

DOING INTERNATIONAL BUSINESS





FOREWORD

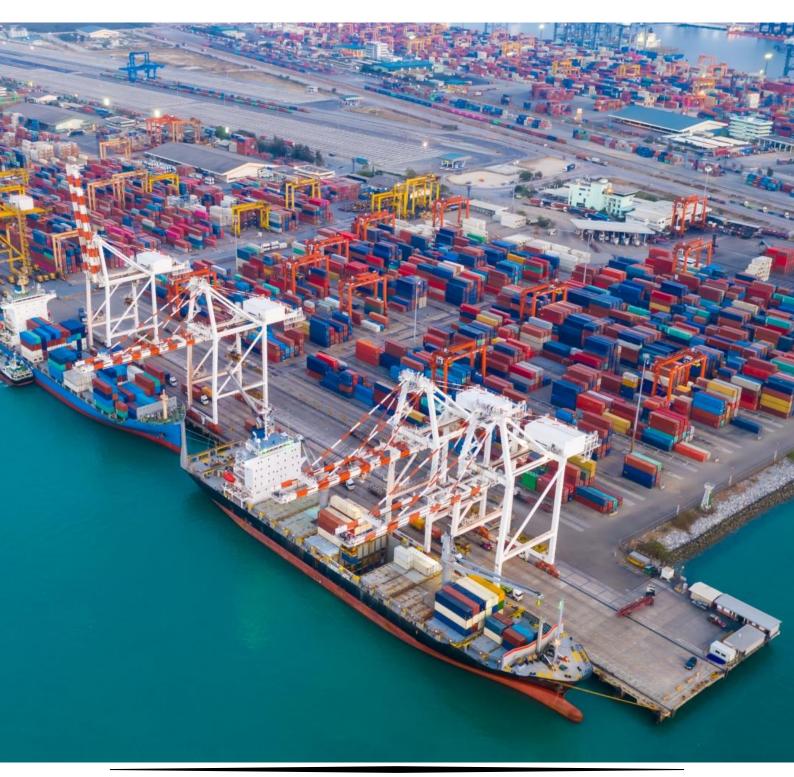
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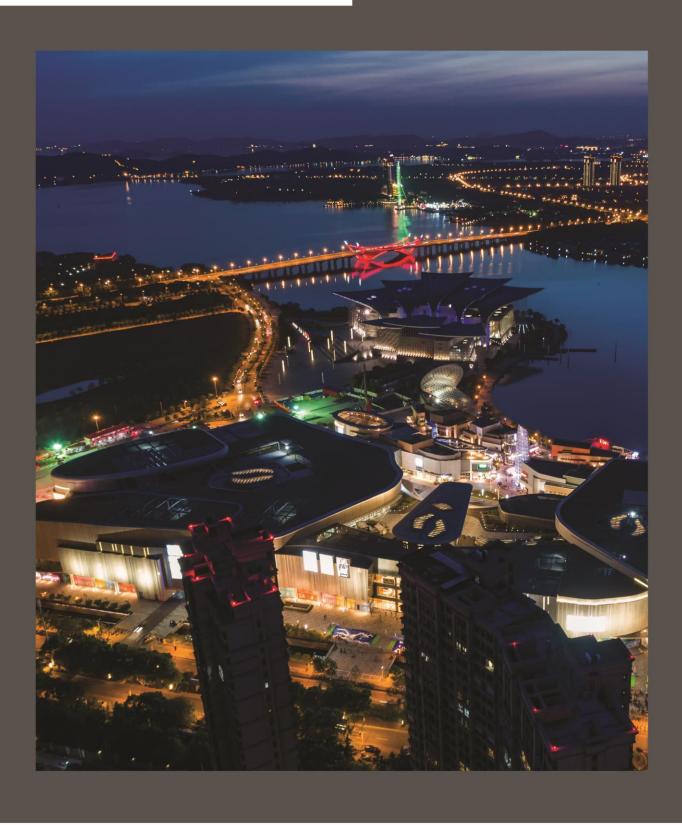
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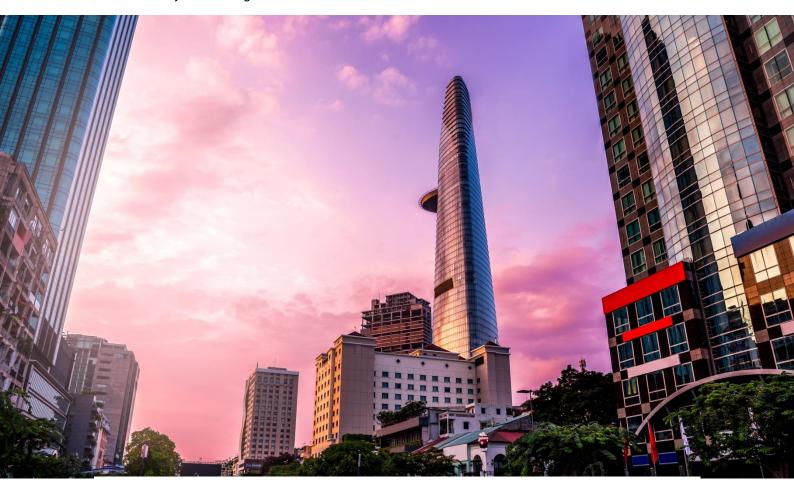
EXECUTIVE SUMMARY

Vietnam's development over the past 30 years has been remarkable. Economic and political reforms under Đổi Mới, launched in 1986, have spurred rapid economic growth, transforming what was then one of the world's poorest nations into a lower middle-income country.



1.1 Brief History

- 1941 ICP organizes a guerrilla force, Viet Minh, in response to invasion by Japan during World War II.
- 1946 French forces attack Viet Minh in Haiphong in November, sparking the war of resistance against the colonial power.
- 1956 South Vietnamese President Ngo Dinh Diem begins a campaign against political dissidents.
- 1957 Beginning of Communist insurgency in the South.
- 1969 Ho Chi Minh dies. President Nixon begins to reduce US ground troops in Vietnam as domestic public opposition to the war grows.
- **1976** Socialist Republic of Vietnam proclaimed. Saigon is re-named Ho Chi Minh City. Hundreds of thousands flee abroad, including many "boat people".
- **2005** Prime Minister Phan Van Khai makes the first visit to the US by a Vietnamese leader since the end of the Vietnam War.
- **2013** Economy grows by 5.14% in first three quarters of the year, marking a return to growth after years of stagnation



2.1 General Overview



Table 1: Facts and Figures

Indicator	Vietnam	Malaysia		
Flag	*			
Establishment	September 2, 1945 President Hồ Chí Minh reading the Declarations of independence of Vietnam at Ba Đình Square in Hanoi	Malaya was restructured as the Federation of Malaya in 1948 and achieved independence on 31 August 1957.Malaya united with North Borneo, Sarawak, and Singapore on 16 September 1963 to become Malaysia. In 1965, Singapore was separated from Malaysia in 1965.		

Capital	Ho Chi Minh City	Kuala Lumpur
Population	97,338,579 (Oct 2020) (Source: worldometers.info December 2020)	32,540,065 (Source: worldometers.info, December 2020)
Surface area	310,070 km ²	330,345 km ²
Currency	Vietnamese dong	Malaysian ringgit
Population density	293.87 per km ²	99 per km² (255 people per mi²)
Exchange rate	1USD = 23177.50 VD (December 2020)	1USD = 4.08 MYR (December 2020)
Government	a one-party system led by the Communist Party of Vietnam	Federal Parliamentary, Constitutional Monarchy
Head of State	President, Nguyễn Phú Trọng	Monarch, Yang di-Pertuan Agong Sultan Abdullah
Head of Government	Prime Minister, Nguyen Xuan Phuc	Prime Minister, Muhyiddin bin Muhammad Yassin
GDP (Nominal)	USD260.00 billion (Source: tradingeconomics.com)	USD359 billion (Source: tradingeconomics.com)
GDP per Capita	USD1,990.00 (Source: tradingeconomics.com)	USD11,414.80 (Source: tradingeconomics.com)
Top 5 Export Markets	1. 1 USA 2. China 3. Japan 4. Korea 5. Hong-Kong	1.Singapore 2.China 3.United States 4.Hong Kong 5.Japan
Top 5 Import Markets	1. China 2. South Korea 3. Japan 4. Taipei 5. Thailand	 China Singapore Japan United States Thailand



2. ECONOMIC OVERVIEW

Vietnam's development over the past 30 years has been remarkable. Economic and political reforms under Đổi Mới, launched in 1986, have spurred rapid economic growth, transforming what was then one of the world's poorest nations into a lower middle-income country. Between 2002 and 2018, GDP per capita increased by 2.7 times, reaching over US\$2,700 in 2019, and more than 45 million people were lifted out of poverty. Poverty rates declined sharply from over 70 percent to below 6 percent (US\$3.2/day PPP). The vast majority of Vietnam's remaining poor – 86 percent – are ethnic minorities.

In 2019, Vietnam's economy continued to show fundamental strength and resilience, supported by robust domestic demand and export-oriented manufacturing. Real GDP grew by an estimated 7 percent in 2019, similar to 2018, one of the fastest growth rates in the region.

Given its deep integration with the global economy, the Vietnamese economy has been hit hard by the ongoing COVID-19 pandemic, but has shown remarkable resilience. The initial health impact of the outbreak had not been as severe in Vietnam as in other countries due to proactive measures at the national and subnational levels. The macro-economic and fiscal framework remains resilient with an estimated GDP growth rate of 1.8 percent in the first half of 2020, projected to reach 2.8 percent for the year. Vietnam is one of the few countries in the world not to expect a recession, though its growth rate for this year is far less than the typical 6-7 percent pre-crisis projections. However, the impact of the ongoing COVID-19 crisis is hard to predict given the uncertainty surrounding its magnitude and duration. Public financing requirements will increase as the result of higher spending due to the stimulus package launched to mitigate the negative effect of the pandemics on households and businesses.

With its strong fundamentals and assuming that the C-19 pandemic in Vietnam and elsewhere has been successfully controlled, the Vietnamese economy should rebound in 2021. Covid-19 has also exposed the necessity for more substantial reforms to help the economy recover in the medium term, COVID-19 has also shown the necessity for stronger reforms to help the economy recover in the medium term, such as improving business environment, promoting the digital economy, and enhancing public investment effectiveness and efficiency,

The government is working to lower the environmental footprint of the country's growth and effectively mitigate and adapt to climate change. Key strategies and plans to stimulate green growth and sustainable use of its natural assets are in place. The government is also implementing measures to mitigate and adapt to climate change and address extreme weather events and natural disasters by operationalizing its Nationally Determined Contribution (NDC).

A strong rebound is expected in 2021, but downside risks remain

Currently, it is expected that the economy will rebound by more than 7% in 2021, with exports and investments increasing at double-digit rates. However, another longer-lasting surge of the pandemic and an ongoing global economic slump in the coming months pose a major downside risk for Vietnam's economic performance next year. As the open economy is heavily dependent on external trade, this could have significant knock-on effects. Additionally, rising protectionism (e.g. another escalation of the Sino-US trade war and potential US protectionist measures against Vietnam itself could hurt the economy.

prospects in the medium-and long-term Good Vietnam is the main low-cost regional alternative to China for export-orientated manufacturing. The shift of export manufacturing from China to Vietnam had already taken off before the Sino-US trade war, due to Vietnam's relatively low production costs, especially in the ready-made garments (RMG) sector. This trend accelerated in 2019 as the country benefited from trade diversification triggered by the trade conflict. Besides textile production, the manufacturing of consumer goods and ICT products are increasingly shifting from China to Vietnam. Additionally, the trend to move production away from China could be accelerated by the coronavirus-related supply chain disruptions in H1 of 2020 that affected many companies around the world.



10% 6.94 7.5% 6.69 6.42 6.42 6.41 5.51 5.55 5% 2.7 2.5% 0% -2.54% -5% -7.5%

Table 2: Growth rate of real GDP from 2009 to 2021

Source: IMF @ Statista 2020

2014

2015

2016

2017

2018

2019

2020

2021e

2010

2009

2011

2012

2013



2.1 Current Global Positioning

The World Bank (WB) recently published a report on 2020 Ease of Doing Business ranking. Out of the 190 economies, Vietnam scored 69.8 points out of 100, higher than last year. However, the country continued to rank down one notch from the 69th to 70th.

In the report, the international lender marked and ranked economies in ten areas including starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, resolving insolvency, employing workers, and contracting with the government. The employing workers and contracting with the government indicator sets are not included in this year's ranking on the ease of doing business.

Vietnam was assessed with significant improvements in getting credit and paying taxes, resulting in increases of 5 and 6.1 points against last year's results, while other areas witnessed minor improvements or remained unchanged compared to last year.

The ranking of other Southeast Asian countries are:

- Malaysia (12th),
- Thailand (21st),
- Indonesia (73rd),
- Philippines (95th),
- Brunei (66th),
- Cambodia (144th)
- Laos (154th).



