2007

Commercial Counsellors

Report on Vietnam

EUROPEAN UNION ECONOMIC AND COMMERCIAL COUNSELLORS

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ECONOMIC AND COMMERCIAL COUNSELLORS

2007 REPORT ON VIETNAM

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of the Delegation of the European Commission
(www.delvnm.ec.europa.eu)

Hanoi, May 2007

Foreword

Each year the Working Group of Economic and Commercial Counselors of the European Union publishes a Report on the economy of Vietnam. This “Green Book” aims to provide the private sector as well as European institutions and governments with an analysis of the recent economic performance of Vietnam as well as an overview of the development in certain sectors of the Vietnamese economy. The “Green Book” is not an official publication of the EU. It is a joint initiative of the EU Embassies and the Delegation of the European Commission in Vietnam.

The publication is covering a wide range of issues and consists of two parts:

The first part is dedicated to a general overview of the most important economic developments in Vietnam in 2006. It features an overview over the economic performance of Vietnam as well as an analysis of major economic indicators such as foreign trade, investment, employment as well as sectoral and monetary policies.

The second part of the report provides eleven Sections packed with abundant information on the development of important sectors of the Vietnamese economy: Garments and Textiles, Footwear, Fishery Products, Agro-Industry, Transport, IT, Pharmaceuticals, Alcoholic Beverages, Energy, Machinery and Financial Services.

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Glossary of Acronyms

ADB	Asian Development Bank
ADSL	Advanced Digital Subscriber Line
AFTA	Asean Free Trade Area
AIA	American Insurance Association
ASEAN	Association of South East Asian Nations
BCC	Business Cooperation Contract
BOT	Build-Operate-Transfer
BP	British Petroleum
BTA	Bilateral Trade Agreement
C/O	Certificate of Origin
CDMA	Code Division Multiple Access
CEPT	Common Effective Preferential Tariff
CIEM	Centre for Institutional and Economic Management
CIF	Cost, Insurance, Freight
CNC	Centre of Numeric Control
CPI	Consumer Price Index
DANIDA	Danish Agency for Development Assistance
DGPT	Department General of Post and Telecommunications
DSL	Digital Subscriber Line
EC	European Commission
EVN	Electricity of Vietnam
EU	European Union
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FIE	Foreign-Invested Enterprise
GDP	Gross Domestic Product
GOV	Government of Vietnam
GSO	General Statistics Office
GSP	Generalised Scheme of Preferences
HCMC	Ho Chi Minh City
HSBC	Hongkong Shanghai Banking Corporation
HP	Horse Power
IDA	International Development Association
IFI	International Financial Institution
IL	Inclusion List
IMF	International Monetary Fund
IMI	Institute of Machinery and Industrial Instruments
IPR	Intellectual Property Rights
ISP	Internet Services Provider
IT	Information Technology
JV	Joint Venture
KT	Korea Telecom
LDC	Least Developed Country
LEFASO	Vietnam Leather and Footwear Association

MFN	Most Favoured Nation
MPI	Ministry of Planning and Investment
MPT	Ministry of Post, and Telematics
NGO	Non-Governmental Organization
NPL	Non-Performing Loan
NTB	Non-Tariff Barriers
ODA	Official Development Assistance
OLAF	European Anti-Fraud Office
PNTR	Permanent Normal Trade Relations
PRGF	Poverty Reduction and Growth Facility
PRSC	Poverty Reduction Support Credit
R&D	Research and Development
SBV	State Bank of Vietnam
SCB	Standard Chartered Bank
SER	Special Economic Region
SME	Small and Medium Enterprises
SOCB	State Owned Commercial Bank
SOE	State-owned Enterprise
SRV	Socialist Republic of Vietnam
TBT	Technical Barriers to Trade
TEL	Temporary Exclusion List
TRIPS	Trade Related Aspects of Intellectual Property Rights
UCLAF	Anti-Fraud Coordination Unit
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
USBTA	United States Bilateral Trade Agreement
VAT	Value Added Tax
WB	World Bank
VINATEX	Vietnam Garment and Textile Corporation
VITAS	Vietnam Textile and Apparel Association
VINACOAL	Vietnam Coal Corporation
VNPT	Vietnam Post and Telecommunications Corporation
VIETTEL	Vietnam Military Telecommunications Company
WTO	World Trade Organization
YOY	year-on-year

Currencies:

EUR or €	Euro
USD	United States Dollar
VND	Vietnam Dong

1. GENERAL OVERVIEW

1.1. Overall Economic Performance in 2006

Vietnam's economy performed remarkably well throughout 2006 due to strong demand for the country's exports of commodities, crude oil and manufactured goods. The GDP growth of 8.17% almost meets the original government target of 8.2% although it remains lower than 8.43% that Vietnam could record in a 2005. A lack of electricity and lack of water for crops irrigation as a result of the ongoing droughts as well as the avian influenza and foot-and-mouth disease have negatively affected the economic growth.

Consumer price inflation (CPI) in 2006 was 6.6% well below the peak of 9.5% in 2004 and of 8.4% in 2005. Reasons behind the increase of CPI have been the spread of avian influenza and the foot-and-mouth disease in many parts of the country. This resulted in the shortage of some food products and an increase in salary for public workers by 30% in October 2006. The fact that the highest rise in the CPI basket was in the group of food products (+7.9%) meant the low income groups of the population were substantially affected by the inflation increase. More importantly, the approaching hike of prices for electricity and petroleum products were the main factors driving up the CPI at the end of the year. It should not be forgotten that Vietnam, at present, has to import 100% of refined petroleum, 70% of urea fertiliser and 60% for steel billets. This fact makes Vietnamese consumers more vulnerable to the fluctuating world prices throughout the past three years. Finally, the year 2006 saw a large volume of US dollars in market circulation owing to increased overseas remittances as well as direct & indirect foreign investments (FDI). The surplus of USD in commercial banks which rarely had been seen before in deed pushed up prices and inflation during the final months of the year 2006.

Moving to curb inflation, the State Bank of Vietnam (the central bank of the country) set a 2006 year-end target of 20% growth in credit as opposed to the rapid growth of 40% in 2005, although the actual credit growth was about 24% in late 2006. The slower rate of credit growth in 2006 was achieved through more cautious lending by state-owned commercial banks which were following new prudent standards. The Vietnamese currency dong depreciated in nominal terms against the US dollar by around 1% in 2006. In a step towards more flexible exchange rate management, the central bank widened the daily trading band for the dong against the US dollar from 0.25% to 0.5%.

In general, most other macroeconomic variables remain in control. The budget deficit was 4.98%, below the official limit of 5% but remains quite high compared with 3.8% in 2005. Fiscal revenues surpassed the planned target by 10% due to higher oil income and improvements in tax administration. The government continued the cautiously expansionary fiscal stance. Up to 74.2% of the budget deficit was covered by domestic loans and the remaining 25.8% by foreign debts. Vietnam will soon be facing foreign debt repayments mostly related to indebted state-guaranteed projects. Yet, this remains within the limits of what the national financial system can absorb. Of Vietnam's nearly USD 26 billion in foreign debts which are equivalent to 31.2% of the GDP, USD 22 billion is due on ODA loans, USD 2.9 billion government-backed loans for enterprises and USD 750 million government bonds on international markets. Projects facing difficulties in capital return for foreign debts repayment are in the sectors of tea, sugar and sugarcane, sericulture, mechanical industry and aqua-products processing. The fact that the government only provides guarantee to loans for state-owned enterprises (SOEs) reflects an ongoing discrimination against private firms which is in the process of being tackled both via legislation and in practice. In 2007,
the government plans to put up USD 2.374 billion to repay domestic settlement and USD 650 million to pay back foreign debt payment.

The trade deficit in 2006 was estimated at USD 4.8 billion, slightly higher than the USD 4.7 billion in 2005, reflecting the continual growth of exports and the need of related imported raw materials and infrastructure investments. Coffee and rubber joined in the group of nine commodities earning more than USD 1 billion in export value. Traditionally, the biggest hard currencies earners are crude oil, textiles and garments, footwear and seafood – each gained at least USD 3.3 billion from exports. Exports of crude oil went down in quantity (-7.5%) but up in export value owing to the 22% increase in the world market prices.

2006 witnessed a considerable rise in foreign exchange reserves (including gold) to USD 12 billion corresponding to 13 weeks of imports, which is impressive growth as opposed to the 2005 figures of USD 7.7 billion or 8.6 weeks of imports of goods and non-factor services. Such increase in reserves was attributable to the rising flows of FDI and ODA (USD 4.1 billion and USD 1.78 billion respectively in disbursed capital), the increasing remittances from expatriate workers and overseas Vietnamese (USD 4 billion as opposed to USD 3.8 billion in 2005) and the record revenues from crude oil exports (USD 8.23 billion).

Increasing domestic demand, a historical high level of FDI and a strong domestic investment made a significant contribution to the GDP growth. The industry and construction sector maintained its important role with a 10.4% increase while the service sector had impressive growth of 8.29% throughout 2006. Legal certainty, as a result of impending Vietnam's effective WTO membership, enhanced confidence and expectations of foreign investors in the economic prospects of the country leading to more than USD 10 billion in FDI commitments, the highest amount since Vietnam launched its reform process in 1986, known as Doi Moi. Initial positive signals of the equitisation process of SOEs which currently still contribute as much as 37.3% of the GDP is another incentive alluring more domestic and foreign investors to inject their savings into Asia's second fastest growing economy. There is apparently more space of development for the private and foreign investment sectors which respectively own only 9.35% and 17% of the 2006 GDP if the government accelerates the current equitisation process.

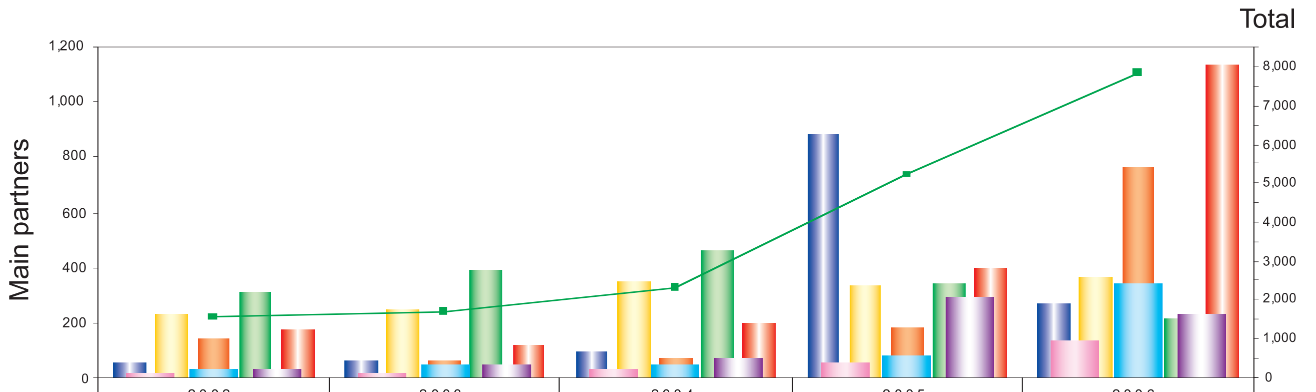
In 2006 alone, some 41,000 new private firms were established reflecting the better environment in the economy given to the private sector as well as the more pro-business regulations under the two new laws for Common Investment and Enterprises. Since 2000, over 200,000 new companies have been set up, mostly small and medium ones. In total, implemented investment capital by private firms in 2006 went up to USD 8.34 billion. The continual development of the private sector helps to create jobs for 1.65 million more people and to reduce the rate of poor households to 18.1% in 2006. Unemployment in urban areas dropped to 4.37% in 2006, being 0.93% lower than 2005. The highest unemployment rate of 17.44% was noticed in the 15-19 age group and the lowest rate of 1.85%, in the 55-59 age group. Vietnam is paying more attention to sending workers to overseas and during 2006, the country managed to send nearly 79,000 guest workers overseas, adding the total number of guest workers up to 479,000. Malaysia remains the country's largest labour export market with 40,000 Vietnamese guest workers employed in the country followed by Taiwan and the Republic of Korea. Remittances of overseas workers in 2006 were estimated at around USD 1.6 billion. Vietnamese labourers mainly work in professions such as food processing, garments, construction, electricity and housework for an average monthly salary ranging from USD 150 to USD 1500.

1.2. Investment

Overall, the 2006 ratio of investment to GDP was 41%, 1.4 percentage points higher than the original target and 3 percentage points higher than in 2005. The total investment in 2006 was USD 24.9 billion[1] comprising of USD 12.48 billion from the state sector, USD 8.34 billion from the private sector and USD 4.1 billion from implemented FDI. The non-state share of both domestic and foreign direct investment continued to rise and accounted for almost half of the total social investment. 2006 witnessed a new wave of FDI flowing to Vietnam with registered FDI rising to more than USD 10.2 billion, well above the levels in 2004 and 2005 combined.

1 GSO figure is VND 98.9 trillion – exchange rate: USD1 = VND16,000

New FDI inflows by registered capital in 2006 (USD million)
(new projects only, excluding capital increases in exitsting projects

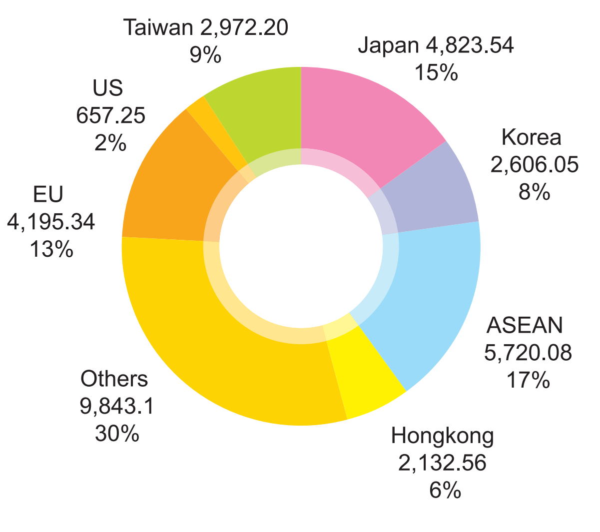


	2002	2003	2004	2005	2006
EU	56.6	68.6	94.2	889.3	272.9
ASEAN	234.9	251.7	354.4	339.5	368.9
US	142.7	65.0	74.9	186.9	769.8
Taiwan	312.3	389.0	460.7	344.6	218.1
Hongkong	179.1	119.0	198.1	397.5	1,142.0
Japan	102.0	100.0	254.4	408.3	996.2
Korea	267.3	344.0	365.1	555.2	2423.0
Others	262.8	348.7	508.9	2,109.2	1,648.1
Total	1,557.7	1,685.9	2,310.7	5,230.5	7,839.0

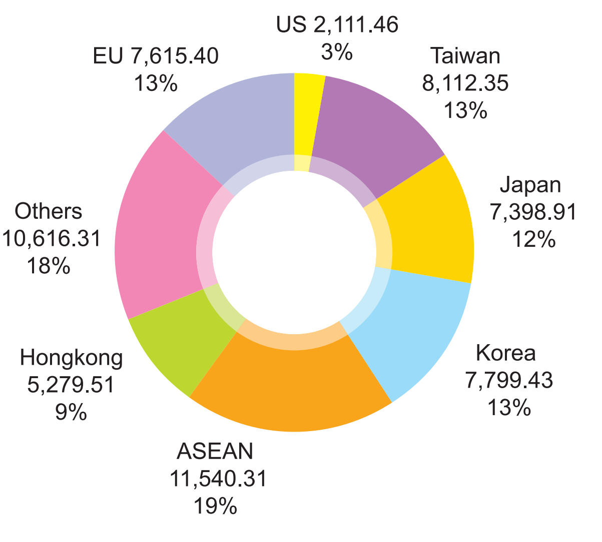
According to the Ministry of Planning and Investment (MPI), Vietnam attracted USD 10.2 billion in new FDI commitments. As of December 12, 2006, 797 projects were licensed with committed investment of USD 7.57 billion. The remaining FDI is additional capital injections for 486 existing projects. The implemented FDI in 2006 was estimated at USD 4.1 billion, 36% larger than that of 2005.

Aggregate FDI commitments by the end of 2006 stood at more than USD 60 billion, over 60% of which has been committed in the industry, oil & gas and mining sectors. Some USD 31.1 billion of the commitments has been implemented.

Im plemented FDI by 2006



Im plemented FDI by 2006



In terms of total implemented capital, the EU continued trailing Japan with nearly USD 4.2 billion against USD 4.8 billion. Singapore was ranked third with USD 3.68 billion, followed by Taiwan (USD 2.97 billion) and South Korea (USD 2.6 billion). In terms of commitments, South Korea took the lead in 2006 with 203 projects and USD 2.42 billion in registered capital. After the impressive comeback in new FDI commitment in 2005 (USD 889 million), EU investors chose a cautious approach and committed only USD 281 million. Out of 27 member countries, only 11 EU countries brought in investment in Vietnam in 2006. Among the list of top ten FDI projects in 2006, only one joint venture between the UK and Vietnam in a port complex development (with investment capital of USD 249 million) was enlisted. Nevertheless, the actual implemented FDI of South Korea - so far - is well below that of the EU.

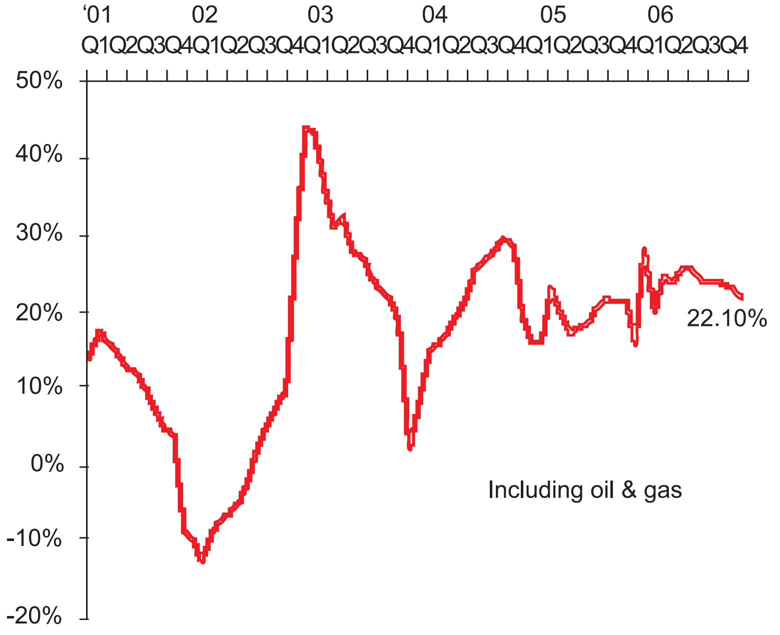
The low level of FDI utilization which is only around half of commitments indicates the gap between investors' expectation and reality. The historical FDI commitments in 2006 again reflect the increased confidence of foreign investors in the business climate of the country partly due to Vietnam's joining of WTO on January 11, 2007. In particular, FDI in Vietnam received a significant boost from the new Common Investment Law and Unified Enterprise Law, both of which came into effect on July 1, 2006. Together with effective implementation of the laws, the government made a long stride in creating a level playing ground between foreign-invested and domestic, state and non-state economic operators. The laws and their implementing legislations i.e decrees 108 and 101 have addressed to a certain extent a number of concerns of foreign investors such as option of international arbitration, abolition of local content and export requirements, diversification of investment forms, tax and land rentals incentives, restrictions on foreign employees and bureaucratic registration procedures.

The year 2006 witnessed a boom of indirect investment raising fears of overheating. Throughout 2006, 420 SOEs were equitised, bringing the total number to 3480. Already, 81 of them were listed on the local stock exchanges. Prompted by the impending entry into force of a new Securities Law, a 2-year tax incentive for newly listed firms and toughened accounting criteria also for larger non-listed companies, 193 firms had listed on the Ho Chi Minh City and Hanoi stock markets by the end of 2006, against a modest 41 at the end of 2005. Market capitalisation increased twelve fold, to USD 22.4 billion. Admittedly, this reflected principally a mass migration of firms which had hitherto traded their shares on the grey over-the-counter (OTC) market to the formal stock exchanges and a resulting upsurge in the price of their shares. Developments have created a speculative frenzy in the population, propelling both the formal and the OTC markets to dizzying heights. The sharp increasing interest also of foreign investors contributed further to several new offshore funds beginning operation. The overheating of the market where implementing legislation for the new securities law has still to be put in place, where transparency is still lacking and where insider trading is rife prompted the IMF to voice concern. Preoccupied also with the social fallout of a possible market crash, the government has speculated publicly about capital controls and the introduction of a capital gains tax. These risks and the impending listing of some 20 'blue chip' equitised SOEs operating successfully in highly profitable sectors such as banking and food and beverages, notwithstanding demand will likely continue to outstrip the supply of equity and a crash thus seems unlikely anytime soon.

