oil this year is expected to reach USD 11.31 bil, an increase of 50% compared with the plan. Petrol Vietnam this year has put five more new oil fields into operation in an attempt to create sufficient reserves for use in oil refineries.

In February, the Dung Quat Oil refinery in central Quang Ngai province will begin operating and using crude oil exploited in Vietnam. At least 3 mil tonnes of crude oil will be pumped from the Bach Ho (White Tiger) oil field for use in the oil processing industry in Vietnam. A Petro Vietnam official said the group was also considering using the high quality crude oil from Bach Ho oil field to blend with other oils to make an economically efficient mixture.

*(Source: VNA)*

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## INVESTMENT

### FDI exceeds USD 60 bil

According to the Foreign Investment Agency under the Ministry of Planning and Investment (MPI), foreign investors registered to invest US USD 59 bil in new projects and to increase capital for operating projects by USD 1.09 bil so far this year. Registered FDI for November alone hit over USD 781 mil. Within 11 months of 2008, more than USD 60 bil of foreign capital (FDI) was registered in Vietnam. A large part of the sum comes from large-scale industrial projects.

Agriculture and pisciculture is less attractive to foreign investors, luring nearly USD 250 mil. Industry and construction are the most attractive fields, attracting USD 32 bil, followed by service sector with around USD 26 bil.

Malaysian Lion Group's USD 9.8 bil steel complex project in Ninh Thuan, becomes the largest investor in Vietnam this year. Taiwan and Japan is ranking the $2^{nd}$ and $3^{rd}$ largest investors. Other provinces which attracted large foreign investment include Ninh Thuan, BR-VT & HCM City.

*(Source: GSO + MPI + VNE+ **Viipip.com**)*

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### Korean Investment in Thua Thien Hue

**'Promoting Korean Investment in Thua Thien Hue Province'** was held on November 13 in Hanoi under the direction of the Thua Thien Hue Province People's Committee in association with the Ministry of Planning and Investment (MPI), VCCI & the Korean Embassy in Vietnam.

With USD 16 bil, the RoK took $4^{th}$ place among 81 countries and territories investing in Vietnam at this time. However, regarding number of projects, it took $1^{st}$ place with 2,004 projects. Deputy Minister of MPI - Nguyen Chi Dung said that Korean investors have registered several new, large projects in Vietnam. He also said that if these projects are licensed, Korea could take the lead among foreign investors in Vietnam regarding the amount of investment capital.

Korean investment is present in many provinces with 4 projects having total capital of about USD 700 mil in Thua Thien Hue province. However, when compared with the financial/investment capacity of Korean companies, this amount of capital is not great.

Hue, in the Central Key Economic Zone, is a large tourism/cultural/education/health center in Vietnam and there is good north-south transport crossing Thua Thien-Hue province. There is also the deep-water port of Chan May in the province and it is the eastern gateway of the East-West Economic Corridor that is being built and will link

Vietnam with Laos, Cambodia, Thailand and Myanmar. Thua Thien Hue is able to develop new urban areas, industrial parks and trade/service centers.

Companies operating within the **Chan May-Lang Co Economic Zone** (1) need to pay a 15% income tax for their first 15 years, (2) are exempt from the enterprise income tax for their first four years, (3) need pay only 50% of the tax for the next nine years and (4) do not need to pay an import tariff on production materials, accessories and products that cannot be made in Vietnam for five years after production is started. Goods and services made or provided in the non-tariff area, and imports from foreign countries entering the non-tariff area in the Chan May-Lang Co Economic Zone, are free from import tariff, export tariff, excise tax and value added tax. Goods that are made/processed/recycled/assembled in the non-tariff area or use foreign materials and accessories will only pay the import tariff on the foreign materials/accessories used in the production of those goods for import into the rest of Vietnam.

Korean Ambassador to Vietnam Im Hong Jae said that despite the global economic decline, which is also affecting Vietnam, the country drew almost USD 60 bil in foreign direct investment (FDI) in the first 10 months of this year, including a significant amount of capital from Korea.

*(Source: Lan Ngoc)*

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## High-level ODA meeting scheduled for December

The 15th Vietnam Consultative Group (CG) Meeting will take place in Hanoi on Dec 4-5, with the stability of the macro-economy and the continuation of the nation's growth rate topping the agenda.

According to MPI, besides reviewing the achievements of Vietnam's renovation process and taking note of lessons learnt for the future, this year's meeting also marks 15 years of the re-establishment of relations between Vietnam and international donors. The meeting will be attended by representatives from the World Bank (WB), the Asia Development Bank (ADB), the International Monetary Fund (IMF), the United Nations (UN) and a number of donor countries. High-ranking Vietnamese governmental officials and representatives from several related agencies and branches will also attend the meeting.

Vietnam has 28 bilateral and 23 multilateral donors registered and approved for permanent Official Development Assistance (ODA) programs. The total ODA committed by donors between 1993 and 2007 reached USD 42.438 bil, which includes USD 32.109 bil worth of contracts. The total committed ODA sum is expected to hit USD 5.2 bil, consisting of USD 4.6 bil in loans and USD 570 mil in non-refundable aid.

*(Source: VNA)*

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## Japanese investor planning USD 5 bil steel project in Vietnam

The government has given Japan's JFE Group permission to make a pre-feasibility research report on a steel complex in Dung Quat Economic Zone in the central province of Quang Ngai. The report will be submitted to related ministries and agencies for consideration. The Prime Minister will make the final decision on the project. JFE Steel Group official Akihiko Ishida said the investor wants to build a plant that can produce 6-10 mil tonnes of steel per year, at a cost of around USD 5 bil. All gas yielded during the production process would be collected to produce electricity to run the plant and to sell to other businesses in the Dung Quat Economic Zone and local people. At the Vietnamese government's request, JFE's report must clearly show its goals, investment scale, duration and construction pace, range of products, market, equipment and technology, and others.

*(Source: chinhphu.vn)*

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## Maintaining the FDI Flow

The National Committee for International Economic Cooperation hosted a meeting entitled 'International Investment in Vietnam' in early November 2008 in Ho Chi Minh City. The object was to review the situation and suggest ways to increase the flow of foreign direct investment into Vietnam.

### FDI contribution to the economy

Foreign direct investment has been responsible for a significant portion of Vietnam's enviable achievements in economic development in recent years, said deputy minister of Planning and Investment Nguyen Chi Dung. The foreign invested sector accounts for around 45% of Vietnam's import/exports in value and it employs about 1.42 mil people (plus there are mils more employed indirectly). The sector creates new jobs, procures the latest technology, uses modern management techniques and enables the country to fulfill its socioeconomic development targets.

