Manufacturing in Vietnam

Vietnam Market in a nutshell

The economic magic since 1986

The implementation of economic reforms following the initiation of Đổi Mới in 1986, alongside advantageous global trends, has propelled Vietnam from one of the globe's poorest nations to achieving middle-income status within a single generation. Furthermore, Vietnam's vigorous pivot from an agriculture-based economy to one focused on industrialization and modernization has positioned the country as a global manufacturing hub.

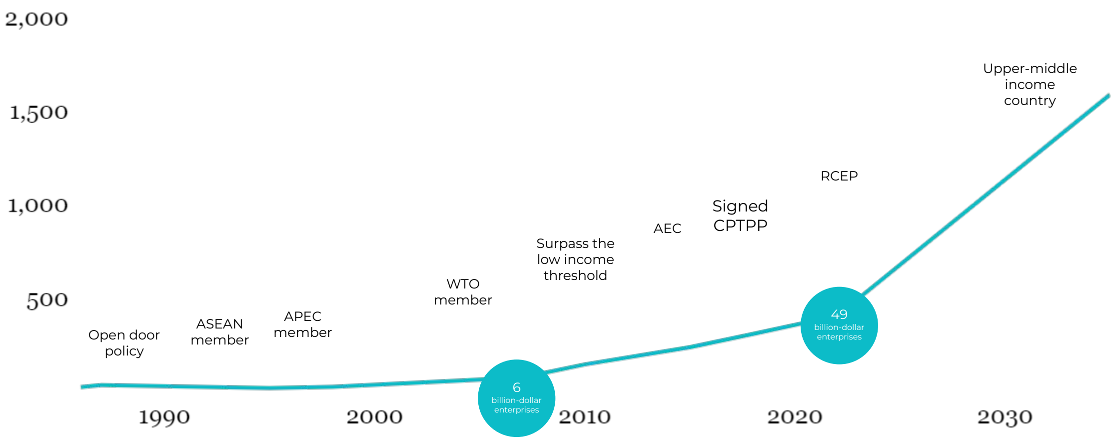
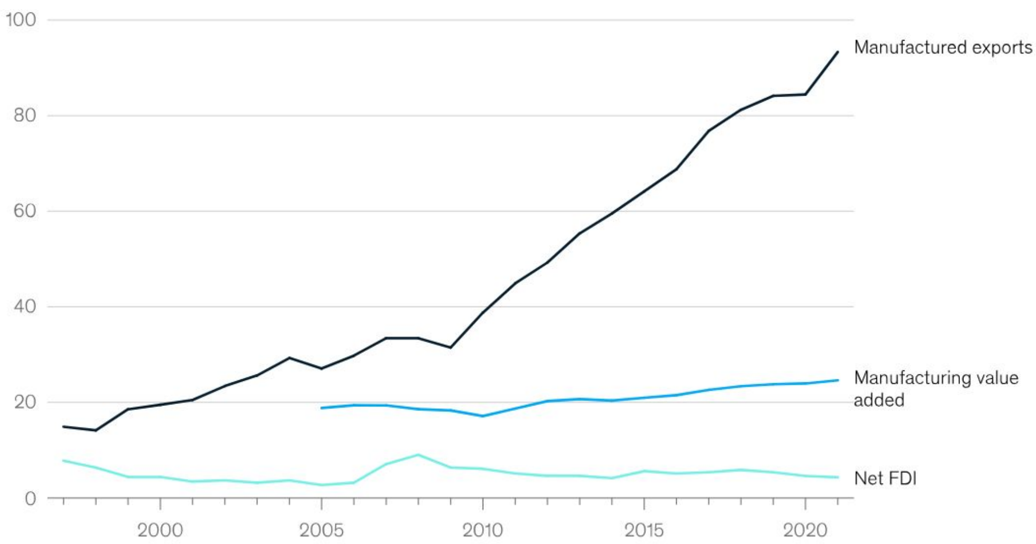


Exhibit 1. Vietnam GDP's over the years

Manufacturing: Springboard of Vietnam's economy

In 2022, Vietnam's manufacturing sector accounted for 24.76 percent of the country's total GDP, reaching a value of over 2.3 thousand trillion Vietnamese dong (Statista, 2023). Since 2009, there has been a notable surge in manufactured exports, constituting nearly 95% of the GDP share at present.

