OVERVIEW OF VIETNAM'S ECONOMY 2010

In 2010, Vietnam had to try its utmost to withstand the impact of the global financial and economic crisis and deal with large-scale flooding that devastated production and livelihood of many people. But, thanks to close and flexible guidance of the Government, initiative measures of companies, and the efforts of the entire community, the Vietnamese economy continued to make positive progress and attained a three-year high GDP growth of approximately 6.8 percent.

Positive changes

According to the General Statistics Office (GSO), many industrial products had higher than average growth. For instance, liquefied petroleum gas (LPG) production expanded 93.6 percent; chemical paint, 28.5 percent; and formula milk, 22.7 percent. Besides, according to the Ministry of Planning and Investment, in 2010, Vietnam attracted US$18.59 billion of foreign direct investment (FDI) capital (both fresh and incremental capital), down 19.8 percent year on year but almost equal to the full-year plan. FDI capital accounted for 25.8 percent of Vietnam's total social investment capital in 2010, a bit higher than in 2009 (with 25.5 percent). This economic sector saw industrial production growth of 17.2 percent from 2009, higher than the country's average of 14.7 percent, earned total export revenue of US$38.8 billion, rising 27.8 percent from 2009 and accounting for 53.1 percent of the country's total, spent US$36.4 billion on imports, up 39 percent year on year and equal to 42.8 percent of the country's total. Thus, the trade surplus of foreign-invested companies was US$2.35 billion in 2010, helping ease the trade deficit of Vietnam. Registered FDI capital improved in quality. Specifically, the processing industry took the lead with 385 new projects valued at US$5.1 billion, accounting for 27.3 percent of the total registered FDI capital.

Total retail sales of consumer goods and services increased 15 percent, excluding the price-rise factor. The trade deficit was estimated at US$12 billion, lower than the initial forecast of US$13.5 billion and than US$18 billion in 2008 and US$13 billion in 2009.

Although Vietnam had its long-term foreign currency sovereign credit rating lowered to BB- from BB, the quality of investment environment improved significantly, according to the Doing Business Report.

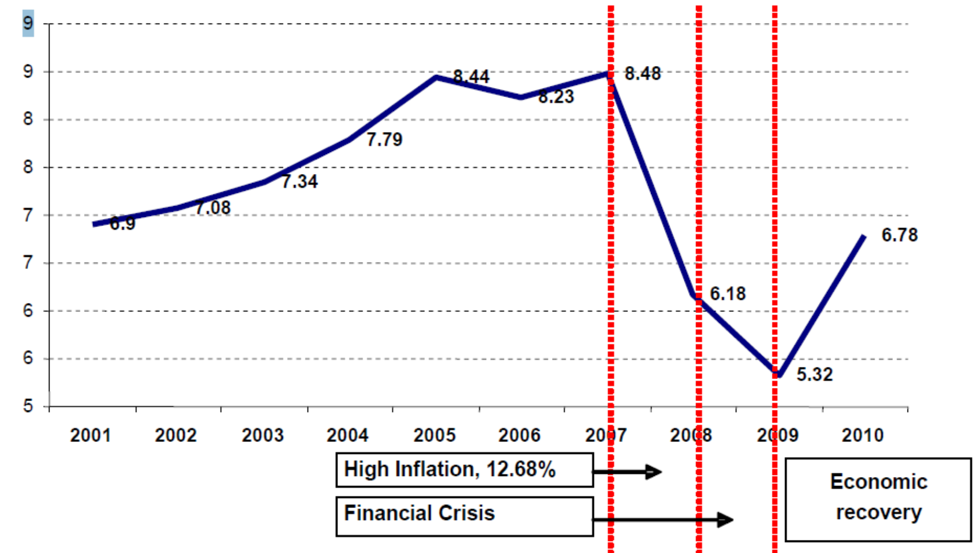
In general, macroeconomic balances are basically stable. State Budget revenue increased, development investment accelerated, social security and welfare was ensured, political and social security was maintained, social and cultural aspects were developed.

Vietnamese enterprises, particularly textile and garment producers, actively sought new markets and new export contracts. This helped Vietnam to have three more commodities with export value of more than US$ one billion in 2010. International visitor arrivals to Vietnam grew 39 percent from 2009. Particularly, business visitors increased 42.9 percent.

