

# Vietnam

Current State of the Commercial Real Estate Markets



## Salient Facts

- **Population:** 87 Million
- **Population Growth Rate:** 1.2%
- **Median Age:** 26 years (70% of the population is under 30 years)
- **Physical Size:** 127,243 square miles (equivalent in size to Ohio, Kentucky and Tennessee combined.)
- **Total Government Debt:** USD \$21.8 Billion
- **Gross Domestic Product (GDP):** USD \$84.5 Billion (2008)
- **GDP Per Capita:** USD \$2,900
- **GDP Growth Rate:** 6.4% 2010 projected, peak 8.0% 2008, 6.5% 2009
- **Foreign Direct Investment (FDI) Trend:** USD \$20.3 Billion, 2008; USD \$64 billion.
- **Market Value of Public Companies:** USD \$94 Billion
- **Capital:** Hanoi (6.45 Million population)
- **Financial Center:** Ho Chi Minh City (Saigon, 7.12 Million population)
- **Currency:** Dong (VND)
- **Employment:** 47.88 Million (11th largest work force in world)
- **Unemployment Rate:** 6.5% (ranked 63 in world)
- **US Imports** USD \$ 2.8 Billion
- **Exports to US** USD \$12.9 Billion
- **Trade Surplus with US** USD \$ 9.9 Billion
- **Primary Export Trade Partners:** US 21.2%, Japan 12.3%, Australia 9.4%, China 5.7%
- **Primary Import Trade Partners:** China 17.7%, Singapore 12.9%, Taiwan 11.5%, Japan 9.8%, South Korea 8.4%



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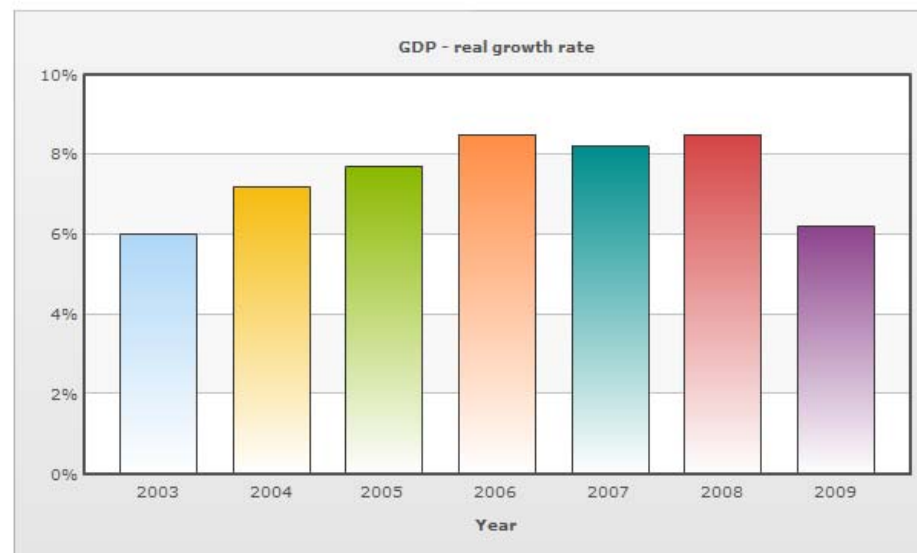
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# OVERVIEW OF THE VIETNAMESE ECONOMY

## OVERVIEW OF THE VIETNAMESE ECONOMY

Vietnam, located in Southeast Asia, has a land size of approximately 127,243 square miles with a population of over 87 million people. The population is growing annually at approximately 1.2%, 70% of which is under 30 years of age. The 2009 Gross Domestic Product (GDP) exceeds USD \$84.5 Billion. Vietnam's economy has grown spectacularly, expanding at an average rate of 7.5% per year over the past decade. Pledged foreign direct investment ("FDI") into Vietnam reached USD \$64 billion in 2008, more than three times the USD \$20.3 billion FDI registered in 2007. Actual disbursed capital came to approximately USD \$11.5 billion, up 43.2% compared to 2007. In 2008, the economy peaked with an 8.0% annual growth rate as the global economy remained in expansion before the capital market implosion. Still, the economy maintained over a 6.0% GDP growth rate for 2009. It is anticipated that the growth rate will remain at 6.0% or slightly higher in 2010 as the global economy commences a slow recovery. With China as its major trading partner, Vietnam should continue to grow its economy linked to the rapid and ever growing Chinese economy. See GDP growth rate chart to the right.



As an emerging new Asian Tiger with growing GDP at approximately 7% compounded annually, local inflation rates varied from 8% to 14% per annum. However, with the global meltdown in late 2008, inflation receded and pricing slowed down especially in the housing markets. Despite the risks of inflation, Vietnam is 10 years to 15 years behind comparable global pricing cost models (30% plus discounts to comparable Asian cities). Much upside remains in the Vietnamese economy over the course of the next decade.

Vietnam has been following the Chinese development model (but a decade behind) which enjoys high growth rates. This model has increased the wealth factor exponentially for the fast growing Vietnamese middle class. Like the Chinese model and after its induction to World Trade Organization ("WTO") in 2007, Vietnam has embraced a market economy promoting open free trade, free market approach while retaining a strong centralized controlled economy. Vietnam's has a nascent newly formed stock markets allowing local Vietnamese to invest in major Vietnamese industries. Vietnam has been successful in the privatization of government-owned companies holding assets in the public utilities, infrastructure, transportation, real estate, and the telecommunications industries. The Vietnamese government (the "Government") still maintains holdings in these companies but now have benchmarks for performance standards. Regardless, State owned-enterprises still account for approximately 40% of GDP. The Government is rapidly westernizing their economy to make it competitive in southeast Asia. The Government is opening many new industries to FDI especially commercial real estate ("CRE"). After normalizing relations with the US in 1995, the 1990's DOI MOI reforms, Vietnam's entry into the WTO in 2007, Vietnam now has greater transparency and opportunity for FDI. The Government continues to lax financial controls allowing easier access to global capital markets and the free flow of capital in and out of the country by foreign investors. A tax reform package that reduces rates for both individuals and corporations has been implemented. Vietnam retains a strong USD \$9.9 Billion trade surplus with the United States.

## RECENT COMMERCIAL REAL ESTATE PROGRESS IN VIETNAM

## Recent Commercial Real Estate Progress in Vietnam

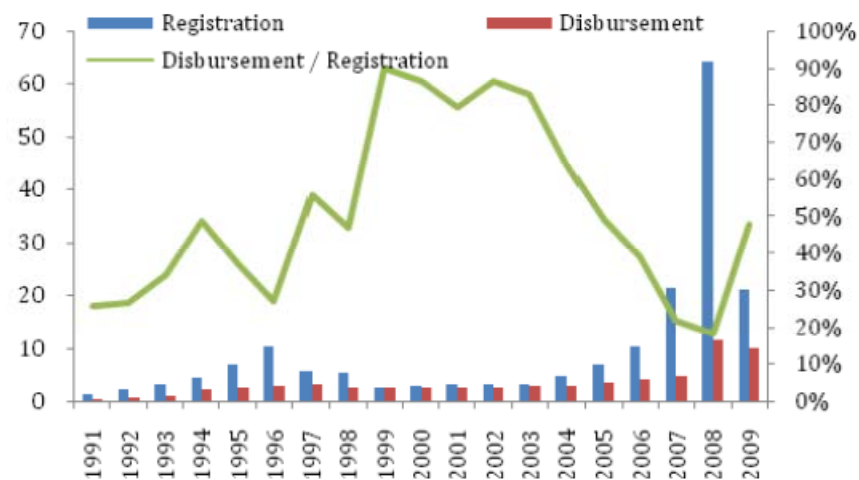
Vietnam has made remarkable economic progress in the last 15 years. It continues to be one of the fastest growing economies in the world, attracting strong FDI in the commercial real estate (“CRE”) sector. After the recession of late 2008 and 2009, the real estate market in Vietnam is now showing signs of recovery. Also, recent changes in Government policies have been paving the way for recovery. The Government is applying its effort into an appropriate legal foundation so FDI investors can easily access or exit the country's real estate market while also allowing for the establishment of a stable and predictable environment to develop the sector. Though private property rights and laws exist to protect both foreign and domestic real estate owners, the Government still controls and owns the land under all major CRE sites and developments. Typically, the Government provides fifty (50) year leaseholds for developments and may co-invest in the opportunities.

Similar to China, a large middle class is emerging in urban markets seeking higher quality housing. As the country continues to trend from rural outlying areas towards urbanization, pricing in urban markets will continue to increase with demand. Mini cities and planned high-rise communities are sprouting up around all the major cities filling immediate demand. Housing prices doubled in 2008 from 2007 and propelled speculation in the middle class housing markets throughout the country. Despite a slight bubble “burst”, the prospects for Vietnam over the next decade are promising. The demand exceeds 7 million new home starts to fulfill existing demand (assuming no new entrants to the markets). Assuming average middle class housing costing approximately USD \$80,000 per unit, the total driving demand exceeds USD \$560 billion in the next decade. Class A office/retail space is less than 5% of all CRE available in Vietnam showing high demand and with very little near-term supply. The hospitality market is equally underserved, especially for 4 star and 5 star hotels in Hanoi and Saigon (HCMC) except in certain resort areas where thousands of rooms are under construction in such places as Danang (China Beach). Each market segment and each locale has certain challenges but the CRE opportunities to invest on a “ground-floor basis” of one of the fastest growing economies in the world far outweigh such considerations. Certainly, location and the quality of assets developed will determine long term appreciation.

## Foreign Direct Investment

FDI into Vietnamese real estate is growing. In 2008, there were nearly 300 projects totaling USD \$23.6 billion, which accounted for 36.8% of total FDI. Disbursed FDI reached USD \$11.5 billion in 2008, up by 43.2% from 2007. Malaysia topped the list of investor countries in 2008, followed by Taiwan, Japan, Singapore and Brunei, according to the Ministry of Planning and Investment (“MPI”). The MPI reports that foreign-invested enterprises posted total revenues of USD \$50.55 billion in 2008, up by 24.4% from 2007, despite economic difficulties during 2008. The revenue figure included USD \$24.46 billion in exports, which accounted for 40% of Vietnam's total export turnover in 2008. In December 2008, 54% of newly registered capital in 2008 was for the industrial and construction sector; 45.4%, for the services sector; and 0.6%, for the agricultural, forestry and fisheries sectors. Japan is Vietnam’s main foreign direct investor. Vietnam has become the first choice for Japanese firms that have an operation in China and want to shift their investment to a third country. Other big investors are Singapore, Taiwan, South Korea, and Hong Kong. Big non-Asian investors include the Netherlands, France, the United States, and the United Kingdom.

