ASIA PERSPECTIVE

Investment Outlook

Vietnam // 2022

Vietnam's investment landscape

Vietnam is a strong candidate for foreign investors from across the world. Its investor-friendly policies, extensive network of Foreign Trade Agreements (FTAs), relative economic and political stability, and cost-effectiveness, are among the reasons Vietnam sustained positive FDI inflows throughout a heavily COVID-affected 2021. Investment in Vietnam is set for a robust rebound, as its economy is expected to strongly recover in 2022.

Economic Growth

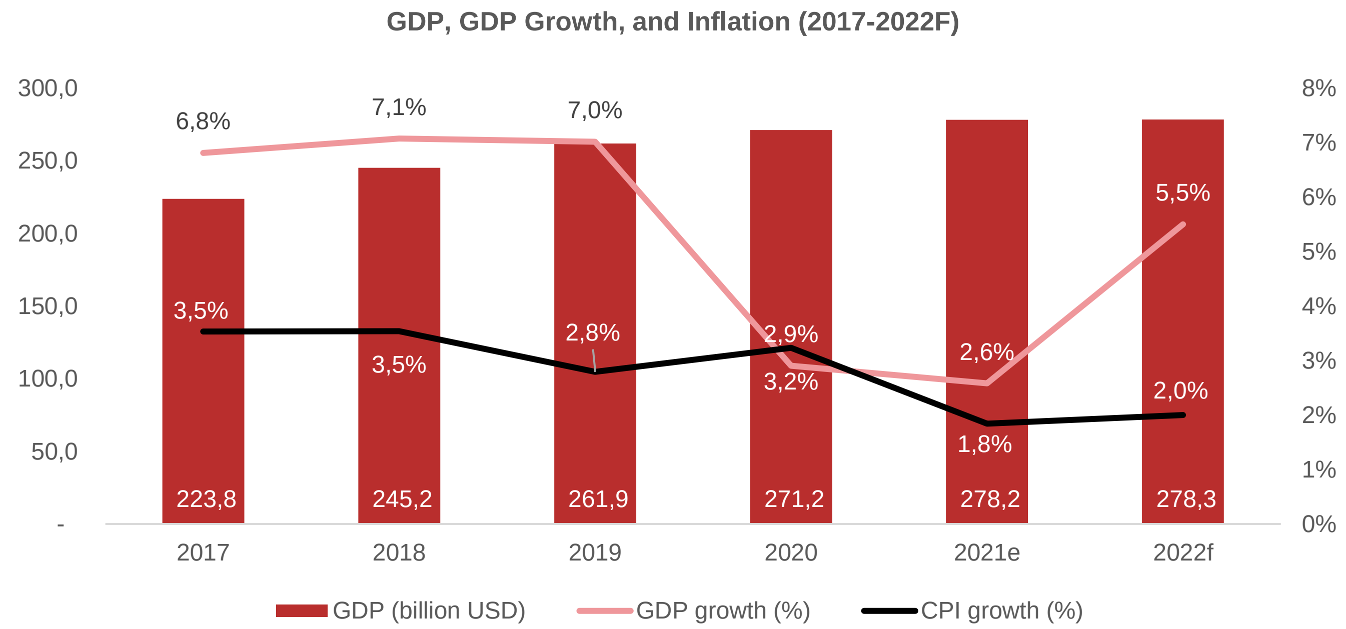
Due to heavy COVID restrictions which halted business activities for an extended period, Vietnam's economy faltered during 2021. GDP growth for the whole year was 2.58%, a slight contraction from the previous year of 2.91%. Towards the end of 2021, Vietnam's government started to open the economy and pave way for the country's economic rebound.

For 2022, the government is targeting a GDP growth of 6 to 6.5%. The World Bank forecasted Vietnam's GDP growth rate for the year to be 5.5%, while the bank Standard Chartered is expecting a 6.7% GDP growth for the country. As factories return to full capacity and the service industry recover, the economy will likely bounce back strongly in 2022.

Inflation

Vietnam's Consumer Price Index (CPI) grew by 1.84% year-on-year (YoY) in 2021, the lowest ever recorded since 2016. There was a strong jump in prices of certain commodities compared to the previous year, including a rise of 31.74% in petroleum and 25.89% in gas.

The National Assembly has set a target of 2-3% in CPI growth rate in 2022. With continuing close monitoring of pricing and a flexible implementation of monetary policy, the target is expected to be achieved. Although the economy is recovering, uncertainties in the global economy and the ongoing pandemic could keep the total output below its potential.



