

VIETNAM

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ECONOMY

Manufacturing boosts production index

VNS - The nation's industrial production saw a 7.1% YOY increase from Jan-August 2014, a positive sign of recovering production output at the nation's businesses, noted GSO.

Further, the index of industrial production (IIP) in August registered the highest growth rate this year, reported GSO, compared to 6.2% last month, 5.8% in H1 & 5.2 in Q1.

The office attributed the high IIP growth rate to the 9.1% surge in the processing and manufacturing sector, which accounted for 70% of total industrial output.

Industrial products with the highest growth rate in the period included electronics, computers and optical equipment, with 34.5%; motorised vehicles with 20.2%; leather products with 20.2%; shoes with 13.1%; & electric output with 11.2%.

2 industrial products with the lowest growth rates included cigarette production and transportation equipment.

GSO experts attributed the low consumption to a slow rebound of the world economy, as well as low

FIGURE & EVENT

12%

is the increase rate of agricultural exports in the first eight months of 2014 .

7.8%/year

is the interest rate of export credit by Ministry of Finance, down 0.9 percent point. The rate of investment credit also decreases from 10.8 to 10.5%/year.

US\$1.7b

is the trade surplus of Vietnam in the first eight months of 2014, according to the General Statistics Office (GSO).

demand in the domestic market and a high inventory index.

Additionally, the August 1 inventory index of the processing and manufacturing industry posted a month-on-month increase of 1% and a YOY surge of 13.4%.

Other sectors reporting higher inventories than the same period last year were electronics, computers, tobacco products, medicines, pharmaproducts and materials, leather, and paper.

Aug CPI growth hits 9-year low

The national CPI this month increased by 0.22% over that of last month and 1.84% over that of the end of last year.

In August, petroleum prices fell by 0.16% month-on-month, public traffic service prices dropped by 0.15%, and housing and building material prices fell by 0.31%.

However, the average CPI for the first 8 months increased by 4.73% over the same period last year, nearly hitting the 5-5.5% levels that the Government aimed for in 2014.

Increasing rice exports to Southeast Asia and China pushed up rice & foodstuff prices grew by 0.45% in August as a result.

Autumn festivals and rising breeding costs caused food prices to go up by 0.54%, and greater demand for clothes, shoes and school materials also pushed up the prices of garment and footwear products by 0.32% beyond the new school year.

In August, gold prices declined by 0.34% month-on-month and by 0.06% year-on-year. The price of the US dollar likewise fell by 0.26% month-on-month and 0.07% year-on-year.

BANKING & FINANCE

Bank M&As encouraged by SBV, discouraged by experts

VNN - While the State Bank of Vietnam believes that the merger of small and weak banks into larger and stronger ones will help speed up the bank restructuring process, experts don't think this is a perfect solution.



Local newspapers have quoted an official of the State Bank as saying that, instead of buying weak banks' shares to recover them, the watchdog agency now tends to encourage small banks to merge into big ones. The official said the new solution can help speed up the banking system restructuring process because it allows for savings on costs and time.

As the central bank has "turned on the green light", commercial banks have been trying to find suitable matches. PG Bank plans to merge into VietinBank, and Southern Bank into Sacombank, while Maritime

Bank is considering taking over Mekong Bank. Vietcombank, one of the largest Vietnamese banks, is also considering taking on a small bank, but the name of the bank remains a secret.

Meanwhile, economists, remaining skeptical about the effects of the merger and acquisition (M&A) agreements on the bank restructuring process, have commented that the M&A deals look more like rescue missions than sound business deals.

What they mean is that, in the deals, big banks are serving more as the rescue team in charge keeping the small banks afloat, while not receiving any benefits in return.

Regarding the Southern Bank-Sacombank M&A deal, an analyst said there is no need for Sacombank to "take on" Southern Bank, a small and weak bank with a non-performing ratio of over 4 percent, the majority of which are irrecoverable.

