

VIETNAM

BUSINESS REVIEW

Vol 16, April 27th 2016

Mysterious death of diver adds to ongoing environmental crisis in central Vietnam



INSIDE THIS ISSUE

[Highlights](#)

FDI by sector and challenges: garnering interest
Japan eyes Vietnam as production base

[Economy](#)

Vietnam agro-forestry-fishery exports reach \$10b
Vietnam - South Korea trade could hit \$70b by 2020

[Banks & Finance](#)

Local banks compete with foreign banks for overseas remittance service
Banks still unsure about listing shares on bourse

[Investment](#)

Investment in HCMC's industrial parks drops
Heus harbours big plans for VN

[Enterprises](#)

E-commerce firms see benefits in Alibaba's acquisition of Lazada
Major drink producer Tan Hiep Phat seeks foreign investors
Euro automakers get in gear for EU-Vietnam FTA

[Market & Prices](#)

Real estate market warms up, but prices unchanged
Foreign brands control domestic natural foods market

[Legal Updates](#)

New provisions on outward securities investment
Whether the discount offered for an agent is subject to PIT deduction or not

ECONOMY

Vietnam agro-forestry-fishery exports reach \$10b



Tra fish processing for export in Dong Thap province

VNA - The agro-forestry-fisheries export turnover in April was estimated at \$2.97b, bringing the 4-month figure to over \$10b, up 11% against the same period last year.

In the first 4 month of this year, Vietnam shipped 2.06 million tonnes of rice abroad and raked in \$916m, up 11.8% in volume & 13.8% in value. Meanwhile, cashew nut brought in home \$689m from the shipment of 91,000 tonnes, a respective increase of 14.6% and 7.1%.

The average export price of coffee dropped 18.3% YoY. However, the export value of coffee in the period rose 18.2% to reach \$1.16b due to the fact that the coffee export volume recorded a sharp increase of 44.6% to reach 681,000 tonnes.

Germany and the US remain the biggest coffee importers for VN.

The pepper exporters earned \$569m from shipping abroad 70,000

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tons of products, up 28.3% in terms of volume but down 14.6% in value.

VN also shipped 318,000 tonnes of rubber abroad and earned \$376m, up 29% in volume & 6.6% in value.

In stark contrast, the volume of cassava exports decreased by 8% to 1.76 million tons, compared to the same period in 2015. As such, its revenue was down 23% to \$447m.

Tea exports saw a decline of 3% in volume to reach 32,000 tons, generating \$47m, down 12.2%. Exports of key forestry products reached \$2.25b, up 4.3% YoY.

The value of aquatic exports in the first 4 month was calculated at nearly \$1.97b, rising 6.3% from the same period last year. The US, Japan, China and the Republic of Korea remained Vietnam's largest seafood consumption markets, accounting for 51.47% of the market share.

Vietnam - South Korea trade could hit \$70b by 2020

VNS - FTA between VN and the Republic of Korea (VKFTA) would be an effective channel to increase the bilateral trade to \$70b in 2020, said an official of the Trade Promotion Agency under the Ministry of Industry and Trade.

An electronics spare parts production line at the South Korean-invested Synopex Viet Nam Company in Ha Noi's Quang Minh Industrial Park. South Korea is the fourth largest export market and the 2nd largest import market of VN. Bui Huy Son, head of the agency, said the VKFTA was signed on May 5, 2015 and came into effect on December 20, 2015.

One key point of the FTA was to basically not have any direct competition in trade between the two countries. This would create favourable conditions for enterprises in the two countries.

A month after the VKFTA came into effect, import and export of goods between the two countries went on well, Son said.

Of the goods exported by Viet Nam to South Korea, industrial and manufacturing products accounted for 87% of the total national export value while farming and fishery products claimed 12.6% of the total export value.

Viet Nam mainly imported material and machines for production from South Korea.

[Back to top](#)

BANKS & FINANCE

Local banks compete with foreign banks for overseas remittance service

CafeF - Vietnam is one of the biggest kieu hoi (overseas remittance) recipients in the world. But most profits from overseas remittance services go to foreign institutions' pockets.

