VIETNAM INVESTMENT INCENTIVES

I. GENERAL INCENTIVES

A. Investment Law

Decree No. 108/2006/ND-CP ("Decree 108"), dated September 22, 2006, is the main implementing regulation for the Vietnam's Law on Investment, dated November 29, 2005. While Law 108 does not detail the actual investment incentives, it lists the business sectors and geographical areas entitled to investment incentives. Article 22 of Chapter 4 on Investment Incentives names four lists of businesses and locations entitled to the incentives, namely (i) business sectors entitled to special investment incentives, (ii) business sectors entitled to investment incentives, (iii) geographical areas with especially difficult socio-economic conditions, and (iv) geographical areas with difficult socio-economic conditions. The article also stipulates the business sectors entitled to special investment incentives [Point (i) above] is entitled to receive the same incentives as the geographical areas with difficult socio-economic conditions [Point (iv) above]. (*Please refer to Annex I for the full list of business sectors and geographical areas.*) Article 25 states that corporate income tax (CIT) and import duty incentives will be determined by Vietnam's tax and customs regulations. Chapter 4 also provides for the Vietnamese government to encourage "investment supports," including the transfer of technology, training, and other areas.

A selection of relevant business sectors entitled to investment incentives are as follows:

<u>Selected List of Business Sectors Entitled to Special Investment Incentives</u>

- Projects employing 5,000 or more employees on a regular basis.
- Investment in the construction of establishments using solar energy, wind energy, biogas, geothermic and tidal energy.
- Production of medical equipment for analytical and extractive technology in the medical sector; orthopedic equipment, specialized vehicles and equipment for the disabled.
- Production of computers, telecommunication and communication and Internet equipment and key information technology products.
- Production of semi-conductors and hi-tech electronic components; production of software products, items of digital information; provision of services on software, research into information technology and training of human resources for information technology.
- Investment in the production and manufacture of precision mechanical engineering equipment; equipment and machines for examination and control of industrial manufacturing safety; industrial robots.
- Application of high technology or new technology which has not yet been used in Vietnam; application of bio-technology.
- Research, development and nursery of high technology.
- Investment in research and development (R & D) accounting for 25% or more of the revenue.

<u>Selected List of Business Sectors Entitled to Investment Incentives</u>

- Projects regularly employing between 500 and 5,000 employees.
- Investment in the construction of new power plants, in power distribution and transmission.
- Production of medical supplies and equipment.

- Production of equipment used for testing toxic substances in foodstuffs.
- Production of electronic appliances.
- Production of machines, equipment and detail assemblies for the following sectors: oil and gas exploitation, mining, energy and cement; production of large-sized lifting equipment; production of machine tools for metal processing and metallurgy equipment.
- Investment in the manufacture of high and medium voltage electric devices or generators of large capacity.
- Investment in the production of diesel engines; investment in the repair or building of ships; equipment and spare parts for transportation ships and fishing ships; production of dynamic and hydraulic machinery and spare parts and compressing machines.
- Production of equipment, vehicles and machinery for construction; technical equipment for the transportation sector; locomotives and carriages;
- Investment in the manufacture of machine tools, machinery, equipment and components for agricultural and forest production; machinery for food processing; irrigation equipment.
- Investment in the production of equipment, machinery for textiles, garments and leather industries.
- Manufacture of equipment for responding to and dealing with oil spills.
- Manufacture of equipment for waste treatment.
- Investment in the construction of technical facilities and works: laboratories and experimental stations to apply new technology to production; investment in the establishment of research institutes.
- Development of mass transit including: transportation by ships, aircraft; railway transportation; road transportation of passengers by cars with 24 seats or more; transportation of passengers by modern and high-speed vehicles by inland waterway; container transportation.

B. Temporary Fiscal Incentives

Vietnam issued a series of temporary fiscal incentives, which are effective until December 31, 2009, in response to the global economic crisis. To implement the Vietnamese Prime Minister's decisions on temporary fiscal incentives, the Ministry of Finance (MOF) issued Circular No. 91/2009/TT-BTC ("Circular 91") and Circular No. 85/2009/TT-BTC ("Circular 85") on May 12, 2009, and April 28, 2009, respectively.

Circular 85, which implements Decision No. 58/2009/QD-TTg (Decision 58"), dated April 16, 2009, provides for a series of fiscal incentives, including a 50 percent VAT reduction, an extended VAT payment period, a 30 percent corporate income tax (CIT) reduction, and a 50 percent registration fee reduction for certain goods.

Circular 91 also halves the VAT rate to 5 percent on an extensive set of goods and services. It implements and expands the scope of goods and services entitled to VAT reduction under Decision No. 16/2009/QD-TTg ("Decision 16"), dated January 21, 2009.

Each circular covers a different scope of goods. Decision 16 applies to goods and services sold from February 1, 2009 to December 31, 2009, and Decision 58 applies to sales transactions from May 1, 2009 to December 31, 2009. The VAT reduction halves the rate to 5 percent. While the effectiveness of both circulars end on December 31, 2009, Circular 85 takes effect on May 1, 2009, and Circular 91 takes effect on February 1, 2009. (*Please refer to the below table for a summary of the above mentioned incentives.)*

Summary of Temporary Fiscal Incentives for Selected Goods

	Circular 91	Circular 85
Implements:	Decision 16	Decision 58
Purpose:	To provide tax solutions for implementing the policy on stimulating investment and sales in order to alleviate the economic downturn and relieve hardships for enterprise, including a 50 percent VAT tax reduction for some goods and services.	To provide additional measures to which has been provided under Decision 16 including extending the list of goods which is subject to 50 percent VAT tax reduction.
Effective Period for VAT Reduction:	From February 1, 2009 to December 31, 2009	From May 1, 2009 to December 31, 2009
Scope of Selected Goods and Services entitled to 50 Percent VAT reduction:	1. Automobile components comprising engines, gear boxes; clutches and sections of such goods; ships and boats; the various types of casting moulds; explosive materials grindstones; artificial plywood; industrial concrete products comprising concrete bridge beams, concrete building beams and frames, concrete boxes, panels and non-standard ready-made reinforced concrete units or parts, and commercial concrete products; types and inner tuber sets of size 900-20 or larger; and neutral glass tubes 2. Automatic data processing machines and their sections and accessories	Two and three wheel motor vehicles with cylinder capacity above 125 cm^3

Circular 85

Circular 85 provides a series of fiscal incentives including the 50 percent VAT reduction, an extended VAT payment period, a 30 percent corporate income tax (CIT) reduction, and a 50 percent registration fee reduction for certain vehicles. It halves the VAT rate for five groups of goods, including (i) motorbikes with a cubic capacity above 125 cm; (ii) fibers, yarns, textiles, garments, and leather footwear; (iii) paper products, except for books, newsprint and paper products subject to special consumption tax; (iv) cement; and (v) bricks and tiles. The VAT reduction also applies to substandard products and manufacturing discards. Businesses may apply the VAT reduction throughout its importing, production, handling, and commercial operations.

Goods entitled to an extended 180-day, VAT-payment period include imported machinery, equipment, spare parts, and specialized transportation vehicles that (i) cannot be produced locally, and (ii) will become part of the business' fixed assets. The VAT payment period starts from the date the customs declaration form is filed with Vietnamese Customs and includes public holidays. This incentive applies to custom declaration form filed from May 1 to December 31, 2009, with Vietnamese Customs.

Circular 85 also grants a 30 percent CIT reduction on the fourth quarter income from the production activities of fiber, weaving, dyeing, sewing, and manufacturing leather shoes. Passenger cars with less than 10 seats are entitled to a 50 percent reduction in registration fees.

Circular 91

Circular 91 halves the VAT rate for an extensive list of goods for consumption and production. It includes more items than originally provided for under Decision 16. Some of the goods entitled to the VAT reduction include, but are not limited to, certain automotive vehicles, automotive components, knives and cutting blades; mechanical tools, such as welding rods; water tanks with a capacity of over

300 litters; steam boilers; steam turbines and other types of turbines; freezing equipment and ice machines; laboratory equipment; liquid or gas-refining machinery and equipment; agricultural machines and gardening equipment; milking machines and milk processing machines; printers, copiers and fax machines; and automatic data processing machines.

Other Temporary Fiscal Incentives

Circular 13

MOF Circular No. 13/2009/TT-BTC ("Circular 13"), dated January 22, 2009, implements PM Decision No. 16/2009/QD-TTG on January 21st 2009. It halves the VAT rate to 5 percent from February 1 to December 31, 2009, on the certain goods. Relevant goods include mechanical-engineering products used as production materials, cars of all kinds and various car components, ships, casting moulds, tires, neutral glass tubes, products cut or rolled from certain metals, and automatic data processors and parts and accessories (including computers). Other goods include, but are not limited to, coal, basic chemicals, explosives, grindstones, artificial plywood, industrial concrete products, cargo handling, and domestic transport.

