

Navigator

Now, next and how for business

Vietnam



HSBC

Vietnam

Firms shrug off trade frictions as they look to new markets

Despite global trade policy tensions, the latest HSBC Navigator survey indicates Vietnamese firms are upbeat about their prospects. Regional trade and domestic economic performance have been resilient so far this year and FDI inflows remain strong. This likely explains why Vietnamese firms are more optimistic than their global counterparts.

What is happening now

Buoyant growth offsets fears of increased protectionism

The Vietnamese economy continues to be one of Asia's top performers, with manufacturing growth currently at double digits on a yearly basis and the services sector also posting solid gains. While momentum is likely to ease amid cooling Chinese demand and increased global trade protectionism, export growth is forecast to outpace most of the region. Meanwhile, the domestic economy should continue to benefit from higher tourism and improving labour market conditions.

According to the HSBC Navigator survey, Vietnamese businesses are significantly more optimistic than the global average on the international trade environment, with nine out of ten businesses believing the outlook is favourable. This suggests that they are confident that the escalating US-China trade dispute will not be a significant drag on growth. Respondents most frequently identified Japan as a key market where they are looking to expand, with China and South Korea in second and third place (Fig. 1).

Fig. 1: Which are the top 3 markets where your business will look to expand in the next 3-5 years? (Share of respondents identifying each market)



Source: TNS Kantar

How your business can respond

- ◆ Prepare for potential trade diversion effects as US import demand shifts away from China.
- ◆ Make contingency plans in case escalating trade tensions result in US tariffs being imposed on multiple Asian countries.

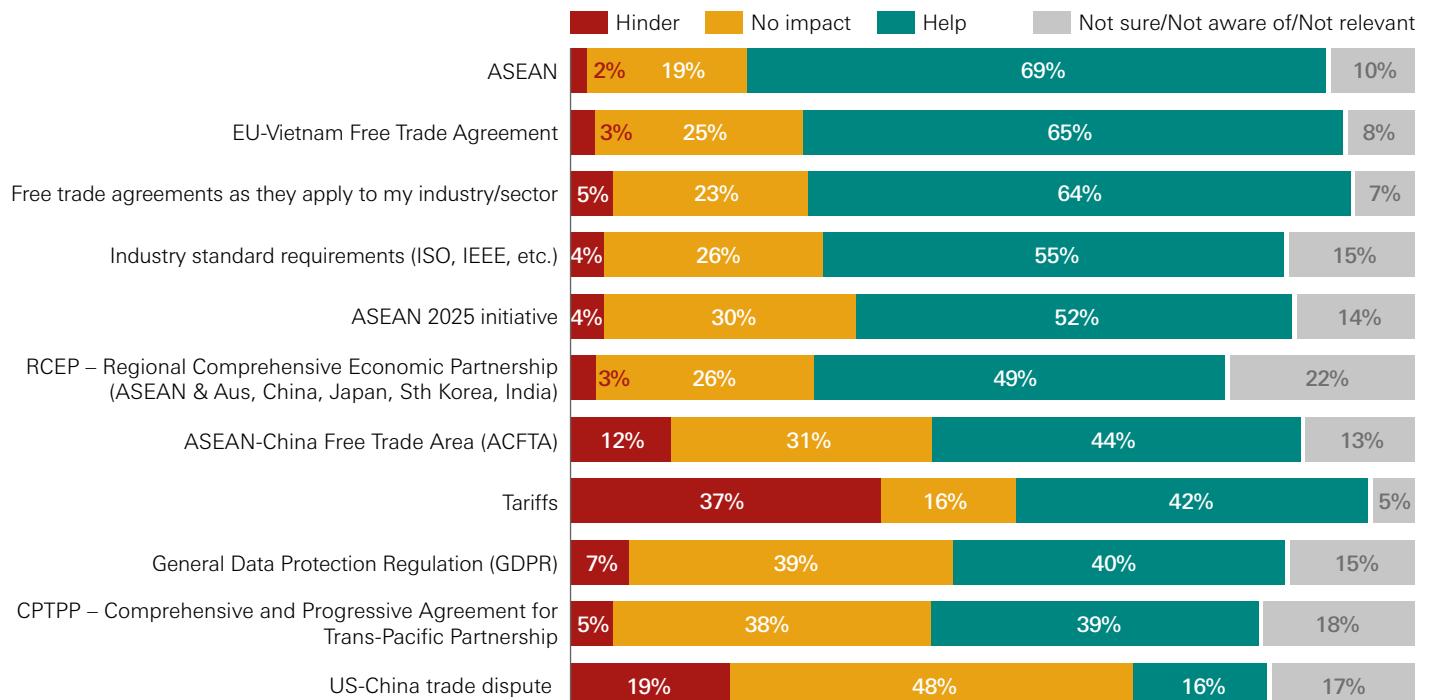
Policy Developments

Regional trade engagement seen as providing opportunities to expand into new markets

