

But despite all this progress, the formal domestic private sector in Vietnam remains small and fragile. As of 2002, it accounts for less than 8 percent of GDP, 6 percent of manufacturing output and about 3 percent of total employment. The private sector's small base means that its job creation effort still falls short of the rate at which the overall work force is growing. For government development objectives to be realized, private sector growth has to accelerate. How can Vietnam achieve this?

Development and growth come from two main sources: creation of new firms and growth of small and medium firms into larger ones. Vietnam has made good progress in facilitating market entry and business creation. However, much has to be done to create a business environment that supports the growth of small and medium size private firms into large ones. I would like to focus on some of the main impediments to growth as identified in a recent survey of private and state owned enterprises conducted by IFC and the World Bank.

To grow and develop, private enterprises need access to various types of resources. In our survey, about two thirds of the private firms identified

access to financing and about a third identified access to land as major constraint to their development.

The difficulties of private enterprises in accessing finance reflect the early stage of development of Vietnam's financial system. According to the survey, private enterprises rely on personal savings, friends and family and retained earnings for 85 percent of their total financing, with intermediated financing, mainly through banks, accounting for the remaining 15%. Although there are insurance companies, a leasing industry and a fledgling stock market in Vietnam, there is paucity of alternative forms of outside financing. Many of the newly emerging companies are in the services and IT sectors where intangible assets represent most of their balance sheet. These companies have special financing needs--mainly in the form of private equity and venture capital. Our study reveals that lack of access to outside equity is viewed as a major constraint by a third of private firms surveyed

Bank loans are the main source of outside financing for private firms. However, private companies face significant problems in accessing bank loans. These problems reflect both supply and demand side constraints. On the supply side, banks are reluctant to make loans to private enterprises

because they do not enjoy the explicit or implicit guarantees associated with state ownership. In our survey for example, we find that for similar types of companies, SOEs enjoy a two to one advantage over private firms in accessing bank loans. In the absence of government guarantees, banks are reluctant to lend to private companies because it is difficult for them to assess risks appropriately. With the recent removal of restrictions on interest rates though, banks are now able to price the risk into their loans if they can develop better risk management skills.

On the demand side, private enterprises are often reluctant to seek bank credit because the procedures require a higher level of transparency with respect to their business activities. They often prefer to remain small and operate in an informal manner in the belief that the costs of higher visibility in the form of larger size or more transparency outweigh the benefits, because it could invite inspections and bureaucratic harassment. Such behavior is “encouraged” by certain tax policies that are inconsistent with the objective to promote the growth of SMEs into larger companies. For instance, while the official corporate tax rate is broadly in line with regional levels, the effective tax rate in Vietnam is much higher because all income is taxable, while not all legitimate expenses are deductible. Vietnam is

probably unique in the region with its cap on marketing expenses. This discourages companies from aggressively pursuing market opportunities and could be particularly damaging for companies in the services sector, where significant part of the expenses are related to marketing. Furthermore, local companies are subject to a surcharge of 25% if return on equity is above 20%. This is also a major disincentive for companies to grow larger and become more transparent. As the Deputy Prime Minister said this morning, the government is considering changes to address these problems. All I would like to say here is that the government should try to ensure that the taxation policies are such that people are not forced to hide what they have earned in a honest way. Prior consultation with the business community in revising the tax policies will help in developing a fair and practical tax code.

The other main problem in accessing bank loans is insufficient collateral. Two thirds of surveyed private firms viewed collateral requirements as the most problematic issue. Problems with collateral reflect to a large extent problems in accessing land.

There are two main ways to obtain land use rights for commercial use: lease from the government and through transfer. Obtaining land use rights via a

government lease is a very lengthy and costly process. Private businesses need to go through multiple government agencies and obtain numerous approvals. In our recent survey, private enterprises report an average processing time of about 200 days. Furthermore, land in Vietnam is scarce and the increase in the so-called specialized land, which is the land category for most business uses, has to come from other categories such as agricultural land. This involves compensation and resettlement of current users. The compensation and clearance process is often subject to disputes and negotiations can be very time consuming. Often 4 to 5 years can elapse between the application for land use rights and the time when the land can be put to use by the business. Private businesses, however, start paying rents usually from the date the decision for land leasing is made. In summary, the process is lengthy and drains significant portion of entrepreneurs' resources thus making growth more difficult.

An alternative way to obtain land use rights is through transfer. Land use rights can not be transferred without state permission. Approval is based on "state planning objectives" allowing for significant administrative discretion. Land users can not transfer land use rights without title, the so-called certificate of land use rights. However, significant portion of land users do

not have certificates of land use right due to a variety of reasons including complex procedures, high allotment fees, and incomplete cadastral mapping. Given these difficulties, it is not surprising that an estimated 70 percent of all transactions in land use rights take place in the unofficial market whereby private businesses lease land areas from SOEs, non-state enterprises, or directly from households. These unofficial transactions carry substantial risks for businesses as they are punished by administrative sanctions and therefore can not serve as a basis for sustained growth.

The social cost of these anomalies is very high as access to land appears to be a major factor in business expansion. When asked how their business would change if land was easier or cheaper to obtain, four out of five CEOs in the recent IFC/World Bank survey said that they would expand plant size and about one-third said that they would diversify into new activities.

Besides the tax and land issues which are on the reform agenda of the government for this year, policy makers also have to focus on developing an even more transparent and consistent framework for private sector development based on the rule of law. They need to foster a more level playing field and reduce the costs of compliance with rules and regulations.

Informal activities should gradually be absorbed into the formal market system by simplifying rules and regulations and by better enforcement and protection of property rights. The shift from concessionary (known as asking-giving in Vietnam) to normative regulations as demonstrated by the Enterprise Law should be extended to other areas particularly land use rights. The creation of a vibrant private sector depends to a large extent on the level of confidence that private investors have in the system and how much they believe that the rules do not discriminate against them and that enforcement is fair.

But policy changes and improvement in the financial system will not be enough. Domestic private companies can and should take steps themselves to improve their access to credit and enhance their ability to grow. Domestic private firms need to formalize their structures and operations, become more transparent, and upgrade their management skills. These steps will give Vietnam's private companies greater access to outside sources of finance and will increase their global competitiveness. But let's face it, they will do this only if they have confidence in the system and if they know that such steps will be rewarded with even greater political acceptance, less bureaucratic interference, and more access to finance.

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As some of you are aware, IFC hosts the Vietnam Business Forum bi-annually in conjunction with the World Bank and the Ministry of Planning and Investment. We believe that Vietnam is fortunate in having this ongoing dialogue between the authorities and the private sector on practical steps that can be taken to foster private sector activity. We would encourage the government to engage more pro-actively in this dialogue.