Circular 3

MOF Circular 3, issued January 13, 2009, grants a 30 percent CIT reduction to small and medium enterprises (SMEs) for the fourth quarter of 2008 and year of 2009.

Circular 4

MOF Circular 4, issued in January 2009, allows exporters to apply for a temporary refund of 90 percent of total input VAT.

Circular 5

MOF Circular 5, issued in January 2009, allows certain companies to delay the payment of import duties. These companies should be in the shipbuilding industry, mechanics, and agricultural-product processing that import materials for producing exported goods.

C. Corporate Income Tax Law

General Fiscal Incentives

The revised Corporate Income Tax (CIT) Law (Law No. 14/2008/QH12), dated June 3, 2008, lowered the CIT rate from 28 percent to the current rate 25 percent. It provides for preferential CIT tax rates of 10 percent and 20 percent, removing the 15 percent preferential tax rate. Furthermore, businesses are entitled to income tax exemption for a four years followed by 50 percent reduction in income tax for the following nine years include newly-established enterprises located in areas with especially difficult socio-economic conditions, in economic zones and in high-tech zones, and those involved in high-tech, scientific research and technological development. Newly established enterprises with projects in areas with normal levels of socio-economic hardship are exempted from income tax for two years and are entitled to a 50 percent reduction on income tax for the following four years. (*Please refer to the below table for a summary of the above mentioned incentives.)*

The new CIT Law also allows firms to carry over a loss for a maximum period of five years. It took effect as of January 1, 2009.

Summary of Preferential CIT Rates and Duration

No.	Preferential CIT Rates	Conditions	Duration	Tax holidays	
				CIT Exemption	CIT Reduction
1.	20%	Newly-established enterprises under investment projects in geographical areas with socio-economic difficulties	10 years	2 years from generating taxable income	50% CIT reduction for 4 consecutive years.
2.	10%	Newly-established enterprises under investment projects in geographical areas with extreme socio-economic difficulties, economic zones or hi-tech parks; newly set up enterprises under investment projects in the domains of high technology, scientific research and technological development, development of the State's infrastructure works of special importance, or manufacture of software products	15 years	4 years from generating taxable income	50% CIT reduction for 9 consecutive years.

Source: Investment & Trade Promotion Centre of Ho Chi Minh City

The breakdown of the tax incentives under the CIT Law and its implementing regulations (Decree 124/2008/ND-CP and Circular 130/2008/TT-BTC, both issued in December 2008) are described in the below sections.

Investment projects shall be entitled to incentives upon their issuance of investment certificate provided those projects invest in preferential investment areas and/or preferential investment sectors. (*The list of geographical investment areas is in Annex II.*) The details of the incentives are as follows:

(i) Newly-established enterprises from investment projects in areas with especially difficult socio-economic conditions or in economic zones and high-tech zones established pursuant to a decision of the Prime Minister of the Government of Vietnam shall be entitled to preferential CIT rate of 10 percent for 15 years regardless or their scope of activities;

(ii) Newly-established enterprises from investment projects in the sectors of High-tech, scientific research and technological development, important infrastructure works and computer software products shall be entitled to preferential CIT Tax rate of 10 percent for 15 years;

(iii) Newly-established enterprises from investment projects in areas with difficult socio-economic conditions shall be entitled to the preferential CIT rate of 20 percent for 10 years.

(iv) Newly-established enterprises from the investment projects prescribed in points (i) and (ii) above shall be exempted from corporate income tax for a period of 4 years and shall be entitled to a 50 percent reduction of the amount of CIT payable for a period of 9 subsequent years.

(v) Newly-established enterprises from the investment projects prescribed in point (iii) above shall be exempted from CIT for a period of 2 years and shall be entitled to a 50 percent reduction of the amount of CIT payable for a period of 4 subsequent years.

The duration of the CIT reductions and exemptions shall be calculated from the first year in which the enterprise earns taxable income. If an enterprise does not have taxable income in the three years from which is first generates revenue, the duration of the tax reduction or exemption will start from the fourth year from when it generates revenue.

Other CIT Incentives

To promote science and technology development, an enterprise may deduct 10 percent of its taxable income to establish a fund for research and development. If the enterprise does not use at least 70 percent of the fund or uses the fund for a different purpose in five years, it must pay CIT on the reserved fund plus interest.

In additional, foreign investment projects attached to establishment of an enterprise shall be entitled to other corporate income incentives related to their employment as follows:

(i) Enterprises engaged in production, construction or transportation which employ a number of female employees shall be entitled to a CIT reduction equal to the additional amount of expenses incurred for female employees;

(ii) Enterprises employing ethnic minority people shall be entitled to a CIT reduction equal to the additional amount of expenses incurred for ethnic minority employees.

D. Value Added Tax

The Vietnamese National Assembly approved the Law on VAT or Law No. 13-2008-QH12 ("Law 13" or "VAT Law") on June 3, 2008. A major change under the new VAT legislation is that machinery and equipment, which are not manufactured in Vietnam and are imported to form fixed assets, are no longer exempt from VAT. Another change is that input VAT on fixed assets is fully creditable regardless of their use in VAT-taxable or nontaxable activities. The VAT rate is 10 percent.

Decree No. 123/2008/ND-CP ("Decree 123"), dated December 8, 2008, implements the VAT Law by addressing the scope of VAT taxpayers, goods and services exempt from VAT, the time of VAT determination, and input VAT deductions and credits. Export goods and services are entitled to a 0 percent VAT rate.

Relevant goods exempt from VAT include the following:

- machinery, equipment and materials which are not yet able to be produced domestically and which are required to be imported for direct use in scientific research and technological development activities.

- machinery, equipment, replacement parts, specialized means of transportation and materials which are not yet able to be produced domestically and which are required to be imported to carry out prospecting, exploration and development of petroleum and natural gas fields.

- aircraft, drilling platforms and watercraft which are not yet able to be produced domestically and which are required to be imported to form fixed assets of enterprises or which are leased from foreign parties for use in production and business and in order to be sub-leased.

Also, goods not subject to VAT include goods traded between foreign parties and non-tariff zones, and traded between non-tariff zones.

Relevant goods entitled to a halved VAT rate of 5 percent include the following:

- specialized machinery and equipment for agricultural production including ploughs, harrows, sowing machines, seeding machines, rice plucking machines, reaping machines, combined reaping and threshing machines, harvesters for agricultural produce, and insecticide spraying machines and pumps.

- specialized machinery and equipment for agricultural production including ploughs, harrows, sowing machines, seeding machines, rice plucking machines, reaping machines, combined reaping and threshing machines, harvesters for agricultural produce, and insecticide spraying machines and pumps.

Notably, MOF Circular 129, dated December 26, 2008, increases the VAT on some products and services, which were originally entitled to the reduced rate of 5 percent, to the normal rate of 10 percent. These products include:

- repair of certain machinery, equipment and means of transport;
- transport and registration of vehicles;
- automatic data processors and their parts and accessories;
- mechanical engineering products, moulds, explosives, grindstone, artificial plywood, industrial concrete products, tires and neutral glass tubes;
- coal, soil, stone, sand, gravel, basic chemicals and products from metallurgy, rolling and drawing of ferrous, non-ferrous or precious metals.

The increase in VAT for the above goods were effectively postponed until 2010 through Circular No. 13/2009/TT-BTC, dated January 22, 2009, for temporary fiscal stimulus measures. (*Please refer to the "Temporary Fiscal Incentives" section for more details on the circular.)*

E. Luxury Taxes

On November 14, 2008, the Vietnamese National Assembly passed Law No. 27/2008/QH12 ("Law No. 27") on the Special Sales Tax (SST), or luxury excise tax. The law was implemented by Decree No. 26/2009/ND-CP ("Decree 26"), dated March 16, 2009. The SST rate ranges from 10 to 75 percent. Relevant goods subject to the SST include (i) passenger vehicles with less than 24 seats, including vehicles designed for carrying both passengers and cargo with two or more rows of seats and designed with a fixed partition between passenger and cargo compartments; (ii) two-wheel and three-wheel motor vehicles with an engine capacity of 125 cubic centimeters or larger; (iii) aircraft and yachts for civilian, non-military purposes; and (iv) air-conditioners with a capacity of 90,000 BTU or less.

