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VIETNAM

INVESTMENT HANDBOOK

April 2020



Krungsri Research

Vietnam: A Country overview



Official name	Socialist Republic of Vietnam
Form of State	One-party rule
Economic system	Socialist-oriented market economy
Land area (sq. km)	331,051 sq. km
Local government	58 provinces and 5 municipalities with fiscal decentralization
Total population (person)	98,721,275 (July 2020 est.)
Climate	Tropical in south; monsoonal in north with hot, rainy season (May to Sep) and warm, dry season (Oct to Mar)
Main cities	Hanoi (Capital), Ho Chi Minh City (Commercial hub), Can Tho, Hai Phong, Da Nang, Bien Hoa
Urbanization	Urban population: 37.3% of total population (2020) Rate of urbanization: 2.98% annual rate of change (2015-20 est.)
GDP (official exchange rate)	USD220.4bn (2017 est.)
GDP - composition, by sector (2017 est.)	Agriculture: 15.3% Industry: 33.3% Services: 51.3%
Agricultural products	Rice, coffee, rubber, tea, pepper, soybeans, cashews, sugar cane, peanuts, bananas; pork; poultry; seafood
Industries	Food processing, garments, shoes, machine-building; mining, coal, steel; cement, chemical fertilizer, glass, tires, oil, mobile phones
Labor force	54.8 million (2017 est.)
Labor force - by occupation (2017)	Agriculture: 40.3% Industry: 25.7% Services: 34%

Source: CIA Factbook compiled by Krungsri Research

Macro forecasts

Indicators (% change, otherwise indicated)	2017	2018	2019	2020F	2021F
Real GDP	6.8	7.1	**7.0**	2.7	7.0
CPI (end-period, 2012 = 100)	2.6	3.0	3.7	3.8	3.9
Net lending (+)/borrowing (-) (% of GDP)	-4.7	-4.4	-4.4	-4.2	-3.9
Domestic public debt (% of GDP)	58.2	55.6	54.4	53.3	52.5
Credit to the economy	17.4	12.7	13.7	13.1	
Current account balance (% of GDP)	2.1	2.4	2.2	1.9	1.7
Trade balance (% of GDP)					
Capital and financial account (% of GDP)	9.0	0.0	2.0	2.2	2.5
Overall balance	12.5	6.0	10.9	11.6	n.a.
Gross International reserves					
In billions of USD	49.2	55.3	66.2	77.7	90.5
In months of prospective GNFS imports	2.4	2.4	2.5	2.6	2.7
Total external debt (USD bn)	107.9	110.0	121.9	133.3	147.6
Total external debt (% of GDP)	49.0	46.0	47.2	47.5	48.7
Official exchange rate (VND/USD, end of period)	22,709	23,175	23,050.6	n.a	n.a.
Nominal GDP (VND trillions)	5,006	5,535	6,084	6,695	7,367
Nominal GDP (USD bn)	220.4	241.3	260.5	282.4	305.8

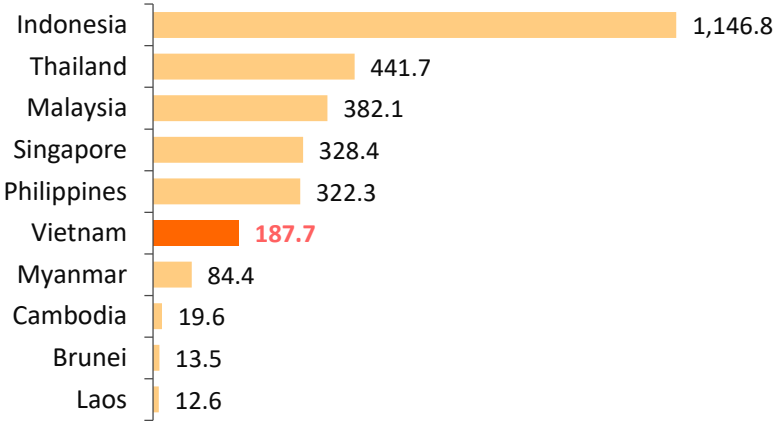
Note: Data updated as of April 2020

Source: IMF WEO (April 2020), IMF 2019 Article IV Staff Report on Vietnam, Krungsri Research

Vietnam among ASEAN Peers

Vietnam is the sixth largest economy of ASEAN with the size of GDP around USD188bn and, as a result of continuous high growth, the country attained the lower-middle income status in 2010, with the current annual GNI per capita of 1,964.5USD. On the horizon, Vietnam is expected to remain one of the fastest growing economy with its growth potential of 6.5% -7.0% p.a.

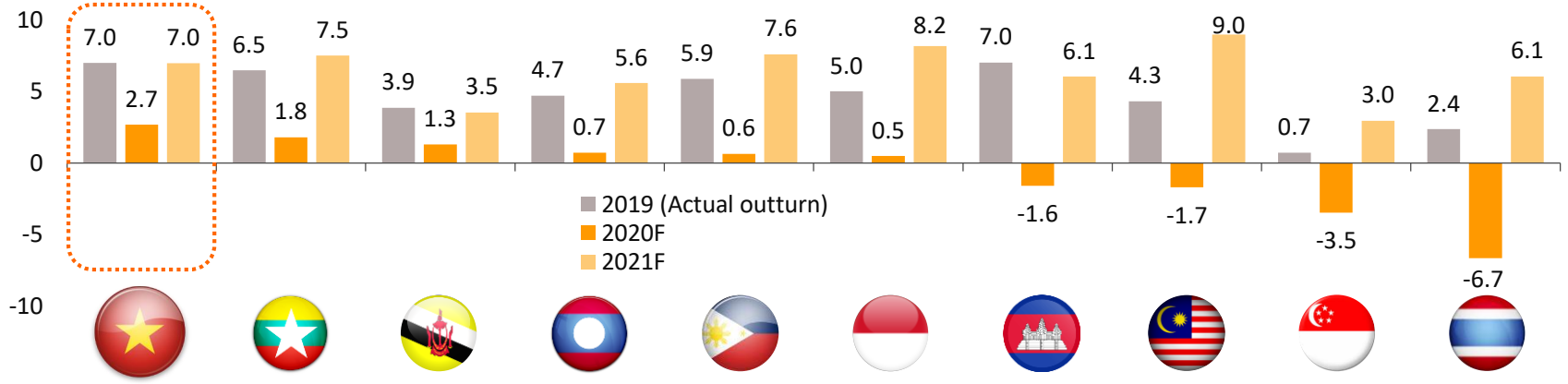
Economic size of ASEAN member by real GDP (USD bn in 2018, 2010p)



ASEAN members by income status (2018)

ASEAN member	GNI per capita[1/]	Classification by income
Singapore	58,247.9	High-income
Brunei	31,436.9	High-income
Malaysia	12,120.1	Upper-middle income
Thailand	6,361.6	Upper-middle income
Indonesia	4,284.7	Lower-middle income
Philippines	3,022.0	Lower-middle income
Vietnam	**1,964.5**	**Lower-middle income**
Lao PDR	1,785.6	Lower-middle income
Myanmar	1,571.9	Lower-middle income
Cambodia	1,205.0	Lower-middle income

Growth projections for ASEAN members (2019-2021)



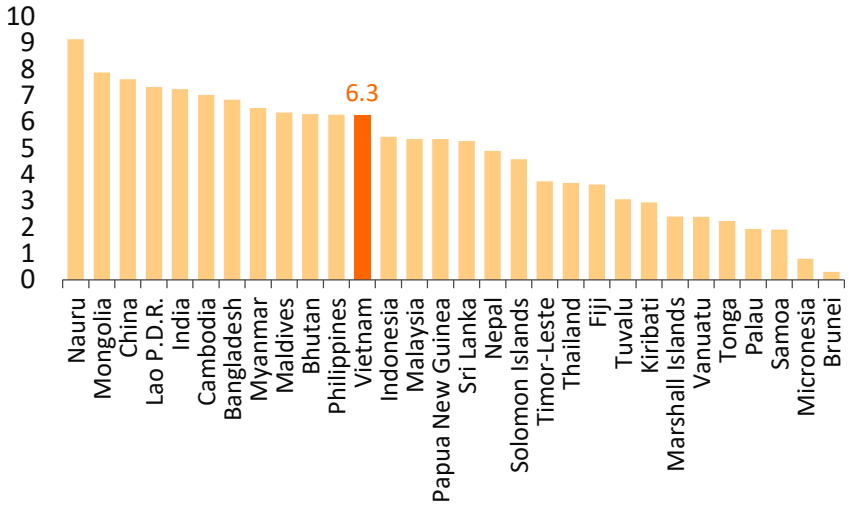
Note: 1/ Based on classification by the World Bank, lower middle-income economies are those with a GNI per capita between USD1,026 and USD3,995; upper middle-income economies are those with a GNI per capita between USD3,996 and USD12,375; high-income economies are those with a GNI per capita of USD12,376 or more.

Source: IMF WEO (April 2020), IMF 2019 Article IV Staff Report on Vietnam, World Bank: WDI, Krungsri Research

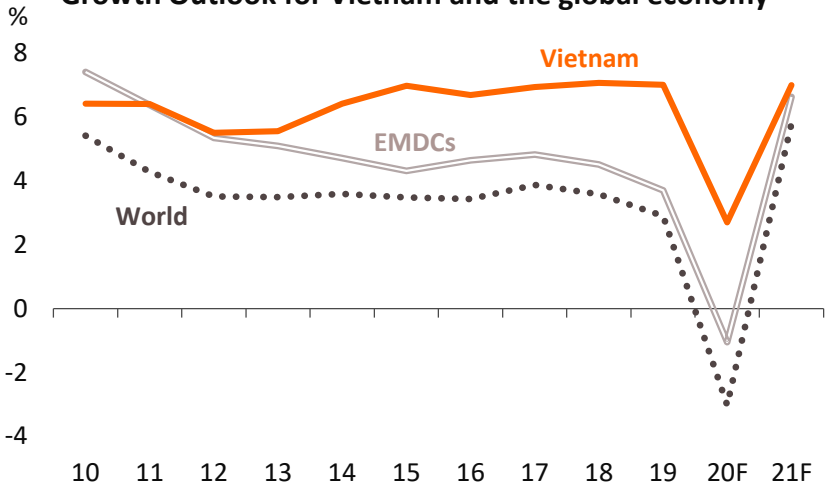
Vietnam will be one of the fastest growing EMDCs

While Vietnam' s economy is disrupted by the global outbreak of covid-19 in 2020, we view that its high-growth trajectory will be resumed in 2021 and continue in the long term. This will be supported by both internal and external favorable factors.

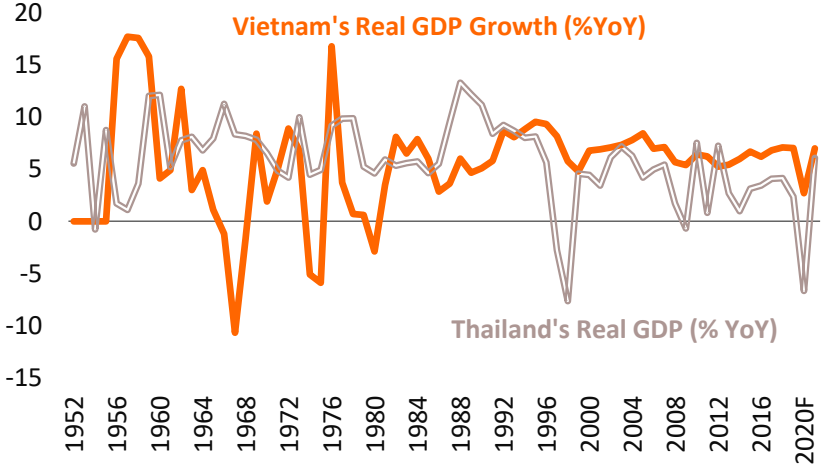
10-year average of annual growth rate of Asia-Pacific countries (%)



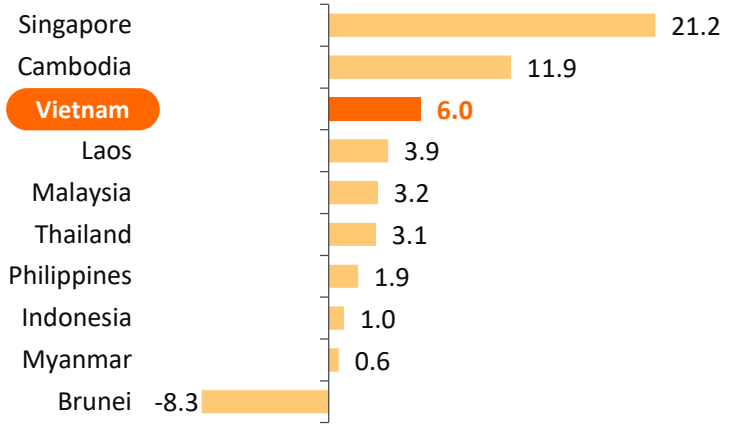
Growth Outlook for Vietnam and the global economy



Economic Growth of Vietnam and Thailand



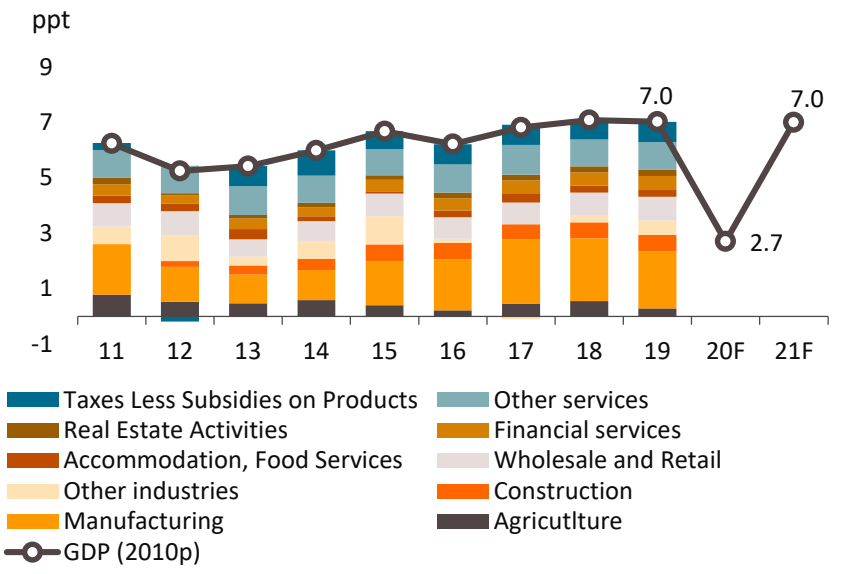
Foreign Direct Investment (% of nominal GDP, as of 2018)



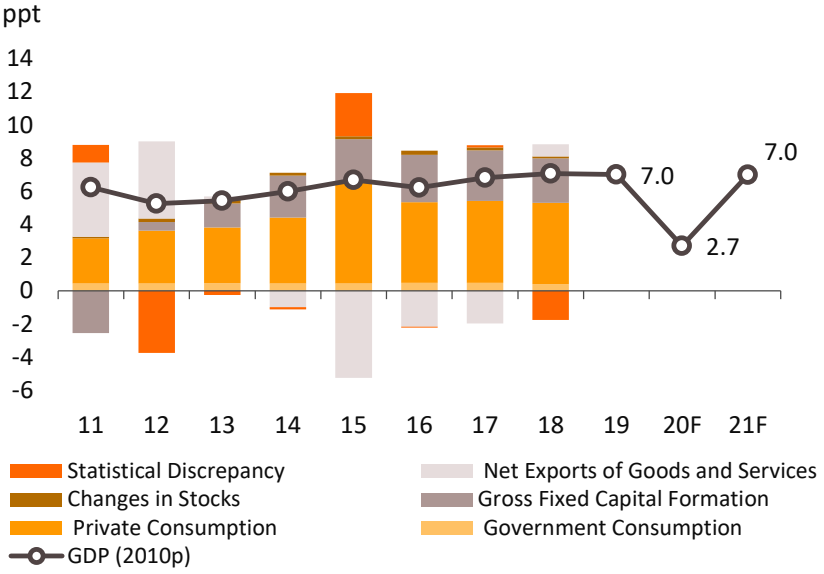
Source: IMF WEO (April 2020), CEIC, Krungsri Research

Economic engines of Vietnam's economy

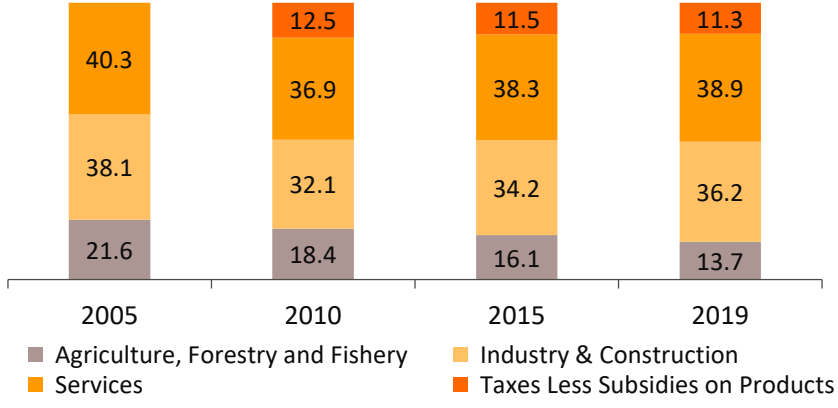
Contributions to Real GDP Growth : Production Side (2010p)



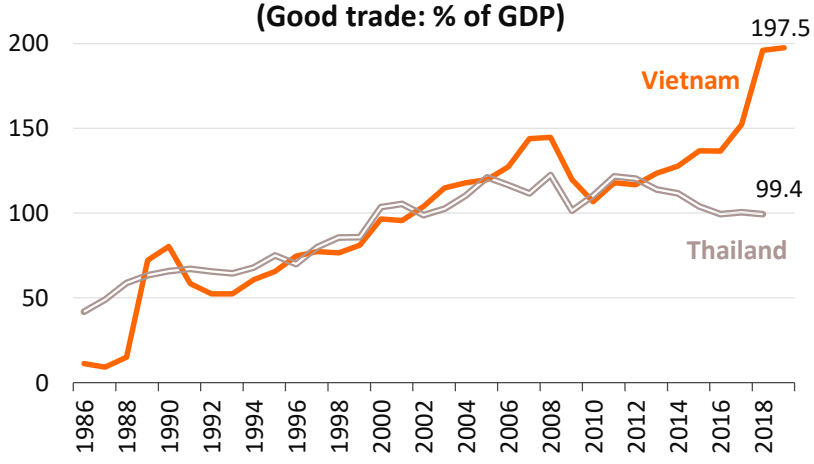
Contributions to Real GDP Growth : Expenditure Side (2010p)



Economic Structure (% of GDP)



Openness to international Trade (Good trade: % of GDP)



