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VIETNAM

INVESTMENT HANDBOOK

May 2021



Krungsri Research

Executive Summary: Vietnam is likely to recover from the COVID-19 pandemic faster than regional peers and growth should rebound to its annual rate of 6.0-7.0% in the medium to longer term



Vietnam was among few countries globally managing to achieve positive economic growth in 2020 against the backdrop of the COVID-19 pandemic. While growth rate was only 2.9% in 2020, in the medium to longer term, **Vietnam's economy is expected to rebound and continue its high potential trajectory of 6.0%-7.0% p.a.** This will be boosted by a gradual economic recovery of its major export markets, particularly the US, and sustained FDI inflows driving the export-oriented manufacturing sector, as well as robust domestic demand. However, downside risks to growth remain, especially the resurgence of the COVID-19 pandemic.



In this edition, we focus on long-term business opportunities arising from consumption booms in Vietnam. By 2030, the country will enjoy growing domestic consumption activities supported by (1) favorable demographic structure, (2) rising income levels, (3) faster digital adoption, and (4) regionalization. This would be a favorable backdrop of the internet economy, in particular e-commerce, to flourish. Within the e-commerce ecosystem, ample business opportunities arise for local and foreign investors, not only online businesses but also supporting activities such as logistics and financial services, particularly online payments.

Vietnam: An overview

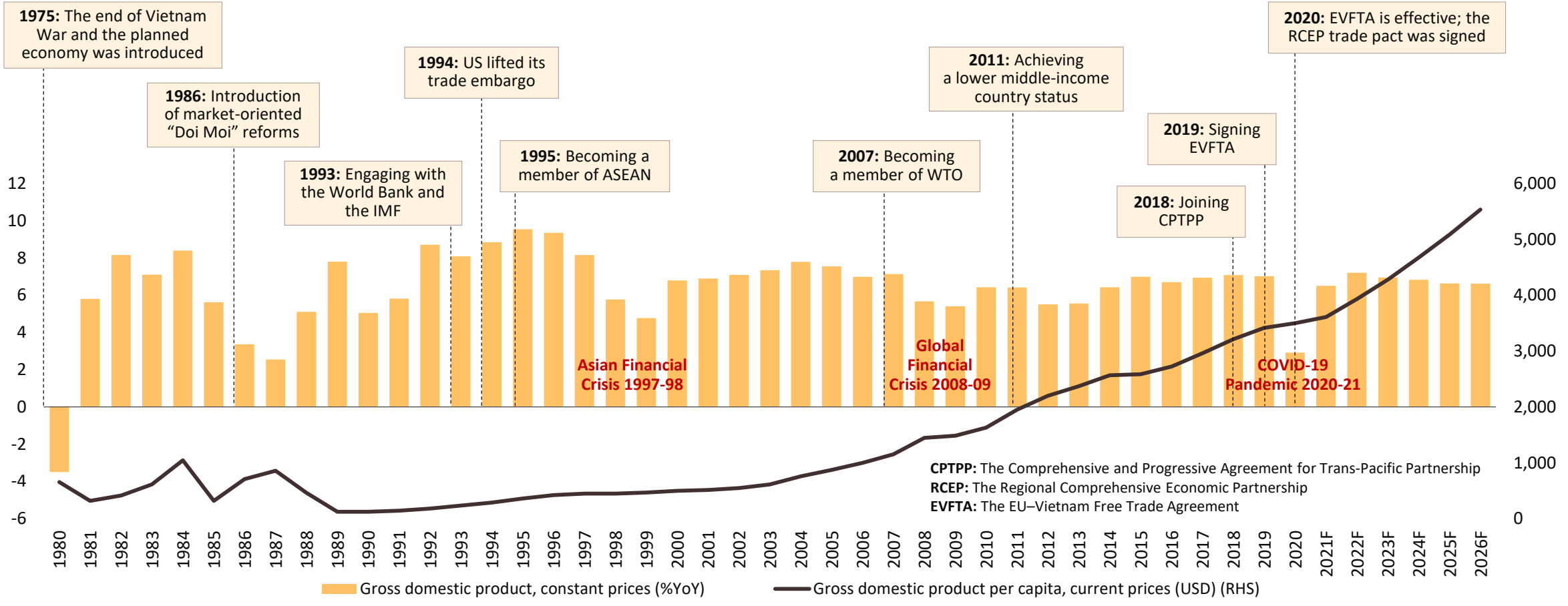


Official name	Socialist Republic of Vietnam
Form of State	One-party rule
Economic system	Socialist-oriented market economy
Land area (sq. km)	331,051 sq. km
Local government	58 provinces and 5 municipalities with fiscal decentralization
Total population (person)	98,721,275 (July 2020 est.)
Climate	Tropical 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 (Nominal GDP) (2020)	USD271.2bn (the 27th largest economy in 2020 based GDP PPP vs. Thailand as the 23rd)
GNI per capita (2010 price)	USD1,952.64 (2019) (lower middle-income country)
GDP - composition, by sector (2020)	Agriculture: 13.6% Industry: 36.6% Services: 38.7%
Agricultural products	Rice, coffee, rubber, tea, pepper, soybeans, cashews, sugar cane, peanuts, bananas; pork; poultry; seafood
Industries	Consumer electronics, garments and footwears, food processing, machine-building; mining, coal, steel, cement, chemical fertilizer, glass, tires, oil, mobile phones
Labor force	55.8 million (2019)
Labor force - by occupation (2019)	Agriculture: 35.4% Industry & Construction: 30.1% Services: 35.4%
Major export partners	US, China, European Union (EU), Japan, South Korea
Major import partner	China, South Korea, Japan, Taiwan, EU
Main exports	Consumer electronics, machinery and mechanical appliances, garments and footwears
Main imports	Electronics, fuels, fabrics, plastics, chemical products
Major sources of FDI	South Korea, Japan, Singapore, EU, China

Source: CEIC, IMF World Economic Outlook Database (April 2021), CIA Factbook compiled by Krungsri Research

Vietnam has enjoyed prolonged periods of high economic growth and it aims to become a high-income developed country by 2045

Following its first grand market-orient reforms known as the Doi Moi in 1986, the agriculture-based and relatively closed economy has been transformed to become FDI-driven manufacturing and export-oriented. As a result, the country has enjoyed sustained periods of high economic growth and achieved the lower middle-income status in 2011. And, in 2019, the GNI per capita reached USD1,952.64 (2010 price), according to the World Bank. On the back of trade liberalization and economic modernization, this development has paved the way for Vietnam's sizeable domestic market to flourish.



Source: CEIC, Krungsri Research

Medium-term macro forecasts: High growth will continue

Indicators (% of GDP, otherwise indicated)	2018	2019	2020	2021F	2022F	2023F
Real GDP (%YoY)	7.1	7.0	**2.9**	6.5	7.2	7.0
CPI (end-period, 2012 = 100)	3.0	5.2	0.2	3.7	4.0	4.0
Net lending (+)/borrowing (-)	-1.0	-3.3	-5.4	-4.7	-4.4	-4.1
Domestic public debt	43.6	43.4	46.6	47.1	46.9	46.6
Credit to the economy	105.4	108.8	117.9	121.4	…	…
Current account balance	1.9	3.8	2.2	2.3	1.6	0.4
Trade balance	2.8	4.2	7.0	…	…	…
Capital and financial account	2.8	5.8	2.6	2.9	2.9	3.0
Overall balance	2.5	8.9	…	…	…	…
Gross International reserves						
In billions of USD	55.3	78.5	94.8	113.7	131.9	146.9
In months of prospective GNFS imports	2.5	3.5	3.7	4.1	4.3	4.4
Total external debt (USD bn)	110.0	122.5	129.3	139.6	150.8	163.3
Total external debt	36.4	37.1	38.5	38.6	38.0	37.5
Official exchange rate (VND/USD, end of period)	22,825	23,155	23,131	23100	23100	23100
Nominal GDP (VND trillions)	6,998	7,654	7,912	8,630	9,630	10,744
Nominal GDP (USD bn)	304.0	329.5	340.8	364.1	400.2	438.9
Per capita (in USD)	3,182	3,416	3,500	3,704	4,034	4,386

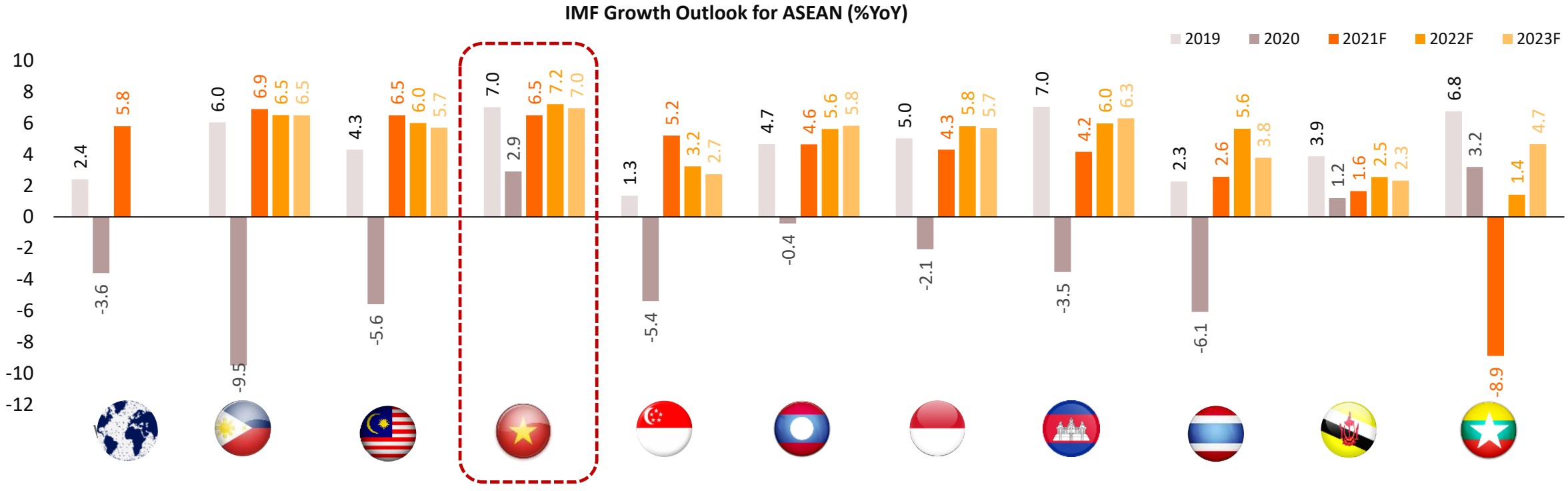
Note: Data updated as of April 2020
Source: IMF WEO (April 2020), IMF 2019 Article IV Staff Report on Vietnam, CEIC, Krungsri Research

Recent Economic Developments



Strong growth will be sustained in the long term supported by FDI-led manufacturing sector, exports, and favorable fundamentals

Vietnam managed to achieve positive growth rate of 2.9% in 2020, among 26 economies with economic expansion according to the IMF, despite the global adverse impact of the COVID-19 pandemic and the divergence of the global economy recovery. In 2021, the outlook is optimistic as the economy is expected to be back on its potential trajectory of 6.0% - 7.0% p.a. This will be supported by the strong performance of the manufacturing sector and exports as well as sizeable domestic demand. In the medium term, Vietnam's high growth path will continue and the country will be the fastest growing economy in this region.



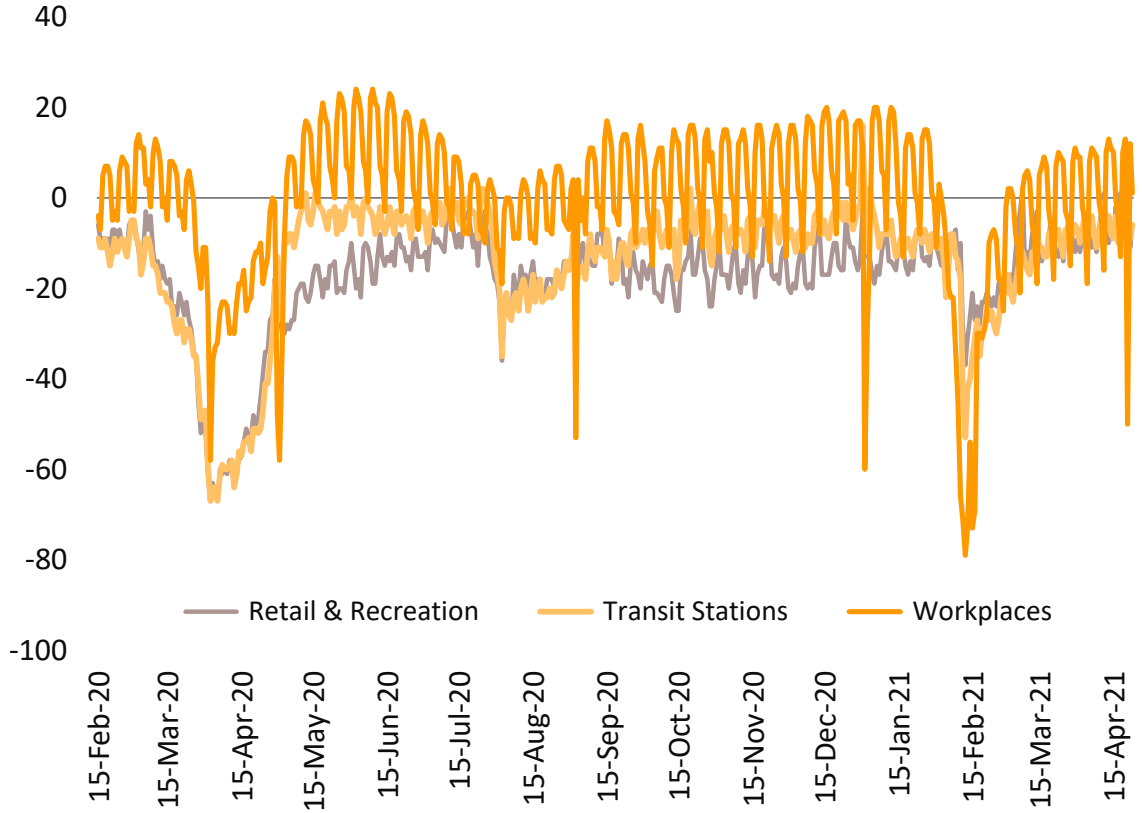
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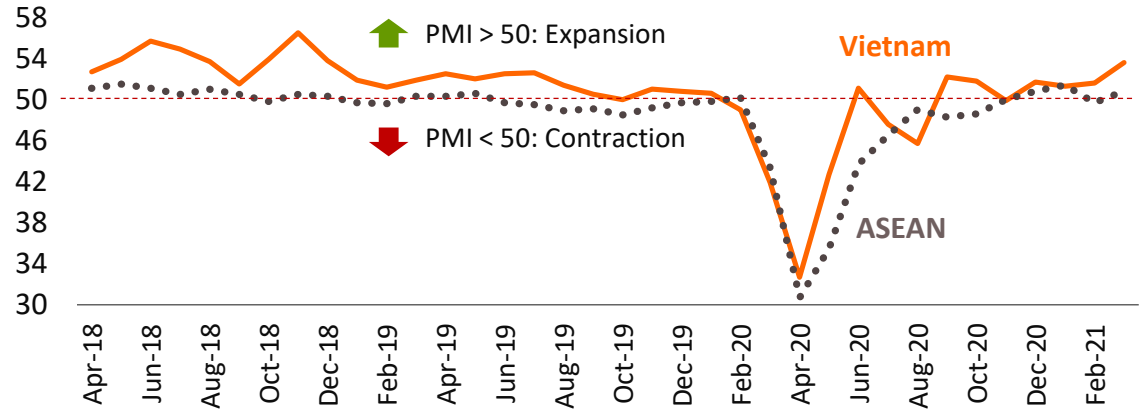
In 2021, *economic activities* will gradually normalize on the back of effective containment measures of the COVID-19 pandemic and the global economic recovery

Economic activities in Vietnam have gradually normalized since the onset of the COVID-19 outbreak in 1Q2020 reflected by the high frequency data such as Google Mobility Index. This has been in line with those in the manufacturing sector gauged by the Markit PMI following its record low in April 2020. The pick up in the export and import figures also reflects the overall recovery of the economy.

