



2016 Top Markets Report **Cold Chain** Country Case Study

Vietnam

Strong foreign infrastructure and logistics activity signal that Vietnam should be a growth market, though government regulatory concerns keep it on the lower end of this year's *Top Markets* rankings.

Overall Rank

17

Lower-Middle Category Ranking

3

Vietnam has an estimated GDP of \$186 billion, and exports of goods from the U.S. amounted to \$5.7 billion in 2015. U.S. majority owned foreign affiliate sales in Vietnam were \$3.2 billion in 2013, an increase of 6.8 percent, but distribution services data is not available for the country.¹

The population of Vietnam is considered lower middle income, with a per capita income of about \$5,350 (PPP) per year. Unemployment is approximately 2.3 percent, and inflation was 3.7 percent in 2014.²

Vietnam's organized retail sector is at the beginning stages of growth, and most retailers and cold chain operators are continuing to monitor the development of the market. Food spending is expected to increase on average by 10.5 percent annually to reach over \$31 billion by 2020.³ There is a traditional preference to eat fresh products, leaving the frozen food segment fragmented. The entry of major retailers with supermarket models combined with increasing exports of farming and seafood products are expected to drive demand for cold chain services.

The estimated \$46 billion franchise sector in Vietnam is very popular and well suited for the developing economy. American food and beverage franchise brands have become big players in the

Figure 1:

Competitiveness Index	Score
Government/Regulatory	3.8
Labor Force	3.9
Infrastructure	3.9
Demand	4.2
Industry Interest	4.0
World Economic Forum and Global Cold Chain Alliance	
Economic Statistics	
Population	93.4 Million
Cold Storage Capacity	N/A
Pharmaceutical Sales	\$4.2 Billion
Food Spending	\$19.1 Billion
Food Spending per Capita	\$204
Agribusiness Market	\$43.3 Billion
Agriculture Imports	\$5.0 Billion
Agriculture Exports	\$5.2 Billion

BMI and Global Cold Chain Alliance

market, as Vietnamese consumers associate western brands with quality and lifestyle.

With internet penetration at more than 45 percent, e-commerce in Vietnam has grown substantially over the last five years to reach nearly \$4.2 billion in 2015 and accounts for 2.1 percent of all retail sales, according to the Vietnam E-Commerce and Information Technology Agency. The average shopper spent \$165 online.⁴

Across Asian nations, there has been a trend toward purchasing groceries and food products online. This may represent a great opportunity for cold chain service providers, as the emergence of online

shopping for groceries should create additional demand for refrigerated delivery and warehouses near major population centers.

Pharmaceutical sales in Vietnam are estimated at \$4.2 billion and are anticipated to increase at a compound annual growth rate of over 12.5 percent to reach around \$7.6 billion by 2020.⁵ Vietnam represents an attractive opportunity for refrigerated logistics service providers to serve the growing pharmaceutical industry.

Trade routes through Vietnam have increased airfreight imports from the United States by an average of 19.2 percent since 2005,⁶ providing opportunities for express delivery services within the country.

Vietnam’s agribusiness market is expected to grow to \$51 billion by 2020.⁷ It is estimated that this year, Singapore’s dairy imports from the United States will be around \$1 billion, though most of that will be in dry powder form, which does not require refrigeration. The poultry market sources its imports primarily from Brazil and the United States and expects to import 75 metric tons of U.S. poultry this year. The Vietnamese market will import 20,000 metric tons of beef and 3,000 metric tons of pork from the United States this year.

Vietnam ranked 90th in the World Bank’s 2016 Ease of Doing Business, improving by three places since 2015, when the survey was recalculated.⁸

Vietnam still remains a relatively risky place to do business, as laws and regulations are not always transparent. Furthermore, there are restrictions on forms of foreign direct investment that deter some retailers from entering this market.

Figure 2: World Bank Doing Business Ranking

Country	Ranking (2016)	GDP Per Capita (PPP, 2014)
Vietnam	90	\$5,629
Russia	51	\$25,635
China	84	\$13,206
Brazil	116	\$15,838
India	130	\$5,701

Vietnam is a party to the recently negotiated Trans-Pacific Partnership (TPP). Upon ratification, U.S. businesses may find increased potential for growth and more opportunities to participate in trade. The agreement will eliminate tariffs, lower service barriers and increase transparency while also increasing competitiveness by instituting stronger intellectual property rights protection and establishing enforceable labor and environmental obligations.

The TPP will promote fairness by ensuring non-discriminatory treatment of U.S. goods and services, establishing rules for fair competition with State-owned enterprises and providing the same rights and protections for U.S. investors that foreign investors currently enjoy in the United States while protecting the inherent right of governments to regulate.

