

VIETNAM

BUSINESS REVIEW

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ECONOMY

Consumption of goods, services up

VNS - General Statistics Office (GSO) reported that the total retail sale of goods and services in the first seven months achieved a YOY increase of 11.4% to \$78.8b.

Excluding inflation, the growth was 6.15% since early this year against the growth rate at 5.1% in Q1, 5.5% in the first 4 months and 6% in the first 5 months. It was 5.7% in H1.

During the first 7 months of this year, the total retail sale of goods accounted for 75% of the total to reach \$59.15b, 10.1% higher than the same period last year.

Sales of accommodation and restaurant services had a YOY increase of 12.8% to \$9.62b & other services gained \$9.22b, 18.3% higher than same period last year.

GSO economic expert Vu Manh Ha said, however, that the real purchasing power still grew slowly, as the consumer price index increased only 1.62% during the first 7 months – the lowest level since 2006.

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FIGURE & EVENT

US\$1.26b

is the trade surplus in the first 7 months of 2014 with China being the largest import market of Vietnam.

4.8 mln

is the total visits to Vietnam in the first 7 months of 2014, up 15.6% over the same period last year.

US\$2.0b

is the export of Samsung Thai Nguyen (SEVT) after 3 months of operation. SEVT is planned to reach \$8b of revenue in 2014 & \$12b in 2015, providing 22,000 jobs for local laborers.

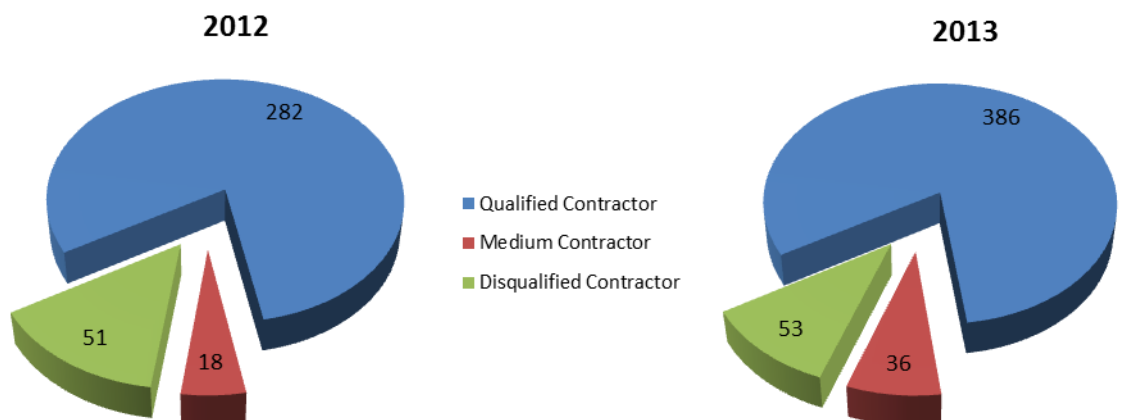
The growth rate of retail sales of goods & services each month showed a downward trend during the first 7 months, the office said. The rate increased 2.3% in Feb against Jan, 2% in Mar against Feb & 1.4% in Apr against May. It rose 0.7% in July against June.

However, the domestic retail market shows great potential in the future, according to property consulting & service provider CBRE. Looking ahead, the retail market

could expect more activities and new entrants in VN in general and HN in particular.

According to CBRE, VN ranked 2nd among top 10 markets for Asian retailers in 2014. Another survey conducted by CBRE also showed that Hanoi and HCMC are among top 10 cities in Asia Pacific for opening stores in 2014.

On the legal side, VN will completely open the market to foreign retailers by Jan 2015.



Competence of Contractors in projects by Ministry of Transport (MoT)

* None of the well-known int'l contractors in Vietnam has competence exceeding requirements by MoT

* A number of contractors have been evaluated as disqualified in 2012 and 2013.

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BANKING & FINANCE

SBV yet to act on bitcoin exchange

VNS – It's been a week since the VN real-time bitcoin exchange was launched, but the public is yet to see the authorities take action against crypto-currencies as they had promised.



The State Bank of VN (SBV) has consistently announced that bitcoins and other cryptocurrencies are not legal tender or permitted means of payment in VN.

Bui Quang Tien, Head of SBV's Payment Department that is supposed to manage electronic money, on July 12, vowed to work with the public security forces to seize operators of VN real-time bitcoin exchange (VBTC).