New FDI in 2008 is expected to total around USD 60 bil and the amount disbursed could be USD 12 bil. There are 9,637 on-going projects capitalized with USD 144.5 bil. A huge amount of FDI is injected into the industrial sector and there are a number of large-scale projects in oil refinery, metallurgy and hi-tech. Projects involving property, seaport development, new urban zones, resorts, luxurious hotels also attract a large amount of FDI.

### Surmounting difficulties

Economists do, however, assume that in this difficult economic period Vietnam's efforts to attract FDI will be less successful. The chairman of the **European Chamber of Commerce** (EuroCham) and former chairman of the Hong Kong and Shanghai Banking Corporation (HSBC), Alain Cany, said that FDI inflow into Vietnam may slack off soon as will capital disbursement. However, Mr. Cany was optimistic when he said that Vietnam is prepared to meet all future challenges. Not long ago UK economists placed Vietnam among those countries that had the most attractive investment environment. More importantly, foreign investors continue to consider Vietnam a good destination for investment. In their view, Vietnam is one of the few newly emerged economies that can effectively handle foreign capital inflow.

To surmount the difficulties that may arise during the process of trying to absorb all of this FDI, deputy minister of Planning and Investment Nguyen Chi Dung said that investment capital will be redirected. Priority will be granted to new energy and material production, hi-tech, mechanical manufacturing, environmental protection, infrastructure development and human resource development. Specifically, problems associated with environmental pollution, the use of old technologies, ineffective use of land and energy resources and careless licensing with bad impact on planning must be sorted out. To continue to attract foreign direct investment, the Vietnamese Government will attempt to build infrastructure, train its workforce and reform administrative procedures. Many inter-ministerial work groups have been established to facilitate investment project implementation. The objective is to quicken the pace of capital disbursement and shorten the gap between registered and realized capital.

*(Source: Ngoc Long)*

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## Dongnai - Making It Nice for Investors

Over the years (to the end of Aug 2008) 947 FDI (foreign direct investment) projects have come into Dongnai with total registered capital of USD 14.113 bil. Investors from 32 countries and territories have invested in the province, mostly in the industrial sector.

Dongnai is a province that has contributing greatly to Vietnam's economic development. Provincial economic growth averaged 12.8% between 1991 and 2007 and last year it grew 15.1%. Foreign invested enterprises made more than 70% of the industrial products in terms of value and FDI businesses in the province employ more than 320,000 Vietnamese people. FDI in Dongnai also has a large impact on the private economic sector and service industries including banking, insurance, auditing, trade and construction. Dongnai was able to satisfy pioneer investors and more investors are sure to come. The Dongnai Investment and Trade Promotion Center has worked with professional investment consultants, associations, and representatives of foreign chambers of commerce and industry in Vietnam. It has worked with not only world famous consultants, including KPMG, PricewaterhouseCoopers but also other local promoters to prepare projects for investment, introduce investment opportunities, learn about investor demands and attract investors from Europe and the US where advanced technology is available.

Dongnai has since the 1990s been implementing a one-door policy and a policy under which provincial authorities are a fellow-traveler of businesses. Provincial authorities are always willing to listen to businesses' difficulties and help them solve problems. The occupancy rate of the industrial zones in Dongnai is one of the highest in Vietnam. The province has 28 industrial zones totaling more than 6,912 ha, 66.3% of which has been leased out, while the average countrywide is less than 45%.

Dongnai plans to build another 42 IPs totaling 2,023 ha for small to medium-sized companies plus hi-tech zones, IPs for special use, IPs designed for both industry and agriculture and IPs in remote rural areas. Dongnai will revise its development plans sector by sector, increase environment protection and political and social stability to assure sustainable development and made investors feel at ease while doing business in the province.

All information regarding Dongnai province and its industrial park info must be found at **Viipip.com**

*(Source: Lan Anh)*

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## Japanese FDI into Vietnam Continues To Flow In

The Japan External Trade Organization (JETRO) recently announced the results of a survey it conducted to learn about the investment and business environment in Vietnam at this time of world financial crisis. JETRO said that Japanese companies still consider Vietnam to be the best place for production for the next 10 years.

JETRO surveyed 1,745 Japanese companies that have an investment in six ASEAN (Association of South East Asian Nations) countries (Thailand, Malaysia, Singapore, Indonesia, the Philippines, and Vietnam), China, Hong Kong, India, South Korea or Chinese Taipei. These companies highly appreciate the prospects for medium and long-term investment in Vietnam. JETRO said that 92.6% of the companies in production and 88% of those providing a service intend to expand their business in Vietnam in the next year or two. Most said that Vietnam will be the best place in Asia to invest and produce for the next 10 years.

The Foreign Investment Department of Vietnam MPI said that the quality of foreign direct investment (FDI) in Vietnam is improving and that there are many large-scaled urban constructions, energy, heavy industry, support industry and high-quality services projects. In the first three quarters of 2008, USD 57 bil in FDI came into Vietnam, nearly three times that of the year of 2007. In the first 10 months of 2008 about USD 9 bil of the FDI that was committed was spent and it is predicted that by the end of the year the amount will increase to more than USD 10 bil.

Experts say that the FDI amount is high because gross domestic product (GDP) growth averaged 7.5% a year for the last few decades. In the first nine months of 2008 the country's GDP growth was 6.5% with industrial production value and export revenue being higher than it was in the same time of 2007. This strengthens the trust of foreign investors in the Vietnamese Government's macroeconomic management ability.

Foreign investors are looking at Vietnam's high economic growth rate, its location, its young, large and low cost workforce and political and social stability. Another factor is the policies and legal regulations related to foreign investment in Vietnam that are coming into compliance with general international rules. The Investment Law that came into effect on July 1, 2006 has narrowed the legal gap that existed between domestic and foreign investors, creating a fairer playing field for both. It simplified investment procedures and created conditions under which Vietnam could attract and use foreign investment capital.

The Investment Law gives more authority to local administrators and management boards of industrial zones, export-processing zones, hi-tech zones and economic zones when it comes to issuing investment certificates and overseeing investment activities. Decentralization has allowed localities to accelerate administrative reform and create conditions under which more foreign investors would want to invest in Vietnam.

Vietnam has signed 52 agreements on investment encouragement and protection and 51 agreements on double taxation avoidance with other countries and territories. In some ways, foreign investors will find there to be no considerable difference between doing business in Vietnam and in countries that have a true market economy. At this time, Vietnam would like to see more FDI come in for new materials production, electricity production, hi-tech products, ecological environment protection, producing and processing agricultural, aquatic and forest products, consumer goods production for local consumption and export, building roads, seaports, water and electricity distribution systems, industrial zone infrastructure, new urban areas, human resource development, education and training, health, sports, industrial zones, export-processing zones, hi-tech zones, economic zones and any area that is now in difficulty.

