

A GUIDE TO INVESTMENT AND TRADE IN VIETNAM

2018-2019

Navigating Through The Sea of Opportunities

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First Edition published in 2018 by:

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Foreword

As a national organisation for investment and trade promotion, we, on a regular basis, meet and discuss insights into Vietnam's business environment with international delegations, through which new investment opportunities have been identified. It naturally comes to our attention that it is high time such information is maintained and updated. We also genuinely wish to share an insider's view on Vietnam and its business environment trends through selected expert experience and knowledge. This has become our basic drive to compile a "Guide to Investment and Trade in Vietnam" in English.

This guide is dedicated to those who are interested in Vietnam, especially foreign guests, investors and businessmen who seek business partners and opportunities in this country in general and in Ho Chi Minh City in particular.

It is meant to provide concise reference on key areas that international investors and businessmen would often look for at a glance. As a result, to our best extent possible, this guide leverages the use of exhibits, ranging from charts, maps, and graphs, to best summarize the information. It is also our intention to broadcast local features and to give our readers basic understanding about Vietnamese nature and human through visual presentation.

This guide was the initiative and efforts of the Business Information Centre of Vietnam Chamber of Commerce and Industry – Ho Chi Minh City Branch (VCCI-HCM). Its publication would not succeed without the dedicated cooperation and contribution of our partners, including Ipsos Business Consulting (Chapter I, II, and III), and TRICOR (Chapter IV), with the aim to fully reflect the actual interest of foreign investors. On this particular occasion, I would like also to express our gratitude towards our partners – Global Assurance, for their inputs and feedback, and the British Business Group in Ho Chi Minh City, for their valuable contribution. We greatly appreciate the partners' willingness to cooperate for the ultimate purpose of promoting and sharing such insights.

It is fully acknowledged that there is still room for improvement in this very first edition. Therefore, any constructive feedback would be welcome to help us refine subsequent editions. We do hope readers of the guide, especially those interested in doing business and investing in Vietnam and Ho Chi Minh City, will find it useful.

Ho Chi Minh City
Date: September 26th, 2018



INTRODUCTION

- VCCI - Ho Chi Minh City Branch
- Ipsos Business Consulting
- British Business Group Vietnam



"The voice of Vietnamese business community"



VIETNAM CHAMBER OF COMMERCE AND INDUSTRY HO CHI MINH CITY BRANCH

● About us

Vietnam Chamber of Commerce and Industry (VCCI) is a national institution that gathers and represents the community of Vietnamese businesses, entrepreneurs, employers and business associations. VCCI was established in 1963 in Hanoi as a non-governmental, non-profit organization.

Vietnam Chamber of Commerce and Industry, Ho Chi Minh City Branch (VCCI-HCM) reports to VCCI. Based in Ho Chi Minh City, we also cover the operation of 6 other provinces including Lam Dong, Tay Ninh, Binh Phuoc, Long An, Binh Duong, and Dong Nai, which together form the southern key economic region.

VCCI-HCM consists of the following departments:

- Administration Office
- Personnel Department
- Accounting & Finance Department
- Membership & Training Department
- International Relations Department
- Legal Department
- Small and Medium-sized Enterprises Promotion Center
- Bureau of Employers' Activities
- Women Entrepreneurs Council - VWEC
- Business Information Center

● Vision

- To be the leading representative organization for the business community in Southern Vietnam.
- Enhance the competitiveness of the business community through representation, promotion and capacity building activities.

● Mission

- Represent to protect legitimate interests of business community, provide inputs for development and dissemination of laws and policies.
- Connect businesses and develop strategic long term relationship with foreign and local partners
- Strengthen the effectiveness of trade and investment promotion activities
- Enhance capacity for businesses and partners
- Improve the performance of the organization
- Ensure high level of employee engagement

Contact us

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Ipsos Business Consulting

HELPING BUSINESS IN ASEAN TO Build • Compete • Grow

SINCE 1994

We are a purpose-driven consultancy that believes knowledge empowers your organisation and enables you to create opportunities and generate growth in your chosen markets. We provide you with this knowledge through a structured set of sales and marketing strategy solutions that draw upon our network of market specialists and consultants who have unparalleled on-the-ground knowledge and extensive experience in key established, emerging and frontier markets around the world.

Here at Ipsos Business Consulting we are united and driven by our mantra **“Build • Compete • Grow”** — three words that encapsulate who we are and what we do.

Build

Establish firm foundations for new lines of business that match client resources to the strongest opportunity within their chosen market.

Compete

Devise winning business models that will outperform the competition.

Grow

Improve top-line growth for developed and emerging markets.



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Who we are

The British Business Group Vietnam (BBGV) has grown from its humble beginning to become one of the most dynamic foreign business groups in Vietnam. The Group was formally established with the Vietnamese authorities in 1988. It has employed full time staff since then and also established a dedicated Business Centre. The BBGV has now boasts more than 500 members. We pride ourselves on our friendliness and approachability. BBGV's main objective is to promote our members' business interests in Vietnam through various business and social events. The Group is also closely associated with the annual charity fundraising Fun Run that it has organized since 2000.

Our BBGV Business Centre aims to facilitate better trade ties between UK and Vietnamese companies via our trade services. For more information, visit our Business Centre pages at:

<http://bbgv.org/the-business-centre-about.html>.

Views of the local business environment

BBGV sees many advantages to doing business in Vietnam including having a stable government that is committed to seeing the country grow. The consumer base is growing year on year in strength and purchasing power. The cost of Labour remains attractive to business moving into the market. Vietnam has a strong workforce which is still relatively young and becoming better skilled. The infrastructure in Vietnam continues to improve.

Opportunities

In 2017, the UK was the 4th largest EU exporter of goods to Vietnam, totalling £579 mil and accounting for 0.35% of Vietnam's global imports. The top UK export goods included machinery and other equipment (30%), pharmaceuticals and chemicals (18%), chemicals (7%), automobile (4%) and aqua products.

UK export of goods to Vietnam increased by 20% compared to 2016, driven by significant increase in pharmaceuticals and chemicals as well as pulp and waste paper exports. There was a slowdown in "food and live animals" category exports, possibly resulting from cereals, meat and fish export, according to HM Revenue & customs' data.

The UK was the EU's 3rd largest export market for Vietnam, accounting for 14% of Vietnam's total exports to the EU and 2.53% of Vietnam's global exports. According to the Customs Department of Vietnam, the top goods imported from Vietnam were mobile phones and devices (37%), textile (13%), footwear (13%), computers and electronic devices (5%), timber and wooden products (5%).

Challenges

Challenges remain to doing business in Vietnam for British Companies including bureaucracy, language barriers, grey areas in Vietnamese Law and more improvements to infrastructure still required.

BBGV is delighted to work closely with VCCI in Ho Chi Minh City to jointly promote and support trade and access between companies in the UK and Vietnam.

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Chapter 1

VIETNAM AT A GLANCE

- I. Geo-demographics
- II. Political Structure

I. Geo-demographics

1. Geography

Vietnam is at the crossroads of the Pacific Ocean and the Indian Ocean. The major sea masses from Europe and the Indian Ocean to Northeast Asia coastline; indeed, the country overlooks the Pacific Ocean and for that reason has been called a "balcony over the Pacific". Below the balcony, its continental shelf stretches over 500,000 square kilometres.

Vietnam's geographical position is one of the country's most important features allowing integration with the whole of South East Asia, Asia Pacific and the Global economies, Vietnam is well positioned to add value to global businesses.

Vietnam has been described as a carrying pole with a rice basket hanging from each end. When one views Southeast Asia from above, the "S" shaped country of Vietnam is clearly visible. The description is a fitting one, a single mountain chain, the Truong Son range extends along Vietnam's western border from the North to South, connecting two 'rice baskets', which are formed by the densely populated Red River Delta of the Tonkin region in the north and the rich Mekong River Delta in the south.

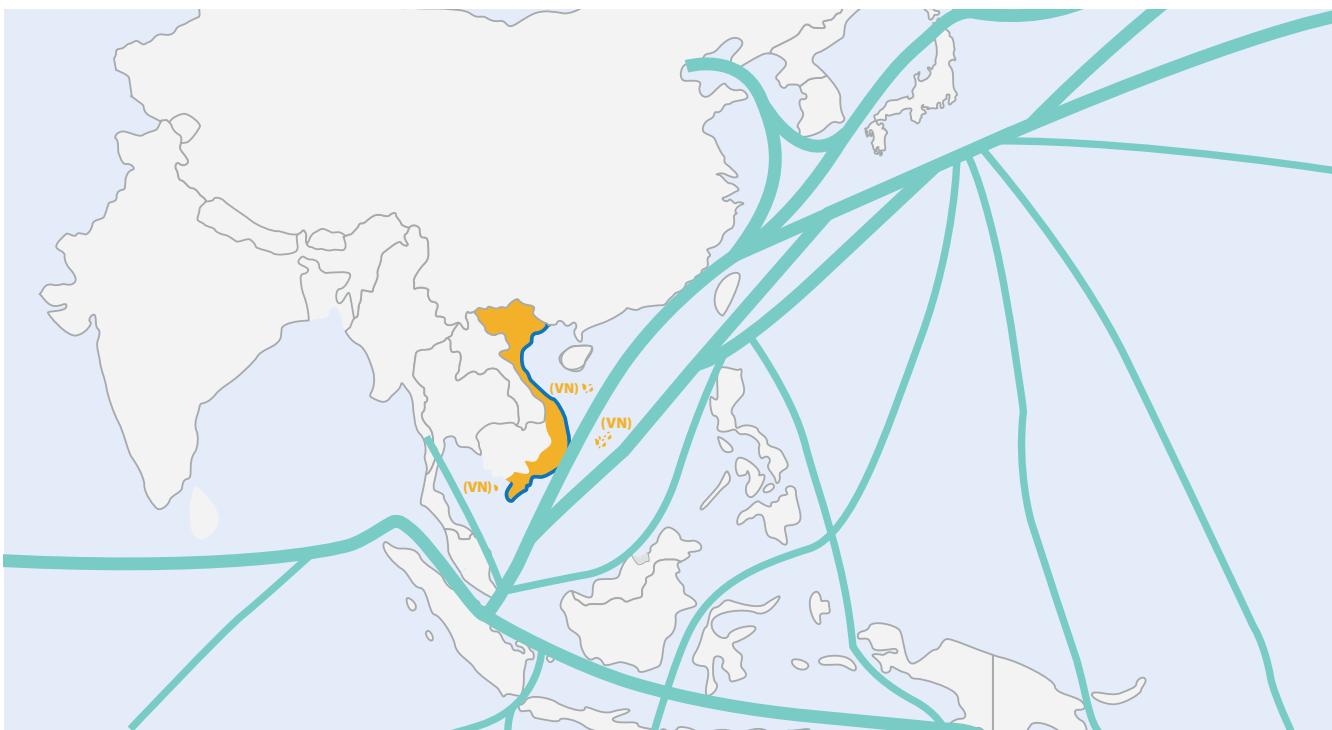
With an area of 330,967 square kilometres, Vietnam is roughly the same size as Italy or, New Mexico in the USA though smaller than Japan.

There are two distinguishable seasons in the southern areas. The cold season occurs from November to April and the hot season from May to October. The northern parts of Vietnam have essentially four distinct seasons, it can be quite cool in the winter there, but hot in summer.



Figure 1: Map of the Socialist Republic of Vietnam





■ *Figure 2: Vietnam is known as the “balcony over the Pacific ocean”*

2. Demographics

VIETNAM: COUNTRY AND PEOPLE

Vietnam is a country that seamlessly incorporates traditional cultures and foreign influences as it successfully moves into the modern era. A market economy with a socialist orientation, Vietnam is proactively integrating into the global economy.

Traditional cultures including "Tam Giao" or Buddhism, Taoism and Confucianism continue to influence and guide Vietnamese behaviours and thoughts. In addition, the veneration of ancestors and national heroes inspires modern Vietnamese as they further develop their society, culture and economy. Buddhist temple and Christian churches are plentiful in Vietnam and, you can observe the fengshui factors in the architecture. The Vietnamese people still practice acupuncture, take herbal medicines and, enjoy tasty local cuisine.

Vietnam has maintained its own unique identity while welcoming innovations and change from foreign influences including Western medicine, Latin alphabet, agriculture (coffee, rubber trees, etc.), and technology. Foreigners that have contributed to Vietnamese culture have been honoured in the society and history. In some cases, notable foreign contributors have had streets and institutes named

after them. These include Louis Pasteur, Alexandre Yersin and Alexandre de Rhodes. Vietnam clearly exudes a confidence that enables it to accept beneficial foreign influences while celebrating a strong and unique identity.

Demographically, Vietnam features a mix of 54 ethnic groups led by the "Kinh" group representing approximately 85% of the population. Other ethnic groups such as the Tay, Thai, Muong and Khmer each represent 2% of the population. This multi-ethnicity has resulted in the emergence of a vibrant culture of rich and diverse heritage manifested in Vietnam's cuisine, literature, legends, festivals and celebrations. As a result, Vietnam has rapidly become a favoured destination for social scientists and travellers alike.

Vietnam is a highly literate country, which throughout its history has benefited from useful foreign linguistic influences including Chinese, French and English. This has included usage of traditional Chinese characters either wholesale or as part of a phonetic alphabet such as Nôm or use of a Romanised alphabet such as Quốc Ngữ. This willingness to innovate and benefit from foreign influences demonstrates Vietnam's self-

confidence and willingness to engage foreign cultural influences following Vietnam's own needs. Currently, Vietnam students eagerly and diligently seek to learn a variety of foreign languages including

amongst others, English, Korean, Japanese and Thai. This cultural confidence and approach bodes well for Vietnam's ongoing integration into the global economy.

POPULATION

Vietnam currently is the 14th most populous country in the world with approximately 94.4 million people in 2016. This represents two times the population of Spain and one third the population of the United States. The population is projected to reach approximately 98 million by the year 2020 based on an average annual growth rate of 1.1%.



■ Figure 3: Vietnam's population, 2013-20f

Source: United Nations



■ Figure 4: Age pyramid in 2016 and 2030

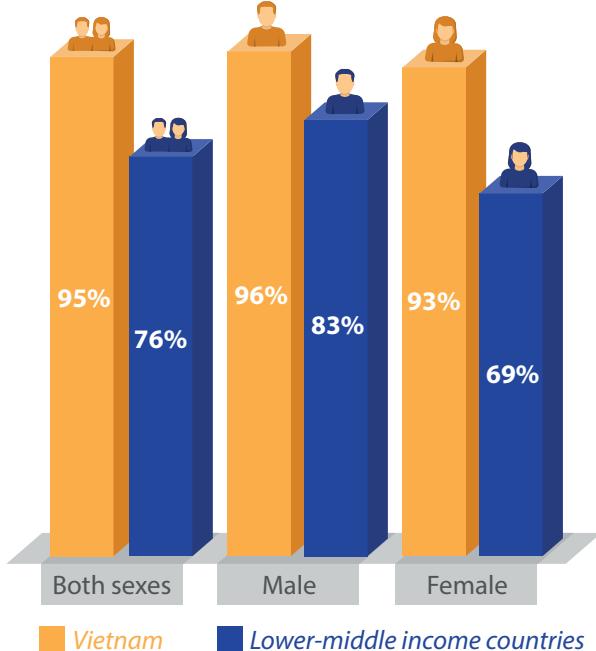
Source: United Nations

Vietnam is also at a "golden population" stage where the number of people in working age is larger than that of dependents (children and elderly). As of 2016, the country's labour force (aged 15-64) accounted for over 66% of the total population and is forecasted to show a slight decrease to 62% by 2030. This feature of the population allows Vietnam to have the demographic resources in terms of quality and quantity to continue economic development both currently and into the future.

LITERACY RATE

In 2015, 95% of Vietnamese aged 15 and above had achieved literacy (96% for males and 93% for females). Compared to other lower middle-income countries, Vietnam's education coverage is relatively more effective and widespread. This critical achievement is due to the policy of the government making elementary education compulsory for children over the age of six. This is an example of the central government proactively improving life for the citizens of Vietnam while improving the human resources to better enable economic development.

This achievement testifies to the value of education in Vietnamese culture, where families often make significant sacrifices to ensure the best education for their children.



■ **Figure 5: Literacy rate of adults aged 15 and above in 2015**
Source: GSO & UNESCO Institute for Statistics

II. Political Structure

The stability and policy making of Vietnam's political system have supported Vietnam's rapid economic and social growth. This system has admirably demonstrated the capability to craft and implement policy to enable Vietnam's integration into the global economy and the country's positive engagement with foreign business communities. This capability has been clearly displayed in both buoyant and stagnant economic conditions. It is well positioned to continue to support Vietnam's evolution from a lower-middle income country to an industrial country in the near future.

Vietnam is a socialist country operating under the leadership of the Communist Party. A nation-wide congress (National Assembly) of Vietnam's Communist Party is held every five years determining the country's orientation and strategies and adopting its chief policies on solutions for socio-economic development. The National Congress elects the Central Committee which in turn elects the Politburo.

NATIONAL ASSEMBLY

The National Assembly is the highest law-making body in Vietnam. It comprises of delegates who are elected for a five-year term from various strata of people and different ethnic groups from across country. The National Assembly is both the supreme state authority and the unique legislative body and has the power to promulgate and amend the Constitution and Laws. The National Assembly meets twice a year.

The Standing Committee of the National Assembly is the permanent executive body of the National Assembly. Its principal functions are the interpretation of the Constitution, Laws and Ordinances, the control of their implementation and the supervision of the activity of the Government, the Supreme People's Court and the Supreme People's Procuracy.

THE PRESIDENT OF VIETNAM

The President, as the Head of State, is elected by the National Assembly from its members to represent Viet Nam in domestic and foreign affairs for a five-year tenure. The President has the right to proclaim Laws and Ordinances passed by the National Assembly and the Standing Committee. The President is the commander-in-chief of the armed forces and Chairman of the Council for Defense and Security. In foreign affairs, the President has the authority to appoint ambassadors and to sign international agreements and treaties.

The President appoints and dismisses the Prime Minister and the members of the Government on the basis of resolutions of the National Assembly or its Standing Committee. Furthermore, the President has the right to nominate key officials such as the Chief Justice of the Supreme Court and the Chief Procurator of the Supreme Procuracy, subject to the National Assembly's approval.

THE GOVERNMENT

The Government is the highest executive organ of the State. The Prime Minister is the leader of the Government. The Prime Minister is responsible for the day-to-day operations of the Government. The Vietnamese Government currently has 20 ministries and 6 ministerial-level bodies

THE PEOPLE'S COUNCILS AND PEOPLE'S COMMITTEES

Viet Nam has 58 provinces and 5 cities directly under central authority, namely Hanoi, Ho Chi Minh City, Hai Phong, Da Nang, and Can Tho. Provinces are subdivided into districts, provincial cities and municipalities. Districts are further divided into communes and townships. Cities directly under the central authorities are made up of districts. Urban districts are divided into precincts, and rural districts are made up of communes.

People's Councils of various administrative levels are elected by the population of the locality. People's Councils are responsible for the supervision of the implementation of the laws, policies and tasks at the local level, and for taking decisions on local socio-economic development programs and budgets. People's Committees of various levels are the executive arm of the People's Councils. They are also local administrative authorities, and report to the People's Councils of the same level. Chairmen, vice chairmen and members of the People's Committees are elected by People's Councils.

THE PEOPLE'S COURTS AND PEOPLE'S PROSECUTORS

The Constitution establishes a three-level judicial system comprising District Courts, Provincial Courts and the Supreme People's Court. In addition, there is a system of people's organs of control acting as a procuracy or public prosecutor to oversee the observance of laws by judicial bodies and to exercise the power of public prosecution.





Chapter 2

BUSINESS LANDSCAPE

- I. Macroeconomic
- II. Economic Integration Process

Vietnam's shift from a centrally planned to a market economy has transformed the country from one of the poorest in the world into a lower middle-income country. Vietnam now is one of the most dynamic emerging countries in East Asia region.

