



VIETNAM DAILY NEWS

September 25th, 2019



Table of content

Table of content

1. Tan Viet Securities officially joins derivatives market
2. Vietbuild expo returns to HCM City
3. Technology is key to labor problems in Vietnam
4. Vietnam remains on radars of foreign education investors
5. WB backs Vietnam's efforts to join global value chains
6. USAID launches project to support strengthening of Vietnamese SMEs

Market Analysis

1. Tan Viet Securities officially joins derivatives market

The company on August 23 became the 17th securities firm licensed by the HNX to participate in the derivatives market.

Other derivatives market members include VNDirect Securities Corp, SSI Securities Inc, HCM City Securities Corp and BIDV Securities Corp.

In late 2018, TVSI increased its charter capital to VND1.08 trillion (US\$46.44 million) from VND500 billion to meet the required standards to operate on the derivatives market.

According to company CEO cum chairman Nguyen Tien Thanh, the derivatives market had made a big contribution to the development of the Vietnamese equity market.

“The strong growth of both market size and product quality has made Viet Nam's securities market more attractive to foreign investors,” he said.

Le Ngoc Nam, deputy director of market analysis and investment consultancy, said the derivatives market would remain an alternative for investors as the common stock market with the benchmark VN-Index was forecast to move sideways in the future.

Data showed that since the benchmark VN-Index fell from its all-time high of 1,204.33 points on April 9, 2018, derivatives trading had become more dynamic.

In the first seven months of 2019, daily average trading volume on the derivatives market was 104,424 contracts, up 78.2 per cent year on year.

The total number of trading accounts increased by 36 per cent to more than 78,400 from the end of 2018.

In the first six months of 2019, TVSI earned VND271 billion in revenue, up 110 per cent year on year. Its pre-tax profit jumped 71 per cent to VND66.5 billion in the January-June period.

Macro & Policies

2. Vietbuild expo returns to HCM City

The Vietbuild International Exhibition with the theme 'Real estate - Architecture - Interior and Exterior Decoration' will be held in HCM City from September 25 to 29.

The year's third Vietbuild in the city -- five will be held in all -- will have over 2,500 booths set up by more than 900 companies from 27 countries and territories, including the US, Greece, Denmark, Russia, France, India, Turkey, the Republic of Korea, Japan, Singapore, Thailand, China and Vietnam.

Nguyen Dinh Hung, Chairman of the Vietbuild Construction International Exhibition Organising Corporation and deputy head of Vietbuild's organising committee, said it will be the largest held so far.

On show will be property projects, electrical equipment, doors and accessories, smart housing systems, internal and external decorative items, building materials, solar energy systems, and others, he said.

Exhibitors will also bring many new products and technologies for smart houses, green urban development and green building materials amid increasing demand for them.

There will be business-matching events and seminars on its sidelines.

The exhibition offers companies a forum to meet, exchange information, explore cooperation prospects, and show off their latest products and technologies, he said.

3. Technology is key to labor problems in Vietnam

In 2009, Samsung's first mobile phone factory in Vietnam became operational. However, Samsung said that it took two years to train workers before it could run at 99 percent of capacity of the factory in South Korea.

According to the World Bank, Vietnam had 3.79 out of 10 in human resources quality, ranking 11th among 12 ranked countries. It got 3.39 out of 10 in the competitiveness index of the labor force, ranking 73rd out of 133 countries.

The report from the Ministry of Labor, War Invalids and Social Affairs (MOLISA) shows the same. Vietnam's productivity in 2018 was \$11,142 in accordance with 2011 PPP, just 7.3 percent of Singapore's, 19 percent of Malaysia's, 37 percent of Thailand's, 44.8 percent of Indonesia's and 55.9 percent of the Philippines'.

Meanwhile, the move to relocate production bases to Vietnam has caused a labor shortage, especially of skilled workers in Binh Duong, Dong Nai and Long An.

Meanwhile, the move to relocate production bases to Vietnam has caused a labor shortage, especially of skilled workers in Binh Duong, Dong Nai and Long An.

