

Vibrant Vietnam

Vietnam has one of the world's fastest-growing economies and is working hard to encourage foreign investment. The next stage, as *Tim Cooper* discovers, is to make progress on vocational skills, corporate governance and IFRS adoption.

It is now 30 years since political and economic reforms started opening Vietnam's economy to the rest of the world, a process that accelerated when it joined the World Trade Organization in 2007. During that time, Vietnam's economy has gradually shifted focus from agriculture to industry and services, and international exports continue to grow.

As a result, Vietnam has experienced some of the fastest economic growth in the world in recent years, and this is set to continue. It posted 6.7% growth in 2015 and is forecast to sustain 6.1% until 2025, according to BMI Research.

Meanwhile, privatization of state-owned enterprises has opened new doors for foreign investors. Between 1988 and 1990, there were only around 200 foreign direct investment (FDI) projects in Vietnam, with a total value of US\$1.6b. In 2015, total FDI was worth US\$11.8b (according to figures from the World Bank) and investors came from more than 100 countries.

The Government that came to power at the beginning of 2016 has also worked hard to attract

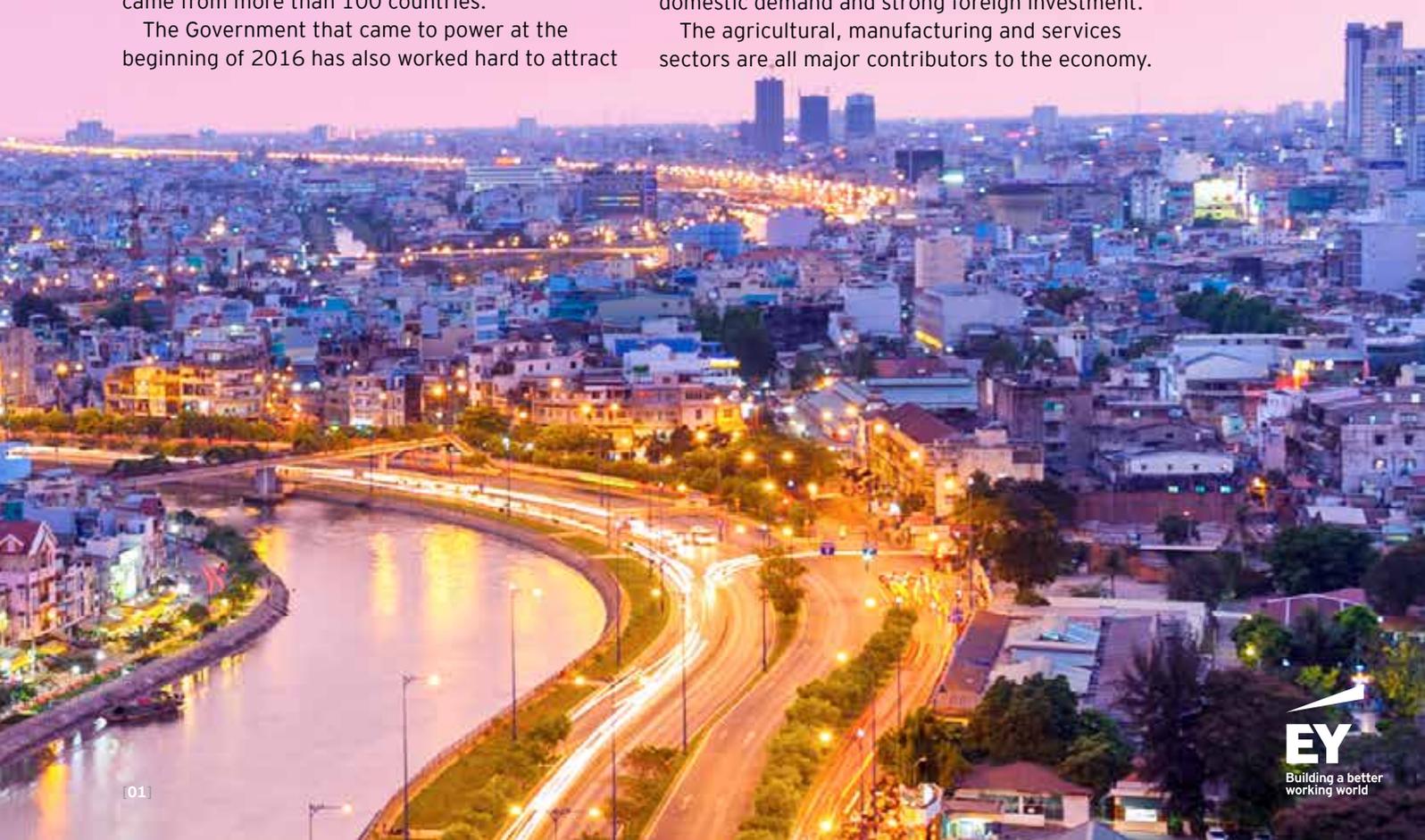
more investment through initiatives such as reducing enterprise tax and removing investment restrictions. One of its first initiatives was to remove many of the barriers around sublicensing to enterprises, and this was well received by the business community.