Vietnam is ranked 59th out of 124 countries in the World Economic Forum’s Human Capital index 2015. The population has a median age of 29 and a labor participation rate of 77.5 percent. Less than 9 percent of the population is tertiary educated, and the country is ranked 99th in ease of finding skilled employees.⁹

The labor market can be challenging in Vietnam. Managers often have a lack of incentive to improve company processes. This has led to a productivity challenge in Vietnam. Companies wishing to expand to Vietnam should invest resources in training quality management that can identify areas for improvement and take action.

With over 54.5 million people, Vietnam has a large, literate labor force. The minimum wage ranges from \$110 to \$160 a month with urban districts subject to higher wages.

The Vietnamese government has taken a proactive step to promote cold chain infrastructure by introducing financial incentives to attract foreign investment. Vietnam’s government has also made it a policy initiative to promote the rapid growth of infrastructure and attract many of the world’s largest infrastructure companies; as a result, many 3PLs have benefited.¹⁰

Vietnam ranked 48th out of 160 countries in World Bank’s 2014 Logistics Performance Index (LPI). The

LPI is an indicator of key dimensions of a country's logistics performance, including Customs, Infrastructure, International Shipments, Competence, Tracking and Tracing, and Timeliness. Overall, the country has shown improvement in almost every category of the Index since 2007, though the category of Customs has slightly declined.¹¹

Foreign logistics firms have a strong presence in Vietnam, capturing 80 percent of market share worth \$48 billion. While ocean shipping services are dominated by joint ventures, domestic firms mostly handle road-shipping services. Cold chain has been identified as one of the key growth opportunities for foreign investors in Vietnam, an area where there has been significant international investment.

Vietnam's quality of transport infrastructure is ranked 67th out of 140 countries in the World Economic Forum Global Competitiveness index. Every category of transportation infrastructure has improved since 2011, though the quality of roads and the overall quality of the transport infrastructure is very low.¹²

The refrigerated products and services industry would be wise to monitor the state of bulk rail shipping in Vietnam to determine the market opportunity for both refrigerated rail cars and refrigerated warehouses at intermodal links and trans-shipment hubs. Furthermore, according to *Business Monitor International*, the poor state of domestic infrastructure capabilities provides strong demand for foreign construction companies.¹³ While retailers have expanded to Vietnam in recent years, distribution networks remain

underdeveloped. Vietnam has had traditionally low investment in the rail industry, leaving cost-effective bulk rail freight underutilized. There have been several plans to expand rail capacity, and increased Chinese investment may promote Vietnam's rail sector. Reduced transport costs can further promote Vietnam's agricultural and seafood exports, creating additional demand for refrigerated services.

Preferred Freezer, a U.S.-based refrigerated warehousing firm, operates a large cold storage facility in Vietnam that is one of the most modern refrigerated warehouses in the country and utilizes state of the art automation technology as well as advanced inventory tracking methods.

Resources:

U.S. Commercial Service:

<http://www.export.gov/vietnam/>

Country Commercial Guide:

<http://export.gov/ccg/vietnam090915.asp>

American Chamber of Commerce (AmCham) HCMC:

<http://www.amchamvietnam.com/>

American Chamber of Commerce- Hanoi:

<http://www.amchamhanoi.com>

Industry's Take:

The cold storage market in Vietnam is over-built for current operations. The organized retail sector is just starting to take off, and thus, most players are keeping an eye on the situation. There is potential for companies with a longer-term approach.

Richard Tracy, Global Cold Chain Alliance

¹ Bureau of Economic Analysis; <http://bea.gov/international/factsheet/factsheet.cfm?Area=653>.

² The World Bank; <http://worldbank.org>.

³ Business Monitor Online; <http://bmo.bmiresearch.com>.

⁴ Vietnam E-commerce and Information Technology Agency "Vietnam E-commerce Report 2014"; <http://www.vecita.gov.vn/anpham/234/Vietnam-E-commerce-Report-2014/en>

⁵ Business Monitor Online; <http://bmo.bmiresearch.com>

⁶ Transport Intelligence; Agility Emerging Markets Logistics Index 2015.

⁷ Business Monitor Online; <http://bmo.bmiresearch.com>.

⁸ World Bank 2016; "Doing Business 2016: Measuring Regulatory Quality and Efficiency"; <http://www.doingbusiness.org/~media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB16-Full-Report.pdf>.

⁹ World Economic Forum; "Human Capital Report 2015"; http://www3.weforum.org/docs/WEF_Human_Capital_Report_2015.pdf.

¹⁰ Foreign Logistics Firms See Success in Vietnam. Vietnam Briefing. July, 2014

¹¹ World Bank 2014; "Connecting to Compete: Trade Logistics in the Global Economy"; http://lpi.worldbank.org/sites/default/files/LPI_Report_2014.pdf.

¹² World Economic Forum 2015; "Global Competitiveness Report 2015-2016"; http://www3.weforum.org/docs/gcr/2015-2016/Global_Competitiveness_Report_2015-2016.pdf.

¹³ Freight Transport Report, 2015: Vietnam. Business Monitor Online