

VIETNAM

BUSINESS REVIEW

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Fullbright University gets investment certificate



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ECONOMY

Are the next 5-year economic goals attainable?

VNN - The difficulties Vietnam has to face in the next five years will increase as ODA loans will be cut by 50%, while new loans will bear an interest rate of 3%.

The new Gov't has made the first decision in its tenure – setting up economic goals for the next five-year development period to 2020.

The state budget deficit & inflation rate, the two important indexes, have been set up at below 4%.

The National Assembly's resolution pointed out that the interest rate policy must be regulated in a flexible way in accordance with the performance of inflation.

Which macroeconomic tools will the government use to drive the national economy to be sure it can go on the normal track in the next five years?

The budget deficit and inflation rates are variables which have close relations and two-way interactions.

The budget deficit, by nature, is the gap between high expenses and total receipts. Meanwhile, the budget spending in the last five years has been on the rise.

The budget spent \$11b in 2015, or 6.12% of GDP in the year, while the figures were \$7b & 5.3% of GDP in

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2014. The budget deficit is always a headache to politicians, who have to think about how to maintain high economic growth in the context of limited resources.

There are two reasons behind the deficit: the recession cycle which came after 2010; and the receipts/expenses structure.

As such, in order to curb the budget deficit at below 4% of GDP, the government will need instruments which can deal with both.

In 2015, the revenue from taxes and fees accounted for 15.6% of total revenue. It is clear that the government will continue trying to collect more from the sources this year.

It is expected that in 2016, the state would sell valuable assets, including MobiFone (mobile network operator), the Saigon Trade Corporation (trader) and Ben Thanh Corporation, through IPOs, expected to bring revenue of VND40 trillion.

Meanwhile, it would be much more difficult to cut expenses than to increase revenue.

An official report shows that the nation's spending in 2015 was VND1,273,200 billion, which included money to pay debts and

loan interest. The public debt value surged to 61.5% by 2015.

Analysts warned that it would be a difficult task to keep the inflation rate at below 4%.

CPI in Q1 of the year increased by 1.25% compared with the same period last year.

Vietnam expects to become the world's leading banana exporter

VOV - Vietnam's banana has successfully conquered Japan's market with first bunches hitting shelves of Don Kihote chain of supermarkets.

Around 15 tons of bananas exported by Huy Long An Company are being sold at Don Kihote supermarket in Tokyo, Saitama and Chiba.

The Japanese importer plans to double volume & expand distribution networks in the coming time.

Hidekatsu Ishikawa, President of the Japanese importer, VIENT Company spoke highly of Vietnamese bananas. He said that they are suitable to the taste of Japanese consumers and have competitive prices.

He revealed that other local supermarkets in Niigata also sell Vietnamese bananas.

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BANKS & FINANCE

Banks rush to lift foreign ownership ratio ceiling



Bizlive - A series of banks have unanimously expressed their wish to lift the foreign ownership ratio ceiling, saying that the current ceiling of 30% is not high enough to attract investors.

Vietcombank and VietinBank, the 2 largest state-invested commercial banks, are seeking the government's permission to lift the foreign ownership ratio ceiling to 35-40%.

Japanese Mizuho Bank has expressed its wish to buy 5% of stake more to raise its ownership ratio to 15%.

Under current regulations, one foreign investor must not hold more than 20% of the chartered capital of one bank, while the total proportion of stakes foreign investors can hold in one bank must not be higher than 30%.

Believing that the limitations keep foreign investors away, a series of banks have proposed to raise the ceiling.

Though having sold 30% of stakes to

the foreign strategic partner, An Binh Bank still wants to sell up to 49% of stakes to foreign investors. Its two large shareholders, Maybank and IFC, now hold 30% of the bank's total chartered capital.

At the 2016 annual shareholders' meeting, Vo Tan Hoang Van, SCB's CEO, said that SBV has allowed the bank to seek foreign strategic investors to sell 50% of its stake.