We are also actively involved in the development of the financial sector. In the past, we have advised on the establishment of the stock exchange and have invested in a leasing company, a merchant bank, and a private equity fund. More recently we made our first investments in an insurance company and a private bank in Vietnam. This is being supplemented with management advice and training to help the bank upgrade its credit and risk assessment skills, improve corporate governance and move to international standards of accounting and disclosure. We expect to make further investments in this sector in the near future.

Support for small and medium enterprises, which constitutes the majority of the domestic private sector at present, will remain a high priority for IFC. We have already established a special institution--The Mekong Project Development Facility--to provide advice and assistance to SMEs and build capacity of local service providers. More recently, a Bank Training Center has been established to upgrade skills in the banking sector. IFC is also actively providing financing, both debt and equity, to the smaller companies in Vietnam through various financial intermediaries I mentioned earlier.

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Thank you.

**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.

But despite all this progress, the formal domestic private sector in Vietnam remains small and fragile. As of 2002, it accounts for less than 8 percent of GDP, 6 percent of manufacturing output and about 3 percent of total employment. The private sector's small base means that its job creation effort still falls short of the rate at which the overall work force is growing. For government development objectives to be realized, private sector growth has to accelerate. How can Vietnam achieve this?

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Thank you.

Speech by

Mr. Phung khac ke, Deputy Governor of
the State Bank of vietnam
at the Annual Enterprise Meeting of the Asia society

Hanoi, 6 March 2003

Since the launching of a comprehensive reform in the six Congress of the Communist Party of Vietnam to shift from central planned economy to the socialist-oriented market one, Vietnam has consistently renovated its direction and policies to develop multi-sector economy, with the private sector being increasingly promoted.

By the end of 1999, the Enterprise Law was enacted by the National Assembly of Vietnam (coming into force as of 1st January 2000), in place of the Private Enterprise Law and the Company Law. This was viewed as a breakthrough in changing the economic thinking, meeting the requirement of the private sector's development. Along with other laws, namely the Law on Domestic Investment Encouragement, the Law on Credit Institutions, the Law on State Bank of Vietnam, the Trade Law, the Customer Law ... a system of laws and regulations has created a smoother and more favorable legal framework to gradually develop a level-playing for all economic sectors.

The Ninth National Party Congress of the Communist Party of Vietnam decided to pursue a consistent policy of developing a multi-sector economy with the State sector taking the leading role; and the State and collective sectors increasingly becoming the solid foundation of the national economy. On this basis, the Fifth Party Central Committee Plenum worked out the specific tasks to implement the ninth Congress' Resolution on developing the private sector: that is to assess the real situation to determine the orientation and important measures, aimed at facilitating the development of individual business households, and encouraging the extensive development of private enterprises in production and business trades and industries not forbidden by law according in the spirit of the ninth Party Congress' Resolution.

Since the adoption of the renovation, particularly since the issuance of the Law on Domestic Investment Encouragement and the Law on Enterprises, the private sector has been encouraged to develop. In recent years, total output of the private sector constantly grew with the average annual rate of 7% in the 1996-2000 period; Contribution of the private sector to GDP ranged from 27-29%. In two years (2000-2001) the newly registered enterprises numbered more than 35 thousand, equal to the total number of enterprises registered during 9 years from 1991-1999, and more than 300 thousand new individual

business households were registered; the total capital to increase to investment and expand new business scale and areas amounted to about 55,500 billion VND (approximately USD 4 billion); and business trades and industries were diversified; the development of the private sector in the two-year period resulted in the creation of about 750.000 new jobs, hence providing employment for about one third (1/3) of the annual increase of labor force in the economy.

the Banking industry in the process of developing the private sector

In May 1990, the President of the Socialist Republic of Vietnam promulgated the Decree Law on the State Bank of Vietnam and the Decree Law on Credit Institutions to meet the requirement of renovating the banking credit operations and to adapt to the international integration and market mechanism, these two ordinances were upgraded into laws in October 1998. The State Bank of Vietnam, through the management of the monetary policy has contributed to creating a stable macro-economic environment. In addition, various mechanisms and policies have been issued and implemented by the State Bank of Vietnam in order to create a smooth and open legal framework for all economic sectors to access to banking resources with the aim of expanding investment and developing production and business.

1/ Managing Monetary Policy and stabilizing macro-economic environment to expand investment and develop production and business.

- The Management of monetary policies has been gradually shifted from direct instruments toward indirect ones, in line with state-regulated market mechanism: In the past, the direct and administrative management of the monetary policy brought about poor effect, but in 5 recent years, the monetary policy instruments have been implemented toward gradually reducing the utilization of direct instruments, and step by step turning to indirect ones: Exchange rate is basically formulated by market forces (exchange rate band was expanded); and Marketizing the interest rate and credit mechanism, phasing out the trading band of interest rate. Up to now interest rates of both VND and foreign currencies were already liberalized; Such other instruments as Open Market Operations, foreign and domestic currency inter-bank markets have gradually been perfected in order to become the active suppliers of resources to credit institutions.

- Stabilizing the macro-economic environment: Through the flexible management of monetary policy, the State Bank of Vietnam has put inflation under control, thus contributing to create a stable macro-economic environment, promoting investment and encouraging production of all economic sectors:

In 1998, when the inflation rate reached a high level (9%), the State Bank of Vietnam implemented a tight monetary policy to ease the inflation pressure, while in 1999 and 2000 inflation rates were relatively low at 0.1% and 0.6%, respectively, the State Bank of Vietnam had to consistently pursued an expansionary monetary policy aiming at investment promotion. As a result, in 2001 and 2002 inflation rates were up by 0.8% and 4%, accordingly.

2/ Renovating and perfecting mechanisms and policies to expand lending activities:

- **Fund mobilization policy:** over the past 5 years, the banking sector has mobilized domestic resources by various forms and made full use of the financial support of international institutions to timely and adequately meet the capital requirement for the economic development. Regarding the domestic resources, credit institutions have actively implemented various forms of fund raising, namely issuance of bank bonds and bills with different terms, and expanded the network of fund mobilization. With the application of flexible interest rate mechanism, the banking sector has attracted considerable capital sources. For concessional sources provided by international financial institutions, in general the objectives and requirements have been met in implementing such programs and projects as SOEs reform, trade reform, PRGF.

As a result, from 2000 to 2002 fund mobilization increased by 20% on average, of which fund raising in VND and in foreign currencies grew by 25% and more than 10% per annum, respectively; fund mobilization in VND and foreign currencies from the public accounted for 30% and 60%, respectively. With the above growth rate of fund mobilization, the banking sector could be able to timely and sufficiently provide capital to all economic sectors, including the private one.

