

Vietnam

Major Business Sectors

Compiled by:

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Overview and trends

Vietnam has started to carry out reforms since 1986, focusing on market economic management. The reforms are based on three pillars: 1) restructuring to build a multi-sector economy; 2) financial, monetary and administration reforms and 3) the development of external economic relations.

Vietnam has created an ever more competitive and dynamic economic environment. The multi-sector economy has been encouraged to develop, thus mobilizing effectively all social resources for economic growth. External economic relations have been expanded and the flow of foreign direct investment increased. Export of goods and labour, tourism industry and remittances from overseas Vietnamese have been strongly promoted to generate increasing foreign earnings for Vietnam. Along with improvement of the business environment, market economy institutions have also been established. It is the Government policy to eliminate the central planning mechanism, emphasize monetary - market relations, focus on economic management measures and establish an array of financial institutions, banks and basic markets for money, labour, goods and land, etc. The administrative reform was promoted so as to improve economic competitiveness and to mobilize all resources for the country's development.

Domestic / Principal economic sectors

Period: Jan-Dec 2007

business sector	% of GDP	% change from previous year	value in USD m
1. Agriculture, Forestry and Fishery	20.25	+16.10	14'423
2. Industry - Construction	41.61	+16.81	29'629
3. Service	38.14	+16.91	27'164
Total	100.00	+16.70	71'216

Source: Vietnam general Department of Customs

Agriculture-Forestry-Fisheries

Vietnam is an agriculture country with 70% of the population living in rural areas. Although the sector contributes only 20% to the GDP, but plays an important role in the country's exportation. The amount of agricultural products exported in 2007 such as seafood, coffee, rice, rubber and wooden products was valued at US\$ 11 mil., accounts for 27% of the total exports of Vietnam, excluding crude oil. Vietnam is the world's largest exporter of black pepper and second largest rice and coffee exporter. The sector has contributed to the maintenance of socio-economic stability, hunger eradication and poverty alleviation.

Rice: Vietnam exported around 4.7 mill tones of rice (of total production of 36 mil tones) in 2006 with revenues of 1.4 bill USD. Main destination markets for rice of Vietnam are Asia and Africa.

Coffee: Vietnam is the world's second largest coffee exporter, after Brazil. The sector exports 95% of its production, earning USD 1.2 billion in 2006, up from USD 660 mill in 2000. Main importing markets are EU, US.

Seafood: Vietnam is among the top ten world exporters of seafood. The sector grows with a rate of 10-12% per year for the past 20 years. It generated in 2006 an export revenue of USD 3.4 bill, ranking fourth in term of export income, behind crude oil, textiles and shoes. Key importers are Japan and US.

Pepper: Vietnam is the world largest exporter of black pepper, having 5% of the world market share. The export value was USD 190 million in 2006, mainly to the US, India, EU and Middle East.

Industry - Construction

Textiles and apparel: remain important pillars of the manufacturing sector and for the country's export. Since Vietnam becomes a WTO member, there are no longer quotas on these products and the Government set no restrictions/conditions for foreign companies in setting up production sites in this field. The sector has over than 2 million workers, equivalent to 25% of all industrial employment. The industry gained USD 5.9 bill from export in 2006 with an average growth of 20% per year in the period 2000-2006. The most important markets are the US and Japan.

Shoes and leather products: Exports of footwear and leather products have experienced a dramatic increase since 1990s. Within less than one decade, the industry has nearly tripled its value in exports, from USD 1464 mil in 2000 to USD 3900 mil in 2007, becoming the as one of the Vietnam's most important export industries.

Furniture and wood products: Vietnam has currently about 1500 wood processing enterprises, mainly in Ho Chi Minh city, Binh Duong and Dong Nai. Many woodwork items made from materials imported from the US and South Africa. Over the past five years, wooden products have become one of the key export products of the country. Their export value amounted from USD 1 bill in 2004 to USD 2 bill. in 2006. The main markets of the industry are the US, Japan and Korea.

Electronics and computer components: Vietnam is a small but fast-growing manufacturer of electronics and computer components. The industry grows with a rate of 27% per year, reaching an export revenue of USD 2200 mill. in 2007, from USD 782 mill in 2000. The industry's export accounts for 4.4% of Vietnam's total export value. Thailand and Japan are the major markets of the industry.

