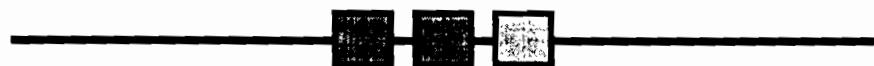
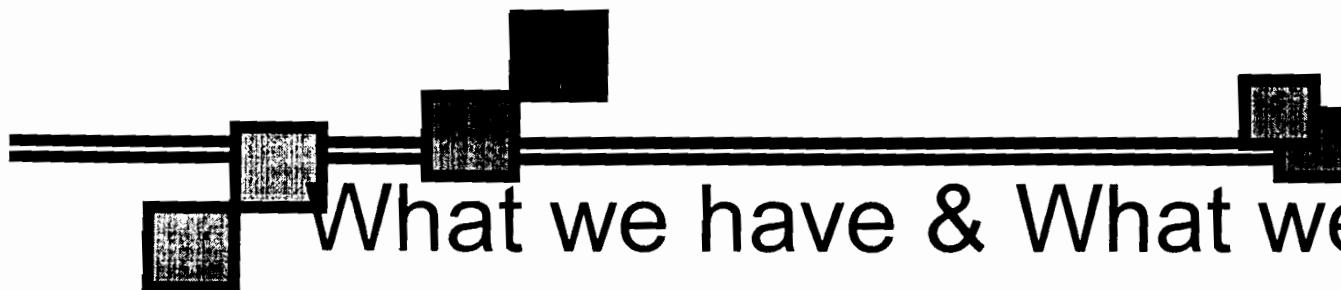


# How to improve investment



LG Electronics Vietnam Ltd.





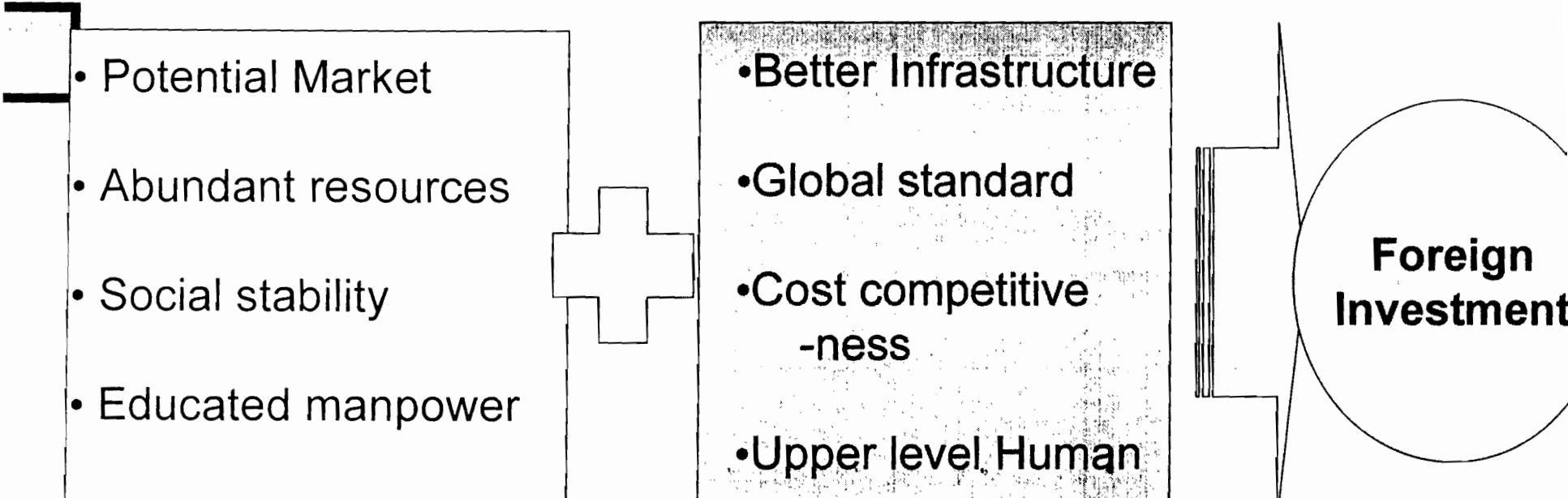
## What we have & What we need

Have

Need

- Potential Market
- Abundant resources
- Social stability
- Educated manpower

- Better Infrastructure
- Global standard
- Cost competitive-ness
- Upper level Human resource



Foreign Investment

# Infrastructure

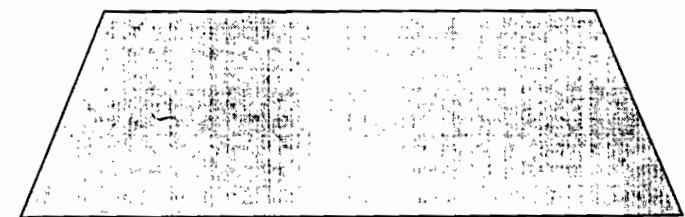
- Transportation : road, public transportation
- Electricity : Black out
- Water system : water supply, sewage
- Communication : speed , cost
- Banking System : e-business

# Global Standard

- Rules and Regulations
  - sudden changes
  - on time update
- Tax, Import duty system
- Fees on Advertising, Communication, Electricity
- Barking system - prefer cash payment
- Legal system : Reliability

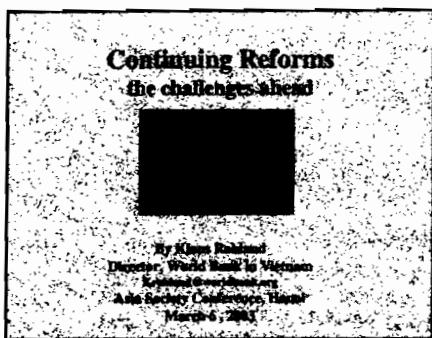
# UPPER LEVEL HUMAN RESOURCES

- Lack of Mid/Hi Manager
- Intelligent but lack of experiences

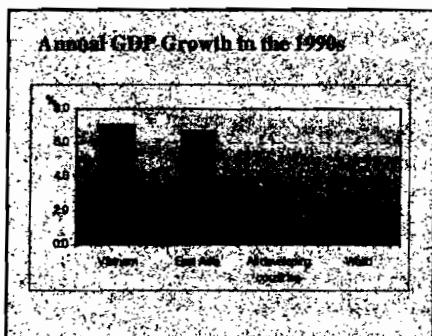
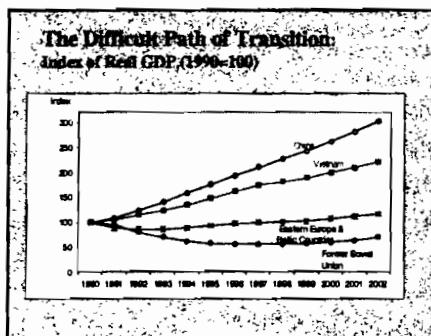


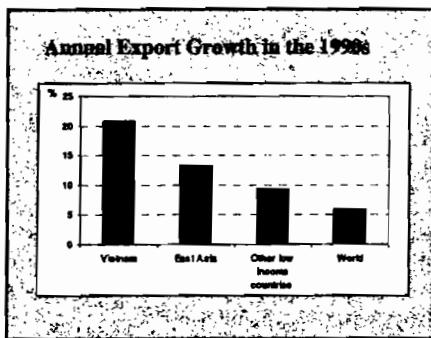
# Cost Competitiveness

- Lower operational cost
- More local parts makers



## A. Remarkable Achievements





**The Millennium Development Goals**

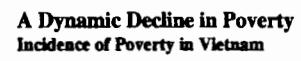
- The MDGs were endorsed by 189 countries at the September 2000 UN Millennium General Assembly in New York.
- They aim to cut by half the proportion of people in extreme poverty worldwide by 2015, provide education, improve health, and preserve the environment.
- The goals provide a unique opportunity for coordinating the efforts and combining the resources of a diverse range of development partners to maximize their impact.

