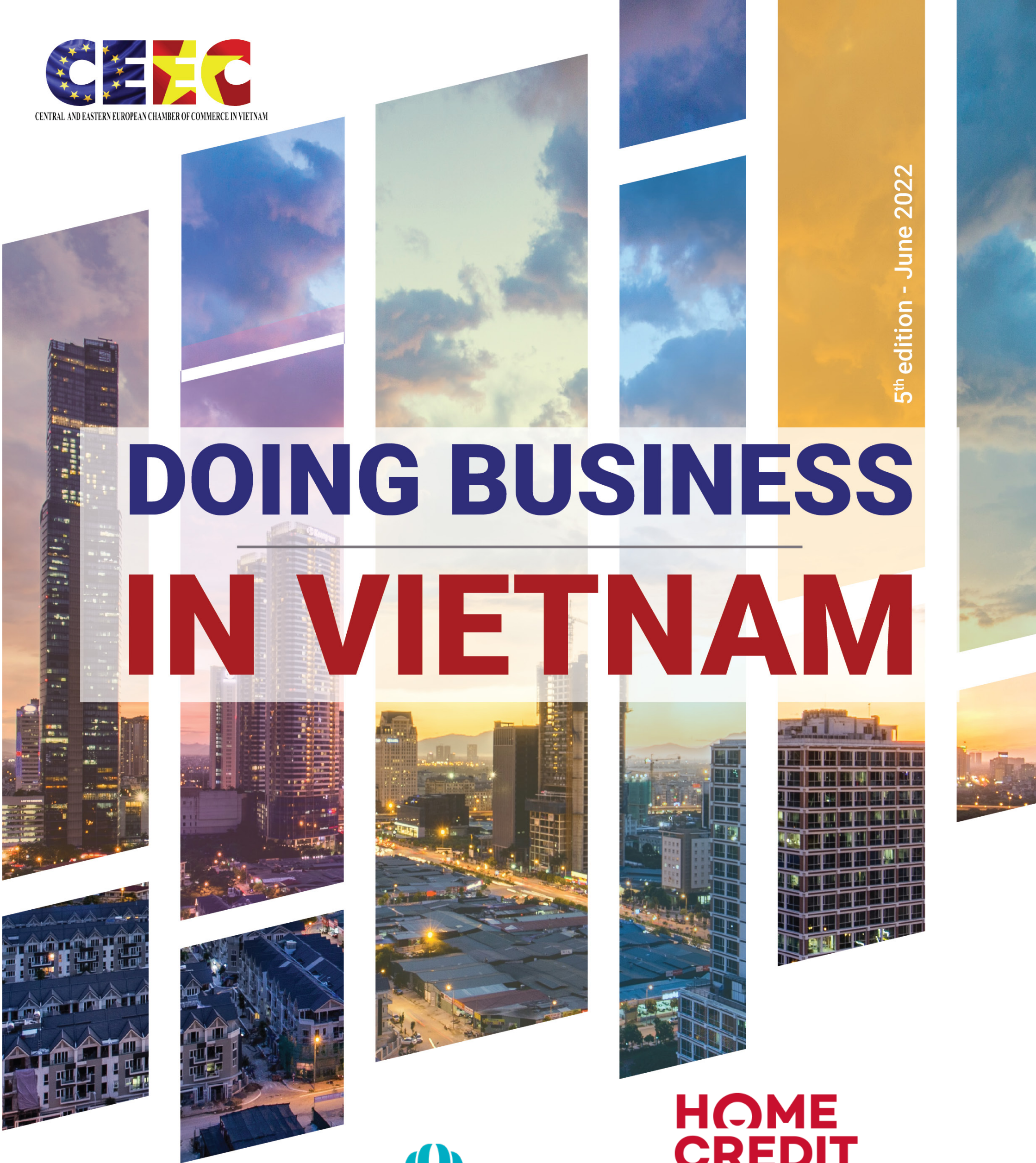
CENTRAL AND EASTERN EUROPEAN CHAMBER OF COMMERCE IN VIETNAM



5th edition - June 2022

DOING BUSINESS IN VIETNAM

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An internal booklet issued by the Central & Eastern European Chamber of Commerce in Vietnam
Online version can be found and downloaded at www.ceecvn.org

SOCIALIST REPUBLIC OF VIETNAM

Capital	Hanoi
Area	331,212 km2
Population	96,208,984
National Flag	
National Emblem	

National Language:	Vietnamese
Largest City:	Ho Chi Minh City
Currency:	đồng (đ) (VND)
GDP - 2020*:	271.16 bil US$
nomial per capita	2,785.70 US$
PPP per capita	8,650.10 US$
Legislature:	National Assembly
Time Zone:	UTC+07:00
Independence Day:	02nd September 1945
Measuring Unit:	metric system
Driving on the:	right
Date format:	dd/mm/yyyy
Calling code:	+84

** GDP data for 2020 published on World Bank: https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD?locations=VN. All leading financial institutions and respective government bodies estimate a growth rate of around 5% in 2022.*

Photo by Hugo Heimendinger from Pexels

Ha Long Bay - Photo by Thinh La from Pixabay

Mu Cang Chai, Yen Bai - Photo from Pixabay

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Marko Moric

Chairman of CEEC

The Central and Eastern European Chamber of Commerce in Vietnam (CEEC) has a unique history among European Chambers in Vietnam, and I would say, worldwide. The Central and Eastern European countries have the longest and friendliest common history with Vietnam and its people. We represent that whole region by creating a platform for businesses, individuals, and Governments. Since its establishment seven year ago, CEEC has had great achievements and earned recognition from the Vietnamese authorities and from the international communities, in particular the European community: CEEC provides services, supports companies' entrance into the market and generates necessary income for its own operations without using any subsidies.

CEEC is a worldwide pioneer initiative to bring the Central and Eastern European countries together, and it is progressing well, thanks to our colleagues, friends, companies, and Embassies in Vietnam. Our approach is an example of good practice that has been already implemented in Singapore as a "sister" chamber of CEEC has been established there. I believe that other countries, where Central and Eastern European business communities need advocacy, extra tools for economic diplomacy and efficient business representation, can implement this approach too.

Vietnam is not an easy market. Patience, strong will, good products and services, large resources are needed. Competition is tough, the country became a more and more desirable destination for trading goods, services and investment.

On the other hand, the outlook of the country and the possibilities it offers, despite of the disruption caused by covid-19 pandemic, are very promising. The implementation of the EVFTA opened the door to CEE companies a bit wider. Our countries and enterprises are identifying new opportunities and new fields of cooperation in Vietnam every day. I firmly believe that the chance is here, and I am confident that CEEC can provide proper advice and tools to take that chance. The aim of this guide is to give a short overview of different sectors, to assist businesses in successful market entrance. Please read it as a start of our further conversation.

I hope to greet you personally in this exciting place and that we will have the opportunity to cooperate in the nearest future.

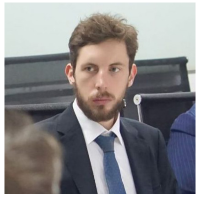
Marko Moric









ABOUT CEEC

The Central and Eastern European Chamber of Commerce in Vietnam (CEEC) was formed in March 2015 as an independent non-profit organization. It aims to enhance the cooperation, develop the relations in term of economic, finance, commerce, investment and trade promotion between Vietnam and businesses from the 15 Central and Eastern European countries.

CEEC is the youngest European rooted business community in Vietnam and most likely a global pioneer by representing Central and Eastern European companies, professionals in one entity. We promote the cooperation between businesses as well as individuals from 15 Central and Eastern European countries (Austria, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Republic of North Macedonia, Montenegro, Poland, Romania, Serbia, Slovak Republic, Slovenia) and Vietnam. CEEC and all other European Business Associations (GBA, CCIFV, ICham, DBAV, BeLuxCham, NordCham, CCIPV, and SCCV) delegate their representative to the Executive Committee of the European Chamber of Commerce in Vietnam (EuroCham) which is representing over 1,000 European companies. With Dr. Gellert Horvath, Vice and Co-Chairman of EuroCham for the period of 2017-2018 and Mr. Minh Nguyen, current Co-Chairman of EuroCham, in charge of government relations, CEEC has a strong visibility not only within the European community in Vietnam but also the Vietnamese business community. CEEC's founding Vice Chairman, Mr. Csaba Bundik, was the Executive Director of EuroCham (2013-2015). We also have representatives in the IQM-G&B, Tourism & Hospitality, Transportation & Logistics and Green Growth Sector Committees and representative bodies.

Our main goals are to provide the best services we can give for our existing members, to support their business activities with consulting, networking, referrals and to build an intense CEE related business community in Vietnam

For CEE companies who want to start doing business here, we have the "*Soft-landing Service*" which is considered as an active tool for newcomers, to assist their entry into the market. The program contains a multilevel scrutiny and identification procedure which is followed by a one-year business incubation operation in Vietnam. Our first company was the Hungarian rooted Gravity R&D. The incubation phase is the key to enter a market with high entry costs and fierce competition; to identify the strong points of goods and services that the company provides; and find the matching partners and build the trust necessary for success. The cost of the incubation phase is low thanks to the CEEC's non-profit nature. Payroll for staff in Hanoi and Ho Chi Minh City is usually the biggest cost for such a project. Their work can be tutored and supervised by a business development manager in Vietnam conjointly with the management from the company's headquarters. Local staff is hired by CEEC, which is an easy and cost-effective market entry solution for European SMEs.

