



Vietnam

Outlook for Manufacturing and Logistics
Infrastructure

March 2024

Executive summary

Strong investment flows increase the risk of overheating in Vietnam

- Vietnam has benefited from strong FDI in recent years
- However, because of the strong FDI inflows combined with a tight labor market, Vietnam's economy is hitting structural limitations, which affects its ability to take on additional investment
- Vietnam is attempting to address the tight labor market by improving labor productivity and transitioning workers from the agricultural to industrial sector

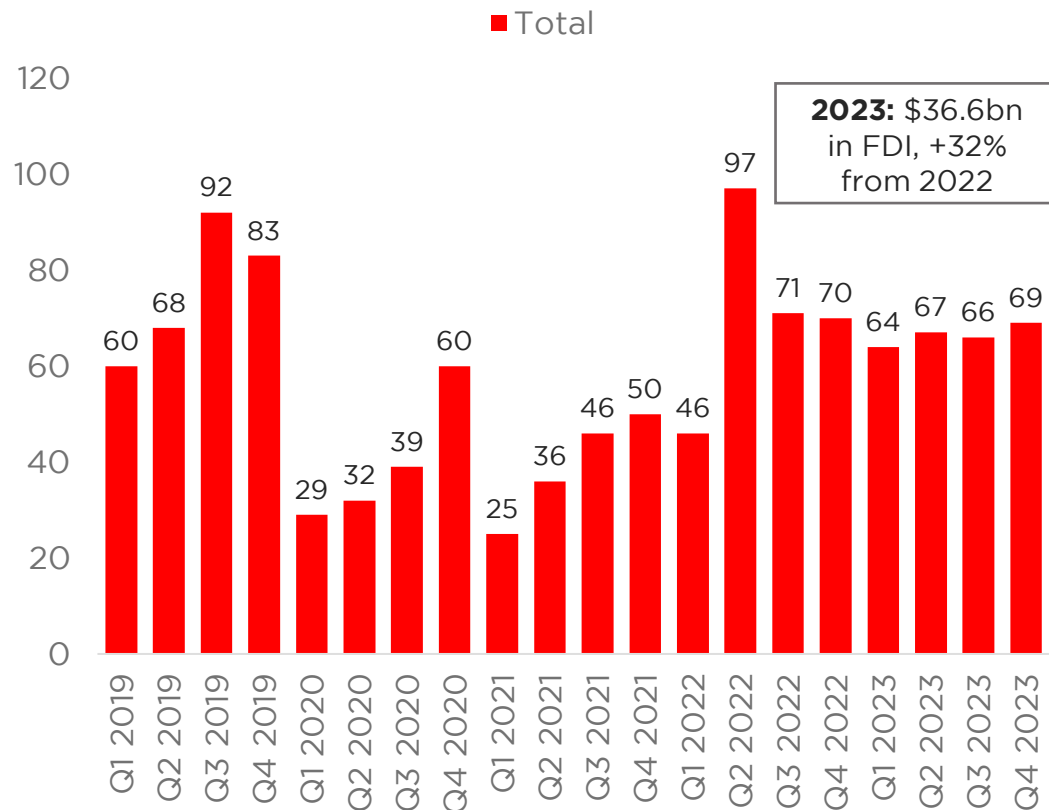
Improvement of transport infrastructure will be key in bolstering Vietnam's logistics performance

- Vietnam's Master Transport Infrastructure Plan is ambitious in its scope and timeline, seeking the expansion of port, air, rail, and road capacity
- Structural challenges to the Plan's implementation remain, however, with respect to land reclamation policies and government capacity
- Infrastructure investment will grow by 7% and new seaport investment will enhance Vietnam's logistics performance and economic productivity

Vietnam has benefited from strong FDI in recent years

But pressures are building that could weaken economic performance

TOTAL GREENFIELD FDI INTO VIETNAM NUMBER OF PROJECTS



FACTORS BOOSTING FDI

- US-China tensions
- Economic environment improvements and labor cost competitiveness
- Government policy for tech and manufacturing industries
- Infrastructure plan and investment