**Vietnam Development Goals**

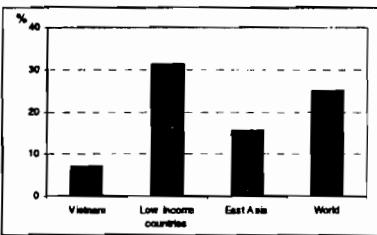
- Vietnam has localized the MDGs
- Vietnam has already attained many of them
- Need to include quality dimensions, not just quantity
- Vietnam wanted to ensure that the national strategies reflect international goals

## Example from MDG to VDG: Improving governance

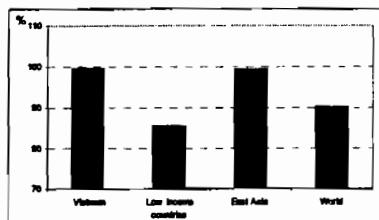
- \* Not a MDG but important in Vietnam
- VDG #9 Ensure Good Governance for Poverty Reduction
- \* VDG - Target 1: Effectively implement grass-roots democracy
- \* VDG - Target 2: Ensure budget transparency
- \* VDG - Target 3: Implement legal reform agenda



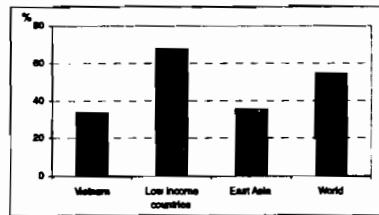
### **Adult Illiteracy Rate in 2002**



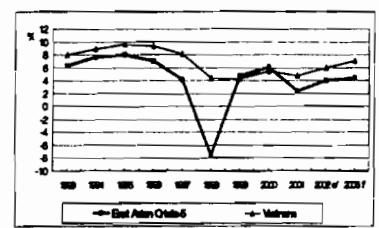
**Net Primary School Enrollment in 2002**

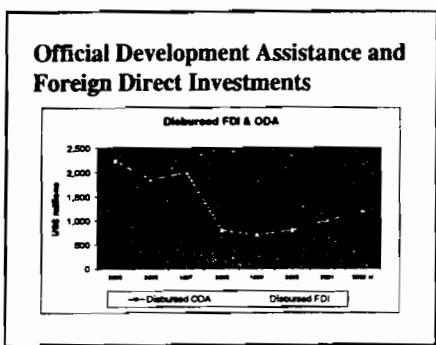


**Infant Mortality Rate in 2002  
(per 1,000 live births)**

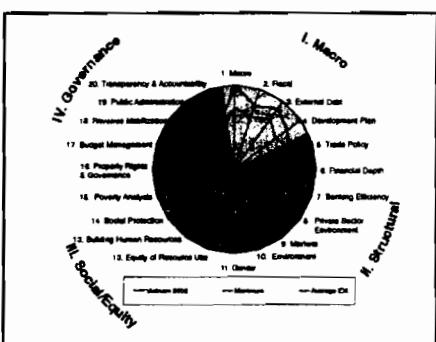
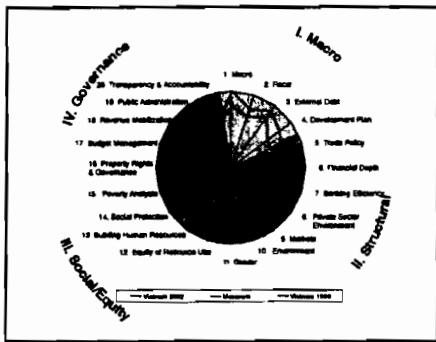


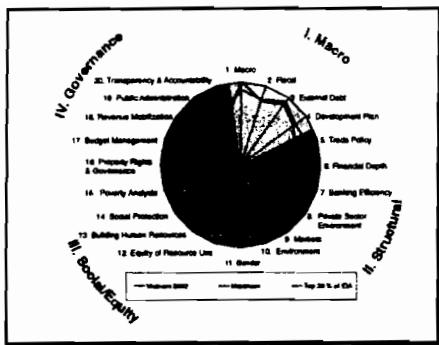
**Navigating the East Asian Crisis:  
GDP Growth**





## **B. History and future challenges**






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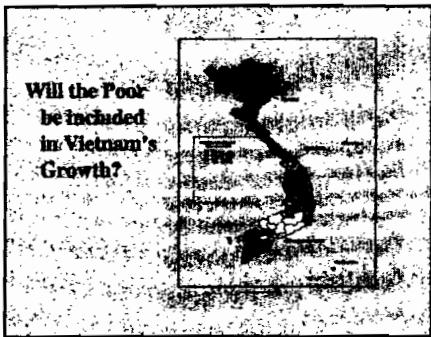


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### C. How to promote high-quality pro-poor growth




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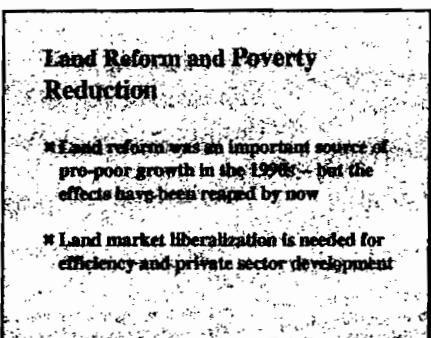
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### Vibrant Private Sector Key to Pro-Poor Growth

- Integration with world economy will raise pay-offs to education – risk of rising inequality as a result
- A vibrant private sector that provides job opportunities to poor is key to poverty alleviation

### 10 Million New Jobs Required

Employment in Millions		
	2000	2010
■ STATE SECTOR	7	7
■ SOEs	2	1
■ Govt etc.	5	6
■ NON-STATE SECTOR	33	40
■ Agriculture and Households	27	27
■ Formal Private	1	7
■ TOTAL	40	40

### Emergence of a Mixed Economy

	1990	2000	2002
Number of Domestic Enterprises	110	55,000	70,000
Number of Foreign Enterprises	108	2,228	2,400
Share of Private Sector non-oil exports	3%	52%	65%
Share of PDI in Industrial Output	8.8%	34%	36%

## How to Promote High Quality Pro-Poor Growth

- A. Sound Macro Policy
- B. Good Structural Policies
- C. Commitment to Social Equity
- D. Modern Public Institutions and Governance

## A. Macroeconomic Stability: Good Fundamentals

- ✓ Strong fiscal discipline
- ✓ Inflation below 5 % over the medium term
- ✓ Stable and increasingly flexible exchange rate
- ✓ Low debt burden, debt service ratio of 10 %

## **B. Structural Reforms: Integration with the World Economy**

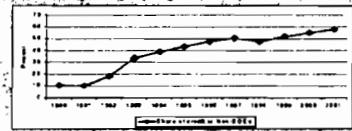
- ✓ 1992: Trade Agreement with EU
- ✓ 1995: Member of ASEAN Free Trade Area
- ✓ 2001: Bilateral Trade Agreement with the US
- ✓ 2002: Beginning of WTO negotiations

## B. Structural Reforms: Preparing for Competition

- ✓ Plan to equitize and divest 1/3 of state-owned enterprises to reduce losses and improve governance
- ✓ Restructuring state-owned enterprises that remain in government control

## B. Structural Reforms: Strengthening the Banking System

- ✓ Improving the legal and regulatory framework
- ✓ Restructuring the domestic banking sector
- ✓ Leveling the playing field for all banks



## C. Commitment to Social Equity: Education

Achievement in coverage and gender equality, but...

- Difficulties in expanding primary education to all
- Strong inequalities in the quality of education
- Strong inequalities in funding at the school level

Need to reduce the cost of education for the poor...  
... and reallocate resources across schools

**C. Commitment to Social Equity:**  
**Health**

Remarkable accomplishments, but not for all...

- Large out-of-pocket cost of health care
- Difficulties in expanding health insurance

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**C. Commitment to Social Equity**  
**The Agenda:**

- Make primary education free for the poor
- Increase access and reduce out-of-pocket health costs for the poor
- Complete the allocation of land, by households or communities
- Address environmental degradation and urban pollution

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**D. Good Governance**

- ✓ Make government more transparent
- ✓ Restructure salaries and accountabilities
- ✓ Introduce service standards
- ✓ Reward/獎勵itudinal change
- ✓ Local government as important as central government – “Grassroots democracy”
- ✓ Towards the “Rule of Law”

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#### D. Good Governance: Challenges in Management of Expenditures

- Processes for prioritizing expenditures remain ineffective
- Financial management information is weak
- Devotion and delegation need to be strengthened

#### D. Good Governance: Risk of Making the Wrong Investments

- Public investment disassociated from recurrent expenditures
- Rationale and returns of projects not assessed
- Poverty alleviation impacts not taken into account

## The Long-Term Perspective: CPRGS

- \* The Government has a strong commitment to high growth and poverty reduction
- \* Lay-off in Comprehensive Poverty Reduction and Growth Strategy
- \* Main themes of CPRGS: (i) Completing the transition to a market economy, (ii) making development inclusive, and (iii) Building modern governance
- \* The World Bank and other donors will help finance this strategy over the next many years. US\$2.5 billion pledged at the CG meeting in December

## Supporting Vietnam's Growth and Poverty Reduction...

...with Poverty Reduction Support Credits (PRSC)

- US\$ 250 million in 2001-02; US\$100 million this year. Co-financing from other donors.
- PRSC I (2001-2002): Structural reforms in trade, banking, SOE, private sector development, and management of public resources.
- Next PRSC's (2003 - ): still support for structural reforms but expanding to social areas and better governance

## HANOI TOWARDS THE FUTURE

*Speech of Dr. Hoang Van Nghien  
Chairman of the Hanoi People's Committee  
at the 13th Asian Corporate Conference (USA)  
March 5-7, 2003*

*Dear His Excellency Vu Khoan, Vice Prime Minister of the SR  
Vietnam*

*Dear the heads of international delegations,  
Ladies and gentlemen,*

Today, on behalf of the people and the government of Hanoi, I'd like to welcome all of you for coming here from different countries all over the world to take part in the conference. On this occasion, I'd like also to extend the gratitude and appreciation towards the efforts and contribution made by foreign-invested enterprises, of which many Asian and US ones are executing their projects and interested in the investment in Hanoi.

