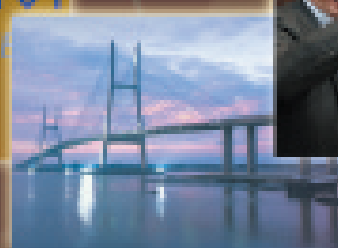


Vietnam

New Centre For Success



Vietnam's Economic Integration Space

CAFTA (China ASEAN Free Trade Area):

Market size: 1.7 billion consumers
(the biggest FTA in the world in terms of population size).
Regional Gross Domestic Product (GDP): US\$2 trillion (expected to reach US\$3 trillion in 2015).
Total trade: US\$1.23 trillion.

APEC (Asia Pacific Economic Cooperation):

Consisting of 21 members on the Pacific Rim, including world largest economies like United States, Japan and China.
Market size: 2.6 billion people.
GDP: US\$ 19.25 trillion (accounting for 60% of world GDP).
Trade: US\$ 11 trillion

GMS (Greater Mekong Subregion):

- Cooperation Framework including Yunnan (China), Myanmar, Thailand, Laos, Cambodia, and Vietnam, aiming to promote development through closer economic linkages.
- Market size: 300 million people.

EWEC (East West Economic Corridor):

Cooperation Framework under GMS, linking the markets of Myanmar, Thailand, Laos, Vietnam.
Transport system: 1600 km land-link connecting India Ocean with the Pacific is fully set up, running from Mawlamyine in Myanmar through Thailand, Laos and Danang in Vietnam.

AFTA (ASEAN Free Trade Agreement):

Unified market of 500 million consumers.
GDP: US\$ 700 billion.
Total trade: US\$ 850 billion.



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Economic Performance

In 2006

GDP Growth:

GDP growth is estimated to reach 8.2 %, exceeding the initial target of 8 % and higher than the average growth rate of 7.5 - 8 % set for the 2006 - 2010 period. Economic structure saw an increase in the proportion of industry, construction and services, and a reduction in the proportion of agro-forestry and fisheries.

This development, led by strong-performing key economic zones in the Northern, Central and Southern regions has resulted in greater competitiveness in industries, services and tourism, and expanded export for the country. However, there remains concerns about the quality of the development. Though GDP growth has surpassed the Government's target, it has not yet met its potential. The economy's competitiveness remains poor and the structural adjustment to adapt to new trade relations is progressing at a slow pace. This situation is well recognized and efforts and actions are being planned for the immediate future.

Table 1: Sectors' contribution to GDP growth (2006)

Sectors	Contribution
Industry and construction	4.16%
Services	3.34%
Agro-forestry and fisheries	0.67%

Source: General Statistics Office

FDI:

The FDI inflow to the country this year hit nearly US\$10.2 billion, an increase of 47% compared with previous year, and the highest number since the Law on Foreign Investment was promulgated in 1987. It's significant that this year, many transnational corporations and groups have invested in large scale projects which favorably enhance the transfer of high-technology. This shows increased confidence in the future of the Vietnam's economy. As of year end 2006, FDI commitments totaled nearly US\$63 billion, of which about 58% had been dispersed. About half of FDI has been directed at the two major cities (and environs) of Ho Chi Minh City and Hanoi. Sectors that attracted the most FDI are industry and construction.

Table 2: Country Economic Indicators

	2004	2005	2006
Real GDP Growth (%)	4.55	8.2	8.40
Export (USD billion)	38.46	39.6	32.30
International tourist (million)	2.93	3.6	3.47
Investments/GDP (%)	26.49	41	38.62
FDI (USD billion)	7.80	10.2	6.84

Source: Vietnam National Statistics

Table 3: Risk Assessment

	2006
Sovereign risk	B
Currency risk	BB
Banking sector risk	B
Political risk	B
Economic structure risk	CCC

Source: Vietnam: Country risk summary

Stock market:

The year 2006 witnessed the booming of Vietnam's stock market. The market capitalization rate rose from 1% of GDP in 2001 to 17% of GDP this year and is on the rise (VN-Index has passed 900 in the second week of January 2007).

There is growing wave of companies and funds listed on the VN-Index. The number is 60 and 20 respectively as of 31/12/2006. At the end of 2006 there were 170 shares and funds certificates were issued.

These developments is attributed largely to an improved legal framework. Law on Securities was approved on August 23 and is expected to create favorable conditions for shares-trading, market-operation, protecting the investors' legitimate rights and creating more transparency in the market.

Figure 1: VN-Index in 2006



Export

The export turnover hit a new peak of US\$ 39.6 billion, including nine commodity groups which joined the billion USD earners' club.

Growth in export value was mostly due to hikes in export prices. Markets for Vietnam's export products are stable and increasing. The US was the biggest buyer of Vietnamese goods, with total imports of about \$8 billion, followed by Europe (US\$7.6 billion), ASEAN member countries (US\$6.6 billion), Japan (US\$5.2 billion), and China (US\$3.2 billion).

Table 4: Billion USD earners' club

Commodity	Export value
Crude oil	US\$8.3 billion
Garments and textile	USD5.82 billion
Footwear	USD3.55 billion
Seafood	USD3.36 billion
Wood products	USD1.94 billion
Electronic components and computers	USD1.77 billion
Rice	USD1.30 billion
Rubber	USD1.27 billion
Coffee	USD1.10billion

ODA:

Since 1993, international donors have committed around US\$37 billion as ODA for Vietnam. At the Consultative Group in December 15 2006, international donors pledged US\$4.45 billion for the year 2007, the highest ever amount. The pledge shows the international community's strong backing of Vietnam's development plans. In the next few years, the government will attach greater importance on the effective use of ODA. As planned, ODA will be mostly invested in construction of important big-scale infrastructure projects.

Industry:

In 2006, the industrial sector faced stronger challenges in increasing its value-added growth, which stood at 10.6 percent this year, failing to reach the set target of 11%. This situation resulted from slowness in reducing production costs and heavy dependence on imported raw materials.

Other aspects:

There are other number of positive achievements in the field of poverty reduction, job creation and community health improvement. In 2005, about 1.6 million new jobs were created, the proportion of mal-nourished children was reduced to fewer than 25%, and poor Vietnamese families were reduced to 7%, from 24.1% in 2004 and 58.1% in 1993.

Export of laborers:

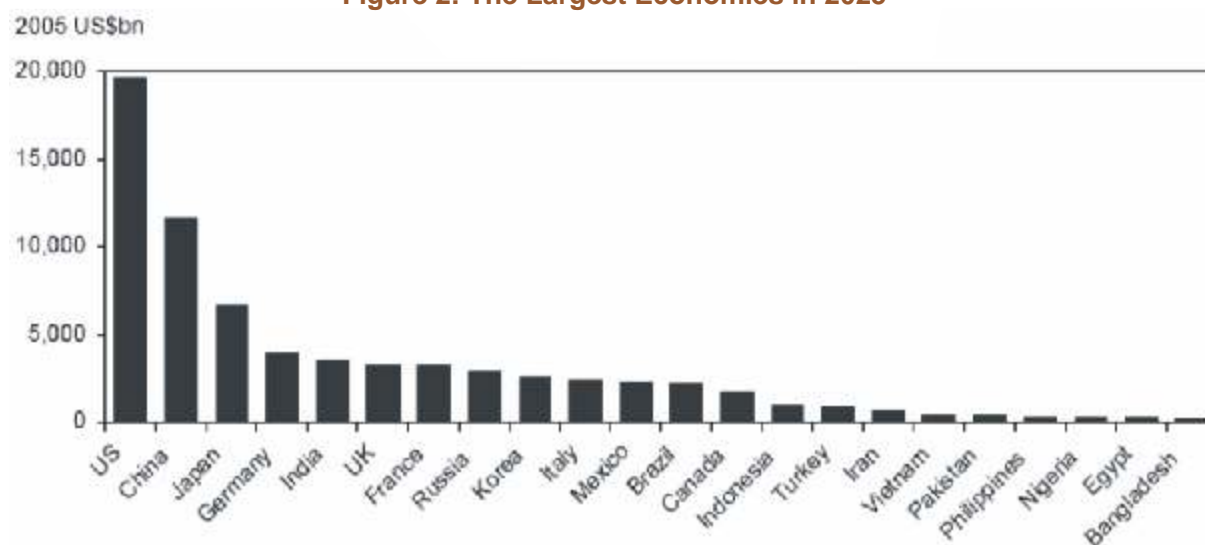
By the end of November 2006, nearly 70,000 workers had been sent abroad to work, reaching the yearly target. Apart from some traditional markets such as Japan, Korea, Taipei, and Malaysia, the Dubai and Qatar markets attracted a great number of Vietnamese workers (about 7,000).

At this writing, there are approximately 400,000 laborers working abroad in 40 countries, mainly in North East Asia, South East Asia, and the Middle East, contributing a total yearly average revenue of US\$1.5-1.6 billion.

Remittance:

The overseas Vietnamese remittance volume is expected to be higher in 2006 than last year, when it was US\$4.429 billion. It is estimated that remittances have increased 40.8% annually and some US\$23 billion has been remitted to Vietnam in the last 16 years, equal to 60% of the total foreign direct investment capital registered since 1988.

Figure 2: The Largest Economies in 2025



Sources: Goldman-Sachs, 2006

Vietnam has successfully mobilized necessary resources and created favorable conditions for its ambitious development plan. Because of this careful preparation, the country has great opportunities for a rapid rise to a higher level of development in the coming years.

Vietnam is striving for the objective of removing her name from the lowest income countries list by the year 2010 and converting to a basically industrialized economy by the year 2020.

review

Significance of 2006 Of the Vietnam's economy

Join the World Trade Organization

The success of a long journey

1995: official request for accession.

2000: trade policy transparency completed

2006 May 31: Vietnam United States negotiation finished

2006 November 7: General Council approves Viet Nam's membership

2006 December: the U.S. Permanent Trade Relation for Vietnam approved.

2007 January 11: Viet Nam to join WTO



The success of the reform

Fruits of 20 year efforts to follow economic reform policy

The success in the future

Impetus for ambitious development target of Vietnam's economy

APEC Vietnam 2006

Why did we host APEC 2006?

This represents the determination of Vietnam to

- further integrate into the regional and international economy
- and actively contribute to addressing issues of note in the region and the world.

How was APEC a success?

Further strengthening relations with APEC economies,

Particularly, economic benefit worth US\$2 billion in the fields of energy, tourism, entertainment, hotels and information technology.



UNSC Non-Permanent Seat Nomination 2008-2009

THE SOLE CANDIDATE FROM ASIA

Foreign Direct Investment
\$10.2 billion

Highest number since 1987 Law on Investment adopted

Official Development Assistance
\$4.45 billion

Highest number proves confidence and support by international donors to the socio-economic development of Vietnam

Export Turnover
\$39.6 billion

Highest number yet, bringing share of export value to nearly 39.8% GDP

Impressive numbers

- Economic growth: 8.2%
- 1.6 million new jobs created
- Poverty headcount reduces to 19%.

New infrastructure

New important structures open, such as Bai Chay Bridge and Thi Nai Bridge, which foster socio-economic growth by improving infrastructure.

Booming stock-market

- Market capitalization rate: 17%.
- Law on Securities promulgated on 23th June
- JBIC report: Vietnam ranks 3rd to Japanese investors.
- Number of companies going on bourse on September is more than the total of recent 6 years.

Institutional Environment For Foreign Investment In Vietnam

*Dinh Anh Tuyet and Sriram Swaminathan
Lawyers of VILAF Hong Duc¹*

Vietnam's economy has expanded strongly in recent times. GDP stood at approximately US\$53 billion in 2005 and was expected to grow by more than 8% in 2006. GDP growth is forecast to accelerate in 2007 to around 8.5%.

Maintaining this economic performance will require a stable political environment and a responsive and flexible regulatory environment. To achieve strong growth, strong change is required, particularly in reducing bureaucracy and positioning government as a facilitator of business.

Legislation Development

Vietnam has enacted many landmark laws in recent years to modernize the legal business framework. In the last three years alone, the Government has passed the Bankruptcy Law 2004, Competition Law 2004, amended Civil Code 2005, Commercial Law 2005, Intellectual Property Law 2005, Foreign Exchange Law 2005, Environment Law 2005, Securities Law 2006, Law on Technology Transfer 2006 and Law on Notarization 2006, among others.

One of the most significant legal developments has been the enactment of the Law on Investment and Law on Enterprises in 2005, which for the first time bring all foreign, domestic and state-owned investment and corporate activities under a single regulatory regime.

Law on Investment

The Law on Investment provides the legal foundations for all foreign and domestic investment. It declares that investment is permitted “in all sectors and in all industries and businesses which are not prohibited by law”, and guarantees that “the State shall provide equal treatment before law to all investors from all economic sectors and as between domestic investment and foreign investment”. These provisions reflect the important principle of the “level playing field” wherein foreign, domestic and state-owned enterprises operate and compete on equal terms.

It is important that this principle is reflected in all laws and regulations so that foreign and domestic enterprises are truly treated equally. Currently, domestic enterprises still enjoy preferential treatment in areas such as labour law (lower minimum wage) and land law (easier to obtain land lease).

¹VILAF Hong Duc - established in 1993 - is recognized as one of the leading commercial law firms in Vietnam. In 2006, VILAF was voted as “Vietnam National Law Firm of the Year” by the International Financial Law Review. For further information, visit www.vilaf.com.vn.

Law on Enterprises

The Enterprise Law 2005 (“EL”) is a comprehensive law on business entities, that unifies company law for all state-owned, domestic and foreign-invested enterprises.

