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# VIETNAM BUSINESS REVIEW

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## FINANCE

### Vietnam's forex reserve sets new record

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Vietnam's foreign exchange reserve has hit a new record high of US\$92 billion, a significant expansion from the \$84 billion which the Governor of the State Bank of Vietnam Le Minh Hung revealed in April.



At a recent Government meeting, Prime Minister Nguyen Xuan Phuc said the country's forex reserve was expected to hit \$100 billion by the end of this year, five times higher than the level recorded at the beginning of his term.

Statistics of the General Department of Customs showed that August saw a trade surplus of \$2.5 billion and a surplus of \$10.93 billion in the January-August period, providing a plentiful supply of foreign currencies which enabled the central bank to purchase foreign currencies from the

beginning of this year.

Financial expert Nguyen Tri Hieu said that high reserves would be an important buffer to help the economy withstand external shocks, which would contribute to stabilising the macroeconomy, strengthening foreign investors' confidence.

According to the central bank, increasing the forex reserve was important so the Government could intervene when necessary, especially in the context of unpredictable global market developments.

Economist Nguyen Duc Thanh said the central bank's purchase of foreign currencies helped prevent the strengthening of the Vietnamese dong, meaning lower forex rates, which would hurt exports.

Thanh said a stable forex policy was enough at this moment in the context of little dollarisation in the Vietnamese economy.

However, there was a potential risk if Vietnam continued to increase forex reserves that the US might accuse Vietnam of currency manipulation, Thanh said.

"My view is that Vietnam should make the most of diplomatic measures to appease the US, if the risk increases, at the same time, stubbornly continue to increase reserve," Thanh said, adding that increasing forex reserves was essential.

Thanh estimated that forex reserves should be increased to the equivalent of six months of imports and towards \$150 billion in the next 12-18 months.

The target could be higher if the size of the Vietnamese economy and the scale of imports and exports kept expanding, he said.

Thanh said when the post-pandemic economic recovery took place, the demand for US dollar would increase and the Government might have to use the forex reserves to intervene in the market. — VNS

## Local ETFs draw foreign attention

The domestic exchange-traded fund VFMVN Diamond (HoSE: FUEVFNĐ) on Tuesday issued an additional 300,000 certificates to raise the total amount of certificates to 148.3 million.

The issuance helped boost the value of certificates listed on the Ho Chi Minh Stock Exchange to VND1.483 trillion (US\$63.9 million) from VND1.48 trillion.



As of September 6, the net asset value (NAV) of the fund was VNĐ1.9 trillion, equal to VNĐ12,884.58 (\$0.56) per certificate.

The fund debuted on HoSE on May 12 at VNĐ11,693.36 per certificate with charter capital of VNĐ102 billion.

The fund has recently become a target for foreign investors, especially Taiwan-based investment fund CTBC Vietnam Equity Fund. The Taiwanese fund will buy 21 million certificates of

VFMVN Diamond between September 7 and October 6.

The Taiwanese fund in late August reported it had raised \$160 million to invest in the Vietnamese equity market, targeting high-potential listed companies on the Ho Chi Minh and Hanoi stock exchanges. In addition, part of the funding would flow into VFMVN Diamond ETF, which allows foreign investors to buy the stocks that have run out of foreign ownership limit (FOL) in the VN-Diamond Index on HoSE.

The market has reportedly reacted positively to the appearance of the Taiwanese fund in Vietnam on expectations the fund will boost the price of the stocks listed in VFMVN Diamond ETF's portfolio.

The Vietnamese ETF on Monday reported there were 14 stocks in its portfolio. The biggest heavyweights were retailer Mobile World Investment (MWG), tech group FPT Corp (FPT), Techcombank (TCB), VPBank (VPB), Vietinbank (CTG), Military Bank (MBB) and Phu Nhuan Jewellery JSC (PNJ).

To capitalise on the investment by CTBC Vietnam Equity Fund, domestic securities firms and investors have reportedly bought shares of the 14 companies in advance.

Since late August, Mobile World Investment shares have gained as much as 15.6%, Techcombank shares have increased by as much as 10% and VPBank shares have risen 11%.

Le Quang Minh, analysis director at Mirae Asset Vietnam Securities Co, said foreign investment funds would buy fund certificates at exchange-traded funds (ETFs) because they were not bound by the foreign ownership limit (FOL) rules.

Nguyen The Minh at Yuanta Vietnam Securities Co said ETF certificates were quite attractive in Taiwan and that could explain why the Taiwanese fund was interested in buying the Vietnamese fund's certificates.

However, the ETF capital would not flow into Vietnam in short term, instead, the funds would have long-term plans, Nguyen Minh Hanh, ETF director at SSI Asset Management (SSIAM), said.

Foreign investment funds would have to pay a premium for the same stock compared to domestic investors, he said.

Minh also said that a new source of capital always helped boost market morale, especially when large-cap stocks in the VN30 basket account for 70% of the market's total capitalisation.

