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VIETNAM BUSINESS REVIEW

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FINANCE

VN banks still make high profits, though businesses hit hard by Covid-19

Applying drastic measures to cut costs and ease reliance on capital sources, commercial banks continued to make profits in H1-2020. However, they have been warned of bad debts ahead.

Covid-19 has hit Vietnam's businesses hard. As demand is weak, businesses are not borrowing capital to expand production at this time. Commercial banks complain that it is very difficult to find borrowers now, though the lending interest rates have become very attractive.

Analysts assumed that banks would either have modest profit or not make profit in H1, especially when large banks such as Vietcombank, ACB and Agribank reported low increases in profits in Q2.

However, contrary to all predictions, the profits of many commercial banks were very high in Q2, the time when Covid-19 began to affect the economy.

VP Bank, for example, reported a 38% profit increase, HDBank 40%, VietinBank 39%, TP Bank 30% and VIB Bank 27%.

Explaining this, analysts said the impact on banks cannot be seen immediately, only after some months. Some banks still report profits because they have not made provisions for their loans.

In the case of VP Bank, its net interest income was low, just 4%, and the profit from non-credit also decreased, but the Q2 profit still increased by 40%. The result was attributed to the 17% decrease in provisions.

Nguyen Thi Phuong, deputy CEO of Agribank, said bad debts may arise in the near future, which will force the bank to increase provisions against risks, thus 'eroding' the bank's profits. The business results of the first two quarters of the year don't clearly reflect the impact of of Covid-19 on the banking sector.

With 85% of outstanding loans given to individual clients, the income from credit activities of VIB Bank still grew by 24% in Q2. The profit from services also increased sharply. Therefore, its pre-tax profit still increased by nearly 30% compared with the same period last year.

VIB's president Dang Vy said that one of the bank's advantages is the funding of car and house purchases.

Some analysts believe that banks can still thrive thanks to retail banking operations. In addition, they have been trying to increase revenue from services, especially bancassurance.

Investing in corporate bonds have also allowed banks to seek high profits. TP Bank, for example, is a big investor.

However, the bank's managers said the bank was not pouring big money into real estate bonds, but was mostly investing in bonds of essential goods manufacturers, FMCG, or companies with mortgaged assets.

Unlocking Vietnam's immense fintech potential

With immense potential and removal of foreign ownership limits, Vietnam could become a darling for multinational and local fintech firms alike that want to reap the fruits of the booming market.

FPT Telecom was last week granted a licence by the State Bank of Vietnam (SBV) after two years as a non-bank intermediary payment service, with its soon-to-be-launched Foxpay as the core product.

Since the beginning of 2020, the SBV has approved two other non-bank firms, Gpay and Vindiva, to provide payment services.

The Vietnamese fintech scene is flourishing, drawing in local and international investors alike

Vietnam is now home to more than 150 fintech firms, rising from 40 in 2016. Thirty-five of them operate in payment and 40 in peer-to-peer (P2P) lending, while others have provided banking support services without directly collecting fees from end-users.

"Foxpay is slated to deliver seamless services to clients, including e-payment gateway, e-wallet, and special payment intermediaries services," FPT Telecom noted.

The potential for cashless payment in Vietnam is enormous thanks to the growing middle class and rapidly improving telecom infrastructure. Some 70% of the population is still unbanked, especially in remote areas, and at least half of the total population has access to the internet. Only around 37% of Vietnamese consumers are using contactless card payments and around 42% are making mobile contactless payments, cited from VISA research.

In terms of funding, Asia-Pacific consultancy Solidiance pointed out that Vietnam's fintech market was expected to $7.8 billion this year, from $4.4 billion in 2017.

Finance lecturer Huy Pham from the School of Business and Management at RMIT Vietnam emphasised there are over 20 e-wallets in the country, but the majority of the market falls into big names such as MoMo, Moca, and ZaloPay.

"MoMo is one of the oldest players and the most notable e-wallet in this market with a huge customer database, while Grab and Zalo are taking advantage of their own ecosystems so the competition in this market is quite stiff, leaving a tiny opportunity for newcomers," Pham told VIR. "Together with the changing landscape in this market from a basic e-wallet to a super app, the old and experienced players will definitely have a competitive advantage over the new ones."

