



# VIETNAM DAILY NEWS

June 18<sup>th</sup>, 2019



JAPAN SECURITIES INC.

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## Market Analysis

### 1. VN-Index comes under selling pressure

The benchmark index lost 6.66 points, or 0.7%, to 946.95 at the close today, June 17, with 114 stocks advancing and 187 others falling. Trading volume on the southern bourse picked up over 11% against last Friday at 174 million shares and value rose some 16% at VND4 trillion.

Among the top 10 stocks by market capitalization, lender CTG was the only stock to edge up 0.74% to VND20,450. Six other stocks ended lower while the remaining three -- lender VCB, dairy firm VNM, and brewery SAB -- closed at their reference prices.

Closing unchanged, however, was an upside for VNM and SAB because these two stocks had slipped in morning trade.

As for major stocks, leading property developer VIC dropped 0.87% to VND114,500 per share and its affiliate VHM slid 2.37% to VND78,000. In addition, many bluechips nosedived by more than 1%, such as lender TCB, low-cost carrier VJC, national flag carrier HVN, and property firm NVL.

Among the gainers, State-owned electricity firm POW added 2.24% to VND15,950 with over 3.6 million shares changing hands and bank stock EIB rose 1.9% with trading volume exceeding one million shares.

Construction firm ROS continued to be the most actively traded stock on the HCMC market with

more than 10 million shares transacted. ITA, an industrial zone operator, and HPG, a steelmaker, came next by liquidity with matching volume exceeding three million shares each.

On the Hanoi market, strong demand had driven the HNX-Index down to reference level in early afternoon trade, but the index managed to bounce back by gaining 0.04 point, or 0.04% to 103.5, with 52 stocks winning and 82 losing.

The top contributors to the index's rise were construction firm VCG with 2.4 million shares traded and gas firm PVS with 1.6 million shares changing hands.

Notably, transactions by foreign investors were the limelight of the session as they net bought more than VND100 billion of shares on the two exchanges, mainly of bluechips such as the dairy firm VNM, State-owned electricity firm POW, and insurer BVH.

Particularly, foreign investors actively net bought over 1.9 million shares valued at about VND103 billion on the HCMC bourse, after three consecutive net-selling sessions.

Given fears of market volatility, KIS Vietnam Securities Corporation said in a report released today that investors should remain highly cautious and observe market movements before trading.

## Macro & Policies

### 2. Vietnamese cars hit street for first time

This is the largest ever programme held by the firm, serving as the milestone of the first vehicles belonging to a Vietnamese automobile trademark officially beginning their operation, and affirming the prestige VinFast enjoys from its customers.

The handover ceremonies were organised in Hanoi and Ho Chi Minh City and a number of agents of VinFast nationwide.

A programme for those who want to test-drive Fadil was arranged in the framework of the event. Customers were also provided with advices related to financial assistance, insurance and after-sales policies.

From June 1-15, VinFast organized programmes to test drive Fadil nationwide, attracting thousands of people to register.

General Director of VinFast James DeLuca said that his firm is committed to building and providing superior after-sales policies in the market, as well as cooperating with prestigious partners to bring best interests to customers, towards providing customers with high-class services.

Each Vinfast car is now priced at 394.9 million VND (over 16,856 USD), inclusive of valued added tax.

From September 1, its price will be about 465 million VND.

### 3. US-based apparel company intends to expand presence in Vietnam

According to a report he delivered in his recent meeting with Vietnamese Deputy Prime Minister Trinh Dinh Dung, HanesBrands Vietnam was founded in 2007 and is exporting apparel products, mainly bras, panties, underwear, socks and T-shirt, to the US, Canada, Japan, Australia and China.

HanesBrands is running seven plants in Vietnam with nearly 12,000 workers, producing 26 percent of the group's total output in the globe.

In 2012, the company shipped its 350 millionth product and started exporting to Japan, one of the toughest markets across the world. 2015 marked the company's appearance in Europe. In 2017, HanesBrands Vietnam inaugurated its cutting workshop to complete the supply chain and expand the company's presence to Australia.

Last year, the export turnover of HanesBrands Vietnam was estimated at 400 million USD.

### 4. Vietnam: the rising star

When Vietnamese Party General Secretary Nguyen Van Linh triggered the policy of doi moi, or renovation, in 1986, it signalled an opening of Vietnam's commercial future. As recognition of the openness of the new policy, US President Bill Clinton lifted the US trade embargo in 1994 and Vietnam entered the global marketplace.

The transformation brought out in the Vietnamese people, apart from their diligent and conscientious work ethic, astounding technical ability and astute business acumen, resulting in spectacular economic growth.

From a low base of just over \$40 billion in 2004, the GDP in 2017 was over \$220 billion. GDP in

Vietnam expanded by 7.08 per cent in 2018, up from 6.81 per cent in the previous year. According to the World Bank, it is expected to moderate to 6.6 per cent in 2019 and 6.5 per cent in 2020.

This phenomenal growth led former Goldman Sachs chief economist Jim O'Neill to nominate Vietnam amongst the Next Eleven countries: eleven nations, along with the BRICS countries that O'Neill coined, which have a high potential of becoming the world's largest economies in the 21st century.

