

# Vietnam

An investment perspective

2006  
BUSINESS  
OPPORTUNITIES



President  
Tran Duc Luong

Try and guess which country is currently Asia's best-performing economy. China? Japan? Taiwan? Surprise: Vietnam holds that honor. Increasing amounts of direct foreign investment and booming exports have pushed annual growth rates during the last decade to more than 7%—the forecast for this year is 7.8%—and in 2006 the government has set its sights on 8%. Exports alone have grown at around 20% over the last decade.

Like its mighty neighbor China, Vietnam has opted for capitalism within communism and it has implemented far-reaching changes under its *doi moi*, or reform, policies over the last twenty years, including shifting from heavy industry to consumer goods and exports, as well as reducing state intervention in business and encouraging private investment. The result has been little short of spectacular: in 1993, the World Bank classified 60% of the country as poor; by 2004, that figure had fallen to 25%.

The government also recognized early on the importance of being part of the global economy. Exports for 2005 surpassed \$27 billion, making up more than half of the \$50 billion GDP. Vietnam will soon join the WTO and it has been a member country of ASEAN since 1998. In 2006, Vietnam will host the APEC annual summit.

And all of this is backed by a burgeoning stock market that reflects the robustness of the economy: with gains of more than 60% in 2005, it should come as no surprise to learn that Vietnam is Asia's best-performing economy.

# Growth Driven: Service Economy Takes Root

Twenty years into the *doi moi* reform program and after successfully weathering the Asian crisis of 1997-2001, Vietnam's economy continues to grow at record rates. As President Tran Duc Luong explains, Vietnam's success is due to a huge collective effort by the Vietnamese people: "We have a population of 80 million and our workforce has a strong will to progress. This is our biggest potential."

Deputy Prime Minister Vu Khoan sees three main achievements over the *doi moi* period: "In the last two decades, our exports grew thirty-three times; GDP has more than tripled; and foreign investment over the period has reached \$50 billion."

Significantly, the reforms required many state-owned enterprises to become "equitized"—the term the government uses for partial privatization—and this has provided resources for a burgeoning private sector. "We have gone from around 6,000 state companies to 3,800," according to Mr. Khoan.

Perhaps the biggest change in the Vietnamese economy can be measured by the presence of more than 150,000 private enterprises, which now account for 50% of GDP and 27% of total domestic investment.

Vice Minister of Finance Dr. Le Thi Bang Tham explains that the govern-

ment has worked hard to create a viable financial sector as a further means of attracting foreign investment.

"The banking sector has grown by an average of 12% annually for the past five years and is expected to continue at around 9% through 2010," she notes.

At the same time, the financial sector is diversifying rapidly. While five state-owned banks still account for 75% of financial assets and around thirty foreign banks and forty joint-stock institutions make up the remainder, under international arrangements a level playing field is being created for foreign banks.

Vietnam's fledgling stock market is the government's next target for growth and reform. At present the turnover of market security transaction accounts for 5% of DGP. Dr. Tam predicts that that figure will reach 10%-15% by 2010. The government intends to remove all ownership limits on foreign companies, the consequences of which, observers suggest, would see an influx of overseas capital to the bourse.

## TELECOMS LEAD SERVICE SECTOR

The development of Vietnam's service sector is evidenced in the growth of companies like mobile phone market leader VMS. Le Ngoc Minh, VMS's managing director, praises the government's reform program and describes the market as being "very open." Active for ten

years, VMS has attracted around 3.5 million subscribers—out of the country's total of seven million. Mr. Minh thinks that the market's growth potential is substantial. "Our strategy is to offer more value-added services backed by quality after-sales attention."

The privatization of Vietnam's telecommunications sector is being coor-



**Deputy  
Prime Minister  
Vu Khoan**



**Vice Minister  
of Finance  
Dr. Le Thi Bang  
Tam**



**VMS Managing  
Director  
Le Ngoc Minh**

minated by the state-owned operator VNPT. At the same time, Vietnam is also opening up its market to foreign players through roaming agreements and it will soon establish its own cable network, according to Mr. Minh, who adds that VMS will continue to look for strategic investors. "VMS will increase its coverage, develop its network, and cooperate in key areas with competitors, for example, by sharing the same network structure." ■

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# INCOMBank in Transformation



**INCOMBank General  
Director Pham Huy Hung**

Established in 1988, the Industrial and Commercial Bank of Vietnam (INCOMBank) now controls 20% of the market and, with a current annual growth rate of 18%, the bank is one of the 1,000 best banks in the world according to the Financial Times.

