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### **TOP NEWS**

**Lawyer in Vietnam Oliver Massmann SOLAR ROOFTOP PROJECT KEY DRIVERS**

**1. What are the key factors that are driving and restraining the ROOFTOP SOLAR POWER projects market in Vietnam?**

In our view, following factors influence investors' decision in investing in Rooftop Solar Power (RSP) projects in Vietnam:

- Low FIT: the proposed draft law suggests that 'when electricity generated is higher than electricity consumed, the difference shall be purchased by the purchaser at the connection point, with the electricity tariff is 3150 VND/kWh (excluding value added tax, equivalent of 15 USDcents/kWh). Electricity tariff shall be adjusted according to the fluctuations of the exchange rate between VND/USD'.
- Lack of information on solar power: As a RSP project investment costs are relatively high, investors seek necessary information to support their investment decision. Nevertheless, there is no complete survey or complete source of information on solar energy that investors may access.
- Legal framework: The legal framework for solar power plants are under development. The MOIT is now working on a new draft decree to deal with difficulties that investors may face including application for tax incentives, import of equipment, convenient funding plans, etc.
- Other considerations such as investment costs, technology, etc.

## **2. Questions regarding cumulative installed capacity:**

- i. As of December 2013, the cumulative installed capacity for solar PV was 4 MW. What is your estimate of cumulative installed capacity till end of 2015?

The Vietnamese solar PV market is still very small with only around 4.5 MWp installed capacity at the end of 2014. Vietnam is expected to increase to around 7 MWp until 2020 and 1,500 MWp until 2030 with a respective share in renewable power generation capacity of 1.2% (by 2020) and 12.8% (by 2030). I do not have the exact number of cumulative installed capacity in 2015 but I estimate that it should have reached 5MWp.

- ii. In your opinion, rooftop solar power installation accounted for how many percent of total solar PV installations? (2%?, 5%?)

We do not have access to any official source of latest information on specific numbers of RSP installations and total solar PV installations. Nevertheless, as noted in our answer to your Question 3 above, Vietnam has roughly 15,000 small scale PV off-grid applications, by the end of 2014. Based on such records, the rough percentage of

installations of rooftop solar power installations would be 40% of the total solar PV installations (i.e. 6,000 RSP installations for solar home systems and small size PV systems for public use vs. 9,000 ground mounted PV installations for BTS, telecommunication use, public lightening systems and solar signal lights).

- iii. What is the expected growth rate from 2016-2020? Is the growth rate of the industry moving in the right direction to achieve the proposed target? (if any?)

It is expected to achieve around 7 MWp until 2020 (growth rate 40% compared to 2016). Yes, the growth rate is moving in the right direction.

**3. We are trying to identify the key end-users for ROOFTOP SOLAR POWER systems. What is the percentage (approx.) installed capacity among each of them: Residential, Commercial (Buildings) and Others (Car parking facilities, etc.**

We do not have specific figures of RSP system's installed capacity but according to a recent report of solar power in general, by the end of 2014, roughly 15,000 small scale PV off-grid applications with a total capacity of 3,600 kWp, the vast majority being <200 Wp of size only a few with more than 1kWp, were installed in Viet Nam. Of those, around 5,000 are solar home systems (SHS) with a size of 20-200Wp, 2,100 are telecommunication and BTS systems (300-4,000 Wp) and more than 1,000 are small size PV systems for public use such as in community centers, schools or medical centers (up to 3,000 Wp), which are deployed in rural and mountainous areas or on islands. Furthermore, around 5,000 solar signal lights (20-100 Wp) and 2,000 public lighting systems (50-250 Wp) were installed alongside streets and highways throughout the country.

**4. Questions regarding cost:**

- i. What is the installation cost involved per kWp among different end-user segments in your country? (Residential, Commercial, Community) How is it likely to change in the future?

Residential/Community: \$2,500 to 3,000 per kWp

Commercial: \$4,500 per kWp

The installation costs can be reduced in future thank to increasing use of locally made products in solar power system and commitments to support including investment costs of the Government of Vietnam.

- ii. What is the percentage break-up of installation costs among the various components in a ROOFTOP SOLAR POWER system? (Module, Charge controller, battery, inverter etc.)

Let take an example of a PV at the capacity of 1KWp/2KVA, the percentage of components costs exclusive of costs paid to installation of works by workers will be as follows:

| Components  | Unit | Price (USD)  |
|-------------|------|--------------|
| Solar Panel | 12   | 1,636        |
| Battery     | 6    | 819          |
| Inverter    | 1    | 410          |
| Controller  | 2    | 367          |
|             |      | <b>3,232</b> |

**5. What kind of solar panels are largely in demand for ROOFTOP SOLAR POWER systems (Monocrystalline/polycrystalline panels, thin film technologies)? Why? What is the average price range (\$/Watt p) for these solar panels in Vietnam?**

Monocrystalline/polycrystalline panels are popular in Vietnam as off-grid installed capacity in Viet Nam is dominated by smaller applications such as Solar Home Systems (SHS). Depending the quality and the brand name, the price is different. The average price is 3-5USD/Watt p.

