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FINANCE

National Assembly to assess global minimum tax in October

The government plans to seek National Assembly approval for the global minimum tax, a tariff that might affect foreign investors in the country, in October.

The tax aims to reallocate taxing rights on about US$200 billion worth of profits from the companies to the countries where they do business and to end the "race to the bottom" on tax rates, which refer to the incentives that countries compete to give multinationals to attract their investment.

If approved, the tax, at a rate of 15%, would be effective starting next year, Dang Ngoc Minh, deputy head of the General Department of Taxation, said at a meeting hosted by the Organization for Economic Co-operation and Development (OECD) on Tuesday. The global minimum tax would be discussed by many government bodies and businesses before being presented to the National Assembly, he added.

The global minimum tax of 15% was agreed upon by the G7 rich nations in June 2021 to prevent tax avoidance by multinational corporations. Vietnamese analysts fear putting a floor under the tax rate will deter foreign investors, many of whom are attracted by their country's preferential tax policies. The 15% tax will apply to multinational firms with revenues of at least €750 million (US$800 million) in at least two of the four most recent years.

Certain economies like the UK, Japan, South Korea, and the EU are expected to apply the tax from next year. According to the Finance Ministry, 1,015 foreign-invested enterprises in Vietnam will be subject to the rate. Over 70 businesses in Vietnam are likely to be affected if if it is applied in 2024.

Foreign companies like Samsung, Intel, LG, Bosch, Sharp, Panasonic, Foxconn and Pegatron – which account for nearly 30% of total FDI in Vietnam – are all likely to be affected by the tax. Vnexpress

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ADB lowers growth forecast for Vietnam to 5.8 this year

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 The Asian Development Bank (ADB) has moved to revise its growth forecast for Vietnam, reducing the rate from 6.5% to 5.8% for this year, and from 6.8% to 6.2% ahead in 2024, according to the Asian Development Outlook (ADO) July 2023 released on July 19.

The report outlines that weak external demand continued to put pressure on manufacturing and industrial production, while domestic conditions are expected to improve moving forward. Indeed, inflation is forecast to slow to 4.0% in 2023 and 2024. ADB is not the sole organisation to lower its economic growth forecast for Vietnam this year. According to July's HSBC report "Vietnam at a glance", the bank also revised its growth forecast for Vietnamese GDP to 5% this year.

The World Bank (WB) has cut its Vietnamese GDP growth forecast this year to 6% in its June edition of "Global Economic Prospects", representing a drop of about 0.3% compared to the prediction that the lender made in January.

Most notably, in its June edition's Vietnam Macro Monitoring, the WB also points out that continued weak external demand coupled with global uncertainties are adversely affecting the Vietnamese economy, translating into contraction in both imports and exports, as well as a slowdown in industrial production. In the latest ADO report, the ADB is maintaining its growth outlook for developing economies in Asia and the Pacific at 4.8% for this year, as robust domestic demand continues to support the region's recovery. Inflation occurring in developing Asia is forecast to stay at 3.6% this year, compared with an April forecast of 4.2%. Meanwhile, the inflation outlook ahead for 2024, has been raised to 3.4% from an earlier estimate of 3.3%.

According to the Asian Development bank, China's decision to reopen its economy to the world is bolstering the region's growth. The world's second largest economy is projected to expand by 5.0% this year, unchanged from the April forecast, amid strong domestic demand occurring in the services sector. However, demand for developing Asia's exports of electronics and other manufactured goods is slowing, as monetary tightening drags on economic activity in major advanced economies. In addition, the region's growth forecast for next year has been marginally revised down to 4.7% from a 4.8% estimate in April.

"Asia and the Pacific continues to recover from the pandemic at a steady pace," said Albert Park, chief economist of the ADB. "Domestic demand and services activity are driving growth, while many economies are also benefiting from a strong recovery in tourism. However, industrial activity and exports remain weak, and the outlook for global growth and demand next year has worsened," he added. ADB is maintaining its growth forecasts for most sub-regions in Asia and the Pacific. Exceptions include Southeast Asia, where the outlook has been lowered to 4.6% this year and 4.9% next year, compared with April estimates of 4.7% and 5.0%, respectively. The forecast for Caucasus and Central Asia is being revised down marginally to 4.3% from 4.4% for 2023, and to 4.4% from 4.6% in 2024. VOV

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E-COMMERCE

Rising trends in sustainable E-commerce development

E-commerce is one of the engines of the digital economy, and its development is becoming an imperative, experts said.

