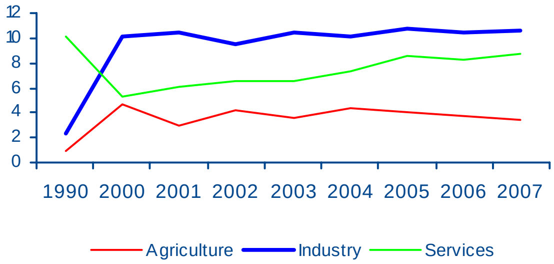
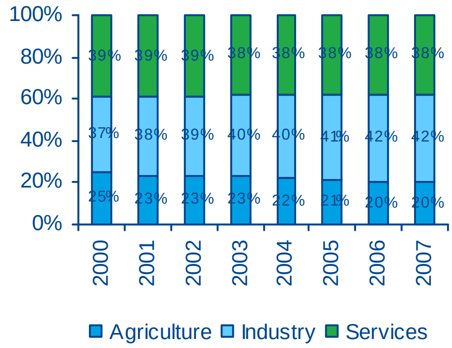
Industry analysis:

This report focuses on industries in Vietnam which more or less show the need for imported products (raw materials, intermediary or finished products) in their operations. Vietnam economy has been growing consistently with impressive average real growth rate of 7% during last decade; however, due to global slowdown in 2nd half of 2008, the economy is slower a bit with recorded GDP growth rate of 6.23% for 2008 and is forecasted by SCB global market to expand only 4.2%, 5% respectively in 2009, 2010. However, this growth rate is still impressive compared to other economies amid the global crisis.

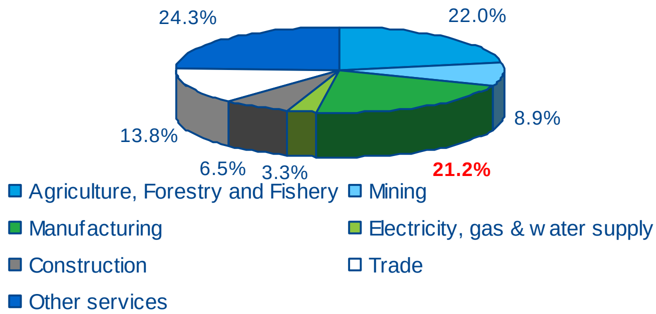
Industry and services drive GDP growth...



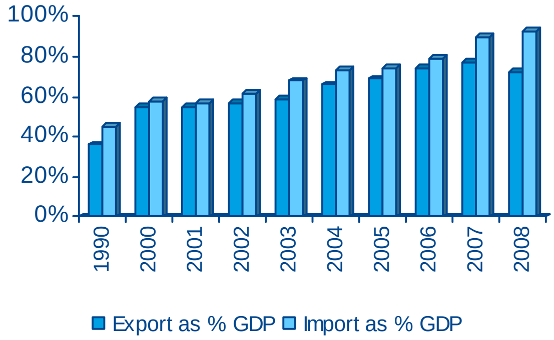
... and constitute 80% of GDP



Vietnam Economic Structure 2008



Exports are 72% of GDP, Imports exceed exports



Looking at the structure of the economy in 2008, trade, services and manufacturing industries account for a big pie in the chart; among these industries, the ones in the analysis list below are main sectors showing needs for imported materials. The analysis just gives a brief background of current situation and outlook of these sectors in the next few years.

Content

1 Garment / Textile (T&G)

Garment and textile is a big sector in the economy with over 2000 companies attracting more than 1 million labors. 74.5% of them are Joint Stock and Private Limited, 25% are FDI companies and only 0.5% are state owned. Most of the companies (77.5%) locate in the South of Vietnam. This is a dynamic sector which produces one of the major export products for the industry, CAGR from 2000 – 2007 for exportation for this product is more than 20%.

Main markets for exporting are US, Canada, Russia, EU, Hong Kong, Japan, Taiwan, China, and Korea. At present, Vietnam is ranked top 10 out of 56 countries producing and exporting textile and garment in the world. After 2010, Vietnam's T&G could be ranked among top 5 according to CIEM. Current market share of Vietnam's T&G in 2008:

World	2.69%
US	5.4%
EU	1%
Canada	3%

Source: Vinatex

During the first haft of 2008, Vietnam's export of T&G reached US$ 4,162 billion, increased by 19.3% compared to same period 2007. However, from late 2008 to early 2009, lots of companies in this sector faced a lot of difficulties due to global recession resulting in sharp decline in export demand. 70% of export companies reported decline in their orders, especially those exporting mainly to US and Europe. In 2008, orders from US market's largest importers, which is currently the biggest export market for Vietnam's T&G, accounting for 55% export market volume, reduced to 50%. In Europe market, due to the depreciation of euro, exports to this market also counter problems. Hence, value of exports to these two major markets falls by 30-40%. As a result of this, enterprises focusing on US, EU markets only will have huge difficulties. According to vneconomy's news, these difficulties have forced a few foreign invested enterprises in Dong Nai, Binh Duong, Vung Tau, Long An to close down or retrench a big number of their staff. Due to these difficulties, in Jan 2009, export turnover only reached US$550, equivalent to only 33.2% of same period last year.