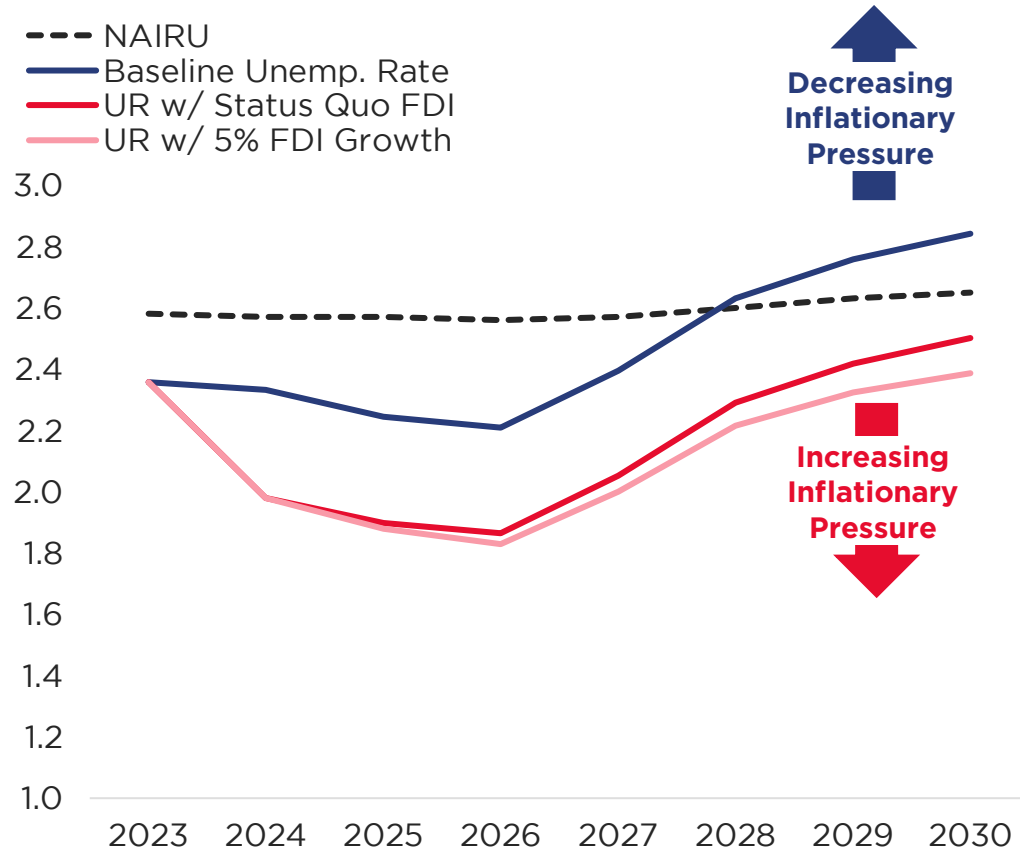
WHAT TO WATCH FOR

- Labor shortages
- Input cost pressures
- Logistics performance
- ESG-related concerns

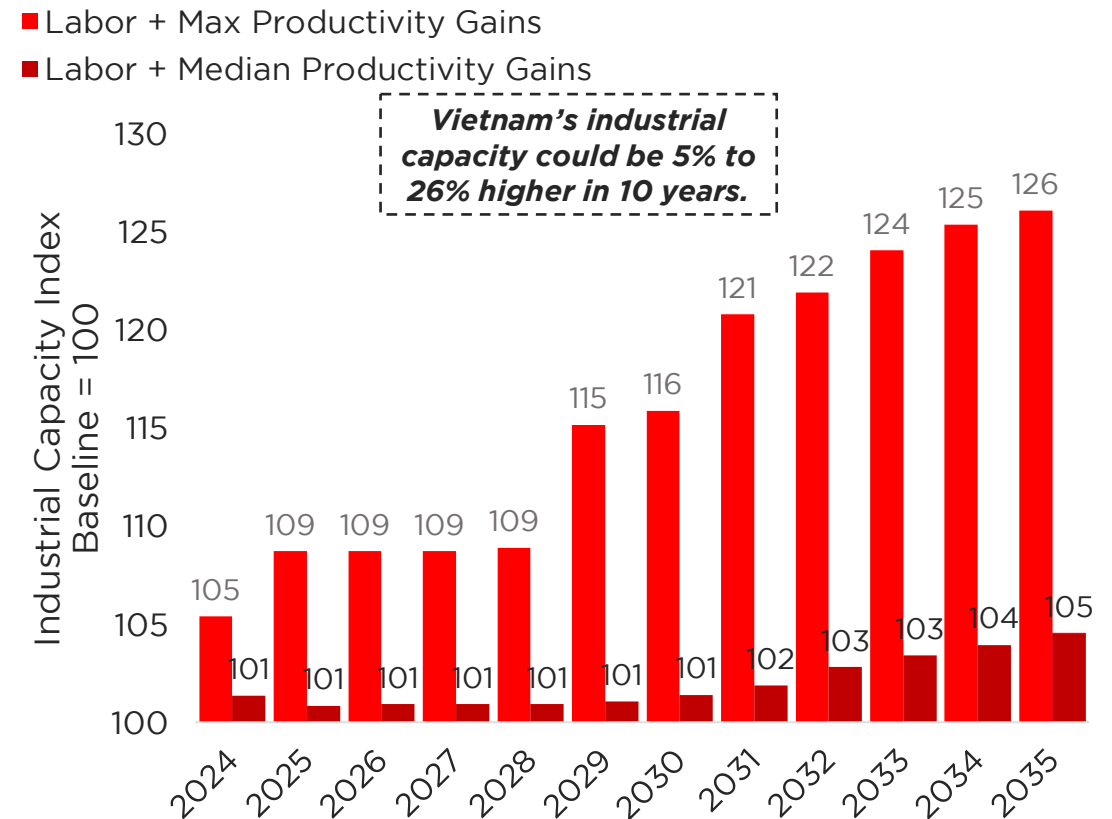
Inflationary pressure likely to rise due to tight labor market