World Bank

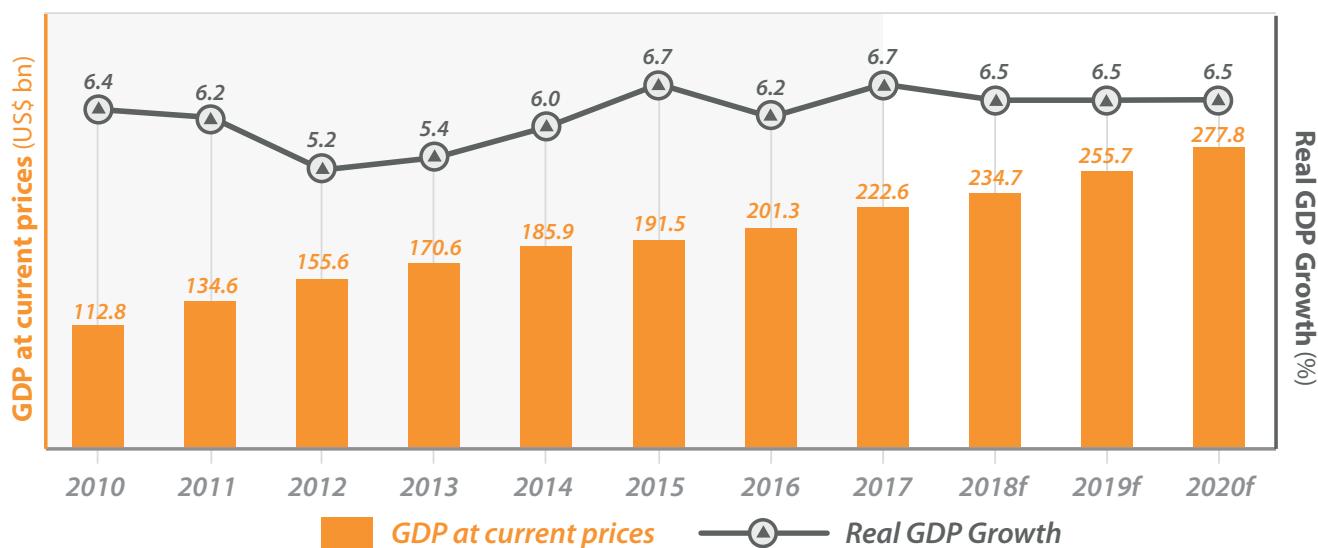
Asian Development Bank

Viet Nam's economic growth has been increasing since 2011, while inflation has remained in single digits. Well-balanced macroeconomic policies have helped restore stability and investor confidence, with growth being propelled by a surge in foreign direct investment and export-oriented manufacturing.

I. Macroeconomic Performance

1. GDP

Vietnam GDP and GDP growth rate from 2010 to 2020f



■ *Figure 6: Vietnam's GDP at current prices and growth rates, 2010-20f*

Source: GSO, IMF, World Bank

Vietnam economic growth over the 2010-2016 period has been spectacular: the country has averaged 6.0% over this period. The year 2017 was no different as gross domestic product (GDP) growth reached 6.7%, equal US\$222 billion.

This rapid growth rate positions Vietnam as one of the fastest growing economies in Asia as well as the world. This growth is projected to continue to the year 2020 when Vietnam's GDP is forecasted to reach nearly US\$278 billion. The steady growth rate has been supported by government macroeconomic policy controlling inflation, maintaining price stability, lowering trade barriers, improving the overall business environment and establishing a more effective tax regime.

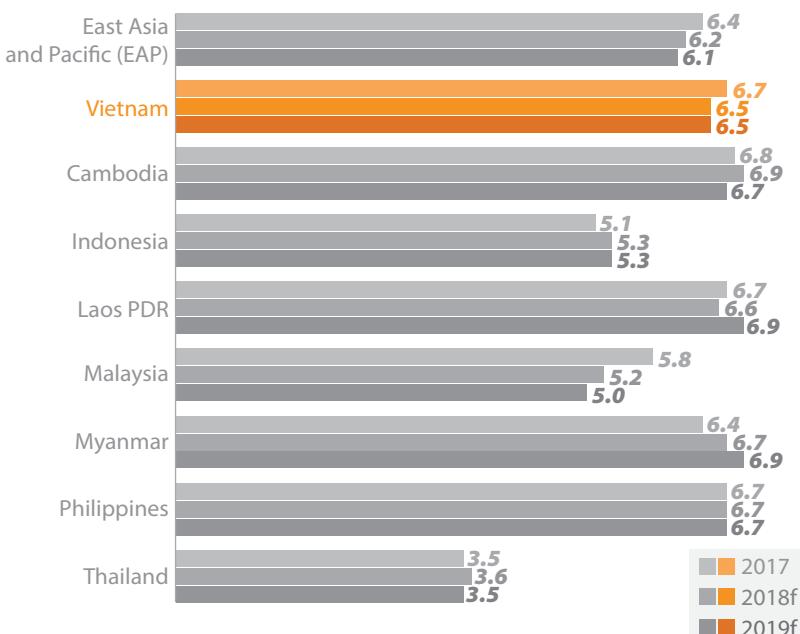


Figure 7: GDP growth (%) by developing country in East Asia and Pacific, 2017-19f

Source: World Bank

Relative to other countries in East Asia and Pacific, Vietnam's GDP growth rate remains positive and higher than elsewhere in the regions. As the rate varies between 6.5% and 6.7%, the Vietnam rate is only slightly lower than that of Cambodia, Laos PDR and Myanmar. This makes sense as these countries are developing from a lower economic base in comparison to Vietnam. Vietnam's GDP growth rate is expected to maintain its progress in the future and will remain approximately 0.4% above the regional average.

GDP per capita from 2010 to 2020

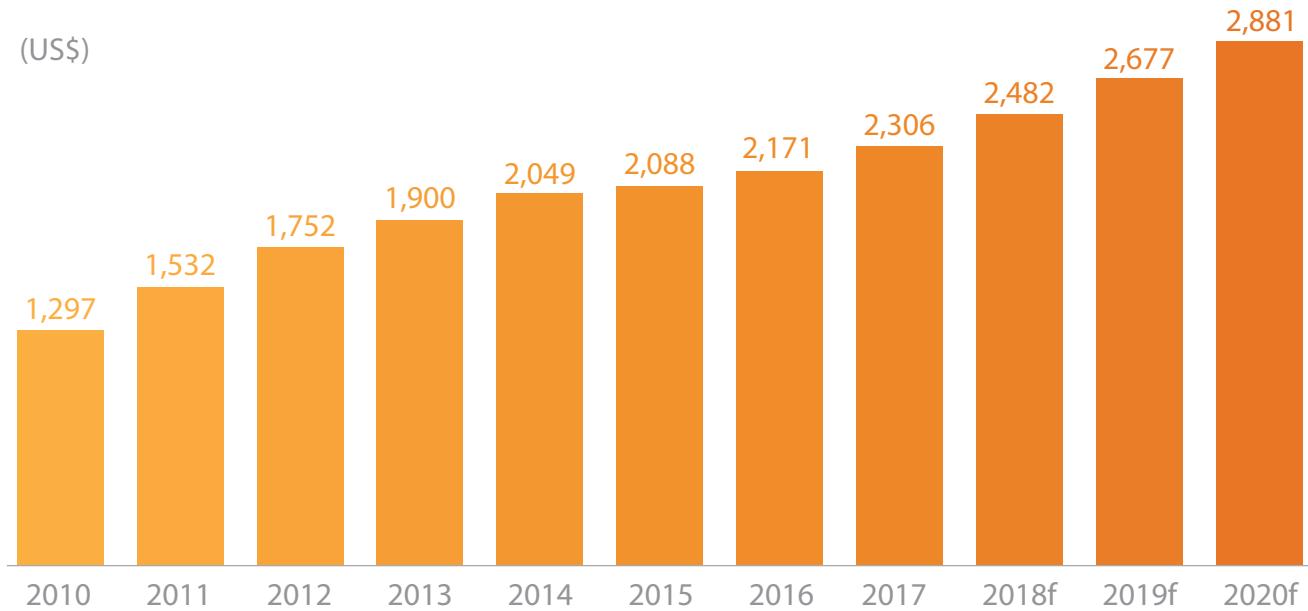
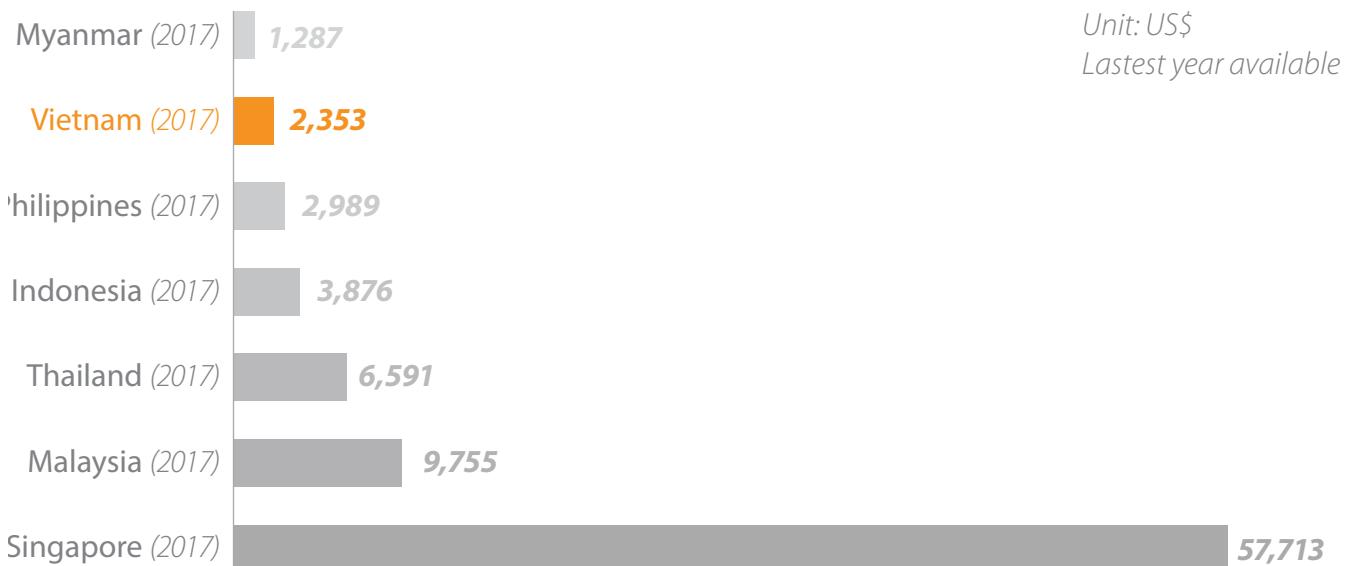


Figure 8: Vietnam's GDP per capita at current prices, 2010-20f

Source : IMF, World Bank

In 2016, Vietnam's GDP per capita stood at US\$2,171, exhibiting a slight increase of 4.1% y-o-y. Vietnam can expect to reach a GDP per capita of US\$2,881 in 2020. This will result in greater disposable income for the Vietnam consumer.

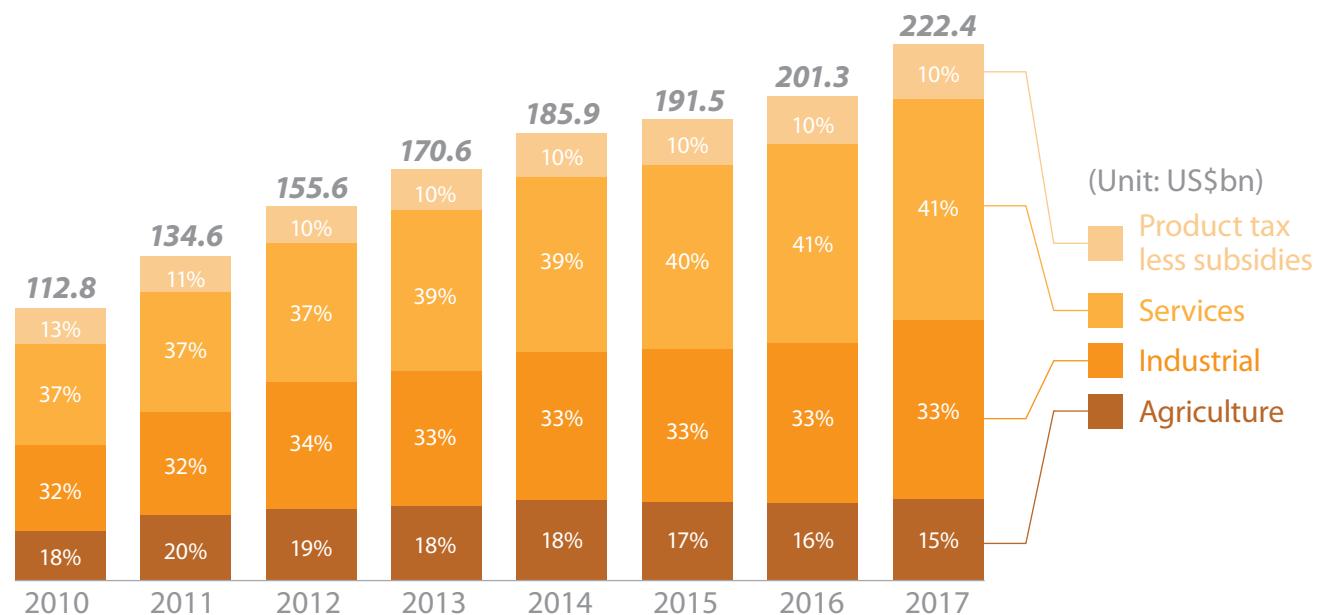


■ Figure 9: GDP per capita at current prices of selected ASEAN countries

Source : IMF

As of 2016, Vietnam's GDP per capita remains at the lower-end of the region. This relatively low-cost of labour has helped Vietnam establish its position as a production base for foreign multinationals. As a result, several multinational giants, such as Samsung and Intel, have increased or relocated their production capacity in Vietnam.

GDP by Sector from 2010 to 2017



■ Figure 10: GDP contribution by sectors, 2010-17

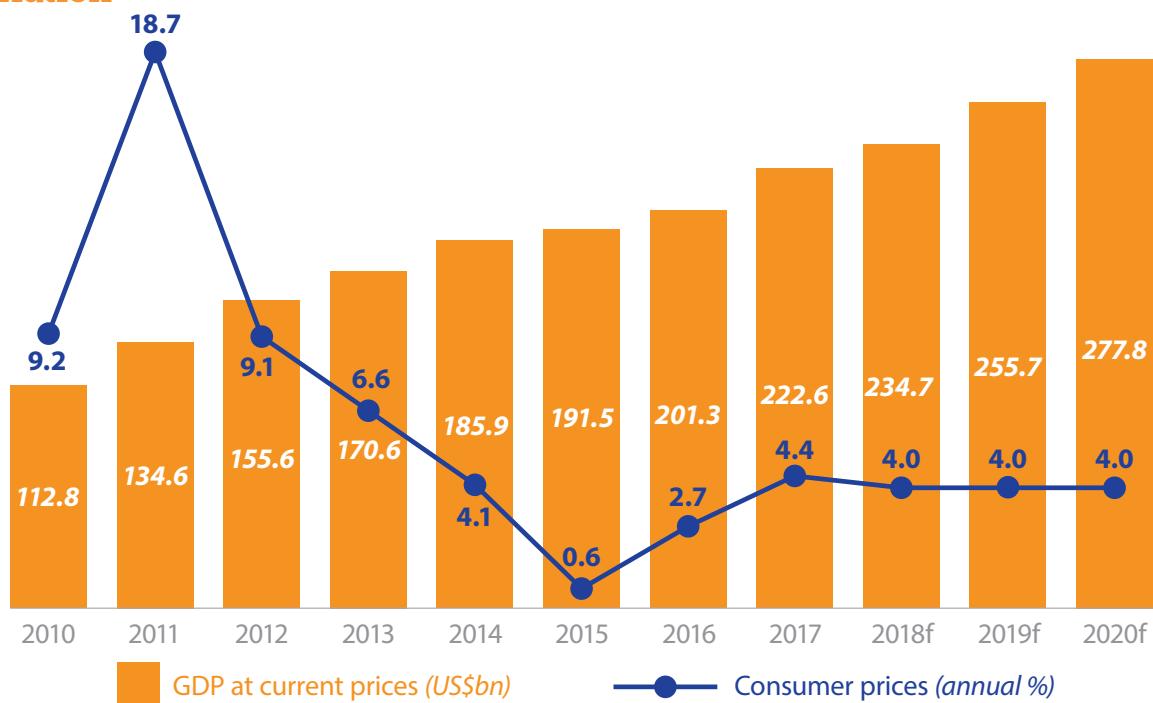
Source : GSO, IMF, Ipsos Business Consulting analysis

Since the Doi Moi reform period commenced in the 1980s, Vietnam had transformed from an agricultural based economy to an industrial economy with the resultant emergence of a service sector. As a result, in 2017, the agriculture sector only accounted for approximately 15% of the GDP and this downward trend is expected to continue as industry and services increase their share of economic outputs. This shift will be supported by Vietnam's macroeconomic and investment policies.

IMPLICATIONS OPPORTUNITIES + RETURN ON INVESTMENT

Vietnam's rapid economic growth and sound macroeconomic fundamentals have created a business environment supportive of foreign investment and conducive to a favourable return on investment. Foreign investors and businesses have increasingly considered Vietnam as an especially high-potential market in the region. Amongst the countries with the highest GDP growth rate in the region, Vietnam is considered as a lucrative market with various business opportunities, especially in the Industrial and Services sectors.

2. Inflation



■ Figure 11: Vietnam's GDP at current prices and consumer prices, 2010-20f

Source : GSO, IMF

Leading a rapidly developing economy, the Vietnam Government has always faced a challenge to balance economic growth with potential high inflation. Designing macroeconomic policies to achieve economic growth without high inflation is an imperfect practice and in the year 2011 Vietnam's Consumer Price Index (CPI) increased dramatically to 18.7% y-o-y.

However, thanks to the quick readjustment of macroeconomics policies and instituted tighter fiscal and monetary policies from the Government, the economy stabilised, and the inflation rate decreased to a rate of less than 1% in 2015. Although the CPI increased in 2017 to 4.4%, most economists forecast that inflation will remain stable over the next few years to 2020.

Credit rating

S&P granted a credit rating of BB- for Vietnam in 2017, which is the same as the 2017 rating.

S&P expects Vietnam's growth prospects will continue to improve. Being classified as positive, this rating is likely to be better next year. This outlook assumes progress on growth-enhancing improvements over the next three to five years. Thus, investors can look forward to a healthier business environment in the future.

As a result of strong economy growth in 2017, Fitch raised the rating of Vietnam to BB. The rating agency reports that it expects Vietnam to continue the growth momentum with supports from foreign investments, development from manufacturing sector, and increase in consumer expenditure.

In 2016, Moody upgraded Vietnam's rating from B2 from the country's previous rating of B1 in 2015, featuring improvements in Vietnam's economy, institutional capacity, and macroeconomic stability. Hence, according to the three big rating agencies, Vietnam's economy is stable and poised for continued growth. The country remains attractive to foreign investment as well as domestic business growth.

Rating	Grade	Classifications
Standard & Poor (S&P)	BB-	Positive, Stable, Developing
Moody's	B1	Positive
Fitch	BB	Stable

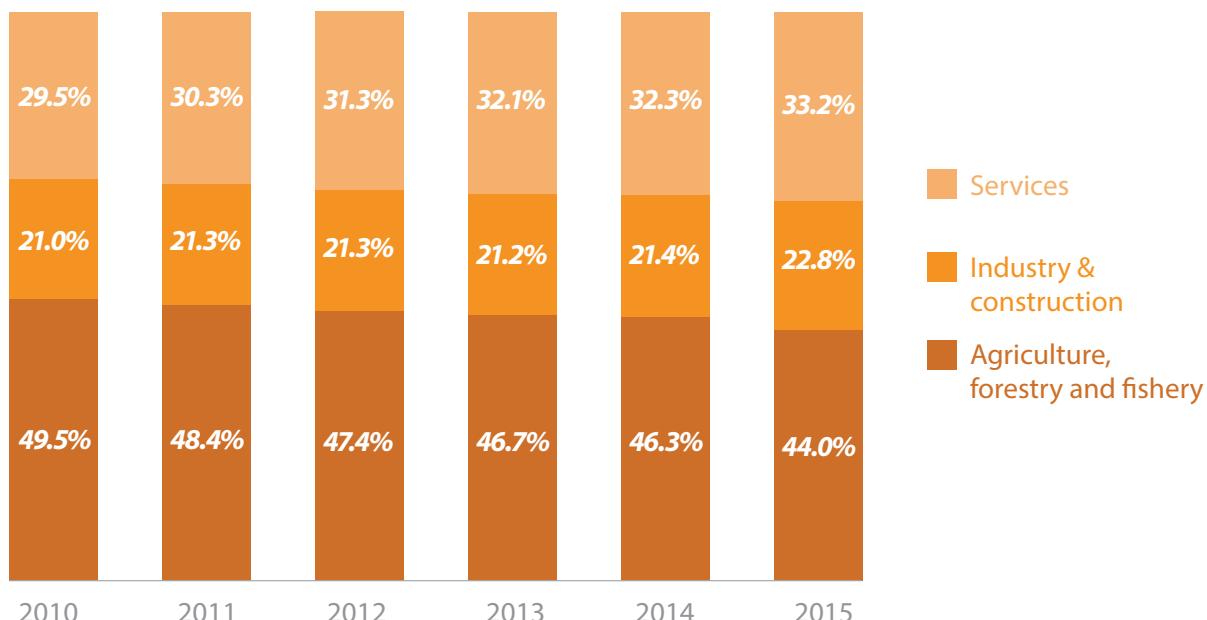
■ Figure 12: Vietnam's credit ratings, 2017

Source : S&P, Moody's & Fitch

3. Full employment

Although agriculture only accounted for approximately 16% of GDP in 2016, it supported 45% of the work force aged 15 and above. Key agriculture products include rice, tea, coffee, rubber, forestry products, cashews, fruits, vegetables as well as a number of other tropical crops.

