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VIETNAM BUSINESS REVIEW

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FINANCE

Vietnamese market is one of three top Southeast Asian

CNBC, the recognised world leader in financial news that features breaking news and the latest headlines from Wall Street, has included Vietnam in its three hottest markets in Southeast Asia for 2022.



This comes after CNBC asked analysts from Goldman Sachs and JPMorgan Asset Management which Southeast Asian markets were their top picks. The result revealed that the Vietnamese market is one of three top Southeast Asian picks for both Wall Street banks.

Desmond Loh, a portfolio manager at JPMorgan Asset Management, termed Vietnam a “star performer in the past few years” in terms of economic resiliency and growth.

He added that the country is one of the few economies globally to have seen positive economic growth throughout the course of the COVID-19 pandemic.

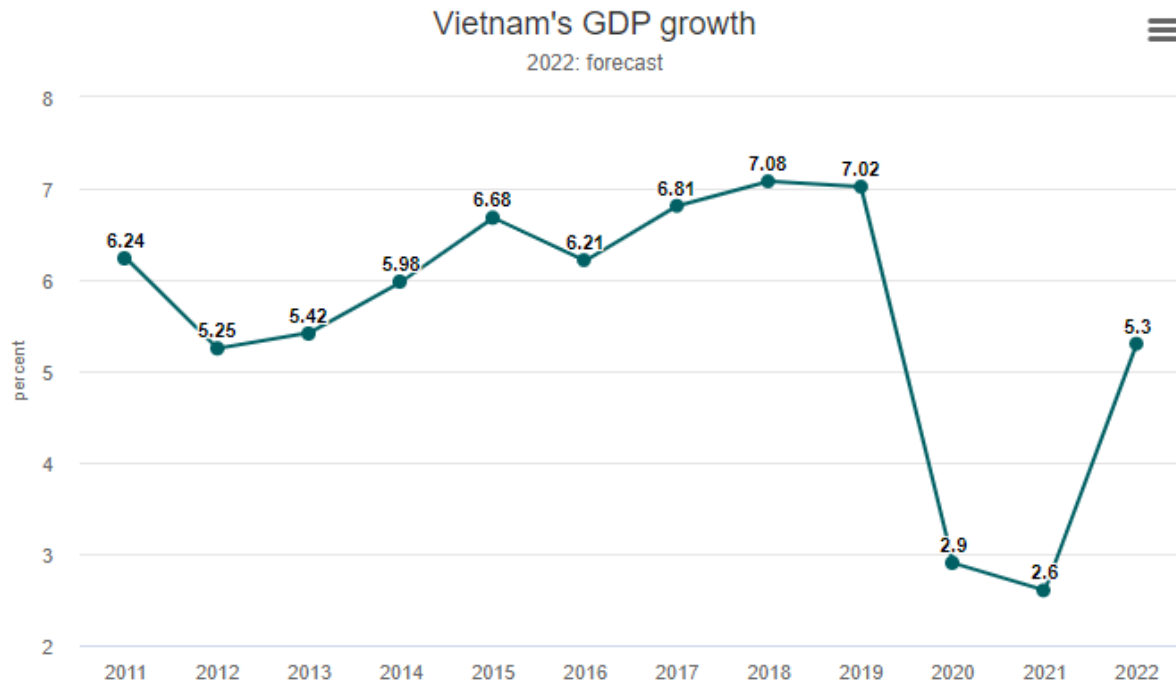
“To capitalise on the growth, we are positioned in high quality consumer proxies and banks,” he added, without naming specific stocks.

Elsewhere, Goldman Sachs remains bullish on the prospects of both Indonesia and Singapore moving forward. VOV/CNBC

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World Bank cut its growth forecast for Vietnam to 5.3 percent in 2022

According to vnexpress, the World Bank has cut its growth forecast for Vietnam this year to 5.3 percent, due to surging Covid-19 infection in Q1 and economic slowdown in its major export markets.



This has been the second time the bank lowers its 2022 projection for the country. Last October it had expected a growth rate of 6.5 percent, lowered to 5.5 percent in January.