**6. How do you hear about new projects and could you please provide me with more examples of key recent projects? How these projects are funded? (banks, financial institutions, government, self-funded)**

Basic information of big projects is usually published on the internet. Recently, Vietnam is going to build the first solar power project in Quang Nam with the installed capacity of 120 MW per year, invested by a domestic company Indochina Energy Industry Company Limited.

**7. How many system integrators or installers are involved in installing ROOFTOP SOLAR POWER systems? Are there more local players or MNCs? What is the role of system integrator in such contracts? Who are the top 5 system integrators in Vietnam?**

We assume that not more than 20 companies, most of them are local and produces components in solar cells/panels and related electronic devices (e.g. – controllers), act as integrators and/or installers. Major players including Hung Gia (Installation), Vtechco (Installation), Vu Phong (Installation), Nam Thai Ha JSC (Solar Materials Incorporated), Red Sun Solar (Solar Cells), Viet Linh AST (solar system), NICS Integration System (Installation).

We do not have specific market shares figures of biggest players in the market but are able to involve a professional market research company to do this job on your behalf.

**8. Who are the top 5 competitors/ which brands of solar modules are highly popular in the ROOFTOP SOLAR POWER market?**

The rooftop solar power market in Vietnam is still developing and there are not so many competitors yet. The popular names of Rooftop Solar Power Market are Red sun solar, Viet Vmicro JS, Panasonic, Megasun, IREX.

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Please do not hesitate to contact Oliver Massmann under [omassmann@duanemorris.com](mailto:omassmann@duanemorris.com) if you have any questions or want to know more details on the above. Oliver Massmann is the General Director of Duane Morris Vietnam LLC.

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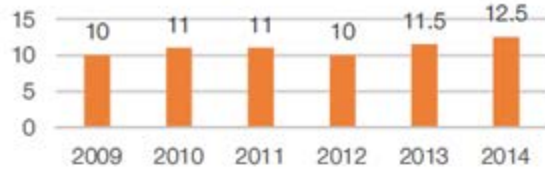
## **The Rise of Vietnam's Competitiveness**

*BDG Vietnam*

**Did you know that Vietnam is becoming one of the major international hubs for manufacturing, while is already one of the biggest global exporters of mobile phones? Have you heard that the country was one of the world's poorest only 30 years ago, and is now considered more competitive than 6 countries of the European Union?**

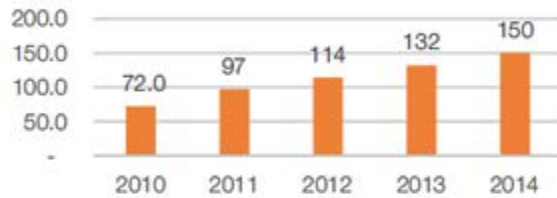
Vietnam has a very turbulent history, especially related to fighting off domination of outside powers. As the hostile period ended and Vietnam entered the era of peace during the last 3-4 decades, the country started working on its future. One of the major goals set by the government was to enhance and liberalize the economy. The first step in that direction was the launch of political and economic reforms, better known as “Doi Moi”, in 1986. Looking from today's perspective, the reforms were largely successful, as Vietnam transformed from being one of the poorest countries in the world with per capita income as low as 100 USD, to current lower middle status, with per capita income of more than 2,000 USD.

Image 1: FDI implemented capital, in billions of USD



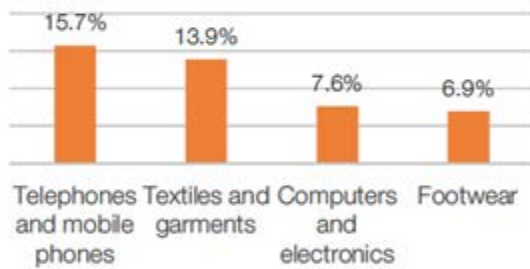
Source: General Statistics Office of Vietnam

Image 2: Total exports, in billions of USD



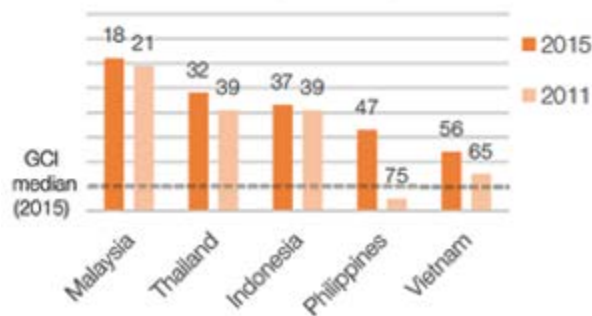
Source: General Statistics Office of Vietnam

Image 3: Vietnam's top 4 export sectors (2014)



Source: The Economist Intelligence Unit

Image 4: GCI - Developing ASEAN (2011-2015)



Source: World Economic Forum

How it all happened?

The Doi Moi reforms were implemented gradually. The first main step was liberalization of agriculture, which enabled farmers to trade their produce on the market. This step ultimately increased the sector's overall productivity.

The second step followed in the beginning of 1990s, when non-agricultural sector liberalization process commenced. This action encouraged development of the private sector, and further boosted acceptance of market-based economy. Furthermore, Vietnam opened its borders to the world by initiating reforms that eased international trade and FDI.

