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Vietnam: Renewed optimism amidst sustained reforms

With economic liberalisation reforms and the successful signing of trade deals with major blocs, Vietnam presents renewed opportunities for Singapore companies. State-owned enterprises equitisation and public-private partnerships are expected to accelerate, and Vietnam's key manufacturing sectors are set to continue expansion. This insight aims to examine some of these major developments and highlight strategic implications to Singapore companies as Vietnam's economic growth continues in earnest.

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Summary

// Vietnam's economy has weathered recent turbulence fairly well, with GDP growth in excess of 6.5% for 2015 and 9.2% export growth year-on-year. This performance is underpinned by recovery in domestic demand, which in turn reflects robust private consumption and investment growth. Better macroeconomic conditions have helped maintain stability in the banking system and tempered inflation.

// In addition to positive macroeconomic indicators, the optimistic outlook by foreign investors has been driven by Vietnam's continued push for economic liberalisation through revisions of its investment and property laws as well as participation in various trade deals. The smooth conclusion of the Vietnamese Communist Party 12th National Congress also signals the stable transition of Vietnam's top leadership and suggests continuity in economic reforms.

// Vietnam has a range of free trade agreements (FTA) in place, and are currently in the process of negotiating and ratifying more. Notable ones include the Vietnam-European Union FTA, the Trans-Pacific Strategic Economic Partnership Agreement, the ASEAN-Hong Kong FTA, as well as the Regional Comprehensive Economic Partnership.

// As economic liberalisation continues to gain momentum in Vietnam, we expect there to be more state-owned enterprises (SOE) reforms and public-private partnerships. We also anticipate the continued expansion of Vietnam's key manufacturing sectors as a result of increased integration with global supply chains through the FTAs.

Vietnam's economic rebound

In the earlier instalment of IE Insights (Vol. 11/ Sep 2014) on Vietnam, we highlighted Vietnam's slowing growth due to economic excesses but remained optimistic of the country's long term prospects. Vietnam's robust fundamentals of large private savings, positive demographics as well as the rich endowment of agriculture and seafood resources remain intact and will continue to provide opportunities for Singapore companies in the agribusiness, consumer and tourism sectors.

Since then, Vietnam has enacted critical policy changes and increased its pace of economic reforms:

// Estimated GDP growth rate for 2015 exceeded expectations, reaching an estimated 6.7%.¹ Vietnam's export performance remains strong, with total exports increasing by 9.2% over 2014, mostly attributed to strong performance of manufacturing exports especially in high technology products such as cell phones, electronics, and computers.

// Foreign Direct Investments (FDI) continued its upward trend, growing in both realised and newly registered capital from 2,547 projects. The country attracted \$20.22 billion worth of FDI from January to November 2015, a year-on-year rise of 16.7%.² Key investment sectors include manufacturing and processing, utilities and real estate.

// Inflation in 2015 was 0.6%, far below the red line of 5% set by the National Assembly and the lowest inflation rate in a decade. Interest rates stayed at 6.5%, also the lowest in over ten years.³

// Despite bad debts plaguing the banking sector, domestic demand has picked up with credit growth expected at 10-15% in 2016.⁴ To reduce Vietnamese banks' non-performing loans, the state has directed a number of merger and acquisitions, reducing the number of domestic commercial banks from 42 to 34.⁵

1 "Economy on path to speedy recovery", Vietnam News, 28 Dec 2015

2 "FDI disbursement up 17.9% in 11 months", Vietnam News, 30 Nov 2015

3 "Vietnam | Economic Indicators", Trading Economics, accessed 22 Dec 2015

4 "ASEAN – Key Themes in 2016", Financial Times, 18 Dec 2015

5 "The TPP's Impact on Vietnam: A Preliminary Assessment", ISEAS Yusof Ishak Institute, 4 November 2015

Drivers that boost investors' confidence

In addition to positive macroeconomic indicators, the positive outlook by foreign investors has been driven by Vietnam's continued push for economic liberalisation through reviews of its investment and property laws as well as participation in various trade deals.

Vietnam has a range of free trade agreements (FTA) in place, and are currently in the process of negotiating and ratifying more. Notable ones include the ASEAN Economic Community (AEC), the Vietnam-European Union (Vietnam-EU) FTA, the Trans-Pacific Strategic Economic Partnership (TPP) agreement, the ASEAN-Hong Kong FTA (AHKFTA) as well as the Regional Comprehensive Economic Partnership (RCEP).

