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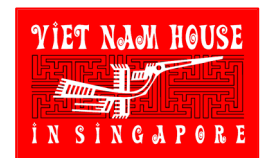
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**NEWS IN BRIEF**

In December 2008

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### Vietnam's economy may return to 7% growth by 2010

According to Standard & Poor's Ratings Services (S&P), Vietnam's pace of economic expansion will probably return to at least 7 % annually by 2010 if global growth has revived by then. Vietnam's prompt and forceful response to economic overheating earlier in 2008 reassured investors and supports a return to an average growth of 7 % in the medium term. Prospects of a return to faster growth may revive investor confidence that has flagged recently, as the International Monetary Fund warned of a slowing economy and government figures showed exports and tourism are slumping due to a collapsing global demand. The weakened investor confidence saw Vietnamese stocks drop to a three-year-low. The economy has posted average annual growth 2001 – 2008 of about 7.6 %. Vietnamese government expects growth down to 6.7 % in 2008 and 6.5 % in 2009.

Some analysts have warned that investors are overly optimistic about the potential of the Vietnamese economy that the country's gross domestic product may expand by as little as 6 % annually over the next 4 to 10 years.

Vietnam's growth prospects are boosted by strong levels of foreign investment. While Vietnam has faced accelerating inflation and a surging current – account deficit, government measures have prevented macroeconomic imbalances from worsening.

*(Source: VNE – TN - Bloomberg)*

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### Private businesses will not have much for Tet bonuses

While employees are eager for information about Tet (**Lunar New Year**) bonuses, it is a headache for the leaders of businesses, especially private enterprises. Employees, in fact, have anticipated that the Tet bonuses will be 'modest' this year because they can see with their own eyes the difficulties of the national economy, when the commodity prices skyrocket and incomes decrease due to order cuts. Additionally, Tet bonuses remain the most expected reward for many workers who live far from their home villages. Tet bonuses will give them money for railway tickets, gifts for parents and family members, and house decoration for Tet. A worker in an industrial zone in HCM City, who comes from Thai Binh province, related that with an income of VND 1.8 mil a month, he can hardly save some hundred thousand VND a month. He has some saving after one year working. However, this sum of money proves to make nothing if compared with the sum of money he will have to spend to buy gifts for families and relatives when returning home to celebrate Tet. Therefore, he is not sure if she can do that if the Tet bonuses are not high enough to allow Loi to return home.

*(Source: TT - Kim Toan)*

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### Bus plan may save mils for Government

HCM City spends hundreds of bils of dong subsidizing local buses annually. However, many operators have a plan to save all this money. They would prefer not to claim it and tap into their own business potential and be given permission to allow **advertisements on buses** and to permit the development of a limited number of commercial buildings on bus-depot sites.

Most bus operators are unsatisfied with the current subsidy policy, which is based on things such as fuel cost and the numbers of workers and passengers. The city currently has 31 bus businesses, but only three of them have been given permission to commercially develop part of them. In these three cases, car parks have been built.

Some of the other 28 operators said local authorities should also allow them to take advantage of their land to do more business.

At an international workshop on urban traffic in HCM City in November 2008, many foreign delegates said bus businesses in their countries were allowed to do business to save government subsidies. Allowing bus businesses to use the sides of buses for advertisements would also help lower the subsidy budget, but this has been banned in HCM City since 2002.

According to the municipal transport department, advertisements could earn the city VND 100 bil (USD5.9 mil) a year to help make up for bus subsidy. The department has worked with ministries and agencies to build an advertisement master plan for buses. However, it is yet to get approval from the municipal People's Committee. According to an expert, advertisements on buses can easily cause accidents as riders often turn their heads around to see them. In 2002, the city spent nearly VND 40 bil (USD 2.3 mil) on subsidies. This is expected to rise to more than VND 600 bil this year.

(Source: TTXVN & VietnamNews)

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### **Top 40 companies receive awards for sustainability**

40 foreign-invested companies in HCM City and Binh Duong, Dong Nai and Ba Ria-Vung Tau provinces have been selected for this year's Sai Gon Times Top 40 Awards, which focused on sustainable development. Ten of the companies are located in each of the four localities that belong to the Southern Key Economic Region. Criteria for selection included high implemented to registered capital ratio, and effective contribution to community development through social, charity and environment preservation programs, such as financing education and health care projects. Support of victims of disasters and human resource training were also considered, according to the media company Sai Gon Times Group based in HCM City. Phu My 3 BOT Power, Nam Con Son Pipeline, Hikosen Cara and My Duc Ceramics companies, all in Ba Ria-Vung Tau Province, have won the award for five consecutive years.

Phan Huu Thang, head of the Ministry of Planning and Investment's Foreign Investment Agency, said the ministry "appreciated foreign companies that adhere to regulations on environment protection and contribute to social activities." He also expects the awards will expand to other cities and provinces in coming years. This was the sixth annual Top 40 award.

Vietnam has more than 9,700 licensed foreign direct investment projects with total registered capital of almost USD 150 bil. For the first 11 months of the year, nearly USD 60 bil was registered, which was 41 % of the total the country had attracted in the last 20 years.

(Source: MPI – Saigontimes)

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### **Car prices to escalate in 2009**

Car prices have been decreasing sharply as automobile manufacturers have to offer attractive discounts to lure more clients. However, manufacturers have warned that prices will rise in 2009.

**Consumption down, car prices up** - Michael Pease, General Director of Ford Vietnam, said that the number of cars left unsold remains very big, while finance targets are still far from being reached. Big overstock has forced manufacturers to cut sale prices, which has been benefiting clients. However, he has warned that car prices will increase significantly in the first quarter of 2009. The higher luxury tax, to be effective as of April 1, 2009, will make the price of 7-seater cars increase. Meanwhile, manufacturers will raise the sale prices in 2009 to cover the higher expenses, they had to pay for the higher prices of import car parts and other expenses.

The automobile industry is expected to see consumption down by 20-25% in 2009 over 2008. Trucks are believed to bear the smallest impact, while individual vehicles will see consumption down by ¼ in comparison with 2008 (in 2008, it is estimated that 120,000 vehicles of different kinds were consumed, including 80,000 personal vehicles).

**How high will car prices be?** - As of January 1, 2009, the ownership registration tax in Hanoi will be 12% instead of the currently applied 10%. As such, those who purchase a USD 10,000 car will have to pay an additional USD 200 for ownership registration tax, while those, who purchase a USD 50,000 car will have to pay USD 6,000 in registration tax, an increase of USD 1,000 over the current tax rate.

HCM City is planning to impose the ownership registration tax of 15% in 2009. As of April 1, 2009, the amended luxury tax will become effective, and will make 6-9 seat car prices see sharp increases, while less-than-five seat cars will bear less of an impact. Analysts have estimated that the 6-9-seaters, with cylinder capacity of less than

2,000 cc, will see prices increase by 12% as the result of the luxury tax increase from 30% to 45%, while the prices of 2,000-3,000 cc cars will increase by 15%, and over 3,000 cc cars will see prices up by 23%.

**The return of domestically assembled cars anticipated** - As of January 1, 2009, Vietnam will open its retail market to foreigners, while automobile manufacturers have the right to import and distribute cars. A question has been raised about whether this will make the car market busier, which will help reduce car prices.

Ha Minh Tuan, General Director of Hyundai Motor Vietnam, said that the market in 2009 will see no big changes. The retail market opening will just bring more choices to customers. Michael Pease said that car imports brought big successes to importers in 2008, but the demand for these products has decreased as a result of the higher import tax. Besides, customers have found out that it is not easy to seek the support services. He believes that 2009 will see the return of the domestically assembled cars to the market. Mr. Mukarami also said that Toyota will focus on assembling cars, and will only import cars when it finds the high domestic demand.

*(Source: Tran Thuy)*

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### **Vietnam to impose an unemployment tax of 2% from Jan 1 2009**

Vietnam will impose an unemployment tax of 2% from Jan 2009, a government official said on Monday 15/12/2008. Employees will have to pay 1% of their monthly salaries while employers will pay another 1% of the same amount, said Nhat Tan, head of the Ministry of Labor, Invalids and Social Affairs' social insurance department. The tax collection will be channeled into an unemployment fund. Tan said the government will also pay 1% of the employees' monthly salaries toward the unemployment fund.

The regulation on the compulsory unemployment tax was approved by the National Assembly last month. The fund is aimed at helping the unemployed, who will each receive 60% of the last drawn monthly salary. They will be entitled to the payment for a maximum period of 12 months, Tan said.

The unemployment rate in urban areas in Vietnam is around 5%. The government doesn't reveal the unemployment rate for rural areas. Vietnam will also double the state health insurance premium to 6% of monthly salary from July 1<sup>st</sup> 2009, in which the employees will pay 2% of their salaries and the employers 4%.

From Jan 1<sup>st</sup> 2009, Vietnam requires employees and employers to pay 25% of the monthly salary toward total insurance premiums, comprising 20% for social insurance, 3% for health insurance and 2% for unemployment insurance. As a result of the doubling of the health insurance premium, the proportion for total insurance premiums will be raised to 28% from July 1<sup>st</sup> 2009.

*(Source: MoLiSa)*

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### **Deputy PM: Stimulus package set to be boosted**

The government could increase its economic stimulus package more than five times to VND 100 tril (USD 5.8 bil), Deputy Prime Minister Nguyen Sinh Hung said Sunday (14/12/2008). The spending package is to be approved at a government meeting at the end of this month, with the total likely to be far in excess of the USD 1 bil announced earlier this month. Small and medium-sized enterprises will be offered tax breaks and deferred tax payments, Hung told in the final day of the two-day congress of Vietnam Young Entrepreneurs Organization (VYEO) representing more than 7,000 enterprises in 52 provinces and cities. "Small and medium-sized enterprises will enjoy higher the exemption and get more priority," Hung said.

State Bank of Vietnam deputy governor Nguyen Toan Thang said the central bank will give priority to loans to small and medium-sized enterprises and projects with feasible effects. The bank also has established two working groups, one in Hanoi and the other in Ho Chi Minh City, to help small and medium-sized enterprises solve financial problems with the estimated capital of USD 1.5 – 2 bil, Thang added. One enterprise representative said the government should spend half the stimulus package helping small and medium-sized enterprises, with the remainder spent on construction and housing projects.

*(Source: Le Quang)*

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## **HCMC - Foreigners in the firing line in latest traffic crackdown**

Police in Ho Chi Minh City Tuesday (16-12) started fining foreigners and overseas Vietnamese caught breaking traffic rules as part of a wider campaign to improve traffic law compliance. Police will use video recorders to prove traffic infringements. Fines will be issued at the scene, with no exemptions granted to foreigners or overseas Vietnamese, he said. Offenders may have to produce identity documents, such as visa documents, a permanent or temporary residence card or registration document of temporary residency, at the scene and pay a fine at an office later. Passports would not be kept in all cases by traffic police.

For people under diplomatic immunity, traffic police will issue documents noting their breaches. The document will be forwarded to the municipal Department of Foreign Affairs consular division, which will handle the case and forward the result to the HCMC Police Department. In cases where motorists fail to stop, police will send fine documents to local authorities to present to the offenders.

**Nationwide inspection** - The crackdown is scheduled to continue until February 15<sup>th</sup> 2009. The ministry's road traffic police division (C26) is also increasing surveillance of passenger coaches, especially those traveling between northern and southern provinces. Major inspection points will include 1A, 5, 51, 14 and 18 national roads and stretches of road that are prone to accidents. Police in all cities and provinces have been instructed to suspend the licenses of coaches found making severe traffic code infringements, such as speeding by more than 35 kilometers (21 miles) an hour, carrying 50 % or more passengers than allowed or carrying passengers on top of the coach. Police will also order owners of overloaded coaches to return passenger fares and arrange other coaches to transport them to their destination. As part of the campaign, a team of 70 traffic police will conduct roadside breathalyzer tests. Fines will be issued to drivers found to have a Breath Alcohol Content (BrAC) higher than 40 milligrams per liter.

