Domestic Trade and Market Development Report 2014

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PREFACE

On her quest for extensive socioeconomic development and international economic integration, Vietnam has delivered multiple commitments regarding trade liberalisation and market openings. Foreign investors and suppliers are increasingly present in Vietnam's domestic market and contribute significantly to changes in the country's socioeconomic situation and in particular to further developing the markets. Purchasing methods and consumption patterns undergo deep changes due to increase in income, rapid urbanization and the emergence of new form of businesses. Also, as integration commitments are progressively implemented and foreign investors are entering Vietnam, the domestic market is becoming more diversified and competitive.

This Domestic Trade and Market Development Report provides an overview of the salient features and major developments in the Vietnamese market and trade flows in the year 2014.

It also presents the trends and factors, which are forecasted to shape the developments in the domestic markets in the years to come. In particular the Report also addresses the following:

- Plans for domestic trade development for 2015 and beyond.

- Assessment of major internal and external factors affecting trade development in 2015 and beyond.

- Major trends and potential issues in domestic trade development in 2015 and beyond.

The Report also addresses issues in the areas finance, money and food hygiene etc.

It is hoped that the annual Domestic Trade and Market Development Report will become an effective informative tool that undertakings, domestic and foreign alike, will rely on when developing their business plans and strategies.

The analysis and insights provided in this Report are intended to be information resources for enterprises, associations, authorities and relevant agencies. However, they do not necessarily reflect the positions of relevant government agencies. No information contained in this report is construed to serve as authoritative advice for business decision, and investors and traders are encouraged to seek specialist advice from professional firms.

SECTION I
THE DOMESTIC MARKET IN 2014

I. The Macroeconomy in 2014

In 2014, the global market gradually recovers from recession. As for Vietnam, 2014 sees a brighter picture than 2013 with macroeconomic stability, extensive recovery with distinct signs, and remarkable positive changes in the domestic market. Corporate and household enterprises face fewer challenges.

1. Distinct signs of recovery in 2014

In 2014, ***GDP*** increased by 5.98%, with 5.06% in Q1, 5.34% in Q2, 6.07% in Q3 and 6.96% in Q4, and GDP growth was higher than in 2012 and 2013, (respectively 5.25% and 5.42%) indicating positive signs of economic recovery. Agriculture, forestry and fishery (AFF) sectors grew by 3.49%, which was higher than the 2.64% growth of 2013, and contributed 0.61 percentage point to the overall growth; industry and construction sectors grow by 7.14%, which was higher than the 5.43% increase in 2013, and contributed 2.75% percentage point to the overall growth; service grows by 5.96%, contributing 2.62 percentage point.

Within AFF, forestry, despite its high growth of 6.85%, contributes only 0.05 percentage point to GDP growth due to its small weight within the sector; agriculture, despite small its growth of 2.60%, contributed 0.35 percentage point due to its largest weight (approx.. 74%); forestry grows by 6.53%, contributing 0.21 percentage point.

Regarding industry and construction, industry grew by 7.15%, with outstanding growth in processing & manufacturing at 8.45%, much higher than in the previous years (5.80% in 2012 and 7.44% in 2013), which contributed highly to the growth of industry and the economy as a whole. In processing & manufacturing, big contributors include beverage, textile, clothing, tannery and by-products, paper, products from precast metal (excl. equipment), computing electronics and automotive with above 10% growth. Mining with crude oil and natural gas grew by 2.40%. Construction recovered with a 7.07% growth, which contrasted with the growth of 5.87% achieved in 2013. Its major contributors were foreign-invested enterprises, which attained a growth of 58% within the sector.

Regarding services, the major contributors were: wholesale and retail trades which grew by 6.62%, giving the highest of 0.91 percentage point; banking, finance and insurance grew by 5.88%; real estate improved its position at 2.85% (up from 2.17% in the previous year) with good signs in – support to the whole market in general and to the mid- and low-tiered apartment in particular, and added value to resident housing increases by 2.93%.

Economic structure in 2014 remained on a positive trajectory. Agriculture, forestry and fishery contributed 18.12% to GDP; the industrial and construction sectors had a 38.50% share in GDP; and services had 43.38%. (The respective shares in 2013 were 18.38%; 38.31% and 43.31%).

Final consumption goes up by 6.20% compared with 2013, contributing 4.72 percentage point to overall growth rate. (Population's final consumption increased by 6.12%, which is higher than the 5.18% growth in the previous year); asset accumulation also grows by 8.90%, explaining 2.90 percentage points.

Table 1: GDP growth rate in 2012, 2013 and 2014

	Year-on-year growth (%)			Contribution of sectors to overall growth rate in 2014 (Percentage point)
	2012	2013	2014	
Total	**5.25**	**5.42**	**5.98**	**5.98**
Agriculture, forestry and fishery	2.68	2.64	3.49	0.61
Industrial and construction	5.75	5.43	7.14	2.75
Services	5.90	6.57	5.96	2.62

Source: General Statistics Office 2014

Retail sales of consumer goods and services grew significantly: In 2014, gross retail sales of consumer goods and services reaches 2,945.2 trillion dong, 10.6% higher than in 2013, if excluding inflation of 6.3%, was higher than the 5.5% increase in 2013. In the sector, the state made up 10.2% or VND 299.7 trillion, i.e., 9.6% higher than 2013; the non-state sector contributes 2,547.7 trillion dong or 86.5%, 10.5% higher than last year; FDI sector reaches 97.8 trillion dong or 3.3%, increased by 16.9%.

The gross retail sales of goods in 2014 was VND 2,216 trillion, equivalent to a 75% share of gross retail sales of consumer goods and services, increased by 11.3% versus 2013. Year-on-year growth of each categories in 2014 is as followed: Food – 1.7%; garments - 4.3%; household appliances, tools and equipment - 16%; cultural and education items - 33.2%; transportation vehicles - 27.9% (mostly thanks to higher retail sales of automobile); petroleum – 2.5%; repair of automobile, motorbike and other motor-vehicle – 17.2%.

Industrial Production Index (IPI): In comparison with 2013, industrial and construction sector witnessed strong recovery, especially in manufacturing. IPI 2014 goes up by 7.6%, within which, manufacturing increases by about 8.6%. Such increases are all higher than the same indicators in the last 2 years. Besides, the average PMI over first 11 months of 2014 is around 52 points, higher than the 2013 average PMI of 49.7. Electricity consumption in 2014 grew by 13.3% over 2013 when the growth rate was lower – at 7.4%. Import of equipment and material for production also sees high increases compared with same period last year. For instance, imported machine, equipment, tools, components go up by 20.4% (y.o.y growth at 15.6%); and imported fabric 13.4% (y.o.y growth at 19.1%).

Picture 1: IPI, 2011-2014, y.o.y growth rate, %

(Blue: Overall IPI; Red: Manufacturing sector)

Source: National Committee for Finance Monitoring

2. Continued stable macroeconomy

Inflation controlled and maintained at low level: CPI growth rate is 4.09% in 2014 - a relatively small escalation over the last 10 years. Within 2014, CPI steps up 0.15% every month on average. Government keeps succeeding at controlling inflation as planned, which significantly helps enterprises reduce input costs, lowering product prices, as well as stimulating consumption and boosting growth.

A smaller CPI inflation was achieved between 2013 and 2014 mostly due to following factors:

(i) Abundant domestic food supply makes CPI in food and food service in 2014 increases much lower than its rate last year;

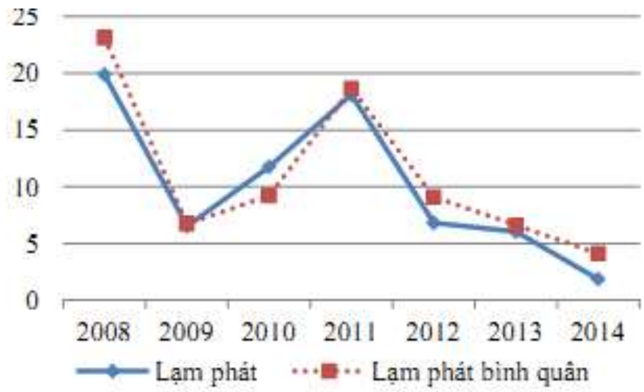
(ii) World prices of essential commodities are pretty stable;

(iii) Recent fuel price in world market, especially crude oil, drops significantly and keeps going down, leading to a lower adjusted domestic price for gas and petroleum, making CPIs for housing & construction material and transportation in December respectively down by 1.95% and 5.57% compared with previous December when they were 5.49% and 2.6% higher than December 2012;

(iv) Pricing management in 2014 has been conducted reasonably as the adjustment is not done during high-peak months, which minimizes its impact on CPI. Regulated price gap for certain Government-controlled groups such as education and health services is lower than in 2013. This year, only 04 cities and provinces directly under management of Government adjust health

service in accordance with Circular No. 04/2012/TTLT-BYT-BTC, this is also the last year in the price adjustment cycle for education service as per Decree No. 49/2010/NĐ-CP, hence the regulated price increase is also smaller than in previous years. 2014 overall, education and health CPIs go up by 2.2% and 8.96%, respectively, while they were 23.51% and 12.82% in 2013.

Picture 2: Inflation (blue) and average inflation (red) in 2008-2014 period, CPI growth, %



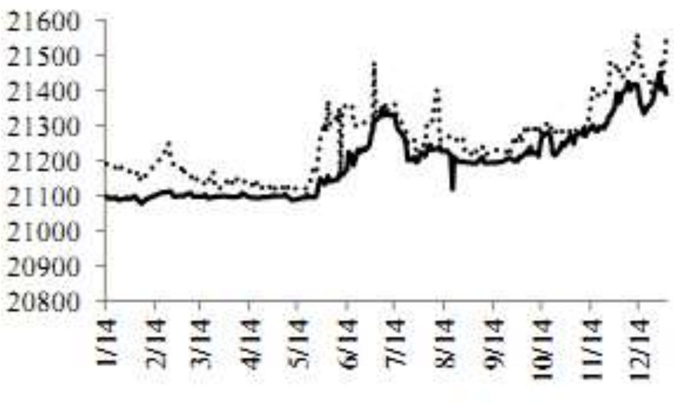
Nguồn: TCTK và tính toán của UBGSTCQG.

(Blue: Inflation; Red: average inflation)

Source: General Statistics Office and the calculation of National Financial Supervisory Commission

Continued positive balance of payments, FX market rather stable: The USD/VND exchange rate slightly increased by 1% throughout the year, firstly thanks to implementation of the monetary policy that aims at controlling inflation and stabilizing VND. The gap between dong and foreign currency is kept wide, making VND deposit attractive and fixing the "dollarization" situation. The exchange rate is also supported by: (i) trade surplus of approximately USD 2 billion; (ii) FDI, ODA, and inbound remittance growth; (iii) world interest rate maintaining low, even a record low in many regions (EU, US) helping to keep a low interest rate for foreign currencies in Vietnam, favouring VND.

Picture 3: Monthly VND/USD exchange rate, 2014

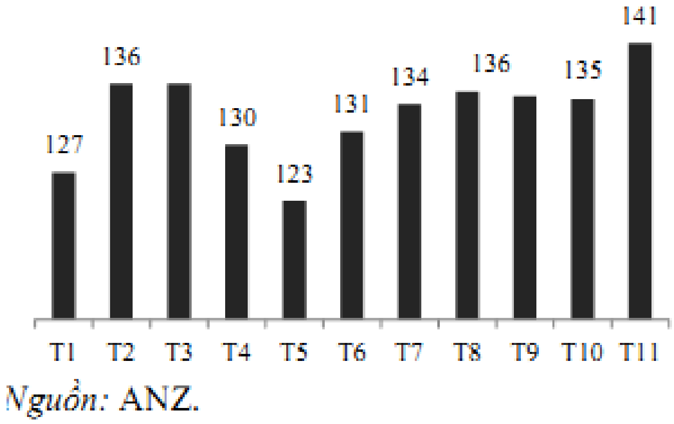


Source: National Committee for Finance Monitoring

3. Positive developments in some key economic indicators

Vietnam's CCI sees dramatic changes in 2014, with the lowest level at 123.3 points in May and the highest at 140.9 points in November, and closing at 135.6 points in December, marking a variable year around the annual average of 133.3 points.

Picture 4: Consumer Confidence Index, 2014



Source: ANZ

Export and import price index: increased by 0.79% compared with last year, including higher export price index for certain commodities: Pepper +14.45%; fruit and vegetable +9.88%; fishery +7.43%; chemical +6.24%; chemical products +6%. Meanwhile, some witness steep decline in price index: Rubber -26.93%; rubber-based products -12.63%; wires and cables -10.69%; iron and steel -9.59%; plastic -7.58%; oil and gas -6.34%. Export price index of Quarter IV goes down by 1.76% vs. last quarter and 1.06% vs. same period in preceding year.

Import price index in 2014 decreases by 1.02% y.o.y, concentrating in some commodities: fertilizers -13.53%; rubber -10.48%; wheat -8.29%; oil and gas -4.38%; chemicals -4.28%; fiber and yarn -4.01%. This index goes up 0.64% in QIV vs. QIII and 1.05% y.o.y.

In a nutshell, socio-economic situation in Vietnam see many continued signs of stabilisation during 2014. Inflation is well controlled. Growth rate is good, especially in some major sectors. Industrial production keeps recovering, especially the manufacturing sector.

III. Market development and consumption trends

1. Changes in consumption

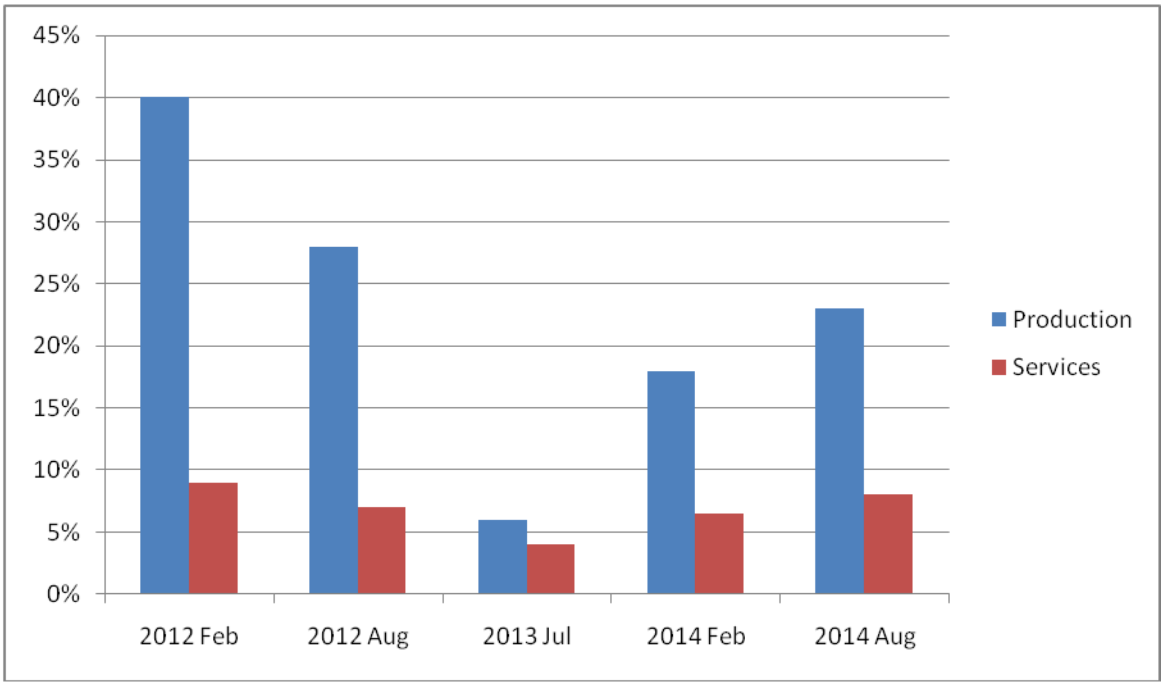
Household consumption expenditure and investment have improved

Total retail sales of consumer goods and services (after deducting price factors) have increased by 6.3% in 2014 and this growth was higher than in 2013 (only 5.6%). Consumer confidence index (CCI) has improved significantly by 13 points in 11/2014 of 141 points, remarkably higher than that in 1/2014

(127 points).

Household investments have rebounded. According to the survey of the National Financial Supervisory Commission of 2012-2014, the household sector was expected to increase investment in production to grasp the investment opportunities when the economy is being recovered. In August 2014, around 24% of respondents were planning to invest in production, compared to 17% in February 2014 and 6% in July 2013. Similarly, the proportion of respondents planning to invest in services sector also tended to increase.

Picture 5: Household investment in production and services



Source: National Financial Supervisory Commission

However, expenditure per capita in rural areas is much lower than in the urban areas, due to lower living standards and lower commodity prices in this areas. In particular, in 2012, the expenditure per capita was 76% of the income and the living expenditure accounted for over 94% of total spending. While in rural areas, the figure was 83% and 96%.

2. Changes in distribution channels and purchasing modes

The important role of traditional markets and family shops

The sale of goods to private final consumers in the recent years been made through various channels. The domestic distribution channels are very diverse, ranging from traditional markets, family shops to supermarkets, commercial centers, the digital market (buying through the Internet, television, telephone ...). Therefore, in addition to traditional markets and family shops, individual consumers benefit from more choices for their purchasing. This is a common growing trend in countries around the world. In Vietnam, this is a positive aspect of the socio - economic development of the country. Purchasing through multiple channels create positive effects and increase competition among distributors. Consumers can choose the retail format that best suits their demand. Consequently, this will create requirements that force the distributors and suppliers to constantly innovate their business methods, enhance the usability and improve customer services.

Despite the constant trend towards diversification of retail formats, the traditional market still plays a very important role in the distribution of goods in Vietnam, especially in rural areas. Currently approximately over 40% of the volume of goods sold in Vietnam is distributed through traditional markets; 40% through family shops and the rest through modern channels.

Recently, although the number of traditional markets across the country did not increase, the number of upgraded markets continued to increase both in terms of variety of market types and levels (in 2014, there were about 332 markets). The total number of traditional markets in the country is now 8.568. In terms of official classification, there are 236 markets of type I (accounting for 2.75%) ; 932 of type II (accounting for 10.88%); 7.400 of type III (accounting for 86.37%). By location, there are 6.596 markets in rural areas (accounting for 76.98%) and 1.972 ones in urban areas (accounting for 23.02%). Among the markets that are already completed and are in use, 97% work efficently.

Until now, there have been 2 billions of family shops operating in Vietnam which is known as the most popular retail format and has created more than 5 millions of employees. These shops sell consumer and essential goods such as beverage, clothing, food, automobiles and jewelry, etc. Family shops are located at the houses of sellers, thus they can be opened almost everywhere.

Varied business organization models developed

By the end of 2014, Vietnam had about 752 supermarkets in the 61/63 provinces; 150 commercial centers in 38/63 provinces (approximately 3.86% and 13.63% increase compared with 2013, respectively). In addition, there were thousands of specialized shops and convenient stores all over the country.