The smooth conclusion of the Vietnamese Communist Party 12th National Congress also signals the stable transition of Vietnam's top leadership and suggests continuity in economic reforms.

Smooth transition of Vietnam's top leadership

Every five years, the Vietnamese Communist Party holds its National Congress. The National Congress is the platform where the country's most influential 16 members are selected into the party's Politburo. There is also renewal of the top four leadership positions, namely the General Secretary; Prime Minister; President and Chairman of National Assembly. Key appointments in the 12th Party Congress are as follows:

- a) Extension of term for General Secretary Nguyen Phu Trong
- b) Promotion of Minister of Public Security Tran Dai Quang to President
- c) Promotion of Deputy Prime Minister Nguyen Xuan Phuc to Prime Minister
- d) Promotion of National Assembly Vice Chairwoman Nguyen Thi Kim Ngan to Chairwoman

The party's choice of extending General Secretary Trong's term sends a clear signal of Vietnam's continued desire for collective leadership. General Secretary Trong's historic visit to the United States and support for Vietnam to join the TPP reflects his progressive views on economics and politics. He is regarded by analysts as someone who can draw in foreign investments from diverse sources whilst safeguarding the country's interests.

Notwithstanding changes in the top four political positions, a majority of the current government and key policy makers are re-elected (including Fatherland Front Chairman, National Assembly Chairwoman, two deputy Prime Ministers, the Minister of Transport, Minister of Finance and Governor of the State Bank of Vietnam). This suggests stability and continuity in Vietnam government's policies. The swift approval of the 12th Five Year Plan that endorses key reforms such as SOE equitisation and the implementation of the signed trade pact with the European Union (EU) and South Korea lends credibility to Vietnam upholding decisions made by the previous government.

4 Economist Intelligence Unit, 2015

5 "India's economic revival confirmed by new Harvard University study", Forbes, May 2015

Economic liberalisation gains momentum

Increased global integration through trade pacts

Several new trade pacts will help Vietnam attract more foreign investors as the country becomes more open and better connected to some of the world's largest markets. The AEC blueprint which came in force in December 2015 will create a single market and production base and enhance Vietnam's relative competitive advantages as a manufacturing hub. ASEAN is also part of the Regional Comprehensive Economic Partnership (RCEP), a proposed agreement for creating a free trade network between ASEAN and the six countries with which ASEAN has existing FTAs (Australia, China, India, Japan, Korea and New Zealand).

Among the FTAs, the regional pacts with the EU and TPP are expected to bring the biggest foreign investment opportunities for Vietnam. When ratified, investors in Vietnam could benefit from low tariffs and hence boost exports to top markets, such as the EU, the US, Japan and Australia. Other than lowering tariffs, both trade pacts include conditions on SOEs, government procurement and services liberalisation⁶ which are expected to create a level and more transparent business environment for foreign investors.

Trans-Pacific Strategic Economic Partnership (TPP)

TPP negotiations were successfully concluded on 5 October 2015. After ratification, the TPP will eliminate or reduce 18,000 tariff lines on manufactured and agricultural products, and Vietnamese exports would likely see improved access to the United States and Japan markets, the two largest economies in the TPP. The TPP is hence expected to help Vietnam expand its GDP by 11% and its exports by 28% within a decade.⁷

As one of the lowest-cost producers among the Southeast Asian countries in TPP, Vietnam is expected to be among the biggest winners in attracting manufacturing investments as companies move factories to leverage on her relatively low wages. By locating in Vietnam, manufacturers can also meet Country of Origin (COO) rules and benefit from reduced tariffs. Vietnam's existing key export industries, such as the electronics, apparel and industrial products (wood, rubber and steel) industries, will likely see rapid expansion over the next 10-15 years.

