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BUSINESS CLIMATE SURVEY FOR SWEDISH COMPANIES IN VIETNAM 2022

A REPORT FROM TEAM SWEDEN IN VIETNAM

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EXECUTIVE SUMMARY

The Business Climate Survey Vietnam 2022 illustrates Swedish firms' continued optimism towards Vietnam's business environment.

The Survey shows that Vietnam was not exempted from being hit hard by the effects of the Covid-19 pandemic, despite having been praised for the successful containment of the outbreaks in 2020. With the Delta variant spreading widely during 2021, the Vietnamese authorities put in place mitigating actions to fight the outbreak, resulting in strict nationwide lockdowns, as well as disruptions in production lines and supply chains. Vietnam recorded its first-ever negative GDP since the year 2000 in the third quarter of 2021, significantly affecting businesses and its people. However, as the government switched from its "zero-Covid" policy to focusing on how to "live with the virus", banks and international institutions retained its previous view that Vietnam maintain strong business sentiment and predicted a return to strong GDP growth.

In light of the substantial hurdles faced by many businesses in 2021, it is worth noting that more than half of the companies surveyed reported an overall profitable business performance. Cost-effectiveness is also what Swedish companies considered to be a key, and perhaps the most important aspect, for establishing a successful company in Vietnam.

Nonetheless, corruption, protection of intellectual property rights, transparency, and infrastructure development are still the problems that Swedish companies faced when doing business in Vietnam. In addition, the current lack of green energy risks becoming a future challenge as more and more Swedish companies try to reduce their climate impact.

Vietnam remains a country severely affected by climate change. At The UN Climate Change Conference in Glasgow (COP26) in November 2021, Vietnam made ambitious commitments including setting a net-zero emissions target and an end date for using coal. To reach its targets, both regulatory reforms and investments are needed. As many Swedish companies in Vietnam have a clear sustainability profile, there is now significant potential to deliver green solutions in response to the country's new climate commitments and a growing interest in sustainable alternatives among Vietnamese customers.

Vietnam remains an emerging market which often requires presence on the ground. The Embassy of Sweden and Business Sweden together play a crucial role in facilitating trade, cooperation, and policy dialogue between industries and governments. We offer global and regional perspectives on local economic development and can highlight potential business opportunities for Swedish enterprises to thrive in this dynamic market.

The purpose of this report is to enhance the readers' understandings of Swedish companies' performance in Vietnam and to share insights into the opportunities and challenges that the Vietnamese market poses.

Lastly, we would like to extend our sincere gratitude to the participating companies and respondents who have contributed to this report.

Ann Måwe
Ambassador of Sweden to Vietnam

David Lidén
Trade Commissioner of Sweden to Vietnam

ABOUT THE SURVEY

Providing an in-depth view of the market in the eyes of the Swedish companies

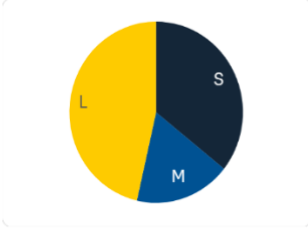
Business Climate Surveys aim to map the opportunities and challenges that Swedish companies face when doing business around the world. The Vietnam survey was conducted in the second quarter of 2022 to study how Swedish companies performed in 2021 as well as their expectations for 2022 and onwards. In 2021, Vietnam experienced massive turmoil as Covid-19 and its Delta variant took a toll on the country's people and economy, straining the health sector and leading to nationwide lockdowns. Swedish companies were not exempt from the negative effects on the business environment; and the outcome of strict requirements on social distancing, imposed lockdowns, as well as production disruption is well reflected by the survey results.

By 2021, there were around 85 Swedish companies present in Vietnam and of these, 35 per cent chose to participate in this year's survey. This does not give a complete picture of the situation of Swedish companies in Vietnam, but the participating companies represent a broad spectrum. The survey features representatives from long-established companies in Vietnam such as Ericsson, Electrolux, AFRY, newcomers such as Clas Ohlson and Polarium, as well as other globally successful players like Getinge, Birgma, Nefab, Axis, and Hexagon. Moreover, the companies participating in the survey represent more than 15 industries, implying that most sectors and firms have a good representation of perspectives and ideas for the survey results to be reliable.

A breakdown of the sample indicates that almost half of the respondents are large companies with over 1,000 employees globally. Compared to last year, this year's survey witnessed higher participation from medium-sized enterprises with around 18 per cent of the participants. Small companies accounted for almost 40 per cent of the respondents. The diverse range of business areas represented in this report are grouped into three main categories: industrial companies (30 per cent), professional services (27 per cent), and consumer companies (23 per cent). Almost 70 per cent are categorized as experienced, starting their operations in Vietnam between 2001 to 2015. Mature and newly established companies shared the same proportion of 17 per cent.

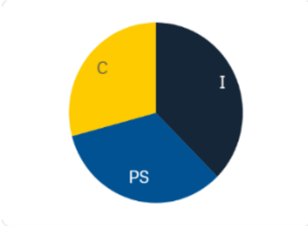
The survey report is structured as follows: *Economic outlook, The market, How Swedish companies succeed in Vietnam* and *Acting sustainably*. We hope this report allows you to explore how various companies within different industries were affected by the events in 2021 and their outlook for 2022 and onwards.

SIZE OF COMPANIES



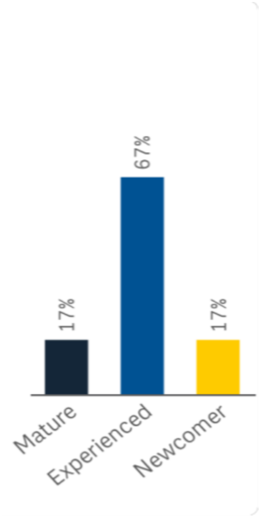
NOTE:
Global employees.
Large >1000: 46%
Medium 250-1000: 18%
Small 0-249: 36%

MAIN INDUSTRY



NOTE:
Industrial: 30%
Professional services: 27%
Consumer: 23%

AGE OF COMPANIES



NOTE:
Mature (-2000)
Experienced (2001-2015)
Newcomer (2016-)

ECONOMIC OUTLOOK

Businesses continued to thrive despite the economic downturn

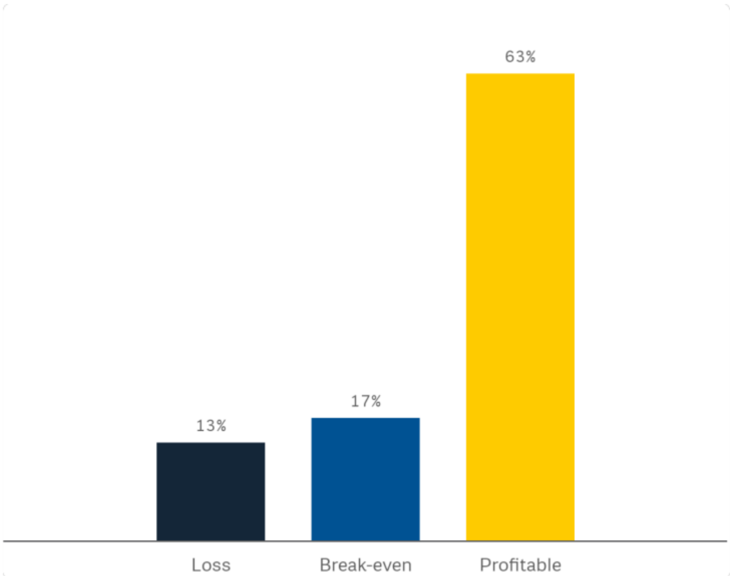
The outbreak of the Delta variant of Covid-19, which mainly occurred in the second and third quarters of 2021, had a tremendous impact on businesses residing in Vietnam. Nationwide lockdowns were put in place, and businesses and factories had to quickly adapt to the strict health protocols in order to remain open, as well as to cover all costs of accommodation, meals, transportation and testing for workers. Consequently, some factories could not bear the increased expenses and had no choice but to shut down. This also occurred during a period when western markets were experiencing heightened product demand during the busy holiday season. As a result, orders were delayed by weeks and months at the production sites and even further by mandatory testing for truck drivers along the logistics route.