Despite the vocal warnings and the central bank's announcement explaining the fluctuating nature, complications and risks of virtual currencies, VBTC has 1,692

members and trading statistics are updated every day.

"SBV needs to act. First, they have to define whether Bitcoin VN is legal," a representative of Hi-Tech Crime Police (C50) told Thoi Bao Kinh Te VN (VN Economic Times).

The officer said that if the Bitcoin VN Co Ltd is illegal, the central bank has to issue a legal document regulating the application and punishment for the violation of laws.

"It should be enough if the law enforcement and security authorities start doing their jobs," the officer said.

Prior to the launch of the bitcoin exchange, the Government had ordered SBV to review, study and draw up legal documents regulating virtual currency-related activities (including bitcoins). However, the central bank hasn't announced such a document yet.

VBTC CEO Nguyen Tran Bao Phuong said that the company's business licence was for computer and software work, so as to do business with bitcoins.

Phuong said that by nature, bitcoin was a software-based payment system with different versions, and added that it would be right to see

the Bitcoin VN Co Ltd as an agent or a broker.

"We are waiting for the State to change their mind and allow us to register the bitcoin business, instead of us being forced to hide like we are doing now," Phuong told Thoi Bao Kinh Te VN, adding she was ready to cooperate with the Government to prevent bitcoin-related crimes.

VBTC was jointly founded by the Bitcoin VN Co Ltd and the Israeli Bitcoin Exchange Bit2C earlier this year. It launched beta testing in June and allows unlimited bitcoin purchases in VN.

"If VN approves bitcoins with the fully-functional setting of a recognised currency, besides the Vietnamese dong and other influential foreign currencies, it shall get more challenging for SBV to manage monetary policy," said Nguyen Xuan Thanh, director of the Fullbright Economics Teaching Programme in HCMC.

Thanh described the bitcoin as a currency with deep-seated dollarisation which the Government has been struggling to deal with.

BANKING & FINANCE

In fact, the payments work peer-to-peer without a central repository or single administrator.

Generally, the central bank uses Vietnamese dong to manage market liquidity, control inflation and bolster economic growth. If the bitcoin is recognised, it will minimise the influence of monetary policies and affect inflation and nominal GDP more.

At the beginning of 2014, the value of the bitcoin fell significantly when two of the biggest bitcoin exchanges in the world, Mt Gox and BitStamp, temporarily disallowed customers from withdrawing their money due to technical difficulties.

The US government also arrested four suspects for illegal activities connected to bitcoins. On February 25, Mt Gox closed down suddenly and hundreds of millions of dollars worth of bitcoins were stolen.

More bank M&A deals expected in H2 – 2014

VNN - Although only one merger & acquisition (M&A) deal was announced in the first few months of the year, more are expected in the second half of the year.

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A series of banks announced their M&A plans in the beginning of the year. These included Maritime Bank, MDB, Sacombank, Southern Bank, PGBank, Viet A Bank, VietCapital Bank, SHB and VPBank.

However, only the deals of merging banks and finance companies have been proceeding. VPBank has received official approval from the State Bank for its plan to admit Vinacomin Finance Company.

SHB plans to consult with shareholders on the issuance of shares as a step to admit a finance company later this month.

Maritime Bank has obtained Vinatex Finance Company after buying 64.1% of the company's chartered capital from Vinatex, the holding company.

Meanwhile, some of the banks' planned merger deals have not got the nod from the watchdog agency. The deals of Maritime Bank merging into MDB, or Southern Bank into Sacombank, for example, are still on the table of the State Bank's leaders, though the M&A plans have been approved by shareholders.

As for other cases, it is still unclear if PG Bank will merge into VietinBan,

or who the partners of Viet A Bank and VietCapital Bank would be.

Dau tu quoted its sources as saying that the M&A plans of Maritime Bank and MDB, Sacombank and Southern Bank are being examined by the State Bank. The banks, in fact, still need more time to improve before they are officially merged.

The sources said at least one of the two deals would get the go-ahead from the State Bank by the end of the third quarter of the year.

Governor of the State Bank of Vietnam Nguyen Van Binh, while admitting that the bank restructuring process has slowed down, said that the State Bank needs to draw up legal documents to speed up the settlement of bad debts.

