



Vietnam – Germany Trade And Investment Relations, Achievements And Future

AHK BLOG – October 2022



Delegierter der Deutschen
Wirtschaft in Vietnam
Delegate of German Industry
and Commerce in Vietnam

Supported by:



Federal Ministry
for Economic Affairs
and Climate Action

on the basis of a decision
by the German Bundestag

Table of Contents

Introduction	3
1. Achievements in Germany – Vietnam Trade and Investment Cooperation	3
2. Vietnam is an Important and Sustainable Partner of Germany	5
2.1. Dynamic environment	5
2.2. Rapid growth and dynamic investment environment even during the corona crisis	5
2.3. Global integration and China plus One	5
2.4. Large labour market and competitive labour cost	5
2.5. Improved infrastructure and sustainability	5
2.6. Relations with Germany	5
3. Challenges for German Businesses in Vietnam	6
4. Future Development Trends	7
4.1. China plus One	7
4.2. EVFTA for Trade and Investment	7
4.3. Sustainability & Green Investment	8
5. Contact of AHK Vietnam	10

Vietnam – Germany Trade And Investment Relations, Achievements And Future

AHK BLOG – October 2022

Introduction

This October 3 will mark the 32nd anniversary of Germany's reunification. It throws back to 1990 when the Federal Republic of Germany and the Democratic Republic of Germany united to create one single, federal Germany. After 28 years of placing the Delegation of German Industry and Commerce in Vietnam (AHK Vietnam), it has created many imprints in promoting the bilateral trade relationship between the two countries.

1. Achievements in Germany – Vietnam Trade and Investment Cooperation

Relations are shaped by many different intersocietal contacts. Germany and Viet Nam regard themselves as partners in endeavours to uphold the rules-based order, respect for international law, multilateralism, global free trade and investment, environmental and climate protection. Permanently, there are 120,000 Vietnamese live in Germany and around 120,000 other Vietnamese were trained in Germany, live in Vietnam and often work in key positions in business, administration of politics.

In terms of economic cooperation, Germany is the most important partner of Vietnam in the European Union (EU). In addition, the time of establishing the Vietnam-Germany Strategic Partnership on October 11, 2011, is a historical milestone, opening a new chapter in the relationship between the two countries. After a decade of implementation, the two countries have made great strides in many fields and there is still plenty of room to develop bilateral relations. Political relations continue to be consolidated through delegation exchanges at all levels and high-level contacts at multilateral forums. Bilateral trade volume has quadrupled in the past 10 years, reaching 14.4 billion euros in 2021, making Vietnam the Germany's second most important trading partner among ASEAN countries. Thanks to the free trade agreement with the EU, we expect the German-Vietnamese trade volume to increase to around 20 billion EUR over the next two to three years.



Figure 1: Deutsches Haus – Symbol of the German – Vietnamese Partnership



Figure 2: Dr. Volker Treier, Chief Executive of Foreign Trade, DIHK, together with Marko Walde, Chief Representative of AHK Vietnam met H.E. Vu Quang Minh, Ambassador of Vietnam to Germany in the headquarter in Berlin, Germany

Germany is the top 3 EU investors in Vietnam, with 422 effective FDI projects, totalling more than \$2.3 billion US dollar until May 2022, according to MPI. This investment has created around 50,000 jobs in Vietnam, about 500 German companies are currently doing business in Vietnam and over 4,000 German companies are already exporting to Vietnam.

Regarding manufacturer investment, currently, there are 83 manufacturing sites of German companies located in Vietnam. Although Germany is the country of car and machinery manufacturers, most of companies in Vietnam are active in apparel. Furthermore, 18 chemical companies are invested in Vietnam. While many other industries mostly use Vietnam as an export manufacturing hub, these chemical enterprises typically supply local customers with family-owned Messer Gases being the largest one.

Because Vietnam until recently did not have local car OEMs, German companies did so far not develop a broad supplier base. However, with Schaeffler, Bosch and Mercedes-Benz the industry contributes some of the biggest German investments in Vietnam.

The largest German investments have been implemented by Bosch (automotive), Stada – Pymepharco (medical equipment) and Messer Gases (chemicals). Bosch is employing a major manufacturing complex for push belts in Dong Nai while also operating an R&D center in HCMC. Stada – Pymepharco manufactures pharmaceuticals in its factory in southern central Phu Yen province. Messer is supplying gases to local customers such as Hoa Phat from its main production hubs in Hai Duong (northern Vietnam) and Quang Ngai (central Vietnam).