According to analysts, the valuation of the Vietnamese stock market is about 20% lower than other markets in the region. But it is not a decisive factor to attract foreign investors.

On April 9, 2018, the VN-Index hit its all-time high of 1,204.33 points but profit growth has slowed down and outpaced the decline of the market since then, making Vietnamese shares much cheaper than regional markets.

Foreign investors have not paid much attention to Vietnamese stocks because the local market is still at the frontier level, while accounting standards are very different from international ones. Foreign funds will be drawn if market prospects are good and profitable. VNS

### **Investors still pouring money into corporate bonds, despite warnings**

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Investors are still preferring corporate bonds to bank deposits, and are withdrawing money from banks to buy corporate bonds to enjoy higher interest rates.

The latest report of the Hanoi Stock Exchange (HNX) showed a slowdown in corporate bond issuance in July.

The total value of bonds issued in the month was VND26.945 trillion, a decrease of 41% compared with June. Of this, VND19.944 trillion was issued privately, a decrease of 56.4%. VND7 trillion was issued to the public.

In the first seven months of the year, the total value of bonds issued reached VND196.5 trillion, up by 48.5% over the same period last year. This included VND179.5 trillion worth of privately issued bonds, up by 37%.

The bond interest rates are on the decrease. According to SSI, the average interest rate of real estate bonds in Q2 was 10.42% per annum, lower than the 10.77% in Q1.

Excluding bank bonds (which have low interest rates), the average interest rate in Q2 was 10.27%, nearly the same as the interest rate in H2 2019. This was attributed to the bank deposit interest rate reductions.



*Figure 1 Excluding bank bonds (which have low interest rates), the average interest rate in Q2 was 10.27%, nearly the same as the interest rate in H2 2019. This was attributed to the bank deposit interest rate reductions.*

Analysts believe that demand for corporate bonds has decreased because investors have become more cautious after repeated warnings about risks by the Ministry of Finance. And because of the second Covid-19 outbreak, people are holding more cash to prevent risks.

However, reports of securities companies in Hanoi show that individual investors maintain high interest in corporate bonds.

Corporate bonds have higher interest rates, by 1-3% per annum, than bank deposit interest rates. Besides, corporate

bonds are believed to have strong liquidity as distributors will commit to buy back or act as intermediaries to arrange deals when investors want to sell the bonds.

Some investors said they have bought corporate bonds as they believe the investments are safe because the distributors are commercial banks.

Nguyen Hong Thinh, from Thanh Xuan Bac residential quarter in Hanoi, said if she continues depositing money at a bank, she will enjoy a maximum interest rate of 6.6% for a 13-month term deposit.

If she buys the corporate bonds of a real estate firm, distributed by the bank itself, she would enjoy an interest rate of up to 10.45%. Thinh finally decided to withdraw VND500 million from the bank to buy corporate bonds.

A small bank in Hanoi is distributing 2-year bonds issued by a real estate firm which has an interest rate of 11%. An officer there revealed that VND100 billion worth of bonds were sold in the first day of distribution alone.

Economists have once again warned of the high risks of corporate bonds in the context of the Covid-19 pandemic, saying that investors are being "too naive" by placing confidence in banks, which only act as distributors.

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## E-COMMERCE

### Online shopping sees record growth, ranked 3rd in region

The total number of visits to online shopping apps in Vietnam reached 12.7 billion in the first six months of the year, the highest ever figure.

Consumer demand and shopping behaviors have changed because of Covid-19. Even though strict social distancing has been lifted, online shopping demand has increased steadily since the beginning of the year. General goods and health care products grew most rapidly in the first half of the year.



*Lazada in mid-April began providing fresh food with fast delivery (within two hours). Tiki in May introduced TikiNGON, the fresh food service with delivery within three hours. The competition in general goods distribution has become fierce.*

The reports of iPrice Group and SimilarWeb showed that the number of visits to general goods websites increased by 41%, while the visits to make-up and health care product websites grew by 21%.

The online demand for health care and general goods is not temporary, according to iPrice. Covid-19 has helped create new online shopping habits, which will lead to long term growth in certain categories of products.

Meanwhile, fashion products continued to be gloomy with the number of visits in Q2

dropping by 29% compared with Q1. Mobile devices also saw a decrease of 13%. Only home appliances saw a growth rate of 10%.

The lower demand and the tightening of purse-strings by consumers have caused unessential goods to suffer.

General goods and fresh foods are the major items in e-commerce sites' long-term competition strategies. They are leading to development of services such as logistics and transportation.

Lazada in mid-April began providing fresh food with fast delivery (within two hours). Tiki in May introduced TikiNGON, the fresh food service with delivery within three hours. The competition in general goods distribution has become fierce.

During the epidemic peak period, e-commerce websites reduced promotion and advertisement activities, but boosted sales through livestream and mobile games. These aimed to increase interactions and the number of users, taking full advantage of the social distancing period.