As the Doi Moi reforms were implemented, three other main drivers of change were influencing economic growth over the last two decades, namely:

- Adding more people to the workforce (approximately 1 million per year);
- Urbanization, which led to productivity gains as people switched agriculture for urban jobs;
- Improvements in efficiency within different sectors, mainly influenced by technology and management practices brought in by foreign enterprises.

Contemporary Vietnam: moving towards the higher value-added industries

Today, a very young population (65% of the population is younger than 40) of 90 million Vietnamese is seeing a fast development of their homeland. A full member of organizations such as the World Trade Organization (WTO) and the Association of Southeast Asian Nations (ASEAN), Vietnam experiences high GDP growth rates that averaged 6.4% per year since 2000. In 2015, the country grew at a rate of 6.7%.

Furthermore, Foreign Direct Investment (FDI) inflow is constantly strong. Since 2009, the implemented investment capital was not lower than at least 10 billion USD annually.

It is important to note that investment in manufacturing is especially robust. Analyzing the data provided by the General Statistics Office of Vietnam, it can be seen that between 2009 and 2014 total investment inflows (by both public and private sector, domestic and foreign) in manufacturing grew at an average annual pace of 20%. In 2014, the total registered investment capital for manufacturing industry was close to 13 billion USD, higher than any other sector.

Finally, exports are constantly rising over the years, and are the major building block of the country's GDP.

The major export industries include higher value-added ones, such as mobile phones and computers and electronics, as well as more traditional, namely garments and footwear. It can be seen that in 2015, exports from the higher value-added group grew faster (average 33%) compared to the traditional group's export expansion (average 12%). Therefore, it can be argued that Vietnam is seeing a new trend where higher value-adding manufacturing is

increasing its importance. This is driven by international leaders such as Samsung, Intel and LG, who are strongly investing in manufacturing facilities across Vietnam.

### Competitive outlook

The report by the World Economic Forum (WEF) argues that competitiveness, which is understood as higher productivity, presents a key driver of growth and resilience. This report analyzes countries' competitiveness based on 3 main groups of factors:

- Basic requirements
- Efficiency enhancers
- Innovation sophistication

Southeast Asia is showcasing its dynamism despite the global economy's slow development. Vietnam, along with Malaysia, Thailand, Indonesia and the Philippines, was steadily growing on the Global Competitiveness Index (GCI) list during the last five years, with all five countries ranking in the top half of the list (Image 4)

### Competitive Vietnam?

Progressing for the third year in a row, Vietnam reached the 56th position in 2015 on the GCI list, a jump of 12 positions compared to 2014. This impressive result presents the second highest increase among the countries placed on the top half of the GCI list, with India being the only country with a better result (jump of 16 positions). This growth can be prescribed to Vietnam developing most of its competitiveness factors, with especially strong results in infrastructure development and shrinking inflation, both belonging to the basic requirements group.

What is remarkable to see is that Vietnam tops 6 European Union countries on the GCI list. This result is even more notable knowing that 4 of them, namely Slovenia, Cyprus, Slovakia and Greece are regarded as advanced global economies, and have the GDP per capita of at least 17,700 USD, eight times more than Vietnam!

On the other hand, Vietnam had some disappointing results related to the efficiency enhancers group. The quality of higher education and training, technological readiness, financial market development and business sophistication were all ranked higher in other countries in the region such as Thailand, Indonesia and the Philippines. These factors, if not approached accordingly, can hamper future growth of country's competitiveness.

### The intimate relation: trade and competitiveness

There is no country that successfully managed to develop itself without opening its economy to international trade, investments and the movement of people. This three-fold integration influences the productivity and innovation of local enterprises due to stronger international competition, coupled with the pressure on government to devise more businessfriendly policies.

The Vietnamese government understood the importance of opening its borders to trade and investments, and has worked on this topic for around two decades. Subsequently, Vietnam became a member of ASEAN in 1995, followed by signing the bilateral trade agreement with the US in 2000 and joining the WTO in 2007. In 2015, the country agreed to participate in three Free Trade Agreements (FTAs) with major global economies, namely:

- South Korea – Vietnam FTA
- EU – Vietnam FTA
- Trans Pacific Partnership

Furthermore, trade and competitiveness are essential components of Global Value Chains (GVCs), which are the key drivers of employment, productivity and growth in international trade. Production stages are nowadays spread across many factories and countries – a new paradigm compared to previous times. Developing countries can industrialize faster and more effectively by specializing in certain tasks and occupying niches of GVCs. This promise presents a great opportunity for all ASEAN countries, which are through the ASEAN Economic Community (AEC) already abolishing intra-regional trade tariffs. The AEC can therefore pave the road for ASEAN countries to become more important players in GVCs by working closely and performing specialized tasks based on each country's unique capabilities.

What all of this means for Vietnam

Data shows that Vietnam is taking a confident approach to further develop its economy and strengthen its overall competitive position.

