

Transmodal®



VIETNAM IS ASIA'S NEXT MANUFACTURING SUPERSTAR.

*HERE'S HOW TO
PREPARE YOUR SUPPLY CHAIN
FOR THE SHIFT.*



FOR THE LAST DECADE...

Talking about manufacturing meant talking about China.

It had everything manufacturers wanted. Ambitious workers paired with low wages. A dedication to infrastructure improvement. An efficient government and rock-solid political stability. All these ingredients cooked up the perfect partner for international businesses looking for greater profits. That's part of the reason China's annual growth rate has averaged 9.5% from 1989 till today.

But that time is coming to an end. It's not just about the splashy headlines or tariffs. Those making doing business in China more difficult, but the real problem is deeper and less easily solved. Wages have almost tripled since 2010. A better educated workforce means younger workers are no longer satisfied with factory work. Cities like Shanghai are comparable to any in the world in lifestyle, and a transition to a service-based economy seems inevitable. Simply put: basing a manufacturing operation on the mainland has become too expensive.

Strategic businesses know these shifts are cyclical, and are looking to (or already have) shift their operations to countries better suited for future growth. If you're considering doing the same, you'll want to look to see where China's own powerhouse companies are moving their manufacturing, and companies like Foxconn, Samsung, and LG already have.





VIETNAM HAS ALL THE MAKINGS OF A MANUFACTURER'S PARADISE

All the crucial factors that made China such a powerhouse in manufacturing are present in Vietnam. A young population looking for work. Favorable conditions for foreign investment and factories. And, most importantly, a stable government that is laser-focused on growth and building the infrastructure to sustain it. This isn't a coincidence – Vietnam has molded their strategy to replicate China's success.

It's been paying off. Vietnam has turned one of the world's poorest economies into one of its most promising, with GDP growth hitting 7.1% in 2018. Since 1986, it's been the fastest growing economy in Asia outside of China, at 5.3% annual per-capita growth. Its exports are worth 99.2% of its GDP, and manufacturing rose 13% from 2017 to 2018. According to McKinsey Global Institute, much of this is due to a structural shift from agriculture to industry, and a vastly expanded labor pool.

Among others, companies such as ZARAS, Nokia, and Nike now do much of their production in the country. Major Chinese companies are also relocating their factories to Vietnam, mainly to take advantage of the decreased cost of labor. Export growth is expected to stay in the double digits towards 2025. What's clear is this: this shift isn't slowing down anytime soon, and you might want to be a part of it. In which case, you'll need to know a few things.



A BRIEF ECONOMIC OVERVIEW OF VIETNAM

Major Economic Initiatives

The country is divided into three administrative regions: North, Central, and South Vietnam. A great deal of economic activity happens in the South, partly because of access to Ho Chi Minh city and the largest commercial port in the country. The North, due to its proximity with China, is often chosen as a base for companies who want to shift manufacturing to Vietnam but continue operating in its northern neighbor.

In these regions, the government has built 18 Special Economic Zones (SEZ), all coastal, which possess favorable conditions for business and investment. By definition, any SEZ must be located near a deep seaport or airport, have convenient access to national roads, and have favorable conditions and resources for the development of technical infrastructure. Three more are also being planned.

	Vân Đồn	Bắc Vân Phong	Phú Quốc
Total areas (ha) Land/ Water surface	 55,133 162,000	 19,000 47,000	 58,927
Investment capital (billion đồng)	 540,000	 400,000	 900,000
Business	 Hi-tech  Support industry  Tourism  Airports, seaports	 IT, electronics, mechanics  Seaports  Tourism, hospitality  Shopping centres, finance	 Tourism, hospitality  Shopping centres, asset management  Conference, exhibition  Healthcare, education, R&D