The Ministry of Planning and Investment (MPI) showed that in the first five months of 2019, total FDI capital increased by 1.2 times compared to the whole year 2018.

These included 49 projects in the woodwork industry, which accounted for 73 percent of total projects in 2018. As many as 32 companies in the industry made up 60 percent of total woodwork projects.

"In the near future, a cheap labor force will no longer be an advantage. To prepare for that, enterprises need to think of other solutions to improve," said Nguyen Quoc Khanh, chair of the HCMC Handicraft and Wood Industry Association (Hawa).

According to Khanh, with the advancement of production techniques and new technologies such

as AI, big data, cloud computing and robots, enterprises now have opportunities to improve the quality of products, control the production process and ease the reliance on labor. This is the optimal way for enterprises to solve the questions of saving manpower and improving product quality.

According to Steven Chen from Yorkers, the organizer of international exhibitions, Vietnam

has potential thanks to the production booms both at present and in the future.

Woodwork has witnessed the highest growth rate in investment in machines and equipment. Twelve years ago, Taiwanese companies made up 80 percent of space of VietnamWood exhibition. But now, the exhibition attracts enterprises from many other countries as well, from Italy Germany, Austria, Spain and the US.

4. Vietnam remains on radars of foreign education investors

Decree No. 86 took effect last year, at the request of the Ministry of Education and Training, and aims to increase the number of international schools being set up in Vietnam. How would you comment on the major changes in local and foreign investment in the industry stemming from the decree? Has there been an increase in foreign investment?

Decree No. 86/2018/ND-CP came into force on August 1, 2018, reforming regulations on both investment and compliance issues in the education sector. We note, though, that Decree No. 86 did not deal with vocational training. It is hoped that future iterations will consider this important area.

For local investment activities, Decree No. 86 introduced provisions encouraging more links and associations between foreign and local universities. This opens up new opportunities for foreign investors.

While the decree has similar investment conditions (for example, investment capital and facilities) as Decree No. 73/2012/ND-CP, it does provide further details on these. Governing authorities have also shifted to higher divisions within the government structure. This provides tighter control over such investments, which is important since education impacts on the culture of Vietnam.

We note that figures from the Foreign Investment Agency (FIA) at the Ministry of Planning and Investment show that accumulative investment projects in the education sector have increased 16.3 per cent since Decree No. 86 came into effect. Its most recent report also shows that merger and

acquisition (M&A) transactions have accounted for most of the foreign investment since the related regulations on such transactions in education were further clarified in Decree No. 86.

The latest figures on FDI in Vietnam's education sector in terms of projects and registered capital show that FDI flows are falling compared to previous years. Do you think the increase in investment from Vietnam's private sector is a reason?

Reports from the FIA on the first halves of 2018 and 2019 show that the education sector is promising and has significant potential for development. In particular, registered capital in the first half of 2019 was much higher than in the first half of 2018 and accounted for more than two-thirds of the figure in 2018 as a whole.

We are of the view that the increase in local investment activities will not constrain development but will actually boost quality foreign investment in the form of M&A transactions or cooperation between relevant parties.

What is your forecast on the prospects for FDI attraction in the local education industry?

Our view is that the prospects are good. The Vietnamese Government encourages both local and foreign investors to mobilize capital for the education sector. This is evident in the issuance of Resolution No. 35/NQ-CP dated June 4, 2019. The government aims to create more conditions that are favorable for investments. This will promote greater private investment in the region, of 16 to

40 per cent (subject to the type of education institution) higher than public investment.

The prospects for educational investment will increase with greater transparency created by the reformed regulations.

With such improvements in regulations, what existing policies should be improved upon to attract more foreign investment in education?

The government continues to promote investment in the education sector while ensuring that standards are met through clear and transparent regulations. We note that certain vague areas under Decree No. 73 have been clarified under Decree No. 86. This will lead to a more dynamic market in the sector.

In practice, however, competent authorities (for example, the Ministry of Education and Training and the Ministry of Planning and Investment) still hold different views when interpreting certain provisions regulated under the laws on investment and Decree No. 86. We hope that these will be clarified in the next round of amendments to the laws on investment and enterprises.