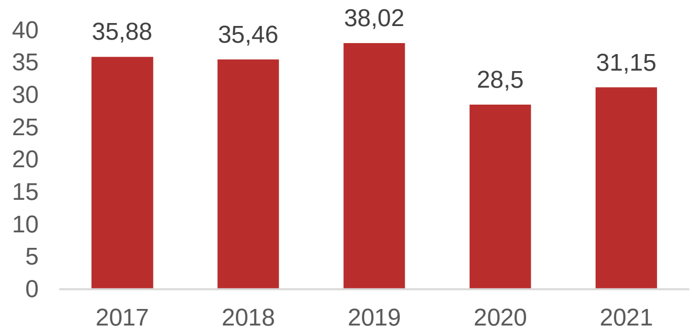
Source: World Bank, Trading Economics, Vietnam's General Statistics Office

Foreign Direct Investment (FDI)

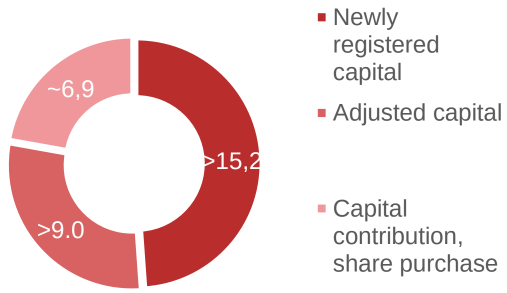
FDI to Vietnam in 2021 reached 31.15 billion USD, an increase of 9.2% YoY, a decrease of 31.1% in volume and an increase of 4.1% in value, according to the Foreign Investment Agency (FIA). Multiple factors could be attributed to the decrease in the number of foreign-invested projects, including limited border entries and supply chain disruption caused by the pandemic. The government also became more selective, targeting large-scale projects with high added value to deliver investment incentives.

On a list of 106 countries and territories, Singapore ranked as the number one country investing in Vietnam, with investments valued at over 10.7 billion USD. The manufacturing and processing sector secured over 18.1 billion USD in investment capital, or 58.2% of the total value, in 2021.

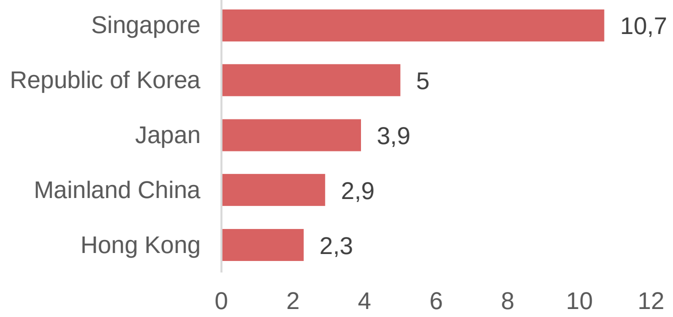
FDI to Vietnam 2017-2021 (billion USD)



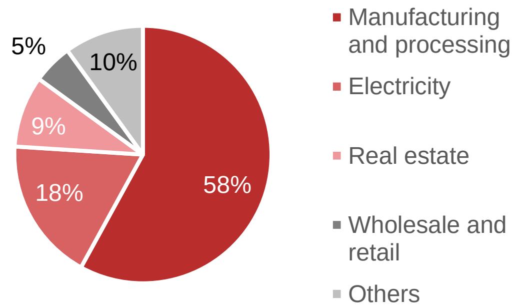
Share of FDI by investment type 2021 (billion USD)



Top 5 investors by country/territory in Vietnam 2021 (billion USD)



Share of FDI by sector 2021 (billion USD)



Source: Vietnam's Ministry of Planning and Investment, Vietnam's Foreign Investment Agency

FDI to Vietnam is expected to remain robust in 2022. Despite factory disruptions, the manufacturing sector managed to secure a positive output throughout 2021, sustaining Vietnam's position as a strong manufacturing hub. The government is strongly targeting investment in the high-tech and digital economy. It also introduced multiple incentives to help businesses affected by the pandemic, including tax breaks, delayed tax payments, land fee rentals, and support policies for employers and employees.

Vietnam's high-tech industry

In recent years, the Vietnamese government has been strongly targeting investments in the high-tech industry and digital economy. A variety of incentives and policies has been implemented in order to create a more favorable business environment for enterprises.