In 2010, the government continued to apply consistent policies to uphold macroeconomic stability, basing on increased investment, attached importance to both domestic and international markets, and paid special attention to attracting non-State investment sources. At the same time, the government also took into account comments, opinions and criticisms from the National Assembly and enterprises to adjust its administration in the spirit of respecting the law and protecting the legitimate interests of investors.

High growth rate – the pride of Vietnam

1- Vietnam's economic growth in the period of 2001-2010



Source: GSO, 2010

Economists, policy makers and government officials all have agreed that the national economy has fulfilled the 2010's target and has even surpassed some norms. Of course, the high GDP growth rate has been cited first.

"With a high growth rate of 6.78 percent, Vietnam is considered one of the countries that has recovered from the financial crisis," said Do Thuc, General Director of the General Statistics Office.

Meanwhile, when Minister of Planning and Investment Vo Hong Phuc spoke about the socio-economic achievements in 2010 at the government's conference held in the last two days of the last year, he emphasized that the national economy has recovered strongly with the growth rate increasing steadily every quarter. The high growth rates can be seen in all sectors of the national economy, especially industrial production. The industrial production value in December returned to the level obtained in the pre-crisis period with the growth rate of 16 percent.

The figures clearly show the steady recovery of the national economy. In the first quarter of 2010, the GDP grew by 5.84 percent, while the figure rose to 6.44 percent in the second quarter, and then to 7.18 percent in the third quarter and 7.34

percent in the fourth quarter. The figures were just lower than the 7.43 percent growth rate obtained in the first quarter of 2008, the time when Vietnam's economy had just begun facing difficulties after a strong growth rate in 2007. On the contrary these are higher than the quarterly growth rates in the last two years. With the general growth rate of 6.78 percent in 2010, Vietnam can say that it has escaped from the economic depression.

"Though the figure 6.78 percent is still lower than that obtained in the first years of the 2006-2010 five-year plan, but the figure has a big significance because it officially says that Vietnam has officially left the group of low-income countries, entering a new stage of development, becoming a medium-class economy," Thuc said when declaring about the national economy's scale. In accordance with the current prices, the scale of the national economy has exceeded $100 billion, while the average income per capital has reached $1168.

High export turnover has also been cited as an outstanding feature of the national economy in 2010. The export turnover reached $71.6 billion in 2010, while the export growth rate reached 25.5 percent, or four times higher than the targeted six percent growth rate. Of course, the high growth rate was obtained after Vietnam experience a negative growth rate, which Vietnam has had to face for the first time in the last 20 years of "doi moi" (renovation). However, it is undeniable that Vietnam's export has been resuming a high growth rate what was seen in the pre-crisis period.

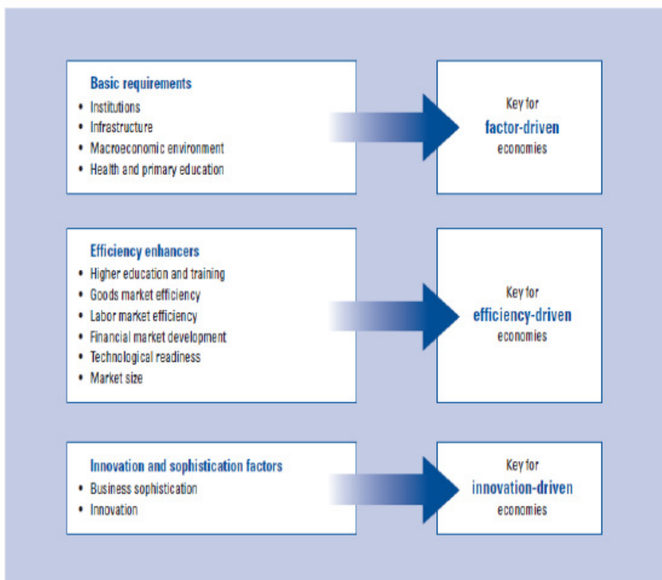
Meanwhile, the high rate of foreign direct investment (FDI) disbursement of $11 billion, the ODA disbursement of $3.5 billion, the $8.4 billion worth of overseas remittance and $1 billion worth of portfolio investment have also been as the big achievements. The profuse capital inflow has helped settle problems in the general payment balance. Deputy Prime Minister Nguyen Sinh Hung has announced that the deficit in the payment balance in 2010 was $4 billion only, or just a half of that of $8.8 billion in 2009.

What Vietnam bartered for high growth rate?