Hanoi was founded in 1010, having around 1000 years of history. At present, it is the capital, a national leading centre of politics and administration, a big centre of culture, sciences, education, economy and international transactions of Vietnam. Hanoi is located at the centre of the Northern delta, benefiting from a favourable position as regards land, river and air transport. The inhabitants of Hanoi are laborious, creative and hospitable. This is also a peaceful city, with a stable economy, protected political atmosphere and social order which has been recognised by the international community as one of the most safe destination of the South-Asia region and of the world, too.

Over the last 17 years, Hanoi has stepped forward together with the whole country in the renovation and development. The citizens of Hanoi have worked hard and made good achievements in all the fields. The economy is more and more developed with an average GDP growth rate of 11.6% for the period 1991-2000; that for two years 2001 and 2002 is 10.2%. The living standard of the inhabitants has been improved, per capita income being increased by 3.2 times as compared with the 1990 of the 20<sup>th</sup> century. The economic pattern has been gradually shifted from mainly agriculture-based to industry-service based one, where trades and services account for 59%, industries 38% and agriculture 3%. The private sector has been more and more extended and developed. It is only over 10 years since 1992 that number of private businesses has been multiplied by 32, from 466 to 14,900; their total registered capital has increased by 87 times, accounting for 21% of total social investment. The investment environment of Hanoi has been improved continually and it remains always one of the most attractive place for foreign investment in Vietnam. By the end of 2002, Hanoi received 546 foreign direct investment projects with a registered capital of 8.86 milliards of USD, which provides direct employment of 24,000 workers. Hanoi has established and enlarged the co-operation and investment relationship with 42 nations and territories over the world. It is where there are 05 centralised industrial parks and dozens of industrial parks for small and medium enterprises with complete infrastructure, several big factories operating in the production, assembly of automobiles, motorcycles, informatics, telecommunication, electronics, steel for building industry, ... The Asia-Pacific region take the first place in the foreign direct investment in Vietnam in general and in Hanoi in particular.

*Ladies and gentlemen,*

At the end of the XX century, Hanoi as well as some other regional capitals confronted much difficulties after the financial and monetary crisis in the South-East and Northern-East Asian countries. Now, in the third year of the new millennium, the economy of the city has witnessed a continuous development; the rate of mobilisation of different resources for the socio-economic development increases by 16-17% annually, where the FDI increases by 20-25% per year. For eight coming years, from 2003 to 2010, in its strategy of urban development, Hanoi shall acquire around 9 milliards of USD, that means 1.3 times as much as the 8 previous years. The FDI in this period shall be directed to :

- Develop key and high-tech industries oriented to export, such as electricity, electronics, informatics, telecommunication, machinery engineering, precision instrumentation, biotechnology, food processing, new materials, etc. It is the advantage of Hanoi to exploit the knowledge-intensive labour resulting from a systematic education of 43 universities and hundreds of vocational schools. Accordingly, the system of policies of the city provides every facilitation to national and international investors, encouraging them by minimizing the risks for a commitment to long-term business in Hanoi. The urban infrastructure is more and more enhanced. The equitable environment of business does not make discrimination between Vietnamese and foreign entrepreneurs, provided they respect Vietnamese laws.
- Develop urban infrastructure and facilities as an important strategic aim of Hanoi. By 2005-2010, the urban area shall be 1.8 times of the present one; the population 1.3 times,

housing need 4.5 times, average per capita income 2.8 times. Hanoi shall focus investment on projects of urban development, including :

+ Implementation of infrastructure on 6,000 ha of land, organisation of new residential life for about half of millions of persons, accompanied by the program of housing and employment for those whose land shall be taken over; Implementation of houses for every urban quarter most of which are high-rise apartment buildings equipped with roads, water supply and drainage, communication lines, power, urban waste water treatment system and schools and hospitals. Hanoi needs therefore not only funds, both domestic and international, but also technology, engineering, norms and standards in the building and administration from the experienced experts.

+ Hanoi is stepping into the development stage, which requires to build from 3 to 5 bridges spanning the Red river, 3 ones crossing the Duong river in order to link the urban areas to a whole of the city. A system of roads connecting satellite towns in a network must be organised to ensure normal function of a city with 3.5 - 5 inhabitants who do not ride motorcycles nor bicycles but public transport means. Such a complete system of transport requires the participation of not only national but also foreign experts. We hope much also to obtain the recommendation as regards the correct choice of bus, tram or metro. This requires a big and long-term investment on the one hand, and it is important to choose a technology that shall not become backward soon, to provide training to specialists for the operation, to implement an efficient and safe management to attain soon the break-even point on the basis of a specific policy of the Vietnamese State and of Hanoi.

Finally, with the hope that Hanoi becomes one of major gates of Vietnam during the integration, Hanoi emphasises not only high-tech industries that serve as the drive for the country, especially for Northern provinces, but also to become the capital of financial, banking, tourist, commercial and international deal services. The trading transactions originated from here and it is here that policies of the Vietnamese State shall be rapidly converted by national and international entrepreneurs into their economic decisions for the Vietnamese and world-wide market. We wish that Hanoi will be a convergence and a destination for businessmen, diplomats and politicians who bring the prosperity to enterprises and to countries. This locality is friend, is the peace for all; there is here only belief in and endeavour for prosperity. Hanoi is the amicable rendezvous for your dialogues in an open mind.

*Ladies and gentlemen,*

I hope the results of this 13<sup>th</sup> Asian Corporate Conference shall open a new phase of co-operation between Asian and US businesses and Vietnam in general and Hanoi in particular.

With my best wishes for the success of the conference, .

Thank you for the attention.

## PROMOTION OF LONG TERM INVESTMENT BY FOREIGN PRIVATE SECTOR

By H.E. Vo Hong Phuc  
Minister of Planning and Investment  
The Socialist Republic of Vietnam

Distinguished guests,  
Ladies and Gentlemen,

Though departing from a low level of economic development, Vietnam has been and are successfully implementing its reform known as Doi Moi, achieving an average GDP growth of 7% for the last 12 years 1991-2002. As a result, domestic saving has gradually increased up to more than 25% and development investment reached over 35% of GDP. This has been tremendous efforts. Of this total investment amount, 2 thirds are mobilized from domestic resources and 1 third from overseas (mostly from Foreign Direct Investment FDI and Official Development Assistance ODA). According to the latest report by ASEAN, in the first 6 months of year 2002, the immediate period after the September 11<sup>th</sup> attack, Vietnam ranks 3 of the top ten countries in attracting foreign private investment. The policy of maximization of domestic resources in combination with effective utilization of overseas financing for development is being well implemented with good results. This is an important start for Vietnam to continue develop strongly in a sustainable manner in context of economic integration. In this speech, we would like to focus on issues relating to attraction of long term foreign private investment.

We want to once again emphasize the strong commitment by the Government of Vietnam to regard the foreign investment sector as an integrated component of the national economy. As everybody knows, foreign investment in general and foreign private investment in particular (especially the long term investment) are significant in many aspects in the development course of Vietnam.

*One.* overseas capital (coupled with domestic resources) plays a leading important role in providing additional resources, to satisfy the demand for development capital in excess of 35% of GDP, which tends to even increase ever more rapidly in answer to the need for fast and long-term economic growth of 7 – 8% per annum during the course of industrialization and modernization of the country.

*Two.* contribute to enhance competitiveness and capacity to export of the economy through investment and technology transfer. Each year, Vietnam receives over USD2 billions foreign direct investment to implement some 3750 projects in effect. This overseas capital has contributed significantly to economic development, technology transfer and improvement of

competitiveness in the domestic market and increase of export. Foreign invested enterprises have today made up 35% of the country's industrial output. The foreign invested enterprises have not only satisfied local market demand but also geared up for export oriented production. In 2002 alone, this (foreign investment) sector, though contributed just 13% GDP, already made up 47% of total export revenue of the country (of which, USD3.2 billions from export of oil and USD 4.5 billions from non – oil export, accounting for 27% of export revenue). In the coming time, in facing with economic integration and fierce competition, participating as members of international economic institutions such as WTO, WB, IMF, APEC, ASEM, ASEAN ... , securing diversified, large scale and hi-tech intensive projects by long-term foreign private investments sector will help improve Vietnam's economic status in the region and in the world at large.