The analyst thinks that the central bank wants to see banks merge into each other to cut down on the number of weak banks and reduce the degree of circular ownership, a big problem of the banking system.

If so, the liquidity problems and bad debt settlement would be sped up. If everything goes smoothly, the number of Vietnamese banks will be halved by 2015, from 45 to 20.

However, the analyst commented that the lowering of the number of banks is not enough to restructure and strengthen banks.

Yun Hang Jin, from Korea Investment & Securities, noted that after an M&A, the bad debt of the new bank would be worse, as it would now equal the total bad debts of the two banks. Therefore, one cannot say that an M&A would help improve the "health" of the banks or help them escape from liquidity problems.

Dau Tu newspaper has quoted Dr Nguyen Duc Thanh, Director of VEPR, an economics research center, as saying that the takeover of the state owned banks over small banks may weaken the competitiveness of the whole banking system.

Thanh explained that if the big banks have more power, they will have greater influence in the policy making process, which would allow them to control the market.

BANKING & FINANCE

He noted that the State Bank has been trying to save weak banks by encouraging M&A deals instead of bringing the weak banks to bankruptcy, because bankruptcies of banks may lead to immeasurable consequences to the financial market and society.

Some big banks cut deposit rates

Stoxplus - On August 25, 2014, VND deposit interest rates of some commercial banks, especially large banks, were reduced by 0.1-0.5%/year, local newswire Thanh Nien reported.

According to its newest deposit rate table, Joint Stock Commercial Bank for Foreign Trade of Vietnam (Vietcombank) offers 4.8%/year for 1-month term, 5%/year for 2-month term, 5.5%/year for 3-month term, 5.7%/year for 6-9 month term and 6.5%/year for 12-month term.

Joint Stock Commercial Bank for Investment and Development of Vietnam (BIDV) brought 1-month rate even lower to 4.5%/ year. Besides, the bank offers 5.75%/year for 2-month term, 6%/year for 3-month term, 6.5%/year for 6-9

month term and 6.8%/year for 12-month term.

At the end of last week, Asia Commercial Bank (ACB) also lowered the VND deposit rate to 5.3%/year for the 1- 2 terms, 5.4% for 3-month term, 6%/year for 6-month term, 6.2%/year for 9-month term and 6.8%/year for 12-month term.

Currently, banks mobilize more capital than they can lend, leading to excess capital in the system. According to the State Bank of Vietnam, in the first 7 months of the year, the system's capital mobilization rose 6.98% from the end of 2013, in which VND mobilization increased 7.92% and foreign currency mobilization edged up 1.31%. Liquidity of banks continues to be ensured and redundant. Meanwhile, the system's credit only grew 3.68% from the end of 2013.

HNX reports State Treasury bill sales of VND21 trillion

SGT - State Treasury bills transacted on the Hanoi Stock Exchange (HNX) have hit nearly VND21 trillion over the past two years, accounting for nearly 2% of the total government bond transaction value.

HNX said that State Treasury bills have been put up for sale on the secondary market since August 24, 2012.

In 2012, the debt paper transaction value reached over VND909 billion before surging to nearly VND11.7 trillion last year and VND8.1 trillion in the January-July period this year.

HNX's statistics showed that proprietary trading by commercial banks accounted for over 75% of the market's total trading value, brokerage trading by securities firms made up 20% and proprietary trading by brokerage firms 5%.

In addition, foreigners have been active on the State Treasury bill market. During the last four months of 2012, normal foreign selling value was over VND342 billion while buying value exceeded VND587 billion. In 2013, the figures soared to over VND6.7 trillion and VND2.8 trillion respectively.

Between January and July this year, foreign selling and buying value was VND2,142 billion and VND2,188 billion respectively.

State Treasury bill is a type of G-bond with tenors of one year or shorter.

INVESTMENT

VietinBank courts Japanese investment in agriculture

A Bank for Industry and Trade of Vietnam (VietinBank) delegation led by its Director General Le Duc Tho recently paid a working visit to Japan, hoping to attract investment in the Vietnamese agriculture industry.

