

# VIETNAM BUSINESS REVIEW

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## INSIDE THIS ISSUE

### Highlight

Vietnam kicks up privatization, again, as growth slows  
Stronger Yen hits cost of metro line  
Vietnam's first commercial microchip launched  
Inflation holds steady in the first nine month

### Economy

World Bank cuts forecast for Vietnam's economic growth  
Vietnam rice exports to rise by 6%: FAO

### Bank & Finance

Central Bank announces plan to hold exchange rate steady  
HCMC shares lose prior gains

### Investment

Foreign investors ignore agriculture sector  
Venture funds eye local technology start-ups

### Enterprise

Japanese startup kicks off electric scooter sales in VN  
Samsung to build appliance plant in Vietnam

### Market & Prices

HCMC housing market shows clear signs of recovery  
Vingroup buys supermarket chain from OceanMart  
Smartphones – the future of the retail industry

### Legal Updates

Imports used as fixed assets of which the value is at least VND100 billion shall be deferred the VAT payment or refunded VAT  
Some provisions on EIT, VAT, PIT and tax declaration are amended, supplemented and applicable since Nov-15, 2014

## ECONOMY

### World Bank cuts forecast for Vietnam's economic growth

Dfinews - Sandeep Mahajan, head economist at the World Bank Office in Vietnam, said that economic growth would likely be only 5.4% this year, missing Gov't target of 5.8%.



*Sandeep Mahajan, head economist at the World Bank Office in Vietnam*

However, Mahajan also said that Vietnam still has 3 more months to improve the forecast. Since VN's growth depends on exports, it can benefit from the recovery of the world economy. Even though Purchasing Managers Index was lowered recently, it is still over 50, an expansion in manufacturing sector. Mahajan also said that the restructuring of state-owned enterprises was going slower than what WB had expected. However, he showed understanding by saying that a successful equitisation process has many factors. Due to the impacts of economic downturn, investors are reluctant to

buy shares, putting more pressure on enterprises.

According to Mahajan, VN authorities should be more active in making information about the process public. Transparency is another matter that needs to be worked on if VN authorities want to speed up the restructuring process. He added that VN economy has two kinds of growth. The first is strong and comes from FDI and the second, weaker one comes from domestic companies. This, along with a high trade deficit, has hampered Vietnam's overall growth. According to him, authorities must focus on the development of local firms to fix the problem.

### Vietnam rice exports to rise by 6%: FAO

VNS - The United Nations Food and Agriculture Organisation (FAO) has predicted that VN rice exports would increase by 6% YOY to 6.9 mln tons in 2014.

The organisation attributed the increase to VN's rising paddy yield and the rising demand of Asian markets, including Indonesia, Malaysia, China and the Philippines.

FAO estimated Viet Nam's paddy yield this year to hit a record high of 44.5 mln tons, equivalent to 27.8 mln tons of rice that represent a YOY increase of 740,000 tons.

The Ministry of Agriculture and Rural Development (MARD) reported that Vietnamese rice exports in the past nine months reached 5.02 mln tons worth \$2.3b.

In September alone, the nation exported 524,000 tons of rice worth \$249m. Wholesale rice prices in the domestic market continuously increased for 3 consecutive months, including Sept because of rising import demand, esp from China.

A tonne of rice with 25% broken rice grain content was priced at \$400, a 21% increase against that of September last year.

China remained the largest market for Vietnamese rice, making up 33.24% of market share, followed by the Philippines at 22.71%, Malaysia at 6.1%, Ghana at 5.37% and Singapore at 3.26%.

The United States Department of Agriculture predicted that VN's rice yield this year would reach 28 mln tons, equivalent to 45 mln tons of paddy, and that its exports would reach 6.7 mln tons.

## BANKS & FINANCE

### Central Bank announces plan to hold exchange rate steady

VNS - The State Bank of Viet Nam (SBV) has affirmed that it would maintain the current average interbank exchange rate of the Vietnamese dong and the US dollar. SBV Deputy Governor Nguyen Thi Hong made this assurance as commercial banks in the past week increased the exchange rate in the wake of an adjustment rumour.

Hong attributed the increase to psychological factors arising from the rumour that the central bank may adjust the exchange rate upwards.

Last Wednesday, SBV Governor Nguyen Van Binh told a National Assembly Standing Committee session that while the central bank saw no need to interfere in the market as the exchange rates remained stable, it was considering taking action to support exports.