Employment in the agricultural sector is expected to gradually decline as Vietnam continues its drift to become an industry and service-based economy which is an economy more efficiency driven.



■ Figure 13: Employed population by sector, 2010 – 2015

Source : GSO

Human Resources

Vietnam's human resources exhibit both strengths and weaknesses. Overall the workforce is young and has been effective during Vietnam's early stages of economic growth featuring light manufacturing, processing and assembly. However, as Vietnam shifts from a "factor driven" economy to an "efficiency driven" economy, Vietnam's human resources will need to improve their education and training levels and capabilities.

Education

Despite Vietnam's touted high level of literacy, the country work force's education and technical levels of the workforce are relatively low. For example, the World Bank recently rated the quality of the country's labour at 3.39 points on the 10-point grading scale, ranking 11th among 12 rated Asian countries, much lower in comparison with The Republic of Korea (6.91), India (5.76), and Malaysia (5.59).

This gap has been concerned by many companies and organizations in Vietnam and hence resulted in their considerable investment in designing vocational trainings in engineering and higher education with international standards.

Example

LILAMA 2 TECHNICAL AND TECHNOLOGY COLLEGE

Dong Nai province

The programme 'Centre of Excellence for Technical and Vocational Education and Training - LILAMA 2' was implemented in 2014. This is a component of the 'Reforming technical and vocational education and training in Viet Nam' programmes which promotes the development of a network of centres of excellence for vocational education and is funded by German Federal Ministry for Economic Cooperation and Development. The programme offers ground for a range of practical, high quality training courses that are in line with international standards. These will be aimed at occupations in sectors with particularly high growth potential, for example industrial mechanics, metalwork (with focus on machining and CNC), mechatronics and industrial electronics and electro-technology.



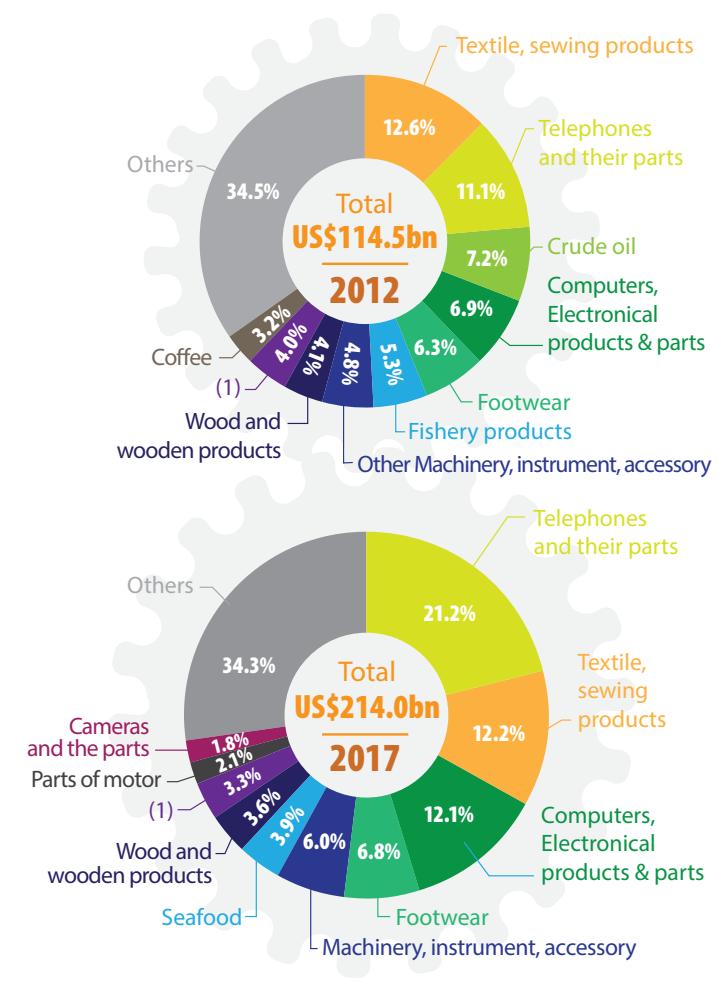
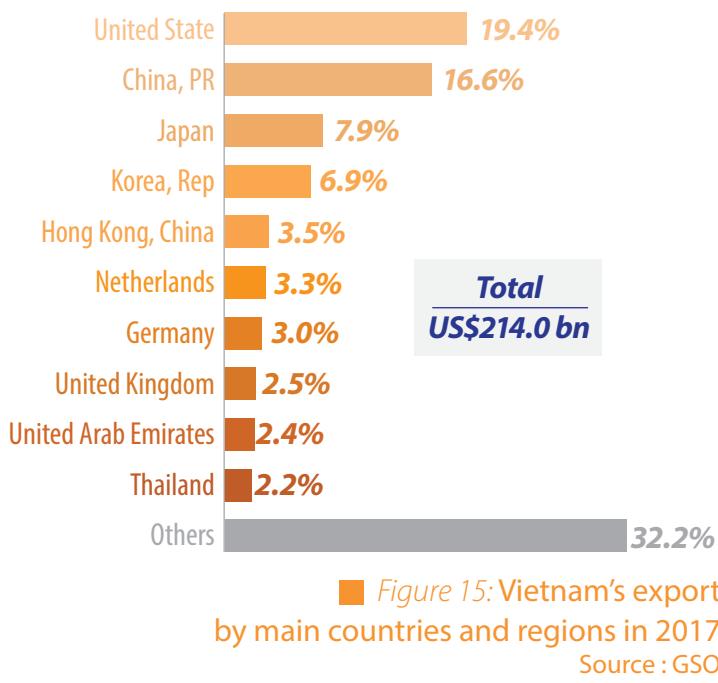
4. Foreign trades

Exports

Vietnam's total export value reached US\$214 billion in 2017, an increase of 22% y-o-y. Since 2012, Vietnam exports have exhibited a compound annual growth rate of 13%.

Telephones and their parts continue to be key export products of Vietnam with export values reaching US\$45.3 billion in 2017, accounting for 21% of the country's export value structure. Besides telephones and parts, computers & electronical products and parts also major export products, contributing 12% (equivalent to US\$26.0 billion) to the structure. The shift of Vietnam's economy towards higher value-added export products and positive integration within the global economy has together sparked this trend. By 2020, higher value products are expected to represent an even bigger share of Vietnam's exports. These products will include electronics, manufacturing, telecommunications, building materials and furniture.

Exports of textile & sewing products as well as footwear will continue to grow in terms of absolute value. However, increasingly, the shares of these products of overall exports will decrease as those of higher value-added products continue to rise as Vietnam continues to migrate economy featuring garments and footwear light industry to an economy producing higher value products.



■ Figure 14:
Vietnam's export structure 2012-2017
Source : GSO

In 2017, the US was the largest export partner of Vietnam, receiving over 19% of total Vietnamese outbound shipments. A healthy US economy will continue to be favourable to Vietnam. The main exports to the US are electrical machinery, equipment and parts, articles of apparel and clothing accessories and footwear. Telephones and related components represent the chief electrical equipment exports. China is Vietnam's second biggest export market, accounting for nearly 17% of total exports while the Association of Southeast Asian Nations (ASEAN) market ranks as Vietnam's third largest export destination (altogether accounts for 10.5%).

Imports

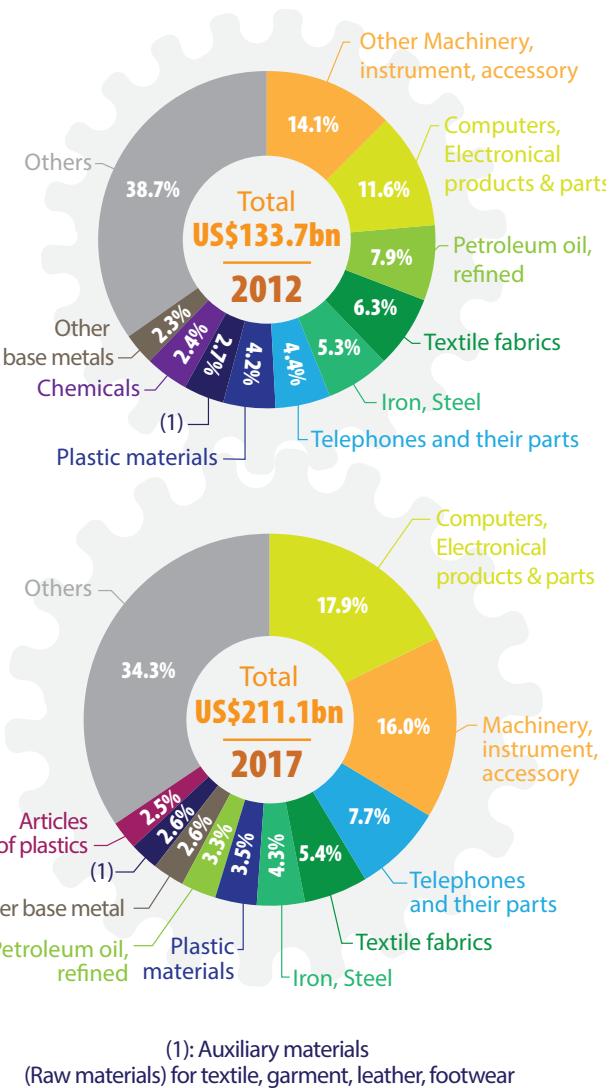
Vietnam's total import value reached US\$211.1 billion in 2017, which represented an increase of 22% relatively to 2016. During 2012-17, the country's total import value has exhibited an impressive growth of compound annual growth rate (CAGR) = 13%.

Over this period, electrical machinery and mechanical appliances continue to be key import products; these sectors account for over 35% of Vietnam's import structure (equivalent to US\$71.4 billion) in 2017.

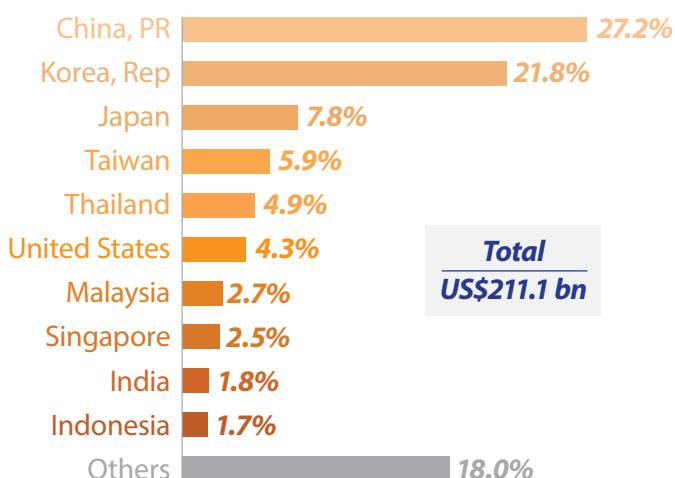
Foreign direct investment (FDI) and domestic consumption have been driving imports in both quantity and quality. For long-term strategy, to improve its rank in the global competitive landscape, Vietnam is striving to maintain the flow of advanced technology to its the country in order to produce products with higher value-added and margins whilst reducing import deficits.

Figure 16:
Vietnam's import structure 2012-2017

Source : GSO



(1): Auxiliary materials
(Raw materials) for textile, garment, leather, footwear



Asian countries, led by China, are the biggest sources of imports to Vietnam. China at 27% and Republic of Korea at 22% account for nearly half of Vietnam's imports, followed by Japan, Taiwan and Thailand. This clearly demonstrates the close level of regional integration Vietnam has achieved since the beginning of reforms thirty years ago.

The United States of America, despite its position as Vietnam's number one export market, only ranks as Vietnam's sixth biggest source of imports, accounting for only 4% share.

Figure 17: Vietnam's export by main countries and regions in 2017

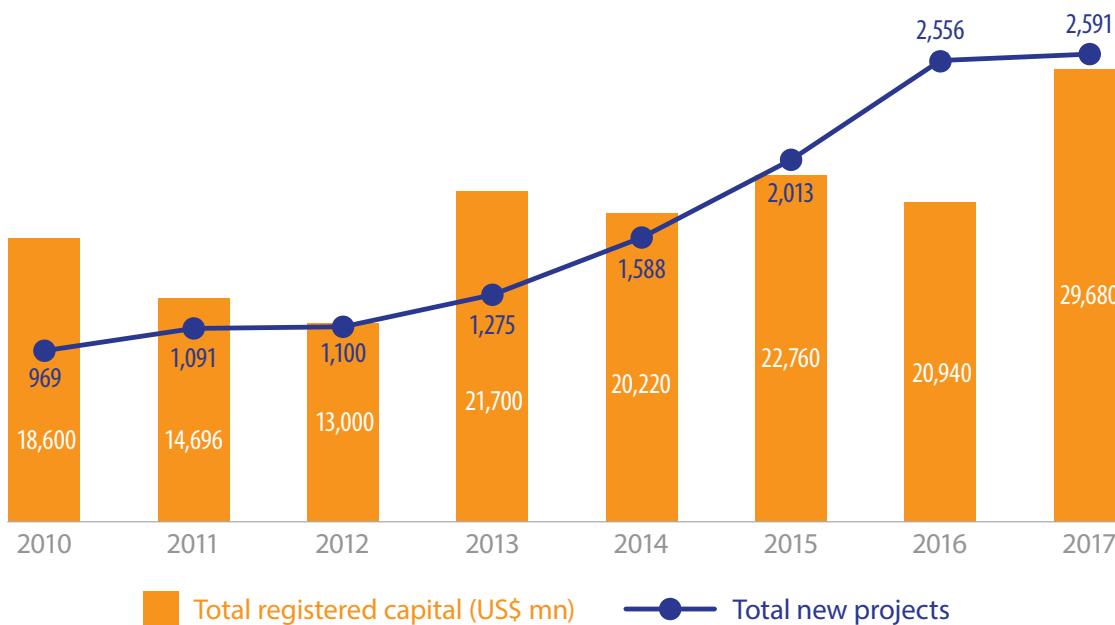
Source : GSO

Foreign Direct Investment

The total registered (licenced) FDI inflow of Vietnam increased from US\$18.6 billion to over US\$29.6 billion during 2010-17, translating to a healthy CAGR of 6.9%. In terms of number of projects, for the same timeframe, Vietnam has attracted a cumulative number of over 13,100 projects, with a CAGR 2010-17 of 15.1%.

The consistent increase has been driven by large multinationals moving manufacturing capacity to Vietnam. The attractiveness as an investment destination is further exhibited as the contribution of increased capital in total registered FDI inflow has risen from 7% in 2010 to 28% in 2017.

Following the healthy rise in FDI influx and further integration to the world's economy, it is expected that this trend will be maintained in the near future. Vietnam's Ministry of Planning and Investment, with the assistance of the World Bank, is currently drafting a new FDI strategy for 2018-2023 focusing on priority sectors and quality of investments, rather than quantity. The new draft aims to increase foreign investment in high-tech industries, rather than labour-intensive sectors. Manufacturing, services, agriculture, and travel are the four major sectors in focus in the draft



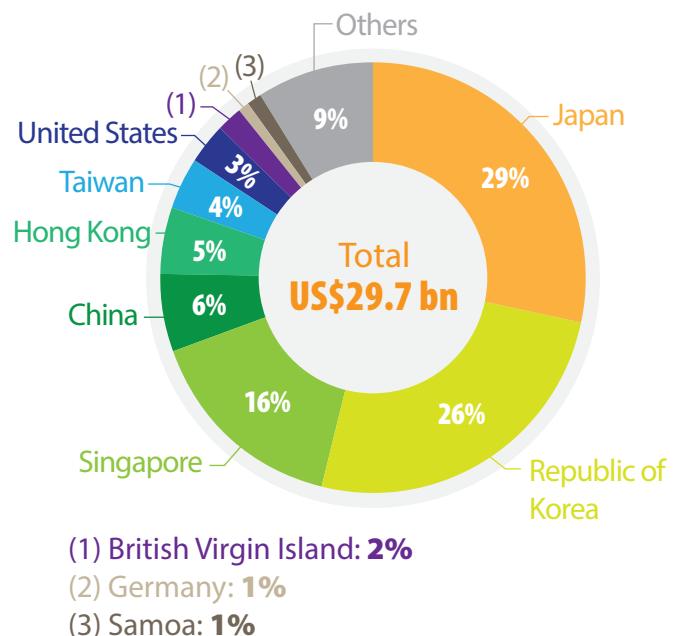
■ Figure 18: Vietnam's FDI during 2010-17

Source : MPI

Licensed FDI by Country 2017

As a result of Vietnam's attractiveness to international business, FDI continues to grow and diversify. In 2017, 81 countries and territories have registered to invest in Vietnam. The structure of Vietnam's FDI is driven mainly by five countries which are Japan, Republic of Korea, Singapore, China, and Hong Kong. These countries collectively account for 82% of total capital inflow. The commitment of Asian businesses to Vietnam illustrate the close diplomatic and economic Vietnam has established with Asian neighbours.

■ Figure 19:
Total registered FDI by main countries in 2017
Source : GSO



FDI by provinces in 2017

Out of 54 provinces and cities receiving foreign direct investment in 2017, Ho Chi Minh City leads the country in both capital and number of FDI projects.

Five cities/provinces which are Ho Chi Minh city, Bac Ninh, Thanh Hoa, Khanh Hoa, and Binh Duong collectively account for half of the country's registered capital inflow. Whilst amount of investment to these cities are quite even, number of FDI projects in Ho Chi Minh city in 2017 accounts for nearly one-third of the country's total number.

Bac Ninh continues to be a favourite destination for foreign companies to invest as nearly 90% of US\$3.3 billion FDI capital to this province is for existing projects, leading the country in terms additional capital for existing projects. Thanh Hoa and Khanh Hoa are two provinces receiving the highest number of newly registered capital sitting at US\$3.1 billion and US\$2.6 billion, respectively, due to mega Build – Operate – Transfer (BOT) Japan's thermal power projects.

These positive figures reflect the ongoing efforts to bring economic development throughout the country via national policies favourable to business development as well as increased attention to infrastructure development.