Source: CEIC, Krungsri Research

Major milestone of Vietnam's economic developments

1981		Adopting the 3rd 5-Year Plan moving towards more market-oriented system
1985		Economic instability and hyperinflation started
1986		Launching the economic reform: Doi Moi (Renovation) • Moving towards to socialist-oriented market economy • Shifting the planned economy towards market-driven economy • Changing legal framework to encourage roles of the private sector, reforming state-owned enterprises (SOEs) and privatizing SOEs • Engaging with the rest of the world
1993	THE WORLD BANK; INTERNATIONAL MONETARY FUND	Partnerships with the World Bank, International Monetary Fund (IMF) and other international organization
1995	asean	ASEAN Membership and Normalization of US-Vietnam relations
1997		Asian Financial Crisis
1998	APEC Asia-Pacific Economic Cooperation	The Asia-Pacific Economic Cooperation (APEC) membership
2000-05		Issuing new laws to encourage greater roles of private sector: • Corporations Law • Foreign Investment Law • Securities Law
2007	WORLD TRADE ORGANIZATION	World Trade Organization (WTO) accession
2008		Vietnam-Japan Economic Partnership Agreement
2015	ASEAN Economic Community	Participating in the ASEAN Economic Community (AEC)
2018		The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) signed
2019	asean	The EU-Vietnam Free Trade Agreement (EVFTA) signed and to become effective in mid-2020
2020		ASEAN Chairmanship (Rotation)

Source: Various sources compiled by Krungsri Research

Higher growth is expected to continue and driven by macro-socioeconomic underlying trends

We view that Vietnam will enjoy higher economic growth rate around its potential of 6.5% -7.0% p.a. in the medium to long term. The high growth trajectory will be driven by favorable macro-socioeconomic underlying trends. We classify those changes into four main themes, and we think that these would maintain Vietnam's attractiveness as a potential market for foreign investment in the medium to long term:

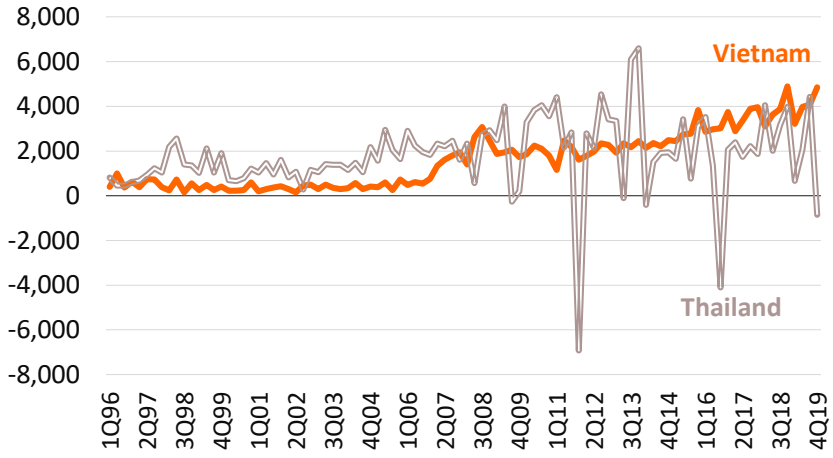
Theme 1	Continuous flows of foreign direct investment (FDI)
Theme 2	Growing middle-class consumers and increasing urbanization
Theme 3	Highly integrated to the global economy and becoming a regional manufacturing hub- mini China
Theme 4	High openness to international trade and cross-border capital flows

Theme 1: *Foreign Direct Investment (FDI)* is a major driver behind Vietnam's high growth

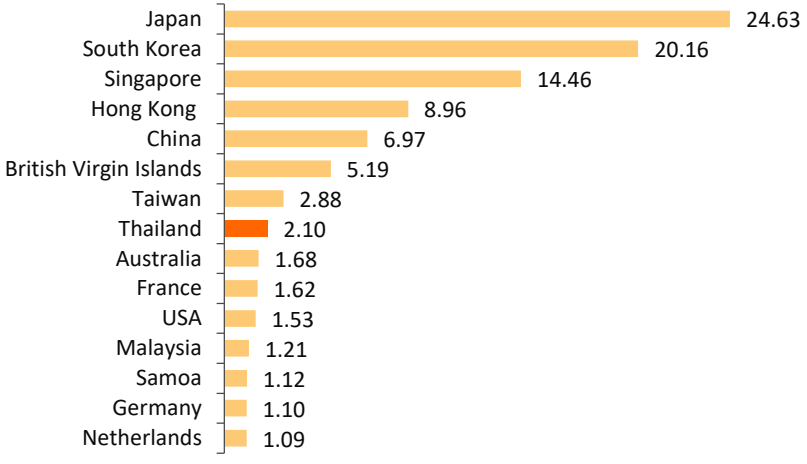
FDI Inflows in ASEAN (2015-2018, USD bn)

	2015	2016	2017	2018
Brunei	0.2	-0.2	0.5	0.5
Cambodia	1.7	2.3	2.7	3.1
Indonesia	16.6	2.9	20.6	22.0
Lao PDR	1.1	1.1	1.7	1.3
Malaysia	10.2	11.3	9.3	8.1
Myanmar	2.8	3.0	4.0	3.6
Philippines	5.6	8.3	10.3	9.8
Singapore	59.7	73.9	75.7	77.6
Thailand	8.9	2.8	8.0	13.2
Vietnam	**11.8**	**12.6**	**14.1**	**15.5**
ASEAN	**118.7**	**119.0**	**146.9**	**154.7**

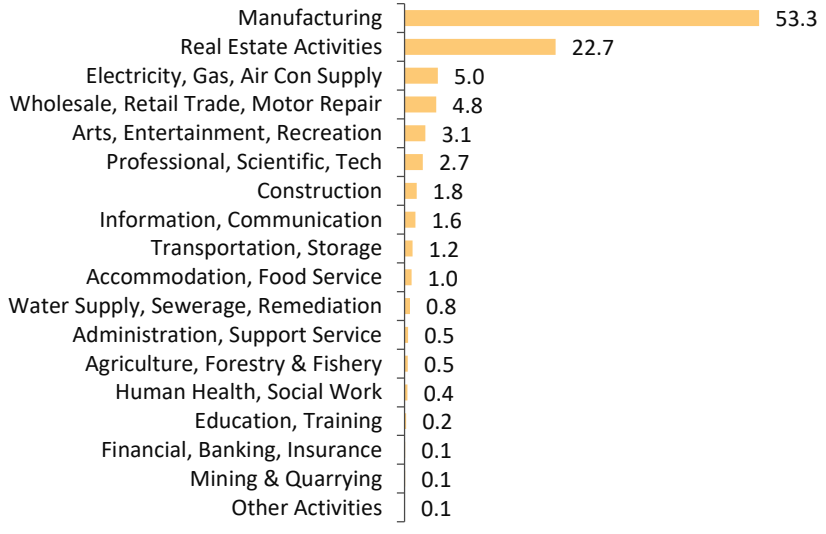
Quarterly FDI inflows to Vietnam and Thailand (USD mn)



Largest foreign investor by country of origin (% share of total registered capital in 2018)



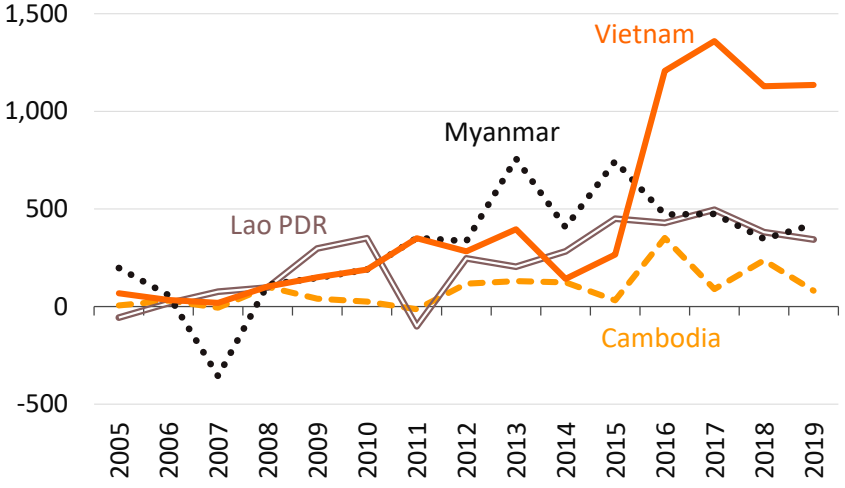
Top sector for foreign investment (% share of total FDI value)



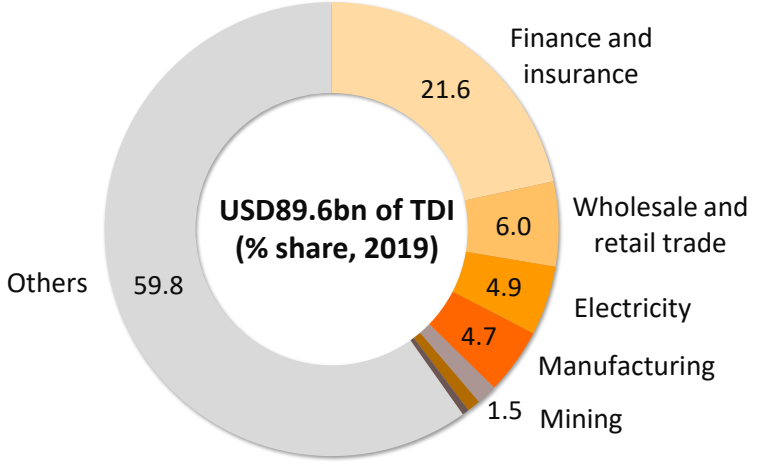
Source: ASEAN FDI database, CEIC, Krungsri Research

Thai direct investment (TDI) to Vietnam is the highest among the CLMV economies

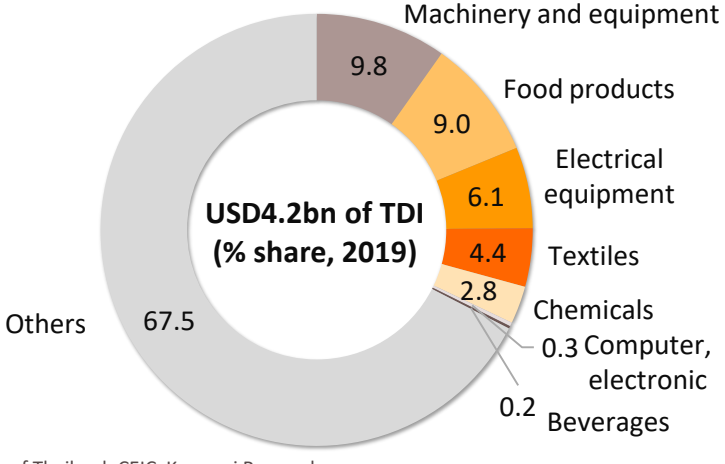
Thai Direct Investment Abroad (USD mn)



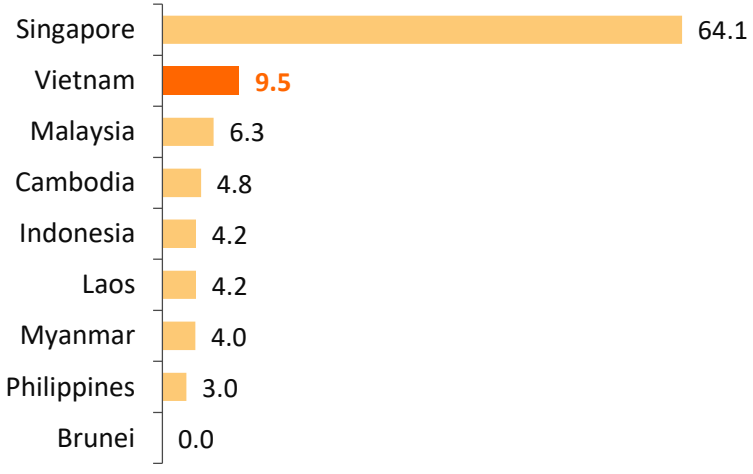
Top sector for foreign investment (% share of total FDI value)



Share of TDI to Vietnam manufacturing sector by activity (%, 2019)

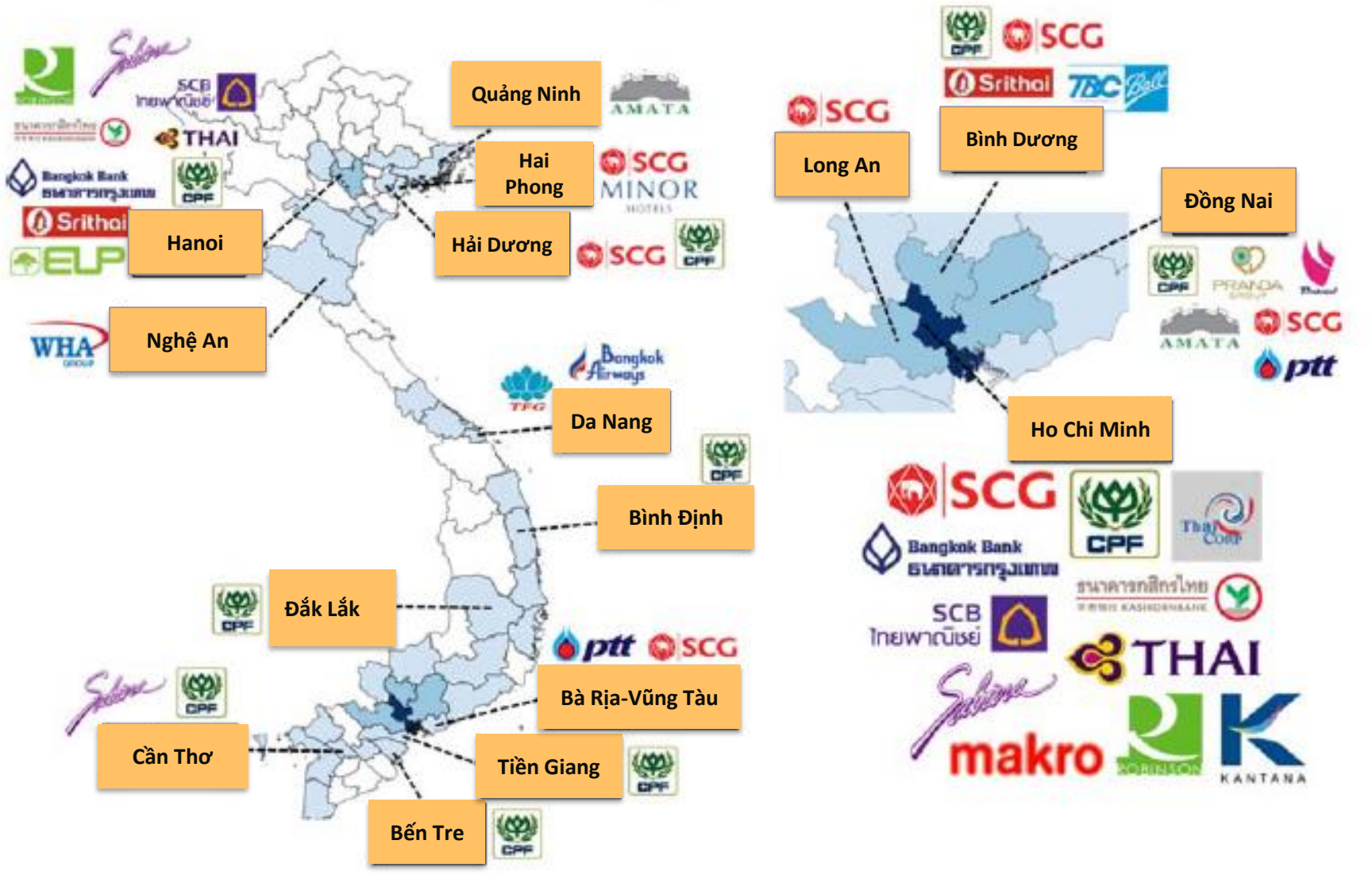


Share of TDI to ASEAN by country (% share of total TDI,2019)



Source: Bank of Thailand, CEIC, Krungsri Research

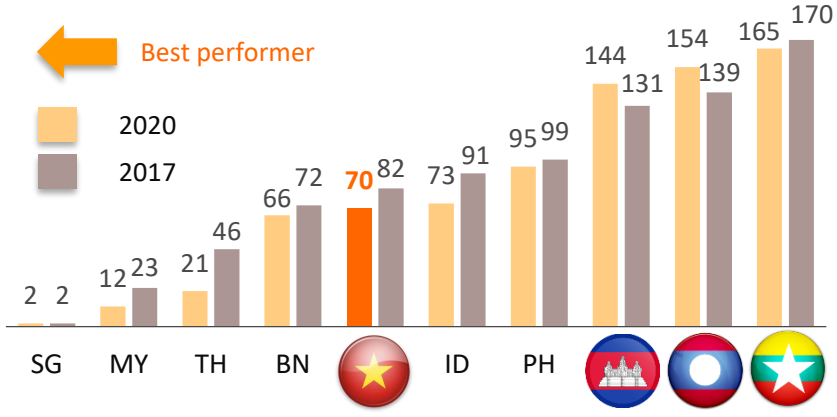
Hanoi and HCMC are the major destinations for Thai investment



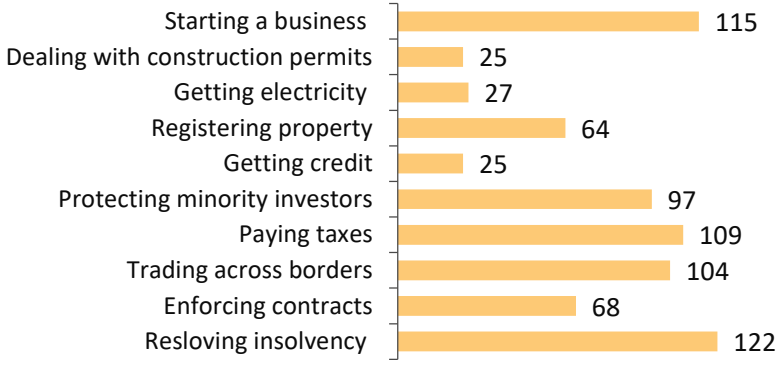
Source: Thailand's BOI

Business environment is becoming more conducive to foreign investment

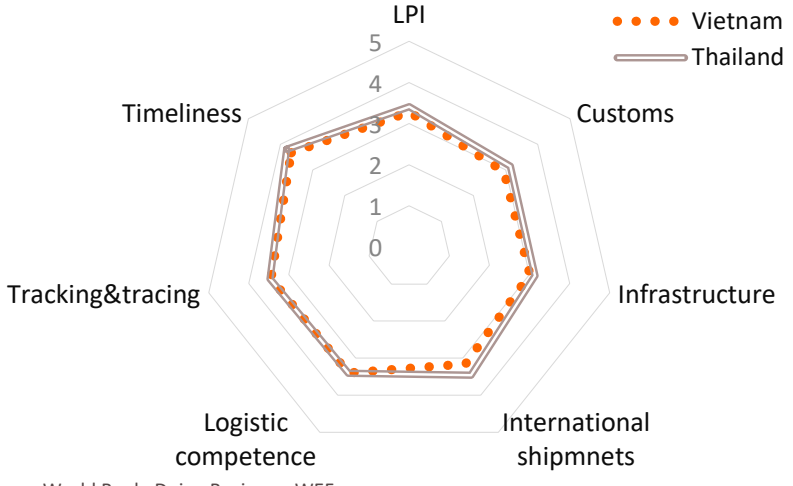
2020 Ease of Doing Business Ranking of ASEAN countries (of 190 economies)