### Yearly FDI



## Drivers of CRE Growth in Vietnam

According to the Foreign Investment Department under the Government's Ministry of Planning and Investment, the first four months of 2009 saw 91% of the USD \$6.36 billion FDI inflow into Vietnam heading for the CRE sector.

The driving forces behind the CRE valuation growth in Vietnam include:

- Consistent 7% plus GDP growth
- Increased standard of living and **rapid urbanization** from rural areas following the Chinese model
- Rapidly growing middle class
- Strong growth in tourism
- Strong infrastructure development
- Trade surpluses
- Growing export platform
- Current lack of supply of quality housing, hotels and office space
- Availability of financing remains difficult, many cash buyers
- Young population looking to purchase their first home

In the 4<sup>th</sup> quarter of 2009, the Vietnamese CRE showed vast signs of improvement. Future upside is more apparent with improving global sentiment and Vietnam's bottomed out inflation resulting from the 2009 cooling down of its local real estate markets. Long term prospects are excellent with a strong growing middle class and accommodating liberalization by the Government to encourage FDI and local investors into the marketplace.

The Government has gradually liberalized the property sector for both foreign buyers and developers, while introducing temporary economic stimulus for local investors. Sentiment continues to improve with more residential launches in 2010. While buyers, mainly cash-rich locals, are still looking for bargains, buyers are upgrading while first time home buyers dominant "B" and "C" properties. Currently, the most popular residential segments are affordable housing for middle class buyers seeking the value or "bargains."

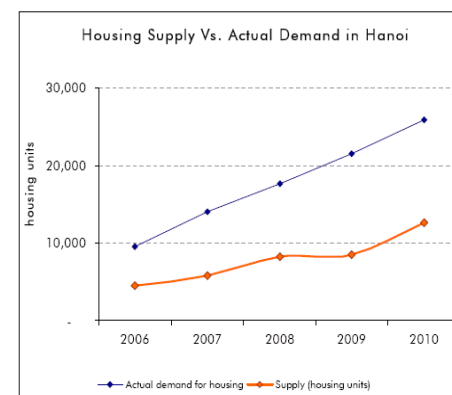
Eligibility residential period for a foreigner, or "Viet Kieu," to acquire one apartment unit reduced to 3 months, from 6 months. Recent amendments to its housing and land laws (Article 121, 12 6) went into effective in September 2009. Usage is limited to families and personal use. However, eligible foreigners now have the right to sell, gift, receive compensation on, and mortgage property. This is a dramatic positive shift to opening the markets for FDI to invest in CRE opportunities.



## Hanoi's Residential Housing Market

Saturation in the Southeast Asian markets makes Vietnam a lucrative option with its rapid urbanization. The demand for housing far exceeds supply by a ten to one ratio (10:1). Product remains unavailable, but demand still has slowed down from peak values in 2008. Excess capital permeates the housing landscape but velocity has slowed as pricing has only increased on an annualized rate at 25% per annum versus doubling in 2008 and increasing over 30% in 2009. With inflation at 10%, the value proposition remains positive but investing in the general economy with a 7% plus annual GDP growth rate may have similar appeal. Notwithstanding alternative investments, CRE will continue to draw great interest for longer term holders for appreciation purposes. While the Vietnamese housing market went through a down cycle in 2009 compared to 2008 (mainly caused by the worldwide capital implosion), apartments for lease maintained a low vacancy rate at 11% while the average rent increased about 4% to USD \$29.7 per square meter (10.5 sf to the meter) per month. Prices may fluctuate throughout 2010, the overall outlook is positive. Some economists are even predicting a mini-boom towards the end of 2010. The chart to the right shows demand far outstripping supply in Hanoi.

## HANOI RESIDENTIAL MARKET



### Market outlook:

- ✓ Strong sales outlook for quality projects
- ✓ Growing demand
- ✓ Purchase finance
- ✓ Infrastructure improvement

## Hanoi's Office Market

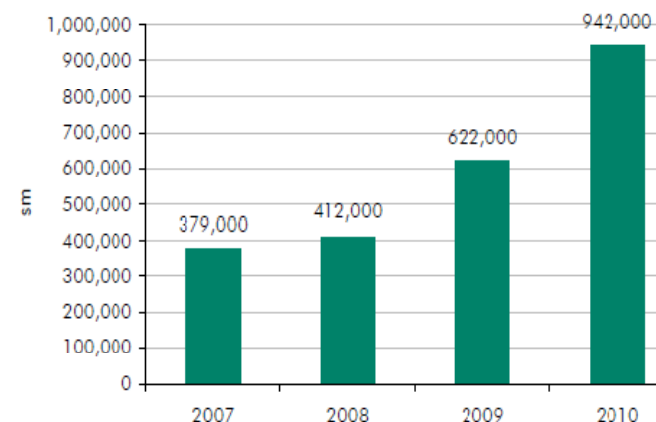
As the nation's political capital and second largest city after Saigon, Hanoi is one of the key sites of the Vietnamese urban transition. Vietnamese political leaders acknowledge the fact that the growth of Hanoi is crucial to the shift from agriculture to manufacturing, higher order services, and a means to improve the material well-being of the national population.

Hanoi's office market emerged during the early 1990s, when the country opened its doors for the first time to FDI. The market has performed well during the last four years while making it through the global recession in 2008 and 2009. The average asking rents of Grade A and B in 4<sup>th</sup> quarter 2009 have decreased slightly in comparison with the previous quarter and stand at USD \$42.5 and USD \$25 per square meter per month including service charge and excluding VAT, respectively.

During the third quarter of 2009, occupancy rates in Class A and B office properties reached 100%. The newest Class A buildings, "Pacific Place" and "Opera Business Centre" were fully occupied, while the only new supply to be put on the market was the 6,000 square meters of class B office space in "The Manor."

Supply is expected to remain limited in the near future. There was close to 39,000 square meters (450,000 sf) of new Class B office space in the fourth quarter of 2009 with projects including "Kinh Do" building, "Viet Towers" and "Sun City" coming into the market. However, no new Class A buildings are scheduled for completion until 2010. A new rule forbidding the use of apartments as offices released recently by the Ministry of Construction will stir more construction of office space. As a result, the Class C office buildings that are likely to increase their rents.

## Hanoi Office Market - 2007 to 2010



## Saigon (HCMC) Residential Housing Market

Traditionally, Saigon is a much stronger market than Hanoi. Growth in Saigon continues to match demand more closely with many new developments on line. Developers would like to see greater Government stimulus to directly affect the property markets beyond the existing short-term interest rate subsidy program.

The residential sector remains attractive resulting from latent demand driven by the rising income of a growing middle class. The young profile, with a median age of 27, is driven to get married and purchase their own home.

It is estimated that demand remains for over 60 million square meters (700 million square feet) of urban residential space-almost doubling the current stock. With prices ranging from USD \$900 per square meter (USD \$90 psf) in the mass market and USD \$1,200 (USD \$120 psf) in the luxury sector, there is still no shortage of purchasers. With few new projects under way, the increase in prices is more apt to remain stable.



### New Residential Development in Saigon

Almost fifty (50) new development projects are expected to be announced in Vietnam at the beginning of 2010. Most are centered on the financial capital, Saigon, and it is a sign that the country is poised to be a real force in the emerging real estate sector in the next year.

Looking back on the market development in the fourth quarter of 2009, about 90% of residential properties are priced under USD \$2,000 per square meter (USD \$190 per square foot) and two thirds are priced under USD \$1,500 per square metre (USD \$140 per square foot). Experts predict that in 2010, housing demand will continue to rise but the price increases will decrease over time. Around 6,300 apartments were sold in the primary market in Saigon in the first three quarters of 2009. Greatest activity in the low to mid-end categories where there remains significant undersupply.

Class C apartments are mainly developed by local developers and the supply on the market could be a result of the ability of local developers to tap the low-cost financing supported by the Government. This low and mid-end product is aimed at end-users, with less speculation.

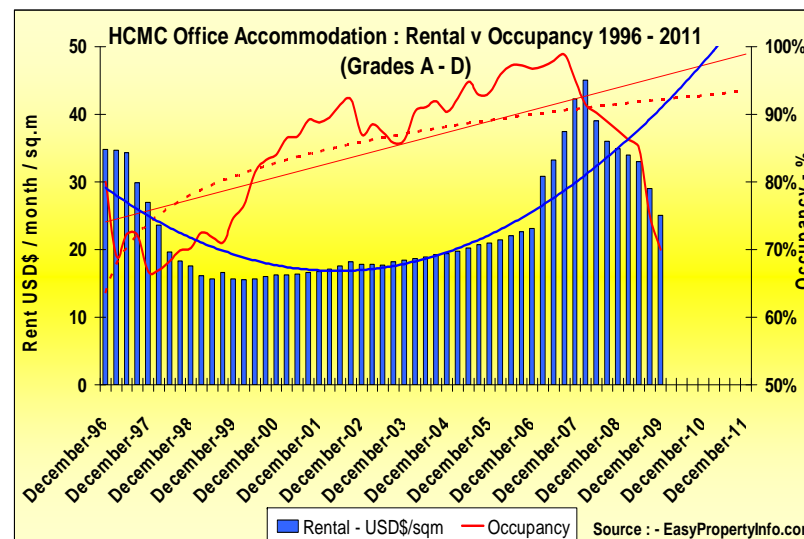
Vietnam Real Estate Company (VietRees), a property market research company, stated that low and mid-end residential condos are now the strongest growing market segment. Regardless of a greater supply of new housing stock, the new housing stock has yet to meet market demand. There will be nine projects with around 4,700 apartments launched and built in the next 6 months. The new supply will be mainly Class B apartments for the middle class and newlyweds. This trend should continue throughout 2010. The property market closed the year 2009 with impressive ups and downs. This is regarded as a stepping stone for the property market in 2010 to make breakthroughs. In early 2010, the market has attracted the attention of many investors by a number of provisions starting to take effect.

## Saigon's Office Market

During the past 3 years, Saigon's office market has sustained a strong performance, supported by an increasingly hospitable business environment and domestic enterprise expansion, high GDP growth and increasing international trade and investment integration, as evidenced by high levels of FDI inflows and WTO accession. The boom market of 2007 and early 2008 were characterized by tight supply and skyrocketing rents. Saigon average rents exceeded those achieved in many of Asia's more mature office markets.

