Spotlight on the Emerging Fastener Market

by Shervin Shahidi Hamedani

Looking at the last 30 years, Vietnam's growth has been amazing. The economic and political restructuring has brought steady and fast economic growth for the country. The drastic changes in Vietnam have transformed this county from one of the world's poorest countries into a lower-middle-income nation. With a large and dynamic population, Vietnam has begun to come at the head of international trade and turn out to be a very attractive market for international investments.

As reported by World Bank, GDP per capita in Vietnam increased by 2.7 times between 2002 and 2018. Last year, the country's GDP reached over USD2,700 where more than 45 million people were lifted out of poverty. The country's economy continued to show essential strength and flexibility, backed by its strong domestic demand and export-oriented manufacturing. **The healthy growth of Vietnam's GDP, in 2019, was one of the fastest growth rates in the region, named the country as the new Southeast Asian tiger economy.**

Vietnam is rapidly becoming a global manufacturing hub and has often been referred to as "the new China". Although the manufacturing sector is still relatively new compared to China, it is growing fast. The manufacturing subsector in the country is one of the best performers as a key economic growth driver. This fast development mainly originated from substantial foreign investment in the country where most export-oriented Vietnam manufacturers are owned by foreign investors including Chinese.

With the recent conflict between the U.S. and China, Vietnam has faced faster economic growth from entities moving their supply chain out of China, supported by lower labor costs and a prime location for shipping in Vietnam. As a result of the U.S. and China tension, with a 25% tariff on US$250 billion worth of Chinese imports, the trade war is driving companies to diversify and relocate. Additionally, the Vietnamese government has also considered new special economic zones and tax exemptions and has increasingly introduced open trade and investment policies to attract more investment while maintaining price stability.

In 2019, Vietnam recorded a trade surplus of USD11.12 billion, with a more than 60% growth compared to the year 2018, USD6.8 billion. Last year, Vietnam's export increased by 8.4% and reached about USD 264.2 billion and the import recorded the value of USD253.1 billion with a 6.8% growth compared to its previous year.

The country now is one of the most dynamic and fastest-growing emerging markets globally. Last year, Vietnam continued its astonishing growth in fastener manufacturing, driven by export demand as well as healthy FDI inflows. The major trade partners for Vietnamese fastener manufacturers and traders are Germany, China, Taiwan, Korea, Netherlands, Japan, UK, Italy, Thailand, and the U.S. In 2019, Germany imported more than USD96 million worth of fasteners such as screws, bolts, nuts, coach screws, screw hooks, rivets, cotters, cotter pins, washers. Studying on the same category of the fasteners, Vietnam exported about USD37.7 million to the Netherlands, and USD24.3 million to the United Kingdom.

2019's overall trade data showed Vietnam's surplus with the United States, Vietnam's largest export market, increased to USD46.98 billion last year from USD34.87 billion a year earlier. Subsequently, the fastener industry has followed this path and it has increased its export figure significantly from USD31 million in 2018 to USD67.6 million in 2019.

While Vietnam has been seeking to import more U.S. goods to help shorten the trade gap, Vietnam's trade deficit with China increased to about USD34 billion last year from USD24.15 billion in 2018. Vietnam relies on China, its largest trading partner, for materials and equipment for its labor-intensive manufacturing. In 2019, Vietnam imported about USD282 million worth of fasteners from China while only exporting USD12.7 million to China. This indicates how the fastener market in Vietnam is dependant on Chinese manufacturers.

Vietnam has made a firm progress in improving its business environment in general and the fastener industry in specific. This country has signed several tariff-free trade agreements with other countries to simplify seamless trade with the global market. Japan, for instance, provides a large market for exports, with tariff-free trade, therefore, benefiting the manufacturing sector in particular. Last year, Vietnam exported about USD30 million worth of fasteners to Japan while importing about USD41 million worth of fasteners from Japan.

The fastener manufacturing market in Vietnam seems a viable alternative to manufacturing in China for several local and international players in this industry. Gradually, fastener suppliers and traders in Vietnam are gaining more attractions from industries and consumers to compare with their Chinese rivals. Other than the labor cost mentioned earlier which significantly impacts the fastener price, the local manufacturers in Vietnam are generally agreeable to take smaller order quantities in contrast to Chinese factories which often need a minimum order quantity. Moreover, foreign investors who have set up their businesses and factories in Vietnam are exempt from import duties on goods imported for their use which cannot be produced domestically, including machinery, raw materials, tools, dies, and other components and spare parts for machinery and equipment.

In the end, and again, the strategic location and rapid growth of Southeast Asia both have supported Vietnam to become one of the most attractive countries for foreign investors. This would be a great opportunity for any manufacturer to tap into the Vietnamese market. With the growing Vietnamese market, there is a high demand for infrastructure construction, building machines and facilities, automobiles, motorcycles, and related components sectors. The economic development in Vietnam is going well. However, machines and facilities used in Vietnam are not as state-of-the-art as in other countries, so this is where fastener companies should come in and take advantage of all those opportunities. ■

Sources: The US-Vietnam Economy Trade by Reuters
ITC, Trade statistics for international business development
The World Bank in Vietnam