- **Renovating credit policy and mechanism::** the mechanism and policy on lending and loan security were issued by the Government and the State Bank of Vietnam; up to now, credit mechanism and policy promulgated by the Government and the State bank of Vietnam have proved to be relatively consistent with the state-regulated market economy.

Credit mechanism (including regulations on lending, loan security and interest rate) has gradually provided the equal treatment to all economic sectors with no discrimination between state and private enterprises in terms of lending conditions, scale of loans, terms and interest rate of lending, measures on loan security as well as other provisions related to credit operations.

- **Regarding the lending regulation:** Since 1998 the lending regulation has changed 3 times with Regulation No 1627 issued on 31 December 2001 as the latest. With this changes, regulation governing the lending activities has been perfected

to conform to market mechanism and unify with other related regulations. The latest lending regulation (Regulation No 1627) only stipulates the overall legal framework for all economic sectors in borrowing, regardless of their nature. In addition, this regulation is modified toward giving more autonomy to credit institutions in making lending decision, with the aim to create favorable conditions for economic sectors, including the private one to access to banking loans.

- *Regarding the mechanism of loan security:* mechanism of loan security has been issued and amended in accordance with market conditions and international practices. This was regarded as a fundamental change without any different treatment between economic sectors, in consistence with the relevant legal documents, thus creating a legal framework for more effective sound and safe bank credit operations. Loan security measures are stipulated in conformity with reality of domestic investment, production, business and livelihood.

- Apart from general mechanism, more favorable regulations are applied to private sector, in conformity with particularities of the private sector. In some cases, loans provided to the private sector require no mortgage, such as a single loan of less than 10 million VND for a farmer household, a single loans of less than 20 million VND for a farm owner household and a single loan of less than 50 million VND for a private maritime breed entrepreneur. On 24 February, 2003 the State bank of Vietnam issued regulation increasing the size of non-mortgaged loans to farmer households, farm owners, and co-operatives.

Interest rate mechanism: since 1998 interest rate has been managed toward marketizing interest rate and credit sources, and enhancing the autonomy of credit institutions in setting their deposit and lending rates in conformity with market forces.

During the 1998-July 2000 period, only deposit rate was liberalized, while lending rate with the ceiling was applied for both rural and urban areas; from August 2000 to May 2001 the ceiling rate was replaced by prime rate. With that in mind credit institutions were allowed to set up their lending rates, not higher than prime rate plus a trading band, quoted by the State Bank of Vietnam. However, this mechanism was no much different from the ceiling rate since it remained subject to the maximum lending rate.

Since June 2001, apart from liberalization of deposit rate, lending rate in foreign currencies has officially been liberalized, and since June 2002, lending rate in VND has also been liberalized.

3/ Access the private sector to bank credit:

The promulgation of the Law on Credit Institutions allowed diversification of credit institutions operating in Vietnam. On this ground, joint stock commercial banks, foreign banks and joint venture banks have been established to meet capital demands of those clients with no access to SOCBs. Furthermore, the fact that SOCBs became universal banks also enhanced accessibility of private sector to bank financing. Competition among banks increased overtime as a result of diversification. Besides SOEs, efficient private enterprises, particularly those having foreign currency income from export, were also considered as a target for competition by a number of banks. As a result, joint stock companies and limited liability companies have increasingly been accessible to bank financing.

In the 2000-2002 period, loan outstanding of the whole banking system recorded fairly high growth with the average rate exceeding 20% annually. In that context, private sector lending also experienced continuous expansion with substantial increase in its ratio over total credit to the economy from 55% in 2000 to 58% in 2001 and 62% in 2002. Emphasis was given to credit to the rural and agricultural sector, the share of which rose from 24% in 1998 to 29% in 2002.

4. Problems and constraints of the private sector in accessing bank capital:

- The biggest difficulty of this sector is weak financial capability. Assets that can be used as loan security are small compared with capital demand, and many of them are imperfect in legal title;
- Production is small in size, piecemeal, dispersed, with backward technology, low productivity, poor quality and weak competitiveness in the market environment, therefore vulnerable to impacts of the economy;
- Due to limited capacity and competency of the management, private enterprises tend to lack directions and strategies for long-term and stable development and face troubles in preparing projects for borrowing;
- Regulations on accounting, auditing, and taxation have not been complied with strictly. A lot of enterprises do not have permanent address, making it difficult to assess financial conditions of enterprises in doing loan appraisal;
- Therefore, while credit quality of the private sector has been improved in recent years, its overdue loans are still numerous compared with that of the whole economy.

5. Directions for the banking sector in the coming time:

In the coming time the State Bank of Vietnam will continue to implement the monetary policy by using monetary instruments in

a flexible and efficient manner under market principles, in order to ensure macroeconomic stability, control inflation, promote production and consumption, stimulate development investment; gradually improve towards full convertibility of Vietnamese Dong; establish a transparent and sound environment and level playing field for monetary - banking activities; diversify forms of mobilizing, lending, banking services and facilities to all enterprises and population, thereby meeting timely the demand for capital in production, business and life, with emphasis on agriculture and rural areas.

5.1. Improvement of mechanism for capital mobilization

The State Bank of Vietnam will continue issuing regulations which set principles and create favorable conditions for credit institutions to have autonomy in forms of mobilization, interest rates etc., so that they can raise funds to meet credit demands while ensuring profitability and safety of operations;

- Increase interest rate of foreign currency deposits of credit institutions and the State Treasury at the SBV in order to compensate part of the costs incurred by commercial banks, thereby increasing foreign currency resources (which commenced in December 2002);

- As for foreign bank branches: SBV will consider relaxation of restrictions on demand and time VND deposit taking from Vietnamese individuals and legal entities without credit relations with the bank to 50% of its chartered capital. The ease of this restriction will create favorable environment and increase contribution by these foreign bank branches to the Vietnamese economy and is an inevitable trend in the integration process.

- Commercial banks should promote the diversification of funds raising products both in Vietnamese Dong and foreign currencies, introduction of bonus such as lottery savings, installment savings etc; dissemination and advertisement of banking facilities; improvement of service quality in parallel with modernization of banking technology aimed at mobilizing to the most extent resources of the public, particularly long-term one.

- The Bank for Agriculture and Rural Development and the Bank for Social Policies should introduce small size fund raising in combination with lending through mobile banks so as to enhance outreach to poor and low income households.

5.2. Credit expansion solutions:

- Credit institutions have the autonomy to select and decide on lending without security to individuals and organizations in accordance with Decree 85/2002/ND-CP dated 25 October 2002,

Decree 178/1999/ND-CP dated 29 December 1999 and the guidelines of SBV regarding loan security.

- Credit institutions are entitled to consider, make decision and take responsibility for the increase in unsecured lending limits to certain borrowers.

- Credit institutions are allowed to continue expansion of foreign currency lending scope in the country, with focus on lending to production projects for export, important projects of the State and unprohibited borrowers.

