

## Opportunities and Pitfalls in Vietnam: A Business Perspective

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SOCIALIST REPUBLIC  
OF VIETNAM

## OUTLINE

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2. WTO Entry
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  - b) Why join WTO?
  - c) Post WTO
3. Key Industries
4. Success Indicators
5. Pitfalls
6. Case Studies/Research results
7. Conclusion

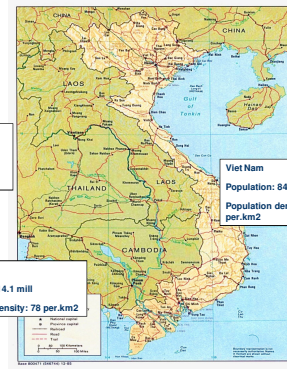
## Overview of Vietnam

Area: 330,991 sq km

Population : 84.2 million

Geography: borders China to the North and Laos and Cambodia to the West. South China Sea to the East and South. 3,260 km long coastline

Climate: Essentially tropical. However North has 4 distinct seasons, and South is warm all year round(+/- 3 degrees)



Capital Hanoi: 3.3m+  
Commercial Hub: Ho Chi Minh City: 7m+

## Overview of Vietnam

Official Language: Vietnamese (official), English (increasingly favored as a second language), some French, Chinese, and Khmer; mountain area languages (Mon-Khmer and Malayo-Polynesian)

Major Religions: Buddhism 9.3%, Catholic 6.7%, Hoa Hao 1.5%, Cao Dai 1.1%, Protestant 0.5%, Muslim 0.1%, none 80.8% (1999 census)

Ethnic Profile: Kinh (Viet) 86.2%, Tay 1.9%, Thai 1.7%, Muong 1.5%, Khome 1.4%, Hoa 1.1%, Nun 1.1%, Hmong 1%, others 4.1% (1999 census)

GDP: US\$61.5 billion (2006 est) CPI: 5.2%

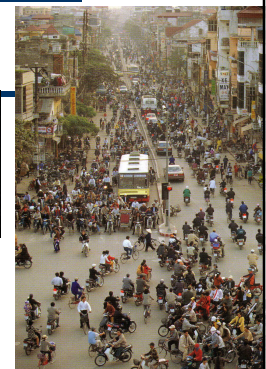
Per capita income: US\$835(2007), US\$960(2008 forecasted)

GDP Growth Rate: 8.2% (2006) , 8.4%(2007 est), 8.5-9%(2008 forecasted)

Currency: Vietnam Dong (VND)



Ho Chi Minh - Photo: Han Kemp



Hanoi - Photo: Han Kemp

## WTO Entry

- WTO entry seen as a very important parameter for Vietnam
- Before WTO:
  - I. Bureaucratic red tape
  - II. Inefficiencies, with many SOEs draining resources
  - III. Protection of domestic produce through high import taxes

## Why Join WTO?

- Economic advancement
  - Market access for Vietnamese goods
  - Integration with Global Economies
- But also political
- Communist/socialist ideology under pressure
  - Greater economic growth alleviates pressure on the one-party system

## Post WTO

- Administrative reforms
- Lowering of tariffs
- Schedule of specific commitments to open up economy gradually

### Results:

- Exports – US\$48b(2007 est) ↑ 20%
- FDI – US\$13b(2007 est) ↑ 28%
- Projected FDI in 2008 to reach US\$14.5b
- Second fastest growing economy in Asia after China

## Post WTO

➢ UN Conference on trade and Development (UNCTAD) ranked Vietnam 6th most attractive destination for FDI for 2007-2009, 3 years ago it was ranked 50 (UNCTAD World Investment Prospectus Survey)

➢ AT Kearney's "Globalisation index" ranked Vietnam as 48<sup>th</sup> position out of 72 countries from 2005 statistics, expected higher position in 2008. (Malaysia 23<sup>rd</sup> position, Thailand 53<sup>rd</sup>)

➢ World Bank declared Vietnam eligible for International Bank for Reconstruction and Development financing. World Bank expect to provide US\$800m a year over next 5 years interest free grants and loans.

## Key Industries

- Energy
- Information technology
- Aviation
- Finance
- Banking
- Insurance
- Education
- Property development
- consumer

### Golden Opportunities- Pre- approved

- ✓ Infrastructure
- ✓ Agriculture-forestry-fisheries
- ✓ Tourism

## Key Industries

### Key Export Items with Largest Growth in 2007(SEPT 07)

TOTAL EXPORT TURNOVER	US\$35.2B ^19.4%
GARMENT/TEXTILE	US\$5.8B ^31.7%
ELECTRONICS/COMPUTER	US\$1.513B ^23.6%
WOOD	US\$1.7B ^24.8%
TARGET FOR 2007	US\$48.1B ^20.5%
TARGET FOR 2008	US\$58.6B

SOURCE: MINISTRY OF INDUSTRY AND TRADE

## Infrastructure

Engagement of urban planning experts from Japan and France. Master plan till 2025

