

Why Vietnam?

Summary

Area: 331,212 km²

Population: 94.58 million

Urban population: 35.9%

Population density: 308.125 people per km²

Population growth rate: 0.972% change

Official language: Vietnamese

Currency: Vietnamese Dong (VND)

Nominal GDP: US \$241.3 billion

Real annual GDP growth: 7.1%

GDP per capita: US \$2,551.1

Annual inflation rate: 3.5%

Unemployment rate: 2.2%

General government gross debt: 55.6% of GDP

Fiscal balance: -4.4% of GDP

Current account balance: 2.4% of GDP/US \$5.8 billion

Exports of goods to UK: £4,397 million

Exports of services to UK: £201 million

Imports of goods from UK: £659 million

Imports of services from UK: £264 million

[Source – FCO Economics Unit (Nov 2019), World Bank]

Vietnam has quickly developed from a low-cost labour economy to an enterprise market containing high-value and high-quality products and services. Since 1986,

when its first economic reforms were introduced, the country's GDP has doubled every ten years. Due to its vibrant consumer base, and demand for high-quality goods, Vietnam has experienced some of the fastest economic growth in Asia, second only to China.

The population of Vietnam is recorded to be around 94.6 million, which is the third-largest in the southeast region, with over half below the age of 30. Due to its young population, the country has a growing demand for capital and consumer goods, enlarging its already growing domestic market.

Vietnam has begun an overhaul of transportation infrastructure, including the development of new urban railway networks and a new international hub airport, as well as working to expand existing regional airports.

In July 1995, Vietnam joined the Association of Southeast Asian Nations (ASEAN). Following its commitment to a number of ASEAN agreements, the country has allowed itself to become open to trade in the region. This has furthered Vietnam's integration into world trade, providing numerous commercial opportunities for businesses around the world, including the UK. These opportunities span across a number of sectors including agriculture, education, energy, financial and professional services, healthcare, life sciences, infrastructure and transport.

For exporters that are new to the region, Vietnam's strong economy makes the country an excellent gateway for doing business with other countries in Southeast Asia.

Contact a DIT Export Adviser at: <https://www.great.gov.uk/contact/triage/location/> for a free consultation if you are interested in exporting to Vietnam.

Contact UK Export Finance (UKEF) about trade finance and insurance cover for UK companies. You can also check the current UKEF cover position for Vietnam. See: <https://www.gov.uk/guidance/country-cover-policy-and-indicators#vietnam>.

[Source – UK-ASEAN Business Council, DIT Trade and Investment guide: Vietnam, UKEF, gov.uk]

Geography

Vietnam is a long, narrow, s-shaped country that at its narrowest point spans around only 50 km from east to west. From north to south, the country extends roughly 1,650 km and is located on the eastern Indochinese Peninsula between latitudes 8°N and 24°N and longitudes 102°E and 110°E. Vietnam shares a border with neighbouring China to the north, and with Laos and Cambodia to the west, the South China Sea to its east and the Gulf of Thailand in the southwest.

Vietnam consists of five municipalities and 58 provinces. The country is made up of several geographical and climatic regions which all have their own distinct characteristics. The principal regions are the north, south and central areas of the country.

In the north of Vietnam there are two distinct seasons. From November to April the country is in a cold and humid winter; in the summer months the climate is warm and wet. During these summer months, there is also a threat of potential typhoons.

The climate of central Vietnam can be split into two regions — the north and the south. Provinces in the north all share a similar climate, where temperatures can reach 22-30°C, on the cusp of being a tropical climatic zone. In the southern region, the temperature can rise to 38-40°C, creating a more tropical climate. These temperatures can lead to monsoon winds and rains, with March, April and May being the hottest months.

The southern region of Vietnam has similar climates to the central region; however, highland areas such as Da Lat can experience comparatively lower temperatures of around 21°C due to its 1,500 m elevation above sea level.

[Source – DIT]

[Insert map]

Political overview

Vietnam is a Communist state governed by the Communist Party of Vietnam (CPV). The 4.4 million-member party is in control of the country's strategic direction and ultimately makes all major decisions concerning any policy issues. The Government consists of the CPV General Secretary and President, Nguyen Phu Trong; the Prime Minister, Nguyen Xuan Phuc; and the National Assembly Chair, Nguyen Sinh Hùng.

The Politburo — a government body made up of the 16 most senior members of the CVP — possesses the ultimate political power. They preside over domestic economic development, international integration and national security, especially with regard to the South China Sea. This ultimately leaves them responsible for maintaining the political status-quo, as well as for providing the country with strategic direction.

Vietnam's parliament and legislative body is the National Assembly. They have shown an increasing willingness to provide an efficient oversight function in recent years.

All key political institutions, which includes the National Assembly, court, government ministries, government agencies, state-owned enterprises and official status mass organisations, contain members of the CPV and any senior positions require membership of the CPV.

