VCCI
VIETNAM CHAMBER OF COMMERCE AND INDUSTRY

VIETNAM BUSINESS ANNUAL REPORT 2008

Results of the survey "Enhancement of Competitiveness for Enterprises in the Global Economic Crisis"

Theme of the year

Financial markets and businesses financial capacity

National Political Publishing House

VCCI

VIETNAM CHAMBER OF COMMERCE AND INDUSTRY

VIETNAM BUSINESS ANNUAL REPORT 2008

Results of the survey "Enhancement of Competitiveness for Enterprises in the Global Economic Crisis"

Theme of the year

Financial markets and businesses financial capacity

Chief Editor: Dr. Pham Thi Thu Hang

Hanoi, 2009

Chief Editor: Dr. Pham Thi Thu Hang - Director of the Enterprise Development Foundation, Vietnam Chamber of Commerce and Industry

With contribution from the following experts:

Part I. ***MA. Pham Thi Thanh Ha -*** *Ministry of Planning and Investment*

Part II.1. ***MA. Nguyen Thi Hong -*** *The State Bank of Vietnam*

Part II.2. ***Dr. Nguyen Thi Kim Thanh -*** *Director of Banking Strategy Institute - The State Bank of Vietnam*

Part III. ***PhD. Candidat Pham Quang Ngoc -*** *Vietnam Chamber of Commerce and Industry*

Part IV. ***Dr. Pham Thi Thu Hang -*** *Director of the Enterprise Development Foundation, Vietnam Chamber of Commerce and Industry*

FOREWORD BY THE PUBLISHING HOUSE

Vietnam has joined World Trade Organization and step by step undergone a deep and broad integration process into the regional and global economy. The changes in the global economic situation have produced greater and greater impacts, both positive and negative, on the economy of our country, especially when Vietnam enjoys high economic openness. In 2008, the global economy fell into recession. Under the circumstances, the growth rate of Vietnam economy, although still high, was lower than previous years and below the planned target. In order to resist the economic downturn, the Government as well as enterprises made every effort to work out solutions which appear to have achieved certain successes.

With the aim of bringing the readers more reference material on the above-mentioned subjects, the National Political Publishing House in cooperation with Vietnam Chamber of Commerce and Industry has published this book, titled ***Vietnam Business Annual Report 2008 (Theme of the year: Financial markets and businesses financial capacity)*** by Dr. Pham Thi Thu Hang as the chief author.

In this book, the authors provide a general assessment of business environment in Vietnam in the year 2008, a year of complex developments in international and domestic markets, and a year of record high figure of foreign direct investment registered in Vietnam of more than 60 billion USD. Other issues to be thoroughly studied in this book are the developments of the world and Vietnam's financial markets; the financial capacity of Vietnam's 6 lines of business which have been highly affected by the crisis, including: garment, construction, tourism, banking, insurance and food processing. Another actual subject to be analyzed and evaluated is the competitive capacity of Vietnam enterprises in the context of global economic crisis.

The issues covered in this book are complicated. Therefore, although the authors and editors tried their best, some errors are unavoidable. The readers' comments are highly appreciated.

It is a great honour to introduce this book to our dear readers.

October 2009
NATIONAL POLITICAL PUBLISHING HOUSE

FOREWORD

2008 was a challenging and difficult year for the Vietnamese business community. The macroeconomic difficulties of the country following the global economic crisis have heavily affected business results for majority Vietnamese enterprises, especially within the export sector. However, in 2008, Vietnamese enterprises have successfully strived to overcome the challenges, while seizing on opportunities to make contributions to the countries' economic growth.

Vietnam Business Annual Report 2008 continuing to provide a comprehensive picture on the business situation of the Vietnamese community is a valuable source for businesses in Vietnam, researchers, and policy makers. The Report analyzed the shifts in business environments with special insight into changes in the financial markets within the country and the world by focusing on enterprises financial capacity in selected sectors based on the annual enterprise census database for the period 2000-2007. The theme selected for the year 2008, "Financial markets and businesses financial capacity", demonstrates the importance of this issue concerning development of enterprises as well as the interest of society in finding solutions to overcome the crisis. Notably, the report has timely provided close assessments on competitive capacity of enterprises in the context of the global financial crisis and depression. The assessment will serve as basis for conclusions and recommendations to both policy makers and enterprises for overcoming difficulties within this period and the future.

The report was conducted by Enterprises Development Foundation of VCCI in cooperation with the Asian Competiveness Institute of Lee Kuan Yew School of Public Policy under the National University of Singapore and with further support in translation and publication from the World Bank and the VCCI Intellectural Property Sole Member Company Limited (VCCI - IP Co.Ltd).

The report was completed within the context of constant changes in the macroeconomic environment. Due to the complicacy of raised issues, the report can not avoid mistakes in publication. Vietnam Chamber of Commerce and Industry is pleased to receive comments from our readers for the improvement of report quality in the coming years.

Best wishes to the Vietnamese business community with confidence in integration process and great success in business.

Dr. VU TIEN LOC
Chairman and President
Vietnam Chamber of Commerce and Industry

ACKNOWLEDGEMENT

The year 2008 had a number of fluctuations in both the domestic and international markets, which in turn created negative impacts within the Vietnamese business community. This report tries to analyze some important points to indicate a corollary between these effects.

Besides only evaluating the improvement of the business environment in 2008, the report also analyzes the situation of both the international and Vietnam financial market to find any influences of instable macroeconomic concerning each enterprise's activities and the efforts of both the government and enterprises to protect against economic decline.

Along the same lines as the Vietnam Business Annual Report in 2006 and 2007, this report will analyze enterprises' competitiveness on the issues of employment, finance (capital), innovation, and market access. These analyses are based on data from a survey of 630 companies in two main economic areas within the nation: Hanoi, Ho Chi Minh City, and adjacent provinces. As for assessing each firm's financial capacity issue, the report operated under a varying set of indicators. The following six sectors were included within the report: garment (including textiles), construction, tourism, banking (including investment fund and securities companies), insurance and food processing (food, beverages and cigarettes). The data used for this analysis was obtained from the Enterprise Census, conducted annually from 2000 to 2007 by GSO.

This report includes four main sections:

Part I: Overview of the Vietnam business environment in 2008

Part II: The financial markets in the world and in Vietnam in 2008

Part III: Assessment of firm's financial capacity

Part IV: Enhancement of competitiveness for enterprises in the global economic crisis.

Vietnam Business Annual Report 2008 is a research product of the Enterprise Development Foundation (EDF) of Vietnam Chamber of Commerce and Industry and was part of a Joint Program with the Ministry of Science and Technology. The Enterprise Development Foundation/VCCI acknowledges the contributions of its research team including Dr. Pham Thi Thu Hang, Ms. Le Thanh Hai; Dr. Nguyen Thi Kim Thanh - Director of Banking Strategy Institute - The State Bank of Vietnam; PhD. Candidat Pham Quang Ngoc - VCCI; MA. Pham Thi Thanh Ha - Ministry of Planning and Investment; MA. Nguyen Thi Hong - The State Bank of Vietnam.

We acknowledge the support provided by the group of professors from the Asian Competitiveness Institute of Lee Kuan Yew School of Public Policy under the National University of Singapore.

We would like to express our gratitude to Dr. Doan Duy Khuong - Vice President of Vietnam Chamber of Commerce and Industry, Dr. Duong Thu Huong - General Secretary of Vietnam Banks Association, Dr. Mai Thanh Hai - President of Foreign Invested Enterprises Association, Dr. Phan Thanh Ha - Vice Director of Finance and Monetary Department of the Ministry of Planning and Investment, Mr. Pham Dinh Thuy - Director of Industry and Construction Statistics Department of General Statistics Office in consultation for the improvement of this report.

We would like to express our special thanks to World Bank in Vietnam and the VCCI Intellectural Property Sole Member Company Limited (VCCI - IP Co.Ltd) for its support in translation and publication of this report.

ENTERPRISE DEVELOPMENT FOUNDATION

ACRONYMS AND ABBREVIATIONS

APEC	Asia-Pacific Economic Cooperation
CIEM	Central Institute of Economic Management
CPI	Consumer Price Index
FDI	Foreign Direct Investment
FII	Foreign Indirect Investment
FED	Federal Reserve System
FII	Foreign Institutional Investor
GDP	Gross Domestic Product
GSO	General Statistics Office
HOSE	Ho Chi Minh City Stock Exchange
HASTC	Hanoi Stock Exchange
IMF	International Monetary Fund
IT	Information Technology
JV	Joint Venture
MPI	Ministry of Planning and Investment
NIEs	New Industrial Economics
PCI	Provincial Competitiveness Index
R&D	Research and Development
SME	Small and Medium Enterprises
SOE	State Owned Enterprises
UNDP	United Nations Development Program
UNCTAD	United Nations Conference for Trade and Development
VCCI	Vietnam Chamber of Commerce and Industry
VSIC	Vietnam Standard Industrial Classification
WEF	World Economic Forum
WB	World Bank
WTO	World Trade Organization

TABLE OF CONTENTS

List of tables

Tables in the Appendix

List of figures

Executive summary

Overview of the Vietnam business environment in 2008

Vietnam's economic growth had a slow-down trend, performing well under its adjusted set goals as in comparison with previous years. The Gross Domestic Product (GDP) in 2008 increased by 6.2% compared to 2007 (the adjusted plan is 7%).

Export turnovers in 2008 were at an estimated USD 62.7 billion, rising by 29.5% compared to the previous year. The total value of service exports in 2008 grew by USD 7.1 billion at a rate of 9.8% in comparison to 2007. Import turnovers in 2008 were at an estimated USD 80.7 billion, increasing by 28.3% compared with 2007. However, the import of production materials declined sharply during the last few months of 2008, indicative of a short term stop of investment and production in Vietnam; whereas, the import turnover of consumer goods have had a rising tendency.

For the year 2008 alone, 65.318 enterprises were established with a newly registered capital of VND 569.533 trillion, an increase of 12.24% and 20.77% in terms of registered numbers and capital respectively, compared with the same period in 2007. However, since June 2008, the number of newly registered enterprises has gone down. As of the end of December 2008, the amount of set up and newly registered businesses reached 376,644 enterprises.

In 2008, the total number of newly licensed projects in Vietnam climbed up to 1,171 projects with a total registered capital of USD 60.3 billion (Vietnamese parts contributed to 10% of that) rising by 322% compared to 2007. The number of existing FDI projects with increased capital was quite huge: 311 projects registered with a capital expansion over USD 3.7 billion. The total amount of signed ODA funds is expected to be USD 4,058 million in 2008.

The number of restructured, reformed and equitized enterprises has increased year by year; it rose noticeably in 2006 and then grew slowly in 2007 and 2008. As of December 31, 2008, 5,556 Vietnamese enterprises and their units have been restructured, out of which 3,854 enterprises were equitized.

According to *Doing Business 2009*, produced by the International Finance Corporation (IFC) and World Bank (WB) issued in the end September 2008, the business environment in Vietnam in 2008 has not really improved. Within the global competition index (GCI) produced by the World Economic Forum, Vietnam ranked 70th out of 134 nations and economies in the World with regards to competitive ability - this rank was not an improvement over the rank of 68/131 from 2007. However, according to the UNCTAD, Vietnam still maintains the sixth position out of the 10 most attractive countries concerning multinational investment.

The results of the provincial competition index (PCI) survey carried out in 2008 by the Vietnam Chamber of Commerce and Industry alongside the Vietnam Competition Initiative project (VNCI) were relatively stable. Points across the board in 2008 concerning all ranking groups in general were lower than those of previous years. Especially, there was an upward movement in the CPI ranking groups. The number of provinces belonging was *very good* and *good* groups were fewer than those in 2007.

Generally, the international and local 2008 socio-economic context was complex and unexpected. The world financial crisis expanded on a global scale and there seems little chance of it abating soon. Under the above factors, the following areas were all influenced: investment, mobilization for the state budget, domestic consumption, balance of payment, activities of enterprises, small and medium enterprises in particular, employment, and poverty.

The financial market in the world and in Vietnam

The financial crisis, which originated in USA in the late 2007, quickly spreading across the world and producing profound effects, has been called the most serious crisis since the Great Depression 1929-1933. The resulting events were the following: 1) The world economy entered an acute phase after obtaining a high rate of growth, and the economic activity in many countries was believed to be at recession; 2) Both inflation and deflation appeared in the same year; 3) Dramatic fluctuations of interest rates and exchange rates; 4) A sharp decline in various stock indexes in many markets; 5) A rapid fall in international reservation in many countries.

The economy in Vietnam experienced a complex period: the inflation rate increased, there was a deficit in foreign trade, and the macro economy started to display signals of an unstable period. Conducting macro solutions seriously resulted in an improvement in the macro index, while CPI decreased from September to December 2008 and reached at 19.89% in December.

Constituent markets showed unstable developments, revealing weaknesses and flaws of the financial market: 1) VND interest rates tended to substantially increase from January to August 2008 and then started to drop. That development of interest rates reflects low liquidity of the market which represented the most prominent feature of the monetary market in 2008; 2) A characteristic of foreign exchange market was the dramatic change in exchange rates. At the end of 2008, VN-Index and HASTC-Index recorded a fall of about 70% compared with the beginning of the year, which was the unprecedented slide since their inception and one of the highest falls among indexes around the world.

The fluctuation in the financial market in 2008 shows that to a certain extent the Vietnamese financial market has not met the capital demands needed for the processes of economic development and integration; it remains on a lower development course compared to those in other countries; and has been negatively influenced by shocks since it is a new born market.

In order to overcome these serious challenges, implementing solutions to develop production might stabilize the financial market. Therefore, the government has provided on time solutions in order to support production. For example, commercial banks have offered a low interest rate to loans that finance production activities. This interest rate is down to only 4% per year. This government policy not only supports enterprises fairly, stabilizes the financial market, and improves investor confidence in the market, but also improves considered and decided abilities to loans of the commercial banks. Further, the government has provided possible urgent solutions to prevent recession, maintain economic growth, and ensure social benefits.

Assessment of firm's finance capacity

Part III of ***Vietnam Business Annual Report 2008*** assessment on enterprises' finance capacity was conducted within 6 key sectors: food processing (food, beverages and cigarettes); garments; construction; tourism, banking services (including investment funds, security service companies); and the insurance sector. The computerized findings in the period from 2000 to 2006 are consistent with the Vietnam Business Annual Report 2007. The data used for assessment was taken from the "Enterprise census database 2000-2006", which is conducted annually by GSO.

2007 was a remarkable year in which the business opportunities were open for all selected sectors, especially for the large firm sectors. However, the boom of the business market in 2007 was also accompanied with a lot of risks. The number of firms who made losses increased in all sectors.

The majority of firms under liquidation within the six sectors were able to repay their short-term debts. Despite the limitation of size, the small firms' ability was much better than large firms. Regardless of the lower liquidity ratio in large firms, the difference gap was tightened in 2007.

Banks at any size got a low efficiency of asset utilization. In the extent of the rapid development of capital markets, this demonstrates the increase of the loan (receivables). If the banks manage their debt insufficiently; then the potential risk of the economy (inflation and deficit in the balance of payment) will cause big losses in the near future.

Debt analysis indicates that firms were highly dependent on bank loans in order to finance their business activities. With the tourism sector serving as an exception, most other firms in other selected sectors had the debt ratios in excess beyond their net worth. Moreover, the decline in debt turnover ratio in 2007 pointed out that even the safety of the loans has been improved.

In spite of the recovery of losses of large firms in the banking and garment sector, analysis of profitability demonstrated a trend of big loss within enterprises of any size in almost all sectors.

Once again, the decrease in the quality of net worth turnover ratio indicates that enterprises were not only insufficient in using the loans, but also in using their net worth. The over-bloom of the capital market drove firms to taking advantage of mobilizing more capital from monetary and stock markets in excess of their needs. Thus, the efficiency in using the net worth showed a trend of decline.

Instability of business activities of enterprises in 2007 demonstrates the decline in the quality of receivables, turnover ratios, and fixed asset investments. This shows that enterprises were insufficient in finance capacity to manage cost and benefit, as well as investment in fixed assets even though they had a lot of business opportunities at hand.

Enhancement of competitiveness for enterprises in the global economic crisis

The overall picture of business results of enterprises eligible for the survey under the theme of "***Enhancement of competitiveness for enterprises in the global economic crisis"*** shows that there is a sharp decrease in net sales and employment level in 2008 compared to that of 2007. The decrease resulted in serious impacts on enterprises in Ho Chi Minh City (negative growth). Under the impacts, export-oriented enterprises have been more vulnerable than domestic enterprises (there is no increase in revenue but a sharp decrease in number of laborers). However, the profit rate in 2008 only slightly decreased compared to that of 2007. Number of enterprises having profit rate above 5% dropped shortly from 61% in 2007 to 58.5% in 2008.

Following this general trend, the year 2007 was the peak year for business activities. Reflecting this, the employment number in the surveyed enterprises enjoyed a sharp increase. The average employment level in an enterprise of the survey sample increased by 5.6% in 2007, yet showed a decrease in 2008. The public sector (70% of the enterprises) do not consider "labour costs" as a challenge, while the foreign-investement enterprises continue to focus on the factor.

In the period of 2006-2008 Vietnamese enterprises show active innovation in the following areas: 1) Product innovation (products or services); 2) Process innovation; and 3) Organization innovation. Notably, most innovations have been taken by enterprises themselves. The ratio of firms cooperating with other research institutes (both domestic and foreign) was limited.

The FDI-enterprise sector had the largest account in *product innovation*, especially 100% FDIEs. However, the SOEs and mixed-owned sector were stronger in *service innovation*.

External R&D and purchases of machinery, equipment, and software were given more attention by FDIEs than those in other sectors. This seems to be one of the reasons explaining why domestic enterprises' competitiveness is always considered lower than those of FDIEs.

Three main obstacles for innovation mentioned by many enterprises were: 1) Lack of capable human resource; 2) Lack of financial resources; and 3) The high cost of implementing innovations. Market factor was an important reason for enterprises' decision to not implement further innovation yet.

It can be concluded that enterprises have not been very confident when assessing the benefits brought about by IT, as well as appropriate levels of IT systems applied in enterprises. According to enterprises' types, it seems that FDI enterprises (including 100% foreign-owned and joint-venture enterprises), applied IT more professionally. However, in the future, SOEs still will be pioneers in applying IT.

The "*Increased costs of materials and fuels"* factor was the premier challenge to Vietnam's enterprises. This factor was followed by a challenge of *increased transportation cost"*. This is the first time in many surveys of enterprises conducted so far that difficulty in accessing credit is classified at the nearly bottom of the list of challenges.

Measures for improving the business performance focused strongly on customer service. The followings are measures in the order from the strongest to weakest: 1) Better supporting customers; 2) Improving relations with customers; 3) Improving relations with suppliers; 4) Reducing costs; 5) Increasing marketing activities; 6) Investing in human resource through training and talent attraction; 7) Applying new management methods; 8) Improving products; 9) Innovating business strategies; and 10) Investing in the exploitation of market information and technology.

Only two-thirds of the surveyed enterprises obtained loans in 2008. Only 6.2% of total borrowers have loan request being fully (100%) met. Particularly, the ratio of SMEs with more than 50% of loan need satisfied is only 40.2%, whereas that of large enterprises is 49.3%.

There are four common impediments to loan access, namely: High interest rates; lack of mortgaged property; "*complicated loan procedures*" and "*business plans*". The two last issues become more problematic for SMEs. Obviously, the problem of credit access for SMEs has not yet been resolved.

Based of the assessment of business climate and of firm's competitiveness, there are two groups of recommendations formulated, that of governments and enterprises. Accelerating the administrative reform is the first priority that the Government should pay attention to in order to improve the business environment and to create conditions for implementing the stimulus package and credit policy. For the firms, actively strengthening competitiveness is the key for success.

Part I

OVERVIEW OF THE VIETNAM BUSINESS ENVIRONMENT IN 2008

1. Economic growth and import-export activities

Vietnam's economic growth suffered from a slow-down trend, and performed under its adjusted set goals in comparison with previous years. The Gross Domestic Product (GDP) in 2008 increased by 6.2% compared to 2007 (the adjusted plan is 7%); as a result, GDP per capita was expected to be almost 1,032 USD.

The growth rates of the industry, construction sector, and the service sector declined in comparison to those in 2007. Despite facing many difficulties because of unfavorable weather, natural disasters and floods, the agriculture, forestry and fishery sector rose by a fair rate of 4.1% against the rate of 3.4%, the industry and construction sector by 6.1% compared to 10.6%, the service sector by 7.2% compared to 8.68% during the same period the previous year. Of the general economic growth rate of 6.2%, the agriculture, forestry and fishery sector contributed 0.68 percentage points; the industry and construction contributed 2.65 percentage points; and the service sector 2.9 percentage points.

Table 1.1.

Key indicators of socio-economic growth over the period 2007-2008

Unit: %

	2007	**2008**
(1) Growth rate of Gross Domestic Product (GDP)	+ 8,46	+ 6,2
Out of which:		
- Agricultural, forestry and aquatic production value	+ 3,40	+ 4,1
- Industrial and construction production value	+ 10,60	+ 6,1
- Services value	+ 8,68	+ 7,2
(2) Total export turnover	+ 21,9	+ 29,5
(3) Total import turnover	+ 39,6	+ 28,3
(4) Total retail sales of goods and services	+ 22,7	+ 31,0
(5) Foreign visitors to Vietnam	+ 18,0	+ 0,6
(6) Social realized investment capital	+ 15,8	+ 22,2
(7) Consumer Price Index in December of the current year compared to that in December of the previous year	+ 12,63	+ 22,97

Source: Ministry of Planning and Investment (MPI).

1.1. Industrial and construction outputs

In 2008, the industrial gross output increased by 13.9% compared with that in 2007, out of which the state-owned sector grew at 4%; the non-state owned sector at 18.8%; the foreign invested sector at 18.6% (within which petroleum and gas production reduced by 4.3%). Among the total output values of industrial activities in 2008, the processing industry accounted for 88.9% and rose by 15.3% compared to the year 2007; electricity, gas and water accounted for 5.7% with an increase of 11.7%; while the mining accounted for 5.4% with a decline by 3.5% due to a cut in extracted cruel oil.

In 2008, some main industrial products for domestic consumption and export generally maintained higher growth rates compared to those in 2007, such as: trucks at 40.6%; buses at 38.3%; processed seafood at 29.1%; washing machines at 28%; garments for adults at 27.7%; electric transformers at 22.6%; fridges and refrigerators at 22.2%; powdered milk at 18.6%; commercial water at 15.2%; TV sets at 15%; sport shoes at 14.6%; generated electricity at 12.3% and cement at 9.6%. However, many other important products grew at lower rates compared to the previous year. For instance, round steel reduced by 10.6%; extracted cruel oil by 6.6%; pure coal by 6.1%; chemical paint by 1.9%; textile from cotton yarn by 1.8%.

1.2. Total retail sales of goods and services

During the year 2008, the service sector suffered from the world economic recession, but the infected level was not as significant as the effect on the industry and construction sector. Service and trading activities had been operating impulsively for some months at the end of 2008. Total retail sales of goods and services at current prices in 2008 was estimated to be about VND 968.1 trillion, an increase of 31% against last year (in 2007 it was 23.3%), out of which the state sector reached VND 112.9 trillion with a rise of 20.4%; the household economy sector gained VND 538.1 trillion with an increase of 32.2%; the private sector gained VND 284.5 trillion with an increase of 34.3%; the foreign invested sector reached VND 22.7 trillion or increased by 20.9%. Of the total, the trading activities accounted for VND 798.1 trillion and rose by 31.5%; the hotel and restaurant: VND 109.3 trillion and by 26.2%; the service: VND 48.4 trillion and by 31.3% and the tourism: VND 12.2 trillion and by 41.8%.

1.3. Exports maintain high growth rates

Export turnovers in 2008 were an estimated USD 62.7 billion, rising by 29.5% against the previous year. Out of which, the foreign invested sector (excluding crude oil) gained USD 24.17 billion, increasing by 25.3% and shared 38.5% with the total export turnovers; the domestic economic sector reached USD 28.2 billion, rising by 34.7% and contributed 50.3% to the general growth rate of exports. Of the total exports in 2008, commodity group of heavy industry and minerals accounted for 31%, agricultural products 16.3%.

Generally, the 2008 export volume of main items increased when compared with 2007, mostly due to the world market's rising prices. Eight exported items gaining turnovers of more than USD 2 billion were crude oil: USD 10.5 billion, textile and garments: USD 9.1 billion, shoes & sandals: USD 4.7 billion, aquatic products: USD 4.6 billion, rice: USD 2.9 billion, wood products: USD 2.8 billion, electronic devices & computers: USD 2.7 billion and coffee: USD 2 billion (the two products of rice and coffee increased in comparison to last year). Although the 2008 export turnovers were rather higher than in 2007, but if the costs of re-exporting iron, steel and gold and the price rising factor of the 8 main products (crude oil, coal, rice, coffee, rubber, pepper, cashew nut and tea) were excluded then the export turnovers would only show an increase by 13.5%.

The biggest export market for Viet Nam in 2008 was the United States, which climbed up to USD 11.6 billion and rose by 14.5% against 2007. 5 key items, sharing 76% of the total volume of Vietnam exports to this market, were garments, crude oil, wood and wood products, shoes and sandals, and seafood products. The export turnovers to ASEAN markets declined in the last few months, but overall for the whole year reached USD 10.2 billion, going up by 31% compared to 2007. Chief products for these markets were crude oil, rice, seafood products, computers, electronic products and spare parts. The exports to EU market reached USD 10 billion, rising by 15% represented by traditional commodities of garments, shoes and sandals, agricultural products and aquatic products; Japan: USD 8.8 billion, rising by 45% against 2007 with the mainly focused commodities of cruel oil, shoes and sandals, seafood products, computers and spare parts, lines and electric cables.

The total value of service exports in 2008 gained USD 7.1 billion and grew at 9.8% in comparison to 2007. Out of this, the tourism service reached USD 4 billion, rising by 7.2%; the airlines transport service: USD 1.3 billion and by 23.7%; the maritime transport service: USD 1 billion and by 27.7%.

1.4. Imports continue to grow excessively, large trade balance deficit

Import turnovers in 2008 were at an estimate of USD 80.7 billion, increasing by 28.3% against 2007, out of which the domestic economic sector gained USD 52.8 billion, rising by 26.9%; the foreign invested sector: USD 27.9 billion with a rise of 28.5%. Of the final import number, production material accounted for 88.8%; consumer goods 7.8%; gold 3.4% (in 2007 those figures were 90.4%; 7.5% and 2.1% respectively). If the price rising factors of some items were excluded, the 2008 import turnovers grew only by 21.4% compared to those in 2007.

Generally, most main items imported to meet the demands of domestic production development grew against the previous year. However, the import of production materials declined sharply for the last few months of 2008, which indicates a short term halt of investment and production in Vietnam. Whereas, the import turnovers of consumer goods have had a rising tendency, which reflected that foreign consumer commodities have put great pressure on Vietnamese goods in the domestic market. The automobile imports in 2008 reached the highest record as of yet with USD 2.4 billion, with 50.4 thousand vehicles assembled with a worth near USD 1 billion. The import of machines, equipment and other spare parts (excluding vehicles, computers and electronic devices) gained USD 13.7 billion, rising by 23.3% against the previous year. Petroleum imports were 12.9 million tons, increasing by 0.1% compared to 2007 and were worth USD 12.9 billion, rising by 41.2%. The import of iron and steel gained USD 6.6 billion with an increase of 28.5%. Textile and garment materials, being essential for export production, had a high record of USD 6.8 billion, rising 11.5% compared to 2007. The import of computers and devices reached USD 3.7 billion, growing at 25.8% against the previous year; the group of these imported items is not only closed to domestic consumption but also related to processing and assembling exported products.

Within Vietnam's importing markets in 2008, the import turnovers from ASEAN reached USD 19.5 billion, rising by 22.5%; China: USD 15.4 billion and 23.2%; EU market: USD 5.2 billion and 1.7%; Taiwan: USD 8.4 billion and 21.8%; Japan: USD 8.3 trillion and 37.7% compared to 2007.

The trade balance deficit in 2008 was USD 18 billion, an increase by 27.5% against 2007 and equivalent to 28.7% of the total export turnovers. Despite this, the deficit declined visibly for the last few months of 2008 compared to the forecast, but overall the trade imbalance still reached a high level, of which the largest shares are associated with Asian markets (within which Chinese market ranked the 1st place with USD 10.8 billion or an increase of USD 1.7 billion compared to 2007).

The total turnovers of service imports in 2008 reached USD 7.9 billion, rising by 10.3% against 2007; out of which tourism services: USD 1.3 billion and 6.6%; airlines transport services: USD 800 million, reduced by 2.4%; maritime transport services: USD 300 million and a rise of 20%.

