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A N A L Y T I C S

Vietnam Investment Opportunities: 2015

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Executive Summary

Vietnam is in transition. The country is rapidly adapting new production technologies, modernizing its economy, increasing growth, and diversifying from Asian to global markets. As Vietnam turns towards the West, tremendous and newly-secure investment opportunities open to Western investors.

The government has a new openness to privatization of large stakes (equitization in local parlance) of major telecommunications, petroleum, shipping, and mining enterprises. Deeper measures aimed at improving the business climate for foreign investors in Vietnam are also underway. Significant challenges still exist, including inflation, corruption and foreign ownership regulations, but the government is taking steps to decrease these burdens on investors.

Present opportunities in Vietnam are also defined by favorable macroeconomic conditions. Inflation in Vietnam has dropped substantially since a 2011 high of 18.7%, and Corr Analytics predicts it to register at 4.5% this year and to hold steady in 2015. The country has posted strong productivity gains, averaging 5.4% in recent years, and GDP growth is still strong at an estimated 5.7% this year. Net exports are stronger than at any time in the last decade. Corr Analytics predicts exports to reach \$150 billion by the end of 2014. Government debt will likely decrease from privatizations, and non-performing loans (NPLs) decreased from 17% in 2012 to 5.4% this year. Corr Analytics predicts that Prime Minister Nguyen Tan Dung will make good on his goal to decrease NPLs to 3% by December 2015.

Corr Analytics and our Vietnamese partners have done extensive research on debt and equity privatization opportunities in Vietnam. From the 432 opportunities identified by the government in 2014, plus our own, we selected the best 31 deals. These deals range from \$7 million USD to \$4.3 billion, and cover entities with values of \$14 million to \$9.4 billion. The proposed debt and equity deals offer stakes from 20% to 75%, and include infrastructure, petroleum, manufacturing, and finance sectors.

Recent government efforts to improve the Vietnamese economy and investment environment include improved economic diversification, global integration, investment legislation, and economic policy. According to the 2015 World Bank Ease of Doing Business rankings, Vietnam beats major investment destinations such as China, India, and Brazil. We predict additional steps to improve investor confidence in Vietnam, including through rational, methodical, and selective privatization that unlocks sector potential but protects local communities, the environment, and government value. Corr Analytics predicts that a small amount of government attention to price stability and corruption, will unlock major gains in foreign direct investment and GDP growth that will reverberate from 2015 to 2030.



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Introduction

Vietnam is a country of change and increasing opportunity. In a risky and complex world, it offers frontier market returns, with increasing levels of political stability that rival and are potentially overtaking those of traditional emerging markets such as Russia and China. And its improving macroeconomic indicators point to a country on the rise.

Vietnamese growth ranks among the highest of all frontier markets, with 5.4% in 2013 and a government target of 7% annually (see Figure 1). From 2004 to 2013, Vietnam’s real gross domestic product (GDP) grew 56% to \$171.4 billion, registering a higher growth rate than 94% of frontier economies.¹ Vietnam stands at a critical juncture in its history, and is arguably moving from frontier to emerging status.

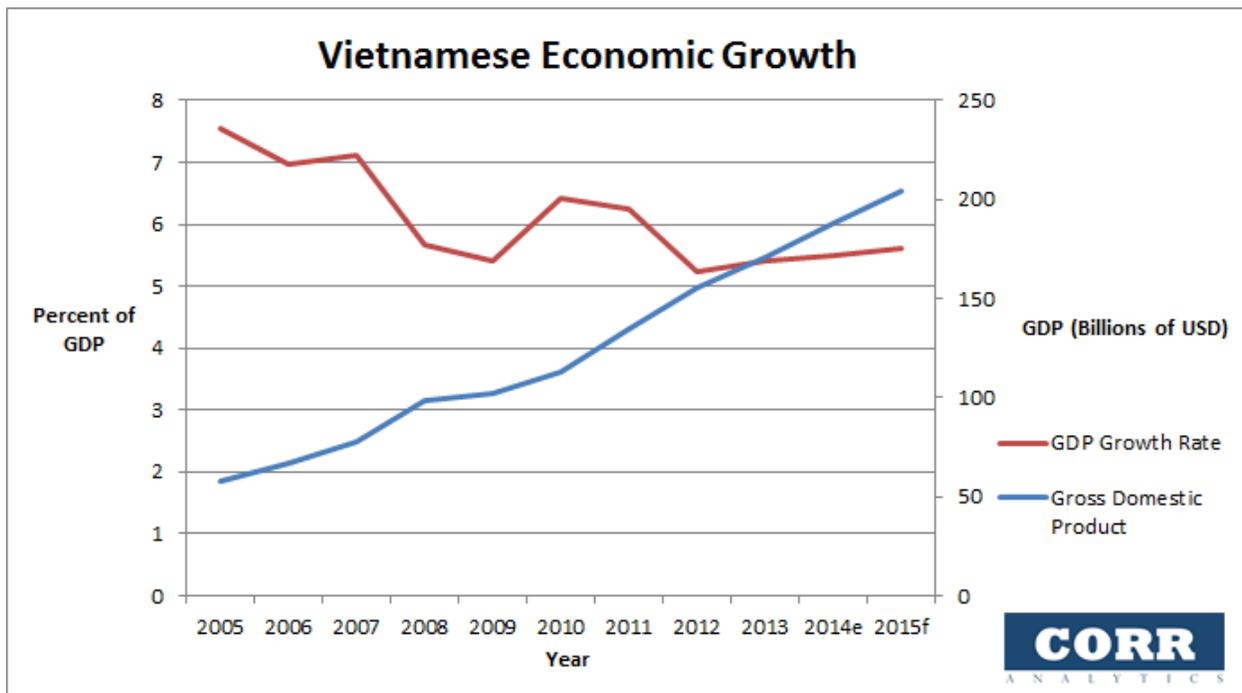


Figure 1: Vietnamese Economic Growth. Source: International Monetary Fund, World Economic Outlook Database, October 2014.

Vietnam has also grown resiliently. During the global economic crisis of 2007-2009, GDP continued to grow between 5-7% each year, while other frontier economies, including Argentina,

¹ Calculation based on real GDP (base 2005) figures given from the World Bank’s World Development Indicator’s Database. Only Kazakhstan (56%) and Ghana (58%) registered higher growth during the period than Vietnam (56%). Frontier Market classification based on MSCI classifications, http://www.msci.com/products/indexes/market_classification.html.



Saudi Arabia, and Angola, faced major economic slowdowns.² In 2015, most forecasts for GDP range between 5.5-6.5% growth.³

Productivity Gains by Sector, 2007-2013

Industry	Nominal Productivity Growth, 2007-2013	Real Productivity Growth, 2007-2013	Annualized Real Productivity Growth, Compounded
Mining and quarrying	312.7%	108.4%	13.0%
Electricity, gas, steam and air conditioning supply	202.5%	52.8%	7.3%
Financial, banking and insurance activities	605.6%	256.3%	23.6%
Activities of Communist Party, socio-political organizations; public administration and defense; compulsory security	197.9%	50.4%	7.0%
Human health and social work activities	183.9%	43.4%	6.2%
Other service activities	190.2%	46.6%	6.6%
Activities of households as employers; undifferentiated goods and services producing activities of households for own use	193.6%	48.3%	6.8%
Total Vietnamese Economy	171.5%	37.1%	5.4%

Table 1: Productivity Gains by Sector, 2007-2013. Note: See Appendix B for complete list. Source: Vietnam General Statistics Organization.⁴

² A graph of GDP growth in these and other leading frontier market economies may be found in Appendix C.

³ The International Monetary Fund projects 2015 GDP growth to reach 5.6%, while Strategic Risk forecasts 6.3% growth. We project GDP growth of between 6.0-6.5%.



From 2007-2013, Vietnam’s economy posted a compound average of 5.4% in annual productivity growth (see Table 1). Among the strongest performing industries over the six-year period were mining and quarrying; electricity, gas, steam, and air conditioning supply; and financial, banking, and insurance activities, at compound growth rates of 13.0%, 7.3%, and 24.6%, respectively.⁵



Figure 2: Vietnamese Trade, 2004-2014. Note: Year 2014 data are estimates. Source: World Trade Organization, Time Series on International Trade Database.

Vietnamese trade data also points to an increasingly healthy economy (see Figure 2). Since the world economic slowdown of 2007-2009, exports have steadily increased. In 2012, the country posted positive net merchandise exports for the first time in over a decade. This year, merchandise exports appear poised for another significant rise after posting turnovers of \$123.1 billion through October, 13.4% higher than over the same period in 2013.⁶ We predict exports to be approximately \$150 billion by the end of 2014.

As a recent case study in increasing export investments, Samsung announced an increase in its export-oriented foreign direct investment (FDI) into Vietnam by \$3 billion on November 10. Samsung already operates \$1 billion, \$2 billion, and \$2.5 billion plants in Thai Nguyen and Bac

⁴ Calculations based on Vietnam General Statistics Office’s (VGSO) data for productivity estimates at currency prices. Data for 2013 are VGSO estimates. Figures were deflated using World Bank consumer prices inflation estimates.

⁵ Calculations based on Vietnam General Statistics Office’s (VGSO) data for productivity estimates at currency prices. Data for 2013 are VGSO estimates. Figures were deflated using World Bank consumer prices inflation estimates.

⁶ Vietnam General Statistics Office, accessed November 2014. <http://www.gso.gov.vn/default.aspx?tabid=622&ItemID=16091>



Ninh Province, and the \$3 billion investment will be used to expand the \$2 billion Thai Nguyen plant that manufactures handsets. This investment illustrates the shift from emerging to frontier markets. According to the *Wall Street Journal*, “Samsung is one of many South Korean conglomerates that are shifting production away from China to countries such as Vietnam. Some economists say South Korea’s recent low exports to China reflect the shift. As more Korean companies open assembly plants in Southeast Asia, South Korean parts makers are shipping more to that region and less to China.”⁷

In the first ten months of 2014, estimated realized foreign direct investment totaled \$10.2 billion, an increase of 5.9% from 2013.⁸ Flat returns in traditional emerging markets will likely push risk-hungry investors further afield, and Vietnam is in a prime intermediate position between emerging and frontier markets, to welcome the expected shift from emerging to frontier FDI. Meanwhile, current projections for inflation, an historical problem in the country, have dropped to 3% for 2014, a far cry from the double-digit levels of inflation seen in 2012.

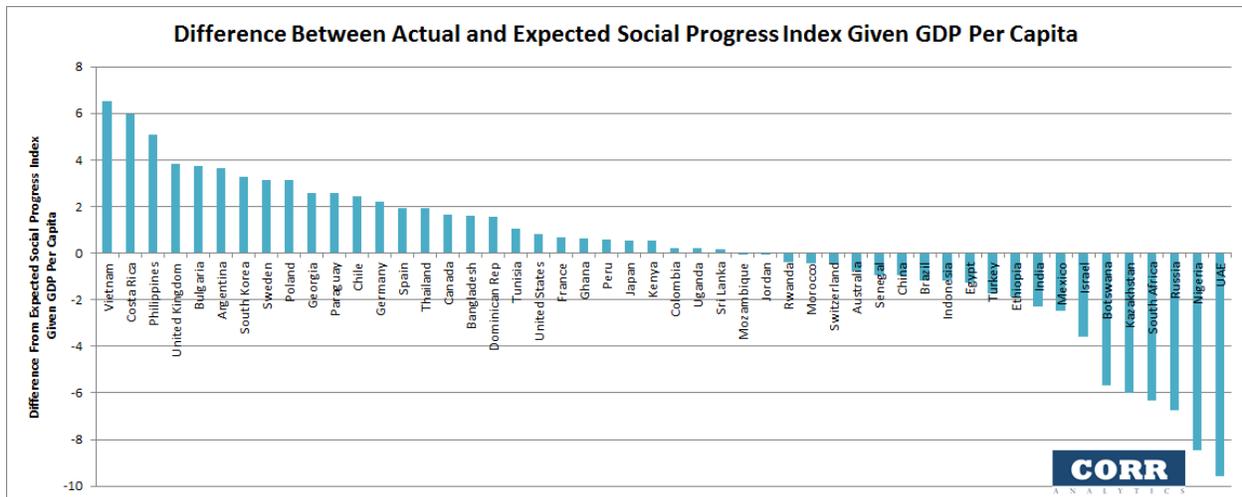


Figure 3: Difference Between Actual and Expected Social Progress Index Given GDP Per Capita. Note: Vietnam has the highest Social Progress Index Score given GDP Per Capita. Original data from the Social Progress Index data from the Social Progress Imperative.⁹ Regression and residual data: Corr Analytics.

Vietnam has also witnessed major increases in national well-being. According to a Corr Analytics study, Vietnam has the best 2013 Social Progress Index score of all countries when

⁷ “Samsung Aims to Invest \$3 Billion More in Vietnam,” *Wall Street Journal*, November 10, 2014.

<http://online.wsj.com/articles/samsung-plans-to-invest-up-to-3-billion-in-vietnam-1415614891>, accessed November 26, 2014.