After the central bank's affirmation, the exchange rate in the market cooled down. Vietcombank yesterday afternoon quoted a rate of VND21,250/21,310, a decrease 15 dong from that of yesterday morning.

The rate at ACB and Eximbank also declined by 10 dong to VND21,230/21,310. BDIV's rate was down by 20 dong to VND21,250/21,310.

SBV operation centres quoted the exchange rate unchanged at VND21,200/21,400, and the interbank rate stood at VND21,246 per US dollar.

The SBV increased the official dong-dollar interbank exchange rate by one% last June, and the accumulative adjustment level was likely to reach 1.43% this year, Binh said.

Hong said that in spite of the increase in the previous week, the current interbank rate was still much lower than the SBV-regulated cap. She affirmed that the central bank would continue to closely watch the foreign exchange (forex) market to ensure the stability of both the monetary and forex markets.

If necessary, the central bank will sell dollars to stabilise the market in the set band, Hong added.

The SBV said the country's dollar supply and demand sources have remained stable, with a surplus of roughly US\$11 billion in the first nine

months of the year. In September, banks and credit institutions continued to remain net buyers in the face of the low dollar demands of organisations and individuals.

Dollar liquidity in the market remains positive, with an average transaction volume of roughly \$900 million to \$1 billion daily. Banks have also met all legal dollar demands of organisations and individuals.

According to the SBV, after the exchange rate adjustment last June, it has continued buying more dollars to enrich its foreign reserves.

As for the forex market after the adjustment last June, Hong said the market has remained stable with a new exchange rate level, but this has remained much lower than the SBV-regulated cap.

In fact, Hong noted, the interbank exchange rate by end-September increased by only 0.5% against that last December.

Last year, the central bank also increased the exchange rate by one% against the rate of less than two to three% set in early 2013.

## BANKS & FINANCE

### HCMC shares lose prior gains

Shares reversed gains on the HCM City Stock Exchange yesterday, with the benchmark VN-Index losing 0.06% to close at 614.08 points.

The VN30 Index, which tracks the bourse's 30 leading stocks, also slid by 0.49% to 659.16 points as losers outnumbered gainers by 18 to 6. Overall trading value reached VND3.1 trillion (US\$146.2 million) and overall trading volume reached 194.7 million shares.

PetroVietnam Gas (GAS), which ended the day up by 0.9%, was the main factor affecting the movement of the benchmark VN-Index. However, unlike in previous sessions, it failed to lift the index in the end.

The exchange yesterday announced that the initial public offering of Vietnam Airlines, the national carrier, would take place on November 14 at a starting price of VND22,300 per share.

As of September 30, Vietnam Airlines' market capitalisation was estimated at \$1.48 billion, or three% of the southern market's capitalisation.

Total market capitalisation has increased by 27% compared with that at the beginning of this year. Trading value also climbed by 16% from the first quarter.

On the Ha Noi Stock Exchange, the HNX-Index added 0.35%, reaching 91.25 points. The trading value reached around VND1 trillion (\$47.1 million), with more than 77.8 million shares changing hands.

However, the HNX30 Index, comprising the top 30 blue chips, fell by 0.08% to finish at 186.76 points.

Securities analysts are still positive that the market will burst by year-end. Vietcombank Securities Company analyst Quach Thuy Linh predicted the domestic market to grow by 30% this year.

"Oil and gas, securities, construction and logistics will be at the heart of the market in the fourth quarter," she said.

### HCM City stock market reports good Q3 numbers

The HCM City Stock Exchange has seen positive developments in the third quarter, statistics it provided to the media yesterday show.

Total market capitalisation topped VND1,071 trillion (US\$51 billion) at

September-end compared to VND1,019 trillion (\$47.8 billion) at the end of June.

During the quarter, more than 8.31 trillion securities changed hands for VND152.83 trillion, both sharply up from the previous quarter.

The average daily trading was up to 130 million securities and VND2.39 trillion, again sharply higher.

Foreigners bought for VND20.52 trillion and sold for VND21.79 trillion, up from VND16.33 trillion and VND11.19 trillion.

Six companies listed more than 3 billion shares in the first three quarters on HOSE, up 1.2% year-on-year.

