

Media Coverage

Vietnam's fundamentals point to robust medium-term outlook

Vietnam's sound economic growth and political stability provide international companies with the right environment to partake in the country's ongoing manufacturing boom, which could see sustained growth when the region's various trade pacts come into effect.

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Singapore and Vietnam commemorated their close ties in September at the 20th anniversary of the Vietnam-Singapore Industrial Park (VSIP). Two memoranda of understanding were inked to potentially expand the size of the current VSIP by 20 percent.

During Vietnamese President Tran Dai Quang's visit to Singapore, he also spoke about the opportunities for Singaporean and international businesses in Vietnam and the country's continued efforts to attract investors.

Over the past few years, Vietnam has witnessed rapid economic growth on the back of strong manufacturing, growing exports and inflow of foreign direct investment (FDI). While Vietnam's economy slowed in the first two quarters of 2016 owing to the worst drought it has seen in three decades and the uncertain global economic environment, the country's economic fundamentals are in place and point to a robust medium-term economic outlook.

Growth boosters

The optimism centres on the continued strong performance of the manufacturing and services sectors, which we expect to continue to hold up in the coming quarters. Another reason is the string of initiatives undertaken by the Vietnamese government to promote investment—including financial sector reforms, and simplification and streamlining of regulations, among others.

Vietnam is also witnessing a large influx of FDI. In 2015, for the second year running, Vietnam topped the emerging markets FDI Performance Index, scoring 6.5 times above its weight, according an annual study of 14 countries by fDi Intelligence. In 2014 and 2015, Vietnam attracted FDI in 244 and 224 projects respectively, and 47.8 percent of 2015's projects were in the manufacturing sector.

Another factor that contributes to the robust economic outlook is the economic transformation that is being witnessed in China. Owing to increasing manufacturing costs, many manufacturers – both international and Chinese – have begun moving production out of China. This has opened up the opportunity for others to take China's place in basic manufacturing.

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With substantially lower labour costs, Vietnam is one of the primary beneficiaries of this transformation. Currently, labour costs in Vietnam are 50 percent of those in China and around 40 percent of those reported in Thailand and the Philippines. Vietnamese workers are inexpensive and skilled, and its workforce is growing annually by around 1.5 million.

Trade pact benefits

Vietnam will also potentially benefit from trade pacts that are in the works. As a country that has a number of FTAs in place and is currently in the process of negotiating and ratifying more, the potential increase in trade implies that key manufacturing sectors will continue growing. Some of the key agreements are the Vietnam-European Union FTA, the Trans-Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP).

The ASEAN Economic Community, which came into effect at the end of 2015, provides enhanced competitive advantages to Vietnam as a manufacturing hub. The pacts with the EU and the TPP could present great opportunities for manufacturers in Vietnam who will benefit from low tariffs, fewer non-tariff barriers to trade and hence increased exports to markets in the west.

When it comes into effect, the TPP will aid in the elimination or reduction of 18,000 tariff lines on manufactured and agricultural products. In addition, the Ministry of Industry and Trade expects that the TPP will increase Vietnam's GDP by US\$23.5 billion in 2020 and US\$33.5 billion in 2025.

Manufacturing opportunities for international companies

Vietnam has most of the elements manufacturers seek in overseas markets. Its growing status as a manufacturing hub in ASEAN means that manufacturers expanding operations in Vietnam will be well-placed to tap into this region's dynamism, particularly with regards to the changing nature of the production value chain, in which Vietnam is rapidly occupying a more prominent position.

Lower labour costs, a skilled workforce, a shift in basic manufacturing from China and greater FDI inflows are a few of the driving forces that make manufacturing in Vietnam attractive. Strong government support and stability in policy are other factors investors in Vietnam benefit from. A resolution passed by the government in March 2015 pushed for efforts to improve the overall business environment, with measures such as reducing red-tape and bureaucracy, greater government transparency and accountability, and domestic regulations in line with international best practices.

Vietnam is gradually establishing a strong foothold as a major low cost manufacturing centre, particularly in the areas of electronics, textiles and garments, and industrial products. The large sums of money being injected in Vietnam by several MNCs illustrates that foreign players want to capitalise on Vietnam's improving manufacturing environment.

This is particularly true of the electronics, devices and components sectors. Samsung Electronics, for instance, has invested about \$10 billion in the country so far. Vietnam was a relative unknown in electronics manufacturing a few years back, but owing to some of the factors listed above, today the country is a key player in this export segment today.

Finally, it isn't as if companies can only benefit from manufacturing in Vietnam for overseas markets – in fact Vietnam's strong economic performance has meant that domestic consumption in the country is on the rise. With a population of almost 90 million, Vietnam itself is a large market for manufacturers of electronics and other consumer goods.

Singapore – a gateway to opportunities

Thanks to its status as the region's trading hub and its prominence as a transit point between the region and the rest of the world, Singapore is the natural destination of choice for investors making its

foray into ASEAN. For overseas investors looking to set up manufacturing operations in Vietnam, Singapore offers the ideal gateway; while Singaporean businesses and investors here already have the advantage of proximity.

Moreover, Singapore's strong infrastructure in financial services and the ease of running corporate operations make life easier for companies, while at the same time giving them the benefit of being based on the doorstep of what was one of the fastest growing economies in the world in 2015.