*Three*, satisfy demand for employment and human resource development. Foreign capital is also a mean to create jobs for 1.5 million young first time job hunters entering the labour market every year. According to the statistics by July 1<sup>st</sup>, 2002, there were some 600.000 people employed in the foreign invested enterprises and hundreds of thousands more working indirectly in services for the FDI sector. Yet many more unaccounted for who are directly and indirectly employed in ODA funded projects. Foreign capital, along with the process of technology and managerial skill transfer, have enhanced the capacity and efficiency of Vietnamese labour force active in the economy that is transforming into market economy and participating in international economic integration.

*Four*, the multiplier effects. Overseas capital in Vietnam has not only raised the status of foreign invested enterprises contributing ever more and more to the economy, both in terms of size as well as share ratio as shown above, but also has a positive multiplier effects in the economy, which provide the local businesses with access to modern technology, advanced business practice and management from developed countries, as well as exposure to fierce competition in the domestic market so that they can step by step participate actively and pro-actively in the regional and international economic integration process. Economic development with foreign private capital investment also require strong development of not only auxiliary industries but also high quality services such as hotels, tourism, consultants, insurance, transport, telecommunications etc... In working with international investors and businessmen, Vietnam has more practical opportunities to improve its legal environment, to carry out administrative reforms in order to become adaptable to globalization. It is also facilitating Vietnam in enhancing multi facet relations with other countries in the region and the world.

*Five*, Enterprises with foreign private investment have been making significant contribution to national budget revenue (currently accounting for 7% of total national budget revenue), thus making more resources available for the long term development objectives.

In pushing ahead the courses of industrialization, modernization and the proactive international economic integration, it is estimated that in 5 years of 2001-2005, Vietnam needs to attract and implement at least USD11 billions net inflow of capital, out of the total USD60 –61 billions capital for development of the country. It is expected that this capital fund would be utilized in industries that have comparative advantages in labour and natural resources such as highly value added, export oriented production and processing industries, hi- tech industries, social and economic infrastructures projects and other sectors. Nowadays, our country has an enormous comparative advantage over many countries in that Vietnam has a strong political and social stability with ever fast growing economy and a large potential market of 80 million population. While we highly value any foreign capital investments, yet based on experiences from other countries affected by the regional financial and economic crises in 1997-1998 which suffered from over-use of short term capital financing, we put emphasize on long term capital investment (thus ensuring investment and commercial stability, as in mobilizing ODA).

*The question then is what the government should do to attract long term capital from overseas private sources?*

It can be noted that there are five orientations/measures which are also clear commitments by Vietnam, as follows:

*One*, The Government of Vietnam commits to ensure a social and political stability and to create the most favourable conditions for investment and business conducts of all economic sectors as well as the foreign investors. This is considered the top priority to gain confidence of international investors and businessmen. To this end, Vietnam has made tremendous efforts in implementing the policy of sustainable development, poverty reduction, employment and macro-economic stability... Therefore, Vietnam has been assessed as a trusted destination for overseas tourists and businessmen. This important seminar of ASEAN taking place in Vietnam is a true reflection of Vietnam's commitment and our international friends' confidence in Vietnam.

*Two*, continue to accomplish the legal environment aiming at making it more attractive, clarity, stability and equality between different economic sectors, in conformity with international practices and international commitments, and step by step moving towards one single legal framework that governs all forms of investments without discrimination between domestic and foreign origins. In

this regard, the National Assembly has continuously ratified many different laws and closely monitored the implementation of legal reform process. The Government and local authorities, based on the laws already promulgated by the NA, continue to issue under laws and regulations to implement these laws, all aiming at making it more favourable to businesses. The process of decentralization, delegation of authority, improvement in land management policy, tax policy, foreign exchange management, customs, immigration etc.. all have been appreciated by investors and businessmen as being on the right direction. Signing and implementation of agreements within ASEAN framework, framework agreement with EU, Vietnam – US Bilateral Trade Agreement BTA and other agreements on investment protection and double taxation avoidance etc.. have also been moving on the right and positive direction. Continue to make further improvement in preferential policy to attract long term capital investments and investments in hi-tech industries, in production of highly competitive products and/or large potential market. Strongly develop auxiliary industries, supporting services and improve quality of the labour force. Implementation of commitments in AFTA, AIA, AICO etc.. as well as negotiation for sooner membership to WTO shall also enhance investments into areas that Vietnam has comparative advantages.

*Three.* The government allocate a significant amount of capital for improvement and upgrading of infrastructures, improvement of services quality, thereby reduce costs to business conduct in Vietnam. The improvement of the transport facilities ( road and bridges, seaports and airports etc.. ), telecommunications networks, development of centralized industrial zones, processing zones, hi-tech zones, new urban areas, tourist resorts etc.. will also be carried out to improve the efficiency and reduced business costs, which are at present still appear to be higher than other countries in the region. In telecommunication in particular, substantial investment shall be made to improve service quality, diversify telecommunication services ( including Internet) and continue to lower the telecommunication tariff to regional level.

*Four.* Diversify forms of investments and gradually open the market in conformity with international commitments. In this regard, Vietnam shall step by step participate in the international capital market, establish on pilot basis share holding companies with foreign investments and transfer some of the existing foreign invested enterprises into shareholding companies, allow some foreign invested enterprises to be listed in the stock exchange etc.. Implementation of international commitments would also help Vietnam in attracting investors from countries in the region to make investments in Vietnam when common markets for the economies of ASEAN, ASEAN+, ASEAN + 3 etc... are being established

*Five.* Strengthen capacity and efficiency of state management, carry out administrative reform; increase the authority, management skills and accountability of local authorities in the direction of decentralization and enhance the monitoring and supervising by the central authority; abolish all unnecessary regulations and permissions. Especially, the Government is determined to fight against corruption to facilitate investment and business conduct.

We are strongly confident that the clear and consistent policy and views of Vietnam as mentioned above will help attracting foreign investments, especially the long term capital investments from foreign private sector, from transnational companies, from Vietnamese residing overseas, in order to contribute to the dynamic development of Vietnam, ensuring the right benefits for all parties and contribute to strengthening of international economic cooperation.

Thank you for your attention

# **FINANCIAL POLICIES TO SUPPORT THE DEVELOPMENT OF VIETNAM PRIVATE ECONOMY**

**Dr. Le Thi Bang Tam**  
**Vice Minister of Finance**

## **I- Recent development of private sectors in Vietnam's economy**

The role and position of private economic sector has been recognized and confirmed by the Government of Vietnam in its line of "implementing the consistent policy of developing multi-sector economy. All economic sectors before the law are important components of the socialist-oriented market economy, which will develop on a basis of sustainability, cooperation and fair competition. The operations of economic individuals and households are facilitated and assisted by the State to develop. Private capitalist businesses are encouraged and developed widely in all sectors that are not forbidden by law.

Embarking on the reform policy for more than 10 years, private sector economy in Vietnam consisting of economic individuals, small holders and private capitalists has been operating and developing widely in all production and service sectors in many forms of entities such as: private household, private business, limited liability company, stock company, partnership... Together with other economic entities, the development of private economy has contributed to unleashing of all production resources into production and business, reallocation of production factors, employment generation, economic development, improvement of people's livelihood, increasing state budget revenues and contributed to maintaining socio-political stability of the country. The development of private economy has increasingly proven its role as important component in Vietnam economy.

In late 1980s and early 1990s, Vietnam started to implement the Law on foreign Investment in Vietnam, Law on Private Enterprises, Company Law, Law on Domestic Investment Encouragement, which laid the legal foundation for operation of many economic entities, including private economy. In 1991, there were 414 private businesses nationwide whereas the 1999 figure reached 35,577 businesses (90.76 times of 1991 figure) with 4,395 businesses established on average annually. In the first year implementing the new Enterprise Law in 2000, there were 14,417 businesses and 150,000

household businesses established (3-time increase in terms of number and 5-time increase in terms of registered capital in comparison with 1999). In 2001, there were additional 21,000 plus new businesses registered for operation under the Enterprise Law, an increase of 1.46 times as compared to previous year with total newly registered capital reaching some 35,500 billion VND, twice as much as 2000. Some 20,000 new enterprises registered under the Enterprise Law in 2002.

As to 1986, the investment by the State accounts for the dominant share of social aggregate investment; development investment by private economic sector is by far limited. Since 1990, ratio of investment by non-state sector (excluding foreign investment sector) over aggregate development investment has increased gradually from 22.6% in 1997 to 23.6% in 2001. The year-on-year investment index by private economic sector has increased substantially, in 1996, it was 103.8%, 108.1% in 1997, 109.7% in 2000 and 111% in 2001. Since the beginning of 2000, thanks to the implementation of the Enterprise Law, investment by private economy has made a break-through with total registered capital at almost VND 60,000 billion as to March 2002 and after 3 years implementing the Enterprise Law, total registered capital totaled VND 78,000 billion.