According to the Chairman of Vietnam Textile Organization, total demand for textile may fall by 15% in 2009; hence, those export oriented companies will continue to experience a tough year if they don't change their business strategy. Some big players in the export field are looking at the domestic market where they could focus and increase their market share, which is also considered to be the long term strategy and prudent development trend for T&G industry in the current context. Distribution network of Vinatex (Vietnam textile organization) have been developed to 55 supermarkets in 22 major cities, they are planning to open up their distribution network and take advantage of current network to distribute more products to reach the domestic demand. Furthermore, exporting to some potential, non-traditional markets such as Middle East, East Europe and Africa should be taken into consideration to not only take advantage of the revenue from these markets but also diversify risk in the current slowdown situation.

Vietnamese textile and garment sector innate weakness is dependence on foreign supplies of materials which is a major factor for the unstable development. Although the industry recorded significant average annual export growth rates of around 20% between 2001 and 2005, several obstacles may hinder sustainable development in the long term, especially given the nation's reliance on imported materials. In April 2009, cotton import increased sharply to 129% in value and quantity compared to March 2009. In the coming months, cotton price in the world will increase and this will affect Vietnam enterprises that haven't imported cotton prior to the increasing price period. In the long run, Vinatex is planning to invest in producing cotton to meet at least 10% of sector's demand and this will help Vietnam more elastic to world's supply fluctuation.

Forecast: From April 2009, this sector has seen some signals of recovery and is forecasted to be significantly improved in a few months to come. Some of the reasons being the business cycle of this sector, which is May each year. Currently, number and value of orders have been increased compared to early 2009. Some enterprises who laid off staff have begun recruiting again. Exporting to US market is still down but still promising compared to other competitors to this market. Moreover, Japan, ASEAN, Korea market are recovering fast. As a result, in the first 4 months of this year, export turnover increases 1.1% compared to same period last year, i.e. US$2, 5 billion in value, in which, there is slight decline in export to US market, sharp rise to Japan, Korea, Taiwan and slight increase to EU.

In short, this sector is expected to recover and those producing to meet the demand of both domestic and export market will have better chances to improve and overcome this difficult period. Moreover, with government support on Tax (such as 0% tariff to Japan market till end of this year, reduce 50% VAT to some textile export products to stimulate consumption and help T&G companies), this sector is still in the priority list of industries which need to be taken care of to drive revenue for the country.

2 Footwear

Vietnam is ranked 4th in exporting footwear products in the world and its products have presented in over 50 countries, mainly in US, EU, Japan. There are around 507 companies producing footwear, handbags and materials for shoes sector. In the last 7 years, Vietnam has maintained average growth rate of 23% and in 2008, footwear accounts for 8% of export turnover. However, in recent years, Vietnam has to face many anti-dumping lawsuits in main export markets such as EU, which creates a lot of difficulties for enterprises in this sector. In the first 5 months of this year, there is a shortage in demand from all major markets, which caused the decline in imported materials for this sector by 16% in May, and as a result, export turnover reduced by 10%. However, this is the common situation for all exporters in this sector due to global economic slowdown.

Same problems as Textile and Garment sector, capacity of Vietnamese exporter is limited as the product design is not diversified, companies rely a lot on imported materials, outwork for other countries still account for a big percentage of footwear activities; moreover, footwear sector is fairly weak in promoting their trading image. These matters hinder the profitability of enterprises in this sector. Vietnam producers also have tough competition from China due to their higher technical level, plentiful design. Therefore, in order to maintain our position, footwear makers are urged to change production methods, increase the domestication rate of leather products from 40% in 2006 to 65-70% in 2010 and 80-90% in 2015. Government also suggest solutions for this sector to boost export turnover to 2010, in which, foreign invested companies in material production for this sector is welcomed, looking for partners to sign direct export contracts in which, higher percentage of Vietnam made material is accepted. Government is looking at investing in research and development of trendy design to meet the fast changing demand for products of this sector.

Forecast: Vietnam Leather and Footwear Association (Lefaso) forecasted that the total export tunrover of the sector could reach $6.2 billion by 2010 and $11.47 billion dong by 2015. The workforce for the sector will surge from 550,000 workers to 820,000 employees in 2010 and then 1.189 million in five years later. At present, Vietnam's leather upper shoes have to suffer an anti - dumping tariff of 10 percent in EU while Canada officially carried out the anti - dumping investigation on Vietnam's non - absorbent rubber and plastic sole shoes from February 2009. The disadvantages and difficulties will affect strongly to the growth of Lefaso from now to 2015.
On the other hand, though demand has been down from major markets such as US, EU and currently coping with strong competition from China, dumping lawsuit, this sector is still expecting a an average growth rate of 11.9% till 2010 and is looking at some potential market with lower quality standard demand such as Indonesia, Malaysia, Middle East, Eastern Europe, South Asia, Russia, and Africa. Together with the support from government, this sector is believed to stably growth in years to come. (http://www.lefaso.org.vn/default.aspx?portalid=1&tabid=17&itemid=1747, Intellasia 3rd June)

3 Food & Drink

Food and Beverage has a 10 year CAGR (1997-2007) of nearly 14%, accounts for 25% of total manufacturing industry production value. Currently, Vietnam is ranked 12th in BMI's updated Food & Drink Business Environment Ratings for the Asia Pacific region, ahead of only Pakistan and the Philippines. However, investors recognize the long-term potential of the market despite the low consumption levels.

