Highlight

Vietnam expected to emerge as a prominent logistics player in Asia

VIETNAM BUSINESS REVIEW

Vol 19, May 17th 2023

What's in it today?

FINANCE

Finance ministry still pushing online game tax

The Ministry of Finance still wants a special consumption tax for online game production due to the products' risk of addiction and negative health effects.

After consulting the public and other government bodies, the ministry found 90 votes supporting the tax proposal and on 10 votes rejecting the measure or proposing more consideration.

Two major supporters for the tax, the Ministry of Health and the National Institute of Mental Health at Bach Mai Hospital, have argued that online gaming can have a negative impact on the physical and mental state of gamers, especially youth. The game addiction rate in Vietnam is 8.5% of players, it said, without giving further details on the scale of the figure.

It added that 12% of players suffer from depression, 13.5% have anxiety and 17% have stress disorders. The percentage of players with low communication skills is nearly 22%, while 18% suffer from low social skills. Nearly 16% of players have trouble sleeping.

However, some organizations against the proposal include the Ministry of Information and Communications, game developer VNG, the Vietnam Recreational and Electronic Sport Association, the Ministry of Culture, Sports and Tourism, and the Vietnam Federation of Commerce and Industry (VCCI).

They argue that the measure would be bad for the economy as five of the 10 biggest game developers in the region are Vietnamese, and the tax would discourage local producers and prompt them to move other countries. No other country imposes a special consumption tax on online games.

Online game production also has the potential to be an environmentally-friendly no-emission industry, opponents of the tax have said. The communications ministry said that it has all the tools needed to prevent the negative side of gaming. The Government Inspectorate, the Ministry of Public Security and the Ministry of Foreign Affairs said that more convincing research is needed on whether the tax should be imposed.

Online game production in Vietnam has seen increasing revenues over the years, from VND7.58 trillion ($323 million) in 2019 to an estimated VND12 trillion last year, according to the Ministry of Finance. Vnexpress

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Charter capital of banks to increase sharply in 2023

Many banks plan to increase their charter capital in 2023 in order to ensure operational safety and have more resources for business development.

Data from the State Bank of Vietnam (SBV) showed that by the end of 2022, the charter capital of the whole banking system reached VND876.99 trillion, up 13.04% over the same period last year.

The charter capital of State-owned commercial banks was VND190.43 trillion, an increase of 5.75% over the same period in 2021 and the number of joint-stock commercial banks was nearly VND469.41 trillion, an increase of 19.26% over the same period in 2021.

In a recent report sent to the National Assembly's Economic Committee, the SBV said it is coordinating with relevant ministries and branches to consider and submit to the competent authorities a plan to increase charter capital from profits after tax and after setting aside funds in the 2021-23 period for State-owned commercial banks Vietcombank, VietinBank and BIDV; and from the State budget for Agribank.

At the same time, the SBV also directed Vietcombank, VietinBank and BIDV to develop a plan to increase charter capital from profits after tax and after setting aside funds in 2021 to submit to the Prime Minister for approval.

As for Agribank, the Government on April 25 issued a resolution on additional investment in charter capital for the bank. Accordingly, the SBV's Governor will be authorised by the Prime Minister, on behalf of the Government, to report to the National Assembly on charter capital addition by VND17.1 trillion for Agribank in the 2021-23 period.

In order to prepare for the capital increase plan, at the general meeting of shareholders in 2023, Phạm Quang Dung, chairman of Vietcombank, said Vietcombank's capital increase plan of about VND27 trillion will be from three sources including profit in 2020 and the remaining profit of 2019 with the issuance rate of 18.1% approved by the Government; profit of 2021; and the remaining accumulated profit before 2018.

Vietcombank's capital increase policy was agreed upon by the SBV and the Ministry of Finance. The bank is preparing procedures to submit to the competent authorities for approval.