In the latest development, the first ETF listed 20.2 million certificates on Monday.

The VN Index closed at 598.8 on September 30, up from 578.8 on June 30.

The index is expected to further rise in the fourth quarter. It closed at 614.4 yesterday.

## INVESTMENT

### Foreign investors ignore agriculture sector



Dfinews - Foreign investors do not seem to be interested in the Vietnamese agriculture, forestry and fishery sector, according to the Ministry of Planning and Investment (MPI).

According to the MPI's statistics, as of late August, Vietnam had licensed only 512 FDI projects in this sector, which totaled USD3.4 billion, accounting for slightly over 3% of all FDI projects and 1.4% of FDI capital value. The agriculture sector ranked only 10th among the 18 economic sectors to have received FDI.

According to the MPI, the amount of FDI in agricultural has been on decrease. There are only 20 active FDI projects in the agricultural with a total annual value of USD130 million.

Most of the projects are small-scale with an average investment of USD6.6 million compared to an

average of USD14.7 million in other sectors.

Most of these are in the areas of forestation, animal feed processing and wood processing, as these are the most likely to bring high returns. Meanwhile, FDI in agricultural processing remains very small.

Most investors in Vietnam's agriculture sector come from Asia and bring with them limited technology.

The MPI said that potential risks in the agricultural, forestry and fishery sector discourages foreign investors from coming to Vietnam.

Agricultural production depends on weather conditions and diseases, particularly in Vietnam, which is among the countries most vulnerable to climate change.

Meanwhile, agricultural production in Vietnam is still largely small scale and lacks cooperation between farmers and enterprises. Infrastructure in rural areas of Vietnam is underdeveloped, forcing investors to spend more money on works.

The quality of labourers is also a problem, as the number of skilled workers in the agriculture sector is low.

There is also a lack of area for processing factories, a very important factor for investors. Localities usually grant land for processing on a small scale.

### Venture funds eye local technology start-ups

VNN - *Capital shortage is no longer a problem for many technology startups as many venture funds are increasingly pouring money into them.*

Nguyen Hong Truong, vice president of IDGVV, said the fund had poured capital into some 40 Vietnamese companies since 2004. Many of the firms have grown into big joint stock companies, such as VNG, VCCorp, and Vat Gia JSC, which now have huge capital of millions of dollars.

Although DFJV (VinaCapital) has been in Vietnam for only seven years, it has invested in 10 companies, including VON JSC, which owns Kiemviec.com and HR Vietnam, a website on job services. The foreign venture funds have brought financial support that startups cannot receive from commercial banks.

## INVESTMENT

Truong of DFJV said he believes that venture funds will develop rapidly in the time to come with capital to be pumped into electronics and media companies. He said investors have been attracted by an impressively high growth rate of 30 percent on average made by companies in the field.

Meanwhile, an analyst noted that venture funds will be most interested in the enterprises in supporting industries.

Many big international groups like Samsung, Doosan and Kumho Asiana are increasing their investments in Vietnam, particularly for the enterprises in support industries that would provide parts for the groups' global production chains.

Analysts said that such investments were not as risky as some thought, and some Vietnamese venture funds have been established, including PVNI of Viet Nam Think Vuong JSC and BTIC of Becamex IDC. The funds have given technology firms more opportunities to access capital.

According to Dynasty Investment, there are about 20 venture funds

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operational in Vietnam with \$2.5 billion in capital, including VinaCapital which is managing four funds with capital of \$1 billion, IDG Ventures with \$500 million, Mekong Capital with \$181 million, Prudential with \$130 million.



*The foreign venture funds have brought financial support that startups cannot receive from commercial banks.*

An official of the Ministry of Science and Technology (MST) noted that technology firms now have more choices for capital mobilization. In the past, they could only expect capital from three main sources – the state budget, commercial banks and their own capital.

MST has encouraged the establishment of non-profit investment funds with an aim to give financial support to new businesses to help them turn their ideas into reality.

Meanwhile, some successful Vietnamese businessmen have

joined forces to form the Vietnam Science & Technology Enterprise Development Fund.

The fund, which has mobilized VND10 billion worth of capital, is expected to begin providing financial support soon after the organization re-structuring finishes.

MST is drawing up a plan on commercializing technologies under the mode of Silicon Valley and with the US experience, hoping to create favorable conditions for the technology commercialization in Vietnam.