They attended an agricultural investment promotion conference that gathered nearly 200 Japanese agricultural businesses and representatives from Vietnamese provinces which are strong in agriculture like Vinh Phuc, Lam Dong, Tien Giang and Ben Tre.

This is the first time such a conference has been held in Japan.

Despite having a modernized agriculture industry, Japanese agriculture only meets approximately 45% of domestic consumption demand. As a consequence, Japanese businesses are seeking cooperation opportunities with Vietnamese agriculture businesses.

Since 2012, Vietnam and Japan have carried out a series of

programmes with the aim of enhancing agricultural cooperation.

The Japan International Cooperation Agency (JICA) and VietinBank have conducted several surveys in Lam Dong and a few other provinces. With support from Tokyo Mitsubishi UFJ Bank, VietinBank has accelerated supplying Japanese businesses with comprehensive financial and banking services.

VietinBank Director Le Duc Tho also worked with JICA high-ranking leaders to discuss a host of measures to boost JICA investment into Vietnam, especially in agriculture infrastructure.

In recent years, VietinBank has been an important partner of JICA in serving key ODA projects in Vietnam. It was chosen to implement JICA's first Public-Private Partnership (PPP) project.

VietinBank and JICA plan to organise a working session between JICA, Vietnamese and Japanese businesses, and relevant agencies to devise innovative and improved mechanisms to attract Japanese foreign investment.

Quang Nam pursues Japanese business community



Central Quang Nam province staged a seminar in Tokyo on August 25 to introduce its investment potential to the Japanese business community.

Addressing the seminar, Vietnam Ambassador to Japan Doan Xuan Hung emphasized the relationship between Vietnam and Japan is fundamentally grounded on a solid basis of mutual trust.

He pointed out that Quang Nam province is centrally located in Vietnam. It is rich in mineral resources and has a young hardworking labour force along with developed infrastructure that makes it an ideal destination for foreigner businesses.

For his part, Japan's former Ambassador to Vietnam Norio Hattori spelled out the strengths of the investment environment in Vietnam.

ENTERPRISES

Ministry readies SME development fund

VNS - The Ministry of Planning and Investment recently worked with commercial banks to study their capacity of lending to small and medium-sized enterprises (SMEs).

The study was done because the ministry aims to put the SME development fund into operation at the end of this year or latest by the beginning of next year as its personnel system, budget and operation rules are being set up.

Careful preparations are needed to ensure that the fund, which has received capital from the State budget, supports SMEs efficiently, according to the Department of Corporate Development.

According to To Hoai Nam, deputy president of the Associations of Small and Medium Enterprises, SMEs are facing difficulties as their competitiveness and capital sources remain limited. The fund would help SMEs get preferential loans from banks.

The Prime Minister issued Decision 601/QĐ-TTg about the establishment of the fund on April 17, aimed at enhancing SMEs'

competitiveness, creating more jobs and raising incomes.

In the first 3 years, the fund would receive VND2 trillion (\$95m) from the State budget, then VND500 billion (\$23.5m) each year in the next two years and another VND1 trillion (\$4.75m) in the following year. The fund would entrust the Viet Nam Development Bank and other commercial banks with loans for SMEs that meet the fund's loan eligibility terms.

The maximum loan for each project would not exceed 70% of the project's total investment and would not exceed VND30 billion (\$1.4m). The loan must be repaid within seven years.

There are more than 500,000 SMEs in the country, accounting for 97.5% of the existing companies.

Firms urged to disclose information in English

VNS - The State Securities Commission and stock exchanges are encouraging listed companies to disclose information in English in order to remove barriers for foreign investors.

According to the commission, some enterprises were still not publishing

their information in English, a measure which aims to help attract more foreign investment.

While no agency is yet in charge of forcing companies to comply with the initiative, the commission and the two stock exchanges are leading the push.

In HCM City, the southern stock exchange is helping to translate information published by companies in Vietnamese into English. Points allocated in the Best Annual Report Award are also placing more value on English-language disclosure.