1.3. Foreign Trade

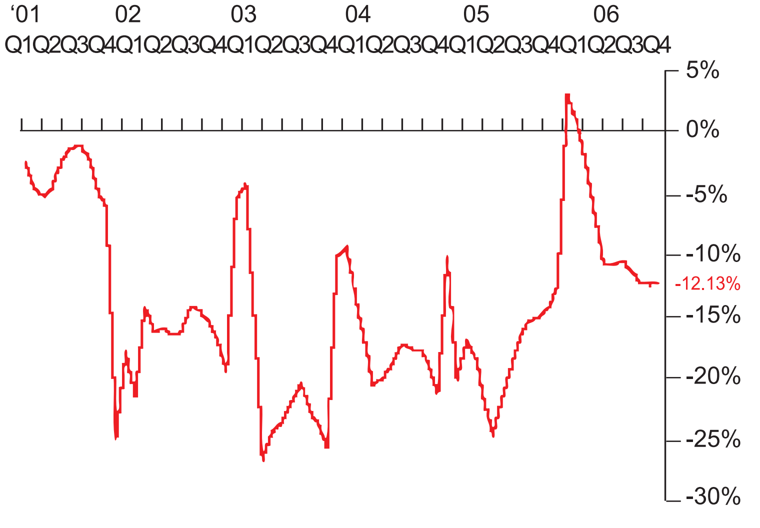
2006 witnessed a considerable growth in trade of Vietnam with a total import-export value of USD 84 billion or a 22.5% increase against 2005. Exports kept growing robustly at 22.1% year-on-year reaching USD 39.6 billion owing to the continual excellent performance of foreign invested enterprises (FIEs) and better efficiency in operation of SOEs. The contributions by FIEs and SOEs accounted for 57.7% and 42.3% of the total 2006 export value or a growth of 23% and 20.5% respectively. The good performance in two-way trading by Vietnam can be attributed to; the relatively stable growth of the global economy which resulted in increased demand for commodities and input materials, and secondly, the rise in prices of a wide range of products such as rice, rubber and coffee.

December 2006 exports
% change yoy



Imports increased by 20.1% as opposed to 2005 and were 4.5% higher than the original forecast reaching over USD 44.4 billion. The deficit rose to USD 4.8 billion, a slight increase against the 2005 deficit of USD 4.7 billion indicating the needs for further expansion of the economy. Imports by SOEs was USD 28.05 billion or 63.2% of the total import value while that of FIEs stood at nearly USD 16.36 billion. The imports throughout 2006 by SOEs and FIEs were respectively 20.2% and 19.9% up against 2005. The largest imports were machinery & equipment reaching USD 6.55 billion (+24.4%), which was closely followed by petroleum products with an import value of USD 5.85 billion (-4.8% in quantity; +16.4% in value), cloths (USD 2.95 billion; +23.1%), steel (USD 2.90 billion; -0.9%). Other capital goods and production inputs such as plastic, raw materials for footwear and textiles & garments, electronic and electric components had relatively large import value each ranging at more or less USD 2 billion.

December 2006 trade deficit
% change yoy



Among nine key export items the turnover is more than USD 1 billion. Crude oil kept the leading position with export value reaching USD 8.23 billion (+12.9% owing to high world market prices and despite reduced quantity of export) followed by textile and garments (+19.9%, USD 5.8 billion), footwear (+16.9%, USD 3.55 billion) and seafood (+23.1%, USD 3.36 billion). Exports in five other product groups also earning more than USD 1 billion each included; electronic goods (+24.7%, USD 1.77 billion), wood products (+21.9%, USD 1.9 billion), rice (-7.2% down to USD 1.3 billion), coffee (+49.9%, USD 1.1 billion) and rubber (+58.3%, USD 1.27 billion). The partaking of coffee and rubber in the group of export products netting more than USD 1 billion is due to the high world prices. In fact, the quantity of exported coffee and rubber in 2006 went up by only 0.5% and 18.7% respectively, but the increased world prices have helped deliver such good performances of those sectors. However, as the world's second largest coffee producer, Vietnam has quite a few problems with post-harvesting which results in low quality of exported products. Similarly rice, a key exporting agro-product of Vietnam, expectedly will not raise its contributions to the export turnover unless the world prices surge up significantly because the government has decided to reduce exports of rice to assure domestic food security.

December 2006 exports, imports

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Notably, exports of services went up 19.6% against USD 5.1 billion in 2005. In 2006, the growth of such services as tourism (+23.9%), air transport (+35.5%), maritime services (+27.5%) and financial services (+22.7%) were impressive. Together with the sizable increase in export value of electronic goods as well as the expansion of exports in the service sector this represents good news and signals the country's initial success in diversifying its export structure and moving up the value chain. Nonetheless, a majority of its key export items continue to be labour-intensive and low-value added production. Of the extra USD 7.16 billion earned from exports in 2006 as compared with 2005, as much as USD 2.94 billion or 41.1% is generated by increased world market prices while the remaining USD 4.22 billion of the income is a result of increased quantity of exportation. The rise of world market prices of the four key export items rice, coffee, rubber and crude oil brought about an extra USD 2.2 billion or 30% of the increased export value. The strong growth of the textile and garment sector indicates the industry's relatively good cutting edge against fierce competition from China. Still, the industry is expected to face cheaper products from China as tariffs are substantially cut as a consequence of Vietnam's effective WTO membership. Meanwhile, the seafood sector witnessed a decline in quality with numerous findings of anti-biotics in exported seafood shipments to major markets such as the EU, Russia and Japan.

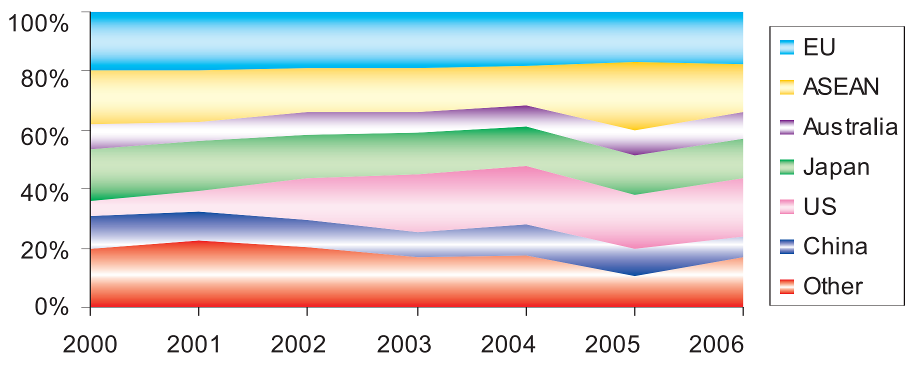
The growth of Vietnamese exports relies largely on the import of raw materials and inputs whose prices kept changing frequently. Such key export items as footwear, textiles, garments and wood products are confronting this issue. The lack of major supporting industries continued to be a factor preventing Vietnam from achieving a sustainable export strategy. One further important aspect of Vietnam's 2006 export growth is the increased proportion of FIEs' contribution to the total export value. The year 2006 witnessed a 23.2% rise in export earnings of FIEs which reached USD 22.86 billion, accounting for 57.7% of the total figure. Being revitalized by equitisation process, SOEs managed to raise the proportion of their contribution to the total yearly export value to 20.5% narrowing the gap of growth between FIEs and SOEs.

Proportion of SOEs & FIEs contribution to export value

	2004		**2005**		**2006**	
	Value (USD million)	**Growth rate 2004/2003 (%)**	**Value (USD million)**	**Growth rate 2005/2004 (%)**	**Value (USD million)**	**Growth rate 2006/2004 (%)**
Export turnover of whole country	26503	31.5	32442	22.4	39605	22.1
* Earnings by SOEs * *Percentage*	12017 *45*	20.3	13889 *43*	15.6	16740 *42.3*	20.5
* Earnings by FIEs * Percentage	14486 *55*	42.6	18553 *57*	28.1	22865 *57.7*	23.2

The EU continued to be the third largest partner in two-way trade with Vietnam in 2006 and followed very closely the largest trading partnes of China and Japan respectively. Its trading volume with Vietnam, as indicated by Vietnam General Statistic Office (GSO) figures, was as much as USD 9.87 billion while that of China was USD 10.4 billion and that Japan was USD 9.93 billion. It trading volume was also overtaken by the US in terms of the largest export market. Vietnam's trade with China grew enormously with a big deficit of USD 4.36 billion in favour of China. Meanwhile, Singapore was the largest ASEAN trading partner of Vietnam and also enjoyed the biggest trade deficit as compared to other ASEAN economies with two-way trade and deficit totalling at USD 7.9 billion and USD 4.64 billion respectively. This reflects the growing popularity of Chinese cheap commodities among Vietnamese consumers whose annual GDP per capita improved considerably averaging USD 720 as well as the increasing reliance of Vietnamese producers on inputs and raw materials from China and from other Asian countries.

Share in VN Exports

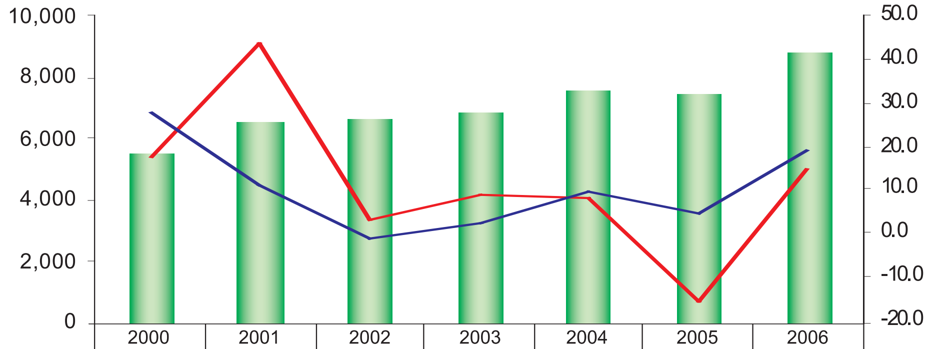


In the export sector, the US maintained the top position in 2006 after overtaking the EU in 2004. The approval of Permanent Normal Trade Relation by the United States, the final step in the process of normalizing US-Vietnam bilateral ties, gave momentum to further push up exports from Vietnam. The US is the most significant market for Vietnam's textiles and garments whose export turnover to the market stood at more than USD 3 billion while the EU continued to be the largest market for Vietnam's footwear despite some 4.8% decline in export volume in 2006. According to figures of the GSO exports to the American markets, including the rising importance of the US market and others, rose by 33.8% reaching export value worth over USD 9.2 billion or 23.3% of the total export turnover of Vietnam in 2006. Vietnamese exporters earned USD 7.8 billion from the US market in 2006. GSO figures also showed that exports to Europe continued its growth of between 19-20% over the past three years. The EU market made up 89.2% of Vietnam's exports to Europe (including such other European countries as Switzerland, Norway and Russia) reaching USD 6.8 billion or a 23.5% up against 2005. The EU market is deemed significantly important to Vietnamese exporters because successful access to the nearly 500-million consumer market – which has the largest proportion of the global GDP – and external trade also means that a worldwide recognition of products' quality. Figures of the Eurostat[2] indicated a considerable growth in the bilateral commercial link which stood at more than EUR 8.75 billion or a nearly 18% increase. The EU trade deficit with Vietnam recorded a new historical high of EUR 4.43 billion (up from EUR 3.6 billion in 2005).

2 EU and Vietnamese trade data have shown sizable divergences historically, particularly as regards to Vietnamese exports to the EU – in 2006, the difference is around USD1.39 billion. This is mainly due to the different accounting for transship ments. A large part of Vietnamese exports arrive in the EU via third countries/territories such as Hong Kong, Singapore or South Korea. While Eurostat bases itself country of origin of the product (Vietnam), Vietnamese customs registers the nationality of the importer, not the final destination.

EU-Vietnam trade

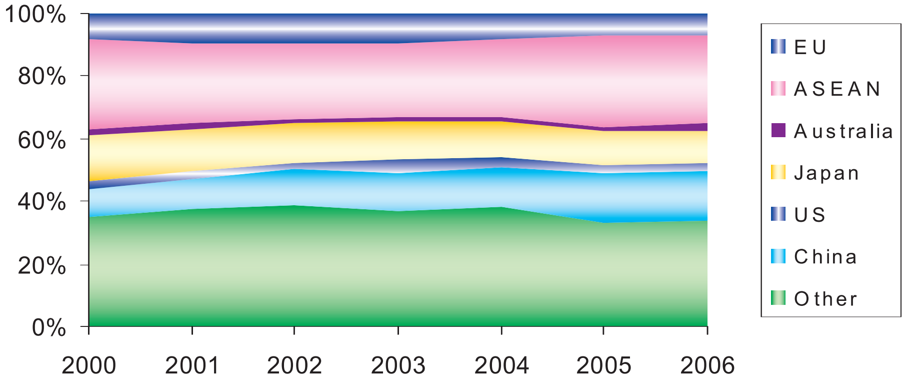
(*Source:* Eurostat)



	2000	2001	2002	2003	2004	2005	2006
EU-25 two-waytrade volume	5,552	6,575	6,591	6,869	7,517	7,422	8,753
Exports to VN (growth)	17.2	43.3	3.0	9.2	8.4	-15.7	14.3
Imports from VN (growth)	27.9	10.9	-0.8	2.2	9.9	4.9	19.2

EU imports from Vietnam kept concentrating on a limited range of products i.e footwear (export value: EUR 1.99 billion, around 30.2% in 2006), textiles and garments (EUR 1.05 billion; 15.9%), coffee (EUR 610.5 million; 9.2%), seafood (EUR 468.6 million; 7.1%) and furniture (EUR651.9 million; 9.8%). The EC anti-dumping investigation on footwear with leather uppers originating in Vietnam which ended with a 10% definitive two-year tariff on the product is partially responsible for a 4.8% reduction of imports in this sector. The share of footwear in the total import value from Vietnam fell from 38% in 2005 to 30.2% in 2006 while that of the textiles and garments imports grew by 1.9%.

Share in VN Imports (%)



In the import sector, China continued to be the largest partner since it overtook Japan in 2003 (excluding ASEAN). In 2006, Vietnam imported a volume of commodities totalling up to USD 7.39 billion in value from China. Steel, computers and electronic components and cloths were the main commodities of imports from China. In general, imports were mainly from Asian countries which accounted for more than 80% of the total import value of 2006. In the last year, a significant increase of imports from ASEAN with value reaching USD 10.85 billion of 39.7% against 2005 occurred. The GSO figures indicate that imports from Europe rose by 26.4% at USD 5.44 billion, contributing 12.2% to the total import value. Over USD 3 billion worth of commodities were imported from EU-25. Germany was the largest exporter of the EU group of goods to Vietnam with value worth over USD 914 million. Although the trade deficit of USD 4.8 billion is USD 500 million higher than the forecast in early 2006 this reflects the continual expansion of the economy, the influx of more private investment and private consumption. Growth in private consumption was supported by increasing incomes and inward remittances of around USD 4 billion. It should be noted that SOEs alone made a trade deficit of USD 10.3 billion while FIEs created a trade surplus of USD 5.55 billion.

1.4. Industry, services and primary sector

In 2006, the industrial output growth of 17% overall was led, as in the previous years, by the private sector with 23.9% up compared to the previous years. The foreign invested sector had a 18.8% increase, more than 2% lower than in 2005, while the industrial SOEs only achieved 9.1% growth. The main reason for the slower growth of industrial SOEs is the continued decline in number of SOEs as a result of the ongoing equitisation process. The high growth of industrial private enterprises reflects the increasing number of small and medium private enterprises triggered by the pro-business policy of the government.

December 2006 Industrial production

Industrial production		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
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[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	51,784.0	5,285.2	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
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[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Processed seafood	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

	Dec vs Nov-06 %	Dec-06 %yoy	12 mths %yoy
[illegible]			
[illegible]	[illegible]	[illegible]	[illegible]
HCM City	10.4	11.7	13.5
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]

[illegible] | [illegible]

The sector of industry and construction with nearly 10.4% growth is still 0.3% lower than in 2005 due to the decline in industrial production. In particular, the mining industry had a slower growth rate due to a reduced output of crude oil exploitation which stood at 17 million tonnes as opposed to the 2005 productivity of 18.5 million tones. Besides, the slower growth of processing industry and utility industry of electricity, water and gas which were respectively 12.4% and 11.6% as compared to 13.1% and 12.2% in 2005, partially helps to explain the under-performance of the industry sector.

Of the 8.29% growth in the services sector transportation, telecommurication and tourism achieved an increase of 10.13%. Similar expansion of growth was recorded in other services including banking-insurance (+8.2%), hotels-restaurants (+12.4%) and retail goods distribution (+8.55%). Still, the fact that the services sector accounted for 38.1% of the GDP, about USD 23.2 billion in 2006, is far lower than that of other developing countries in the region. Generally, the increasing of trade in goods should drive a growing of trade in services. Throughout 2006, the critical weakness in quality control, professional skills and marketing strategies has stopped the domestic service providers from capitalizing on burgeoning business opportunities such as the increasing demand for services in the areas ranging from transportation and logistics to banking and legal service.

GDP contributions by sectors in 2006

	GDP (trillion dong[3])	GDP growth against 2005 (%)	Contributions by Sectors to GDP (%)
Total	**425.09**	8.17	8.17
Agriculture, forestry & fisheries	79.49	3.40	0.67
Industry & construction	174.21	10.37	4.16
Industry	135.98	10.18	3.20
Services	171.39	8.29	3.34

Source: General Dept of Statistics

In 2006, the agricultural, forestry and fisheries sector under-performed again compared to other parts of the economy. The sector grew by 3.4%, lower than the 4% growth of 2005, due to the slow expansion of agriculture and fisheries sub-sectors as a consequence of unpredictable complicated weather conditions. In general, agriculture increased by only 2.8% and fisheries up by 7.53%, both of which were relatively modest in comparison with 2005 figures of 3.2% and 10.2% respectively. Foot-and-mouth disease and avian influenza continued to plague the economic situation of many rural farming households throughout the country while the virus of Rice-Ragged-Stunt and Rice-Grassy-Stunt kept destroying rice crops in certain parts of the country's rice-growing areas, thus together with increased petrol price raising costs for rice production.

3. One trillion VND = USD 63 million

2. ANALYSIS BY SECTOR

2.1. TEXTILES AND GARMENTS

a) Overview

The textile and garment sector is one of Vietnam's industries that is developing strongly. With thousands of enterprises throughout the country the Vietnam Textile and Garment Industry (VITAS) is one of the 10 leading industries bringing much foreign currency into the country and generating numerous jobs. VITAS is composed of state-owned enterprises (SOEs), private businesses, collective enterprises and foreign-invested companies. SOEs with relatively large production facilities still account for a considerable percentage. The collective economic sector has been gradually reduced. In the meantime, private domestic companies as well as foreign enterprises have increasingly developed.

At the present, VITAS consists of approximately 2000 enterprises, which Vietnamese enterprises take up 76% and foreign-invested account for 24%. The 2000 enterprises include spinning companies (6%), textile ventures (17%), garment enterprises (64%) and commerce and service businesses (13%). VITAS have created employment for more than two million workers. In general, VITAS is still small in size and in 2006 the export turnover was 5.8 billion US dollars, an increase by 20% compared with 2005.

