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Highlight

Bloomberg: Vietnam's e-commerce growth potential alluring

VIETNAM BUSINESS REVIEW

Vol 22, June 09th 2021

What's in it today?

FINANCE

Stock market an attractive investment channel for local players

The stock market is still an attractive investment channel for investors in the near future. However, it also poses many challenges for regulators and market members, said experts.

An investor at MB Securities Co's trading floor

The strong cash flow flooding the stock market in May and the early sessions of June has spurred the indices, making them skyrocket to new record levels. The number of newly-opened accounts and market liquidity are both the highest levels in history, causing the trading system to become unresponsive and overloaded.

However, investors are still very excited and the liquidity has not shown any signs of cooling down. Facing these developments, market regulators are applying drastic solutions both in the short and long term to meet market requirements.

According to the State Securities Commission, since the beginning of this year, the average trading value on the Ho Chi Minh Stock Exchange has reached 21.2 trillion VND (924.5 million USD) per session, up 185.9% compared to the average of the previous year.

As of the end of May, the stock market capitalisation reached 6.4 quadrillion VND, up 21.7% compared to the end of 2020, equivalent to 102.3% of Vietnam's GDP.

Money flowing into the stock market comes from many different channels and mainly from domestic investors. In fact, the stock market has lured massive participation of "F0" investors (people participating in the market for the first time) entering the market from early 2020, when the COVID-19 pandemic appeared and spread.

According to data from the Vietnam Securities Depository, in 2020 there were 393,659 new securities trading accounts of domestic investors, nearly double that of 2019.

In the first five months of 2021 alone, domestic investors opened 480,490 new securities accounts, an increase of more than 20% compared to the number of new accounts opened in the whole of 2020.

By the end of May, the number of securities accounts in the Vietnamese market stood at more than 3.2 million, equivalent to 3.2% of the total population.

HOSE first experienced overloading in mid-December 2020, when the liquidity reached 15 trillion VND per session, said Le Hai Tra, General Director of HoSE.

In the first fourth months of 2021, the average transaction per session rose to 16.7 trillion VND. In May 2021 alone, this figure soared to 22.4 trillion VND per session.

This unexpectedly high liquidity had led to system overloading, bothering investors, he said.

“In the immediate future, the new trading system built by FPT Corporation must be put into use at the end of June or early July to completely solve the problem of congestion on HoSE,” said Pham Hong Son, Chairman of the State Securities Commission.

“Cash flow from domestic individuals and organisations has been the main driving force for the development of the stock market in recent years,” said Do Bao Ngoc, Deputy General Director of Vietnam Construction Securities Joint Stock Company.

“A large part of the cash flow in the market has been shifted from savings channel to investment channel in the stock market,” Ngoc said.

“It is likely that interest rates will remain at a low level and if there is an increase, they will increase slightly,” said Nguyen The Minh, Analysis Director of Retail Banking, Yuanta Securities Vietnam.

“This year, the cash flow will still go into the stock market rather than into any other channel, except for the third and fourth quarters when the liquidity in the real estate market is positive again,” he said.

Contrary to the strong increase of domestic investors, foreign investors have been always in the trend of net selling. In the first five months of this year, foreign investors net sold nearly 31 trillion VND, doubling that of the same period last year.

According to Le Ngoc Nam, Director of Investment Analysis and Consulting, Tan Viet Securities Joint Stock Company, in the past, foreign investors contributed about 20% of the market's liquidity, so the transactions of this group often affected the market strongly.

“However, in recent times, the influence of foreign investors has decreased significantly. In 2020, the average contribution of foreign investors to monthly liquidity was only 12.4% and continued to decrease to only 8.7% in the first five months of 2021.

Foreign investors are focusing on selling some particular stocks such as Hoa Phat Group (HPG), Vinamilk (VNM), Vietinbank (CTG), VPBank (VPB) and Vietcombank (VCB).

The reason for the strong net selling came from factors such as rising US government bond yields, directing cash flow out of emerging markets like Vietnam.

Other markets had a looser monetary policy than Vietnam to boost the development of their equity markets, so many funds would restructure their portfolios between countries, Nam said.

Since the end of March, the VN-Index has maintained an uptrend despite the continuous net selling by foreign investors, showing that the influence of foreign investors on the Vietnamese market is no longer as strong as before, Nam said.

Despite recent impressive growth, Vietnam's stock market would still face great risks, including the prolonged global COVID-19 pandemic, said Pham Hong Son, Chairman of the State Securities Commission.

The stock market's movement in the medium and long term depends on the ability to control the pandemic in the world and in Vietnam as well as the recovery of the domestic and international economy.

In addition, the high stock price level also creates risks when the market corrects, he said.

Nguyen The Minh of Yuanta Securities Vietnam said that retail investors now account for 90-95% of daily transactions. However, many new investors do not have thorough investment knowledge, just investing following trends./. VNS

Deposit interest rates rising despite pandemic

After many months of staying at low levels, deposit interest rates at banks have increased since late May.

Experts said that interest rate increases are occurring only at a few banks, and that interest rates will stay low because the pandemic has led to a drop in credit demand.

The Sai Gon – Ha Noi Bank (SHB) announced new deposit interest rates on May 27, with interest rates up by 0.1-0.3%.

The 1-5-month deposit interest rates rose from 3.35-3.65% to 3.4-3.8%. The new 6-11-month interest rates are 5.2-5.5%, an increase of 0.2%.

For 12-month deposits, the 5.7% interest rate (+ 0.1%) is applied to deposits at the counter, while online deposits have an interest rate of 6.15% per annum (+ 0.35%). A 0.3% interest rate increase is applied to long-term deposits (24-36 month).