In February, the Military Bank (MBBank) got approval from the State Bank to lift the foreign ownership ratio in the bank from 10% to 20%.

Meanwhile, VP Bank said it is considering listing its shares on the bourse and looking for foreign strategic partners. Since Singaporean OCBC withdrew its capital in late 2013, VP Bank now does not have foreign investors.

In principle, the government of Vietnam allows commercial banks to attract capital from foreign shareholders, and the foreign ownership ratio could be higher than 30% if approved by the government.

In some cases, the government would accept to sell 100% of stakes to attract foreign investors to restructure weak banks.

Oil prices lift Vietnam stocks

VIR - Vietnamese shares closed higher on both local markets this morning led by energy stocks, following a gain in oil prices.

The benchmark VN Index on the HCM Stock Exchange rose 0.3% to end at 612.73 points and the HNX Index on the Ha Noi Stock Exchange edged up 0.4% to close at 81.55 points.

The energy sector boosted investor confidence as crude prices extended gains after a break on Friday on expectations that the global market may move into a deficit earlier than expected.

US crude West Texas Intermediate (WTI) advanced 1.5% to trade at \$46.88 per barrel and London-traded Brent crude gained 1.3% to trade at \$48.46 per barrel.

Some of the largest energy stocks, such as PetroVietnam Gas Corp (GAS), PetroVietnam Drilling and Well Service Corp (PVD) and PetroVietnam Technical Service Corp (PVS), increased between 1.5% and 3.1% in local trading.

Property developers also helped. Vingroup JSC (VIC) added 2.8%, Kinh Bac City Development Share Holding Corp (KBC) increased by 0.8% and Song Da Urban and Industrial Zone Investment and Development JSC (SJS) was up 1.7%.

BANKS & FINANCE

Hackers fail to steal €1m from TPBank

VNN - Tien Phong Commercial Joint Stock Bank's SWIFT money-transfer system (TPBank) was recently attacked by hackers, using similar techniques in the case occurring at the Bank of Bangladesh.

According to Reuters, in the fourth quarter 2015, TPBank identified a number of suspicious requests through the messages of the SWIFT money transfer system to transfer more than 1 million euros (about 1.1 million US dollars).

The bank immediately contacted the relevant parties and promptly stopped the transfer of the money order.

"The attack did not cause any damage and did not affect the SWIFT system in particular and the transaction system between TPBank and clients in general," said the statement by the Bank.

Hackers used the infrastructure of third party that was hired by TPBank to connect them to the SWIFT system with overseas-based servers. However, the Bank refused to provide information about the service provider, although the bank said it had terminated the contract and switched to the new system



with greater security, which allows them to connect directly with SWIFT. Recently, SWIFT said that perhaps hackers installed malware on an application software of the partner for the SWIFT payment service that they provided.

On May 12 this agency said a Vietnamese bank was in sight of the criminal group who robbed \$80 million of the Central Bank of Bangladesh.

It is unclear when SWIFT identified the attacks to TPBank and whether the organization has any action to prevent similar attacks or warn other customers.

In February 2016, hackers tried to break into computer systems to steal \$101 million from the Central Bank of Bangladesh's account at the Federal Reserve of New York through the use of fraudulent money transfer messages on SWIFT

system. This is considered one of the major high-tech robberies in the history of the banking industry.

Accordingly, only \$20 million was recovered for the Central Bank of Bangladesh while more than \$80 million related to the individuals and organizations are still being investigated.

The State Bank of Vietnam is investigating the attacks by hackers to TPBank after receiving detailed information on May 16, according to Bloomberg.

According to this news agency, in a phone interview, Ms. Le Thi Thuy Sen from the SBV's communications division said the central bank had directed the IT department to carry out the investigation on the attacks to TPBank.

INVESTMENT

Japan's Sanyo Homes forays into Vietnam's real estate market

TNN - Sanyo Homes Corporation has become the latest Japanese investor to enter VN's real estate market with a \$25m project in collaboration with local developer Tien Phat Corp., local media reported on Friday.