The EL introduces much greater flexibility for corporate governance rules. Formerly, certain corporate decisions in a joint venture could only be made with unanimous approval of all parties. Furthermore, meetings of the Board of Management required a two-thirds quorum of all members, including at least one representative from each party. Hence, if one party refused to attend Board meetings, the meetings would not be validly constituted and the company would be deadlocked. In practice, these inflexible provisions meant investors preferred to set up a 100% foreign-owned company rather than taking the risk of entering a joint venture on such terms.

Under the EL, as amended according to Vietnam's commitments on joining the WTO, all companies may determine their own quorum and voting procedures, as well as issues under the decision authority of the Members' Council and Shareholders' General Meeting, in their respective company charters. This flexibility is welcomed as it allows the parties to negotiate the protections (if any) available to the minority investor(s), rather than imposing monolithic requirements on enterprises.

Administrative Reforms

The new challenge for Vietnam is to ensure that the liberalizing and more business-friendly trend in new Laws continues to be reflected in implementing regulations and administration by State officials. The Government of Vietnam needs to maintain its program of administrative reform to ensure that rights existing on paper can effectively be enforced in practice for the sake of both foreign and domestic investors without undue interference or distortion caused by incompetent or corrupted officials; that judicial and administrative procedures are conducted fairly and transparently; and that commitments made to investors are honored according to their terms.

A positive recent step has been taken with the issue of Directive 32/2006/CT-TTg of the Prime Minister dated 7 September 2006 for reducing bureaucratic burdens for doing business in Vietnam. Directive 32 obliges all state agencies to immediately implement an internal check of procedures regarding dealings with individuals and businesses, and to eliminate unnecessarily bureaucratic

aspects such as excessive documentation requirements. Agencies must establish a system of receiving and dealing with complaints about administrative procedures from service users. If effectively implemented, these measures will improve transparency and hence encourage investment in Vietnam.

Impact of WTO accession

With Vietnam joining the WTO in January 2007, a new wave of foreign investment into Vietnam is expected. In service areas, foreign investors from WTO members will be given market access in areas that were traditionally reserved for state sector or domestic companies. While certain foreign ownership restrictions remain in sensitive areas such as banking and finance, telecommunications, distribution, mining etc., the phase out schedule under WTO provides a definite date on which those restrictions will be removed. It is also expected that the tariff cuts under WTO will lead to a new move of investment in export production coming to Vietnam in order to take advantages of Vietnam's labor resources.

Vietnam's commitment to allow unlimited foreign shareholding in almost all domestic companies starting from January 2008 will offer more opportunities for foreign investors to enter the Vietnamese market by acquiring equity stakes in domestic companies. As the ongoing equitization process of state-owned enterprises gathers pace, with several large enterprises such as Vietcombank and Mobifone hitting the market this year, we expect foreign investors to focus their attention on building strategic partnerships with these established players.

On the other hand, these new investors will fully expect state officials to be competent in their administration of Vietnam's obligations under WTO rules. If the maladministration of officials results in investors being denied their rights, then the investor's home country is entitled to bring a dispute against Vietnam in the WTO dispute settlement body. Hence it is vital that officials are adequately trained and aware of their obligations under domestic law and WTO rules. For example, Vietnam has committed to allow all domestic and foreign enterprises to conduct import-export of goods from 1 January 2007. Customs officials will need to be briefed on new procedures to allow this to occur.

In other areas, there may be uncertainty about the scope of WTO commitments. It is important that WTO commitments are uniformly applied and not interpreted in contradictory ways by various authorities. Hence, the Government should consider issuing a comprehensive and authoritative codification of WTO commitments.

Vietnam In 2006: REFORM TOWARDS WTO ACCESSION

"...Vietnam's WTO negotiation process is linked with economic reforms, known as Doi moi. Economic reforms have led to sustained economic growth, which laid a firm foundation for WTO accession..."

Truong Dinh Tuyen, Minister of Trade

The year 2006 marked a great success of nearly all aspects of Vietnam economy. The granting of WTO membership for Vietnam last November made the picture even brighter.

The WTO negotiation process had profound implications for the Vietnam economy in recent years and 2006 was no exception as the country devoted its utmost efforts to obtain membership status. These above achievements largely resulted from synchronized reforms in all key economic sectors and consistency in implementing international economic integration.

Enterprise reform

- The year 2006 kicked start **the second phase** of state-owned enterprises (SOEs) restructuring. 420 SOEs was equitized, including General Corporations such as Vietracimex, Vinaconex, SABECO... A large number of equitized SOEs have reported profits and many of them are now publicly traded on the Ho Chi Minh and Hanoi securities trading centres.

According to the latest survey of the Japan Bank for International Cooperation (JBIC), Vietnam surpasses Thailand to take the 3rd place, after China and India, in the list of economies that are most attractive to foreign investors in the medium term. A large number of Japanese investors have recently relocated their investments to Vietnam.

- Another prioritized measure currently pursued by the government is to form large economic groups in order to enhance financial capacity and competitiveness. By the end of 2006, 8 such economic groups were formed in the area of insurance, telecommunication, coal, steel, electricity, etc.

- In parallel with SOEs restructuring, the creation of a level playing-field made further progress with the flourishing of private enterprises. In 2006, 41,000 new enterprises were

established, thus raising the total number of private enterprises formed since the introduction of the Enterprise Law in 2000 to 200,000.

Banking reform

Competition pressure from financial institutions on the threshold of WTO adherence urges for concrete action and response from the Vietnamese banking system. In this context, the reduction of non-performing loans to 3.2 per cent of total lending by state commercial banks in 2006 - a 50 percentage point reduction as compared with 2005 - is a positive signal. For joint stock banks, the ratio of non-performing loans is just 1 per cent.

State Bank of Vietnam (SBV)

An overall scheme to reform the SBV is being formulated, focusing on the following measures:

- The Law on Credit Institutions and Law on State Bank of Vietnam will be revised and approved in 2008.

- The SBV is set to become a modern central bank responsible for implementing monetary policy, overseeing the whole banking system and delivering international commitments.

- The supervision function of the SBV is to be separate from its administrative function in relation to state commercial banks. The SBV's supervision mechanism will be strengthened by authorizing more power to its supervising body and establishing a financial supervising committee.

- The number of SBV branches will be reduced.

State commercial banks (SCBs)

An important reform measure adopted in 2006 is to recapitalize state commercial banks through bonds issuance in order to ensure their significant role in the credit market. Besides, major SCBs reforms in 2006 are as follows:

- Separation of incentive lending from commercial loans by assigning the Vietnam Development Bank (formerly known as the Development Assistance Fund) and the Vietnam Bank of Social Policies to take over the incentive lending function.

- Continued equitization of SCBs over two steps. First, to raise SCBs' financial capacity to

meet international standards by end-2006 with BIDV, INCOMBANK and by end-2007 with the Vietnam Bank for Agriculture and Rural Development (VBARD). Second, to equitize BIDV and INCOMBANK in 2007 and VBARD in 2008.

In preparation for WTO integration, the Government issued Decree 22/2006/ND-CP on the organization and operation of foreign banks' branches, joint venture banks, foreign banks and representative offices of foreign credit institutions as a step to open the financial and banking market in line with Vietnam's bilateral and multilateral financial commitments.

Stock market development

By December 2006, 193 companies were listed on the Ho Chi Minh and Hanoi securities trading centres (HSTC) - a six-fold increase as compared with 6 months ago. The sharp increase in the number of listed companies at end-2006 is partly due to the fact that in 2007 the tax incentives available to listed companies are to be removed. It is estimated that at the fourth quarter of 2006, the Vietnam stock market grew at 19 per cent, which is the highest rate in the East Asian region.



Hanoi Securities Trading Centre

While market capitalization of the HSTC is still small it has increased dramatically from under-500 million dollars in December 2005 to nearly 4.5 billion (7.5 percent of GDP) in November 2006.

The spectacular growth of the Vietnam stock market in 2006 is attributable to the bright prospects of the economy in medium term. Besides, this is also the result of improvements in the legal environment, specifically the government's decision to raise the ceiling on foreign share holding in listed companies from 30 percent to 49 percent. Foreign investors were quite active in the stock market in 2006 as they were net buyers and accounted for around 13 percent of trading activity in the year. In addition, the market has also seen the listing of existing foreign invested companies through transformation into joint stock companies.

In 2007, the stock market is expected to growth further as the Law on Securities, which was ratified on 29 June 2006, comes into effect. The Law provides for comprehensive regulations governing activities relating to securities for the purpose of ensuring that the securities market will operate efficiently, safely, transparently, and fairly, while protecting the legitimate rights and benefits of securities investors and relevant parties.

International economic integration and trade liberalization

As WTO member, Vietnam's tariff structure will witness major changes in the post accession period, such as lower average tariff, granting of trading rights. In preparation for WTO accession, the government took the initiative in issuing export - import mechanism more appropriate with WTO regulations ahead of WTO accession through, among others, Resolution 12 dated 23 January 2006 on international goods purchase, activities of agents which have been doing purchase, processing activities with foreign partners and Resolution 19 dated 20 February 2006 on goods origin.

2006 was the first year to renew long-term measures and the management of the National Trade Promotion Programme under Decision No. 279 dated December 3, 2005 issued by the Prime Minister to help enterprises have easier access to the Programme; simplify payment procedures; give more flexibility to authorities involved in setting up and adjusting items of the Programme; manage state budget for trade promotion. The 2007 trade promotion programme was ratified in 2006. And based on outcomes of "Vietnam's days abroad", the government decided to organise this type of event every year to publish and advertise Vietnam's image.

Anti-corruption and transparency

Fighting against corruption was one of Vietnam's development priorities in 2006. To implement the Anti-corruption Law, which came into force in 1 June 2006, the Government issued Decision No. 30/2006/QĐ-TTg promulgating the Action Plan to Implement the Anti-corruption Law, under which line ministries and provincial authorities were tasked to establish concrete programmes and activities to combat corruption.

We are committed to accelerate administrative reform and the fight against corruption. Through institutional measures, policies, solutions and action, we will continue to combat corruption so as to be more accountable to donors and to our people.

Prime Minister Nguyen Tan Dung speaking to international donors at the Consultative Group meeting in Hanoi in December 2006

Another development was the establishment of the Central Committee on Anti-Corruption headed by the Prime Minister. Concurrently, anti-corruption units were established at line ministries and agencies such as the Government Inspectorate and the Ministry of Police. Also in 2006, the trial of corrupted officials, particularly those involved in the PMU 18 case, receive full support of the public.

From a financial perspective, the Ministry of Finance has begun to post quarterly budget execution reports on its website. In addition, the State Audit of Vietnam, which became an independent body reporting to the National Assembly in 2005, has made its audit results of the state budget publicly available for the first time.

Administrative reform

In line with reform pressure to join WTO, administrative reform in Vietnam in 2006 achieved remarkable results on the four key areas, namely institutional reform, organization restructuring, human resource development, and modernization of the administrative system. The government undertook a review of institutional systems to create an enabling environment for citizens, businesses and meet the demand of WTO integration.

The year 2006 was marked with strong commitment of the government to administrative reform as the Prime Ministers issued a large number of documents tasking line ministries and provinces to implement measures to ensure accountability and transparency of administrative bodies. For instance, according to Guidance No. 32 of the Prime Minister, provincial authorities have to publicize their administrative procedures and establishing hotlines to collect ideas and feedback from the people.

In 2007, the government sets the target to accelerate administrative reform through the implementation of the Administrative Reform Plan in the 2006-2010 period attached with Decision 94/2006/QD-CP of the Prime Minister. Key solutions are:

(1) Continuing to establish the socialist-oriented market mechanism, creating a favorable business environment and strengthening international economic integration;

(2) Reviewing administrative procedures at central and local level and implementing the “one-stop” mechanism;

(3) Redirecting the government function to enable it to focus on administrative issues at macro level.

Human development: Better and more inclusive education

Regulations for inclusive education for children with disabilities were issued in May 2006, aiming for their equal access to education. The regulations apply to all educational institutions in the public education system and address the special needs of children living with disabilities. A sustained effort is under way to raise the quality of primary schools nationwide, with an emphasis on schools in poorer areas. An important step towards implementation was the adoption of FSQL. The comparison, finalized at the end of 2005, showed that the average FSQL ratio, across all the quality indicators considered, had increased from 62.1 to 66.1, out of a maximum of 100. This represents an annual increase by 6.4 percent in the average FSQL index.

Vietnam in World Leaders' comments

PRESIDENT OF THE PEOPLE'S REPUBLIC OF CHINA

In the meeting with Vietnamese Prime Minister Nguyen Tan Dung on 7th November 2006, President Hu JinTao said the two countries should encourage their enterprises to explore new areas of bilateral trade, launch large-scale projects in industry, infrastructure and energy areas, and strengthen multilateral economic cooperation. "China and Vietnam, both as countries with rapid economic growth, have great potential for broader trade and economic cooperation," he added.



PRESIDENT OF THE UNITED STATES OF AMERICA



"Vietnam is like a young tiger"

"Vietnam is a remarkable country. For decades you had been torn apart by war. Today the Vietnamese people are at peace and seeing the benefits of reform. The Vietnamese own their own businesses, and today the Vietnamese economy is the fastest growing in Southeast Asia. Vietnamese students have great opportunities here at home and abroad. The Vietnamese people are traveling around the world and sharing this ancient culture with peoples of the world. And the United States, as well as other APEC partners, looks forward to strengthening our ties."