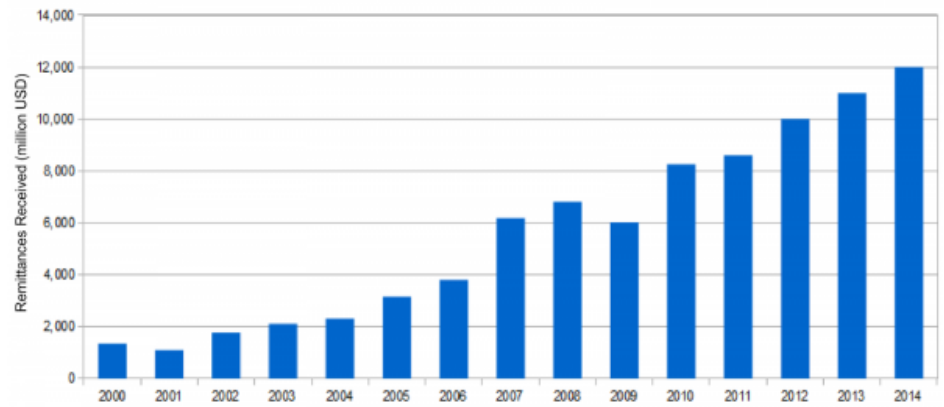
Some commercial banks have consulted with their shareholders about plans to set up overseas remittance service companies as they can see great business opportunities from the service.

Kieu hoi, or overseas remittance, refers to money remitted from overseas by Vietnamese who settle down in foreign countries or work for certain periods.

An official report showed that \$1.15b worth of kieu hoi has been remitted to HCMC in the last 3 months. The city received \$5.5b worth of kieu hoi in 2015. It is estimated that 70.8% of kieu hoi has been flowing to production and business, and 21.6% to the real estate sector and 7% on daily lives.

Tran Van Trung, director of Dong A Overseas Remittance Service Company, believes that the overseas remittance in 2016 would surely be higher than last year

Yearly Remittance Inflows into Vietnam



Source: The World Bank

thanks to the recovery of the real estate market.

This could be the reason for Bac A Bank to decide to set up an overseas remittance service company with charter capital of VND77 billion. The subsidiary would provide overseas remittance services under the online and offline modes, with the former being the focus.

The management board of Orient Bank has also asked its shareholders about the establishment of an international remittance, a bank's subsidiary with the chartered capital of VND25 billion.

The company is believed to operate well with the expected revenue of VND2.16 trillion in 2016, while the figure is hoped to rise to VND4.13 trillion in 2017 and to VND6.885 trillion in 2018.

Sources said other joint stock banks were also discussing setting up subsidiaries which would provide overseas remittance services. An analyst has predicted that there may be an 'overseas remittance service company movement' to follow the 'finance company movement'.

A lot of banks have been running their remittance service companies well for a long time, including Vietinbank, a state owned bank, and Dong A, a joint stock bank.

However, analysts warned that it would be not easy to set up remittance service companies as the State Bank of Vietnam has tightened control over companies of this kind.

The central bank in January released a legal document stipulating that banks must have a healthy financial situation, make

BANKS & FINANCE

profits in the last two years and have a non-performing loan ratio of below 3% of total outstanding loans to be eligible for establishing remittance companies.

Banks still unsure about listing shares on bourse



VNN - Many banks began preparing to list shares on the bourse for many years, urged by the State Bank (SBV). But no further progress has been made.

There are nine commercial banks which listed their shares on the Hanoi and HCM City Stock Exchanges, including state owned banks Vietcombank, VietinBank and BIDV, and joint stock banks ACB, Eximbank, Sacombank, Military Bank, SHB and NCB.

There has been no sign of another bank listing shares on the bourse this year.

Answering VP Bank's shareholders' questions about the share listing plan at the 2016 shareholders' meeting, Ngo Chi Dung, VP Bank's

chair, said the bank is following necessary procedures to list shares on the bourse.

However, though shareholders are impatient about the listing, the bank still has to await guidance from the State Securities Commission (SSC).

Under the laws, commercial banks will have to either to list shares on the stock market, or the UpCom market.

Nam A began thinking of listing shares a long time ago. The share listing plan was submitted to the shareholders' meeting in 2015. The bank's board of directors affirmed that Nam A had all necessary conditions to list shares in 2015. However, it once again failed to implement the plan.

Explaining this, in a document released recently, Nam A Bank's board of directors said the market still did not show favorable conditions and bank shares still could not attract investors.

It also said that since the share transactions would be carried out at the Securities Depository Center, the bank may not be able to update information about the share transfer and ownership.

The share listing is expected to be put into discussion at the 2016

shareholders' meeting which would take place in some days.

Other banks have also delayed the listing plan though they have been repeatedly urged by the SBV Governor.

HDBank discusses the listing every year; however, the listing plan still cannot be implemented as the bank has to spend time on acquiring Dai A Bank and taking over SGVF. Besides, it has been busy with post-merger plans and looking for foreign strategic partners.

PVcomBank's shareholders have also repeatedly reminded the management board of the listing plan.

A banking expert said that banks were asked to list on the bourse as a solution to make their operation transparent and help improve competitiveness. However, the listing will still depend on many factors.

