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Vol 47, Nov 25th 2020

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FINANCE

Challenges and opportunities from Covid-19 for Vietnam's M&A market

Low interest rates could open up new opportunities for investors to take advantage of the cheap capital to buy shares and acquire new assets via M&A deals.

Despite the fact that M&A activity in Vietnam has been stagnant due to Covid-19, in the long term, this could help the market get ready for a booming period in the future.

BIDV-KEB Hana Bank remains the biggest M&A deal in Vietnam in 2019

Nevertheless, Vietnam's M&A market still recorded major deals in the first nine months of this year.

Top of the list were deals related to Vietnam's leading privately-run conglomerate Masan Group in the acquisitions of VinCommerce, Net Detergent (NETCO), and 3F, among others. Specifically, Masan acquired the network of supermarkets and convenience stores from Vingroup's retail arm VinCommerce. In the first six months of this year, Masan closed 151 Vinmart stores that were deemed ineffective and opened 45 new ones.

Later, Masan spent around US$28 million to acquire a 60% stake of NETCO, which currently holds 1.5% of the market share in the laundry segment, and US$26.43 million for a 51% stake of 3F Vietnam company – a poultry integrator.

BIDV's sale of over 603.3 million shares to KEB Hana Bank with a total value of nearly VND20.3 trillion (US$875 million) last November was the biggest M&A deal in Vietnam in 2019. After the deal, BIDV has the highest registered capital among banks in Vietnam and eased its pressure to meet the capital adequacy ratio (CAR) under the Basel II standards.

In June, a consortium led by private equity firm KKR completed acquiring a 6% stake worth US$650 million of Vinhomes, a subsidiary of conglomerate Vingroup.

Besides these major deals, there were still some notable ones amid the Covid-19 pandemic, including Stark Corp acquiring Thipha Cables & Dovina, Sumitomo Life buying shares of Bao Viet Holdings, Danh Khoi Holdings taking over Sun Frontier or Aozora bank buying a stake of OCB bank.

Opportunities remain

In 2019, the number of M&A value reached US$7.2 billion, representing a decline of 5.3% against the previous year. In 2020, due to the Covid-19, the figure may further decrease to US$3.5 billion, or down 51.4% year-on-year.

A senior executive at an auditing firm suggested most investors are cautious about pursuing a large deal at this time, except for fields that suffer limited Covid-19 impacts or are considered of low risk, namely healthcare or consumer goods.

Financial expert Nguyen Le Ngoc Hoan said opportunities still remain, especially from investors in countries having multilateral or bilateral trade deal with Vietnam.

Mr. Hoan referred to Ho Chi Minh City Development Joint Stock Commercial Bank (HDBank)'s announcement on September 25 regarding the signing of an agreement on convertible bond issuance and strategic cooperation with DEG, a development financial institution under German state-owned development bank – KfW.

This shows European investors are looking for potential deals in Vietnam, noted Mr. Hoan. Meanwhile, the fact that the State Bank of Vietnam and central banks around the world are keeping low policy rates could open up new opportunities for investors to take advantage of the cheap capital to buy shares and acquire new assets via M&A deals, commented Mr. Hoan. *Hanoitimes*

Foreign investors still dominate Vietnam's M&A market

Many Vietnamese businesses conducted successful mergers and acquisitions (M&As) in 2019 and 2020 but the market was still led by foreign investors, the Vietnam M&A Forum in HCM City on November 24 heard.

Many Vietnamese businesses conducted successful mergers and acquisitions (M&As) in 2019 and 2020 but the market was still led by foreign investors, the Vietnam M&A Forum in HCM City on November 24 heard.

Outstanding M&A deals since 2019 include those between KEB Hana Bank and BIDV, VinaCapital and the Thu Cuc Hospital, Masan Consumer and VinCommerce & VinEco, the Stark Corporation and Thipha Cables & Dovina, FWWD and VCLI, and Vinamilk and GTN.

Most deals between June 2019 and October 2020 were in the real estate, finance and banking, industry, and retail sectors, with major M&As also seen in logistics, agriculture, pharmaceuticals and healthcare, and construction.

M&As by Vietnamese enterprises accounted for one-third of the total value during the period.

Foreign investors, however, especially those from Japan, the Republic of Korea, Thailand, and Singapore, still dominate the local M&A market.

For example, 19 deals between Japanese investors and Vietnamese companies were announced in September this year alone. Thai investors, meanwhile, continue to carry out M&As in the manufacturing and processing sector.

Deputy Minister of Planning and Investment Tran Quoc Phuong said M&As have become an effective channel for capital mobilisation and helped accelerate growth model reform, economic restructuring, and the diversification of business ownership forms.

They are also a “shortcut” for foreign businesses to enter or expand their presence in Vietnam, he said.

Some experts said the equitisation of State-owned enterprises and the divestment of State capital from enterprises have not been carried out on schedule since 2019. COVID-19 and the new normal have also affected M&A activities around the world, including in Vietnam.

The local M&A market has been growing strongly over the last decade, with thousands of deals worth nearly 50 billion USD in total. Market researchers Euromonitor International forecast that M&A activities in the country will bounce back from mid-2021 and help the market return to around 5 billion USD.

Meanwhile, investors and researchers have issued different predictions for the market next year, according to a recent survey by the forum’s research group and the Corporate Investment and M&A Centre.

24% of interviewees projected a 2021 market value of 3 billion USD, 42% 3-4 billion USD, 26% 4-5 billion USD, and 8% more than 5 billion USD.

Consumer goods, retail, real estate, industry, and agriculture will remain magnets for M&As in 2021. Telecoms, energy, infrastructure, pharmaceuticals, and education are also expected to contribute substantially now and in the years to come.

Investors from Asian countries, including the Republic of Korea, Japan, Thailand, and Singapore, are forecast to maintain their dominance, while private groups will provide momentum for the market’s recovery in 2021 and subsequent years./.