- The rise of FDI and exports is forecasted to continue, especially due to the new FTAs that Vietnam agreed to participate in. FTAs will also put pressure on policy creators to develop a more business-friendly environment.
- The stable GDP growth is translated into the evolvement of a middle class, which significantly increase the demand for domestic and foreign products in the upcoming years. On the other hand, apart from the overwhelmingly positive trends, there are challenges that Vietnam has to tackle in order to continue its economic momentum, and to become a more efficiency-driven economy:

- Vietnam has to improve the quality of its higher education and training, as these two areas are the key factors for building competitiveness in the long run. Furthermore, with better education and training, employee productivity and technological readiness will also be positively affected.
- In the short to medium term, the country will have to improve its financial system. Here, the consolidation of the banking sector is needed, due to existence of too many banks in the market, as well as too many non-performing loans. Also, the interrelation between state-owned enterprises and the banking system will have to be reduced.

#### BDG Insights

Vietnam is on its way to become one of the major manufacturing hubs of Southeast Asia due to its strategic location, number of signed FTAs, low costs and highly motivated labor. This is especially true for more sophisticated products such as electronics manufacturing, showcasing Vietnam's readiness to climb the value-added ladder.

Foreign investors, and particularly ones coming from Asia, have been proactively responding to this positive trend, which led to the rise of FDI. Consequently, competition for favorable manufacturing locations and qualified employees is increasing between foreign investors. This means that comprehensive knowledge of the country, its culture and its different locations with all advantages and disadvantages for different industries is required to make the right investment decision.

We at BDG are driven by the passion for Vietnam, and are devoted to help the country further develop its competitiveness. If you wish to join the bustling manufacturing sector, or have Vietnam in your strategic scope, we would be happy to help you through your new exciting journey!

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## FINANCE

### **SBV offers T-bills worth \$267.7m**

*Bizhub*

The State Bank of Vietnam (SBV) launched two sets of treasury bills worth VND6 trillion (US\$267.7 million) on February 23.

The T-bills are government bonds issued by the finance ministry with terms of less than one year to assist in financing of the state budget, and are an important tool for the central bank to operate monetary policies.

The SBV said the bidding on the bills would be combined with competitive and non-competitive interest rates, with the bills with non-competitive interest rates not exceeding 30 per cent of the total bid volume.

The central bank plans to offer two types of bills in two sessions on February 23.

Accordingly, the first session will have bills worth VND3 trillion, with maturities of 26 weeks. Payment must be completed within the day, while the due date is August 23, 2016. The second session will see the issue of bills worth VND3 trillion with maturities of 39 weeks. Payment must be completed within the day, with November 22, 2016 being the due date.

The treasury under the finance ministry has issued VND20 trillion in T-bills in eight sessions so far this year. It has also offloaded government bonds worth nearly VND21.3 trillion so far this year through the Hanoi Stock Exchange (HNX), the bond auction organiser.

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## **Many businesses ask to open room for foreign investors**

*BizLive*

Listed businesses have consecutively asked to open room in recent time. Does this move create a new price increase wave for shares allowed or will be loosened room?

Decree No. 60/2015/ND-CP on the amendment and supplementation of Decree No. 58/2012/ND-CP entered into force since September 1, 2015. Accordingly, if public companies are not special cases, then foreign investors can fully own 100 percent stake if the charter has no limits.

However, not until February of this year that many listed businesses officially announced the room loosening. Most recently, Vinh Hoan JSC (VHC) loosened room to 100 percent since February 21. Earlier, Vietnam Everpia JSC (EVE) officially widened room to 100 percent since February 3.

Currently, some stocks are also having certain signs to prepare for the room loosening process.

At the 2015 AGM, shareholders of Hoang Huy Investment Services JSC (HHS) – a business that specialises in truck business – agreed to loosen room to 100 percent.

Vietnam Dairy Products JSC (Vinamilk) is hastily collecting opinions in writing about the reduction of registered business lines. As per SSI Securities Company in a recent newsletter, the main purpose of this is to facilitate the room loosening in the near future.

Thus, there is an emerging trend to ask for room loosening of listed businesses in the recent short period and it is highly likely that, more businesses will ask for opinions from management units in the near future.

In this regard, Nguyen Son, Head of Market Development under the State Securities Commission (SSC) said, during this year's annual general meeting (AGM), there will have many listed companies consulting shareholders about the relaxation of room above the current 49 percent and then reporting to the SSC to perform the room loosening.

However, Son also noted, for 267 conditional business lines as stipulated by the Law on Investment, the Ministry of Planning and Investment is coordinating with relevant

ministries and agencies to review the portfolio and report to the prime minister for consideration in the near future.

Therefore, cases like VNM will only be in the preparation phase before having specific provisions from two ministries.

\*Are there many investment opportunities?

After having room loosened since February 3, EVE stocks rose for seven consecutive sessions from 25,600 dong/share to 30,000 dong/share and sometimes reached more than 35,000 dong per share in the trading session on February 22.

Along with that is the unexpected increase in transaction volume along with net buying sessions of foreign investors.

Thus, EVE can completely be considered as a short-term investment opportunity with significant profit if purchasing before February 3.

In a nearly similar development, MBB shares also had a pretty good rally. Though room is just loosened by 10 percent to 20 percent, the price of MBB has now reached 15,500 dong per share.

If these scenarios are repeated, the VHC, HHS, VNM-code shares can entirely surge.