"Some banks are still not healthy enough to list shares on the bourse," he said.

"Only healthy banks will list shares on the bourse. The banks with financial problems will have to undergo restructuring first," he said.

INVESTMENT

Investment in HCMC's industrial parks drops

VNS - Industrial parks and export processing zones in HCMC attracted investment worth \$197.86m in the first quarter of 2016, a YoY decline of 53.4%, according to the HCMC Export Processing and Industrial Zones Authority (HEPZA). FDI accounted for \$115.67m, a 69.5% fall.

This included a \$35.5m project by Yazaki Eds Vietnam Co Ltd in the Tan Phu Trung Industrial Park and a \$30m increase in its capital by Furukawa Automotive Parts Vietnam Co Ltd, both in the automobile support industry.

Vietnamese firms invested a total of \$82.2m, up 79.5% YoY.

HEPZA targets total investment of \$700m this year, and wants companies to invest in areas like high technology and supporting industries, electronics, IT and chemicals.

Speaking at a press conference yesterday, Tran Cong Khanh, head of the HEPZA office, said 61 projects have wound up and 20 others have temporarily halted operations.

35 others are in the process of completing legal procedures for shutting down, he said.

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In Q1 38 projects were licensed and 6 have already become operational. Exports were worth \$1.2m, an increase of 17%.

More than 285,000 workers are employed by companies based in IPs and EPZs, an increase of 9,580.

The number of foreign workers has risen by 3% to 2,112.

The companies need to hire more than 25,300 people this year, mostly for manual work.

Heus harbours big plans for VN



VIR - The Netherlands' Royal De Heus, an international organisation with a leading position in the animal feed industry, has boosted its presence in Vietnam with the installation of its seventh animal feed plant.

Located in Mang Thit district in the Mekong Delta province of Vinh Long and costing over \$30m, the new factory is the Dutch firm's 2nd facility of this kind in the area. The new facility, called Vinh Long 2, will produce feed for cattle, pigs,

and poultry at a capacity of 250,000 tonnes a year in the first phase, thus helping increase De Heus Vietnam's total output to one million tonnes a year.

Vinh Long 2 is the first plant with a river port. Utilising the water ways, the logistics of incoming raw materials and outgoing finished products can be organized in a more efficient way between Vietnam, Cambodia, and the Mekong Delta region.

"The new facility is an important step in our ambition to contribute to the agricultural development of Vietnam," said Gabor Fluit, De Heus Asia's business group director.

Coinciding with the operation of its seventh plant, De Heus Vietnam announced that Vietnam had been selected as the official headquarters of its Asia branch.

Operating in Vietnam for eight years now, De Heus has continued expanding its operations in the country to become 1 of 5 biggest animal feed producers in VN.

VN animal feed market has developed rapidly, with an average growth rate of 10-13% a year. The animal feed market is expected to reach \$10.55b by 2022.

[Back to top](#)

ENTERPRISES

E-commerce firms see benefits in Alibaba's acquisition of Lazada

VNN - VN e-commerce firms are excited rather than worried about the news that Alibaba has taken over Lazada.



Le Thiet Bao, marketing and e-commerce director of Bibomart

Le Thiet Bao, marketing and e-commerce director of Bibomart, commented that there was no need to worry about the new giant in VN market, and that what VN firms need to do is to try to do their jobs well. Bao thinks that Alibaba, with its business strategy and know-how on running e-commerce chains will not let Lazada run with heavy losses anymore.

He said Lazada will no longer have subsidies and huge marketing budgets, but it will have to optimize the business costs. This will be fair for the young e-commerce market, while will provide opportunities for newly invested businesses such as hotdeal, tiki, cungmua, and

nhommmua to expand their business.

When asked if he was worried that Alibaba would bring more Chinese goods to Vietnam, which has been flooded with Chinese goods, Bao said that Chinese goods have been present in Vietnam for a long time, even without Alibaba.

When asked to make comment about Alibaba as a rival, Nguyen Hoa Binh, CEO of Peacesoft, which runs chodientu.vn website, said, if Alibaba, as described by Jack Ma, is the 'crocodile in the Yangtze', Peacesoft will be the piranha which is ready to compete equally in the Vietnamese market.

An e-commerce website which is about to make debut at 40tencuop.com has said it was 'declaring war with Alibaba'.

Commenting about the 'declaration of the war', Bao said that there was no need to confront Alibaba, because 'when the water level rises, the boat will be floating', i.e when the market improves, all members will get benefits.

Thanh Nien quoted analysts who said that the presence of Alibaba would bring benefits to Vietnam.

