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VIETNAM BRIEFING

From Dezan Shira & Associates

Import & Export in Vietnam: Key Industries & Free Trade Agreements

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Introduction

The European Union-Vietnam Free Trade Agreement marks the beginning of a new era in Vietnam's economic development, and paves the way for deep and long-lasting integration of the EU into the ASEAN economic space. It comes just at the right time, as ASEAN prepares for implementation of the ASEAN Economic Community at the close of 2015.

Vietnam's competitive advantage lies in its low-cost labor, strategic location, and integration into global supply chains through its bilateral and multilateral trade agreements. The country's business environment is soon to become even more rewarding for investors, as the Corporate Income Tax rate will be only 20 percent from January 1, 2016. There are a number of incentives available to investors, and professional tax planning advice should be sought to make the most of this market overflowing with opportunities.

Alberto Vettoretti
Managing Partner
Dezan Shira & Associates
Vietnam Offices

In this issue of Vietnam Briefing magazine, we discuss the key aspects of Vietnam's import and export landscape, focusing on textiles, telephones and computer products, and automotive parts. We then analyze opportunities for Vietnam among its inclusion in multilateral regional trade blocs, before examining the European Union-Vietnam Free Trade Agreement in detail. Finally, we give an overview of the requirements for establishing a trading company in Vietnam.

Kind regards,

Alberto Vettoretti

Reference
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Vietnam's Trade Landscape and Key Industries

By Dezan Shira & Associates, HCMC Office
Editors: Charles Small and Thao Dang

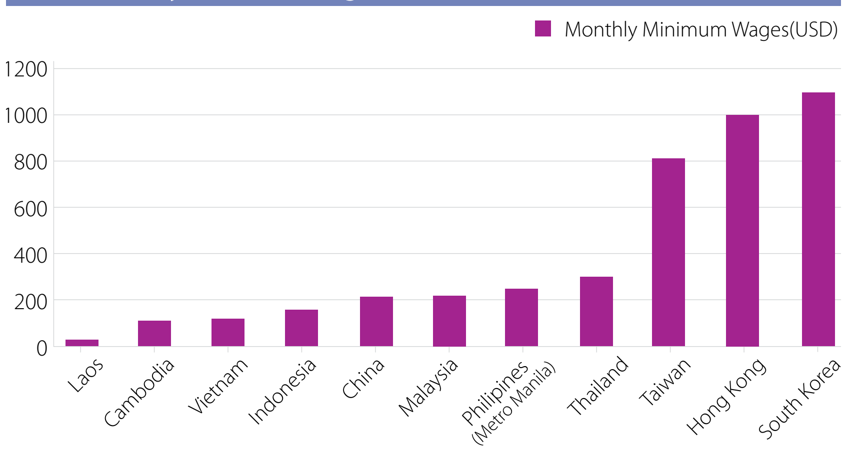
Vietnam's Import and Export Industry Landscape in 2015

In recent years, Vietnam has become the go-to place for manufacturing in Asia. Overtaking China in terms of low labor and operating costs, Vietnam has the potential to attract yet more foreign direct investment (FDI) as manufacturers shift their production capacity from other areas, which have much higher wages and stricter social insurance requirements for workers.

Vietnam: Global Manufacturing Hub

Vietnam's minimum wages are low compared to other countries in the region, which makes the country attractive for labor-intensive industries including textiles and footwear manufacturing, driving them to transfer their production to Vietnam.

Monthly Minimum Wages in Asian Countries in 2015 (USD)



Vietnam is a world leader in emerging markets, reaching Tier 1 in Gartner's Leading Offshore Service Destinations 2015 report, alongside China and India. The vibrant economic hubs of Hanoi and Ho Chi Minh City, home to more than 290 universities and colleges offering Information and Communications Technology (ICT) courses, both ranked in the top 20 of Tholons' Top 100 Outsourcing Destinations 2015. Government support through provision of tax incentives keep Vietnam high in the list of outsourcing destinations.