In 2023, BIDV plans to increase its charter capital to more than VND61.56 trillion by issuing nearly 642 million shares to pay dividends to shareholders. The source for implementation is the remaining profit in 2021 after setting aside the required funds. Accordingly, the bank's charter capital will increase by more than VND6.42 trillion; private placement or public offering of more than 455 million shares according to a plan approved by the bank's 2022 annual general meeting of shareholders (AGM).

VietinBank's AGM also approved a plan to increase charter capital in 2023. If the capital increase plan is successful, VietinBank's charter capital will increase from VND48.06 trillion to VND66.03 trillion.

According to the SBV’s data, by the end of January 2023, four State-owned commercial banks Agribank, Vietcombank, VietinBank and BIDV will have a total charter capital of VND180.4 trillion. With the charter capital increase plans, if successfully implemented, the charter capital of the State-owned commercial banks will increase sharply in 2023.

Meanwhile, the race to increase capital in joint stock commercial banks is more exciting as many banks have planned to increase their charter capital by trillions of Vietnamese dong. For example, VPBank is expected to increase by about VND12.2 trillion to bring its charter capital from VND67.43 trillion to more than VND79.34 trillion.

In order to achieve the goal of increasing capital, at the AGM, VPBank leaders said they would issue more than 1.19 billion shares to strategic shareholder Sumitomo Mitsui Banking Corporation and issue more than 30.2 million shares of employee stock ownership plan (ESOP). After the issuance, VPBank will become the bank with the largest charter capital in Vietnam’s banking system.

TPBank's 2023 AGM also approved a plan to increase charter capital to VND22.01 trillion. Specifically, the bank plans to increase charter capital by nearly VND6.2 trillion to VND22.01 trillion through dividend payment in shares.

At Military Bank (MB), the bank’s AGM also approved a plan to increase charter capital in 2023 by more than VND9 trillion. If the plan is favourable, the charter capital of MB will increase from VND45.34 trillion to VND53.68 trillion.

The 2023 AGM of VIB also ratified a plan to increase charter capital from nearly VND21.07 trillion to VND25.37 trillion. With the additional charter capital, VIB plans to use VND4.09 trillion to provide credit and invest in liquid assets, VND100 billion to invest in facilities and technology, and VND100 billion to invest in branch network upgrading.

SHB's AGM in 2023 also approved a plan to increase charter capital from 30.67 trillion VND to more than VND36.19 trillion, while SeABank, ACB, HDBank, Techcombank and Bac A Bank also plan to increase their charter capital by more than VND5.5 trillion, VND5.06 trillion, VND3.97 trillion, VND35.22 trillion and VND9.9 trillion, respectively.

Experts said raising capital has always been the top priority of banks in recent years. Therefore, if the capital increase plans are successfully implemented, the charter capital of commercial banks will increase sharply in 2023. High charter capital will be a good buffer to help banks have more resources to cope with difficulties and expand business activities besides supporting the economy and firms. VNS/VNA

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E-COMMERCE

E-commerce Sector: Resilient Growth Amidst Economic Challenge

After enduring the challenges posed by the COVID-19 pandemic, the Vietnamese economy and e-commerce industry are entering 2022 with a sense of optimism. However, both global economic difficulties and unfavorable domestic factors have had a negative impact on the country's economic and commercial development, particularly in the latter part of 2022 and extending into 2023.

Despite these challenges, the Vietnam E-commerce Association predicts that the e-commerce sector will maintain a growth rate of over 25% and reach a scale of over $20 billion, following the trajectory of the previous two growth waves.

According to the General Statistics Office, Vietnam's GDP is expected to increase by 8.0% in 2022. The service sector, in particular, is experiencing a robust recovery, with a growth rate of 10.0%. Notable service industries with high growth include wholesale and retail trade (10.2%), warehousing and transportation (12.0%), accommodation and catering services (40.6% - the highest growth in the service sector), financial activities, banking, and insurance (9.0%), and information and communication (7.8%). The total retail sales of goods and consumer services in 2022 are estimated to reach VND 5,680 trillion, with a growth rate of 19.8% (excluding the 15.6% price increase factor).