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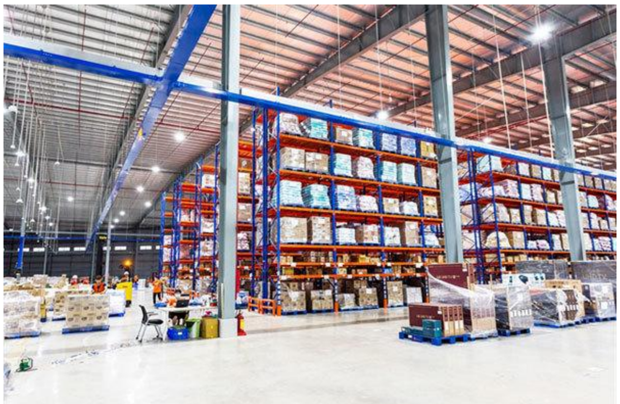
E-COMMERCE

E-commerce industry seeks to leverage logistics growth

Flexible warehousing models that can help businesses optimise their storage are required amid the development of e-commerce, experts have suggested.



Many e-commerce companies are expanding their warehouse networks to meet growing demand.

"AirBnB for logistics" is an ideal solution, real-estate service firm, Jones Lang LaSalle (JLL), said, explaining that it is a shared economic model that allows businesses to optimise storage space that is not in use during the low season.

It cited the examples of a company selling Christmas trees that only needs space in winter and a pool accessories maker that needs it in summer.

“The growth of e-commerce has driven demand for industrial real estate in the last 10 years, and the sudden spike in online activity since the crisis has accelerated that demand,” Trang Bui, senior director of markets, JLL Vietnam, said.

In 2020, the COVID-19 pandemic has caused the sudden increase of e-commerce adoption, particularly for food, fast-moving consumer goods, health and pharmaceutical products.

The trend is happening globally, especially in the Asia Pacific, America and Europe.

Vietnam has a young and tech-savvy population to support the rise of e-commerce, which is expected to carry the industrial property industry through the current uncertain time.

During the social-distancing period, almost every industry was affected, and the mobility restriction gave e-commerce more customers, meaning the pandemic’s effect on it was less severe than some other industries like tourism and traditional commerce.

A JLL report said the sudden increase in demand is forcing producers of staple goods to scramble for additional warehouse capacity and companies to rethink supply chains.

“This shift in customer behaviour has increased both short- and long-term demand for industrial real estate properties that allow companies to deliver orders faster by being closer to their customer base,” Bui said.

According to JLL, the surges in online demand for goods during the pandemic highlight the need to rethink aspects of supply chain management. The skyrocketing order volume has forced e-commerce companies to keep more stocks in locations near customers, fuelling demand for flexible warehouses.

It said it has been receiving requests from major e-commerce customers to rent warehouses of 10-15ha near the city centre, as demand increases strongly during the year-end shopping season.

To mitigate the risk of disruption, many occupiers will seek to invest in distribution centres closer to parcel hubs to ensure there is minimal disruption the next time a major global catastrophe happens.

Increasing transportation options, including inter-modal rail, so that that there is less reliance on trucks, and more automated facilities, can also reduce the impact during major events.

Giant e-commerce platform Shopee told Việt Nam News the company has set up a third fulfilment warehouse at Tan Phu Trung Industrial Park in HCM City's Cu Chi District, its largest. The others are in the city's District 7 and Long Bien District, Hanoi.

Shopee picked a strategic location for the new warehouse that enables Shopee Express service and the company's other shipping partners to operate more efficiently. The location is also convenient for delivery to central provinces and the Mekong Delta.

Shopee said it could now completely meet the growing demand in the vicinity of HCMC and in the central provinces.

Tuan Anh, managing director of Shopee Vietnam, said e-commerce has a lot of potential in Vietnam, making industrial real estate the "darling" of the commercial real estate industry. VNS

E-commerce M&A activities ready to take centre stage

As brick and mortar shopping falls in popularity during the pandemic, online shopping platforms took have increased presence among Vietnamese consumers.

While many of them end up burning cash to acquire customers, mergers and acquisitions may occur increasingly often from now on.

With the year coming to an end, investment consultancies and market researchers such as McKinsey, PwC, and Euromonitor are beginning to point out that e-commerce will be one of the main sectors luring the largest number of merger and acquisition (M&A) deals moving into 2021 and beyond.

A report from UK-based Euromonitor shows that global M&A activities in 2021 will mainly focus on Southeast Asia as an effort to circumvent the Chinese market. Within the region, e-commerce is forecast to see plenty of tie-up deals.

"Thus Vietnam, where the e-commerce sector has advanced by leaps and bounds, is expected to present many takeover deals in coming years," said Dang Dang Truong, content and communications specialist at iPrice Group. "However, the current number of M&As in the market has yet to reach the sector's full potential. Vietnam has plenty of room for e-commerce growth, much higher than regional nations, with the number of online consumers in the country ranking third in Southeast Asia."

The limited brick and mortar shopping during the pandemic has contributed to the flourishing of the e-commerce sector, reflected by the growth of unique visitors and buyers on such platforms.

Pandemic boons

Samuel Son Tung Vu, partner at law firm Bae, Kim & Lee Vietnam, told VIR that the pandemic has created long-lasting effects on e-commerce. Social distancing mandates have disrupted traditional consumer habits, and as a result, e-commerce platforms were the only channels to access many goods and services.

"New consumer habits will also be supported by technological advances like the popularisation of 5G and growing online education," said Vu. "It is likely that in the post-pandemic world, the Vietnamese e-commerce market will continue to grow after reaching an estimated value of $12 billion at the end of this year."