- Roads: New Expressways – national highway
- Sea Ports: Coastal expressway. Construction of economic centres in coastal regions. Related services- shipbuilding, transportation, freight forwarding, and logistics.
- Airports- 6 airports for construction.
- Urban centres- new regional centres identified. Hanoi, HCM city, the central vital area, the Southern central area, and the Mekong Delta
- Linkage will be overland, railway, aviation and waterways.
- Property Development

## Property Development



Source: the Edge Singapore

Long Queue of more than 500 people outside a showflat in Oct 07

## Property Development

- Acute shortage of Grade A Office and top end apartments
- Shopping centres 99% leased in Hanoi and Ho Chi Min
- Grade A office buildings in HCM fully leased. Rentals at over US\$50 psm per month.
- Upscale Condominium units start from US1600 psm . Price has doubled since 2004. 85% Vietnamese buyers.
- “Ho Chi Min is like Shanghai eight years ago while hanoi is like Beijing” CEO of Capitaland SEA.

## Agriculture-Forestry-Fisheries

- 2007 export target of US\$4b of seafood achievable
- 11 percent increase from 2006
- The State encourages foreign investors to invest in agricultural products, forestry, wooden products, and breeding in order to increase the value of agricultural products for export and reduce poor quality products being exported
- Objective is to improve the rural infrastructure, training skills for farmers, researching science, and transforming technology.

## Agriculture-Forestry-Fisheries

### Minerals:

Coal, Iron, Aluminium, Tin, and Oil

Agricultural & Forestry Products:  
Rice, Maize, Sweet potato, Peanuts,  
Soy Beans, Rubber, Lacquer,  
Coffee, Tea, Tobacco, Cotton,  
Coconut, Sugar Cane, Jute,  
Tropical & Sub tropical fruits.



- ❖ Woodwork export target of US\$2.5b (2007) ^ 22.4%
- ❖ World No.1 Cashew exporter
- ❖ World No.1 Pepper exporter
- ❖ World No.2 Coffee exporter
- ❖ World No.2 Rice exporter

## Tourism

- HCM Tan Son Nhat airport expected to receive 11 million passengers in 2007. target 15-17 Million by 2010.
- More than 3.5 mill foreign visitors ↑ 17.8% (up to Oct 07) Target of 5.5 mill by 2010
- Hotels In HCM and Hanoi have average of 90-99% occupancy rate
- Target of 15,000 to 20,000 four-five star rooms by 2010
- Other resort areas – Hue, Danang

## Tourism

- opportunities for high quality resort development, hotel development and tourism infrastructure development - tourism sites, training and education, tourist related services

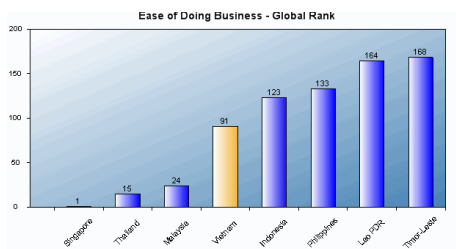


## Success Indicators

- ✓ Safe and Stable Environment- voted safest country to do business in Asia Pacific by the Political and Economic Risk Consultancy (PERC)
- ✓ Well-integrated into the World economy by being member of WTO, APEC and ASEAN
- ✓ Large domestic market with a growing middle class
- ✓ Young and competitive workforce: 60% under 30 years old, competitive labour cost and motivated and disciplined talent pool

## EASE OF DOING BUSINESS

Vietnam is ranked 91 out of 178 economies.



SOURCE: WORLD BANK REPORT- DOING BUSINESS 2008

## Ten stages of a Business's life

Vietnam's ranking out of 178 economies

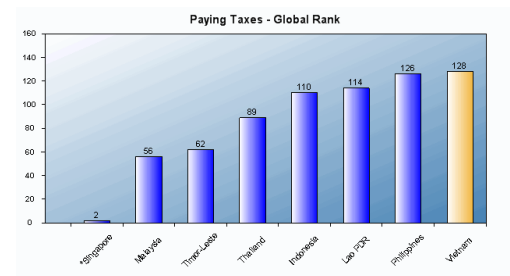
Ease of Doing Business	91
Starting a Business	97
Dealing with Licenses	63
Employing Workers	84
Registering Property	38
Getting Credit	48
Protecting Investors	165
Paying Taxes	128
Trading Across Borders	63
Enforcing Contracts	40
Closing a Business	121

SOURCE: WORLD BANK REPORT- DOING BUSINESS 2008

## Pitfall : Starting a business in Vietnam

- It requires 11 procedures, takes 50 days.
- Time-consuming
- Dept of Planning and Investment receives 800 people a day
- Guidelines outdated
- Dept overwhelmed with volume of new applications
- Should be improved in near future as DPI, tax bureau and police dept signed agreement to simplify procedures

## Ranking of Paying Taxes

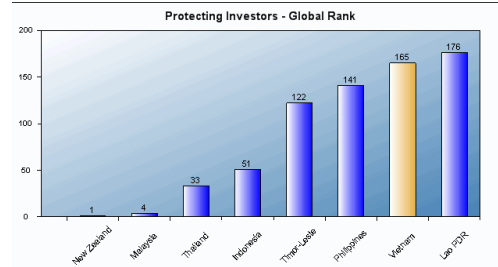


SOURCE: WORLD BANK REPORT-DOING BUSINESS 2008

## Pitfall : Paying taxes

- Vietnamese entrepreneurs are among those who spend the most time to fulfil tax requirements.
- On average spend 1050 hours, equivalent to 130 staff days to complete procedures relating to taxes (VAT, corporate income tax, labour contribution by company etc.)
- Average of 32 payments a year and pay 41.6% of gross profit in taxes per year
- Law on tax management passed and took effect July 2007. yet to see impact.

