Doing Business in Vietnam: A Country Commercial Guide for U.S. Companies

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Chapter 1: Doing Business In Vietnam

Quick Facts Return to top

- WTO accession January 11, 2007
- Population: 83 Million - Half of which is under the age of thirty
- GDP 2005: $60 billion
- GDP Growth 2005: 8.2 %
- Time Required to Start a Business: 50 Days*
- Literacy Rate: ~90%*

*Source WorldBank.org

Market Overview Return to top

- Vietnam became a member of the WTO on January 11, 2007; vast changes are expected in Vietnam's economy that should provide excellent opportunities for American businesses.

- Vietnam's economic growth rate has been among the highest in the world in recent years, expanding annually at 7-8 percent, while industrial production has been growing at around 14-15 percent a year. GDP growth rate for 2006 was 8.2 percent.

- The entry into force of the U.S.-Vietnam Bilateral Trade Agreement (BTA) in 2001 transformed the bilateral commercial relationship between the United States and Vietnam and has greatly expanded business opportunities for American firms.

- Between 2000 and 2006, trade between the United States and Vietnam has increased from about $1.2 billion to around $10 billion at the end of 2006. In 2005, U.S. exports to Vietnam totaled $1.2 billion, while Vietnam's exports to the United States reached $6.6 billion.

- Vietnam was the host economy for the of the Asian Pacific Economic Cooperation (APEC) meetings in 2006. This is an illustration of Vietnam's ongoing and successful efforts to play a larger part in the world economy. Along with WTO accession, this event marked an important milestone for Vietnam.

- Implementing improvements through 2010 in market access for American firms committed to by Vietnam under the BTA, and 2006 WTO accession, will provide enhanced access for U.S. firms in all business sectors.

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- The evolving nature of regulatory regimes and commercial law, combined with overlapping jurisdiction among Government ministries, often result in a lack of transparency, uniformity and consistency in Government policies and decisions on commercial projects. Many firms operating in Vietnam, both foreign and domestic, find corruption and ineffective protection of intellectual property to be a significant challenge.

- Import tariffs remain high for many foreign products and certain Government regulations prevent foreign firms from distributing their own products, so that in many cases they must rely on Vietnamese distributors.

- Corruption within the Government has led to lack of transparency and has been a vast challenge for Governmental consistency.

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- Strong economic growth, ongoing reform and a large population of 834 million—half of which are under the age of thirty—have combined to create a dynamic and enticing commercial environment in Vietnam.

- While sales of equipment and technologies associated with implementation of major infrastructure projects continues to be a major source of commercial activity for U.S. firms in Vietnam, opportunities in the consumer and services sectors are beginning to emerge with continuing disposable income growth.

- Aviation, telecommunications, information technology, oil and gas exploration and power generation will likely continue to offer the most promising opportunities for U.S. companies over the next few years as infrastructure needs continue to expand with Vietnam's pursuit of rapid economic development.

Market Entry Strategy Return to top

- American companies interested in doing business in Vietnam may do so indirectly through the appointment of an agent or distributor. U.S. companies new to Vietnam should conduct sufficient due diligence on potential local agents/distributors to ensure they possess the requisite permits, facilities, manpower and capital. Firms seeking a direct presence in Vietnam should establish a commercial operation utilizing the following options: first, a representative office license; second, a branch license; or lastly, a foreign investment project license under Vietnam's revised Foreign Investment Law.

- In 2005, Vietnam's National Assembly passed a number of laws affecting the commercial environment, including new investment and intellectual property legislation. These were followed in 2006 by a significant new enterprise law. Effective implementation, including formulation and issuance of follow-on implementing regulations and decrees will be important in determining the impact of many of these legislative initiatives.

- American business should be aware that Vietnam's legal and regulatory environment is undergoing profound change. Ongoing efforts to implement WTO mandates and BTA commitments are providing an impulse for change in Government transparency, commercial law and trade liberalization. WTO membership will streamline economic changes, providing tangible advantages for U.S. businesses.

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Chapter 2: Political and Economic Environment

For background information on the political and economic environment of the country, please click on the link below to the U.S. Department of State Background Notes.

http://www.state.gov/r/pa/ei/bgn/4130.htm

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Chapter 3: Selling U.S. Products and Services

Using an Agent or Distributor

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According to Vietnamese regulations, unless a foreign company has an investment license permitting it to distribute its own goods in Vietnam, a company must appoint an authorized agent or distributor.

Agents: A Vietnamese agent imports and sells a foreign supplier's goods in Vietnam for commission. The risk of non-payment rests with the foreign supplier, and the foreign supplier typically performs the after sales service/support, as the agent is only selling the goods on behalf of the foreign firm. Vietnam's Commercial Code recognizes the right of foreign companies to appoint agents, provided that the Vietnamese agent's authorized scope of business includes such activity and the agent obtains an import-export code from the customs authorities.

Distributors: Under a distributorship arrangement, the question of legal protection and recourse is clear. The Vietnamese distributor buys the goods from the foreign supplier for resale in Vietnam and thus is liable for the full amount of the goods purchased. Unlike some agents, distributors normally provide after sales service/support. A distributorship arrangement is considered a "foreign trade contract" and must be structured in compliance with Vietnam's regulations on foreign trade contracts.

Legal and Practical Considerations: U.S. companies should conduct sufficient due diligence on potential local agents or distributors to ensure that they have the specific permits, facilities, manpower, capital, and other requirements necessary to meet their responsibilities. Commercial agreements should clearly document the rights and obligations of each party, and stipulate dispute resolution procedures. In most cases, payment by irrevocable confirmed letter of credit is recommended, although it should be noted that letters of credit issued by local banks may not be enforceable.

Going to court is generally not a recommended strategy to enforce agreements or seek redress for commercial problems in Vietnam. Foreign firms who have dealt with the court system in Vietnam report it to be slow and non-transparent. Similarly, although a framework for commercial arbitration exists in Vietnam, the process is not usually considered a viable option for foreign entities. When the need to consider such strategies arises, the advice of an international law firm operating in Vietnam should be sought.

Foreign-Invested Trading Companies in Vietnam: When seeking prospective agents or representatives in Vietnam, U.S. exporters may wish to consider not only Vietnamese firms, but also the representative offices of foreign trading companies operating in Vietnam. The latter, which include U.S. trading companies, often have distinct advantages in communication, experience in importing, expertise in product and package modification, and marketing capability.

Finding a Local Partner: While wholly owned foreign invested enterprises are becoming more numerous, the majority of foreign companies operating in Vietnam have chosen to partner with local firms. One way to locate Vietnamese partners is to contact and network through local chambers of commerce and industry associations. The major chamber of commerce for Vietnamese enterprises is the Vietnam Chamber of Commerce and Industry (VCCI), which is headquartered in Hanoi and has branches throughout Vietnam. VCCI members include state-owned enterprises (SOE's), joint-stock companies, and private firms in a variety of sectors. In Ho Chi Minh City, the Investment & Trade Promotion Center (ITPC) can also make introductions to prospective partners. Another channel for finding a local partner is through local industry associations, since most key industries in Vietnam have formed associations. A number of private consultant companies have also developed matching services. Additionally, an effective means for finding a local partner is to utilize the Gold Key Matching Service and/or International Partner Search of the offices of the U.S. Commercial Service in Hanoi and Ho Chi Minh City. Information on this service is available at http://www.buyusa.gov/vietnam/en/.

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In order to establish a commercial presence in Vietnam, a foreign firm must obtain one of the following three types of licenses:

Representative Office License: A representative office is generally easy to establish, but is the most restricted form of official presence in Vietnam. The license is issued by the Ministry of Trade (MOT) and allows for a narrow scope of activities, as stipulated in the "Regulations on Establishment and Operation of Representative Offices of Foreign Economic Organizations in Vietnam."

A representative office may rent office space/residential accommodations, employ local staff along with a limited number of expatriate staff, and conduct a limited range of business operations. Permitted activities include market research and monitoring of the marketing and sales programs carried out by its overseas head office, as well as pursuing long-term investment activities. As the representative office is regarded as a commercial liaison office and not an operating entity, it is strictly prohibited from engaging in any revenue-generating activities, such as trading, rendering professional services, revenue collection, or subleasing of its office space.

The representative office license permits the foreign company to open only one office at one site. Should the firm wish to open a second office in the same city or, more commonly, in a different city, another license is required. A "branch representative office" license is no longer allowed. A foreign company should decide at the time of application whether it wants more than one representative office in Vietnam. Experience suggests that it is easier to obtain licenses for several representative offices when all are applied for simultaneously. If an additional license application is made at a later date, the Ministry of Trade may require documentation on the performance of the first representative office.

- Tax Considerations: A representative office is exempt from corporate tax auditing requirements. Income tax for Vietnamese and expatriate staff must be paid in accordance with relevant regulations.
- Other Considerations: From time to time, representative offices have come under scrutiny by the local People's Committees or the municipal governments, police, tax and labor authorities, especially with respect to foreign service providers who claim they are not rendering services on-the-ground, but are merely facilitating services actually provided by their head office.

Application Procedures: The procedure to establish a representative office is relatively straightforward. An application with stipulated supporting documentation must be submitted to the MOT. The application and profile must be prepared in English and Vietnamese, and both sets of documents must be duly executed. Applicants have 90 days to register with the local People's Committee once the license has been issued. The fee for a representative office license is VND 1,000,000 or about $65. The license is usually valid for three years and may be extended for additional three-year periods.

<u>Branch License</u>: The term "branch" office under the laws of Vietnam refer to an entirely foreign-owned business that operates in certain designated service sectors. These sectors, which are restricted and closely monitored by the Vietnamese government, include banking, law and insurance. Many foreign branch offices first entered Vietnam as representative offices and later applied for a branch license. Branch status authorizes a foreign business to operate officially in Vietnam, including billing on-shore and the execution of local contracts.

- Tax considerations: Branches are fully liable for Vietnamese taxes on their assets and activities.
- Application Procedures: Applications for a branch license are generally submitted to the ministry or other competent authority for the industry in question (e.g., the State Bank of Vietnam for banking licenses, or the Ministry of Justice for law offices).

Government Decree 45-2000-ND-CP of September 6, 2000 defines a Branch Office of a Foreign Business Entity as an "affiliate" established to engage in commercial and/or tourism activities to earn profits directly. A branch office is limited to conducting business in:

- Export of the following goods purchased in Vietnam: handicraft wares, processed and raw agricultural products (except rice and coffee), processed and raw vegetables and fruit, industrial consumer goods, meat and processed foodstuffs.
- Import of the following goods for sale in the Vietnamese market: machinery and equipment for mining and agricultural or aquaculture processing, raw materials for human and veterinary medicine or fertilizers and insecticides.

Foreign Investment Licenses (FIL): Foreign investment in Vietnam is regulated by the Ministry of Planning and Investment (MPI) through FILs and related implementing regulations, decrees, and circulars. Compared to previous legislation the FIL delegates more authority over investment licensing to provinces, municipalities, and investment zones, although several provinces and large cities have been urging the Vietnamese government to expand their autonomy in this area. The Prime Minister's office retains authority over larger and "sensitive" projects. MPI remains the principal government agency dealing with foreign investors.

There are four primary forms of investment for foreigners in Vietnam:

a) Joint venture (JV) agreements are discussed in detail in the Joint Venture/Licensing section of Chapter 3.

b) A business cooperation contract (BCC) allows a foreign firm to pursue business interests in cooperation with a Vietnamese firm without conferring the right of establishment or ownership. In many respects it is the most flexible arrangement Vietnam offers to foreign investors, although the BCC license carries no tax holidays or concessions such as those given to other types of foreign investments. BCC's have predominated in the telecommunications and petroleum sectors, where the government limits foreign involvement in operations and management.

c) 100-percent foreign-invested enterprises ("FIE's") have become increasingly common, as investors have learned to navigate the local system on their own and as problems with joint venture partners have become more apparent. Amendments to the Foreign Investment Law adopted by the National Assembly in May, 2000 regularized procedures for conversion of joint ventures to 100 percent FIE's. The new law made a number of other improvements upon its 1996 predecessor, which enhanced the attractiveness of investing in Vietnam. It has reduced the number of issues requiring unanimous approval by the boards of joint ventures, thereby strengthening the management control of the majority investor (which is typically the foreign partner). It simplified licensing procedures, lowered remittance tax rates, and gave foreign-invested enterprises relief from excessive government inspections. Notable disadvantages of FIE's in comparison to other forms of investment include more difficult access to land-use rights (except in industrial zones and export processing zones) and a more limited duration of license.

d) Build-operate-transfer (BOT) investment agreements are authorized under an FIL, but the legal, regulatory, and financial framework is still incomplete. An FIL also allows build-operate-own (BOO), build-transfer-operate (BTO), and build-transfer (BT) forms of investment projects. Many international observers believe that BOT and other private financing mechanisms hold the key to Vietnam's future infrastructure development. Until now, Vietnam's enormous infrastructure needs have largely been financed by multilateral and bilateral official development assistance (ODA) money, but the Government's project wish list threatens to overwhelm donors.

Under a BOT agreement the investor builds an infrastructure project, operates it for an agreed period of time to recover the investment and earn a profit, and then returns it to the government without further compensation. In principle, BOT projects are subject to approval by the Prime Minister's Office. BOT projects may be joint ventures or 100 percent foreign-owned. They are exempt from land tax and from payment of duties on goods imported to implement the contracts. They enjoy a lower profits tax rate (10 percent), a 5 percent withholding tax rate (the lowest normal rate), an eight-year tax holiday starting from the first profitable year, and a government guarantee for conversion of revenue from local to foreign currency. The term of a BOT can extend to fifty years, after which project ownership reverts to the Government.

Franchising

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The franchising market has experienced a strong surge with recent growth rates at around 20 percent, with more than 530 franchising shops opening in recent years. Although the current market is small in relative terms, it is expected to grow quickly. Several popular foreign franchisors have recently expanded their operations with some success and local businesses are becoming more aware of franchising opportunities than ever before. Many are seeking opportunities to work with well-known foreign franchisors in Vietnam. The new Government Decree No 35/2006/ND-CP issued in March 2006 regulates franchises, providing details to the Commercial Law adopted by the National Assembly in 2005. The new decree provides for key concepts in franchising, requirements of franchise agreements and state administration of franchises.

Industry observers note that Vietnam has major advantages for franchise development. First, the economy has been growing steadily at 7-8 percent in recent years. Second, a young population of 84 million people is seeing disposable income increase. Consumer demand in urban areas is strong for high quality products and services that cannot be satisfied by local production. Franchising businesses that introduce Western and high-end products and services should be well placed to capture this demand. Third, the political system is stable and foreign investment is welcome. Since the franchising business model is new to Vietnam, the sector is starting from a low base and has tremendous room for growth. Finally, with Vietnam's accession to the WTO, the overall business environment is improving for foreign participation in the Vietnam economy.

Most of the existing franchise operations in Vietnam are in the fast food sector. Other franchising business opportunities are generally unexplored. These include fashion, health care services, children services, cleaning and sanitation, employment services, tourism, hotels and motels, home furnishing, education products and services, convenience stores, cosmetics, beauty care and many others. Industry experts expect that with the new franchise law and other pertinent regulations in place, the franchise market will grow an average 20% - 30% annually over the next several years. This expected high growth rate would primarily be a result of new master franchise agreements between foreign franchisors and local entrepreneurs.

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Unless a foreign company has established a local office under the Foreign Investment Law, it can only conduct direct marketing activities through a Vietnamese partner such as a distributor or agent. Many direct marketing techniques are novel concepts to the Vietnamese consumer and the Government is considering regulations designed to protect consumers in this area from unscrupulous "pyramid schemes." The logistical barriers to direct marketing include the lack of consumer data, a scarcity of mailing lists, and limited private telephone ownership. Several cosmetic and lingerie companies have experimented with door-to-door sales on a limited basis in Ho Chi Minh City. Over the past couple years, foreign life insurance companies have been licensed and have assembled large teams of agents who engage in traditional telemarketing, door-to-door selling, and workplace marketing in urban areas.

Some observers believe that the direct selling and multi-level marketing organizations that have already set up in Vietnam will eventually encounter official suspicion, leading to problems of the kind the industry has recently experienced in China.

For business-to-business marketing, direct mailings/faxes and emails are widely used; however, mailing list databases are typically created in-house. Some leading international consumer market research firms operate in Vietnam and develop demographic data for their clients.

Joint Ventures/Licensing
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Joint Ventures: A foreign joint venture is defined as a Vietnamese entity with at least one foreign company partner. Vietnam's Foreign Investment Law permits the establishment of 100 percent foreign-invested enterprises (or 100 percent FIE's- see above) in many but not all sectors. Recent reforms have made this an increasingly popular option, although some foreign investors still opt to form joint ventures with a Vietnamese partner. Joint ventures, like all different types of business formations, have advantages and disadvantages. On the positive side, a Vietnamese partner, which is often a state-owned enterprise (SOE), can contribute crucial relationships with government officials and clients, local market know-how, access to qualified staff, and knowledge of land-use rights. But there are many potential liabilities with a Vietnamese partner. Their management skills are often limited and the organizational culture may be cumbersome and bureaucratic. They also may not share the fundamental outlook and objectives of their foreign partner and may hesitate to make major strategic moves such as re-capitalization or fundamental changes to the business plan. Finally, a Vietnamese partner can rarely contribute significant operating capital to the business.

Joint Venture licenses are normally granted for fifty-year periods and can usually be renewed easily with the mutual consent of all the parties, or if not they can be completely dissolved.

At present there are approximately 3,300 SOE's out of over 100,000 registered domestic enterprises. Under the State's restructuring plan, many SOEs are destined for equitization, sale, lease, transfer, closure or bankruptcy. The private sector (generally taken to mean sole proprietorships and limited liability companies) makes up most of the rest. There are also a large number of household enterprises, which, although unregistered, comprise a significant share of non-agricultural output and employment. However, the average capitalization of the SOE's are many times that of the other forms, allowing them to dominate manufacturing and trade activities. Therefore, many foreign investors partner with SOE's, including firms controlled by central government ministries and by municipal and provincial authorities.

Local private firms routinely lack the financial resources and know-how to facilitate contacts with potential foreign investors, while Government ministries and provincial authorities usually promote enterprises related to their own organizations. Private firms must contend with greater government-imposed controls than their state-run counterparts, specifically with respect to access to land, trading licenses, and entry barriers in some sectors. The state-owned sector also has preferential access to financing and foreign exchange.

Technology can be transferred by outright sale, licensing, or contribution as capital. Foreign JVs often contain technology transfer provisions. The Ministry of Science and Technology has primary authority to approve technology transfer contracts. The implementing regulations of the law governing technology transfer have made such deals very difficult. The key areas to note are strict requirements for precise details on the timetable for the delivery of technology; provisions requiring extensive warranties; the limited duration of contracts; and restrictions on royalty rates. The Commercial Code does provide protection for transferred technology, but some of its provisions remain to be implemented.

Licensing: Licensing arrangements are beset by many of the same problems as franchising: stringent regulations, long approval times, restrictions on payments, limited contract duration, weak legal frameworks and intellectual property rights (IPR) problems. Nevertheless, there is considerable licensing of trademarks, technology, and after-sales service activities from overseas companies to affiliated joint ventures in Vietnam.

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The Vietnamese Government is the leading purchaser of goods and services in Vietnam. If provincial and municipal governments and SOE's are included, the potential for sales to this sector is enormous. Bolstering state budgets, Vietnam is the recipient of significant levels of Official Development Assistance (ODA). In 2005, multilateral and bilateral donors pledged approximately $3.7 billion in ODA support to Vietnam. Much of this is in the form of loan aid for infrastructure, which is "untied" according to international donor rules. Infrastructure is the principal development priority, but the government also plans to procure a significant amount of equipment in order to modernize its administrative structure. Key industries include transportation, telecommunications, energy, environmental/water, civil aviation, and financial services. Vietnam's record for actually implementing domestic and ODA funded projects has been mixed.

Government procurement practice can be characterized as a multi-layered decision-making process, which often lacks transparency and efficiency. Although the Ministry of Finance allocates funds, various departments within the ministry or agency are involved to determine necessary Government expenditures. Competition can be by sole source direct negotiation, limited tender, open tender, appointed tender, or special purchase. Currently, ministries and agencies have different rules on minimum values for the purchase of material or equipment, which must be subject to competitive bidding. High value or important contracts, such as infrastructure, require bid evaluation and selection and are awarded by the Prime Minister's office or other competent body, except for World Bank, Asian Development Bank, UNDP, or bilateral official development assistance (ODA) projects. Some solicitations are announced in the Vietnamese language newspapers Nhan Dan, Lao Dong and Saigon Giai Phong and in the English language newspapers Vietnam News and Vietnam Investment Review. American firms may also be able to register to obtain a consolidated listing of government or private tenders in Vietnam at http://www.intellasia.com.

The key to winning Government contracts includes a high degree of involvement and communication between the foreign supplier, the local distributor or representative, and relevant Government entities. Interaction should begin during the project planning stage. In order to secure orders in competitive bidding, it is necessary to establish rapport and credibility, as well as to educate the procuring entity as to how the product or service can support project needs well before the bid is publicly announced. Although the timing for tender opening, bid closing and award notification varies from project to project, preparation of Government budgets generally occurs between January and June, with actual purchases often made in July and August. Experienced foreign suppliers caution that even after awards are made, negotiations on price, specifications, payment terms, and collateral may continue for some time.

To provide more structure and transparency to the bidding process for infrastructure projects, the Government issued Decree 88/1999/NDCP dated September 1, 1999, covering three general areas: 1) consultant selection; 2) equipment supply and construction; and 3) partner selection in investment projects. Under this Decree, Bidding Regulation No. 4/2000/TT-BKH dated February 26, 2000 was issued by the Ministry of Planning and Investment (MPI) to detail bidding procedures. Infrastructure projects are normally required to be tendered by competitive bidding. Despite this, delays, non-transparent procedures, and allegations of impropriety often beset projects in Vietnam. In local government-funded projects, contracts are commonly awarded to those who can offer "appropriate" price, "decent" quality and have "strongest connections" with project developers.

Distribution and Sales Channels

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Legal Constraints on Foreign Participation: Despite recent liberalization, Vietnam's regulations continue to place significant restrictions on foreign participation in the importing and distribution sectors. In this context, "foreign" refers to companies or organizations with foreign capital. To a large extent, import and distribution activities are reserved for Vietnamese entities, and offshore manufacturers must work through Vietnamese firms to establish distribution or retailing operations inside Vietnam. However, foreign-capital companies licensed to manufacture in Vietnam may be permitted to distribute their products domestically. Investment licenses now may also allow foreign-invested companies to import raw materials for manufacturing their products locally, as well as finished products before production start-up for the purpose of test marketing and developing the business over a limited period of time.

Under the U.S.–Vietnam Bilateral Trade Agreement (BTA), U.S. firms are permitted to own up to 49% of joint ventures with Vietnamese partners in distribution services beginning three years after the date of entry into force of the Agreement (on December 10, 2004), subject to some limitations on trading and distribution rights. As of December 10, 2007, majority ownership by an American company will be allowed, and 100% U.S. ownership of distribution service companies will be permitted as of December 10, 2008.

Distribution Channels: Vietnam's distribution system is a fragmented patchwork of state-owned import-export companies, private and state-owned wholesalers, independent Vietnamese agents and distributors, retail outlets, and street stalls. The formal distribution channels often overlap parallel channels for smuggled and "gray market" goods.

Non-Vietnamese entities are barred from general participation in Vietnam's distribution system, although foreign investors have the right to sell, market, and distribute what they manufacture locally. Most local firms holding import licenses are state-owned enterprises (SOE's).

For many products, nationwide distribution requires the establishment of separate networks in the North, the South, and the Central regions. The lack of physical infrastructure links among the major regions and cultural and economic differences across the nation present challenges to achieving distribution efficiency in many sectors.

Importing and Exporting: In order to engage directly in export or import activities, a company's business registration certificate must cover "import-export" or "trading." This activity is mainly reserved for Vietnamese firms, both state-owned and private. A foreign-invested enterprise may be granted a license to import specific products designated in its investment license, especially raw materials and even finished goods needed to develop a market for products that will eventually be produced in Vietnam.

Companies that do not have their own import license must work through licensed traders, who typically charge a commission of between one and two percent of the value of the invoice. Under Vietnamese law, the importer is the consignee. Therefore, it is important to identify a reliable importer with the ability to clear merchandise through customs quickly and efficiently. If a licensed third-party importer is used, the importer will handle customs clearance. If a foreign invested firm imports products directly, it will have to make arrangements to handle customs clearance at the port. This can be potentially burdensome. Many foreign firms have complained that the administration of customs is opaque and inefficient. Importers have charged that duty classifications for the same product differ from inspector to inspector, and that even the same inspector may charge different rates for the same item at different times. There is little effective recourse should the importer disagree with the classification. Companies also complain that corruption remains a problem in customs clearance process. Over the past few years, customs officials at many levels have been indicted on charges of corruption and many importers have become accustomed to paying facilitation fees to gain clearance of their goods through customs.

Wholesale: Both local and foreign-invested companies may act as wholesalers if their business registration certificates or investment licenses so state, or if the wholesale operations are established for the purpose of distributing their own products.

While a small number of foreign-invested warehousing operations offering modern and efficient facilities have been established in recent years, warehouses and other storage infrastructure in Vietnam are for the most part quite basic. Climate control is rare and security may be a problem. Tracking and processing of inventories is primarily manual, and the physical movement and handling of goods is similar in practice with other less developed nations in the region.

Wholesalers may or may not also be licensed importers. They typically offer both storage and transportation services, but the level of infrastructure and service is low by international standards. Warehouses in Vietnam often consist of little more than raw storage space with the bare minimum of environmental control, handling and security equipment. Many wholesalers are poorly capitalized and unable to upgrade their infrastructure. At least one U.S. firm has established third party, value-added wholesaling operations in HCMC. Other foreign firms are investing in 'cold chain' port facilities, especially in the South.

A significant development in wholesaling was the launch in 2001 of a wholesale cash-and-carry operation to serve small retailers by Germany's Metro AG group. Metro Cash and Carry operates a members-only service restricted to businesses and offers a variety of both food and non-food items. The company has fairly ambitious plans to expand its operations in Vietnam's larger cities over the next few years.

Retail: Vietnam's retail landscape is undergoing rapid transformation, providing more outlets for proper display and marketing of products. A number of Western-style mini-markets and convenience stores (e.g., MaxiMart, CityMart and Saigon Coop) are cropping up in the major urban areas. While anecdotal reports suggest that shoppers perceive the mini-marts as expensive and per customer sales are still fairly low, most experts agree that this trend will continue to gather pace, as it has among Vietnam's more developed neighbors. At the moment, these outlets are said to account for about five percent of total retail trade, and most consumer purchases continue to take place at traditional street-side shops or official "wet" and "dry" markets organized by district governments. Nevertheless, these new retail outlets are expanding rapidly in major cities and offer promising opportunities for distributing a wide-range of U.S. consumer goods. An example of a recent international entrant to Vietnam's retail segment is France-based Big C, which opened a "hyperstore" outlet in Hanoi in January 2005. This store is the chain's fourth retail outlet in Vietnam. Company officials expect 10,000 customers a day to visit the facility.

Shopping center developments are also mushrooming in Vietnam. The Saigon Superbowl and Diamond Plaza in Ho Chi Minh City, the nation's first large-scale entertainment and retail centers, only opened in 1996 and 2000 respectively. Other recent developments include a large retailing center (21,797 sq. m) in the mixed-use Thuan Kieu Plaza in Cho Lon, HCMC's "Chinatown", as well as SAVICO-Kinh Do Plaza, a pastel "strip mall" type development in the heart of District 1. Although Ho Chi Minh City leads this sector, similar developments are taking place in Hanoi, which saw its second downtown mall open in late 2004.

Showrooms and service centers for specialized products such as electronics, appliances, automobiles, and industrial goods are also increasing. General Electric (GE) Company's Appliance Division and Lighting Division have launched chains of retail outlets and industrial equipment manufacturer Parker-Hanafin and air conditioner giant Carrier have opened similar outlets in HCMC. These developments are changing the way the wealthier and more cosmopolitan segment of urban Vietnamese shop. Still, apart from these pioneering projects, retail outlets consist mainly of family-run market stalls or small street-front shops.

Selling Factors/Techniques

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Development of Consumerism: Foreign brands have proliferated in Vietnam over the past decade. This is indicative of rising urban incomes and a relative opening to the outside world. Market observers speak of the growth of "consumerism" in Vietnam, but it must be borne in mind that this remains a country with low per capita GDP (under $638 for the country as a whole, according to official figures). The market for most imported consumer goods is the well-off segment in a handful of large cities and some parts of the Mekong Delta. Among consumers there is much trial usage, but little brand loyalty except for among the affluent. The bottom line generally comes down to price. The main attractions of foreign products are their perceived higher quality and status. Among foreign products, there is a general hierarchy of perceived quality, based on the country of origin. Vietnamese consumers tend to prefer imported U.S., Japanese and European brands over Chinese products and those made locally by foreign and Vietnamese producers. Ultimately, brand loyalty is built on price, proven quality, availability and ultimately longevity.

Awareness of brands comes from word of mouth, promotions and advertising, where "TV is King." Urban consumers are remarkably familiar with leading foreign products, even those not generally available in Vietnam. One major reason for this is contact with, and "care packages" from, relatives abroad. Overseas Vietnamese, mostly first-generation emigrants, amount to a few million people concentrated primarily in the United States, Canada, France, Australia, and Southeast Asia. A large number of them maintain close contact with their families in Vietnam, and transfer quite a bit of information on lifestyles abroad. The large volume of gray and black-market goods also furthers consumer familiarity with foreign brands brought in from neighboring countries. However, copycat products made in Vietnam have taken market share from some original producers.

Market segmentation: Geography is a key factor in segmenting Vietnam's market. This includes not only the regional segmentation of North-Central-South, but also the segmentation of urban versus rural markets. Vietnam is roughly separated into three separate economic regions surrounding core urban centers: the South centered on Ho Chi Minh City, the North based in Hanoi, and the Center focused on Da Nang. The main distinctions among these regions are consumer purchasing ability, brand awareness and recognition. Vietnam's per capita GDP stands at around $638, while unofficial estimates put HCMC's per capita GDP as high as $1,700. The actual disparity is probably even greater, as certain income elements that are not well captured in official statistics (such as remittances from overseas relatives and private sector activity) are centered more in the South. Currently, consumer purchases are strongest in Ho Chi Minh City (and the contiguous provinces of Binh Duong, Dong Nai, and Ba Ria-Vung Tau), where there is a concentrated and growing population of consumers with disposable income. Consumers in the South also tend to exhibit a greater degree of brand awareness than do consumers in the North and Central regions. This is principally due to extensive contact with Westerners prior to 1975 and the influence of returning overseas Vietnamese. These defining factors have had an impact on market demand disparities, market entry strategies, product-line segmentation and marketing mix. For many companies, the first marketing goal is to penetrate Ho Chi Minh City; as well over half of all Vietnamese purchases of foreign consumer goods take place in this area.

Product Information: Foreign companies in Vietnam utilize trade fairs, product seminars, product demonstrations, and point-of-sales materials, as well as print and broadcast advertising. The aim is not only to promote their merchandise, but also to educate both sellers and end-users. Many foreign products do not need to be adapted to local tastes and conditions, but successful long-term brands do. It may be necessary to educate the buyer as to the features and benefits of the product. Detailed product information in the Vietnamese language should be provided to agents and distributors. It should be noted that seminars, product promotions, workshops, and press conferences might require approval in advance by local authorities.

Practical Considerations: Hands-on involvement is required to achieve commercial success in Vietnam. U.S. firms should foster close relationships and maintain regular communication with Vietnamese representatives, agents, and/or distributors of their products. Not only are many products competing for limited shelf, showroom or warehouse space, but Vietnamese representatives also often handle multiple brands of the same product type. A close relationship allows the foreign supplier to keep abreast of the changes and developments in local market conditions and assess the competitiveness of its products. This approach ensures that the Vietnamese partner is updated on product information and motivated to market the product. Frequent training and support for after-service activities are also key elements of this activity.

Electronic Commerce

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Electronic commerce remains in its infancy in Vietnam. Obstacles to its development include the low number of Internet subscribers in-country, obtrusive firewalls, limited bandwidth and other problems with the Internet infrastructure, limitations of the financial system (including the low number of credit cards in use), and regulatory barriers. The latest developments to facilitate the growth of e-commerce in Vietnam include legal acceptance of e-signatures and implementation of electronic inter-bank transaction systems. The number of online transactions has been gradually increasing. However, with over 80% of urban Vietnamese aged 15 to 25 surfing the web weekly, future e-commerce will take deep root in the next five to ten years.

Over the past years, a number of pioneering e-commerce projects have been launched by foreign entrepreneurs, including: www.mekongsources.com, www.tradeinvietnam.com and www.bvom.com.

Trade Promotion and Advertising

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Advertising has been permitted in Vietnam only since 1990, but the industry has grown by 30% per annum over the past 5 years. Industry experts estimate foreign-invested enterprises spend around $1 billion annually on advertising in Vietnam, but more than 70 per cent of this goes to the foreign-invested advertising firms.

Regulation: Advertising remains heavily regulated by the Vietnamese Government. In principle, only companies licensed in Vietnam may place advertisements. Advertisements for tobacco and liquor (excluding below 15% alcohol volume beverages) are prohibited in the mass media. Advertising for pharmaceuticals, agri-chemicals, cosmetics and toiletries require registration and approval from the appropriate ministries before being run, while the Ministry of Culture and Information must approve all advertising content. Arbitrary enforcement and interpretation of the regulations continue to hinder the development of the advertising industry. Limits on advertising and promotional expenditures exist and are tied to a percentage of total sales.