Data from iPrice shows that during the first half of 2020, the total number of visits to online shopping sites in the country reached 12.7 billion, the highest ever, and up 43% on-year. This hike is larger than that of most regional countries whose average growth rate was 39%.

During this period, Shopee Vietnam, Dien May Xanh, and Dien May Cho Lon recorded an increase in total website and app visits by 74, 34, and 31% on-year, respectively, thanks to the sudden demand for home appliances and mobile devices.

Meanwhile, the need for cosmetics and clothing has dropped significantly by 38% on-year, which is also the reason why Lazada, Tiki, and Sendo – where those goods make up the majority – saw their site and app visits decreasing by 19, 5, and 47%, respectively.

Nevertheless, amid the pandemic, the average expenditures in online shopping of customers increased by 31% on-year to VND344,000 ($14.80) per order, higher than VND262,000 ($11.30) after last year's first half.

Foreign investors are very keen on Southeast Asia's e-commerce, as it is the quickest way to penetrate the young and dynamic fast-moving consumer goods market. As such, Alibaba acquired Lazada Vietnam, while its main rival Tencent also penetrated the Vietnamese market by expanding its e-commerce segment with the introduction of Shopee and an investment in China's JD.com.

Such alliances between minor e-commerce firms may create worthy opponents to compete with current dominant players like Shopee or Lazada in e-commerce platforms or Grab in delivery and transportation sectors, which could mean that customers benefit from promotions and incentives in the race for market share between these rivals.

All to play for

According to a report by Google, Temasek, and Bain & Company, e-commerce this year has seen significant growth in Vietnam, at 46% on-year, alongside strong growth across most sectors, except for travel. By the end of 2020, gross merchandise value is expected to reach a total value of $14 billion, having grown at 16% on-year. Looking forward to 2025, the e-economy will likely reach $52 billion in value, re-accelerating to around 29% of compound annual growth rate.

Richard Burrage, CEO of market researcher Cimigo, said e-commerce growth will continue to be exponential. His company expects that e-commerce in Vietnam will surpass retail sales by 2028.

However, Burrage wondered if online shopping is currently attractive enough for investors. “There will likely be many losers and only one or two winners,” he explained. “The only winners today for online shopping are the consumers, with promotions and low prices benefiting shoppers as companies seek to grow their revenues. Shopping platforms are losing money and will continue to do so, hence there is M&A interest.”

When planning for M&A deals, investors often aim to acquire enough market share to reach a strong position and advantage over other competitors. At the same time, they must ensure that combined market share after M&A transactions is still permissible under competition regulations and does not violate the principle of fair competition in the market.

Lawyer Vu from Bae, Kim & Lee Vietnam said that M&A transactions, particularly high-profile ones, are becoming increasingly scrutinised for compliance with the Law on Competition. Under the law, merger filings for an M&A transaction will be required to submit to competition authorities when combined market share of participating parties in the relevant market reaches 20%, or when the value of the transaction is VND1 trillion ($43.5 million) or more.

Moreover, some activities in economic concentration are prohibited if they are evaluated to potentially restrict competition. “Therefore, for M&A deals, especially major ones, market share factors can make or break such a deal,” Vu added. VIR

Vietnam’s digital economy to reach $14 billion this year

Vietnam’s digital economy is expected to reach 14 billion USD in 2020, a year-on-year increase of 16%, and will likely reach 52 billion USD in 2025, re-accelerating to nearly 29% in compound annual growth rate.

According to a report from Google, Temasek and Bain & Company, in Vietnam, with its various stages of social distancing, users turned to the internet for solutions to their sudden challenges. A significant number tried new digital services: 41% of all digital service consumers were new (higher than the SEA average), with 94% of these new consumers intending to continue their behaviour post-pandemic.

E-commerce has driven significant growth in the country, at 46%, alongside strong growth across most sectors, except for travel, it said.

The report also said that Southeast Asia’s digital economy remains resilient at 100 billion USD in gross merchandise value (GMV) despite headwinds and is on track to cross 300 billion USD in GMV by 2025.

Indonesia and Vietnam continued to grow at double-digit rates, and Singapore remains a regional enabler for growth, despite short term GMV decline due to the online travel sector.

The report, which covered Indonesia, Malaysia, Vietnam, Singapore, Thailand and the Philippines, showed that Internet usage in the region continues to multiply, with 40 million new users this year alone. That pushed the total number of internet users in these Southeast Asian countries to 400 million or nearly 70% of the population.

The coronavirus brought about a permanent and massive digital adoption spurt, with more than one in three digital service consumers (36% of total) new to the service. Of the number, 90% intend to continue their newfound habits post-pandemic, it said.

Many of the new users came from non-metropolitan areas in Malaysia, Indonesia and the Philippines.

The report looked at seven internet economy sectors in Southeast Asia, including e-commerce, transport and food delivery, online travel, online media, financial services, health technology and education technology, with health and education technology added to the 2020 version.

E-commerce is expected to grow by 63% to 62 billion USD in 2020 and is poised to hit 172 billion USD in 2025.

Digital financial services are also gaining momentum as more small-and-medium-sized businesses have become receptive to accepting online payments. Digital payments are set to grow from 600 billion USD in 2019 to 620 billion USD in 2020 and could reach 1.2 trillion USD by 2025.

The health technology and education technology sectors received a boost from the pandemic as many people turned to online health consultations while schools shifted to remote learning. Investments in those sectors are growing.

Online travel and transport sectors were hit the hardest as the pandemic ground international travel to a halt while many people began to work from home or became concerned about sharing transport. Still, the report predicted online travel to rebound to 60 billion USD by 2025./.VNA

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FREE TRADE AGREEMENTS: RCEP

What can Vietnam gain from world's largest trade pact, RCEP?

The RCEP can help Vietnamese companies increase exports and bring more high-quality goods to consumers in the country though that will mean rising competition.