According to iPrice Group and App Annie, the total number of visits to online shopping apps in Vietnam reached 12.7 billion, the highest level so far.

With the growth rate of 43%, Vietnam ranked third, after the Philippines and Thailand, in terms of growth. It was also among the top 3 in Southeast Asia, together with Indonesia and Thailand, in the number of visits to online shopping apps, accounting for 19.5% of the entire region market share

In late 2019 and early 2020 e-commerce sites conducted intense experiments to develop online shopping. Tiki has TikiLive, Shopee has Shopee Feed, and Sendo has SenLive. The Covid-19 pandemic, which broke out in early 2020, gave a push to e-commerce sites as people stayed home and had higher demand for online entertainment, which was ideal for sites to experiment.

A report found that the number of transactions via mobile phones in Vietnam in H1 was 472 million, worth 4,900 trillion, increasing by 178% and 177%, respectively, compared with the same period last year.

According to Nielsen, 57% of Vietnamese are ready to use virtual reality technology to approach new products.

IPrice Group and App Annie reported that Shopee, Lazada, Tiki and Sendo were among the 10 most used online shopping apps in Q2.

## **E-commerce gives impetus to woodworking sector**

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In the rapid development of e-commerce, online stores and factories are one of the solutions with which enterprises can cope with the prolonged Covid-19 pandemic while laying a foundation for digitalized business

Nguyen Van Sang, director of VietProducts which owns the Furnist brand, says that strengthening e-commerce has recently helped the company offset the slumping sales at traditional stores.

Since the Covid-19 outbreak, Furnist has seen its revenue surge by 40%-50% from e-commerce platforms, such as Lazada, Tiki, Shopee and Sen Do.

For the export segment, although traditional importers in the United States and Europe have repeatedly cut or halted their orders in the past four months, online firms in the two markets have raised their imports by 70%-100%.

As the pandemic may linger, e-commerce will further support Furnist's operations, according to the director. To expand the export market, VietProducts has launched a retail store on Amazon. Unlike the wholesale business offered via Alibaba, VietProducts has met with difficulties in the retail channel, such as preparation and arrangement of logistic activities in the supply chain to ship products to the United States and other countries at reasonable transport time and costs. In recent times, many other handicraft and woodworking firms have been gearing their business towards the online channel.

Some members of the Handicraft and Wood Industry Association of HCMC (HAWA) have piloted the combination of e-commerce with virtual reality and 3D technology to introduce their products to customers.

Nguyen Quoc Khanh, chairman of HAWA, says Covid-19 has changed both consumption behaviors and working modes, causing pressure and challenges to enterprises and prompting them to improve design, production and commerce, in which digital transformation is an important key.

According to Tran Viet Tien, a member of the Standing Committee of HAWA, e-commerce has allowed foreign customers to explore production capability of partners via an independent audit unit although they have yet to visit Vietnam.

As the biggest challenge of the industry involves bulky and full-package shipments, the online retail business requires producers to shift to simple designs so that customers can assemble by themselves. In addition, they should offer affordable prices to reach more low- or medium-income customers since most local firms have yet to find out solutions to speed up the sales of their complicated products.

### **Fairs and exhibitions go online**

Earlier, fairs and exhibitions might give numerous business opportunities to woodworking firms. However, the ongoing virus crisis has ceased almost all trade fairs on a national and global scale. Many companies say they were ready to launch new designs and products and present new ideas to partners and customers, but they all failed in these efforts, due to the unexpected problem.

According to HAWA, many large customers in Japan, Europe and the United States take an interest in supplies outside China, and Vietnam is one of the most promising candidates. To seize this opportunity, the association intends to launch the HAWA Online Platform for Exhibition (HOPE) – the first of its kind in Vietnam.

Nguyen Chanh Phuong, HAWA general secretary and vice chairman, says Vietnamese producers and exporters will be able to display their products, stores and factories online, visually and lively. Clients can inspect products inside out via all mobile devices, such as cell-phones, laptops and tablets, Phuong argues. Though it has yet to be launched officially, HOPE has attracted around 50 manufacturers and exporters so far.

Dinh Thi Huong Nga, director of Huong Nga Fine Arts, says her salespersons had to work very hard to maintain current customers and seek new ones during the first wave of the Covid-19 outbreak in the country. However, within less than a month since the introduction of the HOPE platform, the enterprise won two contracts from Germany and Britain.

The foreign clients previously found Huong Nga Fine Arts products via its email and website. Furthermore, HOPE with improved images and content encouraged customers to place orders, Nga says.