Dr. Vo Tri Thanh, deputy head of the Central Institute of Economic Management (CIEM), commented that merging is the best option for cross-ownership banks (banks holding each other's shares), like Maritime Bank and MDB, saying that in the current difficult conditions, bankers need to gather strength to develop their core business instead of scattering

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BANKING & FINANCE

money into too many different businesses.

Binh of the State Bank also said the M&A market would be even more bustling in the upcoming six months.

"Only small banks have been restructured so far. But in the next few months, big banks will undergo restructuring as well," Binh said.

As such, Saigon Dau tu quoted some banking experts as saying that the "elder brothers" in the banking systems like BIDV, VietinBank and Vietcombank would also join the "M&A game".

Dang Xuan Minh, Director of AVM, a consultancy firm, noted that foreign investors have shown great interest in bank M&A deals.

"The banks with create financial capability and advantages in consumer credit, and card and payment services will be eyed by foreign finance groups," Minh said.

Vietnam banks compete for licenses to operate in Myanmar

The Bank for Investment and Development of Vietnam (BIDV) is the only Vietnamese bank of 25 foreign banks that have an

opportunity to received one of 10 licenses in Myanmar.

Myanmar poised to have its first foreign banks in decades. Photo: Bloomberg

The Central Bank of Myanmar has announced a list of 25 banks for the next round, of the 30 banks that have applied for a business license. These banks will continue to compete for the final 10 licenses. The winners will be announced next month.



"The Licensing Committee will evaluate each profile based on detailed quantitative and qualitative criteria. We will analyze their development plans to choose the appropriate names," Myanmar Times quoted the press release from Myanmar Central Bank.

This is the first time in many decades that foreign banks have been allowed to do business in Myanmar. Of the 25 competitors, there are many big names, such as ANZ (Australia), ICBC (China) and three

of Japan's largest banks, Mizuho, Mitsubishi, Sumitomo Mitsui.

However, in order to protect domestic banks, foreign banks will be restricted to provide foreign exchange services and services for foreign companies only, a source said.

They will also be able to open one branch, and will not be allowed to engage in retail banking. They can only lend in foreign currencies.

"We are trying to avoid a fierce competitive environment for domestic banks," said Set Aung, deputy governor of the central bank was quoted as saying in the Wall Street Journal.

Myanmar has four state-owned banks, 22 private banks and 42 representative offices of foreign banks.

INVESTMENT

Pharmaceutical companies rush to expand business

SGT - More and more domestic pharmaceutical firms have recently announced plans to expand their production as the market has shown signs of picking up in recent months.



In VN, there are 178 pharma manufacturers, including 100 western medicine & 78 oriental medicine enterprises, about 300 oriental medicine manufacturers, & numerous distributors of imported drugs.

Although VN inherited Eastern traditional medicine from their ancestors, the country can now produce only 50% of domestic demand.

The limited domestic production capability, plus increasingly high demand for healthcare services and drugs, can explain why the Vietnamese drug market has always been very attractive.

The latest report of the Business Monitor Index, a market survey firm, showed that drug consumption maintained an impressive high growth rate of 16% last year.

However, with market value estimated at \$3.3b last year, Vietnamese only spent 2% of GDP on medicine, a very modest figure. By the end of 2013, every Vietnamese spent \$35 a year on drugs on average, a very low level if compared with regional countries such as Malaysia, Thailand (\$70) or Singapore (\$150).

The figures give investors more reason to hope that they will have great opportunities to do business in VN, as Vietnamese incomes and expenditures are increasing rapidly. GlobaData, a global pharma market survey firm, in its report released in June 2014, also commented that the Vietnamese drug market was very promising.

The firm predicted that the Vietnamese pharma market value would reach \$8b in the next 6 years. The government, in its pharma industry development strategy by 2020, stated that by that time, VN-made products must satisfy 80% of market demand.

If this happened, Vietnamese pharmaceutical companies would be able to get eight to 10 pieces of the cake, or they would pocket \$6.4b.

Vietnamese players

Hau Giang Pharmacy, the Vietnamese biggest pharma firm in VN last Nov completed the construction of a new factory which would help increase the output to 9 bln units per annum.

Meanwhile, Imexpharm, which is believed to have the most advanced production lines, has also finished the construction of a factory specializing in making penicillin injections in Binh Duong province.

While Hau Giang Pharmacy is dominating the southern market, the northern market is being dominated by Traphaco.

