

REPORT ON PERFORMANCE OF THE TRADE - SERVICE SECTOR IN THE FIRST 7 MONTHS OF 2012

I. General situation

In July, the world economic situation has continued as "gloomy picture": the world's 15 largest banks were downgraded in credit rating; gasoline, oil output constantly decreased; cash flow is outflowing from security investment funds of emerging market; economic activity in Europe as well as China simultaneously decreased, while the inherently unstable recovery of the U.S. economy is becoming stagnant, even worse, in July, U.S. production growth was at its lowest level since December 2010.

Domestic economic growth in the first 6 months of this year was lower than the previous years because many sectors, fields had to cope with difficulties in production and consumption, disbursement for capital construction was slow. However, Vietnam's economy maintained steady recovery prospects and development opportunities, especially on the financial and monetary markets. Government promulgated Resolution 13/NQ-CP to remove difficulties for enterprises, in which focusing on production activities. As for import and export activities in the coming time, in the face of gradually clear opportunities for growth in demand for consumer goods in the world, Vietnam's economy has still needed to strongly focus "towards export".

II. PERFORMANCE IN THE FIRST 7 MONTHS OF 2012

1. Tourism

In July 2012, the number of international visitors to Vietnam increased 11.6% from the last month (reached 466 thousand passengers), but only equaled 88.2% compared with the same period in 2011. In particular, tourists traveling for tourism and leisure purposes accounted for 59.7%, for business captured 17.6%, for visiting relatives made up 17.4% and for other purposes obtained 5.4%.

In the first 7 months of 2012, the number of international visitors to Vietnam was estimated at 3.83 million, up 10.8% compared to the same period in 2011. International visitors from most markets to Vietnam in the first 7 months developed compared to the same period last year: the first rank was the number of the tourists from South Korea (up 37.9%), Malaysia (up 24%), Thailand (up 22.7%), Japan (up 21.4%), Taiwan (up 16.4%), etc., Australia and Cambodia tourists were reduced compared with the first half of the last year (Australian tourists decreased by 5.1%, Cambodia by 21.5%), visitors from the United States also fell slightly (0.3%); in which tourists traveling for tourism and leisure captured 59.4% , for business captured 17.3%, for visting relatives accounted for 17.7% and 5.6% for other purposes.

Following the growth momentum of 2011, the domestic tourist market continued changed vigorously in the first 7 months of 2012. Number of domestic tourists in the first 7 months was estimated at 20 million people, increased 8% compared to the same period last year.

Revenue in the first 7 months of the tourism industry was estimated at about 88,000 billion dong, increased about 26% over the same period in 2011.

In general: In the first months of the year, the units in the tourism sector and localities have been much active in organizing events to attract tourists with key activities in the frame of National Tourism Year in Northern Central Coast - Hue 2012 with a series of events focusing on the January, February and April such as the Early Spring and Hue Festival 2012; International fireworks Festival in Da Nang 2012; the

announcing ceremony of the fact that Ha Long Bay was recognized as the new natural wonders of the world ... Besides, due to the economic downturn, the travel companies have coordinated with the hotels, airlines to reduce prices with the aim of stimulating tourism. These factors are believed to play an important role in maintaining the growth of the tourism industry in the first months of the year.

2. Import and export

a. Export

Estimated export in July 2012 reached US\$ 9.6 billion, down 2.9% against the last month; in which, export of foreign-invested enterprises (excluding crude oil) was estimated at US\$ 5.25 billion.

In the first 7 months of 2012, total export turnover was estimated at over US\$ 62.9 billion, up 19% compared to the same period last year; in which export of foreign-invested enterprises (excluding crude oil) was estimated at more than US\$ 34.3 billion, increased 41.1% compared to the same period last year and accounted for 54.5% of total exports.