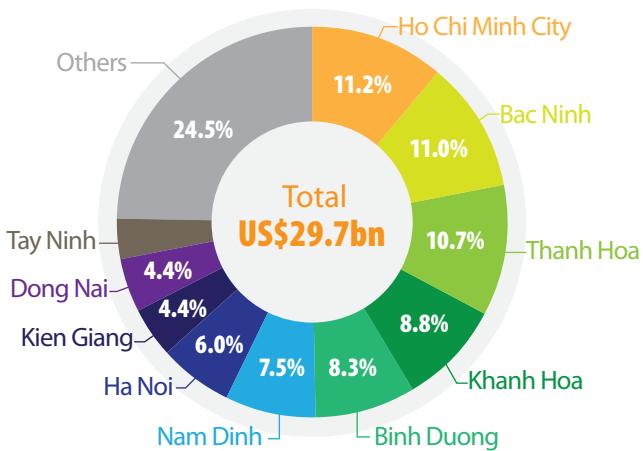


Figure 20:
Registered FDI capital by main provinces, 2017
Source : MPI

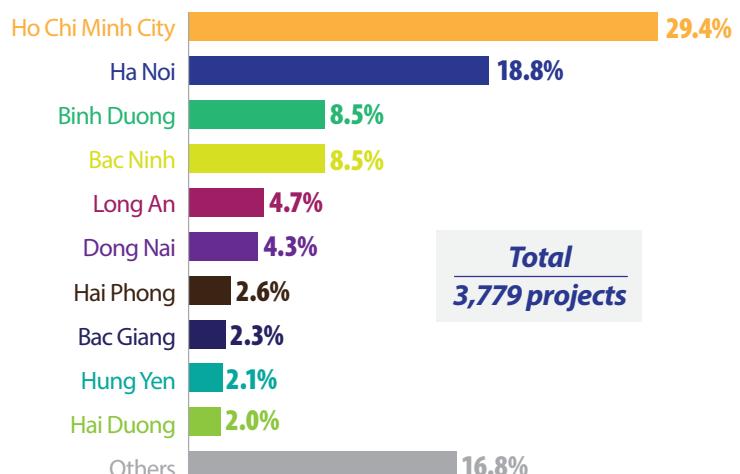
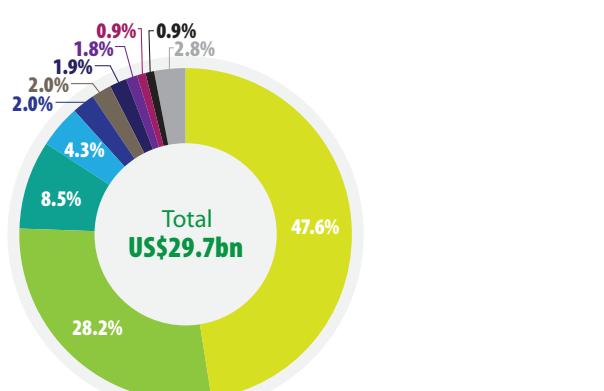


Figure 21:
Number of FDI project in main provinces, 2017
Source : MPI



- Processing and manufacturing industry
- Production and distribution of electricity, gas and steam
- Real estate
- Mining
- Whole and retail trade; repair of motor vehicles and motorcycles
- Water supply; sewerage, waste management
- Professional, scientific and technical activities
- Transportation and logistics
- Construction
- Health and social work
- Other industries

FDI by industries, 2017

In 2017, 19 fields have received investments from foreign investors, in which, processing and manufacturing industry attracts much attention with total registered capital of US\$14.1 billion, accounting for over 47% of the FDI capital. As a consequence of Japan's thermal power plants projects, production and distribution of electricity, gas, and steam has ranked second in terms of key industries receiving highest amount of capital, reaching US\$8.4 billion (equivalent to 28% of the share). Other notable industries include real estate and mining which respectively stand at US\$2.5 billion and US\$1.3 billion in 2017.

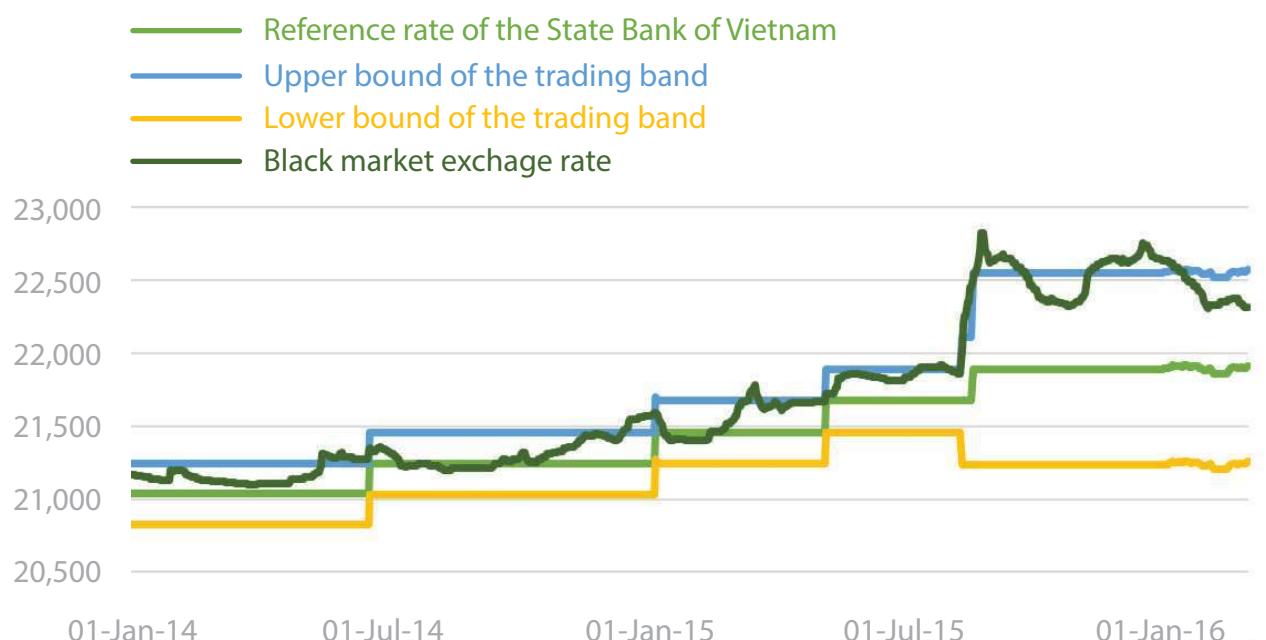
Figure 22: Registered FDI capital by key industries, 2017
Source : MPI

The investments have been assisting Vietnam's transition from an agricultural based economy to an economy based on industry and services. The diversified investment fields with focus on industrial sector illustrate Vietnam's attractiveness as a manufacturing platform for multinational giants.

Exchange Rate

The Vietnamese government is highly aware of the need to carefully manage the foreign exchange rate regime. Until the end of 2015, the foreign exchange regime featured a pegged exchange rate regime featuring a fixed reference rate with trading restricted to a fixed range.

This system was relatively rigid and unresponsive to shifting market and macroeconomic conditions. Typically, the State Bank of Vietnam (SBV) would adjust the rate a few times per year. In 2015, the SBV made three adjustments, each resulting in a 1% change. These multiple abrupt and significant changes had adverse effects on the business community.



■ Figure 23: Vietnam's exchange rate, 2014-2016

Source : State Bank of Vietnam, ADB

As a result, at the beginning of 2016, the Government shifted to a more flexible rate regime to better support the business environment.

The new and more flexible regime is more congruent with market conditions. The system calculates an adjusted rate on a daily basis based on a market-based factors. These include a weighted average of Vietnam Dong prices against a basket of eight major currencies. These currencies include the US dollar and the EU Euro as well as the currencies of the following key Asian trading partners: China, Singapore, South Korea, Taiwan, Thailand and Japan. In addition, macroeconomic

environment and the inter-bank rates are also factored into the daily rate calculation.

The new system has enabled Vietnam to maintain foreign currency exchange stability despite a number of potentially destabilizing global events in 2016. These include Brexit, the US election, the putsch attempt in Turkey, terrorism in Europe and the Yuan devaluation. In November 2016, while many currencies fluctuated, the VND only depreciated about 0.2% relative to the US dollar. The new regime offers a balance of flexibility and stability which should bode well for the Vietnam business environment in the near to mid future.

External economics relations

Vietnam has proven to be an attractive destination for foreign investment and business participation. This is despite its relatively low development position compared to many ASEAN economies. The Government's commitment to provide supportive macroeconomic policies, integrate its economy into both the region and the world via free trade agreements will enable Vietnam to continue to attract international business participation and investment.

However, the country's leaders are aware that they need to actively improve Vietnam's policies, technical capabilities and labour skills and competencies to continue economic growth.

Future prospects

Vietnam's economy will continue to grow and diversify into the future supported by its excellent geographical position, young population and ongoing regional and global integration. As Vietnam moves forward over the period from the present to 2035, the country's leadership will continue to strike the optimal balance between economic prosperity and social inclusion and environmental sustainability. Such a balance will create a fair and sustainable business environment for businesses, both domestic and foreign.

II. Economic Integration Process

In 1986, Vietnam implemented its economic renovation policy known as "Doi Moi", which laid the foundation for the transformation from a centrally-planned economy to a market-oriented economy. Since then, Vietnamese government has made continuous efforts to integrate its economy into the global economy. During this integration process, Vietnam diligently sought to apply the rules and standards of the global economy. At the same time, the country has gradually opened its economy and markets according to agreements with the international community governing trade, investment and finance. In addition, Vietnam has hastened its integration into the global economy through its participation in multilateral institutions.

1. Vietnam's Global Competitiveness

Edition	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Rank	75/144	70/148	68/144	56/140	60/138	55/137
Score	4.1	4.2	4.2	4.3	4.3	4.4

■ Figure 24: Vietnam Global Competitive Index, 2012-18

Source : World Economic Forum

Recently, Vietnam has exhibited continuous progress with regards to global competitiveness. This is congruent with other trends and indicators and bodes well for Vietnam's continued development qualitatively.

The global competitiveness index (GCI) is based on 12 pillars divided into three sub-indices: Basic Requirements (Institutions, Infrastructure, Macroeconomic environment, Health & primary education), Efficiency Enhancers (Higher education & training, Goods market efficiency,

Labour market efficiency, Financial market development, Technological readiness, Market size) and Innovation & Sophistication (Innovation, Business Sophistication). Each sub-index's specific relevancy depends on the development level of each country.



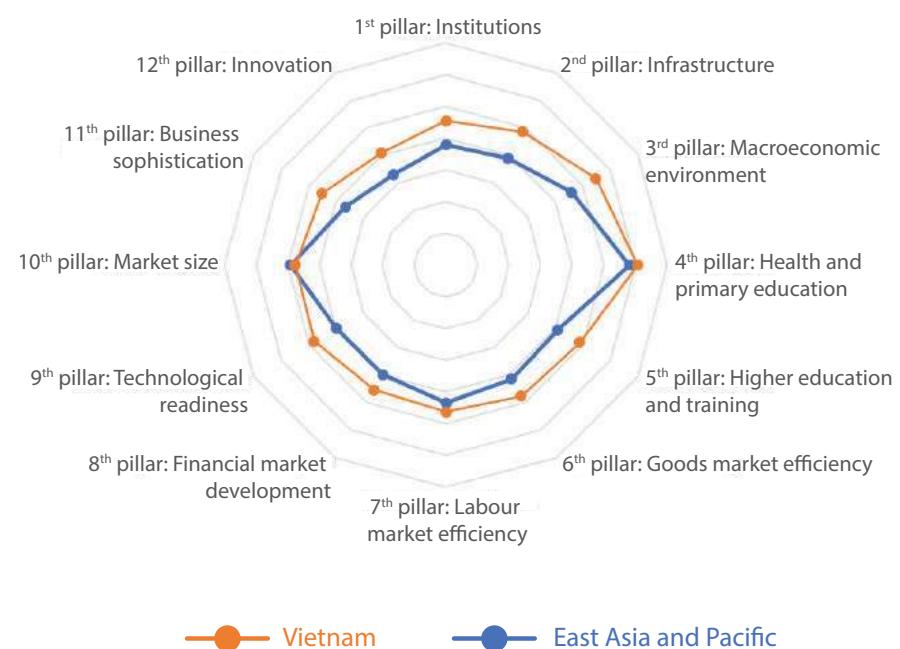
■ Figure 25: Vietnam's stage of development 2016 – 2017

Source : WEF

	Rank /137	Score (1-7)
Subindex A: Basic requirements	75	4.5
1 st pillar: Institutions	79	3.8
2 nd pillar: Infrastructure	70	3.9
3 rd pillar: Macroeconomic environment	77	4.6
4 th pillar: Health and primary education	67	5.8
Subindex B: Efficiency enhancers	62	4.2
5 th pillar: Higher education and training	84	4.1
6 th pillar: Goods market efficiency	91	4.1
7 th pillar: Labour market efficiency	57	4.3
8 th pillar: Financial market development	71	4.0
9 th pillar: Technological readiness	79	4.0
10 th pillar: Market size	31	4.9
Subindex C: Innovation and sophistication factors	84	3.5
11 th pillar: Business sophistication	100	3.7
12 th pillar: Innovation	71	3.3

■ Figure 26:
Vietnam Competitive Index, 2017
Source : World Economic Forum

As a result of continuous advancement of the economy, Vietnam reached the transition point between a factor-driven economy and an efficiency-driven economy in 2015. Becoming more competitive means Vietnam has to develop more efficient production process and increase product quality. The competitiveness for countries of this stage is driven by higher education and training (5th pillar), efficient goods markets (6th pillar), well-functioning labour markets (7th pillar), developed financial markets (8th pillar), the ability to harness the benefits of existing technologies (9th pillar), and a large domestic or foreign market (10th pillar).



■ Figure 27:
Vietnam and East Asia and Pacific Global Competitive Index 2017
Source : World Economic Forum

Relative to its peer countries in the East Asia and Pacific region which includes the number of developed economies such as Singapore, Japan, and Hong Kong, Vietnam's competitiveness is significantly driven by its market size. A relatively large domestic market coupled with strong exports, the country's growth is projected to remain robust.

Nevertheless, comparing with the East Asia and Pacific region, significant improvements are required across all pillars, notably amongst the basic requirement factors and higher education, as lack of an educated workforce will create significant hurdle for doing business, leading to a less competitive business environment.

Though Vietnam falls relatively short with regards to "Technological Readiness", foreign companies increasingly move their production of higher technology products to Vietnam, benefiting Vietnamese from exposure to the advanced products and systems. Such learning will help Vietnam's young work force improve its technological capabilities.

Whilst for analytical reasons it is useful to consider each pillar separately, it is clear that there are strong correlations between them. Vietnam is continuing to improve its overall competitiveness by increasing its access to international markets via additional international free trade agreements.

2. Free Trade Agreements

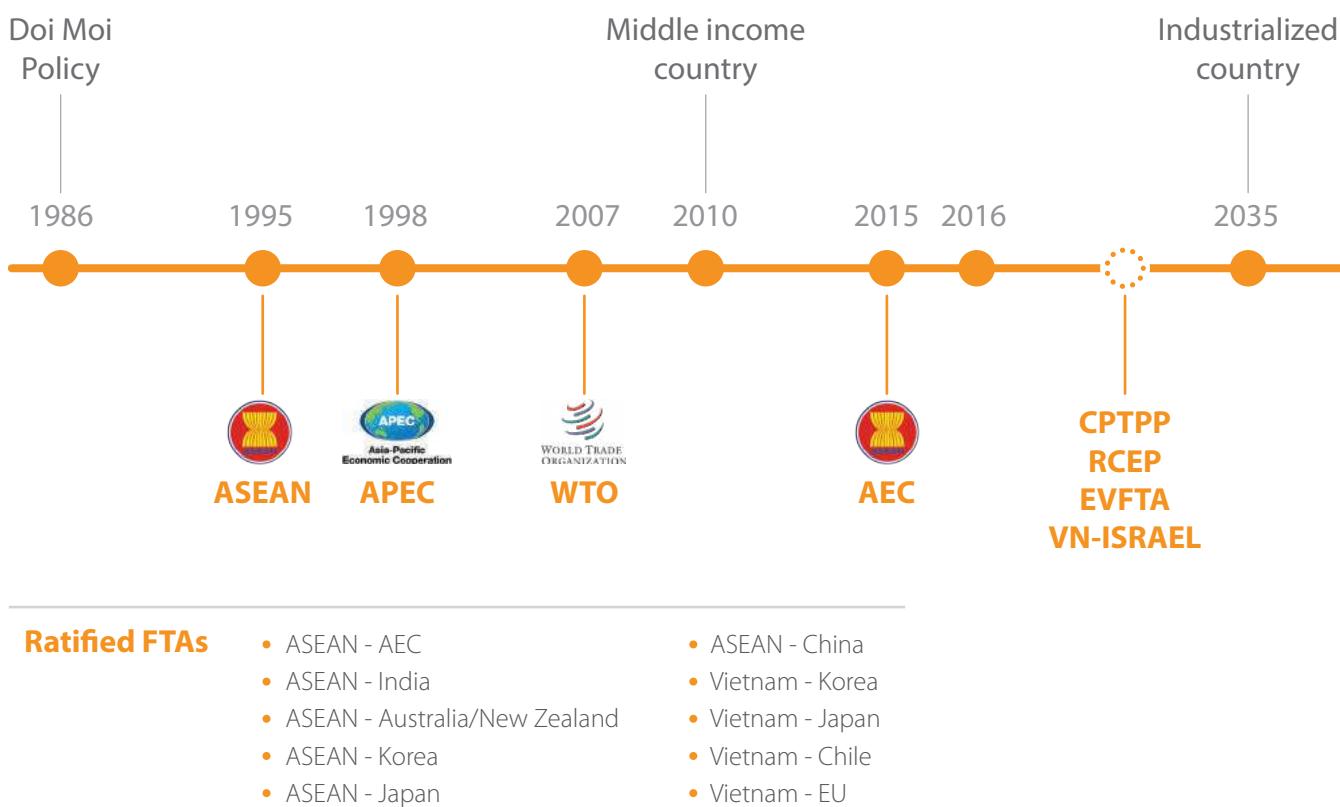


Figure 28: Vietnam's FTAs timeline

Source : VCCI

Through 2015, Vietnam had signed and ratified 12 free trade agreements (FTAs) and 66 international free trade treaties. Increasing access to international markets has helped Vietnam's

economy grow at an annual average growth rate of 7.5% over the 1991 to 2000 period. Globally, this high level of continuous growth is only second to China over the same period.

Vietnam's participation in regional and global multilateral institutions also supported economic growth. Vietnam became a member of ASEAN in 1995. Three years later, it joined Asia-Pacific Economic Cooperation group (APEC). The country succeeded in joining World Trade Organisation (WTO) in 2007. One year later, in 2008, Vietnam's registered FDI capital peaked at 71.7 billion US\$. Consequently, 2010 was a significant year which saw Vietnam's economic level move from that of a low-income country to a lower middle-income country.

Vietnam's membership in the ASEAN Economic Community gives Vietnam access to a dynamic and growing region with a population of 625 million people and a regional economy with an annual GDP of 3 trillion US\$. In addition, Vietnam established free or less restricted trade with the number of other key markets such as China, India, Korea, Japan, New Zealand and Australia. In addition, the completion of the EU-Vietnam free trade agreement provides great economic opportunities. This agreement features a removal of nearly 99% of tariffs according to mutually agreed transition period.

The US architected Trans-Pacific Partnership (TPP) once was considered the trade park of 21 century, with high quality standard and the FTA of new generation. Although the President Donald Trump pulled the US out of the agreement right after his taking office, the 11 remaining countries including Vietnam were able to reach The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) during the APEC Summit in Da Nang (Vietnam), evidencing that the liberalisation process is over the protectionism here.

According to assessment of IMF (2016), the contribution of TPP 12 to global GDP is 38.3% whereas the contribution of TPP 11 is 13.5% (The US alone accounted for 60% of the combined GDP of the original TPP). CPTPP is an open agreement and expected to become the primary vehicle of economic integration in the Asia Pacific.

According to the assessment of the World Bank, CPTPP will push for the reform in such fields as competitive management, services (financial service, telecommunication, temporary entry of the service providers), customs, e-commerce, environment, public procurement, intellectual property right, investment, labour standards, legal issues, market access of commodity, rule of origin, non-tariff measures, trade remedies). Vietnam aims through the pressure of the commitment of such high standard pact, reform of administrative system and institutional capacity be achieved and enhanced and that it in turn facilitate the favourable business environment.

Another high standard FTA that Vietnam pursues is European-Vietnam Free Trade Agreement (EVFTA) and that has completed the negotiation phase lately in 2015 and is expected to be signed and ratified in 2018.

(For more details, please refer to the research of the World Bank, titled: Economic and Distributional Impacts of Comprehensive and Progressive Agreement for Trans-Pacific Partnership: The case of Vietnam)

Another highly anticipated FTA is the Regional Comprehensive Economic Partnership (RCEP). This FTA will connect Vietnam with some of the world's largest markets including China, India, ASEAN, Japan, South Korea, Australia and New Zealand. RCEP will grant Vietnam access to 16 economies with 3.4 billion people, representing 29% of total world trade. It is expected to be ratified in 2017. Vietnam is also working to finalize a FTA with the state of Israel.