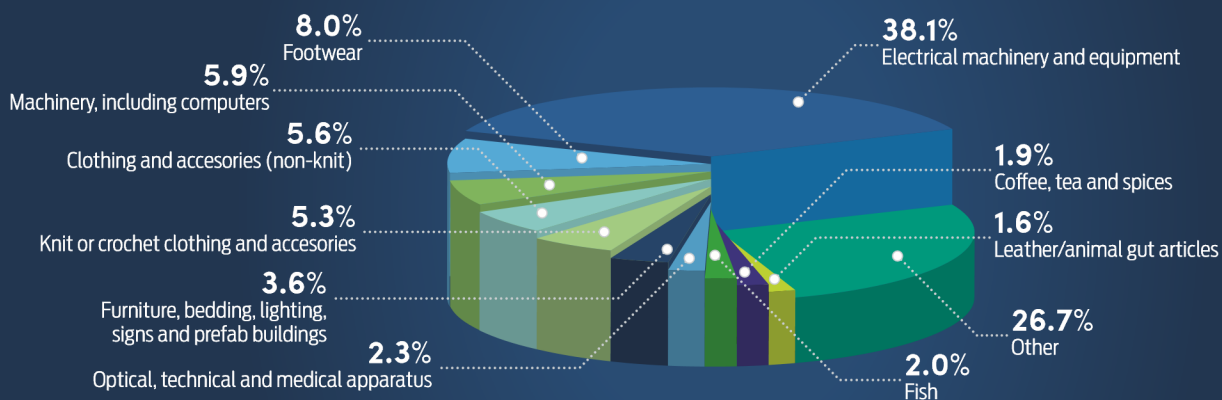
“The purpose of developing SEZs is to create a leading edge for the country’s growth in the face of a scarcity of resources, and political and social complexities,” noted Võ Trí Thành, a senior economist at the Central Institute for Economic Management (CIEM).

As of the end of 2018, there were also 326 industrial parks making up almost 93,000 hectares of land. These industrial parks offer strong incentives for new projects, including tax incentives like reductions or exemptions of Corporate Income Tax (CIT), Value-Added Tax, and import tariffs. Combined, these industrial parks and SEZs have attracted about 7,500 domestic investment projects worth \$45B, and 8,000 foreign investment projects estimated at more than \$145B.

Top Industries & Markets

Vietnam boasts the 21st largest export economy in the world. That's especially impressive when you consider it didn't begin to relax state controls until the early 1990s. Its top export destinations are the United States (\$46.2B), China (\$39.9B), Japan (\$18.1B), South Korea (\$16.1B) and Germany (\$10.9B).

Here's a quick breakdown of Vietnam's specialty exports, percentage-wise (2017):



Each of these export specialties have their own unique characteristics:

Textiles & Garments

Size: \$30.49B

Annual Growth From 2016: 16.7%

Top Destinations: United States, EU, Japan, Korea, China.

Synopsis: Vietnam's textiles industry is one of the driving forces of its growth, with over 6,000 companies in the industry employing over 2.5 million workers. In terms of garment exports to the United States, it is only surpassed by China. But as labor costs rise in the mainland, Vietnam stands to inherit companies looking for a stable, low-cost base of operations.



Electronics & Components

Size: \$29.32B

Annual Growth From 2016: 12.9%

Top Destinations: China, EU, China.

Synopsis: Electronics are Vietnam's top export product, and now earn more for the country than oil or garments. In particular, phone manufacturers like Samsung have helped transform Vietnam into a global manufacturing base, where it produces a third of its physical products.



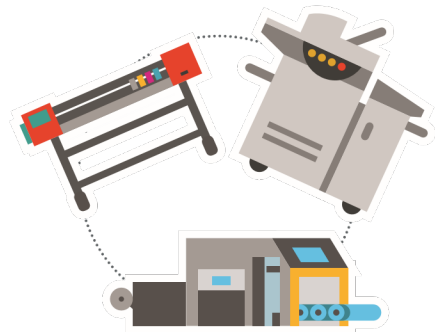
Machinery, Equipment, Tools, & Spare Parts

Size: \$16.55B

Annual Growth From 2016: 28.2%

Top Destinations: United States, EU, Japan, India.

Synopsis: Machines in this category can include data processing machines, printing machinery, and integrated circuitry. Construction equipment is also involved. Parts can be made more cost-effectively in Vietnam than in surrounding countries.