Experts have pointed out that despite the fact that there are macroeconomic uncertainties, in order to obtain high economic growth rate, Vietnam had to apply loosened fiscal and monetary policies. In particular, the state budget's deficit has climbed to a high level, even though it was lower than the targeted level, at 5.8 percent. As a result, the inflation rate has been pushed up.

Competitiveness and Growth model

Figure 1: The 12 pillars of competitiveness



- Basically, Vietnam's growth is factor-driven growth
- Meanwhile, more advanced economies shift to productivity- and creativeness-driven growth

Table 1: Weights of the three main subindexes at each stage of development

Subindex	Factor-driven stage (%)	Efficiency-driven stage (%)	Innovation-driven stage (%)
Basic requirements	60	40	20
Efficiency enhancers	35	50	50
Innovation and sophistication factors	5	10	30

Source: WEF-GCR 2010-11: pg. 9.

In previous years, Vietnam's economy obtained a double achievement: it could both maintain reasonable economic growth rates and curb inflation rates at low levels. However, this did not occur in 2010. The inflation rate in the whole year 2010 was very high at 11.75 percent

"The high inflation rate has influenced people's lives, especially regular employees. This will be the big problem that we need to settle in 2011," Phuc said.

Paradoxes remain

In 2010, Vietnam still faced many problems. Inflation escalated (9.19 percent in the year and 11.75 percent from December 2009) while the world features very low inflation or deflation. Deposit and lending interest rates soared to record highs while the rates in the world were very low. USD prices continuously climbed while official rates were pegged. Imbalances were also serious problems against Vietnam. Deficit of payment balance was US$2.84 billion in the first six months of 2010; deficit of current account balance was US$3.87 billion in the six months; trade deficit was estimated to reach US$12 billion in 2010; and foreign exchange reserves dropped. If these imbalances persist or are resolved too slowly, Vietnam will surely face macroeconomic risks. A spiral appeared. A higher USD price led to trade deficit as well as foreign exchange reserve decline, forcing Vietnam to adjust exchange rates but the change was not enough. Then, the spiral continued to develop in a more negative way. Without an active exchange rate policy, Vietnam had to passively deal with this problem and risks accumulated.

Macroeconomic management in a transitional developing economy in the context of international volatility is not easy. It is necessary to conduct serious scientific research, analyses and objective assessments, and update all developments in order to launch appropriate macroeconomic management solutions.

Balancing imports-exports remains a difficult task

Vietnam is striving to reduce the trade deficit to 14 percent by 2015 and to obtain the payment balance in a few years. However, this proves to be a very difficult task, for many reasons.

It is understandable that trade deficit is unavoidable for developing economies like Vietnam. However, if Vietnam has to import products, it should be selective and import technology. It should choose to import products at best prices with most favourable commercial conditions.

Vietnam is now striving to reduce the trade deficit to 14 percent by 2015 and to reach the payment balance in a few years. Initially, Vietnam was aiming to balance the imports and exports by the early 2010s.

However, Vietnam still imports in large quantities. The import turnover and the trade gap in 2006-2010 are both much higher than that in 2001-2005. In 2009 and 2010, if not counting gold exports, the trade deficit would be much higher than the released figures.

The causes of the high trade deficit in the 2001-2005 still have not been eliminated,. Meanwhile, reducing trade deficit has become harder as Vietnam, under the WTO commitments, has to open its doors to foreign products. Therefore, experts have every reason to believe that balancing the imports and exports in the next few years is a difficult task.

10 big challenges

1. In previous years, when explaining the high trade deficit, Vietnam always said that it needed to make heavy investment in manufacturing to improve the production capacity, therefore, it had to import raw materials and equipment.

This is still true for the current period and the near future, as in the next five-year period, Vietnam needs to continue to make large investments for the development of modern technology, and so it will need to import more and more expensive high-tech production lines and equipment.

2. Experts pointed out that Vietnam's production will still be relying on imported raw materials until its supporting industries develop. Meanwhile, Vietnam has not made any considerable progress in this area. Currently, garment, footwear, automobile, electronic and mechanical engineering industries still rely on imported raw materials. This means that the bigger the production scale is, the more Vietnamese enterprises have to import to feed local production.

3. Vietnam-made products now have to compete with import products. And in the competition, Vietnamese enterprises do not have many advantages. They cannot rely on the cheap labour force any more. Meanwhile, the interest rates have been escalating, the local currency depreciates, while the administrative procedures remain too complicated. This means that import products are more competitive? in Vietnam's market.

