1 Vietnam

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I. Introduction

Vietnam – sometimes spelled **Viet Nam**, officially the **Socialist Republic of Vietnam** is the easternmost country on the Indochina Peninsula in Southeast Asia. It is bordered by China to the north, Laos to the northwest, Cambodia to the southwest, and the East Sea (the South China Sea) to the East. Hanoi, the nation's capital, lies on the banks of the Red River. It is not only the country's political, cultural and educational capital but also the most important economic center in the North. Ho Chi Minh City, the new name for Saigon, lies just north of the Mekong Delta in the South, and is the largest city in Vietnam. The city, with a population of seven million, functions as the country's economic heart and business hub. Danang, in the central part of the country, is the third largest city and an important port.

The country was usually called Annam until 1945, when the Proclamation of Independence of the Democratic Republic of Viet Nam was written by Ho Chi Minh president and announced in public, solemn declared to the world at Ba Dinh Square on September 2, 1945 changed the official name back to *Việt Nam*. Since the use of Chinese characters was discontinued at this time, the alphabetic spelling of Vietnam is now official.

I.1 Geography, Climate

Viet Nam country is located in the South East Asia, stretching from 8° 27 to 23° 23 N and from 102° 08 to 109° 30 E, Viet Nam has a total land area of 329,314 km^2, of which the area of plains is only 7 million ha and the remainder is mountains, hills and plateau. Viet Nam has also a sea water territory under sovereignty and jurisdiction of approximately 1 million km and 3000 big, medium and small islands with total area of more than 1600 km2. The entire length of the coastline is 3260 km. Viet Nam is a strip of land shaped like the letter "S". It borders China to the North, Laos and Cambodia to the West, the East Sea to the East and the Pacific Ocean to the East and South. The inland border is 4500 km. The country total length from North to South is 1650 km. Its width, stretching from East to West, is 600 km at the widest point in theNorth, 400 km in the South and 50 km at the narrowest part, in the Centre, in Quang Binh province. Viet Nam is also a transport junction from the Indian Ocean to the Pacific Ocean.

The northern part of the country consists mostly of highlands and the Red River Delta. Fan Si Pan, located in Lao Cai province, is the highest mountain in Vietnam, standing 3,143 m (10,312 ft) high. Southern Vietnam is divided into coastal lowlands, Annamite Chain peaks, and extensive forests. Comprising five relatively flat plateaus of basalt soil, the highlands account for 16% of the country's arable land and 22% of its total forested land. The soil in much of southern Vietnam is relatively poor in nutrients.

The Red River Delta, a flat, roughly triangular region covering 15,000 km^2 (5,792 sq mi), is smaller but more intensely developed and more densely populated than the Mekong River Delta. Once an inlet of the Gulf of Tonkin, it has been filled in over the millennia by riverine alluvial deposits, and it advances 100 meters (328.1 ft) into the Gulf annually. The Mekong delta, covering about 40,000 km^2 (15,444 sq mi), is a low-level plain no more than 3 meters (9.8 ft) above sea level at any point. It is criss-crossed by a maze of rivers and canals, which carry so much sediment that the delta advances 60 to 80 meters (196.9 to 262.5 ft) into the sea every year.

Viet Nam climate generally is subtropical and tropical, hot and wet monsoon climate. Its climate is characterized by strong monsoons, a considerable number of sunny days, high levels of rainfall and high humidity. Although, the entire country lies in the tropics and subtropics, it presents a very diverse climate according to its different altitudes and latitudes. Based on climate conditions, Viet Nam can be divided into two regions, separated by the Hai Van mountain pass, with is located between Hue and Da Nang cities. In the areas North from Hai Van Mountain pass, it is cold in the winter and hot and wet in the summer, with average annual temperature of 22 - 24°C. The average temperature of the coldest monthis 15 - 19°C, and average temperature of the hottest month is 32 - 34.4°C. In the areas from South of the Hai Van mountain pass, it is hot all the year round, with average annual temperature of 25 - 27°C (except Tay Nguyen plateau with average annual temperature of 20 - 22°C), and average temperature in the coldest month of 21 - 26°C and average temperature in the hottest month of 32 - 34.5°C. Viet Nam is often threatened by typhoons, storms, floods and salinity intrusion. On average, Viet Nam is hit annually by 4 - 5 typhoons. The rainfall in Viet Nam is irregularly distributed during the year and over different regions of the country. Therefore, floods and inundation occur during rainy season but in dry season, drought is often recorded in several regions. The average annual rainfall of Viet Nam is from 1500 to 2500 mm and the average annual humidity is 80 - 85%. The total amount of annual solar radiation is 95 - 175Kcal/cm2.

Because of differences in latitude and the marked variety in topographical relief, the Vietnamese climate tends to vary considerably from place to place. During the winter or dry season, extending roughly from November to April, the monsoon winds usually blow from the northeast along the China coast and across the Gulf of Tonkin, picking up considerable moisture. Consequently, the winter season in most parts of the country is dry only by comparison with the rainy or summer season. The average annual temperature is generally higher in the plains than in the mountains, and higher in the South than in the North.

I.2 Natural resources

Viet Nam is richly endowed with natural resources, and the country’s economy is heavily dependent on this base. Agriculture, forestry and fisheries account for 25.7% of total GDP and 70% of total employment.

These sub-sectors underpin almost all rural economic activity. But trends indicate that use and management patterns in the natural resource sector are a threat to Viet Nam’s continued economic viability. Environmental degradation from unsustainable use is increasingly undermining this sector’s capacity to support current, let alone forecast increases in, economic demand. This is because use patterns in all sub sectors are causing environmental degradation. While there are issues common to the entire natural resource sector, each sub-sector has its own unique set of use and management characteristics that are causing this degradation.

Viet Nam's coal reserves are located mainly in the northeastern province of Quang Ninh. Reserves are estimated at 3.88 billion tons, of which 660 million tons are approved and 410 million tons are accessible through underground operations. Most of the reserves are anthracite or semi-anthracite varieties. Lignite coal in the Red River Delta has the forecast reserves of 250 billion tons. Peat coal is concentrated in the Mekong River Delta with the reserves of about 10 billion tons. Fat coal is distributed in many areas with small reserves. The annual production is approximately 200,000 - 300,000 tons per year.

In Viet Nam, there are six operating fields (all offshore) producing between 245,000 to 290,000 barrels per day. Recoverable reserves of gas have been estimated to be as high as 60 - 80 trillion cubic feet.

Viet Nam has a high rainfall and a dense rivers-streams system. Over 400 small hydro stations are now in place with a total installed capacity of 30 MW. On a smaller scale, it is believed that over 100,000 micro and family hydropower generators are now in use.

In Viet Nam, solar energy potential is rather rich. Average total annual insulation ranges from 4 - 5 kWh per square meter per day. There are currently five large-scale solar photovoltaic power systems in Viet Nam. A considerable number of hybrid systems of solar PV and micro-hydropower generation and hybrid systems of PV and diesel are being built. The government of Viet Nam has financed the construction of 100 solar home systems and 200 solar community systems for inhabitants of islands off the northeast coast.

The wind energy potential is not high, mainly in islands and coastal areas. The potentials of biogas and biomass in Viet Nam are rather big and mainly used for fuel in rural areas.

I.3 Demographics

The census of 1 April 2009 recorded the population of Vietnam as standing at approximately 85.8 million, of which the Viet or Kinh ethnic group constituted nearly 73.6 million, or 85.8% of the population. The population had grown significantly from the 1979 census, which showed the total population of reunified Vietnam to be 52.7 million. The Kinh population is concentrated mainly in the alluvial deltas and coastal plains of the country. A largely homogeneous social and ethnic group, the Kinh possess significant political and economic influence over the country as its ethnic majority. Vietnam is furthermore home to 54 ethnic minority groups.

Largest cities of **Vietnam**

2009 Census Rank City name Province Pop.

1	Ho Chi Minh City	7,162,864
2	Ha Noi	6,448,837
3	Hai Phong	1,837,302
4	Can Tho	1,187,089
5	Da Nang	887,069

Religion

For much of Vietnamese history, Mahayana Buddhism, Taoism and Confucianism have been the dominant religions, strongly influencing the national culture. About 85% of Vietnamese identify with Buddhism, though not all practice on a regular basis. Most people ascribe to Tam Đạo ("Triple religion"): 80% of people worship the mixture of Mahayana Buddhism mainly, Taoism, Confucianism with Ancestor Worship; 2% Hòa Hảo (a new 20th century religious movement that is concentrated in the Mekong Delta) and 2% Theravada Buddhism, mainly among Khmer people in the Mekong. According to the 2009 census, while over 10 million people in the Three Jewels, the vast majority of Vietnamese people practice ancestor worship in some form.

About 8% of the population is Christians, totalling around six million Roman Catholics and fewer than one million Protestants, according to the census of 2007. Christianity was first introduced to Vietnam by Portuguese and Dutch traders in the 16th and 17th centuries, and was further propagated by French missionaries in the 19th and 20th centuries, and to a lesser extent, by American Protestant missionaries during the Vietnam War, largely among the Montagnards of South Vietnam. The largest Protestant churches are the Evangelical Church of Vietnam and the Montagnard Evangelical Church. Two-thirds of Vietnam's Protestants are reportedly members of ethnic minorities.

Several other minority faiths exist in Vietnam. About 3% of the population are adherents of Cao Dai, a syncretic modern religion whose followers are largely concentrated in Tay Ninh Province. Sunni and Cham Bani Islam is primarily practiced by the ethnic Cham minority, though there are also a few ethnic Vietnamese adherents in the southwest. In total, there are approximately 70,000 Muslims in Vietnam, while around 50,000 Hindus and a small number of Baha'is are also in evidence.

The Vietnamese government rejects allegations that it does not allow religious freedom. The state's official position on religion is that all citizens are free to their belief, religion and that all religions are equal before law.

Education

Vietnam has an extensive state-controlled network of schools, colleges and universities, and a growing number of privately-run and partially-privatised institutions. General education in Vietnam is divided into five categories: kindergarten, elementary schools, middle schools, high schools, and universities. A large number of public schools have been organized across the country to raise the national literacy rate, which stood at 93% in 2009. There is a large number of specialist colleges, established to develop a more diverse and skilled national workforce.

A large number of Vietnam's most acclaimed universities are based in Hanoi and Ho Chi Minh City. Facing serious crises, Vietnam's education system is under a holistic program of reform launched by the government. Education is not free; therefore, some poor families may have trouble paying tuition for their children without some form of public or private assistance. Regardless, school enrollment is among the highest in the world, and the number of colleges and universities increased dramatically in the 2000s, from 178 in 2000 to more than 300 in 2010.

Health

Public health in Vietnam is of a reasonably high standard. As of 2009, the national life expectancy is 76 years for women and 72 for men, and infant mortality stands at 12 per 1,000 live births. As of 2009, 85% of the population has access to improved water sources.

I.4 History and Culture

History

Archaeological excavations carried out recently have proved the presence of human beings in the territory of Vietnam since the Paleolithic Age or the Old Stone Age (300,000 - 500,000 years). In the Neolithic Age (New Stone Age), Hoa Binh - Bac Son cultures (about 10,000 BC) had witnessed the development of agriculture and animal husbandry, including even the technique of paddy rice cultivation.

The Vietnamese as an ethnic group had been formed and developed early in the Red river and Ma river delta situated in northern part of the present-day Vietnam. Generations to generations, people moved from highland and mountainous areas to the plains, developed new lands for cultivation. They constructed a system of irrigation dams and dykes to tame the mighty Red River, the river that brought about several devastating floods every year. It is the process of continuous labor to control water - to fight against flood, storm and drought, to build up irrigation dams and canals for agricultural cultivation that formed the paddy rice civilization and the commune culture.

In the Bronze Age, a unique and distinct civilization had been formed that reached a high level in technical skill as well as art - the brilliant Dong Son culture. The recent ethnological, historical and archaeological studies and researches have asserted the existence of the Hung Kings' period in Van Lang Kingdom (later Au Lac Kingdom) about 1000 years BC. In 200 BC, Au Lac Kingdom was invaded and annexed into the giant empire of the Han feudalism in the north. Nevertheless, the ten-century domination of Chinese feudalism could not assimilate Vietnamese culture and break the Viet people’s brave resistance.

In the 10th century AD, the Vietnamese had won their freedom and built up an independent state named Dai Viet. The country was under the ruling of many national feudal dynasties, among which the most important ones are the Ly Dynasty (11th and 12th century), the Tran Dynasty (13th and 14th century), the Le Dynasty (15th, 16th and 17th century) with their centralized administration, strong army forces and a highly developed economy and culture. During this period, Vietnam as a nation had to ceaselessly fought against the vicious conquering conspiracies of Chinese and Mongolian feudal empires. Vietnam's long and tough struggles of resistance against the invasions of the Song (11th century), the Yuan or the Mongols (13th century), the Ming (15th century) had acquired glorious victories. Vietnam became stronger, all its ethnic groups became more united and the country moved into a new prosperous period after each struggle.

Dong Son culture which was enriched by the influence of Chinese culture developed from centuries to centuries in a framework of an independent state. Buddhism and Confucianism entered Dai Viet and brought with them many popular cultural features and distinct forms. Nonetheless, Vietnam still preserved its own language and a highly developed agricultural civilization.

In the 17th and 18th century, feudalism in Vietnam was considerably weakened. Peasants ceaselessly rose up in revolts that led to the Tay Son movement (1771-1802). Tay Son overthrew all regional feudal lordship that divided the country into two parts, united the country and chased away the Qing (Manchus) invaders from China, simultaneously implemented many social and cultural reforms. However, with foreign aid, Nguyen Anh soon took over the ruling power and the Nguyen Dynasty was established, which was the last royal dynasty in Vietnam.

“Nothing is as precious as independence and freedom”

In the middle of 19th century (1858), French colonialists began to invade Vietnam. The incompetent government of the Nguyen gradually gave in and from 1884, French colonists established a protectorate and a colonial government that controlled the whole territory of Vietnam. In the early days, resistant movements of the Vietnamese people under the leadership of intellectual patriots like the literate, cultured people and scholars broke out everywhere, but they all failed in the end.

Nguyen Ai Quoc, who later became ***President*** **Ho Chi Minh**, traveled abroad to find the way to save the country. He laid the foundations for the Vietnam Communist Party, which was founded on 3rd February 1930. Under the leadership of the Communist Party, the Vietnamese people rose up against French colonization and Japanese occupation, organized the Great National Uprising in August 1945 and established the Democratic Republic of Vietnam on 2nd September 1945.

Being confronted with aggressive schemes and intervention of France and the United States, the newly born Democratic Republic of Vietnam had to carry out the thirty-year war of resistance. The coming back of French aggressive troops had resulted in the nine-year war of resistance (1945-1954) which ended by the famous victory of Vietnam in Dien Bien Phu and the 1954 Geneva Agreement on Vietnam. According to this Agreement the country was temporarily partitioned into North Vietnam and South Vietnam by the 17th parallel, which should be reunified within two years (1956) through a general election held all over Vietnam. The northern part of Vietnam (the Democratic Republic of Vietnam with its capital Hanoi) was placed under the control of the Vietnam Workers' Party. The southern part (the Republic of Vietnam), which was controlled by a pro-French administration and later, a pro-American administration, had its capital in Sai Gon. The Sai Gon government used all its forces to prevent the election, suppressed and killed former participants in the resistance movement. The situation led to the national movement fighting for peace and unification of the country. The Sai Gon government could not suppress the aspiration of all Vietnamese people to unify the country, especially since the National Front for Liberation of South Vietnam was established on 20th December 1960.

In order to maintain the Sai Gon regime, the United States increased its military aid to the Sai Gon government. Particularly, in the middle of the '60s, half-million American troops and their allied troops were sent to South Vietnam in direct military intervention. From 5th of August 1964, they started bombarding North Vietnam. In spite of that, following president's Ho Chi Minh's teaching "**Nothing is more precious than independent and freedom**", the Vietnamese people bravely and firmly stood up and won numerous victories in the northern as well as southern part of the country. In 1973, Washington had to sign the Paris Agreement on the restoration of peace in Vietnam and the withdrawal of all American troops from Vietnam. In the spring of 1975, the patriotic armed forces of Vietnam swept across the country in the great general offensive and overthrew the Saigon government; Southern part of Vietnam was liberated and the country was united as one.

On 25th April 1976, the Democratic Republic of Vietnam was renamed into the Socialist Republic of Vietnam, which governs both northern and southern parts in its territory. In 1977, Vietnam became a member of the United Nations.

After many years of prolonged war, the country was heavily devastated. In the 1975 – 1986 periods, Vietnam had to cope with innumerable difficulties. The aftermath of war, social evils, the mass flow of refugees, war at the southwest border against the genocidal policies of Pol Pot government in Cambodia, the dispute at the northern border, the isolation and embargo from the United States and Western countries, plus continual natural calamities ...put Vietnam before tremendous tough challenges. Moreover, those difficulties became more severe due to subjective reasons such as hastiness and impatience, and voluntarism in rebuilding the country regardless of specific actual conditions. Early in the ‘80s, Vietnam witnessed the most serious ever socio-economic crisis, the inflation rate rose up to a record 774.7% in 1986.

Since 1986, the government launched the "Doi Moi" or all-round renovation process, stepping in the general development trend and the process of gradual globalization and regionalization. The 6th Congress of Vietnam Communist Party in December 1986 strictly self-critised its mistakes in the past years, assessing carefully its achievements, analysing mistake and drawbacks, setting forth all-round renovation policy.With top priority being given to economic reform for creating a multi-sector market economy regulated by the Government’.