Foreign Ad Agencies in Vietnam: Vietnam's advertising market is now home to around 700 advertising companies, plus nearly 30 foreign-invested representative offices and seven wholly foreign-invested firms. About 80 percent of local advertising companies are now working on advertising contracts for foreign-invested advertising firms. The remaining 20 per cent have independent advertising contracts, but these are still backed-up by foreign companies abroad. Most foreign advertising firms are not permitted to directly sign contracts with local media agencies. Instead they have to go through local advertising companies to implement ad campaigns in newspapers or TV commercials

The majority of foreign advertising firms are likely to remain as representative offices for the foreseeable future. Many foreign firms work closely with Vietnamese advertising companies in order to support their international clients. Under the BTA, American companies are allowed to enter into joint ventures with Vietnamese firms to offer advertising services, but the U.S. partner is limited to a 49 percent equity stake. This cap will increase to 51 percent in December 2006, and be fully removed in December 2008.

While highly sophisticated advertising production may have to take place offshore, most production for the multinational ad agencies takes place within Vietnam, primarily in Ho Chi Minh City. Foreign advertising executives say that the “80/20” rule applies to the geographical distribution of their business in Vietnam: 80 percent of the business is in Ho Chi Minh City, while 20 percent is in Hanoi. Ho Chi Minh City and the surrounding provinces are said to lead the rest of the nation in disposable income, familiarity with foreign trends and brands, quality of broadcast programming and print media, and production skills.

Clients: For the foreseeable future, multinational corporations in Vietnam will provide most of the business for foreign advertising firms. In recent years, the top ten ad buyers in both TV and print have all been foreign-invested companies. Currently, the leading categories of TV ads are toiletries/cosmetics, soft drinks, pharmaceuticals, household cleaning products, and foods. The leading print ad buyers are firms marketing soft drinks, toiletries/cosmetics, vehicles (primarily motorcycles), pharmaceuticals, and transport/tourism services.

Television: Many foreign brand managers make heavy investments in television advertisement campaigns. Over 90 percent of Vietnam's urban population of 18 million own televisions. These viewers watch an average of three hours per day, mainly during the peak time of 6-9 p.m. Household television ownership is estimated to be 92 percent in HCMC and 96 percent in Hanoi. However television viewership is higher in the HCMC area throughout the day, and nearly four times that of Hanoi in peak evening hours according to one recent survey. There are five major television stations and one national broadcaster (VTV). With the emergence of satellite dishes and cable networks, many households also watch international networks (CNBC, CNN, StarTV). Vietnamese advertisers spent an estimated $300 million annually on TV advertising, with annual growth rates peaking at 40%.

In accordance with the recently issued Decree No. 24, advertising campaigns on radio and television must not exceed eight continuous days at any one stage, except in some exclusive cases. A film broadcast on television is permitted to be interrupted no more than twice by advertising, and each instance must not exceed five minutes, while the limit for light entertainment programs is no more than four times, each time not exceeding four minutes. Decree 24 does not permit advertising immediately after the opening music or titles in news and documentary programs, although it is permitted in film, sports and light entertainment programs.

Print Media: While spending on TV advertising increased substantially, print advertising has really exploded, with annual growth rates of around 30 per cent achieved in recent years.

A high literacy rate, a surge in new publications, and increased print media circulation all support the print media's growing popularity as an effective channel for advertising. Regulations place limits on space allocated for advertisements. Surveys suggest that Vietnam's advertising rates are the lowest (in terms of cost per insertion) in the Asia-Pacific region. There are over 400 newspapers and other publications in Vietnam, but few have nationwide circulation. Among the more popular publications are "Thanh Nien" (Young Adult), "Nhan Dan" (The People), "Tuoi Tre" (Youth), "Saigon Giai Phong" (Saigon Liberation) and "Lao Dong" (Labor). Within the past year, several international quality publications have begun circulation, including "Nha Dep" (Beautiful Home), "Dinh Cao" (Sports & Fitness), "M" (Fashion) and "Phu Nu The Gioi" (Woman's World), Gia Dinh & Tiep Thi (Family & Marketing). These latest publications are setting new standards for the quality of publishing in Vietnam. English newspapers and publications include the Saigon Times Daily, Vietnam News, Vietnam Economic Times, and Vietnam Investment Review.

Outdoor Advertising: Outdoor advertising ranges from billboards and signboards to public transport, building walls, bus stations, and wash and service stations, among others. Many placements are illegal, so firms should confirm that the advertising agency has proper permits to lease the space.

Under Decree 24, large outdoor advertising billboards that are not suitable to urban planning, social safety, aesthetics and the environment will be restricted in urban areas. For example, billboard advertising in Ho Chi Minh City is restricted to the vicinity of the airport. Advertising on articles such as umbrellas, scooters, booths and roofs does not require a permit; however, it must comply with advertising regulations.

Radio: Radio advertising is not yet widely used for product promotion, but radio ad volume is growing. This is largely due to improvements in programming, such as the inclusion of English lessons and international music along with the standard selection of Vietnamese pop music, which in turn increases the appeal of radio programs to advertisers. Today, the audience represents a cross-section of the population with increasing buying power. There are three major stations and one national broadcaster, Voice of Vietnam (VOV). The cost per thousand listeners is very inexpensive. Although radio has not been so popular as TV and print, radio ad expenditures have doubled over the past few years and are expected to rocket, once more and more vehicles hit Vietnam's congested roads.

Trade Fairs: Trade fairs are numerous and cover a broad range of sectors, but generally do not provide venues of an international standard for product promotion. Many are co-sponsored by Government ministries, SOEs, and industry associations. Common venues are the Giang Vo Exhibition Center, the Viet-Xo Cultural House, and the Army Guest House in Hanoi. In Ho Chi Minh City, the Reunification Palace, international hotels and Ho Chi Minh City International Exhibition and Convention Center are the common locations. Booth rentals at many shows average around US $100/m2.

Pricing Return to top

The overriding factor in pricing for the Vietnam market is the low level of per capita income. While consumers want quality and understand that quality comes at a premium, most buying decisions are highly price-sensitive.

Imported products generally begin with higher production costs reflected in the invoice, and then must incorporate the following elements into the pricing structure:

- Import agent fees (typically 1 to 2 percent of the invoice)
- Customs duty. As of a result of the implementation of the U.S. – Vietnam BTA, the Government of Vietnam has granted permanent Normal Trade Relations (NTR) duty rates to goods of U.S. origin. While these are the lowest tariffs levied, they still may be as much as 50 percent on nonagricultural products
- Value-added tax (VAT) in the range of 5 to 10 percent is levied on the landed cost when the goods change title

Typical markups for fast-moving consumer goods range from 10 to 15 percent at the distributor level (assuming a fairly high level of distributor service), and retail markups are also in the same neighborhood.

Price plays an important role in the consumer's perception of the product. Although Vietnamese consumers expect to pay a premium for a foreign label or brand, in practice, the actual number of consumers who are willing to pay the higher price is limited. Most Vietnamese buyers are very price-sensitive, as one would expect given the low per capita income. With the abundance of less expensive products in the form of smuggled or counterfeit goods and "copycat" brands, competition is keen. Market analysts agree that one exception to this generalization is consumer durables. Many Vietnamese view the purchase of big-ticket consumer items as both a status symbol and an investment. Therefore, they want to buy the best in terms of quality and durability.

Practical Considerations:

- Import taxes, value-added tax (VAT), special consumption taxes, customs service fees, and delivery delays can quickly price products out of the market or cut margins. The fragmented distribution system creates multiple layers of wholesalers, dealers and vendors, with markups at each stage. Moreover, foreign suppliers are often frustrated by their inability to maintain control over the product's pricing. Random and frequent price fluctuations are common, as many local distributors and wholesalers under-cut prices to achieve a faster turnover or withhold goods to prop up prices.
- One important pricing cycle to note is linked to the Christmas Holiday and the Lunar New Year celebration (several days between late January and mid February, depending on the year). As there is a flurry of buying in the few months preceding these holidays and little activity immediately afterwards, price hikes and reductions follow accordingly.
- While individual incomes are rather low, purchasing power may be higher than expected as a result of the extended family organization, which is still quite common in cities (and nearly universal in the countryside). Unmarried adult children commonly live with parents, as do the eldest son and his family. Thus, several wage earners can pool earnings within a household. Similarly, less income is spent on housing per person, and unmarried adult children in particular may be able to spend a large percentage of their income on discretionary purchases. For larger items such as consumer durables, relatives may pool funds to provide one another low-interest or interest-free loans in rotation.

Sales Service/Customer Support Return to top

After-sales service and customer support are important components of a sale, as they can distinguish a company from its competitors. Purchasers of foreign products will expect access to a supplier in country, rather than from a regional base. This will be especially true for state-owned enterprises (SOE's). Foreign firms may need to emphasize customer service training for the front-line local staff, as well as technical training for technicians.

Warranties are also an effective marketing tool to assure customers that they are buying a genuine, high quality product. After-sales service is viewed as part of marketing and distribution. Foreign (offshore) suppliers are not permitted to provide direct sales service and customer support unless they have a licensed foreign investment project in Vietnam. Otherwise, a Vietnamese company must provide these services.

Protecting Your Intellectual Property
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Vietnam is a member of the World Intellectual Property Organization (WIPO) and is a signatory to the Paris Convention for the Protection of Industrial Property. It has acceded to the Patent Cooperation Treaty and the Madrid Agreement Concerning the International Registration of Marks, and in 2004 joined the Berne Convention. Vietnam is working to devise a system of protecting intellectual property rights (IPR) consistent with the WTO TRIP's agreement, and has made related commitments under the U.S - Vietnam Bilateral Trade Agreement (BTA). Vis-à-vis TRIPS standards, Vietnam still lacks regulations on the protection of encrypted program-carrying satellite signals.

While significant progress on the legal regime for protecting IPR has taken place in recent years, enforcement of IPR remains woefully inadequate at the street and market level, at least with regard to music, motion picture, software and trademark violations. Most of major cities in Vietnam are rife with music CD, VCD, and DVD shops, with 99 percent of the product on sale pirated. A wide variety of consumer products bearing false or misleading labels are also readily available in the markets, as are counterfeit labels themselves. Local police authorities often are slow to act on court decisions. Violators sometimes negotiate with plaintiffs demanding payoffs to stop producing pirated material.

There are several enforcement agencies involved in and vested with authority to address IPR infringement issues. These include the Ministry of Science and Technology Inspectorate, the Ministry of Culture and Information Inspectorate, the Ministry of Trade Market Management Bureau, the Ministry of Public Security Economic Police, the Ministry of Finance Customs Office and the People's Court (Civil Court). As a result, there are no clear-cut lines of responsibility among these agencies. Generally, sending warning letters to 'infringers' or bringing civil actions to the courts has not been very effective. Warning letters that are not accompanied by a decision of infringement from the National Office of Intellectual Property (NOIP) are often ignored and court actions are lengthy and relatively costly. Vietnamese courts do not have detailed intellectual property regulations or settled procedures for dealing with intellectual property cases and their knowledge and experience in this field is still limited. Administrative enforcement has been the most effective approach and is recommended as the first step for dealing with infringement cases in Vietnam.

Foreign firms, which have attempted to work with Vietnamese authorities to enforce IPR regulations at the street level, have reported mixed success. A number of U.S consumer goods manufacturers audit black market and pirated product in the marketplace and attempt to counter it with campaigns of education and incentives.

Due Diligence
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Any firm establishing new business ventures in Vietnam should develop business relationships in a positive, but cautious manner. It is imperative that relationship building include adequate due diligence prior to entering into contracts or other commercial arrangements. The overall mentality of the local business sector is oriented toward making money quickly, by any means. The concept of building businesses and business relationships in order to profit in the future is not wide-spread (although one may hear quite a bit of rhetoric about the need for the foreign party to make a long-term commitment). Thus, extra care must be taken to check the bona fides of every business, be it agent or customer, before entering into a business arrangement.

The best way to check the quality of the business and its management staff is to request a list of customers and suppliers that are currently transacting business with the entity. One must make the effort to contact a number of references, in order to verify the validity and integrity of the business. The more references of foreign suppliers and/or customers, the better chances a U.S. partner has in validating a potential partner's credibility.

This is especially true for consultants, whether local or foreign. These firms should be able to supply a list of satisfied customers. There have been many cases of consulting firms that have failed to perform in this market. Ensuring that the firm has actually completed several successful transactions on behalf of foreign clients can eliminate these types of situations.

One of the most challenging aspects of developing partnerships in Vietnam is verifying the bona fides of prospective partners. As noted elsewhere, very few firms in Vietnam are audited to international standards. This may change as certain joint-stock companies submit themselves to more rigorous audits with a view to listing on Vietnam's infant stock exchange. Private firms may prefer not to disclose assets and funding sources (let alone liabilities), while information on SOE's may be considered sensitive by the authorities. There are no commercial credit information services in Vietnam, and banks generally will not divulge to third parties information about the financial status or history of their clients. Faced with such challenges, many foreign parties simply request international law firms to investigate prospective local partners. In general, the following resources are available:

Online company information: Information on a number of companies is available from:

- People's Committees: Local municipal governments have information from filings of local corporations. While this is not generally available to the public, authorities do recognize that certain professionals such as attorneys have a legitimate need for such information and may share it with them.
- News media databases: A certain amount of information may be obtained from databases (increasingly issued in CD-ROM form) of leading English language periodicals such as the Viet Nam News (http://vietnamnews.vnagency.com.vn), the Vietnam Investment Review (www.vir.com.vn) and Vietnam Economic Times (www.vneconomy.com.vn). This may be particularly helpful in determining whether negative information on a company has been published.

Local Professional Services

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Foreign Law Firms: As Vietnamese law firms still generally lack expertise in commercial and international law, foreign investors should consider using the services of a foreign law firm in Vietnam. At present, registered branch offices of foreign law firms in Vietnam are only permitted to advise on foreign or international law and are prohibited from advising on Vietnamese law. Most foreign law firms employ unlicensed Vietnamese law graduates and retain the services of a Vietnamese law firm when necessary, thereby providing a broad range of services to their international clients.

Branches of U.S. law firms in Vietnam can employ fully licensed Vietnamese lawyers in accordance with the commitments stated in the U.S.–Vietnam BTA. The BTA allows U.S. law firms to operate in Vietnam by establishing branch offices, U.S.-owned law firms or joint ventures with Vietnamese partners. They are still not permitted to participate directly in legal proceedings as barristers or representatives of their clients before the courts, however.

The U.S. Commercial Service Offices in the U.S. Embassy in Hanoi and in Ho Chi Minh City maintain a list of foreign law firms with offices in Vietnam for reference purposes.

Vietnamese Law Firms: The services of local law firms encompass investment law and consulting services. Services range from preparing applications for representative offices, trademark registration, and feasibility studies to conducting market research and identifying investment opportunities. As many of these firms have ties to a particular ministry or Government agency, they may be well connected with key decision-makers and can facilitate access to officials, provide insight regarding Government policy, and advise on negotiation techniques. By the same token, however, conflicts of interest may also arise in such circumstances.

Practical Considerations: It is important that investors verify the qualifications of a lawyer (both local and foreign), including references, before contracting his or her services. Many foreign investors have hired Vietnamese consultants to prepare feasibility or market studies. It is also common for the ministry with oversight responsibility to recommend an affiliated consulting company to work with the foreign investor.

Consulting Services: Both internationally recognized and local consulting and advising services are available in Vietnam. As the economy develops and market opportunities expand, availability of such services will continue to broaden. Such entities can provide invaluable assistance in performing market research and providing guidance to firms

Web Resources

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U.S. Foreign Commercial Service – Vietnam: http://www.buyusa.gov/vietnam/en/
Trade in Vietnam: www.tradeinvietnam.com
Vietnam Information Services: www.intellasia.com
Mekong Research: www.mekongsources.com
Business Collaboration Services: www.bvom.com
Vietnam National Newspaper: http://vietnamnews.vnagency.com.vn
Vietnam Investment Review: http://www.vir.com.vn/Client/VIR/Default.asp
Vietnam Economy: www.vneconomy.com.vn

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Chapter 4: Leading Sectors for U.S. Export and Investment

1. Power Generation, Transmission and Distrubution

Overview Return to top

	2004 (Actual)	2005 (Actual)	2006 (Estimates)
Total Market Size (Excluding IPPs)	1,367	1,866	2,185
Total Local Production	341	485	775
Total Exports	N/A	N/A	N/A
Total Imports	1,026	1,381	1,410
Imports from the U.S.	**54**	**70**	**73**

Note:
* Figures are in U.S. $
* The total market size for equipment and services is based on EVN and World Bank's (WB) statistics and estimates.
* Other statistics are unofficial estimates
* Total Market equals Imports Plus Local Production minus Exports

Industry Organization: The electric power sector represents one of the most promising areas for U.S. commercial prospects in the Vietnamese market. Currently Electricity of Vietnam (EVN), a state owned enterprise with more than 50 subsidiaries under the Ministry of Industry (MOI), holds a monopoly in electricity generation, transmission and distribution.

Fifth and Sixth Power Development Master Plans: To manage the development of the electric power sector, the Vietnamese government uses Power Development Master Plans, which forecast power demand growth and map out the overall development of the power industry in ten-year periods. The current master plan, the Fifth Power Development Master Plan, approved by the Prime Minister in June 2001 with two revisions in March 2003 and October 2004, has become outdated and a new master plan will be required for the period between 2006 and 2015. In early 2006, the Sixth Master Plan was completed by the Institute of Energy, a subsidiary of EVN, under the guidance of MOI and was submitted to MOI for appraisal before approval by the Prime Minister (PM); final approval is expected in early 2007.

Electricity Demand: The demand for electricity grew by 15% per annum over the period 1995 to 2005. According to the draft Sixth Master Plan, this growth is expected to reach 16% in the period 2006 through 2010 (see figure 1). This soaring demand is attributed to both increasing industrial and residential use. Many power shortages are expected during this period if measures are not taken to increase the power supply accordingly.

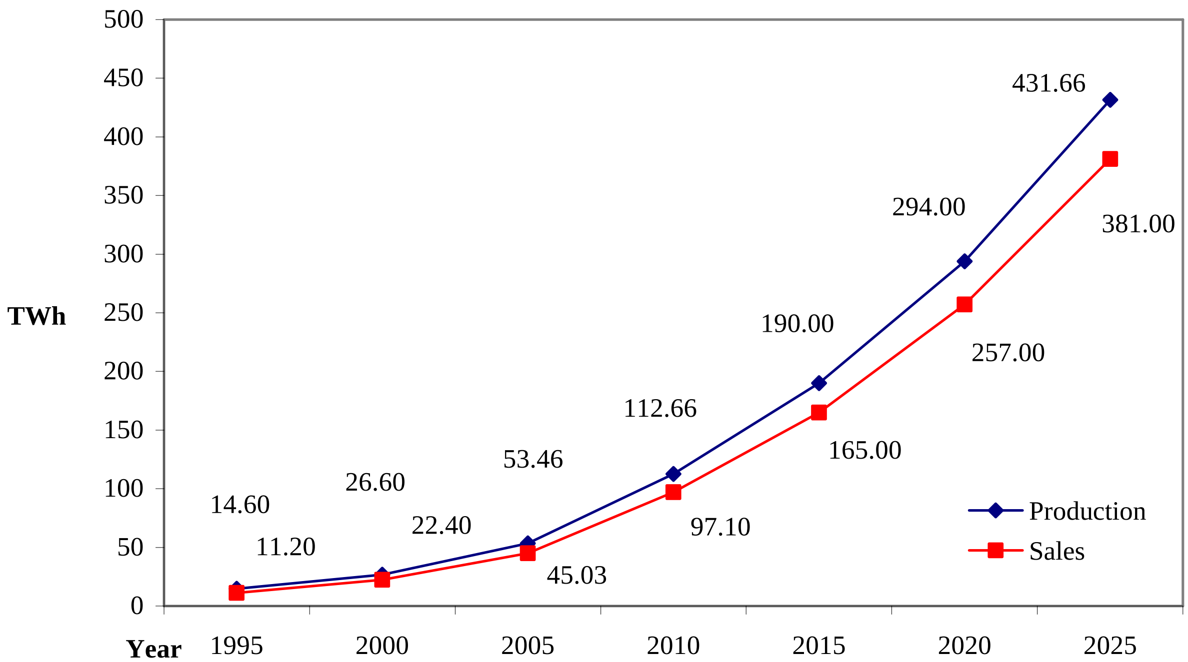


Figure 1 – Electricity Production and Sales Forecast by 2025 (Source: Draft Sixth Master Plan – EVN, October 2006)

Electricity Supply: At the end of 2005, Vietnam's total generation capacity was 11,360 MW of which EVN's facilities accounted for about 81%. The remainder was under the control of other local and foreign Independent Power Producers (IPPs). The current power generation system relies mainly on thermal gas power (39%) and hydropower (37%) while thermal coal power, which currently accounts for 13%, will play an increasingly important role in the medium and long term.

TYPE	NUMBER Of PPs	CAPACITY (MW)	%TOTAL
HYDRO	12	4,227	37.21
COAL	5	1,495	13.16
GAS	4	4,450	39.17
OIL	3	573	5.04
Diesel	NA	615	5.41
TOTAL	24	11,360	100.00

Figure 2 - Composition of Power Generation Capacity in 2005 (Source: EVN, October 2006)

According to the Sixth Master Plan, it is estimated that an additional yearly capacity of 2,700 MW will be required between 2006 and 2010 to meet the rapidly growing demand for power. Figures 3 and 4 provide more details about the projected expansion of the power generation system in Vietnam.

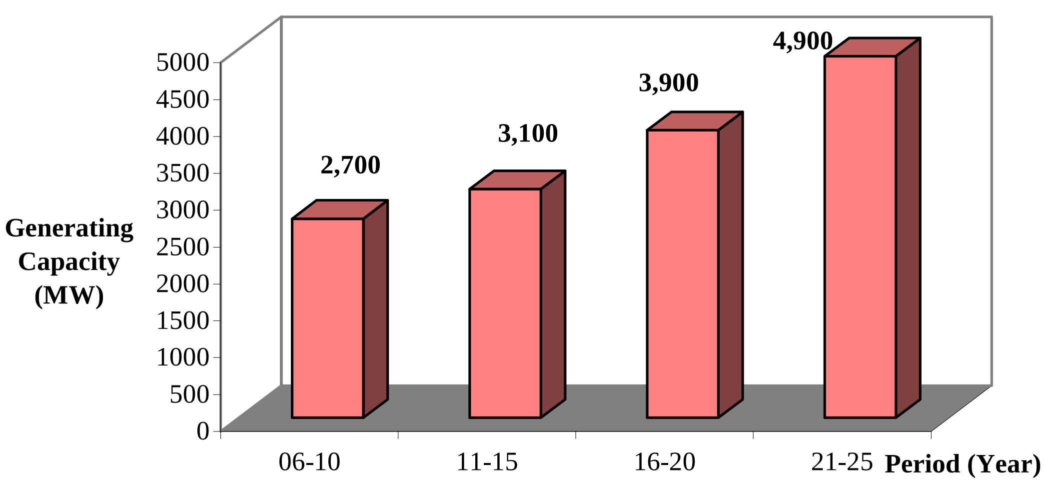


Figure 3 – Additional Average Generating Capacity Required Per Year Forecast Over Every Five-Year Period by 2025 (Source: Draft Sixth Master Plan and Dau Tu, June 12, 06)

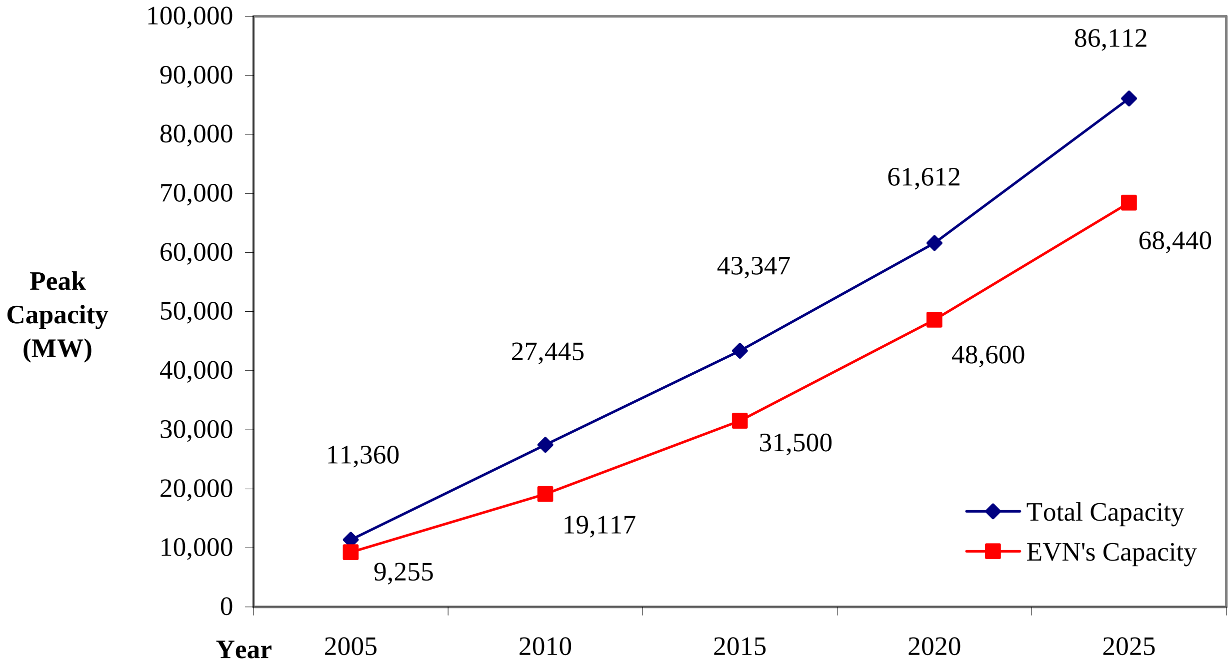


Figure 4 – Electricity Production and Sales Forecast by 2025
(Source: Draft Sixth Master Plan – EVN, October 2006)

Transmission and Distribution Systems: As of October 2006, the rural electrification rate in Vietnam was 91.53% and is expected to reach nearly 100% by 2020. The following charts show the current transmission system as well as its projected development by 2025.

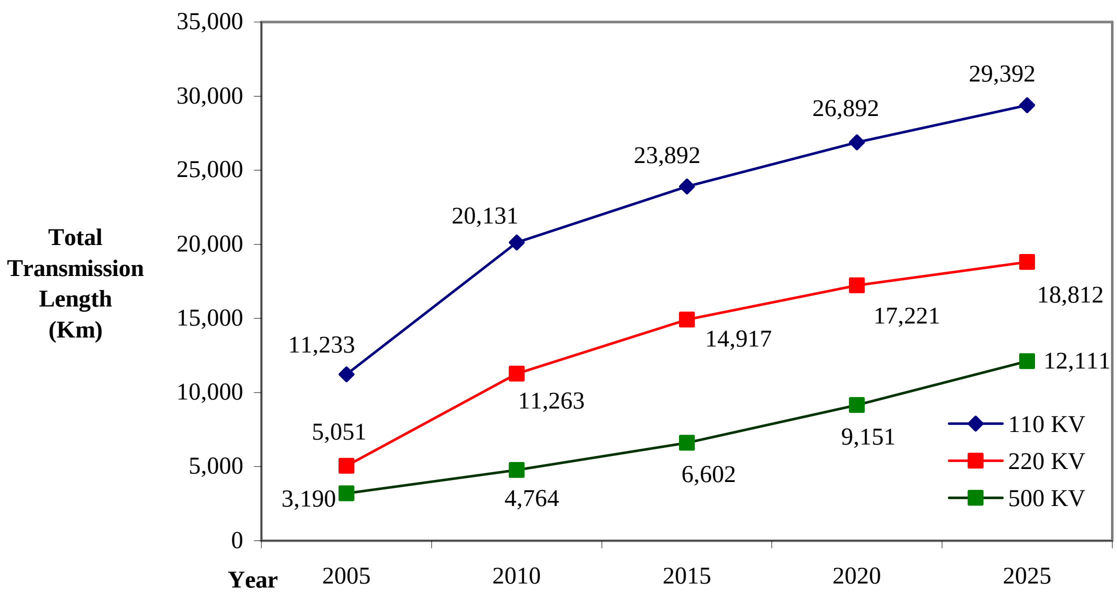


Figure 5 – Projected Expansion of the Power Transmission System by 2025 (Source: Draft Sixth Master Plan – EVN, October 2006)

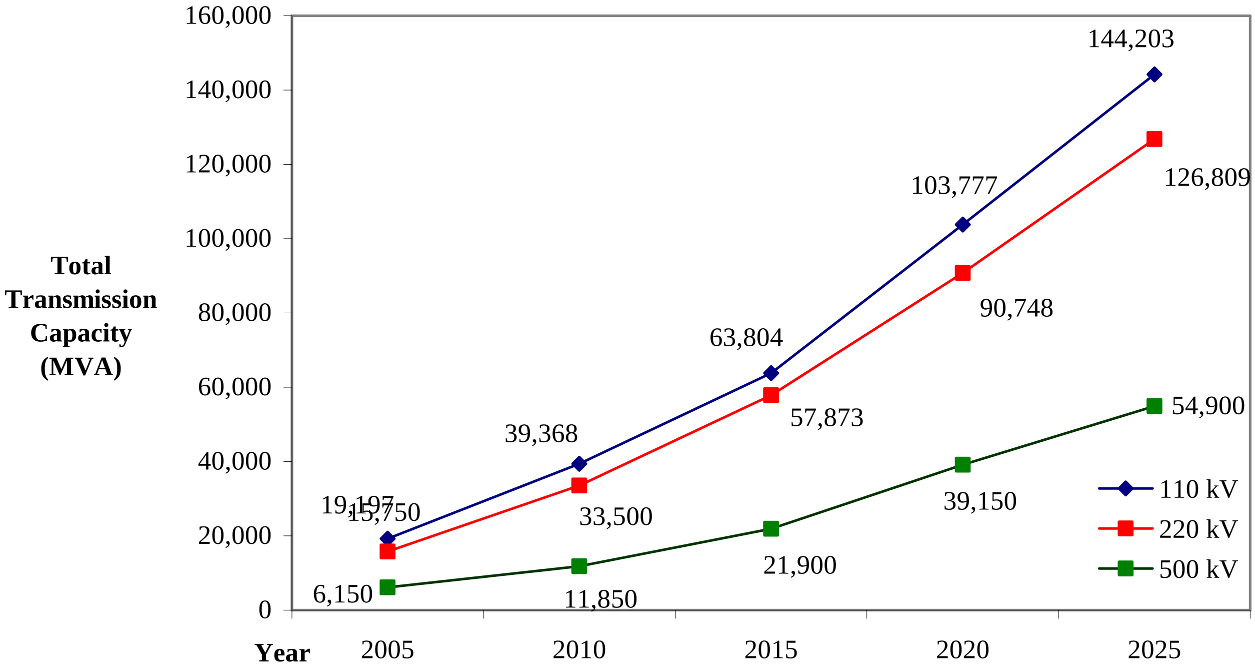
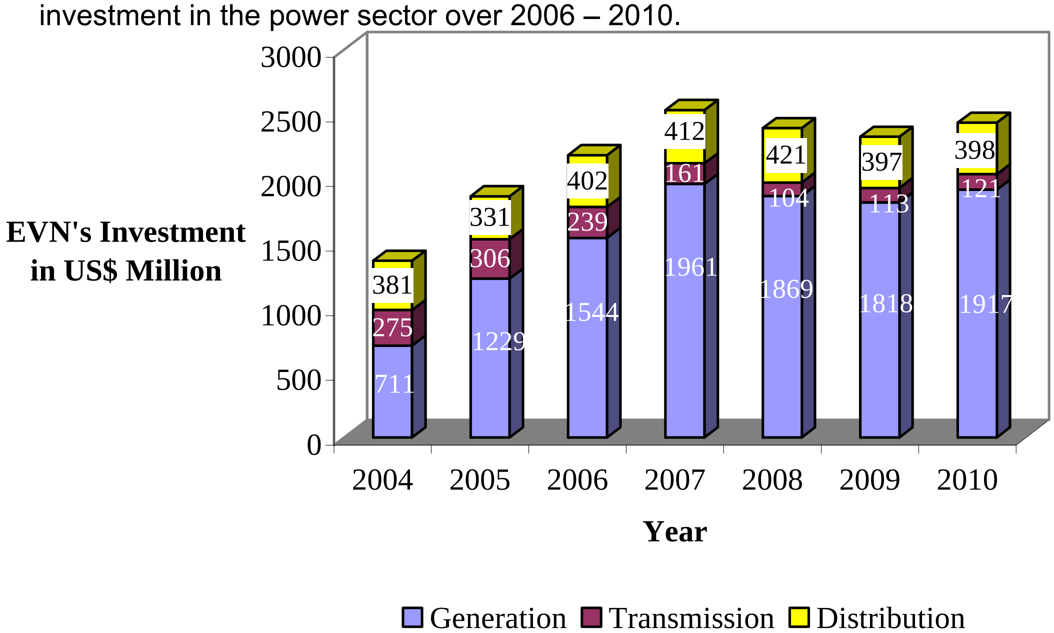


Figure 6 – Projected Expansion of the Power Transmission System by 2025 (Source: Draft Sixth Master Plan – EVN, October 2006)

In addition to the transmission system, Vietnam currently operates a power distribution system of about 115,659 km of 6kV, 10kV, 15kV, 22kV and 35kV lines with a total capacity of 3,662 MVA and 109,199 km of 220V lines with a total capacity of 32,061MVA. The rapid development of the power generation and transmission systems will require a respective expansion of the distribution system.