According to Pham's colleague Huy Doan, also a finance lecturer, a typical way for e-wallet providers to expand their customer base is to build their own business ecosystem (such as associated e-commerce and delivery platforms) so this opens up the chance to increase customers' awareness if the firm can build up a user-friendly ecosystem to facilitate the use of e-wallets.

Besides, the e-wallet firms can also work with banks to reach customers without having to expand their network of branches and offices, saving costs and improving business efficiency.

On the other hand, the SBV once revealed its intention to tighten regulations on the domestic fintech sector by setting a foregn ownership limit of 49%. However, the central bank scrapped the cap a few months ago.

Doan cautioned that the SBV is concerned about the manipulation of foreign investors and the safety of the national monetary policy. This leads to limiting activities of e-wallets such as limit on top-up and withdrawal methods. Currently, the only official method to top up or withdraw money from an e-wallet is by using an account with a bank that is partnered with the e-wallet provider.

"To allow customers to top up and withdraw money using bank accounts at non-partnered banks, the e-wallet provider must connect with an entity providing e-payment infrastructure services such as Napas," said Doan. "Besides, no access to non-bank customers is also a challenge – by law, customers are required to have bank accounts linked to their e-wallets to use the service."

Looking on the bright side, there has been increasing interest in the Vietnamese e-payment market in the last few years, with domestic fintech companies attracting considerable interest from foreign investors.

A report by UOB, PwC, and the Singapore Fintech Association reveals that $420 million, equivalent to 36% of all fintech funding in Southeast Asia, was raised for Vietnamese firms in the first nine months of 2019. This includes funding from Warburg Pincus to MoMo, from Softbank and GIC to VNPAY, and from Ant Financial to eMonkey, making Vietnam the second amongst ASEAN members in regard to fintech funding behind Singapore ($714 million, or 51%).

In addition, foreign investors who are unable or unwilling to wait for the removal of foreign ownership in the banking sector to enter the market are now taking detours to get into the payment industry.

According to the Korea Trade-Investment Promotion Agency, deals are currently being reviewed by major South Korean financial institutions, including Shinhan Bank and KEB Hana Bank. Other South Korean banks which have a presence in Vietnam or are seeking to enter the market are also looking at fintech firms to add value to their banking system.

Newswire KoreaHerald reported that seven fintech companies headquartered in South Korea are preparing to make further inroads into 14 markets including Vietnam, Thailand, Indonesia, and Hong Kong, as part of their efforts to become unicorn startups.

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E-COMMERCE

JCB, Shopee unveil Southeast Asia collaboration

E-Commerce platform Shopee on Thursday announced a tie-up with JCB International Company Ltd (JCBI) that will offer online merchants and shoppers enhanced payment options.

The partnership is launched in Indonesia, Thailand and Vietnam and will be followed by Singapore and the Philippines in the coming months.

JCB will offer year-round and seasonal discounts and an additional safe and secure payment method for shoppers; Shopee will also promote participating stores that support JCB.

Yoshiki Kaneko, president and chief operating officer, JCB International Company, Ltd said: "JCB is proud to be working with Shopee as we further commit to supporting our customers in the fast-growing Southeast Asia region. In particular, as consumer shopping habits shift to online and businesses digitise their activities, we want to be able to further cater to these evolving needs.

"Over the past 10 years Southeast Asia has been a growth market for JCB, and we are confident that together with Shopee we can provide high-quality payments services for businesses and consumers, and continue to grow together with the region."

Terence Pang, chief operating officer of Shopee, said: "We are honoured to be a strategic business partner with JCB. As homegrown brands, both Shopee and JCB are deeply committed to supporting local Southeast Asian markets and businesses.

"We believe that JCB will bring added value to our eco-system and look forward to accelerating the digital economy in Southeast Asia together."

In Vietnam, from now until March 31 next year Shopee users will be offered special promotions when paying with JCB cards such as a discount of 15%.

JCB started its overseas expansion in 1981 by building acceptance of travel destinations for Japanese card members. Since the early 2000s it has focused on expanding to Asian markets.