Although Vietnamese firms are optimistic about the global backdrop and trade opportunities, almost four out of five firms (78%) feel that foreign governments are becoming more protectionist. This is considerably higher than the global benchmark (63%) and also marks a 11-percentage point increase from our last survey, conducted in late 2017.

Nonetheless, firms do not appear to view rising global trade protectionism as having severe adverse implications, at least to date. Only 19% of respondents viewed the US-China trade frictions as likely to be a hindrance to their business over the next three years (Fig. 2). In part this could reflect the prospective boost to exports in sectors such as textiles as well as electronics as production and demand shifts away from China. Meanwhile, a clear majority of respondents (69%) viewed membership of ASEAN as beneficial to their business prospects, while a similar proportion (65%) had a positive view of the forthcoming EU-Vietnam FTA.

Fig. 2: Relevance and impact of policy developments in the next 3 years



Source: TNS Kantar

*May not total 100% due to rounding

Vietnamese respondents generally have a positive view of regulations, with 45% of respondents stating that these increase the value of their business and the same proportion believing that it enhances their international competitiveness. This may reflect the recent strides made to improve the domestic business environment in Vietnam. Indeed, the country's international ranking in the World Bank's latest **Ease of Doing Business** survey has climbed 31 places over the past five years to reach 68th out of 190 countries. On the other hand, 22% of respondents reported that complex approval systems make it harder to do business

How your business can respond

- ◆ Examine how new innovations in data and analytics can contribute to your business strategy.
- ◆ Look at your supply chain as a whole (not just the first tier) to identify suppliers that may have the most significant risks or challenges in addressing sustainability issues.

What is happening next for business strategy

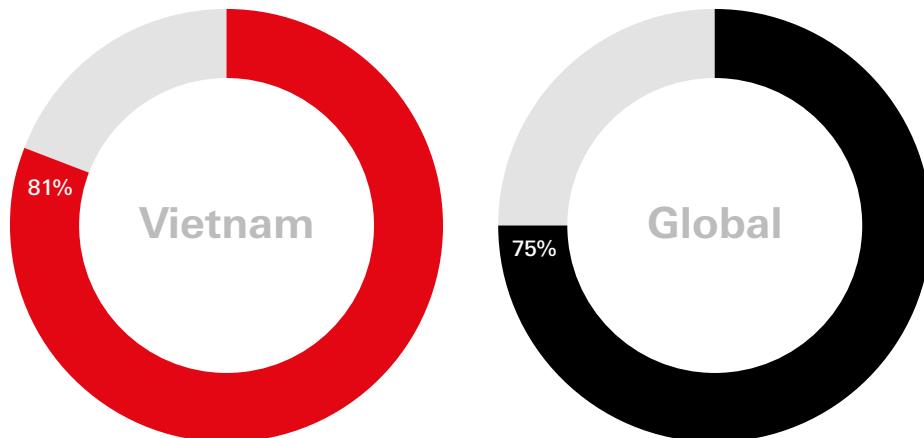
Productivity and digitalisation seen as key to target new customers

Investing in upskilling the workforce was identified as a key focus for shaping company direction by 45% of Vietnamese respondents, with 43% of firms also placing a greater emphasis on productivity and skills development (Fig. 3). The proportion of firms who plan to upgrade the skill set of their workforce is somewhat higher (49%) among exporters and is likely to aid company's plans to continue to expand into new markets and new products and services.

Around eight out of ten companies in Vietnam are using data to optimize their performance, compared with 75% globally (Fig. 4). More than three quarters use transactional and customer data while 55% use operational data, with key objectives being to drive sales and target new customers. While most respondents appear to be using data to inform their business strategies, there appears to be some scope for Vietnamese firms to use related technology in more advanced ways. Indeed, the potential applications and benefits of new technologies may not be fully appreciated – for example, most Vietnamese respondents (70%) believe blockchain is irrelevant to their business, compared to 40% at the global level.

