

Vietnam Business Forum - Hanoi, May 26th, 2010

REPORT TO THE CG MEETING

Rach gia, June 9, 2010

The Vietnam Business Forum met on May 26th, 2010 in Hanoi to discuss how to further improve the performance of Vietnam's post-crisis economy. Businesses noted the successes of the Government and the State Bank in prioritizing short-term measures and shoring up growth in the midst of the economic crisis, and praised the 5.8% GDP growth forecasts as further evidence of strong and effective leadership. The Forum's co-chairs also highlighted the efforts of the VBF working groups as fundamental to driving the reform process and translating dialogue into action and implementation. Forum discussion then focused on the urgent need to prioritize long-term structural inefficiencies, namely the need to support and improve Human Resources, Physical Infrastructure, and Regulatory Infrastructure in order to enhance productivity, realize growth potentials, and facilitate businesses and investors already established in Vietnam. It is anticipated that these priorities would likewise be addressed and committed to in the Government's forthcoming Five-year Socio-Economic Development Plan.

Furthermore, while business representatives praised Government efforts to eliminate bureaucratic "red tape" through Project 30 and eagerly await the results of the Project's first round, they also urged greater action to improve long-standing issues of transparency and good governance, SOE reform, and intellectual property rights, among others.

The following are highlights of the main themes addressed in the Forum:

Infrastructure

Investments to upgrade Vietnam's infrastructure are currently estimated at 11% of annual GDP. For the country to retain regional competitiveness and further integrate into global supply chains, it needs to increase the involvement of the private sector. Financial and technical support in the form of Public Private Partnerships (PPP) is key. However, PPP development has been slowed by regulatory inadequacy, financing limitations, risk profiles, administrative burdens, and affordability gaps. Key parameters of the PPP regulations need to be provided in greater detail, and projects should be fully formulated before they go out for tender.

It is also important that projects are clearly defined with risks and rewards appropriately allocated between the parties involved. Well-structured projects with balance risk profiles attract competition from multiple bidders. These reduce project cost and benefit the entire industry.

For financing infrastructure projects, high priority should go to: i) establishing a legal framework that supports the creation of private funds to finance infrastructure projects, ii) facilitating the issuance of project bonds, and iii) allowing project companies to mortgage land use rights to foreign lenders in order to mobilize capital from foreign commercial banks.

Business noted the government's efforts to continue providing level playing field to serve infrastructure financing in Vietnam. It is therefore expected that the issue of mortgage land use rights to foreign lenders, which has been raised for many years, will be addressed swiftly. This will enhance Vietnam's ability to raise offshore financing for larger infrastructure projects.

For reducing bureaucratic delays in negotiating large infrastructure projects, a specialized unit with full decision-making authority over the given project must be established.

Finally, a proper pricing policy and an adequate mechanism for covering affordability gaps needs to be developed so that the private sector can develop projects with adequate returns.

Turning to the power sector, in order to adequately address power shortage in Vietnam, it is necessary to build up new power generation capacity while simultaneously improving efficiency of energy use. A 'feed in tariff' should be introduced to stimulate the rapid development of wind and bio-energy, as these are sustainable and indigenous power sources, which will aid diversification of the sources of power generation and will be a more predictably priced source of power in the future. More effort and investment should be devoted to energy efficiency and renewable energies, including issuing and enforcing the Law on Energy Conservation and Efficient Use, upgrading or replacing outdated and wasteful energy equipment.

Human Resources

Companies in Vietnam are increasingly hard-pressed to obtain and retain skillful Vietnamese staff, and are calling for long-term education and training strategies. To address these human resource challenges, major reform in the education sector is needed.

The main challenge facing Vietnamese higher and professional education is balancing the demands of greater student enrollment with quality and relevance for the country's economic needs. Expansion of the system without appropriate quality controls will threaten the long-term sustainability of the sector. It is therefore necessary to focus on a quality assurance framework that allows all the academic institutions to be accredited; and encourage international standard accreditation by independent bodies. It is necessary to develop an information system that publicizes the accreditation results of the schools performance and quality.