Tran Anh Dao, deputy general director of the exchange, told the Dau tu chung khoan (Securities Investment): "Almost all listed firms on the exchange with foreign senior staff have developed their websites in both Vietnamese and English, including 15 companies joining the ASEAN Stars."

Meanwhile, some of the 15 ASEAN Stars fellows on the Ha Noi Stock Exchange are yet to fully execute the measure, including food processor Dabaco (DBC), Lam Thao Fertilisers and Chemicals (LAS) and Ha Giang Mineral and Mechanics (HGM).

MARKET & PRICE

Sales expected to jump on National Day



SGT - Supermarkets and retail outlets in HCMC are expecting a 30-50% rise in sales thanks to the coming National Day holiday.

Ho Quoc Nguyen, public relations manager of Big C Vietnam, said despite the economic hardship, the supermarket chain is still hoping for an average increase of 30% in consumption on the National Day holiday. Therefore, it has plans to prepare various goods to meet higher consumer demand, including fresh and packaged food, and beverages.

Nguyen Thi Phuong Thao, director of Maximark Cong Hoa supermarket in HCMC's Tan Binh District, said the goods volume brought into her supermarket by suppliers would move up 50% over normal days.

Similarly, a representative of Saigon Trading Corporation (Satra) said the corporation has actively worked with its suppliers and distributors to

ensure abundant supply of products at its store chain for the Big Sale Month of September as well as the peak season at year-end. Its goods volume will rise 30% over normal days, and increase 15-20% over the same period last year, the Vietnamese supermarket added.

Besides preparing goods, supermarkets will launch sales promotion programs to stimulate demand. Both Big C and Maximark will give their customers discounts of 5-50% on hundreds of items while Satra will offer discounts of 10% to 49% for its consumers on the coming holiday.

Peugeot penetrates Danang market



VOV - French bicycle maker Peugeot officially established its presence in Danang city with the recent opening of a showroom at 272 Phan Chau Trinh street.

Velo Chic came hot on the heels of similar showrooms previously

debuting in Hanoi, HCM City and Son La last year.

The expansion of its presence in Danang this year proves that Peugeot is keen on developing in the central region, said Lionel Bayard, Commercial Director of Cycleurope group.

Like other branches in the northern and southern regions, Velo Chic Danang, built in accordance with European standards, offers high quality products at competitive prices.

Vu Huu Phuc, who is in charge in Velo Chic's business activities, affirmed that apart from introducing the Peugeot brand into Vietnam, Velo Chic will bring Vietnamese consumers a variety of options in European bicycle brands such as Gitane, Definitive, Puch, and Bianchi.

Cycleurope is one of the Europe's largest bicycle groups, marketing more than 1 million bicycles each year.

LEGAL UPDATES

Reforming administrative procedures regarding projects of investment using land

Resolution No. 43/NQ-CP dated June 06, 2014 of the Government on some primary tasks in reform of administrative procedures for formulation and execution of investment projects using land to improve business environment

This Resolution is to reform administrative procedures regarding investment projects using land and it is applicable to all economic sectors.

Accordingly, the Government shall annul the procedures for the investment registration for the project of investment using land that invest in the fields in which the investment is subject to conditions (point b, clause 1, Article 2); The investors are not required to implement the procedures for the issuance of the planning permits; are not required to submit the copy of the cadastral map or carry out cadastral measurements during the implementation of the administrative procedures when implementing the investment projects (point c and point d,

Clause 1, Article 2); are not required to apply for construction permits in case of projects in an area of which the detailed planning on a scale of 1:500 has been approved (point h, Clause 1, Article 2)...

Attaching this Decree is the Appendix of time to carry out administrative procedures regarding the grant of investment permits for projects of investment using land.