Researchers from RMIT University Vietnam, Associate Professor Phạm Công Hiệp and Dr. Nguyễn Nhật Minh, highlighted that Vietnam's e-commerce sector is shifting towards sustainable development strategies after the challenging COVID-19 period. They identified four key areas for sustainable e-commerce development: the business model, infrastructure, skilled human talent, and innovative technologies for an enhanced customer experience.

Developing a sustainable business model based on environmental, social, and governance principles is crucial for e-commerce firms to gain clear vision and growth direction in the digital era. The researchers emphasized the importance of enhancing the value of products and services through sustainable practices and technology-driven consumer insights.

In terms of infrastructure, investment in software systems, data management, automation, cloud, and artificial intelligence is vital for efficient operations and enhanced information security. Improving logistics, with a focus on technology adoption like machine learning, AI, IoT, and blockchain, can optimize costs and improve the end-to-end supply chain experience.

The researchers stressed the significance of developing a skilled e-commerce workforce by incorporating e-commerce modules into various majors at universities and colleges. Additionally, fostering diversity, equality, and inclusion in talent development and management is essential.

The rise of the Gen Z consumer segment requires e-commerce businesses to invest in technology at every customer touchpoint, delivering refined experiences, higher value, and eco-friendly products to gain long-term customer loyalty.

According to the 2022 e-Conomy SEA report, Vietnam's digital economy is expected to grow to $49 billion by 2025, driven significantly by the booming e-commerce sector, positioning it as Southeast Asia's fastest-growing digital economy.

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ENERGY

US$1.3 billion LNG terminal project approved in central Vietnam

Binh Thuan Province has granted approval to U.S. energy firm AES and Petrovietnam Gas to build the US$1.34-billion Son My LNG Terminal.

The country's biggest facility for managing the import and export of liquefied natural gas when completed in 2027 will have a capacity of 450 trillion British thermal units. In the first phase the terminal will be able to handle 3.6 million tons of LNG annually and in the second phase 6 million.

Joseph Uddo, president of AES Vietnam said: "The Investment Policy Approval for Son My LNG Terminal is a significant milestone that enables us to move forward with the development of this critical infrastructure project. The Son My LNG terminal project, together with AES' 2.2-gigawatt Son My 2 combined cycle gas turbine (CCGT), represents a multibillion-dollar investment.

Son My 2 CCGT, which received investment policy approval earlier this year, will bring safe and reliable energy to power the growth of Vietnam while supporting the transition to cleaner and greener technologies, AES said. U.S. Ambassador to Vietnam Marc E. Knapper said that the Son My project will bring energy security to Vietnam in the transition to cleaner sources of energy.

Under Vietnam's latest energy development plan, LNG will account for 14.9% of total generation capacity by 2030. By then Vietnam will have 13 LNG factories with a total capacity of 22,400 megawatts. vnexpress

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Effective mechanisms will ensure an efficient PDP8

Vietnam's National Power Development Plan VIII (PDP8) serves as a crucial foundation for shaping investments and implementing vital energy industry regulations, aiming for a greener future in the country over the next decade. The plan outlines an estimated investment of approximately $134.7 billion for power projects until 2030, with $119.8 billion allocated for power generation and $14.9 billion for the transmission grid.

To attract such substantial investment, Vietnam must establish effective regulatory solutions that draw both domestic and foreign investors to the power sector and strengthen the energy market's development. Addressing challenges related to grid capacity and financing arrangements is essential, especially considering the significant capital required, particularly from private sector sources.

To achieve the PDP8 targets successfully, several key legal instruments need to be formulated and promulgated. These include amendments to the electricity law, a new law on renewable energy, comprehensive legal frameworks for direct power purchase agreements, and a competitive and transparent mechanism for selecting power project investors.

Enhancing financial and capital mobilization mechanisms, diversifying capital sources, and attracting domestic and international private investment are among the key goals. The government needs to foster a favorable and transparent environment for the private sector while ensuring the grid's capacity can sustain increased power generation.