To attract FDI to the above fields, Vietnam is offering foreign investors flexible and diverse preferences. These include income tax rates of 10, 15 and 20% (the normal CIT is 28%), a reduction or exemption of the import tax on fixed asset equipment and certain materials and reduced cost or free land rent. Regarding the attraction of FDI into Vietnam, most foreign investors share the opinion that despite the many problems that are caused by inflation, Vietnam still looks attractive.

*(Source: Lan Ngoc)*

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## Ways to Increase FDI Disbursement

Despite the turmoil that currently exists in the world financial market, Vietnam continued to attract large amounts of foreign direct investment capital in the first 10 months of 2008.

**The FDI is coming in**

The Foreign Investment Agency under MPI reports that 68 foreign investment projects with USD 2.02 bil in total registered capital came into Vietnam in October 2008, bringing the number of new foreign investment projects in the first 10 months of 2008 to 953 with a total registered capital of USD 58.3 bil, 83.3% more in projects number and a nearly six-fold increase in capital over the same period in 2007. Also in October, 22 projects asked to increase their supplemental capital by USD 169 mil, taking the number of projects asking for additional capital to 247 in the first 10 months with total supplemental capital of USD 1.02 bil. This was 76.3% more projects and 52.7% more capital than in the same period in 2007. Thus, Vietnam attracted USD 59.3 bil in FDI capital (supplemental capital included) in the first 10 months of 2008. Of this 728 projects with USD 29.9 bil in registered capital are 100% foreign-owned (76.4% of the projects and 51.3% of the capital).

As for field of investment, 512 projects went into industry and construction with USD 32.5 bil in registered capital (53.7% in all projects and 55.7% of the capital), following by the service sector with 400 projects valued at USD 25.5 bil (42% of the projects and 43.9% of the capital).

Businesses from 44 countries and territories invested in Vietnam in these first 10 months. Of them, Malaysia took the lead with 40 projects valued at USD 14.8 bil, followed by Chinese Taipei with 122 projects worth USD 8.6 bil. Japan ranked third with 90 projects capitalized with USD 7.2 bil. Nine other countries and territories had registered capital that exceeds USD 1 bil in Vietnam. There were changes in the investment structure in certain regions. Excluding seven oil and gas projects (18.1% in the capital amount), the province of Ninh Thuan topped the list with USD 9.79 bil in total registered capital, following by Ba Ria-Vung Tau with USD 9.3 bil, Ho Chi Minh City with USD 8 bil, Ha Tinh USD 7.8 bil, Thanh Hoa USD 6.2 bil, Phu Yen USD 4.3 bil, Kien Giang USD 2.3 bil and Dongnai with USD 1.78 bil.

Explaining why Vietnam continues to attract so much FDI while there is an economic downturn worldwide, the Ministry of Planning and Investment said that besides the stable social and political situation, foreign investors appreciate the Vietnamese Government's policies and measures to contain inflation and keep the local investment and business environment stable. They think that it's a good idea to invest in Vietnam. While the central government is trying to create a desirable investment environment, so, too, are local governments which are administering many FDI projects. Administrative procedures have been simplified and efforts are being taken to get licensed projects off the drawing board. In addition, the Government has instructed the ministries, departments and local governments to revise construction and budget plans to save money. Inspections are being carried out, capital is being disbursed more rapidly and there are more investment promotion activities.

**It won't get worse, maybe**

Dr. Phan Huu Thang, the Head of the Foreign Investment Agency, said that "No country can escape the current world financial crisis. Vietnam will feel the crunch. We can expect that there will be less foreign investment in the last months of this year, and even next year. There might not be much production expansion and less capital may be disbursed." He did say that foreign investment in Vietnam would continue at the current pace if the investment environment was favorable.

In order to facilitate project implementation and increase investment efficiency, the Foreign Investment Agency has made some suggestions. It suggests that ministries and departments take measures to make Vietnamese businesses aware that in order to enter the World Trade Organization Vietnam did make commitments, one of those being to open its service market. That being the case, Vietnamese companies will need to adjust their business plans so that they can cope with the new competition. Business will also need to be able to predict the future somewhat. Local governments need to move along with administrative reform, they need to truly create a 'one-stop shop' and they need to encourage the various management bodies to deal with procedure-related problems in a timely manner.

Money will have to be spent to upgrade roads, seaports, telecommunications services, and power and water projects. While at this time there is an electricity shortage, businesses should not have their power cut. In addition, investment promotion should be consistent. An effort should be made to implement the Vietnam-Japan Joint Initiative, Phase III, and increase cooperation between Vietnam and other countries. State organizations and business associations need to be in close contact with the heads of the government, ministries, departments and local governments and investors. In the present investment environment, the aforesaid measures if taken in a timely manner could enhance investment efficiency significantly and help minimize the negative effects the world financial crisis will have on Vietnam's economy.

*(Source: Chi Trung)*

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## Vietnam - Still a Land of Potential

On November 10-11, 2008, the VinaCapital Group organized a meeting in Ho Chi Minh City which was attended by more than 100 individual investors and the heads of large foreign companies. At the meeting, investors spoke about the investment environment in Vietnam, macroeconomic policies, the market situation and trends, investment opportunities and challenges in the local securities market, finance and banking, energy, information technology, infrastructure development, real estate, tourism and hotel services.

**Investment opportunities**

Are there promising investment opportunities in Vietnam's securities market? Many investors asked this question. Pham Do Chi, the deputy director of VinaCapital, said that in previous years, the Vietnamese securities market had attracted many foreign investors. However, prices have across the board fallen 60-70%, or even more. When shares are this cheap, one should consider buying. Pham Do Chi also said that although Vietnam will not feel the impact of the world financial crisis as heavily as some other countries, he expects that both direct and indirect foreign investment in Vietnam will slow down and decrease. Investors are pulling back and waiting.

Andy Ho, the managing director of the Vietnam Opportunity Fund (VOF) of VinaCapital, said that one year ago the average P/E (Price/Earnings) ratio of listed companies in the Vietnamese securities market was 20-25 - it is now 10. Vietnamese Government policy is now to make credit more readily available and this could result in investment opportunities. Andy Ho predicted that foreign investors will again take an interest in Vietnam by the end of 2009.