- Credit institutions are allowed to use raised funds to contribute to the establishment of the SMEs Credit Guarantee Fund, so as to facilitate the efficient expansion of credit to cooperatives, farm owners, and SMEs. Commercial banks cooperate with the Guarantee Funds to expand lending to SMEs, cooperatives and farm owners. If SMEs operate efficiently and have good repayment record, commercial banks may consider and decide on unsecured lending limits and take responsibility for their decisions.

- Improve the determination of amortization and interest repayment by borrowers, especially rural households in line with business and production cycle of plants and animals and the repayment capacity of households and enterprises.

- Commercial banks continue to review mechanism and policies in order to simplify lending procedures, shorten approval time while ensuring compliance with laws and regulations; improve lending procedures through the introduction of indirect credit transaction via information network and mobile banks to create every favorable condition for borrowers, particularly the rural households; publicize and meet directly with customers to promptly guide them on lending procedures, maximum time for loan approval, lending conditions and possibility applicable to seasonal and production structure shifting credit demands.

- Credit institutions take initiative in seeking, appraising and lending to feasible, efficient, and financially viable production and business projects; enhancing appraisal capacity in order to expand lending secured by assets generated from borrowed funds, creditworthy lending and massive co-financing for projects of cooperatives, SMEs and farm owners..

State Bank of Vietnam

Opening Markets and Continuing Growth: Viet Nam and the Asian Economy

Session IV

The Regional Energy Picture: Viet Nam in Context

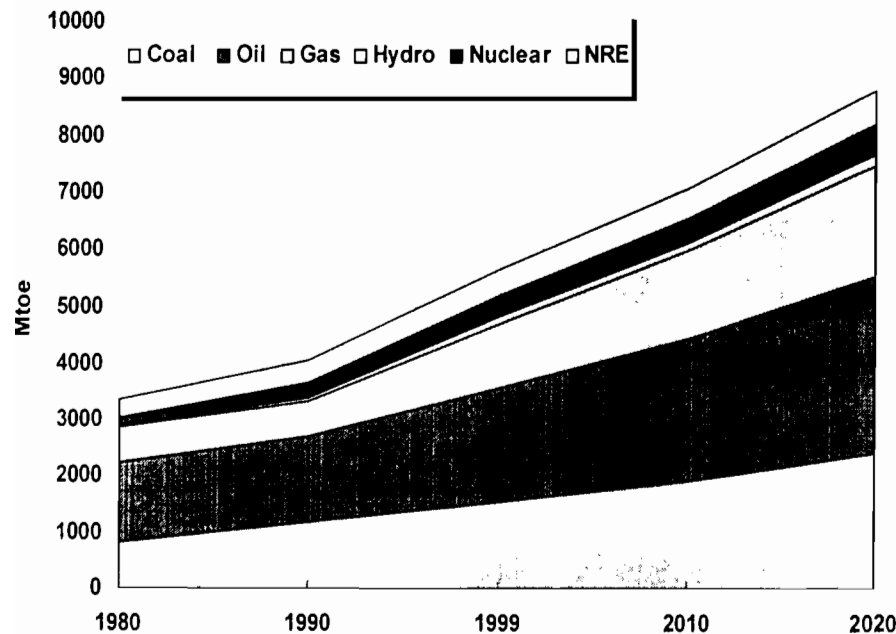
Hanoi, Viet Nam
March 5 - 7, 2003

**Asia Pacific Energy Research Centre
President**

Masaharu FUJITOMI



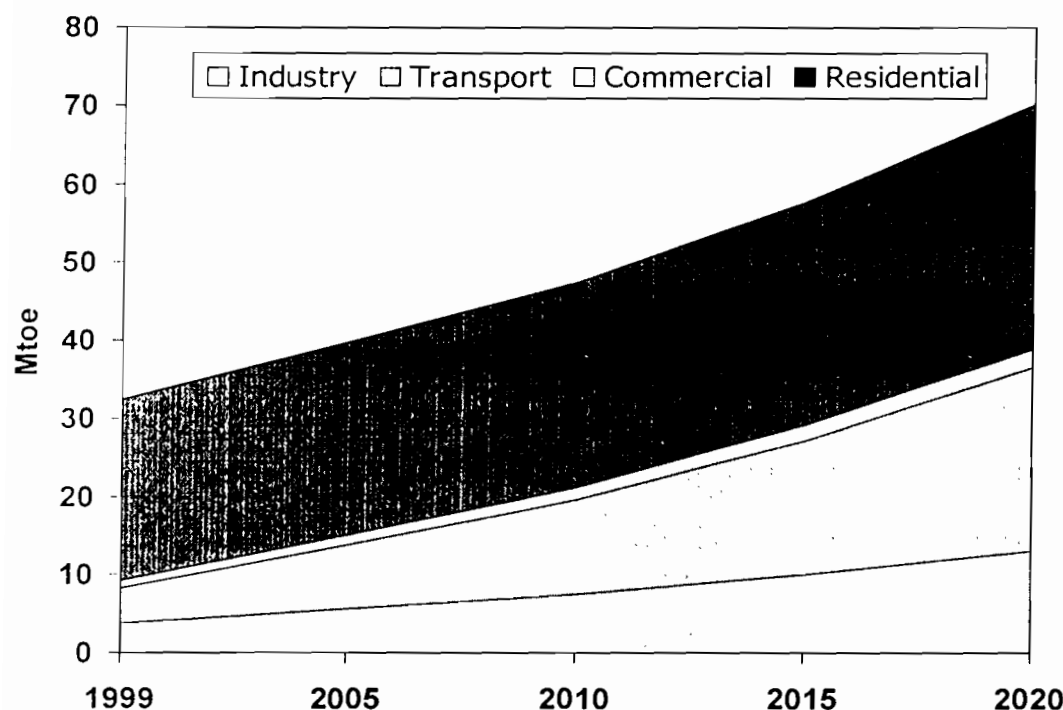
Long-term Outlook of Primary Energy Supply in APEC



- China will account for about 50% of total incremental energy demand in the APEC region.
- Power sector will lead energy consumption in particular coal and gas demand.
- Transportation sector will lead oil demand accounting for 72% of the total increment.