The reformers were led by 71-year-old **Nguyen Van Linh**, who became the party's new general secretary. In a historic shift, the reformers implemented a series of free-market reforms – which carefully managed the transition from a planned economy to a "socialist-oriented market economy", at the same time consolidating legal environment and renovating Party’s and State’s structure.

Since then the Vietnamese economy became opened and transformed from centralized planned economy heavily based on imports to a market-oriented one. The self-determination of financing was introduced. All aimed at budget balancing and promoting exports. As from 1989, Vietnam began to export about 1 - 1.5 ton of rice, inflation rate gradually decreased (the rate stood at 67.4% in 1990), living standards were improved, democracy got enhanced, national defense and internal security got firmly consolidated, the external relations were broadened freeing the country from blockage and isolation.

In June 1991, the VIIth Congress of the Vietnam Communist Party reaffirmed its determination to pursue the renovation process overcoming difficulties and challenges, stabilizing political situation, pushing back unfairness and negative activities, directing the country out of crisis. The Congress also set forth the foreign policy of multilateralization and diversification the guideline "***Vietnam wants to be friend all other countries in the International Community for Peace, Independence and Development***".

Despite the drastic impact of the collapse of the former Soviet Union and the Eastern European Socialist countries that took away Vietnam's traditional markets, the continual suffering from blockage and embargo and the unceasing confrontation of inside and outside hostile forces, Vietnam step by step surpassed many difficulties, hindrances, and achieved great results. During the 1991-1995 period, the economic growth rate (presented by the increase rate in GDP) reached 8.2%. By June 1996, Foreign Direct Investment (FDI) reached over \$ 30.5 billion; inflation decreased from 67.1% (in 1991) to 12.7% (in 1995), 4.5% (in 1996) and 0.8 % (in 2001), living standards of the maijority were improved. The People's cultural and intellectual standard got further increased. Generally, Vietnam has made a lot of progress in the fields of education, health care, culture and art, sports, family planning, public media, and other social activities. The political situation, independence and sovereignty of the nation, national security and defense have been maintained stable, thus actively facilitating the "Doi Moi" process. The political system from central to local level was consolidated; the State's rule and law has been firmly constructed and increasingly made perfect. The foreign policy of independence and sovereignty multilateralization and diversification has brought about great results. By now, Vietnam has established diplomatic relations with 172 countries, trade relations with over 220 abroad markets, and attracting foreign investment from 82 countries and territories.

The VIIIth Congress of the Vietnam Communist Party in June 1996 reviewed achievements recorded during 10 years of renovation (1986 - 1996), laying targets for development by the year 2000 and 2020: focusing on promoting industrialization and modernization.

Industrialization and modernization is aimed at developing Vietnam into an industrial country with a modern technical and physical infrastructure, rational economic structure, a progressive productional relationship in conformity with production level, a firm national defence and security, for wealthy people, strong country, equal, democratic and civilised society. From now to the year 2020 it is highest time to strive to develop Vietnam into an industrialized country.

Though the authority of the state remained unchallenged, the government encouraged private ownership of farms and factories, economic deregulation and foreign investment, while maintaining control over strategic industries. The economy of Vietnam subsequently achieved rapid growth in agricultural and industrial production, construction, exports and foreign investment. However, these reforms have also caused a rise in income inequality and gender disparities.

Culture of Vietnam

Vietnam's culture is diverse, informed by a number of elements, including the ancient Dong Son culture. The national culture can be seen, to some extent, as part of the Sinosphere, drawing on elements of Confucianism and Laoism in its traditional political system and philosophy. Vietnamese society is structured around Làng (ancestral villages), which are seen as more important than bloodlines; ***all Vietnamese mark a common ancestral anniversary on the tenth day of the third lunar month***. The influences of immigrant cultures &ndash such as the Cantonese, Hakka, Hokkien and Hainan cultures – can also be seen, while the national religion of Buddhism is strongly entwined with popular culture. In recent centuries, the influences of Western cultures, most notably French and American culture, have become evident in Vietnam.

Vietnam reveres a number of key cultural symbols, such as the Vietnamese dragon, which is derived from crocodile and snake imagery; Vietnam's National Father, Lạc Long Quân, is depicted as a holy dragon. The lạc – a holy bird representing Vietnam's National Mother, Âu Cơ, is another prominent symbol, while turtle and nghê (similar dog but not) images are also revered.

The official spoken and written language of Vietnam is Vietnamese, currently written in the Latin alphabet. However, Vietnam is believed by historians to have had established a distinctive culture before the invasion of Chinese dynasties, including a syllabic writing system named Khoa Đẩu.

I.5 political structure and international relation

Government and politics

The Socialist Republic of Vietnam is a single-party state. Its current state constitution, which replaced the 1975 constitution in April 1992, asserts the central role of the Communist Party of Vietnam in all organs of government, politics and society. Mainly political organizations affiliated with or endorsed by the Communist Party are legal to contest elections in Vietnam. These include the Vietnamese Fatherland Front and worker and trade unionist parties.

The President of Vietnam is the titular head of state and the nominal commander-in-chief of the military of Vietnam, serving as the Chairman of the Council of Supreme Defense and Security. The Prime Minister of Vietnam is the head of government, presiding over a council of ministers composed of five deputy prime ministers and the heads of 18 ministries and 4 commissions.

The ẩ ational Assembly of Vietnam is the unicameral legislature of the state, composed of 500 members. Headed by a Chairman, it is superior to both the executive and judicial branches, with all government ministers being appointed from members of the ẩ ational Assembly. The Supreme People's Court of Vietnam is the country's highest court of appeal, headed by a Chief Justice, though it is also answerable to the ẩ ational Assembly. Beneath the Supreme People's Court stand the provincial municipal courts and numerous local courts. Military courts possess special jurisdiction in matters of national security.

The General Secretary of the Communist Party performs numerous key administrative and executive functions, controlling the party's national organization and state appointments, as well as setting policy.

International relations

Throughout its history, Vietnam's key foreign relationship has been with its northern neighbour, China. Vietnam's sovereign principles and insistence on cultural independence have been laid down in numerous documents over the centuries, such as the 11th-century poem ẩ am quốc sơn hà and the 1428 proclamation Bình ẩ gô đại cáo.

Currently, the formal mission statement of Vietnamese foreign policy is to: "*Implement consistently the foreign policy line of independence, self-reliance, peace, cooperation and development; the foreign policy of openness and diversification and multi-lateralization of international relations. Proactively and actively engage in international economic integration while expanding international cooperation in other fields. "Vietnam furthermore declares itself to be "a friend and reliable partner of all countries in the international community, actively taking part in international and regional cooperation processes*."

As of December 2011, Vietnam had established diplomatic relations with 172 countries, including the United States, which normalized relations in 1995. Vietnam holds membership of 63 international organizations, including the United ẩ ations, ASEAẩ , ẩ AM, APEC, TPP, Francophonie and WTO, and a total of 650 non-government organizations.

II. Overview of Macroeconomic Activity and Fiscal Position

Vietnam is a densely-populated developing country that in the last 30 years has had to recover from the ravages of war, the loss of financial support from the old Soviet Bloc, and the rigidities of a centrally-planned economy. While Vietnam's economy remains dominated by state-owned enterprises (SOEs), which still produce about 34% of GDP, Vietnamese authorities have reaffirmed its commitment to economic liberalization and international integration. Vietnam has moved to implement the structural reforms needed to modernize the economy and to produce more competitive export-driven industries. Vietnam joined the WTO in January 2007 following more than a decade-long negotiation process. Vietnam became an official negotiating partner in the developing Trans-Pacific Partnership trade agreement in 2010. Agriculture's share of economic output has continued to shrink from about 25% in 2000 to about 20% in 2010, while industry's share increased from 36% to 41% in the same period. Deep poverty has declined significantly and Vietnam is working to create jobs to meet the challenge of a labor force that is growing by more than one million people every year. The global recession has hurt Vietnam's export-oriented economy, with GDP in 2009-10 growing less than the 7% per annum average achieved during the last decade. In 2010, exports increased by more than 25%, year-on-year, but the trade deficit remained high, prompting the government to consider administrative measures to limit the trade deficit. Vietnam's managed currency, the dong, continues to face downward pressure due to a persistent trade imbalance, and, since 2008, the government devalued it by 20% through a series of small devaluations. Foreign donors pledged more than $7.3 billion in new development assistance for 2011. However, the government's strong growth-oriented economic policies have caused it to struggle to control one of the region's highest inflation rates, which reached 11.8% in 2010 and 18.1% in 2011. Vietnam's economy also faces challenges from falling foreign exchange reserves, an undercapitalized banking sector, and high borrowing costs. The near-bankruptcy and subsequent default of the SOE - Vinashin, a leading shipbuilder, led to a ratings downgrade of Vietnam's sovereign debt, exacerbating Vietnam's borrowing difficulties.

II.1 Macroeconomic Activity

II.1.1 International Environment

In 2010, the world economy continued to recover from economic downturn and reached the growth rate of 5%, the highest rise since 2007, mainly thanks to the demand stimulus packages of the governments. Yet, there were potential risks to the recovery as unemployment rate continued to increase, inflationary pressure persisted and public debt crisis unfolded.

In 2010, the United State's economy growed by 2.8%, the highest rate since 2007, marking the recovery after a period of economic recession, which was mainly driven by demand stimulus packages of the United States's government and FED. The average unemployment rate grew to 9,6% in the fiscal year 2010, while budget deficits, despite being lowered as compared to 2009, was still at high level of 8.9% GDP. However, in contrast to the world's trend, US inflation tended to decrease in 2010 with the rate of only 1.5%.

The Euro-zone's economy saw a growth of 1.7% with positive records over the quarters thanks to the recovery of Germany's economy and the resurgence in exports. Yet, the unemployment rate remained at a high level of 9.98%; and high and complicated budget deficits and higher public debt resulted in governments tightening their monetary policy which in turn has adversely affected the economic recovery of the region, and prompted ECB to constantly adopt liquidity supportive measures.

In 2010, thanks to the recovery of export and the Government's demand stimulus package, Japan's economy growed by 3.9% and recovered from the economic downturn, thus contributing to reducing the deflationary pressure. However, high unemployment rate (5,07%) and prolonged deflation rate (inflation rate stood at 0% in December, 2010), together with the appreciation of the Yen, high budget deficits and public debts have slowed down the recovery of Japan.

Developing countries with some advanced contries, especially China, India, Singapore, the Philippines, Malaysia, Indonesia, Thailand, South Korea, Australia; Mehico, Brazil, Argentina; ẩ igeria, Egypt and Turkey continued to be the main engine of the world economic growth. However, the rates of growth have reduced over the quarters as centrals banks tightened their monetary policy to control inflation and economic growth of major economies slowed down. Yet, the strong increase in domestic demand and the recovery of external demand put high pressure on inflation.

Trade balance

In 2010, there was a clear improvement in Vietnam's balance of payments, the recovery of the global economy boosted Vietnam's export and incomes from private transfers as well as from foreign investment. In 2010, the overall balance of payments' deficit fell to USD 1.765bn.

Current account

In 2010, current account deficit was considerably narrowed down to USD 3.511bn, or 3.37% of GDP, mainly as a result of the improvement of trade balance and the high level of transfer account surplus.

Trade balance deficit registered a decline of USD 5.147bn, of which, commodity export and import volumes reached USD 72.192bn and USD 77.339bn, respectively, up by 26.4% and 18.3% as compared to 2009.

Services account deficit was went up to USD 2.461bn. Total services incomes increased to USD 7.46bn, up by 29.4% as compared to 2009. Tourism, transportat ion and post and telecommunication registered high growth rates (up by 45.9%, 11.8% and 10.5%, respectively as compared to 2009) and made the biggest contribution to the overall growth rate of services incomes item in 2010. Total services payments stood at USD 9.921bn, an increase of 33% as compared to 2009 because of the rise in transportation services and import insurance payments (USD 5.97bn, up by 42.2% as compared to 2009 and accounted for 60% of the total services payments).

Foreign portfolio investment gained the surplus of USD 2.37 bn, about 18.6 times higher than that in 2009 as a result of (i) the Government's successful issuance of USD 1bn international bond in Q1 2010; and (ii) the recovery of the economy to a relatively high growth rate, which gave international investors an image of a potential market, leading to their net buying of USD 1.37bn.

Investment in the form of deposit experienced a deficit of USD 7.722bn, an increase of 61% as compared to 2009. In particular, banking system's money and deposit was in the deficit of USD 503mn, 4.7 times higher than that in 2009; money and deposit in other sectors (mostly in the form of gold held by individuals) experienced the deficit of USD 7.2bn, an increase of 53.7% as compared to 2009.

Table 1: Key Indicators on National Accounts

	2005	2006	2007	2008	2009	2010
At current prices						
Gross domestic product - *Bill. dongs*	839211	974266	1143715	1485038	1658389	1980914
Per capita gross domestic product - *Thous. dongs*						
Vietnam currency - *Thous. dongs*	10185	11694	13579	17445	19278	22787
Foreign currency *(at average exchange rate)* - *USD*	642	730	843	1052	1064	1169
Gross capital formation - *Bill dongs*	298543	358629	493300	589746	632326	770211
Final consumption - *Bill dongs*	584793	675916	809862	1091876	1206819	1446901
Export of goods and services - *Bill. dongs*	579339(*)	717109	879461	1157178	1132688	1535816
Import of goods and services - *Bill. dongs*	614427(*)	761547	1060763	1383005	1304350	1739363
Gross national income - *Bill. Dongs*	822432	951456	1108752	1436955	1580461	1898664
At constant 1994 prices						
Gross domestic product - *Bill. dongs*	393031	425373	461344	490458	516566	551609
Growth rate of GDP *(Previous year = 100) - %*	8.44	8.23	8.46	6.31	5.32	6.78
Compared with GDP *(At current prices)* - %						
Gross capital formation	35.58	36.81	43.13	39.71	38.13	38.88
Gross fixed capital	32.87	33.35	38.27	34.61	34.52	35.56
Final consumption	69.68	69.38	70.81	73.53	72.77	73.04
Export of goods and services	69.03	73.61	76.90	77.92	68.30	77.53
Import of goods and services	73.21	78.17	92.75	93.13	78.65	87.81
Gross national income	98.00	97.66	96.94	96.76	95.30	95.85

(*) *Data were adjusted*

Source: General Statistics Office of Vietnam

Table 2: Balance of Payments(2010)

Mill. USD

A. CURRENT ACCOUNT	**-3.511**
1. Trade balance	**-5.147**
Exports (FOB)	72.192
Imports (FOB)	77.339
2. Non factor services (Net)	**-2.461**
Receipts	7.460
Payments	9.921
3. Transfers (net)	**8.661**
Private transfers (ẩ et)	8.342
Official transfers (ẩ et)	319
4. Investment Income (net)	**-4.564**
Receipts	456
Payments	5.020
B. FIẩ Aẩ CIAL Aẩ D CAPITAL ACCOUẩ :	7.100
5. Foreign Direct Investment	**899**
FDI in Vietnam	8.000
Equity	7.101
Loan	900
Vietnam's FDI abroad	5.542
6. Medium and long term loans	**4.671**
Disbursments	2.751
Scheduled Amortization	1.920
(Actual payments)	1.920
7. Short term loans	**1.043**
Disbursments	8.386
Scheduled Amortization	7.343
(Actual payments)	7.343
8. Portfolio	**2.370**
9. Money and deposits	**-7.722**
C. ERRORS AND OMISSIONS	**3.796**
D. OVERALL BALANCE (=-E)	**-1.765**
E. FINANCING	**1.765**
10. Change in NFA (-;incr)	**-1.765**
Change in ẩ IR (-;incr)	1.803
Use of IMF cred	-38
Purchases	0
Repurchases	38
11. Change in arrears and rescheduling	**0**
Change in arrears	0
Rescheduling	0

Source: State Bank of Vietnam

Import – Export

Total commodity import-export turnovers in 2010 reached USD 157bn, up by 23.6% as compared to 2009. Trade deficit stood at USD 12,6bn, equivalent to 17.5% of export value (in comparision to 22.5% of 2009). Vietnam's commodity exports were expanded from 130.8% of GDP to 142.5 % of GDP; of which, the ratio between export turnover and GDP increased from 58.8% to 67.9%; and commodity import turnover share in GDP increased from 67.3% to 74.6%, reflecting the increasing openness of Vietnam's economy.

Export: In line with the recovery of the global economy, there was an increase in the average export price of most commodities as compared to 2009. Also, export volume of many of them was in a good raise. The number of commodities having the export turnover of above USD 1bn was 18, an increase of 5 commodities as compared to 2009. In terms of export turnover composition, processing products continued to keep the biggest share (67.6%), followed by agricultural, forestry and maritime products (21.2%) and materials and minerals (11.2%).