Swedish companies overall appeared to have weathered the storm. As shown in Graph 1, although 2021 presented many challenges, 63 per cent of the surveyed reported a profitable financial year, while 30 per cent reported break-even or losses. Surprisingly, this is more positive than the figures for 2020, when profitability was only reported by 57 per cent of the sample. However, Graph 2 also shows that a better business performance was reported in 2019, but this year's figures show that the Swedish companies have gradually recovered to pre-pandemic time.

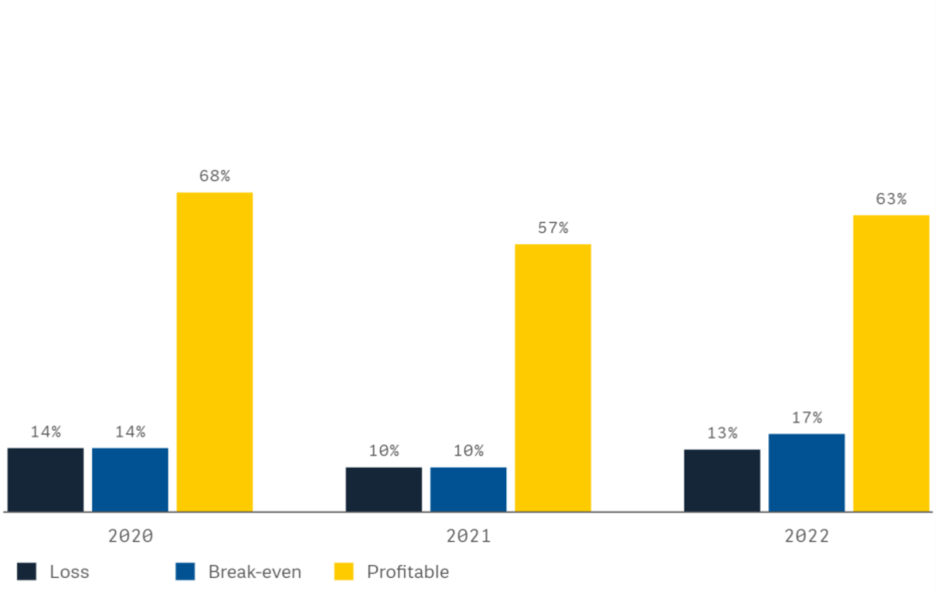
Factories were hit particularly hard by the ruthless advance of the Delta variant, but Swedish companies in the industrial sector still pulled through and performed surprisingly well. 90 per cent reported a profitable year, and none of the industrial companies reported a loss in 2021. Those who seemed to have struggled the most were the small companies, where a larger proportion reported losses or break-even in comparison to the large and medium-sized companies.

HOW WOULD YOU DESCRIBE YOUR COMPANY'S FINANCIAL PERFORMANCE IN VIETNAM IN 2021?

Graph 1 – Financial performance of Swedish companies in 2021



Graph 2 – Financial performance of Swedish companies in 2019, 2020, and 2021 (reported in 2020 survey, 2021 survey, and 2022 survey respectively)



NOTE: The number of respondents for this question was 30. “Don’t know/Not applicable” responses are included but not shown in figure.
SOURCE: Business Climate Survey for Swedish Companies in Vietnam 2022.

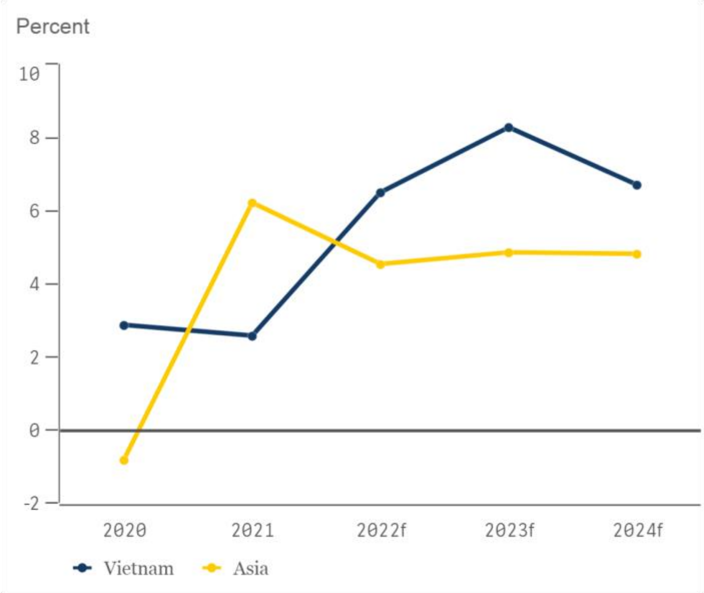
Vietnam has made great strides to stabilise the economy and stands ready to attract more foreign investment

Vietnam’s Covid-19 response was viewed as one of the most effective in the world, until the emergence of the Delta variant in Vietnam at the end of April 2021. The 2020’s dual targets of containing the pandemic and sustaining economic development could not be replicated in 2021. As a result, thousands of deaths were reported in a matter of months, and GDP declined by six per cent in the third quarter, leading to an annual GDP growth of to 2.6 per cent in 2021. With the lack of vaccine supplies for the entire population early on, Vietnam faced great challenges in finding a balance between slowing down the increase in new infections and deaths while maintaining core social and economic activities.

When the vaccination rate steadily increased, from less than three per cent of the population being fully vaccinated in July 2021 to more than 80 per cent by the end of the year (with close to 100 per cent in the bigger cities), Vietnam could eventually shift its strategy from a “zero-Covid strategy” to one focusing on trying to learn to live with the virus. This resulted in a sharp decrease in cases and made it possible to decrease the restrictions and lockdowns that were put in place. Financially, Vietnam rebounded in the fourth quarter and the situation seemed to have continue to improve since then, with Vietnam successfully overcoming Omicron variant outbreak in first quarter of 2022, leading to a positive GDP growth. According to Oxford Economics as indicated in Graph 3, this growth is expected to continue in 2022 and onwards.

PROJECTED GDP GROWTH IN VIETNAM

Graph 3 – Historical and projected GDP in Vietnam compared to Asia



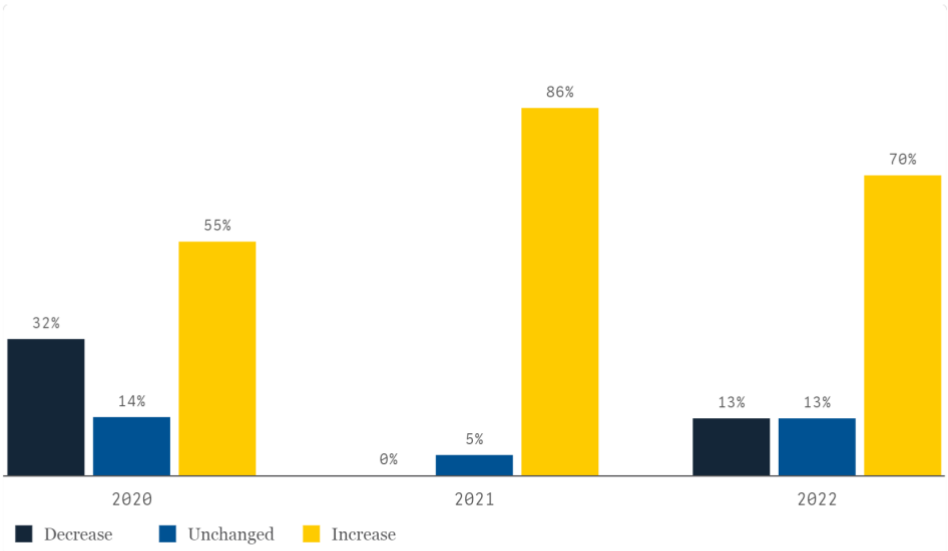
SOURCE: Oxford Economics, GDP, real, annual growth. Last update: 20 April 2022

