

## PART 1

# Considering Vietnam— Get Ready!

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## CHAPTER 1

# Why Vietnam?

### A SNAPSHOT OF VIETNAM'S ECONOMY

**GDP (2008):** \$89.98 billion.

**Real growth rate (2008 est.):** 6.2 percent.

**Per capita income (2008):** \$1,024.

**Inflation rate (May 2008):** 25 percent.

**External debt (2008):** 29.8 percent of GDP, \$21.8 billion.

**Natural resources:** Coal, crude oil, zinc, copper, silver, gold, manganese, iron.

**Agriculture, forestry, and fisheries:** (20.25 percent of GDP, 2007)

Principal products—rice, maize, sweet potato, peanut, soy beans, cotton, coffee, cashews.

**Cultivated land:** 12.2 million hectares.

**Land use:** 21 percent arable; 28 percent forest and woodland; 51 percent other.

**Industry and construction:** (41.62 percent of GDP, 2007) Principal types—mining and quarrying, manufacturing, electricity, gas, water supply, cement, phosphate, and steel.

**Services:** (38.13 percent of GDP, 2007) Principal types—tourism, wholesale and retail, repair of vehicles and personal goods, hotel and restaurant, transport storage, telecommunications.

**Trade (2007):** Exports—\$48.39 billion. Principal exports—crude oil, garments/textiles, footwear, fishery products, wood products, rice

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(second-largest exporter in world), sea products, coffee, rubber, handicrafts. Imports—\$60.8 billion. Principal imports—machinery, oil and gas, garment materials, iron and steel, transport-related equipment.

**Major export partners:** U.S., EU, Japan, China, Singapore, Australia, Taiwan, and Germany.

**Major import partners:** China, Japan, Singapore, Taiwan, South Korea, Hong Kong, and Thailand.<sup>1</sup>

### ECONOMIC OVERVIEW

Vietnam is the 13th most populous country in the world and it has tremendous potential for a growing role in the global economy. It may be a late bloomer compared to other Southeast Asian nations such as Singapore, but the country seems destined for a positive future. Vietnam's GDP numbers are climbing at a record pace and much of this growth has been, and will most likely continue to be, due to the increasing levels of foreign investment. However, Vietnam seems to have a love-hate relationship with foreigners. Given its history of invasions (and some might say exploitations) by outside entities usually followed by fighting and then isolation, there is a warm welcome for invested funds but not necessarily the company/management that brings in the investment. There is an undercurrent of skepticism in many an investor, given the relatively insular nature of Vietnam in recent history, as well as Vietnam's philosophical reasoning for past isolation. Gaining trust is tricky for both parties. Foreigners want to trust that the historic cycles of boom and bust, of open and closed, have changed, and that the country will not choose to segregate itself from the international community again, while the government of Vietnam wants foreign cooperation without exploitation. These sometimes competing desires make for interesting government and industry interactions, as well as for potential misunderstandings and

misinterpretations for both industry and government. Despite the following upbeat report from *The World Factbook*, there is still much work to be done in creating an inviting atmosphere for investors.

World Trade Organization (WTO) membership has provided Vietnam an anchor to the global market and reinforced the domestic economic reform process. Among other benefits, accession allows Vietnam to take advantage of the phase-out of the Agreement on Textiles and Clothing, which eliminated quotas on textiles and clothing for WTO partners on January 1, 2005. Agriculture's share of economic output has continued to shrink, from about 25 percent in 2000 to less than 20 percent in 2007. Deep poverty, defined as a percent of the population living under \$1 per day, has declined significantly and is now smaller than that of China, India, and the Philippines. Vietnam is working to create jobs to meet the challenge of a labor force that is growing by more than one-and-a-half million people every year. In an effort to stem high inflation which took off in 2007, early in 2008 Vietnamese authorities began to raise benchmark interest rates and reserve requirements. Hanoi is targeting an economic growth rate of 7.5-8 percent during the next four years.<sup>2</sup>

According to the Heritage Foundation, which tracks economic freedom around the world:

Vietnam's economy is 49.8 percent free, according to our 2008 assessment, which makes it the world's 135th freest economy. Its overall score is 0.4 percentage point better than last year, mainly reflecting an improvement in trade freedom. Vietnam is ranked 25th out of 30 countries in the Asia-Pacific region, and its overall score is lower than the regional average.

In terms of size of government, Vietnam is above the world average. Government fiscal expenditures equal about one fourth of its GDP, which is relatively low comparatively speaking. Tellingly though, this statistic is limited in its utility. Weaknesses in Vietnam's government drive the low expenditure rate rather than bureaucratic efficiency. For a government that imposes relatively high personal tax rates, tax revenue is not accordingly high. This could be due to tax evasion, or due to lower-than-average personal income, or a combination of these factors.