"Amid the disruption to the global supply chains caused by the Covid-19 pandemic and rising protectionism, the signing of the Regional Comprehensive Economic Partnership (RCEP) marks an important milestone for its member countries in economic integration," Minister of Industry and Trade Tran Tuan Anh said after the trade pact was signed online on Sunday by countries who account for around 29% of the world's GDP.

Tran Kim Nga, director of corporate development at Thai-owned MM Mega Market Vietnam retail chain, said Vietnam could be one of the countries to benefit the most from the RCEP since most of the other members have demand for its main exportslike agricultural and fisheries products.

"The pact's not too stringent import standards and similarities in consumer preferences in member countries will make trading more easy."

Nguyen Thi Thu Trang of the Vietnam Chamber of Commerce and Industry said countries that Vietnam sources much of its production inputs from, like China and South Korea, were not members of earlier trade pacts, and therefore products made by Vietnamese companies using them did not qualify for preferential tariffs.

Having these two countries and others like them in the RCEP now makes it "easier than ever" for Vietnamese firms to enjoy preferential tariffs, she said.

But it is not as if there are no challenges for Vietnam. Trade officials have said that the similarities in export items of many member countries would increase competition since Vietnamese products' added-value remains small.

Besides, it will be the first trade pact between certain countries such as China and Japan. Trang explained that Vietnam's exports to Japan have been benefiting from three earlier trade pacts, but would now face competition from Chinese goods.

Even at home, Vietnamese companies would have to compete with imports, especially from China with its range of goods and competitive prices, she said.

Nga said products from South Korea, Japan and Thailand like cookies and candies, noodles, milk, cereals, and frozen foods would also attract Vietnamese consumers thanks to their eye-catching packaging, high quality and reasonable prices.

"The growing number of young Vietnamese consumers demanding quality products and willing to try new products will increase demand for foreign goods in the near future."

The RCEP, which had been negotiated since 2013, was signed by 15 countries including the 10 ASEAN members and Australia, China, Japan, New Zealand, and South Korea. It will give Vietnamese businesses access to another third of the world's population.

The agreement will take effect when at least six ASEAN members and three others send in their ratification documents.

RCEP feared to pave the way for Chinese goods to flood Vietnamese market

Other RCEP-member economies have the same export products as Vietnam's, so If Vietnam's production capability does not improve, the domestic market will become a playing field for Chinese and other foreign products.

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On November 15, Vietnam signed The Regional Comprehensive Economic Partnership (RCEP), the 13th FTA for Vietnam.

RCEP, with 15 members, will create a vast market with 2.2 billion consumers, or 30% of the world's total population, and GDP of $27 trillion, or 30% of the global GDP.

According to Le Quoc Phuong, former deputy director of the Vietnam Trade and Industry Information Center, Vietnam already has bilateral and multilateral FTAs with some RCEP member countries.

For example, Vietnam is a member of ATIGA (ASEAN Trade in Goods Agreement), AEC (ASEAN Economic Community), and ASEAN+1 with five partners (China, Japan, South Korea, Australia and New Zealand). It also has bilateral FTAs with Japan and South Korea.

However, the expert said the preferential tariff commitments in RCEP are stronger than all the FTAs Vietnam signed before. Hence, Vietnam can choose the best preferential tariffs for each of its export items.

Another trade expert said that RCEP may bring big benefits to multinationals in Vietnam. Foreign invested enterprises (FIEs) create nearly 2/3 of Vietnam's exports. RCEP will allow imported machines, equipment and input materials from China, South Korea and Japan at lower costs.

Whether Vietnam's enterprises can take full advantage of RCEP to boost exports will depend on the competitiveness of their products. Currently, Vietnam's export products to the countries are mostly farm and seafood products.

What if Vietnam opens its doors wide to foreign products?

Of RCEP economies, China is a vast market that all countries are eyeing.

Vietnam's exports mostly go across border gates, which has risks. If enterprises cannot increase exports through official channels, even RCEP won't help Vietnam's products penetrate deeper into China, which is the market that Vietnam has an annual trade deficit of tens of billions of dollars.

RCEP is expected to have a great impact on trade between Vietnam and China, the third largest export market for Vietnam and the market which provides a large proportion of input materials.

Vietnam doesn't have a bilateral FTA with China, which has recently taken a lot of actions to tighten the import of farm produce from Vietnam.

"If Vietnam's farm produce can improve their competitiveness and meet the technical barriers set by China, Vietnam will be able to exploit the preferential tariff offered by RCEP to penetrate the Chinese market," Phuong said, adding that in order to do this, Vietnam's enterprises need to change their way of doing business.

As for other large partners in RCEP, Vietnam also has a trade deficit with them.

The General Department of Customs (GDC) reported that in the first 10 months of 2020, Vietnam exported $18.92 billion worth of products to ASEAN and imported $24.5 billion. As for China, Vietnam exported $37.91 billion to the country and imported $65.62 billion from it.

Regarding the South Korean market, Vietnam exported $16.1 billion worth of products to the country and imported $37.47 billion. Meanwhile, the figures were $15.74 billion and 16.55 billion, respectively, for the Japanese market.

If Vietnam cannot improve the production capacity of the economy, it will find it difficult to exploit the preferences from RCEP to expand export markets. On the contrary, the domestic market may become a fertile land for foreign products to flood in and the burden from the trade deficit would become even more serious.

After all, with RCEP or any other FTA, the opportunities for Vietnam to boost exports always exist. The problem is whether Vietnam's enterprises can grab the opportunities.

Meanwhile, Vietnam's production is still weak and relies on imported machinery and input materials. If the weak points cannot be fixed, the more FTAs Vietnam joins, the bigger risks Vietnam's products will face in the home market.