Services

Tourism: Vietnam has emerged as a popular new destination for tourists in recent years. The combinations of unique landscapes and rich culture, from high mountains to extensive coastline, from modern cities to hundred-year-old handicraft villages become known to both domestic and overseas tourists. Vietnam attracted 4.2 million foreign visitors in 2007, mainly from China, South Korea, the US and Japan. With a growth rate of 25% per year, the local tourist number recorded to 15.2 million in 2005 and to be projected 25 million in 2010. While Vietnam's reputation as one of the safest places for travel, the country still facing many challenges, including a

poor and disjointed market image, relative high transportation costs and limited infrastructure. However, Vietnam has seen steady investment in hotel and resorts in the past few years. Several premier resorts are expanding their facilities to meeting the growing demand for luxury accommodations in new tourist destinations. The central and all local governments are encouraging investments from domestic and foreign firms. This will lead to opportunities such as management consulting for development of tourism master plan and strategies, investing, developing and upgrading tourism infrastructure facilities.

The Government authority is the Vietnam Tourism Administration www.vietnamtourism.gov.vn and www.vietnamtourism.com

Imports

Period: Jan-Dec 2007

business sector	% of imports	Value in USD m	Main countries of origin
Machinery & parts	17.7	11.12	China, EU, Japan
Petrol	12.3	7.71	Singapore, Taiwan
Steel	8.2	5.11	China
Computer & electrical goods	4.7	2.96	Singapore, Japan, China
Plastic Raw Materials	4.0	2.50	China, Japan, Taiwan
Materials & accessories for garment & shoe manufacturing	3.4	2.15	Taiwan, Rep. Korea, China
Chemical products	2.1	1.29	China, Taiwan, Singapore
Fertilisers	1.6	1.00	China
Total	100.0	62.68	

Source: Vietnam general Department of Customs

Exports

Period: Jan-Dec 2007

business sector	% of exports	Value in USD m	Main destination countries
Crude oil	17.5	8.49	Australia, Singapore, Japan
Garments & textiles	16.0	7.75	US, Japan
Footwear	8.2	3.99	US, UK, Germany
Seafood	7.7	3.76	Japan, US
Wood products	4.9	2.40	US, Japan, S. Korea
Computer, Electrical goods	4.4	2.15	Thailand, Japan,
Coffee	3.9	1.91	Germany, US
Rice	3.1	1.49	The Philippines, Indonesia
Total	100.0	48.56	

Source: Vietnam general Department of Customs

Promotion opportunities

1. Attractive sectors

Electricity: Power generation, transmission and distribution are controlled by the Electricity of Vietnam EVN, a state owned. There are 24 locally owned medium-large power plants that have a joint capacity of MW10'000. Currently, generation relies on hydro (40%), with thermal and gas accounting for the rest. Obviously drought and natural disasters could threatens the water supply. The Government estimates predict demand growing by

10-15% per year. Economic expansion, further industrialization and increase of rural electrification rate from 75% to 100% by 2010 will fuel this growth. To meet this demand, Vietnam power industry needs around US\$ 15 billion to upgrade existing generation plants, transmission and distribution facilities. Both domestic and foreign investors are encouraged to build 75 more power plants through commercializing its operations. Electricity is a rapid evolving sector and participation of foreign and non-EVN domestic investors will present new opportunities for suppliers. They are consulting and supply of machinery and equipment (particularly turbines). Focus areas will be hydro dam rehabilitation, rural electrification and high-voltage transmission. Equipment required will rely on import and technology transfer.

Government authority: Electricity of Vietnam EVN: www.evn.com.vn (under the Ministry of Industry www.moi.gov.vn).

Bio-Industry: Biotechnology in Vietnam is a high priority of the government and efforts are mainly target at the agriculture and health sector. Research activities are focused at government institutes in molecular biology and generic engineering, microbial biotechnology for production of bioactive compounds, bio-fertilizers, environmental protection and plant technology. However, these research activities are heavily dependent on funding from the government international donors. So far, little commercial interest has been committed in this field, which appears to be waiting for foreign investment. The government is developing standards on bio-safety, with a focus on regulations on GMO to control. Besides import of hybrid seeds (potatoes, rice, ornamental trees), opportunities in the form of technology transfer and sales of services and equipment are expect to grow in the area of plant tissue culture and molecular biology. Recently, Hanoi-s authority officially support a project by Ireland's Pacific Land to develop a large scale biology park in the capita city. The park, to be name Habiotech, will cover 200 hectares in the first stage and up to 500 hec. in the 2nd stage. Habiotech park will be developed into a cluster of biotechnology facilities including a biology nursery section, a section of high-tech laboratories to support research and development & training activities in the industry.

