

Dan Phan
MBA,
Project Management Expert,
Hanoi, Viet Nam/Paris, France
danphan02660@gmail.com

E-BUSINESS IN VIET NAM: BENEFITS AND RISKS

Vietnam is a land of opportunity for foreign E-commerce companies because of its young population, high Internet penetration rate (ranked 17th in the world) and climbing smartphone penetration rates. Internet services made their first appearance in Vietnam in 1997. Three years later, however, the Internet usage rate was still insignificant with a 0.2% local penetration. However, the situation changed drastically over the years. In 2017, approximately 50 million Vietnamese, or half of the population, were connected to the Internet. Despite its late start, Vietnam's penetration rate (54%) in 2017 was higher than the world average (46.5%).

Following its accession to the WTO in 2007, Vietnam has allowed foreign investors to establish 100% foreign-owned companies. This has attracted many foreign investors, including E-commerce retailers. As E-commerce is expected to soon become an important part of Vietnam's trade sector, currently, big names such as Lazada, Shopee (Sea Limited) and more recently, Amazon, market have seized the opportunity and entered Vietnam. In 2018, the Southeast Asian E-commerce market was growing at 35% per year, 2.5 times faster than in Japan. Vietnam ranks 4th for online shopping in the Asia Pacific region and is expected to continue booming in the coming years, with sales estimated to reach EUR8.1 billion in 2020.

Vietnam's economy involves a number of different benefits and risks that international investors should carefully consider. While the country's rapid growth rates may attract investors, they should carefully consider the higher risk profile, government controls, and reliance on key industries to support that growth over the long-term. These factors may make the country too risky for some portfolios.

Benefits of investing in Vietnam:

- **Rapidly Growing Economy.** Vietnam's economy has been growing at between 4% and 8% since its recovery from the Asian Financial Crisis of 1997.

- **Self-Powered Economy.** Vietnam relies on the petroleum industry for its domestic energy consumption and for export; crude oil product is expected to gradually decline.

Risks of investing in Vietnam:

- **Socialist-orientated Economy.** Vietnam may have transitioned from a centrally planned economy, but the government still controls many key industries.
- **Early Stage Market Economy.** Vietnam remains at an early and vulnerable stage of its economic development and is therefore more risky than developed markets.

With its 96 million residents and an increasing number of Internet and smartphone users, Vietnam is attractive for many online retail businesses.

The Vietnam E-Commerce and Information Technology Agency has predicted that e-commerce in Vietnam will exceed a turnover of US\$ 10 billion by 2020. The agency also forecasts that by 2020, 30% of the population will shop online, resulting in almost 30 million online shoppers and a growing e-commerce trend in Vietnam.

According to a Global Digital Report released by “We Are Social and Hootsuite” in January 2018, 47% of the Vietnamese had purchased something online during the month preceding the survey. This means 8% growth compared to the previous year.

Types of e-commerce

Online marketplace

An online marketplace, as the name already suggests, is a website where different merchants gather to sell their goods. Marketplaces offer a lot of variety and attract more potential customers with different purchase desires. The most well-known online marketplace giants are Amazon and eBay.

Online classifieds

The main idea of a classified is the same as of an online marketplace. However, payments for the products do not go through the site but go directly to the seller, you only mediate advertisements. One of the most famous classified advertisement web pages is Craigslist.

Online retailer

In contrast to marketplaces and classifieds, online retailers both sell and storage their own products. A very large number of online retailers are regular retailers who also sell their products online. For example, Walmart is an online retailer who operates with retail stores as well.

Under Vietnamese regulations, e-commerce is the act of creating and/or managing a website or an online instrument (i.e smartphone apps) and levying a fee upon a business or an individual that uses it as their trading platform. This means that all businesses that operate a platform where customers can buy goods, either physical products or intellectual property, would fall under the e-commerce business line.

Despite that the Department of Planning and Investment has started to grant investment licenses and business registration certificates for foreign investors who want to engage in e-commerce business in Vietnam, there are still no clear regulations regarding this business line.