

TRADE SMARTER - WORKING PAPER THREE

VIET NAM NOW: OPERATING ON THE GROUND

What business and governments can learn from Australian
companies operating in Viet Nam

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VIET NAM NOW: OPERATING ON THE GROUND

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Australia and Viet Nam are natural economic partners. Viet Nam is a dynamic and rapidly-growing market, and one of Australia's fastest growing trading partnerships. In an increasingly competitive market, Australian senior business leaders provide recommendations for Australian businesses looking to make the most of opportunities in Viet Nam.

KEY TAKEAWAYS >

1. **Value:** The modernising economy demands a clear value proposition
2. **Labour:** Skilled workers support sophisticated manufacturing and services
3. **Trade:** An export market, a re-export hub and a source of competitive imports
4. **'Team Australia':** How it could work

This working paper draws on the second roundtable in this series supported by the Department of Foreign Affairs and Trade (DFAT) and looks at issues for Australian businesses interested in expanding into Viet Nam under the new Enhanced Economic Engagement Strategy. A group of businesspeople with experience on the ground in Viet Nam plus industry advisers and business organisation members discussed these issues in November 2021.

A NEW ECONOMIC RELATIONSHIP >

In the 2019-2020 period, Viet Nam ranked 14th amongst Australia's two-way trading partners behind Indonesia and Taiwan with trade valued at

\$15.236 billion or just 1.7% of Australia's total trade. The five-year annual growth rate in trade is 9.2% which ranks Viet Nam behind China and India. Australia also ranks about 14th amongst Viet Nam's trading partners alongside Austria, Malaysia and Cambodia and accounts for a similarly small proportion of Viet Nam's trade at 1.6%.

In 2019 the Australian Bureau of Statistics (ABS) recorded \$2.918 billion in cumulative Australian investment in Viet Nam and \$2.633 billion in direct investment where an Australian parent owned more than 10% of the equity. The Viet Nam Ministry of Foreign Investment and Foreign Investment Agency reported on a different basis in 2020 that there were 500 Australian financed projects in Viet Nam with capital of more than US\$2 billion. In 2019 the ABS reported the stock of Vietnamese investment in Australia was \$793 million.

In 2019, the Prime Ministers of Australia and Viet Nam set a new target for enhanced economic cooperation: to double bilateral investment and become one of each other's top ten trading partners.

This new cooperation was formalised by Prime Ministers Scott Morrison and Pham Minh Chinh on 1 November 2021 with the [Australia-Viet Nam Enhanced Economic Engagement Strategy](#) released on 21 December 2021.



ACHIEVING THE TARGETS >

In early 2020 Asia Society Australia, in collaboration with the Australian APEC Study Centre at RMIT University and the Victorian government, published [*A Path to Viet Nam: Opportunities and Market Insights for Australian Business*](#) which examines opportunities for Australian business.

From June to December 2021, Asia Society Australia collaborated with DFAT to conduct three roundtables to support the new Enhanced Economic Engagement Strategy. They covered key issues for Australian businesses in Viet Nam, and the outlook for Australian education providers. DFAT also supported the publication of a follow up report to *A Path to Viet Nam* which focusses on opportunities for Vietnamese businesses in Australia, *A Path to Australia: Opportunities and Market Insights for Vietnamese Business*.

The NSW Government and Asia Society Australia also undertook a separate initiative on Viet Nam, which contributes to the achievements of the national target for increased economic cooperation between the two countries.

See **Working Paper Two – The Way Ahead for Australian Business - NSW Case Studies** in this series for those findings

FINDING VALUE >

Viet Nam is evolving faster than many foreign companies appreciate with modernisation of the regulatory system and many opportunities for those who do have a clear strategy and value proposition. With contributions from participants who have been involved in the country for up to 30 years, this roundtable agreed that Australian companies are facing a more competitive environment. One participant said: “I find Australian companies, and it’s not exclusive to Australia, often can’t really identify the value proposition when coming into Viet Nam, everybody’s interested in Viet Nam. Vietnamese love doing business with Australians. But you’re not the only show in town.”