Currently, there are 16 expo centers in 14 provinces, with the total area of 815.667 m2, and over 1,200 active logistics center in the country. On average, there are about 130-140 yearly trade fairs that are held at the exhibition centers. This only meet 40% of the fairs and exhibitions that needs to be held in expo centers every year. Logistics centers in Vietnam have been newly developed in the last 5 years (between 2008 and 2012), mostly locate in the Southern industrial zone. There are also centers that have been invested in the North and the Middle. The scale of the logistics center is generally small (less than 10 ha), primarily serve some enterprises in industrial areas or some provinces and cities, which has not developed to the extent of serving an economic region or sector.

Online business methods are progressively developed

The commodities that are traded via this method are mainly technology and digital products, books, newspapers, pictures, flowers, souvenirs, crafts and fine arts. In 1999, revenue of this sales method reached only 8.2 billion VND (equivalent to 400 thousand USD), while the sales in 2012 reached approximately $700 million and are expected to reach $ 1.3 billion in 2015.

According to a 2014 survey by the Ecommerce and Information Technology Bureau, the annual online purchases value per capita was estimated to reach about 145 USD, and B2C e-commerce revenue reached USD 2.97 billion, accounting for 2,12% of the total retail sales throughout the country.

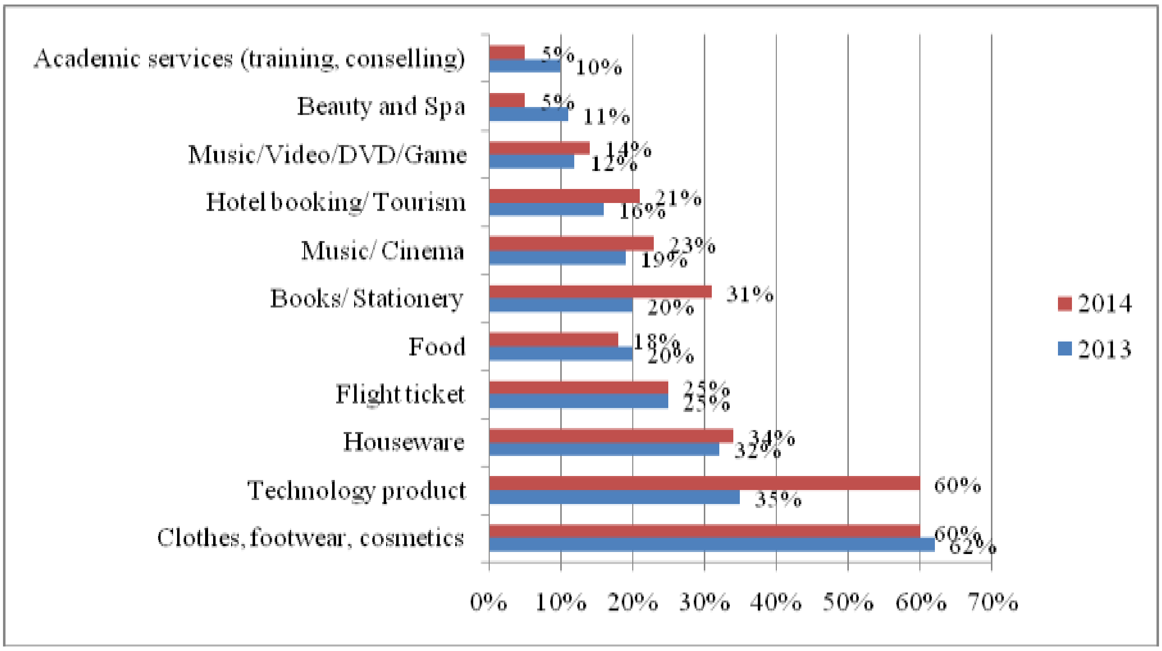
Table 2: B2C revenue of 2014 in Vietnam

Vietnam Population (2014)	**Internet Users/ Population**	**Online purchasing per capita in 2014**	**Percentage of Internet users that buying online**	**B2C revenue in 2014**
90,73 million	39%	145 USD	58%	2.97 billion USD

Source: Ecommerce annual report in 2014

Traded products are mostly items like furniture and digital technology (60%), fashion and cosmetics (60%), household appliances (34%), books, stationery (31%) and some other items. In Vietnam, the majority of shoppers buying online still choose to pay in cash (64%), online payment accounts for 37%, and payment via bank transfer represent 14%.

Picture 6: Percentage of regular goods/ services purchasing



Source: Ecommerce annual report in 2014

The distribution system of domestic enterprises has made positive developments

Distribution through “chains” has begun and developed as a must in the recent competitive and economic development process. Through direct investment, joint ventures, franchises..., Vietnam enterprises have expanded sales network, exploited and combined resources of many small businesses to create a larger-scale and higher-level organizational system. Thereby, some retailers have applied distribution chains with the store number increasing every year; the details are as follows:

Sai Gon Union of Trading Co-operatives (Saigon Co-op Mart) with the distribution chain of 303 base units (including 70 supermarkets named "Co.opMart" and 82 stores named Co.opFood, 150 stores named Co.op and 1 hypermarket); Hanoi Trade Corporation (Hapro) with 3 commerce centers, 40 supermarkets and convenient stores HaproMart, 36 safe food shops named HaproFood, and 200 small specialized stores; the Fashion Company of Vietnam national Textile and Garment Group with the chain of about 70 base unit (including commerce centers, supermarkets, pavilions, fashion stores) of brand name VinatexMart...

As part of the emergence of general supermarket system is the birth and rapid development of specialized supermarkets and stores dealing with information technology - electrical - electronic appliances such as Nguyen Kim (22 stores), Cho Lon (21 stores), Tran Anh (11 stores), MediaMart (11 stores), HC (11 stores), Pico (6 stores), TopCare (5 stores), Thien Hoa (7 stores), The Gioi Di Dong (234 stores), FPT Shop (140 stores), Telecommunications A (98 stores) ...

Many manufacturers have set up their shop systems (with the number increasing) following the modern model that sells their own products such as Vinamilk, Vinatex, May 10, May Viet Tien, Ninomaxx, Sony, LG, Kinh Do Bakery, Trung Nguyen Coffee ... The process of establishing and extending the chain still keep developing in the coming years.

Retail market has made positive movements

The process of diversifying towards modern retail formats in Vietnam includes the continuing emergence of large-scale shopping centers built by FDI entrepreneurs for new Vietnamese retail brands. After Vincom Mega Mall Royal City (230,000 m2), Vincom Mega Mall Times City (200,000 m2) were established in Hanoi in 2013 and Aeon Tan Phu Celadon Mall (74 600 m2) established in Ho Chi Minh City (opened in January 2014), Aeon Vietnam opened Aeon Binh Duong (79,900 m2) in 2014 December and is building Aeon Binh Tan (74,000 m2) in Ho Chi Minh City[1].

Beside improving and opening new stores that follow current business models, Vietnamese retail companies has strongly researched and cooperated with foreign businesses to invest and develop new retail models, or change to new brand by themselves. After hypermarket Thu Duc Co.opXtra (10,900 m2),

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[1] To be open in July 2016

SC VivoCity shopping center (72,000 m2) and Sense City Commerce Center (22,000 m2) were established in Ho Chi Minh City, Saigon Co-op FairPrice Company (Vietnam Saigon Co-op venture with NTUC FairPrice - Singapore) continued to invest in Co.opXtra Tan Phong (8,000 m2) in Ho Chi Minh City. In early 2015, Hiway rebranded 02 hypermarkets from Hiway into SapoMart Hiway, as well as opened 01 hypermarket SapoMart Tay Ho near Nhat Tan, Tay Ho District, Hanoi.

There is one more remarkable thing in the recent booming of technology and digital content products: although the proportion of traditional retail channels is still high, but it is shifting sharply to the modern channels, along with the strong development of the modern procurement methods such as online shopping, sales through television (TV shopping) ... Especially, many companies that provide consumer electronics has perfected the organization and information technology system, human resources management, risk management, financial management, logistic systems, customer service and many other governance systems.

The positive developments mentioned above have gradually relieved the limitations and shortcomings of Vietnam's retail market in terms of concentration levels, the number and uniformity of stores in the distribution chains, as well as the quality and management experience of staff working in modern retail stores all over the country.

The distribution channels for Vietnamese domestic products has been expanding and diversifying

Thanks to the development of the activities to strengthen the distribution infrastructure by the State and local management authorities, as well as by the businesses who responded to the campaign “Vietnamese people use Vietnamese products” (hereinafter called *the Campaign*), the distribution channels for Vietnamese domestic products has been expanding and diversifying.

According to reports from local Industrial and Trade Departments of some cities and provinces under the central government, the current market share of Vietnamese products through traditional distribution channels has increased. Currently, the rate of Vietnam goods which are distributed through the traditional system of common markets is over 60%; while the rate in convenience stores or grocery is 70 - 80%.

Table 3:
The market share of Vietnamese products in supermarkets, traditional markets, shopping centers, convenience stores of some provinces

No.	The Industrial and Trade Department	Supermarket	Traditional market	Shopping centers	Convenience stores
1	Hai Phong	80%	70%	45%	70%

No.	The Industrial and Trade Department	Supermarket	Traditional market	Shopping centers	Convenience stores
2	Tien Giang	over 90%	95%		95%
3	Ha Tinh	70%	70%		70%
4	Nghe An	over 70%	over 40%	over 70%	
5	Bac Giang	over 60%	over 60%		
6	Ha Nam	over 80%	55%		
7	Ha Noi	over 80%	over 70%	over 80%	over 80%
8	Ho Chi Minh City	over 80%	over 80%	over 80%	over 80%
9	Lai Chau	over 65%	over 65%	over 65%	over 65%
10	Gia Lai	95%	Over 65%	Over 65%	Over 65%
11	Soc Trang		30%		
12	Tay Ninh	30 - 50%	Low	50%	
13	Quang Ninh	over 50%	40%	60%	80%
14	Nam Dinh	80%	70%	80%	70%
15	Kon Tum	80%	80%		80%
16	Binh Thuan	90%	70%		70%
17	Phu Tho	over 60%	50%		50%
18	Lao Cai	over 70%	80%	80%	80%
19	Quang Nam	over 70%	over 70%	over 70%	over 70%
20	Tra Vinh	70%	90%		80%
21	Hung Yen	90%			
22	Da Nang	over 80%	over 80%	over 80%	80%
23	Binh Duong	over 85%	over 60%		
24	Ben Tre	90%			
25	Hoa Binh	over 60%	50%		
26	Binh Dinh	over 80%	50%	over 80%	over 80%
27	Son La	70%	70%		70%

No.	The Industrial and Trade Department	Supermarket	Traditional market	Shopping centers	Convenience stores
28	Ninh Binh	90%	70%		
29	Kien Giang	90%	80%		80%
30	Ca Mau	90%	90%		90%
31	Ba Ria – Vung Tau	over 80%	50%	over 80%	over 80%
32	Thua Thien Hue	over 90%	over 65%	over 90%	over 60%
33	Thanh Hoa	over 70%	over 70%	over 70%	over 70%
34	Cao Bang	over 85%	80%		

Synthesis from reports of the Industrial and Trade Departments as required by Official Letter No. 5661 / BCT- TTTN June 27, 2013 on the request to coordinate create the scheme for domestic market development associated with the Campaign

Through the Campaign, Vietnamese products have dominated the market with significant proportion in the supermarkets and shopping centers over the country. The convenience stores and specialized stores are the key elements to support rapid development of these modern distribution channels. Until now, in the supermarkets of some businesses in the country, a large proportion of 80-90% of the products are Vietnamese product (in supermarket chain Big C, the ratio is 90%; while in the supermarket chain Saigon Co-op Mart and Vinatex, the ratio is almost 95%).

3. The implementation of integration commitments and changes in the structure of market players

3.1. Implementation of Vietnam's GATS market access commitments, including on economic needs test (ENT), and their impact on the domestic market

- *Some common rules to implement the market access commitments for distribution services in Vietnam*

After Vietnam joined the World Trade Organization (WTO) and implemented the Resolution of Parliament No 71/2006 / QH11 dated November 29, 2006 ratified the Protocol to the Agreement establishing the Vietnam WTO, a number of commitments involving the distribution sector in this Protocol have been incorporated in domestic law. These commitments are embodied in the following legislation[2]:

- Decree No. 23/2007/ND-CP dated 12 May 02 2007 of the Government specified the Commercial Law about goods trading activities and the activities

2 Just the legal documents currently in force

directly relating to the supply and purchase of goods from enterprises that have foreign investment capital in Vietnam.

- Circular No. 34/2013/TT-BCT dated December 24, 2013 of the Ministry of Industry and Trade announced the roadmap to implement the trading and activities directly relating to the supply and purchase of enterprises that have foreign investment capital in Vietnam.

- Circular No. 08/2013/TT-BCT dated April 22, 2013 of the Ministry of Industry and Trade provided information on commodity trading activities and activities directly relating to the goods supply and purchase of enterprises that have foreign investment capital in Vietnam. Because the application of criteria of economic needs test (ENT) following WTO commitments of Vietnam depends on the characteristics of each locality, Circular No.08/2013/TT-BCT has additional specific provisions to be more transparent[3] and flexible[4] about ENT compared to Vietnam previous regulations.

- The administrative penalties for the violations of regulations on the commodity trading and activities directly related to the supply and purchase of goods from enterprises that have foreign investment capital in Vietnam, including the regulations of retail establishments in Vietnam which are prescribed in Article 89 of Decree No. 185/2013/ND-CP dated November 15, 2013 on sanctioning of administrative violations in commercial activities, production and trade of counterfeit or prohibited goods, and protection of the consumers' rights.

- Other relevant documents: the Investment Law No. 67/2014 / QH13 dated November 25, 2014 (with effect from July 1, 2015), Business Law No. 68/2014 / QH13 dated November 26 2014 (with effect from July 1, 2015), etc.

Overall, on the basis of the provisions of Vietnamese law, investors (both domestic and foreign) will be allowed to invest and do business in all fields, commodities and services; except for the investment areas / products / services, that are prohibited/restricted or conditional business following Vietnam legal regulations. Other international commitments about distribution services that Vietnam has signed or acceded to sign (in ASEAN) until now have been based on WTO accession commitments. However, according to the embodiment of the TPP negotiations, the FTA with the EU ... the future of distribution services sector of Vietnam is increasingly opening up and encouraging foreign investors to Vietnam potential distribution market.

- *The impacts on domestic market:*

<u>Positive impacts:</u>

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3 Assign People Committees of the provinces and cities to establish the ENT Council and implement the evaluation following ENT criteria

4 Regulations about ENT are not applied for "retail stores that is completed and under 500 m^2 locating in the area that provinces and cities under central government plan for commodity trading", to make advantages for FDI enterpreuners when opening small scall retail stores.

+ The business organization models continued to develop and diversify; there are more advanced and modern business methods. The traditional (markets, retail shops) and modern (supermarkets, commercial centers, convenience stores ...) distribution channels not only increased in number but also renovated and upgraded to meet the growing consumer demand of all population. At the same time, the online shopping and online payment methods are gradually developing and creating advantages for the online trading activities for many items such as digital and information technology products, books, newspapers, photos, flowers, souvenirs, handicraft products ..

+ After WTO accession, the retail distribution made remarkable progress in terms of both quality and quantity.

Domestic investment:

The distribution system of domestic enterprises are formed, especially the chain distribution. Vietnamese enterpreuners have expanded sales network, exploited and combined resources of many small businesses to create large-scale systems and high-level organizations. These enterpreuners are evolving through direct investment, joint ventures, and franchises with large foreign distribution brands...[5]

Foreign investment:

Many businesses with foreign direct investment (FDI) from Europe and Asia have invested to build new stores and now operate effectively. Some examples include: Metro Cash & Carry - Germany (with 19 wholesale centers follwing cash & carry method), Big C - France (with 30 hypermarkets); Parkson - Malaysia (with 9 shopping centers with FDI shopping centers of local firms using brand Parkson), Lotte Mart - South Korea (with 12 shopping centers); Aeon - Japan (with 03 large-scale shopping centers); Robinson - Thailand (01 shopping center); Co-op Xtra (Saigon Co-op ventures with FairPrice – Singapore - 02 hypermarkets); Emart - South Korea (01 shopping mall) ...

+ Along with the investment process to establish new distribution facilities, foreign investors created more jobs for employees (200-300 employees/ 01 distribution unit) and contributed significantly to the Government budget revenues...; also helped to develop the commodity production in Vietnam through mining operations, orders to local production for consumption on the domestic market as well as exporting through distribution networks of distribution enterprises in the country.

Data reported by Metro (investing in Vietnam since 2002), Big C (since 1998), Lotte (since 2008), showed that the share of products manufactured in Vietnam in the respective distribution channels is always about over 80%. Also, through their global distribution systems, these groups helped Vietnam export its goods to foreign markets; for example, the average exporting value of Metro is

[5] The development of domestic retail enterprises have been analyzed and discussed in detail in part 2 of "Changes in distribution channels and purchasing mode".

30-50 million USD / year; Big C exported 27 million in 2014, its target for 2015 is $ 30 million; Lotte exported more than $ 19 million in 2014... Metro also has a number of projects to help Vietnamese businesses and farmers invest in, and process agricultural products, as well as participate in the supply chain of Metro (Project "Upgrading the quality of agricultural products in Vietnam", project "Supporting to develop the vegetable distribution system in Vietnam”, project "Integration of small businesses into modern market"; the project "Building the supply chain of high quality seafood for the domestic market"...)

+ Thanks to the process of opening up the distribution services, the products in the market become varied in terms of types, designs and origins. Distribution markets of Vietnam, especially the retail market, are increasingly competitive and consumers have more opportunities to make their choice in a convenient and modern market environment.

Negative impacts:

+ The FDI distribution enterprises (with the shares of about 17% compared to modern retail in Vietnam) who have decreasing price due to their cost savings and performance by distribution chain with increasing scale... have created increasing competition against domestic retail enterprises and entities (with limited financial resources, experience and retail technology...).

+ According to WTO commitments, foreign investors who do not have a commercial presence in Vietnam are only allowed to distribute across borders: (i) distribution of products for personal use; and (ii) distribution of legitimate computer software for personal and commercial use. However, in reality, this provision has not been complied, controlled and the violation of the provision are not handled, as the result, the domestic online retail business are competed and lost.

+ In some cases, Vietnamese manufacturers have difficulties in negotiating to bring the goods, especially agricultural products, to be saled in the modern distribution establishments in general, in the FDI’s ones in particular because their discount requirement is quite high (the average decrease is 6-14% compared to the selling price, some items have the discount rate up to 30%) or have to spend more money on informal payment, have to participate, contribute the promotion, advertising and marketing programmes, pay for goods codes, fees for food safety inspection... which are stipulated by FDI enterprises while their receiving late payment (usually 30-45 days). Therefore, Vietnamese manufacturers must find ways to access to larger loans that can meet the payment mechanism of FDI distributors.

+ The FDI distribution enterprises are constantly expanding their distribution network, importing their goods into Vietnam, that are likely to reduce the share of Vietnamese goods in the FDI distribution systems.