## Pitfall: Ranking of Protecting Investors

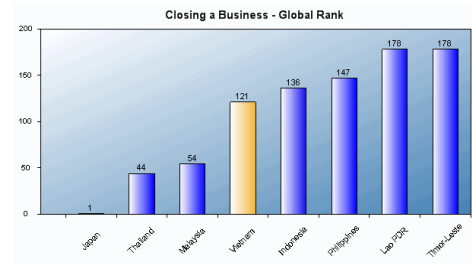


SOURCE: WORLD BANK REPORT-DOING BUSINESS 2008

## Pitfall : Protecting investors

- Relates to investors in public listed companies
- 3 dimensions of investor protection: Transparency of transactions (Disclosure), liability for self-dealing (extent of director liability), and shareholders' ability to sue officers and directors for misconduct. Vietnam scored:  
 Extent of disclosure Index 6/10  
 Extent of director Liability Index 0/10  
 Ease of shareholder Suits Index 2/10  
 Investor Protection Index 2.7/10  
 (Source: World Bank report)
- New securities and enterprise laws have been adopted to strengthen investor protection.

## Ranking on ease of closing a business



SOURCE: WORLD BANK REPORT-DOING BUSINESS 2008

## Pitfall : Closing a business in Vietnam

- Problematic to close a business in Vietnam
- Current mechanism for dealing with bankruptcy difficult and time consuming
- If official procedures are applied: it takes more than 5 years, cost up to 15% of property value, recovery rate of only 18%
- Very few enterprises terminate their business using official regulations and procedures

## Pitfall : Others

- Rise in business related cost- rentals, salary of management (40% ^ for uni graduates)
- Inconsistent interpretation of law
- Lack of skilled work force- only 32% is trained
- Lack of local middle to top management
- Report from Ministry of Labour, war invalids, and social affairs- Vietnam is severely lacking in highly skilled labour and service workers in the fields of finance, banking, tourism and salesmanship

## Case Study

- Malaysian companies invested in Vietnam approximately 150 registered. Largest investor is Petronas.
- First Malaysian company listed on HCM stock exchange – wonderfarm (Interfood shareholding company)
- Berjaya group embarking on US\$3.5b urban development project in HCM- 884ha International university urban area
- JRD Automobiles group invested in a automobile factory to produce 5-7 seat passenger cars
- Parkson department store to open 4<sup>th</sup> outlet next month

## Parkson Dept Store

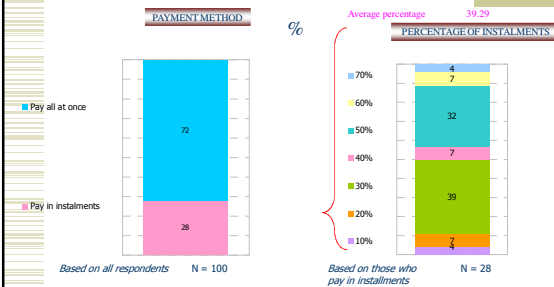
- ↔ 2 stores in HCM in last 2 years and 1 store in Hai Phong
- ↔ 1 store to open in Hanoi Jan 2008
- ↔ Only 3 foreign dept stores in Vietnam
- ↔ Vietnam voted 4<sup>th</sup> most attractive retail market in the world behind India, Russia, and China on the Global Retail Development Index by AT Kearney group
- ↔ Spending on consumer goods is growing by 20% year on year



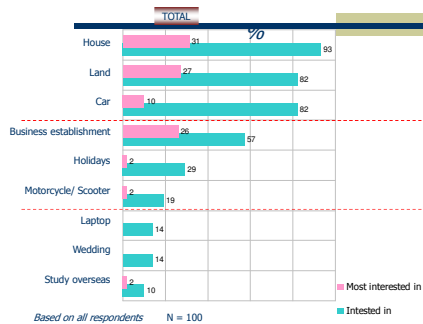
## Research findings for new entrant

- Objective of the survey was to find out about the car market in Vietnam - consumer as well as dealer perspective
- Completed in Nov 2007
- Incorporate with business plan and feasibility study

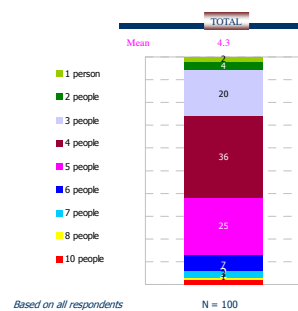
## Means of purchase



## Purchase Priority



## Size of Family



**THANK YOU!**

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