

Why Vietnam?

Background

Overseas investors in Vietnam remain committed to the country and it is not difficult to see why. With the third largest population in South East Asia, after Indonesia and the Philippines, and more than half of the population below the age of 30, Vietnam is a youthful and vibrant country with a developing culture of entrepreneurship, technological awareness and openness to new ideas. With literacy rates of over 90%, the workforce is vast and well-educated. Employment costs are lower than in neighbouring countries and living standards are rising. Vietnam has made a remarkable recovery over the last few decades.

Following the destruction of war, the loss of Soviet financial support and coping with the constraints of a centrally-planned economy, Vietnam has made a remarkable recovery over the last few decades, and has emerged as an economically durable, politically stable, rapidly expanding market.

Vietnam became a member of the World Trade Organization (WTO) in 2007, which helped to secure domestic reforms and was requisite in the country's progress towards becoming a market-orientated economy.

Vietnam – Quick Facts

Full name:

Socialist Republic of Vietnam

Located in:

South-East Asia

Capital:

Hanoi

Area:

329,560 km²

Land borders:

China, Laos, Cambodia

Language:

Vietnamese

Population:

92 million (2015 est.)

Average age:

30 years

Urban population:

33.1%

Literacy:

94.5%

Government type:

Communist State

GDP (per capita):

USD \$2,052 (2014 est.)

GDP growth:

6.5% (2015 est.)

Labour force:

54.7 million (2015 est.)

Unemployment:

2.4% (2014 est.)

Monetary unit:

(VND) Dong

Export value:

USD \$ 120.22 billion (Jan - Sep 2015)

Export commodities:

clothes, shoes, electronics, seafood, crude oil, rice, coffee, wooden products, machinery

Import value:

USD \$124.25 billion (Jan - Sep 2015)

Import commodities:

machinery and equipment, petroleum products, steel products, raw materials for the clothing and shoe industries, electronics, plastics, automobiles

(Source – UKTI / CIA World Factbook:
www.cia.gov/library/publications/the-world-factbook/geos/vm.html)

Economic overview

Since the country's first major economic reforms in 1986, Vietnam has made rapid economic progress. The continuous development from a low-cost labour economy to a higher value, high-quality enterprise marketplace has contributed to the forecast that Vietnam will be among the top 10 fastest-growing economies in the world, within the next few decades. With a youthful population of around 92 million, there are many strengths of the Vietnamese economy, including continuous economic reforms and boasting one of the highest internet penetration levels in South East Asia, with 48.3% of the population (Jun 2015) having access to broadband.

Economic growth averaged 6.5% in 2015, after Vietnam started its transition from a centrally planned to a market economy in 1986. GDP per capita has increased by 350% since 1991 (2nd only to China) and Vietnam now has the fastest-growing middle-class in South East Asia. Although slowing in recent years, growth has now ticked up again, led by the foreign-invested manufacturing sector.

The country has long been an attractive foreign direct investment (FDI) destination, particularly for Japan, South Korea, Taiwan and Singapore. FDI inflows average 8% of GDP annually, the highest among major emerging markets in ASEAN and proportionately larger than China. More than half of total FDI stock is in manufacturing. Electronics and mobile phones, in particular, have since 2010 attracted large investments; around 70% of Samsung's smart-phones are now made in Vietnam. Most manufacturing outputs are for overseas markets.

Total trade already amounts to 170% of GDP. Vietnam joined the WTO in 2007 and has free trade agreements (FTAs) under negotiation, as well as existing agreements with nearly 20 countries. Negotiations on the EU-Vietnam FTA were concluded on the 2nd December 2015, which is expected to come into force over the next couple of years. It is also a member of the Trans-Pacific Partnership (TPP). The country is also

investing in improved infrastructure, much of which is being financed by Japan but they are also exploring public-private partnerships.

Vietnam is ranked 78th (out of 189) in the World Bank's (WB) "Doing Business 2015" report" ahead of some of its regional neighbours, such as the Philippines (95), Indonesia (114) and Cambodia (135). Read the World Bank's more in-depth publication on the issues of Doing Business in Vietnam.

In the Global Competitiveness Report 2014-15 published by the World Economic Forum, Vietnam is ranked 68 (out of 144). Both reports highlight red tape and corruption as continuing challenges for foreign companies seeking to do business in Vietnam.

The UK Prime Minister David Cameron's official visit to Vietnam in July 2015 was a significant step towards developing a stronger bilateral relationship, building up on the UK-Vietnam Strategic Partnership agreement signed in September 2010.

Vietnam is a signatory to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards of 1958, otherwise known as the New York Convention, and its provisions are incorporated into Vietnamese law. However, unofficial statistics suggest that international arbitration awards are recognised in only approximately 50% of cases within the country.

Separately, we have received reports of sellers not receiving payments under letters of credit issued in respect of exports to Vietnam. Vietnamese courts have a wide degree of discretion in their enforcement and injunctions have been issued to stop payments under these letters when there is a dispute between the buyer and seller. (*Source – www.gov.uk/government/publications/overseas-business-risk-vietnam*)

Political overview

Vietnam is a one party state ruled by the Communist Party of Vietnam (CPV). The CPV, with a membership of around 4.4 million members, sets the political direction for Vietnam. Ultimate political power resides in the Politburo; the 16 most senior members of the CPV who are responsible for deciding the strategic direction of the country. This includes stability, retaining the political status quo, domestic economic development and international integration. The National Assembly, Vietnam's parliament, is the legislative body and in recent years has shown a growing willingness to provide an effective oversight function.