The Vietnam E-commerce Association projects that retail e-commerce transactions will account for approximately 8.5% of the total retail sales of goods and consumer services in 2022. Furthermore, online retail sales of goods are expected to comprise around 7.2% of total retail sales, surpassing the corresponding rate of 6.7% in 2021.

In the first quarter of 2023, the General Statistics Office estimates a 3.3% year-on-year increase in the country's total domestic product. During this period, total retail sales of goods and consumer service revenue are projected to reach 1,505.3 trillion dong, reflecting a 13.9% growth compared to the same period the previous year (excluding a 10.3% price increase factor). The two service sectors experiencing the most rapid growth are accommodation and food services (26.0%) and wholesale and retail (8.1%).

Consequently, e-commerce remains one of the most promising, fastest-growing, and stable sectors within the Vietnamese economy.Virac

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ENERGY

Vietnam PM approves US$ 135 Billion power plan for 2030

Vietnam's Prime Minister approved a long-awaited power plan for this decade that needs $134.7 billion of funding for new power plants and grids, the government said late on Monday, in a move that may help unlock billions of dollars of foreign investment.

The plan, known as PDP8, is aimed at ensuring energy security for the Southeast Asian country while it begins the transition from its current heavy reliance on coal to becoming carbon-neutral by mid-century.

The plan has been delayed for more than two years, and has seen a dozen of draft versions before the approval by Prime Minister Pham Minh Chinh, which now needs the formal green light from the parliament, possibly this month, before its final adoption.

The plan is important to unlock an initial investment of $15.5 billion in green-transition funds pledged to Vietnam in December by the Group of 7 (G7) nations and other wealthier countries. Half of the funds will come from the public sector and the rest from private investors. After the deal, negotiators have struggled for months to progress on preliminary work to allocate the funding, multiple officials told Reuters, as Vietnam officials maintained their reticence to accept loans, which are by far the biggest component of the promised public funds.

One diplomat from the G7 donors' group told Reuters on Tuesday the approval was an important step, necessary to unlock funding for renewable projects, especially offshore wind. It was however not completely in line with G7 goals, the diplomat added, as the country will still heavily rely on coal this decade. To complete its transition to carbon-neutrality with total phase-out of coal by 2050, the government estimates it needs a whopping $658 billion, of which one-fifth would have to be disbursed this decade.

The industry ministry, which prepared the document, said in a statement late on Monday that, under the plan, half of office buildings and homes in Vietnam would be powered by rooftop solar panels by 2030. The country would also aim to generate green energy for exports, with a target of 5-10 gigawatts (GW) by 2030. A draft of the PDP8, dated May 10 and seen by Reuters, showed the plan would more than double the country's power generation capacity to 158 GW by 2030 from 69 GW at the end of 2020.Power plants using domestic gas and imported liquefied natural gas (LNG) would be the main source of the country's power generation mix by 2030, accounting for 37.33 GW, or 23.6%, according to the draft, with LNG accounting for the lion's share. Coal would still account for 19% of the mix by 2030, followed by hydropower with 18.5%, wind energy with 17.6% and solar power 13.0%, according to the draft. The ministry did not respond to a request for comment about the draft. Vnexpress

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Power Development Plan VIII officially authorised

The objective of the Power Development Plan VIII (PDP8) is to aggressively develop renewable energy sources for electricity generation. By 2050, the proportion of renewable energy is projected to have reached 67.7-71.5 per cent.

On May 15, the prime minister signed Decision No.500/QD-TTg, authorising the National Power Development Plan for 2021-2030, with a vision to 2050.

The PDP8 establishes the objective of assuring national energy security in accordance with the needs of socioeconomic and industrial growth, and includes projects connecting the power grid with neighbouring countries.

Alongside this, it aims to successfully implement an equitable energy transition, constructing intelligent infrastructure and advanced power system management in accordance with the trends of the green transition. It focusses on reducing emissions through technological advances and developing a comprehensive energy ecosystem founded on renewable and new energy sources.

