

Update: Vietnam Takes a Break from Rapid Growth to Rebalance its Economy

Spring 2011

Summary

After a decade of economic expansion that consistently outpaced most developing economies, Vietnam's government is now emphasizing efforts to solve serious problems that could derail this frontier market's ambitious plans. High on the agenda are bringing inflation down to single digits, strengthening confidence in the local currency, and reducing the trade and budget deficits – all necessary to restore the confidence of foreign investors. This agenda of tightening the economy led to slower growth (by Vietnamese standards) in first quarter that is likely to persist for much of 2011.

Energy Infrastructure, Politics and the Economy

Japan's nuclear disaster could have consequences in Vietnam because it puts a spotlight on a key element of Vietnam's long term plan to bring its infrastructure up to international standards. Energy shortages increasingly are disrupting the economy, and power outages must be stopped if the country is to continue its expansion. That's why the government said plans will go forward for two nuclear power plants in the south central coast despite the situation in Japan. Neighboring SE Asian countries and some Vietnamese citizens question whether Vietnam is ready for nuclear technology. In addition to worries about nuclear technology, some are concerned about Vietnam's transparency and the politics of public works. Some think corruption was a factor in the collapse of a bridge three years ago; more recently, inadequate oversight may have played a role in the sinking of a boat that killed 11 foreign tourists early this year. If Vietnam is prepared to take on the responsibility of nuclear power, its energy future and economic progress are likely to be significantly brighter.

Important Developments in the First Quarter 2011

Although economic expansion slowed to 5.4% so far this year, the Vietnam's businesses and consumers show signs the economy will pick up its pace later this year. Examples in the first quarter:

- **Attracting manufacturers** -- Five garment manufacturers from Thailand are investing \$50 million to relocate in Vietnam, where they will employ 24,000 at a considerable savings from wages now expected in Thailand. The move continues a trend toward factories moving to Vietnam from elsewhere in Asia because of production costs, and political and economic stability.
- **Feeding the world** -- Vietnam exported 1.3 million tons of rice (valued at \$627 million) in the first ten weeks of 2011 – to Malaysia, Indonesia, Cuba, and many other countries – as the world also consumes increasing volumes of Vietnamese nuts, fruit, vegetables, coffee, tea, and seafood. Meanwhile, Vietnam is experimenting with its first biotech product: genetically modified corn that, along with cotton and soybean plants, is soon expected to be cultivated on a large scale – an opportunity for American agribusiness.
- **Growing consumerism** – A survey predicts Vietnam will lead Asia this year in dining, fashion and fitness spending. Consumers also are gaining confidence because of a new law that creates a system of dispute resolution –through negotiation, mediation, arbitration, and lawsuits – and opens the door to class action lawsuits.
- **Prosperity and Optimism** –Vietnam's prosperity ranking surged 16 positions, making the frontier market country the world's 61st most prosperous nation (of 110), up from 77th in 2009, according to a British research institute. Norway ranked number one, and Zimbabwe last. Another survey (by the French BVA Institute) calls Vietnam the world's most optimistic nation – outranking China and Brazil; developed nations now show pessimism, while emerging and war-torn nations are more optimistic, with 70% of Vietnamese optimistic vs. 30% worldwide.

American Early Adopters Weighing in

Large corporations and small investors from the US are continuing to look for ways to take advantage of the opportunity in Vietnam. So far in 2011:

- **First Solar**, a \$13 billion manufacturer of solar panels, broke ground on a \$300 million facility in Saigon that will initially employ 600 and ultimately could grow to a \$1.2 billion investment.
- **Vietnam-US trade** increased 21% in January to \$1.7 billion; Vietnam imported \$335 million in cotton, iron, steel, machinery, and other products (up 29%) and exported \$1.4 billion of apparel, footwear, furniture and other goods to the US (up 20%). That followed a record 2010 when Vietnam exported \$14.8 billion in products to the US while importing \$3.5 billion just 15 years after the two countries established diplomatic relations. Vietnam is 27th among US importers.
- **Citigroup** identified Vietnam as one of the 11 most attractive high growth countries; others are Bangladesh, China, Egypt, India, Indonesia, Iraq, Mongolia, Nigeria, Philippines and Sri Lanka.
- Joe Jackson, Michael Jackson's father, is among investors breaking ground on Vietnam's \$2 billion "**Happyland**" complex south of Saigon, perhaps SE Asia's largest tourism project -- 1,000-room hotel, water park, theaters, restaurants -- aiming for 14 million visitors yearly.
- Vietnam's **Communist Party** elections endorsed ambitious economic plans and aspirations for national defense. Key appointments include more military representatives on the central committee -- a sign of anxiety about China's strength and potential for US military contractors.
- **Temple Hills Coffee**, a project of **Vietnomics LLC**, introduced its specialty premium coffee from Vietnam. Aligned with our goal of building bridges between the US and Vietnam, we are introducing Americans to high quality Vietnamese products, starting with **Dalat Arabica** (100% Vietnamese) and **Pacific Sunrise** (VM-Sumatra blend). To order an introductory roast [click here](#)



Key Data

First quarter 2011 vs. first quarter 2010 from government monthly statistical reports

Gross Domestic Product -- \$21.2 billion, up 5.4%

Consumer Prices -- up 12.8%

Exports -- \$19.2 billion, up 32.7%

Imports -- \$22.3 billion, up 23.8%

International Visitors -- 1,511,500, up 11.9%

Foreign Investment -- \$2.0 billion, down 35.2%

Internet Subscribers -- 3.8 million, up 19.2%

Stocks -- Closed at 461.13, down 7.6%

***Vietnomics LLC**, through partnership offices in the US and in Vietnam's two largest cities, 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.*

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