

# Vietnam Country Report

by

**Nguyen Bao Lam**

Lecturer of Urban and Rural Planning Faculty

Hanoi Architectural University (HAU)

Ministry of Construction (MOC)

## Executive summary

Vietnam is currently ranked fourth on the East Asian economic growth list. It follows China, Singapore and Hong Kong in growth rate, but is ahead of Thailand, Malaysia, Indonesia and the Philippines. However, it is still one of the poorest nations in the region. Vietnam has a population of about 80 million. About 90 per cent of the population are ethnic Vietnamese. Vietnam's economy grew an estimated 8.16 percent in the first nine months of the year, its fastest pace for the January-September period in the last ten years, the General Statistics Office said in a report published in the same period a year ago, the economy grew 7.84 percent.

According to Business Management International (BMI) the forecast of annual growth is 8,73% in GDP for 2006. The Vietnamese construction industry contributes around 9% to GDP, and in its newly released Vietnam Infrastructure report 2007, BMI forecasts that the construction industry will log 7% plus growth over the 2006-2010 period. The manufacturing and construction sector grew 10 percent from a year ago to 328 trillion dong (US\$20 billion) during the three quarters, representing 42 percent of total GDP.

With the implementation since Doimoi policy, the construction sector is really attractive many investors and is strong competitions, specially in some recent years. However the conclusion that let looking ahead the future on environmental threaten with rapid growth of economy as well as construction sectors.

## 1. Overview of National Economy

Gross domestic product, the value of all goods and services produced in the country, was estimated to be worth 787 trillion dong (US\$49 billion) in the first nine months, the GSO said. The services sector was grew 8.5 percent to 301 trillion dong (US\$19 billion), accounting for 38 percent of GDP.

Slower farming production, however, dragged on overall growth. The agricultural sector grew 3 percent to 158 trillion dong (US\$10 billion), accounting for 20 percent of the economy. "The agricultural sector has been beset by the outbreaks of disease which hurt poultry and animals," the GSO said.

Most economic and social indicators in Vietnam improved sharply over the past ten years, driven by reforms initiated following on Doimoi. The output growth was closely associated with the large inflows of foreign direct investment (FDI), primary from the Asian region, and related increasing exports.

However the domestic structural weaknesses, especially in the banking and state-owned enterprise sectors, the Asian economies have been in crisis. The country reached an impressive GDP growth averaging close to 9% during 1992-1997.

Gross Domestic Production (GDP) and Direct Foreign Investment (FDI) growth in Vietnam took a downturn but it is once again on the rise. Vietnam's GDP for 2005 grew at the remarkable rate of 7.5% over that of 2004. The GDP for 2006 is estimated at from 7.0% to 8.0 per cent. Only China with a GDP of 8% comes close to this admirable place in the world's economy.

The government targets economic growth of 8.5 percent in 2007, compared with 8.17 percent growth last year. The Asian Development Bank predicts Vietnam's economy could grow 8.3 percent this year.

Table 1. Number of Export and Import from 1996 to 2007.

	2007	2006	2005	2004	2003	2002	2001	2000 <sup>1</sup>	1999	1998	1997	1996
Exports	31.28	38.90	16.87	24.56	12.61	16.23	16.74	13.06/14.31	11.9	9.4	8.9	7.1
Imports	37.63	44.35	18.95	29.36	14.79	18.26	17.70	14.63/15.2	12.01	11.4	11.2	11.1
Balance	-6.35	-5.45	-2.08	-4.80	-2.18	-2.03	-1.0	-1.6	-0.2	-2.0	-2.3	-4.0

Year 2000 [VET January 2001]. Numbers in blue are from Vietnam's GSO

## 2. Main Economic Indicator

### a. Construction Investment

Over the past year, the Vietnamese Government has attached importance to attracting foreign investment. The Government has incessantly improved investment environment to create favourable conditions for domestic and foreign enterprises, with special focus on realising the legislation construction programs.

In 2005 in particular, Vietnam's National Assembly adopted 14 laws-the highest number of laws to be adopted in a year up to now, including the General Investment Law and the Unified Enterprise Law-and has been debating 8 draft laws for approval in the coming session.