Sacombank applied new interest rates on May 10, up 0.1-0.2% per annum compared to previous rates.

The interest rates are 3.5% for 2-month deposit at the counter, 3.6% for 3-5 month and 5% for 6-month deposits. The rates are 5.7%, 5.7% and 6.4% for 12-month, 24-month and 36-month deposits, respectively. Meanwhile, the 36-month online deposit has seen an interest rate rise from 6.5% to 6.7%.

TP Bank launched the Dac Loc package, offering an interest rate of 6.5% per annum, the highest rate of the bank, for 12-month deposits, or 0.5% higher than normal deposits. This is the first time the bank has changed its interest rates since February.

A report from BVSC showed that the average interest rate at banks increased slightly for 6-month and 12-month deposits. However, the increases were mostly at small and medium sized banks, while large banks kept their interest rates unchanged.

The ‘big four’, including Agribank, BIDV, VietinBank and Vietcombank, have applied interest rates that were announced in February.

Meanwhile, some large private banks have slashed interest rates on short-term deposits.

VPBank, for example, eased the interest rate by 0.1-0.3% for most types of deposits. Techcombank also reduced its interest rates by 0.1% for 1-5 month terms.

Experts said that interest rate increases are occurring only at a few banks, and that interest rates will stay low because the pandemic has led to a drop in credit demand.

However, when credit demand bounces back and inflation pressure returns, deposit interest rates will move up in the second half of the year.

When comparing the interest rates of 30 Vietnamese commercial banks on May 28, they found big differences among bank groups.

They noted that online deposits offered interest rates 0.1-0.2% higher than deposits at the counter.

GPBank at that time was offering the highest interest rate for this type of deposit.

As for 3-month deposits, the interest rate of 3-4% was quoted for counter deposits and 3.15-4.05% for online deposits. SHB was offering the highest online interest rate for this type of deposit.

Regarding 6-month deposits, counter deposits had interest rate of 3.6-6.25% on average, while CBBank was paying the highest rate.

Meanwhile, online deposits were offering an interest rate of 4-6.45%, while SCB was paying the highest rate in this segment.

In 9-month deposit segment, the average interest rate was 3.8-6.35%, while CBBank and SCB were offering the highest rates for counter and online deposits, respectively.

The figure was 4.6-6.8% per annum for 12-month deposits. The highest interest rate was offered by SCB.

The highest interest rates offered in the market belong to small and medium sized banks, while larger banks are applying low interest rates.

While deposit interest rates have moved up slightly, experts don’t think this will lead to a lending interest rate hike at this time. Meanwhile, the Saigon Securities Incorporated (SSI) thinks the lending interest rate will rise in the early third quarter when the Covid outbreak is controlled.

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E-COMMERCE

E-commerce sales boom during pandemic

E-commerce platforms in Vietnam have seen the number of new users grow by 41% since the outbreak of the Covid-19 pandemic. Most of the new users said they would continue to use the new form of shopping even after the epidemic ends.

During the pandemic, Vietnam's e-commerce recorded an impressive growth of 18%, and market value reached $11.8 billion, accounting for 5.5% of the total retail sales of goods.

According to a report by Adsota and SOL Premier, e-commerce platforms in Vietnam recorded a growth rate of 41% of new users. Up to 91% of the new users have decided to continue using these e-commerce platforms even after the pandemic ends. With such impressive growth, Vietnam’s e-commerce has becomed an attractive market in Southeast Asia.

A report from the Vietnam E-commerce Association (VECOM) showed that in 2020, Vietnam's e-commerce revenue reached about $13.2 billion, with a growth rate of 15%.

Google, Temasek and Bain & Company also predicted the average growth rate in the period 2020 - 2025 will be 29%, while by 2025, the scale of Vietnam’s e-commerce market could reach $52 billion.

The behavior of Vietnamese consumers has seen changes amid the pandemic. Direct shopping activities at supermarkets, shops or wet markets decreased, and instead, more shopping activities were done at home.

The year 2020 also witnessed strong growth of online shopping activities in many categories of goods, particularly essential items (especially food and personal care with an increase of 45.9%), Internet services, housing and utilities, and healthcare.

Contrary to this trend, spending on beauty and entertainment products/services plummeted, due to strict social distancing measures put in place by localities.

The impact of the pandemic has pushed shopping activities more on online platforms. Not only shopping online, users also take advantage of social networks and search engines to research and compare products before making a shopping decision.

Adsota cited a research report by Google showing that up to 83% of Vietnamese carefully research online products before making decisions, of which 69% use Google.

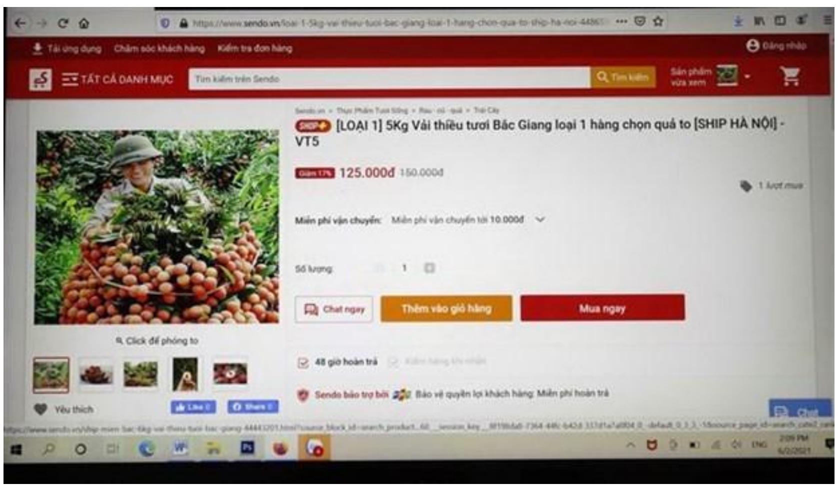
Notably, according to experts, consumers' price sensitivityid no longer a leading factor in making decisions. Consumers tend to save more, but instead of choosing cheap products, they are interested in products with good quality and those that are good for health, said Adsota.