2. Growth of private enterprises

According to the Agency for Enterprise Development - Ministry of Planning and Investment (AED-MPI), the number of newly registered enterprises continues to rise. For the year 2008 alone, 69,636 enterprises were established with a newly registered capital of VND 569.533 trillion, an increase of 12.24% and 20.77% in terms of registered number and capital respectively compared to the same period in 2007. However, since June 2008 the number of newly registered enterprises has gone down. As of the end of December 2008, the amount of set up and newly registered businesses reached 376,644. On average, the registered capital per enterprise was VND 8.7 billion compared to the amount of VND 8.1 billion per one registered business in 2007. About 5,443 enterprises every month or over 180 businesses every day were newly established. Whereas, in 2007 those respective figures were 4,850 and 161 businesses. Furthermore, all business entities including operating and those just founded have also mobilized an additional business capital of VND 209.6 trillion.

Table 1.2.

Number of newly registered enterprises during the period of 2000-2008

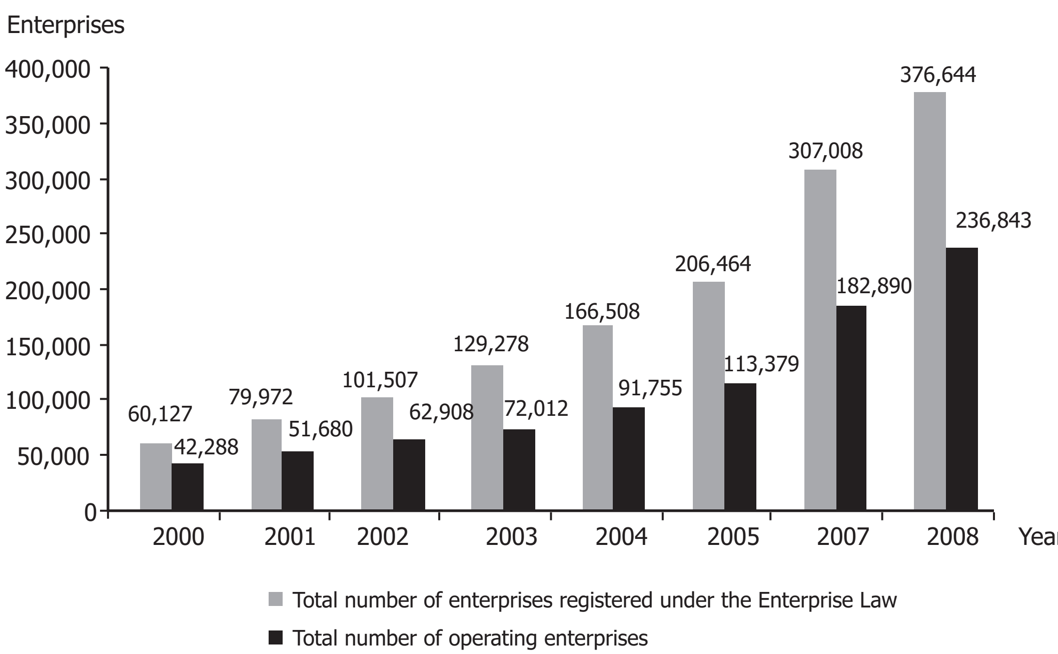
Year	State owned enterprises (SOEs)	Private enterprises (sole proprietorship)	Limited liability companies	One member limited liability companies	Joint stock companies	Partnership companies	Total (annual)
As of 2000	6,928	33,003	19,082		1,156	3	60,172
2001	27	7,100	11,121	0	1,550	2	19,800
2002	12	6,532	12,627	59	2,305	0	21,535
2003	20	7,813	15,781	98	4,058	1	27,771
2004	6	10,405	20,190	125	6,497	7	37,230
2005	8	9,295	22,341	292	8,010	13	39,959
2006	7	10,320	25,762	902	9,669	3	46,663
2007	-	10,013	25,756	8,404	14,733	1	53,878
2008	4	8,895	25,449	14,299	16,670	1	69,636

Source: Information Center, Agency for Enterprise Development - Ministry of Planning and Investment.

In December 2008, Ministry of Planning and Investment (MPI) decided to carry out a comprehensive check based on the reports made by all formal statistical sources, including: General Statistics Office of Vietnam (GSO), all provincial Departments of Planning and Investment (DPIs), and all provincial taxation agencies. Primarily, synthetic results show that, as of December 31, 2008, through out Vietnam 328,278 enterprises existed, of which the number of actually operating entities accounted for 72.1%; the number of registered enterprises yet to begin operations shared 4.6%; the temporarily stopped enterprises were 4.3%; the unfounded enterprises accounted for 6.4%, and the remainder accounted for 12.6% (within this, mainly non-state enterprises were represented, such as: branches, administrative entities with incomes; transformations into household businesses - all those not belonging to independently accounting objects). Totally, as of December 31, 2008, the full amount of operating enterprises was 236,843, out of which were 3,952 SOEs, 225,223 non-state enterprises and 7,668 foreign invested businesses. See Figure 1.1 and Table 1.1 in Appendix for details[1].

Figure 1.1.

Number of registered enterprises and number of operating enterprises



1. Total number of newly registered enterprises excluded non agricultural cooperatives and foreign invested enterprises. 2007 figures are reported in the GSO primarily reports on survey on economic entities and administrative units as of July 31, 2007. Unit: entity, including dependent branches.

3. Foreign direct investment (FDI) inflow boost

In 2008, the total number of newly licensed projects in Vietnam climbed up to 1,171 projects with a total registered capital of USD 60.3 billion (Vietnamese parts contributed to 10% of that) rising by 322% compared to 2007. The number of existing FDI projects increasing capital was quite huge: 311 projects registered with a capital expansion of over USD 3.7 billion. In 2008, the supplementary capital of already existing projects in Vietnam alone was as the same as an annual amount of newly registered capital in the first part of the 2000's. Overall, the total FDI inflows (including both newly registered and supplementary capital) registered in Vietnam in 2008 reached in excess of USD 64 billion, nearly triple the respective figure in 2007. In 2008, the implemented FDI in Vietnam marked USD 11.5 billion, rising by 43.2% compared to 2007[1].

Newly licensed by investment sectors: In 2008, the newly registered capital mainly focused on: the industry and construction sector with 572 projects with a registered capital of USD 32.62 billion, accounting for 48.85% of the project number and 54.12% of the registered capital; the service sector: 554 projects with the registered capital of USD 27.4 billion, accounting for 47.3% and 45.4% respectively. The rest was invested in the agriculture, forestry and fishery sector.

Newly licensed by investors: During the year 2008, 50 countries and territories registered to invest in Vietnam, of which 11 countries and territories registered investment capital over USD 1 billion. Malaysia took the 1st place with 55 projects and a registered capital of USD 14.9 billion, accounting for 4.7% of number of project and 24.8% of the registered capital. Taiwan ranked 2nd after Malaysia, with a respective figure of 132 projects, USD 8.64 billion of the registered capital, 11.3% and 14.3%. The 3rd largest investor was Japan with 105 projects and a registered capital of USD 7.28 billion, accounting for 9.0% and 12.1% in terms of the project number and the registered capital. Singapore ranked the 4th largest investor with 101 projects, USD 4.46 billion of registered capital, 8.6% and 7.4%. Brunei ranked the 5th position with 19 projects and USD 4.4 billion of registered capital, accounting for 7.3% of the total newly registered capital inflows.

Newly licensed by investment forms: Most of the FDI projects in 2008 were implemented in the form of 100% foreign investment (882 projects with a registered capital of USD 31.16 billion), which accounted for 75.3% and 51.7% in terms of the project number and the registered capital, respectively. The number of projects founded in the joint venture form was 213 projects with a registered capital of USD 27.16 billion that accounted for 18.2% and 45.1% in terms of the project number and the registered capital, respectively. The rest was invested under other formation types.

Newly licensed by regions: Excluding 8 projects centered on exploring and extracting oil (accounting for 17.5% of the total newly registered capital inflows), in the first 11 months of 2008, Ninh Thuan

1. *Source:* http://fia.mpi.gov.vn/

province took the 1st place in terms of registered capital due to the joint venture project between Lion Malaysia and Vinashin with the registered capital up to USD 9.79 billion; among all 43 provinces through out the country Ba Ria - Vung Tau climbed up to 2nd place with 4 projects and USD 9.35 billion of the registered capital, accounting for 15.5% of the total registered in the whole country.

Project sizes: There was USD 51.47 million in a single project on average, which was much higher when compared to previous periods.

Business situation: Total revenues of FDI enterprises in 2008 gained USD 50.55 billion, or increased by 24.4% compared to 2007. Out of this, the 2008 total exports by FDI enterprises were USD 24.465 billion, accounting for 38.5% of the exports in the whole country. However, FDI enterprises were also the larger importers with import values of USD 28.458 billion. Hence, the FDI sector was the main cause for Vietnam's trade balance deficit that was USD 4 billion, or equal to 25% of Vietnam's total trade imbalance in 2008.

Budget contribution and job creation: In 2008, FDI enterprises contributed USD 1.982 billion to Vietnam's budget, rising by 25.8% compared to the previous year. During the year 2008 alone, those companies created more than 200,000 new jobs, which made the amount of labor forces working in FDI projects 1.467 million people. This has made great contributions to job creation, long a hot topic in the Vietnamese business community.

MPI figured out that the total amount of signed ODA funds was expected to be USD 4,058 million in 2008. The implemented ODA funds in 2008 reached approximately USD 2.2 billion; indicative of positive changes in ODA implementation in Vietnam. However, according to the donors' recommendation, Vietnam should emphasize administrative reforms coupled with simplification of procedures and formations for ODA fund acceptance and implementation at all levels[1].

---

1. Report on foreign investment flows to Vietnam and from Vietnam into foreign countries in 2008, orientations and solutions for 2009.

4. State owned enterprises' (SOE) reform and performance

According to MPI based on the already-approved plans on SOEs restructuring, reforming, over the period of 2007-2010, a number of 1,553 enterprises needed to be restructured, of which equitization accounted for 950 enterprises; transferring, selling 26 enterprises; mergence and acquisition for 45 enterprises; dismiss and bankruptcy for 51 enterprises; restructuring 41 enterprises into administrative units or by new management bodies; reforming 440 SOEs into one member limited liability companies. By the end 2010 in Vietnam, there will be 839 enterprises with 100% state-shareholding capital, out of which 609 one member limited liability companies will remain; as well as 105 agricultural companies and 125 forestry companies. Further, 60 corporations and economic groups with state priority of shareholders will be founded. Enterprises with 100% state-shareholding capital will operate mainly in the public service sector, lottery, urban water drainage, etc.

Generally, the number of restructured, reformed, and equitized enterprises has increased year by year; it rose noticeably in 2006, while growing slowly in 2007 and 2008. As of December 31, 2008, in Vietnam 5,556 enterprises and their units have been restructured, out of which were 3,854 equitized enterprises. Basically, most of the enterprises characterized by small size and inefficient business practices, were restructured, equitized or assigned, sold, business contracted, rented, dismissed, or bankrupted. An average capital scale of the untransformed, unreformed SOEs increased approximately 5 times.

Establishment of Economic Groups, transformation from SOEs into the mother - son company model: So far, over 120 Economic Groups, Corporations and independent SOEs having large sizes are organized and operated under the mother-son company model. Initially, a new management and organizational model of SOEs was created, which suits itslef well to the market mechanism and has resulted in a diversified structures of enterprise types and ownership.

Among many forms of SOEs' restructuring and reformation, SOE equitization has played an important role, accounting for nearly 70% of the total number of already restructured enterprises. Equitization along with mobilizing additional capital of VND trillions for the state and the society has made contributions to the change of management methods and has improved SOEs' business efficiency. This is a key factor in developing stock markets in Vietnam. As of June 2008, there have been 302 enterprises listed on the securities market. Due to unfavorable conditions of the economy, the SOE listing operations have declined and stopped shortly at the end of 2008.

During the year 2008, overall, the SOE businesses have been stable with growth of assets and increases in enterprises' equity; investment capital has been secured and raised; labor income has improved step by step. Moreover, these SOEs have played their vital role in supply of essential goods for the economy, other products and public services, defense, and security.

In 2008, the majority of SOE difficulties focused on finance, namely monetary fields, with the mobilization of investment credit facing additional troubles. Further channels to mobilize capital from the stock exchange declined because of the dismal state of the stock market. Suffering from obstacles and complexity, buying foreign currency affected the SOEs' import-export activities. The freeze of the real estate market impacted investment in real property and the results of those corporations doing business in the field.

Business efficiency of large SOEs, economic groups and corporations: Despite some crucial contributions to the Vietnamese economy, most economic groups and corporations did not promote the advantages of large-scale enterprises; their growth rate has not been associated with the state investment. Some economic groups and corporations have expanded their business in sensitive sectors, which are unrelated or possess few similarities to their major businesses in the financial, banking, stock, and real estate fields.

Because these enterprises have enlarged it's scales and capital, SOE equitization has progressed slowly. Thus, the process of value assessment and dealing with financial issues has become comprehensive and a long-term effort. During the end of 2007 and the beginning of 2008, the stock market continuously fell in downward fashion. As a result of this, auction sales of IPO's of some enterprises did not meet their set goals, which means the plans should be adjusted accordingly. Many enterprises have shown confusion in making judgments concerning land-use rights that including assessments of advantages in geographical locations, estimation of trademark values, and the selection of strategic shareholders, etc.

The network of the son companies has been excessively expanded, while management regulations on the relationship between the mother company and its son companies have not been entirely established in every field. Thus, some corporations and economic groups have faced troubles in managing, checking and monitoring their son companies in consideration of their business production activities.

Under the required implementation of inflation contraction, the Government maintains low prices for some vital goods. Therefore, some SOEs are facing difficulties in doing business. The mechanism of business accounting and cost calculation for some products and service production has not followed the market mechanism. Consequently, the Government has to cover resulting losses (for petroleum products) or has not created an encouraging environment for enterprises to cover up their expenses and reclaim investments (namely, in electricity and coal production).

The SOE administrative and operating works still remain limited. Some SOEs have been inactive in competition, while additionally the ability of SOE products to access markets is very weak.

5. View on Viet Nam's development by international organizations

5.1. World Bank and International Finance Company: nearly no Improvements in Vietnam's business environment

According to the World Bank business report (Doing Business 2009) produced by the International Finance Corporation (IFC) and World Bank (WB) issued at the end of September 2008, the business environment in Vietnam in 2008 did not significantly improve. According to their findings, the comparative advantage of doing business in Vietnam ranked 92 out of 181 countries,showing little improvements over 2008 (91/178), 2007 (104/175), or in 2006 (98/155).

Every year the "Doing Business" report studies regulations affecting 10 factors of business activities: starting a business, getting licensed, hiring and firing, registering property, getting credit, protecting investors, paying tax, trading across borders, enforcing contract, and closing a business. This report ranked the comparative advantage of 181 countries/economies.

According to the "Doing Business 2009", two important indicators (registering property and getting credit) were recorded in Vietnam's reform. Vietnam improved registering property through promulgating the Decree 84/2007/ND-CP dated 25 May 2007 by the Government, which supplemented regulations on: issuing land using rights certificates; revoking land; implementing land usage rights; procedure and sequence of compensation for withdrawn lands, supporting and resettling people once their land is revoked by the Government; and settling claim of land compensation. Additionally, in 2008, the Ministry of Natural Resource and Environment issued a number of circulars guiding the implementation of this Decree. Vietnam also creates more favourable conditions in getting credit by expanding the property scope that can be used as collateral. The 2005 Civil Code and Decree 163/2006/ND-CP dated 29 December 2006 guarantee transactions which allowed enterprise using all personal properties as collateral (existing and future, visual and in visual properties). These two important legal documents also affected the indicator of "closing a business," since these documents gave creditors more power in ranking priorities of secured creditors

Indicators of "starting a business", "paying tax" and "hiring and firing" ranked lower than in 2008. According to it, the comparative advantages of "starting a business", "paying tax" and "hiring and firing" in "Doing Business 2009" are correlative: 108/181, 140/181 van 90/181, much lower than in the the "Doing Business 2008" are correlative: 97/178, 128/178 and 84/178.

Table 1.3.

Summary of some indicators of Vietnam's business environment in 2009

Advantage level in indicators	Ranking of Vietnam 2009/181 countries/ economies	Ranking of Vietnam 2008/178 countries/ economies	Highest ranking nation	Lowest ranking nation
Doing Business Republic of Congo	92	91	Singapore	Democratic
Starting a Business	108	97	New Zealand	Guinea-Bissau
Getting License	67	63	St. Vincent and Grenadines	Eritrea
Hiring and firing	90	84	Singapore	Venezuela
Registering property	37	38	Saudi Arabia	East Timor
Getting credit	43	48	Malaysia	Palau
Protecting Investors	170	165	New Zealand	Afghanistan
Paying tax	140	128	Maldives	Belarus
Trading across borders	67	63	Singapore	Republic of Kyrgyz
Enforcing contract	42	40	Hongkong	East Timor
Closing a business	124	121		Central African Republic

Source: World Bank, 2008.

5.2. World Economic Forum: Vietnam shows potential for improving its business environment

In 2008, Vietnam ranked 70th out of 134 nations and economies in the world with regards to competitive ability (equivalent to the rank of 69 from 2007). This rank was not a large improvement over the rank of 68/131 from 2007. The evaluation of the global competitive ability in 2008 was based on the basis of more than 100 criteria assigned into 12 pillars of competitive abilities. These 12 pillars create 3 secondary indexes, which combine indexes of competitive ability. They are basic requirements, factors for efficiency improvement, initiative, and standard factors.

Among the criteria that Vietnam scored high on, there were 5 highest criteria: financing through local capital market (5th); Female participation in labour force (10th); salary relation and productivity (17th); government procurement of advance technical products (21st); and cluster development (25th).

There were three pillars that ranked relatively high: market size (40th); labour market efficiency (47th) and renovation (57th).

Vietnam ranked outside the top 100 (out of 134 nations/economies) on 19 criteria. Lowest scores were recorded for five criteria: nature of competitive advantage (126th); protecting investors (123rd); quality of management schools (120th); quality of the educational system (120th); and control of international distribution (119th).

In 2008, World Economic Forum (WEF) surveyed 14 criteria that usually are evaluated as "negative". People who were subjects of the survey selected the 5 worst criteria for each chosen nation. For Vietnam, criteria that was evaluated as "problematic" included the following: inflation; weak infrastructure; lack of high professional labour; and corruption. Four criteria were evaluated as the second lowest: instable policy; local workers' working attitude; finance resource access ability, and tax regulations.

Notably, indicators relating to Vietnam's education and labour market ranked across the board showed these indicators as preventing Vietnam's development.

Table 1.4

Ranking of Vietnam by labour efficiency in GCI 2009

Labour market efficiency	Ranking of Vietnam 2008 (out of 134 nations/economy)	Ranking of Vietnam 2007 (out of 131 nations/economy)
Firing costs (hard data)	103	101
Flexibility of wage determination	101	96
Reliance on professional management	95	87
Cooperation in labour-employer relations	91	84
Brain drain	88	68
Non-wage labour costs (hard data)	69	67
Rigidity of employment (hard data)	40	61

5.3. United Nations Conference on Trade and Development (UNCTAD): Vietnam still maintains sixth position of out the 10 most attractive country's group for multinational companies' investment

According to the World Investment Report (WIR) 2008 produced by the United Nations Conference on Trade and Development (UNCTAD), the foreign investment forecast may decrease in 2008 and 2009. This forecast was based on the basis of the foreign direct investment flow figures of 75 countries for the 2008 first quarter. According to the report, East Asian, South Asian and South-East Asian countries are still the most attractive countries for foreign direct investment. The report noted that China is the most attractive country for foreign direct investment, followed by India, the United States, Russia and Brazil. Vietnam still stood at 6th place thanks to the cheap and professional labour source, and thanks to the second world's economic growth rate (only after China).

Table 1.5.

UNCTAD 2008-2010 survey: the most attractive countries for foreign direct investment (FDI) for the next three years (to compare with 2007-2009 survey)

Economies	Indexes in the period 2007-2009	Economies	Indexes in the period 2008-2010
China	56	China	55
India	45	India	41
United State	38	United State	33
Russian	23	Russian	28
Brazil	14	Brazil	22
Vietnam	13	Vietnam	12
United Kingdom	10	Germany	9
Australia	10	Indonesia	8
Germany	7	Australia	7
Mexico	7	Canada	6
Poland	7	Mexico	6
		United Kingdom	6

Source: UNCTAD, 2008.

FDI liberalization in service by Vietnam's World Trade Organization (WTO) commitment will further facilitate Vietnam's investment environment, and leads to expectations of an increase in the FDI flow into Vietnam. As a result, Vietnam becomes one of the countries attracting multinational companies, and one of the most attractive emerging markets for retail.

6. Provincial Competitiveness Index[1]

The results of the provincial competition index (PCI) survey carried out in 2008 by the Vietnam Chamber of Commerce and Industry and the Vietnam Competition Initiative project (VNCI) indicates that the provincial business environment of Vietnam has changed astonishingly compared to 2007.

First, although the results of the provincial competitiveness index (PCI) by years were relatively stable, points of the 2008 survey in all rankings groups in general were lower than those of the previous years.

While most PCI sub-indices experienced moderate increases, two sub-indices, the Labor and Private Sector Development, show dramatic declines. Because of the high weights of these indices, the declines affected the overall PCI scores significantly. As a result, the PCI in 2008 was lower than in 2007 and in 2006. The main reason for the low PCI points is predominantly due to either: 1) Evidence of actual deterioration in public service delivery; or 2) Increasing firm expectations that have not been met by proportionate improvements in the quality of government services. Vietnam macroeconomic instability in the past has also impacted the less optimistic feelings of the enterprises.

Second, for the first time in 4 years, Da Nang province (with 72.18 points) has surpassed Binh Duong province (with 71.76 points) and ranked the first position of the provincial competitiveness index. The leading PCI provinces this year include Da Nang, Binh Duong, Vinh Phuc, Vinh Long, Dong Thap, Long An, Ben Tre, Lao Cai, An Giang and Thua Thien - Hue.

Another difference is that there was a movement in the PCI rankings groups. The number of provinces and good groups were fewer than in 2007.

For example, this year both Binh Dinh and Vinh Long provinces' points were decreased lower than the level of 69 points that were used to classify as *very good* and *good* PCI rankings groups

Governance Improvements

The PCI survey in 2008 indicated that the Vietnam business environment in 2008 has gained some encouraging achievements in relation to the year before. Waiting periods for business registration and other formalities of business entry are at historic lows. One-stop shop (OSS) implementation has had a positive impact on entry costs. In the median provinces, registration now takes only 12.5 days, and fewer than 6 percent of respondents waited more than three months to finish all business entry procedures. These regulatory changes continue to be reflected in greenfield business start-up and formalization of household enterprises. Chapter Two takes a close empirical look at OSS, finding that the greatest decline in waiting periods occurred in provinces with more thorough implementation of the official procedures.

---

1. Source: VCCI-VNCI, 2008

Security of property rights also continues to improve. This year, 81 percent of PCI respondents in the median provinces have formal Land Use Rights Certificates, up from 75 percent in 2007 and 55 percent in 2006. This startling growth will yield positive dividends in future investment and business expansion, as firms feel more secure about their business prospects.

Information and document access ability relating to business activities also continuously improved thanks to rapid development of the provincial official gazette. Over 65% of the enterprises surveyed believed that they can access the provincial legal documents, which increased from 61% in 2007. The percentage of firms negotiating their tax payments with local officials, another important indicator of transparency, improved in 2008, as it has in previous years. Only 36 percent of firms admit to this activity in 2008, down from 41 percent last year and 61 percent in 2006.

2008 PCI survey results indicated that "SOE Bias" was not indeed precarious any more. Equitization of these enterprises, expansion of bank lending to private firms, and increasing growth of the private sector have diminished firms' worries about special favors being granted to local champions, although firms do still worry about bias in favor of large state conglomerates

Challenges facing

2008 PCI index survey indicates there were still indeed precarious issues at hand. The component index of "Time costs of regulatory compliance" changed into a precarious tendency. Currently, 23 percent of firms spend more than 10 percent of their time on bureaucratic procedures, with few firms detecting any improvements in the burden caused by administrative barriers. While entry costs have improved dramatically, it appears there is still much work to do to address the cumbersome post-registration. Enterprises still continue to complain about various inconvenient documents and procedures when contacting and working daily with provincial staff.

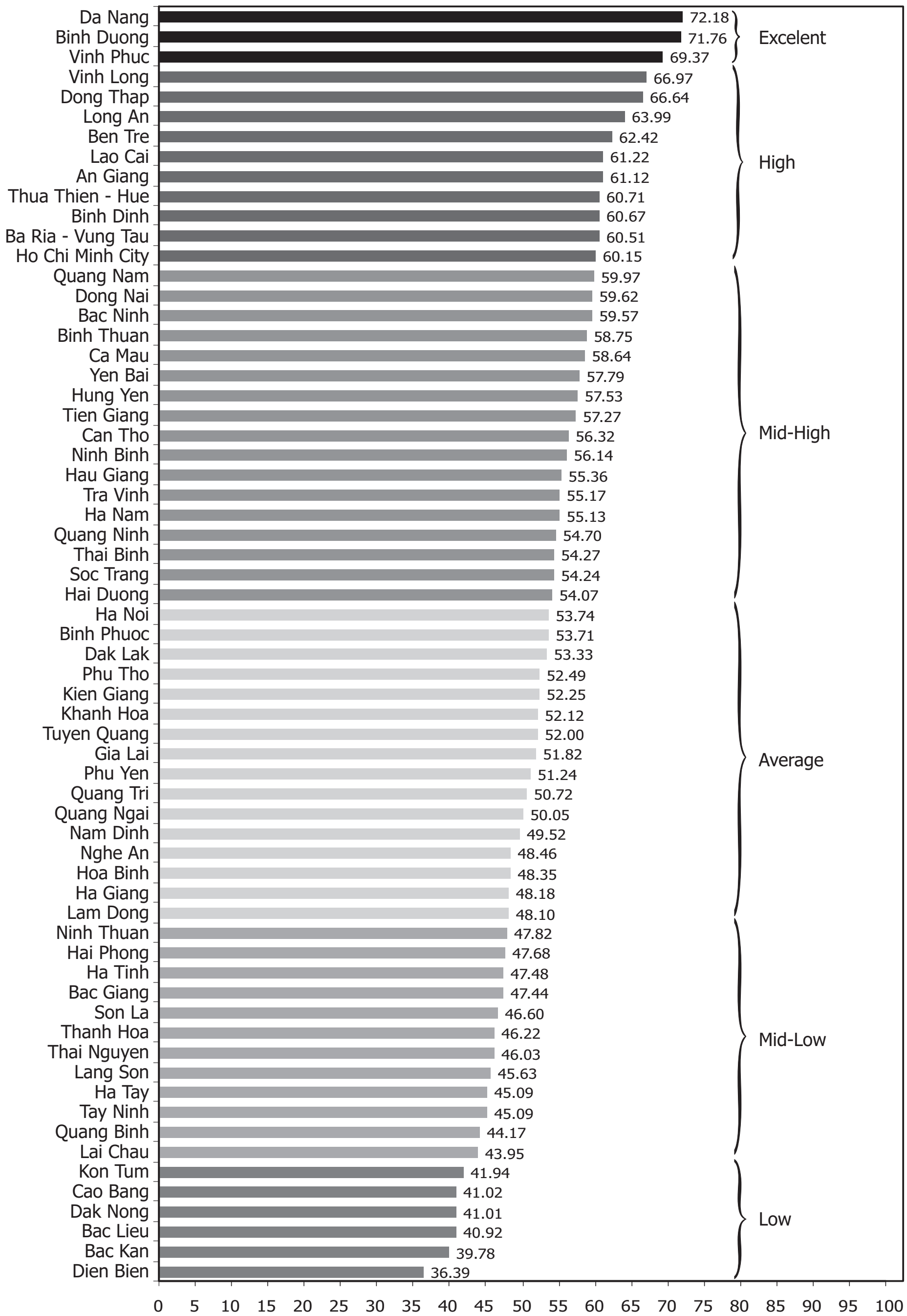
Indicators of informal charges also show no considerable improvement. Frequency and size of bribes coupled with the obstacles posed by bribery, have remained the same for the past three years, despite the government's highly public efforts to reign in such activity. Efforts for preventing the corruption should concentrate on simplifying the administrative procedure, while reducing the vague regulations to minimize arbitrary application of the regulations for self-interest purpose by the civil servants.