It will ensure national energy security by supplying sufficient electricity for the country and help achieve the socioeconomic development target of an average GDP growth rate of approximately 7 per cent per year over the 2021-2030 period and approximately 6.5-7 per cent on-year over the 2031-2050 period.

By 2030, the reliability of the electricity supply is hoped to rank among the top four countries in ASEAN, with an electricity access index among the top three. In addition, half of all office buildings and residential dwellings will use self-produced and self-dissipating rooftop solar power (for on-site consumption, not for sale into the national electricity system).

The PDP8 targets reducing greenhouse gas emissions from power generation to between 204 and 254 million metric tonnes by 2030 and 27 to 31 million MT by 2050. It aims to achieve peak emissions of no more than 170 million MT by 2030 and ensure that international partners fully implement their Just Energy Transition Partnership commitments.

In terms of the growth of the economic system and renewable energy services, it is anticipated that by 2030, two inter-regional renewable energy service centres will be established to facilitate electricity production, transfer, and consumption. By developing renewable energy sources and producing new exportable energy, the export capacity will reach between 5,000 and 10,000MW by 2030.

The PDP8 also covers plans for creating power grids and linking them with other countries in the region, as well as the orientation of rural electricity development.

The total estimated investment for the development of power sources and transmission grids for the 2021-2030 period is $134.7 billion. For the 2031-2050 period, the estimated capital is set at $399-523 billion, of which the investment in power sources accounts for approximately $364-511 billion and that for transmission grids stands at roughly $35-39 billion.

According to the approved decision, the Ministry of Industry and Trade is responsible for ensuring that the data, documents, diagrams, maps, and databases in the planning dossier are accurate and consistent with the content of the planning decision. VIR

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RETAIL

Electronics retail sector experiencing difficulties

The electronics and technology retail sector has faced significant challenges during the global economic downturn, resulting in poor performance for many large companies over the past two years. Retail giants like Mobile World Investment Corporation (MWG), FPT Retail, and Digiworld experienced a sharp decline in business performance in the first quarter of the year as consumer spending tightened amid economic uncertainties.

MWG, for instance, saw its net revenue drop by 26% year-on-year in the first quarter, reaching its lowest level in 18 months. The decline was attributed to weak consumer demand for electronic appliances and phones. FPT Retail's pre-tax profit plummeted by 99% year-on-year, while Digiworld Corporation experienced a 62.6% decrease in net profit.

The decline in sales has prompted retailers to consider restructuring their scale or product offerings. FPT Retail, for example, aims to increase gross profit by selling household items and expanding the number of stores offering such items. They are also considering selling motorcycles to offset potential losses. Similarly, DGW shareholders accepted a significant reduction in net profit targets and are looking to grow in new business lines.

The sector's rebound is dependent on external factors, particularly the pace of macroeconomic recovery. While businesses anticipate a better situation in the second half of the year, the time it takes for macroeconomic policies to impact consumers is a crucial factor. Retailers hope for an increase in demand for product replacements as the market recovers, and they are focusing on competitive strategies to quickly bounce back and gain market share when conditions improve.

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LOGISTICS

Resolving supply chain issues may fuel US $1.9 billion Vietnamese economy

TMX Global has highlighted the significant impact of recent global challenges on Vietnam's economy, particularly in the supply chain sector, resulting in an annual setback of $1.9 billion. Despite experiencing its fastest GDP growth since 1997 at 8.02%, Vietnam's businesses are estimated to lose $1.9 billion annually due to disruptions in the supply chain, affecting industries like textiles and electronics.

While Vietnam has performed well compared to other regional economies, it still faced adverse effects from supply chain disruptions. High freight costs, limited coal supplies, and inflation have strained the finances of supply chain stakeholders. Additionally, there are signs of an export slowdown, emphasizing the need for Vietnam to strengthen its supply chain capabilities to withstand economic pressures.

Although Vietnam has made progress in developing renewable energy, the lack of adequate supply chain infrastructure hinders energy security and the delivery of low-carbon products. The country's energy demand is expected to rise by over 8% per year from 2021 to 2030. Vietnam has received international support, including a $15.5 billion pledge from the G7, to transition to cleaner energy sources.