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RETAIL

Vietnamese consumers increasingly embrace sustainability

Sustainability has been a growing topic of interest to Vietnamese consumers in recent years though awareness levels remain well below the global average.

According to Kantar's latest study on the environment done on a global scale, environmental issues such as plastic waste, water pollution and air pollution are among the top five concerns of Vietnamese in addition to food safety.

Top concerns of shoppers about global environment issues. Plastic waste, water pollution and air pollution are among the top five concerns of Vietnamese in addition to food safety. — Source Kantar

Facing increasing climate changes along with escalating levels of pollution, especially in the two key cities of Hanoi and HCM City, there is an increasing environment consciousness among a group of Vietnamese consumers who are willing to take action to improve the situation such as reducing plastic waste, recycling and opting for healthier and sustainable lifestyles.

But such people only account for 35% whereas the global rate is 59%, Vo Thi Kim Nhu, senior account manager, Worldpanel Division in Vietnam, told a recent webinar.

Moreover, nearly 80% of Vietnamese shoppers do not bring their own bags, resulting in the increasing use of plastic bags, the study found.

Nhu also listed the reasons that prevent Vietnamese from living 'green' as knowledge barrier since authorities and enterprises do not propagate environmental protection, a belief the situation is not too bad, which requires an emphasis on the alarming state, and the fact that sustainable and environment-friendly products are hard to find and are expensive.

In fact, one of the activities that has been promoted and encouraged by the authorities and enterprises in Vietnam recently is recycling.

But Vietnamese consumers remain very vague about which products can be reused, recycled and replaced, where these products can be collected, how products are recycled, and what will happen to them after recycling, Nhu said.

Furthermore, a quarter of the study respondents said recycling is inconvenient.

Vietnamese consumers want manufacturers and authorities to take the lead in reducing environmental impacts and do not expect retailers to take action in limiting environmental damage.

In the past few years the Government has been undertaking environmental protection projects with the aid of local and foreign businesses, organisations and individuals.

For instance, nine leading companies in the fast moving consumer goods and packaging sectors formed the Vietnam Packaging Recycling Alliance (PRO Vietnam). They include TH Group, Coca-Cola, Friesland Campina, La Vie, Nestle, Nutifood, Suntory PepsiCo, Tetra Pak, and Universal Robina Corporation.

The establishment of this alliance promises many practical green initiatives and actions.

Besides, many initiatives have been taken by businesses such as using paper and recycled plastic straws and packaging in coffee and tea shops and supermarkets and food to non-food brands.

However, surprisingly, only 5% of participants could name manufacturers or brands that are taking environment-friendly initiatives.

"To foster more revolutionary changes towards a shared sustainable development, perhaps we need to consider conveying more green messages along with activities to inspire various consumer groups," Nhu said.

Kantar's Worldpanel data also found that a majority of the aware consumer group stopped buying certain products and services because of their impact on the environment or society.

This implies the importance of this group of consumers. By involving and engaging with them brands will have opportunity to achieve a sustainable development in the future.

Doan Quoc Tuan, senior marketing executive at Tetra Pak, said: "Sustainability is no longer just a nice thing to do or trend. It is a licence to do business in the long term." VNS

Vietnamese farmers sell farm produce via smartphones

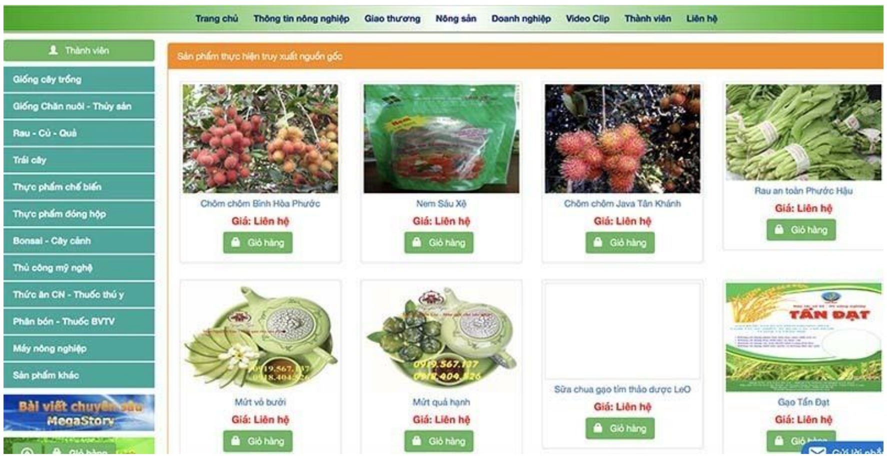
An eel farm of an older man brings turnover of nearly VND10 billion a year, and 99% orders are online. Another farmer sold 26 tons of rambutan by contract after putting goods on online sale.

These stories are no longer unusual to Vietnamese people. E-commerce not only helps farmers advertise their products easily but also helps them approach a huge source of customers. They just need to work with their fingers on smartphones to sell products to customers all over the world.

Adversity brings wisdom

When a merchant came to see Pham Van Khang, a farmer in Tuy Duc, Dak Nong province to ask for macadamia, Khang replied: “Macadamia runs out, you’ll have to wait until the next crop."

Khang and his wife grow many different crops, from food to industrial crops, which can bring the income of VND2 billion a year.



An eel farm of an older man brings turnover of nearly VND10 billion a year, and 99 percent orders are online. Another farmer sold 26 tons of rambutan by contract after putting goods on online sale.

He grows macadamia on an area of 10 hectares. When he began harvesting macadamia this year, the Covid-19 pandemic broke out, and social distancing was imposed, which lowered macadamia sales. The price plunged from VND100,000 per kilogram last year to VND60,000.

He had to buy a machine to dry and package macadamia for storage. Later, he tried to advertise his macadamia on Facebook and Zalo and sell products online.

“My wife and I both have smartphones, which makes the sales easier,” he explained. “At first, the number of clients was modest, but has been increasing rapidly."

