# Doing Business in Vietnam:

# 2008 Country Commercial Guide for U.S. Companies





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# Chapter 1: Doing Business In Vietnam



## Market Overview Return to top

- Vietnam is a quickly emerging market, offering ground floor and growing opportunities for U.S. exporters and investors. Vietnam's economic growth rate has been among the highest in the world in recent years, expanding annually at 7-8.5 percent, while industrial production has been growing at around 14-15 percent a year.

- Bilateral trade is booming, increasing from $1.2 billion in 2000 to $12.5 billion at the end of 2007. In 2007 U.S. exports to Vietnam grew by an impressive 73 percent to reach $1.9 billion, while Vietnam's exports to the United States, the country's largest export market, were up by 24 percent, reaching $10.6 billion.

- Vietnam became a member of the WTO on January 11, 2007. Through 2015, the Government of Vietnam (GVN) will continue to implement far-reaching economic, regulatory and administrative changes that will provide an increasingly favorable environment for American businesses to enter and expand in the market.

- The momentum and direction generated by 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 accelerated Vietnam's entry into the global economy.

- This momentum has continued with the United States and Vietnam signing a Trade and Investment Framework Agreement (TIFA) on June 21, 2007. Under the TIFA the United States and Vietnam will continue to advance the BTA and Vietnam's WTO commitments, explore new initiatives to increase trade in industrial and agricultural products and services, and encourage further investment between the counties.

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- The evolving nature of regulatory regimes and commercial law in Vietnam, 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.

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

- Many firms operating in Vietnam, both foreign and domestic, find ineffective protection of intellectual property to be a significant challenge.

- Import tariffs remain high for many foreign products. Starting January 1, 2009 the GVN will allow wholly owned foreign invested companies in most sectors to distribute their own products, in line with its WTO commitments.

## Market Opportunities Return to top

- Strong economic growth, ongoing reform and a large population of 85 million—half of which are under the age of thirty—have combined to create a dynamic and quickly evolving commercial environment in Vietnam.

- Sales of equipment and technologies associated with growth in Vietnam's industrial sector and implementation of major infrastructure projects continue to be a major source of commercial activity for U.S. firms.

- With disposal income levels in major urban areas four to five times the national average, opportunities in the consumer and services sectors are emerging. For example, 2007 U.S. exports of consumption-oriented foodstuffs increased by over 70 percent from 2006.

- Aviation, telecommunications, information technology, oil and gas exploration, power generation and education will 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.

- The GVN plays a significant role in the economy, with state-owned enterprises (SOEs) making up 38 percent of GDP. The GVN strategy to "equitize" SOEs in all sectors of the economy continues at a measured pace. While the GVN will maintain majority ownership in the largest and most sensitive sectors of the economy, including: energy, telecommunications, aviation and banking, the equitization process will create opportunities for many U.S. companies.

- Key U.S. agricultural inputs to production such as hardwood lumber, cotton, hides and skins and feed ingredients also continue to play a key role in helping fuel Vietnam's export led manufacturing strategy.

## Market Entry Strategy

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- 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 and 2006, Vietnam's National Assembly passed a number of laws affecting the commercial environment, including new enterprise, investment and intellectual property legislation. Effective implementation, including formulation and issuance of follow-on implementing regulations and decrees continue to be important in determining the on-going impact of many of these legislative initiatives.

- $11-12 billion of untied ODA (Official Development Assistance) funding has been committed to VN, primarily for infrastructure development. U.S. companies doing business in transportation, telecommunications, energy, environmental/water, civil aviation, financial services and other infrastructure sectors are advised to develop core strategies and capabilities for bidding on ODA (World Bank, Asian Development Bank, USAID) projects.

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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.

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# Chapter 3: Selling U.S. Products and Services



## Using an Agent or Distributor

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According to current 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 sells a foreign supplier's goods in Vietnam for commission. In this case, the sale is normally transacted between the foreign supplier and a local buyer in Vietnam while the Vietnamese agent typically performs the following responsibilities: market intelligence, identifying sales leads, pursuit of sales leads, sales promotions, sales closing, product warranty and after-sales services, etc. The specific responsibilities of a Vietnamese agent depend on the agency agreement between the agent and the foreign supplier. The risk of non-payment rests with the foreign supplier. Vietnam's Trade Law recognizes the right of foreign companies to appoint agents provided that the Vietnamese agent's registered scope of business includes such activities. In some cases, a foreign supplier can appoint a sales representative (an individual) instead of an agent (a company). Despite a number of benefits, this approach is considered more risky than using an agent.

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. In many cases, a distributor also acts as an agent for the same foreign supplier and this typically occurs when a local buyer wants to purchase directly from the foreign supplier commonly in a contract of high dollar value.

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 initially and credit terms may be considered after U.S. companies have an in-depth knowledge of their local partners.

Going to court is generally not a recommended strategy to enforce agreements or seek redress for commercial problems in Vietnam. Foreign firms that 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 desirable 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. At present, one of their major limitations is that they can only represent foreign suppliers as local agents, but not distributors, because the majority of them are not yet permitted to import and distribute foreign products in the Vietnamese market in accordance with current Vietnamese trade regulations. According to Vietnam's commitments in services under the WTO, foreign companies will be permitted to conduct trading and distribution activities in Vietnam as of January 01, 2009.

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) headquartered in Hanoi with 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, as many key industries in Vietnam have formed associations. A number of private consulting companies have also developed matching services. Additionally, an effective means for finding a local partner (potential agent and distributor) 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/.

## Establishing an Office Return to top

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 relevant Department of Trade in the city or province where the representative office is to be set up. A representative office license allows for a narrow scope of activities, as stipulated in Decree 72/2006/ND-CP, dated July 25, 2006, detailing the Trade Law's regulations on representative offices, branches of foreign businesses in Vietnam, and in Circular 11/2006/TT- BTM, dated September 28, 2006, providing guidance on the implementation of Decree 72/2006/ND-CP.

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, government authorities 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 relevant DoT. The application and profile must be prepared in English and Vietnamese, and both sets of documents must be duly executed. The license is usually valid for three years and may be extended for additional three-year periods.

Branch License: The term "branch" office under the laws of Vietnam refers 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 and finance, law, insurance, marketing and advertising, education, tourism, logistics, construction, and other types of services. 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 of Industry and Trade (MoIT) or other competent authorities for the industry in question (e.g., the State Bank of Vietnam for banking licenses, or the Ministry of Justice for law offices).

  Decree 72/2006/ND-CP dated July 25, 2006 states that "Foreign businesses can establish their branches in Vietnam (hereinafter "Branches") in accordance with Vietnam's commitments in international agreements that the country is a member of, to carry out goods purchasing activities and other activities directly related to goods purchasing in accordance with Articles 16, 19, 20 and 22 of the Commercial Law and the regulations as specified in the Decree".

<u>Foreign Investment Licenses (FIL)</u>: Foreign direct investment (FDI) in Vietnam is regulated by the Department of Planning and Investment (DPI) at the local level and the Ministry of Planning and Investment (MPI) at the central level through FILs and related implementing regulations, decrees, and circulars. Compared to previous legislation, the new FIL rules delegate more authority over investment licensing to provinces, municipalities, and investment zones. For example, as of September 2006, approval authority for investment certificates under $100 million has been devolved to the provinces (for a limited number of sectors only). Certain investments above $100 million require consultation between the province and MPI. MPI also reserves the right to approve or deny all investments in certain sensitive sectors, including airports, seaports, mining and oil and gas investments. Even with these recent changes, several provinces and large cities have been urging the Vietnamese government to expand their autonomy still further in this area. The Prime Minister's office retains authority over larger projects and projects deemed sensitive. MPI remains the principal government agency acting as an advisor for the Prime Minister with regard to giving approval to large and sensitive projects.

Under the prevailing Investment Law of Vietnam promulgated in 2005 applicable to both local and foreign investors, primary forms of direct investment by foreigners and Vietnamese include:

1. To establish economic organizations in the form of one hundred (100) percent capital of domestic investors or (100) percent capital of foreign investors.
2. To establish joint venture economic organizations between domestic and foreign investors.

   Under (1) and (2) investors shall be permitted to make an investment to enable the establishment of the following economic organizations:

a) Enterprises organized and operating in accordance with the Law on Enterprises; credit institutions, insurance enterprises, investment funds and other financial organizations in accordance with various laws;
b) Medical service, educational, scientific, cultural, sports and other services;

c) Establishments which conduct investment activities for profit-making purposes;
d) Other economic organizations in accordance with law.

3. To invest in the contractual forms of: Business Cooperation Contract (BCC); Build-Operate-Transfer (BOT); Build-Transfer-Operate (BTO); and BT (Build-Transfer).

a) Investors shall be permitted to sign a BCC contract in order to co-operate in production and to share profits or to share products and other forms of business co-operation. The contract shall set out the co-operating parties; the contents of the co-operation; the duration of business; the rights, obligations and responsibilities of each party; the co-operative relationship between the parties and the management organization as agreed by the parties. A BCC contract in the sector of prospecting, exploration and mining of petroleum and some other natural resources and in the form of a production sharing contract shall be implemented in accordance with the provisions in this Law and other provisions of the relevant laws.

b) Investors shall be permitted to sign a BOT, BTO and BT contract with the competent State body in order to implement projects for new construction, expansion, modernization and operation of infrastructure projects in the sectors of traffic, electricity production and business, water supply or drainage, waste treatment and other sectors as stipulated by the Prime Minister of the Government. Investments under BOT, BTO and BT contracts are regulated by Decree 78/2007/ND-CP dated May 11, 2007.

4. To invest in business development.
   Investors shall be permitted to invest in business development through the following forms:

a) Expanding scale, increasing output capacity and business capability.
b) Renovating technology, improving product quality and reducing environmental pollution.

5. To purchase shares or to contribute capital in order to participate in management of investment activities.
   Investors shall be permitted to contribute capital to and to purchase shareholding in companies and branches operating in Vietnam. The ratio of capital contribution and purchase of shareholding by foreign investors in a number of sectors, industries and trades shall be regulated by the Government.

6. To invest in the carrying out of a merger and acquisition of an enterprise.
   Investors shall be permitted to merge and to acquire companies and branches.
   The conditions for merger and acquisition of companies and branches shall be regulated by the 2005 Investment Law, the Law on Competition and other provisions of the relevant laws.

With regard to portfolio investment (indirect investment as termed in Vietnamese legal documents), investors shall be permitted to carry out the following forms of indirect investment in Vietnam:

1. Purchase of shareholding, shares, bonds and other valuable papers
2. Through securities investment funds

3. Through other intermediary financial institutions

Any investment by way of purchase or sale of shares, share certificates, bonds and other valuable papers of individuals and organizations and procedures for conducting indirect investment activities shall be implemented in accordance with the law on securities and other provisions of the relevant laws.

**Franchising** Return to top

Franchising is a relatively new business concept in Vietnam. Although existing here since the early 1990s, it has been slow to develop and has yet to enjoy the level of popularity it has achieved in more developed countries. With Vietnam's accession to the WTO, however, franchising is expected to flourish, especially when the retail distribution sector is opened up to foreign competition in early 2009. With an estimated annual growth of 20 percent in recent years, franchising shows great potential as a form of business in Vietnam.

Decree No 35/2006/ND-CP, dated 31 March 2006, regulating franchises in Vietnam provides for key concepts in franchising, requirements of franchise agreements and State administration of franchises for the first time. This provides a clearer legal basis for franchising operations than existed previously and is a significant step in spurring the development of this sector.

Please see the Best Prospects section of this report for additional information on franchising.

**Direct Marketing** Return to top

Direct marketing and multi-level marketing techniques have been novel and rather suspect concepts in Vietnam until very recently. This is rapidly changing as large internationally recognized players move into the market. Decree 110/2005/ND-CP, the Decree on the Administration of Multi-Level Sales Activities, issued August 24, 2005, provides the basis for regulation of this sector. At present, a foreign-owned company can only conduct direct marketing activities through a Vietnamese partner. Companies with an in-country manufacturing base may be an exception. There are still issues governing distribution that await clarification as the legal environment evolves, including how Decree 110 will relate to changes in distribution rights under Vietnam's WTO commitments in January 2009.

The logistical barriers to direct marketing include the lack of consumer data, although this too is changing, and a scarcity of mailing lists. In years past several cosmetics and lingerie companies had experimented with door-to-door sales on a limited basis in Ho Chi Minh City. More recently, multinationals with global reputations for multi-level or direct marketing prowess have introduced new techniques and structures to Vietnam and the ranks of sales agents/distributors are beginning to grow. These include companies in personal care and nutrition as well as household products. Some are setting up production in Vietnam. Foreign life insurance companies have been licensed for some time and have assembled large teams of agents who engage in traditional telemarketing, door-to-door selling, and workplace marketing in urban areas.

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** Return to top

Joint Ventures: A foreign joint venture, one of the most popular forms of investment by foreign companies, is understood as an economic entity with at least one foreign company partner. The 2005 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. However, there are many potential liabilities with a Vietnamese partner. Local 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 to seventy-year periods and can usually be easily renewed with the mutual consent of all the parties, or, alternately, 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, or closure. 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 is 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 generally 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 may have to 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 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 Law does provide protection for transferred technology, but some of its provisions remain to be implemented.

Licensing: Despite recent improvements, 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.

## Selling to the Government

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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 very large. Bolstering state budgets, Vietnam is the recipient of significant levels of Official Development Assistance (ODA). According to the MPI, multilateral and bilateral donors are expected to pledge approximately $11-12 billion in ODA support to Vietnam for the period 2006-2010. 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 is regulated by the Law on Tendering and Decree 111/2006/ND-CP dated September 29, 2006, providing guidelines for the implementation of the Law on Tendering and the selection of construction contractors. Government procurement funded by ODA loans and grants is normally governed by regulations on tendering of relevant donors in accordance with loan agreements between the Vietnamese government and donors. Government procurement practices can be characterized as a multi-layered decision-making process, which, despite some recent improvements, often lacks transparency and efficiency. Although the Ministry of Finance allocates funds, various departments within the ministry or agency are involved in determining necessary government expenditures. Procurement can be carried out through sole source (direct procurement), direct competitive quotations, tender (open and limited), and design competition (for architectural and design services). 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 officially in the Vietnamese language newspapers such as Dau Thau, 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 or may check the public procurement website of the MPI at http://dauthau.mpi.gov.vn.

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 June and October, with actual purchases often made in December and January. Experienced foreign suppliers caution that even after awards are made, negotiations on price, specifications, payment terms, and collateral may continue for some time.

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 Return to top

<u>Legal Constraints on Foreign Participation</u>: At present, Vietnam's regulations reflect the WTO commitments undertaken in trading and distribution. In this context, foreign-invested enterprises (FIEs), i.e. companies or organizations with foreign capital, are subject to specific market access rules.

On January 1, 2007, all FIEs were granted full trading rights (i.e. the right to import and to export) on most goods (see section importing/exporting for restricted goods). Distribution services were also opened to FIEs registered to do business in Vietnam that have a joint venture with a local partner (with foreign capital contribution up to 99 percent). Although the distribution sector will be open to fully foreign-owned FIEs in January 2009, there is the possibility the GVN could loosen restrictions ahead of schedule.

From January 2009 onward, foreign companies can import and distribute their products directly in Vietnam, according to Vietnam's WTO commitments. This restriction does not apply to manufacturing companies, which are allowed to distribute their processed products under their own distribution network.

<u>Trading Activities (Import and Export):</u> Since Vietnam's accession to the WTO, FIEs have been allowed to establish 100 percent foreign-owned trading companies. However, Vietnam has reserved the right of importation for state trading entities for the following categories: cigars and cigarettes; crude oil; newspapers, journals and periodicals; and records, tapes and other recorded media for sound or pictures (with certain exclusions).

Under the phase-in, foreign firms and individuals are restricted until January 1, 2009, from importing the following categories of products: pharmaceuticals; motion picture films; unused postage; printed cards and calendars; certain printed matter; machinery for typesetting and print machinery (excluding ink-jet printers); and certain transmission apparatus for radio-telephony (excluding mobile phones and consumer cameras).

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. Despite prosecution of corrupt customs officials at many levels, the use of "facilitation fees" to expedite customs clearance is not an uncommon occurrence.

Distribution services: 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.

According to Vietnam's WTO commitments, 100 percent FIEs will be allowed to engage in distribution services in January 1, 2009. Prior to this date, foreign investors must establish joint venture with a local partner, but the level of equity can be up to 99 percent.

Distribution services include commission agent, wholesaling, retailing and franchising. In this latter sector, branches will be allowed in 2010.

Some products are prohibited from being distributed by FIEs, such as cigarettes and cigars, books, newspapers and magazines, video records on whatever medium, precious metals and stones, pharmaceutical products and drugs[1], explosives, processed oil and crude oil, rice, cane and beet sugar are excluded from the commitments.

Other are banned only for a transitional period of time:

- "Upon accession, foreign-invested companies engaging in distribution services will be permitted to engage in the commission agents', wholesale and retail business of all legally imported and domestically produced products except for: cement and cement clinkers; tyres (excluding tyres of airplanes); papers; tractors; motor vehicles; cars and motorcycles; iron and steel; audiovisual devices; wines and spirits; and fertilizers.

[1] For the purposes of this schedule "pharmaceuticals and drugs" do not include non-pharmaceutical nutritional supplements in tablet, capsule or powdered form.

- As of 1 January 2009, foreign-invested companies engaging in distribution services will be permitted to engage in the commission agents', wholesale and retail business of tractors; motor vehicles; cars and motorcycles.

- Within 3 years of Viet Nam's accession, foreign-invested companies engaging in distribution services will be permitted to engage in the commission agents', wholesale and retail business of all legally imported and domestically produced products."

<u>Wholesale</u>: Both local and FIEs 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.

<u>Retail</u>: Vietnam's retail landscape has been going through 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 kinds of 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. Company officials estimate that up to 10,000 customers visit the facility a day.

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, along with Parkson's Plaza, and Huong Vuong Plaza are in full operation. Although Ho Chi Minh City leads this sector, similar developments are taking place in Hanoi.

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.

<u>Warehousing</u>: Manufacturing companies can warehouse their processed products. The situation tends to be more complicated for trading companies, which, even though importing their own brand products, are considered rendering a service to their parent companies. Therefore, they are subject to WTO phase-in, e.g., foreign investors should operate through a 51 percent joint venture until 2014 or outsource this activity with a licensed local warehousing company or their distributors.

Concerns are raised as to the ability of local entities to implement properly international standards. 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.

## Selling Factors/Techniques Return to top

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 (about $800 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 $800, while unofficial estimates put HCMC's per capita GDP as high at more than double the national GDP. 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. Successful long-term brands typically have to be adapted to long term tastes, particularly consumer goods. 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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E-Commerce in Vietnam, although still in a relatively early stage, has seen robust development over the last several years as the country continues its integration with the global economy and as the domestic economy booms. This growth follows naturally as the Vietnamese government, rapidly expanding business community and increasingly sophisticated citizenry become aware of the benefits and conveniences brought about by E-Commerce. As Internet infrastructure continues to improve, bandwidth and speed are up and service is increasingly reliable. As of November 2007, Vietnam had an estimated 18 million Internet users out of a population of 85 million people, for a 21 percent penetration rate. In urban areas, even if many homes still lack computers, Internet cafes are ubiquitous and WiFi access increasingly common.

There are a number of factors contributing to this development. First of all, the Government of Vietnam has issued regulations governing E-Commerce with a view to encouraging and facilitating the country's E-Commerce development, including the E-Commerce Law No. 51/2005/QH11 dated November 29, 2005, Decree No. 26/2007/ND-CP dated 15 February, 2007 on e-signatures and certification of e-signatures, Decree No. 35/ND-CP dated March 8, 2007 on E-Commerce in banking transactions, and others. The government is attempting to increase national competitiveness through modernization of administrative systems and by an increasing role for E-government. Government agencies have increasingly turned to information technology applications in dealing with businesses and the general public. Almost all ministries, as well as provincial and municipal governments have established websites providing a wide range of information. A few central and local offices have started to provide simple public services electronically such as E-business registration, E-customs declaration, E-bidding, and E-certificate of origin systems. Nearly half of all provinces and municipalities in Vietnam have created master plans for E-Commerce development.

