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Challenges and solutions to Vietnamese economy transformation

According to economic experts, Vietnam has been relying heavily on monetary policies to stimulate demand, but this approach has led to a reduction in asset quality and the creation of asset bubbles. The loosening of lending standards and lowering of interest rates have contributed to these issues. On the other hand, underutilized fiscal tools during the recession process have slowed down demand growth and caused inflation during the growth period.



During a recent seminar on the recovery of aggregate demand, Ass. Professor Dr. Tran Dinh Thien, former director of the Vietnam Institute of Economics, highlighted the weaknesses of the Vietnamese economy. He emphasized that the economy is currently facing a structural crisis and a crisis of economic mechanisms, which require proper identification and solutions. The exhaustion of Vietnamese businesses, particularly small and medium enterprises, after years of dealing with the

COVID-19 pandemic has further exacerbated the challenges.

Data shows a decline in the number of newly-registered and operating enterprises, while the rate of enterprise participation in the market does not necessarily contribute to GDP growth. Dr. Thien emphasized the need to re-evaluate the structures of the national economy, improve the real capacity of domestic enterprises, and adjust policy institutions to address these difficulties.

Experts such as Dr. Johnathan Picus from the UN Development Program (UNDP) and Dorsati Madani from the World Bank (WB) have recommended the implementation of fiscal policy tools. They suggest overcoming fragmented and inefficient public investment, expanding the social security and welfare system, and promoting transparency in fiscal policy. Additionally, there is a need for structural reforms to enhance competitiveness, improve the business environment, and strengthen banking and crisis management frameworks.

The effectiveness of monetary policy has been limited, according to the WB expert, who further stressed the importance of confidence-building measures and medium-term adaptability in exports. It is predicted that Vietnamese GDP will grow below 5% this year, with a projected recovery of 5.5% to 6% next year.

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Three scenarios for Vietnamese economic growth

Vietnam's economic growth this year can reach up to 6.46% in the best-case scenario, the Central Institute for Economic Management (CIEM) announced during a workshop organised on July 10 in Hanoi.



In the best-case scenario, CIEM economists forecast that Vietnamese exports will decrease by 2.17% this year, while the average consumer price index (CPI) edged up 4.39% with the nation enjoying a trade surplus of US\$6.8 billion.

These figures can be achieved providing positive changes occur in the global economic situation and the country makes drastic reforms, thereby helping to accelerate the disbursement of public investment, as well as improving the local business environment and labour productivity. In the first scenario, Vietnamese GDP growth is forecast to reach 5.34% this year while exports are likely to drop by 5.64%. The average CPI inched up 3.43%, with the country posting a trade surplus of US\$9.1 billion.

In the second scenario, the country's GDP growth is projected at 5.72% this year, with exports suffering a decline of 3.66%. The average CPI in 2023 increased by 3.87%, with the nation racking up a trade surplus of US\$10.3 billion. In the CIEM's report released at the workshop, Vietnamese economic growth rate in the first half of the year reached 3.72%. Indeed, the country's economic growth improved among quarters, reaching 3.28% in the first quarter and 4.14% in the second quarter.

Dr. Tran Thi Hong Minh, director of CIEM, stated that amid global uncertainties, the nation has maintained a comprehensive approach by accelerating socio-economic recovery in line with building an independent and self-reliant economy in association with active international integration.

Throughout the reviewed period, the disbursement rate of public investment capital as of June 30 reached 30.49% of the plan assigned by the Prime Minister, higher than the figure of 27.75% recorded in the same period from last year.

Meanwhile, Vietnamese FDI attraction is estimated to stand at VND13.43 billion, down 4.3%, although the disbursement of FDI capital increased by 0.5%.

These achievements has been attributed to the fact that the Government has focused on fine-tuning polices, as well as handling backlog issues related to the supply of petroleum, medical supplies, electricity, and corporate bonds.