- *The process of opening markets and implementing the commitments of Vietnam in distribution sector.*

Through the recent implementation of market access commitments for trade in distribution services, Vietnam has demonstrated its strict compliance with the signed commitments. After 8 years of implementation of the schedule for opening of the distribution sector, the investment and business environment has increasingly improved and is now more open for both domestic and foreign distribution entrepreneurs. The entry barriers to the distribution system for foreign investors have been gradually eliminated following the roadmap for the implementation of international commitments under the WTO, BTA, Agreement between Vietnam - Japan, and ASEAN + for the protection and promotion of investment.

In the future, the ASEAN Economic Community will be officially formed, together with the implementation of the Free Trade Agreements FTA that Vietnam has signed and a number of agreements that we are negotiating, such as the Transpacific Partnership (TPP) Agreement, the Regional Comprehensive Economic Partnership (RECP) and the FTA with the EU, Korea ... will create an environment of growing trade liberalization, expand market opportunities along with increasingly strong challenges for the competitiveness between domestic and foreign commodities.

3.2. Labor force and the structure of distribution market in Vietnam

In recent years, the number and types of market players in the distribution sector of Vietnam have significantly increased and diversified.

In terms of labor force:

- From 2001-2014: number of employees in the distribution sector always accounted for a significant proportion of the total national workforce (about 7-14%).

- In 2013, number of employees in the distribution sector accounted for 12.5% of the total workforce, just behind agriculture sector (accounting for 46.8%) and processing industry sector (accounting for approximately 14%).

- Until 2014, the number of employees in the distribution sector accounted for 13 – 14% of the total national workforce.

In terms of structure, mostly consists of 2 main distribution market participant types - individual household business and normal entrepreneurs.

- *About the entrepreneurs:*

In 2014, enterprises of all economic sectors participating in the distribution market of Vietnam continued to make progress. The investment and business environment improved increasingly have opened up numerous opportunities for businesses of all economic sectors to develop and compete fairly.

According to recently Report by the General Statistics Office on basic indicators of Vietnam enterprises dated December 31, 2014, Vietnam has

401,224 active businesses (an increase of 9% compared with 2013), which created jobs to 11.82 million workers. In wholesale and retail, automobiles and motorcycles maintenance sector, the number of active businesses by the end of 2014 was 153,870 businesses, which provide employment for 1,523,569 laborers with total revenue of about 5.2 million billion.

Table 4: Vietnam businesses year 2014

	Number of active businesses	Number of labourers	Capital (billion VND)	Total revenue (billion VND)
Total	401,224	11,828,576	22,012,660	14,421,500
In which: *Wholesale, retail, automobiles and motorcycles maintenance sectors*	*153,870*	*1,523,569*	*3,014,506*	*5,189,779*

Source: General Statistics Office, 2014

Although there is no official statistical data on active businesses in the distribution sector in Vietnam in 2014 yet, as estimated by the Ministry of Industry and Trade, the number of business establishments in this sector is as following:

There are more than 800 modern retail distribution units of domestic enterprises all over the country, which accounts for 20% general retail market share.

The number of distribution units of FDI enterprises in distribution sector accounts for 9% of total modern retail stores in Vietnam, but the retail market share just accounts for 3.4%. In the end of 2014, there were 80 FDI retail distribution units, which are above 500 m^2. These distribution units are supermarkets and shopping centers.

Table 5: Total retail sales of consumer goods and services

by economic sector *(at current prices)*

Year	**Total**		**By economic sector *(%)***		
	In number *(billion VND)*	**In structure *(%)***	**State-owned**	**Non-government**	**FDI**
2012	2,369,131	100.0	11.3	85.8	2.9
2013	2,668,753	100.0	10.2	86.7	3.1

Year	Total		By economic sector *(%)*		
	In number *(billion VND)*	**In structure *(%)***	**State-owned**	**Non-government**	**FDI**
2014	2,970,300	100.0	10.1	86.5	3.4

Source: General Statistics Office in years

- *Regarding domestic individual, household and small business*

Currently, it is estimated that there are 2 million retail stores of individual, household and small businesses in Vietnam. These are still the key components of the Vietnamese retail market, which help create jobs for around 5 million unskilled workers all over the country.

The commodities in retail stores of household businesses are mainly consumer goods and basic necessities such as beverage, processed food, health care supplies, personal care...

The common feature of these businesses is that their activities are heavily spontaneous, their management lacks knowledge and skills to fend off risks, high staff turnover because most of the employees are unskilled, almost without any school, and lack of public training courses on business skills.

3.3. Some notable developments during this year

In 2014 and the early 2015, the domestic market had a number of noteworthy developments in the domestic distribution market structures:

- *Business consolidation through merger and acquisition (M & A) increased*

According to the Institute of Mergers, Acquisition and Alliance (IMAA), in 2014, the number of business consolidation, merger and acquisition in Vietnam soared and had great value. Specifically, in Vietnam, there are 313 transaction consolidations, mergers and acquisitions; the value of these deals are at about $ 2.5 billion - which increased by 15% compared to 2013, when we mainly focused on large enterprises and brands in the market. Statistics showed that the retail industry led all with 36% of the total value (essential consumer goods accounted for 21% of total value, energy sector accounted for 18% of total value ...).

Table 6:
Some remarkable M&A cases in retails and consuming in 2014

No.	Purchaser	Purchased	Transferred asset	Transaction valued (million USD)	Transferred shares (%)	Time	Sector

1	Metro (Germany)	BJC (Thailand)	Metro supermarkets chain in Vietnam	879	100	Aug 2014	Retail
2	Ocean Group	Vingroup	Ocean Retail	N/A	70	Oct 2014	Retail
3	Kinh Do	Mondelez International	Kinh Do Binh Duong	370	80	Dec 2014	Consuming

Source: IMMA 2015

Metro Vietnam M&A:

In August 2014, Metro Cash & Carry Vietnam Co., Ltd (Vietnam Metro) announced that Metro Group has signed an agreement with Berli Jucker Corporation (BJC) of Thailand. This agreement stated that BJC would acquire the entire business operations of Metro Group in Vietnam, including 19 distribution centers and related estates which valued 655 million Euros (about 18,700 billion VND, equivalent to 879 million USD) and expected that this transfer will be completed in mid-2015.

Right after this information was announced, many national experts have expressed concern that Thai goods through the Metro Cash & Carry centers will dominate the distribution market in Vietnam. However, according to reviews, with over 12 years operating in Vietnam, although Vietnam Metro has built a stable purchase system, but the market share only accounted for a very small proportion of the total capacity Vietnam market (0.5%). Therefore, if Thai goods are imported and place a large volume percentage in Metro Vietnam, it still will not affect Vietnam market.

By the end of 2014, there is still no official information from Metro Vietnam on this M&A.

Overall, in our economy, the consolidation, merger and acquisition of enterprises are normal activities that take place between stakeholders (both domestics and foreign ones) similar to many countries. Standing in front of large commercial opportunity from the trade and economic agreements such as TPP and the FTA, now the entrepreneurs have more motivation to accelerate consolidation, mergers or acquisitions activities to increase their own competitive strengths. It is expected that in 2015, the wave of consolidation, merger or acquisition in Vietnam will continue to rise.

- *Some other movements:*

In 2014, the domestic distribution market indicated a stronger involvement of some foreign investors in Vietnam such as Aeon (Japan), Lotte (Korea)... with various types of new modern distribution models in Vietnam. Until the end of 2014, Lotte Vietnam alone had a shopping center, 10 hypermarkets in Vietnam; it is expected to launch 60 commercial centers in Vietnam market until 2020. This shows that the domestic market continues to appeal many foreign investors.

Besides, many domestic retailers have increased strong development such as Saigon Coop, Satra,... for expanding their distribution chain, joint ventures, effective corporation with foreign partners. Some businesses (both domestic and foreign), which operate inefficiently, are restructured, merged or transferred to other business models, which are more in line with capacity. This is also the crucial principle of a market economy, which requires fair competition and equality among enterprises whether domestic or foreign in 2014.

Parkson Keangnam stopped leasing business locations abruptly as notified in early January 2015. That Parkson Keangnam case made the list of supermarkets, shopping centers in Hanoi and Ho Chi Minh City businesses which had to be restructured, narrow the stores, change business purposes or be merged into the other company due to economic difficulties. Ocean Mart (the chain of supermarkets and 8 hypermarkets) were sold for Vingroup, Thien Son Plaza Shopping Plaza (Ho Chi Minh City) had to restructure the utility, Pico Sai Gon shopping center re-lease for Lotte Mart supermarket, Zen Plaza transfer to leasing offices and increase business area for food ...

4. Changes in the structure of the domestic market for consumer goods

In the domestic market, consumer goods have diversified in terms of both designs and types. Beside the goods produced domestically, along with the process of market opening in recent years, many imported goods have contributed to the creation of a vibrant, diversified and colourful domestic market. Specifically, in market structure, goods produced domestically are increasingly gaining customers’ faith. Below are the changes in the structure of domestic goods according to different criteria:

- The structure by regions:

The structure of consumer goods in urban areas is very diversified. The emerging goods are food, personal care products, home care products and luxury items ... Meanwhile, due to consumer habits and lower income of the rural population, the structure of goods markets in rural areas is still mostly composed of essential consumer goods, goods for manufacturing, equipment, and machinery for agricultural production. Refrigerated food, electronics, as well as luxury goods are less consumed in rural areas; however, the proportion of consumers of these commodities is about to rise, when compared with previous year. Statistics from the Research and Enterprise Support Center show that Vietnam’s rural market accounts for 70% of the goods consumption; 70% of households and retail stores also locate in rural areas. Currently, living standard in rural areas has risen significantly, particularly in areas where the speed of urbanization and industrialization is high. According to TNS, a market research firm, rural areas are holding about 62.5% of GDP and have the number of consumers 3 times more than the number of consumers in urban areas. Individual statistics also show that the current number of people with incomes above 2 million dong per month in rural areas is increasing. However, the structure of consumer goods in 2014 in a rural area did not shift much even though the income of these people has improved.

Overall, due to the disparity in income and demand, the structure of consumer goods between regions also reflects the characteristics of consumers by region. In terms of regional commodity structure in 2014, it has not changed much compared to the previous year.

- The structure by distribution channel:

Currently the proportion of domestic goods in the traditional distribution channels is gradually increasing. Goods distributed in the traditional distribution markets are mainly affordable consumer goods and food. According to a survey by the Department of Trade of some major cities in 2014, the percentage of domestic production goods accounted for about 60-80% in traditional markets.

In modern distribution channels (supermarkets, shopping centers, convenience stores), the percentage of domestic products has significantly increased compared to the previous year (about 60-80 %). Goods distributed in through modern distribution are mostly consumer goods (both casual and advanced), well-known branded goods from foreign firms (cosmetics, footwear, garments, appliances, electronics ...).

The changes in the structure of domestic goods in the distribution channels mentioned above are due to the fact that Vietnamese domestic goods are gradually improved and the reputation of some well-known brands has been reinforced in the domestic market. According to surveys in many localities, the garments and footwear produced domestically get 80% people's interest; while food and vegetables get over 58% ... In the rural areas, people started to become familiar and interested in domestic goods.

In 2014, nefarious illegal domestic and foreign businesses started manufacturing and trading counterfeit goods of Vietnam brands. Many consumer goods such as textiles and footwear that are made in China, or of unknown origin goods have been labelled under Vietnamese brands or named as Vietnamese product, have been displayed in the border-gates or in domestic markets.

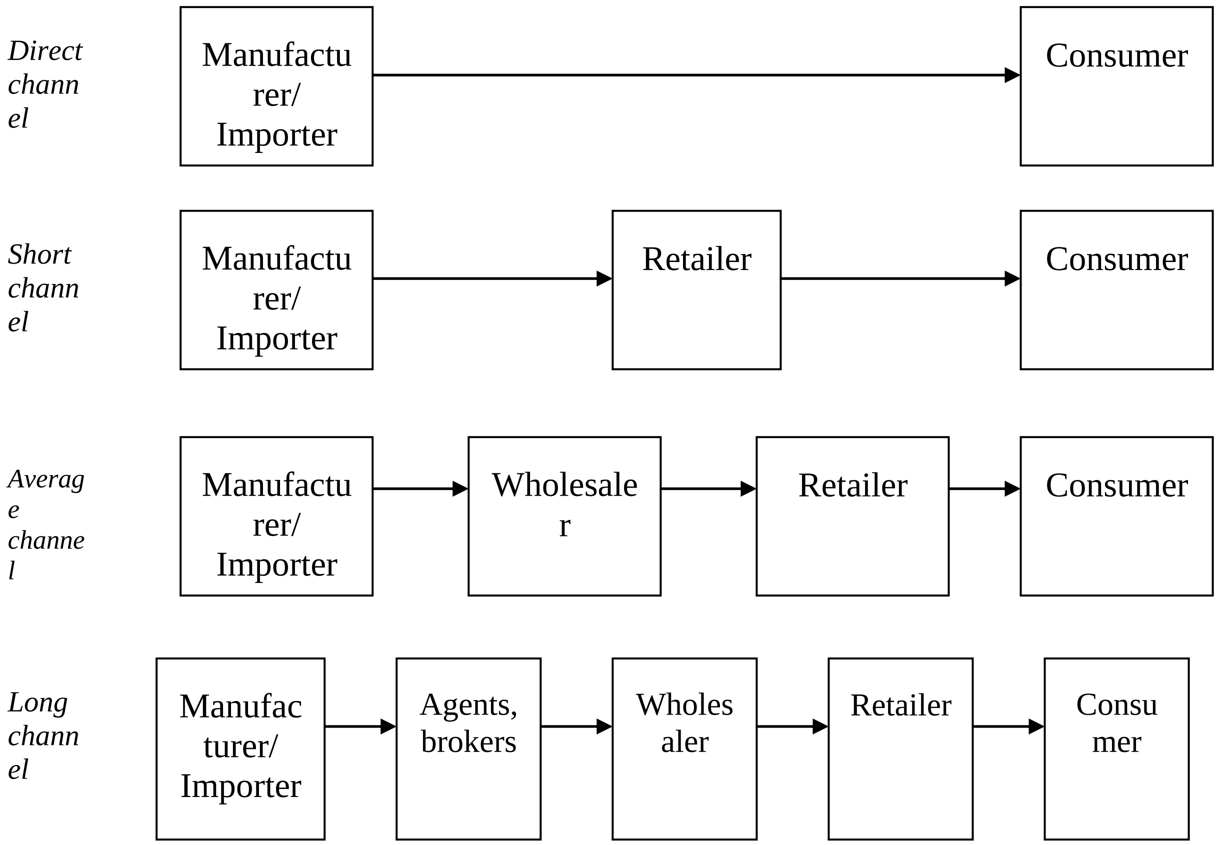
5. The issue of trade intermediaries and trade discounts (discounts, commissions, markup ...) in some goods distribution channels in the market

In recent years, especially in 2014, unreasonable multi-level trade intermediaries and trade discounts in some distribution channels in the domestic market have caused much annoyance and damage to both manufacturers and consumers in Vietnam.

In the goods distribution channels nowadays, the trade intermediaries such as the distributor, commercial brokers, and commercial agents play a very important role in delivering the goods from the manufactures to the consumers. The trade intermediaries get benefit such as trade discount, commission or markup through contractual agreements with manufacturers. That trade discount is high or low, suitable or unsuitable will have a strong influence on commodity prices to consumers, as well as plays as key element that create the price differential between the selling price of the manufacturer (factory, farmers....) and the distributor's price to consumers.

Diagram 1:

The commodity flow channels and levels of trade intermediaries in market economy



In this report, the authors would like to mention a number of product groups that have noticeable trade intermediaries in 2014.

5.1. Distribution channels for food technology products [6]

[6]Are not fresh food (also known as processed food), which are packaged and preservation period of 24 hours. Include some main products like wine - beer - soft drinks, cakes - jams - confectionery and dairy products, vegetable oil, processed flour and starch, tobacco, sugar products ...

Basically, the price of food technology products in the traditional distribution channels is relatively modern and reasonable; the price difference due to paying discount or commission for trade intermediaries is not much. Goods are relatively diversified and abundant, consumers can choose to buy processed food from many channels such as retail stores, supermarkets, shopping centers...

However, some products, such as dairy products still have high and unreasonable discount rate through intermediary channels, which does not ensure the rights of consumers.

With a young population, milk consumption in Vietnam has increased on average by 17% per year. In 2014, domestic production reached about 914 million liters of fresh milk and 450 million liters of raw milk. Raw Milk produced domestically can only meet 28% of the market demand; and most of the milk companies had to import raw milk and reconstituted milk powder for processing into liquid milk.

According to the Animal Husbandry Department (Ministry of Agriculture and Rural Development), each liter of liquid milk processed from powdered milk in 2013 is 12,000-13,000 VND/ liter; in 2014, the milk price fell, ranging from 6,300-12,000 dong / liter depending on each period. Meanwhile, the price of fresh milk from farmers was 13,500 VND / liter. According to the market price of some large domestic milk brand, liquid milk was quoted from 25,000-33,000 VND/ liter to the final consumers. Thus, there is a pretty big price difference between the purchasing price of raw milk from farmers/waters or price of liquid milk from reconstituted milk powder and the selling prices for consumers.

According to a study by Tran Huu Cuong and Bui Thi Nga on the status of the dairy industry in Moc Chau in recent years, it indicates the inequity in income distribution in the value chain of fresh dairy products in Moc Chau. Accordingly, the processing step is the center of the value chain. It accounted for 28% to 40.7% of the total added value of the chain. Although the added-value of farmers accounted for the second highest, but the production costs farmers very much (40-50%). Moreover, this calculation did not mention the opportunity cost, the labor-time that farmers have had to spend on raw milk. Meanwhile, milk collector occupied the modest in the value chain (3-6%). The distribution system accounted for a significant part of the value chain (13.3 to 24.1%, due to multi-level distribution channels. To reach the final consumers, dairy products must go through a 4-level intermediary system, therefore the added value that the distribution system achieved was pretty high.

In terms of milk distribution system, there are two main channels for the distribution of dairy products in Vietnam: the supermarkets/Metro stores and traditional stores. With the first channel, dairy products come directly from the factory to the supermarket, and then to the final consumer. In this process, the only intermediary is the supermarket, it helps to reduce costs as well as lower the retail prices to consumers.

In the traditional sales channels, dairy products go from manufacturing enterprises through regional agent systems, agents level 1, level 2, level 3 and even more before coming to the consumers. Therefore, the retail price following the traditional channels is sometimes higher than the retail price in supermarkets due to transportation costs and commission of the agent level. In supermarkets, the added value is usually higher because of fewer intermediaries, little transport costs and storage. In the value chain of milk, the cost has increased significantly due to the high costs for advertising, promotion of dairy companies.

In terms of the current regulations for dairy products:

Point h, Clause 2, Article 15 of the Law on Prices effective from January 1, 2013 stipulates that dairy products for children under age 6 belong to the list of goods and services subjected to the price stabilization of State. Under this provision, the price of milk products for children under 6 years old will be stabilized by the State measures when there are fluctuations that affect the economic and social stability.