November 17, 2006



PRESIDENT OF THE RUSSIAN FEDERATION

"Our task is to diversify our relations, primarily through science-intensive products, engineering goods, communications services, space activities, and investment," President Putin told a news conference after the meeting with President Nguyen Minh Triet, adding that Russia could invest billions of dollars in the Vietnam's economy. He said that Russia was prepared to cooperate with Vietnam in the sphere of nuclear power. "We intend both to expand our interaction in the energy sector and to cooperate in the sphere of nuclear power."

PRIME MINISTER OF JAPAN

"It had been nine years since my last visit to Vietnam, and it struck me that with the streets brimming with such vitality, it has changed almost beyond recognition. The streets were lined with trees and other greenery, and families happily chatted amongst themselves as they waited for customers outside the rows of shops and businesses."



CEOs HAIL VIETNAM'S DEVELOPMENT

HORST GEICKE, CHAIRMAN AND EXECUTIVE DIRECTOR OF VINACAPITAL

" Viet Nam's investment environment is getting better every year. Especially now, there will be greater reforms in the administrative and legal systems that will encourage Vietnamese companies to grow. Vietnamese companies have a high level of entrepreneurship.

"It's an excellent time for anyone to invest in Vietnam,"



MICHAEL SMITH, PRESIDENT AND CEO OF THE HONG KONG AND SHANGHAI BANK CORPORATION (HSBC)



"Viet Nam's entry into the WTO was clearly a historic milestone for this country and also for the WTO. The fact that this APEC CEO Summit is being held here in Viet Nam is a testament to the prominent position that Viet Nam now has on the international stage, a prominent position that was due to not only how far the country has come, but the positive direction in which the economy was going."

"I think they are (Vietnam) the next China. It's not the scale of China, but it's a significant economy."

STUART L DEAN, PRESIDENT OF GENERAL ELECTRIC INTERNATIONAL (GE) OF SOUTHEAST ASIA

"We see Viet Nam as a good place for investment in the future. We would like to increase our investment,"

Nick Reilly, President of GM Asia Pacific and Vice President of GM Group



"Much more foreign investment will flow to Viet Nam. Our strategy is to grow as one of Viet Nam's partners, so that when Viet Nam grows GE also grows. We strongly believe that GE will grow even faster in Viet Nam"

Bussiness Representatives

THOMAS J. DONOHUE, PRESIDENT AND CEO, AMERICAN CHAMBER OF COMMERCE.

"With the WTO accession and enormous efforts to create the well-trained labour force, it's sure that (after 5 years) Vietnam will play a very important role in Southeast Asia as well as in the world economy"



"American investors are attracted to Vietnam's strong GDP growth, rapid industrialization, huge labor force, stable political situation and the prospect of a better business climate under WTO rules"

Adam R. Skikoff, AmCham's Executive Manager

MARK FARQHAR, CHAIRMAN OF THE AUSTRALIAN CHAMBER OF COMMERCE 'S HA NOI CHAPTER

"AusCham members have, in overall terms, remained positive about the future of their business operations in Viet Nam. Many are optimistic that Viet Nam's entry into the WTO gradually promises a more transparent, predictable, stable and equitable business environment. AusCham members look forward to the many benefits WTO membership will bring to Viet Nam's overall economy, and are optimistic about increasing growth in their own businesses."

OLIVER MASSMAN, MEMBER OF THE EXECUTIVE COMMITTEE OF THE EUROPEAN CHAMBER OF COMMERCE

"EuroCham applauds the Vietnamese Government's unswerving commitment to economic integration, and offers our fullest support in this area for the months and years ahead."

"Vietnam is a dynamically developing country with a bright future... We have many interests here, primarily related to financial activities."

President of Russia's largest privately-owned bank Alfa Bank, Pyotr Aven, part of the Russian business delegation to the APEC Summit



Big Headlines From International Newspaper

MERRILL LYNCH

“Buy Vietnam The emerging frontier of ASEAN”. Asian Insights

The Merrill Lynch strategists say Vietnam's current and future economy look promising in a different way from that showed ten years ago. Vietnam did look very promising in 1994 -1995. But when the Asian financial crisis struck, investors pulled cash out of high risk and peripheral markets - and the Vietnamese economy - and momentum was lost, the report stated. The report added that the difference between the country's economy now and its economy in the past was the stock market, which didn't exist at that time.

The Merrill Lynch strategists estimate that the GDP trend, facilitated by a proactive government policy, will remain positive and accelerate in the future. The Vietnamese government, the strategists wrote, currently run a radical and good combination of the policies designed to facilitate development of the private sector, attraction of foreign direct investment and privatisation of state-owned companies.

THE ECONOMIST

“Good Morning at last”, August 3rd, 2006.

“An economic boom (of Vietnam) is accompanied by remarkable success in getting rid of poverty and raising life expectancy.”

“This economic revolution is being accompanied by a social one. Though Vietnam is still, overall, one of Asia's poorest countries, with income per head behind India's, its recent growth has been impressively egalitarian. The Asian Development Bank (ADB) reckons that deep poverty in Vietnam defined as a daily income equivalent to under \$1 is now only slightly more prevalent than the average for South-East Asia, whereas in 1990 Vietnam's figure was more than twice the regional average. By this measure, Vietnam has overtaken China, India and the Philippines and now has only slightly more poverty than Indonesia. Life expectancy has jumped and infant mortality plunged since the 1990s. Vietnam does better on both these counts than Thailand, a far richer country. Almost three-quarters of Vietnamese children of secondary-school age are in class, up from about a third in 1990. Again, Vietnam has overtaken China, India and Indonesia.”

ECONOMIST INTELLIGENCE UNIT

Vietnam will continue to be listed as one of the fastest-growing economies in the world by 2020. Vietnam would maintain a high GDP growth rate in 2006-2020 at 5.4 per cent on the average. Growth will be driven, above all, by openness, the scope for productivity catch-up, a relatively high quality of labour, the development of information communication technology, and regulatory and institutional reforms, adding that demographic factors will also favour fast growth in Southeast Asian countries, including Vietnam.

EIU predicted that Vietnam's GDP growth rate would stand at 7 per cent in the 2006-2010 period while China tops the list with 7.8 per cent. Vietnam will, however, rank before other ASEAN countries such as Indonesia 5.6 per cent, Malaysia 5.3 per cent, the Philippines 5.2 per cent, and Thailand 4.5 per cent in the next five years.

JETRO

JETRO annual survey of performance of Japanese manufacture companies operating in 6 ASEAN countries, May 4.

In terms on middle and long-term investment, Thailand and Vietnam are considered as the 2 best destinations among the surveyed countries; 20.5% of asked Japanese investors want to expand their operation from China to Vietnam, 2.8 times as many as those eyeing Thailand (7.4%). 6.8% of asked firms intend to shift part of their business from China to Vietnam, more than doubling the figure for Malaysia, which ranks second (3.1%). Japanese investors explain their choice that in Vietnam, investment costs are lowest. Moreover, social and political stability, good labour management and stable exchange rate are among the country's advantages.

Vietnam Vision 2010: Aiming High

In essence, Vietnam in 2010 will be characterized by four foundations: Economy, society, environment protection, and political reform. Taken together, these foundations will help accelerate sustainable development, reduce the risk of "lagging behind", and promote Vietnam's emergence from a low income status.

Economic Development

Vietnam's economic growth is expected to be about 7.5-8.0 % per annum for the period 2006-2010. By 2010, GDP per capita in Vietnam could reach 1050-1100 USD, thereby promoting Vietnam out of the low-income countries group.

Attracted foreign investment capital may contribute one-third of the total social investment of the country in the next 5 years.

Critical action areas include:

Strongly building up market institutions while creating equal playing fields for all types of ownership; ensuring the free flow of diverse commodities and services, and the efficient allocation of social resources through financial, commodity, labor, and sci-technology markets; and establishing appropriate institutional and legal frameworks.

Actively developing all economic sectors through state enterprises equitization; creating favorable conditions for private sector investment without unduly limiting their scales, trades, fields, and regions.

The ninth Session of the 11th National Assembly of the Socialist Republic of Vietnam also approved the Five year Social-Economic Development Plan, 2006-2010 in June, 2006 which clearly indicates overall sustainable development objectives as follows:

"Boost the economic growth rate, enhance the effectiveness and sustainability of development, and quickly bring our country out of the low development state. Significantly improve the people's material, cultural, and spiritual lives. Boost the industrialization and modernization and develop the knowledge-based economy, and create foundations to make our country basically become a modern industrial country by 2020. Stabilize politics, public order, and social safety. Firmly protect our independence, sovereignty, territory, national security. Continue strengthening and expanding foreign relations and improve Vietnam's status in the region and the international arena."

Vigorously promoting macroeconomic stabilization, where both monetary and fiscal policies aim to control inflation and ensure the safety of the banking system and credit organizations .

Comprehensively reforming the government sector through administrative means, including those which, 1) improve people's access to a transparent, responsible and participatory government, 2) abolish bureaucratic and costly procedures, and 3) eliminate corruption and rent-seeking behaviors of government agencies, and each of which promotes democracy and transparency of the government system.

Social Development

Vietnam has achieved most post-1993 millennium development goals. The next phase of development, the period 2006-2010, will be "Aiming High" with more ambitious social objectives; for example life expectancy of about 72 years in 2010, and poverty rates halved to 10-11% in the same year.

In the education sector, Vietnam will focus not just on quantity, but will set quality standards to assess education system performance. By 2010, there will be around 100 universities meeting international standards or accredited; primary education presently is mandatory, and by 2010 lower secondary school also will be universalized.

In the health care sector, Vietnam will increase resources from society, open the insurance market to competition, create specific programs for the poor and disadvantaged, and expand health insurance coverage to farmers, the self-employed, and similar persons. 2010 health care objectives include an under-1 infant mortality rate of less than 16%, an under-5 infant mortality rate approximating 25%, and an under-five malnutrition rate below 20%. By 2010, 100% of the poor people will get free insurance. Vietnam began to restrain the



Can Tho Bridge

HIV/AIDs infection rate in 2005 and seeks to reduce it 50% by 2010.

A final social development goal is promotion of various qualitative objectives, such as freedom of religion and belief, advancing Vietnam on a path to become "a wealthy people, strong country, and a fair, democratic and civilized society". To this end, Vietnam will create favorable conditions to protect the basic rights of children and women and to increase the role of women in the development process.

Environment protection

Vietnam is strongly committed to protecting the environment. Specific 2010 objectives include country-wide forest coverage of 42-43%, clean technology application by 100% of level 1-3 cities and 50% of level 4 cities, use of clean technology by 50% of the commercial sector, and clean water access by 95% of urban population and 75% of the rural population. Also by 2010, 100% of industrial and export processing zones will be equipped with centralized wastewater treatment systems, 90% of solid waste collected and treated, and 80% of hazardous waste and 100% medical waste treated. Vietnam will apply various measures to realize these goals, such establishing pollution monitoring systems, reclassifying forest and biodiversity, strengthening the biodiversity protection legal framework, encouraging community involvement and creating buffer zones, and implementing master plans for solid waste collection and treatment.

Political reform

There are three major political reform measures as follows. **Firstly**, building a stronger and more effective national assembly, media and civil society sector, in which the voices of the poor and diverse interest groups will be included in the policy making process. **Secondly**, restructuring the government agencies to enhance their coordination, reducing bureaucracy and transaction costs, increasing public procurement for non-state sectors, and providing the opportunity for frequent dialogues among government agencies and citizens. **Thirdly**, Vietnam will operationalize the Steering Committee Against Corruption headed by Prime Minister, publicly disclose reports of major inspections, create an information access legal framework, and establish mechanisms facilitating people's participation in the fight against corruption. These political reforms will create favorable conditions for attaining Vietnam's MDGs.

Key policy priorities for the next Five Years

Implement WTO commitments, emphasizing a “development approach”, instead of a “compliance approach”.

Deliver on the banking reform agenda, bringing in strategic investors to change the governance of SOCBs and strengthen their commercial orientation.

Separate SOE ownership from regulation; maximize returns on state capital and report those returns transparently.

Simplify administrative procedures for business, remove unnecessary licenses and eliminate red tape.

Establish appropriate regulatory frameworks (private participation, access, pricing ...) for infrastructure.

Shift to demand-side financing of health, expanding health insurance coverage, subsidizing participation, and modernizing labor market regulations.

Ensure that forest land is allocated to ethnic minorities and targeted programs are adjusted to their specific needs.

Make land-use planning, administration and conversion more transparent; bring land valuation closer to market prices for taxation and compensation purposes.

Foster the development of strategic planning at the provincial level and introduce long-term regional planning.

Further reform the management of public finance with a focus on information systems for public debt and contingent liabilities.

Increase the availability of specialized judges; revamp court finance and focused procuracy to increase the independence of courts.

Develop reliable household and enterprise user feedback on key public services and agencies, by province.

Implement an effective mechanism to monitor the assets of senior civil servants and their immediate families.

FROM PLAN TO ACTION¹

The WB and the IMF have concluded that the new Socio Economic Development Plan 2006-2010 (SEDP) is fiscally sustainable, as a result of the harmonization of four strategic pillars: business development, social inclusion, natural resources and modern governance.

