INDUSTRY NOTES – ELECTRONICS SECTOR VIETNAM

I. GENERAL INFORMATION ABOUT VIETNAM

Lying on the eastern part of the Indochinese peninsula, Vietnam is a strip of land shaped like the letter "S." China borders it to the north, Laos and Cambodia to the west, the East Sea to the east and the Pacific Ocean to the east and south.

The conquest of Vietnam by France began in 1858 and was completed by 1884. It became part of French Indochina in 1887. Vietnam declared independence after World War II but France continued to rule until its 1954 defeat by communist forces under Ho Chi Minh. Under the Geneva Accord of 1954, Vietnam was divided into the communist North and anti-communist South. US economic and military aid to South Vietnam grew through 1960s in a attempt to bolster the government, but US armed forces were withdrawn following a cease-fire agreement in 1973. Two years later, North Vietnamese forces overran the South reuniting the country under communist rule. Despite the return of peace, for over a decade the country experienced little economic growth because of conservative leadership policies, the persecution and mass exodus of individuals and growing international isolation. However, since the enactment of Vietnam's "Doi Moi" (renovation) policy in 1986, Vietnamese authorities have committed to increased economic liberalization and enacted structural reforms needed to modernize the economy and to produce more competitive, export-driven industries.

Economical Overview

Vietnam is a densely- populated developing country that has been transitioning from the rigidities of a centrally-planned economy since 1986. Vietnamese authorities have reaffirmed their commitment to economic modernization in recent years. Vietnam joined the World Trade Organization in January 2007, which has promoted more competitive, export-driven industries. Vietnam became an official negotiating partner in the Trans-Pacific Partnership trade agreement in 2010.

Agriculture's share of economic output has continued to shrink from about 25% in 2000 to less than 22% in 2012, while industry's share increased from 36% to nearly 41% in the same period. State-owned enterprises account for nearly 40% of GDP. Poverty has declined significantly, and Vietnam is working to create jobs to meet the challenge of a labor force that is growing by more than one million every year. The global recession hurt Vietnam's export-oriented economy, with GDP in 2012 growing at 5%, the slowest of growth since 1999. In 2012, however, exports increased by more than 18% year-on-year.

In February 2011, the Government shifted policy away from policies aimed at achieving a high rate of economic growth, which has stoked inflation, to those aimed at stabilizing the economy, through tighter monetary and fiscal control. Although Vietnam unveiled a

broad, “three-pillar” economic reform program in early 2012, proposing the restructuring of public investment, state-owned enterprises, and the banking sector, little perceptible progress had been made by early 2013. Vietnam’s economy continues to face challenges from an undercapitalized banking sector. Non-performing loans weigh heavily on banks and businesses.

Economical Key Facts Vietnam

Currency:	Vietnamese Dong (VND)
Exchange rates:	1 EURO = VND27,879; 1 US$ = VND21,217 (21.07.2013)
GDP (billion USD):	2010: 287.9; 2011: 304.9; 2012: 320.5
GDP - real growth rate:	2010: 6.8%%; 2011: 5.9%, 2012: 5.1%
Inflation rate:	9.2%(Dec 2012)
Total Trade	2012: USD228.13 billion
Major Trading Partners:	U.S., Japan, China, Australia, Singapore, Germany, U.K.
Major Imports:	Machinery, Refined Petroleum, Steel, Material for Textile Industry, Cloth
Major Exports:	Crude Oil, Textiles and Garments, Footwear, Fisheries Products, Electronics
Key Industries:	Manufacturing, Food Processing, Construction
Unemployment rate:	1.8% (Dec 2012)

II. VIETNAM SMALL AND MEDIUM ENTERPRISES

A. Definition of SMEs

The Vietnamese government, defines Small and Medium-sized Enterprises (SMEs) by Decree 56/2009/ND-CP as business establishments that have registered their business according to law with registered capital not exceeding VND 20 billion (USD 1 million) for small enterprises and VND 100 billion (USD 5 million) for medium enterprises.