Experts all noted that e-commerce in Vietnam requires a lot of money. And if Alibaba accepts to pay 'a mountain of money' for Lazada, it should be seen as good news.

The second thing Alibaba would bring to Vietnam is a plentiful supply of goods, the problem which remains 'open' in Vietnam. To date, e-commerce firms have still been heavily depending on imports.

This means that money and goods, the two things Vietnam's e-commerce needs, will be brought by Alibaba.

Vecita, the watchdog agency in e-commerce, on April 14 released a report on Vietnam's e-commerce. Lazada.vn tops the list of 10 e-commerce websites with the highest revenue.

Major drink producer Tan Hiep Phat seeks foreign investors

VNN - According to the Wall Street Journal, Tan Hiep Phat Beverage Group, one of the largest drink firms in Vietnam, is seeking foreign investors, through selling a minority stake. According to a close source, if the deal is completed, Tan Hiep Phat can be valued up to \$2 billion.

ENTERPRISES

According to this source, the company is calling for foreign investment to expand business. It has hired a foreign bank as advisor for the deal.

Tan Hiep Phat was founded by Tran Quy Thanh in 1994 in the southern province of Binh Duong. It is currently one of the largest private consumption goods production firms in Vietnam, specializing in beverages, soft drinks.



A production line of Tan Hiep Phat

Tan Hiep Phat's products are exported to six countries, including Australia, Canada and China, with more than 4,000 employees. In Vietnam it has four factories.

Joining the market in 2006, Tan Hiep Phat grew very fast. In 2013 its market share in the soft drink market accounted for 22.65%, while PepsiCo held 25.5% and Coca-Cola Vietnam 10.5%, according to VietinbankSC.

According to a close source, the plan to sell shares to foreign

investors has not been confirmed yet. The company's boss Tran Quy Thanh did not comment on the information.

Thanh's family currently owns 100% stake in Tan Hiep Phat. The company's largest shareholder is Pham Thi Nu, Thanh's wife, with 54.4% of charter capital. The rest belongs to Tran Uyen Phuong and Tran Ngoc Bich, Thanh's daughters. Experts said that if this affair is successful, it will further promote the wave of M&A in Vietnam. There will be more foreign investors to hold shares in Vietnamese consumption goods companies.

Late last year, Thailand's Singha beer corporation invested \$1.1b to acquire two subsidiaries of VN group Masan, one of the largest consumer goods firms in VN.

The French group Casino SA is offering for sale its Big C retailing chain in Vietnam, attracting the attention of some investors in Thailand and Japan.

Euro automakers get in gear for EU-Vietnam FTA

VIR - European automakers are welcoming the European Union-Vietnam Free Trade Agreement's slashed tariffs, expected to take

effect in early 2018, as a key step towards boosting imports to and investment in Vietnam's rapidly-growing auto market.

Bruno Angelet, Ambassador and Head of the Delegation of the European Union to Vietnam, told VIR that "the European Union-Vietnam Free Trade Agreement (EVFTA) will help EU automakers expand their auto exports and investment in Vietnam."

"The EVFTA will offer slashed import tariffs for automobiles, so auto prices will be far cheaper in Vietnam," Angelet added.

Under the EVFTA, Vietnam will eliminate duties on imports of EU cars with small-and medium-sized engines- which now face tariffs of 70-78%-over 10 years following the deal's coming into force.

Vietnamese duties on trucks will also take about ten years to phase out. These tariffs range from 65% on models under five tonnes to 10% for trucks weighing 24-45 tonnes.

For cars with larger engines (3.0L for gasoline, 2.5L for diesel), the timeline for tariff removal is nine years. Car parts will also be duty-free after seven years.

ENTERPRISES

Xavier Coiffard, general director of France's Auto Motors Vietnam, the exclusive importer of Renault cars for Vietnam, told VIR that Renault would greatly benefit from the EVFTA.

The current import tax for Renault's completely-built units imported from Europe is 70%.

"We will find it much easier to import cars into Vietnam," Coiffard said. "Local customers will have more options for EU automobiles thanks to the EVFTA."

Renault's sales revenue in Vietnam last year reached 8 million euros (US\$9 million), and is expected to hit 20 million euros (US\$22.6 million) this year. It is likely that Renault will consider directly manufacturing cars in Vietnam in the medium term, to benefit from the country's FTAs.

Sweden's Volvo is also planning to enter the Vietnamese auto market in order to take advantage of the EVFTA as well as the market's rapid growth. The company's plans to open two Volvo centres in Ho Chi Minh City and Hanoi in this year's third quarter.

Euro Auto JSC, Volvo's authorised importer and distributor in Vietnam, currently has 27 auto agents in the



country and will conduct marketing and selling activities as well as other services for Volvo cars.

