

# VIETNAM

# BUSINESS REVIEW

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## ECONOMY

## 45 countries recognize

## Vietnam's market economy

VNA - Vietnam has, to date, received recognition of its market economy from 45 countries worldwide, according to the Ministry of Industry and Trade.

This reflects the int'l community's acknowledgement of VN's efforts to reform its economy & foster int'l economic integration, encouraging other countries to make a similar assessment of VN's economy.

In the next time, VN Gov't will provide explanations of its market economy for several partners, including the US, the European Union, Canada & Mexico.

|   | 2013              | 2014              |
|---|-------------------|-------------------|
| <b>East Asia</b>                            | 6.0 (-0.5)        | 6.4 (-0.3)        |
| <b>Developing East Asia</b>                 | 7.1 (-0.7)        | 7.2 (-0.4)        |
| <b>China</b>                                | 7.5 (-0.8)        | 7.7 (-0.3)        |
| <b>Indonesia</b>                            | 5.6 (-0.6)        | 5.3 (-1.2)        |
| <b>Malaysia</b>                             | 4.3 (-0.8)        | 4.8 (-0.6)        |
| <b>Philippines</b>                          | 7.0 (+0.8)        | 6.7 (+0.3)        |
| <b>Thailand</b>                             | 4.0 (-1.3)        | 4.5 (-0.5)        |
| <b>Vietnam</b>                              | <b>5.3 (+0.1)</b> | <b>5.4 (-0.3)</b> |
| <b>Cambodia</b>                             | 7.0 (-)           | 7.0 (-)           |
| <b>Laos</b>                                 | 8.0 (+0.4)        | 7.7 (-)           |
| <b>Myanmar</b>                              | 6.8 (+0.3)        | 6.9 (+0.3)        |
| <b>Developing East Asia excluding China</b> | 5.2 (-0.5)        | 5.3 (-0.7)        |
| <b>ASEAN</b>                                | 5.1 (-0.3)        | 5.1 (-0.6)        |

## FIGURE &amp; EVENT

## 171 hours

per year is the total time for corporate tax procedures after adjusted by 8 times from 876 hours by Gov't to improve nation competitive competence.

## 37,000

is the number of solar panel systems which have been installed in 03 months with support from the program "Energy Saving" by EVN & Tan A Dai Thanh Group.

## VND26,090 bln

is the state budget's revenues from oils in the first 03 months of 2014, up 0.3% over the same period last year. The price is now at US\$112.8 per barrel.

## Vietnam GDP to post modest growth by 5.5% in 2014: WB

Stoxplus – VN's GDP is forecast to modestly grow by 5.5% in 2014, WB said in its updated report on East Asia Pacific Economics.

The forecast is given based on an assumption that the careful way in macro-economic will be implemented through pursuit of the prudent monetary policy; structure reforms will be continued with special attention to State Owned Enterprises (SOEs) and banking system, promoting private investments, etc.

In 2014, VN's macro-

economic situation will be improved but GDP growth remains below potential due to obstacles in the structures of SOEs & banking system, distortions in the policy that limits the domestic private investments & competition in some key industries, WB said.

VN's trade & current accounts are expected to continue in surplus position this year but in a lower level of 2013, WB said, forecasting that inflation is likely to be controlled in Gov't target of 7% with an assumption of modest credit growth & no supply shock.

VN macroeconomic achievements are seen to remain fragile, facing risks related to adverse factors such as total demand of the private sector is weak and easily influenced by any negative economic developments.



## BANKING & FINANCE

### Banks continue lowering deposit rates amid abundant capital

Dantri News - Many VN banks have continued slashing deposit interest rates for some short terms to below the ceiling level regulated by the State Bank of VN (SBV).

According to the latest interest rate announcement of VN Export Import Bank (Eximbank), the deposit interest rate for the term ranging from one to 3 months has been cut to 5.7% from 6% per year. The deposit interest rate for the 4-5 month term has also been slashed to 5.98% from 6% per annum.

A customer who deposits at the bank said for the term of between one to three months, a loan of at least VND50 mln (\$2,380) will be offered at a bonus interest rate of 0.1-0.3% per year.

Sacombank has also cut the deposit interest rate for the term of between seven and 11 months. Accordingly, the annual rate of 6.55% has been applied to the 7-8 month term and 6.7% for 9-10 month term and 6.8% for the 11-month term.

After the decision to lower the ceiling deposit interest rates of terms of less than 6 months issued by SBV in late March of this year, many banks have slashed the rates for short terms.

Regarding to the concern about the possible impact of the continual deposit interest rate cut on attracting deposits, Governor of SBV Nguyen Van Binh said this has not affected on luring deposits to banks.