Exhibit 2: Manufactured exports, manufacturing value added, and FDI in Vietnam as a share of GDP from 1997-2021, %



Source: UN Comtrade; UNDP Vietnam
Visualization: McKinsey

6,000
Manufacturing factories

2,300 trillion VND
Manufacturing value

1/3
of Vietnam's GDP

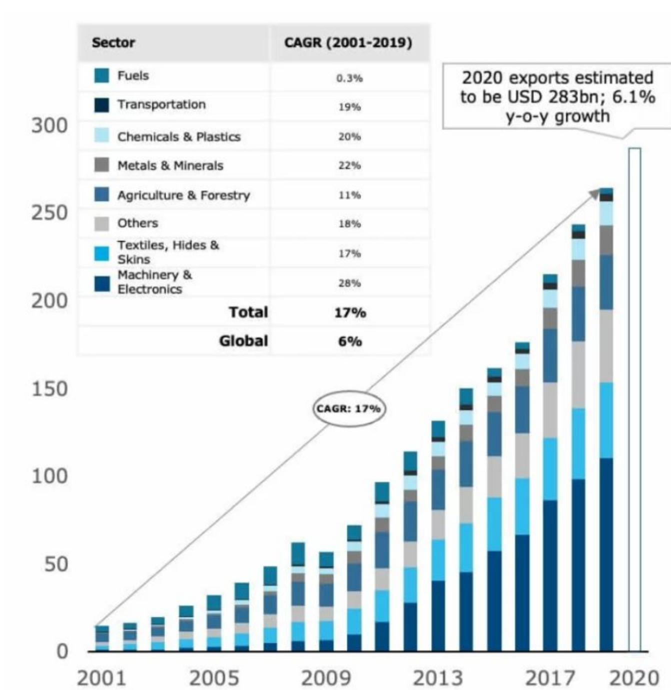
85%
of Vietnam's merchandise exports

#17
exporters of global processing and manufacturing industries (2019)

#36
CIP industrial competitiveness (2020)

#2
export scale in ASEAN

Exhibit 3: Vietnam Exports (USD bn, 2001-2020E)



Source:

Manufacturing transformation

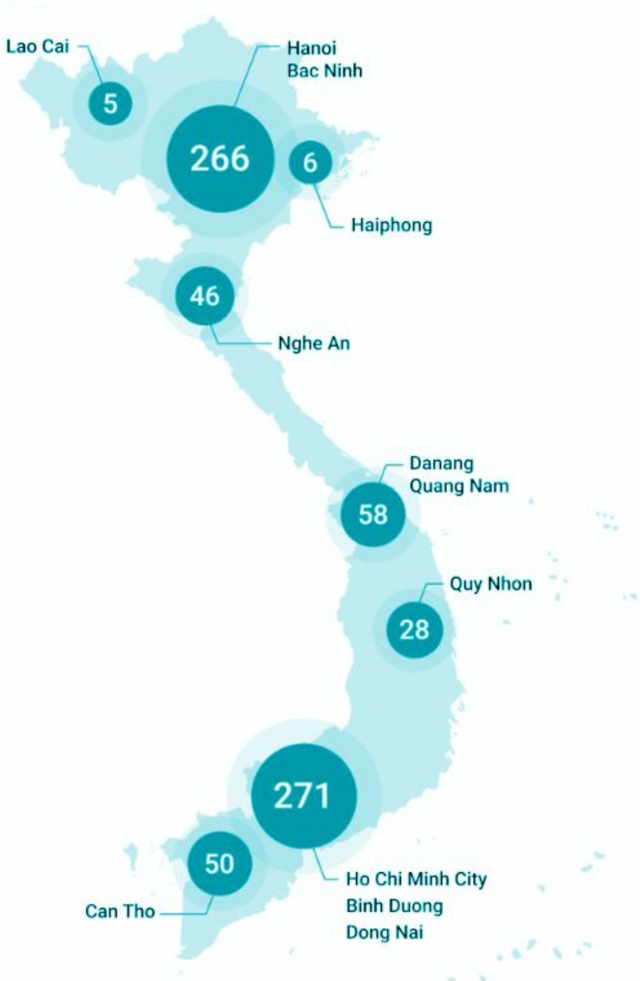
Vietnam's manufacturing sector has undergone significant growth and structural changes over the past two decades.