Yoshihisa Maruta, chairman of the Vietnam Automobile Manufacturers' Association (VAMA) and president of Toyota Vietnam (TMV), told VIR that Vietnam's automobile market had great potential.

"I believe with its many FTAs, Vietnam will have both opportunities and obstacles. For importers, the FTAs are a good chance to expand their business and it will be easier for consumers to choose and own a car in the time to come," Maruta said.

However, he declined to provide more details on the level of interest in the EVFTA shown by VAMA's member companies.

"VAMA members include both local manufacturers as well as foreign firms from Japan, the Republic of Korea, the US, and Europe. We therefore cannot say generally whether VAMA members will see benefits or not," he said.

Last year, Vietnam's total auto market sales hit nearly 245,000 units, up 55% year-on-year, VAMA sales accounted for around 209,000 of this, up 56% year-on-year. Completely knocked-down (CKD) products occupied 75% of the market.

In this year's first quarter, total sales hit almost 60,000 units, up 23% year-on-year, of which CKD products comprised 78%. It is expected that the total sales figure for the year will reach 260,000.

MARKET & PRICES

Real estate market warms up, but prices unchanged



DNSG - Though demand has increased as foreigners are now allowed to own houses in Vietnam, real estate developers dare not raise selling prices.

A report of CBRE Vietnam showed that 10,340 apartments were offered to sell in the fourth quarter of 2015 in HCMC, an increase of 28 percent over the quarter before. The supply mostly came from the eastern part of the city.

About 10 apartment projects are under construction or will be implemented in the near future, located along the subway route No 1. They would provide 3,500 apartments, slated for late 2017.

There would also be some apartment blocks alongside the East Belt which connects Phu My Bridge and Hanoi Highway.

Le Hoang Chau, chair of the HCMC Real Estate Association (HoREA), commented that the information

about subway No 1 has helped turn the housing market more bustling.

The apartments located near the subway are believed to have the selling price of around VND1 billion for each product. There is no considerable difference in prices of the apartments in the area.

The plentiful supply is cited as the reason why real estate developers aren't raise the selling prices, despite the demand increase.

Nguyen Nam Hien, Hung Thinh Land's CEO, confirmed that no one would raise the selling price in the current context of supply, or the products would not sell.

However, slight increases still have been announced for some projects. The Eastern apartment block in district 9, for example, has increased by 3-5 percent in price if compared with 2013. This is because buyers can exploit the apartments for profit by leasing them after legal procedures have been completed.

NHO, the investor which now develops First Home Khang Viet project, also decided to raise the selling price from VND15.5 million per square meter in September 2015 to VND16.5 million in January.

An analyst noted that apartment prices increased very modestly by

VND1-1.5 million per square meter in the last six months.

When asked about pricing policy, Chau from HoREA said the price trend is still unclear because real estate products bear high impact from changeable state policies, which may cool the market.

The 'policies' Chau mentioned may include amendment of Circular 36 the central bank plans to make.

It is expected that commercial banks' lending to the real estate sector would be tightened to ensure safety for banks' operation.

After the long Tet holiday in February, many real estate developers said that they would not inject money into too many projects, and would focus on boosting sales.

Foreign brands control domestic natural foods market

VNN - Vietnam, an agricultural country which has great advantages to produce natural foods, still has to import products of this kind for domestic consumption.

More organic foods shops are in large cities, especially in Hanoi and HCM City. Many modern retail chains such as supermarkets, hypermarkets and groceries tend to prioritize the distribution of organic foods.

MARKET & PRICES



An analyst commented that organic food, or 'green', 'safe' food, have become more and more favored by urbanites, especially because many dirty food cases have been discovered in recent years. Meanwhile, Vietnamese people's income has considerably improved, which has made organic food more expensive than normal food, affordable to more consumers.

In Vietnamese thoughts, organic food means fresh vegetables and fruits. However, they have realized that industrial product drinks (milk, tea, coffee and cocoa), supplement food, cosmetics and many other kinds of products can also be 'organic'.

In principle, higher demand will make the market more attractive.

However, according to Bui Thanh Giang, deputy director of Sua My JSC, which distributes dairy products imported from the US, noted that the US organic food manufacturers still don't show interest in the Vietnamese market, though Vietnam, with 90 million people, is considered a 'promising land' for manufacturers.

Giang said it is not a simple job to distribute organic food in Vietnam. In general, distributors would take loss for two or three at least to cement their positions in the market. And no one can say for sure the business would bring profit after that period.

When asked about the profit, Giang said Sua My can have a modest profit of 7-10 percent for dairy products.

The businessman went on to say that though the demand for safe food is very high in Vietnam, investors need to think carefully before deciding to pour money into the business field.