“... The vision outlined by the SEDP is one characterized by important trade-offs, in each of the pillars of the reform program“

***In relation to business development**, there is a tension between investing massively and investing well. The former choice can be justified in light of the enormous infrastructure needs of the next five years; the latter focuses on achieving efficiency in public projects and not crowding out private investment through excessive taxation or public debt.*

***Within the social inclusion pillar**, the tension is between rapidly raising incomes in the economic hubs of the country and the prospect that specific population groups, and especially ethnic minorities, could be left behind. This is mirrored by the tension between fully integrating in the global economy, so as to make the most of market opportunities, but becoming more exposed to market fluctuations and sudden downturns.*

***The environmental trade-off** is perhaps the most obvious at this point. The still poor Vietnam of today could choose to sacrifice clean air and water and biodiversity to achieve faster growth, but the richer Vietnam of tomorrow (or the children of those who decide today) would regret that choice.*

*Finally, **in relation to building modern governance**, the trade-off is between the need to delegate more responsibilities to local levels, or stakeholders outside government, and the risk that such delegation may increase fraud and corruption. As the government gradually moves from doing to steering, increased transparency and accountability will help in resolving these trade-offs. They will also be essential to contain and gradually eliminate corruption...”*

Vietnam Development Report 2007, p.ii².

¹ This writing is based on Vietnam Development Report 2007, Joint Donor Report to the Vietnam Consultative Group Meeting (Hanoi, December 14-15, 2006).

² Joint Donor Report to the Vietnam Consultative Group Meeting (Hanoi, December 14-15, 2006).

PILLAR I. BUSINESS DEVELOPMENT

Creating a fair business environment and establishing a favorable legal framework for domestic and international enterprises and investors are crucial tasks for Vietnam's policy-makers.

1. Global integration:

In the context of rapid development, Vietnam will effect various changes in policy to enhance the process of global integration and to implement what is committed:

- ▶ Issue a Decree granting import and export trading rights to all foreign firms in line with international commitment;
- ▶ Issue regulations to guide the intellectual property law with adequate enforcement mechanisms;
- ▶ Establish an empowerment mechanism to coordinate inter-agency tasks in implementing international commitments;
- ▶ Complete the legal framework enabling improved provision of logistic services, including multi modal transport;
- ▶ Strengthen the regulatory framework for business association to allow greater freedom to engage in policy formulation.

2. State sector reform:

In the coming years, state sector reform will continue as an important SEDP priority:

- ▶ Revise Decision 155 to further restrict the activities requiring 100% state ownership retention.
- ▶ Use share auctions as the main mechanism for equitization, and allow foreign strategic investor participation.
- ▶ Strengthen transparency in the performance of SOEs and financial operations of State Capital Investment Cooperation.
- ▶ Transfer State Forestry Enterprise land to local authorities for reallocation to households, ethnic minority groups and private enterprises.
- ▶ Strengthen transparency and limit scope of related lending and affiliated party transactions of Economic Groups.

3. Financial sector:

Vietnam has experienced a rapid expansion of financial depth and scope in recent years without encountering major turbulence. There has been sustained monetization of economic transactions, expansion of credit, a rapid growth of stock market capitalization, a gradual bond market emergence, and a boom in insurance. In 2007, the SEDP will continue to devote appropriate attention to the very important financial sector.

► In the banking sector:

- o Disclose financial statements of State-Owned Commercial Banks (SOCBs) consistent with internationally accepted standards.
- o Reorganize the functions of State Bank of Vietnam, to focus on monetary policy and supervision and to, 1) eliminate its authority to exercise SOCB ownership rights and, 2) to complete equitization of four large SOCBs including the participation of strategic investors.
- o Revise the law on credit institutions to provide a profit orientation and full autonomy to SOCBs.
- o Conduct a portfolio review of the Vietnam Development Bank to promote enhanced access and to better manage risk.

► In the financial sector:

- o Fully implement a central security depository.
- o Revise the legal framework to constitute the State Securities Commission as an operationally independent body.
- o Introduce market makers to facilitate the development of bond market.

4. Private sector development:

Vietnam has succeeded in building a multi-stakeholder economy, including a vibrant private sector, over a relatively short period of time. This success is partly due to the simplification of administrative procedures for enterprises, and a gradual leveling of the playing field between SOEs and the private sector. In the next year, these two processes will be further deepened and continue to receive due attention from the government., as detailed below:

- Issue a new business registration decree prescribing reduced processing times and a

rationalized fee structure.

- ▶ Specify authority for investment certificates and condition sectors; standardize related documentation.
- ▶ Issue guidelines and options to foreign investors to conform to new Investment and Enterprise Laws.
- ▶ Establish a mechanism to oversee implementation of the new investment - enterprise regime, including a provision for broad consultation.
- ▶ Establish a national business registry with a unique number for business, tax, statistics and seal agencies.
- ▶ Link the agricultural extension system with research and markets and allow competition among service providers.
- ▶ Strengthen regulatory framework for non-bank finance, such as factoring and leasing services.

5. Infrastructure:

Meeting the infrastructure needs of Vietnamese economy over the next five years will require an extraordinary mobilization of resources. For this reason, the infrastructure development plan is a central SEDP issue, and will be addressed by the following actions:

- ▶ Utilizing the legal framework for infrastructure development through a BOT decree clarifying technical specifications, investor qualifications, and treatment of unsolicited bids, and through regulations minimizing conflicts of interests in projects financed by provincial infrastructure funds.
- ▶ Strengthening urban planning and urban infrastructure management and effectively implementing Decree 131 on ODA management which authorizes greater decentralization and devolution in aid management, especially in infrastructure projects.
- ▶ Strengthening the legal framework to promote economical and efficient use of energy; for example, adopting market pricing for petroleum-based fuels.
- ▶ Implementing roadmaps for unbundling electricity and telecommunication services.

PILLAR II. SOCIAL INCLUSION

The rapid development of Vietnam's economy creates a huge opportunity for the country but it is also accompanied by various negative effects on society. Social inclusion has been identified as an important pillar of the SEDP and will receive appropriate attention from the government, starting in 2007.

1. Education:

- ▶ Improve education quality through the introduction of standards for learning outcomes, teacher performance, institution capacity and implementation of an Education Management Information System.
- ▶ Clarify ministerial responsibility and enhance private sector participation in public vocational training programs.
- ▶ Facilitate establishment of empowered Boards with academic and business participation to increase autonomy of universities.

2. Health:

- ▶ Improve budgetary balance between health infrastructure, human resources, subsidies and preventive care;
- ▶ Strengthen regulation of pharmaceutical industry and marketing of medicines, operate Vietnam Social Security as a wholesale purchaser of healthcare packages, and foster competition between providers;
- ▶ Develop information tools to monitor performance of healthcare providers and certify their technological level;
- ▶ Establish affordable health insurance premiums based on user - group demand characteristics.

3. Social Protection:

- ▶ Introduce unique social insurance numbers for all targeted benefits and social insurance programs;

- ▶ Strengthen management of pension reserves with prudential guidelines for investment and mechanism for accountability;
- ▶ Conduct nationally representative survey for reliable data on economic activity, work conditions, earnings, and labour relations.

4. Gender:

- ▶ Approve laws to redress gender disparities in existing legal documents and women's participation in decision making, especially the Law on Gender Equality;
- ▶ Create a legal framework for domestic violence prevention and control;



PILLAR III. NATURAL RESOURCES

Rapid economic growth has come at a price for natural resources. Today's poor Vietnam could choose to sacrifice clean air and water and biodiversity to achieve faster growth, but the richer Vietnam of tomorrow would regret that choice. Awareness of natural resources conservation importance is growing, but developing and implementing appropriate policies is not easy. However, despite that difficulty, as Vietnam continues to develop, it must find ways to better protect its natural resources.

1. Land and forests:

Strengthen linkages between protective and economic functions of forests and promote local ownership:

- ▶ Mandate public auctions for allocation of high-value plots of land.
- ▶ Increase transparency of land conversion, acquisition, resettlement, valuation and compensation.
- ▶ Issue guidelines on bottom-up land use planning with proactive roles for local communities and the private sector.

2. Water:

- ▶ Enact legal and institutional frameworks for integrated river basin management.
- ▶ Enact and implement water resources laws applicable to all activities that exploit water or affect its quality.
- ▶ Strengthen inter-agency coordination and encourage greater commune and private sector participation in sanitation.

3. Environment:

- ▶ Mainstream environmental issues in planning processes, especially through strategic environmental assessment at the sector level.
- ▶ Use economic and administrative tools for pollution control; for example, the recently introduced wastewater fees and penalties for non-compliance.
- ▶ Minimize bio-diversity decline through the expansion of protected areas.
- ▶ Include environment issues into the legal framework through the Amended Law on Environmental Protection (effective in July 2006) and the National Environmental Protection Strategy.

PILLAR IV. MODERN GOVERNANCE

Socio-economic development depends very much on macroscopic governance. Modern government is necessary to navigate the right direction toward a brighter view.

1. Planning processes:

SEDP embodies the transition from planning with a command approach to planning for a market economy. This requires a strong leadership which the new Planning Law provides. The SEDP considers decentralized planning as part of the “perfect performance mechanism”, particularly in respect of key considerations such as scientific planning and transparency:

- ▶ Allocate state capital expenditure transparently, using criteria like population, poverty and ethnicity.
- ▶ Establish clear criteria for selecting public investment projects, including mechanisms for their financing.
- ▶ Adopt regulations for master and regional plans specifying issues, process, agency responsibility and required disclosures.
- ▶ Integrate sectoral policies and national target programs at the commune level, emphasizing participation at all stages.

2. Public financial management:

Strengthening the management of public expenditures has been a priority of the Vietnamese government over the last decade, with enormous progress made since 2002, when the landmark Revised Law on the Budget was passed. Following this flow, sound public financial management system continues to be developed toward transparency and efficiency. Key milestones will include:

- ▶ Disclosure of the State Audit of Vietnam report on the state budget annually and publication of regular, within-year disaggregated budget execution reports.
- ▶ Conduct an internal self-assessment employing the Public Expenditure and Financial Accountability (PEFA) framework.
- ▶ Issue regulations to guide the terms, conditions, and issuance of benchmark government bonds.

- ▶ Consolidate administration procedures for all taxes into a single modern and enforceable law.
- ▶ Issue public sector financial reporting standards in line with international standards.
- ▶ Implement the Treasury and Budget Management Information System (TABMIS) nation-wide.

3. Legal development:

Vietnam is not only experiencing very rapid economic growth, it is also going through a process of deep social and institutional transformation. Supporting this high-pace change demands adjustments in the legal framework and the judicial system, especially when required by international commitments such as USBTA and WTO. In the year 2007, with a clear commitment to build a transparent society under the rule of law, four priorities have been stressed:

- ▶ Reform the law-making process, by facilitating greater citizen participation, enhancing the representative role of legislative bodies, and improving the skills of legal draftsmen.
- ▶ Ensure the constitutionality and legality of norms, by monitoring administrative regulation and reducing the number of legal document forms.
- ▶ Strengthen judicial reviews, building independent administrative tribunals to help ensure the citizens' rights to complain.
- ▶ Empower district courts with increasing jurisprudence over civil and criminal cases, gradually building a system of high courts for appellation and other specialized courts; for instance, on intellectual rights.

4. Public administration reform

Vietnam is in a process of fundamental economic renewal. Public administration under the new orientation is bound to differ considerably from the central planning model. The following methods included in the Public Administration Reform Master Plan Phase II (2006 - 2010) illustrate the Vietnamese government's approach to reorganizing government functions, streamlining administrative processes and strengthening accountability:

- ▶ Continue simplification of administrative procedures by making the existing One-Stop-Shop (OSS) program fully operational.
- ▶ Introduce common standards for IT applications and e-government interfaces.

- ▶ Implement mechanisms to manage complaints in cases of harassment and abuse of power affecting citizens or firms.
- ▶ Extend adoption of ISO standards to simplify procedures and improve quality of administrative agencies.
- ▶ Conduct user feedback surveys to assess quality of public service delivery.
- ▶ Revise the legal framework to expand the scope of judicially reviewable administrative case decisions, including land.

5. Fighting corruption

A strong political will to fight corruption has emerged in recent years in Vietnam. However, corruption will not be eliminated overnight; international experience show that there is no quick-fix recipe and that constant and concerted efforts are needed to fight this problem effectively. Enactment of the Law on Anti-Corruption in 2006 is one such effort, and others described in the SEDP include:

- ▶ Operation of the Steering Committee Against Corruption, headed by the PM who is authorized to dismiss corrupt high level officials.
- ▶ Foster government transparency through disclosing reports of major inspections overseen by the Steering Committee Against Corruption, and reports in areas considered vulnerable to corruption which expose loopholes.
- ▶ Increase the accountability of government officials through the principle of open civil service activities and strict observance of the law by the whole institution.
- ▶ Establish mechanisms to protect and reward whistle blowing of corrupt activities.
- ▶ Enact laws on access to information and law on media to encourage responsible investigation and reporting on corruption.

TRADE AND INVESTMENT PROSPECTS

Since the launching of Vietnam's renovation policy, widely known as Doi moi, in the mid-1980s, the expansion of external economic relations has served as momentum for its impressive economic achievements. As Vietnam becomes a full member of WTO in 2007, huge opportunities for boosting trade and investment are looming large.

Trade prospects

Between 1996 and 2006, the total trade turnover increased from about US\$18.4 billion to US\$84 billion. In five years (2001-2005), the export increase averaged 17% annually, nearly 2.3 times higher than the GDP growth. And the export income per capita reached approximately US\$390 by 2005.

WTO membership opens up the world economy for Vietnam's exports and is expected to grow Vietnam's global trade to a higher level.

It is hoped that Vietnam will follow China's success after accession. The economic integration process in the last decade has shown that the more Vietnam integrates into the region and the world, the more Vietnam earns. In 1995, Vietnam became an ASEAN member and joined the AFTA. There were some concerns about decreased exports, however Vietnam's exports increased dramatically. Since 2001 when the Bilateral Trade Agreement (BTA) with the U.S came into force, two-way trade between Vietnam and the U.S has grown from approximately US\$700 million to US\$7.8 billion, an increase of more than 400%¹.