Vietnam's GDP is expected to grow by 5.3 percent this year and stabilize at around 6.5 percent in a scenario with eased mobility restrictions domestically and internationally, it added in a recent report.

It forecasts the service sector to gradually recover during the year as consumer confidence is restored and tourism resumes from mid-2022 onward. But manufacturing will grow at a slower pace mirroring moderating growth in Vietnam's main export markets of the U.S., the European Union and China.

But it warned of the outlook of heightened risks from external economic shock, including the Russia-Ukraine conflict and new Covid-19 variants, slowing recovery of domestic demand, and labor shortage due to a surge in infections. "Additional shocks could lead to a low case scenario where GDP grows 4 percent in 2022, recovering to 6 percent and 6.5 percent in 2023 and 2024, respectively".

The World Bank recommended the Vietnamese government to deploy a strong fiscal policy support, and accommodative and prudent monetary policy. It was also cautious about economic and human capital consequences from inequality, which was driven up by the pandemic and lockdowns between last May and September. Vietnam's economy grew by 2.6 percent last year, well below its pre-pandemic trend of 7 percent. Vnexpress

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E-COMMERCE

Vietnam tries to fight taxing cross-border losses

Cross-border businesses providing services directly to individual users earn huge revenue from Vietnamese customers but they have not paid taxes to Vietnam.



According to statistics of the Vietnam General Department of Taxation, tax revenue paid by Vietnamese enterprises signing advertising contracts with foreign organizations from 2018 to 2020 was VND 3,082 billion, including VND770.6 billion in 2018; VND1,167.9 billion in 2019; VND1,143.7 billion in 2020.

In 2021, tax revenue collected from Vietnamese organizations that have signed online advertising contracts with foreign organizations that do not have legal entities in Vietnam such as Google, Youtube, Facebook was VND1,314 billion, including VND521 billion from Facebook; VND490 billion from Google; and VND164 billion from Microsoft.

However, for many years, Vietnam has not collected taxes from transactions between cross-border businesses and individual users in Vietnam. For example, Netflix which provides movie watching services primarily to individual customers.

Mr. Chung Thanh Tien, from the HCM City Accounting Association, said that cross-border businesses providing services directly to individual users earn huge revenue from Vietnamese customers but they have not paid taxes to Vietnam.

"If individual customers use the services supplied by cross-border corporates, the companies are obliged to pay taxes. The fees paid by the service users is inclusive of value added tax. These corporates have not declared taxes with Vietnamese tax authorities because they provide cross-border services and do not have a legal presence in Vietnam. If businesses in Vietnam use the services of such companies, they can declare and pay contractor tax. As for individual users, taxes have not been collected yet," said Mr. Tien.

Regarding businesses providing cross-border services, the Law on Value Added Tax does not identify them as subjects to value-added tax, as it assumes that an enterprise without a legal presence in Vietnam is not subject to value-added tax. However, the later-issued Circular 80 clearly states that no matter where the enterprise has a legal entity, when the service is consumed in Vietnam, it will still be subject to value added tax, according to Mr. Tien.

Circular 80 specifically guiding the implementation of the Law on Tax Administration offered a clear legal basis for collecting VAT from cross-border companies.

Specifically, Circular 103 did not include all cases of revenue generated in Vietnam for companies without permanent offices in the country (in particular, the case of revenue received from non-business individuals), making it impossible for cross-border businesses to pay taxes. Therefore, there was a misunderstanding that cross-border businesses intentionally evaded tax obligations for revenue coming from individual users.

Vietnam lacks guidelines for transactions between cross-border businesses and individual users in Vietnam, so cross-border businesses cannot pay tax on this revenue.

In Circular No. 80/2021/TT-BTC, there is a separate chapter regulating tax administration for e-commerce business, digital-based business and other services of overseas suppliers that do not have a permanent establishment in Vietnam.

Accordingly, an overseas supplier that does not have a permanent establishment in Vietnam, if it conducts e-commerce, digital-based business and other services with organizations and individuals in Vietnam, can directly or authorize organizations or tax agencies operating under Vietnamese law to register, declare, and pay tax with Vietnamese tax authorities.