Figure 1: Commodity Exports

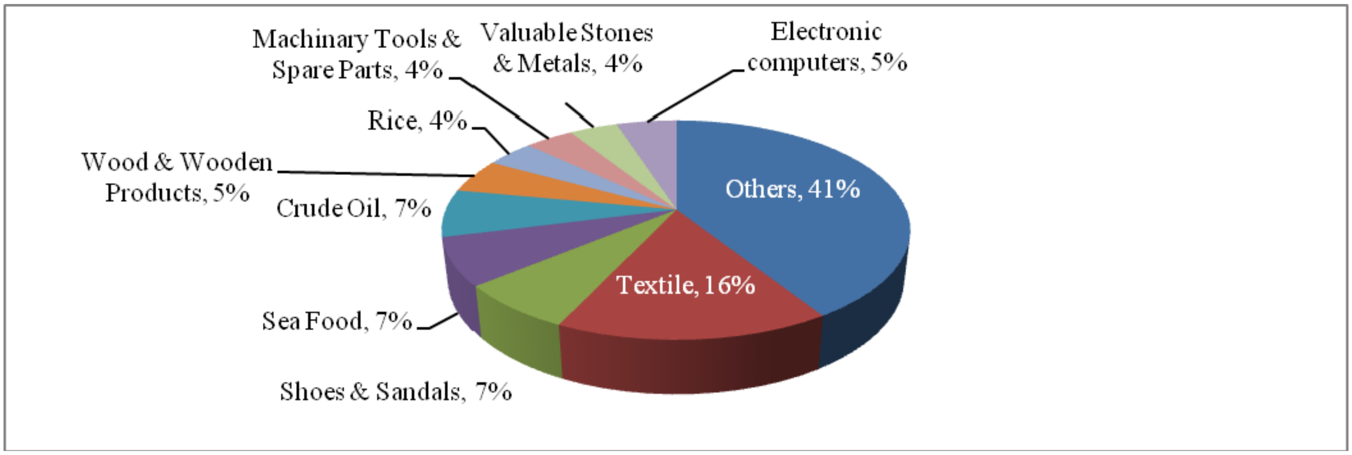
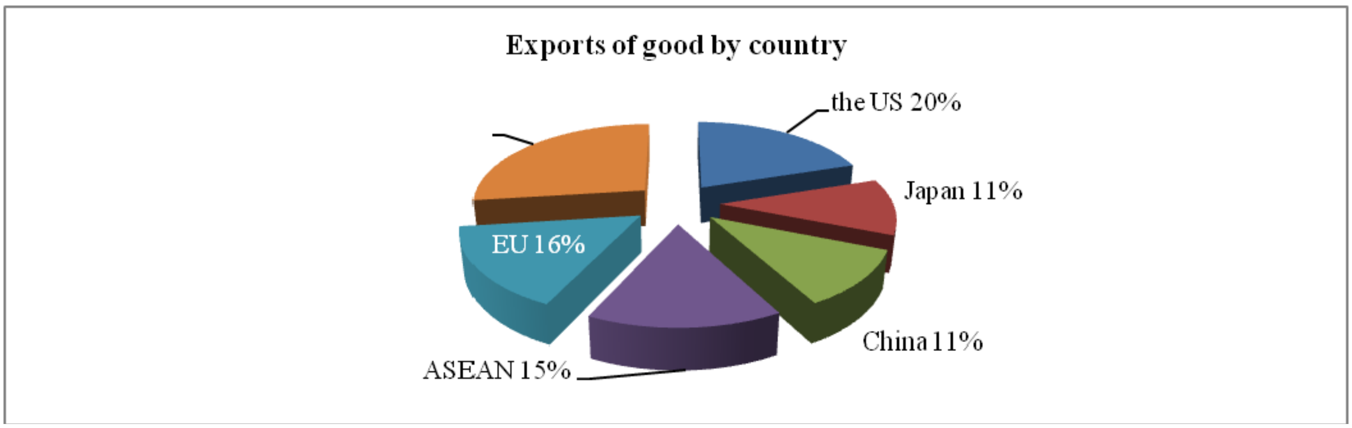


Figure 2: Export of good by country



Source: General Statistics Office of Vietnam

Import: there were 18 commodities having the import turnover of above USD 1bn. Main imported commodities in 2010 included machinery equipments, fuels, and manufacturing materials. Import turnover went up as a result of the increase of the average import price of most commodities (rubber, cotton, liquefied gases, other normal metals, petroleum, and steel and iron was up by 63.1%, 45.8%, 35.6%, 29.9%, 29.6% and 29.6%, respectively).

In terms of import volume, there was a relatively high increase in such commodities as wheat, metals, cotton, and fibre (up by 59.9%, 19.5%, 17.9%, and 15.9%, respectively).

Figure 3: Commodity Imports

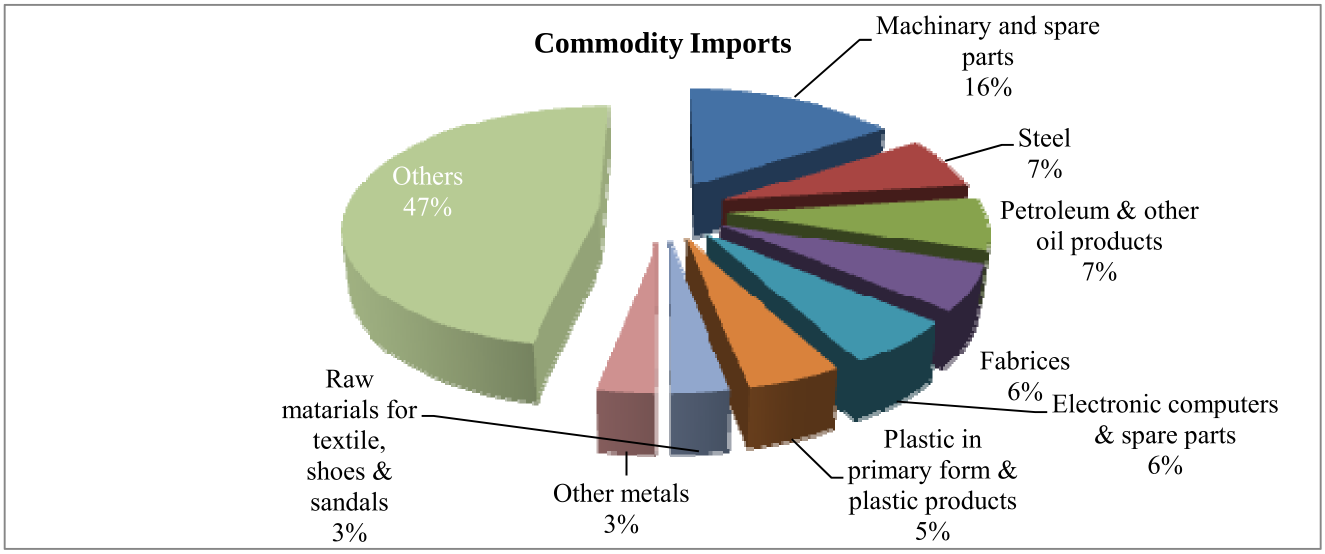
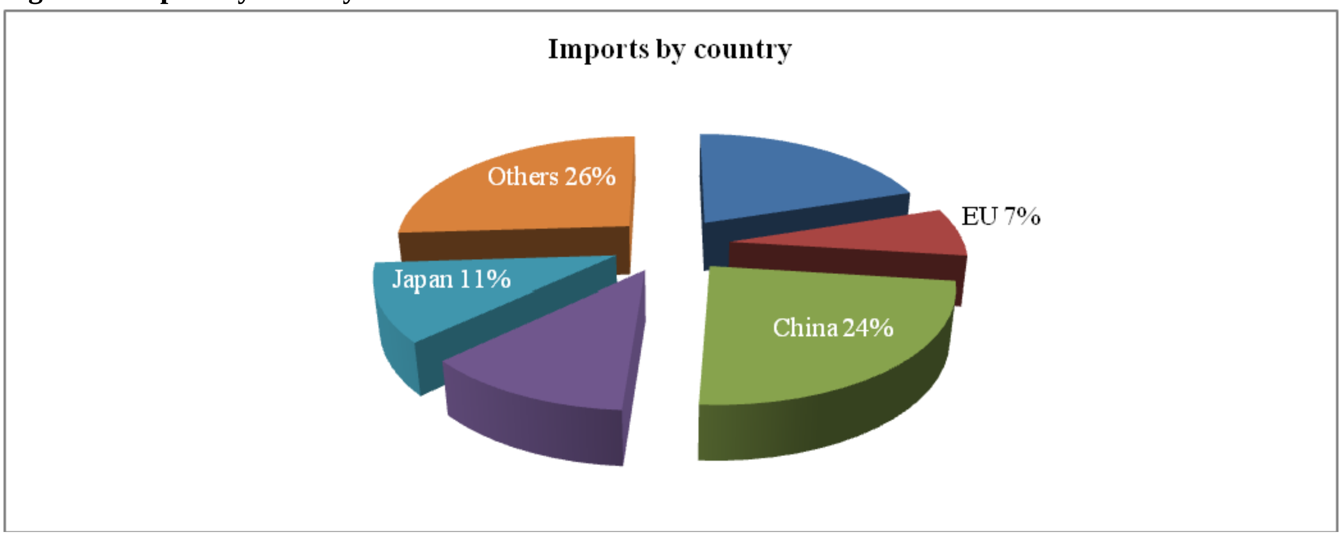


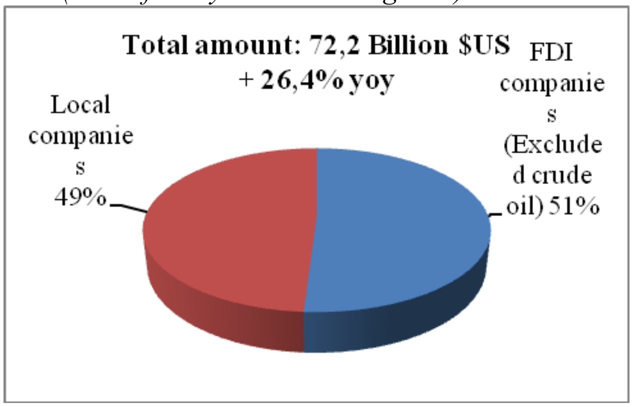
Figure 4: Import by country



Source: General Statistics Office of Vietnam

Export and import markets: Asia remained the biggest market of Vietnam's export and import, accounting for 52% of total export turnover and 80.3% of total import turnover of the country. In 2010, trade deficit with China kept increasing and reached USD 12.7bn (higher than the overall trade deficit of USD 12.6bn of the country as a whole), mostly because of the import of machines, equipments and spare parts (USD 4.5bn, accounted for 22.4%); textiles (USD 2.2bn, accounted for 11%); and computers, electronic products, and components (USD 1.5bn, accounted for 7.5%).

Figure 5: Vietnam Export 2010
(Classified by Economic Segment)



Source: www.vietpartners.com

Figure 6: Vietnam Import year 2010
(Classified by Economic Sectors)

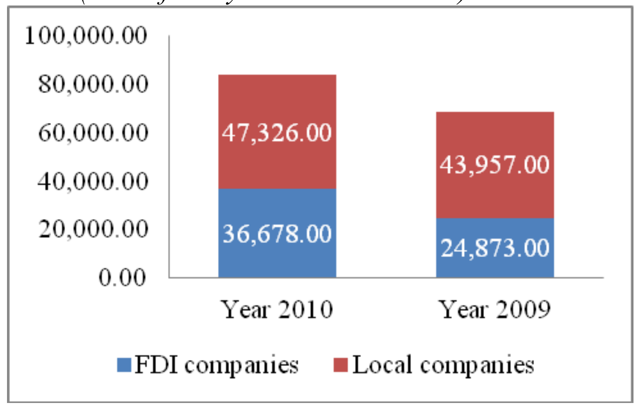
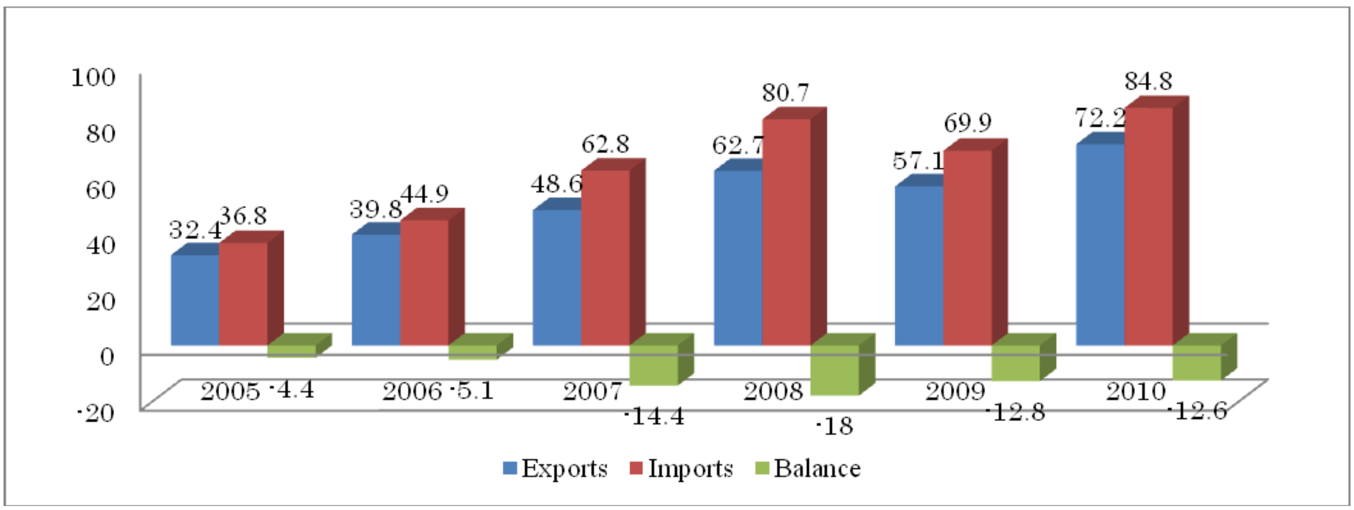


Figure7: Export and Imports (Period 2005-2010)

Bill. USD

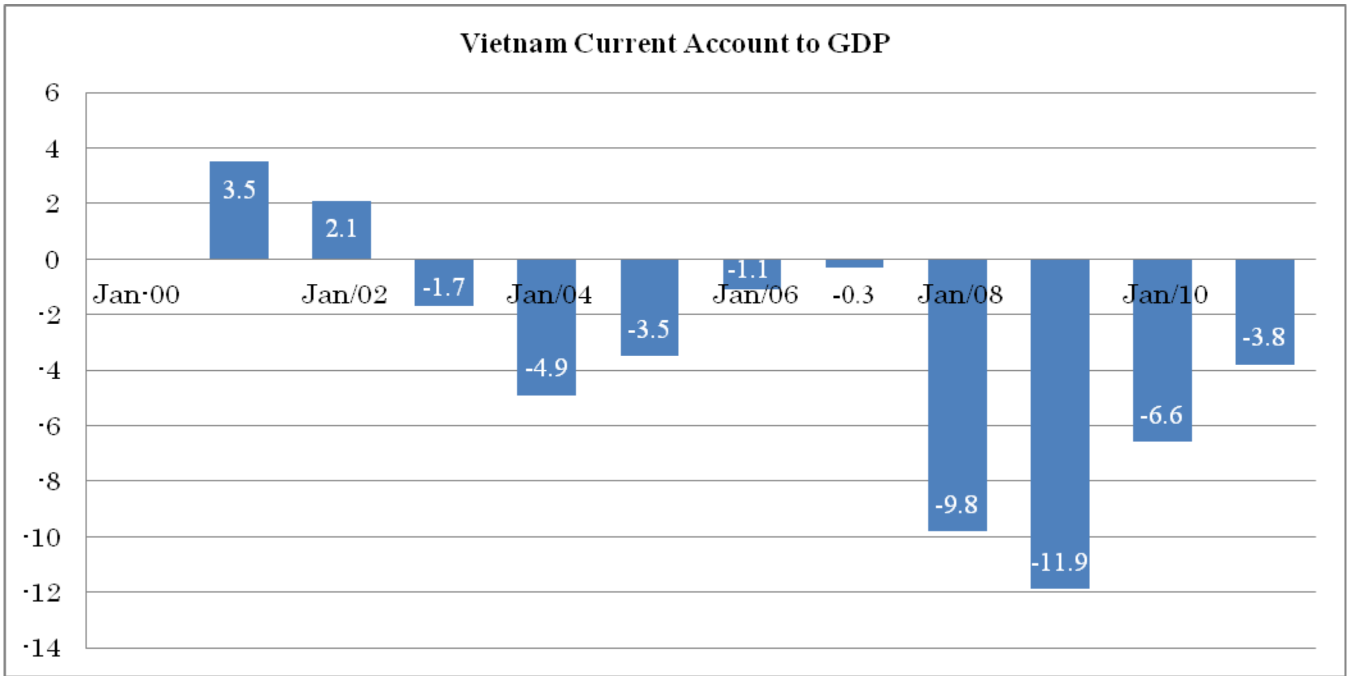


Source: Genaral Statistics Office of Vietnam

Vietnam Current Account to GDP

The Current Account in Vietnam was last reported at -3.8 percent of GDP. From 1980 until 2010, Vietnam's average Current Account as percent of GDP was -3.95 percent reaching an historical high of 4.10 percent in December of 1999 and a record low of -11.90 percent in December of 2008. Usually, when Vietnam records a strong current account, its Gross Domestic Product expands boosted by exports revenues. Also, Vietnam's exchange rate appreciates as investors begin to expect higher interest rates going forward. However, when Vietnam reports a stronger than expected current account to GDP, it may also lead to economic overheating and a general rise in prices, also known as inflation, which will make Vietnam's products less competitive when sold abroad. This page includes a chart with historical data for Vietnam's Current Account as a percent of GDP.