Investment Requirements: Over the period of 2006 to 2010, an investment of over $16 billion, including investment in IPP projects, will be needed for the development of new transmission and distribution systems, as well as about 44 new power generation projects. Sources of finance for this development are expected to come from EVN's funds (self-financing), Official Development Assistance (ODA) loans, Vietnam's Development Assistance Fund (DAF), commercial loans and foreign export credit, as well as IPP developers (private sector). The following chart depicts EVN's projected investment in the power sector over 2006 – 2010.



Independent Power Projects (IPPs): As EVN's self finance and other sources of financing can only meet about 66% of the total investment requirements, IPPs are expected to carry a large portion of the investment in the power generation sector, including those to be developed by foreign investors. In 2005, the Ministry of Industry, which is the Government agency responsible for planning, executing bidding, and contracting procedures for large IPPs, introduced a list of 15 IPP projects with a combined capacity of 11,818 MW open for foreign investment. To date, a considerable number of foreign investors have shown keen interest in developing IPP projects in Vietnam, yet few projects have been realized due to obstacles including legal and regulatory issues, low electricity purchase prices by EVN, a lack of a transparent and competitive market as well as poor coordination among related Government agencies. In recognition of these deterrents, MOI has taken radical measures in an effort to facilitate IPP development, including signing a financial advisory agreement in August 2006 with the International Finance Corporation (IFC). The major goal of this agreement is to increase private participation in the power sector through open competitive bidding. In particular, MOI and IFC expect to raise electricity purchased from IPPs from 14% of the total electricity output in 2005 to 33% by 2010.
Electricity Retail Price: The Government strictly regulates electricity retail prices, with adjustments recommended by MOI and requiring approval by the Prime Minister. A unified tariff is applicable across the country and is considered rather low in comparison with other regional countries. Both average urban and rural residential rates are cross-subsidized by higher rates for industry, commerce, and foreign consumers. To attract more investment from the private sector in developing IPP projects, MOI and EVN have been working on a three-phase roadmap over the period 2006 –2010 for price increases and gradual elimination of the Government's control. It is expected that an increase in electricity retail price will be implemented in 2007 according to the roadmap.

Establishment of Competitive Power Market: In 2004, the Vietnamese National Assembly passed the new Electricity Law that outlines the development of a competitive electricity market in three phases: the first phase focuses on creating competition in power generation, the second phase introduces competition for bulk supply of electricity, including supplying directly to major industrial customers, and the final phase involves competition at the retail level. MOI anticipates that this market restructuring process may take as long as 20 years.

Industry Restructuring: One of the many key transitional steps towards a competitive electricity market is the restructuring of EVN, a state owned monopoly with many wholly owned subsidiaries, into shareholding companies with different types of shareholders including local and foreign private investors. This restructuring aims to create a more market-oriented business model not as closely tied to Government. The enterprise reform involves splitting various subsidiary entities away from EVN to form new shareholding companies.

Best Products/Services Return to top

The power generation market may be divided into five main segments:

- Consulting and engineering services, including project management
- Installation and construction services
- Machinery, equipment and materials

- Supply of equipment, spare parts, materials, consumables, and overhaul and maintenance services (aftermarket)
- Investment in new IPP power projects in the form of BOT, BT, BTO and JV

The power transmission and distribution market may be divided into four main areas:

- Consulting and engineering services, project management
- Installation and construction services
- High, medium, and low voltage electrical equipment for the national grid
- Medium and low voltage electrical equipment for industrial, institutional and household users

American companies will find significant business opportunities in the above market segments.

Opportunities

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- Sales opportunities exist in 44 ongoing and upcoming power generation projects (a specific list of these projects can be provided on request).

- Investment opportunities in more than 15 IPP projects as proposed by M)I (a specific list of these projects can be provided on request).

- $327.8 million Second Transmission and Distribution Project II funded by the World Bank ($200 million) and the Vietnamese Government was approved in July 2005 and is to be completed in December 2010. (For more information, please visit: www.worldbank.org.am/external/default/main?pagePK=64027221&piPK=64027220&theSitePK=301579&menuPK=301612&Projectid=P084871)

- $380 million Northern Rural Power Project funded by ADB ($120 million), AFD (EUR 40 million) and the Vietnamese Government ($103 million). This project was approved in August 2005 and is to be completed in June 2009. (For more information, please visit: www.adb.org/Documents/Profiles/LOAN/32273013.ASP)

- Other EVN funded power transmission and distribution projects. Information available upon request.

Resources

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For more information, please contact the following addresses or visit the following websites:

- **Nguyen Dzung, Commercial Specialist**
  U.S. Commercial Service
  U.S. Embassy in Hanoi
  E-mail: nguyen.dzung@mail.doc.gov

- **Le Son, Commercial Specialist**
  U.S. Commercial Service
  U.S. Consulate General in Ho Chi Minh City
  E-mail: Le.Son@mail.doc.gov

U.S. Commercial Service: www.buyusa.gov/vietnam

Electricity of Vietnam Corporation: www.evn.com.vn

Ministry of Industry: www.moi.gov.vn

Asian Development Bank: www.adb.org

World Bank: www.worldbank.org

2. Telecommunication Equipment and Services

Overview

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Telecommunications Equipment	2005 (actual)	2006 (estimated)	2007 (estimated)
Total Market Size	1,155	1,650	2,060
Total Local Production	453	589	735
Total Exports	21	24	30
Total Imports	854	1,085	1350
Imports from the U.S.	97	135	170

Telecommunications Services	2005 (actual)	2006 (estimated)	2007 (estimated)
Total Market Size	2,197	2,571	3,200
Total Local Production	2,282	2,669	3,300
Total Exports	228	285	355
Total Imports	144	187	230
Imports from the U.S.	56	73	90

The above statistics are in million $and are unofficial estimates.

Vietnam has become a promising destination for investors in the Information and Communication Technology (ICT) industries. Vietnam is putting considerable effort into modernizing and expanding its telecommunications systems, although its performance continues to lag behind that of its neighbors in the region. The telecommunications industry continues to be among the top priorities for development by the Government of Vietnam.

Annual growth in the telecommunications sector is running approximately 25%. In the period 2005-2006, Vietnam's ICT growth rate has been double the average in the Asia region and triple the world average expansion rate. In the first 9 months of 2006 alone, the number of new phone subscribers in Vietnam was double the total number of subscribers for the period 1975-2000.

In Vietnam's "Strategy for Development of ICT Industries to 2010 with Orientation to 2020", it is predicted that by 2010 Vietnam's ICT industries will achieve an annual growth rate of 20-25% and annual revenue of $6-7 billion, and new telecom entrants (non-VNPT – the dominant stated-owned provider) will achieve a 40-50% market share.

Such new technologies as 3G, 4G, WiMax, mobile TV, and NGN will be promoted in Vietnam and become major trends in the development of Vietnam's telecommunications industry. With decreasing prices and increasing investment, the business environment has and will continue to become more competitive. Foreign telecom companies will initially be invited to enter the market by participating in the equitization/privatization of State-owned enterprises (SOEs).

In the past, Vietnam's telecommunications industry was partially opened to foreign telecommunication companies, but mainly as suppliers of equipment and finance in the building of network infrastructure for transfer to Vietnamese local operators. However, with Vietnam's accession to the WTO, limitations on foreign companies providing telecommunications services will be relaxed, resulting in increased competition.

Some bumps in the road affecting the development of Vietnam's telecommunications industry could result from excessively rapid growth, price competition, problems with network connectivity and indifference to the fixed telephone market.

Best Prospects/Services

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American suppliers should find excellent opportunities in almost every sub-sector, from equipment for telecom infrastructure to value-added services.

Telecommunication Carriers

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At present there are six telecommunications infrastructure operators in Vietnam, of which two are regional with geographical restrictions on their operations and another with only the ability to provide maritime communication services. Almost all Vietnamese telecommunication companies are state-owned enterprises with minor private investment, and there is cross ownership among carriers. Vietnam Post and Telematics (VNPT) is a major SOE operating in almost all telecommunications fields except for maritime telecommunications, and holds approximately 94% of the market. Viettel is under the Ministry of Defense, and provides fixed line, long distance and IP-based telecommunications services as well as lease lines, and mobile communications. EVN Telecom, wholly owned by the State-run Electricity of Vietnam Group, also provides fixed line, long distance and IP-based telecommunications services, lease lines, and mobile communications. Vishipel is a 100% owned subsidiary of Vietnam Maritime Corporation that provides marine communications services. SPT is the first enterprise to be equitized with a number of large shareholders including VNPT, which holds 18% of the total shares. Hanoi Telecom is the first telecom carrier with private investment, and this company provides services for fixed lines limited to Hanoi areas only and long distance and IP-based telecommunications, lease lines, and mobile communications. Among the licensed telecom operators, VNPT is still the dominant player accounting for 94% of fixed telephone market share and 72% of cell phone market share.

Fixed Telephone Networks

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According to the Ministry of Post and Telematics of Vietnam (MPT), as of September 2006, Vietnam had about 22.2 million phone subscribers, with a telephone density of

26.43 lines per 100 inhabitants. Telephone access is currently available to all communities nationwide.

Cell Phone Networks Return to top

2006 marked outstanding growth in Vietnam's telecommunications industry, especially the cell phone sector. The cell phone market has seen markedly lower phone charges and higher service quality over the past two years.

Figures for subscribers nationwide provided by a top VNPT executive show 2.7, 4.5 and 8.7 million people subscribing in 2003, 2004, and 2005 respectively. Estimates put the number of cell phone subscribers in 2006 at 16 million. In 2006, cell phone subscribers accounted for 61% of total phone subscribers. Predictions are that the number of cell phone subscribers will hit 20 million and 25 million in 2008 and 2010 respectively, with a phone density of 42 lines/100 inhabitants; of which 2/3 will be cell phone subscribers.

The market in Vietnam is currently divided among five cell phone network operators, with one new entrant planning to launch service soon. Investments by the major cell phone networks are: Vinaphone ($130 million), Mobifone ($456 million), S-Phone ($230 million), EVN Telecom ($630 million), and Hanoi Telecom ($656 million). The market is dominated by the three top carriers: Vinaphone (by GPC of VNPT), Mobifone (by VMS of VNPT), and Viettel Mobile, with approximately 4, 4.7, and 2.5 million subscribers respectively. S-Fone (an SPT venture with a Korean consortium) has only 4.24% market share. EVN Telecom just launched CDMA service this year, so it has a modest market share of several hundred thousand subscribers only. Hanoi Telecom will be the first to apply 3G technologies in Vietnam. This is a project between Hanoi Telecom and Hutchison Telecommunications on a CDMA2000 3G mobile network valued at $655.9 million for a period of 15 years. Hanoi Telecom is under intensive preparation for the new CDMA mobile phone network.

It is anticipated that EVN Telecom and Hanoi Telecom will bring a new breath to Vietnam's telecommunications market, though these two new cell phone carriers have not created any remarkable changes, except the action balancing the number of carriers using two different GSM and CDMA technologies, i.e. three licensed mobile network operators are running or will operate GSM mobile networks operators and three run CDMA mobile networks. Although there are now 3 CDMA networks, their development is rather weak and the number of subscribers is low. However, EVN Telecom and Hanoi Telecom use CDMA technology with advanced 3G capabilities (faster than GSM). This will certainly help them to become top carriers in the future.

Internet Return to top

Apart from the telephone market, the Internet market has also developed rapidly. Internet has become very popular with the entry of several new Internet Service Providers (ISP). WiFi is no longer a just a fancy word, with widespread usage and connectivity. Vietnamese have also become familiar with WiMax, as the Internet is being popularized nationwide.

As of September 2006, the number of Internet subscribers in Vietnam stood at 3.86 million, of which there were 375,000 broadband subscribers; with an estimated 14 million people or 16.85% of the population using the Internet regularly, expected to reach 35% by 2010. At present, the country's international bandwidth is 3,625 Mbps. Broadband market demand has increased significantly and has vastly surpassed local Internet capacity. However, Internet distribution is not uniform with 72.76% of Internet subscribers in the two cities of Hanoi and HCMC. Seven other cities and provinces including Hai Phong, Thua Thien-Hue, Quang Nam, Da Nang, Khanh Hoa, and Binh Duong account for 10.48%, and the remaining 55 provinces account only for 16.76%.

So far, there are 9 Internet service providers in operation with market shares divided as follows as of September 2006: VNPT/VDC (41.56%), FPT (22.36%), Viettel (16.49%), EVN Telecom (12.29), SPT (3.94%), Netnam (2.56%), OCI (0.54%), Tienet (0.15%), and Hanoi Telecom (0.07%).

Satellite

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In May 2006, U.S.-based Lockheed Martin and VNPT held a signing ceremony to award the U.S. firm a $168 million contract to supply Vietnam's first communications satellite. Including ground facilities, the total project is expected to cost $230 million. The satellite will be manufactured in Lockheed's Pennsylvania facility and will be launched in two years, providing roughly 15 years of service. Vinasat will be a geostationary satellite, employing eight C-band channels and 12 Ku-band channels to provide broadcast and telecommunications service (video, data, voice) to the Asia-Pacific region. With the launch of its first telecom satellite scheduled for 2008, Vietnam expects to save tens of millions of dollars each year paid by Vietnamese state-owned firms to foreign satellite operators for use of international channels.

Opportunities

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To meet increasing market demand and increased competition following Vietnam's accession to WTO, Vietnamese telecommunication operators need to enhance their competitiveness by adopting new technologies and enhancing human resource capabilities. They are seeking considerable transfer of technology and know-how via foreign involvement in the telecommunication sector, although the market is likely to open at a gradual pace in line with Vietnam's commitments.

The major buyers for the telecommunication equipment and services are listed below:

Fixed telephone service operators:

- VNPT (Vietnam Posts and Telecommunications Group)
- EVN Telecom (Electricity of Vietnam)
- Viettel (Military Electronics Telecommunications Corporation)
- SPT or Saigon Postel (Saigon Posts and Telecommunications Service Corporation)
- Hanoi Telecom (Hanoi Telecommunications Company)

International telecommunications service operators:

- VNPT (Vietnam Posts and Telecommunications Group)
- EVN Telecom (Electricity of Vietnam)
- Viettel (Military Electronics Telecommunications Corporation)

-

Long distant and international telephone service based on IP protocol operators:

- VNPT (Vietnam Posts and Telecommunications Group)
- EVN Telecom (Electricity of Vietnam)
- Viettel (Military Electronics Telecommunications Corporation)
- SPT or Saigon Postel (Saigon Posts and Telecommunications Service Corporation)
- Hanoi Telecom (Hanoi Telecommunications Company)
- Vietnam Maritime Communications and Electronics Company (Vishipel)

Mobile communications service operators:

- VNPT (Vietnam Posts and Telecommunications Group)
- Viettel (Military Electronics Telecommunications Corporation)
- SPT or Saigon Postel (Saigon Posts and Telecommunications Service Corporation)
- Hanoi Telecom (Hanoi Telecommunications Company)

Internet services providers:

- VNPT (Vietnam Posts and Telecommunications Group)
- FPT (FPT Group)
- Viettel (Military Electronics Telecommunications Corporation)
- EVN Telecom (Electricity of Vietnam)
- Hanoi Telecom (Hanoi Telecommunications Company)
- SPT or Saigon Postel (Saigon Posts and Telecommunications Service Corporation)
- OCI (One-Connection Internet Service Joint Stock Company)
- Tienet (TIE/Trade Import Export Company)
- Netnam Company (Netnam)

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For more information, please contact the following addresses or visit the following websites:

- **Nguyen Dzung, Commercial Specialist**
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- **Nguyen Hoa, Commercial Specialist**
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  U.S. Consulate General in Ho Chi Minh City
  E-mail: nguyen.hoa@mail.doc.gov

U.S. Commercial Service: www.buyusa.gov/vietnam

Vietnam's Ministry of Posts and Telematics: www.mpt.gov.vn/

Vietnam Post & Telecommunications Group: www.vnpt.com.vn/

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3. Oil and Gas Equipment and Services

Overview

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Oil and Gas Field Machinery and Services	2005 (actual)	2006 (estimated)	2007 (estimated)
Total Market Size	1,025	1,160	1,350
Total Local Production	475	555	650
Total Exports	0	0	
Total Imports	550	605	700
Imports from the U.S.	160	175	200

The above statistics are in $ millions and are unofficial estimates.

Vietnam's oil and gas industry is currently the country's biggest foreign currency earner and a major procurer of imported technology. Since the first export shipment in April 1987, crude oil has earned over $17 billion for Vietnam's economy. The oil and gas industry contributes 1 billion USD to Vietnam's State budget every year. The rapid expansion of Vietnam's economy has fueled a surging demand for energy, which is projected to grow at the rate of over 10% annually. To meet this need, the Government of Vietnam is encouraging investment from both domestic and foreign sources in offshore oil and gas exploration and production. It is estimated that an investment of about $11 billion will be required for the development of offshore activities during the period 2001- 2010.

Vietnam is ranked third in the Southeast Asian region and 31st in the world in terms of crude oil and gas output. Among the 50 field structures that proven oil and gas reserves, 20 commercial fields have been developed. In 2005, Vietnam exploited more than 20 million tons of crude oil and over 6 billion m^3 gas, exported 19.5 million tons valued at $6 billion that accounted for 25% of Vietnam's exports. It is forecasted that in 2006 Vietnam will exploit 20 million tons of crude oil and 7.5 billion m^3 gas.

Best Prospects/Services

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Vietnam's expanding offshore exploration and production has created a steadily growing market for offshore oil and gas equipment and services, which is estimated at $1.2 billion in 2006. American equipment and services have captured about 15% of the market and this share is expected to expand over the next few years. In the local market, American companies are well-known as the world leaders for advanced technologies, quality, and in-depth experience in the offshore oil and gas sector. U.S. firms are currently the most successful in the oil and gas sector in the country.

In general, U.S. suppliers of oil and gas equipment and services are quite competitive in the upstream and midstream sub-sectors where advanced technologies and reliability are strict requirements. Sales opportunities are promising in the following areas:

- 3-D Seismic Survey Equipment
- Blowout Preventers

- Buildings
- Chemicals
- Computer and Wireless Technologies
- Corrosion and Abrasion Control
- Cranes, Hoists, and Winches
- Deep-Sea Drilling Services
- Enhanced Recovery Equipment Services
- Fishing Tools
- Instruments and Control Systems
- Logging and Formation Evaluation
- Marine Equipment and Services
- Offshore Engineering & Design Services
- Offshore Platforms (Fixed and Floating)
- Offshore technology licensing
- Perforating and Testing Services
- Pollution, Oil Spill Control, and Environmental
- Power Supply, Engines, and Turbines
- Process Equipment
- Production Equipment and Services
- Project management services
- Pumps and Compressors
- Ropes, Wire Ropes, and Chains
- Rubber Products
- Software Engineering Services & Equipment
- Tools
- Tubulars and Piping
- Valves and Actuators
- Wellhead Assemblies

Well-Completion Equipment & Services

Opportunities Return to top

American companies will find significant opportunities for exporting their equipment and services to Vietnam in more than 25 ongoing offshore oil and gas exploration and production projects, as well as several gas pipeline projects. The number of projects is likely to increase substantially over the next few years as PV awards new oil and gas blocks to foreign oil and gas companies.

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For more information, please contact the following addresses or visit the following websites:

- **Nguyen Dzung, Commercial Specialist**
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  E-mail: Nguyen.Dzung@mail.doc.gov

- **Le Son, Commercial Specialist**
  U.S. Consulate General in Ho Chi Minh City
  E-mail: Le.Son@mail.doc.gov

- **Vietnam Oil and Gas Group (PetroVietnam)**
  22 Ngo Quyen Street
  Hoan Kiem District, Hanoi, Vietnam
  Tel: 84-4-825-2526
  Fax: 84-4-826-5942

U.S. Commercial Service: www.buyusa.gov/vietnam

PetroVietnam: www.petrovietnam.com.vn

Petrolimex: www.petrolimex.com.vn

(Note: The largest trade show in the oil and gas industry in Vietnam is the Vietnam Oil & Gas Expo. This show is held every two years. Since 1992, Vietnam Oil & Gas expo has been the premier international exhibition with over 8,000 professional visitors at each event. The last expo, held from October 12-14 2006, in HCMC. The next trade show will be held in 2008).

4. Computer Hardware and Software Services

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IT Market in Total			
	2004	2005	2006 (estimated)
Total Market Size	685	828	1,002

Computer Hardware			
	2004	2005	2006 (estimated)
Total Market Size	545	630	722
Total Local Production	98	115	134
Total Exports	15	18	19
Total Imports	462	533	607
Imports from the U.S.	45	55	74

Computer Software & Services			
	2004	2005	2006 (estimated)
Total Market Size	140	198	280
Total Local Production	N/A	N/A	N/A
Total Exports	N/A	N/A	N/A
Total Imports	N/A	N/A	N/A
Imports from the U.S.	19	23	31

* The above statistics are in $ millions and are unofficial estimates

The information technology industry represents one of Vietnam's fastest growing sectors. A recently published market study by a major private-sector research organization suggested that during the period 2004-2008, Vietnam's spending on this sector will rank among the top ten in the world. The Government of Vietnam has articulated its commitment to boosting the development of the Information and Communications Technology (ICT) industry, particularly in software production, Internet infrastructure, IT education promotion, and other forms of human capital development.

Vietnam's Information Technology (IT) industry recorded sales of $828 million in 2005, and is expected to reach $1,002 million in 2006 with rapid growth continuing through 2007 and beyond. Surveys conducted by international firms and local industry associations show Vietnam's IT sector growing from 20 to 25 percent annually in the coming years.

Sales in Vietnam's ICT sector have been dominated by hardware, which have accounted for approximately 80 percent of total IT spending during the past five years. This focus on hardware reflects, in large part, the widespread piracy of software and lack of effective protection of intellectual property in Vietnam. Estimates of the rate of pirated software in use in Vietnam range from 94 - 99 percent.

Vietnam's imports of computer hardware and peripherals totaled $533 million in 2005, out of total market sales worth $630 million. In 2006, sales of computers and peripherals are expected to reach $722 million, of which about $607 million will be imported. Vietnam's IT market is still concentrated in two major cities: Ho Chi Minh City (HCMC) and surrounding provinces and cities, which accounts for approximately 60 percent of all sales, and Hanoi, which accounts for about 30 percent of the market.

Internet related service providers represent another fast-growing industry sector for IT equipment, software, and service suppliers. To date, six Internet exchange access service providers (IXP), 17 Internet service providers (ISPs), and 15 On-line service providers (OSPs) have been licensed. As of September 2006, Vietnam had 3,860,264 Internet subscribers with 14,006,747 Internet users, equating to 16.85 percent of the country's population. Vietnam currently has total international bandwidth of 5,795 Mbps. These figures will increase rapidly, as there are significant efforts to broaden the availability of the Internet for public use.

Best Prospects/Services Return to top

U.S. exporters will find Vietnam an attractive market for many IT hardware products, such as networking equipment and Internet related equipment. Software and services are also among best prospects for U.S. exporters of information technology, especially enterprise applications such as Customer Relationship Management (CRM) and Enterprise Resource Planning (ERP) as Vietnam's new membership in the World Trade Organization (WTO) furthers its integration into the global economy.

Opportunities Return to top

American IT companies will find growing opportunities for doing business in Vietnam, particularly in sectors associated with Internet development. Once Vietnam implements an anticipated "e-transaction" law, e-commerce and other value-added applications and services over the Internet will drive the demand for the equipment and services needed to develop and grow the Internet infrastructure and subscriptions. These applications and services are prioritized into major areas such as e-Government, e-commerce, e-training, and e-healthcare to ensure that the entire population will have ready access to community information and services such as fire and rescue, health emergency, public order, and natural disaster response.

The IT industry offers opportunities for training service providers as well. The Government of Vietnam has drawn up an ambitious plan for the domestic industry that aims at reaching annual sales of $3 billion by 2020. The plan consists of three major programs: the development of IT human resources; the development of a software export sector; and the development of a hardware-manufacturing base. Currently, Vietnam does not have the capability to execute the Government's plan in any of these areas. In order to do so, significant investment in training and technology transfer must occur – a need that could offer significant export opportunities for American IT hardware and service suppliers.

Many leading American PC manufacturers have marketing operations in Vietnam with Dell and Hewlett-Packard leading the market. Vietnam will continue to import a significant number of PCs and peripherals. The primary customers for imported equipment are multi-national corporations, large state-owned-enterprises and the Government.

The computer services market has evolved into a two-tier market, whereby foreign computer firms serve foreign businesses operating in Vietnam and local firms cater largely to Vietnamese clients. For the most part, foreign companies seeking computer services use foreign invested service providers, while Vietnamese companies rely on local computer retailers who offer a limited package of services.

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For more information, please contact the following addresses or visit the following websites:

- **Nguyen Dzung, Commercial Specialist**
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- **Nguyen Hoa, Commercial Specialist**
  U.S. Commercial Service
  U.S. Consulate General in Ho Chi Minh City
  E-mail: nguyen.hoa@mail.doc.gov

Vietnam's National Steering Committee on ICT (NCICT)
http://www.ictcommittee.gov.vn

Ministry of Posts and Telematics (MPT)
http://www.mpt.gov.vn

Ministry of Science and Technology (MOST)
http://www.most.gov.vn

Ministry of Planning and Investment (MPI)
http://www.mpi.gov.vn

Ministry of Trade (MOT)
http://www.mot.gov.vn

Vietnam Posts and Telecommunications Corp. (VNPT)
http://www.vnpt.com.vn

Vietnam Internet Network Information Center (VNNIC)
http://www.vnnic.net.vn

HCMC Computer Association
http://www.hca.org.vn

5. Airport and Ground Support Equipment (APG), Air Traffic Management Systems (Avionics) (AVG), and Aircraft & Parts (AIR)

Overview Return to top

Airport and Ground Support Equipment	2004 (Actual)	2005 (Actual)	2006 (Estimated)
Total Market	5	7	10
Local Production	0	0	0
Total Exports	0	0	0
Total Imports	12	7	10
U.S. Imports	2	3	4

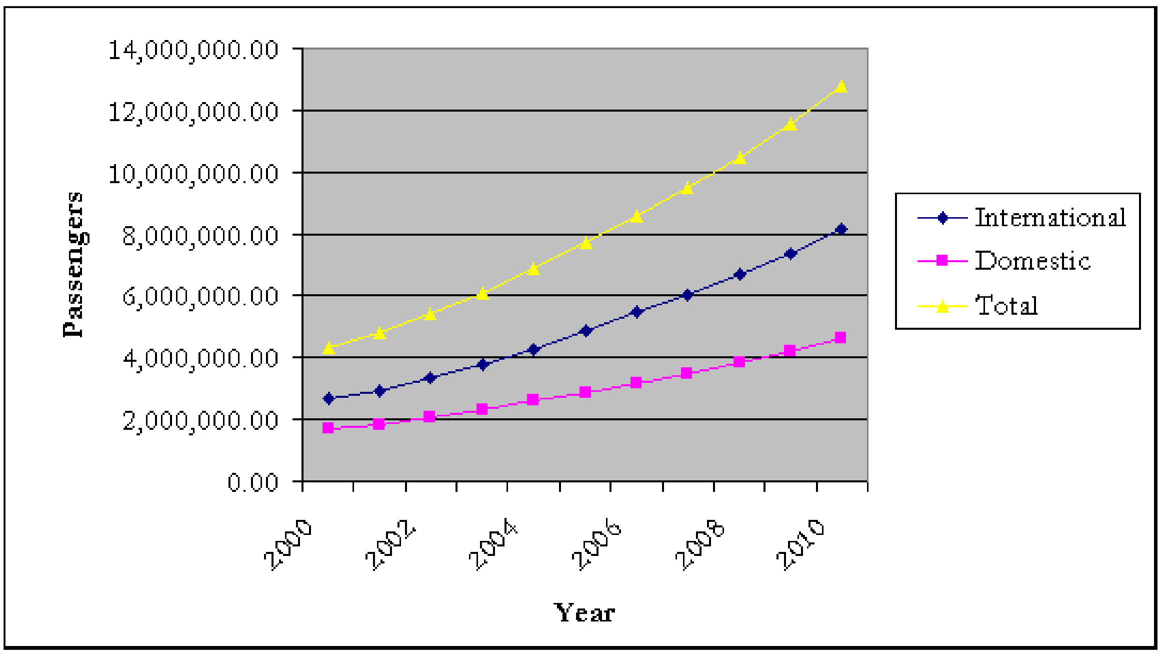
Air Traffic Management Equipment	2004 (Actual)	2005 (Actual)	2006 (Estimated)
Total Market	8	14	7
Local Production	0	0	0
Total Exports	0	0	0
Total Imports	8	18	7
U.S. Imports	4	5	3

Engines, Engine Parts and Aircraft Parts	2004 (Actual)	2005 (Actual)	2006 (Estimated)
Total Market	60	50	42
Local Production	0	0	0
Total Exports	0	0	0
Total Imports	60	50	42
U.S. Imports	27	8	5

* The above statistics are in $ millions and are based on U.S. Census Bureau's records and unofficial estimates.

Industry Organization: Aviation is one of the top priority sectors for development by the Vietnamese Government since it is viewed as a prerequisite to rapid national economic growth. The aviation industry in Vietnam comes under the principal jurisdiction and management of the Civil Aviation Administration of Vietnam (CAAV), a Government agency reporting to the Ministry of Transport.

Demand for Air Transport**:** According to the CAAV, total air passenger traffic carried during the period 2001 – 2005 reached 25.3 million with an average growth of 13.1% per year while the total volume of airport through-put of passengers was 53.5 million and achieved an average growth of 12.4% per year. In terms of airport throughput of cargo, the total volume over this period was 1.15 million tons and grew 19.4% per year on average. With regard to air traffic management, Vietnam Air Traffic Management (VATM), a subsidiary of CAAV, provided services to 1,036 million flight times with a total range of 1.2 billion km, representing average growth of 8.8% and 12% annually. The total revenue of the Vietnamese aviation sector over the period 2001-2005 was estimated at $5.4 billion, an average growth of 16.3% per year.



Passenger Traffic Forecast in Vietnam in the period 2000-2010.
Source: CAAV – 2001

In 2005, total airport through-put of passengers reached 14 million, a 16.66% increase compared with 2004, and this figure is expected to rise to over 20 million by 2010. Of this, in 2005, Vietnam Airlines (VNA) carried 6 million passengers (2.8 million international and 3.2 million domestic), an 18% year-on-year rise while Pacific Airlines (PA) and Vasco carried approximately 300,000 passengers, a 24% increase over last year. The total throughput air of cargo is estimated to grow 14 percent each year, reaching approximately 576,000 tons in 2010.

At present, there are 25 domestic and 74 international air routes operating in Vietnam's Flight Information Regions (FIR). The country currently operates a network of 22 major civil airports including three international ones: the Noi Bai in the north (Hanoi), Danang in the center and Tan Son Nhat in the south (Ho Chi Minh City). The Tan Son Nhat airport, with a capacity of 5 million passengers per year, is the largest airport in country, handling about 75 percent of the country's international passenger traffic. In terms of total airport through-put passengers, in 2005, southern airports, under the Southern Airports Authority (SAA), handled about 55% (7.7 million) of the national total, middle airports (under the Middle Airports Authority - MAA) about 13.57% (1.9 million), and northern airports (under the Northern Airports Authority - NAA) about 31.43% (4.4 million).

Major Local Airlines in Vietnam**:** VNA and PA are the two major air carriers in Vietnam. In the near future, the aviation sector is expected to be open to private and foreign companies under certain conditions. As of August 2006, VNA and Vasco, a subsidiary of VNA operating short haul domestic flights, were operating a fleet of 39 airplanes including ten B777-200ER, one B767-300ER, ten A320s-200, six A321s-200, one A330-200, three ATR72s-500, six ATR72s – 200, and two Fokker 70s. PA's fleet includes two leased Boeing 737-400s and one Airbus A320-200 (as of September 2006). In 2005, VNA accounted for 42% of the total passenger traffic in Vietnam including international and domestic flights.

In addition, there are more than 30 airlines operating international flights to Vietnam as of 2006. Industry experts expect that as many as 30 additional air carriers will enter the Vietnam market over the next ten years.

Aircraft Maintenance Centers: VNA owns and operates two major commercial maintenance centers, namely A75 in HCMC and A76 in Hanoi, which independently perform both daily and periodical checks and maintenance according to JAR/VAR-145 standards. A75 mainly focuses on Boeing aircraft while the center in Hanoi concentrates on Airbus airliners. At present, A75 and A76 can carry out maintenance services at the following levels: Dcheck (F70 and ATR72), A320 (8C-10Ycheck), B767 (Acheck), and B777 (2Ccheck). To improve the efficiency of the A75 and A76 and allow them operate as an independent business unit, VNA has carried out a plan to convert and merge them into a limited liability company under VNA some time after the end of 2006. In addition, VNA also seeks to establish a joint venture with a foreign company to provide aircraft maitenance, repair, and overhaul services to VNA's fleet and other international carriers. In May 2006, VNA signed a memorandum of understanding with the Philippines-based Milcon Gulf Group concerning a possible a joint venture in the near future.

In addition to its self-maintenance facilities, Vietnam Airlines also has maintenance contracts with Air France, AMECO of China, China Airlines, Evergreen Aviation Technologies, GAMECO, Hong Kong Aircraft Engineering Co, Lufthansa AERO, MTU Maintenance Hanover, Royal Brunei Airlines, Safe Air of New Zealand, and TAT Industries of France.