Digital tools to collect cross-border taxes

Tax registration, declaration and payment of overseas suppliers is performed electronically on the website of the General Department of Taxation from January 1, 2022 when Circular No. 80/2021/TT-BTC takes effect.

Although Circular 80 takes effect from January 1, 2022, the electronic portal for cross-border businesses to declare tax has not started.

Mr. Nguyen Van Phung, Director of the Large Corporate Tax Department (General Department of Taxation), said that the General Department of Taxation is building this portal and it will start operating in March.

Mr. Nguyen Ngoc Quang, from the Vietnam Association of Practicing Accountants, said that in principle, providing services in the Vietnamese territory is subject to value-added tax. This has been in the provisions of the Law on Value Added Tax for a long time. Value-added tax is essentially a tax on the final consumer, so in principle it is reasonable for the General Department of Taxation to introduce this content.

According to experts, Circular 80 focuses on tax administration issues and transactions between taxpayers and state management agencies. But problems arising in implementing e-invoices and reducing VAT lead to concerns that collecting taxes from cross-border transactions will be in the same situation. Vietnamnet

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ENERGY

Vietnam Electricity proposes to develop renewable power in northern region

Vietnam Electricity (EVN) has proposed to the Government and relevant ministries and sectors a number of measures to ensure power supply, especially in the northern region, including the issuance of mechanisms to develop renewable energy in the region.



Under the proposal, by 2025, the region expects to have an additional 5,500 MW of renewable energy, including 4,000 MW of wind power and about 1,500 MW of solar power.

Along with some mechanisms to encourage the development of rooftop solar power for self-supply, EVN suggested the Government permit to the group to invest in offshore wind power in the northern region to increase power supplies for the region and ensure national security.

The proposals are expected to ease difficulties in power supply in the northern region, especially in summer, and help Vietnam implement its commitment delivered at the United Nations Climate Change Conference of the Parties (COP26).

According to EVN, the northern region many suffer a shortage of electricity in the hottest days in summer. Demand in the region accounts for nearly 50 percent of the country's total demand for power, which is forecast to continue seeing higher growth than the national average. However, there are only few new generation sources in the region in 2022.

Meanwhile, the supply of coal for power production is becoming limited. In March, the whole system saw a shortage of more than 3,000 MW of electricity from hydropower plants due to a lack of coal.

The Vietnam National Coal and Mineral Industries Group (Vinacomin) and Dong Bac Corporation reported that difficulties will continue in coal supply in the time to come, leading to a power shortage from April. VNA

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G7 ratifies energy transition platform for Vietnam

According to Hanoitimes, the Group of G7 has agreed on an energy transition platform for Vietnam, expected to help the country realize its ambitious goals of achieving net-zero carbon emission by 2050.



UK Prime Minister's Trade Envoy to Vietnam, Cambodia, and Laos Graham Stuart announced the move during a meeting with the Head of the Party Central Committee's Economic Commission Tran Tuan Anh in April 4.

Stuart hailed Vietnam's commitments made at the COP26, stressing the UK's readiness to assist the country in this regard.

He expressed his delight at the positive trade cooperation between Vietnam and the UK since

the UK-Vietnam Free Trade Agreement (UKVFTA) took effect, and thanked Vietnam for its support of the UK's bid to join the CPTPP.

Stuart expected both sides to further bilateral relations in economy, trade, and investment for mutual benefits.

For his part, Head of the Party Central Committee's Economic Commission Tran Tuan Anh highlighted the strong progress in the bilateral strategic partnership, which is proven by the UK's support for Vietnam in the fight against the Covid-19 pandemic.

Mr. Anh said the Vietnamese Government gives priority to its relations with the UK and seeks greater cooperation in climate change, energy transition, digitalization, sustainable development, technology, finance, and training of human resources.

"Vietnam welcomes the economic and trade cooperation between the UK and the ASEAN region," Anh noted and said the country is ready to share its CPTPP information and accession with the UK.