Figure 8: Vietnam Current Account to GDP



Source: www.Tradingeconomics.com

Vietnam Current account balance in US dollars

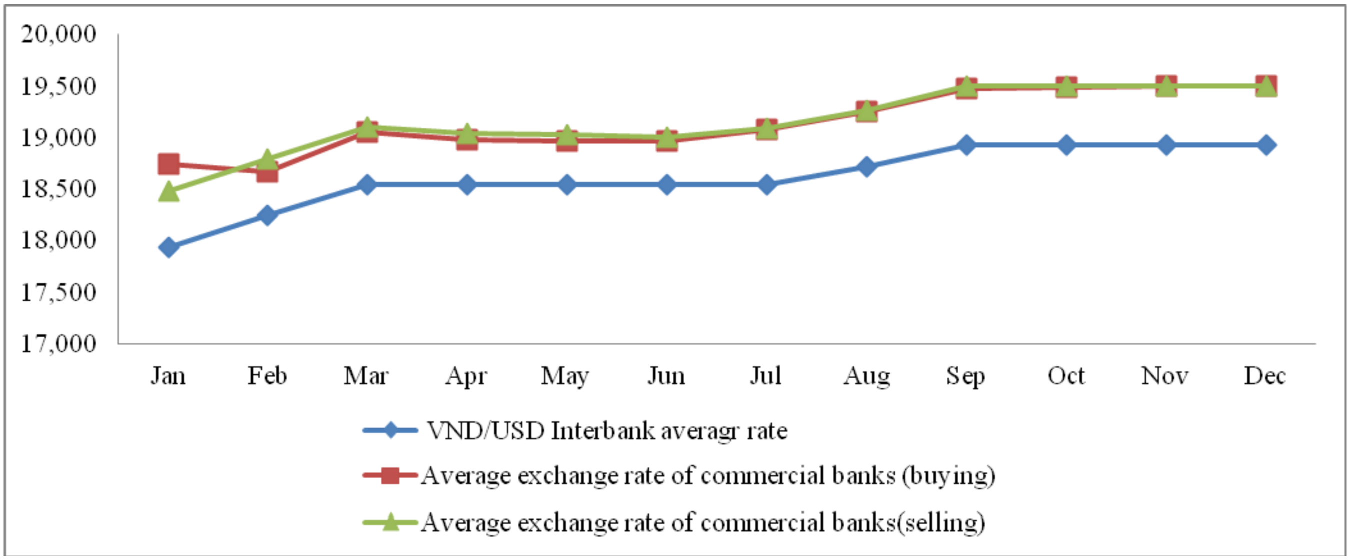
The Current account balance in US dollars in Vietnam was reported at -7.18 billions U.S. dollars in 2009 and -5.147 U.S dollars in 2010 according to the International Monetary Fund (IMF). In 2015, Vietnam's Current account balance in US dollars is expected to be -8.62 billions U.S. dollars in 2011. Current account is all transactions other than those in financial and capital items. The major classifications are goods and services; income and current transfers. The focus of the BOP is on transactions (between an economy and the rest of the world) in goods; services; and income. In 2009, Vietnam's economy share of world total GDP, adjusted by Purchasing Power Parity, was 0.37 percent. In 2015, Vietnam's share of world total GDP is forecasted to be 0.42 percent.

Foreign exchange markets

In 2010, due to the adverse impacts of trade deficit and inflation, foreign exchange markets at certain times showed signs of stress, and Vả D was under devaluation pressure. However, thanks to the SBV's adjustment of exchange rates and solutions to stabilize gold and foreign exchange markets, FX markets were back to relatively stable conditions. ả evertheless, because of the high import demand, Vả D/USD exchangerate trended to go up again since August. After the SBV's intervention in FX marketz under the Government's instruction to stabilize the markets and exchange rates, and to narrow down trade deficit, FX markets moved in a more positive manner.

As of December 31, 2010, the average FX rate on interbank market was 18,932 Vả D/USD, an increase of 5.52% as compared to early-2010; and the buying and selling FX rates announced by commercial banks were 19,495/19,500 Vả D/USD, up by 5,53% as compared to early 2010.

Figure 9: VND/USD exchange rate



Source: State Bank of Vietnam

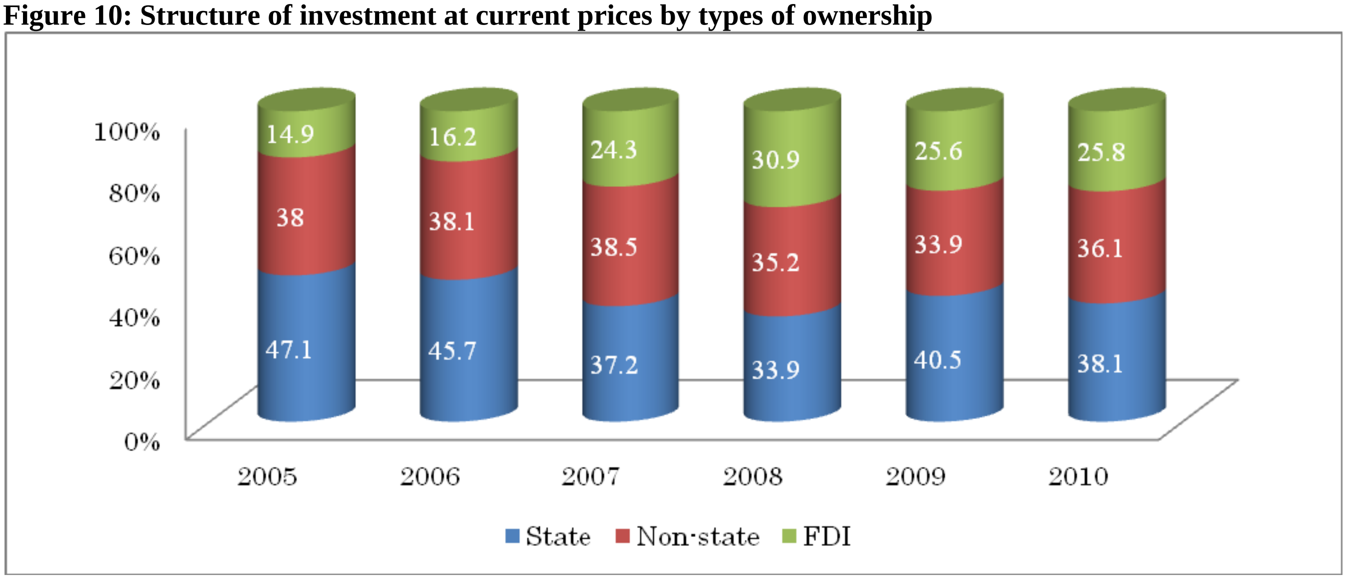
In 2011, the Vietnamese Dong exchange rate depreciated 0.06 percent against the US Dollar during the last month (11/2011). During the last 12 months, the Vietnamese Dong exchange rate depreciated 7.70 percent against the US Dollar. Historically, from 2009 until 2011 the USDVả D exchange averaged 19145.04 reaching an historical high of 21018.00 in December of 2011 and a record low of 16845.00 in June of 2009. The Vietnamese Dong spot exchange rate specifies how much one currency, the USD, is currently worth in terms of the other, the Vả D.

While the Vietnamese Dong spot exchange rate is quoted and exchanged in the same day, the Vietnamese Dong forward rate is quoted today but for delivery and payment on a specific future date.

Foreign Direct Investment (FDI)

Despite difficulties facing both Vietnam and global economies, most of the items of the account remained in surplus; especially, there was a significant improvement in foreign portfolio investment.

Figure 10: Structure of investment at current prices by types of ownership

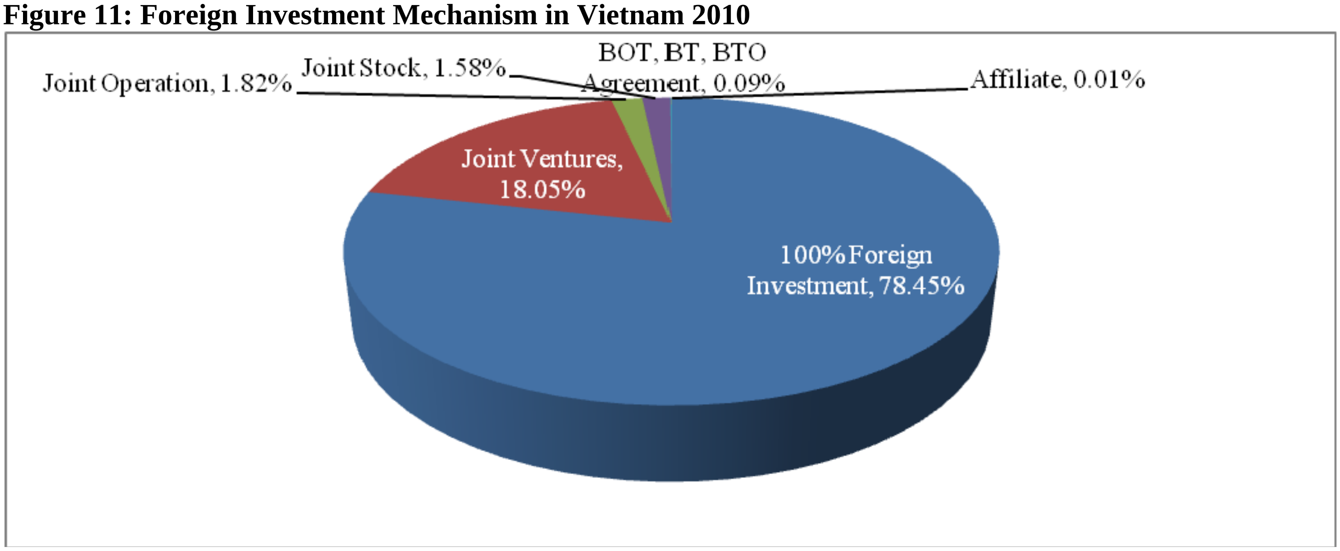


Source: Genaral Statistics Office of Vietnam ả et foreign direct investment was in surplus of USD 7.1bn, a slight increase of 2.9% as compared to 2009. FDI implementation by non-residents in Vietnam reached USD 8bn and accounted for 64% of total FDI implementation in Vietnam. In 2010, FDI inflows increased by 5.3%, lower than that of 2009 because of the following reasons: (i) Foreign investors pushed up their using of domestic fund for FDI projects, especially in the real-estate area; (ii) capital contribution of the domestic partners in FDI projects was raised, from 24% in 2009 to 36% in 2010.

Vietnam's FDI outflows reached USD 0.9bn, up by 28.6% as compared to 2009. FDI outflows continued to aim at areas of Vietnam's advantages and the country's targeted markets such as mineral exploitation (USD 700mn), agriculture-forestry-fishery (USD 70mn), retail and wholesale distribution (USD 53mn), post and telecommunication (USD 33mn), and electricity production (USD 25mn).

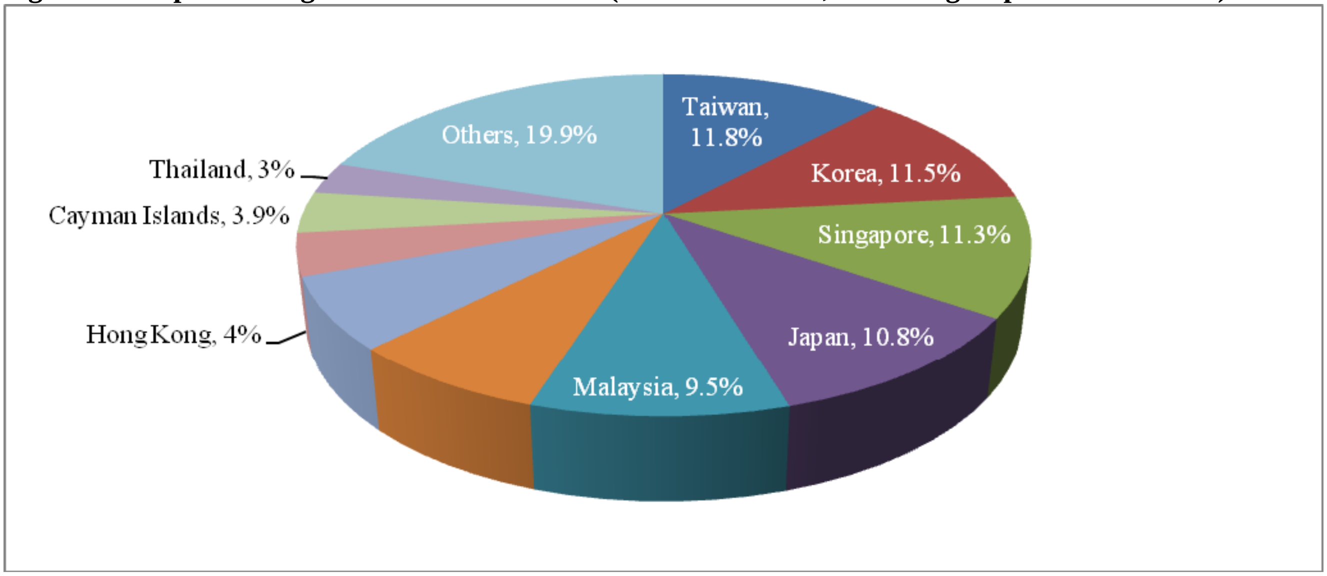
The Foreign direct investment; net inflows (% of GDP) in Vietnam was reported at 10.57 in 2008, according to the World Bank. Foreign direct investment are the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments. This series shows net inflows (new investment inflows less disinvestment) in the reporting economy from foreign investors, and is divided by GDP.This page includes a historical data chart, news and forecats for Foreign direct investment; net inflows (% of GDP) in Vietnam. Vietnam is a developing economy in the Southeast Asia. In recent years, the nation has been rising as a leading agricultural exporter and an attractive foreign investment destination. Vietnam's key products are: rice, cashew nuts, black pepper, coffee, tea, fishery products and rubber. Manufacturing, information technology and high-tech industries constitute a fast growing part of the economy. Vietnam is also one of the largest oil producers in the region.

Figure 11: Foreign Investment Mechanism in Vietnam 2010



Vietnam is taking steps to improve its governance and legal system to simplify procedures for foreign investors.

Figure 12: Top 10 Foreign Investors in Vietnam (From 1992-2010, Total Reg.Cap 192.92 Bil. US$)



Source: Foreign Investment Agency of Vietnam (FIA Vietnam)

Table 3: Foreign direct investment projects licensed in period 1988-2010

	å umbers of projects	Total registered capital* (Mill. USD)	Implementation capital (Mill. USD)
TOTAL	**13,812**	**214,315.6**	**77,945.5**
1988-1999	211	1,602.2	
1991	152	1,291.5	328.8
1992	196	2,208.5	574.9
1993	274	3,037.4	1,017.5
1994	372	4,188.4	2,040.6
1995	415	6,937.2	2,556.0
1996	372	10,164.1	2,714.0
1997	349	5,590.7	3,115.0
1998	285	5,099.7	2,367.4
1999	327	2,565.4	2,334.9
2000	391	2,838.9	2,413.5
2001	555	3,142.8	2,450.5
2002	808	2,998.8	2,591.0
2003	791	3,191.2	2,650.0
2004	811	4,547.6	2,852.5
2005	970	6,839.8	3,308.8
2006	987	12,004.0	4,100.1
2007	1,544	21,347.8	8,030.0
2008	1,557	71,726.0	11,500.0
2009	1,208	23,107.3	10,000,0
2010	1,237	19,886.1	11,000.0

(*) *Including supplementary capital to licensed projects in previous years*

Source: General Statistics Office of Vietnam

Table 4: Investment at current prices by kinds of economic activities

	2005	2007	2008	2009	2010
TOTAL(*Bill. dongs*)	**343135**	**532093**	**616735**	**708826**	**830278**
Agriculture, forestry and fishing	25715	33907	39697	44309	51071
Mining and quarrying	26780	37794	50214	59754	70823
Manufacturing	65892	104689	104801	120146	141106
Electricity, gas, stream and air conditioning supply	34112	49339	58033	67338	78752
Water supply, sewerage, waste management and remediation activities	8932	13845	16041	18465	21463
Construction	12292	19725	23370	26227	30679
Wholesale and retail trade; Repair of motor vehicles and motorcycles	18257	23036	28216	31188	36491
Transporation and storage	40159	69946	76439	85343	99990
Accommodation and food service activities	6628	10899	12305	14923	17455
Information and communication	12490	19262	22264	25872	30330
Fiancial, banking and insurance activities	2205	6324	7587	9888	11557
Real estate activities	4426	23444	32198	33315	39064
Professional, scientific and technical activities	2863	5402	6327	8010	9340
Administrative and support service activities	11495	17921	20741	23817	27914
Activities of Communist Party, socio-politocal organizations; public administration and defence; compulsory security	10767	14606	17940	21406	25116
Education and trainning	10829	15637	17837	20202	23621
Human health and social work activities	5699	7399	8795	10278	11998
Arts, entertainment and recreation	4203	6188	8617	10632	12496
Other activities	39391	52730	65313	77713	91012

Source: General Statistics Office of Vietnam

Table 5: Investment by ownership

	Total	Of which		
		State	å on- State	Foreign invested sector
At current prices			*Bill. dongs*	
1995	72447	30447	20000	22000
1996	87394	42894	21800	22700
1997	108370	53570	24500	30300
1998	117134	65034	27800	24300
1999	131171	76958	31542	22671
2000	151183	89417	34594	27172
2001	170496	101973	38512	30011
2002	200145	114738	50612	34795
2003	239246	126558	74388	38300
2004	290927	139831	109754	41342
2005	343135	161635	130398	51102
2006	404712	185102	154006	65604
2007	532093	197989	204705	129399
2008	616735	209031	217034	190670
2009	708826	287534	240109	181183
2010	830278	316285	299487	214506

Source: General Statistics Office of Vietnam

Borrowing from abroad, Aid

Short term external borrowings and payments of enterprises showed positive developments as reflected in the surplus of USD 1.04bn, four times higher than that in 2009. In particular, short term external borrowing disbursement by enterprises reached USD 8.39bn, an increase of 50.1% as compared to 2009. As a source of import financing, the increase in short-term borrowings was one of the reasons for trade deficit and pressures on foreign exchange demand and supply.Short-term debt service increased by 37.7% as compared to 2009 to USD 7.34bn.