Vietnam-European Union Free Trade Agreement

After nearly three years of negotiations, the EU and Vietnam finalised negotiations for an FTA hailed as the most comprehensive and ambitious for the EU with a developing country.⁸ The agreement will eliminate tariffs for some 99% of products traded between the two economies over a 7-year period. As such, Vietnamese exports of textile, clothing and footwear to the EU are expected to more than double by 2020. The FTA is also estimated to generate an additional 7-8% of GDP above the trend growth rate (till 2025).⁹

6 Vietnam has committed to substantially improve access for foreign companies to a broad range of services sectors, including professional and business services, environmental services, engineering services, banking, insurance, retailing, education services and maritime transport.

7 "The TPP's Impact on Vietnam: A Preliminary Assessment", ISEAS Yusof Ishak Institute, 4 November 2015

8 "EU and Vietnam reach agreement on free trade deal", European Commission Memo, August 2015

9 "EU-Vietnam Free Trade Agreement Officially Signed", Duane Morris Vietnam, 7 December 2015

Progressive investment regulations

On 1 July 2015, Vietnam announced updates to its Investment Law to create a more positive investor climate.

Relaxing restrictions for foreign investors

Previously, domestic and foreign invested enterprise (FIE) operated under different licensing regimes, with domestic companies operating under the Enterprise Registration Certificate (ERCs) and FIEs under the Investment Certificates (ICs) scheme. A FIE with foreign ownership of less than 51% would still be treated as a foreign company even though the FIE was established in Vietnam.

Under the new law, a Vietnam-registered company would be treated as a foreign investor and requires an IC only if 51% or more of its charter capital is held by foreigners. The process to obtain an IC will also be simplified and approval time is expected to be shortened.¹⁰

The number of prohibited sectors for foreign investors will be reduced from 51 to 6,¹¹ and conditional investment activities – such as minimum registered capital and/or foreign ownership limits – will be reduced from 386 to 267. Investment incentives have also been expanded to cover more areas.¹²

Significance to Singapore companies

With the revised definition of the term “foreign investor”, it opens up the possibility that foreign investors seeking majority ownership may only need to obtain an IC once to establish an FIE. This FIE can then be used as a holding company for many domestic companies, assuming each of these domestic companies has less than 51% foreign ownership. This structure allows foreign investors to operate many different domestic companies in various industries, including those that were previously reserved for local Vietnamese investors only.

M&As will no longer require an IC if the foreign investor holds less than 49% of the target; instead M&A would only require an ERC to close. The streamlining of the M&A process is also expected to greatly increase such investments and further boost Vietnam's attempt to restructure its SOEs.

10 With the exception of projects involving sea transportation, telecommunications, publications/press and those in the financial sectors, which will still require further approvals.

11 The six prohibited sectors are: (i) certain chemicals; (ii) drugs; (iii) animals and wild plants; (iv) prostitution; (v) human tissue and body parts (vi) human reproductive cloning.

12 The expanded incentives will now include new areas such as clean and renewable energy, investment projects in which the scale of capital is at least US\$280 million, investments in rural areas that employ 500 workers or more, and high-tech companies.

Real estate law amendments

Foreigners are allowed property ownership of 50 years (extendable) with effect from 1st July 2015. The law is mainly targeted at Vietnam-based expatriates and long term residents, as the government remains wary of speculation by foreign investors.

Some significant changes to the law include:

- Broader categories of foreign individuals or entities allowed to purchase houses and apartments. Any foreigner with a valid entry visa (no requirement on visa term) can purchase a residential unit, including for leasing purposes. The ownership period is 50 years and can be extended.
- Foreign individuals or entities can purchase offices and factories, including for leasing purpose.
- Developers must be guaranteed by licensed credit institutions before they can sell or lease out residential houses that have yet to be built. Should they fail to hand over residential houses as agreed, the purchaser or the lessee-purchaser may ask the guarantor to return the advances and other payments they have made to the developer.
- The minimum floor area stipulation of a residential property has been removed. However, the new law allows maximum foreign ownership of 30% in any apartment building or 250 houses in a neighbourhood ward.

Significance to Singapore companies

The long-awaited real estate reforms are expected to have a positive impact on the local economy in the medium term, by driving the recovery of the sluggish property market. Domestic confidence is likely to recover quickly with the expectations of heightened demand in the near future. This spells renewed opportunities for Singapore real estate developers which have established themselves as leading developers in Vietnam.