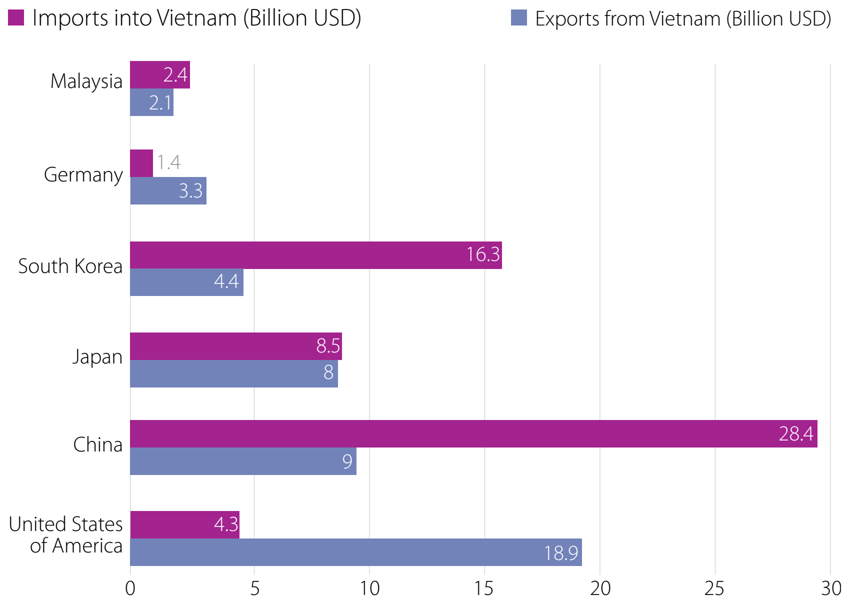
Vietnam's Top Manufacturing Industries

Textile and Garments

According to FPT Securities' Textile & Apparel Industry Report, Vietnam had approximately 6,000 textile and apparel companies with 2.5 million workers in 2013, 10.4 percent up from the previous year. Textiles and garments are Vietnam's second most significant export after telephones.

Yarn is mostly imported from Taiwan, which provided 32 percent of total yarn import value in 2013, and China, which provided 30.8 percent. These two markets remain integral to the Vietnam textiles industry supply chain.

The textiles industry faces some interesting times ahead, due to the proposed Trans-Pacific Partnership (TPP). The TPP is a free trade agreement (FTA) integrating Vietnam and other Asia-Pacific markets with the U.S., Canada and other economies. The "Yarn Forward" rule in the TPP would incentivise Vietnam to



use yarn originated only from TPP members, which could reduce Vietnam's reliance on yarn imports from China.

According to the U.S. Department of Commerce's Office of Textiles and Apparel, Vietnamese textile and garment businesses earned US$6.395 billion from its exports to the U.S. market in the first seven months of 2015, up 14.22 percent from the same period in 2014.

With regards to the EU market, the EU-Vietnam FTA will eliminate high taxes on textile and apparel products exported from Vietnam to the EU, which are 11.7 percent as of 2015, opening up the market for a further share of textile apparel in the EU.

Telephones and Computer Products

Vietnam's boom in manufacturing telephones and computer products led to these exports being ranked first and third in export value in the first seven months of 2015. As stated in Vietnam Customs' Preliminary Assessment of Vietnam International Merchandise Trade Performance in July and The First Seven Months of 2015, the export value of telephones and parts thereof from the beginning of 2015 to July was US$17.125 billion, an increase of 28.6 percent compared to the same period in 2014.

When comparing July 2015 to July 2014, computers and components thereof has the highest growth in the export revenue, up 55.4 percent to US$8.578 billion.

The main export markets for Vietnam's telephones and components are the United Arab Emirates (US $2.678 billion export turnover) and the United States of America (US$1.536 billion export turnover), as stated by the General Statistics Office of Vietnam.

Foreign direct investment has played an important role in boosting Vietnam's exports, especially of telephones and computer parts. Samsung Electronics Co. is a good example of how foreign investment has contributed heavily to Vietnam's position in the global electronics industry. The South Korean giant has invested around US$13 billion in Vietnam, and it is projected that Samsung's investment will reach US$20 billion by 2017. China and South Korea are the two largest markets for Vietnamese telephones, with an import value of US$3.889 billion and US$1.829 billion, respectively in the first seven months of 2015.

Vietnam's Top Manufacturing Industries				
Total Exports in January-July 2015				
Telephones (US $17,152 million)	Textiles & garments (US $12,614 million)	Computers & electrical products (US $8,578 million)	Foot- wears (US $6,975 million)	Machine & Equipment (US $4,491 million)
Total Imports in January-July 2015				
Machine & Equipment (US $16,398)	Computers & electrical products (US $13,144 million)	Textile & foot- wears (US $10,745 million)	Telephones (US $6,201 million)	Iron & steel (US $4,470 million)

Automotive Parts

Auto-part exports are playing an important role in driving the country's economy. The export value of automobile parts in 2014 was US$5.627 billion and as of July of 2015, had reached US$3.119 billion. Vietnam has integrated into Asia-Pacific automobile industry supply chains. Based on Japan External Trade Organization statistics, 28 percent of production materials needed by Japanese automotive manufacturers were imported from Vietnam. For China, this number went up to 61 percent. From January to July 2015, the export turnover of auto-parts from Vietnam to Japan alone was worth US $1.096 billion.