As a result, foreign investment flows to Vietnam have recovered, especially since 2004. Generally, over the past five years, Vietnam has attracted over USD 18 billion of newly-registered FDI and USD 13.6 billion of realized FDI which have contributed to increasing development investment capital, production capacity and export value of the economy. It is estimated that foreign-invested economic sector is contributing 14% to GDP, more than 20% of the total social investment capital and more than 1/3 of the total export turnover of

the country (not including crude oil). Over the last five years, the sector has contributed about USD 1 billion/year to the state budget, directly generated about 800,000 jobs and indirectly about 2 million others.

There are reasons for increasing international investors and organisations trust in Vietnam: Vietnam is a stable and peaceful country; having sustained high economic growth and increased per capita income as well as rising domestic demands. The international community gives their confidence to Vietnam for her efforts and determination to integrate into the world economically. This confidence was shown at the 2004 Consultative Group meeting of international donors for Vietnam with the amount of committed ODA up to USD 3 billion.

**Table 2: Total projects with investment in sector as of August 22, 2007 (September 2007 VET)**

Sector	Total Projects	Total Invested (US\$ bn)	Total Implemented (US\$ bn)
Industry & Construction	5,252+	44.277+	21.209+
Oil & Gas	36	2.146	5.829+
Construction	409+	4.421+	2.220+
Agriculture & Forestry	889+	4.205+	2.080+
Fisheries	121-	0.362+	0.166+
Services	1,685+	22.992+	7.617+
Banking and Finance	64	0.840+	0.763-
Health and Education	245+	1.159+	0.389+
Offices and Apartments	131	4.886+	1.908+
Building New Urban Areas	8	3.228-	0.283+
IPZ & EPZ Infrastructure	24	1.145+	0.579+
Transport & Telecom	197	4.176+	0.741+
Hotels & Tourism	206	5.500+	2.509+
Others	810	2.058+	0.443-

### 3. Construction Companies

Here some strong foreign investors presenting in Vietnam at present time are list below:

*Foxconn signs massive 5 billion USD contract*

*29/08/2007 -- 10:23 PM*

*Ha Noi (VNA) - Taiwan 's Foxconn group inked a framework agreement for the largest singular company agreement in Viet Nam's corporate history.*

*Foxconn's Chairman Guo Taiming signed the 5 billion USD pact in Ha Noi on August 29 with Minister of Planning and Investment Vo Hong Phuc. At the signing ceremony, the Foxconn Chairman lauded the Vietnamese government for its determination to pursue the renewal process, open door policy and fast tracked development of the economy.*

*He revealed that his group plans to employ 300,000 workers throughout the country and will look to turn the country into a major hub that supplies hi-tech electronics, components, spare parts and precise machinery.*

*Foxconn has selected Ho Chi Minh City, the northern port city of Hai Phong, the northern provinces of Bac Ninh, Bac Giang and Vinh Phuc, and southern Binh Dinh province to house its hi-tech companies.*

*The same day, Foxconn reached an agreement with the Saigon Invest Group for exploratory work, and the construction of urban area, industrial zones and power plants in Viet Nam. -Enditem (source:vnanet.vn 2007).*

### ***Korean company to build highest building in Vietnam***

09:25' 24/08/2007 (GMT+7)

*VietNamNet Bridge - The Vietnamese Government has just granted a licence for Keangnam Company of South Korea to build the highest building on Pham Hung road in Hanoi with a total investment capital of US \$1.05 billion, said Hanoi-based South Korean Embassy.*

*The construction of Keangnam Hanoi Landmark Tower, 336 metres high, the 17th highest building in the world as of July 2007, will begin late this month and be expected to be completed in 2010.*

*The building, including 70 storeys over the land surface and two basement storeys, will become the highest in Vietnam. So far, the highest building in Vietnam is the 34-storey Vinaconex apartment building built in Trung Hoa – Nhan Chinh urban area in Hanoi.*

*The Keangnam Hanoi Landmark Tower is located on Pham Hung road in a new urban centre of Hanoi, more than 20 kilometres north of the Noi Bai International Airport. The building will be constructed on an area of 46,008 square metres. The company will also build two 47-storey apartment buildings in the same location.*