Infrastructure index

A number of the recent prestigious policy study reports show that weak infrastructure is reducing Vietnam competitive advantage in the world. The Infrastructure Index ranks the relative levels of infrastructure across the country along four dimensions: 1) Industrial zone quality and capacity; 2) Transportation costs; 3) Telecommunications and energy costs and stability; and 4) Major infrastructure

Figure 1.2.

Final 2008 PCI rankings



(ports/airports) The rankings result indicates find that Da Nang, Binh Dinh, Ho Chi Minh City (HCMC), Hai Phong, Binh Duong, and Dong Nai have the best infrastructure in the country, while the rural Northwestern Uplands have the worst.

Despite their absolute advantage, the study shows that the infrastructure in the high-performing provinces is not keeping up with demands on its usage. The provinces in the North Southeast industrial hub have the fastest population growth and the largest share of private enterprises and economic output, yet they lag behind other regions in the percentage of roads covered with asphalt, while forgoing improvements in road quality. Further they are paying the highest average energy prices in the country. In essence, infrastructure does appear to be placing constraints on development in high-growth regions, while policy makers have used infrastructure spending as a tool for redistribution. Fiscal decentralization and the corresponding powers of finance it has brought to provincial authorities may be a first step in allowing high-growth areas to raise the capital necessary to meet their changing economic needs. Fiscal decentralization impulsion and maintenance of efficient centralized supervision are to avoid an arbitrary expenditure.

7. Impact of international and local socio-economic development in 2008

In 2008, the international and local 2008 socio-economic context was complex and unexpected. Weakness in macro-economic leadership has impacted Vietnam's inflation rate, which is higher than in regional competing countries. For the first few months of the year, the Government implemented a tight money policy. However, for the last months of the year the tight money policy has been lessened, the loan interest rate decreased, and the deposit amount diminished. The bank system's liquidities were better, but the interest rate still was high due to the fact that outstanding credit has increased more slowly resulting in business activities facing many difficulties. Thanks to the efforts of implementing the solutions for restraining the inflation, stabilizing the macro-economy, and the reasonable sustainable growth, the price increasing fever has stopped, and the price increasing speed has decreased greatly. However, the inflation was still high when compared to December 2007, while the deep reason of the high inflation has not been settled. Disasters and diseases occurred continuously to cultivating crops and animals which have impacted enterprises' business activities significantly.

Inflation speeds of most countries in the world increased by 1.5 to 3 times compared to previous years. The world price fluctuated unexpectedly affecting economies dismally with the following afflictions: suddenly increased prices of crude oil, increased costs of raw materials and foods across the world in middle months of the year led to an increase of prices of most domestic goods at a high level though, in the final months of the year, rapidly decreasing prices lead to a strong decrease in prices of many goods including Vietnam export goods. Weakness of the financial market, depreciation of USD and GDP growth of United States decreased to the lowest level since 2003. The United States' recession has expanded and impacted on other economies with significant consequences. The economy recession, high price, and global inflation have greatly influenced the countries' socio-economic life, but the most affected countries were developing and under-developing countries, which possessed a weak competitive ability and maintained a need to import a great deal of raw materials and energy.

The world financial crisis expanded on a global scale, and it shows no signs of abating soon. The financial market dropped rapidly, the monetary market crisis remains very serious, and many banks and financial institutions have fallen into bankruptcy. Some economies fell into a recession, as the world economy declined. Graveness of the global financial crisis and the world economic recession trend have had a heavy and clear impact on Vietnam's economy, in particular:

(1) *Export became more difficult.* Export was affected by three aspects: the foreign customers reduced import due to financial and economic difficulties bringing in fewer orders. Therefore, Vietnam's exports decreased. Consumers' demand decreased; prices of many Vietnam's key export goods such as crude oil, rice, rubber, coffee, fishery products etc… decreased. Further, export production enterprises, including foreign direct investment enterprises, will consequently shrink their activities due to difficulties in capital and product sale.

(2) *Due to the impact of the global financial crisis, Vietnam's export market narrowed in 2008.* The export orders for garment, cashew-nut, pepper, furniture to the EU and United States decreased. The lawful domestic inflation fluctuation and the global economic decline have impacted negatively the Vietnamese economy since the end of 2008 in areas such as exports in the final months of the year reduced. In particular, October 2008's export was 300 million USD lower than the first 9 months' average export, although the industry production value increased by 15.4% compared to the same time in the previous year, The increasing ratio have continuously reduced from June to the end of 2008.

(3) *Import.* Import of a number of goods had a slow-down trend due to prices of many reducing import goods and less domestic demand leading to a decrease in the trade balance deficit and less tense of the inflation. On the other hand, import demand will increase because of the decreasing world market price, lower import taxation by international commitments, with all of these strongly impacting domestic production.

(4) *Tourism was affected heavily.* Influence of the global tourism decline in Vietnam was relatively clear: in 2008, international tourists only increased 0.6% to compare with 18.6% in 2007; international tourists in 2009 are expected to be even less. According to the forecast of the World Tourism Organization, the world tourists in 2009 will increase only 2%[1], the lowest ratio for many past decades.

(5) *Foreign capital resources were also affected.* Although FDI commitment in 2008 was high, reimbursement was a problem because foreign investors were facing difficulties in mobilising capital and selling their product. Due to the same reason, some registered foreign direct investment projects had to be postponed because investors were facing difficulties in arranging capital, which led to negative effects in Vietnam's stock market. Both indirect investment and the overseas national currency exchange amount from the overseas Vietnamese community and export labour could be less; borrowing ability and import guarantee were also more difficult. Income from service, including tourism, monetary - financial business and transportation had a slow-down trend.

(6) *Monetary-financial market was more risky.* Exchange rate, gold price changed rapidly which created difficulties for production and business.

Under the above factors, investment, mobilization for the state budget, domestic consumption, balance of payment, activities of enterprises, small and medium enterprises in particular, employment, poverty were all influenced.

---

1. In 2007, the world tourists increased 4%; in 2008 the world tourists were expected to increase 5% but the actual ability increased 3%; in 2009 the world tourists expect to increase 2%.

Part II

THE FINANCIAL MARKETS IN THE WORLD AND IN VIETNAM IN 2008

1. Process of the global financial crisis, comments and perspectives[1]

1.1. Spread and causes of the global financial crisis - reactions of Governments and Central Banks in numbers of countries.

The spread of crisis

The financial crisis, which began in the United States, peaked on 15th June 2008 and spread out combined with a prompt failure of a series of large financial entities leading to the global financial crisis. One of the first signs of the current global financial crisis appeared in a mortgage market in the United States starting in July 2007 when there was a decrease in prices of real estate and in the value of securitized mortgages. This led to a liquidity risk in a number of international banks such as Citigroup and HSBC which had invested in mortgage securities. In February 2008, Northern Rock Bank in the Great Britain was nationalized by the British government because of its loss of confidence in loan payment. In the United States, Bear Stearns merged with JP Morgan Chase under Ted's sponsors borrowing USD 28 million. In July 2008, FED lent Freddie and Fannie, which had been holding the biggest mortgages in the US,in order to recover their payment ability. It seems that the first wave of the financial crisis strongly hit the US. The center of the crisis forced the US to announce its descent into an economic crisis in December 2007. This has been aone of the larger economic crisises since the great world recession from 1929 to 1933. This crisis also deeply hit the Europe since some European countries have capital markets closely related to activities in the US. Financial markets in some Asian countries such as Japan, Singapore, Thailand, South Korea and Indonesia and in some South American countries such as Brazil and Argentina also have been effected by the crisis, but not as severely as those in the US and Europe.

From early 2008 to the end of February 2009, the number of banks which had gone into bankruptcy, merged or nationalized were up to 29 banks in the US and 33 banks in both the EU and Japan. This number was 14 banks in the US and 23 in both the EU and Japan from September 2007 to the end of 2008.

The causes of the financial crisis have seen proposed as following: 1) FED have been conducting monetary policy for many years in which low interest rates encouraged clients. including those who did not meet all the requirements for obtaining loans, to borrow money from banks to buy houses; 2) The financial and credit markets in the US and EU were developed freely but not transparently. This allowed speculation to develop and new financial instruments to appear without strict controls; 3) The crisis entered an acute phase because of loss of investors' confidence in the payment ability of banks and in the United States, Europe, and the world economies. Further concerns arose centering around the practice of unloading stocks and shares coupled with limits in borrowings.

---

1. By MA. Nguyen Thi Hong, the State Bank of Vietnam.

Responding solutions of governments and central banks

The governments and central banks, IMF, WB and other international financial institutions have tried to implement solutions, which are unprecedented to involve themselves in markets and rescue banks. In the first phase of the crisis, nations focused on resolving liquidity problems in financial systems. While banks were considering exchanges of capital, governments provided sponsors for borrowings and credits. When the financial crisis was worsening, governments implemented other solutions such as an increase in capital for affected financial institutes and purchasing assets of those institutions in some cases to ensure the financial system continued working normally. The details are the following:

- *The actions of governments*

In the first days of the crisis, governments conducted solutions along the lines of nationalizing AIG in the US, Fortis Bank in Norway, Bradford & Bingley in the Great Britain; imposing Washington Mutual Inc under the controls of JP Morgan Chase, and allowing Goldman Sachs and Morgan Stanley to reorganize and to set up their new branches in order to raise funds. Security centers in the US and Great Britain banned the purchase of hundreds of securities.

At the end of 2008 many governments provided solutions to rescue their financial markets and to enhance the growth. On 3rd October, the US House of Representatives passed a USD 700 billion government plan to rescue the American financial sector. On 25th October, FED announced the injection of another USD 800 billion to unfreeze the American credit market for consumers and small enterprises. Governments in European countries have a plan to spend an amount of USD 3000 billion to repurchase bad debts, to restructure bank capital, to buy shares in banks, to lend banks a long term loan to repurchase their own shares, and to adjust an increase in credit insurances. On 24th November 2008, the British government announced a stimulus package of EUR 20 million, approximate to USD 30 million to encourage consumption and to decrease the level of depression. The British government had spent prior USD 87 millions to rescue its banking system, nationalized Bradford & Bingley bank with a bank value of USD 39 million, and lent USD 200 billion to banks which had financial problems. The German government provided stimulus packages amounting up to EUR 500 million needed to rescue it banks. On 12th December, the Japanese government approved a supplemental ecenomic package of JFY 23,000 million (approximate to USD 242 million) to resolve difficulties in its labour markets. On 29th December 2008, the Japanese government resoluted to spend a giant government budget of JFY 88,500 billion on its fiscal spending, which started around April 2008. On 31st December 2008, the Russian Government also announced a plan to spend RUB 10,000 million(approximate to USD 350 million) to prevent further financial crisis. This amount was extracted from the governement budget, the central bank, and reserve funds.

In Asian countries, stimulus packages have been conducted in some economies to support growth of the global economy. The People's Republic of China announced a domestic stimulus package of NDT 4,000 billion (approximate to USD 586 billion) in 2008, 2009, and 2010. This money will be spent on upgrading infrastructure, particularly railways, airports throughout the country, reduce taxes; increase the prices of foods and support farmers, and small enterprises. In general, economies such as Hong Kong, China, Malaysia, Singapore, Thailand and Taiwan spent anywhere from 4,1% to 16% of each country's respective GDP to encourage consumptions.

From early 2009 to the present, some governments continue to carry out solutions to support their banks, which have been encountering financial problems, and to announce stimulus packages.

- *The initiatives of central banks*

The central banks in many countries have been injecting a huge amount of money in many forms into the global financial system to increase the liquidity of markets and to assist banks to overcome their distressed financial situation. Toward the end of December 2008, FED launched a total amount of USD 1,200 million into monetary markets together with many urgent forms of lending to ensure the liquidity of banking systems, such as creating more types of mortgaged securities, which allow borrowing money from FED, making interbanking loans, allowing some investment banks to raise their capital to reduce distressed finances. In adjustment of monetary policies, most of the central banks have changed from tightening contractive monetary policy into an expanding one in the final months of the year to avoid their economies going into recession[1].

- *Other international organizations such as IMF, ADB, OPEC,… also have been participating in activities to prevent the spread of the crisis and to limit damages caused to world economies.*

According to predication of these bodies, the total amount of USD 4,000 million, approximate to 7% of worldwide GDP, needed to be bailed out to ease into recovery for the world economy.

1.2. The world economy in 2008 under effects of the global financial crisis

The financial crisis began in the United States at the end of 2007, spread across other countries, and became the biggest global financial crisis since the great depression (1929 - 1933). The crisis has been affecting not only banking systems, but also entire economies spread throughout all types of markets. The global economy has been facing a great depression, and the financial market has been encountering unexpected changes. The emerged events are the following:

First, the world economy entered an acute phase after obtaining a high rate of growth and the economic activity in many countries was revealed to be in recession.

In 2008, the gross domestic product of the world reached 3.4%, much lower than 5% in 2007. This resulted from a sharp decrease in consumption and investment, and from a negative effect of the global financial crisis on exports in developing countries. At the end of November 2008, reports of economic recession had been released by at least 20 countries including leading economies such as the US, the UK, the European Union (except France), Japan, Switzerland, Hongkong, and Singapore. The recession

1. Source: Thomson Reuter.

in the US developed in December 2007, while that in other nations was found in November 2008. The growth of GDP of the above countries fell down to negative rates in continuous quarters. The rate of unemployment increased dramatically. The global financial crisis forced international organizations to adjust their predication of the growth of both the world economy and every single country economy in 2008 and 2009 (see Table 2.1 in Appendix).

Second, both inflation and deflation appeared in the same year

In 2008, the complexity of political and economic activities, together with disadvantages of the weather, created fluctuations in prices of many goods, especially raw oils. The inflation rate reached the peak within the first 6 months of the year in many countries, while it reduced sharply within the last 6 months. In some countries, concerns about inflation was highly apparent. Prices of gold in the world market were fluctuating sporadically. It was high at the first 7 months of the year, then reduced gradually from the end of July 2008 and was around at USD 800/ounce at the end of year. The decrease in the price of gold resulted from a dramatic decline in prices of raw oils, and from an announcement from the IMF on selling gold with quantity of 100 tons. Further friction arose from an increase in selling gold by investors to raise cash in the recession.

Third, dramatic fluctuations of interest rates and exchange rates

In 2008, the value of the USD changed continuously compared to other currencies. Since February 2008, the value of USD has been reduced sharply compared to that of the EUR. The exchange rate used to reach the above conclusions sits at around 1.5 USD/EUR. However, in August 2008 the value of the USD improved, and the exchange rate was under 1.5 USD/EUR. During the period from October to November 2008, the exchange rate was only at 1.2-1.3 USD/EUR. The main reasons for the increase in the value of USD in the later part of the year list as following: an unexpected performance of financial markets, which caused the global financial crisis, and increased demand for liquidity of USD in banks. This led an increase in the value of the USD compared to other currencies. Meanwhile, moving toward the recession, including European countries and Japan, reduced the comparative advantages of the above countries' currencies to USD.

Because central banks in many countries lowered their interest rates continuously to adapt recession and injected money into banking systems, LIBOR and SIBOR fluctuated with a high volatility. For example, SIBOR on 17th September 2008 reached a peak of 6.75% per annual. Then, on 5th January, it bottomed out at 0.105 per annual (see Table 2.2 in Appendix).

Fourth, a sharp decline in various stock indexes in many markets

Failure of investment banking systems on Wall Street have marked significant changes in world financial system throughout history. A decrease in stock indexes was happening in many regions. In Asia, the stock indexes decreased from 40,7% to 65,9% in 2008. This led to hundreds of thousands USD steaming out of these markets. KOSPI index in South Korea reached the bottom at minus 40,7%. Shanghai Composite index in China fell down most sharply among indexes compared with a decrease of more than 65% (see Table 2.3 in Appendix).

Fifth, a rapid fall in international reservation in many countries

According to reports published officially by IMF, foreign currency reserves at the end of October 2008 were revealed to have fallen down dramatically compared to those in September in many countries. 27 out of 28 countries published experienced a fall in their foreign currency reserves. This was explained by central banks who sold foreign currencies, including mostly USD, to retain the value of their domestic currency. The exchange rates of many strong and reserved foreign currencies, especially the Euro which makes up an approximate 25% of the foreign currency reserves in most countries, have gone down. This has led to a decrease in the amount of the US dollar of in foreign currency reserves.

1.3. The effects of the global financial crisis on the Vietnamese economy and enterprises

The global financial crisis has had certain impacts on the Vietnamese economy because of the global integration process. However, the effects were not as much as those on other economies, which are related directly with the US economy and other economies that suffered heavily from recession. The effects of the recession on the Vietnamese economy are shown as following:

First, the global financial crisis and recession of the world economy, especially recessions in leading economies such as the US, EU and Japan, caused a decrease for demand in the world for goods and services. This had a negative effect on export volumes in Vietnam.

Second, overseas Vietnamese remittances flowing into the Vietnamese economy have been reduced since incomes of Vietnamese people living in the US and other crisis areas have diminished.

Third, capitals in the world financial market were narrowed because investors faced financial difficulties, and became much more careful in making investment decisions. This reduced the volume of both foreign direct and foreign indirect investments in the world including Vietnam. Therefore, disbursement of FDI and FII has been sped down, and there has been a tendency of outflow in FDI and FII ever since October 2008. Other financial sources, such as oversea loans, also have been limited.

Fourth, prices of oils, materials, and goods imported have gone down. This may reduce inflation, but it also reduces the volume of imports and exports, causing negative effects on manufacturing and business activities.

Fifth, the crisis has had influences on the security market in the following aspects: Loss of confidence by investors and their carefulness in making investment decisions, a decline in the volume of money pouring into Vietnamese security markets by foreign investors due to capital shortages, and the attractiveness of the security markets to the investors since profits of companies listed went down.

Sixth, the crisis has affected enterprises' manufacturing and business activities. In another words, it has affected the bottom lines and capitals of various enterprises. Recession in 2008, reaching a deeper phase in 2009, might reduce profits of the enterprises. A decline in stock indexes in 2008 could be a sign for another decrease for this aspect in 2009. This may reduce the ability to raise capitals for some companies. It will lead to a large volume fired workers for many companies.

2. The financial market in Vietnam in 2008[1]

2.1. Overview of the development of the financial market in Vietnam in 2008

The financial market in Vietnam has been developing widely and deeply after 20 years of innovation.

- Scales of the financial market: Numbers of new financial institutions have been increasing rapidly. In the end of 2008, the number of credit institutions was up to 90 including three state-owned commercial banks, two state-held join-stock commercial banks, one social policy bank, one development bank, 37 foreign bank branches, four 100% foreign owned banks, 5 joint venture banks, and 37 join-stock commercial banks. In addition, there are approximate 1,000 people's credit funds, 9 financial companies, 12 leasing companies, local development funds, investment funds, security companies, and insurance companies. Scales of capitals in the financial institutions have increased dramatically. In 2006, capital requirements of commercial banks increased by 44% compared to those in 2005, by 89% in 2007 compared to 2006. State owned commercial banks increased by 96% in 2007 compared to 2006; while the capital requirement rose by 18% in 2008 compared to 2007.
- Depth of the financial market: The financial market has been developing quite well. The ratio of raising capital of credit system compared to GDP increased from 15% in 1992 to 114% in 2008. The ratio of loan balance over GDP went up from 13,7% in 1992 to 105% in 2008. The index of market capitalization rose rapidly from 2006 to 2008, it was 0,52% GDP in 2004, up to 43%? GDP in 2007 and 19% GDP in 2008 (see Table 2.4 in Appendix).
- Structure of the financial market: In the first years of the renovation, the financial market was simply credit markets that included borrowing and lending activities. Until now, it has been being diversified with all types of partial markets and has a certain development.

Before joining the WTO, Vietnam has only four international joint venture banks and 28 branches of 100% foreign capital banks. However, demands for setting up more 100% foreign banks, international joint venture banks, and international fund managers have been increasing since agreements between Vietnam and the WTO came into effect. In 2008, the state bank was allowed to establish four 100% foreign capital banks. In addition, equitization in the state-owned commercial banks are in progress, and individuals have demanded to set up more branch new join-stock commercial banks. Therefore, structures and market shares of these bank groups have changed. The share markets of state owned commercial banks have reduced gradually while those of join-stock and foreign banks have increased quite fast.

1. By Dr. Nguyen Thi Kim Thanh, Director of Banking Strategy Institute - The State Bank of Vietnam.

Table 2.1.

The market shares of banks

Unit: %

Year	State-owned commercial banks		Join-stock commercial banks		100% foreign capital banks	
	Lending	Borrowing	Lending	Borrowing	Lending	Borrowing
2005	69.96	73.89	14.51	16.67	9.43	7.9
2006	64.56	69.66	19.31	20.71	9.45	8.1
2007	55.96	59.31	27.74	30.36	9.25	8.78
2008	53.95	57.08	26.51	33.07	11.04	7.12

Sources: The State Bank of Vietnam.

On the other hand since 2006, an increase in foreign indirect investment has contributed to obtain a great improvement in stock markets and bond markets. For instance, the stock market index increased by 28% in 2005 and 89% in 2008. The numbers of companies listed were 32 in 2005 and 338 companies in 2008. The value of bonds listed was approximately VND 23,000 billion in 2004 and VND 218,812 billion in 2008. The development of capital markets would be a new foundation to the financial market in Vietnam creating wide diversification of the market.

About operational mechanisms of the financial market: The development of financial markets over the past years has become more complicated and diversified in a way towards liberalization and integration embedded by a combination of objective factors from markets and subjective ones from authorized bodies. The competition in the markets has also increased. The changes in the operational mechanisms could be listed below: 1) Financial instruments and transactions are more diverse; 2) Prices of financial products are based on the demand and supply relationship, the government‘s interference in borrowing activities of the commercial banks has reduced; 3) Operational mechanisms of foreign currency markets have been loosened; the regulations of current transactions and capital transactions have created good conditions to free up the financial market which complies with the agreements between Vietnam and WTO; 4) Competition in the financial market has been increasing.

2.2. The financial market in Vietnam in 2008

In 2008, the economy in Vietnam experienced a complex period. In the first quarter of 2008, the inflation rate increased by 19.39% compared to that in the same period of 2007 and by 9.19% compared with last December. Moreover, there was a deficit in foreign trade with the macro economy starting to display signals of an unstable period. In order to stabilize the economy and create a foundation for long - term development, the government has changed the leading aim from a high growth rate of 9.5% to inflation preventions and a lower growth rate of 6.5-7%. Meanwhile, the government has also provided 8 group solutions which stickled together in order to prevent inflation, stabilize the macro economy, ensure social benefit and develop stability. (Regulations 10/2008/NQ-CP on 17/4/2008). Conducting macro solutions seriously resulted in an improvement in macro indexes, and a fall in the inflation since September compared to the same period in 2007; for example, the inflation rate was 27.9% in September 2008; lower than the rate of 28.32 % in August 2008. CPI increased continuously during the period from January to August 2008, while it decreased from September to December 2008 reaching 19.89% in December.

The complexity of the international and domestic economy in 2008 had certain effects on the financial market as seen in following: an unstable performance in partial domestic markets caused the same situation in the whole financial market, which is related to the international financial market. However, the weakness of the financial market, which was shown unambiguously because of the fluctuation of the financial market, has been improved. This assisted in preventing negative affects from the global financial crisis, and a further slide into recession in the development of the Vietnamese economy.

Summarizations of events in partial markets:

- *Monetary markets*

In 2008, lending balances of financial institutions reached 25%, while the capital raised from citizens reached 21%. Moreover, in spite of the global financial crisis and the looseness in mechanism of the financial market, foreign investment continued to flow into Vietnam. However, the financial market became more complex during the progress of revolution in comparison to previous years. This complexity was explained by a reversible direction in interest rates and exchange rates during this year.

The interest rate of VND rose dramatically from January to August 2008. The borrowing interest rate of VND compounded annually increased from 8.4% up to 18% in August 2008, while the lending interest rate increased from 12.6% to 21%[1]. Both rates in some banks were even higher than that because they charged other fees. Since December 2008, interest rates have started reducing, while inflation rates have gone up more slowly. The state bank implemented its policies by increasing interest rates of reserve requirements and bill yield requirements. Many banks reduced the short - term lending interest rate down to 13.5-14% per annual in December, the borrowing interest rate compounded annually was mostly at 10-11% per year.

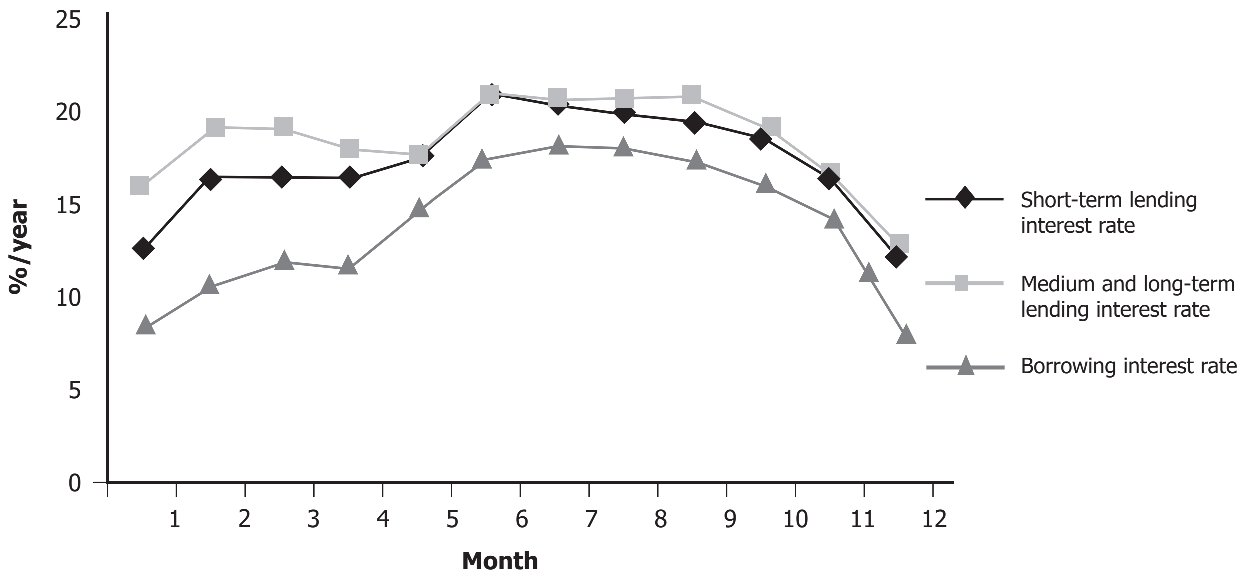
The interest rate of USD changed slightly; rising from 5% per year compounded annually in December to 6% in June 2008, beginning to decline in July 2008. Toward October 2008, the borrowing interest rate of USD was at 4.8-6%, and the lending interest rate also reduced; the short - term lending interest rate in late 2008 was at 8% up to 10% (Figure 2.1).

---

1. In June 2008 the State Bank of Vietnam had a regulation of ceiling lending interest rate which was 21%.

Figure 2.1.

The graph of VND interest rates in Vietnam in 2008



Sources: The State Bank of Vietnam.

There was a significant point in the performance of the interest rate in 2008. That is, the interest rate was considerably changed within a week in some months. The competition of the interest rates was increasing. Meanwhile, the borrowing interest rate compounded weekly or short-term borrowing interest rate was lower than long-term ones. In addition, inter-bank interest rates were fluctuating sharply during the year, especially from March to July 2008.

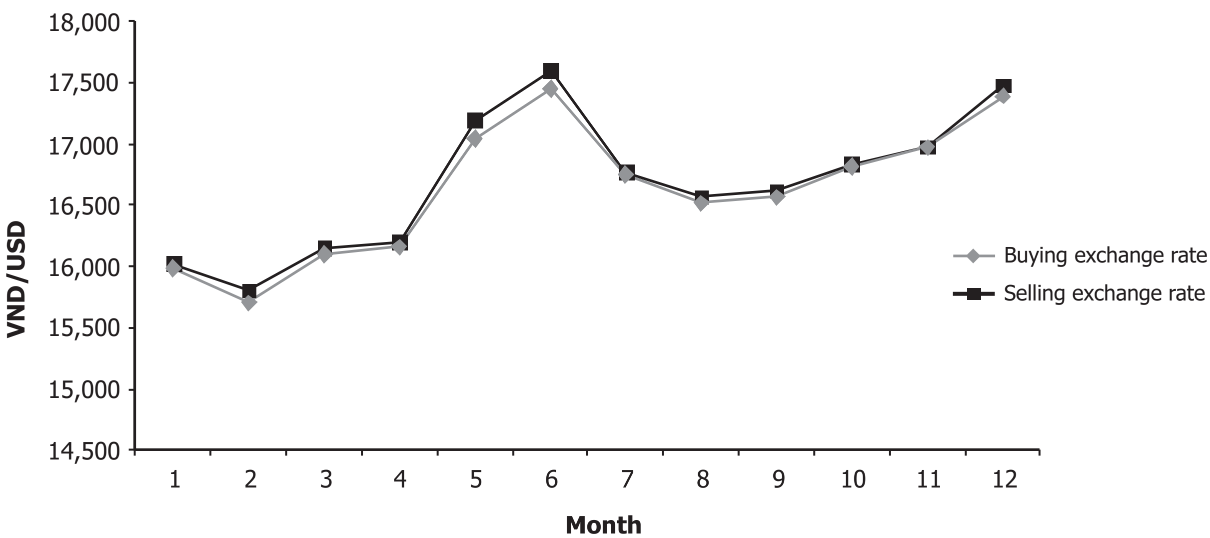
The performance of the interest rate showed a lack of liquidation in the monetary market. This was the most striking point in the monetary market in 2008. However, this issue was solved once the state bank poured more money into commercial banks. Toward September 2008, the liquidation of the market returned to usual. The liquidation problem, which afflicted the monetary market in Vietnam in 2008, could not be avoided since commercial banks' lending capital used was in surplus. This resulted in lack of attention being paid to the liquidation of the market. Therefore, the contractive monetary policy of the state bank, along with a high demand for borrowing, led to the liquidation problem in commercial banks. However, this taught commercial banks a good lesson concerning the management of liquidation. In addition, regulations of the market were also reset, and the role of the state bank has been improved.

