

VIETNAM

Embracing the free market

New reforms, free trade agreements and impressive management of Covid-19 cement Vietnam's place as a destination of choice for investors.

Going global

Vietnam's growing international footprint and new-generation trade agreements will allow it to capitalise on the economic resilience it has shown in 2020.

Vietnam is Southeast Asia's most dynamic market economy. Having seen an average 6% annual rise in gross domestic product (GDP) since 2012, "In 2019, our economy grew by 7.02%," says Deputy Prime Minister and Minister of Foreign Affairs Pham Binh Minh. With the government's early and decisive introduction of measures to control Covid-19, Vietnam's population and economy have suffered far less than, for example, neighbouring China.

In fact, the International Monetary Fund forecasts its 2020 GDP growth will be Asia's highest at 2.7%. As well as its successful crisis management, another major factor in this resilience is the nation's extrovert foreign policy, Minh says: "Our global trade has grown strongly, with our two-way trade volume reaching nearly \$480 billion in 2018."

That year, Vietnam joined the Comprehensive and



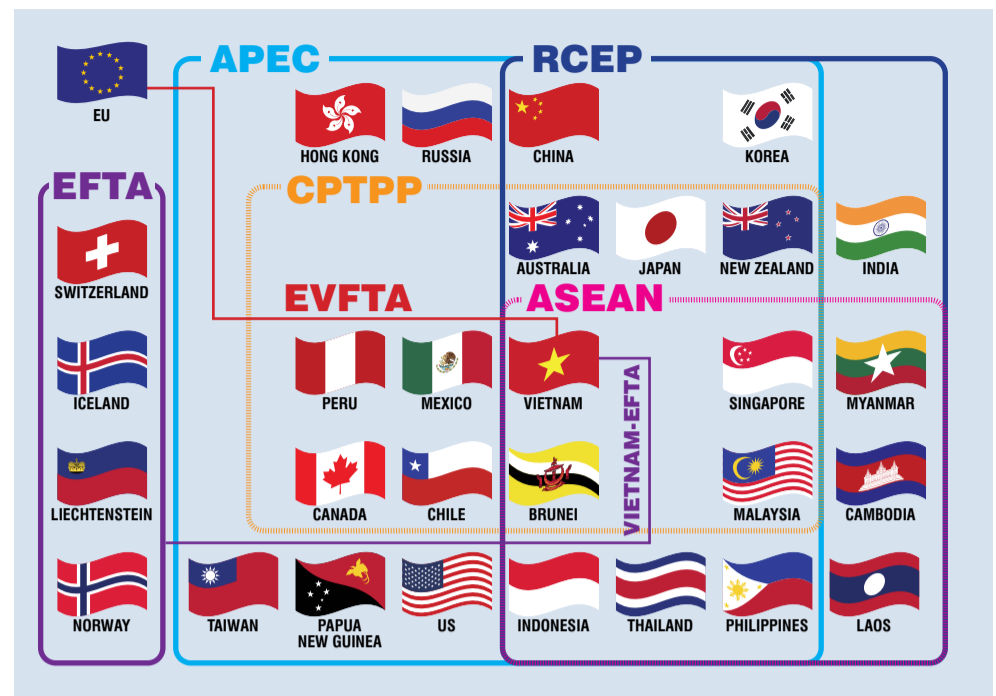
Pham Binh Minh
Deputy Prime Minister and
Minister of Foreign Affairs

Progressive Agreement for Trans-Pacific Partnership, a trade bloc covering 13.4% of the world's GDP. The latest sign of its rising international importance is 2020's ratification of the European Union (EU)-Vietnam Free Trade Agreement (EVFTA) and the EU-Vietnam Investment Pro-

tection Agreement (EVIPA). These cover goods, services, investments and public procurement, among other things, and could boost Vietnam's exports by 44.4%. "It's a unique and comprehensive model for new-generation free trade agreements (FTAs)," says Ambassador Giorgio Aliberti, head of the delegation of the EU to Vietnam.

This year, Vietnam also became chair of the Association of Southeast Asian Nations (ASEAN) and a non-permanent United Nations Security Council member. "Our election demonstrates the confidence vested in Vietnam and the importance partners attach to relations with us," notes Minh.