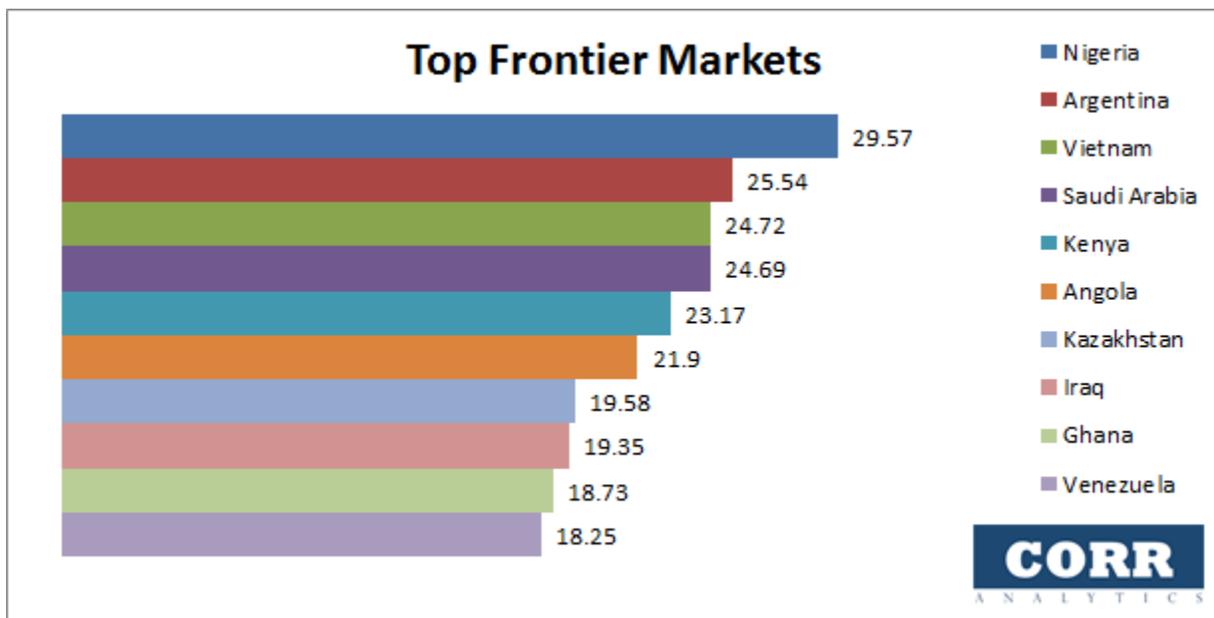
⁸ Vietnam General Statistics Office, accessed November 2014. <http://www.gso.gov.vn/default.aspx?tabid=622&ItemID=16091>

⁹ Porter, Michael, Scott Stern, and Michael Green. *Social Progress Index 2014*, Washington DC: Social Progress Imperative, 2014. <http://www.socialprogressimperative.org/system/resources/W1siZiIsIjIwMTQvMTAvMjEvMTgyMzcvMzEvMzK0L1NvY2IhbF9Qcm9ncmVzc19JmRleF8yMDE0X1JlcG9ydF9lXzJfLnBkZiJdXQ/Social%20Progress%20Index%202014%20Report%20e%20%20%282%29.pdf>



considering its GDP per capita (see Figure 3). Poverty rates have plummeted, and literacy rates have climbed steadily. Real GDP per capita has grown by a respectable 4-5% per year since 2008 even as the population ages.¹⁰ The country’s electrification level has soared from 2.5% in 1975 to 96% in 2009.¹¹ By the end of 2015, Vietnam has met or is on-track to meet many of its Millenium Development Goals.¹²

In this context of increasing human capital, investor interest in Vietnam has grown in recent years.¹³ A study this summer by the Frontier Strategy Group ranked Vietnam number three in garnering interest by foreign investors among all frontier markets (see Figure 4).¹⁴ Net purchases by foreigners on the Ho Chi Minh City stock exchange climbed to \$280 million from January to June 2014, from \$263 million in the same period in 2013.¹⁵



¹⁰ World Bank, World Development Indicators, GDP per capita (base year 2005), accessed November 2014. <http://data.worldbank.org/indicator/NY.GDP.PCAP.KD>.

¹¹ The electrification level refers to the percent of the population with access to electricity. Asianpower, “Why it’s high time to invest in Vietnam’s power transmission, distribution network,” January 30, 2014.

<http://asian-power.com/power-utility/commentary/why-its-high-time-invest-in-vietnams-power-transmission-distribution-networ>

¹² Tuoitre News, “Vietnam hailed for achievements in MDGs,” April 7, 2013. <http://tuoitrenews.vn/politics/11322/vietnam-hailed-for-achievements-in-mdgs> ; Socialist Republic of Vietnam, “Millenium Development Goals 2013,” December 17, 2013.

http://www.undp.org/content/dam/undp/library/MDG/english/MDG%20Country%20Reports/Viet%20Nam/MDG_FullReport_Final%20approved.pdf

¹³ Deutsche Welle, “Vietnam: A country for investors,” November 19, 2014. <http://www.dw.de/vietnam-a-country-for-investors/a-18073726>

¹⁴ Wall Street Journal, “Nigeria, Argentina, and Vietnam Prove Top Picks for Multinationals,” June 6, 2014.

<http://blogs.wsj.com/frontiers/2014/06/06/nigeria-argentina-and-vietnam-prove-top-picks-for-multinationals/>

¹⁵ Vietnamnet, “Vietnamese stock market awaits foreign cash flow,” November 7, 2014.

<http://english.vietnamnet.vn/fms/business/115904/vietnamese-stock-market-awaits-foreign-cash-flow.html>



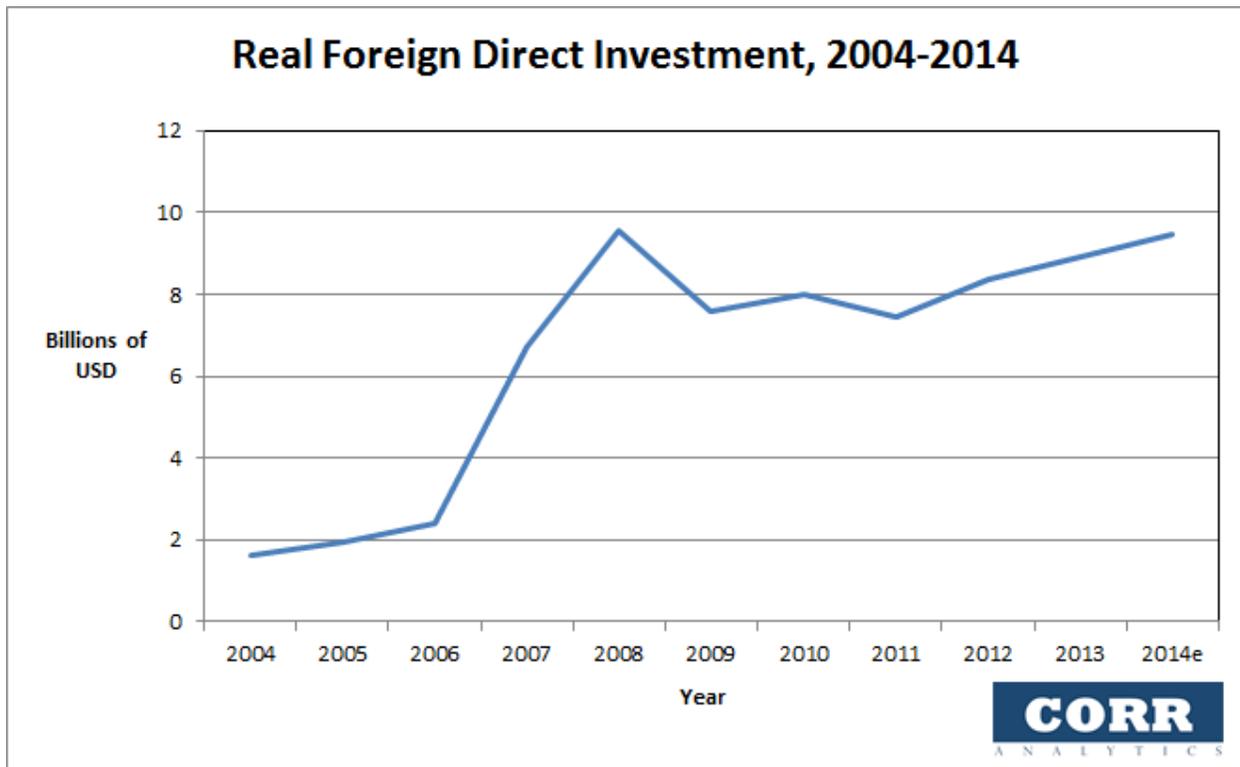
Figure 4: Top Frontier Markets. Note: Rankings based on the Frontier Market Sentiment Index, June 2014. High value implies higher degree of coverage. Source: Frontier Strategy Group, Wall Street Journal.¹⁶

Taken together, these figures demonstrate the abundance of potential in the Vietnamese market. While the country faces challenges in the years ahead, as detailed in the sections of this paper that follow, the fundamentals are there and recent actions by the government demonstrate both the will and capacity to respond to investor concerns.

Section I: Investment Opportunities

Overview of Foreign Investment in Vietnam

In recent months and years, foreign investors have demonstrated increasing interest in Vietnam. After stumbling during the 2007-2009 global financial crisis, foreign direct investment has steadily grown at over 6% annually since 2011 (see Figure 5). Based on the first ten months of 2014, Corr Analytics projects that real FDI (2010 USD) into Vietnam will increase by 6.25%, reaching \$9.5 billion for 2014.



¹⁶ Wall Street Journal, "Nigeria, Argentina, and Vietnam Prove Top Picks for Multinationals," June 6, 2014. <http://blogs.wsj.com/frontiers/2014/06/06/nigeria-argentina-and-vietnam-prove-top-picks-for-multinationals/>



Figure 5: Real Foreign Direct Investment, 2004-2014. Note: Base year for graphed FDI data is 2010. It is 2000 for previously-referenced FDI data. Year 2014 is estimated. Source: World Bank, World Development Indicators Database.

The vast majority of this investment has occurred in Vietnam’s manufacturing sector (see Figure 6). In 2013, 76.7% of licensed foreign direct investment went toward manufacturing projects.¹⁷ Electricity, gas, steam, and air conditioning supply registered the second most licensed FDI, at 9.1%.¹⁸

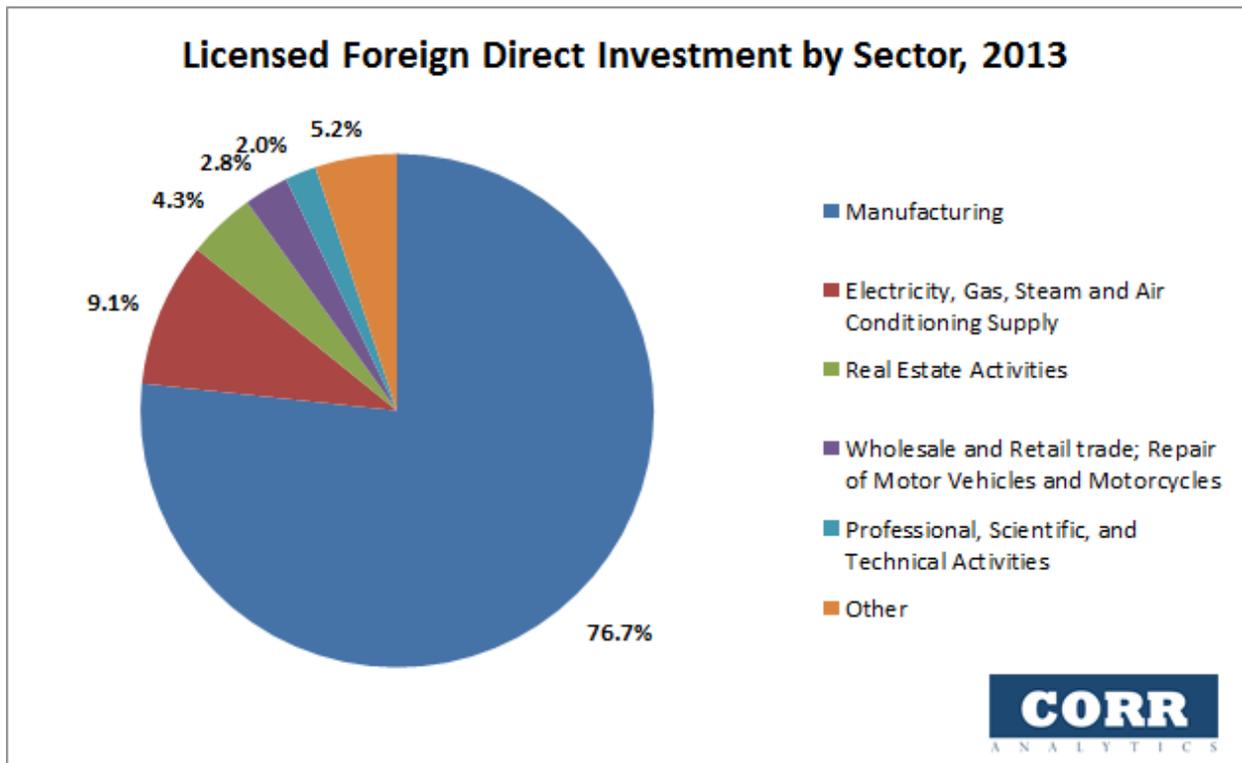


Figure 6: Licensed Foreign Direct Investment by Sector. Note: Vietnam General Statistics Office Sector Classifications utilized. Source: Vietnam General Statistics Office.¹⁹

Historically, most inbound Vietnamese FDI has come from East Asian countries, such as Japan, Singapore, South Korea, and Taiwan. The year 2013 conformed largely to this trend, with the same four countries leading licensed FDI into Vietnam (see Figure 7). Although the United

¹⁷ Vietnam General Statistics Office, accessed November 2014. http://www.gso.gov.vn/default_en.aspx?tabid=471&idmid=3&ItemID=15481.