Footwear

Size: \$16.24B

Annual Growth From 2016: 10.6%

Top Destinations: United States, EU, China, Japan.

Synopsis: In 2017, Vietnam produced 1.1 billion pairs of shoes, taking the spot as the second largest exporter of footwear world-wide. If you're wearing Adidas, Nike, or Puma – chances are it's been made in Vietnam.



Export Growth & Future Trends

Growth in exports have continued to climb in 2018, hitting 13.2% nationwide. Of particular note are changes in the dynamic to Vietnam's two largest trading relationships, that of the United States and China.

Trade with the United States increased \$5.93B from 2017, hitting 14.3% growth and accounting for 19.52% of export turnover for the whole country. This is markedly faster than in 2017, where it hovered around 8%. Even more incredible are the updates from 2019, where the growth rate in exports hit 29% in five months, nearly three times higher than the same period in 2018.

China also showed strong growth, increasing \$5.84B from 2017, reaching 16.6% annual growth. In absolute terms, China is poised to be a contender for Vietnam's greatest trading relationship.

The overall picture this paints is that Vietnam's export economy has been on impressive and steady growth for the last few years. Rather than slowing down in recent months, export numbers have accelerated to unprecedented levels.



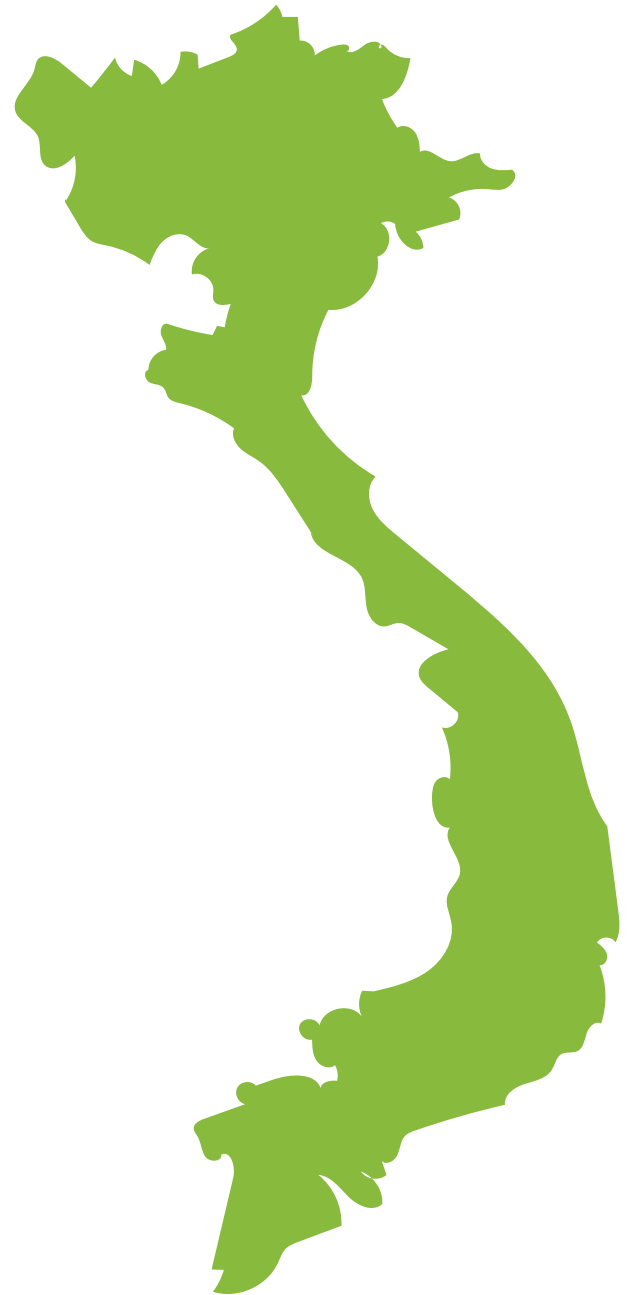
Workforce Demographics

As of 2017, there were 53.7 million employed laborers in Vietnam. The workforce is young, with about half between the ages of 15 and 39. 32% reside in urban areas, while the rest live in rural regions. Average national labor force participation stands at 76.9%, with 61% of workers being male and 39% female.