Vietnam's successful and ongoing transition from a centrally-controlled economy with a fragmented transport and distribution network to an emerging market economy with a connected and competitive supply chain has many obvious benefits, and a number of less obvious ones as well. These cover all aspects of modern Vietnamese society, from the economy to society, education, healthcare, and the environment.

Consumer demand for value-added goods is most definitely on the rise, but this demand, coupled with Vietnam's challenging topography, is driving the need for a world-class supply chain.

Due to rapid retail expansion in Vietnam, suppliers that once delivered to two or three stores now need to deliver to hundreds of stores, with more and more large-format stores opening every year.

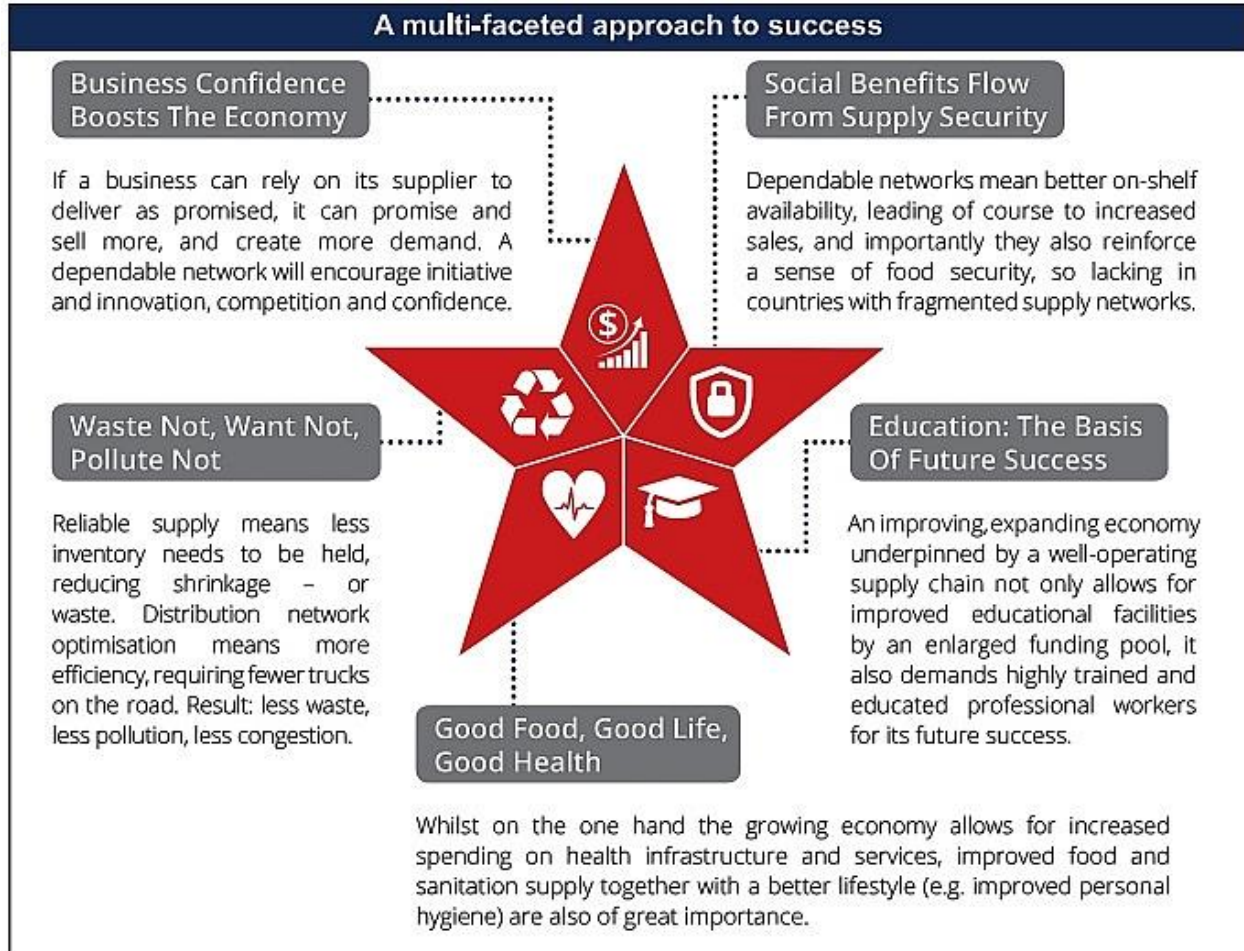
The system increasingly needs to move from store delivery to distribution centre delivery. For an everyday example, take toothpaste: in developed countries, businesses have evolved over many decades from selling such products from the suppliers direct to the stores, to selling it via centralised distribution centres.

In other words, businesses in developed countries have refined their network design through years of maturation to a system that now affords significant gains over potential competitors and creates substantial cost-savings and revenue opportunities.

There is an exciting opportunity in Vietnam to learn from these evolutionary steps to quickly move to a centralised system of supply chain and to do so very efficiently. These efficiencies improve profitability and reduce inventory – creating savings that can be passed on to customers and promote competition.

World-class networks mean greater access to goods throughout the country, rather than focusing on Vietnam's major centres. This takes growth pressure off bigger cities, creating greater economic opportunities in regional areas.

Vietnam has an opportunity to leapfrog developed markets' supply chain evolution and head directly to world's best practice.