### **\* FINES FOR TRAFFIC LAW INFRINGEMENTS**

#### **Motorcyclists:**

- Not wearing a crash helmet or not wearing a helmet properly: VND 100,000-200,000 (USD 5.9-11.8)
- Running red lights: VND 100,000- 200,000
- Speeding by between 10-20 kph: VND 200,000-300,000 (USD 11.8-17.7)
- Speeding by more than 20 kph or exceeding allowed alcohol levels: VND 400,000-800,000 (USD 23.5-47)

#### **Motorists:**

- Not wearing a seatbelt (in front seats): VND 40,000-60,000 (USD 2.35-3.5)
- Changing lanes without signaling or illegal parking: VND 100,000-200,000
- Speeding by between 10-20 kph: VND 600,000-1,000,000 (USD 35-59)
- Speeding by between 20-35 kph: VND 1,000,000-3,000,000 (USD 59-177)
- Speeding by more than 35 kph: VND 3,000,000-5,000,000 (USD 177-294)

(Source: TT, TN)

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## **SCIC to slash stake in Jetstar Pacific, invite other investors**

Vietnam state investment arm State Capital Investment Corporation (SCIC) has received approval to cut its stake in loss-making budget airline Jetstar Pacific and allow other domestic businesses to invest in it. Jetstar Pacific, the domestic low-cost airline partly owned by Qantas, has also been allowed to raise its chartered capital through a rights issue for its existing shareholders, said a statement posted on the government website Sunday.

SCIC, the airline's biggest shareholder with a 75.78 % share at present, will buy a part of its rights to bring its stake to 51 % in the expanded capital portfolio, the government said in the statement, without disclosing more details. The remaining stake will be offered to domestic shareholders. Australian flag carrier Qantas is the next biggest shareholder in Jetstar Pacific with an 18 % stake, followed by Saigon Tourist Holding Company with 6.18 %.

In a note sent to PM Nguyen Tan Dung in October 2008, SCIC had said that the low-cost airline needed USD 30-35 mil next year to "stay stable and develop in upcoming years." It had sought permission to allow Qantas to raise

its stake in the carrier to 49 %, above the current 30 % foreign ownership cap on airlines. But late last month it sent another note to the prime minister saying “raising the foreign investor’s stake to 49 % is not appropriate at the moment.” SCIC proposed selling part of its stake to other domestic investors instead. SCIC says Jetstar Pacific had made a loss of USD 22 mil in the first 10 months of this year. The company blamed its poor performance on high fuel costs earlier this year and foreign exchange fluctuations.

In related news, Jestar Pacific will start offering flights from Hanoi to the southern city of Can Tho on January 3 2009. The airline will also sell tickets at the promotional price of VND 18,000 (USD 1.05), not including taxes and fees, available online on December 15, 2008 only.

(Source: Xuan Toan)

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### **PCI obstructing ODA for Vietnam is momentary**

Asserting that Vietnam is urgently tackling the PCI case, Vietnamese Ambassador to Japan Nguyen Phu Binh said he hoped that this case would not deter Japan from granting ODA to Vietnam, and that if this did happen, it would only be temporary. Binh said that during a meeting nearly one month ago, the Japanese government’s representative said that Japan would not stop its ODA projects in Vietnam, but it would reconsider new pledges.

Meanwhile, the Japanese Ambassador to Vietnam stated at the CG Meeting on Thursday in Hanoi: “It was most regrettable that there was a bribery case by a Japanese firm in connection with a Japanese loan assistance project in Vietnam. Following the grave incident, the two governments set up a joint committee to discuss concrete measures to be taken to prevent corruption related to Japan’s ODA for Vietnam. Until effective and meaningful measures against corruption are worked out through this joint committee, it will be difficult to regain the support of the Japanese public for further assistance for Vietnam, and we are unable to pledge new yen loans”.

**Japan is the largest provider of ODA for Vietnam with USD 1.2 bil per year. Will the current cases related to Japanese ODA like PMU18, the Can Tho bridge collapse and PCI corruption case affect Japan’s ODA commitments to Vietnam?** Japan has confirmed that Vietnam fundamentally uses ODA in an effective way. There are some cases causing obstacles, including PMU18, which had connection to ODA, but was not an ODA corruption case.

Vietnamese police investigated and the Japanese side also verified that Japanese ODA was not used corruptly, but was rather effectively used. Actually, Japan didn’t give money to Vietnam but the Japan Bank for International Cooperation (JBIC) held the money. When Vietnam completes a project and the work is checked and taken over, Japan pays out. But the PMU18 scandal struck public opinion.

The Can Tho bridge collapse is an incident. Thanks to the goodwill of both sides, the case was handled. That work is under construction now. The two governments and peoples took interest in this case and considered it a great lesson.

Recently, some officials of Japan’s PCI Company declared that they bribed some Vietnamese officials. When the Japanese media reported this case, we reported it to the government.

Japan is looking at the way we handle this case. However, the cooperation between the two sides in the case must go through the diplomatic channel, with certain legal procedures. The legal procedures have been completed and Japan has handed over the case records to Vietnam. Last month, HCM City authorities suspended the official whose name was declared by PCI’s officials. That move was highly praised by Japan.

This case is still under investigation. In meetings with Japanese officials, Vietnamese leaders expressed their resolution in dealing with the PCI case because it is not only related to Japan but also transparency in Vietnam’s investment environment and Vietnam’s international relations. The case will surely not last long. I believe that Vietnam would soon have a conclusion about it.

**How will the PCI case impact Japan’s ODA grants for Vietnam?** The Japanese public was anxious about this case. Japan’s legal environment is clear: when the case occurred, they didn’t put pressure on Vietnam; the Japanese government realized there were problems in its legal framework so it asked for the case to be resolved quickly.

While the Japanese public or tax payers asked for the case to be clarified, so the Vietnamese public did the same. Because ODA is loans, not free money. Even non-refundable aid must be used effectively in a transparent method, let alone loans. Our responsibility is to not lose the capital.

Japan agreed with Vietnam's point of view and they hope the two sides can combine to solve the case.

**What do you think about Japan's ODA for Vietnam in 2009, with the impacts of the PCI case?** A case like PCI is a specific one and I believe and hope that it won't affect Japan's ODA grants for Vietnam. I hope this case doesn't hinder the ODA process, or if it does, it will only do so temporarily because ODA benefits both countries.

**After many years of having positive outlooks on Vietnam's investment environment, this year for the first time Japan released quite negative comments. What are the biggest worries of Japan about Vietnam's business environment?** There are two big concerns: inflation and illegal strikes. For illegal strikes, Japan has asked Vietnam to strictly deal with illegal strikes under Vietnamese law.

*(Source: Phuong Loan)*

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## TRADE

### Imports to be lower in 2009

Due to falling commodity prices, The Vietnamese government has cut its forecast for 2009 imports by around 13 % to USD 84 bil from a previous forecast of USD 96.6 bil. The trade deficit in 2009 would be between USD 17 bil and 18 bil, instead of USD 19.9 bil forecast last month, the Ministry of Industry and Trade expert said. It is expected to be USD 19 bil this year. A smaller trade deficit would reduce the squeeze on its balance of payments, a factor analysts have said is putting pressure on authorities to devalue the dong in 2009.

Vietnam's currency could be devalued next year due to a worsening balance of payments and bad bank debts while the government also needs to prop up exports hit by the global economic downturn, economists said last Tuesday. "Given the current situation and the early months of 2009, prices of many raw materials, like steel, steel billets, fertilizer and oil products, are seen as falling 30- 50 % from 2008," the expert said.

On Sunday, The Ministry of Finance raised import tariffs on several oil products to the limit of 40 % following a decline in world crude oil prices. Vietnam's imports could still rise next year but lower commodity prices would stunt any growth in the value of imports.

It has projected spending on machinery, spare parts and key raw material to account for 76 % of total imports in 2009. Paper, vegetable oil, gemstones and precious metals would be responsible for a combined 16.7 % of 2009 imports while goods subject to import curbs like cars, tobacco and motorcycle parts would make up the remaining 7.3 %.

*(Source: MOIT)*

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### Ministry lifts tax on fertilizer for export

The excise tax on fertilizers manufactured for export has been lifted under a decision issued by deputy minister of Finance Nguyen Hoang Anh Tuan on December 15.

The decision took immediate effect last Monday (22-12) and applied to sulphate ammonia, potassium and diamonium phosphate fertilizers. That is aimed to ease the enormous surplus of fertilizer and to bring the prices of fertilizer exports more in line with world prices.

The Government applied an excise tax of VND4,000 or VND5,000 per kg of fertilizer in July to limit exports and stabilize the domestic market. According to the Ministry of Agriculture and Rural Development, the price of fertilizer now fluctuates widely from place-to-place due to unpredictable factors, such as the number of middlemen through which it has passed.

Fertilizer is sold by manufacturers and importers to regional distributors who, in turn, sell it to district – and commune-level agents. Meanwhile, Government subsidies paid to domestic fertilizer manufacturers have artificially lowered domestic prices and destroyed any incentive to import more expensive fertilizers. In past

months, this has created a shortage on the domestic market, with domestic suppliers sometimes only able to meet about half of domestic demand.

*(Source: VNS)*

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### **Chilean exporters eye Vietnam as potential market**

Vietnam is still a promising market for Chilean exporters despite the spreading impacts of the current global financial crisis, reported Chile's Trade Commission (ProChile). Vietnam will be less affected by the international financial "storm" than other countries, ProChile said, as the country has yet fully integrated into the world economy. According to the Chilean export-promotion agency, Vietnam has become one of the top ten important tourist destinations in the world. At the moment, the country is accelerating foreign investment attraction and exports, and diversify its market more than ever. ProChile asserted that with the robust growth in tourism and domestic consumption, Vietnam will have to continue importing wine in 2009. Last year, Vietnam wine import from Chile was four fold larger than the previous year.

Vietnam imports USD 20 mil worth of fish paste, USD 7 mil of fish oil every year for livestock feeding. Besides, it plans to increase imports of pine timber from the Chile to serve the domestic furniture export industry. Vietnam will also have greater demands for fresh fruits, like grapes and apples and salmons from Chile, the exports promoter predicted. It also said that Vietnam will remain an important exporters of processed seafood and wooden products. Chilean investors eye Vietnam's demand for infrastructure development as an opportunity to boost copper exports to the Southeast Asian country, which are worth USD 50 mil. Last year, Vietnam's exports to Chile reached more than USD 55 mil and imports goods over USD 107 mil.

*(Source: VNA)*

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### **Vietnam to stretch rubber exports by 8.5 %, plans expansion**

Vietnam is increasing rubber tree planting as part of a strategy to boost exports to help strengthen its economy. It plans to expand the cropping area by 27 % in the next two years, even as bigger rivals are cutting back exports to help restore prices. "We will be careful with the expansion plan since prices are falling," Le Quang Thung, chairman of the Vietnam Rubber Association also director general of the Vietnam Rubber Group, said. "We are confident that Vietnam's rubber production will still be stable and we will still make profits from our exports."

Vietnam, the world's fourth-largest rubber exporter, will increase shipments of the commodity by 8.5 % to 780,000 tons this year, according to Le Quang Thung. Shipments by value would rise 21 % to USD1.7 bil, he said. Rubber fell to a six-year low earlier this month as the global recession cut auto sales and forced carmakers to reduce output, leading to a drop in tire demand. Rubber for May 2008 delivery was at USD 1,263 a ton in Japan "Prices for latex will drop a lot more next year because of shrinking demand for tires and tubes," Thung said.

Thailand, Indonesia and Malaysia, the biggest exporters, would cut shipments by a combined 700,000 tons, or a tenth of their annual harvest, to help restore prices, Nurmala Abdul Rahim, deputy secretary general of Malaysia's Ministry of Plantation Industries and Commodities, said December 13 2008.

Vietnam plans to expand its production area to 700,000 hectares by 2010, from 550,000 hectares now. Exports will rise to 900,000 tons, or USD 2 bil, over the period, according to a report released by the Ministry of Agriculture and Rural Development's Cultivation Department on December 10. Last year, the country shipped 719,000 tons of rubber worth USD 1.4 bil to markets including China, South Korea, Germany, Taiwan, Malaysia and Russia, according to the ministry's report. Thung's Ho Chi Minh City-based association is encouraging its 94 member companies to invest in processing technology and increase sales to Europe and the US to raise returns, he said.