Moreover, the Government has also concentrated on accelerating the construction of key transport projects and seeking new export opportunities, and deploying digital and green transformation and renewing growth model to add fresh impetus to economic recovery. VOV

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E-COMMERCE

Selling fresh fruit via live streaming forecast to boom

Selling fresh fruit and agricultural products through live streaming, a trend that has exploded in the Chinese market recently, will likely boom in Việt Nam as well, trade experts have forecast.



Last June, farmers and businesses in the northern Bắc Giang province sold a large amount of lychee and many other specialities via live streaming. Since 2021, farmers in this locality used the model to sell batches of lychee to customers nationwide.

Amid the booming live commerce trend on social channels such as TikTok and Facebook, some cooperatives and lychee growers in Bắc Giang have organised live streaming events from their gardens, broadcasting the harvesting and packaging process. This has helped them connect with customers and build trust, as well as sell a lot of produce, a representative from the provincial Department of Trade and Industry has said.

To facilitate the consumption of agricultural and speciality products, Bắc Giang has cooperated with TikTok to organise a series of activities, including the One Commune One Product (OCOP) events through live streaming. After only four hours, TikTok-savvy merchants sold nearly 50 tonnes of lychee and a variety of local OCOP products, the representative said.

The live-selling model has also become familiar to farmers, cooperatives and agricultural enterprises. Since the COVID-19 pandemic, many farmers across the country have changed their sales methods, integrating live streaming to promote and sell their products on social networks and e-commerce platforms.

Since the Lunar Newyear in 2021, several cooperatives selling dragon fruits with VietGAP and GlobalGAP certifications have been trained in, and tested, live streaming on Facebook to sell products.

In the southern provinces and cities, many cooperatives and household businesses have also used the live streaming model to advertise and sell southern fruits and cakes which generated massive engagement. They said the video medium helped their sales increase compared to selling products online like before.

Besides cooperatives and household businesses, start-ups have also been making good use of the live streaming model to promote their brands, market products and sell goods to consumers at discount prices. Several food businesses have regularly collaborated with TikTokers and KOLs (Key Opinion Leaders) to introduce everything from raw materials, production processes and product trial experiences, Người Lao Động (The Labourers) Newspaper reported.

To attract customers to buy goods via live streaming events, most businesses and stores reduced prices compared to direct selling at stores or other e-commerce channels. They also allowed customers to return goods and get a refund if they found the goods to be of low quality, according to the newspaper.

Logistics infrastructure needed

Đỗ Quang Huy, an e-commerce expert, said agricultural products are Việt Nam's strength and promoting online sales is a trend that should attract strong investment.

Recently, TikTok Shop, the video platform's e-commerce wing, launched a new feature to sell fresh goods. Previously, sellers could only sell goods preserved for more than 15 days. Now, TikTok Shop can handle items that need to be delivered within three days. This opens up great opportunities for sellers to speed up agricultural product consumption, Huy told the *Người Lao Động* (The Labourers) Newspaper.

However, fresh agricultural products require fast delivery. Returned goods might be abandoned because of damage, Huy said, stressing the importance of developing the necessary e-commerce logistics infrastructure.

Lương Quang Thi, Chairman of ABA Cooltrans, a cold chain service provider in HCM City, said to *The Labourers* that e-commerce logistics remained problematic, especially for low-value goods that need express delivery.

Thi cited fresh fruits as an example. Normally, consumers order between one and five kilos of fresh fruits each time. Due to their locations, the shipping fee was sometimes higher than the cost of goods. Therefore, they often chose to buy fruits via traditional channels rather than buy them online.

Many agricultural products had seasonal characteristics, the chairman noted. So they have to be sold immediately once harvested or their prices will decrease significantly.

He added that it was also necessary to build storage warehouses right at the source. VNS

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ENERGY

Vietnam's LNG power projects face regulatory hurdles despite high hopes

Vietnam's liquified natural gas (LNG) power projects, hailed as potential baseline power sources with quick startup capacity, continue to confront significant challenges amidst efforts to expedite their progress.