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Structurally, Vietnam has a weak record on financial freedoms, including investment, property rights and the freedom from governmental and private corruption. Although it is undergoing reform, the financial sector is neither well-regulated nor independent of the government. Despite some progress, foreign investment is subject to an array of opaque regulations and cannot be guaranteed legally. The judiciary is subject to political influence, and commercial cases often take years to reach resolution. Corruption is a serious problem in the legal system, as well as in the civil service as a whole. Various forms of corruption that affect foreign investors will be covered in depth throughout the book.

It is clear by looking at the numbers that many firms have decided, as illustrated in Table 1.1, the risks of entering Vietnam do not outweigh the rewards. In 2007, Vietnam attracted \$21 billion in foreign direct investment (FDI), which was double the FDI amount in 2006, and as of mid-2008, was expected to attract \$23 billion in the first half of the year. Foreign

**Table 1.1** Top 10 sectors attracting foreign direct investment in Vietnam in 2007

Rank	Areas attracting Foreign Direct Investment	Percentage of Total Foreign Direct Investment
1	Manufacturing	45 percent
2	Construction of new apartments and buildings	26 percent
3	Hotel construction and other tourism-related projects	11 percent
4	Other construction	6 percent
5	Transport, post, telecom	3 percent
6	Industrial zone development	2 percent
7	Agribusiness including both agriculture and aquaculture (i.e. fisheries)	2 percent
8	Service sector	2 percent
9	New urban development	2 percent
10	Education, health and cultural	1 percent

Source: Ministry of Planning and Investment

direct investment into Vietnam is almost three times that of its behemoth northern neighbor, China, in per capita terms.

The areas that the Vietnam Ministry of Planning and Investment are most interested in increasing foreign direct investment into include:

1. Production of export goods;
2. Raising, farming and processing agricultural, forestry and aquatic products;
3. Investments involving high technology and know-how;
4. Environmental protection;
5. Research and development;
6. Labor-intensive industries;
7. The efficient use of raw materials and natural resources; and
8. Major infrastructure and production capacity projects.

*Source:* Department of Planning and Investment, Ho Chi Minh City

## SUMMARY

For more details by industry, please reference Appendix A. The industries mentioned in the sector overview are not meant to be all-inclusive lists of available opportunities. Many other foreign businesses and investments in other industries have been successful in Vietnam including, for example, the hotel and tourism industry.

Regardless of your industry or product, it is critically important to research your optimal legal set-up and create a plan to protect yourself and your interests before entering Vietnam. Much space in this book is spent on these important points. While the opportunities available are exciting, Vietnam is a high-risk country. Remember that Vietnam is a developing economy and the systems critical to company protection such as the judiciary and financial systems have not yet completely developed. These economic and operational systems shortcomings contribute to Vietnam's higher-than-average risk factor.

## WEB RESOURCES

Electricity of Vietnam Corporation (EVN): <http://www.evn.com.vn>  
Ho Chi Minh City Computer Association: [www.hca.org.vn](http://www.hca.org.vn)  
PetroVietnam: <http://www.petrovietnam.com.vn/Modules/PVHome.asp>  
The Asian Development Bank: <http://www.adb.org/VietNam/projects.asp>  
The World Bank: [www.worldbank.org.vn](http://www.worldbank.org.vn)  
Vietnam Chamber of Commerce and Industry: <http://vibforum.vcci.com.vn/>  
Vietnam Customs: <http://www.customs.gov.vn/>  
Vietnam Economy: <http://www.vneconomy.com.vn/eng/>  
Vietnam Internet Network Information Center (VNNIC): <http://www.vnnic.net.vn>  
Vietnam Investment Review: <http://www.vir.com.vn/Client/VIR/Default.asp>  
Vietnam Ministry of Industry and Trade (MoIT): <http://www.moit.gov.vn>  
Vietnam's Ministry of Information and Communications (MIC): <http://www.mic.gov.vn>  
Vietnam Ministry of Planning and Investment: <http://www.mpi.gov.vn/>  
Vietnam Ministry of Science and Technology (MOST): <http://www.most.gov.vn>  
Vietnam Post & Telecommunications Group (VNPT): <http://www.vnpt.com.vn>  
Vietnam Ministry of Health: <http://www.moh.gov.vn/homebyt/en/portal/index.jsp>

## ENDNOTES

1. "Vietnam Background Notes," U.S. Department of State, <http://www.state.gov/r/pa/ei/bgn/4130.htm>
2. *World Factbook: Vietnam*, U.S. Central Intelligence Agency, <https://www.cia.gov/library/publications/the-world-factbook/print/vn.html>