

# Manufacturing Sector Brief

# VIETNAM



## COUNTRY OVERVIEW

Viet Nam's has a 3,000 km long coastline and territorial waters around 1,000,000 km<sup>2</sup> which is rich with diverse natural resources. More than half of its population of over 97 million in 2021 are under the age of 35 years. The economic and political reforms under **Đổi Mới** in 1986 launched Viet Nam into one of the fastest growing economy in Southeast Asia. Based on World Bank data the agriculture sector contributes to 14% of total GDP and employs 36% of the total workforce in 2020. Industry sector which includes manufacturing contributed 34.5% of GDP and employed 28% of the total workforce in 2020. Investment in high value-added industries such as cars, electronic and computer technologies (software) has increased in recent years. Neighbouring China and Viet Nam's own growing middle class population presents growing market base for Viet Nam's manufacturing sector.

Table 1: Viet Nam GDP and Employment According to Economic Sector (2020).

● Economic Sector	● Agriculture	● Industry	● Services
Employment by sector (% of total employment)	37.2	27.4	35.3
Value added (% of GDP)	14.9	33.7	41.6

Source World Bank



## MANUFACTURING SECTOR OVERVIEW

In 2020, Viet Nam's manufacturing sector accounted for 16.69 percent of the country's total GDP, the second-largest GDP contribution. About two third of Viet Nam's total exports concentrated in manufacturing especially in the electronics sub-sector. Viet Nam's domestic manufacturers have successfully integrated to global value chain (GVC) by becoming suppliers to multinational corporations (MNCs). Viet Nam's costs of production is relatively low and serves as an attractive investment destination for labour-intensive manufacturing sector.

Table 2: GDP Contribution by Sector - Viet Nam

● GDP Contribution by Sector (%)	● 2011	● 2016	● 2020
Agriculture, forestry, and fishing	19.6	16.3	14.9
Manufacturing	13.3	14.3	16.7
Services	36.7	40.9	41.6



## KEY MANUFACTURING SUB-SECTORS

The main manufacturing sub-sectors are food processing, footwear, garment, electronics and automotives. Investment considerations includes Viet Nam's industrial development strategy which prioritises three key industries: 1) manufacturing; 2) telecommunications and electronics and 3) new and renewable energy with a focus on high value-addition industry and strong backward and forward linkages.

### Electronics

Foreign investments are the main drivers in the electronics manufacturing sub-sector in Viet Nam. Currently, 95 percent of electronic exports are dominated by foreign-invested businesses, particularly producers of smart phones and CCTVs. Investors can take cue from leading electronics firms such as Samsung, LG, Foxconn and platform leaders such as Intel and Microsoft in taking advantage of Viet Nam's young and skilled workforce to establish their operations in the country. According to a 2018 UNIDO report Samsung alone employs 160,000 workers. Opportunities still abound as Samsung operates the largest smart phone factory in the world in Viet Nam's Thai Nguyen, employing 60 000 workers.

### Textile and Garment

Viet Nam was the 8th largest and 4th largest exporter of textiles and apparel respectively in 2018. According to the statistical yearbook of 2020, Vietnam had 13,714 garment and textile manufacturing companies employing 1,914,123 workers. Similar to electronics, the textile and apparel sectors are dominated by foreign investors (mostly from China, Republic of Korea and Chinese Taipei) and are Viet Nam's second largest exports after electronics. The Viet Nam National Textile and Garment Group (Vinatex) is one of the largest textile manufacturer holding companies in Viet Nam and according to their official website, Vinatex holds 24 corporations and companies in the textile sector.

Major markets for garment and textile are US, Europe, Japan, and South Korea. Amann Group of Germany and US's Kraig Biocraft Laboratories are among the companies scaling up manufacturing in Viet Nam. As fashion, textile and garment sectors look towards improving their environmental performance, investors can also look forward to scaling up investments in sustainable garment and textile manufacturing in Viet Nam by intergrating MSMEs in this sector into the global value chain.

## Food Processing

Viet Nam has been labelled the food basket of the world processing a diverse range of products, from rice, vegetable, coffee, pepper, cashew, tropical fruits to seafood, etc. In 2020, Viet Nam ranks 16<sup>th</sup> in the world in terms of exports of agricultural, forestry, and aquatic products with a USD 41.25 billion export value. Production value of the food processing industry accounts for 19.1% of the processing and manufacturing industries of Vietnam and still growing as private sectors look beyond the shores of Viet Nam to expand their market.

Fishery and fishery products are leading agri-food export of Viet Nam and employs about 60% of total formal employment in agri-food processing sector. The country is endowed with vast agrobiodiversity thus presenting increasing opportunities for investments in value-added food processing.

