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# VIETNAM BUSINESS REVIEW

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## FINANCE

### World Bank forecast Vietnamese economy to grow 7.5% in 2022

The nation's economic recovery has accelerated over the last six months on the back of a resilient manufacturing sector coupled with a robust rebound in services, according to a World Bank (WB) economic update for Vietnam released on August 8.



The country's economy expanded by 5.2% in Q4 of 2021, 5.1% in Q1 of 2022, and 7.7% in Q2 of 2022, as consumers satisfied pent-up demand and the arrival of foreign tourist gradually picked up, according to the report, "Taking Stock: Educate to Grow," the WB's bi-annual economic outlook for the country.

However, this positive outlook is largely subject to heightened risks that threaten future recovery prospects. Risks include growth slowdown or stagflation hitting major export markets, further commodity price shocks, continued disruption of global supply chains, or the emergence of new COVID-19 variants. In addition, domestic challenges include continued labour shortages, the risk of higher inflation, and heightened financial sector risks.

Given the budding recovering going on domestically, the weakening global demand outlook, and heightened inflation risks, the report suggests a proactive response by the authorities is needed. In the short term, on the fiscal front, the focus should primarily be on the implementation of the Recovery and Development policy package and expanding targeted social safety nets.

This should be done to help buffer the poor and vulnerable from the negative effects of the fuel price shock and rising inflation. In terms of the financial sector, close monitoring and strengthening non-performing loan reporting and provisioning, as well as adopting an insolvency framework, is recommended.

If upside risks to inflation occur, with core inflation accelerating and the consumer price index moving above the 4% target set by the Government, the State Bank of Vietnam should be ready to pivot to monetary tightening in order to quell inflationary pressures through interest rate hikes and tighter liquidity provision.

"To sustain economic growth at the desired rate, Vietnam needs to increase productivity by 2% to 3% every year," said Carolyn Turk, Country Director for Vietnam of the WB. She added that, "International experiences have shown that higher worker's productivity can be achieved by investing in the education system, as an important part of a basket of investments and reforms. A competitive workforce will generate much-needed efficiency for Vietnam in the long term."

The report argues that efforts in transforming the higher education system will be key to boosting the nation's productivity and help achieve its goal of becoming an upper-middle-income country by 2035

and high-income country by 2045. As a means of matching the average higher education enrollment levels seen in upper-middle economies, 3.8 million Vietnamese students would need to be enrolled in higher education institutions, almost twice as many as enrolled in 2019.

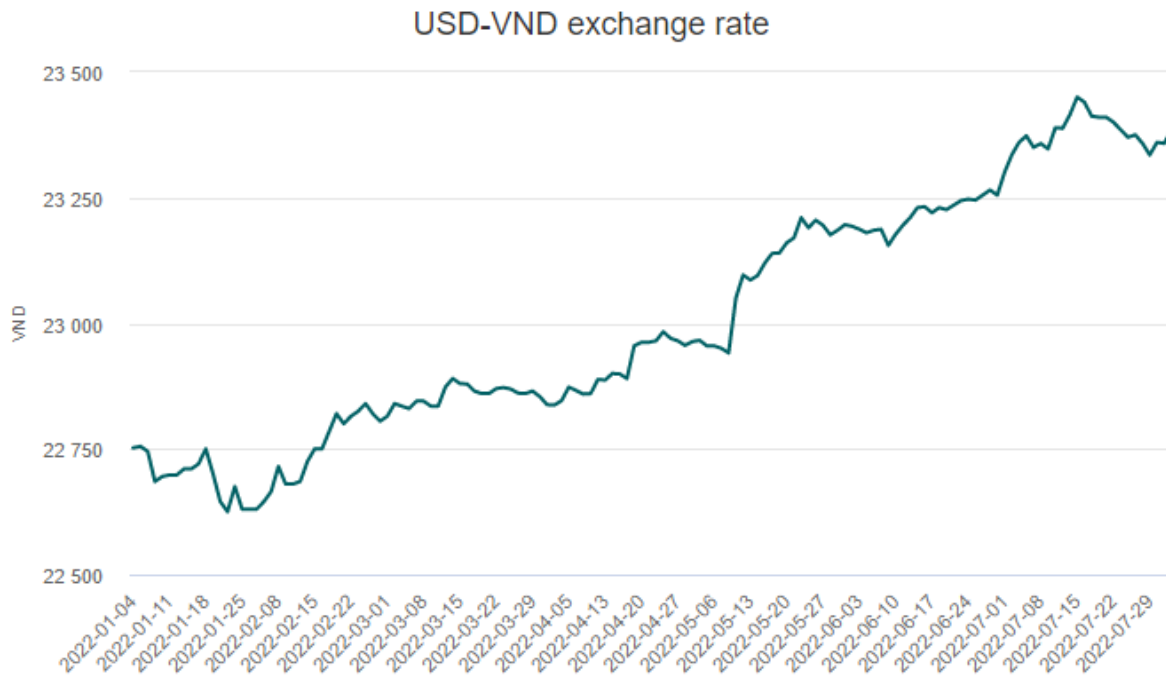
In line with this, reforms to the Vietnamese higher education system could help to support development objectives, the report says. The increasing financial costs of pursuing higher education coupled with the perception of diminishing economic returns from pursuing higher education have caused demand to weaken. The system is still further undermined by falling short of providing skills sought by employers, underinvestment by the state, and a weak and fragmented institutional structure which ultimately governs higher education.

