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MARKET VECTORS™

The Investment Case for Vietnam

► INVESTMENT OPPORTUNITY
► PORTFOLIO BENEFITS

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Vietnam stretches the length of the Indochinese Peninsula and spans from the capital of Hanoi and the Red River Delta in the north through Ho Chi Minh City and the southern expanse of the Mekong Delta. It is bordered by China, Laos and Cambodia.

A Sleeping Tiger?

Vietnam May Awaken as a Fierce Global Competitor

Vietnam is one of Asia's fastest growing economies and may emerge as one of the world's most compelling investment opportunities in terms of potential long-term growth. Of Vietnam's 85 million inhabitants, half are younger than 25.[1] A young demographic combined with stabilizing politics, accession to the World Trade Organization and a government commitment to pro-market reform is a recipe for potential future growth.

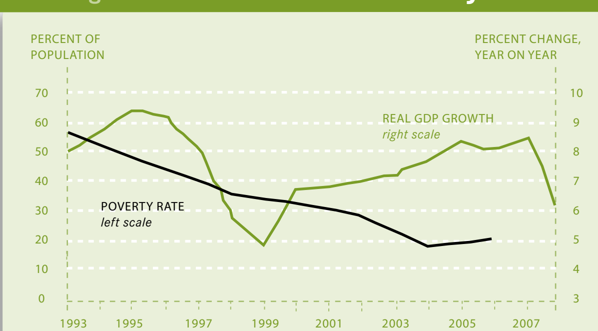
Improved living standards, by way of rising disposable incomes, have underpinned local demand for consumer goods. Economic development within the recent past has spurred urbanization and industrialization.

- The proportion of households with electricity has doubled since the early 1990s to 94%.[3]
- Almost all children now attend primary school and benefit from basic literacy programs; nearly two-thirds enter upper secondary levels.[3]
- Health services are expanding, though from a low base[3]

A rising interest in integrating into the global securities market has led the Vietnamese government to gradually open the country's equity market to global investors. As seen in **FIGURE 2**, 2007 Foreign Direct Investment (FDI) pledges were more than double that in 2006, and were far higher than those in previous years.[4] Additionally, according to the Foreign Investment Department under the Ministry of Planning and Investment, Vietnam attracted 1,171 new FDI projects with total registered capital of over $60.2 billion USD in 2008, tripling last year's figure.[5]

Vietnam's stock market, nonexistent prior to 2000, has also seen substantial growth. Increased foreign interest and the privatization of state-owned enterprises has brought about a rapid increase in listings; at the end of last year, 247 firms were listed on the Ho Chi Minh Stock Exchange and the smaller exchange in Hanoi.[6] NASDAQ, the world's largest stock exchange, announced in September 2008 that it signed an agreement with Vietnam's main Ho Chi Minh Stock Exchange to further support the development of the local stock exchange. NASDAQ plans to leverage technology and market experience to strengthen the efficiency and liquidity of Vietnam's capital market.[7]

Figure 1 Real GDP Growth v. Poverty Rate



Source: 2,17

Growing Pains: Overcoming Inflation

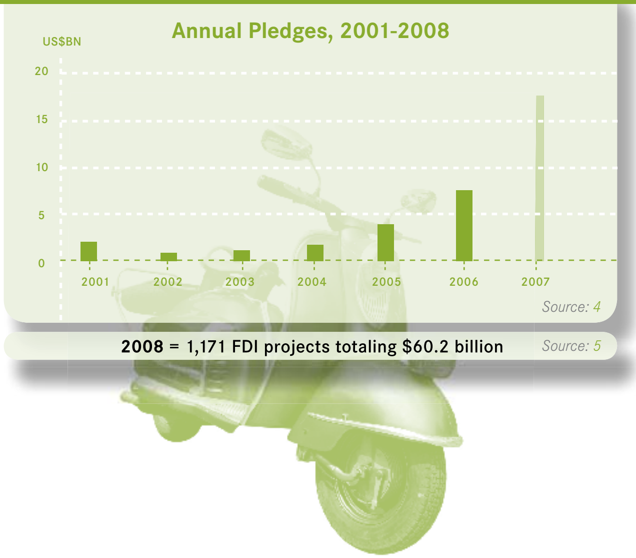
Prior to the global financial crisis that began in 2008, Vietnam experienced several years of broad money supply, rising equity markets and surging real estate demand. These trends, while fueling the economy, had the dual effect of pushing inflationary pressures to extremely high levels **[FIGURE 3]**. Soaring inflation forced the Vietnamese government to review its economic strategy and has been the impetus for major economic reform.

The Vietnamese have adopted a tough program of austerity, including a stabilization package aimed at decreasing inflation, in an attempt to achieve a credible monetary framework and revive investor confidence. Increased reserve requirements, limited credit growth, decreased government expenditures, elimination of inefficient public investment projects, and greater flexibility of the exchange rate have made some headway toward fiscal rebalancing. State-owned enterprises are now focused on core business and obtaining government approval for banking and securities investments. Accordingly, the trade deficit has narrowed and inflationary pressures have somewhat abated. Looking forward, the ability of Vietnam's central bank to regain credibility lies in its capacity to follow consistent monetary policy.

Common Investment Themes

- Young demographic base
- New political/market freedoms
- Domestic capitalism/entrepreneurship
- Privatization of state-owned businesses
- Lower cost base/disciplined workforce

Figure 2 Foreign Direct Investment



The government has also attempted to lower bureaucracy and streamline legislative processes by lowering the number of ministries from 28 to 22,[3] though bureaucratic log jams continue to stand in the way of important infrastructure development.