Vietnam's economy growth is predicted to outpace the region, but complications on the global stage might threaten the growth

In line with the favourable outlook for Vietnam's economy in the future years, Swedish companies expressed optimism about their business in Vietnam, with the majority of survey respondents believing that their revenues will continue to increase in the coming year. In comparison to last year's poll, however, Swedish enterprises are less confident about their predicted sales performance. Graph 4 reveals that 70 per cent of the respondents expected a higher turnover in coming years, to be compared with last year's survey when 90 per cent anticipated the same.

COMPARED TO THE DEVELOPMENT IN THE PAST 12 MONTHS, WHAT ARE YOUR EXPECTATIONS FOR THE COMING 12 MONTHS FOR YOUR INDUSTRY IN VIETNAM REGARDING TURNOVER?

Graph 4 – Turnover projections of Swedish companies (in 2020 survey, 2021 survey, and 2022 survey)



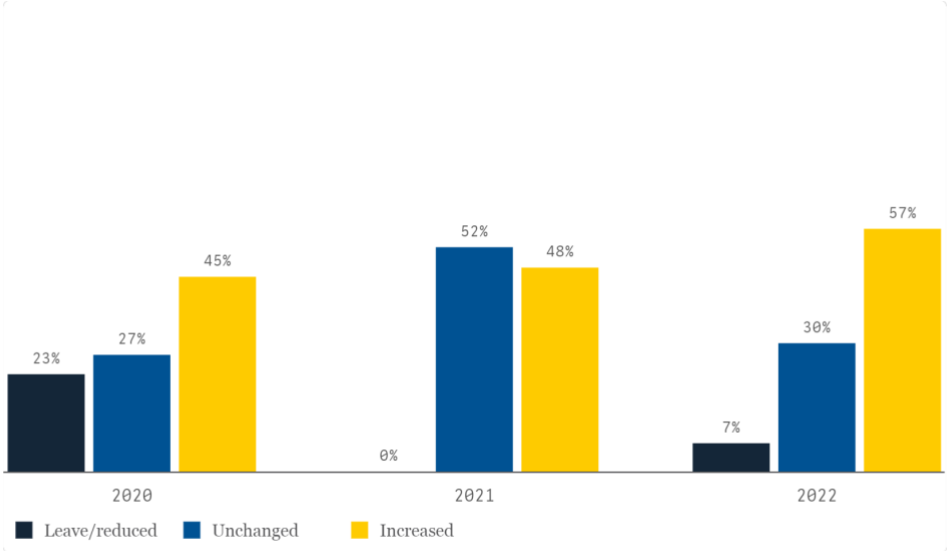
NOTE: Decrease and increase represent aggregations of slight/significant development changes. The number of respondents for this question was 30. "Don't know/Not applicable" responses are included but not shown in figure.
SOURCE: Business Climate Survey for Swedish Companies in Vietnam 2022.

In the last three decades, foreign direct investment (FDI) into Vietnam has increased at an exponential rate. The country is today considered one of the most open countries in Asia in terms of FDI receipts, owing to its economic reforms and integration with the global economy. Vietnam's government has a special focus on investment incentives and encourages the implementation of foreign investment projects, especially in prioritized industries and businesses. Moreover, transportation infrastructure, industrial parks, export processing zones, and economic zones are still being built and upgraded to meet with the demand of upcoming investment. Lastly, foreign investors value the Vietnamese societal stability as one of the most essential contributors to the implementation of economic development objectives, instilling confidence in both domestic and global investors.

Building on these favourable conditions, Swedish enterprises in Vietnam have been looking into increasing their investments even during the two years of Covid-19. Companies appear to be very optimistic, as seen by the rise in the percentage of companies seeking to invest more in Vietnam, from 45 per cent in 2020 to 48 per cent in 2021 and 57 per cent in 2022, as indicated in Graph 5. It is worth noting that all large companies intended to maintain or even increase their business operations; the only ones who wanted to reduce investment were small-medium businesses, but they only made up a small percentage of the total sample of SMEs.

WHAT ARE YOUR COMPANY'S INVESTMENT PLANS FOR THE COMING 12 MONTHS IN VIETNAM, COMPARED TO THE PAST 12 MONTHS?

Graph 5 – Future investment plans of Swedish businesses in Vietnam (in 2020 survey, 2021 survey, and 2022 survey)



NOTE: Decrease and increase represent aggregations of slight/significant development changes. The number of respondents for this question was 30 in 2022 survey. "Don't know/Not applicable" responses are included but not shown in figure.
SOURCE: Business Climate Survey for Swedish Companies in Vietnam 2022.

EVFTA improved bilateral trade, though not all Swedish companies are equally benefited

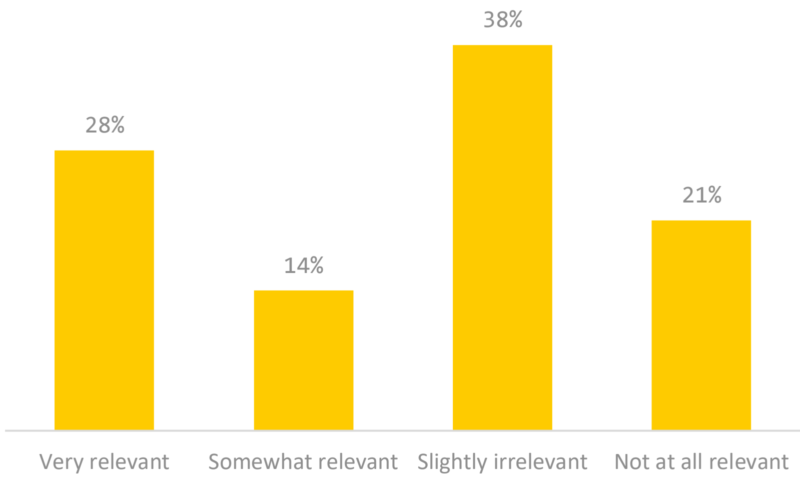
Vietnam has been utilizing free trade agreements as a tool to boost its economic power and financial stability. These agreements serve as instruments which enable Vietnam's economy to shift away from low-tech manufacturing items towards increasingly complex hi-tech goods.

August 2021 marked one year since the EU-Vietnam Free Trade Agreement (EVFTA) entered into force. The EVFTA is expected to bring further opportunities for Swedish companies in the coming years in terms of sales, sourcing, and investments. After more than a year of implementation, EVFTA has brought in different benefits for different groups of companies. Graph 7 shows that half of the respondents stated that they had benefited from EVFTA. However, only less than 10 per cent of respondents reported that the benefit was significant. 21 per cent reported found that EVFTA was not relevant to their businesses at all, as indicated in Graph 6. Companies with local manufacturing and sourcing in Vietnam seemed to have benefitted more from the EVFTA than companies only doing sales and services.

EVFTA brings about the most benefit to Swedish production operations in Vietnam

HOW RELEVANT IS THE EU-VIETNAM FREE TRADE AGREEMENT (EVFTA) FOR YOUR BUSINESS?

