



## 2016 Top Markets Report **Construction Equipment** Country Case Study

### Vietnam

Vietnam is a growing market for U.S. CE producers with sector exports of \$387 million/\$77.4 billion (2011 to 2015 combined/annualized average). Construction machinery and engines make up the majority of CE sector exports. Although urbanization and infrastructure growth push Vietnamese buyers towards CE sector products with superior reliability and productivity, less-costly Chinese products are widely available and an attractive alternative to U.S. CE products. Passage and enactment of the Trans-Pacific Partnership (TPP), which would eliminate tariffs of up to 59 percent on U.S. CE sector products, would also place exporters in a much more favorable competitive position in Vietnam.

Market to Consider

#### Vietnam's Export Market

Vietnam's strong and rapidly growing economy, improving business environment, and population of 93 million combine to create an inviting commercial environment. The Vietnamese economy will require increasingly large investments in residential/commercial construction and infrastructure. Although some challenges and barriers exist, U.S. CE sector exporters should look to Vietnam as an attractive potential market.

For the period from 2011 to 2015, cumulative U.S. CE sector exports to Vietnam totaled \$387 million. Construction machinery and engines for use in CE sector machinery accounted for 82 percent of total sector exports at \$319 million. Mining machinery and equipment accounted for 15 percent of total sector U.S. exports to Vietnam at \$57 million. Exports of pumps/motors and cylinders/actuators combined accounted for the remaining 3 percent of total sector exports at \$11 million. Despite year-on-year gains and losses, the long-term trend of U.S. CE sector exports to Vietnam is positive. U.S. CE sector exports have grown 1400 percent since 2000 at a Compound Annual Growth Rate (CAGR) of 19.8 percent.

#### Country Snapshot:

- U.S. CE sector export growth amongst largest for all markets
- Urbanization/infrastructure growth will drive CE sector demand
- Passage of TPP will help U.S. sector exporters compete with Chinese producers

After reaching a post-2008 global recession high of \$78.4 million in 2011, U.S. CE sector exports to Vietnam fell 33 percent to \$52 million in 2012, then rose again to an all-time high of \$121.3 million by 2015. This decline mirrored global export trends for the U.S. CE sector as post-2008 recession spending leveled off. In addition to this post-recession spending adjustment, continued weakness in commodity prices for oil and ore have continued to slow export demand growth.

Vietnam's CE sector market is quite different in comparison to large export volume markets such as Canada, Mexico and Australia. In these markets, U.S. CE sector exporters can compete on product quality, reliability and technology due in large part to well-developed dealership networks. These dealers contribute to brand awareness and provide a

comprehensive sales and service network that support their products. In addition, potential cost impacts are mitigated somewhat by free trade agreements in these countries. By comparison, U.S. CE exporters' dealer presences in Vietnam are much more limited. Vietnam's proximity to China also provides Chinese CE manufacturers easy access for their lower-cost products.

Buyers of U.S. CE exports are primarily engaged in commercial and residential construction, infrastructure, oil and energy production. Vietnam does not possess any meaningful CE sector manufacturing capability and therefore depends almost exclusively on imported machinery.

### **Challenges and Barriers to Export**

Despite some strong opportunities, U.S. CE sector exporters do face challenges in accessing Vietnam's CE sector.

*Business ethics:* According to the United States Commercial Service Country Commercial Guide, implementation of the country's anti-corruption laws is problematic. Corruption and administrative red tape within the government of Vietnam remains a challenge for foreign companies doing business in Vietnam.<sup>1</sup> Vietnam now ranks 112th (out of 167) on Transparency International's 2015 Corruption Perceptions Index (Malaysia 54<sup>th</sup>, Thailand 76<sup>th</sup>, China 83<sup>rd</sup>, Indonesia 88<sup>th</sup>, and Philippines 95<sup>th</sup>).<sup>2</sup>

*Intellectual property (IP) protection:* IP protection and enforcement are concerns in Vietnam, which in 2015 remained on USTR's Special 301 Watch List. According to industry indices, Vietnam ranks 85<sup>th</sup> out of 129 globally, 15<sup>th</sup> out of 20 in Southeast Asia<sup>3</sup> and last among the TPP countries<sup>4</sup> in quality of intellectual property rights protections – though it is noted that Vietnam perhaps has the most to gain from successful implementation of the TPP. As reported by the United States Commercial Service in Vietnam, many businesses, both foreign and domestic, found ineffective protection of intellectual property to be a significant challenge to doing business.<sup>5</sup>

*High tariffs on CE sector products:* Pending passage of the Trans-Pacific Partnership (TPP), U.S. CE sector exporters currently face tariffs of up to 59 percent in

Vietnam. By comparison, Chinese CE sector exports face much lower duties.<sup>6</sup>

*Low cost competition from China:* Low-cost CE products represent a serious challenge to U.S. CE exporters. Lower acquisition cost for Chinese goods mitigates U.S. CE producers' productivity/reliability/technology advantages in the Vietnamese market.