*(Source: Vietnam Rubber Association)*

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## **Maersk: Vietnam seen becoming exciting logistics market in S.E Asia**

Vietnam has potentials of becoming the most exciting market in Southeast Asia, said the managing director of Maersk Logistics for Asia Pacific. “Vietnam has a number of very good factors that make it an attractive market,” Tony Hotine told after participating in Vietnam Ports and Logistics Conference in HCMC in the middle of this month.

Hotine, who made a presentation entitled “Vietnam: Raising the bar – overcoming competitive challenges” at the conference, pointed out Vietnam’s wider access to the world’s trade as one of the factors because it provided the country with a “great platform” for more growth of exports. This export element was also a good drive for the country’s domestic growth in the future, he said. “Certainly, we see more companies looking at Vietnam with a serious option for an increase in their outsourcing,” said Hotine

Despite challenges around the world, Hotine confirmed Maersk Logistics would invest more in infrastructure and human resource development to drive the company’s business in anticipation of growing future of logistics in Vietnam in the long term. They believe that Vietnam will be a very successful market for us in the medium and long terms.

Established its presence in in HCMC in 1995, Maersk Vietnam began operation as a 100% foreign-owned transportation and logistics company. Earlier in 2008, the terminal-operating arm of A.P. Moller-Maersk, APM Terminals, entered a joint venture with Pharung Shipyard Co. under Vinashin Group to develop and operate a second container terminal in Vietnam. The joint venture is expected to commission the 3,067-foot berth container terminal in the Dinh Vu Industrial Zone in northern Vietnam in late 2010. This facility will join the Cai Mep International Terminal in southern Vietnam as part of APM’s global network. Scheduled for opening in the fourth quarter of 2010, the 1.1-mil-TEU Cai Mep terminal is a joint venture between APM Terminals with Saigon Port and Vinalines. To support strong development of Vietnam’s logistics sector, Hotine suggested Vietnam needed to encourage multi-agency approaches that incorporate national and international companies in the field, close collaboration between the public and private sectors, and experienced people working in the country. Hotine said all were aimed to ensure that the infrastructure and processes were being developed smoothly in support of the logistics industry in Vietnam.

*(Source: Vinashin & SGT)*

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## **INVESTMENT**

### **FDI – implemented and registered figures**

By early November 2008, registered foreign direct investment (FDI) in Vietnam had hit USD 61 bil. According to the Foreign Investment Agency under the MPI, the figure may reach USD 65 bil for the whole year. However, FDI forecast for 2009 is merely USD 30 bil.

Realized FDI is the real flow of foreign capital invested in Vietnam and it is shown in the international balance of payment. This figure doesn’t include capital of local partners or local banks. This figure is prepared by the State Bank of Vietnam (SBV).

To see the differences that these three different measurements can produce, let’s make a comparison: In 2005, Vietnam announced registered FDI of USD 6.8 bil and implemented FDI of USD 3.3 bil. However, statistics of the Association of Southeast Asian Nations (ASEAN) showed that FDI in Vietnam was only USD 2.36 bil. Three different numbers that reveal three quite different views about FDI.

According to the 2005 statistics of the ASEAN, Vietnam accounted for 15% of the total population of the ten ASEAN countries but it made up just 4.5% of the total FDI flow into the region (the figure is realized FDI, not registered FDI).

### **High numbers favored**

According to the Foreign Investment Agency, the gap between registered FDI and implemented FDI is increasing. It is similar for the gap between implemented and realized FDI. The rate of local capital is increasing, with many FDI projects based on capital contributed by state corporation and credits from local banks.

It is clear that local capital and local credits, which are not foreign capital, are added to FDI statistics. It is quite easy to understand this add-on. To all agencies from management bodies to investment promotion agencies and local governments, high numbers mean great achievement and pride in the attractiveness of the investment environment.

Investors also benefit from high figures. It is easier for real estate projects with a lot of capital to be granted larger land plots. When real estate prices in Vietnam were at the highest level in the world, the land area allocated to investors became an attractive “option”. If real estate prices climb highly, investors will implement their projects. If the prices are low and they can’t raise capital, they will allow their land to be revoked without paying any expenditures. When capital rising is difficult, investors of big projects can easily ask for extensions for implementing their projects. And land, thus, is still hold.

Therefore, the number of real estate projects has suddenly increased. In the January-October period of 2008, real estate projects had registered capital of more than USD 22 bil, compared to nearly USD 19 bil in the period between 1998-2007.

### **Investment in processing industry drops**

Registered FDI in real estate, heavy industry (steel, oil and gas) projects is increasing highly. These are projects that don’t create many jobs. Meanwhile, FDI in processing, labor-intensive projects (light industry, food processing, agro-forestry-fishery projects) is falling. Registered FDI figure is not meaningful in making policies. Especially, in the global financial crisis, it is more difficult for big projects to get access to capital sources and more easily for them to be cancelled.

*(Source: Bui Van)*

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### **Five US franchises offered to Vietnamese market**

Five Vietnamese franchise opportunities for US brands were introduced to businesses in HCM City on Dec 15 2008. The brands, presented by the US Commercial Commission in Vietnam, Edwards Global Services Inc. (EDS) and the August Bao Law Firm, include three food franchise opportunities offered by The Melting Pot, Round Table Pizza – the 5<sup>th</sup> biggest pizza brand in the US - and the fast-food brand Carl’s Jr., as well as a franchise for art and creative education for children under the Abrakadoodle brand, and a business guidance franchise offered by Signs Now.

According to an EDS spokesman, the franchises were offered at costs ranging from USD 300,000 - 500,000 for the exclusive rights to supply their branded products. This is an exploratory step in the franchise market, which gives the franchise owner the exclusive rights to use and market a brand in Vietnam. Franchise activities have recently been on the rise in Vietnam as franchise owners increasingly seek to capitalize on prestigious brand names, products and services, thanks to the country’s stable economic growth. This increase in franchising has led to the country’s lawmakers to examine the relevant laws relating to franchises. According to foreign investors, Vietnamese law governing franchises has been markedly upgraded and amended to protect trademarks, as well as offering legal protection to both franchisers and franchisees. Donald Nay, a commercial counselor with the US embassy, said that there are now an increasing number of opportunities for US franchise companies to enter the Vietnamese market in the areas of food, soft drinks, retail, education and training and business administration.

*(Source: VNS)*

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### **Ba Son Shipyard in HCMC to turn into modern commercial center**

HCM City has approved a master plan to develop the premises of the current military-owned Ba Son Shipyard in a prime location in the downtown area into a major commercial, financial and services center.

The HCMC Planning Information Center of the Department of Planning and Architecture said in a statement released on Monday (22 Dec 2008) that the 23 hectare area could be home to financial centre, commercial quarter, hotels and service facilities, residential area and square. The shipyard will be moved to a new location in neighboring Ba Ria-Vung Tau Province.

In May 2006, work started on the new Ba Son Shipyard within the Cai Mep-Thi Vai Port Complex in Ba Ria-Vung Tau.

The relocation of the historic shipyard will make it possible for the city to assert its position as the nation's largest financial, commercial and economic center. The site along the Saigon River in District 1 would be suitable for modern construction projects that will contribute to the city's landscape. In particular, the architecture of constructions there will be in harmony with the city's downtown area and Thu Thiem New Urban Area under way in District 2.

In the approved master plan, the city will allow for maximum space for commercial and financial facilities but limit housing development. Green parks will be built along the river and a station for the city's first mass rapid transit line connecting Ben Thanh Market in District 1 and Suoi Tien Park will also be located there.

The zoning plan also proposes developing a number of office buildings, hotels, a wharf for cruise ships and a marina, as well as a historical monument to make Ba Son area a center of both traditional and modern structures.

The population in the complex is forecast at 4,700 people, the density of construction is 35% and the maximum height of buildings is 230 meters. The city has asked relevant departments and agencies to work hard to update other development plans such as the master subway plan, the zoning plan for the west bank of Saigon River prepared by Japan's Nikken Sekkei, and the detailed zoning plan for Thu Thiem town's central square.

According to a plan prepared by the Ministry of Transport, all inner-city ports in HCMC, including Ba Son Shipyard, will be shut down between end-2008 and early 2009, a move which is aimed at improving the city's landscape and easing the worsening traffic congestion.

*(Source: HCMC Authorities & SGT)*

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### **First hi-tech park in Thu Thiem launched**

The construction of **Vietnam-Japan** Intellectual Park in Ho Chi Minh City's new urban area Thu Thiem began on Dec 23 2008 with a ground-breaking ceremony for the 18-storey Park Gate Building. The park, where is planned to cover an area of 440,000m<sup>2</sup> and estimated to cost USD 610 mil, will house various industries including production of software and chips, human source training, promotion of trade and investment in high technology, and house and office leasing.

The project is expected to attract 4-5 large foreign hi-tech firms by 2017 with a workforce of 3,500 engineers and programmers and another 10,000 workers. In addition to capital attraction and technology transfer, the project is to focus on the training of high skilled workers for supply to the Japanese market.

At the ceremony, in the presence of Deputy PM Hoang Trung Hai, representatives from the Vietnam-Japan Power source Corp. (VIJA), the Quang Trung Software Park and the local authorities signed an agreement on the provision of telecommunication infrastructure, and transfer of experiences in IT and cooperation in Japanese language training.

On the same occasion, the VIJA handed a donation of VND 200 mil to the pro-poor fund of the city's District 2.

*(Source: VNA)*

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### **Da Nang to build new Han River Bridge**

Central City of Da Nang Authorities have approved a plan to build a bridge over the Han River. Travelers will be able to leave Da Nang International Airport on Nguyen Van Linh Highway and cross the Han River to connect to the seaside highway of Son Tra - Dien Ngoc when the bridge is completed.

The 666-metre-long Dragon Bridge, so named because it will be built in the shape of a dragon, will have six traffic lanes of which each lane has 4m width. It will be separated by a six-metre-wide partition and will include two sidewalks 2.5 metres each in width.

Commenced in 2009, construction is estimated to cost VND 1,498 bil (USD 88 mil) under the consultation of US - based Louis Berger Group. The Dragon Bridge will be the fourth bridge over the Han River, apart from the

famous rotating Quay Bridge, Tuyen Son Bridge and Thuan Phuoc Bridges that span the river's estuary into Son Tra Peninsula. Two old bridges over the river will be demolished and replaced.

(Source: VietnamNews)

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### **New land valuation regime promulgated for 2009 in HCMC**

Ho Chi Minh City's 2009 land valuation regime was Tuesday (23 Dec 2008) officially promulgated by Nguyen Thanh Tai, permanent Vice Chairman of Ho Chi Minh City People's Committee. The valuation framework, which comes into effect on January 1 2009, will be used to calculate land use fees, taxes on the transfer of land use rights and some other property-related taxes. Under the new valuation framework, the value of some properties in HCMC will rise by less than 10%, while valuations of prime locations will increase by more than 100%.

In the districts of Go Vap, Binh Thanh, Tan Phu, Binh Chanh, Cu Chi and Nha Be, land values will rise by less than 10%. In districts 6, 8, 9, 12, Thu Duc, Binh Tan, Can Gio and Hoc Mon, land valuations will increase by between 10% and 30%, while in districts 1, 3, 4, 5, 10, 11 and Phu Nhuan, valuations will jump by 50% to 100%. In District 7 and Tan Binh District, land values will leap by more than 100%. Under the new regime, urban land values will range from VND1.2 mil/m<sup>2</sup> to VND 81 mil/m<sup>2</sup>.

The highest land values will be VND 81 mil/m<sup>2</sup> in Dong Khoi, Le Loi and Nguyen Hue streets in downtown District 1. In 2008, land in these streets was valued at VND 67.5 mil/m<sup>2</sup>. The lowest values will be VND 110,000/m<sup>2</sup> in Thieng Lieng residential area of Can Gio District. This year, the land value in the area was VND 100,000/ m<sup>2</sup>. The 2009 land valuation framework of Ho Chi Minh City will apply to 2,740 stretches of roads and streets.