Some main exported commodities in the first 7 months of 2012 compared to the same period last year: crude oil was estimated to reach 5.4 million tons, increased by 12.1% in volume and 10.9% in turnover; coal was estimated at nearly 8.2 million tons, down 18.9% in volume and 25.3% in turnover; textile and garment reached over US\$ 8.2 billion, up 8.9%; footwear was at more than US\$ 4.2 billion, up 16%; timber and wood products were at more than US\$ 2.5 billion, up 21.2%; all kinds of telephones and components reached over US\$ 6.2 billion, increased 151.6%; electronic components was at nearly US\$4 billion, up 81.3%; aquatic products were at nearly US\$ 3.4 billion, up 6.6%; rubber reached 488 thousand tons, up 32.2% in volume and down 9.5% in turnover; rice reached 4.6 million tons, down 2.1% in volume and 9.3% in turnover; coffee obtained 1,178 thousand tons, increased 26.9% in volume and 21.2% in turnover ...

Prices of most agricultural commodities decreased over the same period: price of rice declined by 7.4%; rubber by 31.6%; coffee by 4.6%; cashew nuts by 13.8%; cassava and products of cassava by 15.4%.

As for the export market in the first 7 months of 2012, the export into U.S. was estimated to increase by 17.8% and accounted for 17.4% of the total export turnover of the country; export into EU increased by 23.9% and accounted for 17.4%; export into ASEAN increased 26.1% and captured 14.9%; export into Japan jumped by 39.6% and made up 12.1%; export into China went up by 21.9% and accounted for 11.1%.

b. Import

Import turnover in July 2012 was estimated at US\$ 9.5 billion, down 0.3% from the last month, in which the import of foreign-invested enterprises was at an estimation of US\$ 5.05 billion.

In the first 7 months of 2012, total import turnover was estimated reaching US\$63 billion, up 7.3% compared with the same period last year; in which import of foreign invested enterprises reached US\$ 32.9 billion, made an increase of 25.3%.

Import volume and turnover of some major commodities in the first 7 months of 2012 compared to the same period last year are as follows: gasoline reached 5,664 thousand tons, down 14.1% in volume and 8.7% in turnover; iron and steel of all kinds obtained 4,389 thousand tons, made an increase of 1.9% in volume and a decrease of 3.6% in turnover; fertilizer reached 1,799 thousand tons, down 18.8% in volume and 10.1% in turnover; paper of all kinds reached 680 thousand tons, increased 12.8% in volume and 7.7% in turnover; plastic materials gained 1,457 thousand tons, up 2.8% in volume and down 2.3%

in turnover; machinery and equipments reached more than US\$ 9 billion, up 5%; computers and components were at over US\$ 6.7 billion, up 92.3%; textile and garment materials were at nearly US\$ 1.8 billion, up 1.6% ...

In the first 7 months of 2012, import from Asia accounted for 79.8% of total import turnover of Vietnam. The main import markets were China (import turnover from this market increased by 15.6%, the proportion was estimated at 24.3%), ASEAN (proportion of 19%), Korea (up 20.7 %, accounted for 13.6%), Japan (up 12.1%, accounted for 10.1%) and the EU (up 14.9%, accounted for more than 7.6%).

In the first 7 months of 2012, national trade deficit reached 58 million USD, equaling 0.1% of total exports. Vietnam still had trade deficit with countries such as China (estimated at US\$ 8.3 billion), ASEAN (US\$ 2.6 billion), South Korea (US\$ 5.7 billion), Taiwan (US\$ 3.8 billion).

c. Some comments on the import and export situation in the first 7 months of 2012:

- The growth rate of export in the first 7 months of 2012 continued to maintain at a high level (19% compared with the same period of 2011) and much higher than the import growth rate (7.3%):

+ The industrial commodities maintained quite well growth rate, especially phones and components increased by 151.6%, computers and spare parts up 81.3% that have contributed significantly to the growth of export.

+ In 2011, the export prices of agricultural commodities reached a high record. In the first 7 months of 2012, prices of most exported agricultural products decreased or were constant over the same period in 2011 and compared to the average price in 2011. In the first 7 months of 2012, the agricultural, forestry and fishery products only increased nearly US\$ 1 billion over the same period in 2011.