Non-taxable goods are as follows:

(i) Goods directly exported by their manufacturing or processing establishments or sold for export or assigned to another trading establishment for export;

(ii) Goods imported for humanitarian and non-refundable aid;

(iii) Goods imported as gifts to State bodies, political organizations, socio-political organizations, social-political-professional organizations, social organizations, socio-professional organizations and units of the people's armed forces; and goods imported as presents or gifts to individuals in Vietnam, within the limits stipulated in Government's regulations;

(iv) Goods transported from port to port, goods transported on roads that cross border gates or borders of Vietnam, and goods in transit as stipulated in Government regulations;

(v) Goods temporarily imported for re-export or temporarily exported for re-import within the period in which import or export duties are not payable pursuant to the law on import and export;

(vi) Goods that are personal belongings of foreign organizations and individuals within the standards on diplomatic immunity status; goods carried within the limits of permitted duty-free baggage; and goods imported for duty-free sale pursuant to law;

(vii) Aircraft and yachts used for business purposes, such as transportation of cargo, passengers and tourists, If the aircraft or yacht is not used for the specified business purpose, the vessel is subject to SST;

(viii) Special-purpose vehicles, comprising:

a. Vehicles specifically designed to be used as ambulances, prison vans, funeral hearses;

b. Vehicles designed with both seating and standing room for 24 or more passengers; and

c. Vehicles operating in entertainment, recreation and sporting areas. Such vehicles must not be registered for circulation and must not enter road traffic.

(ix) Certain air conditioners with a capacity of 90,000 BTU or less that are designed specifically for installation in transport vehicles comprising automobiles, train carriages, ships and vessels, and aircrafts

(x) Goods imported from abroad or sold from within Vietnam to a non-tariff zone and used only within such zone; and goods purchased and sold between non-tariff zones, except for passenger vehicles with less than 24 seats.

F. Import and Export Duties

Products under Chapters 84, 85 and 87 of the Harmonized System (the "Products") are not subject to export duties in accordance with current laws of Vietnam.

The applicable import duties for the Products in accordance with Preferential Tariff of Vietnam vary from 0 percent to 46 percent for the Products under Chapter 84, from 0 percent to 44 percent for the Products of Chapter 85, and from 0 percent to 87 percent the Products of Chapter 87. The tariff is subject to amendment from time to time in compliance with tax policies and commitments of Vietnam in International Treaties to which Vietnam is a signatory. However, the Products shall not be subject to import duties in case where they are purchased and sold as between non-tariff zones or exported from non-tariff zones.

For the purpose of implementation of provisions relating to value added tax and customs duties, the Ministry of Science and Technology has provided the list of which are not yet able to be produced domestically and which are required to be imported attached with the Decision No. 28/2004/QD-BKHCN, dated October 1, 2004.

Import Duty Exemptions

In general, imported goods used to produce goods for export are normally exempted from import duties.[1] Such imported goods include raw materials, intermediate inputs, and finished goods used in

[1] Investment & Trade Promotion Centre of Ho Chi Minh City, http://www.itpc.gov.vn/investors/how_to_invest/Tax, accessed November 13, 2009.

the manufacturing process. Raw materials, materials, and semi-finished goods that (i) are not domestically produced, (ii) will be used in the production, (iii) are for projects in investment incentive sectors, and (v) are imported by foreign-invested enterprises (FIEs) or foreign parties to business cooperation contracts (BCCs). The US State Department's Investment Climate Statement, dated February 2009, reaffirms this application to the Products stating, "Foreign investors are exempted from import duties on goods imported for their own use and which cannot be procured locally, including all equipment, machinery, vehicles, components and spare parts for machinery and equipment, raw materials, inputs for manufacturing and construction materials that cannot be produced domestically."

The Products qualify for general import duty exemptions under Law No. 45/2005/QH11 ("Law 45"), dated June 14, 2005, and effective January 1, 2006. These are as follows:

Non-taxable objects under Law 45 include:

- Goods-in-transit;
- Goods imported into and used in non-tariff zones;
- Goods brought into a non-tariff zone from another non-tariff zone; and
- Goods for humanitarian aid;

The import duty exemptions under Law 45 include:

- Goods that are temporary imported or exported;
- Goods with a processing contract that are (i) imported for processing for a foreign party and then exported and (ii) exported for processing for a Vietnamese party and then re-imported;
- Moveable assets pursuant to government regulations. Moveable assets are objects and materials used for living and working purposes that are carried with the owners when they leave their residence or terminate operations;
- Goods imported for the direct use in scientific research and development of technology, including machinery, equipment, accessories, materials, and vehicles that are not yet domestically produced;
- Raw materials, materials and component parts imported for production purposes in projects that are in the list of especially encouraged business sectors or list of geographic areas with especially difficult socio-economic conditions. The import duty exemption is for a period of five years starting from the commencement of production; and
- Goods imported to form the fixed assets of a project which is either encouraged or funded by Official Development Assistance (ODA). Such goods include:
    - (i) equipment and machinery;
    - (ii) specialized vehicles of a technological line or vehicle to transport employees;
    - (iii) components, sections, spare parts, fitting, moulds, and accessories for the equipment, machinery or specialized vehicle in (i) and (ii);
    - (iv) raw materials and materials used to manufacture equipment and machinery and their components, sections, spare parts, fitting, moulds, and accessories in (i) to (iii);
    - (v) construction materials that are not domestically produced;

(vi) goods that are essential to petroleum operations, include (a) equipment, machinery, replacement pieces and specialized vehicles, and (b) materials that cannot be domestically produced; and

(vii) equipment and facilities imported for the first time pursuant to an official list on investment projects for hotels, offices, apartments for lease, residential housing, commercial centers, technical services, supermarkets, golf courses, tourist resorts, sporting resorts, entertainment areas, medical diagnosis and treatment establishments and training, cultural, financial, banking, insurance, auditing, and consultancy services establishments

G. Industrial and Export Zones

The Vietnamese government issued Decree No. 29/2008/ND-CP ("Decree 29"), dated March 14, 2008, on Industrial Zones (IZ), Export Processing Zones (EPZ), Economic Zones (EZ), and Border Gate Economic Zones (EZB). Decree 29 groups IZs as comprising IZs and EPZs, and EZs as comprising EZs and EZBs, unless specified otherwise. Decree 29 provides provisions to establish and expand an IZ and EZ, and investment incentives for projects in IZs and EZs.

An IZ is a zone that specializes in the production of industrial goods and the provision of services for industrial production for either the domestic or export market. An EPZ is an industrial zone that specializes in the production of export goods and the provision of services for export production and activities. Notably, entities in EPZs do not need to export their production.[2] An EZ is a zone with a separate economic space, which provides a favorable investment and business environment particularly for investors. It is organized into functional areas, which include a non-tariff zone, duty free zone, export processing zone, industrial zone, entertainment zone, tourism zone, urban zone, residential zone, administrative zone, and other functional areas.

Due to the regulatory structure, this report section will be broken into two sub-sections, namely (i) IZ and EZ Investment Incentives, and (ii) EZB Investment Incentives.

<u>IZ and EZ Investment Incentives</u>

Investment projects, including expansion projects, in IZs are entitled to investment incentives if they are located in areas with difficult socio-economic conditions and extremely difficult socio-economic conditions. Investment projects in EZs, including expansion projects, located in areas with extremely difficult socio-economic conditions are entitled to investment incentives. (*The list of geographical investment areas is in Annex II.*) Such investment incentives are provided under the Law on Investment, Decree No. 108/2006/ND-CP ("Decree 108"), dated September 22, 2006. However, Decree 108 also does not specify the incentives and refers to the Law on Corporate Income Tax (CIT) and the Law on Import and Export Duties. It also refers to the relevant regulations on land and water surface rent and land usage fees.

Corporate Income Tax (CIT) Incentives

The CIT Law, or Law No. 14/2008/QH12, dated June 3, 2008, and its implementing regulation Decree No. 124/2008/ND-CP ("Decree 124"), dated December 11, 2008, do not provide specific provisions for IZs. For EZs, newly-established enterprises in EZs are entitled to in the order of (i) CIT exemption for 4 years, (ii) a 50 percent reduction in CIT for the next 9 years, and (iii) a preferential CIT rate of 10 percent for 15 years.

[2] "Country Commerce: Vietnam," The Economist Intelligence, April 2009.

The two regulations provide preferential tariff treatment for newly-established enterprises located in the aforementioned areas with (i) difficult and (ii) extremely difficult socio-economic conditions. Newly-established enterprises located in areas with difficult socio-economic conditions are entitled to in the order of (i) CIT exemption for 2 years, (ii) a 50 percent reduction in CIT for the next 4 years, and (iii) a preferential CIT rate of 20 percent for 10 years. Newly-established enterprises located in areas with extremely difficult socio-economic conditions are entitled to in the order of (i) CIT exemption for 4 years, (ii) a 50 percent reduction in CIT for the next 9 years, and (iii) a preferential CIT rate of 10 percent for 15 years.