But productivity growth over the next decade may help drive capacity growth

VIETNAM'S LABOR MARKET IS TIGHT AND FURTHER INVESTMENT COULD STOKE INFLATION



BUT, LONGER-TERM, VIETNAM CAN GROW INDUSTRIAL CAPACITY SIGNIFICANTLY



Policy Spotlight : Vietnam

Industrial	Competitiveness					Supports				
The government is prioritizing strengthening the supporting industries in the electronic and semiconductor sectors and industrial parks development.	Less Competitive		Neutral	More Competitive		Less Favorable		Neutral	More Favorable	
	--	-	0	+	++	--	-	0	+	++
	Bolstering supporting industries will allow intermediate goods to be locally produced; reducing the dependency on China.					The development of eco-industrial parks will be a key priority to attract more foreign direct investment.				
Labor	Labor Cost					Labor Availability				
Labor cost in Vietnam is 0.83 USD per hour; launching programs to train workers and domestic firms in supporting industries and facilitate the intra-ASEAN movement of labor to bolster labor quality.	Higher Cost		Neutral	Lower costs		Less Availability		Neutral	More Availability	
	--	-	0	+	++	--	-	0	+	++
	Plan to increase minimum wages by 6% in 2024; will still be the lowest labor cost among ASEAN-6 economies.					Under skilled labor and labor scarcity are bottlenecks. However, the government is developing programs to increase labor quality.				
Infrastructure	Logistics Performance					Economic Impact				
Poor infrastructure has led to high logistics costs; however, major infrastructure improvements are underway.	Less Competitive		Neutral	More Competitive		Higher Cost		Neutral	Lower costs	
	--	-	0	+	++	--	-	0	+	++
	Vietnam's logistics costs account for nearly 20.9% of GDP, double that of developed economies and higher than the global average of 14%.					Public investment of ~\$65 billion for infrastructure development through 2030, prioritizing road, rail, inland waterways, sea, and air transport.				
Trade	Sectoral Impact					Trade Barriers				
Trade policy is focused on promoting economic growth and development through trade liberalization and integration into the global economy, while also protecting domestic industries	Higher Cost		Neutral	Lower costs		Less Availability		Neutral	More Availability	
	--	-	0	+	++	--	-	0	+	++
	Stands to gain the most out of ASEAN-6 through regional trade liberation, including RCEP and CPTPP, particularly on income levels (up 4.9%).					Supports a rules-based multilateral trading system and actively participates in negotiations under the World Trade Organization (WTO).				
Tax	Incentives					Complexity				
New top-up tax for multinational corporations, setting the effective corporate tax minimum at 15% starting in January in line with OECD's Global Minimum Tax; VAT is 10% on most goods and services; and Property tax varies by location and value of property.	Higher Cost		Neutral	Lower costs		Less Availability		Neutral	More Availability	
	--	-	0		++	--	-	0	+	++
	Several measures to cushion higher CIT: non-tariff zones, land incentives, improving infrastructure in industrial zones and export-processing zones, and exemption from indirect taxes.					Foreign companies are subject to a 1-10% foreign contractor tax when working with a Vietnamese party.				