SOE reform process during this same period has contributed to the development of private economic sector in terms of number and capital volume. As to Feb 2003, Vietnam has divested 1,110 SOEs (of which 965 equitized, 145 with ownership diversified) with state equity when transformed of VND 4,500 billion and prescribed capital of enterprises after transformation is VND 5,500 billion. There have been 13 enterprises selling equity to foreigners worth VND 73 billion, accounting for 15.6% of the total prescribed capital of these enterprises.

Private economy has made an important contribution to the economic development of the country in the past years, specifically:

- Share in GDP of private economy (excluding foreign investment) has increased continuously year-on-year, for example, in 1995, it was 109.3%, and 112.9% in 2001

- In 2001, output contribution of the private sector and household business was VND 173.911 billion, accounted for about 40% of total GDP.

- Private sector contributed some VND 5,242 billion in taxes in 1996; while in 2000, VND 5,900 billion registering an increase by 20% as compared to that of the year 1999 and accounting for 6.5% of total revenue of State Budget; the figure in the year 2001

was VND 6.370 billion, accounted for 7.38% of total revenue of State Budget and increased by 7.96% as compared to that of the previous year; and VND 7,400 billion in 2002 (excluding import and export tariff and fees)

- In the recent years, the private sector has also played an important role in job generation and poverty reduction. In 2000, the number of employees in private sector was 4,643,844, accounted for 12% of total social labor force. Employment generation in the private sector have contributed significantly to poverty reduction, and raising living standards in the urban and rural areas. Especially with the implementation of the Enterprise Law, the number of jobs generated in the private enterprises rose sharply thanks to the setting up of new businesses. The number of new employment generated in the private sector was 400,000 in 2000; 550,000 and 800,000 in 2001 and 2002 respectively.

## **II. Financial policies for the development of private sector economy in the recent years**

The implementation of the Enterprise Law in 2000 was the break-through in the economic thinking and the reform of administrative management of the private enterprises. The Government of Vietnam is determined with the development of the private enterprise by measures to improve the effectiveness of the Enterprise Law in order to create an business-facilitating environment to unleash all production factors and move toward a level playing field for all economic sectors in the economy.

In addition to the incentive policies for investment that apply generally and uniformly to all types of enterprises nation-wide (The amendment to the Law on Encouragement of Domestic Investment and related regulations), numerous financial mechanisms have been issued in order to gradually establish the legal framework for the development of the private economy, such as:

- Private enterprises have recently been given access to credit support policy on investment and development that carried out by the Assistance Development Fund. By end of 2002, the Assistance Development Fund has extended loans to the private sector totaling VND 1,787 billion, accounting for 8.4% of total investment assets of the Fund. Total short-term loans extended to export contracts have reached VND 802 billions, accounting for 25.08% of total short-term assets of the Fund.

- The Stock Exchange Center of Hochiminh City was open and operational since July 2000. Despite the small size of the market with total of 21 listed enterprises at VND 1,046 billions in listed stocks and total transaction values of VND 1,000 billion in the year 2002, the Hochiminh City Stock Exchange is a good starting point for private enterprises in mobilizing and raising longer term funding for investment. Especially, when the Stock Exchange Center in Hanoi officially comes into operation, capital mobilization by the private sector shall be much further facilitated because the center is designated for listing of small and medium enterprises.

- In order to support capitals for small and medium enterprises (SME), the Government issued the Decision No 193/2001/QD-TTG on 20/12/2001 providing for the regulation on establishment, organization and operation of the Credit Guarantee Fund for SME. According to the regulation, credit guarantee funds at provinces or cities under central authority shall issue a guarantee up to 80% of the difference between value of the loan and the collateral but not in excess of 15% of total equity of the funds for an SME with feasible investment projects, business plans, and capability to repay loan; with total secured assets are greater than 30% of the loan; without outstanding tax obligations, non-performing loans to credit institutions and other economic organizations. Fee for evaluation of credit guarantee documents is VND 50.000 and credit guarantee fees are equal to 0.8 % of total guaranteed amount.

- The Government also promulgated the Decree No 90/2001/NĐ-CP on 23/11/2001 on the support for development of small and medium enterprises. Under the Decree, Chairmen of People Committees of Provinces and Cities under central authority are required to provide SMEs with appropriate business and production location. Ministries, ministerial level agencies and People's Committees of Provinces and Cities under central authority shall facilitate SMEs with access to information on market and prices; support SMEs in expanding market and distribution. In addition, the Government has also directed relevant agencies to support SME with funding assistance on study, research, and participation in trade fairs, exhibition and oversea market research.

- In order to assist SMEs, the Government has approved establishment of the SMEs Development Board under MPI to take the lead in studying and making policies on SMEs; coordinate and cooperate with domestic and foreign agencies to provide relevant information to SMEs and to call for external financial assistance for the benefit of SMEs.

- Regarding accounting standards in line with management level and operational characteristics of SMEs. MOF has promulgated accounting standards exclusively designed for SMEs. More simplified accounting standards have been issued to household businesses.

In 2001 and 2002, MOF promulgated 10 Vietnamese accounting standards. Introduction of accounting standards uniformly applicable to every economic sectors set up a framework of standardized disciplines guiding financial management and accounting practices at different types of business.

- In 1992, the State started the plan to transform its ownership at certain SOEs through pilot introduction of equitization and management contract of whole or part of SOE. Large-scale SOE reform plan has been launched since 1996 including the transformation of state ownership at SOEs with just few exceptions for SOEs of which 100% state ownership are required. SOEs with fewer than VND 5 billion in capital would be subject to outright divestiture, management contract or lease if equitization is not applicable.

In order to accelerate the SOE reform program, recent years have seen promulgation of important policies to deal with labor redundancy or outstanding debts which by far the major bottleneck issues when comes to reform. Other financial policies on incentives to employees in the form of stock options, or to enterprises taking part in reform, through enterprise income tax reduction and exemption; land-use rent support and financial assistance from SOEs Equitization and Restructure Fund. Introduction of these stimulus have been proven important in acceleration of the SOE reform program.

### **III. Policy initiatives to assist private businesses development**

The policy stance on private economic sector development has been reaffirmed in the 9<sup>th</sup> National Party Congress and the 5<sup>th</sup> Plenum's Resolution (of the ninth-tenured Central Party Committee) stated that: "Financial and credit policy will be implemented so as to ensure equal opportunities to all economic sector including private sector; to provide private sector with access to incentives targeting household and small and medium sized businesses in line with the investment targets encouraged by the State. The State will assist development of general infrastructure (transportation, power, water, communication...) to facilitate private sector development". In years to come, financial initiatives will be developed and implemented to aid in creating a level and competitive

business environment in the benefits of all economic sectors and for development of private sector, more specifically as follows:

- Tax reform is accelerated with the principle of equity among for domestic and foreign economies as a step in the formation of a legal framework uniformly applicable to all investors in Vietnam. Tax return filing and collection procedures shall be adjusted to SMEs and household businesses characteristics, on one hand, and to improve compliance.

In particular, the Government is working on the amendments of the laws on VAT, special consumption tax and enterprise income tax for submission to the National Assembly to further simplifying tax procedures, to be more practical and providing equity among domestic and foreign investors and with a view to ensure stability and facilitation of business and production.

- Amendments to the Land Law and related implementation documents will be prepared in order to promote private sector's land-use rights through permission to use right to resident land for business purposes, land-use fee exemption for legitimate case involves transformation of land-use purpose into productive one; private businesses could also pledge their land-use rights as security for bank loan or as a contribution in a joint venture with domestic or foreign counterpart. Furthermore, the State will develop industrial zones that offer affordable services to provide private sector with ideal locations for business.

- Further improvement in the legal and regulatory framework for establishment and operation of SMEs Credit Guarantee Fund and Hanoi Stock Exchange Center shall be operational soonest in order to provide financial assistance to SMEs. Banking reform will be pushed forward to improve private sector's access to credit including State credit support such as those offered by development assistance fund, export credit assistance ... and to commercial bank credit, specifically by allowing private businesses to use their debt-financed property as a pledge for new bank loans.

- Incentives package will be developed to encourage private sector participation in SOE equitization process in an effort to mobilize resources for economic development. Economic sectors will be encouraged to provide public goods and services through state-private contracts on the basis of competition and efficiency.

- Supports and assistance to private and household businesses will be ensured in terms of marketing of their products and services both domestically and internationally.

Information services, particularly information about financing opportunities, shall be improved for the benefits of private sector.

- State vocational training centers shall be promoted. Training of managers and technical staff for private enterprises shall be entitled to financial aid. The Government will organize short-term training course free of charge to foster understanding of science and technology for private and household businesses.