In 2019, the average monthly wage nationally ranged from \$125 to \$180, varying by region. Popular areas like Ho Chi Minh city or Hanoi command significantly higher salaries.

Cities/Provinces	Average monthly salary (US\$)
Ho Chi Minh City	456
Da Nang	452
Binh Duong	444
Bac Ninh	421
Hanoi	407

But with these positives also come challenges: mainly a lack of skill and high-level technical expertise. According to the World Bank, the weaknesses of human resources are one of the main factors dragging down the competitiveness of the economy. For instance, most Vietnamese workers don't possess foreign language skills, and rate poorly on safety compliance. Ratings are high for the garment and electronics industry in terms of skillset, but many multinationals struggle to acquire highly skilled local workers in technical fields.



VIETNAM'S INFRASTRUCTURE

Seaports

Vietnam operates 49 seaports across the country, handling a total of 536.4 million tons of cargo annually. In general, the local seaport industry is limited, but developing rapidly. Turning Vietnam into a major sea-faring nation has been a priority of the national government.

Customs services have lagged behind. According to the report World Bank "Doing Business 2017", import and export enterprises in Vietnam take 5-6 days on average to fully implement customs procedures, 1 day higher than Southeast Asia's average.

Vietnamese seaports are generally classified as belonging to one of three areas, with the vast majority of container traffic going through the South.



Northern Vietnam: Notable Ports

Hai Phong: 13% of the country's throughput passed through Hai Phong in 2016. Until recently, Hai Phong was one of Northern Vietnam's only two ports for international traffic. However, neither of these ports possessed deep-water capacity, forcing container traffic to stop in Singapore or Hong Kong to be loaded into smaller container vessels first. One of the main draws of Hai Phong is its proximity to Hanoi, and thus its role as a gateway for exports/imports for the region.

Vung Ang: Northern Vietnam's other major port, historically. Much of the traffic going to Vung Ang is expected to be replaced by the new Lach Huyen.

Lach Huyen: A modern \$1.2B deep-water port recently finished construction in late 2018 to eliminate these complexities. Lach Huyen Port was the first private-public partnership between Vietnam and Japan, and was designed to enable direct exports to American and European markets without regional stopovers. The port can accommodate container ships between 4,000TEU and 6,000TEU, with the potential to accommodate 8,000TEU ships after a planned expansion.

Cai Lan: Put into service in 2012, Cai Lan is the most sophisticated deep-water port in Northern Vietnam outside of Lach Huyen. This facility has the capacity to receive three vessels up to 5,000 TEU, holds 8 piers, and has a warehouse area of 10,000 m². Cai Lan is 45-50 km away from Hai Phong.