Presently, Saigon has approximately 92 prime office buildings with approximately 555,600 square meters (6 million square feet) of space.

Over the past 5 years, demand has outpaced supply, with this dynamic reflected in consistently climbing rents. As of the third quarter of 2008, the average rent across all Saigon office classes was about USUSD \$43 per square meter per month.



The average office rent in Saigon, especially in prime locations, is still much higher than regional cities like Bangkok at USD \$24, Jakarta at USD \$9, Seoul at USD \$22, and Beijing at USD \$30.

Recently, though rents have fallen by 30%-50%, the rents still command approximately USD \$70 per square meter or USD \$6 psf per month (USD \$72 psf per year). This is as high as other major global cities. However, demand for Class A space still overshadows supply by a ratio of three to one (3:1).

The total supply of office space in Saigon in 2011 is set to grow more than 120% compared to the end of 2008 (910,000 square meter) and rental rates are falling, according to some sources. Main growth areas for new office buildings in Saigon are in suburban areas such as District 7, Binh Thanh and Tan Binh.

The long-term outlook for the office sector in Saigon is very positive as Vietnam will remain competitive on a regional and international level. Over the medium-term, all property markets in Vietnam will probably encounter varying degrees of volatility as a result of the global downturn, which will have an impact on trade and investment flows in what is an increasingly open economy. When global conditions improve, Vietnam may find itself well positioned to capture rebounding demand for property of all types, most notably office products.

The office sector also provides opportunities for select investments. Saigon has some of the highest occupancies and rental rates in Asia. The market is in its infancy with significant demand and substantial room for growth. Compared to larger cities in Asia, the office market in Saigon is at a nascent stage. Asian cities such as Bangkok have a modern office stock of 200 square meters (2,100 square feet) per population of 1,000 while Saigon has the lowest at 12 square meters (130 square feet) per population of 1,000. Total Class A office supply of 150,000 square meters (1,600,000 square feet) in both Saigon and Hanoi represents one tenth that of Bangkok or Manila. At the same time, demand is growing rapidly as new companies enter the market while international companies are expanding and demanding better services, building features, and Class A amenities.

## Retail Markets

Vietnam started to open up its retail market in 2007 and fully opened it in 2009 pursuant to WTO commitments. In 2008, Vietnam was ranked as a more attractive retail marketplace than India or China. See chart to the right.

In 2010 no new foreign retailers were licensed in Vietnam. The market witnessed only local and foreign retailers who had been licensed to invest in Vietnam years ago, including Big C, Parkson and Lotte. As of 2008, Vietnam had 8,300 traditional markets and over 400 supermarkets and shopping malls compared to 10 supermarkets and 2 shopping malls in 1995. Modern retail channels have recently accounted for 18%-22% of the retail market.

Executive Chairman of Retail Asia said retailing is a significant part of the economy and is driven by the economy's expansion.

Vietnam's high GDP growth is a tremendous driver of the retail industry. Vietnamese consumers are also progressing in their lifestyle and in what we call the middle-class consumer population, particularly in urban areas. However, there are a lot of challenges for retailing in the immediate future, relating to infrastructure, retail management, operation, skills and application of information technology. Management skill is one of the key challenges because it is going to drive how fast, broad and deep the growth of the industry is going to be. Vietnam will be able to leapfrog and achieve what Singapore, Hong Kong, Malaysia, and Thailand have accomplished in a much shorter time if the country learns from their experiences.

With growth in the retail market and business outside agriculture, there is an increased need for commercial office space. There are now 6 Class A and 31 Class B buildings in Saigon with a combined rentable area of about 475,000 square meters, but this could double in the next 3 years.

Average rents in 2007 were USD \$40-50 per square meter for Class a, USD \$30 per square meter for Grade B and from USD \$20 per square meter for Class C plus 10% VAT service charge (which can range from USD \$3-6 per square meter).

Most transactions in 2009 have been made by existing tenants capitalizing on the falling rentals with very few newcomers to the market. Inquires are predominately for spaces from 100-300 per square meter. Vacancies are fast approaching 30% due to large amount of new stock. Only 12 months ago they were negligible.

Top 10 world's most attractive retail markets 2008						
2008 Rank	Country	Market Attractiveness	Country Risk	Market Saturation	Time Pressure	GRDI Score
		%	%	%	%	
1	Vietnam	34	57	67	99	88
2	India	39	29	78	93	80
3	Russia	52	31	50	90	72
4	China	50	36	45	82	67
5	Egypt	34	22	90	64	66
6	Morocco	36	26	80	68	66
7	Saudi Arabia	40	49	63	50	62
8	Chile	52	44	45	58	60
9	Brazil	60	23	60	54	60
10	Turkey	53	20	59	64	58

- Brand names / Flagship stores / Hypermarkets keen to enter market
- Existing retailers eager to expand
- Luxury brands



## Hospitality Markets

The lack of hospitality infrastructure and low inventories makes investments in Vietnamese hotels a great opportunity. Hotel rooms in Vietnam’s major cities still do not meet consumer demand, causing the price of such hotel rooms to be more expensive than those in other cities in Southeast Asia. The room rates at a 5 star hotel in Saigon is approximately USD \$200 per night on average compared to only USD \$120 for that same room in the other Southeast Asian cities. Very few 5 star rooms are available in Saigon and Hanoi with thousands of rooms being developed in the resort markets, but still not yet online. Vietnam enjoys over 1,800 miles of beach front property on the South China Sea.

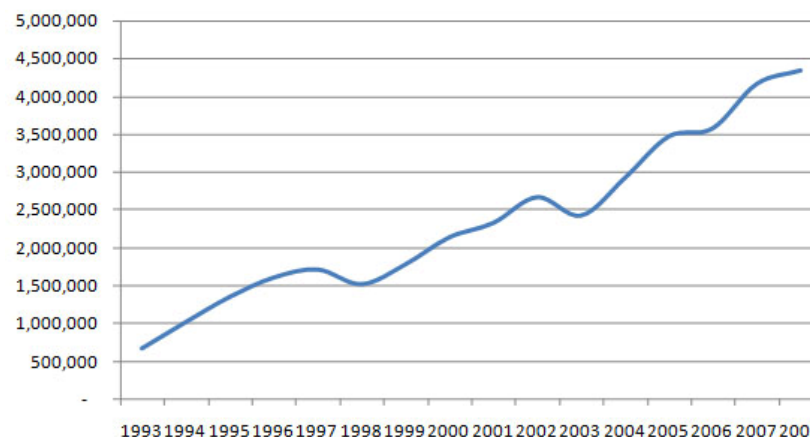
The number of tourists visiting Vietnam in 2010 is expected to reach 6.5 million, up from 6 million the previous year. The number of domestic tourists is expected to rise as well. The increase in tourism is creating a demand for new hotel developments, such as budget hotels, resorts, hotels in industrial parks and building conversions.

According to CB Richard Ellis (CBRE Vietnam), from now until 2020, the demand for rooms will stay high, while the supply will continue to be limited. As of January 2010, there were only 5,000 standard 3-5 star rooms, and 6,300 1-2 star rooms. Meanwhile, according to CBRE surveys, the demand for 3-5 stars rooms in 2020 will be 11,100, and the demand for 1-2 star rooms will be more than 20,000. Even with these additions, the occupation rate will continue to be higher than 80%. Since the beginning of 2010, there have been **260 foreign investment projects in tourism**. FDI for hotel construction and the overall business of tourism was over USD \$12 Billion, making up more than 10% of the total registered capital FDI.

Average room rates have increased 2.5 times from 2005 to 2008 and the occupation rate stayed stable at more than 70%. There was a decrease in the occupation rate in 2008 due to the global crisis, but in 2009 occupancy rose again, and is forecasted to stay high at more than 80% in the future. CBRE forecasted that the supply of hotel rooms in the next 5 years will be inadequate, especially the high-standard hotel.

Vietnam has been a magnet for backpackers and adventurous travelers for some time. In recent years, mainstream tourists visit the country as beach resorts are expanding and marketing of the country as a safe, affordable and exotic destination. Vietnam boasts approximately 3,400 km of coast (1,800 miles), consisting mostly of sandy beaches. Tourism revenue reached roughly USD \$3 billion or 5% of GDP in 2006. Growth in tourist arrivals has been in double digits in the last decade, from only 1.3 million people in 1995 to 3.6 million in 2006. Compared to other Asian countries, this is still paltry pointing towards significant future growth potential once more skilled personnel are available. Since the opening of its economy to the world markets in the 1990s, Vietnam's travel and tourism sector has experienced unprecedented growth. In 2008 the tourism industry generated more than USD \$4 billion in tourism receipts indicating the importance of the tourism industry in Vietnam's economy. Vietnam is working toward becoming a destination market the tourism industry has doubled GDP in recent years.

**Vietnam Visitor Numbers**



## Popularity of Vietnam for Tourism

Vietnam is one of the most popular tourist destinations in the Asia-Pacific region. Recently, the World Travel and Tourism Council (WTTTC) named Vietnam the world's fourth fastest-growing tourist destination. In 2009, Vietnam recorded 6 million foreign visitor arrivals and anticipates a 10% growth rate to 6.5 million visitors in 2010. Total outbound tourists from Vietnam also achieved an all-time record high in 2008. Over 65% of Vietnam's visitors are from Asian countries, followed by 15% from Europe and 13% from North America. Top countries by number of visitors in Asia include China, South Korea, Taiwan, and Japan, followed by other Southeast Asian countries such as Thailand, Malaysia, Singapore and Cambodia. Amongst Western countries the largest source of visitors was the United States with 350,000 visitors, followed by Australia and France with between 150,000 and 200,000 visitors per year. The United Kingdom, Germany and Canada were trailing between 70,000-90,000 visitors per year.

The future of Vietnamese tourism is only going to improve with the infrastructure itself. With over 3,000 kilometers of coastline (1,800 miles), including 125 beaches, the entire coastline is ripe for development.

Vietnam is also home to many world famous natural landscapes and valuable cultural relics. If these advantages are fully tapped, Vietnam can build a tourism property market meeting international standards. Vietnam will catch up with regional countries in tourism property development.

The Vietnamese tourism property market became operational with a series of projects nationwide, particularly in the central region, which is home to many beautiful beaches ranging from Quang Binh to Ninh Thuan. In 2010 Vietnam should see strong development of tourism property sector and should work out a synchronous development strategy for tourism property. Also, the country should set up a simple management policy and remove complicated administrative procedures to offer more investment incentives.



