

Quarterly Update: U.S. Businesses Are Discovering the “V” in CIVETS

Autumn 2011

Summary

The Vietnam opportunity in the 3rd quarter attracted more attention from global investors, who now have a catchy acronym to go with their enthusiasm: CIVETS (Colombia, Indonesia, Vietnam, Egypt, Turkey, and South Africa) is replacing BRIC (Brazil, Russia, India and China) as the promising new frontier. Vietnam belongs in this emerging group because of its demographics (young, ambitious, entrepreneurial); its political and social stability; its sustained pace of growth; and its emergence as a manufacturing hub. For early adopters with long-term objectives, these strengths trump concerns about high inflation for 2011 and the related issues of currency instability, slower growth, and imbalances in trade and government spending.

3rd Quarter Developments in Vietnam

Underlining the Vietnam opportunity are reports that surfaced in summer and early fall. Among them:

- **Commodities Exports.** Vietnam continues growing as a dominant global trader of commodities – especially coffee, rice, and cashews. Nestle plans a \$270 million coffee factory near Ho Chi Minh City, and intends to purchase 30,000 tons of coffee annually from 16,000 farmers. Later this fall, Vietnamese farmers are expected to harvest a record 1.3 million tons of coffee (worth \$3 billion) – enough to lower prices of Robusta beans on the global market. Also, Vietnam is positioned to overtake Thailand as top exporter of rice, the staple that feeds almost half the world. Vietnam may exceed 8 million tons of rice exports in the coming year.
- **Green Technology Leadership.** Vietnam is positioning itself as a destination for clean energy and biotechnology investors. Among them: US-based First Solar investing \$1 billion, IC Energy \$390 million, and German Roth & Rau \$14 million in solar factories; GE and Germany’s EAB investing in wind power; Germany committing one-third of its official development assistance in Vietnam’s energy sector; Indochina Capital planning to mobilize \$200 million for wind, solar, and energy projects; and Dragon Capital committing \$45 million to recycling and clean water. Also, Vietnam committed \$17 million to build the country’s largest biotech complex to focus on agribusiness R&D -- such as high-quality mushrooms and genetically-modified plants.
- **Architectural Achievements.** Vietnam is experiencing a spectacular physical remake. CapitaLand, Southeast Asia’s largest property developer, is completing its first project in Vietnam: **The Vista**, 750 luxury apartments in five 28-story towers across the Saigon River from Ho Chi Minh City’s downtown. And the American Institute of Architects highlighted Vietnam as a new frontier — showing projects of more than 20 firms, including: Chicago-based Carlos Zapata Studio’s 68-story Bitexco Financial Tower, and the 450-room waterfront Marriott under construction in Hanoi. Planned projects include cities within cities and conversion of Phu Quoc Island into Vietnam’s Macau.
- **Online Commerce Growth.** E-commerce is projected to reach \$6 billion over the next three years as 30 million internet users get comfortable with online purchasing. And Vietnam’s trade ministry is planning an import-export website starting next year to support the country’s textile, seafood, agriculture, wood, rubber, footwear, leather, steel, fertilizer, plastic and handicrafts industries that together have 9,300 websites that produce \$2 billion in revenue annually.
- **Overseas investment.** Another sign of Vietnam’s emergence on the global stage is its investment abroad. Vietnamese businesses registered to invest \$25 billion in 600 foreign projects this year – primarily mining, energy, water, and agriculture – mostly in Laos, Cambodia, Venezuela and Russia.

3 Important Issues Affecting Long-Term Prospects for Business in Vietnam

- **Social capital.** Investors need to watch the interplay of workforce, wages, and inflation. Family planning underlies Vietnam's remarkable progress as fewer births meant more resources for education and investment; but now Vietnamese mothers are giving birth to 11% more boys than girls – a trend likely to increase social instability. Meanwhile, as Vietnam faces one of the world's highest inflation rates, the minimum wage rises 29% in Saigon. That could lead to higher unemployment.
- **The environment.** Vietnam wants to balance environmental sustainability with economic growth. Currently at issue: (1) contracts with Chinese companies to mine a million tons of Vietnamese bauxite annually; (2) 12 hydroelectric projects along the Mekong River, home to 60 million people in six countries. A report says the projects would supply less than 5% of Vietnam's electricity and would eliminate \$1 billion in revenue for fishing families and \$2 billion in food production and aquaculture.
- **Trust.** As a newcomer to the World Trade Organization, Vietnam has yet to demonstrate that it can effectively control corruption, and honor intellectual property rights, brands and patents. Adidas, Gucci, Honda, Microsoft, Louis Vuitton, and Kimberly Clark are among companies trying to protect their brands from counterfeiters. Violators face minimal fines and get back in business quickly, so the government needs stronger penalties and vigilance.

The American-Vietnam Connection

San Francisco retailer Gap Inc. is opening its first store in Vietnam in October. ☐ AmerAsians living in Vietnam – isolated, poverty-stricken, and now middle-aged -- are running out of time as the number of American visas granted to children fathered by US troops during the Vietnam War dropped to just 23 last year. ☐ *General Motors is ending its production of Daewoo cars in Vietnam and instead will focus on manufacturing Chevrolets.* ☐ A new salary survey finds expatriates in Vietnam receive the lowest net take-home pay in Asia, but when full benefits are considered the compensation packages are about average.

Key Data

First 3 quarters 2011 vs. first 3 quarters 2010 from government monthly statistical reports

Gross Domestic Product – \$83.0 billion, up 5.8%

Consumer Prices – up 22%

Exports -- \$70 billion, up 34%

Imports -- \$77 billion, up 27%

International Visitors – 4,312,100, up 15.5%

Foreign Investment -- \$9.9 billion, down 28%

Internet Subscribers – 4.1 million, up 18%

Stocks -- Closed at 437.47, down 3.7%

Vietnomics LLC, through partnerships in the US and in Vietnam, is a global sourcing consultancy that links US and VN investors and companies. Our advisors provide cultural training and services regarding sourcing, marketing, investing, government relations, factory evaluation, social investment and legal solutions. We provide quarterly updates and frequent blog posts (vietnomics.wordpress.com) about opportunities in Vietnam.

Vietnomics is co-founder of **Temple Hills Coffee**, the first specialty premium Arabica coffee from Vietnam. We offer **Dalat Arabica** and **Pacific Sunrise** coffees: www.templehillsonline.com



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