The one-year incubation period is followed by a large-scale assessment of the company's operations and progress in Vietnam. The positive assessment will provide the base for the cooperation of the coming years. During the incubation period the company will see what type of business development model works better for its own goals: founding a local company/ enter a Joint Venture/ or to buy equity in an operating Vietnamese company (technology/ management skills for shares).

Last but not least, we represent the interest of the CEE business community in this country in the forums of EuroCham, EU Delegation to Vietnam, Diplomatic Bodies, and Government Agencies.

CEEC Services are offered at 3 different levels:

1. Standard services - basic member services that are related with CEEC-EuroCham dual-membership benefits.
2. Advanced services (consulting at the staff level against service fee) include: business matchmaking, company contact list, company background check, market study, consulting, and mission arrangement support.
3. Premium services (Business Development with the price upon agreement) include CEEC Soft-landing Program and consultation on CEEC Board Members Level.

We also focus on business networking events and CEEC Share & (L)Earn events that provides information and actual experiences on specific issues. With our great devotion, CEEC promises to bring its most benefit for businesses from Central and Eastern Europe.

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CEEC is regularly publishing an overview of our activities. Our Quarterly Reports can be easily downloaded for free from our website: https://ceecvn.org/news/ceec-publications/

CEEC
CENTRAL AND EASTERN EUROPEAN CHAMBER OF COMMERCE IN VIETNAM

SOFT-LANDING PROGRAM

1

Information Sharing

Sharing information about Vietnam, CEEC and ease of doing business in Vietnam in cooperation with Central and Eastern European Chambers

2

Market Assessment

Short market research will be implemented to evaluate:

- The market
- The price
- Client's competitiveness
- The network CEEC can utilize for participant of the program.

3

Incubation period

- Employ 1 - 2 business development people on behalf of the clients;
- Prepare the recruitment with subcontractors. The clients will choose the right candidate then provide training and professional support. CEEC will provide local supervision & introduce Client's business development staff to relevant stakeholders;
- Support business to find office

4

Investment

CEEC will suggest the strategy, sub-contractors for the company establishment. In the future CEEC/ members of CEEC could act as co-investors, joint venture partners too.

VIETNAM POLITICAL & ECONOMIC OUTLOOK

Image by Falco from Pixabay

Vietnam is in a favorable position to reap political and economic achievements. Since the late 1980s when the Doi Moi was announced, Vietnam has been through several major economic reforms whilst government leaders had consistently followed the "socialist-oriented market economy". The country's political system remains stable as a single party socialist republic which prioritizes infrastructure investments. The government creates a decent and stabile macro-economic climate. Over the last few years, Vietnam has increasingly integrated with the global economy by signing several trade agreements, adjusting its financial incentives, and becoming an attractive destination for foreign investment.

The prolonged Covid-19 pandemic has pushed the world economy into the most severe crisis since 1930 due to supply chain disruptions, lockdowns, restrictions, and their impacts on global economic activities. Meanwhile, showing remarkable resilience against the pandemic, Vietnam's GDP grew by 2.91% in 2020 and 2.58% in 2021. Thanks to its solid foundations built between 2010-2020, Vietnam overcame the Covid-19 epidemic successfully. It is important to note, that Vietnam is one of the few countries retaining positive growth in 2020 despite the fact the index is the lowest among those of the period 2011-2020, reported by the World Bank. In addition, Vietnam experienced six consecutive years of inflation below 4% and reached 1.84% in CPI growth, lowest since 2016.

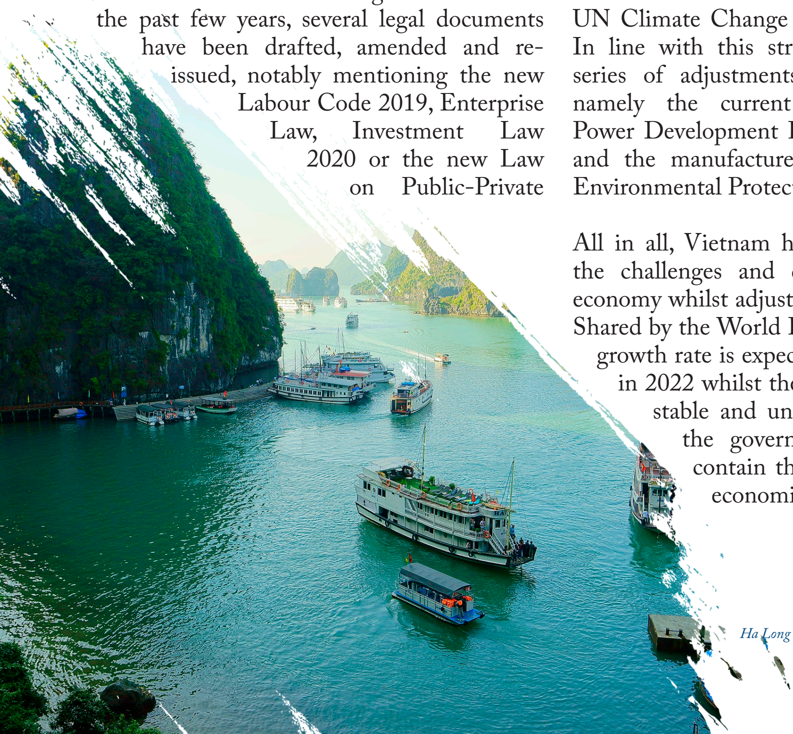
Foreign investments play a key role in Vietnam's economic growth, while foreign trade increased to USD 668.5 billion in 2021, growing 22.6% YoY. According to the 2021 World Investment Report by the United Nations Conference on Trade and Development, Vietnam is, for the first time, in the top 20 global countries attracting large FDI. In an effort to make the country more FDI-friendly, Vietnamese government has gradually simplified legal procedures and streamlined the bureaucratic process related to decision making. Notably, Vietnam has signed many bilateral and multilateral free trade agreements with its recent FTAs include the Comprehensive and Progressive Agreement for Trans-Pacific Partnership ("CPTPP"), the EU-Vietnam FTA ("EVFTA"), the UK-Vietnam FTA ("UKVFTA") and the Regional Comprehensive Economic Partnership Agreement ("RCEP") with EVFTA being the most remarkable. These FTAs facilitate FDI inflows into Vietnam, lower trade and investment barriers for participating countries, provide better market access for

Vietnamese exports, and encourage reforms that support foreign investors. Particularly, under EVFTA, EU commits to eliminate tariffs for Vietnamese goods contained in 85.6% of tariff lines, equivalent to 70.3% of Vietnamese export turnover to the EU, while Vietnam commits to eliminate tariffs for EU goods belonging to 48.5% of tariff lines, equivalent to 64.5% of EU export turnover to Vietnam.

Mergers and acquisitions (M&A) activities are likely to continuously play a key role in Vietnam's economy in 2022. After being interrupted by the pandemic in 2020, M&A activities have been bustling again with a total M&A deal value in Vietnam peaking at USD 5.5 billion with 400 deals in 2021, implying a swift growth compared to USD 3.5 billion with 250 deals in 2020, reported by the Minister of Planning and Investment. It is expected that M&A activities will take place even more strongly during the recovery process in 2022. Supportively, Vietnam has gradually reformed its regulations and legal system in a way to bring transparency and convenience to both domestic and foreign businesses. In the past few years, several legal documents have been drafted, amended and re-issued, notably mentioning the new Labour Code 2019, Enterprise Law, Investment Law 2020 or the new Law on Public-Private Partnership. Policy and legal framework development will be a major focus in the upcoming period for Vietnam to further create a business-friendly environment yet conforming with international requirements and attract high quality foreign investments.

Regarding the context of Industry 4.0, Vietnam has made remarkable regulatory reform, switching to "E-Government" with the implementation of administrative procedures and online public services. The digital economy is a trendy concern in developed countries around the world, along with the trend of green growth and circular economy. The digital economy and green growth are bringing forth benefits and positions for economic growth together with improving people's lives, which makes them the driving forces for the economy in the long run. In the realm of sustainability, Vietnam has implemented a green growth strategy and remarkable reformed policies and practices associated with sustainable development and environmental protection, especially after its commitment to bring net emissions to zero by 2050 at the 26th UN Climate Change Conference (COP26). In line with this strategic commitment, a series of adjustments have been enacted, namely the current finalization of the Power Development Planning VIII (PDP8) and the manufacturer's obligations in the Environmental Protection Law 2020.

All in all, Vietnam has gradually overcome the challenges and quickly recovered the economy whilst adjusting to the new normal. Shared by the World Bank (2022), Vietnam's growth rate is expected to reach over 6.5% in 2022 whilst the inflation rate remains stable and under control as long as the government works hard to contain the outbreak and ensure economic activities.



Ha Long Bay, photo by Cat7397 from Pixabay

THE EVFTA - A LEVERAGE FOR VIETNAM IN THE NEW NORMAL

Ho Chi Minh City, photo by Jet dela Cruz on Unsplash

After coming into force amid the adverse Covid-19 pandemic, the Vietnam - European Union Free Trade Agreement (EVFTA) has brought positive outcomes in terms of trade and investment. Supporting the essence of comprehensive cooperation and balanced interests of Vietnam and the European Union (EU), the EVFTA is expected to be a strong driving force in promoting Vietnam-EU trade relations in the future ahead.

