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Tapping a tiger

Compelling reasons to do business in Vietnam

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By DANIEL ALLEN

Vietnam is working

At night, from the helipad of Ho Chi Minh City's soaring Bitexco Financial Tower, the urban landscape is a shimmering sea of light.

An incessant flow of traffic streams through the recently opened Saigon River Tunnel, re-emerging in the Thu Thiem New Urban Area that's soon to be populated with more skyscrapers. While stories of the country's economic problems abound, there's little evidence of stagnation in Vietnam's biggest metropolis.

"Everyone's just getting on with the business of making money," says Craig Derbyshire, a British expatriate overseeing the imminent opening of a five-storey cocktail bar and eatery in the Bitexco edifice. "People are still working hard and playing hard. A few short-term macro-economic issues aren't going to stand in the way of progress."

"Many people have been inclined to criticise the Vietnamese Government and economy over the past few years," adds Thanh Nguyen, formerly of Ernst & Young and now managing director of Vietnam operations for Atlantic Ltd, a Perth-headquartered resources group. "The fact is, where foreign investment in Vietnam is concerned, the silent success stories still far outweigh the publicised failures.

"More and more foreign companies are starting to do business in Vietnam. Why? Because it is stupid not to. They have faith in the Vietnamese people and the Vietnamese economy. You know, 10 years ago the bar in Ho Chi Minh City's Hyatt Hotel was wall-to-wall foreigners. Go in there today and the clientele is 90 per cent Vietnamese. What does that tell you?"

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> – Craig Derbyshire

With 90 million people, the Socialist Republic of Vietnam is the 12th most populous country in the world (65 per cent of the population is under 30). For two decades after the 1975 reunification, deeply conservative leadership policies were a ball and chain on economic growth. Since 2001, however, the Vietnamese Government has firmly wedded itself to economic liberalisation, implementing structural reforms to modernise the economy and create more competitive, export-driven industries. Vietnam became the World Trade Organization's (WTO) 150th member in 2007.

Over the past decade political stability and favourable legislation have seen Vietnam's foreign direct investment (FDI) rise sharply. According to KPMG, total registered capital in the country increased to more than US$21 billion in 2007, up from US$12 billion in 2006. It soared to almost US$72 billion in 2008 before dropping away in 2009 and 2010 as a result of the global financial crisis (GFC).

Nonetheless, the increasing percentage of foreign capital disbursed since 2008 highlights the sustained confidence of overseas investors in the market.

“As with other countries in the ASEAN [Association of Southeast Asian Nations] bloc, Vietnam certainly felt the impact of the GFC,” Nguyen says. “The tightening of overseas and domestic investment saw years of growth give way to more caution. Distressed assets have become the focus of some investors, but this reflects the belief that there are opportunities in challenges and that things in Vietnam will get better in the very near future. Medium- and long-term growth prospects remain strong: 6.5 to 7 per cent for 2011-2015. In 2010 the volume of business deals more than doubled compared with 2009 and their value almost tripled to US$3.2 billion. Mergers and acquisitions activity also increased in 2011 compared with 2010.”

Keeping inflation under control while boosting economic growth and ensuring macro-economic stability is one of the major challenges for Vietnam. Its consumer price index growth was kept to single digits over 2004-06 before reaching a record 23.1 per cent in 2008, largely as a result of the GFC and internal imbalances. The government tightened policies to fight inflation in February last year and recent figures suggest it is working.

A Standard Chartered Bank report says Vietnam’s inflation will drop to single digits by the third quarter this year – good news for potential Vietnamese borrowers, as Fitch, Moody’s and Standard & Poor’s cut Vietnam’s credit rating last year and warned of further downgrades if inflation were not reined in.

“The medium- to longer-term outlook for the Vietnamese economy and associated indices is good, but it’s affected somewhat by what happens in world markets,” says David Carter, CEO of Odyssey Resources, a mid-tier accountancy outsourcing and business consultancy based in Ho Chi Minh City. “The government will certainly have its hands full juggling inflationary and exchange rate pressures over the next couple of years.”