Food Processing: According to BMI, Vietnam's food-processing industry comprises around 260 seafood-processing plants (the country is a major exporter), with an annual production capacity of 250,000 tons, 24 slaughter houses and meat processing plants, 160 beverage plants, 65 fruit- and vegetable-processing plants, 27 plants manufacturing instant noodles and 23 confectionery manufacturers. Despite a significant proportion of processed food being imported, consumption of imported produce remains fairly low in the country – although it has increased in the main population centres of Ho Chi Minh City and Hanoi.

Overall, the Vietnamese food-processing industry remains largely fragmented and dominated by comparatively small domestic operators. International firms, including companies such as Procter & Gamble and The Coca-Cola Company, have had to enter into joint ventures with domestic operators in order to be allowed to operate in the country. This has been enough of a deterrent to prevent significant foreign investment in the country's agribusiness and food-processing industries, and this lack of investment has contributed to the underdevelopment of these industries and their failure to fulfill their full potential.

BMI is forecasting growth of 28.96% in overall food consumption in dollar terms in Vietnam to US$13.55bn in 2013. Per-capita food consumption is set to witness similar growth, reaching a modest US$143.81 in 2013. Vietnam's economic development and continued investment in the country's food, beverage and retail industries will ultimately stimulate food consumption growth.

Drink: can be classified into Alcoholic, Soft and Coffee. Thanks to the fast-growing tourist industry, this sector has been growing fast.

In alcoholic sector, beer is the main product with 97.9% volume sales in 2008; several multinational operators have established joint ventures to avoid being subject to the high import duties on beer. A number of foreign players have invested in the Vietnamese market; moreover, Government privatisations of state-owned brewing companies have given foreign players a chance to increase their market share in Vietnam and this process is likely to be ongoing in the coming years. However, despite the growing presence of multinationals in the market, local firms continue to dominate and state-backed brewers Sabeco and Habeco control an impressive 34% and 19% of the local beer market, respectively.

The soft drinks sector is dominated by multinationals The Coca-Cola Company and PepsiCo, which jointly command an 88% share of the market. The major focus of the multinationals is on carbonated soft beverages, with small local drinks firms producing other types of drinks and fighting it out for the remaining market share. Smaller drinks companies have had a chance in recent years to win some market share back from the major multinationals owing to the rising interest in healthy drinks, such as teas and juices, in which these local firms specialise. In fact, the competition that these high-growth categories have stimulated has seen investment interest in the soft drinks sector increase in recent months.

As the world's second-largest producer, behind only Brazil, Vietnam is well known for its coffee output and yet industry growth has to date been dominated by exports, with internal consumption confined to the realms of affluent urban consumers only. However, fuelled by industry efforts to add more internal value to this profitable commodity, domestic consumption is climbing. These healthy global coffee prices have translated into immense opportunities for Vietnamese coffee growers and exporters, and contributed to output climbing by 42% between 2004 and 2008. Over the same period, domestic consumption increased almost three-fold.

Retail: Over the past five years, an increasing number of supermarkets and shopping centres have been gradually reducing the traditionally dominant position of open-air markets in urban areas. Modern MGR outlets are now concentrated around Vietnam's major urban centres. According to BMI estimates, there were around 130 supermarkets, 10 hypermarkets and 200 convenience stores in Vietnam at year-end 2007. The vast majority of these outlets are to be found in and around the main urban centres of Hanoi and Ho Chi Minh City, although modern retail outlets are increasingly appearing in smaller towns and cities in the centre of the country.

Convenience stores in Vietnam are generally larger than those in Western Europe or the US, and stock a wider range of goods in order to fully cater for areas that do not have the scale to warrant a large supermarket outlet. In rural areas of the country, open-air markets continue to dominate, although this can be expected to change as modern retail formats become more commonplace and this acceptance spreads to the provinces. For the time being, however, traditional retail still accounts for around 96% of grocery retail sales in Vietnam.

Forecast:

A growth of 28.96% is forecast by BMI in overall food consumption in dollar terms in Vietnam to US$13.55bn in 2013. Per-capita food consumption is set to witness similar growth, reaching a modest US$143.81 in 2013. Vietnam's economic development and continued investment in the country's food, beverage and retail industries will ultimately stimulate food consumption growth. The outlook for Vietnam's drink will also remain bright. Volume sales of alcoholic drinks are set to increase by 50.6% to 2013, while value sales growth will also be strong, albeit less so, at 15.9%. Soft drink consumption in the market will be also moving in the same positive direction as the alcoholic drinks industry. Regarding coffee, domestic consumption will be climbing and export outlooks are good.