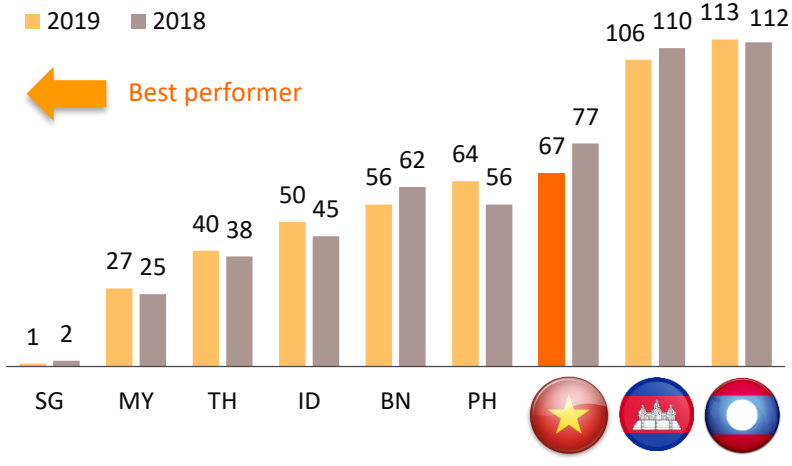
Vietnam: 2020 Ranking on doing business topics (1-190)



World Bank Logistics Performance Index (LPI) (2018)



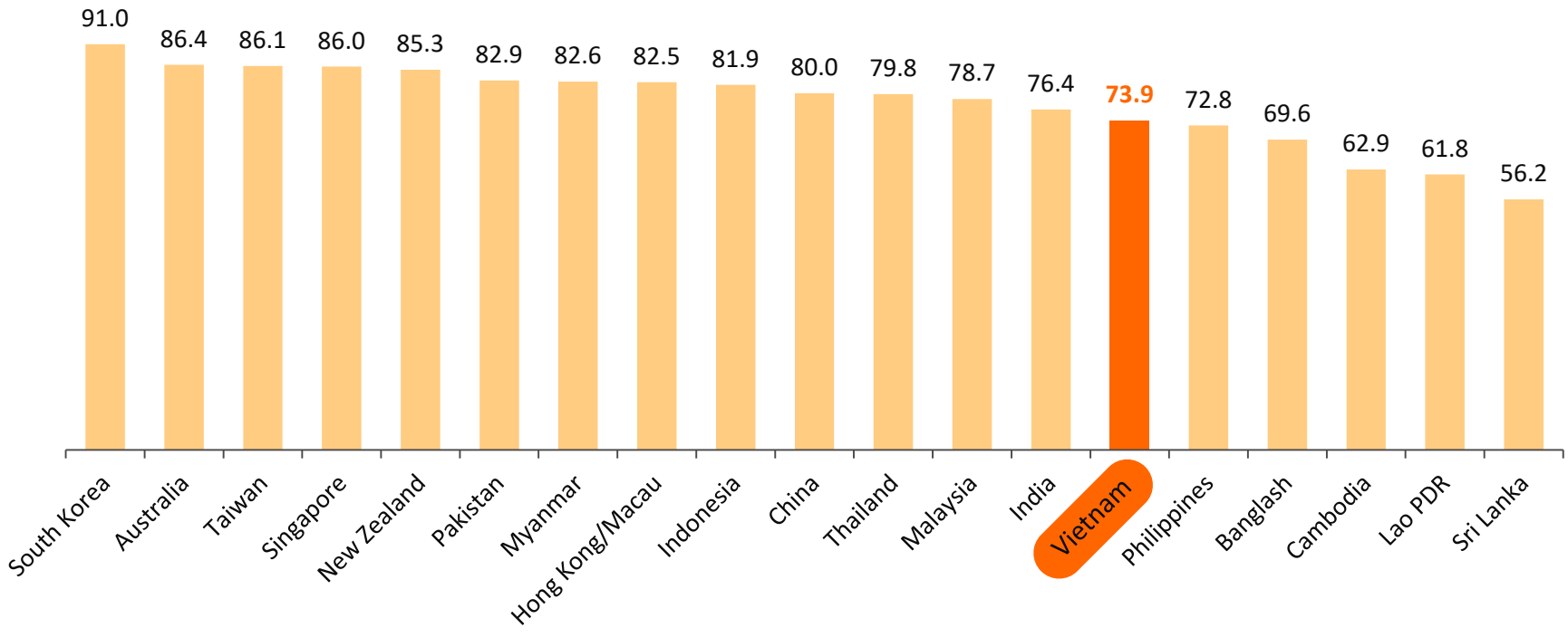
Global Competitiveness Ranking of ASEAN countries (of 140 economies)



Source: World Bank: Doing Business, WEF

Cost of production in Vietnam is relatively favorable among regional peers

Local production cost in comparison with production cost in Japan, (Japan = 100, by country/region)



Note: Production costs for Japanese firms operating in those countries which include the costs of all resources consumed in producing a product, such as materials, labor, and others.
Source: 2019 JETRO Survey on Business Conditions of Japanese Companies in Asia and Oceania

Challenges for foreign investment however remains

Vietnam

Top challenging management issues	2019 Survey (%)	2018 Survey (%)
1. Wage hike	72.0	73.0
2. Difficulty in local procurement of raw materials and parts	56.2	58.1
3. Difficulty in quality control	49.9	54.7
4. Growing market shares of competitors (cost-wise competition)	48.0	49.5
5. Complicated customs clearance procedures	42.8	45.7

Cambodia

Top challenging management issues	2019 Survey (%)	2018 Survey (%)
1. Wage hike	75.7	70.9
2. Difficulty in local procurement of raw materials and parts	70.3	54.6
3. Power shortages or blackouts	64.9	31.8
4. Difficulty in quality control	56.8	54.6
5. Quality of employees	55.0	49.4

Lao PDR

Top challenging management issues	2019 Survey (%)	2018 Survey (%)
1. . Difficulty in local procurement of raw materials and parts	70.6	60.0
2. Difficulty in quality control	52.9	66.7
3. Quality of employees	50.0	56.3
4. Power shortages or blackouts	47.1	40.0
5. Complicated customs clearance and procedures	41.4	36.0

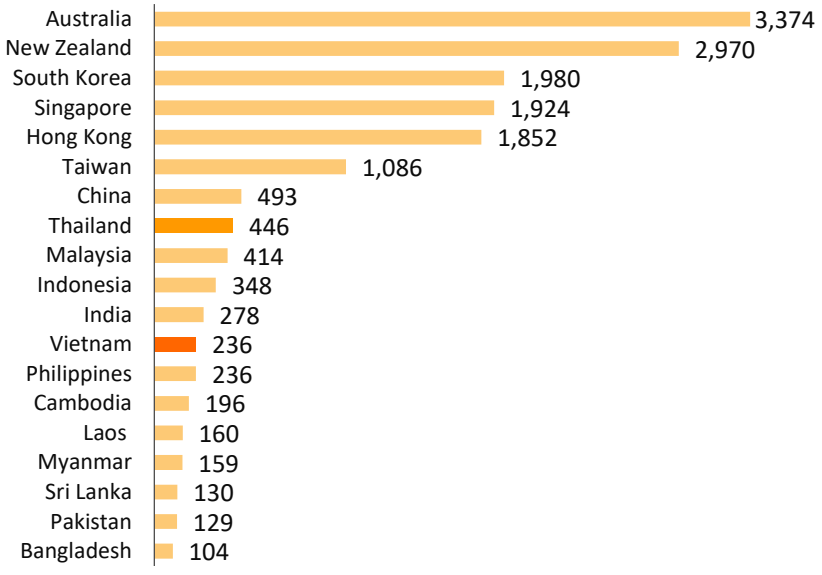
Myanmar

Top challenging management issues	2019 Survey (%)	2018 Survey (%)
1. Power shortages or blackouts	69.2	42.3
2. Difficulty in local procurement of raw materials and parts	65.4	65.4
3. Quality of employees	56.8	57.9
4. Growing market shares of competitors (cost-wise competition)	52.2	47.5
5. Wage hike	50.0	53.4
6. Difficulty in recruiting middle management staff	50.0	41.4

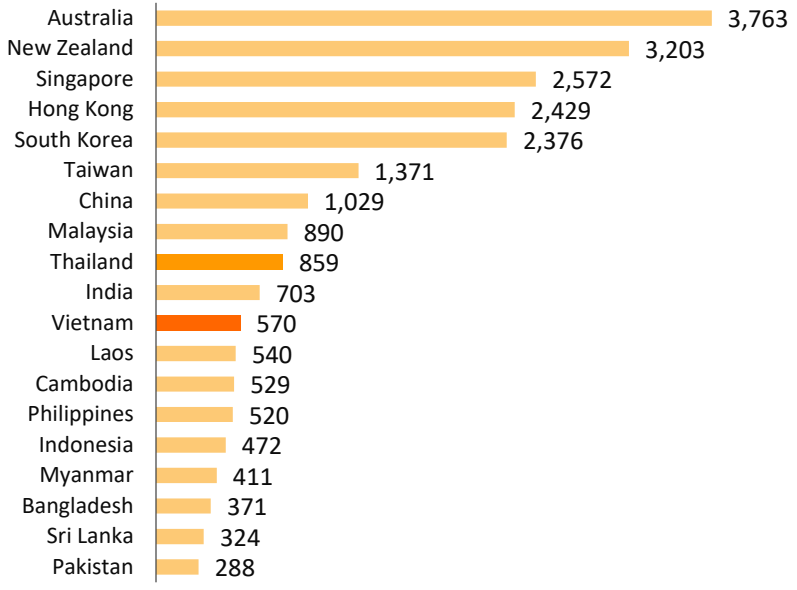
Source: 2019 JETRO Survey on Business Conditions of Japanese Companies in Asia and Oceania

Rising wage rates could affect competitiveness

Base monthly salary for manufacturing worker (USD, 2019)



Base monthly salary for non-manufacturing staff (USD, 2019)



Official minimum wage in the CLMV economies

The monthly minimum wage is USD190 in 2020 (compared to USD182 in 2019)

The monthly minimum wage for all businesses and factories is ranged from LAK900,000 (USD101) to LAK1.1mn (USD124).

Current daily minimum wage is set at MMK4,800 (USD3.29) for eight hours of work

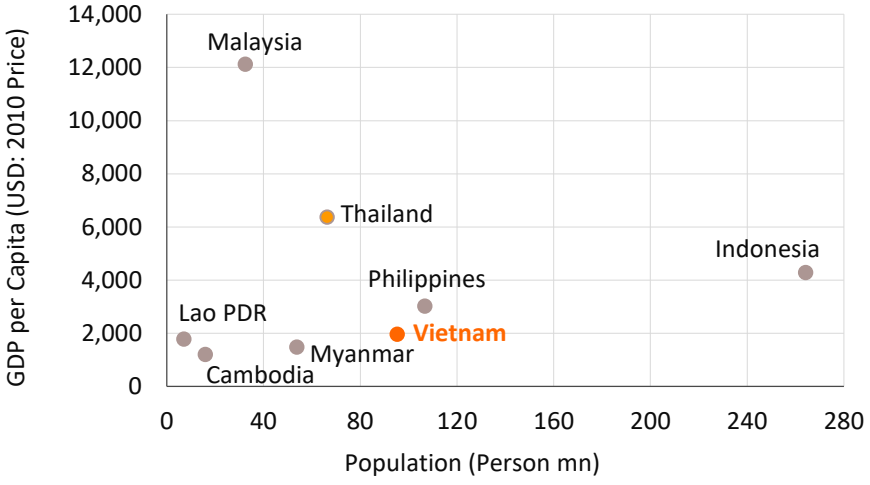
Current monthly minimum wage is set by region*:
Region I: USD190 (VND4.42mn)
Region II: USD169 (VND3.92mn)
Region III: USD148 (VND3.43mn)
Region IV: USD132 (VND3.07mn)

Note: *Region I covers urban Hanoi and Ho Chi Minh City
Region II covers rural Hanoi and Ho Chi Minh City along with Da Nang
Region III includes provincial and the district of Bac Ninh, Bac Giang, Hai Duong, Phu Tho, Vinh Phuc, and other provinces not listed in Region I and II
Region IV covers the remaining localities

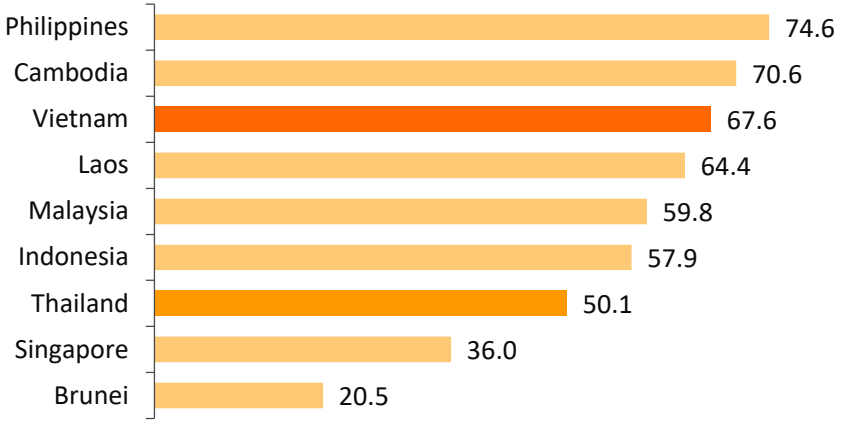
Source: 2019 JETRO Survey on Business Conditions of Japanese Companies in Asia and Oceania, and various sources

Theme 2: *Growing middle-class consumers* are expected to fuel consumption booms

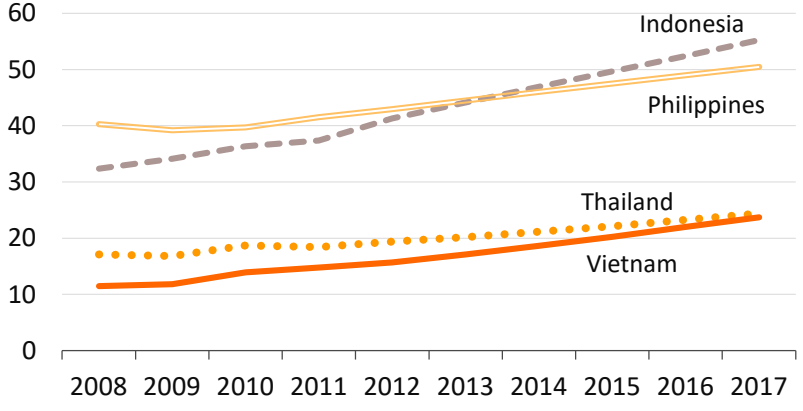
Income per capita and population in ASEAN members



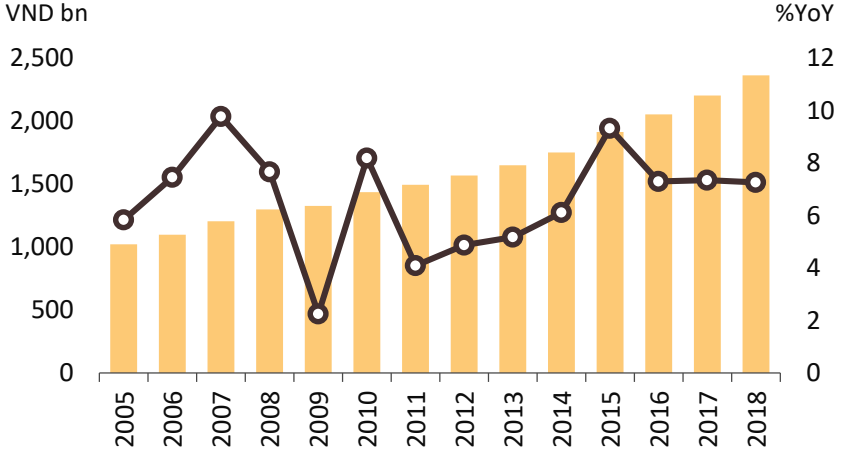
Household Final Consumption (% of Nominal GDP)



Share of households with annual income above USD7,500 (%)



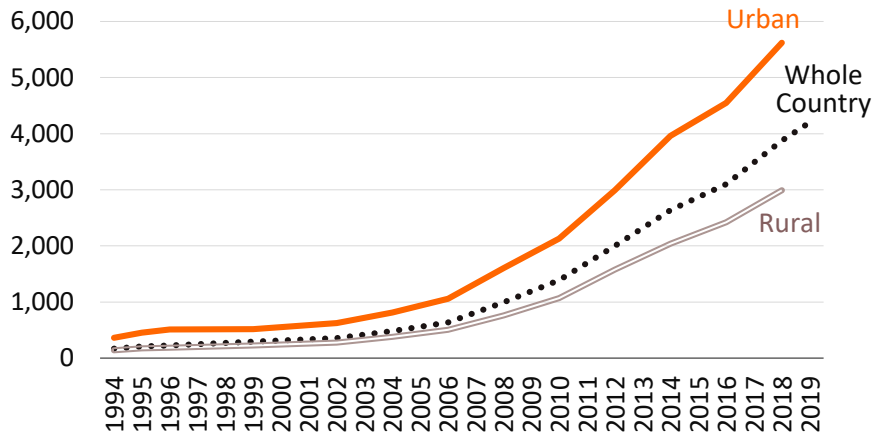
Vietnam's Household Consumption



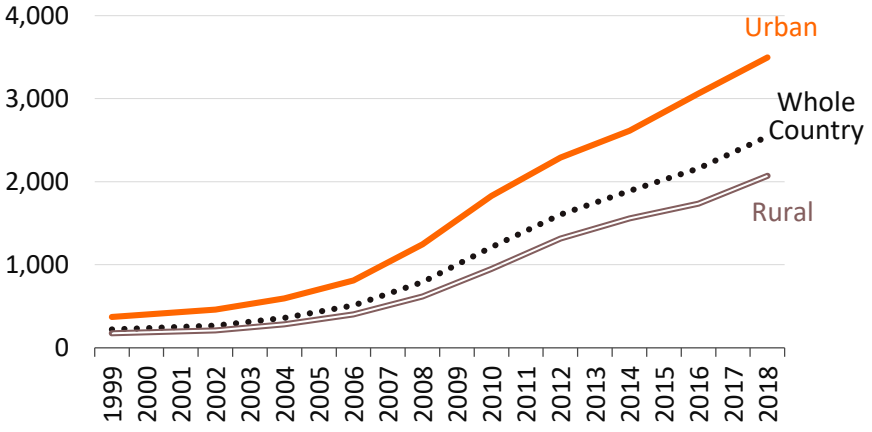
Source: CEIC, Euromonitor, Krungsri Research

