

The country is in the transit from the centrally planned economy to the market economy under the State management with the participation of many economic sectors.

In addition, the country has integrated into the international community, become a full member of ASEAN and signed the agreement on Common Effective Preferential Tariff (CEPT) of the Asean Free Trade Area (AFTA).

In such a circumstance, the national economy certainly encounters fierce competition with better economies on the world's market, so the construction of internal economic strengths is essential in partnership with foreign countries. To secure the economy to grow sustainably and Vietnamese goods competitive against regional ones, Vietnam needs industrialization and modernization.

I. REALITY OF EQUIPMENT AND MACHINERY IN THE VIETNAMESE INDUSTRY.

At present, our enterprises are doing business with equipment, machinery and technology two or three generations behind foreign ones.

Most of our businesses are of medium and small scale, those having fixed assets worth above VNĐ10 billion represent only 17% of the total, from VNĐ1-10 billion 58% and below VNĐ1 billion 25%.

Moreover, machinery and equipment make up only 26% of the value of fix assets, factories and buildings 36%. The rest (38%) are others such as trucks, autos or those not brought into production. Most of assets are outdated with low value.

As a result, the level of mechanization in many sectors makes up only 45%, manual labor is still prevalent.

Due to small scale of assets, low percentage of equipment and machinery

in fixed assets, so the value produced by machinery accounts for only 35% of the gross products.

On the other hand, the utilization rate of machinery is only around 30% of the designed capacity. This results in the consumption of energy and materials for a unit of product in Vietnam two or three times higher than that in the world. Consequently, home made commodities have high prices, but low quality and their designs have not yet satisfied customers' tastes due to slow renewal and not abundant items for choosing. So they loose attraction and cannot compete successfully with foreign ones even on the home market.

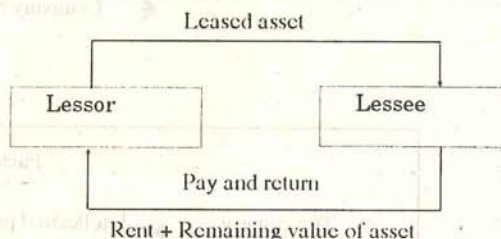
The pressure of market has requested governmental bodies to take more effective measures and proper policies and local enterprises to innovate their equipment, machin-

ery and technology and modernize production. However, Vietnamese firms seem to face with a problem hard to solve: technological renovation and modernization is indispensable but where is money? The method of leasing credit will meet this demand effectively and it is regarded as a channel creating investment capital for the enterprises' renovation of machinery.

II. THE POSSIBILITY OF APPLYING LEASING CREDIT TO THE VIETNAMESE ECONOMY

The leasing credit is the performance of an intermediary financial institution. The leasing companies rent their assets for other businesses' use in accordance with hire-purchase contracts with the right to buy them, i.e., become their owners only when the last installment has been paid.

CHART OF LEASING CREDIT





1. Benefit of the lessee

- a. Meeting his/her requirement for renovation of machinery and equipment.
- b. Reducing the pressure of collateral loans from banks.
 - Not spending his/her self-funded capital on leased assets.
 - Reducing the leverage in the total working capital.
 - Being able to seize business opportunities quickly due to quick supply of leasing credit.
 - The method of rent payment is flexible and suitable for the enterprise's production and sales.
- c. Saving from tax: because the leased machinery is completely depreciated during the lease term, the taxable profit will be lowered.

2. Benefit of the lessor:

- a. Diversifying the bank's credit activities and raising the financial organizations' capability in competition.
- b. Earning more profits when leasing assets properly.
- c. Providing money to the lease does not affect the lessor's liquidity because the payment method is clarified in the hire-purchase contract.

III. SOME MEASURES TO

breach of the contract.

3. Giving tax incentives, proper depreciation policy to encourage, attract domestic and foreign capital and strengthen the transfer of advanced technology via leasing activities.

4. The commercial banks and financial companies have to possess large capital to finance the leasing (possibly above VND100 billion).

5. The lessor should have a network of machinery suppliers to reduce risks and improve service quality.

6. The lessor's staff should be well qualified in

sets should be implemented and considered as a condition for providing money to the leasing (the lessee is subject to insurance premium).

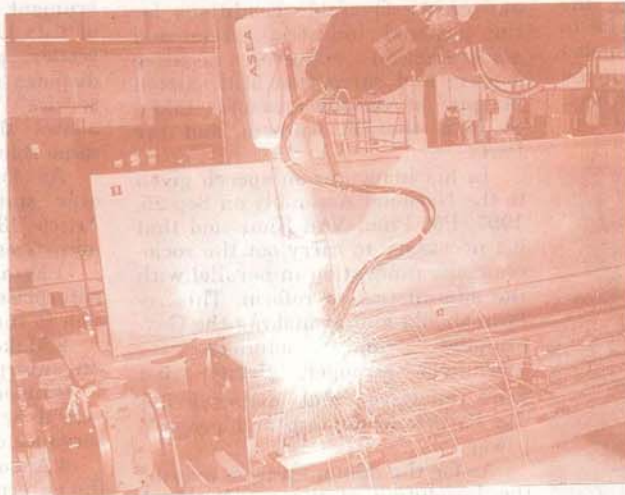
8. The leasing interest rate should be in accordance with the enterprise's profitability, for example:

- Regarding imported equipment and machinery, leasing should be calculated in US dollar with an interest rate equivalent to Libor rate (4-5%/year). The lessor should apply exchange rate in a fixed time to reduce risks.

- Regarding equipment and machinery which are available on the home market, the rent is paid in Vietnamese đồng and the interest rate is equivalent to the State Bank's regulations on medium- and long-term loans (2-3%/year).

9. Making advertisements and guidelines to help businesses use the instrument of leasing credit.

The leasing credit is a new form in our country. But it is one of effective measures to renew equipment, machinery and technology in companies, contributing to the national industrialization and modernization. As a result, relevant agencies

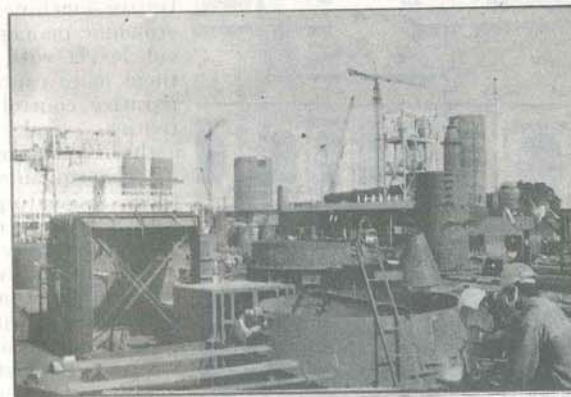


DEVELOP LEASING CREDIT IN THE CURRENT SITUATION

1. Making favorable conditions to build leasing companies (100% domestic capital, joint venture with foreign partner, 100% foreign-invested capital) and bring them into full play in order to speed up medium- and long-term capital sources and boost competition just at the beginning.

2. Setting up a perfect and safe legal framework for leasing, so a law on leasing should be issued and relevant laws amended and supplemented.

Ensuring the lessor to retrieve his/her properties in case of the lessee's



technology knowledge so as not to import outdated technology.

7. The insurance of as-

should make plans to encourage economic sectors to apply this practice■