



Statement by Christopher Twomey, Chairman
Vietnam Business Forum
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I am pleased to speak about AmCham's perception of the business environment in Vietnam. AmCham members thank the Ministry of Planning and Investment, supported by the World Bank and the International Finance Corporation, as well as our partners in the new Vietnam Business Forum Consortium and Secretariat, for their role in bringing together business and government leaders to discuss how to improve business conditions in order to promote economic and social development in Vietnam.

Trade and Investment Environment

Trade and its related foreign investment brings jobs and income, tax revenues, exports and foreign exchange and technology transfer, and contributes to Vietnam's strategic drive for economic and social development to industrialize, modernize and globalize. It is especially important that FDI representatives be included in the Vietnam Business Forum since FDI factories represented 42% of Vietnam's gross industrial production and 59% of Vietnam's exports in 2011, which increased to 62.6% of Vietnam's exports in the first ten months of 2012. Positive action on the recommendations of current FDI representatives will create an environment that attracts additional FDI.

AmCham cooperation with and support of Vietnam's government and business has led to a substantial increase in bilateral trade over the last twelve years: from only \$1.5 billion in 2001 when the BTA went into effect (December 2001); to \$9.7 billion in 2006 when Vietnam achieved WTO Accession and Permanent Normal Trade Relations with the U.S. (December 2006); to more than \$22 billion in 2011. Based on trade data for the first nine months of 2012, we expect that Vietnam-U.S. bilateral trade will be \$24.5 billion this year, and will reach nearly \$50 billion by 2020, if present trends continue. However, U.S. imports of apparel from Vietnam have been slowing in recent years, because of rapidly increasing labour costs, competition from neighboring countries, and weak demand in the U.S. because of the continuing financial and economic crisis since 2008.

Several U.S.-based MNCs, with FMCG (fast-moving consumer goods) companies are in the FDI lead in Vietnam, having invested from \$200 to \$500 million each in Vietnam, which is often their fastest growing market globally. This is reported regularly in the newspapers. For example, the Coca-Cola CEO recently visited Vietnam and announced another \$300 million investment in Vietnam. Many have heard that leading U.S. franchises have entered or may be planning to enter Vietnam's market, for example, KFC, Burger King, McDonald's, 7-Eleven, Starbucks, etc. So clearly the investment outlook for these companies, focused on Vietnam's demographics, growing per capita GDP, and consumption trends is promising.

Moreover, U.S. and other countries' FDI in higher value-added "modern manufacturing" for export to global markets continues to increase, led by the Intel investment of \$1 billion in an assembly and test facility in Saigon Hi-Tech Park, and also FDI by General Electric (GE),

and Jabil from the U.S., Korea's Samsung Electronics Co., and Japan's Nidec, etc. Based on this FDI, Vietnam has increased high-tech exports amid a global slowdown that has damped demand for goods from other Asian nations. Shipments of mobile phones and other electronics from Vietnam surged 91 percent in the first 10 months of the year to \$16 billion. And Vietnam's shipments of electrical machinery to the U.S. climbed 58 percent in the first eight months of the year, while China's sales to the U.S. in the category rose 11 percent, Malaysia's grew 4 percent, Thailand's slid 5 percent and Indonesia's fell 16 percent in the period. So, again, the investment outlook in Vietnam for these "modern manufacturing" companies is promising.

However, we remain very concerned that Vietnam may not succeed in a smooth transition from U.S.-related FDI by "partner factories" that produce lower value-added consumer goods, to U.S. FDI in "modern manufacturing" that produce higher value-added products for export to global markets. The "partner factories" account for much of Vietnam's exports of apparel, footwear, and furniture, and employ millions of Vietnamese workers. Vietnam may lose this FDI and become caught in the "middle income trap" if unable to overcome many challenges.

Challenges facing Vietnam

In recent years, Vietnam has faced challenges regarding macroeconomic stability. Unacceptably high levels of inflation, tension in the foreign exchange market, high nominal interest rates, declining foreign exchange reserves, downgrades by credit rating institutions and negative comments from global financial institutions highlighted the need for policymakers to change course. In February 2011, the Prime Minister announced that the Government would focus on stability rather than growth. AmCham and many others strongly supported the Government's endeavor.

Today, our view is unchanged. Over the years, Vietnam's success in attracting foreign investment was largely been built on the expectation of economic and political stability.

We did not come today to point fingers and place blame for the causes of Vietnam's current economic woes. We do, however, endorse the call for urgent reforms and we expect the Government to take decisive action to create a more attractive business climate.

It is no secret that Vietnam's fragile financial system is one of the country's biggest economic problems. Much of today's VBF is focused on the troubling rate of non-performing loans in the local banking system. The Prime Minister recently said, "Resolving bad debt is an urgent task which needs to be done swiftly and resolutely, but with a reasonable roadmap and tight procedures." We agree that this issue needs to be dealt with without delay, because this problem doesn't just affect the banking system, it affects all of us.

Many AmCham members are finding it more difficult to conduct business here than in past years. Government efforts to "manage" business activity have caused numerous investors to rethink their business and expansion plans in Vietnam. Decisions on which items can be imported, how products can be priced, who can work in Vietnam, which programming can be broadcast on television, who can provide health care, and much more have contributed to a perception that investors are not welcome in Vietnam and need to consider doing business someplace else.

Given the current state of the economy, Vietnam should make every effort to entice foreign investment and resources. Instead, actions such as ending the successful visa waiver pilot project and raising visa fees will deter free-spending foreign visitors that create jobs and wealth here.