¹⁸ Vietnam General Statistics Office, accessed November 2014. http://www.gso.gov.vn/default_en.aspx?tabid=471&idmid=3&ItemID=15481

¹⁹ Vietnam General Statistics Office, accessed November 2014. http://www.gso.gov.vn/default_en.aspx?tabid=471&idmid=3&ItemID=15481



States ranks as the 7th-largest contributor to all accumulated Vietnamese FDI realized through 2014, it sent the 15th-largest amount of FDI to Vietnam in 2013.

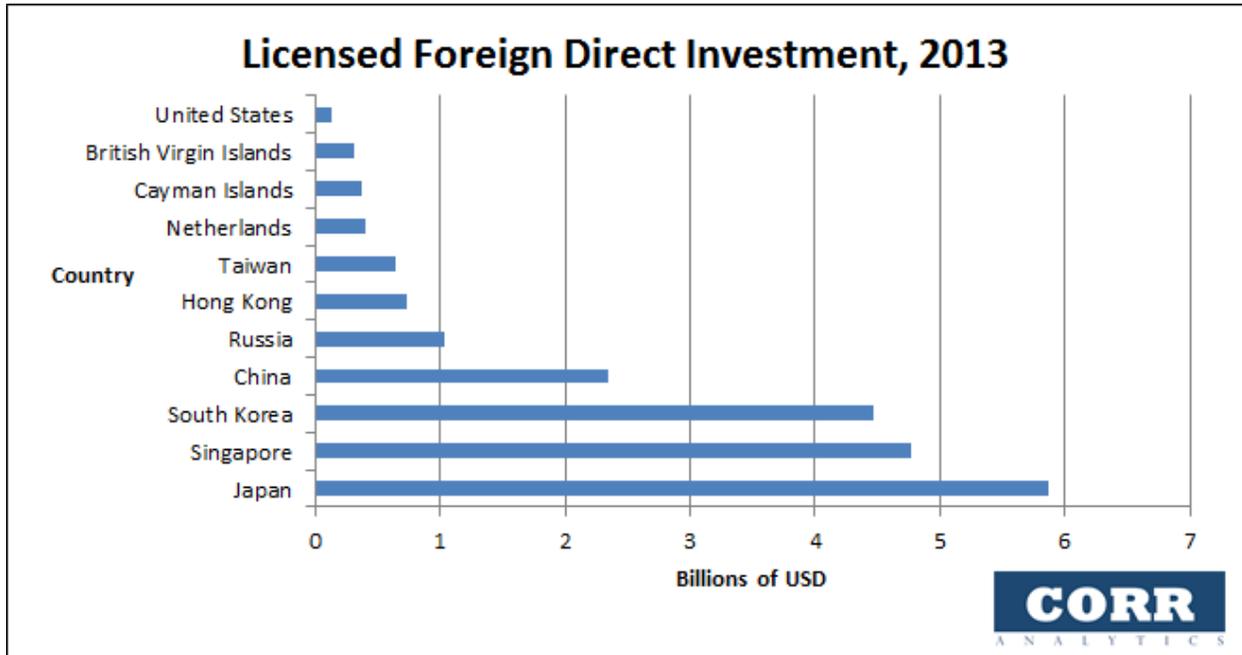


Figure 7: Licensed Foreign Direct Investment, 2013. Note: See Appendix F for more information. Source: Vietnam General Statistics Office.

Active Privatization Opportunities in 2015

The Vietnamese government is currently in the process of privatizing large stakes (equitization, in local parlance), of hundreds of state-owned enterprises.²⁰ In June 2014, the government issued Decree 37, reducing state ownership requirements in a broad variety of sectors. In all, 432 state companies are set to be privatized by 2015.²¹ Some investors are concerned that only a small fraction of the 432 companies in Decree 37 have been privatized. The government is taking measures to improve privatization rates, but at the same time the government is determined to undergo privatization in a responsible manner, meaning through methodical discovery of opportunities that can be unlocked through efficiencies or synergies resulting from privatization. The government is also well-aware that privatization should increase the value of the shares sold, and thus lead to a win-win solution for both investors and the government.

²⁰ We define privatization as the sale by the government of any percent stake in a state-controlled and state-owned enterprise (SOE). State control is defined as state ownership of 50% or more of voting stock, and state ownership is defined as any state stake in the equity of a company or enterprise. In Vietnam, equitization is defined as privatization of a stake less than 100% in a state-owned enterprise or company.

²¹ Vietnamnet, "Business in Brief 10/11," November 10, 2014. <http://english.vietnamnet.vn/fms/business/115987/business-in-brief-10-11.html>



Responsible privatization also includes careful consideration of social and environmental factors.²²

Government Privatization Guidelines

Category	Industries	Percent Held by Government
First group	Manufacture and supply of toxic chemicals and industrial explosives; electricity transmission; transportation systems necessary to national security; banknote and coin production; public postal services; and the national lottery.	100%
Second group	Petroleum and large-scale mineral exploitation; telecommunications infrastructure; inland roads and waterway systems, seaports, and air terminals.	75%+
Third group	Petroleum and natural gas processing; cigarette production; some coffee and rubber planting and processing; petroleum, gas, food and medical drug wholesaling; financial services; distribution of electricity; and aviation.	65-75%
Fourth group	Water supply and drainage sewerage, environmental protection; waste collection; basic chemicals production, international sea and railroad transportation; chemical fertilizers and insecticides; and coffee and rubber planting and processing in non-mountainous areas	50-65%

Table 2: Government Privatization Guidelines. Sources: VinaCapital, Allen & Overy ePublication.²³

Two of the most prominent initial public offerings (IPOs) already launched this year were those of Vietnam Airlines and the Vietnam National Textile and Garment Group. Although foreign investment in each of these two deals was below government expectations, in the former

²² Responsible privatization is important to avoid the excesses and losses associated with Russian privatization under President Boris Yeltsin in the 1990s.

²³ VinaCapital, "Opportunities from privatization of State-Owned Enterprises," 2014. <http://www.vinacapital.com/userfiles/data/VCG%20-%20MA%20Forum%20presentation%202014%20-%2020140807%20-%20EN%20FINAL%20PUBLISH%20%282%29.pdf>



because no foreign investment took place and in the latter because not as many shares were sold as initially hoped, each deal still raised significant investment capital. Vietnam Airlines sold 3.5% of its share capital (\$52 million), while Vinatex sold nearly 25% of its shares (\$58 million).²⁴

The three largest likely privatizations and/or IPOs in the near future are of Vietnam Mobile Telecom Service (MobiFone), Vietnam National Shipping Lines (Vinalines), and Vietnam National Coal-Mineral Industries Group (Vinacomin).

Valued at \$3.4 billion, MobiFone currently holds about 21% of Vietnam's mobile phone market.²⁵ The company and its competitor Vinaphone are both subsidiaries (19% market share) of the Vietnamese Posts and Telecommunications (VNPT) Group.²⁶ Although the company has been slated for privatization since 2005, increasing government attention to privatization writ-large and detailed discussion of this particular deal increase the chances that this time the government will follow through.²⁷ The company is expected to be partially privatized by the end of 2015, after which the state will only hold a 20% share.²⁸

Vinalines is currently the Vietnamese state shipping company. It has been beleaguered with financial difficulties after both a corruption scandal and the inheriting of \$4 billion in debts in the aftermath of financial mismanagement and corruption at Vinashin. To offset its debts, the company has been selling off stakes in many of its non-essential units, including ports.

Vinacomin recently completed a large divestment of its assets in the financial sector, including those in the SHB Insurance Company, along with SHB Bank, Aviation Insurance Company, SHS Securities Company and Vinacomin Finance Company.²⁹ Through August, it had also

²⁴ "Excess Baggage," *Economist*, November 22, 2014. <http://www.economist.com/news/business/21633834-400-firms-government-wants-part-privatise-are-mostly-unappealing-excess-baggage> ; "Nigeria, Argentina, and Vietnam Prove Top Picks for Multinationals," *Wall Street Journal*, June 6, 2014. <http://blogs.wsj.com/frontiers/2014/09/22/vietnams-58m-vinatex-ipo-exceeds-expectations/> ; "Vietnam's \$58 million Vinatex IPO 'Exceeds Expectations,'" *Wall Street Journal*, September 22, 2014. <http://blogs.wsj.com/frontiers/2014/09/22/vietnams-58m-vinatex-ipo-exceeds-expectations/> ; "Vietnam Airlines Raises Nearly \$52 million in IPO," *Wall Street Journal*, November 14, 2014. <http://online.wsj.com/articles/vietnam-airlines-raises-nearly-52-million-in-ipo-1415955368?KEYWORDS=vietnam>

²⁵ "Foreign telecom giants gear up for MobiFone IPO," *Vietnamnet*, October 5, 2014. <http://english.vietnamnet.vn/fms/science-it/113285/foreign-telecom-giants-gear-up-for-mobifone-ipo.html> ; "Big foreign groups eyeing MobiFone equitization," *Vietnamnet*, November 19, 2014. <http://english.vietnamnet.vn/fms/business/116804/big-foreign-groups-eyeing-mobifone-equitization.html>

²⁶ "International firms eager for stake in Vietnam's MobiFone ahead of 2015 IPO," *Tuoitre News*, September 10, 2014. <http://tuoitrenews.vn/business/23109/intl-firms-eager-for-stake-in-vietnams-mobifone-ahead-of-2015-ipo> ; "Big foreign groups eyeing MobiFone equitization," *Vietnamnet*, November 19, 2014. <http://english.vietnamnet.vn/fms/business/116804/big-foreign-groups-eyeing-mobifone-equitization.html>

²⁷ "Without a king: Vietnam SOE reform needs solidarity," *Finance Asia*, September 10, 2014. <http://www.financeasia.com/News/389537,without-a-king-vietnam-soe-reform-needs-solidarity.aspx>

²⁸ "International firms eager for stake in Vietnam's MobiFone ahead of 2015 IPO," *Tuoitre News*, September 10, 2014. <http://tuoitrenews.vn/business/23109/intl-firms-eager-for-stake-in-vietnams-mobifone-ahead-of-2015-ipo>

²⁹ Vietnam Investment Review, "Vinacomin pockets \$71 million from divestments," August 27, 2014. [http://www.vir.com.vn/vinacomin-pockets-\\$71m-from-divestments.html](http://www.vir.com.vn/vinacomin-pockets-$71m-from-divestments.html)



privatized three of eight units.³⁰ The remaining five units to be privatized by January 2015 include: Vinacomin-Power Holding Corporation Limited, Vinacomin-Viet Bac Mining Industry Holding Co., Ltd., Vinacomin-Minerals Holding Corporation, Vinacomin-Shipbuilding, and Vinacomin-Nhan Co Environment and Construction Company.³¹

Potential Investment in 2015

Thirty-One Private and Public Deals

Corr Analytics and our Vietnamese partners have done extensive research on debt and equity privatization opportunities in Vietnam. From the 432 opportunities identified in Decree 37, plus others identified in our research, we have selected the best 31 deals. These deals range in value from \$7 million USD to \$4.3 billion USD (see Figure 8), and cover companies and projects with market capitalizations or values of from \$14 million USD to \$9.4 billion USD. Sixty-one percent of the proposed deals are for debt, with the remaining 39% equity. Most of the deals are for a 50% equity stake, with debt being convertible, but equity offerings range from 20 to 75%. Seventy-six percent of the deals are in infrastructure, with most of the rest are in petroleum and manufacturing. There are also deals in the finance, banking, food, and beverage sectors. Please see Appendix A for further summary charts.

³⁰ "Vinacomin pockets \$71 million from divestments," *Vietnam Investment Review*, August 27, 2014. [http://www.vir.com.vn/vinacomin-pockets-\\$71m-from-divestments.html](http://www.vir.com.vn/vinacomin-pockets-$71m-from-divestments.html)

³¹ "Vinacomin's privatization to be completed in January 2015," *Vinacomin*, July 22, 2014. <http://www.vinacomin.vn/en/news/News-of-Vinacomin/Vinacomin-s-privatization-to-be-completed-in-Jan-2015-1390.html>; Vietnam Investment Review, "Vinacomin pockets \$71 million from divestments," August 27, 2014.