- Organizational and operational framework for mutual insurance entity will be developed and put in place soon to facilitate establishment of such entities among private businesses which could help businesses through mutual support and risk sharing mechanism.

- The Accounting Law shall be submitted to National Assembly for approval; the issuance of accounting standards shall be accelerated for financial and accounting practices at businesses. Accounting standards will be subject to further amendments and supplements to become more appropriate to SMEs' conditions. Financial reporting mechanism for private sector and accounting standards for household businesses and farm economy will also be developed.

- Financial policies will be strengthened to advance ownership transformation program and encourage potential contributions from all sectors to economic development. Legal framework for shares acquisition by foreigners in existing Vietnamese businesses will also be prepared to allow foreign investment in going concerns in Vietnam such as stock company, limited liability company, partnership company, cooperative unions and cooperatives./.

THE SPEECH BY THE VICE CHAIRMAN OF THE STATE  
SECURITIES COMMISSION OF VIETNAM, DR. VU BANG AT  
THE 13<sup>TH</sup> ANNUAL ASIAN CORPORATE CONFERENCE OF  
THE ASIA SOCIETY

5<sup>th</sup> – 7<sup>th</sup> March 2003, Hanoi

PART I  
INTRODUCTION TO THE VIETNAMESE SECURITIES MARKET

I. The establishment of the State Securities commission

After 15 years of renovation, Vietnam has made remarkable achievements. GDP had grown at the average annual rate of 8.2% for the period from 1991 to 1999 and of approximately 7% for the years 2001 and 2002. The ratio of investment to GDP reached more than 34%. In order to mobilize capital for national industrialization, modernization and enhancement of economic efficiency, the government of Vietnam has paid special attention to the development of securities markets. For the early establishment of securities market, the government decided to set up the State Securities Commission at the end of 1996. The commission is an independent body of the government, with the regulatory functions in the field of securities and securities markets. The State Securities Commission is responsible for development of legal framework for securities and securities market as well as regulatory functions of institutions participating in the market, which include surveillance and inspection, licensing and revoking licenses for listed companies, securities companies, custodians.... and regulation of securities trading centers.

II. The process of equitization and bond issuance

1. *Equitization*

According to approximate statistics, as of 31 December 2002, there had been more than 1076 State owned enterprises or parts thereof having been completely equitized and ownership-diversified. For the year 2002 alone, there were 189 SOEs equitized. Most of the SOEs implementing ownership conversion in 2002 were small and medium sized ( average charter capital of VND 4 billions).

The primary stock market has been in existence since the 90s. Before the promulgation of the Enterprise Law (before 2002), there had been only more than 200 joint stock companies country-wide, established under the Company Law, most of them had charter capital less than VND 5 billion and these companies did not initially raise funds through public offerings but private placements. There were rarely any secondary stock issuance or, if any, conducted among existing shareholders. Since the enactment of Enterprises Law effective since 01 January 2000, the number of joint stock companies have increased, thanks to innovative amendments to the previous Company Law.

According to the reports by the Enterprise Information Center (Ministry of Planning and Investments), in 2000, there were 726 joint stock companies established countrywide with total charter capital of VND 1550 billions; in 2001 as a result of renovation of the business registration procedure, the number of newly established joint stock companies increased significantly reaching 1534 with total charter capital of VND 7 552 billions.

## **2. Bond Issuance**

Currently only government bonds are regularly issued, and mostly through auction at the Securities Trading Center with the maturities ranging from 5 years to 10 years and at interest rates of 7% for the 5 year maturity and 9.2 % for the 10 year. Within 2 years, the total amount of bonds issued through the securities trading center reached VND 3000 billions.

Besides, the government bonds have been also issued through underwriting and retail distribution. However none of these two modes of issuance are popular, regular and efficient.

The corporate bond market has been modest. So far only the Bank for Investment and Development has issued long term bonds to the public and enlisted them at the Securities Trading Center with the total amount listed of VND 1069 billions. Apart from that a number of financial and credit institutions had also issued bonds to the public, such as bond issuance by Vietnam International finance company VILC, the Vietnam Industrial and Commercial Bank acting as an issuing agent for issuance of bonds worth VND 2 billions with the maturity of 2 years, and the issuance of municipal project bonds by Hochiminh city.

## **III. The HoChiMinh city securities trading center**

1. The HoChiMinh city securities trading Center (TTGDCK TPHCM) was established by the decision number 127/1998/QQDD-TTg dated 11 July 1998 by the Prime Minister, it is a non-profit organization under the direct administration and regulation of the State Securities Commissions with the following main functions and tasks:

- Organize, manage, operate the securities trading system,
- Perform the functions of custody, clearing, settlements for securities transactions,
- Conduct examinations, supervision of the securities trading activities,

After preparation, on 20<sup>th</sup> July 2000 the TTGDCK TPHCM was officially opened. Since then the TTGDCK TPHCM has conducted more than 400 trading sessions with the total transactional value of VND 1000 billions.

## **2. Listed securities at the TTGDCK TPHCM**

### **2.1 Listing criterion**

Companies that wish to list their stocks at the TTGDCK shall meet the following criterion:

- Minimum charter capital of 0 VND 10 billions
- Being profitable for the last 2 years
- At least 100 outside investors owning no less than 20 % of equity capital
- The founding shareholders owning no less than 20 % of equity capital
- Sound financial condition, financial statements to be audited by an independent auditor.

## 2.2 Listings at the TTGDCK TPHCM

As of February 2003, there are 21 joint stock companies with the total market capitalization of VND 3000 billions and 43 types of bonds of the same amount listed at the TTGDCK TPHCM.

The listed companies are all profitable and have bright prospective; their profit growth for the year 2002 ranged from 20 to 40% per annum; on top of that, listed companies in the center have been benefiting from the preferential tax treatments, which have made dividend payout attractive to investors.

## *3. The membership system at the TTGDCK*

Securities companies in Vietnam must be joint stock or liability limited companies licensed by the State Securities Commission as they meet all the licensing criterion in terms of professional skills, facilities, and capital ( VND 43 billions for a comprehensive license)

Members of the TTGDCK are securities companies licensed for brokerage, proprietary trading, and registered as members of the TTGDCK. Only members are allowed to trade securities at the TTGDCK, are subject to membership rules set by the State Securities Commission and TTGDCK.

Members are allowed to conduct the following businesses:

- Brokerage
- Proprietary trading
- Portfolio management
- Securities investment advisory
- Underwriting

Currently, TTGDCK has 10 member securities companies and is expected to admit some more members to meet the need of future market development.

## *4. Trading system*

Currently, 2 mechanisms of trading are allowed:

- Periodic call auction: 5 morning sessions per week on Monday, Tuesday, Wednesday, and Friday from 9 to 10 am. Orders are matched once every

session at 10 am. The unit of trading is round lot (100 shares or the multiples thereof, the minimum face value of VND 10000). The trading band is  $\pm 5\%$ .

- Off - the- book negotiated transaction: from 10 am to 10:20 am (20 minutes after the official call auction is finished) and applicable to block trades.

#### **5. *Custody, Clearing, settlement system***

All the securities eligible for trading shall be mobilized at the TTGDCK. The delivery of securities is made in the form of book entry transfer. Money settlement is conducted through the designated settlement bank ( the Bank for Investment and Development). The settlement cycle is T+3. The 10 member securities companies are also custody members of the TTGDCK, and there are 3 foreign banks licensed as foreign custodians to foreign individual and institutional investors in the TTGDCK.

#### **6. *Information disclosure***

Information disclosures are governed by the Regime on membership, listing, and information disclosure and securities transactions (at the securities trading center), which specify the obligations of the TTGDCK, listed companies and fund management companies in information disclosures.

#### **7. *Tax regime***

- To provide incentives for market participants, at the initial stage the government provide for the following preferential tax treatment:
  - + To securities companies and fund management companies: in addition to tax preferential treatments provided for in the Corporate Income Tax Law, the institutions are to further benefit from 1 year exemption from corporate income tax and 50% reduction thereof for 2 years afterwards. Further more, the Value Added tax is exempted.
  - + To securities issuers whose stocks are listed in the center, beside existing incentives, there is also 50% corporate income tax reduction for 3 years.
  - + Individual securities investors are exempted from paying personal income tax for high income class on dividends, bond's interest payments, and capital gains.
  - + Foreign individual securities investors are exempted from paying personal income tax.
  - + Income tax rate applicable to foreign institutional investors is 10%.
  - + Institutions, individuals who buy and sell securities in Vietnamese securities market are to pay income repatriation tax of 5% on the income repatriated abroad.