Imports have also grown rapidly, and Vietnam has maintained a structural trade deficit, reaching $12.4 billion in 2010. Vietnam's total external debt, amounting to 42.2% of GDP in 2010, was estimated at around $32.5 billion.

Figure 13: Structure of borrowing abroad by currencies

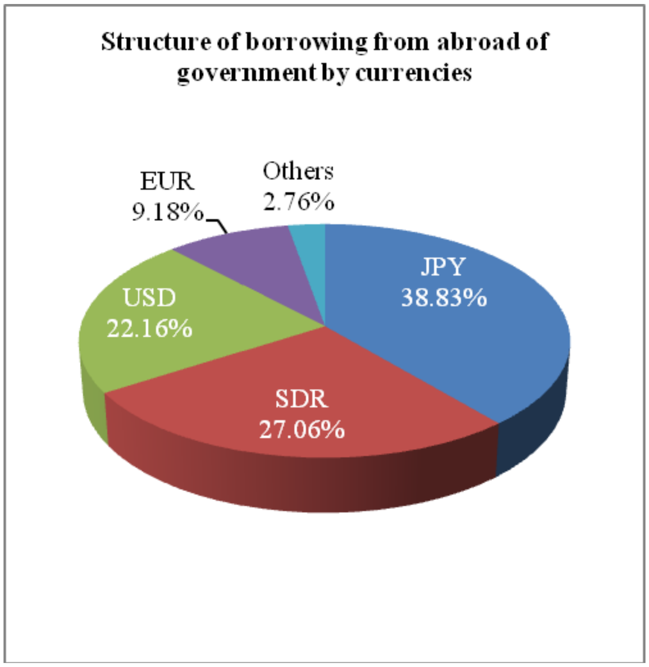
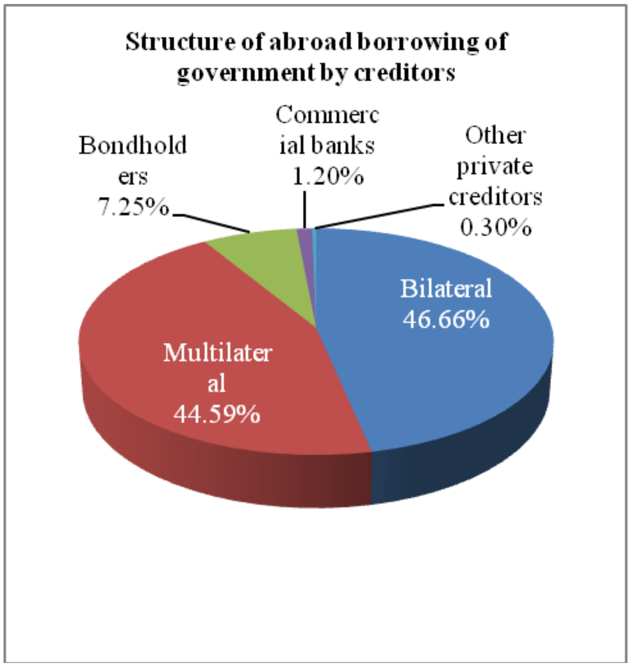


Figure 14: Structure of borrowing abroad by creditor



Source: Minitry of Finance of Vietnam

II.1.2 Domestic Environment

Economic Growth Rate

To many, Vietnam is the Latest Tiger to take off in Asia. Recently indicator show impressive performance both in economics and poverty reduction. Infact, Vietnam has been the favorite poster child for many devolopment institutions such as the World Bank and other ẩ on-Government Organisations. Vietnam ecomomic growth from 2005 – 2010 continue show positive trends, though the rate of growth fluctuates over the year. Acording to General Statistics Office of Vietnam (GSO), Vietnam GDP in 2010 is 6.8% making the average of the period 2005 – 2010 is 7.25%.

Figure 15: Gross Domestic Product

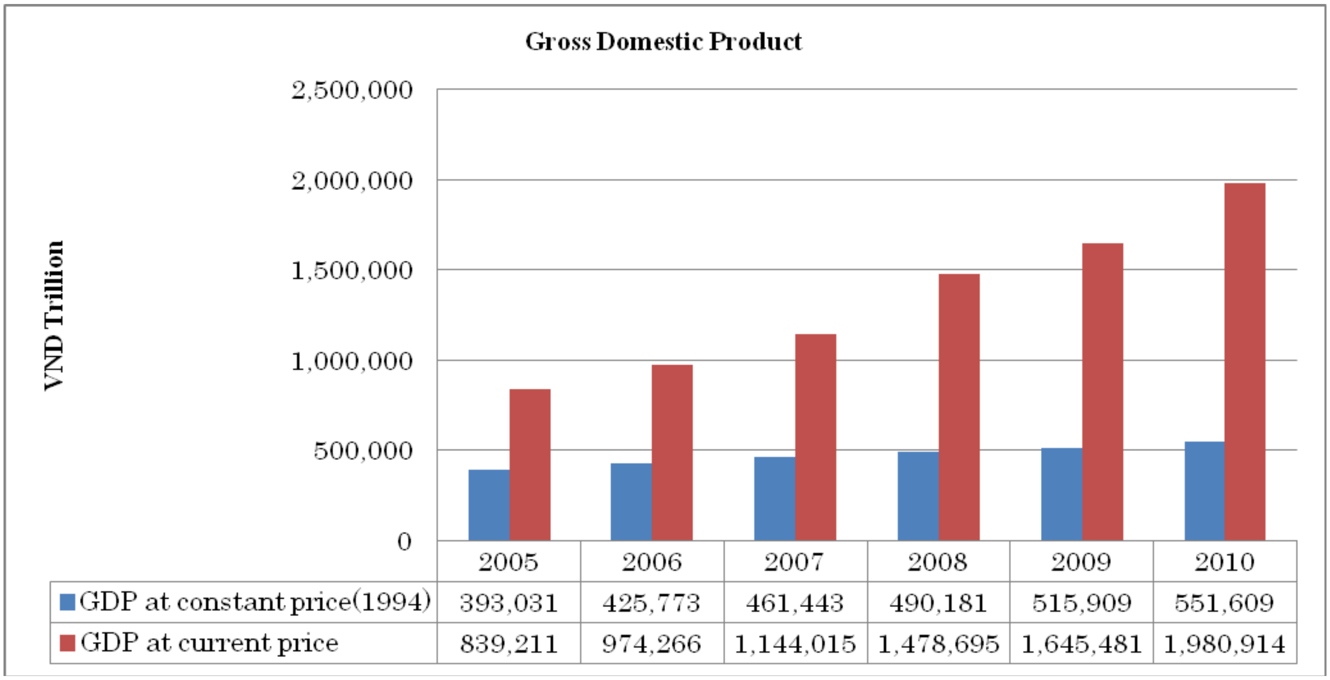
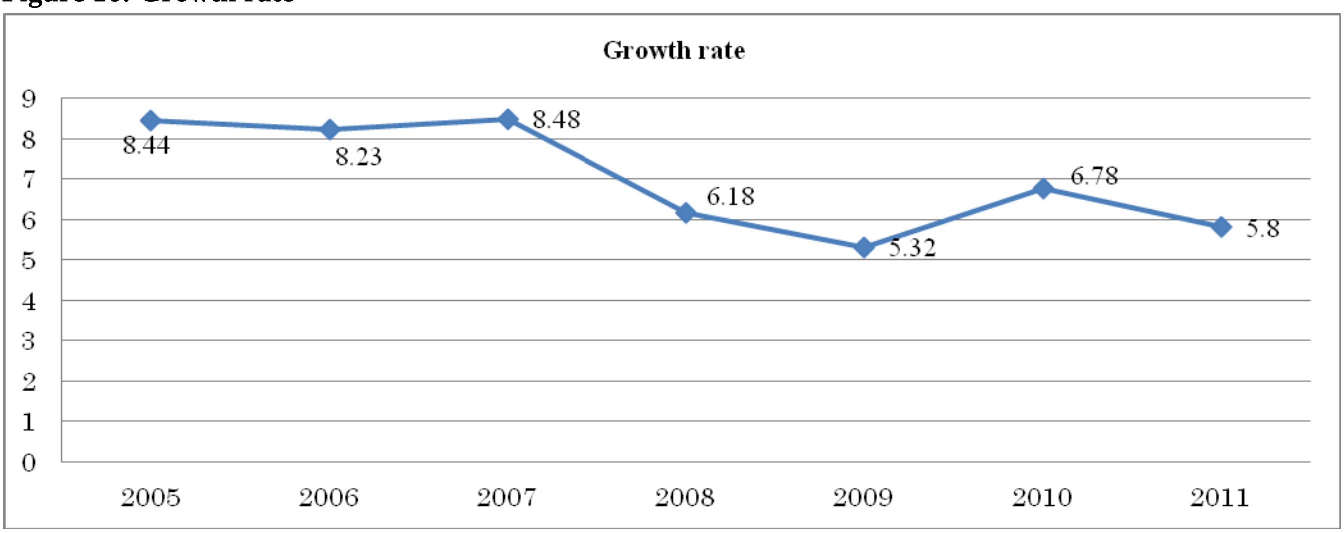


Figure 16: Growth rate



Source: General Statistics Office of Vietnam

Explaining for the degrading growth indicators are multiple sources, including the drastic inflation rate and the world finacial crisis in 2008. Of the three sectors, construction and industry show the high growth and agricultural production of the lowest. By the end of the period, however, it is in the service sector that growth tobe more sustainable. Gả P (nominal) per capita also shows an impressive increase from $ 642 in 2005 to 1,224 in 2010(WB).

Table 6: Gross Domestic Product by Sectors

GDT BY SECTORS	2005	2006	2007	2008	2009	2010
GDP growth (%)	8.43	8.17	8.48	6.23	5.32	6.78
Agriculture *	0.82	0.67	0.64	0.68	1.83	2.78
Industry and construction	4.19	4.16	4.34	2.65	5.52	7.70
Services	3.42	3.34	3.50	2.90	6.63	7.52
Exchange rate (Vẩ D/USD)	15,819	15,964	16,110	16,760	18,465	19,500
GDP per capital ($)	637	725.3	832	1,024	1,055	1,168
GDP at current price ($m)	52,965	60,999	70,977	88,228	89,113	101,585
Agriculture *	11,066	12,445	14,374	19,401	18,412	20,904
Agriculture and forestry	9,020	10,049	11,522	15,922	15,068	17,104
Fisheries	2,046	2,396	2,852	3,479	3,344	3,800
Industry and construction	21,734	25,329	29,530	35,207	35,858	41,746
Industry	18,366	21,288	24,588	29,482	29,887	34,610
Construction	3,368	4,041	4,942	5,726	5,970	7,136
Services	20,166	23,225	27,073	33,619	34,842	38,933
Trade	7,192	8,318.3	9,701	12,194	12,759	14,825
Real estate	2,125	2,305	2,701	3,206	3,262	3,635
Transport and telecom	2,316	2,745	3,151	4,000	3,965	4,379
Hotels and restaurants	1,854	2,247	2,790	3,861	4,042	4,142
Education	1,704	1,924	2,161.4	2,296	2,374	2,589
Health	785	882.8	1,002.5	1,102	1,140	1,222
Others	4,191	4,803.4	5,565.3	6,958	5,673	8,141

** Total includes agriculture, forestry and fisheries*
Source: VET research

Inflation

Headline inflation rate in 2010 as a whole was much higher than that in 2009, as seen in all the three following indicators: CPI (up by 11.75% as compared to 6.25% of 2009); food price inflation (up by 16.18% from 5.78% of 2009); and average inflation (up by 9.19% as compared 6.88% of 2009) due to the pressures from both supply (essential commodities prices, especially foods') and demand sides (investment, consumption). Of the 11 commodities included in the CPI basket, 9 registered stronger price increases than in 2009, except for transportation (3.75%) and post and telecommunication (- 5.9%). Of the 9 commodities, prices of eating and restaurant services experienced the strongest hike (by 16.18%, and accounted for 56.8%), followed by education (by 19.38%, and made up 8.52%), housing and bulding materials (15.74% and 12.8%), other commodities and services (11.83% and 3.54%), drinks and tobaco (9.57% and 3.54%), and the rest increased at the rates ranging from 3.57% to 8.38%.

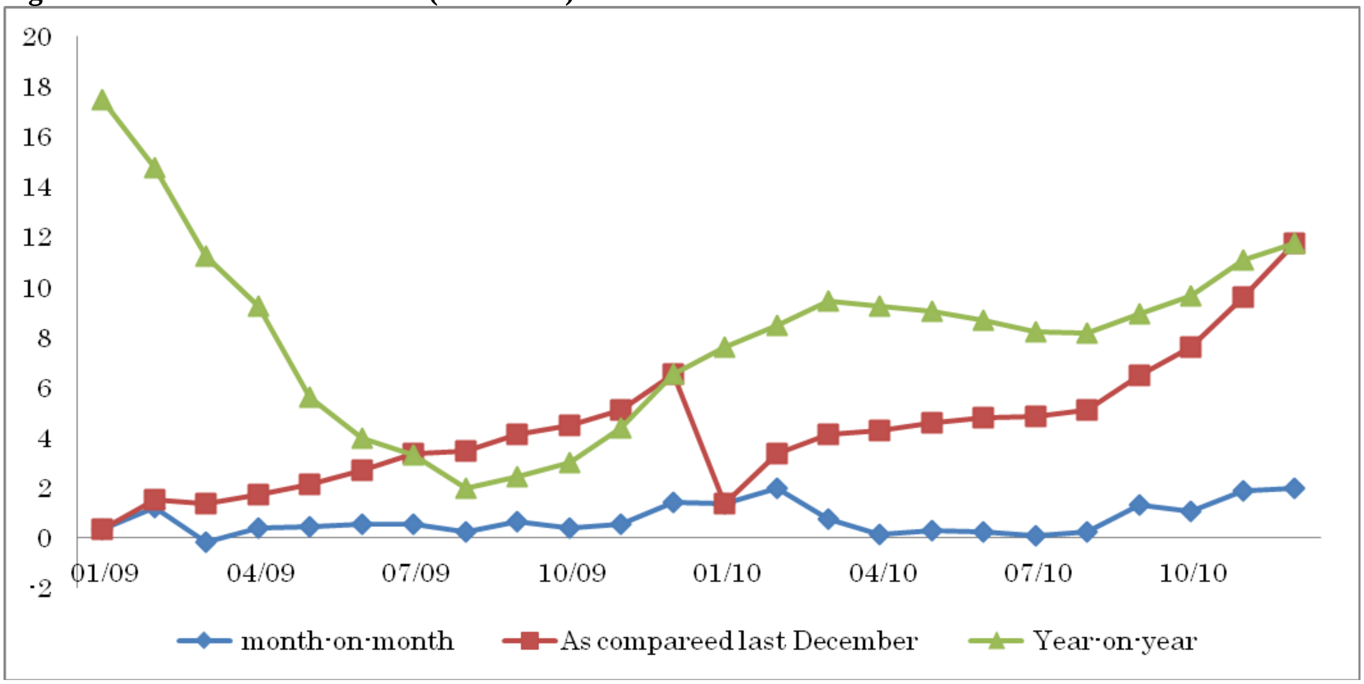
After staying within low and stable levels for 8 months with the growth rate averaged 0.7%/month, starting from September, CPI was up again (1.4%/month on average), pushing inflation rate of 2010 as a whole up to the double-digit level; especially, inflation rate in Q4 alone accounted for 40% of the whole year's. Main reasons for the high inflation rate included:

On supply side, the increasing prices of many essential commodities globally resulted in higher import prices, thus raising the domestic price level (petroleum price was raised 3 times by 6.5% in total; gas price increased by 20%; that of iron and steel was up by 10%; school fees went up from Vẩ D 180,000/month to Vẩ D 240,000/month; and food price increased by 16.5%); prices of some of the state-managed commodities were revised upward (on average, electricity and coal prices increased by 6.8% and 28% - 47%, respectively); natural disasters and epidemics together with expectation factors caused price to increase in affected areas.

On demand side, both income and income expectation went up amid the improvement of economic growth, the rise of minimum salary and higher property prices as reflected in the 24.5% increase of total commodities and services retail (as compared to 20.58% of 2009), and the on-going high level of Government's consumption (current budget expenditures increased by 25%).

