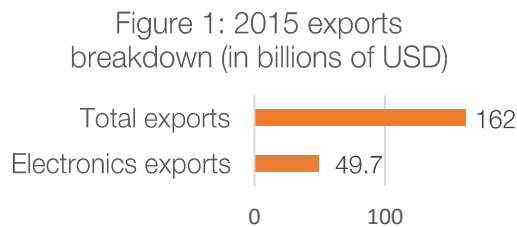


After the strong entrance of major global electronics players, Vietnam has become a major electronics manufacturing hub in the ASEAN region (today, Vietnam is the second biggest smartphone exporter in the World, only behind China). Opportunities await both local and foreign electronics parts manufacturers/suppliers due to low supplier localization rates.

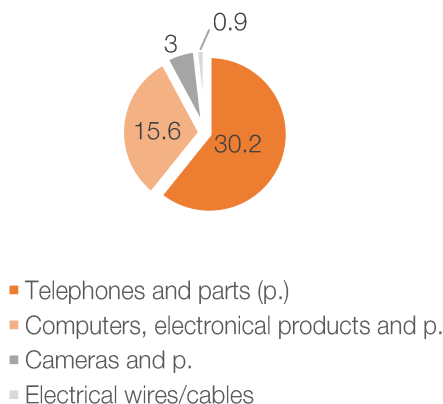
In one of the previous BDG [publications](#), we have explained how Vietnam's manufacturing sector, and especially electronics and mobile phones manufacturing subsectors¹ are thriving. When taking a look at the country's exports in 2015, **30%** of total exports came from the electronics subsector ([Figure 1](#)).



Source: General statistics office of Vietnam (GSOV)

These results were attributed to companies such as Samsung, Intel and LG, who especially started investing in the last 7-8 years. For a more detailed breakdown of electronics exports, see [Figure 2](#).

Figure 2: Electronics exports breakdown (in billions of USD)



Source: GSOV

Past: electronics as the unknown territory

Vietnam's accomplishment of becoming major electronics manufacturing center, which can, as an example, produce up to **240 million handsets** for Samsung solely (vs. 150 million in China) was not obvious even to die-hard optimists.

The first steps with electronics manufacturing date back to the 1950s, when the North Vietnam's government started importing components from the Soviet bloc for local assembling processes. In the 1970s, first Japanese investors arrived to the South, where they assembled black and white TV sets. However, due to the war, the electronics sector never got off the ground.

In the 1990s, Asia was already considered as a major location for electronics manufacturing, with Japan, South Korea, Taiwan and China being the leading manufacturing centers. As economies developed, and consequently costs of manufacturing increased, companies operating in some of these countries had to move their production sites to other countries in order to stay competitive. Vietnam, which slowly started opening its borders to international business in that period, was one of the promising locations.

Japanese electronics companies were the first to react, and started a new wave of investments. **Sony**, one of the major global electronics manufacturers, established its factory just out of Ho Chi Minh City (HCMC) in 1994. However, it was only in the 2000s when the sector started to grow progressively. When Vietnam decided to lower the electronics tariffs from 15-20% to 0-5% due to its participation in the ASEAN Free Trade Area, numerous major global electronics manufacturers moved some of their production lines to the country. To see a timeline of major electronics manufacturers entering Vietnam, please take a look at [Image 1](#).

¹We will use the term 'electronics' for both of these subsectors

Present: electronics sector skyrockets

Because of Vietnam's beneficial labor costs compared to some regional countries, electronics manufacturers mainly focus on product assembly in the country. Higher value added processes, such as product design and software development, are slowly starting to develop, although still being in their infancy.