- *Foreign currency markets*

A high fluctuation of the exchange rate was a striking point of foreign currency in 2008. From January to March in 2008, VND significantly improved in its value because supply of foreign currency was in surplus and demand for it was limited by the state bank. Sometimes the exchange rate was only 15,000 VND/USD. However, the exchange rate started declining in its value after late March 2008. In late May, Vietnam experienced an exchange rate shock. VND became sharply devalued. The exchange rate was up to 19,000 VND/USD during some days in June. The reasons for that were an unstable statistics of macroeconomic indexes such as an increase in inflation, a deficit in trade balance, changes in the stock market, and unhealthy predictions of international institutes such as Morgan Stanley..., the forward exchange rate, which was even up to 22,000 VND/USD in Singapore, had a negative effect on domestic investors' confidence. In addition, speculation also spread out. To improve the current situation, the state bank implemented a series of solutions to stabilize markets. It resulted in the stability of the exchange rate from July to December 2008, and a narrower gap between the official exchange rate and non - official one (see Figure 2.2).

Figure 2.2.

Performance of VND/USD exchange rate in 2008



Souces: The State Bank of Vietnam.

- *Summary of the stock market*

The stock market in Vietnam, which started operating in 2000, has been creating new opportunities for the Vietnamese financial market. From 2000 to 2006, it continuously developed, and the stock index increased sharply from the end of 2006 to the beginning of July. However, since late 2007 and especially in 2008, the stock index reduced dramatically. A particular characteristic of the stock market in Vietnam was it's close relationship with the world stock market. This is explained by unexpected confidence of domestic investors and reactions of oversea investors. The investment sharply flowed out of the

Vietnamese stock market in April, May, June and October 2008. The amount of withdrawn investment reached nearly USD 300. This was caused by the financial global crisis together with unstable macro-economic conditions in Vietnam.

At the end of 2008 VN Index and HASTC Index went down by approximately 70% compared to the beginning of the same year. This decline, which had been unprecedented since the stock market's inception, was one of the largest across the world. The market capitalized index reduced sharply from 43% in 2007 to 19% in 2008. Moreover, issuing the individual income tax also had an effect on investors' confidence, especially in the situation of a decreased stock market.

In 2008, most companies' profit declined because of failure in financial investment, high fees of financial transactions, an increase in risk reservation, a decrease in the price of real estate, and a fluctuation of interest rates and exchange rates. It led to a decrease in the prices of those companies' shares.

Coupled with a decline in the stock market, many security companies and fund managements were facing difficulties. Some of them lost a huge profit. The series of security companies had to reduce the number of their employees or seek oversea partners to survive the global financial crisis.

The fluctuation in the financial market in 2008 shows to a certain extent that the Vietnamese financial market has not met the capital demand for the process of economic development and integration, and it is still on a lower development compare to those in other countries, while being negatively influenced by shocks because it is a new born market. The weakness of the financial market in 2008 includes a low effectiveness of capital circulation, a lacked transparency of competition, existence of potential risk in unbalance, a loose relation among partial markets, and limitation in the market's liquidation. A decline in stock index, a high fluctuation of exchange rate, as well as a limit in capital circulation is characteristic of an unstable financial market[1].

2.3. The challenges and opportunities to the Vietnamese financial market in the current period

In 2009, financial markets in the world, especially in countries that comprise the G8, are in crisis. Transactions in the markets seems to be stuck, and credit as well as stock markets are reducing scale. Therefore, governments are making efforts to recover the markets. Most of the solutions focus on resolving the causes of the crisis. Many countries have recently faced the challenges and the questions,

---

1. Series of security companies were established; income of staff in security companies and competition in labors markets for security companies were high when prices of stocks were high while stock markets were unstable when the prices of stocks were low. These facts together with breaking down of the security regulations states that the security market is operating uncertainly; investors' trading skills and technical knowledge are limited; security regulations and monitoring system are still lack.

which have not brought answers. For instance, questions remain as to whether or not the structure of the financial system matches the wide and deep development of the financial market, or that monitoring systems cover the entire financial market. Transparency of this information needs to be considered because it has both positive and negative effects on the performance of the market, especially when investors' confidence is key to recovery.

In Vietnam, the financial market has been facing the challenges of integration and the difficulties of other crisis affected countries as shown above. However, those challenges and difficulties in Vietnam are at a different level and have a different characteristic. They are only in the medium-term period. Although global financial markets are in crisis, the competition in the Vietnamese financial market is low. While the financial institutions in the world are showing their limitations in risk management and financial position and restructuring to recover, those in Vietnam, especially commercial banks, have been certainly strengthened and improved after the Asian financial crisis (1997-1998). In addition, investors' confidence in the financial market has not been lost except in the stock market, which makes up a small share of the whole financial market. The credit market was still growing in the first months of 2009, although this period included the Tet holiday.

Nevertheless, the financial market might pose challenges in the production area in Vietnam. The global financial crisis and economic recession have spread out widely and deeply, and they show no sign of stopping at present. This has an unambiguous effect on the Vietnamese economy, especially on production in the first months of 2009. The domestic companies, especially export and FDI enterprises, might face difficulties in maintaining and expanding production. Some companies have had to scale down their production because of a decline in export markets and limits on capital in FDI companies. The problems in the production area might directly cause difficulties in the financial area, such as difficulties in increasing credit and risk in recouping loans.

To the extent, the macro level global financial crisis has been putting pressure on foreign exchanges for VND and encouraging exchanges from VND to foreign currencies. Solutions for this problem are issuing proper policies of exchange rates and interest rates together with enhancing monitoring abilities to financial market to prevent speculation, and continuing to improve market regulations.

Moreover, negative effects of the global financial crisis on the Vietnamese economy together with weakness of this economy itself have been posing the most challenges to the Vietnamese stock market in 2009. The stock market will hardly be recovered in 2009. Difficulties in the business of enterprises led to loss of profit. In addition, a decline in stock indexes in 2008 still maintains a negative effect on investors' confidence. This results in less investment in the stock market, and it might cause difficulties in the business of security companies and fund managers.

In order to overcome these serious challenges, implementing solutions to develop production might stabilize the financial market. Therefore, the government has provided on time solutions to support production. For example, commercial banks have offered a low interest rate to loans which finance production activities. This interest rate is down to only 4% per year[1]. This policy of the government not only supports enterprises fairly, stabilizes the financial market and enriches investor's confidence in the market, but also improves considered and decided abilities to loans of the commercial banks. Besides that, the government has provided possible urgent solutions to prevent recession, maintain economic growth, and ensure social benefits. Some solutions on which the government has focused are enhancing business, manufacturing, export activities, encouraging investment and consumption, and coming in effect of financial and credit polices as shown in Documents No 30/NQ30/NQ-CP on 16th December 2008. Nevertheless, challenges of the financial market are supposed to be resolved in 2009.

1. Decision No 131/QD-TTg dated 23rd January 2009 of the Prime Minister and Instruction No 02/2009/TT-NHNN on 3rd February 2009 of the State Bank Governor of Vietnam on giving interest rate support to organizations and individuals that borrowed capitals from banks to carry out their business and production.

Part III

ASSESSMENT OF FIRM'S FINANCE CAPACITY

1. Database for assessment and sector selection for analys

To supply a comprehensive assessment on firms' finance capacity, Part III of the ***Vietnam Business Annual Report 2008*** analyzes each sector from 2000 to 2007. The computerized findings in the period from 2000 to 2006 are consistent with the *Vietnam Business Annual Report 2007* (VCCI, 2008).

The data used for assessment was taken from the "Enterprise census database 2000-2006", which is conducted annually by GSO. To ensure consistency of sources in the analysis, the assessment of firm's capacity will only use the database found in this census[1].

Assessment on enterprises' finance capacity was conducted within 6 key sectors in 2007. The working group has selected the following 6 sectors[2].

1. Food processing (beverages and cigarettes)[3].
2. Garment.
3. Construction.
4. Tourism.
5. Banking services, investment funds and security service companies.
6. Insurance.

The rationale for the selection of these above 6 sectors is as follows:

- Vietnam has been a member of the WTO for only a year since they joined in 2007. Thanks to the full integration provided by this organization, the export volume of Vietnam in 2007 sharply increased, especially in the number of food and textile products, which are listed as key exports of Vietnam (GSO, 2007).

---

1. The analysis result of this assessment completely depends on the quality of enterprise census database done by General Statistics Office. While analyzing, the research team saw some observers which had the values of analysis indicators different from the mean values of the samples (outlier). This resulted in the non-relevant findings. Even, the team tried to make it better (the number of outlier is rather smaller than the sample), we still had to accept the distorted findings for the rest. Most of the faults resulting from random and non-periodical outlier are in the finance indicators (fault resulting from outliers which are marked in the analysis table and noted in the charts when their values affect to the values/trends of the samples).

2. These economic sectors are secondary ones which are consolidated from the sub-sectors of VSIC 2007.

3. For convenient presentation, from Part II, the industry of food frocessing, beverages and cigarettes is referred to as food processing. The industry of banking services, investment funds and security service companies is referred to as banking services. The names of other industries remain unchanged.

- The year 2007 also marked the eventful development of the finance market, especially the stock market. With the level of market capitalization at 43% of the GDP at the end of 2007 (in comparison with 1.1% of GDP in 2005) (Vo Tri Thanh, 2008), the finance market especially the stock market, really was the center for investment activities and the channel to mobilize capital for local and international enterprises. This is also the reason for us to include banking services and insurance enterprises in the list of analyzed sectors.
- The above selected six sectors are quite consistent with selected ones in ***Vietnam Business Annual Report 2007*** (VCCI, 2008). To this end, assessment of the the enterprises' finance capacity in 2007 is an additional part for the previous analysis, which gives out the overall and cross - cutting views on the operations of the indicators of each enterprises' finance.

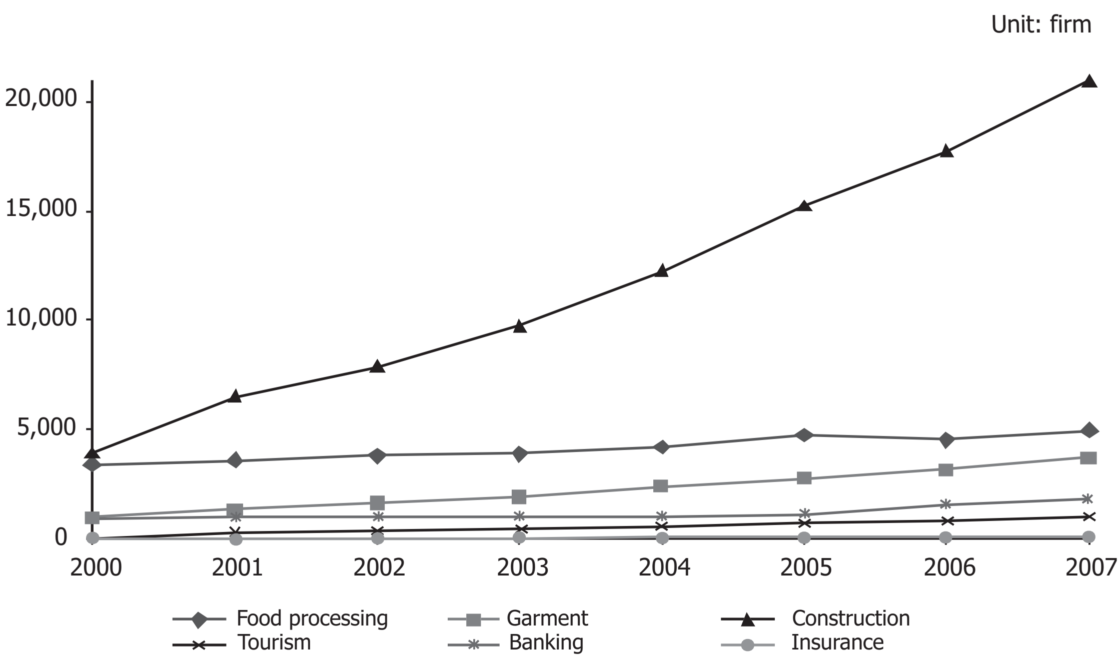
2. Number of Enterprises (as of 31 December yearly)

The year 2007 created a series of business opportunities for firms. The Table 3.1a-c in the appendix illustrated the emerging number of firms within 6 selected sectors. The general picture of the business situation shows that firms took their comparative advantage better and had a better chance to access other markets.

The trend in business of dynamism is shown in figure 3.1. Among the 6 selected sectors, construction was not only the sector that attracted the largest number of investment, but it also had the highest level of sector accession. There were nearly 21.000 enterprises joining the construction business sector at the end of 2007. This shows an increase of 19% in comparison with last year. For the past eight years, the food, manufacturing, and garment sectors have ranked second and third in the view of investment attraction. Accessing WTO opens a better opportunity for processing firms in taking comparative advantages of cheap labor resources to better gain access to export markets. It must be noted that one year of accession can not create remarkable or substantial achievements. However, garment firms took their comparative advantages in accessing market better than food manufacturing ones (see Table 3.1a of the Appendix). Being in the list of service sectors, tourism, banking and insurance were also highly attractive. The development of the finance market, especially the stock market in 2007 created big business opportunities for many enterprises, organized investors, as well as local and international individuals (Vo Tri Thanh, 2008).

Figure 3.1.

Trends in business dynamism



The picture of business dynamism situation in 2007 demonstrates an interesting scope of enterprises with some differentials[1] (see Figure 3.1b and 3.1c of the Appendix).

In the period of 2000-2007, overall, large firms shared the same trends of development with small ones among all sectors (with the exception of the construction sector in the period of 2005-2006). The period of 2006-2007 marked a shift in the trend of production business within large firms. Business opportunity was opened for all analyzed sectors. This can be shown by the large number of accession firms, especially accession to the construction sector. Nevertheless, there was difference in the size of the banks in 2007. The number of large firms doing business in the banking sector (including investment funds and security companies) decreased by 30% in comparison with 2006, while the growth of accession small firms reached nearly 40% comparatively.

It seems that the playing ground of the finance market had already been settled for large firms, while business opportunities in niche markets increased together with the development of finance markets and stock markets, which resulted in a huge amount of business opportunities for small firms in these sectors. However, due to data collected up to 31 December 2007, assessment of previous times up to present shows that small firms within the banking and security sector caught up to the opportunities presented by 2007 - time of blooming in stock market - to access market. It is unacceptable to use the data collected in this part to officially assess the current situation of small firms in this sector relevant to 2008.

---

1. In this study the firm size was classified according to the number of employees: firms with less than 200 employees defined as "small" and firms with more than 200 employees defined as" large". There are two reasons for this classification: 1) classification in this study must to ensure consistency with VCCI's *Vietnam Business Annual Report 2006;* and 2) classification enterprises into 3 types of small, medium and large (as usual in the previous researches) can not underline the difference of assessment indicators of the size of enterprises. There are few observers in the large enterprise, while small and medium enterprises share the same trend and the rest is large ones.

3. Assessment the firm's financial capacity

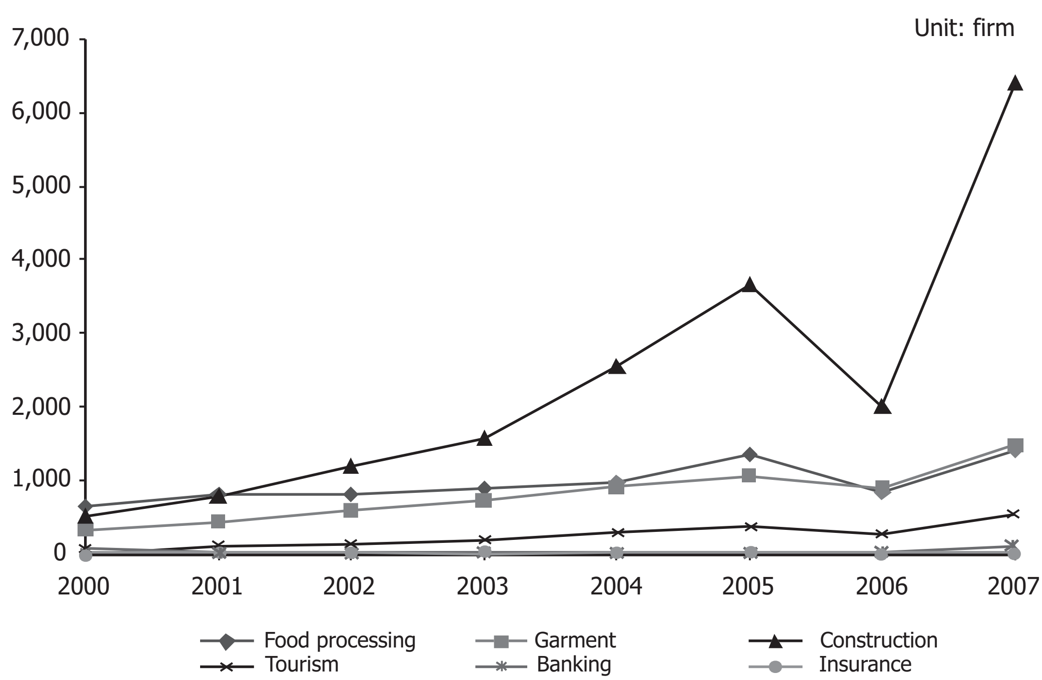
3.1. Trends in profit loss within firms in 2007

Figure 3.2 demonstrates trends in the profit losses heaped onto firms. In general, the year 2007 created a series of business opportunities, as well as risks for enterprises. The firms that earned a ratio of loss increased in all sectors in 2007. In line with the trend of previous years, firms in the service sector had the lowest loss. Typically in banking and the insurance sectors, the number of enterprises in loss was not really remarkable. The rule "the better opportunity, the higher risk" can be applied to the manufacturing and construction sectors as the number of accession firm was large, but the number of firms taking on losses was also rather large. The number of construction enterprises in loss increased thrice fold compared to 2006. Even the garment food manufacturing sectors were considered as key export industries in 2007. However, the increase in the number of firms in loss had also been highest for the past 8 years (since 2000).

Figure 3.2a in the annex demonstrates the ratio of firms in loss among the total number of enterprises in the sector. In 2007, the tourism sector ranked first in the list of enterprises in loss, followed by the garment, food processing, and construction sectors. Insurance and banking had the lowest ratio of loss. However, the picture of the business situation becomes clearer by analyzing the size of firms.

Figure 3.2.

Trends in profit loss



Regarding the firm size, small firm sectors had the larger number of firms in loss than the larger enterprise sectors (see Figure 3.2 b-c in the Appendix). In the insurance and banking sectors, the ratio of small firms in loss out of total firms in loss accounts for 79% and 87% respectively. In the tourism and food processing sectors, the level of loss was nearly the same as the size of the firms. In the garment and construction sectors, small firms operated more efficiently than the larger ones (44% and 38% small firms in loss out of overall, while 70% and 100% respectively were the ratio of small firms in loss in these two sectors). The effectiveness of business performance was indicated in all sectors. This trend demonstrates that the activeness and effectiveness of the private sector are better than the other sectors.

Looking for a reason for firm losses within the above selected 6 sectors, Vo Tri Thanh (2008) listed the market and institutional failures in 2007 which can be considered as key reasons negatively affecting the operations of production business enterprises.

- Big gaps between the fact and requirement of professionalism, transparency and explanation ability of governmental structures;
- Shortcomings in institutions to develop the market production factors (finance market, land market and labor market);
- Inadequate infrastructure causing high intermediate costs for business operations;
- Potential risks of the macro economy in 2007 such as, inflation and deficit in the balance of payments (these became real threats throughout the rest of 2008 with the inflation rate at 2 digits resulting in the largest deficit over the last 10 years).

3.2. Indicators of liquidity[1]

The following parts will focus on analyzing finance indicators including: liquidity indicators, operation indicators, and debit/debt and profit indicators.

Liquidity indicators (known as short-term debt indicators) include current ratios and quick ratios. Analysis of these ratios will provide information regarding firms' solvency for short-term debt. When liquidity ratios are lower than reference values, short-term debt shall decrease.

1. Finance indicators are quite different when taking the size of firm in account, thus from this part, we shall focus on analyzing by the size of firm rather than the size of the sector. This can reflect the finance of firm better and make good of outlier faults.

3.2.1. Current ratio

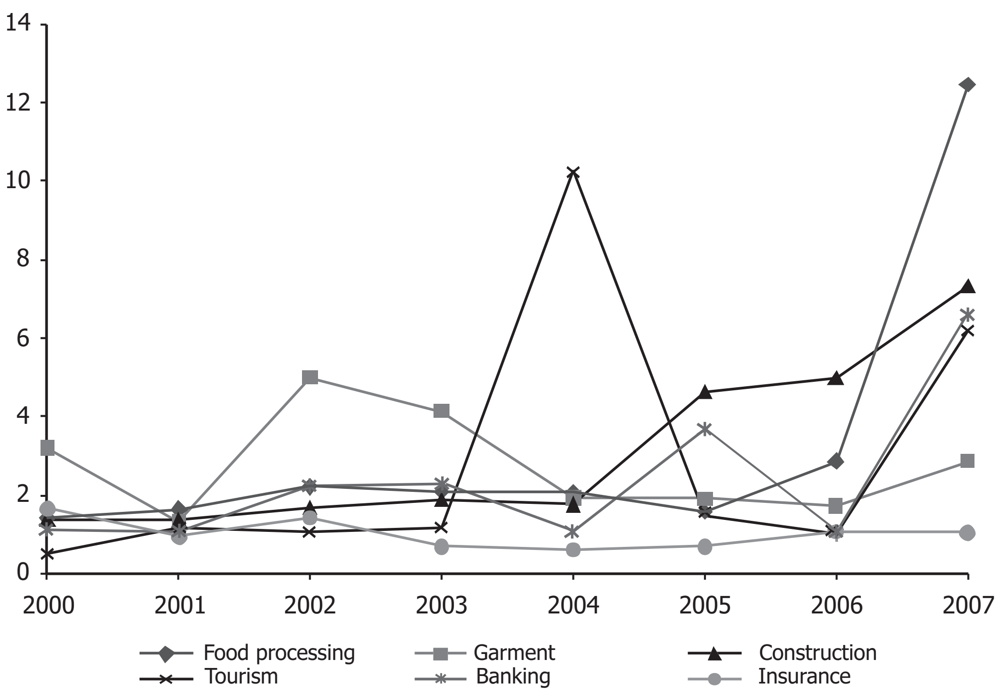
$$\textbf{Current ratio} = \frac{\textbf{Current assets}}{\textbf{Current liabilities}}$$

$$\textbf{Reference value} = \begin{cases} \textbf{2.0 (manufacturing sectors)} \\ \textbf{1.0 (service sectors)} \end{cases}$$

Figure 3.3a-b demonstrates the current ratios among large and small firms[1]. In general in 2007, large firm current ratios have been improved with the highest increase in food manufacturing, banking, and tourism. By contrast in 2007, current ratios of small firms across all sectors (except insurance) decreased. The sharpest decline was found in the food manufacturing, construction, and banking sectors.

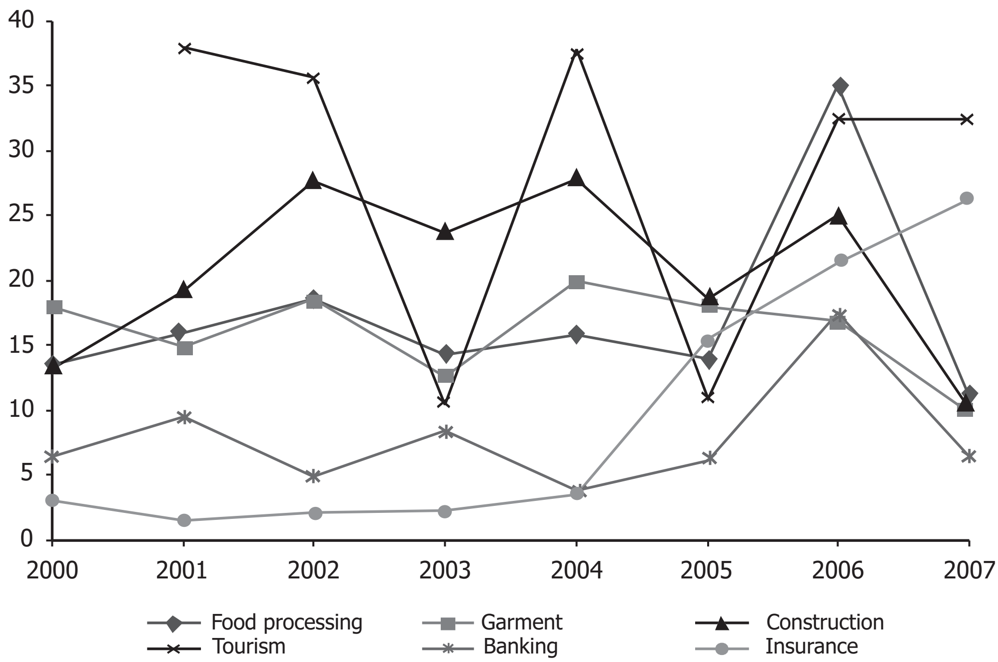
Figure 3.3a.

Trends in current ratios of large firms



1. Due to the existence of outlier, the value of liquidity ratio of large firms in tourism in 2004 was out of sector trend.

Figure 3.3b.
Trends in current ratios of small firms



In 2007, the current ratio of large firms in selected sectors had remarkable improvements, partly due to the strong development of capital market (finance), as firms can diversify their capital resources and depend less on the loan resources from banks. However, the current ratio of large and small firms was highly above reference values. In general, large firm sectors in 2007 maintained the lower current ratio than the small firm sector. Though with consideration, the gap was tightened considerably in comparison with 2006. The higher liquidity ratios (comparatively) of small firms over larger firms indicates better solvency rates of smaller ones than large ones.

3.2.2. Quick ratio

$$\textbf{Quick ratio} = \frac{\textbf{Current assets - Inventories}}{\textbf{Current liability}}$$

Reference value = 1.0

Short-term repayment capacity can also be measured by quick ratios. Figure 3.4a in the Appendix demonstrates the value of this ratio concerning all firms within each sector. With a reference value of 1.0, values of all sectors are very good. Overall, the year 2007 was marked with better improvements in quick ratio than 2006. While in 2006, large firms in tourism and banking sectors showed the quick ratios below the reference ratios little; though these were improved remarkably in 2007 (see Table 3.4b of the Appendix). Uniquely, large firms in the insurance sector showed the quick ratio fairly below the reference ratio in 2007. Though this was recovered at 1.06 in 2006. Due to the liquidity of the services (consumed immediately after production), these signals of quick ratios are not the most dire problems for large enterprises in the service sector.

3.3. Managerial capacity

Managerial capacity of firms was measured by two financial ratios: inventory ratio and total asset turnover.

3.3.1. Inventory ratio

$$\textbf{Inventory ratio} = \frac{\textbf{Inventory}}{\textbf{Current liability}}$$

Reference value = 0.5

Inventory ratios are used to evaluate the liquidity of inventory. The value of this ratio is demonstrated in table 3.5a of the Appendix. For the service sector, the inventory ratio is fairly low. Though, it is higher than the reference value. As shown above, due to the typical nature of services, it makes the inventory ratio meaningless in reflecting the liquidity of these goods.