Don Lam, the general director of VinaCapital, said that when he met with investors in Singapore, 30% of Chinese investors said that if conditions were right, they would move their investments to Vietnam. The Vietnamese market is an opportunity for foreign investors.

Andy Ho said that VOF's investments are doing better today than they were a few months ago. However, the economic situation has not stabilized and therefore VOF does not want to make further investments.

William Lean, the managing director of the Vietnam Infrastructure Fund (VNI) of VinaCapital, spoke very positively about the prospects of VNI's investments in the electricity, telecommunications sectors and infrastructure development in Vietnam. "The Vietnamese Government will raise electricity prices by 15-20% in 2009. Although this will hit the population and businesses very hard, higher prices will increase the earnings of electricity producers while power companies' expenditures will fall for several reasons. Electricity continues to be a sector which the Government has prioritized." William Lean asserted that key economic sectors such as telecommunications and infrastructure represent earnings potential and VNI plans to invest in companies that operate in these sectors.

**The impact of the world financial crisis**

Investors who expressed an interest in Vietnamese production and export companies asked about the growing difficulties as large importers such as the US and the EU reduce their consumption. Andy Xie, the former general director of the Morgan Stanley group in the Asia-Pacific region, said that the world financial crisis will indeed cause an economic decline in every country in the world. He predicted that the economic growth of many countries will decrease by 2-4% on average. And this will certainly have an adverse impact on developing economies including Vietnam. However, Vietnam could minimize this impact by turning to new emerging economies and not relying on developed economies. Who will be the buyers of Vietnamese goods? And who will wish to invest in Vietnam? If Vietnam could export to more markets, it would not be reliant solely on exports to developed countries.

Will Vietnamese exports drop off? Pham Do Chi says, "No, at least not textile and garment exports."

Most of the investors that were present at the meeting said that they expect that in 2009 inflation will subside somewhat and the loosening of credit here in Vietnam will give businesses access to capital which should stir investment.

*(Source: VinaCapital + Nguyen Hoang)*

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## Manpower establishes Partnership with MoLISA

Manpower Inc., a world-leading employment services provider, has entered into a partnership with the Ministry of Labor, War Invalids and Social Affairs (MoLISA) in order to create employment opportunities and stimulate economic development in Vietnam.

A memorandum of understanding (MoU) formalizing the three-year partnership was signed between Manpower and MoLISA representatives in Hanoi on Nov 24. Under the MoU, Manpower and MoLISA will jointly implement a pilot project regarding employment services, in addition to organizing a series of seminars and research programmes to promote the exchange of information covering international practices and experiences.

Speaking at the signing ceremony, David Arkless, Manpower's Senior Vice President of Global Corporate Affairs, said this partnership is a tremendous milestone as it combines Manpower's global expertise in labor markets and employment services with MoLISA's thorough knowledge and insight of Vietnam's labor market policies.

According to David Arkless, Manpower made the decision to invest in Vietnam following the country's recent rapid economic development and its increasingly important future role on both regional and global stages. Manpower's investment in Asia's most dynamic emerging economy will generate numerous sustainable jobs for those in need, he added.

MoLISA Deputy Minister Nguyen Thanh Hoa expressed his hope that this cooperation with Manpower will help Vietnam to build a skilled and competitive labor force, thus increasing its attractiveness to foreign investors. Manpower Vietnam plans to open its head office in Hanoi. Manpower Inc., which owns total assets of 21 bil USD, has a network of 4,500 offices in 80 countries and territories worldwide.

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## Long Giang IP To build a Wastewater Treatment Plant valued USD 3.3 mil

November 26th 2008, Long Giang Industrial Park Development Company organized groundbreaking ceremony of building its wastewater treatment plant serving investors. Its capacity of 40,000 $m^3$ per day will be operated in Aug 2009 which 1st phase of 10.000 m3 per day will be utilized. The plant is locating at 2.3 ha area owing microbiological processing technology with chemic-physical treatment. It will results in contributing into regional economic development goal together with environment control.

Established in Nov 2007, Long Giang Industrial Park with 540 ha total area and 100% foreign investment capital, locates at Tien Giang Province of the Southern Key Economic Zone. With the advantages of location, infrastructure, and experienced IP manager teams, Long Giang IP is really an attractive destination for investors. At current, there are 4 investors landed on this IP.

Long Giang Industrial Park plans to attract around 300 domestic and foreign companies, recruiting about 70,000 to 100,000 workers and to promote development of local socioeconomic.

*(Source: Yen Ngoc – Viipip.com)*

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## Hai Phong Port strives for 13.8 mil tonnes of Cargo

Hai Phong port is trying to handle 13.8 mil tonnes of cargo by the year-end to gain VND 860 bil in turnover (16.6% higher than the initially-set target), according to the Hai Phong Port One-Member Ltd. Company. The company is expected to contribute VND 46.1 bil to state budget and invest VND 253 bil in production development.

To achieve the objective, the port authority plans to renovate and reorganize production and management toward specialization so as to meet the port's development requirements in line with the market mechanism. They also plan to build a new model for the port on Dinh Vu peninsula.

The company has invested VND 185 bil in a number of construction works; expanded the application of information technology in port management, exploitation and security in order to raise the port's competitiveness against the regional ones.

Forits efforts, Hai Phong port has become an official member of the International Sea Port Association, which is expected to facilitate its integration into the regional and international economy.

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## Investors begging for Delay of Pit Law Implementation

Securities investors have complained that the collection of personal income tax (PIT) as of January 1, 2009 would lessen the attractiveness of the stock market. The stock market has been falling since the beginning of the year, causing most investors losses. Le Trong Nghia, an investor on International Royal Securities Company's trading floor, complained that while state management agencies have not offered any solution to rescue the market, the taxation body still insists on collecting tax.

The websites of the HCM City Stock Exchange and Hanoi Securities Trading Centre show that the total value of stock and fund certificate transactions of the two bourses in 2007 was VND 286,557bil, while the figure was VND 170,072 bil from January 1, 2008 to November 21, 2008.

If the tax is 0.1% of transaction value, then the tax sum would be VND 170 bil by 21/11 in 2008. Under the tax law, investors can choose one of two tax payment methods: they either pay 0.1% of transaction value or 20% of the profit they get.

Le Khanh Lam, Deputy General Director of DTL Auditing Company, has warned that the PIT collection would have a negative effect on investors. Lam said that investors would invariably sell stocks out to stop losses and avoid tax in the time to come.

"With the continuous market falls, investors will likely leave the market for other investment channels," Lam said. Nghia, an investor, said that it would be better if relevant ministries reconsidered when to impose PIT on income from securities investments. If they cannot delay the PIT law's implementation, they ought to impose the tax rate of 0% for a time to support the market, he said.

