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VIETNAM BUSINESS REVIEW

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S&P Global Ratings has affirmed Vietnam's 'BB+' long-term with stable outlook

S&P Global Ratings has affirmed Vietnam's 'BB+' long-term and 'B' short-term sovereign credit ratings, maintaining a stable outlook. The agency predicts that Vietnam's economy will accelerate in the next 12 months due to increasing global demand and resolving domestic issues. Key factors include strong economic growth prospects, moderate government debt, and a sound external position.

Vietnam's economic growth is expected to rise to 5.8% this year, following a 5% growth rate in 2023. The semiconductor industry's upcycle is likely to boost exports, while cross-border travel and Chinese tourism are rebounding. Public investment is anticipated to increase, primarily funded by the State budget, with real GDP growth projected to return to the long-term trend of 6.5%-7.0% in the next three to four years.

Vietnam's economic diversification and robust manufacturing sector, heavily supported by foreign direct investment (FDI), underpin its healthy economic prospects. The country remains an attractive destination for FDI due to its young, educated, and competitive workforce. This FDI influx continues to enhance the manufacturing sector, particularly in electronics, mobile phones, and textiles, leading to better employment opportunities and higher wages, driving private consumption growth.

Trade performance has significantly improved, with a higher current account surplus in 2023. Both exports and imports are expected to grow healthily in 2024, maintaining a current account surplus of about 5.5% of GDP this year, before stabilizing to its long-term trend from 2025 onward. VNA

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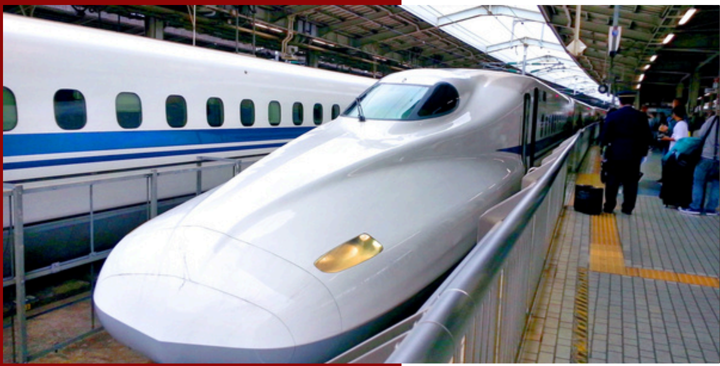

Vietnam is actively planning its first high-speed railway network

Vietnam is actively planning its first high-speed railway network, spanning 1,545 km (960 miles) across the country, with an estimated cost of $72 billion, equivalent to 17% of its GDP. The Vietnamese government aims to leverage China's advanced railway industry for technological, financial, and managerial expertise.

A recent visit by Vietnam's Minister of Planning and Investment, Nguyen Chi Dung, to China included discussions with Chinese trade and transport officials and railway executives. This visit resulted in the signing of numerous cooperation agreements, including those related to railway development, during Chinese President Xi Jinping's visit to Hanoi in December.

Recognizing China's position as a global leader in railway technology, Vietnam seeks to learn from its experience to ensure the successful implementation of its high-speed rail project. In addition to China, Vietnam has also reached out to Japan for support, reflecting a strategy to incorporate international expertise.

Despite long-standing plans, Southeast Asia, including countries like Vietnam and Thailand, has been slow to adopt high-speed rail. Vietnam's ambitious project marks a significant step toward modernizing the region's transportation infrastructure.

The government plans to submit the high-speed railway proposal to parliament for approval later this year, although no specific timeframe has been announced. This project underscores Vietnam's commitment to enhancing its transportation network and fostering economic growth through strategic international cooperation and infrastructure development.

In summary, Vietnam's high-speed railway project, inspired by China's successful model and supported by international expertise, represents a pivotal development in the nation's infrastructure strategy. The project's success will hinge on effective planning, international partnerships, and strategic execution. Vnexpress

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Lawmakers are considering imposing a value-added tax (VAT) on the five million daily cross-border orders

Lawmakers are considering imposing a value-added tax (VAT) on the five million daily cross-border orders from China, each valued under VND1 million (US$39). At a National Assembly meeting, Le Quang Manh, head of the Finance and Budget Committee, argued for expanding the tax net to include these low-value imports to create fair competition for domestic businesses.

Currently, goods worth VND1 million delivered through shipping services are not taxed, a policy in place since 2010. Manh proposed revising this, citing VNPT data indicating that most orders are valued between VND100,000-300,000. The surge in e-commerce has significantly increased the volume of such goods, now reaching 5 million daily orders, generating $45-63 million in daily revenue and $1.3-1.9 billion monthly.

Nguyen Manh Hung of the Economic Committee highlighted the substantial number of untaxed low-value goods, sharing that his teenage children place 7-10 orders daily. He emphasized the need to tax these imports, particularly from China and Thailand, to boost government revenue sustainably.

Minister of Finance Ho Duc Phoc noted that other countries have eliminated tax exemptions on low-value goods. The E.U. has removed VAT waivers on items under EUR22 ($23.6), and Thailand applies a 7% VAT on all imports, regardless of value. This international trend supports the case for revising Vietnam's tax policies to encompass low-value e-commerce imports. Vnexpress

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Measures for offshore wind must be carried out quickly

Vietnam's goal of achieving 6GW of offshore wind (OSW) capacity by 2030 faces challenges due to slow legal and developer support processes. At a recent workshop, Mark Hutchinson from the Global Wind Energy Council (GWEC) highlighted that only intertidal wind projects near the coast have been developed, with no real OSW projects initiated.

Hutchinson noted that OSW projects take 6-8 years to set up, meaning the first pilot project might not be ready until 2032. He emphasized the need for competitive procurement to drive OSW forward in Vietnam, calling for transparency and collaboration with experienced developers.