All of those FTAs are expected to boost international trade relations while attracting increased foreign investment into Vietnam. They also have the benefit of helping Vietnam diversify its overall export market, making it less vulnerable to trade disruptions in major export markets such as the United States. These agreements will facilitate Vietnam's integration into the global value chain while helping the country achieve the level of an upper middle-income and industrial country by 2035.

“Until 2030, the degree of economic integration equals to the average level of ASEAN-4 countries; international integration will be accelerated in parallel with the process of enhancing linkages among sectors and regions; focus on implementing effectively inked agreements, especially the new-generation FTAs such as TPP, FTA Vietnam – EU”

Overall strategy for international integration through 2020, vision to 2030

Part IV: Orientations and Solutions to Integration

The current group of FTA's feature requirements beyond simple trade barrier reduction. Instead, they require Vietnam to revise and reform polices pertaining to the environment, labour, state-owned enterprises, government procurement,

intellectual property protection, political-economic regulatory regime, etc. Hence, the final implementation of these “high standard FTAs” will result in the reform and/or revision of Vietnam institutions and regulatory regime.

3. Structure of the Economy

Whilst implementing Doi Moi, the Government of Vietnam realized that increased global integration would bring both opportunities and challenges. In particular, the government increasingly understood that private enterprises had a key role to play in the country's reforms. As a result, the government began to reform the state-owned enterprise (SOE) sector.

Even though the privatisation has been a humble progress, the government has determined to follow this long-term strategy to further create an open and efficiency-driven economy.

Not only in term of scope, the Vietnamese government is also focusing on scale as well with several multibillion-dollar businesses having been privatised. This particularly move will help increase the national budget in order to enable reinvestment in critical development plans. Moreover, it also paves the way for foreign investments and increases the corporations' efficiency and competitiveness.

Over the last thirty years, state-owned enterprise reform has featured mergers and acquisitions, enterprise transfer/restructuring and equitization. Increasingly, international businesses and investors have been attracted to these opportunities.

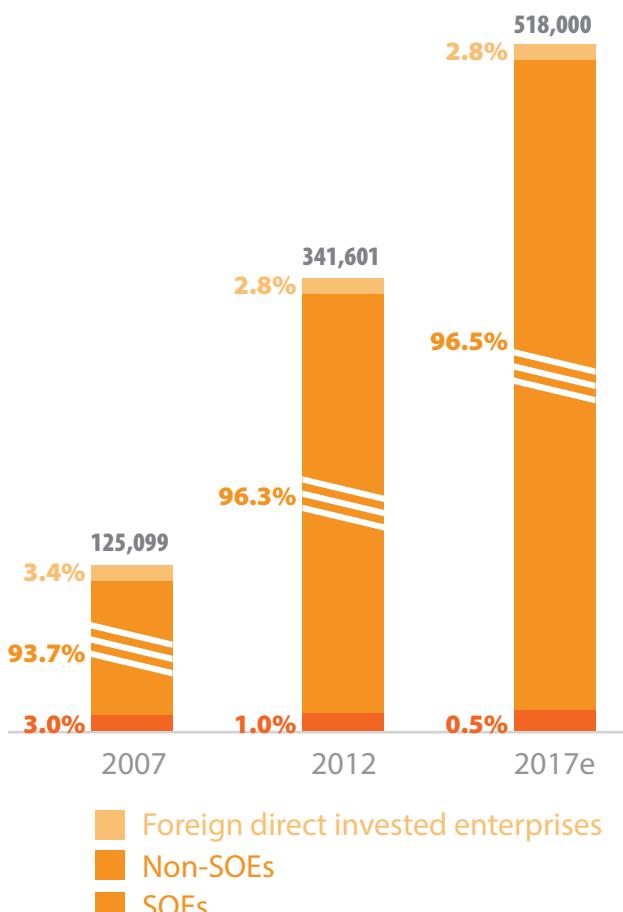


Figure 29:
Structure of enterprises by types, 2007-17e

Source : GSO

Equitization of state-owned enterprises is considered one of key issues of the restructuring process of Vietnamese economy, which was initiated by the Resolution of the Conference of the Central Committee of Communist party (session 11) in 2011 and the Program 929 of the Government in 2012. The aim of the restructuring of state-enterprises is to enhance the effectiveness of the state capital and the performance of the state enterprises; trim down the participation of the state-owned enterprises; give impetus to the development of private sector and enhance the competitiveness of Vietnamese businesses so as to contribute to the sustainable growth of the economy. The equitization process also opens up the change for private sector as well as the foreign businesses to acquire strategic assets through M&A and offer the service to enhance the efficiency and effectiveness of these enterprises in the post-equitization phase.

M&A activities in Vietnam set new record high with a big jump in total deal value to US\$10.16bn in 2016, increasing by almost 95% compared to the previous year.

M&A activities did show a boom in 2016 as well as saw many big tickets transactions. 23 out of 308 M&A deals over the year 2016 have the deal value over US\$100mn. Bidders in these deals are Thai players (Central Group - Big C, Singha - Masan Consumer), South Korean peers (AON BGN - Landmark 72, Mirae Asset & AON BGN Group - Keangnam Landmark 72); Singaporean investors (Mapletree – Kumho Asiana, F&N Dairy Investments – VINAMILK) and Japanese investors (ANA - Vietnam Airlines, JX Holdings Inc - Vietnam National Petroleum Corp, Nippon Airways - Vietnam Airlines).

There are a number of M&A deals in Real Estate (56 deals), Industrial Goods & Service (62 deals), Food & Beverage (34 deals) and Construction & Materials (32 deals).

Vinamilk is an excellent case study. Started as a collection of small-scale dairy co-operatives, the company has become one of the top listed companies in Vietnam in terms of market value. It dominates the local market and features a value of US\$10.7 billion (2018), 35-fold its US\$300 million in 2006. In addition, Vinamilk is on its way to become an internationally accepted brand overseas and currently has a market presence in 31 countries on four continents. In the near future, Vinamilk is scheduled to become a 100% equitized company in the near future.

4. Laws and Regulations Commitment

Vietnam has made a commitment to revise and reform its legal and regulatory regime in congruence with its international commitments as well as its commitment to improve the country's economy and business environment.

With regards to the country's business environment, Vietnam's Decree Number Five whose purpose was to restructure the economy in order to transform Vietnam into a high-technology, highly productive and globally competitive industrial nation. In terms of practical policy, this includes reducing bureaucratic red tape, "rule by uncertainty", and expanding the availability of publicly available business information.

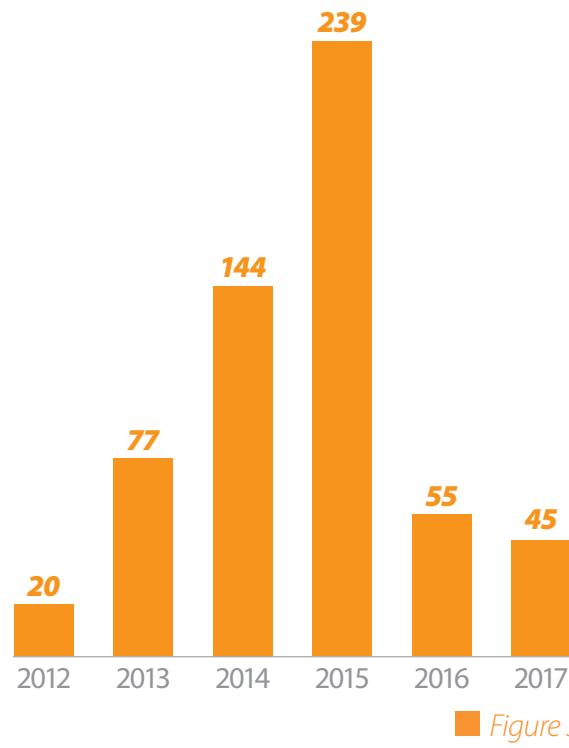


Figure 30:
Number of SOEs being privatised, 2012-17
Source: Enterprise Development Department,
Ministry of Finance

Vietnam has reinforced its commitment to global economic integration through its enacting of Resolution Number Twenty Two. This clearly indicates the government's commitment to the country's integration into the world economy as well as efforts to both liberalize and industrialize the economy.

At the same time, the government of Vietnam is carefully balancing increased economic growth with macroeconomic stability. This has resulted in the issuing of Resolution Number One as part of the government's ongoing efforts to insure macroeconomic stability and sustainability.

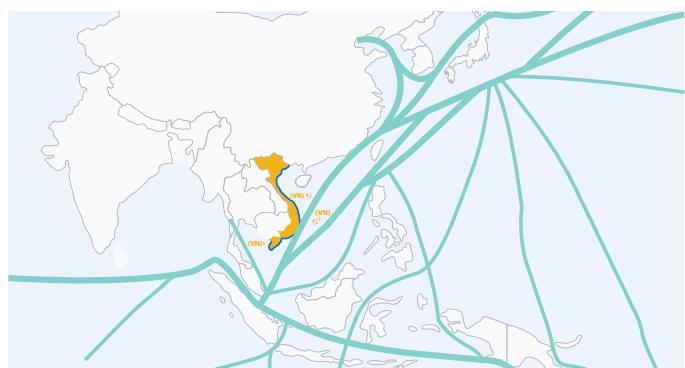


★ 10 REASONS TO INVEST IN VIETNAM ★

01

STRATEGICALLY POSITIONED IN THE DYNAMIC ASIAN PACIFIC REGION

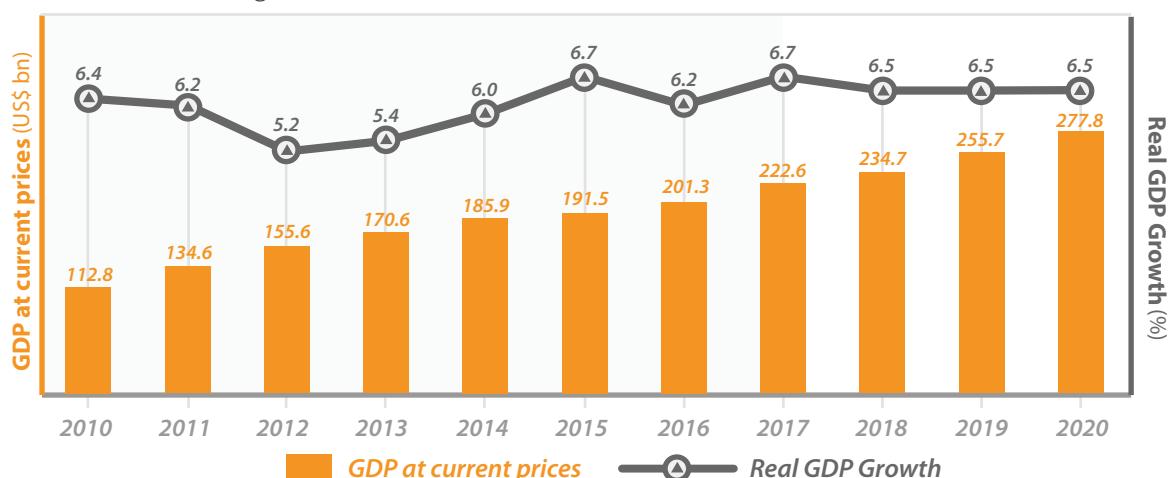
Vietnam is located in the Asia Pacific region, where the centre of gravity of the global economy is shifting to in the twenty-first century



02

VIETNAM IS POLITICALLY & SOCIALLY STABLE COUNTRY & FDI FRIENDLY ENVIRONMENT.

GDP and GDP growth

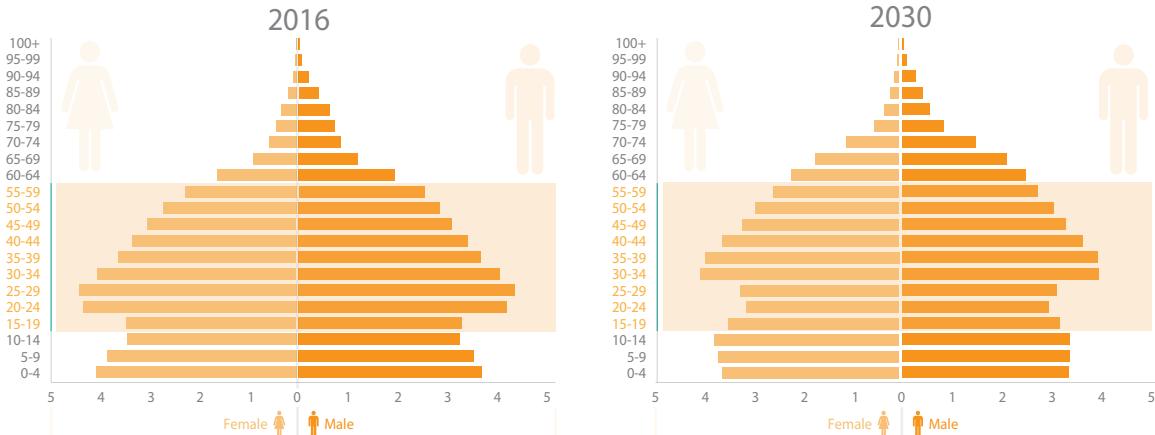


03

A GOLDEN POPULATION STRUCTURE

Vietnam currently ranks as a **14th** world's most population country with **94.4 million** citizens in 2016

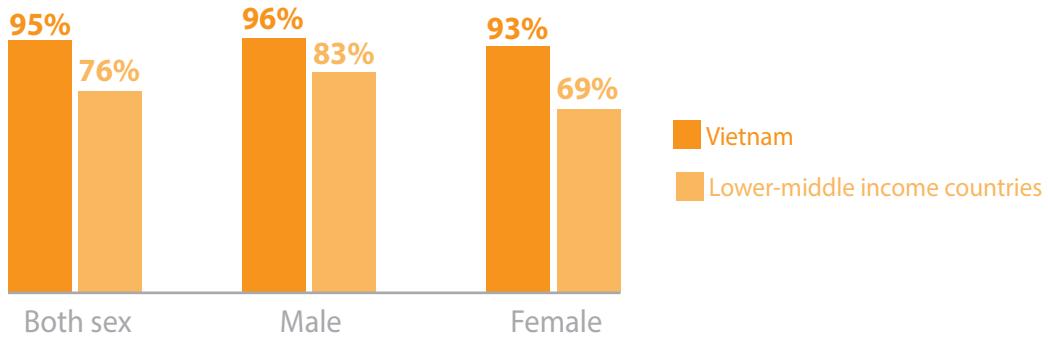
66% of the population is at the working age



04

ABUNDANT HUMAN RESOURCES WITH HIGH LITERACY RATE

In 2015, **95%** of Vietnam's 15+ are literate.



05

EFFICIENT HUMAN RESOURCE

Amount of international universities operating in Vietnam such as Viet-Australia University, Viet-Japan University, Viet-Germany University, etc. as well as internationally accredited vocational training schools have been expanding to ensure competitive labor forces.

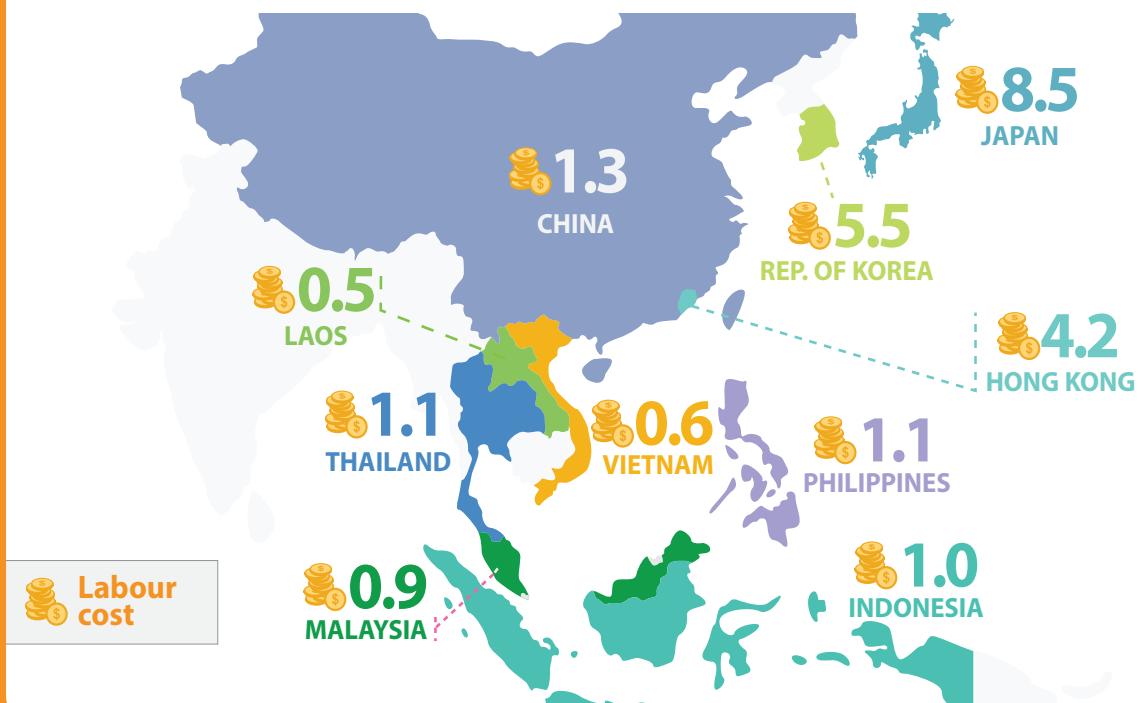
	Unit	No qualification	Vocational training	Professional secondary school	Professional college	University and higher	Total
Vietnam	%	79%	5%	4%	3%	9%	100%
Male	%	39%	4%	2%	1%	5%	52%
Female	%	40%	1%	2%	2%	4%	48%
Urban	%	20%	3%	2%	1%	6%	32%
Rural	%	59%	3%	2%	1%	3%	68%

Source: GSO - Year: 2016

06

VIBRANT AND EXPANDING MIDDLE CLASS

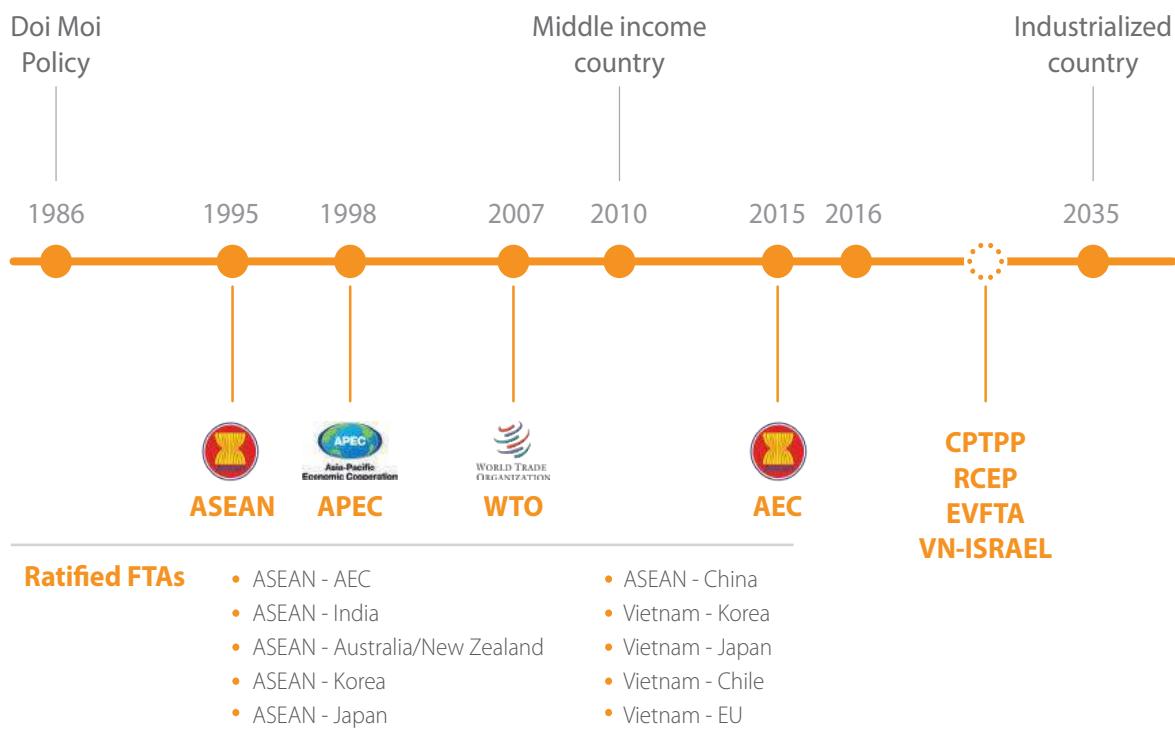
With a vibrant and expanding middle class, Vietnam is one of the most dynamic emerging economies in South East Asia.