"Vinacomin pockets \$71 million from divestments," *Vietnam Investment Review*, August 27, 2014. [http://www.vir.com.vn/vinacomin-pockets-\\$71m-from-divestments.html](http://www.vir.com.vn/vinacomin-pockets-$71m-from-divestments.html)



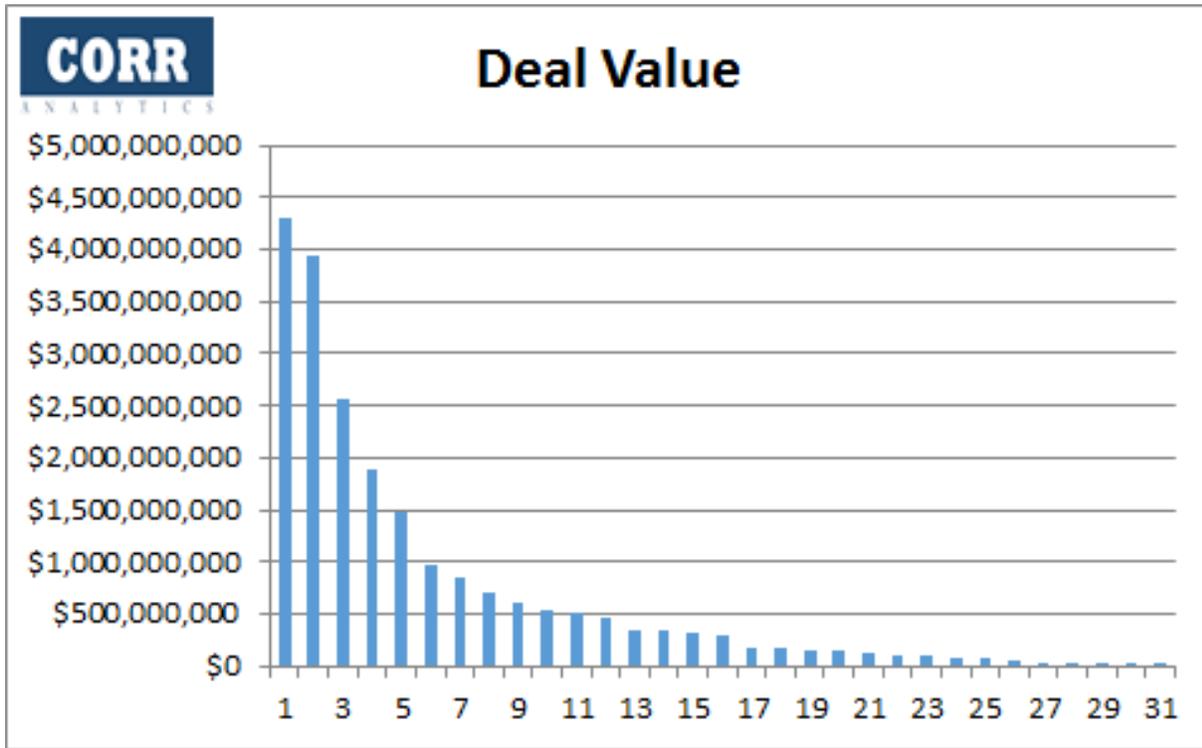


Figure 8: Deal values of 31 proposed Vietnam projects and privatizations originated by Corr Analytics for 2015. Source: Corr Analytics.

Corr Analytics highlights two exemplar companies that would benefit from further privatization. Please see Appendix A for a complete analysis of these exemplars and further examples.

Case Study: Company A

At over \$10 billion in revenues in 2013, Company A is one of Vietnam’s largest companies. We believe that the company’s privatization to the 51% level would offer positive benefits in both the short and long-term to the government, foreign investors, and people of Vietnam. The privatization of the company would provide the government with a much-needed source of revenue, while at the same time creating an opportunity to restructure the company more efficiently.

The government has already begun to take initial steps in this direction. Officials have indicated that some subsidiaries of the company will go public in the future, although a timeline has not been set in place. We predict that the government will complete these measures soon. At least one subsidiary of the company is already not entirely owned by the government; however, the non-government stake should be increased significantly.

Privatizing the company to the 51% level or higher would benefit investors and the government. Investors would maximize the value of the company for themselves, the government, and the



people of Vietnam, but focusing on shareholder value. The government and people of Vietnam would gain a large source of liquid assets for use in important projects and retirement of debt.

Case Study: Company B

Company B is currently one of the largest energy companies in Vietnam, with revenues in the \$5-10 billion range in 2013. It posted tens of millions of dollars in profits in the first 9 months of this year, in the process generating revenues in the \$5-10 billion range so far in 2014, up from the same period in 2013.

We believe that the company's profitability could be helped even further by implementing new privatization measures. Past privatization efforts have increased both domestic and external investment in the company, benefiting its growth. Furthering the scope of the company's privatization to the 51% level would generate more foreign investment and improve the company's operating efficiency.

Some analysts have suggested that privatization of Company B could endanger Vietnam's energy security. However, other countries with large private energy companies have not faced this challenge. In fact, the recent partial-privatization of the Mexican oil industry has increased projections for the country's long-term oil production, in part due to gains in business efficiency. We believe that increasing investor shares in Company B would have a similar effect of boosting energy supplies and profits in Vietnam.

Moreover, privatization would benefit both consumers and producers in the energy sector in Vietnam. In its present state, Company B holds a large market share in its respective industry, decreasing industry competition and generating price inefficiencies. Privatization would catalyze the division of the company into smaller companies, thereby fostering greater competition in the petroleum market. This would benefit both individual and organizational consumers of petroleum products.

Section II: Challenges To Foreign Business And Investment In Vietnam

Foreign investors face serious but manageable challenges upon entry into the Vietnam market. These include (A) internal obstacles, such as significant corruption and regulation, as well as (B) external threats, including risks associated with China's rise but decreasing power and influence within Vietnam. Smart decisions by the government, accompanied with benefits generated by the country's growth, have helped to improve the country's investment climate.



Challenges from Inside Vietnam

Vietnam ranks high relative to other frontier markets in terms of regulations, taxes, contracts, and utilities. The World Bank's most recent 2015 Doing Business report ranked Vietnam as the 78th best business environment out of 189 countries, putting it in league with China, Brazil and India, and second only to Saudi Arabia among comparable frontier market economies (See Figure 9). Vietnam improved significantly in 2014 on the DB score because it founded its first credit rating bureau in January (Vietnam Credit Information), and on January, 1 2014 lowered corporate profit tax rates from 25% to 20-22% depending on the industry.³² Still, investors perceive serious challenges and risks upon entering the Vietnam market. Among the most serious risks include:

- (1) Declining Labor Force Growth
- (2) Inadequate legal system
- (3) Corruption
- (4) Inflation

³² "Distance to Frontier," *World Bank Group*, accessed November 18, 2014. <http://www.doingbusiness.org/data/distance-to-frontier> ; World Bank Group, "Doing Business 2015," accessed November 18, 2014. <http://www.doingbusiness.org/~media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB15-Full-Report.pdf> ; "Vietnam Highlights 2014," Deloitte, accessed November 26, 2014. <http://www2.deloitte.com/content/dam/Deloitte/global/Documents/Tax/dttl-tax-vietnamhighlights-2014.pdf>



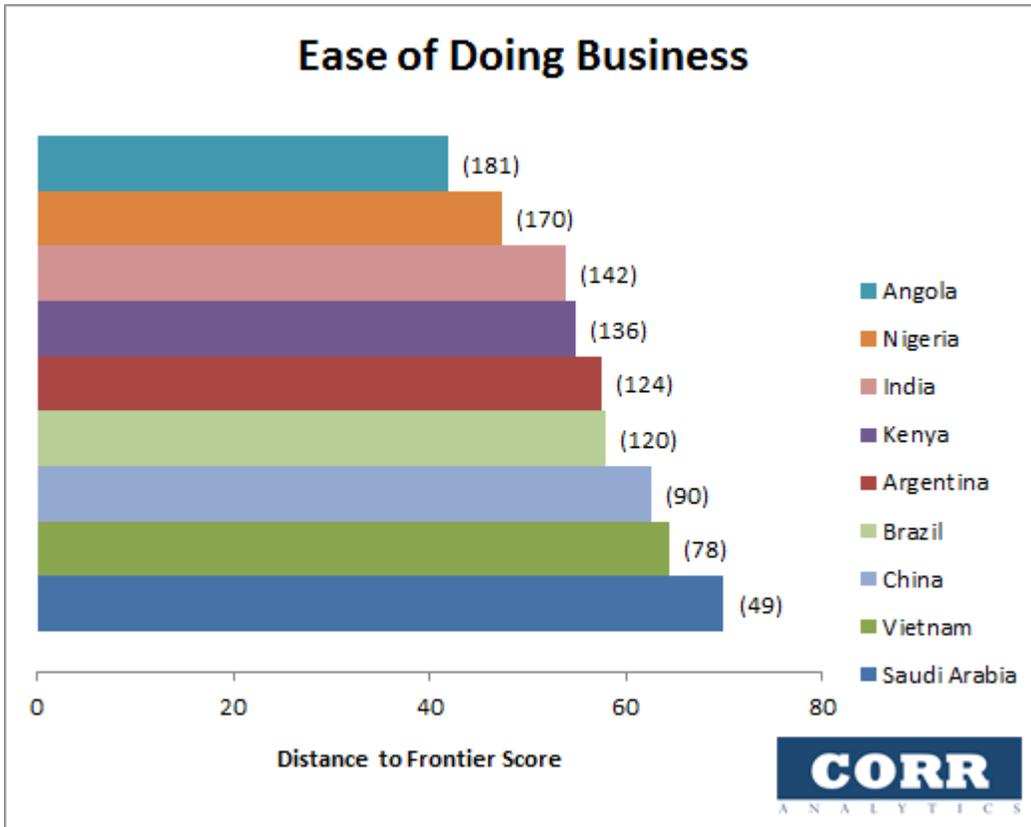


Figure 9: Ease of Doing Business Scores of Top Frontier and Emerging Markets. Note that Vietnam beats several emerging markets, including China, India, and Brazil. Labels indicate country's world rank from 1 to 189. Distance to Frontier Score indicates an absolute level of regulatory performance over time and relative to other countries. Source: World Bank Group, Doing Business 2015 report.³³

Declining Labor Force Growth

Vietnam will face significant demographic challenges in coming years. Although the Vietnamese population continues to move from rural to urban areas in support of the country's manufacturing industries (since 2000, the urban population has increased by 0.6% per year), the labor force is aging, and its growth is slowing (see Table 3). For five consecutive years, the labor force's growth rate has decreased from 2.8% in 2007-2008 to 1.5% in 2012-2013.³⁴ Government projections estimate that the growth rate will drop to 0.6% within the next decade.³⁵

³³ World Bank Group, "Doing Business 2015," accessed November 18, 2014.

<http://www.doingbusiness.org/~media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB15-Full-Report.pdf>

³⁴ Vietnam General Statistics Office, accessed November 2014.

http://www.gso.gov.vn/default_en.aspx?tabid=467&idmid=3&ItemID=15637

³⁵ Vietnam General Statistics Office, accessed November 2014.

; "Sustaining Vietnam's growth: The productivity challenge," *McKinsey Global Institute*, February 2012.

http://www.mckinsey.com/insights/asia-pacific/sustaining_growth_in_vietnam



The Aging Vietnamese Labor Force

Year	Ages 15-24 (%)	Ages 25-49 (%)	Age 50 and up (%)
2000	21.5	66.1	12.4
2013*	14.9	59.9	25.2

Table 3: The Aging Vietnamese Labor Force. Note: 2013 data are preliminary estimates by the Vietnam General Statistics Office. Source: Vietnam General Statistics Office.³⁶

As a result of these demographic trends, maintaining the government's target annual growth rate of 7% will require increases in productivity of the existing labor force.³⁷ Indeed, From 2007-2013, Vietnam's economy posted a compound average of 5.4% in annual productivity growth.³⁸

In addition, the government has embarked on a comprehensive list of policies to help combat these rising demographic challenges and increase productivity among the country's working population. First, it has improved education levels. During the 2011-2012 school year, primary school enrollment reached 98%, while in 2012 literacy rates for the population ages 10 and over surpassed 95%.³⁹ Lower secondary school enrollment has grown from 81% in 2006-2007 to 87% in 2011-2012. In addition, to address the country's historical infrastructure gap, the government has implemented a new series of public-private partnerships aimed at increasing investment infrastructure. In 2015, the state plans to invest up to \$1 billion for these projects.⁴⁰

Inadequate Legal System

The depth and clarity of business regulation and legislation has improved considerably in recent years. However, many investors still face challenges in several areas.

Enforcement of Foreign and Domestic Arbitral Awards

³⁶ Vietnam General Statistics Office, accessed November 2014.

http://www.gso.gov.vn/default_en.aspx?tabid=467&idmid=3&ItemID=15642

³⁷ "Sustaining Vietnam's growth: The productivity challenge," *McKinsey Global Institute*, February 2012.

http://www.mckinsey.com/insights/asia-pacific/sustaining_growth_in_vietnam

³⁸ Calculations based on Vietnam General Statistics Office's (VGSO) data for productivity estimates at currency prices. Data for 2013 are VGSO estimates. Figures were deflated using World Bank consumer prices inflation estimates. Vietnam General Statistics Office, accessed November 2014. http://www.gso.gov.vn/default_en.aspx?tabid=467&idmid=3&ItemID=15627

³⁹ "Millennium Development Goals 2013," Socialist Republic of Vietnam, December 17, 2013.

http://www.undp.org/content/dam/undp/library/MDG/english/MDG%20Country%20Reports/Viet%20Nam/MDG_FullReport_Final%20approved.pdf

⁴⁰ "Vietnam Promotes Public Private Partnerships in Infrastructure," USAID, accessed November 19, 2014.

<http://www.usaid.gov/results-data/success-stories/vietnam-promotes-public-private-partnerships-infrastructure>



The enforcement of foreign and domestic arbitral awards is one common concern among foreign investors. As of September 1995, Vietnam is a signatory to the New York Convention on the enforcement of foreign arbitral awards.⁴¹ In 2013, the Supreme Court started review of steps to improve the legal framework for arbitration in Vietnam. Some present uncertainties include:⁴²

- Lack of full development in Vietnamese laws and regulations;
- Arbitration enforcement has not faced significant tests thus far, making it difficult to assess how it will work in the future; and
- The arbitration process can be time-consuming.

In a recent case involving Vinashin, the Vietnamese government has worked with a South Korean claimant to resolve a \$3 million dispute.⁴³ The government's ability to openly work with the foreign company suggests that in this area the government is working with foreign companies to enforce arbitration and assure by foreign investors.

