

Quarterly Update: Vietnam's Mixed Messages Sidelines Foreign Investors

Winter 2012

Summary

Vietnam begins 2012 at a crossroads and needs meaningful reforms to complete the transition to a market economy that it started a generation ago. At times, the country seems to be moving decisively toward restructuring and consolidating its banking system, controlling public spending, and privatizing inefficient state-owned corporations. Even so, as one of the world's most promising economies, Vietnam also faces stagnation unless the government can convince global investors it is ready to control the power of state-owned companies, private conglomerates, and institutions that are content with the status quo. Optimists contend that now is the time to invest in Vietnam, partly because many investors have lost patience just when Vietnam offers exceptional value. Supporting that view are surging exports, a modest 5% budget deficit, and less foreign debt. The question for 2012 is whether Vietnam's homeostatic forces will allow reform needed for the country to realize its economic potential.

Optimism, Pessimism, and Opportunity

Vietnam enters 2012 with mixed messages that defy efforts to discern trends. Most discouraging:

- Vietnam has been losing its battle to gain credibility with foreign investors. The World Bank lowered Vietnam's business climate ranking from 90th to 98th among 183 world economies. A European Chamber of Commerce survey finds its members are disappointed with Vietnam.
- Businesses within Vietnam are discouraged too. Grant Thornton's new global survey finds optimism among Vietnamese businesses went from 80% early last year to 34% by year's end.
- An HSBC economist calls Vietnam the most exposed major country in Southeast Asia to an economic downturn because of its budget deficit, low reserves, and high inflation.
- Vietnam is the province of a small group of international investors, with 15,588 foreigners permitted to trade in Vietnam. Active traders are a shrinking fraction as the VN Index declined 27% in 2011.
- 43% of Vietnam's biggest corporate taxpayers are owned by the government, while private firms slid from 21% to 18% of the total. This suggests backsliding in the transition to a free market economy.

More encouraging signs:

- *Rising tourism.* Vietnam set a record with six million international visitors in 2011, 19% more than 2010, including 71% more foreigners making visits to relatives in Vietnam.
- *Surging exports.* Vietnam's trade deficit is much lower than expected as exports exceed the government's target by 10% and outpaced imports.
- *Improving infrastructure.* Vietnam opened its first modern deep-water harbor near Saigon. The \$250 million project with a one-third-mile-long wharf receives container ships anchored up to 45 feet deep.

Four Headlines to Expect in 2012

Vietnam may play a key role in shaping global social, economic and political events through the 21st Century. American businesses and investors can expect to hear the following about Vietnam in 2012:

1. **The Rise of the OPEC of Rice.** Leading rice exporters Vietnam, Thailand, Laos, and Cambodia are thinking more strategically about influencing the production and sale of the world's most abundant carbohydrate. Because rice fuels humans as oil fuels the economy, the discussions raise the question of whether Indochina will become the OPEC of the staple that feeds half of the people on Earth. The proposed Organization of Rice Exporting Countries (OREC) is a powerful potential economic force in a world with seven billion mouths to feed.

2. **Who Gets the Prizes in the East China Sea?** Late in 2011, ExxonMobil announced discovery of natural gas off the coast of the central Vietnamese city of Danang – in waters also claimed by China. China and Vietnam are trying to downplay rising tensions, but the disputed territory in the South China Sea is not about national pride. It is about energy and other natural resources, and the fragile peace depends on how many nations decide these prizes are worth fighting for.
3. **The Real Estate Boom.** Vietnam's high-flying real estate market took a big hit in 2011, but its ambitions did not. The government approved, among other things, a national housing strategy to build 100 million square meters of new living space per year, a master plan for Hanoi that includes five satellite cities, an urban railway, and a \$2 billion Disneyland-style entertainment complex. Meanwhile, private equity firms seek distressed real estate deals that inevitable in 2012.
4. **The Courtship of Europe.** Vietnam is strengthening diplomatic relations with Europe, partnering with Germany as a prelude to a free trade deal with the European Union -- while cultivating relationships with Russia and other Eastern European countries. A sign Americans are being left behind: Vietnam Airlines just launched direct flights between London and Vietnam's two largest cities after already flying to Germany, Russia and France – but not anywhere in North America.

The American-Vietnam Connection

First Solar, global leader of thin-film solar panel manufacturing, postponed its \$300 million plant in Ho Chi Minh City until global demand improves...*10 US food companies including **Applebee's** visited Vietnam to explore the market for pizza, southwestern burgers and Cinnabons...* VN President Truong Tan Sang declared the US is a leading strategic partner needed for stability in Southeast Asia, nearly four decades after the war that defined an American generation...*US workforce developer **Manpower** announced a strategic partnership and highlighted Vietnam's need to upgrade its labor force...* The US and Vietnam observed the 10th anniversary of the agreement that boosted trade between the two countries from \$2 billion to \$19 billion while more than 500 US companies invested \$5 billion in VN.

Key Data

2011 vs. 2010 from government monthly statistical reports

Gross Domestic Product – \$120 billion, up 5.9%

Consumer Prices – up 18.6%

Exports -- \$96 billion, up 33%

Imports -- \$106 billion, up 25%

International Visitors – 6,014,0004, up 19%

Foreign Investment -- \$11 billion, no change

VN Dong Exchange Rate -- 20,940, up 8%

Stocks -- Closed at 351.55, down 27%

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