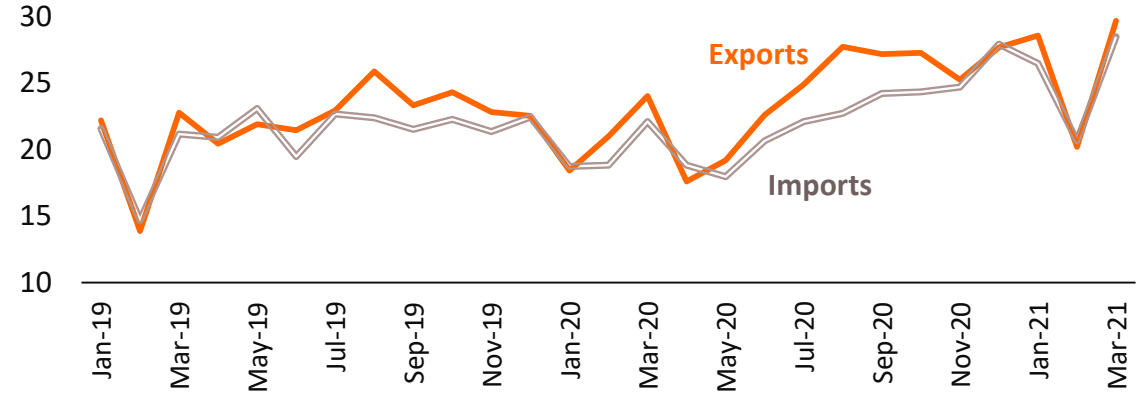
Global Mobility Changes (%, as of 23 April 2021)



IHS Markit Purchasing Managers' Index (PMI)



International Trade Performance (USD bn)

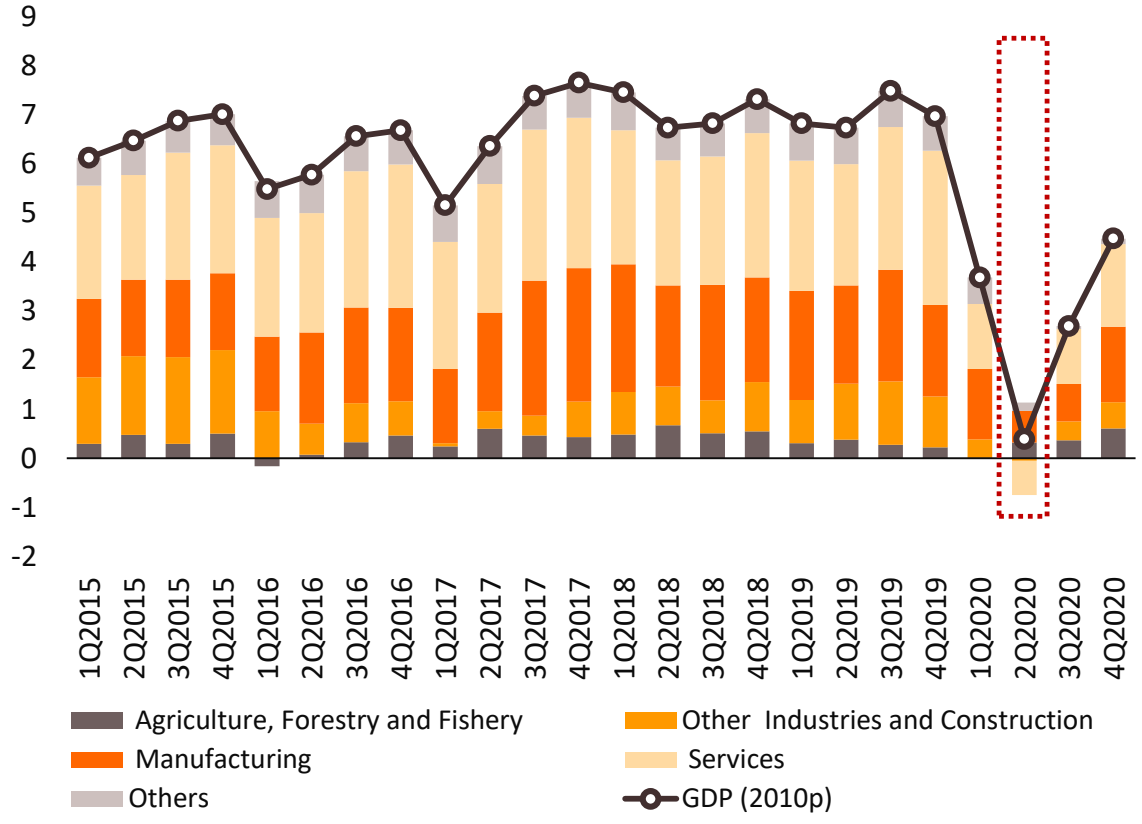


Source: CEIC

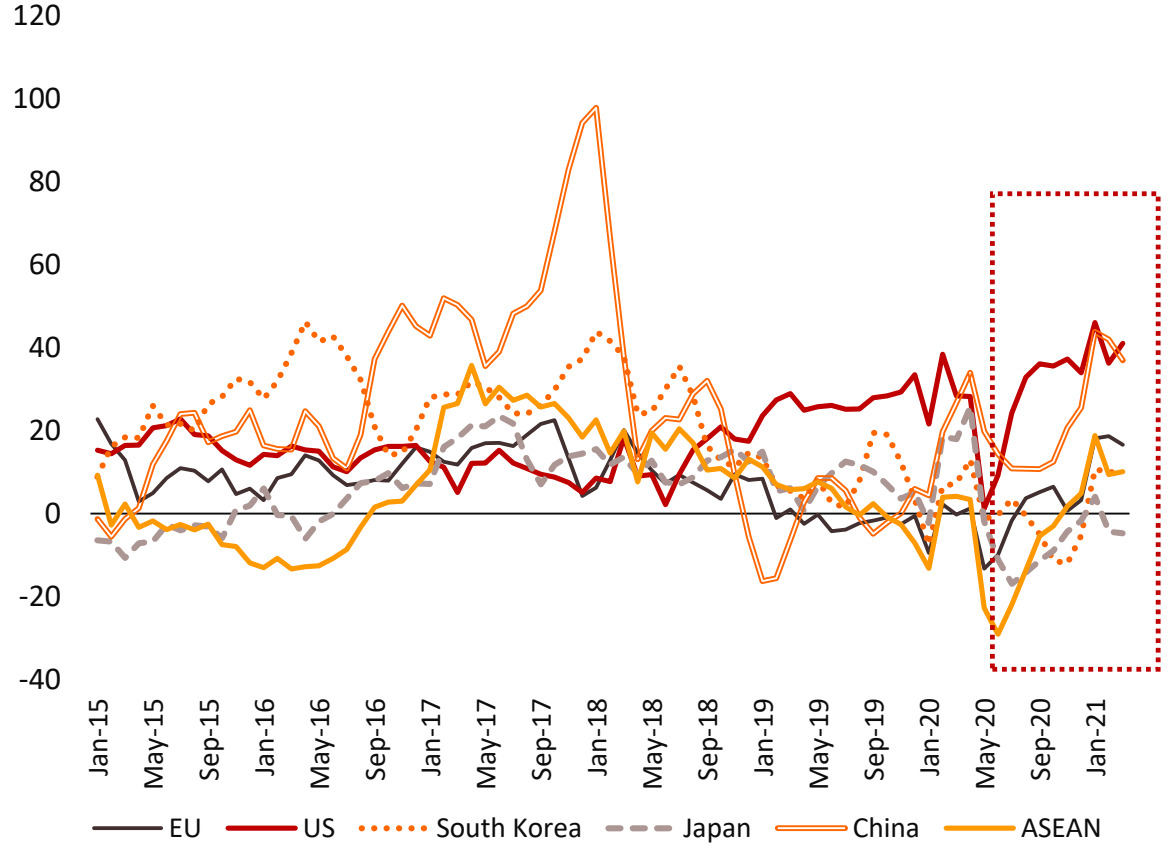
Resilience in the FDI-led manufacturing sector and exports to major trading partners helps Vietnam cushion the adverse impact of the pandemic in 2020

Based on the recent available quarterly GDP data, it is obvious that the strong performance of the FDI-led and export-oriented industries dominated by consumer electronics and garments has helped weather the negative impact of the COVID-19 pandemic and sustained positive growth momentum for Vietnam. Exports to major markets have resumed following a temporary setback in 1H2020.

Sources of Quarterly Growth (ppt)



Export Growth to Major Markets (% YoY, 3mma)

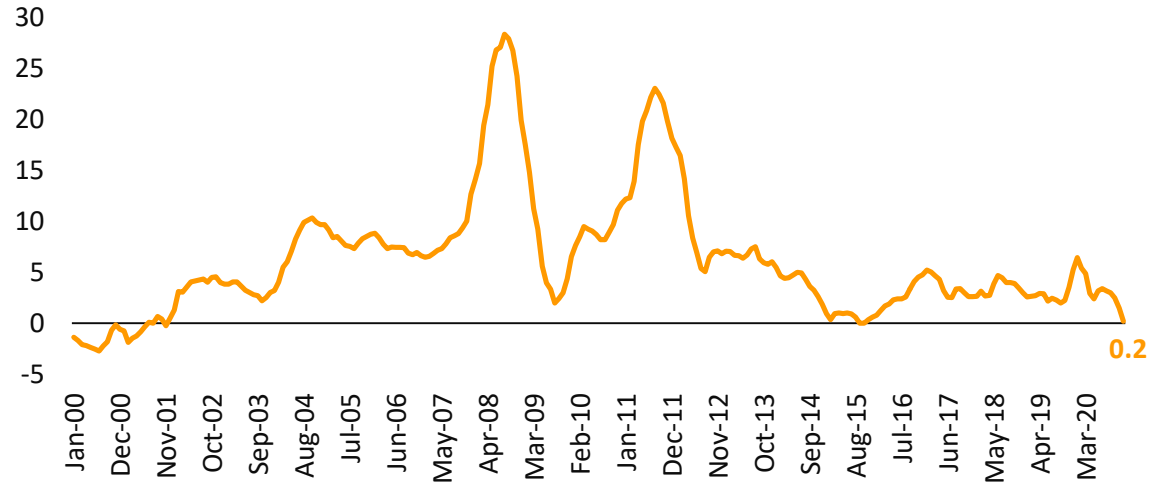


Source: CEIC

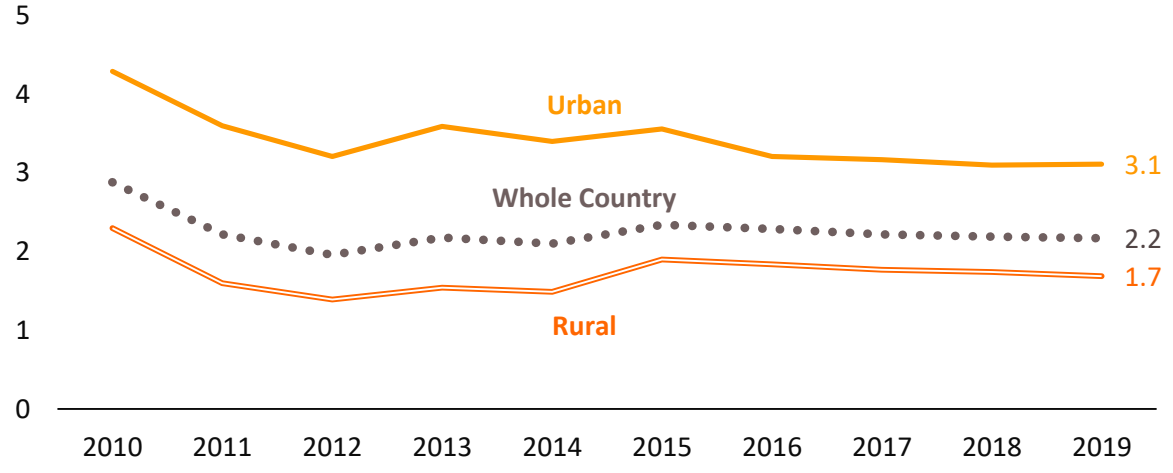
Price stability has been well maintained with a robust labor market

The annual average inflation rate has been well maintained below the annual target of 4% by the State Bank of Vietnam (SBV), the country's central bank, over the past few years. Price stability used to be critical issues for the SBV over the past decades leading to some negative consequences such as growing dollarization or goldization – the pubic holds gold instead of local currency to protect their wealth. On the labor market, the unemployment rate has been relatively low and stable. The labor participation rate remains high.

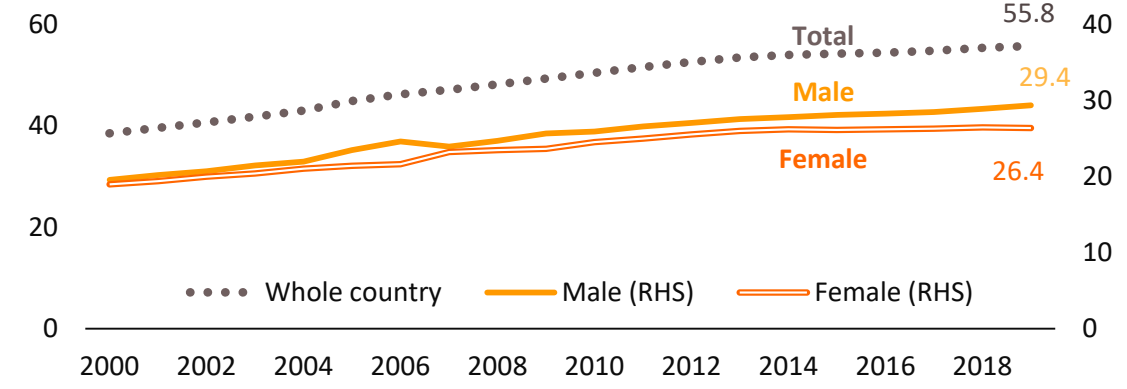
Monthly inflation rate (%YoY, 2010 =100)



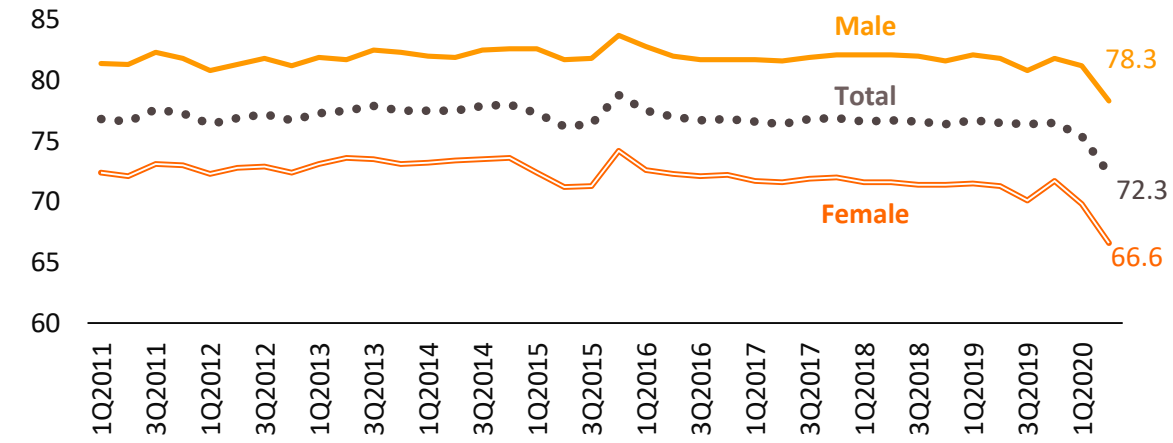
Unemployment rate (%)



Labor Force (person, mn)



Labor Force Participation Rate (%)

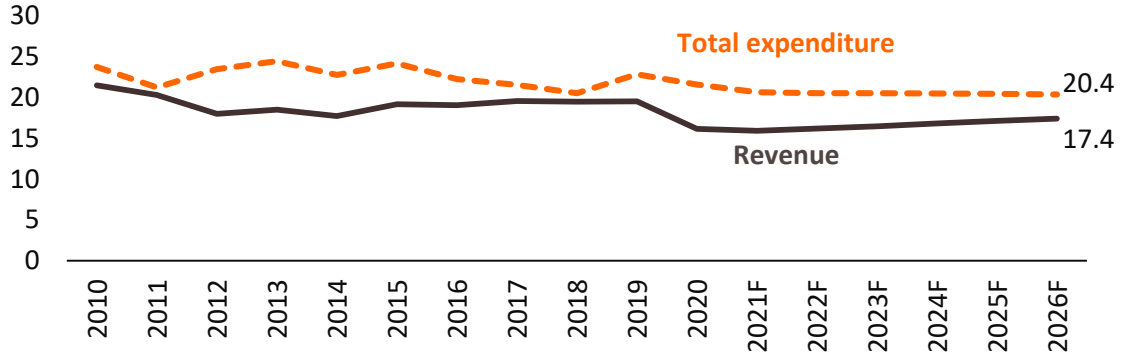


Source: CEIC

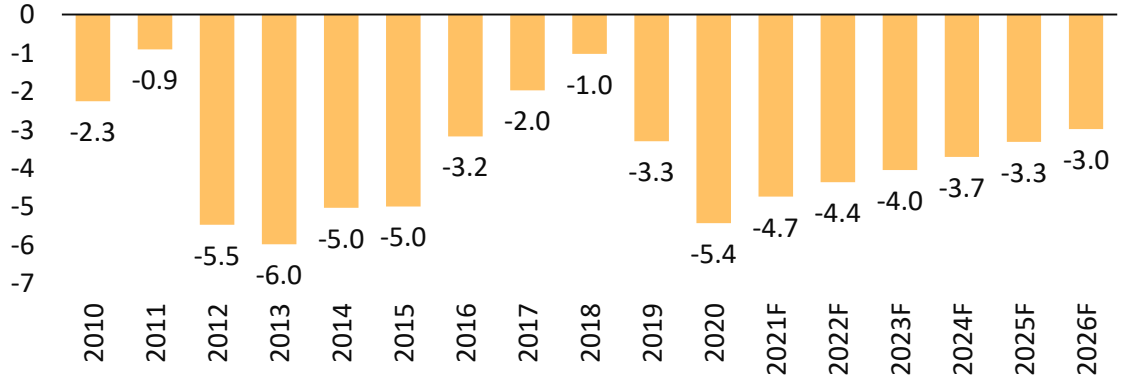
While the government has run prolonged periods of budget deficits, sustained and high economic growth ensures *debt sustainability*

Debt sustainability remains acceptable by international standards amid high growth prospects in the long term, while the level of public debts remain below the statutory Public and Publicly Guaranteed (PPG) debt ceiling—Vietnam's fiscal anchor— of 65% of GDP. However, based on the IMF, it is viewed that Vietnam's tax-to-GDP ratio is relatively low compared with that of emerging market peers; hence, fiscal consolidation is crucial to rebuild fiscal buffers and to meet public investment plans in the post-COVID periods.