Since the EVFTA officially took effect in 2020, Vietnam's total imports from the EU reached USD 16.51 billion in 2021, resulting in a growth of 24% YoY. This growth was reported in the imports of computers, electronic products and components. In general, there were no sudden changes for other imports except the increase in pharmaceuticals and decrease in machinery and equipment due to the impact of the pandemic. In return, Vietnam's total exports to the EU reached USD 39.75 billion, increased by 6.2% YoY. Particularly, the key exports of Vietnam to the EU were phones and components, footwear and textiles. Consequently, the EVFTA has created a huge boost for Vietnam's exports, enabling the diversification of markets and products. For instance, exports which are strengths of Vietnam such as textiles and footwear have taken advantage of the tariff incentives, thereby contributing to the increased competitiveness of Vietnam's exports when coming to the EU.

Not only achieving the success of two-way trade, but Vietnam also becomes a more attractive destination for foreign direct investment from the EU. With commitments on transparent governance and an open environment for businesses and investors of the two parties, the EVFTA provided Vietnam with access to quality investment and advanced technology of the EU. Accordingly, the European businesses have invested a total number of 2,249 projects in Vietnam which make up USD 22.27 billion (accounting for 5.52%) of the total registered capital.

Along with economic benefits, the EVFTA also promoted institutional reform. Vietnam currently has 39 sets of geographical indications recognized for protection in the EU without undertaking registration procedures, bringing great opportunities for Vietnamese businesses and farmers to penetrate the market. Take garments and textiles for example, businesses have focused on yarn production with a high rate of localization. Meanwhile, several raw material manufacturing zones have been launched on a tremendous scale. In addition, Vietnam has also been proactive and making efforts to fully implement its commitments, creating favorable conditions for business communities and the entire economy to effectively take advantage of the EVFTA.

Last but not least, EVFTA promises an enhanced Vietnam in the near future. According to the Ministry of Planning and Investment, the EVFTA will be able to boost Vietnam's export turnover to the EU by 42.7% in 2025 and 44.37% in 2030. The country leaders are working on the review and improvement of business conditions and administrative procedures for foreign businesses. For the time being, a set of indicators to assess the implementation of FTAs, especially EVFTA is also researched and developed. It is expected that when put into operation, the FTA Index will be an effective tool to accelerate the implementation of the FTAs. The EU is currently negotiating trade agreements with other countries in the region, namely Thailand, Malaysia, the Philippines and Indonesia. All are in direct competition with Vietnam to be the key exporter to the EU. As a result, Vietnam is urged to enhance its leading advantages and opportunities to maintain its position as one of the first ASEAN members to sign a trade agreement with the EU. For long-term and sustainable benefits from EVFTA, policy makers should pay attention to the execution of more comprehensive reforms.

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Mazars in Vietnam

mazars

About Mazars

1994 year of establishment	
04 partners	
210+ professionals	
05 service lines	
03 nationalities	
02 offices	

Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services. Operating in over 90 countries and territories around the world, we draw on the expertise of more than 44,000 professionals – 28,000+ in Mazars' integrated partnership and 16,000+ via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

Mazars in Vietnam was established in 1994, and has since grown to be one of the premier mid-tier firms with two offices in Hanoi and Ho Chi Minh City. We are well known for providing high-quality, professional services and proficient in English, French and Vietnamese communication. Mazars in Vietnam is ranked #1 for the Accounting Outsourcing Service sector and among the top Auditing firms in Vietnam.

www.mazars.vn

An attractive Vietnam

- One of the fastest growing economies in ASEAN
- Youthful labour force
- Growing middle class
- Growing urban population
- One of the most favorable destinations for FDI in ASEAN

Vietnam key figures

Land	Apprx. 310,070 sq. km Capital city: Hanoi Covered city: Ho Chi Minh City
Population	Apprx. 98 million Labour force: 56 million Major ethnic group: Kinh (Viet), accounted for 85.7% of the ethnic composition
GDP by sectors*	13.97% Agriculture, Forestry and Fishing 63.80% Industry (including Construction) 22.23% Services *Figures as of 2021 from GSO
Foreign Trade Agreements (FTAs)	15 signed and effective FTAs 02 FTAs are under negotiations Double taxation avoidance agreements with 80 countries.
Imports/Exports*	USD 332.25 bll. Total import value USD 336.25 bll. Total export value Top products include: phones, electronic goods and machinery *Figures as of 2021 from GSO

Given remarkable resilience against the Covid-19 pandemic, Vietnam's economy ended 2021 positively at 2.58% growth in GDP (however, it is still lower than the previous year's GDP which stood at 2.91%).

Foreign capitals play a key component of Vietnam's economic growth, while foreign trade increased to USD 668.5 billion in 2021, up 22.6% year-on-year. With the ongoing regulatory reform, new free trade agreements in effect and Government's efforts in pushing ahead international economic integration, Vietnam will remain a promising destination for investments and supply chain diversification.

VIETNAM AT A GLANCE FOR BUSINESS

GDP Growth	6.5%
Inflation	3.8%
Population	95.5M
GDP per head	USD 2,785.7
World Bank ease of doing business rank	70

ESTABLISHING AN ENTITY

The legal structures available for foreign investors wishing to establish an enterprise in Vietnam generally include Limited Liability Company (LLC) and Joint Stock Company (JSC).

The business establishment and investment project to be implemented shall be governed by the Law on Investment and Law on Enterprises 2014. In order to officially operate in Vietnam, a foreign invested enterprise will need to obtain 2 kinds of certificates issued by the licensing authorities:

- Investment Registration Certificate for the project being implemented
- Enterprise Registration Certificate for the enterprise being established

Alternatively, foreign investors may consider establishing a representative office in Vietnam as an initial stage of their market entry strategy. A representative office is established when the foreign company logs a registration dossier and obtains a license from the provincial Department of Industry and Trade in the city or province where the representative office is to be set up. Representative offices are only allowed to carry out liaison, market research and marketing functions and cannot earn business income in Vietnam.

FOREIGN BUSINESS RESTRICTIONS

Foreign investors may invest in all sectors and in all industries that are not prohibited. Generally, prohibited sectors/industries are those which are detrimental to the people, environment, defense or history and culture of Vietnam.
The conditions imposed on projects in conditional sectors/ industries will be stipulated in the relevant laws, ordinances, decrees and international treaties.

INVESTMENT INCENTIVES

Subject to the type of business and/or location of the investment, foreign investors may enjoy the following investment and tax incentives:

- An exemption of corporate income tax for up to 4 years and a 50% reduction of corporate income tax payable for up to 9 years, depending on certain conditions.
- Preferential corporate income tax rate of 10%, 15% or 17% for specific years, depending on certain conditions.
- Exemption of import duty for imported fixed assets, materials, etc. for specific cases.
- Exemption from, or reduction of, land rent, land use fees and land use tax.

WORK PERMITS AND VISAS

Foreigners working in Vietnam must obtain a work permit, unless they qualify under an exemption case (such as foreigners working in Vietnam for less than 3 months offering services or handling complicated technical issues that affect production or business, which cannot be handled by Vietnamese or foreign experts in Vietnam). Work permits are also required for foreign employees being dispatched to Vietnam for the implementation of projects in Vietnam (except for ODA-funded projects where exemption of work permit may be granted to foreign experts subject to certain conditions).

The term of the work permit shall be the employment contractual term, but it should not exceed 2 years.

In addition to work permits and normal visas, foreigners working in Vietnam might need to obtain business visas and temporary resident cards, where required. Temporary resident cards, which enable longer term stays, are available for up to 2 years and are subject to renewal. The cards also permit multiple entries and exits.

TAXATION

Value-Added Tax (VAT)

VAT is charged on most goods and services in Vietnam. Generally, goods and services are subject to the standard VAT rate of 10%. In a number of special cases, VAT is exempted or charged at the rate of 5% (for fundamental items) or 0% (for exported goods and services). Companies are required to register with the tax offices in order to obtain a VAT code.

(*) For the period from 01 February 2022 to 31 December 2022, except for some groups of goods and services such as telecommunications, information technology, financial activities, banking, securities, insurance, real estate trading, metals, goods and services subject to Special Sales Tax, etc., the other goods and services is subject to apply the reduced VAT rate of 8% thanks for incentive program of the Government.

Corporate Income Tax (CIT)

CIT is charged on profits of companies in Vietnam. The current standard CIT rate is 20%. Tax incentives are also offered to investment projects which meet certain conditions, primarily in relation to encouraged business lines and geographical areas. CIT is provisionally calculated and paid on a quarterly basis (quarterly CIT declaration is no longer required), before being finalised for the fiscal year, within 90 days of the financial year end. Tax losses incurred in any tax year are allowed to be offset against different business activities of the same company (following stipulated order) and be carried forward for 5 consecutive years. Tax losses of a quarter can also be carried forward to the following quarter of the same fiscal year. Carry back of tax losses is not allowed.

Withholding Tax (WT)

Withholding Tax, which is a combination of VAT and CIT (or Personal Income Tax), is charged on payments made by companies in Vietnam for certain purchases of goods and services from overseas suppliers (corporate or individual). The WT declaration is categorised into 3 types:

- Declaration method (previously known as Vietnamese Accounting System - VAS method)
- Direct method (previously known as Withholding Method)
- Hybrid Method

Personal Income Tax (PIT)

PIT is applied to taxable income received by individuals, among which the most common one is employment income.