Central Vietnam: Notable Ports

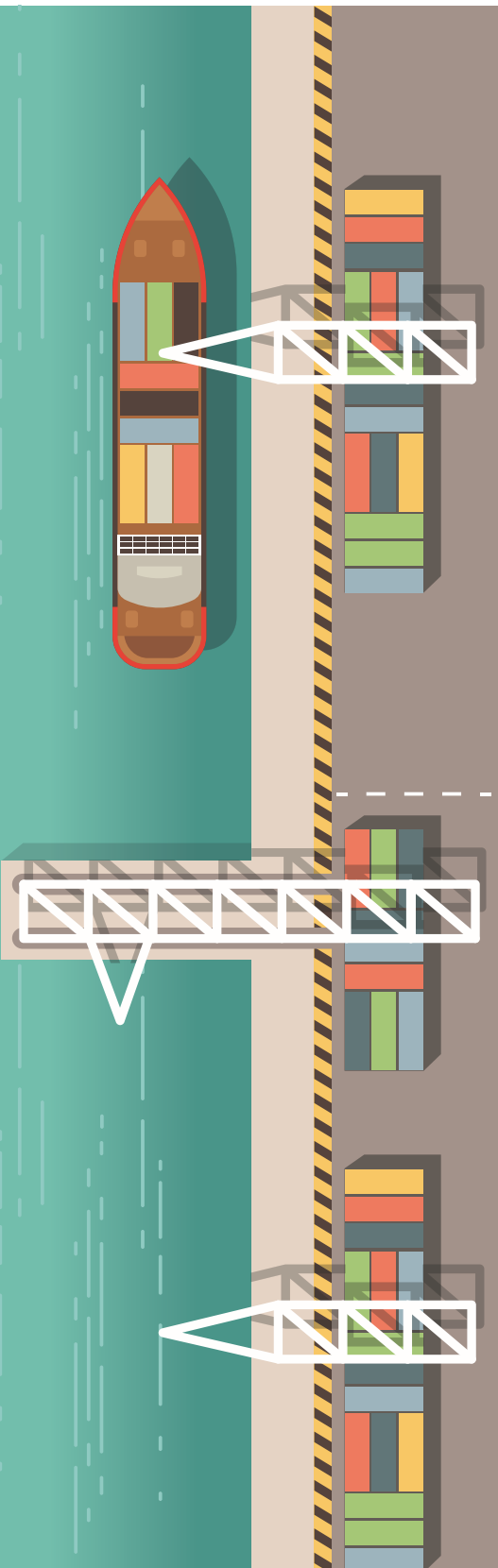
Da Nang: Central Vietnam handled 11.65% of total cargo throughput in 2016, with the majority of the traffic going through Da Nang. The port consists of two main areas 2 km apart from one another (Tien Sa Port and Son Tra Port) which can handle up to 6 million tons of cargo per year. Da Nang is a deep-water port, and often handles container traffic to and from Europe. It is 850 km away from Hai Phong, and 340 km away from Qui Nhon.

Qui Nhon: A facility with 7 piers that can receive vessels of 30,000 DWT. A majority of traffic is for taking goods from the Mekong Delta and Western Vietnam, and transloading exports for Cambodia.

Lien Chieu: Not yet in operation, Lien Chieu is a modern deep-water port scheduled to come online in 2023, though construction has not yet begun. Analysis shows that Central Vietnam will need to handle 30 million tons of cargo by 2030, which would overwhelm the regions current capacity: Lien Chieu is meant to be the solution to that issue.