*(Source: TBKTVN, DTCK)*

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## Companies Offering High Dividends – at their own peril

The national economy has been facing great challenges. Stock market has been witnessing stock prices decrease dramatically. However, these things have not dissuaded some enterprises from offering shockingly high dividends.

**Unbelievably high dividends**

Hancic, an investment and construction company in Hanoi, has announced it will pay the dividend of 550% (VND55,000/share) for 2008. Eximbank has announced the 2008 dividend of 82.55%, including 12% to be paid in cash, and 70.55% in shares.

A lot of medium-size enterprises have also announced relatively high cash dividends for 2008. Nhi Hiep Company (NHC), a brick and tile producer, has decided to pay the dividend of 30%, not including bonus shares; Phu Thinh Garment Company (NPS) 40%; Cuu Long An Giang Import-Export Company (ALC) 35%. The list of companies offering the dividends of 10-20% has become longer, and more enterprises are paying dividends in cash than in shares.

Meanwhile, some enterprises have announced low dividends, and some have decided to cancel paying dividends. Pha Lai Thermopower Plant has announced a delay in the payment of dividends because of low profit. Shareholders of Bach Tuyet Cotton Company do not hope they will get dividends in 2008 as the company still has unpaid debts of tens of bil VND. Huy Nam, a securities expert, said that it is not a surprise that some enterprises will not pay dividends in 2008. He said that shareholders should be comforted by the knowledge that the leading automobile manufacturer in the world, GM, has also announced it will delay paying dividends.

**Risks forecast**

Obviously, what most shareholders want are dividends in cash after they had a bad business year in 2008 due to the gloomy stock market. Pham Linh, Deputy General Director of VIS Securities Company, said that if the dividends are as high as 15-20%, while the prices of many share items have dropped to below VND 20,000/share, the profit for shareholders proves to be much more attractive than bank deposit interest and other investment channels.

The director of a foreign investment fund has expressed his surprise that Vietnamese companies, which have had worse results in 2008 than in 2007, are paying higher dividends than in 2007. Dr Le Tham Duong from the HCM City Banking University said that high dividends may make shareholders happy, but enterprises should be cautious in the context of the global economic crisis and continuing difficulties of the national economy.

According to Vincom securities company, the financial reports of Q3 of many listed companies show debt/equity ratios higher than 150%; however, some have still decided to pay dividends of more than 15% in cash. This could result in the enterprises having to access expensive capital sources if they find themselves short, which would mean their profit would significantly drop later.

*(Source: Tienphong)*

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## Foreign Currency Market Contracting Old Disease

There have been signs showing that people have been beginning to keep foreign currencies instead of VND, as the basic interest rate has been slashed to 11% per annum and is likely to decrease even further in the times to come in order to prevent deflation.

On the black market, the VND/USD exchange rate was at VND 17,350 - 17,420 on November 22, higher than the rate last week. Meanwhile, the exchange rate on the official market remained below VND 17,000/USD. The big gap between the official rate and the rate on the black market has caused difficulties for banks to provide foreign currencies.

The General Director of a joint-stock bank admitted that the foreign currency supplies to banks has been decreasing, which has made it difficult for banks to satisfy the foreign currency demand from clients. The general director said that exports have decreased over the past three months due to the global financial crisis, while imports remain big, which has resulted in the foreign currency supply-demand imbalance. The total export turnover of enterprises in HCM City, the commercial hub, in November is estimated to be at USD 1,432.8 mil, a decrease of 9.7% over the previous month, while the import turnover is estimated at USD 1,458.8 mil, an increase of 0.4% over the previous month.

The general director said that the foreign currency supply-demand imbalance is not as serious as it was in mid-2008, when the dollar price surged to VND 19,000 for USD 1.00. However, there have been signs showing that the ‘old disease’ of the foreign currency is relapsing. The exchange rate on the black market is staying consistent at high levels, showing the high demand for foreign currencies. It is because of the high demand for foreign currencies for importing commodities, but also because people are pushing up purchasing dollars to hoard after they see the dollar price increase.

Analysts said that a lot of people have shifted to making deposits in dollars instead of VND as they fear the local currency will devalue even further. Statistics show that deposits in foreign currencies have been increasing more rapidly than VND deposits. In October 2008, the VND deposits increased by only 2.16% over the previous month, while the foreign currency deposits increased by 3.18%. In November 2008, the mobilized capital in foreign currencies in HCM City increased by 41.8% when compared to the same period of last year, while the VND mobilized capital increased by only 19%.

Banking experts said that the greenback price increases stopped on the weekend, which they see as a good thing. They said that it was bad to allow the dollar price to increase sharply by VND300/USD 1 in November. The experts said that the State Bank should be cautious with its actions to adjust the exchange rate to support export, as the sharp change of the exchange rate will prompt people to speculate dollars. The same thing once occurred in mid-2008, when the dollar price skyrocketed, people rushed to buy dollars, and export companies, which have dollars, refused to sell dollars to banks.

At recent forums, experts said that it is necessary to keep the VND/USD exchange rate at around VND 17,000/USD 1.00, which proves to be high enough to benefit to exporters, and low enough for importers to bear.

*(Source: DTCK)*

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## Foreign Banks Spread Their Wings

It's expected that the opening up of Vietnam's financial market as Vietnam follows through on its WTO (World Trade Organization) commitments will greatly benefit foreign banks in Vietnam.

Almost 10 years ago, back in 1999, 16.9% of all capital lent out by all banks in Vietnam came from foreign banks but, by 2006, it dropped to 9.3%. Vietnamese commercial banks were carving for themselves a bigger niche in their home market. By fulfilling its WTO commitments and opening its financial market, Vietnam in effect spurs the growth and vitality to the foreign financial and banking sector in Vietnam. By the end of 2006, there were 35 foreign bank branches and five joint venture banks operating in Vietnam. All together, these institutions had almost VND60 trillion out on loan, cornering 14% of the market. Their before-tax profits exceeded VND1.4 trillion. Most of the capital being held by foreign banks has been in the form of deposits from organizations and businesses, and most of these businesses have been foreign companies.

Last year foreign banks lent-out 3.3% of all Vietnamese dong and 21.7% of all foreign currency. The Vietnamese commercial joint stock banks could be said to be the strongest followed by the foreign banking sector. There are now 36 foreign bank branches in Vietnam and, as of August 2008, foreign banks lent-out 30.2% of all foreign currency in Vietnam. Just 1.1% of their total foreign currency outstanding loan balance is bad debt.