Business opportunities with Vietnam's liberalisation

Manufacturing sector set to boom with trade integration

Given its low cost of manufacturing, Vietnam is generally considered to be one of the nations that stands to gain the most by entering regional trade pacts. It has become Asia's new manufacturing hub, and has taken over the production of low-level goods from China and Thailand, where wages are now much higher. Prominent manufacturing sectors in Vietnam include textile, garments, furniture and electronics. Vietnam has seen continuous manufacturing expansion¹³ and has attracted the likes of Samsung Electronics, Intel and Siemens.

The majority of Vietnam's manufacturing is located in the southeast and the Red River Delta in the northeast. Collectively, these regions account for almost 75% of the country's industrial output.¹⁴ While Hanoi and Ho Chi Minh City remain as traditionally important industrial centres in Vietnam, there has also been increasing MNC presence in provinces such as Binh Duong, Dong Nai, Hai Phong and Bac Ninh.

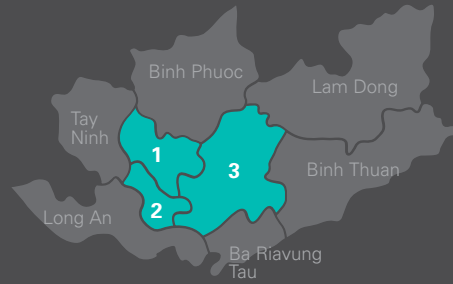
¹³ "HSBC Vietnam Manufacturing PMI", Markit Economics, 1 April 2015

¹⁴ "Index of Industrial production by province", General Statistics Office of Vietnam, accessed 15 Jan 2016

Business opportunities with Vietnam's liberalisation

Figure 1: Key MNCs' presence in Vietnam's industrial clusters

Four provinces in the Southeast account for 46% of Vietnam's total industrial output



1. Binh Duong

- Adidas
- Bayer
- Colgate-Palmolive
- Kimberly-Clark
- Nike
- Roche
- SABMillerSiemens

2. Ho Chi Minh City

- Intel
- Mercedes-Benz
- Unilever

3. Dong Nai

- Akzonobel
- Bosch
- Fedex
- Nestle

Two provinces in the Red River Delta account for 14% of Vietnam's total industrial output



1. Hanoi

- GM
- Yamaha

2. Bac Ninh

- ABB
- Canon
- Foxconn
- Nokia
- Pepsico
- Samsung

Source:
Frontier Strategy Group
FSG, Market Access
Series: Vietnam

Table 1: Key MNCs by Province

Key Manufacturing Provinces	Key MNCS
Hanoi	General Motors, Yamaha, LG Electronics, Canon, Nippon Paint
Bac Ninh	Samsung, ABB, Canon, Pepsico, Microsoft
Ho Chi Minh City	Intel, Unilever, Mercedes Benz, Coca-Cola, Jabil Circuit, Heineken, Hewlett Packard
Binh Duong	Siemens, Nike, Adidas, Roche, Bayer, Friesland Campina, Lotte, Kimberly Clark, Procter & Gamble
Dong Nai	Nestle, Bosch, Fujitsu, CP Group, Ajinomoto, Suzuki, Cargill, Holcim
Hai Phong	Fuji Xerox, Kyocera, LG Electronics, Bridgestone

Source:
IE Singapore

Several factors account for the manufacturing surge in Vietnam:

- **Competitive labour costs**

Vietnam serves as an excellent source of labour. The average wage in Vietnam stands at US\$197 in 2013 as compared to US\$391 for Thailand and \$613 for China.¹⁵ It is useful to note that Vietnam's minimum wage of US\$145 is about 60% of that in China's manufacturing provinces, such as Guangdong.

- **Proximity to existing consumption and production bases**

Vietnam is well connected to existing consumer and manufacturing hubs in Asia (China, Taiwan and Thailand). This makes it attractive for manufacturers to integrate Vietnam into its existing supply chains. For example, Samsung has established a strong presence in Vietnam's Bac Ninh and Thai Nguyen provinces for their proximity to its 13 plants and seven research laboratories in China. 47.5% of Samsung's revenue comes from Asia, so Vietnam is well positioned to be a strategic production hub. With the upcoming ratification of various trade agreements, manufacturers will also be keen to tap Vietnam's export quotas.

