VIETNAM BUSINESS REVIEW

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FINANCE

Vietnam potentially join the world's top 25 economies by 2038

Vietnam and the Philippines are poised for significant advancements in the World Economic League Table (WELT) between 2023 and 2038, according to the Center for Economics and Business Research (CEBR). The CEBR predicts that Vietnam will ascend from the 34th position in 2023 to 24th in 2033 and further to 21st in 2038, while the Philippines is expected to reach the 23rd position by 2038.

In its latest WELT rankings, the CERB highlights Vietnam and the Philippines as noteworthy examples of countries likely to enhance their standings through strategic positioning within the global value chain, domestic reforms, and improved productivity achieved through efficient mobilization of public and private capital. The report emphasizes the significant progress both countries have demonstrated, anticipating a climb of 10 and 13 positions, respectively, by 2038, with a strong likelihood of joining the top 25 economies globally.

The CEBR also forecasts a positive trajectory for Vietnam over the next 15 years, buoyed by its population advantage. With ambitious goals, Vietnam aims to achieve high-income status by 2045. Fueled by a large and relatively young population, Vietnam is well-positioned to surpass most ASEAN countries, trailing only Indonesia, and potentially join the world's top 25 economies by 2038. vnexpress

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Vietnam’s Real estate to rebound from mid-2024

Real estate experts anticipate a gradual rebound in Vietnam's property market starting from mid-2024, with sustained strength expected to materialize in the third quarter of 2025. Real estate research firm Batdongsan, in its recent market report, adjusted its earlier forecast, citing factors such as new laws taking effect, projected economic growth, and buyer sentiment.

While the "turning point" is anticipated in Q3 2024, experts, including Michael Kokalari from Vina Capital, emphasize that robust recovery will follow later, indicating that the worst may be over for the market. Notable factors include increased transactions following a reduction in mortgage interest rates by banks in August and a shift of funds from bank savings to stocks and real estate.

Opportunities for the real estate market in 2024 are highlighted, driven by factors like China's border reopening, global supply chain shifts, infrastructure development initiatives, and socioeconomic recovery programs. Vietnam's well-managed inflation and controlled bad debt attract capital flows into the housing market, coupled with ongoing improvements in planning, infrastructure, and legal frameworks.

However, challenges remain, including external risks such as slow global economic growth and private investment, sluggish tourism recovery, and cautious investor sentiment. The sector also faces hurdles related to accessing capital, with property companies struggling across various funding sources.

While lending interest rates might decrease in 2024, challenges in accessing credit and convincing banks persist. Legal hurdles affecting new property projects may not be resolved until 2025, potentially limiting new launches and completions in the upcoming year.

The market is expected to follow a cyclical pattern with recovery from Q2 to Q4 2024, expansion until Q1 2025, and hypersupply from Q2 to Q4 2025, coinciding with legal amendments. However, significant development is not expected in the first half of 2024, with increased transactions anticipated in the second half, albeit only marginally. vnexpress

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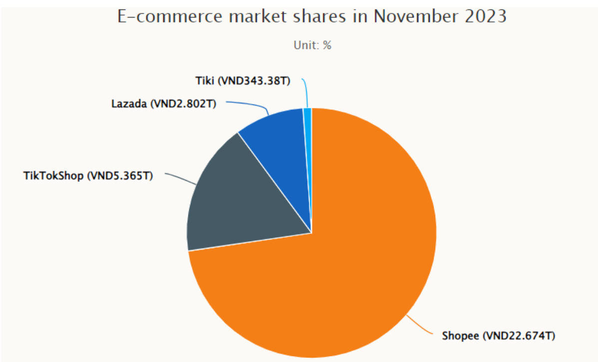
E-COMMERCE

Livestreaming and promotions drive $1.28 billion in November sales for Vietnamese E-commerce

In November, the combined transaction values on prominent Vietnamese online shopping platforms—Shopee, Lazada, TikTok Shop, and Tiki—reached approximately $1.28 billion (VND31.9 trillion), as reported by EcomHeat, an e-commerce data intelligence platform provided by YouNetECI. The data, compiled from 2.6 million online sellers across these platforms, revealed that 405,000 sellers received new orders during the month, notably driven by promotional events such as the Singles' Day super-sale.