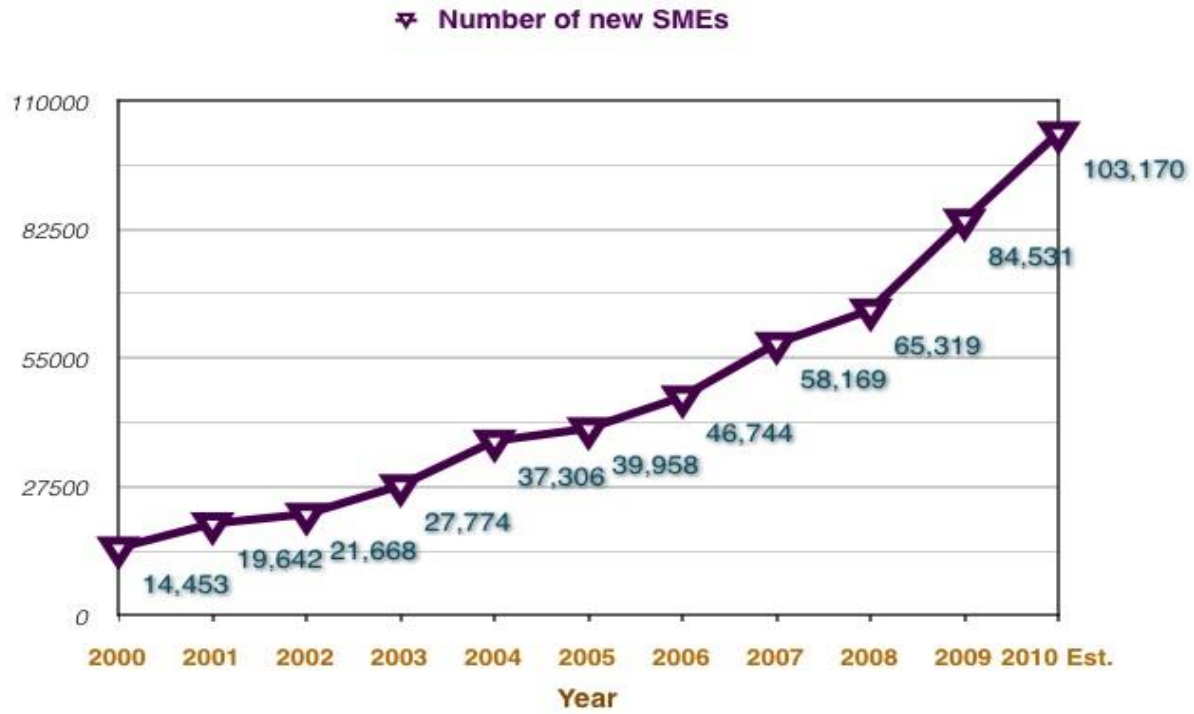
SMEs are divided into three levels: very small, small and medium according to the sizes of their total capital (equivalent to the total assets identified in an enterprise’s accounting balance sheet) or the average annual number of laborers, with total capital as the priority criterion. Below table summarizes the concrete definition of each classification per economic sector.

	Very small enterprises	Small-sized enterprises		Medium-sized enterprises	
	Number of laborers	Total capital	Number of laborers	Total capital	Number of laborers
I. Agriculture, forestry and fishery	10 persons or fewer	VND 20 billion or less	Between over 10 persons and 200 persons	Between over VND 20 billion and VND 100 billion	Between over 200 persons and 300 persons
II. Industry and construction	10 persons or fewer	VND 20 billion or less	Between over 10 persons and 200 persons	Between over VND 20 billion and VND 100 billion	Between over 200 persons and 300 persons
III. Trade and service	10 persons or fewer	VND 10 billion or less	Between over 10 persons and 50 persons	Between over VND 10 billion and VND 50 billion	Between over 50 persons and 100 persons

B. Status of Vietnam SMEs

Based on this definition, the number of SMEs in Vietnam accounts for 97 percent of Vietnam enterprises (calculated on annual labor) or some 85 percent (calculated on capital), given by the latest statistical data of Vietnam General Office of Statistics. The total number of SMEs in Vietnam is estimated at 500,000 in which 460,000 SMEs have been founded within five years from 2006 to 2010. Although SMEs are an integral part of various economic sectors, ranging from manufacturing to retail, few SMEs are active in manufacturing sector. Instead they play a moderate role in the commerce and service sectors.