Compared to turnover from auto-parts sales, revenue from sales of automobiles is still much higher. The Vietnam Automobile Manufacturer's Association stated that sales of automobiles were 157,810 units in 2014, an increase of 43 percent from the previous year.

Vietnam: Hub of Global Commerce

By Dezan Shira & Associates, HCMC Office

Vietnam – A Key Hub for Future Regional Commerce

Opportunities for Vietnam in RCEP and the TPP

Aspiring to further integrate into the global economy, Vietnam has been a member of important trade organizations and is a party to several important regional FTAs, including the TPP and the Regional Comprehensive Economic Partnership (RCEP).

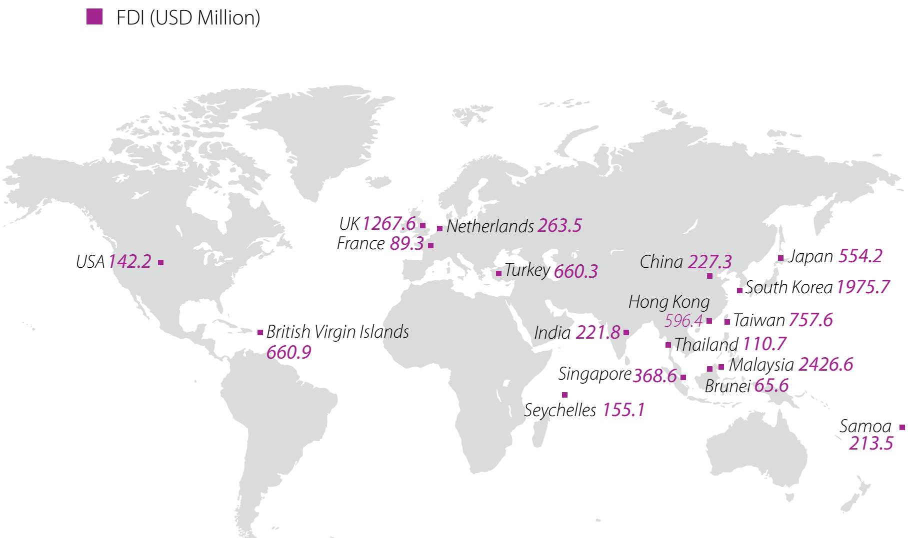
RCEP is a proposed FTA between the 10 ASEAN countries (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam) and six countries ASEAN already has FTAs with (China, Korea, New Zealand, Japan and Australia). This regional partnership currently accounts for a combined gross domestic product (GDP) of US$21 trillion, being 29 percent of global GDP.

RCEP signatory countries offer a huge population of consumers of Vietnamese exports; excluding Vietnam, 3.35 billion people lived in RCEP countries in 2013. The signatories' economies also rank among the top exporting and importing markets of Vietnam. The most significant market involved in RCEP negotiations is China, which is the second most important destination for Vietnam products and the primary source of Vietnam's imports.

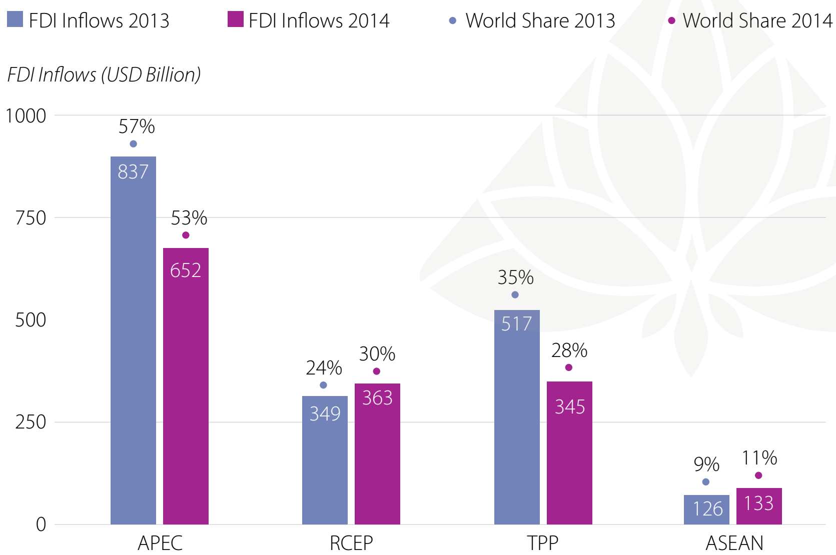
The TPP is of special importance to Vietnam, as many TPP members are Vietnam's top trade partners and primary sources of FDI. In terms of trading, the U.S. and Japan were in the top three exporting markets of Vietnam in the first seven months of 2015, with US$18.9 billion and US$8.0 billion in export values. Over the same period, Japan ranked third among the main importing markets of Vietnam, at US$8.5 billion in imports value.