### Retail is booming but tread carefully

Propelled by favourable domestic and external factors, Vietnam's economy posted its strongest first-quarter growth in 10 years. GDP expanded by 6.79 per cent on-year during the first quarter of 2019.

The expansion was led by strong processing and manufacturing growth of 12.35 per cent, reflecting strong external demand that lifted electronics and other manufacturing exports.

With the rapidly-growing middle class and resulting increase in overall incomes, retail trade has been growing unfailingly at over 8 per cent every year, whilst Australia and most of the developed world is struggling to get over one single per cent. The resulting demand for an efficient supply chain is not difficult to appreciate, but there is a warning: tread carefully.

The success of any supply chain strategy in Vietnam depends on achieving a deep understanding of local nuances, commercial strategies, and governmental policy-setting objectives.

An interesting example of such cultural nuances is the Tet Festival, a “moveable feast” marking the Lunar New Year. In the lead-up to Tet, suppliers are under critical pressure to supply culturally-specific products to the right place at the right time, requiring extensive supply planning and first-class supply chain execution.

“It is particularly challenging to service the retail industry during the Tet period, everyone is very busy and logistics infrastructure is under intense pressure at this time,” said Bui Quang Vinh, logistics director of Saigon Co.op, one of Vietnam's largest supermarket networks.

Another example of the difference that local knowledge can make to effective distribution network design is that in Ho Chi Minh City, curfews are in operation at certain times to limit truck shipments on the city's famously congested roads; a key factor in determining optimal delivery times.

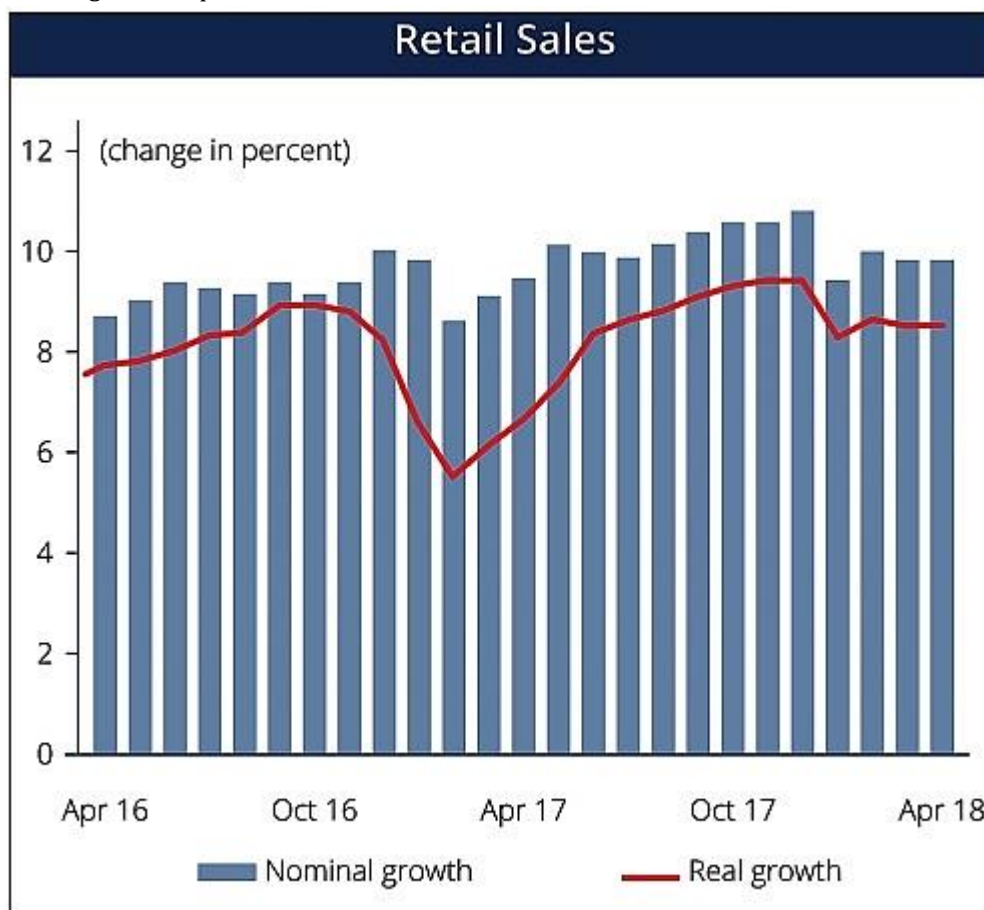
Other local knowledge examples include understanding the nuances and capacities of Vietnamese distribution centres and trucks, and loading and unloading practices.

A world-class understanding of every aspect of supply chain design and optimisation is critical

and must be coupled with a deep understanding of local nuances, commercial strategies, and governmental policy-setting objectives.

The engagement of local professionals in a supply chain has been made easier by the availability of trained and experienced supply chain leaders.

The government and leading businesses have determined to develop supply chain expertise by training up Vietnamese practitioners to run all food, fuel, and other essential merchandise distribution.



Source: World Bank

**The future is bright**

The robust economic growth of the past decades rightly gives the Vietnamese people enduring hope for the future of their country.

