VIETRADE - Vietnam was one of the fastest growing economies in Asia in 2014 and manu-facturing has been judged to be the key driver. Much of the improvement in the sector can be attributed to electronics. Vietnam’s electronics industry is on the rise, making up 23.4 percent of GDP last year, up from just 5.2 percent in 2010. The current average growth rate of the country’s electronics industry is about 10% per year. It would bring at the same time opportunities and challenges to Vietnamese enterprises regarding electronic export.

High-tech electronics producers are establishing a presence in Vietnam, for example Intel, LG, Panasonic and Microsoft being among the global tech giants to have expanded in the country. Therefore, the country’s electronics industry has been growing fast in recent years.

The electronics cluster grew rapidly. Electronics exports expand-ed by 78% per year for the past 4 years reaching US$ 6.9 billion in 2011, US$29.5 billion in 2012, US$32.1 billion in 2013 and US$35 billion in 2014, according to General Statistics Office (GSO).

Electronics have been the country’s No 1 export item since 2013. Electronics accounted for 23% of all exports in 2014, up from a mere 5% in 2010. In the first half of this year, export turnover of telecom equipment grew by a quarter to more than US$13 billion from last year.

Following Ms. Do Thi Thuy Huong - a member of Viet Nam Electronics Industries Association's executive committee, intensive investment by global electronics corporations has made Vietnam a large processing and manufacturing hub for mobile phones, printers and copiers and their parts. It also provides a good opportunity to the country for developing supporting industries for such electronics manufacturing and becoming a link of global supply chain.

Many provinces have decided to develop electronics assembly and manufacture as a key sector. In Ho Chi Minh City the manufacturing of electronics is one of its four key sectors, increasing 5.9 per cent year-on-year in the first eleven months. In the north, cities and provinces such as Hanoi, Bac Ninh and Vinh Phuc attracted many enterprises investing in the manufacturing of electronics products and also attracted investors in support industries.

In Vinh Phuc province, for example, in the first ten months of the year, 13 of the 21 foreign-invested projects were from South Korea, focusing on phones and accessories. Provincial authorities said that in October many companies increased their investment capital, such as the Patron Vina Company, an electronics satellite device supplier, by US$10 million, and the Vietnam Strong Way Industrial Co., an industrial equipment manufacturing company, by US$6 million.

However, Vietnamese enterprises also have to face many challenges. Despite high export growth rate, the electronics industry has seen low added value because most materials have been imported. Last year, export turnover hit US$32 billion but material imports reached US$ 28 billion, said Ms. Huong. Moreover, they have also met with tough competition from FDI companies to become component suppliers of large groups. For instance, Samsung has recently reported that they have 90 component suppliers in Vietnam; of these only 10% is Vietnamese firms, who have mainly provided low added value services like packing and printing.

Foreign direct investment (FDI) accounted for most of the nation's total electronic export turnover (around 90%) and holding 80% of local market share, according to a report from Viet Nam Electronic Industries Association. At the same time, the number of FDI enterprises represents only one-third of electronic enterprises in Viet Nam.

Export turnover of telephones and spare parts was US$24.1 billion last year, increasing by 13.4% compared to that in 2013. However, export turnover of telephones and spare parts within the FDI sector accounted for 99.6 per cent. Further, the value of exported electronics, computers and spare parts last year totaled US$ 11.6 billion. Yet, of this number, the FDI sector accounted for 98.8 per cent.

Samsung’s exports from its Vietnamese factories have reached about US$20 billion per year. With the current investment rate in the country, it is forecasted that Samsung’s exports would hit over US$30 billion per year. Moreover, Nokia, Sony, Canon and LG are also investing much in Vietnam. Meanwhile, Vietnamese electronics industry only represents a very small part with low added value.

Domestic enterprises are advised to boost the manufacturing of spare parts for FDI providers. Boosting Vietnamese enterprises that manufacture electronic products, information and technology for other producers will increase the value-added proportion of products made in Viet Nam. Without own efforts from domestic enterprises themselves and supports from government, it is difficult to integrate in the global supply chain.

In the longer-term, the government expects electronics exports to reach US$40 billion by 2017. A growth rate of 5% per year would achieve the target. Nonetheless, longer-term sustainability of the industry will depend on whether Vietnam can raise productivity and move up the value chain. The influx of foreign electronics manufacturers has enabled the transfer of technology and skills. But the country needs to develop its own talent pool to sustain the trend.