### **Opportunities for U.S. CE Exporters**

Despite challenges and barriers, the opportunity outlook for U.S. CE sector exporters is positive and improving. Robust economic growth, consistent and growing investment in infrastructure development, challenges in the economic relationship between Vietnam and China, and new economic opportunities under the Trans-Pacific Partnership (TPP) contribute to a strong CE sector export climate.

*Economic growth:* For the period from 2011 to 2015, Vietnam's GDP growth was 6.0 percent.<sup>7</sup> More specifically, GDP growth attributed to construction and industry was 8.35 percent for the first quarter of 2015.<sup>8</sup> Despite the Vietnamese economy's dependence on a number of currently low-priced commodity exports, near-term GDP growth is predicted to continue at 6.5 percent in 2016 and 6.7 percent in 2017.<sup>9</sup>

*Implementation of major infrastructure projects:* Concurrent to strong GDP growth, Vietnam has experienced a high level of investment in infrastructure development. For the first ten years of this century, infrastructure development investment averaged 9 to 10 percent of GDP.<sup>10</sup> With an estimated need for infrastructure investment of \$200 billion by 2020 to sustain current levels of growth, Vietnam's Ministry of Planning and Investment has launched a plan to encourage infrastructure investment through public-private-partnerships (PPP).<sup>11</sup>

*Trans-Pacific Partnership (TPP):* Currently, U.S. CE sector exporters face tariffs of up to 59 percent in Vietnam. Vietnam's membership in TPP will immediately reduce duties on 82.9 percent of machinery, including U.S. CE sector products, and 99.5 percent of CE products within four years.<sup>12</sup>

*Business environment:* In addition to the benefits of free trade under TPP, Vietnam's business environment continues to improve. Vietnam advanced from 99<sup>th</sup> in 2014 to 90<sup>th</sup> (out of 189) in the World Bank 2015 Ease of Doing Business Index.<sup>13</sup>

*Trade exhibitions:* U.S. CE sector exporters have many opportunities to make contact with prospective Vietnamese buyers through trade exhibitions in North America. CONEXPO/ConAgg (Las Vegas, NV) is the largest sector trade exhibition in North America. Held every three years, the show is widely attended by Vietnamese buyers and exhibitors. MINExpo International (Las Vegas, NV) is the world's largest trade exhibition for the mining sector and is held once every four years. Along with annual shows World of Concrete (Las Vegas, NV) and World of Asphalt (location varies by year), which are focused on equipment used in production and application of materials, these events provide good opportunities for U.S. CE sector exporters to reach Vietnamese buyers.

## **Know the Buyer**

Vietnamese buyers have two basic choices for CE sector purchases: (1) U.S., Japanese, and European CE sector equipment with superior productivity, reliability, and technology or (2) less productive/reliable/advanced, yet lower-cost, Chinese products. Unlike some other export markets, U.S. CE sector exporters do not have a well-developed dealer network that can maximize brand awareness/product knowledge and provide strong after-sales support and service. Despite the price difference and dealer network challenges, strong sector export growth to Vietnam would indicate that buyers increasingly favor more productive, reliable, and technologically advanced CE sector products.

---

<sup>1</sup><http://apps.export.gov/article?id=Vietnam-Market-Challenges>

<sup>2</sup><http://www.transparency.org/cpi2015-results-table>

<sup>3</sup><http://internationalpropertyrightsindex.org/country?c=VIET+NAM>

<sup>4</sup><http://www.theglobalipcenter.com/wp-content/uploads/2015/07/GIPC-Index-TPP.pdf>

<sup>5</sup><http://apps.export.gov/article?id=Vietnam-Market-Challenges>

<sup>6</sup><http://trade.gov/fta/tpp/industries/machinery.asp>

<sup>7</sup><http://data.worldbank.org/country/vietnam>

<sup>8</sup>[https://www.gso.gov.vn/default\\_en.aspx?tabid=622&ItemID=14252](https://www.gso.gov.vn/default_en.aspx?tabid=622&ItemID=14252)

<sup>9</sup><http://www.adb.org/countries/viet-nam/economy>

<sup>10</sup><http://siteresources.worldbank.org/INTEAPINFRASTRUCT/Resources/CrossSectoralIssues.pdf>

<sup>11</sup><https://www.usaid.gov/results-data/success-stories/vietnam-promotes-public-private-partnerships-infrastructure>

<sup>12</sup><http://trade.gov/fta/tpp/industries/machinery.asp>

<sup>13</sup><http://www.doingbusiness.org/data/exploreconomies/vietnam>