

VIETNAM



Michael Tatarski reports from Ho Chi Minh City on how Vietnam's paint sector was hit hard by COVID-19 but is looking forward to medium-term green growth

Vietnam anticipates a comeback

COVID-19 made 2020 an incredibly disruptive year for the global manufacturing sector and Vietnam's paint and coatings sector did not escape the pandemic impact. This was despite the fact that this south east Asian country had an apparently low impact from the disease, with a reported 9565 cases (as of June 9, 2021) and a reported 55 deaths from a population of 98M, albeit with a rash of new cases in June 2021.

One result of this was that Vietnam was one of the few countries in the world to maintain overall economic growth in the face of the COVID-19 pandemic last year, with GDP growth at 2.9%. This, however, masked uneven performance, with government lockdowns knocking demand and the ability of projects to proceed through labour shortages and logistics challenges. The importance of the construction sector to Vietnam's paints and coatings was a particular weak point, with this industry contracting.

According to the Vietnam Paint and Printing Ink Association (VPIA), the construction industry remained the primary driver of demand for paints and coatings in 2020, accounting for more than 54% of the market by volume. Sukriti Seth at India-based TechSci Research, estimated that demand for paints and coatings within Vietnam was worth just more than US\$470M in 2020, a significant drop from previous years. In 2017, for example, the market was worth US\$620M.

The market had seen improvement by the end of 2020 thanks to successful virus containment efforts, leading to hope that 2021 would see a rebound but, given that Vietnam is currently experiencing its worst infection surge since the pandemic began, resulting lockdowns at industrial parks and movement restrictions in major cities have prompted renewed pessimism within the Vietnamese paint sector. This slump is expected to be corrected in the coming year and certainly by 2022, however the industry is anticipating significant shifts going forward. Ms Seth noted: "Rising awareness regarding volatile organic compounds emissions in

Vietnam following increasing environmental pollution has resulted in restrictions being imposed on VOC-based products, driving the need for water-based paints in coming years. These water-based paints contain less VOCs and are less harmful to human beings compared to solvent-based paints."

DRIVING FACTORS

TechSci Research predicts that water-based paints will see exponential sales growth in Vietnam over the next five years, reflecting how the Asia Pacific region is the largest market for water-based coatings. It is likely that this increased demand for greener coatings will be met from Vietnamese production plants, as favourable government policies have made it easy for foreign paint companies, such as the 4 Oranges Paint Company of Thailand and Jotun Vietnam Co Ltd, to establish manufacturing facilities in Vietnam. This has been a long-standing liberal policy – 4 Oranges built a large production facility in Long An province abutting Ho Chi Minh City in 2004, while Jotun has been present since 1994 and operates expansive facilities in Binh Duong province, also near HCMC.

Domestic producers have had to be innovative to compete with the majors – one example is Long An province-based Nero Paint's waterproof decorative paint, which costs up to 50% less than foreign products. However, according to a report from business publication VietNamNet, foreign companies still hold 65% of the Vietnam market. In terms of market segmentation, 35% of Vietnam's paint market is considered high-end, including brands such as AkzoNobel and Jotun; 25% is upper-middle, including 4 Oranges, Toa (Thailand) and Malaysia's Seamaster; the lower-middle segment accounts for 15% of sales; and the remaining 25% consists of paint and coatings from small, local production facilities.

"An inclination towards the utilisation of environmentally-friendly products is the new trend of the paint and coatings industry across Vietnam," Ms Seth added. "Increasing concerns among customers

about product origin, safety of ingredients and sustainability has led the industry to focus on environmental concerns as well." This focus could lead to challenges for smaller paint producers, as increasing costs and raw material shortages could come into play for low-VOC products, she said. Another knock-on impact of the pandemic has been increased demand for antimicrobial paints and coatings in line with growing awareness of cleanliness and hygiene, said Seth.

As for a shift in sales to online shopping, this trend has yet to fully impact the country's domestic paints and coatings sector: "Online sales [of paints and coatings] witnessed slow growth in Vietnam due to physical limitations, as offline stores are unable to store many products and promote certain brands," Seth said. "This is expected to change in coming years, while e-commerce websites are working towards broadening the supply chain distribution with better offerings."

The Vietnamese government will be happy with such growth as it has been following a 2014 'Plan for Development of Vietnam's Paint and Printing Industry to 2020 with a Vision to 2030', which has targeted a 14% annual growth rate in production value until 2030. Certainly, the industry is attracting investment. A US\$100M water-based and powder coatings factory being built by Jotun is expected to be completed in Ho Chi Minh City imminently. It will have a reported annual production capacity of 85Mlit of water-based paint and 10,000t of powder coatings. Last year, the company also launched Essence Easy Clean, an interior product in the mid-range category. Japan's Nippon Paint, meanwhile, plans to build a resin factory in Hanoi, adding to its three operational factories in Hanoi, the northern Vinh Phuc province and Dong Nai province, in the south.

All of this progress will be affected by the pandemic, at least in the shorter term – and in that regard, Vietnam's sluggish vaccination campaign is of concern, with just more than 1.3 million doses administered by June. ■

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