Thousands of emigrants are moving back to Vietnam to live and work. Professionals young and old are moving to Vietnam to do business, invest in property, and resettle. John Pennington, writing in *A Brain Drain in Reverse* for ASEAN Today, said, “[Emigrant] talent and money is propelling the

Vietnamese startup scene. They head up more than half of the startups funded by venture capital firm 500 Startups Vietnam. Additionally, as many as 3,000 projects have received investment from Vietnamese living abroad.”

“Those who are coming into the country fall into three groups,” the article continues. “Some act as bridges between Western companies and Vietnam, helping overseas businesses expand into new Vietnamese markets. Others are entrepreneurs building from the ground up, and then there are those who are qualified

professionals taking on key positions in local businesses.”

Minh Nhat Ngo was born in Vietnam, educated in the UK, and has now returned to work as an analyst in XAct Solutions' Hanoi office. “Vietnam is now growing so fast and I simply don't want to miss out on what is happening,” said Minh.

When you combine the returning emigres with the ambitious, increasingly well-educated and talented locals, the booming economy and strongly growing retail trade, it is easy to see Vietnam's attraction in business.

## 5. Taking advantage of the energy potential

Katie O'Connell, associate of ACSV Legal Vietnam, explains that with a more bankable feed-in tariff and a subsequent increase in security for banks and investors, the wind industry is expected to open up for many more projects that may now come to fruition.

Vietnam has an encouraging opportunity to move away from its reliance on foreign coal and develop its own modern renewable energy system free from pollution of its air, waterways, and agricultural land. Over the past few years, steps have been taken to implement a system primarily run on renewables. While more attractive incentives and regulations are still needed, the rich potential for clean energy is enough to remain hopeful of a gradual transition to a system fuelled by abundant renewable energy sources.

Sparked by political and economic reforms under doi moi in 1986, Vietnam has experienced a steady shift from one of the world's most impoverished nations to a low- and middle-class country. Since then, Vietnam has maintained its position as one of the fastest-growing economies in the world. At the same time, the demand for energy to support the expanding infrastructure has increased almost twice as fast as GDP.

In 2016, 99 per cent of the population used electricity as their main source of lighting, up from

14 per cent in 1993. More specifically, between 2011 and 2016 the demand for electricity consumption grew approximately 11 per cent annually. Given the forecast of continued development in Vietnam, the energy demand will likely continue to increase over the next 15 years.

To address the rapidly rising demand for electricity, the Vietnamese government has introduced several modest policies and plans to attract investment to the energy sector. While these policies have addressed the growing industry, a stronger legal and regulatory framework along with more competitive incentives is still required.

At the moment, Vietnam is powering the majority of its growth on fossil fuels (coal and gas). What's more, Vietnam's Power Development Plan VII (PDP) outlines an increased reliance on these fossil fuels. In 2015, Vietnam had total installed capacity of 33.45 per cent in coal energy sources. According to the PDP, by 2030 coal is projected to provide over half of the total electricity, making it the primary source for electricity production within the country.

With limited domestic coal and gas resources, Vietnam's fossil import dependency will necessarily increase. In 2017, the demand for imported coal sat at 11.7 million tons. By 2030,

the PDP estimates that demand will increase to 102.1 million tonnes.

Although renewable energy trends show positive mobility, the energy source is forecast to account for only 11 per cent of the total installed power by 2030. According to the Vietnam Energy Association, if the country does not increase the share of renewable energy in the sector, the proportion of energy that the country will need to import by 2030 will rise from 3 per cent of primary energy demand to as much as 44 per cent, instead of the targeted 24 per cent. This substantial reliance on importation exposes the energy security of the nation. As such, there is a significant need to tap into this potential for renewable energy that is presently being largely neglected.

### **Benefits and sustainability**

It is widely accepted that renewable energy is a healthy energy source for the environment, through minimised air pollution and reduced greenhouse gas emissions. Additionally, wind energy provides several benefits that support the transition to clean fuel sources, such as enhanced energy security, creation of domestic jobs, and significant cost benefits.

One of the most attractive benefits of wind energy is the enhanced energy security it provides. Because of the indigenous nature of the source, the local economy is insulated from the volatility associated with imported fuel prices and other unpredictable factors associated with importation of energy sources. Wind energy is also sustainable. It is generated by the sun's heating of the atmosphere, the rotation of the earth, and the earth's surface irregularities. Therefore, so long as the sun shines and the wind blows, the energy produced can be channelled to send power across the grid.

Meanwhile, a huge benefit is the development of local industries and the creation of domestic jobs. Based on the industry's long supply chain, the sector has the potential to create a significant number of local jobs. Currently, the global wind

industry currently employs about 1.15 million people worldwide.

In 2017 alone, \$107 billion was invested globally into the industry. In Vietnam, foreign investors have turned their attention towards the nation's wind energy sector over the past several years. International investment into Vietnam is undoubtedly a major advantage for the continued growth of the economy.

Furthermore, wind energy is one of the lowest-priced renewable energy technologies available today. At 4-6 US cents per kilowatt hour (kWh), depending on the wind resource and project financing, the low cost serves as a major benefit.

Over the past several years, wind energy has become an important renewable energy source both domestically and worldwide. In 2016, over 54 gigawatts of wind power was installed globally. According to a recent report by the Global Trade Association, the cumulative global capacity of wind power grew by more than 12 per cent in 2017, to reach a capacity of 486.8GW worldwide.