## RECENT DEVELOPMENTS OF THE VIETNAMESE ECONOMY

**RECENT DEVELOPMENTS OF THE VIETNAMESE ECONOMY**

Following economic stagnation after reunification from 1975 to 1985, the 1986 Sixth Party Congress approved broad economic reforms (known as "Doi Moi" or "renovation") that introduced market reforms, opened up the country for FDI and dramatically improved Vietnam's business climate.

	2007A	2008A	2009F	2010F	2011F	2012F
<b>GDP growth (%)</b>	8.5	6.2	4.9	6.7	7.2	7.0
<b>Inflation (%)</b>	8.3	22.0	7.1	8.9	8.5	8.0
<b>USD-VND (year-end)</b>	16,002	17,485	18,200	18,500	18,200	18,000
<b>Base rate (% year-end)</b>	8.25	8.50	7.00	9.00	9.50	9.00

By 2004, Vietnam became one of the fastest growing economies in the world, averaging around 8% annual GDP growth from 1990 to 1997 and 6.5% from 1998-2003. From 2004 to 2007, GDP grew over 8% annually, slowing slightly to 6% in 2009. Viewed over time, foreign trade and FDI have improved significantly. Average annual foreign investment commitment has risen sharply since foreign investment was authorized in 1988, although the global economic crisis has affected FDI in 2009. As of August 2009, registered FDI (including new and additional capital) was USD \$10.4 billion, a fall of about 82% from the same period in 2008. Disbursed FDI capital totaled USD \$6.5 billion by August 2009, down 8.5% from the same period in 2008. In 2008, registered FDI was USD \$71.7 billion and actual FDI USD \$11.5 billion.

Agricultural production nearly doubled, transforming Vietnam from a net food importer to the world's second largest exporter of rice. As of August 2009, Vietnam's exports (USD \$37.3 billion) were down by 14% a much lower drop than had been expected. Vietnam's imports (USD \$42.4 billion) were down by 28% from 2008 with Vietnam still running a USD \$5 billion trade deficit as it imports finished capital products to manufacture finished goods. Vietnam is rapidly becoming an export platform drawn by cheap real estate, low wages, industrious and hard working laborers, and easy access to other Asian markets. The shift away from a centrally planned economy to a more market-oriented economic model has improved the quality of life for many Vietnamese. Per-capita income rose from USD \$220 in 1994 to USD \$1,024 by 2008. Inflation in 2008 was 23% but most estimates predict inflation will be restrained to less than 7% for 2009. The average Vietnamese savings rate is about 30% with urban unemployment rising. In recent years, and both urban and rural underemployment, estimated to be between 25% and 35% during non-harvest periods, is significant. This provides a ready and ample work force.

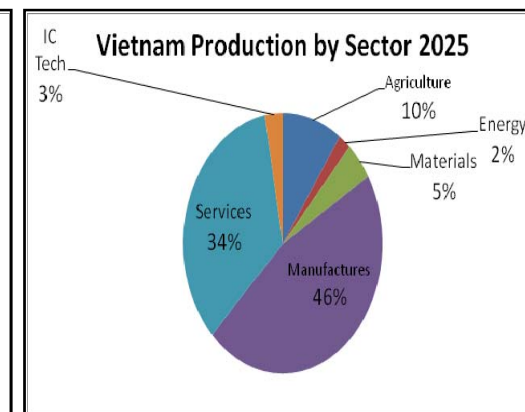
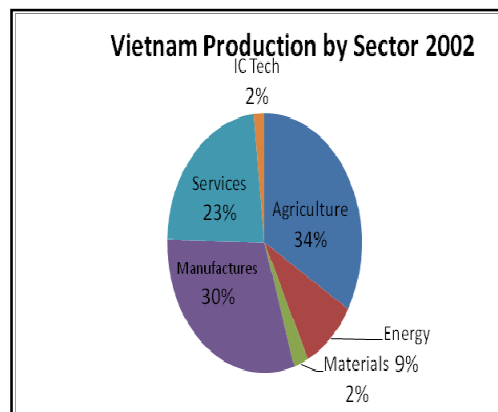
The Government held a tight rein over major sectors of the economy through large state-owned enterprises and the banking system. The Government has plans to continue to reform key sectors and partially privatize state-owned enterprises, but implementation has been gradual and the state sector still accounts for approximately 40% of GDP. Greater emphasis on private sector development is critical for long-term job creation predicated on trading partner trends and the global economy.

Entry into force of the Bilateral Trade Agreement (BTA) between the United States and Vietnam was a significant milestone for Vietnam's economy and for normalization of U.S.-Vietnam relations. Vietnam was granted unconditional normal trade relations (NTR) status by the United States in December 2006. Bilateral trade between the United States and Vietnam has expanded dramatically, rising from USD \$2.9 billion in 2002 to USD \$15.7 billion in 2008 (USD \$12.9 billion in 2009). Total bilateral trade (USD \$7.7 billion) was down by 5% for the period January-July 2009. The United States is Vietnam's second-largest trading partner after China. Implementation of the BTA, which includes provisions on trade in goods and services, enforcement of intellectual property rights, protection for investments, and transparency, fundamentally changed Vietnam's trade regime and helped it prepare to accede to the WTO in 2007. To meet the obligations of WTO membership in 2007, Vietnam revised nearly all of its trade and investment laws and guiding regulations and opened up large sectors of its economy to foreign investors and exporters.



## Rise of Urbanization

Like China, Vietnam is rapidly urbanizing. Employment opportunities in Saigon and Hanoi have grown with the GDP growth and manufacturing and industry are growing exponentially. Vietnam remains in its infancy as an export platform, but major U.S., European and Asian corporations are opening factories such as Dell Corporation. As of 2009, (see first chart to the right), agriculture comprised 31.9% while manufacturing was 30.4% and services at 22.8% of the productive capability of Vietnam. Projected in 2025, (see chart on far right), agriculture will represent 9.7% while manufacturing is projected at 46.1% with services at 34.5% of the productive capability of Vietnam.



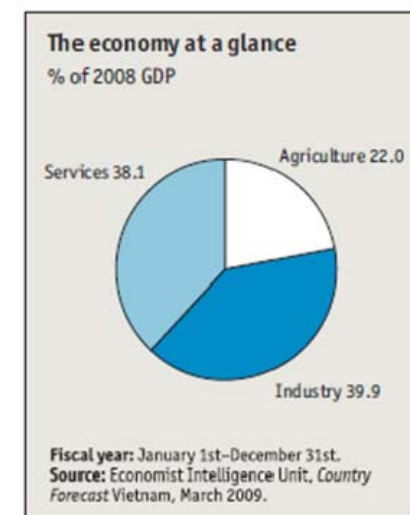
## Market Size and Growth

Among the N-11 economies, Vietnam stands out as having achieved the highest economic growth rate in recent years. In the past five years, Vietnam is the only N-11 economy that has managed to maintain growth comparable to that of China and India. Vietnam has the potential and the right combination of initial conditions and policies to follow a sustained high-growth path of the kind, exemplified by China and India. Demographics, a growing export platform, and accommodating economic policy for FDI make Vietnam attractive for the next decade. Vietnam has an employment base of 47.66 million people.

Many have compared Vietnam to China, given the similarities between the two countries, which go far beyond social and cultural aspects. To transform from a centrally-planned economy to a more market-oriented economy, both countries started with de collectivizing land usage and adopting a gradualist approach to state-owned sector (SOE) reforms, at the same time as they opened up to foreign trade and investment. Like China, Vietnam also experienced rapid industrialization and urbanization in the wake of its reforms and made remarkable strides in poverty reduction as incomes increased. While Vietnam is unlikely to have the global economic impact of China due to its size, Vietnam is a candidate to write another story of sustained growth similar to China.

Most major countries appear to have moved out of recession in the second half of 2009 and several, notably China, continue to record a healthy rate of economic growth. The forecast for Chinese growth in 2010 is approximately 9.3%, from 8.6% previously, to reflect the continued impact of the government's stimulus program.

Vietnam should closely follow that model with its own USD \$900 million stimulus package. Forecasts for global growth in 2010 in purchasing power parity (PPP) terms globally rises to 3.5%, from 3.2% previously and at market exchange rates it climbs to 2.6% from 2.5% previously.



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## Demographics Affecting Economic Growth

With 87 million people, Vietnam is the third largest country after Indonesia (245 million) and the Philippines (90 million) in Emerging Asia (ex. China & India). Vietnam's population is very young, with a median age of 27, which is about the same as India's and compares very favorably to China's 33. As the Vietnamese government has been promoting the two-child family, Vietnam's society will likely age somewhat faster than India's, but will not face the demographic challenges of China's one child policy. The economy is enjoying a demographic dividend and working age population in Vietnam will continue to grow in the same vein as India's at 1-2% per year unlike China's aging population. The current labor force is estimated at 40 million people and growing. This young society is open to change and entrepreneurially minded. This post-war generation is positively inclined towards the United States, and waves of emigration have generated strong ties with North America, France, Germany, and Australia. It is not unusual to encounter families who have at least one family member living abroad. The Government has long been reluctant to tap the potential of overseas Vietnamese, or "Viet Kieu," and their ability to access a network of international business contacts. The government has been working hard to tap the potential of "Viet Kieu" in recent years, a huge demand for housing is occurring with the boost of demographic change of rural to urban, from working poor to aspiring middle class.

The growing economy, a middle class estimated at about 12% of the population, is becoming increasingly open about showing their status symbols and has started to spend some of their income on non-essential consumption. Currently about 1.5-2 million Vietnamese travel abroad each year, mostly to other destinations in Asia (Thailand, Singapore, Malaysia, and China) but also to the United States and Europe. Car ownership has increased (about 5% of the population is estimated to own a car) and seems to be mainly concentrated in the luxury sector (limousines and SUVs).