Table 3: Vietnam Economic Performance Indicators

Main Indicators	2017	2018	2019	2020	2021 (e)
GDP (billion USD)	200	241.27	261.64	284.85	308.63
GDP (Constant Prices, Annual % Change)	6.8	7.1	7.0	2.7	7.0
GDP per Capita (USD)	2,353	2,545	2,722	2,955	3,172
General Government Gross Debt (in % of GDP)	58.223	55.562	54.346	53.422	52.505
Inflation Rate (%)	3.5	3.5	2.8	3.2	3.9
Current Account (billion USD)	4.68	5.84	5.73	5.44	5.27
Current Account (in % of GDP)	2.1	1.9	4.0	0.7	1.0

Source: IMF – World Economic Outlook Database, October 2020 Note: (e) Estimated Data

2.2 Doing Business Ranking

DOING INTERNATIONAL BUSINESS ETNAM Rankings on Doing Business Topics 25 25 109 122 Getting Electricity Starting Dealing Registering Property Getting Credit Protecting Paying Enforcing Resolving a Business with Minority Taxes Across Contracts Insolvency Construction Investors Borders Permits

Table 4: Vietnam Doing Business Ranking Indicators

Source:doingbusiness.org



2.3 Bank Loan Rates

Lending interest rate (%) in Vietnam was reported at 7.7075 % in 2019, according to the World Bank collection of development indicators, compiled from officially recognized sources.

Vietnam's - Lending interest rate - actual values, historical data, forecasts and projections were sourced from the World Bank in October 2020.

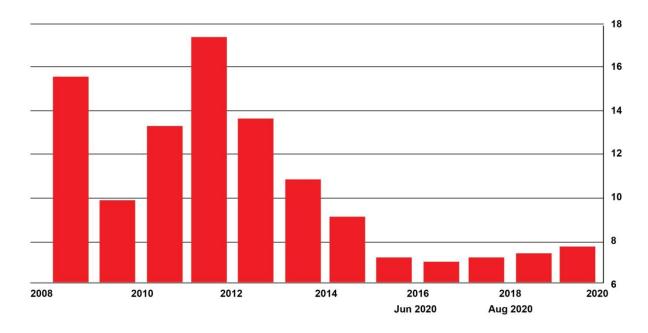


Table 5: Bank Loan Rates

Source: IMF @ Statista 2020

Lending rate is the bank rate that usually meets the short- and medium-term financing needs of the private sector. This rate is normally differentiated according to creditworthiness of borrowers and objectives of financing. The terms and conditions attached to these rates differ by country, however, limiting their comparability.

2.4 Foreign direct investment (FDI)

Foreign direct investment into Vietnam declined 2.5 percent from a year earlier to USD15.8 billion in January-October 2020. Additionally, FDI pledges, which indicate the size of future FDI disbursements, slumped 19.4 percent in the year to USD23.5 billion. The manufacturing and processing sector is set to receive the largest amount of investment (45.7 percent of total pledges) followed by gas, water and electricity distribution (20.5 percent). Singapore was the top source of FDI pledges in the period, followed by South Korea and China.

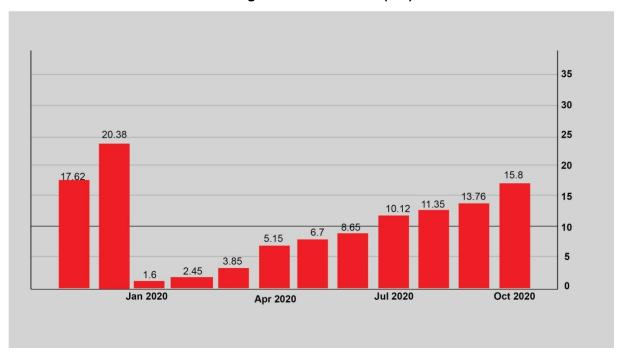


Table 6: Foreign Direct Investment (FDI) Indicator

Source: tradingeconomics.com



3 POLITICAL OUTLOOK

3.1 Summary of General Political Conduct

Table 7: Vietnam Political Overview

Current Political Leader	Nguyễn Phú Trọng		
Current Main Political Party	Vietnam is a socialist republic with a one-party system led by the Communist Party of Vietnam (CPV). Constitution: Constitution of Vietnam Current cabinet: Phúc government		
Executive Power	The President (Chủ tịch nước)		
Legislative Power	Legislative power is vested in the National Assembly of Vietnam (Vietnamese: <i>Quốc hội Việt Nam</i>). The Judiciary is independent of the executive.		

The Socialist Republic of Vietnam is a law-governed state. The political system was established upon the birth of the Democratic Republic of Viet Nam and comprises the following:

- The Communist Party of Viet Nam is the vanguard of the Vietnamese working class, the working people, and the whole nation; a loyal representative of the interests of the working class, the working people, and the whole nation.
- People in the political system: As the maker of history, the people constitute the decisive force
 in the process of social evolution and make up the current political system in Viet Nam. All
 powers belong to the people and their powers are exercised through the State. The State
 regulates the society by laws under the leadership of the Communist Party of Viet Nam.
- The State of the Socialist Republic of Viet Nam is the central organization and the pillar of the
 political system that realizes the will and power of the people, acts on behalf of the people
 and is accountable to the people for the management of all activities of the social life and in
 domestic and external affairs.
- The National Assembly is the highest-level representative body of the people; the highest organ of state power of the Socialist Republic of Viet Nam; the National Assembly exercises three main functions: to legislate, to decide on important national issues, to exercise supreme supervision over all activities of the State.
- The State President is the Head of State, elected by the National Assembly from among its deputies to represent the Socialist Republic of Viet Nam in domestic and foreign affairs. The President has twelve powers as provided by the Constitution, of which the most important are to declare the promulgation of the Constitution, laws and ordinances, to head the all people's armed forces and assume the Chairmanship of the National Defense and Security Council, to recommend to the National Assembly the election, removal or dismissal of the Vice President, the Prime Minister, Chief Justice of the Supreme People's Court, and Head of the People's Procuracy.

- The Government is the highest body of State administration of the Socialist Republic of Viet Nam. The Government has the same term of office as the National Assembly. The Government administers the implementation of the State's affairs in the fields of politics, economics, culture, society, national defense and security and foreign relations; ensures the efficiency of the State apparatus from central to grassroots levels; assures that the Constitution and laws are respected and executed; and guarantees the sustainability and improvement of the people's material and spiritual life. The Government consists of the Prime Minister, who is a National Assembly deputy as provided by the Constitution, Deputy Prime Ministers, Ministers and other members.
- People's Courts: The Supreme People's Court, local People's Courts, Military Tribunals and the other tribunals established by law are the judicial organs of the Socialist Republic of Viet Nam. Under special circumstances, the National Assembly may decide to set up a Special Tribunal. During trials, the Jury is equal to and independent from judges and shall only obey the law. Trials are held publicly except in cases stipulated by laws. Judgments of the People's Courts are made collectively and decided by majority. The Supreme People's Court is the highest judicial organ of the Socialist Republic of Viet Nam. It supervises and directs the judicial work of local People's Courts, Military Tribunals, Special Tribunals and other tribunals, unless otherwise prescribed by the National Assembly at the establishment of such Tribunals
- People's Procuracies: The Supreme People's Procuracy oversees the enforcement of the law by Ministries, Ministerial-level organs, other Government agencies, local administration, economic entities, mass organizations, people's military organs and citizens. It exercises the right to prosecution, ensures serious and uniform implementation of the law. Local People's Procuracy and Military Procuracy oversee the execution of the law and exercise the right to prosecution as stipulated by the law.
- Social-Political Organizations and People's Associations: These are organizations
 representing the interests of different social communities participating into the political system
 with their own principles, purposes, and features. There are currently major social-political
 organizations in Viet Nam such as the Vietnamese Fatherland Front, Vietnamese Trade
 Union, Vietnamese Women's Union, Ho Chi Minh Communist Youth Union, and Veterans
 Association and other professional organizations.



4 VIETNAM CONSTRUCTION INDUSTRY BACKGROUND

4.1 Market Size

Vietnam is emerging as the latest East Asian growth engine, which attracts the attention of global investors. It is going through a transformative period. The economic reforms undertaken by the government have transformed the country into one of the fastest growing economies in the world.

The construction sectors account for significant economic growth in Vietnam. The Vietnam Construction Industry (VCI) has been growing at an average of 8.5% annually in the past 10 years. This growth rate is projected to continue due to the government's efforts to improve the quality of the country's overall infrastructure with investments in infrastructure construction, tourism infrastructure, and housing projects across the country. Additionally, government investment in public infrastructure and educational healthcare buildings as part of the 2016-2020 Development Plan will support this growth.

4.2 Leading Sector

Vietnam's economy is based on large state-owned industries such as textiles, food, furniture, plastics and paper as well as tourism and telecommunications. Agriculture represents 14.7% of GDP and employs 39.4% of the total workforce. Main crops include rice, coffee, cashew nuts, corn, pepper, sweet potatoes, peanuts, cotton, rubber and tea as well as aquaculture. While agricultural trade surplus edged up on the year in 2019, the livestock industry continued to suffer from various diseases, including swine flu.

Industry contributes 34.2% of GDP and employs 25.8% of the total workforce. The energy sector has boomed in recent years (coal, hydrocarbons, electricity, cement, steel industry). Despite being a 'newcomer' in the oil industry, Vietnam has become the third largest Southeast Asian producer. The country has also invested in high value-added industries such as cars, electronic and computer technologies (software). Manufacturing rose by 10.9% year-on-year in 2019, contributing a record industrial trade surplus of over USD10 billion (Vietnamese government).

Services represent 45.5% of GDP and employ 34.7% of the total workforce. Main services include tourism and telecommunications. Double-digit growth is expected from the Vietnamese retail sector from 2019 to 2024.

Table 8: Vietnam Breakdown of Economic Activity by Sector

Breakdown of Economic Activity By Sector	Agriculture	Industry	Services
Employment By Sector (in % of Total Employment)	37.4	27.6	35.0
Value Added (in % of GDP)	14.7	34.2	45.5
Value Added (Annual % Change)	3.8	8.9	7.0

Source: World Bank



5.1 SWOT Analysis

	7
Strengths	 With numerous projects in the pipeline, growth is expected to be sustained in the sector adding further potential for development, particularly as transport and infrastructure improves. Rapid growth and a firm government commitment have attracted investment from many of the world's largest infrastructure companies. Sustained urbanization, rapid industrialization, growing tourism sector and recent measures to reduce restrictions on foreign ownership of property have made the residential and non-residential building sector more attractive for foreign investors.
Weaknesses	 Power outages are frequent in Vietnam, highlighting the country's electricity shortage. The country relies heavily on foreign imports, and it is estimated that the country requires 2 million tones of steel billets to be imported a year. The country offers a risky environment for major infrastructure projects, especially in relation to project financing.
Opportunities	 The country's longitudinal geography, with main economic centers at each end of the country, will require substantial efforts to construct connections in grid and transport infrastructure. Demand for urban infrastructure projects in transport and sanitation over a 10-year forecast period to 2029 will rise, in tandem with urbanization. Greater opportunities for public-private partnerships (PPPs) as the government seeks to increase private participation in the infrastructure sector. The newly enacted PPP Law could serve as a catalyst for more private sector involvement. Efforts to implement reforms will help improve the country's business environment, attracting greater foreign direct investment.
Threats	 Should any major unforeseen event uncertainty that weakens its economic structure, create uncertainty or downside risks in the business environment, Vietnam could be badly affected. Consistent fiscal deficits in Vietnam as a result of a lack of spending prudence could undermine much needed infrastructure development and remain a drawback on the strong economic growth.

5.2 PESTLE Analysis

Political	In Vietnam, the president is the elected head of state and the
i ontical	commander-in-chief of the military, while the prime minister is the head of government. It is a country where the role of the Communist Party of Vietnam (CPV) is asserted in virtually all spheres of life. However, many analysts argue that though Vietnam is socialism-oriented in its political philosophy, many of its economic policies have adopted capitalist principles.
	Vietnam pursues a policy of building and maintaining good relations with any countries in the world regardless of their political outlook on global affairs. It is a member of the United Nations (UN), World Trade Organization (WTO), Association of Southeast Asian Nations (ASEAN), Non-Aligned Movement (NAM), and some other prestigious institutions. Though Vietnam had a bitter history with the United States, the relations between the two improved quite a lot in the last 20 years.
	However, according to the Human Right Watch (2020), Vietnam has a very poor record in human rights. Freedom of expression, association, and peaceful public assembly are strictly restricted, while dissidents being imprisoned are very normal. As the Communist Party of Vietnam controls the country's media, journalists and media platforms often risk sanctions for presenting sensitive topics and for criticizing the government. Likewise, corruption is a problem though Vietnam has been making a lot of efforts to eradicate it since 2016.
Economic	Vietnam is the 46th largest economy in the world. Its nominal GDP in 2018 was worth USD245 and is expected to reach USD265 billion by the end of 2020. The country has made a lot of progress in poverty eradication and lifted 45 million people out of it between 2002 and 2018. Its economic outlook for the next few years is positive and robust. It is interesting to note that Vietnam has come out as one of the largest beneficiaries of the trade dispute between China and the USA. However, it should also be noted that Vietnam has been struggling with high price increases for years.
	Broadcasting equipment, telephones, integrated circuits, textile footwear and leather footwear are some of Vietnam's top exports that end up in countries such as the USA, China, Japan, South Korea, and Germany. On the other hand, computers, electrical goods, telephones, mobile phones and parts, instruments and accessories, and textile fabrics are some of its top imports that mostly come from countries such as China, Japan, South Korea, Hong Kong, and Singapore.
	The standard corporate income tax (CIT) rate in Vietnam is 20%. However, the tax rate varies from 32% to 50% for organisations that operate in the oil and gas industry. On the other hand, the personal income tax (PIT) rate varies from 5% to 35% (PwC, 2020).
Social	Buddhism is the major religion, and Vietnamese is the major language in the country. The life expectancy for men is 93 years, while 81 years for women. An emerging middle class is growing rapidly in the country and is expected to reach 26% by 2026 (The World Bank Group, 2020). Vietnamese people are generally friendly. Many tourists have shared online their interesting and memorable encounters with the locals. However, many tourists have also complained about being hassled, overcharged, and treated badly by the locals.