In 2013, before the rising volatility of milk prices of many dairy firms, the Ministry of Health issued Circular No. 30/2013 / TT-BYT dated October 4, 2013 on the list of milk for children under 6 years old which price is stabilized by the government, effective from 20 November 2013. However, Circular 30 only requires companies to declare the price, so according the results of the inspection of the Ministry of Finance in the end of 2013 and 3 first months 2014, there are three companies declared and increased the prices (Mead Johnson Vietnam Co. increase the prices of 16/24 products from 12/12/2013 with 11 to 30.66% increase; Vinamilk increase the prices of 27/32 products from 10.02.2014 and 5/32 products from 1/4/2013 with the increase of 7-14%, Nestlé Vietnam increase the prices of 11/24 products from 01/02/2014 with an increase of 5-9%); 2 companies declared prices yet have not increased the price until 14/4 (3A Nutrition Ltd. Vietnam and Campina Vietnam Co., Ltd) ... Thus, even with the solution to control the price of milk in 2013, the milk price in the first months of 2014 are still rising.

Because the milk price has not been well controlled in the first months of 2014 (up from 7-10%), at the regular meeting the Government in April 2014, the Government decided to apply the price stabilization measures for dairy products for children under 6 years old which were proposed by the Ministry of Finance. On this basis, the Ministry of Industry and Trade in collaboration with the Ministry of Finance issued Decision No. 1079 / QD-BTC dated May 20, 2014 to apply the measures to stabilize prices of dairy products for children under 06 years old, which specifies the maximum price for wholesalers and retailers of dairy products ... As reported by the Ministry of Finance, since the government applied the measures to stabilize prices, since June 2014, the milk price for children under age 6 have decreased and stabilized. The ratio fell from 0.1 to

34% depending on the types of milk compared with the period before the state took measures to stabilize prices.

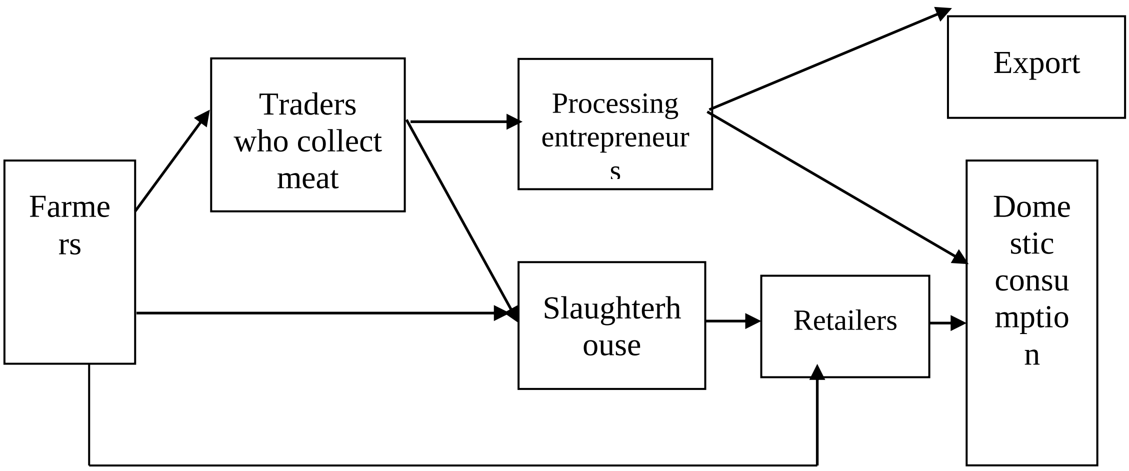
5.2. Distribution channels for agricultural food and products

Since the agricultural sector moved to commodity production scale, the agricultural output continued to increase but the efficiency of agricultural production was unstable. The increase in income of the farmers did not correspond to the increases in production, the "price falls in bumper crop" phenomenon becomes a problem in the agricultural sector and its aftermath is the confusion in choosing commodities structures; farmers often choose the goods to produce by the trend. This makes the "price falls in bumper crop" become even more aggravated.

The relationship between the objects in the distribution channels of agricultural products and food (especially meat, eggs, fruits and vegetables) still had drawbacks from procurement and processing and storage stage to the distribution in the domestic market and export.

The authors would like to highlight the issue of trade intermediaries, arbitrage and discounts in some distribution chain of agricultural food and products as following:

Diagram 2: The meat distribution chain in Vietnam



Cattle and poultry meat is one of the most essential products, so the current distribution channel of meat with participation of many objects has formed and developed very spontaneously and in a fragmented way.

According to the Department of Animal Health, currently, the country has 28, 285 small-scale cattle and poultry slaughterhouses. Among these, 12 key provinces in North have 11,544 establishments, in which there are only 59 centralized slaughterhouses (0.51%).

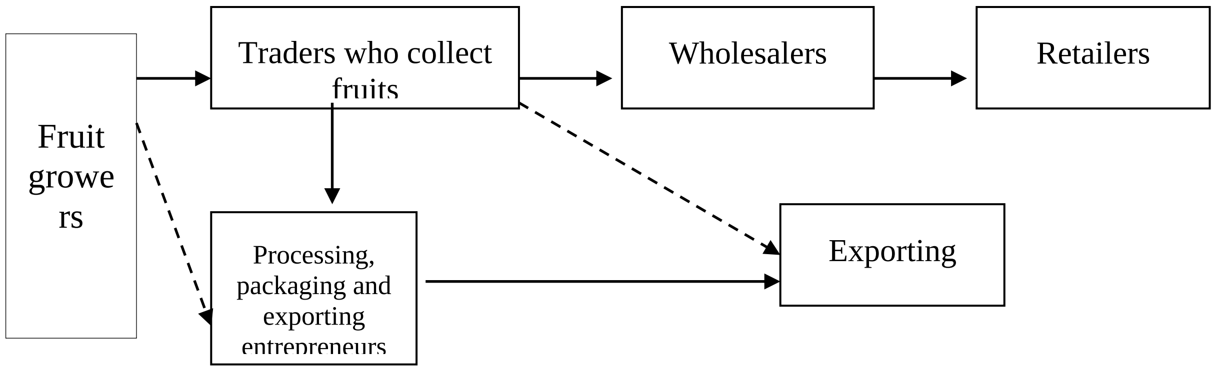
For meat distribution channels, many types of meat are generally produced and consumed in a very narrow market space. The farmers/

manufactures can put cattle and poultry meat to the local market for consumption; traders can collect, slaughter and sell right at the market or the local area neighbourhood. This distribution channel is formed randomly, spontaneously and not closely linked. It is the loose coupling, which leads to instabilities in consumption and prices because there is no preliminary information about demand from buyers. Specifically, the final price of some cattle and poultry is much overpriced compare to the price from farmers. For example is the case of pork, if it is sold through the intermediary traders in the local markets to the consumers, a pig of 50kg after splitting and selling can make 500,000 to 1,000,000 VND profit after all expenses.

In the distribution channels through centralized slaughterhouse, meat is purchased from multi-level traders before coming to these centralized slaughterhouses. For example in Hanoi, the city has built 7 industrial slaughterhouse with a capacity of 112 tons of poultry meat, 82 tons of cattle per day, but 5 centers had to decommission and two centers just used 5% of capacity. Besides, Hanoi has 8 centralized slaughtering zones but they had low performance, which the supply only met 15% of demand for poultry and 29.4% for pork. The main reason the lack of raw materials for the slaughter; besides, the slaughtering costs in centralized slaughterhouses are often higher than those of the small slaughterhouses. On the other hand, it is the habit of consumers who prefer fresh products without preservatives. For this distribution channel, the meat after slaughtering is shipped to the retail outlets. Meat prices to consumers also went up because of the intermediary steps before moving to centralized slaughterhouses.

In summary, due to the fact that livestock and poultry production in Vietnam remains fragmented small-scale household models which do not create linkages to form a supply chain of production - storage - distribution – consumption, the farmers are extorted. Besides, distributing through too many intermediary steps pushes the costs upward.

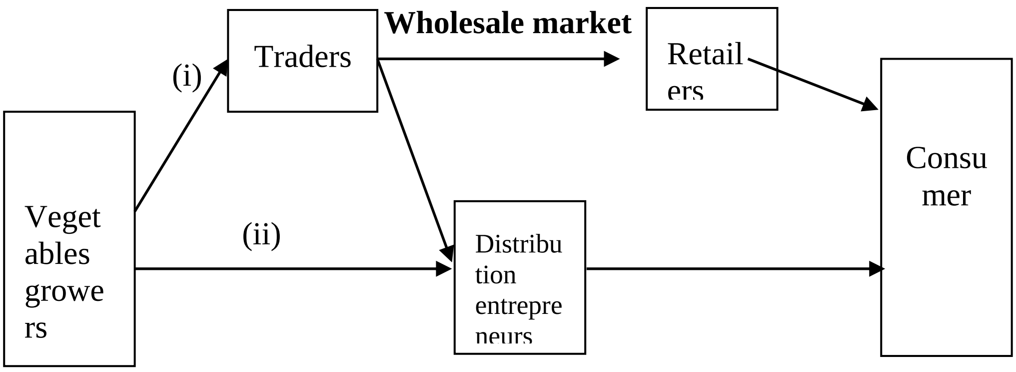
Diagram 3: The fruits distribution chain in Vietnam



Due to seasonal characteristics, low storage and processing capacity, when the fruit harvest was good, the price usually plummeted; the consumption could not catch up with the supply so it caused major damages to the growers.

The distribution channel in the domestic market still depends quite heavily on small businesses or procuring brokers with simple organizing and trading capacity; so it must go through many intermediary steps, which caused increase in cost and made it difficult to control the quality and origin. Purchasing price at the area's growing fruits had huge difference compared to the selling price to the consumer; the shoddy design and quality reduced the competitiveness of Vietnamese fruit with imported fruit. Many fruits were put preservatives and plant protection chemicals improperly with incorrect dosage, which caused unsafe food hygiene and affected the reputation and brands of Vietnamese fruit. It made Vietnamese fruits devalueright at the domestic market.

Diagram 4: The vegetables and fruits distribution chain in Vietnam



Distribution and consumption of vegetables in Vietnam are complying with 02 methods: (i) Procuring brokers directly purchase from the cooperatives, companies that grow vegetables in centralized areas, or collect from vegetables growers in the dispersed areas then bring to the wholesale markets or sell to the distribution companies, thereby continue the retail supply chain (main consumption method); (ii) The big retailers buy directly from farmers and put them into their retail supply chain.

The profitability of vegetables and fruits is not very high, but the business is very risky because the goods are quickly damaged and difficult to store; so the entrepreneurs do not want to want to make long-term investments and stick with vegetables growers. Meanwhile, a team of small traders who are more flexible with direct payments, lack of contracts, bills or documents... are easier to approach. In some cases, producers themselves transported the goods to wholesale markets or retail markets and restaurants for direct sale to consumers.

In general, the distribution and consumption system of fruits and vegetables products mostly depend on small traders and brokers who buy and take from the growing areas to the urban areas through small retailers in traditional markets and stores in the residential areas. As other agricultural products, fruits and vegetables are produced mainly by small-scale farmer households (the scale is even smaller than that of other agricultural products);so following the regulations on food safety is very unusal; the traders purchase goods from small sources so the classification and traceability of products are very limited; the small-scale business caused low storage capabilities, poor transportation, high loss ratio; distribution through many intermediary steps pushed product prices upwards, much higher than origins.

General overview:

The above analysis of two product groups show that the intermediary trade and discounts in Vietnam today are irrational; the supply chain has initially been formed but had different levels of intermediaries, traders, resulting in that selling prices of manufacturers, farmers are much lower than the selling price to the final buyer,... especially for agricultural products with the high rate of wastage. (If considered in other categories, disparity in price is similar to pharmaceutical products, cosmetic products, items in multi-level marketing system with the high discount rate, sometimes up to over 50% the value of the products...).

Based on the above analysis of the causes of intermediaries and trade discounts, the following problems need to be solved:

- Some traders are speculating and manipulating the farmers/producers/factories. For some products, due to specific characteristics of perishable or the underwriting products, the manufacturers and farmers do not sell products directly to the supermarkets or other distributors, they sell only to brokers or general agents /dealers outright. These intermediaries keep selling to the next-level intermediaries. Therefore, the Government should control the traders and the intermediaries with registry regulations or specific regulations about the maximum discount so the activities of traders and commercial intermediaries cannot be inadequate as today.

- The current production is mainly scattered, spontaneous, poorly preserved, and having much loss during manufacturing.... Due to low technology, the post-harvest loss of agricultural products in Vietnam is quite high. According to the Department of Agro-forestry, aquaculture and salt (Ministry of Agriculture and Rural Development), post-harvest losses for rice of Vietnam is among the highest in Asia, ranging from 9% -13 %; the rate for vegetables, fruit is about 25% ... While the rate of post-harvest losses of rice in Asian countries like India is only 3% -3.5%, 7% in Bangladesh, and Pakistan at 2% -10%.. .

- The organizing process of the distribution and consumption chain of many businesses and localities... was not good. The industry associations were not strong enough and they did not act as a bridge between the parties. The distribution system with too many intermediaries reduced producers' benefit and made the consumers suffer a lot.

- The role of collective economy (cooperatives, cooperative groups) in Vietnam such as trade intermediaries, the supporters to sell products for farmers and producers is not very good, although by the end of 2014, Vietnam had nearly 20,000 cooperatives and 370,000 cooperative groups. The cooperatives mainly do general agricultural services, while there are not too many specialized ones. The cooperative groups were formed to help each other mainly in technology and input or output services for production; the average scale of these groups is pretty small, commonly 10 to 30 households/organizations. In general, the cooperative groups and cooperatives are operating inefficiently and unsustainably; the majority of the cooperatives and cooperative groups work perfunctorily due to lack of funds, lack of assets and limited management skills.

- Delivery time is prolonged and the shipping cost is relatively high. (Transportation infrastructure of Vietnam is still limited so the delivery was very time consuming; shipping costs accounted for a large proportion of distribution expenditure; the logistics warehousing system in Vietnam is still not good, logistics costs accounted for about 40% of the price, the inventories/ yards/ warehouse/ habors not only are expensive but also have many complicated procedure; the shipping is slow and many implicit costs on delivery...).

- The capability of effective access and application of mechanisms to actively support for agricultural products/production and consumption to farmers, producers, associations, cooperatives, cooperative groups, businesses, and localities is still limited. Government has taken numerous measures supporting the development of production and consumption of agricultural products such as Decree No. 210/2013 / ND-CP dated December 19, 2013 on policies to encourage business to invest in agriculture and rural development; Decree No. 67/2014 / ND-CP dated July 7, 2014 by the Government on a number of fisheries policy development; Decision No 62/2013 / QD-TTg dated October 25, 2013 on policies to encourage the cooperation development, linking agricultural products production to their consumption and building big field; Decision 315 / QD-TTg dated March 1, 2011 and Decision No. 358 / QD-TTg dated 27 May 02 2013 on the experimental implementation of agricultural insurance from 2011 to 2013..., but now many farmers cooperatives or large enterprises still lack of access and applications of incentives and support from the above policies.

In the future, the State must take measures to strengthen the efficiency and reduce the intermediary steps in the distribution chain of the above goods, especially by creating appropriate mechanisms, policies and conditions for strengthening the formation and development of the agricultural supply chain: raw agricultural materials - livestock - consumed efficiently, help to reduce the intermediary steps, reduce product cost and price differences problems due to unreasonable trade discount as in the recent years. Besides, it should secure the active participation of the farmers, businesses, associations, cooperatives, cooperative groups, the leaders from the central to local levels ... to solve particularly the problems relating to trade intermediary and discounts mentioned above, and ensure reasonable benefits to the producers and the consumers.

III. Market monitoring mechanisms and market management activities of the State

1. Market monitoring mechanisms and market management activities of the State

In 2014, the formation and movement of market strongly influenced the economic rules of the market (the law of value, the law of supply and demand and competition rules) . The government, ministries and agencies with regulatory functions, had tracked and monitored marked developments, and effectively synchronized and implemented many market control solutions for price stabilisation, thus ensuring that supply meet demand of essential commodities; they also managed competition in the market, and improved policies and the legal system for managing and operating the market in 2014. This had a direct impact on the market and people's lives and contributed to reach the goals of growth to curb inflation and stabilize the macro-economy.

The following are some of the management and coordination activities for market control of the State agencies in 2014:

1.1. Market monitoring through commodity reserves, market stabilization and price controls

Market stabilization program is the program that most provinces across the country deployed in recent years. This program had contributed to develop the distribution system, help people to access good-quality domestic goods with, reasonable prices, especially focused to subjects with low incomes in industrial areas and rural areas. Market stabilization program includes a series of activities in response to the campaign “Vietnamese people use Vietnamese products”, because the goods in stabilization program are mostly domestic goods. Through the stabilization stores and the trips to bring Vietnamese goods to rural areas, industrial zones and export processing zones, people have more access to goods with high quality and reasonable price, thereby it helped to promote production and business development, as well as orient and encourage consumer habits towards the use of Vietnamese goods. The Ministry of Industry and Trade and other Ministries and agencies have directed and guided the committees of some localities to control the supply of goods on the market through the stabilizing goods reserves program, especially in the holidays and occasions or the period when the market demand rose high to limit volatility spikes, shortages, and price increases in the market.

In 2014, there were 43/63 localities that triggered actions under the commodity reserves and market stabilization program with a total aid estimated at about 1,546 billion VND, with the participation of around 300 firms, the distribution network that sell stabilizing goods developing to around 10,000 locations, total loan to commodity reserves of about 2,373 billion VND. Among those localities, Ho

Chi Minh City and Can Tho have implemented the program in a new way, totally not used the supported capital from the State budget. They connected businesses that have capital requirements to the credit institutions so the entrepreneurs could borrow loans with preferential interest rates. With abundant supply of goods from the commodity reserves and the market stabilization program, the demand of people in high season was met; and the prices of essential commodities were not as high as in the previous year, especially for food products. The market was less affected by psychological factors as the entrepreneurs shortened the service time, reduced the speculative stockpiling, and gradually changed consumption habits of customers.

1.2. Stabilization activities for some essential goods and product groups

a. Oil and petroleum products

The market control effort of state authorities for petroleum products is clearly expressed in 2014 through the promulgation of Decree No. 83/2014 / ND-CP dated September 3, 2014 of the Government on petrol business (replacing Decree No. 84/2009 / ND-CP dated October 15, 2009 of the Government on petrol business) and some circulars providing details and guidelines for Decree No. 83/2014 / ND-CP such as: Circular No. 38/2014 / TT-BCT dated October 24, 2014 of the Ministry of Industry and Trade providing details for some articles of Decree No. 83/2014 / ND-CP, the Joint Circular No. 39/2014 / TTLT-BCT-BTC dated October 29, 2014 of the Ministry of Industry and Trade and the Ministry of Finance providing regulations for calculating the base price; as well as through the formation mechanism, management and usage of Gasoline Price Stabilization and Control Fund as stipulated in Decree No. 83/2014 / ND-CP.