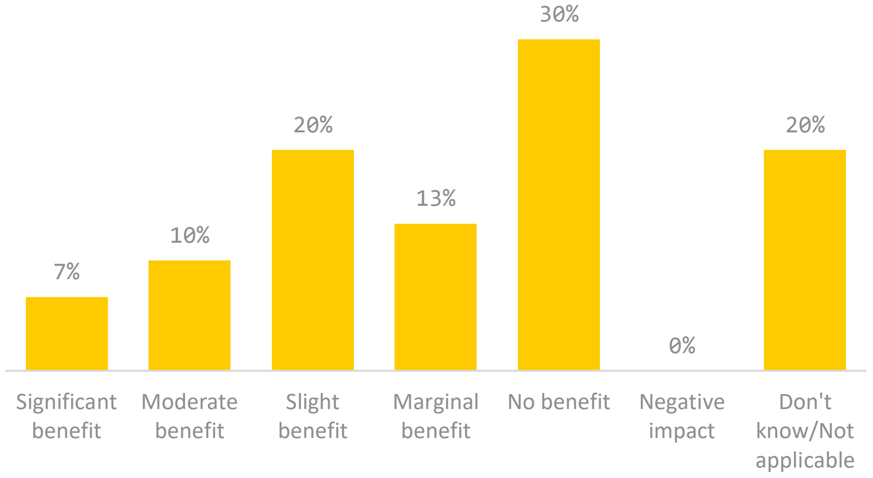
Graph 6 – EVFTA's relevance on Swedish enterprises



NOTE: Reduced and increased represent aggregations of slight/significant development changes. The number of respondents for this question was 29. “Don't know/Not applicable” responses are included but not shown in figure.
SOURCE: Business Climate Survey for Swedish Companies in Vietnam 2022.

HOW HAS YOUR BUSINESS BENEFITTED FROM THE EU-VIETNAM FREE TRADE AGREEMENT (EVFTA)?

Graph 7 – EVFTA's benefit on Swedish enterprises



NOTE: Reduced and increased represent aggregations of slight/significant development changes. The number of respondents for this question was 30. "Don't know/Not applicable" responses are included but not shown in figure.
SOURCE: Business Climate Survey for Swedish Companies in Vietnam 2022.

Once the EU-Vietnam Investment Protection Agreement (EVIPA) takes effect, bilateral trade between Vietnam and EU Member States is expected to develop even further. This would increase investors' confidence in the market and provide stronger protection for invested capital through an innovative dispute-resolution mechanism and guarantees. Ratification by each of the 27 EU Member States is necessary for EVIPA to enter into force. To date, 12 EU Member States have ratified the agreement.

In conclusion, many foreign businesses experienced significant challenges in 2021 due to the local market dynamics as well as global supply chain disruptions, and these challenges might as well resurface for 2022. Nevertheless, more targeted and concentrated development in key economic areas will unlock untapped growth potential. Vietnam will continue benefitting from supply chain restructuring in Asia as well as attracting a new range of investors, due to its investor-friendly policies, relative socio-political stability, cost efficiency, and consumer demand prospects.

THE MARKET

Vietnam is still an attractive destination for Swedish businesses

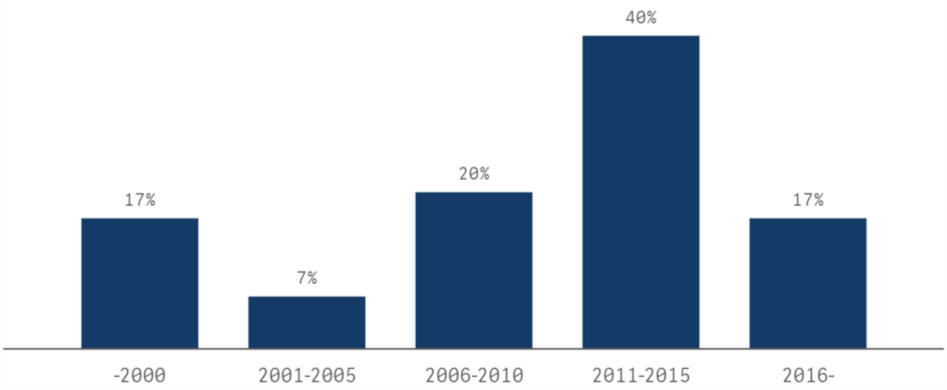
Vietnam remains an attractive destination for Swedish companies. Since the implementation of Economic and Political reforms in 1986, the market has witnessed substantial development and extensive integration with the world economy.

With a sizable population of over 97.3 million including the fastest expanding middle class in the Asia-Pacific, Vietnam is one of the key markets in Southeast Asia. It is increasingly emerging as a manufacturing hub in the region, capturing the bulk of the new supply chain investments as part of a larger trend of diversification from dependency on China. This trend has been a key driver of strong economic performance during the Covid-19 pandemic.

Swedish companies also quickly penetrated this market early with a number of establishments before the completion of the signing of the EVFTA in 2019. In addition, with the new labour code, the Enterprise Law and the Investment Law coming into effect in January 2021, Vietnam is taking further steps in the direction of aligning with international standards and improving the regulatory regime for foreign investors.

IN WHAT YEAR DID YOUR COMPANY ESTABLISH OPERATIONS IN VIETNAM?

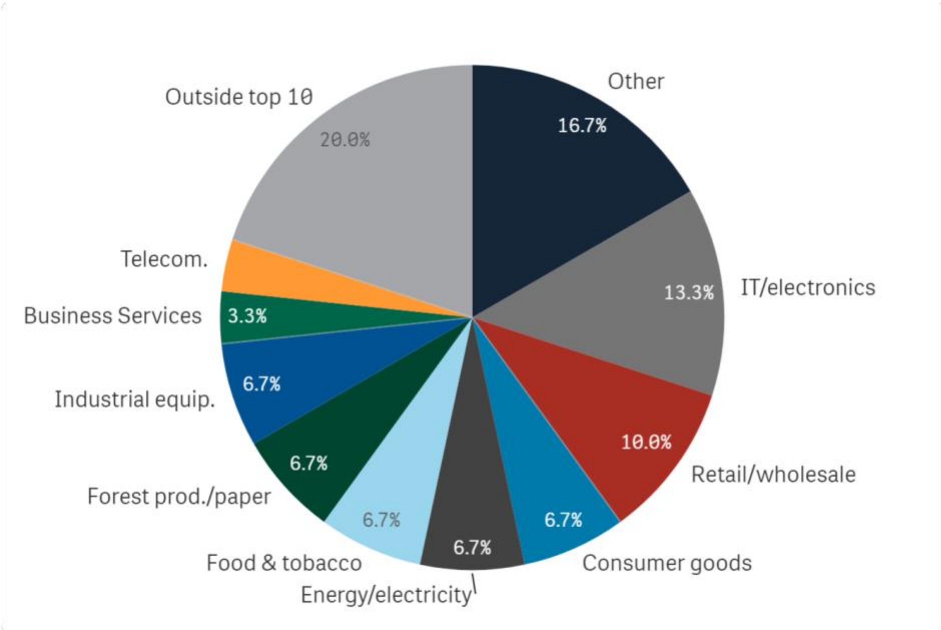
Graph 8 – Swedish companies' year of establishment in Vietnam



NOTE: The number of respondents for this question was 30. "Don't know/Not applicable" responses are included but not shown in figure.
SOURCE: Business Climate Survey for Swedish Companies in Vietnam 2022.

WHAT IS YOUR COMPANY'S MAIN INDUSTRY IN VIETNAM?