Southern Vietnam: Notable Ports

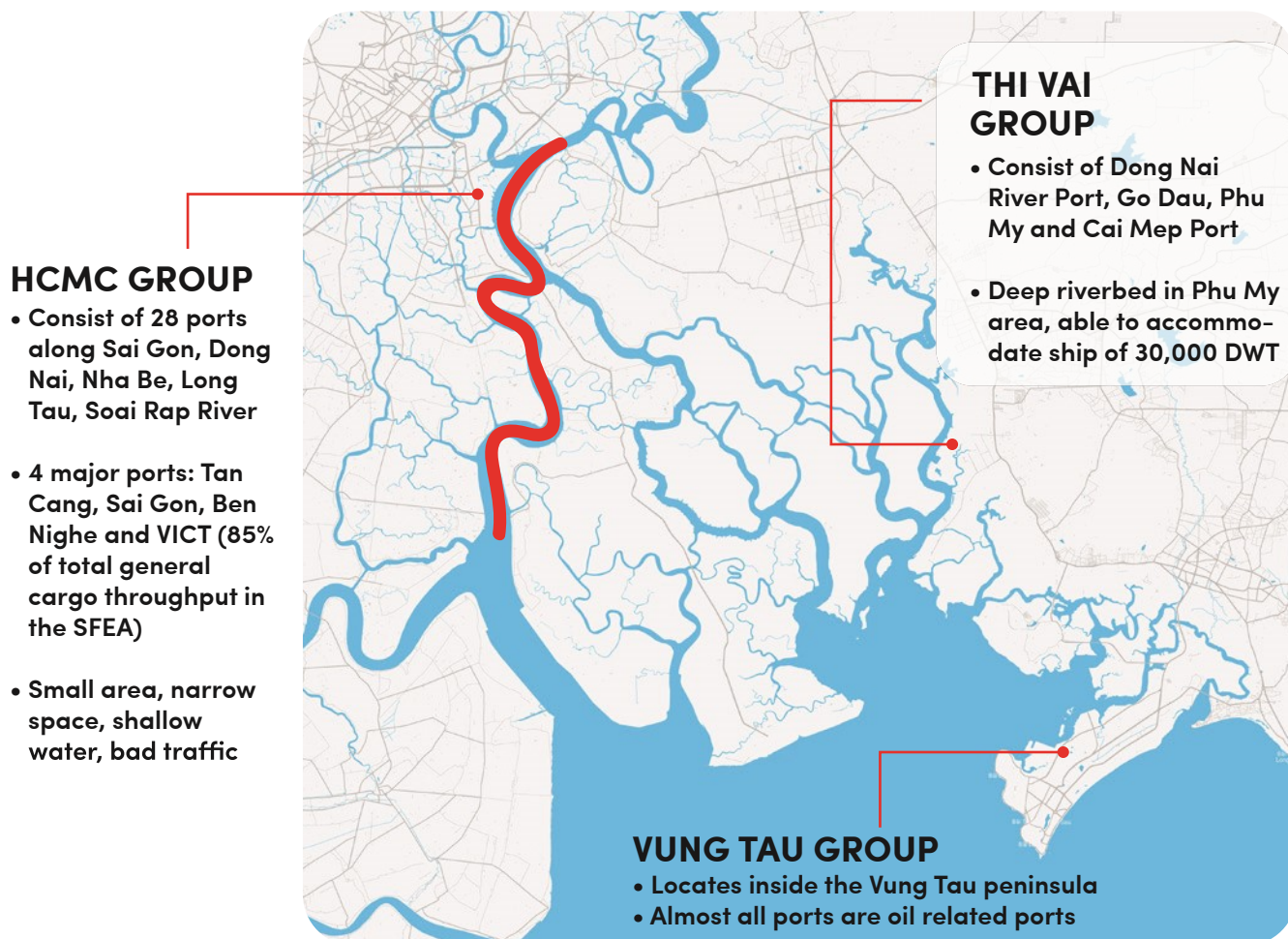
Ho Chi Minh City Group: Ports around Ho Chi Minh city handle over 67% of national throughput. Given that the South is the beating heart of Vietnam's economy, there are 28 separate ports around the city are responsible for transporting goods to and from a pair of the country's major production centers: Dong Nai and Binh Dong. Notable ports are Cat Lai, located in Ho Chi Minh city's port area, which is billed as one of Vietnam's largest and most modern terminals. However, none of the ports with proximity to the city carry deep-water capacity, making transshipments from Singapore common. These ports are located 630 km away from Qui Nhon. Within this group, there are also four other major ports: Tan Cang, Sai Gon, Ben Nghe, and VICT. These ports are within 17 km apart from one another.



Thi Vai Group: This group includes the massive Cai Mep port, a modern deep-water port that is located 50 km south of Ho Chi Minh city. Cai Mep is the only terminal in Vietnam (and one of the only ones in South East Asia) capable of accommodating vessels larger than 18,000 TEU. It has an annual capacity of 1,115,000 TEU and offers direct access to transportation infrastructure. Cargo can be shipped to Ho Chi Minh city via an extensive barge network (6–8 hours) or truck (1.5 hours). Despite these upsides, the port is only at 30% capacity, with many shippers preferring to use the smaller ports around Ho Chi Minh city, despite the added expense of transshipping.

Vung Tau Group: A group of ports centered around Phu My port, which is itself capable of receiving ships up to 30,000 DWT, with expansion planned to allow ships up to 8,000 DWT. This group also includes a port on the Dinh river and the port of Ben dam, with two more scheduled for construction due to proximity to oil refineries.