For example, according to the survey, for food items, more than 60% of Vietnamese households use sugar-free or less-sugar beverages. Dairy-free or dairy-free alternatives are also growing in popularity, such as “nut milk,” a nut-based beverage that is said to be more heart-healthy than regular milk.

Meanwhile, price remains one of the important factors for electronic goods. However, customers will "spend money" for this kind of good if it has high quality and is a long-standing reputable brand.

Bloomberg: Vietnam’s e-commerce growth potential alluring

Though Euromonitor International estimates e-commerce accounted for just 3% of Vietnam’s retail market last year, the smallest among Southeast Asia’s major economies, the potential for growth is alluring, the newswire bnnbloomberg.ca said on June 2.



According to a study by Google, Vietnam’s digital economy is forecast to grow to 52 billion USD by 2025, an annual 29% increase from 2020, it said.

Startups backed by Warburg Pincus LLC and JD.com Inc., and regional players including Singapore’s Sea Ltd.’s Shopee and even Amazon.com Inc. are also targeting the country’s growing middle class. Between 2016 and the first half of 2020, investors funneled 1.9 billion USD into Vietnam’s online sector, a study by Google, Temasek and Bain showed.

“Vietnam is at the beginning of becoming a digitalised society with a young population that loves technology,” said Ralf Matthaes, Managing Director of Ho Chi Minh City-based Infocus Mekong Research. “So all these companies are tripping over themselves to offer these services.”

The Vietnamese government targeted that online shopping will account for 10% of Vietnam’s retail sales, and as much as 50% in Hanoi and Ho Chi Minh City by 2025. To create a more transparent modern economy, authorities want to increase cashless payment for public services and improve the regulatory framework for e-payment.

A consortium led by Alibaba Group Holding Ltd. and Baring Private Equity Asia is investing 400 million USD for a 5.5% stake in Vietnamese conglomerate Masan Group Corp.’s retail arm. As part of the deal announced May 18, Masan will team up with Lazada, Alibaba’s Southeast Asia e-commerce unit. “The combination of Alibaba’s online retail expertise, Lazada’s e-commerce platform in Vietnam, and Masan's leading offline network will be a strong catalyst to modernise Vietnam's retail landscape," Kenny Ho, Alibaba's head of investment for Southeast Asia, said in a statement.

M-Service JSC, a Vietnamese startup that operates the MoMo payment app, in January raised more than 100 million USD from a group of investors including Warburg Pincus.

For the first time in their shopping lives, Vietnamese are being wooed with customer-first retail common in developed economies as dozens of e-commerce companies build loyalty among the nation's growing middle class.

Matthaes said the pandemic gave digital retail a boost with 30% more Vietnamese buying everything from food to electronics online last year.

Meanwhile, Managing Director of Warburg Pincus in Singapore Jeffrey Perlman said Vietnam's retail landscape is shifting faster than mature markets did. Its move to modern retail skipped catalog shopping and stand-alone department stores as malls began sprouting largely over the past decade.

Tiki is the nation's largest homegrown e-commerce site among dozens of local online shopping platforms, including some operated by retailers that have set up their own websites.

According to Crunchbase, investors including Sumitomo Corp. and JD.com have backed the startup with 192.5 million USD.

Henry Low, a former Amazon and Coupang Corp. executive, expressed his hope that there will be more funding rounds and plan for an eventual initial public offering.

With about two million orders a month, Tiki is deploying artificial intelligence and robots capable of moving 800kg of products to speed things along./.

Global giants crave for pieces in Vietnam e-commerce market

Foreign investors have been pouring billions of dollars into the e-commerce market, seeking to change shopping habits in Vietnam and eventually profit from a likely online boom.

Since the pandemic began, Tran Thi Linh in Hanoi has picked up a new habit of lying on her couch for hours to browse through e-commerce apps, looking for promotions.

"With social distancing, I became reluctant to leave the house, and I realize it is more convenient to shop for certain items online," the 47-year-old housewife said.

With the apps she no longer has to carry heavy bags of detergents and rice from the supermarket to her apartment, while the coffee her husband drinks is cheaper online.

"I read reviews and watch videos to make shopping decisions. I still go to the supermarket but less often."

Linh is among many Vietnamese that have become more familiar with e-commerce platforms and saw their shopping habits changed during the pandemic, a goal that that Vietnamese and foreign companies have spent billions of dollars to achieve as they seek to claim a bigger share in a booming industry.

Vietnam's digital economy is forecast to grow by 29 percent annually from 2020 to $52 billion by 2025, according to a study by Google, Temasek Holdings and Bain & Co.

But data from Euromonitor International estimates e-commerce accounted for only 3 percent of the nation's retail market last year, the smallest amount in Southeast Asia.

This is why major global companies have been making moves to secure a place in the market. From 2016 to the first half of 2020, investors poured $1.9 billion into Vietnam's online sector, the study by Google, Temasek and Bain showed.

The latest deals include a $400 investment by an Alibaba Group-led consortium into a unit of conglomerate Masan Group, which is set to team with Lazada as part of the deal to win Vietnam's e-commerce market.

