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Vietnam

Market information
Sectors with potentialities
Market approach & Business tips

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Market information



Economic Overview

Vietnam has been one of the fastest-growing economies in Asia in recent years, with GDP growth averaging 6.5% annually between 2000 and 2014. The country's economy keeps strong growth over the coming years on the back of continued export resilience and ongoing reform measures by the government to shore up the country's business environment. The Asian Development Bank forecast that Vietnam's GDP will likely to grow 6.5% in 2015 and 6.6% in 2016.

The economic structure has been adjusted to the better direction that the services sector continued to contribute the largest portion to the GDP, (increasing from 41.7% in 2013 to 43.4% in 2014). Industrial and construction sectors ranked second with 38.5% thanks to the strong manufacturing sector expansion, then agriculture of 18.12% (shrinking from about 25% in 2000 due to global lower demand). The foreign invested sector was identified as an

increasingly significant source of growth for the Vietnamese economy, accounting for nearly 20% of GDP and 22% of the total investment in 2014.

There are a vast improvement in business environment such as the legislative improvement of the new Enterprise and Investment Laws, the continuation to improve business conditions to encourage foreign investment SUCH AS: opening room in securities market; begin selling a larger chunk of stake in SOEs, to help the privatization drive to pick up speed; and reduction of number of business areas that are restricted to foreign investors from the current 51 to just 6 over the coming months,; and loosening business regulations in more than 100 other areas. Overcoming bureaucratic procedures by application of improved facility and information systems has better served enterprises for reduction of registering a new business from 32 days to 5 days, aiming for a further reduction to 2 – 3 days by 2015; the tax filings and payments from 537 hours to expected 171 hours by 2015...

As the global economy has slowly recovered from the financial crisis, Vietnam's economy showed positive signs of continued macroeconomic stabilization throughout 2014 and 2015 with lower inflation, stability in the exchange rate, and stronger external account balances. However, there are still potential macroeconomic risks which require the Vietnamese government to speed up institutional and administrative reforms in order to improve the business and investment environment.

With deep integration into the multilateral and regional economy, Vietnam is expected to witness a significant growth in the upcoming years:

- Vietnam joined the World Trade Organization in January 2007, which has promoted more competitive, export-driven industries.
- From the beginning of 2015, in accordance with Asian Free Trade Area (AFTA)'s, Vietnam will remove the majority of tariffs to increase the free mobility of commodities and labour force within ASEAN. Thus, the ASEAN Economic Community (AEC) is to be established by the end of 2015.

- The country is working with the United States, and ten other countries¹ to craft a high-standard free trade agreement (Transparent-Pacific Partnership – TPP) that will provide wider market access for goods and services, enhance labour standards, improve the transparency and consistency of the regulatory environment to make it easier for small- and medium-sized businesses to operate across the region.
- In August 2015, the EU and Vietnam agreed in principle on the Free Trade Agreement (FTA). This agreement will ease rules, standards and regulations for exporters, reducing duty fees and tariffs as well as extending working permissions for EU workers.

Belgium-Vietnam Trade and Investment:

In 2014, Vietnam ranks the 60th client and 36th supplier of Belgium with the total trade volume of more than EUR 1.5 billion. Belgium exports to Vietnam mainly of precious metals & stones, chemicals and machinery & equipment and imports from Vietnam mainly of footwear, headgear, textiles and raw hides, skins, leather.

Until March 2015, Belgium has 57 FDI projects in Vietnam with a registered capital of 419.81 million US dollar. With this, Belgium ranks 26th out of 101 countries investing in Vietnam.

¹ Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore

High potential sectors

Construction and engineering services for infrastructure development

Vietnam continues to exhibit significant potential for growth in construction in infrastructure sectors base on a youthful population, large consumption base, high infrastructure deficit...an ambitious program of major infrastructure developments including new urban railway networks, a new international hub airport and expansion of regional airports opens many development opportunities.

The construction sector is expected to have the real growth of 5.9% in 2015 and up to average 6.1% per annum between 2015-2019. Positive reform momentum as seen in the new Decree regarding Public-Private Partnerships (PPP), as well as implementation of the 2014 Investment Law will help facilitate private investment and also boost foreign direct investment (FDI). Expectations of stronger GDP growth in 2015 also bode well for the financial viability of construction projects. Sustained growth in manufacturing activity and easing of foreign property ownership regulations will boost residential and non-residential construction.