Air Traffic Management: Vietnam's FIR is divided into two areas, namely Hanoi and HCMC. At present, VATM covers FIR Hanoi and HCMC with two area control centers (located in Hanoi and HCMC), three approach control centers (in Hanoi, Danang and HCMC), 17 airport air traffic control towers, six radar stations, 16 satellite stations, 40 beacons, 20 VHF stations, and tens of digital microwave links. In 2004,VATM provided air traffic management services to nearly 100 airlines operating on 23 international routes and 15 domestic routes.

Market Liberalization: The Government is seeking to open its aviation sector to foreign carriers. The liberalization process, however, will proceed gradually in several steps, given the perceived weakness of the domestic air transport industry. The Government will phase in each step in accordance with its regional and international trade commitments and obligations, i.e., CLMV (Cambodia, Laos, Burma, Vietnam) – ASEAN – APEC – WTO.

As of the beginning of 2006, Vietnam had signed bilateral aviation agreements with 58 nations and territories. In 2004, a milestone in the aviation sector was achieved with the signing of the U.S – Vietnam Aviation Agreement, which paves the way for eventual direct passenger and cargo flights between the two countries. United and American Airlines are already in the market, albeit not yet with direct flights, and VNA anticipates direct flights to the U.S. in 2007 or 2008.

Revised Aviation Law and Draft Decree on Aviation Services: On June 29 2006, the National Assembly passed the revised Aviation Law that regulates civil aviation activities including civil aircraft, airports, airlines and other aviation businesses, air traffic management, air transport services, security, civil liabilities, state management of aviation activities, and other matters related to the aviation sector.

This law provides that domestic air transport be handled only by local companies and joint ventures between local and foreign partners. As of October 2006, CAAV is drafting a Decree on Aviation Services based on the new Aviation Law, which is expected to be completed by the end of 2006. The timeline for the approval of this decree by the Prime Minister has not been made public yet.

One of the most important articles in this decree is the pre-qualification for establishing airlines in Vietnam including (1) access to aircraft (number and types of airplanes, ownership); (2) qualified workforce capable of conducting flight operations, maintenance, and air transport; (3) minimum legal capital with a cap on foreign shares in chartered capital; (4) business proposals and strategies; and (5) premises located in Vietnam.

It is expected that the private sector, including foreign companies (in joint ventures with Vietnamese partners), will be able to participate in domestic air transport by setting up new domestic and international airlines in Vietnam.

Best Prospects/Services Return to top

American companies are highly respected in Vietnam as the world's leading equipment manufacturers and service providers in the aviation sector in terms of advanced technologies, quality, and professionalism. In the above projects, American companies will find significant opportunities for providing architectural and technical design services, engineering and construction services, and construction management services. In addition, over the last few years American firms have sold a considerable amount of airport ground support equipment (GSE), equipment for passenger terminals, air traffic management systems, telecommunication systems, software, aircraft parts as well as the transfer of aircraft maintenance and engine overhaul services.

Opportunities

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Airport and Air Traffic Management Development: According to Vietnam's long-term development plan, by the year 2025, Vietnam's aviation sector will need about $11.56 billion in investment to meet surging demands for air transport. Of this, around $6 billion will be spent on infrastructure. At present, the Government budget can only meet about 20% of the total investment required for the aviation sector. Raising sufficient funds for this development is an immense challenge for Vietnam now and in the future.

In the period 2005 – 2010, Vietnam plans to invest more than $1.3 billion in airport modernization, expansion and rehabilitation in order to accomplish an efficient network of 21 airports in operation including projects such as Noi Bai (second terminal), Na San, Dong Hoi, Cam Ranh, Chu Lai, Lien Khuong, Con Dao, Phu Quoc, Can Tho, Ca Mau, and Rach Gia. During period of 2010 – 2020, several other airports will be constructed or upgraded including the Long Thanh and Chu Lai (International), Cat Bi, Quang Ninh, Lao Cai, and Cao Bang (Domestic). A lion's share of the investment in airport projects will come from Official Development Assistance (ODA) loans from foreign Governments such as Japan and France.

In addition, Air Traffic Management (VATM) will spend over $67 million on its 46 new and ongoing air traffic management projects. Funding for these projects comes mainly from VATM's own budget accumulated from its business activities.

Air Fleet Development: Over the period 2006 – 2010, VNA plans to invest more than $1.2 billion in expanding and upgrading its aircraft fleet as well as other related facilities. By 2010, VNA is expected to own 32 planes out of 56 aircraft according to its expansion plan. By 2015, VNA anticipates increasing its fleet to 86 airplanes with an additional purchase of 19 aircraft and lease of ten beginning in 2012.

Under a plan proposed by a potential U.S. partner to restructure, the Pacific Airlines fleet could expand to 20 airplanes in the near future. The company recently launched a new online reservations and e-ticketing system that is expected to significantly lower its operating overhead as it competes as low cost carrier.

The aircraft maintenance service and parts segments are expected to grow sharply over the next five years. One of VNA's strategies is to upgrade the existing facilities and human resources at the A75 and A76 centers in order to be able to maintain and overhaul up to 80% of mechanical and 60% of electronic parts for VNA's fleet and other airlines. In addition, these maintenance centers will be further modernized to handle engine repair for a majority of VNA's aircraft, and will seek to overhaul engines after 2010.

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To enter the market, U.S. equipment suppliers and service providers are well advised to register their interest and capabilities with the appropriate agencies, particularly CAAV, VNA and its subsidiaries. The Commercial Service Offices in Vietnam should be contacted for assistance in the registration process and the selection of reputable local firms for collaborative arrangements, which is one of the prerequisites for success in the market. As a result, interested U.S. firms are urged to consider establishing joint ventures or other forms of strategic alliances with local companies in pursuing their projects in Vietnam. For more information, please contact the following addresses or visit the following websites:

- **Le Son, Commercial Specialist**
  U.S. Commercial Service
  U.S. Consulate General in Ho Chi Minh City
  E-mail: Le.Son@mail.doc.gov
  www.buyusa.gov/vietnam

- **Ha Ngoc Anh, Commercial Specialist**
  U.S. Commercial Service
  U.S. Embassy in Hanoi
  E-mail: Ha.Anh@mail.doc.gov
  www.buyusa.gov/vietnam

6. Environment and Pollution Control Equipment/Services

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	2004 (actual)	2005 (actual)	2006 (estimated)
Total Market Size	480	520	590
Total Local Production	290	320	340
Total Exports	0	0	0
Total Imports	190	200	250
Imports from the US	15	17	19.5
Exchange rate ($/VND)	*15,700*	*15,900*	*16,100*

** The above statistics are in $millions and are unofficial estimates based on the total ODA funding of environmental projects underway and in the pipeline, as well as projects undertaken by urban and industrial entities including water resources funds.*

As a result of rapid economic development, population growth, and urbanization, Vietnam faces significant environmental challenges. In 2006, Vietnam's pollution “hot spots” included solid waste, water and air pollution, with water pollution and solid waste treatment being the biggest challenges for the Ministry of Natural Resources and Environment (MONRE). According to MONRE, Vietnam's environmental situation is deteriorating due to a lack of Governmental resources to address these issues.

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<u>Equipment and services for municipal water supply and wastewater treatment:</u> According to Vietnam’s Ministry of Construction, only 200 of the country’s 689 cities provide clean drinking water through central municipal treatment plants. These potable water treatment plants have an average capacity ranging from 500 to 3000m3/day. Two-thirds of the potable water is derived from surface water and one-third is from underground sources.

At the above production rate, only 60 percent of the population has access to clean water. Meanwhile, the average rate of clean water leakage in urban areas is 36 percent and reaches 50 percent in some places. In order to improve this situation the Government issued a development plan for water supply with the objective of providing clean water for 80 percent of the population by the year 2010. The Vietnam Water Supply and Sewage Association (VWSA) estimates that total investment for water supply projects will be more than $2 billion over the next ten years.

Pollution levels in surface water and ground water are another critical concern of the Government. According to new research by the Department of Natural Resources and Environment in Ho Chi Minh City, total organic carbon (TOC) content of groundwater in some places is 31-86mg/l. Biochemical oxygen demand (BOD) of some large rivers supplying water to municipal water treatment plants is higher than 5mg/l. Meanwhile, all drinking water treatment plants in Vietnam lack the ability to reduce BOD levels. In order to upgrade the current treatment process in Ho Chi Minh City alone, the Government must invest $133 million per year for the next five years, which represents one percent of the city's GDP.

Domestic Wastewater: Drainage and sewage problems also represent a growing concern. Vietnam's rapid urbanization and industrialization over the last ten years have placed huge demands on its outdated sewage systems, much of which were constructed in the 19^{th} century. Most drainage systems are for combined usage, mixing rainwater runoff with untreated domestic wastewater. At present, except for Ho Chi Minh City, Can Tho and Danang, which have projects underway to collect domestic wastewater for treatment, none of the cities or provinces within the country has a centralized wastewater treatment plant.

Industrial wastewater: Industrial wastewater is also having a negative impact on the environment. Throughout the country, there are 74 operating industrial zones (IZs), four of which are export processing zones and another two being high-tech parks. According to a 2004 Government report, only 15 IZs have centralized wastewater treatment plants. In Ho Chi Minh City, only five out of 15 IZs & Export Processing Zones (EPZs) have established wastewater treatment systems. This has resulted in the direct discharge of untreated industrial wastewater into the environment. However, responding to the lead of good corporate citizenship standards practiced by many multinational corporations, this problem is drawing greater attention from both the Government and private sector. City authorities have decided to relocate industrial polluters from residential areas to regulated zones or industrial parks. To help local businesses with relocation efforts, financial assistance programs have been launched under the Environmental Revolving Fund and the Development Assistance Fund, which should attract more pollution control equipment investment in the coming years.

Domestic solid waste: Another great concern is the mass accumulation of solid waste in the country. According to the Ministry of Natural Resources and Environment, more than 20,000 tons of solid waste is generated in Vietnam each day, of which 6,000 tons is generated in Ho Chi Minh City alone.

Up to now, burying domestic solid waste at landfills has been the only treatment method used in Vietnam. In Ho Chi Minh City, there are three landfills under operation and another is planned. However, only one of these three landfills has a treatment facility for wastewater leakage. The leachate from the other landfills is causing severe pollution to underground water in the surrounding area. Several American companies are now pursuing investments in solid waste treatment facilities in Ho Chi Minh City and other parts of the country. Three major projects proposed by American firms have already received Vietnamese Government approval.

Hazardous solid waste from factories and hospitals: Except for solid waste from hospitals that is collected and burned in a controlled environment, most industrial waste is still disposed of together with domestic waste without proper treatment. Currently, there is no industrial waste management and control system in place in Vietnam. Contamination from pesticides and agricultural chemical runoff is growing at an alarming rate.

Opportunities Return to top

American technology is considered the leader in environmental equipment and technology. Vietnam currently has a huge requirement for equipment, technology and services, thus American environmental companies will find numerous opportunities to export their products and services to Vietnam.

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Information relating to environmental projects can be collected by working with the Ministry of Natural Resources and Environment / Division of Environment and the Environmental Protection Agency of every city.

Further information on environmental projects can be obtained from the U.S. Commercial Service in Ho Chi Minh City and Hanoi via the following addresses and website:

- Ms. Ngo Anh, Commercial Specialist
  U.S. Commercial Service
  U.S. Embassy in Hanoi
  Email: ngo.anh@mail.doc.gov
  Website: www.buyusa.gov/vietnam

- Ms. Vo Thuy, Commercial Specialist
  U.S. Commercial Service
  U.S. Consulate General in Ho Chi Minh City
  Email: vo.thuy@mail.doc.gov
  Website: www.buyusa.gov/vietnam

7. Medical Equipment

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	2005 (actual)	2006 (actual)	2007 (estimated)
Total Market Size	186.5	194.0	205.0
Total Local Production	3.5	4.0	5.0
Total Exports	0	0	0
Total Imports	183.0	190.0	200.0
Imports from the U.S.	45.5	50.0	60.0

Vietnam represents a potentially large opportunity for U.S. exporters of medical equipment, with a population of 85 million and GDP growth of more than 8 percent annually. According to the Vietnam Ministry of Health (MOH), the health care system consists of 13,053 facilities with 185,900 beds. These hospitals are generally overcrowded with a bed utilization rate of 15 per 10,000 inhabitants. Many hospitals are lacking in specialized medical equipment, presenting problems for both patients and physicians. Budget allocations from the Government and international aid groups are the main sources of funding for Vietnamese hospitals, but these sources do not fully cover system demands. The average budget expenditure for healthcare is $5 per capita compared to $8 in Laos, $7 in Indonesia, $44 in Thailand, and $63 in Malaysia.

According to industry estimates, the market for medical equipment will be worth $205 million in 2007 and is growing by 10 percent each year. Since local production is small, the market relies almost entirely on imports. Top foreign suppliers include Germany, Japan and the United States, each accounting for 30 percent of the market. Vietnam also imports medical equipment from France, Italy, Korea, and Taiwan.

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U.S. medical equipment enjoys a strong reputation for high quality and reliability in Vietnam. In 2007, imports from the U.S. are expected to reach $60 million. The best sales prospects for U.S. manufacturers of medical equipment are imaging diagnostic equipment (i.e., X-ray machines, CT Scanners, Color Ultrasound machines, Magnetic Resonance Imaging machines), laboratory equipment, operating theaters and sterilizing equipment, patient monitoring equipment and emergency equipment.

Buyers of medical equipment can be grouped into four categories:

- Government-funded hospitals, clinics, and health care centers purchase the largest quantity of medical equipment. With financial support from the Government, they tend to look for advanced and brand name equipment.
- Wholly foreign-owned and joint-venture hospitals, clinics, and health care centers are significant buyers, although they often procure directly from their sponsoring country.

- 26 local private hospitals nationwide that are keen to upgrade to advanced equipment
- Five medical education and research institutions that are open to experimenting with new, innovative methods and systems. These end-users present an excellent strategic opportunity to market U.S. equipment in Vietnam, given their desire to explore new technologies.

Imports of medical equipment face low import duties and no quota restrictions. Only Vietnamese companies are eligible to distribute medical equipment in Vietnam. Foreign suppliers sell their products through local distributors or agents. The agents provide immediate access to an established marketing network and in-depth knowledge about pertinent regulations. Buyers and end-users expect a local representative to handle after-sales service and stock spare parts. It is essential that U.S. companies seeking to import and market medical equipment in Vietnam have a local partner with strong technical skills and good connections with the Ministry of Health (MOH), hospitals and other health care facilities.

Most imports of used and refurbished medical equipment are strictly controlled by the MOH. Decision 2019/1997/QD-BKHCNMT dated December 1, 1997, stipulates that the Ministry of Science, Technology, and Environment (MOSTE) must inspect and certify all imports of used medical equipment. Such used medical equipment must retain at least 80 percent of its life expectancy and must have fuel or electricity consumption ratings that do not exceed 110 percent of the consumption of newer versions of the equipment.
The Government is encouraging foreign investment into the sector. Incentives are being offered for construction of hospitals and production of pharmaceuticals and medical equipment.

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According to the MOH, between 2006 to 2010, the Government is expects to spend $1.8 billion to build and equip 57 new hospitals, of which over $1 billion will be spent on medical equipment. Foreign aid and loans will be used to upgrade provincial hospitals, district clinics and communal health centers, as well as fund epidemic prevention drives and medical check-ups for the poor. These projects address safe blood transfusion, HIV/AIDS prevention and care, and the need to upgrade central hospitals in the city of Hue, health care for people in the Central Highlands and poor people in the mountainous northern provinces.
The above projects offer export opportunities to U.S. medical equipment suppliers, architects, and consultancy and training services providers.

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Vietnam's healthcare information and projects are available at the following websites:

Vietnam's Ministry of Health: www.moh.gov.vn
The World Bank: www.worldbank.org.vn
The ADB: http://www.adb.org/VietNam/projects.asp

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8. Safety and Security Equipment

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	2004	2005	2006 (estimated)
Total Market Size	71.5	80	90
Total Local Production	4.5	5	6
Total Exports	0	0	0
Total Imports	67	75	84
Imports from the U.S.	17	19	22.5

The above statistics are in $ million and are unofficial estimates.

Although fire safety and security regulations are often applied in an arbitrary fashion, the Vietnamese Government has undertaken efforts to increase security in public areas, most notably at airports, governmental and corporate buildings, and foreign/international organization sites.

Safety equipment accounts for 60 percent and security equipment accounts for 40 percent of the total market. This industry is experiencing a growing demand in commercial sectors such as construction, commercial and residential buildings, banks, municipal fire prevention and fire fighting, maritime facilities and at airport facilities. A significant portion of the demand for safety and security equipment in Vietnam is tied to the development of foreign-invested construction and manufacturing projects. The current growth of foreign businesses and of Government spending on infrastructure has stimulated the safety and security equipment market. Security equipment import taxes range from 0% - 40%, depending on the components and the manner in which the components and systems are imported into Vietnam. Building-related equipment and systems with foreign investor's capital contribution can be imported duty free. The Government monitors the sector under Decree 14/2001/ND-CP which rules that foreign organizations are not allowed to provide security services. They are, however, permitted to produce and repair equipment and tools used for security purposes. The import or export of security equipment requires approval from the Ministry of Public Security.

There is very little domestic production of safety and security equipment. About 90 percent of the market is served by imports. In 2005, imports from the United States were approximately $19 million, with estimates for 2006 at around $22.5 million.

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Although demand for safety and security equipment from the commercial sector such as buildings, housing and hotels has increased modestly, the demand from the industrial sector and infrastructure developments has grown more rapidly. Specifically, there is increasing demand for specialized foam, CO_2 and inert gas suppression systems and gas detection systems from industrial and infrastructure projects such as power generation plants, oil and gas processing plants and airports.

There are gradually increasing opportunities for U.S. suppliers to provide sprinkler heads, sensors, hose/reels and break glass alarms. U.S. companies have also been successful in supplying control panels, fire extinguishers, hydrants, and pumps to oil and gas operations as well as several power plants and airport projects in Vietnam.

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Primary sales of safety and security equipment have occurred in the construction market, where development of transport (roads and bridges), power (thermal and hydro), oil and gas (plant and pipeline), environment (water drainage), and buildings (hotels and commercial sites) has outpaced other types of development projects. Foreign development companies have been the predominant buyers.

Fire fighting and fire protection equipment is in big demand, especially after a tragic fire with high casualties at a shopping center in Ho Chi Minh City in late 2002. More than 95 percent of Vietnam's security safety equipment/systems are imports since the supply of domestic equipment by local companies is limited. Local manufacturers currently produce only low-end items such as locks, safes, safety gloves and ropes.

Competition in this sector is intense. Major suppliers include Japan, England, South Korea, Malaysia, Singapore, China, and Taiwan. In general, U.S. companies will find greater success in the high-end commercial and residential market, including foreign-invested enterprises, since they are much less price-sensitive and prefer the brand name recognition and quality of American safety and security equipment and services.

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For further information, please contact the following persons:

- Ms. Ngo Minh PHUONG
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  6 Ngoc Khanh St, 3rd Floor, Hanoi, Vietnam
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  E-mail: Ngo.Phuong@mail.doc.gov

- Ms. Vo Mac THUY
  U.S. Commercial Service Ho Chi Minh City - US Embassy
  65 Le Loi Blvd, Dist 1, HCMC, Vietnam
  Tel: (848) 825-0490; Fax: (848) 825-0491
  E-mail: Vo.Thuye@mail.doc.gov

9. Education and Training

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	2004	2005	2006 (estimated)
Total Market Size	62.2	73.0	74.0
Total Local Production	32.0	35.8	36.0

Total Exports	0	0	0
Total Imports	30.2	37.2	38.0
Imports from the U.S.	13.2	14.5	16.0

The above statistics are in $ million and are unofficial estimates.

The demand for education and training in Vietnam is significant given an economic growth rate of 7-8 percent in recent years (GDP growth of 8.2% for 2006) and a young population of 83 million people. Strong industrial growth (approximately 15% in 2005 and 2006) and expanding foreign investment is generating the need for a variety of workplace skills that are currently in a short supply. Creating a better-trained workforce will be a key pillar to Vietnam sustaining long-term economic growth and developing an internationally competitive workforce. To this end, over the last few years the Vietnamese Government has increased budget allocations, liberalized private sector involvement, and encouraged foreign participation in developing education and training services in Vietnam. The Government has developed a long-term Education Development Strategy for 2001 to 2010, and estimates that the share of education expenditure could increase to 6.9% of GDP and 20% of total government expenditures by 2010.

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The best prospects for U.S. providers are English language training, corporate training, vocational and technical training (including information technology and basic manufacturing skills), post-secondary education (including overseas study programs), and consulting services.

English has become the language of choice for Vietnamese seeking to enhance their educational and career opportunities. State-owned institutions, public schools, and English learning centers are seeking help to upgrade both standard and specialized English courses. Schools and centers specializing in TOEFL and IELST training for study abroad will find rapidly expanding markets in Vietnam's major cities.

In the process of Vietnam's integration into the world economy, management at all levels desperately needs business and related soft skills training. Vietnamese business entities prefer short- term training courses and practical methodologies that can be quickly applied in the daily work environment.

Many jobs being created in Vietnam's transitional economy require technical skills, generating increased need for vocational education. The demand for skilled workers and production technicians is already acute and is expected to remain so. This demand is spurring increased interest in two types of post-secondary education involving foreign entities: foreign education programs and overseas study.

Many Vietnamese students have been able to take advantage of scholarships and bilateral aid programs to support their study abroad. However, an increasing number of Vietnamese students are able to contribute significantly to funding their own education. The Government has also been involved in implementing its own programs to foster the further study abroad of officials and employees with the long-term goal of enhancing the capabilities of the Government workforce.

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A significant increase in per capita income in the past ten years, a booming private sector, and the traditional value Vietnamese place on education are creating significant opportunities for education and training services. Business surveys have highlighted that Vietnam has serious shortages of highly skilled persons, particularly in the areas of services, informatics technology, banking and finance. In recognition of the importance of a skilled labor force, the Government is encouraging the development of education, and vocational education. Many Vietnamese provincial level governments have also developed their specific proposals for inviting foreign investment in this sector.

The Ministry of Education and Training (MOET) has encouraged foreign educational entities to become involved in the education and training sector, especially in the development of new disciplines such as information technology and environmental science, and other scientific fields that are not yet widely available in Vietnam.

A segment of higher education that is growing quickly within Vietnam is the establishment of foreign education programs run either entirely by foreign universities or through cooperation between foreign and Vietnamese institutions. The sector received a boost with the enactment of Decree No. 06/2000/ND-CP, dated March 6, 2000, which provided incentives for foreign investment in several areas, including education and training. Foreign entities are encouraged to develop training programs for scientists, technicians, managers, and experts in economics, technology, natural sciences, the environment and culture.

In December 2005, MOET issued a decision allowing nine universities to pilot 10 foreign educational curricula, starting with the 2006-2007 school year. The pilot disciplines are in the fields of natural science, technology, and economic management. Preference is also given to educational curricula involving foreign lecturers. Examples of education initiatives involving foreign firms include the University of Natural Science in Ho Chi Minh City, which has already signed a cooperation memorandum with Texas State University to provide four-year programs for bachelor's degrees in the field of informatics technology (two years in Vietnam and two years in the U.S.) and for master's degrees (one year in Vietnam and one year in the U.S.). Recently, Hawaii University signed a cooperation agreement with the National University in Ho Chi Minh City to run master's degree level courses in Vietnam.

The Vietnamese Government has also identified vocational education as a major area for future investment and improvement. Under Government targets, 30% of the country's workforce would ideally receive vocational training by 2005, and 40% by 2010. Priority will be given to training workers for high-tech fields such as information technology, biology, materials engineering and automation, as well as economic and social management.

A number of education and training consulting opportunities arise from Official Development Assistance (ODA)-financed projects including World Bank and Asian Development Bank projects to upgrade training, curriculum development, and equipment within the country's upper secondary and post-secondary education systems.

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U.S. education and training providers are encouraged to participate in the annual Education Fair organized by the Institute of International Education. Information can be found at: www.iie.org

Information on Vietnam's education and training projects are available at the following major websites:

The World Bank: www.worldbank.org/vn
The Asian Development Bank: www.adb.org/Vietnam

For further information, please contact the following persons/agencies:

1. Ms. Ngo Thuc Anh
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Tel: (844) 831-4650; Fax: (844) 831-4540
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2. Mr. Le Anh
U.S. Commercial Service Ho Chi Minh City – U.S. Consulate General
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10. Franchising

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	2004	2005	2006
Total Market Size	N/A	N/A	N/A
Total Local Production	N/A	N/A	N/A
Total Exports	N/A	N/A	N/A
Total Imports	N/A	N/A	N/A
Imports from the U.S.	N/A	N/A	N/A

(*Data is not available*)

The franchising market has experienced a recent surge with an average growth rate of 30 percent, witnessing an opening of more than 530 franchising shops in recent years. Although the market is still quite small, it is expected to grow quickly. On March 31, 2006, the Government issued Decree No. 35/2006/ND-CP, the first decree specifically aimed at regulating franchising in Vietnam. It provides key guidelines for franchise agreements and state administration of franchises. As this is untapped territory in many ways, there should be opportunities in a wide variety of sectors, and a strong surge of interest in U.S. franchises is anticipated.

Observers note that Vietnam currently has major advantages for franchise development. First, the economy has been growing steadily at 7-8 percent in recent years. Second, a young population of 83 million people is seeing living standards rise as disposable income increases. Particularly in the urban areas, consumer demand is surging for higher quality products and services that cannot be satisfied by local production. Franchising businesses that introduce Western and high-end products and services could help meet that growing demand. Third, Vietnam is politically stable and welcomes foreign investment. Just as important, the overall business environment is improving in various ways as Vietnam changes to meet its obligations as a member of the World Trade Organization.

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Most existing franchise operations in Vietnam are in the fast food sector. Other franchising business opportunities are generally unexplored. Industry experts foresee that with the new franchise law and other pertinent regulations in place, the franchise market could grow an average 20% - 30% annually over the next several years. There are several factors that will contribute to the growth of foreign franchises in Vietnam and that will attract foreign franchisors to participate in this market, not only in the food and beverages sector, but also other sectors such as fashion, health care services, children's services, cleaning and sanitation, employment services, tourism, hotels and motels, home furnishing, education products and services, convenience stores, cosmetics, beauty care and many others.

The franchise market in Vietnam, still in an introductory stage, is quite open. Presently, most third-party franchising businesses are concentrated in the food and beverages sector with such popular brands as KFC, Jollibee, Lotteria, Dilmah, and Qualitea already establishing a presence.

U.S. brands are well received by local consumers who associate them with superior quality, excellent customer service, and a Western lifestyle. High demand for U.S. franchises, especially in service sectors (including fast food, education and training, business management, and retailing), present significant commercial opportunities.

As mentioned above, the Government of Vietnam issued Decree No 35/2006/ND-CP regulating franchises in Viet Nam. This decree elaborates on the Commercial Law adopted by the National Assembly in 2005. The new decree provides key concepts in franchising, requirements for franchise agreements and State administration of franchises. According to industry experts, this decree is an important step in building the legal framework for this sector.

The Ministry of Trade (MOT) is the authority for registration of franchising agreements involving foreign entities in Vietnam and franchising agreements involving Vietnamese entities overseas. Franchisees must register their company at the Provincial Department of Trade in the jurisdiction where they will establish their business or with the MOT. The application for registration must be submitted to the appropriate authority within 15 working days of the date the parties sign the agreement. The relevant authority has five working days from the receipt of a complete and proper application to carry out the registration.

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To be successful in Vietnam, new-to-the market U.S. franchisors should take the following suggestions into account:

- U.S. franchisors should register their intellectual property rights and be prepared to take legal action against IP violations.
- Understand cultural differences and adjust market strategy accordingly. U.S. franchisors should take local culture, habits, and tastes into consideration to be successful in this market.
- Be sensitive to product pricing and franchising fees for rapid expansion in the market. Vietnamese are very price-conscious and local incomes are substantially lower than in the United States, or, for that matter as compared with many other countries in the region. Moreover, local investors may not be familiar with and are reluctant to invest millions of dollars in a new business concept. The specifics of the market will require a flexible approach.
- U.S. franchisors may wish to work with the U.S. Commercial Service in Vietnam for assistance in identifying potential partners.

The U.S. Commercial Service is also organizing a Vietnamese delegation to visit International Franchise Expo, March 2007 in Washington D.C.

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For more information, please contact:

1. Ms. Anh Ha, Commercial Specialist
   U.S. Commercial Service
   U.S. Embassy in Hanoi
   E-mail: Ha.Anh@mail.doc.gov

2. Mr. Le Anh
   U.S. Commercial Service
   Ho Chi Minh City – U.S. Consulate General
   E-mail: Le.Anh@mail.doc.gov

And visit our website at www.buyusa.gov/vietnam

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Overview

United States' agricultural trade with Vietnam continues to be lopsided in Vietnam's favor. During the first 10 months of 2006, the United States exported $236 million agricultural, fish, and forest products to Vietnam, while U.S. imports from Vietnam totaled $968 million, not including furniture imports of approximately $607 million. Still, U.S. agricultural exports to Vietnam have been growing steadily and have had a threefold increase over the last five years. Conversely, imports from Vietnam have only grown about seventy percent over the last five years. With Vietnam's final accession to the WTO in January 2007, it is left to be seen how this situation will change as tariffs and fees are reduced or eliminated.

The principal U.S. agricultural exports to Vietnam are manufacturing inputs like cotton, hardwood lumber, and hides and skins. Nevertheless, more consumption-oriented products like, red meats, dairy products and fresh fruit showed strong growth during the first 10 months of 2006, up 85 percent as a category. As in previous years, the main U.S. imports from Vietnam during 2006 were basa fish, shrimp, coffee, cashews, pepper, and rubber. The actual value of U.S. agricultural products entering Vietnam may be somewhat higher than the official figures owing to transshipments through Singapore and Hong Kong, as well as informal entry of products from neighboring countries.

U.S. agricultural export opportunities appear brighter than ever in Vietnam. The country's furniture and textiles sectors continue their rapid growth and expansion; infrastructure continues to improve; and, the number of supermarkets, hotels, and resort communities continues to multiply. While Vietnam is currently a net exporter of food, particularly seafood and fresh-water fish, per capita arable land is low, even by Asian standards. As incomes continue to increase in this fast-growing Asian economy, the demand for protein, in general, and livestock and aquatic products, in particular, will significantly increase demand for imports of feed and meat. Increasing incomes will also undoubtedly lead to a more diverse diet for many Vietnamese, thus increasing the demand for many foods and drinks not readily available or locally produced.

For the most up-to-date information, please contact FAS/Vietnam. Please also visit USDA/Foreign Agricultural Service's website at http://www.fas.usda.gov for additional agricultural market reports.

Soybean Meal and Soybeans

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Soybean meal imports continue to grow in keeping with demand from the thriving livestock and aquatic sectors. Expectations are that the demand for soybean meal will continue, at least for the foreseeable future, given that Vietnam still has no industrial-scale crushers to produce meal locally. The U.S. is not competitive against India and Argentina, which together account for the bulk of the market.

Vietnam's import of soybean meal emphasizes the shortage of protein sources in the country. Despite the Government's best efforts, growth in oilseed production has fallen far short of fulfilling the country's protein needs. In the longer term this could bode well for U.S. soybean exports. Under the current tariff structure, soybean meal has no import duty, unrefined oil has a 5 percent tariff, refined oil has a 30 percent duty, and soybeans now enjoy a reduced tariff rate of 5 percent for imports from countries with Most Favored Nation (MFN) standing with Vietnam. The reduced tariff rate for soybeans may now make building crushers seem a more attractive investment. In such a case, soybean imports could increase considerably, and unlike soybean meal, the United States is competitive in soybeans.

Vietnam now has two new deep-water ports, Cai Mep Interflour port on the Thi Vai River (50 kilometers from Ho Chi Minh City) and the port of Cai Lan, which serves the northern half of Vietnam. Unlike the port of Ho Chi Minh, these ports can handle panamax vessels (50,000 tons plus), which will lower freight costs for U.S. commodities shipped to Vietnam.

Marketing efforts in Vietnam are supported by the American Soybean Association (ASA) office in Hanoi.

Soybean Meal
Unit: 1,000 metric tons

	2002	2003	2004	2005	2006 Jan-Oct
Total Consumption	785	990	950	1247	1470
Total Local Production	0	0	0	0	0
Total Imports	785	990	950	1247	1470
Total Exports	0	0	0	0	0
Total Imports from the U.S.	26	44.5	17.5	18.6	24

The above statistics are unofficial estimates

Bulk Cotton

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Vietnam has a rapidly growing and vibrant textile industry, based mostly on imported raw cotton or synthetic fiber. Textiles are one of Vietnam's top foreign exchange earners, with an estimated $4.8 billion in export sales in 2006. Local cotton production currently meets only about 10 percent of total demand. U.S. cotton exports during the first 10 months of 2005 had a value of $47.2 million.

Marketing efforts are directed by the Cotton Council's International Regional Office in Hong Kong, and U.S. technical information is provided by Cotton Incorporated's Regional Office in Singapore.

Bulk Cotton
Unit: 1,000 metric tons

	2002	2003	2004	2005	2006 est.
Total Consumption	120	130	146	165	170
Total Local Production	12	11	11	10.4	10.7
Total Import	111	88	135	155	160

Total Export	0	0	0	0	0
Total Import from the U.S.	30	30	44	53	53

The above statistics are unofficial estimates.
Current import duty for cotton lint is 0%.