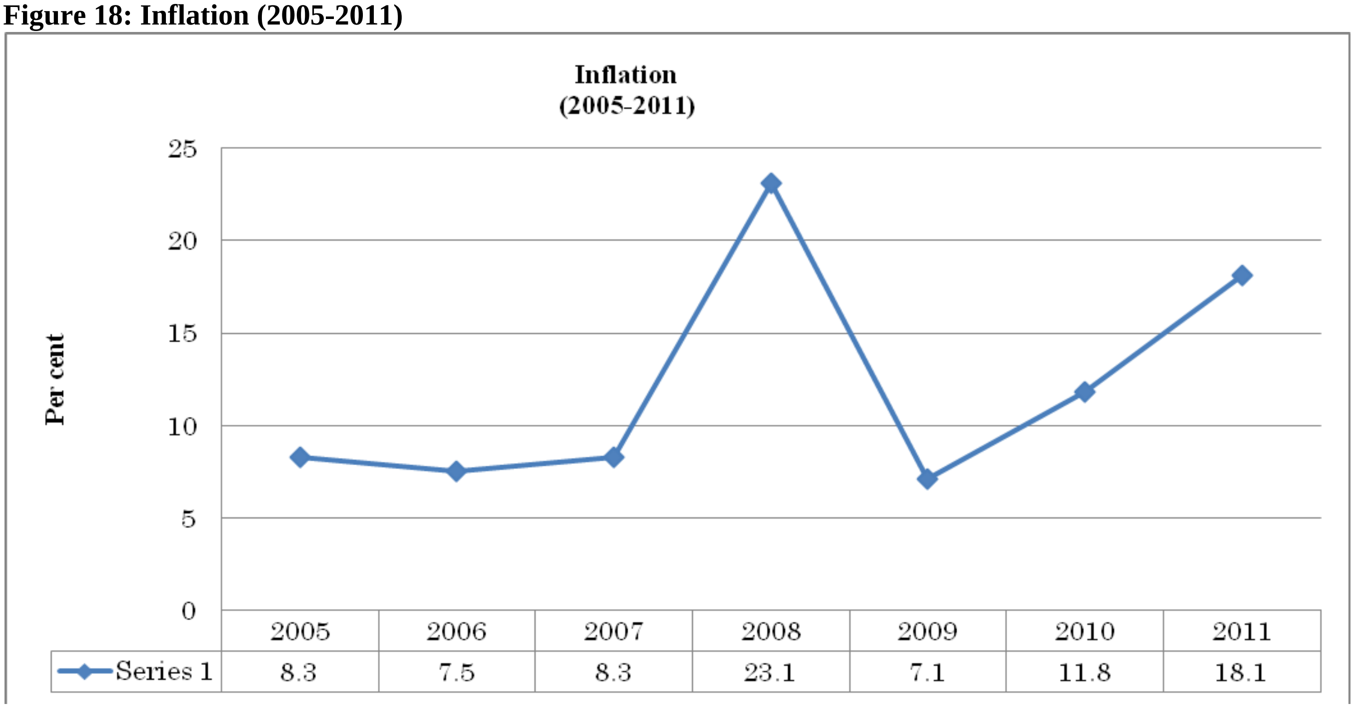
Psychology factor: people's inflationary expectation, the roadmap of raising prices of certain state-mananged commodities to be in line with market prices, and the psychological impact from news and reports on prices and macro-economic developments.

Figure 17: Consumer Price Index (2009-2010)



Source: State Bank of Vietnam

Figure 18: Inflation (2005-2011)



Source: General Statistics Office of Vietnam

While inflation has peaked in August, investors will watch closely to see if Vietnam will address its structural issues. It appears that some progress is taking place. The 13th ả ational Assembly session is focusing on three key issues: reforming public investment, state-owned enterprises; and the financial system.

Whether the Vietnamese government can restore investors' confidence in its management of the economy will depend on how these reforms will be carried out. Inflation is expected to average 9 per cent in 2012.

Table 7: Consumption, Capital stock and Investment

	2005	2006	2007	2008	2009	2010
TOTAL(*Bill.dongs*)	715307	839211	974266	1143715	1485038	1658389
Gross capital formation	253686	298543	358629	493300	589746	632326
Gross fixed capital formation	237868	275841	324949	437702	513987	572526
Changes in stocks	15818	22702	33680	55598	75759	59800
Final consumption	511221	584793	675916	809862	1091876	1206818
State	45715	51652	58734	69247	90904	104540
Private	465506	533141	617182	740615	1000972	1102279
Trade balance (goods & services)	-54000	-35088	-44438	-181302	-225827	-171663
Statistical discrepancy	4400	-9037	-15841	21855	29243	-9092
TOTAL(mill.dongs)	100.00	100.00	100.00	100.00	100.00	100.00
Gross capital formation	35.47	35.58	36.81	43.13	39.71	38.13
Gross fixed capital formation	33.26	32.87	33.35	38.27	34.61	34.52
Changes in stocks	2.21	2.71	3.46	4.86	5.10	3.61
Final consumption	71.47	69.68	69.38	70.81	73.53	72.77
State	6.39	6.15	6.03	6.05	6.12	6.30
Private	65.08	63.53	63.35	64.76	67.40	66.47
Trade balance (goods & services)	-7.55	-4.18	-4.56	-15.85	-15.21	-10.35
Statistical discrepancy	0.61	-1.08	-1.63	1.91	1.97	-0.55

Source: General Statistics Office of Vietnam

Money Supply

Vietnam Money Supply Growth +7.75% in Jan-ả ov, the country's broadest measure of total money supply, or M2 as of ả ov 18, 2011 was estimated to edged up 7.75% from end-2010 and 0.25% on-month. Previously, total money supply slid by 0.86% on-month in September and 0.5% MoM in October, according to the State Bank of Vietnam's monthly banking reports. The government estimated whole-year money supply growth to reach 12% compared to the target of 15-16% set in Resolution ả o.11. Of note, there is only one month ahead for the revised target 12% to be realized.

The country's consumer price index (CPI) has recently eased from its peak in July. CPI climbed by 0.39% on-month in ả ovember, the fourth month in a row that saw CPI rises of less than 1%. The ả ovember increase led the CPI figure to have risen by 17.5% from December, 2010.The forex market became more stable and foreign exchange positions of commercial banks were much improved, the government members commented, adding that local gold premium was significantly narrowed.

Explaining for the degrading growth indicators are multiple sources, including the drastic inflation rate and the world finacial crisis in 2008. Of the three sectors, construction and industry show the high growth and agricultural production of the lowest. By the end of the period, however, it is in the service sector that growth tobe more sustainable. Gả P (nominal) per capita also shows an impressive increase from $ 642 in 2005 to 1,224 in 2010(WB).

Employment and Income

Over the years, there was a downward trend in the unemployment rate. For 2010, the general unemployment rate was 2.88%, a decrease of 0.02% as compared to 2009, with that of urban and rural areas stood at 4.43% and 2.27%, respectively as compared to 4.6% and 2.25% of 2009. GDP per capita in 2010 reached USD 1,160. In contrast with the negative situation in the first half of 2010, foreign demand for Vietnam's labors showed signs of improvement in the second half, raising the number of labors sent abroad to approximately 85,500, an increase of 16.4% as compared to 2009 and equivalent to 100.64% of the whole year's target.

Table 8: Urban unemployment rate and the number of labors sent abroad (2005-2010)

	2005	2006	2007	2008	2009	2010
Urban unemployment rate (%)	5.3	4.82	4.64	4.65	4.66	4.43
ả umber of labors sent abroad	70,000	78,800	85,000	85,000	73,400	85,500

Source: General Statistics Office of Vietnam

II.2 Fiscal position

II.2.1 State budget revenue and expenditure

In 2010, fiscal deficit was equivalent to 5.6% of GDP, lower than that of 6.9% of GDP in 2009; of which, State Budget revenues grew by 26.4% thanks to the recovery of the economy, and budget expenditures registered a low increase of 13%.

The increase of total budget revenues as compared to 2009 was mainly attributed to(i) the increase by 9.6% of crude oil revenue owing to the rise of global crude oil prices (in 2010, crude oil export prices jumped by 20.1% as compared to 2009); (ii) the significantly higher tax yield from all forms of tarrifs as compared to 2009 thanks to the recovery of the domestic economy, the improvement of businesses' performance, the termination of Government's policies of tax deferral and exemption, and the aggressive implementation of tax collection enforcement, examination and supervision measures; and (iii) the improvement of export and import revenues.

The lower growth rate of total budget expenditures as compared to 2009 was mostly a result of the 5% decrease of development expenditure. In its turn, development expenditure reduced sharply because in 2009, this item was strongly expanded in consistent with the demand stimulus policy; and in 2010, under the Government's instruction, the list of the State's investment projects was revised and rearranged in the direction of giving priority only to targeted projects and avoiding extensive investment.

Figure 9: Balance of State budget 2010

No	Items	*(Plan 2010)*	*(2nd Est- 2010)*
	GDP	**1,931,000**	**1,951,174**
A	**Total revenues and grants**	**461,500**	**559,170**
1	Taxes and Fees	432,884	510,478
2	Capital revenues	23,616	43,192
3	Grants	5,000	5,500
B	**Brought forward revenue**	**1,000**	**1,000**
C	**Total exp. (exclude principal payment)**	**536,870**	**615,640**
1	Exp. on investment development	125,500	170,970
2	Current expenditures	396,070	434,670
3	Brought forward expenditure		10,000
4	Contingency	15,300	
D	**Principal payment**	**45,330**	**53,990**
E	**Deficit (classified by GFS)**	**-74,370**	**-55,470**
	Deficit/GDP (%)	***-3.85%***	***-2.84%***
F	**Total financing (classified by GFS)**	**74,370**	**55,470**
G	**Deficit (classified by VN)**	**-119,700**	**-109,460**
-	***Deficit/GDP (%)***	***-6.2%***	***-5.6%***

Figure 10: State budget revenue final accounts

No	Items	Plan 2010	2^{nd} Est 2010
A	**Total revenues and grants (I+IV+V)**	**461,500**	**559,170**
I	**Current revenues (II+III)**	**432,884**	**510,478**
II	**Taxes**	**404,259**	**481,262**
1	Corporate income tax	134,220	143,634
2	Individual income tax	18,460	26,288
3	Land and housing tax	1,137	1,394
4	Business tax	1,106	1,245
5	Tax on the transfer of properties	9,209	12,594
6	Value added tax	123,977	158,661
7	Special sales. tax on domestic goods and services	30,140	37,906
8	ả atural resouces tax	19,478	25,668
9	Agricultural land - use tax	32	56
10	Imp - Exp. tax, special sales tax on imports	66,500	73,816
11	Other taxes		
III	**Fees, charges and non-tax**	**28,625**	**29,216**
12	Fees and charges (include gasoline fee)	16,787	18,221
13	Rental of land	2,397	3,481
14	Others	9,441	7,514
IV	**Capital revenues (revenues from sale of State - owned houses, land use right assignment)**	**23,616**	**43,192**
V	**Grants**	**5,000**	**5,500**
B	**Brought forward revenue**	**1,000**	**1,000**

Table 11: State budget expenditure final accounts

		Plan	**2^{nd} Est**
No	**Items**	**2010**	**2010**
A	**Total balance expenditures**	**536,870**	**605,640**
I	**Current expenditures**	**396,070**	**434,670**
1	Administration expenditures	47,234	53,693
2	Economic expenditures	32,514	38,465
3	Social expenditures	187,890	215,935
	Of which		
3.1	Education	68,595	80,819
3.2	Training	16,105	17,741
3.3	Health	30,055	33,679
3.4	Science technology	5,090	5,139
3.5	Culture & information	3,520	3,792
3.6	Radio & TV	1,825	1,964
3.7	Sport	1,170	1,253
3.8	Population and Family planning	770	870
3.9	Social subsidies	60,760	70,678
4	Defence	44,400	49,739
5	Security	21,270	24,245
6	Interest payment	24,040	25,380
7	Salary Reform Expenditures	35,490	23,228
8	Others	3,232	3,985
II	**Expenditure on investment development**	**125,500**	**170,970**
III	**Contingency**	**15,300**	
B	**Brought forward expenditure**		**10,000**

Table 12: State Budget Revenues by Taxation (Taxes and Sectors)

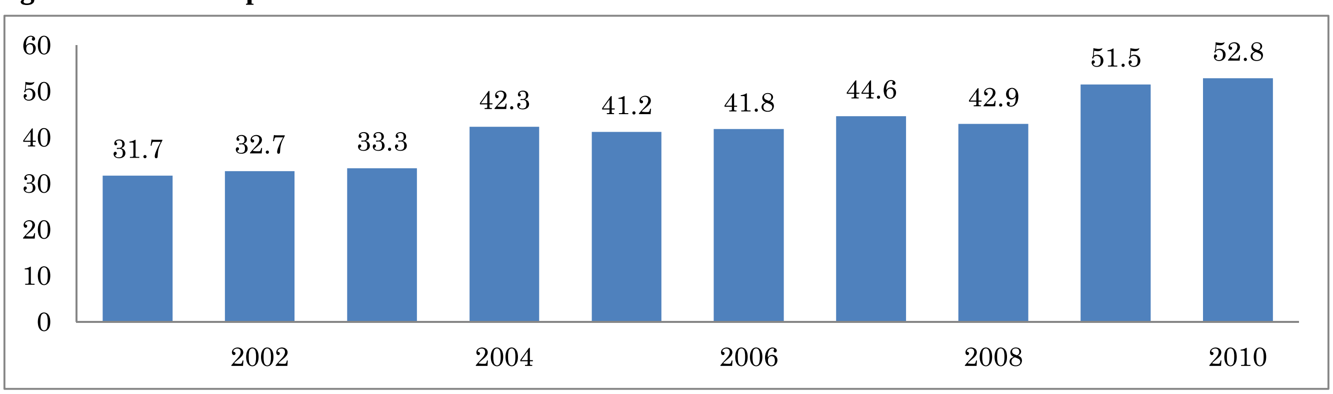
Bill VND

No	Items	2nd Estimates 2010					
		Total	*Of which*				
			SOEs	Foreign Investment Enterprises		ả .State Sector	Others
				Total	Of which: (Oil)		
	Total Revenue	**559,170**	**111,922**	**131,991**	**69,170**	**69,925**	**245,332**
1	Domestic VAT	102,377	37,280	20,064		45,033	
2	VAT of Imported goods and services	56,284					56,284
3	Domestic Special Consumption Tax	37,906	18,791	15,830		3,285	
4	Import-Export Tax and Special Consumption Tax	73,816					73,816
5	Corporate Income Tax	143,634	50,418	73,904	47,852	19,312	
6	ả atural Resouce Tax	25,668	3,827	21,445	21,318	396	
7	Personal Income Tax	26,288					26,288
8	Agricultural Land-used Tax	56					56
9	Housing Tax	1,394					1,394
10	Business Tax	1,245	51	28		1,166	
11	Property Tranfer Tax	12,594					12,594
12	Petrolium fee	10,521					10,521
13	Fees	7,700					7,700
14	Loyalties	3,481		578			2,903
15	Land-used rent	41,691					41,691
16	State Owned House Turnover	1,501					1,501
17	Others	7,514	1,555	142		733	5,084
19	Grants	5,500					5,500

II.2.2 Public debt

Vietnam's public debt is rising so fast and poses a severe risk to the economy, an economist says, suggesting that the total debt might be even higher than assumed if calculated more properly. According to the International Monetary Fund, Vietnam's public and publicly guaranteed debt stood at 52.8 percent of GDP in 2010. The Fund said the ratio could fall slightly to 51.5 and 51 percent in 2011 and 2012.

Figure 19: Vietnam public debt to GDP



Source: IMF

In view of Vietnam's high public and publicly guaranteed debt and sizable contingent liabilities, it recommended the acceleration of fiscal consolidation by saving the bulk of anticipated revenue over-performance in 2011. The problem is that Vietnam's investment continues to grow at a fast pace while it maintains a budget deficit of more than 5 percent of GDP. The Ministry of Finance has recently worked with a group of World Bank experts in an attempt to improve the country's debt management.