- **Political stability**

The Vietnam government has a reputation for being stable and welcoming to foreign investors relative to neighbouring alternative production centres. The smooth leadership transition during the 12th Party Congress is testament to the expected continuity in investment policies.

¹⁵ "Wages in Asia and the Pacific: Dynamic but uneven progress", International Labour Organization, 3 December 2014

Significance to Singapore companies

To remain globally competitive, **Singapore manufacturers should remain fluid and be quick to tap Vietnam's competitive advantages before the market saturates.**

Players in the following sectors should pay particular attention to Vietnam's role in the manufacturing value chain:

- **Consumer electronics**

With the likes of Samsung, LG, Jabil Circuit and Intel committing major investments to Vietnam, we expect Vietnam's export turnover of electronic products to enjoy significant growth. Investments by MNCs will also lead to the training and upgrading of Vietnam's labour force. Singapore players can ride on these developments to plug into the supply chain of their customers. Suppliers from Japan, Korea and Taiwan are already actively positioning themselves to leverage the increased opportunities.

- **Apparel**

With the implementation of different trade pacts, manufacturers are increasing production capacity in Vietnam to tap tariff savings. To fulfil rules of origin, yarn makers may enhance their presence in Vietnam to fulfil the "yarn forward" rule (yarn used to form the fabric must originate in a member country). This will be a catalyst for the development of new industries in Vietnam.

- **Food**

With improving infrastructure and a strong agricultural base, Vietnam has the potential to develop food processing and manufacturing capacities. Domestic regulations, such as labelling and testing requirements, could strengthen the case for in-market manufacturing to serve the growing needs of Vietnam's middle class.

- **Supporting services for production**

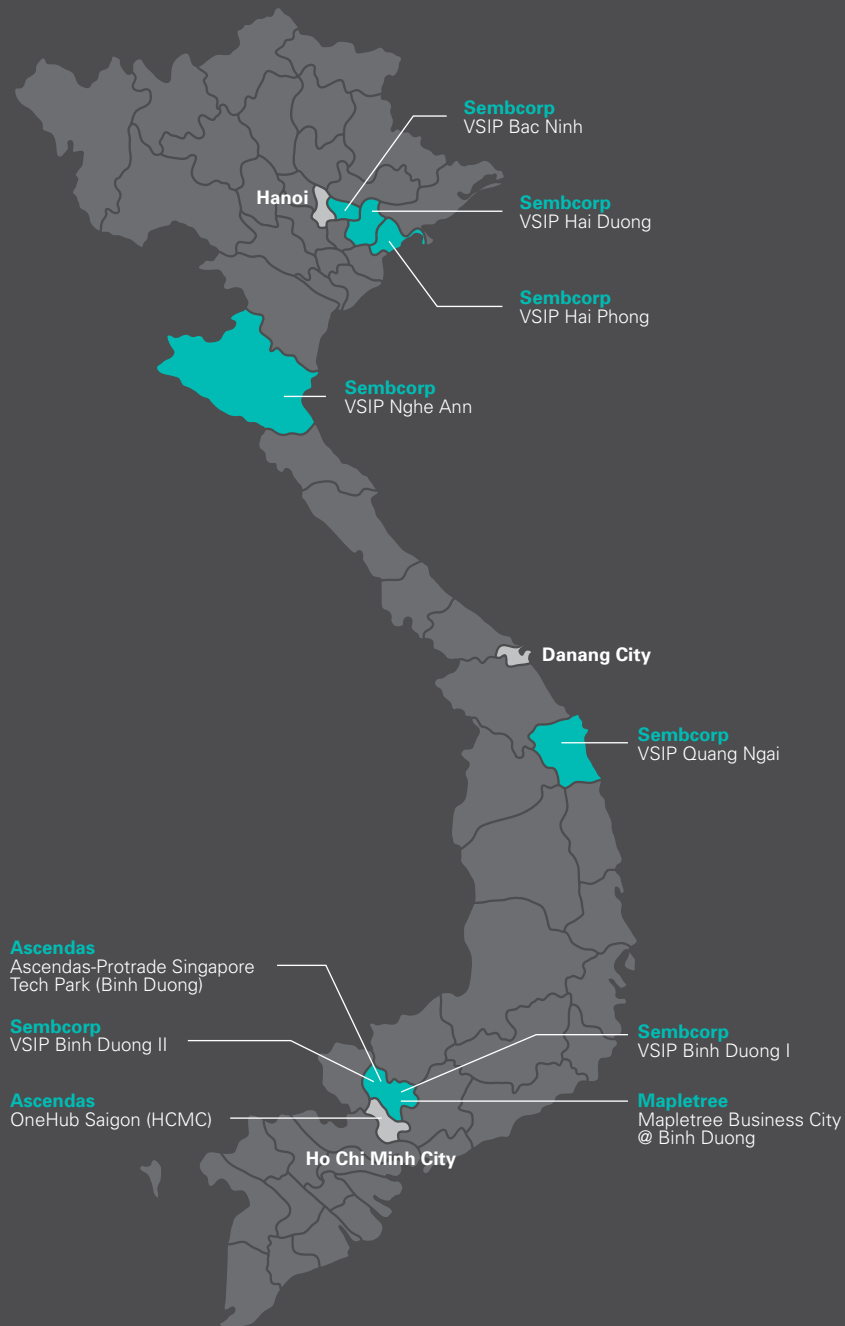
Foreign investments in manufacturing will drive demand for utilities and transportation services in Vietnam. Singapore companies providing access to water and power, as well as logistics infrastructure and services, should identify key production hubs to meet the needs of these MNCs.