Moreover, privatization programs are underway, albeit in fits and starts, with the Vietnamese government selling off state-owned enterprises. Some estimate that the number of state-owned firms, totaling 12,000 in the early 1990s, have dropped to approximately 2,000 and are likely to fall to 500 by 2010.[3]

Dawn of a New Vietnam: An Evolution of Politics, Trade and Free Markets

Vietnam's Communist-style politics and perceived high level of corruption has been seen as a challenge to the nation's growth. However, Vietnam's market-based reforms, called *doi moi* (renewal), have helped liberalize the economy and foster rapid, poverty reducing growth. By adopting elements of the World Bank and United Nation's anti-poverty growth models, Vietnam has established recent policies aimed at normalizing trade relations and improving political ties with the U.S., Europe and other free market economies.

The country's accession to the World Trade Organization in 2007, in addition to a Bilateral Trade Agreement signed in 2000, has improved Vietnam's stance in the global economic and political arena. Having made peace with former foes, Vietnam hosted Presidents Bush, Putin and Hu at an Asia-Pacific Summit in 2006[3] and, more recently in 2008, occupied a rotating seat on the UN Security Council.[3]

Rice, Rubber, and Rolls Royce: Vietnam Opens Its Doors

Known as a major exporter of rice and rubber, Vietnam is now establishing itself as a low-cost production center, with labor costs generally less than those in China's industrial zones. Reaching diverse sectors including infrastructure, mining, technology, energy, finance, services and tourism, there is mounting evidence of increased investor interest.

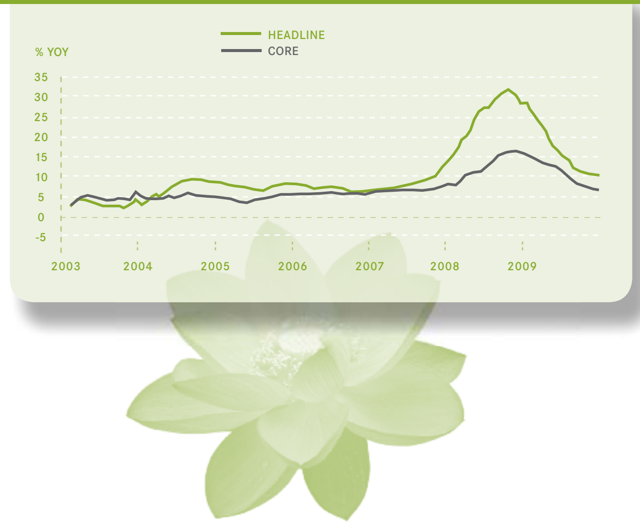
> Vietnam has the scale and low-cost workforce to develop business clusters in important global industries such as electronics, garments and possibly automotives. Having been left far behind established players such as China and Thailand, there is vast potential for catch up.

In early 2008, Rolls Royce signed a Memorandum of Understanding with Vietnam Shipbuilding Industry Group (Vinashin) to develop Vietnam's fast-growing shipping industry. Not only should the agreement provide both Vietnam and Rolls Royce with business opportunities, the partnership includes much needed management and technical training for Vinashin's workforce.[8]

Other examples of how Vietnam continues to strengthen its strategic partnerships with the global investment world:

- Some of the world's largest electronics companies, such as **JAPAN'S** Olympus group, are pulling out of China in favor of opening plants in Vietnam.[10]
- **TAIWAN'S** Formosa Heavy Industries plans to build a steel complex and integrated deep-water port, the company's biggest foreign investment project ever, estimated at nearly US$8 billion.[11]
- **THAILAND'S** Siam Cement has formed a joint venture with PetroVietnam and Vinachem for planned construction of a nearly US$4B international-scale petrochemicals complex.[12]
- **JAPAN'S** Idemitsu Kosan Corp. and Mitsui Chemicals Inc., along with **KUWAIT'S** Petroleum International, established a joint venture in cooperation with Vietnam's PetroVietnam to implement a refinery and petrochemical complex project in Vietnam.[13]
- Europe's largest bank, HSBC, plans to open new branches in **VIETNAM** and is one of the first foreign banks to win a license to set up operations in Vietnam.[14]
- **U.S.**-based Intel has built a chipset assembly and testing plant in the Ho Chi Minh City[15] and **TAIWAN'S** Compal Electronics plans to begin construction on a US$0.5B laptop factory.[16]

Figure 3 Year-Over-Year Inflation



Obstacles Remain

While there are myriad factors supporting continued growth in Vietnam, there are also characteristics of this market that warrant a cautious view. The threat of high inflation, a general lack of infrastructure and endemic corruption may present significant hurdles to continued growth. It is also important to note that Vietnam can not be considered a free market economy, as many Communist-style policies remain the norm. Also, the recent global investment crisis may derail continued growth of this early-stage emerging economy.

Pioneering Global Markets

For investors willing to take a long perspective on a higher risk market, investing in Vietnam may be very attractive. The region remains relatively under-penetrated in terms of investment opportunity and the potential exists for strides on economic fronts. In addition, a relatively low correlation to markets of more developed economies may make an investment in Vietnam an attractive diversification tool.

- Economic growth potential
- Increasing opportunity for capital investment
- Low correlation to developed markets
- Complement to existing emerging markets exposure

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Unless otherwise indicated, the statements in this report are the result of Van Eck Global Research and reflect the opinions of Van Eck Global.

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