4. While Vietnamese enterprises try hard to persuade Vietnamese people to buy Vietnamese products, import products have been welcomed warmly. Foreign enterprises come to Vietnam regularly to advertise their products, and attend trade fairs. Thai enterprises, for example, come once a year at least, even though Thai products have been flooding the domestic market already.

5. Sometimes the Government has to order the import of various products in order to stabilize the domestic market. For example, the Government once had to allow importing sugar in order to force the domestic prices down.

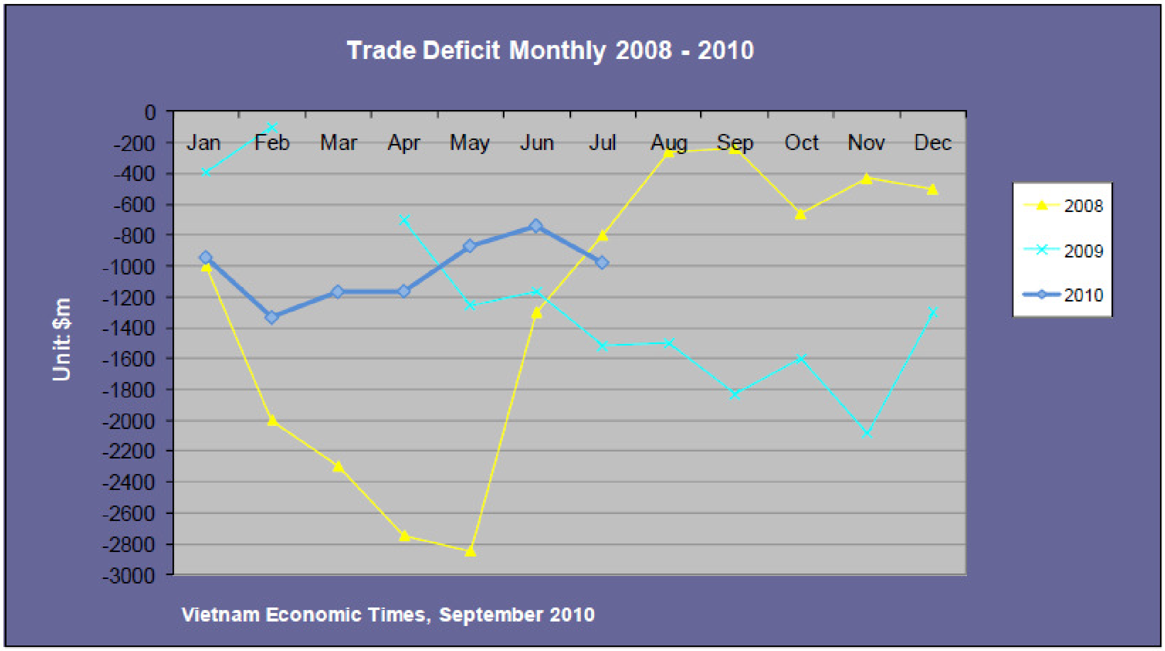
6. Foreign invested enterprises have been making "great contributions" to the high import turnover. Instead of importing parts? to assemble domestically, the enterprises now tend to import finished products to sell domestically.

7. Vietnam has been importing not only high-tech products which it is stil unable tomake domestically, but also many other kinds of products, including simple goods. The volume of carrots imported through Cat Lai port in HCM City in the first 10 months of 2010 increased by three folds in comparison with t the first 5 months. The toothpicks imports increased 12.5 times.

8. Vietnam has been importing from Asian countries more than it exports (the trade deficit with East Asian countries was $23 billion in the first 11 months of 2010). Meanwhile, in the trade relations with Europe and the US, Vietnam enjoys trade surplus. This means that Vietnam does not import high technologies from advanced economies, and it mostly imports backward technologies.

9. Vietnam has been trying to install technical barriers in order to control imports, but they still do nothelp. Experts have warned that Vietnam is becoming the dumping ground of the world's technologies.

10. Meanwhile, Vietnamese consumers still favour foreign made products, thus paving the way for foreign made products to flow into Vietnam.