Source: APERC (2002)

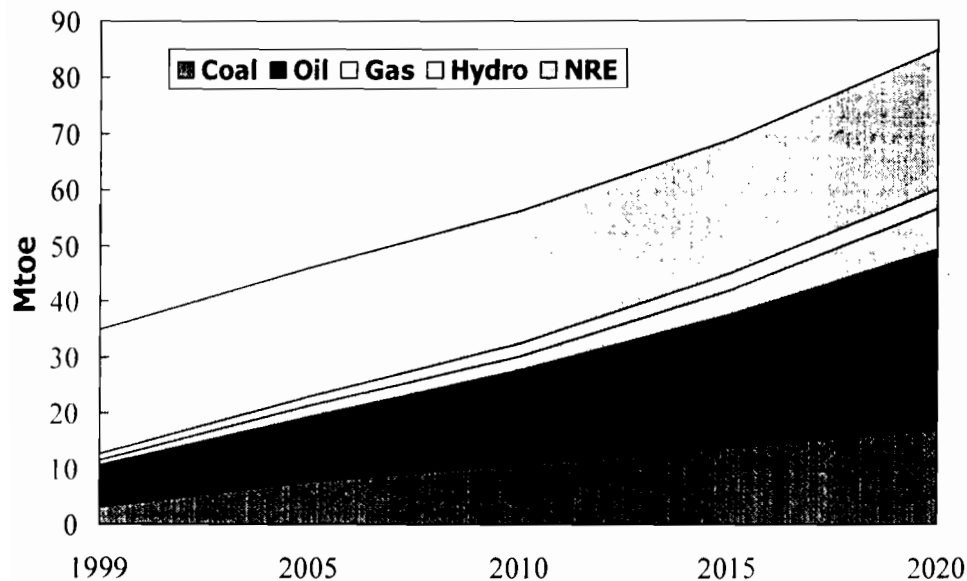
Final Energy Demand in Viet Nam (1990-2020)



- Transport sector energy demand will grow at the fastest rate of 8.1%, followed by industry sector of 6.0% (mainly diesel and gasoline).
- Residential sector energy demand is projected to be stable, due to the high share of biomass with an annual growth rate of 1.4%.

Source: APERC (2002)

Primary Energy Supply in Viet Nam (1990-2020)

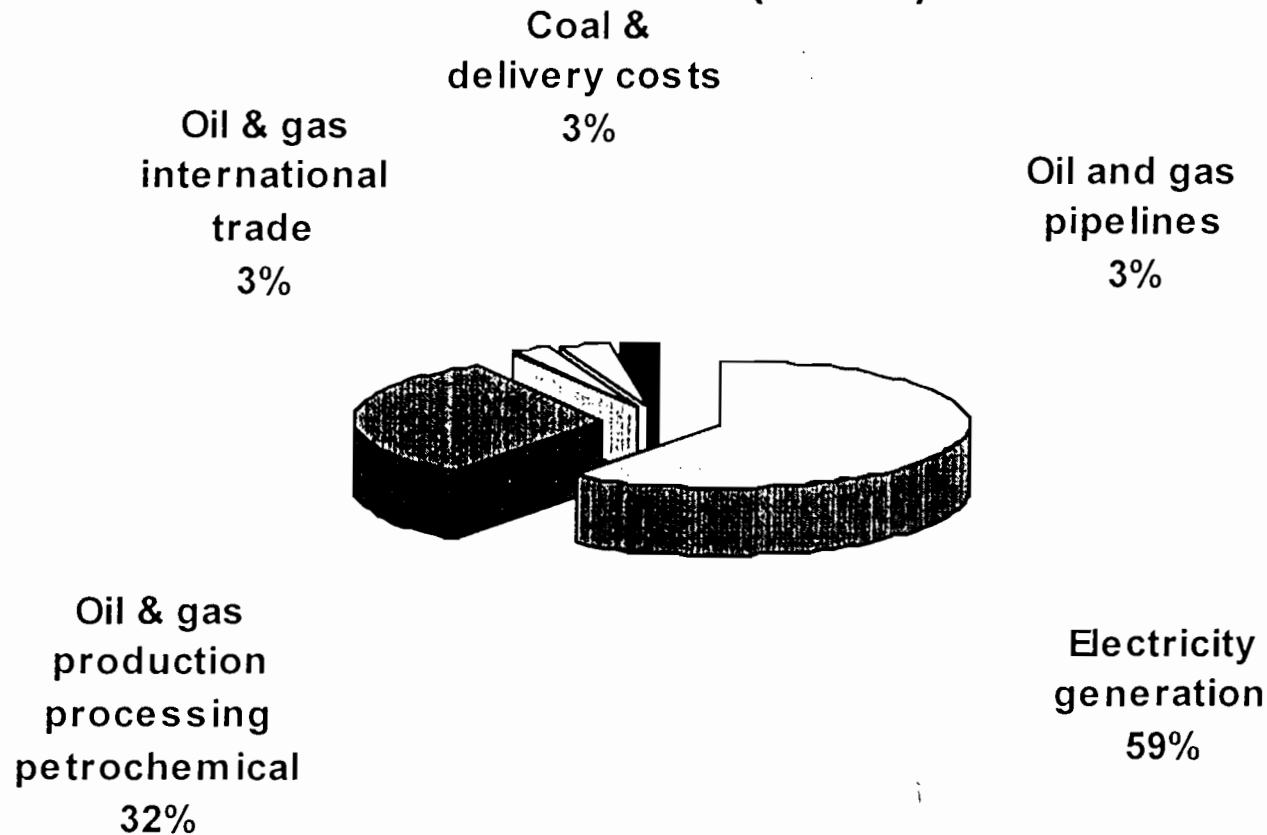


Source: APERC (2002)

- TPES will grow at an annual rate of 4.3% to fuel the economic growth stipulated in the Strategy for Socio-Economic Development (2000-2010).
- Coal and oil will be the main source of commercial energy, maintaining relatively high growth of 8.2% and 7.2% per year.
- Natural gas will be used for power generation, fertilizer and household use.
- The share of new and renewable including biomass will be significant, especially in the rural residential sector.