As a general rule, PIT is a liability of the employee but the obligation to temporarily withhold or pay the PIT may initially rest with the employer. Where employees are remunerated on a gross basis, the employer is responsible for withholding PIT payable before making the income payment to the employees, and remitting the tax withheld to the State.

Photo: elinjosefineolsson.se

If the employer remunerates the employees on a net basis, the employer is required to gross up the net income, calculate the applicable PIT and pay such PIT to the tax office.

The PIT obligation is determined on a number of factors but mainly on the taxpayer's physical presence in Vietnam in the relevant tax year.

AUDIT AND ACCOUNTING

The Vietnamese Accounting Standards ("VAS"), Vietnamese Enterprise Accounting System (not applicable for credit institutions) and detailed guidelines of the Ministry of Finance are compulsory for all enterprises in Vietnam.

There is no requirement to register the application of VAS with the local authority. However, the enterprise is required to obtain written approval from the Ministry of Finance (MOF) for any permissible departure from the VAS.

The tax year normally commences on 1 January and ends on 31 December. The first tax year is generally from the date of the investment certificate to 31 December of the same year. If the first Fiscal year is shorter than 90 days, it may be aggregated with the next year. The MOF or its delegated agency may also approve a financial year ending on 31 March, 30 June or 30 September.

Companies are required to employ a Chief Accountant who holds either a relevant certificate or diploma. Many businesses coming to Vietnam outsources their accounting to qualified firms who can take on the responsibility of the Chief Accountant role. Foreign invested enterprises must appoint an independent auditing firm to audit their annual financial statements.

Companies must submit their audited annual financial statements to the tax authority and several other relevant authorities for reporting purposes within 90 days of the end of the fiscal year.

COUNTRY QUIRKS

- Companies are required to employ a Chief Accountant, except for micro businesses.
- Nominee shareholdings are not legally recognised.
- The registered office address must be the actual office address. PO boxes and lawyer addresses are not permitted.
- Law and regulations are frequently changed or amended. Private rulings are not legally binding in some cases.
- Copyright law remains weak in Vietnam.

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> Healthcare

> ICT

> Education

> Agriculture

> Transportation and Logistics

> Tourism and Hospitality

> Clean Technologies

SECTOR INTRODUCTION » CONSUMER FINANCE

CONSUMER FINANCE IN VIETNAM – AN EXCITING FUTURE AWAITS

GREAT ROOM FOR GROWTH

Twenty years ago, Vietnamese consumer finance barely existed. Since then, the sector has experienced rapid growth. Between 2010 and 2020, the industry enjoyed an unprecedented annual growth rate of 33.7%, exceeding the overall national credit sector growth level of 17.3%.

The importance of consumer finance to the broader Vietnamese economy cannot be overlooked, especially when 70% of Vietnamese adults are currently unbanked or underbanked and the young, open-minded and tech-savvy middle-class segment is growing very fast, expected to reach 56 million people by 2030. The Vietnamese government sees consumer finance companies (Fincos), who are serving those unbanked or underbanked customers, as a critical positive force to help drive greater financial inclusion and to accelerate economic growth.

The market comprises 16 Fincos, all licensed and regulated by the State Bank of Vietnam (SBV). However, 80% of the market is shared by three main players. The sector is also witnessing more and more M&A activities amongst many additional regional players, as a vehicle to enter this growing market.

Cash loans still account for 60% of the total portfolio. Consumer durables loans and vehicle loans have seen a negative trend in recent years, while credit cards have recorded double-digit growth. This coincides with other Fincos' plans to boost credit card offerings as a cash loan alternative, following SBV's direction.

Established in the Czech Republic in 1997, Home Credit was widely regarded as a pioneer in Vietnam, laying the foundations for the country's consumer finance market when the company started its operation here back in 2008. Now it is the second-largest operator in Vietnam, present in all 63 provinces nationwide and serving more than 13 million customers.

Since its early days, with the vision to be the partner of choice for customers' daily financial needs, Home Credit has developed a reputation as a role model for introducing disruptive and innovative products to the Vietnamese market, centered around responsible lending and tech-driven solutions, and viewed as the 'Most Desired Brand' in the market.

Home Credit has maintained a best-in-class NPL ratio, thanks to a strict responsible lending approach as well as a digitalized, robust risk management system.

DIGITAL INNOVATION IN FACING COVID-19

The Covid-19 pandemic has brought about a permanent and massive surge in the adoption of digital technologies. During Vietnam's numerous lockdowns, citizens turned to the internet for solutions to the challenges they faced. A significant number embraced new digital services; 41% of all digital service consumers were new (higher than the Southeast Asian average), with 94% of these new customers stating they planned to continue using those services post-pandemic[1].

Consumer finance companies are now under pressure to accelerate their digitalization plans. Local and foreign-owned FinTech businesses have begun to emerge in greater numbers as well. More innovative and disruptive products and services are being quickly rolled out into the market.

Mobile apps and simple online processes are amongst the key strategic priorities of Fincos. With the boom in e-commerce and digital payment, Buy Now Pay Later (BNPL) has also become a popular approach adopted by many FinTech and traditional operators. Add to this a new mobile money pilot scheme backed by major Telco operators and there is likely to be even greater competition in the market in the future.

Regulators are watching these developments closely and working on a special sandbox scheme to trial new business models, technologies, and products.

Driven by the promise of making customers feel good and the core nature of a market pioneer, Home Credit has quickly accelerated its push for various digitally transformational initiatives. These include virtual credit cards, online BNPL, a revamped Mobile App, QR code payments and a 24/7 virtual assistant, leveraging the strength of an advanced data analytics and AI system.

"Many business leaders I meet often tell me how excited they are by the opportunities for growth in Vietnam. They are absolutely right, it's a dynamic, thriving market with a huge amount of potential. It is our role in the consumer finance sector to open doors to greater financial and digital inclusion, especially amongst the growing young and tech-savvy middle-class, hence, unlocking enormous opportunities for the population and the economy. We know that our customers are always demanding more flexibility, innovation and opportunities to engage. It's up to us to continue to deliver on that.", explains Annica Witschard, CEO of Home Credit Vietnam.

In addition, Environment, Social and Governance (ESG) principles guide the business direction of the Home Credit. At the end of 2021, Home Credit Vietnam was awarded a certificate of merit by SBV for its contributions to the prevention of Covid-19.

1 https://vir.com.vn/vietnams-digital-economy-to-reach-14-billion-usd-this-year-80922.html

Home Credit Vietnam

SECTOR INTRODUCTION » MANUFACTURING

VIETNAM'S MANUFACTURING EVOLUTION & EXPANSION OPPORTUNITY IN 2022

Photo by Rob Lambert on Unsplash

Vietnam has emerged as one of Asia's great success stories, backed by stable political system, commitment to sustainable growth, relatively low inflation, strong FDI inflows, youthful and digital population, and strong manufacturing sector. In addition, the country has a large domestic market and a growing middle class. These dynamic factors have created an extraordinary opportunity for international investors to take advantage of the regional growth prospective and focus their attention on Vietnam, particularly in the manufacturing sector.

VIETNAM: A MANUFACTURING HUB

The fourth wave of pandemic severely impacted the Vietnam economy, with lockdowns, suspension of business, travel restrictions, and disruptions in supply chains. However, the authorities' decisive actions managed to weather the storm, particularly with stimulus packages designed to help the most affected individuals and businesses through a combination of tax breaks and cash transfers. Consequently, Vietnam's economy has remained resilient, expanding by 2.58% in 2021 and became one of the countries in the world which recorded positive economic growth. The World Bank predicted Vietnam's economy to grow at 5.5% in 2022 while the IMF projected a higher 6.6%.

In 2021, Vietnam's manufacturing sector accounted for over 25% of the country's GDP, supported by a consistent flow of new investments in production facilities form across the region, particularly China, Japan, South Korea and Taiwan.

The Vietnam Manufacturing PMI rose to 54.3 in February 2022 from 53.7 in January. This was the 10th straight month of growth in factory activity and the steepest pace since April 2021, as the COVID-19 pandemic was under control. Both output and new orders grew the most in 10 months, while export orders rose markedly. Meantime, employment expanded for the third month running, and input buying rose sharply as firms attempted to secure inputs to support the growth of production.

"CHINA+1 STRATEGY" AND THE VIETNAM OPPORTUNITY

Vietnam leveraged its national, economical and geographical assets to become a major manufacturing hub in Asia, and is now seen as one of the preferred destinations for investors adoption a "China+1" strategy, which enables diversification of international supply chains and production facilities outside China and across multiple jurisdictions.

This strategy has enabled Vietnam to capture a substantial amount of the production expansion from China and other regional peers, due to its economic policies focused on foreign investment support, infrastructure development and decisive actions in tackling the Covid-19 pandemic.

THREE PILLARS OF THE VIETNAMESE MANUFACTURING ADVANTAGE

Progressive taxation and FDI support policies

The Vietnamese authorities have put in place efficient and robust taxation policies dedicated to the manufacturing sector, where investors can benefit from massive tax reductions, breaks and incentives depending on the size of their project. In addition, the multitude of trade agreements which Vietnam adheres to, with the latest signed being EVFTA with the European Union, and RCEP with the Association of Southeast Asian Nations (ASEAN), add a significant incentive to producers across the world to expand their facilities in Vietnam, so they can take advantage of the tariffs for import or export with Asia and Europe as well.

