

HSBC Global Connections Report Vietnam

February 2013

An overview of world trade and the opportunities for international businesses

Trade Flows – Vietnam’s export sectors weathered the global downturn extremely well last year. Exports of goods rose by an estimated 20% in 2012. China will become Vietnam’s biggest export partner by 2030 amid buoyant intra-Asia trade.

Sector Insights – Vietnam is a key player in the global clothing and apparel market, and in telecoms.

Overview of Present Situation

In contrast to most of its neighbours in emerging Asia, Vietnam maintained double-digit export growth last year, weathering the global downturn extremely well. Export values in US-dollar terms grew by an estimated 20% in 2012, driven by telecoms, plastics and clothing and apparel.

GDP growth in excess of 5% a year remains sustainable in the medium term as the growing internal market boosts FDI, as tourism and agricultural exports help finance industrial upgrading, and as new power plants end the perennial energy shortages. And a widening range of industrial exports, higher reserves and a larger home market may reduce the volatility of growth.

By 2030, China will have overtaken the US as Vietnam’s largest trading partner. Exports to Asia (excluding Japan) are forecast to grow by more than 15% a year out to 2020. Beyond China, Bangladesh, India, Indonesia and Malaysia will also be fast growing export partners for Vietnam. Plans to expand the ASEAN Free Trade Agreement to zero tariffs on all goods by 2015 will be an additional factor supporting Vietnam’s trade with other economies in the region over the medium term.

But the US and Japan will remain key sources of demand for Vietnam and they will still be among Vietnam’s top three export markets in 2030. Since signing a bilateral trade agreement with the US in 2000 and joining the WTO in 2007, Vietnam has become the second largest supplier of clothing and footwear to the US behind China.

As well as enjoying strong export growth, Vietnam will also be an increasingly large importer, both of capital goods to meet its large infrastructure needs and of consumer goods to meet the needs of its rapidly

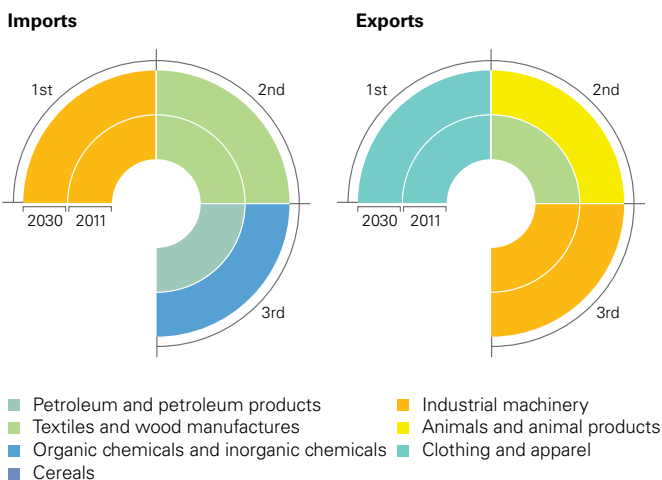
expanding consumer market. India, China, Turkey and Bangladesh will be its fastest growing import partners in the decade to 2030.

Vietnam has been able to grow its textiles sector rapidly in recent years, helped by its wage competitiveness. Indeed, clothing and apparel will make up around a fifth of the growth in Vietnam’s exports from 2013 to 2015. But Vietnam is also developing a strong telecommunications sector which will contribute nearly 10% of its export growth to 2030.

Top Five Export Destinations*

Rank	2011	2030
1	USA	China
2	China	USA
3	Japan	Japan
4	Korea	Malaysia
5	Germany	Korea

Top Three Import and Export Sectors in Vietnam 2011 and 2030*



*Note: Table only considers goods exports between the 23 economies in the sample

Corridors to Watch

Over the next twenty years, China will overtake the US as Vietnam's largest export market. But by 2030 the US and Japan will still be among Vietnam's top three export partners, partly reflecting Vietnam's product mix. Vietnam's exports are largely weighted towards clothing and apparel, textiles and wood manufactures and telecoms equipment and these are key sectors which the advanced economies tend to need to import in quantity.

Vietnam is well located to take advantage of emerging Asia's undisputed status as the most dynamic trading region in the world. China, India, Malaysia, Indonesia, Bangladesh and Korea will all be among the ten fastest growing export routes over the next twenty years.

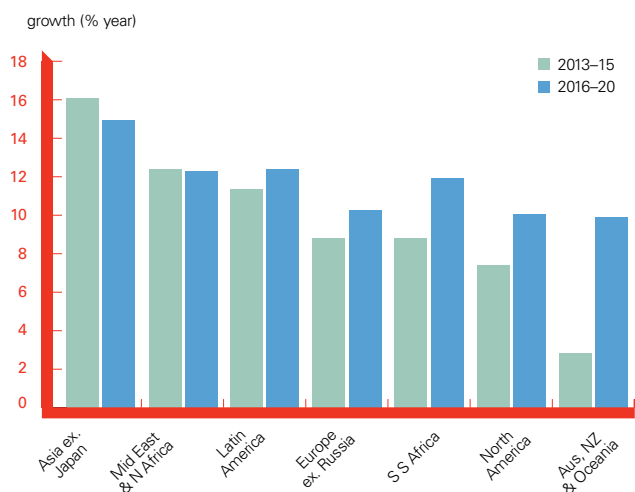
Export growth to Europe (excluding Russia) is expected to average almost 10% a year from 2013 to 2020. Export growth to Australia, New Zealand and Oceania will pick up sharply in the longer term and will average 10% from 2016 to 2020. Exports to Latin America will grow by an average of more than 10% from 2013-20, with trade routes to Brazil proving particularly dynamic.