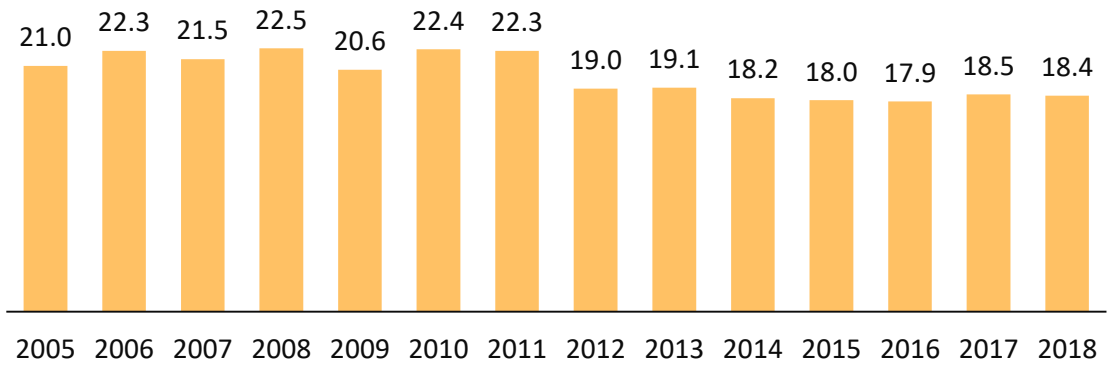
Government budget balance (% of GDP)



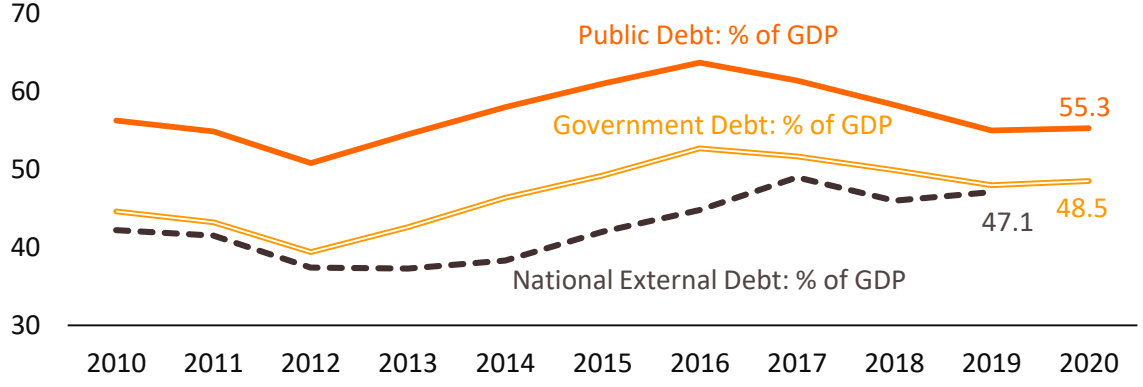
Net lending/borrowing (% of GDP)



Tax Revenue (% of GDP)



Public and government debts (% of GDP)

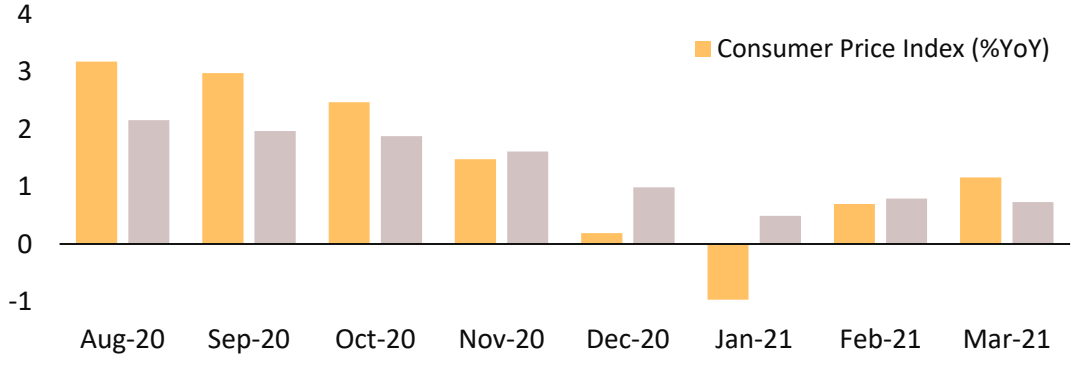


Source: CEIC, World Bank Databank

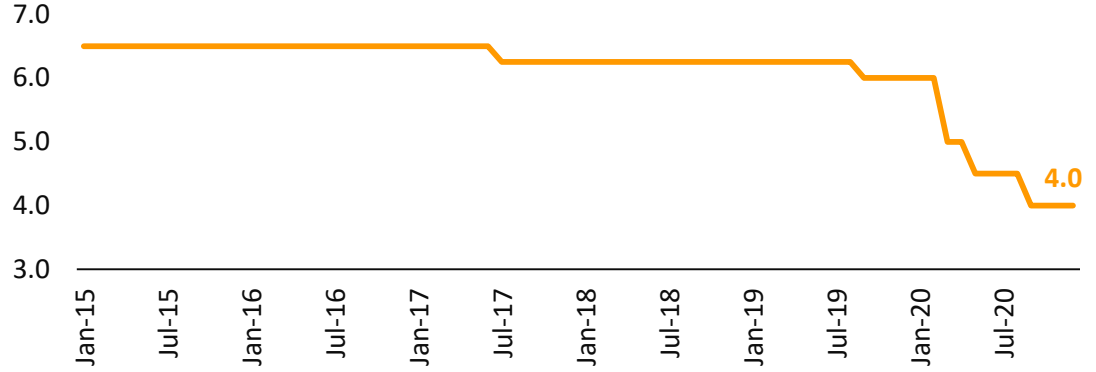
On the *monetary policy and exchange rate*, the State Bank of Vietnam (SBV) has adopted the informal inflation targeting to preserve macroeconomic stability

Against a backdrop of low inflationary pressure, monetary policy has been accommodative to support growth. Since the onset of the pandemic, the SBV has lowered its policy rate to currently reach 4.0% p.a. and inject credits to the economy, with the target of 12% of credit growth in 2021. The VND/USD exchange rate is allowed to fluctuate within the ± 3% band. While this would ensure the exchange rate stability, the depreciation of VND is not in line with fundamentals and this could pose risks of being re-labeled as a currency manipulation by the US.

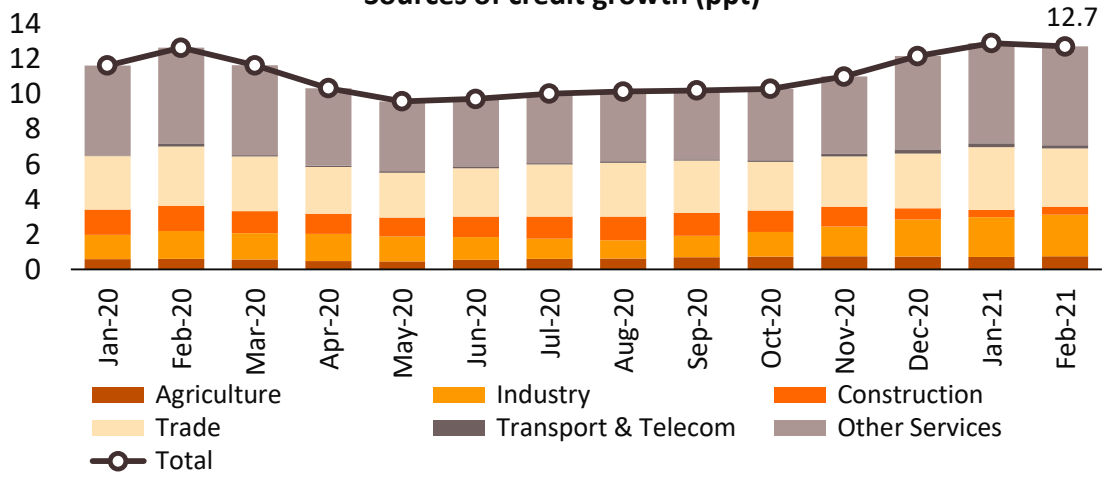
Inflation rates (%YoY)



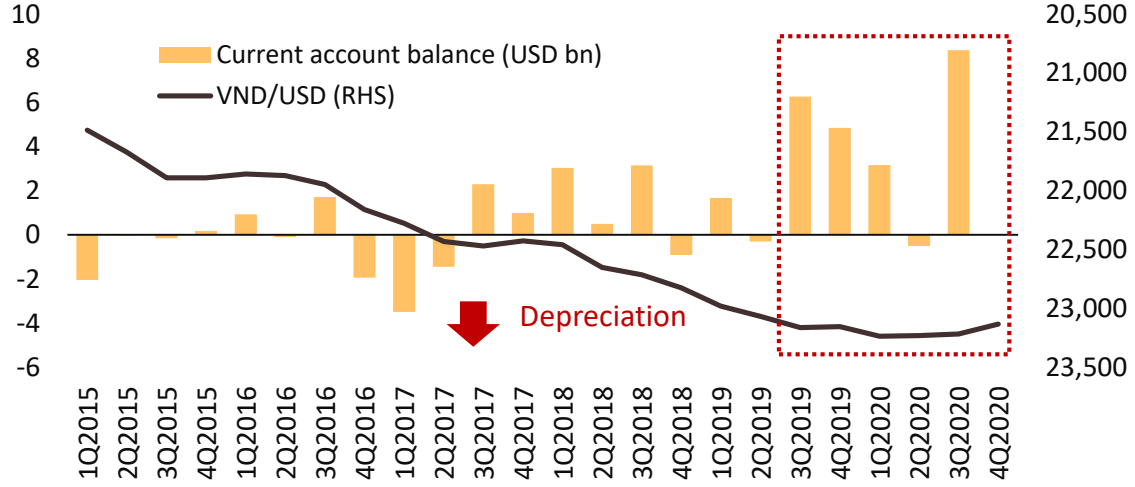
Central Bank Policy Rate (%, End of Period)



Sources of credit growth (ppt)



Current Account Balance and VND/USD Exchange rate

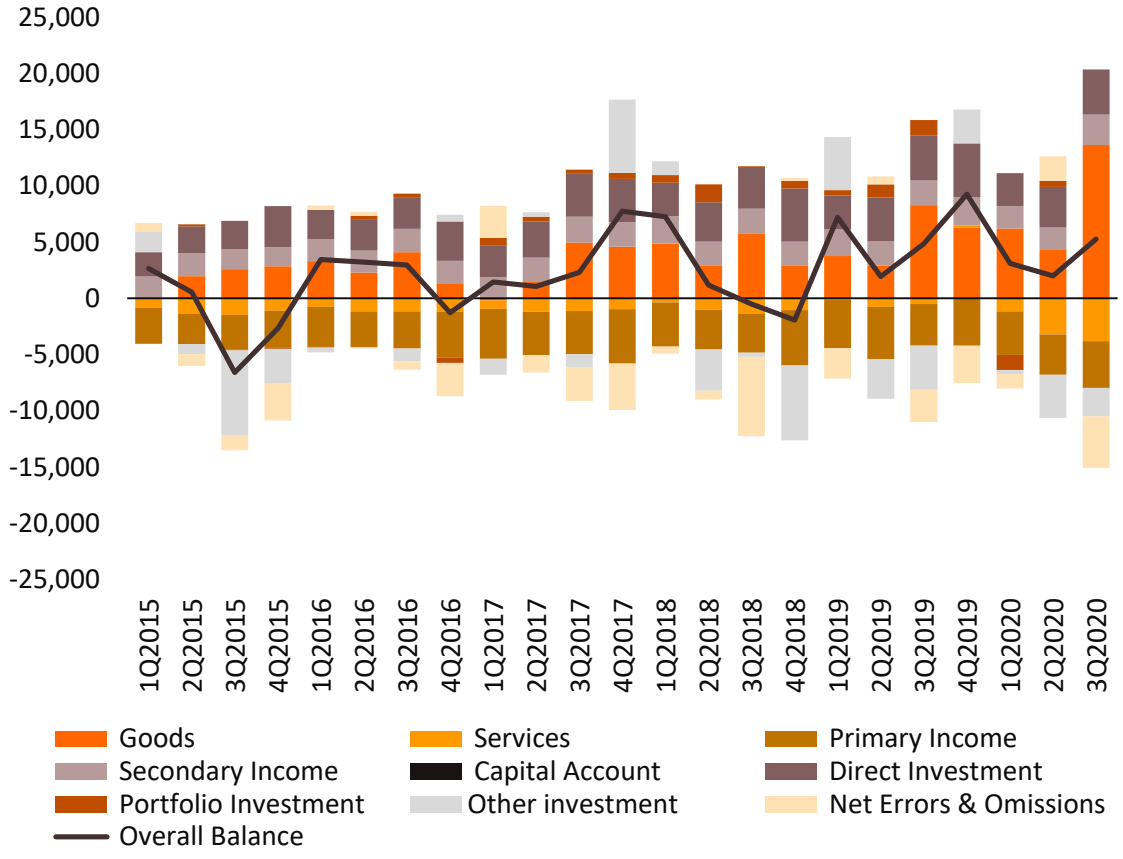


Source: CEIC

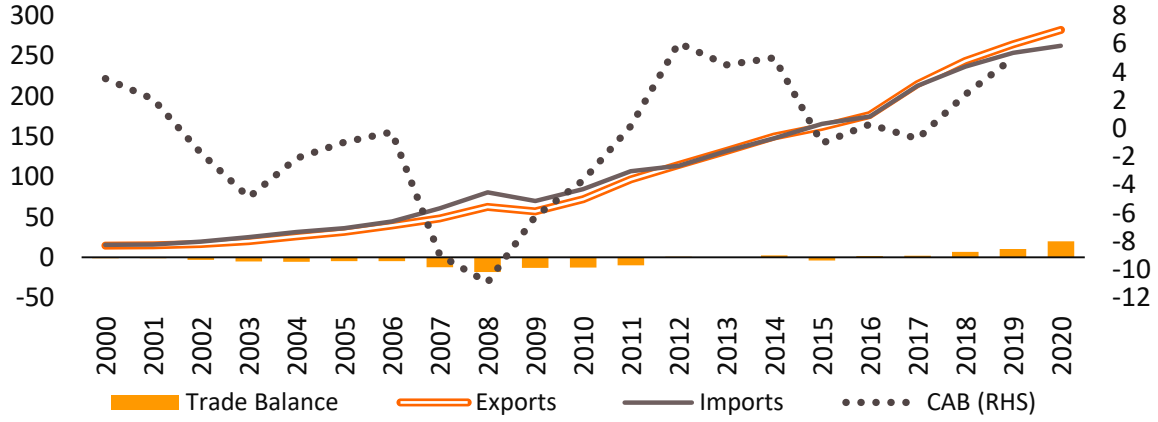
External sector stability has been resilient driven by strong exports and sustained inward FDI

External positions have been resilient supported by trade surplus and sustained direct investment flows which has been around 6% of GDP (net FDI inflows) over the past decade, while the stock of external debts is below 50% of GDP in 2019. This allows the SBV to accumulate foreign exchange reveres and build up external buffers to cushion external shocks.

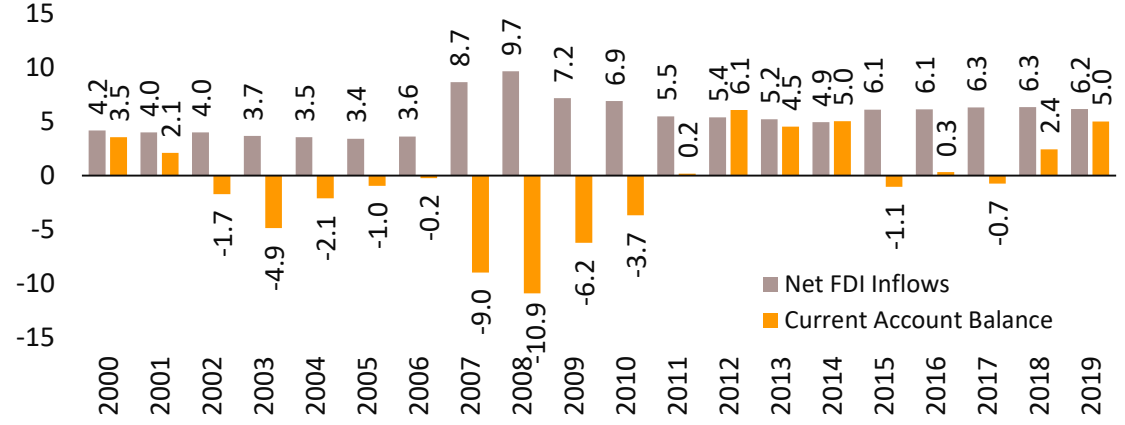
Balance of Payments (USD mn)



Trade Balance (USD bn) and Current Account Balance (% of GDP)



Net FDI inflows and Current Account Balance (% of GDP)



Source: CEIC

Consumer electronics and garments have emerged to be key exports driven by trade privileges and extensive networks of free trade agreements (FTAs)

Major export groups	US	EU	China	Japan	South Korea	Hong Kong	India	Thailand	UAE	Taiwan	Cambodia
Live animals/products	1.5	2.2	3.1	4.6	3.0	2.8	0.4	4.6	1.2	2.6	1.0
Vegetable products	2.4	5.6	10.1	1.4	1.3	2.1	4.2	5.0	2.1	3.3	1.3
Animal or vegetable fats	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.6
Prepared foodstuffs, beverage	1.4	1.9	2.0	3.8	2.1	1.1	1.1	3.9	1.0	3.0	5.9
Mineral fuels, mineral oils	0.1	0.1	4.2	2.4	1.3	0.4	1.5	4.6	0.4	2.8	15.2
Products of the chemical	0.5	0.6	1.8	2.9	0.9	0.3	7.8	2.5	2.8	3.2	6.7
Plastics and articles	2.6	3.0	5.4	5.3	1.9	1.6	4.9	3.4	0.5	3.5	4.8
Raw hides and skins	2.4	2.4	0.7	2.0	0.5	2.3	0.3	0.5	0.5	0.4	1.6
Wood and articles	0.9	0.5	2.5	4.1	3.1	0.0	0.5	0.7	0.2	1.1	0.2
Pulp of Wood	0.4	0.1	0.6	0.4	0.1	0.4	0.1	1.0	0.1	2.4	2.5
Fabrics	0.6	0.6	6.8	1.5	2.8	2.3	4.3	5.9	0.5	2.9	16.0
Garments	24.8	10.9	3.0	20.2	17.7	3.4	0.8	2.2	1.6	6.1	0.8
Footwear	11.3	12.8	4.7	5.2	3.7	3.9	2.1	1.8	3.2	3.8	2.5
Articles of stone	0.6	0.5	0.1	0.9	0.5	0.2	0.2	0.9	0.1	1.6	0.8
Precious metals	0.7	0.3	0.0	0.4	0.1	0.7	0.0	0.0	0.2	0.0	0.4
Base metals	2.7	3.1	1.4	5.5	3.7	0.7	12.6	10.3	0.8	6.4	30.0
Machinery and mechanical appliances	33.8	48.3	48.0	27.8	50.8	72.2	57.4	43.0	82.4	52.3	4.5
Vehicles	1.0	1.9	0.5	2.6	0.8	0.4	0.7	5.1	1.1	2.2	2.0
Optical	1.0	1.2	4.4	2.1	3.5	4.7	0.8	3.0	0.1	0.8	0.2
Arms and ammunition	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Miscellenous manufactures	11.1	4.0	0.6	6.2	2.2	0.7	0.2	1.3	0.7	1.5	2.2
Antiques	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.6	0.0	0.0	0.0	0.1	0.2	0.0	0.0
Share of total exports (%)	23.2	15.7	15.7	7.7	7.5	2.7	2.5	1.9	1.8	1.7	1.6
Total Exports (USD bn)	61.4	41.5	41.4	20.4	19.7	7.2	6.7	5.1	4.8	4.4	4.3

Note: Data as of 2019

Source: ITC Trade Map

The *import structure* reflects the integration into regional and global value chains of Vietnam, and China has emerged as its largest trading partner