The 22-story hi-end condominium in Ho Chi Minh City's District 7 is Sanyo Homes' first step in Vietnam, news website Dau Tu said, citing chairman Yasusuke Tanaka.

Before Sanyo Homes, Japanese investors such as Creed Group, Hankyu Realty and Nishi Nippon

Railroad have already entered the Vietnamese market through cooperation with local developers.

Toshihiko Muneyoshi, chairman of Creed Group, which pledged \$200 million for a residential project in Ho Chi Minh City last year, said in Dau Tu that the housing demand in Vietnam is "huge," given its young population and their growing income.

Foreign investors pledged \$239.78m for real estate projects in VN in the first quarter, according to the Foreign Investment Agency.

Singapore ranks third for foreign investment in VN

VNS - As of April 2016, Singaporean

businesses have 1,600 projects in VN, capitalised at approximately \$36.3b, ranking third among 114 countries and territories investing in the country, statistics from the Foreign Investment Agency (FIA) revealed.

In past 4 months alone, the firms registered 50 new projects and raised investment in 23 existing projects, with a total sum of more than \$730m, consolidating its position as one of Viet Nam's leading sources of foreign investment capital, FIA noted.

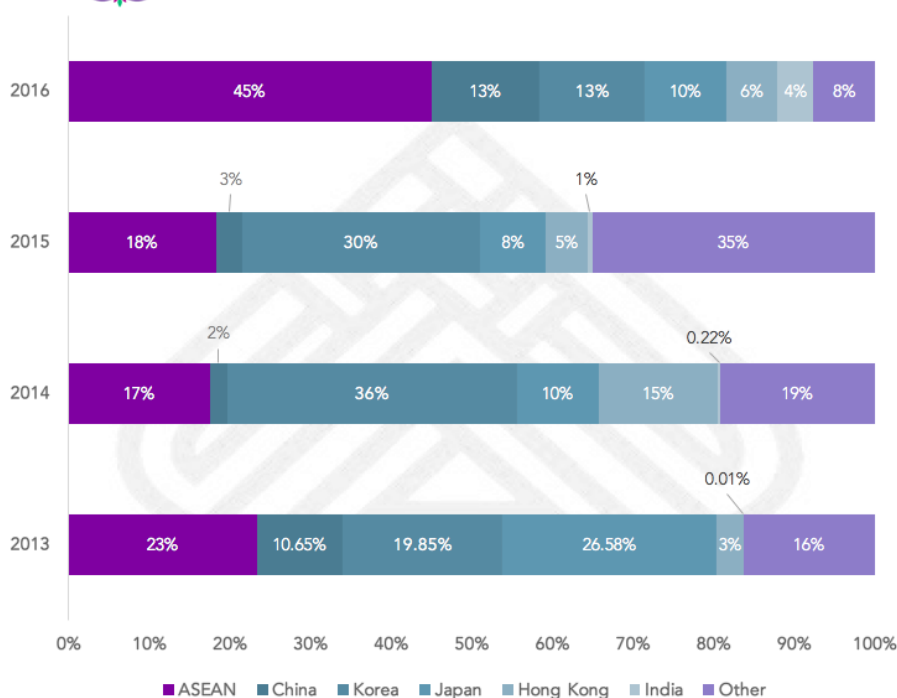
The average capital investment per Singapore-funded project in Viet Nam is \$22.7m, which is much higher than the average foreign investment of \$13.8m per project.

Processing and manufacturing remained the most attractive sector to Singaporean investors as it lured \$16.1b, accounting for 44.3% of Singapore's total investment in VN. Real estate came second with \$10.9b, totaling 30% of Singaporean investment.

In addition to large localities which have social and infrastructure advantages such as HCM City, Ha Noi, Hai Phong and Binh Duong, Singaporean firms have also spread their investment into others such as Nghe An and Thai Nguyen in recent years, according to FIA.



