PwC in the News

Media title: For sustainable foreign direct investment
Author: Dinh Thi Quynh Van, General Director of PwC Vietnam
Source: Vietnam Investment Review Special Publication dated May 2018

For sustainable foreign direct investment

According to the Ministry of Planning and Investment, foreign direct investment pledges for new projects, increased capital, and stake acquisitions hit a record high of $35.88 billion in 2017, up 44.4 per cent compared to the previous year. Foreign invested enterprises in Vietnam have generated millions of jobs and contributed greatly to innovation and modernisation, boosting the economy's growth. However, there are great concerns about the sustainability of FDI attraction in the local market.

BY DINH THI QUYNH VAN
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PREMIER DESTINATION FOR FDI

In PwC's 2017 Doing Business in Vietnam guide, Vietnam was recognised as a foreign direct investment (FDI) hot spot for various reasons: It has one of the highest growth rates in Asia, 60 per cent of the population are of working age, and an array of government policies provides strong support for foreign investment. According to PwC's 2017 APEC CEO Survey launched at the APEC Leaders' Week in November 2017, Vietnam has surpassed China as the top destination likely to receive increased cross-border investment over the next 12 months [see Graph].

The increased FDI attraction over the years has painted a good picture for the overall economy. Vietnam's export turnover hit $214.02 billion in 2017, up 21.2 per cent year-on-year. Most notable were the contributions of foreign invested enterprises (FIEs) manufacturing smartphones, computers, electronic devices, and spare parts.

Divestment undertaken by state-owned enterprises was another notable movement for FDI flows in 2017. In 2017, food and beverage was the hottest sector in Vietnam, with Sabeco selling 343 million and Vinamilk selling 78 million shares to Thai buyers in a single year. The state budget earned more than $5 billion from Thai billionaires through these two divestments alone.

Real estate is another attractive sector for FDI, especially in Ho Chi Minh City. According to the Ho Chi Minh City Real Estate Association (HoREA), FDI pledges for new projects hit $1.9 billion with many M&A deals confirmed by foreign companies. For the whole local market, real estate received a total FDI of $3 billion, accounting for 8.5 per cent of the total FDI flowing into the economy in 2017.

CHALLENGES ATTRACTING FDI

FDI in Vietnam has been shifting over the last year with the share of the production sector (processing and manufacturing) declining and utilities (electricity, gas, water, air conditioning supply) rising. This sector accounts for 42 per cent in 2017, a huge increase from just 1 per cent in 2016.

Notable projects include the three thermal power plants Nghi Son 2 (capacity of 1,200MW), Van Phong 1 (1,320MW), and Nam Dinh 1 (1,109MW), with the total investment capital of over $7 billion. Another billion-dollar project licensed in 2017 is O Mon gas pipeline (Block B) gas pipeline in the southern province of Kien Giang, a joint venture between a Japanese investor, state-owned oil and gas group PetroVietnam, and PVGAS Vietnam.

The surge of investment in utilities is a good move in the long run because it helps FIEs cope with the tremendous utility demand stemming from the growth of the production sector in the past few years.

However, the FDI landscape in Vietnam still has room for improvement. The locals are still not playing a big enough role in the value chain. Let us take a look at the textile and garment industry, which has attracted more than $5 billion over the last five years. This is also the second biggest contributor to the total export value in 2017, with turnover reaching $26.04 billion in 2017, up 9.3 per cent compared to 2016. Although Vietnam accounts for 4 per cent of global textile and apparel exports, in the supply chain, Vietnamese producers are still only involved in low value stages.

The phone and electronic devices industry hit a record $45.27 billion in total export value in 2017, up 32 per cent on-year. According to the Supporting Industry Enterprises Development Centre (SIDEC), the leading exporters are still FIEs while the locals' capabilities are very limited, mostly restricted to assembling and processing. As a result, to cope with the demand from foreign enterprises, Vietnam has to import 77 per cent of the electronic components needed for production. The issue here is how to upgrade the supporting industries so that they can engage more in electronics and technology value chains.

Vietnamese workforce is also facing the challenges of lacking essential skills and low productivity, despite having more than 55 million people of working age, according to data from the General Statistics Office (GSO) in September 2017. Vietnam's labour productivity still lags behind neighbouring countries, being equivalent to 7 per cent of Singapore, 17.6 per cent of Malaysia, 36.5 per cent of Thailand, 42.3 per cent of Indonesia, and 56.7 per cent of the Philippines, according to the GSO's 2016 statistics, in PPP (purchasing power parity) terms. This is also a big constraint to attracting foreign investment for high-tech industries as Vietnam does not have qualified human resources to meet job requirements in the digital age.