Imports by major product group	China	South Korea	Japan	Taiwan	EU	US	Thailand	Malaysia	Indonesia	India	Australia
Live animals/products	0.6	0.3	0.7	0.9	2.9	3.3	2.0	0.3	2.5	8.5	12.8
Vegetable products	0.8	0.1	0.2	0.2	1.2	4.8	4.7	0.1	2.9	3.9	11.7
Animal or vegetable fats	0.0	0.0	0.0	0.0	0.1	0.0	0.2	5.2	4.1	0.1	0.2
Prepared foodstuffs and beverage	0.7	0.5	0.5	0.9	4.1	7.0	4.1	3.2	5.2	4.3	1.3
Mineral fuels, mineral oils	2.5	4.4	0.5	1.0	0.5	1.6	4.9	21.2	16.1	1.5	48.3
Products of the chemical	5.9	3.3	5.6	9.1	20.5	6.3	7.9	6.5	7.5	15.6	3.1
Plastics and articles	6.1	8.2	9.1	10.9	3.7	7.2	12.5	7.5	4.4	4.5	1.6
Raw hides and skins	0.9	0.4	0.1	0.7	2.6	0.9	2.1	0.0	0.4	2.0	0.3
Wood and articles	0.6	0.0	0.0	0.0	1.6	2.4	0.9	0.8	0.5	0.0	0.2
Pulp of Wood	1.1	0.8	1.9	1.2	1.7	1.8	2.2	1.0	5.3	1.0	0.3
Fabrics	13.2	5.3	5.6	14.0	2.5	12.0	4.1	2.2	3.9	7.8	2.2
Garments	0.5	0.1	0.1	0.2	0.3	0.1	0.1	0.1	0.2	0.2	0.0
Footwear	0.9	0.1	0.0	0.2	0.3	1.9	0.2	0.0	0.5	0.1	0.0
Articles of stone	1.7	0.3	1.3	0.3	0.7	0.6	1.2	1.4	0.6	1.8	0.0
Precious metals	0.1	0.1	0.2	0.0	0.7	0.1	0.1	0.1	0.2	3.6	0.3
Base metals	11.7	8.9	16.8	9.5	4.8	4.2	6.7	10.8	11.6	27.8	16.4
Machinery and mechanical appliances	47.8	57.6	46.2	45.0	40.4	38.8	27.7	34.6	13.5	11.6	1.0
Vehicles	1.2	1.7	4.1	0.4	4.5	3.0	16.9	0.8	19.6	3.7	0.0
Optical	2.3	7.2	5.3	4.6	5.9	3.7	0.5	2.7	0.4	1.2	0.2
Arms and ammunition	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Miscellenous manufactures	1.6	0.6	1.2	0.8	1.0	0.2	0.7	0.5	0.6	0.5	0.1
Antiques	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.2	0.0	0.1	0.0	0.2	1.3	0.0	0.3	0.0
Share of total imports (%, 2019)	29.8	18.5	7.7	6.0	5.9	5.7	4.6	2.9	2.3	1.8	1.8
Total Imports (USD bn, 2019)	75.6	46.9	19.5	15.2	14.9	14.4	11.7	7.3	5.7	4.5	4.5

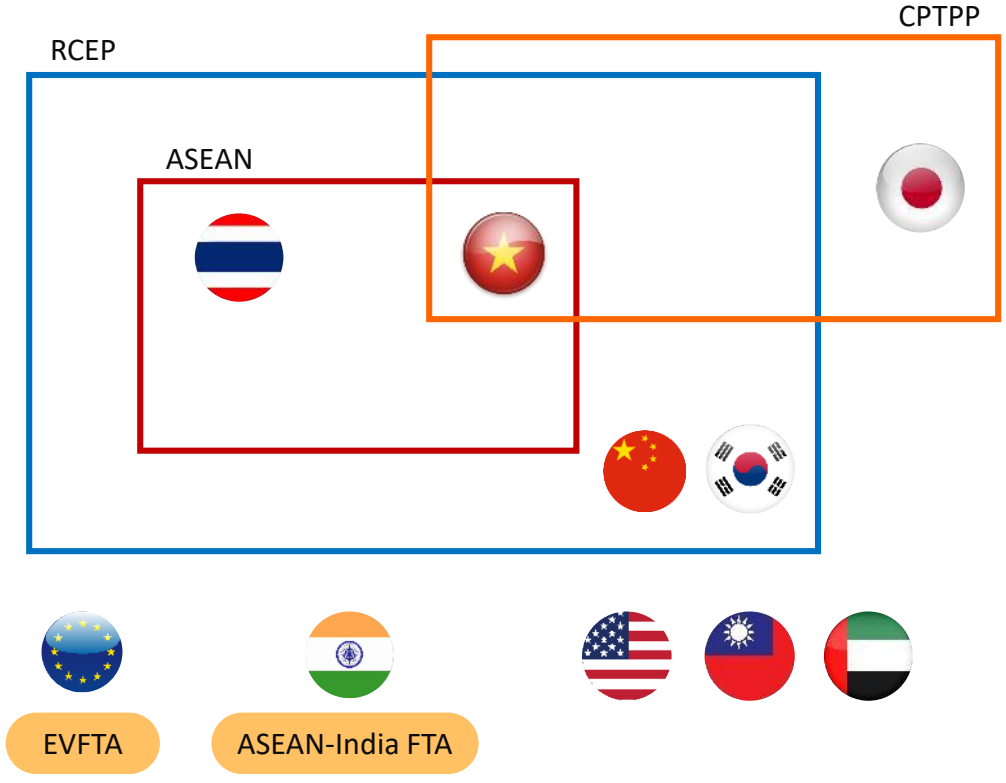
Note: Data as of 2019

Source: ITC Trade Map

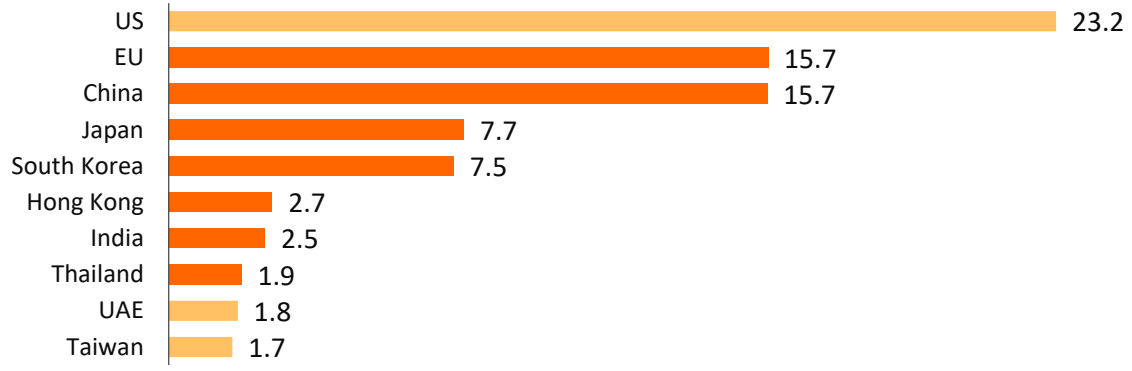
FTAs and trade preferences has paved way for Vietnam not only to gain access to major markets and attract FDI but also to help pursue domestic structural reforms

FTAs with key trading partners, whether on a bilateral basis or a multilateral basis, and to some certain extent trade preferences have boosted Vietnam's export competitiveness in the past decade. Key trade agreements recently jointed by Vietnam include the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the Regional Comprehensive Economic Partnership (RCEP), and the European Union Vietnam Free Trade Agreement (EVFTA). Active engaging in free trade allows Vietnam to become one of the most open economies with the share of goods trade of GDP of about 200% in 2019, close to the ratio of Singapore.

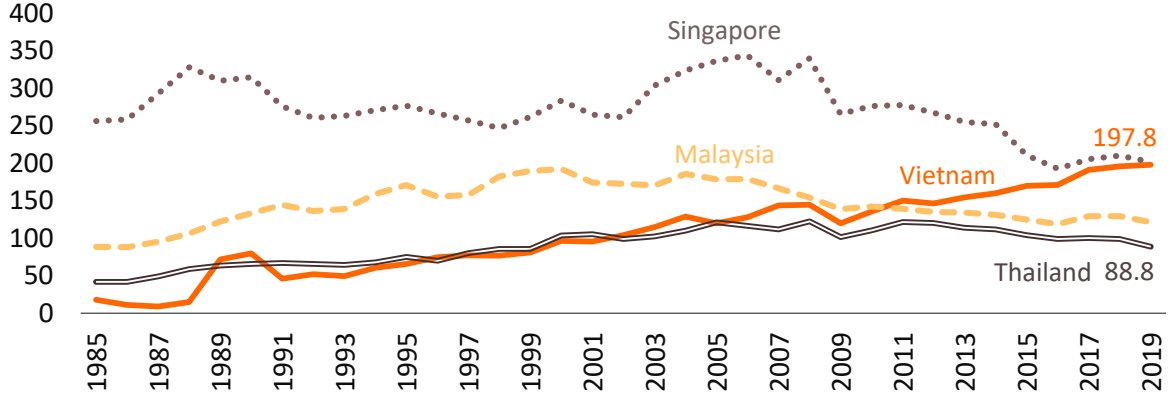
Some Key Networks of Vietnam's FTAs



% Share of Vietnam's total exports (2019)



Goods Trade (% of GDP)



Source: ITC Trade Map, CEIC, Krungsri Research

FTAs have been instrumental in boosting Vietnam's export competitiveness, particularly in gaining access into its major markets like the EU

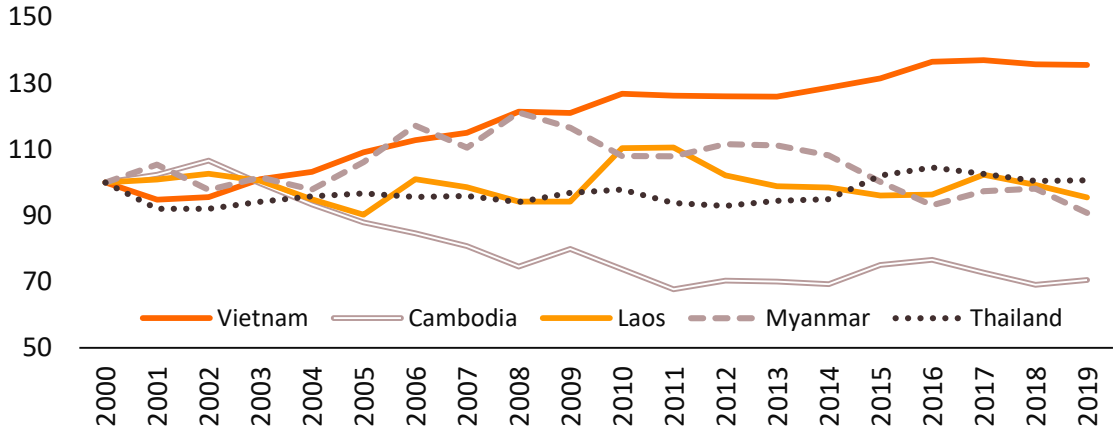
The table below shows the top-10 export products of Vietnam and we map them with those exported by Thailand to see whether they face the same effective tariff rates imposed by the EU, the second largest export market for Vietnam. It is clear that top-10 export products of Vietnam face much lower tariff rates compared to those of Thailand. Undoubtedly, Vietnam gains more competitiveness over Thailand in the EU market for each category of those products.

		Vietnam			Thailand		
Top-10 exports of HS2 Products exported to the European Union (EU)	Product label	% Share in Vietnam's total exports 2019	MFN Tariff	**Effectively Applied Tariff**	% Share in Thailand's total exports 2019	MFN Tariff	**Effectively Applied Tariff**
85	Electrical machinery and equipment	36.72	1.19%	**0.29%**	13.80	1.19%	**1.19%**
64	Footwear	7.18	10.73%	**2.75%**	0.26	10.73%	**10.73%**
62	Articles of apparel and clothing accessories, not knitted or crocheted	5.73	11.52%	**7.24%**	0.35	11.52%	**11.52%**
61	Articles of apparel and clothing accessories, knitted or crocheted	5.63	11.79%	**5.54%**	0.71	11.79%	**11.79%**
84	Machinery, mechanical appliances	4.95	1.23%	**0%**	16.38	1.23%	**1.23%**
94	Furniture	3.59	1.46%	**0%**	0.56	1.46%	**1.46%**
03	Fish and crustaceans, molluscs and other aquatic invertebrates	2.35	10.19%	**2.46%**	0.75	10.19%	**10.19%**
08	Edible fruit and nuts; peel of citrus fruit or melons	2.16	10.35%	**1.64%**	1.53	10.35%	**10.35%**
90	Optical, photographic, cinematographic, measuring	1.99	0.78%	**0%**	2.20	0.78%	**0.78%**
39	Plastics and articles thereof	1.83	6.07%	**0%**	5.44	6.07%	**6.07%**

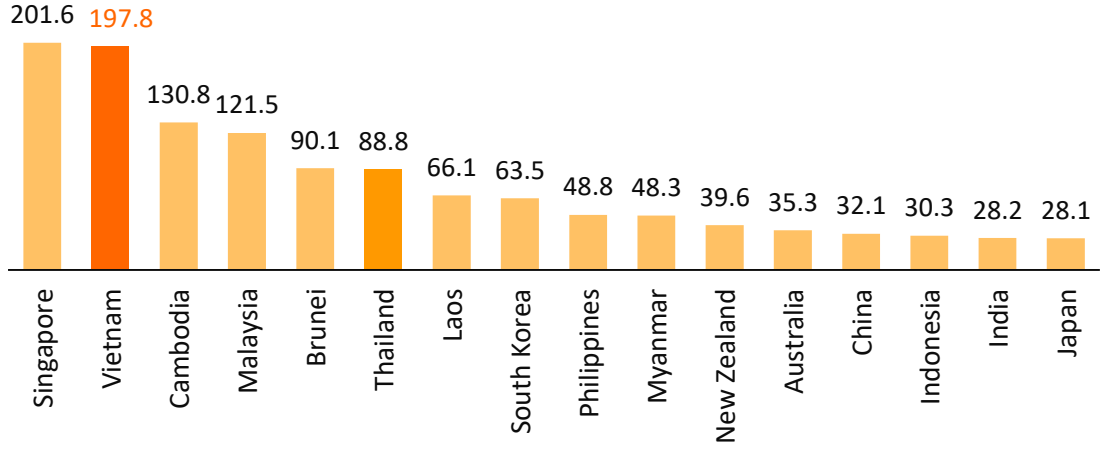
Source: ITC Trade Map

External competitiveness of Vietnam has also been reflected by sustained improvement in the terms of trade

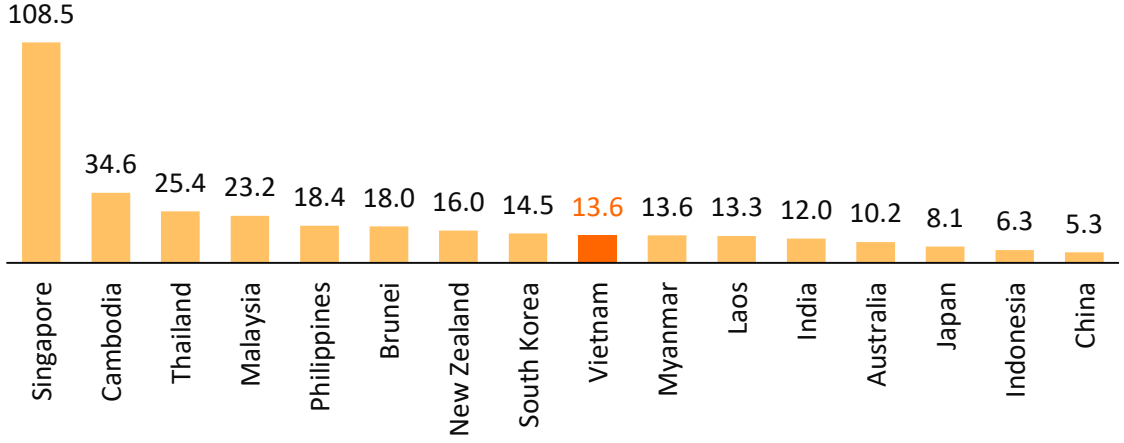
Net Barter Terms of Trade Index (2000 = 100)



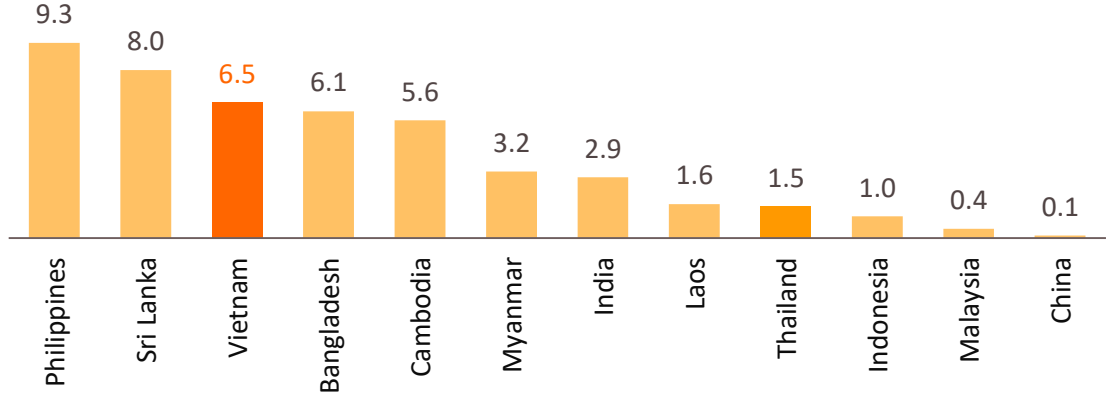
Goods Trade (% of GDP) of ASEAN+6 countries in 2019



Trade in Services of ASEAN +6 countries in 2019 (% of GDP)



Personal Remittances Received of some Asian countries in 2019 (% of GDP)

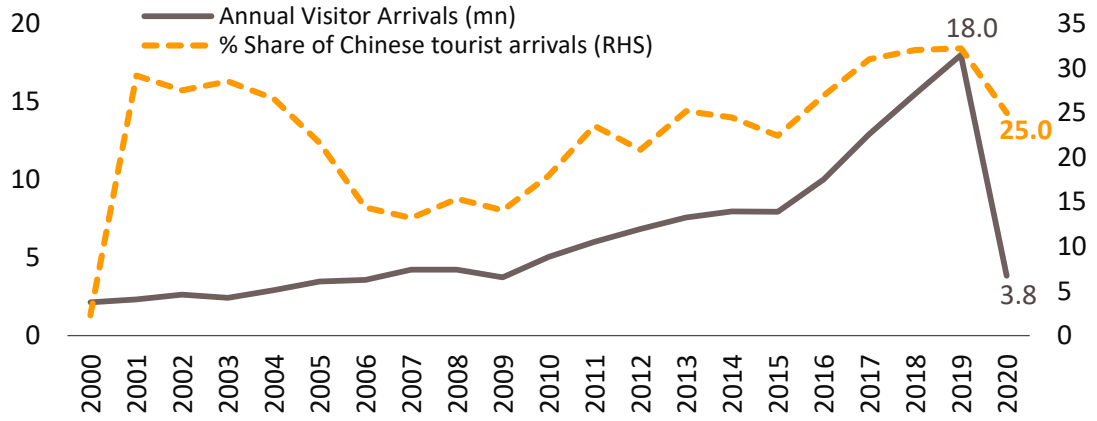


Source: CEIC, World Bank Databank

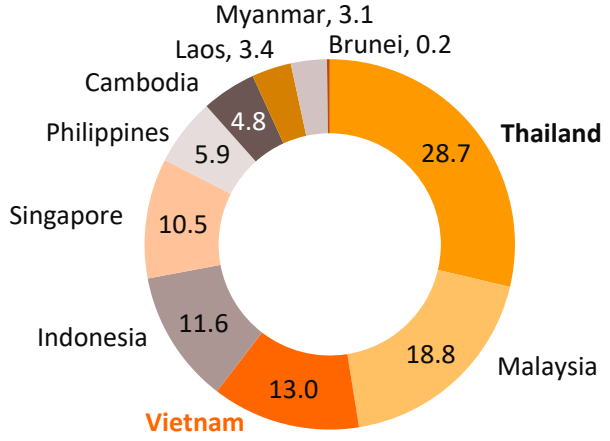
Tourism sector has turned to be another key source of foreign exchange earnings over the past decade

Prior to 2020, Vietnam has experienced booms in its tourism sector similar to regional peers. The booms have been driven by resurge of Chinese tourist arrivals which account for about a third of the country's total annual tourist arrivals. Currently, Vietnam is the third of largest tourism market in ASEAN with the share of 13% in 2019. The tourism sector generates revenues about 12.5% of GDP in 2019 turning it to become another key source of foreign exchange earnings.