The Vietnamese Textiles and Garments Corporation (VINATEX) is still one of the most important entities of the textile and garment industry. VINATEX has 64 member enterprises, dominated by SOEs and partly privatized companies, with 100,000 employees. The cooperation accounts for 23% export turnover of the whole industry. VINATEX takes up a considerable share in some areas, such as

- 83% in the total of 24,000 hectares of cotton planting
- 95% of 8,000 tons of cotton harvested annually
- 40% in the total of 2.5 million spinning spindles
- 52% in the total of 250,000 tons of spinning products

In other areas, VINATEX's influence is rather low. It accounts for

- 33% of the total of 2,000 shuttle power-looms
- 20% of the total of 1.25 billion knitted products
- 15% of the total of 100,000 tons of knitted cloth

In 2006, main products increased compared to 2005 (see table below):

Commodity	Unit	Achieved in 2005	Achieved in 2006	Comparison (%)
Cotton	ton	6,000	6,000	100
Fibre	ton	107,850	123,500	114.5
Shuttle-weaved cloth	m^2	168,500,000	182,300,000	107.6
Knitted cloth	ton	11,240	10,600	94.3
Garment products	piece	182,200,000	205,800,000	112.9

With reference to trend-analysis, state-owned enterprises show a slower growth rate than other forms of ownership. In 2006, as to the value of the entire textile and garment industry, its growth rate was 17.1%. Meanwhile, SOEs' growth was only 9% (FDI enterprises 18.6% and private enterprises 21%).

Overseas market

Being a major industry for export the main markets for VITAS are developed countries such as the United States, EU and Japan. In 2006, these markets accounted for 85% of the export value of VITAS. With the total export turnover of USD 5.8 billion, VITAS sold textiles worth 3.1 billion to the United States, USD 1.2 billion to EU and USD 0.62 billion to Japan. The remaining markets only consumed about USD 0.88 billion.

The EU market accounts for 21% of VITAS's export value and 25% of TEXTIMEX's export value. Over recent years the United States has been the largest market with over 53% of VITAS's export value.

Main export products

Despite its long production tradition, Vietnam's textile and garment industry has mainly produced fashionable low-quality products. The total value of the export products – 1,303 billion US dollars – is divided into the following: jackets (>25%), male trousers (>23%), male shirts (19%) and knitted products (>27%) while fibre distributes less than 3%, finished cloth merely 1.3% and high-grade products 1.2%.

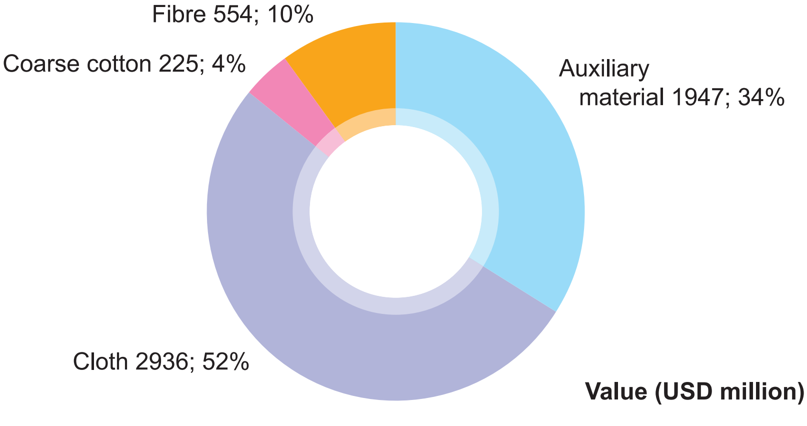
Domestic market

While the overseas market takes an important position in this industry, the domestic market is not as significant. In 2006, the general turnover VITAS gained from the domestic market was VND 32,500 billion (~ USD 200 million), which is about 3.5% of the overseas export turnover. Once VITAS decided to take a special focus on foreign markets, it significantly resigned from the domestic market, leaving it to foreign textile and garment companies.

Export / import

The Vietnamese textile and garment sector employs a large labour force but there is a weak machine manufacturing industry, a low developed auxiliary industry and little of the materials used are sourced locally. While the export turnover last year was USD 5,800 billion, import turnover of the same period went up to USD 5,652 billion.

Value and import rate of main commodities by textile/garment sector, 2006



- Despite the fact that VITAS's main export markets are the United States, EU and Japan, VITAS's main import markets are also Asian countries in which the leading countries are China (27%), Taiwan (17%), the ASEAN countries (10%), Japan (8%), Hong Kong (7%), the EU (5%) and other countries add for the rest.

- Due to Vietnam's strong dependence on supply source from overseas, facilities and equipment of enterprises are at low level. Generally, the labour productivity of VITAS is not high. Therefore, gained profits are low and employees' income is little. In 2006, the monthly income per capita was about VND 1.7 million (~ USD 100) for employees of the TEXTIMEX Textile and Garment Corporation. Many workers earn less than this.

b) Opportunities / Recommendations

Not having created much value and profits, but remaining an important job creating industry, VITAS still is the long-term strategic organisation with this sector. In 2007, the industry is expected to increase by 18-20% compared with 2006.

VITAS have not been able to provide figures covering the entire industry. However, activities of VINATEX show that the expected development of the entire industry is very positive over the coming years. Many fibre, textile and garment-sites are under completion or new investments are appearing in Hung Yen, Da Nang, Hai Phong and the neighbouring provinces of Ho Chi Minh City. These new facilities of VINATEX can exploit the general investment of over VND 3,340 billion (~ USD 200 million).

Many professional fairs and exhibitions will be held in Hanoi and in Ho Chi Minh City. Thus, foreign investors will have ample opportunities to create and foster business contacts.

As a result of signing contracts in 2006, participation of Vietnamese enterprises in international fairs is set to increase. Research activities on science, technology and the environment as well as human resource training and fashion study will be encouraged.

Private and foreign investment in general is strongly welcome. Foreign investors can expect a fair degree of cooperation from the Vietnamese side and this is always a good starting point for new companies entering the market.

However, the challenges should not be underestimated. VITAS have so far not developed an auxiliary material industry. The processing rate remains high, domestic design poor and product quality comparatively is low.

2.2. FOOTWEAR

a) Overview

The footwear industry in Vietnam has been developing rapidly for more than a decade. There are approximately 380 companies, including those manufacturing leather goods plus a small supporting industry that employs around 500,000 workers. The majority of companies are situated in Ho Chi Minh City, Dong Nai, Binh Duong and Haiphong. Sport shoes account for the largest share in the production and export. In 2006 nearly 73% of total export turnover came for sport shoes, while woman's shoes and other categories (including sandals, slippers and leather shoes) represented respectively about 15% and 5.6% of total export turnover. Most Vietnamese enterprises operate on processing contracts, while foreign partners supply materials and designs and market the finished products. The manufacturing process is largely sub-contracted from Taiwanese and Korean trading companies along with the contribution of foreign investors. Vietnamese brands are unknown. The finished goods are then exported to the international market under the management of foreign contractors

Table 1. Export turnover by footwear categories: Quantity (1,000 pairs/pieces)

	2003	2004	2005	2006
Total	392,980	420,238	472,736.46	579,284.49
Sport Shoes	220,322	243,929	272,874.53	381,645.25
Canvas Shoes	25,781	20,854	42,017.22	35,499.76
Women's Shoes	78,681	88,953	89,574.49	87,093.28
Other (incl. Leather shoes, slippers, sandals)	68,196	66,502	68,270.22	75,046.21

Source: LEFASO

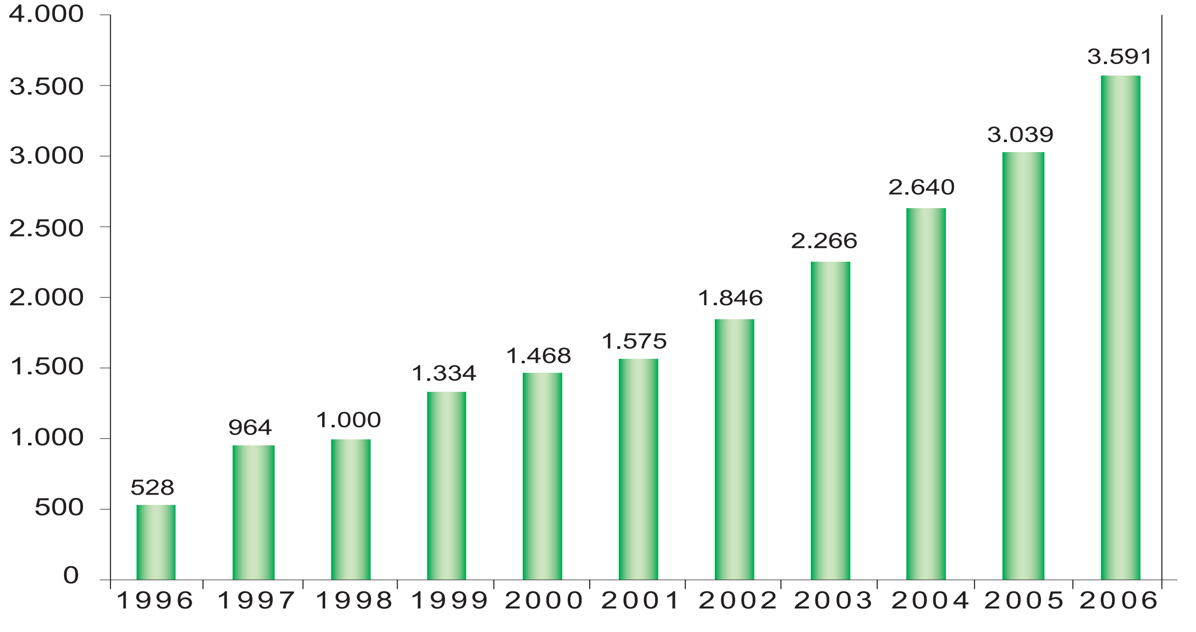
Table 2. Export turnover by footwear categories: Value (USD 1,000)

	2003	2004	2005	2006
Total	2,266,173	2,640,260	3,039,582.76	3,591,563.84
Sport Shoes	1,638,025	1,827,285	2,046,559.00	2,633.041.63
Canvas Shoes	56,279	83,456	217,502.53	217,194.90
Women's Shoes	438,128	575,911	591,191.62	538,702.54
Other (incl. Leather shoes, slippers, sandals)	133,741	153,608	184,329.60	202,624.78

Source: LEFASO

Export volume accounts for about 95% of the total production output. Only the remaining 5% is sold on the local market where sales are severely challenged by competition from products made in China. Footwear is the third largest foreign currency earner after crude oil and textile and garment, representing consistently more than 10% of total exports. Vietnamese footwear ranks fourth in world export value after China, Hong Kong and Italy. Foreign-owned enterprises account for more than half of the total export turnover.

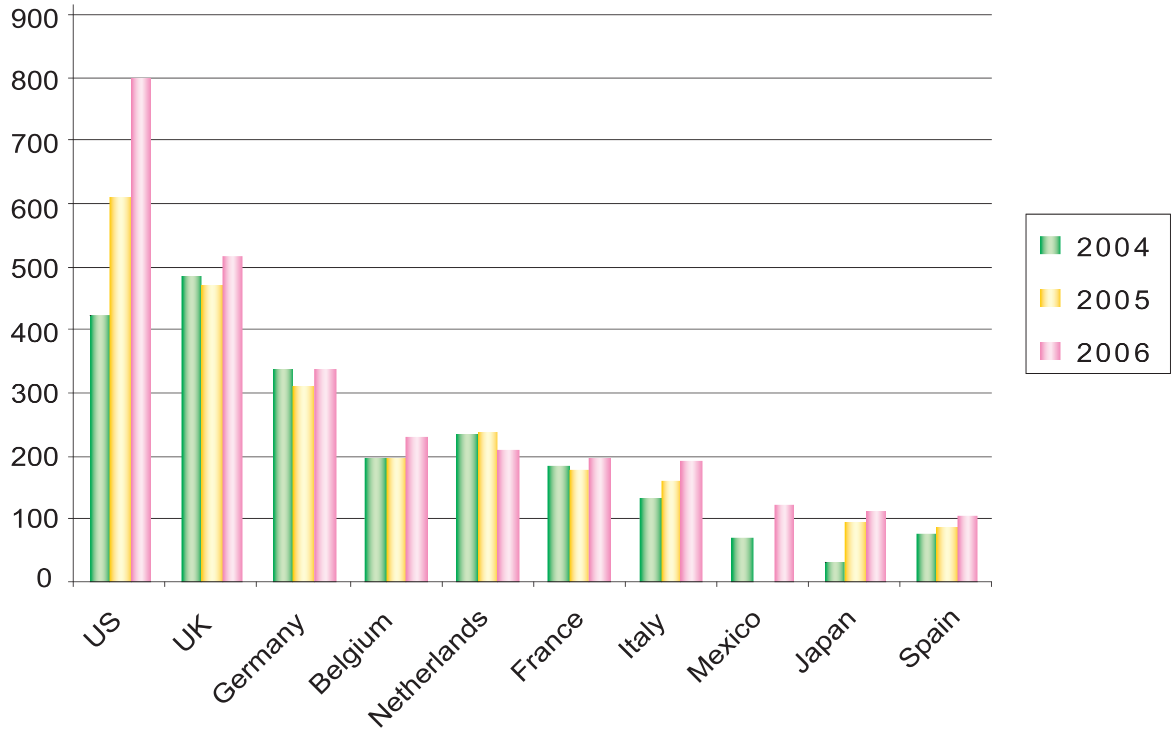
Chart 1. Vietnamese Footwear Export Turnover (USD million)



Source: General Department of Vietnam Customs/LEFASO

According to the Vietnam Leather and Footwear Association (LEFASO), in 2006 export turnover reached USD 3.59 billion, up from USD 2,04 billion in 2005 (a 18.1% increase compared to 2005 figures). The EU remains the main market for Vietnam's footwear exports: the value of exports to the EU grew in 2006 to USD 1.96 billion from USD 1.79 billion in 2005. However, the ratio of exports to the EU on total export value has been declining over the years from 74.5% in 2001 to 59% in 2005 and 54,7% in 2006. On the other hand, footwear exports to the United States grew by more than 31% year-on-year in 2006, reaching USD 802.76 million and the US market accounted for 22.35% of total export value. Exports to Japan grew by more than 20% year on year in 2006 and accounted for 3.15% of total export value in 2004. Among the EU member states, United Kingdom, Germany, Belgium, the Netherlands, France, Italy and Spain are the main importers of Vietnamese footwear. Vietnam is the EU's second largest supplier of shoes after China.

Chart 2. Top ten export markets (USD million)



SOURCE: LEFASO

The decline in the ratio of exports to the EU on total export volume is partly related to the antidumping duties on certain footwear with leather uppers produced in Vietnam. These where imposed following the proceedings started by the European Commission in 2005, which identified evidence of unfair competitive practices and injury to the European industry. From April to October 2006 provisional antidumping duties were imposed on leather footwear exported to the EU, growing progressively from 4.2% in April to 16.8% in September. On 6 October 2006, the EU decided to impose definitive antidumping duties of 10%, which will be in place for two years. In response to the antidumping measures many manufacturers have increased their efforts towards expanding exports on alternative markets or have shifted their production to footwear types, which are not subject to compensative duties (such as sport shoes or STAF).

Footwear exports grew faster between April and June, as many companies anticipated their orders when the provisional duties were lower, and declined between July and September. In the last three months of 2006, however footwear exports increased as definitive duties were imposed at a lower rate. Moreover, many foreign traders who turned to other countries in the aftermath of the EU decision on provisional duties retuned to Vietnam as they found less favourable conditions in other countries and lower quality production.

b) Opportunities

The Vietnamese footwear industry enjoys low labour costs and relatively efficient and, so far, cost-effective international transport and shipping facilities. However, the infrastructure system is rapidly becoming inadequate for the development of export-oriented industries in Vietnam. The industry requires minimum investment for owners and, being highly labour intensive, has generated considerable employment, especially for women (around 80% of workers in the industry). Vietnam has proved itself as one of the most attractive countries for the production of low-value added shoes for export, through assembling imported components. In addition, continuous cooperation with foreign partners, including quality supervision, has determined an improvement in the level of products.

Footwear exports saw an upward trend despite difficulties created by the EU antidumping measures as there has been a strong growth on the US market and there is still margin for expansion of the Vietnamese share on alternative markets such as Mexico, Canada, Brazil and Japan, and for entering new markets such as Central Asia, Middle East and Africa. WTO accession could result in easier access to foreign markets. Moreover, Vietnam's export to ASEAN countries can benefit from low tariffs within the AFTA scheme.

China is undoubtedly perceived by domestic businesses as Vietnam's primary competitor both in the domestic and on foreign markets as Chinese production is much larger than the Vietnamese as locally sourced raw materials are lower in China. Nonetheless, differences exist in the types of shoes that Vietnam and China produce and in production methods, with Vietnamese output enjoying an advantage in terms of quality. Therefore, Chinese products are not perfect substitutes for the Vietnamese products. Following the EU antidumping procedure, a higher duty was imposed on leather footwear exported from China (16.5%) and therefore Vietnamese footwear maintains a competitive edge compared to Chinese exports. Other countries in the region have not yet proved a valid alternative to production in Vietnam as they have not yet developed the same expertise and production capacity.

It is estimated that around 80% of materials used for footwear production are imported. Domestic materials are available only for manufacturing fabric shoes and in-door slippers. Materials for other categories of product are heavily dependent on foreign partners and imports. Chemicals and machinery are almost entirely imported, mainly from other Asian countries and from Europe (Italy and Germany in particular). Vietnamese manufacturers can only supply basic equipment such as shoe-shapers and cutters. It is predictable that the continuous increase in exports and growing competition will determine a push towards increased investments in upgrading production lines in order to adapt to technological changes. The fierce domestic and international competition will probably lead to a concentration of most national production in fewer competitive and technologically advanced companies

The local tanning industry is trying to increase its productive capacity through investments in equipment but its output is still far from matching the growing demand from local industry with almost three quarters of leather requirements for the upper part of shoes, linings and soles is mainly imported. However, the total tanned leather production is expected to increase steeply when several major tannery projects come into operation. The availability of raw material is one of the advantages Chinese producers have over Vietnamese that ultimately results in lower production costs. WTO accession should result in lower tariffs on footwear machinery, spare parts and materials.

Although the local market is dominated by Chinese and domestic products, European products are particularly appealing to an emerging class of people whose income is increasing and who wish to purchase fashionable, high quality footwear.

c) Recommendations

There is a need to address some of the traditional weaknesses of the Vietnamese footwear industry such as:

- poor technical skills of local management and workers
- poor capacity in the fields of design and marketing
- need to import most of the raw materials

These weaknesses result in a weak position of local producers vis-à-vis foreign invested companies or foreign traders. Thus, local companies are mainly active in the field of assembling imported components and producing low value added shoes. There is a strong need for training and exchanging of experiences, know-how and technologies with European companies in the fields of design, production of raw materials and marketing in order to guarantee the sustainable development of the sector in the long term. International contacts through trade promotion activities in different markets and an increased participation of Vietnamese companies in specialised international fairs especially in Europe should be encouraged.

Major efforts will need to be made, with European technical assistance, in addressing and removing the distortions that have been revealed by the EC antidumping investigation on the export of leather footwear and to bring Vietnamese enterprises in full compliance with market economy rules.

2.3. FISHERY PRODUCTS

a) Overview

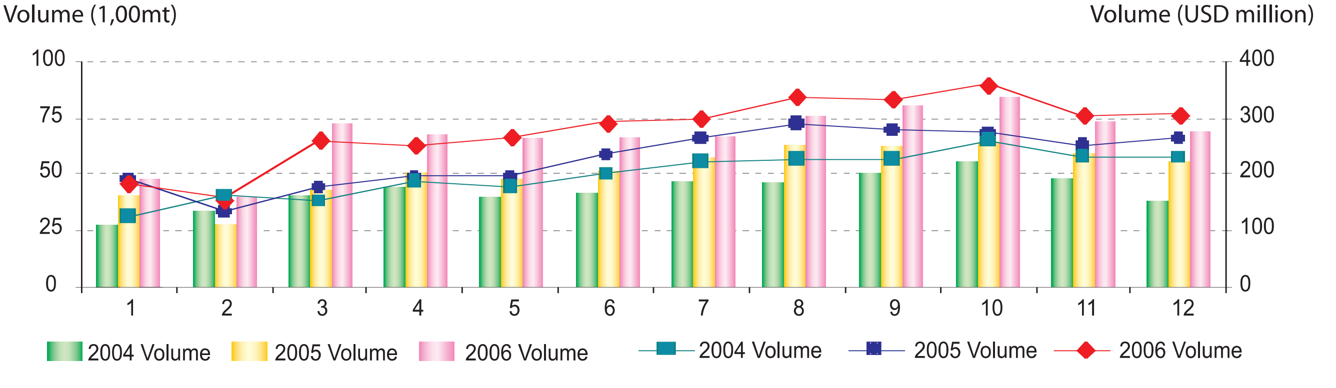
Vietnam's fisheries sector currently accounts for 4 per cent of GDP , 8 per cent of exports and 9 per cent of employment. The sector has maintained an impressive production growth rate of between 10 to 12 per cent p.a. for the past twenty years and has contributed to reducing poverty whilst improving food security and food safety. In 2006, it generated export revenue of USD 3.36 billion ranking fourth in terms of export income behind crude oil, garments and textiles and footwear.