Wheat and Wheat Flour

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Vietnam is quickly moving from being a wheat flour to a wheat grain market on the heels of increased investments in new mills. Present milling capacity is estimated at two million metric tons per year. Compared to wealthier neighbors, per capita wheat consumption in Vietnam is low. However, with the prospects for increasing incomes in this fast-growing economy, demand will likely increase, especially given that Vietnam produces no wheat and has a strong culture of bread, cake and other wheat products consumption. U.S. wheat will also benefit from such infrastructural improvements as the expansion of grain handling facilities and the new deep water ports that can now handle Panamax (50,000 ton plus) vessels, thereby lowering the unit cost of delivered grain.

Wheat marketing efforts are directed by the U.S. Wheat Associates Regional Office in Singapore.

Wheat
Unit: 1,000 metric tons

	2002	2003	2004	2005	Jan – Oct 2006
Total Consumption	855	915	800	1,118	996
Total Local Production	0	0	0	0	0
Total Imports	855	915	800	1,118	996
Total Exports	0	0	0	0	0
Total Imports from the U.S.	35	29	40	22	22

The above statistics are unofficial estimates.
Current import duty is: 5% for wheat and 20% for wheat flour.

Livestock Genetics

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Vietnam has set ambitious goals for livestock production in its effort to raise per capita consumption of animal proteins in the local diet, as well as develop an export sector. Although expectations for exports may be overly optimistic, domestic meat consumption seems likely to increase steadily in coming years. The growth of the livestock sector has been supported by foreign investment in commercial feed mills and livestock genetics. There is considerable interest in U.S. animal genetics to improve local swine, chicken, and dairy breeds.

Live Animals

Total Herd Size (1,000 Head)-Note Herd Size	2002	2003	2004	2005	2006 est.
Dairy Cows	54	79	96	104	126
Beef Cattle	4,062	4,394	4,907	5,541	5,870
Swine	23,100	25,461	26,145	27,400	28,369
Chickens	159,000	185,000	159,000	158,500	173,000

Ducks	60,031	64,233	59,000	60,000	55,000
U.S. Live Animal Export (Thousand Dollars)	261	215	126	20	126

The above statistics are unofficial estimates.
Current import duty is: 0% for breeding animal and 5% for other live animals.

Fresh Fruit and Vegetables

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According to unofficial data, Vietnam's 2005 imports of apple and table grapes totaled $18.1 million and $8.2 million, respectively. Vietnam also imports (and in some cases, exports) many other types of fruits and vegetables; however, official trade data is unavailable. While the U.S. market share of 50 percent for table grapes has remained stable in recent years, the market share for apples has fallen from 50 percent in 1994 to only 30 percent last year, with China as the main beneficiary.

Marketing efforts are directed by the California Table Grape Commission's Vietnam office in Ho Chi Minh City, and a newly-established representative for the Washington Apple Commission also in HCMC.

The current import duty for table grapes and apples is 25%. As part of its WTO commitment to reducing import tariff, Vietnam will gradually reduce tariffs for fresh grapes and apples to 10% by 2012. Similarly, the import tariff rate for dried grapes (raisins) will be reduced to 13% by 2012.

Note: Vietnamese trade data are not available.

Snack Foods, Packaged Foods, Canned Foods

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Rising incomes have resulted in a higher demand for a variety of imported consumer-ready foods. Dairy products, snack foods, and packaged foods are popular among retail consumers as well as hotel, restaurant and institutional (HRI) customers. Prospects for growth in this sector are directly linked to increases in new supermarkets, hotels, and resorts in Vietnam as well as ensuing tariff reductions at Vietnam's accession to the WTO.

Current tariffs for snack foods, packaged foods, and canned foods range from 30% to 50%.

Note: Vietnamese trade data are not available.

Forest Products, Hardwood Lumber

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Prospects are bright for U.S. exports of hardwood lumber and other forest products (e.g. logs and veneers). Vietnam's furniture exports in 2005 totaled $1.343 billion. Through the first 10 months of 2006, U.S. exports of forest products to Vietnam reached over $53 million, a 45 percent increase over the same period of the previous year. The Vietnam market for imported hardwood lumber is expected to increase 20 percent annually over the next five years as the furniture-manufacturing sector continues to see strong growth.

The American Hardwood Export Council (AHEC), with regional offices in Hong Kong, directs marketing efforts in Vietnam.

Wood materials (lumbers, logs and veneer)
Unit: 1,000 USD

	2002	2003	2004	2005	2006 est.
Total Consumption	NA	NA	NA	NA	NA
Total Local Production	NA	NA	NA	NA	NA
Total Imports	123.0	197.0	281.0	620.0	720
Total Exports	0.0	0.0	0.0	0.0	00
Total Imports from the U.S.	5.3	15.8	17.3	43.0	61.0

The above statistics are unofficial estimates.
Current import duty for lumber, logs and veneer is 0%.

Beef

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Vietnam has lifted all bans on U.S. beef and now imports bone-in beef. In November 2005, Vietnam began allowing imports of U.S boneless beef from cattle less than 30 moths old, and in August 2006, Vietnam lifted the ban on imports of U.S. bone-in beef and offal as part of the Vietnam-United States Agreement made during negotiations for Vietnam's accession to WTO.

U.S. beef exports to Vietnam in 2005 totaled $1.34 million. U.S. beef exports to Vietnam for the first 10 months of 2006 totaled $4.3 million, a 220% increase over the total for 2005.

Prospects for beef exports to Vietnam are excellent. Given Vietnam's limited available pastureland and tropical climate, it is unlikely that the country can develop a beef industry large enough to satisfy more than a small proportion of what is expected to be huge increases in domestic demand for beef over the medium- to long-term.

Current import duty for beef is 20%. Vietnam is committed, under its WTO agreement, to gradually reduce import tariff on boneless beef to 14% by 2012.

Marketing efforts are directed by the U.S, Meat Export Federation (USMEF) from its regional office in Singapore.

Meat Offal

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Vietnam, like China, is a big potential market for meat offal. Such cuts, which have relatively little value in the United States, have bright prospects here where they are a popular part of local diet. There is also great potential for exports of chicken feet, chicken wing tips, tripe, pig's feet and organ meat in Vietnam.

Marketing efforts are directed by the USMEF and the USA Poultry and Egg Export Council (USAPEEC), also with regional offices in Singapore.

Current Import Duty for meat offal is 15%. The bound rate for ruminant offal will be reduced to 8% by 2011.

Note: Vietnamese trade data are not available.

Hides and Skins

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Recent market reforms have led to sharp increases in investment in Vietnam's leather industry, as Vietnam's low wage rates and efficient labor force make it very competitive. This in turn has led to sharp increases in hides and skins imports in recent years. U.S. exports of hides and skins have grown from less than $100,000 to well over $17 million in just the past 6 years. The potential for further strong growth is very large.

Vietnam's hides and skins imports in 2005 were valued at $617 million. Imports for the first 10 months of 2006 totaled $540 million. U.S. exports of hides and skins to Vietnam for January-October 2006 were valued at $17.81 million, an increase of 23% compared with export values for the same period last year

The current import duty for hides and skins is 0%.

Note: Vietnamese trade data are not available.

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For more information, please contact the following addresses or visit the following websites:

Foreign Agricultural Service
U.S. Embassy, Hanoi
170 Ngoc Khanh
Ba Dinh district
Hanoi, Vietnam

USDA – Foreign Agricultural Service: www.fas.usda.gov

U.S. Commercial Service: www.buyusa.gov/vietnam

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Chapter 5: Trade Regulations and Standards

Import Tariffs Return to top

Imports into Vietnam currently attract an average tariff of about 18%, high by global or regional standards. The Government of Vietnam is reducing tariffs in preparation for meeting its goals under AFTA (ASEAN Free Trade Area). It is also making comprehensive changes to its trade regime to meet its obligations under the U.S. Vietnam Bilateral Trade Agreement (BTA) and its recent accession to the World Trade Organization (WTO). However, there is still a concern that high trade barriers will be maintained in the next few years to protect certain sectors.

Trade Regime Developments: Streamlining the tariff structure is a remaining key trade liberalization issue. However, some of the Government's major obstacles stem from pressures to protect domestic industries and the potential loss of significant tax revenues. Approximately 20 percent of the national budget is provided by tariffs and taxes levied on imports. Nevertheless, Vietnam is committed to reducing or eliminating tariffs and other trade restrictions, since it is a requirement for its membership in AFTA and WTO. The United States-Vietnam Bilateral Trade Agreement (BTA) came into force in December 2001. This agreement was a prerequisite to Vietnam gaining Normal Trade Relations (NTR) status with the U.S., which it achieved in December 2006. The BTA addresses various market access considerations, including both tariff and non-tariff barriers.

Tariff Code: In late 1998, the National Assembly of Vietnam issued a new Law to Amend the Import and Export Tariffs Law. This law was drawn up in accordance with the Harmonized Tariff System (1996 Version) to facilitate the country's global integration. The amended law, effective on 1 January 1999, contains more than 6,400 tariff lines.

Within the framework of AFTA, Vietnam has converted its 6-digit Harmonized Tariff System into an 8-digit system which is called ASEAN Harmonized Tariff Nomenclature (AHTN), and is based on the World Customs Organization's HS2K. The new system took effect as of September 1, 2003 and contains 10,689 lines.

Tariff Rates: Under the current law, tariff bands are issued by the National Assembly and then detailed by the Ministry of Finance. Import duties are calculated on the basis of (1) the quantity of goods specified in the declaration, (2) dutiable value, and (3) applicable duty rates. Currently, there are three tariff rates for imported goods: ordinary tariffs, preferential tariffs (NTR), and special preferential tariffs. Ordinary tariffs apply to goods originating from countries that have not exchanged Normal Trade Relations (NTR) agreements with Vietnam. The preferential tariffs on the list apply to goods imported from countries or regions, which have NTR status with Vietnam. The special tariffs apply to goods imported from countries that have exchanged special preferential tariffs agreements with Vietnam. For instance, ASEAN members are entitled to special preferential tariff rates of 0-5 percent under the Common Effective Preferential Tariff (CEPT) Agreement (Vietnam is now in the transition period under the CEPT, and will fully implement the CEPT by the end of 2006). Ordinary tariffs are 50 percent higher than preferential tariffs and can be increased or reduced as long as the margin does not exceed 70 percent of the preferential tariffs.

As of January 2, 2004, Vietnam began applying tariff rate quotas on tobacco, salt, cotton, milk, corn and eggs. In March 2005, the Government removed cotton, milk, condensed milk and corn from the list of items subject to tariff rate quotas. As of September 2005, tariff rate quotas are no longer imposed on imports from ASEAN countries. The only items which remain subject to tariff rate quotas are raw tobacco, salt and chicken eggs. They apply to imports from all countries except the ASEAN nations.

In addition to the above-mentioned tariff rates, Vietnam also reserves the right to utilize trade remedies such as antidumping and countervailing duties. Vietnam promulgated an ordinance on safeguards (which took effect in September 2002), an ordinance on anti-dumping (which took effect in October 2004), and an ordinance on countervailing duties (which took effect in January 2005). The Ministry of Trade recently established a new department with specific responsibility for trade remedies and competition policy.

Exemptions are granted if the goods fall into the following categories: (i) special goods for the purpose of national security and defense, science, education and training; (ii) specialized equipment, machinery and facilities for investment projects (both domestic and foreign); (iii) non-refundable aid, goods in transit, temporary imports and re-exports for exhibitions. Goods brought in for foreign-invested projects may qualify for exemption if they fall under five general categories: (1) equipment and machinery imported for the formation of the fixed assets of the project and spare parts and components attached thereto; (2) construction materials imported to build the fixed assets of the project that are not produced locally; (3) materials and supplies imported for the local manufacturer of the equipment and machinery included in the technological process of the projects; (4) specialized means of transport included in the technological process of the project or for transportation of groups of employees (with 24 seats or more); and (5) technology transfer that is considered as capital contribution by the foreign partner.

The U.S.- Vietnam BTA went into effect on December 10, 2001. It provides for MFN tariff rates for U.S. origin goods. Under commitments in Annex E of the Agreement, as of December 10, 2004, tariffs for U.S. goods were reduced from 35% to 26% for approximately 244 bound items, 80% of these tariff items are for agricultural goods while 20% are for industrial goods. These import tariffs will apply to commodities that have certificates of origins (C/O) from the US as well as other countries that have MFN status.

Exceptions to MFN treatment include special treatment accorded other countries within a free-trade area, such as AFTA or NAFTA and special procedures for border trade.

Special Consumption Taxes: Other taxes include the special consumption taxes on goods such as cigarettes, alcohol, spirits and beer, automobiles with twenty-four seats or less, and other miscellaneous items such as gasoline, air conditioners with capacity of 90,000 BTU or less and playing cards. Special consumption taxes also apply for services such as dancing, massage, karaoke, casino, jackpot machine games, certain betting activities, and golf. The special consumption tax is applicable to the import and production of the previously mentioned goods and services. Importers pay the special sales tax upon importation, ranging from 10 to 80% percent. The tax is calculated on the basis of applying the applicable tax rate to the CIF value of the good.

In 2003, the Vietnam National Assembly passed a number of amendments and supplements to several of the articles of the Law on Special Consumption Tax. The amendments and supplements focus on taxable objects, taxable prices, tax rates, exemptions, special reductions, and enforcement. The amendment took effect on January 1, 2004. In November 2005, Vietnam's National Assembly revised the Law on Special Consumption Tax with the intent to eliminate national treatment discrimination on three items for which imports and locally made products had previously been taxed at different rates. These items are automobiles, cigarettes and draught beer.

Value Added Tax (VAT): VAT replaced the previous turnover tax, which was levied on a sliding scale from zero percent to twenty percent. Most sectors of the economy are likely to pay less under VAT. There are four rates of VAT: (i) zero percent for exported goods; (ii) five percent for the provision of essential goods and services (e.g. clean water, food stuff, medicine); (iii) standard rate of ten percent for activities such as power generation, mineral products, postal, and transportation services; and (iv) twenty percent for activities such as lottery and brokerage.

As of January 1, 2004, the amendments to VAT Law, which was passed by the National Assembly at its May 2003 sessions, took effect. The fundamental change is that the number of rates was reduced from four to three - zero percent, five percent, and ten percent.

Trade Barriers

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Vietnam has been phasing out the use of quantitative restrictions on imports. An April 2001 Decision of the Prime Minister phased-out quantitative restrictions on imports with the exception of sugar (to be kept until 2005). A September 2003 Government Decision established conditions for importing and re-exporting petroleum. Trade in petroleum is also subject to annual licensing and price regulation. The annual National Trade Estimates Report published by the United States Trade Representative presents a detailed description of impediments to entering the Vietnamese market. This report can be accessed at http://ustr.gov

Import Requirements and Documentation

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Authorized Importers: The role of authorized importers in the past few years has declined because of Government's Decree No. 57/1998/ND-CP, partly revised by Decree No. 44/2001/ND-CP, dated August 2, 2001. According to the Decree, Vietnamese traders are entitled to (i) export goods of all kinds, except goods on the list of those banned from export and (ii) import goods according to the business lines stated in their business registration certificates. Foreign-invested enterprises and business cooperation parties, apart from the exportation of their own products, may export goods of other kinds, except those on the list of goods banned from export and a number of goods categories prescribed by the Ministry of Trade. The goods imported by foreign-invested enterprises and business cooperation parties must comply with the provisions of their granted investment licenses, the Law on Foreign Investment in Vietnam and other relevant legal documents.

Import Licensing System: Business entities, including foreign invested enterprises with a legally registered business license, can be engaged in direct import and export activities. However, foreign invested enterprises can import materials, equipment and machinery only for the purpose of establishing production lines and producing goods in accordance with their investment licenses. They are not permitted to import goods for trading purposes and are required to register their import and export codes with the Department of Customs. Foreign invested companies are presently permitted to distribute products made by them and not products of their partners offshore.

Special Import/Export Requirements and Certifications: Previously, importers required approval from the relevant ministry(ies) to import many goods. This system was changed in 2001. Now, seven ministries and agencies are responsible for overseeing a system of minimum quality/performance standards for animal and plant protection, health safety, local network compatibility (in the case of telecommunications), money security, and cultural sensitivity. Goods that meet the minimum standards can be imported upon demand and in unlimited quantity and value.

U.S. Export Controls

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Exporters of dual-use and certain military equipment need to be aware of U.S. Government regulations affecting sales of certain equipment to Vietnam and to certain entities within Vietnam. Before initiating marketing activities in Vietnam involving such items or entities, firms should consult with appropriate U.S. Government agencies.

Further information with regard to export control matters can be obtained from the following organizations:

U.S. Department of Commerce, Bureau of Industry and Security (formerly the Bureau of Export Administration): http://www.bis.doc.gov

U.S. Department of State, Directorate of Defense Trade Controls: http://www.pmddtc.state.gov/.

Temporary Entry

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Goods exported or imported as samples or for the purpose of advertising, are subject to export or import duty. Exemption from duty is granted to goods, which are permitted to be temporary exports or imports for exhibitions. At the end of the exhibition, they must be re-imported into Vietnam in the case of temporary exports, or re-exported from Vietnam in the case of temporary imports. Documents required for exemption for exhibitions include a notification of or invitation to the exhibition and an export or import license from the Ministry of Trade for goods under quota by the Government. Vietnam does not recognize the International Carnet.

Labeling and Marking Requirements

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The Government's Decision No. 178-1999-QD-TTg dated August 30, 1999, promulgating Regulations on Labeling of Domestically Circulated Goods and Imported and Exported Goods ("Decision 178 and accompanying regulations"), came into effect January 1, 2001. Decision 178 and accompanying regulations provide the requirements for the labeling of goods produced in Vietnam for domestic circulation and for export, and of goods produced in foreign countries that are imported for sale in the Vietnamese market. These regulations do not apply to processed food, fresh food, or unpacked necessities that are sold directly to consumers and pre-packed food and drinks, which have a use-by limit of 24 hours.

According to these regulations, subject goods must bear a label containing:

1. A principal display panel in which the following compulsory contents must be shown so that consumers can easily and clearly see them in a normal goods' display condition:

- Name of goods;
- name and address of business entity manufacturing, assembling, or importing goods;
- amount, weight, volume, or size of the goods (in legal measurement units of Vietnam);
- composition or ingredients of goods (including whether goods or components/ingredients thereof have been x-rayed or genetically modified, where a preservative has been added, where a dosage has been stipulated, or where they are included in lists of stimulants or toxicants);
- usage values, human safety standards, and environmental impact on use;
- date of manufacture and expiry;
- instructions on preservation and use;
- origin of goods.

2. An information section on the right-hand side of the principal display panel in which non-compulsory contents of labels of goods may be presented (as well as any compulsory contents which could not fit in the principal display panel) provided that the non-compulsory contents do not conceal or lead to misunderstanding of the compulsory contents of labels.

The basic requirement of Decision 178 and accompanying regulations is that all letters, numbers, drawings, pictures, signs, and codes on labels of goods must be clear and must determine the substance of the goods - any ambiguous labeling that causes confusion with other labels of goods is strictly prohibited.

Labels of domestically circulated goods must be presented in Vietnamese. If necessary, foreign language text may be included provided that it is in smaller print than the Vietnamese text. Labels of exported goods may be written in the language of the country or region into which such goods are imported where so agreed in the contract for sale and purchase of goods. In the case of imported goods, the compulsory contents in Vietnamese may be either printed on the original label or presented in a supplementary label attached to the original foreign language label prior to sale or circulation in the Vietnamese market.

The following acts constitute violation of the law regarding the labeling of goods:

- Circulation of goods without the required labels;
- Labeling goods with pictures, figures, or writing that do not correspond to the nature of the goods;
- Labeling goods unclearly, or with labels so faint that normal eyes cannot read their contents;
- Labeling goods without including all required compulsory contents;
- Failing to meet guidelines for the correct size, position, method of presentation, or languages on labels;
- Erasing or amending the contents of labels of goods;
- Replacing labels of goods for the purpose of deceiving consumers;
- Using trademarks of goods already protected by law without the approval of their owners;
- Labeling goods in the same manner as those of other business entities which have been protected by law.

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Vietnam currently prohibits the commercial importation of the following products: arms and ammunition, explosive materials (not including industrial explosives), military technical equipment and facilities, narcotics, toxic chemicals, “depraved and reactionary” cultural products, firecrackers, some children’s toys cigarettes, second-hand consumer goods, right-hand drive motor vehicles, used spare parts for vehicles, used internal combustion engines of less than 30 horsepower, asbestos materials under the amphibole group, various encryption devices and encryption software.

Customs Regulations and Contact Information Return to top

Certain goods to be exported or imported must be inspected before being cleared at customs stations. The inspection covers quality, specifications, quantity, and volume. The inspection is based on Vietnamese standards, with the exception of pharmaceuticals, and should be carried out by an independent Vietnamese or foreign inspection organization. Imported goods subject to inspection include petroleum products, fertilizers, electronic and electrical products, food and drink, machinery and equipment, steel, and pharmaceuticals. This list may be altered from time to time. Imported pharmaceuticals, for example, must go through random lab tests on sample batches performed by Vietnamese officials. Since January 1998, all imported drugs must have instructions on product use, dosage, and expiration dates printed in Vietnamese and inserted in packages.

Standards

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Overview

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Vietnam's standards system consists of over 5,800 standards. Specific information about product specific standards may be provided by Vietnamese importers or customers. Otherwise this information can be sought from the relevant ministry or government management body responsible for the country's standards, such as the Directorate for Standards and Quality (STAMEQ) of Ministry of Science and Technology. Vietnam's weights and measures standards are based on the metric system. The electric current is AC 50 cycles, 220/380. The electric utility system of Vietnam is being standardized at three phase, 220/380 volts, fourwires.

Vietnam's system of standards is complicated and not always transparent; some items are subject to national standards, which are voluntary; some are subject to regulations of the functioning agencies; and some are subject to both. However, Vietnam has adopted some international standards and is a member of various international organizations that regulate standards. In general, Vietnam does not appear to use technical measures to serve as non-tariff barriers, and as a WTO member has promised to comply with Technical Barriers to Trade Agreements. The exceptions to this are some goods controlled by specific ministries such as chemicals, toxic chemicals and intermediate materials for their production, wild animals, pesticides and materials for their production, pharmaceuticals, substances that may cause addiction, cosmetics that may have an impact on human health and medical equipment.

Standards Organizations

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The Directorate for Standards and Quality of Vietnam (STAMEQ), under the Ministry of Science and Technology (MOST), is the national standardization agency. STAMEQ is responsible for advising the Government on issues in the fields of standardization, metrology and quality management domestically, as well as representing Vietnam in international and regional organizations in the fields concerned. This organization also has the main following responsibilities:

- To prepare rules and regulations on standardization, metrology and quality management and submit them to appropriate authorities for approval.
- To organize the supervision and implementation of approved rules and regulations.
- To establish an organizational system on standardization, metrology and quality management and provide methodological guidance for these activities.

- To organize the formulation of national standards and maintain national metrology standards.
- To provide product quality certification, testing and calibration laboratory accreditation.
- To implement state supervision on quality of goods and measurement.
- To conduct studies on standardization, metrology and quality management.
- To carry out informational and training activities related to standards.

For more information, please visit http://www.tcvn.gov.vn/en/.

According to the Law on Standards and Technical regulations which was promulgated by the National Assembly in June 2006 and came into force on January 1, 2007, Vietnam's Standards System consists of National standards, referred to as TCVNs and Organization’s standards, symbolized as TCCSs.

Vietnam's National Standards or Tieu Chuan Quoc Gia (TCVNs) are national standards developed on the basis of research, the application of scientific and technological advances, and the adoption of international/regional/foreign standards. Ministers, Heads of ministerial-level agencies and Government agencies shall organize the preparation of draft TCVNs and their submission for evaluation and adoption. The Minister of Science and Technology organizes the evaluation of draft TCVNs and publicizes TCVNs. TCVNs are used as the technical criteria for quality certification, supplier's product conformity declarations, and quality inspection of imported and exported goods. TCVN’s are developed through technical committees and any other interested parties and are intended for voluntary adoption unless made mandatory by specific references in other laws and regulations. There about about 250 mandatory standards. Any public or private organization or individual is bound to observe the mandatory standards. The State encourages the application of voluntary standards.

The first TCVN was developed in 1963. As of December 27, 2005, there are approximately 5,800 officially issued standards. To be in line with international/regional/advanced foreign standards, as far as practicable, STAMEQ tries to adopt them wherever feasible. STAMEQ has adhered to about 1,500 international, regional and foreign standards, such as ISO, IEC, ASTM, JIS, BSI, CODEX. STAN and ASTM.

The Vietnam Standards and Quality Center (VSQC) is the specific branch of STAMEQ that is responsible for organizing national standards development. It has an established relationship with relevant domestic ministries/agencies, as well as international and regional standardization organizations in terms of standards development. For more information visit http://www.tcvn.gov.vn/en/.

An organization’s leader may develop and declare its standards as obligated by its field of activities. An organization’s standards are established on the basis of scientific and technological advances, demands and practical capability of the organization. Organizations are encouraged to use national standards, international, regional and foreign standards as the organization’s standards. An organization's standards shall not contradict technical regulations and other provisions in the Law.

On March 25, 2003, Vietnam's Technical Barriers to Trade (TBT) Enquiry and Notification point of contact was formally established within the offices of STAMEQ. However, this enquiry point will did not become fully functional until Vietnam acceded to the World Trade Organization. Please visit http://www.tbtvn.org for more information.

NIST Notify U.S. Service

Member countries of the World Trade Organization (WTO) are required under the Agreement on Technical Barriers to Trade (TBT Agreement) to report to the WTO all proposed technical regulations that could affect trade with other Member countries. **Notify U.S.** is a free, web-based e-mail subscription service that offers an opportunity to review and comment on proposed foreign technical regulations that can affect your access to international markets. Register online at Internet URL:

http://www.nist.gov/notifyus/

Conformity Assessment

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The Quality Assurance and Testing Center (QUATEST) is the organization responsible for standards testing in Vietnam. QUATEST, which works with STAMEQ, has three testing centers with the following responsibilities:

- Legal inspection of imported - exported goods
- Verification for process line equipment
- Calibration and verification of measuring equipment
- Testing and inspection of products
- Certification of product quality
- Assessment and certification of product and quality systems
- Providing consultancy, training activities and information services

For more information, please visit www.quatest1.com.vn or http://www.quatest3.com.vn/

Product Certification

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The Vietnam Certification Centre (QUACERT) is a national certification body responsible for quality related certification established by MOST. QUACERT certification criteria and procedures seek to comply with appropriate national and internationally recognized standards and guidelines. The Joint Accreditation System of Australia and New Zealand (JAS-ANZ) have accredited QUACERT for certification of ISO 9000, ISO 14000, and HACCP. QUACERT is mainly responsible for:

- Participating in research for establishing legislation documents concerning conformity certification activities in Vietnam
- Participating in research on quality, quality assurance and total quality management
- Certification activities for products and quality management systems that have complied with national, international recognized standards or other specifications
- Participating in training activities, professional improvement and information dissemination regarding quality and conformity certification

- Participating in bilateral and multilateral international cooperative activities

For more information, please visit http://www.quacert.gov.vn/

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The Bureau of Accreditation (BOA) was established in 1995 under STAMEQ. The BOA consists of three accreditation programs: namely, Vietnam Certification Accreditation Scheme (VICAS), Vietnam Laboratory Accreditation Scheme (VILAS), and Vietnam Inspection Accreditation Scheme (VIAS).

The Vietnam Laboratory Accreditation Scheme (VILAS) is based on the Act on Product Quality and its enforcement decree and regulations. VILAS is operated by the (BOA). VILAS's organization and operation conform with the requirements of ISO/IEC 17011. VILAS is a voluntary scheme, open to any laboratory that performs objective testing/calibration falling within the scheme and meeting the VILAS criteria of competence. The aims of VILAS are to:

- Upgrade the standard of testing and management of laboratories
- Identify and officially recognize competent laboratories in Vietnam
- Promote the acceptance of test data from accredited laboratories, both locally and internationally
- Integrate accreditation activities with those of other regional and international accreditation schemes

VILAS is full member of and signatory to the Mutual Recognition Arrangement with APLAC (Asian Pacific Laboratory Accreditation Cooperation) and ILAC (International Laboratory Accreditation Cooperation).

STAMEQ seeks to keep VILAS abreast of the latest international developments in laboratory accreditation by participating in the activities of ILAC (International Laboratory Accreditation Conference), APLAC (Asia Pacific Laboratory Accreditation Cooperation) and ACCSQ (ASEAN Consultative Committee on Standards and Quality). VILAS acts as a contact point for APLAC's inter-laboratory comparisons and proficiency testing. VILAS also offers a variety of training courses for laboratory management, laboratory personnel and assessors.

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Cong Bao is the official gazette of the Vietnamese Government, similar to the U.S. Federal Register. Technical regulations and standards are printed in the gazette, which is issued in both Vietnamese and English.

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For standards affecting product labeling, see the Labeling and Marking section presented earlier in Chapter Five.

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Trade Agreements Return to top

In July 1995, Vietnam became a member of Association of South East Asian Nations (ASEAN) and subsequently, a member of ASEAN Free Trade Area (AFTA). As part of AFTA, ASEAN members (including Brunei, Philippines, Indonesia, Laos, Myanmar, Malaysia, Singapore, Thailand, and Cambodia) are committed to making this region a competitive trading area. Under the harmonization process called CEPT -- the Common Effective Preferential Tariff Scheme -- intra-regional tariffs, especially for manufactured goods, would be reduced to a level of between zero to five percent by year 2003. Vietnam was granted a longer phase in period to fully implement CEPT reductions by 2006. In accordance with AFTA requirements, Vietnam has issued a Government decree detailing the tariff reduction schedule and tariff rates through 2006.

As previously noted in this report, the United States and Vietnam concluded a BTA, which entered into force on December 10, 2001. For more information on the BTA please see: http://www.buyusa.gov/vietnam/en/us_vietnam_bta.html.

On January 11, 2007, Vietnam became the 150th member of the WTO and upon its accession promised to fully comply with WTO's agreements on Customs Valuation, Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary Measures (SPS).

A full text of Vietnam's WTO commitments can be found at:

http://www.amchamvietnam.com/1150.

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The Directorate for Standards and Quality of Vietnam: http://www.tcvn.gov.vn/en/
The Vietnam Standards Center (VSC): http://www.tcvn.gov.vn/en/
The Quality Assurance and Testing Center: www.quatest1.com.vn or http://www.quatest3.com.vn/
The Vietnam Certification Services: http://www.quacert.gov.vn/
Vietnam's WTO commitments: http://www.amchamvietnam.com/1150.

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Chapter 6: Investment Climate

Openness to Foreign Investment

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Vietnam, in principle, maintains a policy of encouraging foreign investment. A crucial element in its long-term development strategy is the continued ability to attract and utilize relatively large amounts of overseas capital, both foreign direct investment (FDI) and official development assistance (ODA). For the 2006-2010 period, the Government of Vietnam (GVN) has established targets in its Socio-Economic Development Plan for FDI at $17.5-19.5 billion in disbursements from existing and newly licensed foreign investments and for approximately $10 billion in ODA disbursed by foreign donors for a total of $21-22 billion from foreign sources. These levels of FDI and ODA estimates are required to support the Government's GDP growth target of 7.5-8 percent per year. The GVN also expects to mobilize $4.3 billion by 2010 in foreign indirect investment through bonds and shares sold overseas.

By November 2006, Vietnam had attracted $59.1 billion in investment commitments since the country was opened to foreign investment in 1988. Approximately $28.7 billion, or 48.6 percent, of that amount has been disbursed in over 6,764 projects. 65 percent of disbursed investment was made into projects concentrated in or near the two major cities of Ho Chi Minh City in the south and Hanoi in the north. U.S. businesses have received 305 investment licenses for projects worth nearly $2.1 billion and have injected $757 million thus far into Vietnam. Significant additional U.S. investment is counted as investment from third countries in cases where, for example, the investment involves a third-country subsidiary of a U.S. company. The United States Agency for International Development (USAID) and the Ministry of Planning and Investment have been conducting research in this area. Their latest estimate of total U.S. investment including all U.S.-related investment is $3 billion (as of September 2006).

As the GVN continues to proceed with its long-standing policy of reform of the economy, openness to foreign business, and integration into the world economy, Vietnam's rapidly growing population of 83 million should become an increasingly attractive investment destination. Vietnam entered into the Asia-Pacific Economic Cooperation forum (APEC) in late 1998. It is committed to enter into and fully comply with its obligations under the ASEAN Free Trade Area (AFTA) by the end of 2006. Perhaps the strongest recent signals of the country's commitment to economic reform and to improving the business climate were Vietnam's accession to the World Trade Organization (WTO) in January 2007. Although the GVN and the IMF allowed their agreement on economic reform to expire in April 2004 because the GVN was unable to meet IMF policy on audit and accounting arrangements, the IMF remains fully committed to continuing an effective partnership with the GVN to support the implementation of the Comprehensive Poverty Reduction and Growth Strategy and offer guidance on maintaining macroeconomic stability. Moreover, the IMF has given Vietnam good marks for its macroeconomic stability.

In light of Vietnam's strong macroeconomic performance and continued progress on economic reform, Standard and Poor's assigned Vietnam's foreign and local currency bonds a BB minus long term and a B minus short term rating and upgraded the long term outlook from stable to positive. Moody's upgraded Vietnam's long term rating in July 2005 from B1 to BA3. There has been no change since. These developments, taken together with the country's relatively low-wage work force and natural resource base, are convincing foreign investors to consider Vietnam when looking for their next investment location.