(Source: SGGP)

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### **Industrial parks seek to aid laid-off workers**

Thousands of workers at industrial parks and export processing zones in the southern region are seeking new jobs as enterprises cut their workforce due to impacts of the global economic crisis. About 3,000 jobs have been slashed by IP enterprises in HCM City while the rate of new hires are about 20 % lower than last year, according to Nguyen Thanh Tung, director of the job centre of HCM City Export Processing Zones Authority (HEPZA). Meanwhile, many workers recruited in recently September 2008 were made redundant just a month later as sales contracts were cancelled, Tung said, with the electronics and engineering sectors most heavily affected.

A number of enterprises at the Tan Thuan Export Processing Zone, however, were offering their workers 70 % of their salaries for rotational days-off instead of an outright lay-off, saying that they feared that they would be unable to recruit sufficiently skilled workers when the economic situation improves. "Industrial park enterprises are giving top priority to holding onto their existing labor forces, especially skilled workers," said Tung.

A few enterprises less affected by the economic downturn were taking the opportunity to recruit skilled workers already sacked, Tung said, with over ten IP enterprises in HCM City offering opportunities to workers who lost their jobs from enterprises facing insolvency or bankruptcy. One HCM City footwear company has offered to hire about 1,000 laid-off workers, while, in the neighboring province of Binh Duong, footwear makers, garment makers and food processing companies have also put up help-wanted signs. Trade unions in both HCM City and Binh Duong were also helping laid-off workers find new employment opportunities.

(Source: Hepza & DPI)

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### **Investor in HCMC breaks major contract with South Korean firm**

An investor has unilaterally canceled a contract with South Korean contractor Hyundai Rotem after the latter exceeded its deadline for more than a year in constructing a major water supply project in Ho Chi Minh City. The announcement was made by Truong Khac Hoanh, vice director of the Thu Duc Water Supply Joint Stock Company (TDW), an affiliate of the Ho Chi Minh City Infrastructure Investment JSC. The HCMC People's

Committee had approved the request made by TDW to take this step. However, TDW still reserves a place for Hyundai Rotem to renew the contract before looking for other contractors, Hoanh said.

The project to construct the Thu Duc Water Plant began in September 2005 with a total investment of VND 1,547 bil (USD 91.1 mil). The plant in Thu Duc District, built under the BOO form (build – operate – own), was scheduled to be completed in August 2008. The plant had a designed capacity of 300,000 m<sup>3</sup> of clean water/day through a system of 26 km of pipeline that would merge with the system of the Saigon Water Corporation (Sawaco). However, none of the building packages were completed by November, according to TDW.

This is the first time an investor in HCMC is unilaterally canceling a contract with a foreign contractor and taking the security payment, which it could set a good example for other projects invested by government affiliated offices.

*(Source: Mai Vong – Dinh Muoi)*

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### **HCMC dangles incentives to infrastructure developers**

Ho Chi Minh City will offer tax breaks and land plots to developers investing money in infrastructure, officials have said. The city's infrastructure, including roads, drainage and wastewater treatment utilities, most of which are decades old, is unable to meet the needs of eight mil people. For infrastructure developers, corporate tax would be waived for the first four years and it would later be just 10 % instead of the normal 25 %, an expert said. If, after completing their infrastructure projects, they want to invest in non-infrastructure projects, the city would give them priority in land allotment, he added. Ly Chung Dan, deputy general director of the public utility Saigon Water Corp., said non-state businesses investing in water supply could even be subsidized. The city water supply system needs an investment of around VND 5.85 trillion (USD 344 mil), he said. The transport department has said it needs USD 15 bil through to 2020 for building and expanding roads and developing subways and railways.

*(Source: Minh Quang)*

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### **Experts: Property market to remain stagnant for some time**

The local real estate market may need a longer time to recover although there are claims that the process has already begun, experts say. When the property market is in a slump, some brokers often try to attract customers by claiming the market has warmed up, the manager of a real estate company warned.

Analysts say that in fact, the number of buyers is still small even though land prices in some districts have dropped as much as 60 percent compared to the beginning of this year. Prices of apartments in District 7's Phu My Hung have also gone down by about 30 percent. With overseas remittances falling and investors tightening their spending amid the global economic slowdown, it is unlikely that the housing market, especially its luxury segment, can overcome the slowdown soon, they add.

Economist Dinh The Hien says the real estate market in Ho Chi Minh City is now deep into recession, estimating the number of transactions has dropped by 80-90 percent compared to the same period last year. Besides, sellers only wanted to avoid paying higher taxes next year. With the introduction of a new personal income tax law on January 1, owners of more than one house will have to pay a two percent tax on each house they sell. Moreover, as the city land valuations for 2009 have been increased by at least 10 percent from last year, residents will have to pay higher land use taxes.

### **2009 prospects**

The prospects for HCMC's real estate market remain good despite the global economic slump, the US-based Urban Land Institute and business services firm PricewaterhouseCoopers said in a recent report.

The ministry proposed the government has just spent part of a planned stimulus package to build 10,000 flats for low-income residents by 2015. The construction could cost about VND 2.5 tril (USD 151.5 mil).

Nguyen Tran Nam, Deputy Minister of Construction, said so far property developers have only focused on the luxury segment and housing prices are out of reach for most buyers. The government would develop all market segments equally and create policies to provide housing for medium- and low-incomers, Nam said.

In a move that is expected to improve transparency in the sector next year, both developers and agents are setting up real estate exchanges in accordance with the regulations issued by the ministry. The Saigon Real Estate Corporation, Nam Long Real Estate Company and Sacomreal are among the companies involved.

According to the Ministry of Construction, the establishment of real estate exchanges in Vietnam is necessary to “purify” the local market. He said developers and brokerage companies will need to provide enough information about a product for customers and they will have to take responsibility for any wrongdoing.

*(Source: Agencies)*

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### **VN's biggest cement plant opens in north**

The country's biggest cement factory began operations on 18 Dec 2008 in Le Loi Commune, Hoanh Bo District in the northeastern province of Quang Ninh. The newly built Thang Long factory has a capacity of 2.3 mil tonnes of cement per year.

Construction began in 2005 on an area of 85ha with total investment capital of VND 6 tril (USD 35 mil). The factory is equipped with modern technology from Germany's Polysius Group. The Group's quality technology is globally popular due to its friendly effect to the environment. This is the first time that technology of this kind has been used in Viet Nam.

The factory has been designed to increase its life-span. The automatic control system will produce high-quality products and will save materials and energy, experts say. The factory is strategically located close to mines and an open port. The port can harbor vessels of up to 30,000DWT. Its prime location will slash production costs, making domestic goods cheaper for consumers. The factory has also set up a clinker grinding station in the south. It is located in Hiep Phuoc Industrial Zone in Nha Be District, HCM City. The station has the capacity to produce 1.2 tonnes of cement per year.

*(Source: VNS)*

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### **Automobile manufacturers entreating government for help**

Local automobile manufacturers have sent a dispatch to the government, asking for a delay of the implementation of the VAT Law until July 1, 2009, or six months later than currently scheduled.

The Value Added Tax (VAT) Law, to go into effect on January 1, 2009, stipulates that automobiles, including commercial vehicles, will bear the tax rate of 10% instead of 5% as currently applied. However, commercial vehicle manufacturers think that it is unreasonable to set the single tax rate of 10% on both commercial vehicles and cars, while commercial vehicles are mainly used by small- and medium-sized enterprises to provide public transportation services. When the VAT increases from 5% to 10%, manufacturers will have to naturally increase sale prices, which will make it more difficult to sell products, especially as customers are trying to tighten their purse strings.

The Ministry of Finance has confirmed it has received the proposal from domestic manufacturers. An official of the ministry said that since the government announced it would take measures to help businesses settle difficulties, the ministry has received a lot of proposals on tax exemptions and reductions.

*(Source: VNE)*

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### **HCMC needs USD 1bil each year for roads**

A conference on infrastructure development held by the HCM City Investment and Trade Promotion Centre (ITPC) on 11 Dec 2008 was told that the city plans to upgrade stretches of six national highways passing through its territory including No.1A and IK, and to speed up construction of seven regional speedways, four urban highways and the city's belt-lines by 2025. Six metro routes with a combined length of 107km and three urban railroad routes with a total of 35km need to be completed in the same period, the conference was told. Deputy Chairman of HCM City People's Committee Nguyen Trung Tin remarked that: "Roads are being developed by 2%

while the number of vehicles grows by 10 per cent per year, leading to the overload on HCM City's infrastructure facilities."

Six more water supply projects and 10 wastewater treatment plants will be also completed by 2025, the conference heard. All these projects in HCM City require a total investment of USD 15 bil. Duong Hong Thanh, deputy director of the city's Department of Transport and Public Works, said these infrastructure projects could apply different forms of investment – BOT, BO or land-infrastructure exchange. "What is most important is that the investment forms should help attract capital from local and foreign companies into these projects," he said. Specific investment forms suitable for each infrastructure development project will be identified, Thanh added.

An annual investment of more than USD 1 bil is required for infrastructure projects in HCM City that will build and upgrade a network of national highways and regional speedways by 2025.

*(Source: ITPC & NAT)*

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### **Petrolimex gets nod for another refinery**

The government has agreed in principle to allow the Vietnam National Petroleum Corporation (Petrolimex) to build a new oil refinery in central Khanh Hoa Province. The refinery, with a designed capacity of processing 6-7 mil tons of crude oil a year, will have a total investment of about USD 5 bil, said Petrolimex Vice General Director Vuong Thai Dung. "We are preparing a feasibility study for the project," he said.

Covering 600 hectares in Khanh Hoa, the refinery, which is scheduled to start operations in 2013, will turn out products for both local consumption and export. "However, we will prioritize using the refinery's products to serve our country's socio economic development, local consumption, and national security," Dung said.

Vietnam, Southeast Asia's third-largest crude oil producer, plans to build seven refinery projects with a combined capacity of 60-70 mil tons of crude oil a year. The Nghi Son refinery in central Thanh Hoa Province is under construction, while the USD 2.5 bil Dung Quat plant in Quang Ngai Province capable of processing 6.5 mil tons a year is scheduled to start operations next February. The rest of the projects are either in the planning stage or have been deferred.

The country imported over 11.8 mil tons of petroleum products worth USD10.6 bil in the first 11 months of this year, up 3.1 percent in volume and 58.3 percent in value over the same period last year, according to the General Statistics Office.

*(Source: Ngan Anh)*

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### **Real estate developers threatening to sue consultants**

Many real estate developers have threatened to take legal actions against real estate consultancy firms for their release of misinformation regarding real estate prices. Kien A, Daewon Hoan Cau, and Phu My Hung are furious after the real estate consultancy firms, including CBRE and Vinaland, released the wrong information about the prices of the real estate projects they develop.

Kien A, the developer of Blooming Park, released the proof late to show that the real estate survey result information by Vinaland was misleading. According to Vinaland, in late November and early December, the penthouse at the Blooming Park project saw a price decrease of 6.1%, or VND 2 mil/m<sup>2</sup>. However, Kien A's Planning Division's Head, Cao Thanh Hoang, showed proof saying the information was incorrect. Hoang said that only one out of ten penthouses has been sold. The buyer of the penthouse was a foreigner, who paid a deposit sum equal to 10% of the penthouse value. Hoang said that the buyer has confirmed he has not put the penthouse on the market. "Vinaland has to check the information and prove that the price has decreased by VND 2 mil/m<sup>2</sup>. If mistake is found and Vinaland does not correct the information, Kien A will sue Vinaland for misinformation," said the investor of Blooming Park.

Chairman of Vinaland Invest Corp., Tran Minh Hoang, has asked his staff to check their information and admitted the mistake happened in the process of data entering. Hoang said that the mistake proves to be unavoidable when employees have to deal with the figures from thousands real estate projects.

The story of CBRE proves to be not as simple as Vinaland's story, as CBRE's information has hurt many big real estate developers, facing the critical protest from them. The report released by CBRE at the end of November 2008, cited the examples of the apartments' price decreases. The report said that the price of Cantavil Hoan Cau has dropped from USD 3,700/m<sup>2</sup> to USD 2,600/m<sup>2</sup> in the last 12 months, while the price at the My Phuc project has dropped by 50% from USD1,750 m<sup>2</sup> to USD 872. However, the information was described as 'untrue' at the report launching ceremony.

