PwC in the News

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Title: Post-pandemic focus for new investments
Author: Kim Oanh
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Ong Tiong Hooi, Partner, Deals Services, PwC Vietnam

“Much has developed in recent years to make Vietnam an attractive market for investors. We see continuous improvements in the legal and regulatory framework including the development of the country’s first Corporate Governance Code.

However, many foreign investors still have concerns. These include the speed of approvals and clarity in approval processes by regulatory authorities; easing of dividend restrictions when remitting funds abroad and converting VND into foreign currencies; and statutory audits on all companies (not just foreign-invested, state-owned, and listed entities) so that financial statements can be relied upon.

Vietnam has demonstrated its ability in keeping its citizens safe during the recent pandemic. What the country needs to demonstrate globally now is that Vietnam can create a safe and favourable investment destination for its investors.”

Post-pandemic focus for new investments

A number of eagles have expanded their nests in Vietnam, with several notable moves made just before the global coronavirus outbreak. With the outbreak mostly over in Vietnam, many groups are looking to get back on track as soon as possible. Recently, Thailand-based SCG gained approval to pump an additional $1.39 billion into Long Son Petrochemical Complex located in the southern province of Ba Ria-Vung Tau, increasing the total investment capital to $5.1 billion. The new investment in the Long Son complex is expected to breathe new life into the venture which is running significantly behind schedule. The project’s construction began in early 2018. Last year, SCG vowed to put the project into operation in late 2022.

Japanese electronics manufacturer Panasonic two weeks ago declared halting the operations of its large washing machine factory in the suburbs of Bangkok and announced that it would migrate the facility to Vietnam. Accordingly the factory, together with a research and development centre in Thailand, will be closed by next March.

In addition, numerous suppliers of global ITC groups have completed expansion in Vietnam, including China-based Luxshare-ICT, one of Apple’s global partners, with two expanded projects in the northern province of Bac Giang and the central province of Nghe An.

Others include South Korean aerospace manufacturer Hanwha Aero Engine, Japanese carmaker Yokowo, and Hong Kong-based textile producer Huafu Industrial, as well as another Apple assembly partner, Goertek from China.

By Kim Oanh

A series of favourable policies are expected to be issued by the government’s upcoming taskforce in the country’s bid to attract a new investment wave after the health crisis.

Prime Minister Nguyen Xuan Phuc has ordered the establishment of a special working group in charge of formulating attractive policies to woo more foreign investment, which was dubbed by the PM as “a new wave to surge from the global strategic relocation of production and operations by multinational corporations.”

The policies to be created include incentives on tariffs, access to land, as well as solutions to prevent further disruptions to the supply chain and a lack of human resources, to be hammered out by the Ministry of Foreign Affairs, Ministry of Planning and Investment (MPI), as well as other ministries and relevant authorities.

Vietnam has been considered a safe destination by foreign investors looking to relocate and diversify operations thanks to its stable policy framework and success in controlling the COVID-19 outbreak. However, other countries in the ASEAN have also been issuing new policies and attractive incentives to tap into the same capital flows, posing Vietnam the need to find a way to set itself apart and improve its competitive edge.

According to statistics from the MPI’s Foreign Investment Agency (FIA), in the first five months of this year, Vietnam lured in $13.9 billion worth of newly-registered, newly added, and foreign-based stake purchase and capital contribution investment capital. Although this figure is down 17 per cent on-year, it remains higher than the figures of the same periods of 2016 ($10.1 billion), 2017 ($12.1 billion), and 2018 ($9.9 billion).

According to the FIA’s former director Phan Huu Thang, Vietnam’s current legal framework is quite complete, however, the gap between the word of the law and real-life implementation is quite large. Notably, Resolution No.50-NQ/TW issued last August on orientations to perfect mechanisms and policies, and raise quality and efficiency of foreign investment by 2030 has already outlined specific foreign investment goals for the time to come, regarding registered capital, disbursed capital, as well as links between foreign-invested enterprises (FIEs) and their domestic counterparts.

However, the actual implementation and the specific roles and tasks of ministries and relevant authorities have not been clarified yet.