Corporate Governance

Another problem that has deterred foreign investors in Vietnam is the weakness of the country's corporate governance standards. The most recent 2012 International Finance Corporation rankings gave the country an average corporate governance score across all major companies of 42.5%, below Indonesia, the Philippines, Singapore, Malaysia, and Thailand.⁴⁴ According to this assessment, the weakest areas of Vietnamese corporate governance included the role of stakeholders; disclosure and transparency; and responsibilities of the board.

Since the release of this report, however, the country has made strides in improving corporate governance. In September 2012, Circular 121 came into effect, with the goal of improving corporate governance. In 2013, the International Finance Corporation released a review of the document that indicated that the document had authorized vast improvements in policy over the previous legal regime on corporate governance.⁴⁵

⁴¹ "New York Convention Countries," New York Arbitration Convention, accessed November 23, 2014.

<http://www.newyorkconvention.org/contracting-states/list-of-contracting-states>

⁴² "Arbitration in Vietnam: An Introduction," *Hogan Lovells*, October 2013.

http://www.hoganlovells.com/files/Uploads/Documents/13.10_Hogan%20Lovells%20-%20Arbitration%20in%20Vietnam.pdf

⁴³ "Vietnam shipping giant seeks negotiations with S.Korean contractor after exhausting all options," *Thanhnie News*, October 30, 2014.

<http://www.thanhnieenews.com/business/vietnam-shipping-giant-seeks-negotiations-with-skorean-contractor-after-exhausting-all-options-32832.html>

⁴⁴ "Vietnam Corporate Governance Scorecard 2012," *International Finance Corporation*, 2012.

<http://www.ifc.org/wps/wcm/connect/4e9e9c804ddfd39ab2ba7a9dd66321/Scorecard+2012+--+Eng.pdf?MOD=AJPERES>

⁴⁵ "Vietnam's New Circular Changing Board Behavior," *International Finance Corporation*, 2013.

http://www.ifc.org/wps/wcm/connect/dd67ce8040f6ed6795d5ff25d54dfab3/CG_EAP_Newsletter_2_Aug2013.pdf?MOD=AJPERES



Restrictions on Foreign Ownership

Vietnamese restrictions on foreign ownership are significant even after the relaxation of ownership standards in February 2014, outlined in the table below. Corr Analytics predicts other increases, specifically that the total maximum foreign investment in publicly listed non-bank credit institutions will increase to 60%, up from the present 49%. This would come after last week's improvement in policy toward foreign ownership of real estate (see Table 4).⁴⁶

Notable Vietnamese Investment Restrictions

Type of investment	Foreign Ownership Stake	Other Details
Restaurants	100%, effective January 2015	
Banks	30%, as of February 2014	Individual maximum: 5% Nonstrategic investor maximum: 15% Strategic ⁴⁷ investor maximum: 20%
Civil Aviation	49%, as of January 2007	Investor maximum: 30%
Real Estate	30% of an apartment building, as of November 2014	Presently, foreigners can only own property for up to 50 years.

Table 4: Notable Vietnamese Foreign Ownership Regulations

Note: The table above does not provide a complete list of restrictions. Other restricted sectors are listed in appendix D.⁴⁸

⁴⁶ "Vietnam Moves to Allow Foreigners to Buy Homes," *Wall Street Journal*, November 26, 2014.

<http://online.wsj.com/articles/vietnam-moves-to-allow-foreigners-to-buy-homes-1416995883?KEYWORDS=vietnam>

⁴⁷ Strategic investors include those that have the financial capacity and written commitment to deeply support enterprises in acquiring technology transfers and/or improving their business governance, human resource training, and financial capacity after equitization. While some strategic investors complain of poaching of built-up human capital, investors are expected to increase to market rates the salaries of individuals as their strategic training increases.

⁴⁸ Law on Investment, Socialist Republic of Vietnam. [http://www.vietnamlaws.com/freelaws/Lw59na29Nov05CIL\[10Apr06\].pdf](http://www.vietnamlaws.com/freelaws/Lw59na29Nov05CIL[10Apr06].pdf)



Remission of Foreign Currency

Remitting foreign currency can also pose a challenge to foreign investors. A new Foreign Exchange Law banning the use of foreign currency in many types of domestic transactions, particularly in the banking sector, came into effect in January 2014.⁴⁹ More recently, in August, the government passed another regulation that requires the creation of a “direct investment capital account” at an authorized Vietnamese bank before foreigners can invest.⁵⁰

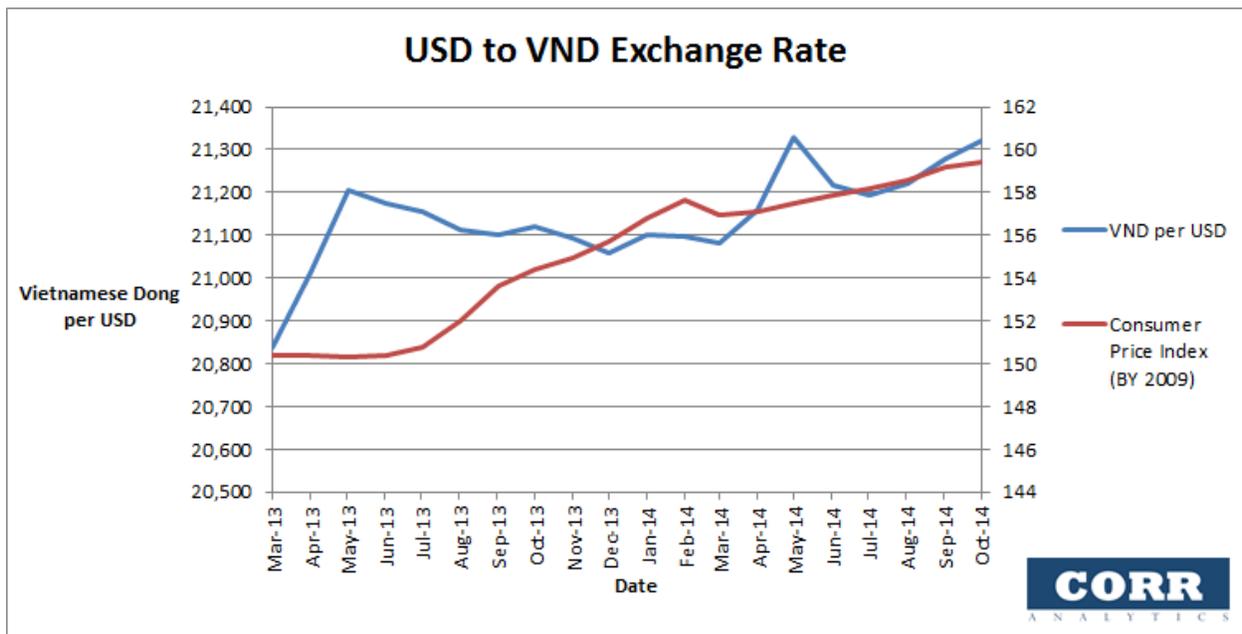


Figure 10: Exchange Rate from March 2013 to October 2014. Source: Investing.com, Vietnam General Statistics Office.

These measures in large part seek to resolve the government’s long-term goal of “de-dollarizing” the Vietnamese economy. To help combat the effects of inflation in recent years, many Vietnamese businesses turned to using US dollars, contributing to a steady decrease in the value of the VND. Thus, with these measures, the government hopes to decrease the accessibility of dollars within the country to help stabilize the value of the dong (see Figure 10). Investors should be wary of increasing capital controls, particularly in future high-inflation scenarios.

⁴⁹ “Updating Vietnam’s Foreign Exchange Controls,” *IFLR*, May 24, 2013. <http://www.iflr.com/Article/3210344/Updating-Vietnams-foreign-exchange-controls.html>

⁵⁰ “SBV Circular 19 on foreign exchange control for foreign direct investment in Vietnam,” *KPMG*, August 2014. <https://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/taxnewsflash/Documents/vietnam-aug14-2014.pdf>



At the same time, recent improvements in Vietnam's inflation climate suggest that these capital controls may become less necessary for the government in coming years. Prime Minister Nguyen Tan Dung and other government officials plan to drive inflation this year to below 3%, far below both the government's initial annual target of 5% and the 19% rate of inflation in 2011.⁵¹

Although legal barriers to entry into the Vietnamese market exist, the country's regulatory environment has increasingly paved the way for foreign investment. In 2013, licensed foreign direct investment increased by nearly 37% from 2012, standing at over \$22 billion.⁵² This indicates that from a licensing perspective, the government is making it easier than ever for foreign investors to access the Vietnamese market.

Government Debt

Vietnam's government faces significant fiscal challenges. Poor investment decisions by state-owned enterprises, as well as corruption, have contributed to government debt in the wake of the 2007-2009 global financial crisis (see Figure 11). State-owned shipping company Vinashin, for example, registered \$4 billion in debts in 2010 amid allegations of corruption among two of its top executives.⁵³

⁵¹ "Vietnam's Inflation Eases As Growth Edges Higher," *Wall Street Journal*, November 19, 2014.

<http://blogs.wsj.com/frontiers/2014/11/19/vietnams-inflation-eases-as-growth-edges-higher/>; International Monetary Fund, World Economic Outlook Database.

⁵² "Social and economic situation in ten months of 2014," Vietnam General Statistics Office, 2014.

<http://www.gso.gov.vn/default.aspx?tabid=622&ItemID=16091>

⁵³ "Vietnam Confidence Vote Reveals Jockeying Among Political Elite," *Bloomberg*, November 15, 2014.

<http://www.bloomberg.com/news/2014-11-15/vietnam-confidence-vote-reveals-jockeying-among-political-elite.html>; "Vietnam hands out death sentences in Vinalines corruption case," *South China Morning Post*, December 16, 2013.

<http://www.scmp.com/news/asia/article/1382593/vietnam-hands-out-death-sentences-vinalines-corruption-case>



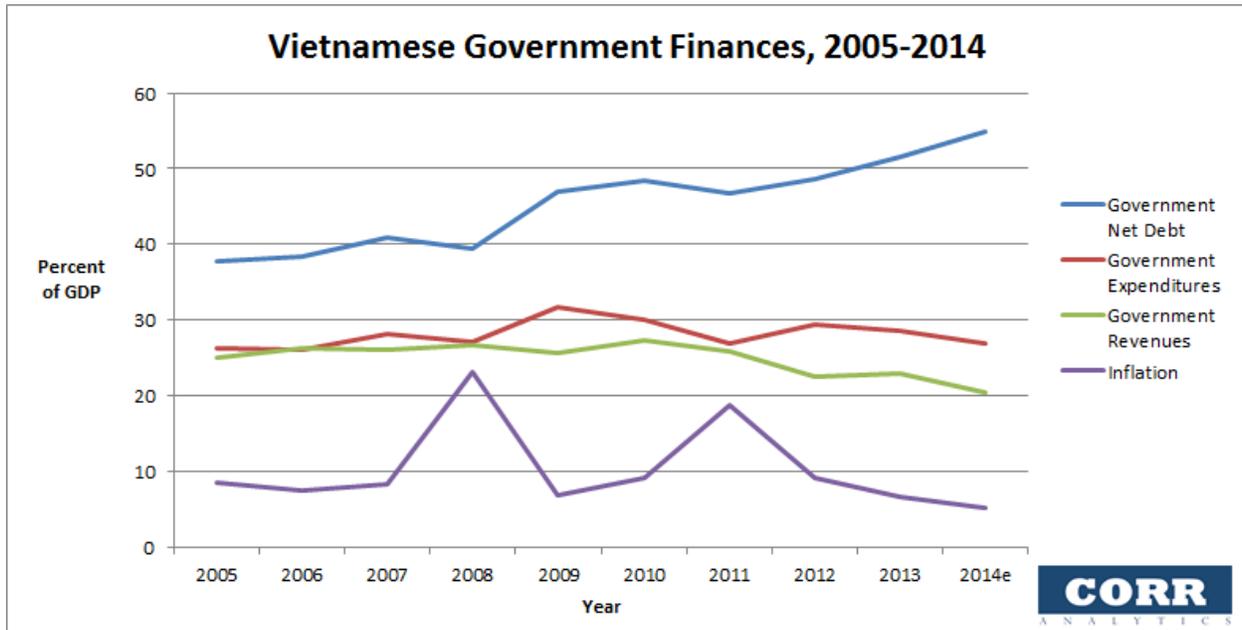


Figure 11: Vietnamese Government Finances, 2005-2014. Note: Year 2014 data are IMF estimates. Source: International Monetary Fund, World Economic Outlook Database, October 2014.

While bad debts are an issue in Vietnam, the government has taken steps to make good on those debts for investors. In 2013, the government created the Vietnam Asset Management Company (VAMC). The asset manager has purchased 97 trillion dong (\$4.6 billion) of bad debt to-date and anticipates the purchase of another 200 trillion dong (\$9.4 billion) by the end of 2015.⁵⁴ These VAMC purchases have enabled the government to cut non-performing debt in Vietnam to 5.4% from 17% in 2012.⁵⁵ And although the VAMC has made little progress thus far in determining what to do with its low-quality purchases, at least government deficit spending to support ailing state-owned enterprises seems poised to fall as a result.⁵⁶ In addition, the recent November 2014 shift to a more realistic purchasing measure for bad debts is a further step in the right direction that will help the government clean up its balance sheet. Prime Minister Nguyen Tan Dung says that by December 2015, non-performing loans (NPLs) need to be no more than 3%.⁵⁷

⁵⁴ “Vietnam Tightens Valuations to Clean Up Bad Debt: Southeast Asia,” *Bloomberg Businessweek*, November 13, 2014.

