

Investment risks doing business in vietnam



1. 5. 4 Transaction Risks Having our operations overseas means that we are also exposed to a ' transaction risk'. Transaction risks include also risks involved in borrowing or lending money denominated in a foreign currency since these would involve interest and principle repayments in foreign currency. We are exposed to transaction risk as when we issued the corporate bond and also when we build a new plant (which is a real investment to us) in Vietnam, a foreign country.

This is because with such a long term investment we would be expected to generate positive net cash flows in Vietnamese Dong. As an importer of raw materials and parts, it is to our disadvantage if the value of the currency in which we trade increases, as our import products will become correspondingly more expensive. Conversely, as an exporter you can find yourself at a disadvantage if currency rates fall, as you then run the risk of receiving lower than expected prices for your export products.

1. . 5 Transfer Risks Our business may face transfer risk. This happens when businesses possess assets that, if converted into another currency, could result in an adverse financial situation. Our profit/loss balance sheet is drawn up in Vietnamese Dong, but our main account is in Singapore dollars. Ultimately our total balance will be dependent not just on our balance sheet in Dong, but also on the value of that balance after it is converted into Singapore dollars at the current exchange rate.

1. 5. Commodity risk Being an electronics manufacturer, we commonly need to produce and build circuit boards which can be form in the computers, radios and other devices. In our production of circuit boards, some of the raw materials that we use most often are copper and plastic. We can hedge against fluctuations in such

commodity prices as it will affect our revenue and cost. Exposures are managed via swaps, purchase of options, contracts for differences and fixed price and forward contracts. 1. 5. 7 Credit risk

We can monitor our exposure to credit risk arising from sales to trade customers on an ongoing basis, and credit evaluations are done on customers who require credit. We can choose to transact only with pre-approved non-trade customers and financial institutions with a good credit rating. We can also impose a cap on the amount to be transacted with any of these counterparties so as to reduce its concentration risk. Risks that cannot be hedged Operational Risks Being a non-financial organization, our main operating risks are associated with manufacturing and marketing activities.

Singapore Creative Technology, being a computer and electronics manufacturer, is exposed to the operating risk that a competitor will introduce a technologically superior product which takes market share away from us. In general, operating risks cannot be hedged because they are not traded. It is recognised that operational risk can never be entirely eliminated and that the cost of minimising it may outweigh the potential benefits. Accordingly, we can manage operational risks by focusing on risk management and incident management.

We can put in place operating manuals, standard operating procedures, delegation of authority guidelines and a regular reporting framework, which encompasses operational and financial reporting. Having this framework will allow us to identify and detect our areas of potential exposure, which can be addressed to minimize adverse impact to the company. Operational Risks

can include all internal business factor like financial scandals, trading frauds, and inappropriate market practices and also all external elements like political developments, regulation, terrorist activities, and natural disasters.

These risks cannot be hedged as it's often beyond the control of the firm especially external risks. Possible Challenges in Vietnam 1)Consistency and Transparency of Government The regulatory regimes and commercial law in Vietnam is constantly evolving and together with an overlapping jurisdiction among Government ministries, this could well suggest that there is a lack of transparency, uniformity and consistency in Government policies and decisions on commercial projects.

With the lack of transparency, the consistency and productivity of the government contributes further to corruption and administrative red tape 2)Under Developed Legal System and Lack of Legislation for Protection of Intellectual Property is not mature The legislation to protect intellectual property in Vietnam is to be a significant challenge and this will affect investors' confidence in the country