However, investors still need to be aware when making decisions because not all shares will react positively right after opening room to 100 percent.

In fact, as soon as Decree 60 took effect on September 1, SSI fell after the increase that took place earlier. After five months, compared with the price area of 25,000 dong per share, SSI's market price has not yet recovered.

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## ECONOMY

### **Will Vietnam's GDP per capital reach \$22,000 in 2035?**

*Dan Tri*

On February 23, the World Bank (WB) officially released the report namely "Vietnam 2035: Towards Prosperity, Creativity, Equity and Democracy" with the contribution of dozens of leading economic experts at home and abroad. This is a joint initiative of Vietnamese government and the World Bank approved by prime minister Nguyen Tan Dung and World Bank Chair Jim Yong Kim in July 2014.

Accordingly, in this elaborate report with 130 pages in thick, experts said that with the GDP per capita growth target at seven percent per year, Vietnam has the opportunity to become a high average income country in 2035 like Malaysia now and South Korea in the middle of the first decade of the 21st century.

But this goal is very ambitious because it goes beyond Vietnam's previous growth rate and only few countries in the world can achieve. Earlier, at the beginning of the 19th century, Vietnam used to be the economy that had much larger scale compared to Thailand, Malaysia, or the Philippines. So, the desire to regain its position in the community of nations is very huge.

The target set for 2035 is GDP per capita reaches minimum \$18,000 (following purchasing power parity (PPP) in US dollars in 2011), roughly equal to that of Malaysia in 2010.

As per the analysis of experts, with the GDP per capita at about \$5,370 (following PPP in US dollars in 2011) in 2014, in the next 20 years, the growth rate of GDP per capita must touch a minimum of six percent per year to hit the milestone of \$18,000.

This growth rate is much higher than the average growth rate per capita of 5.5 percent/year in the period of 1990-2014 and much higher than the growth rate of 3.8 percent per year of middle-income countries during the same period.

With lower, more feasible growth rate (but still ambitious) at five percent per year (Vietnam's average annual growth rate over the past 10 years), GDP per capita will arrive at \$15,000 in 2035, bringing Vietnam to be at the same level with Brazil in 2014, and reach \$18,000 in 2040.

With the growth roadmap of more than seven percent per year (growth indicator following Vietnam's aspirations), GDP per capita will get to \$22,200 roughly equivalent to South Korea's income in 2002 or Malaysia's income in 2013. That higher growth rate would help Vietnam catch up with Indonesia and the Philippines.

The report noted, the reform roadmap over the past 30 years gained much success. The country's development aspiration in the next 20 years is very great, but challenges that need to overcome are also enormous. Experts recommended that Vietnam should carry out six key changes to become a high average income economy.

Specifically, first is to modernise the economy while enhancing the competitiveness of the private sector. Second is to develop innovation capacity, taking the private sector as the centre. Third is to improve the efficiency of the urbanisation process, strengthening the connection among cities and vicinities. Fourth is the sustainable development of the environment and enhancement of the ability to respond to climate change. Fifth is to ensure social equity and inclusion for disadvantaged groups, along with the development of middle-class society. Sixth is to build a modern law-governed state with a full, integrated market economy, and a democratic society that develops at a high level.

The reform programme attached to these six changes is represented in three main pillars: economic prosperity going along with environmental sustainability; justice and social inclusion; capacity and accountability of the State.

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## **Domestic exporters urged to restructure to utilise TPP deal**

VNS

Vietnamese exporters should restructure their production to improve profit and enjoy preferential of the Trans-Pacific Partnership Agreement (TPP), Tran Tuan Anh, deputy minister of Industry and Trade said.

Anh said agro-forestry and fishery sector has strengthened and has been one of Viet Nam's key export products.

However, the products would lose their strengths in the middle- and long-term if businesses do not restructure production, thus bringing in higher added value, he said.

"This was the reason that Viet Nam has issued the export strategy by 2020 with a vision to 2025 to take advantage of international integration," he added.

The wood sector has been considered one of the key export staples with an average turnover of US\$6 billion.

However, domestic wood exporters have focussed on products of sawdust, wood plank, ply wood, and fibreboard, in addition to furniture. Apart from furniture, the remaining products have been exported to South Korea, Malaysia, Taiwan and Japan as input materials for production of paper, medium fibreboard and interior furniture. These input materials will not be given tax reduction in the TPP.

Nguyen Tuan Viet, general director of Vietgo, one of the companies specialising in import-export consultancy, said the various sectors in the country would have to change their structure as foreign firms with big capital and modern technologies would pour their investment into Viet Nam to enjoy tax preferential under the TPP.

"There will be a wave of businesses from China and Sweden, the leading wood exporters in the world, to invest in furniture production in Viet Nam," Viet said.

Nguyen Ton Quyen, chairman of the Timber and Forest Product Association of Viet Nam (VIFORES) said several wood producers have to strive to change their technology to produce products with higher quality and added value.

"This is one of the critical solutions needed to take advantage of integration," Quyen said.

In addition, several agricultural products such as coffee, dragon fruit and lychee would be hard to ship in big amounts to the big markets of the US and Japan which have strict food requirements. Viet Nam would benefit most from the countries as the TPP comes into effect.