Awareness of sustainable and green buildings is just beginning to emerge which provides opportunities in this new field. Engineering design, architecture service, construction, logistics, public lighting, etc are advantages of some Brussels companies that would be worked out if they are in group for a package proposal in tackling with the lack of fund as the main problems faced by both developers and investors.

Environmental protection and new technologies

Vietnam's environment is under considerable stress from rapid economic growth, urbanization and rising human pressure on relatively scarce natural resources. Water pollution, hazardous waste, water supply, inundation, climate change... are among environmental issues drawing increasing attention and investment of the

local authorities. European technology is much in advance in comparison with other Asian competitors, however, due to the non-commercially viable nature, the state budget, and ODA is the main source of capital for these projects. The exhausting natural resources put Vietnam in more attention to energy efficiency, renewable sources such as wind, solar energy and waste to energy...

Vietnam has committed to substantially improve access for EU companies to a broad range of services sectors, including environmental services in the course of opening the Vietnamese market for EU services operators.

Agro-processing

The agriculture industry is significant for the Vietnamese economy. It contributes to about 18% of the country's GDP. The government has pledged to invest more than US\$ 1 billion in the agricultural sector in order to increase the value of its exported products by at least 20% over the next ten years. This would imply lifting the quality of agricultural outputs such as coffee and rice, through better technologies. Reviewing legal framework, regulations and standards on food safety, hygiene and promoting the application and certification of GAP, GMP, GAHP, etc are in need.

The target to develop this sector was concretized in the Plan on Restructuring Agriculture in mid 2013 where favourable conditions, policies and priority will be given to those including plant or animal breeding for optimal productivity, quality, climate and insect resistance as well as upgrading infrastructure for food preservation and processing. In fishery, public investment will be concentrated on providing or improving infrastructure for the country's main fisheries, breeding grounds, fishery ports, storm shelters and also to upgrade processing methods which ensure food safety. Irrigation investments will be focused on serving various industries from fisheries to households' clean water supply. Investment funds have also been set aside for general maintenance and upgrading of existing irrigation works. Attention is given towards research institutes, training centers and hi-tech manufacturing within ecological regions. These, in turn, will open opportunities for technical assistance, know-how

transfer, equipment supply and certification related services provided by Belgium companies.

Moreover, within the commitment for EU-Vietnam FTA, Vietnam will open its market for most EU food products, both primary and processed, allowing EU high quality exports to reach its growing middle class consumers. Products such as wines and spirits will be duty liberalised after 7 years; frozen pork meat will be duty free after 7 years, beef after 3 years, dairy products after a maximum of 5 years and food preparations after a maximum of 7 years; chicken will be fully liberalised after 10 years.

Pharmaceuticals and healthcare services

Vietnam's pharmaceutical market continues to grow rapidly to meet the increasing demand of the more than 90 million population of increasing income. In 2014, almost 2.05% of the country's GDP was spent on pharmaceuticals, as combined sales of prescription drugs and over-the-counter medicines - sold through pharmacies and hospitals at consumer prices- reached US\$ 3.8 billion. Between 2014 and 2019, Vietnam's pharmaceuticals sales will grow at a compound annual growth rate (CAGR) of 13.8% in US\$ terms. Though the government offers incentives for encouraging the production of drugs, foreign investment in the sector is limited as 90% of production materials and more than 50% of pharmaceutical products are imported.

There are not enough hospitals to meet rising demand. About 30,000 Vietnamese travel abroad for specialist treatment at a yearly cost of more than US\$ 1 billion.

Besides exporting pharmaceuticals and drug materials, design and construction of modern hospital facilities, ITC equipment and software for professional management, training, insurance policies in healthcare services are the opportunities when there is a significantly increasing number of private hospitals and demand for high quality healthcare services from both private and public ones.

In this field, according to the principle agreement of the EU-Vietnam FTA, EU companies will be able to bid for public contracts with 34 public hospitals, and foreign-invested companies are allowed to import and sell medicines to distributors and wholesalers within the country.

