



Vietnam

Growth, Legal and Integration Improvements

Vietnam, 14th country in the world by population, is already well-known for good economic fundamentals. Indeed, a young and qualified workforce, coupled with favorable costs, allows the labor market to be highly competitive for manufacturing. Near the geographic center of ASEAN, it has already developed as a favorite country for relocation of supply chain in South East-Asia. Currently, a reevaluation of near term growth forecast, recent legal improvements and the increasing worldwide and regional integration of the country could give a further new momentum to the country.

1. WB, ADB and IMF growth forecasts highlight Vietnam

WB, ADB and IMF have all issued their updated fall forecasts for EAP in September and October. The new dynamics also incorporate country specific determinants of growth: policy situation, currency strength and vulnerabilities, trends in infrastructure and FDI...

Tab. 1: Vietnam (GDP Growth vol.)

	2015	2016
ADB – Outlook Sep15 (/Mar.15)	6.5 (+0.4)	6.6 (+0.4)
WB – Outlook Oct.15 (/Apr.15)	6.2 (+0.2)	6.3 (+0.1)
IMF – outlook Oct.15 (/July.15)	6.5 (+0.5)	6.4 (+0.6)

The new diagnosis on main ASEAN economies considers three 'external' recent stresses: rebalancing of China through currency, stocks and growth composition; interest rate expectations in the US and global low commodity prices. These challenges logically lead to global downward revisions for some ASEAN economies, remaining nonetheless capable of strong growth rates.

But, significantly the WB stressed that *'Among the large developing ASEAN economies, **growth conditions are expected to be most buoyant in the Philippines and Vietnam. (...). In Vietnam, a mix of investment and consumption demand growth, amidst strong export sector performance, is expected to sustain the economic expansion.'***

2. Deepening regional and worldwide integration for a potential new momentum

The favorable geographic integration of Vietnam, central in ASEAN, is one of the issues to consider when leading a reflection about settlement of activities in Vietnam.

Vietnam is already a party of numerous multilateral treaties, among which ASEAN (1995), 1958 New York Convention on Arbitrage (1995, with reserves), WTO (2007). Beyond the free trade agreements whom Vietnam is entitled to benefit as a member of the AESAN since 1995¹, Vietnam is also member of direct trade agreements with Japan, Chile, the custom Union of Russia, Belarus and Kazakhstan (signed but not yet in effect), and the Republic of Korea (signed but not yet in effect). It is also currently part of the negotiation of the Regional Comprehensive Economic Partnership would could gather as much as 3.4 billion inhabitants in a global trade and investment area.

The integration of Vietnam should be reinforced by an improving international legal framework that is currently in development and would, in the near term, lead to new opportunities, opening possibilities or improvements of the global business framework standards. Some new steps have been reached in 3 important treaties and agreements.

¹ Notably with China (launched), India, Republic of China.

1. Trans Pacific Partnership Agreement

On the 5th of October 2015, in Atlanta, after seven years of negotiations, countries involved in the TPP set an agreement to lower around 18.000 tariffs and remove former trade barriers between their economies.

The 12 countries, among them USA, Japan, Australia and Canada, that gather up to 40% of the world economy, still have to complete their ratification process, but Vietnam is generally considered as a potential winner of the agreement, due to its undergoing specialization for production at competitive costs, its qualified workforce and its geographic situation.

Sectorial implications are notably strong for apparel and footwear, seafood industry, agriculture. The TPP should also involve strong juridical implications by new rules-of-origin on materials which settles the rights for tariffs eligibility.

The text should be public in early November and ratification process start according to domestic agendas and procedures, e.g. the US Congress may start in March or April 2016, in Malaysia, parliamentary ratification should be discussed in 2016 while in Singapore and Brunei the schedule is not determined yet.

2. EU-VN Foreign Trade Agreement

On the 4th of August, 2015, after two and half years of negotiations, EU and VN have concluded an agreement of principle for a free trade deal. There still remain technical drafting issues and a due process of ratification, but the project agreement is based on liberalization of tariffs on a seven year basis for EU and a ten year basis for Vietnam.

The agreement, according to the Commission, should also cover *"non-tariff barriers to trade and other trade related aspects such as public procurement, regulatory issues, competition, services, investment, intellectual property rights, and sustainable development."* This agreement will go further than the EU-VN Cooperation Agreement signed in 2012. The link between the two agreements allows the FTA to concentrate on tariff and non-tariff barriers to trade.

Sectorial developments are specifically important in the fields of automotive parts, drugs and agriculture as well as in trade and services.

3. ASEAN Economic Community 2015

Vietnam is also at the heart of the regional ASEAN economic consolidation that took momentum in the last decade. In particular, alongside with other CMLV countries (Cambodia, Myanmar, Lao DR and Vietnam) the country is a major proponent of the ASEAN Economic Community, the new free trade framework that should begin in January 2016. This should allow Vietnam to further integrate in the 600 Million people area, one of the most dynamic in the world, on equal foot with its neighbors.

3. Specific new domestic legal improvements

Ranked #56 (+12) in the global competitive index of the World Economic Forum, Vietnam has, in the recent months, proceeded to improvement in its regulatory framework on investment, custom compliance and land law.

1. New Laws on Infrastructures

The legal landscape for infrastructure has been improved in the last two years by new laws, in particular on Bidding (November 26, 2013), on Public Investment (June 18, 2014), on Construction (June 18, 2014) and Investment (November 26, 2014). These have been followed by decree of application (e.g. decree on investment in the form of PPP dated February 14, 2015) and administrative reforms that should enhanced transparency and level playing field for competitors. The role of multilateral institutional lenders – Asian Development Bank in particular – in the definition and financing of the project also contribute to a regain of interest for this kind of project, emblematically exemplified by the current developments of urban railways in Hanoi and HCMC.

2. Single Window Custom Portal

Launched on September 8th, 2015, the National Single Window portal should allow firms to comply with custom formality through an enhanced single gate. This should simplify a single presentation of data, to obtain clearance and release of goods, especially when considering vessels. The portal should also be connected to the ASEAN single window by the end of 2015.

3. New Rights on Land Usage

Land ownership is not allowed of Vietnam but rights to land usage for private use and for commercial housing projects purpose has been recently extended to foreign entities and individuals under conditions, especially since the amended Law on Housing and Law on Real Estate Business (November 25, 2014). Moreover, the conditions for registration of companies for the business line of real estate have been loosened (Decree 76/2015/ND-CP). This has allows further possibilities for private real estate but also industrial or commercial long term settlements. This seems to have already been transmitted in a thriving activity in the construction sector.

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