In the decade 1996-2006, the seafood exports obtained an impressive growth rate of 389 per cent. The export growth in 2006 alone was 24.5 per cent compared to 2005.

In 2006 the total fisheries production was 3.5 million mt, an increase of 2.9% over 2005 values. Output from capture fisheries was the same as 2005 at 2.0 million mt with inland capture contributing 0.2 and marine 1.8 million mt. Aquaculture (freshwater, brackish and marine) contributed 1.5 million mt. It is likely that inland capture fisheries yields are underestimated as many people fish informally (i.e. data is not recorded) during seasonal peaks in fish abundance.

Figure 1 shows how monthly production trends have followed the same pattern over the last three years with seasonal peaks coinciding with the August to October principal harvesting period. The situation in 2007 (not in graph) reflects a continuing upward trend in export values with a 42 percent year on year increase for January and February with USD 220 million earned from exports in February 2007.

Fig 1: Three year monthly export data by volume and value



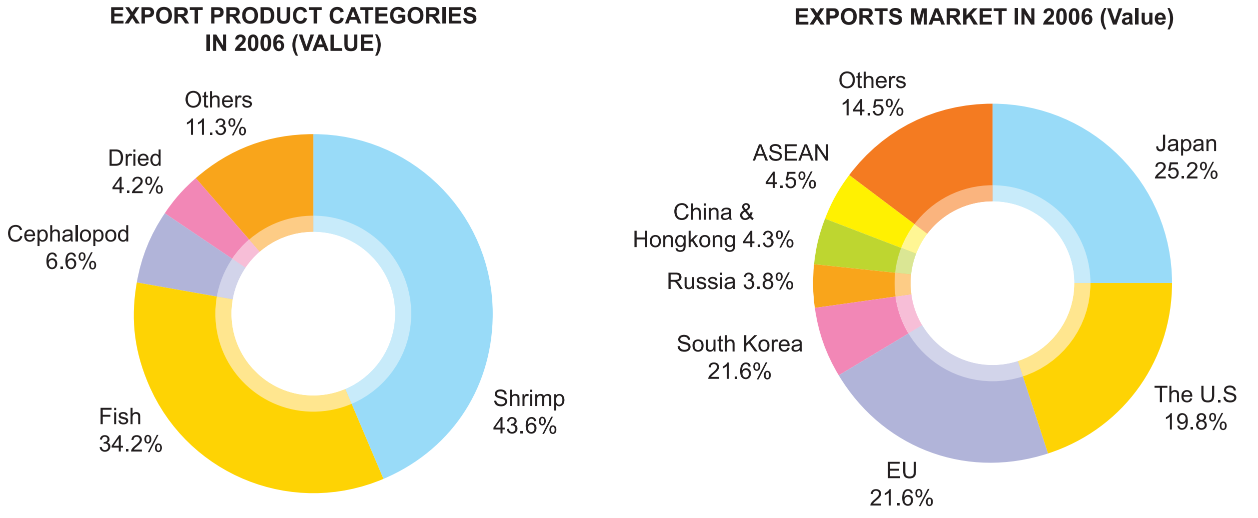
Source: Vietnam Association for Seafood Exporters and producers (VASEP)

From figure 2 it can be seen that the main products for export continue to be 'catfish' (Pangasius) and black tiger shrimp (P.monodon). Compared to 2005, 2006 saw a remarkable increase of "Fish" share of export and a decrease of the relative export share of shrimp. This was due not least to the US trade barriers on Vietnamese shrimp.

Trade barriers imposed by the USA on shrimp and 'catfish' products from Vietnam have encouraged market diversification with strong emerging markets in Russia and Poland amongst others. After Russia the EU market saw the largest percentage increase in seafood import from Vietnam during 2006 with the EU market share increasing from 16% 2005 to 21.6%: the increase coming mainly from frozen 'catfish' with 104% and 114% increases in volume and value respectively over 2005 levels.

www.english.vietnamnet.vn/biz/2006/04/562395/ and www.cia.gov/cia/publications/factbook/index.html

Fig 2: Export products and major markets 2006



Source: Vietnam Association for Seafood Exporters and producers (VASEP)

Table 2 summarises developments in the main export markets, whereas table 3 below it demonstrates the continued effect of the shrimp anti dumping problem in the USA and the increasing importance of "catfish" exports.

Table 2: Comparison of main fishery product markets 2005-2006

Markets	Jan-Dec 2006		Compared to the same period of 2005 (%)	
	Volume (MT)	Value (USD million)	Volume (MT)	Value (USD million)
		842.6		
Japan	123,889	14	-3.0	3.6
		723.5		
	219,967	05	68.3	65.7
		664.3		
EU	98,883	40		
The U.S.		210.3	7.9	4.8
South Korea	84,903	19	12.5	29.6
		150.9		
ASEAN	60,335	61	25.0	22.5
		145.5		
China & Hong Kong	48,470	73	2.0	8.3
		126.3		
Russia	58,705	93	347.1	275.9
		484.5		
Others	116,358	86	25.8	20.8
		3348.		
Total	811,510	291	29.4	22.2

Source: Vietnam Association for Seafood Exporters and Producers (VASEP)

Table 3: Comparison of main fishery product types 2005-2006

Products	Jan-Dec 2006		Compared to the same period of 2005 (%)	
	Volume (MT)	Value (USD million)	Volume (MT)	Value (USD million)
		1460.		
Frozen Shrimp	158,447	586	-0.5	6.5
		1145.		
Frozen Fish	444,709	086	61.9	66.5
		222.1		
Frozen Cephalopods	69,763	90	12.6	21.9
		142.1		
Dried Seafood	35,479	95	-1.2	9.1
		378.2		
Others	103,112	34	8.3	3.0
		3348.		
Total	811,510	291	29.4	22.2

Source: Vietnam Association for Seafood Exporters and Producers (VASEP)

b) Opportunities

Despite the impressive growth of production and exports in recent years, the fisheries sector still faces many challenges. The key word for the Vietnamese fisheries sector is now sustainability both social and environmental. This is fundamentally important as buyers are becoming more concerned about food safety and the ability to trace products back to their production sites.

Addressing over-exploitation problems, ensuring diversification, meeting international standards on hygiene and food safety, developing vertical integration from farmers, fishers to processing plants and suppliers of feed and chemicals, and introducing modern and transparent management methods, are among the challenges to be addressed. The challenges are described in the “Seafood Development Programme to 2010 and Orientation to 2020”. This document sets out a number of targets and measures to address the challenges.

Specific targets to 2010 include an average growth rate of seafood exports by 9 per cent p.a. and a total value of seafood exports in 2010 of USD 4-4.5 billion. Aquaculture production targets for ‘catfish’ are set to reach 1 million mt by 2010. The annual output of fished marine products will be kept at 1.5-1.8 million mt by 2010.

There is an increasing demand for certified products and the need to comply with food safety and traceability regulations. This applies to products from capture fisheries and aquaculture. The Fisheries Master Plan states that fisheries product infrastructure will be comprehensively upgraded to raise the frozen product output to 3,500 - 4,000 mt/day by 2010 with all establishments applying industrial processing methods attaining standards on safety and hygiene. By 2010, the output of processed aquatic products for export should have reached 891 million mt with an export value of USD 4 billion. At the same time, the issue of over-capacity will have to be addressed as there are strong indications of processing plant over-capacity with many new certified facilities running at only 50% of their designed capability (Intrafish). This is due partly to product scarcity and peak seasonal demands (Easter) in the main 'catfish' markets.

Within aquaculture, there are concerns that production expansion will be beyond the carrying capacity of a system that is facing increasing organic loads from other sources and higher pollution risks from industry. In early 2007 there was a series of fish kills probably caused by low oxygen levels due to unknown causes. This underlines the need for the implementation of Good Aquaculture Practices (GAP) for both 'catfish' and shrimp farms and the move towards planned aquaculture in Safe Aquaculture Zones with the associated need to carry out Environmental Impact Assessments. These measures may slow down the expansion of aquaculture but should eventually ensure sustainability. The Ministry of Fisheries National Fisheries Quality Assurance and Veterinary Directorate (NAFIQAVED) is in the process of implementing GAP compliance for all intensive shrimp farms in Vietnam.

The Vietnamese fishing fleet is comparatively large with 80 per cent of the 90,000 motorized vessels operating in inshore waters dependant on fisheries that are considered to be over-exploited. The number of fishing vessels will be reduced to 50,000 by 2010. The number of small-sized inshore fishing vessels will also be reduced while the number of large-sized offshore vessels will be maintained.

Despite the anti dumping and trade name disputes at the centre of the trade barrier issues there has been little product diversification and there is still scope for an increased product range to include for example processed and fresh bivalve molluscs. Product diversification is taking place slowly with increased levels of bivalve and gastropod mollusc production (oysters, clams, mussels and abalone). It is important to target species for aquaculture that are high value and at the same time low on the food chain and able to eat plant material. Added value options exist with a range of species like sea cucumber and sea urchin. However, to access these lucrative markets there needs to be a constant supply and sufficient volume. Seaweed for direct human consumption or agar and carrageenan production are other possible examples of diversified aquaculture.

For EU companies Vietnam will remain an interesting place to source seafood, with catfish and shrimps expected to remain the biggest export items. EU companies will also be able to find market opportunities for equipment and know how within aquaculture, offshore fishing and the processing industry.

2.4. AGRO - INDUSTRY

a) Overview

Agriculture production mainly occurs in the Mekong River Delta, Red River Delta, Central Highlands and surroundings of Hanoi and Ho Chi Minh City. Although the share of agriculture in GDP fell from 25 percent to 20 percent between 2000 and 2006 (industry contributed 48 percent and services 38 percent) agriculture plays a very important role in Vietnam with 70 per cent of the population still employed in this sector. By 2010, however, this percentage will have decreased to 50. Recently many industrial parks have been created and rural workers have started to work in industries such as textiles, shoes, electronics etc. In addition the government is putting more and more emphasis on introducing hi-tech machinery in to agriculture and a loan (USD 30 m) from ADB supports the introduction of modern technology. Together with Government credits more and more farms start using machinery. It will contribute to shifting the labour force from the agriculture sector to industry and services.

Agricultural products from Vietnam are being sold in 100 countries and territories all over the world. Asia is the largest market for Vietnamese rice, rubber, fruits and vegetables, pepper and cashews. Coffee, honey, processed fruits and vegetables sell well in Europe. The American market is taking mostly coffee, pepper and pineapple juice while rice and tea are destined for the African market. Private companies are expanding in the domestic and international markets with many of the state owned companies are being prepared for equitization.

Vietnam reduced export and import taxes on its agricultural and forest products in accordance with commitments made under the ASEAN Free Trade Area (AFTA) and WTO agreements. As a result, the average export tax on agricultural and forest products fell from 24.5% to 4.9% while the import tax under AFTA agreement will gradually reduce to 0% and under the WTO agreement from an average of 30% to 15%. The cooperation among government, scientists, farmers and businessmen has helped to ensure smooth agricultural and forest production and quality control.

Vietnamese agricultural products were previously exported mainly in a raw form and produced under contracts without trade marks. Recently local authorities, companies and farmers have been trying to invest and to produce trademarks for their products. As a result Vietnam has trade marks for some products such as coffee, durian, mango, orange and litchi. Business associations and corporations have also been active in building national trade marks, surveying the market, opening representative offices abroad and designing websites to promote exports.

Table 4. Statistic on the export of agricultural products in 2006

Products	Year 2005		Year 2006	
	Volume (tonnes)	Value (USD)	Volume (tonnes)	Value (USD)
Rice	5.250	1.407	4.643	1.275
Coffee	892	735	981	1.271
Veget.&Fruits		235		259
Rubber	587	804	708	1.286
Pepper	109	150	117	190.4
Cashew nut	108	501	127	503.7
Tea	88	97	106	110.4
Peanut	55	34	14	10,5
Sugar	0,7	264	6	2,4
Milk & milk products		90		90

Source: Ministry of Agriculture and Rural Development (MARD)

b) Opportunities

Vietnam's accession to the World Trade Organization (WTO) in January in 2007 provided an important boost to the internationalisation of the economy. Vietnam plans to develop and apply bio-technology in agriculture and rural development over the next 15 years. At present, some high-tech agricultural zones have been set up on the outskirts of Hanoi, Ho Chi Minh City and Dalat and some other cities to improve productivity as well as the quality of agricultural products.

In addition, a range of new policy measures has been implemented in recent years to create incentives for the liberalization of production and to encourage farmers to invest in product development. It has resulted in a continuous and sustainable growth with an average annual growth of 4.5% over the period 2000 to 2006. Moreover, changes in the agriculture structure are strongly driven by market and export orientation.

The long-term target of the agricultural sector is to strengthen the commercial agriculture to maximise comparative advantages, adopt new technologies and improve competitiveness in the domestic and international markets. It is also necessary to construct a new rural area with appropriate economic structure and the joint development of agriculture-industry and services. Overall, the agricultural sector needs more foreign direct investment to boost productivity, quality and export value.

Foreign direct investment (FDI) in Vietnam continues to increase and exceeded USD 10 billion in 2006. Only 7% was invested in agriculture. In order to attract this level of FDI, Vietnam has to improve both its infrastructure and legal system. Foodstuffs, fruit and vegetables, rubber, coffee, tea, husbandry, forestry and wood processing will be the key agricultural fields calling for FDI in the next few years according to MARD.

Vietnamese farmers tend to move from rice production to vegetables, fruits, flowers and animal husbandry as they bring much higher returns. However, the productivity of these sectors is still very low. There is a need for technical and financial investment to improve the quality of seeds, breeds and feeds. Therefore, opportunities for foreign companies to invest in horticulture, floriculture, husbandry and especially in dairy production and animal feed are very good in Vietnam. Dairy is a potential field for increased foreign investment. The country will have to invest substantially to meet the fast growing demand for milk and milk products. Currently 70% of milk powder is imported. Dairy husbandry and the whole chain of processing, distributing and storage are very poorly developed lacking investment and transfer of know-how.

Some major leading players in the agricultural industry in Vietnam are:

- Vietnam Southern Food Corporation
- Vietnam General Rubber Corporation
- Southern Seed Joint Stock Corporation
- Intimex Import – Export Corporation
- Hanoi Trade Corporation

c) Recommendations

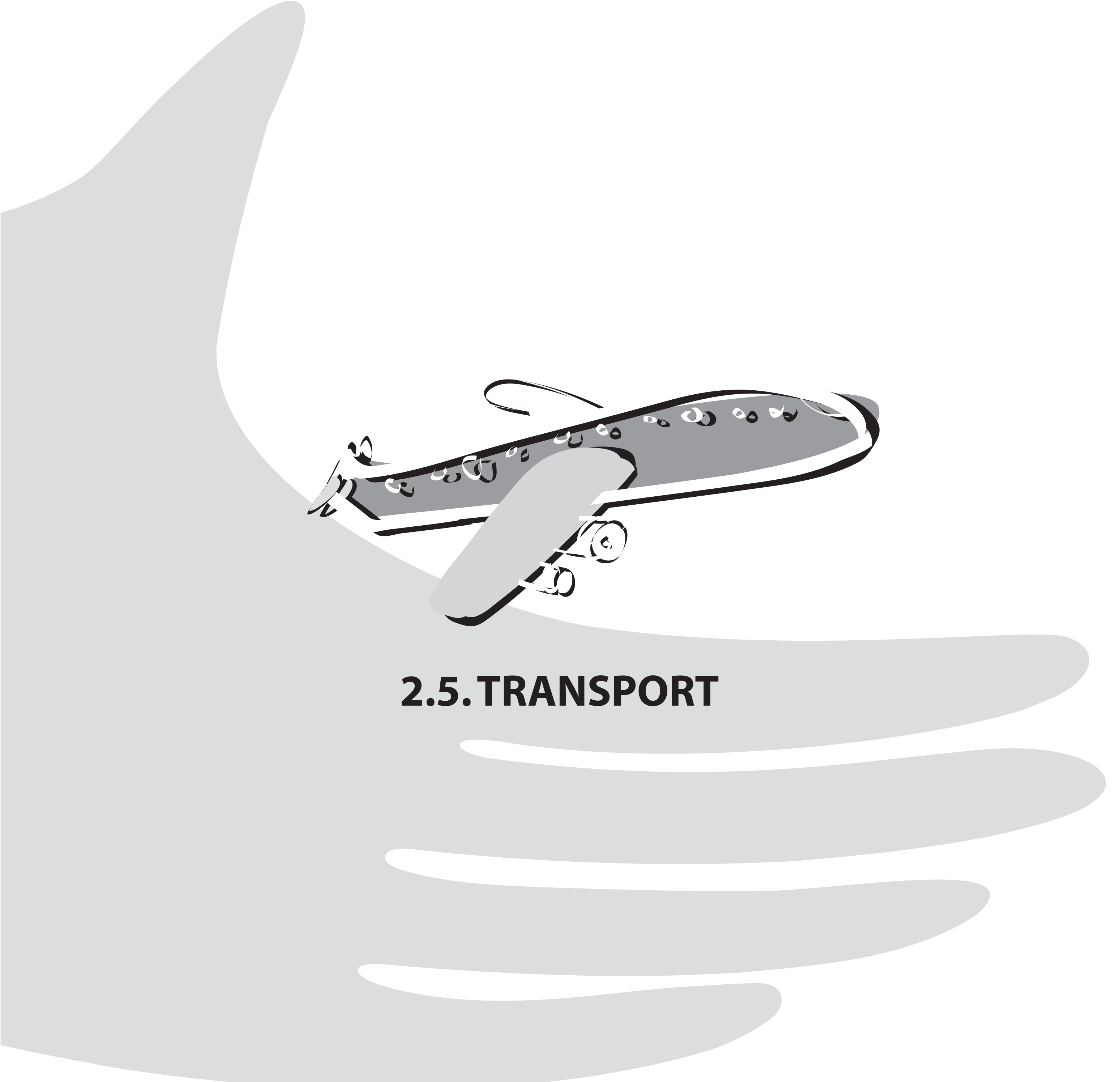
The existing poor infrastructure in Vietnam coupled with the inadequate electricity supply, questionable water quality and unstable supply, lack of information system and inadequate seaport service facilities represent a large obstacle when viewed by potential investors to do business in Vietnam and due to the low quality and low productivity, the agricultural output in comparison to input especially in relation to the number of people involved is still very low.

One of the main problems is the lack of capacity for food processing. About 20% of the total agricultural production is lost because of the lack of modern post-harvest methods and food processing technology. In addition, agricultural products exported from Vietnam are always in the lower price range compared with other countries because of the inconsistencies in quality with 90% of products unprocessed.

Another problem is that the agricultural sector of Vietnam is based on many millions of poor and small-scale households, which cannot afford the cost of modern processing and modern post harvesting techniques. The lack of financing investment remains a big problem and the unfair treatment between private and public sectors is also a large obstacle to accelerate the overall agricultural development process.

Added to the list of problems is the weakness or incompleteness of quality control systems in many areas of agriculture, the overdosing of pesticides and fertilisers, the residues of antibiotic, heavy metals, insecticides and hormones as well as animal diseases are threatening human health and exports.

It is clear that besides opportunities, there will be challenges in the coming years such as unexpected natural disasters, bad weather, plant and animal diseases like Avian Influenza as well as the tariff cuts according to the AFTA and WTO commitments will be unavoidable and will place great pressure on the agricultural sector. To over come such problems a better investment environment as well as a suitable legal framework is needed in order for the agricultural sector to reach its full potential.



2.5. TRANSPORT

2.5.1. Air Traffic

Vietnam is divided into three (3) air traffic regions. There are three international airports, one in each region (Hanoi, Da Nang and Ho Chi Minh City) and 19 domestic airports. Six (6) airports are located in the north, eight (8) in the centre and nine (9) in the south. Air traffic is growing strongly and approximately 12 million passengers were handled in 2005. A new international airport is planned to be constructed in the south to replace the present Tan Son Nhat airport outside Ho Chi Minh City.