*The Keangnam Company is also carrying out other projects in new Western Ho Tay (West Lake) in Hanoi together with Daewoo, Daewon, Dongil and Kolon construction companies.*

*(Source: Nhan Dan)*



#### **RoK builders bet on Vietnam**

17:17' 06/01/2007 (GMT+7)

*Many construction companies from the Republic of Korea are flocking to Vietnam in an attempt to seek new investment opportunities in a booming economy, according to RoK experts.*

*The Korean market is currently experiencing a slump after the local government applied a series of measures to reduce property speculation, Ahn Kwang-seop said.*

*In January last year, a consortium of five Korean construction companies won a US \$1 billion contract to build a new urban area in the Hanoi Capital. The builders included Daewoo Engineering & Construction Company, Kolon Engineering & Construction Company, Keangnam Enterprises, Daewon Company and Dongil Construction Ltd.*

*In December, Posco Engineering & Construction Company and Vietnam's Construction Import-Export joint-stock company (Vinaconex) were licensed to jointly*



*develop a US \$1.4 billion project to build the An Khanh new residential area in the northern province of Ha Tay.*

*The project is scheduled to begin in May and completed by 2020. Other projects are underway. After a 10-year interruption, the Kumho Asiana Plaza Firm has resumed its US \$260 million project to build the Kumho Asiana Plaza centre in downtown Ho Chi Minh City.*

*Other RoK construction firms are making inroads in the Vietnamese housing market, particularly in apartments and villas. The Lee & Co Group, for example, recently received permission from the HCM City authorities to build an office building in the city. Daewon and Hanshin are also completing final procedures to develop apartment projects. Many RoK construction companies began their business in Vietnam in early 1990s but were forced to stop after the 1997 Asian financial crisis. In 2004, RoK builders began to return to Vietnam.*

*A perspective of the An Khanh new residential area in Ha Tay province*

(Source: VNA)

#### a. Employees and Construction labor

According to report of VIE/98(Social safety net study)The important contribution labour-based construction has already made to the development of Vietnam's public sector infrastructure. With some notable exceptions most roads, water and irrigation schemes, community buildings and agricultural projects have been built by men and women using their own labour and the simplest of technologies.

In recent times numerous construction projects have been designed around the mobilization and harnessing of large labour forces. To construct and rehabilitate valuable public sector infrastructure. By the report of SSN, there are some 30 million workdays have been expended on the construction of sea dykes in 12 northern and central provinces over a period of 9 working years on two major world food programme projects.

In the rural sector, both the sea dyke and rural roads initiatives are targeted at the poorest and most needy communities. The development of participatory irrigation management operation and maintenance procedures is mobilising farmers.

#### 4. Overview of the Construction Industry

By data of MOLISA, the total workforce in Vietnam comprised around 40,2 million of which 94 % were of working age. In 2000, there are 62,7% were working in agriculture, 13.2% in industry and construction, and 24.3% in service sector. The statistics on the value-added per employee was not available. According to findings by B.S.Tang(2003) that the construction sector productivity had experienced a significant drop since the Asian financial crisis. The increasing use of equipment and machinery, coupled with the application of higher level of technology caused a rather quick progress in productivity.

**Table 3: 10 biggest foreign investors to Vietnam (as of October 2005)**

No	Countries/Territories	Number of projects	Registered capital (million US dollars)	Realized capital (million US dollars)
1.	Taiwan	1,384	7,739.90	2,961.44
2.	Singapore	383	7,508.93	4,180.78
3.	South Korea	1,004	5,391.92	2,504.74
4.	Hong Kong	351	3,683.71	1,940.50
5.	B.V.Islands	243	2,623.56	1,267.26
6.	France	162	2,136.86	1,165.36
7.	Netherlands	60	1,886.33	1,784.53

8.	Thailand	125	1,474.08	716.82
9.	Malaysia	175	1,471.38	843.51
10.	US	245	1,398.48	739.23

Table 4: Top Ten Foreign Direct Investor Nations in first six months of 2007.