The Legal Expert of Daewon Hoan Cau asked CBRE to explain about the information that Cantavil's price dropped from USD3,700 to USD 2,600 in 12 Dec. He was replied that the apartment CBRE mentioned in the report is located on the 6<sup>th</sup> floor, which has the area of 155m<sup>2</sup>, while refusing to provide other information. However, CBRE on December 15 said that the apartment's area is 156.3 m<sup>2</sup>.

Three apartments on the sixth floor have been sold, including two internally sold, while the third was sold to the client, who purchased for his accommodation. The apartment has the area of 120 m<sup>2</sup>, and the price was USD3,091/m<sup>2</sup>. The expert said that CBRE has to prove that the information it has provided is accurate, or it has to correct the information on mass media and apologize for this. Business and Marketing Director of Phu My Hung Company, Truong Quoc Hung, also said that there were big differences between CBRE's information and the real prices. Meanwhile, CBRE's representative on December 15 promised that the company will check the information and have working sessions with enterprises on the issue.

(Source: VNE)

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### **Construction firm to appeal case refusal**

Dong Duong (Indochina) Co. Ltd. has appealed a decision by the HCM City People's Court refusing to hear the company's lawsuit against the City People's Committee. The Ha Noi-based company had filed the suit after the HCM City People's Committee decided to suspend a licensed parking lot project that the company was working on, citing possible damage to surrounding structures and a planned metro project.

The court said that its refusal to hear the case is based on Section 7.3 of Resolution No 04/2006 of the People's Supreme Court's Judges Council, which stipulates that administrative action on land management in the resolution of land disputes is not subject to administrative lawsuits. Nguyen Thi Bao Quynh, deputy general director of Indochina, said that she disagrees with the court's reasoning.

"Dong Duong could not have any land dispute because it has not yet completed procedures to grant land," Quynh explained. Referring to Item 6, Article 11 of the ordinance issued by the Standing Committee of the National Assembly on procedures to resolve administrative lawsuits, Quynh claimed the lawsuit would fall within the HCM City Supreme People Court's jurisdiction. Appealing administrative decisions and administrative actions relating to the issuing and withdrawal of licenses for capital construction and production, falls under the purview of the ordinance, she said.

Bui Quang Nghiem, deputy head of the HCM City Lawyers Association, who represents Dong Duong, says the court's reasoning is flawed, because Dong Duong sued the People's Committee over an administrative decision to suspend the underground parking lot project in Lam Son Square, and not over a land dispute. Previously, on November 13, Dong Duong had petitioned the HCM City Supreme People's Court to instruct the HCM City People's Committee to cancel the decision on suspending the Lam Son underground parking lot project. The company also said that it will claim compensation of VND 24 bil (USD 1.4 mil) for losses caused by the suspension of the project, if the city People's Committee does not find a new location.

Quynh said her company had to take legal action, because it had not received any written notice from the People's Committee about being offered to build the parking lot in a new location, as pledged earlier. Moreover, if the company failed to file an appeal within prescribed time limits, it would lose its right to do so under current regulations, she added.

(Source: VietnamNews)

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## Future's so bright, City needs shades

The southern hub of Viet Nam, HCM City, will still be an attractive market for real estate development in the coming year. The Emerging Trends in Real Estate - Asia Pacific 2009 report released earlier this month by the USA-based Urban Land Institute and PricewaterhouseCoopers had an overall positive real estate market assessment for HCM City. Development prospects for HCM City remain high; overall it is ranked 2nd after Bangalore and preceding Mumbai, according to the report.

The survey ranks HCM City as the strongest development market in Asia Pacific; top Asia Pacific city in which to buy hotel space; top market for investment in the office sector; and one of the most promising markets for apartment rental investments. However, in terms of investment prospects, Tokyo, Singapore and Hong Kong rank first, second and third. HCM City is ranked 13th, lower than in 2008 when it was 8th and in 2007 when it ranked 12th. Real estate industry experts in Asia anticipate falling asset prices, widening cap rates, deteriorating debt markets, increasing foreclosures and bankruptcies, and plummeting transaction volumes as the Wall Street crisis travels the globe. The report provides an outlook on Asian Pacific real estate investment and development trends, real estate finance and capital markets, and trends in the property sector and metropolitan area.

The investment landscape has undergone a substantive and possibly permanent change in the region. Asian banks have re-rated real estate for risk, and with the re-pricing of debt, investors will demand higher yields. The days of financing property via highly leveraged borrowing appear to be gone. The report is based on the opinions of internationally renowned real estate professionals, including investors, developers, property company representatives, lenders, brokers and consultants. The survey covered twenty key cities in Asia, including HCM City as in earlier years. It is the third Asia Pacific edition of the highly regarded Emerging Trends in Real Estate® annual investor survey.

*(Source: VietnamNews)*

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## FINANCE – BANKING

### Banks begin cutting interest rates again

On Sunday (21/12/2008), Commercial banks began cutting interest rates in response to the central bank's Friday announcement of a 1.5 percentage point reduction in the official interest rate.

Vietcombank, Vietnam's third largest lender by assets, announced Sunday its new lending interest rate, effective from Tuesday (23/12), will fall by 1.48 percent points to 11 percent a year. Sacombank, in which Australia's ANZ Bank holds a 10 percent stake, will offer special lending interest rates of 10 percent to 10.5 percent a year from today to businesses that have been with the bank for a long time. The Ho Chi Minh City -based lender, which is the only listed bank on the HCMC stock exchange, also cut term deposit interest rates, with the one-month term rate lowered by 0.7 of a percent point to 7.8 percent a year and three-month term by 1.28 percent points to 8.22 percent a year. But deposit interest rates for term deposits of four months or more are unchanged. Dong A Bank offers a deposit interest rate of 8.4 percent a year to clients for terms of between three months and two years. Many commercial banks said they were cutting the US dollar deposit interest rates to 3 percent a year because demand for the greenback has been low.

On Friday, the State Bank of Vietnam lowered its benchmark interest rate to 8.5 percent from 10 percent, effective today, to help businesses overcome the tough economic climate. The central bank will also make accessing credit for production, imports and exports of essential goods easier, while small and medium-sized enterprises, including those in the real estate business, "will be able to settle their due debts," the bank said in a statement on its website. Also according to the statement, the bank will cut the refinancing rate to 9.5 percent from 11 percent and the discount rate by 1.5 percent to 7.5 percent. Overnight interest rates for payments on the inter-bank market will be reduced to 9.5 percent from 11 percent.

Earlier this year, the bank raised its benchmark rate several times, from 8.25 percent to 14 percent, to fight double-digit inflation. In late October, it started cutting rates again to free up credit. Commercial banks can set interest rates on dong loans at a maximum of 50 percent above the benchmark rate, so the maximum rate will now be 12.75 percent.

### **Rate cut will boost the economy**

“The rate cut will help lower borrowing costs both for companies and individuals and help stimulate production and consumption,” said Do Ngoc Quynh, Hanoi-based head of currency and debt trading at Bank for Investment.

*(Source: TN, Agencies)*

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### **Damaged currency will be replaced**

The State Bank of Vietnam, commercial banks, and the state treasury would exchange damaged currency notes, Vu Huy Toan, deputy director of the central bank in HCM City, assured.

Though banks are expected to exchange damaged notes, the truth is that many tellers simply refuse to take them. Toan said: “We encourage people owing damaged notes to bring them to banks. The HCM City branch of the SBV will ask head office to have a more flexible exchange policy.”

Since the central bank issued polymer notes to replace paper currency a few years ago, 10,000 VND and the 20,000 VND notes had been the most damaged since they had been used the most and with less care than larger-denomination notes, he said. But they were rarely brought to be exchanged because of the high demand for them and low value, he said, providing banks few opportunities to take badly damaged notes out of circulation. Damaged notes are divided into three categories based on the extent of damage. Those damaged by fire or chemicals will also be exchanged, but for a 4 percent fee.

*(Source: VNA)*

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### **Domestic gold price lower than world price**

Although the gold price on the domestic market is VND 200,000 – 250,000 per tael lower than the world price, the market is not picking up.

At closing on December 15<sup>th</sup> 2008, the price of SJC gold in Hanoi was quoted on the company’s website at VND 17.04 mil/tael (purchase) and VND 17.12 mil/tael (sale). Meanwhile the prices of Bao Tin-Minh Chau gold were VND 16.94 mil and VND 17.04 mil/tael. The domestic gold price only rose by VND 200,000 per tael compared to late last week while the world price increased by more than USD 30 to USD 830 per ounce. Domestic gold prices being the same as or even lower than the world’s price is an unprecedented phenomenon on the domestic market. Domestic businesses often keep prices higher than the world price in case the State stops granting licenses to import gold. However, the quick recovery of the world market in recent times and weak purchasing power on the domestic market has made the domestic price lower than the world price.

*(Source: VOV)*

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### **Agribank brokerage to raise USD19 mil in IPO**

Agribank Securities, the brokerage arm of Vietnam’s top lender, Agribank, said Friday(12/12/2008) it would raise at least USD 19 mil by selling a quarter of its shares in an initial public offering (IPO) next month.

Hanoi-based Agribank Securities, or Agriseco, said it would sell around 30 mil shares on January 6 at a starting price for bids of VND 10,500 (USD 0.64) per share, valuing the firm at nearly USD 77 mil. The firm said it was conducting the IPO on its own, without any outside underwriters.

Proceeds from the IPO would boost Agriseco’s financial strength and bolster its debt business, an Agriseco official told Reuters. “Our company will set aside 60 percent of funds for bond trading, 20 percent to improve services such as repo or margin trading and another 20 percent for securities trading,” the official, who declined to be identified, said.

Agriseco would raise its capital base by 71 percent to VND1.2 tril after the IPO, making it the country’s largest brokerage in terms of registered capital, she said. Agriseco said it had found institutional investors to back its IPO,

and traders said investors might feel reassured by knowing Agribank was behind the brokerage. Agribank had total assets of VND 372.3 tril by late September, up 14 percent from the end of 2007.

(Source: Agriseco)

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### **IFC to sell 16 mil Sacombank shares**

The International Financial Corporation (IFC) on Dec 15 2008 announced it would sell off over 16 mil shares in Sacombank – over half its holdings in the HCM City-based commercial bank. Based on the share prices on the HCM Stock Exchange on the day of VND 19,900 (up 4.74 percent against last 12 Dec 2008), the total value of the deal could exceed VND 320 bil (USD 18.93 mil).

The move comes after IFC's support of Sacombank's transition into becoming one of Vietnam's leading joint-stock banks, IFC said in a press release. "The sell-off by IFC is in accordance with the capital withdrawal plan previously projected by Sacombank and IFC. Sacombank and IFC are working together to transfer the shares to a third partner," Sacombank general director Tran Xuan Huy said.

An exact time for the sale was not specified, but once completed, IFC would continue to hold a stake of about 3.4 percent in Sacombank. Current foreign strategic partner ANZ Bank, which holds a 10-percent stake in Sacombank, would not comment to Viet Nam News as to whether ANZ would seek to acquire a larger stake.

(Source: VNA)

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### **Index charges back above 300-points**

The VN-Index added to its strong performance last Friday(12-12) by breaking back above the 300-point level on Monday, adding 2.92 per cent on the day to close at 308.28.

The market saw 9.85 mil shares changing hands, of which market-leader Sacombank (STB) alone accounted for 1.91 mil. Volume in other blue chips trailed, with Sai Gon Securities Inc (SSI) seeing 643,720 shares traded; FPT, 516,920 shares; and Hoa Phat Group (HPG), 440,060 shares. Trading on the HCM City exchange saw a total turnover of VND 243.53 bil (USD14.5 mill).

In Ha Noi, the HASTC-Index also had a strong day, jumping 4.15 per cent to close at 110.30, with 9.38 mil shares traded. "The ups and downs of the market still depend on the investor psychology," commented Vu Duc Nghia, an analyst with Bien Viet Securities. Nghia also noted that the market was tracking Asian shares generally, which continued to climb yesterday on hopes of a bailout for the US auto industry.

An FPT Securities analyst who asked to remain anonymous said that Government efforts to boost the economy had begun to show effectiveness and might begin now to have positive impacts on the stock market. An economic stimulus package recently announced by Deputy Prime Minister Nguyen Sinh Hung that could reach USD6 bil could help sustain the market above 300 points through the end of the week, the analyst said.