### SBV moves on with plan to merge banks



VOV - SBV planned to merge six or seven more banks, SBV governor Nguyen Van Binh said.

Among the nine credit institutions restructured in Phase 1, which started in 2011, the Global Petroleum Joint Stock Bank

(GPBank) was the last weak bank that had not yet been merged. GBBank would be purchased by a foreign bank this year, Binh said at the Government's regular meeting earlier this week.

Some banks have already been withdrawn from the market through mergers, such as Habubank (merged with SHB), Western Bank (merged with PVFC financial company), Tin Nghia and De Nhat (merged into SCB).

Binh said that the restructured ailing banks were now stable, and that some of them had not only paid off

their refinancing loans to the SBV but also made good on their debts to other banks.

He said that SBV would directly inspect banks or hire independent auditors to do so as the restructuring process continued.

As for bad debts, he said that the percentage of low-quality assets on banks' balance sheets had dropped sharply. The rates range from about 3.6 to 3.9% in banks' reports, although the central bank's assessment is up to 7%.

## INVESTMENT

### Industrial zones attract more FDI

VNS - HCMC export processing & industrial zones received US\$243.5 million in FDI during Q1- 2014, up 97.3% from last year.

HCMC Export Processing and Industrial Zones Authority (Hepza) granted investment licences to 12 new FDI projects with total registered capital of \$223.2m during the period, up more than 8 times from the same period last year.

Meanwhile, 9 ongoing projects raised their existing capital by \$20.3m. HCMC granted investment licences to 8 new projects.

Internal capital inflow to the zones reached almost VND713.3 billion (\$33.91m), a year-on-year increase of nearly 65%.

Hepza has licensed 1,293 projects with total capital of over \$8b to date, of which 514 are FDI projects worth \$4.9b.

In Q2, Hepza plans to assist the Viet Nam – Japan Techno Park project, work harder to attract Japanese enterprises and accelerate the construction and expansion of the An Ha, Dong Nam and Tan Phu Trung industrial parks.

This year, the southern economic & biz hub aims to attract \$2.5b in FDI, 20% higher than last year's figure.

[www.seiko-ideas.com](http://www.seiko-ideas.com)

### Huge projects kicked off in Q1

Vietnamnet - Many foreign-invested projects worth billions of US dollars moved ahead in Q1-2014. Below are the largest ones.

#### 1. Nhon Hoi petrochemical project



Last Aug the Petroleum Corporation of Thailand (PTT) worked with the authority of Binh Dinh Province to develop a plan for a petrochemical project in the Nhon Hoi Economic Zone, with capital funding of \$25-30b.

After PM Nguyen Tan Dung agreed in principle, PTT officials came to VN in mid-March to join Vietnamese partners to complete the feasibility report for submission to the national government in the next 2 months.

#### 2. Nam Hoi An project casino

After a long idle time resulting from the withdrawal of Malaysian partner Genting, Vinacapital recently found a new partner, USA Peninsula Pacific Group, to re-launch this \$4b project in the Chu Lai Open Economic Zone.

According to the draft decree on casinos, each casino project requires a minimum of \$4b capital. In Quang Ninh Province, Tuan Chau Group and ISC of Australia are also planning to build a resort in Van Don, with a casino, at a total investment of about \$7 billion.

#### 4. \$2.5 billion resort in Phu Yen



The Vung Ro oil refinery project is being implemented after VN Gov't approved an increase of capital to \$3.2b, along with tax incentives.

Rose Rock, a company of oil tycoon Rockefeller family, and the Vung Ro Petroleum Company, are promoting a hotel and housing complex project worth \$2.5 billion in Vung Ro Bay. The project includes 4,300 apartments, 100 houses and retail stores.

In Q1-2014, VN attracted more than \$3.3b FDI, equivalent to only half of the corresponding period of last year, due to the absence of major projects.

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## ENTERPRISE



### Vietnam telecom giant to be privatised

ThanhNien News - Minister of Information and Communication Nguyen Bac Son said at a press conference that his ministry would oversee MobiFone's "equitization." VNPT, which owns MobiFone and another major operator VinaPhone and together with the military-owned Viettel holds over 95% of the market, would be restructured in the meanwhile.

Besides being able to raise funds for capital expenditure and business expansion, the company would also be forced to strengthen its management under shareholder pressure, he said.

MobiFone's improvement would cause pressure on VinaPhone and

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Viettel, forcing them to remain competitive, Vo Tri Thanh, deputy chief of the Central Institute for Economic Management, said at a meeting held recently to discuss restructuring of the telecom market. An unnamed Viettel executive agreed, telling the newspaper that the privatization of MobiFone would boost the telecom market and benefit the economy, businesses, and consumers.