Though Vietnam has made massive economic progress over the years, there is a growing concern about wealth distribution. The gap between the rich and the poor is very wide and growing further. Another social challenge facing the country is ageing population.
Flourishing start-up culture, international investments, low costs, government initiatives, and an educated workforce have been driving an IT revolution in Vietnam for a long time. The country has a number of tech parks such as Da Nang Hi-Tech Park and Saigon Hi-Tech Park that accommodate offices and factories for more than 700 companies, including 220 foreign companies that specialize in IT and software engineering, hardware manufacturing, and infrastructure development.
Vietnam is now the eighth largest provider of IT services in the world. Five IT industries that are currently trending are fetch, artificial intelligence, E-commerce, software outsourcing, and education technology. However, as many companies are shifting manufacturing operations to Vietnam, a fierce battle for skilled labour is well underway, exacerbating an existing shortage of skilled labour.
Foreign companies are permitted to operate in Vietnam is often encouraged by the government to invest through direct or indirect investment. In fact, the company law has become quite easier noticeably in recent years. International investors can now swiftly create limited liability companies.
Vietnam is one of the most beautiful countries in Asia. It houses 8 UNESCO heritage sites and received around 18 million international tourists in 2019. Tourism has been an important actor to transform Vietnam's agrarian economy to a service one. However, it is worth noting that the fear of corona virus (COVID-19) has been a threat to the tourism industry and public health. Rapid economic development has led to unsustainable exploitation of natural assets that may impact on future potential for growth. Vietnam is badly affected by air pollution. Similarly, water pollution is a big problem and has significant impact on human health. Vietnam is highly exposed to natural disasters such as volcanic eruptions, floods, droughts, earthquakes, floods, and typhoons.



MAJOR INFRASTRUCTURE DEVELOPMENTS AND KEY PROJECTS

6.1 Transportation

6.1.1 Transportation Infrastructure Overview

Vietnam is home to a large and growing pipeline of transport projects, owing to its immense infrastructure deficit. In particular, a number of ongoing and upcoming road projects will be primary drivers of growth, as the government invests in new expressways and urban transit networks to address the country's logistics shortcomings.

6.1.2 Latest Developments

- The Vietnamese transport infrastructure sector is expected to grow by 4.6% in real terms in 2020, 4.9% in 2021 and at an annual average of 5.5% between 2020 and 2029. This growth will be predominantly driven by ongoing and upcoming investments in highways, roads, airports and urban transit projects.
- The first phases of the Hanoi Metro and Ho Chi Minh City Metro are expected to be opened by 2019 and by 2020 respectively, with several other lines and expansions under construction or in planning stages. Urban transit investment will remain in focus in Vietnam, particularly as urbanization trends and traffic congestion continue to be major issues in the country's large cities.
- The Government of Vietnam is seeking approval from the National Assembly to invest VND1.4trn (USD60.0million) in the construction of two coastal highways in Thanh Hoa Province. Estimated to cost a cumulative VND3.1 trillion (USD132.0 million), the highways already have an approved VND343.0 billion (USD14.7 million) financing from the public investment budget for this year. The remainder will come from private investors under a public-private partnership basis. The project involves construction of a 10.5km highway from Hoang Hoa District to the beach town of Sam Son and another 14.5km highway between Quang Xuong and Tinh Gia, according to VN Express.
- Plans are under way for two new bridges in Hanoi, Vietnam. A 5.5km bridge, which will link connect Long Bien and Hoan Kiem, will have three lanes in each direction. The project will require an investment of USD386 million. The bridge over the Red River will have a width of 31m and will allow vehicles to run at up to 80km/h. Another bridge planned in Hanoi, the new USD109 million Duong bridge will connect Hanoi and Bach Ninh. Construction of the public-private partnership project will start in 2021 and will be completed in 2025. Ho Chi Minh City will host the 3.4Km new Can Gio Bridge. Construction on the bridge is due to start in Q321, and is likely to complete in late 2025 or early 2026. The four-lane cable stayed bridge will cost USD227 million.
- Of the full site, 69.5% has been cleared for 11 sub-projects under the eastern North-South Expressway in Vietnam, according to Vietnam News Agency. The sub-projects will have a total length of 654km, with land cleared for 454.15km. Of the 11 projects, three will be financed through the state budget while the remaining will be executed under the public-private partnership (PPP) model. The PPP projects have sought approval from the National Assembly to be converted into state-backed ones. The overall 2,109 North-South Expressway will link the provinces of Lang Son and Ca Mau.
- Airports Corporation of Vietnam (ACV) is to invest VND10.99trn (USD472million) in the construction of the third terminal at the Tan Son Nhat airport in the country after the state-run firm was approved to be investor of the project. The third terminal will have a total floor area of about 100,000sq m and will be able to accommodate 20million passengers annually. The scope of work will cover expansion of parking lots and construction of supporting structures, including technical buildings, wastewater treatment plants and water stations. Construction is expected to start in October 2021, with completion planned in mid-2023, according to VN Express International.

Table 9: Transport Infrastructure Industry Data 2019- 2020

Indicator	2019	2020	2021(f)	2022(f)
Transport infrastructure industry value real growth, % y-o-y	6.2	4.6	4.9	5.7
Roads and bridges infrastructure industry value real growth, % y-o-y	7.2	5.3	5.3	6.7
Railways infrastructure industry value real growth, % y-o-Y	4.8	4.3	5.2	5.0
Airports infrastructure industry value real growth, % y-o-y	7.0	3.7	4.0	3.9
Ports, harbours and waterways infrastructure industry value, real growth, % y-o-y	3.9	2.2	3.1	2.9

Source: National Bank & Fitch Solutions



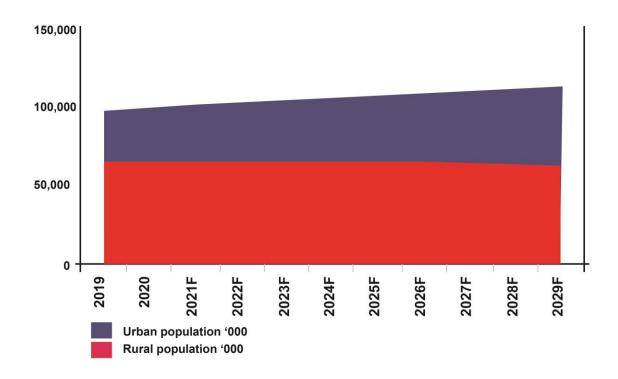
6.1.3 Planning

Connecting Vietnam's Cities

Vietnam's transport infrastructure sector has immense growth potential over the next decade, but the actual implementation of projects will be limited by financial and logistical challenges. Breakneck economic growth, industrialization and urbanization over the past decade has left much of the country's road, rail and port facilities struggling to cope with rising traffic numbers - traffic congestion is a worsening problem in the major cities of Hanoi and Ho Chi Minh City, while poor operational efficiency at ports threaten to put a cap on exports. This has left the government with a long list of transport infrastructure projects in various stages of planning and implementation, ranging from rapid transit systems and highways in major cities to long-term plans for a high-speed railway spanning the length of the country. Vietnam's strategic position along both land and maritime transport routes in South East Asia also means that the country has the potential to become a regional trading and logistics hub. Given these supportive factors, we forecast that the transport infrastructure sector in Vietnam will grow at an annual average of 5.5% in real terms between 2020 and 2029.

Financial and logistical challenges represent the main limitation to growth in the transport sector for the time being - although the Ministry of Transport estimated that the country will need around USD48billion for transport infrastructure development between 2018 and 2023, less than 30% of that amount is covered by government spending. Concerns about rising levels of public and external debt have led to fiscal tightening measures such as the official development assistance cap, that has led to delays on foreign financed projects such as the metro lines in Hanoi and Ho Chi Minh City. The upside to the government's fiscal constraints means that there is potential for the development of public-private partnerships (PPP) within the transport sector, especially for toll roads and airports.

Table 10: Urban Population Growth to Strain Transport Networks Vietnam
- Urban & Rural Population



Urbanization, Industrial Expansion Driving Transport Needs

A significant proportion of investment in transport infrastructure over the coming decade will be in improving Vietnam's current infrastructure stock, which continues to rank unfavorably compared with peer countries - the quality of Vietnam's transport infrastructure ranked 75th out of 140 countries in the World Economic Forum's 2018 Global Competitiveness Report. This leaves much scope for investment from both private and foreign sponsors. The government is increasingly open to private investment in infrastructure, with railways being a case in point. In October 2015, the government announced that it is building a framework intended to attract private investment into the country's aviation industry, with PPPs expected to be one of the main methods of investment. Although introducing PPPs could help to facilitate the divestment of state-owned enterprises, the government still has work to do to make participation in the transport sector more attractive to private players. In particular, regulations will need to balance government coordination with private-operator flexibility to ensure projects effectively serve their goals and remain financially viable. In October 2018, the government announced that it is easing restrictions on foreign ownership of Vietnamese companies, currently capped at 49% for most industries, so as to attract more foreign investors to do business in the country. The easing of restrictions will increase the ease of doing business in the country and foreign companies will have more incentives to invest in the country given the higher degree of control they potentially stand to gain.

Rapid growth in urban population and freight transport are the primary drivers of Vietnam's transport infrastructure needs. As the number of people living in urban areas ballooned from 19million in 2000 to 33million in 2017, Hanoi and Ho Chi Minh City are attempting to ease pressure on existing networks and reduce air pollution by building rail transit systems, alongside traditional urban highway and road improvement initiatives. Rising demand for intercity passenger and freight transport has prompted the government to build and upgrade the roads and railways running through the country. Meanwhile, poor operational efficiency at many of Vietnam's ports will attract managerial and consulting opportunities from global port operators and maritime services companies - while Vietnam's ports have sufficient theoretical capacity to handle growing freight volumes, inefficient procedures means that waiting and transit times are long, reducing the facilities' competitiveness against neighbouring ports in Thailand, Malaysia and Singapore.

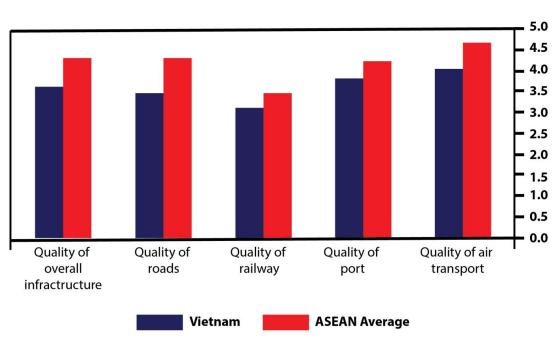


Table 11: Transport Quality Lags Peers Vietnam & ASEAN - Competitiveness Of Transport Infrastructure

6.1.2 Road

6.1.2.1 Aggressive Roads Expansion Expected

Vietnam's road network will continue to expand over the next decade. We forecast the country's road and bridges sub-sector to grow by 5.3% in real terms in 2020, and at an annual average of 6.4% from 2020 to 2029, driven by a large pipeline of road projects. According to our Key Projects Database, there are a total of 137 road projects currently in the planning or construction phases, representing 60% of all pipeline projects. We are positive that most of these projects will be implemented progressively over the next few years, given a projected surge in demand for road infrastructure supported by sustained, robust economic growth, averaging 6.6% annually until 2029, as projected by our Country Risk team.

Driven by increased business activity within the country, the amount of freight transported via road has been increasing over the years, from 36,179million ton-km in 2010 to 63,803million ton-km in 2017, and similar observations are made with regard to the number of passenger traffic on roads. We expect these positive trends to continue, supporting the need for continued investment in Vietnam's road infrastructure. Although there are plans to expand the country's mainline rail network to cater to increased inter-city traffic, we note that rail projects are often relatively more costly and complex to implement and have longer timelines. For example, the proposed Hanoi-Ho Chi Minh City High Speed Railway Project, if implemented, has a targeted completion date of 2040. This points to a greater demand in road transportation in the short term, which lends support to our view that Vietnam's road network will continue to expand over the next decade.

Growth of the road sub-sector will mainly be supported by the construction of expressways. The government plans to expand the current network by more than five times to 7,000km by 2030, which is an upward revision of the target set in 2016 (6,400km). The plan will include the construction of new expressways linking the northern and southern regions, several ring routes that will circle existing urban cores to enhance suburban connectivity, and the expansion of existing expressways by extending routes and increasing the number of lanes. Also, given the high number of roads that are unpaved, we expect a wave of road modernization taking place over the next decade, as currently unpaved roads are upgraded to asphalt or concrete roads. However, we note that some expressway projects are likely to face land acquisition issues, which may delay project timeline and result in cost inflation. Also, as most expressway projects are likely procured via PPP, the pace of expansion of Vietnam's expressway network will depend on the level of private interest, which will pick up if the



PPP framework, legal and financial institutions.