With the promulgation of Decree No. 83/2014 / ND-CP and two Circulars detailing and guiding the implementation of this Decree, the oil and gasoline business activities not only continue to be operated under the market mechanism with the management of the state, but also promote business autonomy of enterprises following the government's regulations; simultaneously, it ensured that state management agencies had effective investigating and monitoring powers, and harmonized the interests of consumers, businesses and the state, and moreover enhanced the competitiveness, openness and transparency in petroleum business, and contributed to closely manage petroleum distribution system, ensured stable supply of petroleum in the system, and ensured the fuel quality in the market. In particular, the new frequency and amplitude of gasoline price adjustments will make domestic oil prices promptly reflect the movements in world oil prices, in line with domestic market development.

* Here are some new features of Decree No. 83/2014 / ND-CP compared with Decree No. 84/2009 / ND-CP of October 15, 2009 of the Government:

- *The petrol price control:* In order to enhance the price competitiveness between traders, while ensuring domestic retail price to keep abreast of world prices, Decree No. 83/2014 / ND-CP regulated that the frequency of prices adjustment is once every 15 days (Clause 1, Article 38) instead of once every 10 days as Decree No. 84/2009 / ND-CP. In addition, the base price is calculated on the basis of the average world price of 15 days before the date of calculation date (Paragraph 9 of Article 3) rather than the average world price of 30 days before the calculation date as stipulated in Decree No. 84/2009 / ND-CP.

- *Amplitude of the petrol retail price adjustment:* the amplitude of the petrol retail price adjustment was revised to conform to the acceptability of the current economy, and published clearly to the customers as following:

The amplitude of the petrol retail price adjustment are: less than 3%, from 3% to 7%, over 7% (Paragraph 3 of Article 38) instead of the range of less than 7%, from 7% to 12%, over 12 % as Decree No. 84/2009 / ND-CP.

According to Decree No. 84/2009 / ND-CP, the traders had to decrease the retail prices of less or more than 12%, but, now the traders reduce the retail prices immediately when the base price is reduced. There is no limitation of the decrease rate, the interval between two reduction times and the number of reduction times (Clause 2, Article 38).

Decree No.83/2014/ND-CP also provides for the order and operating procedures for gasoline price formation, the authority and responsibility of the State management agencies in regulating gasoline prices in public and requires transparency so that the people will supervise the implementation of regulations of the agencies (Article 38).

- *Petroleum Price Stabilization Fund:* The principles, order and procedures for price stabilization stipulated in Decree No. 84/2009 / ND-CP are not clearly defined, so the operations sometimes overburdened the Price Stabilization Fund. To improve this situation, the Decree specified the principles of appropriation, usage and management of Petroleum Price Stabilization Fund: "The use of the Stabilization Fund are made when the base prices are higher than the current retail prices, or the price increases affect the economic - society and people's lives development ... " (Paragraph 2, Article 37). It also specified that only the government can decide to stabilize domestic petrol prices, and allocate this responsibility to the Ministry of Industry and Trade which is to cooperate with the Ministry of Finance to implement the price stabilisation measures in the price stabilization period (Clause 1, Article 38).

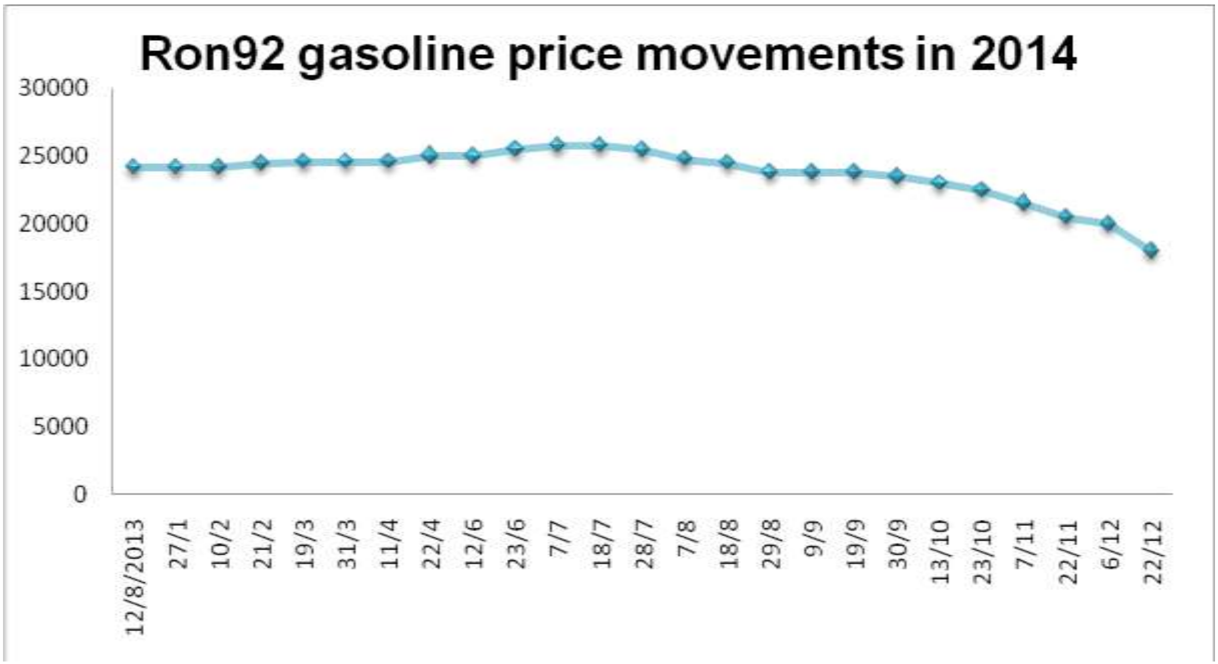
- *Petroleum distribution system:* In order to increase the competitiveness in the gasoline market, besides the petroleum business models as general agents or small agents currently prescribed in Decree No. 84/2009 / ND-CP, the Decree No. 83/2014/ND-CP adds 2 more models of new petroleum distribution methods: definitive purchase and franchising. Accordingly, it added more participants: the petroleum distribution traders (Article 13, 14, 15) can buy petroleum from many principal traders, the petroleum retail franchisees (Articles 22, 23) have to operate under the laws of franchising.

- *Transparency enhancement:* Decree No. 84/2009 / ND-CP has not stipulated the rules of publishing and transparent information about the base price, usage of the Price Stabilization Fund, and the financial statements of the enterprise. As a result, people find it hard to get information and less agree with the price stabilization. To improve this situation, Decree No. 83/2014 / ND-CP provides in Article 39 for disclosure and transparency in business administration and gasoline prices. This Article prescribes that the Ministry of Industry and Trade has to lead, in coordination with the Ministry of Finance, price management publicly, transparently and in compliance with the provisions of the Decree; The Ministry of Industry and Trade has to publish information of the world price, the base price, and the current retail price of gasoline, and the using of the Petroleum Price Stabilization Fund quarterly... The Ministry of Finance is responsible for monitoring the administration of petroleum prices and the use of the Price Stabilization Fund of the key traders. The key traders have to disclose information about current retail prices, the setting up, usage and balance of the Price Stabilization Fund of the entrepreneurs, and announce the financial statements for the fiscal year of the business after auditing.

- *Additional tool for monitoring business activities of enterprises:* The Decree regulated that the Ministry of Finance has to establish guidelines on the accounting methods and tax collection in the petroleum business, ensure the distribution of petroleum stipulated in Decree (Article 40). Accordingly, through invoices and documents, state authorities can check the remuneration and commission of petroleum dealers, only the bills prescribed by petroleum distributors are accepted for the use of business accounting; petroleum business activities of enterprises will be strictly controlled.

- *Petroleum Price:* In December 22, 2014, domestic gas prices were revised to decrease 2,050 VND per liter, bringing the price down to 17,880 VND per Ron 92 liter. This was the 13th decrease.

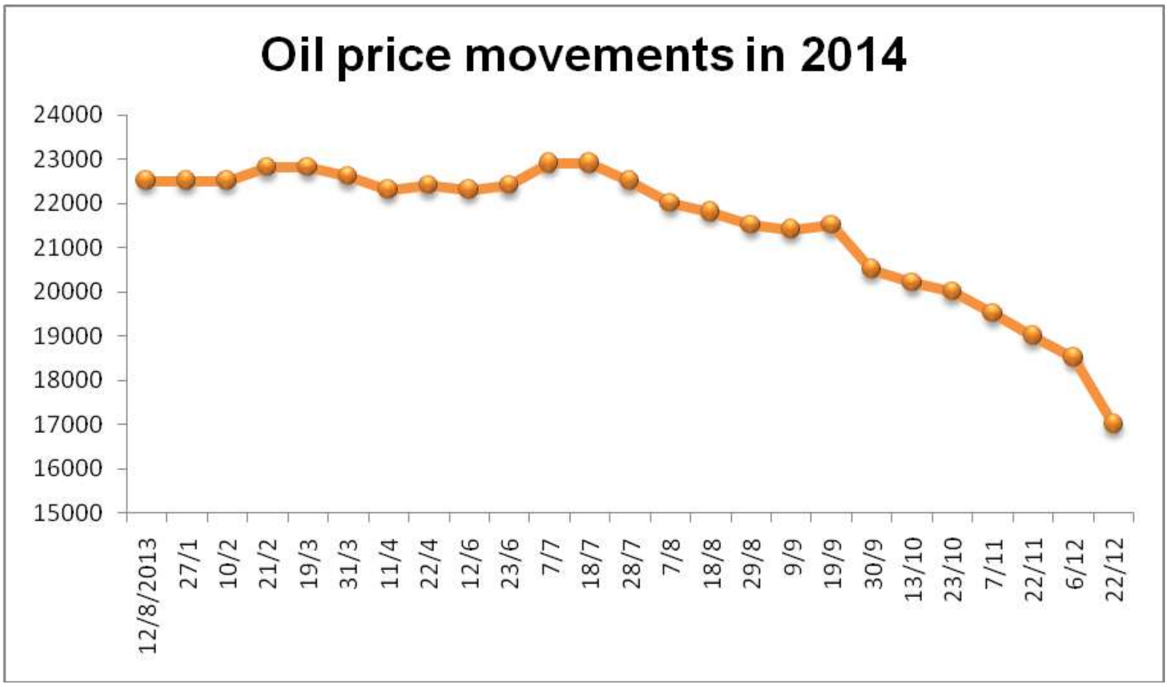
Picture 7:



Source: The Ministry of Industry and Trade

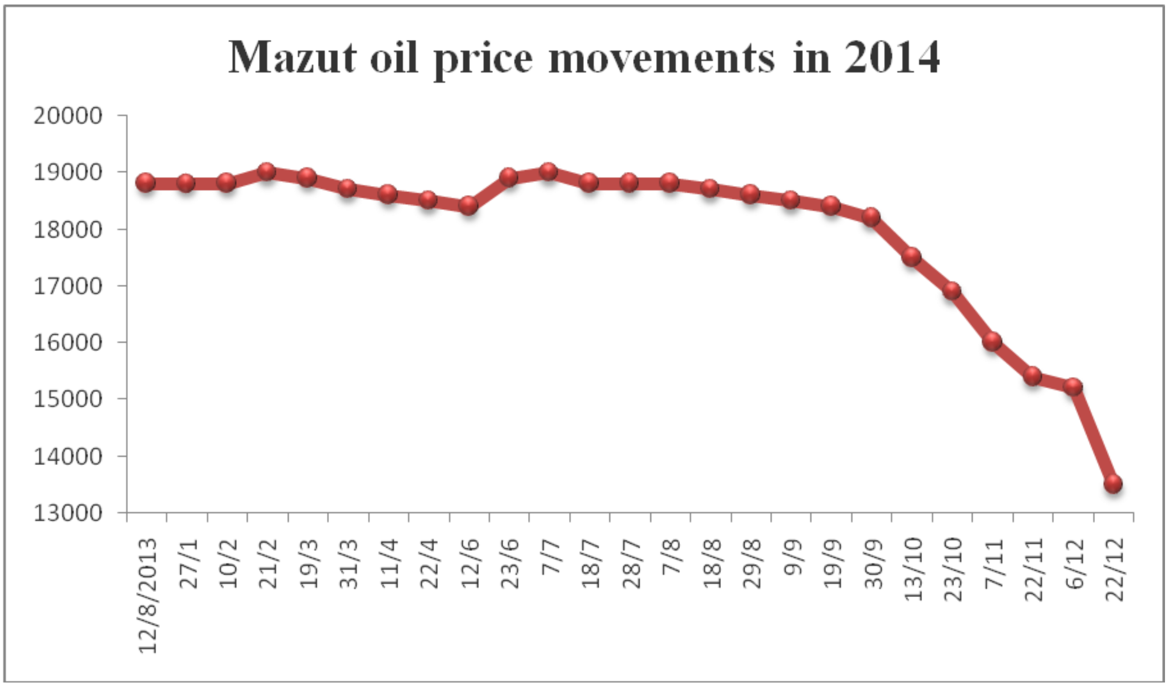
Diesel prices are adjusted down for 1,420 dong per liter; oil prices fell for 1,570 VND per liter and Mazut oil fell for 1,690 VND per kg. Thus, from the early of 2014 to the end of 2014, gasoline prices have been controlled 24 times. This was the year when price changes have occurred the most frequently ever. Compared with the end of 2013, gas prices in the end of 2014 were cheaper by 6,330 VND per liter, equivalent to a 26% reduction; diesel prices also decreased by 26% while oil prices fell 22% and Mazut oil fell 28.2%.

Picture 8:



Source: The Ministry of Industry and Trade

Picture 9:



Source: The Ministry of Industry and Trade

b. Milk

Price control and stabilization are among the market regulation methods in 2014 for milk. The Prime Minister issued Resolution 29/NQ-CP on May 02, 2014 to apply price stabilization on formula milk for children under the age of six. Detailed steps are: provide ceiling price as per Clause 7 Article 17, Law on Milk Price in 12 months; implement price registration as per Clause 4 Article 17 Law on Milk Price in 6 months.

Several price stabilization steps on formula milk for children under 6 years old (stipulated in Decision 1079/QD-BTC issued on May 20, 2014 by the Ministry of Finance):

Ceiling wholesale price: Ceiling wholesale price is applied to 25 milk products. Based on that, the institutions and individuals who produce and trade with milk (institutions & individuals in short) are responsible for defining ceiling price as instructed:

- For other milk products currently circulated on the market, the institutions and individuals would refer to general pricing guidelines issued by the Ministry of Finance and compare that with ceiling price, then redefine ceiling price and submit it to the competent price regulatory authority.

- For new, uncirculated products, the institutions and individuals would refer to general pricing guidelines issued by the Ministry of Finance and compare that with ceiling price of existing, marketed milk products, then define ceiling price for new product and submit it to the competent price regulatory authority.

Retail ceiling price: Retail ceiling price is determined by wholesale ceiling price plus relevant expenses instructed by a competent price regulatory authority, which would not exceed 15% wholesale ceiling price. Retail institutions and individuals have to register the price under the provisions of Decree No. 177/2013 / ND-CP dated November 14, 2013 of the Government on specifying and guiding the implementation of some articles of the Price Law, based on the provisions in Decision No. 1079 / QD-BTC and instructions from the competent price control authority to determine the maximum retail price and send to the agency competent to manage prices. In addition, during the implementation of regulations on maximum prices for dairy products (including the maximum price announced), if there are factors leading to change, based on market movements, price formation basis, actual production costs of the institutions and individuals, the management agencies will consider adjusting prices. Where there is a feedback from the organization or individual, the management agencies will investigate and resolve within 5 working days after getting enough information. The Decision also specified the responsibilities of institutions and individuals, in particular as following:

- Based on this Decision, institutions and individuals producing and trading dairy products have to determine the maximum wholesale prices, maximum retail prices, then send to the authority competent to price management so they can get the base to follow the price registration rule. When the maximum price sent to the price management authority were approved, they should register the price as stipulated in Decree No. 177/2013 / ND-CP dated November 14, 2013 of the Government on specifying and guiding the implementation of some articles of the Price Law as well as follow the guidelines of the Ministry of Finance. At the same time, they have to publish the price at the headquarters, the locations selling the products, the distribution channels (for a maximum wholesale price) as prescribed.

In 2014, the management authorities announced the maximum price and registered price of 606 dairy products for children under the age of 6 years. The price of milk for these children fell from 0.1 to 34% on the product types compared with the period before the state took measures to stabilize prices. It is evident that thanks to the Government policy management, along with the coordination between the ministries, branches and localities to focus on effective implementation of measures to stabilize the dairy products market, in 2014, prices of dairy products in the market was initially closely supervised, gradually stabilized and created positive impact to consumers in this year.

c. Sugar

Over the past few years, supervision, allocation and taxation of sugar were applied under Decree 12/2006/ND-CP issued on January 23, 2006 by the government, making detailed provisions for implementation of the commercial law with respect to international purchases and sales of goods; and agency for sale and purchase, processing and transit of goods involving foreign parties (this Decree is now replaced by Decree 187/2013/ND-CP issued on November 20, 2013) and WTO accession commitments by Vietnam.

As agreed upon with the Ministry of Agriculture and Rural Development and the Ministry of Finance since early 2014, the Ministry of Industry and Trade issued Circular 08/2014/TT-BCT on February 02, 2014, stipulating import quota and duty for sugar, salt and poultry eggs for 2014. Accordingly, 2014 quota for sugar was 77,200 tons. The allocated import should be used as input material or refinery input (for sugar producer). Quota allocation time was as per proposal by Ministry of Agriculture & Rural Development.

Accordingly, the Ministry of Industry and Trade and the Ministry of Agriculture and Rural Development agreed to allocate 2014 quota in September 2014 after 2013-2014 sugar production season to avoid any impacts on domestic consumption. Detailed allocation quota for 77,200 tons is as follows: 40,000 for refinery and 37,200 tons as input material for food and medication production.

The allocation principles and criteria were upheld transparently and openly in compliance with principles committed along with WTO accession, particularly based on demand, production capacity and performance of previous year's import.

However, import management scheme should be developed soon to catch up with actual production context and to comply with Vietnam's WTO accession commitments.

d. Rice

During high supply periods, rice and paddy prices reduce drastically to balance supply and demand and stabilize the market. MOIT has worked with MARD to provide Government with recommendations on supporting food companies in collecting and stocking rice. Accordingly, PM issued Decision No. 373a/QĐ-TTg dated 15 March 2014 regarding procurement and stocking of paddy and rice for Winter-Spring season in 2013-2014. Under this Decision, State Budget will cover 100% loan interest for paddy and rice stocking over a maximum period of 4 months since 20 Mar 2014 until end of 20 July 2014 in order to save paddy rice from strong decline so that farmers can make profit and feel at ease to produce.

Government's policy to support rice stockpiling is a solution to stabilize prices and regulate the market, preventing price drops, yet it's still an indirect assistance for farmers via saving rice and paddy prices during high season. Hence, rice market development measures might be seen as a long-term solution to stimulate and stabilize production, minimizing farmer risks while enhancing their profits.

Besides such essential commodities, flexible regulations are also undertaken for each group in a consistent and timely manner to adapt with market developments.

- Construction materials

Real estate market is showing initial signals of recovering after Government provided direction on implementation of market regulation measures via a preferential credit package of up to VND 30 trillion for low-income house buyers (expanding population applicable for this lending program, increasing accessibility to credit). The construction materials (steel, cement...) market is becoming busier. It's estimated that sales of construction steel and cement increment by 9.75% and 9.88% respectively, while cement and clinker exports go up by 36%. The prices generally tend to decrease slightly thanks to lower or stable input costs (steel and cement).