Equity firm Warburg Pincus in January poured more than $100 million into M-Service JSC, a Vietnamese startup that operates the MoMo payment app.

Domestic platform Tiki had earlier raised $192.5 million from Japan's Sumitomo Corp and China's JD.com.

"Vietnam is at the beginning of becoming a digitalized society with a young population that loves technology," Bloomberg cited Ralf Matthaes, managing director of Ho Chi Minh City-based Infocus Mekong Research, as saying.

"So all these companies are tripping over themselves to offer these services."

But changing Vietnamese people's shopping habit while dominating the market in the process is easier said than done.

Linh, the Hanoi housewife, said that until now she only pays for online orders by cash, because she does not know how to link her shopping account with her debit card.

"Another reason is that I can refuse to accept orders if they do not meet the quality I expect. There are many online shopping frauds and I want to be careful."

Cash remains the most popular payment method in Vietnam with around 80 percent of the population preferring it in daily transactions, according to the Ministry of Industry and Trade.

"Cashless payment remains unpopular in Vietnam because people prefer to see and touch products before paying for them," said Le Xuan Vu, board member of Military Bank, adding that if local banks can guarantee to compensate customers for fraud and fake products, they will trust cashless payment and use them more regularly.

Dominating the market remains a challenging task for e-commerce firms with so many players seeking a piece of the pie. Among four major platforms, Shopee, Tiki, Lazada and Sendo, none has been able to secure a paramount position to become the go-to marketplace for every need.

Electronic companies like Mobile World, FPT and CellphoneS have also established their own platforms so not to be left behind in the race.

“I have apps of Tiki, Shopee and Lazada and use them all. I don’t feel the need to commit to only one platform,” said Nguyen Duc Anh, who works for an advertising agency in Hanoi.

Duc Anh often compares prices and reviews of a product on all three platforms to make the decision. Usually the platform with the highest number of purchases and offers the best price and delivery time wins.

“For now I’m having the best of several worlds.”

This is why e-commerce companies are trying different strategies to make its platform the best and the only.

Almost every month Shopee offers a period of major discount with a variety of items priced as low as VND1,000 (4.3 U.S. cents).

Tiki has been working to remove counterfeit products and increase the number of items eligible for a two-hour delivery. It also offers up-to-30-day return policy for certain electronics products to gain customers’ trust.

In the new partnership with Lazada, Masan seeks to blend offline and online shopping into one experience by making its 2,200 VinMart+ outlets the pickup points for purchases on the platform.

But while platforms race to win more customers, people like Linh are still reluctant to abandon the traditional shopping method.

The other day she used online platforms to check prices of an air purifier but ended up driving her motorbike to an electronics store to make the purchase even though it was priced slightly higher there.

“I still need to touch it. I want to see it with my own eyes.”

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ENERGY

Solar PV market under duress from dependence on imports

As one of the fastest-developing countries in solar thanks to the current feed-in tariff, Vietnam's billion-dollar solar panel market is mostly dominated by foreign investors and depending on imports.

The Indian Ministry of Commerce and Industry a fortnight ago launched an anti-dumping probe into solar cells originating from China, Thailand, and Vietnam, following a petition by the Indian Solar Manufacturers Association. The move has shocked Vietnam-based panel producers.

The large solar panel market in this country is currently presided over by overseas investors

The ministry said that solar panel products originating or imported from the three countries have a high margin of dumping, exceeding the minimum threshold of 2%.

The Trade Remedies Authority of Vietnam under the Ministry of Industry and Trade said producers and exporters should contact the Indian ministry to register for questionnaires and keep abreast of relevant information coming from India. Any action deemed uncooperative could lead to India imposing anti-dumping duties, it warned.

However, according to the General Department of Vietnam Customs, last year Vietnamese groups imported 114.6 million photovoltaic (PV) panels with a value of up to $2.4 billion, a substantial increase on 2019's figures of 36.2 million panels imported at around $845 million.

Some developers as well as engineering and procurement companies said that with the boom in solar power in Vietnam over recent years, many projects have raced to commence operations and seize the incentives on offer, leading to large import demand.

Nguyen Thuy Ngan, brand director of locally-invested Solar BK, said that it is the only domestic enterprise producing solar cells with international standards at a competitive price, but accounts for less than 1% of the market share in Vietnam.

China is the world's largest producer of PV equipment and some well-known Chinese manufacturers including Trina Solar, JA Solar, and Bowerway Group have their facilities to Vietnam.

The northern province of Bac Giang currently hosts eight projects belonging to Chinese and Taiwanese investors, which will form the largest solar energy equipment manufacturing chain in the country with a total capacity of 5,200MW per year.

In 2018, India imposed a safeguard duty on solar cells imported from China and Malaysia for two years, a move that was expected to increase costs and push up tariffs from record lows. Under that, a levy of 25% was imposed on imports in the first year starting July 30, and 20 and 15% for two subsequent six-month periods, respectively.

According to a TechSci Research report on Vietnam's solar PV equipment market, it is forecast to cross $3.7 billion in value by 2025. Market growth can be attributed to the increasing electricity demand from industrial and commercial as well as residential end-user segments, rising investments in solar energy, and favourable regulatory scenarios, the report explained.

The electricity demand in Vietnam has grown by around 30% since 2000 and is expected to continue growing over the next decade. By 2025, the solar PV equipment market is anticipated to witness robust growth on account of increasing investments in solar projects and a government focus on reducing carbon emissions.