Under the plan, each of 10 startups to be selected will receive initial investment capital of \$10,000 from the program and receive intensive training for four months.

[Back to top](#)

## ENTERPRISES

### Japanese startup kicks off electric scooter sales in VN



Nikkei - Japan's Terra Motors has begun selling electric scooters in Vietnam, hoping to compete against inexpensive Chinese products by touting after-sales service and safety.

In partnership with a local company, Terra Motors recently opened a dealership in Hanoi and plans to have 10 before year's end. These locations will initially sell 100 of A4000i hi-performance scooter. The A4000i has a top speed of 60kph and can travel up to 60km on a 4.5-hour charge. It is designed so an iPhone can be mounted on the handlebars, displaying

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remaining battery life and also functioning as a car navigation system. The high-end scooter is priced at 89.9 mln dong (\$4,230). Models costing less than half that will be released next year.

With an estimated 38 mln scooters & motorbikes on the roads, Vietnam is the world's fourth-largest market, trailing only China, India and Indonesia. The number of electric scooters sold here has been climbing, and one dealer says more than 90% of recent sales are of inexpensive Chinese-made models. Despite a great disparity in price, Terra Motors thinks its products can be competitive because of their high performance.

### Samsung to build appliance plant in Vietnam

Nikkei - Samsung Electronics will construct a new complex in HCMC to produce televisions and other consumer appliances.

VN authorities have given the go-ahead for the investment, which is planned to \$560m. The site is a spacious 700,000m<sup>2</sup>. Samsung says it will respond to the mid- & long-term growth of home electronics markets around the world.

Construction will begin in 2015, with the site gradually coming onstream that year. The combined complex will produce not only TVs, but also washing machines, refrigerators, air conditioners and the like. The company may increase its investment further, depending on market trends.

Samsung Electronics boasts the world's top share in TVs and is a leading player in refrigerators. While consumer electronics have lower margins than the mainstay smartphone business, they serve as a stable source of revenue.

Home electronics sales grew 3.9% on the year to 50.3 trillion won (\$49b) in 2013. The operating profit margin came to 3.3%.

While General Electric and Siemens decided to sell home appliance businesses, Samsung plans to continue investing in the field.

It chose Vietnam for labor far cheaper than China's, an abundance of young workers, and tax benefits offered by a government striving to attract export industries. Samsung already has a factory in the Southeast Asian country for its smartphone business.

[Back to top](#)



## MARKET & PRICE

### HCMC housing market shows clear signs of recovery



VOV - Residential real estate sales are pushing HCMC into seller's market territory with an increase in the number of properties changing hands in the last year ballooning by 85%, according to property company Savills Vietnam.

In Q3-2014 alone, the number of real estate closings jumped 29% against the second quarter, with the total number of sales estimated at 3,280, according to the nation's largest real estate agency.

A recent Savills research report indicated that 10 residential real estate projects in the city are offering 4,600 single family residential units for sale, 19% higher than Q2 and up 103% since the beginning of the year.

The research report forecasts that during the period 2015-2017, the real estate market will continue to

rebound with over 95 projects offering 70,100 single family residential units for sale.

### Vingroup buys supermarket chain from OceanMart

VIR - Vingroup JSC announced Friday that it has bought a 70% stake in the Ocean Retail company and will officially change the name of its supermarket chain from OceanMart to VinMart.



As a result of the move, Vingroup now owns 13 commercial centers and supermarkets previously known as OceanMart.

Le Khac Hiep, deputy chairman of Vingroup, said his firm will build around 40 more supermarkets across Vietnam in the future, each covering an area of 3,000 to 15,000 square meters.

In addition, Vingroup will also establish its own chain of convenience stores named VinMart, each will cover 150 – 300 m<sup>2</sup>.

It is expected that VinMart will have around 100 supermarkets and 1,000

convenience stores across the nation by 2017.

### Smartphones – the future of the retail industry

VNN - Smartphones, which are helping to connect retailers and consumers, play a very important role in the future development of the retail industry.

36% of Vietnamese own smartphones, according to Google and TNS's 2014 survey on consumer behavior. The proportion soared from 20% to 36% within one year.

A survey by Nielsen showed that 58% of Vietnamese smartphone users often use the device to make online purchases. Vietnam ranks third in Southeast Asia in the proportion of consumers shopping online, after the Philippines and Indonesia.