Foreign banks are interested in increasing their market share and they are looking to large Vietnamese corporations. They financed the purchase of airplanes and ships plus infrastructure for Vietnamese companies. Foreign banks are loaning and co-financing loans worth hundreds of mils and even bils of US dollars to Vietnamese companies. Previously, foreign banks were mainly serving customers from their home countries and Vietnamese businesspeople that were doing business in those countries.

WTO membership was what they were waiting for and that, plus Vietnam's rapid development, has encouraged foreign banks to participate in Vietnam's retail market. The Hong Kong and Shanghai Banking Corporation (HSBC) became the first foreign bank in Vietnam to issue Visa and Visa Gold credit cards, cards that are accepted at more than 30 mil points of sale, 15,000 of these in Vietnam. Standard Chartered Bank installed ATMs (automatic teller machines) at various points in Hanoi and Ho Chi Minh City and it says that it plans to open 20-30 branches in the next three or four years. ANZ Vietnam won the 'Asian Banker' magazine's Best Retail Bank in Vietnam Award in May 2008.

Foreign banks have found the business environment in Vietnam to be reasonably favorable. They do expect to penetrate deeper into the Vietnamese financial market by providing new, international standard products/services. The success of the foreign banks in Vietnam will contribute to the sustainable development of the Vietnamese financial and banking system as a whole.

*(Source: Group of Xuan Trung & My An)*

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## US Rally cheers HCMC investors

Ho Chi Minh City stocks 25/11 rose for the first time in seven sessions after a bailout of US banking giant Citigroup triggered a strong rebound overnight on Wall Street. The VN-Index gained 2.4 points, or 0.75%, to close at 320.33 points.

Analysis and Investment at SME Securities in HCMC said though investor sentiment was buoyant in the first session thanks to two straight days of gains on the US market, doubts began to set in about the US stocks' rebound.

Though previous week, the central bank lowered the key interest rate that guides deposit and lending interest rates by 1% to 11%. One said the rate cut would not have an immediate impact on businesses' costs but only next year. Foreign investors were net sellers to the tune of VND31 bil (USD 1.8 mil). Some blue chips like Vinamilk and Saigon Securities Inc. were among the stocks they dumped.

**Stock performances**

PetroVietnam Fertilizer & Chemical Joint-Stock Company rose for the first time in seven days, gaining VND200, or 0.5%, to VND37,400. The HCMC-based company said Tuesday its pretax profit may rise 59% to VND1.75 trillion (USD 103 mil) this year, from VND1.1 trillion a year earlier thanks to an increase in fertilizer prices. Tan Binh Electronics Joint-Stock Company, or Viettronics Tan Binh, climbed by VND700, or the daily allowed limit of 5%, the most since September 4, to VND 14,900. The company will pay a dividend of VND600 per share on December 29. PetroVietnam Drilling and Well Services Joint-Stock Company jumped VND500, or 0.8%, to close at VND 67,000. PetroVietnam Finance Company will buy 2mil PetroVietnam Drilling shares to increase its holding to 10.4 mil shares, according to a statement posted on the bourse's website. Saigon Beverages Joint-Stock Company, known as Tribeco, fell VND200, or 2.3%, to close at VND 8,400. Citigroup Global Market Ltd. has sold 35,050 shares to pare its holding to 579,450 shares.

**Global stocks**

**European** stock markets fell on Tuesday (25/11) as investors mulled the collapse of the world's biggest mining takeover, while Asian share prices rallied following an overnight recovery on Wall Street. **Anglo-Australian** miner Rio Tinto plunged almost 39% in early London trading after BHP Billiton abandoned a hostile takeover bid for its rival. BHP Billiton, the world's biggest mining company, announced it was dropping its bid owing to the downturn in the global economy. European stock markets, which on Monday nailed record one-day gains of about 10%, also dropped as global insurance group AXA issued a profit warning. In early trading on 25/11, **London** slid 1.80%, **Frankfurt** fell 1.88% and Paris lost 1.60%. Europe's main stock markets had rocketed on 24/11 as investors cheered a major economic stimulus package from the British government and a US bailout of stricken American bank Citigroup. Before **Europe** opened, Asian stocks closed sharply higher after stellar gains on US markets overnight. The **Tokyo** stock market closed up 5.2%, **Hong Kong** rose 3.4%, **Seoul** gained 1.4% and Sydney shot up 5.8%.

*(Source: Thao Vi + AFP + Bloomberg)*

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## Insurers raise Premiums to Improve Quality !!!

Explaining the action of 16 insurance companies signing the agreement on raising insurance premiums, the Vietnam Insurance Association said that the move aims to help improve the quality of insurance services. Three working sessions have been reportedly carried out between the representatives of the Competition Administration Department (CAD) under the Ministry of Industry and Trade (MOIT) and insurance companies on the agreement by 16 insurers to raise insurance premiums. However, the case is still far from being concluded.

Phung Dac Loc, Secretary General of the Vietnam Insurance Association, said that the move by the insurers proves to come in line with the Insurance Law. He affirmed that the viewpoint that the insurers are violating the Competition Law is just a 'misunderstanding'.

The Competition Law allows exceptions, if insurers act for the sake of the insurance industry and insurance market. Representatives from the Vietnam Insurance Association also said that higher premiums will bring more benefits to clients, and that clients should not be satisfied by services with low premiums and low quality.

The investigation is still being conducted by CAD, and no concrete conclusion has been made so far.

Meanwhile, representatives of transport firms, which bear direct impacts of the insurance premium adjustment, have critically protested the behavior of insurers of spontaneously raising premiums. Insurance companies are still insisting on the need of stopping the fierce competition among insurance companies by raising premiums from 1.3% to 1.56%, arguing that only when the fierce competition in premiums ends, will insurance companies be able to compete in quality.

*(Source: VTC)*

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## ANALYSIS – OPINION

### Sembcorp Group pledges to stand firmly behind its Investments in Vietnam

Ms. Low Sin Leng, executive Chairwoman of Sembcorp economic group (Singapore) and chairwoman of VSIP's Board of directors, said Sembcorp's investments in Vietnam would continue regardless of the global financial crisis.

**Can you give a brief outline of Sembcorp's activities?** Sembcorp is a large economic group from Singapore, operating in the areas of services, logistics, environment, development and operations of industrial parks. We have years of experience in operating industrial parks of which the largest is the Batam Industrial Park in Indonesia, which was born as a result of a joint initiative by the governments of the two countries. In Vietnam, we are a typical example in terms of industrial park development. We also invest in tourism in Singapore, China and Indonesia.

