

# Dialogue with HCM City People's Committee and Foreign Investment Agency

**Rex Hotel, 141 Nguyen Hue, District 1**

**Fri, Aug 30, 08:00 – 11:30 am**

## **AmCham Statement**

VICE CHAIRMAN HA Vice Chairman of the People's Committee

DIRECTOR HOANG Foreign Investment Agency

MADAME PHUONG Investment and Trade Promotion Center

Department officers, and

Leaders of Foreign Business Associations

Ladies and Gentlemen.

I am pleased to participate in this important event to share some views on the business environment in Vietnam in general, and HCM City and the Southern Key Economic Region in particular. And to make recommendations to improve the environment.

### **About AmCham Vietnam**

A brief word about AmCham: We were established informally in March 1994, licensed by the People's Committee in September 1998, and now represent nearly 500 companies in HCM City and more than 200 in Hanoi. Our members include leading MNCs in high-tech, apparel and footwear, consumer goods, food and beverages, agriculture, and business services, as well as entrepreneurial Small and Medium Businesses. Last year, our companies were pleased to see trade between Vietnam and the U.S. reach \$24.9 billion, while our companies' sales in Vietnam's market continued to grow, as well. If present trends continue, bilateral trade will double to \$51.5 billion by 2020, and could reach more than \$63 billion by 2020 with TPP.

### **Macroeconomic Context for the Business Environment**

We in AmCham acknowledge the common view of international and Vietnamese economists that Vietnam is experiencing its longest spell of slow growth since the beginning of economic reforms in the late-1980s. The World Bank and the IMF have concluded that Vietnam is in a "structural growth slowdown," because the "delayed and inadequate implementation of structural reforms, including ... bad debts in the banks, SOEs, and public investment, are dragging down the country's long-term growth potential."<sup>1</sup>

There is a dichotomy Vietnam's economy, the domestic sector and the external sector: the problems facing the industrial sector seem to be coming largely from domestic enterprises catering mostly to the domestic market,<sup>2</sup> while FDI firms are faring better, and on the export

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<sup>1</sup> World Bank, "Taking Stock: An Update on Vietnam's Recent Economic Developments," Dec 10, 2012, pg 11

<sup>2</sup> World Bank, "Taking Stock: An Update on Vietnam's Recent Economic Developments," Jul 10, 2013, pg 20  
<http://www->

side FDI firms now account for about 66% of total exports, and their exports have increased 21.7% over last year.<sup>3</sup> How can we improve the performance of the domestic sector?

We believe four missing elements need to be addressed to strengthen Vietnam's economy in general and the Southern Key Economic Region's economy in particular.

**First, a lack of robust implementation of the WTO commitments** in the areas of investment and services has made it difficult to benefit from some of the efficiencies that could have been created in key sectors.

**Second, a lack of adequate infrastructure in terms of power and transport** has discouraged FDI. This is, or should be, a local level question, and should be solved at the local level, perhaps through Public-Private Partnerships (PPP).

**Third, a lack of a skilled workforce** has made it hard to move up the value chain even as labor costs have continued to rise.

**And fourth a lack of government – business coordination on structural reforms** for both State-owned enterprises (SOEs) and small and medium enterprises (SMEs) to increase competitiveness and adapt to the WTO environment.

### **AmCham Recommendations and Actions**

At the June 2013 Vietnam Business Forum just two months ago, AmCham recommended “a new round of reforms, a Doi Moi 2, that provides further encouragement of private enterprise; fosters trade and investment through initiatives like the TPP; establishes renewed emphasis on and commitment to regulatory and SOE reform,”<sup>4</sup> and enables and facilitates rather than restricts business.

Over the years, AmCham has constantly recommended that the central and local governments carry out robust implementation of WTO commitments in the areas of investment and services and invest in infrastructure, especially electric power, which are the **first two major missing elements**. We continue to emphasize the importance of these two points.

**For the third issue**, the lack of a skilled workforce, AmCham companies, led by Intel, have taken the lead on developing a skilled work force of engineers and manufacturing technicians. Cooperating with leading universities and vocational training colleges, they established a Public-Private Partnership (PPP), the Higher Engineering Education Alliance Program (HEEAP) over the past three years, 2010 – 2012. Now, HEEAP 2.0, a five-year program from 2013 – 2017, a \$40 million PPP funded jointly by government, industry and academia, will guarantee that by 2017, “Vietnam will be well on the way to producing Engineering and Vocational-technical graduates that can compete with any in the region and the World.”<sup>5</sup> We commend this program to you as a good example of a Public-Private Partnership that presented a solution, which has improved and will continue to improve the business environment in Vietnam and in the Southern Key Economic Region.