Decree 29 stipulates that certain investment projects are entitled to the most preferential CIT incentives. The most preferential treatment under the CIT Law and Decree 124 is the same chronological series of (i) a CIT exemption for 4 years, (ii) a 50 percent reduction in CIT for the next 9 years, and (iii) a preferential CIT rate of 10 percent for 15 years. These investment projects are as follows:

- Projects classified as a special investment incentive sector in an IZ or EZ located in an area with extremely difficult socio-economic conditions
- Projects to construct or operate the infrastructure of non-tariff zones in EZs
- Projects in high technology sectors in IZs or EZs
- Large-scale projects that are significantly important to the development of an industry sector or geographical region upon approval from the Prime Minister

For tax deductions, Decree 29 allows enterprises with investment projects in IZs or EZs to deduct investment-related expenses for the construction, operation or lease of apartments and social infrastructure facilities to support employees working in the IZs and EZs.

Personal Income Tax (PIT) Incentives

Decree 29 reduces the personal income tax to both local and foreign employees working in an EZ by 50 percent.

Import Duties

Under the Law on Import and Export Duties, Law No. 45/2005/QH11 ("Law 45"), dated June 14, 2005, import duty exempt goods are raw materials, materials and component parts imported for production purposes in projects that are in the list of especially encouraged business sectors or list of geographic areas with especially difficult socio-economic conditions. The import duty exemption is for a period of five years starting from the commencement of production.

Other Preferential Treatment

Article 21 of Decree 29 provides for incentives in EPZs and Export Processing Enterprises (EPE). An EPE does not have to follow import, export or custom procedures for the purchase of stationary, food, and other consumables used in the entity's operations or for its employees living needs. Employees working in an EPZ or EPE do not have to report the amount of foreign currency they are carrying in or out of the EPZ or EPE to the customs authorities.

Decree 29 also has provisions to facilitate the funding to develop EZs and facilitate visas for foreigners engaged in the EZs.

EZB Investment Incentives

On March 2, 2009, Vietnamese Prime Minister Nguyen Tan Dung issued Decision No. 33/2009/QĐ-TTg ("Decision 33") on *Financial Regimes and Policies Applicable to Border Gate Economic Zones*. More specifically, Decision 33 applies to border gate economic zones with management committees and duty-free zones within border gate economic zones with a supervisory Vietnamese Customs office. The financial regimes and policies include fiscal incentives through corporate income tax (CIT), personal income tax (PIT), value-added tax (VAT), special sales tax (SST), import and export duties, land and water surface rent, land use fees, and other government fees. These fiscal incentives are covered in greater detail in the below sections.

Corporate Income Tax (CIT) Incentives

Investment projects of newly-established businesses in border gate economic zone are entitled to CIT incentives under Decree No. 124/2008/ND-CP ("Decree 124"), dated December 11, 2008, which implemented the CIT Law. The incentives are as follows:

- A 10 percent CIT rate for 15 years. Investment projects in certain sectors may receive an extension for a preferential period that lasts for no more than 30 years. These sectors, as prescribed in Article 15.1(b) of Decree 124, include high-technology, scientific research, technological development, software production, and infrastructure development in facilities important to the Vietnamese government.

- A CIT exemption for a maximum period of four years and a 50 percent CIT reduction for the following nine years. The calculation of the tax exemption and reductions starts from the first year that the enterprise earns taxable income from its investment project. If the enterprise does not have taxable income in the three years after which the project first generates revenue, the duration of the tax reduction or exemption will start from the fourth year.

Personal Income Tax (PIT) Incentives

Vietnamese citizens and foreigners working in and receiving income from their work in a border gate economic zone are entitled to a 50 percent reduction from their PIT obligations.

Value-Added Tax (VAT) Incentives

Goods and services not subject to VAT include those (i) exported from or (ii) produced and sold or used in the border gate economic zone's duty-free area. Goods and services brought into the border gate economic zone's duty-free area are entitled to a zero percent VAT rate. Such goods and services should be from other functional areas within the border gate economic zone or from other locations in Vietnam. Goods and services brought out from the duty-free zone into other functional areas within the border gate economic zone or into Vietnam for sale are subject to VAT in accordance to Vietnamese law.

Special Sales Tax (SST) Incentives

Decree 124 exempts goods from SST under certain cases. Except for passenger cars for less than 24 people, SST-exempt goods include those (i) manufactured and consumed within the border gate economic zone's duty-free area, and (ii) are imported into the duty-free area from abroad or internal Vietnam. Other SST-exempt goods are those exported abroad from the duty-free areas in the border gate economic zone. Goods from the duty-free zone that are brought into other functional areas in the border gate economic zone or into Vietnam for consumption are subject to SST.

Import and Export Duty Incentives

Decree 124 provides for import and export duty exemption for goods under a wide range of scenarios. The exemptions are as follows:

- Goods that are exempted from import duties and export duties include those (i) exported abroad from the duty-free zone in the border gate economic zone, (ii) imported from abroad into and are used only in the duty-free zone in the border gate economic zone, and (iii) brought to or from one duty-free zone to another duty-free zone.

- Goods that are manufactured, processed, reprocessed, or assembled in the border gate economic zone’s duty free zone for export are exempt from export duties.

- Imported raw materials and supplies that are used in the manufacturing process of an investment project in the border gate economic zone are exempt from import duties for a five-year period from the commencement of manufacturing. The Ministry of Industry and Trade (MOIT) is responsible for determining the classification details of the exempt goods.

- Imported semi-finished goods, which cannot be domestically produced and are used in the manufacturing process of an investment project in the border gate economic zone, are exempt from import duties for a five-year period from the commencement of manufacturing. The Ministry of Planning and Investment (MPI) is responsible for determining the list of semi-finished goods that cannot be produced in Vietnam.

- Finished goods produced in a duty-free zone that did not use imported inputs are exempted from import duties when they enter the rest of Vietnam. Imported inputs comprise raw materials, supplies, components, and semi-finished goods. Finished goods are goods that have been manufactured, processed, reprocessed, or assembled.

  If imported inputs were used in the production of a finished good that entered the rest of Vietnam, then the imported part of the good is subject to import duties. There are two methods to determine the import duty owed on the imported portion of the good. First, if the importing entity has already registered with a list of the inputs prior to the actual importation with Vietnamese Customs, then the import duty owed will be based on the imported inputs' quantity, tax rate and taxable price of the portion that actually forms the finished good. The list registered with Customs should include the fixed levels of imported inputs used to produce the finished good. Second, if the import duty owed cannot be calculated using the first method, then the import duty will be based on the tax rate and taxable price of the finished good at the time of filing the customs declaration.

- Imported inputs that are used for and left over from the production process in a border gate economic zone's duty-free zones and then sold in the rest of Vietnam are subject to import duties.

- Finished goods produced in the border gate economic zone's duty-free zone are still entitled to preferential import and export duties that they qualify for under the Law of Import and Export.

Land rent and water-surface rental incentives

Decree 142/2005/ND-CP, dated November 14, 2005, exempts land rental fees and water-surface rental fees investment projects in border gate economic zones. Investment projects in highly prioritized sectors are entitled to a complete exemption. Investment projects in normal-level prioritized sectors have an exemption period of 15 years starting from the construction completion date and when the project is commissioned for use. Investment projects that are not in a prioritized sector are entitled to an 11-year exemption period. Upon expiration of the exemption period, investment projects are entitled to a discounted land and water-surface rental fee. The discounted fee is equivalent to 30 percent of the lowest price in the applicable province. The Law on Investment provides the list of highly prioritized and normal-level prioritized projects.

Incentives on Land Use Fees

Investors using land for production purposes in a border gate economic zone are entitled to an exemption and/or reduction of land use fees in accordance with Decree No.198/2004/ND-CP, dated December 3, 2004, as amended by Decree No. 44/2008/ND-CP, dated April 9, 2008.

Other Fees and Charges

The management committees of border gate economic zones have the delegated authority to collect various fees and charges as follows.

- Fees for investment evaluation, issuance of business registration certificates, and provision of business registration information in the case of investment projects within the management committee's authority.

- Fees and charges for (i) the issuance, re-issuance, amendment, supplementing, and extension of licenses to establish a representative office of a foreign organization or foreign business entity in the border gate economic zone; and (ii) the issuance of business licenses for the purchasing and sales of goods and related activities by enterprises with foreign-owned capital and foreign investors who invest for the first time in the border gate economic zone with written approval from the MOIT.

- Fees and charges for (i) the issuance, re-issuance, extension, and revocation of work permits for foreigners and for overseas Vietnamese who work in the border gate economic zone, and (ii) the issuance of labor books to Vietnamese working in the border gate economic zone.

- Fees and charges for the issuance of certificates of origin for goods manufactured in the border gate economic zone.

- Fees and charges for the issuance of certificates to contracted organizations regarding real estate within the border gate economic zone.

- Fees and charges for the evaluation and approval of environmental impact assessment reports.