BMI also expects Vietnam's food, drink and tobacco trade balance to remain very healthy to 2013. Exports are set to grow by an enormous 121.0% to 2013, as a result of sustained government efforts to improve local food production and agricultural industries, which will boost output and make more produce available for export, as well as improving the quality competitiveness of local exports.
However, import growth is also forecast to be high at 134.7% to 2013. Growing import demand will be a consequence of increased urbanisation and continued exposure to Western influences. Busy lifestyles and an interest in branded produce will lead to growth in the processed-food industry. In order to meet this demand, local manufacturers will be forced to import the necessary raw ingredients. However, the government will be hopeful that in the long term its investments, and its efforts to attract foreign investors, will pay off, and that much of this new and specific type of demand will be able to be accommodated domestically.

4 Seafood

Seafood is one of the main sectors which cater both domestic need as well as export demand. From 2000-2007, fishery sector has the CAGR of 14.3% in export turnover, and markedly develop with an annual growth rate of 6 – 10% in the 1985 – 2008. This sector has been contributing about 4% into GDP in 2007. Main markets for seafood exportation are EU, Russia, ASEAN, US. However, in 2^{nd} half of 2008, this sector was affected by high inflation, global slowdown; hence, most companies in this sector saw decline in profit after tax (56.5%) despite increase in revenue (27.3%). This decline in profit was caused by the fall in output price and rise in input cost (material, interest rate…). Seafood sector had a difficult period from Nov 2008 to Jan 2009 when export volume was down to 50% and output price fell by 15-20% compared to early 2008, main reason was low demand from main markets such as US, EU and other markets having crisis and low consumption level. The difficulty of this sector in 2008 was reflected in all financial ratios such as decline in ROA, ROE 2008 (3.8%, 7.5%) compared to 2007 (13.3%, 23.1%), and decline in current ratio (to 1.37 compared to 1.69 in 2007).

A major drawback of this sector is the supply of fish. Normally, fish is raised in small household farm, there is no long-run plan for fish business because the profitability of raising fish is not stable and farmers need to invest quite a lot in land, fish food, they may change to produce something else in future; therefore, there is a risk from supply side for enterprises processing and exporting seafood.

Forecast: Currently, the world economy is in recession and the sign of recovery is not yet clear; hence, this situation will definitely affect Vietnam's export, especially this seafood industry. A lot of seafood export companies suggest modest targets for 2009 and some also expect loss in this year. However, this is one of the main export sectors government supports, this is reflected in government's 5 year target for this industry with growth rate of 12.8% from 2006 – 2010. Therefore, difficulties in this sector will not be in long run.

5 Pharmaceuticals & Healthcare

Vietnamese pharmaceutical market is underdeveloped (a US$1.1bn market) and suffers from poor regulatory and intellectual property standards, which have held back foreign investment in the country. Low cost and domestic produced products as well as counterfeit products account for a sizeable proportion of drug consumption (percentage of counterfeit ~ 0.1% and 70% of counterfeit trade are from District 5 HCMC) due to low consumer purchasing power (annual per capita spending is only US$12.80) and under-funded healthcare system. Given uneven and inadequate public insurance coverage, patients are responsible for financing much of their medical needs, which has in the past hampered stronger growth of the market. Consequently, pharmaceutical consumption represents only 1.56% of Vietnam's GDP, with the figure forecast to fall further over the next five years (1.18% in 2012).

Domestic Pharmaceutical Sector in Vietnam comprises around 165 producers, primarily with poor and outdated facilities, only around a third of those are certified as GMP-compliant (Good manufacturing practice). These drug makers have the significant cost advantage, however, they are losing market share to imported-equivalents which are perceived by people to be of higher quality. Currently, local drug production account for just 40% of the country's pharmaceutical sales, imports account for 60% - mainly sourced from China, France, South Korea, India, UK and US. However, local drug makers are calling for relaxation of price controls, which would enable them to increase investment in R&D and upgrade their facilities. Thanks to WTO entry, those willing to take opportunities have been beneficial. Pharmaceutical exports have been growing rapidly recently, with official statistics indicating that overseas sales soared by 31% y-o-y to US$600mn in 2004. Major markets are less developed ones with low entry barriers such as Laos, Cambodia, Africa are our targets. In 2005, the turnover of Vietnamese drug firms surged by 25% to US$391mn, largely due to the sector's ongoing modernization and price rises that have continued despite government efforts to intervene. In April 2007, drug makers requested permission to raise the prices of 125 categories of drugs.

Some of the major obstacles facing the domestic pharmaceutical industry are its dependence on imports for 90% of its raw. However, in recent years, Vietnamese government has done much to improve the competitiveness of domestic sector. They plan to reduce the reliance on imported products and some 5 production plants in the country will be built, one of which will produce raw materials for antibiotics, aiming to meet around 40-45% demand in this sector. Other proposals by government will also boost traditional products to 30% of local market by 2015.

Foreign Pharmaceutical Sector has increased sharply to 370 in 2007 thanks to WTO entry, most of them are SME and predominantly Asian, India tops the list with 81 companies, followed by South Korea and China, however, this sector also depends on imported materials. Government has given incentives such as preferential rent price and income taxes to foreign pharmaceutical producers that use local materials in drug production.