As of the end of June, Nhon Trach 3 and 4 LNG Power Project has shown no progress in its power purchase agreement (PPA) negotiations, as compared to its status that was shared in mid-May at the Vietnam Clean Energy Forum.

Stakeholders involved in the PPA negotiations cite the absence of a government-issued power pricing framework for the LNG power plant as the main obstacle to finalising negotiations.

An energy price negotiation expert explained, "Finding agreement on gas power plant PPAs has been a protracted process in the past. The Ministry of Industry and Trade issued Circular No.57/2014/TT-BCT in 2014 to govern the methodology and procedures for constructing and issuing power pricing frameworks, but since then, no new gas power projects have been implemented, hence no pricing framework for this type of power generation has been introduced by the relevant state regulatory bodies."

In contrast to the stagnant PPA negotiations, Nhon Trach 3 and 4 LNG Power Project has progressed substantially on the ground. This advancement was facilitated by Circular No.02/2023/TT-BCT, which eliminated the requirement for a signed PPA before the start of construction. Therefore, even amidst PPA negotiation difficulties, the project has been able to commence work on several fronts.

However, not all LNG power projects have the fortitude to proceed under such circumstances. For instance, the Bac Lieu project, granted an investment certificate in January 2020, and the Quang Ninh project, which initiated investment work in October 2021, have yet to fully materialise on the ground. Other projects like the Hai Lang and Long An I and II LNG power projects also face similar challenges.

Nguyen Binh, an energy project consultant, pointed out that a significant hurdle to actual project implementation is securing annual electricity production commitments from Electricity of Vietnam (EVN) and ensuring annual gas volume guarantees.

Some LNG power projects have been held up by these issues. The Vietnamese government considers these as business production agreements, the Ministry of Industry and Trade recommends reporting to higher authorities, and EVN claims insufficient authority to make decisions.

However, the commitment to annual power output and gas consumption is crucial, serving as the basis for financial institutions to consider credit sponsorship for projects, and for the project teams to secure cheap LNG through long-term contracts – resulting in lower electricity prices.

The price of electricity remains an unresolved hurdle.

The high cost of LNG power generation, primarily due to dependence on imported raw materials, remains a major barrier. Without a clear power pricing framework for LNG projects, it is hard to determine a reasonable negotiation benchmark.

A PPA negotiation expert stated, "The biggest obstacle for LNG power plants is the high cost, as input materials for electricity production depend on imports. Therefore, the plants need to operate at base load to get a better price that is more acceptable. However, without a power pricing framework for these power projects, it is unclear how much it is reasonable to negotiate."

"If only considering the global LNG prices, which at times reach up to \$30 per million BTU, the price of electricity from LNG power sources would be much higher than the retail price at which EVN sells it to the public. EVN's financial regulatory bodies are unlikely to accept this, so it cannot make this purchase decision," they continued.

A representative of PV Power Corporation, the investor in Nhon Trach 3 and 4 Power Project, shared that under the current regulations and operating mechanisms of the electricity market, there is no specific mechanism to encourage investment in the stable operation of the power grid for LNG power projects. Additionally, the annual electricity purchase volume for LNG power plants has not been regulated, creating a lack of consensus with the electricity buyer, EVN.

A clearer glimpse into these issues can be gained from the Bac Lieu project. Despite projected electricity prices of around 7 US cents per kilowatt hour, the project's investors have raised a series of concerns that require government guarantees to be addressed before the project can proceed.

These include foreign currency conversion commitments, assurances for payment obligations to EVN, compensation for damages when terminating PPAs, the LNG gas price conversion to electricity sale prices, and volume guarantees.