Rank <sup>2</sup>	Nation	Number of Projects	Total Capital (US\$b)	Implemented Capital (US\$b)
1	Rep. of Korea	1,560+	10.608+	2.933+
2	Singapore	509+	9.610+	4.072+
3	Taiwan	1,706+	9.175+	3.175+
4	Japan	857+	8.509+	5.170+
5	Hong Kong	414+	5.586+	2.326+
6	Br.Vir.Islands	311+	4.282+	1.445+
7	United States	347+	2.577+	0.784+
8	Netherlands	78+	2.457+	2.242+
9	France	187+	2.384+	1.152+
10	Malaysia	222+	1.809-	1.136-

Table 5: FDI in economic sectors (as of October 2005)

No	Sector	Number of projects	Investment capital (million US dollars)	Realized capital (million US dollars)
1.	Heavy industry	1,161	12,210.08	6,326.31
2.	Light industry	1,633	8,206.71	3,189.37
3.	Construction	304	3,942.21	2,157.90
4.	Food industry	257	3,083.78	1,882.98
5.	Oil industry	27	1,891.19	4,555.11
6.	Agro-Forestry	649	3,367.28	1,678.27
7.	Fishery	110	303.47	152.22
8.	Office and apartment	110	3,884.11	1,692.61

	construction			
9.	Transportation-Post	158	2,907.51	716.68
10.	Hotel-Tourism	171	2,849.07	2,121.81
11.	Municipal construction	4	2,551.67	51.29
12.	Other services	416	1,112.82	350.99
13.	Culture-Health-Education	201	1,103.26	273.05
14.	Processing and Industrial infrastructure construction zone	20	986.10	521.37
15.	Finance-Banking	53	702.55	611.93

*Compiled from Investment Review, Economic Times and www.vneconomy.com.vn from 2<sup>nd</sup>-4<sup>th</sup> November 2005).*

## 5. Future development concerning construction innovation

### a. Socio-economic and political constraints

The renovation policy since 1986 had brought about substantial economic progress in Vietnam. During this period, the construction industry had made remarkable contribution to the economic growth of the country, especially in building up its infrastructure. From 2002, the government was expected to concentrate on capital investment in key projects that promote modernization and industrialization of the country. This projects include airport expansion (of Noi Bai, Tan Son Nhat and Chu Lai), deep water ports (Cailan, Thi Vai, Dung Quat, Van Phong, Lien Chieu, Nghi Son)

It was increasingly recognized that research and development of new construction technology required international cooperation. The policy of MoC focused on the following objectives:

- Encourage professional institutes to move towards modernization;
- Assessment and review of the level of construction technology in the country;
- Application of modern information technology;
- Enhancement of modernization of standards that aims to secure joint venture with international community;
- Training of young groups; and
- Reform of training program for technical labour.

The MOC had set the policy that, by the year 2010, the industry should raise its construction science and technology to the regional level with regard to the following areas:

- Complete systems of policies, codes, research and development, and education;
- Ability of SOEs to construct complex projects underground or on the sea, and
- High skill professional teams in sufficient quantities.

#### **b. Regulation and institutional Frameworks**

According to report of The World Bank (February 2006) the construction planning represent by the following issues:

1 A hierarchical system of construction planning has been in place in Vietnam since it first gained independence from France in 1954. The current regime is governed by three key legal instruments, the 2003 Construction Law, Decree 08/2005/ND-CP of the National Government on Construction planning, and Ordinance 15/2005/TT-BXD of the Ministry of Construction guiding assessment and approval of construction planning. Under this legislation there are three principal types of physical plan. These are regional plans, master plans and detail plans of scale 1/2,000 and 1/500.

2 Regional plans (scale 1/25,000) cover contiguous territory may comprise of several municipalities or provinces, or can be limited to a regions designated by function (for example, zones for industry, urban use, agriculture and tourism, and environmental protection). These plans can cross cut different administrative areas and their authority is limited to their specific purpose. The functional scope of any plan depends entirely upon their objective

3 The next level is the Urban Master plan (scales 1:2000 to 1: 25,000) which are prepared for whole cities or towns, for districts of centrally governed cities, for new cities, and for high tech and special zones (e.g. tourism, heritage, conservation, industrial zones etc). The overall objective for these plans is to control urban spatial development and infrastructure construction within their administrative limits. Master plans are prepared for a 15-20 year period and are updated every five years. As an illustration, the current Hanoi Master Plan to 2020 are their technical requirements and the institutional responsibilities for their preparation.