Challenges and mitigating approaches

While Vietnam is a promising destination for manufacturing firms, international companies have to overcome regulatory challenges, ranging from registration to securing electricity for their factories. Singapore companies new to Vietnam's manufacturing industry can leverage the one-stop management committees in established industrial parks to facilitate their entry. SembCorp and Ascendas have established several well-managed industrial parks across Vietnam and are continuously expanding into new locations with Vietnam's growing manufacturing scene.

Business opportunities with Vietnam's liberalisation

Figure 2: Singapore industrial parks across Vietnam



Source: IE Singapore

Foreign participation in strategic sectors

Vietnam has continued its push to reform and equitise SOEs, opening up certain sectors traditionally monopolised by SOEs to competition¹⁶. This has attracted attention from international investors. Recent successes include the sale of Vietnam Airlines to Japan's All Nippon Airways (ANA) as well as the sale of Airports Corporation of Vietnam (ACV), the country's main airports operator, to France's Aeroports de Paris (ADP).

There is also strong in-bound M&A interest in Vietnam's private sector. South Korea, Japan and Thailand investors take the lead for M&A in Vietnam across sectors such as retail, F&B, commodities, finance and textile. Recent high profile deals include Japanese Itochu's equity stake in Vinatex and Thailand Central Group's acquisition of electronics retailers Nguyen Kim and Big C Vietnam.¹⁷

With the relaxation of restrictions on foreign players under Vietnam's new trade agreements, we expect Vietnam to speed up the process of consolidation and reforms of its companies as they face tougher competition from foreign investors. Other than increasing transparency of companies' operations, Vietnam will no longer be allowed to provide subsidies or non-commercial assistance to its firms which may have adverse effects on its trade partners' businesses.

Challenges and mitigating approaches

Singapore companies may consider M&A and strategic investments as viable entry modes into the Vietnam market. Consumer related sectors, such as food, retail, healthcare and education which tap rising urban income are expected to appeal to foreign investors.

In the area of SOE reforms, Singapore companies should recognise that the equitisation process might take some time. The sale of a meaningful holding — a stake of more than 3-4% — in a key SOE requires the personal approval of the Prime Minister, and various government ministries. Acquiring smaller equity stakes in the state-owned companies may not be meaningful and attractive for strategic investors who want management control.

According to data compiled by the Ministry of Finance, Vietnam was looking to privatise some 240 SOEs within the second half of 2015 to meet its privatisation targets. In the first quarter of 2015, it was only able to privatise 27 SOEs. Nonetheless, there remain jewels among the pool of SOEs set for equitisation. Recently completed IPOs that set the stage for further privatisation include the likes of Mobifone, one of the country's three largest telecom operators, and national carrier Vietnam Airlines.

Given the increasing participation of Vietnam's private sector in state projects,¹⁸ Singapore companies are encouraged to identify and partner local privately-owned enterprises (POEs) with good government links that are able to increase chances of success in tendering for these projects.