Within its borders, Vietnam's abundant potential for wind energy is just beginning to be exploited. Over 3,200 kilometres of coastline, coupled with the monsoonal climate, make the country an ideal candidate for wind energy development. In the Department of Commerce's Renewable Energy Top Markets for United States Exports published in 2016, Vietnam wind power generation market ranked at number 28, and the country is considered to have an unrivalled supply of wind resources in Southeast Asia.

The German International Agency estimates Vietnam's wind energy potential at 10GW, while the World Bank Wind Atlas offers a more optimistic estimate of 24GW. Nevertheless, the Vietnamese government has acknowledged this large potential in the PDP by targeting wind energy production to reach 800 megawatts by 2020 and 6,000MW by 2030. While these numbers are attainable, legal and regulatory barriers need to be broken in order to facilitate such vast development.

The first wind farm in Vietnam, the 24 MW Phu Lac plant, began operations in 2016 in the central province of Binh Thuan. As of June last year, seven wind farms have been installed in Vietnam with a total capacity of 189.2MW. Over 40 additional wind power projects with a total capacity of 5,000MW have been registered, although only three projects have been added to the national grid.

In an attempt to grow this number, local authorities, under the approval of the government, have offered various incentives for investors. These incentives include the waiver of land lease fees for the project's lifetime, corporate income tax (CIT) exemption for the first four years, 10 per cent CIT for the next nine years, and waiver of import tax for fixed assets in renewable projects. Additionally, such regional authorities have called on the Ministry of Industry and Trade (MoIT) to review and shorten the evaluation time for a project's basic design, along with a request to raise the feed-in tariff (FiT).

### **Recent progress**

Also last June, the Global Wind Energy Council held the first-ever Vietnam Wind Power conference in Hanoi, between German and Danish embassies and the Vietnamese government, to promote progress in the field. During the seminar, the Global Wind Energy Council recommended the abolishment of major regulatory barriers in the sector to ease the investment process. Additionally, the overseas embassies suggested the creation of a National Wind Power Association. The most important recent change made in the industry is the increased FiTs. According to Decision No.39/2018/QĐ-TTg issued on September 10, 2018, the FiT for wind energy projects has increased from 7.8 US cents/kWh to 8.5 US cents/kWh for onshore wind power projects, and to 9.8 US cents/kWh for offshore wind ventures. This increase, effective from last November, is expected to have a positive impact on the wind energy industry by providing a more commercially viable FiT for investors and developers in the Vietnamese market. Existing projects will also be eligible for the new tariff for

the duration of their power purchase agreement (PPA).

In order to create long-term, sustainable development in the field, there are several key changes that should be implemented by the Vietnamese government. Under the current law, the government strictly regulates the retail price of electricity, pursuant to recommendation by the MoIT and approval by the prime minister. However, Vietnam Electricity (EVN) has absolute discretion to increase or drop the price within a margin of up to 5 per cent twice a year without seeking approval from the MoIT or the prime minister when input parameters, such as fuel prices or foreign exchange rates, change significantly.

This creates a great deal of uncertainty for investors in the sector. To encourage foreign funding in the field, more transparency in electricity rate forecasting is required. Additionally, the legal framework is unstable, and the regulatory environment is largely underdeveloped. Administrative burdens for investors, through national or provincial master plan requirements, inhibit investment and development significantly. Additionally, some projects may also require the approval of the prime minister or the MoIT before moving forward.

As it stands, the current PPA model is comparatively short when compared to PPAs used in other conventional power projects, and fails to sufficiently address a number of key issues that are important to international investors. Under Vietnam's PPA, EVN is the sole off-taker and, although required to purchase all electricity generated by the project, it is not required to pay the tariff in the event of overhaul or maintenance of the electricity grid. There are few limitations to these interruptions and there are no "take or pay" obligations. This is a huge deterrent for foreign investors, based on the lack of power distribution and control over the sector.

Experts in the field have suggested the need for a Standardised Commercial PPA, whereby industrial

energy buyers can purchase directly from energy producers, rather than using EVN as a middle-man. While the latest regulations have outlined

the new model PPA, nothing at this time has been rolled out.

## 6. Tax implications of cross-border trade

Together with the increment of foreign direct investment capital in Vietnam and cross-border transactions of selling goods and providing services by foreign suppliers to Vietnamese buyers, the concerns regarding the Foreign Contractor Tax and the control of transfer pricing that could affect these transactions have accordingly increased.

### Foreign Contractor Tax implications

In Vietnam, the Foreign Contractor Tax (FCT) describes the tax obligations of overseas contractors who do business in or receive income from Vietnam on the basis of a contract or agreement with Vietnamese buyers.

The FCT mainly comprises of two components, those being VAT and income tax. In which, VAT and Corporate Income Tax (CIT) applies to a foreign contractor who is an overseas business entity; and VAT and Personal Income Tax (PIT) applies to an individual business foreign contractor.

Currently, the direct method is the common method applied by most international contractors due to the advantages compared with other methods. Under this, foreign contractors are not required to directly pay FCT to the Vietnamese tax authority since the Vietnamese party is required to withhold and file FCT from payments made to the foreign contractor at the deemed percentage of taxable turnover.

