VIETNAM BUSINESS REVIEW

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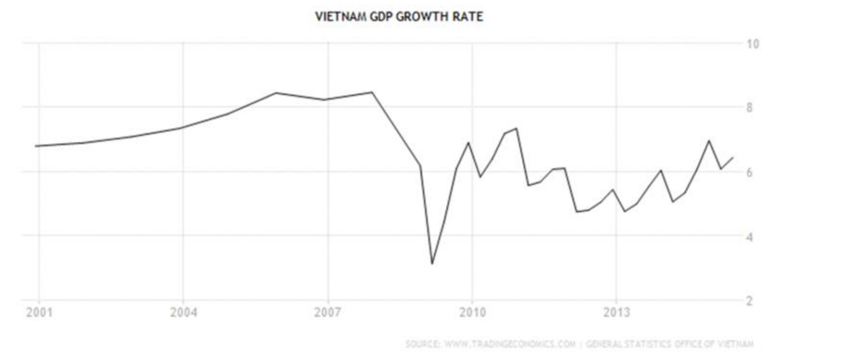
Vietnam Parade for Independence Day

IN THIS ISSUE

Achievements in 70 Years of Independence

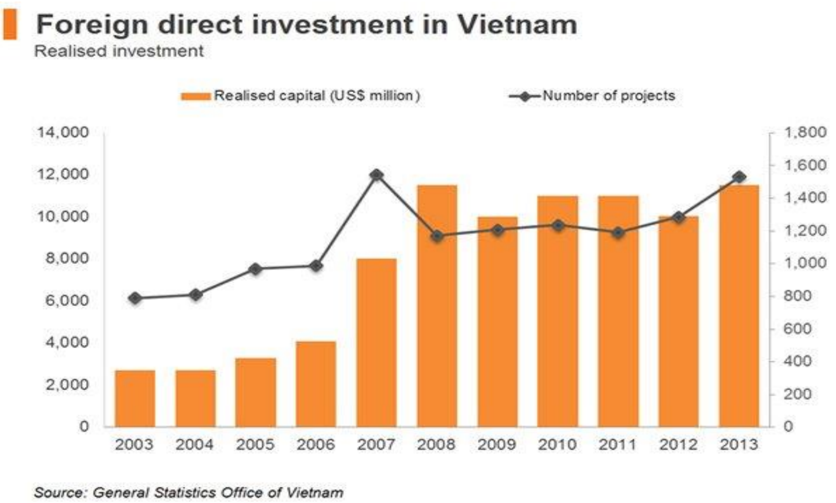
High growth rate

The most outstanding achievement of Vietnam since doi moi (renovation) was initiated 30 years ago is relatively high economic growth in many consecutive years (ranked second in Asia). Within 10 years, from 1991 to 2000, Vietnam's GDP doubled, with an average annual expansion of 7.5 percent. The GDP growth has averaged 7 percent a year since 2001. The economic structure continued to be restructured to increase the contribution of industry and services in GDP while reducing the share of agriculture, forestry and fisheries. The share of agriculture, forestry and fisheries in GDP dropped 40.2 percent in 1985 to 21.76 percent in 2004 while the share of industry and construction jumped from 27.4 percent to 40.09 percent and the share of service increased from 32.5 percent to 38.15 percent.



More open foreign investment environment

The Law on Foreign Investment and other legal documents gradually shaped a transparent legal system to draw foreign direct investment (FDI) into Vietnam. The first FDI wave took place from 1991 to 1997 when Vietnam attracted 2,230 projects with a total registered capital of US$16.244 billion. The entry to the World Trade Organisation (WTO) enhanced the allure of Vietnam to foreign investors and gave rise to a surge in FDI value in 2007 (up 75.3 percent) and 2008 (up 42.6 percent). In 2014, FDI licensed into Vietnam reached US$20.23 billion. In the first seven months of 2015, the FDI value was US$8.8 billion, equal to 92.4 percent of the value in the same period of 2014. FDI enterprises contributed some 15 percent to GDP, accounted for over 30 percent of total exports, and made up 4.9 percent of tax revenue. They also created tens of thousands of jobs.



Private businesses loosened; SOEs tightened

Vietnam had 488,148 active businesses as of January 31, 2015, which employed nearly 12 million workers. In the first seven months of 2015, the country had 52,004 new businesses with a total registered capital of VND321.3 trillion. Regulations on the operating environment for private enterprises are increasingly loosened, transparent and respectful.