Being one of the key export products, the garment and textile sector has witnessed difficulties as most of the producers have been small- and medium-sized enterprises. With strict regulations on the certificate of origin, garment and textile firms would not enjoy a tax preferential if they still rely on imported materials.

Vietgo's CEO said they received five contracts from China in December to seek cotton and down and feather for jacket production.

"This has been a vital trend as the TPP will take effect soon. If local businesses do not change, they will become employees in their own country," he said.

He recommended that Vietnamese firms should invest in design, and material production to manufacture high quality products that penetrate demanding markets such as the US, Canada and Japan.

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## **INVESTMENT**

### **2016 may trump last year's FDI record**

*VIR*

Early promising signs are fanning hopes for the reiteration in 2016 of last year's record-breaking level of disbursed foreign direct investment, which stood at \$14.5 billion.

The latest statistics from the Ministry of Planning and Investment's Foreign Investment Agency show that January 2016 saw a 23 per cent jump on-year in disbursed foreign direct investment (FDI) volumes, to \$800 million.

In cities and provinces across the country, a slew of FDI projects are being launched or are reporting an accelerated pace of construction. For instance, in late January, Schneider Electric, a global specialist in energy management and automation, began construction on the first phase of its new plant in Ho Chi Minh City's Saigon Hi-Tech Park (SHTP). The company is contemplating turning the \$45 million plant into one of its major manufacturing bases in the Asia-Pacific region. The plant is slated to start production later this year, meaning that its projected investment capital is likely to be realised during this year. The developers of Singapore's \$110 million apparel-making facility in the northern province of Bac Ninh, and South Korea's \$100 million audio device production facility in the northern province of Bac Giang also plan to expedite their development to satisfy growing market demands.

Other sizable FDI projects are expected to be kick-started this year, including the \$4 billion South Hoi An resort complex in the central province of Quang Nam, and the \$3.2 billion Vung Ro oil refinery in the central province of Phu Yen.

In addition, the ramping up of investment in existing projects run by South Korean tech giant Samsung, such as Samsung's hi-tech complex in Ho Chi Minh City, which has just doubled its investment to \$2 billion, and Samsung Display in Bac Ninh, which quadrupled its investment to \$4 billion in August 2015, is expected to contribute a remarkable share to disbursed FDI sum in 2016.

2015's FDI disbursement record was attributed to the execution of a raft of large-scale projects during the year, most notably the \$10.5 billion Taiwan-backed Formosa Ha Tinh

iron and steel complex, and the Samsung Electronics Vietnam Thai Nguyen hi-tech complex (SEVT) project.

Formosa increased its construction and equipment imports last year to be able to roll out the first batch of hot-rolled coil steel on December 25, 2015, marking the start of operation for Vietnam's largest FDI project to date. Previous to this, Vietnam had to import all of its hot-rolled coil steel to supply domestic production needs.

Meanwhile, Samsung, after pouring additional \$3 billion into its hi-tech manufacturing complex in Thai Nguyen in late November 2014, quickly built new workshops and imported equipment to begin production of its metal-frame smartphones in Vietnam in 2015's first quarter.

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## **Japanese enterprises keen on investing in Vietnam**

VNA

Japanese enterprises wish to expand their investment cooperation with Vietnam as the country continues to enjoy strong growth, especially after the recent signing of a number of trade deals.

The statement was made by Kishimoto Yoshio, director general of Japan's Kyushu region's Bureau of Economy, Trade and Industry, who led a delegation of 30 Japanese businesses to visit Hiep Phuoc Industrial Park in HCM City on February 22.

At the reception for the delegation, head of the HCM City Export Processing and Industrial Zones Authority (Hepza) Vu Van Hoa said 17 industrial parks in the city have so far attracted about 1,300 projects with total investment capital of 9 billion USD.

Of the figure, 559 projects worth 5.4 billion USD are sourced from Foreign Direct Investment (FDI).

Japan is the largest investor in the city's industrial parks with 119 projects capitalised at 1.3 billion USD.

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## REAL ESTATE

### **Vietnam's real estate firms say credit tightening plan will imperil recovery**

*Thanh Nien News*

Real estate businesses in Ho Chi Minh City have asked the central bank to reconsider its plan to tighten lending for the sector, saying it will adversely affect the market which is still in its first stage of recovery, news website Saigon Times Online reported.

In a letter to the central bank, the city's real estate association HoREA said the bank should delay revising credit rules as there are no signs of a speculative housing bubble.

The central bank is seeking to prohibit banks, including branches of foreign banks, from using more than 40 percent of short-term deposits for medium and long term loans, compared to the current rate of 60 percent. It also wants to raise the risk weight of loans to real estate businesses from 150 to 250 percent.

The proposed rules are part of banking amendments which will take effect next year, if approved.

The central bank made the move apparently out of concern that the real estate sector can overheat. Lending for the sector grew 18 percent to VND360 trillion (US\$15.87 billion) last year, compared to the average growth of 14-15 percent in 2012-14.

However, HoREA has argued that that it was normal that lending to the property sector increased recently, considering that the market started recovering at the end of 2013 after a long downturn.