While the former focuses on making popular products antibiotics, analgesics and respiratory drugs, the latter makes functional foods with natural materials.

Planning to buy medical equipment companies in some key provinces such as Thai Nguyen in the north, Dak Lak in the Central Highlands and Quang Tri in the

INVESTMENT

central region, Traphaco is making hectic preparations to set up a large distribution network for its products throughout the country.

Foreign breweries jump into draught-beer market

VNE - As the competition in the bottled and canned beer market is getting fierce, breweries are rushing to make a profit in the draught-beer market.

Heineken last month launched an aggressive marketing campaign to promote its draught beer products. Heineken's international experts were sent to Vietnam to train Vietnamese to brew draught beer, and its marketing staff brought fresh beer to the best-known beer clubs, restaurants, hotels & bars in HCMC.

Declining to give exact figures about the sale, the representative of Heineken said Heineken's draught beer was present at 11 restaurants in HCMC and 8 in Hanoi. Joining the draught beer market two years earlier than Heineken, Sapporo did not pay much attention to developing the distribution network in Vietnam.

However, the company's managers have changed their

mind, having stepped up marketing and distribution.

A representative of Sapporo said Sapporo had spent money on a training program in Vietnam, under which hundreds of sellers, restaurants, bars, golf courses and beer clubs have been trained how to brew draught beer.

The representative said what prompted Sapporo to make heavier investment in the fresh beer production is the establishment of more and more beer clubs recently, which has increased the popularity of draught beer.

He revealed that draught beer sales over the last year were double of the year before. There are some 60 beer clubs in HCMC, most of which sell draught Sapporo beer.

Following satisfactory business results, the brewery is considering "attacking" the other markets, while planning to raise production capacity from 40 million liters now to 100 million in the time to come and to 150 million liters by 2019.

While foreign breweries are hurrying to march toward the draught beer market, domestic companies stay immovable. The failure of the "pioneers" may make them shrink.

Habeco, for example, began selling fresh beer in 2007, but it does not intend to expand the draught beer market segment because of unsatisfactory draught beer sales.

Habeco keeps making draught beer, but at a small scale and only sells draught beer at some restaurants of its own.

Tan Hiep Phat once marketed bottled draught beer Lazor in late 2003, but the product was unsealable.

Halida began distributing Carlsberg fresh beer two years ago and the sales have been also unsatisfactory, even though it spent big money on marketing and sale promotion campaigns.

Most recently, in mid-May 2014, the Hanoi - Hai Duong Brewery Company launched Hai Duong into the market, the draught beer was introduced as the company's highest-quality product.

It reportedly can sell 75,000 kegs of beer, or 150,000 liters of beer, a month, worth VND2.4 billion.

The draught beer, put in 2-liter inox kegs, has been selling well in the provinces of Hai Duong, Hung Yen, Hai Phong, Bac Ninh and Bac Giang.

ENTERPRISES

Aviation sector needs human resources breakthrough

VNA – VN's aviation sector needs a breakthrough in human resources, especially when airlines are expanding their fleets, launching new routes and preparing for their initial public offerings (IPO).



The Civil Aviation Authority of VN (CAAV) has set the target that by 2020, the sector's workforce will be able to meet all demands for pilots and requirements on management, exploitation and maintenance.

Airlines revealed that the largest difficulty for them now is insufficient and weak human resources, forcing them to hire foreign employees at a much higher cost than the local ones. At present, except for the national flag carrier Vietnam Airlines, all the airlines have to hire most of their pilots and engineers from abroad.

CAAV forecast that between now and 2020, the aviation sector needs

6,000 additional employees each year.

Human resources pose a difficult problem for the sector, which requires special professional standards and services, said Nguyen Duc Tam, Deputy General Director of the budget carrier VietJet Air.

In fact, aviation human resources are yet to meet requirements as training establishments remain in shortage, he noted.

Sharing Tam's view, Director of Jetstar Northern Office Duong Hoai Nam said that most university graduates cannot meet the sector's requirements immediately and it costs the airlines more money and time to train new recruits.

Another reason behind the human resource shortage is the pressure on airlines to increase profit.

On the other hand, ineffective State management and supervision of human resources development does little to solve the problem.

In a bid to address the human resource issue, MoT has entrusted CAAV in collaboration with the Vietnam Aviation Academy to train aviation human resources, considering it a breakthrough in the

aviation transport development strategy by 2020.