Comprehensive development plans include upgrade of most airports. The upgrade includes buildings (terminals) and runways as well as modern navigation equipment required to raise standards to acceptable levels. The airport infrastructure is generally underdeveloped and not capable of handling the sharp rise in passengers and cargo expected in the years to come. Passenger traffic is expected to grow by 12-15% p.a. The capacity of the airports will be increased to handle approximately 30 million passengers in about five (5) years time.

Vietnam lacks the means to finance these projects that run into billions of dollars and ODA has been and will be requested. Japan has shown interest in supporting this sector and Japanese companies should be considered as strong competitors.

At the time of writing the government is considering inviting foreign investors to be partners in this modernisation.

2.5.2. Land Transportation

a) Overview

In Hanoi, the HUTDP includes, along with the BRT, the Road Infrastructure and Sustainable Urban Planning programme. This programme plans to extend the Hoang Quoc Viet road and to construct two bridges by 2008. Total cost of the project will be of USD 162.67 million of which about USD 100 million comes from the state budget and the rest from the World Bank and the GEF. The programme also comprises the improvement of traffic management and the establishment and strengthening of a new Public Transport Authority.

In the Mekong Delta Region a new programme of the World Bank, funded mainly by the International Development Association (IDA) and currently at the appraisal stage, has identified several infrastructure bottlenecks that are hindering the development of this area. To address these problems the World Bank plans to invest USD 82.55 million to improve and widen 94 km of national highways, including the construction of 22 bridges on national highways number 53, 54 and 91. This programme also comprises financing the engineering and construction supervision of the national road component. (Estimated cost USD 5.32 million).

In addition to the two above mentioned projects another USD 73.9 million is to be invested on upgrading 205 km of secondary roads, including 78 bridges, in the Mekong region’s high economic activity centres and areas with a high poverty concentration.

In February 2006, Vietnam’s Prime Minister approved last February the Ho Chi Minh trans-national highway master plan. Work on the first phase, a two-lane motorway linking Hoa Lac to Tan Canh is due to be completed in 2007. The second phase, due for completion between 2007-2010. The total cost of the whole project is unclear due to non disclosure of the plan.

Railway transport

In 2002, the Government approved a master plan to develop Vietnam’s under-developed railway network by 2020.

Among the larger projects recently completed in this sector were the upgrade of 19 bridges on the Hanoi – Ho Chi Minh City route with Japanese ODA (11.4 billion Yen), the modernisation of the communication and signalling system for Hanoi – Vinh route (first phase) with French ODA (9,7 million €), and the renovation of 4 railway tunnels along the Hai Van pass with French ODA (13,9 million €).

Ongoing projects include the modernisation of the communication and signalling system for Hanoi – Vinh route (second phase) with French ODA (27,8 million €), and for the Hanoi – Lao Cai, Hanoi – Dong Dang, Hanoi – Thai Nguyen, Vinh – Ho Chi Minh City routes and the hubs in Hanoi with Chinese soft loans totalling USD 125 million. Japan will upgrade rail bridges for the Hanoi – Ho Chi Minh City route with ODA of 8,2 billion yen, and Germany will modernize the transport operation centre with ODA of 10,2 million €. The Yen Vien – Lao Cai route will also be upgraded with ODA of USD 140 million (ADB 60M and France 40M).

A number of large projects are currently calling for ODA, like the upgrade of the Lao Cai – Hanoi – Hai Phong, Dong Dang – Hanoi and Hanoi – Hai Phong – Dinh Vu routes and the construction Hanoi – Ho Chi Minh City express railway and the Ngoc Hoi – Yen Vien section of the Hanoi elevated railway.

b) Opportunities and Recommendations

Vietnam is witnessing an extensive effort to upgrade its terrestrial transport infrastructure, which could create opportunities for European companies. Most of the projects are funded by the Vietnamese Government, in conjunction with international development Banks, such as the World Bank or the ADB, and with soft loans coming from Japan, France, Germany and to a lesser extent other countries like Australia and China.

The main competitive edge of European companies is their engineering and consultancy capabilities and their technological advantages. Other areas of strength include; feasibility and evaluation studies, calculations and specifications, transport managerial services, design and implementation of projects or quality control. There are also good opportunities for the supply of machinery, vehicles and construction equipment and materials.

2.5.3. Mass Transportation and Public Transport

a) Overview

Today Vietnam's main cities are getting more and more congested mainly due to the growingly urbanization and the rapid increase on the number of cars (over 1 million) and motorbikes (over 18 million). This has driven the Government to make an effort to upgrade the public transportation means. Despite a humble start, urban transportation system is now developing rapidly, creating ample possibilities for the European companies.

In Hanoi, although the number of bus passengers has increased 20 times in the last 5 years (app. 600.000 passengers per day), 65% of vehicular trips are still done by motorbike collapsing the city and turning urban transportation into a slow, stressful and increasingly dangerous activity. Consequently, a new Light Rapid Transit (LRT) line linking Hanoi Rail Station in the city centre and Nhon depot, West of the city, is currently being constructed under the supervision of the newly established Hanoi Metropolitan Rail Transport Project Board (HRB). The total cost of the project is estimated in over EUR 510 million with EUR 280 million in soft loan from France: EUR 200 million from the French Ministry of Economics, Finance and Industry and EUR 80 million from the French Development Agency (AFD). The Japanese Bank for International Cooperation (JBIC) is also keen on financing the construction of the Hanoi - Noi Bai Airport line also called line 2. Consultancy might be launched in June or July 2007 for the feasibility study and the basic design of the first 15 km of this metro line which will run into the city centre. This first phase of the project is estimated at a cost of app. USD 1.2 billion.

Simultaneously, the Hanoi Urban Transport and Development Project (HUTDP), financed by the World Bank and the Global Environmental Facility (GEF), has planned an expenditure of over USD 77 million to support the development of a Bus Rapid Transit Component (BRT) of 24.5 km of segregated busways and bus priority along the Giang Vo - Lang Ha and Giai Phong - Dai Co Viet corridors. The project, which is so far at its appraisal phase, also supports the establishment of a modern BRT management system, including bus ticketing and financial controls, and might start this year with the construction of several BRT stops and interchange stations.

Meanwhile, Ho Chi Minh City People's Committee, in order to address the city's traffic and transportation problems, intends to develop a 6 line Urban Metro Rail Transit (UMRT) project by 2020. It is foreseen that the project will require an investment of over USD 5 billion coming both from the public and the private sector. However, while several feasibility studies funded by the World Bank, the JBIC and different European Governments have been done, it still remains unclear which projects shall be developed. At the present, in addition to an ongoing World Bank BRT study, the UMRT 1 line is being examined as part of a more detailed study by JBIC. The city's transport master plan also considers the construction of 2 monorail and 1 tramway lines.

Roads, tunnels and bridges

In Hanoi, the HUTDP includes, along with the BRT, the Road Infrastructure and Sustainable Urban Planning programme. This programme plans to extend the Hoang Quoc Viet road and to construct two bridges by 2008. Total cost of the project will be of USD 162.67 million of which about USD 100 million comes from the state budget and the rest from the World Bank and the GEF. The programme also comprises the improvement of traffic management and the establishment and strengthening of a new Public Transport Authority.

In the Mekong Delta Region a new programme of the World Bank, funded mainly by the International Development Association (IDA) and currently at the appraisal stage, has identified several infrastructure bottlenecks that are deterring the development of this area. To address these constraints the World bank plans to invest USD 82.55 million to improve and widen 94 km of national highways, including the construction of 22 bridges on national highways number 53, 54 and 91. This program also comprises financing the engineering and construction supervision of the national road component. (Estimated cost USD 5.32 million).

In addition to the two above mentioned projects another USD 73.9 million are planned to be invested on the upgrading of 205 km of secondary roads, including 78 bridges, in the Mekong region's high economic activity centres and areas with a high poverty concentration.

Meanwhile Vietnam's Prime Minister approved last February the Ho Chi Minh trans-national highway master plan. According to it, works for the first phase, a two-lane motorway linking Hoa Lac to Tan Canh will be completed on 2007. On a second phase, due for the period 2007-2010, the remaining stretches of the road will be connected before opening to the public. Total cost of the whole project is still unclear since its detailed plan has not been disclosed yet.

Railway transport

In 2002 the Government approved a master plan to develop Vietnam's underdeveloped railway network up to 2020. In 2006, a Railway Law has come into force.

Among the larger projects recently completed in this sector are the upgrade of 19 bridges in the Hanoi - Ho Chi Minh City route with Japanese ODA (Yen 11.4 billion), the modernization of the communication and signaling system for Hanoi - Vinh route (first phase) with French ODA (EUR 9.7 miilion), and the renovation of 4 railway tunnels along the Hai Van pass with French ODA (EUR 13.9 million).

Ongoing projects include the second phase of the modernization of the communication and signaling system for Hanoi - Vinh route with French ODA (EUR 40.3 million), and for the Hanoi - Lao Cai, Hanoi - Dong Dang, Hanoi - Thai Nguyen, Vinh - Ho Chi Minh City routes and the hubs in Hanoi with Chinese soft loans totalling USD 125 million. Japan will upgrade rail bridges for the Hanoi - Ho Chi Minh City route with ODA of Yen 8.2 billion and Germany will modernize the transport operation center with ODA of EUR 10.2 million The rail infrastructures of the Yen Vien - Lao Cai route will also be upgraded for app. USD 140 million with ODA from France (EUR 63 million) and ADB (USD 60 million).

A number of large projects are currently calling for ODA, like the upgrade of the Hanoi - Hai Phong - Dinh Vu and Dong Dang - Hanoi routes, and the construction of the Hanoi - Ho Chi Minh City express railway (feasibility studies financed by Korea and Japan) and the Ngoc Hoi - Yen Vien section of the Hanoi elevated railway.

b) Opportunities and Recommendations

Vietnam is witnessing an extensive effort to upgrade its terrestrial transport infrastructure, which could create opportunities for European companies. Most of the projects are funded by the Vietnamese Government, in conjunction with international development banks, such as the World Bank or the ADB, and with soft loans coming from Japan, France, Germany and to a lesser extent other countries like Australia or China. Apart from the structure and the experience required to be a serious contender for the contracts depending on these financing agencies, in order to have an opportunity to win an infrastructure contract is necessary to develop and foster strong relationships with local and central authorities.

The main competitive edge of European companies resides in their engineering and consultancy capabilities and their technological advantages. Having said that is easy to infer that several parts of the projects such as feasibility and evaluation studies, calculations and specifications, transport managerial services, design and implementation of projects or quality control, can be awarded to our companies. There are also good opportunities for the supply of machinery, vehicles, and construction equipment and materials. But this all depends of the origin of the financing.

2.5.4. Harbours and Marine Transport

a) Overview

Vietnam has a 3,260km coastline, a strategic position close to international shipping routes and favoured natural conditions of foundation, sea depth, current, tidal, sedimentation and channels for developing seaport business. There are currently 119 seaports which are organised into 8 geographical groups:

1. North : Quang Ninh to Ninh Binh
2. North of Central : Thanh Hoa to Ha Tinh
3. Middle of Central : Quang Binh to Quang Ngai
4. South of Central : Binh Dinh to Binh Thuan
5. HCM City – Dong Nai – Ba Ria – Vung Tau
6. Mekong Delta
7. Phu Quoc
8. Con Dao and international transhipment groups

Vietnam’s coastline is divided into three regions – north, central and south. Each region has major general port, small subordinate ports and independent industrial and private ports.

The government recently endorsed the master plan in May 2004 to address major shortcomings - a lack of deep seaports in particular and to raise the competitiveness of local facilities to the standards of other countries in the region. Vietnam is planning to boost the development of seaports from now to 2020 to meet the increasing demand for cargo handling and transport in the future. Some key regional ports which require investment include Hai Phong and Cai Lan in the North; Nghi

Son, Cua Lo, Vung Ang, Chan May in the North of Central; Da Nang, Dung Quat in the Middle of Central; Quy Nhon, Nha Trang, Van Phong in the South of Central; Saigon, Vung Tau and Can Tho in the South.

Meanwhile, existing ports will be upgraded and some will be built in focal economic zones to accommodate vessels of more than 30,000DWT. Ports for containers, loose goods, liquid commodities and international transhipment will also be developed. Under the plan, the maritime sector will complete the upgrading and expansion of 10 key ports namely Cai Lan, Haiphong in the North, Cua Lo, Danang, Dung Quat, Quy Nhon, Nha Trang in the Central region, Thi Vai, Saigon and Can Tho in the South. Then they will build additional deep sea ports in the north, centre and south. In addition, the sector will develop key projects including the Lach Huyen Seaport in the city of Hai Phong, the Lien Chieu Seaport in the central city of Da Nang, and the Cai Mep-Thi Vai Seaport in the southern province of Ba Ria-Vung Tau.

To meet the demand for cargo transport, investment should be made in projects such as building a coastal shipping fleet, upgrading the coastal port system, modernising the communication system and improving maritime rescue and safety.

The plan is part of the general plan to reform the marine sector through 2020. The plan aims to develop the shipping sector as a leading industry within the sea-based economy with further international economic integration and ensuring sustainable growth.

The Vietnam government together with Port Administration/Management Organisation has drawn up a port and maritime sector strategy to 2020. Its key priorities are:

- Enhancing the capacity of current ports by investing in port facilities, increasing efficiency of container handling operation, adopting information technology (EDI system etc), expanding 10 existing major ports namely Cai Lan, Haiphong in the north, Cua Lo, Danang, Dung Quat, Quy Nhon, Nha Trang in the central region, Thi Vai, Saigon and Can Tho in the south.

- Constructing additional deep-sea ports to receive up to TEU 80,000 throughout the country especially relocating plans of Ho Chi Minh port system from inside city to Cai Mep-Thi Vai and Hiep Phuoc area in Ba Ria-Vung Tau Province.

- Developing international container transhipment port in Van Phong, Khanh Hoa Province with appropriate berthing facility to accommodate large ships.

- Establishing appropriate port management system and improving institutional framework for port administration.

- Promoting private sector participation in the strategy not only in port development projects but also port service projects.

- Attracting foreign investment in the sector.

- Developing Vietnam ship building industry.

Vietnam will need approximately USD 4.5 billion to implement its seaport development project until 2010. The amount will be sourced from the state budget, foreign investment, official development assistance, bond sales and tolls.

Vietnam’s economy has thrived in recent years and, in terms of growth, considered second only to China in Asia. This growth rate is forecast to increase in the coming years especially after Vietnam's accession to WTO in November 2006, which will lead to the increased liberalised international trade transactions, domestic trade and regional logistics transhipment. The Vietnam Port Association expects the domestic/overseas shipping demand and cargo/container throughput will increase strongly in the coming years, reaching 280 million tons in 2010.

b) Opportunities

There are opportunities in the following sub-sectors:

- Port business opportunities through BT/BOT/BTO/JV or management contract
- Professional services such as planning/ architecture/ design consultancy, civil engineering, high technology consultancy
- Port management
- Finance consultancy
- High technology security equipment

c) Recommendations

These opportunities are particularly suitable for experienced EU exporters. In the case of major infrastructure projects, the Vietnamese government always seeks experience and high technology from reputable companies with a strong background in the sector.

Vietnam's business environment is complex and bureaucratic, especially in big infrastructure business. Companies seeking business in this area have to develop strong relationships with ministries and provincial authorities.

2.6. IT AND TELECOMMUNICATIONS

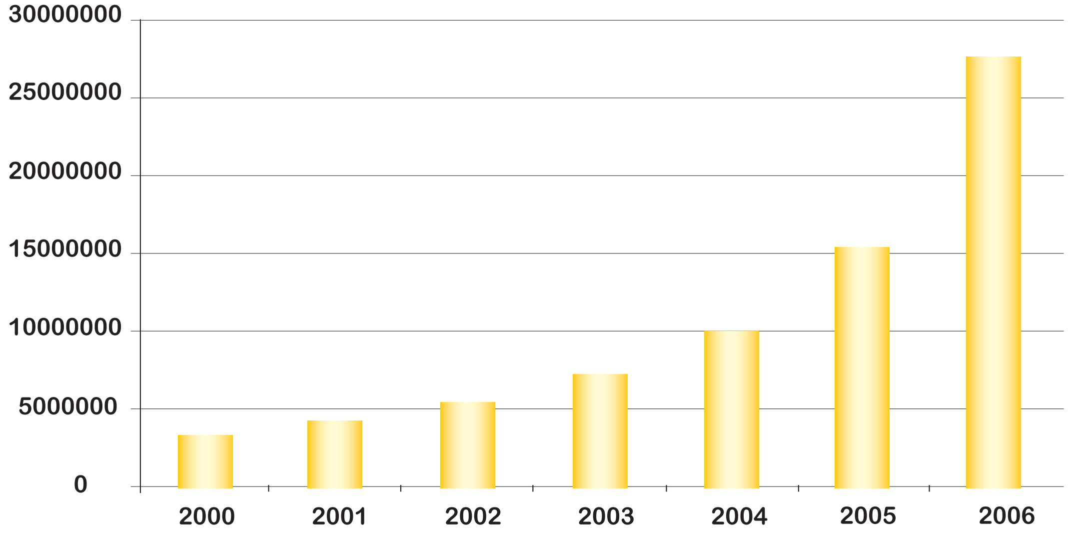
a) Overview

Telecommunications and related industries are currently among the fastest growing industries in Vietnam. Over the past 5 years, Vietnam has sustained an average network growth of over 20 %, which is one of the highest in the region. The International Telecommunications Union (ITU) recently ranked Vietnam second worldwide behind China with regards to telecommunications development.

In June 2006 the National Assembly passed the first law to create a comprehensive legal framework for the development IT. Vietnam's equitisation process has also led to ICT companies being partly privatised and floatation on the stock market is imminent. The sector is in a period of change which will facilitate a differentiation in investment financing and possibilities as well as partnerships between Vietnamese and foreign companies.

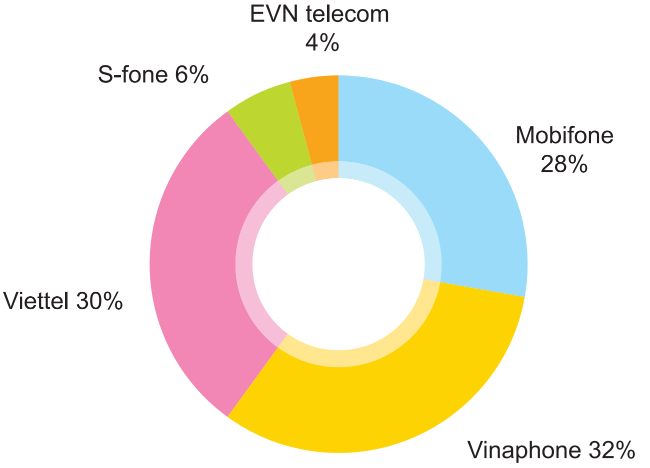
2006 was a year of significant development in Vietnam's ICT sector and saw impressive development of both mobile networks and broadband/ADSL internet. The sector development continues to be coupled with gradual but steady service rate cutting. According to the Ministry of Post and Telematics (MPT), Vietnam had over 27 million fixed and mobile subscribers at the end of 2006, an increase of 12 million in the last year. The telephone density is 32.57 per 100 habitants, and the growth rate for telephone subscribers in 2006 was 188% compared to 2005. The sector turnover was around 2.5 billion Euro (approx.VND 49,000 billion). The number of subscribers is forecasted to reach 38 million in 2007 with a turnover of 3 billion Euro (approx. VND 60,000 billion). 52 million subscribers are expected by 2010 of which around 70% will be mobile subscribers.

Chart 1: Telephone subscribers



Source: MPT

Chart 2: Mobile communication service market share (December 2006)



Source: Media

The Internet was officially introduced to Vietnam in late 1997. The sector has developed rapidly in the last 2 years partly because of the availability of affordable broadband/ADSL packages for households (the monthly subscription average rate is as low as Euro 2.5). The number of internet subscribers reached 4 million by the end of 2006 and the number of internet users exceeded 14.6 million (17.7 per 100 habitants). Total capacity of the international link is 7076 Mbps, which has created a bottleneck that will require large investment in the years to come. The total number of Vietnamese internet websites is approximately 35,000 and the market is forecasted to grow 1.5 times every year.