Source: Onyx

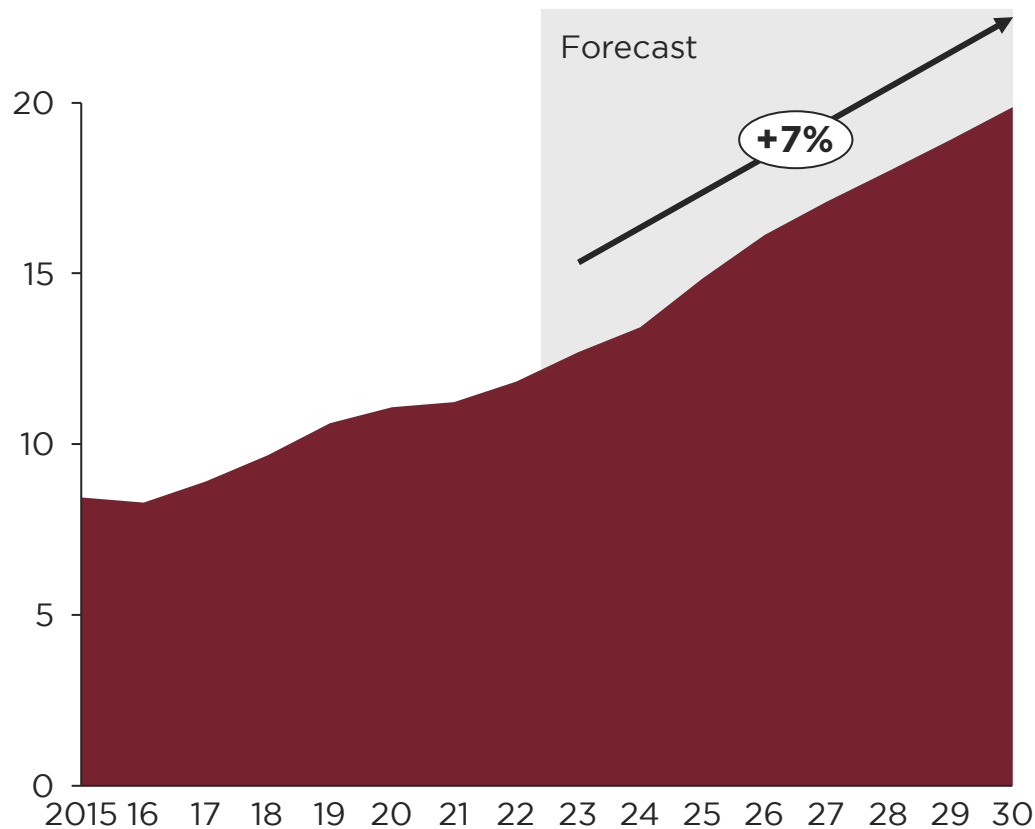
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Infrastructure investment forecasted to grow 7%

Mainly directed to increasing port, road, rail and air capacity

INVESTMENT IN TRANSPORT AND STORAGE

USD\$B 2015 PRICES



Master Transport Infrastructure Plan: 2021 - 2030

POLICY AIMS

AIR

- Top upgrading priorities are Noi Bai, Tan Son Nhat, Long Thanh
- Aiming to have **29 airports in total**, including 14 international and 15 domestic ones by 2050
- Major project: **Long Thanh airport** 40km from HCMC, which aims to serve 100M passengers, 5M tons of cargo

ROAD/RAIL

- **Scaling up of national highway** from 1,290 to 5,000 km by 2030 and increasing connections to major transport nodes
- Pushing for the 57.7 kilometres Ben Luc - Long Thanh Expressway to be **completed in 2024**
- Building **nine new lines** by 2030, potential HCMC-Hanoi speed rail

PORTS

- Developing seaport network to transport **1.4B tons of cargo/year** vs current capacity of 500M tons
- **Buildout of ports** - Binh Thuan to serve Son My 1 industrial park, Lien Chieu to make Danang a regional hub and Can Gio to relieve HCMC congestion

Source: Oxford Economics, Onyx

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But structural hurdles often delay infrastructure plans

