Hopes escalating for post-pandemic growth in M&A

By Thanh Van

Vietnam's mergers and acquisitions, though rather muted in the beginning months of 2021, are expected to revive on the back of both vaccination programmes and legislative changes.

Vietnam has witnessed only a few merger and acquisition (M&A) deals since the beginning of 2021. Thailand's SCG acquired 70 per cent stake in Duy Tan Plastics while Danish group BioMar scooped up a majority share in Viet-Uc.

Commenting on this trend, Masataka Sam Yoshida, head of the Cross-border Division of RECOF Corporation, said that this situation is just temporary, and a bright future is expected ahead. For instance, Japanese investors have become more cautious than ever after the latest wave of the pandemic in Japan.

Vietnam has been extremely successful in keeping the pandemic under control, but the strict travel restrictions make it difficult for Japanese companies to arrange short-term business travels, which are fundamental and crucial in considering and proceeding with M&A transactions. "Having said that, the rationale for the investment in Vietnam has not changed. Vietnam has much higher growth potential than Japan where the economy is too mature. We are aware that Japanese companies remain interested in Vietnam, even though they are not active at this moment," he said.

According to RECOF's M&A database, the number of outbound transactions from Japan decreased by 33 per cent to 557 transactions in 2020, while the same number in Vietnam declined by 30 per cent to 23. Vietnam ranked sixth as the destination country for Japan among all countries worldwide, and second only to Singapore in Southeast Asia.

Sam added, "COVID-19 has been the sole reason for the recent sluggish M&A transactions between Vietnam and Japan, so assuming the COVID-19 will be subdued with the start of vaccinations and the removal of travel restrictions, we are more than confident that the market will recover in the latter half of 2021."

Meanwhile, Vo Ha Duyen, chairwoman of Vietnam International Law Firm, cited data by the Corporate Investment and Mergers & Acquisitions Center showing that the value of M&A deals in Vietnam in 2020 dropped by about a half from 2019. Various factors may have affected such activities, she said – the pandemic has had a significant impact on the global economy and also caused difficulties to dealmaking, while travel bans and lockdowns have hampered M&A due diligences and negotiation meetings.

> We hope that new decrees and circulars providing detailed and favourable regulatory guidance will be issued soon to support the competition authorities
>
> **- Vo Ha Duyen**
> Chairwoman
> Vietnam International Law Firm

According to Duyen, the ongoing changes to the laws of Vietnam have also contributed to some uncertainties. Under the new Law on Competition, a substantially higher percentage of M&A deals are subject to merger control filing requirements than under the old laws. Investors initially hoped that the introduction of the 30-day "preliminary review" track to the merger control filing procedure under the new law would help reduce procedural burdens.

Nonetheless, because sub-law regulatory guidance has not been issued, it seems that a majority of filing cases have not seen application of the 30-day preliminary review and have been subject to complex and uncertain evaluations which last for months.

In addition, local departments of planning and investment have had difficulties in applying the new Law on Investment as documents guiding the implementation of the law have not been issued. This could increase cases in which the licensing authorities have to seek opinions from other relevant authorities, which may contribute to delays in the M&A process.

"We hope that new decrees and circulars providing detailed and favourable regulatory guidance will be issued soon to support the competition and investment authorities in dealing efficiently with M&A transactions and to effectively reduce the time gap and uncertainties in the procedures, helping boost the recovery of M&A activities when the pandemic settles down," Duyen said.

According to Vietnam M&A Forum Research Team, a number of mega deals are expected to be secured in 2021. Foreign investors from South Korea, Japan, Singapore, and Thailand will continue to dominate the market with the value of deals reaching up to $500 million. At present, Vietnam's M&A market remains attractive to investors despite the impact of the global health crisis – in particular, in the second and third quarter of 2020 Vietnam witnessed more M&A deals after the country successfully contained the summer wave of infections.

That being said, Vietnam is hopeful about potential for post-pandemic M&A growth. Some experts have forecast that the main sectors that will contribute to the recovery of value in Vietnam are telecommunications, energy, infrastructure, pharmaceuticals, education, and e-commerce.