How Vietnam reforms and privatises its state-owned enterprises (SOEs) over this period is also perceived as critical. In 2010, according to government sources, foreign-owned enterprises among Vietnam’s 1000 largest businesses paid a total of US$1.9 billion in corporate tax. However, a whopping 43 per cent of the top 1000 – including the top 10 taxpayers, which paid about $US3 billion – are still state-owned. Among them are three telecommunications companies, five energy companies and two banks.

Concerns about the preponderance of inefficient SOEs, which have grown on the back of easy credit from state banks, are nothing new. These concerns were brought to a head by the near-bankruptcy of Vinashin in 2010. This government-owned shipping company, now being restructured, racked up debts of more than US$4 billion as it expanded too fast, falsified financial reports and “grossly mishandled” projects.

“Many smaller Vietnamese banks are in danger from non-performing debts,” Carter says. “During the Vietnamese economy’s overheating period in late 2007 and early 2008, many SOEs invested heavily in the financial sector and real estate, exacerbating asset price bubbles. Banks lending for investment in the property market are now a particular concern and the government is trying to reduce exposure by really tightening access to non-production credit.”

Today, despite the underlying issues, reasons to invest in Vietnam are clear and manifold. Nguyen says: “The fundamental factors that propelled Vietnamese growth pre-GFC are pretty much still there. They are: an educated and motivated workforce, a foreign investment-friendly government, abundant natural resources, relatively cheap labour, rising GDP and consumerism and a growing middle class.”

According to Vo Hung Tien, general director of Baker Tilly A&C, the fifth-largest audit and accounting firm in the country, Vietnam wants to become an industrialised country by 2020. “The Vietnamese Government has abolished its subsidy regime, legalised private ownership, built up and refined the legal system, reformed financial and monetary policy and really stripped out a lot of the red tape that used to hamper the establishment and operation of foreign companies,” he says.

In line with its WTO commitments, Vietnam is opening an increasing number of economic sectors to investment. “Increased access and low labour costs have combined to make Vietnam an attractive outsourcing destination,” Vo says. “Development of the foreign-owned manufacturing sector has been spearheaded by Japanese, South Korean and Taiwanese firms, all increasingly wary of rising Chinese labour costs.”

With its overwhelmingly young population, Vietnam remains an untapped market for retailers and big-name brands. “Most major franchises are still not active in Vietnam,” says Thomas J. Treutler, partner and managing director of Tilleke & Gibbins, one of Vietnam’s leading law firms. “Very few retail centres have been built and demand is outstripping supply. The few centres that are open are overcrowded all day, every day.”

Japan’s biggest retail group, Aeon, has confirmed plans to build at least seven shopping centres in Vietnam, while South Korea’s E-Mart and Lotte Mart, Hong Kong’s Dairy Farm International Holdings and Germany’s Metro are all investing (or about to invest) heavily in Vietnamese supermarket chains.

An economic slowdown in other Asian countries is also leading to more investment in Vietnam. “There has been a huge influx in investment from Japan over the past few years,” Treutler says. “The Vietnamese Government is reportedly planning to build special industrial zones for Japanese companies because it believes they’re good corporate citizens.”

Investment from high-tech firms is also on the rise. One overseas company to ramp up its presence is Intel. In 2010, the US chip maker opened a billion-dollar plant in Ho Chi Minh City, its biggest.

Nick Jacobs, regional public relations director for Intel Asia Pacific, says: “Proximity to the customer, availability of talent and physical infrastructure were all major factors in our decision to invest heavily in Vietnam. Labour costs were a factor, but not hugely important.” He is also optimistic about the long-term outlook for the Vietnamese economy. “Yes, inflation is a concern, but it’s

certainly not a show-stopper," Jacobs says. "We've made a solid commitment and we're in Vietnam for the long haul.

"Many people visualise the Vietnamese sitting on the back of a water buffalo or planting rice. In reality, this is a nation of young, aspirational consumers. They want PCs, smartphones and iPads. Cell phone use is already very high and people are using mobile payment systems."

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Foreign investment naturally gravitated toward Vietnam's two biggest cities – Hanoi in the north and Ho Chi Minh City in the south. This is no longer the case. Nguyen says: "Tier-two and even tier-three cities are now on the investment radar. For example, in the period January-October last year FDI in south-east Vietnam's Ba Ria-Vung Tau Province was higher than for Hanoi.