Without clear and short-term solutions that can speed up development

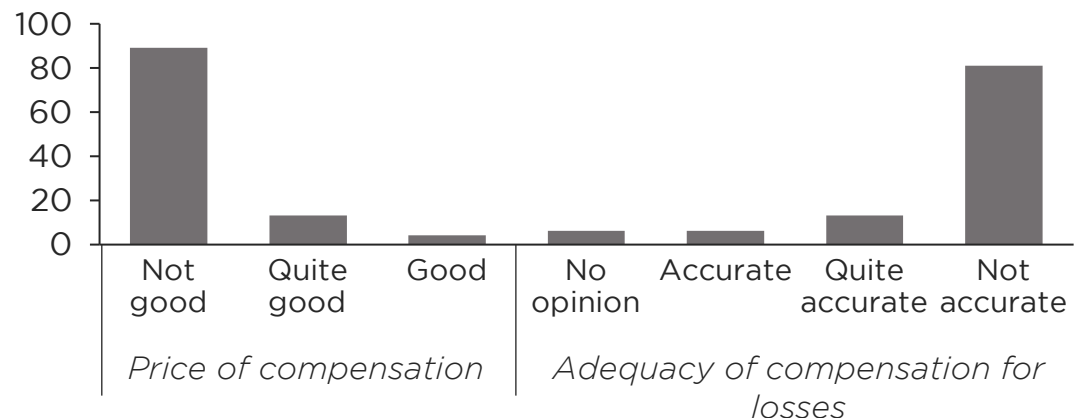
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Opaque land acquisition policies

- While the state owns land rights, they must compensate landowners for acquisition
- Pricing is calculated by the state, so landowners often receive less than market value and launch an appeal
- Appeals process is opaque, thus local authorities cannot move forward with compensation and the project

DISPLACED PERSONS' EVALUATION OF COMPENSATION SCHEME

%, n=60



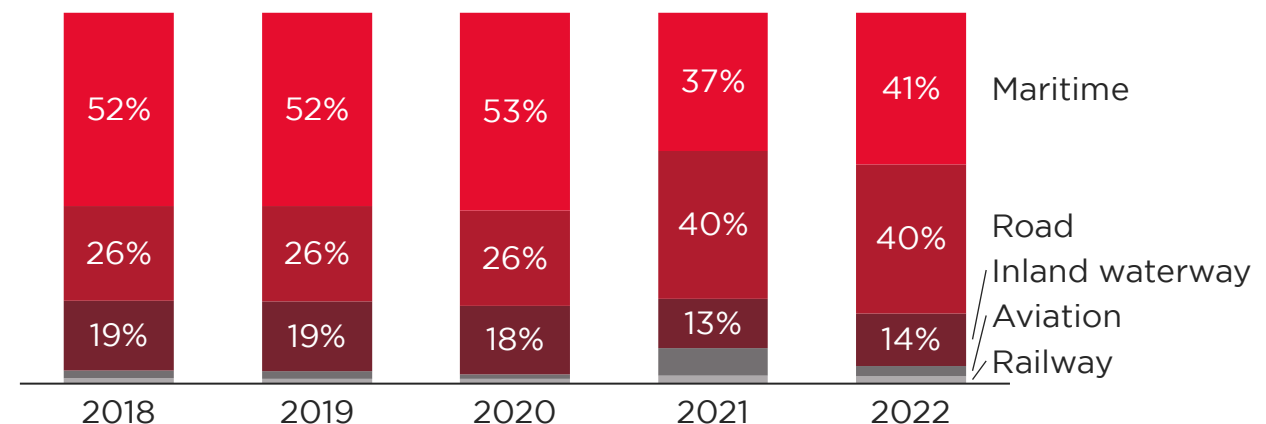
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Government inexperience

- Road and rail projects are expected to face more delays/lower quality due to govt. inexperience
- In contrast, state-owned operators of airports, ports have more experience with upgrading programs
- However, roads still account for almost half of freight transported