Thanks to online sales, all the harvested macadamia and unripe banana in his garden have been sold. He is happy as macadamia went for better prices than before the epidemic.

“Previously, when I sold products offline, the buyers were mostly from the same province. But when I displayed my products online, the clients can be from other provinces as well, including the Central Highlands, the south and the northwest,” he explained.

Khang now just stays home to take orders and package products. Delivery firms come to his house to take away the products to deliver to customers.

Nguyen Thanh Tan, the owner of an eel farm in Vinh Long province, is also selling eels online. He said the development of e-commerce is inevitable in the context of IT development.

With the current farming scale, Tan can market 3 million breeds and 12 tons of commercial eels, valued at VND9 billion which can bring profit of VND3 billion.

Tan said 99% of his clients are ‘online clients’.

In 2013-2014, Tan built a website of his own. At that moment, he mostly used his website to introduce his products, prices and eel farming techniques, and 'online clients' just accounted for 20%, because e-commerce was then underdeveloped.

In recent years, he began advertising and selling products on Facebook, Zalo and YouTube as well. This allowed him to enjoy large custom.

Marketplaces – new playing field

Tan admitted that eel breeds and commercial eels at his farm can satisfy only 1% of market demand. But he plans to scale up his farming.

It is expected that the number of breeds will increase to 10 million and the commercial eel output to 100 tons. If so, the total revenue would be VND35 billion and the profit VND10 billion.

He also plans to expand his sale to marketplaces to approach more potential customers.

According to Tan, Vietnamese farmers are very good at production, but the sale is unstable and merchants always try to force the prices down. When making transactions on trading floors, they will be able to more easily find customers, and therefore, their products can go for better prices.

However, he admitted that it is not easy for farmers to build and run websites.

"To facilitate the advertisements and sales, I need a team which gives technical support. On trading floors, if farmers can receive support in technique and delivery, everything will be much easier," he said.

In some localities, there are e-commerce sites specializing in farm produce. Local farmers are guided to join the marketplaces to be able to access large distribution channels.

Pham Thi Thuy, chair of Thuy Thuat Tea Cooperative in Thai Nguyen, said in July 2019, the cooperative put its tea products on sale on Voso, after the provincial farmers' association ran a program on introducing the marketplace.

Since then, Thuy Thuat's tea products have become better known to clients from other provinces, which helped increase sales.

Vo Van Be, director of Java Tan Khanh Cooperative has just begun the farm produce online trading floors. However, he admitted that everything is going well. He has just signed a contract on selling 26 tons of rambutan.

Meanwhile, an agriculture expert commented that the existing farm produce e-commerce sites have small scale and there should be a large-scale trading floor, professional and prestigious, where in addition to product advertisements, farmers would also receive support in marketing and logistics.

"The new playing field will have hundreds of sellers and millions of buyers," he said.

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LOGISTICS

Logistics costs challenge farm produce export

Vietnam's logistics costs are higher than many of its regional peers'. That's why exporters of farm produce expect a helping hand from the Government in this regard in order to enhance the competitiveness of their outbound shipments.

One of the "culprits" behind the high logistics fees is the imbalance in means of transport and the lack of connection among transport types.

Railway, air transport receives lackluster responses

The Vietnamese Ministry of Transport recently held a teleconference meant to link farm produce exporters with railway and aviation companies to work out effective and affordable farm produce transport solutions.

A survey of the ministry over logistics enterprises indicates that farm produce transport by land still makes up an overwhelming proportion, followed by maritime shipping services. Meanwhile, the number of exporters making use of railway and air services remains insignificant.

Nguyen Chinh Nam, head of planning and business department of the Vietnam Railway Corporation, said cargo transport by train costs are lower than other types. For instance, enterprises are charged VND396,000 for one ton of cassava powder transported from Tuy Hoa in Phu Yen Province to Dong Dang in Lang Son Province. However, they will have to pay VND400,000 per ton if they choose a trip combining road and maritime services and up to VND1 million for road service only.

In addition, the railway sector has developed an international network with links to China, Mongolia, Russia and Europe. For service quality, railway transport enterprises have provided freezer containers which are self-operational, traceable and controllable from a distance, and official export-import procedures at border gates and warehouses. Railway transport companies have also slashed freight charges amid the Covid-19 pandemic, Nam said.

The question then is why enterprises are still reluctant to use railway transport services.

Nguyen Dinh Tung, general director of Vina T&T Company, who used to explore transport services to send agricultural products to China, said railway transport may affect goods quality, especially fruits, as trains must go through many transit spots. For instance, his company must send their shipments by road from the southern province of Long An to Song Than Station in Binh Duong Province, before they are transferred to a train to Dong Dang Station en route to China. Meanwhile, things would be much less complicated if Tung elects to make a direct trip on container trucks from Long An to the border gate with China.

"In case of fruits, although trains may cost less but our shipments may be prone to be damaged, which means huge losses," said Tung. "Therefore, we still prefer road transport."

Despite fast delivery and little chances of damages to shipments, exporters may not prioritize air cargoes due to high fares. Further, freighter flight services have yet to be offered while most international passenger flights have been stalled due to the ongoing pandemic. Citing dragon fruit export as an example, Do Xuan Quang, deputy general director of low-cost carrier Vietjet, said a kilo of dragon fruit costs only around US$3, but its transport fee is up to US$6-7. Consequently, exporters may fail to compete with other rivals with the transport bill taken into account.

Statistics show that foreign airlines dominate nearly 90% of Vietnam's international cargo transport market while local carriers only carry shipments along with passengers. Therefore, air goods transport heavily depends on foreign carriers. This is why local exporters have no choices if the latter lift service prices.