The report details numerous suggestions for improving access to higher education, enhancing the overall quality and relevance of instruction, and making more efficient use of resources. Suggestions include expanding the use of digital technologies, enhancing the role of the private sector, along with streamlining the regulatory framework. VOV

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## The latest rate of the U.S will not impact strongly on Vietnam's currency and trade

The U.S.'s latest rate hike will not have a major impact on Vietnam's currency and trade, but high inflation remains a threat and demands stronger action, analysts said.



U.S. rate hike of 0.75 percentage points on July 27 would not impact the USD-VND exchange rate -- the U.S. dollar actually fell by nearly 1% afterward -- Michael Kokalari, chief economist at investment fund VinaCapital, told VnExpress International. The State Bank of Vietnam has been aggressively draining liquidity out of Vietnam's interbank market over the last three weeks, which also indirectly supported the value of the dong, he said.

The latest hike pushed the benchmark overnight borrowing rate to the highest since December 2018 as the U.S. government seeks to deal with 40-year high inflation, which is posing one of the biggest threats to the economy. But as Fed is signaling that it could pause, or even reverse, its rate hikes by the end of the year, there could be less upward pressure on the USD, and that means the VND is unlikely to fall further, Kokalari said.

"The official value of the VND depreciated by about 2.5% in the year-to-date, and we expect this depreciation to shrink to about 1.5% by the end of the year." In terms of trade, HSBC Vietnam country head of markets and securities services, Ngo Dang Khoa, expects exporters to gain from a strong greenback, which is now hovering at a two-decade high. But production costs would increase since most inputs are imported, he said.

However, the bigger risk for Vietnamese exporters is slowing consumer demand in the U.S., whose economy has seen growth decline for two consecutive quarters.

Kokalari said retailers like Walmart and Target recently announced they are sitting on huge inventories of unsold products, many of which are made in China and Vietnam, meaning they would reduce their orders for such products going forward. Growth in Vietnam's exports to the U.S., its biggest market, slowed down from nearly 40% in the first seven months last year to 24% growth in the same period this year, he added.

In the remaining months of this year inflation could be one of the biggest roadblocks to Vietnam's post-Covid recovery. Khoa said inflation is rising fast with a surge in the prices of food, fuel and other goods, and the consumer price index rose 3.14% year-on-year in July. He expected inflation to exceed 4% between next quarter and the second quarter of next year, which could cause the central bank to increase its policy rates from around 4% now to 6.5% by the end of 2023.