For the construction and manufacturing sectors, the inventory ratios versus reference values of 0.5 indicate that the liquidity of these goods is not sufficient. Especially, within the food processing sector, which is sensitive with inventory. The inventory ratio was very high in 2007 (of 2.59 five times higher than the reference ratio). Figure 3.4a points out that the trend of the inventory in this sector has been comparatively high for the last two years (around 2.5 of the food processing sector and above 1.0 of the textile sector). This indicates that enterprises in those sectors have bulk goods resting on the shelf. It concerns firms in case there is chaos in the market. Especially, there remains concern the key export markets of Vietnam; as frozen seafood and footwear are impossible to protect for a long time as seasonal products, which in turn presents great opportunities for loss.

Analysis by the firm size shows that the inventory ratio of the small firm was bad (far higher than the reference ratio of 0.5), and it was nearly the same as the average level of all other sectors (see Table 3.5c of the Appendix). By contrast, the liquidity of inventory within larger firms was much better than the average level of all sectors (see Table 3.5b of the Appendix). Figure 3.4b indicates that the large firms within the food manufacturing sector had an inventory ratio higher than the reference ratio of 0.5.

Thus, the liquidity of large firms within all sectors was fairly sufficient. However, excluding only the tourism and insurance sectors in 2007, all other sectors inventory ratios were increased, particularly in food manufacturing.

Figure 3.4a.

Trends in inventory ratios of firms

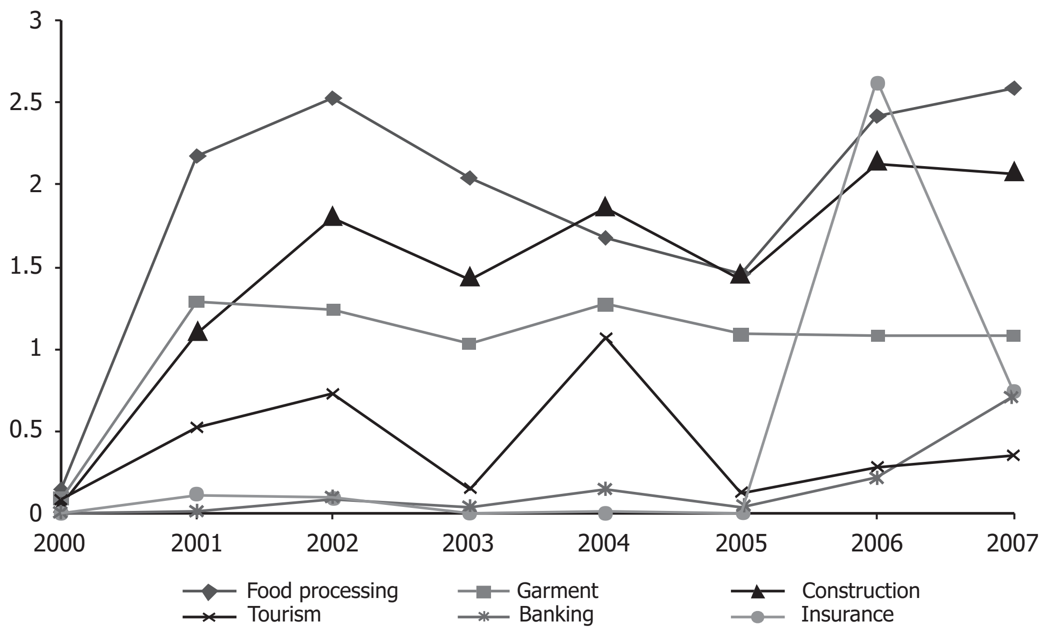
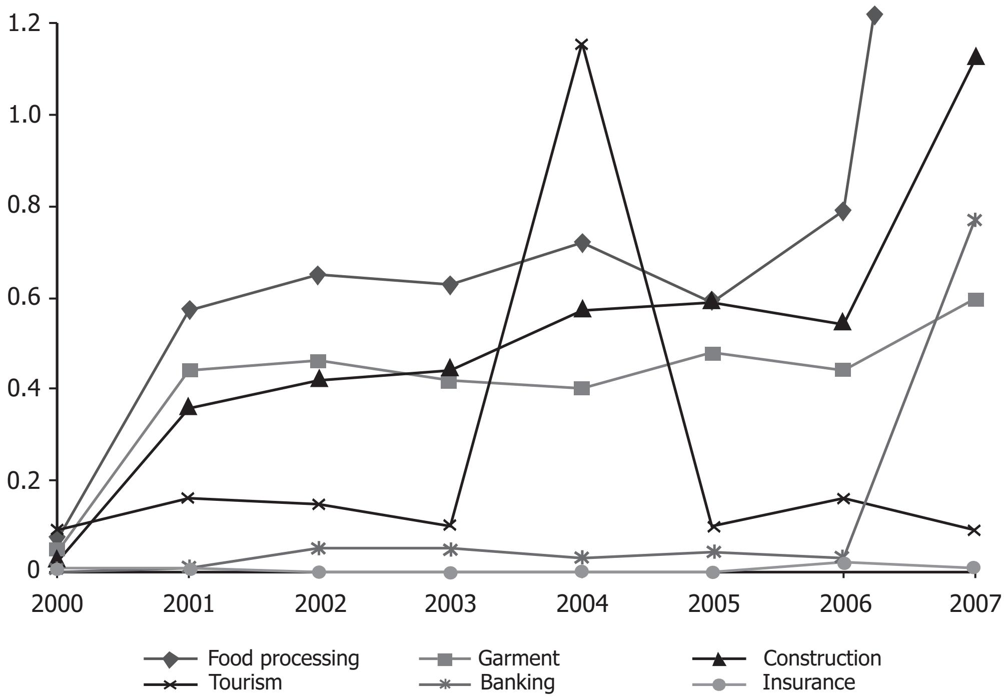


Figure 3.4b.

Trends in inventory ratios of large firms[1]



3.3.2. Total asset turnover

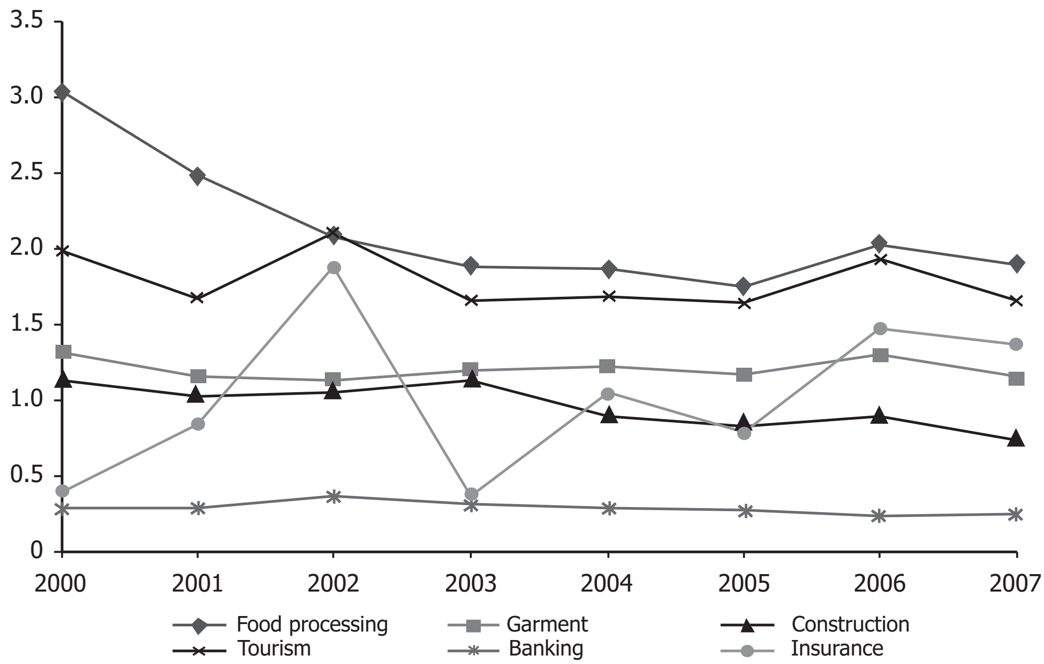
$$\textbf{Total asset turnover} = \frac{\textbf{Net sales}}{\textbf{Total assets}}$$

Reference value = Not available

Total asset turnover ratio is used to evaluate the efficiency of asset utilization. Values and trends of total asset turnover across six sectors are demonstrated in Table 3.6a-c in the Appendix and Figure 3.5.

1. Due to the existence of outlier, the value of inventory ratio of large firms in tourism in 2004 was out of sector trend.

Figure 3.5.
Trends in total asset turnover



In comparison with 2006, this ratio fluctuated lightly in 2007 in all sectors regardless of the size of firms. The highest asset turnover ratios belonged to the food manufacturing, tourism, and garment sectors, while the lowest ones belonged to the insurance and banking sectors. The cause for this phenomena is that the total asset of enterprises in bank and insurance sectors is usually large. Thus their ratio can not be the same as the ratio of firms in the food processing and garment sectors.

There was little difference in the efficiency of asset utilization between small and large firms in almost all sectors. Notably, banks at any size received a low efficiency of asset utilization. Facing the rapid development of capital market, banks are the first players aborted in the game. However, low asset turnover ratio reflects the total asset of the banks increasing rapidly in comparison with net turnover, which results from the increase of the loan (receivable amounts). If the banks manage their debts insufficiently, the potential risk of the economy (inflation, deficit in the balance of payment) will cause large losses in the near future.

3.4. Debt indicators

3.4.1. Ratio of Total Liability to Net Worth

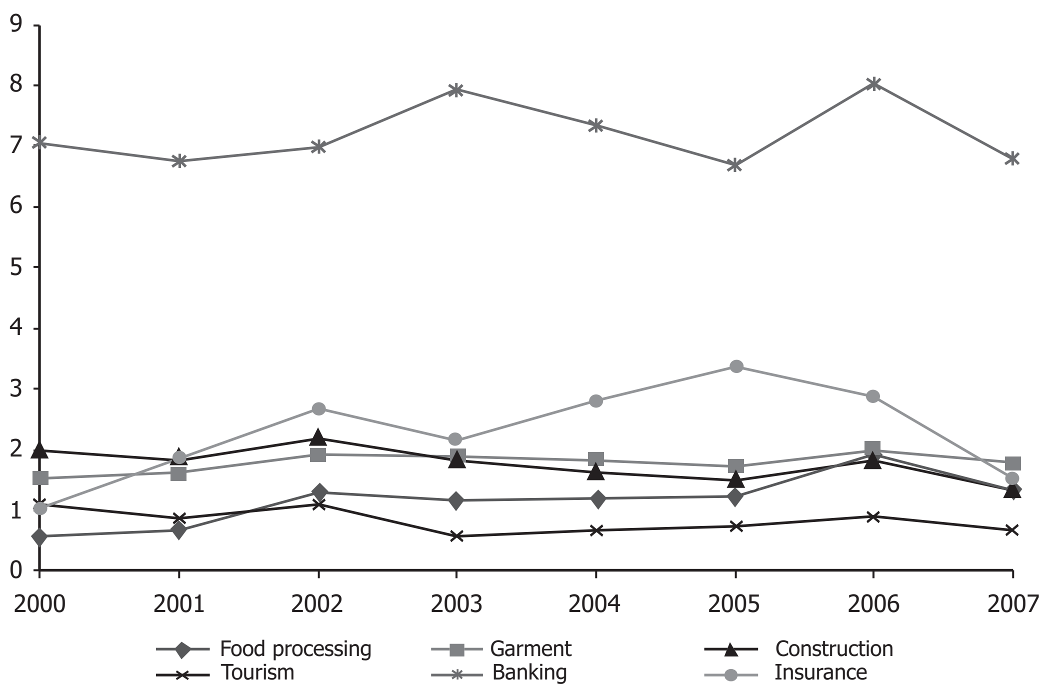
$$\textbf{Ratio of Total Liability to Net Worth} = \frac{\textbf{Total liabilities}}{\textbf{Net Worth}}$$

Reference value = 1.0

This ratio is used to evaluate firms' liabilities. The reference ratio of this indicator is 1.0. Firms' liabilities are not expected to exceed their total net worth.

The values of this indicator are demonstrated in Table 3.7a-c of the Appendix. With the exception of enterprises within the tourism sector, whose long-term capacity to pay debts was relatively strong, the total liability of most firms in other sectors was greater than their total assets. This indicates that firms over-depend on loans to expand their businesses. Further, banks along with credit funds provided them with too many loans. It is encouraging that these indicators were improved in all firms of the food processing, garment and construction sectors, as the ratio of total liability which doubled net worth in 2006 was below 1.5 (except the garment sector) in 2007. For the firms within the banking sector, this ratio is rather high (see Figure 3.6).

Figure 3.6.
Trends in debt of firms



For the other sectors in 2007, the survey recorded a significant improvement of this indicator in the banking sector with a level above 6.5. The high ratio of the banking and insurance sectors can be partly explained by the trading currencies of such firms. In fact, there were some signals of 2 digit inflation of the Vietnamese Economy during the last half of 2007, with further risings expected. This trend became true in 2008 with the inflation rate became above 20%. When the State Bank implements restrictive monetary policy to curb the inflation, firms will face a lot of difficulties in maintaining their business following such a trend. Both sides, the borrower and lender (banks and credit fund) meet these difficulties. There was no alternative except to reduce the growth of the economy (both in level and speed) due to the decline in production in 2008.

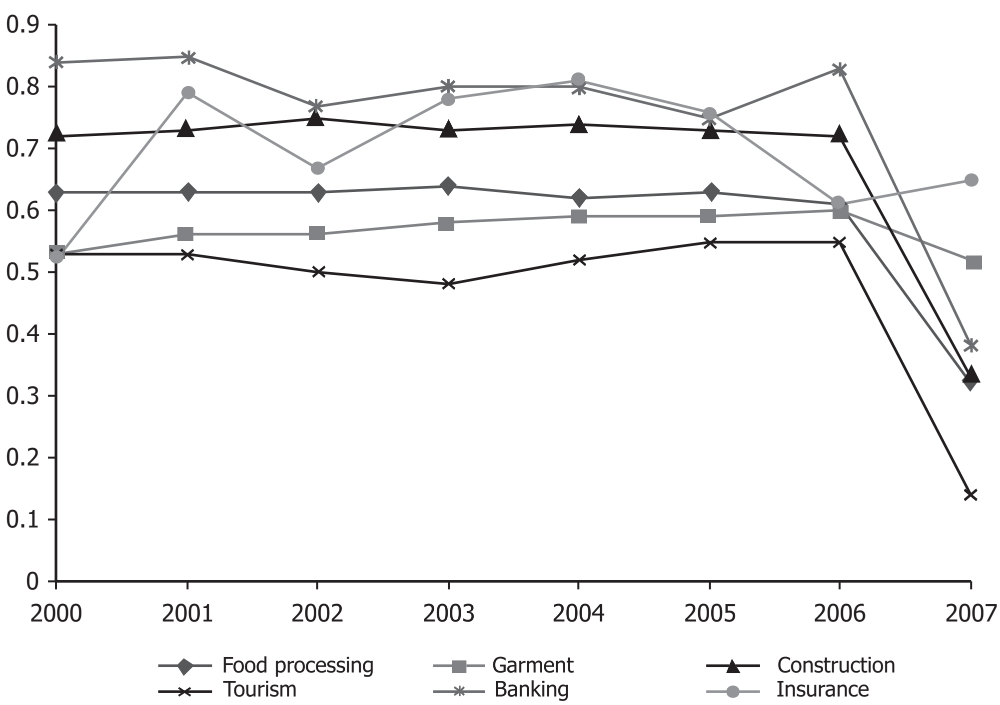
3.4.2. Debt ratio

$$\textbf{Debt ratio} = \frac{\textbf{Total liabilities}}{\textbf{Total assets}}$$

Reference value = Not available

Figure 3.7a.

Trends in debt ratio of large firms



Debt ratios are used to measure the extent to which companies use financial loans to fund their activities, rather than to measure their ability to refund their debt. Total liabilities include payable short-term and long-term debts. Lenders often like the firms that have low debt ratio as they are more sufficient in refunding. By contrast, shareholders like the high debt ratio, as they will earn more on their debt.

Because, Vietnam has not developed the average indicator sector by sector at present, the efficiency of firm debt utilization can be demonstrated by comparing debt ratios of firms in different sectors or between firms in the same sector.

Despite the fact that there is no reference ratio, analyst often accept the debt ratio to be 0.6 (total asset is 100 and liability is 60). Table 3.8a indicates that firms in the banking sector still maintained the highest debt ratio (around 0.6), and firms in the food processing, construction, garment and insurance sectors had the debt ratio fluctuate around 0.4 in recent years. The debt ratios of firms were mostly below 0.6. Either way, total liabilities of firms in such selected sectors were still in the safe limit even though they depended too much on loans. Moreover, it also demonstrates that the lenders are in the high protection level in case firms go bankrupt or have to liquidate their assets.

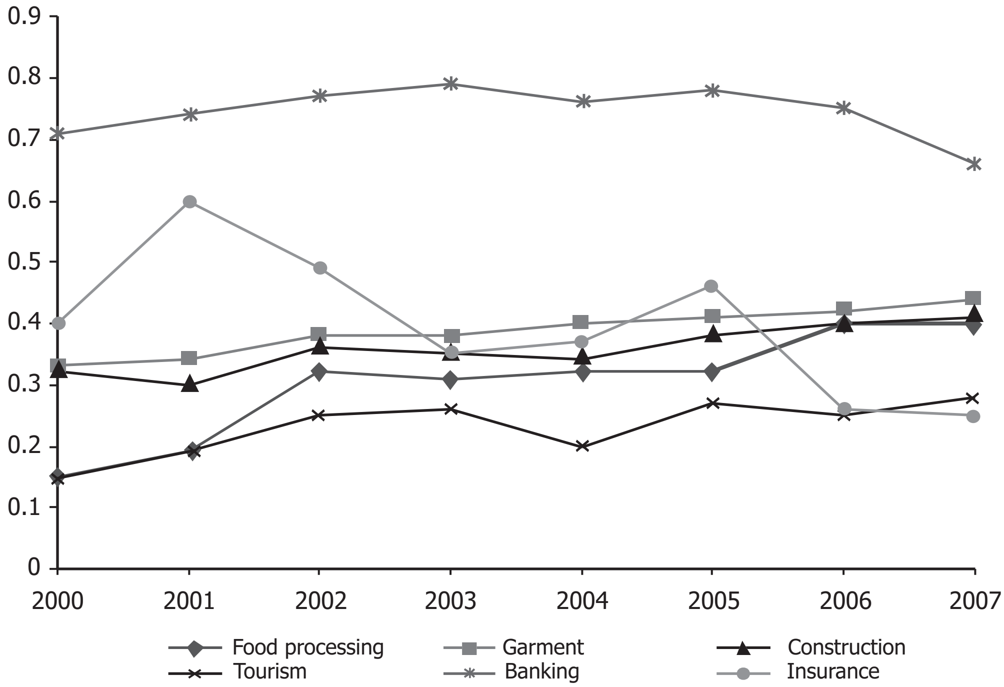
Examining the size of firms, noted a reduction in the debt ratio of large firms in 2007 became apparent (see Table 3.8b in the Appendix and Figure 3.7a). Besides the insurance sector, large firms of other rest sectors had a reduction in debt ratio. This indicates that the ability of firms to repay gets better and better. However, at the level below 0.6 within all sectors, the debt ratio demonstrates that the efficiency of loan utilization decreased. Shareholders expect their firms earn more money from their capital.

The strongest reduction of debt ratio belongs to the tourism sector (75%). The construction and banking sectors had reduction level of 54%. The lowest reduction belonged to the food processing and garment sector (48% and 13% respectively). In 2007, if some firms in the tourism sector wanted to use his own one VND, they had to borrow outside 0.14 VND (in comparison with 0.55 VND in 2006). The decrease of 75% of this ratio in comparison with 2006 indicates that the ability to of firms to repay in the tourism sector is getting better and better. Besides firms in the insurance sector which had a 0.65 debt ratio, firms in the remaining sectors had the ratios below 0.6 (see Table 3.8b of the Appendix). As indicating above, with the ratio below 0.6, the profitability of one VND is reducing.

For the small size firms, this ratio reduced only in the banking sector in 2007. In spite of reduction, small firms in the banking sector still had high efficiency of using loans at 0.66. This is much higher than that of the other sectors thanks to their industrial advantage (see Figure 3.7b). For the other sectors, this ratio was at the level below 0.6 and, thus, not so much different from that in 2006.

The reducing trend of this indicator, especially within large firms, demonstrates that the safety of the loans has been improved, while efficiency in debt utilization is reducing (table 3.8b of the Appendix). This ran concurrent with the conclusion concerning loan trends of firms in the above part, which gives out an alert about finance capacity. Obviously, in line with the higher level of loan dependence in firm' business activities, the reduction in efficiency of using loans in 2007 was a concern.

Figure 3.7b.
Trends in debt ratio of small firms



3.5. Profitability

This section analyses firms' profitability on the basis of 5 financial indicators (see Table 3.9 to 3.13 of the Appendix). As explained in part 3.1, the number of small firms in loss was much bigger than the large ones (both in quantity and ratio in all sectors). Hence, to reflect the exact situation of each group of firms, profit indicators will be analyzed by the size of the firms in each sector. The value of all sectors is reference only.

3.5.1. Operating profit ratio

$$\textbf{Current profit or loss (before taxes)} = \frac{\textbf{Current profit and loss}}{\textbf{Net operating income}}$$

Reference value = Not available

After a period of gains from 2004-2006, large firms in almost all sectors suffered a loss in 2007 (see Table 3.9b of the Appendix). Only large firms in the banking and insurance sectors were in gains.

In spite of the loss, calculating indicates that the profit ratio of large firms in the garment sector has been improved. From the negative number (loss) and of 7%, 5% and 9% in 2004, 2005 and 2006 respectively, this ratio declined to 5% in 2007, the lowest number since 2001.

Within the food processing, construction and tourism sectors, the situation was not so positively affected in a similar fashion. If they were in gains in 2006, they faced a rate of loss from 3-4% in 2007. Seriously, firms in the construction sector set the record of loss in 2007.

Table 3.9c illustrates a very negative picture o the business situation in the small firm sector. Only small firms in the banking sector were in gain in 2006 and in 2007. The calculated results demonstrate a loss by all small firms throughout all sectors. Regardless of faults in the statistics collected by the survey[1], the loss situation of small firms in all sectors during 2000 to 2007 may not reflect actual standings of selected sectors in special and of the whole economy in general. As a result, accepting these findings, it raises concern to the business of small firms in the food processing and garment sectors.

3.5.2. Turnover ratios

Turnover ratios, including net worth turnover, receivables turnover, fixed asset turnover and merchandise turnover, are used to evaluate the efficiency of firms' capital and asset utilization (or management capacity). The higher the ratio is, the higher the efficiency of firms' utilization (or management capacity). The reference ratio is not available.

a) Net worth turnover ratio

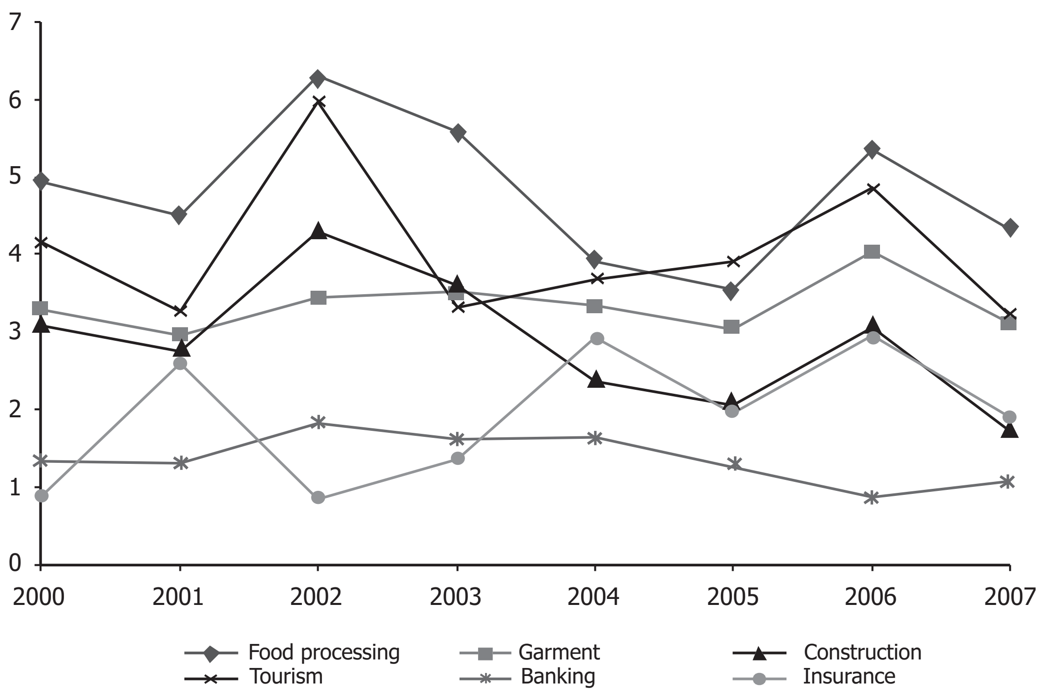
$$\textbf{Net worth turnover ratio} = \frac{\textbf{Net operating income}}{\textbf{Net worth}}$$

Reference value = Not available

There was no change in the order of this ratio in 2007 when compared to the previous year. Net worth turnover ratios were highest in firms belonging to the food processing and tourism sectors, and were maintained at reasonable levels by firms in the garment, construction and insurance sectors. Firms in the banking sector had a low efficiency in using their capital. Moreover, the upward trend in net worth turnover within most sectors in 2006 was replaced by a significant decline in worth turnover ratio of enterprises in all 6 sectors in 2007 (see Figure 3.8). The continuous rise in capital of firms, particularly firms who took advantage of capital flow in the monetary market and stock market in 2007, was the key reason for the decline in the efficiency of using the net worth of these enterprises.

1. Besides the fault in collecting information arising in the survey, small firms try to maintain a certain gain rate (or loss) in their business to minimize their income tax (28%) by increasing cost for inputs. However, up to now this trend has not been proved scientifically; we can not draw any conclusion from this hypothesis.

Figure 3.8.
Trends in Net worth turnover ratios



b) Receivables turnover ratio

$$\textbf{Receivables turnover ratio} = \frac{\textbf{Net operating income}}{\textbf{Accounts receivable}}$$

Reference value = Not available

Once again, the receivables turnover ratio of firms declined in 2007 (except for enterprises in the insurance sector). The strongest decline belonged to firms in the tourism and garment sectors. The lowest receivables turnover ratio belonged to firms within the banking sector. The main cause may have resulted from the outward trend of loans to firms in the extent of the remarkable development of the capital market and stock market. The decline in the receivables turnover ratio indicates instability in the business activities of firms. In reality, the blooming of business activity and investment activity, particularly activities in the monetary market, stopped in 2008 when the inflation rate increased to 20%, and the State Bank tightened it's monetary policy to curb inflation (see Table 3.11 of the Appendix).

c) Fixed asset turnover

$$\textbf{Fixed asset turnover ratio} = \frac{\textbf{Net operating income}}{\textbf{Fixed assets}}$$

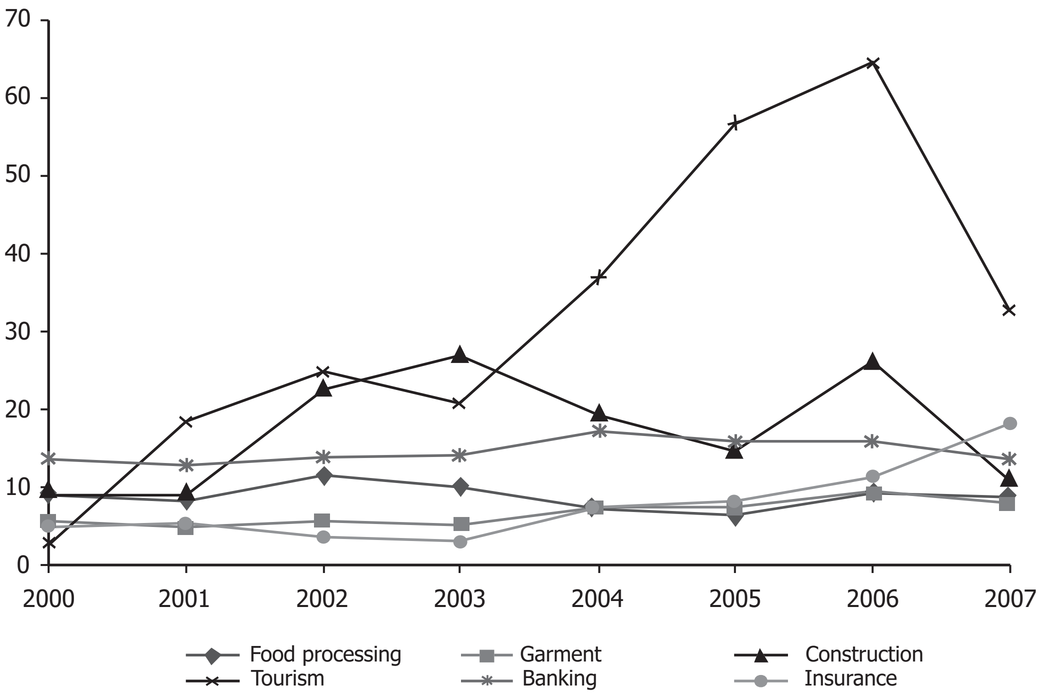
Reference value = Not available

The year 2007 marked a strong decline in fixed asset turnover ratios of firms in the tourism and construction sectors. Other sectors had a gradual decline. Although, there were differentials in the fixed asset turnover ratios by the size of enterprises (small enterprise sector often have a higher ratio than large ones due the difference in the values of fixed assets). The trend within these two sectors was not significantly different from that of all other sectors (see Figure 3.9).