FREIGHT IN VIETNAM BY TYPE OF TRANSPORT

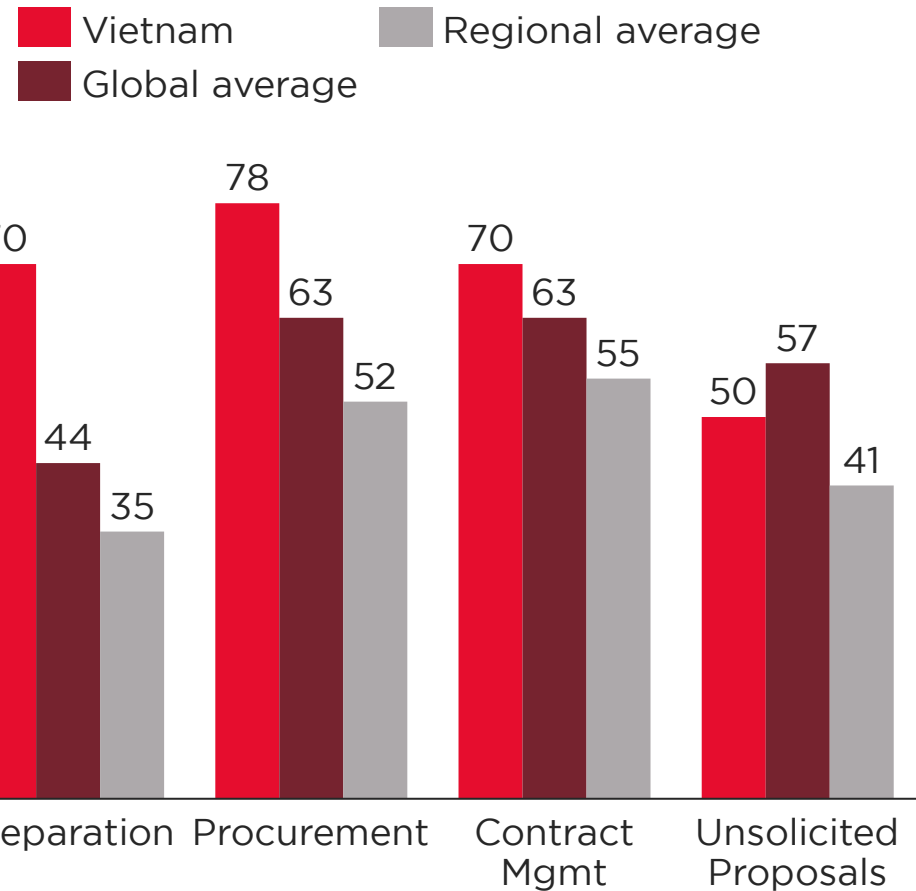
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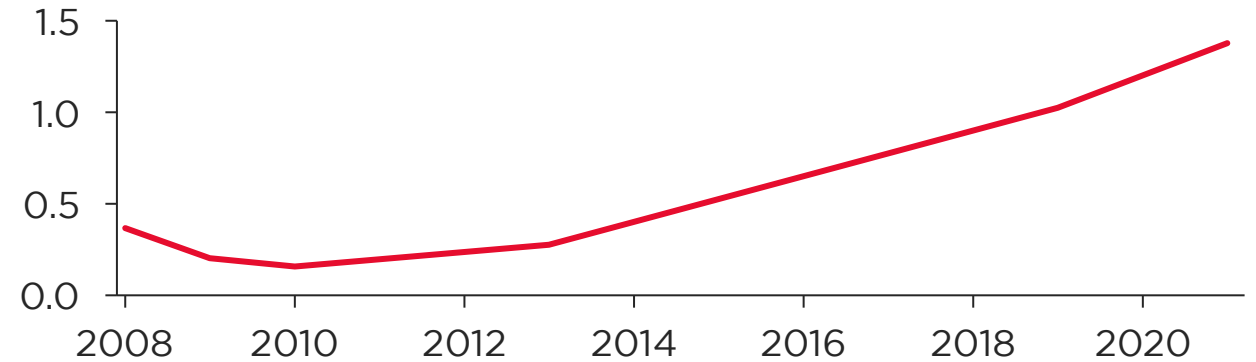
Public-private partnership is a potential solution

Vietnam performs better than regional and global average for PPP

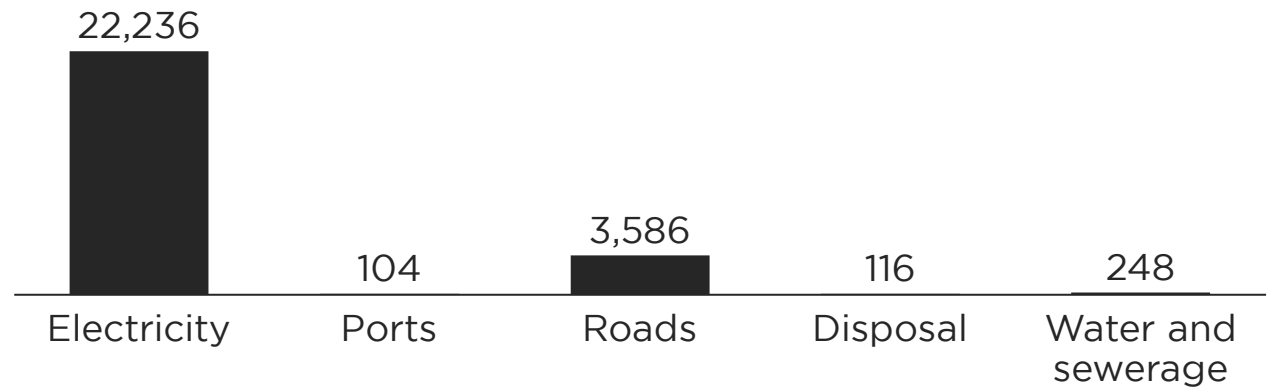
WORLD BANK THEMATIC SCORES FOR PPPs
UPON 100