What do you think about the level of demand for international schools among Vietnamese parents, especially young parents who are more savvy about international school selection?

The term “international school” is not clearly regulated under Vietnam’s laws. Our views are therefore based on our own comparisons between public and private schools.

In short, the selection of schools is based on the quality of education provided. Competition

provided by foreign investment in the education sector means that parents now have more choice. Public schools are forced to improve their management systems. For example, while public schools are only concerned with compliance with the national education system, private schools may offer different training styles, including different foreign-language subjects. Such differences create more choice for young parents to choose from when assessing what is best for their children.

This can only bode well for education in Vietnam. The future is bright!

In addition to Vietnamese students, what prospects are seen in the demand for foreign student enrolments as Vietnam continues to attract more foreign investors?

There remain barriers to encouraging more foreign students to study in Vietnam. For example, there are language barriers and different education philosophies. This will have a direct impact on school selection by foreign students. It will also obviously create more opportunities for foreign investment in the education sector.

We note that foreign students have chosen Vietnam as the destination for continuing their studies due to the presence of reputable foreign universities like RMIT and Fulbright. The relative low-cost of Vietnam in respect to living and accommodation expenses is also a factor. Vietnam continues to attract more investments from reputable education institutions. Coupled with the government’s encouragement of foreign investment in this sector and with more transparent regulations, this will create more choice and make Vietnam an attractive destination for such foreign students in the years to come. VN Economic Times.

5. WB backs Vietnam’s efforts to join global value chains

Goldberg was in Vietnam to attend the Vietnam Reform and Development Forum 2019, which took place last Thursday, reported the Vietnam News Agency.

Deputy PM Hue expressed gratitude to the economist who has promoted the strategic

partnership between the global lender and Vietnam and has supported its policies and solutions to stabilize the country’s macroeconomy.

In addition to policy consultation, the WB has provided Vietnam with official development

assistance and preferential loans worth some US\$24 billion, of which some US\$18 billion has been disbursed.

The Government considers the loans an important financial resource that can help the country address poverty and stimulate investment for sustainable growth, he said.

He also commented on plans to discuss with Goldberg and other WB experts details of their strategic partnership, priorities tied to Vietnam's socioeconomic development strategy for the 2021-2025 period and the effects of developments in the global economy on Vietnam, particularly amid the trade tensions between the United States and China.

Vietnam has a high degree of economic openness, but the size of its economy is relatively modest and its involvement in the global economy remains limited. Therefore, it is necessary to enhance competitiveness and move up on global value chains, according to the Deputy PM.

He also sought the lender's recommendations on issues related to agriculture, rural development and farmers, urban and regional economic development and regional economic coordination.

Goldberg noted that the WB is committed to supporting the country.

She acknowledged that the country has done well with job creation while engaging in global value chains, but to improve workers' incomes and become a high-income country, the country should get involved in deeper production stages and move higher in value chains.

For example, the country's agricultural producers should seek ways to export processed and high-value products rather than raw materials, she remarked.

She pointed out that the country's industries often use primitive models and that technological innovation was needed to ensure advancement.

She also urged the Government to reform tertiary education and vocational training, with a focus on soft-skill training for students and workers.

Both sides also looked into opportunities and challenges arising from the Fourth Industrial Revolution and policies to ease the private sector's involvement in sci-tech development.

6. USAID launches project to support strengthening of Vietnamese SMEs

On September 24, the US Agency for International Development (USAID) launched the "Linkages for Small and Medium Enterprises" (USAID LinkSME) project, aiming to promote local SMEs' reform and capacity to participate in manufacturing supply chains.

"While the FDI in Vietnam has reached historic levels, the spillover benefits to Vietnam's domestic economy have been dampened by the limited supply chain linkages of SMEs," said Ron Ashkin, director of the project at the launching ceremony.