Geographical location and infrastructure investments

Vietnam's geographical position is a major asset for attracting investments in the manufacturing sector, as the country has direct access to the most important freight and trade routes in Asia, with a multitude of airports, rail links, seaports and direct highway systems connecting Vietnam with one of their most important trade partners – China. Coupled with consistent investment in infrastructure and industrial parks development, these make Vietnam highly attractive for the logistics sector as well, as the backbone of a growing supply chain where Vietnam takes a lead position.

Digitalization in production

The digitalization trend has become prevalent across all sectors in Vietnam, starting with the government sector which set in place strong policies for developing and growing the 'digital economy', and manufacturing is one of the beneficiaries of this digital evolution and cross border e-commerce.

The 2021 extensive lockdowns due to Covid-19 have emboldened the manufacturing sector in Vietnam to speed up its advancements in productivity improvements and digital transformation. This shift towards digitalization has aligned the production sector in Vietnam with the active, agile cross-border e-commerce sector, leveraging each other's assets and opportunities to enable a synergetic growth in both.

Although Vietnam is less developed than many other e-commerce markets in SEA, it is the region's fastest-growing online economies. The country ranks the fourth largest in Southeast Asia with the total online Gross Merchandise Value was 13 billion USD in 2021.

Vietnam e-commerce market is vibrant and competitive with the presence of local and foreign players. Ho Chi Minh city and Hanoi are the main e-commerce hubs in Vietnam with strategic location, excellent infrastructure, an increasing number of logistic providers having invested in large-scale warehouses and logistics centers.

In conclusion, the perspectives for the Vietnamese manufacturing sector looks promising in 2022 and upcoming years, as more and more investors are considering their expansion strategies into prolific and stable economies such as Vietnam, which are technologically prepared and digitally driven to offer a good mix of incentives and FDI support policies for the production sector.

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SECTOR INTRODUCTION » HEALTHCARE

SECTOR OVERVIEW

The healthcare sector has been among the fastest growing industries in Vietnam and still has a lot of potential. It's attractive for both the domestic and foreign investors since health stands firmly as the top priority and concern for Vietnamese people and demand for higher quality and specialized healthcare services, especially among the growing middle class, is increasing. In 2020, all healthcare related sectors were valued at around US$ 21 billion, including pharmaceuticals at around US$10 billion, medical devices at nearly US$ 1.3 billion and medical services at around US$10 billion. Although the government aims to increase the share of locally produced pharmaceuticals to 80% and medical devices to 20%, an average of 55% of medicines in Vietnam and 90% of medical equipment are imported every year.

Vietnam's healthcare expenditure grew fast over last 10 years reaching US$184 in 2021 (US$18 billion for the whole country), and is expected to grow further up to approximately US$262 by 2025 (US$26 billion of the total market), a compound annual growth rate CAGR of approximately 11%. Private healthcare expenditure is expected to grow at a CAGR of 7.5% mainly due to increasing insurance coverage for citizens.

Social health insurance is the main public financing method for healthcare in Vietnam. With 87% of the population currently covered under this scheme, the government continues to work towards achieving universal healthcare coverage. It's worth emphasizing here the high level of out-of-pocket healthcare expenditure, which in 2019 contributed to 43% of current health expenditure after dropping from 45% in 2017. That means that patients have to cover approximately half of their treatment costs by themselves.

The demographic and socio-economic changes in Vietnam create opportunities and challenges.

CHALLENGES

Overcrowding, shortage of medical staff, and obsolete equipment for surgery and intensive care units are the major challenges in the healthcare sector in Vietnam.

While the network of over 1,500 hospitals, composed of branch, provincial level and national level facilities, provides the country with a moderate number of beds per inhabitant (a ratio of 26 beds per 10,000 inhabitants), it still has not solved the issues of high bed occupancy rate and Vietnam continues to far exceed the 80% threshold recommended by the WHO. Also, the average length of stay at hospital is significantly longer in Vietnam than in other South-East countries.

86% of the hospital network facilities are public hospitals and 14% are private mostly concentrated in major urban areas such as Ho Chi Minh City, Hanoi and Da Nang.

OPPORTUNITIES

Vietnam is among the countries with the fastest growing middle class, which always seeks quality healthcare and education services. In addition to the increasing local demand for quality healthcare, there is a big interest in the incoming medical tourism. On the other hand, Vietnamese spend an estimated US$2 billion a year for medical treatment overseas, which is a good reason for investing to develop the quality of healthcare services in the country.

Secondly, the aging population, which is the challenge for the Government of Vietnam, is the opportunity for the investors in the healthcare industry. The country has entered the "aging phase" since 2011. It is expected that by 2038, 20% of Vietnamese people will be over 60 years old. As more women join the workforce, a declining fertility rate will accelerate the aging of the population, straining the social welfare system.

Thirdly, in light of the challenges faced by public hospitals in Vietnam and the COVID-19 pandemic, the digital healthcare sector holds a lot of promise. In 2020, the Ministry of Health (MoH) in coordination with the Ministry of Information and Communication (MIC) launched a telemedicine program. Developed by Viettel Group, the country's largest telecommunications service company, the program provides remote healthcare services by connecting patients and doctors through a virtual platform.

With 70% of the Vietnamese population living in a rural or remote area, telehealth will help improve access to quality healthcare while reducing its costs.

SUMMARY

Though the health sector in Vietnam is very attractive, policy barriers and a weak legal framework continue to make it challenging for inexperienced foreign investors. The industry is strictly regulated, yet investment procedures are still not very clear and specific. The Law on Pharmacy sets out the legal framework for the registration, sale, and distribution of pharmaceuticals. Circular No. 32/2018/TT-BYT specifies the procedure regarding the registration of drugs and medicinal products. The administrative processes are cumbersome and delay access to the Vietnamese market.

Similarly, medical devices are subject to requirements set by the MoH. Foreign suppliers often work through local distributors or agents, as only companies with a legal business entity in Vietnam and an import license can distribute medical equipment.

In the digital healthcare sector, administrative complexity and an unintegrated system create a challenging environment for existing and prospective industry players. Furthermore, the future of digital health hinges on the availability of enabling technologies and infrastructures, such as high-speed networks, big data, Internet of Things (IoT), and cloud computing.

Nevertheless, the Government of Vietnam welcomes new investors and proudly announces the increasing FDI year on year.

Sources: WorldBank, Vietnam Briefing from Dezan Shira & Associates, Fitch Solutions, AmCham Vietnam

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Photo by Sanivpetro on freepik

SECTOR INTRODUCTION » ICT

Vietnam's ICT sector is developing rapidly. It's a key growth priority for the Vietnamese Government to be able to leave behind the cheap labor force-based competitiveness and turn the country into a knowledge society. ICT is expected to contribute to GDP by 20% until 2025. The ICT sector will employ 1 million people, 70% of the population had access to the Internet in 2021. Vietnam has 127M mobile phone subscribers. E-commerce market size was 14 billion USD in 2019, estimated to reach 52 billion USD by 2025, accounting for a strong progression during the years of the pandemic. Average spending by transaction is still relatively low, and the related logistics (delivery speed and quality, customer support) have room for improvements. Cash is still the preferred mode of payment for online purchases.

Da Nang city in Central Vietnam leads the Vietnam ICT index, on the readiness for information and communications technology development and application followed by Hanoi and Ho Chi Minh City. The ranking evaluates three key areas like technical infrastructure, manpower, and IT application. Software firms are mainly located in these 3 key cities too. The government wishes Vietnam to reach the top 50 worldwide in the ICT Development Index by 2025.

Vietnam is a very competitive market. There are strong local players in key areas like tele-communication (government-backed mobile network operators) and there is fierce competition amongst international players in the non-government related areas as well. Newcomers are expected to have a state-of-the art competitive solution, permanent presence, long term vision and commitments, capacity - including financial - to be able to build the necessary network amongst stakeholders to execute the long-term strategy. The software market is dominated by local lower-cost providers and the market is highly price sensitive, besides software piracy and overall Intellectual Property Rights are keys concerns. For international players banking, finance, oil and gas, aviation markets can be a reasonable market, where clients are international players. In the cyber-security area demand is increasing rapidly.

Software outsourcing is one of the fruitful activities in the ICT field due to the relatively low price of qualified workforce, however salaries started to increase and, in some cases, reached the Eastern European level. Vietnam is the second largest partner for Japan in outsourcing just right after China, and one of the top 10 countries worldwide according to Gartner's report. In the medium term, there will be a shortage in talents. According to MOLISA, Vietnam needs 80,000-100,000 new workforce in the IT sector every year. Meanwhile, there are 30,000 university graduates every year. It makes the IT related education programs very attractive in the market. There is a strong demand for programs which offer trainings and provide employment for IT experts, both within the confines of traditional universities, but training received through online coding schools are gaining popularity too. 4G and GSM coverage is good throughout the country, VoIP calls are very popular thanks in part to the widely used local chat application, Zalo. However, the country's international Internet connection is often affected by the breaks of submarine cables.

The ICT policy framework is very complex. There are tax incentives for the ICT sector, however, licensing and ease of doing business are general concerns.

The winning strategy to enter the market should start with an extensive study on the Vietnamese business culture and stakeholder mapping. Building an alliance and find the right local partner can be the key element. Nothing can replace the strong network. It takes time, patience to establish and maintain the network. Closing deals takes longer than expected.

CEEC member companies in the IT sector are active in software development outsourcing, data mining, voice and data services, and SMS platforms.