Graph 9 – Swedish companies' main industries in Vietnam

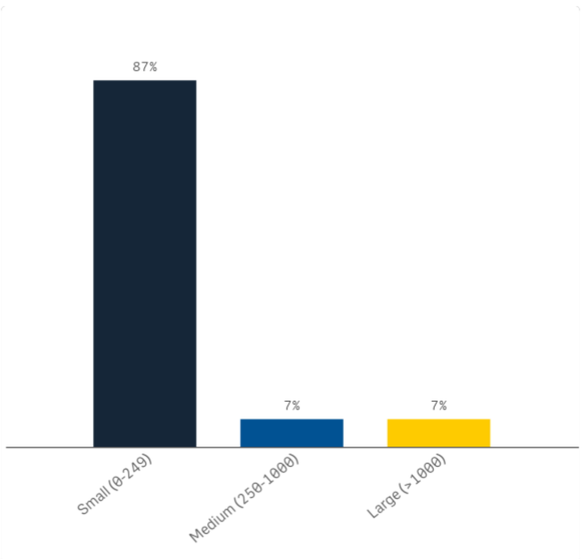


NOTE: The number of respondents for this question was 30.
SOURCE: Business Climate Survey for Swedish Companies in Vietnam 2022.

As illustrated by Graph 9, respondents in our survey are active across a wide range of industries, with the largest individual industry being operations within IT/electronics, followed by Retail and wholesale and Consumer goods. While not representative of the industry affiliations of the whole population of Swedish subsidiaries active in Vietnam, it mirrors the overall Vietnam economy very well. In Vietnam, around 41 percent of GDP originates from the service sector, around 38 percent from the manufacturing industry, and 12 percent from agriculture sector.

SWEDISH FIRMS' LOCAL NUMBER OF EMPLOYEES IN VIETNAM IN 2022

Graph 10 – Swedish companies' local number of employees in Vietnam



NOTE: The number of respondents for this question was 30. "Don't know/Not applicable" responses are included but not shown in figure.
SOURCE: Business Climate Survey for Swedish Companies in Vietnam 2022.

Graph 10 indicates that a majority of the Swedish companies that participated in this survey are large companies with a global outreach (43 per cent of respondents have more than 1,000 employees globally). In Vietnam, most of the companies have less than 250 local employees.

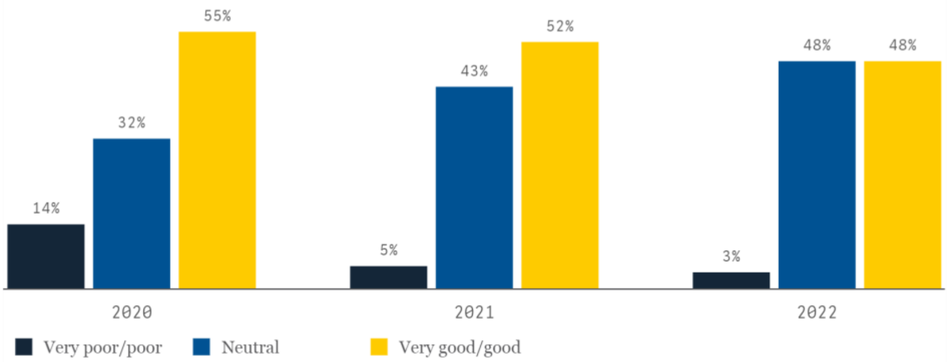
A positive outlook on the business climate

Overall, the majority of respondents remain positive of Vietnam's business climate. As noted in Graph 11, the proportion of respondents who perceive the conditions as very poor or poor is decreasing year by year. In fact, no medium or large companies considered the business climate as very poor or poor. Looking at individual response, we find that professional service companies are the most optimistic and satisfied with the current business climate, followed by the industrial companies. Consumer goods companies are still cautious with the current situation.

> **"Promising and positive, with an increasing focus on going digital and going green**
>
> **President & CEO**
>
> Networking and Telecommunications company

HOW DO YOU PERCEIVE THE CURRENT BUSINESS CLIMATE IN VIETNAM?

Graph 11 – Swedish companies' perception of Vietnam's business climate (in 2020 survey, 2021 survey, and 2022 survey)



NOTE: Decrease and increase represent aggregations of slight/significant development changes. The number of respondents for this question was 30 in 2022 survey. "Don't know/Not applicable" responses are included but not shown in figure.
SOURCE: Business Climate Survey for Swedish Companies in Vietnam 2022.

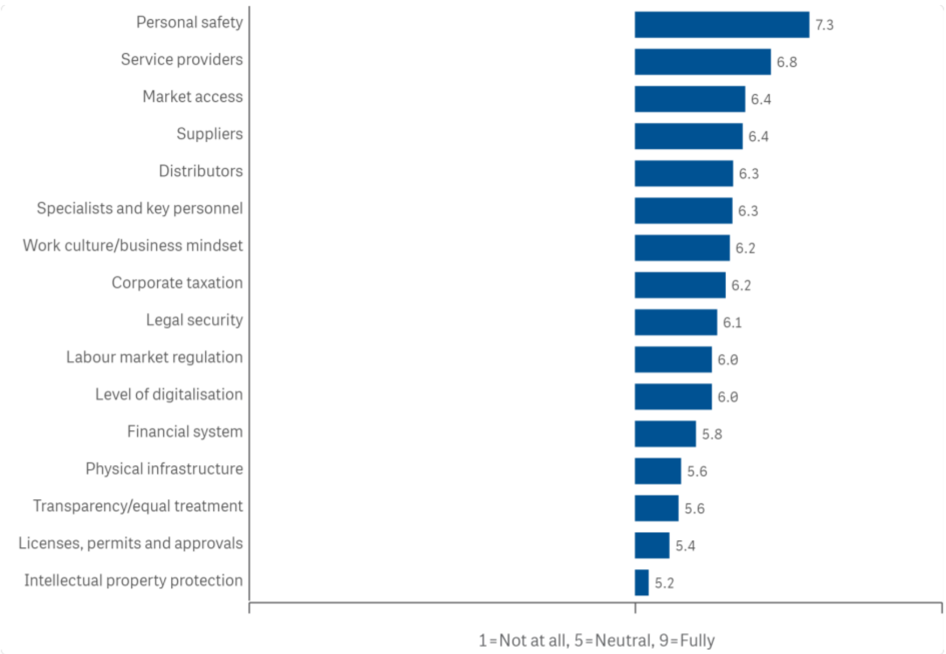
Swedish companies are satisfied with business conditions

Compared to results of last year's report, the perceived shortcomings in customs, transparency, and physical infrastructure have been improved. Most respondents give positive scores for all factors. As shown in Graph 12, highest score is again rewarded to Personal safety. Furthermore, most companies did not face many barriers to their strategic business partners such as distributors, suppliers and service provides.

Indicators such as transparency, licenses and Intellectual property protection received lower scores, underlining the key fields where Vietnam needs to kick into high gear to reach international standards.

HOW WELL DO THE FOLLOWING CONDITIONS MEET THE NEEDS OF YOUR COMPANY IN VIETNAM?

