

Update: Despite Economic Instability, Things Are Looking Up in Vietnam

Summer 2011

Summary

Still reeling from the 2009 global recession, Vietnam's economy has been challenged in the first half of this year. Businesses are coping with runaway inflation, high interest rates, an increasingly unsettled workforce, and inadequate access to capital for industrial production. Even so, bright spots are materializing. Exports are rising dramatically and expected to reach the government's \$79 billion target for the year. And the worrisome trade gap appears to be getting under control as exports grow faster than imports. The key question for the second half of 2011 for US investors: Can the government get inflation under control? If so, today is a golden opportunity to invest in Vietnam.

Encouraging Developments in the First Half 2011

Vietnam's stock market is down 15% since last year; inflation is in the double digits; foreign investment is down 50%. However, the economy is showing signs of improving. Encouraging events so far 2011:

- **Investor confidence.** Vietnam ranked as Southeast Asia's top investment destination in a Singapore survey of 355 businesses; it found 85% of firms plan to invest in ASEAN – starting with Vietnam.
- **Foreign investment.** US private equity group Kohlberg Kravis Roberts announced the largest private equity partnership transaction so far in Vietnam – acquiring a 10% stake in Vietnam's Masan Consumer Corporation for \$159 million.
- **Rising exports.** Vietnam's exports to the US are up 23% early this year to \$6.2 billion (accounting for 18% of VN exports) -- mainly garments, furniture, footwear, seafood, and machinery. Vietnam also exported 1.3 million pairs of jeans in the first quarter (up 31%) mostly to the US. And Vietnam now dominates the world market for white fish fillets and exported 153,000 ton of tra fish in the first quarter for \$376 million – up 5%.
- **Stabilizing currency.** After several years of weakness, the Vietnamese dong had its best showing in at least 14 years when businesses and individuals raced to convert money into local currency to take advantage of interest rates on their savings as high as 14%.
- **Better transportation.** Vietnam's largest city and commercial heart shows dramatic progress on transportation infrastructure. Key projects are the East-West Highway, a tunnel opening later this year, and the Phu My Bridge that opened in 2009. More than 100 miles of highways and 50 bridges have been built recently, and at least 20 further improvements are planned.
- **An American success.** IBM is marking its 15th year in Vietnam, where information technology is indispensable and a third of Vietnamese log on to the Internet daily. IT accounts for more than \$15 billion of Vietnam's economy, and IBM says Vietnam is one of its 20 "focused investment countries."
- **High tech parks.** Vietnam has developed two major IT centers on the outskirts of Saigon: *Quang Trung*, which has 101 companies and 24,000 employees including 4,752 software programmers and other IT experts; and *Saigon Hi-Tech Park*, which has 50 investors, including Intel and some of the world's leading software developers.
- **Privatization progress.** Vietnam is promising to get the privatization of state-owned companies back on track after delay because of the global downturn and sluggish stock markets. The decision suggests the government is more committed to improving the economy's efficiency and productivity.

More Concerns and Signs of Economic Stress Early in 2011

Despite progress, Vietnam's climate for business and investing remains tenuous. That's why US investors need to be aware of these developments:

- A Nielsen survey reports local businesses and consumers are losing confidence in Vietnam, usually one of the world's most optimistic nations; just one third expect conditions to improve.
- Inflation is about 20%, forcing the government to revise its target for 2011 from 7% to as high as 17%; one result has been 220 worker strikes — quadruple the rate for 2010.
- Vietnam's stock markets are in a prolonged slump. SaigonTel is delisting itself on the Saigon exchange, and others could follow. The Hanoi exchange had its lowest close in its 6-year history.
- Climate change experts say rising sea levels could destroy up to half of Vietnam's rice crop as well as Can Tho City. A three-foot rise in sea level would swamp 80% of the Mekong Delta.
- 52 US Congress members are vowing to protect the American textile industry from the Trans-Pacific Partnership trade pact they say threatens two million jobs because of Vietnam imports.

Essentials of Doing Business in Vietnam

Americans interested in investing or doing business in Vietnam need consider these essentials:

Honor Confucian and Buddhist values / Be patient / Expect change and contradictions
Show deep respect and humility / Teach teamwork and skills / Be explicit about expectations
Treat partners and workers with dignity / Negotiate / Cultivate local relationships

Key Data

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

Gross Domestic Product – \$52.0 billion, up 5.6%

Consumer Prices – up 20.8%

Exports --\$42.3 billion, up 30.3%

Imports -- \$49.0 billion, up 25.8%

International Visitors – 2,965,800, up 18.1%

Foreign Investment -- \$4.4 billion, down 50%

Internet Subscribers – 3.9 million, up 16.8%

Stocks -- Closed at 432.54, down 15.3%

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