State-owned enterprises

(SOEs) were reshuffled to improve operating efficiency. From initial 12,000 SOEs, Vietnam restructured 6,980 companies by the end of the first quarter of 2015, with 4,237 enterprises privatised. The resolution to corporate reform was also illustrated by the result of divestment of SOEs in five sensitive areas (real estate, securities, finance - banking, insurance and investment fund). SOEs divested VND8,213 billion and collected VND8,599 billion since the National Assembly issued Resolution No. 21/2011/QH13 dated November 11, 2011 to the first quarter of 2015. Investment items generated a surplus of VND4,517 billion from 2011 to 2014 as investors received stock dividends. SOEs will have to divest VND19,517 billion in remaining months of 2015.

Agriculture- economic backbone; Banking and financial reform

Exports surged in many years. Many agricultural products like rice, cashew nut, coffee, tea and seafood secured Vietnam the largest, second and third exporters in the world. Agriculture has become the mainstay of the economy.

Financial and banking reform was of particular concern of the Government. Achievements in this sector helped strengthen macroeconomic stability, limit budget deficit, control inflation, ensure State financial transparency, gradually eliminate credit-based subsidies, apply market-based exchange rate and interest rates, mobilise capitals and improve capital-use efficiency. The banking system is being drastically reformed. Stock market, financial market, labour market and real estate market developed more stably and robustly.

Friend and reliable partner of all countries

Vietnam now has diplomatic relations with 168 countries in the world and established trade relations with 165 countries and territories. Currently, Vietnam is an active member of many international and regional organisations and forums like UN, ASEAN, APEC and ASEM.

After eight years joining the WTO, Vietnam has signed 10 bilateral and multilateral free trade agreements (FTAs) with China, South Korea, Japan, India, New Zealand, the Customs Union of Russia -Belarus - Kazakhstan and eight of them have been enforced. Vietnam has also concluded bilateral negotiations with 11 TPP-member countries, including the United States.

Improving all aspects of people's lives

Vietnam pays special attention to addressing social issues. It spent over 30 percent of the total social investment capital for poverty reduction, human resource development, education - training, science - technology, health and culture. Livelihoods of Vietnamese people from rural to urban areas, from the plains to the mountains have improved rapidly.

GDP per capita doubled from 1995 to 2003. GDP per capita reached US$2,028 in 2014, equivalent of US$169 a month. The United Nations hailed Vietnam as one of the world's leading countries in achieving poverty eradication. The above fruits come from the very first platform. That is the great victory of the August Revolution 1945 and the founding day of the Democratic Republic of Vietnam.

[Nguyen Thanh]

In 2015: 90 Pct of Taxpayers Go Online

As of July 27, 2015, over 390,000 companies registered to pay taxes via electronic means, accounting for 76.2 percent of operating businesses. Specifically, 294,159 companies registered to use the service and successfully connected with commercial banks and 67,743 companies registered to pay taxes via the information portal opened by tax agencies and commercial banks. Tax offices promptly upgraded their electronic tax payment system, including infrastructure, equipment and transmission lines, to ensure stable continuous operation, overcome problems of taxpayers, and facilitate taxpayers and tax officials when they use the service. Besides, tax authorities accepted tax payment via internet banking channels; built connection systems with T-Van units to enable enterprises to pay taxes via these units.

However, according to the General Department of Taxation, many companies do not have standard information technology equipment to smooth electronic tax payment processes. Micro and small enterprises do not have plus balances on accounts at commercial banks for electronic tax payment. Furthermore, micro businesses tend to minimise costs and a person can do many different works and their interest and concentration for electronic tax payment will be lessened. Some even show their concerns about security and safety of the new payment method. Moreover, as electronic documents are not legally accepted in some fields, companies must print electronic documents onto papers to provide third parties for new transactions. Meanwhile, the State Treasury of Vietnam has not opened accounts at all commercial banks, many money transfer deals will carry high service charges.

So far, only 15 commercial banks have completed connections with tax authorities and provided electronic tax payment services for enterprises. Although having agreements signed, other banks are slowing deploying electronic tax payment services because of legal, budget, technical and personnel difficulties.