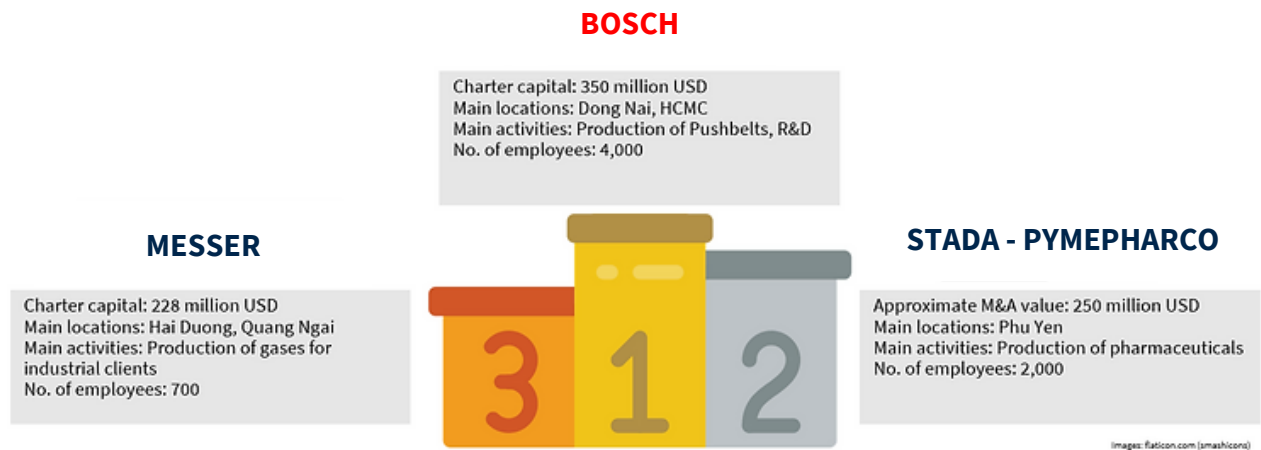


Figure 3: Biggest German manufacturing investments in Vietnam by charter capital

2. Vietnam is an Important and Sustainable Partner of Germany

According to AHK Booklet 2022, there are 6 highlight reasons that made Vietnam a booster and sustainable partner for German business:

2.1. Dynamic environment

Vietnam is acting as a connecting hub between North and South in the Asia-Pacific region due to locating in a highly attractive growth region (Asia and ASEAN),

2.2 Rapid growth and dynamic investment environment even during the corona crisis

With continuous dynamism, Vietnam is increasingly attracting international and German companies despite the pandemic crisis.

2.3. Global integration and China plus One

Vietnam is a member of the ASEAN Economic Community (AEC), the new TPP11 (CPTPP), the Regional Comprehensive Economic Partnership (RCEP) and is the only country in the region that has signed a free trade agreement with the EU. Furthermore, Vietnam regionally offers the lowest market entry barriers for foreign companies. "China + 1" has been considered as a common term of numerous German companies who has been invested in China and currently seeking to develop a second location outside of China for diversification reasons. Vietnam is certainly a predestined destination.

2.4. Large labor market and competitive labor cost

With the growth of population to 98.5 million people and the average age of 32.5 years, this rich pool of young, motivated and relatively well-trained work forces is one of the greatest locational advantages of Vietnam. The salary level in Vietnam is relatively competitive compared to that in many other ASEAN countries and China.

2.5. Improved infrastructure and sustainability

The Vietnamese government is focusing on developing national infrastructure and increasing the proportion of renewable energies in the energy mix.



Figure 4: Vietnam has advantages of large labor market and competitive labor cost

2.6. Relations with Germany

Germany and Vietnam are strategic partners and have great economic relations. Germany enjoys an excellent reputation in Vietnam, which is unique in ASEAN. Bilateral trade in goods has quadrupled in the last 10 years. Germany is Vietnam's largest EU trading partner.

3. Challenges for German Businesses in Vietnam

According to Mr. Marko Walde, Chief Representative of the German Chamber of Commerce and Industry in Vietnam, despite showing resilience in the post-pandemic recovery period, German businesses are still facing risks and challenges due to global instability. This makes businesses more concerned about business development in the coming year.



AHK WBO
SPRING 2022

6. Where do you see the **greatest risks** regarding business development in the coming year?

(Multiple answers possible)