“Along with newly-registered projects, multinational groups which are already present in Vietnam are also looking to expand their local facilities, thus the government has ordered the establishment of the working group, which will work with each of them to discuss their difficulties as well as their individually proposed incentives and then build solutions so that they can continue disbursing capital,” Thang told *VIR*. “Furthermore, the taskforce will monitor the progress of those projects which have been licensed but have yet to begin construction.”

According to him, Vietnam’s stature and foreign investment attraction policy has changed remarkably over the decades, however, incentive packages remain just as important to filter out large-scale and high-quality projects. “The establishment of the special taskforce will help us draw in foreign eagles. The most important missions for the group are completing the legal framework, stepping up investment promotion activities at cities and provinces, as well as online promotion programmes,” he said. “Besides this, it is necessary to select members who have the requisite skills, abilities, and vision. Last but not least, it should have full authority to issue decisions for such projects.”

The main purpose of Vietnam’s foreign investment attraction strategy is “encouraging eagles to come and build nests” in Vietnam by providing them with numerous special incentives. For example, Samsung – the largest South Korean investor in Vietnam, with total investment capital of over $17 billion for different facilities churning out electronic items – has requested a wide range of privileges for its $220 million research and development (R&D) centre in Hanoi.

Samsung Vietnam has asked for an exemption from land lease fees for 50 years, site clearance costs, and import tariffs on the R&D centre’s equipment, and customs procedures to transfer goods between the group and the R&D centre.

Besides that, Samsung requested that the annual personal income tax of its employees at the centre be cut by half. The MPI and other relevant ministries, as well as the authorities of Hanoi have basically agreed to the group’s requests.

According to experts, it is time to “re-design the game” so that the country can maximise benefits from foreign-invested projects. Notably, foreign investors should be able to request suitable and legitimate incentives for their projects. However, local authorities need to strictly monitor their investment process.

Over more than 30 years since Vietnam opened for foreign investors, the country’s economy has overcome a number of crises, impacting foreign investment. Vietnam has also been co-operating with a number of partners to reform its policies in favour of investors and businesses, in line with international practices.

For example, in 2003, the MPI was put in charge of co-operation with the Japanese government to establish the Vietnam-Japan Joint Initiative. During the past 16 years with seven phases, the joint initiative made many proposals to Vietnamese agencies, playing an important role in improving the business and investment environment of Vietnam.

Reviewing the results of the seventh phase in December, Japanese former Ambassador Kunio Umeda said that the initiative contributed to strengthening co-operation between the two nations and has yielded practical results such as the implementation of official development assistance projects, grants, and infrastructure development.

This seventh phase was implemented over 17 months with 52 proposals. Notably, 44 of the 52 items have been implemented on schedule and the remaining eight items are being carried out. Those implemented are related to tourism, the improvement of the legal framework, land law, and public-private partnership policy framework, as well as the development of supporting industries, labour and wages, and stock market reform.■

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Nicolas Audier,
Chairman, EuroCham

“Vietnam has been an attractive destination for FDI for some time. The country’s large population, well-educated workforce, growing middle class, and economic development have been a magnet for foreign companies. Today, Vietnam is part of a network of free trade agreements – including the upcoming EU-Vietnam Free Trade Agreement (EVFTA) – and this, alongside the government’s world-leading handling of the pandemic and good strategic location, mean that the country has a unique opportunity to attract businesses looking to invest in a competitive, safe, and business-friendly market.
The prime minister’s working group is, therefore, a well-timed intervention which could help to attract new investment at this opportune moment. For European enterprises in general, the priorities would be a predictable legal framework alongside a continued streamlining of business conditions and simplification of administrative procedures.
In particular, the single-biggest factor in attracting new EU investment will be a smooth and effective implementation of the EVFTA. The government has just outlined its plan for implementation, and EuroCham is prepared to support this plan however we can to help Vietnam attract new investment from European companies.”