Along with social apps, HOPE enables guests to interact and exchange directly with exhibitors around the clock. Companies will also reach statistics and analysis to experience and learn about customer needs, collect potential client data, study and figure out consumer trends. SGT

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## START-UP

### Do Ventures launches \$50m fund for VN startups, backed by Naver, Vertex

New investment firm Do Ventures announced today the first closing of its fund for Vietnamese startups, which is backed by several of Asia's most notable institutional investors. Called Do Ventures Fund I, the investment vehicle has hit more than half of its \$50 million target, with limited partners including Korean internet giant Naver; Sea, whose businesses include Garena and Shopee; Singapore-based venture capital firm Vertex Holdings; and Korean app developer Woowa Brothers.



*Vy Le and Dzung Nguyen, the founders and general partners of Do Ventures, an investment firm focused on early-stage Vietnamese startups*

Do Ventures was founded by general partners Nguyen Manh Dung, former CEO of CyberAgent Ventures Vietnam and Thailand, and Vy Hoang Uyen Le, previously a general partner at ESP Capital. Its first fund will focus on early-stage companies and invest in seed to Series B rounds.

Both of its founders have a long track record of working with Vietnamese startups. Nguyen was an early investor in companies including Tiki.vn, one of Vietnam's largest online marketplaces; food delivery platform Foody.vn; and digital

marketing company CleverAds. Before she became an investor, Le was a serial entrepreneur and served as chief executive officer at fashion e-commerce company Chon.vn and VinEcom, the e-commerce project launched by Vietnamese real estate conglomerate Vingroup.

In an email, Le told TechCrunch that Do Ventures Fund I is industry agnostic, but will structure its investments into two tiers. The first will consist of B2C platforms, including education, healthcare and social commerce, that serve younger users, and are addressing changes in consumer behavior caused by the COVID-19 pandemic. The second tier will include B2B platforms that can provide services for companies in the first tier, and allow them to expand regionally with SaaS solutions for data and e-commerce services.

Do Ventures' founders say that between 2016 and 2019, the amount of startup funding in Vietnam grew eight-fold to \$861 million last year. But there are still only a few funds that focus specifically on the country, which means early-stage Vietnamese startups often run into funding gaps.

One of the firm's goals is to help founders weather the impact of COVID-19, so their companies can continue growing in spite of the pandemic.

The firm will take a hands-on approach to its investments, helping companies develop new business models. Do Ventures plans to set up an automatic reporting system that collects data about how its portfolio companies are performing, which its general partners say will enable them support startups' operations, including product development, business organization, supply chain development, and overseas expansion.

## Journey of a Vietnamese start-up to bring pennywort to EU

Nguyen Ngoc Huong of HCM City's Cu Chi District and her collaborators have jointly set up a start-up to produce freeze-dried powders from vegetables and leaves.

The use of pasteurised freeze-dried technology helps retain the original flavours and natural colours. The powders are made into drinks by adding water.



*Thiên Nhiên Việt Import-Export Company's pennywort farm area in Củ Chi District, HCM City.*

Besides, since the powders are made by grinding with granite stone mortars, they are very soft. In order to ensure supply of clean produce, Huong and her partners grow them in Tan An Hoi Commune in Cu Chi.

After starting with pennywort, her Thien Nhien Viet Import-Export Company has since developed various instant powders like perilla, moringa, green tea, lotus leaf, and chameleon leaf.

"The company's freeze-dried powders have been marketed around for more than three years and received positive feedback from consumers," Huong says.

They are now available at grocery stores around the country and online, and the company plans to get ISO certification to export, she said.

Her project won the first prize at the 2019 Innovation Start-up Project Contest held by the Business Study and Assistance Centre in collaboration with the Rural Youth Committee of Central Youth Union recently.

Tran Anh Tuan, CEO of The Pathfinder, who has been a mentor for many start-up projects, says: "Starting an agriculture business in Vietnam is quite difficult, so I appreciate the efforts of those who choose agricultural products to start a business."

Huong says: "Over the past three years I have played many roles from that of farmer growing vegetables to a producer and economic planner." — VNS

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## RETAIL

### Retail businesses adapt to Covid-19, go online

Retailers in HCMC have quickly adapted to the situation caused by the COVID-19 pandemic by resorting to e-commerce and delivery services.



*A shopper scans QR codes to shop online at lazada online shopping platform .*

In the first eight months of the year only retail grew among all the service sectors.

A report by the city Department of Industry and Trade said retail revenues topped VND503 trillion (US\$21.78 billion), an 8.3% increase year-on-year.

Direct shopping revenues fell, but online sales saved many businesses.

Vo Thi Phuong Mai, deputy director and head of retail services, CBRE Vietnam, said the pandemic had generally impacted direct visitor traffic but created opportunities for small and medium-sized models such as convenience stores and pharmacies and, especially, e-commerce.

Saigon Co.op, a traditional retail giant established in 1996, has moved towards multi-channel sales in recent years.

Do Quoc Huy, Saigon Co.op's marketing director, said with experience gained during the worst days of COVID-19 its retail systems had a clear roadmap for stockpiling and measures to cope with new developments. Saigon Co.op's human resources and transportation plans had been carefully mapped out to cope with any eventualities..