<http://www.businessweek.com/news/2014-11-12/vietnam-tightens-valuations-to-clean-up-bad-debt-southeast-asia>

⁵⁵ “Vietnam Tightens Valuations to Clean Up Bad Debt: Southeast Asia,” *Bloomberg Businessweek*, November 13, 2014.

<http://www.businessweek.com/news/2014-11-12/vietnam-tightens-valuations-to-clean-up-bad-debt-southeast-asia>

⁵⁶ “Vietnam confidence vote offers more than political theater,” *Reuters*, November 13, 2014.

<http://www.reuters.com/article/2014/11/13/us-vietnam-politics-idUSKCN0IX0RX20141113>

⁵⁷ “Vietnam State Bank Tightens Lending to Stock Investors,” *Wall Street Journal*, November 21, 2014.

<http://online.wsj.com/articles/vietnam-state-bank-tightens-lending-to-stock-investors-1416562783?KEYWORDS=vietnam>



Corruption

Corruption in Vietnam is a serious problem. Eighty-two percent of Vietnamese indicated in a recent survey that corruption had increased from 2012-2013, while in 2013, 48% of Vietnamese reported paying a bribe to the police in the previous 12 months.⁵⁸

Businesses, particularly multinationals, suffer even more than the population from the country's corruption. Sixty-nine percent of businessmen in Ho Chi Minh City were victims of petty corruption in 2013.⁵⁹ Among the most popular techniques used by state officials to extort bribes is through the manipulation of the country's complicated regulations. In a recent study by the World Bank, state officials had intentionally delayed the requests of 63% of survey respondents and, for 58%, had explained regulations poorly only to then catch mistakes and seek compensation.⁶⁰

In the past, the government of Vietnam has also used project delays to justify corruption and other actions contrary to the interests of foreign investors. In 2010, several foreign investors reported the provincial and national governments as threatening to rescind their investment licenses. In 2011, a resort developer was undercut by government plans to develop a mining concession. The US-Vietnam Bilateral Trade Agreement includes provisions to forestall such challenges in the future.⁶¹

The government has taken a firm stance on corruption in the aftermath of the recent Vinalines embezzlement scandal. In May, the Supreme People's Court upheld the death sentence handed out to two top executives at the company responsible for embezzling nearly \$1 million in company funds.⁶² In March 2012, Vinashin executives accused of corruption also faced harsh sentences of more than 20 years in prison.⁶³ Corr Analytics predicts that these actions will deter corruption in the future.

⁵⁸ "Vietnam," Transparency International, accessed November 18, 2014.

<http://www.transparency.org/gcb2013/country/?country=vietnam>

⁵⁹ "Petty corruption is common, say firms," *Vietnam Investment Review*, November 19, 2013. <http://www.vir.com.vn/petty-corruption-is-common-say-firms.html>

⁶⁰ "Corruption from the Perspective of Citizens, Firms, and Public Officials, World Bank, November 2012. http://www-wds.worldbank.org/external/default/WDSPContentServer/WDSP/IB/2013/03/13/000333037_20130313144107/Rendered/PDF/738070REVISED0000January02013000ENG.pdf

⁶¹ "2013 Investment Climate Statement - Vietnam," United States Department of State, accessed November 16, 2013. <http://www.state.gov/e/eb/rls/othr/ics/2013/204760.htm>

⁶² "Vietnam upholds death sentences for Vinalines executives," *ThanhNien News*, May 7, 2014.

<http://www.thanhniennews.com/society/vietnam-upholds-death-sentences-for-vinalines-executives-26066.html>

⁶³ "Vinalines' Former Executives Sentenced to Death in Vietnam Trial," *Bloomberg*, December 16, 2013.

<http://www.bloomberg.com/news/2013-12-16/vinalines-former-executives-sentenced-to-death-in-vietnam-trial.html>



Inflation

Although Vietnam has had historically high levels of inflation, the government is optimistic about containment and a steady decrease to manageable levels. Since hitting annual peaks between 15-25% in 2008 and 2011, inflation has substantially decreased into 2014. Recent government estimates suggest that inflation may even be 3% in 2014, while other outside observers anticipate inflation of 4-5%.⁶⁴ Regardless, Vietnam’s inflation environment has improved significantly since the peaks of 2008 and 2011 (see Figure 12).

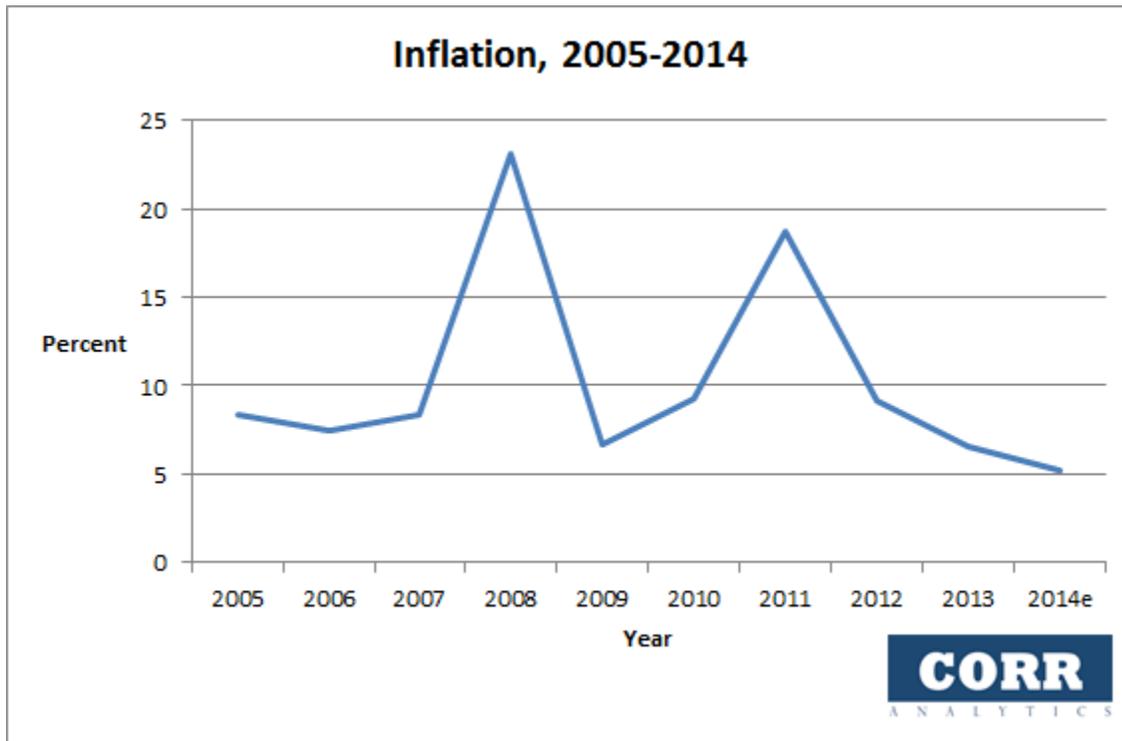


Figure 12: Inflation, 2005-2014. Note: Year 2014 is an IMF estimate. Source: International Monetary Fund, World Economic Outlook Database, October 2014.

The decrease in inflation since 2008 has even allowed the government to take measures to decrease interest rates and exchange rates. In March 2014, the government lowered two key interest rates, the refinance rate and the discount rate, to 6.5% (7.0% previously) and 4.5% (5.0% previously), respectively. And in June, the central government devalued the currency against the dollar by 1% to boost exports.⁶⁵

⁶⁴ Vietnam Report forecasts 4.5% inflation in 2014, while Strategic Risk forecasts inflation of 4.4%.

⁶⁵ “New exchange rate not affecting inflation control,” *Vietnam Plus*, June 20, 2014. <http://en.vietnamplus.vn/Home/New-exchange-rate-not-affecting-inflation-control/20146/51772.vnplus>



The International Monetary Fund forecasts inflation to remain near 5% in coming years, while other analysts have projected slightly higher rates near 6%.⁶⁶

Challenges from Outside Vietnam

Despite Vietnam's serious Asian security threats, the country's security orientation is shifting to manage these problems. The foremost geopolitical risk among the threats Vietnam faces is China's continued economic and geopolitical rise. In recent years, tensions have continued to escalate in the South China Sea as China searches for energy independence in the waters' hundreds of trillions of cubic feet of natural gas and billions of barrels of crude oil.⁶⁷

In May 2014, the South China Sea debate reached its current and most critical phase when Beijing sent a large drilling rig into Vietnamese territory near the Paracel Islands. In the depth of the crisis, the VN Index dropped 5.9% in a single day.⁶⁸ Massive protests against Chinese actions, which eventually turned violent against resident Chinese from both the mainland and Taiwan, also erupted in Vietnam in the aftermath of the crisis.

The Chinese threat to Vietnam's political and economic security will not recede in the near future. Observers should anticipate future tense episodes in the South China Sea as rising countries in Asia jostle for control of unoccupied maritime territory with significant amounts of oil and gas resources. The competition for these resources has become a nationalist cause, leading politicians into potentially dangerous conflicts whose costs outweigh the benefits to be gained.

Despite the uncertainties generated by the geopolitical tensions surrounding the South China Sea dispute, the Vietnamese government has taken positive steps to generate a security environment for civilians and investors. Vietnam and other members of the Association of Southeast Asian Nations (ASEAN) have deepened security ties not only among themselves, but also with Japan, which presently finds itself in a territorial dispute with China over the Senkaku Islands. The dispute has also led to unprecedented military and strategic cooperation with Australia, with high-level talks having occurred as recently as November 21 of this year. In

⁶⁶ International Monetary Fund, World Economic Outlook Database, October 2014 ;

http://www.gbm.scotiabank.com/English/bns_econ/vietnam-execbriefing.pdf

⁶⁷ Estimates vary on the South China Sea's proven reserves. The World Bank estimates that the body of water contains 900 trillion cubic feet of natural gas and 7 billion barrels of crude oil, while the Energy Information Administration estimates that it holds 190 trillion cubic feet of natural gas and 11 billion barrels of crude.

"South China Sea Tensions," *Council on Foreign Relations*, May 14, 2014. <http://www.cfr.org/china/south-china-sea-tensions/p29790> ; "South China Sea," *Energy Information Administration*, accessed November 20, 2014.

<http://www.eia.gov/countries/regions-topics.cfm?fips=scs>

⁶⁸ "Vietnam's Stocks Post Biggest Losses in Decade on China Tensions," *Bloomberg*, May 8, 2014.

<http://www.bloomberg.com/news/2014-05-08/vietnam-stocks-head-for-worst-drop-since-2001-amid-china-tension.html>



February 2012, the two countries inaugurated the first annual Australia-Vietnam Joint Foreign Affairs/Defense Strategic Dialogue.⁶⁹

Most importantly, however, Vietnam appears headed for unprecedented security cooperation with the United States. Just last month, the United States partially lifted a Vietnam War-era ban on military equipment sales to Vietnam with the explicit purpose of assisting the country in defending itself in the South China Sea.⁷⁰ While the countries still do not have any treaty obligations to one another, this measure and the accompanying recent visit to Vietnam by President Obama indicate that Vietnam's ties to the United States are improving.

Section III: How Has Vietnam Addressed Its Investment Challenges?

Vietnam has instituted economic and political measures in recent years that address challenges for investors. These policy changes have improved:

- (1) Economic Diversification
- (2) Global Integration
- (3) Investment Legislation
- (4) Investment Economic Policy

Economic Diversification

In the long-term, Vietnam has insulated itself from commodity price sensitivities by building a highly diversified economy, unlike other countries that rely heavily upon a small number of commodity exports such as oil, soy, and wheat. Agriculture's share of the country's GDP dropped from 40% to 20% in the space of just 15 years.⁷¹ And, today, manufacturing now accounts for over three-fourths of licensed FDI. As a result, when Vietnam's commodities exports faced stiff declines from 2008-2009, including a 32% decrease in fuels and mining exports, growth in other areas kept the economy afloat.⁷² For instance, telecommunications equipment exports and textiles grew by 40.4% and 28.5%, respectively, that year.⁷³

⁶⁹ "Vietnam, Australia hold foreign affairs, defense dialogue," *Thanhniem News*, November 21, 2014. <http://www.thanhniennews.com/politics/vietnam-australia-hold-foreign-affairs-defense-dialogue-34285.html>

⁷⁰ "U.S. Eases Ban on Weapons Sales to Vietnam," *Huffington Post*, October 2, 2014. http://www.huffingtonpost.com/2014/10/02/us-weapons-sales-to-vietnam_n_5924728.html

⁷¹ "Sustaining Vietnam's growth: The productivity challenge," *McKinsey Global Institute*, February 2012. http://www.mckinsey.com/insights/asia-pacific/sustaining_growth_in_vietnam

⁷² World Trade Organization, Time Series on International Trade Database. <http://stat.wto.org/StatisticalProgram/WSDBStatProgramHome.aspx?Language=E>

⁷³ World Trade Organization, Time Series on International Trade Database. <http://stat.wto.org/StatisticalProgram/WSDBStatProgramHome.aspx?Language=E>



Global Integration

The country's accession to the World Trade Organization in January 2007 has also had positive ramifications for the country's growth.⁷⁴ Among agricultural goods, tariffs decreased from 29.4% to 17.4% from 2007-2013 (see Figure 13). Similarly, non-agricultural goods averaged a decrease of 8.1% during the same period from 17.4% to 9.3%.