Decision 33 took effect on May 1, 2009. It also provides for investment projects that already have a valid investment license or certificate issued prior to Decision 33. If such investment license or certificate grants better incentives than those in Decision 33, the projects are still entitled to those privileges for the remaining period as a long as they continue to meet the license's or certificate's requirements. Is the investment license or certificate provides incentives that are less than those in Decision 33, the projects are entitled to the privileges under Decision 33 for the residual period. Decision 33 also extends its fiscal benefits to commercial industrial zones in the border gate economic zone if they were established by a Prime Minister decision prior to Decision 33 and if they satisfy the requirements to be a duty-free zone.

Practicalities

Vietnam has 194 IZs and export processing zones (EPZs). Many foreign investors note that it is faster and more convenient to implement their projects in industrial zones than outside the zones as the land use is already planned and they do not have to be involved in site clearance, compensation works and the construction of necessary infrastructure, which are time consuming and sometimes difficult. Foreign investment in the industrial zones is primarily in the light industry sector, such as food processing and textiles and garments. The number of heavy industry projects is still modest. (US Investment Climate Statement – Feb 09)

Customs warehouse keepers can provide transportation services and act as distributors for the goods deposited. Additional services relating to customs declaration, appraisal, insurance, reprocessing or packaging require the approval of the provincial customs office. In practice the level of service needs improvement. The time involved for clearance and delivery can be lengthy and unpredictable. (US Investment Climate Statement – Feb 09)

II. INDUSTRY-SPECIFIC MASTER PLANS

Vietnam is developing a series of master plans for the industries listed in Decision 55/2007/QD-TTg ("Decision 55"), dated April 23, 2007. Decision 55 lists seven priority and three key industries for the 2007-2010 period, and policies to support the development of those industries. Priority industries comprise textiles; footwear; plastics; agricultural, forestry, and aquatic-processed goods; steel; aluminum; and chemicals. Key industries include (i) the manufacture of machines and machinery (cars, shipbuilding, complete sets of equipment, agricultural machinery and electronic machinery); (ii) electronic equipment, telecommunications equipment, and information technology, and (iii) products from new technology (new energy, recycled energy, software industry and digital technology items). Key industries will receive benefits in addition to those granted to priority industries. Priority industries will receive incentives in the areas of land use, commercial promotion, and research implementation. In addition to priority industry incentives, key industries will also receive financial aid for environmental protection measures from the state budget not exceeding 50 percent of the project's investment capital.

Electronics Master Plan

Vietnam issued Decision No. 75/2007/QD-TTg, dated May 28, 2007, to approve the *Master Plan on the Development of Vietnam's Electronics Industry up to 2010, with a Vision towards 2020*. It aims to increase the industry revenue to USD 4 to 6 million by 2010, of which USD 3 to 5 million will be export revenue. The master plan lists its objectives to develop certain products as follows:

- To develop the group of products, comprising: (i) computers and peripheral devices; (ii) information-telecommunications products; (iii) products of medical electronics, industrial electronics, measurement and automation; and (iv) accessories, spare parts and subsidiary products.

- To raise the proportion of special-use electronic products, spare parts and accessories by promoting the manufacture and assembly 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 advantages in terms of resources.

- To prioritize the development of some subsidiary industries such as template treatment, casting, plastic pressing, metal piercing, and surface treatment (painting, plating, etc.) in service of the manufacture of spare parts and accessories for the electronics industry.

To support investment in the electronic industry, the master plan calls for:

- The improvement of the legal and IPR environment

- Tax policies to benefit assembling and manufacturing companies

- Compliance with international commitments, including the WTO and AFTA
- Reform administrative procedures and raise government ability to administer the electronic industry
- Invest in infrastructure, such as stable power supply and IT parks.

To finance the development of the electronics industry, the government is to (i) encourage foreign investment capital; (ii) mobilize domestic capital sources; (iii) prioritize investment capital from the state budget for infrastructure construction, human resource training, research and development (R&D) activities and trade promotion in electronics industry; and (iv) prioritize the use of overseas development assistance (ODA) capital for electronics industry development projects. To finance the development of key product, the government is to allocate funds from the State Budget for the program on development of key information technology products. The master plan also calls for policies to attract foreign investor to invest and transfer technology for high-technology goods.

<u>Mechanical Engineering Strategy</u>

Decision No. 186/2002/QD-TTg ("Decision 186"), dated December 26, 2009, approves the *Strategy on the Development of Vietnam's Mechanical Engineering Industry until 2010, with Vision to 2020*, which identifies the following key areas:

- Complete equipment,
- Prime movers,
- Mechanical engineering in service of agriculture, forestry, fishery and processing industry,
- Machine tools,
- Construction engineering,
- Ship-building engineering,
- Electric-electronic technical equipment,
- Automobile engineering - communications and transport engineering.

Decision 186 aims for the domestic industry to meet 45 to 50 percent of national demand for mechanical products by 2010. The industry is also to export 30 percent of its total output value by 2010. Article 1-3 of Decision 186 provides for details the policy goals by key product. (*Please refer to Annex III for Article 1-3 of Decision 186.)*

The decision provides for fiscal incentives of as follows:

- Import duty exemption or reduction on raw materials, components and parts of key mechanical products
- Tax exemption or reduction for a designated period for mechanical products made for the first time in Vietnam

Decision 186 provides for a several measures to finance the development of the mechanical engineering industry. The most concrete measure is that projects manufacturing key mechanical products are entitled to borrow capital with an interest rate of 3 percent per annum for 12 years under Government Resolution No. 11/NQ-CP of July 31, 2000, dated July 31, 2000. The project is also entitled to a two-year grace period and only has to begin repaying the loan on the fifth year. The government will subsidize the interest rate differential if the funds are from commercial loans. It is also to provide capital support for R&D measures.

Automotive Master Plan

The Vietnamese government approved the *Master Plan on Development of Vietnam's Automotive Sector until 2010 with Vision until 2020,* through the issuance of Decision No. 177/2004/QD-TTg ("Decision 177") on October 5, 2004. Decision 177 sets out its objectives in terms of "localization targets" for the production of certain types of vehicles and components. These automotives include (i) common-use automobiles, including trucks and passenger cars; (ii) special-use automotives; (iii) luxury automotives; and (iv) engines, gearboxes and spare parts. (*Please refer to Annex IV for the localization targets.*) Decision 177 aims for industry's export of automobiles and parts to be 5 to 10 percent of total output values by 2010.

The decision provides for fiscal policies of as follows:

- Import duty exemption on completely knocked-down (CKD) and incompletely knocked-down (IKD) component sets
- Imposition of import duties on imported components and spare parts that are domestically produced
- Corporate income tax exemption from "trial-manufactured products" for one year after the products are sold on the market

To promote industry clustering, the Automobile Master Plan aims to encourage the investment in the manufacture and assembly of automobiles and auto parts and components in the north, central and south regions - specifically, the "Economic Increase Triangle Area" (Hanoi, Hai Phong and Quang Ninh) in the North, the area from Hanh Hoa to Khanh Hoa province in the central region, and the "Economic Increase Quadrilateral Area" (Ho Chi Minh City, Ba Ria, Vung Tau, Dong Nai, Binh Duong and Can Tho City) in the South. Decision 177 also calls for policy support on technological advancement, transfer of technology, R&D, human resources training, and funding.

Motorcycle Master Plan

Vietnam issued Decision No.002/2007/QD-BCT ("Decision 2") on August 29, 2007, to approve the *Master Plan on Development of Vietnam's Motorcycle Industry in the 2006-2015 period with Vision until 2020*. It aims for the export turnover of motorcycles and their parts to reach USD 400 million by 2015 and USD 500 to 800 million by 2020. The decision does not explicitly provide for any fiscal incentives. To support the development of the motorcycle industry, it also calls for investment in processing by pressure, casting, welding, thermal treating, and pattern-making.

III. GENERAL INVESTMENT RESTRICTIONS

Vietnam places no investment restrictions for the relevant products, except for companies still entitled to incentives tied to an export ratio requirement. (*Please see the "Export Ratio" section below*.) Please note that Decree 108 implementing the Law on Investment provides for a Negative List and Restricted List, but the lists do not directly affect the relevant Products. Other challenges in the investment climate include poor infrastructure, unwieldy bureaucracy and legal and financial systems, non-transparent regulations, high start-up costs, lack of skilled human resources, lengthy investment license issuance process, and frequent changes in the investment environment in taxation and customs duties and procedures.[3]

[3] "US Investment Climate Statement: Vietnam," U.S. Department of State, February 2009, http://www.state.gov/e/eeb/rls/othr/ics/2009/117739.htm, last accessed November 5, 2009.