Depending on the nature of each transaction the FCT rate, composed of the deemed VAT rate and deemed CIT rate as the direct method is applied, could be different for VAT rate from VAT exemption to 5 per cent; and for CIT rate from 0.1 to 10 per cent. Tax terms on the contract or agreement could also affect to the tax amount to be withheld. At the current time, there are three

common tax terms applied in contracts of cross-border supplies.

The first is the gross price. If the contractual price is agreed to be the gross price, it is understood that the payment under the contracts shall include FCT (VAT and CIT components) that will be withheld by Vietnamese parties before making the payments to foreign contractors.

The second term is net price. If the contractual price is made on a net basis, foreign contractors shall receive the exact net price (i.e. the amount after the FCT). For local FCT purposes, payments must be grossed up by Vietnamese parties for FCT calculation.

Finally we have the split price, in which both parties agree that foreign contractors shall bear the CIT/PIT component and Vietnamese parties shall bear the VAT component of the FCT. In this case, Vietnamese parties would withhold CIT/ PIT before making the payments to foreign contractors.

### Opportunities to reduce FCT

Fortunately, to integrate with the global economy and reduce tax burdens for foreign contractors, Vietnam has concluded more than 76 Double Taxation Agreements (DTA) with various markets including Singapore, Hong Kong, China, South Korea, Japan, Germany, the United Kingdom, Denmark, and Canada. A number of other DTAs are also in stages of negotiation. It is noteworthy that a DTA between Vietnam and the United States has been signed, but it is not effective at present.

Generally speaking DTAs mainly aim to eliminate double taxation by, firstly, granting tax exemption or reduction to residents of the contracting countries that have signed DTAs with Vietnam, or second, allowing credit against the taxes payable

in their home countries. Besides, DTAs provide legal framework for the co-operation and assistance between the tax authorities of Vietnam and the contracting countries in the international tax administration to prevent tax evasion on incomes and assets. In the case of Vietnam, these taxes are CIT for foreign business organisations and PIT for overseas business individuals.

DTA application follows three basic principles. First, if there is inconsistency between provisions of DTAs and local tax laws, the provisions of DTA shall be prevailed. However, if relevant tax obligations stipulated in the DTAs do not exist in Vietnam or the DTAs requires to tax at higher tax rates than local tax rates, the local laws shall be prevailed. Finally, where a term in a DTA is not defined, it will be interpreted as defined by local laws.

However, there are some notable points which foreign contractors should take into account when applying DTA. Tax exemption or reduction under a DTA is not automatically granted. Generally, foreign contractors must conduct certain procedures, including submission of a dossier of notification of eligibility for tax exemption or reduction under a DTA to the Vietnamese tax authorities 15 days before commencing an assignment or contract in Vietnam.

In some certain cases, the deadline of submission of the dossier will be separately stipulated by local laws. Foreign contractors can authorise Vietnamese parties (who engage in agreements with the foreign contractors or have the assets which are owned by them) to submit the dossier on behalf of the contractors.

Generally, the application usually requires several documents. These include a notice of eligibility for tax exemption or reduction under the DTA; an original copy of the residence certificate granted by the tax authority of the country of residence in the year preceding the year of notification of eligibility for tax exemption or reduction; and a copy of the contracts and other relevant supporting documents.

In failing to submit such documents, Vietnamese - parties will be responsible for withholding and paying the taxes on behalf of the foreign contractors but the refund can still be claimed within three years from the date arising tax liability. The refund procedures are normally more onerous, time-consuming, and costly.

### **Transfer pricing control**

In addition to the concerns on FCT and DTA as above, transfer pricing (TP) issues should also be taken notice of when it comes to cross-border transactions between related parties. The price of cross-border transactions between Vietnamese parties and related overseas parties must be proper with the arm's length principle.

At present, the prevailing TP regulations are Decree No.20/2017/ND-CP dated February 2017 prescribing tax administration for enterprises incurring related parties' transactions and Circular No.41/2017/TT-BTC dated April 2017 by the Ministry of Finance providing guidance on implementation of certain articles of the government's Decree 20, which were effective from May 2017 and applied for the fiscal year of 2017 onwards. Under these regulations, several new principles and rules were issued to tighten the control of the pricing and CIT implications of cross-border transactions among related parties.

Decree 20 provides detailed guidance on comparability analysis, including the use of data resources, selection of transfer pricing methods, minimum number of comparable companies, and other adjustment factors such as location-specific advantage. Decree 20 also gives the tax authorities the power to use internal databases for TP assessment purposes in the case of a taxpayer being deemed non-compliant with the requirements of the decree.

In consistence with recommendation of Base Erosion and Profit Shifting Action 13, Decree 20 introduces a three-tiered TP documentation approach to collect more tax-related information on the business operation of multinational corporations (MNCs). Particularly, this TP documentation approach includes a profile of

global corporations containing standardised information for all members of the MNC; a nation profile containing related party transactions of the local taxpayer; and a report on the global assets and transactions of the MNC.

Decree 20 requires taxpayers to prepare their TP documentation before the submission of their annual CIT return. Given that CIT returns are due within 90 days from the taxpayer's year-end, preparation of TP documentation requirements will become extremely challenging. In addition, taxpayers must submit their TP documentation to the tax authorities within 15 working days upon request during a tax/TP audit, reducing the period from the current 30 working days. Accordingly, it is crucial that taxpayers have their TP documentation completed prior to receiving notification of a tax audit.