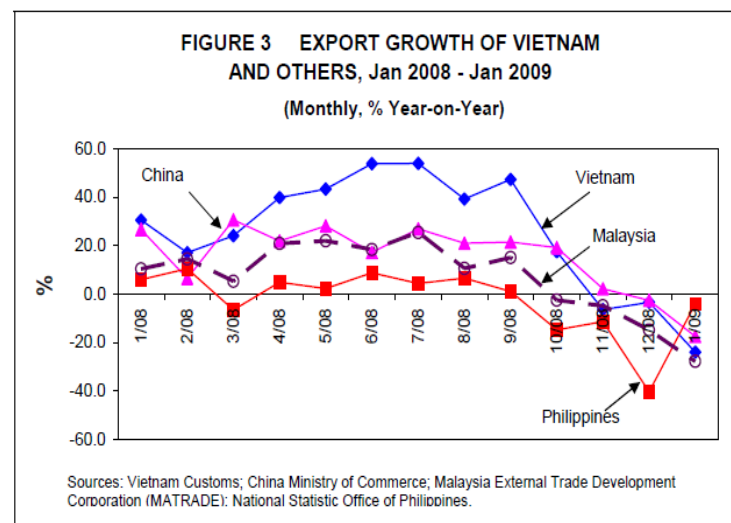
One factor which contributes to Vietnam's high growth potential is the country's emphasis on education. Its literacy rate of roughly 90% is similar to China's and significantly higher than India's 60% or Pakistan's 50%, which are countries at a similar level of development. The country also scores well in terms of its secondary school gross enrolment ratio of 73%, which is higher than the ratio of some of its neighbors. Because of Vietnam's openness to foreign influence and reliance on trade, the workforce's English language proficiency compares favorably with many of its neighbors, notably China.

Like China, which is moving to a more urbanized society (73 million people (54%) living in rural areas down from 74% in 1990), Vietnam has become increasingly urbanized since 1986. The Doi Moi economic renewal program began to boost income and employment opportunities in the cities. Historically about 25% of Vietnam's population was urban and 75% rural, down from 85% in the early 1980s. Vietnam's net migration rate was estimated at -0.45 migrant(s) per 1,000 population in 2004. Consistent with the trend toward urbanization, urban areas, such as Saigon, Hanoi, Da Nang, and the Central Highlands, have attracted the most migrants.

Beginning in the 1980s, dire economic conditions forced the government to relax restrictions on private enterprise and sharply cut back on labor camp prisoners, many of them entrepreneurs. In 1986, Vietnam launched a Doi Moi that introduced reforms intended to facilitate the transition from a centralized economy to a "socialist-oriented market economy." By the late 1990s, the success of the business and agricultural reforms ushered in under Doi Moi was evident. More than 30,000 private businesses had been created and the economy was growing at an annual rate of more than 7%. From the early 1990s to 2005, poverty declined from about 50% to 29% of the population. Progress varied geographically, with most prosperity concentrated in urban areas, particularly in and around Saigon. Rural areas also made progress, as rural households living in poverty declined from 66 % of the total in 1993 to 36% in 2002. Concentrations of poverty remained in certain rural areas, particularly the northwest, north central coast, and central highlands. In 2001, the Vietnamese Communist Party (VCP) approved a 10-year economic plan that enhanced the role of the private sector while reaffirming the primacy of the state.

## Trade and Balance of Payments

To compensate for drastic cuts in Soviet-bloc support after 1989, Vietnam liberalized trade, devalued its currency to increase exports and embarked on a policy of regional and international economic re-integration. Vietnam has demonstrated its commitment to trade liberalization in recent years. Integration with the world economy has become one of the cornerstones of its reform program. Vietnam has locked in its intention to create a more competitive and open economy by committing to several comprehensive international trade agreements, including the Association of Southeast Asian Nations (ASEAN), Free Trade Area (AFTA) and the U.S.-Vietnam Bilateral Trade Agreement (BTA). In 2007, Vietnam's accession to the WTO further integrated Vietnam into the global economy. In February 2009 Vietnam officially joined the Trans-Pacific Partnership (TPP) as an "associate member." As a result of these reforms, exports expanded significantly, growing by as much as 20%-30% in some years. In 2008, exports accounted for 72% of GDP. Imports have also grown rapidly and Vietnam had a significant trade deficit in 2008 (USD \$17.5 billion). Vietnam's total external debt, amounting to 29.8% of GDP in 2008, was estimated at around USD \$21.8 billion.

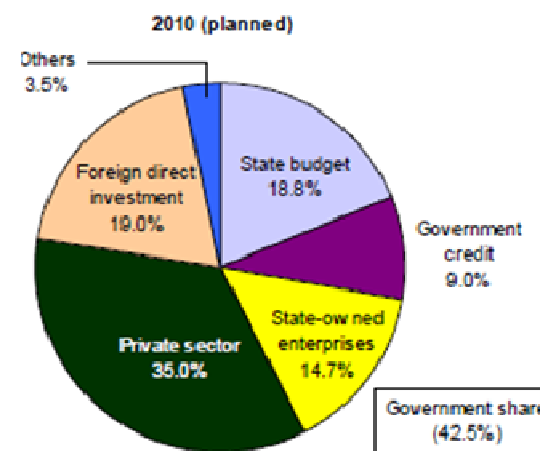


## FDI Growth

Vietnam has allowed 100% foreign owned companies since January 2007 in a range of services such as law and engineering. Certain restrictions apply to specific sectors. For example, 100% FIEs are permitted in management consultancy, though branches may not be set up until 2010. Vietnam sometimes reserves the right to limit foreign ownership of service companies operating in the country; for example, the eventual limits can be 49% or 65% in some telecommunications services, depending on the service.

Regulatory conditions and market access for foreign investors have continued to improve in recent years, reflecting Vietnam's efforts to fulfill its commitments on accession to the WTO in January 2007 and the gradual implementation of the 2000 bilateral trade and market-access agreement with the United States, implemented in December 2001. Yet Vietnam remains a challenging business environment. Relative political and economic stability must still be weighed against poor, albeit improving, physical infrastructure, complicated administrative procedures and shortage of skilled labor.

When it joined the WTO, Vietnam skillfully negotiated to maintain some policy levers, such as targeted subsidies, tendering preferences and areas of restricted foreign access. The Government uses these benefits to continue giving advantages to state-owned and private Vietnamese companies over foreign competitors. The chart to the right demonstrates the growth of FDI into the local Vietnamese economy.



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## FDI in the Banking System

Vietnam's WTO accession extends and deepens the opening of banking and other financial, non-insurance services, to foreign investment. Decree 22/2006/ND-CP, approved in February 2006 and implemented in April 2007, allows foreign commercial banks to establish representative offices, branches, commercial joint venture banks with foreign capital contribution not exceeding 50% of chartered capital, joint venture financial leasing companies, 100% foreign invested financial leasing companies, joint venture finance companies and 100% foreign invested finance companies. The foreign credit institution must have total assets of more than USD \$10 billion at the end of the year prior to application in order to establish a 100% foreign invested finance company or a joint-venture finance company. The same requirement applies to a 100% foreign invested financial leasing company or a joint-venture financial leasing company. After April 2007, 100% foreign invested subsidiary banks were permitted. All foreign investment projects in Vietnam need the approval of: 1) the prime minister, 2) the peoples committees in the provinces and cities, or 3) the management boards of industrial zones (IZs), export processing zones (EPZs), high-tech zones (HTZs) and economic zones (EZs) in the provinces or cities. The peoples committees and management boards in the zones issue investment certificates (previously called investment licenses), except in specialized sectors, such as banking and finance, securities, insurance and trading where relevant line ministries have the authority to issue the certificates.

## Banking System

In past years, Vietnam's banking sector has become attractive for foreign banks looking for new growth markets. There is high growth potential as only about 5%-7% of the 87 million populations have bank accounts and use banking services. At least 50% of all payments transactions are still in cash. Currently only 4 million people are using credit cards. Hence credit card business and consumers banking are considered the current growth areas. Market researchers estimate the annual average per-capita income in Saigon to be currently as high as USD \$2,400 (which would be more than triple the country's average per-capita income). The number of high-net-worth individuals (i.e. USD millionaires) is still very small at an estimated 12,500 especially when compared to India's 83,000 or China's 320,000. But in terms of the overall population, Vietnam is not out of line with India and China. Moreover, the ratio of bank credit in relation to GDP in Vietnam is still relatively low compared to its Asian peers, pointing to significant growth potential. Roughly a quarter of the population is urbanized, which is one of the lowest rates in emerging Asia.

## Existing Monopoly Power of State Owned Banks

The banking system is dominated by state-owned commercial banks, which have a market share of roughly 70% of loans. The remainder is divided among 36 urban and rural joint stock banks (JSBs – in principle private banks, but which often still can have a state entity as main shareholder) with about 15% market share and 28 foreign banks plus five joint-venture banks with about another 15% market share. Despite the seemingly overbanked and fragmented state of the banking sector, the State Bank of Vietnam (SBV) is still licensing new banks (about 10 new banks are currently awaiting a license) while merger regulations in the banking sector remain very unclear. Banks are still focused more on market share than profits. Competition has become relatively heated, especially among JSBs, which often tend to be relatively small in size and focus on consumer lending and SMEs. There are some cooperation initiatives, such as "Banknet", which links ATMs of different banks. Under the Five-Year Socio-Economic Development Plan set out by the Tenth Communist Party Congress in 2005, the Government aims to turn Vietnam into a medium income country by 2010 by integrating the country with the world economy and by continuing the Doi Moi policy to build a socialist-oriented market economy with a mixed economy framework, combines private entrepreneurship and ownership with state regulation and state ownership. There is a risk, in the face of an economic slow-down, the Government could halt its economic reform agenda opening more FDI into the financial system.

## Recent Government Action to Enhance the Economy

After fighting through the effects of world financial crisis in 2009, GDP grew an estimated 3.1% in the first quarter of 2009 following an 8.0% expansion in 2008. While the economy is still in recovery mode, many believe that the first quarter of 2009 was the bottom of the current downturn and the economy is on its way back up. The recovery is expected to be gradual and GDP growth is expected to be approximately 6.0% in 2010. In 2009, because of the impact of the global crisis, the general trend in the real estate market was to reduce prices. The 2010 real estate market is showing signs of stability thanks to economic growth and long-term investors returning to the property market. The government has unveiled a USD \$977 million economic stimulus package consisting of interest rate subsidies for short-term loans of small and medium-sized enterprises, and tax cuts and social amelioration projects to boost domestic demand. In addition, since the global economic crisis intensified in October 2008, the State Bank of Vietnam's economy is heavily export-oriented, accounting for close to 70% of annual GDP. While the current global recession has affected the Vietnamese economy, the fact that the country is diversifying its financial system has partially offset the collapse in demand for its exports, but commodity exports, specifically rice, seafood (shrimp), coffee, and petroleum still play a central role in Vietnam's economy.