The WTO accession provides Vietnam borderless markets of goods, service, capital, and labor.

Vietnam will be able to export currently competitive goods such as agricultural products and textiles through non-discriminated trade, lower tariffs, and fewer non-tariff barriers. Within 10 years of accession, Vietnam's textiles exports will not be affected by quantitative restrictions set by textiles importing countries. Rice is another product benefiting from the accession. Quotas on rice and other agricultural products are replaced by tariffs which will be reduced under the WTO roadmap. At the moment, Asia is the main market for rice. Other markets, such as Europe and North America, have started to import Vietnam's rice and are expected to grow following the accession.

¹ source: USTR (United States Trade Representatives)

Vietnam can better protect her benefits through a trade dispute settlement regime.

WTO membership will help Vietnam to strengthen its trade negotiation position and to acquire easier access to fair and effective rules for trade dispute settlement. Vietnamese enterprises also will be better protected by the WTO dispute settlement regime and other WTO instruments. Furthermore, as a developing country, Vietnam is given some preferential and special treatment such as export subsidies for non-competitive goods.

WTO accession puts pressure on raising the competitiveness of products.

Trade liberalization will open the Vietnamese market for goods of high quality and reasonable price. In the short-term, some industries will be losers and should strive to survive by applying international standards and increasing their competitiveness. This period of change is considered to be a driving force in reforming and strengthening Vietnam's ailing industries. However, in this new era of fierce competition, even leading exports may be affected and so must raise quality and add value.

Table 6: Level of export potential

Level of export potential	Short-term	Long-term
High	Rice, coffee, pepper	Rice, coffee, pepper, rubber
Medium	Rubber, tea	Tea, vegetable
Low	Vegetables, pork	Pork

(Source: CIEM)

Vietnam accession to WTO also benefits other members. The partners will enjoy new opportunities for their key exports to Vietnam and participation in Vietnam's exports to other countries.

Box 1: Main WTO Commitments

Policy Area	Commitment
Tariff Reductions	Average tariffs to fall from current level of 17.4 percent to a final bound of 13.4 percent. Agricultural tariffs to decline from 23.5 percent to 21 percent. Non-agricultural tariffs from 16.6 percent to 12.6 percent. Tariff reductions to occur over 5-7 years, mostly in equal annual cuts.
Trading Rights	All foreign firms and individuals authorized to import and export, except items subject to state trading. Importers can choose their domestic distributors. No minimum capital requirements for firms engaging in trading activity. Transition period up to January 2009 for foreign pharmaceutical products considered essential to human life, and for other products considered sensitive to public morals or public order. Transition period up to January 2011 for foreigners for rice.
State Trading Enterprises	Manufactured tobacco products; culturally sensitive products such as newspapers, journals and audiovisual materials; and petroleum and aircraft which are considered natural monopolies.
Excise Duties	Within three years a single rate will apply for all forms of beer (draught, fresh, bottled, canned) and a single rate for all spirits containing alcohol of 20 percent or more.
Tariff rate quotas	Eggs, un-manufactured tobacco, sugar and salt. Quota volumes increase at 5 percent annually
Quantitative restrictions	Import bans on cigarettes, cigars, large motorcycles and used cars to be abolished. Cigarettes and manufactured tobacco products (including imports) subject to production quotas.
Export restrictions	Export controls on rice for food security reasons. Controls on wood products and minerals for environmental reasons and to prevent illegal exploitation
Standards	Comply with TBT and SPS upon accession.
Agricultural Subsidies	"Amber box" or supports that have direct impact on prices, or quantities of 3.96 trillion dong in addition to the de minimus allowance to developing countries of up to 10 percent of the value of domestic agricultural production.
Agreement on Subsidies and Countervailing	Comply upon accession. Subsidies in the form of investment incentives contingent upon exports to be phased out over five years for existing beneficiaries
TRIMS	Comply upon accession. Preferential state credit and import tariffs contingent upon localization ratios to be abolished.
TRIPS	Comply upon accession.
Information Technology Agreement	Agreement signed. Around 330 lines on IT products to be reduced to zero mostly over 3-5 years. but some after seven years.

It is possible to say the accession of Vietnam will be a "win-win" deal for Vietnam and trading partners. The export turnover is expected to reach US\$67.5 billion by 2010 or US\$257 billion in the five years 2006 - 2010². In this period, Vietnam will import from other countries an amount of US\$286.5 billion.

² Vietnam's five year socio-economic development plan 2006 - 2010



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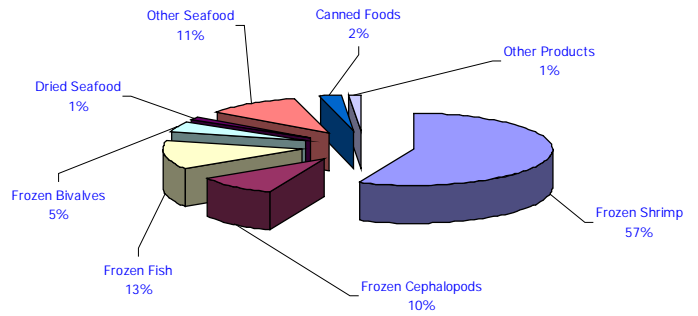
Founded on 26/6/1978, SEAPRODEX is the largest State Owned Corporation in aqua-products. With 26 affiliates all over the country, SEAPRODEX is a multi-sectoral corporation with various fields of business, including importing and exporting.

Main focus: Processing and exporting aqua-products with 14 international-standard-compliant processing factories.

International standard products

Production capacity per annum: over 30,000 tonnes of aqua-products.

EXPORT PRODUCTS SHARE (VALUE)



Other fields of activities: Import and supply of machineries, equipments, consumer products, parts, materials; manufacturing and assembling of thermo-electric and mechanic equipments; civil and industrial construction; leasing warehouses, offices and other real estates; travel service, training and supplying human resources to foreign countries; producing and supplying feeds for aquaculture.

Turnover per annum: about US\$ 400 million, of which US\$ 180 million comes from aqua-product export.

Export markets: over 30 countries and territories in the world, including the USA, Japan, EU, Korea, etc.





Every effort to improve our product quality and service and dedicated to providing customers the world over with the finest

Good rice - Good Life

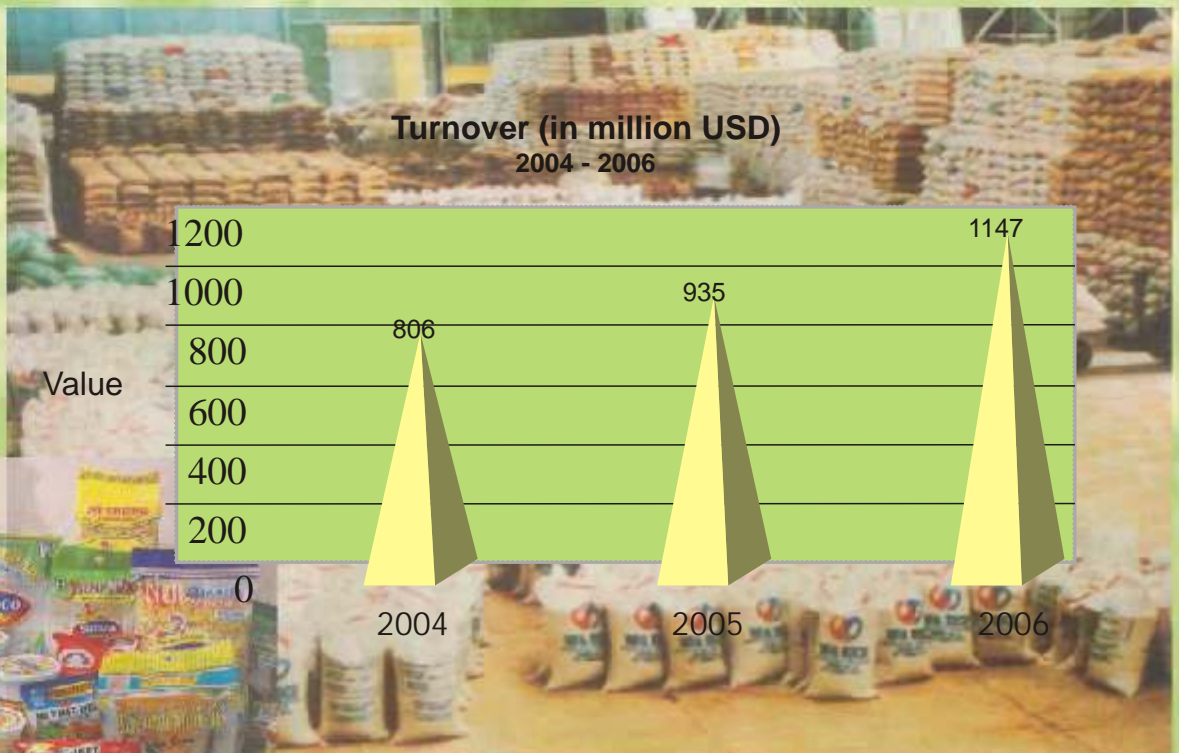


Established in 1995, VINAFOOD II is the biggest corporation dealing in food preserving, processing, trading and exporting in Vietnam.

Consisting of 30 member companies located in almost all southern provinces of Vietnam, the corporation is the major rice exporter of Vietnam to all continents in the world.

VINAFOOD II focuses on Rice, Tapioca, Maize, Wheat, Wheat Flour, Processed Foods and Fish.

In recent years, VINAFOOD II has gained vigorous growth.



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Investment prospects

To maintain the growth rate of around 8% in the next five years, Vietnam needs US \$ 140 - 150 billion for investment. In 2006, foreign direct investment reached the highest ever number of US\$ 10.2 billion.

Foreign investment, both direct and indirect, is expected to be in an upsurge in the next five years.

WTO membership will have positive effects on inward foreign investment because it strengthens the economy's openness and expands the market size. In general, economies open to trade are attractive to foreign investors for two main reasons: the openness signals that the government has policies in place that welcome both trade and (by implication) competition, and it helps reassure investors that they can repatriate their profits. Joining the world trade bodies, Vietnam not only commits itself to further reforms but also aligns its rules and regulations with international standards and practices. Foreign investors now enjoy equal footing with their domestic counterparts in the legal environment, while trade-related restrictions on investment have been removed.

As the country liberalizes its trade in goods and services, there are new opportunities for the exporting, import-substituting and service sectors.

With lower tariff barriers, the cost of doing business in Vietnam will be lower than it used to be, which will help boost the competitiveness of local production. The newly formed and booming service sector is also open to foreign service providers, who usually come in the form of foreign investment i.e., setting up branches or affiliates, etc.

"I expect Vietnam will be the fastest growing country in the next 10 years, far more than anywhere else in ASEAN," said Spencer White a Merrill Lynch strategist - on post-WTO opportunities.

With regards to market size, with its WTO membership and further liberalization efforts like the AFTA with ASEAN countries and possible FTAs, the Vietnam market is a global market. Moreover, its domestic market is also expanding rapidly, at an annual growth of 20 percent and consumption from the population of 82 million. This will encourage

higher levels of domestic investment and savings, which will help the economy to gain sustained momentum for growth and attract more foreign investment.

Efforts to combat corruption.

Such bright prospects for growth in general and for foreign investment in particular might be affected by red tape, which has been identified as one of the hindrances to business. However, the government has committed to further economic and administrative reforms to make the economy more attractive and has gained investors' confidence.

A procession of investors are coming to Vietnam.

To the investors, Vietnam's WTO official accession may be a historic milestone, but perhaps not the most decisive factor in their confidence in the country's economic outlook.

"The country has done many things along the way, especially in terms of reforms and investment. Vietnam's WTO entry is a good marker, but at the same time, it is just a marker," said Sin Foong Wong, country manager of the International Finance Corporation (IFC) under the World Bank Group. It is the success of reform would ensure the bright future of Vietnam economy.

Foreign Indirect Investment (FI) is a new source of investment capital.

The year 2006 saw the largest-ever number of companies listing on the exchange. A total of 193 companies are now listed at the Ho Chi Minh City and Hanoi Securities Trading Centres, up from 32 at the end of 2005. December was the busiest month with 50 companies getting on board. The market capital of listed companies totaled around US\$ 14 billion, representing almost 22.4 percent of the country's GDP, and exceeding the target of 15 per cent for 2010. In 2007, the stock market is expected to grow further as the Law on Securities, which was ratified on 29 June 2006, comes into effect. The Law provides for

comprehensive regulations governing activities relating to securities and is intended to ensure that the securities market will operate efficiently, safely, transparently, and fairly, while protecting the legitimate rights and benefits of securities investors and relevant parties.

The outlook of Vietnam's inward FII attraction in the medium term is bright as its position in the international financial market has improved steadily.

At present, securities service providers are limited to establishing representative offices and to joint-ventures with Vietnamese parties. Pursuant to WTO commitments, however, foreign securities companies can be formed 5 years after Vietnam's accession and can operate in such areas as consultation, brokerage, enterprise restructuring, etc. It is noteworthy that foreign investors have recently become increasingly active in the stock market, as they were net buyers and accounted for around 13 percent of trading activity in 2006. In addition, the market has also seen the listing of existing foreign invested companies through transformation into joint stock companies. Top foreign securities firms have entered the Vietnam market, including Nomura International (Hong Kong) Ltd., Blackhorse Asset Management Pte. Ltd. of Singapore, and Mirae Maps Investment Management Co. of South Korea. Merrill Lynch has also decided to enter Vietnam's financial market with a trading code through its custody bank HSBC.