COVID-19 has highlighted the barriers created by gaps in Vietnam's supply chain infrastructure, impacting the availability of wind power equipment during the pandemic. Vietnam's transition to green energy is crucial for its energy security and global competitiveness. Overreliance on coal has led to power outages and shortages, hindering economic growth. Furthermore, consumer preferences for eco-conscious businesses necessitate Vietnam's green transition.

Bolstering Vietnam's supply chain landscape will not only benefit traditional manufacturing sectors but also positively impact all businesses on the country's trajectory towards sustainability. The government's efforts to strengthen supply chain connectivity and address transportation limitations are vital for supporting the transition to green energy and ensuring long-term economic growth.

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Vietnam expected to emerge as a prominent logistics player in Asia

Vietnam's logistics industry is gaining recognition in the global market, with growing expectations that it will emerge as a "rising star" in Asia.

This is due in large part to the country's efforts to develop its supply chain industry and benefits from 'China plus' sourcing strategies of major multinational manufacturers.

The industry has witnessed annual growth of 14-16% which has solidified its position as one of the fastest-growing and most stable sectors in the country with a total value of US$40 billion to US$42 billion a year.

According to Agility Emerging Markets Logistics Index 2023, Vietnam moved into the top 10 of the Index among 50 global markets, advancing one position compared to the previous year.

Agility's ranking is based on four criteria including domestic opportunities, international opportunities, business fundamentals and digital readiness.

This recognition can be attributed to several factors, including the country's strategic location, favourable investment policies and the Government's ongoing efforts to improve infrastructure and streamline regulations.

Among these criteria, Vietnam is leading Southeast Asia and ranks fourth globally in terms of global opportunities with a score of 6.03 out of 10. The country has benefited greatly from the "China plus" policy as major global manufacturers are seeking to diversify their supply chains to reduce reliance on the Chinese market.

According to Agibility, Apple has been at the forefront of moving production to Vietnam. In 2020, it began planning to expand assembly operations in Vietnam, requesting its major supplier Foxconn to expand its assembly operations in the country. Sony, Samsung and LG have also expanded production in Vietnam, building airfreight infrastructure in Hanoi to support their assembly of mobile phones.

Vietnam's furniture industry is also a key beneficiary of this trend with its share of global exports rising from 11% in 2019 to 17% in 2022 while at the same time, China's share has fallen from 61% to 53%.

Vietnam's competitiveness has also been boosted by the growth of both domestic and export e-commerce, transforming it into a major hub for global product transhipment.

Tran Thanh Hai, deputy director of the Import-Export Department under the Ministry of Industry and Trade, says the country's import-export value reached a record high of US$732 billion in 2022, up 9.5% year on year, was partly attributable to the improved quality and quantity of logistics services offered by businesses.

Moreover, the Vietnam Maritime Administration has recently embraced the trend of green technology in the shipping industry to reduce fuel consumption, lower carbon emissions, and mitigate the effects of climate change.

However, the logistics industry in Vietnam has not developed adequately due to the lack of connections between logistics service providers and manufacturers, traders and import-export businesses. Experts in Vietnam's logistics sector stress the critical need for greater collaboration with enterprises.

Nguyen Xuan Hung, deputy general director of Ratraco, wants to expand the network of shipping, warehousing and equipment suppliers to enhance the domestic and international rail transportation systems for refrigerated containers.

"This not only diversifies the product range and offers inland cold transport solutions, but also provides a solution to shippers' concerns about supplying and delivering chilled products to the Chinese market," he said.

Despite Vietnam being in an advantageous position to capitalise on China's challenges, the Vietnamese Government still has a considerable amount of work to do in order to establish a strong industrial ecosystem that can attract top-notch manufacturers and foster the growth of local suppliers that add value. VNS

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INVESTMENT

Vinfast- Vietnamese electric vehicles maker, gears up for US $23 Billion SPAC merger and US listing

VinFast Auto Pte. Ltd. (VinFast), a manufacturer of electric vehicles (EVs) from the Vietnamese conglomerate Vingroup, and Black Spade Acquisition Co. (Black Spade) announced a momentous business merger agreement on May 12.