07

PIONEER IN HIGH STANDARD FTAS OF NEW GENERATION

FTAs of new generation ensure the level playing field and long-term investment planning.

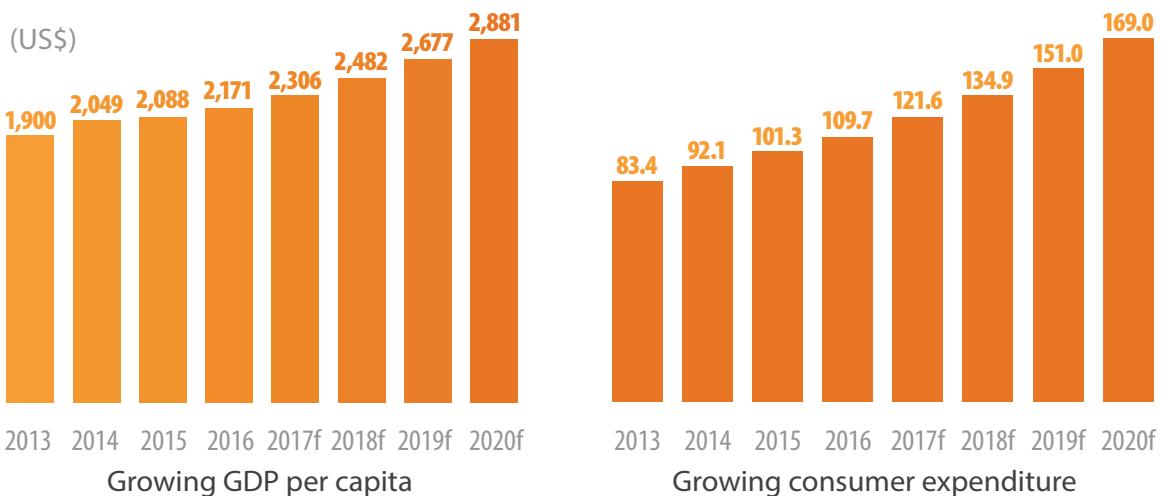


Ratified FTAs

- ASEAN - AEC
- ASEAN - India
- ASEAN - Australia/New Zealand
- ASEAN - Korea
- ASEAN - Japan
- ASEAN - China
- Vietnam - Korea
- Vietnam - Japan
- Vietnam - Chile
- Vietnam - EU

08

ONGOING STATE-OWNED ENTERPRISES' EQUITIZATION OFFERS OPPORTUNITIES FOR INVESTMENT IN STRATEGIC ASSETS

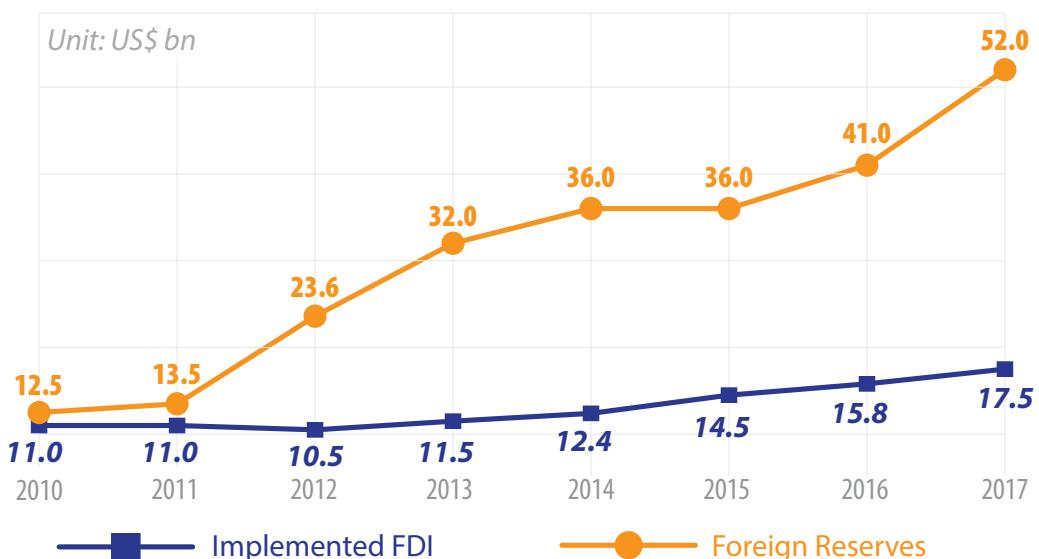
**09**

PARADIGM SHIFT TO EFFICIENCY-DRIVEN ECONOMY REQUIRES HIGH VALUE-ADDED INPUTS FROM FOREIGN INVESTORS

Vietnam has a convenient transportation infrastructure system consisting of roads and highways, railways, ports, harbours and airports. At present, Vietnam has 21 commercial airports and 10 of them are international airports with modern facilities and equipment, connecting Vietnam with 41 destinations around the world including ASEAN countries, China, Japan, South Korea, the United States, France, Germany, and Australia.

10

FDI SUCCESS STORIES ARE CONTINUING, BIG NAMES SUCH AS SAMSUNG AND INTEL CONTINUE TO EXPAND THEIR MANUFACTURING BASES HERE



OVER
20 YEARS

EXPERIENCE OF GO-TO-MARKET
strategy in emerging and
developed markets



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Chapter 3

HO CHI MINH CITY - A LAND THAT BIRDS WILL COME TO BUILD THEIR NEST

- I. Economic Hub of Vietnam
- II. Business Environment
- III. Cosmopolitan City
- IV. HCMC Has What It Takes
- V. 10 reasons to invest in HCMC

NEW AUTONOMY, NEW DEVELOPMENT

Ho Chi Minh City has long been a piloting ground for innovation campaigns and economic restructuring. The first industrial park, first stock exchange, and first software park of the country came to light here and several leaders of the city have assumed the highest positions in the power structure of the country such as the prime minister and the president of state.

Ho Chi Minh City is a city under central governance, with an area of 0.6 percent of the country's total area and its population of 8.5 million (as of 2017 – General Statistics Office) makes up 9 percent of the whole country, anyways contributes about 22 percent of the national GDP and about 28 percent total country's budget. The growth rate of the city's economy is 10.7% on average, 1.6 times higher than the average of the country. Ho Chi Minh City also has the largest amount of enterprises, accounting for 34% of the total businesses of the country.

Since, 2010, the development of Ho Chi Minh City has been decelerated, lagging behind other provinces in FDI attraction, Provincial Competitiveness Indexes, and deficiencies in infrastructure, water logging, traffic jam.

To give the city development a new impetus, the National Congress recently enacted the Resolution 54 (November 2017) on the piloting

(for 5 years) of mechanism and special policies to further develop Ho Chi Minh City

Accordingly, the City is granted a more autonomy in 5 areas, especially, authority to manage land area, authority to manage investment; authority to manage the state budget, mechanism to authorise and the policies to administer and give incentives to the income of the public officials.

It is expected that the city's authorities will mobilize more internal sources, leverage the internal strengths as well as more respond proactively to the market opportunities and challenges and create breakthrough in economic and social development of the city in the immediate time.

To ensure its own competitiveness in comparison with other provinces as well as other cities in the regions, Ho Chi Minh city has defined 4 key industries, comprising food processing, chemical rubber, mechanics and information technology and 9 service sectors, such as finance, banking and insurance; trade; transport, logistics and forwarding; post and information and communication technology; real estate; consulting, science, technology, research and application; tourism; health; education and training; that need to be focused to develop. Start-up eco system become one of new trends of development of the city.



I. Economic Hub of Vietnam

1. Location

HCMC lies in the centre of the South of Vietnam. The city acts as a bridge between the Mekong Delta region and the Southeast region. It is enclosed by Binh Duong, Vung Tau and Dong Nai provinces to the north and the east, Tay Ninh, Tien Giang and Long An provinces to the west. In the south, the city shares a 20km long coastline of the South China Sea.

Together with other provinces including Dong Nai, Binh Duong and Ba Ria – Vung Tau, HCMC forms the Southern Key Economic Zone, which makes up 50% of the national economic capacity.

HCMC's geographical location is well positioned to access the ASEAN market as well as China and India. Within the radius of 3,500 km from HCMC, there is a huge consumer market of more than three billion people. In favour of best take advantage of these opportunities, HCMC has been actively investing in increasing and improving the city's infrastructure



■ Figure 31: Map of Southern Key Economic Regions

Source : World Economic Forum

INFRASTRUCTURE

Airports

Located in Tan Binh District, Tan Son Nhat International Airport is only 6km away from the city centre. It is the largest and busiest airport in Vietnam. The airport has both domestic and international terminals with the total capacity of 23 million passengers a year. In 2016, Tan Son Nhat Airport served more than 32 million passengers, an increase of 28% compared to 2015.

40km away to the northeast of the city centre, Long Thanh International Airport is under construction and expected to begin operation in 2025. The new airport will have four times the size and capacity of Tan Son Nhat International Airport.

Ports and Waterways

Although Haiphong is often considered to be Vietnam's largest port, in reality the ports of HCMC are the biggest and busiest. In global terms, HCMC's port system ranks at the 24th busiest out of the world's top 100 ports. In 2015, HCMC's ports throughput grew 7.8% from 5.4 to 5.8 million TEUs (twenty-foot equivalent unit). In comparison, Haiphong's throughput in 2015 reached 3.8 million TEUs.

Road systems

HCMC is linked with other regions and provinces by several national highways. National Highway 1A runs from north to south throughout Vietnam, from Ca Mau (close to the Mekong Delta Region) to Lang Son (close to the Chinese border). It connects the three largest cities of Vietnam, which are HCMC, Da Nang, and Hanoi. National Route 22 carries trade from HCMC to the Cambodian border. National Route 51 is another important highway, connecting HCMC with Ba Ria-Vung Tau province.

Concurrently, the city government has invested to expand the road system and completed numerous projects such as the East-West Highway, the Thu Thiem Tunnel, Thu Thiem Bridge, Phu My Bridge, and several national highways and inter-region roads. Many other projects are under construction with the total invested capital totalling more than 220 million US\$ in 2016.

Industrial Zones

In 2016, HCMC offered the following industrial infrastructure: one high-tech park, one software park, three export-processing zones, and 14 industrial parks covering an area of nearly 3,940 hectares, of which approximately 60% is usable. By 2030, the city expects to establish 10 new industrial zones, increasing industrial part area by 2600 hectares

Industrial zones offer zones to accelerate business development. Ideally, they offer areas for firms to group together or "cluster" which has the potential of achieving economies of agglomeration. Such zones often attract food, automotive and information technology companies. Expanded industrial zone areas enable HCMC to continue to support the growth of manufacturing investment.

2. Entrepreneurship

Ho Chi Minh City continues to show its potential as a promised land for entrepreneurs. By the end of 2015, among 535,920 active enterprises in the whole country, about 170,000 companies were based in HCM, accounting for more than 31%.

At the same time, HCMC is trying to strengthen its leading role in economics. In the 2020 city development plan, the city is aiming to reach 500,000 enterprises, 50% of the national total number. According to HCMC Department of Planning and Investment (DPI), in 2016, there are more than 110,100 newly established companies with total capital of 891,094 billion Vietnam Dong. This is the biggest increase ever and also the first time that Vietnam experienced more than 110,000 companies to have been set up within a year.

Besides, 3,000 representative offices from 60 countries have settled in HCMC. This creates a diverse and dynamic entrepreneurial community that encourages competitiveness and development among local and international businesses.

Together with the robust economy, HCMC also offers the best support for entrepreneurship in the region.

The city focuses on improving the business environment and governmental transparency, encouraging innovative in business, reducing paperwork and bureaucratic processes, reducing operating costs, building sufficient facilities and ensuring the legal rights of each entrepreneur.

3. Finance & Banking Services

There are more than 80 financial institutions operating in HCMC. The banking system comprises state-owned commercial banks, joint-stock commercial banks, joint-venture banks, wholly foreign-owned banks, branches of foreign banks, credit cooperatives, finance leasing companies and finance companies. About half of these are banks with foreign capital.

4. Economic Achievements

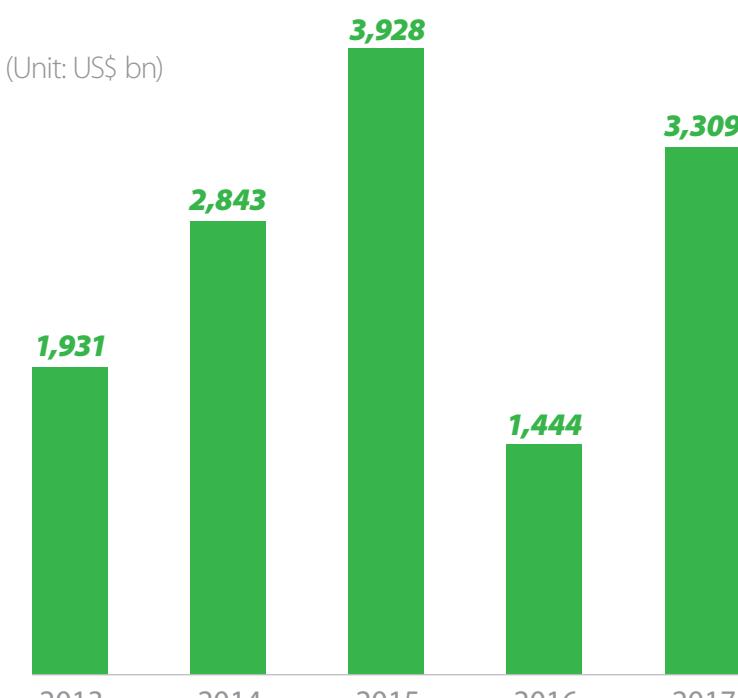
GRDP

With an area of 2,096 square kilometres, HCMC takes up 0.6% landmass of Vietnam. Nevertheless, it is the most densely-populated city in the country. By the end of 2016, there were 8.4 million people living in this city, which accounted for 11.2% of national population. The city's GRDP reached US\$47.1 billion in 2017, contributing nearly 22% to the country's GDP. The city demonstrates an impressive growth of 8.5% y-o-y during 2013-17, a considerably higher pace than country's overall business results, which stand at 6.1% y-o-y during the same period.



■ Figure 32: HCM GDP in comparison with Vietnam's

Source : GSO



FDI

HCMC continued to be the most attractive destination for foreign investments across Vietnam in 2017. The total registered capital to HCMC recorded at US\$3.3 billion for over 1,100 projects. The city's favourable business environment is further exhibited as it attracts not only new investments (US\$2.3 billion) but also additional capital for existing projects (US\$1.0 billion).

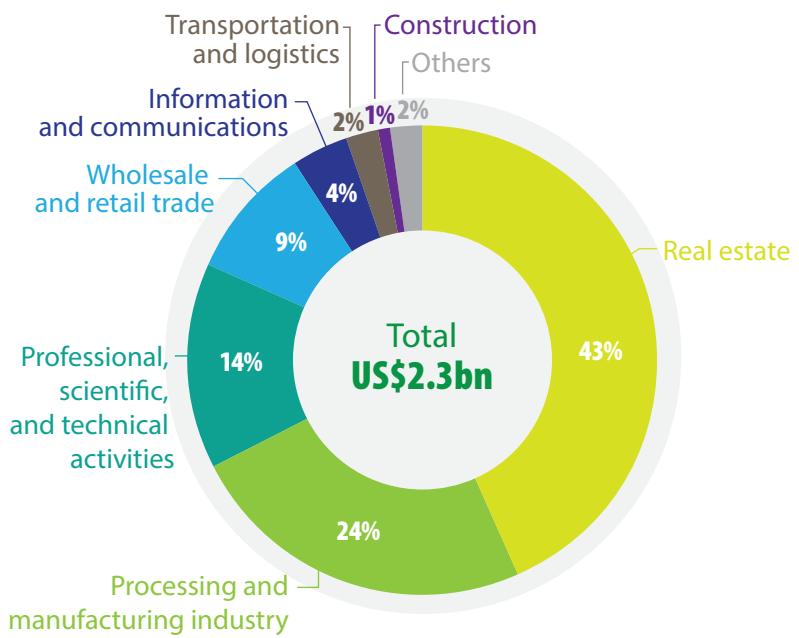
■ Figure 33:
HCMC's registered FDI capital,
2013-17

Source : GSO, Ipsos Business Consulting analysis

Total newly registered capital into HCMC reached US\$2.3 billion in 2017, of which the majority of funds are poured into 70 projects in real estate, processing and manufacturing industries. Though contributing only 9% of the FDI share, wholesale and retail trade tops the structure in terms of number of new projects with over 300 newly invested ones; it can be explained that the retail giants have realised potentials of retail industry (rank 6th in 2017 in terms of retail index globally) and are gradually establishing footprints with HCMC as a starting point.

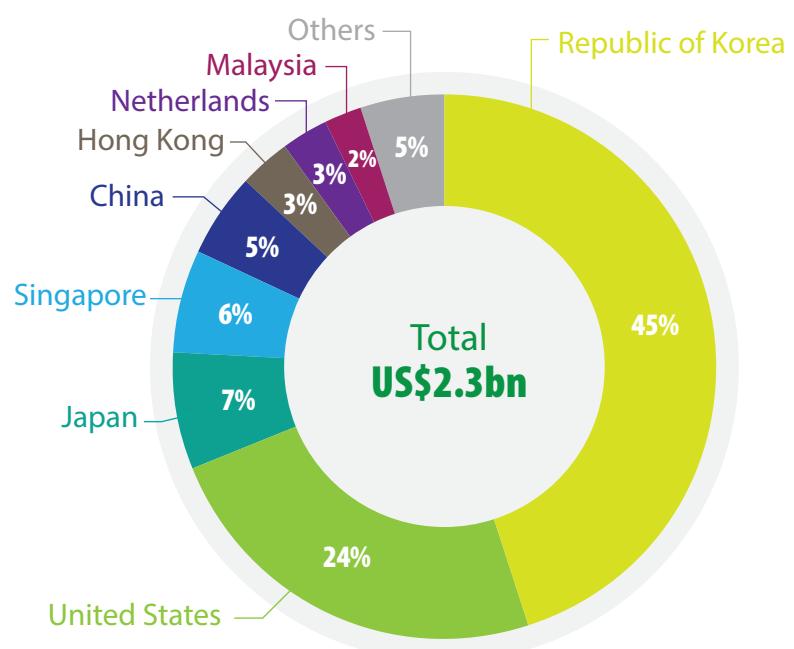
Two leading countries which are Republic of Korea and US captured nearly 70% of the newly registered FDI capital into HCMC 2017. According to KOTRA, a state-funded trade and investment promotion organisation of Republic of Korea, Korean companies are increasingly investing in Vietnam in general and HCMC in particular to enjoy the incentives as tax reduction or free-trade agreement between two nations. The trend is forecasted accelerate further in the years to come. The investments of Republic of Korea in HCMC are diversified across industries, with notable projects in 2017 include US\$885-million Eco Smart City complex project (Lotte Group) in real estate industry and US\$54-million Cau Tre food processing manufacturing plant (partnership between Saigon Trading Group and CJ Cheil Jedang).

It is interesting to note that a total of 40 US-invested projects accounts for nearly one-fourth of the total new FDI investment. A concentrated investment portfolio has exhibited city's potentials as a long-term strategic destination for US investors.