Most-Favored Nation Applied Tariff Rates Across Non-Agricultural Sectors, 2007-2013

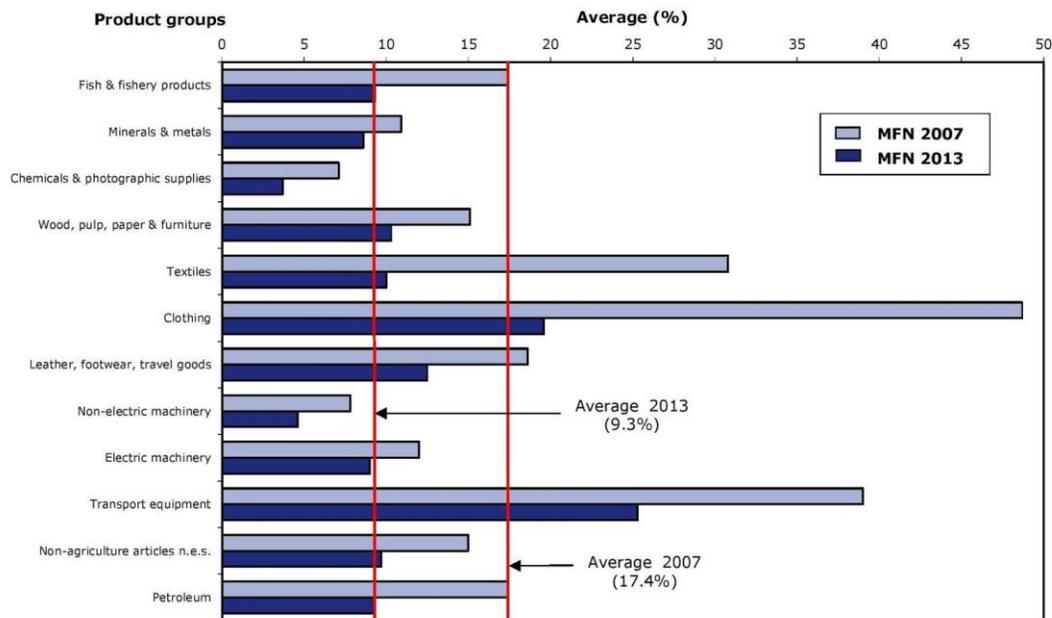


Figure 13: Most-Favored Nation Applied Tariff Rates Across Non-Agricultural Sectors, 2007-2013. Source: World Trade Organization graph; WTO Secretariat calculations, based on data provided by the authorities of Viet Nam, and Ministry of Finance, Circular No. 193/2012/TT-BTC.⁷⁵

Going forward, the country is well positioned to improve upon these impressive gains. It is currently a member of the Trans-Pacific Partnership (TPP) negotiations and has also commenced negotiations on five other free trade agreements, including with the European Union.⁷⁶ At least five others have also been proposed, placing the government in an ideal position to improve upon its present achievements.⁷⁷

⁷⁴ "Vietnam," US Trade Representative, accessed November 20, 2014. <https://www.ustr.gov/sites/default/files/Vietnam.pdf>

⁷⁵ World Trade Organization, "Trade Policy Review: Vietnam," August 13, 2013. http://www.wto.org/english/tratop_e/tpr_e/s287_e.pdf

⁷⁶ "Vietnam," Asian Regional Integration Center, accessed November 26, 2014. <http://aric.adb.org/fta-country>

⁷⁷ "Vietnam," Asian Regional Integration Center, accessed November 26, 2014. <http://aric.adb.org/fta-country>



Investment Legislation

In recent months, the Vietnamese government has made a concerted effort to improve the country's investment environment through a series of measures to increase business confidence in the economy, decrease regulation, and decrease corporate tax burdens. Some of the biggest of these policy changes are included in table 5 below.

Date	Description
January 2014	Vietnam decreased corporate income tax rates from 25% to 20-22%. ⁷⁸ The rate will drop to 20% generally in 2016.
February 2014	A new set of maximum foreign ownership stakes came into effect, increasing the number of investment opportunities available to foreign investors in Vietnam. ⁷⁹
January 2014	The government opened its first credit bureau, Vietnam Credit Information, which by April of this year had already begun providing credit information to 23 of the country's 47 commercial banks.
October 2014	The Ministry of Finance implemented a 50% personal tax reduction for individuals working in the country's economic zones.
November 2014	The government dramatically decreased the number of banned business activities in the country from 51 to 6. The same new law also gives businesses greater flexibility to alter business activities in the country.

Table 5: Recent Policy Improvements in Vietnam. Sources: KPMG, World Bank Group, Vietnam Briefing, ThanhNien News.⁸⁰

⁷⁸ "Vietnam Tax Profile," KPMG, accessed November 23, 2014. <http://www.kpmg.com/Global/en/services/Tax/regional-tax-centers/asia-pacific-tax-centre/Documents/CountryProfiles/Vietnam.pdf>

⁷⁹ See Appendix D for a complete list of current investment restrictions.

⁸⁰ "Vietnam Tax Profile," KPMG, accessed November 23, 2014. <http://www.kpmg.com/Global/en/services/Tax/regional-tax-centers/asia-pacific-tax-centre/Documents/CountryProfiles/Vietnam.pdf> ; "Doing Business 2015," World Bank Group, accessed November 18, 2014.



Investment Economic Policy

The past decade has seen the Vietnamese government make huge progress in its privatization effort. From 2000 to 2013, the number of state-owned enterprises declined from 5,800 to 3,135, a decrease of nearly 50%.⁸¹ Over 80% reported growths in earnings following privatization, while 40% had growth of over 10% as a result of privatization.⁸² These successes demonstrate the potential for Vietnamese growth through the privatization of state-owned enterprises.

However, the country's largest recent economic success has come in the government's ability to tackle Vietnam's historical problem with inflation. In 2011, the government created an economic restructuring plan to improve the efficiency of the economy, in part by reducing inflation. Since then, the high levels of inflation seen in previous years have fallen dramatically. In September, the Consumer price index (CPI) was just 3.6% higher than in September 2013. In all, in the first 9 months of the year, the CPI had only increased by 2.3%. These reduced levels of price increases had mainly occurred in the areas of food, education, medicine and health care service.

To decrease inflation, the government took bold steps in monetary and fiscal policy to stabilize the macroeconomic environment since the 2011 economic restructuring plan came into effect. Among the successful steps taken is the notable increase in foreign exchange reserves, owing in part to rising net exports. The government has been able to increase its foreign exchange reserves to \$35 billion, with an intake of \$7.7 billion in reserves in just the first quarter of 2014.

<http://www.doingbusiness.org/~media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB15-Full-Report.pdf> ; "PIT Update: Vietnam Implements 50 Percent Reduction in Personal Income Tax for Individuals Working in Economic Zones," *Vietnam Briefing*, October 30, 2014. <http://www.vietnam-briefing.com/news/pit-update-vietnam-implements-50-percent-reduction-personal-income-tax-individuals-working-economic-zones.html> ; "Vietnam loosens reign on businesses," *ThanhNien News*, November 11, 2014. <http://www.thanhniennews.com/business/vietnam-loosens-reigns-on-businesses-33843.html>

⁸¹ "The Decline of State-Owned Enterprises in Vietnam," *Vietnam Briefing*, January 3, 2014.

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⁸² "The Decline of State-Owned Enterprises in Vietnam," *Vietnam Briefing*, January 3, 2014.

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Section IV: Policy Recommendations to Increase Opportunities In 2015

In recent months, opportunities for foreign business in Vietnam have increased rapidly. Macroeconomic indicators demonstrate the underlying strength of the Vietnamese economy. The Vietnamese government has several opportunities to unlock the potential of multiple economic sectors and thereby generate increased growth and value from foreign investment.

In the long-term, the government has the opportunity to focus on increasing the country's productivity. Investment in education and infrastructure will be essential to cultivate a productive and efficient workforce of the future. Specific measures to increase educational attainment include funding management and professional training programs.⁸³ New education programs will likely have a focus on improving the critical thinking skills of graduates to complement the already impressive rates of literacy and numeracy in Vietnam.⁸⁴

In the short-term, the government will likely continue efforts to spur improvement in macroeconomic indicators, in part through maintaining relatively low levels of 2014 inflation. To do so, the government could provide the State Bank of Vietnam (SBV) a clearer mandate to improve price stability.⁸⁵ The SBV's present mandate is too broad, and its goals conflictual.

Increasing growth will require more privatization, many at the 51% level or higher to enable business decisions that prioritize shareholder value, rather than political exigencies. Social, economic, and environmental stability and value can still be maintained and improved along with privatization through careful planning, sequencing, and protection of vulnerable populations and environments. Selling government holdings will also help to improve the government's balance sheet, and their ability to provide services, by halting an increase in debt and interest. The government's recent privatization efforts have already made progress in alleviating these concerns; however, further privatization opportunities for efficiency and synergy gains remain.

Finally, the government has the opportunity to redouble its efforts to reduce political risks in Vietnam. Purging corruption will improve investor enthusiasm for the Vietnam market. Corr Analytics predicts increased transparency, particularly at the local levels of government, to improve Vietnam's business environment. Removing unnecessary regulations on foreign investors, including foreign ownership restrictions and any remaining ambiguities in government policy toward arbitration awards, will benefit both foreign investors and Vietnam.

⁸³ Deutsche Welle, "Vietnam: A country for investors," November 19, 2014. <http://www.dw.de/vietnam-a-country-for-investors/a-18073726>

⁸⁴ Strategic Risk, "Vietnam," 2014. <http://www.strategic-risk-global.com/Journals/2014/07/24/d/a//Vietnam.pdf>

⁸⁵ Rina Bhattacharya, "Inflation Dynamics and Monetary Policy Transmission in Vietnam and Emerging Asia," *International Monetary Fund*, July 2013. <http://www.imf.org/external/pubs/ft/wp/2013/wp13155.pdf>



Conclusion

Vietnam is a country of increasing opportunity. In recent months and years, the government has taken progressive steps to increase the country's attractiveness to foreign investors. Now, inflation is at historical lows, the country's productivity gains have been strong, and Vietnam is looking to increase markets and investment relationships with a Western orientation. Our projections for the future of Vietnam – on growth and on inflation – look especially promising.

A recent set of large privatizations makes it a particularly exceptional time for investment. With hundreds of state-owned enterprises set to be privatized by the end of 2015, investors should be advised to seek the best of these opportunities with in-country research as they mature in 2015.

We encourage the government to further the extent of these privatization measures, always adhering to a rational and methodical approach that maximizes the security and value of Vietnam's people and environment.



Appendices

A. Corr Analytics Investment Opportunities, 2015

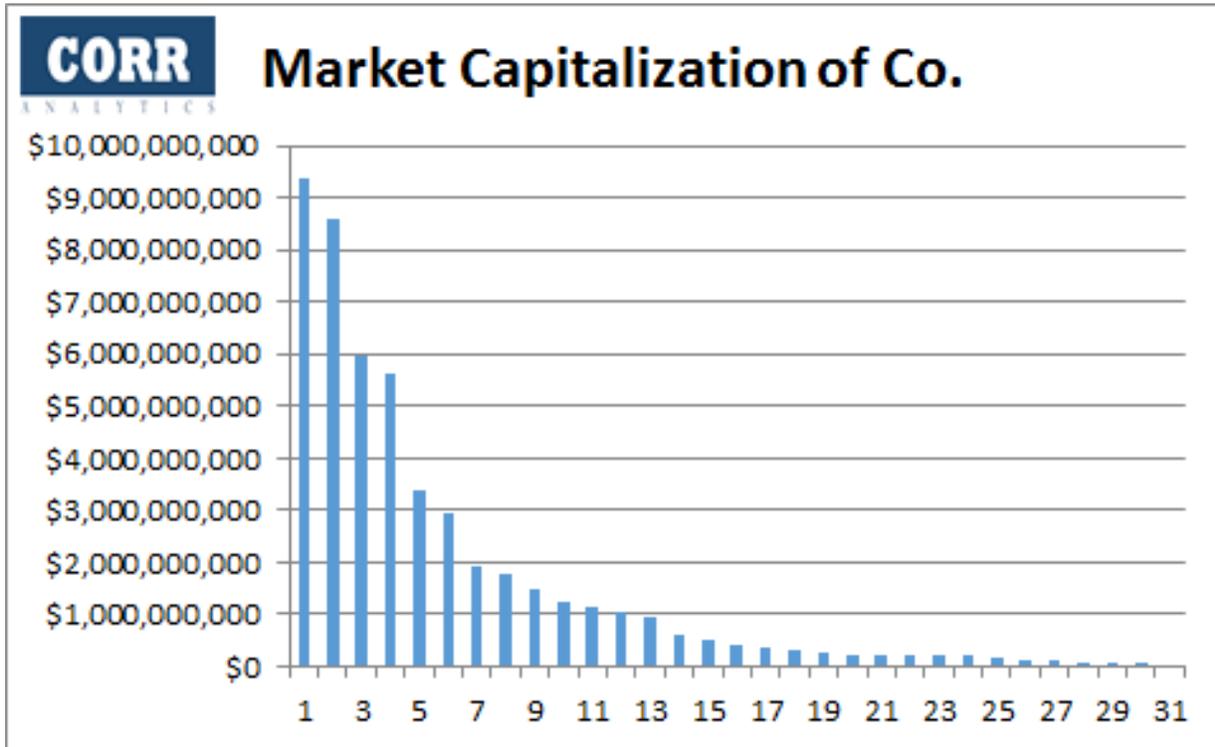
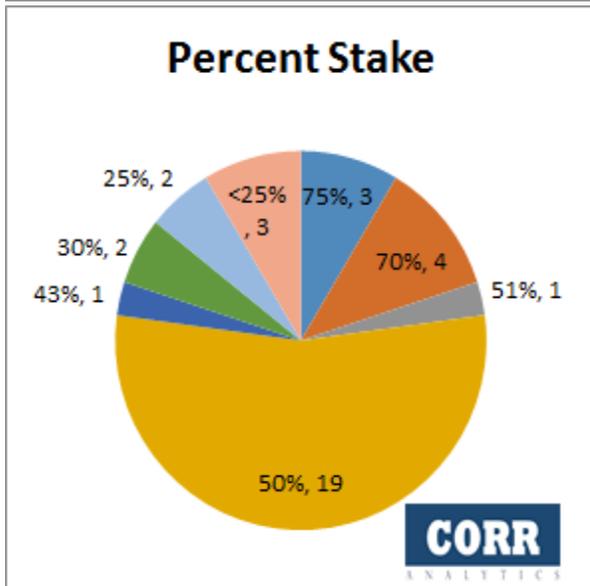
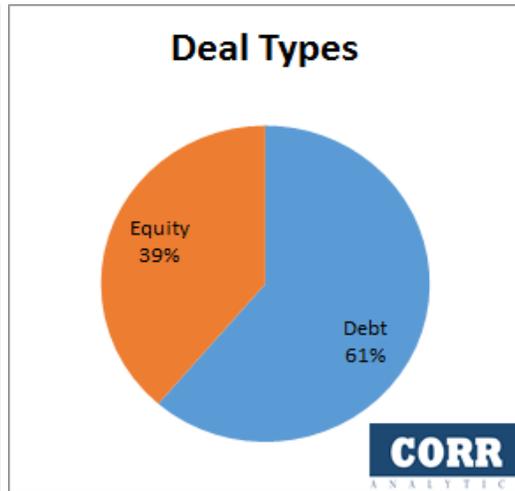
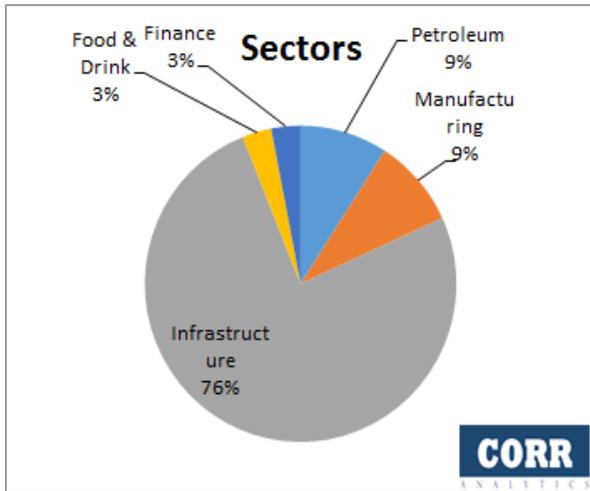