Vietnam will now trade freely with 50 countries but has 13 key partners, one being the UK. "2020 is the 10th anniversary of our strategic partnership, which promotes ties in all areas. The UK is among our top European partners and



By the start of 2020, Vietnam had signed 17 free trade agreements.

currently has 351 investment projects here. As it exits the EU, we will step up promotion and networking activities, so that our commodities, such as agricultural products, textiles and footwear, have a greater UK presence," states Minh.

When Heather Wheeler, then Minister for Asia and the Pacific, visited Hanoi in January, she confirmed Britain's commitment to "strengthening our relationships with ASEAN and Vietnam in particular." Until

December, the UK is included in the EU's new agreements, and both Britain and Vietnam are keen to negotiate their own FTA on similar terms quickly.

Those terms will see 86% of Vietnamese exports to the EU becoming duty free this year, which will rise to 99%. The agreements will also help develop Vietnam's investment climate, says Aliberti: "A dispute settlement mechanism is included, bureaucracy is lowered, and EU environ-

mental and labour standards are respected." Along with requirements for the origin of goods, this should build Vietnam's status as a production hub and attract investments to areas like infrastructure, tourism, education, technology, energy and health.

"Given our new international standing, I am confident that Vietnam will continue to be a destination of choice for the world's top investors and companies," asserts Minh.

Petrolimex: Divesting for growth, investing in energy

Vietnam National Petroleum Group (Petrolimex) offers a wide range of exciting opportunities for investors eyeing lucrative returns in one of the region's relatively untapped energy markets.

Petrolimex is by far the largest corporation in Vietnam for oil and gas distribution, as well as being the nation's most recognized brand name. It is also a highly experienced and efficient partner for international investors seeking to tap into lucrative energy and petrochemical markets, as it continues on its pioneering journey to become the country's top energy group for not just high quality refined petroleum products but also green energies — a process that is opening up investment opportunities in all of its business areas.

The ambitious company is one of the 50 biggest listed on the Ho Chi Minh stock market, currently generates annual revenues of over \$8 billion, is one of Vietnam's most profitable companies and offers its shareholders a dividend payout ratio that is usually more than 80%. Its nationwide petroleum distribution network has 50% of

the market and includes terminals, 8.9 million square metres of terminals, gas stations, offices and so on. 2,700 services stations that it owns and 2,800 that are franchised, with all being in prime locations. Its is now looking to add value to these stations through collaborations in, for example, new shops, restaurants and car servicing, which is attracting attention from large international names.

In addition to the parent company, profitable shareholding opportunities are separately available in eight Petrolimex subsidiaries covering petrochemicals, asphalt, other chemicals, liquefied petroleum gas trading, petroleum transportation, banking and insurance. Recently, Petrolimex has enjoyed outstanding sales growth in all its key sectors but it is now gearing up for further diversification as well as embracing divestment.

One attractive area for inter-

national investors is the firm's increasing focus on fuels of the future, like liquefied natural gas (LNG) and renewable energies. For example, it plans to develop a terminal in the south central Khanh Hoa province that will handle 6 million tonnes of LNG. Substantial interest has been shown by potential partners — unsurprisingly, given its enviable track record in partnerships, such as one it set up with BP to produce and market lubricants nearly 30 years ago. "We consider this joint venture one of our most successful and profitable projects," says Pham Van Thanh, Petrolimex's chairman.

The firm has also established other LNG partnerships. A high profile memorandum of understanding (MoU) has been signed with Vietnam Electricity (EVN). That will see Petrolimex supplying LNG for EVN's largest power plants, with a full capacity of 6,000MW per year. With



Pham Van Thanh
Chairman, Petrolimex

the advantages of its warehouses, deep-water port and fleet of vessels, Petrolimex will import frozen LNG and store it at its Nam Van Phong LNG warehouse to provide fuel for power centres in the area. Additionally, in 2019 Petrolimex signed a MoU with JXTG Holdings, Japan's largest energy group, for assistance in the study of LNG research in Vietnam. The Japanese firm currently holds an 8% stake in Petrolimex and aims to increase this over time.

Powering GDP growth

With domestic electricity demand rising by 15-20% a year, but supply by only 3-5%, much work lies ahead to optimise



Petrolimex is energising the economy with key power projects.

Vietnam's rich energy potential. The government has put its trust in Petrolimex to support the development of new power plants and LNG projects as major sources of cleaner energy for millions of homes and businesses. According to Van Thanh, that trust is well placed, as the firm's proven high-quality results, valuable experience and remarkable reputation mean it is geared up for both its own and the country's growth.