6.1.2.2 Vietnam's Expressway U-Turn A Litmus Test for New PPP Law

Vietnam's Ministry of Transport has released bidding documents for five sub-projects relating to the North-South Expressway. These projects have been released under the Public-Private Partnership (PPP) model, representing yet another U-turn in terms of structuring. Interested bidders will have to raise an estimated VND22.4trn (USD961million) of capital, about a quarter of the total project value of VND100.8trn, within six months if their bids are accepted.

The five sub-projects are:

- National Highway 45-Nghi Son (45km)
- Nghi Son-Dien Chau (50km)
- Dien Chau-Bai Vot (50km)
- Nha Trang-Cam Lam (29km)
- Cam Lam-Vin Hao (91km)

The Vietnamese government has once again changed their stance towards the project, now opting for the PPP model. This follows an earlier decision to convert these PPP projects to state projects due to various reasons, including difficulties in attracting quality bids. We believe that the project's high price tag is one of the driving factors behind the government's decision to pursue the PPP model. The Uturn in decision, in our opinion, highlights the government's increasing pressure to deliver critical infrastructure required to ensure sustainable economic development over the medium-to-long term, while working to reduce the financial stress on its own balance sheets. This is especially so as growth in 2020 is expected to slow despite Vietnam's successful efforts in preventing a vast outbreak of Covid-19 at the point of writing in August 2020.

Also, this decision comes after the passing of the new PPP Law, a potential game changer. The law addresses various shortcomings of the previous PPP legal framework, most pertinently that relating to the allocation of revenue risk. Long lingering concern over high risks associated with PPPs could be alleviated as revenue risk is now partially shifted to the government. While we expect these projects to attract higher quality bids vis-à-vis those received prior to the enactment of the new PPP law, we nonetheless foresee major hurdles for investors in other aspects of the project such as land acquisition, securing of commercial loans and reducing foreign currency risks. Also, demand risks pose a challenge for the structuring of the project's revenue model, especially in the short term, as these segments are located a distance away from the main demand centers of Ho Chi Minh City and Hanoi.



6.1.3 Railways

6.1.3.1 Metro Projects Support Railways Growth Outlook

- Vietnam's railway sub-sector is expected to expand by 4.3% in 2020, in real terms, primarily driven by ongoing construction of urban transit projects in Hanoi and Ho Chi Minh City. In the long term, the sector will grow at an annual average of 5.3% over our 10-year forecast period. Rapid urbanization and economic development have strained existing transport infrastructure in the two cities, prompting the local government to initiate plans to construct a network of metro and monorail lines to alleviate traffic congestion. These plans are not without obstacles, as authorities face issues with land clearance and construction delays that lead to cost overruns. However, these projects highlight a strong and diverse involvement of international financiers and contractors in the railway's sector the four lines across Hanoi and Ho Chi Minh City are being built by four consortia from South Korea, China, Japan and Europe.
- After a series of delays, Hanoi's first metro line Line 2A is slated to open by 2019. Public attention has now shifted to the USD1.4 billion Line 3, which will run 12.5km from Nhon to Hanoi Railway Station. Line 3 is currently under construction and its expected opening date has been pushed back from 2020 to 2023 due to various financing difficulties and issues with land clearance. The project is financed by the World Bank, the Asian Development Bank (ADB), the European Investment Bank (EIB) and is constructed by Daelim Industrial Company and Systra. Lines 1 and 2 are currently under the planning phase. Ho Chi Minh City's two metro lines, the USD2.5 billion Line 1 and the USD2 billion Line 2, have been hit by delays as well. These projects involve foreign construction companies such as Sumitomo and Hitachi of Japan and Vinci of France as well as financiers such as the ADB, EIB and the German Bank for Reconstruction. The city has another five metro lines currently under planning and construction is likely to start in phases, after the first two lines have been completed.

6.1.3.2 Ambitious Vietnamese High-Speed Rail to Face Several Hurdles

By far the largest project in the railway pipeline is the Hanoi–Ho Chi Minh City High Speed Rail Project. According to initial estimates, the 1,560km route is valued at USD58.7 billion, more than three times the next costliest infrastructure project, the USD16 billion Long Thanh International Airport Project in Dong Nai province, next to Ho Chi Minh City. The high-speed rail project is spilt into two phases – Phase I comprises the 360km Ho Chi Minh to Nha Trang southern segment and the 280km Hanoi to Vinh northern segment, and these segments are targeted for completion by 2030. Phase II will link the northern and the southern segments and is planned for completion around 2045.

Based on a feasibility study conducted by Japan International Cooperation Agency in 2013 the largest cost components of the project are related to civil works, power systems, the purchase of rolling stocks and land. The project is expected to greatly benefit the development of smaller cities along the route, such as Thanh Hoa and Vinh along the northern segment and Phan Thiet and Nha Trang along the southern segment. Although these cities are currently served by airports and roads, a rail link via the high-speed rail will reduce commute time to the larger cities of Hanoi and Ho Chi Minh City, therefore enhancing accessibility and convenience. These factors may attract businesses to expand and people to relocate to smaller cities, thus creating a greater demand for buildings construction and urban infrastructure in the long run, benefiting the local economy as a whole.

High-Speed Rail to Connect North to South Vietnam

– Map of Proposed High-Speed Rail Route



However, securing financing will be the greatest challenge to the project. The hefty price tag puts the cost of the project at more than 25% of the country's nominal GDP in 2017, and the proposed plan is for the use of a PPP, with 80% of the funds contributed by the Vietnamese government and 20% of the funds provided by the private sector. The country has been running a budget deficit averaging 5.4% of GDP over the past five years, and it is very likely that funds for the project will have to be raised via the issuance of public debt. Even so, there are several other issues to consider - Vietnam currently has a self-imposed public debt-to GDP ceiling of 65%, and current levels of debt have come close to breaching this level. Unless the government revises the debt ceiling limit, there will be little headroom for the government to issue debt. On top of this, a number of other infrastructure initiatives, such as the expansion of the Hanoi and Ho Chi Minh City metro systems, are also reliant on public funding, which reduces the government's financial capacity. Given these factors, the government is likely to face challenges in project financing, which may result in delays, or in the worse case scenario, the cancellation of the project. Furthermore, we expect the project to experience cost overruns due to an increase in the price of construction materials and land, as well as delays associated with adverse weather conditions and inefficiencies during the project execution phase, and this will result in greater financing difficulties for the government.

Other potential hurdles to the project include the ability to attract private sector interest, and a weakening business case. Last year, the country's first transport PPP project, the USD750 million Dau Giay-Phan Thiet Expressway Project was cancelled by the government after potential investors withdrew their bids over financing uncertainties. Although the government has continued to push for a number of projects, including the high-speed rail project, to be implemented using the PPP model,

they may continue to face challenges in attracting enough bids from the private sector. We note from our Infrastructure Risk/Reward Index's Industry Risks component, that Vietnam's score of 46.8 is lower than the regional average of 51.4, suggesting a higher degree of industry risks in the country, mostly contributed by weaker scores in the Legal Environment, Competitive Landscape and Labour Market Risks subcomponents. Such an environment may act as a deterrent to private sector participation.

Besides the high-speed rail proposal, we note that there is significant development potential in Vietnam's regional and long distance conventional railways, though concrete and financed proposals have yet to emerge. Vietnam's current rail network is centre on a 1,726km single-track mainline running from Hanoi to Ho Chi Minh City that dates from colonial eras and suffers from low operating speeds and capacities. The Ministry of Transportation and the Korea International Cooperation Agency are also currently studying the feasibility of a 500km railway link to Laos as the current railway, built by the French colonial government at metre gauge, is incompatible with railways in neighbouring China.

6.1.4 Airport



6.1.4.1 Airports Boosted by Megaprojects

Despite being the smallest constituent of Vietnam's transport infrastructure industry, the Vietnamese airport infrastructure subsector is set to experience higher growth on the back of a growing project pipeline to tap into the rapidly expanding aviation industry. We expect it to grow at an annual average rate of 3.9% in real terms between 2020 and 2029. The government has committed to projects relating to the expansion and upgrade of airport infrastructure. The two largest airports in Vietnam - Tan Son Nhat International Airport in Ho Chi Minh City and Noi Bai International Airport in Hanoi - will undergo expansion to tackle existing capacity issues. Smaller projects are also in the pipeline, including the construction of the new Lao Cai International Airport and the expansion of Phu Cat Airport, Phu Bai Airport and Chu Lai International Airport.

Also, Airport Corporation of Vietnam (ACV) plans to invest VND4.8trn (USD206.2 million) in reconstructing Điện Biên Airport, according to Vietnam News. About VND1.5trillion (USD64.7 million) will be used for site clearance, VND1.4 trillion (USD60.1 million) for developing runways and the terminal, and VND1.7trillion (USD73.0 million) for civil airport facilities. ACV has planned two modes of investment. Under the first option, the company will self-invest in civil and flight areas, while Việt Nam Air Traffic Management (VATM) will invest in flight control facilities and the local government in site clearance, expecting the project to finish in 36 months. As per the second option, the project will be sponsored by VATM, the government and the provincial budget. ACV will operate the project, which is slated to be completed in 40 months. The annual capacity of the airport will be increased to

2million passengers and 10,000 tonnes of cargo by 2030.

In the longer term, the construction of the new Long Thanh International Airport in Ho Chi Minh City, valued at USD16billion, is projected to further increase capacity by 100million. The government's decision to bring forward the commencement of construction of Long Thanh International Airport from 2021 to 2019 highlights the urgency of increasing airport capacity. However, due to Vietnam's poor track record of delivering projects on time, we do not expect that these planned airports will be complete by their current deadlines. In the meantime, many smaller Vietnamese airports are operating below capacity, struggling financially and face significant competition from nearby international hubs in Singapore, Kuala Lumpur, Bangkok and Hong Kong. Hence, most airports handle mostly regional flights that do not generate as much revenue as intercontinental flights. Although the government aims to eventually privatise the Airport Corporation of Vietnam and introduce greater private sector participation in the sub-sector, the unfavourable finances of Vietnamese airports could deter risk-averse companies.

6.1.5 Ports

6.1.5.1 Ports Growing Slowly

The Vietnamese port sub-sector is expected to grow at an average of 2.5% in real terms per year between 2020 and 2029. Our low growth view stems from the fact that Vietnamese ports, unlike those of many of its neighbours, does not suffer from under capacity but simply operational inefficiency. Two ports near Ho Chi Minh City illustrate this: while the old port of Cat Lai along the Saigon River has been operating at its 2.5million 20-foot-equivalent-unit capacity for years, the newer Cai Mep International Terminal downstream is barely at 25% of capacity. Improving the efficiency of existing ports will become increasingly important as Vietnam positions itself as a lower-cost manufacturing hub construction, we expect investment in the ports sub-sector to focus on integrating with investments in surrounding road and rail networks and improve the overall logistics situation in the country.



6.1.6 Major Transport Infrastructure Projects

No	Project Name	Sub Sector	Value (USDmill ion)	Size	Unit	Companies	Time Frame End	Status
1	Ha Noi (City) - Ho Chi Minh (City) High Speed Railway Project	Rail	58,700	1,560	km	Ernst and Young [Consultant/Project Management] {United Kingdom}, Yachiyo Industry Co. Ltd. [Consultant/ Project Management] {Japan}, Fukken Co. LTD. [Consultant/Project Management] {Myanmar}, PADECO [Consultant/Project Management] {Japan}, Japan Railway Technical Service [Consultant/Project Management] {Japan}, Japan Transportation Consultants Inc. [Consultant/Project Management] {Japan}, Government of Vietnam [Sponsor] {Vietnam}, Japan International Cooperation Agency (JICA) [Financier] {Japan}, Vietnam Railway Corporation (VRC) [Operator] {Vietnam}	2045	At planning stage

No	Project Name	Sub Sector	Value (USDmill ion)	Size	Unit	Companies	Time Frame End	Status
2	Long Thanh International Airport Project, Dong Nai	Airports	16,000	100	million passengers /yr	Airports Corporation of Vietnam [Sponsor] {Vietnam}, Vietnam Ministry of Transport [Sponsor] {Vietnam}	2050	At planning stage
3	Ho Chi Minh (city) - Can Tho (city) Rail Link	Rail	5,700	139	km	MorFund Financial Inc. [Financier] {Canada}, EDES Group [Construction] {United States}	2024	At planning stage
4	Long Thanh International Airport Project, Phase-I, Dong Nai	Airports	4,917	25	million passengers /yr	Vietnam Ministry of Transport [Sponsor] {Vietnam}, Airports Corporation of Vietnam [Sponsor] {Vietnam}	2025	At planning stage
5	Ho Chi Minh (city) Metro Line 4 (Nguyen Van Linh - Ben Cat Bridge (District 12)) Project, Ho Chi Minh (city)	Rail	4,570	36	km	Ardanuy [Feasibility] {Spain}, Ho Chi Minh City Urban Railway Management Board [Operator] {Vietnam}, Italian Thai Development (ITD) [Financier] {Thailand}	na	At planning stage

Source: Fitch Solutions Infrastructure Key Projects Database

6.2 Energy and Utilities Infrastructure Overview

Vietnam's energy and utilities sector will register strong growth over the coming years, given rapid urbanization and industrialization. The country currently has a strong pipeline of thermal power, transmission lines and water utility projects, of which some are financed by foreign direct investments.



6.2.1 Latest Developments

Vietnam's energy and utilities infrastructure sector will expand, in real terms, by 3.5% in 2020, 4.8% in 2021 and at an annual average of 5.4% annually through 2029. Investment and construction activity in the power infrastructure sub-sector will account for more than 90% of the value of the sector due to Vietnam's sizeable and rapidly growing power needs.