- Agro products

Favourable weather, good disease control and abundant food supply have contributed to stable food and foodstuff situation (a key segment in CPI structure), helping restrain overall national CPC growth. However, many agro-products face difficult consumption with downward trend in prices, especially in the first six months, which affect rural life and production as well as social welfare. This is the result of decreasing demand for export and domestic consumption while capacity for storage, preservation and processing is very limited. To solve such problems, line ministries and local governments have provided timely support such as stockpiling, implementing programs to connect supply and demand, and other domestic and external trade promotion activities... upon low prices to sustain market supply.

In May 2014, MOIT led an effort in cooperation with MARD to conduct field-trip missions to actively study the fishery production and consumption across Central provinces (i.e., Da Nang, Quang Nam, Quang Ngai, Phu Yen, and Binh Dinh) as soon as complications emerged in the East Sea. It helped review and assess the situation while coming up with solutions to low consumption. Border congestion for some agricultural commodities exported from Vietnam was timely handled, such as cassava, fresh lychee, dragon fruit, watermelon at the Lang Son border gate to China. Getting aware of the situation, MOIT immediately requested Border Trade Steering Committee of Lang Son province and relevant local Departments of Trade and Industry to collaborate closely and effectively to deal with the situation. At the same time, MOIT also worked with the relevant authorities in China to agree on measures by both sides to facilitate customs clearance and release congestions warehouse and border gate areas. Therefore, supply and demand and prices for such commodities could be quickly stabilized.

- Fuels

Domestic demand does not rise due to slow economic recovery (LPG down by approximately 2%; oil and gas no change). Fuel prices (oil & gas, LPG) fluctuate; yet tend to decline significantly compared with early 2014. Domestic oil and gas price regulations have been closely linked with world price developments, and the flexible combinations of further tools, such as taxes and stabilization fund (for oil and gas), have served the priority to control inflation while ensuring stable macroeconomics, facilitating domestic production, business and consumption. It can be said that price management, stockpile of goods and market stabilization efforts have made extensive impact and kept prices on track, reducing price increase pressure in big cities during inflation periods.

1.3. Market regulatory actions through matching demand and supply

In 2014, market regulatory actions through matching demand and supply between producers / manufacturers and suppliers were promoted to establish a stable and long-term supply chain, especially for local produce / specialties. Initial reports indicate increase in participants, signed contracts and consumed produce. Many companies managed to reach out and put farming produce manufactured industrially on traditional and new distribution channels. Certain implemented actions produced positive results:

Facing downstream difficulties for farming produce mid 2014, litchee, which is to be harvested and consumed in a short time span, the government and local agencies managed to coordinate well in matching demand and supply and the outcomes were positive:

On June 16, 2014, the conference "Promotion for Litchee Consumption in 2014" was held in Ho Chi Minh City along with executing agreements between Bac Giang Department of Industry and Trades and 11 Departments of Industry and Trades of Southeastern and Southwestern provinces, and between People's Committees of Luc Ngan (Bac Giang), Thanh Ha and Chi Linh (Hai Duong) and 6 southern supermarkets and wholesale markets, including Binh Dien, Hoc Mon, Thu Duc (Ho Chi Minh City). Total yield was 242,000 tons in 2014, increasing by 27.3% from 2013. Through supply – demand matching activities, domestic consumption increased considerably, with 60,000 tons, or 43.5%, in southern market, which strongly relieved pressure during peak season. Also, in August and October 2014, the Ministry of Industry and Trades coordinated with People's Committees of many provinces in matching demand and supply for typical farming produce on regional markets. They are now available in most supermarket networks and traditional markets. These activities are also implemented for unique products such as Phu Quoc fish sauce, with its geographical indicator, to support companies in expanding consumption market (the Ministry held an execution ceremony between Phu Quoc Fish Sauce Association with distributors such as Hanoi Trade Corporation, Dong Xuan JSC, Big C, Ocean Mart, Nhat Nam etc. to promote consumption). The conference "Demand – Supply Matching for Ho Chi Minh with Other Provinces in 2014" was held in October 2014 to support SMEs, cooperatives and local households who have development potentials but lack promotion and penetration strengths in seeking distributors. Over 300 sales contracts were executed at the conference.

Apparently, the alliance between government agencies and local companies in demand – supply matching plays an important role in regulating domestic markets.

1.4. Market regulatory actions through competition management

Besides demand, supply and pricing factors, the market economy is also controlled by the market rules of a competitive environment. As a regulator / mediator, the government should implement fair and wholesome administrative actions to ensure smooth run of the market economy and a nurturing environment, i.e. creating and formalizing appropriate policies and legal frameworks for competition management.

Competition Law was enacted on the 6th Congress of the 11th National Assembly in 2004 with a view to: controlling activities that restrain or have the potentials to restrain competition, especially in the wake of opening market and integrating to world market; protecting rightful operation of the companies and fighting against unfair competitive actions; creating and maintaining a keen competitive environment. The Law accordingly divides regulated actions into two categories: competition-restraining practices and unfair competitive practices. For competitive-restraining practices, there are three subcategories: competitive-restraining agreement, abuse of dominant market position and monopoly position, and economic concentration. Unfair competitive category comprises 10 practices: misleading instructions, infringement of business secrets, coercion in business, defamation of a competing enterprise, etc. as stipulated in Clause 4, Article 3 of the Law.

2014 saw the recovery of the Vietnamese as well as major foreign economies. With busy competition activities come more anti-competitive practices, especially in trade. Therefore, the Vietnamese government issued Decree 71/2014/ND-CP on July 21, 2014, stipulating on penalty against competition violations in replacement of Decree 120/2005/ND-CP, dated September 30, 2005 on penalty against competition violations. Decree 71/2014/ND-CP introduced new regulations on penalty calculation for competition-restraining and unfair competitive practices, increasing penalty against unfair competitive practices and authority of the competition-controlling agency.

In 2014, government agencies carried out pre-proceeding investigations into practices with violating potentials against Law on Competition on several markets, including construction, porcelain, films, milk, gas and cement.

Table 7: Competition Restraining Cases 2006-2014

	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**Total**

Pre-proceed inv.	5	3	7	7	10	10	14	12	10	78
Proceed	0	1	1	1	1	2	1	0	1	8
Convicted	0	0	0	1	2	0	0	1	1	5

Source: 2014 Annual Report by Viet Nam Competition Authority, MOIT)

This new Decree 71/2014/ND-CP is expected to improve application and enforcement of competition law, the role of government agencies, and market economy.

1.5. Market regulatory actions through trade promotion

Domestic Trade Promotion Program stipulated in Decision 529/QD-TTg issued on April 24, 2009 by the Prime Minister is considered a breakthrough in stimulating domestic consumption, including through bringing goods to the countryside, organising farming & handicraft fairs in the North and the South, and holding conference on farming produce consumption etc. As a continuation of the 2009 Domestic Trade Promotion Program, the Prime Minister issued Decision 72/2010/QD-TTg on November 05, 2010 as new Guidelines towards Development, Management and Implementation of National Trade Promotion Program, aiming at improving trade promotion activities, developing domestic market, trade in mountainous, border & island regions, including bringing Vietnamese goods to the countryside, regional farming fairs etc. The Ministry of Industry & Trade approved 268 projects in 2014 at the cost of VND 108.75 million to uphold this program, introducing meaningful and feasible initiatives such as developing market, export products, international and domestic information, promoting trades for economic regions, especially domestic regions to establish distribution channels in rural, mountainous, island and difficult areas. Such downstream activities helped companies and cooperatives approach domestic consumers, promote their good, diversified and reasonably priced products and improve outcomes of the "Vietnamese consume Vietnamese products" movement initiated by the Politburo. The National Trade Promotion Program also had direct impacts on companies, especially those in agriculture, fishery and processed foods because their difficulties are resolved, new markets are found and domestic markets are covered. In total, 2014 national trade promotion activities helped 3,870 companies with 7,102 kiosks, with $300 million worth of contracts executed, 1.8 millions of visitors / buyers, and over VND 250 billion revenue.

2. General assessment

2.1. Achievements

In general, the role of the government in market regulation was improved, and the method became more flexible with better coverage:

- Transparent and open implementation of goods storage, market stabilization and price control gained consumers' trust and mitigate inflation risk due to consumption psychology. Macroeconomic market regulations introduced by the government have become more suitable for market economy requirements as well as international economic integration commitments.

- Basically, necessities among many other goods are freely and openly traded as per market rules. The domestic markets therefore experienced meaningful changes that allowed production to better meet consumption demands of consumers. Besides, unique products such as gas, petroleum, milk, sugar etc. were organized in their own manner to ensure stability and meet domestic demands.

- The government's macroeconomic regulation has improved in primary tools such as legal, administrative, market-oriented information etc. These tools became important contributors to stable, fluent and healthy development of domestic markets.

2.2. Shortcomings

Regulating markets and trade pose several shortcomings, such as insensible and overlapping management mechanisms at all levels, which halted monitoring and observation of the market.

Market investigation and control teams were weak, scattered, overlapped, while sanctions against violations were insufficient. Monopolies, oligopolies, unfair price competition in several industries, were not under control and have thwarted consumers' interests.

Implementation of transparent and open price information, market price control etc. in order to achieve public consent and monitoring was improperly improved.

SECTION II

TRADE AND INVESTMENT DEVELOPMENT POTENTIAL IN DOMESTIC MARKET IN 2015 AND BEYOND

I. Domestic and international context

At the beginning of 2015, the domestic and external market and trading conditions continue to present a mix of opportunities and challenges to Vietnamese enterprises and other economic operators. Given the current uncertain globalization context, the difficulties, advantages, opportunities and challenges interact with each other without any fixed and obvious boundary. It requires the countries in the world in general and Vietnam in particular to improve the ability of capturing the situation as well as uplifting internal capabilities to leverage opportunities and advantages, at the same time addressing limitations and overcoming challenges. The following sections seek to identify and address key issues from the domestic and international context which have impact on the macro-economic development of Vietnam in general and the trade development in domestic market in particular in 2015 and the years beyond.

1. International situation

1.1. The world's economy tends to further recover but at slow and inconsistent rates

It is projected that the global economy will continue to evolve in its recovery path in 2015-2016 but still faces major risks and unexpected challenges. Thus, to mitigate risks and deal with challenges in order to maintain economic and financial stability for long-term, it is necessary to strengthen the coordination of international policies.

According to the UN[7], the world economy is expected to grow by 3.1% and 3.3% in 2015 and 2016 respectively, with a Chinese economic growth rate forecasted to be 7% and 8% respectively in those two years. The emerging economies, such as China and India, will be important drivers of global economic growth. Developed countries' economies will continue to grow at different paces, with the US economy projected to grow by 2.8% and 3.1% in 2015 and 2016 respectively. The economic outlook of Eurozone is not really bright, many Eurozone countries still being on the edge of recession. The driving force of Japan's economy - thanks to the loose monetary policy nick-named "Abenomics" - is disappearing.

The economic situation of developing countries and emerging economies will continue the tendency of noticeable changes which have been made in 2014: fast deceleration of the economies of Latin America, Russia and Commonwealth of Independent States; while the economic growth tendency emerges in South Asia with India as a representative; the maintenance of growth

[7] United Nations : *The world's economic situation and outlook in 2015*, New York, 2014

driver in the overall African economy at the rate of 4.6% and 4.9% in 2015 and 2016 respectively. East Asia is still the fastest growing region of the world and East Asian economies are expected to maintain the tendency of strong consumption by residents and improved exports. It is projected that the economic growth rate of the region will be 6% in 2015 and 2016.

The IMF predicts the world economy will recover strongly in 2015 with expected global growth rate of 4%, an increase of 0.6 percentage points against the growth forecast of 2014. The OECD's forecast of late November 2014 has lowered the expectations of the global economic growth to 3.3% and 3.7% in 2014 and 2015 respectively.

Overall, since the global economic and financial crisis of 2008, the world's economy is expected to continue to recover in 2015 and 2016. Despite slower growth compared to several years ago, Asia is still a key growth driver of the global economy.

1.2. Inflation and oil prices are key factors of the world's economy

In 2015, two notable factors, which are considered the biggest influences over the policies of economies in the world, are inflation and oil prices. The inflation is the underlying reason why the Federal Reserve System (FED) (insisting on the low record interest rate of ~0%) and ECB accelerate the execution of extraordinary measures, while the Japanese Central Bank continues to loosen its monetary policy. The inflation also allows China and India to take economic stimulation measures until the growth recovers.

In the meantime, the fluctuations of crude oil price will affect significantly both oil importing and exporting countries. While some countries benefit from falling oil prices, many other countries suffer from it, especially those having the main income source from crude oil export such as Russia, Venezuela and Iran, etc. The falling crude oil price has two faces: although it will stimulate higher consumption expenditures, it also has negative impacts on the income sources of oil exporting countries. Lower oil price may cause damages to crude oil exporting countries but overall it is good news to the world's economy, says the IMF. The estimated crude oil price decline will bring ~0.8 percentage points of growth to the majority of advanced economies as they are oil importers. ADB also points out 50% reduction of oil price since June 2014 and reform effort will support the growth momentum of Asian economies. The oil price below the threshold of 60 USD per bucket will be beneficial to the economic growth of Asia and help oil importing economies in South East Asia such as Thailand, Philippines and Indonesia save more costs.

1.3. The world's commodity market is expected to discount prices of key commodity categories

According to the World Bank's report on the commodity market outlook 2015, the global market in 2015 will witness the reduction of price indexes in a number of key product categories. Apart from lower oil prices, other categories will also reduce their prices as result of domino effect and the reduction will be maintained in 2015 with better market signals expected to start from 2016.

According to the World Bank, the global industrial commodity index including energy, metals, mineral and agricultural materials has been decreased since early 2011 which was equivalent to over 35% price decrease of each category by end of 2014. The prices of precious metals are expected to decrease by 3% in 2015. Once again, the world witnesses the supply-demand imbalance when supply exceeds demand along with stronger US dollars, which have affected the prices of commodities.

Food prices have decreased by 20% since 2011 and will potentially further decrease by more 4% in 2015. On a positive note, the World Bank forecast positive outlook for cereal, cooking oil and beverages, particularly coffee, in the 2014/2015 season.

According to the World Bank, the current falling oil prices – similarly to the oil price crisis of 1985-1986 – are due to oil surpluses from many supply sources and OPEC's decision on allowing oil price to fall freely by keeping output. The oil price in 2015 is projected to average 53 USD per barrel, 45% lower than in 2014. The significant price decline has affected the commodity prices in the world, particularly natural gas, fertilizers and many food products.

Metal price is expected to decrease by 5% in 2015, a moderate decrease compared to the previous forecast for fertilizer and metal industries. The estimated decrease of metal price by 3% will make investors less interest on the commodity. The regulation of natural gas price is expected to the reduction of fertilizer price by 2%.

Apart from oil price, international commodity agreements have also affected the world's commodity index. Commodity agreements are aimed at stabilizing and balancing prices between producers and consumers. The international agreements, including those on coffee, cacao, sugar, tin and natural rubber, in late 20th century have significantly impacted on commodity prices and the economies in overall.

In addition, the supply management policies at international level for subsidy have contributed to the emergence of new suppliers or leading suppliers in creating substitute products. Such change has not affected significantly oil price but the market of other commodities. World Bank predicts that there is possibility of increasing commodity prices in 2016 but not dramatically compared to the existing strong decline and maintaining in 2015.

2. Domestic situation

2.1. Macroeconomy continues to be stable, inflation is projected low with high growth rate

Amidst fluctuating and unfavourable socio-economic and political situation in many countries and regions in the world, the Asia-Pacific region continues to be a dynamic growing region with stable and higher growth potential compared to other regions in the world. Vietnam is one of typical representative of countries in Asia Pacific, who maintains its stability, addresses the issues through tailored macro-economic policies and constantly working on building a more open and more favourable business/investment environment. Thus, Vietnam continues to successfully attract investments for its development, including foreign direct investments (FDI), which is an important element in the capital structure for the country's economic development.

Despite difficult and complex situation of the region and the world in 2014 and over the past years, Vietnam has maintained its concrete socio and political stability. It is a fundamental foundation for its economy to keep relatively high growth rate (over 5.7 per annual in the period 2011 - 2014 and 7.5% per annual in the next 10 years) and reflects fast growth tendency in coming years.

Based on the economic performance and achievements of 2014 as well as the impacts of the international and domestic context, 2015 is expected to be a positive year for Vietnam's economic development. The macroeconomy will continue to be stable; inflation is expected to be low while the economic growth rate will increase. Thus, Vietnam will realize successfully specific targets of economic development in 2015, i.e. the CAGR of GDP will be around 6.2%; the growth of exports in value will be in the range of 10%; the net import ratio over export turnover is forecasted at 5%; the growth rate of consumer price index (CPI) will likely be 5%, and total development investment of the society is predicted to be 30-32% of GDP.

2015 will be the last year in the implementation of Vietnam's 5-year Socio-economic Development Plan 2011-2015, an important pre-condition to start implementing the next five year socio-economic development plan of 2016-2020 and achieve the objectives of the overall 10 year socio-economic development 2011 - 2020. Thus, the objectives, solutions and resources, etc. for socio-economic development in 2015 have been identified with strong determination and efforts to ensure the best realization of the objectives set by the Central Party and National Assembly in the plans and strategy.

2.2. The institutional reform in general, and the adoption of the Investment Law and the amended Enterprise Law in particular, effective since July 2015 are strong facilitators of the business and investment activities

Over the past years, and in 2014 in particular, a number of legal and institutional frameworks of economic, trade and investment activities in Vietnam have been reviewed, supplemented, amended and finalized to further strengthen the foundations of the market economy and market institutions, identifying clearly the role of the State. The positive institutional changes include e.g. the clear determination of the scope of prohibited industries; further simplification of, and lifting the barriers to market entry; establishing the mechanism allowing enterprises to freely undertake business activities in all permitted sectors, facilitating enterprises to promote fully their business potential and opportunities for development, etc.

In the meantime, the amendment of the Investment Law and the Enterprise Law, which have been recently promulgated by the 13th National Assembly at the end of 2014 through the selection process, is one of important and typical marks of the process. According to the assessment of many forums held over the past time as well as of the Report development team, it can be said that the laws are the outputs of a comprehensive and breakthrough institutional reform, opening investment and business environment, improving national competitiveness and becoming a nudge for the economy in coming time. Therefore, the laws will potentially create open legal framework and business/investment environment, attracting institutions and individuals to be more involved in business and investment activities and driving stronger and sustainable development for Vietnam's economy in coming years. However, the matter of concern at the moment is the accelerated and effective guidance of enforcing the laws because they will be officially effective as of 1 July 2015.

2015 will undoubtedly continue to witness robust implementation process of institutional reform in Vietnam with the determination that it is a fundamental impetus for renovation and economic development. It is also the commitment affirmed by the Prime Minister Nguyen Tan Dung in front of the international community and Vietnam's business partners at the Development Forum (VDF) 2014, in which institutional reform is defined as the first priority task of decisive significance to the business environment and competitiveness of the economy and each enterprise.