…as pools of young labor force are earning higher income

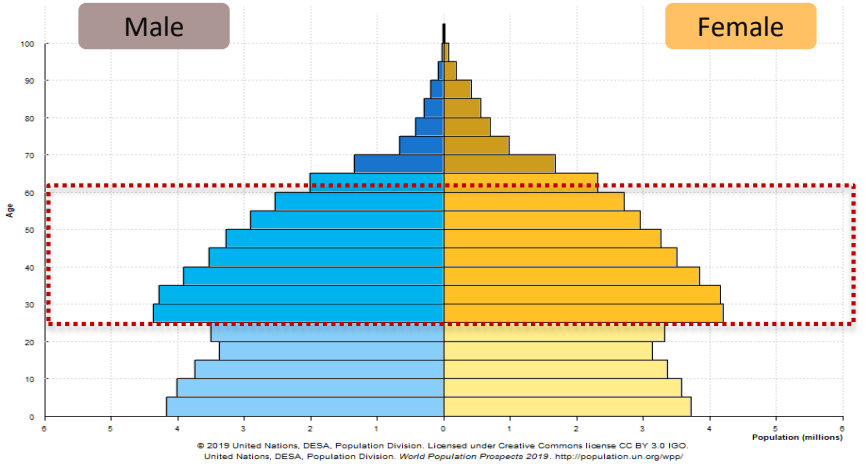
Monthly Average Income per capita



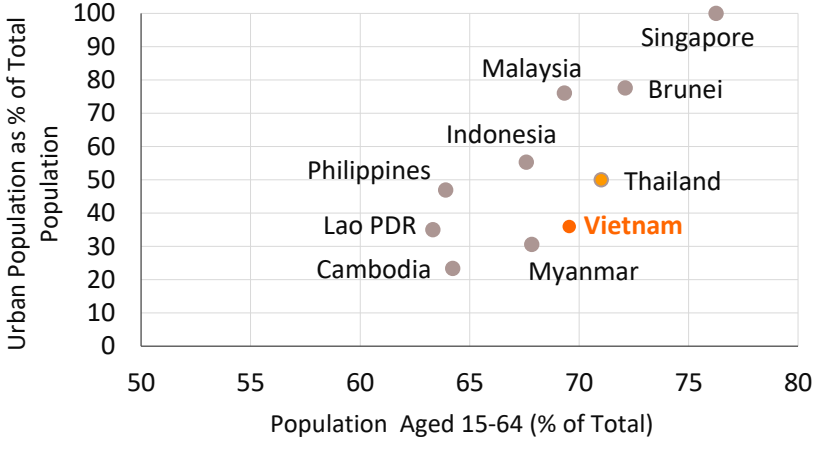
Monthly Average Expenditure (MAE) per capita



Population Structure



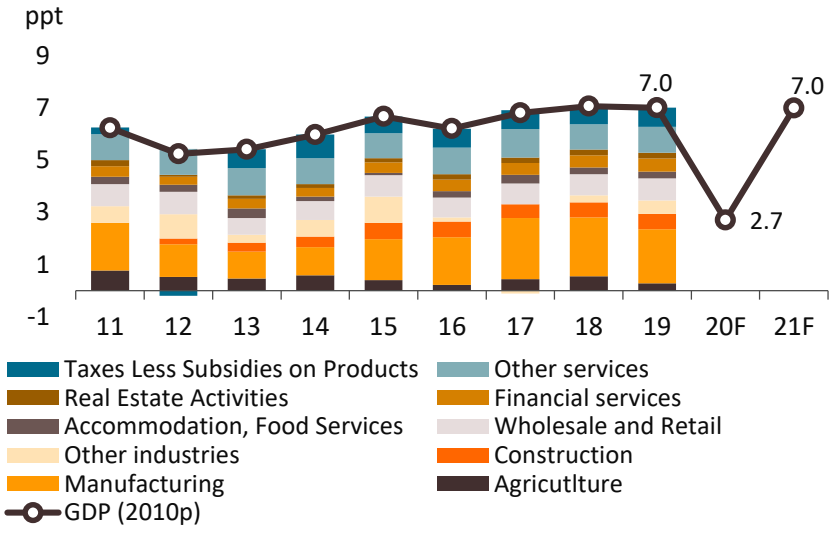
Urban population and working-aged population



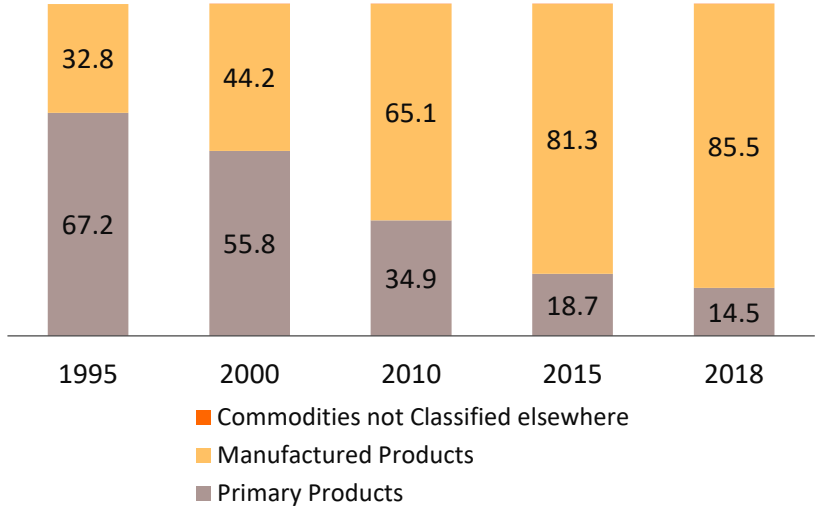
Source: UN Population Database, CEIC, World Bank WDI, Krungsri Research

Theme 3: *Rising integration* to the global economy could support Vietnam to become the next manufacturing hub

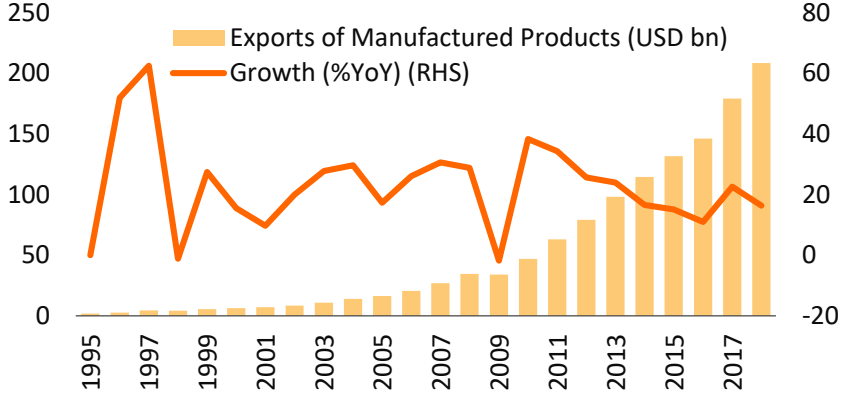
Contributions to Real GDP Growth : Production Side (2010p)



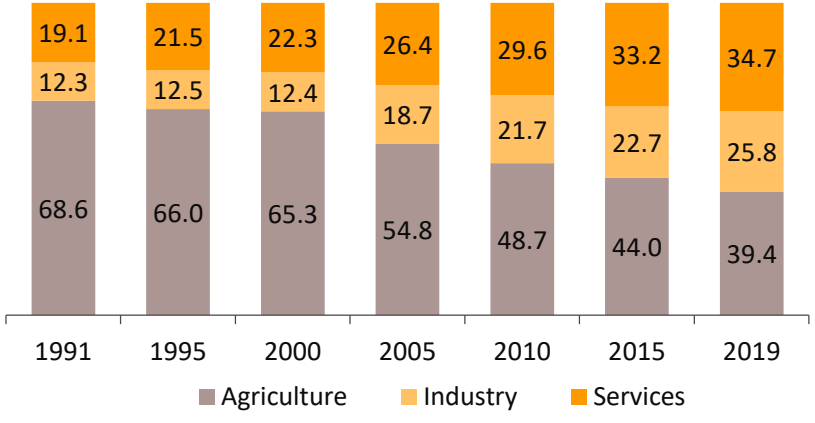
Structure of Vietnam's exports (% of total exports)



Export values of manufactured products (USD bn)

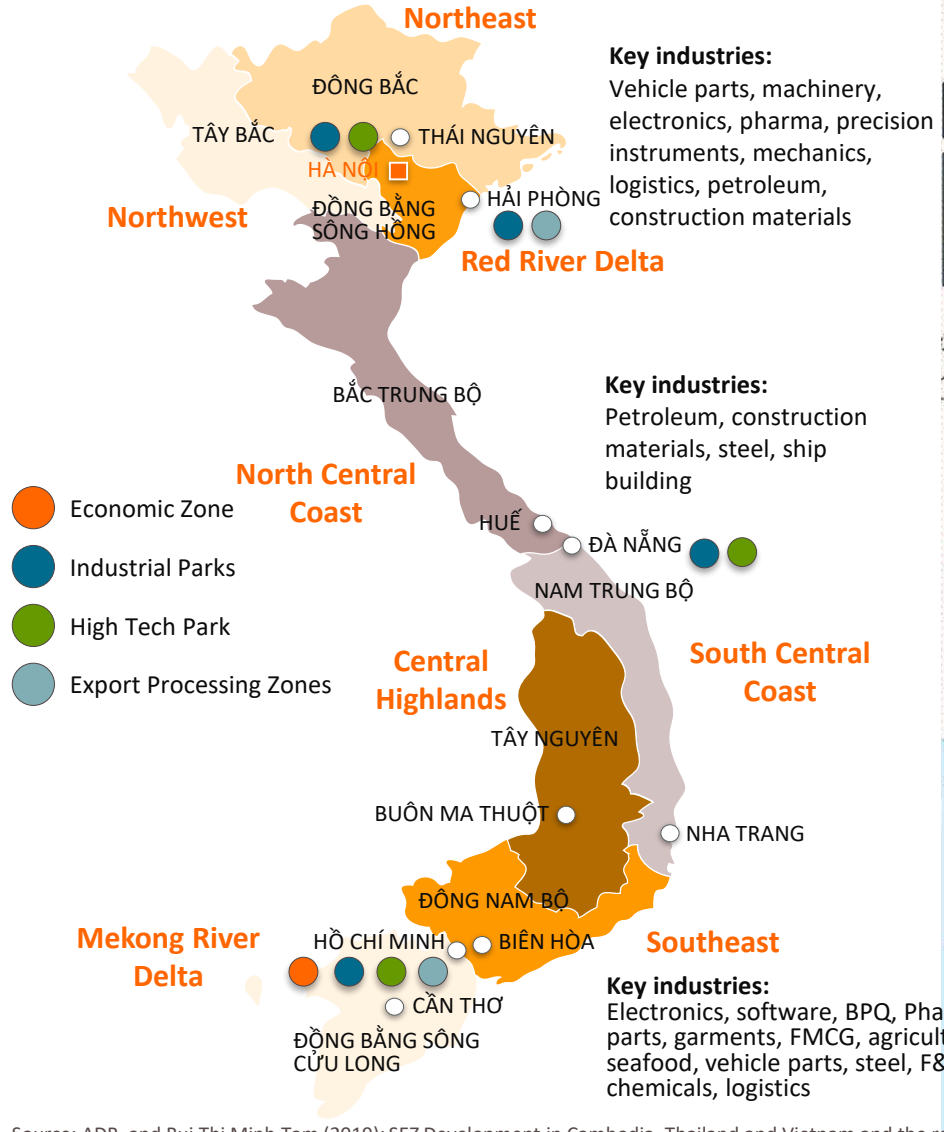


Employment by sector (% of total employment)



Source: CEIC

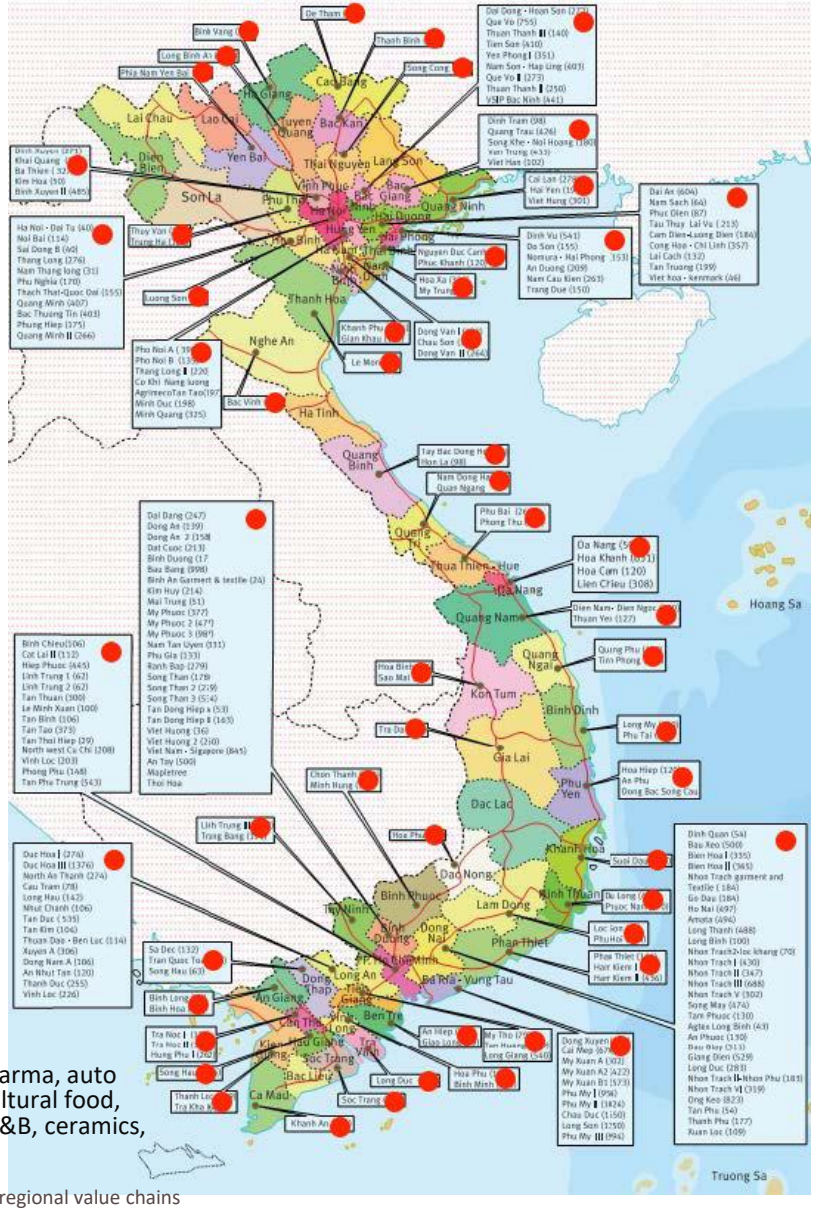
…and this would be buttressed by industrial zones located across the country



Key industries:
Vehicle parts, machinery, electronics, pharma, precision instruments, mechanics, logistics, petroleum, construction materials

Key industries:
Petroleum, construction materials, steel, ship building

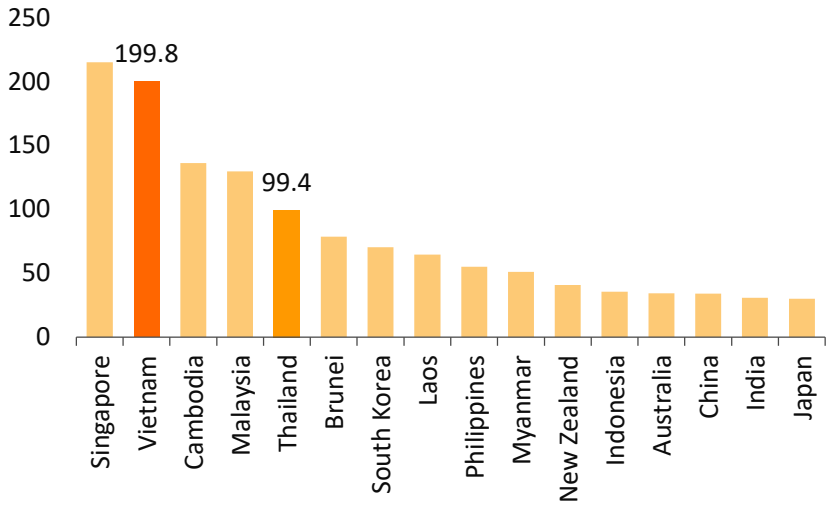
Key industries:
Electronics, software, BPQ, Pharma, auto parts, garments, FMCG, agricultural food, seafood, vehicle parts, steel, F&B, ceramics, chemicals, logistics



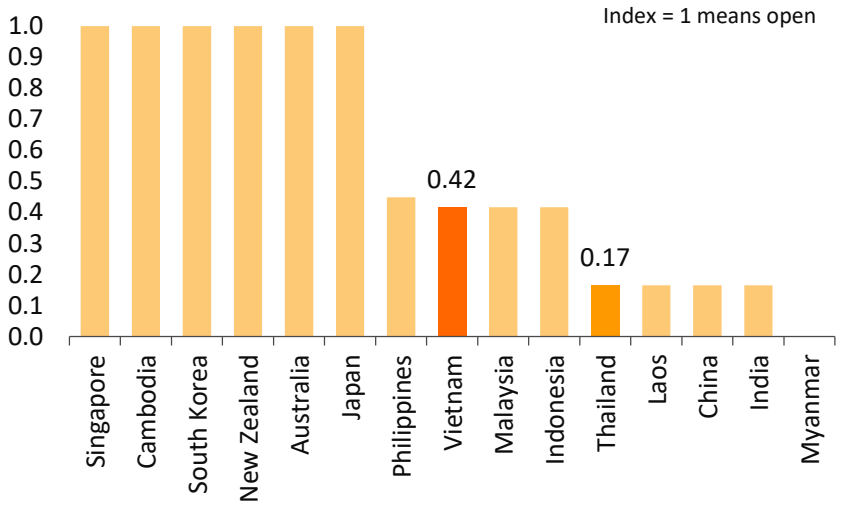
Source: ADB, and Bui Thi Minh Tam (2019): SEZ Development in Cambodia, Thailand and Vietnam and the regional value chains