## 7. Post-Auchan retail market expected to grow

Retailers such as Aeon, Central Group, E-mart and convenience store chains like MiniStop, Family Mart, 7-Eleven, GS25 have expanded their networks. In 2016, the retail sales in Vietnam totaled some US\$118 billion, an increase of 10.2% from the previous year. In 2017, this figure reached a milestone of US\$130 billion, up 10.9% year-on-year. In 2018, the total revenue of this market almost reached US\$150 billion, a 12.4% rise from 2017. And in the first four months of this year, Vietnam's retail sales are estimated at more than VND1.2 million billion, up 13.2% over the same period in 2018, which is a record high growth rate, according to the General Statistics Office.

The retail market is still considered to have great potential. Therefore, the shutdown or withdrawal of some foreign retailers from the local market is ascribed to inappropriate business models, limited financial capability, or the hesitation in increasing their investment as the competition in this market is increasingly intense.

Supermarket model struggling

In summary, the system of Vietnamese laws is still in the process of change and improvement, and cross-border transactions often attract the FCT imposition even though the DTA can help taxpayers reduce certain implications. The TP control requires cross-border transactions among related parties to follow the market price arm's length principle to avoid the adjustment and additional tax from Vietnamese tax authorities.

During the trade expansion among ASEAN - countries, foreign suppliers and Vietnamese buyers should take a careful look at several tax aspects on cross-border transactions, such as the contract or agreement and relevant tax terms therein, or work with professional firms to ensure proper compliance with the prevailing laws, so as to be aware of the potential tax risks.

Traditional supermarkets, or standalone supermarkets, have grown very well in big cities and some provinces. Nonetheless, for three years now, this model has proved to be inappropriate. For instance, Thailand's TCC Group enters the Vietnamese market without bringing along a supermarket model like Co.opmart or Auchan, but focuses instead only on developing the wholesale business similar to that of Metro Cash & Carry (now MM Mega Market). A senior source from MM Mega Market Vietnam explains that, like Thailand many years ago, the “standalone supermarket model” now has no room for growth in Vietnam when the competition in the retail market has become evermore fierce and consumer habits are constantly changing.

According to experts, consumers go to shopping centers attracted by the “one-stop shopping” model (all services provided at a single destination). This model meets all kinds of needs with all facilities for shopping, dining, entertainment, movie watching, health fitness, studying, etc. At the same time, it helps stimulate purchasing power and expand clientele. In fact, retailers with a business model similar to

Auchan's have all chosen to be part of the “one-stop shopping” model at shopping malls, rather than standing on their own.

Aware of this trend, six months after their “acquisition” of the supermarket chain Big C in 2016, Central Group (Thailand) immediately unveiled its plan to upgrade some Big C outlets to modern and multi-service shopping centers.

Likewise, Saigon Co.op, owner of the supermarket chain Co.opmart, is gradually developing their Sense City shopping malls while upgrading some Co.opmart supermarkets to this model.

The long run for convenience stores

The fact that the 24-hour convenience store chain Shop & Go has staged exit from the Vietnamese market after more than 10 years of development may prompt some to think this market segment is now in trouble. However, industry experts and market researchers have argued that the convenience store model is still growing healthily and their room for growth remains vast. Businesskorea quotes GS Retail, owner of the Korean convenience store chain GS25, as saying that they have chosen Vietnam because of the potential of her economy and consumers aged 35 or under making up 57% of the population.

Before the arrival of GS25, many other convenience store chains like Circle K, B's mart, Family Mart and MiniStop had made their presence felt in Vietnam. Now, each runs hundreds of outlets. After the inauguration in HCMC in 2017, 7-Eleven is now expanding.

Then, how come Shop & Go, an early comer who was able to develop to a certain extent their business chain, had to bid farewell? Analysts believe that if Shop & Go, a pioneer of this business model, had known how to bring their advantages into play and adapted to the changes of consumers, they would have succeeded. All that Shop & Go had done was in fact facilitating the job of those that came later. Over the past five years, since the convenience store model has been accepted by a large number of consumers, many new chains have entered the market,

implementing their strategies for quickly developing their outlets. These moves soon put Shop & Go under great pressure. The new convenience store chains are also able to meet consumer needs by providing free Wi-Fi and space for shoppers to dine on the spot, selling both lunch and dinner, and making a difference with their own food and drinks.

Notably, to cut prices, convenience store operators must ensure that the number of outlets is large enough, at least 200 outlets according to experts, so as to reach the break-even point and start making a profit. For instance, MiniStop says they must set up at least 300 stores to ensure a stable profit margin. It takes them at least from five to six years to reach the payback period. Meanwhile, all Shop & Go stores were small, which made it difficult to expand the space to provide on-site services. At the time the withdrawal was announced, the Shop & Go network included only 87 outlets.

When it comes to convenience stores, the more outlets you open, the greater the losses you incur, says a manager of a retail business in HCMC. Even so, this does not discourage insiders from fighting for a prime site and expanding their networks because they believe this market segment will develop and gradually replace traditional grocery stores. Those who manage to survive will enjoy good fruits. Otherwise, they will have to give way to superior rivals.