This landmark deal positions VinFast as a formidable player in the global automotive market, as it prepares to embark on a momentous journey to list on the prestigious US stock exchange.

Upon completion of the transaction, VinFast's valuation will soar to over $23 billion, solidifying its position as a frontrunner in the industry. The merged entity, with an estimated enterprise value of approximately $27 billion, will revolutionise the automotive landscape, heralding a new era of innovation and sustainability. The merger is subject to customary closing conditions, regulatory approvals, and the steadfast support of shareholders, with an anticipated completion timeline set within 2023. Remarkably, once the merger is finalised, existing VinFast shareholders will retain a 99 per cent ownership stake in the combined company, showcasing the unwavering confidence in VinFast's vision and growth potential.

This groundbreaking merger catapults VinFast into the global spotlight, underscoring its commitment to pushing boundaries and delivering world-class mobility solutions. By joining forces with Black Spade, VinFast gains access to invaluable expertise and resources, empowering it to revolutionise the automotive industry and redefine the future of transportation. Le Thi Thu Thuy, CEO of VinFast Auto Pte. Ltd., expressed confidence in the company's ability to penetrate the international market swiftly.

She stated, "VinFast has demonstrated its rapid international market penetration capabilities. Collaborating with Black Spade and listing VinFast on the US stock exchange will be a significant milestone for Vingroup, opening up ideal opportunities for our global development."

Dennis Tam, chairman and CEO of Black Spade Acquisition Co., acknowledged VinFast's exceptional deployment and operational capabilities. He highlighted their achievement of establishing a manufacturing facility with a capacity of up to 300,000 EVs per year and launching a range of high-quality EVs within a remarkable three-year timeframe. VinFast's decision to pursue a US listing through a merger with a special purpose acquisition company (SPAC) aligns with a trend among Asian firms seeking access to American capital markets. Despite recent regulatory scrutiny and tepid market sentiment, a few companies from the region, such as Ecarx Holdings Inc. and Allrites Holdings Pte., have successfully completed SPAC mergers to facilitate their US listings.VIR

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Vietnam emerges as a thriving global investment destination

Despite the challenges posed by the COVID-19 pandemic, Vietnam continues to attract foreign direct investment (FDI), positioning itself as a new global production hub. Over the past five years, FDI inflows into Vietnam have consistently increased. From January 2018 to April 2023, the registered FDI reached US$180 billion, accounting for 40.3% of the total accumulated investment capital over the past 35 years. Vietnam has attracted 37,065 foreign-invested projects, with a total registered capital of US$445.87 billion, and US$279.8 billion of that capital has been disbursed.

Vietnam and ASEAN are among the top destinations for foreign investment, with Vietnam leading the way. The country has witnessed significant improvements in the quality of foreign investment, with multinational corporations and major investors continuously investing in various sectors. These investments have contributed to the added value of industrial products and the development of research and development centers, innovation hubs, and technology incubators. Such initiatives have facilitated connections between domestic firms, particularly small- and medium-sized enterprises, and foreign businesses.

Vietnam has become a success story in terms of foreign investment, particularly in global supply chains, where it has gained substantial market share in sectors like textiles, footwear, and consumer electronics. Major technology companies such as Samsung, Foxconn, Pegatron, and Quanta have made significant investments in Vietnam, transforming the country into a global technology factory. These companies have established factories and production projects, reflecting a trend of shifting production to Vietnam.

Vietnam's appeal as a destination for foreign investment lies in its capacity to meet the expectations of international investors and technology corporations. The country's commitment to sustainability is also attracting green investment, exemplified by Lego Group's construction of a carbon-neutral project worth over US$1.3 billion.

Overall, despite the pandemic's impact, Vietnam's foreign direct investment continues to grow, solidifying its position as a new global production hub and attracting investments from multinational corporations across various sectors.

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