Information and Communication Technology

Though in March 2015, Vietnam was awarded first position in the world outsourcing location rankings in annual research from Cushman & Wakefield, it is also a potential market of high-tech ITC and software applications. Demand for software application in banking and finance, healthcare, education, construction, legal practice, corporate management is envisaged when the country aims at a sustainable development from the current bleak economy. As retail banking is expected to become the most important segment after 2015, local banks have seen the need to invest in information technology infrastructure. Satellite hospitals are in development to reduce overloaded in central hospitals by better IT application in hospital management and connection network.

Market approach

Brussels companies can approach the Vietnamese market step by step in several legal bases :

- Export directly
- Set up an agency
- Appoint a distributor
- Open a representative office
- Open a branch
- Form a joint venture
- Set up a 100% owned company
- Enter into a business cooperation contract
- Enter into a Build-Operate-Transfer (BOT), PPP type contract
- Franchise/licensing

Recommendations

Vietnam's long term economic prospects fuelled by demographics and the dynamism of its workforce look promising. With a population of 90 million Vietnam is set to become an increasingly important market. Vietnamese import demand is expected to grow by around 250% between 2010 and 2020 - faster than any other emerging power. It's a good time for Belgian business to explore emerging opportunities so they are able to play their part in Vietnam's economic transformation.

Commercial opportunities for Belgium companies are in:

- Sales of equipment, machineries, technologies, materials and consulting, management services... associated with growth in Vietnam's industrial and export sectors and implementation of major infrastructure projects.
- Emerging opportunities in the consumer and services sectors thanks to growing estimated GDP per capital of about US\$2,133 in 2015 or the growth of tourist with disposable income making Vietnam one of the most attractive destinations for retailers in the South East Asian region.
- Promising opportunities in development of telecommunications, information technology, petrochemical and metallurgy industry, power generation, ports and logistics in transport, environmental project management and technology, air cargo and maintenance services, education and intensive labour manufacturing sectors as the need for continuation of Vietnam rapid economic development.
- Participating in the room opening at the securities market and in buying stakes in state-owned enterprises (SOEs).

- Increasing demand for (i) key agricultural inputs to industrial production such as malts, wheat flours, hides and skins, feed ingredients ... helping fuel Vietnam's export led manufacturing strategy, and (ii) consumption oriented products such as meat, dairy, butter, chocolate and food products....

Business tips

Doing business in Asia requires some knowledge about the Asian customs and the Asian way of working. Therefore, it is important to know some business tips.

The importance of saving face

Saving face means that you should allow your business partners to make concessions gracefully, without having to admit that they made a mistake or backed down. It also means not bragging about victories in negotiations because it makes the other side look bad and feel badly, which can encourage them to withdraw their cooperation with any previous agreements. So, if you want to build up a long-term relationship with your contacts, keep your counterpart in good face. If a contact loses face, you might lose the contact.

Dress conservatively

It might sound very trivial, but Vietnamese people appreciate it if men wear suits and women wear dresses or suits. During the warmer months, you can leave the suit jacket at home.

Present business cards in Vietnamese and English

In Asia, business cards are vital! Every first meeting starts with the exchange of business cards, so make sure that you have a large supply of business cards and advertising material. Business cards can be printed easily all over town.

Address colleagues by Mrs./Mr. and then the given name

Vietnamese names start with family name, then middle and then given name. Use the title (professor, doctor...) if applicable.

Build relationships

Connections and introductions are an important part of doing business in Vietnam. Take your time for building up a network and invest in people. When you meet with senior officials, you can begin discussing business after initial pleasantries. With junior level officials, you should spend time on relationship building.

Always aim at a consensus

In Vietnam, decisions are made in committee and by consensus, so consensus at different levels is very important if you want to make progress. Be aware that corruption can be a problem in Vietnam as it is in many developing countries.

Conduct research

It is imperative that you conduct research while still in Belgium, so learn about the country and the market, and identify local representatives and target companies for contact.

Long-term commitment

Be patient! The Vietnamese society is still very much "relation based". Connection over time and face-to-face meetings are critical in building trust and encouraging support.

Contact the Embassy and the commercial offices

We are here to provide you good business information and great sources of networking, and to defend your interest to local authorities.

This report is synthesized from the below sources:

- *Reports of BMI Research*
- *Statistics of Belgian Foreign Trade Agency*
- *Statistics of Vietnam's General Statistics Office*
- *Doing Business in Vietnam by Grant Thornton*
- *Articles of Vietnam newspapers*