The "smartphone boom" has helped retailers easily approach consumers, thus boosting sales.

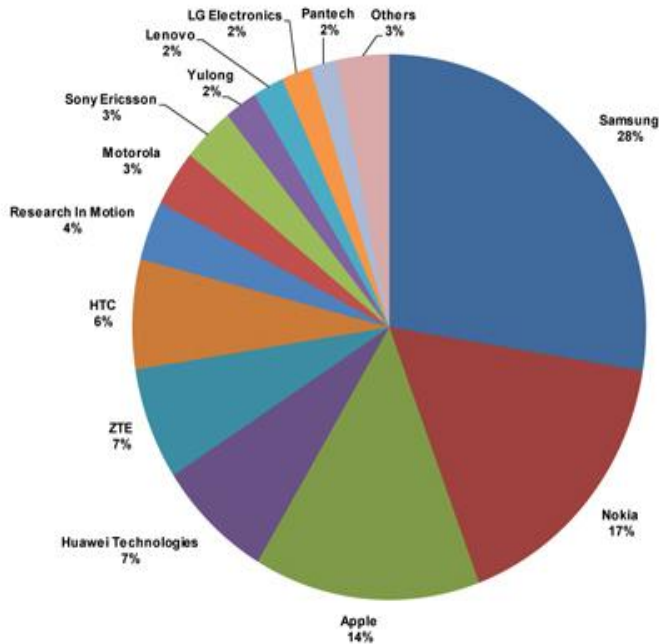
It is estimated that one-third of the 30 players in the Vietnamese e-commerce market have developed apps allowing users to order goods through smartphones or tablets. These include Lazada,

## MARKET & PRICE

Zalora, VatGia, CungMua, NhomMua and HotDeal. Zalora is a typical example which

of the year, 35-30% of the total visitors to Zalora's website was from mobile apps and mobile browsers,

**Smartphone market share in Asia Pac (4Q11)**



Source: Gartner

can show big changes in the Vietnamese way of doing online shopping.

Just one year after doing business in Vietnam, in July 2013, Zalora launched an app allowing people to buy goods online through smartphones that run on iOS and Android operating systems. Its website has also been optimized to make it easily approachable from mobile devices.

A report of the online shopping channel showed that in the first half

which brought over 15% of its total sales.

Nguyen Phuong Anh, managing director of Zalora, said the proportion could be higher than 15%.

"Mobile apps and mobile browsers were believed to indirectly bring turnover to Zalora," Anh explained. "People got information about products when accessing Zalora's website from their smartphones, then saved the information and would possibly later place orders from their desktop computers or laptops."

The managing director said she hopes the mobile channel will bring 30-35% increase in sales in the future or equal to the revenue from desktops and laptops.

Analysts commented that Zalora was not engaging in wishful thinking by planning to receive more orders through mobile channels. All the conditions necessary for mobile trade development are available, including a high percentage of smartphone users, the low 3G cost (less than VND100,000 a month), and the large wifi coverage in big urban areas.

The tendency of Vietnamese to use smartphones to connect to the internet explains the sharp increase in the number of 3G subscribers in recent years. According to the Ministry of Information and Communication, Vietnam had 3 million 3G subscribers, accounting for 20% of the 121.12 million subscribers in the country.

Sophie Tran, Vietnam marketing director of Google in Asia Pacific, noted that it was now the right time for the players in the e-commerce market to take the first steps to prepare for the mobile trend. For example, retailers need to be sure that their websites can be displayed well on mobile devices.

## LEGAL UPDATES

**Imports used as fixed assets of which the value is at least VND100 billion shall be deferred the VAT payment or refunded VAT**

Circular No. 134/2014/TT-BTC dated September 12, 2014 of the Ministry of Finance procedure for the deferment of vat payment and refund for imported machinery and equipment used as fixed assets in investment projects.

This Circular regulates the policies to allow enterprises to option the deferment of VAT payment or the VAT refund applicable to projects of investment of which the total value of machinery, equipment imported to create fixed assets is worth equal to or greater than VND 100 billion.

If an enterprise options the deferment of VAT payment, the deferment duration shall be 60 days counted from the expiration of VAT payment deadline as prescribed. Such the deferment is applicable to

the first shipment of freight which is worth less than VND 100 billion.