**Can you tell us about Sembcorp's plans for developing industrial parks in Vietnam?** I know that Vietnam has hundreds of industrial parks, but the Vietnamese government appreciates VSIP and encourages us to expand investment to other localities. So, in 2007 we started to invest in Bac Ninh and are doing so in Haiphong.

**How does the global financial crisis impact on Sembcorp's investments here?** The impact of the crisis does not exclude any countries. The more the countries are developed and the closer ties they have with the US the more they are affected.

The crisis also impacts on countries which do subcontracted work for other countries. A year ago Vietnam was a very hot market in terms of investment attraction, but now a number of investors are unable to continue their investment plans as a result of a decrease in demand for commodities.

I thought attracting investment to VSIP is also facing the same situation and it is a major challenge for us. But, all of us certainly still remember how the Asian financial crisis impacted on Asian countries and we also suffered heavy losses, but we are still present in Vietnam with VSIP and we have so far achieved a lot of success. We will also overcome the challenge this crisis poses to us.

**Some foreign investment projects in Vietnam have recently violated environmental regulations and have been dealt with. What is your view on this matter?** I think Vietnam is opening its doors to attract investment and achieving good results. However, there are good investors and bad ones, for that reason there must be a mechanism to select good investors. I agree to the view that one cannot attract investment at all costs, investors must comply with the strategy for sustainable development.

*(Source: Huy Hao)*

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## Local Retailers Have Some Advantages

Hoang Tho Xuan, the Head of the Domestic Market Department of the Ministry of Industry and Trade (MIT), on the sideline of a seminar held on October 31, 2008 in Hanoi, regarding the opening of the wholesale and retail service market to foreign companies in Vietnam.

**As per its WTO commitment, Vietnam will license wholly foreign-owned distribution businesses as of January 1, 2009. What has the Ministry of Industry and Trade done in preparation?** Getting ready to integrate with the world economy and preparing to integrate deeply into the world economy has been a long process. With regards to laws that have been put in place, the Ministry of Industry and Trade has had a hand in legal documents such as Government Decree 23, regarding foreign invested companies' commodity trading activities, Circular 09 guiding the enforcement of Decree 23, Circular 05 which changed and supplemented Circular 09 and Decision 10 which spells out the areas and categories in which Vietnam will give foreign investors the right to engage in sales and otherwise do business in Vietnam.

The Ministry has also drawn up several plans and it has asked provinces/cities to draw up still more plans regarding this anticipated foreign entrance that would be applicable between now and 2015, with a vision to 2025.

At this time, the Ministry is working on something that it plans to submit to the Prime Minister that concerns the development of domestic retail businesses. The Ministry envisions major networks of domestic retailers throughout the country. It will soon establish a workgroup drawing upon departments under the Ministry such as the Domestic Market Department, the Legislature Department, the Planning Department and the Multilateral Trade Policy Department that will help the Ministry advise provinces/cities, regarding the implementation of Vietnam's commitment as of January 1, 2009, which does permit foreign investors to establish their own wholesale and retail facilities in Vietnam.

In the short term it will be necessary to put in place a mechanism that will encourage communication between the Ministry of Industry and Trade and provinces/cities. Foreign companies should rest assured that Vietnam will, step by step, follow its commitments and keep things under control. Our biggest worry is that the provinces/cities will have a different view as to what should be allowed compared to what the Ministry of Industry and Trade's understanding of the commitments are. Once everyone is in agreement, things should go smoothly.

**What do you think domestic companies should be doing?** First off, they should remain calm. The Government will do what it can to create a space in which domestic distributors can survive and even prosper. All of those commitments that Vietnam signed onto and WTO regulations in general favor the free entrance of foreign investors. But the foreign companies will have to submit planning proposals and take the Economic Need Test (ENT), and they will be allowed to enter only certain business categories and fields of distribution and business. Domestic companies will have no such requirements or limitations.

Vietnamese companies should be concerned with capacity building, finances and human resource quality. Local businesses have certain advantages: they've been buying and selling Vietnamese products and they understand Vietnamese laws/policies and how things are done. Foreign investors do not have these advantages. Domestic companies should make most of their advantages to develop their business before the newly arrived foreign companies become adept within the local business environment. I think that Vietnamese companies will do just fine.

*(Source: VEN)*

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## NEWS IN BRIEF

**HSBC named best bank in 2008 -** The Hong Kong-Shanghai Banking Corporation (HSBC) has been named Best Bank in Vietnam by The Asset Magazine in its Triple A Country Awards for 2008 for excellence in banking and finance within Asia. This is the second time the bank has been recognized with the award, after scooping it in 2006.

The award recognized a chain of HSBC's achievements in 2008, including being one of the first foreign banks to obtain a license for local incorporation and the first foreign bank to increase its stake in a local joint stock bank to 20%, namely in the Vietnam Technological and Commercial Joint Stock Bank (Techcombank), one of the largest and best managed joint stock banks in Vietnam. HSBC Vietnam is now the country's largest foreign bank in terms of investment capital, transaction network, varieties of products and the numbers of staff and customers.

The Asset Magazine selected the award winners according to their financial performance, size of operation, spread of business, investment banking performance, corporate and transaction banking performance, contributions to the domestic market and client testimonials.

**Investment bank finances coffee export -** The Bank for Investment and Development of Vietnam (BIDV) will provide a loan of 800 bil VND for the Tay Nguyen Coffee Import-Export Co. to support the latter's export activities. The coffee exporter said on Nov. 24 that BIDV's loan is expected to facilitate its activities amid coffee prices' fluctuations and upheavals in the world financial market.

The Tay Nguyen Coffee Import-Export Co. is one of the world's leading Robusta coffee exporters, with its average export volume reaching 160,000 tonnes a year. The company plans to ship abroad 200,000 tonnes of coffee in the 2008-2009 crop.

**Local banking service provider scoops int'l award –** Kieu Hoi Dong A (East Asia Remittance), a subsidiary of the East Asian Joint Stock Bank has been presented with an award for the "Best support in Product launch" by the US-based company MoneyGram, the world's leading payment services provider.

At a workshop attended by MoneyGram's agents in the Asia-Pacific region, the company presented the award to the eight partners that provided the most effective assistance throughout the launch of its new MoneyGram service. Kieu Hoi Dong A was the sole Vietnamese partner to receive the award. In August of this year, Kieu Hoi Dong A and MoneyGram agreed to cooperate in the launch of a new door-to-door money transfer service.