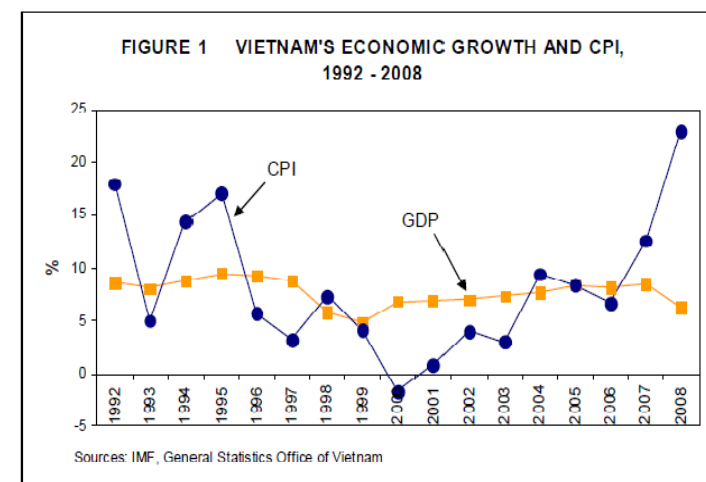
## Tax Policy

Vietnam implemented tax reforms in January 2009. The top income tax rate was lowered from 40% to 35%, and the top corporate tax rate was reduced from 28% to 25%. Oil and gas are subject to a separate taxation scheme. Other taxes include a value-added tax (VAT) and a tax on the transfer of property. In the most recent year overall tax revenue as a percentage of GDP was 23.2%.

## Inflationary Pressures and Economic Stability

Global commodity prices will rise sharply on an annual average basis in 2010, with prices for crude oil forecast to rise by 19%, food and beverages by 6% and industrial raw materials by 18.6%. Such trends are worrying for Vietnam, which is already struggling to contain inflationary pressures. Though crude oil prices will fall slightly in 2011, the general trend in global commodity prices will remain upward next year.

On the supply side, growth in the industrial sector will accelerate in 2010-11. Although there will be an improvement in manufacturing output compared with 2009, growth in demand for Vietnam's manufactured exports will be lackluster in the next two years compared with the period that preceded the global recession in 2009. Similarly, foreign investors remain positive about Vietnam's long-term prospects, but growth in manufacturing investment will also be relatively slow in the next 2 years, owing to low capacity utilization rates and a build-up of inventories in 2009. The construction sector has been growing rapidly, boosted in 2009 by low interest rates and reduced prices for materials. In addition to an expansion of office space, state investment in infrastructure development projects will help to support the construction industry in 2010-11. The services sector, which was the main driver of economic expansion in 2009, will also record a steady acceleration in growth.



## Private Sector Job Growth

In 2003, the private sector accounted for more than one quarter of all industrial output, and the private sector's contribution was expanding more rapidly than the public sector's (18.7% versus 12.4% growth from 2002 to 2003). These economic reforms led to a 2008 per-capita income of USD \$1,024. The 2008 GDP was USD \$88 billion, which rose 6.23% from 2007.

## Agriculture and Industry

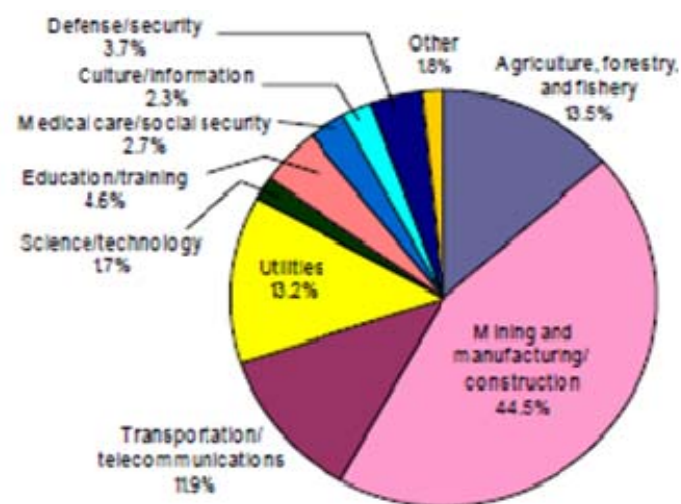
Beside rice, key exports are coffee, pepper cashews, tea, rubber, wood products, and fisheries products. In 2008, Vietnam was ranked 17 among all suppliers of food and agricultural products to the United States, a strong indicator of Vietnam's growing importance as a global supplier of key agricultural commodities. Agriculture's share of economic output has declined, falling as a share of GDP from 42% in 1989 to 22% in 2008 as production in other sectors of the economy has risen. Vietnam's industrial production has also grown. Industry and construction contributed 40% of GDP in 2008, up from 27% in 1985, though subsidies have been cut.

The Government is also in the process of "equalizing" (e.g., transforming state enterprises into shareholding companies and distributing a portion of the shares to management, workers, and private foreign and domestic investors) a significant number of state enterprises. However, to date the Government continues to maintain control of the largest and most important companies. Despite reforms, the state share of GDP has remained relatively constant since 2000 at 36%-40%.

## Natural Resources and Infrastructure

Vietnam has substantial energy and mineral resources as well as proven oil reserves totaling 3.4 billion barrels. Along with natural gas and coal, Vietnam's energy resources are a major source of export earnings. The country's reserves of bauxite, estimated at 8 billion tons, are the third-largest in the world and largely untouched. There are also an estimated 520 million tons of iron ore. Vietnam's transport and communications infrastructure has significantly improved since 1990.

As Vietnam started to urbanize its transport and communications, infrastructure improved as well. The railway system comprises six single-track routes totaling 3,260 km. The Reunification Express takes 32 hours to travel the 1,730 km between Hanoi and Saigon. Rail rose by 7% to 4.6 billion in 2007, while the volume of freight carried expanded by 14.4% to 3.9 billion. Because of this rapid growth, authorities in Hanoi and Saigon have long-term plans for rapid mass transit systems. In Hanoi there are plans for the construction of a 25km elevated railway. The authorities in Saigon have been given approval to build a 19.7km underground rail line, construction of which will begin in 2010, at an estimated cost of USD \$1.1 billion. In total, the Government plans to build six subways and three tram routes.



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## Transportation

The flagship state-owned national airline, Vietnam Airlines (VA), has been modernizing and expanding rapidly. The airline owned or leased a total of 52 planes as of August 2008. In 2007, the airline flew 8.1 million passengers, up from 4 million in 2003, and carried 40% of international tourists flying to Vietnam. The Government has slowly been opening up air travel to competition. A budget carrier, Jetstar Pacific Airlines, based in Saigon, operates five planes and is largely state-owned, although Australia's Qantas has an 18% stake. Two discount operators, Singapore based Tiger Air and Malaysia's Air Asia, and have regular connections with Bangkok, Thailand and Singapore. Vietnam has 210,000 km of roads, including 17,300 km of national roads and 7,000 km of urban streets. The network of national roads has been improving; 84% are now paved, up from 61% in 1997. Rural roads vary widely in quality, but 76% of the population lives within 2 km of an all-weather road, a high proportion relative to other similarly poor countries. Two-thirds of all vehicular trips in Hanoi and Saigon are made by motorcycle. There are over 20 million motorcycles on the road in Vietnam, equivalent to one for every household. The demand for cars is still modest but has more than tripled since 2001.

## Shipping

Vietnam has more than 80 sea ports, but the main ports are Haiphong and Quang Ninh in the north, Danang and Qui Nhon in the center, Saigon in the southeast and Can Tho in the Mekong Delta. A significant amount of investment has gone into upgrading the ports, which can now handle more and larger ships, but the improvements have barely kept up with demand. Tariffs at Saigon Port are competitive compared with other ports in the region that ship through larger ports, such as Hong Kong or Singapore, because of ship size constraints. The ports handled 38 million tons of freight in 2007. The ton-km of freight carried on the inland waterway systems, which stretch for around 8,000 km, chiefly on the Mekong River, its tributaries and canals and the Red River and its tributaries, is nearly double that transported by rail. In 2007, 6.2 billion ton-km of cargo was transported on the waterways.

## Power Generation

While power can still be a problem, like other infrastructure in Vietnam, there has been improvements from the early part of the decade. Power generation reached 66.8bn kwh in 2007, up from 30.7bn kwh in 2001. The country had installed capacity of 13,440 mw at the end of 2006, up from 8,860 mw at end-2002. Of this total, 37% was hydropower, 39% gas power and the remainder thermal power based on coal or oil. Of the total capacity, 78% is owned by state-owned Electricity of Vietnam or its affiliates, with the remainder coming from independent power plants.

## Conclusions-Long Term Outlook and Prospects

While 2009 was a year of great challenges for the domestic and regional economy, the long-term outlook for Vietnam is strong going forward. Several structural factors will drive the country's development, some of which will remain in place even at times of weak growth in the advanced economies. UN projections suggest that Vietnam's population will grow from 85 million currently to 110 million by 2035, with two thirds of the population being economically active. This represents a formidable force in supporting labor-intensive manufacturing and domestic consumption. Based on the development experiences of other Asian economies, Vietnam's purchasing power could double in the next 6 to 7 years.

Risk diversification and China's move up the manufacturing value chain imply that international businesses will be increasingly looking for a second manufacturing base. Vietnam, due to its stable political environment and low production costs, is often regarded by Asian businesses (particularly those from Japan, Korea, Taiwan, and increasingly China) as a good alternative. Interest from the West is also on the rise.