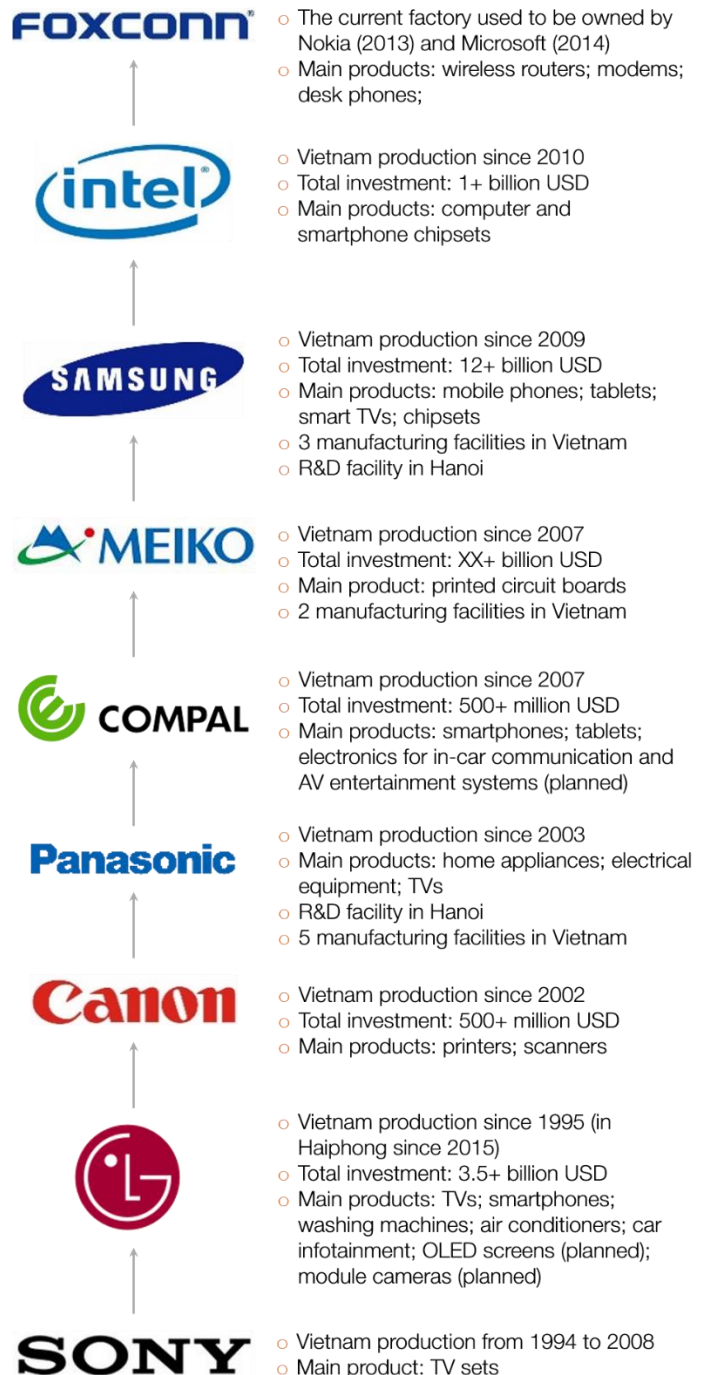
Samsung and **LG** are leading the way of current electronics sector's development in Vietnam. Samsung is particularly having Vietnam in its long term plans with enormous investments (12+ billion USD), diversification of the production portfolio and the opening of a mobile R&D facility in Hanoi. With factories in Thai Nguyen and Bac Ninh provinces, the company has strong presence in the north of the country, focusing on assembling smartphones for the global market (the facility in Bac Ninh can solely produce more than 120 million handsets annually). Furthermore, Hanoi R&D facility is Samsung's biggest mobile R&D center in Southeast Asia. The presence of this center, which is focusing on software development for smartphones, is a **sign that Vietnam is capable of performing higher value-added processes.**

The northern city of Haiphong is the home to **LG's** pristine 'Haiphong Campus' (total investment of 1.5 billion USD). This facility will boost the company's production of TVs, smartphones and car infotainment systems, which are mainly manufactured for worldwide exports. With **LG's** investment, and presence of **Fuji Xerox**, **Kyocera** and since recently Japanese **Meiko**, Haiphong is becoming a major electronics manufacturing location in Vietnam.

In Southern Vietnam, HCMC's Hi-Tech park is home to manufacturing facilities of companies such as **Intel**, **Samsung** and **Jabil**. Intel has been operating a test and assembly facility for more than 6 years, while Samsung focuses on producing smart TVs in their brand new manufacturing plant in the outskirts of the southern metropolis. To see the locations of

major electronics manufacturers in Vietnam, please have a look at [Image 2](#) (final page).

Image 1: Electronic manufacturers – timeline



Source: BDG Vietnam

Big reliance on electronics parts imports

Great amounts of electronics exports going out from Vietnam to the rest of the world are without a doubt impressive. However, need to take into consideration how many of the parts

needed for assembly of electronics products are manufactured inside of Vietnam.

Even with constantly rising total exports in the previous 10 years, Vietnam accomplished trade surplus only in 2012, 2013 and 2014.

The above results can be related to the extensive FDI projects in product assembly (including electronics) and garment industry, which flocked the country from the mid-2000s. These two rapidly expanding sectors required components and raw materials that could not have been produced in the country, thus increasing the need for greater imports.

When taking a look at exports and imports of electronics in Vietnam in 2015, we still see (Table 1) great reliance on imported electronics products and parts, albeit the export surplus. From this simple analysis we can conclude that leading electronics manufacturers still import the majority of parts which are then assembled in Vietnam facilities.

Table 1: Electronics exports and imports, 2015 (in billions of USD)

Products	Exports	Imports
Telephones and parts (p.)	30.2	10.5
Computers, electrical products and p.	15.6	23.1
Cameras and p.	3	1.6
Electrical wires and cables	0.9	1
Total	49.7 (4.9 in 2010) CAGR 59%	36.2 (5.7 in 2010) CAGR 45%

Source: GSOV

Recently, Yasuzumi Hirotaka, representative of Japan's trade promotion agency JETRO in HCMC, mentioned that, on average, only 14% of content used by Japanese companies in Vietnam is produced locally.

Rising opportunities for Vietnam-based electronics suppliers

The fact that big international manufacturers import most of the parts does not mean they want to continue following this strategy.

Back in 2014, Intel mentioned that they are striving to have 80% localization rate in the country. However, the reality is still too far from this number.