Graph 12 – Swedish companies' satisfaction scale on Vietnam's business conditions



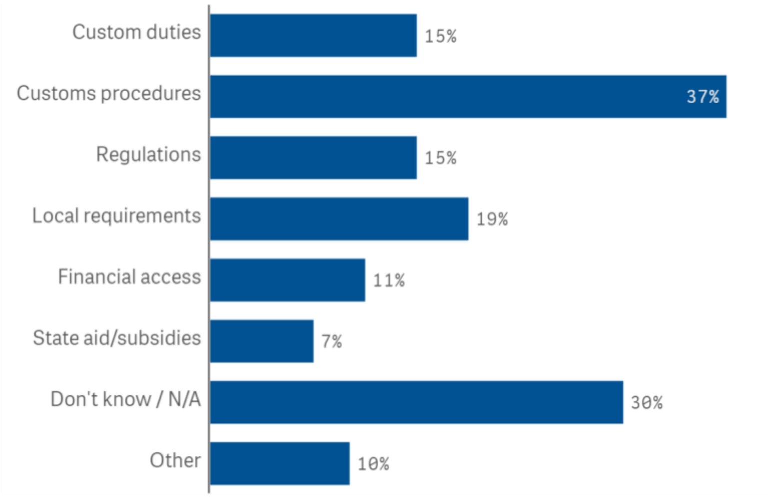
NOTE: The number of respondents for this question was 30.
SOURCE: Business Climate Survey for Swedish Companies in Vietnam 2022.

Custom procedure is the key trade barrier

Graph 13 shows that customs duties and procedures are the main challenges for Swedish companies with high unwanted impact on their operation in Vietnam. In fact, there were many delays in the announcements of policy changes and customs procedures during the Covid-19 pandemic. Local requirements and regulations also posed additional risks. In addition, local subsidies from Vietnamese government grew as an emerging concern of several Swedish enterprises.

HAS YOUR COMPANY IN THE PAST YEAR ENCOUNTERED TRADE BARRIERS IN VIETNAM WITH A NOTICEABLY NEGATIVE IMPACT ON OPERATIONS, IN ANY OF THE FOLLOWING AREAS?

Graph 13 – Trade barriers encountered in Vietnam



NOTE: The number of respondents for this question was 30.
SOURCE: Business Climate Survey for Swedish Companies in Vietnam 2022.

In conclusion, the Vietnam market has the potential for all foreign companies with good business conditions though there are some areas such as customs procedures and local regulations that need to be improved. In addition, Swedish companies surveyed also expect more efforts to enhance transparency and enforce the protection of intellectual property.

HOW SWEDISH COMPANIES SUCCEED IN VIETNAM

Swedish companies in Vietnam engage mainly in sales and marketing; a promising rise for R&D activities is witnessed

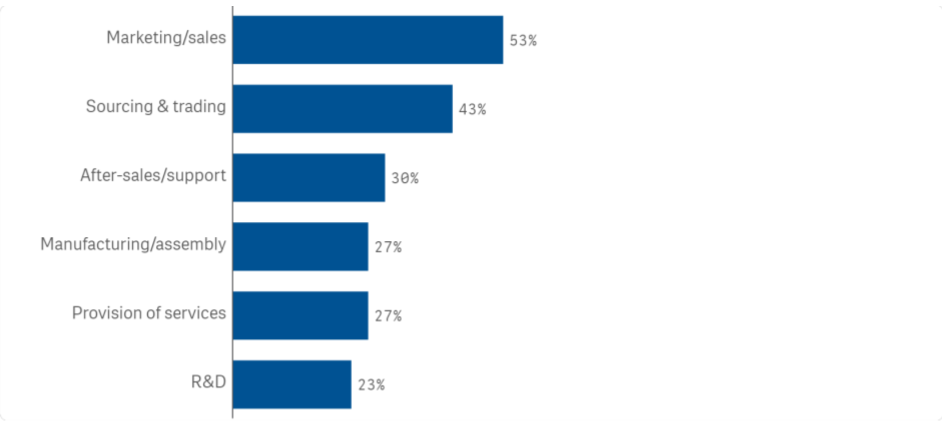
A majority of companies reported that their operations are related to sales activities, followed by sourcing and manufacturing activities, as shown in Graph 14. These figures are higher than the previous year, likely attributed to the growing market as well as higher attraction of Vietnam as a sourcing destination from Southeast Asia.

While there are relatively few operations in Vietnam that focus on R&D, the figure this year has significantly improved to 23 per cent from last year's 10 per cent, driven mainly by R&D operations within the wood & furniture and IT & electronics. This indicates that more Swedish companies have started to take advantage of the very preferable price per quality ratio developing for labour in some industries in Vietnam. In fact, Vietnam is also regarded as a potential R&D hub in Southeast Asia attracting global giants to set up their laboratories, especially in IT & electronics. A good example of a newly registered project is the $220 million USD R&D centre being developed by Samsung in Hanoi aiming to employ 3,000 young talents. Before that, US-based chip company Qualcomm opened its first R&D facility in Hanoi, also the first in Southeast Asia.

Vietnam is regarded as a potential R&D hub in Southeast Asia

OPERATIONS OF SWEDISH FIRMS IN THE MARKET

Graph 14 – Swedish companies' operations in Vietnam



NOTE: The number of respondents for this question was 30. "Don't know/Not applicable" responses are included but not shown in figure.
SOURCE: Business Climate Survey for Swedish Companies in Vietnam 2022.

Cost efficiency is a critical factor to remain competitive in Vietnam

Overall, all factors are assessed as having an impact on the success of Swedish companies surveyed in Graph 15. In fact, just like last year, most of surveyed Swedish enterprises highlighted the cost efficiency, partnerships and human development as the top three key factors for success in Vietnam.

As a potential market, Swedish companies have to compete with their traditional competitors from South Korea and Japan, thus a strong need for a product localisation strategy to attract local customers. In fact, Customer feedback, product and service adaption, and sales competence are reported to be the following most important factors in our survey this year. These factors somewhat reflected the strong need for a product localisation strategy mentioned above.

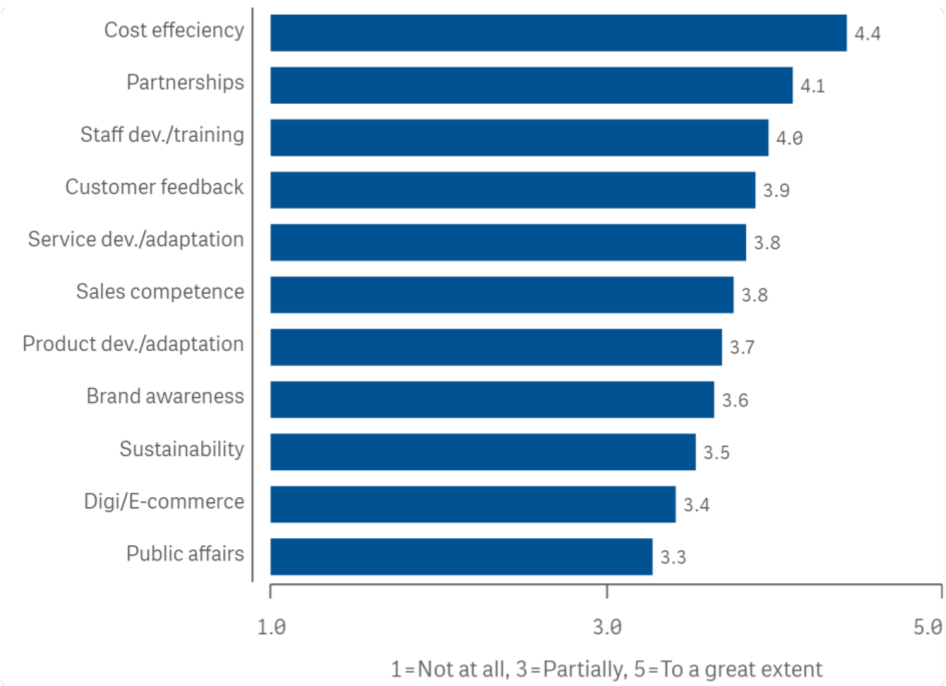
Moreover, since the concepts of life cycle cost and circular economy are still in their infancy in Vietnam, the score for Sustainability stays as a less important factor. Therefore, Swedish companies should continue educating local customers about the long-term benefits of their sustainable products and solutions to maintain their competitiveness.