Sub-Saharan Africa offers a massive domestic market with large import needs both in terms of capital goods

for infrastructure development and in terms of consumer products for the domestic market. The region offers strong growth prospects over the next twenty years, albeit from a relatively low base; export growth to this region is forecast to pick up from 8.8% a year from 2013-15 to averaging more than 12% a year from 2016-20.

Regional Export Flows

Source: Oxford Economics



Fastest Growing Exports (% year)

Rank	Destination	2013-15	Destination	2016-20	Destination	2021-30
1	Bangladesh	23	India	17	China	15
2	India	23	China	17	India	15
3	HK	19	Turkey	15	Malaysia	13
4	China	18	Malaysia	15	Turkey	13
5	Malaysia	18	Poland	14	Indonesia	13
6	Turkey	18	Brazil	14	Egypt	12
7	Germany	16	Indonesia	14	Saudi	12
8	Argentina	15	Korea	14	Bangladesh	12
9	France	15	Bangladesh	13	Canada	11
10	Korea	14	UAE	13	Korea	11

Fastest Growing Imports (% year)

Rank	Origin	2013-15	Origin	2016-20	Origin	2021-30
1	India	28	India	20	India	15
2	Korea	19	China	17	Bangladesh	15
3	Brazil	19	Turkey	16	China	15
4	HK	18	Poland	15	Turkey	14
5	China	18	Bangladesh	15	Malaysia	13
6	Poland	18	Canada	14	Canada	12
7	Indonesia	15	Malaysia	13	Poland	12
8	Canada	14	Brazil	13	Egypt	12
9	Bangladesh	14	Korea	13	Indonesia	12
10	France	14	Egypt	13	Ireland	12

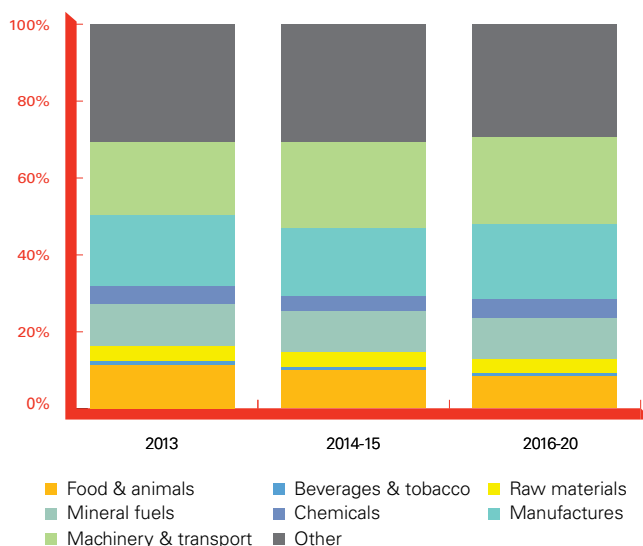
Sectors to Watch

Vietnam's wage competitiveness means it has a strong advantage in low cost manufacturing sectors such as clothing, textiles and wood manufactures and as a result it has been able to grow these industries rapidly. Clothing and apparel and textiles and wood manufactures will together contribute around a third of export growth from 2013-2030.

Vietnam's industrialisation means that it has substantial infrastructure needs and as a result industrial machinery will contribute more than 30% of import growth in the decade to 2030.

Sector Contribution to Increase in Merchandise Exports %

Source: Oxford Economics



% Contribution To Overall Growth In Merchandise Exports

Rank	Sector	2013-15	Sector	2016-20	Sector	2021-30
1	Clothing and apparel	20	Clothing and apparel	19	Clothing and apparel	17
2	Textile and wood manufactures	12	Industrial machinery	13	Textile and wood manufactures	16
3	Industrial machinery	11	Textile and wood manufactures	13	Industrial machinery	14
4	ICT equipment	8	Petroleum products	8	ICT equipment	7
5	Petroleum products	8	ICT equipment	7	Petroleum products	6
6	Animal products	6	Animal products	5	Chemicals	4
7	Animal/plant materials	4	Chemicals	4	Animal products	4
8	Prefab buildings	3	Animal/plant materials	3	Mineral manufactures	4
9	Chemicals	3	Mineral manufactures	3	Unclassified goods	4
10	Mineral manufactures	3	Prefab buildings	3	Iron and steel	3