¹⁶ In addition to defence and security related sectors, the State will continue to retain 100% ownership in public utilities, power transmission, oil and gas, aviation and railways.

¹⁷ "Vietnam: M&As grow 9.7% in 2015 following high investor appetite", Deal Street Asia, 9 Mar 2016

¹⁸ Recent high profile projects by Vietnam's POEs include: (1) T&T Group's acquisition of Quang Ninh Port from SOE Vinalines; (2) Vingroup's acquisition of various state assets in publishing (Savina) and retail (Vinatex Mart); as well as Sovico Holdings which successfully broke into the aviation monopoly with acquisition of Vietjet Air and has stakes in a PetroVietnam subsidiary.

Public-Private Partnership (PPP) in Vietnam

The Vietnam government has traditionally relied on international developmental aid, also known as Official Development Assistance (ODA), as a means to finance infrastructure projects. However, as Vietnam becomes increasingly affluent, there has been a spike in the number of infrastructural projects required to support its fast growing economy. As such, Vietnam is moving beyond its traditional reliance on ODA towards a more comprehensive PPP framework to finance an estimated US\$48 billion needed from 2016 through 2020 to improve the country's weak infrastructure.

In an earlier instalment of IE Insights (Vol. 11/ Sep 2014), we have listed key factors for assessing the likelihood of success for PPP. In Table 2, we apply this framework to ascertain the viability of PPP success in Vietnam.

Table 2: Assessment of PPP Viability in Vietnam

Factors to consider	Assessment
Enabling environment	
1. Strong political will and a clear champion within the public sector	Yes. The government of Vietnam has invested significantly in infrastructure, with average total infrastructure investment accounting for more than 10% of GDP. PPP teams are established in the Ministry of Planning and Investment (MPI), and are supported by specialist teams within various ministries and provinces.
2. Robust legal, institutional and dispute resolution framework for PPPs	Yes. The government of Vietnam recently issued decree No. 15 (New PPP Regulations), which most notably established a legal framework for build-operate-transfer (BOT), build-transfer-operate (BTO) and build-transfer (BT) investments. These new regulations are intended to attract more non-governmental investment towards the development of national infrastructure.
3. Effective PPP programme and ongoing management of existing PPP contracts	Room for improvement. According to World Bank's Development Indicators, Vietnam needs to work on its incremental capital-output ratio (ICOR). For the past 10 years, Vietnam needed five units of capital to generate one unit of growth. In comparison, other Asian economies needed only 2.5-3.5.

Factors to consider	Assessment
Project structure/ Choice	
1. Underlying project economics are accurate, attractive, and politically realistic	Mixed. Prioritised PPP projects are in the transportation (highways, ports) and utilities (water and waste treatment plants) space and have concessions, making them attractive PPP projects. However, many of them are far from the fast growing industrial clusters.
2. Project is well structured with proper risk allocation between government and private company	Room for improvement. PPPs have been very limited despite the increasing openness to private sector participation. The private sector views the PPP bidding and negotiation processes as unpredictable and lengthy. That said, Agence Française de Développement (AFD) and the Asian Development Bank (ADB) have committed US\$32 million to aid Vietnam in improving the structure of PPP projects to make them more bankable.
3. Potential interest in financing by international and domestic lenders	Room for improvement. The finance sector in Vietnam is still developing and may face challenges in providing long term capital needed by investors. Vietnam is in the midst of raising US\$500 million-US\$1 billion from the ADB and the Japan International Cooperation Agency (JICA) to fund PPP projects.
4. Access to government subsidies and guarantees	Yes. Though few, a number of PPP projects in Vietnam operate under contracts modelled after standard international project agreements, including central government guarantees.

Challenges and mitigating approaches

Overall, the Vietnam government has taken active steps to institutionalise PPP frameworks and regulations. The government also recognises that projects need to be bankable in order to attract participation from the private sector. The government has taken the necessary steps, including setting up project development funds and viability gap financing options.

However, the PPP process remains largely decentralised with some ministries and provinces more experienced than others. Singapore companies should therefore consider the origin of a PPP project when assessing its commercial viability. The lack of development of dong-denominated long-term debt also limits bankability for projects, which makes foreign banks the most reliable source of medium- and long-term lending. For foreign-denominated debt, lenders will be looking for credit enhancements and guarantee mechanisms. Singapore companies are advised to pay particular attention to the bankability of the projects and scrutinise feasibility studies carried out by the government.