Shopee dominated the market with a 72.7% share, amounting to approximately $970 million (VND22.7 trillion), followed by TikTok Shop at 17.2% and Lazada at 9%, leaving Tiki with a 1.1% market share. Shopee led across all product categories, while Lazada excelled in high-value technology products, contributing significantly to its revenue.

TikTok Shop, on the other hand, attracted consumers seeking low-value items like inexpensive clothing, accessories, cosmetics, and food and beverages. The platform's average product value was the lowest at approximately $4.7 (VND108,000), compared to approximately $5 (VND116,000) on Shopee and approximately $7.1 (VND162,000) on Lazada.

Livestreaming and affiliate marketing emerged as the primary strategies for attracting buyers on all platforms during November. Shopee's Singles' Day super-sale showcased the effectiveness of livestreaming, with 722 million interactions and 603 million views. The platform's revenue from livestreaming increased substantially, emphasizing the success of this strategy.

TikTok Shop also focused on livestreaming, with a notable growth of 210% in livestreaming sellers and 330% in content creators during the first half of 2023. Affiliate marketing, involving key opinion leaders (KOL) and key opinion customers (KOC), played a crucial role in boosting sales during promotional campaigns, especially evident on November 11, when the number of active KOLs on Shopee increased by 79 times.

Despite economic uncertainties, a survey conducted by Visa revealed that 75% of Vietnamese consumers are optimistic about the country's economic growth, and 55% plan to increase their spending in 2024. However, a substantial portion also intends to prioritize savings, with 43% planning to save 10-29% of their income. vnexpress

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ENERGY

Vietnam's ambitious hydrogen and offshore energy development goals

Vietnam is actively pursuing the development of hydrogen energy and hydrogen-source fuels, emphasizing regions with renewable energy potential close to major consumer markets.

Minister of Industry and Trade Nguyen Hong Dien highlighted this commitment during a government meeting on Vietnam's hydrogen and offshore energy development. The Ministry of Industry and Trade (MoIT) is gathering feedback from experts, studying reports, and working on policy mechanisms to address current challenges.

The country's draft Hydrogen Production Strategy aims for hydrogen production capacity from renewable energy to reach 100,000-500,000 tonnes by 2030 and 10-20 million tonnes by 2050. Simultaneously, Power Plan VIII outlines significant additions to electricity capacity from gas and offshore wind projects, constituting about half of the Southeast Asian economy's electricity capacity by 2030.

However, challenges exist in meeting the operational deadline before 2030, especially for gas and offshore wind projects. Hoang Tien Dung from the MoIT noted the 7-8 year timeline for gas power projects and 6-8 years for offshore wind projects, making meeting the 2030 deadline a considerable challenge. Issues like a lack of financial policies, consumption mechanisms for gas power, and uncertainty in investment arrangements further hinder progress.

Concerns also surround the country's LNG import infrastructure, considered insufficient to meet the goals set in Power Plan VIII. Le Manh Hung, Chairman of Petrovietnam, highlighted the risks for investors due to incomplete mechanisms for gas and offshore wind power projects. He stressed the need for major amendments in laws related to investment, electricity, pricing, and bidding.

Pham Duc Hieu, a member of the National Assembly's Economic Committee, advised creating a group of experts to review cross-sectoral policies, proposing amendments to harmonize legal documents. Nguyen Quoc Thap, Chairman of the Vietnam Petroleum Association, called for comprehensive resolutions on equal rights to deploy various electricity sources, including offshore wind power, gas power, and LNG power.

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Singaporean, Chinese investors eye stakes in six wind power plants

Singaporean and Chinese companies are interested in acquiring part or all of six wind power plants in the central province of Quang Tri. They have sent in proposals to the province Department of Planning and Investment and it is now seeking advice from various ministries, Truong Chi Chung, its director, said.

One of the investors is Sembcorp Solar Vietnam, a subsidiary of Singaporean energy firm Sembcorp Group. It wants to buy stakes worth VND710 billion (US$29.28 million) in Huong Phung Wind Power Co., which owns the Huong Phung 2 and 3 plants, and buy out Gelex Quang Tri Energy Co., the owner of Gelex 1, 2, and 3 plants for VND1.27 trillion.