There are still some industry-specific restrictions on the amount foreign investors can hold in local companies, including in finance, retail, publishing and health care. Others, such as pharmaceuticals and manufacturing, are more open. But 100% foreign-owned companies are free to set up in Vietnam and many multinationals now have offices there.

RAPID DEVELOPMENT

According to a report by market research company Euromonitor International, Vietnam's rapid development in recent years has been due to rising industrial output, robust exports, growing domestic demand and strong foreign investment.

The agricultural, manufacturing and services sectors are all major contributors to the economy.



With companies including Samsung, Intel and Siemens investing significantly in the country, Vietnam has also become a hot spot for technology manufacturing in the region.

Manufacturing and electronics multinational Siemens started operations in Vietnam in 1979 and

“Vietnam is well placed to compete with other emerging economies in the region.”

Dr. Thai Lai Pham, Siemens Vietnam

opened an office there in 1993. Since then, it has increased staff numbers from 10 to 300. Dr. Thai Lai Pham, President and CEO, Siemens Vietnam, says the company has developed a significant presence in many sectors, including power-plant supply, electrical infrastructure, health care imaging devices and industrial automation. This has helped it grow in Vietnam by an average of 25% over the last four years.

Dr. Lai says Siemens regards Vietnam as strategically important, as it is one of only nine “second wave” global emerging economies that the company has identified – the first wave being Brazil, Russia, India and China. “Demand is very strong in areas we cover, such as energy, automation, transportation and health care,” he says. “Vietnam is well placed to compete with other emerging economies in the region, and infrastructure will be key to growth.”

DEPENDENT ON TRADE

However, several challenges remain. Euromonitor says Vietnam’s dependence on trade and foreign investment leaves it vulnerable to global economic uncertainty. Subdued demand in its major trading partners and interest rate rises in the US could lead to capital outflows.

Moreover, the Vietnamese economy was expected to be one of the biggest beneficiaries of the Trans-Pacific Partnership Agreement (TPPA) signed in February 2016. Since then, US President Donald Trump has created uncertainty around the trade deal by withdrawing the US from it. However, even if TPPA now fails, Vietnam could make separate arrangements with other countries and with the US.

Vietnam’s high dependence on imports from Asia-Pacific, especially China, also leaves it

Viewpoint



Work in progress

Tran Dinh Cuong, Country Managing Partner, Ernst & Young Vietnam Ltd

Vietnam has made significant progress toward international standards of best practice in corporate governance, as recommended by organizations such as the International Finance Corporation and the Asian Development Bank.

In the public sector, governance principles and rules are promoted widely and have recently been enforced by government decrees. This is enhancing transparency in capital investment and in corporate performance assessment.

The Government is also now working on a legal framework to ensure the successful implementation of public-private partnerships to help mobilize capital into infrastructure projects.

In the private sector, the revised enterprise law has also created a foundation for transparency and internal control frameworks.

Risk management is a big issue, as several enterprises have failed recently. But standards have improved in the past few years, led by the Vietnamese State Securities Commission (SSC), the body that oversees stock market operations. It has raised awareness and developed risk management regulations and guidance for stock market participants. There have also been a series of enforcement decrees in this area.

Implementation and execution of the SSC standards are not yet consistent, but they are nonetheless making Vietnam a much healthier market for investment.