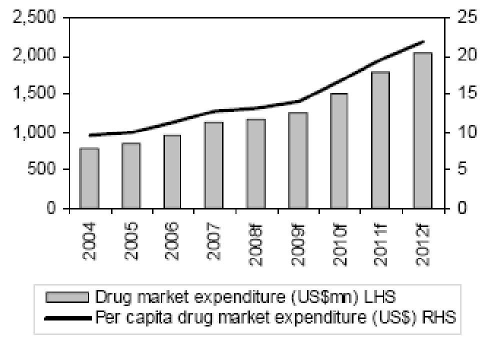
Retail Sector: Vietnam's Pharmacy sector is a shambles. Patients can get most drugs without a prescription, there are insufficient pharmacists, counterfeits are not uncommon and many doctors still illegally disburse medicines from their private offices. According to some drug stores, only 20-30% patients buy drugs with a prescription. A GPP (Good Pharmacy Practice) in 2011 is expected to solve this problem, under which, all dispensed drugs will have to be safe and effective.

Medical Device Sector: Slightly outpacing the pharmaceutical industry, Vietnam's US$ 200mn medical device sector is currently experiencing double-digit growth as overall demand for healthcare increases. Imported goods dominated, which reduces value added as well as the profitability of this sector, but government is looking to boost domestic capacity over the next few years. According to BMI, this sector is promising with forecasted y-o-y growth rate of 10.3% till 2012. Over 95% of the market is made up of foreign goods mainly from US, Germany and Japan. Taiwan, Italy, France and South Korea also account for significant shares. Local production is limited, only 50 domestic firms making around 600 products officially licensed; the vast majorities are low-end offerings such as dressing, gloves, and syringes. This industry is also governed strictly whereby only local players can distribute medical devices in Vietnam. Companies from overseas must sell their products to a local wholesaler who will then disseminate the goods thru a network of small agents. However, situation is improving as in 2009, wholly-foreign owned companies are allowed to establish market presence, which will definitely result in intensive competition and decline in profit for local distributors.

Forecast:
According to BMI, they are expecting double-digit growth through to 2012 when the market will be worth around US$2bn (CAGR ~15%). Moreover, with the investment from Government (up to US$1.5bn) over the next 10 years, there will be less reliance on imported materials, which will make producers more profitable.

In the meantime, the pending liberalization of tariff structures as part of WTO membership could result in many local players exiting the sector through acquisition or failure. Therefore, the government is trying to embark upon a number of plans to modernize the drug sector.

Drug Market Trends
(2004-2012)



f = forecast. Source: Drug Administration of Vietnam, Vietnam Ministry of Health, General Statistics Office of Vietnam, Vietnam Pharmaceutical Companies Association, BMI

Healthcare industry is the least affected sector albeit the global recession. Hence, this sector will continue to grow. More potential export markets for Vietnamese-made pharmaceuticals are Middle East, Africa, and Commonwealth of Independent States. Moreover, the growing population of Vietnam is also a potential market; various state agencies are looking for local producers or Vietnamese subsidiaries of foreign firms to increase output rather than relying on imports.

6 Electronics

This is the sector receiving a lot of supports from government and is expected to be the driving force for other sectors to develop. Growth rate of this sector over the last 4 years are quite good. Export turnover reached US$1.43b, US$2.2b in 2007 and US$3b in 2008. Domestic sales turnover is also double from US$1.5b in 2005 to US$3 in 2007. However, since electronic product is one of main manufacturing goods for exportation, it was dramatically impacted by the global recession, which is reflected in the poor performance of nearly 1/3 of listed companies and 3/4 reported negative growth in 2008 compared to 2007.

The main feature of the domestic electronic industry is assembling. Most of domestic companies import parts from countries such as China, Taiwan, Thailand and then assemble all of them. These products are sold in local market with not good quality and low price. These companies are weak in competition especially compared with foreign invested companies who are able to produce better quality products and increasingly reasonable price.

Forecast: 2009 will be a difficult year for enterprises in this sector. Production are not expected to be promising, however, Vietnam electronics enterprises are increasing integration with world's partners to improve efficiency.

7 Automotive

The country's auto industry is still in its infancy, as producers typically import completely knocked down kits, which are then assembled and sold domestically. There is only a small domestic parts sector at present, although the government is prioritizing this area. Estimated by the Ministry of Finance, proportion of locally made parts in vehicles sold in the country ranged between just 2% and 10%; this figure shows the under invested of the domestic parts industry. Given the strong growth of the economy, there is a potential for a significant development of the industry over the coming years as car ownership in Vietnam is only less than 1% of population.

Car sales figures showed that most of brands experienced good growth rate in 2008 compared to that of 2007. Toyota was still the most popular brand, with sales of 24,421 units for a market share of 22%. This was a 21% increase on the 20,113 units sold in 2007. The strongest sales performance of 2008 came from Hyundai representative Vinamotor, with sales rising over 280%. Sales of 20,887 units elevated the company to second place behind Toyota with a 19% market share. GM Daewoo, which posted the strongest growth of 2007, recorded another strong year with growth of 45%. However, suffered from the global downturn, some manufacturers suffered, with Vinastar posting the largest drop in sales of 36%y/y.