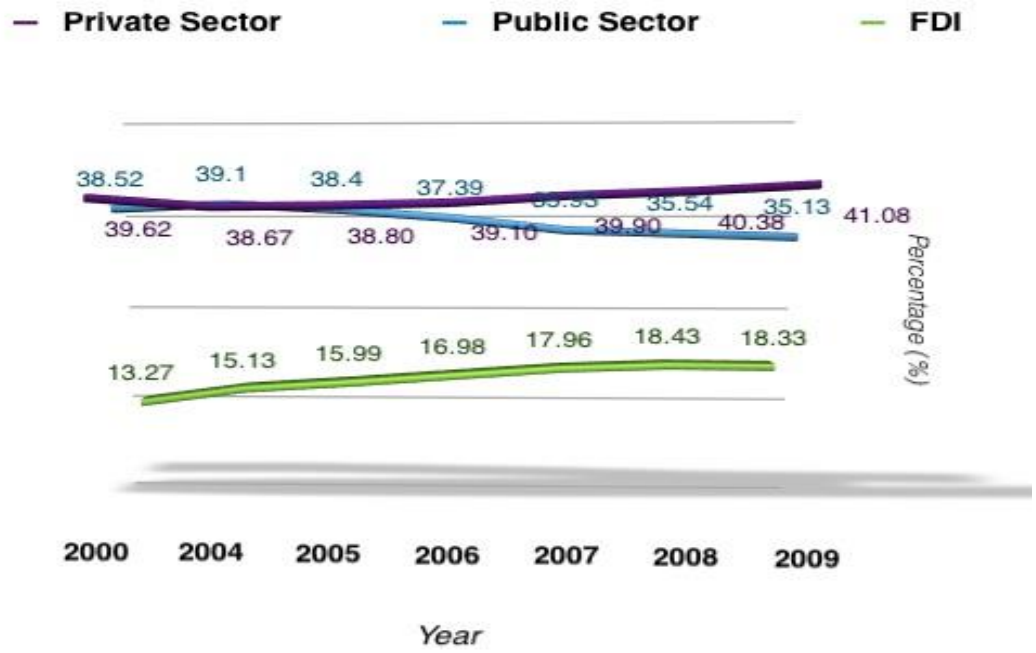
Graph 1. Number of New Vietnamese SMEs from 2000 to 2010



Source:Christopher W. Runckel (2011). Small Medium Enterprise (SME) in Vietnam. Published on Business-in-Asia.com

Vietnamese SMEs have been playing an increasingly important role in the development of the country. According to Vietnam SMEs Association, SMEs contribute 45 percent of the Vietnamese GDP and create approximately 1.5 million jobs each year. They are responsible for two-thirds of non-agricultural employment. Furthermore, SMEs have contributed 40 percent to the State budget, formed the majority of the distribution (retail trade) network throughout the country (making up 80 percent of the network) and export activities. Vietnamese SMEs have on the average, seen profits grow approximately 20 percent each year for the immediate past.

Graph 2. Private Sector Contribution to Vietnam's GDP in comparison with Public Sector and FDI



Source:Christopher W. Runckel (2011). Small Medium Enterprise (SME) in Vietnam. Published on Business-in-Asia.com

III. SME-RELATED LAWS

Enterprise Law 2005

Vietnam has no SME Basic Law. The new Enterprise Law (2005) combines the previous Company Law and Private Enterprise Law and is expected to improve conditions in which private-sector companies operate.

The issuance of the Enterprise Law 2005 to apply uniformly to enterprises of all economic components has positively contributed to the consistent implementation of multi-sectoral economic development policy specified in the Constitution. The development and creation of a unified legal framework, which is more transparent and equal for all types of enterprises creates favorable conditions for the process of international integration.

The Enterprise Law 2005 was drafted according to the following guiding principles:

1. Sufficient and consistent institutionalization of the renovation guidelines and policies of the Party and the State, especially those regarding the development of a market economy involving the participation of different economic components.

2. Continued reform of the State functions, of which encouragement, guidance and assistance are considered central. Investors and enterprises are regarded as subjects to be served and equal partners with the state administrative bodies; respecting the rights of enterprises to organizing their internal management, exercise autonomy in the arrangement and determination of internal relationships consistent with Vietnamese Laws and international commitments.

3. Administrative procedure and simplification, determination to abolish highly administrative, bureaucratic and subsidiary regulations and procedures that held back the development of the production force, causing inconveniences for enterprises and people. Strongly reducing and gradually eradicating the discrimination in the policies and laws on domestic and foreign investment.

4. The contents of the Enterprise Law should be consistent with Vietnam's bilateral and multilateral agreements.

5. Promptly converting State Owned Enterprises (SOEs) into companies such as limited liability companies or shareholding companies, ensuring SOEs have the rights of a legal entity.

6. Promoting equitization and fundamentally renovating SOEs' functions, tasks and management methods; creating conditions and momentum for SOEs to mobilize more capital from outside sources; receiving and innovating modern technologies and management skills and so improving and enhancing the effectiveness and competitiveness of each SOEs as well as the whole state economic sector.