Marks & Spencer to open HCMC outlet this summer

VOV - Marks & Spencer (M&S), the iconic British retailer, has unveiled its plan to open a new flagship store at the Vincom Center Dong Khoi in HCMC this summer.

The new store, operated by M&S's long term franchise partner Central Group, one of the largest retail conglomerates in the region, is in line with M&S's int'l strategy.

Trading from 1,200 m², the first Marks & Spencer store will offer an extensive range of exceptional, stylish products across womenswear, menswear and lingerie– as well as accessories, footwear & sleepwear.

M&S Vincom Center Dong Khoi will feature the retailer's latest store format which creates an inviting and inspiring shopping experience with an exciting take on fashion displays. M&S and Central Group plans to open 20 outlets in Vietnam by 2020.

MARKET & PRICE

Vietnam: a café market with many faces

VNN – The café market has witnessed many changes over the last few years with the appearance of foreign brands, many new street cafes, an increased presence of locally owned chains and cafes that do not sell coffee.



Speaking at a workshop recently, Andrew Nguyen, CEO of IFB Holdings, said: "I am Andrew Nguyen, who has brought the most premium coffee brand, Coffee Bean & Tea Leaf, to VN..."

The chair of the workshop, Nguyen Bao Hoang, who was then the CEO of IDG Ventures, asked the president of OpenAsia, which has brought Starbucks to VN: "do you think Coffee Bean & Tea Leaf is the most premium coffee in the world?" Doan Viet Dai Tu did not give a direct answer to the question. Instead, he spoke about Starbucks cafes and the original features of the Starbucks chain.

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Andrew Nguyen, Doan Viet Dai Tu and Nguyen Bao Hoang all have relations to coffee, and to some extent, they are rivals.

Coffee Bean & Tea Leaf, after 5 years in VN, has opened 16 cafes nationwide. Starbucks has opened the 4th shop after 1 year of doing business in VN. Meanwhile, McCafe has just made its debut at McDonald's in late March.

Starbucks targets businesspeople & youth who prefer an "int'l space". They have been working with industry to attract more customers by holding meetings where visitors can learn about coffee culture and the way of tasting coffee.

Patricia Marques, CEO of Starbucks Vietnam, said in local newspapers that Starbucks has been going on the right track and that it will open another shop in Hanoi this year.

Meanwhile, Coffee Bean & Tea Leaf has been well known to Vietnamese businesspeople. How about McCafe?

Analysts say the real coffee drinkers would not go to McDonald's. However, McCafe is still a formidable rival to anyone.

McDonald's received 22,500 customers on opening day, while

the figure was 400,000 in the first month. These included older people, who came with young people. And if some of them drink coffee, this is enough to boost sales. The coffee counter at McDonald's has been really crowded. The prices at McCafe are be "more reasonable" than others. A traditional-style cup of coffee here is sold for VND30,000, while espresso, mocha, cappuccino, latte and frappe are VND25,000-80,000.

However, not only McCafe, Coffee Bean & Tea Leaf, Starbucks, Gloria Jean's, Angela-in-us and NYDC sell coffee. Small merchants also sell coffee. These could be liquid products or softgels which, if mixed with water, will generate a coffee-flavored product.

There are also the luxurious cafes located in advantageous positions and well decorated. However, they tend to "sell" the space rather than the coffee.

Also, there are street cafes where real coffee drinkers come to enjoy the strong flavor coffee while being close to the nature.

All of the cafes of various styles and kinds make up Vietnamese coffee culture.

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LEGAL UPDATES

Conditions on doing business in employment service sector

Decree No. 52/2014/ND-CP dated May 23, 2014 of the Government providing conditions and procedures for granting employment service provision licenses to employment service enterprises.



This Decree provides conditions and procedures for granting employment service provision licenses and the scope of employment services that the enterprises are allowed to implement, apply from July 15, 2014. In comparison with previous provisions as prescribed in Decree No. 19/2005/ND-CP, the condition on granting employment service provision licenses to the form of enterprise as promulgated in this Circular is the same.

The enterprises must register the minimum deposit of at least 300 million VND and must have the www.seiko-ideas.com

ownership right or the contract on office leasing at least 3 years.

However, the validation of employment service provision licenses is extended from 36 months up to 60 months.

This Decree takes effect on July 15, 2014.