The export value of the machinery and electronics industry group has seen a remarkable surge since 2012, surpassing textiles and garments to become the leading export industry. Particularly noteworthy is the group's export compound annual growth rate (CAGR) of 11% in 2020, exceeding the average for all industries.

This shift indicates a shift in industry direction **from low-value-added products** like clothing and footwear **to higher-value items** such as electronics and components. In essence, Vietnam's production-export ratio reflects.

Diverse manufacturing facets in Vietnam

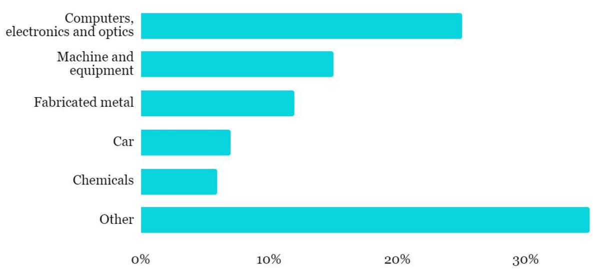
Exhibit 4: Vietnam's Industrial hub distribution



Northern Region

The total industrial land area is concentrated in 5 key provinces: Hanoi, Hai Phong, Bac Ninh, Hung Yen, Vinh Phuc with about 10,000 hectares. Although the industrial market in the North was established later than the South, the industrial provinces here are very attractive to high-tech industries.

With a comprehensive and synchronously developed transportation network, including main transportation systems, such as sea, road, railway and aviation, it has created favorable conditions for transportation in the region and inter-region easily. With a close location, incentives from the Government, competitive labor costs, a stable political environment, positive economic prospects and signed free trade agreements, the Northern industrial market is a bright choice for global manufacturers.

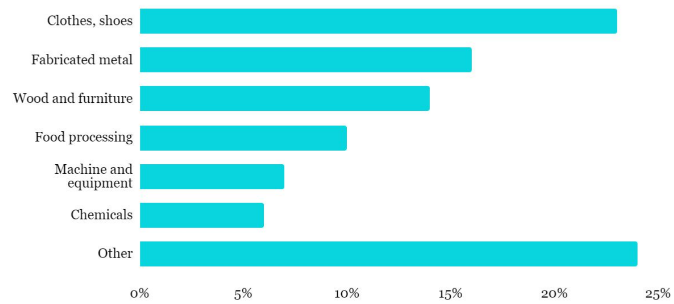


Central Region

In the Central region, Da Nang and Quang Nam lead industrial activity among the 14 provinces and cities. These areas offer over 7,500 hectares of industrial land, with a 67% occupancy rate.

The Central region's industrial market has slower growth when compared to the Northern and Southern regions because of "late birth". This is also the potential for development shortly with abundant supply, while the remaining regions moving to higher stages will be under pressure from supply scarcity.

The key industrial groups of the Central region are the food processing industry, heavy industries, oil and gas & energy. The Central region is also the center of traditional light industries such as textiles, footwear, wood and furniture, and metals.