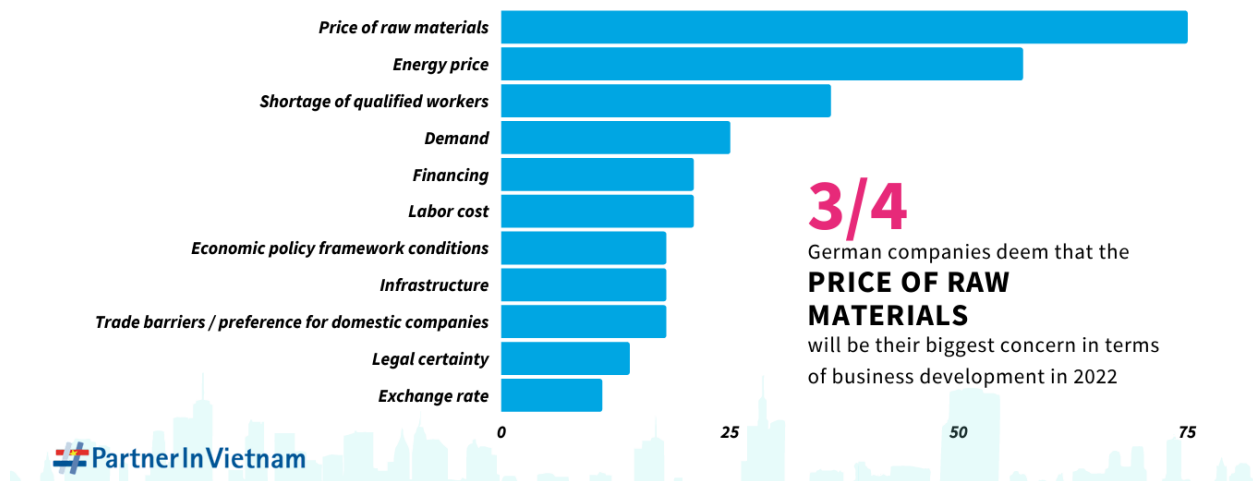


Figure 5: Greatest risks of German enterprises regarding business development in the coming year

This has been shown in the AHK WBO Spring 2022 report, the biggest risk right now is raw material prices, then energy prices and a shortage of skilled workers. As a result of the Russia-Ukraine conflict, rising energy and raw material costs along with supply chain and logistics disruptions are the most concerning problems. Additionally, although the workforce in Vietnam is young and abundant, many of them are lacking needed essential skills in the market. Understanding this pain point, since 2013 the AHK Vietnam has been assisting German companies to establish a comparable, quality-assured German Dual Vocational Education and Training (VET) program in Vietnam based on the German - DIHK standards. This initiative aims to impart practical skills that meet the businesses' desired hiring and production requirements.



Delegierter der Deutschen
Wirtschaft in Vietnam
Delegate of German Industry
and Commerce in Vietnam



Figure 6: AHK Vietnam has been assisting German companies to establish a comparable, quality-assured German Dual Vocational Education and Training (VET) program in Vietnam based on the German - DIHK standards

Moreover, there is a shortage of local enterprises in the supporting industry that have the capacity to strengthen cooperation with German enterprises. According to economic experts, the supporting industry in Vietnam is only in its infancy, has not met the requirements of the manufacturing and assembling industry, especially the supply of spare parts for enterprises and corporations with foreign investment. In addition, the number of enterprises specializing in supporting industries is small, the level of ability is only average compared to the region and many countries in the world. This is a big obstacle for the stable and sustainable development of Vietnam's economy in the process of deepening integration.

4. Future Development Trends

4.1. China plus One

Regarding the “China plus 1” trend, in the course of time, Vietnam is expected to be an ideal investment hub for German businesses since the country holds many advantages and development potential. As the demand for diversifying investment of German businesses is increasing, they consider to open more assembly plants outside China. Due to its proximity to China, along with low export tariffs implemented by EU-Vietnam Free Trade Agreement (EVFTA), Vietnam has become a promising destination outside China but still within Asia. Additionally, supply chain diversification is a crucial element. German investors can reduce manufacturing costs while minimizing disruption or delays to current supply chains and managing risks by localizing production close to traditional hubs in China.

Catching up with the trend, Kurz - a manufacturer of pressed coating products based in Fürth (Bayern state), has just broken ground on a new production facility in Quy Nhon (Binh Dinh). Meanwhile, tape manufacturer – Tesa - a subsidiary of the Beiersdorf Group, has announced an investment of 55 million euros in May 2020, building a new factory in Hai Phong and is expected to open next year. According to Stefan Schmidt, Tesa's Head of Supply Chain and Operations, Vietnam has ideal conditions for the company's growth.

4.2. EVFTA for Trade and Investment

The Free Trade Agreement between Vietnam and the European Union (EU), referred to as EVFTA, officially took effect on August 1, 2020, opening great opportunities and prospects in cooperation between the two countries in the context

of bilateral relations between Vietnam and the EU. The EVFTA is anticipated to significantly increase bilateral trade and open new opportunities for German companies to access markets in Vietnam for goods, services, and investment by eliminating bilateral tariffs and export taxes, reducing non-tariff barriers affecting cross-border exchanges of goods, services and investment for German companies in Vietnam.

Trading between the two parties has witnessed a steady growth and is expected to continue in the future, which will be advantageous for German and Vietnamese exporters in various industries. Traditional commodities like machinery and measuring equipment will probably benefit German exporters the most. Due to the Generalized System of Preferences, many positions on the Vietnamese side already had low tariff rates. However, more tariff reductions will take effect, further opening chapters for processed foods, footwear, and agricultural products.