To elect a new set of party leaders, the CPV holds the National Congress every five years. During the Congress, the previous five years' progress is reviewed and a collective strategy for the coming five is agreed upon. Most recently, Congress was held in January 2016, and a national election followed in May 2016 in order to elect the 500 deputies of the National Assembly.

The pace of change within Vietnam has been slow but continuous, making it more politically stable than many of its Southeast Asian neighbours. However, due to its one-party regime, the CPV discourages disagreement through restrictions on freedom of speech. This has led to obstructions, including access blocks to certain websites when using the internet in Vietnam, which has affected the use of social media and personal blogs. This can lead to many problems as the blocks usually take place without any prior notice or warning. Due to the rise of the middle class, this has recently been challenged.

Conflict within Vietnam itself is uncommon and tightly controlled, however some high-profile demonstrations have taken place, including protests against the positioning of a Chinese oil rig in the South China Sea, demonstrations fighting changes to Vietnam's Social Insurance Law, and continued unrest surrounding land rights.

Consistent adoption of an open foreign policy has allowed the country to focus on economic and political international integration. Vietnam continues to remain in close relationships with China and Russia, both strong BRIC countries. The country is now looking to expand its relations to other countries/areas such as the UK, the US, and the EU, as well as its regional partners Japan, South Korea, India and the ASEAN countries.

[Source – FCO Overseas Business Risk: Vietnam, gov.uk, BBC]

Business and human rights

Although freedom of association and collective bargaining rights are currently restricted, the Vietnamese Government has agreed to establish three key International Labour Organization (ILO) conventions on both collective bargaining and freedom of association, as well as on forced labour under the EU-Vietnam Free Trade Agreement. 'Equal Remuneration for Work of Equal Value', 'Discrimination in Employment and Occupation', 'Minimum Age for Employment' and 'Worst Forms of Child Labour' are the four further ILO conventions that the government has ratified.

There was a revision of Vietnam's Labour Code in 2012 as approved by the National Assembly. This revision included extending maternity leave to six months, introducing a minimum wage, capping the number of hours employees can work over their official daily hours at 50%, reducing the maximum term of work permits issued to foreign nationals working in Vietnam from three years down to two and removing the work permit exemption rule that applied to foreign nationals intending to work in Vietnam for less than three months.

All unions must be affiliated with the country's only trade union centre, the Vietnam General Confederation of Labour (VGCL). However, Vietnamese workers cannot freely join or establish an independent union. The National Assembly has recently passed an amended version of the Law on Trade Unions in order to protect the rights of Vietnamese workers by defining the responsibilities and obligations officially-recognised trade unions should be carrying out.

Women still face discrimination in the workplace, although female participation is currently high.

In terms of LGBT rights, Vietnam is one of the most progressive southeastern countries, with the capital, Hanoi, hosting its Viet Pride event annually. Even though the country is tolerant of different sexual orientations and legal reforms have been put into place, cultural discrimination against the LGBT community still exists.

For more information about business and human rights in Vietnam, see the Foreign and Commonwealth Office's Overseas Business Risk pages at: <https://www.gov.uk/government/publications/overseas-business-risk-vietnam/overseas-business-risk-vietnam#business-and-human-rights> and the UK's action plan on business and human rights at: <https://www.gov.uk/government/publications/bhr-action-plan>.

[Source – FCO Overseas Business Risk: Vietnam, gov.uk]

Economic overview

Vietnam made progress towards becoming a full market-orientated economy in 2007 when it joined the World Trade Organization, which helped the country to cement domestic reforms. This had the additional effect of positively influencing foreign direct investment (FDI), manufactured exports and property. As more sectors become available to FDI, it is likely that this beneficial impact will continue.

The sustained economic growth that the country has recently experienced means that Vietnam now has a GDP of US \$241.3 billion, positioning it as a middle-income economy. This is largely due to the country's transition into a market-orientated economy and away from central state control.

Economic growth, in recent years, has averaged at around 6.2%. In 2017, Vietnam's growth was recorded at 6.8%, increasing in 2018 to 7.1%. This growth has been led by the manufacturing sector due to foreign investment. Since 1991, Vietnam's GDP per capita has increased by 350%, making its middle-class the fastest growing in Southeast Asia.

Japan, South Korea, Taiwan and Singapore have seen Vietnam as an attractive FDI destination, with many other countries seeing the advantages too. Annually the FDI inflows average at 8% of GDP, higher than China and the ASEAN markets.

Since 2010, electronics and mobile phones have attracted many large investments, resulting in around 70% of smart-phones produced by Samsung being made in Vietnam. More generally, over half of total FDI stock is now in manufacturing, and most manufacturing outputs go to overseas markets.

Computers, electrical goods and mobile phones made up the majority of the £4.32 billion worth of goods imported into the UK from Vietnam. In 2018, the total UK exports to Vietnam were £863 million, and the UK, in comparison to other EU members, actively invests in Vietnamese education and training and financial services.

Vietnam's economy has a large, strong state presence, with more than 700 State-Owned Enterprises (SOEs). The government plans to privatise several of its major SOEs and increase the use of PPPs for the development of its infrastructure to help raise the amount of participation given from non-state sectors in the economy.