Table 20: General government gross debt

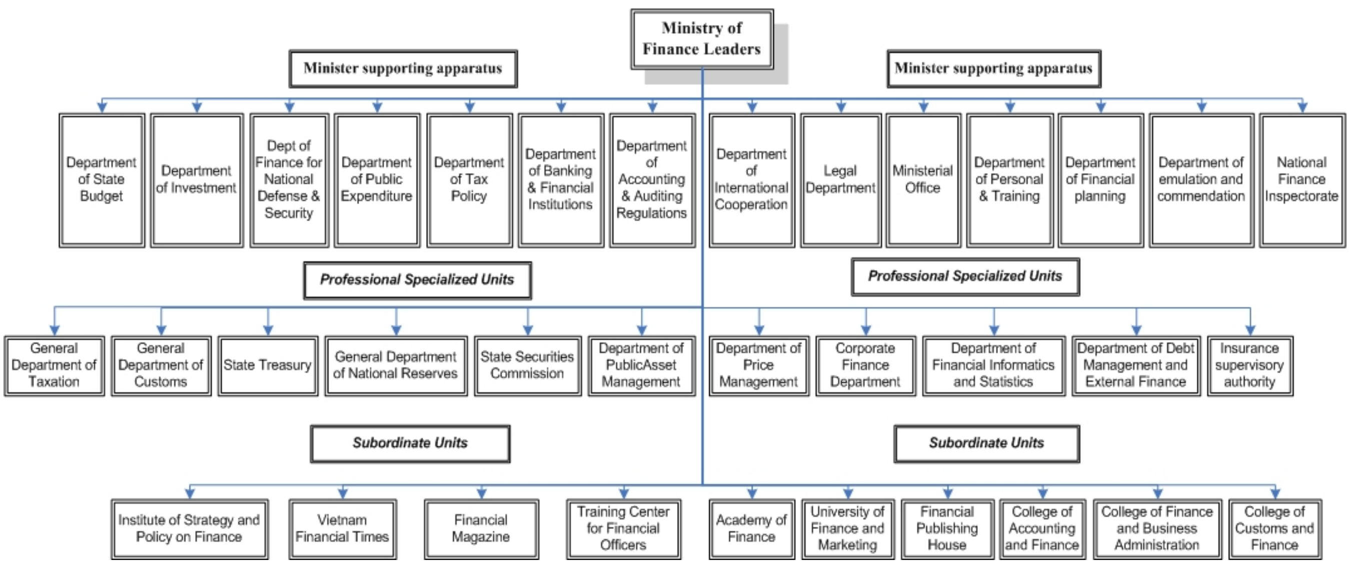
Year	General government gross debt *(Mill. USD)*	Percent change *(% yoy)*
2001	31.352	
2002	32.535	2.79
2003	37.882	16.43
2004	42.262	11.56
2005	41.215	-2.48
2006	41.848	1.54
2007	44.583	6.54
2008	42.896	-3.78
2009	51.161	19.27
2010	52.847	3.30

Source: IMF

III. Tax structure: Institution and the Reality

III.1 Organisational structure of Revenue Administration

Ministry of Finance is an agency of the Government of Vietnam to implement the state management function of finance, state budget, taxes, fees and other revenues of the state budget, national reserves, funds state finance, investment finance, corporate finance and financial services (collectively, the financial sector - budget), customs, accounting, independent auditing and price range nationwide state management over public services in the financial sector - the budget, customs, accounting, independent auditing and price; representing the owner of State capital in enterprises under prescribed by law. The organisational structure of Minitry of Finance as follow;



III.2 General Department of Taxation

The General Department of Taxation (GDT) is an agency under the Ministry of Finance performs the function of advising and assisting the Minister of Finance on the management of state domestic revenues in the country, including taxes, fees and charges and other revenues of the state budget (hereinafter referred to as taxes), tax administration organizations based on Law.

General Department of Taxation legal status, a seal bearing the national emblem, a separate account in the State Treasury and based in Hanoi. GDT is led by a General Director, supported by Deputy General Directors and advisory experts. In the Headquarter, there are 14 Department and an inspectorate Office; threre is a representative Office in Ho Chi Minh city, a Tax Shool and a Tax magagine. There are 63 provincial and municipal Tax Offices and 697 distric Tax Offices on nationwide. GDT is one of the biggest central government agencies with more than 40,000 staffs.

Structure of General Department of Taxation of Vietnam as follows:

GDT	Central Level	The Policy Department
		Tax Reform & Modernization Department
		Department of Legal Affairs
		Department of Tax Revenue Estimation
		Tax Declaration and Accounting Department
		Department for Management of Debit & Coercive collection of Tax Arrears
		Department of Personal Income Tax Administration
		Department of Tax Administration at Large Enterprises
		Department for Propagation and Taxpayer Assistance
		International Cooperation Department
		Internal Examination Department
		Organization and Personnel Department
		Finance Administration Department
		The Office (with rep division in Ho Chi Minh City)
		Inspectorate
		Information technology Department
		Tax School
		Tax Magazine
	Local Tax	Tax department of provinces and centrally run Cities (referred to as provincial Tax department) under the GDT
		Tax department of districts, towns and provincial Cities under provincial-level Tax departments

III.3 Tax policies and procedures

Company Tax

In accordance with the Law on Tax Administration, Vietnam operates a self-assessment system where taxpayers are expected to compute their own tax liability. However, the Law also provides for tax assessments where tax administration agencies can determine the amount of tax payable.

The tax administration is handled by the GDT at central level, along with provincial tax departments in each of the provinces of the country.

The Corporate Income Tax (CIT) rate applicable is 25%, except for business establishments involved in the prospecting, exploration and exploitation of petroleum and gas and other precious natural resources, where the applicable tax rate is 32-50%. Enterprises shall make a self-declaration of CIT payable. For each quarter, the enterprise shall determine the amount of CIT provisionally payable for the quarter and the tax finalization for the whole year shall be determined within 90 days after the year end.The total income generated by Vietnamese enterprises shall be subjected to CIT, regardless of whether the income is generated in Vietnam or overseas, comprising income earned from production except income earned from:

- Products of cultivation, husbandry and aquaculture by co-operatives
- Performance of technical service contract directly serving agricultural production
- Performance of contracts for scientific research and development
- Production of and trading in goods and services by business establishments

Specially, reserved for disabled employees or persons involved in crime.

The CIT payable shall be determined by applying the applicable tax rate on the taxable income, which is the total turnover less reasonable expenses. Reasonable expenses which are deductible for the purpose of calculation of taxable income including expenses actually used for the production or trading in goods and services, and expenses incurred with receipts or source documents issued in accordance with the law.

Tax year: A tax year for the purpose of tax finalization shall be the calendar year (from 01 January to 31 December annually). Where a business establishment is permitted to apply a tax year other than the calendar year, tax finalization shall be conducted in accordance with such a year.

Capital Gains Tax

The capital gain tax rate applicable is 20%.

Special Sales Tax

Special Sale Tax is applicable to special goods and services (luxury). The basis for calculating Special Sale Tax shall be based on the quantity of taxable goods sold, their taxable value and the applicable tax rates.

Taxable goods and their applicable tax rates are set out in the following schedule:

No	Type of good and services	Tax rate
I Goods		
1 Tobacco products	a) filtered cigarettes produced mainly from imported raw materials	65
	b) cigarettes without filters and cigars	25
2 Spirits	a) over 40 degrees proof	75
	b) from 20 to 40 degrees proof	30
	c) under 20 degrees proof and fruit spirits	20
	d) medicinal spirits	15
3 Beer	a) bottled beer, canned beer and fresh beer	75
	b) draught beer	30
4 Automobiles	a) Up to 5 seats	80
	b) From 6 to 15 seats	50
	c) From 16 to 24 seats	25
5 Gasoline of various kinds, naphtha, reformed component and other compounds for mixing gasoline		10
6 Air-conditioners with a capacity of 90,000 BTU or less		15
7 Playing cards 40		40
8 Votive gilt paper and votive objects		70
II Services		
1 Discotheque, massage parlours and karaoke bars		30
2Casino and reward games, including jackpot, slot and other similar machines		25
3Betting business		25
4Golf business, including sale of membership cards and golf game tickets		10
5Lottery business		15

Value Added Tax

VAT is a sales tax levied on the sale of goods and services in the services, manufacturing, consumption and businesses in Vietnam (except for the cases stipulated in law). The VAT rate is calculated based on the selling price (exclusive of tax). There are three levels of tax rates, depending on the type of goods and services: 0%, 5% and 10%. In general, most goods and services are subject to VAT of 10%.

Business Licence Tax

This is tax on the business capital of business establishments. The tax payment deadline is at the end of the first month of operations (for the new business establishments) and as at 31 January of each calendar year for business establishments already in operations. Business Licence Tax rate (annually) depends on the registered capital as follows:

1. Over Vả D 10 billion	Vả D 3,000,000
2. From Vả D 5 billion to Vả D10 billions	Vả D 2,000,000
3. From Vả D 2 billion to 5 billion	Vả D 1,500,000
4. Less than Vả D 2 billion	Vả D 1,000,000

Export-Import Tax

Export-import Tax is levied on the export or import of goods across the Vietnamese border or domestic goods brought into and out of customs free areas. The tax rate for each item is determined based on the tax rate schedule.

Natural Resouces Tax

ả atural resources tax is levied on organizations and individuals conducting the exploitation of natural resources in Vietnam. ả atural resources tax is determined by the actual natural resources exploited, the unit price and the tax rate stipulated for the specific resources.

Determination of Taxable Income

CIT payable = (Assessable income - Allocation to R&D fund) x CIT rate (R&D fund is Science and Technology Development Fund).

Assessable income equals Taxable income less Exempt income and Losses carried forward in accordance with law. Taxable income equals Turnover less Deductible expenses plus other income items. Generally, to be deductible, the expenses must be related to the activities of production and business of the enterprise and accompanied by legal and complete invoices and source vouchers as required by law.

Tax Losses

Enterprises which suffer losses after tax finalization shall be entitled to carry forward those losses to taxable income of the following years. Losses may be carried forward for a maximum period of five years as from the year following the year in which the loss arose.

Foreign Sourced Income

Vietnamese enterprise which makes an offshore investment and derives income from production and business activities overseas must declare and pay CIT in accordance with the current Law on CIT of Vietnam, including when the enterprise is entitled to a tax reduction or exemption under the law of the foreign country.

Incentives

Specific incentives are provided for high technology fields. Tax Incentives – Following Vietnam's accession to the WTO in January 2007, tax incentives have been significantly revised in line with the country's commitment to the WTO. (i) In accordance with Decree 24/2007/ả D-CP, tax incentives are based on the location of the enterprise. (ii) Export-based incentives accorded to the textile and garment sectors were abolished in 2007, subject to certain exceptions. (iii) Reduced EIT rates of 10% and 20% apply for a 10-15 year period for enterprises set up in encouraged sectors or locations. (iv) Tax exemptions are available for two to four years and a 50% reduction for a further period of two to nine years for eligible taxpayers. Following the end of these periods, enterprises are subject to the standard EIT rate. (v) Where the taxpayer fails to make a profit within three years from the year of revenue generation, the period of tax exemption and reduction will be calculated from the fourth year.

Foreign Tax Relief

If income from an investment project overseas has been subject to CIT (or any other type of tax which is basically similar to CIT) overseas, then when assessing CIT payable in Vietnam, the Vietnamese enterprise shall be entitled to deduct the amount of tax paid overseas or paid on its behalf by the foreign party accepting such investment (including tax payable on interest on shareholding), but the amount of tax deductible must not exceed the amount of tax payable pursuant to the Law on CIT of Vietnam.

Related Party Transactions

The related party transactions are subjected to the transfer pricing rules.

Withholding Taxes

The income from foreign contractors and sub-contractors are taxed at source and tax must be paid to the tax office within 20 business days from the date of signing the contract. Withholding tax is levied on goods and services provided by foreign contractor to generate income in Vietnam. Tax applicable to foreign contractors comprises:

- Value Added Tax
- Corporate Income Tax.

Value Added Tax is levied on any value-add to a product or service, as follows:

1.	Lease of insurance machinery or equipment	50%
2a.	Construction with supply of material	30%
2b.	Construction without supply of material	50%
3.	Manufacturing and other business activities	50%

Corporate Income Tax is calculated by ratio over taxable income based on the following table:

1	Trading: distribution, supply of goods, materials, machinery and equipment, together with the provision of services in Vietnam	1%
2	Lease of machinery and equipment, and insurance	5%
3	Construction	2%
4	Manufacturing, transport and other businesses	2%
5	Lease of aircraft and vessels (including components)	2%
6	Overseas reinsurance	2%
7	Transfer of securities	0.1%
8	Borrowing cost	10%
9	Royalties	10%

Which, may be reduced under a tax treaty, Vietnam has signed tax treaty with 62 countries and territiries.

Personal Income Tax

All residents and non-residents are subject to Personal Income Tax. A resident is liable to pay tax on income sourced in Vietnam as well as on the portion of income from foreign sources (except for non-taxable income, including income from real estate transferred between a husband and wife and blood-relations, scholarships, and overseas remittances). Deductions are available for family considerations for residents, comprising children under 18, unemployed spouses and elderly and unemployed parents. Individuals are responsible for self-declaration and payment of tax.

A non-resident is subject to tax only on income sourced in Vietnam. The applicable Personal Income Tax rates are as follows:

RESIDENT

I. Income from salaries and wages, business and production *(million dong)*

Level	Taxable income/year	Taxable income/ month	Tax rate (%)
1	Up to 60	Up to 5	5
2	From 60 to 120	From 5 to 10	10
3	From 120 to 216	From 10 to 18	15
3	From 216 to 384	From 18 to 32	20
4	From 384 to 624	From 32 to 52	25
5	From 624 to 960	From 52 to 80	30
7	Over 960	Over 80	35
II	**Income from capital investment, copyright and franchise activities**		5
III	**Income from transfer of capital**		20
IV	**Income from transfer of real estate**		25

NON-RESIDENT

I	**Income from business and production**	Tax rate (%)
1	Income from business and production of goods	1
2	Income from business and production of services	5
3	Manufacturing, construction, transport and other activities	2
II	**Salary and wages**	20
III	**Income from capital investment**	5
IV	**Transfer of capital**	0.1
V	**Transfer of real estate**	2
VI	**Copyright and franchise activities**	5

The following table shows the trend of tax rates in Vietnam from 2001 to 2010

	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Corporate Income Tax										
Standard rate	32%	32%	32%	28%	28%	28%	28%	28%	25%	25%
Personal Income Tax										
Employment income of resident	0- 50%	0- 50%	0- 50%	0- 50%	0- 40%	0- 40%	0- 40%	0- 40%	0- 35%	0- 35%

25% for foreign-invested companies and foreign parties to business cooperation contracts (BCCs)

The trend in tax rates in the last ten years clearly indicates that there is a conscious effort by the Vietnamese government to reduce taxes. Moreover, preferential rates apply for entities that have been granted tax incentives.

Environment Protection Tax

This Law takes effect from January 1st, 2012; *Taxable subject:* Gasoline, oil, grease; Coal; Hydrogen-chlorofluorocarbon liquid (HCFC); Taxable-plastic bag; Herbicide which is restricted from use; Pesticide which is restricted from use; Forest product preservative which is restricted from use; Warehouse disinfectant which is restricted from use. When it is necessary to supplement other taxable objects as per period, the ẩ ational Assembly Standing Committee shall consider and regulate. *Taxpayer:* Environmental protection taxpayer is organizations, households and individuals producing, importing goods under taxable subject provided for in Article 3 of this Law.

Non-agricultural land-used tax

The Law on non-agricultural land-used tax was approved by the 12th ẩ ational Assembly and has effected from January 1, 2012. The Law stipulates that non-agricultural land owners have to pay tax to municipal and provincial People's Committees for non-agricultural land use.

Specifically, tax rate of 0.03% will be imposed on land area within law-based limits, 0.07% on the land area which exceeds the limit less than 3 times, and 0.15% on land area which exceeds limits over three times. The tax rates on non-agricultural land used for business and production will be 0.03%, and a rate of 0.15% will be applied for the wrongful purposes used land.

IV. Country-Specific Fiscal Issues

Vietnam is a developing country that has embarked on the path of economic liberalization only recently, starting with its Doi Moi reforms in 1986. In 2007, the country joined the World Trade Organization. Vietnam now boasts one of Southeast Asia's fastest-growing economies, which is driven primarily by tourism and exports, but it also has a serious inflation problem and has struggled to attract more investment in the absence of a transparent rule of law. Poverty rates are now less than 20 per cent, down from almost 60 per cent in the early 1990s. An export-oriented economy, Vietnam saw demand from key export markets decline during the economic slowdown. At the same time, FDI inflows were slowing with tightening global credit conditions.

In response to the economic slowdown, the Government introduced a range of measures to loosen monetary policy and stimulate the economy. The capacity of the Government to deliver a large fiscal stimulus to the economy, however, was limited by a large trade deficit and low foreign exchange reserves.

The government is liberalizing key economic sectors, including financial institutions, Investment and State Owned Enterprise, mainly concentrate on banking system, public investment, State Groups and General Companies rpectively. Major current fiscal and economic issueses are mentioned below.

IV.1 Balance of Payments

Vietnam's current account is in bad shape as it has been posting large current account deficit since 2007. It is forecasted to post a deficit of 5.4% of GDP in 2011, slightly down from the 5.8% deficit posted in 2010. The main reason for the large deficits is the pro-growth policy of the government. The country imports mostly capital goods, which has led to an excessive trade deficit of 7.3% of GDP in 2010. The trade deficit is the main drag on the current account, followed by the income balance as foreign companies repatriate profits and income. The income balance posted a deficit of 4.5% of GDP in 2010. Both the trade and income balance are forecasted to post similar deficits in 2011. The only pillar supporting the current account are remittances, posting large surpluses on the transfer balance, at 7.3% of GDP in 2010 and a forecasted 7.4% in 2011.While FDI inflows have been sufficient in recent years to cover the current account deficit. ẳ ew FDI approvals, which include both entirely new projects and extensions to existing projects) have been disappointing in the first six months of 2011, plunging 48% yoy. FDI inflows are crucial to support the balance of payments if these would fall away Vietnam would need to finance the deficit via debt or donor aid, enhancing its external vulnerability. The SBV did state that the recent tightening of monetary policy has supported capital inflows and somewhat alleviated pressures on the country's FX-markets, but this policy needs to continue throughout the year to ensure substantial improvement.

IV.2 External debt position

Vietnam's external debt position is moderate. External debt is expected to increase to USD 34bn in 2011 from USD 31bn in 2010, but total external debt remains low at 32% of GDP. A comforting factor is that only USD 6.4bn is short-term debt. As external debt is low, the covers offered by the FX-reserves for external debt are sound. The debt service and short-term debt covers are 193% and 242% respectively in 2011. The fact that most of the medium- and long-term debt is owed to official creditors on concessional terms and that Vietnam enjoys huge donor support is also very favourable for Vietnam's external position.

