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# VIETNAM BUSINESS REVIEW

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## FINANCE

### Vietnam considered rising star to become emerging market

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A recent article posted on portfolio-adviser.com, a news website based in the UK, has pointed out the frequent hope that Vietnam will be upgraded from its frontier-market status to the emerging market status.

Many years of consistently high GDP growth have been due to a highly attractive combination of political stability with sound pro-market execution from the government which has managed to slash poverty from 17% to less than 5% in a decade, the article wrote.

“Perhaps the best-known growth driver for Vietnam is its step-change in foreign direct investment (FDI), benefiting from an increase in exports due to what is widely known as China Plus One,” it said.

The country continued to sign more than a dozen key trade agreements during the pandemic-triggered lockdown. These partnerships will make it easier for companies to do business in Vietnam, positioning itself ever more as a manufacturing expert with ease of access to broad, international markets and benefitting from 3,000 kilometres of coastline and the close connections to China.

According to the writing, Vietnam is now moving more towards manufacturing higher-value products, more in electronics rather than textiles.

One of Vietnam’s most critical FDI sources is Samsung Electronics. The technology giant employs tens of thousands of people in Vietnam and is the largest investor in the country, with 50% of its handsets being produced there.

There is frequent hope that Vietnam will be upgraded from its current, off-benchmark, frontier market status to emerging market status by MSCI. The Vietnam stock market overall now meets the size and liquidity requirements to be included, with a four-fold surge in retail participation during the past 2-3 years, driven by digital account technology, the article added. VNA

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## HSBC forecast Vietnamese economy to rebound in 4<sup>th</sup> quarter

Vietnam's economy is expected to rebound in the last quarter this year and might finish the year with a 5% GDP growth, HSBC has forecast.



The latest policy rate cut from the State Bank of Vietnam (SBV) reflects its urgency to further support growth via the credit channel and this will continue to reduce financing costs for businesses and households, the lender said.

It has been a tough year so far for Vietnam's economy. After seeing sharply slowing growth of only 3.3% year-on-year in the first quarter, the country continues to brace for strong headwinds.

Exports so far have fallen by over 10% y-o-y, with broad-based weakness. All major shipments, including consumer electronics, textiles/footwear, machinery and wooden furniture, all suffered sharp double-digit declines, with no meaningful reprieves.

There is a clear divergence between big ticket items, including automotive sales and tourism-related services. On a 3-month-moving average, auto sales plunged over 40% y-o-y, almost on par with that during the lockdown period in 2021.

But the country continues to see a positive influx of tourists. Vietnam has welcomed close to 1 million tourists in the past two months, equivalent to 70% of 2019 levels.

The central bank's rate cut, therefore, showed that it has maintained its optimistic tone about inflation prospects, again citing that inflation is under control at below 3%.

The Vietnamese dong has remained relatively stable, thanks to its improving current account dynamics. While Vietnam has been suffering from trade headwinds, its imports have plunged much more than exports, given its import-intensive nature in the manufacturing sector.

HSBC therefore has cut its GDP growth forecast from 5.2% to 5% for Vietnam this year, taking into account a protracted and a deeper-than-expected trade downturn.

"We now expect a meaningful economic rebound from the last quarter, warranting further monetary support," it said. HSBC expects the SBV to make another 50 basis-point rate cut in the third quarter

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## E-COMMERCE

### Vietnam has potential to promote online exports

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With a growth rate of 20% per year, Vietnam is among top 5 countries with the world's highest e-commerce growth, according to data from Amazon Global Selling.



Last year the number of Vietnamese businesses doing online transaction on Amazon grew 80% and nearly 10 million Vietnamese-branded products sold on Amazon's online stores globally.

Vietnam's cross-border retail sales of goods reached 3.4 billion USD last year and is expected to reach nearly 11 billion USD by 2026.

Gijae Seong, Country Manager of Amazon Global Selling Vietnam, said that Vietnam has many advantages to promote online exports. They include environment, incentive policies, abundant production capacity, and a large, dynamic seller community.

Lai Viet Anh, Deputy Director of the Department of E-commerce and Digital Economy of the Ministry of Industry and Trade, said that the agency has coordinated with cross-border e-commerce platforms to help Vietnamese enterprises improve cross-border e-commerce application capacity and acquire skills in doing transaction on global e-commerce platforms, in order to export their products to potential markets.