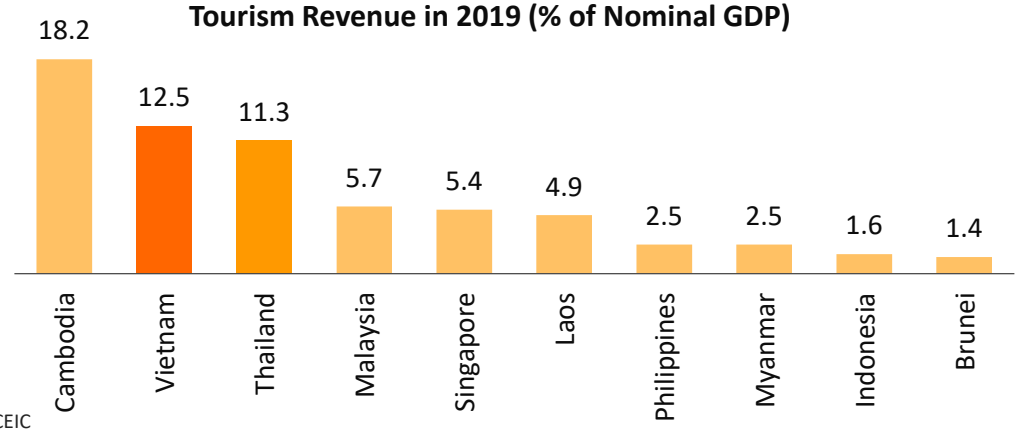
Annual Tourist arrivals



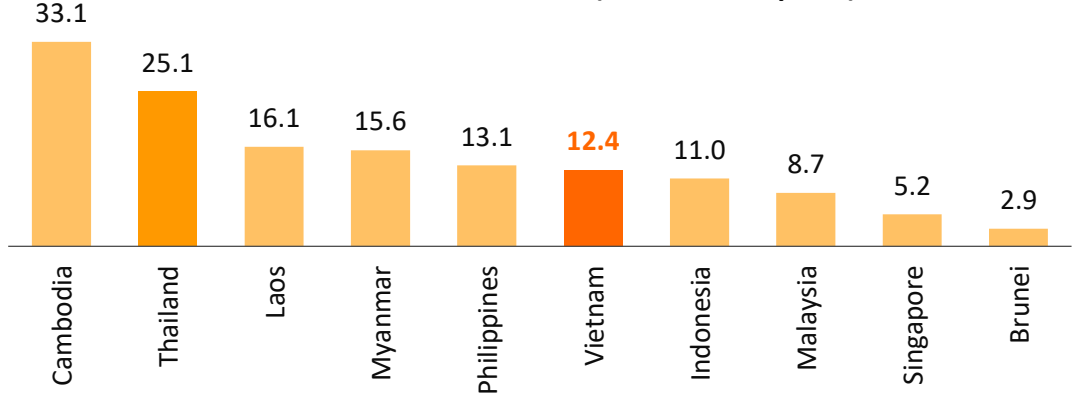
Annual Visitor Arrivals in 2019 (% of ASEAN)



Tourism Revenue in 2019 (% of Nominal GDP)



Tourism Revenue in 2019 (% of Total Exports)



Source: CEIC

Medium-term prospects



High growth trajectory will be sustained in the long term due to favorable underlying trends

High growth of 6.0% -7.0% p.a. will be sustained, at least until 2030, owing to favorable drivers. They include sizeable and growing domestic demand, foreign investment and exports, reforms and digital initiatives, conducive business environment, as well as political stability. In our view, this offers business opportunities in the sectors such as e-commerce, financial services, healthcare, food and beverage, logistics, and education technology (EdTech).

5 Key Factors to Sustain Vietnam's High Growth

1. **Sustained FDI inflows**
2. **Exports of Manufactured goods**
3. **Growing middle-class consumers**
4. **The Rise of Digital Economy**
5. **Political stability**

Some Potential Business Opportunities



E-commerce



Financial Services



Healthcare



Food & Beverage



Logistics



Education Technology (Edtech)

Source: Krungsri Research, icons are from www.flaticon.com

Vietnam's economy is moving toward manufacturing and services reflected by structural changes in the GDP components

Structure of Vietnam's GDP (% share)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Gross Domestic Product (GDP) Growth (%YoY)	6.42	6.24	5.25	5.42	5.98	6.68	6.21	6.81	7.08	7.02	**2.91**
Agriculture, Forestry and Fishery	18.4	18.0	17.6	17.2	16.8	16.1	15.3	14.8	14.3	13.7	13.6
Agriculture	14.3	14.0	13.6	13.2	12.8	12.2	11.6	11.1	10.7	10.0	10.0
Fishery	3.4	3.4	3.3	3.3	3.3	3.2	3.1	3.0	3.0	3.0	3.0
Forestry	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.6	0.6
Industry & Construction	32.1	32.5	33.2	33.1	33.2	34.2	34.6	35.0	35.6	36.2	36.6
Industry	26.0	26.8	27.5	27.4	27.5	28.2	28.4	28.7	29.1	29.6	29.8
Manufacturing	12.9	13.9	14.4	14.6	14.8	15.4	16.2	17.4	18.3	19.1	19.6
Mining & Quarrying	9.5	9.2	9.2	8.7	8.4	8.4	7.6	6.6	5.9	5.6	5.2
Electricity, Gas, Air Con Supply	3.0	3.2	3.4	3.5	3.7	3.9	4.1	4.1	4.3	4.4	4.4
Water Supply, Sewerage, Remediation	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Construction	6.1	5.8	5.7	5.7	5.8	6.0	6.2	6.3	6.4	6.6	6.8
Services	36.9	37.4	37.9	38.4	38.4	38.3	38.6	38.8	38.8	38.9	38.7
Wholesale, Retail, Motor Vehicles Repair	8.0	8.3	8.7	8.9	9.1	9.3	9.4	9.6	9.7	9.9	10.1
Financial, Banking, Insurance	5.4	5.5	5.5	5.6	5.5	5.6	5.7	5.7	5.8	5.9	6.1
Real Estate Activities	6.1	6.0	5.7	5.6	5.4	5.2	5.1	5.0	4.8	4.7	4.6
Accommodation, Food Services	3.6	3.7	3.7	3.9	3.8	3.7	3.7	3.8	3.8	3.8	3.1
Transportation, Storage	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	3.0	2.8
Community Party, Public Administration	2.6	2.6	2.6	2.7	2.7	2.7	2.7	2.8	2.7	2.6	2.7
Education, Training	2.3	2.4	2.4	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.6
Other Service Activities	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.5
Professional, Scientific, Tech	1.3	1.3	1.3	1.3	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Human Health, Social Work	1.1	1.1	1.1	1.1	1.2	1.2	1.2	1.2	1.2	1.2	1.3
Information, Communication	0.9	0.9	1.0	1.0	1.0	1.1	1.1	1.1	1.1	1.1	1.1
Arts, Entertainment, Recreation	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Administration, Support Services	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.3
Household Activities	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Taxes Less Subsidies on Products	12.5	12.1	11.3	11.4	11.6	11.5	11.5	11.4	11.3	11.3	11.1

Source: CEIC, Krugnsri Research

Service sector will grow substantially in line with wealthier consumers and offer business opportunities along with the robust manufacturing sector

Thanks to rising labor costs, US-China trade tensions and geopolitics, as well as diversification efforts of MNCs to minimize risks of over dependence on China, there has been a great migration of some activities to south and southeast Asia. And Vietnam is currently the largest beneficiary of China's exit from labor-intensive manufacturing activities. As a result, there are booms in export-oriented manufacturing products such as garments and footwears, and recently, consumer electronics. Manufacturing sector has been the largest recipient of FDI inflows leading to its high growth and large share in Vietnam's GDP. On the back of growing economy, service activities such as transport, education, and healthcare, as well as ICT are among those with the highest growth rates. In our view, these will play substantial roles in Vietnam's economy in the periods ahead.



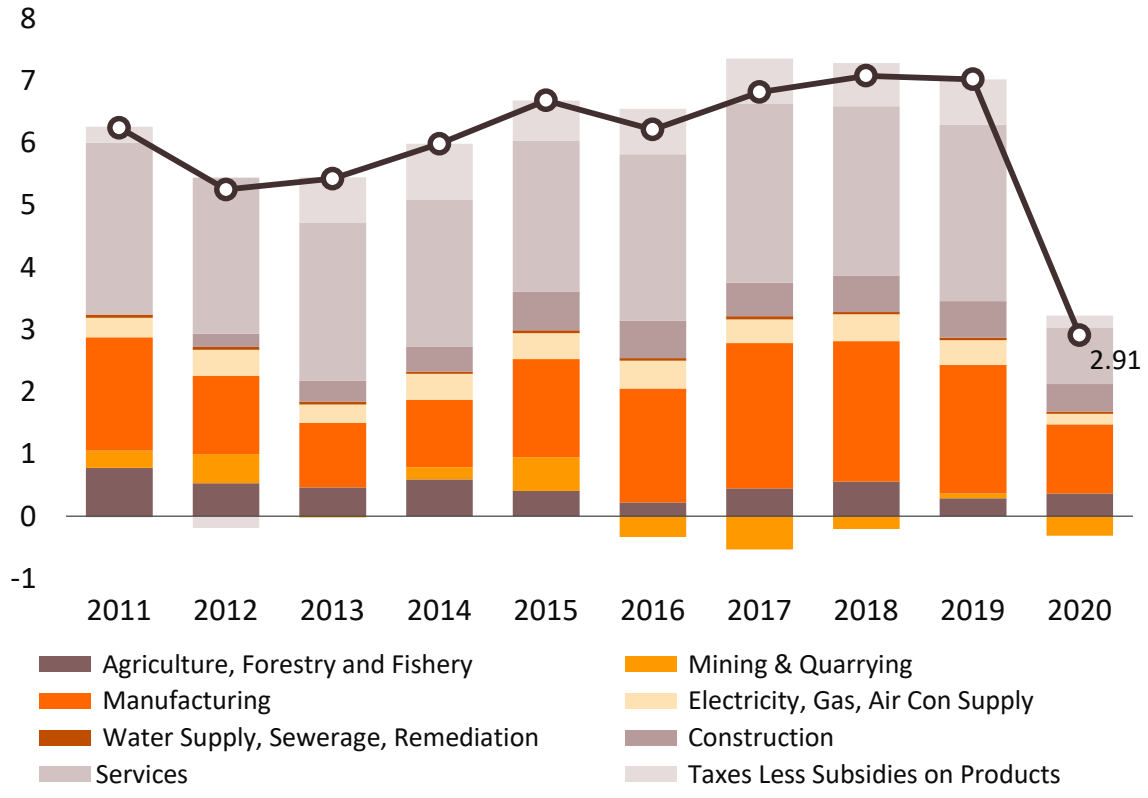
Note: Size of the bubble represents % share of each sector in the total FDI stock as of 2019

Source: CEIC, ITC Trade Map

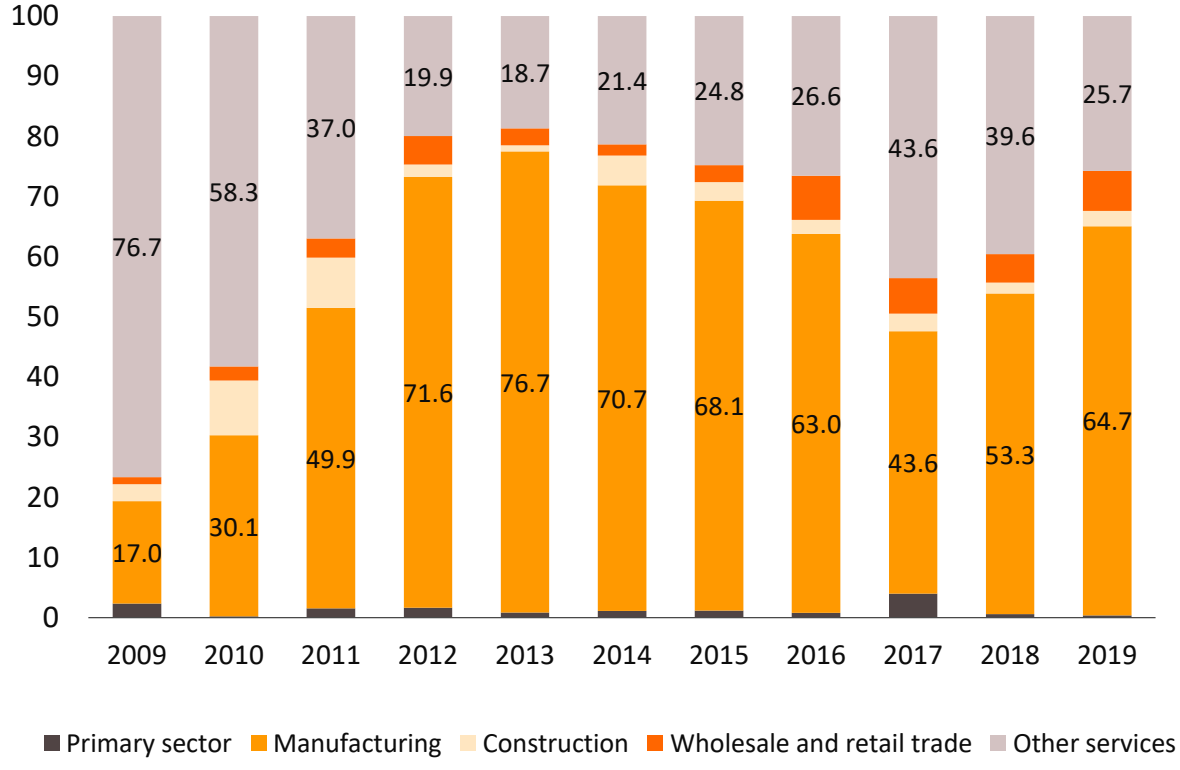
Manufacturing sector will remain a key growth driver for Vietnam in the long term amid the expansion of the service sector

Over the past three decades since the implementation of the Doi Moi initiative in 1986, FDI-driven and export-oriented manufacturing sector has been a backbone of Vietnam's economy and integrated the country into regional and global value chains. This development is expected to continue as Vietnam is moving up the chains of industrialization following the path of China and other advanced economies in Asia.