Theme 4: *High openness* to trade and cross-border capital flows will continue

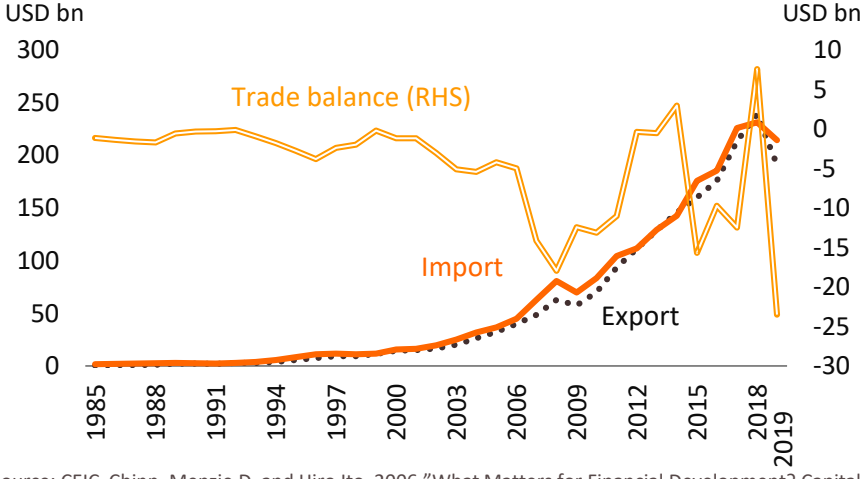
Openness to trade of ASEAN+3 economies (% of GDP, 2018)



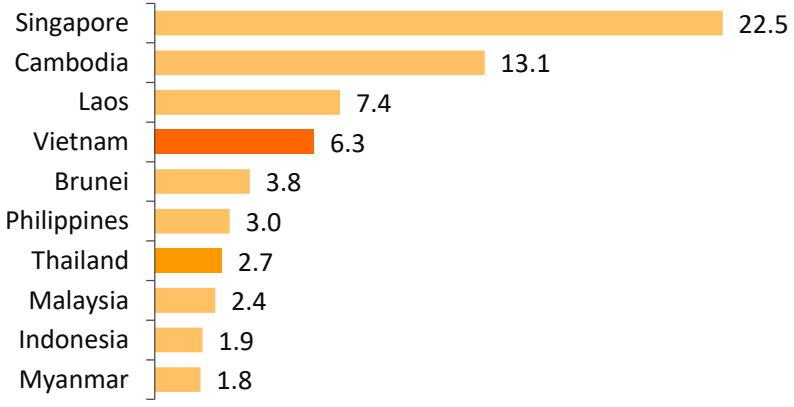
The Chinn-Ito Financial Openness Index



Vietnam trade balance (1985-2019)



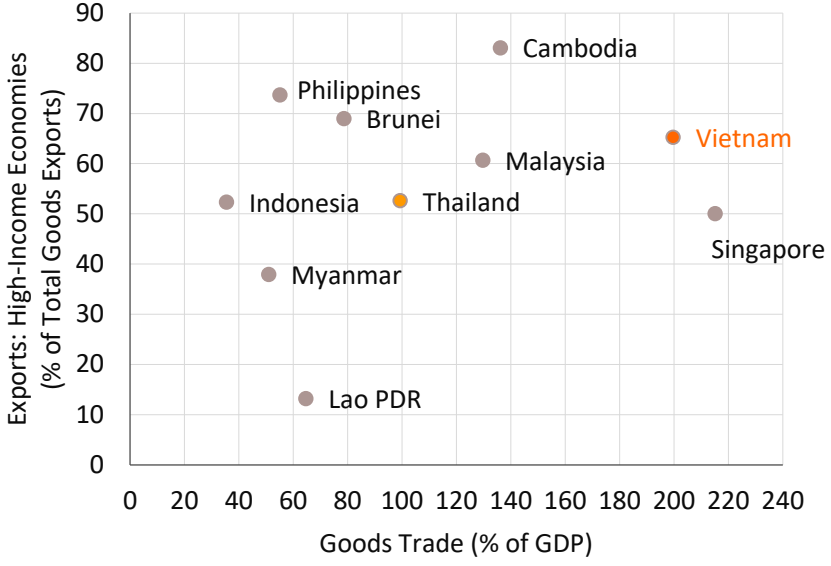
Foreign Direct Investment: Net Inflows (% of GDP, 2018)



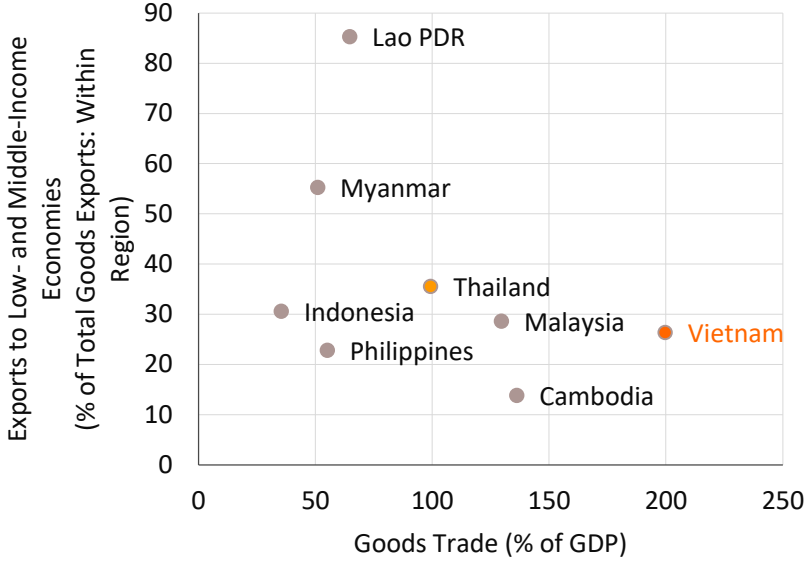
Source: CEIC, Chinn, Menzie D. and Hiro Ito. 2006."What Matters for Financial Development? Capital Controls, Institutions, and Interactions," Journal of Development Economics, Volume 81, Issue 1, Pages 163-192 (October).

Export-led growth exposes Vietnam to the global economy

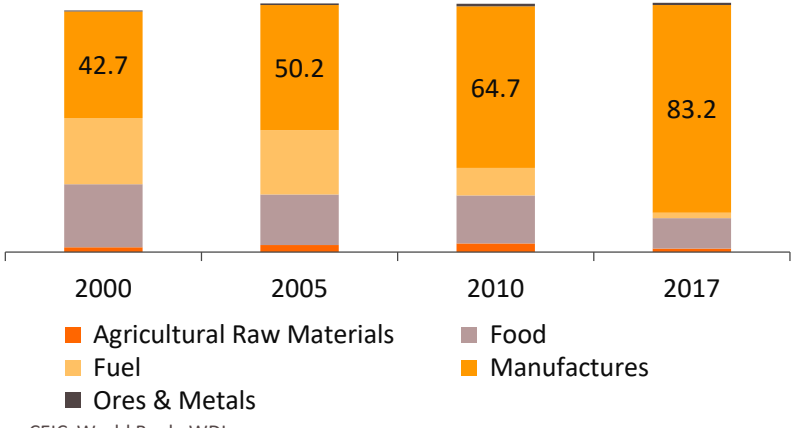
Exports to high-income countries of ASEAN countries



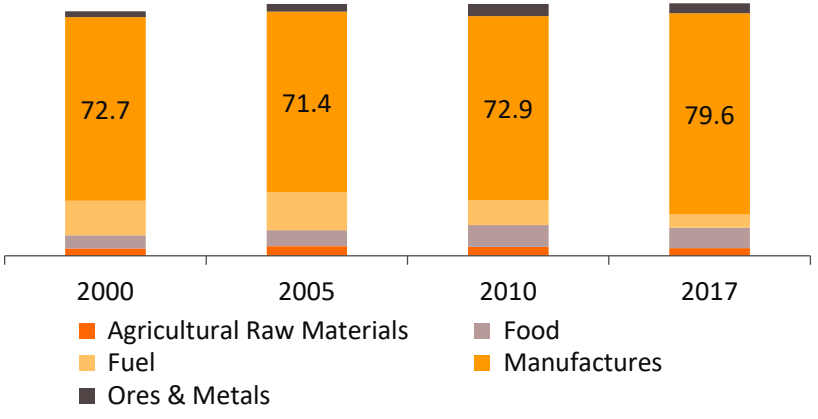
Exports to emerging markets of ASEAN countries



Types of exports (% of goods exports)



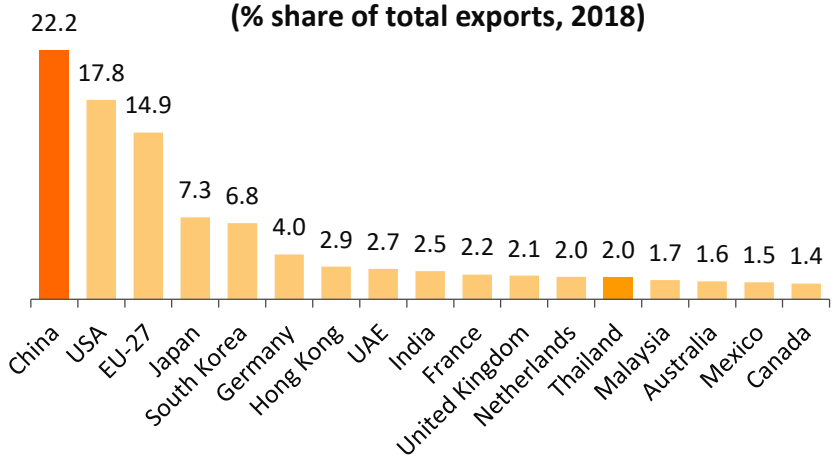
Types of imports (% of goods imports)



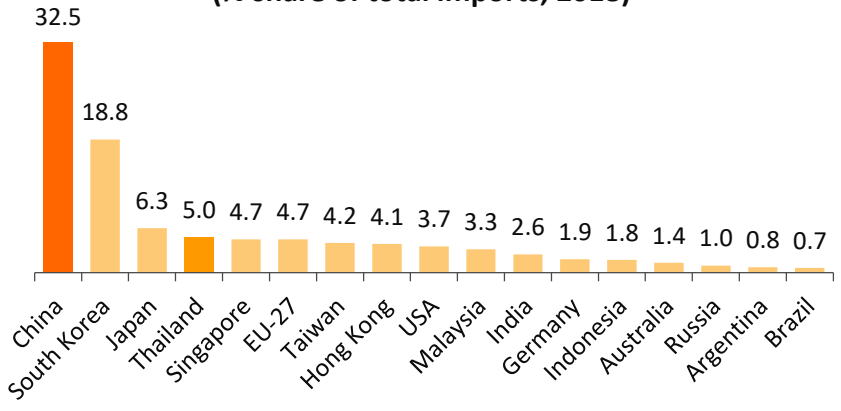
Source: CEIC, World Bank: WDI

China has become the largest trading partner

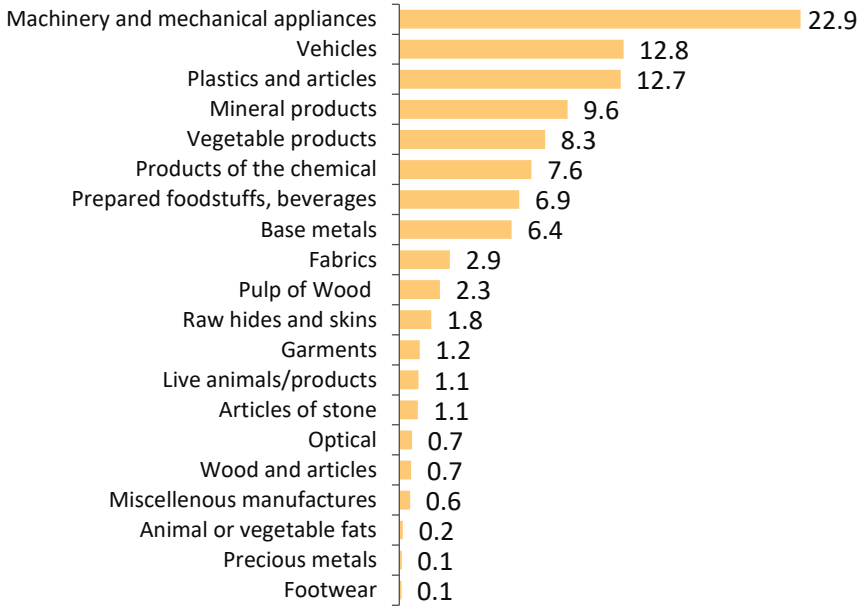
Major sources of Vietnam's exports (% share of total exports, 2018)



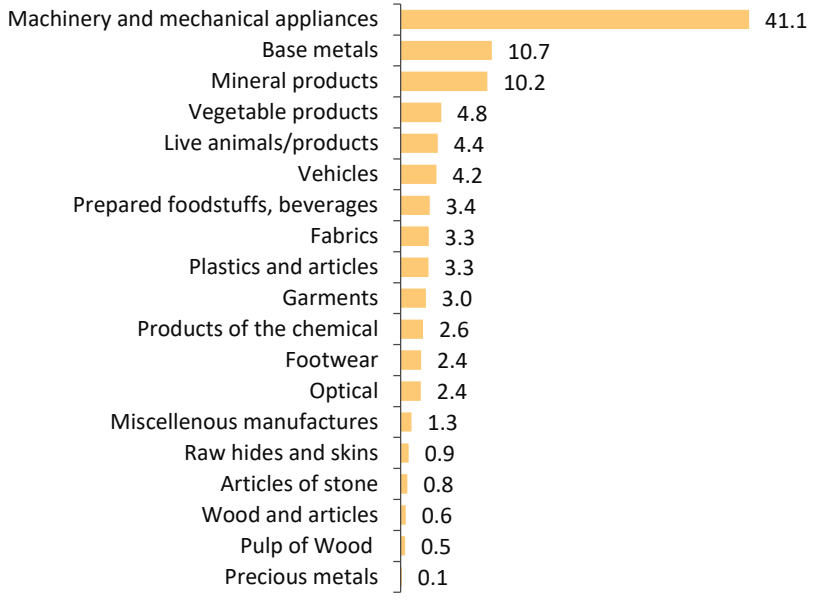
Major sources of Vietnam's imports (% share of total imports, 2018)



Major exports of Vietnam's (% share of total exports, 2018)



Major imports of Vietnam's (% share of total imports, 2018)



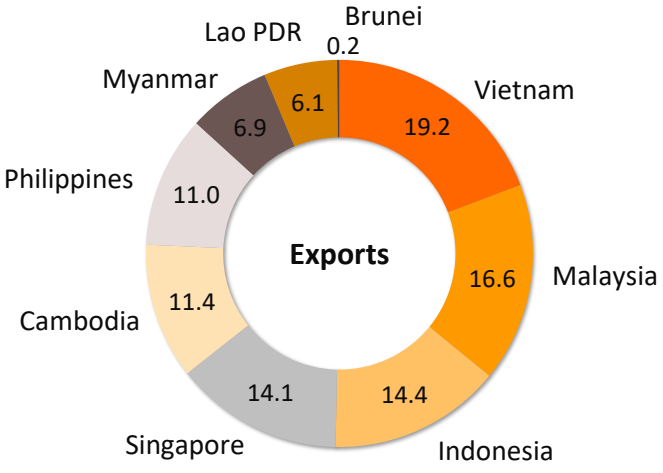
Source: Trade Map, CEIC, Krungsri Research

Vietnam is one of the key trading partner in ASEAN for Thailand

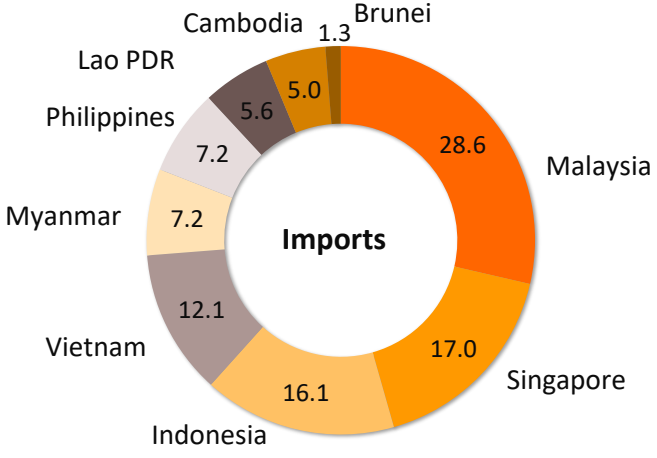
Thailand bilateral trade with Vietnam (USD bn)



Share of Thailand's export to ASEAN (%, 2019)



Shares of Thailand's import from ASEAN (% , 2019)



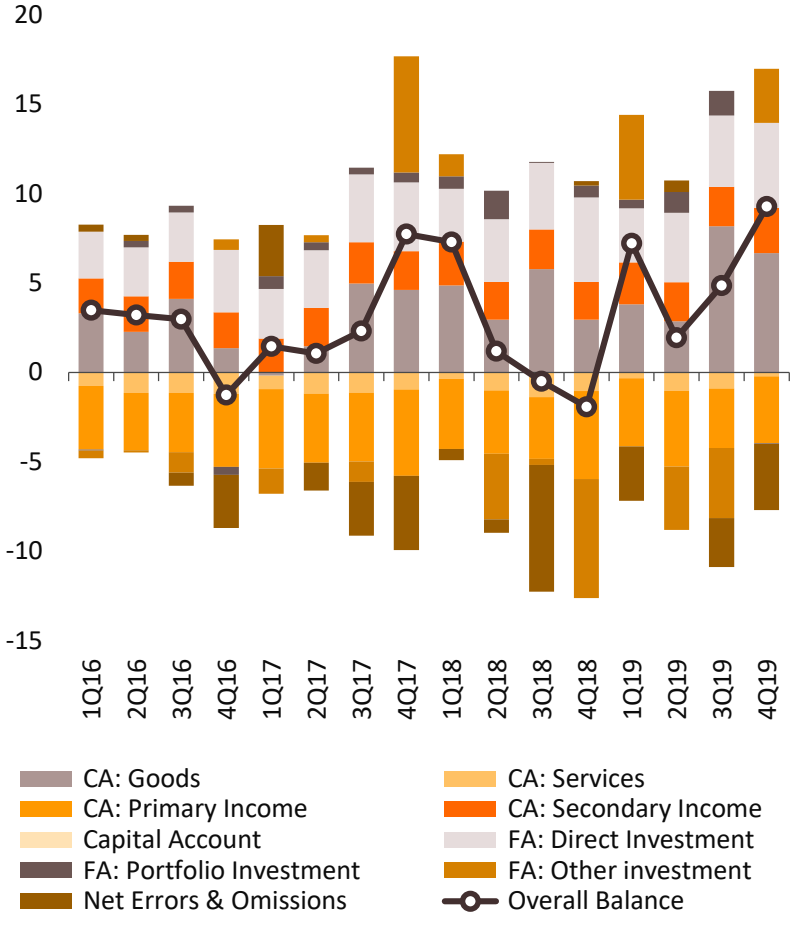
Major goods traded between Thailand and Vietnam (2019)