Secondly, more and more Vietnamese businesses are coming to appreciate the role of E-Commerce in cutting transaction fees, finding new customers domestically and overseas as well as transacting business on line. Along with the robust growth of Internet access and the development of electronic payment systems, business-to-business (B2B) E-Commerce has been expanding with increasing speed. According to the Ministry of Industry and Trade, about 38 percent of Vietnamese businesses had websites and more than 93 percent of Vietnamese businesses had Internet access as of the end of 2007 Dozens of B2B websites have been set up.

Thirdly, more and more Vietnamese consumers are familiar with E-Commerce as business-to-customer (B2C) and customer-to-customer (C2C) E-Commerce grew rather strongly in 2007. Hundreds of B2C and C2C E-Commerce websites have been established in a wide variety of fields, ranging from online supermarkets, transportation, tourism, publications, and computer equipment. Systems for electronic payment are coming into use.

Recognizing the importance of E-Commerce to economic growth, the Government of Vietnam has a master plan for E-Commerce development covering the period from 2006 to 2010 with the following concrete targets for the end of the period: (1) Approximately 60 percent of large companies conduct B2B E-Commerce transactions; (2) Some 80 percent of small and medium-sized enterprises are aware of the benefits and convenience of E-Commerce and conduct B2C or B2B E-Commerce transactions; (3) About 10 percent of the general population conducts B2C or Customer-to-Customer E-Commerce transactions; (4) Invitations for bids for government procurements are publicized on government websites and E-Commerce is used for government procurement.

Given the current widespread application of information technology in both the public and private sectors, E-Commerce applications are expected to see continued strong growth in the immediate future.

## Trade Promotion and Advertising Return to top

Advertising has been permitted in Vietnam only since 1990, but the industry has grown by 30 percent per annum over the past 5 years. In 2007, industry turnover reached $937 million. Eighty percent of this went to foreign-invested advertising firms. Foreign companies hold a near monopoly in this market due to better sources of capital, technology, creativity, and professional expertise as compared to local firms. Vietnam acceded to the WTO in January 2007, and under its WTO commitments, Vietnam must open its market to other members.

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 beverages with alcohol content below 15 percent by volume) are prohibited in the mass media. Advertising for pharmaceuticals, agrichemicals, 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. The Government's current regulations prevent domestic enterprises from investing more than 10 per cent of their total spending on advertising programs.

Foreign Ad Agencies in Vietnam: The country now has more than 1,000 domestic ad companies, of which about 700 are operating in HCM City. Vietnam hosts over 30 representative offices of the world's leading advertising companies, including J. Walter Thompson, Dentsu, Sattchi & Sattchi and McCann.

Approximately 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 their work is still very often supported by foreign advertising companies abroad. Foreign advertising firms are generally not permitted to directly sign contracts with local media agencies. Instead they must 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 Bilateral Trade Agreement that came into effect in 2001, American companies are allowed to enter into joint ventures with Vietnamese firms to offer advertising services. The U.S. partner is presently limited to a 51 percent share until December 2008 when that limitation will be removed.

While some highly sophisticated advertising production may take place offshore, most production for the multinational ad agencies takes place within Vietnam, primarily in Ho Chi Minh City. Foreign advertising executives note that a large proportion of advertising activities are in Ho Chi Minh City and the surrounding provinces as this area leads the nation in disposable income, familiarity with foreign trends and brands, quality of broadcast programming and print media, and production skills.

Clients: While multinational corporations in Vietnam continue to provide the majority of business for foreign advertising firms, successful local companies are expanding their advertising campaigns and increasing advertising spending. Currently, the leading categories of TV ads are cosmetics/toiletries, pharmaceuticals, electrical appliances, vehicles (primarily motorcycles), household products, soft drinks, 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 advertising 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, especially in peak evening hours. There are 64 local and one national broadcaster (VTV). With the emergence of satellite dishes and cable networks, many households also watch international networks (CNBC, CNN, StarTV).

Print Media: While spending on TV advertising continues to increase substantially, print advertising has really exploded, with annual growth rates of around 30 percent 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). In recent years, quite a few 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, Thanh Nien English News, 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 24/2003/ND-CP dated 12/2/2003 governing many aspects of advertising, 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 many local and one national broadcaster, Voice of Vietnam (VOV). The cost per thousand listeners is relatively inexpensive. Although radio is not as popular as TV and print media for advertising, radio ad expenditures should continue to expand, especially as more and more drivers take to the road in Vietnam.

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.

## Pricing

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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 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. With Vietnam's accession to the WTO, many tariffs have fallen, or will fall, further.
- 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

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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. In 2007, Vietnam joined the Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations. 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. Nevertheless, the Government of Vietnam has taken measures to stop the broadcast of unlicensed cable content, decreasing signal piracy considerably in 2007.

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 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 Industry and Trade's Market Management Bureau, the Ministry of Public Security's 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** Return to top

Any firm establishing a new business venture 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. Too often, the local business sector is oriented toward making money quickly. Thus care must be taken to check the bona fides of every business, be it agent or customer, before entering into a business arrangement.

One obvious way to check the quality of a business and its management is to request a list of customers and suppliers that are currently transacting business with that entity. One should make the effort to contact a number of references in order to verify the validity and integrity of the business. This may be especially true for consultants, whether local or foreign. These firms should be able to supply a list of satisfied customers. There have been cases of consulting firms that have failed to perform in this market. Confirming that the firm has actually completed successful transactions on behalf of foreign clients can decrease risk of problems later.

One of the most challenging aspects of developing partnerships in Vietnam is verifying the bona fides of prospective partners. As noted elsewhere, relatively few firms in Vietnam are audited to international standards. This situation is improving as joint-stock companies submit to more rigorous audits with a view to listing on Vietnam's young, but growing, stock exchange, and as the business sector becomes more sophisticated. 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.

Commercial credit information services in Vietnam are very limited. The Credit Information Center (www.creditinfo.org.vn), operating under the State Bank of Vietnam (SBV) is the only credit information resource in Vietnam. Vietnam's existing public credit registry collects information on large loans from banks, but does not have the resources to cover smaller SMEs, consumer loans, and other credit providers. There is a project in the works to establish Vietnam's first private credit bureau, but this entity will not start operation before late 2008 or 2009. Faced with such challenges, many foreign parties request international law firms with a presence in country to investigate prospective local partners.

Other limited resources may include local municipal governments (people's committees) with information on companies registered in their jurisdictions. While such information may not be generally available to the public, authorities do recognize that certain professionals such as attorneys may have a legitimate need for such information and may share it with them.

Additional information may be obtained from databases (online or issued as CDs) of leading English language periodicals such as the Viet Nam News (http://vietnamnews.vnagency.com.vn), the Vietnam Investment Review (www.vir.com.vn), Vietnam Economic Times (www.vneconomy.com.vn) and Thanh Nien (www.thanhniennews.com). These sources may be helpful in determining whether negative information on a company has been published.

## Local Professional Services Return to top

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. Branches and subsidiaries of foreign law firms in Vietnam are allowed to hire licensed Vietnamese lawyers and trainee solicitors. Licensed Vietnamese lawyers working at foreign firms can provide formal legal opinions on matters of Vietnamese law. Although foreign lawyers who have not been admitted to the Vietnamese Bar Association cannot appear as representatives of their clients in Vietnamese courts, Vietnamese lawyers who work for foreign firms do so.

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.

The services of local law firms encompass investment law and consulting. 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. A number of the large international accounting/professional services firms now have well-established offices here. As the economy develops and market opportunities expand, availability of such services continues to broaden. Such entities can provide invaluable assistance in doing business in Vietnam.

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U.S. Foreign Commercial Service in Vietnam: http://www.buyusa.gov/vietnam/en/
American Chamber of Commerce (AmCham) HCMC: http://www.amchamvietnam.com/
AmCham Hanoi: http://www.amchamhanoi.com/site/index.php
Vietnam Embassy in Washington DC: http://www.vietnamembassy-usa.org/
Vietnam Consulate General in San Francisco: http://www.vietnamconsulate-ca.org/home.asp
Vietnam Ministry of Planning and Investment: http://www.mpi.gov.vn/
Vietnam Ministry of Industry and Trade: http://www.moit.gov.vn/web/guest/home
Vietnam Customs: http://www.customs.gov.vn/
Vietnam Chamber of Commerce and Industry: http://vibforum.vcci.com.vn/
Vietnam Economy: http://www.vneconomy.com.vn/eng/
Vietnam Investment Review: http://www.vir.com.vn/Client/VIR/Default.asp

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

## 1. Power Generation, Distribution and Transmission

### Overview

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| | 2006 | 2007 | 2008 (estimated) |
|---|---|---|---|
| Total Market Size (Excluding IPPs) | 2,185 | 2,287 | 2,500 |
| Total Local Production | 775 | 960 | 1,075 |
| Total Exports | N/A | N/A | N/A |
| Total Imports | 1,410 | 1,327 | 1,425 |
| Imports from the U.S. | 73 | 79 | 92 |

*Figures are in USD 000. Total market size for equipment and services is based on Electricity of Vietnam and World Bank (WB) statistics and estimates. Other statistics are unofficial estimates*

The electric power sector represents one of the most promising areas for U.S. commercial prospects in the Vietnamese market. At present, Electricity of Vietnam (EVN), a state owned enterprise with more than 50 subsidiaries and affiliates, which reports directly to the Prime Minister, holds a monopoly in electricity transmission and distribution. The electric power industry is under the jurisdiction and management of the Ministry of Industry and Trade (MoIT).

The Vietnamese government relies on Power Development Master Plans to manage the development of the electric power sector. These plans forecast growth in demand and map out the overall development of the power industry to meet that demand going out ten years, while also providing a twenty-year overview. The Prime Minister approved the Sixth Master Plan in Decision 110/2007/QD-TTg, dated July 18, 2007, covering the period 2006 – 2015, with an overview extending to 2025.

**Demand for Electricity:** Demand for electricity grew by 15 percent per annum over the period 1995 – 2005. The Sixth Master Plan envisions that with forecasted GDP growth at 8.5 – 9 percent or even higher over the period 2006-2010, the demand for electricity will grow by 17 percent per year (base-case scenario) and 20 percent per year (high-case scenario) during the period 2006- 2015 (see chart 1). This soaring demand is attributed both to increasing industrial and residential use. Power shortages are expected during this period if adequate measures are not taken to increase the power supply accordingly.

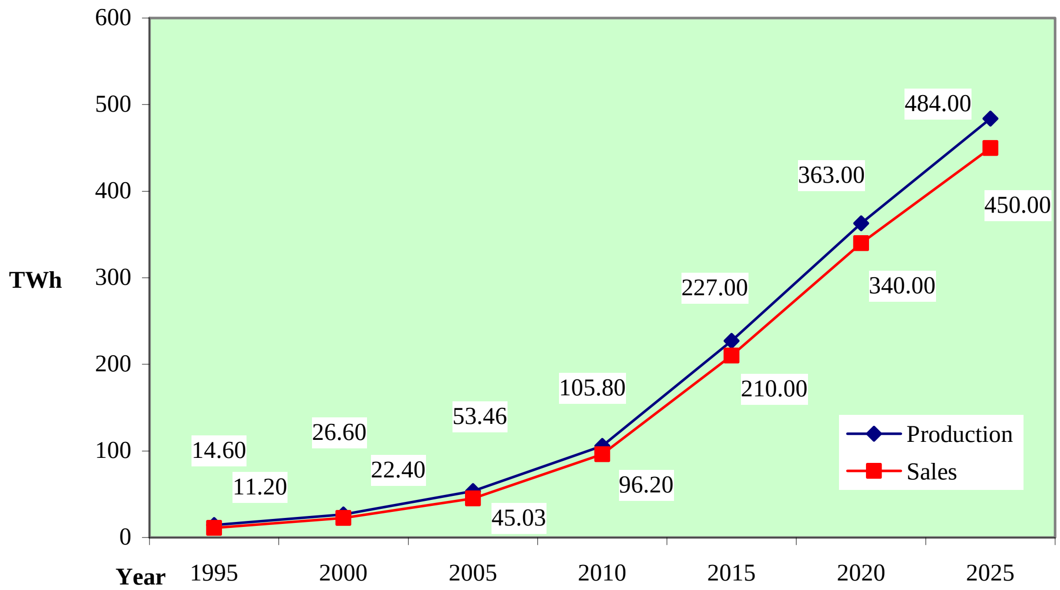


**Chart 1 – Electricity Production and Sales Forecast by 2025**
(Source: Sixth Master Plan – EVN, November 2007)

**Electricity Supply:** As of the end of 2006, Vietnam's total generation capacity (peak) was 12,270 MW, of which EVN's facilities accounted for about 77.8 percent. The remainder was under the control of local and foreign Independent Power Producers (including 27 IPPs). The power generation system mainly relies on thermal gas power (38.68 percent as of end of 2006) and hydropower (36.57 percent) while thermal coal power, currently accounting for 13.28 percent, will play an increasingly important role in the medium and long term. Oil fired power plants and other sources including imports from China took up about 4.69 percent and 6.78 percent respectively.

During 2007, an additional capacity of 1,168 MW was put in operation. According to the Sixth Master Plan, it is estimated that an additional capacity of 2,700 MW will be required per year on the average during the 2006 – 2010 time period to meet rapidly growing demand. Chart 2 and 3 provide more details about the projected expansion of the power generation system in Vietnam.

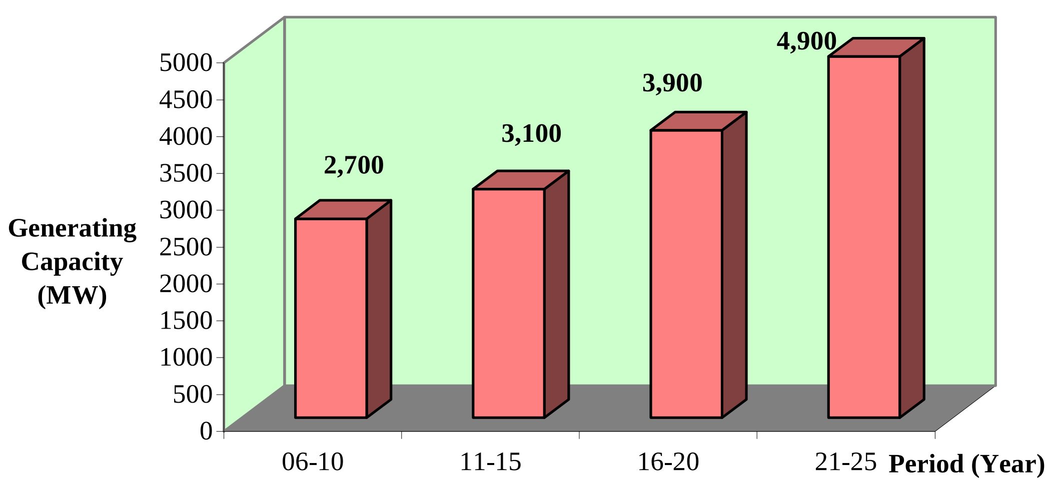


**Chart 2 – Additional Average Generating Capacity Required Per Year Forecast by Five-Year Period to 2025**
(Source: Sixth Master Plan and Dau Tu, June 12, 06)

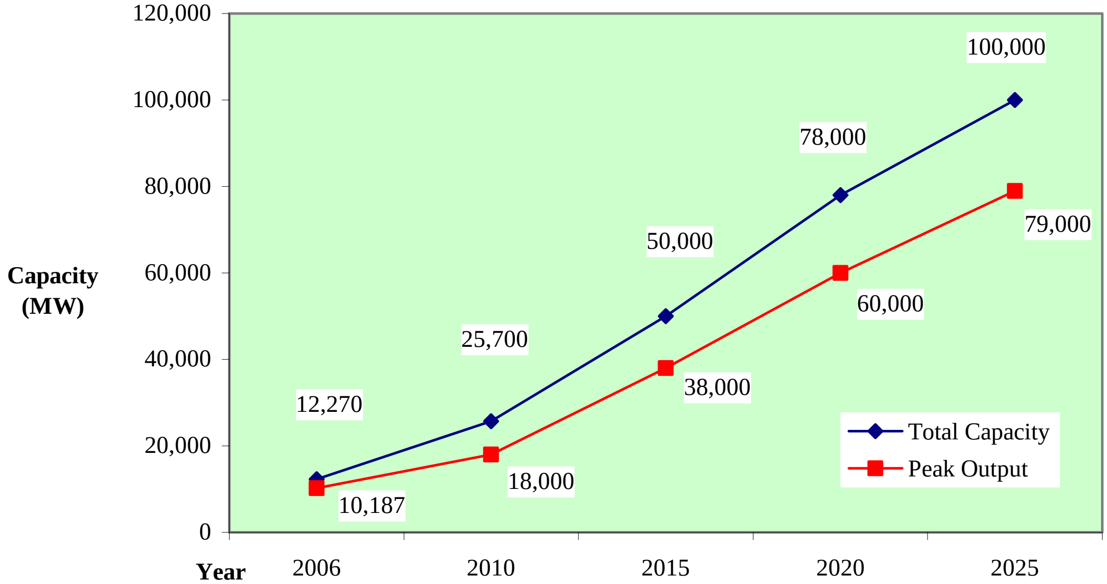


**Chart 3 – Electricity Production and Sales Forecast to 2025**
(Source: EVN, November 2007)

**Transmission and Distribution Systems:**

As of September 2007, the rural electrification rate in Vietnam was 94.84 percent and is expected to reach nearly 100 percent by 2020. The following chart shows the current transmission system as well as its projected development to 2025.

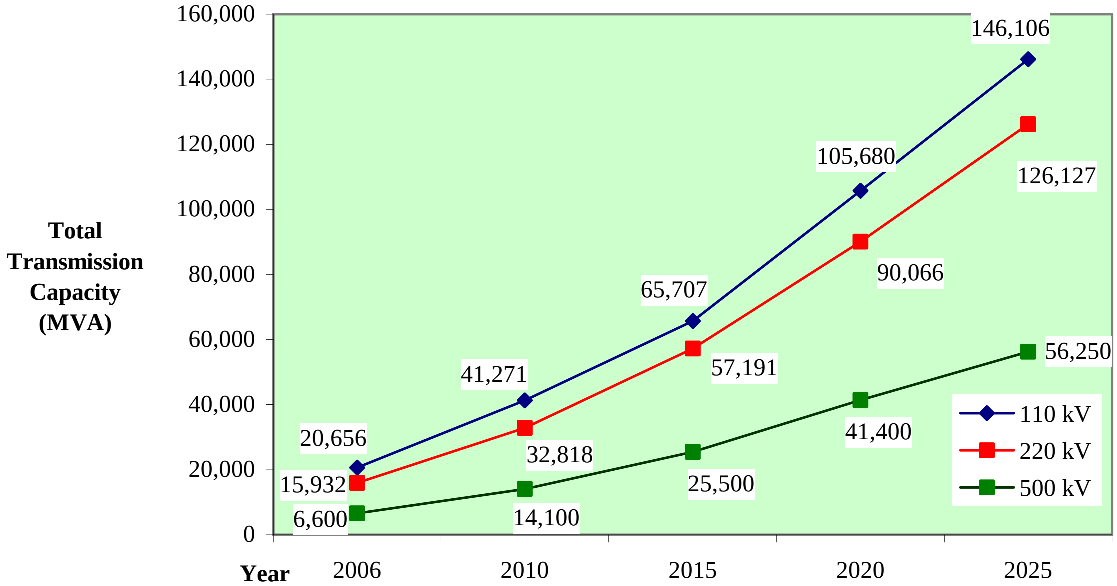


**Chart 4 – Projected Expansion of the Power Transmission System to 2025**

(Source: Draft Sixth Master Plan – EVN, November 2007)

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 power generation and transmission systems will require a respective expansion of the distribution system.

**Investment Requirements:** Over the period 2006 – 2010, 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 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 shows EVN's projected investment in the power sector over period 2006 – 2010.