Nguyen Trung Chinh, director general of CMC Joint-stock Company, an Internet service provider, said the plan is "a good sign" for the market.

If the three biggest telcos continue to be state owned, private businesses like CMC would have no room to develop, he said.

When one of them becomes private, the telecom market would become competitive, he said.

### Vinamilk tops payout value

VNS - Investors received dividends worth almost VND3 trillion (US\$142.8 million) in cash from the beginning of this year to date from 88 listed companies on both national stock exchanges.

Vinamilk (VNM) led in dividend payout by value in the first three months of this year, reaching VND667 bln (\$317.6m) at 8%.

This was the second payout advanced for the total dividend of 2013. Previously, the first dividend advance was paid at a ratio of 20% and the company's management board recently agreed to increase the ratio of the rest to 12% from 6%. REE Corporation (REE) came second with the amount of nearly VND422 bln (\$20m) in Q1-2014 at a ratio of 16%. Besides, PetroVietnam Insurance Holdings (PVI), HCM City Infrastructure Investment Corporation (CII), Hung Vuong Corporation (HVG) and Viet Nam National Reinsurance Corporation (VNR) also paid dividends of more than VND100 bln (\$4.8m).

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## MARKET & PRICES

### Market for smuggled goods shakes from Vietnam Airlines scandal



Dantri News - The market for smuggled goods in VN has been greatly affected after a VN Airlines' flight attendant was arrested by Japanese police for smuggling.

Many people often buy goods overseas then bring the items through customs as their personal belongings to sell them to the local market. Because they are not taxed the smuggled products are 25%-50% cheaper. Recently, increasing numbers of flight attendants have also brought in overseas commodities into VN.

Many shops that specializes in selling such products, even though they do not have permit from authorities, became popular because people feel confident in buying genuine products at cheaper prices.

However, after a VN Airlines flight attendant was arrested, these shops have to find another way to import goods. Many Japanese

products have also increased in prices due to transportation fees and Japan has just increased its sales tax by 8%.

The incident also made shop owners become more careful and only accept goods that have invoices.

However, consumers still prefer those commodities.

### Local spending remains modest

VNS - Consumer spending rose 5.1% in Q1-2014 reaching \$33.4b, up 10% on the same period last year, the General Statistics Office (GSO) announced yesterday.

In Mar alone, consumer spending reached \$11b, rising 2% over Feb.

However, with GSO economist Vu Manh Ha describing the 5.1% increase as a modest gain compared with the previous years. Consumer spending was 5.0% and

4.5% recorded in the same period in 2012 and 2013 respectively.

Ha explained that a low CPI had contributed to the modest rise. In Q1-2014, CPI increased 4.65%, while it rose to 16.4% in Q1-2012 and to 6.64% in Q1-2013.

He also noted that purchasing power in Mar had stayed low due to consumers reigning in spending after the Lunar New Year shopping season. Spending had also slowed with the pace of economic growth. Meanwhile, many businesses have maintained halts on production in response to low spending and high inventories.

According to GSO, in Q1-2014, the number of businesses stopping production had risen 10% on the same period last year, while the inventory index stood at 13%.

Low consumer spending is expected to continue for the next few months.



SOURCE: WWW.TRADINGECONOMICS.COM | GENERAL STATISTICS OFFICE OF VIETNAM



## LEGAL UPDATES

### Experts label 10% soft drink tax "unfair"

A 10% tax would be imposed on carbonated soft drinks under a revised draft of the special consumption tax law released by the Ministry of Finance taking effect in July 2015.

The ministry cited several studies that point out the potentially harmful effects of soft drinks on public health, suggesting that their consumption should be controlled in the same way as that of cigarettes and alcohol. However, some experts are vehemently opposed to the tax.

"These products are popular and consumed in almost all rural areas, so it would be bad for consumers," said Phan Huu Thang, Director of the Global Integration Business Consultants, who argued the move would hurt the sugar manufacturing industry, retail distribution system & individual businesses.

Herb Cochran, director of AmCham Viet Nam in HCM City, said the imposition of a special consumption tax on products such as non-alcoholic carbonated soft drinks was "unfair" for consumers.

Special consumption tax was applied only for luxury products, which served the needs of a small

group of people with high income, and products that had a negative impact on the environment and people's health, he said.

Tran Kim Chung, Deputy Director of the Central Institute for Economic Management, estimated that if the tax was imposed, Gov't would collect \$8.4m, the beverage industry would lose \$40.5m, the economy would lose \$12m & GDP growth could decrease by 0.01%.