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<sup>3</sup> <http://vietnamnews.vn/economy/244015/manufacturing-continues-to-lead-nations-fdi-charge.html> “The FDI sector's export earnings surged 21.7 per cent against last year's level, accounting for 66.1 per cent of the country's total export revenue.”

<sup>4</sup> Quoted from “vbf oral statement – sort version presented,” by Mark Gillin, Jun 3, 2013

<sup>5</sup> “What will HEEAP 2.0 achieve in 5 years?” Presentation by Intel Products Vietnam at the “Higher Engineering Education Conference,” in Can Tho, Mar 19-20, 2013, pg 15

**For the fourth issue**, we recommend that SOEs be restructured and managed with transparency, responsibility, and accountability, and that they operate on a “level playing field” with private sector enterprises, both Vietnamese and FDI, which should have treatment no less favorable than the SOEs, in terms of access to capital, land, etc.

Finally, let me mention the TransPacific Partnership. In recent months, we in AmCham have been very active in cooperating with Vietnamese business and industry associations, including VCCI, VITAS, LEFASO, HAWA, VASEP, LBC (Leading Business Club), HCM City Union of Business Associations, etc. in organizing seminars to promote understanding of and support for the TPP, the opportunities it will offer to Vietnamese enterprises, as well as the challenges it will bring. Just last week, we organized a day-long series of meetings for a large delegation from AmCham Hong Kong to discuss TPP, especially the outlook for apparel and footwear, with city departments, business and industry associations, and a Vice Chairman of the People’s Committee.

Our focus has been on (1) overall benefits that TPP will bring to Vietnam’s economy,<sup>6</sup> but also (2) specific, business-to-business relationships that will help Vietnamese companies become “qualified suppliers” to U.S. businesses.

We recommend that all here today support conclusion and ratification of the TPP agreement, and robust implementation of the commitments.

We in AmCham will continue to cooperate with Vietnamese business and industry associations to help Vietnamese firms become “qualified suppliers” in U.S. supply chains, and we recommend that the People’s Committee and relevant departments, as well as business and industry associations, provide support for this effort as well. This will help develop supporting industries in Vietnam, and will also help the firms export through U.S. supply chains to the U.S. and global markets.

I wish all good health, happiness, and success, and that this dialogue meeting be successful.

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<sup>6</sup> For Reference: With respect to the benefits to Vietnam’s economy, according to estimates presented by Professor Peter Petri,<sup>6</sup> the TPP would increase Vietnam’s exports from the expected “baseline” in 2025 without TPP of \$239.0 billion (of which apparel and footwear exports would total \$113 billion) by \$67.9 billion to \$307 billion (of which apparel and footwear exports would increase by \$51.9 billion to \$165 billion). In percentage terms, total exports would increase by 28.4% over the baseline, and apparel and footwear exports would increase by 45.9% over the baseline.

<sup>6</sup> slide 17 of Petri’s presentation with VCCI WTO Center on Mar 28, 2013 at <http://www.amchamvietnam.com/wp-content/uploads/2013/05/130328-2.2.e.-Petri-TPP-Vietnam-24mar13-v2-web.pdf>, [http://asiapacifictrade.org/?page\\_id=106](http://asiapacifictrade.org/?page_id=106) and <http://www.asiapacifictrade.org/wp-content/uploads/2013/04/sectoral-TPP11-16-RCEP-FTAAP-12-Apr-13.xlsx>, array MF1-MU2

<sup>6</sup> <http://www.amchamvietnam.com/wp-content/uploads/2013/05/130328-2.2.e.-Petri-TPP-Vietnam-24mar13-v2-web.pdf>, pg 13

In addition to the potential export growth benefit, the potential GDP growth benefit is also substantial. According to Professor Petri’s estimates,<sup>6</sup> Vietnam’s GDP in 2025 with TPP, would be 35.7% higher than the baseline estimate. This is particularly important now that Vietnam is in a “structural growth decline” period, according to the World Bank.<sup>6</sup> Why such large gains? More exports of manufactured goods; More imports of consumer and production goods; More inward FDI due to lower duties in TPP markets and optimism; Stronger links to international supply chains; Productivity and efficiency gains from competition; Environment and momentum for structural reforms will boost growth and productivity.