Digitalization and e-commerce remained low as a success factor but still had a partial impact on overall success. Public affairs were ranked as a high-influenced factor among large companies but created almost no impact for the operations of medium and small companies that participated in this survey.

> “Vietnamese people lack sustainability knowledge especially in provinces outside Hanoi/HCMC
>
> **Manager**
> Manufacturing company

TO DATE, WHICH OF THE FOLLOWING AREAS HAVE BEEN IMPORTANT IN MAINTAINING COMPETITIVENESS IN VIETNAM?

Graph 15 – Swedish companies’ success factors in Vietnam



NOTE: The number of respondents for this question was 30. “Don’t know/Not applicable” responses are included but not shown in figure.
SOURCE: Business Climate Survey for Swedish Companies in Vietnam 2022

The Swedish brand – Premium, Innovative, and Sustainable

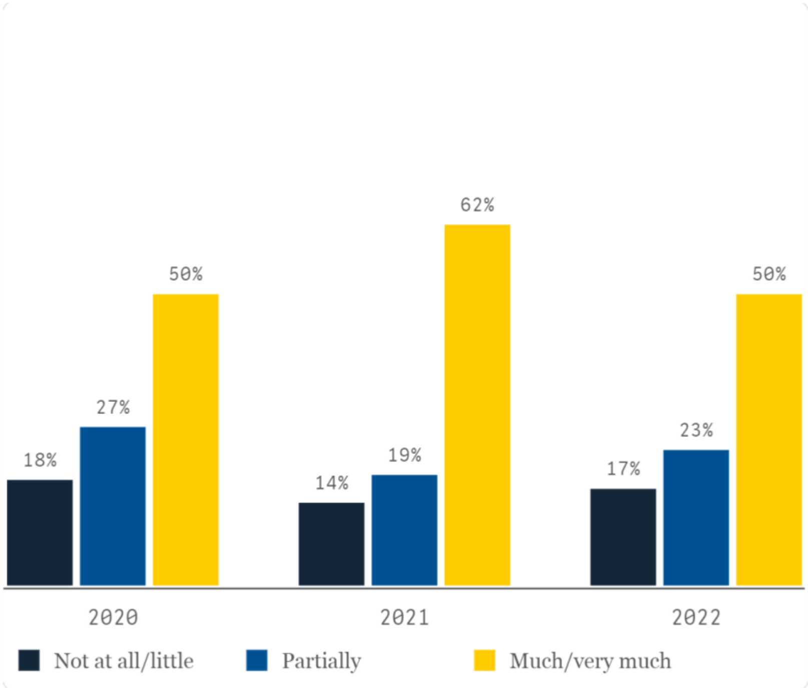
Sweden was the first Western country to recognise and establish diplomatic relations with Vietnam; moreover, it was also the leading western country to support Vietnam in the implementation of Economic and Political reforms in 1986. Thus, Swedish support left a strong imprint in the memory of many Vietnamese of older generations. Swedish businesses are usually welcome due to the halo effect inherited from predecessors, resulting in the friendliness and trust from the Vietnamese people and their government.

As indicated in Graph 16, the majority of large companies surveyed stated that the Swedish brand contributed to their business "to an extent or great extent" while the contribution for small & medium size enterprises is smaller.

Moreover, the confidence in Swedish brands is further enhanced by the perception that Swedish brands are, similarly to other European brands, premium, innovative, and sustainable. That explains the recognition for Swedish brand contribution the Swedish companies participating in the Business Climate Survey during the past three years.

TO WHAT EXTENT WOULD YOU ESTIMATE THAT THE "SWEDISH BRAND" CONTRIBUTES TO YOUR BUSINESS IN VIETNAM?

Graph 16 – The contribution of "Swedish brand" to businesses



NOTE: The number of respondents for this question was 30. "Don't know/Not applicable" responses are included but not shown in figure.
SOURCE: Business Climate Survey for Swedish Companies in Vietnam 2022.

To conclude, most of the surveyed Swedish enterprises focus on sales and marketing activities, more enterprises have engaged in sourcing and R&D activities. Cost efficiency continues to be the most important factor to remain competitive in Vietnam though Swedish brand with innovation and sustainability is recognised by the majority of participants as contributing to their business in Vietnam.

ACTING SUSTAINABLY

Rising trend towards a sustainable lifestyle

Vietnam is one of the most vulnerable and heavily affected countries of the effects from climate change, due not least to its geographical location and long coastline. The country is regularly hit hard by extreme weather events such as recurring floods, typhoons, and droughts. Vietnam also faces challenges such as rising sea levels, increasing air pollution, deforestation, and loss of biodiversity. These phenomena have an adverse impact on both the country’s economic and social development. For example, the Mekong Delta in southern Vietnam, which is the most important area for the country's food supply, sees its agricultural productivity jeopardised as a result of climate change and other environmental hazards. Poorer harvests and food security have had serious consequences for many people's finances and health in the region.

Interest in sustainability issues increases in Vietnam, but the level of knowledge varies. As a result of air pollution, not least in the big cities, as well as major shortcomings in waste management, there is a general understanding of the environmental problems in Vietnam. Still, environmental problems have often been overlooked by the corporate sector in Vietnam, as keeping costs down have been the main priority. However, companies' environmental impact has received increasing focus in recent years, as a result of new requirements via free trade agreements and other international commitments. During the COP26 Climate Summit in Glasgow in November 2021, Vietnam's Prime Minister also declared that the country would phase out coal by 2045 and become fossil-free by 2050, further accelerating this development.

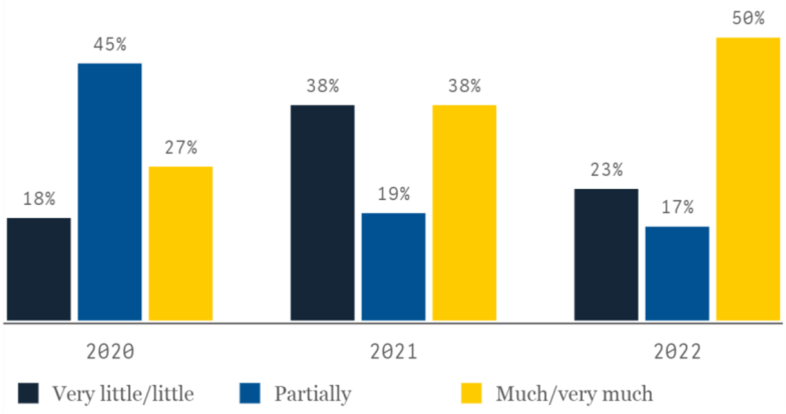
Many companies have guidelines on sustainability and related issues, albeit sometimes primarily for marketing purposes (issue of greenwashing). In terms of implementation, it is often a matter of resources and capacity. For example, Swedish companies working in the packaging sector have reported that small businesses frequently used polybags and plastic boxes in their daily use due to their low price and availability. Other problems that have been raised are difficulties in ensuring environmental due diligence throughout the value chain and mismanagement of waste at the source.

The survey shows that change is taking place, as companies assess that more and more customers take environmental factors into account in their purchasing decisions. Graph 17 shows that the figure for how many customers consider environmental aspects to a large extent has climbed from 27 per cent in 2020, to 38 per cent in 2021 and to as much as 50 per cent in this year's survey. To some extent, this may be explained by the government's recently announced climate commitments. It can also be noted that the companies that responded to last year’s survey estimated that a large proportion of their customers did not care much about environmental aspects at all, perhaps as a result of the pandemic.

> “ **The general perspective is still mainly on functionality and price; whereas clinical value benefits & quality & environmental aspects are less considered**
>
> **Country Manager**
> Global healthcare company

TO WHAT EXTENT DO CUSTOMERS IN VIETNAM CONSIDER ENVIRONMENTAL ASPECTS OF A PRODUCT OR SERVICE IN THEIR PURCHASING DECISION?

