

Vietnam

Major Business Sectors

Compiled by:

Swiss Business Hub ASEAN/Vietnam Office

Hanoi, June 2015

OVERVIEW AND TRENDS

Vietnam has started to carry out reforms since 1986, focusing on market economic management. The reforms are based on three pillars: 1) restructuring to build a multi-sector economy; 2) financial, monetary and administration reforms and 3) the development of external economic relations.

Vietnam has created an ever more competitive and dynamic economic environment. The multi-sector economy has been encouraged to develop, thus mobilizing effectively all social resources for economic growth. External economic relations have been expanded and the flow of foreign direct investment increased. Export of goods and labor, tourism industry and remittances from overseas Vietnamese have been strongly promoted to generate increasing foreign earnings for Vietnam. Along with improvement of the business environment, market economy institutions have also been established. It is the Government policy to eliminate the central planning mechanism, emphasize monetary - market relations, focus on economic management measures and establish an array of financial institutions, banks and basic markets for money, labor, goods and land, etc. The administrative reform was promoted so as to improve economic competitiveness and to mobilize all resources for the country's development.

Structure of the Vietnamese economy 2014, GDP by sector (%)

| | 2010 | 2011 | 2012 | 2013 | 2014 |
|--|------|------|------|------|-------|
| Primary sector Agriculture, Forestry and Fisheries | 18.2 | 22 | 19.7 | 18.4 | 18.12 |
| Secondary sector Industry and Construction | 42.2 | 40.3 | 38.6 | 38.3 | 38.50 |
| Tertiary sector Services | 38.6 | 37.7 | 41.7 | 43.3 | 43.38 |

Source: Vietnam General Department of Statistics

DOMESTIC

Period: 2014

| BUSINESS SECTOR | % OF GDP | CHANGE FROM PREVIOUS | VALUE IN USD BILLION |
|---------------------------------|----------|----------------------|----------------------|
| Agriculture, Forestry, Fishery | 18.12 | +8.23 | 32.3 |
| Industry | 33.17 | +10.6 | 59.4 |
| Mining | 11.32 | +8.2 | 20.2 |
| Manufacturing | 17.46 | +9.6 | 31.2 |
| Power generation & transmission | 3.9 | +23.5 | 0.7 |
| Water supply, waste management | 5.1 | +9.3 | 0.9 |
| Sales of automobiles, vehicles | 13.57 | +10.9 | 24.3 |
| Hospitality & Catering | 3.9 | +10.0 | 0.7 |
| Banking/Finance & Insurance | 5.34 | +6.2 | 0.9 |
| Real estate | 5.22 | +6.6 | 0.93 |

Source: Vietnam General Statistic Office GSO (www.gso.gov.vn)

IMPORTS

Period: 2014

| BUSINESS SECTOR | % OF IMPORTS | CHANGE FROM PERVIOUS YEAR 2013 (%) | VALUE IN USD BILLION | MAIN COUNTRIES OF ORIGIN |
|-------------------------------|--------------|------------------------------------|----------------------|---|
| Machinery & parts | 15.2 | 20.2 | 22.46 | China, Japan, EU, South Korea, Taiwan, US. |
| Computer & electrical goods | 12.7 | 6.0 | 18.77 | South Korea, China, Singapore, Japan |
| Textiles/Fabrics | 6.4 | 14.0 | 9.5 | China, South Korea, Taiwan, Japan, US |
| Mobile phones & parts | 5.8 | 6.7 | 8.6 | China, South Korea |
| Petrol | 5.1 | 9.3 | 7.6 | Singapore, China, Taiwan, Kuwait. |
| Steel | 5.1 | 14.2 | 7.6 | China, Japan, South Korea, Taiwan |
| Plastics and plastic products | 6.4 | 13.1 | 9.5 | Saudi Arabia, South Korea, Taiwan, Thailand |

| | | | | |
|--|--------------|--------------|--------------|---------------------------------------|
| Feed and compounds | 2.2 | 5.6 | 3.25 | Argentina, US, India, Brazil. |
| Materials & accessories for garment & shoe | 3.2 | 25.6 | 4.7 | China, South Korea, Taiwan, Japan, US |
| Total | 100.0 | 14.81 | 148.0 | |

Source: Vietnam General Department of Customs

EXPORTS

Period: 2014

| BUSINESS SECTOR | % OF EXPORTS | CHANGE FROM PERVIOUS YEAR (%) | VALUE IN USD BILLION | MAIN DESTINATION COUNTRIES |
|-------------------------------|---------------------|--------------------------------------|-----------------------------|--|
| Mobile phones and parts | 16.05 | 13.40 | 24.08 | EU, United Arabia, India, Hongkong |
| Garments & textiles | 13.84 | 15.80 | 20.76 | US, EU, Japan, South Korea |
| Computer, electronics & | 7.77 | 10.0 | 11.66 | EU, China, US, Malaysia |
| Footwear | 6.81 | 21.6 | 10.22 | EU, US |
| Crude oil | 4.78 | -0.7 | 7.18 | Japan, Australia, Malaysia, China, South Korea |
| Seafood | 5.25 | 17.6 | 7.87 | US, China, Canada, Brazil, EU, Japan, South Korea, Australia |
| Machinery & parts | 4.84 | 20.6 | 7.26 | Japan, US, EU, China, Hongkong |
| Wood products | 4.07 | 9.1 | 6.10 | US, China, Japan, EU |
| Transport means & spare parts | 3.65 | 10.4 | 5.48 | Japan, South Korea, US, Thailand |
| Total | 100.0 | 13.6 | 150.04 | |