Bright scenario for 2011

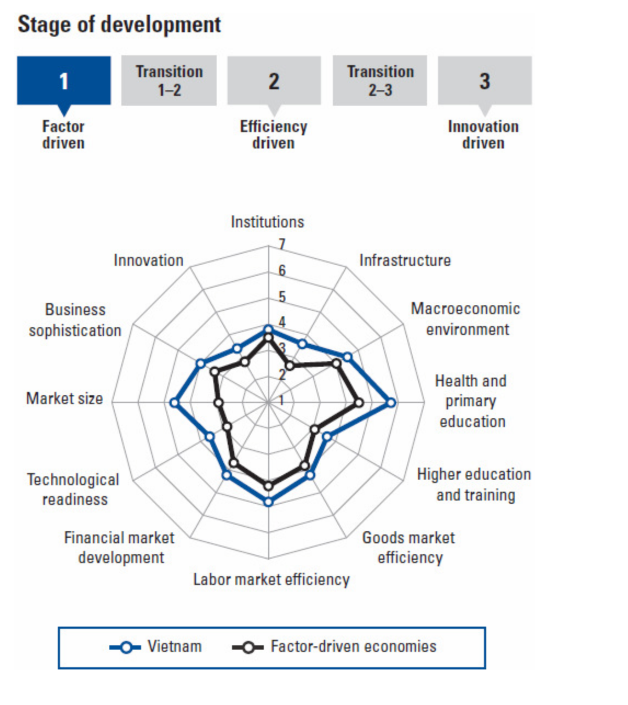
In a report submitted to the government in the monthly August 2010 meeting, the Ministry of Planning and Investment presented a bright growth scenario for 2011. Key economic sectors are expected to increase their contribution levels to overall growth. The additional value of agriculture, forestry and fisheries is expected to rise from 2.8 percent to 3 percent; the value of industry and construction is hoped to climb from 7.5 percent to 8.2 percent; and the value of service sector is forecast to grow from 8.2 percent to 8.5 percent (respective growths for 2010 were forecast at 2.6 percent, 7.6 percent and 7.5 percent). The USD/VND exchange rate is expected at 20,000. State Budget revenue was estimated to increase 16.7 percent over 2010 and equal 26.7 percent of the country's GDP. Budget deficit is hoped to stay at 5.5 percent of GDP. The economy's savings are falling, expected to sink from 30.4 percent of GDP in 2010 to 27.6 percent in 2011. Investment expenditures are weighing on the resilience of the economy. Foreign direct investment (FDI) capital is expected to increase 15.5 percent in 2011 to VND198.6 trillion (about US$20 billion), accounting for 21.4 percent of the total social investment capital. Businesses and high-income earners' payments to the state budget will rise. State-run companies are expected to pay 9.5 percent more to the state budget; and non-state enterprises and citizens will pay 37.9 percent more to about VND344 trillion. State credit for development investment will be raised nearly 18.2 percent from the estimation for 2010. Thus, the economic growth will still depend heavily on capital increment. Exports and imports are expected to expand only 10 percent or so. The trade gap is forecast to reach US$14.5 billion, or 19.6 percent of total exports, which is higher than the estimate in 2010. The current account balance is likely to incur a deficit of US$10.9 billion in 2011 because the deficit of trade will be about US$9.51 billion, the deficit of services will be US$1.75 billion, the deficit of investment income will be US$5.12 billion, and a money transfer surplus will be U$5.5 billion. This deficit is offset by a surplus in the capital balance of US$11.8 billion. Electricity demand in 2011 is expected to grow about 14 – 15 percent, or an equivalent of 97 billion kWh of commercial electricity. Power supply and import is estimated to reach 110.5 billion kWh. In 2011, the country will have an additional 4,585 MW of electric generators in 2011. The supply is susceptible to delay in power plant construction projects or unfavourable weather conditions.

However, it is noted that in 2011 and in the near future, Vietnam continues to face complex problems, both traditional and new ones arising from international regulations. It also faces requirements to deal with institutional bottlenecks, infrastructure and human resources.

The economy continues to have to solve problems of sustainable growth, slow economic restructuring and low investment efficiency. Especially, prices of many goods will increase rapidly because Vietnam plans to increase many commodity prices.