Ashkin said the project aims to address this gap by strengthening the capabilities of the intermediary organizations in Vietnam, such as business associations, export development centers, and SME promotion agencies, in order to facilitate the supplier – buyer relationship between Vietnamese SMEs and lead firms located in Vietnam. It also

targets expanding Vietnamese SMEs' capacity to participate in manufacturing supply chains.

"USAID LinkSME will enhance the business enabling environment by institutionalizing key reforms and strengthening the legal and regulatory framework for SME growth across the nation," added Ashkin.

According to Ashkin, Vietnam's SMEs account for 98% of total enterprises, 63% of employment and 45% of the GDP. However, there are only 1,800 SMEs in supporting industries across all sectors.

Ashkin estimated the current growth potential for Vietnam through strengthening supply chains at US\$58 billion, so the key issue would be whether Vietnamese SMEs could "grasp this opportunity".

In 2018, the FDI to Vietnam reached US\$35 billion, up 69% year-on-year through June 2019. Additionally, the FDI sector is dominating Vietnam's exports, making up 70% of its turnover, Ashkin said, adding they tend to co-locate with their foreign suppliers.

Mai Tien Dung, minister and chairman of the Government Office, added with the strong foundation from the LinkSME project, Vietnam would continue to pursuing the reform process.

"The government is committed to ensuring the success of the project, helping the development of SMEs and improving efficiency in administrative reform," Dung added.

Dung said the government has taken drastic measures to smooth the business environment and establish e-government model for greater transparency, while considering the people and enterprises the main beneficiaries.

Vietnam's final chance for prosperity

Minister of Planning and Investment Nguyen Chi Dung stressed the importance of the project, especially with enterprises being Vietnam's main driving force for growth.

"The country is at a historical turning point, as the development strategy in the 2011 – 2020 is coming to an end," Dung said.

"As Vietnam takes a leap to a new era, this is the final chance for the country to realize its goal of industrialization and modernization," Dung stressed.

Dung said if Vietnam could not take the advantage of the demographic dividend, Vietnam would face

huge challenges from a population which is expected to start getting old in 2030 – 2035.

Dung pointed to some challenges to the country's SMEs, including limited capital accumulation and technologies, small scale, and inefficient corporate governance.

More importantly, Vietnam's enterprises, and SMEs in particularly, have weak linkages among each other, and also with the FDI sector.

"The lack of connectivity among different business groups in an economy would lead to inefficient mobilization of resources, causing negative impact on the goal of sustainable development."

Sharing Vietnamese government's desire for prosperity, US Ambassador to Vietnam Daniel Kritenbrink said the US goal is to support a "strong and independent Vietnam."

"We are honored to be Vietnam's partner in development and determined to invest in the country's success," Kritenbrink added.

Kritenbrink considered the business community a backbone of Vietnam's growth, and the LinkSME project would help local enterprises connect with global economy.

"Strengthening the linkages of SME enhances Vietnam's journey to self-reliance and a inclusive market-driven-private sector-led growth."

"I strongly believe the Vietnamese economy will prosper and equally is the Vietnam – US comprehensive partnership," Kritenbrink concluded.

Research Team: Tsugami Shoji Researcher jsi@japan-sec.vn

Disclaimer:

Copyright 2015 Japan Securities Incorporated (JSI). All rights reserved. This report has been prepared on the basis of the information believed to be reliable at the time of publication as provided by StoxPlus (www.stoxplus.com) - An associate company of Nikkei Inc. and QUICK Corp. JSI makes no representation or warranty regarding the completeness and accuracy of such information. This report is provided, for information purposes only and does not constitute an offer or solicitation to buy or sell any securities discussed herein any jurisdiction. Investors must make their investment decisions based upon independent advice subject to their particular financial situation and investment objectives. This report may not be copied, reproduced, published or redistributed by any person for any purpose without the written permission of an authorized representative of JSI.

Japan Securities Incorporated – JSI

Address: 14F, TNR Tower, 54A Nguyen Chi Thanh, Lang Thuong, Dong Da, Hanoi

Tel: (024) 3791 1818

Fax: (024) 3791 5805

Email: info@japan-sec.vn

Website: www.japan-sec.vn