In 2008, there is an increase in vehicle ownership tax which affected sales of domestically produced vehicles. After the tax was doubled from 5% to 10%, the Vietnam Automobile Manufacturers Association (VAMA) reported that average sales for the last four months of the year 2008 dropped by around half compared to the first eight months. A further impact can be expected as the registration tax was raised again on 1st Jan to 12% in Hanoi and 15% in Ho Chi Minh City. Furthermore, the special consumption tax will be hiked in April from 30% to 45%, these will lead to higher price of vehicles and down in sales volume. However, carmakers have had some conversation with Ministry of Industry and Trade to request a slower implementation of tax increases and lower tax levels.

Forecast: 2009 will be a tough year for automotive industry.

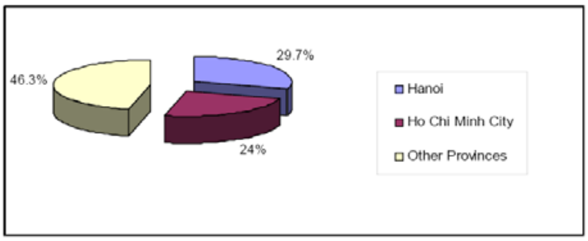
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Contribution to GDP* (%)	1.33	1.41	1.45	1.5	2
Total stock of passenger cars (CBUs)*	874,841	918,583	1,010,000	1,111,000	1,150,000
Car ownership (% of population)*	1.03	1.05	1.15	1.2	1.3
Sectoral employment*	7,200	9,100	9,800	10,500	12,000

*e/f = estimate/forecast. * = estimate. CBU = completely built unit.*
Source: Vietnam Automobile Manufacturers' Association; BMI; Vietnam Bridge News; Saigon Times; VN Economy; Asia Times; Ministry of Investment

Sales of domestically produced vehicles are expected to rise by no more than 5.5% while import growth is also expected to fall drastically as a result of higher taxes. Production growth will also slow as manufacturers have reported plans to reduce production in line with slowing sales. Moreover, government's close monitor of this sector by restricting the awarding of assembly licenses will likely to affect the output of this sector. However, according to BMI; they still expect some growth in the market over the next few years.

8 Paper & Printing

There are currently over 1,000 printing enterprises in HCMC and Hanoi and a number of printing companies are increasing rapidly due to the development of market.



Source: Vietnam Printing Association (VPA)

Printing industry has an average growth rate of 10%pa, normally, import in this sector exceeds export turnover. Most of the Vietnamese paper companies can only produce normal paper; therefore, about 80% of the high quality printing paper has to be imported from Korea, ASEAN and EU countries. Only a few companies like Tran Phu Printing Company and the Aviation Printing Joint Stock Company can afford to invest in printing machines and technology from the EU countries, while most of them only can afford to buy secondhand machines or machines from ASEAN countries or from China.

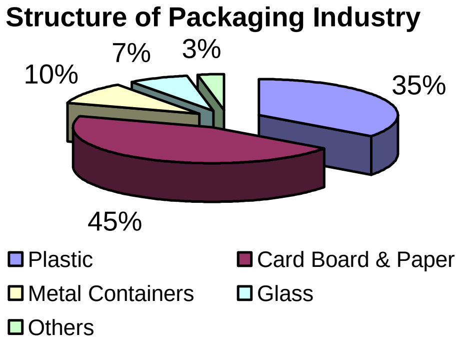
Forecast: Printing sector is quite dynamic and supports other industries; however, the profitability of this sector is affected by other industries since they supports book printing, newspaper/magazine printing, labeling and packaging printing, and economic document printing. Due to global slowdown, demand for printing may go slower and this may affect this industry this year; however, there are still room for this industry to develop in the future.

9 Packaging

Packaging industry is one of the fastest growing sectors in Vietnam at present. Up to now according to the preliminary statistics, there are 1.200 packaging enterprises in general, in which about 60 enterprises joining the plastic packaging market. Most of newly established companies are in private sector. In recent years, many foreign - invested companies have been established in Vietnam and bring high technology and management into this sector. Although the packaging industry in Vietnam is premature, it is an active and creative industry. Many enterprises begin to invest in studying and producing environmentally beneficial self decomposing packaging.

According to the figures of Vietnam Packaging Association, with the turnover of about 1000 billion VND (approximately 60 million USD) per month in 2006 and a growth rate of 25 – 30% per year, the packaging industry contributes about more than 1% to Vietnams GDP. Vietnam is a major export country so 70% of packaging products are produced for packing export products; the rest serves the domestic market mainly in form of supermarket bags. The total export turnover (both for direct export and for sale to export) of this industry is expected about 1 billion USD in 2008.

Vietnamese packaging industry can be divided into four sub sectors: plastic, carton, metal and glass packaging. In which the plastic sector is the fastest growing sector with expected demand from 2008 to 2010 increased by 24%. Regarding metal packaging sector, enterprises in this sector have the advantage of available material locally, only a small percentage of materials and equipment are imported. Market for metal packaging is large since Vietnam is an important market of medical products, chemical and food stuff, which creates high demand for metal packaging. Carton packaging has gained an absolutely important position in foodstuff production (snacks, cookies, biscuits, food for pets) and non - food products (chemicals, farm produces). The remarkable feature of carton packaging is recyclability. About 70% of materials for the industry are from recycled sources. However, according to the Vietnam Paper Association, the production of domestic carton paper only meets 51% of the total demand inside the country. Therefore, a large amount of materials for this sector has to be imported. Glass packaging in Vietnam is used mainly for the production of beer, liqueur, beverages and tonics. Especially glass containers are used a lot for medical products like bottles of tablets, medical fluid, food and foodstuff products (fish sauce and processed food). The demand for glass packaging is high due to the rapid growth rate of medical and food production.