It has more than doubled its card members in Thailand, Vietnam, Indonesia, the Philippines, Myanmar, and Singapore between 2017 and 2019.

A joint report by Google, Temasek and Bain & Company, found that the Southeast Asia internet economy soared to US$100 billion in 2019 after more than tripling in size over the previous four years.

By 2025 it is expected to grow to $300 billion. — VNS

Zalo Shop has been operating e-commerce without a license

As e-commerce platforms are awash with fake and low-quality goods, Zalo Shop was recently discovered not to have been licensed for operation in Vietnam.

Zalo is an e-commerce application following Article 3.4 of Circular No.59/2015/TT-BCT outlining the management of e-commerce activities via applications and mobile equipment dated December 31, 2015. Therefore, Zalo is responsible for registering for a license from the Ministry of Industry and Trade (MoIT) under the circular.

"However," Dang Thanh Hai, head of the Vietnam e-Commerce and Digital Economy Agency (iDEA) under the MoIT told *Vietnam News Agency*, "as of now, the application has yet to obey the regulation."

In last July and August, iDEA three times required VNG JSC – the operator of Zalo – to send its legal representative to the authority to clarify the legal aspects of Zalo's e-commerce activities, which the company failed to comply with.

As a result, since September 5, 2019, iDEA sent Document No.32/TMDT-QL to the Department of Cyber Security and Hi-tech Crime Prevention under the Ministry of Public Security to tackle the issue.

Moreover, the authority has disclosed that many vendors have been trading fake and unauthenticated goods on Zalo Shop as the issue has yet to be resolved comprehensively even on licensed platforms such as Lazada, Shopee, Tiki, and Sendo.

Over the past time, the platforms are the Big Four dominating the market who are known among consumers for the abundance of fake and low-quality goods.

During the social distancing period a few months ago, iDEA reported that more than 21,000 pieces of fake and unauthenticated goods from 5,200 vendors were uncovered and handled on Shopee and Lazada.

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START-UP

Start-up investment in Southeast Asian doubles despite COVID-19

Investment in start-ups in Southeast Asia soared in the second quarter of this year despite the COVID-19 pandemic, led by e-commerce and fintech companies.

Data from Singapore-based start-up information platform DealStreetAsia showed the value of fundraising deals in Southeast Asia rose 91% on the year to US$2.7 billion in the second quarter of this year, while the number of transactions increased by 59% to 184 compared to the same period last year.

Top funded Southeast Asian startups in Q2 2020

	Company *(Country)*	Sector	Deal value *(In millions of dollars)*
1	**Tokopedia** *(Indonesia)*	E-commerce	500
2	**Gojek** *(Indonesia)*	Ride-hailing	300
3	**Ninja Van** *(Singapore)*	Logistics	279
4	**RWDC Industries** *(Singapore)*	Biotech	133
5	**Tiki** *(Vietnam)*	E-commerce	130
6	**Voyager Innovations** *(Philippines)*	Fintech	120
7	**Kopi Kenangan** *(Indonesia)*	Food & Beverage	109
8	**Traveloka** *(Indonesia)*	Online travel agent	100
9	**Synqa** *(Thailand)*	Fintech	80
10	**Cleantech Solar** *(Singapore)*	Energy	75

Source: DealStreetAsia

Of these, Indonesia topped in deal value, accounting for 45.6%. Singapore ranked second, followed by Vietnam, the Philippines and Myanmar.

E-commerce topped the chart by raising $691 million, followed by logistics with $360 million and fintech at $496 million.

Tokopedia, an Indonesian e-commerce unicorn, attracted the most capital at $500 million.

Vietnamese e-commerce company Tiki raised $130m in a deal led by the Northstar Group, the fifth-biggest deal in the region in the first six months.

Ngô Hoàng Gia Khánh, Tiki's vice president of business development, said that the company recorded significant growth in customers' shopping needs during the pandemic, especially masks, handwash and necessities.

Using a nationwide network of order fulfilment centres and an express delivery service called TikiNow, Tiki made a difference from domestic and regional rivals, said Khánh. It also offers free installation for heavy and bulky goods.