Railways Vietnam Railways Corporation: Vietnam has a railway network of about 3000 km, many of it constructed at the beginning of 20th century with a track width of 1.0 meter when the population was just 20 million. While the population has increased to 83 million, the train system has not changed significantly. The industry only takes a 9% market share in passengers and 4% of cargo transport. Realising that transportation reflects the development of each country and a breakthrough is needed for investment in the railways system, the VN government decided and approved in April for a key project "Hanoi-Ho Chi Minh City Express Railway". The Express Railway will have a length of 1630 km and a track of 1.435 m wide and a gauge of 4.3 metres and a speed of 300-350 km per hour. This speed will reduce the travel time between Hanoi and HCMC from the current time of 38 hours to 10 hours. A 25'000 V- 50-60 Hz electricity line will be used for the route, mostly supplied by the national electricity grid. The project needs an estimated investment of US\$ 33 billion (US\$ 23 bill. for infrastructure and US\$ 10 bill. for locomotives, cars and equipment). The VN government said that they will rely 70% of this investment on the Japan's ODA. The project now is in the investment preparation until 2010.

The Government authority: Vietnam Railways Corporation: www.vr.gov.vn (under the Ministry of Transport www.mt.gov.vn).

Shipping / Forwarding Economists predict that Vietnam's export and import could come to USD 200 billion by 2017 and the freight forwarding service for import-export could generate a value of USD 30 billion since it accounts for about 15% of the import and export total value. There are almost 1000 forwarding companies in Vietnam, 80% of which are of Vietnamese private SMEs. Given the limited infrastructure such as railways, roads, holding yards, warehouses, ports and changing regulations keep foreign firms in this profitable sector from instant successes.

Useful links are Vietnam Freight Forwarders Association: www.viffas.org.vn and the Ministry of Transportation www.mt.gov.vn

Software outsourcing: Although the software industry (SI) in Vietnam is a young sector whose turnover does not appear impressive, the software industry (SI) might make other industries in Vietnam envy them for the level of attention it receives from the government. B involved in software production and services, both local and foreign invested, are exempt from corporate income tax (28%) for four years from the date they generate their first taxable income. Software products will receive a 0% Value Added Tax (VAT) and be free from export

tax. Currently, most software companies in Vietnam are small-sized, with exception of three mid-sized enterprises with more than 500 programmers: FPT, TMA Solutions and FCG Vietnam. Despite this, Vietnam has been quite successful in attracting numerous major big corporate names to outsource software projects to Vietnam. Among the names that have done so are IBM, Bayer, BP, Fuji, Nortel Networks, NTT and Sony. All have outsourced software projects to Vietnam either directly or through third-party subcontracts. Although the SI's revenue in 2005 of \$200 million was far from expectations, the steady growth rate in the last five years of 25%, which is forecasted to continue through 2010, certainly unveils the Vietnamese government's ambition and aspiration for technology advance in this industry.

Useful websites:

- the Ministry of Posts and Telematics: www.mpt.gov.vn;
- Vietnam Software Association www.vinasa.com

2. Trade fairs

Information on trade fairs/exhibitions can be download from the websites:

Vietnam Chamber of Commerce and Industry: http://vibforum.vcci.com.vn/category.asp?cate_id=22

Vietnam Trade Promotion Agency:
http://www.vietrade.gov.vn/index.php?option=com_content&task=view&id=4168&Itemid=484

3. Trade and business opportunities

Vietnam Chamber of Commerce and Industry: <http://vibforum.vcci.com.vn/opport.asp>

Vietnam Trade Promotion Agency/English/Trade Leads: <http://www.vietrade.gov.vn/>

Further information and links

Vietnam Trade Promotion Agency www.vietrade.gov.vn

Ministry of Foreign Affairs www.mofa.gov.vn

Vietnam Economic News www.ven.vn

Vietnam General Department of Customs www.customs.gov.vn

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