"By 2026, we plan to train 10,000 businesses on the skills to apply cross-border e-commerce," according to Viet Anh. The latest study by Access Partnership shows that Vietnam's could earn nearly 13 billion USD from e-commerce export by 2027 if domestic businesses are fully supported and the application of e-commerce for export is accelerated.VOV

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## ENERGY

### VinaCapital and GS Energy Partner with KEXIM in Long An LNG power plant projects

Vinacapital, an asset management group in Vietnam, and GS Energy, a South Korean company, have inked an MoU with Export-Import Bank of Korea (KEXIM) to facilitate the financial development of the Long An I and II liquefied natural gas power plant projects.



Yoon Hee-seong, CEO of KEXIM said, "Given that liquefied natural gas (LNG) power plants in Long An exemplify a notable collaborative endeavour, having already secured investment certification from the Vietnamese government, KEXIM is committed to actively assisting Korean businesses and Engineering, Procurement, and Construction contractors participating in this project."

Huh Yong-soo, CEO of GS Energy, emphasised the long-standing recognition among Korean companies of the benefits associated with investments in Vietnam. He lauded the supportive role of KEXIM and welcomed the engagement of other Korean firms in this initiative.

The Long An I and II LNG power plant projects are strategically located in Long An province's Can Giuoc district. Originally intended as thermal coal power projects, environmental concerns prompted a transition to LNG.

In March 2021, Long An People's Committee granted its approval for the investment blueprint of the two power plants. The estimated total investment for both power plants, comprising combined-cycle gas turbine facilities and an LNG storage system, amounts to approximately \$3.13 billion.

The development will occupy an area of approximately 85 hectares. Each power plant is designed to generate 1,500MW, resulting in a combined project capacity of 3,000MW.

The Power Development Master Plan VIII, endorsed by the prime minister on May 15, designates these power plants as pivotal energy generation and grid ventures, affording them the highest priority within the electricity sector.

The implementation timeline for Long An I spans from 2021 to 2030, while Long An II is scheduled for the period from 2031 to 2035.

Don Lam, CEO of VinaCapital, underscored the critical role that the Long An power plants will play in producing clean electricity for the southern region, as well as the positive impact on the area's economic growth. VIR

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## South Korean group eyes eco-friendly energy market in Vietnam

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South Korea's Doosan Group said it is eyeing to expand eco-friendly energy investment in Vietnam as one of the future strategies that it is aiming at the potential clean energy market in the Southeast Asian country.



Doosan Enerbility company has signed agreements with three companies operating thermal power plants in Vietnam to promote an environmentally friendly fuel conversion project. The signing ceremony was held within the frame work of the just-concluded state visit to Vietnam by the South Korea's President Suk Yeol.

The firm and Nghi Son 2 Power Limited Liability Company have signed a memorandum of understanding (MoU) on energy collaboration to research the application of carbon reduction solutions in electricity production, coal consumption, and greenhouse gas emission.

The Vietnamese government has been accelerating the transition to eco-friendly fuels with a plan to reach net zero carbon emissions by 2050.

In 2020, coal accounted for about 30% of power plants' capacity in Vietnam. The sector is considered to have a great potential in the future transition to clean energy. Vnexpress

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## RETAIL

### Vietnam's retail market has strong potential for growth

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A population of 100 million and a rising standard of living makes Vietnam a fertile retail market full of growth opportunities. Vietnam's strong growth momentum in recent years in retail sales of goods and services has lured international businesses.



Since 2000 Vietnam's retail market has recorded the highest growth rate in the world, averaging 25% per year and even more since Vietnam joined the WTO in 2007.

According to the Department of Domestic Market at the Ministry of Industry and Trade, in 2007 Vietnam had 140 supermarkets and megamarkets and 20 shopping centers. Now it has 1,100 supermarkets, 240 shopping centers, and 2,000 convenience stores. The market has

grown from 42.5 billion USD in 2007 to 142 billion USD last year.

The General Statistics Office reports that retail sales of consumer goods and services increased 11.5% in May. Nguyen Anh Duc, Chairman of the Vietnam Retailers Association and General Director of Saigon Co.op, said, "In the first five months of the year the retail market was slowed by overall market trends, but it continued to grow. Consumers want higher-quality goods and better designs. These demands are challenging retail businesses."