Vietnam's Top Sources of FDI: '13-16*



ENTERPRISES

Toyota Vietnam recalls imported Lexus for brake problems



VNA - Toyota Viet Nam (TMV) on May 12 issued a recall notice for 113 Lexus ES250 and ES350 cars it imported and distributed in Vietnam for brake problems.

The programme began the same day at the company's major outlets in Hanoi and Ho Chi Minh City.

The car owners will receive invitation letters or telephone calls to bring their cars to the outlets for examinations and replacements free of charge.

The move is part of a global recall that Japanese Toyota launched for several models of its cars.

The 113 Lexus ES250 and ES350 cars in Vietnam were manufactured in Japan between September 10, 2015 and February 18, 2016.

Japanese enterprises eye Vietnam as export base

VOV - Japanese manufacturers are eyeing the ASEAN region, especially Vietnam as an export base since the signing of the Trans-

Pacific Partnership (TPP) in late 2015, according to a recent survey announced by the Asian Nikkei Review on May 12.

The survey was conducted by the Mizuho Research Institute in February 2016, targeting 1,100 Japanese firms capitalised at JPY10 million (US\$92,200) or more.

Some 43.8% of respondents to the survey revealed that ASEAN is the region where they plan to pour more investment into, an increase of 2.3% over last year's survey. This is the fourth year in a row ASEAN has topped the list.

Japanese manufacturers have shown their increasing interest in Vietnam with 53.5% of them saying they choose Vietnam among the 10 ASEAN member states to invest in, up 4.9% against last year.

Thailand, where auto industry growth is slowing, was picked up by 59.7% of companies, a decline of 2.2% from 2015 while interest in Indonesia fell 4.7% to 41.5%.

When being asked where they plan to expand investments among the 12 TPP signatories, 12.8 of respondents named Vietnam. Japan and the US came second and third with 10.7% and 4.9%, respectively.

Japanese manufacturers continued to pull out of China as its

economy slows down. Only 76.4% of them said they have bases in China, which is a 2% drop from last year and the second decline in a row.

Vietnam's Internet giant VNG acquires 38% stake in retailer Tiki: report

VNG Corporation, Vietnam's top provider of Internet content, has completed a VND383-billion (\$17.02m) deal to acquire a 38% stake in e-commerce startup Tiki, local media reported on Monday.

The deal, completed in January, has put Tiki's value at around VND1 trillion (\$44.4m), news website CafeF said, citing a report from VNG.

It is the second biggest deal reported among Vietnamese startups, after the \$28 million funding that mobile wallet service MoMo recently received from British-owned Standard Chartered Private Equity and the US's Goldman Sachs.

Founded in 2010, Tiki is often described as Vietnam's Amazon, with around 100,000 products including books and electronics. It is now backed by Japanese investors Sumitomo Corporation and CyberAgent Ventures, which own a combined stake of 45%.

MARKET & PRICES

Domestic cement consumption increases more than 15%



VNS - Cement and clinker consumption in the country grew over 15%, to 24 million tonnes, from the beginning of this year, meeting 32% of the year's target.

According to the Department of Building Materials under the Ministry of Construction, the growth was due to the increase in construction activities during the current dry season. Cement consumption in the second quarter was expected to be higher than the first quarter, it added.

Local consumption in April alone reached 6.07 million tonnes, surging 17%, compared to the same month last year.

Of the total, 2.4 million tonnes of cement were sold by the Viet Nam Cement Industry Corporation (VICEM), 31% higher than its sales in the corresponding period in 2015, vietnamplus.vn reported.

In the first four months, 18.85 million tonnes of cement were sold in the domestic market, a year-on-year increase of 17.4%. Meanwhile, cement exports remained stable with 5.15 million tonnes, a year-on-year increase of 0.4 million tonnes. According to the department, thriving cement consumption in the second quarter was spurred by improvements in the real estate market. However, cement prices are still stable, it said.