7. Inheriting and developing the progress made in related legal documents, especially the Enterprise Law 1999.

8. Continuing the expansion and development of the freedom to do business. Enterprises from all economic components have the right to do business in sectors not prohibited by law; respecting the legal rights of and enterprise to do business; broadly applying the business registration mechanism.

IV. GOVERNMENT REGULATORY BODIES

Ministry of Industry and Trade

The Ministry of Industry and Trade (MOIT) is the government ministry of Vietnam responsible for the advancement, promotion, governance, regulation, management of

growth of industry and trade. Under Decree No: 75/2007/QD-TTg, MOIT shall assume the responsibility for, and coordinate with concerned ministries and branches in formulation programs an policies on development of subsidiary industries commensurate with the development of electronics industry.

Ministry of Planning and Investment

The Ministry of Planning and Investment (MPI), formerly the State Planning Commission, is a governmental ministry charged with the role of state management over planning and investment. Headquartered in Hanoi, the agency provides strategic advice for country-level socio-economic development. It also programs and plans economic management mechanisms and policies for the national economy, for specific sectors as well as for domestic and foreign investments.

Under Decree No: 75/2007/QD-TTg, MPI shall assume the responsibility for, and coordinate with the Ministry of Finance and the Ministry of Post and Telematics, in elaborating investment promotion policies so as to improve the capacity of attracting investment in the development of the electronics industry; allocate the State's development capital for programs on development of electronics industry in each period.

Ministry of Post and Telematics

The Ministry of Post and Telematics, under Decree No: 75/2007/QD-TTg, is tasked to the following

- Publicize and organize the implementation of the plan on development of the electronics industry; elaborate and promulgate a list of key information technology products; effectively manage state budget capital invested in projects on development of key products
- Coordinate with ministries and branches in elaborating policies to facilitate the attraction of investment in the development of electronics industry; elaborate and promulgate quality standards and technical regulations applicable to electronics products; coordinate with localities, especially economic regions, in adopting mechanisms and policies to set orientations for investors to develop production in accordance with the development orientations set forth in Vietnam's Master Plan on Development of Electronics Industry
- Act as market link for domestic enterprises, providing information on technological trends and product designs, analyzing, forecasting and publicizing statistical data synthesized on a national, regional or sectoral basis in order to help enterprises take the initiative in producing products bases on market demand and in technological research and development.

Ministry of Science and Technology

The Ministry of Science and Technology shall elaborate and promulgate policies to promote Research and Development activities, technology import and commercialization of scientific and technological results and encourage enterprises to develop and renew technologies; and coordinate with the Ministry of Post and Telematics in promulgating technical regulations, quality standards and regulations on transfer of special technologies in electronics industry.

V. SME POLICY FRAMEWORK

SME Development Plan 2011-2015

According to the SME Development Plan 2011-2015, it is estimated that by 2015, 450,000 SMEs will have been set up contributing 10-12 percent of export, accounting for 40 percent of total social investment capital, 30 percent of GDP and 35 percent of total state budget and SMEs would create more 3.5-4 million new jobs.

To carry out development plan in the 2011-2015 period, eight measures were formulated, summarized as follows:

1. Improve the legal framework for entry, operation and withdrawal from the market of SMEs.

2. Support finance and credit access and improve capital efficiency for SMEs.

3. Support technological innovation and application of new technologies in SMEs.

4. Develop human resources for SMEs focusing on improving management capacity for these enterprises.

5. Promote the formation of association clusters, industry clusters and improve lan access for SMEs.

6. Provide information to support SMEs and promote maket expansion for these firms.

7. Build organization systems to help develop SMEs.

8. Manage the implementation of the SME Development Plan, focusing on prioritizing specific measures such as establishment of a fund to support SMEs, promoting technology application innovation programs.

VI. SME POLICIES

Training and Development for Managerial Skills Development

Support in training is the government's indirect assistance to improve SME's managerial skills and to equip SMEs with professional skills. As a result, SMEs will have more opportunities to improve product quality, reducing the cost of production, and increasing their competitiveness. The Vietnamese government has been offering many training programs, which are partly subsidized or free of charge.

Technology Support

The Vietnamese government has been trying to set up related organizations and policies to develop technology and information supporting-services for SMEs. In general, there are some positive improvements in the current technological policy to support the development of SMEs in Vietnam since the government established the first step of the legal framework for technology transfer in 1988. However, there is still a lack of formal network linkages and technological cooperation among technological research institutions, SMEs and supporting institutions and with other firms. The shortage of funds for investment and for technological development, and the existence of an ineffective legal framework have also prevented SMEs and research institutions from cooperating with each other.