Mr. Anh reiterated Vietnam's commitments made in the COP26 and called for close cooperation between the two countries not only for mutual benefits but also to contribute to addressing global challenges. Hanoitimes

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RETAIL

Mobile World expands its network to Indonesia

Mobile World will cooperate with Indonesia retailer Erafone to open stores selling technology products in Indonesia.



Mobile World has announced its partnership with PT Erafone Artha Retailindo (Erafone), a subsidiary of Erajaya Corporation, to establish PT Era Blue Elektronik joint venture in Indonesia.

The chain of stores of this joint venture will be called Era Blue, which is expected to open from mid-2022 in Jakarta.

Mr. Doan Van Hieu Em - CEO of Mobile World and Dien May Xanh chains – told VietNamNet that Erafone specializes in selling mobile phones. The Era Blue joint venture will also sell electrical products.

The Indonesian population is nearly three times higher than that of Vietnam, so the sales of phones and electronics may increase accordingly, but Hieu Em said that the electronics segment in Indonesia is only half of Vietnam. The room for Era Blue's development is still very large.

Indonesia is the second country in Mobile World's journey to Southeast Asia. Previously, this retailer opened the Bluetronics chain in Cambodia and currently holds the largest market share.

This is the first time that Mobile World is working with a foreign partner to open a retail system. Hieu Em said, to open a chain in the largest country in Southeast Asia, Mobile World wants to cooperate with a market-savvy business to speed up progress. Vietnamnet

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Inflationary pressure will remain high until the end of 2022

The consumer price index (CPI) in the first quarter of the year rose by 1.92%, representing the lowest increase since 2017, with the exception of 2021, although the inflationary pressure will remain high until the end of the year.



Nguyen Thu Oanh, director of the Price Statistics Department under the General Statistics Office of Vietnam, said that at the beginning of the year the Government requested ministries, agencies, and localities to synchronously implement solutions aimed at stabilising prices and limiting its negative impact on socio-economic development.

“Timely introduced policies including those on axing the value-added tax from 10% to 8%, halving the environmental protection tax on fuels, and reducing 37 fees and charges helped stabilize production and business, easing significant pressure on the market,” said Oanh in a recent interview granted to Dau Tu (Investment) newspaper.

According to the official, Vietnam is typically affected by external factors as it has an open economy. However, its bailout package remains relatively small compared to similar packages adopted by other economies hit hard by COVID-19, meaning it does not put further pressure on inflation. In addition, people’s income has been continuously reduced over the past two years, leading to a low consumption demand.

Unlike people in developed countries that spend a lot on entertainment, tourism, transportation, housing, fuel, and other outings, people in emerging and developing countries spend a lot on education, health care, food, and daily necessities that often fuel the CPI.

“Vietnam is no exception, but it still ensures an adequate supply of essential consumer goods, meeting people’s needs, so prices are stable,” Oanh analysed, adding that the Vietnamese CPI is not low compared with other countries in the region that have similar economic levels such as Indonesia, the Philippines, and Malaysia.

Nevertheless, Oanh pointed out several unusual factors that could contribute to driving up the CPI this year. “Normally, the CPI always increases very slowly, even decreases in the first months after the lunar New Year holiday compared to the previous months due to a decreasing demand. But it is a worrying sign that the CPI for March this year inched up by 0.7% - the highest increase in many years,” said Oanh.

Most of the 11 main groups of consumer goods and services, with the exception of food and catering services, have seen prices rise. Most notably, petrol prices spiraled by 48.81% in the first quarter, fuelling the overall CPI to increase by 1.76%. Indeed, March alone saw petrol prices soar by 13.44% over the previous month, causing the CPI to rise by 0.48%.

Most importantly, economic sanctions imposed by the US and western allies on Russia will certainly cause the supply of many key products in the global market to decrease sharply.

Russia is currently a leading exporter of oil, gas, and grain as raw materials for animal feed production, chemicals for fertilizer production, and iron and steel for many other production activities. A limited supply of these items will therefore push up prices, putting additional pressure on the import of these raw materials for domestic production and consumption.