In addition, Fuji Xerox is hoping to have 90% localization rate in the next few years. The current number of 50% is impressive, although mostly derived from foreign suppliers with production facilities in Vietnam.

When it comes to Samsung, the current localization rate is between 30%-35%. Similarly to Fuji Xerox, most of the suppliers are foreign companies operating in Vietnam.

BDG Insights

With high localization ambitions of international manufacturers who are strengthening their clusters in the north and south of the country (Image 2), opportunities for suppliers to join the market are significant. Furthermore, with these global companies having Vietnam in their long-term strategic plans, coupled with Vietnam's slow-yet-steady rise in electronics value chain, BDG believes it is high time for electronics suppliers to join this exciting market.

Whether your organization would like to supply manufacturers from abroad, or enter the local market and increase the localization electronics supplier, BDG team would be honored to become your trusted local partner.

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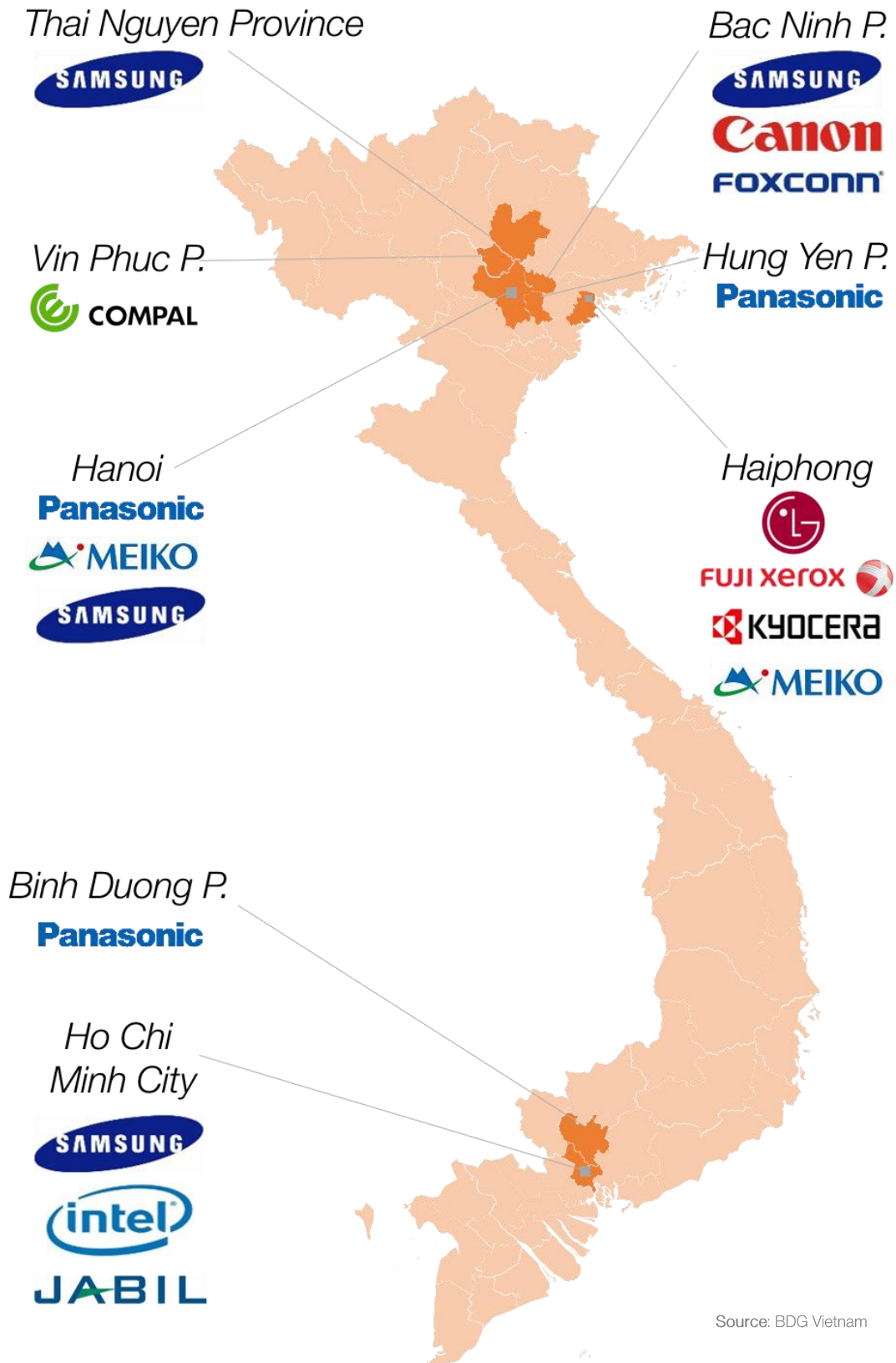
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For additional information and publications, please visit our webpage: bdg-vietnam.com

Image 2: Three electronics clusters in Vietnam: 1 – Hanoi and its outskirts; 2 – The city of Haiphong; 3 – Ho Chi Minh City



Source: BDG Vietnam