If an enterprise options the VAT refund, the refund shall be carried out within 3 working days after the enterprise provided the documents of VAT payment for the imported goods

This Circular takes effect as from October 27, 2014.

**Some provisions on EIT, VAT, PIT and tax declaration are amended, supplemented and applicable since Nov-15, 2014**

Decree No. 91/2014/ND-CP dated October 1, 2014 of the Government on amending and supplementing a number of articles provided in some Decrees on tax.

This Decree is to amend such Decrees as: Decree No. 218/2013/ND-CP on Enterprise Income Tax (EIT); Decree No.209/2013/ND-CP on Value Added Tax (VAT); Decree

No. 65/2013/ND-CP on Personal Income Tax (PIT); Decree No.83/2013/ND-CP on tax declaration

Accordingly, in Decree No. 218/2013/ND-CP, the clauses amended include:

- Point m, Clause 2, Article 3 regarding asset-receiving enterprises may make accounting the asset value according to the re-evaluation after the separation, consolidation, merger;
- Clause 3, Article 4 regarding the EIT exemption period on the turnover relating to science and technology;
- Clause 9, Article 4 regarding incomes exempted from tax, applicable to the Funds;
- Point a, Clause 1, Article 9 regarding the permission to make accounting welfare benefits for laborers within the norm of one month of salary;
- Clause 3, Article 16 regarding economic localities that are regarded as the advantages localities in order to remove the incentives of tax exemption, tax reduction for projects of new investment in industrial zones;

## LEGAL UPDATES

- To amend Clause 5a and 5b, Article 19 on EIT incentives for projects of expansion and the right to select the tax incentives according to the conditions on export ratio in the garment and textile operation;

- To amend the List of geographical areas regarded as the areas with socio-economic difficulties;

In Decree No.209/2013/ND-CP, Point a, Clause 2, Article 3 is amended in order to allow the VAT exemption in case a borrower sells the collateral for loan himself/herself under the authorization of the lender; The regulation on VAT calculation at the end of a year (December 31st) for deferred - payment goods as prescribed in Point b, Clause 2, Article 9 is removed.

Regarding PIT, this Decree amends Point d, Clause 2, Article 3 of Decree No.65/2013/ND-CP allowing the exemption of PIT for such housing benefits as charges for electricity, water and associated services at housing works built in industrial zones or in difficult localities by enterprises.

This Decree takes effect on November 15, 2014. Particularly, the

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provisions in Article 1 of this Decree shall be applicable to the EIT period from 2014.

### Guiding the opening and use of direct investment capital accounts in foreign currencies and Vietnam Dong

Circular No. 19/2014/TT-NHNN dated August 11, 2014 of the State Bank of Vietnam guiding the management of foreign exchange in the activity of foreign direct investment in Vietnam.



This Circular guides the opening of foreign currency or Vietnam dong accounts, capital contribution, capital transfer, profit transfer of foreign investors.

According to Clause 1 of Article 6, each foreign investor who operates in Vietnam is allowed to open direct investment capital accounts in foreign currencies, Vietnam dong at only one bank. If wishing to change to another bank, they must

close such accounts and transfer the entire current balance to the new accounts.

Within 06 months as from the effective date of this Circular (not later than March 25, 2015), FDI enterprises are compulsory to transform special – use deposit accounts in foreign currencies into direct investment capital accounts in foreign currencies . After March 25, 2015, the foreign currency deposit accounts are not allowed to use

This Circular takes effect on September 25, 2014. To annul Article 9 of Circular No.05/2014/TT-NHNN dated March 12, 2014 of the State Bank guiding the opening and use of the foreign indirect investment capital account to operate the foreign indirect investment in Vietnam.

[Back to top](#)

## HIGHLIGHTS

### Vietnam kicks up privatization, again, as growth slows

Nikkei - The Vietnamese government plans to sell off shares in more than 300 state-owned enterprises by the end of 2015 in a new round of partial privatizations meant to rouse a sleepy economy. But investors are skeptical about the prospect of better governance at SOEs, which provide about 40% of the country's economic output and roughly 20% of its jobs.