Kokalari said one necessary step to control inflation is to unfreeze the real estate market by addressing the various zoning, legal and regulatory issues that have been plaguing it. "This will also benefit Vietnam's long-term growth prospects because there is an enormous demand for housing from the country's emerging middle class." Vnexpress

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## E-COMMERCE

### Vietnam B2B e-commerce startup Telio looks to raise US\$ 60 million

Vietnam business-to-business (B2B) e-commerce startup Telio is looking to raise between \$50 million and \$60 million in a new funding round, according to sources. A private equity investor is leading the round, one of the sources said. The lead investor will join as a new backer in Telio.



Telio founder Bui Sy Phong started the company in 2019 on the back of his former venture, the now-defunct fintech OnOnPay.

Telio had raised a total of \$51 million by November last year when it announced a pre-Series B funding round from Vietnamese unicorn VNG and existing investors GGV Capital and Tiger Global. VNG poured \$22.5 million into the round.

VNG had said it would integrate Telio into its Zalo messaging platform to help merchants automate order management. Telio has been in a partnership with Zalo since October 2020.

The duo has also planned to offer financial products and credit to merchants. Zalo has over 64 million monthly users. In December 2019, Telio raised \$25 million in a Series A investment led by Tiger Global and joined by Sequoia India, GGV Capital and RTP Global. Before that, the startup was enrolled in Sequoia's acceleration program Surge. The company says it currently serves over 60,000 stores across 25 cities and provinces in Vietnam.

Its competitors include Vingroup-backed VinShop -- which has over 100,000 stores on its platform in 22 cities and provinces -- and venture capital-backed startup Kilo.

Kilo has raised \$8 million in its pre-Series A round from investors including Goodwater Capital, Ascend Vietnam Ventures, Decisive Capital Management, Ratio Ventures, Altos Ventures, January Capital and angel investors. There are other niche B2B marketplaces such as Cocoon Capital-backed startup El Industrial and Buy2Sell, a platform for imported goods.

While B2B e-commerce is relatively new in Vietnam, analysts say the sector is attractive for investors as the nation is a key manufacturing hub that is involved in a number of free trade agreements. Asia.nikkei

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## ENERGY

### Government promotes wind power, reduces use of coal-fired power under national power plan

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The government has chosen wind power and renewable energy in general to implement global commitments by 2050. But this is not expected to be a smooth path for a developing country like Vietnam.



“Protecting the environment and combating climate change is both a global and national issue,” said Deputy Prime Minister Le Van Thanh at the national environment conference held several days ago.

At COP26 (the 2021 United Nations Climate Change Conference), Vietnam made a strong commitment to reduce net emissions to zero by 2050.

This was not an empty commitment. Right after COP26, the Ministry of Industry and Trade was asked by the government to revise the draft of the eighth national power development plan (PDP), which was about to be approved. “We need to implement the commitment in a substantial and responsible way, with specific goals, tasks and solutions,” Thanh said.

Increasing wind power and reducing coal-fired power was the main spirit of the revised eighth PDP, as per the government’s request. Thanh said that the eighth PDP is proof showing the government’s determination in implement COP26 commitments.

The government and Prime Minister have convened many meetings over the last year to check the plan and reduce coal-fired power. It is expected that 20,000 MW of coal-fired power of dozens of projects will be cut. The Ministry of Industry and Trade (MOIT) report to the Prime Minister about the PDP 8 showed big changes in electricity source installation capacity to 2030.

According to the ministry, an additional 12,000 MW of onshore wind power needs to be put into operation by 2030, including 2,800 MW in the north, which needs to become operational in 2024-2025. Meanwhile, offshore wind power by 2030 needs 7,000 MW, including 3,000 MW in the south and 4,000 MW in the north. Offshore wind power sources in the north needs to be put into operation from 2027 to ensure electricity supply in the north.

Ngo Duc Lam, former deputy head of the Institute of Energy under MOIT, said renewable energy to reduce greenhouse gas emissions will rely mainly on wind and solar power. The development of solar power will also help reduce emissions, but it has a disadvantage that it can only produce electricity in the daytime.

The current electricity transmission network is not strong enough to transmit solar power to be generated, as solar power projects are mostly located in Ninh Thuan and Binh Thuan. In other words, the capacity of solar power is high, but power cannot be transmitted to users.