Enterprises whose job placement service provision licenses expire at a time between January 20, 2014 (the expired date of Decree No.19/2005/ND-CP) and the effective date of this Decree may continue providing employment services until the effective date of this Decree.

New regulations on water resource extraction and discharge of wastewater permits

Circular No. 27/2014/TT-BTNMT dated May 30, 2014 of the Ministry of Natural Resources and Environment regulating the registration for groundwater extraction, form of dossier for issue, extension, modification, re-issue of water resource permit.

This Circular regulates the registration for groundwater extraction, form of application,

permit, contents of scheme and report in dossier for issue, extension, modification, re-issue of water resource permit.

This Circular applies to the foreign and domestic agencies, organizations and individuals having activities related to the exploration, extraction and use of water resources and discharge of wastewater into the water sources of the territory of the Socialist Republic of Vietnam.

This Circular takes effect on July 15, 2014.

This Circular supersedes Circular No. 02/2005/TT-BTNMT dated June 24, 2005 of the Minister of Natural Resources and Environment guiding the implementation of Decree No. 149/2004/ND-CP dated July 27, 2004 of the Government on licensing the exploration, extraction, use of water resources and discharge of wastewater into water sources.

HIGHLIGHTS

Vietnam poised as “Big Winner” from FTAs

VOV - The Vietnamese economy is poised for 'exponential' strong growth with the signing of a number of free trade agreements (FTA) in the offing.

The trade pacts, once signed, will open up new horizons for high quality Made-in-Vietnam products to penetrate expanded and diversified markets while simultaneously permitting the country to reduce its overdependence on certain markets.

Most notably among them is the Trans-Pacific Partnership (TPP) agreement, which is currently in its 20th round of negotiations.

Member countries are currently negotiating to eliminate 100% of tariffs on imports, of which 90% of the tariffs will be abolished immediately with the remaining 10% removed following a moratorium period of up to 10 years. TPP member countries account for the preeminent market in the world as collectively they will account for 40% of global GDP and 30% of the total global import-export revenue.

Once the agreement is signed, Vietnamese products will have ample opportunities to directly penetrate powerful markets including the US, Canada, Mexico and Japan on a more equal playing field with other countries around the globe.

The Vietnamese garment sector is expected to cash in on the TPP agreement. Roughly 1,000 tax lines on garment products exported to the US will be slashed to zero from the current 18%. Garment exports may surge 15-20% annually and may reach US\$50 billion by 2025 according to some of the more optimistic forecasts.



However, to benefit from the trade pact, the garment sector must meet certain conditions, such as certificate of origin (C/O) on materials used in the intra-bloc.

Secretary General of the Vietnam Textile and Apparel Association (Vitas) Dang Phuong Dung says this is not

necessarily going to be an easy task.

Garment businesses must renovate technology, invest in material production, create closed process ranging from fibre, textile, dyeing and garment, and raise the proportion of domestic material use and added value for products to grasp TPP's advantages, Dung says. The most challenging requirement for Vietnam is to make products from domestic materials, and to do this, Dung says, the sector has no choice but to develop material growing areas.

In addition, she adds, Vitas is preparing to train and shift from doing outsourcing to modern production methods to increase added value for products.

This year, Vietnam is also negotiating a number of other important FTA agreements including one with the European Union (VEFTA), the Republic of Korea, and the Customs Union (Russia-Belarus-Kazakhstan).

These agreements will help Vietnam expand its export markets, especially for agricultural products, and reduce its overdependence on the Chinese market.

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Chairman of the Vietnam International Arbitration Center Tran Huu Huynh says strict requirements from these agreements force domestic businesses to improve their competitiveness to join the global value chain and play by the rules.

“Over the past several decades, they have not really bettered themselves. These agreements will offer both opportunities and challenges for them to rise up,” Huynh said.

On the other hand, Vietnam's imports will also enjoy benefits from these agreements. State-of-the-art machinery and equipment will be readily available for import at reasonable prices.

Machinery and equipment imports from the EU rose from US\$2.6 billion in 2005 to US\$7.6 billion 2010. Tariff cuts will help Vietnam import yet even higher quality machinery and equipment at lower prices, gradually facilitating a reduction in the trade deficit with China.

Vietnam is actively negotiating to finalise the free trade agreements to support businesses in expanding markets overseas in the future.