Source: Vietnam Printing Association 2007

The inconvenience of this industry is dependence on imported materials. The packaging industry in Vietnam has to import about 90% materials and machines for production. Most Vietnamese packaging companies import machines from Korea, China, Indonesia and Taiwan. Some leading companies also import machines from the EU. Carton packaging and plastic packaging are the two sub-sectors who have to import the most while metal packaging does not have to import much both in materials and machines.

Forecast:

This is a young, creative industry with a lot of potential for growth. Though 2009 will be affected by lower consumption demand, the industries that this sector supports will not undergo a difficult period as food, drink, and healthcare stuff are essential items in life. We expect good prospect for this sector in the coming years.

10 Plastic

Industries using plastic product such as automobile, construction, consumption product manufacturing are having less demand for this product due to global slowdown. However, last year, export turnover of this sector reached USD930m, with average growth rate over 20% in consecutive 3 years. Although growth rate of this sector is prominent, the competitiveness of this sector is not high.

Plastic industry also needs imported materials (from Thailand, Korea, Taiwan…) and the dramatically increase in material price in 2008 forced a lot of plastic companies close down business or lay off labors. Nevertheless, the performance in 2008 of this industry is better than whole industry average. (Even in 2008, they still report growth rate of 10.89%, double whole industry average). Scale of enterprises in this industry is not large; hence, this makes these enterprises more flexible, dynamic and more efficient in managing their operations.

Forecast: Most of enterprises in this industry and young, not too big and flexible, they will face the high competitions from other foreign companies when the market is totally opened; however, this will bring opportunities for these enterprises to develop in years to come.

11 Wood & furniture

Vietnam is the second biggest woodwork exporter in ASEAN with a wood product export value of $1.98 billion in 2006. In 2007, the domestic wood processing industry is expected to continue to keep its position of being one of the country's 10 major export earners with an export value estimated at $2.5 billion. Vietnamese wood products have been exported to 120 countries and territories around the world, of which there are three major markets including the US ($744 million), the EU ($500 million) and Japan ($286 million) in 2006.

The country has about 2,000 enterprises and individual households involved in processing wood, employing 170,000 people. Of the figure, about 300 businesses participated in the production and export of wood products.

However, this industry is drying up natural woods locally and is short of raw material. As a result, the wood industry must import US$600m of wood from Malaysia, Indonesia, Australia, New Zealand, Tanzania, Mozambique, South Africa and Brazil. Because of these countries' protective policies, we had to purchase wood at high price. The demand for wood is still strong (10m cu.m of small wood and 12m cu.m of big wood) till 2020.

Vietnamese wood products' competitive ability has been much improved in recent years, getting similar to those of many rivals in the region such as Thailand, Indonesia, Malaysia and the Philippines. The furniture can now compete with products made in China, which is the top furniture exporter in the world.

Forecast: Despite the global slowdown, expected demand for wood products/furniture is still strong, some potential markets such as Eastern Europe are showing good demand for Vietnam wood products; moreover, this sector is supported by government; hence, the future prospects of this sectors are still good.

12 Rubber

Vietnamese Rubber has faced a hard time due to both internal and external factors during the period from late 2007 until now. Profit of companies in this sector reduced by 10.4% compared to 2007 despite a rise in turnover of 7.4%. However, this sector is still the one with highest profit/turnover ratio in the market. Moreover, all ROA, ROE ratios of this sector though reduced compared to 2007, are still much higher than industry average.

Rubber sector has a close relationship with car industry, is the main export product and in 2008; the down-size of four-wheel industry dented the demand for tires and other rubber products, sent down the price of natural rubber sharply. Yet, in the early quarter of 2009, the price of rubber export has increased significantly because global demand has seen some signals of recovery. Total export is worth 157 million USD, equivalent to 116 thousand tons. At this price level, each manufacturer earns 200-300USD from every ton of natural rubber.

The market for Vietnamese rubber export covers around 70 countries such as China, Germany, Turkey, Taiwan, Brazil and etc., among which, China, with 56% of total Vietnamese natural rubber export, is the biggest importer. Consequently, the rise or fall in Chinese demand directly affects the price of rubber. Moreover, this change in rubber price also has the same move as world oil price.

However, from the look at profitability, it is fair to say that rubber has still been classified to one of the highest ROI and ROA industries.

Forecast: According to the Agriculture and Rural Development Department, in 2009, demand for rubber will reduce; however, this market will recover soon in 2010 and thrive until 2018 as this is an important sector. With the current global slowdown, a difficult period is inevitable for an export oriented industry such as rubber, however, this sector shows a great potential to develop.

13 Fertilizer

Fertilizer is an important sector which contributes a lot into the success of agriculture business of Vietnam. As the world's export leader in agricultural products such as rice, rubber, coffee, cashew nuts, pepper, Vietnam pays a lot of attention to supply of fertilizer. In recent years, demand for fertilizer has increased sharply; however, domestic producers haven't been able to meet market demand, import is still playing an important role in balancing the supply & demand in the market. From 2005, imported fertilizer amount has been down thanks to the increasing capacity in country, but due to increase in price, total imported value had seen a strong price surge.