Siemens Gamesa Renewable Energy has won a contract to provide turbines for the 78MW Hiep Thanh nearshore wind farm in Vietnam. EcoTech Tra Vinh Renewables and its investors Janakuasa, Ecotech Vietnam, Climate Investor One and ST International are developing the wind farm, which will have 18 units of the SG 5.0-145 turbine. Siemens Gamesa formed a consortium with PowerChina Huadong Engineering to deliver engineering, procurement and construction services to the client. The wind farm is likely to be commissioned in Q321. Siemens Gamesa will also provide 10-year operations and maintenance services under the deal.

A US-Vietnamese joint venture Chan May LNG plans to invest USD6 billion in constructing an LNG-based power project in Thua Thien Hue, Vietnam. The project includes a 4GW power plant, an LNG terminal and storage facilities, equipped with General Electric turbines. Financial institutions, including the US International Development Finance, US Exim Bank and International Finance Corp, have expressed interested in financing the project. Construction works are planned to begin in 2021 and the project is expected to be ready in 2027, with the 2.4GW Phase I likely to be operational in 2024, according to The Vietnam Times.

Copenhagen Infrastructure Partners (CIP) has signed a memorandum of understanding (MoU) with Binh Thuan People's Committee as well as energy firms Asiapetro and Novasia for a 3.5GW offshore wind project in Vietnam. The La Gan offshore wind facility will come up off the coast of Binh Thuan Province in the South China Sea at a cost of up to USD10 billion. CIP will invest in the project through Copenhagen Infrastructure New Markets Fund I. The wind project is due to be commissioned in 2030 at the earliest

Table 12: Energy and Utilities Infrastructure Industry 2019- 2022

Indicator	2019	2020	2021(f)	2022(f)
Energy and utilities infrastructure industry value real growth, % y-o-y	4.8	3.5	4.8	4.9
Power plants and transmission grids infrastructure industry value real growth, % y-o-y	4.5	3.5	4.5	4.7
Oil and gas pipelines infrastructure industry value real growth, % y-o-y	7.1	1.2	7.8	6.7
Water infrastructure industry value real growth, % y-o-y	7.7	4.0	7.2	7.0

Source: National Bank & Fitch Solutions

6.2.2 Planning

6.2.2.1 Power Development A Priority

We expect Vietnam's energy and utilities sector to grow steadily at an average of 5.4% annually between 2020 and 2029, as rapid urbanization across the country drives demand for electricity and water. Our Power team expects per capita electricity consumption in Vietnam to increase by more than 60% by 2029, and for overall power consumption to grow at an annual average of 6.6% through 2029. This will be one of the fastest power consumption growth rates in the Asia region. To meet this demand, the government is in the midst of a plan to add nearly 54,000MW of new capacity by 2025. Meanwhile, the growing populations of many cities are placing a strain on existing inadequate water supply and treatment facilities, which have also prompted increased investment in the sector.

Based on Vietnam's latest energy plan (Power Development Plan VII), the country requires an additional USD148billion worth of investments in power generation and grid infrastructures by 2030 to meet the increasing demand and target output. At present, infrastructure projects in Vietnam are largely driven by government funding, or from financial assistance in bilateral and multi-lateral agencies. However, limited government budget and fiscal capacity to meet project financing requirements have posed some downside risks to the existing project pipeline. Hence, we believe that the government will remain committed to improving the business environment to attract private investors, particularly foreign ones, to generate more private capital for the power and renewables market. This will in turn reduce the financial burden of projects on its balance sheet and make them more competitive, which will be key to support the growth of the sector. The government already has a relatively well-developed public-private partnership (PPP) framework to attract private capital, particularly for power infrastructure, but still has room for more transparency and reliability. They are also implementing ongoing reforms and are making efforts to liberalize regulations in the power sector, particularly for renewables, such as in the privatization of state-owned enterprises and introduction of the competitive wholesale generation market.

Most of the new electricity capacity coming online in the next few years will be from coal- and gasfired power plants, but we believe that there is longer-term growth potential for renewables, given Vietnam's favorable conditions for solar and wind power, and as the government reconsiders planned coal plants after ratifying the Paris Agreement on climate change. Vietnam opened its power generation sector to independent power producers (IPPs) in 2012 after launching its competitive generation market (CGM) scheme, the first phase of its power market development roadmap. Under the CGM, IPPs forward their asking prices to the Electric Power Trading Company (EPTC). The EPTC then purchase the electricity via a competitive cost-based pool and sell it to distribution companies and major consumers at regulated prices. While state operator EVN remains dominant in the market, controlling 60% of the country's installed capacity, a number of IPPs have gained a foothold in the market since 2012 and now generate around 20% of the national power supply. Greater private sector participation is a promising and necessary development, as Vietnam does not have the fiscal strength to finance its ambitious power plans.

BOT and other investors

Vinocomin

PetroVietnam

EVN

0 10 20 30 40 50 60 70 80

Table 13: EVN Maintaining Dominance Vietnam Power Generation By Ownership, December 2016

Source: Fitch Solutions

6.2.2.2 Thermal Power - Coal to Rapidly Gain Share

We believe the growth of Vietnam's power infrastructure sub-sector will continue to be spearheaded by new coal-fired power plants in the short term, despite the government's stated goal of investing in renewable energy and dwindling support from development banks for coal projects. Although the government has promised to reduce the use of coal power after signing the Paris Agreement on climate change in December 2015, the sheer size of the coal project pipeline means that growth in the coming five years is largely assured - there are over 50 projects in the planning, consultation or construction phases. Vietnam is one of Asia's fastest growing regions, which in turn drives the demand for electricity for industry, commercial and residential usage. According to projections by our Power team, Vietnam's electricity generation is forecast to increase to 250TWh by 2023 and to 375TWh by 2029. We note that the government (along with international observers) has been pushing for a decrease in reliance on coal and an increase in renewables usage to lower greenhouse gas emissions, reduce air pollution and to achieve sustainable growth in light of challenges posed by climate change.

The lack of support for coal projects by international and national development banks means that Vietnam will have to rely on less stringent sources of funding such as the China-led Asian Infrastructure Investment Bank or private investors. The Mong Duong 2 plant in the Quang Nih province was one of Vietnam's first foreign-backed build-operate-transfer (BOT) coal-fired plant, while four other projects are also being implemented by foreign IPPs under BOT contracts. The government is also relying on foreign firms to provide technologically advanced equipment for coal plants to improve efficiency - in January 2016, South Korea's Doosan Heavy Industries & Construction secured a USD560million contract from EVN to build the 600MW Vinh Tan IV coal-fired power plant.

6.2.2.3 Natural Gas Slowing Down

The generating capacity of natural gas, Vietnam's dominant source of power currently, will continue to grow over the next 10 years, albeit at a slower rate than coal. We expect the generating share of natural gas to fall from 46% in 2010 to less than 30% in 2029. Vietnam is struggling to meet natural gas demand, especially in its southern provinces where most major industrial zones are located. Meanwhile, our Oil & Gas team believes Vietnam's self-sufficiency in gas is likely to come to an end in the coming years and that a planned LNG import facility - which was supposed to have started commercial operations in 2015 - will be needed to supplement domestic supplies to meet the country's needs. The current pace of production growth is insufficient to keep up with consumption, while import facilities will not come online in time to sustain any rapid increases in gas consumption.

6.2.2.4 Nuclear Plans Scrapped

Although there had been positive momentum in the development of Vietnam's first nuclear power plant in the early 2010s, the Vietnamese government had decided in 2016 to cancel plans for the construction of the Ninh Thuan Nuclear Power Plant, citing economic reasons. Instead, the government has opted to pursue a two-prong strategy of trading power supply with neighbouring states and developing renewable energy sources to meet the increase in energy demand.

6.2.2.5 Hydropower: Indispensable but Problematic

Hydropower will remain a key component of Vietnam's electricity mix, but future growth will be hampered by a lack of additional sites and growing environmental concerns among provincial governments. This was reflected in how nine planned hydropower projects in the province of Thua Thien Hue were cancelled by the provincial People's Committee in late 2012. We expect hydropower generation to grow at an annual average of 4% between 2018 and 2027 and its share of total power generation to decrease from 35% to 28%. Unlike other power sectors, the hydropower sector has seen weaker private participation as only plants with capacities above 30MW can benefit from the competitive generation market introduced in July 2013. Many of the planned projects are smaller scale, and hence, producers would only be able to sell electricity directly to state utility EVN at a much lower and unattractive rate.

Moreover, environmental concerns have led to the resistance of hydropower project development in certain provinces. In October 2018, local authorities of the flood-susceptible Nghe An province in north-central Vietnam have decided not to grant licences to new hydropower projects, citing potential damage to the natural habitat as a primary reason. During the monsoon season, many locals suffered huge losses from flooding caused by the release of water from the dams. Many other provinces have also seen a serious loss in forest cover due to the presence of hydropower plants. The collapse of the Xe-Pian Xe-Namillionoy Dam in July 2018 in Laos also raised concerns about the safety of hydropower plants.

100 8 80 2 0 2020 2021F 2022F 2023F 2024F 2029F 2025F 2026F 2027F Genetation, Hydropower, TWh (LHS) Generation, Hydropower, % change y-o-y (RHS)

Table 14: Slow Growth For Hydropower

Source: Fitch Solutions

6.2.2.6 Renewables in Focus

The Vietnamese government plans to increase the amount of electricity generated from renewable sources by more than threefold, with a particular focus on expanding capacity in the wind and solar sectors. Favourable feed-in tariffs have been introduced to spur investments in the traditionally cost-prohibitive renewables sector. With an estimated 8.6% of landmass suitable for wind power generation and long coastlines, Vietnam's advantageous geography presents it with a significant opportunity in the development of both onshore and offshore wind farms, with a potential cumulative capacity of more than 24GW. The country is also a source of rare metallic minerals that are essential raw materials for the production of wind turbines and photovoltaic cells

6.2.2.7 Geothermal: Large Potential but Largely Untapped

Research has shown that Vietnam has more than 200 sources of hot water at temperatures of 40-100 degrees centigrade, with a geothermal potential of up to 400MW power generation. Despite sufficient potential, the growth of geothermal energy industry remains limited due to the lack of specific legislation regarding geothermal exploration and feed-in tariffs.

The proposed 25MW geothermal power plant in Dakrong District in Central Quang Tri Province, Vietnam, remains the only geothermal project announced by authorities. This will be the first power plant of its kind in Vietnam and has already secured licences by provincial authorities. The geothermal plant will have the capability to operate 24 hours a day, without being affected by weather conditions such as sunlight, wind or waves. The plant will reportedly use hot dry rock heat-mining technology to generate power. However, since its announcement in 2012, there has been little progress on the project.

6.2.2.8 More Investments in Transmission Network

Investments in grid infrastructure will rise in tandem with the growing demand for electricity in the country. The demand for electricity is mainly driven by rapid urbanisation and economic growth in the country's two largest population centres, Hanoi in the north and Ho Chi Minh City in the south. The current network transmitting electricity from the north and central areas to the south is overloaded and under strain, causing instances of power outages and larger power losses. To address this issue, Vietnam's National Power Transmission Corporation (EVNNPT) announced plans to launch three 500kV and 30 220kV power transmission projects in 2019 to increase capacity for power transmission. Also, we expect upgrades to existing grid infrastructure to minimise power distribution losses. Power losses have been on a steady decline since 2011 and EVNNPT intends to make further improvements to transmission efficiency, especially on the 220kV lines, which carries the majority of the electricity produced. We believe these projects will continue to be led by state-owned utility EVN, with opportunities in financing, construction and provision of equipment by local and foreign companies. In January 2017, the Vietnamese government announced a decision to construct the Vung Ang–Doc Soi–Pleiku 2,500kV transmission lines, spanning 720km across nine different provinces across central Vietnam.

6.2.3 Water

6.2.3.1 Rapid Urbanisation and Climate Change Driving Needs

Vietnam's water infrastructure needs are diverse, ranging from water supply infrastructure to wastewater management systems and facilities, to anti-flood infrastructure. We are forecasting real growth in Vietnam's water infrastructure sub-sector to average 6.6% annually in real terms across our 10-year forecast period through 2029, making it an outperformer within the overall energy and utilities sector. Our positive outlook is underpinned by our Country Risk team's expectation of robust economic expansion in Vietnam, with growth expected to average 6.6% annually from 2020 to 2029. This rapid expansion has placed a strain on existing water facilities, as demand from both the industrial and agricultural sectors continue to increase. According to the 2030 Water Resources Group (2030 WRG), these two sectors account for 5% and 81% of the total water withdrawals in the country in 2018, and as the country continues to industrialise, we believe water demand from the industrial sector will rise and form a larger proportion of overall water withdrawal over the coming years.

Severe and unpredictable weather patterns due to climate change will place a greater level of stress on Vietnam's existing water resources, especially during the dry season when water flows are lower. In July 2019, water levels in the Mekong River fell to their lowest in more than 100 years, disrupting water supplies to farms and factories. This follows a series of droughts that have occurred over the past decade, pointing to a need to invest in more robust water supply infrastructure to diversify the country's water sources. The government is also expected to increase its investments in flood defences, especially as many major Vietnamese cities are located near coastal regions or along major rivers and waterways.