GE Renewable Energy and BIM Wind JSC ink deal for an 88 MW wind farm in Ninh Thuan

GE Renewable Energy has signed a contract to supply, install and commission GE Cypress turbines at BIM Wind JSC's 88MW wind power plant in Ninh Thuận Province.

BIM Wind is a project joint venture between AC Energy, the power generation subsidiary of Ayala Corporation, one of the Philippines' largest conglomerates, and BIM Energy Holding belonging to BIM Group, one of 's largest private companies.

The wind farm is expected to be operational by the end of the third quarter of this year. All turbines will be the two-piece blade design.

GE's largest Cypress platform deal in Southeast Asia also includes a 15-year full-service agreement.

Doan Quoc Huy, CEO of BIM Energy Holding, said: "We are delighted to partner with GE Renewable Energy as we aim to develop at least 1000MW of clean energy by 2025."

Gilan Sabatier, regional leader for GE Renewable Energy's onshore wind business in South Asia and ASEAN, said: "We are extremely excited to partner with AC Energy and BIM Group, who share our values and are fully engaged in accelerating the energy transition in Việt Nam. We thank them for their trust."— VNS

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RETAIL

Supermarkets report dramatic increase in online orders these days

Some supermarkets and fast food stores in districts 12, Tan Binh, Hoc Mon yesterday announced a dramatic increase in online orders, up by 3-5 times compared to prior days.

Specifically, customers coming to the Co.opmart supermarkets on To Ky and Nguyen Anh Thu streets in District 12 normally buy vegetables, meat, and fish. For customers’ safety, the supermarket staffs ask consumers to declare their health status before shopping.

According to a representative of Saigon Co.op, goods at supermarket chains including Co.opmart, and Co.opXtra are quite abundant.

In June alone, Saigon Co.op has offered two discount programs, each lasting for two weeks. The first discount program lasted from June 3 to June 16, mainly on fresh foods and agricultural products, especially fresh litchi from the northern provinces. A kilogram of litchi is priced at VND27,900 and purple sweet potato at VND5,900 at Co.opmart, Co.opXtra, Co.op Food.

In order to meet shoppers’ needs during social distancing, employees of the Saigon Co.op supermarket chain are willing to give free delivery to commodities in near places. "The number of online orders in a few days of social distancing increased by 3-5 times compared to normal days, and the revenue also increased significantly," a Saigon Co.op leader said.

Similarly, Satra and Central Retail supermarkets have also offered free delivery to online shoppers in near locations with invoices from VND200,000 up.

Supermarkets accept both cash payment and non-cash payment methods. An employee of BigC supermarket (of Central Retail Group) said online orders are constantly increasing and staffs have been rushed off their feet to deliver commodities to customers.

According to the Vinmart system, the number of customers ordering online is increasing rapidly, 1.5-2 times higher than the normal days before social distancing on May 31.

Statistics of e-commerce platforms such as Tiki and Lazada have shown that because of the increase in online orders, the companies had to hire more staff to support internet shopping. Nguyen Thuy, a delivery worker in districts 12 and Hoc Mon shared that she has been so busy at delivering that she forgot her lunch; however, some customers get angry sending complaints to the operator when there are delayed deliveries.

Sellers of commodity on the Internet have also seen an increase in orders. Nguyen Thi Lan who sells honey and avocado reported that more online shoppers ordered honey and the fruit.

HCM City's retail market vibrant despite COVID-19

Vietnam and Ho Chi Minh City in particular are considered to hold promise for retailers from home and abroad on the back of the large, young population and rising consumer price index amid the COVID-19 pandemic.

The municipal Statistics Office reported that the total retail sale of goods and services in the city reached over 456.1 trillion VND (19.8 billion USD) in the first five months of this year, up 8.9% year-on-year. The May figure topped 89.9 trillion VND, down 0.1% month-on-month but up 13.1% year-on-year.

Five-month trade revenue hit 255.5 trillion VND, up 9.5% compared to the same period last year. Accommodation and dining services earned more than 32.1 trillion VND, up 30.8% year-on-year.

Most notably, the city's retail market saw a number of merger and acquisitions, while retailers and companies are competing to win market share via opening new points of sale and marketing trademarks in residential areas.

Director of Commercial Leasing at Savills Vietnam Tu Thi Hong An said the retail real estate sector in HCM City is receiving foreign investment flows from new franchises in dining, fashion, and accessories.

She added that one day after a deal between Republic of Korea retailer E-mart and the Truong Hai Auto Corporation (THACO) was announced, Chinese giant Alibaba and Baring Private Equity Asia (BPEA) reached a deal to outlay 400 million USD on buying a 5.5% stake in The CrownX, an e-commerce platform owned by the Masan Group Corporation, to operate the VinMart and VinMart+ supermarket chains.

The deal is one of the largest for Alibaba in Southeast Asia since it bought Lazada in 2018 for 4 billion USD. It will give Alibaba and Lazada access a network of more than 2,000 outlets without having to spend time and money establishing a distribution network. Consumers will also see products sold in VinMart available on Lazada and can pick up orders from Lazada at VinMart./.

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LOGISTICS

Vietnam faces shortage of cold storage warehouses

The growing tendency of consumers shopping online globally has led to a sharp demand for cold storage warehouses, but investment in cold storage facilities remains modest.

Analysts said they can see a cold storage construction boom. According to Emergen, cold storage construction volume will have value of $18.6 billion by 2027, with an average growth rate of 13.8% per annum.

Cold storage warehouses adjust temperature and humidity to prolong the life of some kinds of products, including perishables such as food, cosmetics and vaccines.