Existing seaports in southern key area of Vietnam



Road & Rail Conditions

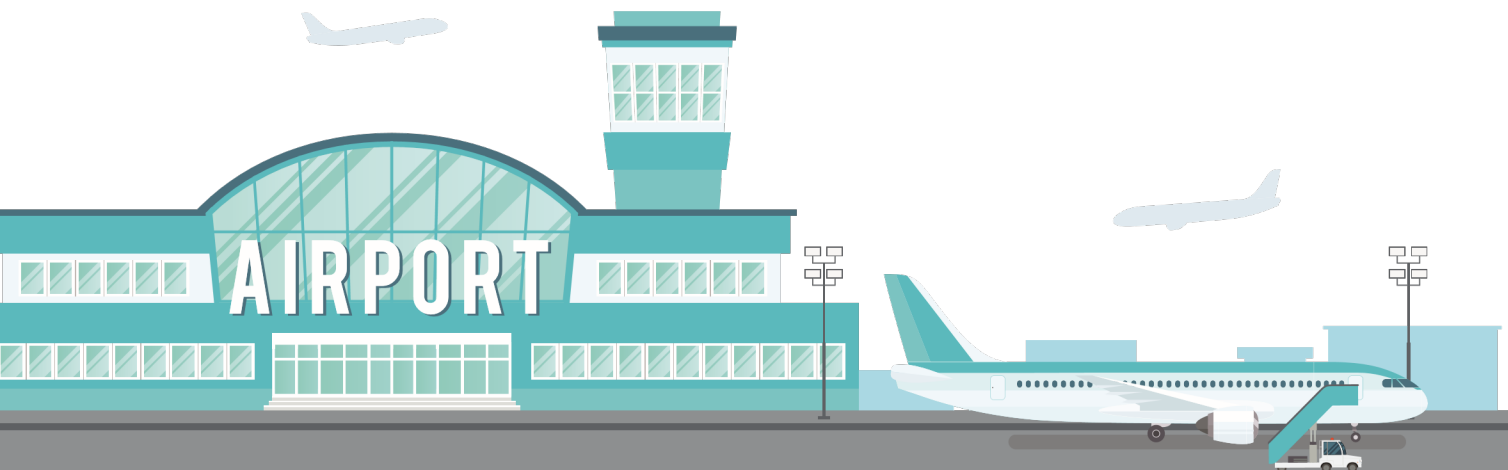
According to the World Economic Forum, Vietnam ranks 52 out of 144 for railroad infrastructure, and 89 out of 144 for road conditions. Shippers used to the infrastructure in China, some of the world's best, should expect significantly lower quality.

Vietnam's railroads account for less than 10% of freight transportation, and are generally underutilized. There are 3,200 km of railways, but with limited capacity in terms of cargo transportation. There are plans to vastly expand and modernize the rail network, but the focus is expected to be on passenger transport, not cargo.

Road transport currently accounts for 75.6% of all freight moved in the country. The road network is 258,200 km long, out of which only 19% is paved. However, despite current poor conditions, analysts expect that increasing consumer demand and Vietnam's rising status as a hub of trade will facilitate improvements to the networks. China, South Korea, India, and Japan are expected to support these initiatives.

Airports

Altogether, Vietnam currently possesses 23 airports, with four international facilities among them. All of these are scheduled for upgrades by 2020 as part of the Vietnamese government's planning. The crown jewel will be the new Long Thanh International Airport. The facility's construction is expected to exceed \$15B in expenses, and at 5,000 hectares will be the largest airport in the country. By 2025, it is expected to handle 25 million passengers and 1.2 million tons of cargo, and further expansion will bring that to 100 million passengers and 5 million tons of cargo, respectively.