#### Schedule for privatizing Vietnam's major state-owned enterprises

Company	Date of divestment	Stake to be sold
Vinatex	Sept. 22	49%
Vietnam Airlines	November	25% (up to 35%)
MobiFone	2014 end to 2015	Undecided
Vinalines	2015	Undecided
EVN	2015	25-35%

Vinatex held an initial public offering on Sept. 22. The government had been looking to unload up to 49% of shares in the country's biggest textile maker, officially known as Vietnam National Textile and Garment Group, through the IPO and sales to strategic investors and foreign companies.

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In the early 2000s, Vietnam's first privatization boom opened up dairy group Vinamilk and other SOEs to outside investment. But with the economy humming along, reform fell by the wayside. The stock market also suffered a prolonged slump after the global financial crisis, further sapping the drive for privatization.

But worries about a slowing economy have prodded Hanoi into action again. Growth has languished at a little more than 5% for two straight years. Vietnam needs to pursue greater economic efficiency through "equitization," the government's term for partial privatization, said Prime Minister Nguyen Tan Dung.

The government divested shares in around 100 companies in the first half of this year as part of plans to equitize 432 SOEs in 2014-2015. Its primary goal is attracting foreign capital, which Hanoi hopes will inject fresh thinking as well as needed funding into SOEs to better compete with nearby economies. This has proved harder than officials had envisioned. Vinatex reportedly struggled to find buyers for its IPO,

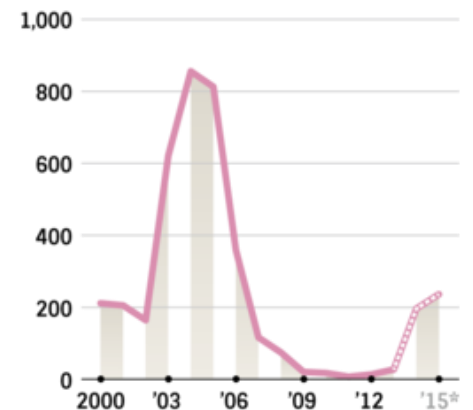
according to a Vietnamese stock market insider.

#### Too tied up

Investors have reasons to be wary of Vietnam's opaquely managed SOEs. Cross-shareholding is rampant, and hidden debts often lurk under the surface. Layoffs and other bold attempts at restructuring clash with socialist ideology. Stubborn opposition has delayed a decision on raising the cap on foreigners' stakes in listed companies from the current 49% to 60%.

China has been overhauling its own state companies, partly to remove ingrained corruption. But SOE reforms are making far slower headway in Vietnam, where private-sector companies have only a minuscule presence.

#### Number of Vietnam SOEs being privatized



\*Forecast Source: Vietnamese Ministry of Finance

[Back to top](#)

## HIGHLIGHTS

Vietnam Airlines' upcoming share sale will provide a test of foreign confidence in the country's privatization efforts, analysts say. The government plans to sell a quarter of its stake in the carrier to foreign investors in November. Negotiations with Japan's All Nippon Airways and other potential buyers are underway, according to CEO Pham Ngoc Minh. Buying into Vietnam's rapidly growing aviation market presents a tempting, if risky, proposition.

Pressure for privatization is also coming from abroad. Preferential treatment for SOEs in awarding government contracts has come under fire in negotiations on the Trans-Pacific Partnership, a proposed free trade deal. Vietnam and Malaysia in particular are feeling the heat.

In Vietnam, SOEs frequently command cabinet posts for their executives and provide cushy jobs for relatives of senior government officials. Dividends on SOE stocks also make up a big share of state revenue. For Hanoi, cutting ties with industry will thus entail fiscal pain.