The five plants began operation in October with an incentive feed-in tariff of 8.35 U.S. cents per kilowatt-hour for 20 years. Two Chinese investors have offered to buy a 50% stake in the Amaccao Quang Tri 1 plant owned by Khe Sanh 9 Wind Power Jsc.

It has a capacity of 49.2 megawatts and price tag of VND2 trillion, and began operation in November 2021 at the same incentive tariff. All six are in Huong Hoa District on the Laos border.

The department is therefore seeking advice from the government about the conditions foreign investors need to comply with to ensure national security. Huong Hoa has become a destination of choice for wind power investors in recent years. It has 31 plants with a total capacity of over 1,177 MW, 19 of them already operational. vnexpress

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RETAIL

Unveiling US $7 billion Vietnam's flourishing pharmaceutical sector

As per the recent MB Securities (MBS) report, Vietnam's pharmaceutical industry, valued between $6 billion and $7 billion in 2022, is an expanding sector, with over 70% of its revenue generated from prescribed drugs. The retail market, comprising nearly 60,000 pharmacies and valued at almost $2 billion, plays a significant role alongside prescribed drugs.

MBS underscores the importance of modern chain stores in this landscape, despite representing only around 4% of the pharmacies (about 2,400). The report identifies three key factors propelling growth in Vietnam's retail drug market. Firstly, the absence of a dominant player in the market creates opportunities for leadership. Secondly, an aging population and increased health awareness post-pandemic are driving demand. Lastly, Vietnam's high PM2.5 air pollution levels are fostering the need for health supplements and functional foods.

The market's potential is further demonstrated by Dongwha Pharm Group's acquisition of Trung Son Pharma for approximately $30 million, showcasing robust foreign investment interest.

In the retail sector, a fierce competition between Pharmacity and Long Chau is evident. Pharmacity, formerly the largest chain with over 1,100 stores, has undergone structural changes since the departure of founder Chris Blank in 2022. As of February 2023, Long Chau has taken the lead with 1,009 stores compared to Pharmacity's 936.

Managed by FPT Retail, Long Chau has exhibited remarkable growth, expanding to nearly 1,600 stores over two years, with an average revenue increase of 174.7% from 2020 to 2022. By December 2023, the chain had solidified its market presence, achieving an impressive quarterly growth rate of 23.4% since 2020.

MBS predicts a promising future for Long Chau, anticipating a growth to 1,617 stores by the end of 2023, reflecting a 72% increase from the previous year. Vietnam's pharmaceutical market, valued at $7 billion, continues to attract significant attention from both domestic and international investors, setting the stage for ongoing growth and innovation. VIR

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LOGISTICS

Vietnam's Logistics outlook and strategies for 2024

With a varied outlook in 2024, the transportation industry is preparing for potential cost increases, while others anticipate stability.

The World Bank reports a decline in Vietnam's Logistics Performance Index (LPI) ranking by four places to 43rd in 2023. Despite this drop, the LPI score increased to 3.3 points from 3.27 in 2018, signaling gradual enhancements, particularly in customs efficiency and infrastructure quality.

This ranking reflects the pandemic's impact on logistics, causing disruptions in the supply chain and transportation. In Vietnam, trucking is crucial, representing 77% of the country's freight movement, exceeding 1.5 billion MT.

However, challenges persist, such as high logistics costs (21% of GDP) and environmental concerns due to older trucks emitting greenhouse gases and contributing to traffic congestion.

A December survey by CEL Consulting on 143 trucking businesses in Vietnam highlighted operational issues like route optimization inefficiencies, high vehicle maintenance costs, and driver shortages with associated wage increases. Primary challenges impacting operational costs include rising fuel prices, driver shortages, inefficiencies in route optimization, vehicle maintenance, and regulatory compliance costs.

These challenges underscore the dynamic nature of the logistics sector, influenced by economic shifts and market trends. Companies are focusing on innovative strategies and efficient planning to navigate complexities and capitalize on growth opportunities. Policy recommendations include fleet modernization, enhanced driver training, and infrastructure improvements. The integration of digital technology, such as automated toll collection, is viewed as essential for enhancing operational efficiency and cost-effectiveness.