"We are now looking for foreign investment from companies who are familiar with the oil and gas industry, and are also seeking know-how and technology from such major partners. In addition, Petrolimex also

expects to welcome financial institutions to join our group and these shareholders can help the company to strengthen capabilities in financial management and corporate governance as well as being a connecting arm to calling capitals for Petrolimex," he says.

Van Thanh reveals that plans to increase share capital to fund future projects are progressing well: "The objective is to increase the figure to more than \$1 billion from the current \$500-600 million. The government is open to foreign investment and I invite UK investors to become shareholders in Petrolimex and explore all of Vietnam's potential for mutual benefit."

Growth for development

After Covid-19, enhancing productivity, international standards and mitigating climate change are the challenges for Vietnam's real GDP growth.

In a very short period of time, Vietnam has transformed from being one of the poorest countries in the world into a middle-income nation with an economy driven by manufacturing, services and exports. Having implemented a 10-year social economic development plan in 2011, it has doubled its gross domestic product (GDP) to about \$250 billion, inflation has stabilised at below 4% and the number of people in poverty is now below 6%. "The national background is one of political, market and macroeconomic stability, with an ever increasing domestic market and a government committed to international integration," states Minister of Finance Dinh Tien Dung.

Over the last decade, "We have introduced many important reforms to remove obstacles to Vietnam's growth, develop human rights and enable everyone to do business freely," says Deputy Minister for Planning and Investment Vu Dai Thang. As a result,



Our policy is to continue developing the private sector to drive the economy, and foreign investment is part and parcel of this."

Dinh Tien Dung
Minister of Finance

notes Vu Tien Loc, president of the Vietnam Chamber of Commerce and Industry: "We have transitioned from a centrally planned economy to a market economy with about 6 million businesses. The domestic private sector is developing fast and accounts for 40% of GDP, with international enterprises contributing a further 22%, while Vietnam now ranks 70th in the World Bank's ease of doing business index."

"Our policy is to continue developing the private sector to drive the economy, and foreign



Dinh Tien Dung
Minister of Finance

investment is part and parcel of this. We are committed to further reforms, clearing more red tape and addressing any concerns," stresses Dung.

A sustainable future

Privatisations are one way Vietnam is promoting the private sector, he says: "We have successfully equitised about 3,000 smaller state-owned enterprises and are now looking at the larger ones. We are reaching out to countries like the UK to find investors to work with us at this critical moment, as we are at the stage where we need access to a bigger pool of international financing to fund the restructuring of our economy and improve our infrastructure."

To help encourage these investors, the country is adapting its financial institutions and legislation in line with international standards. However, Dung notes, "We don't just need funding, we need managerial know-how and new technologies."

These assets are vital if the country's ongoing development is to be sustainable, explains Thang: "In the past, many Vietnamese investment projects used a lot of labour and energy but had low productivity. Our new strategy is to give priority to high-tech, environment-friendly projects and ones that create higher value." According to Dung, the government is in the process of strategically amending its investment law to attract investors to these new priority areas.



Agriculture is an economic sector with huge potential in Vietnam.



Taking you further



As the largest retailer in terms of petroleum distribution in Vietnam, Petrolimex currently has about 5,500 service stations nationwide and accounts for almost 50% of the total market.

Petrolimex is the No.1 revenue-generating firm on the Vietnamese stock market, with its total revenues reaching \$8.3 billion in 2018, and has been ranked by Forbes as one of the Top 50 Best Listed Companies in Vietnam for three consecutive years from 2017 to 2019.



PETROLIMEX

Regional champion

Vietnam has gone from Plan B for international investors in the region to the real alternative to China

Foreign direct investment (FDI) into Vietnam has risen every year for a decade and that growth is expected to continue. In 2019, pledged inflows rose by 7.2%, nearly 3,900 new projects were licensed and FDI now represents 22% of gross domestic product.

Around 65% of FDI currently goes into manufacturing, as investors increasingly choose the stable, safe and robust nation as an alternative base to China or as part of a “China plus one” strategy that enables them to bypass tariffs accruing from the unpredictable US-China trade dispute. Many of these are high-tech giants — last year, for example, companies starting or expanding manufacturing capacity in Vietnam included Apple, Nintendo, Dell and Ricoh.

There are many reasons why Vietnam is the destination of choice for these firms. Firstly, China’s close neighbour has preferential trade agreements with 50 countries. “In recent

years, the quality of our human resources has also increased and we are highly regarded in terms of innovation,” states Deputy Minister for Planning and Investment Vu Dai Thang.