**French strategic partner assists SeABank -** France's Societe Generale, strategic partner of the Southeast Asian Joint Stock Commercial Bank (SeABank), has provided a team of experts to assist the latter in business administration and risk control procedures. According to the SeABank, Societe Generale will also assist the SeABank's in the formulation of strategies to improve its services, expand its networks and ensure the professional development of its personnel. This move is part of an agreement on comprehensive strategic cooperation and technical assistance between the SeABank and Societe Generale. In August 2008, the French bank, one of Europe's leading financial and banking groups, officially became the SeABank's strategic partner, purchasing a 15% stake in the Southeast Asian bank. With a 144-year history, the Societe Generale Bank now owns total assets of over USD 1.68 trillion, employs 150,000 staff, and can boast 30 mil clients and a network covering 85 countries worldwide.

**100,000 tonnes of rice be exported to Malaysia -** Vietnam Southern Food Copt., Vinafood II, will export 5-%-broken rice to Malaysia at the price of 460 USD per tonne, according to a contract it has concluded. Under the contract, the largest one in the last two months, the rice will be delivered between now and December with the seller paying the freight (CF). Vietnamese free-on-board (FOB) rice of the same quality has recently been offered at between 390-400 USD per tonne, compared to 380 USD per tonne early last week.

**Ministry issues rules for OTC market -** *The Ministry of Finance has issued a regulation on over-the-counter (OTC) stock transactions at the Ha Noi Securities Trading Centre (HASTC).* Under the regulation, the minimum allowed transaction volume in unlisted shares traded through HASTC would be 10 shares or bonds, and new shares registered for their first day of transactions would be traded electronically only by the negotiation method, without using a daily trading band.

Thereafter, there would continue to be no daily trading band for bonds, while shares would be able to trade within a 10% band. Whether foreign investors would be allowed to participate will depend on a decision by the Prime Minister. Other regulatory provisions regarding the OTC market are similar to those governing the listed market. For instance, investors are allowed to open a single trading account and are not allowed to buy and sell shares under the same code during the course of a single day.

**Private, foreign-invested sectors create most jobs -** The private sector is fuelling the number of new jobs created each year, according to the General Statistics Office. The Government's target of creating 1.7 mil new jobs next year is expected to be unevenly distributed, with the bulk in the private and foreign investment sectors, and the minority in State-owned companies. By 2007, the private sector had expanded to 50.2% of the labor market, public sector dropped to 28.3%. Employment in the foreign-invested sector nearly doubled to 21.5% in 2007.
Still, while the public sector lags behind in both employment share and job creation, it has received the largest amount of investment, or 43.3% of total capital invested in the economy. Non – State sectors have been the main driver behind the robust growth in the labor market in recent years, with the Government setting a target of a total of half a mil private companies by 2010. However, the private sector is beginning to feel the impact of the global financial crisis as domestic consumption falls, overseas markets contract and credit are tightened, experts have said.

**PV Trans gets USD 175 mil loan to buy tankers -** PetroVietnam's shipping arm, PV Trans, will borrow USD 175 mil from a group of foreign banks led by Citigroup to purchase three Aframax oil tankers, Citigroup said in a statement Tuesday. The 13-year loan is provided by a consortium of banks comprising Citigroup, Fortis Bank, Societe Generale and Calyon Corporate & Investment Banking, it said. It is part of the USD 220 mil finance PV Trans will use to purchase the vessels to help transport crude supply to the 140,000-bpd Dung Quat refinery, Citigroup said. It is unclear where PV Trans intends to buy the vessels. Dung Quat refinery, which is expected to go on stream from February next year, will initially use Vietnam's main Bach Ho crude for its operations, PetroVietnam has said.

**HCMC to adjust business license fees -** Ho Chi Minh City will halve the fee for issuing business licenses to VND 100,000 (USD 6.00) for cooperatives, cooperative unions, private education institutions, private medical clinics and cultural and information agencies. The new fees will apply when the HCMC People's Council approves a proposal submitted Monday by the municipal People's Committee. However, the business license issuance fee of VND 100,000 will remain unchanged for private and joint businesses, as will the VND200,000 fee for joint-stock, limited and state-owned companies.

## COMING EVENTS

| Event | Date | Sector involved | Venue |
|---|---|---|---|
| Conference on investment in developing infrastructure | 11/12/2008 | Infrastructure / R.E. | REX Hotel - 141 Nguyen Hue Street, District 1, HCMC, Vietnam |
| The 3rd Supporting Industry Exhibition in Ho Chi Minh City | 18 – 19/12/2008 | Mechanical Engineering Precisely Industries | The International Exhibition & Convention Center (HIECC) – HCMC, Vietnam |

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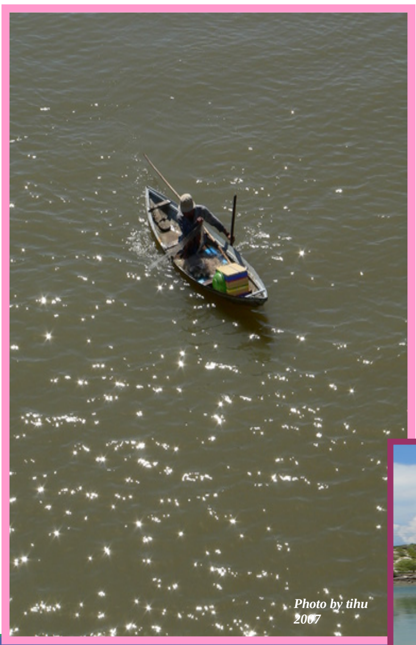


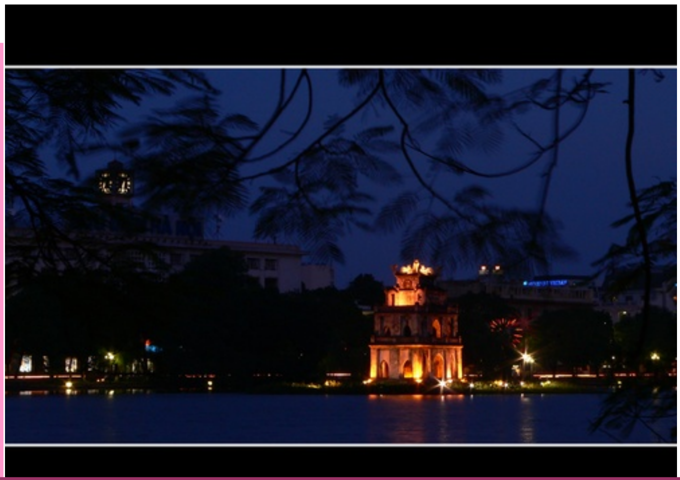

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