In order to transmit electricity, it is necessary to build more transmission lines, which will be very costly. To avoid oversupply, a solar power roadmap needs to be developed. In general, according to Lam, wind power will be important for the net-zero commitment by 2050.

Offshore wind power is a new field in Vietnam, so the legal framework, pricing mechanism and associated mechanisms have not been issued, especially on bidding. The fact that 62 onshore wind power projects could not become commercially operational prior to November 1, 2021 and have been left idle for many months is a lesson in renewable power source development.

For months, private investors sent documents to the Lang Son People's Committee and Lang Son Industry and Trade Department, asking for permission to study and develop wind power projects in the province. They were Baywa r.e. Projects Vietnam; Trung Nam Group, Europlast and Ha Do Group. In late 2020, GE Vietnam also asked provincial authorities to allow it to carry out surveys to implement two wind power projects with total capacity of 418MW.

Offshore wind power super projects capitalized at tens of billions of dollars are being surveyed by investors, both foreign and domestic, in many localities from the north to the south, which shows the attractiveness of the field. However, investors are still only exploring the situation and seeking opportunities. "We are looking forward to seeing approval of the eighth PDP so that we can make business results. At present, we have suspended investment activities related to renewable energy. For businesses, lacking projects to invest in is not a pleasant feeling," an investor said. Vietnamnet

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## Vietnam needs US \$8 billion - \$14 billion power investment a year through 2030

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Vietnam will need investment of between \$8 billion and \$14 billion a year through to 2030 to develop new power plants and expand its grid, its deputy industry minister said on Wednesday.

Of the amount, 75% would be spent on new power plants, with priority given to renewable sources, and



25% on grid expansion, Deputy Minister of Industry and Trade Dang Hoang An said in a statement.

He said the country will seek to raise funds from private investors for the new power projects, without elaborating.

Vietnam, a regional manufacturing hub, needs to increase its installed power generation capacity by around 10% a year to support its

fast-growing economy and population.

An said Vietnam, which pledged last year to become carbon-neutral by 2050, will raise its offshore wind capacity to 7 gigawatts (GW) by 2030 and to 65 GW by 2045, while cutting the proportion of coal in its energy mix.

"Vietnam will not add new coal-fired power plants to its master power development plan, and will only continue coal projects that are under construction until 2030," An said.

The ministry last month asked the government to remove future coal projects with a combined capacity of 14.12 GW from the master power development plan that is being drafted.

Under the latest draft of the master power development plan, Vietnam's total installed power generation capacity would be raised to 121 GW by 2030 and to 284 GW by 2045, from 76.6 GW at the end of last year, according to state media. Vnexpress

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## RETAIL

### Vietnamese retail giants reshape the local pharmaceutical market

The winds of change are blowing through Vietnam's pharmaceutical retail industry with giants wrapping up investments to establish modern retail chains in a fast-growing market



A Long Chau drugstore. The pharmaceutical retail market was seeing the rapid expansion of modern drugstore chains.

According to the national portal about business registration, Winphar Trading Services Corporation was founded on March 31 with WinCommerce, holding a stake of 80 per cent, Do Hoang Yen and Tran Phuong Bac, 10 per cent each.

WinCommerce, a member of Masan Group, currently operates the most significant nationwide grocery modern trade retail platform Winmart and Winmart+ while Yen and Bac both held important positions at Masan. Winphar changed its name to Dr Win Corporation on July 1 with a charter capital of VND 28.57 billion.

Phano now has around 40 stores across the country, still modest compared to Pharmacity with 1,128, Long Chau with 706 and An Khang with 520 stores. The competition in the pharmaceutical retail market was anticipated to intensify as players were racing to expand their reach. Chris Black, CEO of Pharmacity, said that the company targeted 5,000 stores by 2025 and 10,000 by 2030, which would allow half of Vietnam's population to reach a Pharmacity store within 10 minutes of driving. Khang Pharma targeted 800 stores by the end of 2022 and 2,000 by 2023.

According to SSI Research, with ambitious expansion plans of the three leading drugstore chains, Pharmacity, An Khang and Long Chau. The share of modern drugstores would increase to 16 per cent with 7,300 stores.