The expansion of Vietnam's retail market has attracted many foreign retailers. Vietnamese consumers can now buy many goods from Japan, South Korea, and the US.

Mr. Duc said that despite the global economic recession, Vietnam's retail market holds many opportunities for businesses.

"Retailers and distributors have certain opportunities. They still have niche markets. The business models that prevail are those that serve specialized needs. Models that offer greater convenience to customers still have dependable growth. The market for essential consumer products presents opportunities for retailers and also for manufacturers and distributors."

The Ministry of Industry and Trade estimates that Vietnam's retail market will expand to 350 billion USD in 2025, contributing 59% of GDP. VOV

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## LOGISTICS

### Vietnam logistics sector offers attractive investment opportunities

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Vietnam might have one of the fastest growing logistics industries in the world, but it remains highly fragmented.



Vietnam's logistics sector offers attractive investment opportunities for private equity firms and other well capitalized investors, who could help the industry accelerate earnings by adopting international best practices. — VNS Photo

This presents attractive investment opportunities for private equity firms and other well capitalised investors, who could help the industry accelerate earnings by adopting best international practices,

Michael Kokalari, chief economist at VinaCapital Fund Management JSC, said.

The sector had grown at 14-16% annually in recent years, but logistics costs accounted for over 20% of GDP, among the highest in the world because of the industry's innumerable inefficiencies.

Kokalari said the rapid growth of Vietnam's logistics sector growth was sustainable because of the ongoing expansion of the country's manufacturing sector driven by high-tech products, and the continued growth of its middle class, which also presented numerous investment opportunities, especially in niches such as cold-chain logistics because of a greater demand for fresh food, certain perishable pharmaceutical products and in ecommerce such as last-mile delivery.

E-commerce was growing at more than 25% annually, and the Government targeted a much bigger role for e-commerce going forward, which was likely to lead to a regulatory environment especially favourable for "last mile" and other logistics firms, he added.

Vietnam's logistics industry comprised of foreign and local firms, but the latter were essentially absent from the international shipping business with the exception of the handling and delivery of goods overland across the northern border with China.

The industry's biggest challenge was improving the quality and reliability of its services, and these could be addressed by replicating best practices in other logistics markets.

The logistics businesses most in need of investments were capital intensive ones and in segments that were highly fragmented, he said.

For instance, transportation firms accounted for around two-thirds of the industry, but over 80% of trucking firms in Vietnam had a fleet size of fewer than five, and after an estimated 70% of deliveries, trucks returned to its home base empty.

Middlemen got nearly 30% of trucking companies' final service fees as commission.

Even in cold storage transport, considered to be one of the most promising segments in the logistics industry and dominated by foreign-invested firms, an estimated 70% of firms had less than 10 trucks.

"In our view, some very compelling opportunities for local firms stem from the fact that sophisticated foreign customers are willing to pay premium prices for reliable logistics services, and that middle-class customers' demand for products and services that entail high-quality logistics, such as online shopping with home delivery and demand for perishable foods and medicines, is soaring."

But logistics operators with sufficient scale and professional management would experience falling costs over time as bottlenecks stemming from Vietnam's infrastructure and other issues were eventually addressed.

"We also expect attractive investment returns for logistics firms that are beneficiaries of increased high-tech manufacturing in Vietnam, and from the ongoing growth of its emerging middle class.

"Finally, we see three potential investment strategies: invest into leading logistics companies to aggressively grow their assets into an integrated platform which offers clients economies of scale; identify particular assets which need capital for upgrading or can be re-purposed, and drive new business by increasing efficiencies and M&A or consolidation.

"One attractive niche in Vietnam's logistics industry is the customs clearance business, in which brokers with good relationships with the proper officials can expedite the clearance of goods in and out of the country by assuring compliance with the complex regulations entailed."

Most of Vietnam's 800+ freight forwarding companies provided customs clearance services, according to the Vietnam Logistics Business Association, but firms which could bundle customs clearance services as part of a "core carrier" relationship, capable of satisfying all of the shipping and logistics needs of high tech manufacturing firms could enjoy enhanced pricing power in exchange for providing premium logistics services to those firms. VNA

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## INVESTMENT

### South Korean giants to pour billions of dollars into Vietnam

More than 100 MoUs were signed by South Korean and Vietnamese businesses at the Vietnam-South Korea Business Forum on June 23.



