Navigating Business in Vietnam amidst US-China tensions

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Global trade impacted by political shifts

- **Emergence of China**
- **US pulling back from global leadership commitments**
- **Grassroots pressure resulting in heightened uncertainty and rapid change**

Fragmentation

Weakened WTO:

Global rules no longer seem "fit for purpose" in a world in which

- China is a dominant commercial power.
- President Trump driving a bilateral approach to trade agreements and rejecting multilateral frameworks

Tense US-China relations

- Conflict primarily **centered on trade.**
- **Technology and national security** concerns is beginning to disrupt the broader technology ecosystem and contributes to further fragmentation.

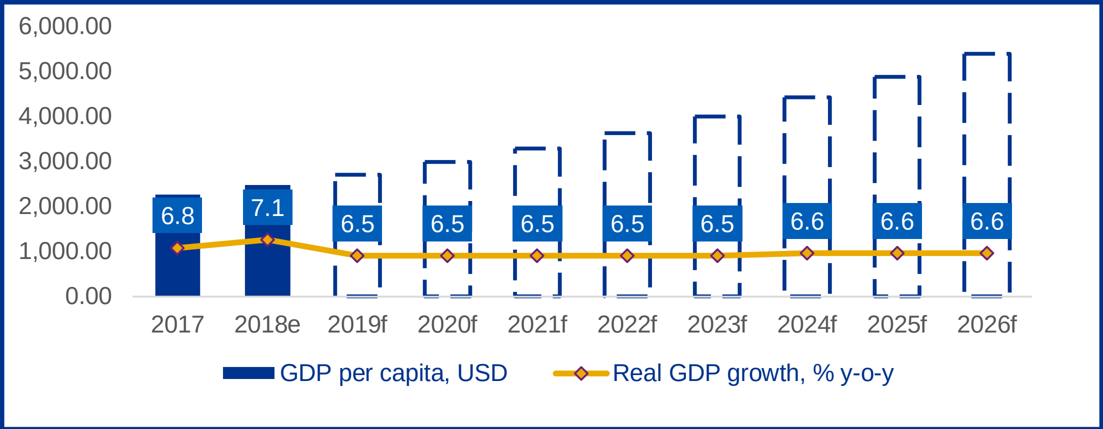
Major disruption in global supply chains coming from US-China trade war and fragmentation in global technology has implications in Southeast Asia.

- Companies reliant on Chinese sourcing feel vulnerable
- Vietnam and other parts of Southeast Asia may benefit.

Vietnam's positive economic outlook is driven by industrialization, rising FDI and trading in the context of deeper global integration

Japan and South Korea were the most remarkable investors into Vietnam. Industrial Manufacturing and Real Estate & Construction account for 79% of total new approved capital among sectors invested.

GDP per capita and Real GDP growth (2017-2026f)



GDP Growth 2018, by country

Vietnam	7.1%
Philippines	6.2%
Malaysia	4.7%
Indonesia	5.2%
Thailand	4.1%

Key drivers of growing FDI

- Young working population
- Rising personal income and growing middle class
- Increasing global integration with 16 FTAs
- Beneficial labor costs
- 20% standard CIT rate (ASEAN average: 22%)

Global Competitiveness Index

2014 – 2018 rank change (2018: 55 out of 137) **15**

More competitive than 6 EU countries

Since 2014 (>50 = positive)

Purchaser Manufacturing Index **>52**

Source: Business Monitor International, World Bank

Trade as disruptor as companies deal with uncertainty

1. Additional tariffs due to the trade war in the US and abroad;
2. Uncertainty around Free Trade Agreements and the US becoming more regional focused vs. global with more emphasis on bi-lateral agreement vs. multilateral;
3. Geopolitical changes such as Brexit, and
4. Automation within customs driving enforcement.

Vietnam gains in attractiveness relative to China

- The US is now Vietnams largest export market (21%)
- Vietnam's proximity to China, its growing skilled workforce, competitive labor costs, and political stability make it an ideal manufacturing destination;
- 5 years ago, exports to the US were dominated by low-value goods like textiles. Today, electronics are the major component of Vietnam-US export.

Trump considers raising tariffs on Chinese imports to 25%

Beijing rejects US 'blackmail' as proposed increase signals escalation in trade war

China hits back as US escalates trade war with new $200 billion tariff list

Trump is about to escalate his trade war with China

Trump wants to limit Chinese investment in the US. China will strike back.

Key issues for companies looking to shift production

- **Compliance to local regulations and the supply of human capital and raw resources are issues that need to be thought out for firms that plan on building new plants and expanding their capacities in the region**
- **Supply chain leaders must invest to keep up with societal and technological changes and examine how emerging technologies (AI, robotics and blockchain) will affect their business, while they decide where and how to invest**

The Vietnamese Government has strategically transformed the nation into a ‘China plus one’ alternative by engaging in FTAs such as the CPTPP and EVFTA, while developing infrastructure to become a global export source.

Engagement in FTAs

Reform-oriented government

Labor-intensive manufacturing

Textile & garment – significant sector for export

High-tech boom means higher-end production

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Challenges for Vietnam: lack of skilled labor and low local supply chain integration

World Bank's recommendations to Government re next steps:

- Creating a national skills development plan to increase the share of skilled labor in the workforce;
- Modernizing investment promotion activities and focusing on priority sectors;
- Reviewing and making changes to the current investment incentives policies to ensure quality FDI;
- Opening service sectors such as education, logistics, and financial services to increase competitiveness and growth;
- Promoting and facilitating investments abroad;
- Seizing opportunities to reduce the negative impact of Industry 4.0;
- Implementing supporting policies to help local suppliers and increase FDI linkages and spillover; and
- Setting up a new FDI management agency with more budget, capacity, and authority than the current one for effective implementation of the policies and strategies.

Considerations for companies in Vietnam (1/2)

Companies considering transitioning from China to Vietnam **will avoid potential tariff costs only if specific conditions apply.**

Companies may still incur the full cost of the tariff if:

- Certain components of the finished product or a precise amount of the raw materials ultimately originate from Chinese facilities, or
- Certain processing takes place in China,

Recommendations:

- **Take a holistic look at sourcing strategy** with all relevant factors considered, and don't make a rush to judgment based on **labour cost, tax incentives, or the tariffs for exports to specific markets. All of these things can change suddenly. Get the full picture on how your business will benefit from engaging in Vietnam for the long term.**
- **Continuously seek up-to-date trade knowledge** to pinpoint changes and digital supply chain execution technology to ensure goods cross borders efficiently.
- **Keep on top of methods to track import and export trends** as supply chains adjust in parallel to trade policy fluctuations.
- **Assess the positives** amid the trade war heat or seriously consider relocation.

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Considerations for companies in Vietnam (2/2)

In some cases, shifting production from China could actually yield a net increase in costs.

- **Companies that are over-reliant on China as a primary source of manufacturing** will continuously battle unstable regulations on trade, rising labor costs, and stricter operational oversight.
- **Multinational firms that want to shift production need to resolve new logistics in a new country**, which can be expensive and take years to complete.
- The desirability of Vietnam as a 'China plus one' destination is **generating competition from international firms.**
- **Production costs to rent industrial land and source materials are increasing** in competitive areas.

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