## Automotive

Presence of major manufacturers such as Toyota, Honda, Ford, Nissan, and Kia in the Viet Name is indicative of thriving automotive manufacturing sector. This drives the growth of spare parts suppliers as well. Vietnam is one of the four largest automobile manufacturers in Southeast Asia meeting both domestic and international demand. Investors in this sector can take advantage of the growing middle class and demand for private vehicles. Official figures forecast between 500,000 and 550,000 vehicles will be sold annually by 2025. Viet Nam has also opened its first domestic automobile factory, Vinfast officially inaugurated in June 2019 by Vingroup.



## GEOGRAPHICAL PRESENCE

Investments in manufacturing sector is focused mostly in three specific industrial zones:

- Northern Viet Nam Key Economic Region (NVKER): includes provinces and cities: Hung Yen, Bac Ninh, Hanoi, Hai Duong, Hai Phong, Quang Ninh.
- Central Viet Nam Key Economic Region (CVKER): ThuaThien Hue, Quang Nam, Quang Ngai, BinhDinh, Da Nang
- Southern Viet Nam Key Economic Region (SKEZ): Ho Chi Minh City, Binh Duong, Vung Tau, Dong Nai, Tay Ninh, Binh Phuoc, Long An.



## BRIEF PROFILE OF SMES IN THE SECTOR

Viet Nam is among the few country in Southeast Asia where SMEs perform quite well in product and process innovation including adoption of automation. SMEs play a significant role in exports, accounting for 88% of exporting enterprises and for about half of export volume. It is interesting to note that 70% of Viet Nam's SME export volume comes from foreign-owned SMEs which have relocated to Viet Nam to be closer to multinational enterprises (MNEs) acting as their lead buyers



## POLICIES AND REGULATIONS

Businesses intending to expand into Viet Nam should first consult the Law on Foreign Investment which among others require foreign investors to form either a joint venture or a business partnership with a local partner. Viet Nam's Industrial Development through 2025, with a Vision toward 2035 continues to put in place measures to facilitate both domestic and foreign investments in key economic sectors including manufacturing in an environmentally sustainable manner.

Food, textile and footwear, electronics, and automobile are the industries that continue to be attractive to potential investors. These sectors also benefit from increasing research and development (R&D), technical innovation and start-up support under various government strategies namely tax benefits.

Businesses should note that the government is working to lower the environmental footprint of the country's growth and effectively mitigate and adapt to climate change.



## INVESTMENT AND MARKET ENTRY OPPORTUNITIES

Viet Nam has been an attractive destination of FDI from North Asia i.e South Korea, Japan, and China over the last three decades. Job and income opportunities have been generated leading to rising income among domestic young population. FDI in the manufacturing sector rose 11% annually over 2014-2019.

The growth of 5G infrastructure will drive growth in electronics sub-sector in Viet Nam. Viet Nam's many free trade agreements, such as Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and Viet Nam-EU FTA (EVFTA) will expand market access for Vietnamese products taking advantage of the preferential tariffs and increase the competitiveness of their products. This will further contribute to the growth and investments in the manufacturing sector.



## KEY CONSIDERATIONS

Investors have a lot to gain as Viet Nam improves its ease of doing business (ranking of Viet Nam is 70<sup>th</sup>/190 on World Bank's metrics in 2020). Businesses should take note of the government's manufacturing sector policies which are being aligned with the country's green and sustainable economy goals.

Viet Nam's relatively young labour and low cost workforce continue to attract FDIs in the key manufacturing sectors.

Viet Nam also presents geographical advantage to investors, being neighbours with P.R. China and a well-developed supply chain. The naturally endowed and huge shipping route with several international airports and multiple major seaports presents further boost to the manufacturing sector of Viet Nam.



## ISSUES AND CHALLENGES

Key challenges which is being addressed are supply bottlenecks at the country's key ports serving industrial clusters which tend to limit exports.

Although investments in high technology and high value product manufacturing is increasing there is a medium-term shortage in skilled workforce and technical know-how to support this growth. There are also concerns with limited labour productivity. Currently, investors rely on foreign inputs for production across a variety of industries such as injection moulded plastic parts, fabric and electrical components which are mainly imported from P.R China.

Product quality and safety inspection for export markets are usually outsourced and this incurs additional cost (especially professional fees, and logistics for inspectors) and time.



## RECOMMENDATIONS

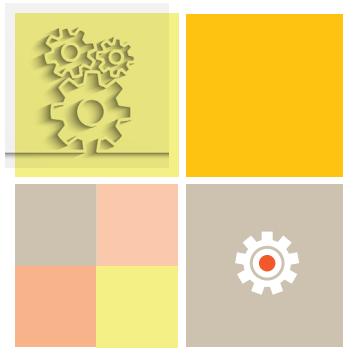
Business should take advantage of the growing domestic market and enhance value of products for domestic consumption. Businesses should play a key role in standards development and conformity assessment through business associations of chamber of commerce industry.

Foreign investors in the manufacturing sector could promote and facilitate technology transfer to strengthen technical know-how of the workforce and increase productivity. Both the private sector and the government must invest in technical and vocational education and training to generate skilled and efficient workforce.



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