Despite challenges, Vietnam's freight and logistics market is projected to reach $45.19 billion in 2023, with a compound annual growth rate (CAGR) of 6.34%, reaching $65.34 billion by 2029. The trucking sector experienced significant growth in early 2023, with a 16% increase in freight transport volume and nearly a 22% increase in turnover, year-on-year.

Looking ahead, the sector aims to diversify transportation methods, reducing reliance on road transport and exploring water, air, and sea alternatives. This shift aligns with broader trends in the Asia-Pacific logistics market, known for its diverse range of services. VIR

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INVESTMENT

Vietnam has urged the reform of investment incentives to maintain the country's attractiveness for FDI

The Ministry of Planning and Investment (MPI) in Vietnam has urged the reform of investment incentives to maintain the country's attractiveness for foreign direct investment (FDI) amid global changes, particularly the adoption of the global minimum tax (GMT). Facing a 4% decline in global FDI flows and intense competition among nations, Vietnam is prompted to revise its policies.

Developed economies like the US, EU, Japan, India, Korea, and Taiwan have implemented robust preferential policies to retain investments and foster strategic autonomous economies. Additionally, emerging countries such as India and Southeast Asian nations are actively enhancing their business environments to attract FDI, creating competitive advantages.

The GMT significantly impacts existing tax incentives, necessitating prompt responses to uphold Vietnam's competitive position. The MPI suggests seven proposals for reforming investment incentives, including: Introduce breakthrough incentive policies to attract strategic investors and high-quality investments in technology, research and development, and environmental protection; Diversify incentive policies to reduce dependence on corporate income tax incentives; Carefully study tax incentives, calculating the full cost and publicly announcing it as a mandatory document for budget estimates; Implement preferential policies on land and essential infrastructure to facilitate business startup; In the short term, develop urgent solutions to address GMT impacts and prevent the outflow of major investors, focusing on high-tech groups; In the long term, undertake comprehensive reforms without eliminating income tax incentives, particularly effective for small and medium-sized investors; Improve the investment environment and simplify administrative procedures.

The ministry has also proposed a draft decree on an investment support fund as a solution to attract strategic investment in the post-GMT era. With advantages in security, political stability, and open economy, Vietnam aims to build an independent, self-reliant economy through inclusive and sustainable development.

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Real estate ranks high in 2023 foreign investment interest

Foreign investors are significantly expanding their presence in Vietnam's real estate market, contributing to the sector's high ranking in foreign investment interest for 2023. In December, Malaysian company United Overseas Australia (UOA) announced a joint venture with CapitaLand Vietnam Holdings for a $247 million property project in Vietnam. Other major players like Mitsubishi Estate and Far East Organization are also participating in projects, indicating a growing trend of international involvement in the Vietnamese real estate landscape.

As of December 20, the total registered foreign investment capital in Vietnam reached nearly $36.6 billion, a 32% increase compared to the same period last year. Real estate ranked second among sectors, receiving nearly $4.67 billion, constituting over 12.7% of the total registered capital, a 4.8% increase.

Singapore leads in foreign investment in Vietnam, with a total amount exceeding $6.8 billion, marking an 18.6% share and a 5.4% increase over the previous year. Singapore has emerged as the primary investor in Vietnam's real estate, featuring companies like CapitaLand, Keppel Land, Mapple Tree, and Sembcorp.

Industrial real estate is experiencing positive changes, driven by a surge in foreign investment, particularly from large-scale manufacturers like Samsung, Intel, Foxconn, Pegatron, Goertek, and Lego. The manufacturing sector's growth has stimulated demand for industrial zones, providing a solid foundation for industrial property and logistics improvement.

In 2023, significant ventures, such as those by Compal and Quanta Computer, have been implemented, further enhancing Vietnam's industrial real estate market. The industrial and residential real estate segments are witnessing increased activity, with project mergers and acquisitions contributing to a vibrant market.

To support the growth of the domestic real estate market, the Vietnamese government has increased the supply of real estate, tailored products to meet housing needs, and created favorable conditions for foreign investment. These efforts aim to boost the market's vibrancy and retain highly qualified human resources in the real estate sector. VIR

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