We also note with concern the recent amendments to the Law on Lawyers, and particularly the proposal by a few local law firms to stop the Vietnamese lawyers who work for foreign firms from drafting commercial contracts and business charters governed by Vietnamese law. The people in this room recognize that international law firms here have been incredibly beneficial to Vietnam's development over the years. They have donated their time and expertise in advising the government on many laws, decrees, and other issues of importance, such as administrative reform, trade agreements, and more. Furthermore, the foreign lawyers have trained many of the talented local lawyers now working in Vietnam, a substantial benefit to the development of the country. Companies and individuals that engage law firms enjoy having choice in the marketplace, and, some local law firms compete quite well, offering good service and value. Restricting foreign participation in Vietnam's economy will not help create a stable, high-growth, modern economy that increases opportunities and creates wealth for the 90 million people living here.

Vietnam gains better access to capital sources, modern technology, and management experience through investment and trade activities with major economies.

There are, of course, many areas of the business climate that require improvements in order to elevate Vietnam's competitiveness. Given the brief time we have today, I will focus on a few subjects of particular concern to AmCham members.

Corruption and Good Governance

Corruption is a widespread phenomenon in Vietnam that undermines good governance, erodes the rule of law, hampers economic growth and efforts for poverty reduction, and distorts competitive conditions in business transactions. The Party and Government launched good governance and anti-corruption efforts in 2004, but too little progress has been made in the past eight years.

In a recent survey of AmCham members, over 80 percent of respondents listed corruption as one of their top two concerns in Vietnam. Existing control systems are inadequate to prevent corrupt officials from misappropriating funds intended for public use, especially in infrastructure projects. As the Prime Minister said himself, "If everything is made transparent, then there are no reasons why the economy cannot be healthy?" Instead of improvement, our members feel that corruption is getting worse in every factor of doing business here.

AmCham encourages the Government to take additional steps towards international best practices on accounting standards and tax collection. Active Government support and endorsement of anti-corruption measures at all levels of society, government and business is required. We look forward to specific actions to help tackle growing corruption concerns that remain one of the biggest challenges to progress in Vietnam.

Human Infrastructure

The Government must take further action to improve and upgrade the skills of its workforce. The challenge of modernizing the education system directly affects the options and prospects of future generations. AmCham is committed to assisting Vietnam in providing a better education for its children. The enhancement of skills, as well as improved access to training, is necessary to achieve higher productivity and higher incomes. The Asian Development Bank and other donors have pledged nearly \$500 million for education projects in Vietnam. We urge the Government to ensure these projects are effective at producing "work-ready" graduates, and not simply for funding failing and failed institutions.

Recently, VCCI and several key exporting industry associations in the lower value-added consumer product manufacturing-for-export sector (VITAS, LEFASO, HAWA, VASEP,

VCOSA, etc.) recommended to the Government that the Private Sector Minimum Wage Adjustment be increased by 15 percent per year for the next three years. This recommendation was based on predictions that around 100,000 Vietnamese enterprises will cease operations in 2011-2012, and that taxes, lack of capital, and rapidly escalating labor costs, together with weak international markets, are driving more and more Vietnamese companies into hardship. We share with VCCI and the key export industry associations the hope that the Government will recognize that the private sector, like the state sector, cannot afford 25-35 percent annual wage increases.

AmCham recommends that the Government create a meaningful “Tripartite Partnership” and “National Wage Council” with the Government representatives (including not only MOLISA, but also MPI, MOIT, and MOF), the Employers’ Representatives (VCCI, leading Foreign Business Associations and the Vietnamese Industry Sector Associations), and the Employees’ Representatives (VGCL and other industry sector unions), and that these entities engage in joint cooperative research and fact-based discussions regarding industrial relations, wages, and other labor issues. An institutionalized process should yield better outcomes than the past four years of frustrating pro-forma consultations.

Our shared goal is to maintain harmonious, stable employer-employee relations for the protection of legitimate rights and interests of both sides while at the same time ensuring an environment that keeps Vietnam a competitive destination for manufacturing many of the goods that have driven the economy forward and raised the standard-of-living for millions of Vietnamese citizens.

Productive Decision Making

AmCham members are frustrated by persistent delays in decision-making on key projects and policies. Examples include delays in implementing regulations on important Laws and Decrees, delays in moving forward key infrastructure projects, delays in streamlining administrative procedures, and much more.

The political environment has produced a level of anxiety that discourages decision-making and therefore action. When causing economic loss to the state can land you in jail, *not* taking action is often seen as the safest course. We are not excusing wrongdoing and we respect the laws here. We do, however, need the Government to actively reinsert confidence into the system so that deals can get done, so that balance sheets can be cleaned up, and so that normal business activity can resume.

Conclusion

Countries need good economic policies, good legal and regulatory infrastructure, transparent and efficient government agencies, and good public infrastructure to continue to attract investment, promote trade, and spur economic and social development. Vietnam, however, is struggling to live up to its full potential, hindered by lack of focus, lack of leadership commitment, and slow progress on a list of perennial barriers to investment.

Concern exists that Vietnam may fail to make the transition to a middle-income, “modern-manufacturing” and services-based economy. The country needs ***urgent*** reforms now to generate tangible progress on the issues continually raised at these forums, as well as other concerns that are detracting from Vietnam's image as an attractive destination for foreign investment.

We want businesses to invest and expand operations in Vietnam, not move them to China, Indonesia, Bangladesh or Myanmar. Vietnam must become more competitive to attract investors and foreign capital.

We want Vietnam to succeed and AmCham remains committed to working with our partners in the Government to improve the business and investment climate here. Our comments and recommendations should be viewed as opportunities to strengthen the business and economic climate in Vietnam.

On behalf of all AmCham members, xin chúc toàn thể quý vị có mặt hôm nay nhiều sức khỏe, hạnh phúc và thành công. I wish distinguished participants good health, happiness and success.

Xin chân thành cảm ơn. Thank you very much.

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