To promote private investment in power transmission projects, clear regulatory frameworks should be developed to allow private sector participation in grid investments. These frameworks should ensure legal, technical, and financial feasibilities, competition and transparency in investor selection, and commercial certainty for project viability and sustainability.

Ultimately, Vietnam's power sector must enhance its contractual and risk management frameworks to enhance commercial projections and secure funding, facilitating a sustainable and prosperous future for the nation's energy market.

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RETAIL

Vietnamese retailer is on the way to recover

Analysts have observed that domestic retailers experienced their lowest profits in the first half of this year but are now on a path to recovery. SSI Securities Joint Stock Company predicts that these companies will regain profitability in the fourth quarter and in 2024, driven by increased disbursement of consumer loans and improvements in the macroeconomic environment.

The long-term prospects of Vietnamese retailers will depend on their successful transition from traditional to modern commerce and their capital mobilization strategies, according to the firm.

Despite facing various challenges in the first six months, retailers have overcome the toughest period, as reflected in a 10.9% year-on-year increase in total revenue from retail sales of consumer goods and services, amounting to over VND3.01 quadrillion ($127 billion), as reported by the General Statistics Office (GSO).

Consumer confidence in Vietnam declined from 63 points in July 2022 to 54 points in June 2023, based on a survey conducted by Infocus. The 2023 PwC Consumer Insights Survey in Vietnam also revealed that Vietnamese consumers have significantly adjusted their spending habits, with 62% reducing non-essential expenditures due to the global increase in the cost of living.

However, VNDIRECT Securities Corporation expressed optimism about the market's recovery in the second half of the year, expecting a rise in new orders from major markets and continued consumption growth facilitated by declining lending rates. The consumption of electronics, especially home appliances, is projected to experience the strongest growth in the near future.

Moreover, the reduction of the value-added tax (VAT) from 10% to 8% for essential items like dry food, beverages, confectionery, and household utensils is expected to benefit both consumers and businesses. Consumers will have access to lower-priced items, while businesses will enjoy additional revenue. vnexpress

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LOGISTICS

More investment needed in agriculture logistics services

Logistics services are driving up added values of the domestic agriculture sector which has been developing quickly over the past years with an annual growth rate of 14-16%.

According to the Ministry of Industry and Trade (MoIT), apart from seaports and airports, Vietnam is home to 10 inland ports and 18 inland container depots (ICDs), which serve as logistics centres, mainly in big cities and border localities like Hai Phong, Hanoi, Quang Ninh, Lao Cai, Ho Chi Minh City, Dong Nai and Binh Duong.

In addition, cold supply chains have been established to facilitate the transport and storage of agricultural materials.

Thanks to such logistics services, more than 130 million tonnes of agricultural products are transported and circulated each year. Of which, tens of millions of tonnes are shipped to more than 185 countries and territories worldwide.

Over the past years, Vietnam's agro-forestry-aquatic product exports have increased constantly, hitting a record of over 53 billion USD last year from 48.6 billion USD in 2021. The value is projected to reach 55 billion USD this year.

Nguyen Nam Phuong Thao, Sales Director of Hoang Phat Fruit Co., Ltd, said after the COVID-19 pandemic, importers and exporters have found it easier to access logistics services with dropping transport costs.

However, Nguyen Tu Uyen, General Director of CMU Logistics Transportation Services Co., pointed out weaknesses in the domestic logistics sector like a lack of cold storage facilities and limited capacity of logistics staff given the increasing volume of Vietnamese imports and exports.

A study by the World Bank (WB) showed that logistics costs in Vietnam account for nearly 21% of Vietnam's GDP, higher than most of countries in the Association of Southeast Asian Nations (ASEAN), which affects the competitiveness of exports and adds to the costs of goods for producers and consumers.

Tran Thanh Hai, Deputy Director of the MoIT's Foreign Trade Agency, said the number of logistics firms in Vietnam remains limited, with a lack of experience and a small scale in terms of both capital and workforce.

Notably, domestic logistics firms have yet to form fourth-party logistics, also known as 4PL, an operational model in which a business outsources its entire supply chain management and logistics to one external service provider, due to their lax linkage.

Therefore, importers and exporters are under the pressure of fee hikes, and Vietnamese goods are losing their competitiveness. Meanwhile, logistics providers are struggling to reach the international market, experts said. VNA

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INVESTMENT

German investors optimistic about Vietnam's outlook

German businesses are expressing more confidence in their development and have increasingly positive expectations for economic growth in Vietnam.