Binh commented, "These commitments are also aimed at ensuring project efficiency when there are no officially determined electricity prices. With projects like wind and solar power that once had attractive feed-in tariff prices, investors rushed in without needing the government to make any other commitments." VIR

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Draft mechanism for rooftop solar power is unattractive

Commenting about the draft on rooftop solar power submitted by the Ministry of Industry and Trade (MOIT), the Ministry of Planning and Investment (MPI) says the tentative mechanism won't encourage the development of green power as expected.

MOIT is drafting the Prime Minister's decision on a mechanism to encourage the development of rooftop solar power under the framework of a clean and green energy program. However, the draft mechanism, as commented by MPI, only gives general encouragement principles, and doesn't specify detailed regulations that would help persuade investors to install rooftop solar power systems. MPI asked to clarify the subjects to be covered by the Prime Minister's decision, such as houses, offices and headquarters of enterprises, and make it suitable to the Enterprise Law and guiding legal documents.

The ministry has asked MOIT and the Ministry of Natural Resources and the Environment (MONRE), depending on their function, to help people and organizations participate in the investment and building of rooftop solar power systems under specific programs and plans.

They should set up specific goals, quantified in different development periods so as to reach the goal that 50 percent of office buildings and 50 percent of people's homes will use rooftop solar power by 2030, with no sales to the national grid.

Investors need to be allowed to work with people and organizations that own houses, buildings and office buildings to install rooftop solar power systems under the mode of self-production and self-consumption, with negotiations between the parties.

MPI believes that offering investment incentives will be necessary to develop rooftop solar power. The incentives could be tax and fee remissions. The Enterprise Law and related legal documents don't include regulations on certificates on electricity business registration, so MPI suggests removing a tentative regulation on the issue.

On June 10, Deputy PM Tran Hong Ha had a working session with MOIT and Electricity of Vietnam (EVN) and relevant agencies on the implementation of one of the goals of the eighth national power development plan – developing rooftop solar power.

Scientists and businesses all want to encourage rooftop solar power, saying this is a solution to help reduce costs for enterprises in support industries. Le Anh Tuan from Green Yellow Vietnam warned that if enterprises continue relying on traditional electricity generation sources (thermal and hydropower), they won't be able to satisfy international partners' requirements on using green energy.

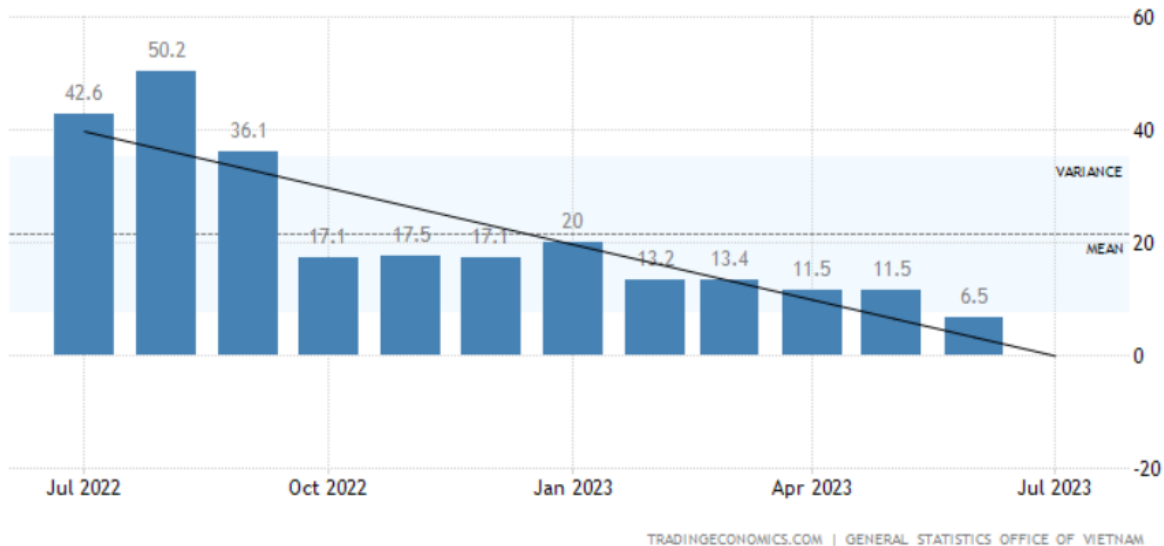
An effective energy management program would help enterprises save 25 percent of costs and reduce carbon emissions by 7-20 percent. Vietnamnet