In spite of a strong decrease, firms in the tourism sector still own the highest ratios. This indicates that they had many chances to do business in 2007, and that the turnover of this sector increased rapidly. Firms in the banking sector ranked second in the level of fixed asset turnover ratio. Firms in the insurance, garment and food processing sectors shared the same level of fixed asset turnover ratio.

Figure 3.9.

Trends in Fixed asset turnover ratios



The decline in the quality of these three ratios points out that firms are still insufficient in finance capacity in mobilizing. They find further problems managing receivables to invest into fixed assets in spite of available business opportunities.

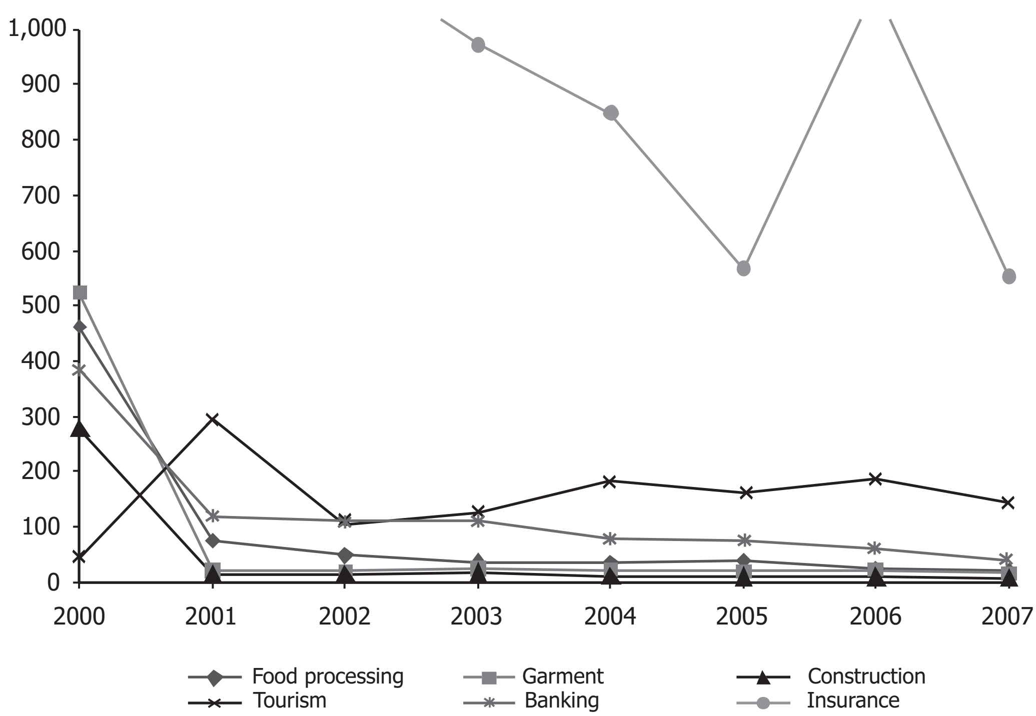
d) Merchandise turnover ratio

$$\textbf{Merchandise turnover ratioo} = \frac{\textbf{Net operating income}}{\textbf{Inventory}}$$

Reference value = Not available

Trends in the merchandise turnover ratio is presented in Figure 3.10. This ratio is used to evaluate the efficiency of firm's inventory management. If this ratio is high, it can be concluded that the speed of merchandise turnover is also high and vice versa. The Table 3.13 of the annex demonstrates that the highest ratio belonged to firms in service sectors such as tourism, insurance and banking in 2007. As above, this results from the typical nature of these services. With higher merchandise turnover ratio, it indicates that the business situation in the service sector was better than in production sector.

Figure 3.10.
Trends in Merchandise turnover ratios



Over high merchandise turnover ratio within firms in the tourism and insurance sectors may have another meaning. In short, the materials are in production to meet the market demands. Marketed goods can not meet the unexpected demand of the market sufficiently.

As a matter of fact, this ratio is more meaningful for production firms rather than service ones (due to the immediate consumption of services). The merchandise turnover ratios of garment and food processing firms were 20.36 and 16.53 respectively (these ratios were nearly the same among large firms). This ratio was much higher than that within construction enterprises (6.39%). This demonstrates that the garment and food processing firms took the opportunity costs in managing their inventory better than construction. Thus, small firms in the production sector seem more efficient in inventory management.

4. Conclusions

2007 was a remarkable year in which business opportunities were open for all selected sectors, especially for large firm sectors. Nevertheless, only within the banking sector did the number of joining small firms increase to 40%, whereas there was a decline in the number of large ones (including credit fund and security companies). Likely, thanks to the gradual improvement of the institutional system of the finance market, the playing ground is getting becoming stable for large firms. At the same time, the business opportunities in niche market were increasing in line with the bloom of finance market and stock market; it created a series of business opportunities for small firms in these sectors.

However, the bloom of the business market in 2007 was also accompanied with a lot of risks. The number of firms in loss increased throughout all sectors. Reasons for this loss were failures in market and institution. Particularly, potential risks of macroeconomics (inflation, deficit in the balance of payment) became very clear at the end of 2007.

4.1. Conclusions drawn from the analysis of liquidity

The majority of firms in the six sectors were able to repay their short-term debts. Despite the limitation of size, small firms' ability to pay is much better than large firms'. Regardless of the lower liquidity ratio in large firms, the difference gap was tightened in 2007. This seems encourages the large firms, particularly state-owned ones, which were being equitized and seemed less dynamic than private and foreign-owned sectors. They gradually recovered their dynamics and efficiency in their business.

4.2. Conclusions drawn from the analysis of managerial capacity

Managerial capacity analysis demonstrates that the liquidity of inventory within the food processing, garment and construction sectors was not very good. This indicates that those firms have inefficient sales, and a lot of their goods have not left shelves. This concerns firms, as there is chaos in the key export markets of Vietnam, frozen seafood and footwear are impossible to protect for long term, as they are seasonal products.

Notably, banks at any size were revealed to possess a low efficiency of asset utilization. In the extent of the rapid development of capital markets, this demonstrates the increase of the loan (receivables). If the banks manage their debt insufficiently; the potential risk of the economy (inflation, deficit in the balance of payment) will cause big losses in the near future.

4.3. Conclusions drawn from the analysis of debt ratios

Debt analysis indicates that firms were highly dependent on bank loans for financing their business activities. Besides the tourism sector, most of the firms in other selected sectors had debt ratios in excess of their net worth. Moreover, the decline in debt turnover ratio in 2007 pointed out that, even though the safety of the loans has been improved, the efficiency of using them has deteriorated gradually. Thus, this will dissatisfy the shareholders who want to have a high debt ratio for the purpose of earning more profit on one their own VND capital.

The higher level of dependence on loans also makes banks more likely to lend beyond their credit line. Despite improvements in the safety of the loans, the significant reduction of efficiency in debt utilization demonstrates the instability of business activities, as well as insufficient finance capacity of firms.

Due to the high inflation rate in Vietnam and effect of the downturn of global economy in 2008, Vietnamese firms were significantly affected by the hard monetary polices installed to curb inflation of the State Bank, as they were losing their traditional export markets (for export enterprises) Further, they were also faced with an increase in the cost of inputs in conjunction with the rise in the international costs. At the micro level, the growth of the Vietnamese economy has been in slowdown more than estimated, and it will continue in the same direction in the coming years as the recovery of the economy will prove gradual.

4.4. Conclusions drawn from the analysis of profitability

In spite of the gains of large firms in the banking sector and the recovery in loss of large firms in the garment sector, analysis of profitability demonstrates a trend of large loss within enterprises at any size in almost all sectors.

Once again, the decrease in the quality of net worth turnover ratio indicates that enterprises were not only insufficient in using their loans, but also in using their net worth. The over-bloom of the capital market drove firms to take advantage of mobilizing more capital from the monetary market and stock market in excess of their needs. Thus, the efficiency in using the net worth trended towards decline.

The instability of business activities of enterprises in 2007 also demonstrates the decline in the quality of receivables turnover ratios and fixed asset investments. This shows that enterprises were insufficient with their financial capacity to manage cost and benefit, as well as investment, in fixed assets. Though, they had a lot of business opportunities at hand.

4.5. General conclusion

Analysis of firms' finance capacity in 2007 demonstrates that this was an eventful year for business opportunities for firms across all sectors. However, the loss in business coupled with the decline in quality across nearly all finance indicators shows that enterprises seem over-dependant on the opportunity to borrow and/or increase their capital in the monetary and stock market. Further, the efficiency of using loan and net worth was in a trend of decline compared to 2006. This would be more serious if firms were still benefiting from the transient bloom of monetary market and stock market in 2007. However, this immediately stopped in 2008 when the inflation rate increased to 20%, while the State Bank tightened it's monetary policy to curb inflation.

Part IV

ENHANCEMENT OF COMPETITIVENESS FOR ENTERPRISES IN THE GLOBAL ECONOMIC CRISIS

1. Introduction

Under the context that Vietnam's economy has been suffering from difficulties alongside the global economy's deterioration, Vietnam Chamber of Commerce and Industry (VCCI) conducted a survey with enterprises on the topic of "Enhancement of competitiveness in the global crisis" at the end of 2008[1]. The research also serves as a follow-up activity of the report titled "Evaluation of performance of Vietnamese enterprises in the first 6 months of 2008" a period when the global crisis had yet to show clear impacts. Therefore, the year-end report also aims to evaluate the performance of Vietnam's enterprises in a accurate manner, and to provide ultimate recommendations to support enterprises in enhancing their competitiveness. As a matter of urgency, the survey was conducted from 15 December 2008 to 28 February 2009; a good time for enterprises to evaluate their business results in an accurate and concrete manner.

The survey was conducted on a large scale; covering all types of enterprises who have more than 50 labors and represent for the most two important economic zones, namely Hanoi and Ho Chi Minh City. 630 responses were received (mainly through interviews). The sample included 54.4% of responses from private sectors, followed by 17% of reponses from the public sector, and 19.1% from the foreign direct investment sector. Enterprises of mixed ownership accounted for 7.5% of the sample, and the rest accounted for 1.9% surveyed. The sample well reflected the current propotion of enterprises in Vietnam. According to statistics provided by General Board of Statistics in 2007, Vietnam has 147,316 non-state owned enterprises (94.57%), 3,494 state-owned enterprises (SOEs) (2.25%) and 4,961 foreign-direct-investment enterprises (FFIEs) (3.18%)[2].

In the trading area, the surveyed enterprises are mainly businesses producing comsumption goods (39%) and trading services (40.9%). Only 11% of enterprises are producing semi-processed products, and 10% of enterprises performing are in other fields.

Majority of enterprises have only been established since 1999 (52.5%). The number of small and medium enterprises - having below 200 laboures - accounted for 64% of the sample. The data collection has some limitations as follows:

- Although the sample tended to consist of enterprises with labor force of more than 50 workers, but 15.9% of the enterprises involved in the survey had less than 50 laborers. The reason might be that in previous years those enterprises used to maintain a large number of workers, but at the moment of the survey, part of staff was laid off.

---

1. This part of research was conducted by Enterprises Development Foundation of VCCI in cooperation with Asian Competiveness Institute of Lee Kuan Yew School of Public Policy under the National University of Singapore. The results have been analysed by researchers, but not reflects the official views of VCCI.

2. GSO: The situation of enterprises through the results of surveys conducted in 2006, 2007, 2008, Statistical Publishing House, Hanoi, 2009.

- Some sensative questions regarding business results, number of laborser, profit rates were not fully answered in the three years under survey. Only 439 enterprises (70% of sample) out of 630 surveyed enterprises completed all questions. Hence, the quantitative data on enterprise performance will be calculated based on the data gained from these enterprises. This sample is considered to be sufficient to make some conclusion on the business trend of enterprises from 2006-2008.

2. Impacts of global economic

Bunisess result from 2006-2008

The evaluation of business performance of enterprises subjected to the survey's target partly show us impacts of the global economic crisis on business activities.

The Table 4.1 shows an overview of business results of enterprises eligible for survey in the past three years. The results indicate that:

- There is a sharp decrease in net sales and employment level in 2008 when compared to that of 2007. The decrease resulted in serious impacts on enterprises in Ho Chi Minh City (negative growth). Under these impacts, export-oriented enterprises have been more vulnerable than domestic enterprises (there is no increase in revenue, but a sharp decrease in the number of labors)[1].

Table 4.1.

Business Results 2006-2008[2]

Unit: %

Criteria	General		Hanoi		Ho Chi Minh		Domestic		Export	
	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008
Increase in net sales compared to the previous year	**39.4**	**9.0**	61.2	17.2	16.1	-3.3	43.9	10.2	20.4	2.7
Increase in number of labors	**5.9**	**-2.5**	7.6	6.1	3.7	-14.2	8.3	-0.4	3.6	-4.7
Profit										
- Mean	**12.2**	**11.1**	9.2	8.4	15.1	13.7	13.2	11.8	10.0	9.4
- Median	**7.9**	**7.0**	5.0	4.5	12.0	10.0	8.0	8.0	7.2	6.3
- % enterprises having profit rate more than 5%	**61.7**	**58.5**	47.2	45.8	75.5	70.8	61.0	58.0	63.3	59.6
- % enterprises having profit rate more than 15%	**30.7**	**27.5**	18.9	15.6	42.0	38.9	33.6	30.2	23.85	21.1

1. Export oriented enterprises are those having more the 50% of turnover from export in 2007.

2. Data were extracted from the answers of 439 enterprises (220 enterprises in Hanoi and 219 enterprises in Ho Chi Minh City). Related data are available throughout the three year from 2006 to 2008. The sample excluded 7 illegible enterprises (more than 10,000 employees). The 6 out of 7 enterprises locate in Hanoi.

- However, the profit rate in 2008 only slightly decreased compared to that of 2007. The number of enterprises having a profit rate above 5% only dropped from 61% in 2007 to 58.5% in 2008.
- Profit rates of enterprises in Ho Chi Minh City are much higher than those of enterprises in Hanoi. Enterprises in Ho Chi Minh dramatically reduced number of laborers could be explained as their efforts to reduce production costs to maintain their competitiveness.

Box 4.1.

Dong Nai province: Many enterprises restrained their production

Dong Nai's economic growth decreased due to a drop in consumption market and exports. Enterprises producing wood intended for export to the USA had exort turnover reduced by 20-40%. While export turnovers in Garments, mainly from FDI companies, had reduced by 15-20% and electronic devices for telecommunication had reduced by 40%. Since the end of 2008, there have been more than 60 FDI enterprises affected by the global economic crisis that have had to constrain production and reduce labors.

Source: *Trade and Industry* Newspaper, 26 March 2009.

3. Labors at enterprises

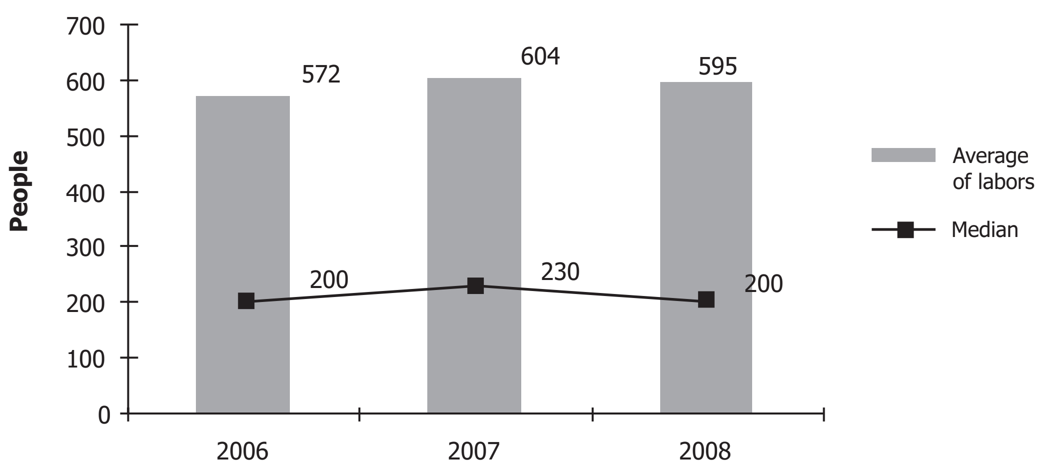
3.1. Labors and labour costs

The global economic crisis has driven many enterprises into reducing production and employment scales, which has endangered efforts to maintain job security for laborers. Rough esitmates in 2008 showed that total job creations were low, with around 8 thousands compared to 1,3 millions in the years before 2005, and only increased by 1.82% compared to that of 2007. In 2008, unemployment has a threat to increase from 4.64% in 2007 to above 5%[1].

Following the general trend, 2007 was the peeking year for business activities. Consequently, the number of employment in the surveyed enterprises enjoyed a sharp increase. The average employment level in an enterprise of the survey sample increased by 5.6% in 2007 but decreased in 2008 (see Figure 4.1). The small decrease was due to the sample sellection: the survey targeted performing enterprises with more than 50 labors. Therefore, the data only partly reflects the economic performance because the sample does not include enterprises that were bankrupt or those that are non-performing. However, it is clear to see the move of the mean from 230 in 2007 to 200 in 2008. In other words, the employment scale in many enterprises has been constrained.

The research results indicate that the public sector (70% of the enterprises) do not consider "*labour costs*" as a challenge; while the foreign-investement enterprises continue to focus on this factor. Only 55% of FDI-enterprises expressed that they are not concerned about this challenge. The private sector

Figure 4.1.
Labors at surveyed enterprises



1. According to estimation of MOLISA, the number of people lost their jobs due to economic crisis was about 400,000.

has the same concern level as the average level of the whole business sector (about 62% of enterprises do not take this factor into consideration). Comparing to FDIEs and state-owned sectors, the private sector is more keen on challenges related to “Transportation costs” and “The stagnance of market demand”.

3.2. Labour relationship in enterprises

The results in Vietnam in 2007 and 2008 showed that industrial strikes have happened more regularly in enterprises using cheap labors (according to a UNDP’s report, in the first 8 months of 2008, there were 649 strikes doubling the number in 2006). Hence, in 2009, the difficult economic environment reduced the number of strikes. However, the reduction of salary level will certainly result in labor conflicts once the economy grows again.

It is noticeable that there are 28.5% people having difficulty in expressing their opions on strikes, and 14.6% people being aware of “possibilities of strikes”. Though, 14.9% people believed in these possibilities. These figures show that enterprises’ awareness of labour strikes is very limited.

The FDIEs (joint-venture sector) have higher perceptions on the possibility of strikes (24.3%) than that of other sectors. The percentages of the state-owned sector and private sector is only 11.2% and 14.9%, respectively. The percentage of enterprises who have no idea about the possibility of strikes is also highest in the SOEs (18.7%), followed by the private sector (13.7%) and joint-ventured enterprises (8.2%).

3.3. Recruitment

With regards to evaluation of labor forces, almost all enterprises consented that recruitment of low-skilled workers is not difficult. On contrary, recruitment of skilled laborers is quite difficult. In addition, hiring a good manager is even more challenging. Retaining good laborers is possible for 41.1% of enterprises, while 21.1% of enterprises find it hard to answer the question.

FDIE’s did not think recruiting low-skilled workers was easy, while SOEs highly agree with the notion. The private sector had a similar opinion as the FDIEs enterprises (44%) in agreeing that recruiting skilled workers is difficult (while only 32.7% SOEs think so). The 100% foreign-investment sector (in comparision with other business sectors) specifically emphasized the challenge in recruiting good managers.

In terms of retaining good workers, 40.9% of enterprises in private sectors believe that it is not difficult. 53% of FDIEs share the same ideas. However, only 34.8% of SOEs and JVE agree with this idea. The results indicate that FDIEs have more capacities in retaining good workers.

4. Innovation in Vietnam's enterprises

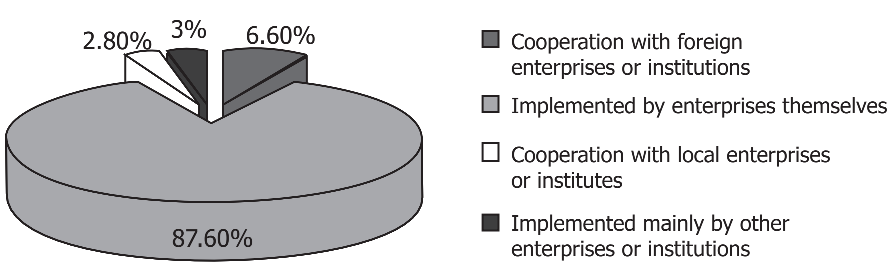
This part of the report will focus on evaluation of innovation and creativity in Vietnam's enterprises. There are three areas of innovation that were surveyed: 1) Product innovation (products or services); 2) Process innovation; and 3) Organization innovation.

4.1. Product innovation

"Product innovation" is the introduction of new products or services into a market or a considerable innovation in products or services. The creativity (new or upgraded) must be original to enterprises; however, it is not necessarily new to an industry or a market.

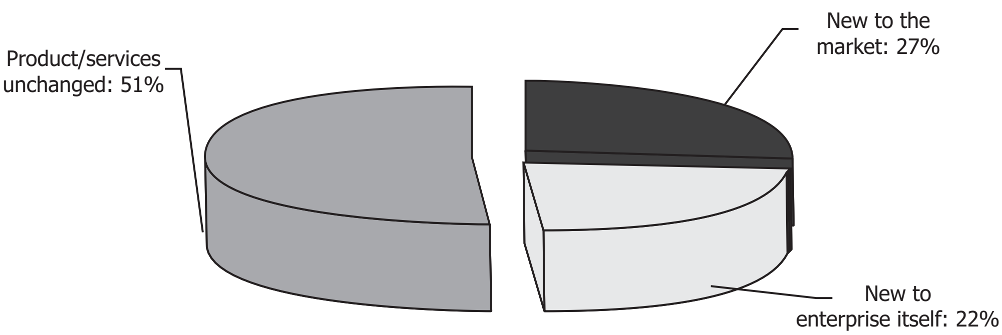
Over the period of three years from 2006 to 2008, 67.8% of surveyed enterprises launched new products or made considerable innovations in their products. 57.3% of surveyed enterprises introduced services or innovations in services. Noticeably, almost all the innovations in products and services were carried out by the enterprises themselves. The percentage of enterprises cooperating with local and international enterprises or research institutions is limited. However, the percentage of enterprises working with foreign enterprises and institutions is higher than those collaborating with local enterprises and institutions (see Figure 4.2). This showed that the cooperation mechanism between Vietnam's enterprises and institutions possesses quite a few limitations. The enterprises have had to work on their own to upgrade their products and services. It is not doubtful that if the situation continues, it will be a major obstacle to the development and competitiveness of Vietnam's enterprises.

Figure 4.2.
Product Innovation



Evaluating the level of innovation, the survey results explained that in the period from 2006 to 2008, there have been 57.9% surveyed enterprises launched inventive products/services, which were new when compared to their own products and services. Remarkably, the number of enterprises introducing products, which were new to markets, was relatively high at about around 65.6%. It showed that Vietnam's enterprises focused their efforts in innovating products and services to serve market demands rather than generating general innovations. This new ideology of market-oriented economy has gradually replaced the old way of thinking of "producing what we own". However, when considering the average rate of innovated products over the total revenue in 2008, the rate of products/services, which are "new to the markets," only account for 27%. On average 51% of products and services remain unchanged. In fact, the innovated products/services which are "new to the enterprises" (account for 22% over the total revenue), may be meaningful to the enterprises in the short term. In the long term, the priority should be placed on the innovation of products/services which are new to the market (see Figure 4.3).

Figure 4.3.
Ratio of new product/services on total turnover



The FDI-enterprise sector had the largest account in product innovation, especially 100% FDIEs. However, the SOEs and mixed-owned sector were stronger in service innovation. This is understandable as service innovation is always linked to cultural conditions and consumption habits, which are not easy for foreign-invested enterprises to understand. The ratio of enterprises having products "new to markets" in the FDI sector is also much higher than that of other sectors, while ratio of enterprises having products "new to their own enterprises" in all business sectors are similar.

4.2. Process Innovation

"Process innovation" is to carry out a new production procedure of have considerable innovation in production, distribution or after-sales services. The creativity (or innovation) must be original to enterprises, but not be necessarily new to the industry of the markets.

Table 4.2 showed ratios of enterprises conducting process innovation in the three years between 2006-2008. New supporting services or significant innovations in process, such as maintenance systems or purchase systems, accounting or estimation have been mostly conducted. 55.7% of enterprises have carried out these process innovations. At least 27.3% of enterprises have conducted process innovations simultaneously in two or three fields as being illustrated in the Table 4.2.

Table 4.2.

Ratio of enterprises implemented "process innovation"

	Yes %	No %
New method or considerable innovation in production or invention of products or services	40.3	59.7
Innovation in logistics, delivery or distribution or considerable innovation in input, products or services	54.9	45.1
New supporting services or considerable innovations in process such as maintenance system, purchase, accounting or estimation	55.7	44.3

Similar to product/service innovation, process innovation was mainly conducted by the enterprises themselves. Particularly, this was true in production process and invention. The enterprises have been dependent on themselves. In other procedures such as "logistics and distribution" or "supporting services", the enterprises have had a tendency to cooperate with outside partners. It is common under the general trend. When markets and business services have developed, the process innovation, especially those in supporting services, is not always the best solution.

In general, the most popular innovation activity in 2006-2008 was "training" done by internal and external forces, especially with topics on introduction and/or development of new and upgraded products and production process. There were 82.4% of enterprises implementing this activity over that period. The following "internal research and development (R&D)" activity was put in place at 71.4% of enterprises in order to improve their knowledge. This activity was also used to create new and upgraded products and production processes. Around 60.8% of enterprises innovated their products and production process by "machinery, equipment, and software purchase". Unfortunately, only 21.6% of enterprises implemented the "purchase of external knowledge" i.e. buying or applying for patents or innovation certificates which have not been issued.

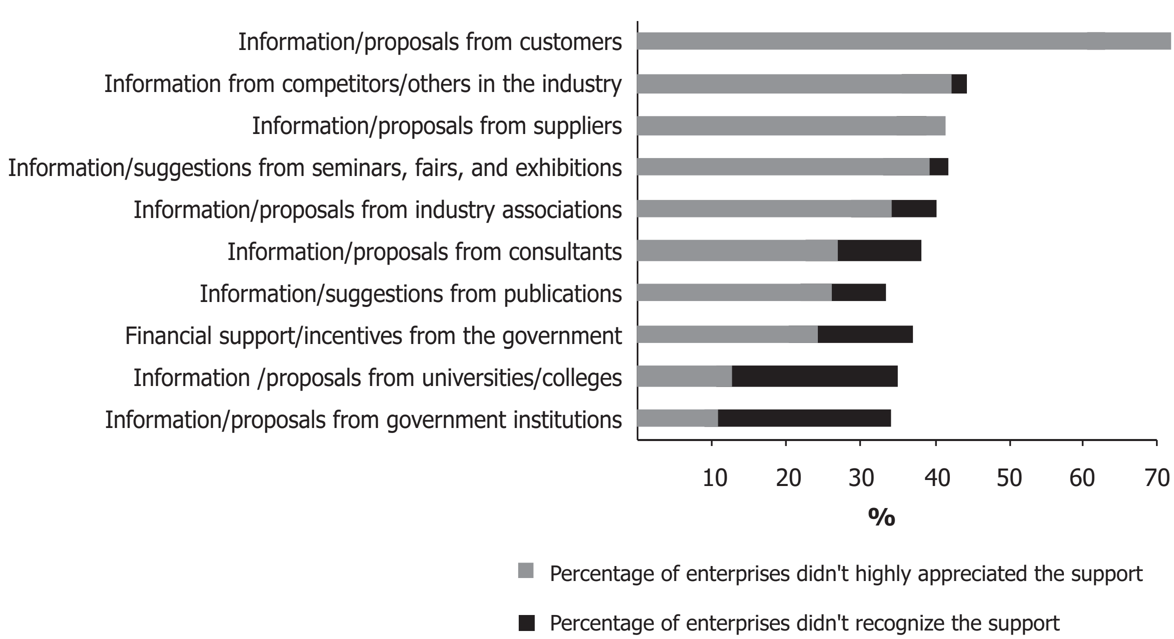
Notably, such activities as external R&D and purchase of machinery, equipment and software were paid more attention by FDIEs than those in other sectors. This point is very important. The following analysis (6.1) shows that enterprises in general and SOEs in particular undervalued the "investment on upgrading equipment and production methods to improve productivity". This seems to be one of the reasons explaining why domestic enterprises' competitiveness is always considered lower than those of FDIEs. In addition, the training activity provided by internal and external forces was done more actively by FDIEs. Nearly 92% of joint-venture enterprises have implemented this for the last three years compared to only 78.7% of private enterprises.