E-commerce: a capital-intensive competition

E-commerce currently accounts for only 3% of the retail sales at home, a relatively low rate compared to other countries in the region—such as China (more than 20%) and Indonesia (5-6%). This suggests that the potential of e-commerce in Vietnam remains enormous, as the number of Internet users is big and consumers' awareness of e-commerce becomes greater.

However, efforts to expand networks, diversify products and provide customers with numerous promotions, discounts and supports, e-commerce firms are turning this market segment into a place where investors lavish their money on business

expansion, analysts remark. As of 2017, Tiki had reported a total loss of VND282 billion, Shopee over VND600 billion, and Lazada more than VND1 trillion. All are among Vietnam's biggest names in the e-commerce business.

This explains why Central Group's Robins.vn has joined the list of shutdown e-commerce sites, following in the footsteps of Vuivui.com, Food Panda, beyeu.com, lamdiem.com, and foreva.com, etc.

However, given a growth rate expected to be 25% per year and revenue projected to reach US\$10 billion by 2020, it is not hard to understand why investors keep plunging into Vietnam's e-

commerce market. Since 2018, Alibaba has poured an extra US\$2 billion into Lazada, taking their total investment to US\$4 billion. Meanwhile, Tiki has received US\$50 million from JD with a plan to continue their investment in subsequent rounds of funding. Similarly, Shopee has obtained some US\$50 million from the parent company, Singapore's SEA Group, in a move to put up their charter capital in the middle of last year, while Japan's SBI Holdings and some other companies have spent US\$51 million in Sendo, getting ready for a long battle in the local market. The e-commerce fight is not yet over, and the ongoing race characterized by capital injection and generous discounts will benefit consumers in the immediate future.

## 8. Growing Chinese investment in Viet Nam: time to worry?

Foreign investment hit a four-year high of US\$16.7 billion in the first five months of this year, up 69 per cent compared to the same period in 2018.

Chinese investment made up 42.5 per cent of the total according to data released by the Foreign Investment Agency (FIA) under the Ministry of Planning and Investment.

If including Taiwan's investment, Chinese investors poured nearly \$7.7 billion in Viet Nam, surpassing South Korea, Singapore and Japan to become the biggest foreign investor.

In its recent report, the FIA says the trade tensions between China and the United States has a significant impact on the shift of Chinese investment. Investments from mainland China and Hong Kong increased from \$3.7 billion in 2017 to \$5.8 billion in 2018 and \$7.1 billion in the last five months.

Previously, Chinese investors were mainly small businesses with out-dated technology but now many large corporations have funded large-scale projects.

Five of the seven biggest foreign-invested projects in the last five months came from Chinese backers,

including the ACRT's all steel Radian tire manufacturing project worth \$280 million, a \$260 million electronic equipment and multimedia audio products manufacturing project invested by Hong Kong-based Goertek Co Ltd, and the \$214.4 million tires, rubber manufacturing project invested by Guizhou Advance Type Investment Co Ltd.

However, FIA said increased technological pressure would drive Chinese companies to move their low-quality and old-fashioned technology investment to other developing countries, including Viet Nam, which would potentially pose risks of environmental pollution and create pressure on infrastructure and society.

Chinese investors are also increasing merger and acquisition (M&A) activities, raising the concerns Vietnamese enterprises would be acquired and annexed.

According to Nguyen Mai, chairman of the Association of Foreign Invested Enterprises, Viet Nam needs to fine tune its policies to ensure high-quality foreign investment.

"China is a country that exports a lot of raw materials to Viet Nam," Mai told tienphong.vn.

“Therefore, it is not excluded that they invest in manufacturing in Viet Nam to get the origin of goods to take advantage of tax benefits from the free trade agreements Viet Nam has signed with other countries.”

Regarding the rapid increase in Chinese investment in the last five months, Mai said Hong Kong topped foreign investors in Viet Nam with \$5.08 billion but three quarters of the amount was spent on buying shares of local companies, of which \$3.8 billion was for the purchase of Vietnam Beverage Co Ltd in Saigon Beer-Alcohol-Beverage Corp (Sabeco).

He said China was looking for investment opportunities but was not rushing into purchases.

At a recent press conference in Ha Noi this month, commercial counsellor of Chinese Embassy in Viet Nam Hu Suo Jin said Chinese investment had increased since 2017 and the value of this year would be higher than last.

However, he did not see solid evidence for the connection between the investment increases with the trade friction with the US so far. A more detailed report must be conducted in the next few months.

Another representative of the Chinese Embassy said China had adopted many measures to mitigate the effect of the trade tension with the US and confirmed China's socio-economy was still doing well.

## Corporate News

### 9. BWE: Board resolution

↑ 0.19%

The Board of Directors of Binh Duong Water Environment Joint Stock Company approved to

buy shares of Binh Phuoc Water Supply Sewerage Joint Stock Company according to the notice of auction of Binh Phuoc Water Supply Sewerage Joint Stock Company.

### 10. BHN: Change of personnel

↓ -0.20%

Hanoi Beer Alcohol and Beverage Joint Stock Corporation announced personnel change as follows:

Ms. Chu Thi Thu Trang was appointed as Head of the Supervisory Board as from June 14, 2019.

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