### Stronger Yen hits cost of metro line

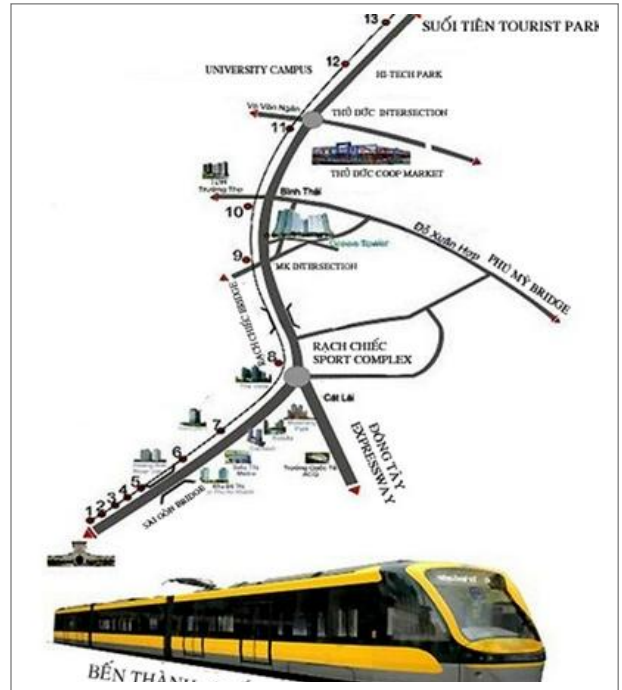
The cost of HCM City's Metro Line No 1 linking Ben Thanh Market and Suoi Tien Tourist Park is set to increase from VND47.3 trillion (US\$2.22 billion) to over VND54 trillion following an appreciation of the yen, a local newspaper said quoting a report from the HCM City

Management Authority of Urban Railway.

According to Tuoi Tre (Youth) newspaper, a consortium of Japan's Sumitomo Corporation and Viet Nam's Civil Engineering Construction Corp No. 6 (Cienco 6) will design, survey, execute, supply equipment, test, operate, offer utility services, and maintain the stations in the 17.1km overhead section of the line.

But the newspaper did not provide further details about what has caused the cost escalation.

The line was approved in 2007 at a cost of nearly VND17.4 trillion, including VND14.4 trillion from



Japanese ODA loans, and nearly VND3 trillion from the Government.

In September 2009 the cost was revised to 236.62 billion yen or more than VND47.3 trillion.

On July 7 this year, it again approved an increase to VND54 trillion or 236.62 billion yen.

Construction began in August 2012, and the metro is scheduled to become operational in 2017.

At the ground-breaking ceremony Nguyen Do Luong, head of MAUR, had said the line would be able to transport 186,000 passengers daily by 2017 and 620,000 by 2020.

Set to become the backbone of the city's Mass Rapid Transit (MRT) system, the nearly 20km route will

## HIGHLIGHTS

pass through Districts 1, 2, 9, Binh Thanh, and Thu Duc and Di An town in Binh Duong Province.

It will consist of a 2.6km underground section connecting Ben Thanh Market and Ba Son Shipyard with three underground stations.

The 17.1km overhead section will have 11 stations and see the line run up to Suoi Tien in District 9.

### Vietnam's first commercial microchip launched



VNS - Vietnam's first commercial microchip, SG8V1, made its official debut in HCMC on October 3.

Developed by the Integrated Circuit Design Research and Education Centre (ICDREC) under the National University (HCMC), SG8V1 aims to compete with imported chips in both quality and price. For orders of 1,000 chips or more, each unit costs VND45,000 (\$2.14).

By producing such high-quality items, the support industry can help the country's high-tech industry, said vice chairman of the municipal People's Committee Le Manh Ha, who is also Head of the Steering Board for the city's microchip development program.

### Inflation holds steady in the first nine month

VNS - The inflation rate in Viet Nam is expected to reach 3-4% this year barring any sudden increase in the prices of goods and services.

In a report on the country's economic situation in the first nine months of 2014 which it released last week, the National Financial Supervisory Commission (NFSC) also said the consumer price index (CPI) in September remained stable and at the low level that was maintained in the past two years.

Despite seasonal factors in the past month, the education services sector increased by 7.1 per cent, making its CPI surge the highest in the past seven months.

However, inflation was at its lowest level, increasing by 3.62% YOY. With the downward trend in inflation, the committee forecast the decreasing

CPI to facilitate an interest rate decline.

The payment balance saw a surplus and stable exchange rate during the nine-month period. As of Sept-15, State budget overspending was estimated at VND124.5 trillion (\$5.9b), a 4.7% YOY decrease.

The commission also said exports and imports witnessed a positive growth rate in the period, with a trade surplus of around \$1 billion, accounting for 0.9 per cent of export turnover.

GDP growth has also been on an upward trend since the beginning of the year. Growth reached 6.15 per cent in the third quarter, higher than the 5.25% recorded in the second quarter.

The NFSC predicted that the country's GDP this year would reach 5.8 per cent because of high third quarter growth.

However, the committee said difficulties remained for local businesses. A total of 48,330 companies shut down or suspended operations between January and September, representing a 13.8% YOY increase.

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