Figure 4.4 helps evaluate the benefit level of external assistance activities on the innovation activities of enterprises. "Information/proposals from customers" was assessed at high and the highest level. "Information from competitors/others in the industry" followed with an important role in boosting the enterprises' innovation activities. Notably, 16.7% of enterprises did not realize they could receive support from the government. Additionally, few enterprises considered information/proposals from universities and colleges, as well as government institutions, meaningful to their innovations. Though, in truth, these organizations in fact must serve as the midwives for enterprises' innovation ideas. In addition, a very high ratio of enterprises that did not recognize the support available from these organizations are also very high compared to others. Sources shows that universities and colleges as well as government institutions have not directed their activities in ways to meet the enterprises' demands.

Indeed, the research results, once again, reflect that the role of universities and colleges was considered very limited concerning the enterprises' innovation activities. Nearly 25% of surveyed enterprises did not see the relevance of these organizations in the innovation of enterprises. In contrast, two thirds of surveyed enterprises highly appreciated the importance of cooperation activities from customers. This point is very important because production and business activities are now operated through chains. Enterprises are customers of each other, and a high appreciation of the customer's role shows that Vietnam's enterprises have been gradually integrating into the chain of goods and services with their innovation activities. However, cooperation between enterprises in the same industry along with suppliers of equipment, materials, and software, as well as other partners in an industry, was evaluated to be at

Figure 4.4.

Importance Level of Different Levels on Innovation Activities of Enterprises



an average level. This is a shortcoming of Vietnam's enterprises, which has been mentioned in many other researches. The main reason may partly lie in the weakness of a linkage within the industry associations for innovations.

The innovation of goods/services and production process has allowed enterprises to: 1) Improve the quality of goods and services; 2) Improve their ability of supplying goods and services; and 3) Improve the flexibility in supplying goods and services. Notably, the innovation activities of enterprises, however, has not brought considerable results in terms of reducing costs of labor, as well as costs of materials and energy per unit. This issue is very important in the context that the "increased material costs" factor was considered by enterprises as the biggest challenge when considering the impacts of global economic crisis.

The three main obstacles to enterprise innovation mentioned by many enterprises were: 1) Lack of capable human resource; 2) Lack of financial resources; and 3) Too high of innovation cost. Market factor was an important reason for enterprises' decision to not implement further innovation, as of yet. 25% of enterprises considered the fact that markets have been dominated by large enterprises to be a big obstacle to enterprises' innovation. Indeed, when an enterprise's trademark is well recognized, the enterprise is not only successfully able to position itself within a market, but it also will always implement further innovations to heighten its position. Smaller enterprises will find it difficulty in dominating a market if they cannot make significant progress or without in-depth investments. Also, in the case of SMEs, they need to seek opportunities to penetrate into small markets.

4.3. Organizational reform

Organizational reform is to make considerable changes in enterprise's structure or manageriall methods in order to upgrade the deployment of knowledge, develop quality of goods and services, or improve an enterprise's efficiency.

Over the last three years, surveyed enterprises have been active in many organizational reforms such as implementing new management systems of knowledge, or improving the use and exchange of information, knowledge, and skills. There were 78.1% of surveyed enterprises implementing these activities. Enterprises in the public sector seemed active in doing them (with 85% of enterprises). This was partly affected by the process of SOEs reform and equitization. However, there were 48.3% of enterprises showing positive changes when examining the considerable changes or new approach methods in the relations between each enterprise to one another or to government institutions such as through alliance, cooperation, outsourcing, and sub-contract. This is a very important issue because of the following reasons. *First,* in the context of integration, the cooperation between enterprises and cooperation between enterprises along with other assistance agencies plays significant roles. This cooperation always need to be changed due to other factors that always alter as well. *Second,* under the context that most of Vietnam's enterprises are SMEs, their participation into the value and supply chains is critical for their positions in the markets. If SMEs do not reform, they will face difficulties in adapting to the changing "value chain" and "supply chain".

5. Capacity of market access

5.1. Integration into the global economy

The year 2008 was the second year after Vietnam joined the World Trade Organization (WTO). Generally, when considering impacts of the global economy, the majority of enterprises highly agreed on the impact of integration, affirming that "Deep integration into the world economy has been of significantly important to Vietnam in boosting the economic growth and in improving competitiveness". This idea was widely shared by 78.4% of interviewed enterprises. Accordingly, enterprises also stated that "building the strategic cooperation with suitable foreign partners plays a critical role in an enterprise's success" (76.8% of enterprises agreed with this point). In parallel with this strategy, enterprises stressed the role of exports as the main factor boosting the enterprise's development in the following years (65.1% of enterprises agreed). Vietnam's enterprises are undoubtedly very proactive in integration and restrict their dependence on import markets.

5.2. Application of information technology

Information technology (IT) application cannot be seperated in the current context of globalization. Ability of information technology application will partly reflect the ability of the market approach of Vietnam's enterprises. Most of the surveyed enterprises used computers for their business, and 97.3% of them were connected to the internet. Approximately 96% of enterprises used broadband and 30% of enterprises used wifi.

However, the information techonology application is shown not only in internet connected computers, but also in how enterprises professionalized in applying information technology. Around 62.4% of enterprises used software on corporate management, while tonly 48.9% of surveyed enterprises having staff in charge of IT. Through their IT application, enterprises expanded their methods of marketing and introduced themselves through their own websites. 64.1% of surveyed enterprises had their own websites, but only nearly 40% of them could receive orders via their websites. In other word, enterprises have not fully made use of IT, which can be partly because enterprises have not yet had staff in charge of IT.

It can be concluded that enterprises have not been much confident when assessing the benefits brought about by IT, as well as the appropriate levels of IT system needed to be applied in enterprises. 51.6% of enterprises have not attached much importance, claiming "Investment in IT is always one of the top priorities in Vietnam's enterprises". However, it is impossible to deny the importance of IT on enterprises in some aspects of specific business activities such as "improving information exchange and relations with customers", "information exchange and relations with suppliers and partners", and "accessing bountiful information on the internet, which is critical to business decisions of enterprises", etc. Nevertheless, few enterprises thought that IT played an important role in information exchange and relations with the government. This is partly because "e-government" has not yet really developed. Similarly, IT has not played an important role in "reducing costs comprehensively" or in "increasing profits" in many enterprises. Enterprises evaluated IT role in these two aspects to be at an average level.

According to enterprises' types, it seems that FDI enterprises (including 100% foreign-owned and joint-venture enterprises) applied IT more professionally. The percentage of enterprises applying IT was higher in this sestor than those of enterprises in other ones. Similarly, nearly two thirds of enterprises in this sector had staff in charge of IT compared to 43% of enterprises in the private sector. Interestingly, the percentage of SOEs having their own websites was 72%, the highest percentage compared to those of enterprises in other sectors. However, the percentage of enterprises using these websites for trading, especially ordering, was highest in joint-venture enterprises. In other word, SOEs haven't made use of their websites compared to that of joint-venture enterprises. However, in the future, SOEs still will be pioneers in applying IT. The percentage of FDI enterprises investing in IT application may be average like those of enterprises in other sectors because these FDI enterprises already had a certain amount of investment in IT.

6. Business plans of enterprises

6.1. New Challenges to Enterprises

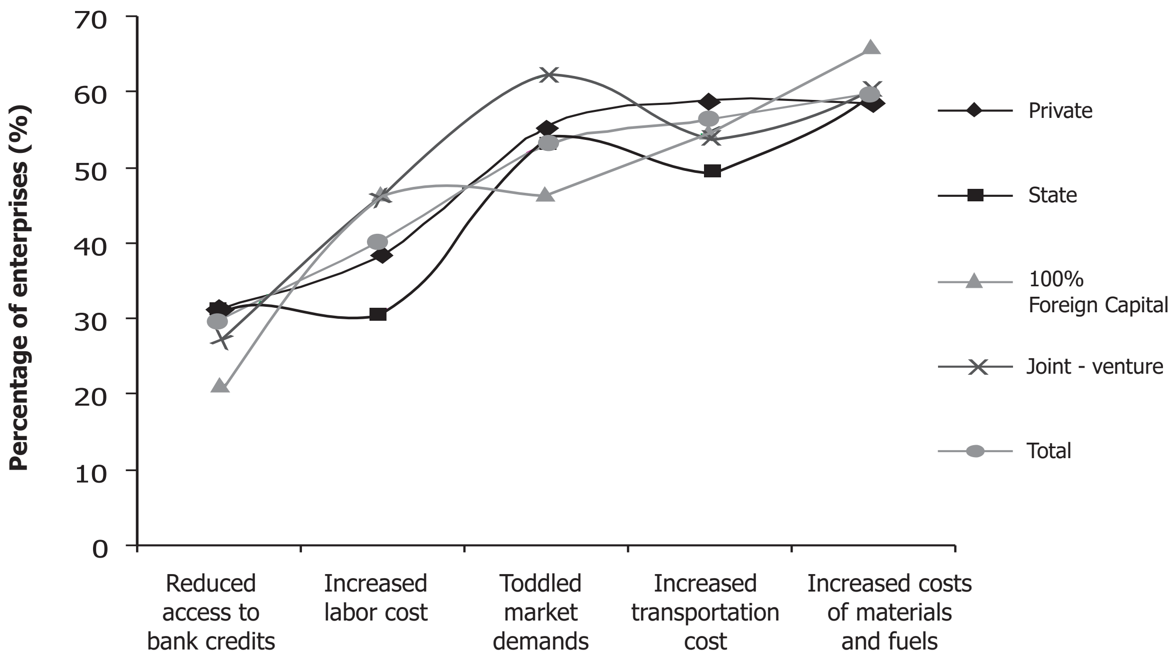
"Increased costs of materials and fuels" factor was the premier challenge to Vietnam's enterprises. Their dependence on imported materials and fuels led to worry when the global markets of materials and fuels fell into crisis. This factor was followed by a challenge of "increased transportation cost". Thus, Vietnam's enterprises still faced the increased cost of transportation although fuel prices slightly decreased in late 2008. An unstable fuel market could result in this anxiety. Therefore, challenges that were considered serious by Vietnam's enterprises were "uncertainty of market" as well as "toddled market demands". 53% of enterprises classified these challenges at high or very high levels. It is good that the access to foreign currencies and bank credits no longer worry enterprises. This shows that government policies on credit assistance and banks' active lending activities have brought about considerable effects. This is the first time in many surveys of enterprises conducted so far that difficulty in accessing credit is classified nearly at the bottom of the list of challenges. However, regarding financial issues, enterprises were facing serious challenges relating to "cost of lending" and "liquidity", and had "difficulties in collecting payments from customers". This problem reflects the explicit threat of difficulties in enterprise's cash circulation, as well as the bankruptcies of enterprises which are unable make payments.

Enterprises in different sectors had different evaluations of each challenges (see Figure 4.5)[1]. Joint-venture enterprises considered "toddled market demands" more serious than enterprises in other sectors partly because these joint-venture enterprises mainly focused on exports, while market demands decreased due to the crisis in export markets. Meanwhile, 100% foreign-owned enterprises were more concerned about the increased fuel cost. They did not stress challenges on toddled market demands and access to credits. In contrast, SOEs did not consider "labor cost" as a challenge, while foreign-owned enterprises (including 100% foreign-owned and joint-venture enterprises) continued to pay attention to this factor.

1. Note: The Figure 4.5 doesn't have a mathematic meaning. It just illustrates the different views of enterprises of the same sector on different challenges.

Figure 4.5.

Enterprises' Assessment on Challenges
(high and very high levels)



6.2. Business solutions in the future

Since the survey aimed at enterprises that were running businesses, it's results did not reflect the data concerning the amount of enterprises that were bankrupted before and during the survey process (Jan-February 2009). It is good that only 1% of surveyed enterprises planned to close down[1], while 9% of enterprises planned to reduce their businesses, and 37% would still expand their businesses. Nearly ½ of surveyed enterprises would maintain their businesses. Enterprises that chose other solutions stressed the improvement in goods quality and flexibility to adapt to market changes (see Figure 4.6).

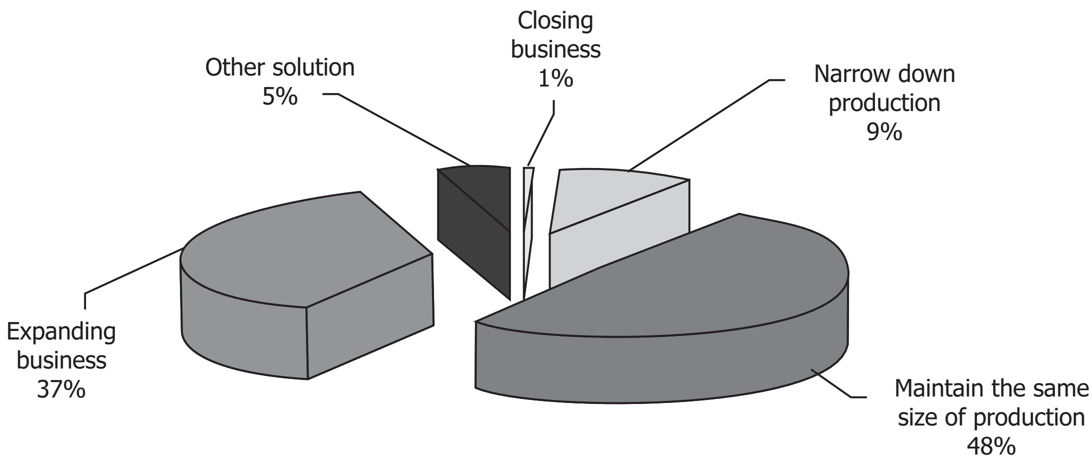
Most enterprises were trying to maintain their business activities at current level, while 41% of large enterprises planned to expand their businesses. However, the percentage of enterprises which reduced their business was 11.2% compared to 9.2% of SMEs[2].

---

1. The Sample of the survey actually represents only those having more than 50 employees.

2. In in order make this part of the report in consistent with the third Part, criterion for SMEs is firm with less than 200 employees.

Figure 4.6.
Firm's solutions in the comming period



Measures to improve business performance were focused on customer service. The followings are measures in the order from the strongest level:

(1) Better supporting customers;

(2) Improving relations with customers;

(3) Improving relations with suppliers;

(4) Reducing costs;

(5) Increasing marketing activities;

(6) Investing in human resource through training and talent attraction;

(7) Applying new management methods;

(8) Improving products;

(9) Innovating business strategies;

(10) Investing in exploitation of market information and technology.

Less drastic measures of enterprises include: 1) Investment in equipment and production method to raise productivity; 2) Cooperation with the government and other enterprises to improve business environment. These efforts are extremely low among the enterprises in Ho Chi Minh City vis-à-vis those in Hanoi. These two measures deserve a serious review, as they will in the long run act as a life jacket against economic turbulence and downturn, while ensuring sustainable development for enterprises.

Export and domestic enterprises show similar determination in almost all measures among which export enterprises are more drastic including: 1) Cost reduction; 2) Investment in equipment and production methods to raise productivity; 3) And enhancing customer relationships.

6.3. Loans and demand for loans

The year 2008 was a painful year for Vietnam's enterprises in accessing capital sources. Only two-thirds of surveyed enterprises obtained loans in 2008. The 100 percent foreign-owned enterprises had the lowest ratio of borrowing compared with enterprises of other sectors (48.8%). Only 6.2% out of total borrowers had loan requests being fully (100%) met. This figure is 14% with 75% of the loan demand satisfied, and more than a half (56.2%) with less than 25% met, respectively. Particularly, the ratio of SMEs with more than 50% of loan need satisfied is only 40.2%, whereas that of large enterprises is 49.2% (see Table 4.3).

Table 4.3.

Enterprise's satisfaction of loan demand

Satisfaction of loan demand	Overall ratio (%)	SMEs (%)	Large enterprises (%)
0%	34.8	36.1	33.7
25%	21.4	23.7	17.1
50%	23.7	21.5	23.2
75%	14.0	11.8	19.9
100%	6.2	6.9	6.1

6.3.1. Impediments to loan access

Loan access is a burning issue frequently addressed at business consultations held by VCCI, as well as in this survey. Feedback focuses mainly on four common impediments to loan access, namely:

a) High interest rates

In 2008, the interest rates of commercial banks peaked at 21% per year. In a quick survey on the business operations of enterprises in the first half of 2008, as many as 73.2% of enterprises surveyed claimed that they often faced high interest rates. The picture, however, became brighter towards the end of the year as commercial banks simultaneously lowered interest rates, providing considerable support to enterprises. As a result, the ratio of enterprises claiming frequent difficulties related to high interest rate reduced to only 42.5%. However, this still remains a continuous challenge.

b) Lack of mortgaged property

About 24.3% of enterprises often encounter this obstacle when applying for loans. This figure was 27% in a previous survey carried out by VCCI. Although the survey concurred with the start of the Fund for Loan Guarantee, mortgage requirements had been eased by commercial banks and, thus, were no longer a large challenge in comparison to other impediments such as "complicated loan procedures" (often suffered by 32.1% of enterprises) or problems concerning "business plans" (encountered by 26.4% of enterprises). However, the issue of mortgaged property has not been thoroughly settled yet, particularly for SMEs. Approximately 27.5% of SMEs frequently have mortgage trouble, whereas this ratio is just about 22.4% for large enterprises.

There are no major differences in impediments to loan access incurred by enterprises of different sectors. This is partly due to the fact that the loan market is also in need of customers, which drives lenders to give more support to customers regardless of their category. Yet, there is a clear distinction between large enterprises and SMEs in claiming difficulties, particularly in "loan procedures" and "business plan". While only 38.7% of large enterprises complained about "loan procedures", as many as 46.1% of SMEs did. Similarly, unlike large enterprises, SMEs listed a lack of management, as well as business plan skills, as impediments. 31.1% of SMEs often face this challenge whereas this ratio is only 19.9% for large enterprises. It is notable that SME's prevail in number. This may advise banks to devise more appropriate loan products for SMEs in which "loan procedures" should be improved and banks' support for enterprises' business plans should be provided.

As most enterprises are not satisfied with their loan provision, it is no wonder why a huge number of enterprises are still on the borrower list, comprising 77.1% of the enterprises surveyed. Domestic enterprises have a higher demand than FDI ones. This demand comes from 81% of surveyed private enterprises, 74.8% of state-owned, and only from 57.1% of foreign-owned enterprises. Notably, 83.8% of joint-venture enterprises are also in need of loans, and it is likely that these enterprises expect the domestic financial market to be more stable and efficient.

6.3.2. Sources of capital

The current development of Vietnamese financial market presents to enterprises various options for raising capital. Similar to advanced economies, banks are still the main source of capital for enterprises in Vietnam. Around 66.3% of enterprises in need of capital regard banks as their major source of funding. The other alternative (10.6%) is an investment fund. Remarkably, the stock market has not become an important capital channel for enterprises, comprising only 2.2% of votes. Compared to the respective figure of 4.26% in the previous survey (June 2008), this result can be explained to the extent that this survey concurred with the lowest point of the Vietnam stock market during the past three years. Financial leasing gets only 1.9% of enterprises' attention. Particularly, a number of enterprises (7.1%) opt for other channels such as mobilizing capital from customers, employees, partners, etc.

6.3.3. Capital mobilization level

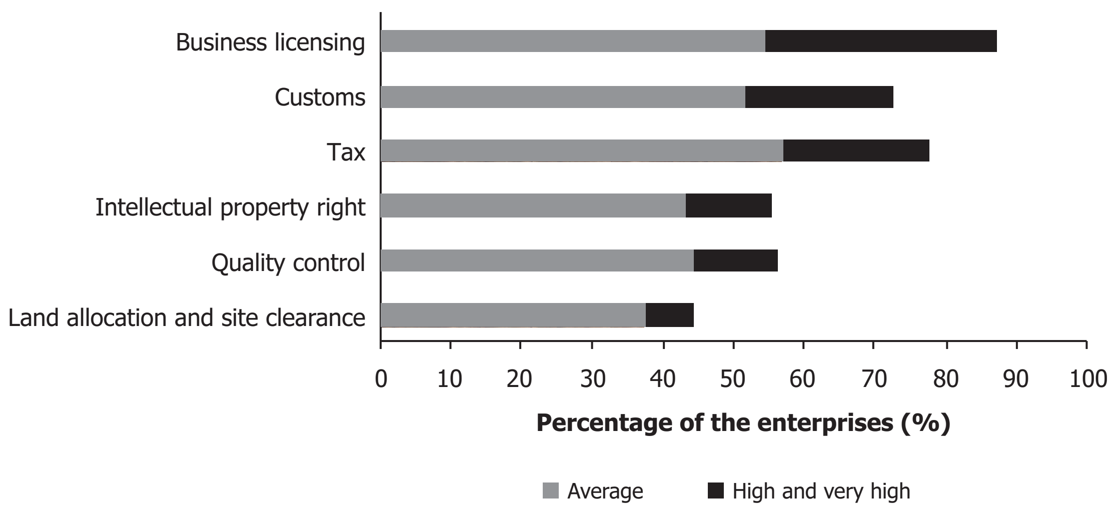
For December 2008, the capital amount which the enterprises were most interested in was between 1 to 10 billion VND, both in short-term (19,7% of the enterprises) and long-term (26% of the enterprises). In general, the bigger the scale of the loan capital was, the higher the demand for it in long-term was. It meant the enterprises were in need of investment capital, rather than working capital.

7. Business climate and recommendations

7.1. Assessment of the business climate

Overall, "mediocre quality" is agreed by about 50% of surveyed enterprises for all services. Notably, the "issuance of business license" and "tax collection" has been rated as high or very high quality. On the contrary, the "land provision and site clearance" has probably not been improved, rated by 44.6% of enterprises as low or very low quality. Likewise, the service performance of "quality control" and "Intellectual property protection" is not highly ranked. Enterprises that find it "difficult to rate" for these two sectors comprise about 10% of the surveyed enterprises (see Figure 4.7).

Figure 4.7.
Assessment on quality of administrative services



With regard to infrastructure, most enterprises are concerned with roads and sea-ports. Only between 15% and 17.8% of enterprises highly appreciate the quality of these facilities, whereas airports and telecommunication are rated as high or very high quality by 33.8% and 46.6% of enterprises, respectively. In fact, this is a reasonable concern. According to "Vietnam logistics 2009" issued by Transport Intelligence (UK), a consulting enterprise in international transportation, the current logistic cost in Vietnam is a large burden and hindrance towards economic development. This accounts for 20-25% of GDP - a very high ratio compared to other countries like China or the US[1]. As a result, unless the quality of roads and seaports are improved, the transportation of domestic products, as well as exports, will suffer considerably resulting in raised business costs. This coincides with the outlooks for enterprises' challenges in the near future due to an expected rise in fuel costs.

---

1. *"Doanh nghiep 24h"* (Enterprise 24h), 16 March 2009.

7.2. Recommendations

7.2.1. Recommendations for the government

(1) Accelerating the administrative reform should be the top priority to improve the business climate and facilitate the implementation of credit policies, stimulus packages, and pro-business initiatives against the current crisis. In other words, the point is not just the initial launch of policies, but the mechanism, process, and agencies to put them into practice. The support by the government will be unable to reach enterprises promptly until administrative process is no longer a hurdle. Particularly, administrative reform enables SMEs (with a shortage of financial and human resources) to gain broader access to markets, capital sources, and other supports.

(2) The government should enhance timely provisions of forecasts on economic status and policies. Forecasts and policy formulation (e.g. stimulus packages) should incorporate economists' inputs and focus on prioritized areas.

(3) Stimulus packages should be properly allocated to infrastructure, particularly for sea-ports and roads. In doing so, the government not only upgrades the infrastructure for business development, but also helps others cope with the economic recession. Attention should be paid to the scale of the package on infrastructure in order to encourage a more proactive involvement of Vietnamese SMEs, further tap on domestic human resources, and create more jobs.

(4) Policies should be issued to strongly support Vietnam's enterprises in innovation of technology, products, and services. The recent extension of the government's preferential credit program to enterprises committed to technology upgrades and equipment investment was a right step. However, in the long run the government needs to incubate an enabling environment so that the technological innovation in enterprises will be linked to the research of local universities and institutes.

(5) Enhance the provision of information on markets and promote trading promotion in both domestic and foreign markets. The lack of professional researches on the domestic market in the past years has provided enterprises with distorted information, inaccurate market assessment, and an inability to tap into niche markets. It is the role of pro-trade agencies who gives support to SMEs that are unable to invest in niche market research on their own.

(6) Improvement of pro-SME measures should be carried out promptly to smooth the adverse impacts of economic crisis on SMEs' inputs: workforces, capital, administrative cost, etc. In addition, it is necessary to identify the difficulties caused by the small scale of enterprises, so as to find the appropriate supportive solutions.

(7) Business start-up needs to be promoted by income tax exemption in the first two to three years. Technical assistance programs, namely training or start-up support, must be launched to help those that are laid off create jobs for themselves and for their friends and relatives. This has been a common trend in many countries during the spans of economic crisis and high unemployment.

(8) Investment should be made in workforce training, including the revamp of human resource planning with a focus on vocational training and technology transfer in advanced industries.

7.2.2. Implications to enterprises

It is necessary for each enterprise to find its own approach and initiative to raise competitiveness. In this research, some notable proposals are made upon the survey results:

(1) Be proactive in raising competitiveness in the backdrop of the global economic crisis - the top priority for enterprises. Vietnamese enterprises should expand the concept of "competitiveness". In the short run, the competitiveness of enterprises lies mainly in market accessibility that will hardly be feasible without an investment in renovation.

(2) Invest in technology, product/services renovation, production line upgrades and market diversification. This is a learning and creative process necessary for enterprises' growth. A new growth cycle only returns when the market is triggered by new products and purchases.

(3) Seize any opportunities to access markets through the application of information technology and revamping the management system.

(4) Intensify the relationships between domestic research institutes and universities to take advantage of the brain power of domestic researchers.

(5) Build a development strategy based on a close partnership between enterprises, which are linked in value and supply chains, and enhance the inter-sector link in order to cement the chains.

(6) Exploit the stimulus package by making clear and selective business strategies and plans. Focus this resource on technology and equipment upgrade.

(7) Raise productivity and skills for the employees; try to maintain the current workforce so as not to lose the experienced human resources when the growth cycle returns.

(8) Join the government in improving the business environment, strengthening the Vietnamese enterprise community, and overcoming the global crisis.

Appendix

STATISTICAL TABLES

1. Overview on business environment of Vietnam in 2008

Table 1.1. **Total of registered enterprises and total operating enterprises**

Unit: Enterprises

Năm	2000	2001	2002	2003	2004	2005	2007	2008
Number of registered enterprises	60,127	79,972	101,507	129,278	166,508	206,464	307,008	376,644
Number of operating enterprises	42,288	51,680	62,908	72,012	91,755	113,379	155,771*	236,843**
State owned enterprise	*5,759*	*5,355*	*5,364*	*4,845*	*4,596*	*4,086*	*3,494*	*3,952*
- Central	2,067	1,997	2,052	1,898	1,967	-	1,719	-
- Local	3,692	3,358	3,312	2,947	2,629	-	1,775	-
Non-State enterprise	*35,004*	*44,314*	*55,236*	*64,526*	*84,003*	*105,596*	*147,316*	*225,223*
- Collective	3,237	3,646	4,104	4,150	5,349	6,335	6,688	7,868
- Private	20,548	22,777	24,794	25,653	29,980	35,001	40,468	
- Collective name	4	5	24	17	21	37	53	
- Limited Co,	10,458	16,291	23,485	30,165	40,918	52,549	77,648	
- Joint stock Co,	757	1,595	2,829	4,541	7,735	11674	1,597	
Foreign investment enterprise	*1,525*	*2,011*	*2,308*	*2,641*	*3,156*	*3,697*	*7,075*	*7,668*
- 100% foreign capital	854	1,294	1,561	1,869	2,335	2,852		
- Joint venture	671	717	747	772	821	845		

Source: General Statistics Office.