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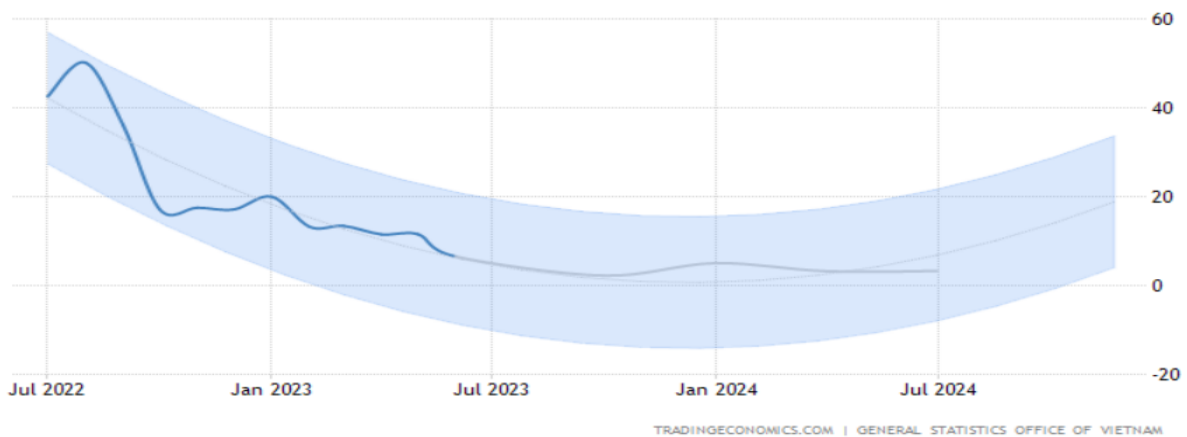
RETAIL

Vietnam Retail Sales in Vietnam increased 6.50 percent in June of 2023

Retail Sales YoY in Vietnam averaged 17.01 percent from 2002 until 2023, reaching an all time high of 76.75 percent in November of 2011 and a record low of -33.70 percent in August of 2021. This page provides - Vietnam Retail Sales YoY - actual values, historical data, forecast, chart, statistics, economic calendar and news. Vietnam Retail Sales YoY - data, historical chart, forecasts and calendar of releases - was last updated on July of 2023.



Retail Sales YoY in Vietnam is expected to be 5.10 percent by the end of this quarter, according to Trading Economics global macro models and analysts expectations. In the long-term, the Vietnam Retail Sales YoY is projected to trend around 1.10 percent in 2024 and 2.50 percent in 2025, according to our econometric models.



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LOGISTICS

Ho Chi Minh City maps out expansion with eight strategic logistics centres

Ho Chi Minh City aims to drive economic growth by establishing eight strategic logistics centres, totalling over 750 hectares, as part of a long-term development plan that stretches to 2030.



Ho Chi Minh City, Vietnam's bustling economic hub, has cast a strategic spotlight on its logistics sector, identifying it as a critical driver of future economic growth and development.

This initiative was unveiled by Nguyen Tuan, deputy director of the Investment and Trade Promotion Centre of Ho Chi Minh City (ITPC), during a seminar on July 4 focusing on enhancing the robustness of the city's logistics and seaport infrastructure – an effort aimed at fuelling economic growth and catalysing regional interconnectivity.