"You should trade four products at least and you should prepare for a 'marathon run' You need long-term capital, because you won't be able to make profit quickly," he said.

Giang, like many other owners of organic food shops, only distributes imported products.

Nguyen Huu Chung, a member of Orana Vietnam, the big supplier of fruits used for making dairy products, drinks, cakes, ice creams and fruit juice, said it is not technically difficult to create organic food, especially when Vietnam is strong in agriculture and tropical fruits.

However, it is difficult for domestically made organic food to conquer consumers' hearts. Since the cultivation of organic farm produce can only bring low yield, their selling prices are high and not accepted by the majority of consumers.

"The problem is not making organic food, but making it competitive in the market," Chung said.

LEGAL UPDATES

New provisions on outward securities investment



FDI enterprises are not allowed to make outward securities investment

VLO - Decree No. 135/2015/ND-CP dated December 31st, 2015 of the Government regulation on outward portfolio investments.

This decree regulates in details the outward investment activities in the forms of purchasing and selling securities, valuable papers or investing through securities investment funds or other financial intermediaries in foreign nations

Accordingly, only 100% Vietnamese – invested enterprises are allowed to perform the outward investment activities in the forms of purchasing and selling securities; foreign-invested enterprises are not allowable (Article 2)

There are 2 methods of outward portfolio investments: proprietary trading of outward portfolio investments and outward portfolio investment trust (Article 6)

However, just these entities are eligible for carrying out the method of proprietary trading of outward portfolio investments: Securities

companies, fund management companies; Securities investment funds, securities investment companies; Insurance companies; Commercial banks; General financial companies; State capital investment corporation (Article 13)

With regard to other enterprises, they must entrust outward portfolio investments to Fund management companies or Commercial banks (Article 21)

Before performing the outward investment activities in the forms of purchasing and selling securities, enterprises must register the limits with the State Bank of Vietnam (Articles 17 and 25).

This Decree takes effect from February 15th, 2016.

Whether the discount offered for an agent is subject to PIT deduction or not

VLO - Official letter No. 1163/TCT-TNCN dated March 21st, 2016 of the General Department of Taxation regarding tax policy on expenditures on incomes of business individuals.

The document is to reply to the question about whether personal income tax (PIT) is deducted or not and how to deduct PIT when an enterprise pays these amounts to agents that are individuals: payment discount, customer support meeting turnover, trading

discount and sale promotion award.

Accordingly, with regard to the “payment discount” and “customer support meeting turnover”, when the enterprise pays these amounts to the individuals, it must deduct 1% PIT according to the provisions in Point 4 Annex 01 of Circular No. 92/2015/TT-BTC and declare the payment made on behalf of the individuals under Form No. 01/CNKD

For the “trading discount” offered for an agent, it is exempt from PIT according to the guidelines provided in Official letter No. 4447/TCT-TNCN dated October 27th, 2015. PIT shall not be deducted in this case

With regard to the expenditure which is “sale promotion award”, PIT shall be deducted in accordance with the guidelines provided in Official letter No. 3929/TCT-TNCN dated September 23rd, 2015. Accordingly, the award's value (regardless of in kind or in cash and if it is in cash, regardless of whether it is subject to ownership registration or not) shall be subject to PIT. The taxable value is the amount beyond VND 10 million; the amount under VND 10 million is exempt from tax.

HIGHLIGHTS

FDI by sector and challenges: garnering interest



VNE - Apple has recently announced plans to invest in a new \$1 billion project in Vietnam sometime soon, and while the exact nature of the project is yet to be confirmed it is believed to be a research and development (R&D) center for its Asia operations.

Apple already has other R&D centers in the region, including China, Japan and Taiwan, and is preparing to open a new center in India. Although not yet official, news that Apple will invest in Vietnam seems credible as last year it entered Vietnam's electronics market with the establishment of the Apple Limited Co. in Ho Chi Minh City.

Vietnam is gradually becoming a high-tech base, with Apple joining Samsung, Microsoft and Intel in the country. Not only a center of technology investment, Vietnam also continues to attract foreign investors in sectors such as

manufacturing and processing, real estate, and retail.

Leading the way

Manufacturing and processing and real estate are attracting the most interest from foreign investors.

Last year they invested in 19 sectors, of which manufacturing and processing was top, followed by power production and distribution, real estate, retail, and hotels and tourism.

Foreign investment in sectors such as education, agriculture, banking and finance, and health and social welfare remained limited.

Vietnam is becoming a global manufacturing and processing center.

Figures from the Foreign Investment Agency (FIA) at the Ministry of Planning and Investment (MPI) show that manufacturing and processing has attracted over 70 per cent of all foreign direct investment (FDI).