In Ha Noi, the HASTC-Index also had a strong day, jumping 4.15 per cent to close at 110.30, with 9.38 mil shares traded. The total value of the day's trades - at VND 233.61 bil (USD 13.9 mil) - nearly matched the value reached by the larger HCM City Stock Exchange in 15 Dec. Asia Commercial Bank (ACB) was the most active stock, with 2 mil shares traded, followed by contractor Vinaconex Group (VCG), at 959,000, and Kim Long Securities (KLS), at 877,800.

(Source: VietnamNews)

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### **Government bonds not to be sold at any price**

One more unsuccessful government bond bid has been reported due to the gap between the ceiling interest rate set by the Ministry of Finance and the rates offered by commercial banks. It was quite a surprise that the government bond bid on December 11, 2008 was unsuccessful. It took place at a time when commercial banks, as they have an excess of usable capital, have been pushing up transactions of bonds in the secondary market.

Unlike previous bids, the total sum of money registered for the bid was as high as VND 960 bil, while only VND 500 bil worth of bonds were called for bid. The problem lies in the fact that the Ministry of Finance set the ceiling interest rate at 9%, well below the rate expected by commercial banks at 10-12.5% per year.

With capital in excess, banks have tried to inject money in government bonds as a safe investment channel. In fact, though bank interest rates have been decreasing, banks still cannot push up disbursement as businesses dare not expand production in the context of low purchasing power.

According to the Ministry of Finance (MOF), the total capital raised through bond issuances in the first ten months of the year just fulfilled 52% of the plan. It is expected that the volume of capital to be mobilized this way in 2009 will be also not be overly large, as MOF will not mobilize capital at any cost. Regarding the ceiling bond interest rate, the ministry said that it needs to consider the real demand for capital of investment projects and the disbursement rate to set up reasonable interest rates for bonds. Nguyen Thi Hoang Lan, Deputy Director of the Hanoi Securities Trading Centre (HASTC), said that the ceiling interest rate will be adjusted to make it more flexible and fit the state budget adjustment.

*(Source: DTCK)*

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### **Bank bad debt trading mechanism, why not?**

A banking official said that he believes that non-performing loans (NPL) of the whole banking system are no less than several tens of thousand billion VND. However, Vietnam still does not have a mechanism for bad debt trading.

**No less than tens of thousands of billion VND** - The State Bank of Vietnam has not announced the real NPL ratio of Vietnam's banking system as a whole for 2008. However, a banking official said that the NPL is 'not less than tens of thousands of billion VND'. Meanwhile, sources say that the NPL of three state-owned banks and equitized Vietcombank are estimated at 4% of total outstanding loans.

The headache for bankers and management agencies now is how to deal with the NPL. In fact, most loan contracts of the NPL all have mortgaged assets of real estate (workshops, land) and valuable papers. However, it is not easy to sell mortgaged assets due to the complicated procedures stipulated by the laws.

According to an expert, in 2001, the Government of China allowed the formation of a bad debt trading market with the participation of many economic sectors, state-owned, private, domestic and international. China believed that if only state-owned entities were allowed to join the market, the debt valuation would not be competitive. That explains why China allows Morgan Stanley and other US investment banks not only to purchase stakes, but also trade bad debts of banks.

### **How about Vietnam?**

**No bad debt trading mechanism yet** - There seems to be no bad debt trading market in Vietnam, adding that the trade of bad debts has to undergo very complicated procedures. Because of this, very few foreign institutions want to jump into the field, as they fear they cannot sell the debts after they purchase them.

A legal expert at a bank said that bank debts are not available on the market because the government has not paid appropriate attention to the issue, and it has not allowed foreigners to join the field. Meanwhile, Ngo Tuan Kiep, former Governor of the State Bank of Vietnam, he cannot see any reason why Vietnamese banks should not be able to sell bad debts to foreign investors.

To date, commercial banks have to deal with bad debts themselves, and they do not always do that well. Analysts believe that it is now the right time for state management agencies to think of a suitable bad debt trading mechanism which can help make banks financially healthier.

*(Source: TBKTVN)*

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## HSBC Vietnam to start operation from January 1<sup>st</sup> 2009

After four months as of receiving the establishment and operation license, 100% Hong Kong Shanghai Banking Corp (HSBC) - invested subsidiary in Vietnam (HSBC Viet Nam) will officially start operation from January 1, 2009.

HCM City-headquartered HSBC Vietnam with a registered capital of VND 3 tril (USD 175 mil)-the first 100% foreign invested bank in Vietnam, was licensed on September 8 by the State Bank of Vietnam (SBV). HSBC Vietnam when it is in operational plans to open three branches in HCM City, Hanoi and Binh Duong province and have about 1,000 staff.

Also from January 1, depending on SBV's approval, HSBC plans to automatically convert the whole total assets and debts of current HCM City branch and a part of assets and debts from Hanoi branch into this new bank. Accordingly, all current contracts, accounts and data about customers, partner banks, providers and related partners will be converted into HSBC Vietnam. "We ensure that customers' all banking transactions and business activities will not be affected or interrupted during this conversion period" HSBC affirms. HSBC Vietnam said that "with officially becoming a local bank, we will supply diversified banking and finance services and increase our appearance in Vietnam's financial market".

Early September, the Vietnam's central bank once after another granted establishment and operation licenses of 100% foreign invested banks for Standard Chartered Bank, HSBC and ANZ one-month later. At present, HSBC holds 10% stake into Bao Viet Insurance Group and another 20% stake into Viet Nam Technological and Commercial Bank (Techcombank).

(Source: TBKTVN)

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## ANALYSIS – OPINION

### Diesel price not decreased yet, why?

The petrol prices have decreased by approximately 40% over the highest peak. In general, the petrol and diesel prices are always adjusted at the same time. However, this did not happen with the latest petrol price decrease, as the diesel price remains unchanged.

Meanwhile, a diesel price decrease is what is most expected by enterprises. Head of a coach group, belonging to Hanoi TranserCo, said that diesel price is the factor that decides travel ticket prices. "We have had cut down the ticket price by 30% in accordance with the diesel price decreases last time. We planned to cut down the ticket price further, but the plan failed because the diesel price did not decrease despite the latest petrol price decrease on December 10, 2008," he said.

At that time, a construction company said that the expenses for equipment, especially the spending on diesel, accounts for a big proportion in the construction cost. As the diesel price has not decreased yet, enterprises are not able to adjust the construction prices, which will make their competitiveness weaken.

**Why hasn't the diesel price decreased, then?** Vuong Tien Dung, Deputy General Director of Petrolimex, the biggest petrol and oil product distributor currently in Vietnam, said that enterprises cannot cut the prices more, or they will incur loss. Dung said that diesel always has the highest import price among imported petrol and oil products. The average price of the product in the last 20 days has been USD 62/barrel.

The diesel price, offered by Singaporean suppliers, the main import source for Vietnam, is USD 61.27/barrel, while the petrol price is USD 42.25/barrel. With such an import price, the diesel price will be VND 10,000/litre after taxes and fees, not including the spending on sales agents.

**Diesel price lowering will bring the same effects as tax decreases** - An expert from the Finance Institute asserted that it is necessary to cut the diesel price because of its important role in production and the national economy. "When the input material prices decrease, the production costs will go down, which will make businesses become more enthusiastic in re-starting investment projects. Cheaper products will stimulate consumers to spend more money, thus helping stimulate the demand," he said.

The Government is planning to cut the corporate income tax by 30%, but it still maintains high diesel prices with the current high import tax of 25%. Besides, enterprises are also imposed 10% for VAT, and 10% for luxury tax. Economists believe that the lowering of diesel prices and the maintaining of tax rates low enough to help businesses reduce production costs will bring about effects, not smaller than the tax decreases. Besides, Dung from Petrolimex, said that Petrolimex and other enterprises will reduce diesel sale prices if the import tax goes down.

(Source: Phuoc Ha)

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### **Vietnamese enterprises ‘fleeing’ contracts?**

Foreign cotton suppliers have taken legal proceedings against Vietnamese enterprises to the Ministry of Industry and Trade of Vietnam (MOIT) for the enterprises’ breaking of import cotton contracts. Le Quoc An, Chairman of the Vietnam Textile and Apparel Association (Vitas) talks about the case. The problem lies in the fact that approximately 10 Vietnamese textile and garment companies, which signed contracts with foreign suppliers on importing cotton at high prices want to re-negotiate the import prices as the world’s prices have decreased sharply. This has prompted the cotton suppliers to sue to MOIT. Meanwhile, the international cotton association has threatened to boycott the Vietnamese enterprises. MOIT has had a working session with Vitas to discuss solutions to this issue.

An confirmed that some foreign cotton suppliers, including Louis Grewfus, have asked the MOIT to intervene the case, in which some Vietnamese enterprises have not fulfilled the signed contracts. The reason that has made Vietnamese enterprises delay the contract implementation is that several months ago, they signed contracts for the cotton imports at prices of USD1.7-1.8, while since then the global prices have dropped sharply to USD1.1-1.2.

In principle, An said, Vietnamese enterprises need to respect the contracts they signed. The enterprises have been lingering in opening Letters of Credit (L/C) because they want to re-negotiate the prices with the suppliers. Meanwhile, the suppliers, themselves, are also having problems with quality and L/C procedures. As such, the case proves to be not overly serious, just a commonly seen problem in business.

**You said that this is just a commonly seen business problem. Why did MOIT and Vitas have to meet to find a solution to such a simple problem?** The meeting was held to discuss and agree the principle to deal with the case. The association is not the direct buyer. Louis Grewfus will work with every enterprise directly, and enterprises will have the right to make decisions. As far as I know, two member companies of the Vietnam Textile and Garment Group (Vinatex), including Nha Trang and Phu Bai, which became involved in the case, have reached agreements after negotiations.

**Could you please tell us how negotiations have been going? You have said that enterprises have to follow signed contracts?** I have to say that Vietnamese enterprises were not overcharged at the moment of contract signing. At that moment, the crude oil price was nearly USD150/barrel, while the prices of other materials were all very high, and the cotton price was at USD1.7-1.8. However, as the crude oil price has dropped to USD42-43/barrel, the cotton price has decreased to USD1.1-1.2. The sharp fall of the cotton price could be seen as an ‘accident’ that Vietnamese enterprises and foreign suppliers could not anticipate. In business moral principles, enterprises should obey contracts for their prestige. However, also in business moral principles, when both parties have troubles, they should sit together to share the difficulties, as they should aim for long-term business rather than short-term.

**But will Vietnamese enterprises be boycotted if they do not fulfill the signed contracts, then?** According to international standards, businesses that do not respect signed contracts will be put onto a black list, the members of which will be refused to be dealt with. However, if the suppliers still remain inflexible and unsympathetic, we will only trade with them once.

In fact, three of the four cotton suppliers to Vietnam have shown their sympathy with Vietnamese enterprises, while accepting discussion and allowing the deferred payment. Only Louis Grewfus proves to be very rigid. Representing the association, I met the representative of the company and said that in principle, I will advise Vietnamese enterprises to respect the contract, but I call you to share your difficulties and discuss them with Vietnamese enterprises for both sides’ long-term business. They have agreed on that principle.

**Could you please tell us how many Vietnamese enterprises have become involved in the case and the total value of the contracts?** According to the list provided by Louis Grewfus to MOIT, there are approximately 10 Vietnamese enterprises, including two Vinatex's members, Nha Trang and Phu Bai Garment Companies, while the remaining are privately-run businesses, and there is no foreign-invested enterprise. The total value of the contract is not very big, I think, it is equal to 4,000 tons of cotton.

*(Source: Phan Hung)*

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### **Software development, key for IT industry**

The information technology industry is defined as the key economic sector of Vietnam. VietNamNet talked with Deputy Minister of Information and Communications Nguyen Minh Hong on the sideline of the national workshop on the IT industry.

**The theme of the national workshop this year is “IT industry in new trend of investment”. What is the “new trend of investment” in the current global economic crisis?** In this situation, we need to take appropriate steps. In the past, when Vietnam wasn't yet a member of the World Trade Organization (WTO), the impacts of the Asian financial crisis 1997 on Vietnam were not great. But as Vietnam has integrated into the world, the country can't avoid strong influences from the current crisis.