A. Local Content Requirement

General

Vietnam removed incentives based on local content ratios and export ratios to comply with its WTO commitments as of 2007 by issuing the former Corporate Income Tax Law, Decree No. 24/2007/ND-CP, dated February 14, 2007. Companies that were already entitled to the benefits before Vietnam's WTO accession date of January 11, 2007, are still entitled to those benefits through 2011. While the decree took effect on March 21, 2007, companies can continue to enjoy tax benefits stipulated under the Law of Investment (Decree No. 108/2006/ND-CP, dated September 22, 2006) if their investment licenses, investment certificates or business licenses were issued in the period from October 25, 2006, to March 20, 2007.

Automotive

Although the government has removed official local content requirements, it still sets voluntary localization targets for the automotive assembly industry. For general cars, the localization target for 2010 is 60 percent from 55 percent in 2008. (*Please refer to the table below*.) The Vietnamese government established the localization targets for passenger vehicles, trucks, specialized vehicles, luxury vehicles, and parts and components through 2010 through (i) the "Automobile Master Plan on Development of Vietnam's Automobile Sector until 2010 and with a Vision until 2020" and its issuing regulation, Prime Minister Decision No. 177/2004/QD-TTg ("Decision 177"), both dated October 5, 2004, and (ii) the Ministry of Science and Technology Decision No. 28/2004/QD-BKHCN ("Decision 28"), dated October 1, 2004. Despite the targets, in 2009, the car model with the highest localization ratio, namely the Toyota Innova, was 37 percent. To measure the actualization of the target, the Vietnamese government asks companies to voluntarily register their local content.

Decision 28 sets forth the following localization targets:

	2005	2006	2007	2008	2009	2010
Popular automobiles	40%	45%	50%	55%		60%
- Engines*	30%	35%	40%	45%		50%
- Gear boxes	65%	70%	75%	80%	85%	90%
Specialized automobiles	40%	45%	50%	55%		60%
Luxury automobiles						
- Automobiles manufactured by JVs	20-25%		30-35%			40-45%
Luxury buses	20%		30%			35-40%

*Note: For engines there is a discrepancy between Decision 177 and Decision 28, where Decision 177 prescribes that localization for engines in 2005 should be between 15%-20%.

B. Export Ratios

Certain businesses may still be entitled to corporate tax incentives based on export ratios until the end of 2011. Such businesses must have (i) received their investment license, business registration certificates or investment incentive certificates before Vietnam's WTO accession on January 11, 2007, (ii) derive income from the export of goods, and (iii) are not textiles and clothing exporters.

ANNEX I:

LIST OF DOMAINS ENTITLED TO INVESTMENT PREFERENCES

(Promulgated together with the Government's Decree No. 108/2006/ND-CP of September 22, 2006)

A. LIST OF DOMAINS ENTITLED TO SPECIAL INVESTMENT PREFERENCES

I. Manufacture of new materials and production of new energy; manufacture of products of high technology, of bio-technology and of information technology; mechanical manufacturing

1. Manufacture of composite materials, light construction materials, precious and rare materials.

2. Manufacture of high-quality steel, alloys, special metal, porous iron and steel billet.

3. Investment in the construction of establishments using solar energy, wind energy, biogas, geothermic and tidal energy.

4. Production of medical equipment for analytical and extractive technology in the medical sector; orthopaedic equipment, specialized vehicles and equipment for the disabled.

5. Application of advanced technology, bio-technology for production of medicines for human use up to international GMP standard; production of antibiotic materials.

6. Production of computers, telecommunication and communication and Internet equipment and key information technology products.

7. Production of semi-conductors and hi-tech electronic components; production of software products, items of digital information; provision of services on software, research into information technology and training of human resources for information technology.

8. Investment in the production and manufacture of precision mechanical engineering equipment; equipment and machines for examination and control of industrial manufacturing safety; industrial robots.

II. Breeding, rearing, growing and processing agricultural, forest and aquaculture products; salt making; production of artificial strains, new plant varieties and livestock breeds

9. Afforestation, tending of forests.

10. Breeding, rearing and growing agricultural, forest and aquaculture products on uncultivated land, unexploited waters.

11. Fishery in offshore sea waters.

12. Production of artificial strains, new plant varieties and livestock breeds of high economic value.

13. Production, mining and refining of salt.

III. Use of high technology and modern techniques; protection of the ecological environment; research, development and nursery of high technology

14. Application of high technology or new technology which has not yet been used in Vietnam; application of bio-technology.

15. Treatment of pollution and protection of environment; production of equipment for pollution treatment and equipment for observation and analysis of the environment.

16. Collection and treatment of wastewater, waste gas and solid waste; recycling or reuse of waste.

17. Research, development and nursery of high technology.

IV. Labor intensive industries

18. Projects employing 5,000 or more employees on a regular basis.

V. Construction and development of infrastructures and important projects

19. Investment in the construction and commercial operation of infrastructures of industrial parks, export processing zones, hi-tech parks and economic zones or important projects falling within the deciding competence of the Prime Minister.

VI. Development of education, training, health care, physical training and sports

20. Investment in the construction of facilities for treatment of tobacco or drug addiction.

21. Investment in the establishment of facilities for epidemic prevention and control.

22. Investment in the establishment of geriatric centers or centers for relief and care of the disabled and orphans.

23. Investment in the construction of centers of training for high-achievement sports, sport training for the disabled; the construction of sport facilities with training and competition equipment satisfying requirements for organization of international tournaments.

VII. Other manufacturing and service sectors

24. Investment in research and development (R & D) accounting for 25% or more of the revenue.

25. Salvage operations at sea.

26. Investment in the construction of apartment buildings for workers working in industrial parks, export processing zones, hi-tech parks and economic zones; investment in the construction of dormitories for students and of residential houses for social policy beneficiaries.

B. LIST OF DOMAINS ENTITLED TO INVESTMENT PREFERENCES

I. Manufacture of new materials and production of new energy; manufacture of products of high-technology, of bio-technology or of information technology; mechanical manufacturing

1. Production of soundproof, electricity insulated or high heat-insulated materials; synthetic materials used as a substitute for wood; fire-proof materials; construction plastics; glass fiber; special-use cement.

2. Production of non-ferrous metals and refining of cast iron.

3. Production of molds and prototypes for metal and non-metal products.

4. Investment in the construction of new power plants, in power distribution and transmission.

5. Production of medical supplies and equipment, construction of warehouses for preservation of pharmaceutical products, reserves of medicines for human use in case of natural disasters and dangerous epidemics.

6. Production of equipment used for testing toxic substances in foodstuffs.

7. Development of the petrochemical industry.

8. Production of coke and active coal.

9. Production of plant protection drugs, pesticides, preventive and curative drugs for animals and aquatic creatures; veterinary drugs.

10. Materials for production of medicines or medicines for prevention or treatment of social diseases; vaccines; biological products; medicines produced from pharmaceutical materials; eastern medicines.

11. Investment in the construction of facilities for biological experiment, assessment of the availability of medicines; pharmaceutical establishments satisfying GMP standards in producing, preserving, testing, and carrying out clinical tests of medicines, planting, rearing or harvesting and processing of pharmaceutical materials.

12. Development of sources of pharmaceutical materials and production of medicines from pharmaceutical materials; projects for research or substantiation of scientific grounds for prescriptions

for eastern medicines and formulation of standards for testing of prescriptions for eastern medicines; survey and statistics of types of pharmaceutical materials used for production of medicines; collection, inheritance and application of prescriptions for eastern medicines, finding, exploitation and use of new pharmaceutical materials.

13. Production of electronic appliances.

14. Production of machines, equipment and detail assemblies for the following sectors: oil and gas exploitation, mining, energy and cement; production of large-sized lifting equipment; production of machine tools for metal processing and metallurgy equipment.

15. Investment in the manufacture of high and medium voltage electric devices or generators of large capacity.

16. Investment in the production of diesel engines; investment in the repair or building of ships; equipment and spare parts for transportation ships and fishing ships; production of dynamic and hydraulic machinery and spare parts and compressing machines.

17. Production of equipment, vehicles and machinery for construction; technical equipment for the transportation sector; locomotives and carriages;

18. Investment in the manufacture of machine tools, machinery, equipment and components for agricultural and forest production; machinery for food processing; irrigation equipment.

19. Investment in the production of equipment, machinery for textiles, garments and leather industries.

II. Breeding, rearing, growing and processing of agricultural, forest and aquaculture products; salt making; production of artificial strains, new plant varieties and livestock breeds

20. Growing of plants for pharmaceutical purposes.

21. Investment in post-harvest preservation of agricultural products, preservation of agricultural and aquaculture products and foodstuffs.

22. Production of bottled or canned fruit juices.

23. Production and refining of feed for cattle, poultry and aquatic resources.

24. Technical services for planting industrial and forest trees, husbandry, aquaculture, protection of plants and livestock.