Since this sector is the supporting sector for agricultural products sectors, it has close relation with harvest crop time and the distribution of agricultural land. Currently, the most important "customer" of fertilizer is rice and main consumption market is in the South. In the South, quality of fertilizer is the main concern since most of agri-product outputs are for exporting. In the North, price of fertilizer is the main concern since farmers don't care much for quality of outputs, this is why counterfeit fertilizer problem happens more common in the North.

In general, supply of fertilizer is having advantage since not all countries can produce fertilizer (due to country's natural resources). Some countries having this advantage are: China, US, India, Canada and Russia. Countries which have big demand for fertilizer are East Asia. In Vietnam, imports account for about 50% demand of the market, 60% of which is from China. Currently, China is increasing tax on exported fertilizer to ensure the supply for domestic use, which increases the cost and difficulties to our fertilizer importers in 2008.

Some factors affecting this sector are demand for agricultural products, fluctuation of oil price and development policy for this sector. Currently, food security is one of the top issues globally, hence, there will be huge demand for agricultural products and so is for fertilizer. Oil price move the same patent as fertilizer price as it affects fertilizer production cost, transportation cost. In Vietnam, government is encouraging fertilizer industry, subsidizing input price, and support importers on loans in foreign currency to import fertilizers.

Forecast: After the sharp surge in price early this year, fertilizer price has fallen due to decline in oil price and other input price, while demand for fertilizer also reduces due to financial crisis and huge left-over inventory. However, the fertilizer crisis early this year is only temporarily and this sector in general in the near future will be good. Forecasted demands for food, other agri-products are still high; hence, demand for fertilizer will grow stably in the next 5 years with average growth rate of around 3.1%pa in the world as a whole. In Vietnam, agri-business is still the main activity, and with support from government, fertilizer industry will grow and can be looking forward to exporting in the future.

14 Chemical

Chemical industry is one of the fasted growing industries in Vietnam; its growth rate for the last few years is 15-20%. Currently, chemical industry is considered to be priority in the government policy in order to support other industries such as manufacturing and whole economy in general.

Vietnam chemical industry has contributed to develop popular products such as cleansing liquid/detergent, paint, rubber and other diversified products. Especially, with the development of oil & gas exploitation, chemical industry has marked another step of development. With the construction and operations of petrochemical purifying factory, a lot of chemical substances have been produced to become inputs for lots of smaller sectors of chemical such as plastic, synthetic fiber, artificial rubber…

Forecast: Because of the importance of this industry, from 2010 – 2020, government still lists this industry to be one of the priorities for development of economy; hence, enterprises in this industry will receive a lot of supports and better performance is expected from this sector.

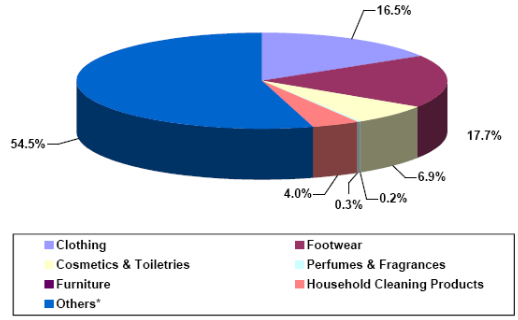
15 Retail

Vietnam is the 4th most attractive retail market in the world in terms of potential growth owning to both increasing demand for consumer goods and rising disposable incomes, behind India, Russia and China. The retail market of the country has expanded rapidly over the past few years (to nearly US$30bn and equal to 42% of nominal GDP in 2007) and will accelerate further with CAGR of 13.6% during 2008 – 2012 according to a market research report by RNCOS.

Food is the most important component of Vietnam's retail sector and accounts for about 2/3 of total retail sales. Food grew at a CAGR of around 11.6% from 2002 – 2007. Most of food retailers are small grocers; however, the tendency to switch to more modern retail shops/supermarkets is increasing, especially in HCMC and Hanoi.

Non-food sector is expected to grow at a faster pace than food because of the rise in income and consumer spending on non-essential items such as clothing, electrical and D-I-Y (Do-It-Yourself) goods. Non-food retail sales surged at CAGR of nearly 16% during 2002-2007. In recent years, large number of modern shopping complexes has been opened in main urban centers where customers can find lots of branded products from other countries.

Non-food retail sales by segment (%) – 2007E:



Source: Planet Retail, Euromonitor & RNCOS
Note: *Includes sales of products like Home Appliances, Personal Computers and Mobile Handsets etc.

Forecasted by RNCOS, demand for international brands and luxury products will as income level move upwards in the country. Modern retailing formats like air-conditioned mini-marts, supermarkets and small shopping complexes will become more prevalent in the coming years. Currently, retail sales via supermarkets account for only 10% of sales; however, consumption habits of Vietnamese residents, especially the youth, are changing. It is hoped that by 2017, retail sales from supermarkets in Vietnam will account for 60% of sales, equal to the current level of Thailand.

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