The process to assess contracts for designing and manufacturing auxiliary equipment for thermal power plants

Circular No. 23/2014/TT-BCT dated July 25, 2014 of the Ministry of Industry and Trade regulating on procedure for making, assessing and approving contracts for designing and manufacturing auxiliary equipment for thermal power plants in Vietnam

This circular regulates on procedure for making, assessing and approving contracts for designing & manufacturing of auxiliary equipment for thermal power plants in Vietnam between the

investors and Vietnamese contractors.

This Circular applies to:

a) Investors in the thermal power plant projects assigned by the Prime Minister to engage in the experimental design & manufacture of auxiliary equipment for thermal power plants in Vietnam according to the Decision no 1791/QD-TTg dated November 29th 2012 of the Prime Minister and investors in other thermal power plant projects according to the Prime Minister's decision;

b) Vietnamese mechanical enterprises participating in designing and manufacturing auxiliary equipment for thermal power plants in Vietnam prescribed in clause 5, Article 1 of Decision 1791 and other enterprises appointed by the Ministry of Industry and Trade.

c) Vietnamese consultancy units are prescribed in clause 4, Article 1 of Decision 1791 and foreign consultancy units designated to participate in designing and manufacturing auxiliary equipment for thermal power plants.

This circular takes effect on September 10, 2014.

HIGHLIGHTS

Vietnamese exports face legal challenges

Viet Nam's export turnover rose sharply last year and in the first half of 2014, but challenges in legal and administrative procedures and other risks remain for enterprises.

"Viet Nam's exports will face more international lawsuits and technical barriers in the time ahead and local exporters must increase their capabilities to avoid such risks and problems," Deputy Minister of Industry and Trade Tran Tuan Anh said in his opening speech at a conference held in HCMC.

The conference, themed "Risk identification and management for exporters to the US and EU markets", was held by AIG Viet Nam in partnership with the Viet Nam Economic Times, Baker & McKenzie Viet Nam and FedEx.

The seminar aims to help businesses in Viet Nam identify potential risks, protect their bottom line and strengthen their competitive ability as they engage with international markets, especially the US and EU.

Fred Burke, managing partner of Baker & McKenzie Viet Nam spoke

about the federal system of American laws.

"Fifty states have their own laws, along with the federal government's laws. Businesses have difficulties caused by having 50 different sets of state laws," he said.

He also pointed out that differences in laws and practices between Viet Nam and the US make it more likely that an export contract will result in a dispute.

"The International Chamber of Commerce has developed a set of uniform terms for export contracts that help to avoid misunderstanding and disputes, available at www.iccwbo.org/incoterms," he added.

Burke suggested that to avoid disputes, export contracts should specify the goods, purchase price, payment terms, inspection and delivery; and the location where the title transfer of goods will take place.

Also, exporters should include information on: the warranty and maintenance terms and conditions; who is responsible for import or export licences, taxes; security requirements (e.g., bank letters of

guarantee) and default provisions; mediation or arbitration clauses with the appropriate governing laws; and intellectual property rights (if applicable).

He said exporters should by strictly comply with all applicable laws and regulations.

"If you receive a summons from a US court, don't ignore it. Consult your lawyer to see how to respond," he said.

Providing clear, concise warnings and labels when applicable is also important, he said. In addition, businesses should implement meaningful, rigorous quality assurance programs to ensure product safety and documentation. Exporters should consider their risk to exposure to product liability claims and have appropriate insurance, and ensure that comprehensive insurance cover has been obtained, he added.

Ensuring that trademarks, names, and slogans do not infringe existing third-party trademark is also important, and educating sales, marketing and research staff is critical as well.

Nguyen Duy Binh, senior country manager of Indochina and chief

HIGHLIGHTS

Viet Nam representative of FedEx Express, spoke about US customs procedures at the conference.

"As pre-clearance processes must be done before physical shipments arrive, accurate description of commodities must be declared on shipping invoices," he said.

He also suggested that a full description include details on what the product is, what it is made of, what it is used for. Components, and the country of origin of goods must be included as well.