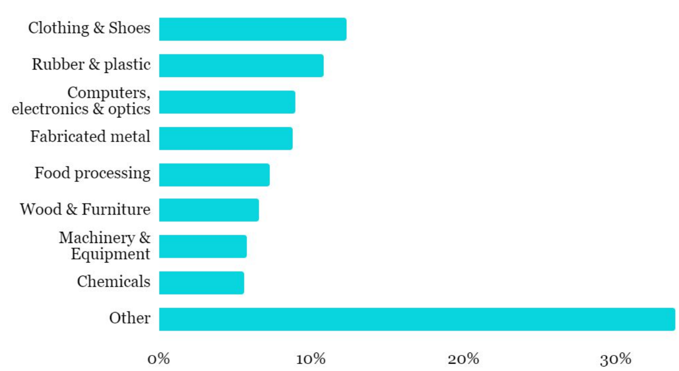


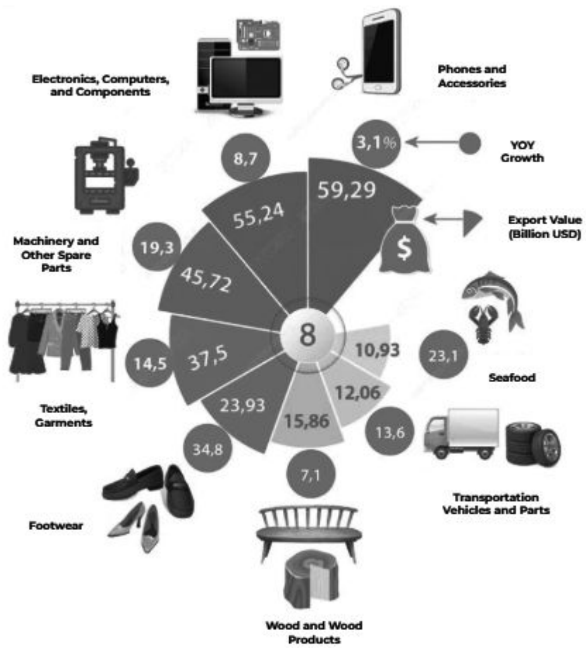
Southern Region

In the South, Ho Chi Minh City and neighboring provinces are the economic powerhouses. These areas offer over 25,000 hectares of industrial land across 5 key provinces - HCMC, Binh Duong, Dong Nai, Long An, Ba Ria - Vung Tau, with a 98% occupancy rate.

Although affected by social distancing in 2021, the demand for renting industrial park space still increases strongly. Typically, the land lease deal of Coca-Cola in Phu An Thanh industrial park and Lego in VSIP industrial park.

As a long-standing industrial center, the South concentrates a large number of traditional industries, such as rubber and plastics, and textile and garment industries.





Key manufacturing sectors

In Vietnam, electronics, computers & components, along with phones and related parts, have emerged as the primary contributors to the country's manufactured exports. This trend underscores the high-value-added transformation within Vietnam's manufacturing sector. Meanwhile, textiles & garments and footwear have slipped to the fourth and fifth positions respectively, indicating a decline in their previous significance.

Phones and components
Phones and components have been at the top of the list of Vietnam's export products for many years, Despite challenges posed by the COVID-19 pandemic. Export turnover in 2022 is expected to reach 59.29 billion USD (up 3.1% compared to 2021). Vietnam is strengthening technology research and development, promoting product innovation and increasing added value in the supply chain. This helps the phone and components industry improve its competitiveness and meet the increasingly strict requirements of the global market.

In terms of types, exports of complete phones reached 33.32 billion USD, an increase of 0.67% compared to 2021, accounting for 57.4% of the total export value of the product group. Regarding phone components and accessories, reported data shows that the export turnover of this item in 2022 will reach over 24.67 billion USD, an increase of 1% compared to 2021. In particular, exports of all types Other components account for the main proportion with a turnover of more than 20 billion USD, accounting for 98%.

Vietnam has emerged as a key global hub for phone and component manufacturing, hosting major electronics giants like Samsung, Apple, LG, and Apple. Samsung stands out as the primary manufacturer, with phone exports exceeding $31.42 billion, constituting 95% of the nation's total phone export turnover.

In terms of export markets, in 2022, the main export markets for phones and components are: China, the United States, the EU, Korea, UAE, Hong Kong (China).

Electronics, computers and components
Ranking 2nd among Vietnam's export products are electronics, computers and components. Export turnover in 2020 was 55.24 billion USD, growth of 8.7% compared to 2021. In the first quarter of 2023, there were 4 export products with a turnover of over 5 billion USD, accounting for 52.8% of the country's total export turnover.

The country sees a high demand for electronic and computer products like laptops, desktops, tablets, digital cameras, and storage devices. This category draws the interest of numerous major electronic companies investing in Vietnam, including Samsung, LG, Foxconn, LG Display Hai Phong, and Fukang Technology.

Key export destinations for the product encompass China, the USA, the EU, Hong Kong (China), Korea, and ASEAN countries.

With cheap labor, qualified human resources, supportive policies for foreign investment, the country has enough favorable conditions for this product to continue to grow further in the near future.