- FDI sector continuously maintained high growth rate in three consecutive years and contributed a main part to export growth. Export turnover in the first 7 months of 2012 increased nearly US\$ 10.1 billion nationwide, in which export turnover of the FDI sector (excluding crude oil) increased by US\$10 billion.

- The import growth rate of FDI in the first 7 months of 2012 (25.3%) was much higher than the import growth rate of the whole country, as the staples of this sector were mainly processed and assembled, depending on imported raw materials. This sector's import increased by nearly US\$ 6.6 billion over the same period in 2011, meanwhile the country's import increased US\$ 4.3 billion.

- In the first 7 months of 2012, the trade deficit of the country was estimated at US\$ 58 million, equaling 0.1% of total export turnover; in which FDI enterprises (excluding crude oil) made trade surplus of US\$ 1,415 million.

- The trade deficit is a good signal but on the other hand it shows a decrease in the demand of imported materials for domestic production. Economy in general and enterprises in particular are facing many difficulties to develop business.

3. The domestic market

a. Total turnover of retail goods and service revenue

According to the General Statistics Office, in July, the total retail sales of goods and services were estimated at 189.2 trillion dong, up 0.12% against June. Total retail sales of goods and services of the whole country in the first 7 months were estimated at 1,327.5 trillion dong, up 18.74% over the same period in 2011. In which, commercial business reached 1,027.1 trillion dong, up 18.2% over the 7 months of 2011 and accounted for 77.4% of the whole country. Hotel, restaurant business was estimated at 155.3

trillion dong, up 19.3% over the same period in 2011, capturing 11.7% of the whole country. Tourism and services reached 13.7 trillion dong and 131.4 trillion dong, up 26.6% and 21.7% respectively compared with the 7 months of 2011, accounted for 1% and 9.9% of total retail sales and service revenue nationwide respectively.

With the breakdown by economic forms, total retail sales and service revenue of individual economic sector accounted for 48.3% of the whole country, followed by the private sector with a proportion of 35.6%. Total retail sales and service revenue of foreign invested sector in the first 7 months accounted for only 2.7% of the nationwide total.

b. The consumer price index (CPI)

The CPI in July dropped sharply by 0.29%. This happening has pulled the increasing impetus of inflation in the first 7 months of the year down to 2.2% compared with December 2011.

c. Supply - demand situation, prices of some staples

a) Gasoline and oil

The world oil market, in New York in closing trading session of July 16th, the price of light sweet crude to be delivered in August 2012 increased US\$1.33 to US\$88.43/barrel, meanwhile Brent oil price reached over the threshold of US\$104/barrel, setting up 4-day increasing chain with the increment of US\$1.38/barrel, reaching US\$104.75/barrel. The price in Brent crude contracts for September delivery rose US\$ 1.30, at the threshold of US\$ 104.67 up to its highest level since late May 2012. US crude oil price rose by 40 cents to US\$88.83/barrel after rising US\$1.33.

Gasoline price increased slightly in the first two weeks of July, but world oil prices was forecasted to get a slight decrease tend after the International Monetary Fund lowered global economic growth forecasts and warned that global economic prospects will be worse if European countries don't pass the debt crisis.

Retail sales in June in the United State have fell for three months consecutively, the longest down string since 2008 due to the impact of the economic downturn. Oil price fell about 25% against their peak in 2012 with the cause of slow economic growth and low fuel demand, however oil market are still looking for new increase series.

In the domestic market, since July 02nd retail gasoline price has been at the level as follows: Price of petrol RON 95 has been 21,100 dong/liter, fell by 600 dong/lit; petrol Ron 92 has been 20,600 dong/liter, by 600 dong/liter; diesel 0.05S has been 19,900 dong/liter, by 200 dong/liter; diesel 0.25S has been 19,850 dong/liter, by 200 dong/liter; kerosene has been 19,850 dong/liter, by 200 dong/liter; madut oil has been 17,950 dong/liter, by 300 dong/liter.