Investment Requirements 2000 – 2020 for Viet Nam, by Categories

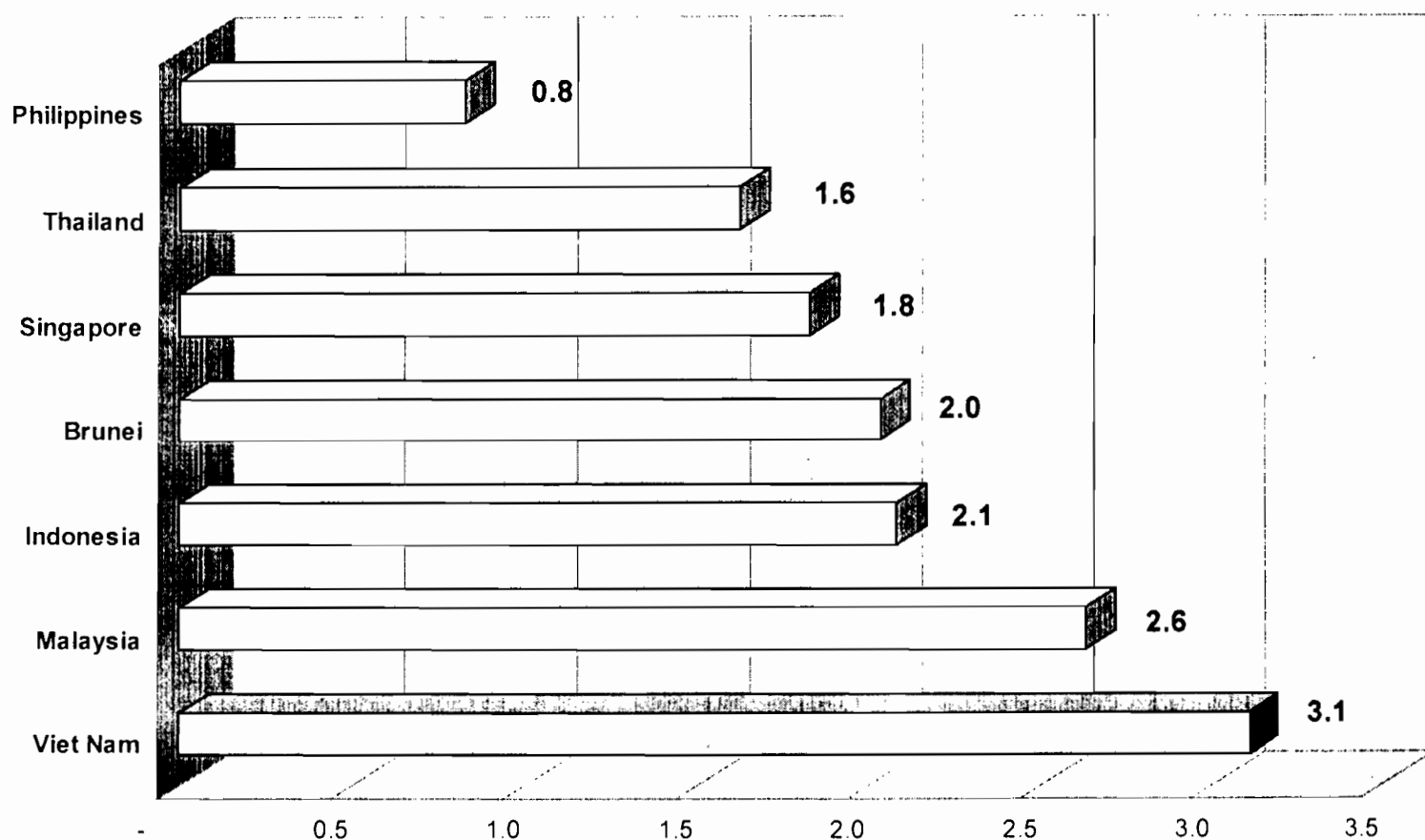
Total = 47 to 58 Billion (1999) US dollars



Source: APERC (2003)

Total Investments as Percentage of GDP ASEAN – APEC Economies

Total investments 2000 - 2020, as percentage of total GDP (1999 USD)



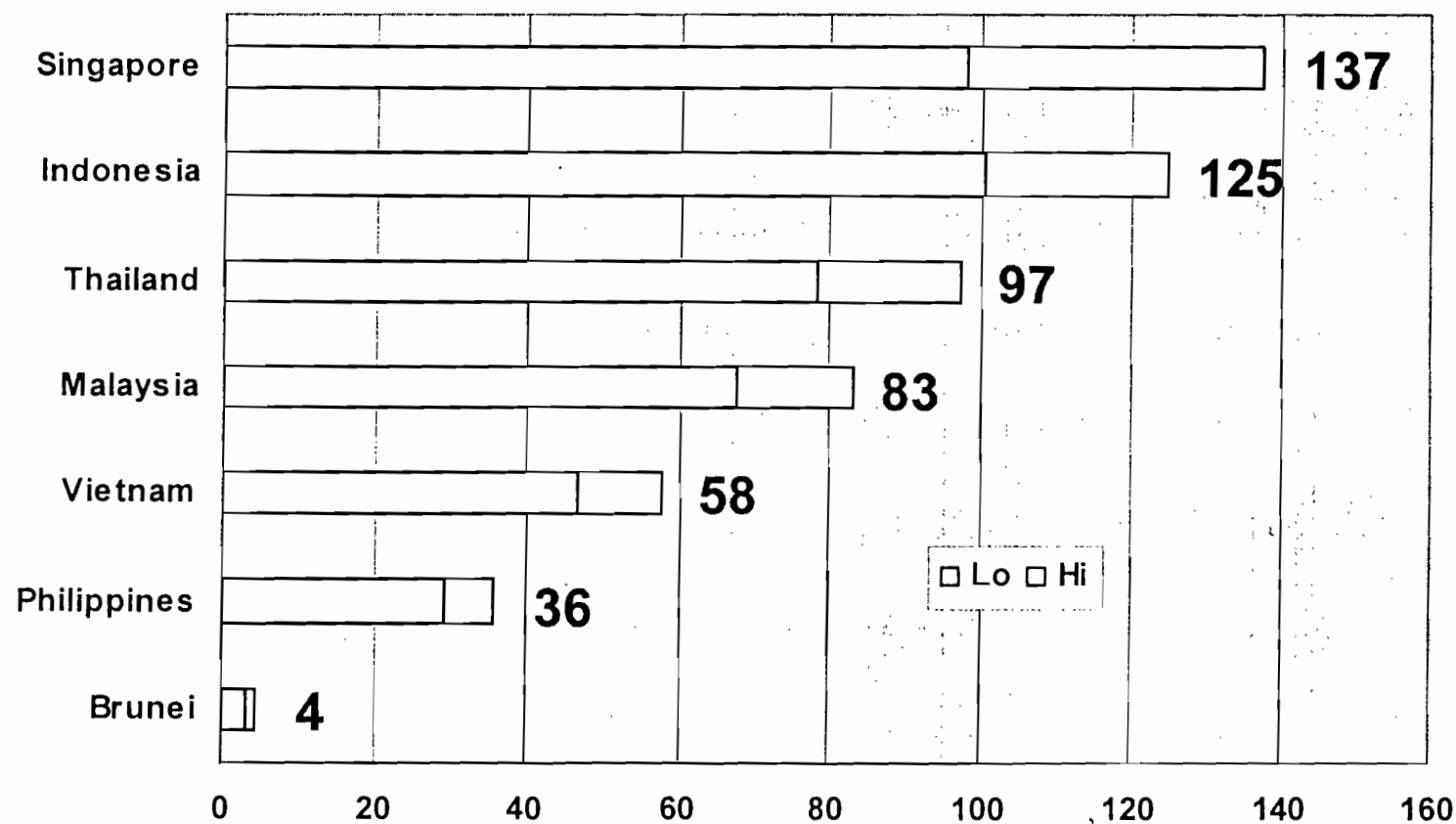
Source: APERC (2003)