To attract and encourage local and foreign enterprises to invest in the high-tech sector, which includes industries having high concentration of workers in STEM (science, technology, engineering and mathematics), the government issued many incentives through the Decision No. 38/2020/QD-TTg in 2020 that are beneficial for the industry. Some notable incentives include:

- 4 years of Corporate Income Tax (CIT) exemptions, followed by 9 years of CIT reductions of 50% and a preferential tax rate of 10% within 15 years. Preferential tax rates can be extended up to an additional 15 years.
- Import duty exemptions are applied to imported goods used for constructing fixed assets; imported raw materials and supplies that have not been domestically produced are also exempt from tax for 5 years.
- Potential financial support from the National High-tech Development Program's fund and other funding from the State budget.
- Loan programs to encourage the development of smart or sustainable agriculture using high technology to improve productivity and sustainability.
- Exemption of land rental fees when operating factories related to high-tech. Exemptions can be applied for up to 15 years or in some cases the entire project life.

Thanks to the government's support, the high-tech industry has already seen strong FDI inflows with many high-value projects. One of the largest recent deals was the LG Display Haiphong project at Trang Due Industrial Park in Haiphong in early 2021. The deal entailed a capital increase of 750 million USD. The Haiphong city's Economic Zones Management Authority issued its first investment registration certificate in 2016, with a total registered capital of 2.5 billion USD, authorizing LG to produce OLED, LCD, and TV screens, among others. The capital expansion brings the total investment capital of the company to 3.25 billion USD, making it the biggest foreign project in Haiphong. Tech giants such as Samsung, Foxconn, Luxshare, and Intel have also ramped up their investment and production capacity in Vietnam.

With the increased governmental focus and efforts to improve the business climate, Vietnam's high-tech industry will likely experience strong growth in the coming years. Foreign businesses seeking opportunities to invest should make sure to be a part of the emerging high-tech industry in Vietnam.

M&A in Vietnam remains attractive to foreign investors thanks to government support

M&As in Vietnam has exploded with a series of large-value deals in recent years. The aggressive growth in both transaction value and the number of M&A deals in 2021 has shown that M&As in Vietnam is still very attractive to both domestic and foreign investors.

Despite complications caused by the pandemic in 2021, Vietnam's M&A market still attracted over 8.8 billion USD in the first ten months of 2021, a surge of 18% compared to 2020, with a total of 500 deals announced in the first three quarters of the year. The attractiveness of the market is also clearly reflected in the average value of each transaction where more and more deals worth over 100 million USD were recorded. In 2018 and 2019, the consumer goods, manufacturing and real estate sector recorded notable M&A transactions in Vietnam. Meanwhile, in 2020 and 2021, banking and real estate were the key sectors, which is highlighted by the 1.4 billion USD deal between Japan's Sumitomo Mitsui Financial Group and Vietnam's consumer finance company – FE credit.

In recent years, Vietnamese authorities have been focusing on improving the country's business climate, for example through the signing of the free trade agreements with the EU, UK and the member countries in the RCEP (Region Comprehensive Economic Partnership). In addition, the law reduces the number of requirements foreign investors need to meet in order to be approved. Going into 2022, these factors will help improve access to the Vietnamese market for foreign partners. Therefore, the market is expected to maintain a positive growth with many investment opportunities for both domestic and local investors, providing strong prospects for Vietnamese companies to compete on a greater scale.

Furthermore, it is important to acknowledge that the global M&A landscape has also shifted, driven by the pandemic as well as several key shifts in the global business environment. In Vietnam, some of these changes have been particularly noticeable such as the rising importance of sustainability, social and governance processes within M&A, which can be reflected in the rise of new investments in renewable energy. By 2020, total investments in renewable energy in Vietnam reached 7.4 billion USD, which ranked the country eighth place globally. Another important trend in Vietnam's M&A market is the rapid acceleration of digital transformation. Within the next decade, it is clear that M&A processes and strategies employed will evolve to match an Industry 4.0 society –a digitally transformed manufacturing, production and related industries.

In the upcoming years, the sectors that are expected to be the most attractive in Vietnam will be manufacturers of consumer goods, renewable energy, real estate, retail, ICT, and logistics. Additionally, fast-growing industries such as consumer finance, electronics, and retail will continue to attract attention from both strategic and private investors, creating abundant opportunities for dealmaking.

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