Trade and Export Promotion Policy

In the context of globalization, gaining competitive advantage is the critical factor for SME survival and development in both domestic and international markets. Trade and export promotion could be the focus and will be the key point to facilitate the growth of the private sector. Aiming at improving SME competitiveness, the government has been trying to provide SMEs and other business sectors with increasing support through support institutions that offer market information and credit incentives. In addition, the government is trying to reduce its direct interference in SMEs' business activities.

There are numerous promotional activities including trade and market information, export consulting activities, training for improved international business skills, brand

promotion, trade exhibitions and business supporting infrastructure. Access to these initiatives however, is not clear to SMEs.

VII. SME FINANCE FACILITIES

SME Development Fund

A fund for small and medium-sized enterprise (SME) development will be set up with a total charter capital of VND2 trillion (USD95 million). The move aims to enhance the competitiveness of these enterprises and to create more jobs.

Functioning as a State financial organization under the Ministry of Planning and Investment, the non-profit fund is responsible for managing and using financial resources to support SME development.

To get the financial assistance, SMEs must meet a number of conditions, including having feasible production plans in line with the fund's list of priority areas. The maximum loan for each project will not exceed VND30 billion (USD1.4 million) and must be repaid within seven years.

Vietnam Development Bank

The Vietnam Development Bank (VDB) was established under the Decision No 108/2006/QD-Ttg dated 19 May 2006 by the Prime Minister to execute the state development investment and export credit policies as regulated by the Government.

One of the main duties of VDB is to provide credit guarantee for SME's loans from commercial banks.

Commercial Banks

Commercial banks now pay more heed to SMEs and look at them strategically as potential borrowers, rather than simply lending loans to State-Owned Enterprises as before.

According to a State Bank of Vietnam report, lending to SMEs as a proportion of overall lending by commercial banks has increased significantly, As at 2010, outstanding loans to SMEs was estimated at VND528 million (USD27 billion), accounting to 27 percent of total outstanding loans.

SMEs make up 95 percent of all registered enterprises in Vietnam, but they have been beset with problems accessing credit. As part of the Governement's policy to support SMEs, private commercial banks have made great strides to increase the access of SMEs to credit. SMEs have become privileged borrowers; paying average interest in the range

13 to 17 percent per year, while other non-manufacturing business have paid 18 to 21 percent.

These banks also provide special consulting and banking services for SMEs, such as trade and finance and international payment, unsecured loans for enterprises with signed contracts with major companies designated by the banks, and help with business plans and executive management structures, as well as exploring and developing market opportunities.

VIII. ELECTRONICS INDUSTRY – VIETNAM

As estimated by Vietnam Electronics Association, of approximately 10,000 electronics enterprises in Vietnam, the number of manufacturing companies is around 600. Most of the local electronics businesses are small and medium enterprises with the scope of several million USD per company. Domestic electronics companies have outdated technology, and mainly focus on assembly of simple products (e.g. television, disc readers, electronic rice cookers, refrigerators, air conditioners, etc) and providing warranty-repairing services.

Many imported full-box electronic products have lower prices than domestically assembled ones. Vietnamese enterprises primarily develop products for domestic consumption, which leads to small scale, low revenue and lack of investment for new technology. It could be said that local electronics enterprises are in a difficult position to compete with foreign brands in all market segments.

The production of electronics components and spare parts has not yet been developed to meet demands of domestic assembly. Local electronics enterprises companies import more than 90 percent of electronics components used. By specializing in simple assembly, the added value of Vietnamese human resource in electronics devices only account for 5 to 10 percent.

IX. ELECTRONICS INDUSTRY LAWS AND POLICIES

Decree No: 75/2007/QD-TTg

The Master Plan on Development of Vietnam's Electronics Industry up to 2010, with a vision towards 2020 was approved by the Prime Minister under Decree No: 75/2007/QD-TTg on 28 May 2007.

Master Plan on Development of Vietnam's Electronics Industry

The Master Plan's principal contents are the following:

A. Development viewpoints and objectives

1. Viewpoints

    a. To develop the electronics industry into an important industry of the economy in the direction of satisfying export and domestic consumption demands and contributing to accelerating the process of national industrialization and modernization.

    b. To encourage various economic sectors to invest in electronics in different scopes and forms, from assembly of finished products to manufacture of accessories, spare parts and subsidiary products, attaching special importance to attracting foreign investment from transnational conglomerates.

    c. To develop enterprises through restructuring their production towards development of specialized electronics, including the manufacture of products, accessories, spare parts and subsidiary products for informatics, telecommunications, medical electronics, measurement and automation.

    d. Development of human resources to meet qualitative and quantitative requirements constitutes an important factor in the development of electronics industry in Vietnam.

