

Issue 19 • December 2014



VIETNAM BRIEFING

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An Introduction to Vietnam's Export & Import Industries

– By Dam Thi Phuong Mai and Edward Barbour-Lacey, HCMC Office

With its rising costs, China is no longer the go to destination for many businesses, and Vietnam has arisen as a serious competitor. Recent trends show that the number of orders shifting from China to Vietnam has seen a significant increase. For example, China's Pearl River Delta, long known as one of the key factory centers for the world's manufacturers (particularly those from Hong Kong) has now become too costly for many companies to stay in the region.

In the past three years alone, a growing number of businesses have relocated their operations from China to Vietnam in an attempt to escape rising costs and an increasingly complex regulatory environment. Located in a strategic position for foreign companies with operations throughout Southeast Asia, Vietnam is an ideal export hub to reach other ASEAN markets.

Compared with other developing markets in the region, Vietnam is emerging as the clear leader in low-cost manufacturing and sourcing, with the country's manufacturing sector now accounting for 25 percent of Vietnam's total GDP. Currently, labor costs in Vietnam are 50 percent of those in China and around 40 percent of those reported in Thailand and the Philippines. With the country's workforce growing annually by around 1.5 million, Vietnamese workers are inexpensive, young, and, increasingly, highly skilled.

Another driving force behind Vietnam's growing popularity is the country's collection of free trade agreements (FTAs)—most notably, the soon-to-be-signed Trans-Pacific Partnership (TPP) and EU-Vietnam FTA. Additional FTAs currently under negotiation include the Regional Comprehensive Economic Partnership (RCEP) and the ASEAN Economic Community (AEC). When these trade agreements come into force, Vietnamese exports will be freely accessible to many of the world's largest markets with few tariffs or restrictions.

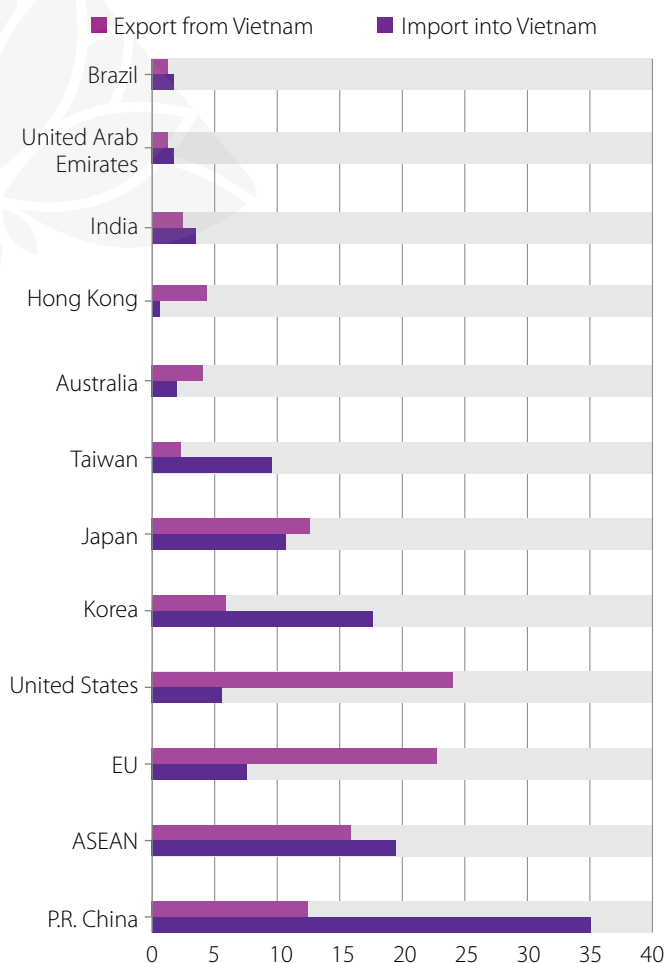
In terms of regulatory and financial incentives, Vietnam has become increasingly investor-friendly in recent years –the government has taken such actions as reforming its financial sector, streamlining business regulations, and improving the quality of its workforce. Since the mid-2000s, the Vietnamese government has offered extremely competitive financial incentives to businesses seeking to set up operations in the country, in addition to a zero percent withholding tax on dividends remitted overseas and a low corporate income tax (CIT) rate of only 22 percent (set to drop to 20 percent in 2016). These advantages have enabled Vietnam to become a premier "sourcing economy" in the eyes of many companies.

The current state of Vietnam's economy

Vietnam is seeing strong growth on multiple fronts. Of particular interest to investors has been the continuing growth of Vietnam's domestic consumer market, which has been developing by leaps and bounds. This growth is expected to continue for some time to come - domestic consumption is predicted to increase at a rate of 20 percent per year. With a population of over 90 million and Southeast Asia's fastest growing middle class, Vietnam clearly represents an important market for foreign goods. Following along with this trend, in November, consumer confidence levels in Vietnam exceeded 100 points for the first time since 2012.