Vietnam's retail pharmacy market was estimated at around \$7-8 billion and forecast to register two-digit growth in the coming years. Hospitals remain an important channel, an overwhelming majority of the market, while traditional stores, mostly mom-and-pop shops, accounted for one-third with around 60,000 stores.

Modern drugstores still account for a modest share, with nearly 3,000 stores. In 2016, modern drugstores held a share of just one per cent with 186 stores. Retail giants were eyeing the retail pharmacy industry, which is considered to have high growth potential given the people's increasing attention to health after the pandemic and the country's rapidly ageing population, while inflation has forced people to tighten spending on unnecessary goods from the second quarter of this year.

According to the United Nations Population Fund, Viet Nam was one of the most rapidly ageing countries in the world. People aged 60 and older made up 11.9 per cent of the total population in 2019, and by 2050, it would rise to more than 25 per cent. By 2036, Vietnam would transition from an “ageing” to an “aged” society. Besides, the middle class in Vietnam was predicted to increase strongly in the next 10-20 years. The World Data Lab forecast that Vietnam would have an additional 23.2 million people joining the middle class in the next decade. The World Bank predicted that more than 50 per cent of Vietnam’s population, equivalent to 52 million people, would be in the middle class by 2045. VNS

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## LOGISTICS

### Mitsubishi Logistics Corporation acquired 13.63% stake of a Vietnamese logistics company

US-based investment firm Franklin Templeton has offloaded its entire stake in Vietnamese logistics company Indo Trans Logistics Corporation (ITL) to Japan's Mitsubishi Logistics Corporation, according to a statement by Franklin Templeton's exclusive advisor, BDA Partners.



In a separate announcement, Mitsubishi Logistics said it has acquired a 13.63% interest in ITL. Franklin Templeton had earlier invested \$15.8 million in the Vietnamese company in 2015.

In 2019, London Stock Exchange-listed Symphony International Holdings Limited bought a significant minority stake in ITL for approximately \$42.6 million. Established in

2000 and headquartered in Ho Chi Minh City, ITL is the largest private integrated, end-to-end logistics company in Vietnam, with businesses across aviation services, freight management, contract logistics and port logistics, according to BDA Partners. ITL is also developing cold-chain logistics in the country.

Meanwhile, Mitsubishi Logistics already set up a joint venture with ITL in Vietnam in 2011. The joint venture, MLC ITL Logistics Company Limited, "has achieved remarkable economic growth in recent years", Mitsubishi Logistics said. Mitsubishi Logistics and ITL have been jointly developing warehousing, domestic transportation, distribution processing and air and sea import/export cargo handling in Vietnam. "This transaction once again demonstrates investors' confidence in Vietnam's recovery and rapid growth post-COVID," Huong Trinh, partner and head of Ho Chi Minh City at BDA Partners, commented on Franklin Templeton's exit to Mitsubishi Logistics.

Sumitomo Corporation, another major Japanese conglomerate, also invested in the logistics sector in Vietnam through a 10% stake acquisition of port operation and logistics firm Gemadep in 2019. Meanwhile, Franklin Templeton, whose Vietnamese portfolio mainly includes public equities, invested in ITL and restaurant chain Huy Vietnam as part of its private equity portfolio. However, the second investment was not successful because Huy Vietnam's founder was alleged with fraud and sued by the company's investors. California-based Franklin Templeton had approximately \$1.45 trillion in assets under management as of May 31 2022. In 2020, DealStreetAsia reported that Vietnam-based private equity firm Mekong Capital was planning to dispose of its shares in cold-chain logistics company ABA Corporation, in which it had invested in 2016. The plan has not materialised. Mekong Capital still holds a stake in another express company, Nhat Tin Logistics. DealStreetAsia & shareandstocks

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## Shipping firms report double-digit growth

Shipping companies have had one of their best quarters in years with most reporting double-digit growth thanks to high rates.



Vinalines, the country's biggest shipper, saw a near doubling of its profits year-on-year to VND1.43 trillion (US\$61.19 million) in the second quarter.