“It is very difficult to keep our inflation at 4% as expected, as pressure is building up in the coming months till the end of the year,” said the statistician.

In order to rein in inflation, Oanh said that it is necessary to suspend the increase in prices of goods and services, including tuition and hospital fees.

“Relevant agencies should strictly keep the lid on the prices of raw materials, fuels and input materials in order to promptly prevent market manipulation, while simultaneously encouraging businesses and people to use domestic raw materials instead of imports,” she suggested.

She also underscored the importance of ensuring an adequate supply of petrol for local use, saying the State must develop scenarios to address any fluctuations of global oil prices which are forecast to continue to surge ahead over the coming months. VOV

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LOGISTICS

The first Vietnamese cargo airline to operate soon

The Ministry of Transport has sought the Prime Minister's approval to issue a licence for the first cargo airline in Vietnam, IPP Air Cargo, as freight demand increases rapidly.



The application document of IPP Air Cargo met all requirements for the licence, the ministry said.

The ministry said Vietnam's first cargo airline was appropriate to the country's transport services development strategy for 2030, which targeted the development of a fleet of 8-10 cargo aeroplanes, which would contribute to promoting the logistics industry.

"The cargo airline will contribute to the growth of cargo transport of Vietnamese airlines by around 10-15 per cent per year," the ministry said in a document in 31 March.

The volume handled by IPP Air Cargo was expected to increase by 18-20 per cent per year.

The ministry also said that Vietnam's participation in the ASEAN Single Aviation Market, an agreement on the liberalisation of air transport in 2015, was creating opportunities for IPP Air Cargo to expand markets and increase its competitiveness.

The operation of a cargo airline would also help generate foreign currency, facilitate goods flow and drive local economic growth. Starting from 1991, the air cargo market of Vietnam handled more than 18,380 tonnes. After more than 30 years, the volume of cargo handled in 2021 increased to 1.3 million tonnes and was expected to reach 1.52 million tonnes in 2022. The average growth rate was 15.3 per cent from 1991 to 2021. Vietnam's air cargo is currently handled by five existing airlines that provide passenger transportation. Existing Vietnamese airlines held a share of 11 per cent of the international cargo transport in 2020-21 and 18 per cent in 2019.

Currently, 29 foreign airlines operate cargo aeroplanes from 16 countries and territories to Vietnam. Due to the pandemic, the number of flights carrying passengers and goods dropped sharply while demand for cargo transportation increased significantly, pushing up freight rates by 3-4 times.

IPP Air Cargo was established on March 10, 2021, with an initial investment of VNĐ300 billion (US\$13 million), with air cargo transportation being its major business line. The airline planned to initially operate five aircraft, including Boeing 737, Boeing 777, Airbus 330 planes in the first year of operation and double the fleet in the next five years. VNS

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INVESTMENT

Vietnam among the favourable environments for Indian companies

Vietnam, together with Indonesia, Malaysia, and Singapore, is among the favourable environments for Indian corporations to expand their footprint in ASEAN.

Indian companies with an ASEAN focus are highly optimistic about business growth in the region, according to a survey commissioned by Standard Chartered report Borderless Business: India-ASEAN Corridor that explores high-potential opportunities for cross-border growth in this corridor.

Surveyed Indian companies expect their business to increase production in ASEAN while 93 per cent of these firms project growth in revenues over the next 12 months.

Access to the large and growing ASEAN consumer market (90 per cent), availability of an abundant and skilled workforce (51 per cent), and access to a global market enabled by a network of free trade agreements (44 per cent) are regarded as the most important drivers for expansion into the region by senior executives of the surveyed Indian companies.

Furthermore, the Regional Comprehensive Economic Partnership (RCEP) is slated to lure more foreign investments into the 10-nation bloc. Some 63 per cent of respondents indicate that their company will increase investments into ASEAN over the next 3-5 years on the back of the ratification of the RCEP agreement.

Study respondents believe Indonesia (61 per cent) is the most promising market for their organisation in terms of growth potential within ASEAN, followed by Vietnam (49 per cent), Malaysia, and Singapore (46 per cent each).