Each year more than \$10 billion in new FDI capital arrives in the sector.

An FIA report on Vietnam's investment environment revealed that in 2015 manufacturing and processing attracted 955 new projects and additional capital in 517 existing projects, totaling \$15.23 billion and accounting for 66.9 per cent of all FDI.

The manufacture and assembly of electronics equipment and components attracted substantial investment from major corporations. According to Mr. Don Lam, CEO and Founding Partner of VinaCapital, FDI plays an important role in Vietnam's economy as foreign-invested enterprises (FIEs) account for 70 per cent of the country's exports.

"Thanks to global multinational companies such as Samsung, Intel, Nike and others, Vietnam's trade gap has narrowed in recent years, with surpluses recorded in the past few years," he said. "FDI has also contributed to stronger foreign reserves."

Vietnam is also seen as an ideal destination for real estate investors, according to a recent report from Cushman and Wakefield.

Last year real estate ranked third among sectors attracting FDI, with 34 new projects and 12 existing projects increasing their capital, for a total of \$2.39 billion, or 10.5 per cent of all FDI capital.

According to Mr. Alex Crane, General Manager of Cushman & Wakefield Vietnam, there is continued demand from overseas investors at the institutional level and this will continue through 2016.

HIGHLIGHTS

The number of merger and acquisition (M&A) deals saw a dramatic increase in 2015, of 20 per cent compared to 2014, with real estate accounting for around 10 per cent of the total FDI coming into the country.

"We haven't yet seen much uptake at the individual level, especially in the residential sector, but Asian corporations in particular are aggressively active in Vietnam," Mr. Crane said. "The market is becoming more competitive with local and foreign groups vying for the best sites and investments."

Emerging industries

The textiles sector is forecast to catch the eyes of foreign investors as a series of free trade agreements (FTAs) and the TPP open up many opportunities for Vietnam.

The TPP is said to be especially beneficial for Vietnam, primarily because tariff barriers will be removed.

The US currently imposes tariffs on Vietnam's textile products of between 17 and 20 per cent, but after the TPP takes effect these tariffs will all fall to zero.

Many foreign textile investors are therefore expanding their investment in Vietnam to capture the opportunities.

Apart from big names such as Adidas and Nike deciding to increase production, many others have poured considerable amounts into the country.

For example, Turkey's Hyosung Istanbul Tekstil Ltd invested \$660 million in the Hyosung Co. in Dong Nai province, producing and processing yarn, while a Hong Kong investor established Luthai Textiles with investment capital of \$170 million in southern Tay Ninh province.

Such projects are more often than not of large scale, whereas previously most were of small or medium scale and focused on outsourcing.

These new project are in producing textile materials, including dyeing, to meet the "yarn-forward" rule contained in the TPP, where inputs must come from member countries. Foreign investment in retail, meanwhile, has also headed sharply upwards over recent years. Modern retail now accounts for 20 to 25 per cent of consumption.

The Berli Jucker Public Company Limited (BJC) from Thailand aims to become the future retail giant in Vietnam, after last year spending \$876 million on purchasing Metro Cash & Carry Vietnam.

Other names targeting expansion in the country include Aeon Mall, Family Mart, and Lotte Mart, with many other Southeast Asian companies having also joined the market.

Shortcomings to address

Despite the positive results, Vietnam's investment environment still bears a number of shortcomings. According to a recent survey by the Japan Export Trade Research Organization (JETRO), over 60 per cent of enterprises in Vietnam view the country's underdeveloped legal framework and unclear implementation as a risk.

More than half also identified "increasing labor costs" and "time-consuming tax procedures" as issues.

Mr. Atsuke Kawada, Chief Representative of JETRO, added time-consuming administrative procedures and insufficient infrastructure (power, logistics, and communications) as shortcomings Japanese investors must face.

The JETRO report showed that investors view these risks as being greater than previously.

"The localization rate of components in the manufacturing sector remaining low is also a difficulty for foreign companies," Mr. Kawada said.

HIGHLIGHTS

The overall localization rate stood at 32.1 per cent in 2015, down slightly against 2014. While the rate is higher than that of the Philippines, at 26.2 per cent, it is much lower than China's 66 per cent, Thailand's 56 per cent, and Indonesia's 41 per cent.

Difficulties are also found in the real estate sector.

The State Bank of Vietnam recently released a circular, Mr. Lam said, that may reduce lending to the real estate sector and result in a somewhat more challenging environment.

Local developers are now more capable than in the past and can compete with foreign developers more aggressively; something foreign developers need to be aware of if they are thinking of undertaking projects on their own.