Tariff reductions in RCEP and the TPP will help Vietnamese exports. The TPP will allow Vietnam to export textile and apparel to the U.S. at a zero percent tariff rate, instead of the current rate of 17 to 18 percent. Tariffs on fishery products, footwear, and wooden products exports to the U.S. will also be reduced to zero percent.

Registered Capital of FDI Projects Licensed 1 January-20 September 2015

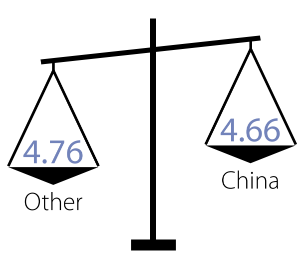


FDI Inflows in 2013 and 2014



** Keys*
APEC: Asia-Pacific Economic Cooperation
RCEP: Regional Comprehensive Economic Partnership
TPP: Trans-Pacific Partnership
ASEAN: Association of Southeast Asian Nations

Imports of Fabrics (USD Billions) in 2014



FDI Inflows Increasing

Besides tariff reduction, TPP and RCEP help attract more FDI into Vietnam, as parties to the negotiations represent some of the most significant investors in the country.

South Korea remains the primary source of FDI into Vietnam. By the end of the first half of 2015, registered capital originating from South Korea had reached US$39.159 billion in total. US$1.5 billion of South Korean capital was registered in the first half of 2015, 27.73 percent of Vietnam's total FDI in that period, and far ahead of second place British Virgin Islands, which accounted for 12.47 percent.

According to the United Nations Conference on Trade and Development's World Investment Report 2015, FDI inflows into ASEAN and RCEP economies increased by five percent and four percent respectively in 2014. See the graph to the left for a visual presentation of FDI inflows in 2013 and 2014 of four regional groups: APEC, RCEP, TPP and ASEAN.

Challenges for local enterprises

Many Vietnamese local companies and sectors could be affected once Vietnam opens its domestic goods and services market to competition from the TPP and RCEP member states.

Thus, Vietnam's government needs to assist domestic enterprises, especially small and medium sized enterprises, to increase competitiveness.

Rules of origin in the TPP may pose significant challenges to manufacturers in Vietnam. In order to be entitled to duty-free access to the markets of other parties, an enterprise in a TPP member would be required to use yarn produced locally or in another TPP member jurisdiction. While Vietnam is a leading apparel and footwear manufacturer and exporter, it still relies on sourcing raw inputs from China, which is not involved in TPP negotiations. Based on Vietnam Customs statistics, Vietnamese imports of fabrics from China in 2014 accounted for almost half of total imports of fabrics.

EU -Vietnam Free Trade Agreement in Detail

By Dezan Shira & Associates, HCMC Office

Impact of EU-Vietnam FTA on Footwear, Furniture and Textiles Manufacturers

Opportunities for Vietnam in RCEP and the TPP

The European Union and Vietnam reached an agreement on the EU-Vietnam FTA after more than three years of negotiations, resulting in the first FTA of its kind between the EU and a developing country. Under the FTA, Vietnam's GDP is expected to increase by an additional 2 to 2.5 percent over the next ten years. The EU is Vietnam's second largest trading partner and export market, with Vietnam benefiting from a trade surplus with the EU of US$19 billion in 2014.

According to FPT Securities, under the FTA, export turnover to the EU is expected to increase by 110 percent by 2020, 35 percent higher than the projected turnover increase sans FTA.

The FTA will eliminate almost all tariffs between the signatory economies. Set to benefit are Vietnam's key export industries, including footwear, furniture manufacturing, and textiles.