Sam from RECOF said that Japanese companies are concerned with stability of global supply chains. Vietnam is not only competitive as a location for manufacturing, but also it stands at the crossroads in terms of free trade agreements with major economic zones and so is well positioned.

"Additionally, more Japanese companies are paying attention to sustainability and technology innovations, and they are eagerly looking for opportunities to apply their expertise, such as in renewable energy, smart cities, AI, and more in Vietnam, where the people are open to new ideas," he said. "As for the pandemic, we highly evaluate Vietnam's success in keeping the pandemic under control, and this fact makes the country even more attractive for the Japanese investors."■

Admin fees continue to clog activity

By Thanh Thu

Further reforms could ease cumbersome administrative procedures and entice more foreign investors

Major fees, both official and unofficial, alongside long processing times and cumbersome procedures, are vexing local enterprises attempting to implement investment-related adminstration.

Nguyen Van Duong, representative of a Chinese-invested auto-making company in a northern province, has spent nearly two years and additional unofficial costs to local authorities to fulfil all necessary construction-related procedures before putting the project into operation.

"All procedures remain complicated and I have had to pay unofficial costs to get my project done," Duong said, declining to name his company and the province. "It has taken us four months just to obtain a fire prevention certificate from authorised agencies."

In another case, Do Thi Xuan, vice director of Japanese-invested plastics maker Ikehara Mitsu JSC, said it took her company about six months to complete construction-related procedures. "Businesses are tired of such procedures. They are too complicated and cumbersome, not to mention having to pay extra costs," Xuan lamented.

Such difficulties faced by these companies have been generally reflected in the Administrative Procedures Compliance Costs Index (APCI) 2020 report released last week in Hanoi by the Government Office and United States Agency for International Development.

The APCI quantifies the cost that individuals and businesses must bear to comply with administrative procedures as per current regulations. To quantify the cost, nearly 3,000 businesses were surveyed in 63 cities and provinces. The survey covered eight groups of key procedures including cross-border trading transactions, business registration, license and work permits, and taxes. Of these groups, the APCI 2020 index for investment-related procedures hit 76.5 out of the maximum 100 points.

"With the total average compliance cost being VND9.15 million ($400), the group of investment-related procedures remains high," said Government Office Chairman Mai Tien Dung, who is also Chairman of the Prime Minister's Advisory Council for Administrative Procedure Reform.

Based on region, the largest sum – VND10.9 million ($475) on average – is from enterprises not located in the nation's key economic regions. Regarding direct cost, on average, each business must pay VND1.8 million ($78) for each procedure.

Furthermore, each business has had to spend over 36 hours to process each of these procedures. The northern province of Bac Ninh ranked first (7.8 hours), while localities in the southern key economic region performed the worst (32 hours).

According to the APCI 2020 report, investment-related policies remain inconsistent, making it difficult for enterprises to process administrative procedures. The report cited many businesses as saying that appraisal of dossiers is subject to many ministries, which are different in implementing procedures.

"Each unit has its own requirements, lengthening the time for dossier preparation, but not satisfying requirements of all units," the report said. "Investment policies of localities have changed so much, but failed to be published, causing difficulties for dossier preparations."

As for unofficial costs, 7 per cent of surveyed enterprises said they have had to pay extra so that their investment-related procedures can be processed smoothly. This cost often appears during site visits and meetings for dossier appraisal.

"These costs range from hundreds to thousands of US dollars," Dung said. "If we fail to remove hurdles for enterprises, they will not be able to develop strongly and Vietnam will not have a strong economy, and be unable to attract more investment."

Also under the APCI 2020, enterprises had to spend VND63.3 million ($2,752) worth of time cost and direct costs performing environmental procedures in 2020, up from VND45.4 ($1,973) million in 2019.

Dung added, "Cumbersome procedures and unofficial costs not only increase compliance costs, but also upset the domestic business environment, discouraging foreign investors and firms wanting to do business in Vietnam on an equal basis."■