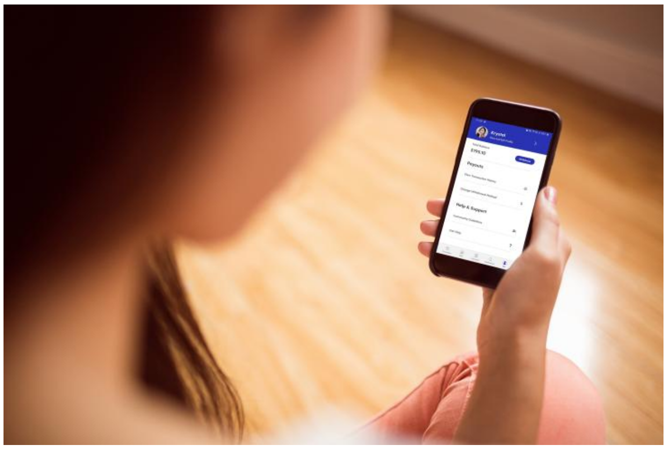
The growing demand for online shopping in Southeast Asia has also heated up the logistics and delivery sector. Singapore's Ninja Van announced a $279 million fundraising round in May.

Fintech is also rising and Voyager Innovations, the company behind Philippine mobile payment app Paymaya, raised $120 million in April. — VNS

Singaporean startup Partipost gets $3.5m to let anyone become an influencer

Partipost, a Singapore-based marketing startup that lets anyone with a social media profile sign up for influencer campaigns, has raised $3.5 million in new funding. The round was led by SPH Ventures, the investment arm of publisher Singapore Press Holdings, with participation from Quest Ventures and other investors.

The funding will be used to grow Partipost's current operations in Singapore, Indonesia and Taiwan, and expand into Vietnam, the Philippines and Malaysia, other Southeast Asian markets with heavy social media usage. Since launching its mobile app in 2018, Partipost says it has added about 200,000 influencers to its platform, and that over the past 12 months, it has helped conduct 2,500 social media marketing campaigns for more than 850 brands, including Adidas, Arnott's, Red Bull, Chope and Gojek.



According to a benchmark report released in March by Influencer Marketing Hub, the influencer marketing industry is expected to be worth about $9.7 billion in 2020, with companies spending increasing amounts on social media campaigns and working with more "micro-influencers." To serve them, the report said that more than 380 new influencer marketing agencies and platforms were launched last year, joining a roster of companies that already include AspireIQ, Upfluence, BuzzSumo, SparkToro and Inzpsire.me, to name just a few examples.

While most of these companies focus on helping brands identify the influencers with the widest social media reach, Partipost lets anyone sign up to take part in a campaign.

Aspiring influencers browse brand campaigns on Partipost's app and apply to take part by submitting a post draft. If the brand approves it, the user can then go ahead and post it on their social media profiles.

The amount of cash they earn is based on how much engagement each post receives. According to the company's website, most campaigns require a minimum of 200 followers or more, and successful users can earn an average of $5 to $150 per campaign, depending on the brand's payout structure.

One of Partipost's selling points for brands is that it enables them to sign up thousands of influencers for a campaign in a single day and help them react quickly to online trends. Part of the funding will also be used to build data tools to help brands match campaigns with Partipost users more efficiently. The company says it expects to increase its base of aspiring influencers to one million within the next 18 months.

As part of the funding, SPH Ventures chief executive officer Chua Boon Ping will join Partipost's board, while Quest Ventures partner Jeffrey Seah will become an observer.

In a media statement, Chua said, "Social influencer marketing is one of the fastest growing segments within Digital marketing. Hence, we are very excited to lead Partipost's Series A round to further accelerate its growth. We are impressed by Partipost's strong traction in Singapore, Indonesia and Taiwan as a young startup and look forward to partnering it to scale to new markets."

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RETAIL

Local retailers closing shops due to Covid-19

Many retailers have had to close shops and give back retail premises to landlords because of poor patronage and a dramatic drop in sales.

In late June, The Gioi Di Dong JSC (Mobile World) closed all shops of its Dien Thoai Sieu Re (super-cheap phones) chain.

Joining the market in August 2019, Mobile World planned to open 30 Dien Thoai Sieu Re shops by the end of 2019. However, only 17 shops had been opened by January 2020 before the chain was completely shut down in June.