The cement industry plans to produce 75 million tonnes to 77 million tonnes of cement this year.

The ministry predicted that the local cement industry would face difficulties in selling cement this year, especially in exports. Therefore, many cement projects have been taken out of the national plan of cement development for this year and beyond, and the nation would not have more cement production lines to operate this year, Cong Thuong (Industry and Trade) newspaper reported.

Nguyen Quang Cung, chairman of Viet Nam Cement Association, said the local market saw fierce competition among cement producers and the cement industry needed restructuring, as per conditions of the merger.

Many cement enterprises have merged with VICEM to increase their competitive ability. These include Ha Long, Song Da, Song Thao, and Holcim, in addition to Lafarge, Cung said.

To promote consumption of cement, avoid pressure from inventory and have selling solutions, Vicem requires its member companies to take full advantage after improving the distribution system, reviewing sales policies, increasing competitive ability, and seeking large export markets.

Le Thanh Long, general director of VICEM Hoang Thach, said his company has focussed on developing a brand, completing the system of major distributors and developing a system of shops with high standards to retain market share and expand further business.

High foreign discounts cut local profit

VIR - Local producers are protesting against the discount rates afforded to foreign retailers, as it is taking a big bite out of manufacturer's profits.

MARKET & PRICES

Recently, the Vietnam Association of Seafood Exporters and Producers (VASEP) filed documents with Big C Vietnam proposing that the Thai-owned retailer lower the discount rate for VASEP members.

From March to April this year, several retailers issued notice of a discount rate increase to seafood producers.

"The highest rising margin was set by Big C Vietnam – the distribution company operating 32 outlets across the country, at 4.25 per cent to 5.5 per cent. This is unbearable for the suppliers," VASEP deputy chairman Nguyen Hoai Nam told VIR.

The association estimates that its members are being charged 17-20 per cent on average, with the lowest rate at 15 per cent and highest at 25 per cent.

Local retailers propose a much smaller margin of increase. For example, the Saigon Co.opmart hike was only 1 per cent on average.

VASEP members believe that the main reason behind the increase stems from the recent merger and acquisition activities of many big retail players, which challenges their human and marketing management. Big C's chain of supermarkets is the latest with its

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announced transfer to the Thai giant Central Group, from the French Casino Group.

As many find the current discount rate too high to make any profit, some suppliers have requested that Big C lower it by 15 per cent or less. To date, they have yet to receive a response from the distributor.

Many suppliers are said to have ceased trading with Big C due to the recent tough policies.

Nguyen Anh Tuan, director of a Ho Chi Minh City-based company, specialising in the production of fish sauce and canned foods, told VIR that "Besides the high discount rates, Big C applied additional fees, for example, customer discount fees, and establishment celebration fees, among many others."

Tuan said that the total cost of his firm rose to 25 per cent of its revenue from the 10-15 per cent level two years ago, when he first signed contracts with Big C, forcing him to withdraw his goods from the distribution system.

Earlier, the Ho Chi Minh City Union of Business Association (HUBA), sent proposals to Prime Minister Nguyen Xuan Phuc on the same issue. "Extremely high discount rates charged by foreign retailers are barriers to local producers selling their products through these outlets,"

stated HUBA chairman Huynh Van Minh.

HUBA estimates that over 50 per cent of the modern retail market (with distribution via supermarkets) has been acquired by foreign firms. The association is also urging authorities to come up with measures to support local producers.

Given that the import tariff levied on various Japanese and Thai goods has been reduced to 0 per cent since April 2015 and January 2016, respectively, the cost of imports has significantly dropped. Big C Vietnam, however, assures that 90-95 per cent of goods sold are still supplied by Vietnamese producers.

Government authorities said that they would not intervene unless suppliers have evidence of foreign retailers' discrimination against particular products.

"Selling contracts are based on the market principle of price and demand, it's not a problem," said the Ministry of Industry and Trade's head of Domestic Market Department Vo Van Quyen.