Major Thailand's exports to Vietnam	USD mn	Major Thailand's imports from Vietnam	USD mn
1. Motor cars, parts and accessories	1,854.9	1. Electrical household appliances	1,038.3
2. Fresh, frozen and dried fruits	836.8	2. Electrical machinery and parts	559.2
3. Polymers of ethylene, propylene, etc. in primary forms	835.1	3. Iron, steel and products	279.4
4. Chemical products	631.6	4. Crude oil	279.1
5. Air conditioning and accessories	568.4	5. Parts and accessories of vehicles	219.1

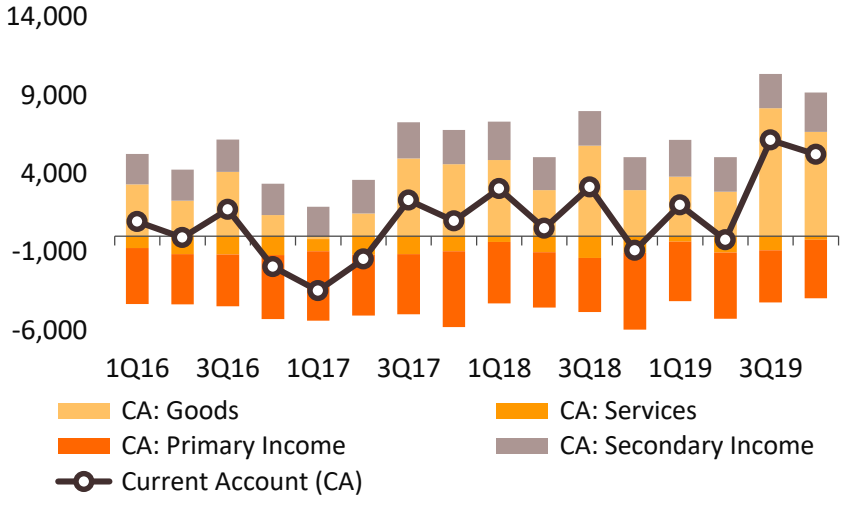
Source: CEIC, Thailand's Ministry of Commerce

External sector stability is rather resilient

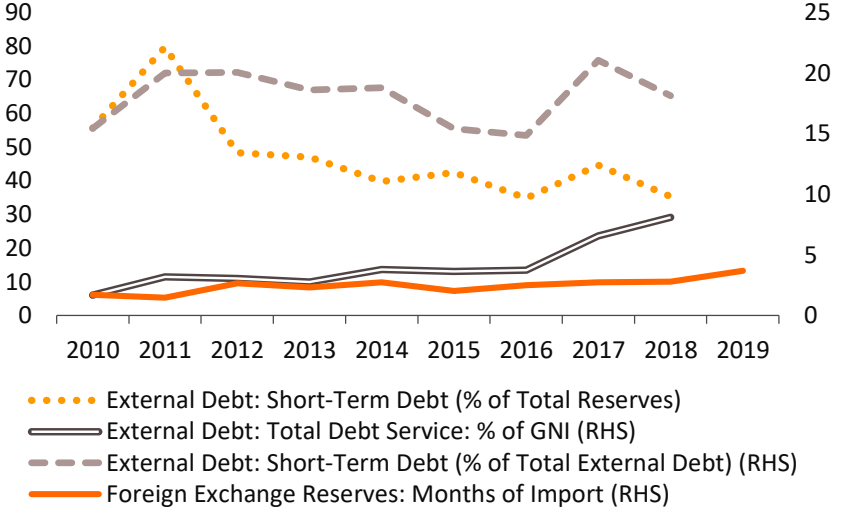
Balance of Payments (USD bn)



Current Account Balance (USD mn)



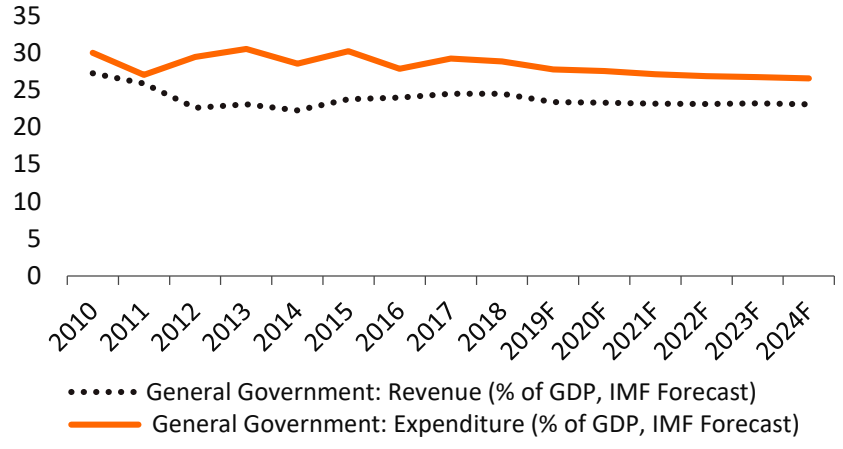
Some indicators for external stability



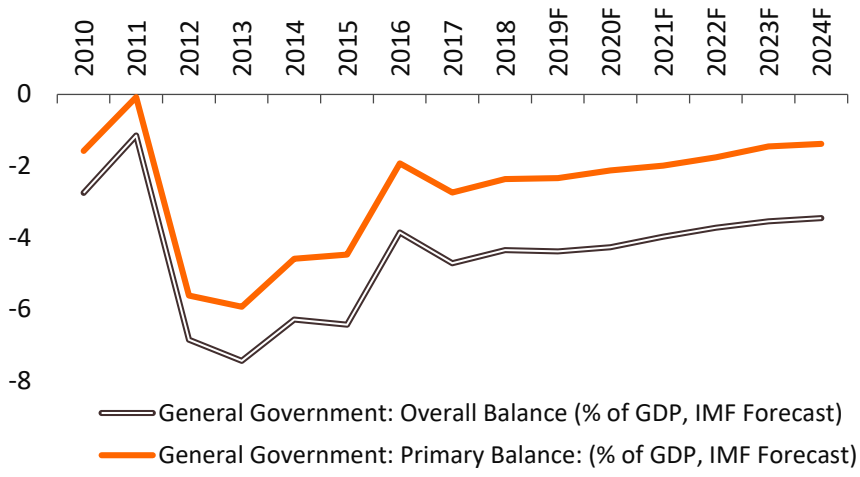
Source: CEIC

Public debt is relatively high which could limit roles of the fiscal policy to support the economy

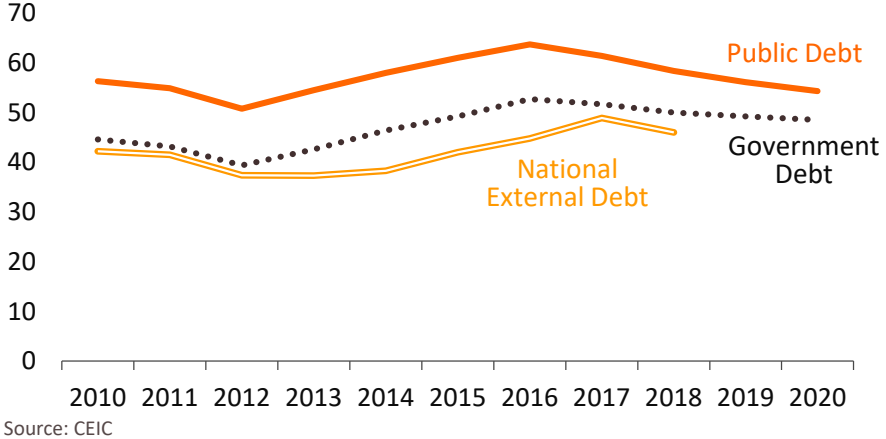
Government revenue and expenditure (% of GDP)



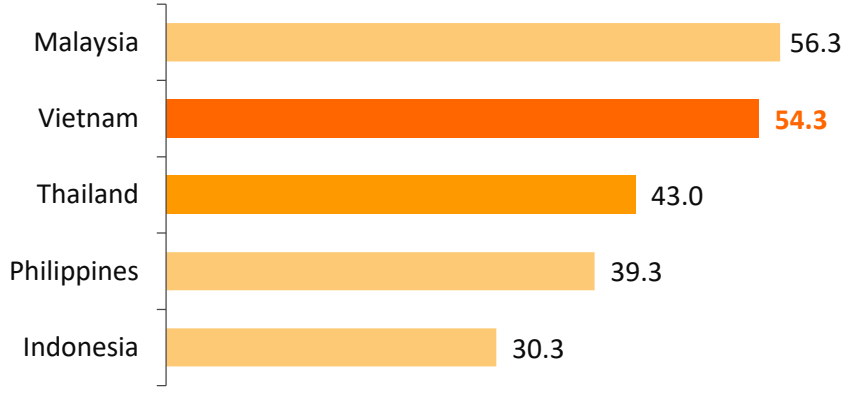
Share of Thailand's export to ASEAN (%, 2019)



Public Debt in Vietnam (% of GDP)



General Government Gross Debt in ASEAN-5 (% of GDP, 2019)



Source: CEIC

Sovereign debt ratings for Vietnam is below investment grade

Sovereign Debt by Country	Currency	S&P Rating	S&P Outlook	Moody's Rating	Moody's Outlook	Fitch Outlook	Fitch Rating
People's Republic of China	CNY	A+	Stable	A1	Stable	Stable	A+
Japan	JPY	A+u	Positive	A1	Stable	Stable	A
Commonwealth of Australia	AUD	AAAu	Negative	Aaa	Stable	Stable	AAA
Republic of Korea	KRW	AA	Stable	Aa2	Stable	Stable	AA-
Taiwan	TWD	AA-u	Stable	Aa3	Stable	Stable	
Republic of India	INR	BBB-u	Stable	Baa2	Negative	Stable	BBB-
Hong Kong Special Administrative Region	HKD	AA+	Stable	Aa3	Stable	Negative	AA
Republic of Singapore	SGD	AAAu	Stable	Aaa	Stable	Stable	AAA
Federation of Malaysia	MYR	A	Stable	A3	Stable	Negative	A-
Kingdom of Thailand	THB	A-	Positive	Baa1	Positive	Stable	BBB+
Republic of Indonesia	IDR	BBB	Negative	Baa2	Stable	Stable	BBB
Republic of the Philippines	PHP	BBB+	Stable	Baa2	Stable	Positive	BBB
Socialist Republic of Vietnam	VND	BB	Stable	Ba3	Negative	Stable	BB
New Zealand	NZD	AA+	Positive	Aaa	Stable		AA

Note: Data updated as of April 2020
Source: Bloomberg

Price stability is managed through the stabilized exchange rate management

Central Bank: The State Bank of Vietnam (SBV), structured as a ministry-level organization within the government.

Mandate of the SBV:

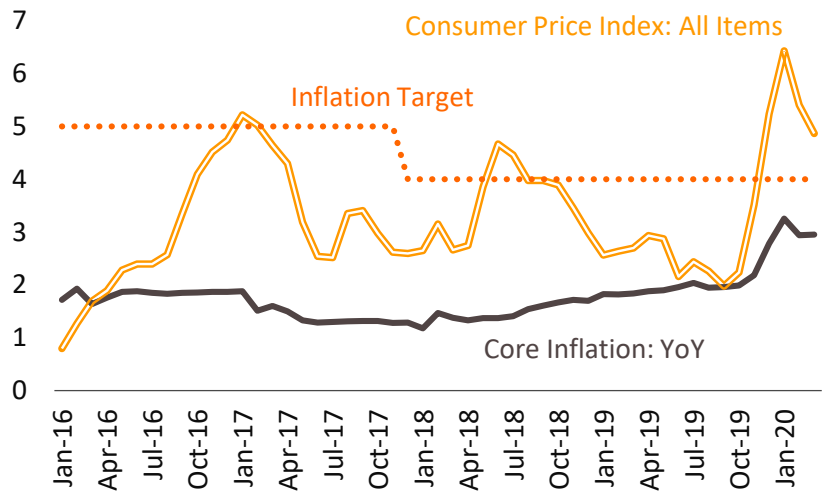
1) Maintaining price stability (Headline inflation kept below 4%)
2) Controlling stability of foreign exchange rate
3) Controlling credit growth of total system (below 14% in 2018)
4) Supervising and regulating the banking system

Monetary policy framework: The State Bank of Vietnam (SBV) sets 4% of inflation as a domestic nominal anchor and announces the target FX rate vis-à-vis US dollar as an external nominal anchor. On the horizon, the SBV is planning to adopt inflation targeting (IT).

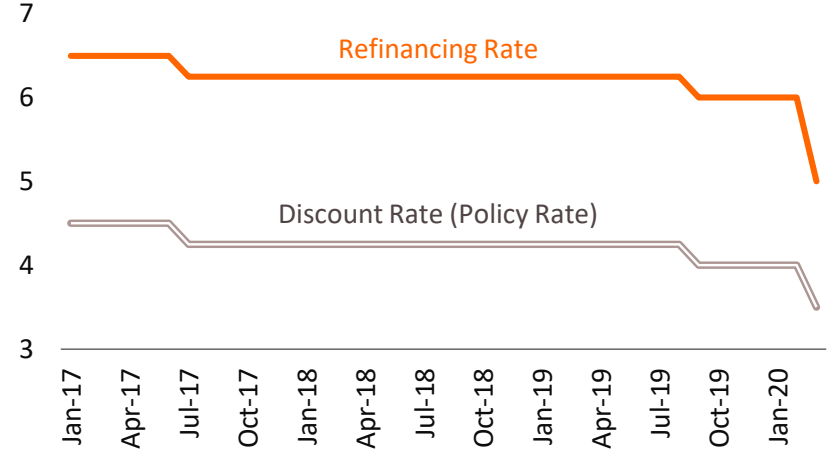
Exchange rate system: Managed floating system (de jure)

Banking Supervision Framework: The SBV is to adopt Basel II standards in 2020, which will support reforms and recapitalization of state-owned banks.

Headline and core inflation



Policy interest rate (or exchange rate?)



Source: IMF AREAER (2018), SBV, CEIC, Krungsri Research

VND/USD exchange rate is allowed to move within the band of +/-3%

Currency: Vietnamese dong (VND)

Exchange measures: No restrictions and/or multiple currency practices

Exchange rate system: The de jure exchange rate arrangement is a managed floating system and is determined by the SBV based on a currency basket of countries with trade, financing, and investment relationships with Vietnam, consistent with macroeconomic targets of each period. The dong-U.S. dollar exchange rate may fluctuate around the average interbank foreign currency market exchange rate within a daily transaction band of +/-3%. The de facto exchange rate arrangement is classified as a stabilized arrangement.

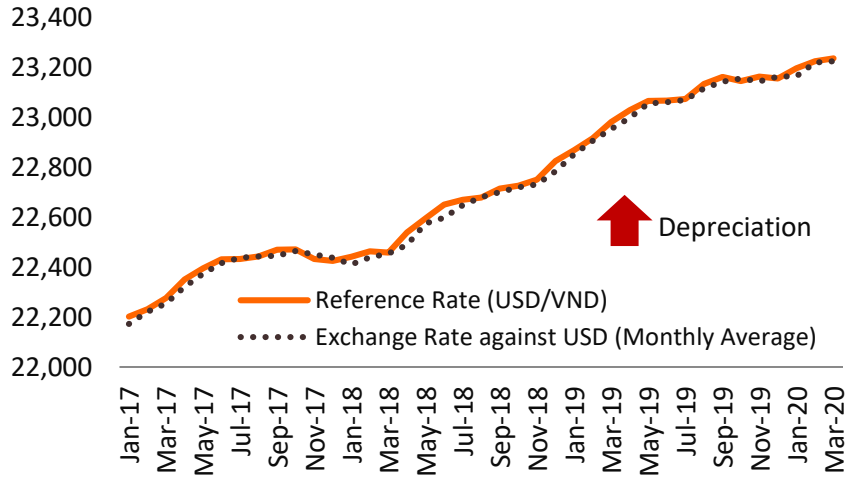
Official exchange rate: Dong-USD exchange rate may fluctuate around the average interbank foreign currency market exchange rate within a daily transaction band of +/-3%.

Use of foreign exchange among residents: Allowed subject to specific conditions

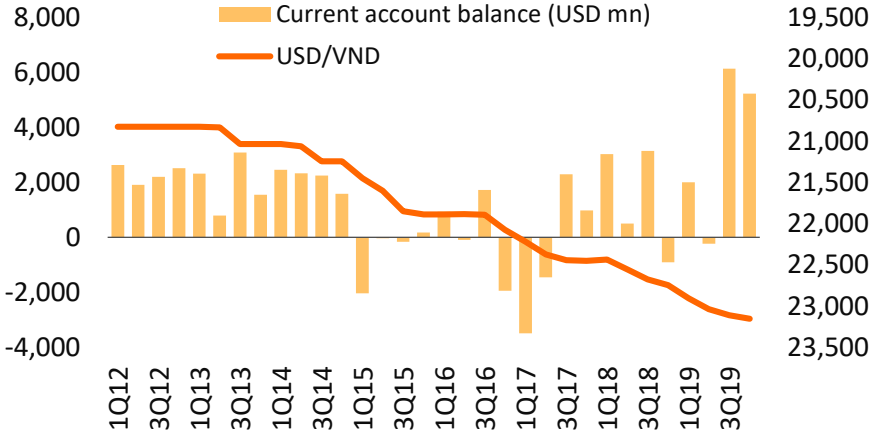
Foreign exchange market: The exchange rate band applies only to dong-USD transactions. Credit institutions (CIs) may set their own rates in transactions for all foreign currencies, except US. Ads may freely set their exchange rates in transactions with their clients within the dong-USD band.

Forward exchange market: The SBV permits authorized CIs to enter into dong and foreign currency forward and swap transactions with minimum maturities of 3-365 working days since the transaction day.