Analysts believe that the problem lies in their unreasonable positioning strategy. Moreover, the demand for mobile phones has plunged, especially since the Covid-19 breakout.

Mobile World also predicted that the total demand for mobile phones and home appliances in 2020 would decrease sharply as people's income has fallen because of Covid-19.

In late 2019, Mobile World set a target of obtaining revenue of VND122.445 trillion in 2020, an increase of 20% over the last year, and post-tax profit of VND4.835 trillion, up by 26%

However, because of the pandemic, Mobile World had to lower the targets to VND110 trillion in revenue and VND3.45 trillion in profit

Many retailers have had to give back retail premises to landlords, scale down their business and downsize the workforce, change business model or seek other revenue sources.

According to the Ministry of Industry and Trade (MOIT), the revenue of Saigon Co-op, which has nearly 1,000 shops with Co-opmart, Co.opXtra, Co.op Food, Co.opSmile, dropped by 50% during the epidemic compared with the same period last year.

Other retail chains, including Satra and Lotte, also saw their revenue drop by 50% during that time. Though COVID has been contained, revenue still decreased by VND1 trillion in Q2.

Do Quoc Huy, marketing director of Saigon Co.op, said that it was difficult to increase the revenue after the epidemic because businesses were facing big difficulties, while consumers tightened their purse strings.

JLL reported that the number of customers at many retail centers in HCM City dropped by 80% in February and March. The sharp fall in number of foreign travelers had serious impact on the retail of luxury goods. The small shops run by households are in more serious situation.

Nguyen Thi Dien, CEO of An Phuoc, said that An Phuoc is implementing old orders and it has not got new orders. The partners in Japan and Germany have left the 2020 plans open. The revenue from the domestic market is unsatisfactory as people have cut spending.

Dien said closing shops and giving retail premises back is the simplest solution to stop losses. However, An Phuoc has retained 140 shops to protect its brand.

Parkson to give up on full-scale stores in Vietnam

Malaysian department-store operator Parkson is to quit operating full-scale stores in Vietnam after years of losses. At one stage the company had 10 stores in the country and was confident of long-term success given it was the first overseas department-store brand to enter the market.

This week, Singapore-listed Parkson Retail Asia announced that, subject to shareholder approval, it will sell the Parkson TD Plaza Shopping Centre it anchors in the northern port city of Haiphong for US$10 million, representing a $500,000 loss on book value, but a $500,000 premium on local valuation. Parkson’s Vietnam operations are owned by Parkson Haiphong, a wholly owned subsidiary of Parkson Retail Asia, which is two-thirds owned by Parkson Holdings of Malaysia. The purchaser is local company Thuy Dong Construction Trading.

The disposal leaves just one property remaining in downtown Ho Chi Minh City, (pictured above), which used to house the brand’s flagship in the country. A large part of that store has since been leased out to Uniqlo and another Japanese retailer, Muji, is believed to be currently fitting out at least part of the remaining space.

The way this statement is worded, it suggests that the company will no longer operate a department store in Ho Chi Minh City and by converting such large parts of the building into space leased to other retailers, it would appear the strategy is to morph into a property manager.

However, local Vietnamese media are reporting the store will reopen this Friday, July 31, but only take up the ground floor, a compact area which previously housed only a beauty zone and a large part of which has been taken over by Uniqlo.

Parkson Vietnam began renovating its six-story Ho Chi Minh City store in the Saigon Tourist Plaza building in April of last year. In recent months, a billboard has been placed on the remaining front of part of the building saying it will reopen soon.

At the time the refurbishment was announced, the company said the aim was to deliver a new shopping experience featuring modern facilities, and a higher standard of service for shoppers. But it appears as if almost all the categories it once sold will be stripped out leaving just a beauty offer.

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LOGISTICS

Local airlines open new domestic air routes to increase revenue

To offset the decline in revenue from international flights, airlines have been trying to exploit more domestic air routes.

Since May, when Covid-19 was contained in Vietnam, Vietnam Airlines has opened 22 more air routes, raising the total number of domestic routes in its network to 61. On peak days, the national flag air carrier provides nearly 500 domestic flights.