Two big macro trends had been at the heart of a rising demand for quality professional services which Australian firms may be well placed to provide. One was a much more institutionalised economy with demand for more sophisticated financial products and the other was Viet Nam’s entry into trade agreements which had brought in more foreign capital and corporate merger activity.

With a long-term perspective, another said the government authorities, the business practices, and the legal and regulatory environment had improved massively but Viet Nam was still not an easy market. “There are still regular legal and regulatory hurdles and not every sector is open to foreign companies.”

Echoing this sentiment, a lawyer said that the legal system had improved “dramatically” over the last 20 years, but contractual enforcement was still lagging which could make business time consuming and uncertain.

A “CAN-DO” WORKFORCE >

There was a high level of agreement amongst participants that Viet Nam’s increasingly skilled labour force was one of the real keys to its success so far and future continued modernisation. But some participants first required some careful management of a different workplace culture to make the best of these skills.

“We’ve really enjoyed the can-do attitude of the Vietnamese culture,” one company executive said comparing the company’s Viet Nam experience with its operations in Africa.

A manufacturing company representative said his company had brought complex production technology to its Viet Nam operations for the first time outside Australia and their local teams had proved to be very skilful labourers and engineers in setting it up. “The operation cost here is one of the lowest among ASEAN countries in terms of shops, utilities, and skills (but) we’ve got skilled people ... They do it very well.”

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A person from a large services company said the Viet Nam team had been able to run one of the most profitable of the company’s businesses in the Asia Pacific. They had also proved to be surprisingly loyal with many of the team members staying with the company for 20 years.

Another manufacturing company executive drew these two themes together reinforcing the need for clear direction and noting the possibility of maintaining a loyal, long-serving workforce.

“The Vietnamese are very, very capable. They need clear direction and then they get on with it and they deliver, which is absolutely fantastic. And loyalty is a big thing in Viet Nam.”

The steady flow of engineering graduates from Vietnamese universities was highlighted by one participant who said they were proving to be at the leading edge of digital technology, automation, software programming and artificial intelligence. “All of these things that are needed in mature markets. They are the skill sets that are coming out in Viet Nam,” he said.

TRIPLE CHOICE: IMPORT, EXPORT OR RE-EXPORT >

Participants said Australian businesses should not fall into the trap of seeing Viet Nam as a one-dimensional business opportunity because it had the potential to fit into a range of different internationalisation strategies.

While it tended to be seen as an export market especially as businesses sought to diversify from China, they argued that it could now be a key source of imports under new trade deals. And plugging Australian inputs into Viet Nam factories meant it should also be seen as a re-export option.

“I see more opportunity in the supply of materials and services to the local sector rather than in direct investment (in Vietnamese production facilities),” one company adviser said.

But an existing manufacturer said: “I think in this country there are huge opportunities to invest more for domestic consumption, but also for re-export. I can see this boosting (Vietnamese) trade from both sides.”

But Viet Nam now had to be seen as a premium market for Australian products. “We are selling in a premium market that we have to invest in on branding, distribution channels and innovation to differentiate us with the rest of the market. That’s the key thing to sell premium products. There’s no low-hanging fruit anymore,” said the representative of a company, which mostly manufactures in Viet Nam, but also exports there.

However, an Australian business group participant said its members were increasingly seeing Viet Nam as a supplier rather than a customer.

“That means they’re looking for good suppliers and good partners, and those relationships started long before the China-US trade war.”

However, it was noted that Vietnamese products still tend to have a low presence on major e-commerce platforms compared with other foreign products and this appeared to be a gap in the market from Vietnamese exporters and Australian importers.



Cam Ranh

TESTING 'TEAM AUSTRALIA' >

This roundtable ended with some discussion about how increased economic engagement with Viet Nam could benefit from the greater cooperation between government agencies and individual businesses. This follows the advocacy of a 'Team Australia' approach to new regional business in Business Council of Australia/Asia Society Australia report [A Second Chance](#).

There was an interesting divergence of opinions about how such an approach might be applied in practice in an emerging market like Viet Nam.

