

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

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Vietnam Business Forum - Hanoi, December 1st, 2008

REPORT TO THE CG MEETING

Hanoi, December 4th 2008

The theme of the December 1st Vietnam Business Forum, "***Meeting the Challenges of the Current Economic Environment***", focused discussion on how best to stimulate economic development and maintain Vietnam's enterprise competitiveness against a backdrop of global economic turmoil and drop-off in demand. The Forum was attended by more than 500 representatives from the government, business community, donors, and the media.

Speaking on behalf of the government, Mr. Vo Hong Phuc, Minister of Planning and Investment emphasized the importance of a close partnership between the business community and the government to respond to the current situation, and called for support from the private sector for the government's recently enacted measures to stabilize the economy and promote growth.

Forum participants strongly agreed that the current situation made it vital for the public and private sector to work together to identify and implement responsive economic measures, as the spread of the global economic downturn will inevitably include Vietnam. (Indeed, impact is already being registered in weakened exports and FDI, two key economic drivers.) The country should therefore concentrate on strengthening the resilience of its enterprises and enhancing its attractiveness as a place to do business.

In order to do so, businesses urged the government to speed up its extensive agenda of reform and remove impediments to doing business – such as poor infrastructure, heavy administrative burdens, and corruption. Participants also requested that businesses be involved in the drafting of rules and regulations in order for the final product to fairly represent their concerns and inputs and avoid over-regulation and red-tape.

A number of specific suggestions as to how the government can support the private sector in dealing with current challenges were offered by the Forum speakers. They included the following:

Banking

The Banking Working Group fully supported the State Bank's successive cuts to the prime rate, which served to signal the Bank's focus on economic growth and followed recent success in curbing inflation. The Group noted the need for Vietnam to proactively monitor its trade deficit, given the revised, realistic forecasts for exports, foreign direct investment and inward remittances.

The Group strongly recommended that the government and State Bank use 2009 to bolster efficiency and stability in the banking sector, so that it can emerge in a position of strength and assume a leading role in the economic revival that is expected for 2010.

This would include a forward looking road map for the banking industry that supports consolidation in the banking sector, facilitates strategic partnerships between local and foreign banks and speeds the implementation of foreign branches pursuing local incorporatisation to promote a sound and robust banking system.

For enhanced market efficiency, the group urged the government to push through pending regulations in forex transaction, streamline reporting procedures, and establish local credit rating agencies.

The group also suggested that domestic demand would be stimulated by supporting the development of consumer banking, which, in turn, would be greatly facilitated by the establishment of a credit bureau, and removal or amendment to the formulaic interest rate cap towards a system that allows adequate pricing of risk.

Capital Market

The Capital Market Working Group acknowledged its concern that Vietnam may well be marginalized as an investment of choice for the time being – particularly given the competition from other markets are currently cheaper on a valuation basis than Vietnam.

In order to restore Vietnam's attractiveness more promptly and effectively, a number of measures were proposed, including determination of a fair market price in line with other emerging market metrics when proceeding with IPOs. The Group also advised careful consideration of advantages and disadvantages of listing on foreign exchanges, and called for extended trading hours and increased order sizes in order to boost liquidity. There was also a call promoting the establishment of pension funds. For the bond market, the Group recommended opening up T-Bill markets to investors.

The Group emphasized that longer term sentiment on the market remains positive but transparency will be key – both on government and company levels. Recommendations called for government adherence to a strict schedule for the publication of macroeconomic data, and regular communication with market players for confidence and clarity. Such measures would also enable more effective collaboration for problem solving. Transparency at the company level would be aided by strengthening corporate governance through stricter disclosure practices on company and related party matters, greater public notification of wrongdoing, and the promotion of the role of an independent director.

Infrastructure

Representatives from the Infrastructure Working Group noted that the sector was in a precarious position prior to the global financial crisis, with demand for upgrades outpacing many of the large-scale projects and financing. The short-term sector outlook appears highly vulnerable to further impacts from the crisis on Vietnam particularly since demand for investment in telecoms, ports, airports, roads, railways and air transport all continues to grow while financial resources decline. With the prospect of increasingly limited government funding, declining FDI, and shrinking access to credit, the Group stated that Vietnam's infrastructure projects will now have to compete much harder to attract private-sector funding, and will need to look better to bankers than projects in other countries.