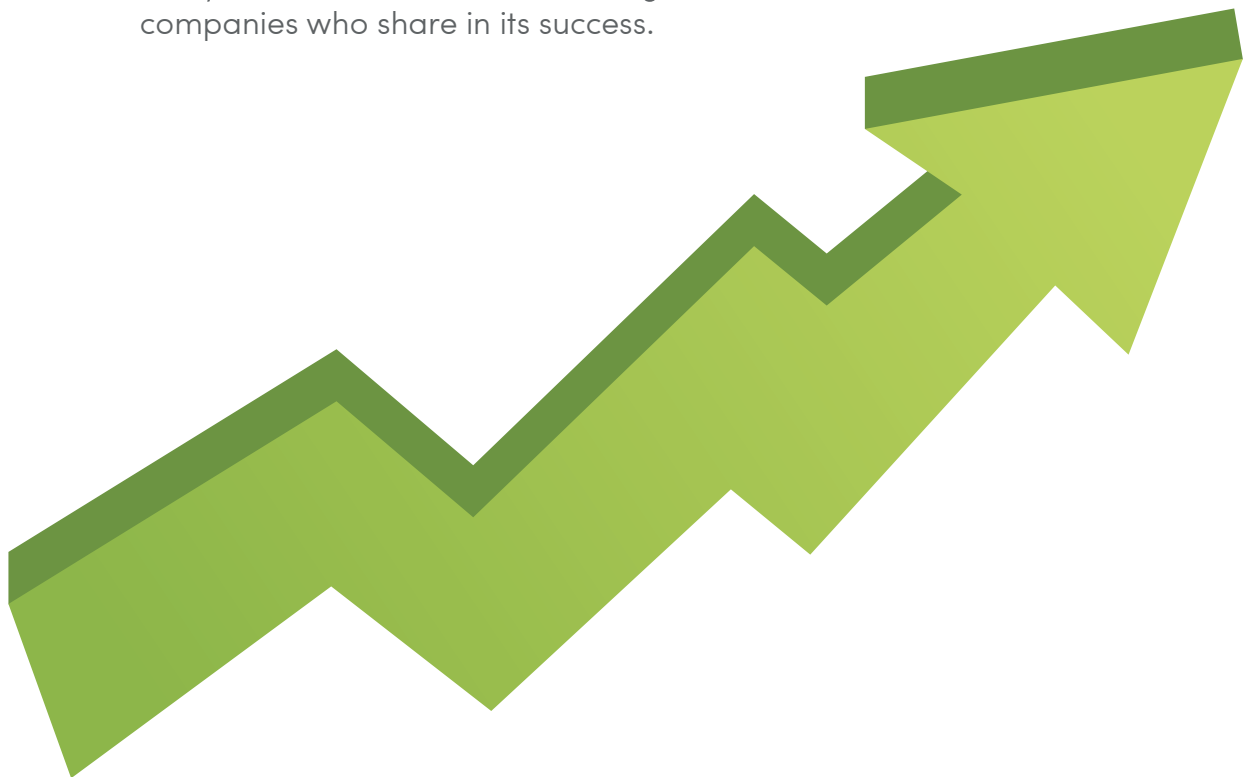


DESPITE THE CHALLENGES, VIETNAM IS A COUNTRY ON THE RISE

Any company hoping to make Vietnam their manufacturing base will face challenges. A lack of technical workers and dealing with a less-than-ideal transportation infrastructure among them. Yet the extraordinary growth Vietnam is experiencing is precisely because many businesses realize that these are temporary issues, and massive public works are being developed to address them. Someone who visited Shanghai in the 1990s would have a hard time believing what it's like today.

That noted, every business must examine the pros and cons and consider how the country fits into their situation. The factors we noted in this whitepaper only scratch the surface, but we hope it's given you a general overview of what to expect.

With double digit trade growth and new developments in every sector, the future looks bright for Vietnam and the companies who share in its success.





Over 45 years of experience helping companies grow and navigate the challenges of global trade and commerce

Transmodal is an international Logistics Service Provider specializing in building and operating international supply chains that economically move goods from factory, to store, warehouse, or customer door. With the right combination of global trade expertise, supply chain information systems, and exceptional customer service, Transmodal is well qualified to be your international logistics partner.

Building upon over 45 years of global trade experience, we offer a complete portfolio of ocean, air and customs brokerage services. And, we use the latest technologies to integrate, simplify and streamline your global operation in the following service areas:

- Ocean Freight
- Airfreight
- Customs Brokerage
- Domestic Transportation

Our US Offices are in New Jersey, New York, Chicago and Los Angeles, and our worldwide network spans over 57 countries.

CORPORATE HEADQUARTERS

Transmodal Corporation
48 South Franklin Turnpike
Ramsey, New Jersey 07446

CALL US TOLL FREE: 1-888-712-2746

www.transmodal.net
e-mail: info@transmodal.net