Sources of Real GDP Growth (ppt): Supply Side



Structure of FDI in Vietnam by economic sector (% of annual total stock)

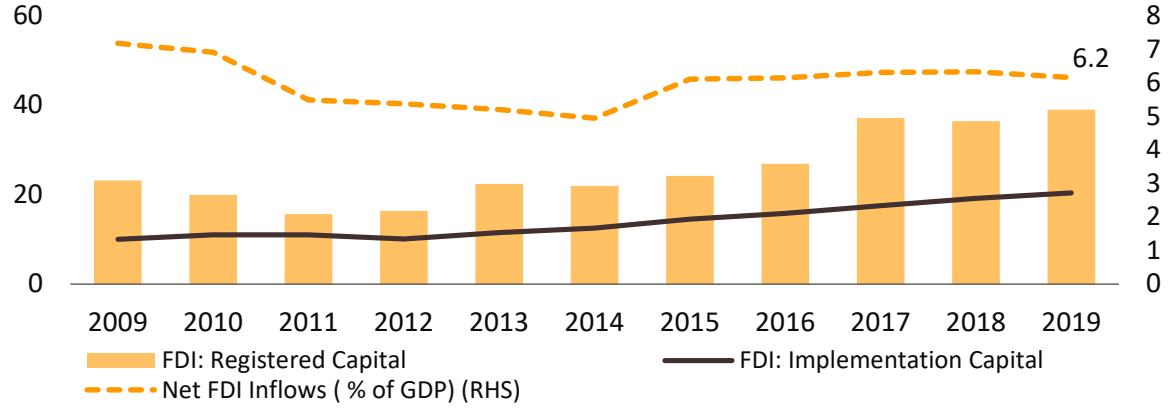


Source: CEIC

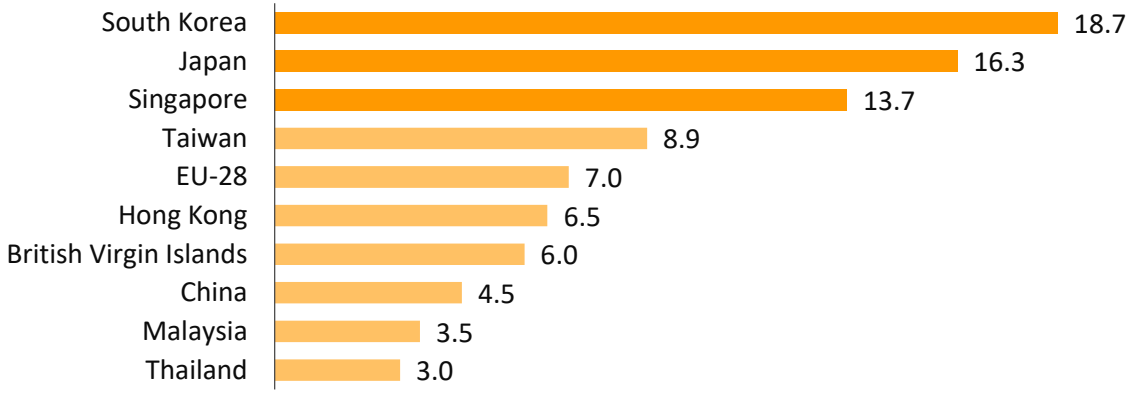
FDI will be attracted into Vietnam in the post-COVID era due to its favorable fundamentals

Driven by its attractive fundamentals and external developments including political uncertainty in Myanmar, foreign investment into Vietnam, particularly into the export-oriented manufacturing sector, will be continued. Over the past decades, FDI from North Asia – South Korea, Japan, and China – has played crucial roles in turning Vietnam into a mini China. Job and income opportunities have been generated leading to rising income levels of local young population. In 2020, export of manufactured goods accounts for 86% of the country's total exports.

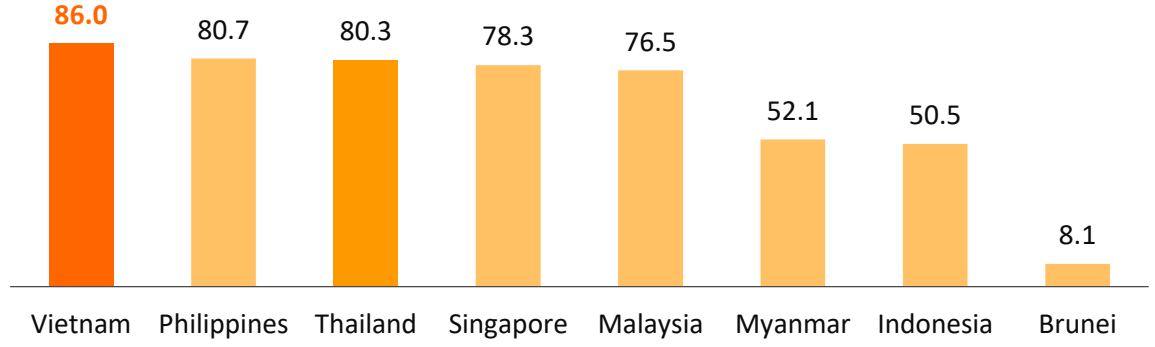
Annual stock of FDI (USD bn)



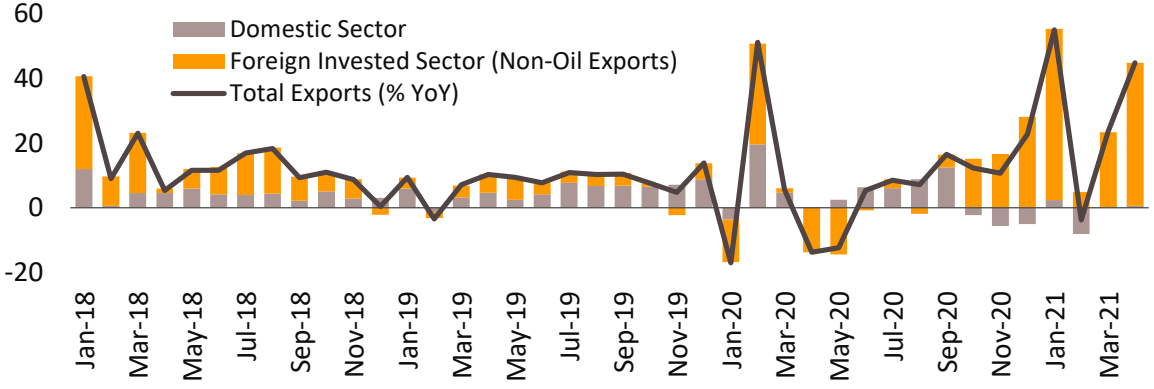
Main sources of FDI inflows (% of total FDI stock as of 2019)



Manufactured Products in 2020 (% of Total Exports)



Sources of Vietnam's export growth (ppt)



Source: CEIC, ITC Trade Map

Costs of production is relatively low and provides Vietnam competitive advantage as an investment destination labor-intensive manufacturing sector

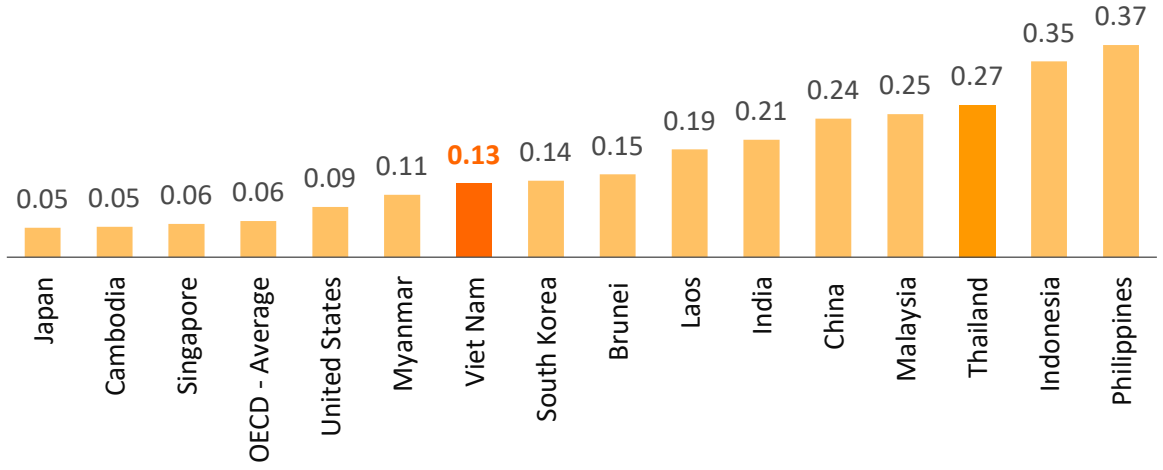
Production cost and wages for the manufacturing sector in Asia and Oceania



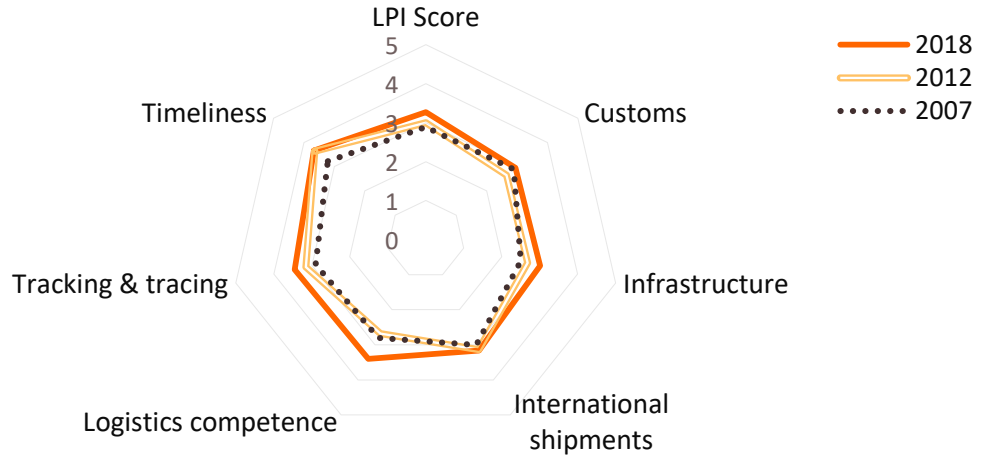
Source: Data based on JETRO Survey Report: Survey on Business Conditions of Japanese-Affiliated Companies: Asia and Oceania, December 2020

Business environment is becoming more conducive as regulatory restrictiveness has been lowered

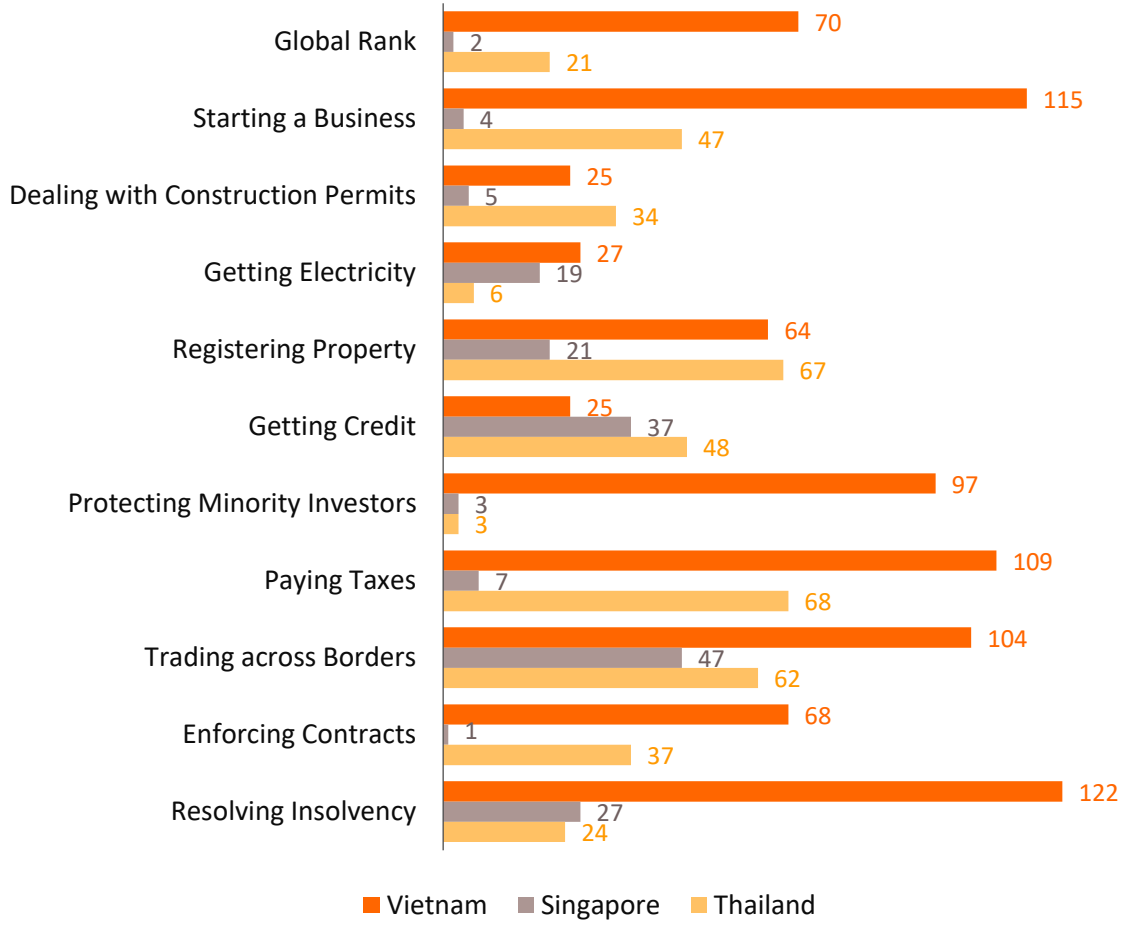
OECD FDI Regulatory Restrictiveness Index (2019)



Vietnam's Logistics Performance Index (LPI)



2020 Ease of Doing Business Ranking (of 140 countries)



Source: CEIC, OCEC, World Bank

Favorable structural trends will drive consumption booms in Vietnam in the periods ahead

The strong economic growth over the past decades has resulted in growing middle-class consumers in Vietnam. In 2020, it is estimated that the size of Vietnamese middle and affluent class (MAC) population is around two-thirds of that in Thailand. By 2030, the number will certainly increase more than double due to sustained and strong economic expansion. On the back of demographic dividends and rising income levels, we view that faster digital adoption and regionalization will additionally boost consumption booms in Vietnam.

Underlying trends to drive consumption booms in Vietnam



1 Favorable demographic structure

- Young and wealthier working population
- Rising urbanization



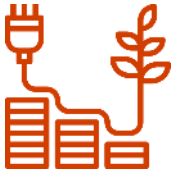
2 Rising income levels

- An increase in consumption and changing patterns of demand
- Expansion of mid- and high-segment of consumers



3 Faster digital adoption

- Rise of e-commerce, mobile commerce, and social commerce
- Government initiatives to drive the public adoption of digital technology
- Booms of innovation



4 Regionalization

- Improved regulatory and policy environment

Source: Krungsri Research

Vietnamese consumer behaviors are changing, and some are accelerated by the COVID-19 pandemic

New consumer habits will emerge in the post-pandemic world including those in Vietnam. In our view, there are six key themes that will shape consumption patterns in Vietnam in this decade.

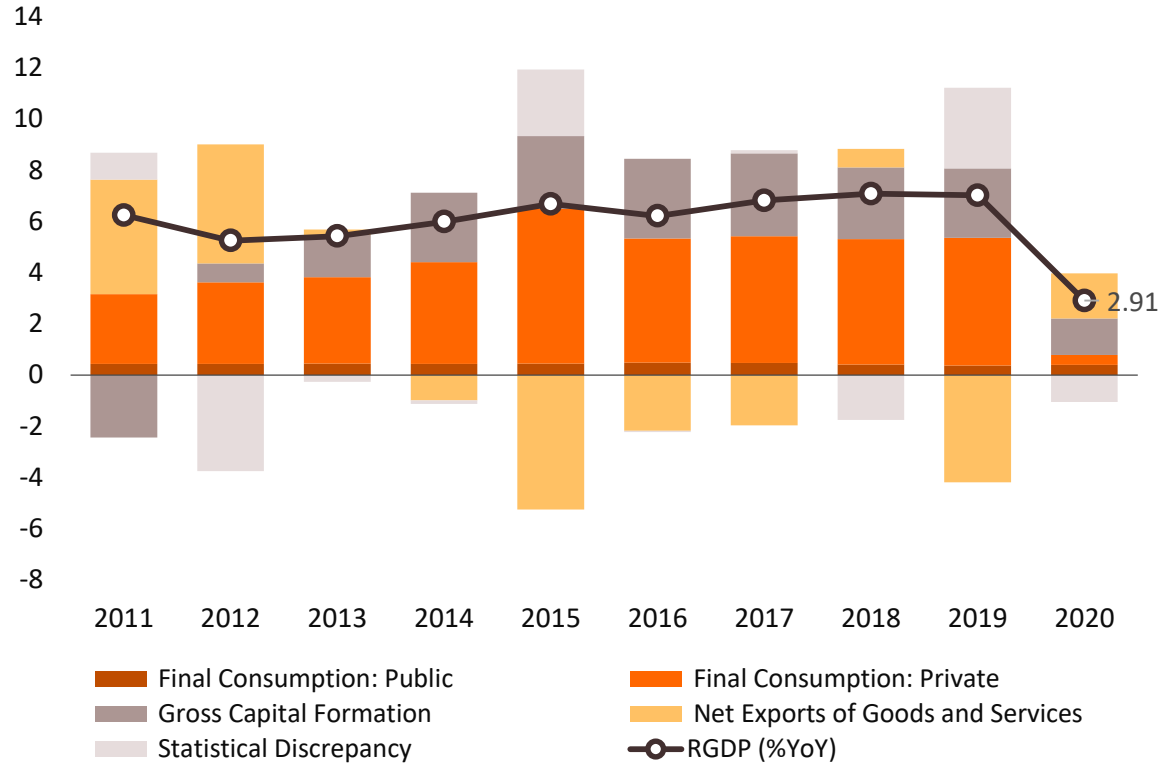
Key consumption themes in Vietnam in the long term	Implications for businesses
 • **Growing middle-class consumers will drive consumption booms**	• Vietnam's domestic market will become more sizeable with larger shares of middle and affluent class of consumers. • Opportunities in the food and beverage (F&B) sector will be immense, along with electronics, education, and transport.
 • **Digital adoption will be prevailing**	• Millennials and Gen Z will turn be the largest segments for digital consumption • Information sets and choices for consumers will become near that of a perfect competition market as online marketplaces become prevailing.
 • **Socio-economic walls will be overcome by technology-led online platforms**	• Financial technology will enable greater financial access and financial inclusion. Newly-enabled financial services will be provided. • Accelerating of tele-medicine services and education technology (EduTech) • New business models including subscriptions, renting and sharing will accelerate.
 • **Retail omni-presence will be demanded beyond omni-channel**	• Traditional trade will exist together with new channels of services. • New consumers will prefer both online and offline commercial presence.
 • **Consumers will demand for more convenience**	• Super-apps providing a one-stop services will become dominant.
 • **Consumers will become more aware of health and environment**	• Products and services are needed to be healthy and environmentally sustainable. • Issues relevant to environmental, social, and governance (ESG) will become general standards for businesses.