Besides, its retail chains like Co.opmart, Co.opXtra, Co.op Food, and Co.op Smiles are offering attractive promotions on essential goods for 21 days from August 20 under a programme called Proud of Vietnamese Goods 2020. It offers discounts on many products like milk, meat, fish, fish sauce, fragrant rice, and more than 20 other kinds of farm produce.

The department forecast the retail sector to grow by around 10% this year.

Many manufacturers also offer various promotions to stimulate demand, including leading food company Vissan.

In addition to promotions at attractive prices at its stores and supermarkets, Vissan said it was committed to providing consumers with meat products meeting VietGAP standards.

## Vietnam aims to diversify local retail market

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The Ministry of Industry and Trade (MoIT) plans to consolidate traditional markets in rural areas while developing a large number of convenience stores and diversifying types and methods of modern business.

These are part of targets set in the project to develop domestic trade in 2021-25 period.

According to the ministry's assessment of 2016-20, the local market has become important for the momentum of sustainable development. Total retail sales and revenue from services saw a high growth rate of 9.2% annually from VND3.5 trillion (US\$150.7 million) in 2016 to VND4.9 trillion in 2019. The growth was relatively equal among economic regions.

Total retail sales of consumer goods and services per capita increased from VND38 million in 2016 to VND51.2 million in 2019 per person.

The contribution of the domestic market to GDP has increased, from 10.5% in 2016 to 11.16% in 2019. It showed the domestic market plays an important role in product consumption. At the same time, it has provided jobs as it employed about 6-7 million workers (accounting for more than 12% of the total workforce in the country), contributing to poverty reduction and ensuring social security.

Over the past 5 years, supply and demand connection has also performed well, contributing to stabilising prices in the market, through linking to create a stable source of goods between domestic manufacturers and large distribution systems nationwide.

The proportion of Vietnamese goods in retail distribution systems is high with 90% for distribution systems owned by domestic enterprises (90 – 93% at Co.opmart, 90-95% at Satra and 96% at VinMart). The proportion is more than 70% at foreign supermarkets and commercial centres (90% at Lotte and Big C and 82 – 85% at AEON and Citimart).

However, the MoIT said the overall growth rate was not high compared to potential and the domestic market still has plenty of room to grow.

The average annual growth rate in 2021 - 25 of the total retail sales of consumer goods and services (including the price factor) is expected to hit about 9 - 9.5% a year, while the proportion of total retail sales of goods by type of modern trade by 2025 will reach 35-40%.

Another goal is to gradually complete commercial infrastructure such as shopping malls, supermarkets, trade-service areas, convenience stores, specialised stores, logistics centres, wholesale warehouses and fair centres in big cities.

Among the 10 regions with the largest market size in the country, HCM City continued to lead with VND1.08 trillion in 2019, accounting for 22.1% of the national market and two times higher than the second-highest Hanoi with VND512 trillion last year, accounting for 10.03% of the total. VNS

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## LOGISTICS

### Seaports to foster south-central region economic development

The construction of a series of seaports in the south-central region is expected to drive its maritime economic development, according to local government leaders.



*Quy Nhơn Port in Bình Định, one of the country's major general ports. The development of a cluster of ports in the south-central region is expected to be a driving force for local economic development*

Luu Xuan Vinh, Chairman of the Ninh Thuan Province People's Committee, said the VND1.463 trillion (US\$63.1 million), 108ha Ca Na Sea Port Complex, whose construction began last month in Thuan Nam District, would play an important role for the locality and region, fostering economic development and attracting investment.

In phase 1, it was designed to handle 3.3 million tonnes of cargo a year. It would have two wharves capable of berthing ships of up to 70,000-100,000 DWT and another with 20,000DWT capacity.

One of the two former wharves would be completed by the end of 2022 and the other in October 2025.

The smaller wharf was scheduled to be completed in August 2026.

"The port will [help] merchandise exports, contribute to attracting investment and serve the needs of production and processing projects in industrial parks and industrial clusters in Ninh Thuan Province and the south-central and Tay Nguyen (Central Highlands) regions," Vinh said.

"It will play an important role in supporting the transport of equipment for renewable energy projects such as wind and solar power projects in the province."

Neighbouring Binh Thuan Province plans to build the Son My international port in the commune of the same name in Ham Tan District.

It will have a specialised wharf for liquefied natural gas (LNG) that can handle ships of up to 100,000DWT, an international passenger wharf that can berth ships of up to 225,000 GRT and a general berth capable of handling ships of up to 50,000 DWT.

Binh Thuan Province also plans to build a specialised LNG port with a capacity of up to 170,000 DWT in Tan Thanh Commune, Ham Thuan Nam District, to serve the gas-fired power plant in Mui Ke Ga.

Among the south-central provinces, Khanh Hoa has the largest number of ports: 16.