Moreover, it said, speculative behavior which was blamed for the property bubble in previous years is rare.

In Ho Chi Minh City, for instance, speculators accounted for around 15 percent of buyers last year, compared to around 70 percent in 2007 when the bubble happened, according to HoREA.

Since Vietnam's property market relies heavily on bank loans, credit tightening will cause negative impacts on developers, investors and first home buyers, the association said.

If the central bank believes that rules on lending activities need to be changed, it should at least let banks use half of their short-term deposits, HoREA said.

It also urged the central bank to keep the risk weight of loans to real estate businesses at 150 percent. The weight was originally set at 250 percent, but was reduced to 150 percent in January last year.

Many developers and investors told *Thanh Nien* they are expecting a gloomy future because of the proposed rules.

Le Huu Nghia, director of Ho Chi Minh City-based Le Thanh Real Estate Company, said the rules will possibly reduce loans for the sector by at least 30 percent.

Bui Cao Nhat Quan, vice chairman of Novaland Group, said if credit sources dry up, the developer will need to reduce the number of new housing projects soon.

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## **26 land projects in Hoan Kiem planned**

VNS

The municipal people's committee has promulgated a decision on the land-use plan in 2016 in the city's Hoan Kiem District.

Accordingly, the district will have 26 land projects, including 19 unfinished plans of 2015, and seven new ones. About 15.76ha will be allocated for agriculture, while 521.99 ha will be used for non-agricultural purposes.

The city has been asked to review and evaluate the feasibility of the projects, as well as collect ideas from the people to report to the committee before the end of May.

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## **ENERGY & OIL & GAS**

### **Energy projects to spark FDI growth**

*VIR*

The local energy sector is expected to be the next driver for foreign direct investment growth in Vietnam this year.

According to a Ministry of Planning and Investment report, the foreign direct investment (FDI) commitment in this sector is expected to reach a record high of about \$4-\$5 billion in 2016. Last year, the sector attracted investment capital worth \$2.8 billion, surpassing the real estate sector and falling just short of the FDI inflows to the manufacturing sector.

According to the general Department of Energy (GDE), which manages 20 build-operate-transfer (BOT) thermal power plants with the total capacity of 24,000 megawatts nationwide, a series of BOT power projects are expected to finish construction this year, contributing to ensuring the stability of the country's power supply in the years to come. The plants are among the major projects approved in the Vietnamese government's master plan for developing the national grid through 2020.

The GDE also reported that all procedures for licensing the 1,200 MW BOT Nghi Son 2 thermal power plant in the central province of Thanh Hoa had been completed, and an investment agreement for a consortium consisting of Marubeni Corporation and Korea Electric Power Company was scheduled to be signed in the first quarter of 2016, with the total investment capital of \$2.2 billion.

In addition, another 1,200MW thermal power plant is likely to be built in the northern province of Nam Dinh, as per a recent agreement between Arab Saudi's ACWA Power and

Korea's Taekwang Power. The investment certificate for this project is anticipated to be granted this year.

A further 1,200MW BOT power project, Vinh Tan 1, which is being developed by two Chinese corporations (China Southern Power Grid Co., Ltd, and China Power International Holding Ltd) as well as Vietnam's state-run mining giant Vinacomin, has achieved financial closure two months ahead of schedule, according to the GDE. This \$2 billion project got off the ground in the central province of Binh Thuan last year, and would annually contribute nearly eight billion kilowatt hours to the national power grid after becoming operational in 2018.

Earlier this year, Janakuasa Sdn Bhd signed four documents with Vietnam's Ministry of Industry and Trade for the development of the 1,200MW Duyen Hai 2 coal-fired power plant in the southern province of Tra Vinh, namely a land-lease deal, a power purchase agreement, a BOT contract, and a grant of government guarantee. The project is one of four power projects within the Duyen Hai Power Centre, which has a combined generation capacity of 4,348MW, and uses imported coal as the feedstock to generate electricity. It is one of the key energy projects in the national power development master plan, meant to address the dramatically rising power demand in Vietnam in this decade, and with a vision to 2030.

The list of foreign-backed BOT power projects is expected to increase, as several foreign companies are currently in negotiations or are conducting feasibility studies for developing power plants in Vietnam, including South Korea's Samsung C&T Corporation, India's Tata Power, Singapore's Sembcorp Industries, and Thailand's EGAT.

The power demand in Vietnam is expected to see a remarkable increase of more than 10 per cent per annum in the coming years due to rising population and economic growth. Vietnam will therefore need an annual investment of \$8 billion in the energy sector by 2020.

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## **Slumping prices put Vietnam oil firms in hot water**

*TuoitreNews*

**With global oil prices repeatedly falling, many major oil and gas businesses in Vietnam are taking all possible measures to maintain profitable operations.**

Vietnamese oil firms have had to reduce production, lay off employees, and cut costs at a time when oil barely fetches US\$30 a barrel, having slid from \$100 in mid-2014.

The current oil price is far from the estimates Vietsovpetro, a Russian-Vietnamese joint venture for oil and gas exploration, prepared in its 2016 business plan.