According to the plan and guidance of the Government and the Ministry of Finance, 90 percent of electronic taxpayers must pay at least 90 percent of their taxes via electronic medium on the monthly basis and 90 percent of invoices and tax documents will be made via electronic means. This is a quantum leap of the tax sector when it has to complete the above target.

[Hien Hung]

Vietnam has reasons not to sharply devalue the dong

If Vietnam devalues the dong sharply, regulatory agencies will find it difficult to implement the plan to slash medium- and long-term bank loan interest rates, and the public debt will become worse.

A report by the Hong Kong and Shanghai Banking Corporation (HSBC) shows that the Vietnam dong has appreciated by 9 percent compared with last year, if considering the RER (real exchange rate), the sharpest appreciation level since 2000. Analysts, therefore, have one more reason to criticize the State Bank for keeping the dong/dollar exchange rate stable too long, which they say hindered economic development and exports.

While the SBV's forex trading band widening by one percent on August 11 could be seen as the response to the 4.6 percent Chinese yuan devaluation, the foreign exchange rate adjustment on August 19 serves a long-term strategy. The central bank will consider the possibility after the US Federal Reserve's (FED) adjusts the prime interest rate in September.

A renowned banking expert, as saying that Vietnam should devalue the dong by 10 percent within two to three years. Hieu has called on the State Bank (SBV) to reconsider the strong dong policy. However, analysts said SBV won't dare devalue the dong too sharply, because the sharp devaluation, if it occurs, will affect the interest rate policy.

BIDV's Research Center has warned that the central bank will meet with big challenges in implementing its plan to ease the interest rates to make it easier for businesses to access official bank loans. BIDV's analysts believe that in the time to come, the Vietnam dong liquidity will be less, while interest rates in the interbank market would go up again, which would later affect market interest rates. BIDV thinks it is highly possible that SBV would tighten the monetary policies in 2016, which would push the interbank interest rates up.

Currently, SBV is cautious for a number of reasons. Since August 11, the secondary government bond market has turned gloomy with weak liquidity, while investors have shown higher interest in short-term bonds. And the interest rates have increased slightly by 5-10 percentage points.

[VIETNAMNET]

Overseas Vietnamese rush to pour money into real estate

Real estate firms all have confirmed a significant increase in the number of buyers from overseas recently, both overseas Vietnamese and foreigners. More than 100 successful transactions between the company and overseas customers from early July to August 8. The Phu My Hung new Urban Area has attracted 30,000 residents since the day of establishment; 50 percent of them are foreigners, including Viet Kieu. Morever, with the new law allowing foreigners to buy houses in Vietnam, the number of foreigners and Viet Kieu buying houses under their real names will increase in the time to come.

The project developer has confirmed that the number of transactions with Viet Kieu accounted for 20 percent of total transactions in the last month, since the new policy on allowing foreigners to buy Vietnamese houses took effect.

However, the circulars guiding the implementation of the laws on allowing Viet Kieu and foreigners to buy houses still have not been released; therefore, it is still too early to say by what percentage the number of real estate transactions by Viet Kieu would increase. The real estate products that most attract Viet Kieu include beachfront villas, apartments, front-street houses and villas in the districts of 2, 7 and 9. The attractive characteristic of the products is that they can be leased, and the value of the products remains stable.

There were three reasons that prompted Viet Kieu to pour money into the real estate sector.

First, the domestic real estate market is in the first months of recovery after a long recession.

Second, the new policies, from allowing foreigners to buy houses to allowing transactions not to be made via trading floors, tend to support the strong rise of the real estate market.

Third, many Viet Kieu from East Europe and Asia have succeeded with their investment projects here.

[VIETNAMNET]

Seaprodex to sell stake in Proconco

Viet Nam National Seaproducts Corporation (Seaprodex) has approved a plan to sell all its stake in the Vietnamese-French Cattle Feed Joint Stock Company, better known as Proconco.

Proconco is the third largest livestock and aquafeed manufacturer in Viet Nam, with an 8-per-cent market share. Proconco is the third largest livestock and aquafeed manufacturer in Viet Nam, with an 8-per-cent market share. It produced nearly 1.4 million metric tonnes of feed last year, the second largest by volume. Its best-known brand is "Con Co" (Stork).

Seaprodex is the third largest shareholder of Proconco with a 17.47 per cent stake. The company plans to sell these shares at a price not lower than VND16,650, the book value of Proconco at the end of 2014.