2. Development objectives

    a. General Objectives

    To develop Vietnam's electronics industry in service of national industrialization and modernization as well as defense and security tasks, and to become competitive in the regional and world markets.

    b. Objective by 2010

    The industry will achieve a production turnover of USD4-6 billion and export turnover of USD3-5 billion, create 300,000 jobs, and grow at an annual rate of between 20% and 30%.

    c. Vision toward 2020

    - Electronics industry will become a motive force for development, making great contributions to export.
    - To create 500,000 jobs and build a contingent of engineers and technicians with international qualifications
    - Domestic manufacture will be capable of satisfying most of the market demand and not depend on imported products

- Subsidiary industries will be developed to meet domestic manufacture and export demands.
- Manufacturing establishments will be located rationally according to regional development orientations.

B. Development Orientations

1. Orientations on product and product structure

- The group of products to be developed includes: computers and peripheral devices; information-telecommunications products; products of medical electronics, industrial electronics, measurement and automation; accessories, spare parts and subsidiary products.
- To raise the proportion of special-use products, spare parts and accessories by promoting the manufacture and assemble of special-use electronic products and hi-tech products in order to improve enterprises' technology capacity.
- To develop the production of electronic materials, a domain in which Vietnam has many advantaged in terms of resources. To prioritize the development of some subsidiary industries in service of spare parts and accessories for the electronics industry.

2. Orientations on Market

- To diversify and raise the competitiveness of products in order to satisfy the domestic market and approach to the regional and world markets.
- To concentrate on efforts on studying and developing products on high added value and competitiveness in the region and world.

3. Orientation on human resources

- The State encourages all economics sector in society to participate in the development of human resources to meet development requirements of electronics industry and develop human resources through training.

4. Orientations on research, designing and development of products and technologies

- To research and design civil and special-use electronics products, spare parts and accessories of moderate complexity and diversified designs, so as to meet the market demand and raise product competitiveness.

- To continue building and training a contingent of experts in researching, designing and developing hi-tech products of high intellectual content to turn out products of higher value.
- To apply advanced technologies and receive technologies directly from foreign companies which have created source technologies without going through an intermediary, regarding economics benefits as criterion.

5. Orientations on regions-based development of electronics industry
    - To concentrate investment in the development of electronics industry in industrial parks and export-processing zones in key economic regions according to the Government's orientations on socio-economic developments of these regions up to 2010, with a vision towards 2020.

C. Implementation solutions

1. Solutions related to mechanisms and policies
    - To perfect the legal environment in order to improve the investment environment and protect industrial prosperity rights in electronics industry
    - To perfect tax policies along the line of creating conditions for, and taking into accounts the benefits of, both assembly enterprises and manufacturing ones, creating a fair and equal environment for production and business
    - To comply with commitments in international agreements
    - To accelerate reform of administrative procedures; to raise the state management capacity in electronics industry; to publicize mechanisms and policies; and to continue perfecting legal foundations aiming at improving the investment environment.
    - To invest in the construction of infrastructure: to enable stable power supply and convenient information and traffic networks; to build IT parks

2. Solutions related to investment capital
    - To encourage all economic sectors to invest in electronics industry, paying special attention to the attraction of foreign investment capital from giant and transnational conglomerates and foreign-invested enterprises currently operating in Vietnam.
    - To mobilize to he utmost all domestic capital sources for investment in the electronics industry.
    - To prioritize investment capital from the state budget for infrastructure construction, human resource training, research-development (R-D) activities and trade and promotion in electronics.

3. Solutions related to key products

In each period, the Prime Minister shall approve a program on development key products and, along with incentive mechanisms for the application of research results to production and business activities, provide for the minimum proportion of R-D expenditures for the development of new products in enterprises. Enterprises eligible for participating in developing key products are entitled to investment incentives from the state budget for R-D activities, pilot production, trade promotion programs, and supports for production and investment in IT parks. Financial supports for the development of key products are allocated from the state budget for the program on development of key information technology products approved by the Prime Minister.

4. Market Solutions

   a. Domestic Market

- For special-use electronic products, spare parts and accessories: Enterprises should apply measures to raise the quality and utility of products, thereby increasing their added value
- For civil electronic appliances: To apply measures in order to improve product quality, reduce costs and improve designs in order to increase their domestic market shares.

   b. Export Markets

- To create high-quality electronic products with competitive prices to meet market demand.
- To enhance international cooperation, trade promotion and marketing activities carried out independently or within the framework of national trade promotion programs, and the participation in overseas fairs and exhibitions in order to get information on foreign markets and partners.