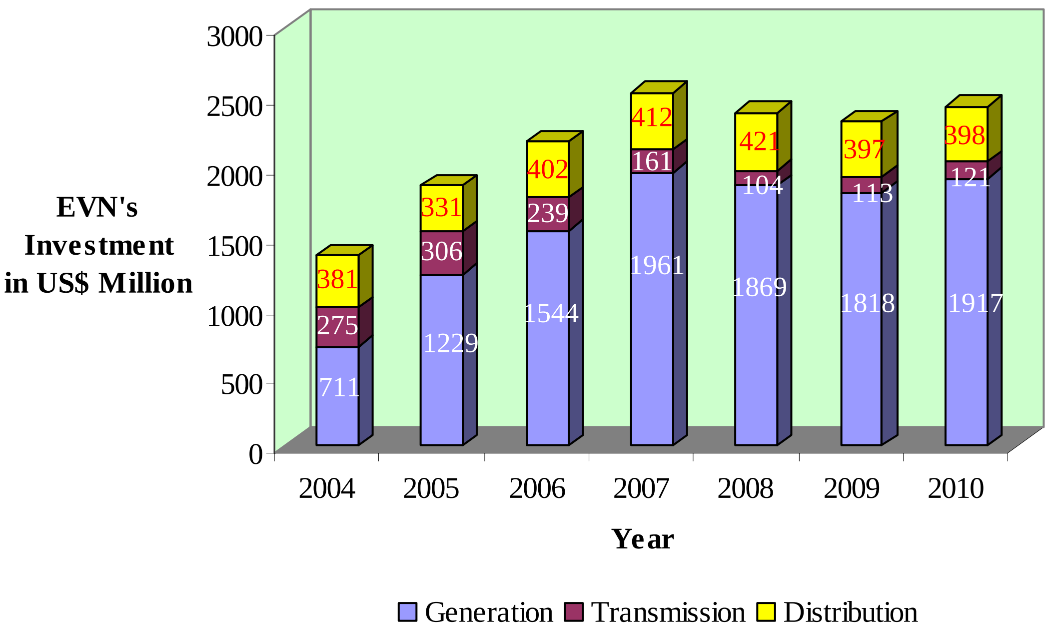


**Chart 5 – EVN's Investment Requirements* over Period of 2006 – 2010**

(Source: EVN & WB Estimates – 2005 IAS Model)

* *Estimates are based on Fifth Power Development Master Plan requirements, which are obviously insufficient in the context of the Sixth Master Plan. IPP investment requirements are excluded.*

In the longer term, EVN estimates that the electric power industry will require over $40 billion to achieve its goals set for the year 2015. Of this estimated investment, about $30 billion will be allocated to power generation and the remaining $10 billion will be needed for the development of the transmission and distribution network.

**Independent Power Producers (IPPs):** As EVN's self finance and other sources of debt financing can meet only about 66 percent of the total investment requirement, 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 August 2006, MoIT, the government agency responsible for planning, executing bidding, and contracting procedures for large IPPs, issued Decision 30/2006/QD-BCN to regulate the investment, construction and operation of IPPs. To date, a considerable number of foreign investors have shown 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, lack of a transparent and competitive market, and poor coordination among related government agencies. In recognition of these hindrances, MoIT 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), a financial arm of the World Bank (WB). The major goal of this agreement is to increase private participation in the power sector through open competitive bidding. In particular, MoIT and IFC expect to raise electricity purchased from IPPs from 14 percent of the total electricity output in 2005 to 33 percent by 2010.

**Electricity Retail Price:** The government strictly regulates electricity retail prices, with adjustments recommended by MoIT 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, MoIT and EVN have been working on a three-phase roadmap over the period 2006 –2010 for price increases and gradual elimination of government's control. According to this roadmap,
the first increase in the retail price of electricity, bringing the average price to 5.5 US cents, was implemented in January 2007. Further increases are expected over 2008 2010.

**Establishment of a Competitive Power Market:** In 2004, the Vietnamese National Assembly passed the new Electricity Law that outlines the development of a competitive electricity market. In January 2006, the Prime Minister issued Decision 26/2006/QD-TTg to detail the implementation of a competitive power market which will be carried out in three phases: (1) The first phase (2005-2014) focuses on creating competition in power generation with a single buyer, (2) the second phase (2015 – 2022) introduces competition for bulk supply of electricity (wholesale) including supply directly to major industrial customers, and (3) the final phase (after 2022) involves competition at the retail level.

**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 an increasingly business-oriented enterprise with an increased degree of separation from the government. This enterprise reform involves splitting various subsidiary entities away from EVN to form new shareholding companies.

## Best Prospects/Services Return to top

The power generation market may be divided into five main segments: (1) consulting and engineering services, including project management, (2) installation and construction services, (3) machinery, equipment and materials, (4) supply of equipment, spare parts, materials, consumables, and overhaul and maintenance services (aftermarket), and (5) 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: (1) consulting and engineering services, project management, (2) installation and construction services, (3) high, medium, and low voltage electrical equipment for the national grid, and (4) medium and low voltage electrical equipment for industrial, institutional and household users.

**Opportunities** Return to top

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

- Sales opportunities in ongoing and upcoming power generation projects (a specific list of these projects will be provided upon request)

- Investment opportunities in IPP projects as approved by the Prime Minister (a specific list of these projects will be provided upon request).

- $327.8 million Second Transmission and Distribution Project II funded by the World Bank (USD$ 200 million) and the Vietnamese government (approved in July 2005 and 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 the ADB ($120 million), the 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.

**Resources** Return to top

The following websites may be valuable resources for U.S. companies interested in exploring business development opportunities in Vietnam's electric power industry.

Electricity of Vietnam Corporation (EVN)
http://www.evn.com.vn

Ministry of Industry and Trade (MoIT)
http://www.moit.gov.vn

For more information about the Vietnamese power industry, please contact:

**Le Son, Commercial Specialist**
E-mail: Le.Son@mail.doc.gov
U.S. Commercial Service, U.S. Consulate General
Website: www.buyusa.gov/vietnam

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

## 2. Telecommunications Equipment and Services

### Overview

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| Telecommunications Equipment | 2006 (actual) | 2007 (estimated) | 2008 (estimated) |
|---|---|---|---|
| Total Market Size | 1,650 | 2,060 | 2,575 |
| Total Local Production | 589 | 735 | 920 |
| Total Exports | 24 | 30 | 38 |
| Total Imports | 1,085 | 1350 | 1688 |
| Imports from the U.S. | 135 | 170 | 212 |

| Telecommunications Services | 2006 (estimated) | 2007 (estimated) | 2008 (estimated) |
|---|---|---|---|
| Total Market Size | 2,571 | 3,200 | 4,000 |
| Total Local Production | 2,669 | 3,300 | 4,125 |
| Total Exports | 285 | 355 | 443 |
| Total Imports | 187 | 230 | 287 |
| Imports from the U.S. | 73 | 90 | 113 |

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

Vietnam's telecommunications industry is among the world's fastest growing markets. In 2007, the Information and Communications Technology (ICT) sector growth rate was double that of the average in the Asia region and triple that of the world average. In 2007, the cell phone and Internet broadband subsectors experienced market growth of upwards of 200 percent. The Government of Vietnam (GVN) has articulated its commitment to boosting the development of the ICT industry, particularly in telecommunications and Internet infrastructure development, software production, IT education promotion, and other forms of human capital development.

To meet the increasing market demand and tough competition after Vietnam's accession to WTO, Vietnamese telecom operators understand they 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 telecom sector, although the market is likely to open at a gradual pace in line with Vietnam's WTO commitments.

In 1988, just after the "doi moi" (renovation/opened door) policies carried out by the GVN Vietnam had less than 200,000 phone subscribers with a teledensity of 0.18 lines/100 inhabitants. In 2000, Vietnam grew to approximately 2.6 million fixed-line subscribers and 640,000 mobile subscribers. In 2006, new phone subscribers in Vietnam more than doubled the total number of subscribers added in the 25-year period of 1975-2000, and the number of 18.5 million new telephone subscribers added in 2007 tripled that of the period of the previous 3 years. According to Vietnam's Ministry of Information and Communications (MIC), as of December 2007, Vietnam has approximately 46.94 million telephone subscribers, with a teledensity of 55.22 lines/100 inhabitants.

The major technologies used in Vietnam include cable, satellite, and wireless cable. Major broadband networks are deployed via ADSL, VDSL, and leased lines. WiFi is deployed in the major cities, and local ISPs are seriously contemplating WiMax as a platform to popularize the Internet nationwide. So far four Vietnamese companies- VNPT, FPT, VTC and Viettel- are licensed to provide WiMax services and all have WiMax projects in the pilot stage. In terms of network convergence, voice/data networks are available nation-wide, while "triple play" networks (voice/data/video) and broadband services have been growing in the big cities. VoIP services are also expanding. Telecom companies own the Internet infrastructure and provide VoIP services. There are also several privately owned VoIP providers, all of which lease lines from major telecom carriers. Such new technologies as 3G, even 4G, WiMax, mobile TV, and NGN have begun to be promoted in Vietnam and will become major trends in the development of Vietnam's telecom industry.

As a new member of the WTO, Vietnam will continue to implement tax cuts as part of its commitments under the Information Technology Agreement. Specifically, categories currently in a 5 percent tax bracket will decrease evenly to 0 percent in 2010; those in a 10 percent bracket will decline evenly to 0 percent in 2012 and those in a 20-30 percent bracket will go down evenly to 0 percent in 2014.

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

The majority of imported telecommunications equipment is sold directly to local telecom service providers, to their subsidiaries or to broadcasters. Local distributors must have an import license for telecom equipment or should have an existing relationship with licensed trading companies.

Selection of the right local partner is essential to maximize business development opportunities. As the high tech industry continues to develop in Vietnam, prices will continue to go down, investment capital will increase and the business environment will become more competitive. By entering the market via the road of equitization/privatization, foreign telcos will best approach this emerging market in a step-by-step fashion.

## 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. Below is an analysis of the major best-prospect sub-sectors of the telecommunications sector in Vietnam.

Fixed Telephone Networks: Telephone access is currently available to all communities nationwide. State owned Vietnam Posts and Telecommunications Group (VNPT) is the major landline telephone carrier in this market. As the traditional PSTN fixed telephone service is no longer a "cash cow" subsector, Vietnam's telcos are instead developing wireless fixed telephone service solutions, especially for remote and isolated areas.

Cell Phone Networks: As of June 2007, Vietnam had 22.87 million cell phone subscribers. Cell phone market share in Vietnam is currently divided between 6 network operators: Vinaphone (by VNPT), MobiFone (by VMS, a VNPT BCC), Viettel Mobile, and S-Fone (a Saigon Postel's BCC with South Korean consortium SLD Telecom), EVN Telecom (by Electricity of Vietnam), and HT Mobile (a BCC between Hanoi Telecom and Hutchison). Viettel accounted for 32.8 percent market share with 7.5 million subscribers; MobiFone accounted for 28.1 percent market share with 6.4 million subscribers; Vinaphone accounted for 25 percent market share with 5.7 million subscribers; S-Fone accounted for 7.5 percent market share with 1.7 million subscribers, EVN Telecom accounted for 5.3 percent market share with 1.2 million subscribers; and HT Mobile accounted for only 1.3 percent market share.

In terms of the technologies used in Vietnam's cell phone networks, six licensed mobile network operators run 4 GSM mobile networks (Vinaphone, MobiFone, Viettel, and Hanoi Telecom) and 2 operate CDMA mobile networks (S-Fone, and EVN Telecom). GSM mobile networks presently account for more than 95 percent of the cell phone market share. 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). In late 2007, Hanoi Telecom applied to Vietnam's authorities for stopping its CDMA network and has changed its backbone to e-GSM technology on the frequency of 882-890 MHz and 927-935 MHz; The company's application for changing the technologies was recently approved by Vietnam's Prime Minister. A seventh cell phone network operator- the GTel Mobile Joint Venture- recently received project approval in principal from the Prime Minister and is working through administrative procedures with MIC to obtain a license for the 1.800 MHz frequency. The JV between G-Tel (owned by the Ministry of Public Security, Russia's second biggest cell phone carrier- Vimpelcom and U.S. based Millenium Global Solutions Group) will run its network on GSM technology.

Internet: The Internet market has also developed rapidly in recent years. Internet usage has increased in popularity as evidenced by the entry of many Internet service providers (ISPs) into the market. As of December 2007, the number of Internet subscribers in Vietnam stood at 5.22 million, with an estimated 18.55 million people or 22.04 percent of the population using the Internet regularly and usage is expected to reach 35 percent in 2010. Broadband market demand has increased so rapidly that the current market supply is not sufficient to meet demand. In 2007, the broadband market growth rate reached as high as at 200 percent with 1.21 million broadband subscribers. Presently, the country's total international and domestic connection bandwidth of Vietnam are 12,580 Mbps and 26,744 Mbps respectively. However, Internet density is not equally spread throughout the country; that is, 72.76 percent of Internet subscribers are in the two big cities of Hanoi and HCMC, 7 other cities and provinces including Hai Phong, Thua Thien-Hue, Quang Nam, Da Nang, Khanh Hoa, and Binh Duong account for 10.48 percent, while the rest of the 55 provinces account only for 16.76 percent.

So far, Vietnamese authorities have licensed 7 IXPs (Internet infrastructure service providers), 18 ISPs (Internet access service providers), and 25 online service providers. As of December 2007, Vietnam's Internet market shares of major Internet service providers were as follows: VNPT/VDC (54.78 percent), FPT (16.55 percent), Viettel (15.81 percent), EVN Telecom (4.77 percent), SPT (3.68 percent), and others (4.41 percent). In terms of the Internet broadband market share, the three top players are VNPT, FPT, and Viettel with 2.86 million, 863,000, and 825,000 subscribers respectively.

Satellite: Vietnam's first communications satellite called Vinasat was approved by the Government on October 18, 2005, and is scheduled to be launched in April 2008, 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 countries in the Asia-Pacific region such as Vietnam, Laos, Cambodia, India, Australia, Japan, Korea, part of China, and some other East Asia countries. The satellite principal ground station is located in Northern Vietnam (Que Duong, Ha Tay Province), and the back-up ground station is situated in the Southern Vietnam (Binh Duong Province).

Broadcasting: Vietnam's broadcasting industry has developed rapidly in recent years. At present, Vietnam has one national television station (called Vietnam Television/VTV), one national radio station (called Voice of Vietnam/VOV) and four inter-provincial broadcasting stations. Additionally, each of the country's 64 provinces and cities has its own local broadcasting station. Apart from these broadcasters, other several new entrants include cable television, satellite (DTH/Direct-to-home) and on-line television providers. In terms of network convergence, voice/data networks are available nation-wide, "triple play" networks (voice/data/video) and broadband services have been developing in the large cities. Moreover, 40 percent of the country's broadcasting facilities have been digitalized. The digitization covers up to 40 percent of country's technical facilities. Market growth in 2007 is estimated to reach approximately 28 percent and is expected to reach 30 percent in the next 2-3 years. Market size in 2007 is estimated to be valued at US$200 million. Vietnam has developed and maintained a large national transmission network including parallel digital Ku-Band and C-Band satellite carriages and hundreds of relay stations in order to ensure 90 percent of coverage of Vietnamese territory.

## Opportunities

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American exporters will find tremendous opportunities in almost every sub-sector of the telecom/broadcasting industry.

Below are the lists of the major buyers for telecom equipment and services:

Fixed telephone service operators:
- VNPT (Vietnam Posts and Telecommunications Group)
- EVN Telecom (Electricity of Vietnam's Telecommunications Company)
- 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's Telecommunications Company)
- Viettel (Military Electronics Telecommunications Corporation)

Long distantceand international telephone service based on IP protocol operators:
- VNPT (Vietnam Posts and Telecommunications Group)
- EVN Telecom (Electricity of Vietnam's Telecommunications Company)
- 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)
- EVN Telecom (Electricity of Vietnam's Telecommunications Company)

Internet services providers:
- VNPT (Vietnam Posts and Telecommunications Group)
- FPT (FPT Group)
- Viettel (Military Electronics Telecommunications Corporation)
- EVN Telecom (Electricity of Vietnam's Telecommunications Company)
- Hanoi Telecom (Hanoi Telecommunications Company)
- SPT or Saigon Postel (Saigon Posts and Telecommunications Service Corporation)
- OCI (One-Connection Internet Service Joint Stock Company)
- Netnam (Netnam Company)

Below are the major buyers for broadcasting equipment and services:
- VTV (Vietnam Television)
- VoV (Voice of Vietnam)
- VTC (Vietnam Multimedia and Communications Corp.)
- 64 local provincial broadcasting stations (See http://www.vtv.org.vn/home/vtv/daidiaphuong.html), and other local cable TV, satellite, and on-line broadcasters.

Below are major Shows that Vietnamese buyers of telecommunications equipment frequent:

**CommunicAsia 2008** (http://www.communicasia.com)
The 19th International Information and Communications Technology Exhibition and Conference. This is the most prestigious event in the ICT industries in the Asia region, to be held from June 17-20, 2008, in Singapore.

**ITU Telecom Asia 2008** (http://www.itu.int/ASIA2008)
ITU Telecom Asia 2008, the leading ICT Exhibition and Forum and major networking platform for players from across the Asia Pacific region, will take place from September 2-5, 2008, in Bangkok, Thailand.

**VietnamTelecomp 2008** (http://www.2456.com/vnc or http://www.ictexhibitions.com.vn)
The 12th International Exhibition in Vietnam on Telecommunications and Information Technology, to be held from November 26-29, 2008, in HCMC, Vietnam.

**Resources** Return to top

**Nguyen Dzung, Commercial Specialist**
U.S. Embassy Hanoi, Vietnam

E-mail: nguyen.dzung@mail.doc.gov

**Huynh Triet, Commercial Specialist**
U.S. Consulate General in Ho Chi Minh City
E-mail: triet.huynh@mail.doc.gov

Vietnam's Ministry of Information and Communications (MIC)
http://www.mic.gov.vn

Vietnam's Ministry of Industry and Trade (MOIT)
http://www.moit.gov.vn

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

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

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

## 3. Oil and Gas Machinery and Services

### Overview

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| | 2006 | 2007 | 2008 (estimated) |
|---|---|---|---|
| Total Market Size | 1,160 | 1,350 | 1,460 |
| Total Local Production | 555 | 650 | 745 |
| Total Exports | 0 | 0 | 0 |
| Total Imports | 605 | 700 | 715 |
| Imports from the U.S. | **175** | **200** | **215** |

*The above statistics are in USD millions including equipment and services for the upstream, mid-stream and downstream segments of the oil and gas industry and are based on U.S. Census Bureau records and unofficial estimates.*

**Industry Organization**

Vietnam's oil and gas industry is currently the country's biggest foreign currency earner and a major procurer of imported technology, services and equipment. In 2007, the oil and gas industry exported $8.8 billion of crude oil, accounting for about 12.39 percent of GDP and 18.33 percent of total national exports. Oil and gas is one of the top priority sectors for development by the Vietnamese government since it is viewed as a key to national economic growth and energy security. The oil and gas industry in Vietnam is under the principal jurisdiction and management of the Ministry of Industry and Trade (MoIT). Petrovietnam, the national oil and gas group reporting directly to the Prime Minister, holds a monopoly in the upstream, mid-stream and virtually all key downstream areas of the industry.

Oil and Gas Industry Profile

Vietnam is currently ranked fourth in Southeast Asia after Indonesia, Malaysia, and Brunei for oil and gas production. Vietnam is a coastal country in South East Asia with a mainland area of around 330,000 km2 and a continental shelf of about one million km2, comprising seven major tertiary basins and groups of basins: Song Hong, Phu Khanh, Cuu Long, Nam Con Son, Malay-Tho Chu, Hoang Sa (the Paracel Islands) and Truong Sa Group (the Spratly Islands). (See Map 1.) Of these, the Cuu Long and Nam Con Son basins have shown the most hydrocarbon potential.

To date, about 100 hydrocarbon-bearing prospects have been found in almost 50 fields, with estimated reserves of approximately 600 million tons of crude oil and 644 billion cubic meters (bcum) (23 trillion cubic feet -Tcf). Among the 50 structures that have oil and gas discoveries, there are 20 commercial fields.

From 1988 to the end of 2007, Vietnam has signed 58 oil and gas exploration and production contracts with foreign companies in the forms of Product Share Contract (PSC), Business Cooperation Contract (BCC), Joint Venture (JV) and Joint Operation Company (JOC). Of these, 34 contracts are currently in effect.