Note:

- The Data have been extracted according to results of the enterprise survey by General Statistics Office that carried out from 2001 to 2007. Number of enterprises is as of 31st December annually.

- The number of registering enterprise does not include non - agricultural sector and foreign.

* GSO: *The situation of enterprises through the results of surveys conducted in 2006, 2007, 2008,* Statistic Publishing House, Hanoi, 2009.

** The data for 2008 are extracted from preliminary results of implementation of Decision on review of enterprises No.1694/QD-BKH dated 15th December 2008 of Minister of Ministry of Planning and Investment.

2. International and Vietnam Financial market 2008

Table 2.1. **World Economic Growth 2004-2008**

Unit: % compared with previous year

Goals	2004	2005	2006	2007	2008
Global	**4.90**	**4.50**	**5.10**	**5.00**	**3.4***
Some countries. big sector					
United State	3.64	2.94	2.78	2.03	1.1*
Regional Co-EUR	2.10	1.60	2.80	2.60	1.0*
Japan	2.74	1.93	2.42	2.08	-0.3*
China	10.10	10.40	11.60	11.90	9.0*
India	7.89	9.13	9.82	9.34	9.3*
Some ASEAN countries					
Singapore	8.99	7.30	8.17	7.72	3.62
Malaysia	6.80	5.30	5.80	6.30	5.80
Thailan	6.34	4.53	5.11	4.75	4.74
Indonesia	5.03	5.69	5.51	6.32	6.08
Philippines	6.40	5.00	5.40	7.20	4.40

Source: IMF. The Economic Outlook, November 2008.

* Data update in forecasting economic of IMF of January 28 2009.

Table 2.2. **Exchange rate and interest rate movement after September 12, 2008**

Goals	September 12, 2008	December 31, 2008	January 30, 2009	% Increase/decrease compared with September 12, 2008	% Increase/decrease compared with December 31, 2008
1. Libor overnight	2.15	0.14	0.31	-1.84	0.17
2. Exchange Rate					
- EUR/USD	1.42	1.40	1.28	-10.17	-8.57
- GBP/USD	1.79	1.46	1.45	-19.18	-0.84
- USD/JPY	107.92	90.60	89.97	-16.63	-0.70
- USD/CNY	6.8370	6.82	6.83	-0.04	0.18

Source: Thomson Reuters and calculated by the author.

Table 2.3. **Overview of the World Stock Market 2008**

Markets	Index	Value close of December 30	Increase/decrease compared with 2007 (points)	Increase/decrease compared with 2007 (%)
US	Dow Jones	8,668.39	↓ 4,375.57	↓ 34.6
	Nasdaq	1,550.70	↓ 1,058.93	↓ 41.5
	S&P 500	890.64	↓ 556.52	↓ 39.3
England	FTSE 100	4,392.68	↓ 2,024.02	↓ 31.5
Germany	DAX	4,810.20	↓ 3,138.91	↓ 39.5
France	CAC 40	3,217.13	↓ 2,333.23	↓ 42.0
Taiwan	Taiwan Weighted	4,589.04	↓ 3,734.01	↓ 44.8
Japan	Nikkei 225	8,859.56	↓ 5,831.85	↓ 42.1
Hongkong	Hang Seng	14,235.50	↓ 13,325.02	↓ 48.8
Korea	KOSPI Composite	1,124.47	↓ 728.98	↓ 40.7
Singapore	Straits Times	1,770.65	↓ 1,690.57	↓ 49.0
China	Shanghai Composite	1,832.91	↓ 3,428.65	↓ 65.2
India	BSE 30	9,716.16	↓ 10,749.14	↓ 52.2
Australia	ASX	3,591.40	↓ 2,842.70	↓ 44.1
Vietnam	VN-Index	316.32	↓ 604.75	↓ 65.9

Source: CNBC, Thomson Reuters, Bloomberg.

Table 2.4. **Indicators of the financial market 2000-2008**

Unit: %

Index	2000	2001	2002	2003	2004	2005	2006	2007	2008
TTG[1] /GDP	38.4	44.3	47.5	52.9	59.9	66.7	78.4	95.4	114
TD[2] /GDP	35.1	45.2	43.1	49.0	58.9	65.9	71.2	87.8	105
% increase the market capitalized index	N/a	N/a	N/a	N/a	41.46	28	146.3	89	-55.8
Rate of capital/GDP	N/a	N/a	N/a	N/a	0.52	0.69	22.7	43	19
Number of company listing (company)	N/a	N/a	N/a	N/a	26	32	108	251	338
Value of listed bonds (billion dong)	N/a	N/a	N/a	N/a	23.000	37.000	69.000	N/a	213.800

Source: IMF, General Statistics Office and State Securities Commission of Vietnam (2008 figures are estimates).

1. Deposit mobilization by the credit institutions.
2. Debit balance of the loan credit institutions.

3. Assessment of firm's business capacity

3.1. Number of operating enterprises as of annual 31st December

Table 3.1a. **Number of operating enterprises**

Unit: enterprise

Code	Sectors	Whole sector							
		2000	2001	2002	2003	2004	2005	2006	2007
1	Manufacture of food products. beverages and tobacco products	3,414	3,613	3,814	3,902	4,219	4,775	4,534	4,966
2	Garments	963	1,324	1,619	1,916	2,397	2,779	3,166	3,707
3	Construction	3,922	6,523	7,896	9,710	12,259	15,240	17,742	20,928
4	Tourism	1	309	363	422	547	740	833	979
5	Banking sector (including investment funds and security service companies)	915	1,011	1,026	1,028	10,56	1,077	1,584	1,811
6	Insurance	11	13	18	19	61	56	83	101

Table 3.1b. **Number of large enterprises**

Unit: enterprise

Code	Sectors	Large enterprises							
		2000	2001	2002	2003	2004	2005	2006	2007
1	Manufacture of food products. beverages and tobacco products	299	438	387	414	446	466	1814	2,018
2	Garments	400	468	551	642	707	739	1315	1,614
3	Construction	610	1,419	918	893	901	939	6,242	7,556
4	Tourism	1	48	16	13	17	18	240	341
5	Banking sector (including investment funds and security service companies)	8	17	20	22	25	28	458	301
6	Insurance	1	3	7	7	10	12	32	23

Table 3.1c. **Number of small enterprises**

Unit: enterprise

Code	Sectors	Small enterprises							
		2000	2001	2002	2003	2004	2005	2006	2007
1	Manufacture of food products. beverages and tobacco products	3,115	3,175	3,427	3,488	3,773	4,309	2,720	2,948
2	Garments	563	856	1,068	1,274	1,690	2,040	1,851	2,093
3	Construction	3,312	5,104	6,978	8,817	11,358	14,301	11,500	13,372
4	Tourism	0	261	347	409	530	722	593	638
5	Banking sector (including investment funds and security service companies)	907	994	1,006	1,006	1,031	1,049	1,126	1,510
6	Insurance	10	10	11	12	51	44	51	78

3.2. The ratio of enterprises who failed to make a profit

Table 3.2a. **The ratio of enterprises who failed to make profit (whole sector)**

Unit: %

Code	Sectors	Whole sector							
		2000	2001	2002	2003	2004	2005	2006	2007
1	Manufacture of food products. beverages and tobacco products	19	22	21	23	23	28	19	28
2	Garments	34	33	37	37	38	38	28	40
3	Construction	13	12	15	16	21	24	11	31
4	Tourism	0	35	36	47	54	51	33	54
5	Banking sector (including investment funds and security service companies)	7	3	2	2	4	1	2	5
6	Insurance	55	38	28	21	39	23	22	19

Table 3.2b. **The ratio of large enterprises who failed to make a profit**

Unit: %

Code	Sectors	Large enterprises							
		2000	2001	2002	2003	2004	2005	2006	2007
1	Manufacture of food products, beverages and tobacco products	24	19	22	28	21	3	5	33
2	Garments	29	33	40	36	36	10	21	51
3	Construction	7	3	6	7	10	1	1	52
4	Tourism	0	0	0	8	18	0	0	76
5	Banking sector (including investment funds and security service companies)	13	0	5	0	0	0	0	4
6	Insurance	100	33	43	29	20	4	9	17

Table 3.2c. **The ratio of small enterprises who failed to make a profit**

Unit: %

Code	Sectors	Small enterprises							
		2000	2001	2002	2003	2004	2005	2006	2007
1	Manufacture of food products, beverages and tobacco products	18	23	21	22	23	28	28	25
2	Garments	37	33	35	38	39	39	33	31
3	Construction	14	14	16	17	21	25	17	18
4	Tourism		41	38	49	55	52	46	42
5	Banking sector (including investment funds and security service companies)	7	3	2	2	4	1	3	6
6	Insurance	50	40	18	17	43	25	29	19

3.3. Analysis of liquidity

Table 3.3. **Current ratio= Current assets/Current liabilities**

Code	Sectors	Whole sector							
		2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
1	Manufacture of food products. beverages and tobacco products	11.78	13.99	16.14	12.53	13.98	12.54	29.19	11.67
2	Garments	11.13	9.38	13.16	9.41	14.02	13.19	11.77	6.58
3	Construction	10.99	16.04	23.91	21.23	25.6	17.56	23.4	8.98
4	Tourism	0.53	34.54	32.89	10.03	36.74	10.69	31.22	21.55
5	Bankng sector (including investment funds and security service companies)	6.38	9.31	4.83	8.22	3.75	6.1	17.16	6.4
6	Insurance	2.87	1.31	1.84	1.61	2.76	11.52	17.05	18.9

Table 3.4a. **Quick ratio = (Current assets - Inventories)/Current liability**

Code	Sectors	Whole sector							
		2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
1	Manufacture of food products. beverages and tobacco products	7.63	6.33	6.12	4.69	4.2	4.43	5.5	8.11
2	Garments	3.4	3.03	4.02	2.78	5.3	4.35	4.09	4.59
3	Construction	4.97	5.2	6.7	7.12	6.82	4.32	6.99	5.19
4	Tourism	0.44	28.51	29.28	7.69	23.03	7.25	28.14	16.64
5	Banking sector (including investment funds and security service companies)	4.2	2.83	2.89	2.24	1.5	1.82	3.62	10.01
6	Insurance	2.87	1.19	1.6	1.28	1.41	14.45	11.95	9.14

Table 3.4b. **Quick ratio in large enterprises**

Code	Sectors	Large enterprises							
		2000	2001	2002	2003	2004	2005	2006	2007
1	Manufacture of food products. beverages and tobacco products	1.33	1.08	1.1	1.44	1.34	0.95	1.23	9.16
2	Garments	1.9	0.9	1.34	0.97	1.55	1.45	1.3	2.4
3	Construction	1.37	1	1.11	1.13	1.1	1	1.19	4.15
4	Tourism	0.44	1.01	0.81	1.04	10.56	1.35	0.81	6.18
5	Banking sector (including investment funds and security service companies)	1.14	1.06	1.17	2.95	1.06	1.32	0.92	6.3
6	Insurance	1.66	0.95	1.42	0.52	0.56	0.65	1.06	0.95

Table 3.4c. **Quick ratio in small enterprises**

Code	Sectors	Small enterprises							
		2000	2001	2002	2003	2004	2005	2006	2007
1	Manufacture of food products. beverages and tobacco products	8.72	7.2	7.14	5.33	4.69	4.93	6.58	7.11
2	Garments	4.72	4.52	5.81	3.91	7.17	5.58	5.5	6.59
3	Construction	5.82	6.1	7.85	8	7.43	4.59	7.59	5.97
4	Tourism	0	31.37	32.67	8.02	23.55	7.39	29.28	28.3
5	Banking sector (including investment funds and security service companies)	4.23	2.86	2.98	2.21	1.52	1.84	3.82	12.99
6	Insurance	2.99	1.28	1.81	2.23	2.02	22.04	16.85	16.94

3.4. Analysis of managerial capability

Table 3.5a. **Inventory ratio = Inventory/Current liability**

Code	Sectors	Whole sector							
		2000	2001	2002	2003	2004	2005	2006	2007
1	Manufacture of food products. beverages and tobacco products	0.15	2.18	2.53	2.04	1.68	1.46	2.42	2.59
2	Garments	0.09	1.29	1.24	1.03	1.27	1.09	1.08	1.08
3	Construction	0.05	1.09	1.8	1.42	1.86	1.42	2.13	2.06
4	Tourism	0.09	0.52	0.73	0.15	1.07	0.12	0.28	0.35
5	Banking sector (including investment funds and security service companies)	0	0.01	0.09	0.04	0.14	0.03	0.22	0.71
6	Insurance	0	0.11	0.1	0	0.01	0	2.64	0.73

Table 3.5b. **Inventory ratio in large enterprises**

Code	Sectors	Large enterprises							
		2000	2001	2002	2003	2004	2005	2006	2007
1	Manufacture of food products. beverages and tobacco products	0.07	0.57	0.65	0.63	0.72	0.59	0.79	2.65
2	Garments	0.04	0.44	0.46	0.42	0.4	0.48	0.44	0.6
3	Construction	0.02	0.36	0.42	0.44	0.57	0.59	0.54	1.12
4	Tourism	0.09	0.16	0.15	0.1	1.16	0.1	0.16	0.09
5	Banking sector (including investment funds and security service companies)	0	0.01	0.05	0.05	0.03	0.04	0.03	0.77
6	Insurance	0.01	0.01	0	0	0	0	0.02	0.01

Table 3.5c. **Inventory ratio in small enterprises**

Code	Sectors	Small enterprises							
		2000	2001	2002	2003	2004	2005	2006	2007
1	Manufacture of food products. beverages and tobacco products	0.16	2.45	2.91	2.33	1.84	1.58	2.83	2.53
2	Garments	0.14	1.89	1.77	1.41	1.71	1.34	1.4	1.53
3	Construction	0.05	1.24	2.08	1.56	2	1.49	2.29	2.74
4	Tourism		0.56	0.8	0.15	1.07	0.12	0.29	0.64
5	Banking sector (including investment funds and security service companies)	0	0.01	0.09	0.04	0.14	0.03	0.23	0.65
6	Insurance	0	0.15	0.21	0	0.02	0	3.82	1.42

Table 3.6a. **Total asset turnover = Net sales/Total assets**

Unit: %

Code	Sectors	Whole sector							
		2000	2001	2002	2003	2004	2005	2006	2007
1	Manufacture of food products. beverages and tobacco products	3.04	2.48	2.08	1.88	1.87	1.75	2.02	1.89
2	Garments	1.31	1.16	1.13	1.19	1.22	1.17	1.3	1.15
3	Construction	1.13	1.03	1.05	1.13	0.89	0.83	0.89	0.73
4	Tourism	1.98	1.67	2.1	1.66	1.68	1.64	1.94	1.66
5	Banking sector (including investment funds and security service companies)	0.29	0.29	0.37	0.32	0.29	0.28	0.23	0.24
6	Insurance	0.39	0.84	1.88	0.37	1.05	0.78	1.47	1.37

Table 3.6b. **Total asset turnover in large enterprises**

Unit: %

Code	Sectors	Large enterprises							
		2000	2001	2002	2003	2004	2005	2006	2007
1	Manufacture of food products. beverages and tobacco products	2.6	2.54	2.26	2.26	2.32	2.31	2.25	1.92
2	Garments	1.29	1.2	1.13	1.23	1.37	1.35	1.36	1.08
3	Construction	1	0.97	0.98	1.09	0.84	0.88	0.92	0.51
4	Tourism	1.98	1.21	1.45	1.44	1.22	2.56	2.76	1.18
5	Banking sector (including investment funds and security service companies)	0.04	0.07	0.23	0.36	0.32	0.48	0.07	0.33
6	Insurance	0.87	0.84	0.37	0.37	0.44	0.46	0.4	0.24

Table 3.6c. **Total asset turnover in small enterprises**

Unit: %

Code	Sectors	Small enterprise							
		2000	2001	2002	2003	2004	2005	2006	2007
1	Manufacture of food products. beverages and tobacco products	3.09	2.47	2.06	1.83	1.82	1.69	1.98	1.87
2	Garments	1.33	1.13	1.13	1.17	1.16	1.11	1.28	1.21
3	Construction	1.15	1.04	1.05	1.14	0.9	0.82	0.88	0.86
4	Tourism	0	1.69	2.13	1.67	1.69	1.62	1.92	1.92
5	Banking sector (including investment funds and security service companies)	0.29	0.29	0.37	0.32	0.29	0.28	0.23	0.22
6	Insurance	0.34	0.84	2.85	0.38	1.16	0.87	1.66	1.71

3.5. Analysis of debt situation

Table 3.7a. **Ratio of total liability to Net Worth = Total liabilities/Net Worth**

Unit: %

Code	Sectors	Whole sector							
		2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
1	Manufacture of food products. beverages and tobacco products	0.56	0.68	1.29	1.17	1.19	1.23	1.93	1.31
2	Garments	1.52	1.61	1.91	1.89	1.81	1.73	1.99	1.78
3	Construction	1.99	1.81	2.19	1.83	1.63	1.5	1.83	1.34
4	Tourism	1.11	0.88	1.09	0.58	0.68	0.74	0.9	0.68
5	Banking sector (including investment funds and security service companies)	7.06	6.75	6.97	7.93	7.34	6.69	8.04	6.77
6	Insurance	1.02	1.85	2.68	2.13	2.8	3.36	2.87	1.52

Table 3.7b. **Ratio of total liability to net worth in large enterprises**

Unit: %

Code	Sectors	Large enterprises							
		2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
1	Manufacture of food products. beverages and tobacco products	2.55	2.42	2.84	2.52	2.61	3.16	3.35	0.95
2	Garments	2.06	2.29	2.4	2.61	2.52	2.6	2.68	1.89
3	Construction	5.44	5.86	6.69	6.54	6.5	5.82	5.31	1.01
4	Tourism	1.11	1.3	1.81	1.28	1.87	1.84	2.73	0.27
5	Banking sector (including investment funds and security service companies)	9.15	12.27	10.33	12.48	9.97	8.75	9.69	2.45
6	Insurance	1.09	3.96	3.65	4.24	6.11	6.28	11.6	3.79

Table 3.7c. **Ratio of total liability to net worth in small enterprises**

Unit: %

Code	Sectors	Small enterprises							
		2000	2001	2002	2003	2004	2005	2006	2007
1	Manufacture of food products. beverages and tobacco products	0.4	0.53	1.07	0.98	1	1.01	1.65	1.62
2	Garments	1.15	1.24	1.63	1.51	1.52	1.42	1.68	1.69
3	Construction	1.37	1.2	1.49	1.3	1.23	1.21	1.55	1.56
4	Tourism	0	0.86	1.04	0.56	0.64	0.72	0.84	0.98
5	Banking sector (including investment funds and security service companies)	7.04	6.67	6.9	7.83	7.28	6.63	8	7.73
6	Insurance	1.01	1.05	2	0.79	1.89	2.33	0.62	0.53

Table 3.8a. **Debt ratio = Total liabilities/Total assets**

Code	Sectors	Whole sector							
		2000	2001	2002	2003	2004	2005	2006	2007
1	Manufacture of food products. beverages and tobacco products	0.2	0.23	0.36	0.35	0.36	0.35	0.43	0.36
2	Garments	0.42	0.42	0.45	0.45	0.46	0.46	0.48	0.47
3	Construction	0.38	0.36	0.42	0.39	0.38	0.4	0.43	0.38
4	Tourism	0.53	0.21	0.27	0.26	0.21	0.27	0.26	0.22
5	Banking sector (including investment funds and security service companies)	0.71	0.74	0.77	0.79	0.76	0.78	0.75	0.61
6	Insurance	0.41	0.65	0.56	0.52	0.46	0.54	0.33	0.37

Table 3.8b. **Debt ratio in large enterprises**

Code	Sectors	Large enterprises							
		2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
1	Manufacture of food products. beverages and tobacco products	0.63	0.63	0.63	0.64	0.62	0.63	0.61	0.32
2	Garments	0.53	0.56	0.56	0.58	0.59	0.59	0.6	0.52
3	Construction	0.72	0.73	0.75	0.73	0.74	0.73	0.72	0.33
4	Tourism	0.53	0.53	0.5	0.48	0.52	0.55	0.55	0.14
5	Banking sector (including investment funds and security service companies)	0.84	0.85	0.77	0.8	0.8	0.75	0.83	0.38
6	Insurance	0.52	0.79	0.67	0.78	0.81	0.76	0.61	0.65

3.6. Analysis of profitability

Table 3.9a. **Operating profit ratio = Current profit and loss/Net operating income**

Code	Sectors	Whole sector							
		2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
1	Manufacture of food products. beverages and tobacco products	0	0	-0.13	-0.17	-0.22	-0.11	-0.23	-1.05
2	Garments	-0.08	-0.23	-0.19	-0.25	-0.2	-0.32	-1.03	-1.83
3	Construction	-0.07	-0.33	-0.09	-0.15	-1.49	-0.33	-2.59	-3.38
4	Tourism	0.01	-0.37	-0.1	-0.98	-0.45	-0.36	-1.33	-0.22
5	Banking sector (including investment funds and security service companies)	0.17	0.15	0.16	0.07	0	0.14	0.21	-0.01
6	Insurance	-0.41	-0.2	-0.23	0.1	-0.05	-0.06	-0.24	-0.38

Table 3.9b. **Operating profit ratio in large enterprises**

Code	Sectors	Large enterprises							
		2000	2001	2002	2003	2004	2005	2006	2007
1	Manufacture of food products. beverages and tobacco products	-0.06	-0.04	-0.04	-0.05	0	0	0.01	-0.03
2	Garments	-0.02	-0.19	-0.14	-0.11	-0.07	-0.05	-0.09	-0.05
3	Construction	0.02	0.02	0.01	0.01	-1.42	0	0.01	-0.31
4	Tourism	0.01	0.02	0.02	0.03	0.01	0.02	0.04	-0.04
5	Banking sector (including investment funds and security service companies)	0.09	0.1	0.14	0.32	0.16	0.25	0.31	0.13
6	Insurance	-0.25	-0.03	-0.43	-0.02	0.04	0.07	0.02	0.2

Table 3.9c. **Operating profit ratio in small enterprises**

Code	Sectors	Small enterprises							
		2000	2001	2002	2003	2004	2005	2006	2007
1	Manufacture of food products. beverages and tobacco products	0	0	-0.16	-0.2	-0.26	-0.13	-0.33	-1.76
2	Garments	-0.12	-0.24	-0.23	-0.33	-0.27	-0.44	-1.53	-3.24
3	Construction	-0.09	-0.38	-0.13	-0.18	-1.51	-0.37	-3.09	-5.23
4	Tourism	.	-0.39	-0.12	-1.03	-0.47	-0.37	-1.38	-0.32
5	Banking sector (including investment funds and security service companies)	0.17	0.15	0.16	0.06	-0.01	0.13	0.2	-0.04
6	Insurance	-0.42	-0.26	0.08	0.26	-0.08	-0.13	-0.34	-0.57

Table 3.10. **Net worth turnover ratio = Net operating income/Net worth**

Unit: %

Code	Sectors	Whole sector							
		2000	2001	2002	2003	2004	2005	2006	2007
1	Manufacture of food products. beverages and tobacco products	4.95	4.49	6.3	5.59	3.92	3.55	5.35	4.33
2	Garments	3.3	2.96	3.45	3.52	3.34	3.03	4.04	3.12
3	Construction	3.09	2.74	4.29	3.6	2.37	2.05	3.07	1.71
4	Tourism	4.18	3.28	5.97	3.31	3.69	3.92	4.85	3.21
5	Banking sector (including investment funds and security service companies)	1.34	1.3	1.81	1.62	1.64	1.26	0.87	1.07
6	Insurance	0.86	2.58	0.84	1.36	2.94	1.96	2.95	1.9

Table 3.11. **Receivables turnover ratio = Net operating income/Accounts receivable**

Unit: %

Code	Sectors	Whole sector							
		2000	2001	2002	2003	2004	2005	2006	2007
1	Manufacture of food products. beverages and tobacco products	188.49	220.15	167.81	289.33	77.01	100.87	58.45	42.38
2	Garments	41.29	64.18	64.22	32.79	40.94	41.32	79.17	18.94
3	Construction	32.21	23.27	48.89	46.26	46.19	22.46	38.57	10.32
4	Tourism	16.45	68.1	133.97	55.06	143.13	35.59	162.49	29.12
5	Banking sector (including investment funds and security service companies)	12.88	25.95	19.86	83.52	8.9	13.95	19.27	3.59
6	Insurance	11.09	11.9	3.82	7.21	7.32	4.48	7.32	33.27

Table 3.12. **Fixed asset turnover ratio = Net operating income/Fixed assets**

Unit: %

Code	Sectors	Whole sector							
		2000	2001	2002	2003	2004	2005	2006	2007
1	Manufacture of food products. beverages and tobacco products	8.99	8.25	11.62	10.05	7.28	6.49	9.39	8.95
2	Garments	5.64	5.1	5.83	5.32	7.59	7.49	9.5	8.08
3	Construction	9.05	9.17	22.54	26.97	19.28	14.6	26.25	10.9
4	Tourism	2.75	18.59	24.8	20.91	37.01	56.47	64.63	32.5
5	Banking sector (including investment funds and security service companies)	13.7	13	13.89	14.04	17.37	15.87	16.01	13.68
6	Insurance	4.9	5.39	3.75	3.21	7.46	8.26	11.48	18.34

Table 3.13. **Merchandise turnover ratio = Net operating income/Inventory**

Unit: %

Code	Sectors	Whole sector							
		2000	2001	2002	2003	2004	2005	2006	2007
1	Manufacture of food products. beverages and tobacco products	463.41	75.43	48.53	37.4	35.12	39.66	23.94	20.36
2	Garments	523.54	20.29	19.56	23.87	22.48	20.13	21.66	16.53
3	Construction	277.71	15.09	14.37	16.65	10.94	8.95	9.02	6.39
4	Tourism	41.96	295.28	103.59	125.18	183.72	160.41	188.83	142.88
5	Banking sector (including investment funds and security service companies)	386.67	120.03	112.48	111.53	79.48	75.49	60.95	40.81
6	Insurance	2.009.23	3.964.3	1.131.87	972.8	848.94	567.35	1.073.42	553.01

List of refference

1. CIEM: *Vietnam's economy 2007*, National Political Publishing House, Hanoi, 2008.
2. CNBC, Thomson Reuters, Bloomberg.
3. GSO: *General census on administrative and economic units*, Statistic Publishing House, Hanoi, 2008.
4. GSO: *The situation of enterprises through the results of surveys conducted in 2006, 2007, 2008,* Statistic Publishing House, Hanoi, 2009.
5. Ha An (2008): *Overview on financial markets of the world in 2008, Science and Bank Training* Magazine.
6. Ministry of Planning and Investment: Additional report on the socio-economic situation in 2008 and implementation of socio-economic development plan for 2009 (report No.1838/BC-BKH dated 20th March 2009).
7. Nguyen Dinh Tu: *Impact of Global financial crisis on the baking sector.*
8. UNCTAD (2008): *World Investment Report 2008.*
9. VCCI-VNCI (2008): *The Vietnam Provincial Competitiveness Index 2008.*
10. Vo Tri Thanh (2008): *Vietnam's economy 2007: the rising potential or temporary*, www.vnep.org.vn
11. WEF (2008): *Global Competitiveness Report 2008.*
12. World financial monetary bulletin on December 2008 of Monetary Policy Department.
13. The World Bank and International Finance Corporation (2008): *Doing Business 2009 - How to reform.*
14. Website of Ministry of Planning and Investment: www.mpi.gov.vn
15. Website of Ministry of Natural Resources and Environment: www.monre.gov.vn
16. Website of International Monetary Fund IMF: www.imf.org
17. Website of State Bank of Vietnam: www.sbv.gov.vn
18. Website of World Trade Organization (WTO): www.wto.org

Publishing Responsibility:
DR. NGUYEN DUY HUNG
Tener Responsibility:
DR. LE MINH NGHIA

Editor:	DR. DO QUANG DUNG
	MA. PHAM THI KIM HUE
	TRAN THI THANH PHIET
Designer:	NGUYEN PHUONG MAI
Desktop Publishing:	TRANG NHUNG
Proffreader:	DEPARTMENT OF ECONOMICS WORKS
Samplereader:	DEPARTMENT OF ECONOMICS WORKS

Printed 500 copies, size 20,5x26,5 cm, in Haki Company.
Publishing Plan: No. 91-2009/CXB/463-76/CTQG.
Publishing Decision: No. 3596-QĐ/NXBCTQG.
Completed and Registered in October 2009.

Vietnam Chamber of Commerce and Industry
Enterprise Development Foundation
No. 9, Dao Duy Anh Street, Dong Da District, Hanoi, Vietnam
Tel 84 4 3577 1076
Fax 84 4 3574 4031
www.vcci.com.vn