Finally, a large number of condominium projects that were under construction over the last two years will be handed over to owners.

"It remains to be seen whether the majority of these buyers are end-users or investors, and too many investors could have a negative impact on the market," he said.

Regardless, Vietnam is still forecast to continue to be an ideal

destination for foreign corporations and companies.

There are a number of opportunities for real estate investors if they invest in the right product in terms of segment, pricing and location, Mr. Lam believes.

"The real estate market has emerged from a tough four or five years, but not all players are able to take advantage of this, especially in terms of financing," he said.

"For a foreign investor Vietnam is unique, as it's counter-cyclical compared to other real estate markets globally or in Asia, as most of them have seen tremendous price increases and are more likely to be at the top half of their cycles, while Vietnam has only been coming off the bottom for a year or so. From that perspective one could say that Vietnam is different and could offer diversification to investors."

The JETRO survey also identified many positives in Vietnam's investment environment. Profitable Japanese enterprises in the country make up approximately 60 per cent and results achieved by non-manufacturing enterprises are relatively good.

More than 60 per cent of Japanese enterprises in Vietnam are considering expansion plans.

"This is a higher rate than in other countries," Mr. Kawada said. "Vietnam remains a vital destination for business development."

The key motivation for expansion, as noted by 85 per cent of respondents, is revenue increases, while 50 per cent pointed to high growth and potential.

In non-manufacturing, the key motivation, as noted by up to 65 per cent of respondents, is high growth and potential.

Japan eyes Vietnam as production base

VNS - The chairman of HCM City People's Committee said at a conference held last Friday that the city sought continued support from Japan in the transfer of technology, ODA, management expertise and investment in several fields, including human resources, hi-tech agriculture, pharmaceuticals and tourism.

Speaking at the Viet Nam-Japan Investment and Tourism Promotion Conference in HCM City last Friday, Nguyen Thanh Phong said Japan was a leading economic partner of Viet Nam, especially of HCM City.

He said that Viet Nam had become a long-term investment site for the

HIGHLIGHTS

Japanese because of its convenient geographic location, stable politics, improved infrastructure and abundant and low-cost labour force.

With more than 865 projects with a total registered investment capital of US\$2.87 billion, Japanese ranks sixth out of countries and territories having investment in the city, he said.

In recent years, Japanese visitors have ranked first or second in the top 10 of foreign visitors to the city, and the number of Vietnamese visitors to Japan has also increased significantly.

The city expects to continue to receive co-operation and support from the Japanese Government and enterprises to improve the growth, he said.

"The city will always welcome and create favourable conditions for foreign investors, including Japanese, who come to seek long-term investment and business opportunities," he said.

Speaking at the conference, a special advisor to the Japanese Prime Minister, Iijima Isao, who also led a delegation of 22 Japanese businesses to HCM City, said he believed that Japanese firms would continue to invest strongly in Viet Nam, particularly in HCM City.

The Japanese businesses who visited the city this time are Japanese leading companies involved in pharmaceutical, medical, water and waste treatment, agricultural, transport, construction, logistics, manufacturing, tourism and IT sectors.

Vu Tien Loc, chairman of the Viet Nam Chamber of Commerce and Industry, said the country's participation in a series of free trade agreements, including the Trans-Pacific Partnership, had made it more popular among investors.

Recently, many investors from Japan, the US and EU have visited Viet Nam to seek business opportunities, he said, adding that many companies had shifted their investments from China to ASEAN countries, including Viet Nam.

Masuda Chikahiro, deputy chief of the Japan International Co-operation Agency (JICA) Vietnam, said Japanese companies wanted to penetrate the market of nearly 100 million people in Viet Nam and use it as a production base for export.

He said that reform of the investment environment was needed to welcome a new investment wave to Viet Nam.

Japanese firms, he said, were striving to overcome two difficulties,

including the rate of locally-made products supplied to Japanese producers in Viet Nam. This stands at about 33 per cent in 2014, much lower compared to some other countries in the region.

Secondly, the country's human resources have yet to meet requirements of Japanese firms, he said.

Viet Nam should solve issues such as these mentioned in the Viet Nam-Japan Joint Initiative, he said.

At the conference, Pham Thiet Hoa, director of the Investment and Trade Promotion Centre of HCM City, told Japanese investors that the city was seeking investors for the 27.2 km monorail line No2 and the 6.3km underground monorail No6 projects, as well as the underground mall project at the Ben Thanh Central Station and the Saigon Safari project in Cu Chi District.

Japanese firms seek investment in Dong Nai

A delegation of 46 Japanese firms has arrived to the southern province of Dong Nai to seek investment opportunities in the locality, according to the provincial People's Committee.

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