CPV members are present in all key political institutions, including in the National Assembly, the Court, government ministries and other agencies, state-owned enterprises, and mass organisations with official status. All senior positions require CPV membership. Vietnam's focus on continuity and the slow pace of change means that Vietnam is one of the more politically stable countries in Southeast Asia.

Every five years, the CPV organises the National Congress to review progress made during the past 5 years, agree on a collective strategy for the next 5 years, and select a new set of Party leaders.

As a one-party regime, Vietnam does not welcome dissent. There are restrictions on freedom of speech which can affect internet usage, particularly the use of social media and personal blogs, access to which can be blocked without notice. This has been increasingly contested with the rise of a middle class with more aspiration for inclusive development and a better life quality as well as the popularity of the Internet and social media networks.

Internal conflict is rare although 18 months ago, there were a small number of high-profile protests including a series of anti-China demonstrations followed by unrest in several industrial zones after the placement of Chinese oil rig in the South China Sea. There were also demonstrations against proposed changes to Vietnam's Social Insurance Law.

Since the beginning of Vietnam's Doi Moi process, Vietnam has consistently adopted an open foreign policy focussing on international economic and political integration. Vietnam has maintained its close relationship with Russia and China but has also sought to forge stronger relations with a more diverse range of foreign partners including with the UK, US, France, EU and regional partners such as Japan, Korea, India and the ASEAN group.

Growth potential

As one of the most dynamic economies in Asia, Vietnam has a vast market for capital goods as well as an expanding domestic market for consumer goods. New urban rail networks, an international hub airport and the expansion of regional airports are all part of the country's enterprising programme of major infrastructure developments.

Gross domestic product (GDP) is recorded at USD \$186 billion after an increase of 5.98% in 2014. Per capita purchasing power is around USD \$2,052. Annual growth is estimated to be approximately 6.6% from 2015 to 2017.

The liberalisation of the retail sector has attracted foreign investment. Trade in Vietnam's retail sector grew at a rate of 10.6% in 2014, which is +6.3% in real terms. *(Source – UKTI)*

Trade between the UK and Vietnam

Many well-established UK brands are already trading in the Vietnamese market, such as HSBC, Karen Millen, Standard Chartered, Clarks, Dr Marten's, Warehouse, Top Shop and Oasis. There are increasing numbers of UK companies following in their

footsteps, with Mini, Rolls Royce and Mark and Spencer establishing a presence in 2014. Vietnam is listed as one of UK Trade and Investment's 20 high growth markets and the country offers a range of incentives to exporting UK companies. A member of Association of Southeast Asian Nations (ASEAN) and its free trade area, Vietnam is liberalising its economy and is predicted to become one of the top 10 fastest-growing economies within the next ten years.

In 2014, UK exports increased by 12% from the previous year, totalling £269 million. Top 10 UK goods exports:

- medicinal and pharmaceutical products
- machinery and mechanical appliances
- chemical materials
- professional and scientific equipment
- iron and steel
- electrical machinery and equipment
- animal feeds
- fish and crustaceans
- dyes, pigments, paint, vehicles, and parts & accessories (not rail)

(Source – UKTI)

Trade and investment connections are an important component of the 2010 UK-Vietnam Strategic Partnership Declaration. This foreign policy agreement was designed to spearhead cooperation between the UK and Vietnam in the seven following key areas:

- political, global and regional issues
- trade and investment
- sustainable socio-economic development
- education and training
- science and technology
- security and defence

- people to people links

Both the UK and Vietnam recognise the importance of commitment to free trade and open markets, in ensuring continued global development and intensifying the relationship between both countries for mutual benefit. For more information visit: www.gov.uk/government/news/uk-vietnam-strategic-partnership-declaration

(Source – www.gov.uk/government/news/uk-vietnam-strategic-partnership-declaration)

The UK is the third largest EU investor in Vietnam – the largest investor in the education sector. Foreign direct investment (FDI) from the UK in Vietnam currently equates to USD \$2.7 billion, and is expected to meet the target of USD \$3 billion, which was set under the UK-Vietnam Strategic Partnership Declaration. *(Source – UKTI)*

Free trade agreements (FTAs)

Vietnam is a member of the World Trade Organization and ASEAN, and has signed regional free trade agreements with Japan, China, India, South Korea, Australia and New Zealand. Vietnam also has bilateral free trade agreements with Japan, South Korea, Chile and the Eurasian Economic Union.

On the 2nd December 2015, the EU and Vietnam announced the conclusion of the negotiations for an EU-Vietnam Free Trade Agreement (FTA). It is expected to come into force in a couple of years.

(Source – www.ec.europa.eu/trade/policy/countries-and-regions/countries/vietnam)

The ASEAN Economic Community (AEC) was officially launched on 31st December 2015. Overall, the AEC will benefit UK companies operating in the region. The AEC agenda helps promote reform and raise economic growth in the region. Improved trade facilitation, regulatory reform and financial development will benefit all domestic and foreign firms. British firms producing and shipping within the region can benefit from intra-ASEAN tariff reduction.

(Source – www.gov.uk/government/publications/exporting-to-vietnam/exporting-to-vietnam)

A Trans Pacific Partnership agreement (12 nations including the USA) was signed in October 2015. This agreement has yet to be ratified by all the nations.

If your company is in a contract with a Vietnamese buyer, products and services provided by your overseas subordinate in these countries will benefit from favourable import duties.

(Source – UKTI)

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