

# VIETNAM BUSINESS FORUM (VBF) DIỄN ĐÀN DOANH NGHIỆP VIỆT NAM

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## *Mid-term Vietnam Business Forum Hochiminh City, June 1<sup>st</sup> 2009*

### **REPORT TO THE CG MEETING** *Buon Me Thuot, June 8<sup>th</sup> 2009*

The mid-term Vietnam Business Forum, organized by the IFC in co-ordination with the MPI and the WB, was held on June 1, 2009 in Ho Chi Minh City. The Forum was attended by more than 500 people, including representatives from the private sector, government, donor agencies, and the media. Noteworthy participation from businesses and local government leaders from HCMC and nearby provinces including Dong Nai, Long An, and Can Tho indicated strong interest from the southern business community and government in the Forum's policy dialogue.

Speaking on behalf of the Government, the Minister of Planning and Investment, Mr. Vo Hong Phuc informed participants that Vietnam managed to achieve positive growth in the first half of 2009 despite the global economic recession, and implored businesses to come up with feasible measures that would address current challenges and maintain growth.

The business community expressed appreciation for the Government's efforts in restoring growth and jobs in the face of this economic downturn, and showed confidence in the country's medium and long-term economic outlook. The business community also reiterated its commitment to continuing constructive dialogue with the government on how best to respond to the challenges ahead.

Contributions from the business groups focused on the following:

1. Law and regulation development
2. Law enforcement and administration reform
3. Long-term structural issues: Urgent development of soft and hard infrastructure

#### **1. Law and regulation development**

One common theme raised by the private sector related to the slow speed of development of laws and regulations. Vietnam has passed a number of important business laws and decrees but in many cases has not provided detailed guidelines. This leads to confusion and different interpretations of the law.

Businesses continue to face significant compliance obstacles in the implementation of the Enterprise and Investment laws, WTO commitments, the new tax laws, and the decree on FX operations, despite the laws being issued several years ago.

For example, the absence of a detailed regulation for the concept of "foreign invested enterprise" has led to Vietnamese enterprises being considered foreign invested even if a very small percentage of their shares are owned by a foreign investor. Accordingly, companies like Pho 24 or Kinh Do Bakery are currently classified as foreign invested enterprises, and this classification technically restricts the ability to establish retail outlets in Vietnam.

The business community therefore recommends urgency in issuing clear implementing guidelines that eliminate subjective interpretations of the ground rules governing business operations.

In addition, laws and regulations especially relevant in the current environment, such as the Law on Bankruptcy, need to be revised to be applicable. A more efficient bankruptcy system will significantly help reorganize viable companies and close down unviable ones so that assets and human capital can be reallocated to more productive uses.

As Vietnam is currently revising several important laws – such as the Law on Credit Institutions and the Law on Minerals – and issuing new regulations, the businesses community is looking forward to an increase in transparency and clarity in the regulatory environment. The business community strongly requests that business laws and regulations are drafted with their thorough participation and consultation, in order to better prevent subjective interpretations and complications in the enforcement process.

## **2. Law enforcement and administration reform**

For many companies, the complexity of administrative procedures and the often uncoordinated and inconsistent implementation of laws and regulations between different authorities seriously hinder their ability to run a successful business in Vietnam.

Ambiguities in the regulatory framework governing business activity encourage bureaucratic discretion and invite exploitative ‘rent seeking’ activities.

At the same time, the approval process for setting up business remains excessively laborious: Investor obligations to approach multiple government agencies in a given sequence is unduly time consuming. Paperwork for foreign invested and local business establishments in “conditional” areas are beyond excessive and subject to an opaque approval process. Certain licensing conditions are impractical, such as the requirement to submit a Campus Master Plan at Pre-FS phase for establishing a university, or unreasonable, such as the submission of a lease reservation agreement, certified copies of LUR certification of the potential landlord, and numerous other documents in order to open a single, foreign invested retail shop.

The business community therefore strongly welcome and support government’s Administration Reform Project – Project 30. The success of these reforms should enhance the country’s reputation as favorable place for doing business, and consequently raise the level of FDI.

## **3. Long-term structural issues: Urgent development in soft and hard infrastructure**

### ***3.1. Education and training***

Education is crucial for Vietnam’s economic development and growth, as it provides the necessary human resources to orchestrate a modern, dynamic economy. However, Vietnam’s education system is beset by challenges that constrain its ability to provide valuable secondary and tertiary education and vocational training, and the economy is suffering from significant skills shortages.

To build human resources, the business community encouraged the government to pursue a range of measures to improve the quality of Vietnam’s education sector. Measures include increasing funding, establishing quality assurance and accreditation, promoting interaction between educational establishments with the business community, and raising standards in the business environment to attract serious and high quality education providers. Special attention should be paid to the enforcement of regulations on quality assurance in order to ensure the long-term sustainability of the sector.

### **3.2 Infrastructure**

Infrastructure deficiencies and inadequate logistics bottleneck business activities in Vietnam. Despite substantial investment from state budget and ODA, there are still deficiencies and delays in development of key infrastructure, especially inter-provincial roads, electric power, and land-side infrastructure for strategically located seaports. The lack of reliable power in industrial zones and excessive transport congestion – particularly in the Key Southern Economic Zone – are just two examples underlining the need for infrastructure development and upgrades. Lastly, Vietnam's infrastructure plan and development to date lack a cohesive, integrated strategy for connecting road, air, rail and sea transport.

As it stands, current conditions threaten FDI in the export and manufacturing sectors; this situation is compounded by shrinking access to credit from the global downturn. And while private sector participation is urgently needed, especially in power generation and deep water sea ports, these projects are going to face an increasingly competitive market for private sector funding.

The private sector urged the government to establish quicker processes and better incentives, alongside the development of a transparent system for public administration and public procurement that will maximize efficiency and limit opportunities for corruption.

### **4. Other issues**

The Forum also discussed issues in sectors greatly affected by the current economic downturn, namely tourism, mining, banking, and capital markets.

For Vietnam to position itself as a truly global travel destination, the business community called on the government to take action in two immediate areas: simplifying the on-arrival-visa applications process, and marketing Vietnam as both a leisure and business destination.

To restore investor confidence and develop an internationally competitive and environmentally responsible mining sector, investors asked the government to give greater attention to developing the legal system for the sector in line with the international best practice. The business community also strongly requested a stable, predictable fiscal regime be set in place that encourages sustained long-term investment, including through 'profit-oriented' taxes.

In banking and capital markets, in order to rapidly and effectively restore Vietnam's attractiveness as an investment destination, the respective working groups proposed a number of measures, including: removing the interest rate cap for general lending to prevent adverse effects to the banking industry, stabilizing financial markets by eliminating rapid, unannounced changes in monetary, fiscal, or regulatory policy, and developing private sector pension fund schemes to complement the current social security system.

### **5. Conclusion**

The current global economic crisis calls for Vietnam to concentrate on building on its strengths in order to ensure that the country takes advantage of its relative stability and emerges in a stronger position as the world economy recovers. Ongoing economic reforms that drive competitiveness will be key to future growth prospects.