According to Circular No.103/2012/TT-BTC dated June 22nd 2012 of the Ministry of Finance guiding the implementation of preferential import tax rate for a number of goods under the preferential import tariff, imported tax rates for kinds of oil from RON 90 to RON 97 increased from 7% to 10%, the increase in detail is as follows:

| Kinds of gasoline/ oil | Current price | Increase/decrease level | Current tax | Increase level |
|-------------------------------|----------------------|--------------------------------|--------------------|-----------------------|
| Petrol RON 95 KC | 21.100 | -600 | 12% | +2% |
| Petrol RON 92 KC | 20.600 | -600 | 12% | +2% |

| | | | | |
|--------------|--------|------|-----|-----|
| Diesel 0,05S | 19.900 | -200 | 10% | +2% |
| Diesel 0,25S | 19.850 | -200 | 10% | +2% |
| Kerosene | 19.850 | -200 | 12% | +2% |
| FO 3% | 17.950 | -300 | 12% | +2% |
| FO 3,5% | 17.650 | -300 | 12% | +2% |

According to Government Statistics Office, the oil and gasoline import in the first 6 months of 2012 were estimated to reach 4,800 thousand tons, equivalent to US\$ 4,752 million, equaling 78.9% compared to the same period in 2011. Crude oil export in the first 6 months was estimated at 4,175 thousand tons, equivalent to US\$ 3,836 million and equivalent to 106.7% over the same period in 2011.

b) Iron and steel

In the world market, the price of hot rolled steel reduced from US\$650/ton CFR to US\$600/ton, due to the influence of Russian cheap offer prices of steel. Some European steel plants rebated offer price to US\$550/ton FOB to the Middle East market. The U.S. scrap steel suppliers not only refused price negotiation, but also reduced the amount of supply, China is giving offer price of hot rolled steel at US\$ 595 - 600/ton to South Korea, down US\$20/ton over the offer price in mid-June, meanwhile demand for hot rolled steel in Korea was being bleak.

In the domestic market, steel prices were stable compared with the previous month, according to the Vietnam Steel Corporation selling price in the northern provinces was from 16.15 to 16.40 million dong / ton (Thai Nguyen Iron and Steel Co.), South from 16.32 to 17.14 million dong / ton (Southern Steel Co., Vinakyoei), in fact some northern steelmakers have reduced price 100,000 - 200.000dong/tan at the factory but purchasing power is still low, because the construction is entering the rainy season and the real estate business is being gloomy. Retail prices at the local markets tend to decrease 200,000 - 400.000dong/tan to boost consumption, but the steel market remains fairly quiet.

According to Vietnam Steel Association, stocked steel is 370,000 tons, bloom is 480,000 tons. Stocked industrial steel has reduced but with a little decrease mainly because the enterprises did not import goods anymore, but trying to push their stocks into market by reducing the price. One of reasons causing steel businesses scramble to reduce price is the decrease in imported input prices for bloom, scrap steel of US\$15-20/ton.

c) Cement

Production and consumption: According to Ministry of Construction, the production and consumption of cement in July 2012 decreased slightly but still significantly increased compared to the same period last year. Production was estimated at 4.40 million tons in July, and 23.90 million tons in the first 7 months of the year, down 4.8 million tons over the same period 2011. Consumption was estimated reaching 4.40 million tons in July, and 23.90 million tons in the first 7 months, reduced 1.08 tons (-4.3%) over the same period.

Inventory of the cement industry are high, with 3.5 million tons, while consumption in the first 6 months of the year fell by nearly 10% compared to the same period in 2011, only reached 19 million tons.

Although the Banks have reduced interest rates, many businesses haven't yet got access to this fund due to the gap from policy to practical application, therefore many businesses have had to reduce exploiting capacity or temporarily stop production to avoid more losses such as the chain of Hoang Thach Cement Factory, some cement plants of Song Da Corporation ... production stop or reduction of exploiting capacity had a negative impact on production efficiency and reduced ability to pay debts of the firms.