Some European ITC companies have encountered problems with internet capacity and high prices. The Internet Service Providers have promised capacity that is not readily available and thus causes delays. From the European point of view the high prices are not supporting the massive need for investment in the Vietnamese ITC sector. However, the Ministry of Posts and Telematics have tried to solve the problem and prices are on the way down.

Chart 3: Internet subscribers (unit in million)

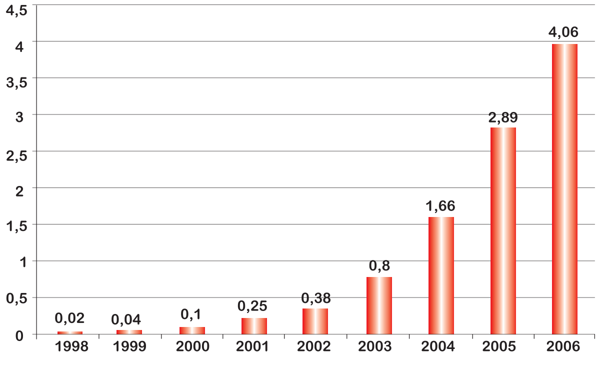


Chart 4: Number of Internet users (unit in million)

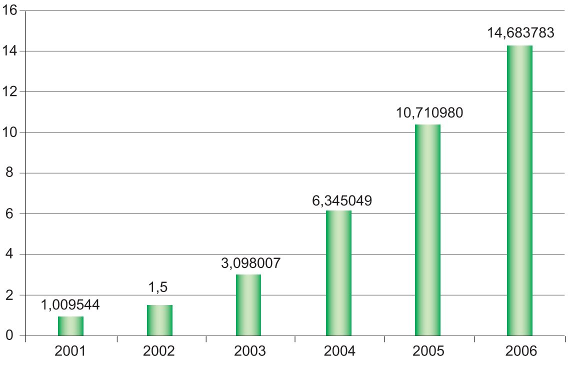
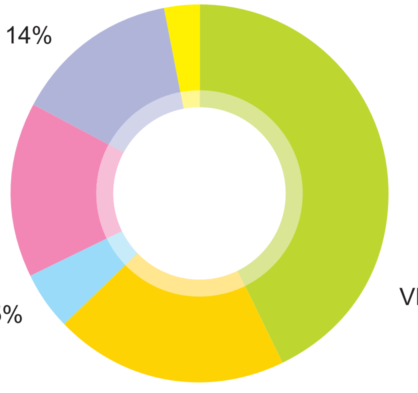


Chart 5: Internet market share (December 2006)



Source: MPT

The software industry is still small and software service turnover reached Euro 192 million, of which Euro 54 million was export value (up 55.5% compared to 2005). The Vietnam Software Association (Vinasa) has 110 Vietnamese software developers as members of which 14 are foreign-invested companies.

In 2006, the total investment in the sector infrastructure reached Euro 750-800 million (VND 15,000 to 16,000). The sector investment constitutes 4% of total country investment or 2% of GDP. Foreign investor stakes in IT and telecom joint ventures during 2006 were 51 %. The military-run Viettel became the country's first company to invest abroad.

Vietnam has selected Lockheed Martin Commercial Space Systems (USA) as a satellite supplier and Vietnam's first satellite, named Vinasat, is planned to be launched by the French rocket 'Ariane 5' in the second quarter of 2008.

Table 1: Vietnam Telecom service providers

Telecom service providers	Fix tele-phone	Mobile tele-phone	International communica-tion	Mobile communica-tion	Communi cation via IP	Internet
Vietnam Post and Telecommunication Group (VNPT) (including Mobilfone, Vinaphone)	X	X	X	X	X	X
Sai Gon post and telecommunication Joint Stock Company (SaiGon Postel) (Including S-fone)	X	X		X	X	X
Vietnam Power telecom company (EVN telecom)	X	X	X	X		X

Source: MPT

Telecom service providers	Fix telephone	Mobile telephone	International communication	Mobile communication	Communication via IP	Internet
Hanoi Telecommunication Joint Stock Company (HT telecom)	X	X		X	X	
Vietnam Military Telecommunication company (Viettel)	X	X	X	X	X	X
Vietnam Airline Corporation				X		
Marine electronic and telecommunication company (Vishipel)					X	
FPT telecom						X

b) Opportunities

1. The number of phone subscribers, both mobile and fixed lines is expected to continue to grow sharply in the coming years.
2. This will also put increasing demands on much faster investments in the network capacity both domestically and international connectivity.
3. The Internet is predicted to grow at a high rate as well as services provided through the Internet.
4. Opportunities lie in many segments of the ICT sector, including both hardware and services.

c) Recommendations

1. It is important in Vietnam to be present in the market at an early stage. It is therefore worthwhile considering the Vietnamese market even if it is not mature at present for specific products.
2. Reforms of the business structure, including equitisation and introductions on the stock market, are important for foreign companies to follow. Investment and partnership opportunities are changing rapidly.
3. There are many opportunities in the ICT sector, but this is not true for all segments and products. It is crucial to survey the Vietnamese market for specific company interests.

2.7. PHARMACEUTICALS

a) Overview

Health care system

The health care system can be broadly classified into public (or government) and private facilities. Nearly all hospitals are state-owned. Outpatient care is provided principally in state clinics, private clinics and infirmaries. Generally, the standard of health care is poor and, is lacking an efficient insurance system, since the service is far too expensive for the great majority of the population.

The organization of health services is arranged around several tiers. At village level, very basic services are provided by community health workers who come primarily from large international organizations. At the next level, communes (with about 8,000 people each) are equipped with at least one health centre. These centres are staffed by assistant doctors and nurses who can dispense drugs and traditional medicinal remedies. Some larger inter-commune health centres exist and serve up to five different communes. At district level, district health centres and hospitals are responsible for coordinating health programs and providing basic secondary services for the district. Each district hospital serves up to 200,000 people. Provincial hospitals provide the most specialist care available outside the major cities, and act as referral centres for cases from district hospitals. They also act as intermediate level medical schools.

Although the role and share of the private sector has been growing recently, regulation of the sector is still minimal. A number of foreign-owned clinics and polyclinics have appeared in recent years ever since the government allowed 100% foreign-owned hospitals in 1997. Nevertheless, most of these centres may not be as profitable as expected due to the fact that few locals can afford the prices charged in these facilities. Vietnam has a large number of private clinics; of these, however, many are very small and locally owned and do not necessarily conform to Vietnamese government standards.

According to the Ministry of Finance, the health care expenditure from the state budget grew from VND 6,947 billion (about USD 434 million) in 2005 to VND 10,682 bn (USD 668 million) in 2006. The planned budget for 2007 is VND 14,660 bn (USD 916 million). These figures, however, do not include either the development investment, or the sums coming from health insurance, hospital fees and international aid. Actual spending, including the above mentioned items, can be estimated at around VND 20,000 bn (USD 1,250 million) in 2006.

Market

With 85 million inhabitants and a population growth rate of about 1.3% per year, the Vietnamese market for pharmaceuticals has been increasing dynamically. The national spending on pharmaceuticals was USD 11.23 per capita in 2006, compared to a mere USD 0.34 in 1990. Per capita spending is expected to increase to USD 15 by 2010, mainly driven by the increase of purchasing power.

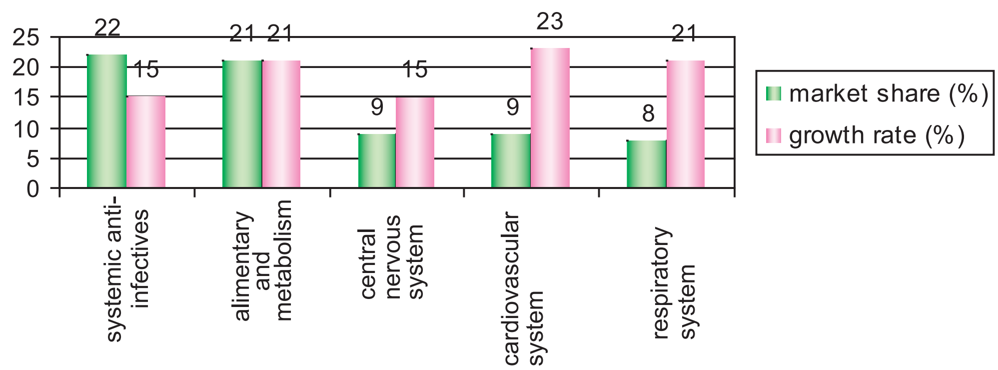
The fast growth, over the last few years, was mostly generated by the great increase in the sales of cheap over-the-counter (OTC) products and by the introduction of state financing in the use of high-value oncological drugs. The share of locally produced drugs in the total consumption is increasing: a few years ago it was below 40%, whereas, according to MoH, in 2006 it reached 49,7%. By 2010, it is expected that 60% of the pharmaceutical market will be served by locally-made products.

Indicators	2005	2006	Change (%)
Product balance			
Total consumption of drugs (USD million)	817.4	956.4	17.0
- of which domestically produced (USD million)	395.2	475.4	20.3
Import, including raw materials (USD million)	650.2	710.0	9.2
Export (USD million)	17.7	19.7	12.0
Consumption per capita (USD)	9.85	11.23	14.0
Market palyers in trade and distribution			
No. of importers	79	89	12.7
No. of distributors	680	800	17.7
No. of retailers	37,500	41,500	10.7
Market players in production			
No. of manufacturers	174	178	2.3
No. of foreign companies on the market	270	320	18.5

Source: Ministry of Health

According to the IMS Health pharmaceutical market intelligence, the Vietnamese pharmaceutical market grew by 22% in 2006 and accounted for USD 773 million, out of which 69% (USD 533 million) was imported and 31% (USD 240 million) locally produced. The big difference between the Vietnamese MoH figures and the IMS data is proof that information on the market is not reliable. A few important features are clear, though: (1) the market is growing at a fast pace; (2) the non-prescription (OTC) market is already dominated by local products, whereas their share in the prescription market is much smaller, at around 20%; (3) cheap locally-manufactured generic products make up for a large quantity of the market.

Leading product classes: their market share and growth rete in 2006



Source: IMS report

IMS registered the fastest growth rates in the following product classes:

- antineoplast & immunomodul products (+ 76%),
- blood & blood forming organs products (+ 45%),
- hospital solutions (+ 40%).

Production and trade

The local production of pharmaceuticals is increasing steadily and, even with a modest estimate, represents about one third of the national consumption. At the moment more than 300 foreign medical supply companies have representative offices in Vietnam. Drug toll-manufacturing is encouraged by the government via various ways (e.g. easier registration for locally produced drugs, favourable conditions for use in hospitals).

According to the Ministry of Trade, in 2006 the imported final pharmaceutical products amounted to about USD 550 million, originating mainly from France, South Korea, India, Switzerland, Thailand and Singapore. Imports of raw materials are increasing at a higher speed than finished drugs and specialties. The Vietnamese exports, on the other hand, are negligible.

According to Vietnam's WTO commitments the average level of import duty on drugs will decrease from 3.6 to 2.6% over a 3-year period, with considerable differences among various product classes. One advantage of WTO accession is the predictability of duty changes.

Parallel import is legal in Vietnam and the MoH issues the licenses. On the whole, it is not significant, but for certain products it may become the main source of supply. Mainly the big multinational companies' products are imported that way. Smuggling (mainly from Cambodia and China) is still an important problem: it is estimated that about 4% of the market is covered by smuggled drugs, some of them legally produced but illegally imported, others simply fake products.

The maximum duration of registrations is 5 years. This term is generally granted as a standard but, especially for domestic products, 3-year licences are also common. MoH sometimes issues registrations that are valid for one year only. At the expiry of the licence, re-registration is necessary. One central problem is that even the re-registration's duration is limited, so the procedure must be repeated periodically. Product re-registration may be rejected for reasons other than safety and efficacy.

Product registrations are also regarded as being poorly enforced. Many state-owned companies continue to import (with special import licences) and distribute unregistered generic drugs outside the usual range of life-saving products; taking action against these companies has proved difficult.

Distribution

For the time being, Vietnam operates a restrictive distribution system that is only open for domestic companies. All imported products must be shipped into the country through approved domestic import companies. Although not a legal criterion, in practice the importers are all state-owned companies. Foreign companies may receive import rights after 1 January 2009. Wholesale of drugs directly through representative offices is not permitted, either. Foreign pharmaceutical companies' activities have been limited to promoting their products to doctors and hospitals. However, according to the government decree 72/2006/ND-CP on the re-registration of all representative offices in Vietnam, even this activity may become ineligible. In the absence of more detailed regulations on the marketing of pharmaceuticals, the above mentioned decree implies that the re-registered foreign representative offices must not engage in promotional activities. The situation may change once the ministerial regulations on marketing are in place.

About 800 companies are responsible for the wholesale of drugs. They are generally small private companies, many of which are poorly equipped and cover a small geographical area. The number of private and public pharmacies amounts to 41,500 (one pharmacy retail point for every 2,050 residents), and with an estimated 55-60% share, they constitute the most important segment of drug sales. Nearly 50% of the pharmacies are located in the key urban areas of Ho Chi Minh City and Hanoi. It is believed that at least 70% of pharmacists are not licensed (they only lease their license from another pharmacist), and have very little medical training.

State enterprises have a de facto monopoly on the supply to hospitals, although in many cases these transactions are invoiced to intermediary private companies.

Officially, drugs are separated into prescription ('specialty') drugs and OTCs ('non-prescription') but in practice, most drugs are available over the counter in pharmacies. OTCs account for an estimated 36% of the market by value. In practice, both doctors and pharmacies are actually dispensing drugs. Traditional herbal medicine remains popular.

Pricing is a sensitive issue. The registration files, issued by the MoH, set the so-called registered price of each drug, which is the theoretical maximum market price. In many cases drugs are actually sold at considerably lower prices. However, even in such cases, prior consent of the MoH is required for any market price rise. The MoH is clearly opening the door for the entry of cheaper drugs on the market, mostly generic ones.

Intellectual property issues

Violations of the intellectual property rights are widespread, and IP protection is generally regarded as inadequate. Many products are counterfeits (products as well as packaging), and a good part of the copycat products are manufactured by the state pharmaceutical companies themselves. In addition to the direct loss of revenue to the original producers, one of the main problems with the fake products is their lower effectiveness in fighting illnesses, since there is no control on the level and quality of their components.

At the request of the USA trade association PhRMA, Vietnam has been placed on the USTR Special 301 watch for several consecutive years now. With WTO accession and with the acceptance of the TRIPs agreement, Vietnam has taken steps towards the implementation of WTO principles. Most notably, a new IP law has been in force since 1 June 2006. With a few shortcomings, the law is basically up to international standards but its enforcement is still very poor.

b) Opportunities

For foreign companies, trade practices on the Vietnamese pharmaceutical market are among the most restrictive and bureaucratic in the region. Nevertheless, there is still market potential as the demand for high quality and new drugs cannot be fulfilled by the local industry. With the right partner, there is certainly significant potential in the private market. In the medium to long term, market potential is expected to improve as the country's population as well as its per capita GDP increase. It is important, though, that the Government is considering a cap to the budgetary expenditures on pharmaceuticals. In the absence of a financing system based on social security contributions, this would mean a slower growth rate in the pharmaceutical market.

On the production side, we can expect local manufacturing to increase for the years to come at a rate of 5 to 10% per year, although the lack of chemical industry may hamper the development of local production. Locally manufactured drugs are strongly encouraged by the central government and are sold at really low competitive prices (in comparison with imported ones). However, due to the high ratio of import raw materials, they are greatly exposed to worldwide market prices and to the strength of the local currency.

On the import side, the trend is difficult to evaluate. Recently the Indian and South-Korean manufacturers have gained a considerable market share and the trend is likely to continue in the future. There is also a significant shift from finished goods to raw materials, for which the demand is growing rapidly.

More investments, mostly from domestic manufacturers, are likely in this area in the medium term, with imported goods facing a tougher challenge. Looking for technology transfer, local companies and investors are also interested in various ways of co-operation.

c) Recommendations

Market trends

Since the OTC products and antibiotics have gained a considerable share of the market (about 2/3), it is generally the main potential target area for increasing sales. On the other hand, there are a few niche market categories with exceptionally fast growth rates (see earlier in the Market analysis of point 1).

Exports to Vietnam

Exporters must thoroughly analyze the prospects until 2009 when, finally, they may establish 100% foreign-invested subsidiaries in Vietnam with direct import rights. Until then, they can only rely on representative offices whose scope of activity is very limited. Currently, in the drafting phase of the relevant ministerial regulation, even the continuation of the marketing activities of the representative offices is at risk. It should also be noted that even after 2009 Vietnam will still maintain restrictions as regards the exclusive distribution rights of domestic companies.

Investment opportunities

For foreign manufacturers the establishment of joint ventures may be a viable solution for overcoming the disadvantageous discrimination of imported drugs and also for protecting themselves against the widespread copy products. According to Vietnam's WTO commitments, 100% foreign-owned manufacturing plants may also be established; however, the distribution will still be subject to restrictions for foreign participation.

2.8. ALCOHOLIC BERVERAGES

a) Overview

Vietnam remains one of the most important emerging markets in the world as regards to the sale of alcoholic beverages. The combination of a low, yet steadily growing GDP per capita – some USD 720 in 2006 compared to USD 640 in 2005 – , 2nd highest world economic growth (8% in 2006) coupled with increasing tourism, a large expatriate community and a strong tradition of alcohol consumption makes Vietnam a very attractive market for importers and investors alike. More importantly, for European companies, the country is witnessing a gradual migration of the consumption habits, in parallel with the increase in purchasing power from locally produced beer, rice and herbal liquors (locally known as wines) to imported wines and spirits originating mainly from the EU. It should be noted that according to Eurostat figures combined EU exports of wines and spirits into Vietnam totalled € 3,346.750 million in 2006.

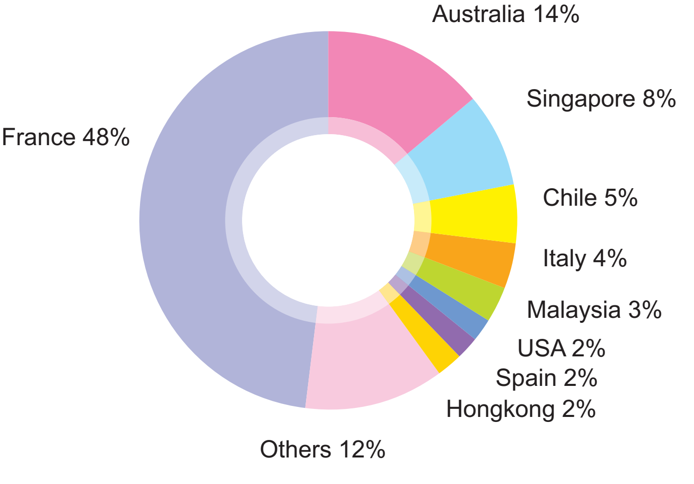
Beer

According to the Vietnam's Ministry of Industry, local production of beer in 2006 reached 1,547 million litres. Therefore, local production remains substantially the same as in 2005 (1.5 billion litres) and thus falls short of earlier growth forecast of around 8% per year. It is reported sales in the country totalled 15.2 million hectolitres and is expected to reach 28.1million hectolitres in 2015 making it the third largest in Asia after China and Japan. Each person drinks around 13 litres per year and this is expected to rise to 16 litres in 2010 and 25 litres in 2020. Vietnam's consumption still remains low compared to China's 22 litres, Denmark's 85 litres and Germany's 121 litres per person annually.

Wine

Wine sales in Vietnam are dominated by imported products. A dozen local companies produce approximately 10 million litres per year of low quality wine, which sells at an average of around USD 2 and covers the basic demand for local consumers. Due to the increasing sophistication of Vietnamese consumers along with higher purchasing power more expensive wines are now available in the market and according to retailers this is a strong growth rate area.

Wine Exports to Vietnam 2006



Imports of wine from third countries, according to GTA (Global Trade Atlas) figures totalled USD 16,909,332 million thus registering a growth increase of 13%. France remains the top player holding a 47% of the market share (48% in 2006) followed by Australian and others.

Some of the countries that have registered remarkable increases in sales include Australia (up by 51 %), Chile (up by 84%) and Spain (up by 62%). Other countries such as Hungary, Germany, South Africa, Argentina and Portugal have also registered notable growth in sales. The USA, Bulgaria and Italy have slightly diminished their exports into Vietnam. Yet, these figures should be taken with caution: Malaysia, Singapore and Hong-Kong still figure prominently as big importers, whereas in reality, they are channelling imports from third countries. Furthermore, the reliability of the value figures may be undermined by common practices of undervaluation.