25. Production, multiplication or crossbreeding for new plant varieties or livestock breeds.

III. Use of high technology and modern techniques; protection of the ecological environment; research, development and nursery of high technology

26. Manufacture of equipment for responding to and dealing with oil spills.

27. Manufacture of equipment for waste treatment.

28. Investment in the construction of technical facilities and works: laboratories and experimental stations to apply new technology to production; investment in the establishment of research institutes.

IV. Labor intensive industries

29. Projects regularly employing between 500 and 5,000 employees.

V. Construction and development of infrastructures

30. Construction of infrastructures serving production and business of cooperatives and life of communities in rural areas.

31. Investment in and commercial operation of infrastructures and investment in the production in industrial complexes, industrial spots, complexes of rural trade villages.

32. Construction of water plants and water supply systems for civil and industrial use; investment in the construction of water drainage systems.

33. Construction and upgrading of bridges, roads, terminals, airports, seaports, railway stations, bus stations and parking lots; establishment of new railway routes.

34. Construction of technical infrastructures of concentrated population areas in the geographical areas in Appendix II to this Decree.

VI. Development of education, training, health care, physical training, sports and national culture

35. Investment in the construction of infrastructures for education and training establishments; investment in the construction of people-founded and private schools and education and training establishments at the levels of pre-school education; general education, vocational high-school education and tertiary education.

36. Establishment of people-founded and private hospitals.

37. Construction: physical training or sport centers, training facilities and physical training and sports clubs; establishments for production, manufacture and repair of equipment, supplies and equipment for physical training and sports.

38. Establishment of national cultural houses; national dance, music and song troupes; theaters, film studios, cinemas; establishments for production, manufacture and repair of national musical instruments; maintenance and preservation of museums, national cultural houses and culture and arts schools.

39. Investment in the construction of national tourist sites, ecological tourist sites and cultural parks for sports, entertainment and recreation activities.

VII. Development of traditional trades and occupations

40. Building up and development of traditional trades and occupations for production of fine-art and handicraft goods, processing of agricultural products and foodstuffs and cultural products.

VIII. Other manufacturing and service sectors

41. Provision of Internet connection, access and application services and points for accessing public telephones in areas in Appendix II to this Decree.

42. Development of mass transit including: transportation by ships, aircraft; railway transportation; road transportation of passengers by cars with 24 seats or more; transportation of passengers by modern and high-speed vehicles by inland waterway; container transportation.

43. Investment in the relocation of production establishments to non-urban areas.

44. Investment in the construction of class-I marketplaces and exhibition centers.

45. Production of children’s toys.

46. Activities in mobilizing capital and lending capital of people’s credit funds.

47. Legal consultancy, services of consultancy on intellectual property and technology transfer.

48. Production of various types of materials for production of pesticides.

49. Production of base chemicals, purified chemicals, special-use chemicals and dyes.

50. Production of materials for production of detergents and additives for the chemical industry.

51. Production of paper, cartons, artificial planks from domestic agricultural and forest materials; production of pulp.

52. Weaving and fashioning of textile products; production of silk and fibers of all types; tanning and processing of leather.

53. Investment projects on production activities in industrial parks established under decisions of the Prime Minister.

ANNEX II:

LIST OF GEOGRAPHICAL AREAS ELIGIBLE FOR ENTERPRISE INCOME TAX INCENTIVES

(Appendix to the Government's Decrees No. 108/2006/ND-CP of September 22, 2006 and No. 124/2008/ND-CP of December 11, 2008)

No.	Province	Geographical areas with extreme socio-economic difficulties	Geographical areas with socio-economic difficulties
1	Bac Kan	All districts and towns	
2	Cao Bang	All districts and towns	
3	Ha Giang	All districts and towns	
4	Lai Chau	All districts and towns	
5	Son La	All districts and towns	
6	Dien Bien	All districts and Dien Bien city	
7	Lao Cai	All districts	Lao Cai city
8	Tuyen Quang	Na Hang and Chiem Hoa districts	Ham Yen, Son Duong and Yen Son districts and Tuyen Quang town
9	Bac Giang	Son Dong district	Luc Ngan, Luc Nam, Yen The and Hiep Hoa districts
10	Hoa Binh	Da Bac and Mai Chau districts	Kim Boi, Ky Son, Luong Son, Lac Thuy, Tan Lac, Cao Phong, Lac Son and Yen Thuy districts
11	Lang Son	Binh Gia, Dinh Lap, Cao Loc, Loc Binh, Trang Dinh, Van Lang and Van Quan districts	Bac Son, Chi Lang and Huu Lung districts
12	Phu Tho	Thanh Son and Yen Lap districts	Doan Hung, Ha Hoa, Phu Ninh, Song Thao, Thanh Ba, Tam Nong and Thanh Thuy districts
13	Thai Nguyen	Vo Nhai and Dinh Hoa districts	Dai Tu, Pho Yen, Phu Luong, Phu Binh and Dong Hy districts
14	Yen Bai	Luc Yen, Mu Cang Chai and Tram Tau districts	Tran Yen, Van Chan, Van Yen and Yen Binh districts and Nghia Lo town
15	Quang Ninh	Ba Che and Binh Lieu districts, Co To island district and islands in the province	Van Don district
16	Hai Phong	Bac Long Vi and Cat Hai island districts	
17	Ha Nam		Ly Nhan and Thanh Liem districts
18	Nam Dinh		Giao Thuy, Xuan Truong, Hai Hau and Nghia Hung districts
19	Thai Binh		Thai Thuy and Tien Hai districts
20	Ninh Binh		Nho Quan, Gia Vien, Kim Son, Tam Diep and Yen Mo districts
21	Thanh Hoa	Muong Lat, Quan Hoa, Ba Thuoc, Lang Chanh, Thuong Xuan, Cam Thuy, Ngoc Lac, Nhu Thanh and Nhu Xuan districts	Thach Thanh and Nong Cong districts
22	Nghe An	Ky Son, Tuong Duong, Con Cuong, Que Phong, Quy Hop, Quy Chau and Anh Son districts	Tan Ky, Nghia Dan and Thanh Chuong districts
23	Ha Tinh	Huong Khe, Huong Son and Vu Quang districts	Duc Tho, Ky Anh, Nghi Xuan, Thach Ha, Cam Xuyen and Can Loc districts
24	Quang Binh	Tuyen Hoa, Minh Hoa and Bo Trach districts	Other districts
25	Quang Tri	Huong Hoa and Dac Krong districts	Other districts
26	Thua Thien Hue	A Luoi and Nam Dong districts	Phong Dien, Quang Dien, Huong Tra, Phu Loc and Phu Vang districts
27	Da Nang	Hoang Sa island district	

No.	Province	Geographical areas with extreme socio-economic difficulties	Geographical areas with socio-economic difficulties
28	Quang Nam	Dong Giang, Tay Giang, Nam Giang, Phuoc Son, Bac Tra My, Nam Tra My, Hiep Duc, Tien Phuoc and Nui Thanh districts, and Cu Lao Cham island	Dai Loc and Duy Xuyen districts
29	Quang Ngai	Ba To, Tra Bong, Son Tay, Son Ha, Minh Long, Binh Son and Tay Tra districts, and Ly Son island district	Nghia Hanh and Son Tinh districts
30	Binh Dinh	An Lao, Vinh Thanh, Van Canh, Phu Cat and Tay Son districts	Hoai An and Phu My districts
31	Phu Yen	Song Hinh, Dong Xuan, Son Hoa and Phu Hoa districts	Song Cau, Dong Hoa, Tay Hoa and Tuy An districts
32	Khanh Hoa	Khanh Vinh and Khanh Son districts, Truong Sa (Archipelagos) island district and islands in the province	Van Ninh, Dien Khanh and Ninh Hoa districts, and Cam Ranh town
33	Ninh Thuan	All districts	
34	Binh Thuan	Phu Quy island district	Bac Binh, Tuy Phong, Duc Linh, Tanh Linh, Ham Thuan Bac and Ham Thuan Nam districts
35	Dak Lak	All districts	
36	Gia Lai	All districts and towns	
37	Kon Tum	All districts and towns	
38	Dak Nong	All districts	
39	Lam Dong	All districts	Bao Loc town
40	Ba Ria-Vung Tau	Con Dao island district	Tan Thanh district
41	Tay Ninh	Tan Bien, Tan Chau, Chau Thanh and Ben Cau districts	Other districts
42	Binh Phuoc	Loc Ninh, Bu Dang and Bu Dop districts	Dong Phu, Binh Long, Phuoc Long and Chon Thanh districts
43	Long An		Duc Hue, Moc Hoa, Tan Thanh, Duc Hoa, Vinh Hung and Tan Hung districts
44	Tien Giang	Tan Phuoc district	Go Cong Dong and Go Cong Tay districts
45	Ben Tre	Thanh Phu, Ba Chi and Binh Dai districts	Other districts
46	Tra Vinh	Chau Thanh and Tra Cu districts	Cau Ngang, Cau Ke and Tieu Can districts
47	Dong Thap	Hong Ngu, Tan Hong, Tam Nong and Thap Muoi districts	Other districts
48	Vinh Long		Tra On district
49	Soc Trang	All districts	Soc Trang town
50	Hau Giang	All districts	Vi Thanh town
51	An Giang	An Phu, Tri Ton, Thoai Son, Tan Chau and Tinh Bien districts	Other districts
52	Bac Lieu	All districts	Bac Lieu town
53	Ca Mau	All districts	Ca Mau city
54	Kien Giang	All districts and islands in the province	Ha Tien