## **THE CONSTRUCTION PROCESS**

**1. Environmental Protection Plan** - Prepared by the CLIENT with the guidance of V V G, for the approval by the Provincial or City Environmental Department. Documents to be prepared and submitted include:

- Official Letter Request executed by the CLIENT for submission to the Environmental Department
- Environmental Protection Plan
- Eco-Technical (or Feasibility) Study of the Project

- Investment License
- Layout of the Project (include architectural plans and drawings)
- Land Allocation Map and Land Use Approval issued by the provincial or City People's Committee

**2. Fire Protection Plan** - Prepared by the **CLIENT** with the guidance of V V G, for the approval of the Fire Protection Department of the Province or City. Documents to be prepared and submitted include:

- Official Letter executed by the CLIENT for submission to the Fire Protection Department
- Detailed design of fire-risk and safety solution for fire-explosion prevention plan. Details should include the type of business; inflammable grade of construction materials, raw materials, supplies, and equipment; location of emergency exits; elements and location of internal fire suppression equipment; elements and location of fire protection water supply; elements and design of electrical systems; elements and location of lightning-suppression systems.
- Investment License
- Layout of project
- Land Allocation Map and Land Use Approval issued by the provincial or City People's Committee

**3. Application of Design Details** - Prepared by the CLIENT with the guidance of V V G, for submission to the Construction Department of the Province or City. The documents include:

1. Application letter executed by the CLIENT
2. Investment License
3. Eco-Technical (or Feasibility) Study of the project
4. Land Allocation Map and Land Use Approval issued by the provincial or City People's Committee
5. Construction Project Design Plans (4 sets) consisting of:
  - Geological Report
  - Layout of the project and technology line
  - Main structure drawings to include foundation
  - General architectural drawings: construction block, cross-section, profile, layout of technology floors.
  - System layout of waste water treatment plan, network plan of infrastructure support to include: water supply, drainage system, power supply, roadways, fence lines, etc.
  - Fire Protection Plan
  - General Report
  - List of standards used in the design.

The Vietnamese legal (juridical) status of the design organization confirmed by its business license, or the design permit granted by the Ministry of Construction if the designer is a foreign entity.

Upon receipt of approvals of (1) the Environmental Protection Plan and (2) the Fire Protection Plan, they are to be submitted to the Construction Department as part of the application process.

## 6. Looking ahead

Vietnam is developing very fast and is very much oriented towards the future with the rapid economic development in Vietnam. According to Pekka Hyvönen(2007) Vietnam will be able to handle the exploding economy in a sustainable way without damaging the environment. "Also Vietnam has to make sure to maintain a social development which ensures that the gap between the rich and the poor is not too big", he says.

Y.H. Chang (2004) compile that the whole construction industry will have to undergo reforms in the following directions:

- Investing in technology and modern construction equipment to promote industrialized production.
- Reorganizing existing industry into strong construction groups and units that are capable of implementing large-scale construction projects with complicated techniques in the local economic development regions and industrial zone.
- Strengthening the abilities of the construction organizations in order to perform different kinds of construction business.
- Setting up management institutions, and strengthening the legal environment of create favourable conditions for the contractors to carry out their business activities, and to support domestic and foreign construction companies to participate in foreign investment projects.

Other experts concern that with an annual growth rate of more than 7% in recent years, the second-highest in the Asian region after China, Vietnam is seen as a land of milk and honey. Ahn Kwang-seop (2007), an official of the RoK Construction Association, said contractors were arriving to stay one step ahead of their foreign competitors. However, foreign investors who may complain elsewhere when faced with the same patterns of corruption, bureaucracy, dual pricing, and lack of transparency.

BMI report (2007) contend that Vietnamese policies will change to favor FDI to better compete with its neighbors in Southeast Asia, and stand up to the extreme competition coming, and only increasing, from China. The question is, why must it take so long?

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