In the last year, INCOMBank has implemented a "roots-and-branches" revision of its operations, explains CEO Pham Huy Hung, to primarily reduce all overdue debts. At the beginning of 2005, each of the bank's more than 130 branches was required to reduce overdue debts, loans without mortgaged assets, and loans to unprofitable state enterprises. Through these measures, INCOMBank's overdue debt rate was reduced to four percent. Mr. Hung believes that, by the end of this year, all debts reported before December 31, 2000, will be settled.

Mr. Hung also emphasizes that the bank will continue to focus on: clearing the total asset sheet, clarifying its finances, increasing business in combination with restructuring credit, reorganizing the bank's internal structure, strengthening business administration, and modernizing the bank in accordance with international standards.

A modernization program has already been implemented successfully at the head office and at four branches in Hanoi and is now being considered for further development within the INCOMBank system. "INCOM is the first bank in Vietnam to apply modern technology and e-commerce in its banking operations," notes Mr. Hung. "Our aim is to continue modernizing INCOMBank and to offer a top-quality service for our customers. In the coming years, INCOMBank will be investing in banking technology, as well as improving the quality and competitive capacity of the bank."

Once stabilization is achieved, Mr. Hung explains, INCOMBank will begin the process of becoming a joint-stock bank and he expects that process to be completed by 2007. The transformation will allow the bank to improve its administration, modernize its banking services, and strengthen overall finances.

Mr. Hung also points out that INCOMBank's ongoing modernization will make it the logical choice for overseas investors: "I think that due to the open investment policies offered by the government, the banking sector will increasingly benefit from incoming investment." Mr. Hung adds that INCOMBank has branches in export-processing zones, industrial zones, and open-economic zones throughout the country. "We can control funds and assets, take part in business investments, and even deal with domestic and overseas payment transactions for investors."

The bank has recently signed framework-credit agreements with Belgium, Germany, South Korea, and Switzerland and it has established correspondent relationships with 700 of the world's biggest banks. ■

INDUSTRIAL AND COMMERCIAL BANK OF VIETNAM



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and e-commerce in its banking operation**



INCOMBank

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Head office: 108 - Tran Hung Dao, Ha noi.

Tel: 84-4-9421030; Fax: 84-4-9421032

SWIFT: ICBVVNVX

Email: ecb@icb.com.vn - Website: www.icb.com.vn

# Industrial Parks

## Lure Investors Away from China



**SIG Chairman  
Dang Thanh Tam**

There are few better indicators of the health of a country's economy than the amount of foreign direct investment pouring into the country. At

around 8% of its GDP—a figure it has maintained for the last five years—Vietnam has received a higher per capita amount of foreign direct investment than China. In the first ten months of 2005, Vietnam received \$3 billion from foreign investors.

Speaking at the "Vietnam ForInvest" seminar in Hanoi in November, Deputy Prime Minister Vu Khoan stated that the country intends to further attract \$24 billion in the next five years.

In the mid-1990s, the Vietnamese

government began to promote industrial parks as a way of channeling foreign direct investment more efficiently. However, the Asian financial crisis of 1997 scared many foreign companies away from investing in such markets. One of the few positive results of the crisis, as Chairman of the Saigon Invest Group (SIG) Dang Thanh Tam explains, is that it forced the government to implement policies to stimulate foreign direct investment.

Consequently, when foreign firms returned to Vietnam in 2000, vital infrastructure was already in place along with a dynamic business environment and local companies were making great strides.

With ten industrial parks under its ownership and management, SIG is one of the country's leaders in this area and it is focused at the moment on attracting Japanese and Taiwanese companies. In 2005, Canon decided to build the world's biggest laser printer factory at a SIG industrial park.

"Vietnam is rightly seen as stable and safe. A decision like

Canon's shows that the government is applying the right policies," according to Mr. Tam, who adds that Vietnam has become the destination of choice for big Japanese and Taiwanese companies looking to diversify their manufacturing bases. "When the Southeast Asia Free-Trade Area comes into force over the next five years, then Vietnam will really come into its own," he predicts. ■

Since 1925, guests of the Majestic Hotel have enjoyed its unique blend of French hospitality, Asian grace, and superlative views of the Saigon River. Located in the center of the city's business and diplomatic district, the Majestic Hotel is one of Vietnam's premier international hotels.