WEF-Global Competitive Report 2010-11: Vietnam

Source: WEF-GCR 2010-11: pg. 346



Global Competitiveness Index

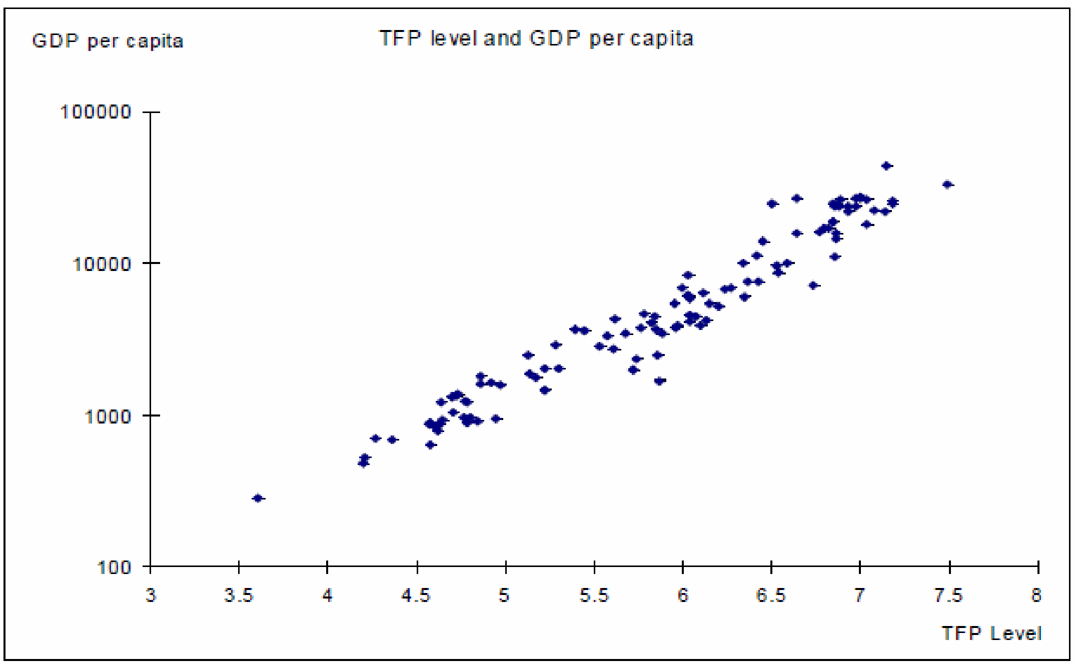
	Rank (out of 139)	Score (1–7)
GCI 2010–2011	**59**	**4.3**
GCI 2009–2010 (out of 133)	75	4.0
GCI 2008–2009 (out of 134)	70	4.1
Basic requirements	**74**	**4.4**
1st pillar: Institutions	74	3.8
2nd pillar: Infrastructure	83	3.6
3rd pillar: Macroeconomic environment	85	4.5
4th pillar: Health and primary education	64	5.7
Efficiency enhancers	**57**	**4.2**
5th pillar: Higher education and training	93	3.6
6th pillar: Goods market efficiency	60	4.2
7th pillar: Labor market efficiency	30	4.8
8th pillar: Financial market development	65	4.2
9th pillar: Technological readiness	65	3.6
10th pillar: Market size	35	4.6
Innovation and sophistication factors	**53**	**3.7**
11th pillar: Business sophistication	64	4.0
12th pillar: Innovation	49	3.4

To overcome these difficulties, capitalise on potential and achieve the important development indicators in 2011 approved by the lawmaking National Assembly like GDP growth of 7 – 7.5 percent, export growth of 10 percent, consumer price index (CPI) growth of 7 percent or lower, and forest coverage of 40 percent, Vietnam should work out the following tasks:

One, strengthening measures to stabilise prices and the market; reviewing mechanisms and policies to make appropriate adjustments and supplementations to promote production and trade, ensure supply/demand balance of essential commodities, end unlawful speculation and monopoly, mobilise all resources and cash in on opportunities to boost exports.

Second, accelerating economic restructuring; developing supporting industries, processing industries and high-tech agriculture; investing in economic and social infrastructure along with creating a favourable environment and encouraging investment in competitively advantageous sectors; applying advanced science and technology; developing labour-intensive sectors; increasing investments to develop key economic zones, creating economic growth momentum, as well as in far-lying areas to narrow the income gap among geographic regions; increasing investments to modernise educational, scientific and technological establishments; prioritising investments for poverty alleviation, job creation, healthcare facility construction, and other cultural and social fields; increasing investments for environmental pollution prevention, ecological environment protection; and ensuring sustainable development.