## Economic structure

	2005 <sup>a</sup>	2006 <sup>a</sup>	2007 <sup>a</sup>	2008 <sup>a</sup>	2009 <sup>b</sup>	2010 <sup>c</sup>	2011 <sup>c</sup>
<b>GDP at market prices</b>							
Nominal GDP (US\$ bn)	52.9	61.0	71.1	89.9	92.4 <sup>a</sup>	96.0	106.0
Nominal GDP (D bn)	839,211	974,266	1,143,720	1,477,720	1,645,481 <sup>a</sup>	1,820,446	2,045,318
Real GDP (D bn at 1994 prices)	392,989	425,373	461,344	489,833	515,905 <sup>a</sup>	547,102	585,045
<b>Expenditure on GDP (% real change)</b>							
GDP	8.4	8.2	8.5	6.2	5.3 <sup>a</sup>	6.0	6.9
Private consumption	7.3	8.3	10.8	9.2	4.0	6.1	6.6
Government consumption	7.9	8.8	8.9	7.5	8.2	8.0	7.8
Gross fixed investment	9.8	9.9	24.2	3.8	2.0	6.2	7.2
Exports of goods & services	20.5	17.4 <sup>b</sup>	15.5 <sup>b</sup>	14.6 <sup>b</sup>	-6.0	7.0	9.6
Imports of goods & services	15.9	18.6 <sup>b</sup>	27.7 <sup>b</sup>	15.1 <sup>b</sup>	-5.6	7.3	8.0
<b>Origin of GDP (% real change)</b>							
Agriculture	4.0	3.4	3.7	4.4	1.8 <sup>a</sup>	2.0	3.0
Industry	10.7	10.4	10.6	5.7	5.5 <sup>a</sup>	7.0	6.8
Services	8.5	8.3	8.7	7.3	6.6 <sup>a</sup>	6.7	8.6
<b>Ratios, GDP at market prices (%)</b>							
Gross fixed investment/GDP	32.9	33.4	38.3	36.0	36.9	40.7	42.7
Exports of goods & services/GDP	69.4	73.6	76.9	78.2	67.0	71.7	70.9
Imports of goods & services/GDP	73.5	78.2	92.7	94.7	82.9	91.6	94.8
Gross national savings/investment	97.0	99.3	77.3	71.0	80.1	76.6	77.9
<b>Ratios, GDP at factor cost (%)</b>							
Agriculture/GDP	21.0	20.4	20.3	22.0	21.3 <sup>a</sup>	20.4	19.7
Industry/GDP	41.0	41.5	41.6	39.9	40.0 <sup>a</sup>	40.3	40.3
Services/GDP	38.0	38.1	38.1	38.1	38.8 <sup>a</sup>	39.2	40.0
<b>Population and income</b>							
Population (m)	83.5	84.4 <sup>b</sup>	85.3 <sup>b</sup>	86.1 <sup>b</sup>	87.0	87.8	88.7
Labour force (m)	43.6	45.5	46.4 <sup>b</sup>	47.4 <sup>b</sup>	48.3	49.2	50.0
GDP per head (US\$ at PPP)	2,132 <sup>b</sup>	2,358 <sup>b</sup>	2,604 <sup>b</sup>	2,796 <sup>b</sup>	2,955	3,142	3,367

<sup>a</sup> Actual. <sup>b</sup> Economist Intelligence Unit estimates. <sup>c</sup> Economist Intelligence Unit forecasts.



## GOVERNMENT AND POLITICAL CONSIDERATIONS

## GOVERNMENT AND POLITICAL CONDITIONS

A new state constitution was approved in April 1992, reaffirming the central role of the Communist Party of Vietnam (CPV) in politics and society, and outlining Government reorganization and increased economic freedom. Though Vietnam remains a one-party state, adherence to ideological orthodoxy has become less important than economic development as a national priority. The most important powers within the Government, in addition to the Communist Party, are the executive agencies created by the 1992 constitution; the offices of the president and the prime minister. The Vietnamese President, presently Nguyen Minh Triet, functions as head of state but also serves as the nominal commander of the armed forces and chairman of the Council on National Defense and Security. The Prime Minister of Vietnam, presently Nguyen Tan Dung, heads a cabinet currently composed of five deputy prime ministers and the heads of 22 ministries and agencies, all confirmed by the National Assembly.

Notwithstanding the 1992 constitution's reaffirmation of the central role of the Communist Party, the National Assembly, according to the constitution, is the highest representative body of the people and the only organization with legislative powers. It has a broad mandate to oversee all government functions. Once seen as little more than a rubber stamp, the National Assembly has become more vocal and assertive in exercising its authority over lawmaking, particularly in recent years. However, the National Assembly is still subject to Communist Party direction. More than 90% of the deputies in the National Assembly are party members. The assembly meets twice yearly for 7-10 weeks each time; elections for members are held every 5 years, although its Standing Committee meets monthly and there are now over 100 "full-time" deputies who function on various committees. In 2007, the assembly introduced parliamentary "question time," in which cabinet ministers must answer pointed questions from National Assembly members. There is a separate judicial branch, but it is still relatively weak. There are few lawyers and trial procedures are rudimentary.

The present 15 member Politburo, selected at the Tenth Party Congress of the Communist Party of Vietnam in April 2006 and headed by Communist Party General Secretary Nong Duc Manh, determines government policy. Its Secretariat, headed by Truong Tan Sang, oversees day-to-day policy implementation. The Communist Party's Central Military Commission, which is composed of select Politburo members and additional military leaders, determines military policy. A Party Congress meets every 5 years to set the direction of the party and the government. The most recent Congress, the Tenth, met in April 2006 and comprised 1,176 delegates. The Eleventh Party Congress is scheduled to convene in January 2011. The 160-member Central Committee (with an additional 21 alternate members), is elected by the Party Congress and usually meets at least twice a year. The most recent Central Committee Plenum met in July 2009.

### Principal Government Officials

President	Nguyen Minh Triet	Ambassador to the United States	Le Cong Phung
Prime Minister	Nguyen Tan Dung	Ambassador to the United Nations	Le Luong Minh
National Assembly Chairman	Nguyen Phu Trong	Standing Secretariat Member	Truong Tan Sang
General Secretary CPV Central Committee, 10th Party Congress	Nong Duc Manh	Standing Deputy Prime Minister	Nguyen Sinh Hung
Deputy Prime Minister / Minister of Foreign Affairs--	Pham Gia Kiem	Secretary of HCMC Party's Committee	Le Thanh Hai
Minister of Defense, General Chief of Staff	Phung Quang Thanh	Minister of Public Security	Le Hong Anh
Deputy Prime Minister-Chairman, Party Internal Affairs Commission	Truong Vinh Trong	Secretary of Hanoi Party's Committee	Pham Quang Nghi
Chairman, Party Organization and Personnel Commission	Ho Duc Viet	Chairman, Party Control Commission	Nguyen Van Chi

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## U.S.-Vietnam Relations

### 1995

July 11, 1995, President Bill Clinton announced the formal normalization of diplomatic relations with the Socialist Republic of Vietnam. In August 1995, subsequent to President Clinton's normalization announcement, both nations upgraded their Liaison Offices opened in January 1995 to embassy status. As diplomatic ties between the nations grew, the United States opened a consulate general in Ho Chi Minh City, and Vietnam opened a consulate general in San Francisco. United States relations with Vietnam have become increasingly cooperative and broad-based in the years since political normalization.

### 2000-2004

July 2000, Vietnam and the United States signed a Bilateral Trade Agreement, which went into force in December 10th, 2001. Since entry into force of the U.S.-Vietnam Bilateral Trade Agreement on December 10th, 2001, increased trade between the United States and Vietnam, combined with large-scale United States investment in Vietnam, evidence the maturing U.S.-Vietnam economic relationship.

2003, the two countries signed a Counternarcotics Letter of Agreement (amended in 2006), a Civil Aviation Agreement, a textile agreement, and a Bilateral Air Transport Agreement. In 2004, direct flights between Saigon and San Francisco began.

### 2006-2007

November 2006, President George W. Bush's visit to Hanoi included an annual dialogue on human rights, which resumed in 2006 after a two-year hiatus.

January 2007, Congress approved Permanent Normal Trade Relations (PNTR) for Vietnam. In 2007, the United States Vietnam Trade and Investment Agreement (TIFA), a bridge to future economic cooperation, was signed during President Triet's visit to the United States. In December 2007, the first TIFA Council occurred in Washington, and there have been five TIFA meetings since.

March 2007, Vietnam and the United States signed a Bilateral Maritime Agreement that opened the maritime transport and services industry of Vietnam to United States firms.

### 2008

June 2008, Prime Minister Dung's visit to the United States and Vietnam led to the commitment to undertake Bilateral Investment Treaty (BIT) negotiations. The first round of BIT talks took place in December 2008, with a second round in June 2009 in Washington. The United States exported USD \$2.8 billion of goods to Vietnam and imported USD \$12.9 billion of goods from Vietnam. Similarly, United States companies continue to invest directly in the Vietnamese economy. During 2008, the United States private sector committed USD \$1.49 billion to Vietnam in foreign direct investment. Several United States carriers already have third-party code sharing agreements with Vietnam Airlines. In October 2008, The Bilateral Air Transport Agreement fully opened markets for cargo air transportation.

October 2008, the United States and Vietnam inaugurated annual political military talks and policy planning talks to consult on regional security and strategic issues. Bilateral and regional diplomatic engagement expanded at ASEAN, which Vietnam will chair in 2010, and continues through APEC. The two sides have consulted regularly on a broad range of international issues at the UN Security Council, where Vietnam has a permanent member seat

### 2009

Vietnam opened a consulate in Houston the United States received permission to open a consulate in Danang.

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## FOREIGN RELATIONS

During the second Indochina war (1954-75), North Vietnam sought to balance relations with its two major allies, the Soviet Union and China. Tensions with China began to grow during the Chinese Cultural Revolution, and by 1975, Beijing had become increasingly critical of Hanoi's growing ties with Moscow. Over the next four years, Beijing's growing support for Cambodia's Khmer Rouge, which in 1978 initiated bloody attacks across its border with Vietnam, sparked Vietnamese suspicions of China's motives. Vietnam-China relations deteriorated significantly after Hanoi instituted a ban in March 1978 on private trade, mostly affecting Sino-Vietnamese. Following Vietnam's December 1978 invasion of Cambodia, China in February 1979 launched a month-long retaliatory incursion over Vietnam's northern border. Faced with severance of Chinese aid and strained international relations, Vietnam established even closer ties with the Soviet Union and its allies in the Council for Mutual Economic Assistance (Comecon). Through the 1980s, Vietnam received nearly USD \$3 billion a year in economic and military aid from the Soviet Union and conducted most of its trade with that country and with other Comecon countries. However, Soviet and East bloc economic aid declined during the perestroika era and ceased completely after the breakup of the Soviet Union.

Vietnam did not begin to emerge from international isolation until it withdrew its troops from Cambodia in 1989. Within months of the 1991 Paris Agreements, Vietnam established diplomatic and economic relations with ASEAN, as well as with most of the countries of Western Europe and Northeast Asia. China reestablished full diplomatic ties with Vietnam in 1991, and the two countries began joint efforts to demarcate their land and sea borders, expand trade and investment ties and build political relations.