The outlook of Vietnam's inward FII attraction in the medium term is bright as its position in the international financial market has improved steadily. Moody's Investor Services, the rating agency, in July 2005 raised Vietnam's sovereign credit rating from B1 to Ba3 against the country's improving external performance. Standard & Poor's Ratings Services in September 2006 also raised the country's long-term foreign and local currency sovereign credit ratings on Vietnam to 'BB' and 'BB+', from 'BB-' and 'BB', respectively. The outlooks on the long-term ratings are also stable, while both short-term foreign and local currency ratings are affirmed at 'B'.

Box 2: WTO commitment on Services

Vietnam has made substantial commitments to open up a wide range of 110 in 155 sub-sectors of all 11 service sectors, including some key sectors like telecom (including satellite services), distribution, financial services, and energy services, insurance (non-life), securities and banking,...

Most of services sectors will welcome foreign investors to establish foreign owned companies. In some cases, permitted foreign ownership is immediately 100% (for example accountancy). In many cases, the permitted foreign ownership is phased in to reach 100% after a few years (for example express delivery courier services, some sub-sectors of financial services, non-life insurance branches,...). In some services, like telecommunications, securities, etc., the eventual limits can be 49% or 65%, depending on the service.

The effect of the commitments depends also on complex relationships with domestic regulations for example in the first two years, 100%-foreign-owned architectural firms can only serve foreign companies; in insurance, there is no barrier to the establishment of foreign insurance companies, except that compulsory insurance is only allowed till 2008.

Foreign service providers will be able to provide a wide range of services, namely reinsurance, pricing support, consultancy in insurance service; property management, investment fund management, deposit, inter-bank clearing settlement, supplying and exchanging financial information, consultancy in securities service, etc.

In some cases, Vietnam still retain the right to limit foreign ownership in branch establishment (in certain sectors), personnel proportion (at least 20% of Vietnamese employees in foreign companies), stock proportion (maximum of 30% of domestic banks' stock), establishment of foreign retail outlets (the second outlet is licensed on specific cases).

(Source: Report of the Working Party on the Accession of Vietnam)



Stock market

2006 in focus

2006 IS THE MOST IMPRESSIVE YEAR IN THE SIX-YEAR HISTORY OF VIETNAM'S STOCK MARKET

DYNAMIC MARKET

Companies rush to the bourse. By end-2006, 193 companies were listed at the Ho Chi Minh City and Hanoi Securities Trading Centres, up from 32 at the end of 2005. Also, 60 security companies and 20 fund management companies were established.

VN-Index hit high record. On 29 December 2006, VN-index stood at 751 point, indicating a 146 percent increase over the previous year. At the fourth quarter of 2006, the stock market grew at 19 percent, which was the highest rate in the region.

Market capitalization of listed companies currently totals around US\$14 billion, representing 22.7 percent of the country's GDP.



U.S. President George W. Bush's visit to the Ho Chi Minh City Securities Trading Centre (HSTC) on 20 November 2006 has accelerated the process of reaching a memorandum of understanding on cooperation between the HSTC and the New York Stock Exchange.



MARKET TO GROWTH FURTHER

In 2007, the stock market is expected to continue its remarkable growth rate as the Law on Securities comes into effect. The Law provides for comprehensive regulations governing activities relating to securities for the purpose of ensuring that the securities market will operate efficiently, safely, transparently, and fairly, while protecting the legitimate rights and benefits of securities investors and relevant parties.

ACTIVE FOREIGN INVESTORS

Foreign investors accounted for 13 percent of trading activities in 2006. 23 top foreign securities firms, including JP Morgan, Merrill Lynch, City Group, Nomura International Ltd. (Hong Kong), Blackhorse Asset Management Pte. Ltd (Singapore), are active in Vietnam with total investment of over US\$2.4 billion. Pursuant to Vietnam's WTO commitments, securities companies totally owned by foreigners can be established 5 years after the date of its WTO accession.

Hub Of Opportunities

This section is to give foreign partners an insight into some key industries and services, namely transportation, energy, telecommunication and capital market, from which they can benefit and hand a help to Vietnam's economy.

TRANSPORTATION

The transport sector has developed quickly over the last decade, contributing significantly to economic growth. However, constraints remain

Overview

In 1999 2005 period

Demand for transport	Slightly faster than GDP
Freight and passenger demand	10% increase (in ton/passenger km)
	Accounting for 65% of tons moved.
Road-a dominant mode	84% of national roads are paved, an increase from 61% in 1997. Reaching regional standards .
	1/4 of 86,000 km network in good or fair condition
	42% of the provincial roads providing connectivity to the main network are in good condition
Annual throughput of sea ports	Double from 56 million tons in 1998 to 114 million tons in 2003
Share of rail (ton-km)	3% to 4% between 1999 and 2003. Total length: 2,600 km connect with China.
Share of air transport (passengers and goods)	Increasing significantly
Share of coastal shipping	76% of all ton-km due to its dominance in long distance movements
Private investment	Less than 2% of total capital expenditures during last decade. Transport infrastructure remains nearly exclusively provided, owned, financed, built and operated by the public sector
Tariff at Saigon port	Quite competitive with other feeder ports in ASEAN and China.
Trucking costs	Comparable to those in Thailand and 40% lower than those in the Philippines. Intercity bus fares: 25% and 37% lower than those in Thailand and the Philippines respectively.

Constraints

Outdated communication equipment of rail infrastructure: Only 40% of the railway stations are supplied with semi-automatic signals. Train operating speeds are low at 40 km/h for passenger trains and 22 km/h for freight trains.

Low port efficiency: Throughput on container berths ranges from 20 to 25 units per hour in Saigon port and 30 units in the new port of Cai Lan in Quang Ninh province. General cargo throughput is 1,500 tons/gang/day.

Logistics costs, roughly similar to China, are high at about 15%-20% of GDP, double the cost in industrialized countries.

Five broad goals of the transport sector in the decade

(1) Enhancing efficiency in both resource utilization and service delivery. The government will take a number of actions: A results-oriented integrated planning process; investing in asset preservation; multimodal transport and modern logistics for trade led growth and efficient distribution. These services are currently in their infancy in Vietnam; SOE reforms are key to an efficient sector.

(2) Establishing a sustainable financing framework for the sector.

(3) Facilitating sustainable urban growth: Hanoi and Ho Chi Minh City alone



contribute more than one quarter of the country's GDP.

(4) Managing the negative impacts of transport is essential for the sustainability of the sector.

(5) Developing institutional and human capacity to respond to the sector's evolving needs.

Opportunities

for foreign investors

- **Road Infrastructure and Transport Services:** all national and provincial roads will be sealed by 2010, over 1,400 kms of 4/6 lane expressways to be built by 2010 and 90% of all rural roads will be all-weather by 2010.

- **Urban Transport:** Urban transport policies are devised to support cities' efforts to accommodate significant increases in population, particularly in big cities. Promoting and developing public transport, developing road infrastructure, and opening new areas for urbanization are strategic to the improvement of urban transport.

- **Maritime and Shipping:** The government's strategy is to rehabilitate existing key facilities, concentrate on the construction of deepwater ports at the focal economic zones intended to serve vessels over 30,000 DWT, and also to concurrently develop small scale satellite ports to serve the local economy. Two of the government's key projects are Van Phong - transshipment port in Khanh Hoa in central Vietnam and Cai Mep - deep sea port in Vung Tau to serve southern Vietnam. The rehabilitation and construction of a total of 114 ports in 8 port complexes is planned by 2010. The construction of new ports or berths that would compete with existing national ports is prohibited.

- **Inland Waterways** to be modernized to meet international standards. A master plan for the development of Vietnam's inland waterway system through 2020 lists landing stages and ports that will be upgraded and equipped with modern loading equipment (mostly in the South) and identifies several waterway channels for improvement and upgrading.

- **Railways** are to be upgraded.

- **Civil Aviation:** The construction of Long Thanh International airport in Dong Nai province to replace Tan Son Nhat airport in Ho Chi Minh City at the estimated cost of US \$3 billion for the first phase (2006-2010) is the largest airport project currently under consideration.

Box 3: WTO commitments on commercial presence

Road Transport Services	Passenger and freight transport services through BCC or JVs with the capital foreign side not exceeding 49 percent. After 3 years from accession, subject to the market needs, JVs with foreign capital not exceeding 51 percent may be established to provide freight transport services. One hundred percent of joint-venture's drivers shall be Vietnamese citizens.
Inland	Upon accession, only through JVs with foreign capital not exceeding 49 percent. Container handling: Upon accession, JVs with foreign capital not exceeding 50 percent.
Waterways Maritime auxiliary services Air Transport	<u>Customs Clearance Services:</u> Upon accession, JVs with foreign capital not exceeding 51 percent. After 5 years JVs with no foreign ownership limitation. <u>Container Station and Depot Services:</u> Upon accession, JVs with foreign capital contribution not exceeding 51 percent. Seven years after accession, no restriction.
Services	<u>Sales and marketing:</u> Airlines are permitted to provide service in Vietnam through their ticketing offices or agents in Vietnam. <u>Computer reservation services:</u> Foreign service supplier must use public telecoms network under the management of Vietnam telecom authority. <u>Maintenance and repair of aircraft:</u> Upon accession, JVs permitted with the foreign capital not exceeding 51 percent. After 5 years, 100 percent FIEs allowed.

Source: Report of the Working Party on the Accession of Vietnam

More information:

www.worldbank.org/vn: Transport Strategy: Transition, Reform, and Sustainable Management, www.mt.gov.vn (Ministry of Transport), www.vnmarine.gov.vn, www.vr.com.vn, www.vinalines.com.vn, www.vinashin.com.vn

Vietnam's energy demand is on the rise along with the country development. The power sector and oil and gas sector represent the most promising areas for foreign partners.

Overview

- Diverse primary energy resources:

Total proven coal reserves are 3.88 billion tons. Estimated reserves are about 37 billion tons, of which 3-5 billion is located from the surface to the depth of less than 500m. Primarily anthracite coal in Quang Ninh province (accounting for 95% of the total proven reserves), and 17 million tons of coking coal; brown coal (lignite) in the Red River Delta.

Oil and gas concentrate primarily in the southern continental shelf. Oil reserves are estimated to be about 2.3 billion tons, of which 615-957 million tons are proven. Gas reserves are estimated to be about 1,300 billion m³, of which 600 billion m³ are proven.

Total theoretical potential of hydropower in Viet Nam is 300 billion kWh, of which technical potential is about 50-70 billion kWh.

- Production and consumption:

Total commercial energy exploitation increased from 7.1 million TOE (Tons of Oil Equivalent) in 2000 to 43.6 million TOE in 2004. Final commercial energy consumption in Viet Nam increased from 4.14 million TOE to 12.2 million TOE over the 1990-2000 period and amounted to estimated 17.8 million TOE in 2004. The annual average growth rate during 1991-2004 was about 10.8%.

Viet Nam exports coal and crude oil, but imports petroleum products. In 2004, Viet Nam exported 19.5 million tons of crude oil and nearly 10.5 million tons of coal. Because it has no oil refinery, Viet Nam has to annually import about 10.9 million tons of petroleum products for domestic consumption.

Forecast

Vietnam's energy consumption and demand are estimated to increase.

By 2010, the final commercial energy consumption in Viet Nam is estimated to total about 28-32 million TOE, of which coal will account for 18%, oil and gas 57% and electricity 25%. The annual average growth rate of energy may reach 8.8%-10.4%.

By 2020, total commercial energy demand of Viet Nam may amount to 53-63.6 million TOE, of which 15%, 56% and 29% go to coal, oil and gas, and electricity respectively. The annual average growth rate in the period 2010-2020 is projected to be 6.6% - 7.1%.

Figure 4: Power Generation Capacity for 2010

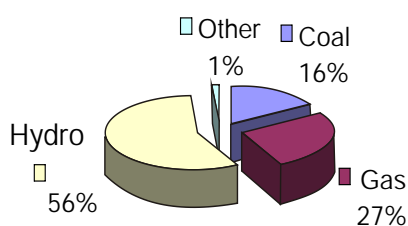


Table 7: The share in energy consumption

Sector	2010	2020
Industry	47%	47%
Transport	17.6%	33%
For resident activities	35.4%	17.6%

Roadmap to reform energy structure and establish competitive energy market

- Power market:

- 2006-2010: establish a generation market

Need an investment of US \$19.20 billion.

- 2010-2020: establish a wholesale power market.

The electrification rate in rural areas will be increased from the current 91.25% to nearly 100 percent by 2020.

Power demand is estimated to increase to 89-93 billion kWh in 2010 and 160-220 billion kWh in 2020.

30 small and medium-scaled hydropower plants will be constructed in the central and central highland regions in the 2006-2015 period.

- After 2020: establish a retail power market

- Gas and oil product market:

2006-2010: develop the market

After 2010: form a competitive gas market

Foreign investors are encouraged to take part in energy projects of Vietnam ranging from power to oil.

Opportunities

- Vietnam's large-scale energy and mining projects will probably be the largest recipients of this year foreign direct investment inflows.

- In 2006 - 2008, EVN is expected to put into operation eight hydropower plants including Se San 3, Se San 3A, (2006), two power plants in central Quang Tri (2007) and four others, such as Ba Ha, A Vuong, Binh Dien and Buon Kuop plants (2008). The toughest obstacle facing EVN now is a shortage of capital investment. EVN recently inked several credit contracts with four state-run banks to raise VND20 trillion (US\$1.25 billion) for these projects.