With regards to Vietnam's Trade Position with the European Union in 2014, imports from Vietnam into the 28 EU member states reached USD $27.93 billion, while exports from the EU to Vietnam were valued at USD$8.91 billion.

The total value of imports from the 28 EU member states in the first seven months of 2015 was US$5.512 billion, a 10 percent annual growth rate. When viewing the exports, it is clear that the balance of trade is in Vietnam's favor. Exports to the EU reached US$17.514 billion in the first seven months of 2015, an 11.5 percent growth rate from the same period in 2014.

Once the FTA takes effect, 65 percent of import tariffs on EU exports to Vietnam at entry will be removed, and the remaining duties will be liberalized over a period of 10 years. In return, the EU will eliminate most duties on imports from Vietnam over a seven-year period.

Footwear

All import tariffs of footwear from Vietnam into the EU will also be reduced to zero over seven years. Vietnam is the second largest exporter of footwear to the EU after China, exporting mainly leather shoes and sneakers. Leather and footwear, Vietnam's third largest export, make up seven percent of total exports in 2014, with a turnover of US$10.3 billion. In the same year, footwear exports to the EU earned US$3.6 billion, a 24.1 percent year-on-year increase.

The Vietnamese footwear industry was harmed in the past when a ten percent anti-dumping duty was imposed by the EU on Vietnamese footwear imports in 2006 on top of an existing 12.4 percent tariff. The new FTA's elimination of the 12.4 percent tariff is however expected to contribute to an increase in footwear exports from seven percent to 21 percent of total exports. The footwear industry will also benefit from increased access to shoe technologies, high quality machinery and reduced costs for imports of shoe production inputs from the EU.

Under the terms of the FTA, Vietnam will not benefit enough from value added on their exports until it can achieve more localization of the footwear value chain. Vietnam's footwear industry relies heavily on inputs from other markets; the localization rate of the Vietnamese footwear industry is only 40 to 45 percent. Companies will have to adapt to stricter standards on product quality, as well as to the stricter environmental and social standards which imports to the EU must adhere to in order to take full advantage of the FTA.

Furniture

Vietnam is currently the world's sixth largest exporter of wooden furniture, with an industry comprised of 2,500 domestic and 400 foreign companies.

The EU is one of Vietnam's top destinations for furniture exports, accounting for 20 percent of exports totalling US$596 million in 2014, a 19 percent increase on 2013. The EU-Vietnam FTA will contribute to an even greater increase in furniture exports from Vietnam to the EU as tariffs are reduced to zero on at least 90 wood products. Under the FTA, it will also be easier to import high quality machinery and technology for the production of wooden furniture to Vietnam, helping to meet the needs of EU furniture consumers.

Furniture manufacturers in Vietnam import most of their materials from other countries in Southeast Asia due to the low domestic supply of logs and timber and the increasing demand for Vietnamese furniture. In light of this, and in addition to the EU-Vietnam FTA, the EU and Vietnam are also negotiating the Voluntary Partnership Agreement on Forest Law Enforcement, Governance and Trade (VPA/FLEGT), which is expected to be finalized by the end of the year. This agreement would encourage the use of Vietnamese domestic wood and establish a system to eliminate the strict technical barriers concerning the origin and legality of wood inputs, both imported and domestic, used in Vietnamese furniture exports to the EU, supporting Vietnam's furniture manufacturing industry.

Besides these industries, many others in both the EU and Vietnam will benefit from the increased market access and trade liberalization as nearly all tariffs will be eliminated between the countries, along with a reduction in non-tariff barriers.

Textiles and garments

Vietnam is the world's fourth largest exporter of textiles, and the EU is Vietnam's second largest importer of such products. In July 2014, garment and textile exports to Europe increased by US$1.9 billion, a 26.5 percent year-on-year increase.

Under the FTA, all import tariffs of textile fabrics from Vietnam into the EU are reduced to zero at entry while tariffs on other Vietnamese textile products into the EU will be reduced to zero over seven years. This deal allows Vietnam to have easier access to the EU market, with fewer tariffs and non-tariff barriers. However, the FTA applies strict country of origin rules for imported garments. To benefit from the FTA, fabrics must be made in Vietnam, or otherwise in South Korea, since it is also an FTA partner of the EU.

All textile and garment product tariffs will be reduced from 11.6 percent to zero, benefiting Vietnam's main garment exports to the EU. Exports to the EU of western suits, jackets and knitwear products are forecast to increase by over 20 percent. Changes to other products will also be implemented over periods up to seven years.