■ Figure 34: HCMC's Newly registered FDI by industry, 2017

Source : GSO



■ Figure 35: HCMC's newly registered FDI capital by country partners, 2017

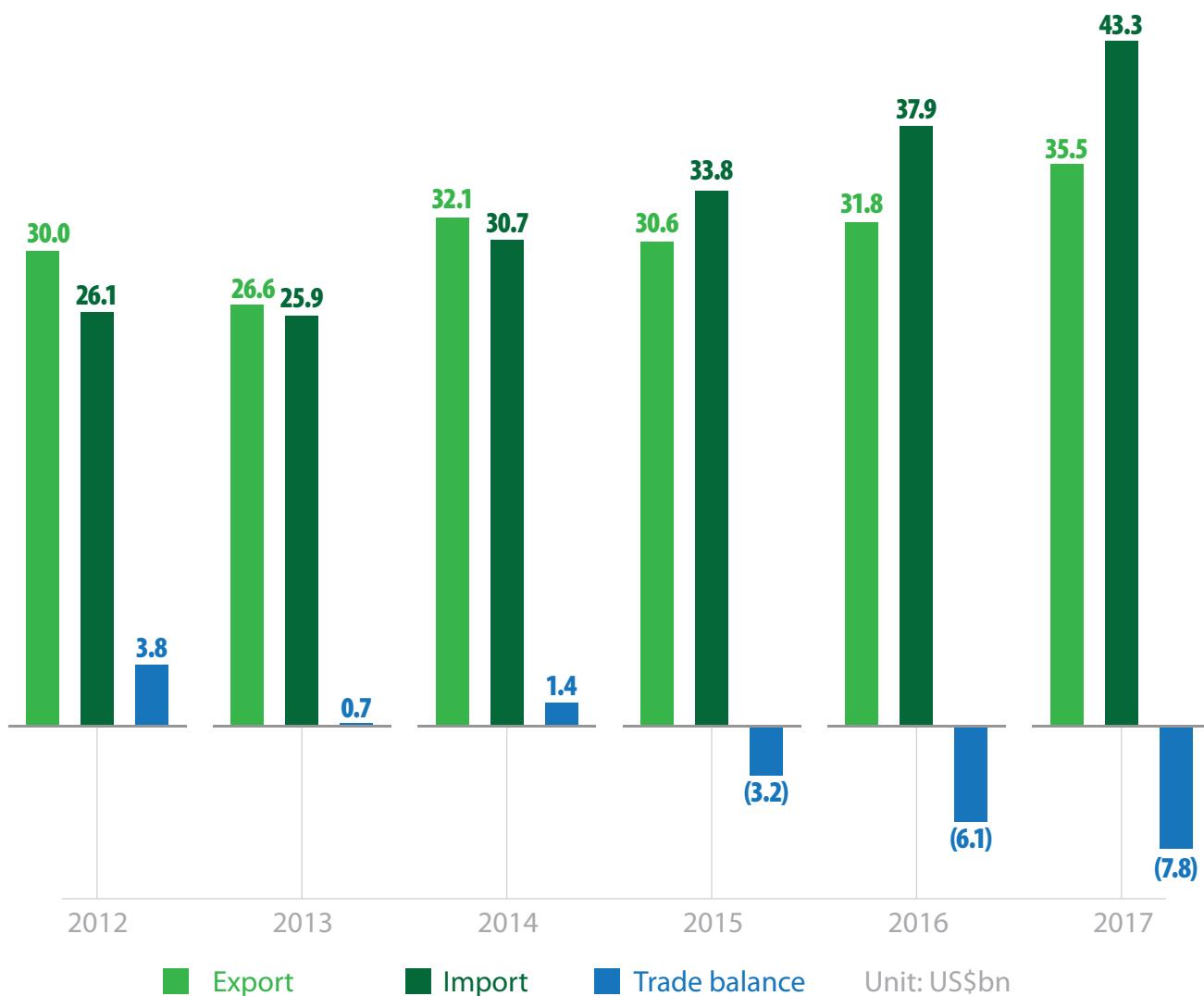
Source : GSO

EXPORT & IMPORT

HCMC's export and import turnover reached respectively US\$35.5 and US\$43.3 in 2017, marking another continuous year of growth¹. The trade deficit of US\$7.8 implies that the city keeps an open door with foreign businesses to further integrate to the world's economy.

In 2017, China was the largest export market for Ho Chi Minh City, accounting for over 20% of the export value structure. Key export products to this country are agricultural products (rice and rubber) and industrial products (computers, electrical products and parts thereof). The second largest export country from Ho Chi Minh city is the US,

contributing over 17% of total exports. Key export products to the US are mostly coffee, wood and wooden products, textiles and footwear. As for import structure, harmonising with the country's overall performance, China is the largest trade partner for Ho Chi Minh city, accounting for nearly 30% of the import structure, followed by Singapore (8.5%), Republic of Korea (8.4%), and the US (6.6%). The main products imported through the city's ports are electrical products and machineries. These segments altogether account for over 45% of total imports.



■ Figure 36: HCMC Export-Import structure, 2012-17

Source : GSO, Ipsos Business Consulting analysis

¹ Values are calculated based on commodities exporting or importing from/to ports in Ho Chi Minh city.

II. Business Environment

HCMC business environment is taking its modest development. For example, the findings from a recent evaluation shows improvement in the overall quality in the labour situation.

Labour training

Being Vietnam's most populous city, HCMC's labour force is abundant. 73% of the city's population (equivalent to 6.2 million people as of 2017) is within the working age. Of the 4.5 million labour force, nearly 70% of them has been secured with employment.

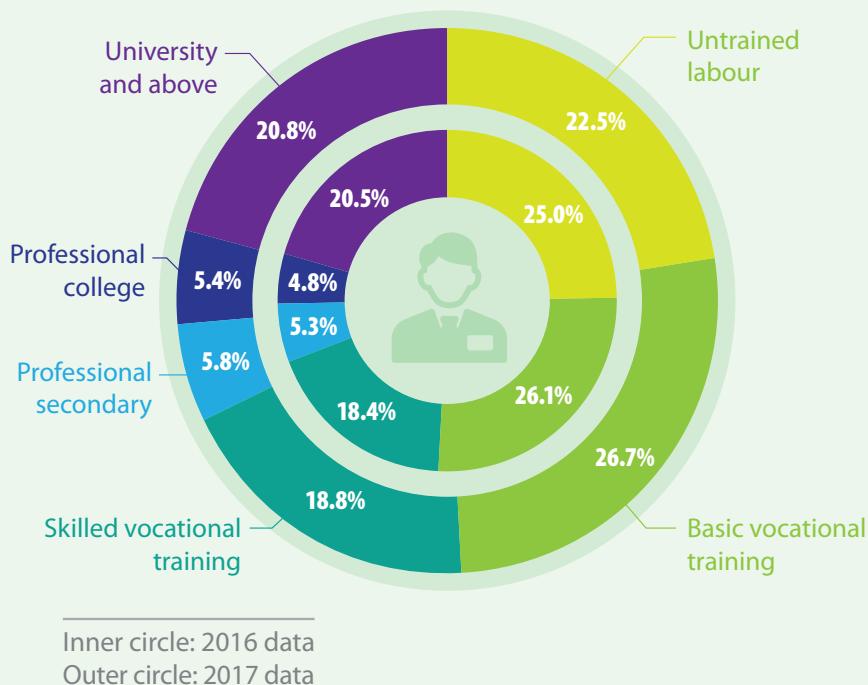


Figure 37:

HCMC's workforce by level of training, 2016-17

Source : Ho Chi Minh Centre for Forecasting Manpower Needs and Labour Market Information

Along with the increase in labour force, the level of training has been moving up as the number of untrained and labour with basic training shrank by 3% during 2016-17, based on a survey with nearly 30,000 companies and 355,000 training seekers and job seekers. Though improved, the number of labour with no/limited training still accounts for half of the city's labour force. In a stage of transitioning to efficiency economy, as a leading business centre, it is recommended for Ho Chi Minh city to address this barrier to continue attracting investments and to further exposed to higher-margin works of the world's value chain.

Business Support Services

HCMC is the country's centre of business services in Vietnam, including amongst others, legal & accounting, architecture, management consulting, advertising & research. Business service firms increased from approximately 17,000 in 2009 to approximately 34,000 in 2014. This growth has been driven by the significant number of enterprises operating in HCMC.

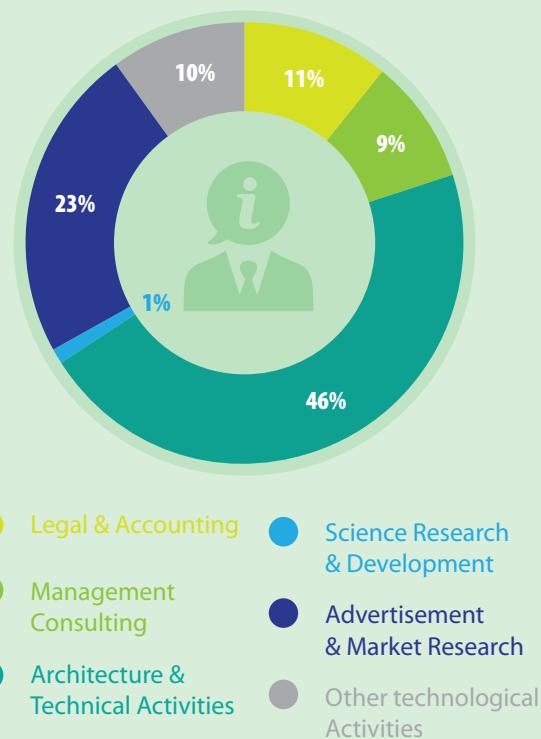


Figure 38: Structure of business support services by type, 2014
Source : GSO

These firms facilitate business in HCMC and Vietnam and in some cases, help foreign companies enter Vietnam at lowered risk. They also play a significant role transferring global best practise to Vietnamese professionals.

Efficient Business Registration

HCMC is known for the ease in setting up a new enterprise. The city government is consistently seeking to make the process more efficient and less expensive.

Early in the Doi Moi period, setting up an enterprise in Vietnam including HCMC was a time-consuming process. However, the national and city government are attuned to the needs of the local and foreign business communities and have solicited these communities' recommendations to steam line the process.

As a result, the government has designed and implemented policies to improve the process. For example, recently in 2015, HCMC implemented a new procedure designed to reduce time necessary to set up a new enterprise by 50%. As a result, currently it only takes two visits to the Department of Planning and Investment (DPI) to finish the process and the time needed has been shortened to 4 days.

As a result of the proactive support from the local and national government, access to high quality business services and its role as a logistics hub, HCMC has been a favourite city for foreign investments.

CASE STUDY



AEON - Japanese retailer as indicative of HCMC's attraction for foreign direct investment and market entry

AEON has more than 250 years of history in retail business. The retailer operates 247 malls across its homeland, China and ASEAN.

The corporation first came to Vietnam as a representative office in 2009 in HCMC. After several years of researching the market, at the beginning of 2014, AEON opened the first mall at Tan Phu District, HCMC.

In the first year, AEON Mall Tan Phu served 14 million customers, which was higher than the number the company initially forecasted, clearly illustrating HCMC attraction as a consumer market. Subsequently, AEON opened additional retail malls including the AEON Mall Canary in Binh Duong and the AEON Mall Him Lam in Long Bien, Hanoi. Afterwards, the company proceeded to open two super markets as joint ventures, including AEON Citimart in HCMC and AEON Fivimart in Hanoi.

In 2016, AEON continued to expand its footprint in HCMC and opened another mall in Binh Tan District. This mall is projected to serve 12 – 14 million customers a year. During a press conference in June 2016 AEON reported that the company had invested US\$500 million in Vietnam. In addition, AEON reported plans to invest in 20 malls and 100 supermarkets nationwide by 2020.

III. Cosmopolitan City

DIVERSITY

HCMC features a highly diverse population including Vietnamese from throughout the country as well as foreign expatriates. Among 8.5 million people living in the city, Vietnamese from other parts of the country account for 30% of the population.

With regard to foreign expatriates, an estimate of 20,000 foreigners work in HCMC in approximately 5,500 companies and organizations. The majority of them come from Japan, Republic of Korea, the US, the UK and China.

The diversification can be furthered observed via a vibrant and dynamic culture. Foreign people coming to work in HCMC or staying for travelling purposes can easily enjoy oriental cuisines of their homeland, be immersed by different styles of architectures, or be involved in entertainment activities celebrating different cultures.

LIFESTYLE

As a result of rapid economic growth, Vietnam's middle-income class has increased significantly. Currently, Vietnam has the fastest growing middle and affluent class (MAC) in ASEAN and this socio-economic group is forecasted to increase from 12 million in 2012 to 33 million in 2020.

Currently, half of MAC consumers reside in the Vietnam's two major cities of HCMC and Hanoi. Their buying behaviour has been shifting from shopping-to-survive towards shopping-to-enjoy. In this regard, their consumption of value-added products and services such as electronics, automobiles, mobile phones, local and foreign travel has increased significantly.

The HCMC's consumers are the most cosmopolitan in Vietnam. They are proud to be Vietnamese and yet comfortable with foreign trends, styles and products. HCMC's consumers are willing to experience and try new products and brands. The diverse culture, established logistics and lucrative market will continue to attract foreign investors and business.

CASE STUDY



Pizza 4P's

Founded in 2011 by two expatriates living in HCMC, Pizza 4P's claims to offer a true dining experience with various unique selling propositions including "Farm to Table" supply model and "Special Oasis" restaurant ambiance. Initially, the restaurant primarily served Japanese guests, nevertheless, its guest base has and features a range of expatriates. In addition, over 50% of the clientele is now local. A clear success, the company has expanded to eight restaurants in four cities (HCMC, Hanoi, and Danang). Pizza 4P's aims to go public in the near future with estimation of revenue to reach US\$100 million by 200.



EDUCATION

HCMC is not only an economic centre but also an education hub of the country. As of 2015, the city houses 56 universities, 39 colleges and 68 professional secondary schools.

HCMC is doing its best to offer quality education for two million students studying here. Additionally, the number of international institutions is blooming. Most of them offer standardized education system from the US or the UK (GCSE, A level, AP, IB and CIE) and other programmes from Canada, Australia, Singapore, Taiwan, Republic of Korea, and Japan.

HEALTHCARE

By 2015, HCMC has 456 healthcare establishments with 109 hospitals. Several of these hospitals are key research centres for the country, including Institute of Cardiology, Hospital of Oncology and Tumour, Hospital of Blood Transfusion and Haematology, Hospital of Dermatology and Venereal Diseases, Hospital of Ophthalmology and Hospital of Mental Health. In addition, international hospitals such as Hanh Phuc,

Viet Duc or Vinmec Health Care system, offer internationally standardised services and innovative medical practices, gradually draw attention and gain trust from customers.

HOUSING

In order to reduce the pressure of high population density rate, HCMC is utilizing the unused land to create new urban areas featuring modern infrastructure. Three prominent newly established urban areas are Phu My Hung in District 7, Thao Dien and Thu Thiem in District 2.

Phu My Hung is located on a 750-hectare area, which used to be a large marshland. After more than 20 years of development, it is acknowledged as a success in urban planning. Phu My Hung' mix of convenience, well-designed buildings, social infrastructure, schools and green space continues to attract new tenants. From 2013 to 2015, the number of foreigners residing in this area increased by 35%, up to 15,000 people and thus accounting for more than 50% of the total foreign expatriate population.



IV. HCMC Has What It Takes

Investment in a foreign country is a challenging decision and process. It requires vision, planning, due diligence and commitment.

Over the last three decades HCMC has taken steps to make the process more efficient and the business prospects more attractive.

HCMC offers a great combination of capital and human resources. The city has the most developed and modern infrastructure and facilities in Vietnam. The city offers efficient space and environment for building offices and factories. In addition, HCMC has the most abundant workforce in Vietnam and the work force is gradually improving their technical and professional capabilities and competencies.

Resource-seeking

HCMC also offers the largest, most diverse and sophisticated market in Vietnam. It also features the largest MAC of consumers.

Market-seeking

Efficiency-seeking

The city has a strategic location, right at the heart of southern Vietnam. Geographically, the city links many provinces in Vietnam. In addition, HCMC has excellent links with countries in Asia as well as other regions.

Investors can leverage HCMC as a logistic hub to access other cities, provinces and regions in Vietnam. Moreover, international markets can also be accessed. At the same time, HCMC is an attractive market offering many opportunities to foreign invested businesses.

Strategic Asset-seeking

Ho Chi Minh city holds strategic assets as a leading business centre of Vietnam, versatile and energetic business community, and a clear mid- to long-term development plan. The city is also house for major privatisation deals such as Vinamilk and Sabeco. For those reasons, HCMC is appealing to any investors who are looking for technologies transfer and management practices.



10 REASONS TO INVEST IN HO CHI MINH CITY

01

THE COMMERCIAL CAPITAL OF VIETNAM AND THE LARGEST CONTRIBUTOR (ROUGHLY 23%) TO THE COUNTRY'S GDP

2016 data	Unit	Hanoi	HCMC	Da Nang	Binh Duong	Dong Nai	Others
Gross Provincial Domestic Product	US\$ bn	29.8	45.5	3.1	9.7	11.0	100.9
% contribution	%	15%	23%	2%	5%	6%	50%

02

HCMC LEADS THE COUNTRY WITH THE HIGHEST GDP PER CAPITA

The city has the highest population and possesses an expanding middle-class individuals
 Map showing HCMC is central to ASEAN, close to region's growing economies such as
 Malaysia, Singapore, and Thailand

2016 data	Unit	Hanoi	HCMC	Da Nang	Binh Duong	Dong Nai	Others
Population	mn ppl	7.4	8.3	1.1	2.0	3.0	72.7
% contribution	%	8%	9%	1%	2%	3%	77%

03

STRATEGIC LOCATION

Direct flights to most of Asia's key markets and HCMC is in the central of the Southern key economic area of Vietnam.



04

MODERN INFRASTRUCTURE

- Country's business airport: serving 32 million passengers in 2016
- Ports: Ho Chi Minh City ports system is ranked as the 24th busiest container port according to Top 100 ports in 2015

05

ENTREPRENEURSHIPS

Ho Chi Minh City continues to show its potential as a promise land for entrepreneurs. Being the first stock exchange and business incubator of the country, the city is aiming to reach 500,000 enterprises, 50% of the national total number in accordance to the City Development Plan to 2020

06

ABUNDANT AND SKILFUL LABOUR FORCE

According to HCMC labour market statistics in 2017, the percentage of trained workers was 77.5%, 2.5% y-o-y increase

07

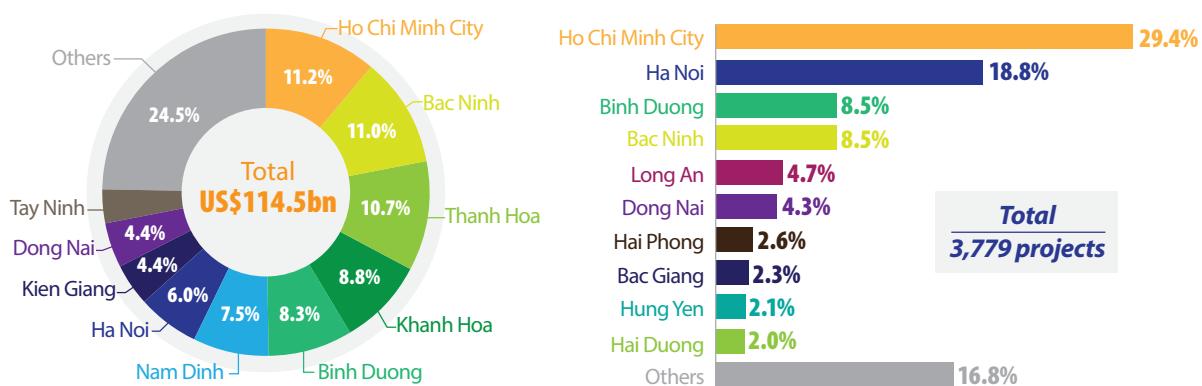
YOUNG, INNOVATIVE, AND EASY-GOING PEOPLE

A young demographics with exposure to diversified cultures help HCMC stands out from the rest of the country in terms of accessibility, which generates more opportunities for foreign businesses

08

HCMC IS THE MOST FAVOURABLE DESTINATION FOR FOREIGN INVESTMENTS

The city received the highest FDI inflows and the number of investment projects in 2017



09

METROPOLITAN CITY

HCMC is amongst the best cities in terms of quality of life in Vietnam and shares the same level with other cities in the region with international educational facilities and diversified cuisines

10

HCMC IS DOING THE BEST JOB OF ENTINGCING INVESTMENT IN SOUTHEAST ASIA REGION

Top 10 cities in tiger cub Asian economies (2018)

RANK	CITY	COUNTRY	RANK	CITY	COUNTRY
1	Ho Chi Minh City	Vietnam	6	Manila	Philippines
2	Bangkok	Thailand	7	Rayong	Thailand
3	Kuala Lumpur	Malaysia	8	Hai Phong	Vietnam
4	Jakarta	Indonesia	9	Bekasi	Indonesia
5	Hanoi	Vietnam	10	Chonburi	Thailand

Source: fDi Intelligence | A service from The Financial Times Ltd.