The financial and economic crisis has powerfully impacted capital flow. The trend of investment in the IT industry in this period will be: continuing to attract foreign investment, taking initiative in receiving investment, the shifting wave of information and communication technology, improving competitiveness of IT companies to help them confront the global financial crisis.

Local companies can't directly compete with multinational groups at this moment so I think we need to cooperate with multinational groups to raise production capability and competitiveness to become a positive link in the global production value supply chain.

**During the workshop, most participants have said they need more preferences from the government. What do you think about it?** The IT industry enjoys preferences at the highest level. The opinions of companies, organizations and associations raised at the workshop will be analyzed and considered. However, the government's assistance is not always the stimulus for the development of the software industry. Meanwhile, Vietnam has to realize its commitments on abolishing subsidies in all forms.

**How will the government's assistance be and what will IT businesses have to do to develop the IT industry?** The experience of Asian countries in developing their IT industries shows that maximum government assistance and enterprises' efforts and sound awareness are the most important factors for the development of an IT industry. Vietnam won't deviate from this formula.

The government's assistance must be timely and have a time limit. Firstly, the government's timely assistance will be a stimulus for the IT industry to take gigantic steps. Secondly, the government's assistance can't be continuous because resources are limited. Actually, the government assisted some industries for quite a long time (before Vietnam joined the WTO), but the assistance wasn't effective. Therefore, the government's assistance for the IT industry will be restricted in respect to time.

I think the government's assistance will be in the following forms: building stable and transparent legal environment, investing in research and development, helping businesses to build and advertise their brands and to apply advanced production management standards like ISO, CMM and CMMi, to train human resources through short-term, high-quality training courses, and developing sci-tech institutes. But businesses' policies are the decisive factor. Their effort is shown through investment in production and business, technology, market and human resources. If the government's assistance policy is good but businesses are incapable, they can't develop.

**The software industry accounts for just 13% of the total turnover of the IT industry. Will the Ministry of Information and Communications and the National Steering Board for IT define a specific strategy to boost the development of the software industry?** The software industry makes up only 13% of the total turnover of the IT industry but it has a higher profit rate than the hardware industry. In the current situation, developing the software industry is one of the solutions to combat inflation, reduce the trade deficit and improve the effectiveness of the economy.

The Politburo's instruction released in 2000 said that it is necessary to develop the IT industry as an important sector, especially the software industry. The Ministry of Information and Communications compiled and submitted to the government the Vietnam Software Industry Development Programme and the Vietnam Digital Content Development Programme. The goal of these programmes is that by 2010, the total income from software industry will be over USD 800 mil, 40% from exports.

The Vietnam Software Technology and Digital Content Institute were set up recently to implement solutions to promote the development of this field in Vietnam. The Ministry of Information and Communications also compiled and submitted to the Prime Minister regulations on managing the software and digital content industry in Vietnam. This regulation is the basis for building and conducting software projects. While waiting for the government's approval of the above regulation, the Ministry of Information and Communications is working on some software industry development projects.

Total foreign direct investment in the IT sector in 2007: USD 10 bil

The current situation of the IT industry:

Average growth rate in 2002-2007:	25%
Average growth rate of household electronic industry:	25%
Average growth rate of specialized electronic industry:	20%
Average growth rate of computer hardware industry:	17.6%
Average growth rate of postal and telecom industry:	18%
Average growth rate of software industry and service:	35%

Total revenue in 2007: USD 3.758 bil

Revenue of software industry in 2007: USD 498 mil

Revenue of hardware industry in 2007: USD 3 bil

*(Source: IT Agency, MIC at the national workshop on IT industry in Hanoi)*

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### **Vietnam considers opening Seattle consulate**

Two years have passed since the day the US granted Vietnam permanent normal trade relations (PNTR) (December 9). This has paved the way for the further development of cooperation between the two countries.

**How has the relationship between Vietnam and the US developed since the PNTR status was granted to Vietnam?** The PNTR is mainly related to economics and trade. Two years have passed since the day the PNTR was approved but I think the economic and trade ties between the two countries have robustly developed since the two sides signed the Bilateral Trade Agreement (BTA) in 2001.

In the past two years, thanks to the PNTR, two-way trade revenue has grown strongly. The US has become the largest export market for Vietnam while the US' investment in Vietnam has developed quickly. In late 2007, the US ranked fifth among the top foreign investors in Vietnam. This year, despite financial difficulties and high inflation, American investment in Vietnam is still big.

The two countries also signed the Trade and Investment Framework Agreement (TIFA). The US wants to actively further cooperation with Vietnam in some fields, including negotiation of a bilateral investment agreement. If this agreement is signed, it will create a stable legal corridor and mutual trust between US investors and businesses in Vietnam.

**Since the PNTR was approved and Vietnam's accession to the World Trade Organization (WTO), US investment projects in Vietnam have increased in both number and value. What do US investors think about the Vietnamese market, according to your observations?** US investors are very prudent but when they decide to invest in a project, they are determined to realize it. We are pleased to see a trend of US investment in Vietnam. I've been to some big states in the US and I see that US investors believe in the development of the Vietnamese economy thanks to the political and social stability of the country and its favorable investment environment, though there are still some issues. So they want to seek business opportunities in Vietnam.



**How will the difficulties of the US economy influence the US' investment and trade with Vietnam?** As the whole world is afflicted by economic difficulties, impacts on US-Vietnam investment and trade are natural. But even in that context, American businessmen and officials of states still have come to Vietnam to survey the market and seek cooperation opportunities. US businessmen still want to promote investment and trade with Vietnam.

**When will the Vietnamese consulate in Houston, Texas be opened?** The two foreign ministries are discussing this issue. The US also wants to expand its consulate in HCM City. Negotiations are about to close. I hope that in the next several months, the Vietnamese consulate in Houston will open.

**The US has said it intends to open a consulate in the central city of Da Nang. How is this work going?** The US previously expressed the idea of opening a consulate in Da Nang, but they haven't brought it up again. They want to expand the consular area of HCM City to the central region and the southeastern and southwestern regions while we want to open the general consulate in Houston and a consulate in Seattle.

**Is the volume of overseas remittance sent back home by Vietnamese-Americans this year affected by the US economy's difficulties?** Yes, it is because Vietnamese in the US are not rich. The richer they are, the greater the losses they have suffered. But we don't have statistics about overseas remittance from the US.

**How about the exemption of visas for Vietnamese-Americans?** There are 1.5 mil Vietnamese people in the US and they are exempted from entry visas to Vietnam, except some who are banned from entering Vietnam. This is the same rule as in any country. Everyone who respects the law, is not publicly hostile to Vietnam, enjoys the visa exemption right.

*(Source: Xuan Linh)*

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### **How are companies eligible for tax reductions defined?**

Deputy Director of the General Department of Taxation Pham Van Huyen spoke about the decision to lower taxes and delay tax payments for enterprises from now through 2009.

**What criteria define enterprises that are facing difficulties and therefore eligible for tax reductions or delayed tax payments?** The Ministry of Finance is still studying and drafting specific criteria. For small- and medium-sized enterprises (SMEs), the authorities will lower corporate income tax as much as 30 per cent for the fourth quarter this year and the whole of 2009.

Under current regulations, there are two criteria to determine SMEs. These companies must have registered capital of under VND 10 bil (USD 595,000) and have less than 300 employees. Companies operating in other sectors will also be able to enjoy tax incentives. The Government will decide how many companies and which sectors qualify.

**Some people worry about corruption occurring during procedures to determine enterprises that qualify. What do you think?** The tax sector is determined to carry out transparent administrative procedures. Therefore, while drafting the criteria, we will focus on simplifying procedures and will publicize the criteria in the media so that enterprises can easily confirm if they qualify - and people can check on tax officials to prevent corruption.

We are well aware that supporting enterprises efficiently in this time is an important measure to nurture the State budget. If we fail to help companies overcome difficulties in a timely manner, it will hard to increase the State budget collection.

Leaders of the Ministry of Finance have asked the tax sector to closely supervise tax officials to see just how well they do their jobs.

**What other measures are being considered to assist struggling enterprises?** We will streamline procedures and shorten the time for tax refunds to reach enterprises, especially export companies. Specifically, we have asked tax authorities to make refunds within 15 days to companies that satisfy conditions. Particularly, export firms, if guaranteed by banks, can receive up to 90 per cent of taxes paid.

**Home businesses will have to pay personal income tax instead of corporate tax. Will this reduce the State collection?** Lowering taxes is meant to tackle difficulties faced by companies, but it's also a challenge for the tax sector because it still has to achieve the amounts set by the National Assembly. The estimated amount that will be lost under the new measures is tens of trillions of dong.

Currently, there are 1.7 mil home businesses. Previously, they had to pay taxes at fixed rates because they did not have invoices. When they have to pay personal income tax, it will be lower because of deductions for dependants.

**What do you think of the suggestion by some Government officials to postpone the implementation of personal income tax?** To some extent, their concern is reasonable when taking into account some income sources subject to the tax, such as profits from securities investment. During the gloom of the stock market, many investors did not earn profit. If we levy a fixed income tariff rate, it means that they will have to pay additional tax. However, the National Assembly will make a final decision on whether the implementation of tax will be delayed or not.

(Source: VietnamNews)

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## NEWS IN BRIEF

**US real estate firm opens Vietnam office** - Sotheby's International Realty Affiliates LLC, the US-based luxury real estate network, has opened its first office in Vietnam to service Vietnam, Cambodia and Laos. Vietnam Sotheby's International Realty will sell and lease luxury residential properties in Vietnam and around the world. Michael R. Good, President and CEO of Sotheby's International Realty said Vietnam was "a very important market" for the company. The office, located at 6 Thai Van Lung Street in Ho Chi Minh City's District 1, is owned by Indochina Land, a real estate subsidiary of Indochina Capital, according to the press release. Sotheby's International Realty and Indochina Land signed an exclusive 25-year licensing agreement for Vietnam in January.

**Deal inked to set up supermarket in Dong Nai** - Supermarket chain Saigon Co.op and Tin Nghia Company, a state-owned developer, will build a USD 1.2 mil complex of retail markets in Dong Nai Province. Co.op Mart Tan Bien, the retailer's second outlet in Dong Nai Province, will be located in an area of 4,000 square meters and is scheduled to open in the third quarter of next year. Under the deal, the two firms will set up a series of supermarkets in Tin Nghia Company developments in Dong Nai Province, according to a Saigon Co.op executive.

**Mekong Fund invests in Digiworld** - Mekong Capital, a foreign-invested fund management firm, will invest USD 5 mil in information technology distributor Digiworld Corporation. Under a deal signed Tuesday (16-12), Mekong Capital, which runs the USD 50 mil Mekong Enterprise Fund II launched 2006, will help Digiworld Corporation expand its business in local the market. Digiworld is the eighth investment of the fund, which focuses on equity investments in unlisted companies in Vietnam. It has also invested in card producer MK Smart, fashion retailer Mai Son, Mobile World and Ashima mushroom hotpot chain operator Golden Gate. Mekong Capital also manages USD 31mil Mekong Enterprise and USD100mil Vietnam Azalea funds.

**Indians buy into garments** - House of Pearl Fashion Ltd will buy a 38 percent stake of Nam Long Garment Joint Stock Co, according to the State Securities Commission. The Indian firm is engaged in manufacturing, marketing, distributing and sourcing apparel. The acquisition will enable it to establish a manufacturing base in Vietnam. Nam Long produces 3 mil pieces of ready-to-wear garments per year.

**Mapletree to invest USD 70 mil in Bac Ninh's VSIP** - MapleTree Co., Ltd (Mapletree) has pledged to invest USD 70 mil in northern Bac Ninh-based Vietnam-Singapore Industrial Park (VSIP) to build infrastructure facilities for logistics services in an area of 55 ha. According to the provincial People's Committee, Mapletree expects its project, when completed, will facilitate the development of logistics services in the northern region and attract big names in logistics industry to the province. The 700-ha Bac Ninh-based VSIP, inaugurated last year, has so far attracted 18 domestic and foreign investors with registered capital of over USD 300 mil.