The two latest air routes which Vietnam Airlines has opened are Hai Phong – Dien Bien and Da Nang – Phu Quoc. It has resumed two other routes, including Can Tho – Phu Quoc and Da Nang – Van Don.

The air routes opened by air carriers before were mostly niche ones, which connect tourism points. The strategy can ease overloading at Tan Son Nhat and Noi Bai Airports, where runways are neing repaired.

Vietjet Air also opened eight new air routes last June, including the Hai Phong – Quy Nhon and Vinh – Phu Quoc. The low-cost air carrier is exploiting more than 50 air routes.

Bamboo Airways has announced the opening of three more air routes from Da Nang to Da Lat, Can Tho and Vinh, commencing in late July.

Prior to that, it began providing short-distance flights on Thanh Hoa – Phu Quoc and Thanh Hoa – Quy Nhon routes.

According to Bamboo Airways' CEO Dang Tat Thang, the revenue from the domestic market is the major source of income for the airline.

Thang said the strategy on opening niche air routes fits the passengers' demand in high season. It helps stimulate domestic tourism demand, thus accelerating the economic recovery.

According to Duong Tri Thanh, CEO of Vietnam Airlines, the carrier's cash flow has gradually recovered thanks to the opening of new domestic air routes. It made over VND1 trillion over the last two months.

However, Thanh still is worried about the prospects of the airline as it cannot 'stand on one foot' in the long term (it can earn money only from domestic flights, and still cannot provide international flights).

The number of passengers flying with Vietnam Airlines has increased by 34%, but the revenue still has declined, because most of the flights are short-distance with low airfares.

At this time, the number of passengers booking domestic flights is very high, because students have entered their summer holiday. However, the demand may fall in the fourth quarter. Analysts say that the competition on domestic air routes is high as airlines are using aircraft for domestic flights to avoid leaving aircraft idle.

ASEAN logistics attracting international attention

In the wake of investment shifts and diversification of global supply chains, international investors are increasingly interested in mergers and acquisitions in the ASEAN logistics market.

According to a source from the Vietnam Logistics Business Association (VLA), a number of financiers from Asia, mostly from Japan, South Korea, and China, are studying stake-buying prospects in logistics firms here, where annual market growth amounts to 14-16%.

With global supply and value chains broken due to the COVID-19 pandemic, international companies have been restructuring supply chains towards diversifying. Many countries including the US also incentivise companies that shift from China.

Support and manufacturing businesses such as business-to-business logistics, industrial services, and import and export companies are likely to see a high demand in manufacturing hubs to serve the movement of goods from factories in the ASEAN to customers worldwide.

Vietnam's shipping services play an important role in developing trade between the country and the ASEAN as more than 90% of its exports and imports are transported by sea. Currently, many air services connecting with the region offer favourable movements of passengers and air cargo. The inland waterways, particularly in the Mekong Delta, are encouraged for development to serve import and export in the area, noticeably in maritime and agricultural products. Investments in cold chain storage are also most welcome.

According to the UN Conference on Trade and Development, global logistics companies have been expanding in the ASEAN because of the increase in commerce and trade activities. As such, investment opportunities for the sector have been increasing accordingly, with recent examples being German outfit DHL and Japanese groups Nittsu Logistics and Yusen Logistics.

The majority of recent M&A deals in the Vietnamese logistics sector involved businesses from Japan and South Korea. Last year, for example, Japan's Sumitomo and Suzuyo acquired 10% stake in Gemadept.

International ventures also show a strong interest in other ASEAN logistics markets. Some outstanding deals are Japan's Kintetsu World Express' acquisition of Singapore's APL Logistics for $1.2 billion; Franklin Templeton PE's stake acquisition in Indo Trans Logistics Corporation, one of the top 3 logistics companies in Vietnam; and Singapore's CWT Group deal.

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INVESTMENT

Foreign direct investment into Vietnam surges in July

Vietnam attracted 3.15 billion USD in foreign direct investment (FDI) and capital for share purchases in July, representing a rise of 79.8% against the same period last year and 76.2% against June, reported the Foreign Investment Agency (FIA) under the Ministry of Planning and Investment.