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Photos bottom left and right credited to Freepik

SECTOR INTRODUCTION » EDUCATION

VIETNAMESE HIGHER EDUCATION AS AN INVESTMENT

After the end of the Vietnam War in 1975, followed by reunification in 1976, the country's higher education was rebuilt following the Soviet model. The fall of the Soviet Union and the introduction of the Doi Moi policy started opening Vietnam's economy to the world by the early '90s. The Government undertook comprehensive reforms to increase the quality of education. Through the founding of new higher education institutions (HEIs), multi-field and multi-disciplinary universities offering Associate (college), Bachelor/ Master's (university) and PhD programs (research centers) started welcoming students. The first fully foreign funded university was established in the year 2000, after a Government decree incentivizing foreign investment in higher education was issued. Today, establishing a foreign university in Vietnam requires nearly €40m of secured capital, years of administrative procedures and direct approval from the Prime Minister of the country.

In 2007, a credit system similar to ECTS was introduced, though its implementation still presented many weaknesses. Joining the WTO in 2007 accelerated reforms aimed at better preparing graduating students to the expectations of the job market. However, severe disconnect remained between HEIs and scientific research, businesses and employers as academic research and PhD studies were still conducted in specialized and officially entitled research centers, outside of universities.

The arrival of the big IT, electronics and automotive multinationals in Vietnam improved the situation by establishing high tech research centers and industrial parks. The 2012 Higher Education Law set a target of increasing the number of master's and PhD students, with the goal of training 20,000 PhDs by 2020, half from Vietnam and half from overseas. In 2015, there were 77,000 higher education teachers/lecturers in Vietnam, out of which only 9,126 had PhDs and 36,347 had master's degrees. The reform highly encouraged foreign exchange programs and joint degree programs especially with partial studies at a foreign university. For the first time in 2019, 3 Vietnamese universities were listed in the Times Higher Education ranking, and some private HEIs acquired international accreditations.

The Covid-19 pandemic of 2020-2022 forced all institutions to switch to distance learning partially or completely, which pushed both public and private institutions to digitalize and modernize day-to-day operations and teaching. While the need for in-person learning has not decreased due to the pandemic, institutions and authorities in Vietnam have opened up to digital solutions and are expected to build these into their operations more and more. We suspect that the developing higher education infrastructure will move in a digital direction, likely more quickly than their European counterparts, which already have considerable brick-and-mortar infrastructure. Education Technology (EdTech) providers, fully online degrees and blended learning approaches are showing a lot of promise, although convincing students of the quality of these offers remains a challenge.

STUDYING ABROAD

The first private HEIs were established in the '90s, due mainly to the fact that the demand to enter the higher education system was more than 8 times higher in the '90s, and five times higher in 2005 than the number of available places. To this day, nearly one million Vietnamese students cannot enter the Vietnamese public education system each year. They can either enroll in private institutions or study abroad. In 2015 there were 498 registered HEIs, out of which 93 were private. These HEIs still operate on a strict quota-based system and some private HEIs' educational quality remains dubious.

This situation and the emergence of the Vietnamese middle classes led to an increased demand for studying abroad. Out of the nearly one million students per year who are unable to get into public HEIs, 126,000 (2022) students continue their studies outside of Vietnam. The main target countries in 2022 were Japan (40,000), the USA (26,000), Australia (17,000), Korea (13,000) and Canada (7,000). 90% of these students are self-funded and are interested in business and social science degrees. CEE countries attract significantly less students, the Czech Republic and Hungary have around 500 Vietnamese students, Poland 270, and Bulgaria and Austria each receive around 100 of them per year.

Even though there are over 300 student recruitment companies in Hanoi alone, the key players remain the international organizations, state owned Vietnamese or foreign companies and NGOs. Reliability is one of the key factors of the successful operators given the traditionally high risk of visa exploitation in Vietnam.

The preference for English speaking countries, or countries where English is the language in which courses are taught, as study abroad destinations means that the demand for young Vietnamese to learn English is strong and continuing to grow. Parents can choose between bilingual schools, international schools, or independent English language centers if they wish to go beyond the level of English language education provided by the public education system. Many consider studying abroad as a time and cost-effective way to reach native level English knowledge. The English language learning industry used to be fully in-person pre-pandemic. Post-pandemic however, this industry also seems to be moving towards the more affordable and flexible distance learning model.

CEE's higher education is hardly represented on the Vietnamese market. Although competitive tuition fees and high-quality education (not forgetting CEE countries' traditionally „friendly" status with relatively safe and secure policies towards Vietnamese students) could be an alternative for Vietnamese seeking affordable studies abroad. With the notable exception of Poland and Hungary, CEE governments and HEIs have not yet started actively promoting themselves in Vietnam as a study abroad destination. Traditional barriers for CEE players in this market are the availability of programs taught fully in English at the host institution, quality, and ease of life in a country where English is not the official language, and lower (compared to Anglo-Saxon countries) or non-existent scholarships for Vietnamese students.

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SECTOR INTRODUCTION » AGRICULTURE

Vietnam has a long rooted tradition in agriculture: the economy of the country has heavily depended on the sector for centuries. The three decades after the Doi Moi industrialization brought down the share of the sector in the GDP from 40% to 12.36% in 2021, but the GDP value has been steadily increasing in the recent years. The country has managed to move up from a net importer to a global leading exporter of agricultural commodities, such as rice, coffee, pepper, and cashew nuts.

The sector is still the largest employer (close to 20 million people, less than 40% of the total); flagships like coffee, cashew, rice, pepper, rubber are building the national pride and brand: agriculture is still one of the most important economic, political and social issues in the country: market price/ environment catastrophe can play solely important role on a large scale, impacting the society, economy and - through both - politics. That strong influence is visible: due to the changing climate heavy droughts and salt intrusion into the Mekong Delta affects not only the coffee and rice planters, but the GDP figure as well.

The major challenges are occurring from climate change and abuse of the environment: water scarcity in underground water; lower Mekong flow (partly thanks to the dams built upstream), droughts and floods; overuse of chemicals in fertilizing; quality assurance (overuse of antibiotics, heavy metals, hormones, etc.); lack of proper waste management and environment risk management (toxic heavy metal discharges to the sea at Ha Tinh) will have concrete and collateral negative impact. Food safety and quality became one of the major concerns not only overseas, developed markets, but in Vietnam as well. Legal frameworks are in place, implementation and legal enforcement is lagging behind. The negative experiences and lower quality products can destroy the benefit arising from the FTAs, especially the EVFTA.

There are several challenges beside environmental or climate change impact. The Government is putting lots a lot of effortsemphasis intoon promoting investments into agriculture, which is crucial for the further development (the growth target of the Government is between 2,5 and 3% for its 5 years term). Lack of investment (2% of total FDI) brings lack of productivity, proper growth, added value and competitiveness. The reasons of the low figures are related to the land rights, and accessible loans (lack of guarantee). Developments are happening on micro (small scale farms/plants usually supported by Government or VBARD) or on macro/ large scale level. Solution could be cooperative operations, buys and uses targeting the whole supply chain. Presently, agricultural finance in Viet Nam is dominated by VBARD and the Vietnam Bank for Social Policy, which are both state-run; cooperatives and microfinance institutions play a much smaller role.

The lack of finance can also have devastating effects in time of losing markets (due to the pandemic). There is a need of transition strategy to meet the challenge caused by social and technological progress as well as keep the momentum in developing rural areas and livelihood of farmers, meanwhile strengthening the management of the natural resources.

The targets set by the Ministry of Agriculture and Rural Development can be reached through improving productivity, quality (and traceability) and exportability. The new series of free trade agreements aim to create new markets for Vietnamese goods, the question is whether the production can meet with the standards in terms of quality and quantity. Through the new free trade partners and achieved modernization the country will be able to differentiate its market and avoid dependence on one/ two major player. Vietnam does need investments into that sector.

Government is also encouraging new, possible investment fields (such as smart applications/ greenhouses; higher food safety measurements; food processing – high-end manufacture products; environmentally friendly solutions/ fertilizers/ technologies; climate smart solutions; financial solutions; product branding; bioproduction; aquaculture; animal health, traceability, quality and food safety improvement/ applying block chain technology for the production). Those opportunities are possible at all levels of the value chain. In more recent years, aquaculture and fruit production have grown substantially and are export-oriented as well. Investing into Vietnam can help the businesses to reach not only the growing Vietnamese market, but through the major FTAs signed by Vietnam there is a chance to reach such as ASEAN, CPTPP markets also. At the same time the increasing domestic consumption combined with the larger demand for high-value products have also pushed imports of agricultural products into Vietnam.

CEE countries were generally strong in agriculture in the past in Vietnam. Thanks to the large number of alumni in agriculture the CEE brand is still well known and appreciated. Investment and technology transfers meeting with the objectives of the government (see above) might be key element for success. Producing in Vietnam can also open markets in Southeast Asia. Trading in the Vietnamese agricultural market needs a proper research in finding the niche products, as competing with local producers might be challenging.

Having said this, CEEC is continuously working through its formal and informal advocacy channels to ensure an increasingly level playing field for both national and foreign businesses. The past showed already good results as we were successfully pushing for a transparent and effective implementation of respective chapters of the EVFTA.