As planned, in 2015-2016, Vietnam will continue to amend a number of important laws, e.g. the Civil Code, the Law on the Organization of the Government, the Law on local government organizations and the Law on the promulgation of legal documents, etc. These are the laws creating fundamental framework conditions for the market economy. Specifically, the Law on Organization of the Government and the amended Law on local government organizations are expected to re-define the role, functions, structure, state and market management mechanism, handling thoroughly the issues of market interference and distortions, which do not promote competition in the market by reforming management practices and influences of state authorities and local governments. Along with the Law on Organization of the Government, the Law on local government organizations, the amendment to the Civil Code and the Law on the promulgation of legal documents, will further strengthen the economic institutional system of Vietnam, by addressing effectively the existing challenges, and further promoting healthy competition in domestic markets and ensuring an open and more favourable business environment.

2.3. New free trade agreements and the formation of ASEAN Economic Community in 2015 will create a new wave of investment, including

investments in the distribution sector in Vietnam; along with that, the phenomenon of M&A might increase

In 2015 the deep and comprehensive integration process of Vietnam will continue with the implementation of the commitments in the signed bilateral and multilateral trade agreements. At the same time, the Government will prepare for participating in other economic and trade agreements, which are under negotiations and approaching the final stage.

For the agreements already signed by Vietnam, 2015 will be the year of implementation of commitments opening the market for substantial inflow of commodities under other FTAs signed by Vietnam, including the completion of tariff exemptions for 90% of goods imports from ASEAN countries. Thus, approximately 9,000 categories of commodities imported from ASEAN countries will be exempted of import taxes. In addition, 2015 will be the year marking important changes in the deeper implementation of Vietnam's commitments under previously signed trade agreements, particularly within the WTO, under ASEAN+, etc. under which thousands of commodities imported from major trading partners, such as China, Japan, Korea and New Zealand will be imported duty free into Vietnam, while thousands of other product categories will enjoy tax reductions. As a result, the effects of the market openings in 2015 under the WTO accession terms and FTAs on the domestic market will be significant. However, attention should be paid to the plans of expanding the system of distribution channels on Vietnam's market accompanied with the open flows of goods imported into Vietnam.

In 2015, Vietnam will implement its commitments under the recently signed free trade agreement with Korea, and the free trade agreement with the Customs Union of Russia, Belarus and Kazakhstan. As the most important development, the completion of the ASEAN Economic Community by the end of 2015 will bring about a market of 600 million people, accounting for 64 % of the world population and 37 major partners.

Along with above, 6 bilateral and multilateral trade agreements (FTA) are expected to be signed in 2015 with the participation of major partners marking major milestones in a year of dynamic economic integration of Vietnam: the conclusion of the FTAs with the EU, with the Customs Union of Russia, Belarus and Kazakhstan (the VCUFTA), with EFTA, the Regional Comprehensive Economic Partnership (RCEP) and the Bilateral Trade Agreement with Korea. Also notable will be the Trans-Pacific Partnership Agreement (TPP).

Thanks to the active integration process and strong commitments in creating an open, favourable and fair business environment for foreign investors as well as continuously improving the legal and institutional reforms for business activities, Vietnam continues to enjoy trust and is a reliable and attractive destination for foreign investors. As of end December 2014, the total number of valid FDI projects in Vietnam was about 18,000 with total actual investment of ~USD 250 billion. There are approximately 100 countries and territories having investment projects and over 100 leading multinational corporations in the world having presence in Vietnam. In 2013, the FDI into Vietnam was more than USD 22 billion, representing an increase of 35% compared to 2012; due to difficult situation in 2014, total attracted investment was over USD 20.2 billion.

With the shift of investment flows in the world, Vietnam is considered to gradually occupy the "hot spot" in Asia in attracting foreign investors, especially in the manufacturing sector. While the Chinese economy is growing slowly and labor costs are increasingly expensive, Vietnam has become an attractive destination for foreign investors. Also thanks to that, Vietnam will be able to better compete in the global value chain

Vietnam is continuing to be a major destination of foreign investment thanks to the strong fundamentals of its economy and the continuously improving trading conditions and investment environment. With the market attractiveness of Vietnam, foreign investments are flowing strongly into the economy, especially with the increasing participation of the world’s leading corporations, such as Samsung, Intel, Honda, LG, Microsoft or Canon. Along with the FDI flow into Vietnam over the past years, hundreds of the world’s major multi-national corporations have chosen Vietnam as a long-term investment destination. Many corporations have decided to build large technology complexes in Vietnam, which are considered as important production and distribution bases on their global business map.

The economic integration process mentioned above is expected to be able to create a new wave of investment into the Vietnamese market, including investments in the distribution sector, which is considered to be an attractive potential sector for foreign investments. In addition, the phenomenon of M&A is expected to increase. The process of partnership and M&A in the retail distribution sector is expected to remain vibrant with many strategic calculations of both foreign investors and domestic distribution enterprises.

The most notable of the trend is the acquisition of Metro Cash & Carry Vietnam by Berli Jucker Corporation (BJC) of Thailand, consisting of 19 distribution centers and related property portfolio with total value of 655 million euro (or USD 879 million). This can be seen as the hottest M&A deal of FDI sector in 2014 in Vietnam. The acquisition of Metro by BJC is also considered to heat the M&A trend of Thai investors into Vietnam’s market. Previously, Siam Cement, a Thai investor, acquired 85% stake of Prime Group, at the same time other M&A plans have been processed. The procedures of Metro acquisition are being completed to officially announce in 2015, said BJC. Most recently, early days of 2015 witnessed Nguyen Kim, one of the biggest electronic appliance chains of Vietnam sold 49% stake to Power Buy, an electronic appliance business under the leading retail corporation of Thailand, Central Group.

Many suggested that the above M&A deals reflect that FDI enterprises will tend to gradually dominate the retail market of Vietnam, however a more careful and balanced assessment of the on-going trend is warranted. Whilst Vietnam committed under the GATS and other trade agreements to open gradually its distribution services, in practice foreign investment in retail is maintained under control through detailed plans of partnership form and percentage as well as permitted commodity categories for business and distribution. At the same time, foreign retailers' opening more than on store is subject to Economic Needs Test. In the trade and investment agreements currently under negotiation, Vietnam follows the principle of step-by-step market openings. Currently, the foreign retail base accounts for more than 7.5% and generates ~3.4% of domestic retail revenue (compared to ~3% five years ago).

In sum, in spite of the opportunities resulting from Vietnam's integration and greater market openness as well as better market access to partner countries, the challenges for Vietnamese enterprises in reaping the benefits of trade and investment liberalisation seem substantive. One major matter of concern is the level of awareness of domestic enterprises of the integration process in general and the liberalisation commitments in particular. More important is whether the information has been adequately communicated to enterprises. While the signed FTAs are the results of tough negotiations of the Governments and ministries, the communication to enterprises about what to do, what to prepare and how the State supports, etc. should be taken into consideration in due time.

2.4. Requirement for institutional reform, economic restructuring and business environment improvement will be stronger in 2015.

Since 2011, Vietnam began to basically redirect its policies towards stabilizing the macro-economy, increasing sustainability and efficiency of economic growth by reallocation of fundamental resources such as capital, labour, natural resources, land, etc. with focus in 3 core issues being state-owned enterprises, finance-banking system and public investment.

After three years of growth model renovation, economic restructuring and macro-economy stabilization, there have been signs of remarkable progress such as lower inflation rate, positive current account balance and balance of payments and increased foreign-exchange reserves, bringing back confidence for investors and enterprises. This can also be recognized through the credit ratings by international agencies. In production industry, the economy is recovering at a faster pace, especially in two indicators: PMI (purchasing manufacturing index) from September 2013 until December 2014 are constantly above 50, meaning that the manufacturing industry is making good progress; IIP (index industry products) is also on rising trend compared to the same period of previous year. Economy growth is also reflected in export growth (a rise of 14-15% in 2012 - 2013, and 13.6% in 2014). Remarkably, export of domestic enterprises grew by 10% in 2014.

In UNCTAD's World Investment Report of 2014 Vietnam ranked 9th in terms of investment attraction, an increase of 2 positions from 2013. Besides, according to a survey of 200 multinational corporations by Frontier Strategy Group (an US consulting firm) in 2014, Vietnam was in the top three countries among the small emerging markets being most targeted for investment in the coming years.

Despite these achievements, it is required that institutional reform, investment climate improvement and economy restructuring to be stronger in 2015 and the following years. 2015 can be considered as the milestone year on the pathway to achieve the strategic goal set by the Master Plan on economic restructuring in association with changing the growth model toward higher quality, effectiveness and competitiveness during 2013-2020, approved in Decision 339/QD-TTg dated 19 February 2013 by the Prime Minister. As mentioned above, although the two years of implementation in 2013-2014 has resulted in visible changes and impacts in many areas, particularly the prioritized areas of economic renovation like investment restructuring with focus on public investment; finance-banking restructuring, with focus on credit institutions; enterprise restructuring, with focus on state-owned corporation and enterprises, these areas will inevitably continue to be the focus of renovation in 2015 and after.

Regarding the task of speeding up the restructuring of manufacturing and service industries, adjusting market strategy, increasing domestic values, added values and competitiveness of the products, the enterprises and the economy, the results are not really impressive. However, as a result, these areas will need more directions and stronger implementation from the Government, Ministries and local authorities in 2015 and after.

2.5. Vietnam's trade development in 2015 forecast

Considering the domestic and the world economic situation, Vietnam's trade in 2015 is forecast to maintain its positive and stable growth, with export growth being at above 13%, and the trade deficit compared with export volume being in the range of 5%. Domestic trade is expected to grow by approximately 12%.

In terms of trade flows, 2015 is considered to be a challenging year for Vietnam's exports. However, this year is also predicted to open up a lot of opportunities for Vietnam to expand imports and exports. In the early period, export is not likely to rise in volume as domestic sources have not met both quantity and quality requirements to penetrate markets with high demands on quality and food safety. For agricultural and fishery products, production capacity has reached maximum point and export growth tends to decline. For fuel commodities, export of minerals is decreasing in response to the Government's strategy to reduce export of raw minerals and reserve crude oil for the Dung Quat oil refinery. The processing industry, the production of such products as mobile phones, computers, products and components has seen very high growth in the years from 2012 to 2014 and is unlikely to maintain growth momentum in 2015. There are limited new investment projects in the processing industry, and those starting in 2014 only go into operation or release products by the end of 2015.

Domestic trade continues to be an important pillar of Vietnam's economy. Along with the robust domestic economic development and international integration, several considerable trends in the market development of Vietnam in 2015 and afterwards will be: habit, the purchasing methods of domestic customers are seeing remarkable changes. Shopping trends through modern channels are becoming more and more popular. The rapid development of e-commerce, owing to the advanced development of the telecommunication system, with about 1/3 of Vietnam's population having access to the Internet, customers' online time on mobile devices accounting for 1/3 of a day, the universalization of 3G technology and mobile devices has created a new shopping trend which grows at rocket speed. It is estimated that the online purchase value of a customer in Vietnam in 2015 will increase by about 30 USD, compared to 2013, and total online sales of Vietnam in 2015 will reach 4 billion USD[8]. Domestic and foreign businesses are racing to compete for market shares with new business strategies; in which, doing businesses on smartphone applications is expected to be very bustling. Google has become a member of the Vietnam Association of E-commerce and do not hide its ambition to earn 30 million USD per year from this market. Alibaba and eBay have also quickly found their official representatives, while Amazon and Rakuten is moving towards establishing partnerships or acquiring stakes in e-commerce companies in Vietnam. Some Thai or Korean businesses are also seeking investment opportunities, possibly through another business or direct investment. Domestically, though there is yet an outstanding name, the number of companies in this field has significantly increased - VatGia, VCCorp, Cho Dien Tu (Peacesoft) and Mekongcom to name but a few.

Regarding market regulatory mechanisms, Vietnam is expected to continue in 2015 its efforts and determination of maintaining market mechanism oriented regulations, especially product market regulations of essential commodities like electric power, coal, and petroleum. Market forecast, evaluation and orientation will be enhanced to increase the quality and effectiveness of the State's market regulation. Besides, market management, inspection, control and handling violations in business activities like smuggling and trafficking of poor quality or counterfeit goods, conducting unhealthy competition, will be strengthened in order to ensure a healthier competitive business environment in Vietnam. These are focused solutions that the Government has and will continue to order Ministries and local authorities to implement in a persistent manner.

II. Development potential in 2015 and following years

1. Key orientations for trade development in domestic market in 2015 and following years

[8] Source: consolidate from an assessment of Vietnam E-commerce and Information Technology Agency, Ministry of Industry and Trade and a survey of eMarketer, USA, in 2014

In 2015, with the determination to achieve at the highest level the planned indicators in the five-year social–economic plan 2001 - 2015, domestic trade has been identified as the main focus area for development to ensure the achievement of the general strategic tasks. Accordingly, fundamental target and orientation for 2015 and the coming years are identified as below:

- The target growth of total retail sales of goods and services revenue in 2015 is set at 11-12% compared with 2014.
- Increase domestic trade based on maximum mobilization of social resources; consistent with the laws of market economy, ensuring the autonomy, freedom in business and fair competition between different actors in the increasingly developed legal environment, with the macro regulation of the State. Develop diverse types of businesses with different scales, increase number of businesses with new modes of operation, towards modernization and professionalism, consistent with the laws of commodity circulation.
- Continue to complete the State's regulation system for trade, ensure a healthy and sustainable trade development; strengthen the self-adjustment capacity of the domestic market in the context of a volatile world market.
- Diversify the types of trade infrastructures, harmoniously combine traditional trade and modern trade, in line with the nature and level of market development in each area (localities, regions and the whole country). Modernize the trade infrastructures; focus on construction and development of modern infrastructure systems (trade centers, supermarkets, shopping centers, commercial-service areas, convenience stores, specialized stores, logistics centers, wholesale warehouses, trade fair and expo centers) in urban areas, industrial zones, economic zones, export processing zones and border economic zones; focus on developing various types of markets (community markets in remote, rural areas, border areas, islands, and central market, specialized market and wholesale markets in centralized agricultural production areas and in big markets).
- Diversify the types and methods of modern trade business such as commodity exchanges, auction centers, franchising and e-commerce.
- Develop of human resources in trade with modern and professional knowledge, skills and techniques in business, meeting the demand of domestic trade development in the context of international economic integration.

2. Recommendations for enterprises and investors in potential areas for domestic trade development in 2015 and the subsequent years.

Considering the key trends and progress that impact the economic and trade development of Vietnam and based on the above mentioned targets and orientation in domestic trade development, the below key areas are considered potential and prioritized for investment attraction and development cooperation in 2015 and the following years.

2.1. Development of the distribution and retail chains based on links with local producers

Building domestic distribution systems that closely link producers with consumers, ensure stability, allows tracking of goods origin and quality is the fundamental orientation of the organization of trade development in Vietnam market. Although the development of distribution chains in the above models has not achieved the expected quantity and success, it is clear that these models have seen rapid growth in Vietnam in recent years, receiving the support of consumers and the Government. Therefore, businesses and investors can consider this as one of the long-term and sustainable direction for their trade activities in Vietnam market, which offers high consumption growth and the people are increasingly concerned about the quality of goods and services.

2.2. Development of trade logistics infrastructures and regional distribution centers

Investment in professional, large and medium-scaled logistics centers to serve domestic trade such as centers for processing, storage and packaging; warehouses and freight centers is one of the areas considered underdeveloped and is presently not commensurate with its immense potential in Vietnam.

In order to ensure the effectiveness and feasibility of investment projects in this areas, the most basic problems that businesses and investors concern about, apart from a large financial resources for technical infrastructures, machinery, facilities, technology, are land related issues, supporting policies and mechanisms of Ministries and local authorities in connecting and mobilizing the participation of different stakeholders like goods producers, trade and commercial businesses and retailers in the development.

In this area, the recommendation for businesses and investors is to consider the possibility of implementing the project in public-private partnership (PPP) method, the legal framework for which has been completed and issued under the government’s Decree No. 15/2015/ND-CP dated 14 February 2015. By this method, businesses and investors can basically resolve the above problems. Then the issues about financial pressure, infrastructures, land, operation mechanism after the project is finished can be shared among businesses, investors and relevant state agencies according to the agreed contract terms.

2.3. Development of trade in rural areas

Rural development, in general, and effectively solving problems of sustainable consumption of farmer’s products, in particular, is one of the major long-term priorities of Vietnam. Investments in rural trade development, including infrastructure development, building production models linking to processing and marketing of products in these areas, are receiving more incentives and favorable mechanisms from the Government and local authorities. The relevant measures adopted recently include the following:

- Decree No 210/2013/ND-CP dated 19 February 2013 on incentive policies for enterprises investing in agriculture and rural areas, which replaces the older Decree No 61/2010/ND-CP dated 4 June 2012 on the same issues. Accordingly, the State has policies to encourage localities and enterprises to invest in building factories for processing and storing agricultural products, storage of agricultural products, vocational training, technology transfer, large-scaled, centralized agricultural production, with priority for investors who have joint-contracts with local farmers and households to produce materials for production. Support comes from the State budget, in form of preferential loans under a post-investment support mechanism from the State (after all categories of projects are completed). The support amount can be up to 70% of total investment, depending on sectors and geographical areas.

- Decision No 62/2013/QD-TTg dated October 25, 2013 by the Prime Minister on policies to encourage cooperation and linkage in production, associated with the consumption of agricultural products, developing big fields. Accordingly, the orientation for linking production and consumption of agricultural products is defined more specifically as cooperation in agricultural production at centralized, large scale (the big fields model). The policies focuses support in areas such as: land, investment, trade promotion, production support and training.

- Decision No. 23/QD-TTg dated January 6, 2010 of the Prime Minister approving the Plan for rural trade development from 2010 to 2015 and vision to 2020. Accordingly, programs and projects implementing this Decision will receive incentives as regulated in Decree No. 108/2006/ND-CP dated September 29, 2006 of the Government on detailed guidelines and instructions for implementation of some articles of the Investment Law; these projects also have access to State investment credits as regulated in Decree No. 75/2011/ND-CP dated August 30, 2011 of the Government on State investment credits and export credits.

2.4. Training, and building knowledge and skills to strengthen capacity in organizing professional trade businesses and activities.

The demand for acquiring and developing professional business models, sale skills of enterprises and distribution businesses in Vietnam is considerable. This is one of the key directions for Vietnam's domestic trade development in the coming years. Therefore, the participation of big domestic and foreign corporations and prestigious training organizations in this area will be welcomed not only by the State but also by Vietnamese enterprises and businesses. Training and capacity building of human resources for domestic trade development is one of the prioritized and encouraged activities in the coming period.

2.5. Adoption of new technologies, facilities and equipment to facilitate the

assessment and tracking of origins, quality or food safety level of the products.