Total Investment Requirements 2000 – 2020

ASEAN – APEC Economies

1999 US\$ Billions



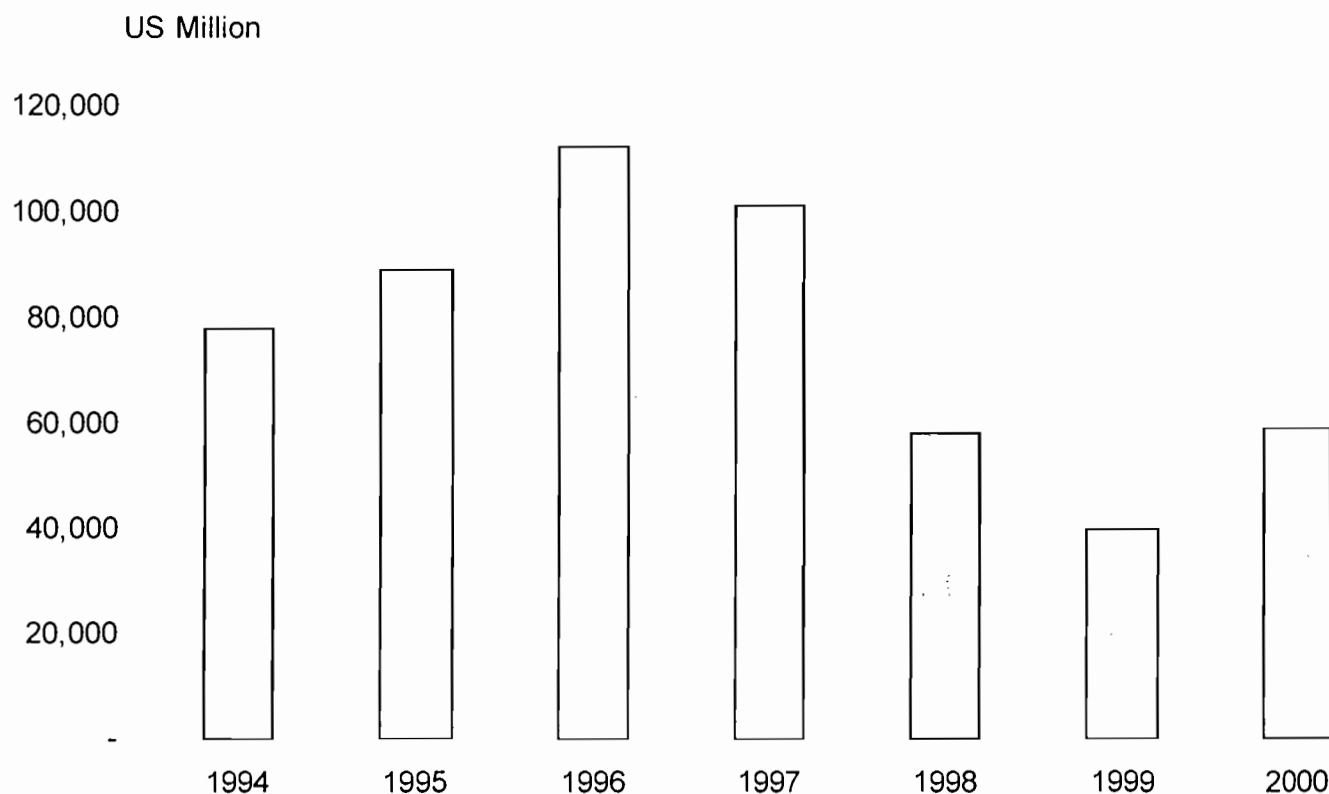
Source: APERC (2003)



Trend of Investment in Asia

Net Private Capital Flow

Investment for Asia is back on track, but not fully recovered.



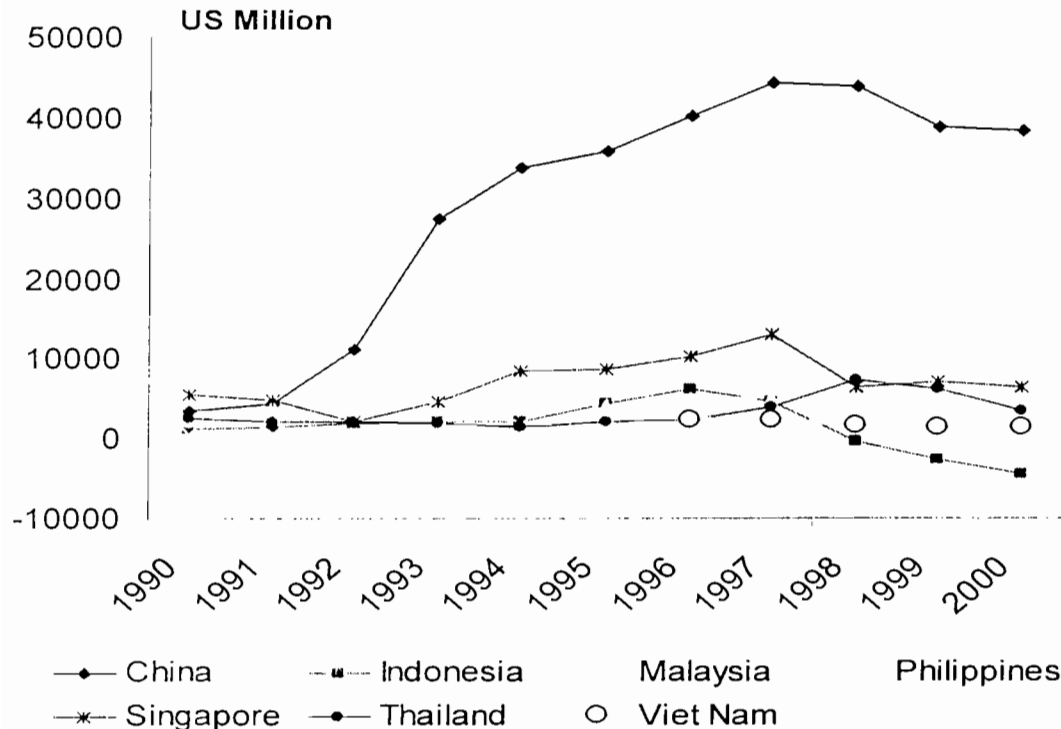
(Source) World Bank (2002), "Global Development Finance"

(Note) Net Private Resource Flow comprise net direct investment, net portfolio investment and other long- and short-term investment including borrowing



Trend of FDI in Asia by Economy

FDI Pouring into China?



Factors affecting FDI

Discount Rates:

- High discount rate reflects investment risks discouraging long-term investment.