Key suggestions to expedite progress include implementing a simple remuneration mechanism for pilots, streamlining permitting processes, robust marine spatial planning, clear auction timelines, and enhancing power purchase agreement bankability to attract international finance.

Bui Van Thinh, chairman of Binh Thuan Wind and Solar Power Association, pointed out the lack of regulations, policies, and spatial planning for OSW. Despite the decreasing cost of wind power production, regulatory and planning challenges hinder project implementation.

Nguyen Hoang Anh of Vietnam Electricity (EVN) highlighted difficulties in building power transmission systems for OSW due to regulatory issues and the lack of a national marine spatial master plan. He called for clear and transparent mechanisms for power prices and investment regulations.

An energy outlook report by EVN and partners projected OSW capacity to reach 84GW by 2050. The report stressed the need for a framework to implement pilot schemes under Power Development Plan VIII (PDP8) and beyond, emphasizing regulations, grid connections, seaport infrastructure, and a skilled workforce.

Marine spatial planning proposals are expected to be submitted to the National Assembly soon. The Asia-Pacific region is projected to add 215GW of OSW capacity by 2033, with Vietnam contributing 3% of new installations. VIR

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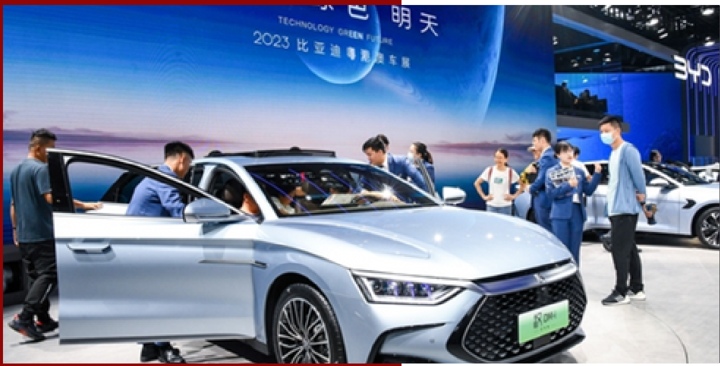

The Vietnamese automobile market is undergoing significant changes Chinese car brands

The Vietnamese automobile market is undergoing significant changes with the increasing presence of Chinese car brands, such as Omoda, Jaecoo, BYD, Haval, and Lynk & Co. These brands are seizing the opportunity presented by Vietnam's growing demand for automobiles and rising average incomes, as the country experiences a shift towards greater car ownership.

Chinese automakers are rapidly establishing a strong presence in Vietnam by opening numerous showrooms and dealerships. BYD plans to launch 50 showrooms by mid-2024, while Haval aims for 25-30 dealerships this year. Additionally, these brands are investing in local production facilities, with Omoda and Jaecoo setting up a factory in Thái Bình Province with an annual capacity of 200,000 cars. BYD is also considering establishing an automobile factory in Vietnam.

The diverse product lineup offered by Chinese brands includes petrol models, plug-in hybrids, and pure electric vehicles (BEVs), catering to various segments of the Vietnamese market. Chinese brands particularly target young consumers, who are quick to adopt new technologies, including electric vehicles (EVs). BYD leverages its expertise in EVs to further penetrate the market.

Chinese brands have ambitious market share goals, with Omoda and Jaecoo aiming for 10% by 2028. Achieving these targets will require time and sustained effort in the competitive market. The reception of Chinese cars among Vietnamese consumers will be crucial. For instance, Lynk & Co focuses on community building, integrating sales, after-sales services, and social events to attract young consumers who value connectivity and unique experiences.

Overall, Chinese car brands are positioning themselves strategically to capture a significant share of Vietnam's automobile market, emphasizing local production, diverse product offerings, and targeted marketing strategies.

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Ba Ria-Vung Tau and Dong Nai attract foreign direct investment in Vietnam

Ba Ria-Vung Tau province has emerged as a leading destination for foreign direct investment (FDI) in Vietnam, attracting over $1.52 billion in the first four months of the year, accounting for 16.4% of the country's total FDI. This surge, more than 12 times higher than the same period last year, underscores the province's strategic importance and favorable investment climate.

Provincial Party Committee Secretary Pham Viet Thanh highlights the province's strategic location as a gateway to the East Sea and its favorable natural conditions, hospitable people, and quality workforce. By 2030, the province plans to have 24 industrial parks over an area of 16,052 hectares. Currently, it has 13 operating parks, with more under development, including the Long Son Oil and Gas Industrial Park.

Matsumoto Nobuyuki of JETRO emphasizes Ba Ria-Vung Tau's advantages, including the Cai Mep Thi Vai port, Long Thanh International Airport, and ample oil and gas resources. The province's proximity to Dong Nai and Binh Duong enhances its appeal by ensuring a steady supply chain for production.

Similarly, Dong Nai province continues to attract global investors, driven by extensive transportation infrastructure projects like Long Thanh International Airport and the Bien Hoa-Vung Tau expressway. Director of the Provincial Department of Planning and Investment, Nguyen Huu Nguyen, states that Dong Nai focuses on high-tech industry, trade, and logistics, offering incentives for supporting industries and high technology.

Both provinces are addressing administrative bottlenecks and improving conditions for businesses. Ba Ria-Vung Tau is developing an economic axis linked to the Cai Mep-Thi Vai seaport and aims to build large-scale industrial-service-urban complexes in Phu My. Dong Nai prioritizes modern technology and digital transformation, aspiring to lead in high-value industries and achieve carbon neutrality by 2050.

Ba Ria-Vung Tau and Dong Nai's proactive approaches, strategic locations, and robust infrastructure make them prime destinations for FDI, fostering economic growth and technological advancement in Vietnam. Vietnamplus

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