According to the approved master plan, in 2012 the entire cement industry has a design capacity of about 70 million tons, expected output of 60 to 62 million tons, meanwhile, domestic demand in 2012 was expected at only about 47 - 48 million tons, striving to export 7-8 million tons, still remain 6 million tons of excess cement.

d) Fertilizers

World fertilizer prices are in a downward trend, Urea price continues to decline strongly in most of the markets. Price of urea with pure grain in Russia was US\$465 - 477/ton of fob, in China: US\$480 - 485/ton of fob, in U.S.: US\$546 - 623/ton of cfr, in Baltic: US\$425 - 440/ton of fob, the average reduction in markets was about US\$15 - 20/ton. Potassium fertilizer price in Vancouver is currently fluctuating from US\$460-490/ton of FOB, down US\$15/ton; in Israel: US\$440-490/ton; in Brazil: US\$525-540/ton of CIF, being constant compared to the end of June 2012.

In the domestic market, the price of fertilizer was relatively stable because farmers of all three regions started the winter-spring rice harvest and prepared rice seeding for the summer-autumn rice cultivation, causing low demand for fertilizer. In the Northern provinces, price of Urea was popular at 11,500 – 12,000dong/kg; superphosphate Lam Thao was at 3,500 - 4,000dong/kg; NPK 5-10-3 Lam Thao had a popular price at 4,500 – 5,000dong/kg; Potassium was at 12,000-12,500dong/kg (stable); DAP was at 14.500-16.000dong/kg. In the Southern provinces, Phu My Urea had price at 11.600 -12.000dong/kg; Chinese Urea was at US\$10.800 - 11.000dong/kg.

Entering Quarter III/2012, the domestic fertilizer market price was estimated to reduce slightly with a decrease of 300-500dong/kg because the supply of Ninh Binh nitrogenous fertilizer plant with capacity of 560,000 tons/year and Ca Mau nitrogenous fertilizer plant with capacity of 800,000 tons/year was officially put into commercial production. The annual July and August is the low-peak period of fertilizer demand, therefore the price of fertilizer was forecasted to be stable without sudden increase.

III. PROPOSED DIRECTING SOLUTIONS IN THE LAST MONTHS OF 2012

1. Tourism

- It is necessary to positively deploy, disseminate and implement the Vietnam Tourism Development Strategy to 2020 and Vision to 2030 and conduct the Vietnam Tourism Development Master plan to 2020, vision to 2030, spontaneously building a range of master plan for sustained development, especially the 7 key tourism areas as the basis for attracting investment, promoting tourism in the country in general, in regions and localities in particular.

- It is also required to focus on the successful implementation of the programs and activities of the National Tourism Year in North Central Coastal - Hue 2012 with the topic of "Heritage Tourism".

- Another solution is to continue the breakthrough in enhancing destination management through the control of service quality and environmental management of tourism. This is one of the weaknesses, limitations that existed many years ago, but have not been thoroughly resolved.

- Also it is needed to promote activities of advertising and promotion in the country and abroad, professional activities as required by the industry.
- The tourism industry needs campaigns to change the concept, awareness of community tourism in the society. That is tourism development bringing benefits for the community, local economic development with the concept of responsible or sustainable tourism development, like successes of India, Kenya. Indigenous people do not business in tourism, but only participate, while the economic contribution is by the tourism businesses in the area, with 10% of revenue and profit for the locality.
- In addition, we should to conduct effectively Environmentally and Socially Responsible Tourism Capacity Development Program (ESRT) for the period 2011 - 2015 funded by the EU, it is financially favorable condition to deploy the key tourism development programmes.