This investment is considered to be one of the most valuable assets of Seaprodex, which had VND1.25 trillion (US$55.6 million) in charter capital in 2014. The corporation can earn at least VND582 billion (nearly $26 million) from the sale. It plans to use this money to expand investment and pay dividend to its shareholders.

According to Seaprodex's leaders, the divestment plan aims to ensure the best interests of the company's shareholders since Masan Group, Proconco's largest shareholder with a 52 per cent stake, plans a shift in the company's development strategy. After taking control of Proconco in April 2015, the Masan Group has been directing the company towards the 3F (feed-farm-food) model, without a dividend plan in the next five years. The group also holds a major stake in Agro Nutrition International Co Ltd (Anco) and Masan Nutri-Science Co Ltd, and plans to merge Proconco with these two companies.

If the deal was inked, Seaprodex's leaders estimated its investment value in Proconco would be halved. Proconco's currently has VND2 trillion (nearly $89 million) in charter capital. Earlier, the Dong Nai Food Industrial Corporation (Dofico), the second largest shareholder with a 24 per cent stake, announced its plan of selling its 17.5 per cent stake in Proconco.

However, Seaprodex's plan may not be carried out in the near future as MARD has just asked the representative of State capital in Seaprodex to stop its divestment plan in subsidiaries and associated companies. Deputy Prime Minister Vu Van Ninh has also asked MARD to sell its entire stake in Seaprodex by the end of this year.

[VIR]

Future seems 'grim' for Vietnam's steel industry

Vietnam and the Eurasian Economic Union (EEU) signed a free trade agreement (FTA) on May 29, 2015 – the first such trade deal struck by the Moscow led body with a third country as it seeks to bolster its presence in Asian markets.

The EEU, which includes Russia, Armenia, Belarus, Kazakhstan and Kyrgyzstan, was launched in January 2010 to promote trade and economic integration. It has a combined population of 181 million and gross domestic product of around US$2 trillion.

The trade deal covers more than 90% of all commercial goods traded between the parties and it is anticipated to pose particularly tough challenges for Vietnam businesses in the steel manufacturing and fabrication industries. Pursuant to the terms of the deal, once fully implemented, businesses within these two industries will be permitted to compete in the Vietnam-EEU free trade zone without the imposition of tariffs and other non-tariff barriers.

Each year, the Russian industry produces roughly 70 million metric tons of steel using some of the world's most advanced technologies. Each ton of steel billet produced in Russia consumes 50 kilowatt hours of power. Meanwhile, Vietnam manufacturers use excessively more of the industry's number one cost input, almost 10 times more electrical power to produce the same tonnage, putting them at a severe competitive disadvantage. Additionally, most Vietnamese steel businesses are relatively small-scale operations and lack the financial backing to invest in more advanced technologies to improve quality let alone the skill set to utilize them.

Currently, Vietnam businesses are severely handicapped by their deficient knowledge of international trade laws and practices, with the single greatest challenge for exporters being their lack of knowledge of foreign markets. Many business leaders, including the Vietnam Steel Association, have called for the government to step in and intervene with protective measures to protect the multi-billion dollar steel industry from competition.

While there is little question the FTA is good for consumers in Vietnam, considering they are getting a higher quality product at a much better price, it straightforwardly means the industry has its work cut out getting its products up to snuff. Utilizing higher quality steel at a lower cost is also good for the nation's infrastructure in this time of rapid expansion with new factories, bridges, airports and other infrastructure that incorporate steel into their final product benefiting tremendously.

This point saying that with Vietnam opening its markets and moving towards global integration, steel businesses should accept that they need to get more competitive to survive in a market economy.

Baby products sales to grow

Rapid urbanisation, growth of the middle class and rising rates of women's participation in the labour force, especially in developing markets, are expected to stimulate global growth in baby food and diaper sales, according to a report released last week by global performance measure-ment company Nielsen.

The 2015 Nielsen Global Baby Care Report, which explores trends in categories such as baby food and diapers and why consumers choose one brand over another, shows that more than one in 10 consumers in Viet Nam have a baby below the age of one in their household, the highest level in this region and double the global average of 5 per cent.

