

Why Vietnam's Construction Sector Needs Your Services

The first in a series on opportunities for your business to expand into selected Asian markets

The equation is simple. Australia's non-residential construction sector – where many great Australian companies have invested in technology and growth – is entering a deep trough. In the first of a series, TradeWorthy looks at the opportunities for Australian companies with strong project experience to expand into Vietnam. We will also outline the single most effective way of entering the Vietnamese market.

What is coming in the Australian major project sector?

The Australian Industry Group paints a dire picture of the next 1 – 3 years. Its Construction Outlook (October 2014) forecasts that major project work in engineering and commercial construction will decline by 3.9% and engineering construction is expected to contract by 7.5% between 2014-15.

It gets worse. For Queensland alone, the sector is expected to fall to 65% below 2013 levels in the coming year.

Great Australian companies that have invested heavily in R&D, technology and labour must be looking now at opportunities in markets around our region. Securing opportunities to leverage your existing investment – by finding work in select Asian markets – is now critical to longer term survival and growth.

“The current downturn has only just begun, with Major Project work now forecast to reach a trough of just \$6.3 billion in 2015/16. In all, activity is forecast to fall a further 55% over the next two years (from current levels), with the trough in work done resting 65% below the 2012/13 peak.”

Queensland Engineering
Construction Outlook, 2015

So what is happening in the sector in Asia?

In both residential and non-residential construction, the growth in certain markets is incredible. In 2013, construction spending in Asia accounted for almost half of total global construction spending. Governments are implementing incentives to boost construction (in particular, major infrastructure) in key markets such as India, Vietnam, Indonesia and China.

Several other features of the major projects and construction sector are driving opportunities for Australian companies:

- **Demand for Technology & Innovation:** to generalise, many Asian construction firms do not have access to years of world-class innovation and investment. This makes technologies (processes, machinery, know-how) that are genuinely cost-effective and generate overall savings very desirable.



Construction spending growth 2014-19 (% per annum), IHS Global

- **Emergence of major multinationals:** the oil & gas, resources and infrastructure sectors in emerging Asian markets are now the focus of many of the world's largest, oldest multinationals. They expect standards of safety, quality and efficiency that are relatively new in some of these markets.
- **Regional Free Trade Agreements:** newer trade agreements, such as Australia's latest FTA with China, open up service sectors, rather than merely reducing customs duties on products. This means new opportunities for Australian companies in sectors which may have otherwise been restricted.

Focus on Vietnam: where are the opportunities?

The Vietnamese construction market, both residential and non-residential, is booming. Between 2009 and 2013 the sector in Vietnam grew at a compound annual growth rate of 16%, and will grow annually at 11.5% until 2018 (Timetric, 2014).

Vietnam needs \$150 billion in infrastructure investment just to 2020. The Government and its international donors (such as Australia) will fund 50% of this, and the other 50% will need to be funded by the private sector.

For upcoming projects, particularly in the transportation, airport, urban development, waste and waste water treatment space, Vietnam will require the know-how and technology of Australian companies in specialist consultancy and technical services, architectural and design services, engineering, construction management as well as project management.

How can Australian companies access the major projects market in Vietnam?

Australian firms need strategic allies – whether formal or informal partners – to help them drive success in Vietnam.

“Cold approaches and open tenders are not working. We need strategic allies to drive success in Asia.”

There are two key factors that shape this fact of doing business in Vietnam:

- **State-owned enterprises:** in Vietnam, massive state-owned companies are awarded most of the large projects. Open tenders and cold approaches are doomed to failure.
- **Overseas Aid:** many projects in Vietnam are funded by foreign development agencies, in particular from Japan, Korea and China. The unwritten rule is that head contracts will then be awarded to companies from those countries.

Early success in Vietnam requires a local partner

Australian firms need strong local partners to help navigate the complexities of the local market. In practice, local partners can be loose or sometimes contractual agreement with local firms that have established links into the major private and state-owned enterprises.

The spectrum of ‘partnering’ can range from a simple agency/distribution agreement on one end, to joint venture or equity arrangements, to Greenfield site development on the other end.

Partnering with the right local firm will give you access to major projects in Vietnam, typically under a co-tendering or subcontracting model. Having a local partner allows you to access projects won by state-owned firms. Partnering with local firms that have established links with the major Japanese and Korean corporations can also open up the overseas aid-funded projects.

How to find a local partner in Vietnam?

The history of Australian-Asian trade is littered with bad decisions, in particular about local partners. The most common problems are mismatch in sophistication/strategy, straight-up fraud and deception, and – of course – exposure to corruption through a local partner.

So finding a local partner is foremost about persistence and contacts in the market. Any established networks you have in the country are your first-best bet.

Failing that, you need to work with commercial advisers who can present a range of options. With any commercial advice in Vietnam, always ask who is getting paid commissions. These can be a sign that you aren't getting the best advice for your company – only the best advice for your adviser!

For assistance in securing strategic partnerships and expanding your business into Asia, please contact us: info@trade-worthy.com