Chapter 4

BUSINESS GUIDE

Introduction to new
Investment Law and Law on Enterprise 2014
Investment Screening and Licensing Authority
Company Incorporation Process
Investment Incentives
Taxation regime
Profit Repatriation and Remittance
Labour Regulations
Free Trade Agreements and International Treaties
Foreign investment limit

I. Introduction to new Investment Law and Law on Enterprise 2014

The introduction of the New Investment Law and Law on Enterprise (2014), which took effect from 1 July 2015, continues the liberalization process brought about by Vietnam's commitments under WTO and several Free Trade Agreements. Vietnam is now one of the most liberal economies in Asia in terms of inbound foreign investment. Other than certain sensitive sectors and industries of national strategic interest - such as national defence, public health, culture, publishing, and exploitation of natural resources - foreign investors could freely participate by establishing new investment or acquiring existing businesses in Vietnam.

One of the positive changes in the new Investment Law and Law on Enterprises is the introduction of a much clearer investment system. Specifically, the Government of Vietnam will now specifically detail the restricted sectors of the economy, those are not open to foreign investment.

This represents a philosophical shift as it provides more transparent guidelines to foreign investors. In the past, restricted sectors were not clearly indicated by the Government of Vietnam. Hence, many foreign investors were not clear about the feasibility of their proposals.

This new Investment Law and the Law on Enterprises of 2014 makes significant progress in addressing gaps from the previous investment law of 2005. Although there are still room for further improvements, this new law demonstrates the government's commitment to design and implement policies to further Vietnam's efforts to integrate into the global economy. For example, this law enables significant reduction in administrative procedures and better enables foreign enterprises to move ahead with their corporate and direct investment strategies in Vietnam without being unduly constrained by the conditions and administrative procedures imposed under the previous investment regime. Some other highlighted changes are briefed in the table below:

	Investment Law 2014	Law on Enterprise 2014
Approach	Changed from "Positive list" approach (whatever is permissible, then it is recorded in laws) to "Negative list" approach (Laws record restricted areas, companies and investors are allowed to conduct business activities which are not in the list in accordance with the laws)	
Concepts & Definitions	<ul style="list-style-type: none">Definition of "Business Investment"Removing definition of "Direct Investment" and "Indirect Investment"Definition of "New investment project" and "Expanded investment project"	<ul style="list-style-type: none">Changing Investment Cert (IC), Business Registration Cert (BRC)Applying Investment Registration Cert (IRC) and Enterprise Registration Cert (ERC)
Admin process	Lead time 15 working days for IRC	Lead time 3 working days for ERC
Others	<ul style="list-style-type: none">Specifying the list of 6 prohibited sectors; 267 conditional sectors (reduced from 51 prohibited, 386 conditional)Only >51% foreign invested need IRCLocal investors don't need IRC	<ul style="list-style-type: none">Removing "business scopes" in ERCChanging regulation on Company sealApplying more than one Legal Representative

6 Prohibited sectors	267 Conditional sectors (Need to obtain specific Investment Liscence)	Equity restricted sectors under WTO agreement (futher refer to Vietnam WTO commitment for more detail)
<ul style="list-style-type: none"> • Trade in narcotics • Trade in hazardous chemicals and minerals • Trade in endangered flora and fauna • Human trafficking, trade in human tissue and body parts • Human cloning 	<ul style="list-style-type: none"> • Including: financial and professional services, trading in and exloration for energy and minerals, certain types of education, the operation of ports, railroads and airports, construction, trading in medical services and land surveying 	<ul style="list-style-type: none"> • Advertising • Courier services • Equipment repair and maintenance (excluding ships) • Travel agencies and tour operators • Film production, distribution and screening • Services incidental to mining and manufacturing • Telecom services • Distribution • Education • Electronic games • Maritime trasport, container handling and related services • Road and rail transport • Aircraft maintenance and repair

II. Investment Screening and Licensing Authority

For investment sectors which are not subject to conditions, the granting of the Investment Registration Certificate is a relatively straightforward process with minimal review process by the investment approval authority in the locality of the investment project. Foreign investments subject to conditions will continue to go through a screening process before being approved with an Investment Registration Certificate ("IRC"). Screening criteria may include the following:

Legal and financial status of investors including financial capability;

Conformity with Vietnam's Master Plan (WTO commitments, International Treaties);

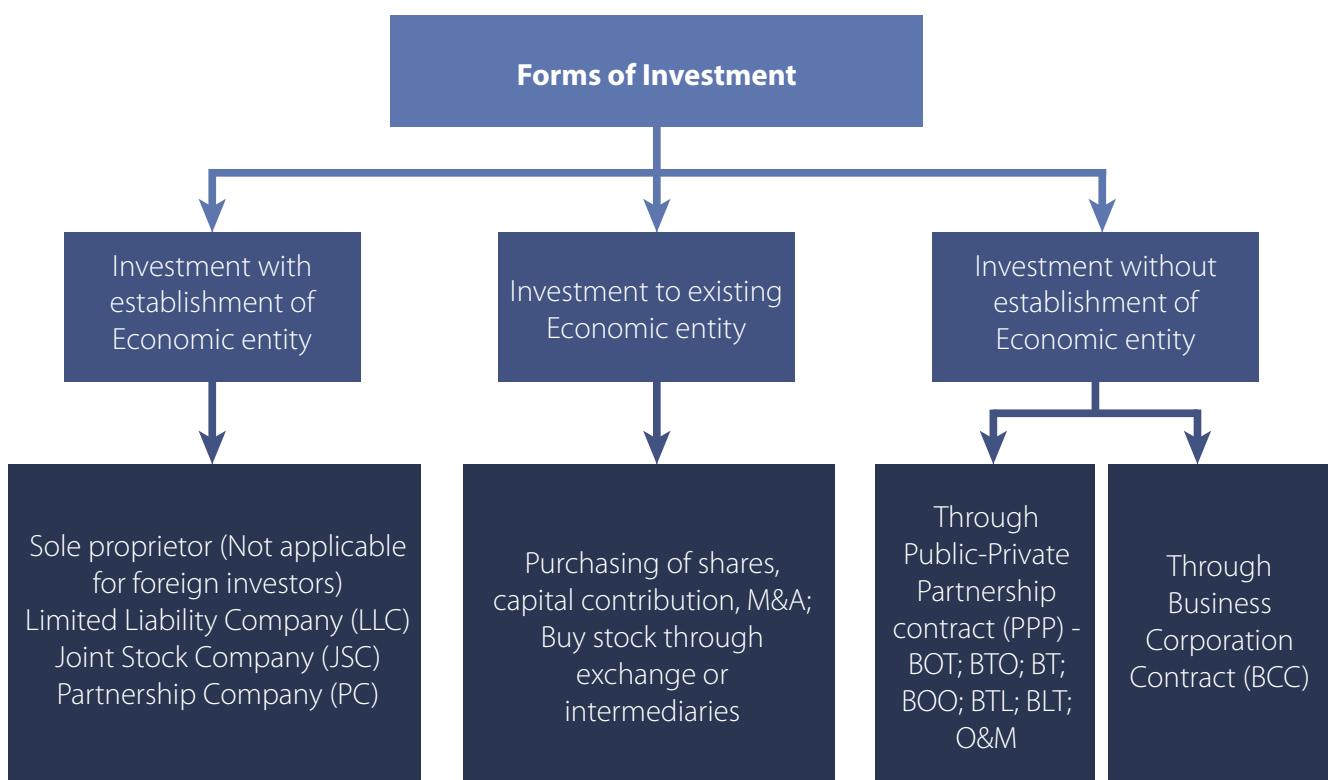
Legality of the project's location (Lease agreement);

Feasibility of the investment project

Vietnam has decentralized licensing authority to provincial or municipal people's committees. Certain projects with significant environmental and social impacts, and important national projects in specific sectors must first secure approval from National Assembly or Prime Minister of Vietnam.

The Law on Investment 2014 has listed the approval authority for particular projects. For those foreign invested projects proposed to be located in special purpose zones (Industrial Zone, High Tech Zone, Special Economic Zone, or Export Processing Zone), the zone's board of management will have full licensing authority to assess and upon approval, issue the Investment Registration Certificate.

Type of projects	Approval required
<ul style="list-style-type: none"> • Projects with large environment impact, • Projects that change the land usage purpose in national parks • Projects located in protective forests large than 50 hectares • Projects that require relocating 20,000 people in remote areas such as mountainous regions 	National Assembly
<ul style="list-style-type: none"> • Projects to build airports and seaports; casinos; explore, produce and process oil and gas; produce tobacco; • Projects having investment capital more than 5,000 billion VND (USD 233 million); • Projects invested by foreign investors in sea transportation, telecommunication with network infrastructure, forest plantation, publishing, press and; • 100 percent foreign-owned scientific and technology companies or organizations. 	Prime Minister
• Other than the above	Provincial People's Committee / Zone's Board of Management



III. Company Incorporation Process

License to be issued: Enterprise Registration Certificate ("ERC").

Foreign investors: required to obtain IRC prior to the ERC.

Vietnamese investors: IRC is not required.

A foreign entity may establish its presence in Vietnam through setting up or acquiring a limited liability company or a joint stock company, or apply for the establishment of a branch, business co-operation contract, or a representative office. From a legal and practical standpoint, prior to setting up a company, foreign investors should consider the followings applying to the licensing authorities:

The business lines or scope of services of the company

Proposed location, capital and scale of operation

Governance structure

FOREIGN DIRECT INVESTMENT CERTIFICATE AND ENTERPRISE REGISTRATION CERTIFICATE



PAID-UP CAPITAL / CHARTER CAPITAL

Generally, there is no minimum paid-up (charter) capital requirement; However, licensing authorities may request that evidence of sufficient capital be provided for certain regulated businesses.

The committed paid-up (charter) capital must be remitted into Vietnam within 90 days from the issuance date of the ERC.

POST-LICENSING PROCEDURES

Application for IRC

(15 days)



Application for ERC

(3 days)



Post-lisensing steps

(a few days)



Initial Statutory Compliance

(tax - labor)



Bank Account Opening

(KYC, 90 days capital remittance)



Operation Commencement

After approval and issuance of the IRC and ERC, there are certain statutory procedures regarding post-licensing that foreign invested enterprises need to complete before commencing operation.

During the initial pre-market entry stage, a foreign company may establish a Representative Office to act as a liaison office to study the business environment, search for potential business opportunities and partners, promote its goods and services in Vietnam, and supervise the implementation of contracts signed by the foreign company. A Representative Office is not permitted to conduct direct commercial activities, sell goods and services and collect sales proceeds in Vietnam. The provincial department of industry and trade is the competent authority for issuing RO licenses. The establishment procedure is relatively straightforward and may take about 2-3 weeks.

IV. Investment Incentives

Current Corporate Income Tax (CIT) rate is 20%. Foreign investors embarking on new investment projects that qualify under certain industry sectors, encouraged location or operational criteria can seek to benefit from the following CIT incentives:

Reduced CIT rate (10%, 15%)

Full exemption (from first profitable year) for certain number of years followed by 50% exemption for the remaining incentivized period.

The criteria for eligibility for the tax incentives and the detailed tax incentives applicable are set out in the CIT regulations.

The criteria for tax incentives are set out in the investment or tax regulations, which include:

Investment sectors encouraged by the Vietnamese government;

Investment located within designated "preferential investment geographical areas" such as areas with difficult or especially difficult socio-economic conditions, or certain industrial zones, export processing zones, and economic or high-tech zones; and

Large manufacturing projects.

For those preferential businesses cited in the Investment Law that require imports to form fixed assets, duties can be exempted. Other conditions for exemption are also detailed in the Government Decree 134/2016/ND-CP dated 01 September 2016.

V. Taxation regime

In addition to tax incentives for preferential investment, Vietnam has one of the lowest CIT rates in the region.

In a move to make Vietnam more business friendly, the Government of Vietnam has embarked on an ambitious program to implement electronic tax administration across the country.

The following taxes are applicable to businesses and individuals:

Corporate Income Tax (CIT);

Value Added Tax (VAT);

Withholding taxes;

Capital assignment profits tax;

Import duties;

Personal Income Tax (PIT).

All these taxes are imposed at the national level; there are no provincial or city level taxes. Vietnam has a system of self-assessment.

In line with Vietnamese government's continuing efforts in enhancing efficiency and transparency, increasingly, most aspects of tax administration in Vietnam for corporate taxpayers are transacted online through e-government system.

TAX ON BUSINESS

Corporate Income Tax: 20% from 2016.

Value Added Tax: standard rate is 10%, with 5% applicable for certain essential goods and services, and 0% for exported goods and services.

Foreign Contractor Withholding tax

Industry	Deemed VAT Rate	Deemed CIT Rate
Supply of goods in Vietnam or associated with services rendered in Vietnam (Include in-country Import-Export, distribution of goods in ViN or delivery of goods under Incoterms where the seller bears the risk relating to goods in Vietnam)	1% (VAT will not be payable where goods are exempt from VAT or where import VAT is paid)	1%
Services	5%	5%
Services together with supply of machinery and equipment (where the contract does not separate the value of goods and services)	3%	2%
Restaurant, hotel and casino management services	5%	10%
Construction, installation without supply of materials, machinery or equipment	5%	2%
Construction, installation with supply of materials, machinery or equipment	3%	2%
Leasing of machinery and equipment	5%	5%
Leasing of aircraft and vessels	Exempt (where aircraft/vessels cannot be manufactured in Vietnam)	5%
Transportation	3% (international transportation at 0%)	2%
Interest	Exempt	5%
Royalties	Exempt	10%
Insurance	Exempt / 5%	5%
Re-insurance, Commission for re-insurance	Exempt	0.1%
Transfer of securities	Exempt	0.1%
Financial derivatives	Exempt	2%

Personal Income Tax

i. Tax residents (by Vietnam law, the Vietnam resident is taxed on worldwide income):

- Living in Vietnam for a total of more than 183 days in a calendar year or over a period of 12 continuous months (for the first year of entry into Vietnam)
- Or having a permanent residence in Vietnam that is registered in the temporary residence card, or rental contract for accommodation in Vietnam exceeding 183 days in a year; and unable to provide evidence of tax residence in another country

Applicable rates (progressive):

Level	Annual Taxable Income (Million VND)	Monthly Taxable Income (Million VND)	PIT rate (%)
1	From 0 - 60	From 0 - 5	5%
2	60 - 120	5 - 10	10%
3	120 - 216	10 - 18	15%
4	216 - 384	18 - 32	20%
5	384 - 624	32 - 52	25%
6	624 - 960	52 - 80	30%
7	More than 960	More than 80	35%

ii. Non-residents: flat rate of 20% on their Vietnam-sourced income (not entitled to deduction).

Non-employment income for residents and non-residents alike are taxed at the following rates:

Taxable Income	PIT rate (%)
Business income	0.5-5% (based on type of business income)
Interest / dividends	5%
Sale of shares	0.1 % of sales proceeds
Capital assignment	20% of the net gain
Sale of real estate	2% of the sales proceeds
Income from copyright	5%
Income from franchising / royalties	5%
Income from wining prizes	10%
Income from inheritances / gifts	10%

VI. Profit Repatriation and Remittance

- Dividends can be freely repatriated (after relevant Corporate income tax are declared and paid)
- Equity (contributed into capital account) can only be repatriated upon liquidation; and
- Medium Term / Long Term Loans (>12months) require registration with the State Bank of Vietnam (SBV) before drawn-down. Such loans which are not registered with SBV cannot be repatriated
- No further withholding tax on dividend to corporate shareholders (5% withholding tax for foreign individual shareholders, except 100% Limited Liability Company held by foreign individual)
- Equity increase / decrease subject to approval from the Ministry or Department of Planning and Investment

VII. Labour Regulations

It is important for foreign invested businesses to carefully follow and comply with Vietnam's labour regulations. The labour regulatory framework includes minimum wage, working hours, overtime, social insurance, labour disputes, termination of contracts, and labour agreements.

Employers having more than 10 employees need to register internal labour regulations (IRLs) with the labour office. Legal service providers recommend that all foreign invested business register their IRLs and make sure their human resource practices, policies and documents are fully congruent with Vietnam labour regulations.

Employers shall not prevent the formation of a labour union if requested by at least 5 employees.
Social insurance contribution (based on gross salary per month):

	Social Insurance	Health Insurance	Unemployment Insurance	Total
Employee	8.0%	1.5%	1.0%	10.5%
Employer	17.5%	3.0%	1.0%	21.5%

Trade union fees of 1% (contributed by employee) and 2% (contributed by employer) are payable where internal labour union has been registered.

The contribution rates for both social insurance and trade union fees are subject to certain statutory maximum (caps) which are revised from time to time.

Foreigners working in Vietnam are required to apply for a Work Permit ("WP"). Exceptions apply to certain categories of foreign individuals, including those who are direct investors in a limited liability company or members of the management board of a joint stock company. Work permits are normally issued for two years and could be renewed. Residence Visa / Temporary Resident Card allows 2-5 years stay. Business visitors coming to Vietnam for very short-term stays can apply for business or social visit visas.

VIII. Free Trade Agreements and International Treaties

Vietnam continues to sign and seek out multilateral and bilateral Free Trade Agreements as well as international treaties in order to support the country's regional and global integration efforts.

Market access has been facilitated by the FTAs through the elimination or reduction of tariffs and non-tariff barriers, harmonization of regulations, and trade facilitation initiatives. Vietnam has implemented the "Single Window" system where all procedures related to imports and exports are transacted through a single integrated system. Recent implementation of Vietnam Automated Cargo and Port Consolidated System and Customs Information System illustrates the Government of Vietnam's commitment to continue its efforts to streamline administrative customs procedures through electronic customs systems.

Protection of intellectual property in Vietnam is also ensured by the Civil Code and the 2005 Law on Intellectual Property (IP). On the international IP protection front, Vietnam is signatory to several bilateral and multilateral agreements relating to intellectual property rights. IP protection and enforcement are monitored by the National Office of Intellectual Property of Vietnam.

International commercial arbitration – allowed by the law of Vietnam – is gaining wider acceptance. The Vietnam International Arbitration Centre at the Vietnam Chamber of Commerce and Industry is one of the preferred arbitral institution in Vietnam.

IX. Foreign investment limit

Vietnam continues to design and implement policies to create a better and more sustainable business environment. Examples are detailed below.

According to Decree 60/2015/NĐ-CP and Circular 123/2015/TT-BTC, limits on foreign investment owning shares in a public company have been lifted. Previously the limit of foreign ownership of public companies was capped at 49%.

This will greatly facilitate the equitization process and boosting economic restructuring as per the direction detailed in the Master Plan on Economic Restructuring in 2013-2020.

The Master Plan also exhibits clear efforts of the government of Vietnam to accelerate economy liberalization by decentralizing public investment, restructuring banks, and privatizing state-owned enterprises.

The government of Vietnam has publicly set the goal to equitize more than 500 SOEs, which will result in the number of active SOEs being reduced to only 690 by the end of 2015. By 2020, the government's goal is to reduce this number of SOEs to 200.

Based on Vietnam's WTO commitments, foreign investors purchase of SOE's equity will be permitted. This will allow foreign investors to increase their ownership of SOE's equity and/or act play the role of a strategic partner/investor.

List of Abbreviations

ADB	Asian Development Bank
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
CAGR	Compound Annual Growth Rate
CPI	Consumer Price Index
CIT	Corporate Income Tax
DPI	Department of Planning and Investment
ERC	Enterprise Registration Certificate
EVFTA	European-Vietnam Free Trade Agreement
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GSO	General Statistics Office of Vietnam
GCI	Global Competitiveness Index
HCMC	Ho Chi Minh City
IP	Intellectual Property
IRL	Internal Labour Regulations
IMF	International Monetary Fund
IRC	Investment Registration Certificate
MAC	Middle and Affluent Class
MPI	Ministry of Planning and Investment
PIT	Personal Income Tax
RCEP	Regional Comprehensive Economic Partnership
S&P	Standard & Poor's
SBV	State Bank of Vietnam
SOE	State-owned Enterprise
CPTPP	The Comprehensive and Progressive Agreement for Trans-Pacific Partnership
UNESCO	The United Nations Educational, Scientific and Cultural Organisation
TPP	Trans-Pacific Partnership
VAT	Value Added Tax
WP	Work Permit
WEF	World Economic Forum
y-o-y	year-on-year

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