#### **8. *Fees***

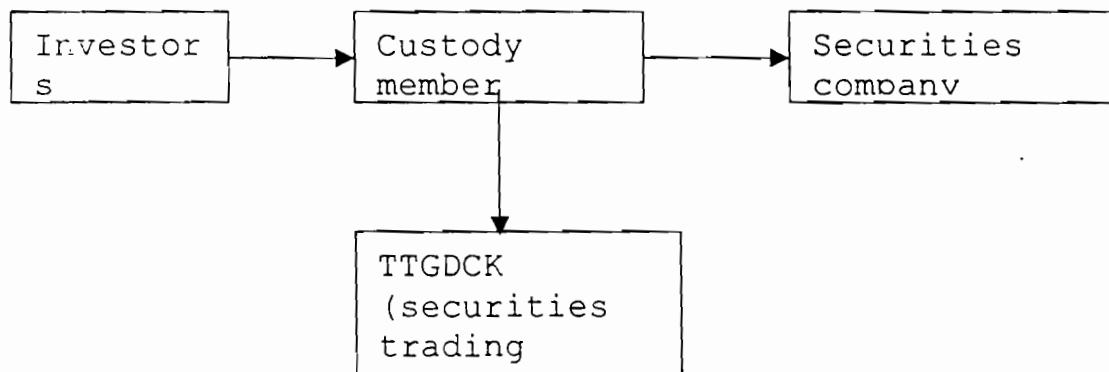
To provide incentives for participants in the market, for the first 2 years the State Securities Commission did not request for securities company license fees. From that beginning of 2003, the securities company license fee is set at VND 86 millions for 4 types of licenses and VND 10 millions for the fund management license. Additionally, TTGDCK have levied any fees on the members except for the annual fee of VND 20 millions for use of equipment and facilities (effective from January 2003). Currently securities companies apply transaction fee of 0.3% of clients' transaction value.

### **9. Foreign participation**

- According to the Domestic Investment Promotion Law, foreign investors are allowed to buy shares face-valued up to 30% of charter capital of companies.
- In case of listed companies, foreign institutional and individual investors are allowed to hold up to 20% of outstanding shares of a listed issuer.
- Procedures and formalities applied to foreign investors in securities market:

Foreign investors who wish to invest in Vietnamese securities market shall open an account for securities transactions at a foreign custody member (a foreign commercial bank admitted as a custody member of the TTGDCK).

A foreign custody member shall apply for a trading code with the TTGDCK, and also acts as an investor's representative who will place orders through a member securities company.



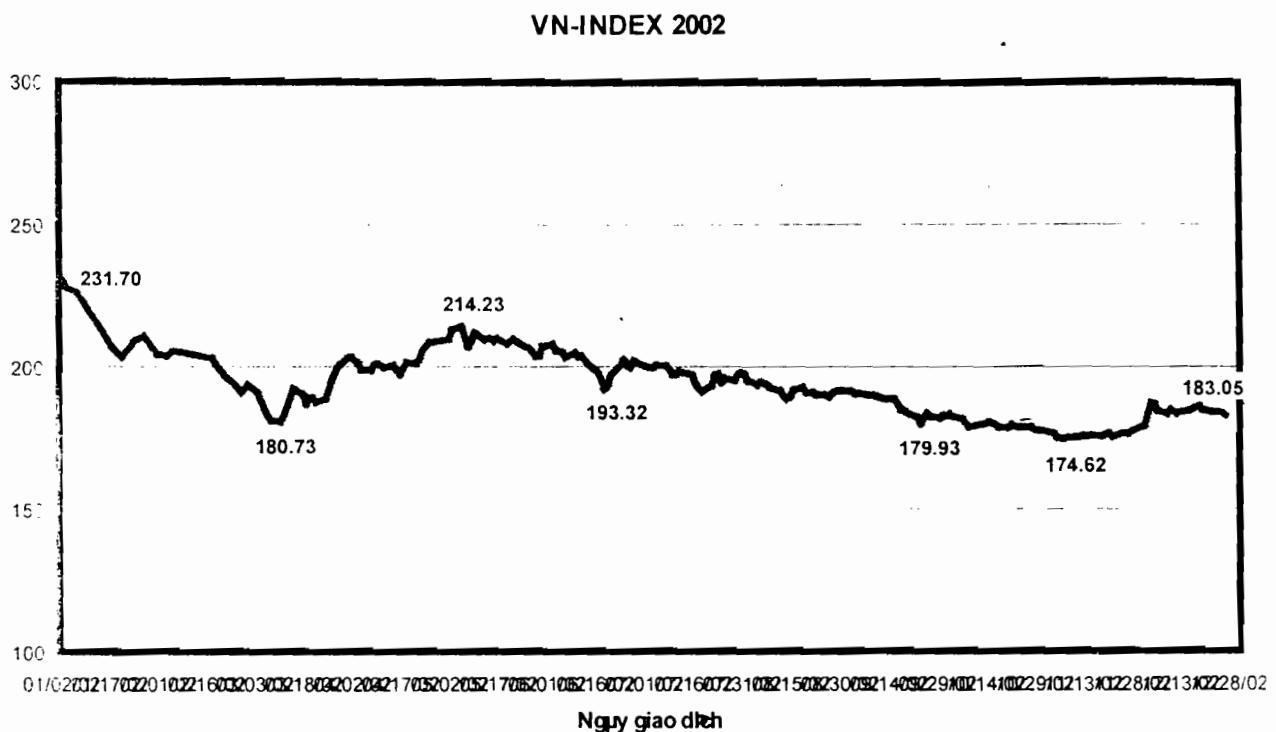
- Foreign exchange regime:

The foreign currencies brought in by foreign investors for investment in securities shall be converted into VND through a foreign custody member for trading.

When an investor would like to repatriate his/ her profit abroad, a foreign custody member will resell the foreign currency to the investor and conduct the transfer of the money for repatriation after the investor has fulfilled all of his tax and fee obligations.

## 10. VN-Index in 2002

In 2002, the condition of Vietnamese securities market are relatively quiet, the transaction value shrunk, VN-index dropped. The chart below depicts the VN-index for the year 2002.



## 11. Legal framework for the securities market

1. Enterprise Law
2. Decree 75/NDD-CP dated 28 Nov. 1996 of the Government on the Establishment of the State Securities Commission.
3. Decree 48/1998/NDD-CP dated 11 July 1998 of the Government on securities and securities markets.
4. Rules on organization and operation of securities companies ( promulgated in conjunction with Decision 04/1998/QDD-UBCK3 dated 13 October 1998 by the Chairman of the State Securities Commission)
5. Rules on organization and operation of securities investment fund and fund management companies ( promulgated in conjunction with Decision 05/1998/QS-UBCK3 dated 13 October 1998 by the Chairman of the State Securities Commission)
6. Rules on membership, information disclosure and securities transactions ( promulgated in conjunction with Decision 04/QS-UBCK3 dated 27 March 1999 by the Chairman of the State Securities Commission)
7. Rules on securities custody, clearing, settlements, and registration ( promulgated in conjunction with

8. Rules on Surveillance, inspection of securities and securities markets ( promulgated in conjunction with Decision 31/1999/QS-UBCK3 dated 12 October 1999 by the Chairman of the State Securities Commission)
9. Circular 01/1999/TT-UBCK1 dated 30 Dec. 1999 of the State Securities Commission implementing Decision 139/1999/QS-TTg dated 10 June 1999 of the Prime Minister on foreign ownership level in Vietnamese securities market.
10. Decree 01/2000/ND-CP dated 13 Jan. 2000 of the Government to promulgate Regulation on Government bond issuance.
11. Circular 01/2000/TT-UBCK1 dated 17 April 2000 of the State Securities Commission, providing for temporary guidelines to securities businesses' collection of fees from customers.
12. Decree 17/2000/ND-CP dated 26 May 2000 of the Government on organization and operation of securities inspection.
13. Decree 22/2000/ND-CP dated 10 July 2000 of the Government on treatments of administrative violations in the fields of securities and securities markets
14. Circular 02/2001/TT-UBCK, providing guidelines to Decree 48/1998/ND-CP of the Government dated 7 Nov. 1998, on public offerings of stocks and bonds.

**PART II**  
**GUIDELINES FOR SECURITIES MARKET DEVELOPMENT**  
**FOR THE PERIOD 2001 -2010**

***1. Development and perfection of legal framework for the securities market***

*- Promulgation of a new Decree replacing Decree 48/1998/ND-CP*

The new Decree is drafted to replace Decree 48/1998/ND-CP to provide broader and more comprehensive and appropriate coverage of market realities. Implementing regulations are also amended to suit the prospective Decree and other higher regulations, especially the Enterprise Law. Supplementary regulations on trading of securities of small and medium sized companies are also made.