TFP level and GDP per capita



Perfecting mechanisms and policies to mobilise more domestic and foreign investment capital for infrastructure development; attracting investment capital from private and foreign enterprises to restructure production to boost efficiency and advantage of specific industries, regions and products; using advanced and modern equipment and technologies for industrial production with priority given to industries and products of competitive advantage. Particularly, Vietnam should restructure electricity to draw investment capital of all economic sectors.

Promoting the signing and disbursement of ODA capital, creating a more favourable environment to draw more FDI capital, supplementing, expanding and completing BOT, BT, BO and PPP investment regimes to boost investment for social and economic infrastructure construction; applying strict, proactive and flexible monetary policies; adjusting fiscal policies to cut off unreasonable spending and trim budget deficit.

Third, putting an end to pressing social problems, ensuring better social security and welfare; perfecting mechanisms and policies to widen the participation of the entire community in providing better public services; promoting proactive and effective prevention of and response to natural disasters to minimise human and property loss, particularly in regions suffering frequent flooding; developing human resources, especially high-level ones; standardising education; developing science and technology to improve hi-tech application; alleviating poverty; completing legal document system of environmental protection; rationally and effectively using natural resources; continuing dealing with environmental pollution; enhancing the awareness of environmental protection and environmental issues.

Fourth, renovating and improving public administration, administrative reform, thrift practicing, waste prevention, anti-corruption; completing and improving the quality of planning and development management to ensure smooth interconnectivity of regions; Reviewing and adjusting development plans for all sectors, with first priority given to imbalanced ones like energy (shortage), steel and cement (oversupply); Ensuring a balance of investment plans and capital availability and dealing with ineffective massive investment; restructuring public service, improving business environment, and enhancing competitiveness of companies; accelerating the reshuffle and privatisation of SOEs.

The six most impressive figures of Vietnam's economy in 2010

The year 2010 finished with the record numbers of garment and rice export turnovers and the number of foreign tourists as reviewed by Tuoi tre.

6.9 million tons of rice exported

According to the Ministry of Agriculture and Rural Development, Vietnam exported 6.88 million tons of rice in 2010, reaping $3.23 billion in turnover. The figures represent the 15.4 percent increase in quantity and 21.2 percent increase in export turnover in comparison with 2009. 2010 was also the year which had the highest volume of exports and highest export revenue so far.

However, the high export volume did not mean that farmers and export companies generated high profit. The rice price fluctuated so heavily in 2010 such that both enterprises and farmers suffered. The summer-autumn crop price dropped to 3000 dong per kilo, but farmers still had to sell rice because they did not have enough storage. When the rice price later surged to 6500 dong per kilo, they did not have more rice to sell.

Meanwhile, a lot of enterprises have also reported losses because they signed export contracts in mid-year at low prices ($300 per tone). However, when collecting rice from farmers to fulfill the export contracts, they had to pay high prices due to price increases.

$11 billion worth of garment exports

With an export revenue of $11 billion, garment has become the export item which has the highest export turnover among the 26 main export items of Vietnam.

According to Vu Duc Giang, Chair of the Vietnam Textile and Apparel Association, the sum of money that garment companies can pocket after paying for expenses has increased by 18 percent, reaching $4.5 billion.

Many garment companies made breakthroughs in seeking new export markets and have reported high profits. For example, Phong Phu International Company, reported an impressive growth rate of 248 percent in 2010, while Viet Tien Corporation had the leading export turnover of over $200 million.

To date, many garment companies have received orders that will bring enough jobs until the third and fourth quarters of 2011. Vietnam strives to see the growth rate of 10-15 percent in 2011.

5 million foreign tourists

For the first time Vietnam has received a record high number of foreign tourists in 2010 – 5 million tourists, an increase of 1.2 million compared to 2009. The revenue from tourism in 2010 is estimated to reach 96 trillion dong, up by 37 percent over 2009.

General Director of the Vietnam Tourism Administration of Tourism Nguyen Van Tuan believes that the number of foreign tourists will be higher in 2011 than in 2010. However, he thinks that the growth rate would not be as high as in 2010 for three reasons. First, Vietnam will not have big events in 2011 like it did in 2010. Second, Northeastern Asia, a potential market of Vietnam, shows latent political uncertainties. And third, in 2011, Vietnam will focus on heightening the quality and efficiency of tourism, while trying to improve service professionalism.