In need of measures to have competitive prices

Enterprises exporting farm produce to China have said they cannot understand why logistics services provided by Vietnamese firms are always costlier than those of foreign firms. According to Hoang Van Hoan, managing director of TMS Trading JSC, among the 400 logistics firms that used to partner with his company, none of them accepted to provide transport services when asked, although their truck fleets remained idle during the epidemic outbreak. "The paradox is that Vietnamese logistics firms always offer higher service fees than Chinese enterprises do," Hoan said.

According to information obtained by Hoan, the Chinese government has given subsidy to the transport sector, enabling Chinese exporters of agricultural products to offer lower prices. Therefore, Hoan argued, Vietnam should consider policies on cutting logistics services to improve Vietnamese farm produce exporters' competitiveness.

In the air transport segment, Do Xuan Quang, deputy general director of Vietjet, stressed the need to develop freighter fleets, especially for agricultural exports, to help cut transport costs. To meet this goal, since the end of the third quarter, Vietjet has launched four cargo aircraft into operation to serve the local market and Southeast Asian destinations. Vietjet is working with partners in the United States to launch a direct freight route to the market, aside from expanding service to the Middle East and Europe.

Even if Vietnamese carriers are able to form their own cargo fleets, the Government should give more incentives to help lower the prices of farm produce exports, Quang added.

Meanwhile, Nguyen Manh Hung, vice chairman of the Vietnam Digital Agriculture Association, pointed the finger to the lack of a common voice between agricultural and logistics enterprises. Instead of waiting for incentives from the Government, the two sides should cooperate in optimizing their benefits. As the pandemic is expected to still linger, the cooperation between enterprises must be strengthened to reduce logistics fees and product prices in the coming time. *SGT*

Aviation industry awaits new bigger bailout

Private airlines including Vietjet Air and Bamboo Airways struggling to survive are looking forward for a new support package to maintain their operations.

After taking measures to restructure, Vietjet incurred a consolidated loss of nearly VND1 trillion. If counting the loss of the aviation division only, the figure would be trillions of dong. The loss caused by Covid-19 for Bamboo Airways, the youngest airline, is about VND1 trillion.

Preferential loans are what other airlines also wish for. However, to date, Vietnam Airlines remains the only air carrier getting the loan. Questions have been raised about the support package.

Bui Doan Ne, Deputy Chair and Secretary General of the Vietnam Aviation Business Association (VABA), said a calculation of the association in June estimated the loss of $4 billion this year for the aviation industry.

International flights, which bring 50% of Vietnam Airlines and Vietjet, remain closed. Meanwhile, domestic flight demand is decreasing in the low season and the epidemic prevention cost is high.

The cash flow exhaustion has forced airlines to lower airfares, which has also affected their sources of revenue.

Though airlines have tried every possible way to save themselves, they still need a support package from the state to improve cash flow, and other policies on preferences in taxes and fees.

Vietnam Airlines, the national flag air carrier, in which the state holds 86% of capital, got the National Assembly's nod on a bailout worth VND12 trillion.

Of this, the amount of money pumped by the state to the airline is VND10.8 trillion, including the VND4 trillion loan with preferential interest rates in accordance with the State Bank of Vietnam's refinancing policy.

Preferential loans are what other airlines also wish for. However, to date, Vietnam Airlines remains the only air carrier getting the loan. Questions have been raised about the support package.

Ngo Tri Long, a respected economist, commented that the preferential loan will bring advantages over other airlines, which are also struggling with difficulties and losses.

Ne said VABA last August proposed that the government provide VND25-27 trillion worth of long-term preferential loans. Airlines also asked for preferential loans, but only Vietnam Airlines got approval.

He went on to say that if other airlines also receive preferential loans like Vietnam Airlines, this will ensure a fair environment for businesses.

"Aviation is the driving force of the economy and the Prime Minister is taking action to ensure a level playing field for all economic sectors. So I believe that after Vietnam Airlines, it will be the turn of private airlines to receive support," he said.

What do airlines want?

Ne said even if the government launches a VND25 trillion package, the amount of money will be just 25% of the total loss the aviation industry incurs, and is approximate to the average support given by the governments in the world.

Not only asking for support in 2020, airlines also want preferential taxes, fees and loan interest rates for 2021, because Covid-19 still continues and no one cay say for sure about the moment when the pandemic ends.

The Ministry of Planning and Investment (MPI), when suggesting the second support package, said that it is necessary to extend the regulation on the 50% reduction in aircraft takeoff and landing prices and flight control service fees for domestic flights.

It has also proposed reducing the environmental protection fee for air fuel by 70%, to be applied from January 1, 2021 to the end of December 31, 2021.

A VND11 trillion bailout for the government-guaranteed loans for three airlines has also been suggested by MPI in order to help improve the cash flow and liquidity of aviation enterprises, and avoid the worst scenario: airlines have to declare bankruptcy, which will damage the whole structure and completion of the aviation industry.

If this happens, thousands of workers will lose jobs, while it will require big resources and costs to recover the status of the pre-pandemic time.

“The amount of VND11 trillion will still be too small if compared with what airlines need. However, the loan will, to some extent, help airlines ease difficulties,” Ne said.

The Ministry of Transport has also asked the Government to extend the implementation of measures to support airlines.

In the circular on the price frame applied to some types of services at airports, the ministry agreed on the application of the minimum price level of zero dong for eight types of aviation services and three non-aviation services put under the state’s control.

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INVESTMENT

HCM City hopes to attract investment by allotting more lands in IPs, EPZs for infrastructure

HCM City authorities plan to offer competitive land rents and other incentives at industrial parks (IPs) and export processing zones (EPZs), and earmark more lands for building infrastructure to attract investment.

Hua Quoc Hung, head of the HCM City Export Processing and Industrial Zones Authority (HEPZA), said the city would switch to newer models of IPs and EPZs to attract investment, ensuring it has appropriate incentives during the transition process.