Of more concern is the country's liquidity position, as continued high imports have taken a toll on the stock of FX-reserves. While the SBV has not officially released data on the level of FX-reserves for a while now, the Asian Development Bank has estimated the level stood at USD 10bn at end-2010, which only covers 1-2 months of imports, which is a worrisome level. Any improvement in the coming years hinges on the willingness of the government to shift to a more stabilizing economic policy, which appears unlikely.

IV.3 Economic policy

Vietnam's fiscal position is in bad shape as a result of the government's pro-growth policies. In recent years, the government has been running continuous budget deficits. The budget deficit is forecasted at 4.7% of GDP in 2011. Government revenues are below potential. The tax system has a complicated structure and lacks transparency. Further reform is needed, although the government's bid to modernize the tax system has been somewhat successful in recent years, as it at least satisfied the criteria to join the WTO in 2007. Corruption is deeply embedded and diminishes government revenues. This strain on government finances has traditionally been compensated by charging foreign companies excessive tax rates. Another weakness of government finances is that it is very dependent on volatile oil export revenues. In the period of 2000-2009, oil revenues contributed 22% on average to total government revenues.

Expenditures are set to decline in 2011 as several of the stimulus measures introduced in 2009 to shield the economy from the effects of the global financial crisis will expire. A large concern last year was the default of Vinashin, the shipbuilder, which is 100% owned by the Vietnamese state, failed to meet its debt obligations. The Vietnamese government did provide a soft guarantee (a letter of comfort) but did not bail out Vinashin. While this does not classify as a sovereign default, it does have ramifications for the perception of creditworthiness of the public sector. The financial markets will react by demanding higher interest rates on the international capital markets, implying higher borrowing costs for the Vietnamese government.

The country's central bank, the State Bank of Vietnam (SBV), is tightening monetary policies to bring down inflation. This year, it has already raised the refinance rate by 300bps and the discount rate by 500bps (both now stand at 12%). Inflation was high at 13.9% yoy in March 2011, on the back of high food prices. Although food price inflation is cyclical, food price levels are expected to remain high in 2011. As such, the SBV to continue monetary tightenning throughout the year. Another reason we believe the SBV's tightening stance will continue is to rein in credit growth. The SBV targets credit growth of 20% yoy in 2011, which is still high, but lower than the 23% yoy increase in 2010. Furthermore, it stated to emphasize on reducing banks' loan exposure to non-productive sectors, which is a wise move.

Higher interest rates would also help stabilize the domestic currency, the dong (Vả D), which has been under continuous downward pressure in recent years. The Vả D was devalued several times last year and once again in February 2011. Confidence in the Vả D remains low as the government has failed to stem inflationary pressures, which have eroded purchasing power, increased dollarization levels and even led to the hoarding of gold. Inconsistent policies, for example policymakers recently suggesting the need for lower interest rates before hiking them, further undermine the credibility of the SBV.

As supply disruptions will not significantly affect overall economic growth. A large concern is the banking sector, which is currently less stable than we expected it to be last year. Concerns rose after the default of Vinashin, a 100% government owned shipbuilde. Eventhough the government did provide a soft guarantee (a letter of comfort), it did not honour the agreement. This makes us question the validity of state guarantees to the banking sector. We believe the government is only willing to bail out the larger, systemically important banks and would choose to let smaller banks fail or be taken over by state banks in case of problems.

IV.4 Political and social situation

The political situation is Vietnam is very stable, as the communist state maintains a one party rule by the Communist Party of Vietnam (CPV). With all leadership appointments agreed unanimously, the political outlook appears relatively stable with the transfer of political power expected to be smooth. Economic growth will be a high priority for the CPV. This is because the party believes that by securing economic growth it will be able to satisfy the social and material needs of the population, thereby quelling discontent and demands for greater political and social freedoms. The problem of endemic corruption could further fuel discontent about the uncontested dominance of the CPV.

Relations with China have worsened due to a conflict regarding the disputed Spratley Islands and Paracel Islands (China Occupied in 1974) in the East Sea (South China Sea). This archipelago is an oil and gas rich area that is claimed by several of the adjacent countries. China however, has become increasingly assertive in its claims; stating the archipelago is a core interest for China. Vietnam has reacted with an arms-procurement process. However, despite mutual distrust in political and security relations, a large-scale military conflict is unlikely.

IV.5 Economic structure and growth

The conquest by France of Vietnam meant Vietnam became part of French Indochina in 1887. Although Vietnam declared independence after World War II, the French continued to rule until they were defeated in 1954 by the Ho Chi Minh communist forces. Under the Geneva Accord, Vietnam was split up into the Communist north and the anti-communist south. However, in 1975, the north took control of the south and Vietnam has been under communist rule ever since. The country experienced little economic growth until the “doi moi” (renovation) policy was introduced in 1986. Since, the Vietnamese authorities committed to economic liberalization and enacted structural reforms needed to modernize the economy and to produce more competitive, export-driven industries. This has resulted in a modern economic structure, in which services contribute 38% and agriculture 21% to the overall economy. The economy has modernized and GDP per head has risen. Even so, nominal GDP per head remains low at USD 1,181 in 2010. Low wages have allowed for a competitive export sector and a very open economy, with the total export and import value of goods and services amounting to 160% of GDP. Vietnam’s main export products are textiles, footwear and crude oil. Its main export partners are the three largest economies in the world: US, China and Japan. Vietnam mainly imports machinery for its industrial sector, materials for the textile industry, petroleum and steel. The Vietnamese economy has grown robustly in recently years, averaging 7% annually in the past five years on the back of gross fixed investment and private consumption. For 2011, growth of 6.8% is expected. A shift from the government’s growth- oriented policies towards a more conservative stance, as it attempts to rein in inflation could subdue growth. The effects from the tsunami and nuclear disaster in Japan are minimal.

IV.6 Public debt

By 2010, Vietnam's foreign debt is estimated at 42.2% of GDP and total public debt exceeds 50% of GDP. According to an analysis of the IMF (2010), Vietnam remains at low risk of external debt, but it should be noted that this debt does not include debt of state enterprises without government guarantee. Moreover, the issue here is not only the debt-GDP ratio that the scale and pace of foreign debt and public debt of Vietnam has recently tended to increase. If in 2001, public debt, the person is 144 USD to 600 USD in 2010 up to speed, the average annual increase of about 18%. Public debt increased while large budget deficits and low efficiency of public investment raises concerns about debt sustainability in both the short and long term. This requirement posed by the need to strengthen debt management and oversight of a strong and improving efficiency loans in Vietnam.

IV.7 Economic and corporate reform

Since 2000, Vietnam's Enterprise Law has fostered the creation of over 200,000 registered private domestic enterprises, accounting for around 10 per cent of the economy and a smaller proportion of the labour force. Over time, the Enterprise Law (2005) and Investment Law (2005), which came into effect in 2006, are gradually contributing to an improved business environment and a more 'level playing field' in most economic sectors. The challenge for the Government will be to maintain the pace of economic and corporate reform in the face of pressures arising from the global financial crisis.

In the early 1990s, shortly after Vietnam's economic reform process began, Vietnam started a program to equitise (semi-privatise) its state-owned enterprises (SOEs) as part of an effort to improve the competitiveness of the state corporate sector and maintain the momentum of foreign investment. In late 2007 the Government announced an ambitious plan to extend the equitisation process to major state-owned conglomerates in sectors such as banking, insurance, aviation, cement, steel and textiles, with a target to reduce the number of SOEs to around 550 by 2010. These SOEs would operate in public services, national defence and security and some economic sectors deemed to be of national importance.

To date, however, the equitsation agenda has not reached its target and there are no reliable statistics on the actual number of SOEs equitised. In addition, a number of new SOEs created during the past few years, especially under the umbrella of state-owned conglomerates have not been supervised or reflected in official statistics. The vast majority of SOEs that have been equitised were small and medium-sized enterprises and the state continues to maintain a controlling share in a large number of enterprises following equitisation. The equitisation has not touched parent companies of major state-owned conglomerates. There are technical challenges associated with equitising major SOEs, particularly in assessing assets to prepare for sale. Many observers have noted that the momentum for equitisation may be weakening.

IV.8 Financial sector

In 2006 the Vietnamese Government approved a banking development plan up to 2020. The plan includes moving the State Bank of Vietnam (SBV) towards a modern central bank, with more independence in its monetary and exchange rate policy, and improved supervision capacity over the banking system. This importantly complements the plans to equitise all five state-owned commercial banks, which the SBV currently both regulates and 'owns'. Challenges in this reform process include: addressing tensions arising from the SBV's dual regulatory and ownership role; resolving the legacy of directed lending to SOEs, and consequential bad loans; strengthening the banking system in such key areas as assessment of credit risk; and developing a greater understanding of international banking practices and products.

The stock market witnessed spectacular development during 2006 and most of 2007, with capitalisation of shares reaching the equivalent of over 40 per cent of GDP by December 2007. This growth was driven by more liberal foreign ownership caps, a strong increase in the number and size of listed entities and strong interest from domestic and foreign investors (Source: State Securities Commission). But the share market began to fall dramatically in October 2007 and in early 2009 hit its lowest point since January 2006. While it has risen since then, it has not returned to previous growth rates.

In 2010, securities markets moved within a narrow band. In comparision with 2009, securities markets experienced a slump in both indexes and liquidity: as compared to the beginning of the year, Vẩ -Index slightly decreased by 2% to the point of 484.66. It peaked at 549.51 on May 6th and dropped to the trough point of 423.89 on August 25. Hẩ X-Index fell by 32.1% as compared to end-2009 to 114.24. Average transaction value per session in 2010 was Vẩ D 2,510bn, a decline of 10.14% as compared to Vẩ D 2,790bn/session in 2009. As of December 31st, 2010, market capitalization stood at Vẩ D 660tn, roughly equivalent to 33.4% of GDP. The number of accounts held at the Securities Depository totaled 879,000, an increase of 11% as compared to end-2009.

IV.9 Business operating environment

The Vietnamese Government is gradually loosening foreign investment limits, for example, by lifting the foreign ownership limit in listed companies to 49 per cent, and in unlisted companies to 40 per cent. The legal system is also undergoing major change to better align commercial statutes with international norms. The implementation of WTO commitments is gradually contributing to a better operating environment over the medium and longer-term as tariffs are cut, investment restrictions loosened still further, and a more transparent and predictable commercial legal and administrative system comes into place. This process will take some years to begin to show real benefits.

Vietnam has many economic strengs, not least the skills and entrepreneurial bent of its youthful workforce and its location in the most dynamic part of the globe. However, Vietnam faces many challenges in maintaining its growth and development trajectory over the longer term.

Vietnam is a member of a growing network of free trade agreements, both individually and as part of ASEAẩ . Vietnam is participating in Trans-Pacific Partnership Agreement (TPP) negotiations with eight other APEC economies (Australia, Brunei, Chile, Malaysia, ẩ ew Zealand, Singapore, Peru and the US).

IV.10 Vietnam's trade policy

Vietnam is committed to the long-term objective of global economic integration through participation in APEC, the ASEAẩ Free Trade Area, the TPP and the WTO. Vietnam successfully hosted APEC in 2006.

Vietnam became a member of the WTO on 11 January 2007 and is making progress in implementing its WTO accession commitments, including: adopting implementing legislation; improving transparency of trade regulations; and clarifying consistency of treatment for private companies and state-owned enterprises. While such changes will no doubt present challenges to Vietnam in the short term, WTO membership is expected to be accompanied by significant expansion in trading opportunities.

V. Conclusion: Where We Stand and Where We Go?

Transtion to market economy in Vietnam calls for accommodating changes in policies and institution for providing public services. The evolution of fiscal arrangement, analyzes recent developments and identifies emerging challenges. Despite recent changes, the issues of incentives, accountability, autonomy and flexibility in decentralized provision of public services are yet to be addressed satisfactorily. The implementation of the new budget law provides a legal framework. It also clarifies the roles of different agencies and levels of government. The stability in arrangements is expected to bring a measure of certainty. On the fiip side, the budget determination process is predominantly "top-down" and local governments still do not have powers to raise revenues. Further, there are wide variations in the administrative capacity and building capacity poses another challenge. It is also necessary to introduce a simple and transparent formula based system of transfers to offset revenue and cost disabilities.

Vietnam joined the World Trade Organisation in January 2007 and transformed from a heavily indebted country to a low-middle-income one in 2010 (ả ominal income anum $1181). After opening up the country’s economy to foreign investors, its GDP grew by 7.3 per cent on average from 2001 to 2010. While Vietnam survived the global slowdown of 2008-09 quite well relative to its neighbours with GDP growing by 6.8 per cent in 2010, but at the expense of macro-economic stability. External imbalances are very high, as the current account posts large deficits and the country’s liquidity position is in a dismal state. FX-reserves cover only 1-2 months of imports. While the central bank has commenced a monetary tightening cycle, inflation is still too high, which has caused investors to question its management of the economy. This has eroded confidence the domestic currency, which was devalued several times in the past year. The current account deficit is matched by a fiscal deficit, and these twin deficits are not expected to be solved in the next years. The political environment is stable as the communist regime dictates a one-party political system.

Vietnam's main challenge is to increase competitiveness beyond cheap labour as its wages will eventually push so high that it will lose its competitiveness to other countries. Investment is required in skills development, technology and related industries to allow it to move up the value chain.

Sustaining economic growth in Vietnam in the medium and longer term context will depend upon, inter alia, the ability of the govemment to evolve conductive institutional framework including fiscal and administrative structures for delivering equitable and efficient levels of public services. Further, as the economy makes transition to the market economy, demand for evolving a rational system of intergovemmental relationships to provide accommodating levels public services to varied preferences and requirements of different regions will increase. The recent reform measures introduced by the govemment replect the importance it attaches to the issue of providing a proper institutional frame work for delivering public services. However, there are still some serious shortcomings and potential perverse incentives requiring reform.

An important shortcoming in the fiscal arrangements is the system of determining expenditure and revenue allocations through negotiations, lt is important to move over to a formula based system in the medium term to allocate resources according to the requirement of different regions and localities to impart faimess and oblectivity to the system. Tax sharing an d cash transfers would have to be designed to offset revenue and cost disabilities of poorer localities. At the same time, it is necessary to ensure that the transfer formula is kept simple. Developing a reliable information system and systematic compilation of not only revenue and expenditure data but also of important economic indicators like GDP, its sectoral composition, demographic structure of population at both national and provincial levels is critical to evolving a formula based transfer system.

Keeping the tax assignment unchanged for around 5 years in the budget law imparts a degree of certainty and helps the local govemments to plan their activities. However, the arrangement places the poorer provinces getting cash transfers at a disadvantage unless it is indexed fully to neutralize increase in prices.

The Tax Reform Strategy in 2011-2020 focuses on the general targets, including: building tax system to be synchronous, comprehensive, effective and efficient, in consistence with socialist oriented market economic institutions; with a resonable encouragement to facilitate domestic production; and to be one effective and eficient instrument for macro-economic management. Building a modern, effective and efficient Vietnam Taxation System; management of tax, fees and charges being consistent, transparent, simple, easily understood, easily implemented based on three fundamentals: transparent institutions, simple administrative procedures in line with international practice; quality human resource, application of modern information technology, to achieve sustain revenue growth for fulfillment of fiscal gap.

Another important area where reforms are necessary is in respect of designing an intergovemmental transfer system, which is simple, transparent and equitable. It is necessary to replace the prevailing negotiate system with formula base system and the formula should be designed to offset revenue and cost disabilities. This is an important area and Vietnam can well leam from the experience of a number of countries in designing an appropriate transfer system, which will fulfil the objectives of intergovemmental transfers without involving disincentives on fiscal management**.**

The Vietnamese Government launched a draft economic development and social vision in 2011-2015 and 2020. *Period 2011 -2015:* The objective of this phase is to improve quality, efficiency, competitiveness and active international integration, create powerful change in economic restructuring and boosting the process of industrialization and modernization. Improving people's lives coupled with poverty, creating jobs, ensuring social security.

- Economy: GDP in this period an average increase of 7-8% / year growth rate of total exports to 12% / year, the proportion of investment in development for 5 years from 2011 to 2015 of about 40-41 % of GDP;Increasing investment and development services for production and consumption of agricultural products. GDP in 2015 reached about $ 200 billion, per capita income of about $ 2,100, 1.7 times in 2010.
- Socially: Key targets to 2015 is the ratio of trained laborers to 55%, with a population of 93 million people, the poverty rate according to the new reduced 2-3% / year, the percentage urban unemployment of about 4%.

Vision 2020: By 2020, Vietnam basically become an industrialized country at average level. Economic growth is mainly based on improving productivity and quality; the processing industry and capital-intensive technology will gradually replace the mining industry on natural resources and cheap labor-intensive.

The specific objectives:

- Since 2015, essentially balanced budgets and balance of payments current account.
- By 2020, the proportion of value added / output of at least 50% the proportion of value added / output processing industry and at least 40% contribution of total factor productivity into increased about 35-45% growth.

Vietnam will focus on reforms in areas that are hindering growth. Reforms of public investment, state-owned enterprises, and the financial system will be the government’s focus. Vietnam will also target human capital development, in particular education reforms to supply students with skills that are demanded by firms. Reforms will also take place to improve Vietnam’s investment climate. Some projects are already under way such as Project 30, which aims to reduce bureaucratic red tape by 30 per cent. Vietnam has favourable demographics with a population that is expected to grow from around 90 million currently to 110 million by 2035 with around half the population under 35. This will allow Vietnam to benefit from the energy and entrepreneurial spirit of its youth as well as strong domestic demand.

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