"At the beginning, tax collecting might increase a bit, but gradually it will go down," Chung said. "On the flip side, labourers, jobs & suppliers of sugarcane will be negatively affected.

### Relating to e-customs procedures

On Feb 14, 2014, Department of Finance promulgated the Circular No. 22/2014/TT-BTC stipulating e-customs procedures on commercial imported-exported

goods. The Circular takes effect since April 1, 2014.

This Circular has some changes as follows:

#### - Change in some e-customs declaration forms

One declaration form is only used for one invoice

In case, the shipment need to be declared in many customs declaration forms, the original documents will be saved enclosed with one form; other forms and documents enclosed with forms can be photocopied and have to write clearly in the photocopied one that " the original one is saved enclosed with the customes declaration form no..., date..."

#### - E-customs declaration period:

✓ For exported goods: after gathering all goods at the place that has been told by the declarant and the latest is 8 hours before the transportation exits.

✓ For imported goods: before the goods arrives at the border gate or within 30 days since the date when the goods arrives at the border gate.

## HIGHLIGHTS

### Vietnam stuck in middle-income trap, Japanese expert warns.

ThanhNien News - A Japanese expert on Vietnam has warned that the country is getting mired in a middle-income trap, which refers to a slowing down of growth from a rapid to sluggish pace after reaching middle-income status.

In 2008 Vietnam's income per capita reached US\$1,070, making it a "lower middle-income" country as the World Bank classifies those with an average income of \$1,036-4,085.

At a recent conference in Hanoi to discuss motivation for economic growth, Professor Kenichi Ohno, who has been studying the Vietnamese economy for 20 years, said warnings about the trap have been raised by local analysts since then but they failed to raise awareness among local businesses and the government who were happy with the growth rate of the economy.

The earlier robust growth was due to the rise in the housing and stock markets, not an increase in labor productivity, he said.

The ongoing slump with the growth rate falling below 6% in the past



three years indicates that the country has fallen into the trap, he said, noting that it is a crisis for an emerging economy to grow under 6%.

Ohno also pointed to the faster pace of wage growth compared to productivity, high input costs, and the lack of capacity to make structural adjustments in the economy as among indications of the trap.

According to the bank, a typical middle-income trap occurs when a country's GDP per capita cannot exceed \$4,000-6,000 for 42 years after entering the middle-income bracket.

The Organization for Economic Co-operation and Development, or

OECD, has forecast that it would take Vietnam 44 years from now, until 2058 that is, to shift to the upper middle-income level of \$4,086-12,615.

Tran Tho Dat, deputy head of the Hanoi-based National Economics University, estimated that the country, still with a per capita income of less than \$2,000, would need to grow at 7.2% annually over the next decade to more than double it.

With the economic outlook not improving much, the government targets 6% growth this year and next.

Dat said Vietnam has run out of room for growth driven by cheap labor and natural resources.



## HIGHLIGHTS

Last year foreign investment rose by nearly 36% to \$22.35 billion, still far from its peak of \$64 billion in 2008.

Analysts are also concerned over foreign firms' meager contribution to economic growth, and blame it on the lack of "connections" between them and domestic private firms.

These links should be strengthened and the quality of FDI improved to achieve rapid and sustainable growth, enabling the country to avoid the middle-income trap that many nations are getting stuck in, Dat said.

Economist Bui Kien Thanh said despite the government's attempts to loosen monetary policies and lower credit interest rates, businesses are losing faith due to unstable policies and corruption.

Worse still, cheap labor would no longer be an advantage after the next few years, which would make the business environment less competitive, he said, adding that many foreign investors are already complaining that costs are increasing at a faster pace in Vietnam compared to other countries in the region.

Pham Chi Lan, another economist, said Vietnam is unlikely to escape

from the trap if it does not industrialize by 2020.

The government has set this goal for 2020 but is "not specific" about the criteria for industrialization, she said, lamenting that there has been little progress toward achieving the target.

But the country could still avoid the trap if it changes policies to make it a level playing field for all participants in the economy.

Medium-sized and small private businesses receive less support from the government than state-owned, larger private, and foreign firms though they create the most benefit for society, she added.

### Vietnam's number of ultra rich to grow 116% in 10 years

Vietnam tops the list of fastest growing UHNWI, or ultra high net worth individuals, populations by country in the next ten years, according to a report recently released by independent real estate consultancy Knight Frank.

A UHNWI is defined as someone with US\$30m or more in net assets excluding their principle residence, Knight Frank said in its The Wealth Report 2014.