Reinforcing the city's commitment, Tuan unveiled a comprehensive blueprint titled The Development of Ho Chi Minh City's Logistics Sector up to 2025, with an orientation to 2030. This strategy aligns squarely with the city's overarching economic development trajectory as outlined in its 11th Party Congress resolution. As part of this blueprint, the city has earmarked the development of eight logistic hubs, totalling more than 750ha, in strategic locations including Cat Lai-Phu Huu in Thu Duc city, as well as in the Cu Chi, Binh Chanh, Nha Be, and Hoc Mon districts.

Recognising the complex interplay between infrastructure, finance, construction, and management, the eight logistic hubs will be integrated into the city's overarching general planning framework, set to run until 2040, with an extended vision until 2060. "This will provide a robust foundation for phased implementation in the near future," stated Tuan.

The city's ongoing economic surge, coupled with rising income levels and heightened consumer demand, are seen as the propelling forces behind the planned growth of its domestic logistics sector, according to an ITPC spokesperson.

With the logistics landscape in major cities becoming increasingly competitive, enterprises are being spurred to expand their operational networks into diversified markets. The ITPC highlighted the rapid growth of e-commerce and the prevalence of smartphone usage as further catalysts expected to stimulate consumer spending, and concurrently, boost the logistics sector.

Thus, Ho Chi Minh City's strategic blueprint sets its sight on evolving the logistics sector into a spearhead service industry. It outlines ambitious targets including achieving a growth rate of 15 per cent in logistics service revenue by 2025, and 20 per cent by 2030.

The sector's contribution to the city's regional GDP is anticipated to reach 10 per cent by 2025 and 12 per cent by 2030. Another critical target is to curtail national logistics costs as a percentage of GDP to an estimated 10-15 per cent by 2025.

The strategy also envisages an increase in the rate of logistics outsourcing to 60 per cent by 2025, further rising to 70 per cent by 2030.

The city anticipates that the proportion of third- and fourth-party logistics providers will comprise between 3-5 per cent of the city's total logistics enterprises, fostering a robust ecosystem capable of leading the logistics service market across southern Vietnam and beyond.

"The blueprint places special emphasis on the development of a network of logistic centres, serving as transit and connection points for domestic and import-export goods flows," underlined Tuan. VIR

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INVESTMENT

Vietnam remains attractive to European investors

Vietnam remains appealing to European investors amidst the tough global situation, according to the latest report by The the European Chamber of Commerce in Vietnam.

EuroCham Vietnam, the voice of the European business community in the country, has released the results of its highly anticipated Business Confidence Index (BCI) for the second quarter of 2023.



Conducted by Decision Lab, the BCI reveals a modest decline of 4.5 points in European business confidence towards the Vietnamese market, with the current score of 43.5 reflecting prevailing market conditions.

Accordingly, the BCI indicates a challenging outlook, with a significant 10 per cent increase in negative responses to the current business situation. This growing sense of caution is further reflected in a 6 per cent rise in negative sentiment for the upcoming quarter.

However, amidst the challenges, there is also a glimmer of encouraging news. The report shows a 9 per cent increase in the number of business leaders who assess their business prospects positively for the third quarter of 2023 compared to their assessment for the second quarter of 2023.

Businesses are prudently assessing the landscape, focusing on optimising revenue and orders, with a marginal increase of 4 per cent in the proportion of companies anticipating a decline in these areas. Additionally, there is a proactive approach, as 7 per cent more companies plan to carefully manage investments in the upcoming quarter. It is intriguing to note that despite these challenges, workforce planning remains stable, reflecting a resolute commitment to maintaining stability regardless of the prevailing conditions.

Despite the challenges, Vietnam continues to draw foreign investors, with 48 per cent of respondents expecting an increase in their company's foreign direct investment (FDI) in the country next quarter. However, a total of 40 per cent of businesses express no plans for elevated FDI, marking a 4 per cent increase from the previous BCI. Nevertheless, Vietnam remains firmly positioned among the top five investment destinations for over one-third of businesses, underscoring its enduring appeal.