USD/VND exchange rate



USD/VND exchange rate and current account balance

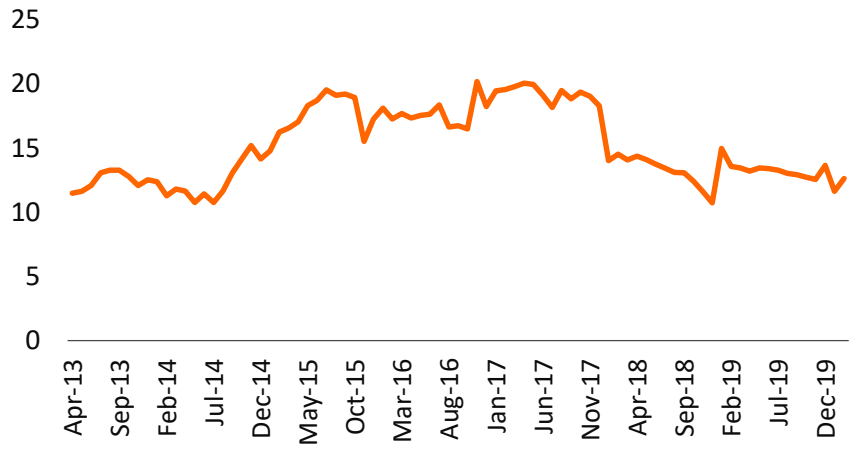


Source: IMF AREAER (2018), SBV, CEIC, Krungsri Research

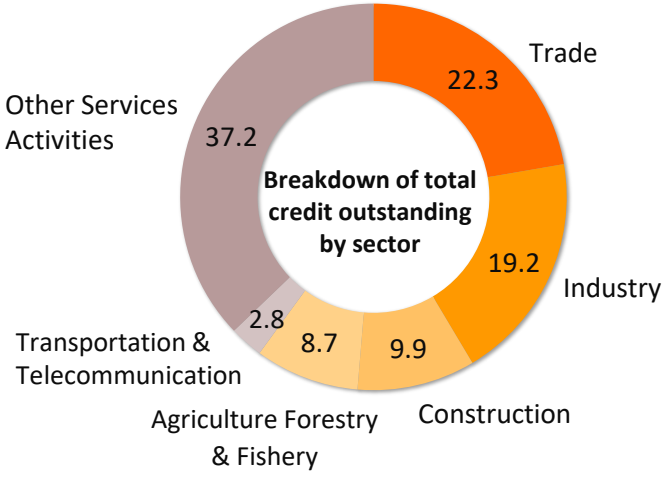
Banking sector plays crucial roles in supporting business

The SBV sets a credit growth annually for the entire financial system and different credit expansion targets for each credit institution in the country. Vietnam's banking system is dominated by the four-largest state-owned banks comprising (1) BIDV, (2) Vietinbank, (3) Vietcombank, and (4) Agribank. These banks account for around 45% of the total assets, 48% of loans, and 50% of deposit.

Credit growth (%YoY)



Total credit outstanding breakdown by industry (%, as of Feb 20)



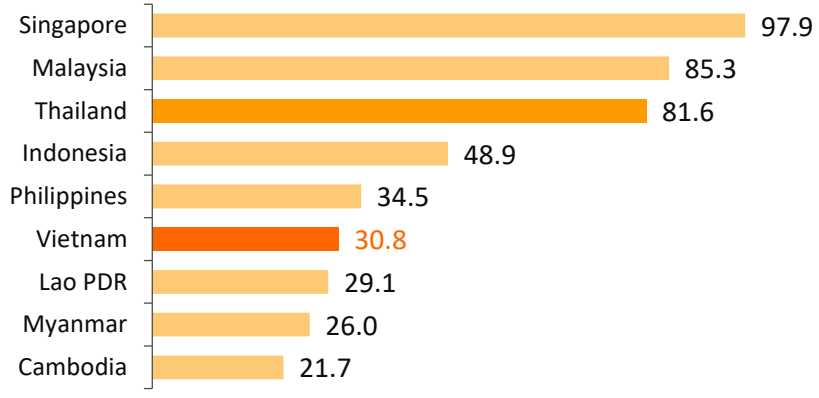
Top banks in Vietnam	Classification	Total assets	Loans	Total deposits	Net income (loss)
1. Bank for Investment and Development of Vietnam (BIDV)	State-owned	1,313,038	976,334	989,671	7,542
2. Vietnam Bank for Industry and Trade (Vietinbank)	State-owned	1,164,318	851,921	825,816	5,428
3. Vietnam Bank for Agriculture and Rural Development (Agribank)	State-owned	1,152,904	864,461	1,007,694	3,931
4. Bank for Foreign Trade of Vietnam (Vietcombank)	State-owned	1,072,983	622,358	802,223	14,658
5. Saigon Commercial Bank (SCB)	Joint-stock	508,954	299,174	384,914	229
6. Sai Gon Thuong Tin Commercial Bank (Sacombank)	Joint-stock	406,041	253,100	349,197	1,790
7. Military Commercial Bank (MB)	Joint-stock	362,325	209,175	239,964	6,190
8. Asia Commercial Bank (ACB)	Joint-stock	329,333	227,983	269,999	5,137
9. Vietnam Development Bank	Policy bank	325,116	289,604	3,463	-491
10. Saigon-Hanoi Commercial Bank (SHB)	Joint-stock	323,339	214,001	225,226	1,666

Unit: VND bn, data as of end of 2018

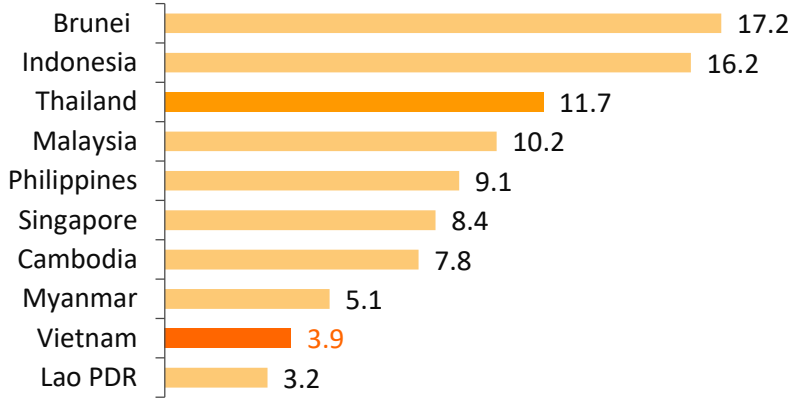
Source: EMIS, EIU - Industry Reports, CEIC, compiled by Krungsri Research

Low-banking penetration against a backdrop of mobile usage provide opportunities for fintech and mobile-led financial services to flourish

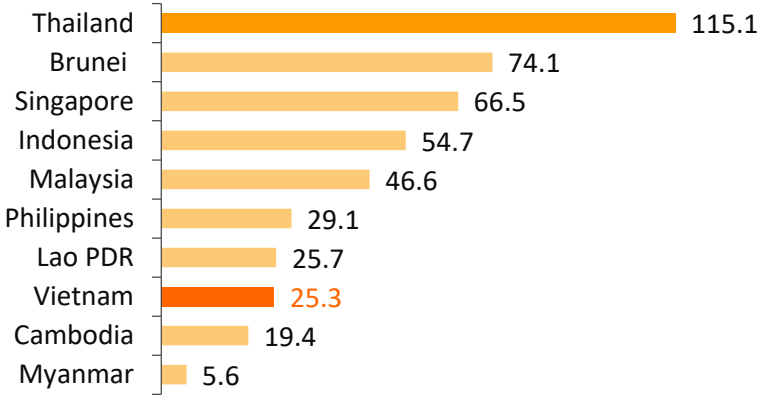
Account ownership at a financial institution or with a mobile-money-service provider (% of population ages 15+, as of 2017)



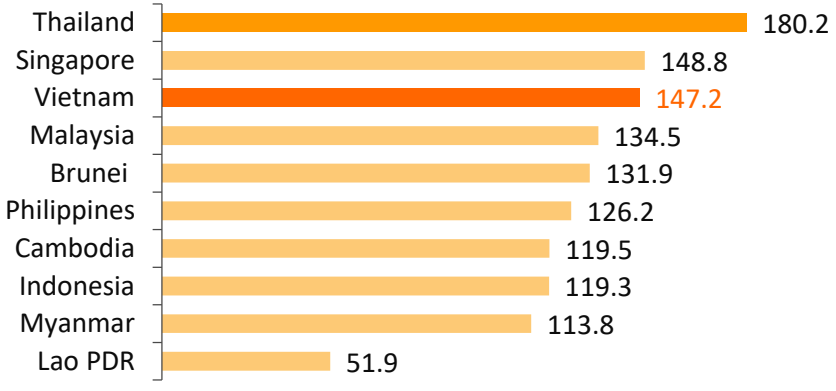
Commercial bank branches (per 100,000 adults, as of 2018)



Automated teller machines (ATMs) (per 100,000 adults, as of 2018)



Mobile cellular subscriptions (per 100 people, as of 2018)



Source: CEIC, World Bank: WDI

Potential industries for Thai investment in Vietnam

Against the backdrop of rapid economic expansion compared to regional peers over the long term, we view that there are business opportunities for Thai investors to ride the wave of Vietnam's high growth potential. Potential industries in our mind that should offer market opportunities are:



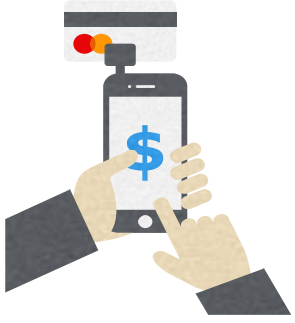
1. Modern Agriculture



2. Manufacturing



3. Tourism



4. E-commerce

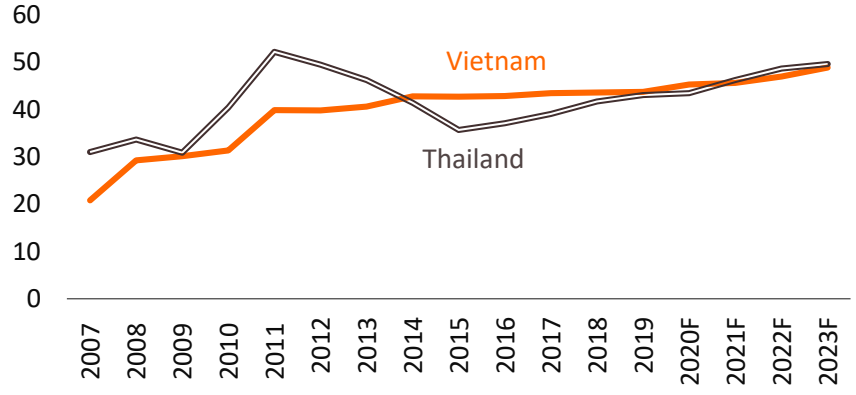


5. Pharma

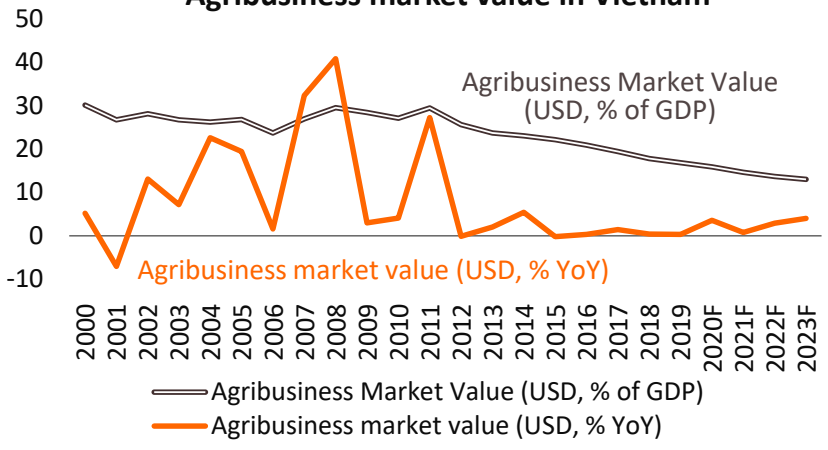
Modern agriculture and food: Sizeable domestic demand is expected to bolster growth

We are optimistic that the modern agriculture and food in Vietnam will grow relatively strong supported by sizeable domestic demand. It is expected agribusiness market value in Vietnam will reach USD48.9bn which is comparable to that of Thailand at USD49.7bn in 2023. In addition, we further expect FDI inflows to the sector over the medium term as result of free trade agreements.

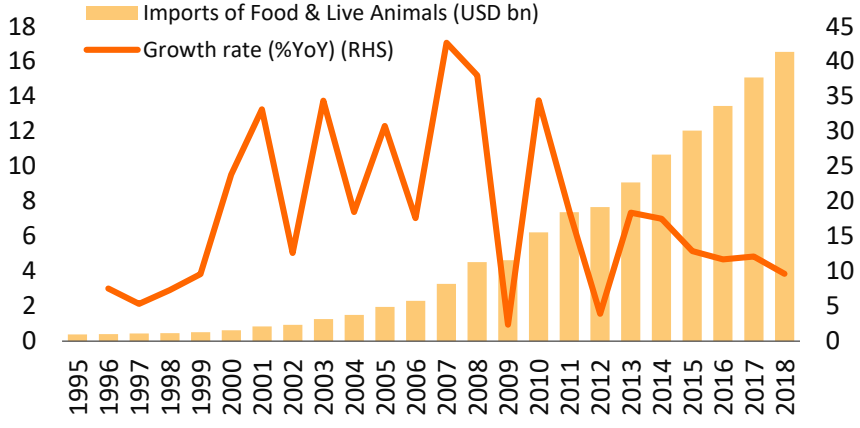
Agribusiness market value (USD bn) in Vietnam and Thailand



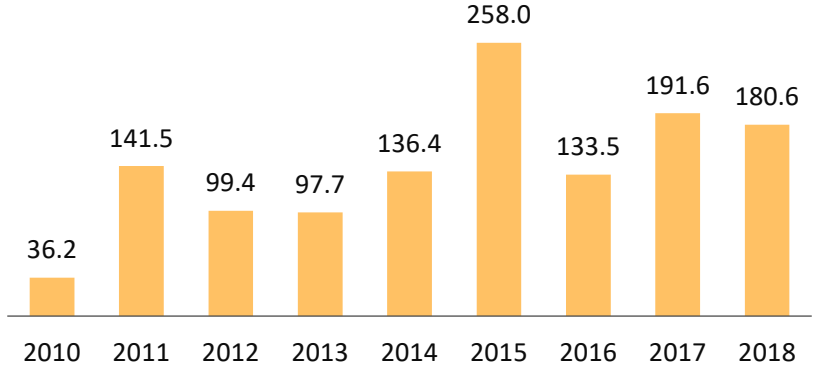
Agribusiness market value in Vietnam



Vietnam's imports of food and live animals



FDI (Registered Capital) for Agriculture, Forestry & Fishery (USD mn)

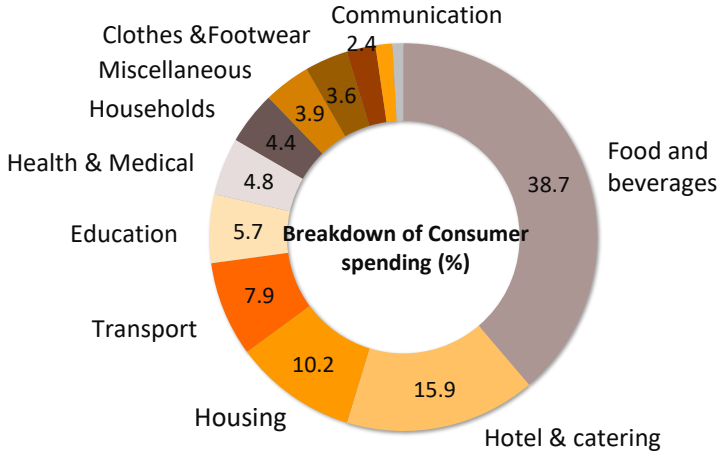


Source: EMIS, CEIC

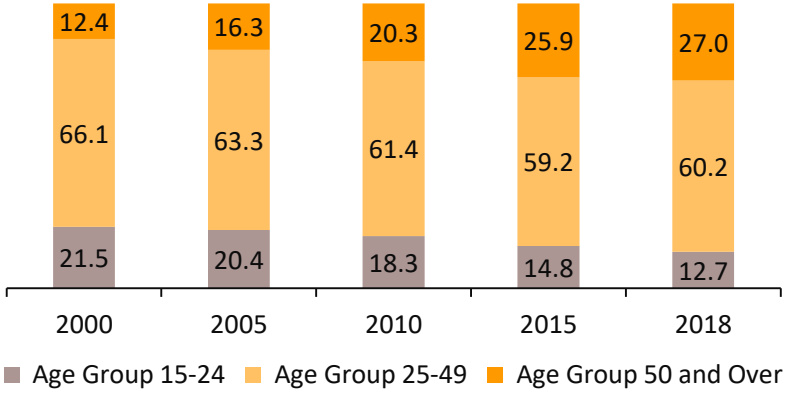
Consumer goods: Sales will rise along with higher consumer income

Market opportunities for consumer goods are expected to be driven not only by growing domestic demand as Vietnamese are becoming more affluent, but also by an increase in a number of inbound tourist arrivals.