This skilled labour comes at a comparatively low cost, although the country’s young population of 97 million people is becoming richer overall, with an emerging middle class that makes up about 13% of the population at the moment.

In addition, as Vietnam looks to develop its position as an advanced manufacturing hub, it has been investing in infrastructure. “We now have about 300 industrial zones, 15 economic zones and three high-tech areas, all of which are linked. Our existing economic zones are well developed in terms of infrastructure and services but we expect more investment in the Mekong Delta region, for instance, and some industrial areas in our big cities are looking at how to change themselves into eco-industrial zones or smart

cities,” says Thang. The country is also developing transport infrastructure, including its ports and roads, whilst its first metro systems are being constructed in Hanoi and Ho Chi Minh City.

Further factors encouraging investors to move to Vietnam are its business-friendly policies. “We have a spectrum of incentives covering corporate income tax, land rents, use of land, import and export tariffs, and ones based on the commitment, size and location of the FDI. We also have specific incentives for agriculture and are looking at ones aimed at technology and environmental investments,” explains Minister of Finance Dinh Tien Dung.

Global opportunities

Manufacturing makes up the bulk of FDI today, but investors are also taking advantage of other opportunities in Vietnam. The country is seeing a real estate boom, for instance, and significant growth in retail. “Tourism has also become

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65% of investment into Vietnam currently goes into the manufacturing sector.

a major industry, as Vietnam has an expansive history, rich culture, long coastline and breathtaking natural beauty,” says Vu Tien Loc, president of the Vietnam Chamber of Commerce and Industry.

Investments in technology-based sectors other than manufacturing are attractive as well, he asserts: “We aim to become a regional leader in areas like e-government and 5G, and are reforming our business environment for the

digital economy.” As a result, there is growth in business process outsourcing, information and communication technology, and e-commerce. Fintech in particular offers potential as 90% of Vietnamese financial transactions are currently carried out using cash.

The country’s competitiveness in high-tech and organic agriculture remain underexploited, while surging energy demands and the government’s ambitious goals for renew-

ables mean that investors are sought to build solar and wind capacity. The government is also prioritising training acquisition in key sectors.

As Vietnam continues to cement its position as the ideal alternative to China and a profitable market in its own right, “we really think it can become a more important location for European investors, especially those from Britain, and they will receive a very warm welcome from us,” states Thang.

TH 



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The future of farming

Thai Huong’s respect for nature has made her one of Asia’s most important business women.

As a result of its richly diverse and fertile natural environment, agriculture is an important component in Vietnam’s economy. Today, it provides nearly 14% of gross domestic product. However, many experts single out Vietnamese agriculture and agribusiness as areas with significant growth potential because, to date, most farming is small scale and traditional.

A key illustration of what can be achieved through the use of technology, economies of scale and vision is the TH Group. Just over a decade ago, more than 90% of Vietnam’s milk came from imported powders. One woman, the inspirational Thai Huong, decided to transform the industry so that everyone would have access to fresh milk. In 2006, she established a facility that has become Asia’s largest high-tech dairy farm, which is home to 45,000 cows and can produce 200,000 tonnes of milk a year. More farms have since been set up, giving TH 40% of the national milk market, and the group aims to roll out its



Thai Huong
Chairwoman, TH Group

model even further.

To achieve its success, TH had to introduce greater productivity, quality standards and cost controls to Vietnamese farming and processing. “The most important factors in this were the application of advanced technology and management principles. From the beginning, we produced to international standards,” explains Huong. This has enabled the group to sell its products abroad, but TH is

also exporting its production model. In 2016, it launched a \$2.7 billion project in Russia, she says: “We have completed our first farm there and, because of our technology, our milk yield is the highest in Russia.” TH is now expanding into Australia, adds Huong, noting: “We have received the full support of the communities we work in because of our focus on sustainable development and the environment.”

TH has also diversified into other food sectors. “For example, I have developed drinking water, nut products, rice, fish sauce and am promoting traditional Vietnamese herbs. I want to make every product needed in a kitchen, following the trend for organic products,” she says.

“In addition to agriculture, we have set up a school, are developing a university and are establishing a large healthcare complex in Hanoi. Tourism is another sector I plan to move into. When a company treasures nature and works for the people, there are no boundaries to what it can achieve.”