Respondents also highlighted the importance of improving the regulatory environment, developing infrastructure, and ensuring access to financing to enhance Vietnam's attractiveness for FDI. The report also emphasises that unclear regulations and onerous administrative procedures are the primary barriers hindering FDI, with 53 per cent and 50 per cent of businesses, respectively, citing them as the most significant regulatory obstacles.

The survey reveals that over half of the businesses surveyed have benefited from the European Union-Vietnam Free Trade Agreement. Among these beneficiaries, 35 per cent of business leaders have reported gains from tariff reductions. Despite these gains, businesses continue to face challenges in fully capitalising on the agreement, with administrative procedures and a lack of understanding remaining the main barriers to full capitalisation.

Gabor Fluit, chairman of EuroCham said, "Vietnam's economy relies heavily on manufacturing and exports, and it has taken a big hit from the tough global situation. This decline in exports and orders has had a major impact on European businesses and the overall business community. The BCI clearly shows this current gloomy outlook."

"To address these challenges, the Vietnamese government has swiftly taken practical steps, particularly by expediting key infrastructure projects. We commend these efforts, which will surely bring a substantial long-term boost to the economy. However, our members have expressed genuine concerns about the issues raised in the BCI report, and we have been actively collaborating with the government to find effective solutions. For instance, it is crucial for the government to come up with long-term plans to address the recent power shortage problem, considering its cyclic nature. By taking prompt and comprehensive action, we can not only entice foreign investment, but also ensure a resilient economy capable of overcoming future obstacles," he added. VIR

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Intel to pour more investment in Vietnam

Intel Corporation will continue to invest in Vietnam, Kim Huat Ooi, Vice President in Manufacturing, Supply Chain and Operations, and General Manager of Intel Products Vietnam told Tuoi Tre (Youth) Newspaper.



The year 2022 has affirmed the importance of Vietnam to the US semiconductor giant and vice versa, he said, adding that these performance and efficiency results underpin the need to inject more capital into the Southeast Asian country.

By the end of 2021, the Intel Corporation had injected a total of US\$1.5 billion in Vietnam and it wants to keep investing and that is certainly what Intel will do, he said.

Intel Products Vietnam (IPV) is now the largest of the four factories in terms of assembly and testing, he noted. Regarding the possibility that IPV will be upgraded to participate in more stages of the chip production process, he said that their current plan is to focus on packaging and testing.

Currently, the Vietnamese factory is manufacturing the 13th generation processor Raptor Lake and the next generation Meteor Lake which accounts for more than 50% of global production for assembly and testing, Kim said, adding that this is a very significant figure. According to him, the role of packaging and testing should not be underestimated. Compared to the previous generation, the production process of Meteor Lake processor is much more complicated.

Kim recalled that 17 years ago, the Vietnamese government, or more specifically leaders of Ho Chi Minh City, had a very good vision of the future by persuading Intel to come and invest here.

The corporation is the first high-tech investor in Vietnam and the government has helped and supported a lot in the administrative process. Intel's presence has also helped Vietnam attract more high-tech investors over the past 17 years, he said.

With such a complex model and new version of the Meteor Lake chip, the assembly and testing process is also more complicated, Kim said, noting that technology relating to these processes needs to be continuously upgraded.

To attract more investors, it is necessary for the Vietnamese government to review the current business support programmes, especially the preferential tax rates, he said, elaborating that other countries such as the Philippines, Malaysia and Indonesia are making similar moves.

These countries and Vietnam have focused on using corporate income tax programmes to support and attract investors. He cited the US and European chip laws that have been approved as typical examples.

The modernisation of incentive programmes to support businesses will be an essential action that the Government of Vietnam needs to adopt to assist businesses, along with the advantages of labour costs and political stability.

According to Kim, the number of foreign companies in the Southeast Asian country will increase in the future. He also highlighted the necessity of solving such problems as government incentives and streamlining administrative procedures. The current model that businesses are moving towards must be resilient and geographically balanced, he added. VNA

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