Dr. Gellert Horvath
Former Vice Chairman of CEEC

SECTOR INTRODUCTION

» TRANSPORTATION & LOGISTICS

IMPACT OF COVID-19 - THE 4TH WAVE

After achieving impressive results in the first months of the year, in the third quarter of 2021, Vietnam was greatly affected by the 4th Covid-19 epidemic: Many localities, including the two major economic centers, had to implement prolonged social distancing to prevent the epidemic, causing GDP in the third quarter of 2021 to decrease by 6.17% compared to the same period last year - this is the deepest decrease since Vietnam calculated and announced GDP according to quarter to date. As a result, GDP in the first nine months of 2021 only increased by 1.42% over the same period in 2020 and strong breakthroughs are needed in the last quarter of the year so that GDP for the whole year 2021 can reach over 3%. (Vietnam Logistic Report, 2021)

Foreign investment activities in Vietnam are also affected by the pandemic, leading to the risk that capital flows will not move into Vietnam as forecast in early 2021. According to data from the Foreign Investment Department (Ministry of Planning and Investment), as of September 2021, the total foreign investment capital, including newly registered capital, adjusted registered capital and value of capital contribution and share purchase by foreign investors reached 22.15 billion USD, up only 4.4% over the same period last year.

Covid and its consequences lead to unpredictable upheavals for businesses. Supply chains are upended and disrupted by the pandemic. According to a survey by the Vietnam Logistics Business Association (VLA), about 97% of small and medium logistics service enterprises were severely affected. From May 2021, logistics activities have been restored according to the economy, but currently, in general, about 20% of logistics service businesses are still operating in decline.

In less than a year, negative factors from the economy continuously pushed ocean freight rates to all-time highs. As for the aviation industry, airlines have cancelled flights to epidemic areas as much as possible, the trend of converting passenger transport to freight transport, and freight have also increased higher than usual. Meanwhile, it is difficult for cross-border agents to find transport suppliers because the demand for road transport decreases due to the decrease in cargo volume.

PROSPECTUS OF RECOVERY AFTER COVID-19

As said by **VLA**, in 2022, the global policy of Covid-19 immunization is projected to boost the global economy once more: Commerce, products, and tourism will resurface. When the world's largest economies, the US and the EU, reopen, the consumer market will rebound strongly. Electronics, textiles, footwear, agricultural product processing, seafood, and other significant Vietnamese exports will almost certainly see a boost in demand.

Efforts from Government

Supporting enterprises to recover their business after the pandemic has become an "Order". In that context, the Government, ministries, and localities have promptly issued many related policies regarding to Logistic to ensure the role of Logistic in maintaining the supply chain of goods and services; furthermore, to shape new and even breakthrough directions for Vietnam's logistics industry, contribute to relieving pressure and promoting post-Covid-19 economic recovery. In Vietnam's service sector development master strategy for the period of 2021 - 2030, with a vision to 2050, priority is given to: Completing the legal corridor, creating favorable conditions for logistics activities; Reducing Logistic costs through handling supply chain constraints; Focusing on developing human resources in Logistics industry; Promoting the development of Logistic types (3PL, 4PL, 5PL); Integrating information technology in Logistics; Developing diversified distribution centers in big cities; Planning on Port and airport infrastructure. Furthermore, the State Bank and commercial banks have also promptly issued policies to support interest rates, restructured debt repayment plans to reduce the financial burden on service businesses that are affected directly by Covid-19.

Solutions from Logistics businesses

Many Vietnamese logistics service enterprises have responded to Covid-19 with a series of measures:

- Cutting unnecessary costs (44.5%); negotiating payment terms for input and other costs (38.6%), downsizing production and business (37.3%), according to research of the University of Transport, 2021.
- Focusing on improving competitiveness and growing technology application with the breakthroughs of the 4th industrial revolution for which the majority of businesses anticipate the logistics industry to change the most, with leading benefits such as boosting uptime, increasing productivity, saving expenses, enhancing company strategy, improving logistics monitoring and product lifecycle management efficiency. Electronic ports (ePort), delivery orders (eDO), digitalization of transport documents (Invoicing and Payments), investing in the application of solutions in logistic services (Saas), smart warehouses (Smart Warehousing), and so on are examples of technology solutions that bring efficiency to logistic services and significantly reduce related costs.
- Actively seeking out and forming partnerships with respected international companies to grow and improve the quality of logistic services.

The ideas outlined above are designed to assist the Vietnamese economy in general, and Vietnam's logistics service firms in particular, in getting back on the "racing track" of development and recovery following the epidemic.

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SECTOR INTRODUCTION
» TOURISM & HOSPITALITY

The most prominent tourism-related highlights of 2021 in Vietnam were surely the COVID-related topics. The pandemic had a grave influence on this sector of Vietnamese economy, visible on every corner of the country's tourist areas and city centers, once eagerly frequented by foreign travelers.

The number of foreign arrivals plummeted from 18 million in 2019 to the shocking 300 thousand in 2021. The main reason for this phenomenon was undoubtedly the closure of Vietnamese borders introduced as a safety precaution in March 2020. At that point, nobody could have imagined that the possibility to travel in and out of Vietnam would virtually be halted for over two years.

Domestic tourism enterprises were in no better situation, since they suffered heavy losses due to local lockdowns and other restrictions of movement between provinces, communes, and even wards inside of one city. The apogee of these hard times was the 3-month total lockdown of Vietnam's largest urban area – Ho Chi Minh City and its surroundings. Over 10 million residents of the city and commuters from the neighboring provinces – more than 10% of the country's population – became unable not only to travel to their distant hometowns, but also to leave their homes without a viable reason, therefore crippling the last hope of the market's tourism service providers, local hotel owners, and restaurateurs.

All of the aforementioned events brought the previously rapidly growing tourism sector of Vietnam to a standstill.

Luckily, it seems that the worst period of the pandemic-related difficulties are behind us, and local tour agencies, accommodation providers, as well as all other tourism sector enterprises are about to thrive once again.

As of May 2022, while this article is being written, the situation in Vietnam has more or less returned to the pre-pandemic state. The government and relevant ministries agreed upon the re-opening of the country's borders in mid-March, and have since then removed almost all of the remaining restrictions and requirements for travelers entering the country. The arriving guests – both vaccinated and non-vaccinated - are no longer subject to quarantine of any kind; and since April 27th of this year, they neither have to hand in their health declarations at their point of entry - at least until the end of SEA Games 31 - the event also known as the "Southeast Asian Olympics". The only remaining pandemic-related requirement for arriving foreigners is to present the negative results of a COVID-19 test.

These actions have already brought a fraction of the once humongous tourist traffic back to the S-shaped country: The number of foreign arrivals to the country in April 2022 was 4 times higher compared to the same period of the previous year; around 91 000 international tourists arrived in the country during the 1st quarter of 2022 – a year-on-year increase of an impressive 89%!

Each and every business owner from the Vietnamese tourism sector is now looking with new hope towards the upcoming high season of 2022-23, which is regarded as the first rebound period after two years of continuous difficulties. These hopes are not baseless, as the domestic tourism sector has already started booming once more, thanks to the two long weekends that occurred in April and May. Numerous travelers started pouring into all of the country's classical domestic destinations, such as Hoi An, Da Lat, Vung Tau, Sapa, among others. Consequently, Vietnam-based international inbound tour operators are also preparing for the upcoming boom in the tourism sector.

Stretched over more than 2000 kilometers, Vietnam is one of the most diverse tourism destinations in the region, scenery-wise. Boasting numerous UNESCO World Heritage sites, such as the legendary Ha Long Bay, Hoi An Ancient Town, or the Complex of Hue Monuments, Vietnam had already become a prominent destination for sightseeing trips before the pandemic. It is also a perfect place for exploratory tours, with spots like "The Roof of Indochina" – Fansipan mountain and the surrounding Sapa region, filled to the brim with people from numerous colorful ethnic groups, each proud of their own heritage. The multitude of seaside resorts from Central to South including two islands – Phu Quoc and Con Dao, are creating amazing leisure opportunity for all kinds of travelers.

In other words – Vietnam possesses everything that may attract countless numbers of international travelers to spend their holidays here, allowing the country's quite battered tourism sector to re-start developing and thriving, bringing in even more international traffic than in the pre-pandemic times.

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SECTOR INTRODUCTION

» CLEAN TECHNOLOGIES

Image by Lukas Bieri from Pixabay

VIETNAM CLEAN TECHNOLOGIES SECTOR OVERVIEW

Like the overall economy, population and urbanization, the clean technology sector in Vietnam is growing. Several plans have been developed, foremost the National Green Growth Strategy, which focus on the clean technology sector mainly renewable energy, environment & water, and energy efficiency. Transportation still remains a bottleneck, like infrastructure development, but metro lines are being built or partly finished and efforts are being made towards electric or hybrid transportation and more generally summarized as Smart or Resilient Cities. For example, plans for the period of 2026-2030, Ho Chi Minh City sets a target of limiting and moving towards eliminating motorcycles and motorbikes in some central areas. In the previous period, the Department of Transport will plan to implement solutions for developing public transport and controlling private vehicles. Also, Hanoi has drawn up plans to limit or ban private non-e-vehicles from city centre areas.

The current market size for the clean technology sectors in Vietnam is approximately US$ 4-5 billion per year. There is no specific data for the whole market hence using the total of each sub-sector the size can be estimated that in the next 5 to 10 years, Vietnam will need to invest US$ 15-20 billion for renewable energy sector and US$14 billion for Environment and in the water sector to be able to achieve the governmental targets. Funding of these projects still remains a challenge or a test of patience and networks, as decentralized licensing, local banking system, Public Private Partnerships or international donor organizations will have to get involved.