228 trillion dong poured into real estate

Though the real estate market was gloomy in 2010, outstanding loans to fund real estate trading deals in 2010 still increased by 23.5 percent over 2009, reaching 228 trillion dong, according to the State Bank of Vietnam.

Several new real estate projects were kicked off in 2010. Meanwhile, due to lack of capital; many real estate developers have been relying on bank loans to develop the projects. Moreover, real estate developers could not put high hopes on the stock market, which was very quiet in 2010.

Top 10 stock millionaires hold 48,400 billion dong worth of stocks

Pham Nhat Vuong has been recognized as the richest stock millionaire with the total stock assets of 16 trillion dong. Vuong is the Chair of Vingroup. The second position is being held by Doan Nguyen Duc, Chair of Hoang Anh Gia Lai Group with assets worth 11 trillion dong.

The 10 richest stock millionaires in Vietnam are holding total assets worth 48,400 billion dong.

$11 billion was the FDI capital disbursement

The Foreign Investment Agency has announced an impressive figure of foreign direct investment (FDI) investment – $11 billion.

This has been described as a breakthrough in Vietnam's FDI attraction. In previous years, the volume of FDI registered capital was always higher than the disbursed capital.

At the same time, some FDI super projects had their licenses revoked due to the investors' tardiness in implementing projects

The 7 most impactful economic events in 2010

In 2010, the ups and downs in the gold, foreign currency and real estate markets made a lot of people suffer. VnMedia reviews the most important economic events which may continue having impacts in the next year.

1. *The interest rate race*

The year 2010 witnesses an interest rate war triggered by commercial banks which negatively influenced the goods market.

Right at the beginning of 2010, the Government requested commercial banks to lower the interest rate to 12 percent per annum. However, banks still raised them in order to attract more capital. The deposit interest rate reached 18 percent at its peak.

The monetary market has only cooled down after the State Bank of Vietnam recently announced it will take drastic measures to curb the interest rate increases. As the result, banks have committed not to mobilize capital at the interest rate of higher than 14 percent per annum.

2. The gold and foreign currency market chaotic

The year 2010 witnessed the gold price reaching the record high.

On November 9, 2010, the market saw the gold price skyrocketing, and the record high of 38 million dong per tael was reached after the gold climbed to $1400 per ounce.

In order to cool down the market, the State Bank of Vietnam then allowed enterprises to import gold. The import tariff reduction from one percent to zero percent and the export tariff increase from 0.5 percent to one percent both helped bring the gold price to the its actual value.

Experts believe that the gold price was chaotic because of speculations. In 2010 alone, gold traders would earn the profit of 33 percent thanks to the gold price increases.

In 2020, the State Bank of Vietnam unexpectedly adjusted the exchange rate twice.

3. The inflation rate sky high at 11.75 percent

Despite the great efforts by the Government to curb the inflation and the pledge by Government's agencies to restrain the inflation rate at one-digit level, the actual consumer price index still climbed to 11.75 percent.

The inflation rate has far exceeded the 8 percent level set by the National Assembly. The rate is also higher than that predicted by international institutions. The World Bank predicted the inflation rate of 10.5 percent for Vietnam, while ADB 10 percent.

4. The ups and downs on the stock market

Unlike gold investors, securities investors have incurred the loss of 18 percent this year. At the beginning of the year, analysts said that stock investments would bring the highest profit this year. However, the prediction has turned out incorrect.

5. Real estate prices followed gold prices and urban planning

Real estate prices increased sharply in 2010 by 30-100 percent. The sector in Hanoi has been considered as relatively attractive to investors.

A land price fever occurred in mid 2010, after it was said that Ba Vi area would become the new administration center of Hanoi. Hundreds of people rushed to hunt for the land plots in Ba Vi area, thus pushing the land price in the area increase by tens of percent.

6. 60 percent of FIEs report loss

By December 21, 2010, the total investment capital of foreign invested projects had reached \$18.595 billion, a decrease of 17.8 percent, or \$4 billion in comparison with 2009.

The noteworthy thing is that 60 percent of foreign invested enterprises (FIEs) have reported losses. This has raised doubts about the honesty of the enterprises because

They have still been expanding business and trying to purchase the stakes from Vietnamese partners

7. Vinashin on the verge of bankruptcy

In the last four years, since the day Vinashin began operating as an economic group, it had incurred the loss of 80 trillion dong, or \$4.2 billion, or four percent of 2009's GDP.

The Government is making efforts to rescue the group.