2. Import and Export

Export enhancement

To maintain export growth rate achieved in 2011, striving to reach the 13% export growth, the following measures need to be focused:

- To focus on improving quality in order to increase the value of traditional products (especially agricultural, forestry, fishery products) which do not have condition to increase much in volume; to expand production scale, innovate equipment and technology, boost production and export of commodities with large turnover, high growth capacity, important contributions to export plan, resolve employment, stabilize society;
- To improve the quality of trade promotion, market expansion, boosting production and export of commodity group unlimited in production capacity, using mainly local materials; to increase funding for national trade promotion program;
- To exploit both intensively and extensively traditional market along with the joint bordering markets; to promote the information and forecasts for the foreign market, early detect and carry out measures to overcome technical barriers;
- To supply preferently credit, to ensure sufficient capital for farmers and businesses to purchase raw materials for the production of exported goods; To encourage businesses to diversify foreign exchange in transactions; to raise regulations for commercial banks to ensure loan interest rates for production and export enterprises, without additional costs.
- Poor quality of export support services such as transportation, insurance, logistics in Vietnam is currently limiting the promotion of export. This issue needs to be focused to improve in the short term.

Import controls

Solutions for import controls include:

- To continue implementing a series of measures to stabilize the market, ensuring the balance between supply and demand of essential commodities on the basis of improving the quality of forecasting, warning the market situation; to coordinate with Associations, Ministries, sectors to assess demand for imported goods and the ability of domestic production to meet demand, then raising specific restrictions for each item;

- The Ministry of Industry and Trade to develop policies to encourage investment in production to replace imports, develop auxiliary industry, increase the usage of domestically manufactured machinery, supplies, equipments production under the direction of the Government;
- To identify priority level for accession to foreign currency for the group of goods such as being non-essential items, discouraged import items, domestically manufacturable products, to raise the regulations, principles of import loans;
- In taxation, in the short term, for commodity groups of discouraged imports, to research and add more items for which tax rate should be increased; to consider options to add items which can be able to apply quotas for tighter control of imports;
- As for cross-border economic, to develop specific mechanisms and policies to not only promote export activities in Vietnam, but also control imported goods from neighboring countries, in which emphasizing on technical standards, sanitary and safety for consumers;
- To strengthen post-inspection for quality, safety and hygiene for imported and circulated products in accordance with the standards and regulations; to implement technical measures to protect consumers and create technical barriers to limit imports, control the import of raw materials for export processing ...;
- To review the signed Bilateral and Multilateral Trade Agreement, being cautious in promoting the negotiation of new agreements, because International trade agreements on one hand create an opportunity to promote export of Vietnam, on the other hand raise a risk of trade deficit if negotiations weren't closely;
- To continue emphasizing information and communication measure groups, especially the policy "Vietnamese give priority to Vietnamese goods", considering it an indirect channel to increase the using proportion of Vietnamese goods, thereby reduce that of imports.

3. The domestic market

The followings are measures for domestic market:

- To continue implementing seriously, drastically the directions of the Government in Resolution No.01/NQ-CP dated January 03rd 2012 on the key measures of direction and implementation of socio-economic development plan and the state budget estimate in 2012;
- To tighten the management, control market, timely resolve, especially in hot spots and nearly-border regions, detect and treat seriously cases of smuggling, speculation and hoarding goods which cause unreal high price level, especially for essential goods such as food, gasoline, cement, steel, pharmaceuticals;
- To implement the market regulation, ensure fair distribution of goods between regions, avoiding local commodity shortages in some places, especially essential goods such as food, oil and gas...;
- To quickly raise solutions to accelerate the disbursement of capital from the State budget, Government bonds, ODA capital in order to increase the consumption of inventories, quickly completing building projects to bring into use and exploitation to improve the efficient use of capital;
- To rapidly and timely support capital for enterprises, especially small and medium enterprises;
- To encourage and support the enterprises to actively deliver the goods to the rural; remote areas; in order to expand and establish a solid market for goods produced domestically; to research measures to

encourage consumption, stimulate consumer demand to increase consumption, reduce inventory to support manufacturing enterprises./.

Source: Department of Service Economy - Ministry of Planning and Investment