While private sector investment cannot fill all gaps, businesses urged the government to act proactively and quickly to obtain as much of the diminishing pool of private capital as possible. Recommendations were made to establish quicker processes and better incentives to make Vietnamese projects more attractive. In particular, the Group called for a more market-oriented pricing mechanism for the energy sector would make it easier for projects to get financing, and administrative reform centralizing responsibility in the government office for better co-ordination in negotiation and implementation of big projects.

Businesses also advocated acceleration of a successful BOT pilot project in power sector, which could then be used as a model and rolled out for subsequent projects. The Group also noted that the telecom sector would be well served by government enhancement of the equitization process. This could help inject a needed level of dynamism into the process and attract reliable foreign strategic partners with valuable funding, know-how, and expertise to Vietnam.

Manufacturing & Distribution

Representatives from the M&D sector have reported that the global financial crisis has begun to affect their businesses. Manufacturers and exporters, particularly in the furniture, electronics, garments, and footwear industries are facing significant challenges and are calling for to the government to help out by providing a friendlier administrative environment.

The Group recommended a number of specific measures for dealing with rising manufacturing costs in Vietnam, including a delay in the next scheduled minimum wage raise, postponement of the imposition of new taxes on the sub-lease manufacturers in industrial zones, immediate issuance of clear transitional rules for the new unemployment insurance regime, and an increase in the availability of credit through a gradual reduction in the interest rate.

Furthermore, in order to improve the ease of doing business in Vietnam, the Group asked the government to issue a circular providing detailed guidance on implementation of the Enterprise and Investment laws as soon as possible, and to extend the re-registration deadline to give companies sufficient time to complete the process.

Regarding distribution, the Group proposed that efficiency improvements in supply chains and corresponding reductions in manufacturing input costs would result from clearing away tariff and non-tariff barriers. Businesses also urged the government to issue the Implementing Decree for WTO commitments as soon as possible in order to promptly and properly interpret and implement Vietnam's obligations.

Other Sectors

Mining

The Mining Working Group highlighted the contribution that a responsible mining sector can make towards the governments objectives of investment in rural development, job creation and poverty alleviation. They identified a number of sector structural shortcomings in Vietnam's fiscal and legislative regime that impede potential sector growth and hinder its ability to develop a sustainable, prosperous industry in Vietnam. To attract and retain long-term, sustained sector investment the Group suggested the government provide security of tenure, streamline licensing procedures, adopt a stable and predictable fiscal tax regime, and develop a transparent mineral sector strategy.

The Group committed to actively assisting government efforts to amend the Mineral Law and to introduce enhancements to legislation that recognize the unique characteristics of the mining industry, in order to develop an internationally competitive and environmentally responsible sector in Vietnam.

Tourism

Tourism businesses noted the recent decline of international arrivals and the reduction of flights into Vietnam by several airlines as clear indications that the global recession will have a major impact on Vietnamese tourism.

Given the importance of the industry to Vietnam's economy in terms of employment and foreign currency earnings, the Group urged the government to implement measures that would enable Vietnam to maintain sector growth in the face of global recession.

Recommendations include a complete overhaul of the VISA program to allow for expedited processing, confirmation reservations on domestic travel segments well beyond the current 30-day limit, issuance of a Circular on the representative offices of foreign travel service providers to support the international service efforts to bring more tourists to Vietnam.

The Group then stressed the value of marketing and promotion and suggested the launch of a strategic media promotional campaign and an increase in government allocation for Vietnam Tourism Marketing, as the current budget was grossly inadequate when compared to regional competition.

Land

The Land Sub-working group reported on its consultation with the government in drafting the Amended Land Law and highlighted the need for a more transparent and stable legislative regime so that investors would feel more secure in funding real estate projects. The Group suggested extension of the 70-year lease term to all developments with a residential component regardless of whether there are other non-residential components, implementation of a consistent, market-based land pricing mechanism, and allowing the full amount of compensation paid by the developer to be deducted from the land rental or land use fee the developer has to pay. The Group also requested improvement in access to information, noting that it is currently very difficult for the general public to do so, and that all such information in local land registrars is public information and must therefore be readily provided to any party upon request.

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CONCLUSION

The Forum agreed that in the face of the deteriorating international marketplace, Vietnam needed to focus on maintaining its competitiveness in order to avoid serious setbacks to its social-economic development plans. Vietnam can mitigate the impact of negative external developments by stimulating domestic growth through a more enabling business environment and by facilitating private sector investment in infrastructure.

Vietnam has always reacted quickly to adjust to changing external realities. This time, the challenge is greater, and the contrast with recent experience is unprecedented. Businesses are, however, confident in the government's ability to respond to these challenges, and look forward to continuing to support the Government in implementing the necessary measures.