It is also necessary to prioritize subjects that will be valued in sectors that drive economic growth. University-industry linkages need to be fostered, with training/education providers initiating dialogues with enterprises. More autonomy should be granted to universities so as they are able to respond swiftly to the labor market demand. At the same time, reform of the sector must include a mechanism that will ensure that resource distribution amongst educational institutions is based on merit and quality. Furthermore, the sector should adopt policies that 'incentivize' good performance and innovation in universities; likewise, those institutions that fail to uphold sector standards should be penalized through suspension or withdrawal of their licenses if they fail to promptly rectify their faults.

Alongside these priorities is the recommendation that education opportunities for women be stressed in order that they may have greater opportunity at financial independence and improved living standards.

Regulatory reform

Banking

To ensure that the banking sector will continue to grow and support developmental goals of Vietnam, a regulatory infrastructure should be built and strengthened properly. The new credit institution law and the implementing guidelines to be issued by the SBV are expected to improve the regulatory environment for the banking sector. In the meantime, the SBV has been requested to reconsider the planned increase of charter capital of a commercial bank to 5 trillion and 10 trillion by 2012 and 2015, respectively since such high threshold capital levels will lead to capital inefficiency and that only a very small number of banks will be able to inject additional capital as per the timeline. The SBV is further requested to review the draft regulations on the internal credit rating systems of commercial banks to allow locally incorporated foreign banks and foreign bank branches to adopt those of their parent companies while still meeting the mandatory requirements of the SBV. Other issues that the Vietnam Business Banking Working Group has

kindly drawn the SBV' attention on are the permission to foreign bank branches to apply the Single Borrower Limit based on their parents' equity, urgent issuance of implementing guidance for Decree 160 on Foreign Exchange Management, reduction of reporting burden, and the issuance of guidance for new banking investment products to meet customers' increasing needs.

Mining

The mining sector would greatly benefit from a fair, reliable, and clear regulatory/fiscal framework in order to attract reputable investors. Reconsideration of the fiscal regime is critical, as the current one renders the sector uncompetitive due to high tax rates and double taxation. Calculation using World Bank's methodology shows that the mining sector's effective tax rate of more than 60% for 2010 (up from 45% in 2007), is among the highest in the world, roughly 30% more than China and South Africa, and double that of Western Australia. Furthermore, reviews of the methodology to determine price for royalty tax calculation, and the fee system proposed in the draft law on minerals are necessary to avoid overlap with the existing fee and tax.

Also noteworthy are the need to secure "right to mine" and exploration time frame limits; extensions are necessary in order to give sufficient time for feasibility compilation, exploration, and extraction, especially in mines with larger reserves.

Land

The sector continues to call for accelerating administrative reform in land compensation and acquisition to remove and simplify procedures in order to save time for investors and government.

More transparent and stable land zoning will help eliminate land speculation. A consistent, market-based land pricing mechanism should be implemented. Deduction of the full amount of compensation paid by the developer from the land rental or land use fee has been initially conceived as a cost-reducing measure and should be hailed as such. However, in numerous cases, it has served instead as a pretext to provincial authorities for keeping the compensation cost too low as compared to the market value of land and thus created conflicts with the local population.

Tax

Businesses still face a number of familiar obstacles in adhering to tax regulations, as the sector still suffers from a lack of transparency, inconsistent treatment, unclear administration, and substantial paper work are the major issues that need to be addressed. In line with the objectives of Project 30, sector representatives have proposed a number of measures to improve overall performance, including reducing tax filing frequency from monthly to quarterly, allowing single point for VAT filings at HQ, increasing VAT thresholds (e.g. annual turnover above VND5 billion subject to VAT, with lower subject only to a 5% sales tax), and providing clearer and easier tax administration procedures for on-line declaration for SMEs (i.e., e-filing of tax return, 'single-window' procedures, etc.)

Conclusion

The members of the VBF reiterated their support to the Government as it addresses the critical issues that now clearly threaten the country's long-term social and economic goals and the potential of the next generation of Vietnamese. The business community hopes that the Government will continue its extensive agenda of reform to overcome the noted deficiencies in human resources, infrastructure, and cumbersome administrative procedures.

The members also underlined their appreciation for the opportunity to participate with the

Government in this worthwhile effort to establish the country's development priorities. The need for strong and productive partnerships emphasized during the global economic crisis has increased in the face of deep structural imbalances. The members of the VBF remain ready to contribute to the country's development through frank and constructive dialogue and concrete action and implementation of agreed solutions that will ensure Vietnam maintains success in the post-crisis world and its place as a regional leader and investment destination.