Hoang Dinh Phi, head of the management board of the province's Van Phong Economic Zone, said Nam Van Phong Port in Ninh Hoa town opened recently to serve the south-central and Central Highlands regions. It can dock ships of up to 70,000DWT now and 100,000DWT in the near future.

Meanwhile, Bac Van Phong Port is under construction in Dam Mon, Van Ninh District. One wharf that can handle ships of up to 50,000 DWT has been completed.

Mai Dinh Vu, chairman of Van Phong Port Company Limited, said though the port had yet to be completed, it had already received many foreign ships. With a rising number of cargo vessels of 50,000-70,000DWT registering to enter the port his company was seeking to increase the capacity of the remaining two wharves to improve the port's efficiency.

According to the Ministry of Transport, the south-central region will 5 five key ports.

Quy Nhon Port in Binh Dinh Province is a major national port with 18-20 million tonnes of goods passing through it annually. Vung Ro Port in Phu Yen handles 5.8 - 6.3 million tonnes a year. Ninh Thuan Port has a cargo throughput of 15.8 -17.5 million tonnes. Khanh Hoa Port handles 15.9 - 18.6 million tonnes of goods a year.

## Logistics groups strive to exploit EVFTA potential

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The EU-Vietnam Free Trade Agreement has created a new driving force for Vietnam's logistics, but the industry needs to take further action to unlock its full potential.

Tran Viet Huy, managing director of Tracimexco - Supply Chains and Agency Services JSC (TRA-SAS), told VIR that the EU-Vietnam Free Trade Agreement (EVFTA) will open up doors for all players in the logistics market as trading and investment will increase remarkably.

However, more competition will be created for Vietnam's third-party logistics players to tap into the potential of the EVFTA. In particular, local players will need to transform themselves to meet the sophisticated demands of European counterparts.

To avail the opportunity, TRA-SAS is doubling investment into logistics facilities in some potential segments this year. "The company has recognised that any investment plan should be based on high-skilled workforce, an area which is becoming more and more competitive," Huy said. "In particular, EU companies are in an advanced position in attracting high-skilled manpower. However, increasing investment is the only way for Vietnamese third-party logistics players to not be left behind."

Nicolas Audier, chairman of EuroCham, said that Vietnam's logistics sector and its maritime trade will see significant benefits from the EVFTA. "This historic free trade agreement will boost trade with the EU, but this increased flow of goods cannot happen without supporting industries such as transport networks, supply chains, and logistics infrastructure," he said. "Nor can it happen without the companies who facilitate these essential commercial activities."

From the perspective of individual companies, the elimination of tariffs should help to reduce operational costs and fees for enterprises. This capital can then be re-invested into business development and growth.

However, barriers remain. While Vietnam's import-export and customs procedures have seen significant modernisation in recent times, logistics costs remain high, processes are often manual, and transport networks can be congested and remote from ports and manufacturing centres.

On top of these structural improvements, he recommended that the government and business communities on both sides continue to share information and know-how through networking opportunities and events.

Last month, EuroCham signed an MoU with Vietnam Maritime Administration. The agreement, and the spirit of partnership it represents, will be one of the most important factors in unlocking the full potential of the EVFTA, according to EuroCham.

After just over a year of implementation, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) has contributed more than \$3.9 billion to Vietnam's trade surplus. Along with the newly-introduced EVFTA, these are major economic achievements requiring important reform.

Yet, according to the Vietnam Chamber of Commerce and Industry (VCCI), up to 77% of enterprises in Vietnam do not know of, or have only just heard about, the CPTPP and the EVFTA. Clearly, the VCCI said, there is a need for greater understanding of the benefits that FTAs can bring to businesses and trade. Under the terms of the EVFTA, 70% of Vietnamese exports will enter the EU's member states duty free, while remaining tariff lines will be reduced gradually within seven years.

Russell Reed, managing director of UPS Vietnam and Thailand, noted that business owners should keep up to date on the prevailing tariffs applicable to their business to take advantage of savings and competitive pricing. The agreement also simplifies entry of goods procedures including customs clearance into the EU, but businesses should also be aware of the FTA's customs requirements such as product origin, food safety & technical standards, and the continued applicability of import and sales VAT.

UPS have launched some initiatives aiming to help Vietnamese-based businesses optimise supply chains and respond more quickly in a continually-evolving trade environment. With more FTAs in the region being negotiated, and an EU-ASEAN FTA potentially on the cards, the most successful companies will be those that seize competitive advantages offered by the deals to unlock new cross-border trade prospects.

The establishment of new companies is also subject to conditions on ownership and services, with services being clearly segmented into 16 types. This will lengthen the paperwork for companies like YCH Group, explained Tan, which primarily focuses on being an integrated end-to-end supply chain and logistics solutions provider. VIR

## How a Vietnamese logistics giant is staying nimble during a pandemic

In the first of a four-part series focusing on Asean businesses, Scommerce looks at the pivotal role Standard Chartered has been playing to power its growth

Like many other organisations, Scommerce has been buffeted by the challenges thrown up by Covid-19. But the integrated logistics provider's chief operating officer Hang Do says the company has been left relatively unscathed by the pandemic.