One business adviser viewed this as adopting a "Japanese" approach where the government would support a large company moving into a strategic sector in a foreign market and the company would then pull with it an "ecosystem" of smaller businesses into the new country. "There's a lot to be said for 'Team Australia'," this adviser said.

Another executive from a manufacturing company said it was already clear that Vietnamese officials respected companies which were seen to have the support of the Australian government. "The ambassador can open doors for us," this participant said. Another person from a strategic industry said, "You won't get in to see the appropriate stakeholders unless you have good government support."

But other businesspeople suggested a less directly interventionist approach to the concept centred around using Australian universities to improve Vietnamese skills or regular high-level dialogue between ministers from the two countries modelled on the once long-running Strategic Economic Dialogue between the US and China.

The advocate of an education approach saw this as working from the ground up with increased collaboration between Australian and Vietnamese universities allowing skills improvements in Viet Nam which would help Australian business operate in the country.

See ***Working Paper Four – Education Reciprocity: Australian University Experiences in Viet Nam*** for more discussion on Australia's Higher Education sector perspectives on Viet Nam

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AUSTRALIAN CEO ROUNDTABLE ON VIET NAM SERIES >

A national CEO Roundtable on Viet Nam was convened by Asia Society Australia and hosted by RMIT University. It brought together The Hon Dan Tehan MP, Minister for Trade, Tourism & Investment with business, university and civil society leaders in Australia with experience and interest in the Vietnamese market to discuss practical ways where government, business and the university sector can work together in a “Team Australia” approach to strengthen the economic relationship.

The CEO Roundtable on Viet Nam series is designed to bring together senior business leaders with government, academia and civil society to advance bilateral trade and investment links between Australia and Viet Nam. These high level roundtables discuss practical ideas to pursue trade and investment opportunities, while developing business-to-business connections, and professional relations between leaders. Each roundtable results in working papers and video case studies to inform and support business outcomes in Viet Nam.

The Roundtable discussions build on the recent report *A Path to Viet Nam: Opportunities and Market Insights for Australian Business* developed by Asia Society Australia and the Australian APEC Study Centre at RMIT University.

Working Papers in this series:

- **One – Viet Nam Now: Strengthening Bilateral Engagement (June 2021)**
- **Two - Viet Nam Now: The Way Ahead for Australian Business: NSW Case Studies (June 2021)**
- **Three – Viet Nam Now: Operating on the Ground (November 2021)**
- **Four – Education Reciprocity: Australian University Experiences in Viet Nam (December 2021)**

Department of Foreign Affairs and Trade (DFAT), Australia

DFAT promotes and protects Australia's international interests to support our security and prosperity.

We work with international partners and other countries to tackle global challenges, increase trade and investment opportunities, protect international rules, keep our region stable and help Australians overseas.

In December 2021, the Department and the Vietnamese Ministry of Foreign Affairs jointly launched the Australia-Viet Nam Enhanced Economic Engagement Strategy (EEES) and its accompanying Implementation Plan. The Strategy and Plan set out visions for why – and how – Australia and Viet Nam can work together with the aim of becoming top ten trading partners and doubling two-way investment. The Strategy is focused on key sectors where Viet Nam and Australia have particular strength to build on the trade and investment relationship, as well as the greatest potential to assist both countries' recovery from COVID-19 and to achieve the targets of this Strategy.

Asia Society Australia

Asia Society Australia is Australia's leading global think-tank and membership organisation dedicated to Asia, focusing on the interplay between business and policy.

We connect business, policy and society, helping Australians to understand and engage with Asia and to navigate our shared futures.

We are a national, independent, non-partisan, and non-political institution with a national centre in Melbourne, office in Sydney and a program accessible in Australia and globally through digital and face-to-face platforms. Asia Society Australia is a centre of Asia Society – a preeminent global and non-profit organisations dedicated to Asia, founded in 1956 by Jon D. Rockefeller 3rd, with centres in New York, Hong Kong, Houston, Los Angeles, Manila, Melbourne, Mumbai, Paris, San Francisco, Seoul, Sydney, Tokyo, Washington DC and Zurich.

For more information on trade and investment opportunity between Asia and Australia, visit:

asiasociety.org/Australia

dfat.gov.au/trade

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