As Vietnam is particularly vulnerable to the effects of climate change, e.g. at the Global Climate Risk Index, that is based on human and GDP losses as a result of climate related extremes over the past 20 years, Vietnam ranks eighth in the world. In 2015 scientists summarized that Vietnam has suffered from increased average and heavy rainfall, persistent sea level rise that causes increased saline water intrusion, especially in the Mekong Delta, and more extreme storm surges, more severe droughts, and increased average temperatures and occurrence of heat waves. An Intended Nationally Determined Contribution to the United Nations Framework Convention on Climate Change (UNFCCC) has been issued in late 2015 and the government of Vietnam has given its approval to the Paris Agreement under the UNFCCC on 3 November 2016. The Government also issued a plan for implementation of the Paris Agreement in Vietnam and made further commitments in Glasgow in 2021. However, the energy sector contribution towards the overall nationally determined contribution mitigation target is judged by researchers as unambitious even though it is the largest source of greenhouse gas emissions and the energy sector emissions are increasing fast.

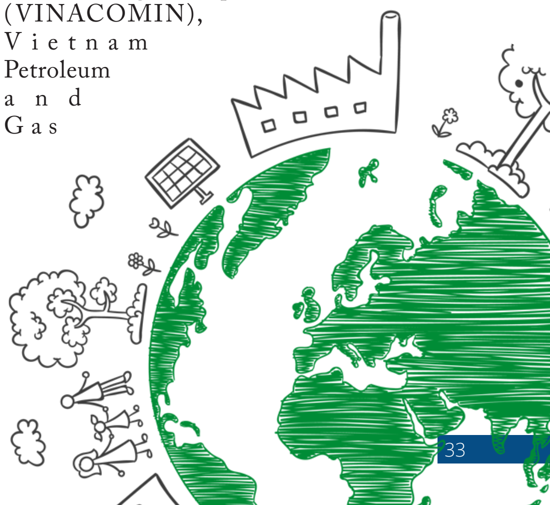
Thus, the country has developed a comprehensive set of policies, and major growth is expected to come from Renewable Energy development as the Vietnamese government has issued the Power Development Plan VII which forecasts the development of Renewable energy from now to 2030 and is currently finalizing the plan VIII, which is expected to be published end of Q2/2022. The environmental and water sector will see strong growth as well, due to international commitments (COP26, Glasgow, Paris Agreement) and prevalent pollution

PRACTICALLY SPEAKING

The Vietnamese clean technology industry is expected to grow steadily and the plans call for an increased focus on clean technology for power production. Currently, hydro-power makes up a substantial share of Viet Nam's electricity mix, including small and medium hydro-power plants. Solar water heaters are reasonably common throughout the country and biogas digesters have spread fairly widely in rural areas. There are some factories producing electricity from waste or using biogas or biomass for heating or drying, and there is some production of biofuel. The potential to expand hydro-power is very limited, but vast efficiency increases can be achieved alongside investments, whilst there is substantial potential for expansion of waste-to-energy and biofuel production. Investment agreements have been signed, but up to date Vietnam has low deployment of wind and solar Photovoltaic (PV) power generation, despite considerable potential, and no Concentrating Solar Power (CSP), geo-thermal power generation or tidal power generation.

Due to vested interests and institutionalized factors, Vietnam is only going slowly towards non-hydro renewable energy production. Especially for local investors the development of solar PV was in the early 2020s very interesting. Good progress in solar development has been made; but far off sufficient electricity supply or direct power sales agreement necessities. In addition, certain obstacles have to be overcome and after an expiration of the current solar PV power purchase agreement and FiT regime, companies have to get prepared for a bidding mechanism while dealing with infrastructure limitations and curtailments of allowed supply.

The role of and domination by some large State-owned Enterprises (SoEs) must not be neglected when entering the energy market in Vietnam. For example, the Electricity Vietnam (EVN), Vietnam Coal and Mining Cooperation (VINACOMIN), Vietnam Petroleum and Gas



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Cooperations (Petrovietnam and Petrolimex groups) jointly control most power generation and distribution; also the coal mining, import, export and distribution; and oil and gas exploration, refinement, import, export and product distribution is in the hands of these big players and all their subsidiaries. They are controlled by the Central Government, with debates in the National Assembly but also local approvals from provincial assemblies might be required from case to case or in line with the overarching national development goals. An additional layer of complexity and opportunity has been added recently by the creation of power generation companies, which have been split off EVN's monopoly status, while big challenges still prevail regarding electricity distribution, oversupply and undersupply in certain areas and the project finance guarantee system. Summing up, a distant market management without knowledge and contacts to the various players is not recommended.

The EU Vietnam Free Trade Agreement (EU Vietnam FTA) includes a comprehensive and binding chapter on Trade and Sustainable Development (chapter 13) to support stable economic growth, social development and environmental protection and through the so-called Green Tech Annex of the FTA tackling non-tariff barriers affecting the renewable energy sector.

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VIETNAM

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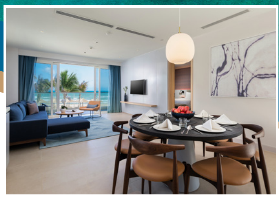


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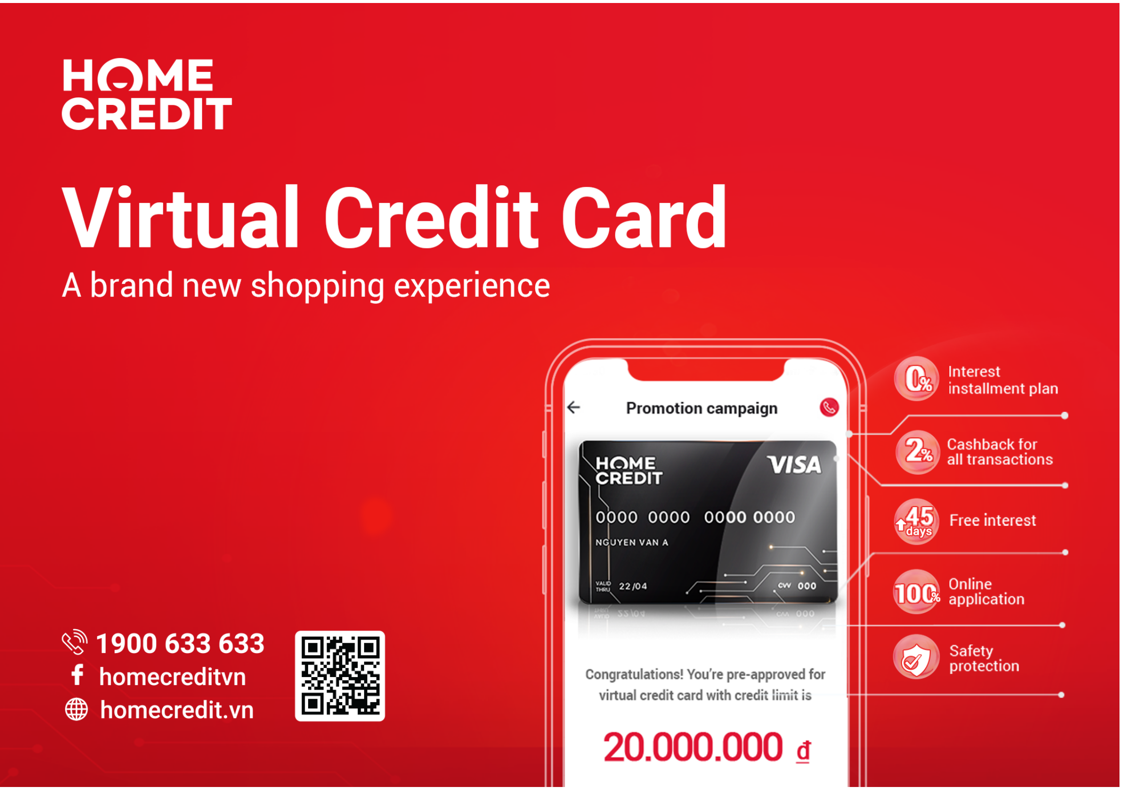
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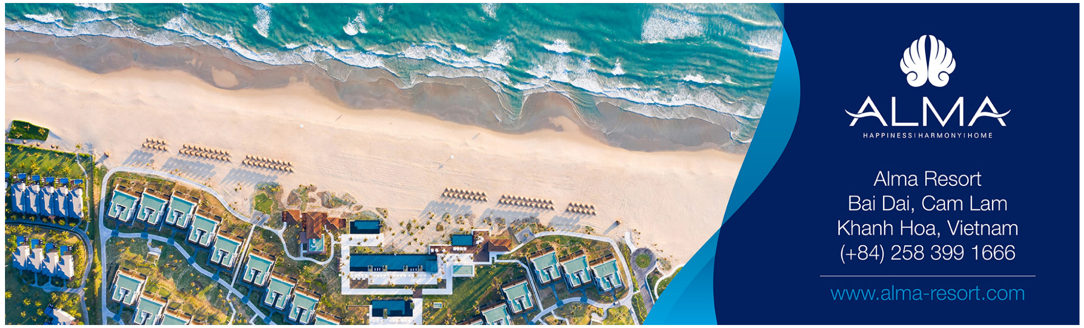
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