Spirits

According to the industry sources, the total spirits market in Vietnam is estimated north of 1600000 cases of 9 litres (nearly 16 million litres). Imported spirits account for approximately 400.000 cases have grown steadily by 50% since the beginning of the decade.

However, Vietnam has been operating a draconian regulatory regime in this area which combines higher-than-average tariff rates for alcoholic beverages (65%) with a Special Consumption Tax (SCT) of 65% (to the CIF price+65% tariff rate) and a general VAT type and other taxes up to 27%. In practice, this system results in a 200% increase over CIF price to the majority of imported spirits sold in Vietnam, which most are of European origin. This has encouraged a vast trend of parallel trading and smuggling from neighbouring countries completely beyond the control of legitimate importers and renders any customs data largely meaningless.

b) Opportunities

Beer

Foreign companies currently present either as a 100% FIE or JV are Tiger (SG), Carlsberg (DK), Heineken (NL), San Miguel (PH) and Fosters (AUS). Yet, foreign presence in Vietnam is set to expand. It has been reported that major beer companies such as the State Company HABECO will soon privatized (probably partly floated, partly leaving 10% stake for a strategic investor) offering European companies interesting opportunities in a very lucrative market. In addition, Asia Pacific Breweries has also reportedly announced a USD 39 million investment in its JV with SABECO and the launching of Coors Light in Vietnam. SABMiller also recently signed a JV with Vinamilk to develop a brewery in Bihn Duong province in the course of 2007. Steady growing consumption and increasing purchasing power and the upcoming equitization of state owned local producers will provide ample opportunities for both investment and imports from Europe.

Wine and Spirits

Soil and climate conditions make it difficult to produce good quality wine in Vietnam. Therefore, the window for foreign investment remains small. Contrary to wines, local production of spirits exists using practices that do not meet international standards (i.e. definitions of whiskey, vodka, etc). Hence, some opportunities for local investment remain untapped.

For the reasons mentioned above, growth is likely to continue an upward trend particularly in light of the fact that the potential for wine and spirit imports and sales still remains largely to be exploited.

c) Recommendations

The problems encountered by foreign players in Vietnam in the alcoholic beverages sector are: (i) excessive and discriminatory tariff/taxation, (ii) counterfeiting, and (iii) distribution rights.

However, it should be noted that some difficulties still remain as regards to customs procedures, advertising, protection of geographical indications (e.g. Champagne, Bordeaux, Scotch and Cognac) and patterns of consumption (e.g. limitation of types of drinks that may be consumed in premises).

Excessive and discriminatory tariff/taxation

The existing tariff of 65% is far too high even if reduced to 45% within 6 years of Vietnam's accession to the WTO is way out of line of countries with a similar economic growth rates.

The extra SCT of 65% for spirits above 40° vol (i.e. the majority of EU imported spirits) is blatantly discriminatory vis-à-vis the reduced 30% tax applicable to alcohols below 39° vol, which are normally locally produced spirits. Vietnam has committed to eliminate this discrimination in the next 3 years but should accelerate this process and resist temptations to reproduce the existing discrimination by, for example, establishing an ad valorem system that could potentially de facto discriminate against higher value EU products. Health concerns are better addressed by a single rate system per volume of alcohol, no matter its origin.

In any event, the combined application of all tariff and taxes (which today results in a 200% taxation over CIF price in the case of spirits) continues to give a huge incentive to parallel traders and smugglers as well of customs under valuation, which is common. Vietnam should consider the possibility to remove this incentive by reducing both tariff and taxes in this area as a way to increase tax revenue. For example, China reduced the import tariff from 65% in 2000 to 10% in 2005, while increasing the Special Consumption tax from 10% to 25% in the same period and retaining a stable VAT type of 17% throughout this period. This model has resulted in an increase of revenue collection in China, for example, from USD 22 to 92 million for Cognac and from USD 8 to 59 million in the case of whisky over the same 5 year time span. The WTO-demanded removal of the existing discriminatory taxation is a unique opportunity to overhaul the existing system to the benefit of the Vietnamese budget and economy.

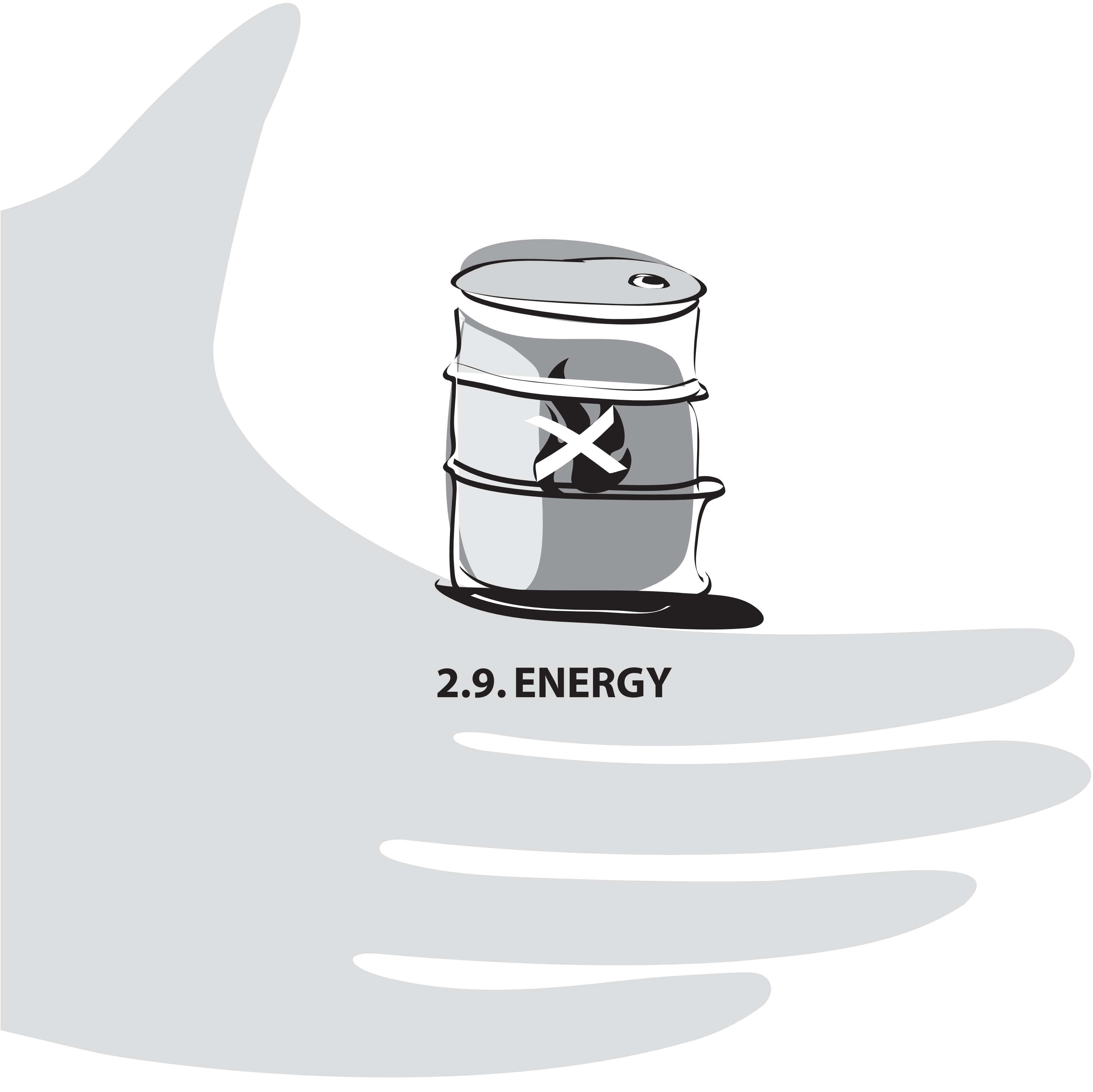
Counterfeiting

Furthermore, removal of the above system would considerably debase counterfeiters from opportunities to inject in the Vietnamese market bottles of fake European spirit and wine brands. According to industry, it is estimated that between 20 and 30% of all branded spirits sold in Vietnam are fake. Not one month passes without Vietnamese newspapers reporting on alcohol intoxications due to fake alcohol. Removal of such a cumbersome regime would certainly contribute to bring to the surface trade on alcoholic drinks that, regrettably, largely remains underground.

Distribution rights

Vietnam’s accession to the WTO purports that the distribution of alcoholic beverages will only be open to national and companies of WTO Members as of 2010. The rationale of this remains largely obscure and not fully justifiable.

In addition, full liberalization of import rights of alcoholic beverages as of the entry of Vietnam in the WTO is poised to cause difficulties as long as those trading rights are not clearly defined (i.e. to whom the importer can sell).



2.9. ENERGY

a) Overview

The energy sector remains dominated by public ownership; however market forces have been brought to bear in recent years and private sector participation is expanding. Since 1995, energy sector operations have been organised into three general companies, which are among the largest firms in Vietnam; PetroVietnam, Vinacomin (former Vinacoal) and Electricity of Vietnam (EVN).

The Ministry of Industry, the line ministry responsible for the energy sector, has the task of supervising the state-owned companies and of developing policies. To ensure the supply of energy meets the rise in consumption, as well as the transition to market economy principles, the ministry has recently formulated a National Energy Policy for Vietnam for the period from 2006 to 2015. The policy emphasises the need to diversify the country's energy mix whilst maximising the use of local energy reserves.

Vietnam is endowed with abundant energy resources, notably petroleum, coal, and hydropower. It has been a net energy exporter since 1990. Output in the three sectors has been growing strongly, at the rate of 133%, 97% and 83% respectively in the decade to 2004[1].

Vietnam's energy consumption has been growing rapidly, in line with the country's industrialisation and integration into the global economy. Primary energy consumption, excluding biomass, grew at an annual rate of 10.6% in the 2000-2005 period. Despite the fast growth, a large part of the rural population still relies heavily on non-commercial biomass energy sources, which still accounts for almost half of total energy consumption.

Rapid change is a result of Vietnam's socioeconomic development, which is expected to lead to an annual 4.4% growth in primary energy demand and of 15-16% in electricity consumption over the next two decades.

Coal

Coal is Vietnam's largest primary energy reserve, with exploitable resources estimated at 150m metric tons[2]. The bulk of this is anthracite concentrated in the northern part of the country (especially Quang Ninh province). The coal industry is controlled by the state-run Vinacomin (former Vinacoal); private companies and foreign investment enterprises can obtain leases for up to two years to mine coal reserves, which are renewable if they meet agreed performance targets. Production has increased significantly, more than doubling in the last five years, from 15.9m tons in 1995 to 38.9m tons. This strong growth trend is expected to continue, as a result of modernised coal mining methods and significant investment on the part of Vinacomin.

Coal exports, mainly destined for Japan (steel sector) and China (power production; paper and cement industry), have soared from 5.9m tons in 2002 to 29.8m in 2006, worth USD 927m. By 2010, Vinacomin plans to build eight coal-fuelled thermal power plants. In the future coal-fired power plants are expected to account for up to 25% of Vietnam's total electricity production.

Oil

Vietnam has some 82m tons (600m barrels) of proven recoverable oil reserves, which are mainly located offshore in the South of the country. As exploration continues, the total is likely to increase; discovered reserves of oil stand at 430m tons. Exploration of oil and gas in Vietnam has been carried out since 1959, but large-scale exploitation took off only in the late 1990s, when Vietsovpetro, a joint venture between PetroVietnam and the Russian firm Zarubezhneft started production, i.a. at the country's largest oil field Bach Ho. Today, Vietnam is Southeast Asia's third-largest petroleum producer.

1. *Note on statistics: Figures in this note come from various public sources; where possible official Vietnamese statistics have been used and statistics cross-checked against other sources including i.a. US DOE and IAE data.*
2. *Estimates for total reserves range from 3.5-20bn t.*

Production peaked at 20m tons in 2004, and shrank to 17m tons in 2006, a level of output Vietnam hopes to maintain for the next five years as new volumes replace flows from mature fields such as Bach Ho. It aims to encourage further exploration and production in both untested and existing off-shore basins, with a target of six to 12 new blocks to be awarded by 2010.

Crude oil is Vietnam's leading export item, representing over a fifth of all export earnings in recent years. At the present time, almost all crude oil is exported (16.6 of 17m tons in 2006, netting USD 8.3bn) since Vietnam lacks refining capacity, mainly to refiners in Japan, Singapore, and South Korea. Domestic demand in petroleum products is met by imports, worth USD 5.8bn in 2005, for a volume of 11m tons.

The government hopes to have at least three major refineries operational by 2020, processing a combined 400,000 bl/d. These include the long-awaited refinery at Dung Quat in central Vietnam, which should start up in 2009, processing around 140,000 bl/d of predominantly local crude.

Given a rapidly growing demand and the maturity of some of its best-producing oil fields and despite efforts to bring new fields on-stream, Vietnam is likely to become a net oil importer in the next 10-15 years, a situation of some concern to the government. This has prompted the country to invest increasingly in oil exploration and exploitation abroad. Vietnam pumped its first barrels of crude oil from an overseas well in 2006 (Malaysia's Cendor field, in which Petro Vietnam holds a 30% stake), and has also invested further afield, in projects in Indonesia, Algeria, Iraq and Mongolia.

Gas

With international estimates of proven reserves[3] ranging from 192bn m^3 to 235bn m^3, Vietnam has significant offshore natural gas resources, and it is believed that exploration will reveal more. Natural gas production and consumption have been rising rapidly – from a low level – since the late 1990s and are expected to increase further in the coming years.

Vietnam's first gas pipeline went into operation only in 1995, bringing associated gas ashore from the Bach Ho oil field. Since then, production has soared from 700m m^3 to 7.5bn m^3 in 2005. So far, only two fields have been developed principally for their natural gas potential, but other fields are likely to develop in the foreseeable future, which the government hopes will raise total production to over 10bn m^3 by 2010 – not least through strategic cooperation between Petro Vietnam and Gazprom, for which a deal was signed in the margins of Russian President Putin's visit to Vietnam in November 2006. In addition there are several other pipeline construction projects under way.

New and renewable energies

80% of the rural population still relies on non-commercial biomass, such as wood and rice husks, as an important fuel source for cooking and other purposes. However, there is no significant commercial production from other renewable energy sources – geothermal, solar, wind, tidal, wood and waste – so far, but some potential for future development. Low temperatures beneath Vietnam mean geothermal energy may generate only 200-400MW by 2020. Wind power may reach 400MW, but Vietnam still lacks appropriate policies for wind energy, according to an EC-ASEAN feasibility study for wind energy in Vietnam, Philippines and Cambodia. Solar energy remains costly in Vietnam, and is best-suited for use in rural and remote areas. Renewable energy sources are still largely untapped in Vietnam, but will play an increasingly important role in the Government's energy policies within the next few years; a specific national renewables strategy is to be completed in 2007.

3. *The latest Vietnamese estimate of total reserves is 680m m^3, of which 590m in non-associated gas.*

Nuclear

Exploration for uranium has been undertaken, and uranium ore found in the northern and central regions of Vietnam. These uranium deposits could hold up to 210,000 tons of U3O8, with a low average uranium oxide content of 0.06%. Proven recoverable reserves are only 1,337 tons[4]. No production of uranium has so far been achieved.

Vietnam has operated a nuclear research reactor in Dalat since the 1960s, but there is no commercial nuclear power production in Vietnam. The Vietnamese Government announced in May 2006 that it plans to construct a 2,000 MW light water reactor in central Ninh Thuan province, which according to official indications could go into service as early as 2017 and provide 11% of the national power production by 2025. A number of third countries, including Russia, South Korea, Japan, Canada, France and Germany, and their companies, have already expressed interest in cooperation with Vietnam is this area, with the hope of selling their nuclear technologies to the country[5]. A main bottleneck on the country's way to commercial nuclear power is the shortage of relevant specialists; some training is currently being by Japan.

Electricity

Vietnam's total installed generating capacity is 11,300 MW at present, and it produced almost 59 TWh in 2006, an increase of over 50% over 2003. Electricity demand is expected to continue rising by 15-16% annually over the next two decades.

To ease power shortages in the north, Vietnam in 2004 started purchasing electricity from China, over 1 TWh in 2006, transported through 110kV lines linking the country to China's Yunnan and Guangxi provinces. Vietnam also plans to start buying power from Laos in 2008, where it has already invested USD 273m in a 250 MW hydropower plant, and is conducting feasibility studies for other hydro projects.

To boost its own capacity, Vietnam is constructing a series of new plants, ranging from the giant Son La hydro project and a number of other hydro plants in the Central Highlands, some large-scale coal-fired plants in the North and the Centre, and additional gas-fired plants in the South. In total, over 11,000 MW in additional capacity are planned to come on-stream by 2010.

In view of the immense investment needs in the sector, the mobilisation of the necessary finance is not a trivial matter. To develop its planned new power generation projects, as well as some 4,000 km of 500kV transmission lines along with 100,000 km of lower-voltage distribution lines, an investment of at least USD 20bn will be needed by 2010. The role of the private sector is seen as increasingly central to achieving this aim, and the government has decided to open the electric power generation to investment from other domestic investors other than the erstwhile monopoly EVN, as well as to foreign players, under various forms, including independent power producers (IPP), Build-Operate-Transfer (BOT) projects, and joint ventures. Moreover, the government has planned to liberalise the electricity transmission and distribution sectors partially between 2009 -2015 and totally by 2020.

Investment

It is estimated that a total of USD 3.7 billion ODA support has been allocated to the power sector from 1996 to 2003. The World Bank estimates that donor support is likely to be divided by two for the period 2004-2010, which means that the power sector will receive an average ODA of around USD 300 million per year. The main donors in the energy sector in Vietnam are the Japan Bank for International Cooperation (JBIC), the World Bank and the Asian Development Bank (ADB).

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4. RAR recoverable at up to USD 130/kgU (kgU = kilogram of uranium)
5. Vietnam i.a. signed a nuclear cooperation agreement with France in 2004.

JBIC has been the leading ODA loan donor to the energy sector in Vietnam. Since 1993, it has committed around USD 3 billion (i.e. 33.7% of its ODA budget in Vietnam) to the energy sector. The World Bank and ADB have supported Vietnam's energy sector with around USD 35 billion and USD 400 million respectively in loans.

The sector has been supported by the EC through the EC-ASEAN Cogen and the EC-ASEAN Energy Facility programmes. Under these programmes, 21 projects have been funded involving Vietnam for a total amount of 3 million. France and Sweden rank among the major EU donors in the energy sector in Vietnam. Sida began supporting the energy sector in the 1980s. Other EU Member States providing assistance to€he energy sector in Vietnam include Belgium and the Netherlands.

b) Opportunities – market access opportunities for foreign players

In view of the very substantial investments needs, which Vietnam cannot easily meet on its own, and of the requirement for state-of-the-art technologies, the modernisation of Vietnam's energy sector will necessitate an increased involvement of foreign players.

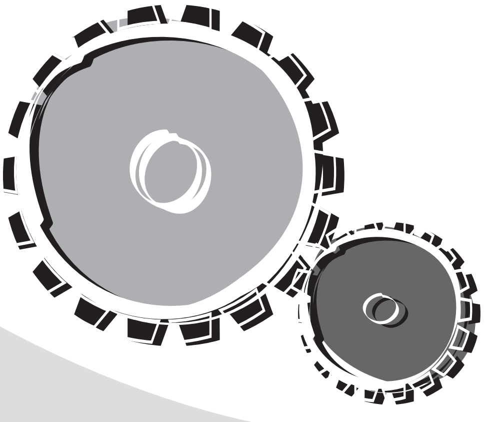
Foreign commercial actors, including EU firms, are already active in various parts of the energy sector. The EDF Group, for example, holds a majority share in the 715 MW Phu My 2.2. Siemens has been present since 1979, involved in the first foreign-invested BOT power project to construct 720MW Phu My 3 plant. BP arrived in Vietnam in 1989 and teamed up with PetroVietnam and Statoil in a joint venture to develop the Nam Con Son Basin, which is still the largest energy project in Vietnam to date. Shell, the biggest petroleum conglomerate in the world, returned to Vietnam in 1987. Total and Technip from France and Spain's Tecnicas Reunidas as well as Stone and Webster from the UK are also involved in the energy sector.