This year Vietsovpetro targets \$2.1 billion in revenue from the exploration of five million metric tons of oil, anticipating the price would average \$55 a barrel. But with oil at \$30 a barrel, the company only achieved half of that target.

In 2015 the company also fell short of their target revenue when the average barrel price was \$56.1 rather than the estimated \$75 a barrel.

It cost Vietsovpetro approximately \$24 to produce a barrel of oil last year and the current price means little likelihood of profit for the company, according to a seasoned oil and gas engineer.

The company has been trying to cut costs by ceasing some expensive, high-risk exploration projects and delaying several others.

“We have to stop exploring oil in some distant waters to save money for other essential spending,” said Nguyen The Kim, head of secretariat with Vietsovpetro.

“Although this affects our long-term and stable development strategies, no one will dare throw tens of millions of U.S. dollars to oil exploration during these tough times.”

The company has also had to reduce the number of engineers at four of its oil rigs, and closed some platforms with poor production.

Another oil and gas giant, state-run PetroVietnam (PVN), is in the same boat.

Last year PVN managed to cut costs by \$3 billion and is currently seeking more cuts to avoid a global oil price development that is “causing myriad difficulties to the company,” deputy general director Le Minh Hong said.

The average production cost of PVN is currently \$24.4 a barrel, and the company is expected to trim production to 16 million metric tons, two million metric tons lower than last year.

The collapse in oil prices has also impacted many of the oil refineries PVN is developing, including Dung Quat, the country's sole oil processing facility.

While Gazprom Neft had planned to buy a 49 percent stake in the \$3 billion facility, based in the central province of Quang Ngai, the Russian oil firm last month asked to **cancel talks** on the proposed purchase.

Gazprom Neft, the oil arm of top global gas producer Gazprom, said the move came after Vietnam refused to approve several preferential conditions it had requested, whereas PVN said the slumping oil prices could be held responsible.

The Russian firm may have decided to cease its investment expansion as a result of any difficulty they might be experiencing in the wake of the drop in oil price, according to PVN. This could be the same reason why Qatar Petroleum withdrew its interest in investing in the PVN-developed Long Son refinery in the southern province of Ba Ria-Vung Tau, the company added.

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## LEGAL

### **Lawmakers back issuance of permanent pharmacy practice certificates**

*VNS/VLLF*

Discussing the revised draft Law on Pharmacy at the ongoing 45<sup>th</sup> session of the National Assembly (NA) Standing Committee, legislators asked whether permanent pharmacy practice certificates would continue to be issued for pharmacists or they should be renewed every five years.

The administrative procedures would be burdensome if pharmacists had to go to administrative agencies to have their certificates extended every five years, said Nguyen Van Hien, Chairman of the NA Justice Committee, citing permanent certificates were more suitable. He proposed the health sector to periodically test qualifications of pharmacists.

NA Chairman Nguyen Sinh Hung added that it would be unwise to complicate the process by requiring pharmacists to renew their certificates every five years, since the country was working on simplifying administrative procedures.

However, Hung asked the health sector to conduct more inspections on the quality of drugs and drug stores to ensure customers' access to the best quality medication.

Meanwhile, NA Vice Chairman Uong Chu Luu requested the Ministry of Health to provide more detailed information on the strengths and weaknesses of the two options.

At the session, lawmakers also asked the Government to submit the draft Law on Demonstration for consideration at the 11<sup>th</sup> meeting of the 13 Legislature.

They requested the Government to confirm whether or not this draft law would be included in the meeting's agenda because it was a sensitive law that drew much attention from NA deputies and voters.

After being submitted by the Government, the draft law would be discussed by the NA Standing Committee at its 46<sup>th</sup> session next month before the 11<sup>th</sup> meeting opens, said NA Vice Chairwoman Tong Thi Phong.

At the 11<sup>th</sup> meeting, scheduled to take place from March 21 to April 9, the NA will consider and pass seven draft laws on pharmacy, press, access to information, child protection, care and education, conclusion of, accession to and implementation of treaties, tax administration, and excise tax.

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## **Foreign experts to be exempt from PIT**

*VLLF*

Foreign experts working in Vietnam for programs or projects funded with foreign non-governmental aid will be exempt from personal income tax (PIT).

According to Decision No. 06/2016/QĐ-TTg which was signed by Prime Minister Nguyen Tan Dung on February 22, PIT exemption will be offered to foreign experts who are

employed to directly conduct activities under programs or projects funded by foreign non-governmental organizations (NGOs).

However, the employment of foreign experts to work under a project must be agreed between the foreign NGO which funds the project and the Vietnamese agency which manages the project and stated in the project document already approved in accordance with current regulations on management and use of foreign non-governmental aid.

To be eligible for PIT exemption, a foreign expert who works for a project funded by a foreign NGO must sign with such NGO, the project-managing agency or the unit assigned to act as the owner of the aid amount a contract to directly perform jobs under such project in line with the approved project document and terms of reference (TOR).

Particularly, the contract signed between a foreign expert and a foreign NGO must contain the certification of the Vietnamese unit assigned to act as the owner of the aid amount that the foreign expert will directly engage in activities under the project according to the approved project document.

The new regulation will take effect on May 1 this year.

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