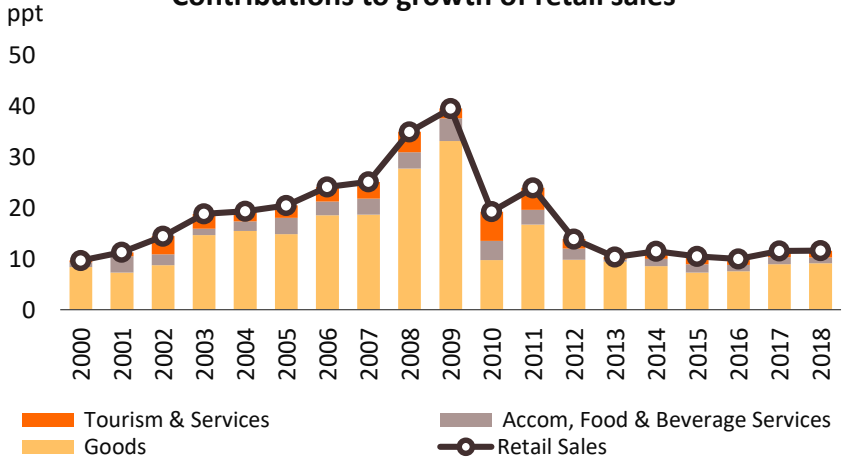
Breakdown of consumer spending (% share, 2018)



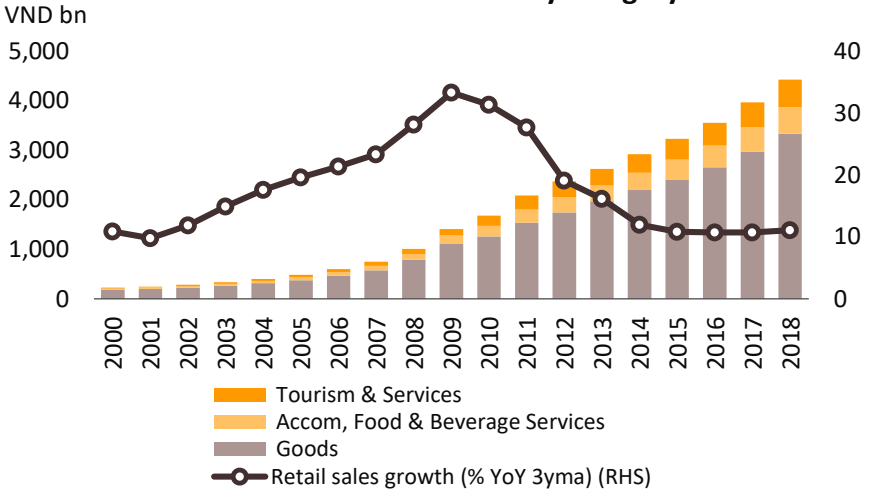
Labor force by age group (% of total labor force)



Contributions to growth of retail sales



Breakdown of retail sales by category

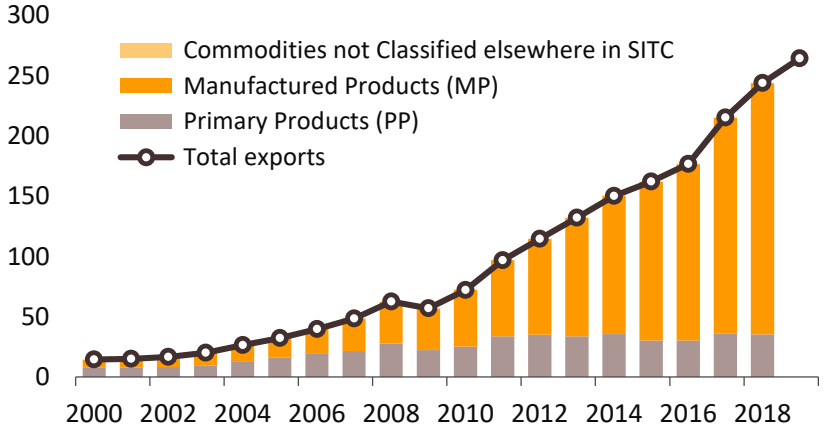


Source: Euromonitor, CEIC, Krungsri Research

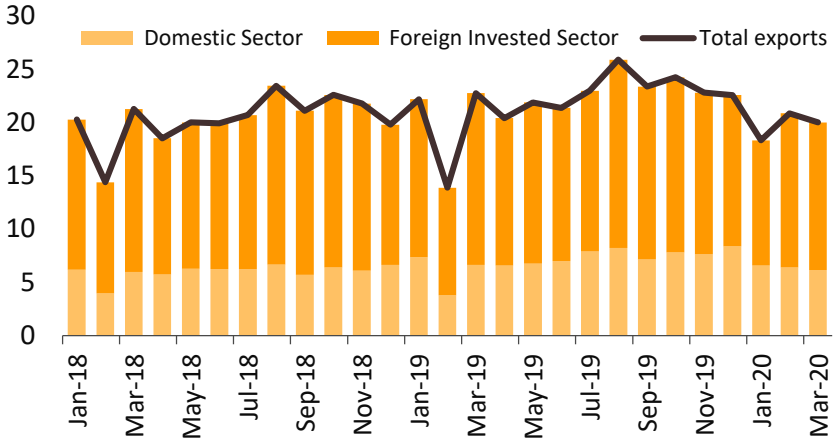
Manufacturing sector: FTAs will be a key driver

In the medium term, we expect FDI-driven manufacturing activities to continuously expand as a result of FTAs including the EVFTA and CPTTP attracting more foreign firms to invest more in the country coupled with the relocation of labor-intensive industries out of China. Hence, in our view, this would increase Vietnam's attractiveness as a new manufacturing hub turning the country to be mini China on the horizon.

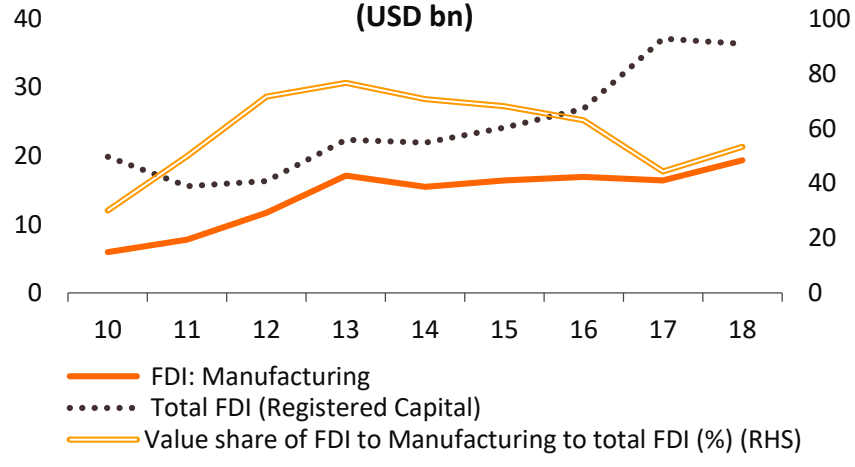
Vietnam's exports by major product (USD bn)



Vietnam's export value by domestic sector and foreign invested sector (USD bn)



Annual FDI to manufacturing during 2010-18 (USD bn)



Labor force by age group (% of total labor force)

Top province for FDI inflows	USD bn (2018)	Share (%)
1. Lam Dong	13.7	37.8
2. Ha Noi	7.5	20.8
3. Ba Ria - Vung Tau	6.2	17.2
4. Hoa Binh	3.7	10.1
5. Hai Phong	3.1	8.6
6. Ho Chi Minh City	2.6	7.1
7. Tay Ninh	2.4	6.6
8. Dong Nai	2.3	6.3
9. Binh Duong	1.5	4.1
10. Quang Tri	1.3	3.5

Source: EMIS, CEIC

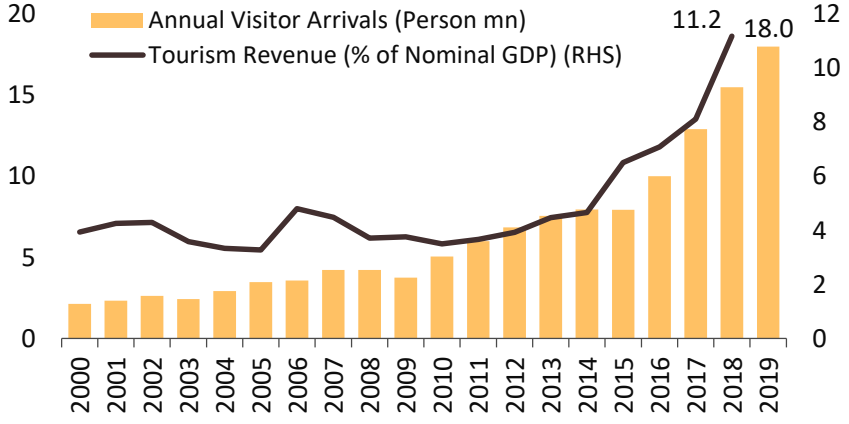
Tourism: Vietnam is emerging as a new destination

Vietnam has recently experienced booms in tourism as there is a surge in the number of inbound tourists, especially Chinese and Korean. Compared to regional peers, the tourism sector has sizeable room to grow in the long term as tourism revenue (% of GDP) remains much lower to that of peers, especially Thailand and Cambodia. Therefore, looking ahead, Vietnam tourism sector offers market opportunities for Thai investors as Thailand has a relatively strong competitiveness in the tourism and hospitality industry.

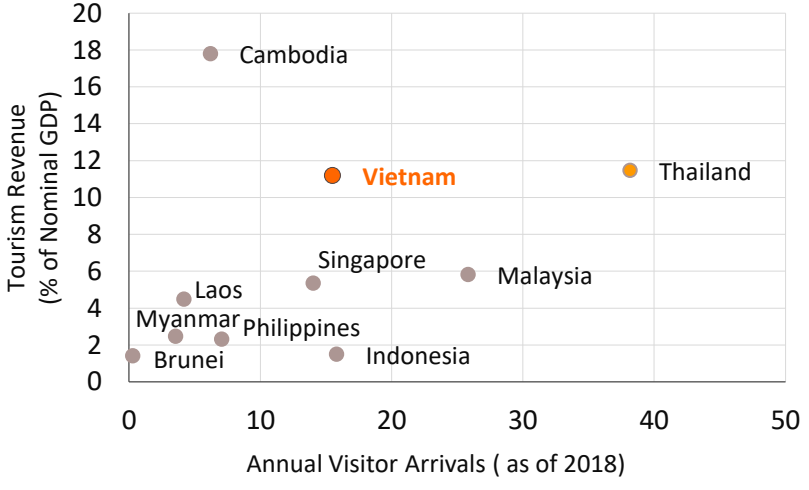
Some of the major tourist attractions in Vietnam and airline connections between Thailand and Vietnam



Vietnam annual tourism revenue and tourist arrivals



Tourism revenue and tourist arrivals in ASEAN countries (2018)

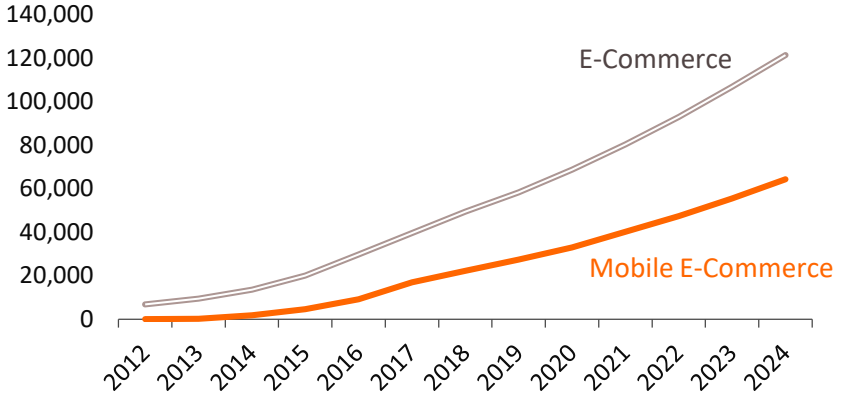


Source: CEIC, and various sources compiled by Krungsri Research

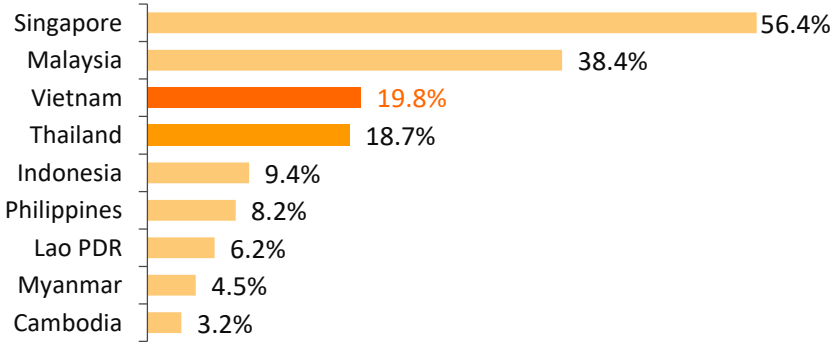
E-commerce: potential growth lies behind rising digitally connected consumers

The e-commerce sector in Vietnam should offer market opportunities for Thai investors as the country is enjoying the boom of online business and Vietnamese consumers have become more digitally connected. E-commerce sees 18% current value growth in 2019 and will reach VND121.5 trillion in 2024. In addition, the government is seeking to create more favorable conditions for the development of e-commerce and the promotion of cashless society. The e-commerce market size is expected to see a 16% current value CAGR (11% at constant 2019 prices) over 2019-2024.

E-commerce market size (VND bn)

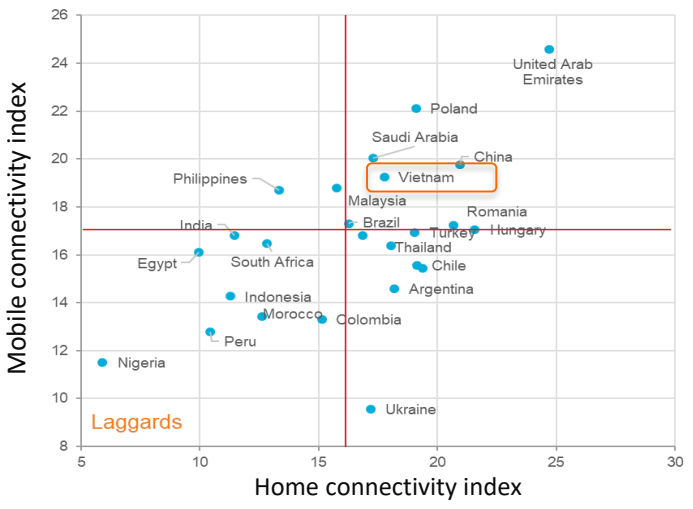


Used the internet to pay bills or to buy something online in the past year, male (% age 15+)

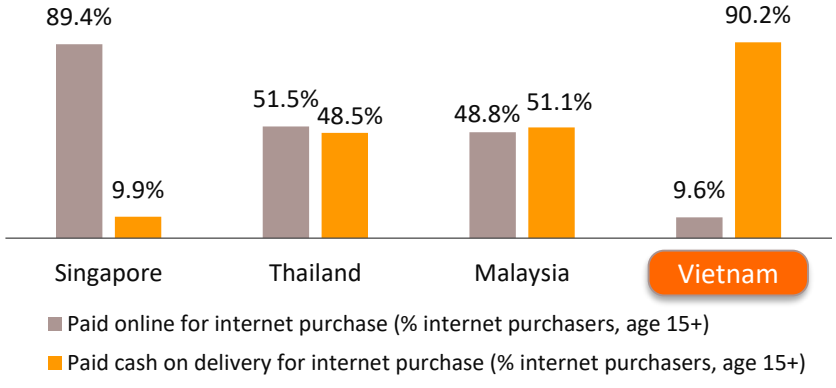


Source: Euromonitor, CEIC, World Bank Findex Database

Individual Emerging Markets vs Emerging Market Current Score Average



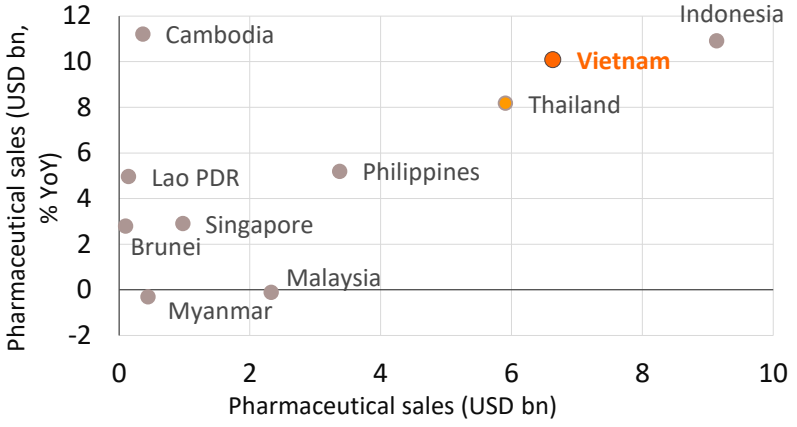
Payment behavior of Vietnamese consumers



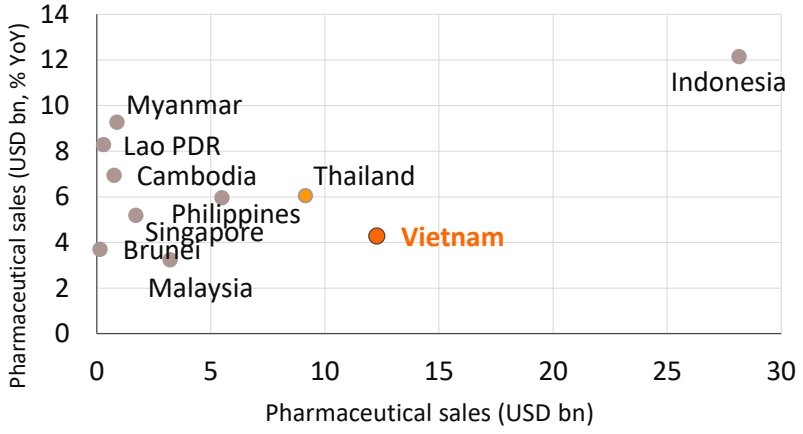
Pharma sector: growth is to be driven by macro-socioeconomic trends

Vietnam is the second largest pharma market in ASEAN after Indonesia, with the market size (measured by pharma sales) of USD6.6bn (data as of 2019). Looking ahead, market opportunities are expected to be driven by higher consumer income, aging population, rising private health insurance, and a government policy to promote universal health coverage (UHC).

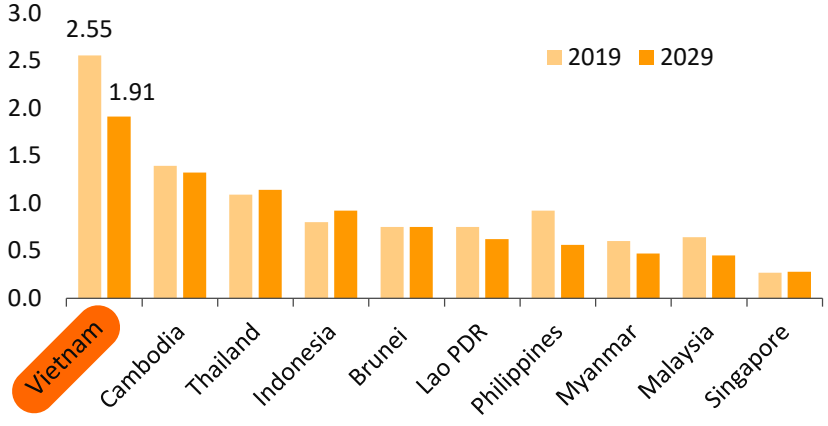
Pharmaceutical sales (USD bn, 2019)



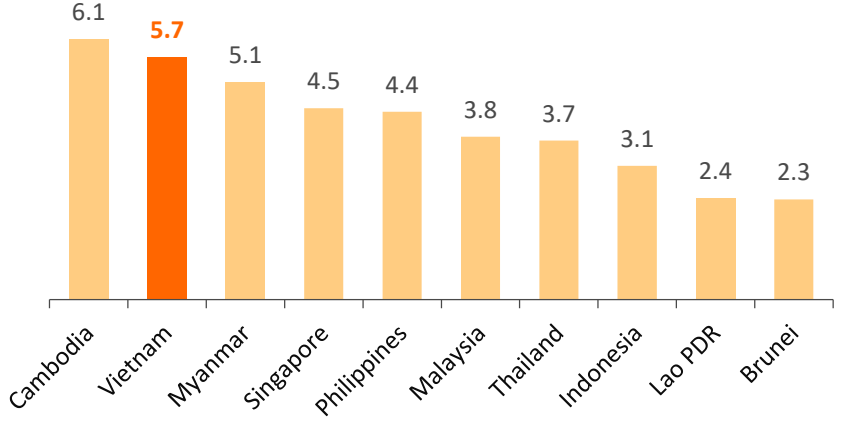
Pharmaceutical sales (USD bn, 2029)



Pharmaceutical sales (% of GDP)



Current health expenditure (% of GDP, as of 2016)



Source: World Bank: WDI, BMI, Krungsri Research

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