Infrastructural players interested in Vietnam's infrastructure projects should take a proactive approach to understand flagship projects that are supported by international organisations, and promoted by the Ministry of Planning and Investment (centralised agency) or other specialist ministries, such as the Ministry of Transport and the Ministry of Industry and Trade. As project owners familiar with the PPP process, there is greater room to negotiate with the government on credit enhancements and guarantees to make PPP projects bankable.

General business risk

Growing gross domestic product, modernising infrastructure and a steady increase in foreign direct investment are signs reflecting Vietnam's transformation into an attractive investment destination. However, there are still barriers to doing business; to overcome these challenges, it is essential to seek local help when expanding into the country.

Evolving legal frameworks

Frequent updates to laws and regulations, coupled with overlapping jurisdiction among ministries, may result in a lack of transparency and consistency in the interpretation of government policies and commercial contracts. Contracts might not be reliable foundations for dispute resolution as renegotiations are often sought after signing. A reliable local partner will be critical in helping Singapore companies navigate the dynamic landscape and in resolving regulatory hurdles.

Uneven infrastructure development

Significant investment over the last decade has led to improvements in infrastructure. However, securing access to sufficient power is among the most rigorous tasks facing businesses in Vietnam. Many roads, bridges and ports remain neglected, particularly those away from the urban centres. Singapore companies should be aware of the state of infrastructure and logistical facilities when considering suitable locations for investment.

Managing vested interests

In a political setup where group consultation and the consensus of multiple stakeholders must be obtained, Singapore companies are encouraged to be patient and invest time in building solid relationships across both personal and business lines.

Conclusion

Since economic liberalisation in the late 1980s, Vietnam has grown at an average of 7%. If it continues on this growth trajectory, Vietnam is on track to reach an upper-middle income economy by the next generation. Other than continually pushing for skills upgrading and increased productivity, establishing an efficient and competitive private sector would be a key driving force for Vietnam's sustained development.

New opportunities are being presented with the signing of trade pacts such as the TPP and Vietnam-EU FTA. Vietnam is now at a critical juncture to reduce reliance on the state, allocate resources more efficiently and break down barriers for the participation of the private sector. While there are clearly still implementation challenges ahead, we remain optimistic of Vietnam's commitment to its long-term agenda of market reform and integration with the global economy. Singapore companies in Vietnam are already starting to see benefits from Vietnam's reforms. We should prepare ourselves to leverage the increased opportunities as Vietnam's economic growth continues in earnest. Below, we summarise the key investment themes in this paper:

Manufacture in Vietnam for exports

The state of manufacturing in Vietnam today closely parallels that of China a decade ago. Competitive wages and the availability of mid-skill labour are highly attractive for production activities with huge labour requirements. As China moves further up the value chain in manufacturing, Vietnam is well-poised to attract more MNCs. Vietnam's proximity to China also makes it easier to integrate into existing supply chains. Another driving force behind Vietnam's growing popularity for manufacturing is the country's range of FTAs in various stages. When these trade agreements come into force, Vietnamese exports will be freely accessible to many of the world's largest markets with few tariffs or restrictions.

New entry modes to capture Vietnam's growing consumer class

According to the Boston Consulting Group, Vietnam's middle and affluent class will more than double in size between 2014 and 2020, from 12 million to 33 million. Average per capita income will also rise from about US\$1,400 to US\$3,400 per year.¹⁹ Well-resourced investors can consider the strategic acquisition of local firms as a mode of entry to expedite the process of building a consumer base, particularly in retail.

Monitor and partake in PPP projects

Under its newer trade pacts, Vietnam has committed to liberalise investments in previously state-dominated sectors, such as telecommunications, transport infrastructure development, sanitation and water supply. Increased participation of the private sector in state projects will also be facilitated by PPPs. The complexity of these projects could be mitigated by working with appropriate partners; for instance, by participating in PPP projects managed and/or funded by international organisations for assurance of transparency and bankability.

¹⁹ "Vietnam and Myanmar: Southeast Asia's New Growth Frontiers", Boston Consulting Group, Dec 17 2013

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