Hanoi - Vietnam attracted 3.15 billion USD in foreign direct investment (FDI) and capital for share purchases in July, representing a rise of 79.8% against the same period last year and 76.2% against June, reported the Foreign Investment Agency (FIA) under the Ministry of Planning and Investment.

Of the figure, 1.02 billion USD was registered to be poured into 202 new projects, up 2.8% and 19.1% over June and the same period last year, respectively.

Ninety-three existing projects increased their registered capital by a total of 992 million USD, more than two times higher than the same month of 2019. Foreign investors spent nearly 1.13 billion USD to buy stakes at 334 projects, 2.8 times higher than July 2019.

In the first seven months of 2020, Vietnam attracted a total sum of 18.82 billion USD, equivalent to 93.1% of the same period last year.

A sum of 10.12 billion USD was disbursed in the seven-month period, equivalent to 95.9% of last year's amount.

There were 1,620 new FDI projects in the period with a total registered capital of 9.46 billion USD, 4 billion USD of which was registered to flow into the Bac Lieu LNG power plan. Average registered capital per project was 5.8 million USD compared to 4.3 million USD in last year's same period.

About 619 projects had their registered capital increased in the period by more than 4.7 billion USD altogether, up 37.7%.

However, capital for share purchases dropped by around 50% to 4.64 billion USD.

According to the Foreign Investment Agency, FDI flowed into 18 sectors in January-July, led by the manufacturing and processing industry with total registered capital of more than 8.96 billion USD. Power production and distribution ranked second with a total registered capital of 3.95 billion USD.

Vietnam saw the FDI inflow coming from 104 countries and territories from the beginning of this year. Singapore was the largest investor in the period which registered to pour 6.44 billion USD in Vietnam, followed by the Republic of Korea with 2.8 billion USD, and China with 1.7 billion USD. In terms of new projects, the Republic of Korea ranked first with 421 projects, China came second with 237 projects and Japan came third with 175 projects.

Foreign players invested in 59 out of the country's 63 provinces and cities in the January-July period, with Bac Lieu province being the top destination thanks to the 4-billion-USD LNG power project. Hanoi ranked second with 2.82 billion USD registered FDI and HCM City third with 2.4 billion USD.

By the end of July, there were 32,391 valid FDI projects in Vietnam with total registered capital of 380.6 billion USD, 221.8 billion USD was disbursed.

The agency said that the COVID-19 pandemic was weighing on FDI attraction in the period but also created significant opportunities for Vietnam to capture the capital flow spurred by the global shift of value chains, given the country's improved investment climate and infrastructure system.

The recent European Chamber of Commerce in Vietnam's Business Climate Index survey found that European business leaders were positive about the country's business and investment environment with around half predicting that Vietnam's macro-economic climate would "stabilise and improve" in the next quarter.

According to Japan External Trade Organization (JETRO), fifteen out of 30 Japanese firms chose Vietnam as the destination for production expansion within the Japanese government's programme to support Japanese firms to diversify their value chains in foreign countries.

Vietnam set the target of attracting 35-36 billion USD in FDI this year.

The country attracted 38.02 billion in FDI last year, up 7.2% against 2018 with 20.38 billion USD disbursed. VNA

Vietnam to benefit from supply chain relocations

The global health crisis is accelerating global trends in supply chain shifts, offering Vietnam possible development advantages on a silver platter. Vietnam Citi country officer Natasha Ansell shared her view with VIR's Phu Canh on Vietnam's economic outlook and its current position as a potential manufacturing hub in the region.

Vietnam Citi country officer Natasha Ansell

Following the reopening of the economy, what is your view on Vietnam's economic outlook?

While growth in Vietnam is expected to decrease to 2.4% in 2020, the economy is gradually showing signs of recovery with an expected rebound in 2021.

Tourism, hotel, retail, and transportation industries, which account for 20-25% of GDP, are showing steady improvements although it will require a significant rebound in international tourism to boost these sectors back to pre-COVID levels.

Oil prices too have a significant impact on government revenue. Outside of Vietnam, global demand cutbacks are also having an impact. Shoes and garment exports of $46 billion, which account for 18% of Vietnamese exports, have been affected by sluggish demand from the US and EU markets, where nearly half of these products go to.