*- The making of "Securities Law "*

It is expected that in 2003 after the 9<sup>th</sup> Congress's approval, a Law Construction committee will be established and headed by the State Securities Commission and participated by relevant Ministries and agencies. The Committee shall set up Drafting team to assist in preparing the outlines and draft of the Securities Law. The Congress will consider and pass the Law by 2005.

*- Other relevant legal documents*

The completion of amendments to regulations on regimes on finance, accounting, auditing, tax, fees, levies, foreign exchange regulations applied to participants in securities market shall be done in coordination with relevant ministries and agencies.

Proposals for amendments to other legal documents relating to regulations on securities markets such as Civil Code, Arbitration regulation, Ordinance on resolutions of conflicts in economic crimes...shall be made to authorized levels.

## ***2. Supply boost for the market in terms of quantity, quality and variety***

- Large state owned enterprises, affiliates of general corporations should be equitized and then listed in the securities market. The equitization process should be tied to listing in the securities market. The State Securities Commission are coordinating with the Enterprises Reform Committee in constructing a procedures and choice of enterprises.
- Promulgation of a Decree to allow transformation of a number of Foreign Direct Invested enterprises to joint-stock companies and enlisting thereof (expected 15 to 20 enterprises)
- Listing of a number of joint-stock commercial banks.
- Continue to add further preferential treatments especially those on tax on listed companies, securities companies, investment funds, and foreign investors.
- Measures to be taken to encourage the establishment of venture capital companies
- Encourage adding other types of products such as preferred stocks, stock rights, Project bonds, corporate convertible bonds, investment fund shares to listed market.
- Assist listed companies in applications of modern corporate governance practices, accounting and auditing regimes in line with international standards; Strengthen the regulation, supervision of listed companies in compliance with information disclosure regime and other legal stipulations.
- Consider establishments of credit rating agencies with participation of banks, insurance companies, securities companies (state owned or foreign).

## ***3. Strengthening of foreign and domestic demands for securities***

By measure to attract individual investors to the market; develop an institutional investor base including investment funds, pension funds, insurance companies, commercial banks. other financial institutions ; encourage foreign investors' participation in the market.

Consider policies to boost demand: (i) develop Employee- share-purchase programs, (ii) relax restrictions and have tax incentives for credit institutions' participation in the market; (iii) Speed up establishments of investment funds and investment advisory companies; (iv) improve individual and retail investors' access to the market; (v) relax restrictions on foreign securities investments....

4. Invest, upgrade technical infrastructure and facilities, technologies related to securities. Promptly organize a tender for provisions of IT system for securities market, separating the depository center from the securities trading center as an independent system, separating the TTGDCK from the State Securities Commission.
5. Prepare for starting the operation of the Hanoi Securities Trading center (TTGDCK HN) for small and medium – sized enterprises. In the future the TTGDCK HN shall become a OTC market.

#### ***6. Strengthening of market transparency***

- Perfecting the regulations on information disclosure, and process thereof at the listed companies.
- Perfecting the information disclosure system of the TTGDCK and the State securities commission; upgrading websites and other news medias.

7. Reinforcing the information propagandizing activities and free of charge investor education for the public; perfecting the education, examination, and practitioner license system for securities markets.

#### ***8. Securities companies development***

- *Enhancements of capital size and expansion of licensed activities of securities companies*

Strengthening the potential and scale of operation of the securities companies. It is expected that by year 2005 the minimum charter capital of securities companies shall be increased to VND 20 billions. Toward the year 2010, the securities companies will be classified into 2 types: one providing brokerage and securities investment advises with minimum charter capital of VND 5 billions; the other providing different types of services and businesses with the minimum charter capital of VND 50 billions.

- *Expansion of service branch network, transaction offices and order taking agents of securities companies.*

- *Modernization of technical facilities*

Modernization of information system, networking between securities companies and securities trading centers and investors.

Development of centralized back-office of securities companies in lights of cutting cost, improved information sharing for smooth management, and improvement of transaction processing and easy future upgrading.

- *Improve the quality of corporate governance, brokerage services, securities professionalism*

Improve the quality of corporate governance by strengthening the regulation on financial prudence in securities companies, especially in proprietary trading and

underwriting activities; Apply corporate governance practices in line with international standards; improve the quantity and quality of practitioners.

#### ***9. Development of fund management companies and investment funds***

- Encourage fund management companies to increase their capital and expand their operation geographically;
- Encourage the development of investment funds, especially those offering shares publicly;
- Encourage establishment of joint ventures with foreign partners in fund management business;
- Encourage foreign investors to invest in investment funds in Vietnam;
- Encourage foreign investment funds to participate in Vietnamese stock market;
- Provide tax incentives to make sure that investments through funds are not worse off than direct investment in the market.

#### ***10. Measures to be taken in 2003***

In 2003, to gradually develop a stable, safe and sustainable market, a number of immediate measure are to be taken:

- Increase of frequency of matching orders to 2 times per session, and applying new type of orders
- Lower the size of a transaction unit from 100 shares to 10 share, and lower the good-faith deposit ratio for placing orders
- Allow foreign investors to open accounts with securities companies to facilitate their trading activities.
- Increase the share holding ratio for foreign individual and institutional investors in listed companies to 30% (currently 20%)
- License 2 fund management companies.

# **Towards A Greater Role for the Domestic Private Sector in Vietnam's Economic Development**

**Speech at the conference on**  
**OPENING MARKETS AND CONTINUING GROWTH:**  
**VIETNAM AND THE ASIAN ECONOMY**  
**MARCH 5-7, 2003, HANOI**

**Javed Hamid**

**Regional Director**  
**East Asia and Pacific**  
**The International Finance Corporation**

## **Towards A Greater Role for the Domestic Private Sector in Vietnam's Economic Development**

Vice Minister Bang Tam, Deputy Governor Ke, Distinguished guests, ladies and gentlemen,

It is an honor for me to participate in this conference. It presents an important opportunity for government policy-makers, business leaders and international donors to discuss strategies for accelerating Vietnam's economic development and transition to a market economy.

IFC has been active in Vietnam for over a decade now. Not only have we supported more than 20 projects costing over \$1.2 billion with around \$400 million in financing but have also had an active technical assistance and advisory program. Based on our experience in Vietnam as well as in other transition economies, I would like to share our views on what can be done to encourage the private sector to make a greater contribution in accelerating Vietnam's economic development.

- First, I would like to talk about the main development challenges that Vietnam is facing today and the role that the private sector can play in addressing these challenges;
- Second, I will discuss the current status of the domestic private sector and how some of the impediments to its growth can be addressed.
- Third, I will discuss the role that IFC is prepared to play in supporting private sector development in Vietnam.

Vietnam has made remarkable progress in the 1990s. The economy doubled and the incidence of poverty was halved. Despite these achievements, there are still around 30 million people living in poverty. This is over a third of the total population. It is estimated that around 25 million people are either underemployed or unemployed. This is about 60 percent of the labor force. To create jobs for the unemployed, the underemployed and the new additions to the workforce, Vietnam will have to again double the economy in this decade. For this to happen, both the level and the quality of investment will have to increase substantially. According to World Bank estimates, investment would have to increase from an average of 25% of GDP in the 1990s to an average of 30% in the course of this decade. At this

higher level of investment, Vietnam's productivity would also have to be about 40% higher than the average in the 1990s.

The question is where will this investment come from. In fact, the government is reducing the rate of investment in the state sector as part of its reform program. Foreign investment has stabilized at around \$2bn per year. Thus to meet the government's development objectives, the domestic private sector will have to contribute not only the additional 5% of GDP in investment, but also compensate for the expected decline in SOE investment. The reallocation of investment resources from the state to the private sector will also bring about the improvement in productivity that is needed to achieve Vietnam's development objectives.

Recent trends in private sector growth and investment are encouraging. The domestic private sector has been growing rapidly and has emerged as the most dynamic component of the Vietnamese economy in the last 2-3 years. Between January 2000 and December 2002, about 60,000 new private enterprises have been registered. This is more than the total number of enterprises registered in Vietnam in the previous decade. The growth in

private enterprise creation has contributed to a significant increase in gross capital formation from 26% of GDP in 1999 to about 30% in 2001.

We have also seen accelerating growth in private industrial output. Private domestic industrial output grew by nearly 20% in 2001, significantly higher than SOEs and foreign invested enterprises, which grew 12% and 15% respectively. This, however, is still at the lower end of the 18-25% growth that needs to be maintained to achieve Vietnam's development objectives.

Impressive growth can also be seen in private sector employment. It appears that new and existing private companies have added nearly 250,000 new wage jobs in 2001—a one-year increase of almost 45 percent.

This impressive growth in the domestic private sector in the last few years is a result of the significant shift in official attitudes towards the private sector. The shift is perhaps best exemplified by the enactment of the Enterprise Law and the formal endorsement of the private sector following the Fifth Plenum of the Ninth Party Congress in March 2002.