Figure 7: Production of footwear products exported to the EU has taken advantages from EVFTA to sharply increase export of many products to Germany.

After 2 years of implementation, despite being significantly impacted by the Covid-19 pandemic, the Import and export rate of Vietnam – Germany has reversed and grown strongly compared to the previous years. According to the General Department of Customs, in the first 11 months of 2021, Germany is Vietnam's largest agricultural product export market in the EU with a turnover of US\$641.2 million, a sharp increase of 24.4% compared to the same period of 2020. In the first five months of 2022, Vietnam's export turnover to Germany reaches 3,604 billion USD. In which, textile and garment products reached US\$409,4 million; footwear reached 518,7 million USD; other machinery, equipment, tools and spare parts reached 613.5 million USD. In the opposite direction, import turnover from Germany reached 1.502 billion USD.

According to MoIT, many key export products of Vietnam have taken advantage of opportunities from EVFTA over the past year to sharply increase exports to the German market such as machinery and equipment by 83.6%, transport vehicles and spare parts increased by 71.6%, iron and steel increased by 53.2%, computers and electronics increased by 34%, seafood increased by 15.5%. Vietnam's export products that are considered to have great opportunities from the EVFTA include footwear, clothing, seafood, plastic products, fruits and nuts, and some other agricultural products such as rice, sweet corn, garlic, mushrooms...

In the opposite direction, enterprises are also considered to have advantages when importing strong German products thanks to the EVFTA, especially vehicles, electrical machinery and equipment, pharmaceuticals, plastic products, iron and steel, mineral oil fuels, animal and poultry meat, milk and dairy products, alcohol and beverages... Regarding investment, as an export-oriented economy, Germany considers Vietnam as a potential market for rapid growth in Asia.

4.3. Sustainability & Green Investment

Sustainable energy is indeed a global movement! In the past 10 years, cooperation in the field of sustainable energy has always been one of the top priorities in the relationship between Vietnam and Germany as Vietnam has shown a strong determination for the development of renewable energy (RE) with a long-term vision of sustainable energy transition.

The German Ambassador to Vietnam, Dr. Guido Hildner, believes that one of the main issues in the upcoming years would be climate change. Vietnam is regarded as a "global partner" under the new strategy 2030 for the development cooperation of the German federal government - "Green Growth"- Strategy, which aims at sustainable development, demonstrating the strength of the German-Vietnamese strategic partnership. In order to promote sustainable development, the Vietnamese government has prioritized and established a long-term goal for creating a green energy strategy and green energy alternatives. For instance, the Vietnam Green Growth Strategy (VGGS) aims to accelerate the process of economic restructuring by making effective use of natural resources and reducing greenhouse gas emissions with innovative technology. Due to the Vietnamese government's present emphasis on

providing possibilities and incentives for sustainable businesses, German businesses can also benefit from this sustainable trend.

Additionally, the German Supply Chain Due Diligence Act (LkSG) of Germany, passed in June 2021, will come into force from 2023, including stricter standards for businesses participated in the German supply chain. The objective of this Act is to improve human rights protection in global supply chains by 2023 and prevent child labor, forced labor, prohibition of substances harmful to humans and environment. Anti-discrimination, living wages and decent working hours are also at the heart of the Act. The law also requires German businesses to develop an effective and appropriate risk management mechanism for their supply chains and integrate that mechanism into all important production and business cycles. Since September 2022, AHK Vietnam has implemented a project to support German enterprises and their partners in Vietnam in applying this law.



Figure 8: The EVFTA showed Vietnam's strong commitments to protect people's basic right at work and the environment

Accordingly, Marko Walde, Chief Representative of AHK VN, stated that the EVFTA showed Vietnam's strong commitments to protect people's basic right at work and the environment. It is the great foundation for Vietnam and would make Vietnam more attractive as an investment location.

Contact us

Delegation of German Industry and Commerce in Vietnam (AHK Vietnam)

Ho Chi Minh City

Deutsches Haus Ho Chi Minh

4th Floor, 33 Le Duan Blvd, District 1 Ho Chi Minh City, Vietnam

Tel.: +84 (28) 3823 9775 / Fax: +84 (28) 3823 9773

Hanoi

Lotte Center Hanoi, East Tower

18th Floor, Room 18031804, 54 Lieu Giai Street Ba Dinh, Hanoi

Tel.: +84 (24) 3825 1420 / Fax: +84 (24) 3825 1422

Email: info@vietnam.ahk.de

Website: www.vietnam.ahk.de Email: info@vietnam.ahk.de

Website: www.vietnam.ahk.de



Delegierter der Deutschen
Wirtschaft in Vietnam
Delegate of German Industry
and Commerce in Vietnam