Our Infrastructure Key Projects Database currently features 30 major water projects that are currently at the planning and construction phases, with a total value of around USD4.5 billion. We note that this figure pales in comparison with the larger power and transmissions sub-sector, which has a pipeline value of more than 20 times that of the water infrastructure sub-sector. Nonetheless, the water infrastructure sub-sector will be an important area of focus given economic growth and climate change trends. Given the country's large investment needs, we expect foreign companies to form a growing proportion of the Vietnamese water sector competitive landscape.

Table 15: Vietnam - Major Energy & Utilities Infrastructure Projects

No	Project Name	Sub Sector	Value (USD million)	Size	Unit	Companies	Time Frame End	Status
1	Thang Long Offshore Wind	Wind - offshore	11,900	3,400	MW	Societe Generale [Consultant/Project Management] {France},	2026	At planning stage
	Project					PVC-MS [Design/Architect] {Vietnam},		
						Vietsovpetro [Design/Architect] {Vietnam},		
						MHI Vestas Offshore Wind [Equipment] {Denmark},		
						Enterprize Energy [Sponsor] {Singapore}		
2	Quynh Lap Power	Coal	4,700	2,400	MW	Korea Finance Corporation [Financier] {South Korea},	2026	At planning stage
	Complex, Nghe An					POSCO [Sponsor] {South Korea},		
						Export-Import Bank of Korea (Eximbank) [Financier] {South Korea},		
						United Investors Holding (HUI) [Sponsor] {Hong Kong},		
						Geleximco [Sponsor] {Vietnam},		
						National Research Institute of Mechanical Engineering [Equipment] {Vietnam},		
						LILAMA Vietnam Machine Installation Corporation [Equipment] {Vietnam},		

No	Project Name	Sub Sector	Value (USD million)	Size	Unit	Companies	Time Frame End	Status
						Vietnam National Coal- Mineral Industries Group (Vinacomin) [Sponsor]{Vietnam}, Doosan Group [Construction] {South Korea}		
3	Nam Dinh Power Complex, Hai Hau District, Nam Dinh	Coal	4,500	2,400	MW	POSCO Engineering and Construction [Construction] {South Korea}, Taekwang Power Holdings [Sponsor] {South Korea}, ACWA Power International [Sponsor] {Saudi Arabia}	Na	At planning stage
4	Song Hau 3 Coal- fired Power Plant, Hau Giang	Coal	3,636	2,000	MW	Phongsubthavy Road and Bridge Construction [Sponsor] {Laos}, Viet Lao Power Joint Stock Company [Sponsor], Deo Ca Investment [Sponsor] {Vietnam}	Na	At planning stage
5	Song Hau 2 coal-fired power plant, Hau Giang	Coal	3,500	2,000	MW	Vietnam Ministry of Industry and Trade (MOIT) [Sponsor] {Vietnam}, Toyo Ink Group [Operator] {Malaysia}	2022	At planning stage

Source: Fitch Solutions Infrastructure Key Projects Database

6.3 Residential/Non-Residential Building

Macroeconomic and demographic trends will drive the expansion of the Vietnamese buildings sector, with growth expected to average 7.2% per year from 2021 to 2029. Foreign direct investments will remain a key driver of growth for the industrial sector, as Vietnam emerges as a global manufacturing hub. The tourism and hospitality sector is also poised for growth over the next decade, although a short-term slowdown is expected due to the ongoing Covid-19 pandemic.

6.3.1 Latest Developments

The ongoing Covid-19 situation will temporarily dampen growth of Vietnam's residential and non-residential buildings sector. Over the longer term, the sector is poised to register strong growth, at an annual average of 7.2% between 2021 and 2029. Positive factors supporting growth include rapid urbanisation and industrial development trends that are taking place in Vietnam. With more than 50% of Vietnam's population expected to be living in cities by 2050, there will be a sustained demand for new residential construction over the next decade. Also, foreign manufacturers, including those from China, are increasingly targeting Vietnam as a destination for industrial investment, owing to its lower labour costs, fast economic growth rates and improving logistics situation.

Hanwha Aerospace plans to build a new factory in Vietnam to manufacture airplane engine parts for Rolls-Royce, reports Business Korea, citing Hanwha Aerospace CEO Hyun-woo Shin. Hanwha recently won a nearly KRW1.0trn (USD856.2million) contract from Rolls-Royce to supply core components for Rolls-Royce Trent engines. The supply under the 25-year contract will start from 2021. Hanwha already has two factories in Vietnam. • Mitsubishi Corporation and Nomura Real Estate have agreed to acquire an 80% interest in the second phase of the Grand Park housing development project in the Vietnamese city of Ho Chi Minh. Phase two, estimated to cost JPY100billion (USD918million), will cover 260,000sq m. The phase, which is due to be completed in 2022, will deliver more than 10,000 residential units. The entire development spans 2.71sq km and is being developed by Vinhomes. Scheduled to be completed in 2023, Grand Park will deliver offices, residences, sports and commercial facilities, among others.

Daewoo Engineering and Construction Co(Daewoo E&C) has signed an investment development agreement with various South Korean financial institutions to invest in a real estate project at the upcoming Star Lake City in Hanoi, Vietnam. The USD386million development comprises two 35-storey buildings, which will house a hotel, serviced residences, business offices and retail facilities. Daewoo E&C, along with Korea Development Bank and KB Securities, will establish a special-purpose company to carry out the project. Construction will begin later in 2020, with the completion scheduled in 2024.

Table 16: Residential and Non-Residential Building Industry Data 2019-2022

Indicator	2019	2020	2021(e)	2022(f)
Residential and non-residential building industry value real growth (%)	10.3	6.2	7.9	7.4
Residential Building Industry Value Real Growth (%)	5.8	6.3	7.2	7.7
Non-residential Building Industry Value Real Growth (%)	15.6	6.1	8.7	7.1

Source: National Bank & Fitch Solutions

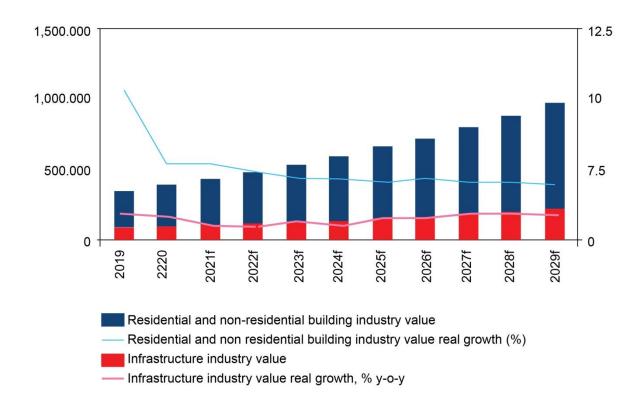
6.3.2 Planning

2020-2029: Rising Foreign and Private Investment

Vietnam's buildings construction sector is expected to grow strongly over the next decade, supported by strong macroeconomic conditions and favourable demographic trends. The sector is expected to grow at an average rate of 7.2% per annum from 2021 to 2029, slightly outpacing the wider construction sector (6.8% per annum) and the infrastructure construction sector (5.7% per annum). Surging private sector investment and strong macroeconomic conditions will support strong growth in Vietnam's residential and non-residential building construction sector over the next decade. Significant amounts of private and foreign capital are being funneled into residential and commercial real estate projects, as the government gradually relaxes restrictions on investment.

A significant proportion of private investment in residential, commercial and industrial real estate in Vietnam has and will continue to come from Japan and China, and we expect that rising investment flows will lead to further growth as Vietnam becomes an even more attractive market, especially compared to higher-risk and slower-growing peers such as Cambodia and Laos. At the same time, Vietnam's young demographic profile and urbanising population are generating fundamental demand for residential and non-residential buildings.

Table 17: Buildings Growth To Outpace Infrastructure Vietnam – Buildings & Infrastructure Growth, 2019-2029

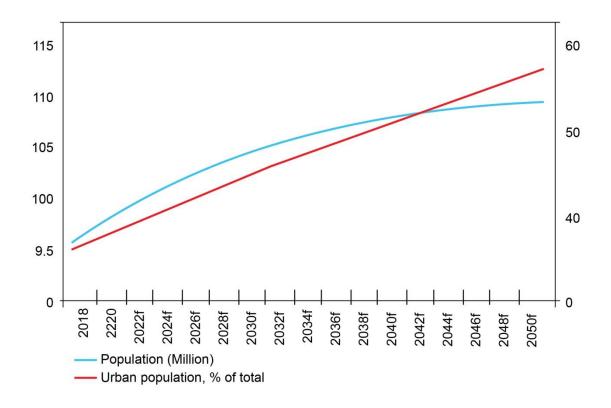


Need for Affordable Housing to Spearhead Residential Sector Growth

Strong economic growth has generally led to rising income levels, which in turn has resulted in an increase in demand for higher end residential real estate, especially in dense urban areas such as Hanoi and Ho Chi Minh City. The influx of foreign developers, mostly involved in developments catering to the high-end segment, has resulted in a relative shortage of affordable housing, a situation exacerbated by persistent rural-urban migration trends in the country – Vietnam's urbanization rate is approximately 36.6% as of 2019, and this figure is expected to rise to 51.2% by 2040.

A number of government programmers' aimed at developing affordable housing was reported to have ran into financial difficulties, resulting in project delays. For example, a project at 35 Ho Hoc Lam Street in Binh Tan District of Ho Chi Minh City was reported to have been delayed by two years as of October 2019, after real estate developer Hoang Quan was unable to secure further lines of credit. Despite these short-term challenges, we expect more developments in the affordable housing space, to cater to lower to middle income group.

Table 18: Urbanisation A Primary Driver Of Real Estate Demand Vietnam – Population & Urbanisation Rate, %



FDIs Crucial for Industrial Sector

Foreign direct investments will play a key role for the expansion of Vietnam's industrial buildings sector, as Vietnam emerges as a global manufacturing hub. The country's growing industrial capacity to feed into our forecast for growth of the non-residential buildings segment, which is expected to expand, in real terms, by 6.9% per year from 2021 to 2029. The US-China trade war in 2019 had led to a growing number of low-end electronics and textile manufacturing companies to relocate their factories away from China into Vietnam. Moreover, the Covid-19 outbreak in 2020, which caused massive disruptions to the global supply chain, will likely prompt further shifting of production lines away from China, with Vietnam likely to benefit. Already, South Korean electronics giant Samsung has invested in a facility in Ho Chi Minh City, with other multinational consumer electronics companies such as Denmark's Sonion and Japan's Sharp having successfully established manufacturing bases in Vietnam. Other companies with plans to set up production lines in Vietnam include Microsoft, Nintendo, Ricoh and Dell. Reforms to the country's investment- related laws over the past decade have had a positive effect on FDI inflows, with Vietnam's ranking in the World Bank's Ease of Doing Business Index improving from 99th in 2013 to 70th out of 190 economies in 2020. However, we note that Vietnam continues to have a difficult business operating environment, with limits on foreign ownership and investments being governed by multiple laws and decrees

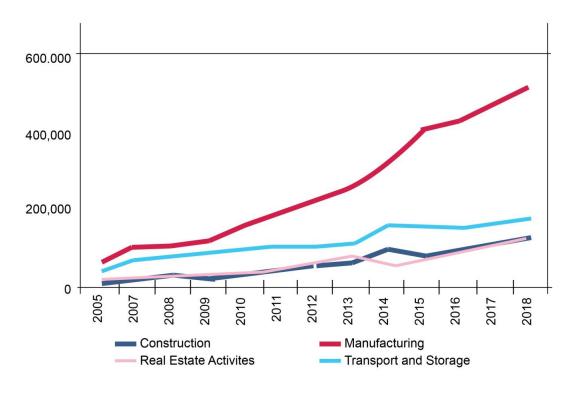


Table 19: Heavy Investment in Manufacturing to Continue

Source: General Statistics Office of Vietnam

Vietnam's concurrent investment in infrastructure will sharpen its competitive edge over other regional peers (eg, Bangladesh, India and Cambodia) vying for a piece of the manufacturing pie, and will present tailwinds to industrial construction activity in the coming years. A number of industrial parks established across the country have been successful in attracting foreign investors with a mixture of tax incentives, lower operating costs and accessibility to nearby roads and port infrastructure. Vietnam's competitive advantage will continue to increase as work progresses on major infrastructure projects aimed at improving logistics in the country: the construction of the North-South Expressway linking Hanoi and Ho Chi Minh City will increase domestic transportation capacity along a corridor that connects industrial zones with urban centre's, ports and the border with China. Efforts to boost capacity and improve the efficiency of major ports such as the Cai Mep International Terminal near Ho Chi Minh City will also raise the attractiveness of nearby industrial areas.