Map 1 - Major Tertiary Basins in Vietnam

Source: Petrovietnam - 2005

In 2007, the country produced 22.77 million tons of oil equivalent, comprising 15.91 million tons of crude oil, a slight decrease from 16 million tons in 2006, and 6.86 billion cubic meters of gas. In 2008, Vietnam is expected to produce 16 million tons of oil and 7.5 billion cubic meters of gas. In the medium term, oil production is expected to decline gradually due to the deteriorating performance of the White Tiger field while other new discoveries cannot offset this loss in production. Gas production, however, will rise significantly since several gas fields will be put in production in the near future. As of the end of 2007, crude oil was being produced at the average rate of 335,000 barrels of oil per day (bopd) from eight fields as shown in the Table 1.

Vietnam's first gas was produced by Petrovietnam Tien Hai C field in the Song Hong Basin in 1981. As of the end of 2007, the average gas production was 637 million standard cubic feet per day (mmscfd) as detailed in Table 2.

At present, about 85 percent of natural gas produced in Vietnam is used for power generation, 10 percent for fertilizer and the remaining 5 percent for industries and households. Offshore gas is transported via a network of gas pipelines from offshore gas fields to onshore processing facilities and power complexes (see Map 2)

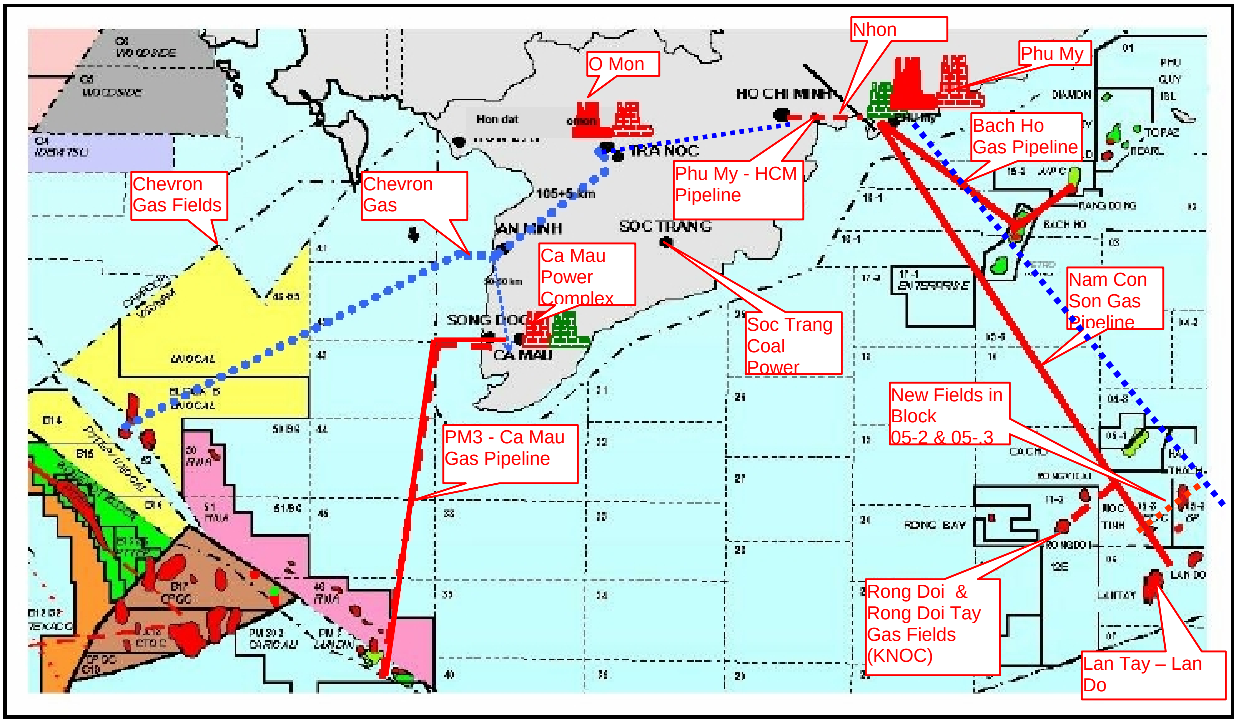
| Field | Basin | Operator | Average Production (bopd) |
|---|---|---|---|
| White Tiger (Bach Ho) | Cuu Long | Vietsovpetro | 165,000 |
| Dragon (Rong) | Cuu Long | Vietsovpetro | 18,000 |
| Big Bear (Dai Hung) | Nam Con Son | PVEP | 7,000 |
| Aurora (Rang Dong) | Cuu Long | JVPC | 38,000 |
| Ruby (Hong Ngoc) | Cuu Long | Petronas | 14,000 |
| Bunga Kekwa (Cai Nuoc & CA3-CAA) | Malay – Tho Chu | Talisman | 25,000 |
| Black Lion | Cuu Long | Cuu Long JOC | 68,000 |
| | | **Total** | **335,000** |

Table 1: Crude Oil Production in Vietnam as of Nov. 2007
(Source: Petrovietnam 2007)

| Field | Basin | Operator | Average Production (mmscfd) |
|---|---|---|---|
| White Tiger & Rong | Cuu Long | Vietsovpetro | 106 |
| Dragon | Cuu Long | Vietsovpetro | |
| Aurora (Rang Dong) | Cuu Long | JVPC | 36 |
| Lan Tay | Nam Con Son | BP | 349 |
| Rong Doi – Rong Doi Tay | Nam Con Son | KNOC | 107 |
| Bunga Kekwa (Cai Nuoc & CA3-CAA) | Malay – Tho Chu | Talisman | 37 |
| Tien Hai C | Song Hong | PIDC | 2 |
| | | **Total** | **637** |

Table 2: Gas Production in Vietnam as of Nov. 2007
(Source: Petrovietnam 2007)

In the absence of refining facilities, Vietnam exports all of its crude oil and imports refined products, mainly from Singapore. The country is currently a net exporter of oil but is expected to become a net importer in the near future given the rapidly rising demand for refined products and the declining production of crude oil. To reduce the country's reliance on imported refined products, and after an eight-year delay, the Vietnamese government decided in 2005 to start the construction of its first oil refinery at a cost of $2.5 billion with a capacity of 6.5 million tons per year in Dung Quat, Quang Ngai Province. This refinery is now under construction and is expected to be operational by 2009 using both local feedstocks from the Bach Ho field and the imports from the Middle East.




Map 2 – Existing Gas Pipelines (in red lines) and Projects (in blue lines) in Vietnam (Source: Petrovietnam 2005)

## Best Prospects/Services

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Under its commitments to the WTO, the Vietnamese government is to open the oil and gas sector to foreign companies that are expected to bring in capital, expertise and technologies to help achieve the country's major industry goals. Over the last few years, the government has made tremendous efforts to make the sector more attractive to foreign companies, such as the enactment of the amended Petroleum Law in 2000, new commitments under the WTO, major management reforms in Petrovietnam, as well as a crack-down on business malpractices (corruption, graft, and embezzlement). Foreign oil and gas companies that are active and successful in Vietnam include ConocoPhillips, British Petroleum (BP), Chevron-Unocal, Talisman, KNOC (Korea), ONGC Vadesh (India), Idemitsu (Japan), Zarubezneft (Russia), and Petronas Carigalli (Malaysia).

These open policies as well as the recent positive developments in the oil and gas sector have undoubtedly generated a steadily increasing demand for equipment and services that will continue in the years to come. It is estimated that the oil and gas industry will require an investment of about $28-31 billion to achieve the goals set forth by the government for the period 2006-2025. The table below details the estimated investment in the various sub-sectors of the industry.

Significant business opportunities for U.S. companies exist in the upstream, midstream and downstream segments of the oil and gas industry. A list of specific upcoming projects in the oil and gas sector will be provided to U.S. companies upon request.

Potential buyers include Petrovietnam, its subsidiaries, joint ventures and affiliates, as well as foreign oil and gas companies operating in Vietnam which normally prefer sourcing from the U.S., Europe and Japan.

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**Estimated Investment in The Oil and Gas Industry For 2006 – 2025 Period**

| Investment Projects | Total Investment US$ million | Total Funding (US$ million) | | | |
|---|---|---|---|---|---|
| | | Total Value (PV's Share) | 2006-2010 | 2011-2015 | 2016-2025 |
| Exploration, field development and production | 8,790 – 10,730 | 2,070 – 2,620 | 2,430 – 3,010 | 2,310 – 2,920 | 4,050 – 4,800 |
| Gas Collection & Transport | 1,983 – 2,483 | 1,233 – 1,483 | 760 | 723 – 973 | 500 – 750 |
| **Total Investment in Offshore Operations** | **10,773 – 13,213** | **3,303 – 4,103** | **3,190 – 3,770** | **3,033 – 3,893** | **4,550 – 5,550** |
| Overseas oil exploration & production | 3,070 – 4,000 | 2,660 – 3,475 | 470 – 600 | 900 – 1,300 | 1,700 – 2,100 |
| Petroleum processing | 10,510 | 6,305 | 3,040 | 3,370 | 4,100 |
| Petroleum products distribution & sales | 1,970 – 2,070 | 1,970 – 2,071 | 1,260 | 260 – 310 | 450 - 500 |
| Petroleum services & trading | 1,680 | 1,680 | 1,125 | 500 | 55 |
| **Total Investment** | **28,003- 31,473** | **15,918 - 17,633** | **9,085 – 9,795** | **8,063 – 9,373** | **10,855 – 12,305** |

**(Source: PetroVietnam - 2006)**

## Opportunities

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U.S. companies are highly respected in Vietnam as the world's leading equipment manufacturers and service providers in the oil and gas sector in terms of advanced technologies, quality, and professionalism. In the oil and gas sector in Vietnam, U.S. companies are normally most competitive in supplying sophisticated equipment, advanced technologies and professional services to both new and existing projects.

## Resources

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For more information about the Vietnamese oil and gas industry, please contact:

**Le Son, Commercial Specialist**
E-mail: Le.Son@mail.doc.gov
U.S. Commercial Service, U.S. Consulate General
Website: www.buyusa.gov/vietnam

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

## 4. Computer Hardware and Software Services

### Overview

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| Total IT Hardware and Software Market | 2006 (actual) | 2007 (estimated) | 2008 (estimated) |
|---|---|---|---|
| Total Market Size | 1,740 | 2,260 | 2,940 |
| Total Local Production | N/A | N/A | N/A |
| Total Exports | 1,233 | 1,600 | 2,083 |
| Total Imports | 1,412 | 1,835 | 2,386 |
| Imports from the U.S. | 41 | 54 | 70 |

| Computer Hardware | 2006 (actual) | 2007 (estimated) | 2008 (estimated) |
|---|---|---|---|
| Total Market Size | 730 | 902 | 1.122 |
| 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. | 31 | 40 | 53 |

| Computer Software & Services | 2006 (actual) | 2007 (estimated) | 2008 (estimated) |
|---|---|---|---|
| Total Market Size | 285 | 376 | 496 |
| Total Local Production | N/A | N/A | N/A |
| Total Exports | 105 | 136 | 177 |
| Total Imports | 30 | 39 | 50 |
| Imports from the U.S. | 10 | 14 | 17 |

*The above statistics are in USD millions and are unofficial estimates and are based on data from the 2007 Vietnam IT Industry Outlook Annual Report compiled by the HCMC Computer Association and figures provided by Vietnam's Customs Department. (For further details, see http://www.hca.org.vn/tai_nguyen/tu_lieu and http://www.hca.org.vn/tai_nguyen/tu_lieu?set_language=en&cl=en).*

The information technology (IT) industry represents one of Vietnam's fastest growing sectors. 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. The Government of Vietnam has articulated its commitment to boosting the development of the IT industry, particularly in software production, Internet infrastructure, IT education promotion, and other forms of human capital development.

Vietnam's IT industry recorded sales of $1.74 billion in 2006, and is estimated to reach $2.26 billion in 2007, with rapid growth continuing through 2008 and beyond. Vietnam's imports of computer hardware and peripherals totaled $1.412 million in 2006, and exports $1.233 million. The 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.

Sales have been dominated by hardware, which has 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 2007, Vietnam's hardware imports totaled $1.412 billion (13.9 percent increased over 2006) and exports reached $1.233 billion (18.3 percent increased than that of 2006). Vietnam's computer software imports increased from $18 million in 2006 to $30 million in 2007. The U.S. export of computer hardware products to Vietnam was ranked 6th in the list of top exporters to Vietnam in 2007 with the value of $41 million. (Note: data on enterprise software are not available.)

Although its base was small, the software and services sub-sectors' growth rate was 32 percent, due mostly to the development of digital content and software outsourcing. IT training turnover reached $15 million, while turnover in the digital content sub-sector was $65 million.

It should be noted with regards to software and hardware that inadequate intellectual property rights protection causes serious challenges for legitimate exporters to Vietnam. At present, although the piracy rate has been coming down, Vietnam is still among the world's worst 20 countries for IPR violations. According to Business Software Association (BSA)'s Piracy Study Report conducted in May 2007, Vietnam's software infringement rates in 2004, 2005, and 2006 were 92 percent, 90 percent, and 88 percent respectively. Government enforcement of newly passed IPR laws remains woefully insufficient, though the GVN is focused on improving its track record, especially in regards to enforcement.

Internet related service providers represent another fast-growing industry sector for IT equipment, software, and service suppliers, as the Internet market has also developed rapidly in recent years. Internet usage has increased as evidenced by the entry of many Internet service providers (ISPs) into the market. Broadband market demand has increased so rapidly that the current market supply does not meet demand. (See Telecommunications Equipment and Services section.)

In short, large market demand from Vietnam's computer software and hardware service sectors (as well as from other sub-sectors) presents great potential for U.S. exports this year and in the coming years.

**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. Many American ICT giants have marketing operations in Vietnam such as Microsoft, Oracle, Intel, Dell, HP, and Cisco Systems, to name a few, though mid to small-sized technology providers have also found success.

Software and services are also among best prospects for U.S. IT exporters, especially enterprise applications such as Customer Relationship Management (CRM) and Enterprise Resource Planning (ERP) software, as Vietnam's new membership in the World Trade Organization (WTO) furthers its integration into the global economy.

## Opportunities Return to top

American ICT companies will also find growing opportunities for doing business in Vietnam, particularly in sectors associated with Internet development. Continued implementation of the 2006 "e-transaction" law, and the associated building out of the country's Internet infrastructure, is driving demand for e-commerce and other value-added applications and services. The GVN has prioritized its initiatives 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 ICT industry offers opportunities for training service providers as well. The Government 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 ICT hardware and service suppliers.

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.

Vietnamese buyers of Computer hardware and software frequent the following regional show:

**(CommunicAsia 2008)** For information on the 19th International Information and Communications Technology Exhibition and Conference see http://www.communicasia.com. This is the most prestigious event in the ICT industries in the Asia region, to be held from June 17-20, 2008, in Singapore.

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

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

- **Huynh Triet, Commercial Specialist**
  U.S. Consulate General in Ho Chi Minh City
  E-mail: triet.huynh@mail.doc.gov

Vietnam’s Ministry of Information and Communications (MIC)
http://www.mic.gov.vn

Vietnam’s Ministry of Industry and Trade (MOIT)
http://www.moit.gov.vn

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

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

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

Vietnam Post & Telecommunications Group (VNPT)
http://www.vnpt.com.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 | 2006 | 2007 | 2008 (Estimated) |
|---|---|---|---|
| Total Market | 10 | 20 | 23 |
| Local Production | 0 | 0 | 0 |
| Total Exports | 0 | 0 | 0 |
| Total Imports | 10 | 20 | 23 |
| Imports from the U.S. | 4 | 6 | 8 |

| Air Traffic Management Equipment | 2006 | 2007 | 2008 (Estimated) |
|---|---|---|---|
| Total Market | 7 | 12 | 15 |
| Local Production | 0 | 0 | 0 |
| Total Exports | 0 | 0 | 0 |
| Total Imports | 7 | 12 | 15 |
| Imports from the U.S. | 3 | 6 | 7 |

| Engines, Engine Parts and Aircraft Parts | 2006 | 2007 | 2008 (Estimated) |
|---|---|---|---|
| Total Market | 120 | 20 | 150 |
| Local Production | 0 | 0 | 0 |
| Total Exports | 0 | 0 | 0 |
| Total Imports | 120 | 20 | 150 |
| Imports from the U.S. | 77 | 10 | 100 |

*The above statistics are in USD millions excluding aircraft and are based on U.S. Census Bureau records and industry estimates.*

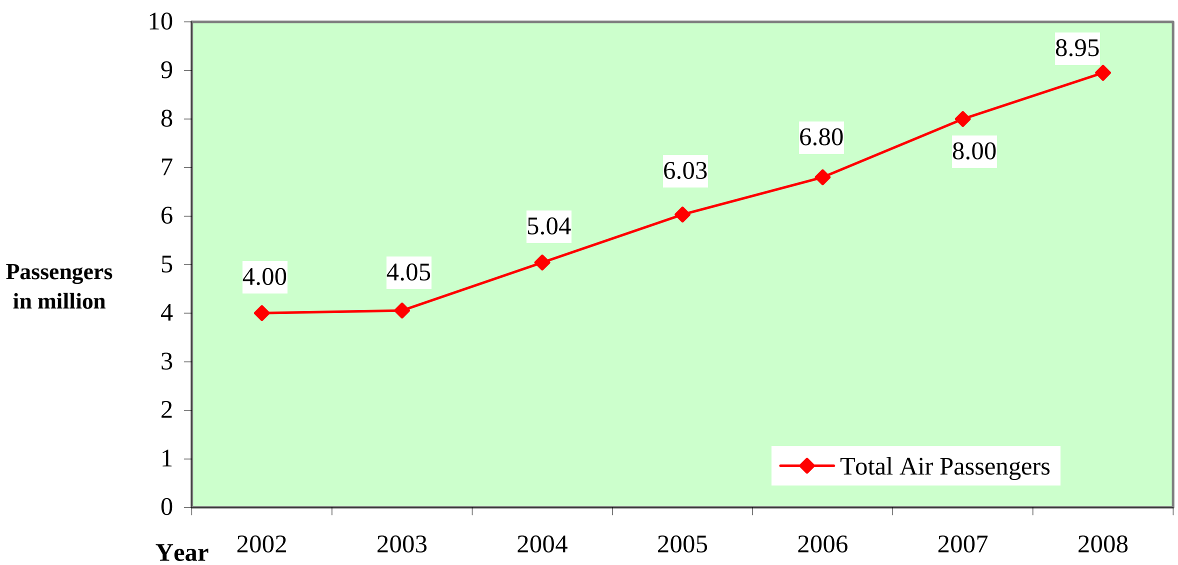
**Industry Organization**

Aviation has been designated as 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 is under the principal jurisdiction and management of the Civil Aviation Administration of Vietnam (CAAV), a government agency reporting to the Ministry of Transport.

Demand and Supply for Air Transport

In 2006, total airport through-put of passengers reached 16 million, a 14 percent increase compared with 2005, and this figure is expected to rise to over 20 million by 2010. The total throughput of air cargo was 264,000 tons in 2006 and is estimated to grow 10-14 percent each year on the average, reaching approximately 576,000 tons in 2010.

In 2007, total airport throughput of passengers continued to rise to about 19 million, about 17 percent growth in comparison to 2006. In the same period, Vietnam Airline's (VNA) total carried passengers reached 8 million (4.7 million domestic flight passengers and 3.3 international flight passengers) an increase of 18 percent over the previous year, while its air cargo grew 8.2 percent year-on-year to 115,100 tons. At the same time, Vietnam Air Services Company (VASCO) transported about 152,540 passengers, a 40 percent increase from 2006. These statistics suggest that VNA is growing rapidly amidst increasing competition from other airlines in the market.




VNA's Passenger Traffic in Period 2002 – 2008* **(Forecast)**
**(Source: VNA Press Releases)**

As of 2007, VNA accounted for about a 42 percent share of international passenger traffic and 86 percent of domestic passengers, while Pacific Airlines holds roughly a 30 percent share of passengers carried on its main routes between Ho Chi Minh City, Danang and Hanoi, and makes up approximately 14 percent of the total domestic air travel market.

As of May 2007, there were 35 foreign airlines with regularly scheduled flights to and from Vietnam. The country currently operates a network of 21 major civil airports (see Map 1) including three international: the Noi Bai Airport 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 new capacity of about 17 million passengers per year including a new terminal which became operational in September 2007, is the largest airport in the country, handling about 70 percent of the country's international passenger traffic. In terms of total airport passenger through-put, in 2006, southern airports, under the Southern Airports Authority (SAA), handled about 54 percent (8.8 million) of the national total, middle airports (under the Middle Airports Authority - MAA) about 13 percent (2.12 million), and northern airports (under the Northern Airports Authority - NAA) about 33 percent (5.38 million). This represents a 16 percent year-on-year increase over 2005.