Enhanced market access under Vietnam's WTO accession terms will facilitate foreign participation in the sector in the medium term. Vietnam will guarantee that foreign energy service firms can compete for energy services projects associated with oil and gas exploration and development, management consulting, technical testing and analysis, and repair and maintenance of equipment, among others - market openings available only partly in the past, and on a discretionary basis.

Upon accession, foreign energy services companies can operate as JVs with a Vietnamese partner for a period of three to five years, depending on the type of service. Thereafter, they will be able to operate as 100-percent foreign-owned enterprises.

EU operators are well-placed to benefit from increased market access not least due to the foothold they already have in the sector. However, remaining problems which need to be addressed include, as far as investment in new infrastructure is concerned, the lack of a clear regulatory framework for JVs and ensuring that local partners are creditworthy and do not incur in conflicts of interest within a transparent context. Furthermore, government should be more active in providing assurances to lenders in order to facilitate international funding, on the extension of lender's step-in-right to non-BOT projects, Vietnamese counterpart (primarily state-owned) performance, legal stability, foreign exchange convertibility and assistance in removing administrative hurdles.

In addition, the ongoing equitisation process, including the long-heralded restructuring of at least 13 of EVN's main generating facilities (followed by others) into independent power generation units, and the gradual equitisation of distribution companies, remains rather opaque and limits the possibility of foreign ownership to small fractions of the equity.



2.10. MACHINERY

a) Overview

In 2006, total industrial production output volume amounted to VND 490,318 trillion, which is an increase of 17% compared with the previous year. Almost 31 % of the industrial production output was generated by state run companies, 30% of the private local sector and 38% by foreign invested companies. Total industrial export turnover surpassed USD 30 billion and increased by 22.4% compared to 2005. A major contributor to overall industrial growth was due to the machinery and tools sector reaching some important milestones in 2006 due to Vietnam building for the first time a hydropower plant abroad (in Laos) and building its own oil tanker (13,500 MT).

Vietnamese domestic production of machinery has effectively doubled during the last 5 years and reached an output volume of almost VND 75,000 billion by 2004. This growth has surpassed the overall growth of Vietnamese industrial volume which increased by about 79% in the same period of time.

In the last few decades, machinery and equipment were imported to Vietnam mainly as completed products. In case of new investment, projects were exclusively tendered for by international companies, mostly by using EPC contracts. During the last decade, the local mechanical engineering sector has developed considerably they still mainly sub-supplying components and parts to foreign contractors. Up until 2001, Vietnamese manufacturers were merely able to produce non-standard items. In the meantime, however, various local companies were able to design and produce parts as well as complete equipment solutions for shipbuilding and large scale engineering projects such as power and cement plants, sugar factories, paper mills, fertilizer plants, food processing lines and others. The capabilities of Vietnamese companies have already been demonstrated by the assignment of EPC contracts for the Uong Bi thermal power plant (300 MW), the Hoang Thach 2 cement plant (output: 1.4 mio T/year) and by supply contracts for equipment for the Dung Quat refinery (output: 6 mio T/year). Significant parts of the machinery used for the projects mentioned were manufactured by LILAMA, COMA, VEAM, VICC, IMI and others.

Chart 1: Vietnam's local machinery production

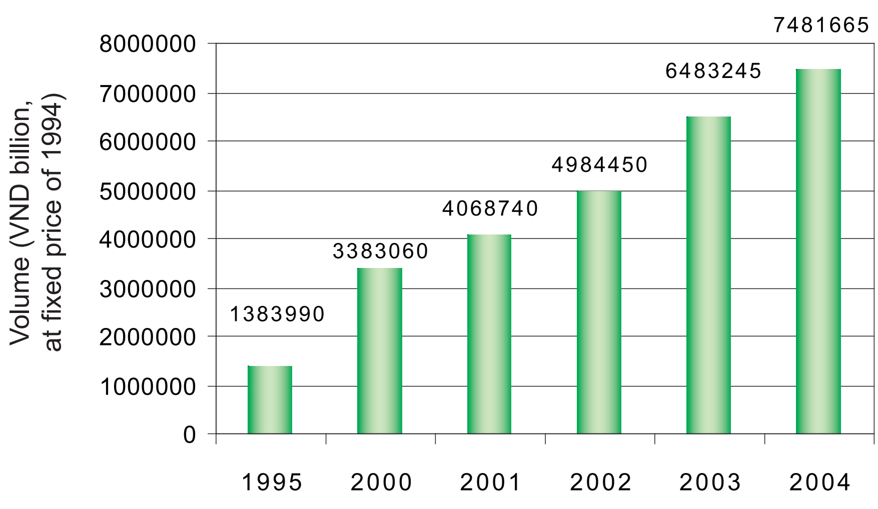
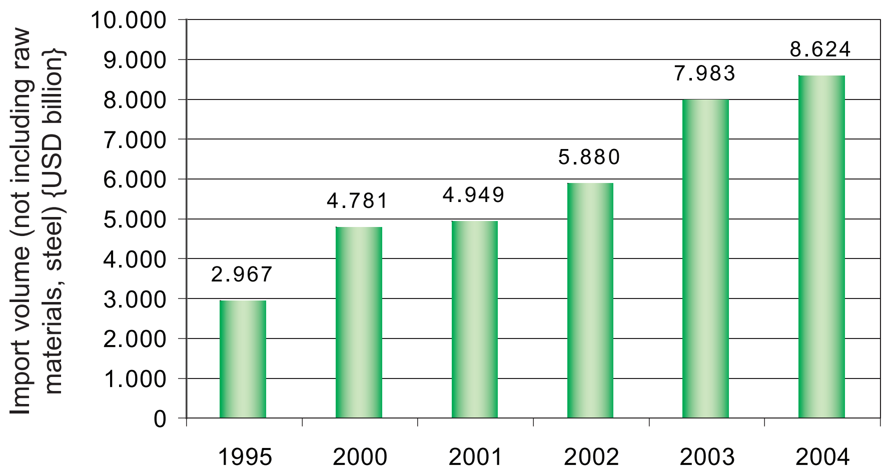


Chart 2: Vietnam's local machinery import



Source for chart 1 and 2: Ministry of Industry

Currently, the Ministry of Industry is actively carrying out numerous master plans for the development of almost every type of industry, including dairy, porcelain & ceramic, automobile, vegetable oil, tobacco, plastic, coal, alcohol-brewery-beverages, steel, power, paper, garment & textile until 2010. The machinery and tools sector is not directly covered by a distinctive masterplan of its own but will be affected by almost every sector since it is directly linked to the respective industries.

However, in order to better fulfill of its function in the management of the country's industry and the development of the mechanical key products, the Ministry of Industry has formed a Steering Committee. This committee includes several representatives of the Ministry as well as representatives of big corporations in the field including LILAMA, VEAM, MIE, COMA, VINASHIN, IMI, VEC and VINAMOTOR.

To facilitate management, the mechanical key products were divided into different groups as listed below. Each of these product groups is chaired by one of the members of the Steering Committee.

- Machine tools
- Complete equipment
- Equipment for hydropower plants
- Electrotechnics
- Mechanical engineering in the construction industry
- Shipbuilding
- Car and means of transportation
- Engines and machinery for agriculture

Furthermore, the Ministry of Industry is currently executing 5 strategy plans for the chemical, power, mechanical, automobile and textile and garment sectors, which are all in line with the Strategy for the Socio-Economic Development 2001-2010 and the Socio-Economic Plans for the periods 2001-2005 and 2006-2010.

As a part of these efforts, the government aims to further develop the industry within three groups:

(i) The sectors which have competitive advantages, including processing industry for agricultural products, textile and garment, footwear, electric and eletronic, shipbuilding.
(ii) Vital or security sensitive industries such as power, oil and gas, chemicals and fertilizers, mining, mechanical engineering.
(iii) Industries which are endowed with export potential and value added like software, pharmaceutical, detergents, cosmetics and others.

The primary target of the development policy is to gradually increase the manufacturing ability of local companies. Local companies are thus given preference over foreign suppliers in certain projects. Examples of the application of this strategy are obligatory local content regulations for the car assembly industry or a priority for local companies to supply mechanical parts for hydropower plants.

b) Recommendations

Several European companies already have close cooperation with Vietnamese partners; more and more companies are considering Vietnam as an alternative to China. The potential for a mutually fruitful partnership is therefore promising.

Vietnamese companies are generally lacking know-how, technology and capital - factors which are abundant in internationally active European companies. On the other hand, European labour costs are relatively high and thus uncompetitive in a global context. The cost structure of Vietnamese companies is highly attractive, even compared with China. However, Vietnam is reputed to offer – in general - better quality as well as work ethics and a better protection of intellectual property issues.

A teaming up of European and Vietnamese partners is thus highly recommended, giving Vietnamese companies access to Western know-how and simultaneously European companies a reliable and cost efficient production base in Asia.

2.11. FINANCIAL SERVICES

a) Overview

The Banking and Financial services sector is controlled by the State and supervised closely by the State Bank of Vietnam (banking services), Ministry of Finance (insurance services), and the State Securities Commission (stock exchange and securities). Foreign businesses in the sector that have adopted a long-term approach have managed to develop a profitable business. Whilst this sector is not fully developed there is potential for suppliers to make sales. Vietnam looks carefully at cost but is not put off by a high price if the quality is what they require. A significant amount of aid money is being spent on developing/reforming Vietnam's banking and finance sector. Consultancy companies with a good track record in this sector will be well positioned to win such business.

1) Banking Sector

In 1990, Vietnam adopted the Ordinance on the State Bank and the Ordinance on Banking, Credit Co-operatives and Financial Institutions in order to create a legal framework for the banking system. Since then the banking system in Vietnam has made considerable progress. The re-organisation of the banking system in May 1990 has strengthened the role of the State Bank of Vietnam (ie. regulatory body in charge of development policies, licensing) and thus transferred the credit function to 5 state-owned commercial banks (SOCB). They are; Vietnam Bank for Agriculture and Rural Development (VBARD), the Vietnam Bank for Investment and Development (BIDV), the Bank for Foreign Trade of Vietnam (VietcomBank), the Vietnam Industrial and Commercial Bank (VietincomBank) and the Mekong Housing Bank. In 2002, the government of Vietnam decided to establish the Bank of Social Policies whose primary functions are to provide concessional credit and subsidised funding to create job for the poor (i.e. not for profit purposes).

Since 1990, the banking sector in Vietnam has become a diversified and multi-sectoral industry. Vietnam currently has three types of financial institutions: commercial banks, credit co-operatives and financial companies.

To date there are 35 foreign bank branches, five joint venture banks, three foreign invested leasing companies including joint ventures and 100% foreign invested ones, 44 representative offices of foreign credit institutions in Vietnam.

Vietnam's banking reform roadmap, prepared by SBV, was recently endorsed by the Politburo. SBV will now issue a decision to put the strategy into effect. The reform entails fundamentally re-writing the law on credit institutions and the law on the SBV. These laws will be approved in 2007 and effective from 2008 and will be designed to transform the SBV into a modem and independent central bank charged with executing monetary policy and supervising the banking system. The supervision functions of the SBV will be separated from its management functions in relation to SOCBs and the operation of SOCBs on a commercial basis will be ensured. The laws will also be in compliance with the WTO commitments.

The organisational and financial restructuring of the SOCBs is to support their commercial orientation and is expected to happen alongside their equitisation, which is expected to be completed by 2010. Two SOCBs must be equitised this year through Initial Public Offering (IPO) are VietcomBank and the Cuu Long (Mekong) Delta Housing Bank. Once the equitisation is completed the state's shareholding in those SOCBs will be 51% in 2010.

The 1st of April 2007 was an important date for the banking sector of Vietnam to show its ability to comply with WTO commitments. From this date, Vietnam started allowing foreign bank to locally incorporate on the condition that there must be an agreement between the State Bank of Vietnam

and the financial services supervision authority of the foreign banks home countries. So far, the State Bank of Vietnam has signed such an agreement with South Korea, Taiwan and Russia.
Following the successful acquisition of shares in local joint stock banks by Hong Kong & Shanghai Banking Corporation (HSBC), Standard Chartered Bank, Australia and New Zealand Banking Group Ltd. (ANZ) and few other foreign banks have formed partnerships with other joint stock banks in order to have a greater participation in Vietnam's financial sector.

Asia Commercial Bank – one of the established joint stock bank – was first listed in the Ho Chi Minh City Securities Trading Centre in 2006. That was a bold move, which helped the bank to raise equity when required at a faster, easier and at a cheaper rate.

Other newly established joint stock banks (Global Bank, An Binh Bank, Saigon Hanoi Bank) were able to expand their market share by signing strategic alliance agreements with Vietnam's big state owned corporations such as Petro Vietnam, Electricity of Vietnam, Vietnam Rubber Corporation respectively. This also helps banks raise funding when required.

Foreign Exchange Management Reserves

The State Bank of Vietnam has decided to make greater use of Euro in reserves in proportion to its trade volume with European member states.

2) Stock Market

Vietnam Stock Exchange

The Government has developed its equitisation plan since 1992. State Securities Commission (SSC) headquarters is located in Hanoi and has a representative office in Ho Chi Minh City. Ho Chi Minh City Securities Trading Centre (HoSTC), the first ever exchange of Vietnam, was officially inaugurated in 2000.

The Securities Trading Centres are also the official mechanism through which new government bonds are issued and their functions as the secondary market for a number of existing bond issues. All securities traded on the Securities Trading Centres are denominated in Vietnamese Dong.

The SSC, a body established formally in 1996, is responsible for capital markets development, licensing of participants and the issue and enforcement of regulations. A wide range of regulations with significant input from multilateral bodies such as the International Finance Corporation have been promulgated including those dealing with such issues as insider trading, take-over trigger points and margin lending. In order to be listed, a company must have been profitable for at least two years, have a minimum capitalisation of approx USD 310,000, and have at least 50 shareholders who are not employees of the company holding at least 20% of stake. Foreign invested joint venture companies are technically qualified to list, but in order to do so they must be reorganised into joint stock company status.

There have been four foreign banks licensed to accept custody of securities. They are HSBC's and Deutsche Bank's Ho Chi Minh City branches, Standard Chartered Bank and CitiGroup. Custody is based on a central depository and a central registry book entry system.

Stock Market

Up to 31 December 2006 there were 193 companies listed/traded in two securities trading centres, total market capitalisation reached VND 221,156 billion (or USD 14 billion) and accounted for 22,7% of 2006 GDP (an increase of 20% as compared to end of 2005). This robust growth was a result of strong increase in the number of stocks being traded, the increase in the number and the size of companies being listed (from 41 by the end of 2005 to 193 by the end of 2006) and the increase in the stock price at an average of 2.5%.

Bond market

During the year, there have been auctions of almost 400 types of Government bonds, municipal bonds and bank bonds with a total amount of over VND 70,000 billion (USD 4.375 billion), representing 7.7% of 2006 GDP. All bonds are now being auctioned at the Hanoi Securities Trading Centre (HaSTC).

Investment Fund

The growth of the market has attracted the flow of foreign investment funds. By the end of 2006, there have been 23 Investment Funds with the total capital of USD 2.3 billion and about 50 investment companies have opened accounts with the stock exchanges.

Intermediaries

During 2006, the SSC licensed 41 securities trading companies, 12 investment funds, three securities investment companies. By the end of 2006, there were 55 securities trading companies (three are registered to trade in HaSTC) and 18 investment funds.

3) Insurance

On 9 December 2000, the National Assembly passed the Law on Insurance Business. This law, which was drafted with the help of the European Commission's Eurotap programme is the main law regulating the industry and aims to regulate the obligations and rights of organisations and individuals. The previous Decree (18 December 1993) had become outdated because of the rapid development of the industry.

Although the insurance industry has developed strongly in recent years growing at a rate of 28-29%, insurance premiums are still only a modest 1.5-2.0% of GDP. A number of reforms announced recently by the Ministry of Finance (MoF) along with the rising pressure of integration are expected to spur insurance firms into seeking a greater share of the domestic market. The MoF has decided to increase the chartered capital of the Vietnam Insurance Corporation (Bao Viet) - a state-owned organisation who used to hold a monopoly on the insurance market to VND 3,000 billion (USD 200 million). The Prime Minister Decision 310 in 2005 which approved the equitisation of Bao Viet – currently the dominant player in the insurance market with around 40% market share - is believed to pave a way for a more level playing field in the insurance sector.

There are currently 27 insurance enterprises operating in Vietnam of which two are state owned enterprises, 10 joint stocks and 15 foreign invested ones. In addition, there are 30 representative offices of foreign insurance firms.

After 10 years implementing open policy, enhancing international integration, attracting foreign investment in combination with promoting internal forces, Vietnam insurance market has achieved great progress both in quantity and quality. Average growth rate of insurance premium during 1993-2004 was about 30% annually. Ratio of insurance premium on GDP has increased from 0.37% in 1993 to 1.86% in 2004, and targeted to reach 4.2% in 2010.

Life insurance

In 2005 Vietnam's life insurance market stabilised after a period of rapid development, according to the Ministry of Finance (MoF). The total amount paid for life insurance premiums reached more than VND 8.18 trillion (around USD 512 million) in 2005, up only 12% over 2004, much lower than the 50-60% growth rates of 1998-2003. The stability was considered as a main factor that would help the Vietnamese life insurance market to be competitive during the process of international economic integration. The stability has also made the domestic life insurance market more attractive to foreign companies. The MoF has recently received applications for representative offices in Vietnam by Cathay Life (Taiwan), Eastern Life (Singapore) and Ping An (China).

This fact, however, has placed competitive pressure on local life insurance companies. As a result many of them have changed from short-term to long-term investments purchasing government bonds and investing directly in projects to develop infrastructure facilities and production.

In 2005, the Manulife Vietnam Insurance Company invested USD 10 million in construction of an office building in the Phu My Hung urban centre in Ho Chi Minh City while Prudential Vietnam officially inaugurated its Prudential Plaza office block in Ho Chi Minh City.

Statistics show that domestic life insurance companies have risen to 49% of their total investment into government bonds and 44% into credit organisations. The MoF has co-ordinated with relevant agencies to take measures, including offering investment incentives and commercial loans, in order to facilitate insurance companies' investment activities.

4) Accountancy

The history of development of accounting in Vietnam correlates with the accounting practices of countries, which, over the years, have formed strong military, social or trade links with Vietnam. In the period 1960 – 1969 the Vietnamese accounting system was strongly influenced by China. During the period of 1969 - 1989 the former Soviet Union played a catalytic role and from 1989 to 1995 France and the United States of America had some influence.

However, a move to gradually align to the International Accounting Standards (IAS) by the Ministry of Finance commenced from early 1990s. The complete set of Vietnamese Accounting Standards (VAS) was issued by end of 2003. VASs were based on IAS's, knowledge of regional standards, experience of practising auditing services by Vietnamese auditors and Vietnam's prevailing legal provision and requirements.

5) Auditing

In response to the requirements of the economy in the process of moving to a market-based system and international integration, external auditing activities have come into existence and substantially developed in the later part of 1990s. With a view to establishing a legal framework for the establishment, development and management of external auditing activities, the State promulgated the Regulation on Independent Auditing in the National Economy, the Regulation on the Examination and Issuance of Audit Certificate plus the Regulation on Registration and Practising Audit Profession.

The top six global audit firms dominate accountancy in Vietnam. With the never ceasing work of ODA projects foreign accountants continue to maintain strong business results in Vietnam. Also their workload has increased significantly with the implementation of the Enterprise Law. This law has given many private sector Vietnamese companies the chance to become legitimate. Previously they had operated in a manner that was "tax efficient" by avoiding the attention of the authorities. Since the passing of the Enterprise Law the number of private Vietnamese companies continues to grow rapidly. Accountants are regularly advising well-established Vietnamese business on how to become a limited company especially after a number of years of operation.

b) Opportunities

The route for the development of the financial services sector in Vietnam seems well established. The role of foreign business and their scope for operation will probably dictate the pace of the expansion of this industry. The US-Vietnam bilateral trade agreement also covered a number of points relating to this sector. The Vietnamese authorities have made a commitment that all-European banks and companies will compete on a level playing field.

Whilst there is still some element of uncertainty within the Vietnamese Government as to how to take forward the financial services industry, especially in relation to foreign involvement, it now seems that the pendulum has swung more to the side of those who believe that a vibrant financial services sector is needed for the good of the Vietnamese economy and its overall development.

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