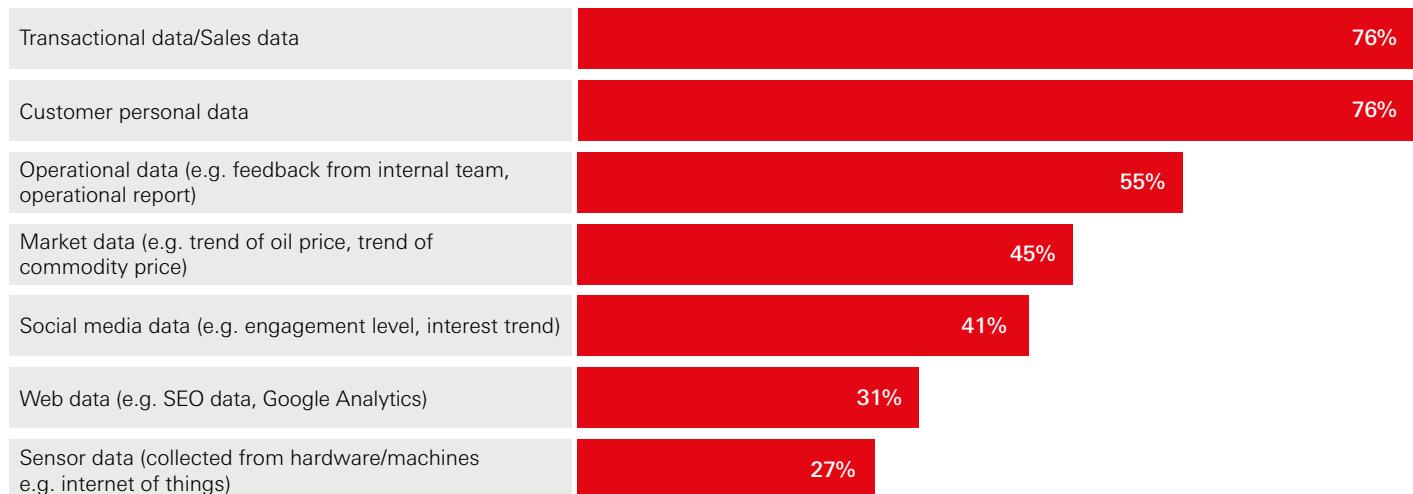
Fig. 4: Using data in business

Share of respondent firms using data to optimise performance



Source: TNS Kantar

Data sets currently being used



Source: TNS Kantar

Only 11% of firms saw increased regulation on data compliance as a key challenge, possibly reflecting that more than half of firms have already complied with the data regulations and 20% have more stringent policies in place than currently required.

Fig. 3: Top 3 actions for future company direction

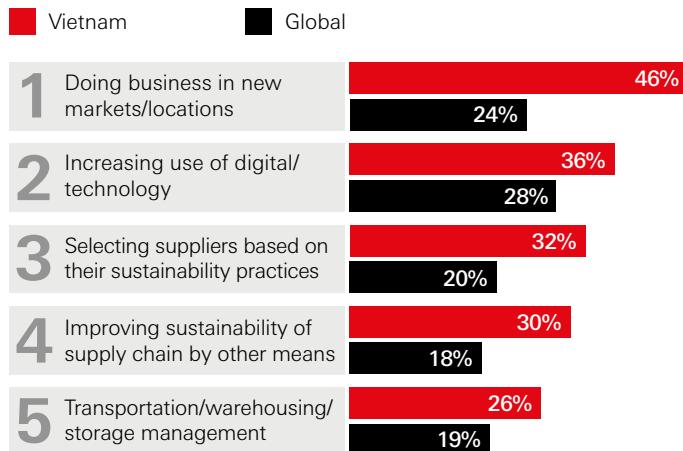
- 1 Investing in up-skilling workforce
- 2 Increasing emphasis on productivity/skills development
- 3 Growing market share