Machinery, equipment, and other spare parts
In the past year, exports of machinery, equipment, tools, and spare parts has consistently shown remarkable growth. In 2022, this group exports' figure surged by 19.3% compared to 2021, reaching 45.72% of total export turnover.

Top markets exports the highest amount of Vietnamese machinery, equipment, and other spare parts are China, Korea, Japan, Germany, US. In the first quarter, there were 6 groups of goods exported to the US with a turnover of 1 USD or more. Leading the way is machinery, equipment, tools, and spare parts with 3.98 billion USD.

Textiles and garment
In 2022, the export turnover of textiles and garments surged to 37.5%, marking a 14.5% increase compared to 2021. This growth rate is considered stable relative to previous years, with a 9.8% increase recorded in 2021 compared to 2020, amounting to $32.74 billion USD.

The primary export items include traditional textile products, fabrics, fibers, and textile accessories, alongside common garments like sweaters, underwear, and protective clothing.

In terms of markets, the United States, Japan, and South Korea stand out as the top three importers of Vietnamese textiles and garments by the end of February 2023, accounting for 65.89% of the total export turnover of textiles and garments of Vietnam to other countries.

With a stable growth rate and focus on developing competitive advantages, this product group is expected to continue to grow steadily in the future.

Footwear
In 2022, the footwear category emerged as one of Vietnam's fastest-growing export products, experiencing a remarkable 34.8% growth compared to the previous year, totaling $23.93 billion USD in turnover. However, during the first two months of 2023, footwear export turnover exceeded $2.76 billion USD, marking a 16% decline compared to the same period in 2022.

Vietnam's footwear exports span across more than 150 countries, with notable markets including China, Japan, the US, the EU, and the UK. Among various footwear export markets, the US accounted for the largest turnover at $889.58 million USD, representing 32.2% of the country's total export turnover in this product category. The Chinese market followed, with turnover exceeding $285.73 million USD, accounting for 10.3% of the total turnover and witnessing a 13.2% increase. Lastly, the Japanese market accounted for 7.2% of the total turnover, reaching $198.15 million USD, marking a 38.2% increase over the same period in 2022.

Inside-Out drivers for the robust growth

Powerful inner forces

Densely distributed industrial hubs (IP) and economic zones (EZ)
By the end of 2021, Vietnam had 564 IPs incorporated into the planning, spanning a collective area of 211,700 hectares. Additionally, the country boasts 18 EZs spread across 17 provinces and cities, encompassing a total land and water surface area of 871,500 hectares. Currently, Vietnam hosts three high-tech parks, located in Ho Chi Minh City, Hoà Lạc in Hanoi, and Đà Nẵng. Notably, the Ho Chi Minh City Hi-tech Park, established twenty years ago, has attracted 160 projects with a combined investment totaling $12 billion. Similarly, the Đà Nẵng Hi-tech Park, established in 2010, has enticed 26 projects with a total investment of $852 million. The Hoà Lạc Hi-tech Park, established in 1998 and spanning approximately 1,600 hectares in Thạch Thất and Quốc Oai districts, has seen the participation of 102 projects, boasting a registered capital of $4.04 billion.

Strategic location for global supply chains
Situated in close proximity to major markets such as China, India, and other ASEAN countries, Vietnam serves as a pivotal link connecting various regions. Its extensive coastline provides access to major shipping routes, facilitating efficient trade with international partners.

Moreover, Vietnam's strategic location offers logistical advantages for businesses looking to establish manufacturing facilities or distribution centers. Its proximity to major sea lanes and ports enables cost-effective transportation of goods to global markets. Additionally, Vietnam's network of airports and modern infrastructure further enhances its connectivity and accessibility within the region.

Cost advantages and competitive labor market
Vietnam is touted as a low-cost manufacturer with competitive labor costs. On average, Vietnam's labor costs are half as

much as China's labor costs at US$2.99 per hour compared to US$6.50 per hour respectively (Statista, 2024). This contributes to Vietnam's increasing position as a more cost-effective alternative to its regional counterparts.

Attractive government laws and incentives

Vietnam boasts a robust legal framework and attractive incentives aimed at fostering manufacturing growth and enticing global manufacturers.