There are three cold storage segments, including deep frozen storage (from – 30oC to – 28oC), cold storage (from – 20oC to – 16oC) and cooling storage (from + 2oC to + 4oC)

The demand for cold storage facilities in Vietnam is high, especially in the seafood sector (Vietnam is the third largest seafood exporter in the world).

Trang Bui from JLL Vietnam said during the Covid-19 peak time, 30-50% of seafood export orders were canceled, which led to increased inventories. Cold storage warehouses had to run at maximum capacity.

While demand is high, only a few enterprises have invested in the segment and no one can provide full cold storage services. The cold storage supply is more plentiful in the south as demand there is higher, while 60% of the market share is in the hands of foreign investors.

The first cold storage in Vietnam was built in 1996 by Konoike Vinatrans, a Vietnam-Japan joint venture. In 1998, Swire Cold Storage from Australia built one of the most modern cold storage facilities at that time.

In 2017, Hung Vuong JSC built two storage warehouses with total capacity of 40,000 tons of goods. The other investors include Lotte Sea (2009) and Preferred Freezer Services (2010).

The limited cold storage supply is partially blamed on the longer time that is needed to build them, rather than logistics. It is more costly to build cold storage facilities than standard warehouses.

The Global Cold Chain Alliance estimates that there should be 0.15 cubic meter of cold storage for every urban resident. In Australia, the current supply only satisfies half the figure.

JLL Vietnam believes that seafood cold storage warehouses operate most effectively if they are 50 kilometers from ports, while vegetable and fruit warehouses should be located near urban areas.

Demand on the rise

Michael Ignatiadis from JLL Asia Pacific said that the high population and rapid development of the middle class in Asia have led to an increased demand for fresh and high-quality food, which is behind the increase in demand for cold storage.

Analysts said they can see a cold storage construction boom. According to Emergen, cold storage construction volume will have value of $18.6 billion by 2027, with an average growth rate of 13.8% per annum.

However, even with this construction speed, a shortage may still occur because of the demand for fresh food, according to Ignatiadis.

Meanwhile, Forrester predicted that shopping services in Asia Pacific would increase by 30% per annum until 2024.

In the US, the proportion of food online shopping would double by 2025 to 21.5%, according to Mercatus, an e-commerce firm, and Incisiv.

In the UK, 80% of raw food is imported and the shortage of fresh fruit and vegetables is more alarming.

Alan Selby from JLL's Integral said demand will increase over time as a result of the growing tendency of people growing vegetables and fruits and preserving them at home.

To obtain the growth targets in the future, the expert from JLL believes that Vietnam's logistics industry needs to overcome many problems.

In the immediate time, to enter the next stage of industrial logistics development, and to be more competitive, a reasonable investment level is needed. It is also necessary to develop a network of highways and utility networks, including renewable energy.

The cross-border trade exchange process also needs further improvement in time and cost.

Cross-border transaction costs, including costs for documents and procedure compliance as well as import/export expenses in Vietnam, are less competitive than regional countries.

Trang Bui from JLL Vietnam stressed that with the current cold supply chain managed by mostly small and medium suppliers, cold storage centers offer a big investment opportunity.

New cargo airline to advance Vietnam logistics

A fully-fledged cargo airline in Vietnam would boost logistics development and stir up competition in the aviation sector amid an e-commerce boom, experts say.

"Vietnam needs a cargo airline to boost the transport of goods domestically and internationally. It will bring about many economic benefits," said aviation expert Nguyen Thien Thong.

He was commenting on a proposal by retail company Imex Pan Pacific Group (IPPG) to establish a cargo airline by next year, the first fully-fledged such company in Vietnam.

With an initial investment of VND2.4 trillion ($103.6 million), IPP Air Cargo will start with five freighters. It estimates revenues of $71 million in the first year of operation. It would be the only cargo-dedicated airline in Vietnam, where all six carriers prioritize passenger transport.

Vietnam ranks 8th among the top 10 emerging logistics markets globally, but 80% of the market is in the hands of foreign companies, according to the Vietnam Logistics Association.

Logistics costs in Vietnam account for over 20% of its GDP, while the global average is 11%.

This shows that there is a need for domestic companies to step up and take over the industry from foreign companies and reduce costs, experts say.

Former Prime Minister Nguyen Xuan Phuc had in September last year ordered the Ministry of Transport to research the possibility of establishing a cargo airline to help distribute agriculture and electronic goods.

In 2008, Trai Thien Air Cargo had received a permit for domestic and international transport, but it was not active for three years and the permit was canceled in 2011.

IPP Air Cargo seeks to be the cargo airline the country needs. IPPG chairman Johnathan Hanh Nguyen said that the company will focus exclusively on cargo and not branch into passenger transport, avoiding competition with other airlines.

The company will negotiate with foreign airlines to establish linked routes to 16 airports in Vietnam which will help transport goods directly from localities of origin instead of through big airports, he said.

He also told the Thanh Nien newspaper that he had been developing a logistics network over the past year to prepare for the airline.

However, his airline will not be the only cargo carrier in the sky. Vietnam Airlines has long been eyeing the establishment of its own cargo fleet, and during the pandemic, it removed seats from 12 wide-bodied aircraft and converted them into cargo carriers.

Both Bamboo Airways and Vietjet have also mentioned plans to develop their own cargo fleet, but neither has made any concrete move towards this.

Tong said that there could be competition in the industry, but eventually, it will benefit the development of e-commerce when a network of air cargo transport is established.

Having a cargo airline is a necessity as most countries have at least one, and the recent boom in e-commerce means there is high demand for such transportation. This is the right time, therefore, for Vietnam to establish its own cargo airline, he added.