**BIDV, Citibank sign int'l agreement** - The Bank for Investment and Development of Vietnam (BIDV) on Dec. 15 signed a memorandum of understanding (MoU) with Citibank for international banking payment services. The MoU is expected to promote stronger relations between the two banks, and help the Vietnamese side develop its services in offshore markets. The two banks have already cooperated in managing money flows, developing capital and finance markets, sharing risks, providing derivatives and training human resources. The same day, another MoU was also inked between the Hanoi-based bank and Thomson Reuters, under which the two partners will cooperate in providing and using news services. Thomson Reuters will provide news and software on managing money transfers, market risks and professional risks, which would help internationalize banking

businesses of the BIDV. BIDV's policy and business announcements will be publicized through the Thomson Reuters network.

**Dong Thap to become Mekong sub-region economic centre** - The Prime Minister has approved a project to develop the Dong Thap border gate economic zone into a border urban area that will be a new economic hub in the Mekong sub-region. Covering a total area of over 319 sq.km and sharing 48.7 km of border lines with Cambodia the Dong Thap border gate EZ includes two international border gates, namely Thuong Phuoc and Dinh Ba. It also comprises of five secondary border gates, 11 communes, and two towns. All projects invested in the EZ's industrial and commercial areas will be entitled to preferential treatment in regard to investment incentives, tax and foreign trade that are applied for areas with especially difficult socio-economic conditions.

**Japanese company builds auto part factory in Ben Tre** - Japan's Fukukawa Automotive Systyne Co, Ltd will invest USD 16 mil in a factory producing electric wires for automobiles in the Mekong Delta province of Ben Tre. Located at the Giao Long Industrial Park in Chau Thanh district, the 3.5 ha factory is designed to have an annual capacity of 3.6 mil units, mainly for export. Once operated in late 2009, the factory is expected to generate 2,900 jobs. The company now runs a similar factory at the Tan Thuan Export Processing Zone in Ho Chi Minh City.

**Vietnam yet to open up oil retail market** - Vietnam is yet to open up its petrol, oil, medicine and print publication retail markets as of Jan 1, 2009, a senior government official said on Dec. 14. Deputy Minister of Industry and Trade Le Danh Vinh told young entrepreneurs at a dialogue in Hanoi that the steel, cement and fertilizer retail markets will not open within the next three years. According to the deputy minister, foreign retailers are required to get permits from the Ministry of Industry and Trade to open their second sales agents in Vietnam. Vietnam is supposed to open up its domestic retail market as of early 2009 as part of its WTO commitments.

**Steel prices increase** - Just after the Ministry of Finance adjusted import tariffs on structural steel, steel producers have increased steel prices by VND0.8m (USD 48) per ton compared with prices in November.

Structural steel is currently sold at about VND12m (USD717) per ton in the market. However, prices are still 50 percent lower than peak prices in August. Steel retailers say that demand for structural steel has increased toward the end of the year, contributing an increase in steel prices. Vietnam Steel Association says that steel output grew to 300,000 tons in November, double the previous three months. It is predicted that output will continue to rise by 300,000 tons by December and January, as builders try to finish construction before the Tet holidays. Steel prices have also been affected by the sharp rise in prices of steel ingots. A ton of steel ingots costs between USD 400-450, up from November by USD100-150.

**VDC holds draw for trip to US** - VDC is holding a lucky draw for MegaVNN customers, offering a trip for two to the US valued at more than VND 82 mil (USD 4,823). The contest, entitled '1 mil km with MegaVNN', will see the country's leading internet provider give out another five second prizes including tours to Thailand valued around VND 15 mil each. In total, the draw will offer VND 150 mil in prizes, according to VDC, which holds 55.9 per cent of the ADSL market. Introduced in 2003, MegaVNN has become one of the most popular internet providers in the country, with nearly 1.3 mil ADSL subscribers.

**Lam Dong asked to speed up economic restructuring** - The Central Highland Province of Lam Dong needed to quicken its economic restructuring, Deputy Prime Minister Hoang Trung Hai said during a meeting with its senior officials in Dec 14. The province had not fully explored, or exploited, its potential for the processing of agricultural produce or small thermal power generation, he said. The deputy PM asked participants at the meeting to focus on the implementation of group solutions, the exploration of comparative and potential advantage and sustainable socio-economic development. Proposals to seek Government help in basic transport and irrigation construction, the support of economic groups and co-ordinate investment for major projects were all approved at the meeting.

**USD 225,000 granted to support rule of law in Vietnam** - Vietnam will be helped to effect the WTO mandated strengthening of the rule of law in the country with a one-year grant of USD 225,000 from the General Electric (GE) Foundation. The grant will fund a program that will enhance the work being done by the US-Vietnam Trade Council Education Forum (USVTCEF) and Star Vietnam, a US funded initiative to support legal governance in the country. Under the program, USVTC-EF and Star Vietnam will work in collaboration with Vietnamese state agencies on increasing transparency and public participation in the law and rule making process.

**Vietnam will reduce imports by around 13% to USD 84 bil from a previous forecast of USD 96.6 bil due to falling commodity prices** - A government trade report said on Thursday (11 Dec). The lower import value means the country's trade deficit in 2009 could shrink to between USD 17 bil and USD 18 bil, instead of USD 19.9 bil forecast last month, the Industry and Trade Ministry report said. The trade deficit this year is forecast by the government to be USD 19 bil.

**The State Securities Commission of Vietnam has approved the initial public offering applications of two local banks, the SSC said in a statement Wednesday (10 Dec)** - Ho Chi Minh City-based Gia Dinh Commercial Joint Stock Bank and Dong Nai-based Dai A Commercial Joint Stock Bank will offer 50 mil shares each in their respective IPOs within the next three months, the SSC said. The IPOs will help the banks meet the State Bank of Vietnam's requirement that all banks in the country must have registered capital of at least VND1 tril by the end of this year. Both banks currently have registered capital of VND 500 bil (USD 30 mil), the SSC said.

**Vietnam has lowered gasoline prices by 8% as world oil prices hover around USD 43 a barrel** - The government said Wednesday (10 Dec) that effective immediately, the price of gasoline was cut to 11,000 dong (65 cents) per liter. The government also raised import tax from 35 percent to 40 percent. The government has cut gasoline prices 10 times since they reached a high of 19,000 dong (USD1.1) in July when world oil prices hit a record high of nearly USD150 a barrel. Vietnam exports about 16 mil tons of crude oil each year but has to import all refined oil products. The country's first oil refinery is scheduled to open early next year.

**Aerogie.plus Solutions Inc. will start the construction of a USD 18.3 mil wind power plant in southern Vietnam early next year** - A local government official said Tuesday (9 Dec). The plant, which has a designed capacity of 7.5 megawatts, will be located on Con Dao Island off Ba Ria Vung Tau province, 100 kilometers east of Ho Chi Minh City, said Huynh Xuan Vinh, a senior official of the province's planning and investment department. "The company is waiting for approval from the Ministry of Defense of the exact location of the plant before construction can start sometime prior to May next year," Vinh told Dow Jones Newswires. Construction of the plant is scheduled for completion by mid-2010, Vinh said. Aerogie.plus is based in Switzerland.

**Vietnam's State Treasury plans to raise 500 billion dong at a government bond auction this week** - The Hanoi over-the-counter exchange said on Tuesday. It will sell two-year bonds on Thursday and the debt will be issued on Dec. 15, the exchange said in a statement. Two-year government bond yields fell to 10.36 percent on Tuesday from 10.48 percent on Monday.

**Cavico Transportation has received permission from the local government to build a wind farm in the Lam Dong province** - In October 2008, Cavico had received approval from the officials of Lam Dong province to study and evaluate different areas in the province for possible wind farms. In this first phase, Cavico is studying the construction of a 30MW wind farm, which will connect to the national grid upon completion. The feasibility study at the site is expected to be completed over a period of one year and will involve collection of wind data and detailed analysis to determine the scope and size of the wind turbines. Prior to the completion of the study, Cavico plans to begin construction of connecting roads and other site preparations.

**The State Bank of Vietnam has issued a new regulation aimed at securing the stability of the nation's banking system** - Under Decision No 34/2008/QD-NHNN, issued on December 5, a credit institution is not allowed to invest more than 11% of its registered capital to any single enterprise. The decision also limits the total capital contribution of a single credit institution and its affiliates in a single enterprise, investment fund, project or other credit institution to no more than 11% of the charter capital of that enterprise, investment fund, project or credit institution. Total capital contribution by a credit institution in all related enterprises, investment funds, projects or credit institutions must not exceed 40% of the credit institution's charter capital and reserves.

**The State Securities Commission of Vietnam Thursday said it has approved the initial public offering application of Dai Tin Commercial Joint Stock Bank** - The bank, located in the Mekong Delta province of Long An, will offer 49.59 mil shares in its IPO within the next three months, the SSC said. The IPO will help the bank meet the State Bank of Vietnam's requirement that all banks in the country must have registered capital of at least VND1 trillion by the end of this year. Dai Tin currently has registered capital of VND504 bil (USD30.5 mil), the SSC said.

**The Vietnam Construction, Building Materials and Real Estate Exhibition (Consmat 2008) opened in Hanoi on Dec. 10** - At 200 pavilions of Consmat, businesses show their products and services, including urban plans; housing, office building, hotel and industrial zone projects; construction technology, and a wide range of building

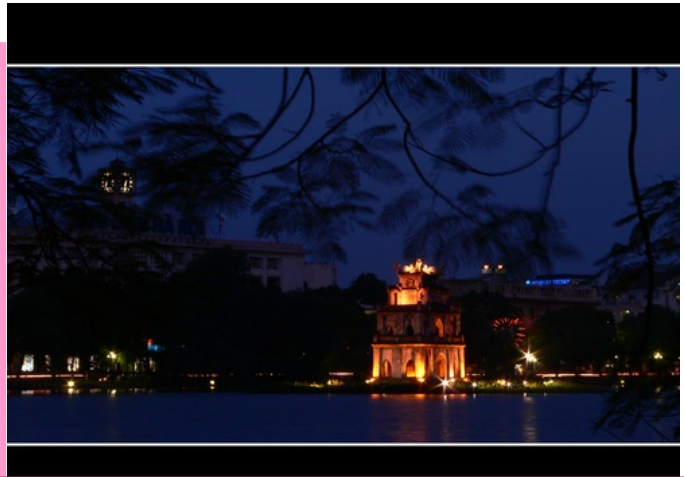
materials. Exhibits also include equipment for treatment of water, drainage, and waste, interior decorations, and firefighting and security equipment. During the five-day exhibition, seminars on new construction materials and a programme for businesses' bilateral contacts will be held.

**Major domestic roads will be built in Vietnam by a leading Japanese company, Central Nexco Expressway Ltd Co** - According to speakers at the opening ceremony of the company's first Vietnam office on Dec. 8. Nexco and Vietnam Expressway Corporation (VEC) signed an MoU a year ago to share information, investment experiences and knowledge about expressway building in Vietnam. VEC is a State-owned company and operates in the fields of investment fund absorbing, construction management, operation, toll fee collection, maintenance and reinvestment. Established in 2005, Nexco is worth 6 bil USD and controls more than 1,746 kilometers of road in Japan.

**Saigon Trading Corporation (SATRA) has expanded its operations into the franchising business in cooperation with Singapore's Asiawide Franchise** - The two companies will organize a seminar on how franchising can help businesses overcome current economic difficulties. The seminar, which will be held on Dec. 18, will draw around 20 franchisers from outside Vietnam specializing in a wide variety of industries. SATRA is advising two of its food processing affiliates, Vissan and Agrex Saigon, to standardize their retail systems as a first step in franchising their brand names.

**The Japanese pharmaceuticals and cosmetics producer, Rohto Mentholatum Vietnam Co. Ltd., has doubled its production in Vietnam** - The Rohto Mentholatum Vietnam General Director, Masaya Saito, said the expansion of the workshop and warehouse shows the company's optimism about the economic prospects of Vietnam that is expected to emerge as an attractive retail market in Southeast Asia. After 12 years of operation in Vietnam, Rohto has now occupied the largest market share for eyes, lips and skin care products and other pharmaceutical and cosmetic products. Despite the global economic recession, the wholly Japanese-owned firm, which has an initial investment of USD 18 mil, posted a growth rate of 40% this year.

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