ANNEX III

Extract of Article 1-3 from Decision No. 186/2002/QD-TTg of December 26, 2009, approving the Strategy on the Development of Vietnam's Mechanical Engineering Industry until 2010, with Vision to 2020

***Article 1.-* To approve the strategy on development of Vietnam's mechanical engineering industry till 2010, with vision to 2020, with the following principal contents:**

3. Strategic orientation for development of a number of important mechanical specialties and product groups

a/ Complete equipment:

- To raise the capability to manufacture complete equipment with advanced technologies. To strive to manufacture equipment with high sophistication as substitutes for imported products and step by step proceed to export them. To raise the capability to design complete equipment, and efficiently combine them with technology of each industry.

- To concentrate investment in equipment and technologies in fundamental processes, such as molding, forging and creation of large casts, in order to synchronize equipment and technologies and meet the demand for manufacture of large and sophisticated workpieces and assemblies.

- To make the fullest use of equipment capacity of mechanical engineering enterprises throughout the country, to enhance the coordination in the division and cooperation in manufacturing complete equipment.

- To strive to meet 40% of the domestic demand for complete equipment by 2010. For the immediate future, to concentrate on the following fields: production of paper and paper pulp, production of cement and construction materials, generation of electricity, production of oil and gas, supply of clean water, processing industry, etc.

b/ Prime movers:

- To develop the prime mover manufacture into a strong industry of Vietnam, through programs and projects on intensive investment, modernization of equipment and technologies, raising of the capability to manufacture prime movers, and raising of products? competitiveness.

- By 2010, to meet 60-70% of the domestic demand for medium-sized and small-sized prime movers, to strive to manufacture hydraulic engines of 400 HP or over with a localization rate of 35-40%.

c/ Tractors and agricultural machines:

- Tractors:

+ To invest in the manufacture of two-wheeled tractors of a capacity of 6, 8 or 12 HP to fully meet the domestic demand.

+ To manufacture four-wheeled tractors of a capacity of 18, 20 or 25 HP, and gradually proceed to manufacture four-wheeled tractors of up to 30 HP.

+ By 2010, to manufacture medium-sized four-wheeled tractors of a capacity of between 50 and 80 HP.

- Agricultural machines:

+ To concentrate investment in building the adequately strong specialized industry for manufacturing agricultural machines, including farming and processing machines and equipment for preserving farm produce, with a view to meeting the domestic demand and step by step proceeding to export them.

+ To encourage medium-sized and small-sized manufacturing establishments and local mechanical engineering units to take part in manufacturing equipment and machinery in service of agriculture and the processing industry in an organized manner, with a rational task division and cooperation with mechanical engineering enterprises at home and abroad.

d/ Machine tools:

- To give priority to the development of the machine tool manufacturing industry, with a view to meeting the industries' demands therefore.

- To research, design and manufacture modern machine prototypes (application of PLC and CNC technologies) and special working devices.

- To step up the modernization program along the direction of computerized numerical control (CNC) of the existing machine tools in industrial establishments.

e/ Construction engineering:

- To make intensive investment and new investment in the establishments manufacturing construction machines with modern equipment and technologies, in order to basically meet the demands for production of construction materials, construction and installation of big projects, urban and rural construction.

- To bring into play the advantages of the branch of manufacturing metal structures for construction and industrial projects, to concentrate efforts on manufacturing highly sophisticated and modern construction equipment and machines, which are demanded on the domestic and foreign markets.

f/ Ship engineering:

- To develop Vietnam's shipbuilding industry into a specialized economic-technical branch synchronized from the stages of training, research, designing to the manufacture and sale of products, thus meeting the demand for restructuring of ship fleets operating at home and abroad. To strive for the objective that by 2010 Vietnam shall have a ship-building industry developed at the average advanced level in the region and capable of meeting the demand for national socio-economic development and contributing to the security and defense consolidation, and step by step proceeding to export ships.

- By 2010, the ship-building industry shall be fully capable of building almost all inland waterway transport means, project ships, fishing ships and sea-going ships of a tonnage of under 15,000 DWT; meeting 70-75% of the demand for building multi-purpose ships of 15,000 - 50,000 DWT and oil tankers of 100,000 DWT. To completely repair all national-level ships of a tonnage of up to 400,000 DWT.

- To quickly form and develop supporting industries, such as manufacture of steel sheets for shipbuilding, assembly of hydraulic engines of a capacity of up to 6,000 HP and manufacture and assembly of onboard equipment, electric and electronic equipment, maritime facilities and devices, with a view to raising the localization rate to 60% for newly-built ships, and to 70% by 2020.

g/ Electric equipment:

- To build a modern electric equipment manufacturing industry to reach by 2020 the advanced level in the region in electric equipment and materials.

- To make new investment and intensive investment in electric equipment with advanced technologies to quickly raise the electric equipment manufacturing capacity and products' competitiveness, with a view to largely meeting the domestic demand, substituting for imported equipment and boosting the export of products to regional and world markets.

- For the immediate future, to intensively invest in and expand the production of the existing establishments to make them capable of manufacturing large-sized transformers of an output of up to 125 MVA and for a voltage of 220 kV, distribution and transmission equipment for the electricity branch, pressure equipment and other electric equipment for industrial and civil use.

h/ Automobile engineering and communication and transport engineering

- Regarding automobile engineering:

To develop Vietnam's automobile industry on the basis of absorbing and applying the world's advanced technologies, in combination with exploitation and step-by-step elevation of the existing technologies and equipment, in order to largely meet the domestic automobile market demand, with a view to exporting automobiles and spare parts thereof.

+ Regarding common-type vehicles: To meet 40-50% of the domestic quantitative demand with the localization rate of up to 40% by 2005; and over 80% of the domestic quantitative demand and the localization rate of 60% by 2010 (particularly, for engines and gear boxes, the localization rates shall reach 50% and 90% respectively).

+ Regarding special-purpose vehicles: to meet 30% of the domestic quantitative demand and attain the localization rate of 40% by 2005, and proceed to meet 60% of the domestic quantitative demand and attain the localization rate of 60% by 2010.

+ Regarding high-class vehicles: tourist automobiles manufactured by joint-ventures shall have to attain the localization rate of 20-25% by 2005 and 40-45% by 2010, to meet 80% of the demand for high-class trucks and buses with the localization rate of 20% by 2005 and 35-40% by 2010.

- Regarding the communications and transport engineering:

+ To make intensive investment and supplementary investment in assembly technologies and equipment for manufacturing project vehicles and machinery, such as thermal bituminous concrete mixers, bituminous concrete spreaders, road rollers of all types, stone-grinding and screening stations of an output of 100-300 tons/hour, etc.

+ To make intensive investment in the renewal of technologies for manufacturing high-class train cars with the localization rate of over 70% by 2005 and up to 90% by 2010.

ANNEX IV

Localization Targets under Decision No. 177/2004/QD-TTg of October 5, 2004 on the Approval of the *Automobile Master Plan on Development of Vietnam's Automotive Sector until 2010 with a Vision until 2020*

- Regarding common-use automobiles (trucks, passenger cars, cars):

To meet around 40-50% of the domestic market demand in terms of quantity and reach the localization rate (domestic manufacture content) of up to 40% by 2005; to meet over 80% of the domestic market in terms of quantity and reach the localization rate of 60% by 2010 (particularly for engines, to strive for the localization rate of 50%, and 90% for gearboxes).

- Regarding special-use automobiles:

To meet 30% of the domestic market demand in terms of quantity and reach the localization rate of 40% by 2005; proceed to meet 60% of the domestic market demand in terms of quantity and reach the localization rate of 60% by 2010.

- Regarding high-class automobiles:

For high-class tourist cars, to strive for the localization rate of 20-25% by 2005 and 40-45% by 2010, and substantially meet the domestic market demand;

For high-class trucks and passenger cars, to reach the localization rate of 20% by 2005 and 35-40% by 2010, and meet 80% of the domestic market demand.

- Regarding engines, gearboxes and spare parts:

To concentrate efforts on selective development of some types of engines, gear boxes, transmission details and spare parts with large quantities in service of domestic assembly and export.