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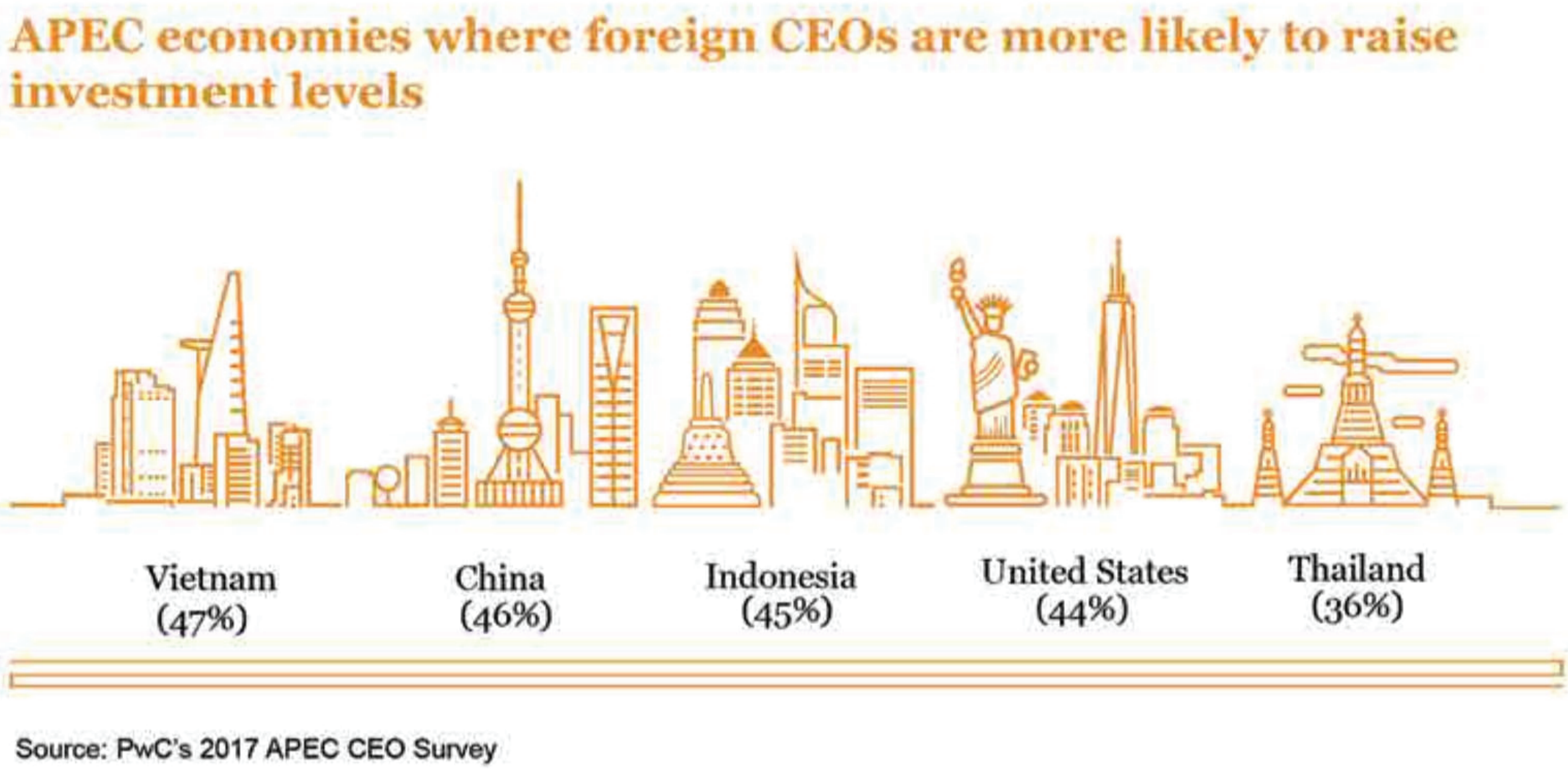

SUSTAINABLE GROWTH GOING FORWARD

Attracting FDI in sustainable sectors should be Vietnam's priority. This requires cooperation from three main stakeholders: the government, businesses, and workers.

In the digital age, some jobs of the future may not yet exist today and some existing jobs may disappear in the time to come, and workers need to focus on scalable skills for the future. According to PwC's 20th Global CEO Survey, most of these skills are ones that cannot be fully performed by machines, such as strategic thinking, adaptability, certain types of problem solving, leadership, creativity, and innovation. However, many manual jobs will gradually become obsolete with the proliferation of technologies like artificial intelligence and machine learning. Many conventional jobs will be lost over the years and this drives the need to upskill the workforce with the most updated knowledge and capabilities to cope with this inevitable trend.

The Vietnamese government should take the lead in developing strategic policies and clear directions to attract FDI in high-value areas that support sustainable growth. Vietnam's draft FDI strategy for the period of 2018-2023 is going in the right direction

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with a focus on domestic strengths and high-value areas, such as production (electronic, high-tech components), services, and high-tech agriculture. At the same time, the Vietnamese government also needs to develop policies to orient and support domestic enterprises to increase the use of technology in production, business management, and transactions, thus improving the quality and productivity in manufacturing and the workforce. This is an effective way to optimise the value of investment, which FIEs currently do very well.

In addition, the Vietnamese government is expected to conduct a plan to implement new management policies to prevent tax evasion and keep a fair competitive environment for both domestic and FIEs.

From a corporate perspective, leaders are required to embark on the process of innovation and technology application to improve corporate governance processes and have long-term strategies to upskill employees and be ready for the changes brought by Industry 4.0 trends. Applying technology will help businesses to reduce costs, maintain or advance their competiveness, thus moving up the value chain.

If this is done, Vietnam's FDI attraction is expected to continue to set new and long-term records, and contribute to economic growth and sustainable development in Vietnam.

**Dinh Thi Quynh Van is general director of PwC Vietnam, a member of the PwC network. Van has been providing taxation and legal advice to PwC's clients since 1995. She has worked with many of the largest investors in Vietnam, assisting them in establishing and structuring operations and complying with the tax and regulatory framework. She has also participated in negotiations with governmental authorities in relation to a number of BOT projects and led legal and tax due diligence reviews.*