Despite various points of pressure, Vietnam has been duly applauded for the way the country has handled the COVID-19 pandemic. By taking aggressive steps in early February, the country has kept its overall infection numbers to around 400, with zero casualties.

This has helped to prop up the domestic economy and travel as well. While we continue to monitor the health crisis and the ongoing uncertainty within the broader region and globally, we remain confident on Vietnam’s future prospects.

Supported by a growing middle class, consumer spending, and fiscal policies that encourage public spending, we expect to see further GDP growth.

This is a strong endorsement of the government’s ability to keep the pandemic under control while continuing to attract foreign direct investment into the market, despite an understandable slowdown in capital inflows during this time overall.

What are the levels and activities around banking and lending in this period?

Lending levels and other banking activities have varied during this time, depending on whether companies were managing supply-side or demand-related shocks.

In the initial stages of the pandemic, around February and March, many companies faced a bottleneck in the supply of raw materials due to factory shutdowns and border restrictions across multiple markets. This led to a reduction in loan demand.

As the pandemic progressed to other parts of the world, factories in the region, including in China, began to resume production. While supply chains are gradually normalising, activity did not return to full capacity given demand shocks from export markets such as the US and the EU.

With a focus on maintaining liquidity to support business growth, companies started to deploy loans with longer tenors during this period. We continued to use our balance sheet and strong liquidity position to support our clients, the majority of whom are foreign-invested companies, with strong fundamentals and support from their parent companies.

We are also seeing an increase in new loan facilities and requirements from corporates in the region that are expanding their supply chains to Vietnam and, as a result, expanding their production capacity here. We are partnering with our clients to facilitate these plans in the country while ensuring we are lending prudently and in line with our risk management policies.

What impact is COVID-19 having on supply chains and what implications does have for Vietnam?

COVID-19 is accelerating supply chain relocation plans for companies. The pandemic has exacerbated trends that were already visible due to geopolitical developments and the demands of changing business models.

With the pandemic, we expect supply chain shifts to occur at a quicker pace than previously anticipated. Vietnam stands to benefit from these shifts given an increasing interest in the country from companies which are keen to expand manufacturing capacity.

In recent years, a number of multinational firms have relocated parts of their supply chains to Vietnam as part of their diversification strategies. South Korea was the largest investor in Vietnam last year, pouring close to a fifth of the $38 billion in new foreign direct investment (FDI) into Vietnam. Hong Kong, Japan, and China were also amongst the top investors.

Vietnam represents a pro-business and liberal investment environment, with competitive cost structures and a wide range of tax incentives and tariff benefits resulting from multiple free trade agreements. This includes the Comprehensive and Progressive Agreement for Trans-Pacific Partnership and more recently, the EU-Vietnam Free Trade Agreement that aims to encourage new trade flows and, consequently, supply chains.

We believe that Vietnam has a significant potential to prosper from this opportunity, supported by government policies and interest in attracting FDI into the market.

What are the hurdles that may prevent supply chains from moving to Vietnam and what more can be done to take advantage of the trend?

To capitalise on the opportunity of shifting supply chains, Vietnam will need to continue to develop its infrastructure and build up its capacity. Relative to other markets, Vietnam's GDP is small and, on a per capita basis, it is still below many developing countries. Labour supply is moderate and the logistics, as well as transportation infrastructure, needs to be further developed.

Focus on further developing the road network, port infrastructure, industrial parks, and utility supply would be critical for Vietnam to continue being competitive in attracting FDI.

Specifically on infrastructure, Vietnam must develop its infrastructure more quickly, especially in Ho Chi Minh City and its surrounding areas.

According to the World Economic Forum's Global Competitiveness Report 2019, Vietnam ranks 67th out of 141 in terms of overall quality of infrastructure, 103rd in quality of roads, and 83rd in quality of port infrastructure.

The government must further emphasise the improvement of industrial zones, transportation networks, and power projects. To solve traffic congestion problems in large cities, the government should facilitate major public transportation projects.

Those actions would be very important for the country to continue to establish Vietnam as a prominent regional manufacturing hub in Asia. VIR

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