Top Importers/Exporters to Vietnam

First 10 months of 2014, US\$ Billion



Source: General Statics Office of Vietnam

Industry Snapshots

While Vietnam is widely known for being a prime location for investors operating in the textile industry, there are many other business areas that are seeing significant growth in the country. Interestingly, Vietnam is well on its way to becoming a key location for high-technology manufacturing, with companies like Samsung, LG Electronics, Nokia, and Intel making multi-billion dollar investments into the country. Other business areas include information and communications technology, automotive, and medical devices.

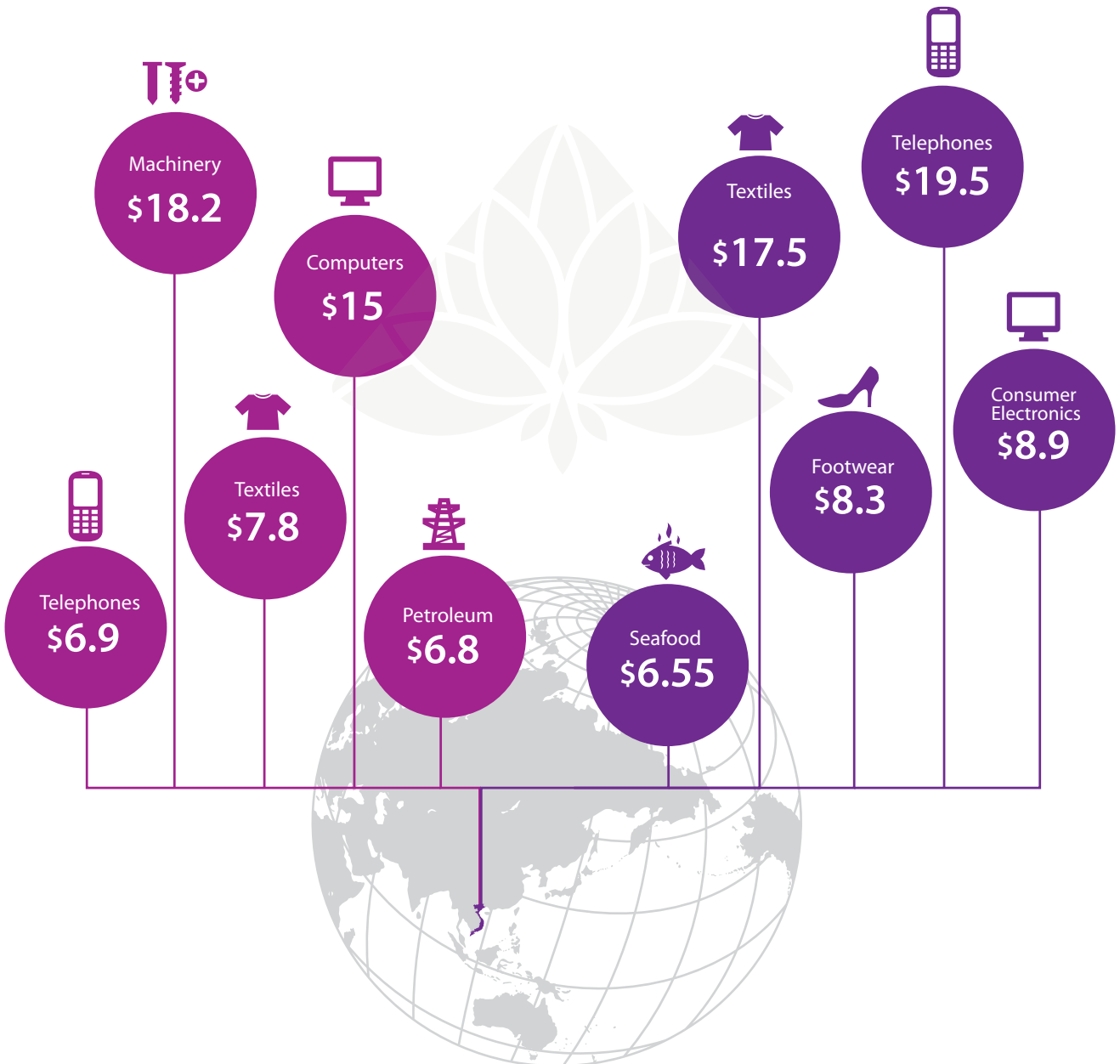
The American Chamber of Commerce predicts that Vietnam will become the largest ASEAN supplier to the U.S. by the end of 2014 – with a net export value of around US\$29.4 billion. In fact, Vietnam is likely to become the wealthiest Southeast Asian country in terms of trade. Additional statistics indicate that bilateral trade with the U.S. will surge to US\$57 billion by 2020, cementing Vietnam's prominence as a valuable hub for foreign investment.

Vietnam Top 5 Imports/Exports

Unit: Billion US Dollar

● Imports

● Exports





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