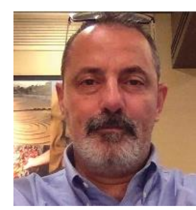
“In this post-pandemic period for Vietnam, we must consider giving priority to many companies like ours not only to support existing production, which is already highly deficient for obvious reasons, but consequently also to increase and consolidate the relations between this country and foreign-invested companies that have had and continue to have significant impact on the local economy.
We warmly welcome any action taken by the prime minister, especially if oriented to improve or simplify any investment and logistics conditions within the Vietnamese market.
I hope for a situation of greater comfort in the near future, where simplifications and facilitations in all operations, and especially those relating to exports from Vietnam to Europe, create perceptible conditions of ease and advantage for us and other businesses investing in Vietnam.
No less important would be to make the system of investment in human resources more usable and simplified. As a manager with decades of experience of a company firmly anchored in this country and operating on the global market, it would be an excellent start both to attract new investors and to consolidate and stimulate greater investments already in progress in this market.
We chose Vietnam a long time ago, and we will continue to be present in this country. We will grow together by continuing to invest in our plants and local resources, with a focus on the future.”

Joseph Perucca,
General director, GIVI Vietnam

Patrick Downey, Manager,
Harrison Assessments Distributorship

“It is very evident that the pandemic has had substantial implications on personnel and staffing arrangements and issues in companies and organisations worldwide. In my opinion, the Vietnamese government has handled the pandemic very well to-date and accordingly it is our recommendation that they adopt a focused business recovery approach in respect to all issues, and particularly those relating to employees and employment at all levels.
This will in turn provide further support to the excellent job Vietnam has done in attracting foreign companies to establish operations here and will open the door for this to continue.
One of our key business development programmes will be the continuation of attracting foreign entities to establish here with the support of well-structured governmental programmes. We add to this our strong range of special services with particular focus on local human resource management services.
We are happy to co-operate with relevant government services focused on further development of the Vietnamese economy.”

“Vietnam should take this opportunity to promote greener growth and carefully choose investors based on their capacity to build low- or zero-emissions operations in the country or their ability to contribute directly or indirectly to its sustainability in any other way.
Doing business as usual would probably be the worst solution for the years to come. COVID-19 has shown us what sacrificing sustainability (for instance, the loss of biodiversity) for immediate profit can provoke. And it is nothing compared to what is forecast by climate experts. Thanks to its strong academic sector and its research institutes, the Vietnamese government is already aware of this, and it is now time to turn this knowledge into action.
On a very concrete aspect, one point to definitely improve would be to support the investor community by easing the deliverance of visas for foreign investors and experts. The image of Vietnam worldwide is already good, but I am sure it would become excellent if this stage was not so complex.”



Alexis Drogoul,
Chief representative, IRD

Federico Vasoli ,
Managing partner, dMTV Global

“In the wake of the pandemic, whilst making predictions has become extremely difficult, the need of diversified supply chains that do not rely entirely on one source (typically China) is evident. Vietnam is therefore very well positioned in attracting more foreign investment, particularly considering Prime Minister Nguyen Xuan Phuc’s plan to boost infrastructure, IT, and environmentally-friendly projects.
Our firm has been proudly assisting international businesses investing in Vietnam for over ten years and is present also in Singapore and Malta, hence we can humbly provide a global view.
Imitating some of these jurisdictions’ best practices could further help boost Vietnam’s attractiveness. For instance, more favourable taxation (only of locally sourced income), elimination of excessive bureaucracy (reduction of documents which need to be notarised, for example), and an even wider use of English in public administration, as well as closer partnership with the EU and the ASEAN Economic Community would help in those cases where Vietnam alone cannot entirely replace other destinations.
The human capital is there: foreigners truly admire the Vietnamese people’s ambition and resilience. A small effort on the ecosystem, in terms of infrastructure, procedures, technology, taxation, and bureaucracy, could do the trick.”

“Vietnam’s desire to move more to high-quality foreign investment is a natural evolution of a developing economy as it matures. It is imperative that the country starts attracting high quality investment, particularly in the manufacturing sector.
Government efforts to promote this is a positive step in the right direction. Whereas in the past,Vietnam would welcome just about any kind of investment, it was usually in the form of small-scale, low-tech projects and sometimes not environmentally friendly. Typically high quality investments would be those that can be part of the global supply chain, provide training and development to its work force, and ideally be environmentally friendly.
My suggestion is to attract funding from countries that are well-developed already, that have global best practices in industries relevant to Vietnam, and that invest in high-tech research and development.”

Jack Nguyen,
Partner, Mazars