By this definition, in 2013 Vietnam had 110 UHNWIs, and the number is forecast to rise to 293 over the next decade, representing a 116% growth, highest among the countries assessed in the report.

It is followed by Indonesia, whose number of UHNWIs is expected to rise 144% in the 2013 – 2023 period.



## HIGHLIGHTS

Just as Vietnam tops the charts for UHNWI growth over the next decade, its largest urban centre, Ho Chi Minh City, is expected to head the cities list, with the number of UHNWIs tipped to rise 173% over the next ten years, according to the report.

However, the report notes that "this rapid growth must be balanced against the fact that, as in many of the fastest-growing cities, Ho Chi Minh's UHNWI population is coming from a very low base."

"Last year the city, with a total population of nine million, had an estimated UHNWI population of just 90," it states.

Jakarta is in second place on the list, with expected growth of 148%, while Ordos in Inner Mongolia claims third place with 141%.

The top European entry is St Petersburg in Russia, while the fastest-growing Latin American city is Buenos Aires. Houston is the most buoyant urban centre in North America, with forecast growth of 57%.

London was home to the most UHNWIs in 2013, and this will still be the case in 2023, with nearly 5,000 expected to be living in the UK's capital by then.

Singapore and New York will leapfrog Tokyo and Hong Kong to take second and third places respectively.

The prevalence of wealth being attracted to, and created in, cities is highlighted by the fact that the top six cities have more UHNWIs living in them than the whole of Latin America and the Middle East combined.

### Fledging gambling industry needs to raise the stakes

Vietnamnet - Vietnam's casino industry insiders are contemplating how to scale up efficiency of the fledgling industry in the face of a complex legal framework.

By the end of January, just seven-month Ho Tram Strip, based in southern province of Ba Ria-Vung

Tau, reported \$5.5 million in revenues with \$2.8 million going to state coffers, said the owner at a meeting with the National Assembly's Finance and Budget Committee last February.

The casino is Vietnam's largest and latest, with 1,000 machines and 90 live tables.

The investor's hotel business earned another \$7 million with an occupancy rate of around 40%, coming to around 35,000 customers, reported newswire Vietnamnet.

Total investment for the project so far is \$530 million, only an eighth of the \$4.2 billion committed.

This means the investor's return to date is less than 2% and at a current pace of around only \$10 million a year, is potentially looking at a major loss.



## HIGHLIGHTS

A major obstacle to higher earnings of this and other casino projects is they can only service foreigners and are faced with strict control by a highly complex legal framework.

According to the casino owners, profits were primarily from Chinese patrons.

Similarly, Do Son casino in the northern city of Haiphong has mostly Chinese customers, reportedly 70%.

A smaller casino in northern Lao Cai province, which shares a border with China, also mainly serves Chinese customers, many of them from Yunnan province.

Sources say they often spend up to 600,000 yuan (\$99,000) per visit.

Owner of the Hoang Dong casino in Lang Son, another highland province in Vietnam north, reportedly once mulled earning \$1.6 billion in yearly revenue from casino business.

Chairman and general director of Stellar Management – a leading training programme at California's Miramar University – Ha Ton Vinh was quoted by Vietnamnet as saying "A casino in

Vietnam should be targeting four groups: first the Chinese, then other international visitors, of course foreigners living in Vietnam and finally, depending on government approval, locals."

In Macau, over 90% of customers are reported to be Chinese with 70% coming from Guang Tong, 20% from Sichuan, 5% from Shanghai and the remaining 5% from other countries.

Chinese gamblers contribute the lion's share to the casino kingdom's \$47 billion annual revenue. In the near future, when the cross-ocean highway from Hong Kong to Macau is finished, it would take only 45 minutes for gamblers from China to reach Macau.

"Asian people like gambling. In Singapore, for example, even when casinos were illegal betting it was still widespread," Vinh explained.

While casino owners believe in the potential profits to be made from their businesses, the National Assembly Finance and Budget Committee is skeptical about their performance thus far in Vietnam.

Industry experts, however, point out that strict policies and the inability to access local people behind the limited success of current operations.

Also, there is no master plan in place to develop knock-on facilities to further enhance profitability.

Consultants argue that casinos should not be independent projects, but rather part of a world-class entertainment complex or economic zone.

David Whitehead, chairman of the Australian Business Society said "Casinos are not only a place for gambling, but also for entertainment, golf and shopping. There needs to be a complete infrastructure in place for gamblers to entertain their families as well."

"We need to learn from lessons of success and failure. Some casinos have been built far from world transport corridors, and therefore find it difficult to attract customers. In Vietnam, casino investors need to build infrastructure and services associated with their casinos to get people in the door," he added.



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