- According to the strategy for the period of 2006-2010, SOEs and corporations in energy sector - namely Viet Nam Petroleum Corporation (PetroVietnam), Electricity of Vietnam (EVN), Viet Nam National Coal Mineral Industries Group and others - will be restructured. The pilot equitization in all member companies under the corporation, such as Viet Nam Electronic-Informatics Corporation (VEIC) and other corporations, will be complete. Some important industries, such as power plants and power distribution companies, will be equitized in accordance with the roadmap for opening power market. Other enterprises in mining industries such as coal, minerals, and oil and gas exploration companies are in the process of equitization in accordance with the roadmap.

More information: www.moi.gov.vn (Ministry of Industry), www.worldbank.org/vn (World Bank report on infrastructure of Vietnam), www.evn.com.vn (the Electricity of Vietnam).

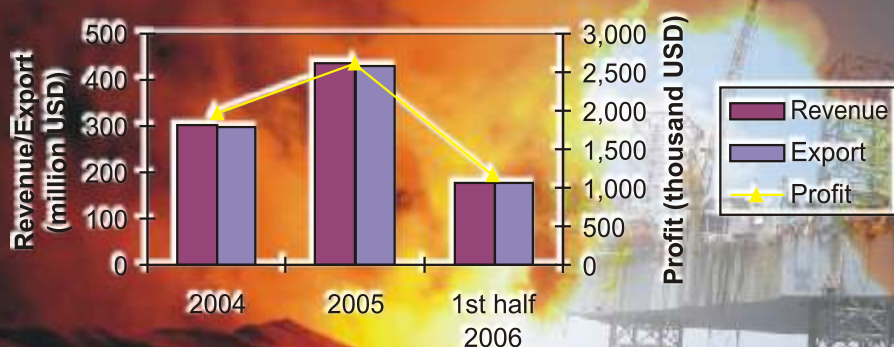


Manage and operate three E&P projects: two are operated by international contractor and one is operated by PIDC.

Invested in seven international E&P projects in Middle East, North Africa, and South East Asia

Signed an exploration and production contract in Venezuela.

PIDC performance



**VIETNAM NATIONAL OIL AND GAS CORPORATION (PETROVIETNAM)
PETROVIETNAM INVESTMENT & DEVELOPMENT COMPANY**

Address: 133 Thai Thinh, Dong Da District, Hanoi
Tel: 04-8561186 - Fax: 04-8561490 - <http://www.pidc.com.vn>

telecommunication

Overview

Vietnam's telecommunications sector has developed rapidly, sustaining an average annual growth of over 50% in two recent years. The internet has grown speedily though it did not come to Vietnam until 1997. The primary growth driver is mobile telecommunications.

Table 8: Vietnam's Telecom market

	2004	2005 ^e	2006 ^e
Telecommunication equipment			
Total market size	1,050	1,155	1,650
Total local production	354	453	589
Total exports	18	21	24
Total imports	678	854	1085
Telecommunication service			
Total market size	1,995	2,197	2,571
Total local production	1,690	2,282	2,669
Total exports	190	228	285
Total imports	115	144	187

Source: US Commercial Service.

Statistics 2006

- Teledensity reached 30%, an increase of 188% in comparison with 2005.
- More than 25.5 million phones.
- Over 4 million internet subscribers or 16% of the population.
- Over 6,000 international communication channels.
- Total communication revenues was about US\$ 1.88 billion in 2005.
- Telephone access available to 99.4% of communities in Vietnam (2005).
- International bandwidth increased to 3,307 Mbps (2005).
- Competition among mobile network operators and internet suppliers intensified as more players entered the market. VNPT accounted for 42.63% of the total market, FPT and Viettel made up of 23.86% and 18.02% respectively. VNPT Corporation was officially restructured as VNPT Group.
- Vietnam's telecom services offered equal or lower prices than those in regional countries.

The telecommunication market is estimated to maintain its fast growth rate in the next 2 years.

Prospects

It is estimated that Vietnam will reach a total teledensity exceeding 50% as soon as the end of 2009, and the internet users may include up to 35% of the population by 2010. Mobile subscribers could reach 20 million by 2008 and increase to over 25 million by 2010 (RJB Consultants)

According to "Vietnam's Strategy for Development of ICT Industries to 2010 with Orientation to 2020" estimates,

By 2010:

- Annual growth rate of ICT industries: 20-25%.
- Annual revenue: US\$ 6-7 billion.

In 2010:

- Teledensity of 32-42 lines
- Internet subscribers 8-12/100 inhabitants, including 30% broadband users
- New telecom providers will achieve a 40-50% market share .

Upon Vietnam's WTO accession on January 11th of 2007, foreign partners will have more access to and benefit from Vietnam's telecommunication market.

Opportunities

Benefit from Vietnam's WTO commitments:

- ▶ To allow foreign partners to set up joint ventures and hold majority shares in telecom services provision and related to network infrastructure. These services include telephone, packet-switched data transmission, circuit-switched data transmission, telex, telegraph, facsimile, and private leased circuits.
- ▶ For non facilities-based services, foreign capital contribution to these joint ventures shall not exceed 51% of legal capital. Three years from accession, joint ventures may be formed with no restriction on the choice of partner. Foreign capital contribution can exceed 65% of legal capital.

- ▶ For facilities-based services, joint ventures with telecommunications service suppliers duly licensed in Vietnam will be allowed. Foreign capital contribution may exceed 49% of legal capital. 51% gives management control of the joint venture.
- For value-added telecommunication services, such as electronic mail, voice mail, and electronic data interchange, the foreign capital in a joint venture for a facilities-based supplier cannot exceed 50 percent.
- Foreign investors in business cooperation contracts may have the opportunity for different current arrangements or to convert to another foreign establishment with conditions no less favorable than those currently enjoyed.

Foreign partners will enjoy more favourable conditions as they enter into the market and are able to join in these actions.

Vietnam set four priority actions to take in the coming years.

- Vietnam will intensify and entrench pro-competitive policies for the sector, to reap the proven benefits of market competition. These priorities include encouraging new entry, improving the interconnection regime, and increasing the transparency and cost-orientation of pricing.
- Vietnam will support these pro-competitive policies by establishing highly credible, transparent and effective regulatory processes within MPT in the short run, so that these processes can be moved to a non-ministerial regulatory institution in the long run.
- The VNPT - the largest corporation of Vietnam's telecommunication and a SOE - will be reformed and restructured. The internal management will be changed and the group will be privatized.
- For geographic areas that are not well served by the market, Vietnam will adopt and implement policies and programs that will systematically address inadequate access to telecommunications services, and more broadly to information services, particularly in the thousands of villages and rural areas in Vietnam.

Major buyers for the telecom equipment and services

Fixed telephone service operators: VNPT, EVN Telecom, Viettel, SPT, Hanoi Telecom.

International telecommunications service operators: VNPT, EVN Telecom, Viettel.

Long distant and international telephone service based on IP protocol operators: VNPT, EVN Telecom, Viettel, SPT, Hanoi Telecom, Vishipel.

Mobile communications service operators: VNPT, Viettel, EVN Telecom, SPT, Hanoi Telecom, Vietnam Airlines Corporation.

More information: www.mpt.gov.vn, www.worldbank.org/vn, www.vnpt.com.vn, www.viettel.com.vn, www.fpt.com.vn

Vietnam Posts and Telecommunications Group

The largest Internet service supplier and telecom equipment producers in Vietnam

Network and service: By 2006, there were:

- Over 18 million phone subscribers including 10 million mobile telecommunications.
- 1.8 million Internet subscribers consisting of nearly 230,000 broadband internet subscribers.
- Total capacity of the national and international transmission ranged from 622 Mb/s to 20 Gb/s.
- Total out-going international traffic capacity is 6Gbps.
- 18,776 P&T service points all over the country, including 8,000 village post office & cultural places.
- Entire network have been digitalised with a capacity of almost 9 million fixed lines.
- Besides traditional services, VNPT can provide a wide range of various broadband NGN-based services with high security.

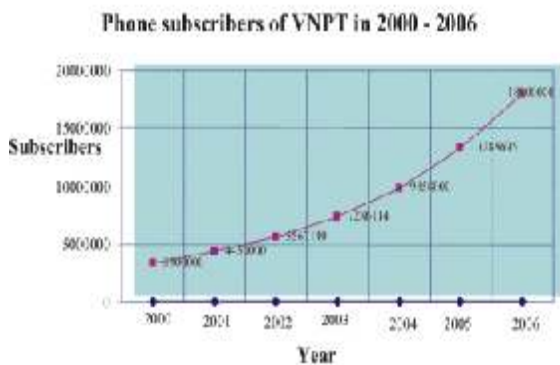
Industry:

- VNPT consists of 21 companies: 7 SOEs, 5 stock companies and 9 JVs.
- VNPT has manufactured systems of switch, data transmission, connecting equipment, cables, additional posts and telematics products, modem, ADSL, pre-paid cards, etc.

International cooperation:

- Direct post cooperation with 60 countries via 30 official linkages.
- Relationship with about 120 international telecommunication corporations.
- Member of ATH/Acasia of ASEAN.
- Awarded Lockheed Martin (U.S) a contract to provide a turnkey telecommunications satellite system for VNASAT-1, Vietnam's first ever satellite system.

VNPT is willing to cooperate with local and international companies in the fields of posts, telecommunications and IT and would like to invite local and international partners to join in VNPT's projects on the basis of cooperation, equality, respect and mutual benefits.



VNPT President & CEO Vu Tuan Hung and CEO of Lockheed Martin (USA) Ted Gavrilis signing a contract to carry out bidding package No.3 for "Procurement of satellite, launch services and compatible ground equipment for satellite control facilities" of the VNASAT project, under the witnessing of representatives from MPT, USA Embassy to Vietnam, and leaders of both parties.

VIET NAM POSTS AND TELECOMMUNICATIONS GROUP

VNPT



VƯỢT THÁC GHỀNH
CÀNG MẠNH MỀ



VƯƠN XA TỎA RỘNG
HÒA CẢ NIỀM VUI



MANG MỘT NIỀM TIN
TIẾN RA BIỂN LỚN



www.vnpt.com.vn

Real life

Fields of activity

- Financial investment and capital management of VNPT at other businesses;
- Trading in financial, credit and banking services;
- Backbone-based service trading;
- Telecommunications and IT trading;
- Advertisement service trading;

- Communications service trading;
- Exploration, consultation, design, installation and maintenance of telecommunications and IT works;
- Office and real estates for release;
- Trading others in accordance with laws.

Headquarters

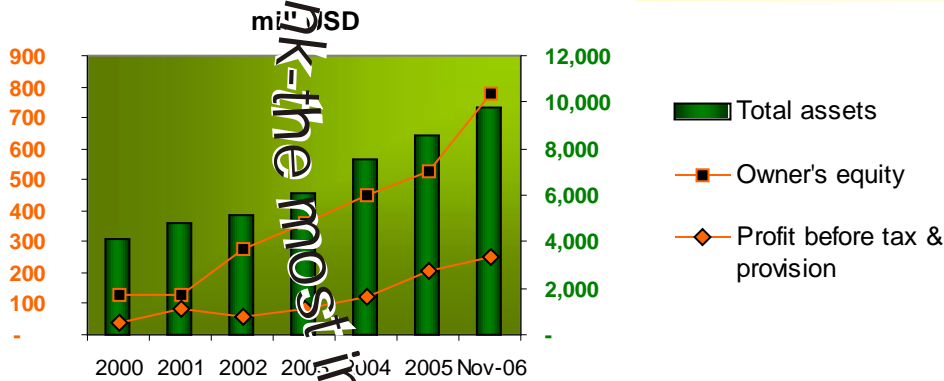
01 Dao Duy Anh street, Phuong Mai ward,
Dong Da district, Hanoi
Tel: 844.5775104 * Fax: 844.5775851
Email: vanphong@vnpt.com.vn
Website: www.vnpt.com.vn

Branches

- Representative Office in Southern area
42 Pham Ngoc Thach, District 3, Ho Chi Minh City
- Municipal and provincial P&Ts nationwide

- Established in 1963.
- More than 120 domestic offices and four subsidiaries in financial leasing, securities and fund management, and 5 joint-venture companies.

Financial highlight



In 2005, taking up 30% of the country's total import - export payment turnover, 21% of total bank deposits, 10% of loans, and over 50% of the card market.



Vietcombank

VISION - 2020

Maintain its **leading role** in the domestic financial market

Become a **medium-sized international financial group**

The Only Vietnamese bank with overseas presence: Representative offices in Paris and Singapore, and a subsidiary in Hong Kong (Vietnam Finance Co., Ltd).

Awarded "BANK OF THE YEAR" by The Banker in five consecutive years since 2000.

Awarded "BEST BANK IN VIETNAM" by the Euromoney and Global Finance.

Selected to be the first state-owned commercial bank to go public. As planned, Vietcombank will carry out its much-expected initial public offering (IPO) in 2007.

capital market

Overview

Vietnam's domestic capital markets appear to be at a critical juncture where the country's continuous rapid economic growth may be constrained unless the markets are developed in parallel.

Aside from the fiscal resources (including external borrowing), bank loans by four large State-owned commercial banks (SOCB) and many small and medium-sized joint-stock banks, have been a key domestic source of finance for investment, accounting for around 60% of companies' financing needs. As a result, Government bond issuance has been less than 10% of GDP (\$4.4 billion total during the period 2000-2005), corporate bonds and municipal bonds were just 1% of GDP (\$600 million), and the formal equity market capitalization stood at about 2% of GDP at the end of 2005.

In the securities market, which includes stock, bond and investment funds, total listing value was around 10 billion USD (nearly 17% of GDP), while it accounted for just 0.3 percent of GDP in 2000.

The insurance market has also been growing; the penetration rate became 2.0 percent of GDP in 2004 from 0.4 percent in 1993, although it is still relatively low. Penetration rate growth almost stopped in 2004.