Most Vietnamese Accounting Standards (VAS) have reached a level of compatibility with IFRS already, especially in certain industries, such as manufacturing. However, in others, such as finance and insurance, there is a noticeable gap and some integration work is still necessary on concepts such as fair value, impairment and financial instruments.

IFRS integration is slow because of a lack of accounting talent with exposure to IFRS in Vietnam. The Government is leading a bid to boost training in enterprises to address this. Also, several international professional associations and professional organizations such as EY will help provide the necessary training.

If Vietnam continues to reinforce regulations that ensure fair competition and transparency, its attractiveness to investors will keep growing.

**VIETNAM FACT FILE**

Population: Estimated at 91.7m in 2015 (the 14th largest in the world)
Official language: Vietnamese
Capital: Hanoi
Currency: Dong (VND)
Land area: 332,698km²
Bordering countries: China, Laos, Cambodia
Natural resources: Coal, rare earth elements, phosphates, bauxite, chromate, copper, gold, iron, manganese, silver, zinc, offshore oil and gas deposits, timber
Nominal GDP: US\$214.75b (2015 estimate)
GDP growth: 6.68% YOY in Q4 2016
Inflation rate: 4.74% YOY in December 2016

vulnerable. Furthermore, the Euromonitor report says that Vietnam's labor productivity has been lower than that of its regional peers and that it has a shortage of vocational skills.

Dr. Lai agrees that the country has insufficient higher education and vocational education providers. He is more positive about the workforce, though. For Siemens, Vietnam is an attractive manufacturing location, with a young workforce and reasonable labor costs. Its people receive a good basic education and literacy levels are good, he adds. "Vietnam has great potential because its people are very open-minded, creative and positive-thinking," he says. "They are ready to learn and want to achieve something. It has a great future."

SLOW IFRS ADOPTION

Globally, 149 countries, including many developing nations, have so far allowed or required the application of IFRS for all or most domestic entities. But Vietnam is still relying on Vietnamese Accounting Standards (VAS), which differ from IFRS in several ways.

IFRS adoption is going ahead via a stepped program and Vietnamese standard setters now aim to have 30 key entities adopt IFRS initially. Others will then follow, with all listed companies adopting between 10 and 20 IFRS standards by 2020. The target is to achieve full adoption by 2025.

The Government acted to help smooth the transition in 2015 by changing the accounting laws to reduce the gap between VAS and IFRS. Dr. Duc Phan, Accounting Lecturer at RMIT University in Melbourne, Australia, explains that the biggest change is that the new law introduces the concept of fair value and allows the Ministry of Finance to decide which items can be re-evaluated under fair value. Previously, assets and liabilities were defined according to historical costs.

The challenge, says Dr. Duc, is that measuring fair value is outside the experience of most

Vietnamese accounting professionals. "As they start to apply fair value, Vietnamese businesses are therefore advised to engage with relevant specialists, including foreign investors, banks, IFRS consultants and shareholders," she adds. "This will also help them plan carefully for a smooth conversion to full IFRS."

She continues: "Vietnam has been so slow to adopt due to the nature of its society and economy. In developing countries like this, international accounting firms, multinational enterprises and academics will play a key role in disseminating international accounting techniques. Nonetheless, IFRS adoption is inevitable due to demands from the World Bank, the International Finance Corporation and foreign investors, among others."

In the meantime, the slow pace of adoption continues to be an obstacle to foreign investment in Vietnam. But at least the transition is well under way, as evidenced by a series of IFRS workshops held in October 2016 at the Ho Chi Minh and Hanoi stock exchanges, says Dr. Duc.

Siemens' Dr. Lai adds that bureaucracy is burdensome and regulation can be unclear and unpredictable. "That can cost us time and money and can make us less competitive compared to providers in other countries," he says.

"Also, many local companies are only beginning to develop their corporate governance structures. There is still a big deficit between the governance they have now and what they need to attract foreign investment. They realize they need to do something, but it is still too slow. The Government needs to help it speed up."

He concludes: "To achieve anything in Vietnam, you need a long-term perspective. You might be disappointed if you expect returns in two years. We often plan our projects over 10." ■

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