Many industry senior officials believe that the growth of the country's aviation market is still very modest in comparison to other growing Asia markets like China and India. To achieve higher growth, Vietnam will need to expedite reforms and liberalization of the aviation sector.

Major Airlines in Vietnam

At present, Vietnam Airlines (VNA), Vietnam Aviation Service Company (VASCO), and Pacific Airlines (PA) are the three major air carriers in Vietnam.

- Vietnam Airlines (VNA) and VASCO

VNA, the national flag carrier of Vietnam, was established as a state enterprise in April 1993 under CAAV. Vietnam Airlines Corporation was subsequently formed in 1996, after bringing together 20 service companies in the aviation sector. The company was then separated from CAAV and is now overseen by a seven-seat management board, members of which are directly appointed by the Prime Minister. As of December 2007, VNA and VASCO, a subsidiary of VNA operating short haul domestic flights, operate a fleet of 47 airplanes excluding fourteen on order as shown in the following table. The average age of the Vietnam Airlines fleet is 6.3 years as of January 2007.

The airline ordered four Boeing 787-8 aircraft in 2005 to be delivered beginning in 2009 and ten Airbus A321-200s in 2004 for delivery between 2006 and 2009. Subsequently, it ordered four additional Boeing 787-8 aircraft in late 2007, as well as 10 A-350s and 10 A-321s . It plans to use the new aircraft to expand its route network and replace some of the aircraft currently on lease in the fleet.

- **Pacific Airlines (PA)**

Pacific Airlines, the second largest air carrier in Vietnam, was established in 1991 and started operations in 1992 with VNA as the major shareholder (86.49 percent). It is the first joint stock airline formed in Vietnam following changes in the law to allow foreign investment in the country's airlines. In 2005, it narrowly escaped closure due to inability to pay its debts and continuous loss-making operations. By a decision of the Prime Minister of Vietnam, all of VNA's shares in the company were then transferred to the Ministry of Finance (MoF) and thereafter to the State Capital Investment Corporation (SCIC), a state owned company under MoF, for business and ownership restructuring.

On April 26, 2007, Australian airline Qantas acquired a 30 percent stake in PA for $50 million and became PA's strategic partner. After this restructuring, SCIC still holds a 62 percent stake, Qantas 30 percent, Saigon Tourist Holding Corporation 7.53 percent, with the remainder held by Tradevico (a company under the Ministry of Transport).

As of January 2008, PA's fleet includes five leased Boeing 737-400s, and in 2008 the airline will commence several new domestic and international air routes. To meet this expansion, PA is planning on leasing ten more aircraft for delivery between 2008 and 2010. As of 2007, PA's leases of aircraft have been converted from "wet lease" to "dry lease". PA's technical team now can handle the maintenance of their aircraft up to the A-check level. C-checks still need to be carried out overseas.

- **Vietjet Aviation Joint Stock Company**

In November 2007, the Vietnamese Prime Minister approved the establishment of the first wholly private airline in the country, Vietjet Aviation Joint Stock Company (Vietjet) with an initial chartered capital of about $37.5 million. The founders and major shareholders of this company include T&C Holding, Sovico Group, HD Bank, and a number of aviation professionals. A former Technical Deputy General Director of VNA leads the company. Vietjet plans to initially lease three Boeing 737s or Airbus A320s to start its first commercial flights tentatively set for November 2008. The airline will first operate domestic flights from/to Hanoi, HCMC, Danang and several other tourist destinations and will expand into international routes in Asia.

- **Vietnam Aircraft Leasing Company**

In December 2007, Vietnam Aircraft Leasing Company (VALC) was established with an initial charter capital of $40 million by a group of major state owned enterprises including Bank for Investment and Development of Vietnam (BIDV – 20 percent), Vietnam Airlines Corporation (23 percent), Petrovietnam (17 percent), Vinashin (11 percent), and Phong Phu Corporation (8 percent). VALC's main business lines will include aircraft leasing, air taxi services, airport operation, and other aviation services. In particular, the company plans to participate in the development of the Cam Ranh, Phu Quoc and Long Thanh Airport projects. One of the main reasons for the establishment of VALC is that VNA is facing funding problems in expanding its fleet and VALC is expected to help VNA overcome these challenges. VALC started operation in December 2007 by signing a $1.48-billion contract with Boeing to purchase eight B787-8 Airliners for delivery beginning 2016. The company will lease these aircraft to Vietnam Airlines upon receipt of the delivery. VALC plans to raise its charter capital to $200 million by 2014 and $1 billion by 2025.

- **Other Proposed Domestic Airlines**

In addition to the newly established airline, Vietjet, several other local companies are making plans to open new domestic airlines, including Phu Quoc Airlines, Saigon Air, Vinasun Airlines, Mai Linh Air Taxi, and Vina AirAsia to capitalize on the expanding air transport market in Vietnam. Of these, the application of Phu Quoc Airlines was approved in principle by the Vietnamese Prime Minister in January 2008, pending CAAV's review of the application. In consideration of the market size, expected growth, as well as the number of existing air carriers in the country, CAAV, however, proposed that only two to three new airlines should be licensed during the period 2007-2010. Moreover, priority will be given to Vietnamese companies and cargo transport services. Proposals from joint ventures with foreign firms will not be considered during this period. As a result, the proposal for Vina AirAsia, a planned joint venture between Vietnam Shipbuilding Industry Group (Vinashin) and AirAsia, the Malaysian budget airlines, was turned down by the Vietnamese Prime Minister.

- **Other Foreign Airlines**

As of January 2008, approximately 44 passenger and cargo airlines from 20 countries are operating scheduled international flights to Vietnam. Industry experts expect that about another 30 air carriers will enter the Vietnam market over the next ten years.

## VNA Aircraft Maintenance Facilities

VNA owns and operates two major commercial maintenance subsidiaries, namely A75 in HCMC and A76 in Hanoi, which independently perform both daily and periodic maintenance checks according to JAR/VAR-145 standards. A75 mainly focuses on Boeing aircraft while the facility in Hanoi specializes in Airbus airliners. At present, A75 and A76 can carry out maintenance services at the following levels: F70 and ATR72 (Dcheck), A320 (8C-10Ycheck), B767 (Acheck), and B777 (2Ccheck).

To improve the efficiency of the A75 and A76 centers and allow them to operate as an independent business unit after a merger, on September 28, 2006, Deputy Prime Minister Nguyen Sinh Hung issued Decision 1276/QD-TTg to establish Vietnam Airlines Engineering Company Ltd. (VAECO Ltd.) with a chartered capital of about $26 million, based on the merger of A75, A76 and other technical departments of VNA. The merger process is now under way. In addition, VNA also seeks to establish a joint venture with a foreign company to provide aircraft maintenance, 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 joint venture in the near future.

Due to its current limited maintenance and overhaul capabilities, VNA sends its aircraft for maintenance and overhaul to 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, or TAT Industries of France. VNA also receives technical and maintenance assistance from Region Air of Singapore and Park Aviation of Ireland.

At present, PA does not own any maintenance facilities but can conduct A-checks on their airplanes in house. However, C-checks must be done abroad and Singapore Technologies Aerospace is one of their key providers for maintenance services, spare parts and training of Vietnamese engineers.

## Air Traffic Management

Vietnam's flight information region (FIR) is divided into two areas, namely Hanoi and Ho Chi Minh City. Vietnam Air Traffic Management (VATM) with over 1,900 employees, is the state owned monopoly providing air traffic services to all flights in Vietnam's FIR.

Northern Region Air Traffic Services (NORATS), VATM's subsidiary, covers FIR Hanoi and Southern Region Air Traffic Services, (SORATS), is in charge of HCMC. In total, VATM has 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 several digital microwave links. In 2005, VATM provided air traffic services to more than 248,287 flights and earned about $90 million in revenue. In addition, VATM has three other subsidiaries including Middle Region Air Traffic Services (MORATS), Air Traffic Command and Coordination (ATC&C), and Air Traffic Technical Services Center (ATTECH).

## Best Prospects/Services

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CAAV estimated in 2007 that Vietnam would require about $15 billion in investment to achieve its development plan for the aviation sector by 2020. Of this, $8 billion will be needed mainly for aircraft fleet expansion, $5 billion for constructing and upgrading airports and the remaining $2 billion for airport operation and air traffic management.

- **Airport Development:**

At present, the government budget can only meet about 20 percent of the total investment required for airport development. Raising sufficient funds for this development is an immense challenge for Vietnam now and in the future.

The plan for the period 2005 – 2010 calls for investment of 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 (International), Can Tho, Ca Mau, and Rach Gia. During the period 2010 – 2020, several other airports will be constructed or upgraded including Long Thanh (International), Chu Lai (Cargo), Cat Bi (Hai Phong), Quang Ninh (International), Lao Cai, and Cao Bang. The lion’s share of the investment in airport projects is expected to come from Official Development Assistance (ODA) loans from foreign governments such as Japan as well as the private sector.

Long Thanh, Phu Quoc and Quang Ninh International Airports are three key projects that are expected to be developed with investment from the Vietnamese government as well as the private sector. To develop these projects, the Vietnamese Ministry of Planning and Investment (MPI) has submitted proposals to the Prime Minister to seek foreign direct investment. If approved, foreign investors will be allowed to develop these projects under the form of Build-Operate-Transfer (BOT), BT (Build-Transfer), or Build-Operate-Own (BOO).

- **Air Traffic Management:**

Vietnam 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. Key upcoming projects to be undertaken by VATM include: ACC/Hanoi Project, Domestic Airport Air Traffic Management (ATM) Towers (for the following airports: Dien Bien Phu, Vinh, Phu Bai, Phu Cat, Dong Hoi, Chu Lai, Pleiku, Can Tho, Phu Quoc, Con Dao, Buon Ma Thuot), Noi Bai and Tan Son Nhat Air Traffic Management (ATM) Tower, and VATM Headquarters Building.

- **Air Fleet Development:**

According to its development plan to 2020, VNA plans to invest more than $8 billion in expanding and upgrading its aircraft fleet as well as other related facilities. Funding for aircraft fleet expansion mainly comes from the VNA and government budget and bond sales, as well as foreign commercial loans with sovereign guarantees.

According to VNA's fleet expansion plan approved by the Vietnamese Prime Minister in October 2007, VNA's fleet is expected to operate 60 aircraft by 2010, 85 by 2015, and 107 by 2020. Under this plan, over the period 2006 - 2010, VNA is expected to purchase 43 aircraft including 20 A321s (150 passengers), eight B787-8s (280 passengers), five ATR72s (70 passengers), and ten A350s (300 passengers).

## Opportunities

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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, engineering and construction services, and construction management services for airports and terminals.  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, training services, as well as aircraft maintenance and engine overhaul services.

## Resources

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**Le Son, Commercial Specialist**
E-mail: Le.Son@mail.doc.gov
U.S. Commercial Service, U.S. Consulate General
Website: www.buyusa.gov/vietnam

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

## 6. Education and Training

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| | 2006 | 2007 (estimated) | 2008 (estimated) |
|---|---|---|---|
| Total Market Size | 82.1 | 96.5 | 110 |
| Total Local Production | 39.4 | 45.3 | 49.8 |
| Total Exports | 0 | 0 | 0 |
| Total Imports | 42.8 | 51.4 | 61.7 |
| Imports from the U.S. | 17.4 | 21.8 | 27.3 |

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

The demand for education and training in Vietnam is significant given an average economic growth rate of more than 8 percent in recent years and a young population of 85 million people. Strong industrial growth (approximately 16 percent – 17 percent in 2006 and 2007) and expanding foreign investment is generating the need for a variety of workplace skills that are currently in a short supply.

Raising the quality of education is one of the priority tasks encompassed in the government of Vietnam's 2001-2010 Educational Development Strategy and Vision through 2020. The current five-year Socio-Economic Development Plan (SEDP) 2006-2010, which was approved by the National Assembly in June 2006, identifies education as one of the key pillars of social economic development. The Government has released its “Higher Education Reform Agenda 2006-2020” (HERA), which sets an overall quantitative goal of “increasing enrollment in universities and colleges by 10 percent annually and to reach a level of 200 students per 10,000 citizens by 2010.” HERA also puts forward the GVN’s overall qualitative goal, which is to develop a higher education system that approaches “the advanced education standards of the region and the world”.

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 Education Development Strategy for 2001 to 2010 estimates that the share of education expenditure could increase to 6.9 percent of GDP and 20 percent of total government expenditures by 2010.

Although a number of countries have increased their interest and presence in Vietnam to attract Vietnamese students, the U.S. remains by far the favorite destination for Vietnamese students seeking an education abroad. The number of Vietnamese students studying in the U.S. during 2006-2007 reached 6,036 (66 percent undergraduate, 28 percent graduate, 6 percent other), an increase of 31 percent over 2005-2006. The U.S. Embassy in Hanoi has made the development of education in Vietnam- both through dramatically increasing the number of Vietnamese students studying at U.S. institutions of higher learning and through the establishment of U.S. based programs in Vietnam- a top priority for 2007-2010.

## Best Products/Services

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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), higher education (including overseas study programs), and consulting services.

English is 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.

As the majority of jobs needed in Vietnam’s transitioning economy relate to technical skills, vocational education issues have naturally taken on significant prominence. The demand for skilled workers and production technicians is already acute and will become ever more intense as the industrial sector becomes a larger and larger provider of employment.

Two major sub sectors make up the lion’s share of the Vietnamese higher education market: Local Foreign Education Programs and Overseas Study. Local foreign education programs continue to steadily increase their student base, while study abroad remains an important and ever popular form of higher education in Vietnam, and is widely seen as the key to future success. Increasingly, more and more students who are able to financially contribute to a foreign education are entering the market. 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 raising the level of quality of the services it provides.

## Opportunities

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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. The continued opening of the service sector will continue to drive the demand for U.S. education in Vietnam. Recent business surveys point out that Vietnam is in serious shortage of highly skilled workers, particularly in the areas of information technology, engineering, banking, finance and other service sectors. In recognition of the importance of the skilled labor force, the Government encourages the development of education, and vocational education. Many provinces have also developed their specific proposals for calling foreign investment in this area.

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

Foreign education programs, run either entirely by foreign universities or through cooperation with Vietnamese institutions, continue to grow quickly. MOET Decree No. 06/2000/ND-CP provides incentives for foreign investment in 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 local 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 U.S. institutions include Hanoi National Economic University, which has an in-country MBA program in partnership with Washington State University. In collaboration with Vietnam National University's Hanoi School of Business, The University of Hawaii's Shidler College of Business also established a two-year Executive MBA Program in Vietnam in 2000. Further, The University of Natural Science in Ho Chi Minh City signed a cooperation memorandum with Texas State University to provide bachelor and master degrees in the field of information technology. As these programs demonstrate, demand for joint programs in management, technology and related fields will continue to grow into the foreseeable future, given increased investment by international companies in all sectors of the economy.

The Vietnamese Government has also identified vocational education as a major area for future investment and improvement. Under Government targets, 30 percent of the country's workforce would ideally receive vocational training by 2005, and 40 percent 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 higher education systems.

**Resources** Return to top

U.S. education and training providers are highly encouraged to participate in the annual Education Fair organized by the Institute of International Education, the premier education recruiting event in Hanoi and Ho Chi Minh City. 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:

**Ms. Ngo Thuc Anh, Commercial Specialist**
U.S. Commercial Service Hanoi - American Embassy
E-mail: Ngo.Anh@mail.doc.gov

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

## 7. Environmental and Pollution Control Equipment and Services

### Overview

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| | 2006 | 2007 | 2008 (estimated) |
|---|---|---|---|
| Total Market Size | 590 | 650 | 750 |
| Total Local Production | 340 | 360 | 420 |
| Total Exports | 0 | 0 | 0 |
| Total Imports | 250 | 290 | 330 |
| Imports from the U.S. | 19.5 | 22.0 | 30 |

*The above statistics are in USD millions and are unofficial estimates, based on 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 Vietnam undergoes rapid industrialization and urbanization, the country faces a variety of environmental challenges attributed to poor water quality, a degraded infrastructure, and a strong urban population boom. In 2007, 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 public resources to address these problems.

### Best Products/Services

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**Municipal Water Supply**

According to Vietnam's Ministry of Construction, there are about 200 water treatment plants in Vietnam that produce over 3 million cubic meters per day for urban consumption. These potable water treatment plants have an average capacity of 500-3000 m3/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. 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.

**Wastewater**

**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, most of which were constructed in the $19^{th}$ century. Most drainage systems are for combined usage, mixing rainwater runoff with untreated domestic wastewater. Presently, there are no cities that have centralized wastewater treatment plants, although Ho Chi Minh City, Can Tho and Da Nang have projects under development.

**Industrial Wastewater**

Industrial wastewater is also having a negative impact on the environment. Throughout the country, there are 74 industrial zones (IZs) in operation, four of which are export processing zones (EPZs) and another two of which are high-tech parks. According to a 2004 government report, only 15 IZs have centralized wastewater treatment plants. As a consequence, there is direct discharge of untreated industrial wastewater into the environment. However, this problem is garnering 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.

## Solid Waste

**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.

Up to now, burying domestic solid waste at landfills has been the only treatment method used in Vietnam. Only 17 out of 91 disposal sites countrywide are sanitary landfills. Several American companies are now pursuing investments in solid waste treatment facilities in Ho Chi Minh City and other parts of the country.

**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 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

U.S. technology is highly regarded in environmental equipment and technology. Vietnam currently has a huge requirement for equipment, technology and services, presenting numerous export opportunities to American environmental companies.

## Resources Return to top

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
Email: vo.thuy@mail.doc.gov

## 8. Medical Equipment

### Overview

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| | 2006 (actual) | 2007 (actual) | 2008 (estimated) |
|---|---|---|---|
| Total Market Size | 194.0 | 205.0 | 216.0 |
| Total Local Production | 4.0 | 5.0 | 6.0 |
| Total Exports | 0 | 0 | 0 |
| Total Imports | 190.0 | 200.0 | 210.0 |
| Imports from the U.S. | 50.0 | 60.0 | 70.0 |

With a population of 85 million and steady annual GDP growth topping 8 percent in recent years, Vietnam represents a good opportunity for U.S. exporters of medical equipment. According to the Vietnam Ministry of Health (MOH), the health care system consists of some 13,000 facilities with approximately 185,900 beds. Hospitals are generally overcrowded with a bed utilization rate of 15 per 10,000 inhabitants. Many hospitals are lacking in both general and specialized medical equipment, presenting difficulties for patients and physicians alike.

Budget allocations from the Vietnam Government and international aid groups are the main sources of funding for Vietnamese hospitals, but these sources do not fully cover system demands.

According to industry estimates, the market for medical equipment will be worth $216 million in 2008 and is growing by 10 percent each year. Since local production is small, the market relies almost entirely on imports. So far, Vietnam has 56 medical equipment manufacturers including 27 private and joint stock companies, 10 state-owned enterprises and 12 joint venture companies. They produce some 600 kinds of medical equipment, instruments and electronic devices for use in hospital interiors and surgery rooms. However, modern pieces of equipment stand at only roughly 5 percent of the total. This includes physiotherapy machines, functional rehabilitation machines and electrical surgical knives.

MOH has set out to implement a project called “Research and Development of Medical Equipment in Vietnam by 2010” during the period between 2007 and 2010. This project aims to expand manufacturing capacity for common equipment to meet 60 percent of the country’s demand for medical instruments by 2010.

Top foreign suppliers of medical equipment to Vietnam include Germany, Japan and the United States, each accounting for about 30 percent of the market. Vietnam also imports medical equipment from France, Italy, Korea, Taiwan, and China.

## Best Products/Services Return to top

U.S. medical equipment enjoys a strong reputation for high quality and reliability. In 2008, imports from the U.S. are expected to reach $70 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 that purchase the largest quantity of medical equipment. With financial allocations 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 or affiliated country.
- 40 local private hospitals nationwide that are keen to upgrade to advanced equipment.
- A number of 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. By regulation, 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 of 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 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 in the health care sector. Incentives are being offered for construction of hospitals and production of pharmaceuticals and medical equipment.

## Opportunities Return to top

The MOH development plan covering the period 2006 to 2010 calls for government spending of $1.8 billion to build and equip 57 new hospitals, of which over $1 billion is earmarked for 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.

