Vietnam reached lower middle income status and is booming due to rapid agricultural intensification and industrialisation. The maritime sector plays a crucial role in this economic transition. In this factsheet the Embassy of the Kingdom of the Netherlands in Vietnam provides its informed opinion on the business opportunities emerging during this transition. Being a major regional transport hub and having the government’s interest as priority sector, the Vietnamese maritime sector results in a promising market for the Dutch.

Vietnam’s trade policy favours Free Trade Agreements (FTAs). The EU–Vietnam FTA has already finished negotiations and is in the final stage before implementation. Early estimates suggest it will come into force in the second half of 2018. It aims at 99% liberalisation within a decade. Besides the EVFTA, Vietnam is involved in active FTAs (as part of ASEAN) with regional partners and in the preliminary agreement CPTPP (without United States), successor of the TPP, which is still in the negotiation phase. Therefore, apart from Vietnam’s ASEAN neighbours, most goods can also be exported duty-free to countries in the Pacific region, like Japan, Australia and Chile. Vietnam is therefore an appealing and rapidly emerging market.
The maritime sector

The maritime sector contributed about 8% to the national GDP in 2016. Moreover, Vietnam is currently the second largest in ASEAN and ranks 5th in the world for shipbuilding. With the spur in economic growth, industrial projects and zones proliferated. Vietnam has already 220 industrial zones operating on a total of 60,900 ha. The government has declared the maritime sector one of its priorities and is investing in increasing its output capacity as well as the technology level of the sector.

Vietnam is a major regional trading hub in Asia due to its geographical position as gateway to South China and ASEAN markets and its coastline of over 3000km along all major inter-Asia shipping routes from China to South-East Asia. The Vietnamese ports are well placed along the inter-Asian shipping routes to take advantage of growing intra-Asia trade volumes.

The Vietnamese government has set high priorities to develop the needed port infrastructure to reduce transportation and logistics costs due to the current port- and road congestion problems. Logistics costs in Vietnam are relatively high, 25% of annual GDP, compared to Malaysia 13%, and China 18%. Furthermore, port development should be seen in the wider context of inland waterway development for logistical purposes. The country has over 42,000 km of navigable inland waterways, with a main focus on the Mekong Delta and the Red River delta, that bring huge potentials for multimodal logistics.

Business environment

Despite the fact that the economy of Vietnam is growing fast, the Vietnamese business environment still has room for improvement. When doing business, red tape procedures and uncertainty regarding tax laws and enforcement need to be taken into account. Furthermore, Vietnam ranks relatively low regarding enforcement of property rights. Transparency International ranked Vietnam 113th out of 176 countries on the corruption index 2016. However, on the World Bank’s 2018 doing business index, Vietnam ranks 14 places higher than the previous year, on 68th out of 190 countries.

Since the government appointed the maritime sector a priority sector, several incentives and guarantees to attract foreign interest and capital are provided. The 2015 Law of Investment is applicable to both foreign and domestic investors and gives the guarantee that businesses with foreign-invested capital will not be nationalised. Other guarantees include the permission for foreign investors to remit abroad the profits, loan principal and interest, and other legal proceeds and assets. Foreign investors may be eligible to receive standard investment incentives such as reduced corporate tax rates, tax-free periods or tax reductions, land-rent reductions and import-duty exemptions. However, difficulties in import and export procedures are present as well. In particular, inconsistency in regulation and discrepancy in interpreting the law at local levels are amongst the most challenging issues for foreign investors.

Photograph courtesy of Damen Song Cam shipyard
Another notable issue is that the central government is limited by its self-imposed debt ceiling of 65% of GDP. As a result, the government is looking more into alternative ways of financing such as public-private partnership (PPP) schemes. Potential investors are engaged as international ownership of Vietnam’s ports will be allowed in the form of a joint venture with a local company.

**Business opportunities**

After a flourishing development period, the recent years, including 2017, have been challenging for the maritime sector. However, as a follow up on the signing of a Letter of Intent during the visit of Prime Minister Phuc to the Netherlands last July, a cooperation program (PIB) on maritime and inland waterways is being developed. The private sector and government will be served using an integrated approach which includes aspects of transport policy, knowledge transfer, economy, safety, environment, and technology.

We distinguish three subsectors: shipbuilding industry, inland waterway development and port development.

**Shipbuilding industry**

Low wages, its strategic geographic location, financial incentives and upcoming FTAs make Vietnam an attractive production location. Shipyards need to be supplied by production facilities preferably within its vicinity, which could be interesting for smaller, more specialised companies. Investing in a joint-venture partnership with a local producer can create a good start from which can be catered to the growing domestic market, but also for export. The Dutch maritime cluster in Hai Phong city exemplifies this. Moreover, the cluster provides for an already visible Dutch presence allowing for spill-over effects. For instance, the Dutch image can help gain foothold in establishing a good relationship with the local authorities, which is essential for doing business in Vietnam.

Finally, in the shipbuilding industry, one must bear in mind that it is a vulnerable sector since it depends on the world economic situation and oil price. Recent oil price plunges and a faltering world economic growth have put the sector under severe stress, but they can also spur industry growth in the future. Furthermore, despite labour being cheap, mid-level management is relatively scarce.

**Inland waterway development**

Inland water transport is the second most preferred domestic passenger and cargo transport in Vietnam. The Mekong Delta inland water transport accounts for 25-30% of the total domestic transported goods and passengers. Having Europe’s largest port, including a crucial inland waterway transport system for the supply chain, the Netherlands has the expertise on how to develop and sustain the quality of inland waterways. The development of these waterways may prove promising for dredging contractors and engineering consultants. Furthermore, knowledge and training institutes can provide their services to improve the know-how and capacities of maintenance and governance personnel to uphold the quality of the waterways.

**Port development**

A masterplan is set up to develop the seaport system into a competitive alternative to Singapore’s and Hong Kong’s by 2030. Its main components are the construction of ports and terminals, the setting up and development of connecting points for logistics system, and the upgrade and improvement of existing ports.
Examples of port construction are:

- The development of Van Phong International Transhipment Terminal with an expected container vessel handling capacity of 9,000-15,000 TEU.
- The development of deep sea ports in Hai Phong, Ba Ria-Vung Tau, and other economic strategic points. These ports will have an expected handling capacity of: (1) vessels of 80,000-100,000 DWT; (2) container vessels of 4,000-8,000 TEU.
- The development of hub dedicated ports with a capacity of: (1) liquid cargo vessels of 300,000-400,000 DWT; (2) coal and ore vessels of 100,000-300,000 DWT; (3) ships of 100,000 GRT tourist passengers.

Due to the severe competitive pressure from mainly large Asian contractors, it will prove difficult in obtaining the rights to develop these projects. Nonetheless, niche expertise, specific equipment and technology will be requested to supply these huge projects.

Business support
The Embassy in Hanoi and the Consulate General in HCMC can provide further information about the maritime sector in Vietnam, applicable rules and regulations, potential business partners and relevant government authorities.

In addition, the Government of the Netherlands has developed several instruments to support Dutch companies in doing business in Vietnam. The information can be found on www.rvo.nl.

For general information on doing business in Vietnam please refer to the Factsheet Doing Business in Vietnam

Trade Fairs