"The combined FDI in Ba Ria-Vung Tau, Dong Nai and Binh Duong provinces over the same period was more than double that in Hanoi, and three quarters of that in Ho Chi Minh City. Overseas companies, quite rightly, are looking everywhere for opportunities in Vietnam."

However, they need to do their homework first. The country's regulatory environment may have been simplified of late but has myriad idiosyncrasies.

Anna Diep of Red Packet, a Melbourne business consultancy specialising in Vietnam, says: "My advice is first to prioritise relationship development with local government and possible joint venture partners. This should be paired with endless patience and development of an in-depth understanding of the Vietnamese business environment."

Treutler adds: "As a first step, investors should research whether their potential business is open for foreign investment and under what forms. Most areas are open, or will soon become open, but there are still areas where investment is restricted, such as the distribution of certain products, telecoms and so on."

Carter says: "Do your due diligence and market preparation carefully. Ensure the product or service you're providing can be done properly without cutting corners. Western firms are at a disadvantage in that they have to follow the letter of the law, whereas some Vietnamese firms simply don't. Once you've identified your business, engage a good lawyer or accountant to ensure you're set up correctly. If you don't, problems can really come back later and bite."

Back in the Bitexco Tower, work continues on Alto, one of Craig Derbyshire's bars, near the helipad. Once open, high-flyers arriving by air will be whisked through to receive tapas, cocktails and premium champagne. As Vietnam's economy returns to the straight, narrow and increasingly lucrative, the sound of popping corks may well continue deep into the night.

Mass education

Demand for skilled labour in Vietnam remains very high as the economy and foreign investment show impressive growth. In many sectors this has led to a severe shortage of staff.

"While Hanoi is dedicated to reforming the education system, the change of pace has been too slow," says Baker Tilly A&C's Vo Hung Tien. "The problem has been compounded by Vietnam's recent admission to the World Trade Organization, which is attracting a growing number of foreign companies."

Odyssey Resources' David Carter says kick-starting 300 universities in Vietnam tomorrow wouldn't be enough to meet demand. "There is tremendous potential for investment in the education sector," he says.

Professor Julian Teicher, head of the Centre of Commerce and Management at RMIT University, which has campuses in Ho Chi Minh City and Hanoi, says: "Demand is obviously outstripping supply, but it's hard to say by how much. The Vietnamese Government doesn't collect enough data.

"For most Vietnamese, tertiary education is still not an option: it's too expensive and competition for places is intense.

"Vietnam is at the early stages in education. Ten years ago, if you had a degree in marketing people would say 'so what?'.

"The problem has also been compounded by demand from the growing number of foreign companies."

Strength in numbers

Accounting and auditing practices in Vietnam have improved enormously in recent years, underpinned by the creation of professional bodies, proliferation of accounting firms and development of laws and regulations.

The accounting and auditing profession was jointly overseen by Vietnam's Ministry of Finance until the Vietnam Association of Certified Public Accountants (VACPA) was set up in 2005. Vietnam's auditors are now overseen by VACPA, and accountants by the Vietnam Association of Accountants and Auditors (VAA).

With the profession still in its infancy, Vietnam unsurprisingly has a shortage of skilled and accredited accountants. "There are still only about 1000 registered accountants in the whole of Vietnam," says Son Phu Tran, a Hanoi-based partner of Ernst & Young

Vietnam. “Although organisations such as the Association of Chartered Certified Accountants (ACCA) and CPA Australia are increasingly active, we need a lot more business schools.”

John Ditty, chairman of KPMG Vietnam and Cambodia, agrees: “Vietnam-based universities are not meeting requirements in terms of quantity or quality yet. We strongly recommend all our new graduate hires undertake either ACCA or CPA Australia accreditation.

“Their professional value dramatically increases with accreditation,” Ditty says. “We also help the brightest students with an undergraduate sponsorship program. Our head count in Vietnam is growing by about 15 per cent a year, so it makes sense to nurture talent.”

Further Reading

Access the following CPA Library items at www.cpaaustralia.com.au/guide_vietnam

- "Vietnam to Give Priority to Industry Development Sectors", *Asia Pulse*, June 2011
- "Vietnamese Trade Banks Receive Record IFC Support", *Trade Finance*, July 2011
- "ANZ Makes Headway in a Tough Climate", by Mark Eggleton, *The Australian*, 14 November, 2011

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