However, despite an official policy encouraging foreign investment and a solid economic performance, Vietnam remains a difficult investment environment and potential investors should carefully scrutinize any investment plans. Currently in a period of transition from a command economy to a ‘state-supervised’ market economy in which the state sector retains a ‘leading role,’ Vietnam is implementing a series of gradual reforms that should enable the economy to function more efficiently. As the GVN engages in this complex process, foreign investors must cope with a wide range of problems and costs. These include poorly developed infrastructure, underdeveloped and cumbersome legal and financial systems, an unwieldy bureaucracy, non-transparent regulations, high start-up costs, arcane land acquisition and transfer regulations and procedures, and shortage of trained personnel. Issuance of investment licenses can be a lengthy process. Moreover, investment projects in both pre- and post-establishment phases must cope with frequent changes in the investment environment in areas such as taxes, tariffs, import and export policies, and procedures. Additionally, the Vietnamese courts have so far proved unwilling or unable to enforce laws related to investor protections, in particular, the enforcement of arbitral awards. Finally, investors cite official corruption as a significant problem in establishing and running their business. In particular, investments involving joint ventures with State-owned enterprises have proven especially vulnerable to corruption and abuse.

Foreign investment in Vietnam in the past was regulated by the Ministry of Planning and Investment (MPI) through the Law on Foreign Investment (LFI) and related implementing regulations, decrees, and circulars. As part of Vietnam's efforts to create a level playing field for investors, MPI commenced drafting a common Investment Law in April 2004. In November 2005 the National Assembly passed this Investment Law. The new

Investment Law, which became effective in July 2006, replaces the Law on Foreign Investment and the Law on Promotion of Domestic Investment. This Investment Law regulates investment guarantee measures, sectors, areas where investment is encouraged or where investment is conditional or prohibited, and the investment incentives that are commonly applied to both domestic and foreign investors. To support the new Investment Law, the Law on Enterprises has also been revised to apply to both foreign and domestic enterprises. The revised Law on Enterprises was also passed in November 2005. It regulates the establishment, forms and procedures, organization, management and dissolution of enterprises in all economic sectors.
Vietnam is also working to establish the legal framework to support a healthier, more transparent business environment and to level the playing field between domestic and foreign investors. In 2004, the National Assembly passed a revised bankruptcy law and a Law on Competition.

There are four primary forms of investment for foreigners in Vietnam:

a) **Joint venture (JV) agreements** pair foreign and local companies sharing capital and profits. The contribution of the local company, typically a State-owned enterprise (SOE), to the JV frequently consists solely of land use rights. The minimum percentage of foreign involvement in a JV is 30 percent, but examples of JVs where the foreign partner is not a majority shareholder are rare. The minority partner retains veto power over the majority partner concerning selection of senior management and changes in the JV charter. However, for U.S. investors, these rights are supposed to have been phased out within three years of entry into force of the U.S.-Vietnam Bilateral Trade Agreement (BTA), which entered into force in December 2001. It is not known whether this has been done in all cases. Joint ventures account for the majority of foreign investment to date. Many investors find JVs attractive because they can benefit from the assistance of an established Vietnamese firm in dealing with bureaucratic and administrative procedures. They also provide foreign investors access to land that may otherwise be difficult to secure. However, some investors complain the Government allows local partners to overvalue their land use rights.

b) **Business Cooperation Contracts (BCC)** permit a foreign firm to pursue business interests in cooperation with a Vietnamese firm by investing capital and sharing revenues without conferring the right of establishment or ownership. In many respects, it is the most flexible arrangement Vietnam offers to foreign investors. However, a BCC license typically does not contain tax holidays or concessions given to other types of foreign investments. BCC's have predominated in the telecommunications sector and, as production sharing contracts, in the petroleum sector, where the Government limits foreign involvement in operations and management.

c) **100-percent Foreign-Owned Enterprises** have become more popular recently, as investors have learned to navigate the local system on their own. The GVN has shown increasing willingness to permit them on a case-by-case basis, particularly in industrial production for export.

d) **Build-operate-transfer (BOT) agreements** are the least commonly used form of foreign investment. While authorized under the LFI and specific BOT legislation, the legal, regulatory, and financial framework for BOT's remains incomplete. The LFI also recognizes build-operate-own (BOO), build-transfer-operate (BTO), and build-transfer (BT) forms of investment. Under a BOT agreement, the investor builds an infrastructure project, operates it for an agreed period of time to recover the investment and earn a profit, and then cedes it to the Government without further compensation. Several foreign-invested BOT licenses have been granted, but many others have been held up in protracted negotiations. The most intractable BOT issues have been financing, product pricing, and Government regulatory and cost-recovery guarantees.

Foreign investors have pressured the Vietnamese Government for years to expand the permissible forms of foreign investment. As part of an effort to unify the laws governing foreign and domestic enterprises, the Government issued Decree 38 in April 2003 providing for the conversion of a number of foreign invested enterprises (FIEs) into foreign invested shareholding companies (FISCs). The conversion option is only available to JVs and FIEs. A FISC must continue to implement the approved investment project of the former FIE and will be entitled to preferential treatment under the Law on Foreign Investment and its implementing regulations. Nevertheless, the rights of FISCs' shareholders and the organizational structure of the FISCs will be governed by the Law on Enterprises, the same as for domestic shareholding companies. A FISC must have at least one foreign founding shareholder and the total shareholding of the foreign founding shareholder(s) must be at least 30% of the FISC's chartered capital throughout the life of the company. FISCs will be permitted to list on the Vietnam stock exchange.

To qualify for conversion, a FIE must be in operation for at least three years, must have made profits in the year immediately preceding the year of conversion, and its legal capital must be fully paid up. All conversions are subject to the Prime Minister's approval. Only a limited number of FIEs have been selected by the MPI, in consultation with other ministries, for conversion into FISCs. The Prime Minister approved six FIEs to take part in the first round of conversion. This number is much lower than the MPI's target of 20-25 participants. Other reforms under the Government Decree Number 27 issued in March 2003 include:

- A new 100 percent Foreign Owned Enterprise (FOE) may now be formed between an existing FOE and (i) another existing FOE and/or (ii) new foreign investor(s);
- A Business Cooperation Contract may now be established by an existing joint venture enterprise or an existing FOE with another foreign organization or individual;
- A new Joint Venture Enterprise (JVE) may now be established between an existing FOE and a Vietnamese enterprise or between an existing FOE and an existing JVE. However, a JVE may not be established between an existing FOE and a foreign investor or an overseas Vietnamese investor.

Decree 27 also abolishes the restriction that any legal capital (equity) in the form of technology transfer must not exceed 20 percent of legal capital, and is subject only to agreement by the parties of the company.

At present the Government maintains an extensive investment licensing process that is characterized by stringent and time-consuming requirements that are frequently used to protect domestic interests, limit competition and allocate foreign investment rights among various countries. The Ministry of Planning and Investment (MPI) is the primary point of contact for most foreign investors. But Vietnam currently does not offer at the central level a 'one-stop shop' for investment negotiation and approval. Foreign investors typically must contact and obtain support and/or approvals from a number of national and local agencies; indeed, licensing approval is required from other ministries or Government bodies which regulate particular sectors, especially oil and gas, pharmaceuticals, and financial services. In addition, investors may not always be aware of all regulatory requirements for licenses, which have led at times to complaints of unfair or discriminatory treatment. Licensing is required not only for establishment, but also in order to make significant changes to an operating concern such as to increase investment capital, restructure the company by changing the form of investment or investment ratios between foreign and domestic partners, or add additional business activities.

Vietnamese authorities evaluate investment license applications using a number of criteria including:

- The legal status and financial capabilities of the foreign and Vietnamese investors;
- The project's compatibility with Vietnam's 'Master Plan' for economic and social development;
- The benefits accruing to the Government or to the Vietnamese party, especially acquisition of new production capabilities, industries, technologies, expansion of markets, and job creation;
- Projected revenue;
- Technology and expertise;
- Efficient use of resources;
- Environmental protection;
- Plans for land use and land clearance compensation;
- Project incentives including tax rates and land, water, and sea surface rental fees.

The new Investment Law stipulates that projects on the list of sectors where investment is subject to conditions, or projects with invested capital of 300 billion Vietnamese Dong (currently equivalent to approximately $19 million) or more must be evaluated for licensing.

The list of sectors in which investment is conditional only applies to foreign investors and includes:

- Broadcasting and television;
- Production, publishing and distribution of cultural products;
- Minerals explorations and processing;
- Telecommunication infrastructure, signal transmission, telecommunication and internet services;
- Public post network and post services, delivery services;
- Construction and operation of river ports, sea ports and airports;
- Passenger and cargo transports by domestic railways, airways, roads, sea and waterways;
- Fishery;
- Tobacco production;
- Real estate business;
- Trading and distribution services;
- Education and training;
- Hospitals and clinics

- Other sectors stipulated in other international treaties, to which Vietnam is a member and is committed to limit market access for foreign investors.

The investment conditions applied to foreign investment projects in the above sectors need to comply with Vietnam's commitments in international treaties to which Vietnam is a member.

In the early 1990's, all foreign investment projects required approval by the Prime Minister. Over time, in an effort to reduce obstacles to foreign investment, this list of projects subject to approval at the highest levels was reduced. Government Decree 108 issued in September 2006 guiding the implementation of the new Investment Law stipulates that Prime Ministerial approval is required for the following investment projects:

- Projects regardless of capital source and size in the following sectors: airports, national seaports, minerals exploration and mining, oil and gas exploration and production, broadcasting and television, casinos, cigarettes, university education, industrial zones, export processing zones, high-tech zones and economic zones;
- Projects not falling in the above sectors, regardless of capital source, having capital in excess of VND 1,500 billion (approx. $93 million) in the following sectors: electricity, minerals processing and metallurgy, railways, roads and domestic waterways, alcohol and beer;
- Projects with foreign investment capital in the following sectors: sea transportation, post and delivery services, telecommunication and internet networks, printing and publishing, independent scientific research establishments.

Over time, the GVN has gradually but steadily improved its investment licensing regime. Greater authority over investment licensing has been devolved to provinces, municipalities, and investment zones. Government Decree 108 provides that provincial People's Committees and the Management Boards of provincial Industrial, Export Processing Zones, High-tech and Economic Zones now have authority to issue investment certificates (de facto investment licenses), including certificates for projects which have been approved by the Prime Minister. Several provincial committees and IZ management boards have significantly streamlined licensing procedures in their jurisdictions, reducing the time to days if not hours in some cases. Ho Chi Minh City is in the process of implementing a "one-stop shop" for investment licenses its municipal government is authorized to issue. While this decentralization is frequently in the foreign investor's favor, it has also given rise to considerable regional differences in procedure and interpretation of relevant investment law and regulation.

The new Investment Law stipulates that projects with foreign invested capital below 300 billion Vietnamese Dong (currently equivalent to approximately $19 million), excluding projects on the list of sectors where investment is subject to conditions, are eligible for registration with provincial authorities.

Recognizing the need for increased foreign direct investment if Vietnam is to reach the ambitious development goal set out in the 2006-2010 Socio-Economic Development strategy, the GVN has a policy of trying to improve the climate for investment. Perhaps the single most important event in Vietnam's recent economic history is its accession to the World Trade Organization (WTO). Implementation of Vietnam's WTO commitments will help ensure fair access and treatment for U.S. investment, goods and services. In addition, the BTA provides a broad range of benefits for U.S. investment in Vietnam that should significantly enhance the investment environment for U.S. firms. A major part of the BTA is devoted to investment, which provides national and most-favored-nation treatment, except where explicit exceptions have been made; guarantees access to third-party investor-state dispute settlement; disciplines trade-related investment measures; and ensures treatment of expropriation consistent with international standards. Other chapters of the BTA will, over time, reduce tariffs and quantitative restrictions on U.S. investor's imports; permit U.S. investors to engage directly in trade; require the Government to operate more transparently; open sectors of interest to U.S. business including banking, insurance, professional services, telecommunications, distribution, etc.; and provide protection WTO-consistent standards for U.S. investors' intellectual property.

Also, a number of important policy decisions and legal changes have been made which are intended to create a more open, business friendly investment climate for both foreign and domestic private investors. On December 25, 2001, the National Assembly adopted changes to the Constitution of 1992, which contained several business related items in Articles 15 and 16. One provided the constitutional basis for Vietnam's integration into the international economy. Another formally recognized foreign direct investment and the domestic private sector as components within the Vietnamese economy in addition to the already recognized sector comprising SOEs. Previously, the approach under Vietnamese law was to permit a firm to engage only in those activities for which it had explicit permission. The amendment package formally stated the principle that businesses could engage in all activities except those prohibited by law. These measures codified at the Constitutional level changes in approach with respect to foreign and domestic private sector investment contained in the economic reforms of the 1990's, lending them a level of permanence that they had heretofore not enjoyed.

In addition, in 2001-2002, both the Government and the Communist Party of Vietnam (CPV) issued policy documents supportive of the private sector, domestic and foreign. In August 2001, the Government signaled its intent to continue to improve the climate for foreign investment when it issued a resolution calling for continued efforts to improve Vietnam's attractiveness to foreign investment in the next five years by:

- Expanding the sectors open to foreign investment, to include real estate, import services and domestic distribution;
- Easing conditions for foreign-ownership of equitized state-owned enterprises; permitting foreign invested enterprises (FIEs) to issue stock to be sold on the local stock exchange;
- Facilitating foreign investors' participation in BOTs;
- Narrowing the list of prohibited FIE exports;
- Establishing a level playing field among foreign, domestic private and state-owned enterprises; and
- Continuing reform of laws and regulations on foreign investment.

Perhaps more significantly, the CPV issued a resolution in March 2002 clearly stating its support for a mixed economy with equal treatment of foreign, private domestic and state-owned enterprises. In this document, the CPV made several important recommendations which, when translated into actual policy, will provide significant support for the private sector in the future including: continuing reforms to make it easier to do private businesses; eliminating discriminatory treatment of domestic or foreign private sector activity; making clear distinctions between civil and criminal offenses so as to avoid the prevalent criminalization of certain commercial decisions and disputes; simplifying lending procedures to give private enterprise greater access to domestic credit; and amending existing accounting procedures to encourage private enterprise to perform financial audits and disclose the results annually.

In 2004, the National Assembly passed the Law on Bankruptcy, which replaced the 1993 Law. The main objectives of the 2004 Law are to simplify bankruptcy procedures, to allow parties other than creditors to participate in bankruptcy procedures, and to give courts more flexibility in dealing with insolvent businesses. It creates favorable conditions for ineffective enterprises and business organizations to exit the market and to be replaced by more effective ones, making the business environment more healthy and transparent.

A Law on Competition was passed in November 2004 and entered into force on July 1, 2005. The main objective of the Competition Law is to create and promote an equitable and non-discriminative competition environment, and to protect and encourage fair competition. The Law stresses the importance of the rights of organizations and individuals to compete freely within the law. Key elements of the law address anti-competitive agreements, state monopoly, economic concentration and unfair competition. The Law also creates a Competition Management Department under the Ministry of Trade and addresses breaches of the Law. The introduction of a competition law is an important step in the opening of the Vietnamese market to international practices. However, ensuring proper implementation, including training staff and judges, is a crucial step that remains.

The above actions strongly indicate the Vietnamese leadership's intention to continue to improve the country's foreign investment climate, even if its efforts sometimes fall short. Most recently, the GVN has issued laws and regulations intended to facilitate foreign investment by reducing or eliminating discrimination against foreign investors in pricing for goods and services, transfer requirements, use of land use rights for mortgaging purposes, unanimity rules applying to certain decisions made by joint venture boards, rights of first sale and many others. Many of these changes were mandated under the BTA.

In spite of these steps, policy does not always translate into concrete action and many additional official measures that discriminate against foreign investment persist. These can be found listed among the permanent exceptions to the non-discrimination obligations contained in the BTA investment chapter. Some must be eliminated at a later date under the BTA; others will remain indefinitely. Additionally, Vietnam continues to impose unofficial and arbitrary measures that negatively affect foreign investors and in some cases, threaten their capital investments.

At present, most foreign importers are barred from direct participation in Vietnam's distribution system, although foreign investors have the right to sell, market, and distribute what they manufacture locally. Foreign investors have the right to import goods needed for their investment projects, and inputs directly related to their production, provided this right is included in their investment licenses. Under the BTA, trading rights and market access in distribution services for foreign investors will be gradually expanded.

The GVN holds regular 'business forum' meetings with domestic and foreign business associations to discuss issues of importance to the private sector. Foreign investors use these meetings to draw attention to impediments to investment and commerce imposed by Vietnamese law and regulation as well as by improper implementation. These fora, together with frequent dialogues between GVN officials and foreign investors held between the semi-annual fora, have led to improved communication and have sometimes allowed foreign investors to make timely comments on and influence legal and procedural reforms.

Foreign enterprises also have the right to apply to the Ministry of Trade or the Department of Trade in Hanoi or Ho Chi Minh City for a representative office license, which gives foreign firms the right to conduct market research and to pursue business interests, short of actually selling products and services in Vietnam. Foreign banks must apply to the State Bank of Vietnam for representative office or bank branch licenses. Decree 72, issued in July 2006, changed some of the rules on representative offices, limiting the role of representative offices and allowing for the establishment of trading branches. Some in HCMC are concerned about limits placed on representative offices, particularly with regard to advertising and trading. The ability to establish trading branches may alleviate the limitation on trading for representative offices, but a lack of implementing guidelines for the decree mean there is a high decree of uncertainty surrounding this issue.

Previously, Vietnam applied different corporate income tax rates to foreign investors and to domestic enterprises (being 25 percent and 32 percent respectively). The National Assembly in its May 2003 session approved the Ministry of Finance amendments to the Law on Corporate Income Tax, which provide for a uniform rate of 28 percent applied to foreign invested and domestic businesses, representing a three percent increase for foreign invested enterprises and a four percent reduction for domestic companies. Tax incentives will also be the same for both foreign invested and domestic enterprises and will be offered to investors in selected priority sectors and in remote areas. The Amended Law on Corporate Income Tax took effect 1 January 2004.

Under this law, Government Decree 164 and Circular 128 of the Ministry of Finance issued in December 2003 abolished the tax on profits remitted by foreign invested enterprises. In response to foreign investors' long-standing complaints about the high personal income tax rates for Vietnamese national employees in the higher pay scales, which significantly increases the gross salary employers must pay to maintain competitive and reasonable take home salaries, the Standing Committee of the National Assembly promulgated Ordinance 14 on Amendments to the Ordinance on Income Tax of High Income Earners in March 2004. Under this legislation, the tax burden on Vietnamese employees was reduced from 1 July 2004.

Conversion and Transfer Policies Return to top

Vietnam's foreign exchange regime has been significantly improved with the amendments to the LFI (the 2000 Governmental Decree Number 24 and 2003 Decree Number 27), which explicitly gave foreign investors the right to exchange local currency for foreign currency to meet certain current transactions or remit certain categories of earnings. In addition, conversion of Vietnamese dong into hard currency no longer requires a foreign exchange license. Despite these significant improvements, various subsequent decrees and circulars issued by the State Bank continue to stipulate conditions on, among other things, the opening of bank accounts, conversion of Vietnamese Dong into foreign currency, documentation requirements, and remittance of foreign currency in and out of the country.

Foreign businesses are allowed to remit profits, shared revenues from joint-ventures, income from services and technology transfers, legally-owned capital and properties in hard currency. Foreigners also are allowed to remit abroad royalties and fees paid for the supply of technologies and services, principal and interest on loans obtained for business operations, and investment capital and other money and assets under their legitimate ownership. But their ability to convert dong into hard currency is subject to availability, causing Foreign-invested-enterprises (FIEs) to experience problems in securing hard currency. There is no information available on the average delays in remitting investment returns. Approval by investment authorities is needed to increase or decrease the capital of a foreign-invested business.

In principle, most FIEs are expected to be 'self-sufficient' for their foreign exchange requirements, although this sometimes proves impractical. Government of Vietnam guarantees to assist in the balancing of foreign currency for foreign invested enterprises and foreign business cooperation parties that invest in the construction of infrastructure and certain other important projects in the event that banks permitted to trade foreign currency are unable to fully satisfy their foreign currency demand

Expropriation and Compensation Return to top

The U.S. Mission knows of no recent instances of expropriation of a foreign investment by the Government of Vietnam.

Under the BTA, in any future case of expropriation or nationalization of U.S. investor assets, Vietnam will be obligated to apply international standards of treatment - that is taking such an action for a public purpose; in a non-discriminatory manner; in accordance with due process of law; and with payment of prompt, adequate and effective compensation.

Dispute Settlement Return to top

Vietnam's legal system, including dispute and claims settlement mechanisms, remains underdeveloped and sometimes biased against foreign entities. Negotiation between the concerned parties is the most common and preferred means of dispute resolution. Although contracts are extremely difficult to enforce in Vietnam, particularly if one party to a dispute is a foreigner, investors generally should negotiate and include dispute resolution procedures in their contracts. However, even with such provisions, resolution is not guaranteed.

In the event of an investment dispute, a number of domestic avenues are available. Economic courts, in addition to hearing bankruptcy cases, also have jurisdiction over cases involving business disputes. Administrative courts hear cases that concern alleged infractions of administrative procedures by Government authorities. In such cases, the plaintiff must pay a bond to the court, half of which is forfeited if the dispute is resolved before the beginning of court proceedings. Also, the court proceedings must begin within six months of the date of the dispute. Many international investors express concerns about the ability of the court system to render impartially and promptly a decision that accurately reflects the facts and properly interprets the relevant Vietnamese law and/or international law and practice. Thus, they prefer to have other options available to them. According to Vietnamese press accounts, many court judgments on business issues are ignored because the affected party can use "influence" to forestall the application of the judgment.

Outside of the court system, economic arbitration centers operate in a number of provinces and cities. However, it is not clear if these centers are legally competent to settle disputes involving foreign parties. Another type of arbitration institution in Vietnam is the Vietnam International Arbitration Center (VIAC), which operates in close coordination with the Vietnam Chamber of Commerce and Industry (VCCI). It has authority to settle disputes arising from international economic transactions including contracts on foreign trade and investment. However, it is not clear if investors would be free to choose foreign arbitrators, nor can international standard arbitration rules, such as those of the International Chamber of Commerce (ICC) or the United Nations Commission on International Trade Law (UNCITRAL), be used. The decisions of the VIAC are final and cannot be appealed to any domestic court. The center does not yet have an established track record for competence or impartiality, and questions have been raised about the enforceability of its awards. For now, most foreign parties choose to stipulate "third party" arbitration in their contracts with Vietnamese parties and the Government.

Foreign and domestic arbitral awards are technically legally enforceable in Vietnam. Vietnam acceded to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards in 1995, meaning that foreign arbitral awards rendered by a recognized international arbitration institution must be respected by Vietnamese courts without a review of the case's merit. In practice, however, the U.S. Embassy is aware of contradicting judgments and decisions by different Vietnamese courts with regards to a foreign arbitral award for a case between a subsidiary of a U.S. firm and an Australian-Vietnamese joint venture. The foreign arbitral award was recognized by a municipal Economic Court, but was subsequently reversed by the Supreme Court (the highest judicial level) upon appeal. The Supreme Court rearbitrated the case in Vietnam (contrary to the agreed upon procedures in the contract) and ruled that as a construction contract did not fit the narrow definition of commercial contract found in the Commercial Code, a foreign arbitral award relating to it could not be enforced in Vietnam. The results of this case indicated that the enforceability of a foreign arbitral award in Vietnam currently remains questionable.

In February 2003, the National Assembly passed the Ordinance on Commercial Arbitration. The ordinance defines “commercial activities” more broadly to include, inter alia, leasing, construction, consultancy, licensing, investment, financing, banking, insurance, exploration, mining activities and transportation. But, this ordinance has not yet been tested and it is not yet clear whether this change will positively affect the way courts address these issues.

Under the investment chapter of the BTA, Vietnam gives U.S. investors the right to choose a variety of third party dispute settlement mechanisms in the event of an investment dispute with the GVN. Vietnam has not yet acceded to the Convention on the Settlement of Investment Disputes between States and Nationals of other States (ICSID), but has asked the U.S. to provide advice in this area as part of the U.S. technical assistance program designed to assist Vietnam to fully implement the BTA.

Until recently, exit strategies for foreign investors have been limited and problematic. Since the original Law on Business Bankruptcy was issued in December 1993 ("1993 Law"), only 61 bankruptcy cases have been brought to court. The small number of bankruptcy cases is due largely to the deficiencies of the 1993 Law. The new Bankruptcy Law, in effect beginning October 2004, attempts to simplify bankruptcy definitions and procedures to give both investors and the courts more flexibility in resolving insolvency.

Performance Requirements and Incentives

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Under the terms of the BTA, Vietnam retained the right to require that an investment project export at least eighty percent of its production for seven years in the following sectors: cement; paint; bathroom tiles and ceramics; PVC and other plastics; footwear; clothing; construction steel; detergent powder; tires and inner tubes for cars and motorbikes; NPK fertilizer; alcoholic products; tobacco; and paper.

In order to comply with its commitments under the BTA and to support its WTO accession bid, Vietnam has removed performance requirements which are inconsistent with the WTO TRIMS agreement. In particular, in the new Investment Law, Vietnam commits not/not to compel foreign investors to undertake the following requirements:

- To give priority to the purchase or use of domestic goods or services; or to purchase compulsorily goods or services from a specific domestic manufacturer or services provider;
- To export goods or services at a fixed percentage; to restrict the quantity, value or type of goods or services which may be exported or which may be sourced domestically;
- To import goods at the same quantity and value as goods exported; or to self-balance compulsorily foreign currency;
- To achieve certain local content ratios in manufacturing goods;
- To achieve a stipulated level or value in their research and development activities in Vietnam;
- To supply goods or provide services in a particular location whether in Vietnam or abroad; and
- To establish head office in a particular location.

The GVN employs an extensive range of incentives in an attempt to attract foreign investment into certain priority sectors or geographical regions. The Investment Law and Decree 108 encourage investment in mountainous and remote areas of the country and in regions with ‘specially difficult or difficult economic and social conditions’. The GVN specially encourages investment in the following areas:

- Production of new materials, new energy, manufacturing high-tech products, bio-technology, information technology, mechanical engineering;
- Agricultural, fishery and forestry production, salt production, generation of new plant varieties and animal species;
- High technology, ecology and environmental protection, research and development;
- Labor-intensive projects (using 5,000 or more full time laborers),
- Infrastructure projects;
- Education, training, health and sports development.

Although the GVN encourages investment in the provinces, enforcement of investor protections and BTA rights with provincial authorities has proven difficult at best. Investors should use due diligence when working at the provincial or local levels.

Depending on the sector, FIEs and foreign parties to a BCC may be exempted from profits tax for a maximum period of two years commencing from the first profit-making year and may be allowed a 50 percent reduction of profits tax for a maximum period of two consecutive years. Certain 'encouraged' projects may be exempted from profit tax for up to four years from their first profitable year and may be allowed a 50 percent reduction of profits tax for a further four years. Where the investment is 'especially encouraged,' the maximum period of tax exemption shall be eight years. Such exemptions are generally written into a company's investment license.

The law on export and import duties specifies the rates which FIEs and parties to BCC's must pay on exports and imports. Equipment, machinery, specialized means of transportation, components and spare parts for machinery and equipment, raw materials and inputs for manufacturing, and construction materials that cannot be produced domestically, which are imported to Vietnam to form fixed assets of an FIE or a BCC, are exempted from import duties. Other exemptions or reductions of import and export duties can be stipulated by the GVN for 'encouraged' projects and are also generally contained in an enterprise's investment license. The GVN has committed to eliminating WTO-inconsistent export incentives.

Other special incentives are available to foreign investors in build-operate-transfer (BOT) projects and projects located in export processing zones (EPZ), industrial zone (IZ) and high tech zones (HTZ). BOTs may be joint ventures or 100 percent foreign-owned. They are exempt from land tax and from payment of duties on goods imported to implement the contracts. They enjoy a lower profits tax rate (10 percent), a five percent withholding tax rate (the lowest normal rate), an eight-year tax holiday starting from the first profitable year, and a Government guarantee for conversion of revenue from local to foreign currency. The term of a BOT can extend to 50 years, after which project ownership reverts to the Government.

Projects in EPZs are entitled to profit tax rates of 10-12 percent for the duration of the investments. EPZs were the first production zones developed in Vietnam, but interest in them has been less than anticipated due to inadequate infrastructure and a requirement that these firms export 100 percent of their product. Ho Chi Minh City's Tan Thuan Zone is Vietnam's largest EPZ, while others are planned or in operation in Danang, Can Tho, Hanoi, and Ho Chi Minh City. Export-producing firms wishing to operate in an EPZ apply for licenses and pay taxes directly to the EPZ management boards, which streamlines the process. Imports of machinery and raw materials enter the zones duty-free, and EPZ firms sometimes also benefit from lower rents, fewer regulations, and a variety of tax incentives.

IZs are open to companies engaged in construction, manufacturing, processing or assembly of industrial products, and service to support industrial production. Companies submit license applications and pay taxes directly to the IZ management boards. IZ firms also are eligible for certain tax benefits, including a 10 percent profit tax for the duration of the investment. Companies that reinvest profits may be eligible for refund of profit taxes. Foreign-invested automobile manufacturing projects are subject to local content requirements in their investment licenses.

Vietnam has also instituted a number of incentives designed to attract investment from foreign investors of Vietnamese origin. They are allowed to choose to operate under domestic, as opposed to foreign, business licenses, although they may choose to operate as a foreign business where doing so would be advantageous to them. The land law has also been amended to permit limited categories of these investors to buy land use rights to build homes, which other foreigners are not permitted to do.

The GVN does not, however, often recognize the adopted nationality of many Vietnamese origin persons unless they have formally renounced their Vietnamese citizenship and may consider them to be Vietnamese nationals. U.S. investors of Vietnamese origin should consult the U.S. Embassy in Hanoi or the U.S Consulate General in Ho Chi Minh City for more information

Right to Private Ownership and Establishment Return to top

Until the late 1980's, the Vietnamese economy was organized according to principles of socialist central planning. Since then, the Government has moved to develop a market-oriented economy and has formally recognized the existence of the private sector. In recent years, the private sector, foreign and domestic and, to a lesser extent, a small collective sector have begun to play greater roles in the economy, although current policy dictates that the state sector will continue to "play a leading role" in the economy.

SOEs continue to dominate the industrial economy of Vietnam. A large majority of these SOEs suffer from weak finances, high debt, obsolete plant and equipment, poor management, poorly trained staff, low labor productivity, and low product quality. According to the World Bank, as of June 2006, the number of SOEs in Vietnam has dropped to around 2,600 from 5,600 in 2001 and from around 12,000 in the early 1990's. The National Steering Committee on Enterprise Reform estimates that 50 percent of the remaining SOEs are incurring losses.

As part of its 2001 economic reform agreement with the World Bank and the IMF, the GVN committed to equitize roughly one-third of the current SOEs over three years and ensure that those remaining become competitive. However, actual implementation of the reform program has been slower than planned. In addition, many international observers expressed disappointment that the Government did not agree to completely dismantle its SOE sector over time. Especially disconcerting to these observers is the Socio-economic Strategy for 2001-2010, which reconfirms the "leading role" of the state enterprise sector and instructs the Government to retain and improve SOE operations in broad range of sectors that hold considerable interest for the international investor, including telecommunications, banking, insurance, and petroleum. At the same time, however, the GVN has instructed agencies and ministries to restructure or dissolve loss-making SOEs.

A vibrant private sector is emerging in Vietnam. Dozens of large-scale Vietnamese private enterprises and tens of thousands small and medium sized firms now exist. The single most crucial GVN action in supporting of the development of the domestic private sector was the enactment, in January 2000, of the Enterprise Law, which provided, for the first time, simplified domestic business registration rather than discretionary Government approval and licensing. At the end of 1999, official statistics counted 45,000 companies in the formal domestic private sector. Since, then over 270,000 enterprises have been registered, the large majority of which are new enterprises. The rest were previously-existing firms that moved from the informal to the formal sector. Also, as part of implementation of the new law, the GVN has moved to abolish nearly 200 "unnecessary" permits required by various ministries and localities for operation of a business. Unfortunately, these agencies keep adding to the list of these "baby permits" in an effort to re-establish control over issues they previously influenced via the licensing system. Domestic private enterprises have created substantial new employment in Vietnam, while employment in the state sector has been stagnant or declining.

Private firms, however, continue to be severely disadvantaged relative to SOEs in terms of access to credit and land, and in legal and regulatory treatment. Private firms face restrictions in using land use rights for joint ventures with foreign investors. SOEs also receive most of the lending from state-owned banks, which dominate the banking sector. In general, despite these restrictions, the relatively larger private firms that are emerging in Vietnam operate with better management and greater efficiency than the SOEs. Moreover, high-ranking Government officials have stated the GVN's intention to put foreign and domestic investment on more or less even footing with SOEs with respect to access to credit, legal and regulatory treatment, pricing, and fees. However, SOEs are likely to retain better access to land and will continue to be expected to "dominate" in key sectors as identified by the political leadership. Protection of Property Rights

Protection of Property Rights

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The Vietnamese legal system is in a state of transition to support a more market-oriented economy and undergoes frequent and at times significant change. The rudiments of a legal system that protects and facilitates property rights have been established. But much more work needs to develop the laws and enforcement mechanisms needed to adequately protect property rights in Vietnam.

All land in Vietnam belongs to “the people”, administered or managed by the State. Private land use rights (LURs) were established for the first time in 1988 when agricultural land was decollectivized and land use rights were granted to households. A LUR is a State-granted right to use land for a specific purpose. The 1992 constitution granted stronger land rights to individuals, including rights over commercial and personal property. LURs may be granted for up to 50 years, depending on the specific use of the land. Individual holders of LURs can sell them if they move to a new location, change jobs, or are unable to work. In the 1993 Land Law, the National Assembly broadened LURs to include rights to exchange, transfer, rent, inherit, and mortgage land. In 1998 several additional changes to the land law were enacted, primarily to distinguish between corporate leaseholders, who can use their land for domestic or foreign joint ventures, and individual leaseholders who are not permitted to enter joint ventures with foreign entities.