Also speaking at the conference, Susan Loftus, CEO and general director of AIG Viet Nam, said:

AIG's "Made in Viet Nam (MIV) Protect" is designed to protect organisations and their management with a selection of insurance solutions such as Directors and Officers liability, Marine Cargo, Product Liability and Trade Credit.

Viet Nam's export volume has been increasing at an average of 19.5 per cent per year since 2007, the year the country joined the World Trade Organisation.

Total estimated exports in 2013 amounted to US\$128 billion, ranking Viet Nam 34th worldwide in export size. In 2017, the country is

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expected to have \$327 billion in exports, and be ranked 27th globally.

Automobile market picks up steam

VOV - The latest sales figures confirm that despite lingering market difficulties, sales of domestic automakers continue to grow with Toyota, Thaco and Ford outperforming foreign manufacturers in recent months.

According to statistics released by the Vietnam Automobile Manufacturers Association (VAMA), total automobile sales in July reached 12,609 units, up 35% on-year and 2% on-month. In the first seven months of the year, 77,998 cars were sold, a rise of 32% when compared to the same period in 2013.

Exceptional growth

Leading market analysts are saying the automobile market is continuing to rapidly expand and point to the July sales figures as demonstrable evidence.

Specifically, Ford Vietnam reported an increase in sales of 91% on-month to 1,307 units in July and obtained its highest market share

since appearing in Vietnam. Its sales increase helped push its market share to 10.4%, up 3.1%.

Jesus Metelo Arias, Ford Vietnam Director General, attributes the achievement to increased sales of the Ranger and Transit models which hit a record high and a new model, the EcoSport, which first appeared on the market in June.

"In its first month on the market we sold an amazing 269 units of the EcoSport model, Arias said.



Toyota Vietnam also enjoyed impressive growth, selling 20,412 units in the first seven months of the year. In July alone the company sold 3,759 units with 1,101 of those traceable to sales of its latest model, the Vios, which first appeared on the market 4 months ago. Sales of the Vios were 1,101 units and 3,700 in the past four months.

Thaco's sales, in contrast, declined slightly in July. It sold just 3,232 cars in July, 200 units lower than previous month.

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HIGHLIGHTS

A Thaco representative revealed, however, that the company had unfilled orders at the end of the month of 500 units. If the sales of the 500 had been consummated then their sales volume would not have decreased.

In addition to the top three carmakers, a significant number of the 15 other VAMA members achieved high growth including Mercedes-Benz Vietnam, Isuzu, Vinamotor, VEAM and SAMCO.

Expanding market share

The sales of Ford Vietnam shot up 60% to 6,571 cars and market shares jumped from 6.9% to 8.4% in the first seven months of the year.

Jesus Metelo Arias says Ford will continue to expand production in Vietnam and introduce more new models to Vietnamese customers, adding his company will also bring about the best services to customers.

Like Ford, many other automakers are bullish on the Vietnamese marketplace and optimistically see nothing but bright spots on the horizon. They are committed to the market with plans to increase investment in all areas of the Southeast Asian nation.

Recently, Mitsubishi Motors announced its decision to shift its operations and jump into the Vietnamese market head-on. The company is focusing on Vietnam targeting this year's sales of 3,000 units and a whopping 10,000 cars in 2018.

Kazuhiro Yamana, Vinastar Director General, says the Mitsubishi Motors brand name is popular and trusted by Vietnamese customers. Vietnam is a market with a great potential, he said adding that the company is investing heavily and has placed high hopes for the market.

Toyota Vietnam Director General Yoshihisa Maruta says the automobile industry has developed stably thanks to the Government's open door policies and sustained efforts to stabilise the macro-economy and reducing taxes.

Macroeconomic stabilisation will spur market demand and in accordance with normal market rules, sales turnover in the second half of the year is often higher than that in the first half, Maruta said.

Based on current market trends, Yoshihisa predicts that this year's sales will be a record high, greatly outpacing last year.

Meanwhile, VAMA's is forecasting a rosy year for domestic automakers, projecting this year's sales turnover may jump up 10% to 130,000 units over last year.

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