The Vietnam-South Korea Business Forum, under the chairmanship of the two countries' presidents and prime ministers, is one of the most important keys in the framework of the state-level visit of South Korean President Yoon Suk Yeol to Vietnam.

The forum, which was joined by about 205 South Korean enterprises and 300 from Vietnam, has concluded with the signing of more than 100 MoUs.

Do Nhat Hoang, Director General of Vietnam's Foreign Investment Agency under the Ministry of Planning and Investment said, "South Korean investors will spend billions of dollars in Vietnam in the near future. Some of the projects are valued at almost a billion dollars and will be revealed soon."

South Korean President Yoon Suk Yeol said that he highly appreciated Vietnam's targets for the energy transition and digital transformation. "They are excellent opportunities for both sides to cooperate and invest," he said. He would like to build the bilateral relationship into a symbol and a model for the world.

"Despite any challenges, with the cooperation of both nations, I believe that we will succeed and overcome all woes," said the president.

Vietnamese Prime Minister Pham Minh Chinh highlighted the development history of the bilateral ties. He emphasised the development pillars that put people are the centre as the driving force for development, and stated that Vietnam will not sacrifice the environment, progress, justice, or social security to pursue economic growth.

"30 years ago, we could not image how the two countries' relationship could reach the achievements it has today. All the cooperation on trade and investment will make further breakthroughs by the 60th anniversary of bilateral diplomatic relations," said PM Chinh.

During a private meeting before the forum, prime minister Chinh received some large corporations and associations from South Korea. He thanked the South Korean partners for their contribution to Vietnam's development over the last three decades. He called for their support with the development of innovation, the circular economy, the digital transformation, and the energy transition.

Furthermore, he highly appreciated the comments of South Korean businesses on the investment and business climate in Vietnam.

Lee Jae Yong, chairman of Samsung Electronics said, "Samsung and other enterprises are honoured to accompany the development of Vietnam. Vietnam's success is also a success for South Korean businesses."

Samsung has already poured \$18 billion into Vietnam and pledged more in the future.

The Korea International Trade Association (KITA) proposed cooperation on the supply chain of essential minerals between the two countries. He mentioned rare earth minerals, which are an important resource where Vietnam has great potential for exploitation. South Korea has cutting-edge technologies in this sector, so the KITA representative expects further cooperation in this area.

The KITA representative hoped that upcoming adjustments on tax and other policies will help South Korean businesses to work more stably in Vietnam.

"We believe that South Korea and Vietnam will cope with every challenge and change based on our good friendship and strong relationship," he said.

PM Chinh appreciated the proposal and welcomed South Korean businesses to invest and expand in Vietnam. He suggested paying more attention to the cultural and entertainment industries, which are South Korea's strengths that could boost Vietnam's development. VIR

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## Japanese investors thrive in Vietnam's M&A Market

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Japanese investors are showing increased interest in mergers and acquisitions (M&A) in Vietnam, despite market turbulence. In the first quarter of 2023, there were five notable M&A deals involving Japanese investors in the financial and consumer goods sectors. Sumitomo Mitsui Financial Group (SMFG) made a significant investment by acquiring a 15% stake in VPBank, aiming to strengthen its growth strategy in Vietnam.

Dairei, a frozen seafood processing company, acquired a stake in TBM Consumer, planning to expand its overseas sales business. Morinaga Milk acquired Morinaga Le May, an infant formula importer and retailer, to strengthen its business development. Kato Sangyo, a food wholesale company, took over Nam Khai Phu Service Trading Production, focusing on expanding its food distribution business in Asia. Lion, a household goods manufacturer, acquired a stake in Merap, aiming to expand its business in the Vietnamese market.

The total value of Japanese M&A deals in Vietnam for the first quarter of 2023 has already exceeded the total value of 2022. This increase is mainly attributed to SMFG's \$1.5 billion investment in VPBank, which emphasizes its dedication to expanding its presence in the retail sector and growing its business in Vietnam.

Japanese investors in Vietnam have a strategic orientation and are not solely focused on acquiring companies at low prices. They prioritize investing in target companies with good quality and potential rather than financially troubled companies. The outlook for Japanese investors in the market is positive, with the expectation of a steady increase in transactions to make up for the inactivity during the pandemic. While mega deals are not guaranteed, Japanese corporates have significant cash reserves and may pursue such deals if suitable targets become available. VIR

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