Graph 17 – The impact of environmental aspects on customers' purchasing decisions



NOTE: The number of respondents for this question was 30. "Don't know/Not applicable" responses are included but not shown in figure.
SOURCE: Business Climate Survey for Swedish Companies in Vietnam 2022

Corruption still a major concern

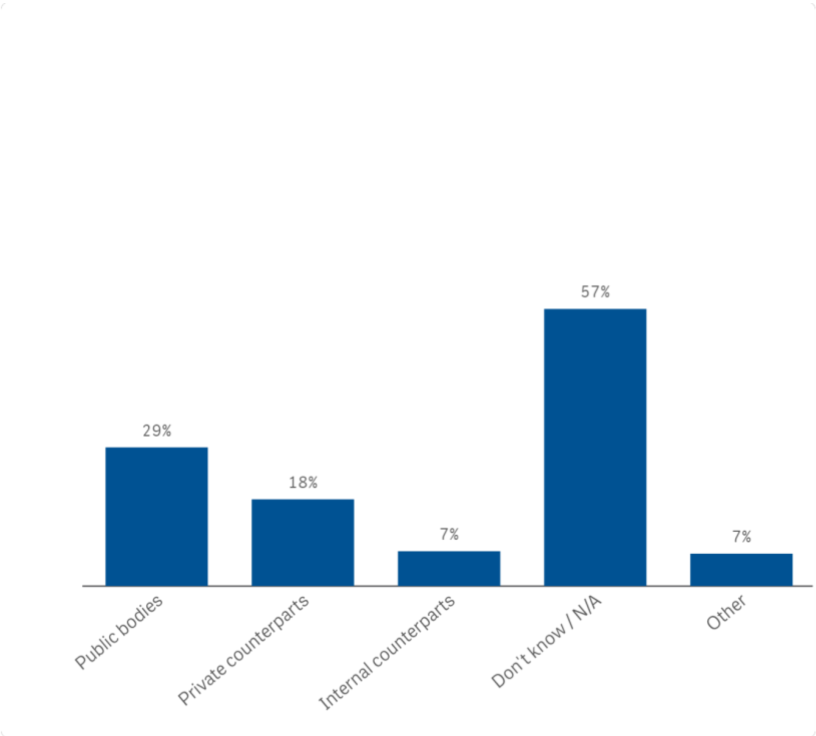
Corruption is still a widespread problem in Vietnam and an area of concern on all levels of society. Measures are being taken to reduce corruption and the situation is perceived to have improved over the years; however, shortcomings remain when it comes to implementation, efficiency and sometimes the legitimacy of these efforts.

In 2021, Vietnam ranked 87th out of 180 countries in Transparency International's index over perceived corruption, to be compared with being ranked 104th in 2020. To put this into perspective, among its ASEAN peers, Vietnam ranked below Singapore (4th), Malaysia (62nd), Timor-Leste (82nd), and above Indonesia (96th), Thailand (110th), Philippines (117th), and the rest 2021.

There are several contributing factors to the prevalence of corruption, but it stands clear that it is not limited to the public or private sector, nor to local or foreign businesses. As shown in Graph 18, nearly 30 per cent said that they had been subjected to corruption by public officials and 18 per cent by private partners. 7 per cent have witnessed corruption within their organisation and 7 per cent by others. The positive development is that more than half of those polled said they were unaware of any corruption activities.

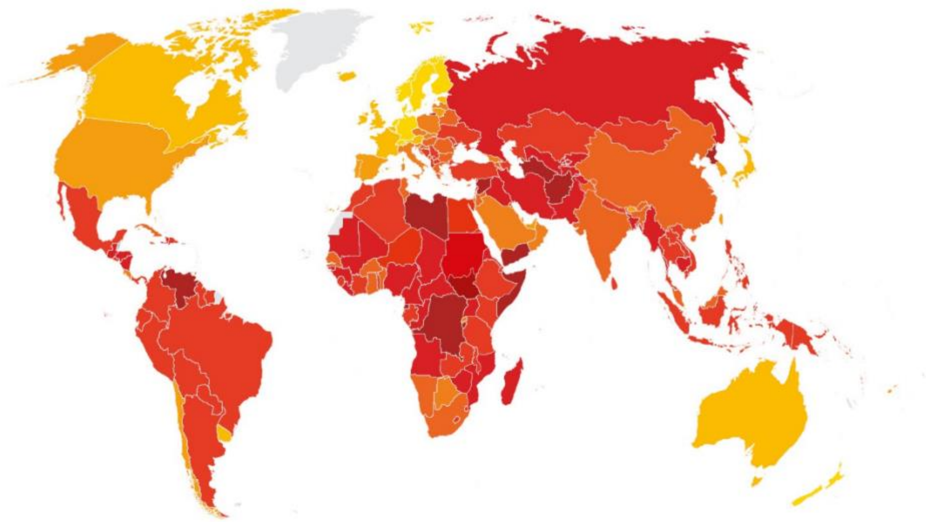
HAS YOUR COMPANY IN VIETNAM BEEN EXPOSED TO CORRUPTION SUCH AS, BUT NOT LIMITED TO, ATTEMPTS OF BRIBERY OR FRAUD IN CONTACTS WITH ANY OF THE FOLLOWING AREAS?

Graph 18 – Areas where corruption risks are found



NOTE: The number of respondents for this question was 30. "Don't know/Not applicable" responses are included but not shown in figure. One company can choose multiple answers for this question.
SOURCE: Business Climate Survey for Swedish Companies in Vietnam 2022.

CORRUPTION PERCEPTION INDEX 2021



SOURCE: Transparency International

Human rights and international labour standards – area with room for improvement

Reports show that violations and abuses of human rights are remaining challenges in Vietnam, and under close review by the international community and increasingly by business stakeholders. Stronger respect for protection of human rights in Vietnam remains a priority issue for international partners, including Sweden. The majority of local Swedish businesses responding to the survey (77 per cent), however, reported that they were not aware of such violations or abuses among their business or local business partners.

Some positivity has been shown in the area of gender quality. According to the Global Gender Gap Report 2021 by World Economic Forum, a woman's income is about 81.9 per cent of a man's income, which positions Vietnam among the top 11 countries on this indicator. Women also represent 52.7 per cent of skilled professionals, to be compared with 47.3 per cent of men.

In the same report, there are still few women in senior or managerial roles (26 per cent) or in firms' top management positions (22.4 per cent). Furthermore, in a report by Vietnam's General Statistics Office, fewer women than males have access to stable employment. 43 per cent of working women are wage employees, compared to 51.4 per cent of employed men. This demonstrates that gender equality in the workplace still needs to be further improved in Vietnam.

Another area where steps are being taken is on labour standards. Vietnam has committed to ratify the International Labour Organisation's (ILO) convention no. 87, on the Freedom of Association and Protection of the Right to Organise, by 2023. If doing so, Vietnam will have ratified all ten core ILO conventions on international labour standards. While it is worth noting that ratification is not in itself a reliable sign of commitment, it is a positive step in the country's integration into the international labour standards. As such, Vietnam will be subject to a certain extent of monitoring with regard to the implementation of the conventions. Assuring workers' rights to a good working environment and maintaining open dialogue are critical steps for governments and businesses in Vietnam to ensure labour rights compliance and increase worker productivity.

It can be noted that customers have become more aware of sustainability and more open to sustainable purchasing behaviour. Concerns of corruption and human rights violations and abuses are part of this. Moreover, lack of transparency continues to be a barrier for Swedish companies doing business in Vietnam.

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