Minister of Industry and Trade Vu Huy Hoang says the Government's guideline is to diversify new import-export markets to avoid overdependence on any one partner to the greatest extent possible.

If negotiations are successful, there will be greater potential for Vietnamese exports to penetrate global markets tax incentives and simplified administration procedures, Hoang says.

“The Government will create a niche for businesses to accelerate exports more stably and sustainably,” Hoang notes.

Experts warn that when these key trade pacts are signed, Vietnam should develop promotion programmes for each field, draw up detailed plans for material growing areas and sustainably develop the support industry.

The Government should also soon issue support policy guidelines for garment, footwear and agricultural businesses to fully exploit advantages from FTAs.

China oil rig cost Vietnam 0.7% of GDP

DTI - China's illegal placement of Haiyang Shinyou 981 oil rig on the Vietnamese continental shelf was estimated to have cost Vietnam around USD1.5 billion, or 0.7% of its GDP, according to one expert.

Dr. Nguyen Duc Thanh, from Vietnam National University – Vietnam Centre for Economic and Policy Research

Dr. Nguyen Duc Thanh, from Vietnam National University – Vietnam Centre for Economic and Policy Research (VEPR), sat down with DTINews to explain more about the economic fallout from the incidents provoked by the illegal placement of the Chinese oil rig.

Could you please explain why economists have recently changed their methods of calculating the impact of the Chinese oil rig placed within Vietnam's exclusive economic zone?

Before mid-June, I and many of my colleagues forecast that, if China continued to maintained their

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illegal oil rig our continental shelf through the end of August this year as they stated they would, it would cost Vietnam around USD2 billion or 1% of the country's GDP. However, due to great efforts made by the government, ministries and branches, the intelligent strategies of many investors and China's early withdrawal of the rig, we've reassessed the projected impacts. So the quantifiable cost to the country is slightly less than expected.

Most of this is a result of indirect economic effects in industries such as tourism, agriculture and seafood export.

Which sectors have been most affected?

As I said, the economic damage has been mostly indirect. Trade with China as well as tourism were probably the main cause of losses. The tourism industry recorded major losses in June, with many hotels reporting low occupancy rates.

Between May and June, 18 major hotels in Vietnam recorded a room cancellation of 10%. This rate increased to 30% between June and July. The standoff caused an

estimated loss of USD18 million for Vietnam's tourism industry.

China's aggressive actions in the East Sea also affected the operations of several businesses from Hong Kong, Taiwan and Singapore that operate in Vietnam.

Will these events have any major impacts on investments coming from China in the near future?

Yes, they will definitely have an affect on Chinese investment in Vietnam. This will, in turn, affect our economy, as Vietnam is to some extent dependent on trade with China. Bilateral trade operations could be affected and there may be worries about cancellations of contracts. Litchi exports usually peak in June, but this year exports were lower than usual. However, these issues would not be long-term. Many Chinese firms have already resumed trade with Vietnam.

There have not been any real negative effects in terms of investment, as Chinese investment in Vietnam is rather modest.

What action should be taken if China continues to pursue aggressive policies in the future?

I do not see the Chinese giving up their plans for the East Sea, so there may be further incidents in the future. The Vietnamese have adapted to the situation and see the problem as a long-term one, which will likely continue to exist for future generations.

Vietnam should prepare by seeking new trade partners. I believe that China would not be able to continue to take unilateral actions, ignoring international law.

The most concerning aspect of this is the dependance of some Vietnamese industries on Chinese materials and Chinese markets for their products. China's recent aggressive actions in the East Sea can be seen as a wake-up call for Vietnamese companies. They will have to adopt a more practical attitude about partnerships with Chinese firms, especially in fields such as engineering, electricity, transportation and apparel.

Thank you very much!

CONTACT



SEIKO IDEAS CORPORATION

Our services

Training (Languages & Soft skills)

Consulting

Marketing

Translation - Interpretation

Address

Floor 5th - A Chau Building

No.24 Linh Lang str., Ba Dinh dist., Hanoi, VN

Telephone

+84-4-6275-5246 ; +84-4-6273-6989

Fax

+84-4-6273-6988

Website

www.seiko-ideas.com

Person in charge

Nguyen Thi Quynh Tram (Ms.)

Telephone

+84-4-6275-5246 ; +84-4-6273-6989 (Ext 805)

Mobile

+84-91-4994-830

Email

tram.nguyen@seiko-ideas.com