U.S. suppliers of medical equipment may be interested in the Vietnam Medical and Pharmaceutical Exhibition scheduled for September 2008 in Ho Chi Minh City.

**Resources** Return to top

For more information, please contact:

**Ms. Ha Anh, Commercial Specialist**
U.S. Commercial Service – U.S. Embassy in Hanoi
Email: Ha.Anh@mail.doc.gov
Website: www.buyusa.gov/vietnam

**Mr. Le Anh, Commercial Specialist**
U.S. Commercial Service, U.S. Consulate General
Email: Le.Anh@mail.doc.gov

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

## 9. Safety and Security

### Overview
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| | 2006 (estimated) | 2007 (estimated) | 2008 (estimated) |
|---|---|---|---|
| Total Market Size | 80 | 83.5 | 87.5 |
| Total Local Production | 5 | 5.5 | 6.0 |
| Total Exports | 0 | 0 | 0 |
| Total Imports | 75 | 78 | 81.5 |
| Imports from the U.S. | 19 | 20 | 21.5 |

*The above statistics are in USD millions and are unofficial estimates.*

Although 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, while security equipment accounts for 40 percent of the total market. This industry continues to experience 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, while the Government also continues to spend on infrastructure. Security equipment import taxes range from 0 percent - 40 percent, 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 may be imported duty free. The Government monitors the sector per 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.

### Best Products/Services
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Although demand for safety and security equipment from the commercial sector such as buildings, housing and hotels has experienced steady growth, the demand from the industrial sector and infrastructure development sectors has grown even 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 to several power plants and airport projects in Vietnam.

## Opportunities

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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, as are monitoring and access control devices for buildings. 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 find greater success in the high-end commercial and residential market, including foreign-invested enterprises, since they are much less price-sensitive and prefer brand name recognition and quality of American safety and security equipment and services.

## Resources

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For further information, please contact the following persons:

**Ms. Ngo Minh Phuong, Commercial Assistant**
US Commercial Service Hanoi - US Embassy
E-mail: Ngo.Phuong@mail.doc.gov

**Ms. Vo Mac Thuy, Commercial Specialist**
US Commercial Service Ho Chi Minh City - US Consulate
E-mail: Vo.Thuy@mail.doc.gov

## 10. Franchising

### Overview
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| | 2006 | 2007 | 2008 (estimated) |
|---|---|---|---|
| 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 |

Market Data is not available

The franchising market has seen strong growth in recent years, albeit from a very small base. That Vietnam has already begun to see successful homegrown franchise companies in the fast food sector is evidence that the concept is taking root. The market is still relatively undeveloped, thus there should be good opportunities for entry. There are several reasons why Vietnam may be considered ripe for the development of the franchising industry. First of all, the economy has seen a steady growth of around 8 percent in recent years. Second, the population of 85 million is very young, with more than 50 percent under 25 years of age. In urban areas especially, this young population has a growing disposable income and is very much aware of international trends and lifestyles. Consumer demand is surging for high quality products and services that cannot be satisfied by local production. Franchising businesses that introduce Western and high-end products and services can take advantage of this growing demand. Third, the legal environment for the establishment and development of franchising has taken a major step forward with Decree No 35/2006/ND-CP. This decree, dated March 31, 2006, regulates franchises in Vietnam for the first time and provides a much stronger legal basis for key concepts in franchising, requirements of franchise agreements and government administration of franchises than had existed previously.

### Best Products/Services
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Most existing franchise operations in Vietnam are in the fast food sector. Other franchising business opportunities are still relatively unexplored. Currently, U.S. franchise brands represented in Vietnam include KFC, Pizza Hut and Dale Carnegie. Industry experts foresee that with the franchise law and other pertinent regulations in place, the franchise market could grow by as much as 20 - 30 percent annually. Vietnam should be attractive to foreign franchisors not only in the food and beverage sector, but also in fashion, health care services, child services, cleaning and sanitation, employment services, tourism, home furnishing, education, convenience stores, cosmetics, beauty care, accounting and others. U.S. brands are well perceived by local consumers, who reasonably associate them with superior quality, excellent customer service, and a modern Western lifestyle in general.

The Ministry of Industry and Trade is the authority for registration of agreements for franchising either from abroad into Vietnam or from Vietnam to overseas markets. Franchisees must register their company at the Provincial Department of Trade in their franchise's jurisdiction or with the Ministry of Trade. 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.

## Opportunities

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To be successful in Vietnam, new-to-the market franchisors should consider the following suggestions:

- U.S. franchisors should register their intellectual property rights and be prepared to take legal action against IP violations. Franchisors should exercise care in preparing franchising contracts to avoid problems down the line.
- Understand cultural differences and adjust market access strategy accordingly. U.S. franchisors must consider adapting to local culture, habits, and tastes to guarantee success in the market.
- Minimize the price of the product and the franchising fee to achieve rapid expansion. Keep in mind that incomes are substantially lower than in the U.S. or even other countries in the region and Vietnamese are very price-conscious. Local investors are only now becoming familiar with the franchising concept and may be reluctant to make too large an initial investment.
- U.S. franchisors may work with the U.S. Commercial Service in Vietnam on identifying potential partners and checking their credibility.

The U.S. Commercial Service organizes regularly Vietnamese delegations to visit the International Franchise Expo in the United States.

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For more information, please contact:

**Ms. Tuyet Trees, Commercial Specialist**
U.S. Commercial Service Hanoi - American Embassy
E-mail: Tuyet.Trees@mail.doc.gov

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

## AgriculturalSector
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## Overview
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While agricultural trade between the United States and Vietnam continues to be largely in Vietnam's favor, the United States saw record increases in exports to Vietnam in 2007. Exports of U. S. agricultural, fish and forest products to Vietnam for 2007 totaled a record $623.5 million, an increase of 110 percent over 2006. U.S. imports from Vietnam, by contrast, totaled $1.4 billion, plus a further $944 million in furniture imports; for a total year-on-year increase of 49 percent. The sharp increase in U. S. exports no doubt benefited from the tariff and fee reductions associated with Vietnam's accession to WTO in January 2007, as well as subsequent further voluntary tariff reductions by the Vietnam government.

Key U.S. agricultural exports to Vietnam are manufacturing inputs such as hardwood lumber, cotton, hides and skins, and food and feed ingredients. There was also strong growth in 2007 in consumption-oriented products such as red meat, dairy products, fresh fruits, nuts and dried fruits, which as a category increased 90 percent over the previous year. The primary U.S. agricultural imports from Vietnam during 2007 were basa fish, shrimp, coffee, cashews, pepper, and rubber. The complete 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 in Vietnam appear brighter than ever. The country's furniture and textiles sectors continue to grow and expand rapidly; infrastructure continues to improve; and the number of supermarkets, hotels, and resort communities continue to multiply. Although 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, especially livestock and aquatic products, will significantly increase demand for imports of feed ingredients and meats. Increasing incomes will also undoubtedly lead to a more diverse diet for many Vietnamese, thus increasing demand for many foods and drinks not readily available or locally produced.

For the most up-to-date information, please contact FAS/Vietnam or visit the FAS website at http://www.fas.usda.gov for agricultural market reports. Two key reports for 2007 are the Exporter Guide VM7074 and the Retail Food Sector Report VM7086.

## 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, particularly given that Vietnam 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 2 percent tariff, refined oil has a 20 percent duty, and soybeans now enjoy a reduced tariff rate of 5 percent for imports from WTO member countries. The reduced tariff rate for soybeans may now make building crushers 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 | 2007 |
|---|---|---|---|---|---|---|
| Total Consumption | 785 | 990 | 950 | 1247 | 1550 | 1750 |
| Total Local Production | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Imports | 785 | 990 | 950 | 1247 | 1550 | 1750 |
| Total Exports | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Imports from the U.S. | 26 | 44.5 | 17.5 | 18.6 | 29 | 63 |

*The above statistics are unofficial estimates*

## Bulk Cotton

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Vietnam has a rapidly growing and vibrant textile industry, largely based on imported raw cotton or synthetic fiber. Textiles are one of Vietnam's top foreign exchange earners, with an estimated $7.7 billion in export sales in 2007. Local cotton production currently meets only about 10 percent of total demand. U.S. cotton exports to Vietnam for 2007 had a value of $88.3 million, a year-on-year increase of 92.4 percent.

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 | 2007 |
|---|---|---|---|---|---|---|
| Total Consumption | 120 | 130 | 146 | 155 | 200.5 | 221.3 |
| Total Local Production | 10 | 11 | 11 | 10.4 | 10.5 | 11.3 |
| Total Import | 110 | 119 | 135 | 144.6 | 190 | 210 |
| Total Export | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Import from the U.S. | 30 | 30 | 44 | 38 | 37 | 67 |

*The above statistics are unofficial estimates*
*Note: Current import duty for cotton lint is 0 percent.*

**Wheat and Wheat Flour** Return to top

Vietnam is swiftly moving from being a wheat-flour to a wheat-grain market, as a result of increased investments in new mills. Present milling capacity is estimated at 1.8 million metric tons per year. Compared to wealthier neighbors, per capita wheat consumption in Vietnam is low. However, given the prospects for increasing incomes in this fast-growing economy, demand will likely increase, particularly since Vietnam produces no wheat and has a strong culture of bread, cake and other wheat product 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 | 2006 | 2007 est. |
|---|---|---|---|---|---|---|
| Total Consumption | 855 | 915 | 800 | 1,118 | 996 | 900 |
| Total Local Production | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Imports | 855 | 915 | 800 | 1,118 | 996 | 900 |
| Total Exports | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Imports from the U.S. | 35 | 29 | 40 | 22 | 14 | 141 |

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

**Fresh Fruit and Vegetables** Return to top

According to unofficial data, Vietnam's 2006 imports of apples and table grapes totaled \$17 million and \$11.2 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 46 percent for table grapes has remained stable in recent years, the market share for apples has fallen from 50 percent in 1994 to only 17 percent in 2006, 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 representative for the Washington Apple Commission also in HCMC.

Current import duty on table grapes and apples is 25 percent and 20 percent, respectively. In keeping with its WTO commitments to reduce import tariff, Vietnam will gradually lower tariffs on fresh grapes and apples to 10 percent by 2012. Similarly, the import tariff rate on dried grapes (raisins) will be reduced to 13 percent by 2012.

Note: Vietnam trade data are not available.

**Snack Foods, Packaged Foods, Canned Foods** Return to top

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 reductions in tariffs. Current tariffs for snack foods, packaged foods, and canned foods range from 25 percent to 50 percent and should continue to decrease to a cap of 40 percent in accordance with WTO commitments.

Note: Vietnam trade data are not available.

**Forest Products, Hardwood Lumber** Return to top

Prospects are bright for U.S. exports of hardwood lumber and other forest products (e.g. logs and veneers). Vietnam's furniture exports in 2007 are estimated to reach $2.4 billion. U.S. exports of forest products to Vietnam in 2007 reached over $105.6 million, a 62 percent increase over the previous year. The Vietnam market for imported wood is expected to increase by 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: $ million

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|
| Total Consumption | NA | NA | NA | NA | NA | NA |
| Total Local Production | NA | NA | NA | NA | NA | NA |
| Total Imports | 123.0 | 197.0 | 281.0 | 620.0 | 720 | 920 |
| Total Exports | 0.0 | 0.0 | 0.0 | 0.0 | 00 | 00 |
| Total Imports from the U.S. | 5.3 | 15.8 | 17.3 | 43.0 | 65.4 | 105.6 |

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

**Beef** Return to top

Vietnam has lifted its ban on U.S. beef and now imports all types of beef. In November 2005, Vietnam began allowing imports of U.S. boneless beef from cattle less than 30 months 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 Agreements made during negotiations for Vietnam's accession to WTO.

U.S. beef exports to Vietnam in 2006 totaled $5 million. U.S. beef exports to Vietnam for 2007 totaled a record $27 million, increasing 437 percent over 2006, although a very significant portion of this was very likely transshipment entering China illegally.

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 large enough beef industry 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.

Import duty on beef is now reduced to12 percent. In 2007, subsequent to WTO accession tariff reductions, Vietnam voluntarily reduced tariffs on beef and other key commodities, and in the case of beef, the reduction went even below the bound rate of 14 percent by 2012.

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

Note: Vietnam trade data are not available.

## 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 meats in Vietnam.

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

Import duty for meat offal is now reduced to 12 percent. The bound rate for ruminant offal will be reduced to 8 percent by 2011.

Note: Vietnam 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 $2 million (2002) to almost $63 million in 2007. The potential for further strong growth is huge.

Vietnam's hides and skins imports in 2006 were valued at $710 million. U.S. exports of hides and skins to Vietnam for 2007 were valued at $62.8 million, increasing 310 percent over the previous year.

The current import duty on hides and skins is 0 percent.

Note: Vietnam 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

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The United States negotiated significant reductions in tariff rates for many important U.S. exports in the context of Vietnam's entry into the WTO. Prior to Vietnam's accession in January 2007, the Ministry of Finance reduced tariffs accordingly in December 2006. As a result, the vast majority of U.S. exports face tariffs of 15 percent or less. In 2007 the government of Vietnam (GVN) reduced tariffs further in an effort to curb rising inflation, lowering tariffs on major U.S. exports like dairy products, corn and animal feed, to rates lower than those committed to upon WTO accession. Vietnam also reduced import tariffs on automobiles, ostensibly to lower the cost for Vietnamese consumers.

Vietnam agreed to join the WTO Information Technology Agreement upon accession and, as a result, it has eliminated tariffs on important U.S. information technology exports. Vietnam also reduced tariffs to the harmonization rates required by the WTO Chemical Harmonization Agreement for 80 percent of the chemical products covered by the Harmonization Agreement.

Vietnam uses the ASEAN Harmonized Tariff Nomenclature, which is based on the international Harmonized Tariff System of 2002 (AHTN-2002). The system consists of 10,689 lines (4,200 more than the former one), of which 5,300 lines are at four and six digits and 5,400 lines are at eight digits. Vietnam converted its tariff book into AHTN-2007 in January 2008. The new system is an 8-digit commodity nomenclature and coding system based on the AHTN 2002/1 and 2007 Harmonized System (HS) Amendments, consisting 8,329 lines (or a reduction of 2,360 lines compared with AHTN-2002).

Currently, Vietnam has four categories of tariff rates: (1) normal trade relations (NTR) / most favored nation (MFN) rates that apply to all WTO Member countries, including the United States; (2) Common Effective Preferential Tariff rates that apply to imports from ASEAN countries; (3) preferential tariff rates applied to China under the ASEAN-China Free Trade Area (ACFTA) and to South Korea under ASEAN-Korea Free Trade Area

(AKFTA); and (4) general tariff rates (50 percent higher than NTR/MFN) that apply to all other countries.

The National Assembly sets tariff bands for each product, while the Ministry of Finance, typically with oversight from the Office of Government, adjusts applied tariffs within the bands.

## Trade Barriers

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When Vietnam shifted from a centrally controlled economy toward more market-oriented trade beginning in the late 1980s, non-tariff barriers (NTBs) became a key component of trade policy. Vietnam has made significant progress in eliminating NTBs under the terms of the 2001 United States – Vietnam Bilateral Trade Agreement (BTA). The United States sought the removal of additional NTBs through the negotiations with Vietnam on WTO accession. As a result of WTO membership, Vietnam has eliminated and committed not to reintroduce any quantitative restrictions on imports or other non-tariff measures, such as quotas, bans, permits, prior authorization requirements, licensing requirements or other restrictions having the same effect, which would not be consistent with the WTO Agreement.

*Import prohibitions:* 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; certain toxic chemicals; "superstitious, depraved and reactionary" cultural products; firecrackers; certain children's toys; 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; specialized encryption devices and software not destined for mass market consumption; polluting waste and scrap; and refrigerating equipment using chlorofluorocarbons.

*Quantitative restrictions and non-automatic licensing:* Decree 12/2006/ND-CP of January 26, 2006, governs the implementation of the Commercial Law regarding export-import management, and contains a list of goods that require import permits, which are issued by the Ministry of Industry and Trade (MOIT). The list includes two-wheel and three-wheel motorcycles with an engine capacity of 175cc or more; guns and shells used for sport; certain toxic chemicals; and other line managed goods. The decree places salt, tobacco, eggs, and sugar under a tariff-rate quota regime. Separate regulations apply to exports of rice, imports of petroleum and fuel, imports of cigarettes and cigars, and exports and imports of goods related to security and defense. As part of its WTO commitments, in 2007 Vietnam eliminated the ban on motorcycles with an engine capacity of 175 cc or greater, which served as a market access barrier for exports of U.S. motorcycles. Circulars 01/2007 and 06/2007 put in place a nondiscriminatory and transparent system for their importation, distribution and use of large motorcycles.

*Special authority regulation:* On January 1, 2007, Vietnam granted automatic trading rights on a majority of products to domestic and foreign firms and individuals, including the right of foreign firms and individuals to act as the importer of record without a physical presence in Vietnam. Certain categories of goods are limited to importation by state-trading enterprises, and others are subject to automatic or non-automatic import licensing. These restrictions and import licensing requirements are set out in the

Working Party Report on Vietnam's accession to the WTO. Seven ministries and agencies are responsible for overseeing a system of import licensing based on 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.

*Trading rights:* Upon WTO accession in 2007, Vietnam granted full trading rights (including the right to sell an imported product to any individual or enterprise having the right to distribute such product in Vietnam) to all foreign individuals and enterprises. These rights are accorded to foreign individuals and enterprises without any requirement to invest in Vietnam. A foreign individual or enterprise seeking to be an importer of record, including those without a physical presence in Vietnam, is required to file a registration with the relevant Vietnamese authorities for administrative purposes. To implement these commitments, the GVN issued Decree 23/2007 relating to foreign-invested enterprises, Decree 90/2007 relating to foreign businesses without a presence in Vietnam, and Circular 09/2007, issued on July 17, 2007 pursuant to Decree 23. The United States Government is closely monitoring how these regulations are implemented and interpreted.

Trading rights are granted for all products except for a limited number reserved for state trading enterprises and those subject to a phase-in period. Vietnam has reserved the right of importation for state trading entities for the following categories: cigars and cigarettes; crude oil; newspapers, journals and periodicals; and recorded media for sound or pictures (with certain exclusions). Under the phase-in, foreign firms and individuals are restricted until January 1, 2009 from importing the following categories of products: pharmaceuticals; motion picture films; unused postage, printed cards and calendars; certain printed matter; machinery for typesetting and print machinery (excluding ink-jet printers); and certain transmission apparatus for radio-telephony (excluding mobile phones and consumer cameras). Foreign individuals and enterprises will be given the right to export rice no later than January 1, 2011. Decision 10/2007 of May 21, 2007 lists the products that are subject to phase-in schedule for trading rights.

## Import Requirements and Documentation

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Authorized Importers: As outlined in GVN Decree No. 57/1998/ND-CP, partly revised by Decree No. 44/2001/ND-CP, dated August 2, 2001, 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 restricted by the Ministry of Industry and Trade (MOIT). (See Prohibited and Restricted Imports for further detail.) 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, may 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. Under Vietnam's WTO commitments, trading rights are now opened to all foreign invested enterprises. As of 2008, distribution rights for these entities is opened to Joint Venture investment with no limit on capital contribution, and beginning 1/1/2009 will be opened up to wholly foreign invested enterprises. (See Trade Barriers for further detail.)

Special Import/Export Requirements and Certifications: 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.

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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.

Following George W. Bush's Presidential Determination 2007-09 issued on December 29, 2006, U.S. policy on arms transfers now permits the sale, lease, export or other transfer, on a case-by-case basis, of non-lethal defense articles and defense services to Vietnam. "Non-lethal defense articles" means an article that is not a weapon, ammunition, or other equipment or material that is designed to inflict serious bodily harm or death. Defense articles that will not be approved include: lethal end items; components of lethal end items, unless those components are non-lethal; safety-of-use spare parts for lethal end items; non-lethal crowd control defense articles and defense services; and night vision devices to end-users with a role in ground security.

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 Return to top

The Ministry of Industry and Trade's (MOIT) Decision No. 2504/2005/QD-BTM, promulgating the Regulations on Management of Temporary Import for Re-export or Border-gate Transfer of Goods Banned or Suspended from Import, governs the regime for the temporary entry of goods for re-export.