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INVESTMENT

FDI inflows remains spotlight of Vietnam's economy

The government has set up an FDI task force to support multinationals and foreign businesses grasping investment opportunities in Vietnam.

Vietnam remains a preferred destination for foreign investors as actual disbursement of foreign direct investment (FDI) rose by 6.7% year-on-year in the first five months of this year to US$7.15 billion.

Electronics production at Rhythm Precision Vietnam in Noi Bai industrial park.

During the period, FDI commitments to the country also slightly rose by 0.8% year-on-year to nearly US$14 billion.

In late May, local authorities in the southern province of Binh Duong issued investment licenses for five foreign projects with a combined investment capital of nearly US$1 billion. Hanoi has also seen a surge in the number of new FDI projects with 16 in the month. The total capital poured into new and existing FDI projects in the capital city hit nearly US$520 million, including US$76.8 million for 139 projects.

Since early 2021, Long An province in the south of Vietnam has emerged as the magnet for large scale projects, including the Long An I and II liquefied natural gas plants worth a total of US$3.1 billion from Singaporean investors, or the O Mon II Thermal Power Plant financed by Japanese investors with registered capital of US$1.31 billion. In Haiphong, Intel (US) and LG (South Korea) have poured additional funds of US$475 million and US$750 million, respectively on their existing plans.

Foxconn, formally known as Hon Hai Precision Industry, is currently exploring an investment option at Thanh Hoa province to set up an industrial park of 150 hectares with a capital of US$1.3 billion. AVG Capital Partners from Russia has also signed a memorandum of understanding with Thanh Hoa's authorities to develop a US$1.4-billion pork processing complex.

Overall, 70 countries and territories have registered investment projects in Vietnam during the January-May period, a positive sign for the country as the UN Conference on Trade and Development (UNCTAD) predicted 2021 would be another difficult year for investment activities globally as a result of the pandemic.

Vice Minister of Planning and Investment Nguyen Thi Bich Ngoc attributed Vietnam's advantage in FDI attraction to the country's participation in a number of free trade agreements, including the Regional Comprehensive Economic Partnership (RCEP), the EU-Vietnam Free Trade Agreement (EVFTA) or the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the so-called next-generation trade deals.

"FTAs give Vietnam a freeway to access markets of 55 countries, including 15 from the G20," Ngoc noted.

Kenneth Atkinson, board member of the British Chamber of Commerce Vietnam (Britcham) said the fact that Vietnam has been further integrating into the global community, including its mark as the Chair of ASEAN in 2020 and non-permanent member of the UN Security Council for the 2019-2020 period have elevated the country's status as an attractive destination for FDI inflows.

Efforts needed to stay competitive

With a volume of capital inflows to Vietnam in the five-month period much higher than the figure recorded in the same period last year, Minister of Planning and Investment Nguyen Chi Dung said at a recent conference that the country has been actively promoting high-quality FDI projects with environmentally friendly and modern technologies as key criteria.

"The government has set up an FDI task force to support multinationals and foreign businesses grasping investment opportunities in Vietnam, along with new laws and greater incentives for projects in priority fields," Dung said.

To further maintain Vietnam's status as an investment hub, Chairman of the Vietnam Chamber of Commerce and Industry (VCCI) Vu Tien Loc urged the country to have a long-term plan to promote the development of supporting industries.

"This would be the key step for Vietnam to transform its production industry from mainly assembling to creating higher value-added products," Loc stressed.

Professor Nguyen Thuong Lang from the National Economics University suggested while the government has put up efforts to improve the business environment, each locality should play a more active role in attracting FDI projects.

"Provinces/cities that can quickly address the concern of the businesses and invest substantially in infrastructure systems would have an upper hand in attracting large-scale FDI projects," he added.

"A transparent and predictable legal environment would help investors settle down for long-term," Lang said.

FDI supports Vietnam climb the global value chain

Vietnam has successfully transformed into a manufacturing-oriented economy, supported by stronger global value chain (GVC) participation thanks to a rise in foreign direct investment (FDI), especially in the manufacturing industry.

However, amid the post-pandemic GVC reconfiguration, FDI policies need to be carefully aligned to Vietnam's development strategy.

Over the past few years, Samsung, hailing from the Republic of Korea, has become a good example of a multinational corporation (MNC) in Vietnam supporting the country in climbing the global value chain (GVC).

Having been operating in Vietnam for 13 years, Samsung has raised its investment capital from an initial US$670 million to US$17.5 billion, with six plants in the northern provinces of Bac Ninh and Thai Nguyen, and in Ho Chi Minh City, and an under-construction research and development (R&D) centre worth US$220 million in Hanoi.

In 2020, Samsung Vietnam earned US$67 billion in revenue, accounting for 25% of the country's GDP of US$270 billion. Samsung Electronics' Thai Nguyen arm contributed the most revenue among the four subsidiaries, at US$26 billion last year.

Also last year, Samsung Vietnam posted some US$57 billion in export revenue - or nearly 20% of Vietnam's total export turnover - a little below its target of US$60 billion, but still a positive result amid the pandemic.

Big role

According to the Ministry of Planning and Investment, the great contributions of such firms as Samsung to Vietnam's economic growth are significant. The country's economy grew 2.91% last year, and 4.48% in the first quarter of 2021.

The Vietnamese government has always underlined the major role of foreign direct investment (FDI) in spurring its exports via global value chain (GVCs) participation, as well as boosting economic growth.

In the first five months of this year, total newly-registered and newly-added FDI capital was nearly US$14 billion, up 0.8% over the corresponding period last year.