Source: World Economic Forum: 8 ways ASEAN consumer habits will change by 2030 - shaped by COVID-19, tech and more

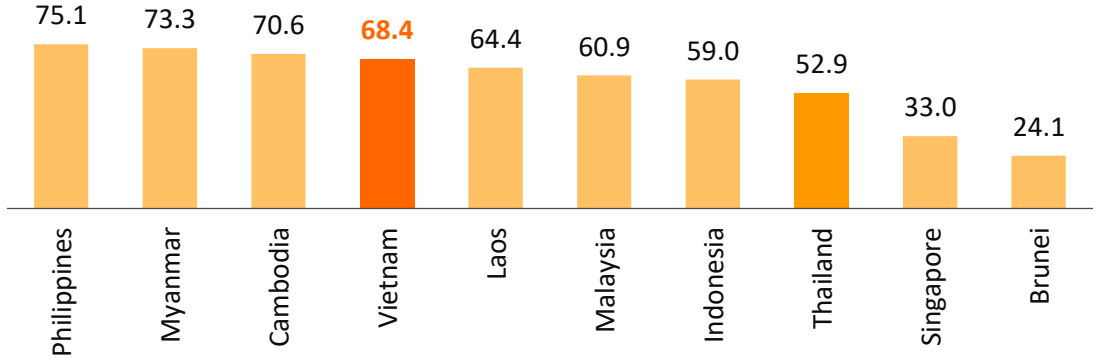
Household consumption has been one of the key growth driver on the demand side in addition to export and its roles will be pivotal

With the sizeable population, about 98 million in 2020, private consumption has been the key source of growth for Vietnam on the demand side with the share of almost 70% in the GDP. Prior to 2020, growth of consumption had been robust with the average annual growth rate of about 7%. This trend is expected to continue over the long term as young population are becoming wealthier and discretionary spending is likely to rise.

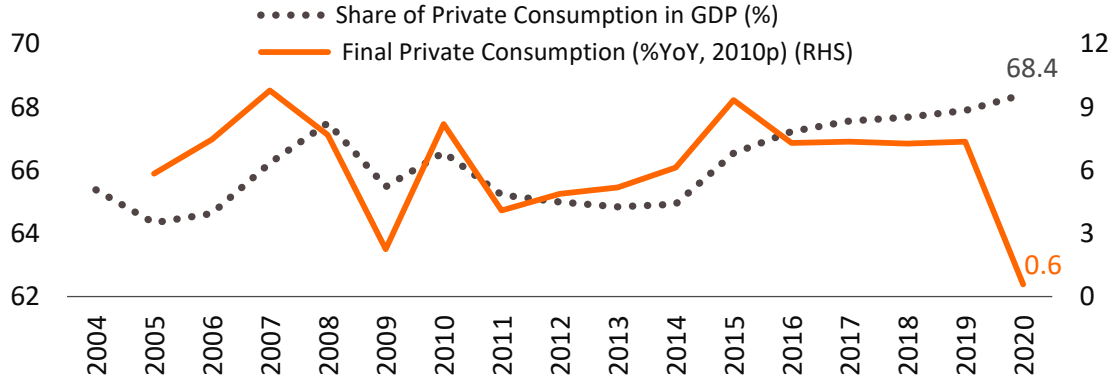
Sources of Real GDP Growth (ppt): Demand Side



Share of Household consumption in ASEAN in 2020 (% of nominal GDP)



Developments of Private Consumption in Vietnam

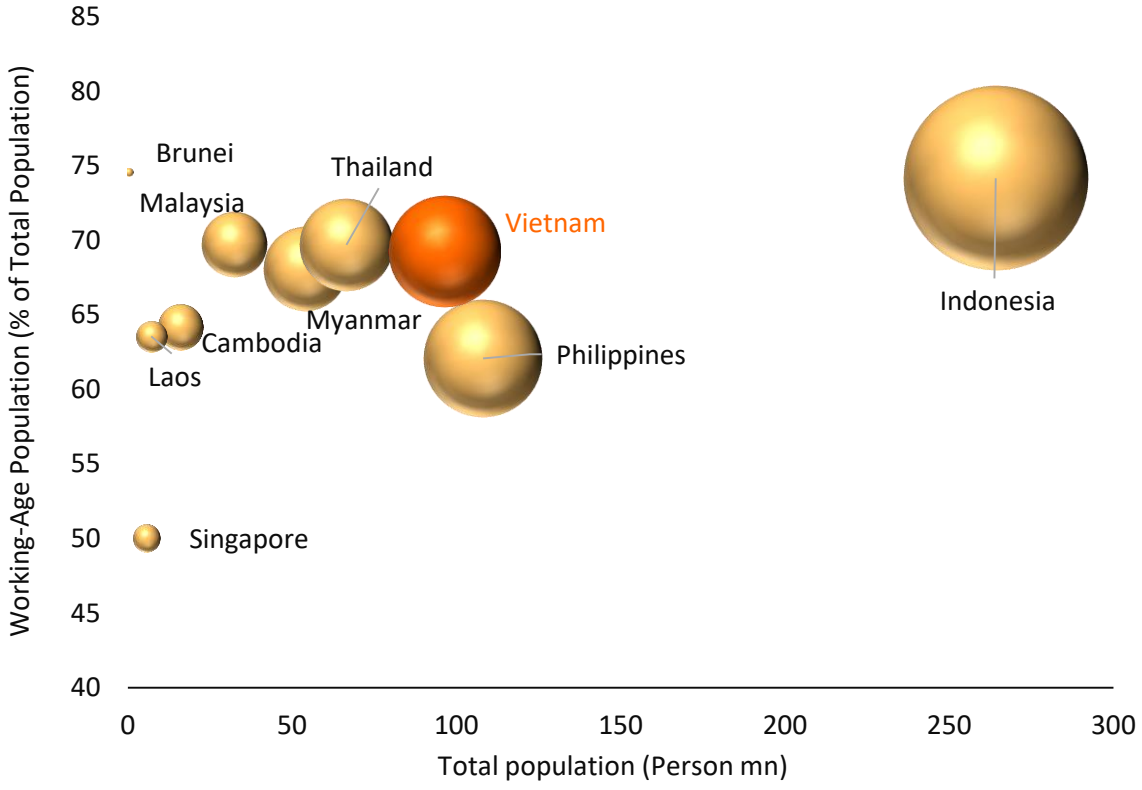


Source: CEIC, Krugnsri Research

Domestic consumer market is sizeable with high growth potentials as income levels of working-age population are rising

A sizeable and growing domestic consumer market in Vietnam is attractive for not only local businesses but also foreign investors seeking growth opportunities beyond their traditional markets. Vietnam is currently the third largest economy in ASEAN in terms of population following Indonesia and the Philippines. In terms of income per capita, the country is about to catch up with ASEAN peers – the Philippines, Indonesia, Thailand.

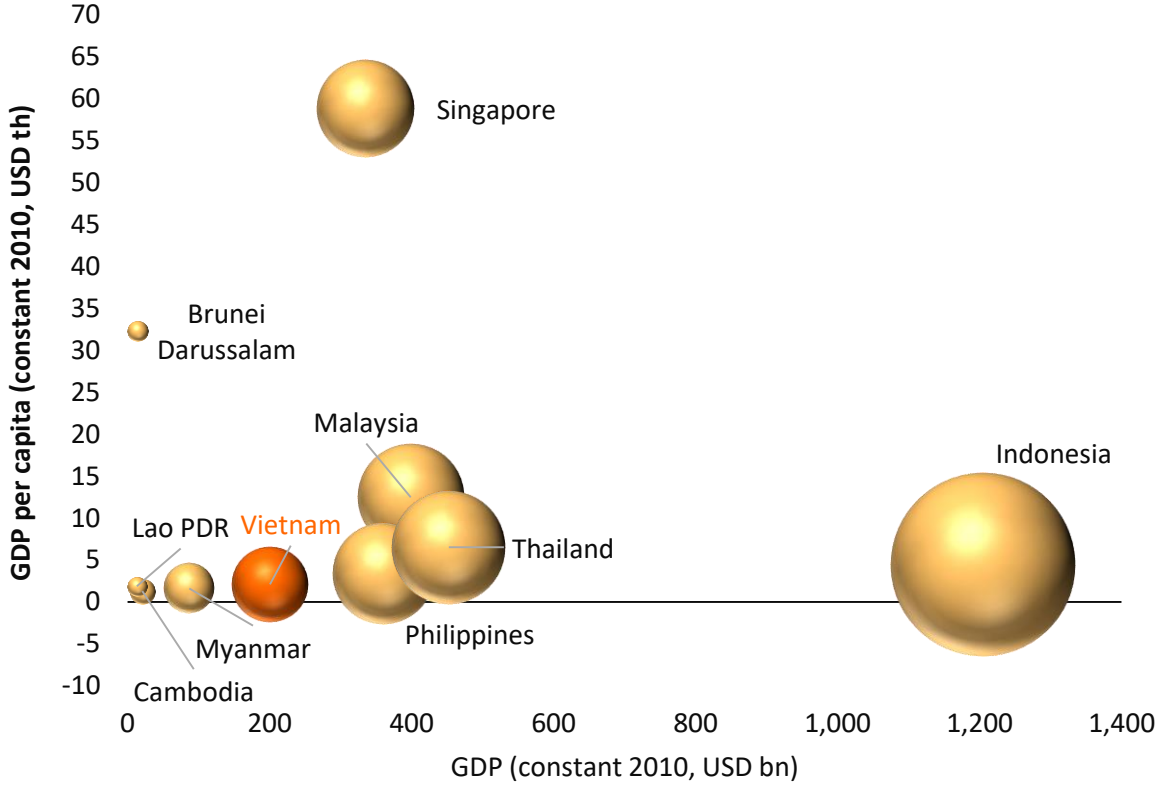
Market size in ASEAN



Note: Size of the bubble represents % of ASEAN

Source: CEIC

Economic size and GDP per capita (constant 2010 USD)

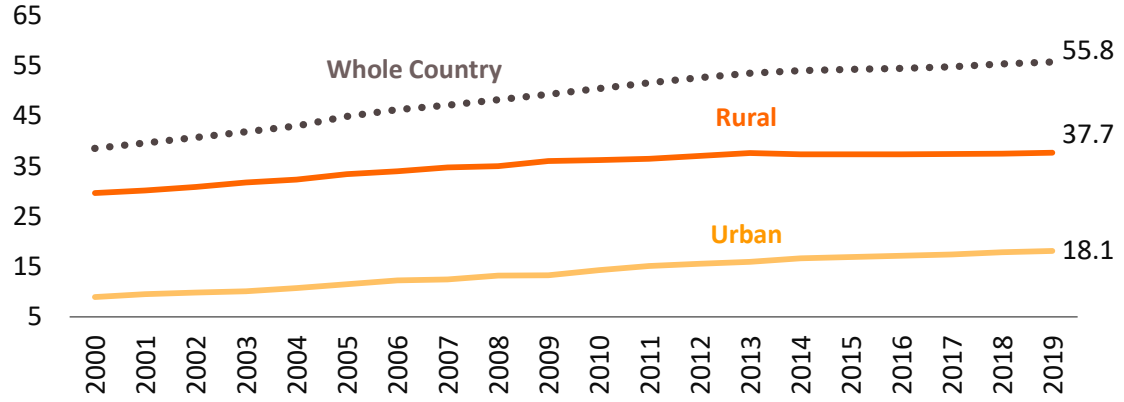


Note: Size of the bubble represents % share of ASEAN GDP

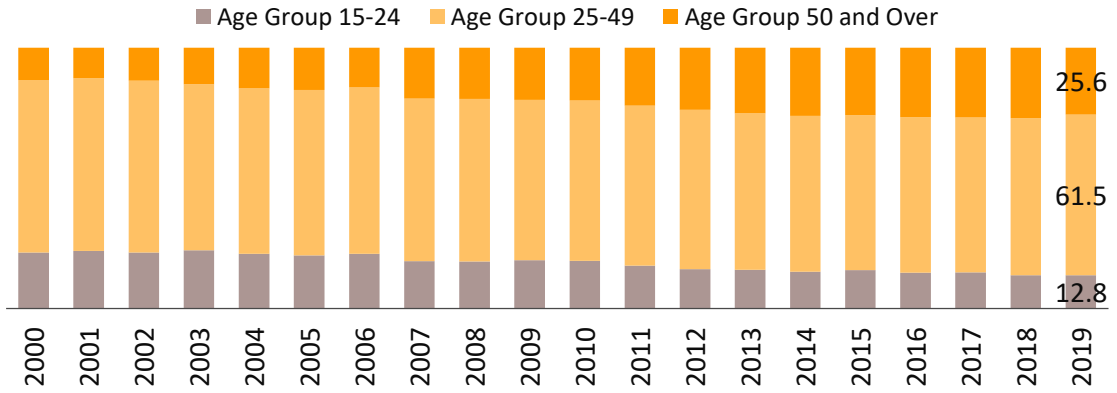
Consumption booms will be boosted by sizeable labor force and large young and wealthier population

On the back of favorable demographic structure, the current labor force of about 56 million will be a sizeable group of consumers, especially young age groups of 15-24 and 25-49 amid robust economic growth and sustained inflows of foreign investment which will ensure income and job opportunities for the local. A proportion of urban population will gradually rise and by 2030, it is expected to reach 44.5% of the total population. As a result, this will shape new consumption patterns toward more urbanized modes.

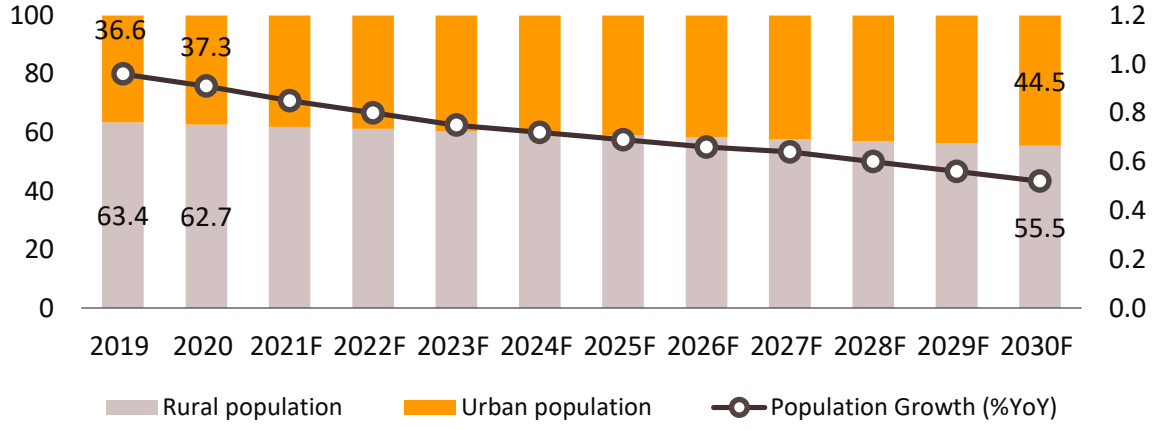
Labor force (person, mn)



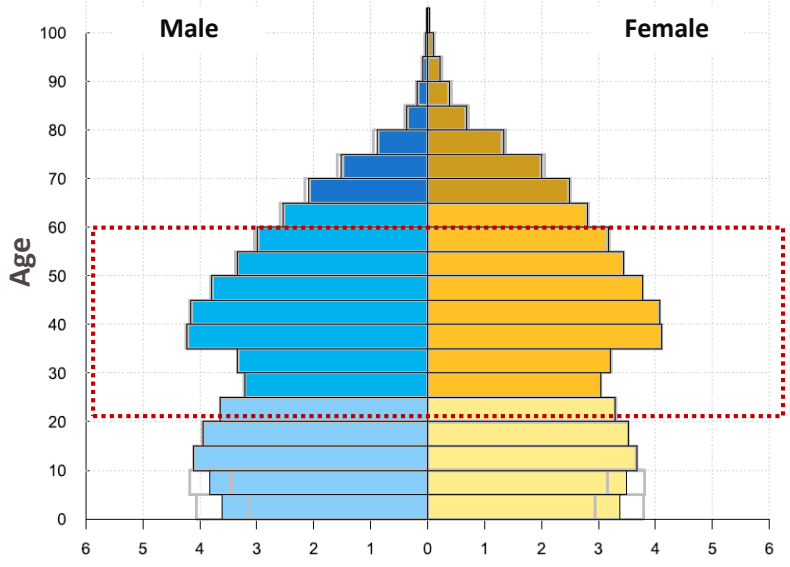
Share of labor force by age group (%)



Structure of rural and urban population (% of total)



Population in 2030

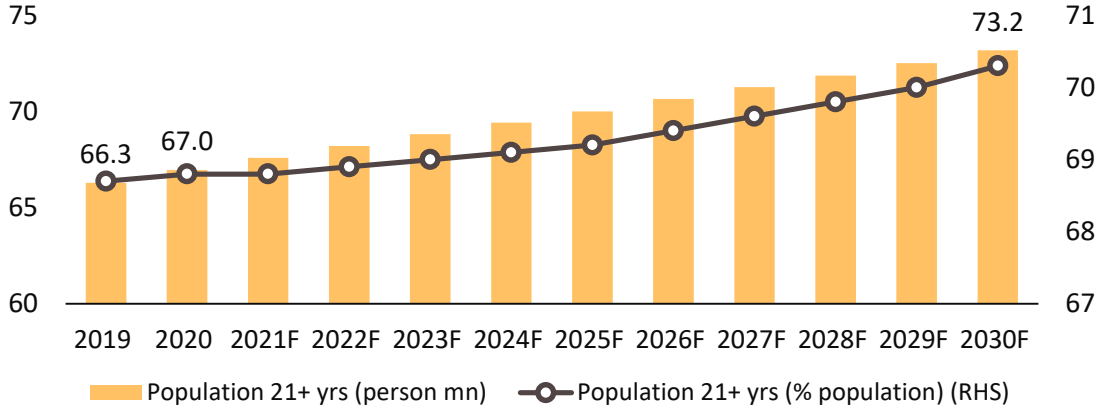


Source: CEIC, UN: World Population Prospects 2019

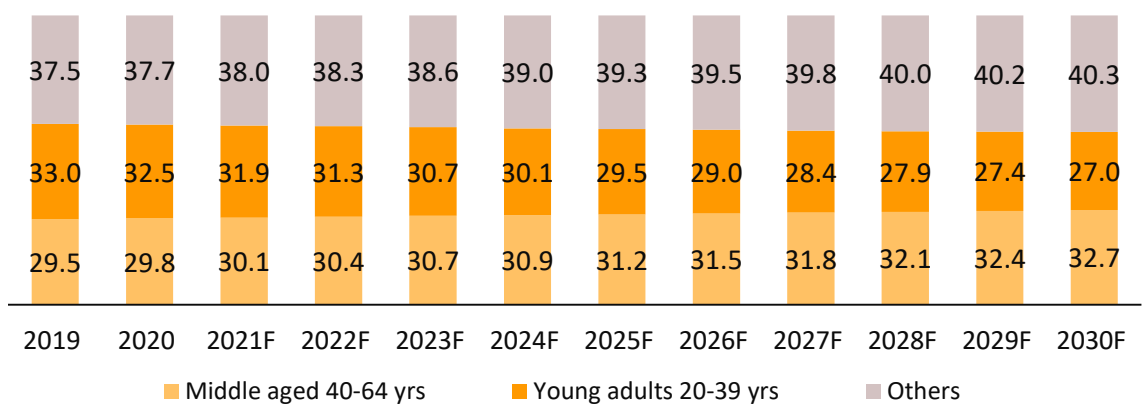
Gen Z and Millennials consumers will shape consumption trends in Vietnam

By 2030, the number of population with the age over 21 will reach 73.2 million, which is larger than the population size of Thailand. And the number of new generations of consumers - Gen Z and Millennials - could account for about two-thirds of Vietnamese consumers. As a result, these groups of consumers will play roles in not only driving but also shaping demand patterns and consumption trends, especially in the urbanized cities in the Red River Delta and the Mekong River Delta, going forward.