According to the regulation, seven kinds of goods are banned from temporary import for re-export or border-gate transfer. The list includes: weapons, ammunitions, explosives (excluding industrial explosives subject to separate regulations), military technical equipment; Antiques; Narcotics of all kinds (excluding pre-substances subject to separate regulations); Toxic chemicals of all kinds; Wildlife and natural rare and precious animals and plants; Special-use codes of all kinds and code software programs used for the protection of state secrets; Discarded materials and waste (excluding those permitted for import for use as raw materials for domestic production).

Recent regulatory changes stipulate that traders who wish to conduct temporary import via international border gates or international seaports and conduct re-export via border-gate economic zones must obtain permission of the People's Committees of the provinces having border-gate economic zones for re-export at the border-gate economic zones first, and then apply for permits for temporary import at MOIT.

Traders who have been granted permits by the provincial People's Committee(s) and from MOIT for temporary import for re-export or border-gate transfer of goods via international border gates or international seaports and need to re-export those goods via border-gate economic zones, shall produce such permits for the People's Committees of the provinces having border-gate economic zones in order to obtain permission for re-export via border-gate economic zones.

## Labeling and Marking Requirements Return to top

The Ministry of Science and Technology has the primary responsibility for coordinating with specialized management ministries in amending and supplementing compulsory contents of goods labels.

On September 30, 2006, the Vietnamese Government issued Decree 89/2006/ND-CP, which became effective on March 13, 2007(Decree 89).

Decree 89 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 goods temporarily imported for re-export; goods temporarily imported for re-export after participation in fairs or exhibitions; transited goods, goods transported from border gate to border gate; gifts, presents; personal effects of persons on entry and exit; or moving property.

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 the organization or individual responsible for the goods;

    - Origin of goods;

    - Quantity;

- Date of manufacture;

- Expiry date;

- Ingredients or ingredient quantities;

- Hygiene and safety information, warnings;

- Instructions on use and preservation.

2. An information section on the right-hand side of the principal display panel in which non-compulsory contents 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 the misunderstanding of the compulsory contents of labels.

The basic requirement of Decree 89 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.

To view Decree 89, see the following website:
http://www.dncustoms.gov.vn/web_Eglish/english/nghi_dinh/89_ND_CP_30_08_2006.htm

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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, certain types of 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.

Restricted imports include imports subject to import license from the Ministry of Industry and Trade (MOIT), and are subject to special management and oversight by various ministries and agencies such as the Ministry of Health; Ministry of Culture, Sports, and Tourism; Ministry of Information and Communications; The State Bank; Ministry of Agriculture and Rural Development and others. U.S. exporters should confer with their Vietnamese customer, agent or distributor to determine whether an MOIT import license is required for their restricted product.

## Customs Regulations and Contact Information

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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.

The Customs Law, which was ratified by the National Assembly in 2001 and amended in 2005, provides a legal foundation for the operation of the customs sector and creates a more favourable environment for import-export activities. The circulars, decisions, and degrees, which have been issued under the Law, can be seen under the following link: http://vbqppl.moj.gov.vn/law/en/2001_to_2010/2001/200106/200106290007_en/diagram_view

## Standards

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## Overview Return to top

Vietnam's standards system currently consists of over 6,000 national standards (TCVN—based on the Vietnamese language). The first TCVN was developed in 1963. The Directorate for Standards and Quality (STAMEQ) of the Ministry of Science and Technology is Vietnam's national standards body. Vietnam's weights and measures standards are based on the Metric system. The electric current is AC 50 50-60 Hz and voltage ranges are 220/380 volts. The electric distribution system of Vietnam is being standardized at three phase, four wires.

The Law on Standards and Technical Regulations was adopted by the National Assembly in June 2006 and took effect on January 1, 2007. This law marked a turning point for standardization activities in Vietnam and comprehensively reformed the system. Under this law, standards and technical regulations are simplified to two levels: national (TCVNs) and local (TCCs). While standards are applied voluntarily, technical regulations are mandatory. The Law also clearly identified the Ministry of Science and Technology as the responsbile agency for issuing and managing national standards, while line ministries are responsible for national technical regulations. Following the accession to the WTO, Vietnam's Directorate for Standards and Quality (STAMEQ) become the inquiry and notification point under the WTO Agreement on Technical Barriers to Trade.

Still, Vietnam's system of standards is complicated and not always transparent. Some items are subject to national standards, some are subject to regulations of the functioning agencies; and some are subject to both. Thirty percent of Vietnam's standards are harmonized with international and regional standards, and the country is a member of 18 international organizations that regulate standards. In general, Vietnam does not appear to use technical measures to serve as non-tariff barriers. 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 impacts human health and medical equipment.

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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:

- Prepare rules and regulations on standardization, metrology and quality management and submit them to appropriate authorities for approval.
- Organize the supervision and implementation of approved rules and regulations.
- Establish an organizational system on standardization, metrology and quality management and provide methodological guidance for these activities.
- Organize the formulation of national standards and maintain national metrology standards.

- Provide product quality certification, testing and calibration laboratory accreditation.
- Implement state supervision on quality of goods and measurement.
- Conduct studies on standardization, metrology and quality management.
- Carry out informational and training activities related to standards.

STAMEQ now participates as member in 18 international and regional standards organizations, including ISO, IEC, ITU-T, Codex, PASC, ILAC, OIML, APLAC, APMP, and APLMF.

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

According to the Law on Standards and Technical Regulation, Government Decree 127/2007/ND-CP dated 1/8/2007 and Ministerial regulation No 21/2007/TT-BKHCN dated 28/9/2007, the procedures for national standards development were stipulated in accordance with the principles of the WTO Agreement on Technical Barrier to Trade (TBT). For example, draft national standards are to be prepared by relevant line ministries, national standards technical committees and other organizations. In turn, that draft is to be circulated for public comments for at least 60 days, passed onto the standards appraisal committee, and then submitted by STAMEQ to the Minister of the Ministry of Science and Technology for approval and issuance.

About 30 percent of Vietnam's national standards system has been developed by way of adoption of other international and regional standards (e.g. ISO, IEC, Codex),

The process of national standards development is supposed to be transparent to the public, from the incipient stages of development up until the standard is issued and published. According to Government Decree No. 127/2007/ND-CP and the Law on Standards and Technical Regulations, existing mandatory standards should be reviewed for appropriate transference to technical regulations or withdrawn by December 2009.

STAMEQ's Standards Department is responsible for the management of standardization activities in Vietnam, including: preparing, guiding and monitoring the implementation of legislative documents on standardization; suggesting the policy and strategy for standardization, national standards system development; standards development planning; organizing the draft national standards appraisal; and submitting standards to the Ministry of Science and Technology (MOST) for approval and issuance. STAMEQ's Standards Department is engaged in international and regional standardization organization activities.

The Vietnam Standards and Quality Center (VSQC) is a subsidiary of STAMEQ that is responsible for organizing national technical committee activities; developing and printing national standards, and providing other related services. It has established relationships with relevant domestic ministries/agencies, as well as international and national standardization organizations.

For more information please visit http://www.vsqc.org.vn/en

National standards (TCVNs) are developed on the basis of research, the application of scientific and technological advances, and the adoption of international, regional standards. TCVNs are developed by consensus, with participation of different interested parties and stakeholders. They are used as the technical criteria for quality certification, suppliers' product conformity declarations, and quality inspection of imported and exported goods. TCVNs are developed through technical committees and ministries with the involvement of any interested parties and are intended for voluntary adoption unless they were referenced in other laws and regulations as mandatory. Any public or private organization or individual is bound to observe mandatory standards. The State encourages the application of voluntary standards.

The National Assembly adopted the Law on Goods and Product Quality in November 2007 and the Law on Metrology is in draft form and is scheduled to be adopted by National Assembly in 2009.

On March 25, 2003, Vietnam's TBT Enquiry and Notification point of contact was formally established within the offices of STAMEQ.

For more information please visit http://www.tbtvn.org.

**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
- Assessment 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 under STAMEQ responsible for certification established by the Ministry of Science and Technology (MOSTE). QUACERT certification criteria and procedures seek to comply with appropriate national and internationally recognized standards and guidelines.

QUACERT certification is intended to provide independent and objective assurances for companies as well as their products that have implemented internationally recognized standards. QUACERT is also responsible for:

- Participating in research for establishing legislation documents concerning conformity assessment activities in Vietnam
- Participating in research on quality, quality assurance and total quality management
- Certification activities for organizations and individuals who have complied with national, international recognized standards or other technical 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 (BOA) operates the Vietnam Laboratory Accreditation Scheme (VILAS). 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 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.

STAMEQ seeks to keep BoA abreast of the latest international developments in accreditation by guiding BoA to participate in the activities of ILAC (International Laboratory Accreditation Conference), APLAC (Asia Pacific Laboratory Accreditation Cooperation), PAC (Pacific Accreditation Cooperation) and ACCSQ, WG2 (ASEAN Consultative Committee on Standards and Quality- Working Group 2).

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

**Publication of Technical Regulations** Return to top

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.

**Labeling and Marking** Return to top

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

**Contacts** Return to top

Please contact Commercial Officer Dao Le at: dao.le@mail.doc.gov

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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).

The United States and Vietnam concluded a Bilateral Trade Agreement (BTA), which entered into force on December 10, 2001. A full text of the agreement may be found at: http://www.usvtc.org/BTA/bta_text1.htm

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.

In 2003, the United States and Vietnam signed a Civil Aviation Agreement. In 2006, Vietnam and the United States signed the WTO bilateral market access agreement, paving the pay for Vietnam to join the WTO in January 2007.

Vietnam and the United States signed a bilateral Maritime Agreement in March 2007 that opened the maritime transport and services industry of Vietnam to U.S. firms. In June 2007, the United States and Vietnam signed a Trade and Investment Framework Agreement.

For more information, please visit the United States Trade Representative (USTR) website at:
http://www.ustr.gov/assets/Document_Library/Fact_Sheets/2006/asset_upload_file475_9475.pdf

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Vietnam National Competitiveness Initiative: Good information on business climate in the provinces (http://www.pcivietnam.org)

American Chamber of Commerce: Ho Chi Minh City Chapter (http://www.amchamvietnam.com/), Hanoi Chapter (http://www.amchamhanoi.com/site/index.php)

General Office of Statistics of Vietnam: (http://www.gso.gov.vn/default_en.aspx?tabid=491)

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 strongly encourages foreign investment as part of its development strategy, and the national leadership is committed to improving the business and investment climate. The continued ability to attract overseas capital, through foreign direct investment (FDI) and official development assistance (ODA) are integral parts of the Government of Vietnam's (GVN) growth target of 8.5 - 9 percent GDP for 2008. The GVN's most recent Five Year Plan (2006-2010) sets FDI targets of $17.5-19.5 billion in disbursements from licensed foreign investment projects and approximately $10 billion in ODA. The GVN also expects to mobilize $4.3 billion by 2010 in foreign indirect investment through bonds and shares sold overseas.

Vietnam became the 150th member of the WTO on January 11, 2007. Vietnam's commitments in the WTO increase market access for exports of U.S. goods and services and establish greater transparency in regulatory trade practices, enhance economic freedoms and establish a more level playing field between Vietnamese and foreign companies. Vietnam undertook commitments on goods (tariffs, quotas and ceilings on agricultural subsidies) and services (provisions of access to foreign service providers and related conditions), and to implement agreements on intellectual property (TRIPS), investment measures (TRIMS), customs valuation, technical barriers to trade, sanitary and phytosanitary measures, import licensing provisions, anti-dumping and countervailing measures, and rules of origin.

In addition to WTO, the United States - Vietnam Bilateral Trade Agreement (BTA) provides a broad range of benefits for U.S. investment in Vietnam. The BTA and WTO commitments will continue to ensure fair access and treatment for U.S. investment, goods and services.

Vietnam's record in implementing its bilateral and international obligations has been good overall, but concerns remain about protection of intellectual property rights (IPR). The investment climate has improved significantly from the process of reform that led to WTO accession.

The pace of investment flows has accelerated as a result of the aforementioned developments. By the end of 2007, Vietnam had attracted $83.1 billion in foreign investment commitments from 8,590 projects since the country was opened to foreign investment in 1988, of which $29.236 billion has been disbursed. Over the same period, U.S. businesses received 375 investment licenses for projects worth $2.8 billion, of which $752 million has been disbursed. The United States was Vietnam's eighth largest investor in 2007. A USAID-funded study using a metric developed for "U.S.-related FDI" that adds FDI from U.S. overseas subsidiaries located in third countries would result in at least $2 billion more for registered projects and $2.5 billion more for implemented projects.

The GVN holds regular "business forum" meetings with the private sector, including both domestic and foreign businesses and business associations, to discuss issues of importance to the private sector. Foreign investors use these meetings to draw attention to investment impediments imposed by Vietnamese law and regulation as well as by improper implementation. These forums, together with frequent dialogues between GVN officials and foreign investors held between the semi-annual forums, have led to improved communication and have sometimes allowed foreign investors to make timely comments on and influence legal and procedural reforms. Nevertheless, the combination of a general lack of transparency and a still underdeveloped legal system makes investment here more challenging than in more developed economies.

Standard and Poor's assigned Vietnam's foreign currency bonds BB/B and local currency bonds BB+/B and upgraded the long term outlook from stable to positive. Moody's upgraded Vietnam's long term rating in April 2007 from B1 to BA3, although currency bond ratings were left unchanged at BA1 levels.

## Conversion and Transfer Policies

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Foreign businesses are permitted to remit their profits in hard currency, revenues from joint ventures, and income derived from services, technology transfers, legally owned capital and intellectual property. Foreigners are also allowed to remit 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. Approval by investment authorities is needed to increase or decrease the capital of a foreign-invested business.

In principle, foreign investors are expected to be "self-sufficient" for their foreign exchange requirements, although this sometimes proves impractical. GVN 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.

In December 2007, the State Bank of Vietnam expanded the trading band for dollar and Vietnamese dong exchange transactions to 0.75 percent (from the previous 0.5 percent rate) and allowed commercial banks to determine the differential between currency selling and buying prices. This decision has given more autonomy and flexibility to commercial banks in providing foreign exchange services and has made it easier for foreign investors to secure hard currency. Increases in FDI and portfolio investments have eased the pressure on hard currency availability and of dollars in particular.

## Expropriation and Compensation

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

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

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Foreign and domestic arbitral awards are technically legally enforceable in Vietnam. Vietnam is a party to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards, 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. Despite this, the enforceability of a foreign arbitral award in Vietnam currently remains questionable.

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 United States to provide advice in this area as part of the U.S. technical assistance program designed to assist Vietnam to fully implement the BTA. The Ministry of Planning and Investment (MPI) has submitted a proposal to the GVN to join to ICSID. This proposal is under consideration.

Vietnam's legal system, including its dispute and claims settlement mechanisms, remains underdeveloped and ineffective in settling disputes. Negotiation between the concerned parties is the most common and preferred means of dispute resolution. Although contracts are 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. 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.

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). VIAC 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 or whether international standard arbitration rules apply, such as those of the International Chamber of Commerce (ICC) or the United Nations Commission on International Trade Law (UNCITRAL). VIAC decisions 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.

## Performance Requirements and Incentives

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Vietnam has removed performance requirements, which are inconsistent with the TRIMS agreement. In particular, the Investment Law specifically outlaws the following requirements: giving priority to the purchase or use of domestic goods or services, compulsory purchase of goods or services from a specific domestic manufacturer or services provider, export of goods or services at a fixed percentage, restricting the quantity, value or type of goods or services that may be exported or which may be sourced domestically, fixing import goods at the same quantity and value as goods exported, requiring self-balance compulsory foreign currency, requirements to achieve certain local content ratios in manufacturing goods; stipulated levels or values on R&D activities, to supply goods or provide services in a particular location whether in Vietnam or abroad, or mandating the establishment of head offices 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, such as mountainous and remote areas of the country with difficult economic and social conditions. The GVN specially encourages investment in 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.

FIEs are exempted from import duties on goods imported for their own use and which cannot be procured locally, including all equipment, machinery, vehicles, components and spare parts for machinery and equipment, raw materials, inputs for manufacturing and construction materials that cannot be produced domestically.

Provinces provide numerous tax and other incentives to prospective investors.

Vietnam has also instituted a number of incentives designed to attract investment from Vietnamese exiles and their families. Even when exiles are citizens of another country, they are allowed to choose the option of operating as domestic businesses or as foreign ones, whichever is more convenient. Real estate laws have also been amended to permit limited categories of these investors to buy land use rights to build homes.

However, the GVN does not often recognize the adopted nationality of many Vietnamese exiles and may consider them to be Vietnamese nationals unless they have formally renounced their Vietnamese citizenship. 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

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The right to private property was enshrined in Vietnam's Constitution in 1992, recognizing the "the right of ownership with regard to lawful income, savings, housing, chattel, means of production funds and other possessions in enterprises or other economic organizations" (Article 58).

Real estate rights in Vietnam are divided into land ownership, which is collective, and land-use and building rights, which can be held privately. All land in Vietnam is owned collectively and managed by the state and, as such, neither foreigners nor Vietnamese nationals can own it. In addition to land, collective property includes "forests, rivers and lakes, water supplies, wealth lying underground or coming from the sea, the continental shelf and the air, the funds and property invested by the State in enterprises and works in all branches and fields - the economy, culture, society, science, technology, external relations, national defense, security - and all other property determined by law as belonging to the State."

The Land Law of 2003 recognized "land-use rights," which enable the title holder to transfer, lease, mortgage, inherit, transform, bequeath, contribute in kind, as well as the rights to the property attached to the land. The Land Law extended these rights to foreign invested enterprises, allowing them to lease land for a (renewable) period, obtain land-use rights, and to mortgage both the structures erected on that land and the value of land use rights. In 2007, the GVN extended the length of land-use leases to foreigners to 70 years.

## Protection of Property Rights

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The basis of a legal system that protects and facilitates property rights have been established but the Vietnamese legal system remains in a state of transition. Much more work needs to be done to develop the laws and enforcement mechanisms needed to adequately protect property rights in Vietnam.

Vietnam has made progress over the past few years in establishing the legal framework for Intellectual Property Rights (IPR) protection but infringement continues to be widespread and enforcement of administrative orders and court decisions finding IPR infringement remains problematic. In addition, IPR administration is complicated and coordination between concerned agencies is loose. In 2006 the GVN enacted a four-year Action Plan to Prevent Intellectual Property Rights Violations 2006-2010 but it does not include the courts, limiting the effectiveness of enforcement efforts. Enforcement actions continue to be sporadic. The Vietnamese Police have investigated and in some cases raided and fined businesses suspected of using pirated software.

## 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 in drafting legislation, and new laws and regulations sometimes are contradictory or unclear. The USAID-funded Support for Trade Acceleration (STAR) project, however, has made a substantial contribution to Vietnam's successful efforts to draft the new laws and regulations required under the BTA and the WTO. 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, including that funded by the United States, is being devoted to assist Vietnam to establish a legal structure compatible with international standards.

Although the GVN has begun to streamline and rationalize the investment licensing process over the past year, the Ministry of Planning and Investment (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. Various bilateral and international donors are providing development assistance to address these issues.

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.

The Law on the Promulgation of Legal Normative Documents requires that all legal documents and agreements to international conventions be published in the Official Gazette. The Gazette has been published on a daily basis since 2003.

## Efficient Capital Markets and Portfolio Investment

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Vietnam's financial system is in the early stages of reform, and the financial markets are poorly managed and regulated.

The banking sector is underdeveloped. Only 10 percent of Vietnamese have a bank account and 50 percent of personal savings are held outside the banking system (in gold or cash). Most of the domestic banks are under-capitalized and hold a large number of non-performing loans, mainly to state-owned enterprises (SOEs). (Because of lack of transparent auditing or financial reporting, it is difficult to know the exact proportion of non-performing loans.) State-directed lending under non-commercial criteria is a chronic concern. The four largest banks (Vietcombank, Incombank, the Bank for Agriculture and Rural Development (Agribank), and the Vietnam Investment Bank for Investment and Development in Vietnam (BIDV)) are state-owned or majority state-owned.

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. Nonetheless, a continued lack of financial transparency and compliance with internationally accepted standards among Vietnamese firms continues to pose problems for the GVN plan to expand stock and securities markets to raise capital internally.

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.