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Email: [vsip\\_mktg@hcm.vni.vn](mailto:vsip_mktg@hcm.vni.vn)

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**Contact:**

Website: [www.kinhbaccity.com](http://www.kinhbaccity.com)

Telephone: + 84 241 634034

+ 84 8 8228290

Ms. Huong: + 84 (0) 913211995

Mr. Quan: + 84 (0) 983360366

Ms. Hai Anh: + 84 (0) 983697899

Ms. Diep: + 84 (0) 953389979

E-mail: [info@kinhbaccity.com](mailto:info@kinhbaccity.com)

Fax: + 84 241 634035

+ 84 8 8228291

E-mail: [ntthuong@kinhbaccity.com](mailto:ntthuong@kinhbaccity.com)

E-mail: [bnquan@kinhbaccity.com](mailto:bnquan@kinhbaccity.com)

E-mail: [lthanh@kinhbaccity.com](mailto:lthanh@kinhbaccity.com)

E-mail: [tadiep@kinhbaccity.com](mailto:tadiep@kinhbaccity.com)

# Vietnam Airlines Flag Carrier Leads Change

As Vietnam's economy continues to grow at record levels, its potential to further strengthen its position within the major air routes of the Pacific Rim nations is becoming increasingly evident. This year the national flag carrier Vietnam Airlines (VAL) expects to report a 29% increase in annual revenues, up from last year's \$1 billion. The airline has seen an almost-25% increase in passengers—to 4.9 million in 2005—following an easing of inbound visa requirements for tourists from many Asian cities and the abolition of two-tier fares that penalized foreign passengers.

Company President and CEO Nguyen Xuan Hien says the company's goals for 2006 are more of the same, namely "a high quality of service and sustainable growth." To that end, VAL will continue upgrading its fleet and infrastructural facilities. The company has more than 100 pilots and 1,500 crew members. Vietnamese pilots, all of whom have undergone overseas training, currently cover some 85% of flights, reports Mr. Hien. Finally, by 2010, VAL expects to double the size of its fleet, from thirty-four aircraft to seventy.

VAL was originally established as a state enterprise in 1989 and, in 1996, the Vietnam Airlines Corporation was formed, bringing together several service companies with the airline at its core. The corporation is run by a six-seat management board whose members are appointed by the prime minister.

The company operates in four main areas: the rapidly expanding domestic market; Indochina; Northeast Asia; and Southeast Asia. VAL has direct flights to four destinations in Japan; three in China; and it also serves Thailand and Singapore. In all, VAL now flies from Hanoi, Da Nang, and Ho Chi Minh City to thirteen domestic locations and twenty-three international destinations.

Mr. Hien reports that the company's expansion into longer-haul flights is proving successful. VAL now serves



**VAL President and CEO  
Nguyen Xuan Hien**

Australia, as well as Paris, Frankfurt, and Moscow. Following an agreement in 2004, the company is set to begin serving the United

States. "We want to see a lot more cooperation between Vietnam and the United States in many areas, including airway services," notes Mr. Hien. United Airlines has recently added a direct flight from San Francisco to Ho Chi Minh City. "Apart

**"In the future we  
will consider  
joining an alliance  
of airlines,"  
says Mr. Hien**

from the commercial objectives, we are interested in reaching out to the many Vietnamese living in the United States. We believe we can attract more overseas Vietnamese to come here, either to invest in the economy or to bring their skills, particularly in the construction industry. The government's policy is to welcome them back," he explains.

VAL has a controlling stake in the country's two other carriers, the regional



operator Pacific Airlines and Vasco which serves the domestic sector. The Singaporean investment firm Temasek Holdings is currently in talks to buy a stake in Pacific Airlines. Temasek is reported to have said it will pay as much as \$50 million for a stake in the affiliate. The Ministry of Finance plans to sell a stake in the country's second-largest carrier as part of an overall restructuring plan.

As Vietnam becomes a growing tourism destination—it received three million visitors last year—it is also opening its skies to regional competitors, according to Mr. Hien. Following the entry of Singapore Airlines' low-cost carrier Tiger Air, the budget company Thai AirAsia has also begun operating flights between Hanoi and Bangkok. Quantas Airways' Singaporean-based budget airline, Jetstar Asia, has also received landing rights in Hanoi. Mr. Hien also notes that Vietnam has invited airlines from India to operate regular services to the country and, as an inducement, Vietnam has offered lower airport charges for such flights.

VAL also recently signed a number of key bilateral cooperation contracts. "In the future we will consider joining an alliance of airlines," states Mr. Hien. "We already have successful cooperation with Cathay Pacific, Japan Airlines, China Airlines, Korean Air, Air France, and Thai Airways. We also signed a joint-business agreement with American Airlines and we will later do the same with Lufthansa and other leading airlines around the world."

VAL is also working diligently in the area of technology transfer and the company intends to further develop its infrastructure, particularly in maintenance and other ground-technical facilities. "We have strong relations with Air France, and the technology transfers we have established with that company have allowed us to meet European and American standards." ■



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