A further 19 per cent have children aged one to two in their household compared to 9 per cent globally. Half of respondents in Viet Nam say good nutrition is important when deciding which baby food to purchase. Good price/value and trusted brands are also important for more than a third of consumers (38 per cent), along with safe ingredients/processing (36 per cent) and flavour/taste (32 per cent). Organic and all-natural foods are also an important purchase consideration, cited by 27 per cent of respondents in Viet Nam.

It means when it comes to caring for their little bundles of joy, parents are highly discerning from the food they put in their mouths to the diapers they put on their bottoms; there is little room for compromise, and they're willing to spend more for quality. Greater awareness of the importance of health and nutrition is leading consumers to look for natural, minimally-processed foods, and when it comes to their babies, consumers are especially particular— even if their demands come at a premium. In developed markets, where birthrates are lower and baby care categories are highly saturated, growth will be spurred by innovation and premiumisation while in developing markets, increasing demand will be the biggest growth driver.

When it comes to attributes in choosing the brand and type of diaper to buy for their babies, more than half of consumers in Viet Nam identify skin protection/good for sensitive skin (53 per cent) as key factors influencing their purchase decisions. Around a third identify price/value and overnight dryness (33 per cent) as the second most important attributes, along with good fit/comfortable to wear (27 per cent) and trusted brand (26 per cent).

The Nielsen report highlights the importance of recommendations from family and friends and TV advertising as sources of information for new parents in learning about which baby food to buy for their babies for the first time. For nearly three in five Vietnamese consumers (56 per cent), recommendations from friends/family have the most effect on their purchase decisions related to baby food, followed by seeing an advertisement on TV (50 per cent) and recommendations from baby health experts (47 per cent). Online influences from parenting websites (41 per cent), parenting magazines (39 per cent) and social media (33 per cent) also have a big influence on their first-time purchase decisions.

When it comes to influencing purchase of diapers, close to half of consumers (49 per cent) say recommendations from family and friends have the most significant influence on their purchase decisions followed by recommendation from baby health experts (32 per cent) and TV advertising (29 per cent).

Nielsen estimates the global baby food/formula sales to reach nearly US$30 billion in 2015, and the global diaper market to exceed $29 billion. The Nielsen Global Baby Care Survey was conducted online between February 23 and March 13 this year, and polled people in 60 countries around the Asia-Pacific, Europe, Latin America, the Middle East, Africa and North America who have made a baby care purchase in the past five years.

BIZHUB

Conditions and requirements of dossiers provided for banks when remitting profits abroad

Official letter No. 45838/CT-HTr dated July 15th, 2015 of the Department of Taxation of Ha Noi city regarding tax policy

According to the provisions of Circular No. 186/2010/TT-BTC, as from 2011, if the year of profit generation still contains accumulative losses after such losses are carried forward, foreign investors are not shared profits for transferring to their home countries or remitting the profits abroad. In principle, losses must be wholly offset on the financial statement before the profit division

If the foreign investors are eligible for remitting profits abroad under Circular No. 186/2010/TT-BTC, they must provide banks with the following dossiers:

- The audited financial statement;
- The enterprise income tax finalization declaration relating to the year requesting the remittance;
- Minute of meeting of the Management Board of the investors approving the profit division;
- The notification of offshore remittance of profits sent to tax office.

List of Government-guaranteed Prioritised Projects Released

The Prime Minister signed Decision No. 34/2015/QD-TTg to issue a list of prioritised programmes and projects which are considered for the Government's guarantee.

Prioritised projects include those in high-tech, energy, mineral exploitation and processing or commodity production and export service provision in line with the country's direction on socioeconomic development. They must meet criteria of important national projects specified by the National Assembly in accordance with the Law on Public Investment. They should also be in the domains and regions where investment is encouraged in accordance with the Law on Investment.

Programmes and projects in energy and mineral exploitation and processing categorised Group A in the Law on Investment include those in power infrastructure development, construction of new power plants and power transmission and distribution facilities, and investment of oil refineries.

Special projects which are decided by the Government and programmes and projects on transport infrastructure developments (such as highways) with the total investment from VND10 trillion (US$450 million) and public transport development will also be considered for Government's guarantee.

Besides, programmes and projects, which are approved by the Prime Minister, are also eligible for Government guarantee.

The decision takes place on September 30, 2015 and replaces the Prime Minister's Decision No. 44/2011/QD-TTg dated August 18, 2011.