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LEGAL UPDATES

New provisions on financial management of PPP projects

VLO - Circular No. 55/2016/TT-BTC dated March 23rd, 2016 of the Ministry of Finance on providing for certain contents of financial management of investment projects in the form of public-private partnership and costs of investor selection.

This Circular provides for the following contents

a) The financial management of the investment project in the form of public-private partnership (referred to as "PPP"), including:

- The management and use of expenditures for the investment preparation and the execution of projects of Ministries, regulatory bodies and provincial people's committees as regulated in Decree No. 15/2015/ND-CP

- The financial plan of a PPP project
- The State capital contribution for the execution of PPP projects
- The financial statement of completed PPP projects

b) Costs of investor selection as regulated in Article 7 of Decree No. 30/2015/ND-CP

This Circular takes effect from May 05th, 2015 and replaces Circular No. 166/2011/TT-BTC dated November 17th, 2011.

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Amendments to the Law on VAT, the Law on excise tax and the Law on tax administration

VLO - The National Assembly's Law No. 106/2016/QH13 dated April 6th, 2016 on amending, supplementing to a number of articles of the Law on value added tax, the Law on excise tax and the Law on tax administration.

This Law is to amend, supplement to these 3 Laws:

1. The Law on value added tax No. 13/2008/QH12 which has been amended, supplemented according to Law No. 31/2013/QH13:

2. The Law on excise tax No. 27/2008/QH12 which has been amended, supplemented according to Law No. 70/2014/QH13

3. The Law on tax administration No. 78/2006/QH11 which has been amended, supplemented according to Law No. 21/2012/QH13 and Law No. 71/2014/QH13

Accordingly, one of the important amendments of this Law is that the tax refund is not provided for the case in which the input VAT has not been fully deducted after the accumulation of 12 months or 04 quarters. Under the new Law, the

VAT amount which has not been fully deducted in a month/quarter (including the case of accumulation of 12 months or 04 quarters) shall be only transferred to the deduction of the next period instead of the refund

For investment projects, the tax shall not be refunded instead of being transferred to the next period for deduction in these cases:

a) Investment projects of business establishments that do not contribute sufficient charter capital according to the registration; engage in conditional business lines, sectors when they fail to meet the business conditions or fail to maintain the eligibility for the business during the operation

b) Investment projects on exploitation of minerals, natural resources licensed from July 01st, 2016 or investment projects on production of goods, products with the total value of the minerals, natural resources added energy expenses accounting for 51% product price or more according to the investment projects

However, with respect to the tax administration domain, this Law reduces the fine rate on late payment of tax from 0.05% to 0.03%/day.

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HIGHLIGHTS

Do local firms still hold 97% of Vietnam's retail market?



VNN - According to an official from the Ministry of Industry and Trade, just over 3% of the retail market of Vietnam is in the hands of foreign investors, in which the largest part belonging to Big C supermarket chain, which was just sold to the Central Group of Thailand.

At the regular press conference of the Ministry in Hanoi last week, Vo Van Quyen – Head of the Domestic Market Department – confirmed that nearly 97% of the retail market is still in the hands of local businesses.

Foreign firms, including giants like Aeon, Lotte, BJC, Auchan, and the Central Group, only have 3.4%.

Citing data from Nielsen, Quyen said for modern distribution channels alone, foreign retailers hold a larger slice, about 13.7%. But the market overall is still in the hands of Vietnamese enterprises.

At the same time, chairman of the Hanoi Supermarket Association Vu Vinh Phu re-affirmed that Vietnam has lost 50% of the retail market to

the Thais and 20% to other foreign retailers.

The public is wondering about the difference between the numbers issued by the president of the Hanoi Supermarket Association, who knows clearly about the number of retailers, and the representative of the Ministry of Industry and Trade, who knows about the number or origin of products.

Market share being lost to Thai retailers

Growth of Thai retailers making life difficult for domestic counterparts.