Other institutional investors and non-bank financial intermediaries are still embryonic. In contrast to the insurance industry, the pension fund industry lags behind with one state-managed pension fund (the State Social Insurance Fund) for public servants but no pension funds for private sector workers. The absence of pension funds for private sector workers presumably may be interfering with the development of the capital markets.

Opportunities

In order to achieve the 8% growth target in next five years, the gap in the availability of medium to long term funds needs to be filled. It also needs to be filled in a financially sustainable manner, which requires development of the domestic capital markets.

1. The restructuring of the state-owned commercial banks (SOCBs) is being accelerated. In the coming years, equitization of Vietcombank and the Mekong Housing Bank will be concurrently with developing plans to equitize the 3 remaining SOCBs, to be submitted for Prime Minister's approval. Vietnam will strive to complete the equitization of all SOCBs by 2010.

2. Booming of securities markets in the last months of 2006 and going beyond the expectation of any optimistic perspectives.

The unlisted stock market is much larger than the formal stock trading centers (STC), indicating the potential of the market to grow. Trading in the unofficial, over-the-counter market exceeds the official trading on Ho Chi Minh Securities Trading Center, the main trading market, by more than three times with all bond transactions taking place over the counter.

3. Increase of goods for securities markets as the result of accelerated equitization of SOEs: In 2007, it is estimated that around 600 SOEs will be



In order to achieve the 8% growth target in next five years, the gap in the availability of medium to long term funds needs to be filled. It also needs to be filled in a financially sustainable manner, which requires development of the domestic capital markets.

equitized, including General Corporations, state commercial banks, public utility enterprises, and 100 equitized SOEs will be listed on the stock market.

4. Institutional investors will be encouraged to develop. Against the fast growth of the Vietnam stock market, various investment institutions have gained trading codes to join Vietnam stock market. There are now around 20 foreign invested funds with total capital of over \$2 billion in Vietnam, and planned funds have an estimated total capital of some US\$ 2 billion.

5. The ongoing reform of new securities market legislation will considerably improve the regulatory framework, thereby encouraging the development of capital markets and promoting financial stability. In 2007, the stock market is expected to growth further as the Law on Securities, which was ratified on 29 June 2006, comes into effect. The Law provides for comprehensive regulations governing activities relating to securities, and is intended to ensure that the securities market will operate efficiently, safely, transparently, and fairly, while protecting the legitimate rights and benefits of securities investors and relevant parties. The introduction of a securities registration system, an integrated securities depository system, and an individual securities broker/dealer registration system will also help put securities intermediation outside the STCs under control. The securities registry and depository systems should be designed to serve not only all listed securities but all publicly tradable ones.

More information: "Overview of the capital markets in Vietnam and directions for development" (WB, 2006), "Taking stock" (WB, 2006), Reports of State Bank of Vietnam.

Vietnam's State Securities Commission homepage: www.ssc.gov.vn

Vietnam's stock trading centres homepage: www.vietstock.com.vn

Box 4: WTO COMMITMENT ON FINANCIAL ISSUES

Banking: Beginning April 2007, foreign credit institutions may open 100 percent foreign-owned banks in Vietnam. To establish a 100 percent foreign-owned or joint-venture bank the parent institution is required to have total assets of more than 10 billion dollars at the end of the year prior to application. For establishing a branch of a foreign commercial bank the parent should have total assets of more than 20 billion dollars. A 100 percent foreign-owned bank will not be treated as a foreign institution or individual and will be accorded full national treatment as a Vietnamese commercial bank, with respect to establishment of commercial presence.

Foreign firms and individuals may purchase up to 30% of shares in banks. Foreign banks may establish branches in Vietnam, but those branches may not establish sub-branches and are subject to limits on deposits from Vietnamese entities for five years of Vietnam's accession. Foreign banks will be able to offer more services, including credit cards and deposits in foreign currencies.

Brokerages: Vietnam will allow the establishment of 100% foreign owned brokerage and branches within 5 years of WTO accession.

Insurance: At accession, 100% foreign invested insurance enterprises will be prohibited from engaging in statutory insurance business, including motor vehicle third party liability, insurance in construction and installation, insurance for oil and gas projects, and insurance for projects and construction works of high danger to public security and the environment. This restriction will be removed on January 1, 2008. Five years following accession, non-life branches of foreign insurance enterprises will be permitted.

Securities: upon accession, foreign securities service suppliers can establish representative offices and joint ventures with Vietnamese partners, but foreign capital contribution cannot exceed 49%. After 5 years from the date of accession, 100% foreign invested securities service suppliers will be permitted.

What Investors Are Doing

In 2006, Viet Nam has attracted attention of foreign investors both direct and indirect with its stable and bright economic outlook as well as major events like the APEC Summit 2006 and the country's accession to the WTO. As the country moves forward on its growth path, investors - international and national alike - will find enormous opportunities for their business success. Many international investors have come and set up their stronghold in the country, while others are rushing to find opportunities.

Top 10 FDI projects in 2006

The ten largest FDI projects in 2006 total about US\$ 4.3 billion, accounting for about 42% of the entire US\$ 10.2 billion inward FDI total for the year.

1. Posco steel project (US\$1.126 billion): Invested by Korean Posco group in a steel mill in Phu My II Industrial Zone, Ba Ria Vung Tau province. Capacity: 700,000 tonnes in the first stage and 3 million tonnes in the second stage. It is expected to create 10,000 jobs.

2. Intel Products Vietnam (US\$1 billion): Invested by Intel, the US-based electronic and computer accessories company in High-Tech Park in Vietnam. This project is the biggest ever US-invested and the biggest production base among the seven Intel bases worldwide. Some 4,000 jobs are created.

3. Tycoons Worldwide Steel Vietnam (US\$556 million): Located in Dung Quat Industrial Zone in Quang Ngai Province. Capacity: 2 mil tonnes in the first phase of the project (2006-2009), and 5 mil tonnes in the second phase. The project will create 4,000 jobs.

4. T.H.T Development Company Ltd (US\$ 314 million): The company was established to develop the biggest new urban area in Hanoi, the construction of which will be completed in 2014. Five of the Republic of Korea's biggest construction firms will get involved in the project. There will be the accommodation area for 250,000 residents, and an area for a trade centre and office building.

5. Winvest Investment Vietnam (US\$300 million): This is a 100% US owned project, under which a resort, five-star hotel and entertainment area in Ba Ria Vung Tau will be built.

6. Meiko Electronics Company Ltd (US\$ 300 million): Japanese Meiko group has decided to set up a production plant specialising electronic parts in Phung Xa Industrial Zone, Ha Tay province. It hopes to create 7,000 jobs and have a turnover of US\$1.7 billion a year.

7. Central Saigon Container Port Company (US\$249 million): This is the joint venture between a subsidiary of the UK-based P&O Ports and Tan Thuan Industrial Development Company. The port area is located in Hiep Phuoc port complex, 10 km from the HCM City centre. It is expected to have a capacity of 1.5 million TEU a year.

8. An Khanh urban area (US\$211.9 million): Once put into operation in 2020, this will be the biggest urban area in the North, covering an area of 264 ha. The total investment capital of the project is US\$2.1 billion, of which, Posco from the Republic of Korea will contribute US\$211.9 million. There will be the highest building in Vietnam at 75 storeys; it will include a trade centre, offices and an international trading floor.

9. Booyung Company Ltd (US\$171 million): The Booyung international apartment building will be located in the Mo Lao new urban area in Ha Dong Town in Ha Tay province. This will be a 30-floor apartment building and supporting items. Once operational, the project will provide accommodation for 3,000 families and create 100 jobs.

10. Phong Phu ITG Company (US\$65.5 million): The textile and garment industrial complex will be located in Hoa Khanh Industrial Zone in the central city of Da Nang. This is the joint venture of Phong Phu Corporation and Burlington Worldwide, which belongs to the US-based ITG. The Vietnamese partner will contribute 40% of total capital, and the foreign partner, 60%. The complex is expected to provide 60 million metres of fabric every year. 100% of its products will be made in the complex.

High growth potential for indirect investment

The prospect of high growth is not limited to FDI only, but also brightens the opportunities for indirect investors. Vietnam's stock market has grown rapidly in the past year and is predicted to

What Investors Are Doing



attract a large influx of investment from global investors following the country's entry into the World Trade Organization.

Encouraging results for existing funds

High economic growth has brought about huge profits for investment funds with the rate of return over 30%. Take VinaCapital a US\$ 435 million fund management company as an example: its Vietnam Opportunity Fund (VOF) has enjoyed a 110% growth of net asset value (NAV), while the company's profit may reach 34% on equity in this year.

At present, Dragon Capital is the biggest investment fund management company in Vietnam, managing total assets of \$1bil. The company is managing Vietnam Enterprise Investments Limited (VEIL), Vietnam Growth Fund (VGF), and Vietnam Dragon Fund (VDF).

More and more newcomers

Against the fast growth of the Vietnam's stock market, various investment institutions - including Old Mutual Clay Finlay Emerging Markets Fund and Epoch Global Equity Shareholder Yield Fund - have gained trading codes to join Vietnam stock market.

Most recently, Credit Suisse Asia Pacific has been issued a securities trading code certificate to trade equities, government, and corporate bonds in Vietnam. Credit Suisse's Investment Banking business has appointed Saigon Securities Incorporation as its local broker for equities and ACB Securities Company for fixed income products, while its asset management business appointed Vietcombank Securities Company as the local broker.

Before that, Morgan Stanley and Merrill Lynch had already joined the market in Vietnam. Merrill Lynch obtained a trading code through its custody bank HSBC and selected Vietnamese company Bao Viet Securities as its broker.

Foreign-invested fund-management companies have spared no time in entering Vietnam market. There are now around 20 foreign invested funds with a total capital of over \$2 billion in Vietnam, according to the SSC, and more funds with estimated total capital of some US\$ 2 billion are planned. VinaCapital and Dragon Capital have pushed to set up additional investment funds to raise foreign capital.

Among new funds are the Swiss-based US\$ 112 million Vietnam Holding fund targeting industries like telecommunications, mining, petroleum and financial services, and the US\$19 million Blue Ocean investment fund of Korea's Golden Bridge, specializing in securities and real estate projects in Vietnam. The latter fund will be managed by the Golden Bridge Asset Management Co., an affiliate of the Golden Bridge Group. The Golden Bridge Group also plans to establish another investment fund to expand its investment in Vietnam in the near future.

Earlier, the Korea Investment Trust Management Company (KITMC), Korea's leader in the field, opened a representative office in Ho Chi Minh City. Bumseok Kim, president of KITMC, said the company has plans to raise US\$70 million for a new investment fund in addition to its two funds in Vietnam, the \$26 million KITMC Vietnam Growth Fund founded in March and the \$78 million KITMC Worldwide Vietnam Fund set up in June 2006.

European funds also keep up with Asian ones in establishing a Vietnam presence. Danish investment bank BankInvest has received a license to open a representative office for a new US\$ 80 million equity fund - Private Equity New Market - and planned to open an office in Ho Chi Minh City. The fund will target unlisted, well-managed local companies with a good potential for growth, either for exports or in the domestic market.

Other funds, including Hong Kong-based Nomura International, Singapore's Blackhorse Asset Management Pte Ltd. and Korean Mirae Asset Maps Investment Management Co., Ltd, also have set up representative offices in the country.

JP Morgan Chase, a giant financial group, recently organised a session on making investment in securities in Vietnam, during which it announced opportunities to do business in the country.

HSBC has been preparing actively for the investment deals which will be made soon after Vietnam joins the WTO.

Future mega-projects

In addition to the above, several other big FDI projects await pending approval, some of which are

- A US\$1.94-billion project for steel production and metallurgy of S.H.T Iron & Steel Co.
- A US\$600 million project of Sumitomo Group of Japan to develop Van Phong Economic Zone in central Khanh Hoa Province. This project expects to build a general economic zone, including an international transshipment port in combination with tourism, service, industry, aquaculture and other economic activities.

- A US\$570 million project to set up Vietnam Horse Race Co. Ltd in northern Vinh Phuc Province.
- A US\$160 million project of port construction which has been submitted by SG-SSA, an international container port services joint venture company.

- A US\$100-million project of Itra Vietnam Co. Ltd for urban area development.
- A US\$40-million project by CapitaLand Vista Co. Ltd to build houses for sales.

Moreover, many foreign firms are interested and involved in future projects, including the following:

- Nghi Son oil refinery in Thanh Hoa province - the second of its kind in Vietnam is expected to be developed by Vietnam Oil and Gas Corporation (PetroVietnam) and Japanese investors including Mitsubishi and Idemitsu. In an initial plan, the refinery will need total investment of 3 billion dollars, and produce 7 million tons of petroleum products.

- The 1,200-MW coal-fuelled Mong Duong plant, the largest power project in Vietnam, will be jointly developed by Vietnam National Coal and Mineral Industries Group (Vinacomin) and AES of the United States. The estimated US\$ 1.4 billion plant will be a BOT project in coal-rich Quang Ninh province and expected to be operational in 2011.

- Projects of mining Thach Khe deposit and building a 4.5-million ton hot rolled coil steel factory in Ha Tinh province of Vietnam Steel Corporation, estimated at total US\$ 3.5 billion , has attracted the attention of several steel producers like South Korea's Posco, China's Bao Shan, Russia's Everaz, and India's Essar and Tata.

Dac Nong bauxite mining and alumina refinery projects of Vinacomin, estimated as multi-billion US dollars, are attracting the attention of China's Chalco, the United States' Alcoa, and Australia-UK's BHP Billiton.

For your notes



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