Over the past decade, Vietnam has recognized the increasing importance of growing global economic interdependence and has made concerted efforts to adjust its foreign relations to reflect the evolving international economic and political situation in Southeast Asia. The country has begun to integrate itself into the regional and global economy by joining international organizations. Vietnam has stepped up its efforts to attract foreign capital from the West and regularize relations with the world financial system. In the 1990s, following the lifting of the American veto on multilateral loans to the country, Vietnam became a member of the World Bank, the International Monetary Fund, and the Asian Development Bank. The country has expanded trade with its East Asian neighbors as well as with countries in Western Europe and North America. Of particular significance was Vietnam's acceptance into the Association of Southeast Asian Nations (ASEAN) in July 1995. In recent years, Vietnam's influence in ASEAN has expanded significantly; the country will serve as Chairman of ASEAN in 2010. Vietnam joined the Asia-Pacific Economic Cooperation forum (APEC) in November 1998 and hosted the ASEAN summit in 2001 and APEC in 2006. In October 2007 Vietnam was elected for the first time to the United Nations Security Council to serve a two-year term starting January 2008.

While Vietnam has not experienced war since its withdrawal from Cambodia, tensions have periodically flared between Vietnam and China, primarily over their disputed maritime claims in the South China Sea. Vietnam and China each assert claims to the Spratly and Paracel Islands, archipelagos in the potentially oil rich area of the South China Sea. Malaysia, the Philippines, Brunei, and Taiwan also claim all or part of the South China Sea. Over the years, conflicting claims have produced small-scale armed altercations in the area. In 1988, 70 Vietnamese sailors died in a confrontation with China in the Spratlys. China's assertion of "indisputable sovereignty" over the Spratly Islands and the entire South China Sea has elicited concern from Vietnam and its Southeast Asia neighbors. Tensions escalated in the latter half of 2007, as China pressured foreign oil companies, notably BP, to abandon their oil and gas exploration contracts with Vietnam in the South China Sea. Press reports in July 2008 also cited Chinese pressure on United States firm ExxonMobil to drop an exploration agreement with Vietnam in the same waters. Vietnamese students staged several anti-China demonstrations in response, prompting a warning from the Chinese Foreign Ministry spokesman that Hanoi's failure to quell the demonstrations was harming relations.

## HISTORY OF THE COUNTRY

## **HISTORY OF THE COUNTRY**

Vietnam's identity has been shaped by long running conflicts, both internally and with foreign forces. In 111 BC, China's Han dynasty conquered northern Vietnam's Red River Delta and the ancestors of today's Vietnamese. Chinese dynasties ruled Vietnam for the next 1,000 years, inculcating it with Confucian ideas and political culture but also leaving a tradition of resistance to foreign occupation. In 939 AD, Vietnam achieved independence under a native dynasty. After 1471, when Vietnam conquered the Champa Kingdom in what is now central Vietnam, the Vietnamese moved gradually southward, finally reaching the agriculturally rich Mekong Delta, where they encountered previously settled communities of Cham and Cambodians. As Vietnam's Le dynasty declined, powerful northern and southern families, the Trinh and Nguyen, fought civil wars in the 17th and 18th centuries. A peasant revolt originating in the Tay Son region of central Vietnam defeated both the Nguyen and the Trinh and unified the country at the end of the 18th century, but was itself defeated by a surviving member of the Nguyen family, who founded the Nguyen dynasty as Emperor Gia Long in 1802.

### **French Rule and the Anti-Colonial Struggle**

In 1858, the French began their conquest of Vietnam starting in the south. They annexed all of Vietnam in 1885, governing the territories of Annam, Tonkin, and Cochin China, together with Cambodia and Laos, as French Indochina. The French ruled Cochin China directly as a French colony and Annam and Tonkin were established as French "protectorates." Vietnam's emperors remained in place in Hue, but their authority was strictly limited as French officials assumed nearly all government functions. In the early 20th century, Vietnamese intellectuals, many of them French educated, organized nationalist and communist-nationalist, anti-colonial movements.

Japan's military occupation of Vietnam during World War II further stirred nationalist sentiment, as well as antipathy toward the French Vichy colonial regime, which took its direction from the Japanese until the Japan took direct control in March 1945. Vietnamese communists under Ho Chi Minh organized a coalition of anti-colonial groups, the Viet Minh, though many anti-communists refused to join. The Viet Minh took advantage of political uncertainty in the weeks following Japan's surrender to take control of Hanoi and much of northern Vietnam. Ho Chi Minh announced the independence of the Democratic Republic of Vietnam on September 2, 1945.

### **North and South Partition**

France's determination to re-assert colonial authority in Vietnam led to failed talks and, after armed hostilities broke out in Haiphong at the end of 1946, an 8 year guerrilla war between the communist led Viet Minh on one side and the French and their anti-communist nationalist allies on the other. Following a humiliating defeat at Dien Bien Phu in May 1954, France and other parties, including Britain, China, the Soviet Union, the United States, and representatives of the Viet Minh and Bao Dai governments convened in Geneva, Switzerland for peace talks. On July 29, 1954, an Agreement on the Cessation of Hostilities in Vietnam was signed between France and the Democratic Republic of Vietnam. The United States observed but did not sign the agreement. French colonial rule in Vietnam ended.

The 1954 Geneva agreement provided for a ceasefire between communist and anti-communist nationalist forces, the temporary division of Vietnam at approximately the 17th parallel, provisional northern (communist) and southern (noncommunist) zone governments, and the evacuation of anti-communist Vietnamese from northern to southern Vietnam, as well as the movement of a smaller number of former communist-led Viet Minh anti-colonial fighters to the north. The agreement also called for an election to be held by July 1956 to bring the two provisional zones under a unified government, a provision that the South Vietnamese Government refused to accept, arguing that conditions for free elections throughout Vietnam were not present. On October 26, 1955, South Vietnam declared itself the Republic of Vietnam.

## **Bifurcation of the Country**

After 1954, North Vietnamese communist leaders consolidated their power and instituted a harsh agrarian reform and socialization program. During this period, 450,000 Vietnamese, including a large number of Vietnamese Catholics, fled from the north to the south, while a much smaller number, mostly consisting of former Viet Minh fighters, relocated north. In the late 1950s, North Vietnamese leaders reactivated the network of communist guerrillas that had remained behind in the south. These forces, commonly known as the Viet Cong, aided covertly by the north, started an armed campaign against officials and villagers who refused to support the communist reunification cause.

## **American Assistance to the South**

In December 1961, at the request of South Vietnamese President Ngo Dinh Diem, President Kennedy sent United States military advisers to South Vietnam to help the government there deal with the Viet Cong campaign. In the wake of escalating political turmoil in the south after a November 1963 generals' coup against President Diem, which resulted in his death, the United States increased its military support for South Vietnam. In March 1965, President Johnson sent the first United States combat forces to Vietnam. The American military role peaked in 1969 with an in-country force of 534,000. The Viet Cong's surprise Tet Offensive in January 1968 weakened the Viet Cong infrastructure and damaged American and South Vietnamese morale. In January 1969, the United States, governments of South and North Vietnam, and the Viet Cong met for the first plenary session of peace talks in Paris. These talks, which began with much hope, moved slowly. This concluded with the signing of a peace agreement, the Paris Accords, on January 27, 1973. As a result, the south was divided into a patchwork of zones controlled by the South Vietnamese Government and the Viet Cong. The United States withdrew its forces, although reduced levels of United States military assistance continued, administered by the Defense Attaché Office.

## **Reunification**

In early 1975, North Vietnamese regular military forces began a major offensive in the south, inflicting great damage to the south's forces. The communists took Saigon on April 30, 1975, and announced their intention to reunify the country. The Democratic Republic of Vietnam (north) absorbed the former Republic of Vietnam (south) to form the Socialist Republic of Vietnam on July 2, 1976.

After reunification, the government confiscated privately owned land and forced citizens to adopt collectivized agricultural practices. Hundreds of thousands of former South Vietnamese government and military officials, as well as intellectuals previously opposed to the communist cause, were sent to study socialist doctrine in re-education camps, where they remained for periods ranging from months to over 10 years.

Expectations that reunification of the country and its socialist transformation would be condoned by the international community were quickly dashed as the international community expressed concern over Vietnam's internal practices and foreign policy. Vietnam's 1978 invasion of Cambodia in particular, together with its increasingly tight alliance with the Soviet Union, appeared to confirm suspicions that Vietnam wanted to establish a Soviet-backed hegemony in Indochina.

Vietnam's invasion of Cambodia also heightened tensions that already existed between Vietnam and China. Beijing, which had long backed the Khmer Rouge regime in Cambodia, retaliated in early 1979 by initiating a brief, but bloody border war with Vietnam. Vietnam's tensions with its neighbors, internal repression, and a stagnant economy contributed to a massive exodus from Vietnam. Fearing persecution, many Chinese in particular fled Vietnam by boat to nearby countries. Later, hundreds of thousands of other Vietnamese nationals fled as well, seeking temporary refuge in camps throughout Southeast Asia.

## The People

Originating in what is now southern China and northern Vietnam, the Vietnamese people pushed southward over 2 millennia to occupy the entire eastern sea coast of the Indochinese Peninsula.

Vietnam has 54 ethnic groups. Ethnic Vietnamese or Kinh constitute approximately 85% of Vietnam's population. The next largest groups are ethnic Tay and Thai, which account for 1.97% and 1.79% of Vietnam's population and are concentrated in the country's northern uplands.

With a population of more than 900,000, Vietnam's Chinese community has historically played an important role in the Vietnamese economy. Restrictions on economic activity following reunification of the north and south in 1975 and a general deterioration in Vietnamese-Chinese relations caused increasing anxiety within the Chinese-Vietnamese community. As tensions between Vietnam and China reached their peak in 1978-79, culminating in a brief but bloody war from February to March of 1979, some 450,000 ethnic Chinese left Vietnam by boat as refugees (many officially encouraged and assisted) or were expelled across the land border with China. These wounds have healed significantly as trade dominates to grow and while China is Vietnam's largest trading partner

Other significant ethnic minority groups include central highland peoples (formerly collectively termed Montagnards) such as the Gia Rai, Bana, Ede, Xo Dang, Gie Trieng, and the Khmer Krom (Cambodians), who are concentrated near the Cambodian border and at the mouth of the Mekong River. Taken collectively, these groups made up a majority of the population in much of Vietnam's central highlands until the 1960s and 1970s. They now compose a significant minority of 25% to 35% of the provinces in that region.

Vietnamese is the official language of the country. It is a tonal language with influences from Thai, Khmer and Chinese. Since the early 20th century, the Vietnamese have used a Romanized script introduced by the French. Previously, Chinese characters and an indigenous phonetic script were both used.