PPP INVESTMENTS IN TRANSPORT
USD\$B



PPP INVESTMENT BY SECTOR, 2012 - 2022
USD\$M



Source: World Bank, CEIC, Onyx
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Scenario: Vietnam Port Investment

In this scenario, we explore the macroeconomic and logistics impacts of Vietnam's plan to modernize its transportation infrastructure with a focus on seaport investment of nearly \$14 bn by 2030.

The Vietnamese government has prioritized port development as central to its broader economic aims to develop a modern seaport system by 2030, with even longer-term economic objectives stretching into 2050.

Through its Master Plan for seaport development, the government aims to upgrade the system of seaports in northern Hai Phong city, with an aim of turning Lach Huyen into a port serving container cargo, along with the port clusters in Thanh Hoa, Da Nang and Khanh Hoa in the central region, and Cai Mep (Ba Ria-Vung Tau) and Tran De (Soc Trang) in the south.

The Master Plan also supports the development of the region's agricultural, transport, energy, and tourism sectors and emphasizes sustainability.

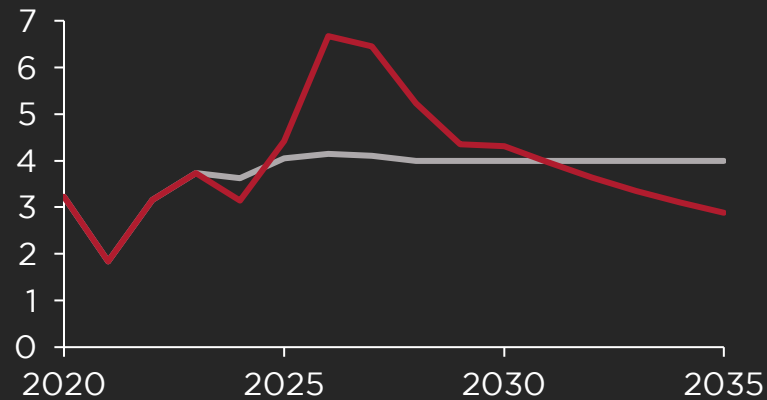
Key Assumptions

- 50/50 split between public and private investment totaling \$13.7 bn, spread evenly from 2024 to 2029 with project completion by 2030
- Enhanced infrastructure attracts FDI inflows at a rate of \$0.20 for every \$1 of new infrastructure spending
- The spike in construction and capital inflows drives up wages and the exchange rate
- The central bank raises interest rates in response to inflationary pressures
- Improved infrastructure increases total factor productivity

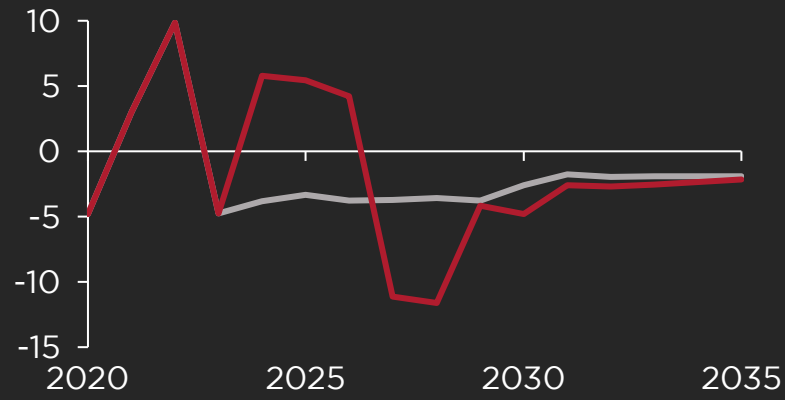
Port investment will improve economic productivity