Source Vietnam General Department of Customs

PROMOTION OPPORTUNITIES

1. Attractive sectors

Electricity: Power generation, transmission and distribution are controlled by the Electricity of Vietnam EVN, a state owned. There are 24 locally owned medium-large power plants that have a joint capacity of MW10'000. Currently, generation relies on hydro (40%), with thermal and gas accounting for the rest. Obviously drought and natural disasters could threaten the water supply. The Government estimates predict demand growing by 10-

15% per year. Economic expansion, further industrialization and increase of rural electrification rate from 75% to 100% by 2010 will fuel this growth. To meet this demand, Vietnam power industry needs around US\$ 15 billion to upgrade existing generation plants, transmission and distribution facilities. Both domestic and foreign investors are encouraged to build 75 more power plants through commercializing its operations. Electricity is a rapid evolving sector and participation of foreign and non-EVN domestic investors will present new opportunities for suppliers. They are consulting and supply of machinery and equipment (particularly turbines). Focus areas will be hydro dam rehabilitation, rural electrification and high-voltage transmission. Equipment required will rely on import and technology transfer.

Government authority: Electricity of Vietnam EVN: www.evn.com.vn (under the Ministry of Industry www.moi.gov.vn).

Logistics: Vietnam's logistics market is worth US\$60 billion. In total, there are around 1,000 logistics firms – 25 of which are foreign firms, who hold 80% of the market share, worth US\$48 billion. The ocean shipping services are dominated by joint ventures while road-shipping services are mostly handled by domestic firms. Cold Chain (storage and cold transportation), is considered as most growth potential for foreign investors. Growth of major retailers and the increasing export of farming and seafood products are expected to create multiple opportunities for Cold Chain, which is still under-invested. In January 2014, in accordance with World Trade Organization (WTO) service sector commitments, Vietnam began allowing wholly foreign-invested enterprises to enter the logistics market in almost every sector. However, the container handling services and road transport services sectors still require a joint venture to be formed with Vietnamese partners. Logistics operations in Vietnam are **costly** relative to China, Malaysia, and Thailand, because of the unpredictability in supply chains, making businesses to carry more inventory to their everyday operations. It is estimated that Vietnam's shippers spend approximately US\$100 million annually in extra inventory carrying costs due to import-export clearance delays, an amount that is projected to reach US\$180 million by 2020. Key root causes of supply chain unpredictability are:

- Cumbersome and inconsistently-applied government regulations;
- Lack of automation in key trade-related processes such as trade clearance;
- Fragmented modal planning in transportation;
- A belief among shippers and logistics service providers that facilitation payments are necessary to avoid delays in supply chains;
- Low barriers to entry in trucking; and
- Major supply-demand imbalances in infrastructure provision.

Useful links are Vietnam Freight Forwarders Association: www.viffas.org.vn and the Ministry of Transportation www.mt.gov.vn

Software outsourcing: Although the software industry (SI) in Vietnam is a young sector whose turnover does not appear impressive, the software industry (SI) might make other industries in Vietnam envy them for the level of attention it receives from the government. B involved in software production and services, both local and foreign invested, are exempt from corporate income tax (28%) for four years from the date they generate their

first taxable income. Software products will receive a 0% Value Added Tax (VAT) and be free from export tax. Currently, most software companies in Vietnam are small-sized, with exception of three mid-sized enterprises with more than 500 programmers: FPT, TMA Solutions and FCG Vietnam. Despite this, Vietnam has been quite successful in attracting numerous major big corporate names to outsource software projects to Vietnam. Among the names that have done so are IBM, Bayer, BP, Fuji, Nortel Networks, NTT and Sony. All have outsourced software projects to Vietnam either directly or through third-party subcontracts. Although the SI's revenue in 2005 of \$200 million was far from expectations, the steady growth rate in the last five years of 25%, which is forecasted to continue through 2010, certainly unveils the Vietnamese government's ambition and aspiration for technology advance in this industry. Useful websites:

- Ministry of Posts and Telematics: www.mpt.gov.vn;
- Vietnam Software Association www.vinasa.com

2. Trade fairs

Vietnam Chamber of Commerce and Industry: http://vibforum.vcci.com.vn/category.asp?cate_id=22

Vietnam Trade Promotion Agency:

http://www.vietrade.gov.vn/index.php?option=com_content&task=view&id=4168&Itemid=484

3. Trade and business opportunities

Vietnam Chamber of Commerce and Industry: <http://vibforum.vcci.com.vn/opport.asp>

Vietnam Trade Promotion Agency/English/Trade Leads: <http://www.vietrade.gov.vn/>

FURTHER INFORMATION AND LINKS

| | |
|---------------------------------------|--|
| Vietnam Trade Promotion Agency | www.vietrade.gov.vn |
| Ministry of Foreign Affairs | www.mofa.gov.vn |
| Vietnam Economic News | www.ven.vn |
| Vietnam General Department of Customs | www.customs.gov.vn |

Date: 24th June 2015
Author: Mrs Phung Hoang Anh, Trade Officer
Author's address: Embassy of Switzerland
Hanoi Central Building Office, 15th floor,
44B Ly Thuong Kiet Street, Hanoi
G.P.O. Box 42
Tel. +84 4 3934 65 89 Ext. 5505
Fax +84 4 3934 65 91
Email: hoang-anh.phung@eda.admin.ch