From 2009 to 2015 imports from Thailand to Vietnam almost doubled, from \$4.5b in 2009 to \$8.2b in 2015, according to the General Department of Vietnam Customs. Popular items such as vegetables, automobiles, electrical appliances, and plastic products are considered a strength of Vietnam's near neighbor.

The HCMC Business Association said that Vietnamese goods and also Japanese and South Korean goods now find it difficult to compete with similar products from Thailand.

Major Thai retailers have thrown down a challenge to their Vietnamese counterparts in recent times. The Ho Chi Minh City Business Association has petitioned the Prime Minister about the

domination of Thai goods and retailers and their efforts to acquire an even greater market share in Vietnam.

Thai retailers in the country include Mega Market (formerly Metro), B's Mart, Big C, and Robinson, the Association said, while the Central Group holds 49% of the Nguyen Kim electronics supermarket chain.

The quality of Vietnamese goods can meet requirements but face many obstacles in entering a retail network owned by foreigners, the Association said.

Foreign supermarkets require certificates and inspection of origin and product quality and insist on discounts.

Business representatives said that the "Vietnamese Prefer Vietnamese Goods" program has helped boost the proportion of Vietnamese goods at supermarkets to 80-90% but the abovementioned obstacles will see their market share decline.

Electronics and automobile imports from ASEAN skyrocket

VOV - Imports of electronics and automobiles from ASEAN jumped high in the first quarter of this year, according to latest statistics from the General Department of Vietnam Customs.

HIGHLIGHTS

Imports of CBU cars increased by 87.6% to \$152m. It's noteworthy that most of the CBUs were imported from Thailand (valuing at \$142m) and the rest from Indonesia (\$10m). Automobile experts said automobile imports from ASEAN will continue to surge in the coming time. The sharp rise is attributable to tax cut from 50% to 40%. After the import duty from ASEAN will drop to 30% in 2017 and zero in 2018, the regional group will replace the Republic of Korea to become Vietnam's major supplier of automobiles.

Meanwhile, Vietnam also spent \$322m on importing electrical and electronic products from ASEAN, including \$244m for the products from Thailand.

Imports of equipment and tools reached \$434m, up 9.3% over the same period last year, of which \$179m went to Thailand, \$102m to Singapore & \$98m to Malaysia.

Jack Ma approached Vietnamese craft villages

VNN - It is Jack Ma, not Vietnamese firms, who has been reaching every corner of Vietnamese craft villages and inviting them to join his online trading floors. Why?



After a workshop, tens of businesses signed contracts with new partners. Many other contracts on e-shop booking were also signed.

Hoang Son, the representative of a stone export company in Ninh Binh province, said the company was interested in e-commerce, trying to look for more export channels, but had not succeeded.

The owner of another business said he did not lack money, but manpower. Therefore, he is willing to spend money if someone can advise him how to do e-commerce. Some months ago, the Dong Ky craft village in Bac Ninh received consultants from a foreign e-commerce firm who traveled tens of kilometers with motorbikes, and came to meet every businessman in the village to invite them to open e-shops.

Alibaba has been squeezing into every corner of the Vietnamese craft village to meet businessmen with limited knowledge about e-

commerce, which has spent \$1 billion to buy Lazada.

In fact, Vietnam has many B2B trading floors on which a lot of product types are traded, from steel to wooden products. However, the majority of them have shut down. These include very large one with 17,000 members, 23 business fields and 9,000 product items.

The two foreign online trading floors best known to Vietnamese businesses are alibaba.com and globalsources.com. As they have the global scale, importers and exporters can hope they can more easily find partners.

An analyst commented that the knowledge of Vietnamese small and medium businesses about e-commerce remains limited. They just know the names of trading floors, while they don't understand the real benefits they can expect from the floors.

VECITA (the Vietnam e-Commerce and Information Technology Agency) has released a report on e-commerce development in Vietnam showing the list of 10 e-commerce websites with largest revenue. Lazada, which has been taken over by Alibaba, tops the list, followed by chodientu.vn.

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