Exchange Rates:

- Volatile exchange rates are unattractive for investment: e.g. revenue in local currency, other payments in foreign currency.

Market Prospect:

- Current size of market, and future prospect of market growth are important factors affecting rate of return.

(Source) IMF (2002), "International Monetary Statistics"



Energy Lending by Asian Development Bank

US Billions

	1967 – 1996	1997	1998 – 2001
Total lending	62.2	5.4 *	22
Energy lending	15.9	0.7	3.3
Percentage	25.5 %	13 %	15 %

* Excluding 4 US bill to S. Korea for policy based lending

Estimated Investment Requirements for Viet Nam

2000 – 2020 (1999 US\$ Billions)	2000	2010	2020
Coal & transportation, annual	0.11 – 0.14	0.08 – 0.10	0.07 – 0.09
Cumulative	0.11 – 0.14	0.76 – 0.97	1.44 – 1.83
Oil & gas production, processing & petrochemical, annual	0.71 – 1.13	0.70 – 1.10	0.79 – 1.23
Cumulative	0.71 – 1.13	6.9 – 10.8	11.7 – 18.4
Oil & gas international trade, annual	0.43 – 0.44	0.004 – 0.01	0.01 – 0.02
Cumulative	0.43 – 0.44	1.32 – 1.34	1.36 – 1.45
Oil & gas pipelines, annual	0.07 – 0.10	0.05 – 0.07	0.03 – 0.05
Cumulative	0.07 – 0.10	0.60 – 0.85	1.04 – 1.48
Electricity gen. & transm., annual	2.21 – 2.45	1.47 – 1.63	1.24 – 1.37
Cumulative	2.21 – 2.45	14.44 – 16.02	31.08 – 34.49
Total, annual	3.46 – 4.16	2.28 – 2.89	2.13 – 2.76
Cumulative	3.46 – 4.16	23.98 – 30.00	46.66 – 57.66

Source: APERC (2003)

Barriers for Energy Sector Investment

Rate of return of infrastructure development project

Type of Project	Return (%)
Urban development	23
Transport	21
Telecommunications	19
Infrastructure	16
Irrigation and drainage	13
Power	11

(Source) World Development Report (1994)

- Rising uncertainty in the energy market; regulatory and economic risks
- Less than satisfactory performance of energy companies in recent years (e.g., Enron).
- Timing of investment with regard to business cycles will be critical for project viability. Asian crisis revealed the excess capacity leading to low and unsustainable price for investors.
- Non transparent and uncertain investment climate will leave few credible investors.

Opportunities for Viet Nam

- Viet Nam is a strong candidate for investment for its socio-political stability
- Recent history of strong economic growth driven by export
- Creating a favorable investment environment

Role of Government for the Energy Sector:

Areas of consideration for developing economies

- **Government role for energy sector is to create conditions for market to function well in a manner meeting its own policy objectives.**
 - Create a policy and regulatory framework
- **Also the role is to harmonise the different interests.**
 - Short-term oriented private interests and long-term objectives of public sector
 - Different interests in central government and local government
- **And further role is to improve investment climate for FDI.**
 - Stable fiscal regime
 - Protection of investment right
 - Transparent dispute settlement regime

Implications

- **Challenges**
 - Wave of deregulation and substantial demand growth
 - Regional cooperation
 - Globalization
- **Energy and economic growth**
 - Cost of inaction will be enormous.
 - Concern for energy security is looming larger and cross border project will be a key .
- **Role of government**
 - Creating fair and transparent conditions for the market to function well.

THANK YOU !

Asia Pacific Energy Research Centre



**Opening Markets and Continuing Growth:
Vietnam and the Asian Economy**
13th Asian Corporate Conference
March 5-7, 2003

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Opening Markets and Continuing Growth: Vietnam and the Asian Economy

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**Opening Markets and Continuing Growth:
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HOCHIMINH CITY : CREATION AND UTILIZATION OF COMPETITIVE ENVIRONMENT FOR FOREIGN INVESMENT

Prof. Dr. Nguyen Thien Nhan
Standing Vice - Chairman of
People's Committee of Ho Chi Minh City
February 25, 2003

I. Eight targeted competitiveness of hochiminh city:

1. Unique location in Asia:

Within 3,500 km radius around HoChiMinh City
2,500 millions people accessible (50% of the world
population) → - Low cost of market access

- Fast increasing demand for
consumption and industrial products
- Vast pool of skilled and low wage
labor
- Transportation by air, sea or
train.

*2. Educated, hard- working, innovative and low -
cost labor forces.*

*3. A critical economic mass for fast and
sustainable internal development and international
cooperation :*

- 6 millions people (2015 : 10 millions)
- Almost 30% of national industry
- 18% of Vietnam's GDP
- 40% of Vietnam's export
- Modernized banking sector
- Traditional relations to 2 millions oversea
Vietnamese
- The biggest airport and seaport
- More than 30 universities and colleges.
- 50% of Vietnam's IT capacity.

- Tourism destination
- 2 hour access to the Southern Economic Development Zone

(Dong Nai, Binh Duong, Ba Ria - Vung Tau and Ho Chi Minh City : 40% of GDP).

4. Center of science and technology research and application.

- 30% of national research capacity.
- The Nation's most developed market for scientific - technological products.
- Advanced partnership between Science - Business and Government (Innovation Triangle).
- High-tech Park under construction.

5. Reforming government :

- Government - Business - Dialog System online
- E-Government Program started.

6. Tradition of business spirit and innovation.

7. Developed infrastructure

- Transportation program
- Telecommunication program
- Housing program
- Urban re-development program

8. Multilingual culture

- English, French, Chinese, German, Russia, Japanese,...
- Korean, Chinese, French, Indian cuisines.

II. Current Efforts and Action Programs

1. Five readiness strategy :

- Information ready (city web, ITPC (Investment and Trade Promotion Center), Investment road show tour...)
- Land ready (Center for Land and Infrastructure Provision).

- Labor ready (Training Program on Business Demand).
- Internet ready (Telecommunication infrastructure development program and Internet Service Program).
- Support ready (Individual support for investors to get license, Government - Business - Dialog system online, Annual meeting with foreign business associations).

2. Action programs :

- Human resource development programs : 8 Components, implementation in progress (300 Ph. D. and Master Program, 1,000 Business Manager Training Program,...).
- City marketing (Proposal to be approved and implemented).
- Creation of ready land for investor.
- IT Program (Telecommunication Infrastructure, Training, Incubation, e-Government, E-Commerce, Quang Trung Software City, e-learning).
- Research program : Low cost production of import - equivalent products and technology fairs (real and on line).
- Transportation program, Urban re-development program, Housing program
- City partnership (San Francisco, Shanghai, Lyon,...)

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Vietnam and the Asian Economy

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