Ongoing expansion into other markets planned to boost profits

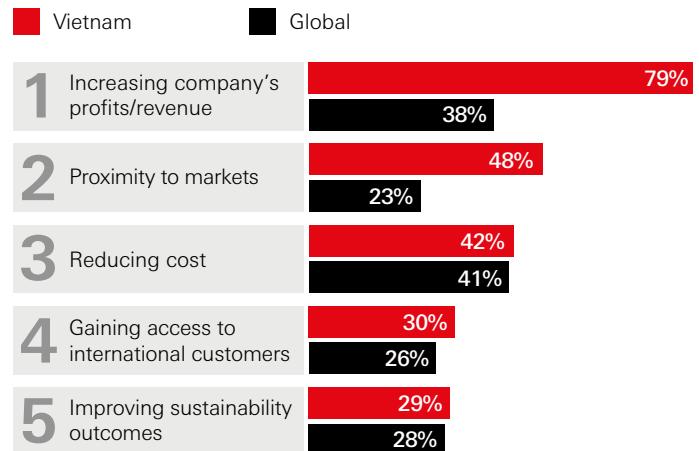
Around nine out of ten (90%) businesses report that they monitor their supply chains for environmental and ethical standards, although only 29% monitor the full supply chain. Focusing on goods firms, close to half (46%) of respondents plan to do business in new markets/locations over the next three years, while over a third (36%) plan to increase their use of technology (Fig. 5). Planned changes to supply chains are largely being implemented to increase profits/revenues.

Fig. 5: Supply chain changes for goods

Top 5 planned supply chain changes in the next 3 years



Top 5 objectives behind the changes



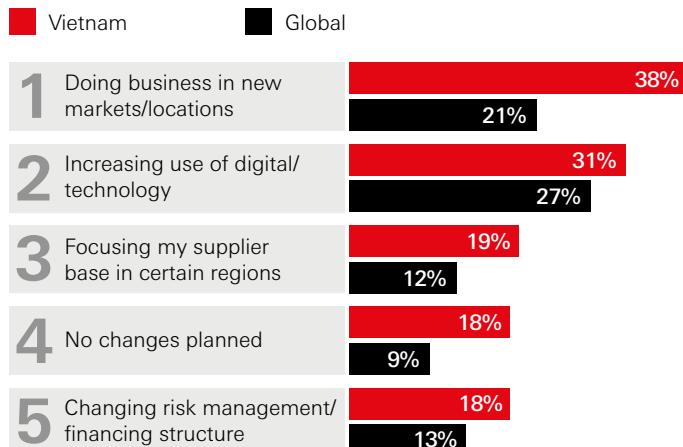
Source: TNS Kantar

Vietnamese respondents in the services sector have similar objectives to those in the goods sector (Fig. 6). More than three-quarters (77%) are hoping to increase profits/revenues through supply chain changes, with key strategies including expansion into new markets as well as increasing the use of digital technology.

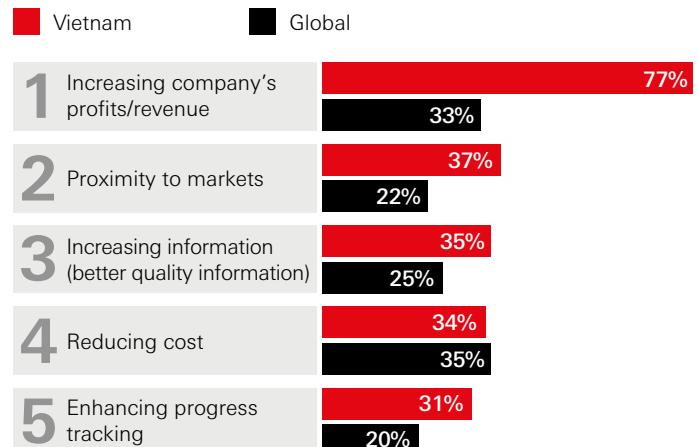
Ethical and environmental sustainability are very important to both goods and services businesses. Only a minority of respondents (9%) across the full survey sample reported that supply chain sustainability is not a focus for their business.

Fig. 6: Supply chain changes for services

Top 5 planned supply chain changes in the next 3 years



Top 5 objectives behind the changes



Source: TNS Kantar

About HSBC Navigator Vietnam

The HSBC Navigator survey, which is the largest of its kind, is conducted on behalf of HSBC by Kantar TNS. It is compiled from responses by decision-makers at over 8,650 businesses – from small and mid-market to large corporations – across a broad range of industry sectors in 34 markets. Sample sizes for each market were chosen to ensure the statistical accuracy of results, with 200 businesses surveyed in Vietnam. Global results are based on an average of the 34 markets (using weights based on each market's share of world trade). The survey was conducted over a six-week period from July to September 2018.

Interviewees were polled on a range of questions including expectations around future growth in trade, attitudes toward trade policy developments and strategic business plans. The survey represents a timely source of information on the fast-evolving international business environment.

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