Figure 8: Deal values of 31 proposed Vietnam projects and privatizations originated by Corr Analytics for 2015. Source: Corr Analytics.





Figures 14-16: Corr Analytics Proposed Deals by Sector, Deal Type, and Percent Stake. Source: Corr Analytics.

Privatization Case Studies

Company A

At over \$10 billion in revenues in 2013, Company A is one of Vietnam’s largest companies. We believe that the company’s privatization to the 51% level would offer positive benefits in both the short and long-term to the government, foreign investors, and people of Vietnam. The privatization of the company would provide the government with a much-needed source of revenue, while at the same time creating an opportunity to restructure the company more efficiently.



The government has already begun to take initial steps in this direction. Officials have indicated that some subsidiaries of the company will go public in the future, although a timeline has not been set in place. We predict that the government will complete these measures soon. At least one subsidiary of the company is already not entirely owned by the government; however, the non-government stake should be increased significantly.

Privatizing the company to the 51% level or higher would benefit investors and the government. Investors would maximize the value of the company for themselves, the government, and the people of Vietnam, but focusing on shareholder value. The government and people of Vietnam would gain a large source of liquid assets for use in important projects and retirement of debt.

Company B

Company B is currently one of the largest energy companies in Vietnam, with revenues in the \$5-10 billion range in 2013. It posted tens of millions of dollars in profits in the first 9 months of this year, in the process generating revenues in the \$5-10 billion range so far in 2014, up from the same period in 2013.

We believe that the company's profitability could be helped even further by implementing new privatization measures. Past privatization efforts have increased both domestic and external investment in the company, benefiting its growth. Furthering the scope of the company's privatization to the 51% level would generate more foreign investment and improve the company's operating efficiency.

Some analysts have suggested that privatization of Company B could endanger Vietnam's energy security. However, other countries with large private energy companies have not faced this challenge. In fact, the recent partial-privatization of the Mexican oil industry has increased projections for the country's long-term oil production, in part due to gains in business efficiency. We believe that increasing investor shares in Company B would have a similar effect of boosting energy supplies and profits in Vietnam.

Moreover, privatization would benefit both consumers and producers in the energy sector in Vietnam. In its present state, Company B holds a large market share in its respective industry, decreasing industry competition and generating price inefficiencies. Privatization would catalyze the division of the company into smaller companies, thereby fostering greater competition in the petroleum market. This would benefit both individual and organizational consumers of petroleum products.



Company C

Company C is currently one of the largest producers of food products in Vietnam, with expected revenues in the \$1-5 billion range in 2014. After previous privatization efforts, the company has witnessed strong growth. Foreign investors currently hold a large portion of the company's stock, while the State Capital Investment Corporation (SCIC), Vietnam's sovereign wealth management fund, and Vietnamese investors, account for a majority of the company's ownership.

Although, positive benefits to greater privatization of the majority state-owned company do exist, we believe that in the near future the company should retain its current ownership structure. Because Company C currently possesses a high significant share of the market share associated with its primary food products, increasing foreign ownership prior to establishing a comprehensive infrastructure for regulating private production on such a large scale, could negatively impact Vietnamese consumers. Without taking necessary precautions, privatization of this large Vietnamese food provider could have negative public health consequences.

But this could change. Should new legislation and regulation satisfy minimum safety requirements, privatization of Company C could prove an effective measure for increasing foreign investment in Vietnam. But the decision on this important matter should probably not be made unless it has the full backing, and even initiation, from Vietnamese civil society. Civil society has the ability to protect public health while also realizing efficiency gains from privatization. Thus, if and when Company C is equitized, we believe that the impetus for doing so must come from civil society.

B. Productivity Growth Rates in Vietnamese Economic Sectors, 2007-2013

Industry	Productivity Growth from 2007-2013	2007-2013 Productivity Growth	Annualized Productivity Growth
Agriculture, forestry and fishing	178.4%	40.6%	5.8%
Mining and quarrying	312.7%	108.4%	13.0%
Manufacturing	101.6%	1.8%	0.3%



Electricity, gas, steam and air conditioning supply	202.5%	52.8%	7.3%
Water supply, sewerage, and waste management	84.5%	-6.8%	-1.2%
Construction	75.0%	-11.6%	-2.0%
Wholesale and retail trade; repair of motor vehicles and motorcycles	135.6%	19.0%	2.9%
Transportation and storage	146.0%	24.3%	3.7%
Accommodation and food service activities	53.2%	-22.6%	-4.2%
Information and communication	35.4%	-31.6%	-6.1%
Financial, banking and insurance activities	605.6%	256.3%	23.6%
Real estate activities	138.3%	20.4%	3.1%
Professional, scientific and technical activities	84.7%	-6.7%	-1.2%
Administrative and support service activities	83.0%	-7.6%	-1.3%
Activities of Communist Party, socio-political organizations; public administration and defense	197.9%	50.4%	7.0%
Education and training	153.9%	28.2%	4.2%
Human health and social work activities	183.9%	43.4%	6.2%



Arts, entertainment and recreation	10.5%	-44.2%	-9.3%
Other service activities	190.2%	46.6%	6.6%
Activities of households as employers	193.6%	48.3%	6.8%
TOTAL	171.5%	37.1%	5.4%

Table 6: Productivity Growth Rates by Sector, 2007-2013. Source: Vietnam General Statistics Office⁸⁶

C. Annual GDP Growth of Leading Frontier Markets

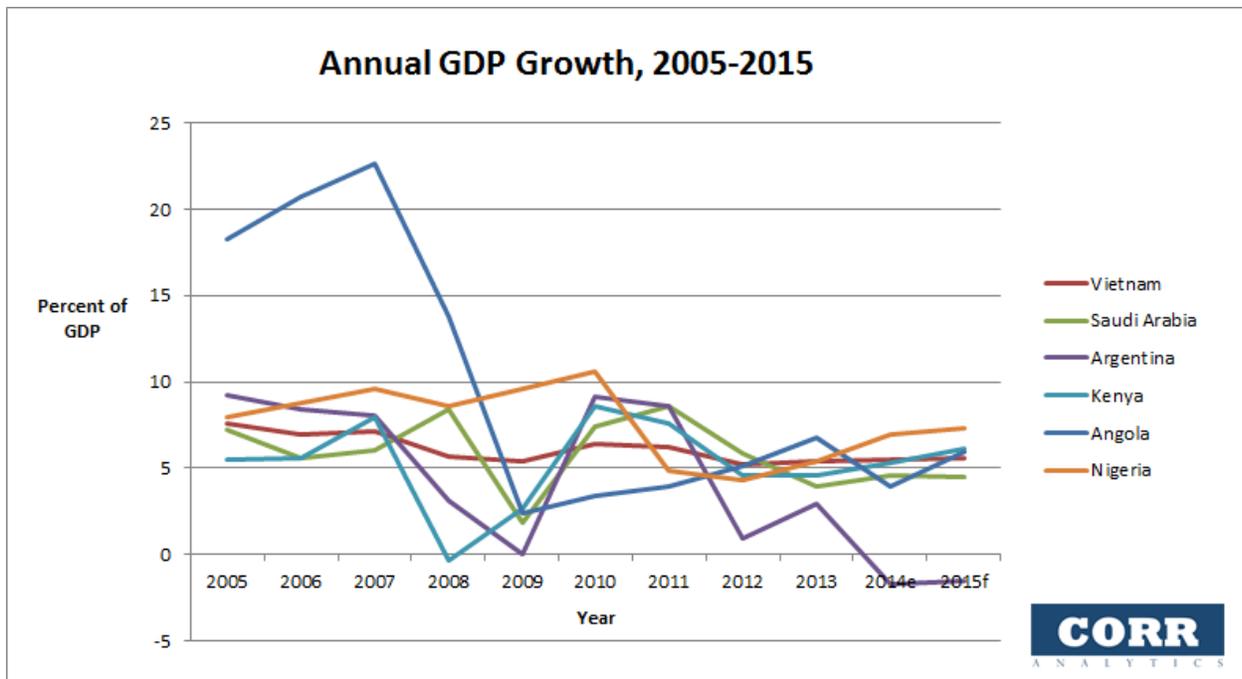


Figure 17: Annual GDP Growth of Leading Frontier Markets, 2005-2015. Note: Other frontier markets selected based on high Frontier Market Sentiment (FMI) index. Year 2014 is estimated. Year 2015 is forecasted. Source: International Monetary Fund, World Economic Outlook Database, October 2014

⁸⁶ Calculations based on Vietnam General Statistics Office's (VGSO) data for productivity estimates at currency prices. Data for 2013 are VGSO estimates. Figures were deflated using World Bank consumer prices inflation estimates. Vietnam General Statistics Office, accessed November 2014. http://www.gso.gov.vn/default_en.aspx?tabid=467&idmid=3&ItemID=15627



D. Restricted Sectors

The following is a list of major “conditional” (restricted) sectors, pursuant to the 2005 Vietnam Law on Investment and subsequent legislation.⁸⁷

1. Sectors impacting on national defense and security, social order and safety*
2. Banking and finance sector
3. Sectors impacting on public health (including tobacco, hospitals, clinics)
4. Culture, information, the press and publishing
5. Entertainment services
6. Real estate business
7. Survey, prospecting, exploration and mining of natural resources; the ecological environment
8. Development of education and training
9. Transportation (including import and export distribution, ports, and airports)
10. A number of other sectors in accordance with law

*Sectors related to national defense are generally strictly closed to foreign investment.

The requirements necessary for foreign investment in “conditional” sectors may include:⁸⁸

1. Consultation of government officials in relevant area
2. Presentation of investor’s experience in proposed sector of foreign investment
3. Approval by the Prime Minister
4. Minimum capital investment requirements
5. Limitations on specific products
6. Limitations on customers of the proposed enterprise

E. Investor Resources

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- “Legal Guide to Investment in Vietnam,” Allens:
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- DTI News: <http://www.dtinews.vn/>



F. Foreign Direct Investment by Partner Country

Incoming Foreign Direct Investment by Country

Country	Overall FDI (In millions of USD)		Country	Licensed FDI in 2013 (In millions of USD)
Japan	35,179.9		Japan	5875.5
Singapore	29,942.2		Singapore	4769
South Korea	29,653.0		South Korea	4466
Taiwan	28,020.3		China	2338.6
British Virgin Islands	17,152.1		Russia	1031.9
Hong Kong	12,524.4		Hong Kong	729.9
United States of America	10,696.3		Taiwan	637.3
Malaysia	10,376.3		Netherlands	398.7
China	7,551.2		Cayman Islands	372.7
Thailand	6,400.9		British Virgin Islands	309.3
Netherlands	6,311.2		United States	130.4

Table 7: Incoming Foreign Direct Investment by Country. Source: Vietnam General Statistics Office.⁸⁹

⁸⁹ Vietnam General Statistics Office, accessed November 2014.



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