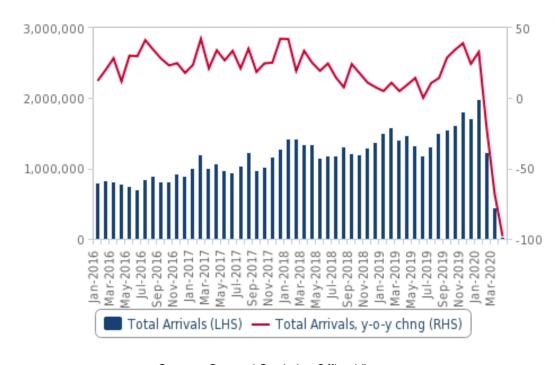


Table 20: Pre-Covid-19 Tourism Arrivals Strong Vietnam

Source: General Statistics Office Vietnam

Tourism Boom to Help Non-Residential Buildings Sector Growth

Non-residential buildings sector growth will also be supported by our expectations for Vietnam's tourism and hospitality sector to grow strongly over the next decade, but we note a short-term slowdown due to the ongoing Covid-19 pandemic. Over the past decade, Vietnam has grown to become a popular tourist destination for regional tourists from Japan, South Korea and China, and tourism has since grown to become an increasingly important contributor to GDP growth. Strong growth in the tourism sector is expected to see a temporary slowdown in the short term, and in the worst-case scenario, smaller hotels and inns face bankruptcy if the Covid-19 situation does not improve. Nevertheless, we continue to hold a positive view of the sector in the long-run, as the government continues to promote the country as a choice tourist destination. We expect to see more investments increase hotel capacity in Hanoi and Ho Chi Minh City, and the construction of holiday resorts in beach destinations such as Da Nang, Hoi An and Nha Trang



7. Key Projects with Malaysian Player

No	Company	Project Title	Project Scope
1	KNM GROUP BERHAD	Supply Of Shop Assembled Large Columillions For The Petrochemical Complex In South Of Vietnam	Oil & gas
3	PRUDENT AIRE ENGINEERING SDN BHD	Rehabilitating and Upgrading Project of Haiphong Water Supply System – Phase 2	Commercial Building
4	S P SETIA BERHAD	Eco Lakes, My Phuoc Development Of 558 Acres Township	Mixed Development
5	S P SETIA BERHAD	Ecoxuan, Lai Thieu	Residential Building
6	BINTAIKINDEN CORPORATION BERHAD	Provide The Air-Conditioning And Mechanical Ventilation (ACMV) System For Phases Two And Three Of The Saigon Centre In Ho Chi Minh City, Vietnam.	Mechanical and Electrical
7	SALCON ENGINEERING BERHAD	Rehabilitating and Upgrading Project of Haiphong Water Supply System – Phase 2	Water / Waste Water / Irrigation

No	Company	Project Title	Project Scope
8	BINTAI KINDEN CORPORATION BERHAD	Sub Contract Work Involving Mechanical, Electrical, Plumbing And Fire Fighting Package (Project) For Residential Premise Known As Project Shining In Vietnam	Mechanical and Electrical
9	GAMUDA BERHAD	Design And Construction Of Sewerage Treatment Plant (200,000 M3/Day) And Parks At Yen So Park Project In Thanh Tri District South Hanoi, Vietnam	Water / Waste Water / Irrigation
10	RANHILL BERSEKUTU SDN. BHD.	NTV Automobile Assembly Plant, Danang, Vietnam	Mechanical and Electrical



8 INDUSTRY PLAYER COMPANY PROFILE

No	Company	Company Overview	Activities And Projects
1	Electricity Vietnam Group	Founded in 1995, Electricity Vietnam (EVN) is a state-owned utility engaged in the generation, transmission, trading and distribution of electricity. Although Vietnam has been gradually liberalising its power sector over the last few years, EVN continues to have a monopoly on power distribution and trade. EVN owns five limited liability power companies: Electricity North Vietnam; Southern Electricity Corporation; Central Electricity Corporation; TP Power Corporation Hanoi; and the Electricity Corporation TP Ho Chi Minh City. In addition, the subsidiary in charge of EVN's transmission grids is the National Power Transmission Corporation. As of 2014, EVN's power companies accounted for 60% of total electricity generation in the country and had around 98,000 employees. EVN also has various ownership stakes in several independent power plants. EVN has also played a role in Vietnam's successful rural electrification programme by implementing power projects financed by the World Bank.	• In April 2014, EVN announced it had divested from its non-core and unprofitable real estate holdings, selling all of its shares in the Land Saigon and Land Mien Trung realty developers. The move reflects an ongoing effort by EVN to focus more on its core business and less on non-core sectors, such as real estate and telecoms. In December 2013, state utility and monopoly distributor EVN and Japan-based Marubeni Corporation signed an engineering, procurement and construction contract for the main thermal power plant of the Thai Binh Power Station in Vietnam. The project entailed an investment of VND26.5 trillion (USD1.3 billion), with 85% of the investment coming from the Japan International Cooperation Agency and the remaining 15% from EVN. The construction of the 600MW plant was expected to commence in Q114, with the first turbine scheduled to operate in Q417 and the second in Q218. The two-turbine plant will generate about 3.3 billion kWh a year.

No	Company	Company Overview	Activities And Projects
2	Coteccons	Coteccons is the largest private construction company in Vietnam. In addition to Vietnam, the company has infrastructure and real estate projects in Cambodia and Laos. Coteccons also controls subsidiaries in building materials and interior furnishing. Most of the company's ongoing projects are in the residential/non-residential building sector, but its infrastructure subsidiary is also engaged in the construction of expressways, airports and water systems. Coteccons listed on the Ho Chi Minh City Stock Exchange in 2009.	Coteccons has undergone rapid growth in revenue over the past few years and the company says it aims to become the largest construction company in Vietnam. Although it lacks the institutional heft of Vietnam's numerous state-owned construction firms, Coteccons has an advantage as a more efficient private company and is well positioned to take advantage of the country's growing construction and infrastructure market. In 2017, total revenue was VND 27.1triliion, an increase of 31% compared with 2016, highlighting continuing growth and its strong positioning in the Vietnamese construction industry. While Coteccons has a significant pipeline of real estate projects - including Landmark 81, a multi-use tower slated to be the second-tallest building in Vietnam - the company has been gradually expanding into the public infrastructure space. The company was involved in building Terminal 2 at Hanoi's Noi Bai International Airport, which opened in 2015 and is currently building a bypass road in Phu Ly, Ha Nam province. Coteccons says its goal is for revenue from infrastructure expanding into the public infrastructure space. The company was involved in building Terminal 2 at Hanoi's Noi Bai International Airport, which opened in 2015 and is currently building a bypass road in Phu Ly, Ha Nam province. Coteccons says its goal is for revenue from infrastructure projects to account for 50% of total revenue by 2020.

No	Company	Company Overview	Activities And Projects
3	Vinaconex	Vietnam Construction and Import-Export Joint Stock Corporation (Vinaconex) is a major construction, infrastructure, investment and trading company. The company, through its numerous subsidiaries, is involved in the construction of transport, energy and utilities infrastructure, as well as real estate, social infrastructure and other public works projects. Vinaconex also has subsidiaries involved in the production, transportation and trading of construction materials, as well as a myriad of other services ranging from forestry and financing to education and labour supply. In 2008, Vinaconex was the first state-owned enterprise in Vietnam to be publicly listed, although a majority of shares are controlled by the government.	 Vinaconex's size, historical ties with the government and experience in projects across infrastructure sectors mean that it continues to have a steady stream of construction projects. The company has been and is actively involved in projects ranging from residential and commercial construction (such as the Trung Hoa - Nhan Chinh New District in Hanoi) to roads, airports, power plants and water supply and treatment facilities. We believe Vinaconex is well equipped to continue to take advantage of Vietnam's fast-growing construction industry. The company says it has long-term plans to consolidate construction into one of its two core businesses. Vinaconex regularly partners with foreign engineering and construction companies, especially on projects requiring higher levels of technical expertise. For example, the company is working with China Road and Bridge Construction on the 2km USD132 million Cao Lanh Bridge, and with South Korea's Kumho Engineering and Construction and the US's Turner Construction on the USD400million VietinBank Business Centre in Hanoi. The company also has a number of businesses tangential to engineering and construction, which are seen as hallmarks of vertical integration and bureaucratic inefficiencies. Vinaconex also owns a design consultancy, produces construction materials, manages shopping centres and supermarkets, oversees the export of labour for foreign construction projects, and operates schools and shops for their workers. While aspects of these businesses can help support construction on both the supply and demand side, they also risk perpetuating bureaucratic inefficiencies in the company that are left from its days as a government agency, hurting its operational competitiveness compared to newer private firms.



9.1 Setting up a Company

Foreign investors can form several kinds of legal entities with a **Limited-Liability Company** (LLC) and a **Joint-Stock Company** (JSC) being the most popular choices of company registration in Vietnam.

The legal entity is then categorized based on the percentage of its foreign investment. As most industries in Vietnam allow foreign entrepreneurs to own up to 100% of shares, a **Wholly Foreign-Owned Enterprise** (WFOE) is a common business structure in Vietnam. International investors can also find a local partner and incorporate a **Joint Venture Company** with local-foreign ownership.

9.2 The Process of Company Registration

The incorporation process of each legal entity type is different and takes from **1 to 3 months**. In general, foreign investors should pursue the process as follows:

- 1. International investors are obliged to obtain an **Investment Registration Certificate** (IRC) from the Department of Planning and Investment (DPI).
- 2. An **Enterprise Registration Certificate** (ERC), is the second mandatory document to be obtained during the registration procedure.
- 3. After receiving both certificates, investors are obliged to proceed with their **tax registration**, pay business license tax and make their **initial capital contribution**.



9.3 Legal Entity

Limited Liability Company (LLC)	LLC is the most common legal entity type in Vietnam and an excellent choice for small and medium-sized enterprises (SMEs). Single investors can take advantage of its simple corporate structure, which requires one founder only. LLC is not permissible to issue public shares and be publicly listed on the Vietnamese stock exchange.
Representative Office (RO)	RO is perfect for foreigners wanting to observe the local market and gain market presence before expanding. An RO is not allowed to conduct business activities that generate income and behave like an ordinary company. It is possible for the RO's head office to sign, adjust/supplement contracts on behalf of foreign company, if s/he is authorised by its legal representative, with the power of attorney being present.
Joint Stock Company (JSC)	JSC is recommended for medium and large-sized businesses as its corporate structure is complicated and requires a minimum of three founders. Furthermore, its registration process is often delayed due to more demanding requirements. This kind of a shareholding company allows its owners to issue shares and be listed on the public stock exchange.
Branch	A branch serves as an extension of its parent company. Owners of branches in Vietnam can conduct all parent company's commercial activities and make a profit without incorporating a separate legal entity.

9.4 Foreign Loan

There are several types of foreign loans in Vietnam:

Foreign Loans Guaranteed by the Vietnamese government	 Lending entrustment contract Borrowing contract Deferred payment contract (applies to import goods) Finance leasing contract Borrower's debt instrument issuance (international market)
Foreign Loans not Guaranteed by the Vietnamese government	Conventional loan

9.4.1 Foreign Loans Registration

Foreign loans that are subject to registration to SBV include the following:

- Long-term and mid-term foreign loans
- Short-term loans with no renewal contract, and remain outstanding for one year since its initial disbursement
- Renewed short-term loans with more than 1 year to maturity

9.5 Accounting Rules

Tax Year	The fiscal year is from January 1st to December 31st		
Accounting Standards	Vietnamese Accounting System (VAS)		
Accounting Regulation Bodies	The Ministry of Finance		
Accounting Reports	The accounting structure comprises the balance sheet, cash flow, trial balance and profits and losses		
Publication Requirements	Companies must file annual financial reports, including accounting to the city tax department		
Professional Accountancy Bodies	VACPA , Vietnam Association of Certified Public Accountants		
Certification and Auditing	The annual financial statements of all foreign-invested business entities must be audited by an independent auditing company operating in Vietnam: Deloitte, KPMG, Ernst & Young, PricewaterhouseCoopers.		
Accounting News	Institute of Certified Management Accountants Vietnam Association of Certified Public Accountants Accounting news in Vietnam		

9.6 Tax Rates

9.6.1 Consumption Taxes

Nature of the Tax	Value Added Tax (VAT)
Tax Rate	10%
Reduced Tax Rate	 There are 2 reduced rates: 0% on exported goods and services, including goods and services sold to overseas organizations or individuals outside Vietnam, as well as goods and services supplied to organizations or individuals in non-tariff areas; construction and installation carried out overseas or within export processing zones; international transportation. 5% on water (except for bottled water); medicine and medical equipment (except for medicine included in medical service
	package); teaching tools; agricultural products; residential housing for sale or lease. Several items are exempt from VAT, including: livestock; aircraft, oil rigs and ships that are not yet locally produced and that are leased from overseas; land-use rights; credit activities, credit guarantees, financial leases and financial derivative services; capital transfers; securities transfers; life insurance services; health services, veterinary medicine services, including medical examination and treatment services for humans and animals; care services for elderly people and disabled people; education and vocational training; publication of newspapers, magazines and certain kinds of books; public transportation by bus and electric car; reinsurance services; technology transfers; public sewage services; foreign currency trading; credit card issuance; factoring; exported natural resources that are not processed or cover 51% into other products inclusive of energy cost.
Other Consumption Taxes	A special sales tax is levied on certain goods and services including: cigarettes, alcohol, spirits and beer, vehicles with less than 24 seats, petrol, playing cards, joss paper and some air conditioners. An excise tax is levied on golf, night clubs, casinos, massage centres and karaoke. An environment protection tax applies to the production and importation of certain goods deemed detrimental to the environment (especially petroleum and coal).