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5. Technology Solutions
   - To attract foreign investors and transfer technology in the domain of manufacturing hi-tech products of high intellectual content.
   - To make investment in strategic technologies and key products on the basis of increasing budget allocations for scientific and technological research, providing credit and credit guarantee for the application of new technologies.
   - To adopt proper mechanisms in order to commercialize scientific research results.

6. Solutions related to human resources
   - To strongly renovate training methods and teaching programs used in electronic-telecommunications and information technology

departments of technical universities and colleges. To boost the training of managers, technicians and skilled workers.

- To encourage the application of a training model to train high-quality resources to meet the requirements of enterprises
- To properly address the relations between training, employment and treatment between training and retraining. To adopt policies to support electronics enterprises to organize the training of human resources.

X. ELECTRONICS - VIETNAM INDUSTRY STATUS

C. INFRASTRUCTURE

Vietnam's rapid economic growth has resulted in serious transport bottlenecks and infrastructure investment needs beyond the government's own resources. In addition, many Vietnamese still live in remote and rural areas with little access to services and markets. The World Economic Forum's 2010 Global Enabling Trade Report rated Vietnam 103 out of 125 countries for availability and quality of transport infrastructure.

Freight Infrastructure

Vietnam's freight infrastructure is considered poor by international standards. For a long time, road transportation dominated the freight market, but traffic congestion now clogs connections between industrial zone and seaports, Rail transportation is almost nonexistent in the country's freight market. And while the country's natural network of rivers and canals integrate nicely with inland waterways into a domestic transport process, poor port handling and inadequate water management have chipped away at the potential of waterways for transporting goods.

Road Network

Road transportation has been the backbone of Vietnam freight transport. From 2001 until 2009, hauling byroad consistently accounted for 70 percent of domestic volume. Today, according to World Bank, Vietnam's network has roughly 222,179 kilometers of roads, only 19 percent of which are paved. Expressways are still uncommon in Vietnam; most of the widest roads have fewer than four lanes and separate interchanges. The mix of traffic with cars, trucks and other slow-moving vehicles such as buses, motorcycles and even trains causes serious congestion on all major routes.

D. OFFSHORE ATTRACTIVENESS FACTORS

A.T. Kearney's Offshore Location Attractiveness Index 2011 shows Vietnam in the list of 10 most attractive countries in the world for offshore. For the Financial Structure (taxes, wages, and management costs) criteria, Vietnam is very high in the list.

Unfortunately, it scored low in the two other criteria – Business Environment (economic and political risks, infrastructure, geographical closeness, cultural similarities and protection of intellectual properties) and People (skills and availability).

Vietnam's labor cost is one of the lowest in Asia. Mobile phone giants Samsung and Nokia have announced expansion in Vietnam to take advantage of low labor costs. Labor cost in Vietnam is half of that of China.

E. TAX AND REGULATORY INCENTIVES

Corporate Income Tax

- Standard rate is 25 percent

- Preferential rates of 10 percent ad 20 percent to enterprises in certain sectors such as education, training, health care and newly established entities in certain economic zones. These preferential rates may apply for a limited period, after which the standard rate applies. Tax holidays and rate reductions are also available in specified cases.

Import and Export Duties

- Duty rates for import include standard, preferential and special preferential rates, depending on the country from which the goods are imported and the particular trade agreements between that country and Vietnam.

- Generally, Vietnam encourages exports such that few goods are subject to export duties

Foreign Contractor Tax

- Not a separate tax in itself, but rather, a series of guidelines for the taxation of foreign organizations not having Vietnamese legal status and of foreign individuals doing business or having income in Vietnam.

- The guidelines stipulate how other taxes, such as Personal Income Tax, Corporate Income Tax and Value Added Tax, apply to these contracts and, in certain cases, require Vietnamese counterparty to withhold taxes on behalf of the foreign contractor.

D. ELECTRONICS INDUSTRY PERFORMANCE

Over the past few years, the electronics sector has enjoyed strong developments and contributed significantly to Vietnam's economy. In 2012, export turnover of. Electronic

components and mobile phones reached USD20 billion. Mobile phones and phone accessories contributing USD12.7 billion, while electronics, computers and spare parts reached USD7.9 billion.

According to the US Trade Commission, electronics exports from Vietnam, including computer modems, fixed line telephone sets and mobile phone sets to the US market increased by 58% during the first eight months of 2012. Vietnamese electronics has also been exported to 50 countries, but the added value is low as most of the materials are imported and assembled.