Due to trade openness and technology transfer from foreign firms

INFLATION, YOY % CHANGE

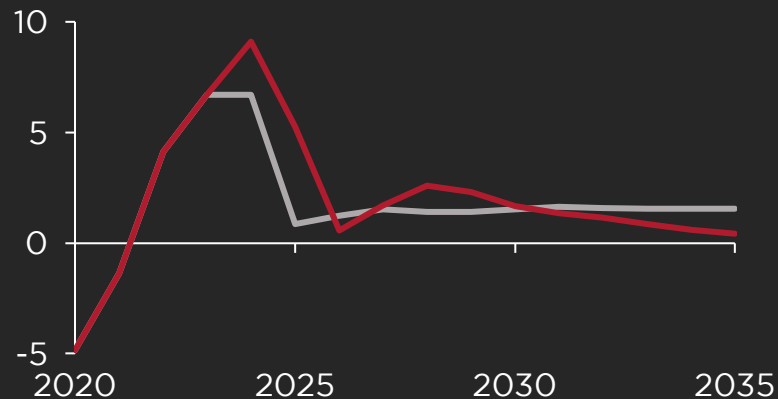


EFFECTIVE EXCHANGE RATE, YOY % CHANGE

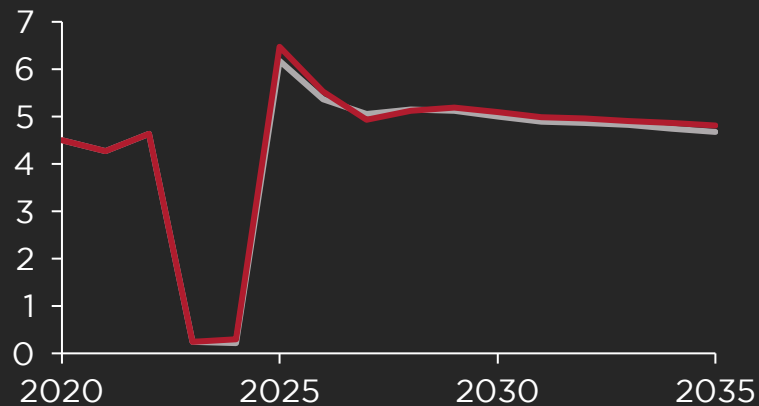


— Base Case
— Seaport Master Plan

UNIT LABOR COSTS, YOY % CHANGE



PRODUCTIVITY, YOY % CHANGE



KEY INSIGHTS

- Investment leads to overheating and higher inflation over the short- to medium term
- Rising labor costs are the primary inflation driver
- The Dong appreciates during the construction ramp-up phase, but then normalizes
- Overall economic productivity improves marginally over the long-run due to positive spillover effects from trade openness technology transfer from foreign firms

Modern infrastructure improves logistics performance

Customs and logistics competence transformation is needed to compete with China

COST STRUCTURE IMPACTS

Labor cost drivers

% impact by 2035

Unit labor costs	+4.8%
Productivity	+1.0%

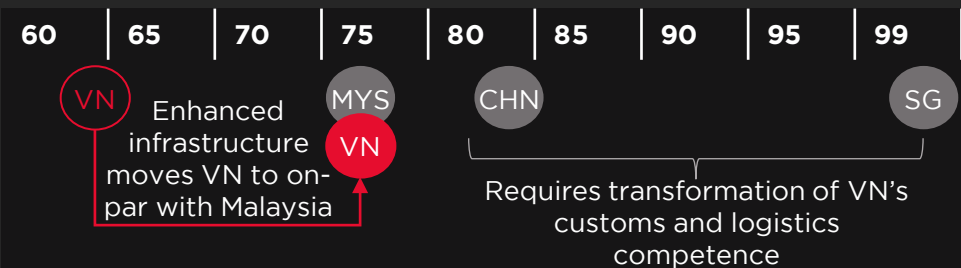
Commodity Costs

Oil price	No change*
Non-oil commodities	No change*

LOGISTICS IMPACTS

Global Logistics Performance Ranking

Percentile Rank



Logistics Time and Cost Reductions

Port Call Duration	-22% to -29%
Transport Costs	-3.1% to -4.6%

*The overall benign macroeconomic impacts and the relatively small size of Vietnam's economy have a negligible effect on global commodity prices

Source: Onyx, Oxford Economics, World Bank, Bloomberg

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