*Scommerce services millions of merchants and consumers across Vietnam*

The company, better known in Vietnam by its two main brands — GHN and AhaMove — has had to be nimble in recent months. As governments and companies scrambled to contain the outbreak and introduce safe management processes, Scommerce and other logistics companies have seen rising demand for their services.

“The first week of the outbreak was a bit of a fire drill for us all, but we quickly adapted our operations to meet new government requirements,” says Ms Hang.

Despite these challenges, Scommerce considers itself “lucky” that it operates in an essential sector that is less impacted by Covid-19 compared with other sectors. “We have tried our best to keep everyone on the payroll while fighting in a very competitive market,” she says.

### Forging partnerships

Ms Hang also credits the management team's foresight and the right partnerships for Scommerce's rapid growth. Founded in 2012, Scommerce offers its logistics services to millions of Vietnamese merchants and consumers today.

Through the early years of Scommerce, Ms Hang remembers one partner that has stood by her company. Standard Chartered, which is present across all 10 Asean countries including Vietnam, partnered with Scommerce when the latter was looking for a strategic banking partner. She credits the financial and advisory support provided by the bank as an important catalyst for the company's growth.

“We started working with Standard Chartered when we didn't have much money. We were a fast-growing logistics company but we didn't make any profit and we had little capital. So I give the bank a lot of credit for believing in us,” says Ms Hang.

“About 85% of our e-commerce transactions in Vietnam are cash-on-delivery (COD), so the amount of money we handle can come up to a few million dollars a day. All of this money is in change, or in Vietnam Dong, all over Vietnam. To improve these processes, we wanted a bank who could provide us

with more seamless trade-related financing solutions and we eventually found that with Standard Chartered.”

The bank is also the first in Vietnam to implement virtual accounts; other banks in the country have since followed suit and started to offer similar services.

Mr Nirukt Sapru, CEO, Vietnam and ASEAN & South Asia Cluster Markets, shares “We offer instant FAST Pay 24/7 and our bank’s own payment gateway (Straight2Bank) to facilitate Scommerce’s merchants, clients, operators (truck drivers), so that they can process their orders in a timely, real-time manner by cooperating with local fintechs like NAPAS, VNPay etc.”

While Scommerce is now an established player, it has had to grow quickly and having “someone to hold your hand” through that process has been helpful, says Ms Hang.

And, as an indication of their strong working relationship, Scommerce chose Standard Chartered to help them execute a number of significant M&A transactions, one of the 10 largest deals in Vietnam, in 2019.

### **Keeping ahead of the curve**

Meanwhile, the logistics landscape in Vietnam has become more challenging in recent years, with regional players, including NinjaVan, J&T, and Best Inc, moving in. E-commerce platforms have also started establishing their own in-house logistics. According to the Vietnam Logistics Business Association, the country’s \$40 billion logistics industry comprises around 30,000 logistics companies, including 4,000 international players. But Ms Hang says that the company sees its independence as a selling point.

To remain at the cutting edge, Scommerce has started to invest in their automation facility to further develop its existing infrastructure and optimise delivery costs for merchants. Their partners include Vietnam’s four largest e-commerce platforms — Shopee, Tiki, Sendo, and Lazada — as well as over 100,000 small and medium-sized online merchants.

### **Going back to fundamentals**

These investments have paid off in the current climate. Ms Hang says the Covid-19 pandemic helped the organisation refocus on its business fundamentals: customers, operations, technology, and costs.

“We have spent the past six months improving our customer touchpoints, both online via our customer portal and apps, as well as offline via our delivery fleet. This is on top of ensuring a top-of-market performance measured by lead-time and reliability metrics.”

Standard Chartered is also supporting Scommerce’s future growth trajectory; they recently approved the request for a short-term credit facility to support their business operations amid the still-evolving Covid-19 situation.

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## INVESTMENT

### Central city calls for \$2 billion investment in 2021-25

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Da Nang has called for total investment of VND47.5 trillion (US\$2 billion) from the State Budget and foreign sources for the development of 38 projects between 2021-25, focusing on transport and traffic.

Director of the city's planning and investment department, Tran Phuoc Son, said 77% of the proposed investment would come from international loans or Official Development Assistance (ODA).

Son said these projects also included the construction of new hospitals, expansion of an already-built hi-tech park, a new bio-tech park and a healthcare system for the central coastal region.

The relocation of the city's railway station and an urban project related to rail and port logistics had been planned from 2017, but required loans from the World Bank and Asia Development Bank (ADB).

The railway station removal and an urban redevelopment project would need VND12.3 trillion (\$535 million) – 26% of the total proposed investment fund in 2021-25.

According to the city, the new railway station will help link the key North-South railway and road system, the Da Nang-Quang Ngai Expressway, the East-West Economic Corridor and new planned Lien Chieu deep sea cargo port.