There are 17 IPs and EPZs in the city, and they have an occupation rate of 68%, according to Hung.

Only 120ha is available to investors in 2021 compared to 500-600ha a year in the last five years.

The city has sought the Government's approval for a 380ha IP in Binh Chanh District, a specialised one prioritising innovative start-ups and producers and distributors in new industries.

The city is expected to have 23 EPZs and IZs with a total of 5,797.62ha in future.

The infrastructure at many IPs and EPZs fall short of investors' needs.

Mostly built in the 1990s, many have deteriorated, especially their wastewater treatment facilities, with many central wastewater treatment systems falling foul of environmental regulations.

Many companies seeking to expand cannot find enough land for lease, and rentals are too high compared to EPZs and IPs in neighbouring provinces.

Roads near EPZs and IPs are often too crowded, which leads to higher production costs and hits their competitiveness.

Other problems include a shortage of schools, accommodation and medical facilities for workers and their families, experts said.

The limited availability of skilled IT and management personnel is another problem for the zones.

Smart IPs

The city wants all EPZs and IPs to be "green, clean and hi-tech" by 2025 and plans to build new hi-tech zones for supporting industries to attract hi-tech businesses and innovative start-ups.

Priority would be given to current hi-tech investors, especially those adopting industry 4.0, and supporting industries with high value-addition, Hung said.

"Building smart industrial parks and processing zones is a global trend, and the city is focusing on it."

Enterprises in EPZs and IPs should use high technology to better manage manufacturing processes and improve product quality, he said.

Information technology could change production systems when everything is automated, and help management easily oversee systems, he said.

In future HCM City would have to compete with other provinces, and so its industrial parks would need to improve their efficiency, he added.

More than $591 million were invested in the city's EPZs and IPs in the first 10 months of the year, a year-on-year increase of 7.2%, according to HEPZA.

Foreign investment accounted for $270 million, a 19.1% decline.

Some 89.4% of fresh foreign investment, or $81.2 million, was in the services sector, and it was followed by machinery, electronics, plastics, and rubber.

Domestic investment increased by 47.6%. There were 46 new projects with capital of VND5.8 trillion ($251 million).

Hung attributed the decline in FDI to the impacts of the Covid-19 pandemic and the restrictions on travel.

The new investments went mainly into building factories and warehouses for rent, he said.

Many investors had expressed interest in investing in warehouses and high-rise factories, he added.

The city expects to receive a wave of investments post-pandemic when US, European and Japanese investors move their production lines to Vietnam.

Last year it had attracted $8.3 billion worth of foreign investment. VNS

FDI possible in digital cross-border services

With regional nations racing to lower their taxes in order to woo more investment, which may dent their coffers, creating feasible policies for collecting taxes is expected to help reach their goals of attracting more high-quality funding.

According to investment experts like Vu Tu Thanh, deputy regional managing director and senior country representative of the US-ASEAN Business Council in Vietnam, instead of reducing taxes like corporate income tax (CIT), countries like Vietnam should pay attention to high-tech giants in combination with building suitable policies.

"In order to build a new and innovative strategy, we should understand how the economies over the world are developing, and how business models are changing to catch up with new technology trends," said Thanh.

Besides manufacturing, which has been one of Vietnam's key foreign direct investment (FDI) attraction sectors over the last three decades, more sophisticated production channels combined with complex global supply chains are on the rise, which are suitable with Resolution No.50-NQ/TW on orientations to perfect mechanisms and raise the quality and efficiency of FDI by 2030.

According to Thanh, the new subjects for FDI attraction could be cross-border digital platforms, which are much different from traditional channels. For example, although not establishing any office or representative in destination countries, tech giants like Amazon, Google, Facebook, Microsoft, Netflix, and Spotify have already poured a lot of money into developing their presence in markets like Vietnam.

"For instance, thanks to the localisation of Apple's App Store, the Vietnamese app Flappy Bird has become popular all over the world, and a lot of small- and medium-sized enterprises can follow suit with cross-border digital and e-commerce offers, thus creating jobs for Vietnamese like foreign-invested enterprises do," Thanh explained.

Regarding tax contributions of these companies, Thanh said that most countries are struggling to find the right policies for collecting CIT, pointing out that meanwhile, "most cross-border investors are ready to pay taxes if a proper and synchronous policy is issued."

Currently, ASEAN countries are racing to reduce their CIT rates and offer aggressive tax incentives to foreign corporations.

Across the region, the average CIT rate has fallen over the last 10 years from 25.1% in 2010 to 21.7% this year, according to the Vietnam Institute for Economic and Policy Research (VEPR). But international institutions like the Organization for Economic Co-operation and Development and the UN Conference on Trade and Development have repeatedly warned ASEAN to stop offering redundant tax incentives due to their costs on budget revenue, tax base erosion, and creating room for tax avoidance and evasion, according to Babeth Ngoc Han Lefeur, country director for Oxfam Vietnam, earlier this year.

In addition to such CIT cuts, the use of other enormous profit-based incentives to attract FDI, like tax holidays, are prevalent in ASEAN countries.

"However, the costs of redundant fiscal incentives can possibly exceed the benefits of additional FDI. Offering excessive CIT cuts poses a threat to national budget revenues," Pham Van Long, researcher at VEPR argued. Currently, lost budget revenue due to CIT incentives is estimated at 6% of GDP in Cambodia, 1% GDP in Vietnam, equivalent to about $2-2.5 billion.

Ah Maftuchan, public policy analyst at the Perkumpulan Prakarsa Centre for Welfare Studies in Indonesia commented, "ASEAN countries cannot afford such losses in the current economic and social crises in our region. We need to make the choice, whether building sustainable societies better prepared to face future shocks or to help some companies minimising their tax bills. Who is coming first?" – *VIR*

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