- Law No. 32/2013 and Decree No. 218/2013: offer tax incentives for large-scale manufacturing projects, including a 10% CIT rate for 15 years and tax holidays, subject to specific conditions.
- Decision No. 29/2021/QD-TTg: offers special incentives for large-scale projects, benefiting high-tech and high-value goods production.
- The Investment Law (61/2020/QH14) and Law No. 71/2014/QH13: extend tax relief to various sectors like computer software manufacturing, new energy and renewable energy, electronic products, key machinery products, automobiles and auto parts, etc.
- Decree No. 94/2020/ND-CP offers incentives for tech startups in NIC parks, including land rent exemption for up to 50 years and a 10% income tax break for 30 years.

External favourable conditions

China+1 strategy

Following the US-China trade tensions, global supply chains have undergone restructuring, with many businesses adopting strategies to diversify risks. Vietnam has emerged as a favored destination, often referred to as a "China plus one" option, thanks to its lower labor costs, especially in electronics and supply chain sectors.

In September 2023, Apple moved 11 audio device production facilities to Vietnam. Intel began expanding its Phase 2 chip verification plant in Ho Chi Minh City with a $4 billion investment. Boeing, Google, and Walmart also announced plans to expand their supplier networks and manufacturing bases in Vietnam after researching the local investment environment.

Robust FDI inflow to Vietnam

By the close of 2023, Vietnam had attracted approximately $36.61 billion in foreign direct investment (FDI), marking a significant 32.1% increase compared to the previous year, as reported by the Foreign Investment Agency under the Ministry of Planning and Investment.

The manufacturing sector emerged as the primary recipient of FDI, with around $23.5 billion invested, solidifying its pivotal role in Vietnam's export-driven economy.

Future Outlook: from Cost-Efficiency to Productivity

Vietnam's manufacturing prowess has traditionally relied on cost-effective labor, yet amid shifting global dynamics and technological advances, there's a pressing need to shift towards productivity and innovation to maintain competitiveness and ensure economic resilience.

2030 Manufacturing target

Vietnam aims to achieve modern, competitive industry with high added value in global value chains by 2030 as outlined in the approved master plan on industry and trade sector restructuring.

45%

the contribution of high-tech in GDP of manufacturing.

30%

the contribution of manufacturing and processing industry in GDP

8.5%/annum

manufacturing's contribution to GDP growth

Upskilling the workforce

Vietnam's labor productivity, while showing strong growth over the past decade, remains among the lowest in Asia. Despite being one of the world's fastest-growing economies over the past three decades, Vietnam must enhance productivity growth to sustain this achievement, as highlighted in a recent report by the World Bank.

To address this, Vietnam aims to lead ASEAN in labor productivity improvement by 2030:

>6.5%

in average labor productivity growth

Top 3

in labour productivity growth in ASEAN

30-40%

the rate of trained workers with degrees and certificates

End note

In conclusion, Vietnam's dynamic manufacturing landscape, supported by numerous inside-out drivers, presents abundant opportunities for businesses seeking growth and expansion.

If you are foreign entities looking to establish a factory or invest in manufacturing ventures in Vietnam, several key guidelines should be considered. We recommend familiarizing yourself with local regulations and business practices, engaging in thorough market research to understand consumer preferences and industry dynamics, and cultivating strong relationships with local partners and stakeholders to navigate the business landscape effectively. However, the complexity of market entry and growth strategies in this Southeast Asia can pose additional challenges.

That's where CCX Partners steps in. As your trusted consulting partner, we offer streamlined solutions to expedite your growth trajectory in Vietnam's dynamic manufacturing sector. With our extensive experience, strategic insights, and locally-global approach, we empower businesses to navigate complexities and seize opportunities in the Vietnamese market. Let CCX Partners be your guide on the journey to success in Vietnam's thriving manufacturing landscape.

Connect wit
Paula Nguyen - Managing Partner
E: paula@connectx.asia / *WA: +84912.42.5678*

Connect us.

Vietnam Office

2F - Sunway Center, 372/3 Dien Bien Phu Street, Ward 17, Binh Thanh District, Ho Chi Minh City, Vietnam

Website: www.ccxpartners.com