The city's transport department and Seoul Metro company have been working on a survey for an inner city railway network including two metros and eight tramways connecting the airport, shopping centres, beaches, resorts, the Hàn River banks and other destinations.

Da Nang is Vietnam's fourth largest city and is widely regarded as having better infrastructure than other cities in the country. It plans to turn itself into a 'green' city by 2025. — VNS

### Tough spot for steel ventures as pandemic cuts off progress

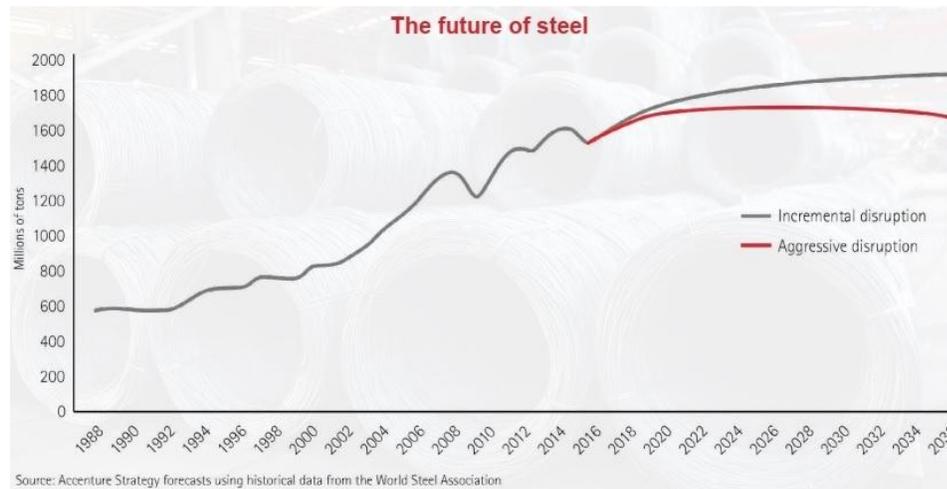
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The global coronavirus developments coupled with the falling demand are adding more pressure for some steelmakers to lay idle their projects, cut products, or ponder mergers and acquisitions strategies to ensure their cash.

According to a World Steel Association report, global production in the industry witnessed a fall in the first seven months of 2020, with crude steel production for the 64 countries reporting to the association sitting at 152.7 million tonnes in July, a 2.5% decrease compared to 156.7 million tonnes in July last year.

In response to the slower demand at home and abroad, a number of giant steelmakers such as Nippon Steel Corporation and Tata Group said they will possibly halt the production of further blast furnaces to cope with the situation amid the ongoing coronavirus pandemic. And while Vietnam is relatively better off than many in terms of the pandemic, it will not be an exception to steel industry impacts. The World Steel Association also noted recovery is on trend but the steel picture remains less rosy than in other areas.

Locally-invested Hoa Sen Group is set to withdraw its capital contribution from the \$10 billion Ca Na steel complex in the central coastal province of Ninh Thuan, instead looking to focus on other areas such as plastics and corrugated iron. Insiders remarked that it would be a wise move for Hoa Sen, but it would not be easy to find investors for the project anytime soon. Hoa Sen used to bet on this project. Constructing the steel complex was planned to help Hoa Sen overtake Hoa Phat as the largest Vietnamese steel producer, following only Taiwanese Hung Nghiep Formosa Ha Tinh Steel Co., Ltd., which has an annual capacity of 7.5 million of tonnes in its first phase.



The Ca Na steel complex is set to be carried out towards 2031 in multiple stages and will have final capacity of 16 million tonnes a year, including long and flat steel.

COVID-19 has bitten into the profits of Formosa Plastics

Group, which operates a \$10.5 billion steel and port complex in the central province of Ha Tinh. Although there is no official data from the company, a provincial report said that in the first half of the year, Formosa’s production output and consumption of steel billets and finished steel products fell sharply because the price of finished steel products continues to decline while raw material prices continue to move in the opposite direction.

The initial impact of the pandemic also caused problems. Facilities suffered shutdowns for maintenance and repair of hot-rolled machinery for 20 days in January and 10 days in February. Over the first six months, it is estimated that the Formosa steel facility’s billet output hit 2.67 million tonnes (down 12.7%) and steel output was 1.96 million tonnes (down 18.3%) over the same period in 2019.

Last year, Formosa announced that it could increase its capacity in both 2021 and 2023 after its first blast furnace went into use in 2017 and the second came a year later. However, the current pandemic has ensured the moves are currently a non-starter.

Besides the slowing demand, Nguyen Van Sua, former chairman of the Vietnam Steel Association (VSA), said that the industry currently endures other problems such as the difference between the domestic demand and production capacity, as well as the competition created when other countries use trade remedies to protect their domestic production.VIR

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## **SEIKO IDEAS - 14<sup>th</sup> Anniversary**

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