

HSBC Navigator: Vietnam in Focus



HSBC

Opening up a world of opportunity

Vietnam

General positioning

Vietnam is clearly seen as an attractive destination for investment. In 2020, Vietnam received more FDI than any other Southeast Asian markets barring Singapore and Indonesia; it also received more than major economies such as France and South Korea.¹

Over a quarter of our survey participants already had operations in Vietnam (26%). While proximity to China naturally facilitates Sino-Vietnamese business relations, US-Vietnamese commercial and strategic ties have also strengthened in recent years in the face of geopolitical tensions.² As such, while 37% of Chinese companies in our survey stated that they already had operations here, it is unsurprising that the second most likely home market of international businesses with operations in Vietnam is the USA. 29% of the US firms participating in this study have Vietnamese operations. Vietnam is seen as an important destination for further growth. Some 17% of our respondents stated that their business was intending on expanding into this market over the next 2 years.

Opportunities/attractions

On average, international companies found Vietnam's skilled workforce to be the most attractive feature of the market, with 3 in 10 stating this attracted them. An optimistic economic outlook, competitive wage prices, and the resilience demonstrated by Vietnam during the pandemic were all also seen as attractive by companies in assessing their business expansion; over a quarter of respondents (27%) mentioned these (Figure 1).

Different countries perceived Vietnam's advantages in different ways. Indian companies were approximately twice as likely to find its developed infrastructure as attractive to their international expansion. The difference was especially stark between Indian and UK firms; where 39% of Indian companies stated they were attracted by Vietnam's infrastructure, only 5% of UK firms did. UK firms were much more likely to be attracted by Vietnam's skilled workforce - 29% said they found this particularly attractive.

Indian, Chinese and US companies were similarly enthusiastic about Vietnam's supportive government and regulatory environment. 49% of Indian companies mentioned this, making it the single most attractive factor for companies from the country; 33% of US companies, and 30% of Chinese companies also selected this. By contrast, only 15% of UK firms, and 8% of those from Germany considered this an attractive feature of Vietnam.

Enthused by Vietnam's regulatory environment, US companies were very attracted by the opportunity Vietnam affords to test and develop new products/solutions, with 36% stating they found this attractive.

German companies were most likely to be attracted by the supply chain ease and social and political stability of Vietnam, with a quarter of German respondents selecting both as positive features of the market. The French were particularly attracted by the optimistic outlook of the economy, with 30% selecting this.

Figure 1.
What makes Vietnam particularly attractive for business expansion?



1 https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD?most_recent_value_desc=true

2 The Unlikely, Indispensable US-Vietnam Partnership, Centre for Strategic and International Studies, 06 July 21

Challenges

The disruptive impact of the COVID-19 pandemic, and the challenges of adapting to contemporary sustainability requirements were the top issues faced by international businesses with operations in Vietnam.

Vietnam's hard line COVID-19 containment policies that were in place at the time the survey was conducted is reflected in the fact that 1 in 3 international companies reported pandemic related supply challenges as being particularly acute for their business.

Cultural issues were also a major concern. 31% pointed to these as a particular challenge of doing business in Vietnam; interestingly, and despite their geographic proximity, Chinese companies were over twice as likely to raise this as an issue compared to those in the UK.

Sustainability considerations

Vietnam has been striding forward in recognition and application of the sustainability agenda. In October 2021, it approved the National Strategy on Green Growth. Aimed at encouraging green growth and facilitating the transition to a net zero economy, this measure is an important step forward.³

Vietnam is a regional leader in its progress towards achieving the 17 UN Sustainable Development Goals (SDG). Ranked 51st of 162 countries by the SDG Index, it is thus rated as having greater success than all other Southeast Asian countries barring Thailand.⁴

Sustainability is a many-faceted concept. Among the international companies participating in our survey, 45% of those with Vietnamese operations stated that the most important sustainability actions they could take were improving energy efficiency; a further 42% underlined the importance of supporting local communities.

Some 31% of respondent companies operating in Vietnam worried that new regulations and rules on carbon reduction could impact them. It is therefore unsurprising that in order to achieve their sustainability goals, 3 in 10 international firms with Vietnamese operations pointed to a need for further improvement in their internal sustainability expertise; naturally, therefore, 36% flagged the difficulty of hiring employees who possessed the correct sustainability credentials and knowledge. Provided adequate training, it is clear these barriers can be swiftly removed.

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Conclusion

Vietnam's GDP growth is expected to make an impressive recovery over the course of 2022. HSBC research forecasts GDP growth rising to 6.2%⁵ following a 2021 low of 2.6%.⁶ Playing an important role in this story – and in the greening of the economy that sustainable growth requires - will be international companies attracted by the many benefits this market has to offer. As Vietnam continues to play a balancing act in the geopolitical dynamics of its region, its economic growth will nevertheless continue apace.

3 Vietnam catches up with global ESG trends, IFLR, April 2022

4 Sustainable Development Report 2021, based on Sachs et al. (2021): The Decade of Action for the Sustainable Development Goals. Sustainable Development Report 2021. Cambridge: Cambridge University Press.

5 Bracing for Impact, Asian Economics Quarterly, HSBC Research, April 2022

6 Vietnam's economic growth is expected to accelerate to 5.5% in 2022 and greening its trade would offer new opportunities, Press Release, World Bank, 13th January 2022

Overall Conclusion

Despite the shadows cast by the global pandemic and other market uncertainties, international companies view the coming years as a period of great promise for Southeast Asia. A market of more than 600 million people, increasingly affluent and increasingly educated, with a startup scene that rivals any other in the world, Southeast Asia is indeed brimming with potential. To convert these opportunities, businesses need to invest to improve their sustainability and better harness the power of technology – not to mention better understand the intricacies and benefits free trade agreements have to offer in the region.

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Methodology for the Report:

Survey with n=1,596 businesses with turnover of \$5M USD or more from 6 markets globally including China, India, UK, France, Germany, USA, conducted 11-15 March 2022. Survey respondents were key decision-makers from companies already doing business in Southeast Asia or those considering doing so. Please note percentages have been rounded and as a consequence may not add up to 100%.

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8 Canada Square

London E14 5HQ

United Kingdom

www.hsbc.com