Additional amendments to the land law in 2001 and subsequent implementing regulations decentralized authority for leasing land to businesses and permitted local officials to lease land to foreign organizations, individuals and overseas Vietnamese. Still, foreign investors can currently only lease land from the Government or in industrial parks. These limitations may soon be lifted. Government Resolution Number 2 issued in January 2003, proposed allowing domestic private companies with long-term land use rights to lease their land to foreign investors, provided that the lease is not longer than the rights held by the leaser. The new Land Law passed by the National Assembly in November 2003 and in effect from 1 July 2004 allows domestic private companies with long-term land use rights to lease their land to foreign investors. Permission, however, is subject to approval of the authorities who grant the land use rights to the leaser, and the continued requirement that a lease cannot be longer than the rights held by the leaser.

Decree 181-2004-ND-CP of the Government dated 29 October 2004 to implement the Law on Land (Amended) which became effective on 16 November 2004 provides for the extension of land use terms of foreign invested projects if the project licenses are extended, but not for longer than the original term. Application must be made to the Ministry of Natural Resources and Environment (MONRE) 6 months before expiry of the term. There are however no provisions on how assets on land will be handled in the event that the term of land use by a foreign investor is not extended. To provide detailed guidelines to implement Decree 181, the MONRE issued Circular 01-2005-TT-BTNMT dated 13 April 2005 which provides for the recording of assets attached to land on land use right certificates.

Although foreign entities are not permitted to own land, they may own housing and other building works "attached" to land in Vietnam. New guidelines issued under Decree 95-2005-ND-CP of the Government dated 15 July 2005 provide for certification of ownership of housing and other building works (to be issued by the Ministry of Construction) to be completely independent from certification of ownership of the land on which such works stand (to be issued by MONRE). Certificates of ownership of housing and construction works will be the legal basis for owners to exercise their rights with respect to such buildings. To be eligible for a certificate, a foreign individual must be permitted by law to own housing or construction works in Vietnam (very limited range) and a foreign organization must (i) have legal entity status, established and operating under Vietnamese law and (ii) lawfully own housing and construction works by way of investment in construction, purchase, acceptance of gift, donation, acceptance of inheritance, transfer. Decree 95 became effective as of 10 August 2005.

The Ministry of Finance has submitted a draft decree to the Government on collection of land lease rent. Currently the unit price for land lease rent applicable to Vietnamese enterprises is 0.5% of the land price framework promulgated by the provincial people's committees and 0.7% applicable to foreign invested enterprises (FIEs). The MOF's latest draft proposes a single-pricing system applicable to both Vietnamese enterprises and FIEs with the percentage set at 0.5%.

Vietnamese LUR-holders have the right to mortgage them, but Vietnamese banks generally value land at a maximum of 70 percent of the total rent already paid on the property, not the property's appraised value. As organizations only were obliged to begin paying rent in February 1995, the values of mortgages on land are not large, which limits their usefulness for property-based project finance. The amended LFI permits foreign banks branches to accept mortgages of land use rights. But to date, widespread use of collateralized bank loan actions have been hampered by a lack of central registration for mortgaged assets. Foreign banks also want to see an amendment to the land law to permit them to take possession of the land after a foreclosure, and amendments to banking regulations. In March 2002, a good first step was made when the New National Register for Secured Transactions opened for business in Hanoi and Ho Chi Minh City. But the registry does not have jurisdiction over land-use rights or buildings, assets that remain under the control of local authorities and the enforceability of collateral in the form of LUR and property remains uncertain. The National Register for Secured Transactions is working on a draft law on registration of immovable assets that is intended to give the registry jurisdiction over land-use rights of buildings and assets. As originally planned, the draft law would be submitted by Ministry of Justice to the National Assembly for consideration in the second session in late 2005. However, at the last minute, the Government proposed delaying the debate on the draft law indefinitely as there has been a disagreement on the scope of application for fears of overlapping with the Land Law and the Housing Law.

IPR infringement continues to be widespread and enforcement of administrative orders and court decisions finding IPR infringement remains problematic. Vietnam is a member of the World Intellectual Property Organization (WIPO) and is a signatory to the Paris Convention for Industrial Property. It has acceded to the Patent Cooperation Treaty and the Madrid Agreement. In June 2004, Vietnam decided to join the Berne Convention on Copyright Protection for Literary and Artistic Works. On October 26, 2004, Vietnam became the 156th full-fledged member of the Convention, which is the country's first multilateral copyright agreement. The U.S.-Vietnam Bilateral Copyright agreement obligates Vietnam to provide U.S. copyrights protection on a national treatment basis in accordance with the terms of the Berne Convention. In April 2005, Vietnam officially acceded to the Geneva Convention for the Protection of Producers of Phonograms Against Unauthorized Duplication of Phonograms. Vietnam will be responsible for extending copyright protection for sound recordings from other member countries as of July 2005. Under the terms of the BTA, Vietnam was obligated to make its system for protecting intellectual property rights (IPR), including enforcement, consistent with the WTO TRIPS agreement by December 10, 2003. Although considerable progress has been made over the past several years, with new regulations expanding legal protection to areas previously not covered, such as business secrets and new plant varieties, much remains to be done. New legislation this year included Intellectual Property Law, Law on Publishing, Civil Code, Civil Procedure Code, Inter-Circular No.129 Guiding Border Control Measures for Industrial Property of Import Export Goods, Circular 132 Providing Guidelines for the Collection, Payment, Control and Utilization of Industrial Property Fees and Charges (abolishment of two-tier price), and Decision No.12 on establishment of Vietnam Anti-Counterfeit and Intellectual Property Protection Association of Foreign-Invested Enterprises (VACIP). The National Assembly approved the new Intellectual Property Law on November 19, 2005. It will take effective from July 1, 2006. The implementing regulations are expected to be issued before that time.

Vietnam's laws offer some protection for foreign patent holders, but there are infringements. Potential investors should contact the U.S. Embassy in Hanoi or the Consulate General in Ho Chi Minh City for the latest information regarding the ongoing changes to IPR protection in Vietnam. The National Office of Intellectual Property (NOIP), under Ministry of Science and Technology, administers Vietnam's patent and trademark registration system. The Vietnam Office of Literary and Artistic Copyright, under the control and supervision of the Ministry of Culture and Information, oversees artistic copyright. Ministry of Agriculture and Rural Development is responsible for plant varieties. Significant progress has been made putting in place the laws protect copyrights including those belonging to foreigners but enforcement is almost non-existent. Since joining the Berne Convention and Geneva, MOCI tightened copyright regulations on foreign musical and theatrical works, as well as sound recordings. All organizers must obtain permission in writing from the copyright holders before performing their works.

Enforcement of IPR remains weak and violations of IPR are rampant. While Vietnam recently has conducted considerable administrative and law enforcement actions against IPR violations, IPR enforcement remains the exception rather than the rule. For some types of products, such as PC software, music and video CDs, VCDs and DVDs, as well as brand trademark violations, such as logos on t-shirts and other consumer items, IPR enforcement is virtually non-existent. Industry estimates of piracy rates for software, music and video, run as high as 99 percent. Local police authorities often are slow to act on administrative orders finding infringement and court decisions. Violators sometimes negotiate with plaintiffs, demanding payoffs to stop producing pirated material. However, there is the beginning of some progress with increased awareness of the need for effective IPR enforcement to foster investment, both foreign and domestic, in sectors such as software development and the arts. In addition, Vietnamese authorities are becoming increasingly concerned that the proliferation of pirated products also undermines their ability to prevent the distribution of pornography and other illegal content.

Transparency of Regulatory System

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As Vietnam undergoes a transition to a more market-oriented economy, the legal system changes frequently, and at times, significantly. Vietnamese officials have limited experience drafting legislation, and new laws and regulations sometimes are contradictory or unclear. Not all officials, especially those at the provincial and local levels, are fully up-to-date on all the new laws and regulations that affect their area of responsibility. Nor are all laws and regulations readily available to business and the public. Different officials, sometimes within the same agency, may interpret laws differently. There is a shortage of practicing lawyers, judges, and law professors. Substantial foreign assistance is being devoted to assist Vietnam to establish a legal structure compatible with international standards.

Although the Vietnamese Government has begun to streamline and rationalize the investment licensing process over the past year, MPI and other national, provincial, and local government agencies retain a great deal of discretionary authority. U.S. and other investors frequently encounter the need for further negotiation and administrative processes after the licensing process has been completed. A general lack of transparency in law and regulation make it difficult not only to exercise rights, but even to be aware of what rules apply to an investment. In recent years, Vietnam has improved its process for making and publicizing laws, but beyond major national laws and regulations, much rule-making affecting foreign investors still occurs at the ministerial, sub-ministerial and local levels, without any regular process for public notification and little possibility for advance warning of changes in rules or for public input during the rule-making process. In 2002 the GVN amended the Law on the Promulgation of Legal Normative Documents to require that all legal documents and agreements to international conventions be published in the Official Gazette. As of July 2003, the Official Gazette has been published on a daily basis.

Under the BTA, Vietnam is obligated to publish promptly all existing and future laws, regulations and administrative procedures which might affect any matter covered under the agreement, including investment and trade in goods and services. The BTA further commits Vietnam to enforce only laws, regulations or administrative practices that have been so published and to publicize such laws sufficiently in advance of their effectiveness to ensure U.S. investors have adequate time to adjust their operations accordingly. Vietnam has committed to provide a process by which the U.S. Government and U.S. nationals have the ability to provide their views to the GVN on any such laws, regulations or administrative practices while they are still being formulated. Finally, U.S. nationals have the right to appeal administrative action relating to matters relating to the agreement. In December 2002, the National Assembly passed the “Law on Legal Normative Documents”. Although this Law meets some of its BTA commitments, the GVN is not yet in full compliance with these obligations, in particular regarding prior notice and consultation on proposed regulatory and legal changes.

The amended Decree 101 (Decree 161/2005/ND-CP) regulating in details the implementation of the Law on the Promulgation of Legal Normative Documents of 2002 was issued on December 27, 2005 and took effect on February 1, 2006. In accordance with the amended Decree, all drafted legal documents will have to be publicized for comments from organizations and subjects whose rights and obligations will be affected by the proposed documents. It also stipulates specifically the methods of comment gathering, responsibilities of authorities in charge of gathering ideas and comments, and the time for comment gathering. The amended decree also clearly identifies which factors make up a legal normative document. Any document that contains legal normative factors but is not issued in the right form of a legal normative document such as official letters, cables will be considered invalid. According to a recent decision by the Prime Minister, the Ministry of Justice has been assigned the duty of reporting on the practical implementation of the amended Law on Promulgation of Legal Normative Documents of 2002 and on shortcomings and problems. The report will be submitted to the Government to consider whether the law needs additional amendment.

The Law on Promulgation of Legal Documents of People's Councils and People's Committees issued in 2004, which took effect inApril 2005, has further contributed to the transparency of the law-making process.

Efficient Capital Market/Portfolio Investment Return to top

Vietnam' financial system is in the early stages of reform and is not yet an efficient allocator of financial resources. At least 50 percent of personal savings are held as cash, gold, or other assets outside the banking system. However, as part of its World Bank/IMF program, the GVN has embarked on a comprehensive banking reform program that relies on market-based action that is intended to ensure the stability of the banking system. In the medium-to-long term the reforms should promote better mobilization of domestic resources by improving allocation of those resources to commercially viable activities and should expand banking services throughout Vietnam. Raising capital for development is one of Vietnam's main economic priorities.

Foreign investors generally meet their foreign currency credit needs offshore or with foreign bank branches, although availability of foreign currency to convert dong assets to cover dollar liabilities can be, at times, uncertain. Foreign banks are severely limited in their right to take dong deposits and frequently encounter difficulties meeting customer's dong cash and credit needs. However, under the BTA, U.S. banks now enjoy a more liberal policy on dong deposits. In response to strong lobbying from non-US foreign banks to get the same treatment as US banks, in April 2004 the State Bank of Vietnam issued Decision 327 raising the dong deposit ratio for foreign banks coming from the European Union, giving them the same competitive edge as US banks. This more favorable ratio, however, is not available to other non- European Union or non-US foreign banks.

The State Bank and the Ministry of Finance have conducted sales of state bonds denominated in local currency, but Vietnam only has an informal secondary market for such instruments.

The banking industry in Vietnam is characterized by its small size in terms of deposits and loans and by the relatively large number of banks, both foreign and domestic. However, four state-owned commercial banks (SOCBs) – the Vietnam Bank of Foreign Trade (Vietcombank), the Vietnam Industrial and Commercial Bank (Incombank), the Bank for Agriculture and Rural Development, and the Vietnam Investment Bank – still dominate domestic banking activity, providing an estimated 75 percent of all lending. Most SOCBs and joint stock banks (i.e., private sector banks with numerous shareholders) are under-capitalized, particularly when non-performing loans are taken into account. State-directed lending under non-commercial criteria also weakens banks in Vietnam. Furthermore, banks in Vietnam, including the four state-owned banks, hold a large number of non-performing loans, mainly to SOEs. As transparent auditing and financial reporting is problematic, it is difficult to know the exact proportion of non-performing loans. Sources vary widely, with estimates of bad loans ranging from 4 percent to 30 percent.

In 1997, the Government introduced a new accounting standard, the 'Vietnamese accounting system.' The Ministry of Finance continues to refine and amend this standard to bring it into consistency with international accounting standards. After a multi-year grace period, foreign banks and companies are now required to comply fully with its parameters. A number of major international accounting firms have opened offices in Vietnam and, unlike foreign law firms (which are subjected to restrictions including advising clients on Vietnamese law and hiring Vietnamese lawyers), can provide advice on accounting and business issues directly to foreign clients in Vietnam. Nonetheless, a continued lack of financial transparency and compliance with internationally accepted standards among Vietnamese firms continues to pose problems for the Government's plan to expand stock and securities markets to raise capital internally.

Despite these challenges and after years of discussion and planning, Vietnam opened a stock market in July 2000. Since the beginning of 2006, the number of listed stocks has increased from 35 in February 2006 to 65 in November, and the capitalization of Vietnam's stock market has more than tripled, to approximately $8 billion as of November 2006. The majority of listed firms are former SOEs that have undergone a restructuring/equitization program. In response to the GVN's recent policy initiatives to push companies trading on the unofficial equity market (the OTC market) to list on the official bourse, about twenty additional companies are expected to join the VNINDEX, increasing its market capitalization to close to $5 billion. Merrill Lynch rated the VNINDEX the best performing index in Asia with 75 percent growth year-to-date, and one of the best performing in the world this year. Under current market regulations, share prices of a listed company cannot increase or decrease by more than five percent per trading session. Vietnam's stock market is increasingly becoming an attractive investment channel for foreign investors and a real source for financing or intermediation.

Formerly, foreign organizations and individuals could only hold a maximum of 30 percent of total shares issued by a listed company. As part of its efforts to encourage foreign investment and to promote the development of the infant stock market, the Government issued Decision 238 in September 2005 raising the cap on equity held by foreign investors in a listed Vietnamese company from 30 percent to 49 percent.
81. In March 2003, the Government issued Decision 36/QD-BKH revising the regulations on foreign shareholding in Vietnamese companies that are not listed on the Vietnam stock market. The new Decision governs purchase of shares and capital contributions by the following foreign investors:

- Foreign economic and financial organizations established pursuant to foreign law and conducting business overseas or in Vietnam;
- Non-resident foreigners in Vietnam;
- Foreigners who reside, earn their living and live long-term in Vietnam;
- Overseas Vietnamese

Another important reform is the elimination of the requirement that the Prime Minister approve the sale of shares to foreign investors.

A handful of regional and Vietnam-specific investment funds have been set up in the past two years preparing to capture new business opportunities once Vietnam becomes a full member of the WTO. Foreign investors have been granted direct trading licenses and new representative offices for fund managers are appearing in both Ho Chi Minh City and Hanoi. According to Merrill Lynch's October Investment Strategy Report, since the beginning this year, nearly $1 billion has been raised by locally run institutions for offshore investors. 2006 is likely to be a record year for foreign portfolio investment in Vietnam, with an estimated $2 billion invested in Vietnamese securities.

Political Violence Return to top

Vietnam is undertaking an ambitious course of transition both domestically and internationally, but remains essentially stable under the Communist Party of Vietnam (CPV). As the country proceeds with its transition from a centrally-directed economy to a more genuinely market-based economy, a process that began in the late 1980's, the GVN and the CPV have, at the same time, reduced official interference in private lives of citizens and have permitted a broad expansion of personal liberties. But the GVN remains a one-Party state that brooks no overt criticism of the CPV and continues to restrict to varying degrees basic freedoms of religion, speech, assembly, and press, while denying true choice of political system or leaders. There is little active opposition to the CPV, however, and most Vietnamese appear satisfied with the economic and social improvements of the past several years. Public criticism of corruption, bad or inefficient policymaking or Government incompetence is increasingly tolerated, although there are signs that the Government is seeking to prevent the press from getting too far out in front in terms of reporting on corruption scandals. There have nonetheless been isolated protests, such as large demonstrations by ethnic minorities in the Central Highlands in 2004 and smaller gatherings at the semi-annual meetings of the National Assembly by a variety of disaffected individuals.

Corruption Return to top

U.S. and other foreign firms, as well as domestic private sector firms, have identified corruption in Vietnam in all phases of business operations as an obstacle to their business activities. In 2006, Vietnam scored a 2.6 out of 10 points (0.2 points higher than in 2005) on Transparency International's Corruption Perception Index. This placed Vietnam's rank at 111 out of 163 surveyed countries. As compared with other ASEAN members, Vietnam's score is equal to that of Laos and higher than that of Indonesia, Cambodia and Myanmar. In large part due to a lack of transparency, accountability, and media freedom, widespread official corruption and inefficient bureaucracy remain serious problems that even the CPV and GVN admit they must address squarely and soon. Competition among Government agencies for control over business and investments has created a confused overlapping of jurisdictions and bureaucratic procedures and approvals that in turn create opportunities for corruption. Low pay for Government officials and woefully inadequate systems for holding officials accountable for their actions compound the problems. Implementation of the GVN's Public Administration Reform, developed with the assistance of the World Bank, and the country's obligations under the transparency provisions of the BTA promise some improvement in the situation. However, it appears unlikely that they will be successful in this effort to eliminate corruption in the near term.

In late November 2005, the Party Central Committee's Commission for Internal Affairs revealed results of a survey on corruption and the fight against corruption in Vietnam. More than 5,400 people, including Government officials, business executives and citizens throughout the country took part in the survey. Over 92 percent of officials and businessmen and 84 percent of citizens pinpointed corruption as the country's most serious problem. According to the survey, agencies involved in land and house administration, customs, traffic police, construction, construction permit provision, health care services, planning and investment, transport, finance and taxation have seen the largest number of corruption cases.

In an effort to crack down on corruption, the National Assembly passed a long-awaited anti-corruption law in late November 2005 that requires Government officials to declare their assets and Government agencies to be more transparent. The law also establishes an anti- corruption steering committee, headed by the Prime Minister, to coordinate the fight against corruption.

On August 28, 2006, the National Assembly (NA) Standing Committee passed a resolution on the organization, duties and powers of the Central Steering Committee for

Corruption Fighting and Prevention. The Committee has responsibility for directing, coordinating, and supervising anti-corruption activities throughout the country. The Committee will report to the Central Party Committee, the Politburo, the Secretariat, the National Assembly, the NA Standing Committee, the President and the Government.

One of the important powers of the Steering Committee is that as Head of the Committee, the Prime Minister can issue decisions temporarily suspending Vice Ministers, Chairpersons, Vice Chairpersons and permanent members of the People's Councils, Chairpersons, Vice Chairpersons and other members of People's Committees in provinces and municipalities under the direct control of the GVN and other positions appointed by the Prime Minister. While the creation of such a Steering Committee is a positive step, it remains to be seen if the Committee can operate independent of political interference.

In terms of organization, the Steering Committee includes a Head of Committee- the Prime Minister; a Deputy Head of Committee- a Deputy Prime Minister; and other members, including the Chief Inspector of the Government's Inspectorate, Minister of Public Security, Head of the Supreme People's Procuracy, a judge of the Supreme People's Court, Deputy Head of the Central Control Committee, Deputy Head of the Central Internal Affairs Commission, Deputy Minister of National Defense and Minister of Culture and Information. The Committee will have a separate seal, and the budget for its operations will come from the State budget.

Bilateral Investment Agreements

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Vietnam has 49 bilateral investment agreements with the following countries and territories: Algeria, Argentina, Armenia, Australia, Austria, Belarus, Belgium and Luxembourg, Bulgaria, Burma, Chile, China, Cuba, Czech Republic, Cambodia, Denmark, Egypt, Finland, France, Germany, Hungary, Iceland, India, Indonesia, Italy, Japan, Laos, Latvia, Lithuania, Malaysia, Mongolia, Netherlands, North Korea, Philippines, Poland, Romania, Russia, Singapore, South Korea, Sweden, Switzerland, Taiwan, Tajikistan, Thailand, Ukraine, United Kingdom, and Uzbekistan. Vietnam has not concluded a Bilateral Investment Treaty (BIT) with the United States, but the BTA contains an investment chapter that closely resembles U.S. BITs and contains most of the principal obligations common to such agreements. Vietnam also does not yet have a bilateral taxation treaty with the United States.

OPIC and Other Investment Insurance Programs

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In March 19, 1998, OPIC signed a new bilateral agreement with Vietnam, providing protections and guaranties necessary for OPIC to operate in Vietnam for the first time in more than twenty years. Subsequently, on November 19, 2000, President Clinton delivered remarks to the Vietnamese business community. At the core of his remarks was the announcement that OPIC was creating a special $200 million line of credit to support private sector projects in Vietnam. As of December 2004, OPIC had signed one active insurance contract and one lending contract in Vietnam. OPIC is reviewing several applications to support other potential projects.

Vietnam joined the Multilateral Investment Guarantee Agency (MIGA) in 1995.

Labor

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One of Vietnam's principal attractions for foreign investors has been its large, literate (GVN reports a literacy rate of over 90 percent) and inexpensive labor force. Now estimated at 44 million, the labor pool continues to increase by over 1 million workers annually due to the post-war population explosion. Despite its attractions, labor in Vietnam poses some problems for foreign investors. There is a shortage of managerial talent and skilled workers, resulting in higher salaries and very high turnover as those employees seek out ever more lucrative opportunities. Another factor raising the cost of skilled and managerial workers is Vietnam's sharply progressive personal income tax system that results in labor costs two to three times higher than in other Asian countries for relatively high-paid local staff. In March 2004 the Standing Committee of the National Assembly promulgated Ordinance 14 on Amendments to the Ordinance on Income Tax of High Income Earners. Under this legislation, the tax burden on Vietnamese employees was reduced, effective 1 July 2004. Key changes included the broadening of tax brackets and removal of the top marginal income tax rate of 50 percent.

Under amendments to the Labor Law that entered into force on January 1, 2003, FIEs and foreign business cooperation parties are allowed to directly recruit Vietnamese workers and foreigners. However, they must provide their lists of recruited laborers to specific Government bodies depending on business location and type of organization. Under two 1999 directives, foreign organizations, including FIEs, must recruit and hire staff through state-owned employment bureaus, a requirement many investors find onerous. The requirement to use state-owned employment bureaus, as required in the 1999 directive, continues to apply to branches and representative offices of foreign companies, foreign non-governmental organizations and foreign diplomatic missions. In practice, however, many of these bodies recruit directly and only register their choices with the Government later.

Employers are required by law to establish labor unions within six months of establishment of any company. Many employers fail to do so, however. All labor unions must be members of the Vietnam General Confederation of Labor, a state organization under the Communist Party-affiliated Fatherland Front that labor experts note has particularly weak capacity at the provincial and enterprise level. According to the Ministry of Labor, Invalids and Social Affairs, 303 strikes took place in the first six months of 2006, more than twice the number that took place in all of 2005, itself a record year for strikes. Of these, 224 involved foreign-invested enterprises, 76 occurred in domestic private firms and only 3 affected state-owned firms. About 75 percent of the strikes took place in the textile, apparel and footwear industries, and 91 percent of the strikes occurred in southern Vietnam. Every strike that occurred was technically illegal because workers seeking to redress their grievances bypassed the union and the labor law's lengthy and complex set of conciliation and arbitration steps. Most of the strikes involved labor-management disputes over health, safety, or working conditions, including work hours, wage rates or late payment of wages, and were settled quickly. The Government took no action against the strikers, and, during the period, the Prime Minister decreed a minimum wage increase of 40 percent at FIEs. The move angered many investors, who criticized the Government for appeasing striking workers and for failing to warn investors beforehand or explain the policy afterwards. In some cases the Government disciplined employers for the illegal practices that led to strikes. The highest fine for an infraction of the labor law is VND 20 million (approx. $1,240), however, which many criticize as too low to curb abusive behavior. In practice, enforcement of labor law is weak, with only about 300 labor inspectors working in the country. There were no known strikes at U.S.-invested companies, a fact which Government officials and labor experts attributed to higher wages, better working conditions and more effective industrial relations processes that have emerged as a result of the corporate social responsibility movement in the United States in the mid-1990s. To redress the perceived inadequacy of the labor code's stipulations on strikes, the National Assembly passed an amendment to Chapter 14 of the labor code in November 2006. Strikes remain legal under the new code, but workers must follow different procedures. Labor experts believe Vietnam's industrial relations would benefit from independent unions better capable of representing worker interests and a better enforcement of labor law.

Vietnam has been a member of the International Labor Organization (ILO) since 1992. As of May 2003, it had ratified four of the eight core labor conventions: 100 (Equal Remuneration); 111 (Non-discrimination in Employment); 182 (Worst Forms of Child Labor) and 138 (Minimum Age.) Vietnam ratified the first two core conventions on October 7, 1997, the third on December 19, 2000 and the last convention on May 28, 2003. Vietnam has not ratified ILO Conventions on freedom of association, protection of the right to organize and collective bargaining. However, under the Declaration on Fundamental Principles and Rights to Work, all ILO members, including Vietnam, have pledged to respect and promote all the core ILO labor standards, including those on association, right to organize and collective bargaining. A number of technical assistance projects in the field of labor sponsored by foreign donors are underway in Vietnam. Support from the U.S. Department of Labor for an ILO project to strengthen Vietnam's industrial relations mechanisms ended in 2006, but will continue with funding from another donor. Vietnam intends to ratify Conventions 29 and 105 on forced labor in 2007.

Foreign-Trade Zones/Free Ports

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Companies may choose to produce within an export-processing zone (EPZ) to take advantage of exemptions from customs duties for equipment, raw materials, and commodities imported into the zones, and for finished goods and products exported from the zones, subject to specific provisions regulating EPZs. All of the production within an EPZ must be exported. Industrial zones (IZs) have been developed to offer tax advantages for establishing factories within the zones. Companies can produce within an IZ for the domestic market or for export. The companies pay no duties when importing raw materials, if the end products are exported. Vietnam committed to eliminating prohibited export subsidies on its accession to the WTO.

From the establishment of its first EPZ in 1991 until now, Vietnam has established a total of 137 IZs and EPZs. As of November 2006, there are 2,320 foreign invested enterprises licensed in the zones with a total registered capital of $19 billion, of which over $10 billion has been implemented. Many foreign investors have commented that it is faster and more convenient to implement their projects in industrial zones than outside the zones as the land use is already planned and they do not have to be involved in site clearance, compensation works and the construction of necessary infrastructure, which are time consuming and sometimes difficult. Foreign investment in the industrial zones currently concentrates on light industry projects, such as food processing and textiles and garments. The number of heavy industry projects is still modest.

The operation of customs warehouses was approved in 1994. There are bonded warehouses in Can Tho, Hai Phong, Ho Chi Minh City, Hanoi, Quang Ninh, Binh Duong, Dong Nai, An Giang and Vung Tau. Entities permitted to lease customs bonded warehouses are foreign enterprises, individuals, and overseas Vietnamese; Vietnamese import-export license companies; and FIEs licensed to perform import-export activities. Most goods pending import and domestic goods pending export can be deposited in bonded warehouses under the supervision of the provincial customs office. Exceptions include goods prohibited from import or export, Vietnamese-made goods with fraudulent trademarks or labels, goods of unknown origin, and goods dangerous or harmful to the public or environment. The lease contract must be registered with the customs bond unit at least 24 hours prior to the arrival of goods at the port. Documents required are a notarized copy of authorization of the holder to receive the goods, a notarized copy of the warehouse lease contract, the bill of lading, a certificate of origin, a packing list, and customs declaration forms. Owners of the goods pay import or export tax when the goods are removed from the bonded warehouse.

Customs warehouse keepers can provide transportation services and act as distributors for the goods deposited. Additional services relating to customs declaration, appraisal, insurance, reprocessing or packaging require the approval of the provincial customs office. In practice the level of service needs improvement. The time involved for clearance and delivery can be lengthy and unpredictable

Foreign Direct Investment Statistics Return to top

Year	Avg. capital per project (million $)	Number of projects	Licensed capital (billion $)	Implemented capital (billion $)
1992	10.5	193	2.027	0.478
1993	9.5	272	2.588	0.871
1994	10.3	362	3.746	1.936
1995	16.4	404	6.607	2.363
1996	23.5	367	8.640	2.923
1997	14.0	333	4.659	3.137
1998	15.0	260	3.897	2.364
1999	5.2	298	1.568	2.179
2000	5.8	344	2.014	2.228
2001	5.3	461	2.521	2.300
2002	1.97	697	1.376	N/A
2003	2.55	752	1.914	2.685
2004	3.07	723	2.222	2.900
2005	5.02	798	4.003	3.500
2006	8.38	734	6.152	3.500 (est.)

(2006 data are January-to-November)

Cumulative FDI (as of 11/20/2006):

-- Licensed projects: 6,764 ($59.066 billion)
-- Disbursed capital: $28.686 billion (48.6 percent of licensed capital)

Note: GVN authorities routinely revise or revoke investment licenses that have not been utilized, and some investment licenses contain automatic expiration clauses that take effect if a project or certain phases of a project are not implemented by a certain date. Statistics on the number of licensed projects and the value of licensed projects are then adjusted accordingly. End note.

Foreign direct investment in selected sectors (Cumulative, as of 11/20/2006):

Sector	Number of projects	Licensed capital (billion $)	Implemented capital (billion $)
1. General Industry	4,190	31.10	12.31
2. Oil & gas	31	1.99	5.45
3. Construction	351	4.15	2.13
4. Real estate development	117	4.17	1.84
5. Hotels & Tourism	161	3.24	2.32
6. Trans./Comm.	184	3.35	0.72
7. Agriculture & forestry	714	3.54	1.76
8. Fisheries	114	0.33	0.16
9. Finance & banking	64	0.84	0.69
10. Culture, Health & Edu.	226	0.98	0.36

Foreign direct investment by country (Jan to Nov 20, 2006):

Country	Number of projects	Licensed capital (million $)
1. South Korea	188	1,935
2. Hong Kong	18	837
3. United States	45	636
4. Japan	121	588
5. Cayman Islands	2	576
6. B.V Islands	15	315
7. China	49	262
8. Singapore	45	225
9. Taiwan	105	189
10. Netherlands	11	91

Foreign Direct Investment by country:
(Cumulative, as of 11/20/2006)

Country	Number of projects	Licensed capital (billion $)	Implemented capital (billion $)
1. Taiwan	1,542	8.06	2.92
2. Singapore	449	8.04	3.63

3. South Korea	1,250	7.33	2.59
4. Japan	726	6.99	4.81
5. Hong Kong	374	4.97	2.23
6. Brit.Virg.Isl.	275	3.22	1.34
7. Netherlands	74	2.36	2.03
8. France	177	2.20	1.13
9. United States	305	2.11	0.66
10. Malaysia	202	1.64	0.98
11.Cayman Islands	19	1.63	0.57
12.United Kingdom	77	1.35	0.64
13. Thailand	141	1.33	0.82
14. China	402	1.02	0.21

There is little data available on Vietnam's direct investment abroad. According to the Ministry of Planning and Investment, as of November 2006, Vietnamese businesses had invested in 180 projects worth about $967 million in Russia, Singapore, Laos, Japan, Hong Kong, Cambodia, Tajikistan, the Middle East, the United States, Uzbekistan, and Taiwan. These investments were concentrated in the following sectors: transport, communications, construction, food processing, oil and gas, hydro-power production, hotel, restaurant, and agriculture sectors. Vietnamese businesses have 20 investment projects worth $14 million in the United States. One Vietnamese Government-owned telecommunications firm has established an office in California. The new Investment Law has a chapter governing Vietnam's investment overseas.

Note: Statistics, including those on investment, are often difficult to come by and are generally based on definitions that differ from internationally accepted standards. Those published in Government statistical surveys are generally incomplete and are often inconsistent from publication to publication and over time. It is the policy of the Ministry of Planning and Investment to respond only to written requests for statistics or information on how they are compiled and calculated, a process that is cumbersome and very time consuming. Additional statistical data is often released in the local press but is difficult to confirm and update year-to-year, because it is not provided in a database, which is readily available to the public.

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Chapter 7: Trade and Project Financing

How Do I Get Paid (Methods of Payment)

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The majority of U.S. firms exporting to Vietnam conduct business on a documentary basis and use various methods of payment, such as letters of credit (L/Cs), drafts and wire transfers. All foreign businesses dealing with Vietnam should insist on using confirmed, irrevocable L/Cs when initiating relationships with new importers and distributors. Vietnamese companies often will resist the use of confirmed L/Cs, because of the additional cost and collateral requirements required by Vietnamese banks.