Private player Gemadept reported an 87 percent increase in profits to VND334 billion, the highest since the second quarter of 2018. Hai An Transport and Stevedoring made it to the top three after profits rose 3.3 times to VND324 billion. It was its most profitable quarter in nearly six years.

Vietnam Ocean Shipping JSC (Vosco)'s profits were only up 7.5 percent to VND260 billion, but it was its most profitable quarter in 14 years. The Petrovietnam Transportation Corp (PVTrans)'s gross profit rose to a 15-year high of VND440 billion, but net profit fell 16 percent to VND265.5 billion as financial income decreased. The industry attributed growth to high freight rates, which have quadrupled since 2020 to \$8,000 for a 40-foot container, according to data brokerage Bao Viet Securities compiled from Bloomberg. But market research firm FiinGroup warned that in the second half of this year the rates would fall and costs, especially of fuel, would rise.

It also expected China to continue with its zero-Covid strategy, which could drag demand down. China accounted for a fourth of global goods throughput last year, according to data from its Ministry of Transport and German data portal Statista. Vnexpress

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## INVESTMENT

### Samsung to start producing semiconductor components in Vietnam

Samsung is testing its ball grid array products and will mass produce them at the tech giant's factory in northern Thai Nguyen Province in July 2023.



Roh Tae-Moon, head of Samsung's key smartphone division, said this at a Friday meeting with Prime Minister Pham Minh Chinh.

On its homepage, Samsung has said that it is preparing trial production for semiconductor chip grid products and planning to open a research and development (R&D) center in Hanoi later this year or early next year. The company said the R&D

center was about 85% complete.

"Semiconductors would mark a third business for Samsung in Vietnam, where the company makes home appliances and half of its smartphones," according to Nikkei Asia. In the first half of 2022, Samsung Vietnam's export revenue was \$34.3 billion, up 18% from the same period last year.

In February, Samsung announced an additional \$920 million investment into its factory in Vietnam.

Before Samsung, Vietnam had Intel Products Vietnam (IPV), the largest assembly and testing plant in Intel's network. During the global chip crisis, IPV not only maintained stable operations, but also made a number of innovative contributions to help it fill the shortage in semiconductors. One of the key initiatives was to improve the substrate treatment process at the plant.

"Vietnam has the ability to establish the necessary infrastructure and policies needed to support cutting-edge manufacturing operations in the chip sector," Steve Long, general manager of Intel's Asia-Pacific and Japan region, had said during an interview with VnExpress in May.

He said the stable socio-political environment, increasingly liberalized trade and investment policies, and a young and talented workforce were the reasons for foreign investors, especially large tech corporations, finding Vietnam an attractive destination. Vietnam is home to 60 percent of Samsung's total smartphone production.

Samsung, Vietnam's biggest foreign direct investor, first invested \$1.3 billion in its electro-mechanics unit in 2013. The unit produces main boards and other electronics components.

As of last year, the world's largest memory chip maker had invested \$18 billion in Vietnam. Vnexpress

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## The Ministry of Planning and Investment suggested the building of a Law on IPs and EZs in 2022

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Over the past 30 years, industrial parks (IP) and economic zones (EZ) across the country have attracted more than US\$100 billion of investment, and created jobs for more than 4 million labourers.



The Ministry of Planning and Investment (MPI) is drafting a Government resolution on measures to increase IP, EZ efficiency. It said IPs and EZs account for 50% of the country's total export value.

However, the ministry pointed to a number of problems related to the IPs and EZs, including their unsustainable development in different aspects. Living conditions of local communities where the zones are located have not

seen remarkable improvements.

In the draft resolution, the MPI suggested the building of a Law on IPs and EZs in 2022, and the issuance of a Prime Minister's decision on the coordination mechanism among ministries, sectors and localities in managing IPs and EZs.

The draft also looked to stipulate the maximum acreage of an IP and an EZ, as well as define orientations in investment attraction to match the advantages of each region and locality, and the creation of a cooperation mechanism between the State and the private sector in developing new IPs and EZs for particular sectors and industries.

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