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. In February 2007, the State Bank of Vietnam (SBV) raised the dong deposit ratio for all foreign banks in line with Vietnam's WTO commitments, to be phased in until 2010. By 2011, foreign banks will receive national treatment on dong deposits, i.e., the same requirements as applied to local banks. The SBV and the Ministry of Finance conduct sales of state bonds denominated in local currency, but Vietnam only has an informal secondary market for such instruments.

One hundred and forty three companies are listed in the Ho Chi Minh Stock Exchange and 125 in the Hanoi Securities Trading Center, with a joint capitalization of $27 billion as of January 2008. The majority of listed firms are former SOEs that have undergone partial privatization (equitization). In 2008 and 2009, the GVN plans to conduct initial public offerings (IPOs) of a number of large SOEs, including three of the four big state-owned commercial banks (SOCBs) mentioned above. Vietcombank held its initial sale of shares in December 2007, and plans to list on the stock market in 2008. The GVN’s initial timeline for SOE equitization has slowed since the market cooled halfway through 2007, and strategic investors have become more reluctant to buy in at what they see as high share prices. Despite these setbacks, Vietnam's stock market is increasingly becoming an attractive investment channel for foreign investors and a real source for financing.

The GVN caps equity held by foreign investors in listed Vietnamese companies at 49 percent. Foreign portfolio investment in Vietnam is estimated to be $5 billion. Under current market regulations, share prices of a listed company cannot increase or decrease by more than five percent per trading session.

## Political Violence
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The Mission knows of no incidents of violence against investors in Vietnam.

Vietnam remains a one-Party state that brooks no overt criticism and restricts basic political freedoms to varying degrees. Public criticism of corruption, bad or inefficient policymaking or government incompetence is increasingly tolerated.

In 2007, labor strikes increased and land rights protests occurred in both HCMC and Hanoi but none of these overtly challenged the political establishment and overall political stability. Political stability is likely to continue into 2008.

## Corruption
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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. The GVN and the Communist Party consider corruption as one of their paramount challenges, and have dedicated considerable efforts to raising public awareness. Despite these efforts, Vietnam has failed to improve its image. The 2007 Transparency International's Corruption Perception Index, listed Vietnam with a low ranking of 2.6, placing 123 out of 179 countries surveyed.

These failings are in large part due to a lack of transparency, accountability and media freedom. Competition among GVN 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 inadequate systems for holding officials accountable for their actions compound the problems.

Anti-corruption laws require GVN officials to declare their assets and set severe penalties for those caught red-handed. An anti- corruption steering committee led by the Prime Minister is tasked with coordinating the fight against corruption.

In 2008, the United States is working with Vietnam on an ambitious administrative reform program that will compel provincial governments to justify licenses and regulations, or have them "guillotined."

## Bilateral Investment Agreements
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Vietnam has 52 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, Kuwait, Laos, Latvia, Lithuania, Malaysia, Mongolia, Mozambique, Netherlands, North Korea, Philippines, Poland, Romania, Russia, Singapore, South Korea, Spain, 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.

## OPIC and Other Investment Insurance Programs Return to top

The Overseas Private Investment Corporation (OPIC) has a standing bilateral agreement with Vietnam that provides the protections and guarantees necessary for OPIC to operate in Vietnam. As of December 2007, OPIC had signed four active insurance contracts and one loan agreement in Vietnam. OPIC is currently reviewing several applications to support other potential projects.

Vietnam joined the Multilateral Investment Guarantee Agency (MIGA) in 1995. MIGA provides guarantees against noncommercial risks to protect cross-border investment in developing member countries. Guarantees protect investors against the risks of Transfer Restriction, Expropriation, War and Civil Disturbance, and Breach of Contract (for contracts between the investor or project enterprise and the authorities of the host country). As of December 2007, MIGA has provided guarantees for five projects in Vietnam.

## Labor Return to top

One of Vietnam's main investment advantages is its large (over 45 million people), literate (GVN reports a literacy rate of over 90 percent), inexpensive and young (over 75 percent of the population is under 40) labor force. The labor pool continues to increase by over 1.6 million workers annually due to the post-war population explosion.

However, the pool of skilled labor is drying up and the country's academic centers have been unable to keep up with the demands of a modern economy. Foreign investors cite the shortage of managerial talent and skilled workers as one of the leading challenges for Vietnam in 2008.

Minimum wages vary depending on the composition of the ownership and the geographical zone. By 2012 Vietnam will set a single nationwide minimum wage. In January 2008, new minimum wages came into effect, generally increasing salaries by 20-38 percent for workers in domestic enterprises and 13-15 percent in foreign enterprises. In foreign-invested enterprises, the new minimum monthly salaries are VND1,000,000 ($62) in Zone 1 (urban Hanoi and Ho Chi Minh City), VND900,000 ($56) in Zone 2 (Haiphong, Halong, Bien Hoa, Vung Tau, Thu Dau Mot, Thuan An, Di An, Ben Cat, Tan Uyen, and the suburbs of Hanoi and of Ho Chi Minh City), and VND800,000 ($50) in Zone 3, that is, in all other areas. Minimum wages are lower for domestic enterprises: VND620,000 ($39) in Zone 1, VND580,000 ($36) in Zone 2 and VND540,000 ($34) in Zone 3. The government may temporarily exempt certain joint ventures from paying the minimum wage during the first months of an enterprise's operations or if the enterprise is located in a very remote area, but the minimum monthly wage in these cases can be no lower than VND800,000 ($50).

Foreign investors can hire and recruit staff directly, but only after exhausting a 15-day period using a state-run employment and recruitment bureau. In practice, many employers omit this step and hire their personnel directly without going through the bureau. All personnel must be registered with the GVN.

On July 1, 2007, new Labor Law provisions went into effect introducing an extensive process of mediation and arbitration to deal with labor disputes. According to the Labor Law, workers cannot go on strike until mediation procedures have been exhausted. New sections of the Law also require that at least 50 percent of the workers in enterprises with fewer than 300 workers must vote for the strike, and 75 percent in industries with 300 workers or more.

In 2007, there were over 300 strikes -- most of them in the southern industrial zones and most of them "illegal" under Vietnamese laws (by law, any “legal” strike has to be conducted through the labor union and use the lengthy and complex set of conciliation and arbitration steps). The GVN rarely takes action against "illegal" strikers. The failure of wages to keep pace with high inflation, which was running at over 10 percent at the beginning of 2008, and poor industrial communications are often cited as the two principal causes of labor disputes.

Employers are required by law to establish labor unions within six months of establishment of any company -- something that, in practice, many employers fail to do. All labor unions must be members of the Vietnam General Confederation of Labor, a state-run organization under the Communist Party-affiliated Fatherland Front that labor experts note has particularly weak capacity at the provincial and enterprise level.

Vietnam has been a member of the International Labor Organization (ILO) since 1992, and has ratified five core labor conventions (Conventions 100 and 111 on discrimination, Conventions 138 and 182 on child labor, and Convention 29 on forced labor). Vietnam has not ratified Convention 105 dealing with labor as a means of political coercion and discrimination, but is considering doing so. The GVN has also not ratified Conventions 87 and 98 on freedom of association and collective bargaining and is not expected to do so in the near future. Under the Declaration on Fundamental Principles and Rights to Work, however, 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 has continued with funding from another donor.

## Foreign-Trade Zones/Free Ports

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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 upon its accession to the WTO.

Currently, Vietnam has established a total of 154 IZs and export processing zones (EPZs). As of November 2007, there were 2,627 foreign invested enterprises licensed in the zones with a total registered capital of $25.5 billion.

Many foreign investors note 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 is primarily in the light industry sector, such as food processing and textiles and garments. The number of heavy industry projects is still modest.

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.

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 (inbound warehouse) leasing 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.

## Foreign Direct Investment Statistics

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FOREIGN DIRECT INVESTMENT 2003-07 (all amounts in billion U.S. dollars)
----------------------------------------
2007
Number of projects authorized: 1406
Authorized Investment: $17.65
Implemented Investment: $4.6

2006
Number of projects authorized: 987
Authorized investment: $12.00
Implemented investment: $4.1

2005
Number of projects authorized: 798
Authorized investment: $4.003
Implemented investment: $3.500

2004:
Number of projects authorized: 723
Authorized investment: $2.222
Implemented investment: $2.900

2003:
Number of projects authorized: 752
Authorized investment: $1.914
Implemented investment: $2.685

Source: MOIT

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.

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# Chapter 7: Trade and Project Financing



## How Do I Get Paid (Methods of Payment)

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Most 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 and international banks.

Local companies with acceptable credit risk (mainly State-Owned (SOES) and major private enterprises) 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 60-180 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 or private 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.

In 2006, the Government changed its regulation that required Vietnamese companies to deposit 80 percent of the L/C value prior to its opening at the bank. The banks now decide to collect the deposits from companies based on their credit worthiness. This deposit can range from 0-100 percent.

## How Does the Banking System Operate

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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. Vietnam is making progress in developing the basic infrastructure to support a modern banking system and financial markets, but neither meets international standards.

The central bank, the State Bank of Vietnam (SBV), is the main financial regulatory agency. The SBV supervises two policy banks (the Social Policy Bank of Vietnam and the Vietnam Development Bank), four state-owned commercial banks (SOCBs) (Incombank, BIDV, Agribank and the Housing Bank of Mekong Delta,), 35 joint-stock (private) banks, five joint-venture banks, 51 representative offices of foreign banks, 37 branches of foreign banks, nine financial companies and 12 financial leasing companies. The SBV is not an independent body like the U.S. Federal Reserve and it continues to operate under government oversight. In some key areas of operation, such as the provision of liquidity support, monetary policy, the management of foreign currency reserves and foreign exchange rates and issuance of banking licenses, the SBV's actions are subject to prime ministerial approval.

The International Monetary Fund, the World Bank, and other international donors, including the United States, are assisting Vietnam to implement financial reforms to ensure the stability and promote the effectiveness of the banking system and the financial sector. The reform program focuses on three main areas: restructuring of joint-stock banks, restructuring and commercialization of the SOCBs, improving the regulatory framework and enhancing transparency. Other ongoing projects aim to modernize the inter-bank market, create an international accounting system and allow outside audits of major Vietnamese banks. The SBV is also in the process of strengthening its own internal processes and enhancing the level of inspection and supervision of the banks within its jurisdiction. The SBV is also preparing regulations to implement the Basel capital accord in calculating risk-adjusted assets and risk-adjusted capital ratios. Increasingly, more SOCBs are audited by independent auditing firms.

The GVN requires all banks to establish controlling committees and institute internal audit functions. In practice, prudent banking practices are not always adhered to. The true level of non-performing and under-performing loans is difficult to gauge, as there is very low level of transparency and disclosure in Vietnam's banking sector. Secrecy laws cover much of the banking industry's data and meaningful information on individual financial institutions is not readily available.

In 2007, the SBV introduced rules for classification of non-performing loans, which conform to international standards. It also allowed banks to accelerate loan terms and gave them more discretion in setting penalty interest rates on overdue debts. By June 2008, all financial institutions are expected to institute internal credit rating and risk assessment mechanisms.

The GVN says that it intends to partially privatize ("equitize") all SOCBs by 2010. The banking equitization process will allow foreigners to buy shares but will cap foreign equity at 30 percent. These restrictions will be lifted in 2012 (five years after WTO accession). The first pilot initial public offering (IPO), Vietcombank's, took place in December 2007 after years of delays.

Joint-stock banks have been more successful at raising private capital, selling part of their equity to foreign investors (mainly investment funds or financial institutions) or issuing convertible bonds or additional shares. The joint stock banks are on average much smaller than the SOCBs, but they are more efficiently operated and professionally managed. The non-performing loans of these banks are widely believed to be lower than those of SOCBs.

Domestic banks can take dollar deposits. Foreign banks can also do so, provided that they are properly licensed. Residents and non-residents can open and maintain foreign exchange accounts with authorized banks in Vietnam.

Although the banking sector remains small (there are only eight million bank accounts and less than one million credit cards in a country of over 85 million people), banking networks and services have been expanding rapidly and the trend is likely to continue in 2008.

In 2008, the GVN began paying its Hanoi and Ho Chi Minh City employees by direct bank deposit only, and by January 2009 all government employees nationwide (including provincial staff) will be paid that way.

Since 2000, banks have been required to insure all dong deposits. The maximum insured amount is VND50 million ($3,100) per account or individual per bank. The effectiveness of deposit insurance has not been tested. Vietnamese banks do not have Bank for International Settlement (BIS) tier ratings.

## Foreign-Exchange Controls Return to top

Conversion of Vietnamese dongs into hard currency no longer requires a foreign exchange approval and Vietnam has not had a foreign exchange surrender requirement since 2003. The Law on Foreign Direct Investment allows foreign investors to purchase foreign currency at authorized banks to finance current and capital transactions and other permitted transactions.

The supply of hard currency, which was a problem in the past, was significantly eased in 2007 with high inflows of foreign direct and portfolio investments.

Foreign businesses are allowed to remit in hard currency all profits, shared revenues from joint ventures, and income from legally-owned capital, properties, services and technology transfers. 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.

In principle, most foreign investors are expected to be ‘self-sufficient’ for their foreign exchange requirements, although this sometimes proves impractical. The GVN guarantees foreign currency for certain types of foreign investors in the event that banks permitted to trade foreign currency are unable to fully satisfy their foreign currency demand.

The State Bank of Vietnam (SBV) is adopting a crawling-peg foreign exchange control mechanism. In December 2007, the SBV expanded the trading band for U.S. dollar and Vietnamese dong transactions to 0.75 percent (from the previous 0.5 percent rate) and allowed commercial banks to set the differential between currency, selling and buying prices. This decision has given more autonomy and flexibility to commercial banks in providing foreign exchange services and has made it easier for foreign investors to secure hard currency.

## U.S. Banks and Local Correspondent Banks

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At present, eight U.S. banks and financial institutions are operating in Vietnam. Citibank and Far East National Bank have branches, American Express, Wachovia and Visa International have representative offices, and JP Morgan Chase has both a representative office and a branch.

Of the state-owned banks, Vietcombank, Incombank, the Bank for Agriculture and the Bank for Investment and Development, have the most active correspondent relationships with U.S. banks. Several joint-stock banks also 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 Technological and Commercial Joint Stock Bank (Techcombank), 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. 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, breach of contract insurance 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. 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 major joint-stock banks (ACB, EXIM Bank, Maritime Bank, SACOM Bank, and Techcombank) for trade financing.

U.S. banks present in Vietnam include American Express Bank, Citigroup, JP Morgan Chase, Visa International, and Wachovia bank. 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 JP Morgan and Citibank offering on-shore services as licensed branches, and American Express Bank and Wachovia offering off-shore services. Other large foreign banks operating in Vietnam include ABN Amro Bank, ANZ Bank, BFCE, Bank of China, Credit Lyonnais, HSBC, ING Bank, May Bank, Standard Chartered Bank and UOB. Although almost all foreign banks concentrate on wholesale banking, some offer retail banking services and ATM and electronic on-line services. .

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 presence 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 the largest 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 its 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, 12 domestic and international leasing companies have received licenses to conduct business in Vietnam. While the initial capitalization is small ($5-13 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.

Medium, and possibly longer-term, financing is available from commercial banks in Vietnam, although loans are provided mostly in Vietnamese currency (Dong.) Foreign investors are encouraged to approach the branches of major foreign banks, as the state banks tend to favor Vietnamese state-owned enterprises.

Another major source of project financing comes from over fifty private equity funds. These funds have been investing mostly in tourism, power, manufacturing, environment and infrastructure projects.

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

(Insert a link to the applicable Multilateral Development Bank here and any other pertinent web resources.)

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# Chapter 8: Business Travel



## Business Customs

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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.

Relationships are also very important in Vietnam, as they are in general throughout the region. Your counterpart will want to know with whom they are dealing before getting in too deep. American businesses need to understand this aspect and be patient if their Vietnamese counterpart seems reluctant to move on a transaction immediately.

<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, ask for advice.

<u>Correspondence</u>: 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.

<u>Business Meetings</u>: 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.

It is also wise to do your homework ahead of time to ascertain the scope of responsibility of the entity with which you wish to meet. Much time can be wasted talking to a department or ministry that does not really have jurisdiction over your project or issue.

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.

Vietnam Embassy website: http://www.vietnamembassy-usa.org/consular_services/
Vietnam Consulate General in San Francisco: http://www.vietnamconsulate-ca.org/consularsection.asp.

U.S. Companies that require travel of foreign businesspersons to the United States should allow sufficient time for visa issuance. 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/

(Insert here the web address for the consular section of the local embassy website.)

## Telecommunications

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International Direct Dial (IDD) and fax services are widely 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. More and more hotels offer broadband access in their rooms and many coffee shops offer WiFi access for patrons. Internet services continue to experience cost reductions and quality improvements, although the reliability of the connections can vary depending upon location.

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

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Travel within Vietnam is becoming easier with more domestic flights to the major cities. A round trip ticket between HCMC and Hanoi is currently about $190 for economy class and $380 for business class. Vietnam Airlines (www.vietnamairlines.com) and Pacific Airlines (www.pacificairlines.com.vn) are the only carriers currently flying 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) potentially 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 $40 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.

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

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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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Articles 30, 31, and 32 of Government Decree 154/2005/ND-CP, dated December 15, 2005, stipulate that the following items are allowed, without any duty, to temporarily enter Vietnam and must be re-exported within 90 days: goods for presentation or use at trade fairs, shows, exhibitions or similar events, professional machinery and equipment, spare parts and components serving the repair of foreign ships or aircraft.

Vietnam began steps to recognize the Admission Temporaire/Temporary Admission Carnet System (ATA Carnet System) when it officially became the WTO's 150th member in January 2007. In reality, Vietnam is still in the implementation process. The Vietnam Chamber of Industry and Commerce (VCCI) has been authorized by the Government of Vietnam to be the ATA Carnet card issuer and the guarantor of foreign exporters. In general, the ATA Carnet System will apply to non-commercial and not-for-local consumption items in Vietnam such as: samples, professional equipment, goods for presentation or use at trade fairs, shows, exhibitions, computer, transportation means, gemstones, antiques, etc. The temporary importation and re-exportation of these items under the ATA Carnet System will work as follows in Vietnam: First, a foreign exporter makes a guarantee deposit to a VCCI account or to a guaranteeing bank designated by VCCI. VCCI then issues an ATA Carnet card to the exporter. The exporter then proceeds with duty-free customs clearance of the relevant items. Finally, the exporter reclaims the deposit upon re-exporting the items from Vietnam and turning the ATA Carnet card back to VCCI. In case the items are not exported out of Vietnam, VCCI is responsible to Vietnam Customs for any import duties.

By Vietnamese customs regulations, business travelers are typically allowed to bring no more than two laptops into Vietnam. Business travelers are not normally required to show Vietnamese customs officers what software is used on their laptops. There are no known restrictions on business travelers' laptops with encryption software.

## Web Resources

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U.S. Foreign Commercial Service in Vietnam: http://www.buyusa.gov/vietnam/en/
American Chamber of Commerce in Vietnam: http://www.amchamvietnam.com/
Vietnam Embassy in Washington DC: http://www.vietnamembassy-usa.org/
Vietnam Consulate General in San Francisco: http://www.vietnamconsulate-ca.org/home.asp
Vietnam Ministry of Planning and Investment: http://www.mpi.gov.vn/
Vietnam Ministry of Industry and Trade: http://www.moit.gov.vn/web/guest/home
Vietnam Customs: http://www.customs.gov.vn/
Vietnam Chamber of Commerce and Industry: http://vibforum.vcci.com.vn/
Vietnam Economy: http://www.vneconomy.com.vn/eng/
Vietnam Investment Review: http://www.vir.com.vn/Client/VIR/Default.asp
Vietnam National Newspaper: http://vietnamnews.vnagency.com.vn

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# Chapter 9: Contacts, Market Research, and Trade Events



## Contacts Return to top

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: (84-4) 850-5199, by fax at (84-4) 850-5064/5065 or email at Hanoi.Office.Box@mail.doc.gov.

The U.S. Commercial Service in HCMC can be reached by telephone at: (84-8) 825-0490, by fax at (84-8) 824-0491 or email at Ho.Chi.Minh.City.Office.Box@mail.doc.gov.

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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.

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

http://www.export.gov/tradeevents.html

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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.

http://www.buyusa.gov/vietnam/en/services_for_us_exporters.html

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