FDI is already pouring into Vietnam with the expected increase in textile and garment production, stimulated by projected benefits of the EU-Vietnam FTA. Dong Nai province, one of Vietnam's main textile producing areas, has already ranked second for FDI approvals in the country owing to new, large scale FDI projects with textile manufacturing companies. While the textile industry is expected to be the biggest beneficiary of the new FTA, these rules of origin pose a challenge to Vietnamese textile and garment companies. The rules state that the fabric must be made in Vietnam and the garments must be sewn in Vietnam.

Setting Up a Trading Company in Vietnam

By Dezan Shira & Associates, HCMC Office

Setting up a Trading Company in Vietnam

If you are a foreign investor looking for opportunities to expand your trading activities in Vietnam, including sale and purchase of goods, retail, wholesale, franchising, import and export, establishment of a trading company is highly recommended.

A trading company acts as an intermediate agent which connects buyers and sellers in different countries. Trading companies are permitted to provide sourcing, quality control, and import and export services, and as such, this local presence allows foreign investors to implement more effective quality control and react quicker than companies based overseas.

Establishing a trading company is cost-efficient for foreign investors who wish to import into Vietnam for trading purposes. In particular, having a trading company reduces the costs of logistics and tariff liabilities; to trade in Vietnam without such an entity, overseas companies would instead be obliged to ship goods purchased in Vietnam out of the country, and then import them back into Vietnam.

For foreign enterprises to obtain the license to trade goods and services or conduct any activities related to purchase and sale of goods in Vietnam, the following conditions must be satisfied:

- Investors must be from a jurisdiction which has participated in an international treaty that Vietnam is a party to, in which Vietnam has committed to open its market for purchase and sales of goods;
- The form of investment, goods and services provided by the company, and the scope of operations, must comply with Vietnamese Law and international treaties that Vietnam is a party to; and
- The trading company must obtain approval from a competent state agency.

Once it is clear that the planned activities are permitted in Vietnam, the next step is to find a location. Enterprises must be registered at a physical address, and virtual offices are not always permitted. A proliferation of business centers across the country cater to this requirement.

Under the new Laws on Enterprises and Investment and relevant regulations, to establish a trading company in Vietnam, foreign investors must apply for an Investment Certificate (IC) and obtain an Enterprise Registration Certificate (ERC) from the competent licensing authority. Obtaining the IC usually takes up to 15 working days, the ERC five working days, and post-licensing procedures, including posting an announcement of the

Vietnam's Key Tax Rates						
CIT	VAT	Withholding Tax			IIT	
22%		Dividends	Interests	Royalties	Min	Max
(20% from January 1, 2016)	0%, 5%, 10%	0%	5%	10%	5%	35%

company's formation and opening a bank account, are usually completed within a further 10 working days. As errors in the application can delay the process significantly, it is always best to ensure that a professional has prepared your application dossier.

After receiving the application dossier, the provincial licensing authority shall submit it to the Ministry of Industry and Trade (MoIT) for written approval. The only case in which a foreign-invested trading company shall obtain the IC without getting MoIT approval is when they invest only in import and export activities. If the investor plans to engage in retail activities across multiple outlets, an application must be made for a license to do so.

Although there is no fixed minimum capital requirement for setting up a trading company under the law, the licensing authorities may reject an application for corporate establishment on the grounds of insufficient committed capital. The authorities must be convinced that the capital committed will be sufficient to maintain operations. Exceptions may be made for firms who import products from a company and shall only pay the company when imported products are all sold in Vietnam.

Import and Export Duties

According to the roadmap for foreign-invested companies trading in Vietnam, most goods can be distributed by foreign businesses. The payable import tax or export tax amount is equal to the unit volume of each good as inscribed in the customs declarations, multiplied by the official tax calculation price and the tax rate of each item stated in the tariff at the time of tax calculation.

Most goods and services being exported are exempt from tax. Export duties are only charged on a few items, mainly natural resources such as minerals, forest products and scrap metal. These range from zero to 40 percent and are computed at the free-on board price.

Import and export duty declarations are required upon registration with Vietnam Customs. Export duties must be paid within 30 days of registering customs declarations. For imported goods, import duties must be paid before receipt of consumer goods, specifically:

- Within 275 days for imported supplies and raw materials intended for the production of exported goods; and
- Within 15 days for goods temporarily imported and intended for re-export, as from the deadline for temporary import for re-export or temporary export for re-import, as provided for by competent state agencies.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