9.6.2 Corporate taxes

Company Tax	The standard rate is 20%	
Tax Rate for Foreign Companies	 Resident companies are taxed on their worldwide income. Non-residents are taxed only on Vietnamese-source income. Foreign-source income derived by residents is subject to corporation tax in the same way as income sourced in Vietnam. Vietnamese law defines permanent establishment as "a fixed place of business through which a foreign enterprise carries out part or the whole of its business or production activities in Vietnam 	
Capital Gains Taxation	Capital gains are taxed as ordinary income at the corporate tax rate of 20%. Gains earned by a foreign investor from selling securities are subject to corporate income tax at a deemed rate of 0.1% of the sales proceeds. The standard CIT rate will apply to any gains earned by companies not incorporated in Vietnam upon a sale of shares in a non-public, joint-stock company	
Main Allowable Deductions and Tax Credits	 Depreciation of real estate, machinery, tangible and intangible assets is tax deductible. Goodwill can also be amortised for tax purposes. Start-up and miscellaneous expenses incurred prior to the launch of business (advertising expenses, training, relocation costs, etc.) are deductible over a period of three years. Companies are required to provide proof of such expenses demonstrating that they were necessary and were legitimately done. Interest charges are generally not deductible while bad debt provisions are only deductible if they have been granted according to the instructions of the Vietnamese Ministry of Finance. Donations to charities, fines and taxes are generally not deductible. However, donations to for education, health care, natural disasters, building charitable homes for the poor, or scientific research can be deducted. Tax losses can be carried forward in full up to five years. The carryback of losses is not permitted 	
Other Corporate Taxes	 A property tax is levied by municipalities on land used for commercial purposes at rates varying between 0.03% and 0.15% of the land price per square metre. Stamp duties ranging between 0.5% and 15% are levied on certain types of assets, including real estate. Inheritances and gifts above VND10 million are subject to income tax at 10%. Employers contribute to social security, health insurance, and unemployment insurance at the following rates: 17%, 3%, and 1%; plus 0.5% for labour accident and occupational disease insurance contribution. A withholding tax on foreign contractors is levied on the supply of goods and services by entities located outside Vietnam. It includes corporate income tax and VAT at effective rates ranging from 0.1% to 15%. 	

9.7.1 Opening hours and bank holidays

Administration and public offices are generally open from 7:30 a.m. to 11:30 a.m. and from 1:30 p.m. to 4:30 p.m.

Public Holidays

Vietnamese new year - Tet	1st January, lunar calendar
New year's	1st January, lunar calendar
Hung King Ceremony	10th March, lunar calendar
Liberation Day	30th April
International Labor Day	1st May
Independence Day	2nd September

Holiday Compensation

When a public holiday falls on a Saturday or a Sunday, it is compensated for on the next working day.

Periods When Companies Usually Close

Vietnamese New Year	3 days
New Years	1 day
Independence Day	1 day
Victory Days	1 day
Hung King	1 day
International Labor Day	1 day



1 OTRADE BARRIER & IMPORT DUTIES

10.1 Import and export licensing procedures

Since the economic reform, Vietnam has taken massive steps to open up many opportunities of international trade, import export activities and investment. Over the years, the country has also become of member in ASEAN Free Trade Area and WTO. Furthermore, Vietnam has also signed 7 regional and bilateral Free Trade Agreements (FTAs) with other countries including ASEAN Hong Kong FTA and Vietnam European Union FTA.

As more and more investors have set up their import/export and trading company in Vietnam, it is important for all levels in the company to get familiar with the import and export procedures and legislation in the country.

Licensing Procedures for Import and Export In Vietnam	It is not necessary for a trading company in Vietnam to get an import or export license for the company incorporation. Nonetheless, a trading company in Vietnam is obliged to register at the Department of Planning and Investment (DPI) and acquire an investment certificate before they can perform any import or export activities. All procedures on the investment certificate must be strictly followed for the export or import activities to happen.	
Import and Export Restrictions	Under the Trading Law in Vietnam, certain goods are banned from export or import: • Goods banned from export: petroleum oil • Goods banned from import: tobacco, cigars, newspaper, journals, petroleum oils and aircrafts There are some goods that require the trading company to get the government's import and export permits:	
	 Goods under export control according to international treaties contracted by Vietnam Goods under export quota implemented by other countries Goods under import control according to the international treaties contracted by Vietnam Industrial explosives, explosive pre-substances, and chemicals 	



The Covid-19 pandemic marks a pivotal moment for the infrastructure sector globally, with the pandemic and its economic consequences to have significant implications for infrastructure investment. In the midst of the pandemic we have seen and continue to see interruptions of construction works and delays to project timelines due to a combination of supply chain disruptions and logistical obstacles as a result of lockdown measures implemented by governments. We have also begun to note the more enduring consequences of the Covid-19 pandemic on key infrastructure trends, which we expect will play out over the coming years and will have a defining impact on the direction of the industry. These are the result of the massive economic implications of the Covid-19 pandemic as well as a number of more long-standing commercial, financial, political and demographic trends.

- Amid an economic downturn in markets globally, infrastructure development will emerge as a key
 focus of policymakers as a means to boost employment and support economic recovery, although
 the ability to increase public infrastructure investment will vary greatly among developed and
 developing markets.
- Green investment will benefit from infrastructure stimulus measures, with the EU in particular set to link additional infrastructure spending with the European Green Deal agenda.
- Public-private partnerships and concessions will gain additional attention from policymakers given
 the potential to boost infrastructure investment without turning to public spending, although this will
 also increase the risk of poor projects being launched.
- The negative impact of the Covid-19 pandemic on the ability of developing markets to take on new
 debt will lead to a slowdown in China's Belt and Road Initiative, with the focus shifting towards
 projects already under way and a retrenchment focused on Asia and Africa where China has
 inherent advantages.
- Public transit development will remain strong as the demand case for expanded transport options, with a focus on pedestrian and cycling infrastructure, as well as a growing focus on climate sustainability globally will drive policymakers to invest in expanding transit networks.

11.1 Key Forecasts

Real GDP Growth, % chg y-o-y	2019	2020	2021 (f)
Global	2.6	-3.8	4.0
Developed markets	1.7	-5.3	3.5
Emerging markets	3.9	-1.6	4.8
China	6.1	1.1	6.0
US	2.3	-4.9	3.7

Source: Fitch Solutions

11. 2 Country specific Impact

- We have revised down growth of Vietnam's construction sector in 2020 due to the bleak macroeconomic situation worldwide amid the Covid-19 outbreak. The sector will grow by 5.7% y-o-y this year, a 1.5-percentage-point downward adjustment from our previous forecast of 7.2% y-o-y.
- We believe traditional contributors of foreign direct investments (FDIs) to Vietnam, such as Japan, South Korea and China, will slow its overseas investments across the world. As Vietnam's infrastructure sector is heavily dependent on FDI, growth in 2020 will be affected by this trend.
- Quarantine measures imposed by the government, although not as stringent as that of other neighbouring countries, have created supply chain disruptions. For example, tanker trucks moving bitumen into city-based projects in northern Vietnam were reported to have encountered delays due to movement restrictions.
- Our Country Risk team has revised down Vietnam's 2020 real GDP growth to 3.0%, from 6.3% previously, and all three main sectors (primary, secondary and tertiary) are expected to come under strong headwinds from both domestic and external shocks brought about by the evolving Covid-19 pandemic.
- Such a muted economic outlook will affect the growth of the buildings sector, which accounts for more than 70% of the total value of the construction sector. In particular, industrial real estate will suffer a large blow as companies, domestic and foreign, withhold capex plans in light of uncertain business conditions. Vietnam's buildings sector is expected to grow by 6.2% y-o-y in real terms, a slowdown compared with 10.3% y-o-y in 2019.
- Infrastructure, on the other hand, will see less of an impact, as the government continues to priorities the construction of transport and energy projects. We expect the North-South Expressway Project to proceed this year, and this will be a significant boost to the infrastructure construction industry.

12 KEY LEARNING FOR MALAYSIAN PLAYERS



12.1 Obtaining a Vietnam Foreign Business License

Dealing with Construction Permits in Vietnam – Procedure, Time and Cost

No.	Procedures	Time to Complete	Associated Costs
1.	Check the proposed company name, obtain the certificates of business and tax registration and publish the registration contents on the National Business Registration Portal (NBRP) Agency: Business Registration Office, Department of Planning & Investment	3 days	VND 100,000 (registration, free if online); VND 300,000 (publication)
	To register a company, the applicant must submit documents in accordance with Government Decree 78/2015/NĐ-CP on enterprise registration dated 14 September 2015, as amended by Decree 78/2015/ND-CP dated 23 August 2018.		
	After receipt of the application documents which fully satisfies the conditions for issuance of an enterprise registration certificate, the Business Registration Office shall key the information stated in the application into the National Business Registration Portal ("NBRP") and check the application and supporting documents.		
	The Business Registration Office shall issue the enterprise registration certificate within 3 working days from the receipt of satisfactory application documents. Within 5 working days after issuance of the enterprise registration certificate, the Business Registration Office shall send the enterprise registration contents to the tax authority department, the statistics department, the labor department and the social insurance department. It is possible to apply for registration online, however a follow-up with hard copies is required in that case. Furthermore, online applications may take longer in practice, especially in case there were any issues with documents.		
	Therefore, majority of founders prefer to apply for registration in person. Business registrations are subject to VND 100,000 fee if applied for in person or are free of charge if applied for online. The certificates of business and tax registration are either sent by post or collected at the Business Registration Office. At the moment of business registration, entrepreneurs also request the publication of the registration contents online. The fee to publish the registration contents on the National Business Registration Portal is VND300,000 according to Circular No.106/2013/TT-BTC of the Ministry of Finance dated on 10 November 2016.		

2.	Make a company seal	1 day	VND 450,000
۷.	Agency: Sealmaker	1 day	V14B 400,000
	Company seal is required by law and in practice to open a bank account. The company obtains a company seal from a seal-maker. The company has the right to decide on the design, content and quantity of its seal and can have several seals with the same design and content.		
3.	Submit an online notification of the seal-sample	1 day	No charge
	Agency: Business Registration Office Entrepreneurs must submit an online notification of the seal-sample to the Business Registration Office. At the time of receiving the notification, the BRO sends the entrepreneur a receipt. According to Article 34 of Decree 78/2015/ND-CP, a company has the right to decide the effective date of the seal.		
4.	Open a bank account Agency: Bank	1 day	No charge
	Each bank requires a different minimum deposit to open an account. For instance, whereas Vietcombank requires the fixed amount of VND1 million for an account in VND and USD300 for one in USD, Asian Commercial Bank requires VND1 million for a VND account and USD100 for a USD account. To open the account, the bank requires a bank-issued application form, a copy of the notification on use of the seal with a confirmation stamp of the Business Registration Office, the Charter of the Company, the Enterprise Registration Certificate (ERC) and relevant documents as required by each bank. Bank account is required in practice to pay taxes.		
5.	Approve pre-printed VAT invoices with the Municipal	10 days	about VND
	Taxation Department Agency: Municipal Taxation Department		200,000 per book
	Companies shall use self-printed or purchased VAT invoices or electronic VAT invoices. Electronic VAT regulation is not mandatory, and majority of companies opt for traditional VAT system. The applicant must contact a publisher to order the printing of VAT Invoice Books and must register the self-printed invoices with the Municipal Taxation Department. To register for self-printing of invoices, company founders must submit an application on a standard form, along with		
	 a sample self-printed invoice, including all statutory details; 		
	 a map showing the location of the company's office or copy of the lease contract if the premises are leased, certified by the ward commune people's committee; 		
	the general director's identification card;		
	 a copy of the business registration certificate; and 		

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	The tax registration certificate and copy. In total, it takes about 10 days to obtain the self-printed VAT invoices and have them registered with the Municipal Taxation Department.		
6.	Pay business license tax Agency: Tax office or commercial bank	less than a day (online procedure),	VND2,000,000 (business license tax)
	The business license tax must be paid to the tax authority where the enterprise registers its tax reports or through designated commercial banks. This license tax is paid annually and in the first month of a year (with regards to enterprises are operating) and in the month when the newly established enterprise obtains the tax code. A new company established during the first 6 months of the year shall pay the entire annual business license tax. If it was established during the last 6 months, it must pay 50% of the annual license tax.	simultaneous with previous procedure	iicerise tax)
	license tax. According to Article 4 of Circular 302/2016/TT-BTC, the business license tax depends on the charter capital of the enterprise as follows:		
	An enterprise with charter capital above VND 10 billion: VND3,000,000 per year;		
	 An enterprise with charter capital of VND 10 billion or less: VND2,000,000 per year; - 		
	Branches, representative offices, business locations, business units, other economic organizations: VND1,000,000 per year.		
7.	Register with the local labor office to declare use of labor Agency: Municipal Department for Labor, Invalids and Social Affairs	1 day	No charge
	Within 30 days of starting operations, employers must register all employees and their qualifications with the Labor Office (in conformity with set forms). The relationship between the employer and its employees is regulated by the Labor Code and set forth in labor contracts.		
8.	Register employees with the Social Insurance Fund for the payment of health insurance and social insurance Agency: Social Insurance Fund	1 day	No charge
	The company must register employees with the Social Insurance Fund. The employer must complete a form provided by the Social Insurance Fund and include the following information: the employee name and date of birth, salary (as stated in the labor contract), the social insurance book serial number (for employees already issued with those books), a certified copy of the company's business registration certificate, and a copy of each labor contract		
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Source: doingbusiness.org

13 GLOSSARY

- Fitch Solutions
- World bank
- Statista 2020
- IMF World Economic Outlook Database Latest available data.

- doingbusiness.org
 trading economics.com
 National Bank & Fitch Solutions
- General Statistics Office Vietnam

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