% Contribution To Overall Growth In Merchandise Imports

Rank	Sector	2013-15	Sector	2016-20	Sector	2021-30
1	Industrial machinery	25	Industrial machinery	28	Industrial machinery	31
2	Textile and wood manufactures	13	Textile and wood manufactures	12	Textile and wood manufactures	10
3	ICT equipment	9	ICT equipment	8	ICT equipment	7
4	Transport equipment	6	Iron and steel	6	Iron and steel	6
5	Iron and steel	6	Chemicals	6	Chemicals	6
6	Plastics	5	Plastics	6	Transport equipment	6
7	Chemicals	5	Transport equipment	6	Plastics	5
8	Animal products	5	Animal products	4	Mineral manufactures	5
9	Mineral manufactures	4	Mineral manufactures	4	Animal products	3
10	Clothing and apparel	3	Clothing and apparel	3	Clothing and apparel	3

“Rapid industrialisation and increasing wages, coupled with maturing consumer demand in many of the countries along the South-South corridor are driving different types of global trade growth. This report highlights how these trends are changing the types of goods imported, manufactured and subsequently exported.

As countries shift towards higher value sectors there are significant opportunities for companies to evolve and grow. Some of the faster growing, emerging markets show a shift from basic commodities trading in sectors such as Cereals or Sugar, to become a refiner or producer of branded goods based on those raw materials. In many of the developed markets there is a shift towards increasingly specialised sectors such as Chemicals and Pharmaceutical products as companies seek opportunities for higher returns.

Emerging markets are developing at a phenomenal pace and are set to reshape world trade patterns over the next 20 years. By expanding their operations in to new, higher value sectors, they are driving more developed nations to specialise and diversify to compete. Understanding which sectors are growing in which markets, delivers huge opportunities for businesses as they plan for the future and aim to capitalise on these trends.”

James Emmett
HSBC Global Head of Trade & Receivables Finance

About the Data:

About the HSBC Global Connections report— Modelled by Oxford Economics

Oxford Economics has tailored a unique service for HSBC which forecasts bilateral trade for total exports/imports of goods, based on HSBC's own analysis and forecasts of the world economy to generate a full bilateral set of trade flows for total imports and exports of goods, and balances between 180 pairs of countries. Oxford Economics produces a global report for HSBC, plus regional reports and country specific reports on the following 23 countries: Hong Kong, China, Australia, Indonesia, Malaysia, India, Singapore, Vietnam, Bangladesh, Canada, USA, Brazil, Mexico, Argentina, UK, France, Turkey, Germany, Poland, Ireland, UAE, Saudi Arabia, & Egypt.

Oxford Economics employs a global modelling framework that ensures full consistency between all economies, in part driven by trade linkages. The forecasts take into account factors such as the rate of demand growth in the destination market and the exporter's competitiveness. Exports, imports and trade balances are identified, with both historical estimates and forecasts for the periods 2013–15, 2016–20 and 2021–30.

Oxford Economics – formerly Oxford Economic Forecasting – was founded in 1981 to provide independent forecasting and analysis tailored to the needs of economists and planners in government and business. It is now one of the world's leading providers of economic analysis, advice and models, with over 500 clients. Oxford Economics commands a high degree of professional and technical expertise, both in its own staff of over 70 professionals based in Oxford, London, Belfast, Paris, the UAE, Singapore, Philadelphia and New York, and through its close links with Oxford University and a range of partner institutions in Europe and the US.

About the HSBC Sectors:

The model looks at two-digit classifications from the COMTRADE database, grouped in to a set of thirty headings. The sector data has been tracked by country, to give an insight in to the primary drivers of trade between the 25 countries and territories in the sample. The sector data has been calculated to show growth as a percentage of the overall contribution to growth, to ensure that the model highlights the sectors which are representing the biggest drivers of growth. More information about the sector modelling can be found on <http://www.globalconnections.hsbc.com/>

Sector classification headings:

- 1 - Animals & Animal products, Cereals, Sugars, sugar preparations & honey, Coffee and other spices
- 2 - Beverages, Tobacco
- 3 - Crude animal and plant materials, Oil-seeds, Crude fertilizers, Metalliferous ores
- 4 - Petroleum and petroleum products, Gas, natural & manufactured, Other mineral fuels & electric current
- 5 - Animal & vegetable oils
- 6 - Organic chemicals & inorganic chemicals, Pharmaceutical products, Fertilizers, Plastics
- 7 - Textiles & wood manufactures, Mineral manufacturers, Iron & steel, Non-ferrous metals
- 8 - Industrial machinery, ICT equipment, Road vehicles & transport equipment
- 9 - Prefab buildings, fixtures & furniture, Clothing & apparel, Scientific & photographic apparatus, Miscellaneous manufactured articles
- 10 - Commodities and transactions not classified elsewhere in the SITC, primarily gold in non-coin form.

About HSBC Bank plc

Headquartered in London, HSBC is one of the largest banking and financial services organisations in the world. HSBC is one of the world's most international commercial banks with over three million customers in more than 60 markets.

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