Vietnam is ranked 70th (out of 190) in the World Bank's 'Ease of Doing Business 2020' report, an increase of 12 places in overall rank in comparison with three years earlier. The new 2016-elected leadership is the reason for this significant improvement as they have established a strong commitment to creating conditions that are favourable in a business environment.

See the World Bank's full report on the issues of doing business in Vietnam, at: <http://www.doingbusiness.org/en/data/exploreconomies/vietnam>.

[Source – UKABC, World Bank, FCO Overseas Business Risk: Vietnam]

Free trade agreements (FTAs)

Vietnam is a member of the World Trade Organization (WTO) and of the Association of Southeast Asian Nations (ASEAN).

Launched in 2015, the ASEAN Economic Community (AEC) promotes reform and helps to raise economic growth in the region by improving trade facilitation, regulatory reform and financial development.

ASEAN is now an increasingly important economic region which is:

- made up of around 650 million residents
- predicted to become the fourth-largest single market by 2030
- expected to add over 200 million residents to the middle class

Overall, UK companies operating in the Southeast Asia region benefit from the AEC, and intra-ASEAN tariff reduction assists British firms producing and shipping within the region. See: <http://asean.org/> for further information.

ASEAN has signed six regional FTAs with:

- China
- Japan
- South Korea
- India
- Australia
- New Zealand

In 2019, the ASEAN and the EU signed an FTA, the EU-Vietnam Free Trade Agreement (EVFTA). This agreement will eliminate 99% of tariffs, and 65% of duties on EU exports to Vietnam will disappear with immediate effect. The remainder is due to be phased out over the next ten years. Exports out of Vietnam to the EU will have a reduction of 71% on duties, with the remainder to be phased out over the next seven years. Depending on the Brexit outcome, the UK will be able to participate in government tenders as domestic suppliers for the first time.

There are also bilateral free trade agreements with Japan, South Korea, Chile, and the Eurasian Economic Union.

You will benefit from preferential import duties on goods and services provided by your overseas subsidiary in countries that have bilateral FTAs with Vietnam if your company is in a contract with a Vietnamese buyer.

[Source – FCO Overseas Business Risk: Vietnam, gov.uk]

Top imports The top ten industries imported into Vietnam in 2018 were:

- Electrical machinery, equipment: US \$68 billion (26.6% of total imports)
- Machinery including computers: US \$24.5 billion (9.6%)
- Plastics, plastic articles: US \$13.2 billion (5.2%)
- Mineral fuels including oil: US \$11.9 billion (4.6%)
- Iron, steel: US \$11.4 billion (4.5%)

- Optical, technical, medical apparatus: US \$9.5 billion (3.7%)
- Knit or crochet fabric: US \$6.5 billion (2.6%)
- Vehicles: US \$6.4 billion (2.5%)
- Cotton: US \$5.1 billion (2%)
- Fish: US \$4.3 billion (1.7%)

See more about what Vietnam imports at World's Top Exports: <http://www.worldstopexports.com/vietnams-top-10-imports/>.

[Source – UK-ASEAN Business Council, World Bank, DIT Trade and Investment guide: Vietnam, World's Top Exports, FCO Overseas Business Risk: Vietnam, gov.uk]

World rankings

- In Transparency International's latest 2018 Corruption Perceptions Index (announced January 2019), Vietnam is ranked 117th out of 180 countries (the UK ranks 11th): <https://www.transparency.org/country/VNM>
- Vietnam is ranked 70th out of 190 countries in the World Bank's 2020 Ease of Doing Business Index (the UK ranks 8th): <http://www.doingbusiness.org/en/data/exploreeconomies/vietnam>
- The World Economic Forum's Global Competitiveness Report 2018-19 ranks Vietnam 77th out of 140 (the UK ranks 8th): <http://reports.weforum.org/global-competitiveness-report-2018/country-economy-profiles/#economy=VNM>

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[Source – DIT Trade and Investment guide: Vietnam, UKEF, gov.uk]

UK and Vietnam trade

Many well-established UK brands such as HSBC, Karen Millen, Standard Chartered, Clarks, Dr. Martens, Warehouse, Topshop and Oasis already trade in the Vietnamese

market. An increasing number are joining them, including Mini, Rolls Royce and Marks & Spencer.

Incentives for UK businesses exporting to Vietnam Incentives for UK businesses exporting to Vietnam include:

- member of ASEAN and its free trade area
- one of DIT's 20 high-growth markets
- forecast to be one of the top ten fastest growing economies in the next decade
- continuing liberalisation of its economy

Benefits for UK businesses exporting to Vietnam Benefits for UK businesses exporting to Vietnam include:

- young population of around 95 million
- continuing economic reforms, with sectors such as retailing being liberalised to attract foreign investment
- amongst the highest internet penetration in Southeast Asia

[Source – UK-ASEAN Business Council, DIT Trade and Investment guide: Vietnam, gov.uk]

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