The industry's manufacturing capacity greatly depends on foreign direct investment (FDI) enterprises with over 30 percent of number of companies, nearly 90 percent of capital, 90 percent of export turnover and around 80 percent of domestic market share. Popular products including office computers, telecommunication and other electronics devices are mainly manufactured by foreign-invested enterprises.

XI. FUTURE DIRECTION OF VIETNAM'S ELECTRONICS INDUSTRY

Low wages and favorable investment incentives have made Vietnam's electronics manufacturing sector a highly attractive target for multinational corporations to set up or expand factories.

With Singapore and its formerly strong electronics industry at the brink of recession and China's and Thailand's minimum wage policy deterring investors, Vietnam has become a solid alternative for global electronics good makers who are increasingly relocating manufacturing outlets to Vietnam, such as Intel, Samsung and Jabil Circuits.

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Jabil Circuit, an electronic parts manufacturer headquartered in Florida, has said its plans to double the investment for its card payment machine and network router factory in Ho Chi Minh City to USD100 million in the next three years. Samsung reportedly is considering pouring USD700 million into a new mobile factory in the north of Vietnam. Japanese Nidec Corp, the world's biggest manufacturer of motors for hard disk drives, has also revealed that it would set up the seventh factory in Ho Chi Minh City.

Semiconductor giant Intel, who opened an assembly and testing plant in Ho Chi Minh City in 2010 that is the largest such facility for the company worldwide, said it is looking to increase the complexity of work that is being done in Vietnam and invest into more hi-tech facilities.

Although the number of businesses and export turnover is high, more than 90 percent of the exports are by foreign-invested firms. A strategic plan to develop the Vietnamese industry has been in place for some time now and the Government names electronics as a

key national industry. What is still lacking are specific investment policies and effective implementation of trade promotion activities to attract more investment into the electronics support industry.

Over the past three years, export turnover has increased from US$3.4 billion in 2010, to US$6.98 billion in 2011, and to US$20.5 billion in 2012.

Computer and related component exports hit US$7.9 billion in turnover and mobile phones and components US$12.6 billion. Crude oil's export turnover was surpassed for the first time.

Deputy Prime Minister Nguyen Thien Nhan said that although the electronics industry has recorded notable achievements, its assembly outsourcing foundations mean its products have little added value. Support industries have developed slowly and are yet to meet manufacturers' requirements. Excluding foreign-invested enterprises boasting huge capital resources and advanced technologies, Vietnam's electronics enterprises have limited financial capacities and technologies that struggle to compete in the global value chain.

Impressive export turnover and innovative products have allowed FDI enterprises to punch above their weight in Vietnam's electronics industry. Although the number of FDI enterprises amounts to only one-third of electronics enterprises in Vietnam, they control up to 80 percent of the domestic market share and contribute more than 90 percent of the sector's export turnover.

There is an imbalance in product restructuring between consumer electronics products and specialised electronics products. There is also an imbalance between product assembly and the production of spare parts, components, and materials.

The number of enterprises focusing on spare part, component, and material production is one fourth of the enterprises specialising in product assembly. Localisation rates stand at just 20–30 percent, thanks mostly to packaging, plastics, and mechanics.

The rate of investment for technology upgrades remains at a low 0.3–0.5 percent of total revenue compared to 5 percent in India and 10 percent in the Republic of Korea.

VEEA President Le Ngoc Son said Vietnam's electronic sector boasts great potential to

develop if it can overcome persistent shortcomings and seize the opportunities arising from international integration and globalisation.

According to Deputy Planning and Investment Minister Nguyen Van Hieu, the State has offered incentive policies to the hi-tech industry—especially in electronic and information technology commodity production—in order to encourage foreign investment in Vietnam.

Hieu cited Canon Group's investment in what will become the world's largest production printer complex, spanning across Hanoi, Bac Ninh, and Bac Giang. Nidec Group has also decided to invest US$1 billion in the south during the next five years.

Kyocera Agency will invest nearly US$400 million in building its own telecommunications and electronics equipment and manufacturing factory. Other Japanese companies are also investing heavily in Vietnam. Many spare parts and components manufacturers have identified the Vietnamese market's advantages, fuelling the new Japanese investment wave. Vietnam has entered the world electronics industry's spotlight.

Deputy Minister of Information and Communications Nguyen Minh Hong pledged the Ministry will make great efforts to perfect its development policy mechanisms and implement the Government initiatives designed to encourage local and foreign investors to support Vietnam's booming electronics