FDI disbursement from January to May 20 is estimated at US$7.15 billion, an increase of 6.7% as compared to the same period of 2020.

Manufacturing was the most attractive sector in Vietnam, attracting US$6.14 billion in FDI in five months.

According to a recent study by the ASEAN+3 Macroeconomic Research Office (AMRO), as the biggest foreign direct investor in Vietnam, it is not surprising that Samsung has a sizeable influence on the way Vietnam participates in GVCs, particularly in terms of backward linkages. Prior to 2019, among around 100 of Samsung's suppliers who collectively accounted for 80% of its transaction volume, 28 were listed as operating in Vietnam, although these appear to be foreign-owned. More than half were based, or had operations, in the Republic of Korea, 30 in China, and 16 in Japan.

This sourcing breakdown is largely consistent with Vietnam's top imports from the Plus-3 economies, also mostly electronic in nature. In particular, these are mostly intermediate goods such as semiconductors and electronics.

As Vietnam continues to be a highly attractive production base for other multinationals, the influx of these new MNC projects will also help shape its future GVC participation. For example, the media reported Apple shifting nearly 30% (up to four million units) of its wireless headphones production (AirPods) into Vietnam and away from China. As a result, its leading supplier Goertek also confirmed plans to move its production in the same direction.

Google is also reportedly looking at moving to Vietnam from China for its Pixel 4A smartphone.

These investment movements will have a significant impact on how the foreign and/or domestic value added content of electronics and electrical exports will change in the future.

Similarly, the ongoing movement of international footwear and apparel firms such as Adidas, Nike, and Puma to Vietnam will also influence the backward linkages of the equally-significant garments sector.

A rise in GVCs

Vietnam has seen many impressive economic achievements over the past two decades. Since Doi moi launched in 1986, Vietnam has actively opened up its economy, participating in the regional economic cooperation in 1995 and joining the World Trade Organization in 2007.

Such transitions have helped the economy maintain rapid growth of around 7% since the early 2000s, except during the 2008-2009 global financial crisis (GFC) and the 2011-12 domestic financial turbulence. In particular, amid a general slowdown of emerging markets in the post GFC period, Vietnam has maintained its strong growth momentum, and more recently, has seen an explosive growth in exports amid strong FDI.

According to AMRO, Vietnam's exports have diversified and grown exponentially over the past two decades. Vietnam's gross good exports reached US$264.2 billion in 2019, a 48-times increase in 25 years from the figure of US$5.5 billion in 1995 when it joined ASEAN.

During these two decades, Vietnam's exports have become more diversified and sophisticated. From the 1990s through to the first half of 2000s, primary products, such as food and mineral fuels, accounted for more than half of total exports. From the early 2000s, miscellaneous manufactured goods, such as textiles and clothing, began to increase their contribution to Vietnam's exports. And since 2013, the share of machinery, transports and equipment - in particular mobile devices - in total exports, has grown exponentially and exceeds other manufactured and primary products.

In terms of end-use, Vietnam's exports comprise mainly intermediate and final consumption goods, while mixed end-use and capital goods having grown in prominence recently.

The Ministry of Industry and Trade reported that in 2020, Vietnam's total export-import turnover hit US$545.36 billion, up 5.4% year-on-year. Of which, export turnover reached US$282.65 billion, up 7% or US$18.39 billion, and import turnover sat at US$262.7 billion, up 3.7% or US$9.31 billion.

In the first five months of 2021, the nation's total export-import turnover is estimated to have hit US$262.21 billion, including US$130.94 billion from exports - up 30.7% year-on-year, and US$131.31 billion from imports - up 36.4% year-on-year.

"FDI has played an important role in the rapid growth of exports," said AMRO in its recently-published report titled "The role of Vietnam's FDI inflows in global value chains participation and economic growth".

"Since Samsung Electronics' large investments in Bac Ninh in 2007, Vietnam has emerged as a major final assembly hub for ICT hardware and electronic related products," said the report.

According to the World Bank Group (2017), about 80% of electronics/ ICT hardware and over 30% of electronic-related products produced in Vietnam are destined for export markets, and mostly manufactured by foreign firms.

Growing interest in Vietnam as a production base has led to strong FDI inflows, particularly in the manufacturing sector. For example, as of May 20, 2020, FDI-led manufacturing can be found in 15,323 valid projects, registered at US$232.78 billion - accounting for 45.58% and 58.65% of the total number of foreign-invested projects and registered FDI in Vietnam, respectively.

Additionally, FDI in higher value-added non-manufacturing sectors has increased recently too, in particular in professional, scientific and technical activities, which will help improve Vietnam's business environment and total factor productivity going forward.

However, AMRO said that amid the post-pandemic GVC reconfiguration, FDI policies need to be carefully aligned to Vietnam's development strategy.

Vietnam appears to have successfully weathered the COVID-19 pandemic's impact on trade and investment activities. Realising the vulnerabilities of the existing supply chain network, several multinational companies, especially those in electronics and textiles businesses, are now moving or diversifying their production facilities to Vietnam and other ASEAN countries, which could further strengthen Vietnam's GVC participation.

"Amid this re-configuration of global supply chains, there should be scope for Vietnam to take advantage of these ongoing changes to propel itself up the production value chain with greater domestic companies' participation," said the report. "Additionally, recent increases in FDI in the service sector, such as in ICT, telecommunications, retails, and financial intermediation, could provide new opportunities for Vietnam to participate in the higher value tiers of GVCs. A deliberate strategy to attract FDIs open to engaging domestic firms in providing intermediate inputs would be needed to complement policies to develop and support domestic suppliers."

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