One of the biggest concerns of the state agencies and consumers at present, is how to improve the effectiveness of the control and identification of the origin and quality of the products on the market, thereby promoting a business environment that allows healthy competition and protects consumers' interests. Therefore, projects and activities involving application and development of technology measures, facilities or equipment to facilitate the assessment and tracking of origins, quality or food safety level of the products, will receive support from the Vietnam Government and will be a potential area for investments by domestic and foreign traders and investors.

III. Investment opportunities and domestic market: a view point from foreign expert

1. Introduction

At almost 30 years from the launch of the country's renovation policy, Viet Nam has now firmly established itself as one of the most attractive destinations for foreign direct investment in the world, particularly for FDI from Asian and developed countries. The main motivations of FDI into Viet Nam are its low wages, favourable demographic trends, a fast growing middle class, its political stability and its location.

According to UNCTAD's World Investment Report 2015, whilst the pre-crisis 2005-2007 average inward FDI into Viet Nam was USD 3778 million, FDI inflow was 2-3 times more important in the last years, and Vietnamese FDI abroad finally also took off, signaling the country's progressive integration into international investment markets.

Table 8: FDI flows of Viet Nam and selected comparator countries

(Millions of dollars)

	2005-2007 average	2011	2012	2013	2014
Viet Nam					
Inward	3778	7519	8368	8900	9200
Growth YoY		--	13%	6.36%	3.37%
Outward	111	950	1200	1956	1150
Growth YoY		--	26.32%	63%	- 41.21%
PR China					
Inward	76214	123985	121080	123911	128500
Growth YoY		--	-2.3%	2.34%	3.7%
Thailand					
Inward	9642	1195	9168	14016	12566
Growth YoY		--	667%	52.88%	- 10.35%

Source: UNCTAD's World Investment Report 2015

Table 9: FDI stocks of Viet Nam and selected comparator countries

(Millions of dollars)

	1995	2011	2012	2013	2014
Viet Nam					
Inward	5743	64523	72891	81791	90991
Growth YoY		--	13%	12.21%	11.25%
Outward		3184	4384	6340	7490
Growth YoY			37.7%	44.62%	18.14%
PR China					
Inward	101098	711802	832882	956793	1085293
Growth YoY			17%	14.9%	13.43%
Thailand					
Inward	17684	155036	172471	178259	199311
Growth YoY			11.25%	3.36%	11,8%

Source: UNCTAD's World Investment Report 2015

According to WIR 2015, Viet Nam received USD 9.2bn in FDI in 2014, a 3.37% increase on the previous year. PriceWaterhouseCooper's puts Viet Nam's FDI level for 2014 at a much higher level than UNCTAD and estimates that it has received USD 15.6 bn in 2014, a 9% increase on the previous year. At an average rate of 5.2%, foreign direct investment as a percentage of GDP is amongst the highest in the region.[9]

The main factors contributing to this success include primarily the country's move towards a socialist oriented market economy with progressively greater role for private investments in the economy, as well as greater openness of the trade and investment regimes. These policies brought rapid growth, roughly 7-8% per year since 2003, and despite sluggish growth during and for some time after the global financial and economic crisis, Vietnam not only regained broad-based growth, but today it has the world's 2nd highest GDP growth rate.

Viet Nam's strong and stable growth coupled with a growing middle class with ever increasing purchasing power make Viet Nam an attractive place for investment.

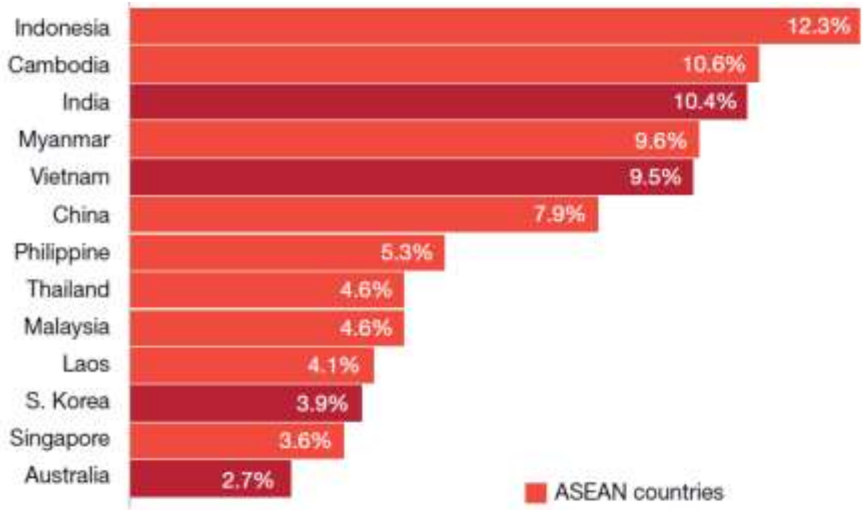
Low wages are another factor of attractiveness for FDI. Indeed, Viet Nam is a preferred option for industrial investors who want to take advantage of low wages to offset the rising manufacturing costs in other emerging economies competing for FDI. However, Viet Nam's comparative advantage due to wage differentials is shrinking and this may affect relatively small investors in labour-intensive industries. Nevertheless, despite that nominal minimum wages at national level have increased 17-fold over the last 15 years, Viet Nam still

[9] PWC: Doing Business in Vietnam 2014, 3rd Edition, July 2014

enjoys a labour cost advantage over other emerging economies and in particular China.[10]

The following chart shows Viet Nam's ranking among other Asia Pacific countries in terms of 2014/2015 year-on-year base salary growth rate (%):

Picture 10: Viet Nam's ranking among other Asia Pacific countries in terms of 2014/2015 year-on-year base salary growth rate (%)



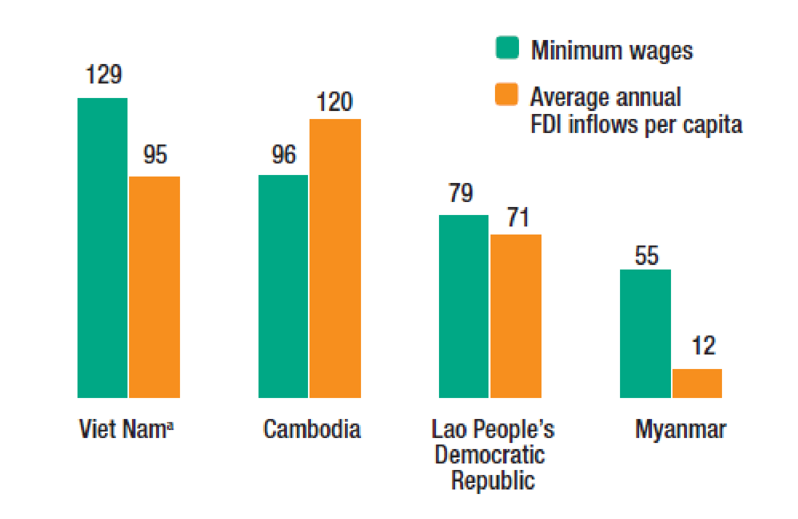
Source: PricewaterhouseCoopers (2015)

Neighboring low-income countries have significant labour cost advantage over Viet Nam. However, low labour costs are definitely not the only motive for foreign investors, as a comparison between CLMV countries' minimum wages and FDI inflows clearly shows it:

[10]UNCTAD (2015)

Picture 11: CLMV countries: Minimum monthly wages, 2014, and annual FDI inflows per capita, 2012–2014

(US Dollars)



Source: World Investment Report 2015

2. Macro perspectives for FDI

2.1. Overall economic growth will have beneficial impact on sustained FDI into Viet Nam.

Vietnam has witnessed strong GDP growth since 2010, correlating with increased FDI inflows and a growth in overall household consumption, and this trend is expected to continue in the coming years. According to latest IMF estimates (see table below), in the years up to 2020 Viet Nam will continue to benefit from sustained growth in the range of 5.8 – 6% per annum maintain the momentum for continued growth of FDI. However, Viet Nam's expected GDP growth rates would be below those of Cambodia, China India, Lao P.D.R., Myanmar and the Philippines.

Table 10: Gross domestic product, constant prices

Percent change

	2013	2014	2015	2016	2017	2018	2019	2020
Brunei Darussalam	-1.750	-0.698	-0.470	2.755	3.380	6.514	11.157	4.972
Cambodia	7.428	6.966	7.203	7.192	7.253	7.360	7.310	7.311
China	7.751	7.364	6.762	6.300	6.000	6.100	6.333	6.333
India	6.899	7.168	7.460	7.468	7.554	7.653	7.702	7.751
Indonesia	5.579	5.025	5.199	5.500	5.800	6.000	6.000	6.000

Lao P.D.R.	7.968	7.406	7.314	7.845	7.681	7.360	7.498	7.348
Malaysia	4.745	6.021	4.800	4.900	5.000	5.000	5.000	5.000
Myanmar	8.250	7.686	8.329	8.506	8.297	7.959	7.677	7.547
Philippines	7.181	6.096	6.713	6.295	6.003	6.000	6.003	6.000
Singapore	4.443	2.918	3.031	3.038	3.154	3.189	3.158	3.226
Thailand	2.891	0.711	3.712	3.974	4.084	4.032	3.911	3.813
Vietnam	**5.421**	**5.980**	**6.000**	**5.800**	**5.900**	**6.000**	**6.000**	**6.000**

Shaded cells indicate IMF staff estimates

Source: World Economic Outlook 2015

2.2. Viet Nam's low labour costs and the young age of the population positively impact on foreign investors' decisions

At the end of 2014, Viet Nam's population was 90.73 million, 1.08% more than a year before, of which 60% was in the working age signaling "golden-age demographics" of the country, which contrasts with the ageing population of China, Korea, Singapore, Taiwan, and Thailand, and confers a competitive advantage to Viet Nam in the eyes of foreign investors.

As indicated above, low labour cost– though not a decisive factor – is one of Vietnam's attractions in the eyes of foreign investors. Average monthly wage in Vietnam is just about USD197, below that of most Asia-Pacific countries and considerably lower than that of China (+/-USD613). China, which used to be Viet Nam's most important competitor for FDI, no longer relies heavily on low labour costs, but instead is now competing on productivity terms in higher value-added industries leaving more room for other countries like Viet Nam in labor-intensive industries like textile and footwear.

2.3. Viet Nam's integration into the world economy provides better access conditions for FDI and are motivating foreign investors

The Government's policy of economic integration directly affects foreign investors' and traders' ability to conduct business in and with Viet Nam. Each milestone of the integration process is a further stimulus for foreign economic decision makers to invest in business in Viet Nam; at the same time foreign businessmen also attach utmost importance to the full implementation of the market access pledges made by the Government of Viet Nam in the various trade and investment agreements.

The central element of Viet Nam's economic integration is its membership in the World Trade Organization (WTO) and the implementation of its WTO accession commitments. These commitments not only provide better market access conditions for foreign goods, but also legally guarantee that investments can be made under better conditions or without any restrictions in a progressively growing number of services sectors. In accordance with Viet

Nam’s GATS Schedule, in 2015 the following sectors are already free of any restrictions for FDI from other WTO Members:

- Accounting and auditing and bookkeeping services;
- Taxation services;
- Architectural services;
- Engineering services;
- Integrated engineering services;
- Urban planning and urban landscape architectural services;
- Computer and Related Services;
- R&D services on natural sciences;
- Rental/Leasing without operators of aircraft
- Rental/Leasing without operators of machinery and equipment;
- Market research;
- Management consultant services;
- Technical testing and analysis services;
- Services incidental to mining;
- Services incidental to manufacturing;
- Related scientific and technical consulting services;
- Maintenance and repair of equipment (not including maritime vessels, aircraft or other transport equipment);
- Courier Services;
- Construction and related engineering services;
- Franchising services;
- Secondary education, Higher education, Adult education, and Other education services, including foreign language training;
- Environmental services.

Viet Nam also actively seeks preferential trading arrangements in the frameworks of bilateral and regional trade agreements, which have played a growing role in Viet Nam's recent trade policy. Viet Nam has already concluded or will complete soon 14 FTAs that will govern free trade relations with 55 partners. The agreements concerned are: the ASEAN Free Trade Agreement (AFTA), ASEAN–China Free Trade Agreement (ACFTA), the ASEAN-Korea Free Trade Agreement (AKFTA), the ASEAN-Japan Free Trade Agreement (AJFTA), the ASEAN-Australia and New Zealand Free Trade Agreement (AANZFTA), the ASEAN - India Free Trade Agreement (AIFTA); and two bilateral FTAs, namely the Viet Nam-Japan Economic Partnership Agreement (VJEPA) and the Viet Nam-Chile Free Trade Agreement (VCFTA), the Framework Agreement on Comprehensive Partnership and Cooperation (PCA) between Vietnam and EU, the FTA with the European Free Trade Association, the FTA with the Customs Union of Belarus, Kazakhstan and Russian Federation, the FTA with the Republic of Korea and with ASEAN members and

China, Japan, Republic of Korea, India, Australia, New Zealand (under the Regional Comprehensive Economic Partnership Agreement).

Particular mention should be made of Viet Nam's participation in the ASEAN Comprehensive Investment Agreement (ACIA) whose objective is to create a free and open investment regime by 2015. ACIA provides ASEAN investors with a host of benefits and advantages over what they currently enjoy in investing in Vietnam, in terms of transparency of rules, non-discriminatory market access and operating conditions, protection of investments according to international best practices, and access to an investor-state dispute settlement mechanism. Non-ASEAN countries' investors also derive huge benefits from ACIA since third country investors are treated as ASEAN investors if they invest from an ASEAN country into another ASEAN Member State.

With negotiations on the Trans Pacific Partnership (TPP) currently on-going, the latest Provincial Competitiveness Index predicts that the biggest winners are likely to be exporting FIEs whose home countries are TPP-member states. These would primarily benefit from improved regulatory quality in Vietnam, including structural reforms of SOEs and procurement markets, and from expanded market access for their exports in other TPP countries. At the other end, the biggest losers would be Vietnam-oriented FIEs from non-TPP countries, which would be negatively affected by trade openness measures not extended to their countries. However, even theses investors and traders would benefit from better behind-the-border regulatory measures, especially those that stimulate economic reform.

3. Sector issues

The following is a non-exhaustive highlighting of various sectors of the Vietnamese economy where major investment opportunities are likely to arise or be enhanced for foreigners in the coming years.

- Construction

Viet Nam's attractive macroeconomic and population fundamentals are likely to increase the demand for foreign investment in this sector. In particular, rising incomes among Vietnamese consumers and rapid urbanization rates will boost demand for housing and commercial construction projects, such as malls and hotels, over the coming years. The demand for housing and commercial projects remains robust. Foreign investors could also remain interested in the real estate sector due to its long-term growth potential. According to Business Monitor International, the main driver of growth for the residential and non-residential building sector is non- residential. Although the lack of external demand for Vietnam's manufacturing goods is set dampen the demand for industrial buildings (such as factories and warehouses) over the coming years, the demand for Vietnam's resources could remain robust and this could drive demand for energy-related facilities and non- residential buildings. A key sector is the petrochemicals industry. Around nine petrochemicals projects are at the planning stage and are expected to be completed by 2025, with foreign investment to be sought for six of the plants managed by **PetroVietnam**. The country is racing to meet growing demand for petrochemicals - to reach about 5.4mn tonnes per annum by 2020 - and a supply shortfall is expected to remain, even after the completion of the planned projects.

- Technical Consumer Goods

The Technical Consumer Goods sector is one of the most dynamically growing sectors in Viet Nam. According to GfK, a German market research firm, recently consumption of such items has reached a record high level as Vietnamese consumers have spent more than VND 36 trillion ($1.65bn) on technical consumer goods in Q1/2015 alone, which represented a 22.8% surge relative to the same period of the preceding year. All seven of the Technical Consumer Goods sector (Consumer Electronics, Photography, Major Domestic Appliances, Small Domestic Appliances, Information Technology, Telecommunication, and Office Equipment & Consumables) reported positive gains, six of which were in a double-digit range:

Table 11: Consumers' Spending on Technical Consumer Goods

	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q1 15 /Q1 14
	VND bn	VND bn	VND bn	VND bn	+/-%
Consumer Electronics (CE)	4,334	4,079	5,592	7,133	29.7%
Photography (PH)	284	383	394	426	43.9%
Major Domestic Appliances (MDA)	4,681	4,586	5,083	6,309	19.3%
Small Domestic Appliances (SDA)	786	930	1,088	1,161	17.4%
Information Technology (IT)	4,813	5,677	5,349	5,145	8.7%
Telecommunication (TC)	11,461	12,173	13,694	15,704	26.2%
Office Equipment & Consumables (OE)	292	391	403	356	43.2%

Source: GfK TEMAX Vietnam Report Q1 2015

The very dynamic evolution of the sector's total turnover since 2011 is shown in the following chart:

Picture 12: Turnover Development for Technical Consumer Goods

Source: GfK TEMAX Vietnam Report Q1 2015

- Tourism

Tourism and travel related services are one of the most important economic sectors and the Government intends to prioritize the development of this sector. In the World Travel & Tourism Council (WTTC) world ranking of national tourism and travel sectors Viet Nam ranked 95 among 184 countries in terms of importance of the sector relative to the country's GDP in 2015. However, in terms of the sector's growth forecast, Viet Nam ranks 4th.The total contribution of Travel & Tourism to GDP was VND367,238.0bn (9.3% of GDP) in 2014, and is forecast to rise by 8.0% in 2015, and then to rise by 6.2% per annum to VND721,805.0bn (9.4% of GDP) in 2025. In terms of job creation, the sector's total contribution to employment (including jobs indirectly supported by the industry) was 7.7% in 2014(4,088,500 jobs). This is expected to rise by 3.6% in 2015 to 4,236,000 jobs and rise by 1.3% on a yearly average to 4,842,000 jobs in 2025 (7.9% of total). In 2014, Vietnam generated VND165,080.0 bn in visitor exports and in 2015, this is expected to grow by 7.4%, and the country is expected to attract 5,941,000 international tourist arrivals.

According to WTTC, the sector is expected to have attracted capital investment of VND96,452.7 bn in 2014, and this is forecasted to rise by 7.1% in 2015, and rise by 6.2% per annum over the next ten years to VND188,653.0bn in 2025. At the same time, WTTC predicts that Travel & Tourism's share of total national investment will fall from 9.6% in 2015 to 9.0% in 2025.

CONCLUSION

The "Domestic Trade and Market Development Report 2014" (the “White Book”) has been developed and published for the first time with the support of the European Trade Policy and Investment support project (EU-MUTRAP) with a view to providing information on the Vietnamese domestic market developments within the year, development patterns and structural changes, its main institutions and regulatory changes, as well as evaluations on the development trends and potential areas of trade development in Vietnam’s market in the following years.

The development and publication of this Report is expected to diversify the information sources for domestics and foreign enterprises, investors as well as professional associations, local authorities, relevant government bodies, through which, contributing to the formation of a more favorable, transparent, competitive business environment in Vietnam on the way to integration and economic development.

CONSIDERING THE BROAD AND COMPLICATED AREA TO BE STUDIED, THE REPORT COULD HARDLY AVOID SHORTCOMINGS. THE AUTHORS WOULD LIKE TO WELCOME COMMENTS AND FEEDBACKS TO IMPROVE THE QUALITY OF THE REPORT IN THE NEXT YEARS.