Some local companies with acceptable credit risk (mainly State-Owned Enterprises (SOES)) have been able to obtain credit facilities, including import finance from foreign banks. For these importers, confirmation of L/Cs opened by their foreign bank may not be required and faster payment could be expected.

In the past, most Vietnamese companies have requested deferred payment L/Cs, with extensions of up to 360 and even 540 days. Most lenders have stopped this practice until the banking system's liquidity status improves. At present, sight L/Cs and L/Cs up to 180 days are most common.

U.S. exporters should make sure that Vietnamese banks opening L/Cs are located in Hanoi or Ho Chi Minh City. Many exporters have found a general lack of expertise in dealing with L/Cs at Vietnamese bank branches situated outside of these principal commercial centers. Care should also be taken as to which bank will open the L/C. Foreign banks have greater capacity, but costs will be lower if the L/C is opened by one of the four state-owned banks. Costs will be higher if a foreign bank confirms the L/C, but L/C confirmation will shift risk from the Vietnamese bank and account party to a foreign bank, which can be a high quality risk. After establishing a commercial relationship with and the financial credibility of a local importer, U.S. exporters have offered goods against less restrictive forms of payment, including consignment, but this can be risky.

For assurance L/C, a Government regulation now requires Vietnamese companies to deposit 80 percent of the L/C value prior to its opening at the bank. This regulation applies to all non-essential goods and can affect the ability of the Vietnamese to enter into an import transaction, since many companies are working with constrained capital. Furthermore, recent regulations prohibit deferred L/C's with terms extended to greater than 360 days.

How Does the Banking System Operate

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Vietnam is making progress in developing the basic infrastructure to support a modern banking system and financial markets. Recent projects to modernize the inter-bank market, create an international accounting system, and allow outside audits of major Vietnamese banks are encouraging. However, the banking system continues to suffer from a lack of consumer confidence, inexperience in capital markets and the slow pace of institutional reform.

The central bank, the State Bank of Vietnam (SBV) was broken up in 1988 with the State Bank assuming an enhanced regulatory role and commercial activities being shifted to other institutions. SBV now supervises five state-owned commercial banks (SOCBs), and 34 joint-stock (private) banks, joint-venture banks, 29 representative offices of foreign banks, and branches of foreign banks. A handful of the foreign banks have branches in both Hanoi and Ho Chi Minh City.

The five state-owned banks dominate domestic banking activity. They are: the Bank of Foreign Trade (Vietcombank) which is the de-facto import-export and trade-financing bank; the Vietnam Industrial and Commercial Bank (Incombank) which is the primary financier for industrial development; the Vietnam Bank for Agriculture and Rural Development (VBARD), which finances agriculture and commodities; the Vietnam Bank for Investment and Development (BIDV), which is the infrastructure bank; and the Mekong Housing Bank (MHB), which is now a full commercial bank.

In addition to the five state-owned banks, foreign banks recognize three joint-stock banks as viable partners. They are the Asian Commercial Bank (ACB), the Maritime Bank and the Export-Import Bank.

The opening of Vietnam's economy has placed new demands on a financial sector that until the early 1990s operated largely in isolation from international standards and practices. The Vietnamese banking system does not meet international banking standards, although Moody's, S&P, and Fitch have recently upgraded its credit rating. Increasingly, more state-owned commercial banks (SOCBs) are audited by independent auditing firms. However, banks are not subject to standards laid out in the Basel capital accords.

Liberalization has been progressing, albeit slowly. In 2001, the Vietnamese Government adopted a more market-oriented banking and state enterprise reform program. The goals of this reform program, supported by the International Monetary Fund, the World Bank, and other international donors, including the United States, are to ensure the stability of the banking system, to expand banking services, and to rationalize domestic resource allocation by ensuring those resources are dedicated to commercially viable activities. The reform program focuses on three main areas – the restructuring of joint stock banks, the restructuring and commercialization of the state-owned banks, and improving the regulatory framework and enhancing transparency.

The State Bank of Vietnam acts as the supervisory and regulatory body for the banking sector. As part of the reform effort, and in response to responsibilities created by the U.S.- Vietnam Bilateral Trade Agreement, the State Bank of Vietnam is in the process of strengthening its own internal processes and enhancing the level of inspection and supervision of the banks within its jurisdiction. However, the SBV is not an independent body like the United States Federal Reserve, and it continues to operate under Government guidance. In some key areas of operation, such as the provision of liquidity support, the management of foreign currency reserves, and issuance of banking licenses, SBV's actions are subject to prime ministerial approval.

Deposit Insurance in Vietnam was instituted in 2000 and is governed by SBV Decree No. 89/1999/ND-CP dated September 1st, 1999, and SBV Circular No. 03/2000/TT-NHNH5 dated March 16th, 2000. Under these guidelines a bank must purchase deposit insurance from the Deposit Insurance Corp. of Vietnam for all Dong deposits placed by individual depositors. The bank must pay an annual premium equivalent to 0.15 percent of average balances of all dong deposits of individual account holders and this premium is payable in four installments. The maximum insured amount is VND 30 million per account/individual per bank.

The effectiveness of deposit insurance has not been tested since the Deposit Insurance Corp. is recently established and no bank has failed since the inception of the insurance. This, coupled with the question of whether local banks are actually paying the insurance premiums, makes the effectiveness and solvency of deposit insurance an unknown.

Vietnamese banks do not have Bank for International Settlement (BIS) tier ratings. Vietnam has not adopted the Basel capital accord so details of risk-adjusted assets and calculation of risk-adjusted capital ratios are not calculated or disclosed.

In theory, banks are encouraged to adopt prudent banking and business practices. Regulatory provisions exist requiring them to establish controlling committees and internal audit functions to ensure legal and procedural compliance. In practice, however, because of the cozy relationship between the SOCBs and the Government, prudent banking and business practices are not always adhered to. In addition, this process has just begun so most SOCBs are not adequately staffed to carry out these internal audit functions.

International donors, including the United States, funded the first financial audits of the four large SOCBs using International Accounting Standards in 2001 and 2002. In addition, the State Bank of Vietnam has issued a number of new guidelines for the operation of the state-owned banks, including specific targets and guidelines which must be met in order to receive phased re-capitalization funds.

In Vietnam, bank financial statements are not in compliance with international standards because Vietnam does not use international generally accepted accounting principals. The Vietnamese Accounting System is a hybrid of the centrally planned old Soviet-Union system (cash basis) and an international accounting system (accrual basis). With the exception of the donor-sponsored audits noted above, the financial statements of state-owned commercial banks (SOCBs) are not audited independent auditors, but rather by the State.

Vietnam is trying hard to wean the role of the SOCBs as instruments of public policy, and change the process by which financial resources are harnessed and allocated. Although there are no mandated policy-lending objectives in Vietnam, bank lending historically has been influenced by socially and politically oriented objectives rather than commercial considerations. In practice, socially oriented lending is quite pervasive, and adopting more prudent lending standards will take some time.

The four SOCBs account for three-fourths of the credit market in Vietnam. For these banks, state-owned enterprises remain the main recipients of bank credit, typically borrowing on an unsecured basis at concessionary interest rates.

The true level of non-performing and under-performing loans is difficult to gauge, as there is a very low level of transparency and disclosure in Vietnam. Secrecy laws cover much of the banking industry's data and meaningful information on the sector as a whole and on individual financial institutions has typically not been available. As part of the banking reform effort, new rules for the classification of non-performing loans which conform to international standards were issued in 2001.

Prior to 1999, loans were not, by convention, classified as impaired until they were over due by at least 360 days, and even then, asset quality measures disclosed by banks were based on only the overdue installments, rather than total principal. Since 1999, banks have been required to classify their credit assets according to four categories: loans that are performing satisfactorily and that have not yet fallen due; fully secured loans overdue up to 180 days and unsecured loans past due 90 days; secured loans, which are overdue from 180 days to 360 days; and, secured loans, which are past due 360 days or unsecured loans past due 180 days. As of 2002, banking regulations were brought closer to international accounting norms by allowing banks to classify the entire loan as overdue when an installment payment is missed. Banks were also permitted to accelerate the terms of the loan and were given more discretion in setting interest rates on overdue debt.

Officially, overdue loans in the banking system were about 12-14 percent of total assets in mid-1999, although the basis of the calculation is unclear. A report by the IMF stated that, based on audits undertaken in 1997 that adhered to internationally accepted standards, impaired loan ratios in the SOCBs ranged from 17 percent of total loans to as high as 50 percent. According to the IMF report, non-performing loans in the sector averaged about 30-35 percent. Since 2001, the State Bank of Vietnam (SBV) has conducted a financial restructuring program of SOCBs focusing on the settlement of non-performing loans. As of March 2006, approximately 23,000 billion dong or $1.4 billion of non-performing loans officially identified in 2000 were resolved. At the same time these banks had received capital injections of about VND 10,000 billion or over $600 million. This brought the average non-performing loan level at SOCBs to around 8 percent. However, the current capital adequacy ratio of the SOCBs (average at 5 percent) is still low by generally accepted standards.

Most joint-stock commercial banks were initially capitalized at a minimum of VND 70 billion or about $4.35 million. In the last two years, a number of joint stock banks have significantly raised their capital level to 1,000 billion dong or higher by selling part of their equity to foreign investors (mainly investment funds or financial institutions) or issuing convertible bonds. The joint stock banks are on average much smaller than the SOCBs, but they are more efficiently operated and managed. The non-performing loans of these banks are widely believed to be lower than that of SOCBs.

Over the last few years, there has been tremendous credit expansion by the SOCBs (20-30 percent increase) in order to pump up the economy. Many of the new loans are seen to be less commercially viable than the loans already in the SOCBs portfolios, prompting experts to be concerned that a large number of these loans will default.

While SOE and State-owned Commercial Bank (SOCB) reform has been slower than expected, recent announcements from the Party and the Government have given indications of major shifts in Government policy regarding the ownership transformation of large SOCBs. Recently, the Government of Vietnam has approved a development strategy for the banking sector over the next five years, which includes a plan to equitize all the SOCBs by 2010. To date, this SOCB reform has progressed very slowly. The first pilot case, equitization of Vietcombank, has been delayed for a year. Outsiders will be able to buy shares in these banks but total foreign equity in a commercial bank is capped at 30 percent, and valuations of their assets are to be based on market values.

Despite the relative weakness of Vietnamese banks, deposits have been increasing quite rapidly. But, having started from such a low base, they are still relatively small compared to GDP. While Vietnam continues to operate largely as a cash economy, individuals and businesses are becoming more comfortable using the banking system and electronic fund transfers to settle their accounts. The number of individual bank accounts is also rapidly increasing. Many enterprises, particularly foreign-invested and domestic private firms, now use the banking system to pay employees through direct deposit or bank transfers. Because of the convenience offered by the proliferating number of ATM machines in Vietnam, individuals are more willing to deposit their money at the bank instead of holding cash assets in their homes. Part of the reluctance to use local banks to date is the matter of confidentiality. Many Vietnamese do not want the bank, the Government or others to know the value of their assets. Another part of the difficulty in encouraging domestic savings is difference between market interest rates and those offered by Vietnamese banks.

Despite the official policy of designating the Vietnamese dong as the medium of exchange for all domestic transactions, the U.S. dollar remains an important parallel currency. This is particularly true for high-value transactions such as real estate or automobiles, which are typically valued and paid for in U.S. dollars or gold. Estimates suggest that over $2 billion is in circulation in the informal market. Some experts believe that an additional $8-10 billion in hard currency and gold is being hoarded by private citizens. United States dollars are also the preferred currency for international trade.

Foreign-Exchange Controls

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Conversion of Vietnamese Dong into hard currency no longer requires a foreign exchange approval, which previously had presented problems for foreign investors, particularly for businesses who did not fall into the three specified categories, which received Government support on currency conversion. However, conversion of Vietnamese Dong into hard currency is still subject to availability.

Foreign businesses are allowed to remit profits, shared revenues from joint ventures, income from services and technology transfers, legally-owned capital and properties in hard currency. Foreigners also are allowed to remit abroad royalties and fees paid for the supply of technologies and services, principal and interest on loans obtained for business operations, and investment capital and other money and assets under their legitimate ownership. But their ability to convert dong into hard currency is subject to availability, causing Foreign-invested-enterprises (FIEs) to experience problems in securing hard currency. There is no information available on the average delays in remitting investment returns. Approval by investment authorities is needed to increase or decrease the capital of a foreign-invested business.

In principle, most FIEs are expected to be 'self-sufficient' for their foreign exchange requirements, although this sometimes proves impractical. The Government of Vietnam guarantees foreign currency for foreign invested enterprises and foreign business cooperation parties that invest in the construction of infrastructure and certain other important projects in the event that banks permitted to trade foreign currency are unable to fully satisfy their foreign currency demand.

It is worth noting that the State Bank of Vietnam has also shifted the control mechanism of foreign exchange from maintaining a fixed exchange rate and making ad-hoc adjustments when deemed necessary to allowing the exchange rate to move within a pre-determined band. This has brought the Vietnamese dong closer to its real value.

U.S. Banks and Local Correspondent Banks

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Following the lifting of the U.S. trade embargo in 1994, several U.S. banks established a presence in Vietnam. At present, eight U.S. banks and financial institutions are operating in Vietnam, three with branches (Citi Bank, JP Morgan Chase and Far East National Bank) and five with representative offices (American Express, Transfers, Union Bank of California, Visa International and Wachovia).

Citi Bank has branches in Hanoi and Ho Chi Minh City. JP Morgan Chase and Far East National Bank have branches in Ho Chi Minh City. Bank of America closed in 2001.

The following state-owned banks are the most active in terms of correspondent relationships with U.S. banks: Vietcombank, Incombank, the Bank for Agriculture and the Bank for Investment and Development. In addition, several joint-stock banks have correspondent relationships, such as the Asian Commercial Bank (ACB), East Asia Bank (EAB), Vietnam Export-Import Bank (EXIM Bank), the Maritime Bank, Saigon Commercial and Industrial Bank, Saigon Thuong Tin Commercial Bank (Sacombank), Vietnam Tecnhnological and Commercial Joint Stock Bank (Techombank), and the Vietnam Commercial Joint-Stock Bank for Private Enterprise (VP Bank).

Project Financing

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United States Government supported export financing, project financing, loan guarantee and insurance programs are available through the U.S. Export-Import Bank (EXIM Bank) and the Overseas Private Investment Corporation (OPIC) for transactions in Vietnam. The establishment of these two agencies' programs in Vietnam coupled with the activities of the Trade and Development Agency (TDA), which provides grants for feasibility studies and training for commercial projects being pursued by U.S. firms, has enhanced the competitiveness of U.S. companies in Vietnam.

The Export-Import Bank (EXIM Bank) offers export financing of American products through loans and loan guarantees, as well as providing working capital guarantees and export credit insurance. EXIM Bank is one of the newest U.S. Government agencies in Vietnam, having only signed the Framework Guarantee Agreement (a necessary step to opening programs) with the State Bank of Vietnam on December 9, 1999. Information on EXIM Bank programs in Vietnam can be accessed at www.exim.gov.

The Overseas Private Investment Corporation encourages private American business investment in emerging economies by providing project financing and political risk insurance, including against currency inconvertibility, expropriation, and political violence. OPIC has been in operation in Vietnam since the Jackson-Vanik Waiver of 1998 and has approved the first loan and insurance application. Information on OPIC programs in Vietnam can be accessed at www.opic.gov.

In principle, state-owned banks could provide export financing to U.S. firms operating in Vietnam, but in reality such financing is more likely to come from joint-stock banks or the branches of foreign banks in Hanoi or Ho Chi Minh City. Many foreign firms finance such exports internally.

When dealing with importers or financing originating in Vietnam, U.S. suppliers should request irrevocable letters of credit (L/Cs). They should have one of their correspondent banks confirm the L/Cs. Foreign banks tend to only deal with the four state-owned banks (Vietincombank, Vietcombank, BARD and BIDV) and three top-tier joint-stock banks (ACB, Maritime Bank and EXIM Bank) for trade financing.

U.S. banks present in Vietnam include American Express Bank, Chase Manhattan Bank, and Citibank. Other U.S. banks operate out of operations centers in nearby countries. All of the American banks offer trade financing services to U.S. companies, with Chase Manhattan Bank and Citibank offering on-shore services as licensed branches, and American Express Bank offering off-shore services. Other large foreign banks operating in Vietnam include ABN Amro Bank, ANZ Bank, BFCE, Credit Lyonnais, HSBC, ING Bank, and Standard Chartered Bank. Though almost all foreign banks concentrate on wholesale banking, some of these offer retail banking services and ATM and electronic on-line service mostly for the use of expatriates in Vietnam.

Bilateral government tied aid, commonly offered by the governments of our competitors, provide non-US companies with a comparative advantage that affects American trade performance in Vietnam. Sometimes these are actually soft loan programs designed to support a particular country's exporters. American firms, otherwise competitive on price and quality, sometimes lose contracts because they cannot compete with the low interest rates and/or soft repayment terms offered by the government of a competing company. The introduction of U.S. EXIM and OPIC has somewhat offset this advantage.

Project Financing: Vietnam secures a substantial portion of its development funding from Official Development Assistance (ODA), including the multilateral development banks (primarily the World Bank (WB) and Asian Development Bank (ADB), the Japanese Bank for International Cooperation (JBIC), and the United Nations Development Program (UNDP). American firms can participate in projects funded by these agencies.

The World Bank maintains a relatively large funding program for Vietnam. Projects focus on macro-economic policy, financing policies, and infrastructure projects in the power, energy, transportation and environmental sectors. Procurements for World Bank funded projects are conducted using competitive bidding procedures.

The Asian Development Bank (ADB) provides development funding for investment projects concentrating in power, transportation, fishing, agriculture, and the environment. Tenders are also conducted based on international bidding standards.

Both the World Bank, through the International Finance Corporation (IFC) and the ADB, through the Private Sector Group, offer both debt and equity for private sector projects in a wide variety of business sectors. Financing through these agencies can have long lead times (12 months or more), so U.S. firms need to apply early should they desire access to support for investment projects.

The Japanese Bank for International Cooperation (JBIC) is a merger of The Overseas Economic Cooperation Fund (OECF) and the Japanese Export Import Bank (JEXIM). JBIC is a general untied funding agency, which provides financing for infrastructure projects. American firms are eligible to compete for JBIC loan projects in accordance with procurement notices published by the recipient Government or Government related agencies. Opportunities can include prime contractor and sub-contractor roles. U.S. firms can also receive financing of up to 85 percent of an international trade transaction, if the sale contains at least 30 percent of Japanese goods.

The United Nations Development Program (UNDP) provides funding for industrial and agriculture development. UNDP in Vietnam is active across a broad front of industry and social sectors and sponsors numerous public sector, social, agricultural, and refugee assistance programs. Project tenders are conducted in the same manner as World Bank tenders.

In recent years, several domestic and international leasing companies have received licenses to conduct business in Vietnam. While the initial capitalization is small ($5-10 million), these companies could play a significant role as alternative financiers in the future, focused on the leasing of capital equipment. At present, their ability to transact business is limited because credit insurance for leasers is not available in Vietnam. The leaser must therefore carefully scrutinize potential clients. There are also certain legal constraints to the ownership of leased goods.

Availability of loan guarantees: A wide variety of bilateral and multilateral loan guarantee programs are available to U.S. companies from such organizations as the Export-Import Bank of the United States, the Overseas Private Insurance Corporation, the World Bank, and the Asian Development Bank.

Although Vietnamese banks (and their regulators) tend to have a strong preference for collateral, it may be possible for U.S. firms to utilize parent company or third-party guarantees in seeking loans. That said, most foreign companies operating in Vietnam will not rely primarily on the local banking system for financing.

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Export-Import Bank of the United States: http://www.exim.gov

Country Limitation Schedule: http://www.exim.gov/tools/country/country_limits.html

OPIC: http://www.opic.gov

Trade and Development Agency: http://www.tda.gov/

SBA's Office of International Trade: http://www.sba.gov/oit/

USDA Commodity Credit Corporation: http://www.fsa.usda.gov/ccc/default.htm

U.S. Agency for International Development: http://www.usaid.gov

World Bank (WB): http://www.worldbank.org/

Asian Development Bank (ADB): http://www.adb.org/

United Nations Development Program (UNDP): http://www.undp.org/

International Monetary Fund (IMF): http://www.imf.org/

International Finance Corporation (IFC): http://www.ifc.org/

Mekong Private Sector Development Facility: http://www.mpdf.org/index.jsp

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Chapter 8: Business Travel

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Background: Vietnam is a markedly Confucian society and its business practices are often more similar to those of China, Japan and Korea than to those of its Southeast Asian neighbors. The social dynamics and world-view of Vietnam's society are reflected in the business climate including such matters as: "face", consensus building, and the zero-sum game assumption.

“Face” is extremely important to many Vietnamese. It is very important to try not to put your Vietnamese counterparts in an embarrassing situation or one that calls for public back tracking. You should be careful not to cause your Vietnamese contact embarrassment in front of superiors, peers, or subordinates. Fear of losing face often makes Vietnamese wary of spontaneous give-and-take, unscripted public comment, or off-the-cuff negotiation. Tact, sensitivity, and discretion are considered the most effective approach in dealing with disagreements or uncomfortable situations. Westerners often view the idea of face as quaint, but to many Vietnamese it matters a great deal, and the loss of face by your contact could very well mean the loss of your contact.

Consensual decision-making is very deeply ingrained in Vietnamese social and political behavior. "Consensus" means different things in different societies. In Vietnam, it often means that all parties with a voice can wield a veto and must be brought on board. In building a consensus, it may prove impossible to "steamroller" the minority opinion, which must be wooed instead. To take the Central Government as an example, the lead ministry on a given issue may be unable to advance its positions if other ministries with seemingly minor involvement in the decision oppose it. Unless the latter can be won over, the result is a stalemate.

Western businesspeople sometimes become frustrated with the apparent inability of the person across the table from them to make a decision (even if the counterpart is quite senior), or the fact that decisions once made are inexplicably reversed. This is indicative, not of the person’s ability or willingness to work with foreign businesspeople, but of complexities behind the scenes and the fact that the apparent decision-maker does not always have the only say in negotiations.

American businesspeople typically assume that "win-win" deals are common and relatively easy to achieve. Few Vietnamese probably share that optimism. To most, business is a zero-sum game. There is a winner and a loser. This is important to keep in mind when dealing with a Vietnamese organization. It can define your relationship with your Vietnamese counterpart and your Vietnamese counterpart's relationship with the local market. Once a deal is struck in principle, Americans may want to get on with it, while Vietnamese may want to take more time to improve their terms (even if that means delaying the entire undertaking). Plan on taking more time than is expected and note that the larger the deal the longer and more complicated the process of negotiating.

<u>Introductions</u>: When initiating contact with a Vietnamese entity, it is often best to be introduced through a third party as people outside a person's known circle may be regarded with suspicion. An introduction from a mutual friend, acquaintance or known business associate before initial contact can help alleviate some of the problems that arise in initial correspondence or meetings.

If it is not possible to have a third party introduce you, self-introductions should start with an explanation of what led you to contact this particular organization. This will help the Vietnamese side understand how to relate to you.

<u>Names</u>: Vietnamese names begin with the family name, followed by the middle name and finally the given name. To distinguish individuals, Vietnamese address each other by their given names. Therefore, Mr. Nguyen Anh Quang would be addressed Mr. Quang. Pronouns are always used when addressing or speaking about someone. You should always address your contacts as Mr., Mrs., Ms. or Miss followed by the given

name. Vietnamese often reciprocate this custom when addressing foreigners. Ms. Jane Doe would typically be addressed as Ms. Jane. If you are unsure how to address someone, just ask for advice.

Correspondence: Your first contact with a potential Vietnamese partner should be long on form and fairly short on substance. Effort should be spent on introducing yourself, your company and objectives in the Vietnamese market place. Relatively little emphasis should be placed on the specifics of your objectives. Your correspondence should end with pleasantries and an invitation to continue the dialogue.

If your business relationship continues through correspondence, you should continue to include introductory and closing pleasantries in your letters. Vietnamese are typically used to the formality of corresponding in Vietnamese and the abruptness of some Western business correspondence can make them uncomfortable.

Business Meetings: Establishing operations or making sales in Vietnam entails numerous business meetings, as face-to-face discussions are favored over telephone calls or letters. A first meeting tends to be formal and viewed as an introductory session. If you are unsure of exactly who in the organization you should be meeting with, you should address the request for a meeting to the top official/manager in the organization. It is helpful to submit a meeting agenda, issues to be discussed, marketing material, and/or technical information prior to the actual meeting. This will allow the Vietnamese side to share and review information within the organization in order to ensure the correct people participate in the meeting.

A meeting usually begins with the guest being led into a room where there may be a number of Vietnamese waiting. The Vietnamese principal is rarely in the room when the guests arrive and you will be left to make small talk with the other meeting participants until the principal makes his or her entrance. It is common for a third person (from either side) to introduce the two principals of the meeting. Once this is done and all participants have been introduced to each other and have exchanged name cards, participants can take a seat.

Seating for a meeting is generally 'us versus them' across a conference table with the principal interlocutors in the center and directly across from each other. Other participants are generally arranged in a hierarchy on the right and left. Generally, the farther one is from the center of the table, the less important one is. Sometimes the meeting will take place in a formal meeting room where there are chairs arranged in a 'U' pattern. The principals will take their seats in the two chairs at the base of the 'U' with other participants arranging themselves in rank order along the sides of the 'U'.

Meetings generally begin with the principal guest making introductory remarks. These remarks should include formal thanks for the hosts accepting the meeting, general objectives for the meeting, and an introduction of participants and pleasantries. This will be followed by formal remarks by the Vietnamese host. Once the formalities and pleasantries are dispensed with, substantive discussion can ensue. Even if the principal host is not heavily involved in the details of the conversation, guests should remember to address the principal in the conversation allowing him or her to delegate authority to answer.

A general business call lasts no more than one hour. Usually, the visitor is expected to initiate or signal the closure of the meeting.

Hiring a reliable interpreter is essential, as most business and official meetings are conducted in Vietnamese. Even with the increasing use of English, non-native English speakers will need interpretation to understand the subtleties of the conversation. When working with an interpreter, one should speak slowly and clearly in simple sentences and pause often for interpretation (generally at the end of a paragraph). One should brief the interpreter on each meeting in advance.

Business Attire: Normal business attire consists of a suit and tie for men and suit or dress for women. During the hotter months, formal dress for men is a shirt and tie. Open collar shirts and slacks may be worn to more informal meetings depending on the situation. The trend in the South is to be more casual; suit jackets are worn only on very formal occasions and first meetings.

Travel Advisory

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Petty crime, such as pick pocketing and purse snatching, has become increasingly prevalent in Hanoi and HCMC, particularly in major tourist areas and hotels. A good rule is to carry with you only what you can afford to lose, and leave the rest in the hotel safe deposit box or in-room safe.

Vietnamese internal security personnel may place foreign visitors under surveillance. The Vietnamese Government has seized passports and blocked the departure of foreigners involved in commercial and legal disputes in Vietnam. As these issues are rapidly changing, specific questions may be directed to the Embassy of Vietnam, Washington D.C., or to the Office of American Citizens Services and Crisis Management, Department of State, Washington, DC 20520.

Visa Requirements

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U.S. passports are valid for travel to Vietnam. Visas are required and relevant information may be obtained from the Embassy of Vietnam, 1233 20th Street, Suite 501, N.W., Washington, DC 20036 (telephone 202-861-0737, fax 202-861-0917) or the Vietnamese Consulate General, 1700 California Ave., Suite 475, San Francisco, CA 94109 (telephone 415-922-1577, fax: 415-922-1848). Vietnamese embassies in other countries or travel agents that organize travel to Vietnam can also issue or facilitate the issuance of a visa.

U.S. Companies that require travel of foreign businesspersons to the United States should allow sufficient time for visa issuance if required. Visa applicants should go to the following links.

State Department Visa Website: http://travel.state.gov/visa/index.html

United States Visas.gov: http://www.unitedstatesvisas.gov/

Consular section U.S. Embassy, Hanoi: http://vietnam.usembassy.gov/wwwhcons.html

Consular Section U.S. Consulate General, Ho Chi Minh City:
http://www.hochiminh.usconsulate.gov/wwwhcons.html

Telecommunications Return to top

International Direct Dial (IDD) and fax services are available at post offices and most business standard hotels. Communication costs in Vietnam have declined significantly in recent years.

Internet services can be accessed through hotel business centers or from a growing number of Internet cafes. Internet services continue to experience cost reductions and quality improvements, although the reliability of the connections can vary depending upon location.

International Roaming for mobile telecommunications is available in Vietnam for users from many countries (usually those that share Vietnam's GSM standard).

Transportation Return to top

Travel within Vietnam is becoming easier with more domestic flights to the major cities. Air travel has also become cheaper as a result of the Government decision to eliminate the dual fare structure on Vietnam Airlines and other common carriers which charged higher fares to foreigners than to Vietnamese citizens. A round trip ticket between HCMC and Hanoi is currently about $190 for economy class and $260 for business class. International departure tax is $12.00. Vietnam Airlines (fax: 84-4-976-0220) and Pacific Airlines (fax: 84-4-733-2158) are the only carriers allowed to fly domestic routes.

Trains and buses in Vietnam have extensive routes and offer a cheap way to travel. However, you get what you pay for. Traveling by train or bus is recommended only to the most seasoned and hardy of travelers, as it is uncomfortable and (due to infrastructure and maintenance problems) dangerous.

In major cities, metered taxis are plentiful and relatively inexpensive, especially in HCMC where numerous taxi companies compete for passengers. A car with a driver is also an option in major cities and can be rented for between $25 and $100 per day. For destinations outside major cities a car and driver is the recommended means of transport. Cars can be booked through most major hotels or tour companies.

Language Return to top

Vietnamese is the official language. Use of English is becoming more common, especially in the larger cities and in the rapidly expanding tourism sector.

Health

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Most local medical facilities do not meet western hygienic standards and may not have the full range of medicines and supplies available in typical U.S. facilities. However, there are several small foreign-owned and operated clinics in Hanoi and HCMC that are exceptions to this rule.

Local Time, Business Hours, and Holidays

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Vietnam is twelve hours ahead of Eastern Standard Time and 11 hours ahead of Eastern Daylight Time. Vietnam consists of a single time zone.

During the weekdays, business hours are typically 8:00 a.m. to 5:00 p.m. with a one-hour lunch break. On Saturdays, work hours are from 8:00 a.m. to 11:30 a.m. Vietnamese Government offices have recently moved to a 5-day workweek and are no longer open on Saturdays.

During the Lunar New Year, falling in January or February, business and Government activities in Vietnam come to a virtual standstill for the weeklong Tet holidays. Business travel at this time is not advised.

Temporary Entry of Materials and Personal Belongings

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Vietnam does not subscribe to the ATA Carnet system. There are no known regulations governing the temporary entry of laptop computers into Vietnam. That said the authorities are always sensitive to the import and export of information, such as that on a hard disk. Visitors are strongly advised not to have any information on their computers that the authorities of Vietnam might deem pornographic or politically sensitive.

If a computer is equipped with a modem (as most laptops are), it technically requires an import license as a telecommunications device from the Ministry of Trade. However, this regulation (which also should apply to mobile phones) is rarely, if ever, enforced. Encryption software must be licensed for import.

Exhibit materials and related items have generally been allowed to enter Vietnam temporarily without duty or restriction. However, recently some foreign exhibitors have encountered difficulties bringing high-tech equipment to Vietnam for trade shows. Technically, items brought into Vietnam temporarily for exhibition at trade shows require a special license from the Ministry of Trade. Exhibition organizers typically assist exhibitors in obtaining these licenses, so U.S. exhibitors should contact show organizers regarding this matter well in advance.

A related issue is that of bringing samples into Vietnam for display (but not sale) in a company's offices. A license offering duty exemption for such items may be obtained but only if the items in question are listed specifically in the firm's investment license.

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Embassy of Vietnam, Washington, D.C.: http://www.vietnamembassy-usa.org/

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Chapter 9: Contacts, Market Research, and Trade Events

Contacts

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Business travelers to Vietnam seeking appointments with U.S. Embassy Hanoi officials should contact the commercial section in advance.

The U.S. Commercial Service in Hanoi can be reached by telephone at: (844) 831-4650, fax at (844) 831-4540 or email at Hanoi.Office.Box@mail.doc.gov.

The U.S. Commercial Service in HCMC can be reached by telephone at: (848) 825-0490, fax at (848) 824-0491 or email at Ho.Chi.Minh.City.Office.Box@mail.doc.gov.

Market Research

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To view market research reports produced by the U.S. Commercial Service please go to the following website: http://www.export.gov/marketresearch.html and click on Country and Industry Market Reports.

Please note that these reports are only available to U.S. citizens and U.S. companies. Registration to the site is required, but free of charge.

Trade Events

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Please click on the link below for information on upcoming trade events.

http://www.export.gov/tradeevents/index.asp

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Chapter 10: Guide to Our Services

The U.S. Commercial Service offers customized solutions to help your business enter and succeed in markets worldwide. Our global network of trade specialists will work one-on-one with you through every step of the exporting process, helping you to:

- Target the best markets with our world-class research
- Promote your products and services to qualified buyers
- Meet the best distributors and agents for your products and services
- Overcome potential challenges or trade barriers

For more information on the services the U.S. Commercial Service offers U.S. businesses, please click on the link below.

www.buyusa.gov/vietnam/en

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U.S. exporters seeking general export information/assistance or country-specific commercial information should consult with their nearest **Export Assistance Center** or the **U.S. Department of Commerce's Trade Information Center** at **(800) USA-TRADE**, or go to the following website: http://www.export.gov