



White Paper: Why many European retailers and their suppliers see Vietnam as the perfect partner.

Following the Industrial Revolution in the late 18th century, Britain needed 58 years to double its income per head. From 1839 America took 47 years to do the same. Starting in 1885 Japan took 34 years. South Korea managed it in 11 years from 1966. More recently China has done it in 10 years. But it is forecast that Vietnam will achieve this in just 7 years. (Prof. Peter Enderwick, Professor of International Business at Auckland University of Technology, New Zealand). With this kind of growth, all eyes are on Vietnam, to see what place the nation will play on the world economic stage.

A brief history

Vietnam is one of the fastest growing economies in South East Asia and it plans to be a developed nation by 2020. Its history is well documented, through a bloody civil war over 3 decades which culminated in the unification of North and South Vietnam in 1975, when the US-backed forces in South Vietnam were overcome. The early years of independence were difficult, US fears of a hostile communist state were heightened as an essentially agricultural based economy was run on strict collectivist principles. Through the 1980s changes began to occur, in 1986 Nguyen Van Linh became the party leader and a period of more liberal economic policy followed, private enterprise was encouraged. 1995 saw Vietnam and the USA restore full diplomatic relations, as well as Vietnam achieving full membership of ASEAN. In 2000 a stock exchange was opened, the following year a trade agreement with the USA laid down the basis for trade development and growth. Entry to the WTO followed in 2007 after some 12 years of negotiation.

Vietnam today

Today, Vietnam is of increasing interest and not just to the USA, its largest trading partner, but to many European retailers and their suppliers who see Vietnam as the perfect partner in a "China plus one" sourcing policy. Wage costs remain lower than southern China and a significant financial stimulus to industry is probable before the five-year Communist Party congress to be held in 2011. Vietnam is, for the most part, politically stable and safe, though corruption both perceived and proven has dogged the country for years.

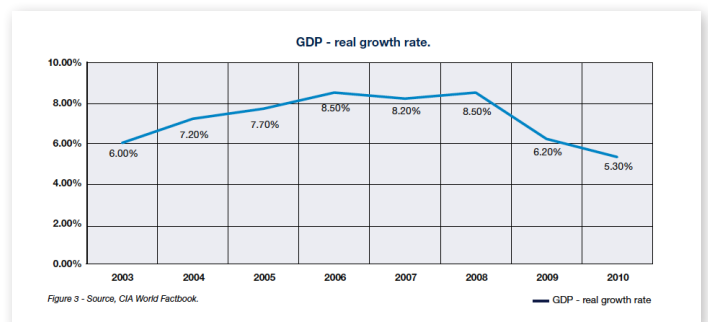


A perfect trade partner

Vietnam has a young, dynamic and educated population with literacy rates over 95%. Entry to the WTO ensured that Vietnam is one of the most liberalised trading nations in the world and it views the UK as a partner in a number of areas, not least trade. That bilateral trade is valued at US\$2bn and the UK is one of the largest investors in Vietnam.

The impact of the downturn

Growth in GDP has been consistently high but a fall-back to 6.2% in 2008 was the lowest level of increase for 9 years and 500,000 workers are believed to have lost their jobs. Exports fell significantly, affecting electronic goods and shoes in particular. As a consequence government spending increased in 2009 with some US\$1bn set aside for cashstrapped exporters. Despite this, exports continued to fall well in to 2009 as the global recession bit hard everywhere.



Responding to the global recession

The contraction proved short-lived and 2010 has seen a return to higher growth figures. Whilst China has kept the Yuan pegged to the US Dollar for the last 2 years, the State Bank of Vietnam allows the Dong to be traded against the Dollar in a 3% trading band; and has devalued the Dong by over 11% against the US Dollar since December 2008 providing possible stimulus and encouragement to the economy.

Vietnam export trade

Sourcing and moving product from Vietnam to UK consumers has, historically, been on an extended time-scale compared to the key exit ports in south and central China. Until very recently, no direct services existed from a Vietnamese port to Europe, all consignments being trans-shipped via hub ports in South East Asia. The consequence was slower transit times from origin to final destination when compared to sourcing in China; although with the advent of slow steaming and longer transit times



generally, that relative disadvantage has reduced. However, this is changing with significant developments in the south of the country where direct services from Vietnam to the US west coast have now begun with 6000 TEU [Twenty-foot Equivalent Unit] container vessels using the newly developed terminal at Cai Mep, some 50 miles to the south of Ho Chi Minh City. The availability of a deep water berth and new terminal infrastructure to support this has, for the first time, enabled direct services to the USA. Further work at Cai Mep is expected to be complete by January 2011 opening up the very real prospect that the larger vessels, if not the very biggest, on the Asia-Europe trade will be able to call at this developing port. The potential for cutting at least 7 days from current door to door schedules has a significant impact on supply chain efficiency and attendant cost implications when sourcing goods from Vietnam, once current feeder costs are removed.

Some constraints remain

It is infrastructure limitations in Vietnam that remain one of the major stumbling blocks to more rapid industrialisation and development. Whilst road building is progressing at a rapid pace, Vietnam currently has 220,000km of roads, only 20% are paved and Government sources state that some US\$60bn will be required to fund infrastructure projects in the next 10 years.

There will be further risks limiting progress to the developed economy that is targeted for 2020: rising inflation at over 20% will impact especially hard on low wage earners if it is not controlled. Trade liberalisation will not benefit everybody, especially inefficient state enterprises. The stock-market remains fragile and Government intervention may not always be totally focussed commercially. Nevertheless, the consistent growth over a long period of time, the transformation from a war-torn divided nation that was at times starving, has been a remarkable achievement, and sets a model for many of its near neighbours. There may yet be further issues to overcome, but Vietnam appears to have the resource and mettle to do just that.

Recent market developments

In late November 2010, as a weaker currency pushed up import costs, prices rose to the fastest rate in 18 months. The monthly rise from October to November was almost 2%, giving an underlying trend above 11%. This immediately prompted interest rate rises in early November after the National Financial Supervisory Commission said "curbing inflation was a greater priority than boosting growth" - a statement hardly in line with current policy as Vietnam is desperate to increase its exports after it suffered reductions, like most of its neighbours, in 2009.

Containerised exports from Vietnam to Europe (TEU)

Region/Year	2008	2009	2010	2011	2012
Mediterranean	94,067	95,303	100,274	107,363	112,563
North Europe	342,681	315,617	344,650	353,736	374,843
Total	436,748	410,920	444,924	461,112	487,306

Source: MDS Transmodal

Developing market dynamics

Growth and speed to market are the key drivers behind Vietnam's desire to increase its appeal to both European and American buyers and deliver products faster and more economically to them. But with the advent of direct routes, increased trade and the accelerated economic benefits it brings are a real possibility. An increasing number of carriers and the consortia they operate in are commencing new direct and fast services to the UK and other major European ports.



Whilst the first services were launched by the European carrier ZIM, they have been quickly joined by the major French carrier CMA-CGM, and the eastern-based consortium CKYH. Some draught restrictions will still apply on the very large vessels with tidal limitations, but the service options are now transformed. Further improvements on service and scheduling will also be gained for other exit ports in Vietnam, such as Qui Nhon and Haiphong, with dedicated feeder services now routing through Cai Mep and taking advantage of the faster transit time to Europe from there.

The speed of service development offered out of Vietnam is set to continue apace. Vietnam's raw determination to continue its economic development with increasingly attractive shipping services playing a key role, is likely to continue to be well received by US and European organisations embarking on a 'China plus one' sourcing policy for the foreseeable future.

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