Wage Disputes Overheated

The rise in minimum wage may never have been as hot a topic as it is now. On August 25, 2015, the National Wages Council hosted a meeting to conclude the rise in minimum wage in 2016, but it wrapped up after four hours of hot debate without any agreement reached.

Justification of wage

Currently, the recommended rise in minimum wages by VCCI and Vietnam General Confederation of Labour is by far different. The Vietnam General Confederation of Labour affirmed that the confederation would not change its proposed rise in minimum wage of 16.8 percent or more for 2016 from the rate in 2015. Meanwhile, VCCI, which represents employers, insisted on the proposed increase of 10 percent.

The Vietnam General Confederation of Labour defended that the current minimum wage can meet only 74 percent of minimum livelihood of a worker. The proposed rise above is based on minimum demand of worker and their families, socioeconomic conditions, salaries on labour market, and inflation compensations. The rate proposed by the Vietnam General Confederation of Labour is reasonable to the roadmap that minimum wages must be enough for minimum livelihoods of workers and their families in 2017.

VCCI and the Association of Foreign Investment Enterprises in Vietnam (VAFIE) insisted on the addition of VND150,000-250,000 to minimum wages, depending on regions, which are tantamount to a 10-11 percent increase. This proposal takes the affordability of enterprises into account.

In the meantime, the economy is still in difficulty; global economies are unpredictably volatile; financial markets are being restructured; access to capital sources has not been widened for enterprises; and many companies are struggling to survive. The ‘wage’ shock may add burdens on enterprises which seem to be excessive. According to VCCI's statistics, big businesses account for less than 2 percent, medium enterprises make up for 2 percent; and small and micro businesses account for 96 percent. And, almost 70 percent of enterprises do not make a profit.

Currently, the costs employers pay for social insurance, medical insurance, unemployment insurance and union fee in Vietnam are the highest in the region. With the hike in minimum wages in 2015, insurance premiums and union dues increased 35 percent over 2014. The rise in minimum wages resulted in increased payments for these items. This was actually a heavy burden for businesses, especially SMEs. Ensuring rights for workers is a right policy, but it is more important to take the competitiveness and development of enterprises into consideration.

Wage rise is based on labour productivity growth

Whether the final rise is inclined to the proposed rate of 16.8 percent by the worker representative or to 10 percent as recommended by the employer representative or a rate of the National Wages Council that soothes both parties after two unsuccessful meetings, the story of minimum wages is still very complicated for following dialogues.

It is true that a vast majority of wage earners are leading a hard life or even live a poor life, but the wage must be viewed in a broader perspective based on the correlation with labour productivity and affordability of enterprises. In 2015 and beyond, Vietnam will have to face numerous challenges, including pressures from the entry to the ASEAN Economic Community (AEC), because it has to fulfil its international integration commitments. The "health" of enterprises remains limited, particularly SMEs.

In recent years, though the economy grew rapidly, it was driven by the exploitation of natural resources, cheap labour and pure investments. The shift of growth model to a new pattern based on intensive investment, innovation, scientific and technological application and labour productivity will require a lot of time and effort to be completed.

Another reason for holding back the wage rise is Vietnam's labour productivity is the lowest in the region. According to data from the International Labour Organisation (ILO), Vietnam's labour productivity in 2013 was among the lowest in the Asia - Pacific region, lower than Singapore, Japan and South Korea by 15 times, 11 times and 10 times, respectively. In ASEAN, Vietnam's labour productivity was only equal to a fifth of Malaysia and two fifths of Thailand. And, the most important factor to the proposed low rise is wages are regulated by the so-called market mechanism. Unemployment and underemployment often lead to supply-demand imbalance, causing wages to gain slowly or stay unchanged.

The salary and income rise for workers is still a hard nut to crack when it is placed in correlation with the above issues. In this regard ILO - Vietnam Labour Relations Project, said that the adjustment of minimum wages should be made regularly and based on both social and economic factors, e.g. the needs of workers and their families, the cost of living, the affordability of enterprises, labour productivity growth, and the correlation of minimum wage to average wage as well as employment desires.

ILO recommended that National Wages Council build a consensus between trade unions and employers via dialogues and conduct additional negotiation sessions for concerned parties to have enough time to reconsider proposals from counterparts.

[Le Minh]

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