According to AHK World Business Outlook - Spring 2023, 91 per cent of German companies intend to continue to either invest in or expand their production in Vietnam, with approximately 40 per cent of them planning to increase their workforce over the next 12 months.

Thanks to the implementation of government action plans and the presence of stable macroeconomic conditions, Vietnam has maintained positive economic growth. As a result, German companies operating in Vietnam are more optimistic than they were in the Autumn of 2022, even though their short-term expectations remain cautions due to the current global challenges.

88 per cent of the surveyed participants are confident in their business situation in Vietnam, nearly half of those from Germany expect economic growth to remain consistent, and 21 per cent of them believe it will improve further. Despite German enterprises showing resilience and having high expectations for the Vietnamese market, they still identified several risks to their business development caused by global economic fluctuations.

These include low global demand (51 per cent), concerns about the economic policy framework (46 per cent), a shortage of skilled personnel (34 per cent), and potential disruptions in the supply chain (28 per cent). Added to this are long-term geopolitical challenges, which companies see particularly as inflation and monetary policy (41 per cent), fragmentation of the global economy (41 per cent), and increasing political influence on the supply chain (40 per cent).

Despite the challenges, Vietnam is expected to experience a resurgence in its economic growth in the medium term. This will be fuelled by various factors, including free trade agreements, most notably the EU-Vietnam Free Trade Agreement (EVFTA), the implementation of the China+1 strategy, the global trend of shifting and diversifying manufacturing supply chains towards competitive hubs in Southeast Asia, and the inflow of green investments.

57 per cent of German companies in Vietnam prioritise diversifying their supply chains, with the nation being their top choice – followed by Malaysia and Thailand. The Delegation of German Industry and Commerce in Vietnam suggests the following focus areas to further strengthen the attractiveness of investment in Vietnam.

First, there should be collaborative efforts to address the potential shortage of skilled staff by equipping them with German-standard skills, capitalising on Industry 4.0 and the digital transformation.

Secondly, Vietnam should prioritise strengthening its local suppliers to maintain its role in the supply chain, while also complying with sustainable development regulations and the German Supply Chain Due Diligence Act.

In addition, the concretisation and implementation of the Power Development Plan VIII is recommended to incentivise renewable energy production. Finally, the country should simplify, digitalise, and streamline its administrative procedures to leverage the EVFTA and enhance its business and investment environment. VIR

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FDI inflows into real estate total over US 66 billion

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. Vietnam has to date attracted 37,500 foreign direct investment (FDI) projects worth nearly US$450 billion, including 1,100 projects in real estate with a total capital of US$66.4 billion, heard an international workshop in Hanoi on July 13.

At the workshop on development potential of Vietnam's real estate market organised by Nha dau tu (Investor) magazine, Nguyen Anh Tuan, deputy head of the Foreign Investment Agency under the Ministry of Planning and Investment, said real estate ranks second in FDI attraction, only after processing and manufacturing.

Among the 48 countries and territories investing in Vietnam's real estate market, Singapore takes the lead, followed by the Republic of Korea (RoK) and Japan, he added.

Foreign investments have flown into 45 cities and provinces, of which Ho Chi Minh City accounts for a lion's share with US$16 billion (24.7%), followed by Hanoi, and the southern provinces of Binh Duong and Ba Ria-Vung Tau.

Tuan noted that most foreign investors in real estate are large-scale firms, and many projects are worth up to billions of US dollars, explaining that Vietnam has advantages in terms of political stability, high economic growth, competitive production cost, abundant workforce, favourable geographical location, open, transparent investment environment, and upgraded infrastructure, among others.

The official noted that over the past 35 years, foreign investors have contributed to standardising the Vietnamese real estate market, and building facilities that meet regional and international standards.

Apart from industrial real estate, other segments like housing and resort have also become a magnet to foreign investors, he added.

Tuan also pointed to issues that are hindering FDI projects like the complicated legal system and administrative procedures and tightened credits and government bond issuance, which he said need to be fixed in the time ahead.

Joseph Low, president of Keppel Land Vietnam, suggested Vietnam ensure land supply amidst its rapid urbanisation and the growing middle class, and optimise land in central areas, towards a sustainable real estate sector. VNA

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