However, the poll revealed that Indian corporations are well aware of the vast spectrum of hazards that exist in Southeast Asia. The pandemic and other health catastrophes (which received 85 per cent of the vote), delayed recovery of the economy, and a decline in consumer spending (which received 73 per cent of the vote), as well as geopolitical instability and trade tensions (54 per cent) were the top three dangers cited.

Furthermore, more than 60 per cent of respondents agree that the most significant challenges they will face in the next 6-12 months will be adapting their business model to industry practices and conditions in ASEAN, understanding regional regulations, payment methods, and infrastructure, as well as building relationships with suppliers and adapting supply chain logistics.

To mitigate these risks and drive resilient and rebalanced growth in ASEAN, the survey respondents consider entering new partnerships to increase market presence (73 per cent), investing in leadership and talent development (59 per cent), and driving sustainability and ESG initiatives (41 per cent) as the most important areas for their companies to focus on.

Gaurav Bhatnagar, head of Trade and Working Capital for India and South Asia at Standard Chartered said, "ASEAN is one of India's largest trading partners. With its Act East Policy, India aims to enhance

trade and commerce with its eastern neighbours, positioning the ASEAN region as an important player to deliver future growth aspirations for the nation."

Bhatnagar explained that Standard Chartered is committed to delivering sustainable trade finance solutions to its clients.

"Sectors like IT services, trading, pharmaceuticals, automobile, and renewable energy offer significant export opportunities to Indian firms. With Standard Chartered's long-standing and prominent presence in ASEAN and India, we are uniquely positioned to facilitate the growth of trade and commerce in this extremely important trade corridor."

Bilateral commerce between Vietnam and India grew fast from \$200 million in 2000 to \$13 billion in 2021 and \$15 billion this year. India was the 25th-largest investor in Vietnam as of February, with 315 valid projects worth more than \$918 million, mostly in the processing, manufacturing, electricity production and distribution, and mining sectors.VIR

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Foreign investment in Vietnam continues bouncing back

Despite the COVID-19 pandemic's adverse impacts, foreign investors still put their trust in the economy and investment climate of Vietnam in the new normal context, said Director of the Foreign Investment Agency (FIA) Do Nhat Hoang.

A total of 4.42 billion USD of foreign investment was disbursed in the first three months of 2022, up 7.8 percent year on year, the FIA's statistics showed.



Dau tu (Vietnam Investment Review) cited the World Bank as saying that the increased disbursement indicated a strong rebound in foreign investment in the country.

Meanwhile, the FIA held that the Government and relevant agencies' continual and effective assistance, along with efforts by enterprises to weather the pandemic and adapt to the new context, have helped firms gradually recover, maintain, and expand operations. That's why the disbursed capital has been rising over the past months.

Though the registered capital in Q1, 8.9 billion USD, is equivalent to just 87.9 percent of the figure in the same period last year, only investment in new projects declined (by 55.5 percent) while the number of new projects still increased (37.6 percent), and the capital poured into existing projects surged 93.3 percent to top 4.06 billion USD.

Foreign investment through capital contribution and share purchase exceeded 1.63 billion USD, more than doubling the figure in Q1 last year.

Savills Vietnam said apart from favourable macro-factors, the State's timely support plays the decisive role in helping consolidate foreign enterprises' trust in the country.

Together with economic policies, the quickly implemented mass COVID-19 vaccination campaign has turned Vietnam into one of the six countries with the largest vaccine coverage in the world, a basis for foreign businesses to put their trust in the local market's recovery, according to Savills Vietnam.

The FIA predicted that the full reopening to international tourists since March 15, the visa exemption for citizens from some countries, and European investors' shift of capital flows due to the Russia - Ukraine conflict's impacts will also affect foreign investment attraction in Vietnam in the time ahead.

Foreign investment into industrial parks is likely to increase in 2022, with investors mainly coming from Japan, the Republic of Korea, Taiwan, and the EU, the FIA Director noted. VNA

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