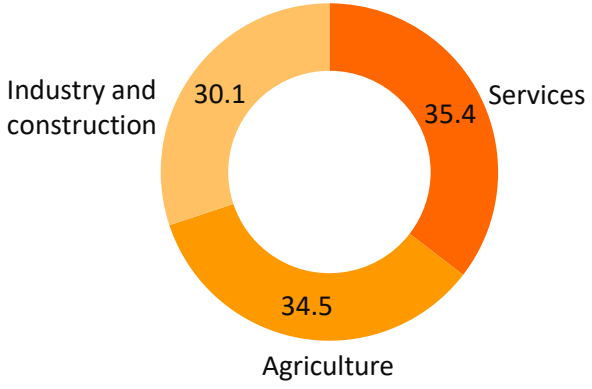
Population 21+ year old in Vietnam



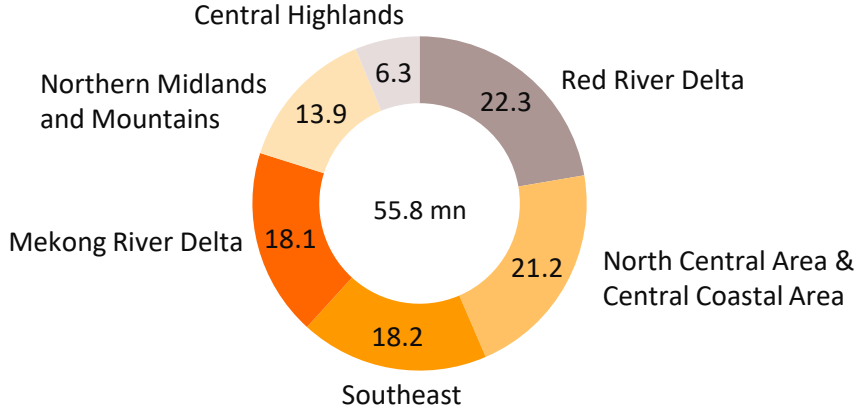
Share of consumer groups by age



% Share of Employment by industry (2019)



Share of labor force by region in 2019 (%)

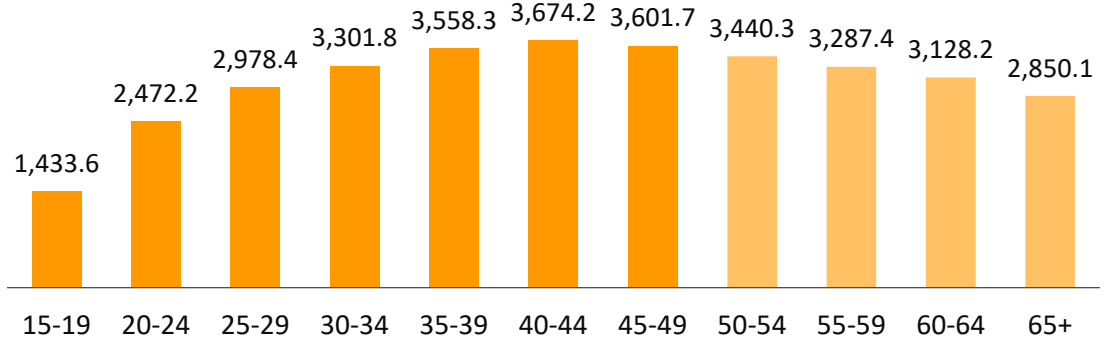


Source: CEIC

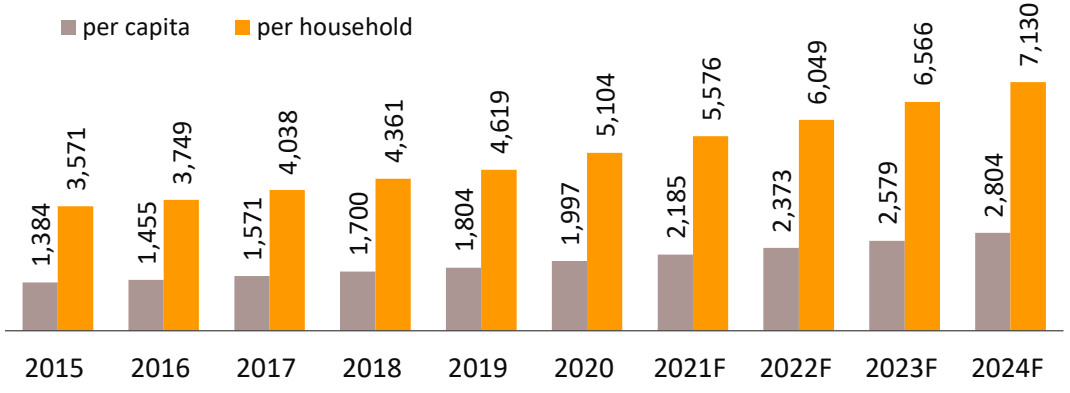
Rising income levels will drive consumers' discretionary expenditure

Rising income levels for all generations of consumers are the key factor behind expected consumption booms in Vietnam. In 2020, annual gross income of Gen Z and Gen Millennial consumers ranges from about 2,500 – USD3,600. By 2024, it is projected that annual disposable income per capita and per household will reach USD2,804 and USD7,1230. With higher income, consumer expenditure is rising and shares of spending on discretionary spending are expected to increase.

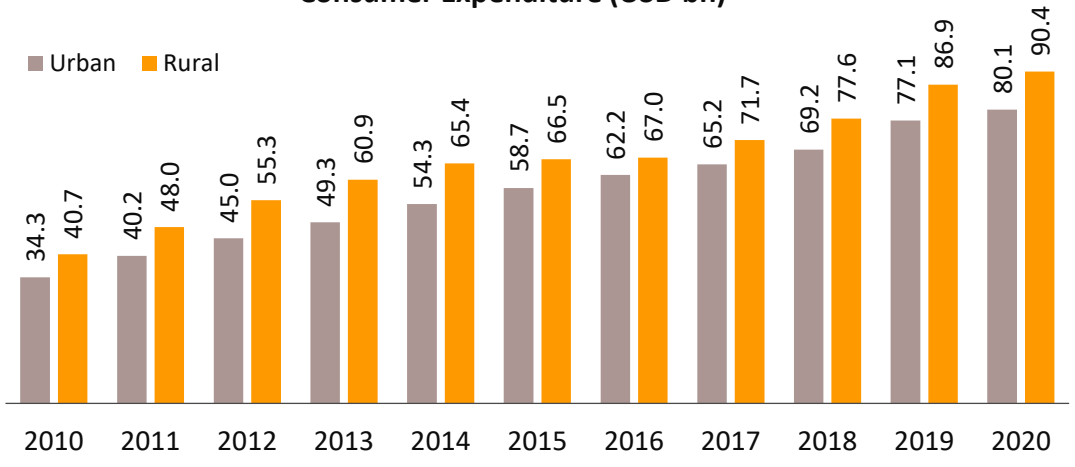
Estimate of Average Annual Gross Income of Population by Age Group in 2020 (USD)



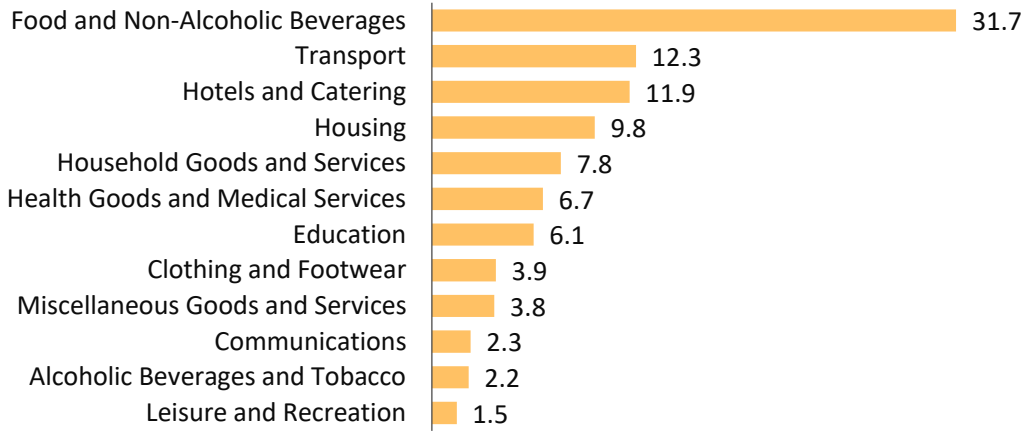
Disposable Income (USD)



Consumer Expenditure (USD bn)



% share of consumer expenditure in 2020

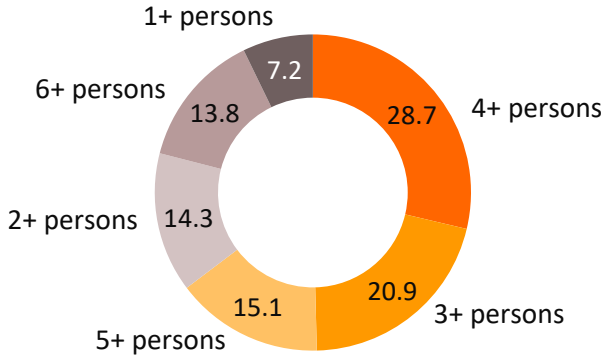


Source: CEIC, Euromonitor, EMIS

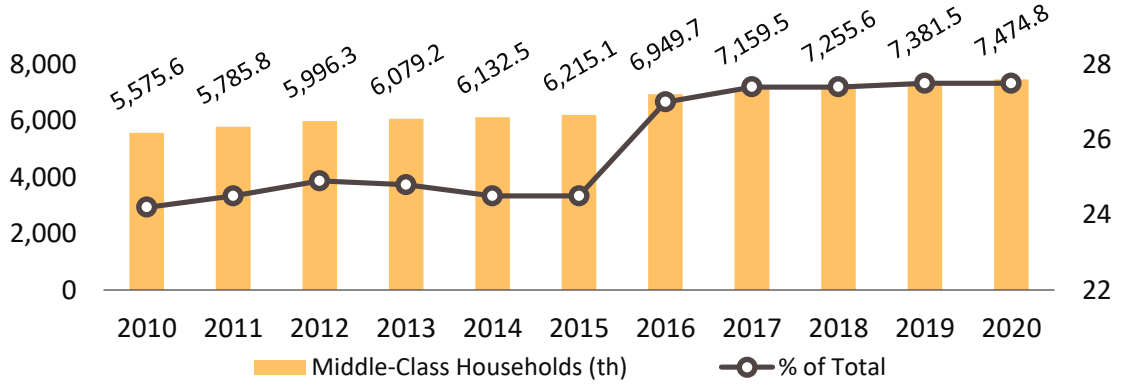
Size of households will be smaller in the long term driving demand for housing and other related services

Robust economic growth and urbanization trends are likely to cause changes in traditional family patterns in Vietnam amid declining fertility rates and growing international lifestyles. While the average household consists of four people, this will result in smaller size of households, for example, a couple with one child or single-person and couples-without-children households. On the back of rising household income levels and middle-class households, demand for housing and related goods and services such as consumer electronics and housing services will rise in the periods ahead.

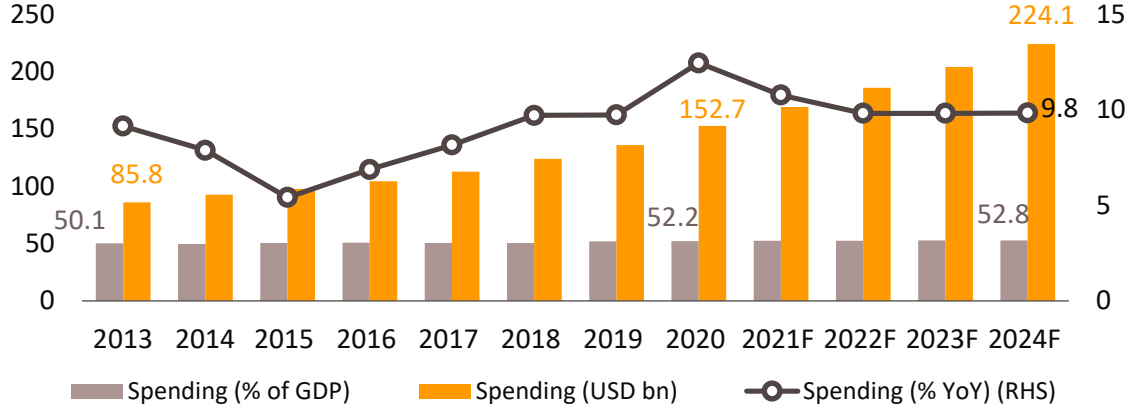
Structure of household size in 2020 (%)



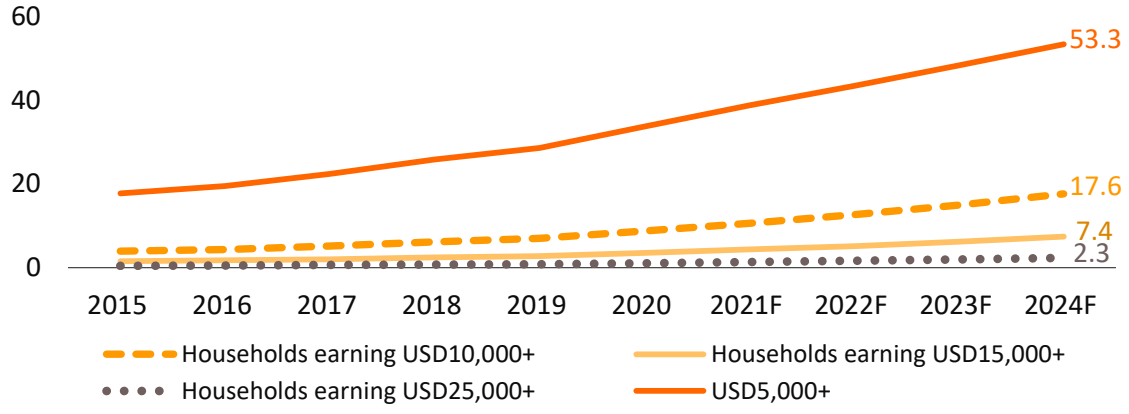
Vietnam's middle-class households



Total Household Spending in Vietnam



Households earning (% of total)

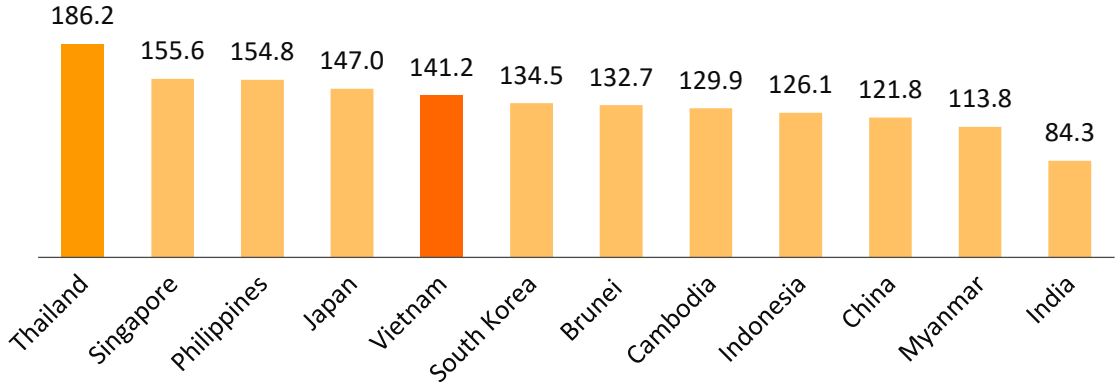


Source: CEIC

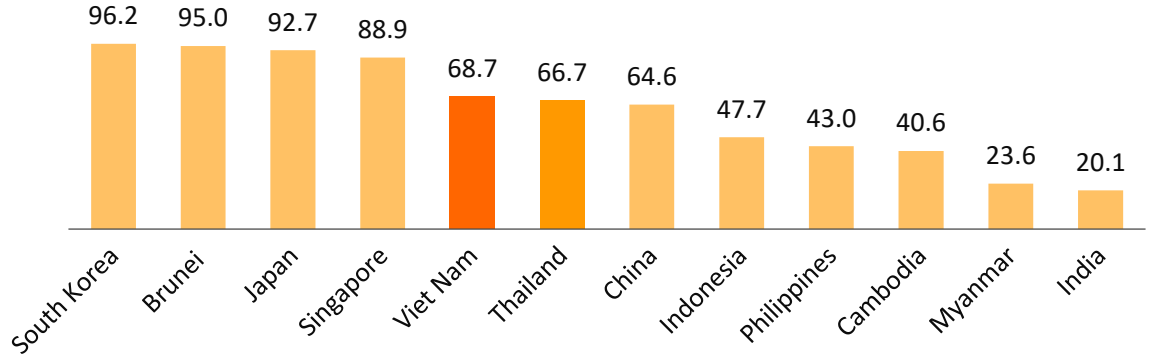
Digital economy will boom as young population tend to embrace new technologies on the back of more conducive enablers

On the back of large young and tech-savvy consumers, Vietnam has conducive and supportive for the digital economy, particularly mobile e-commerce to flourish. While the number of consumers using the internet is already on the rise, the ownership of smartphone and mobile cellular subscriptions are currently among the highest in the region. In terms of infrastructure, it has been improved considerably reflected by higher GSMA Mobile Connectivity Index. Also, Vietnam government has launched policies and initiatives to boost the digital economy including the cashless payment campaign.

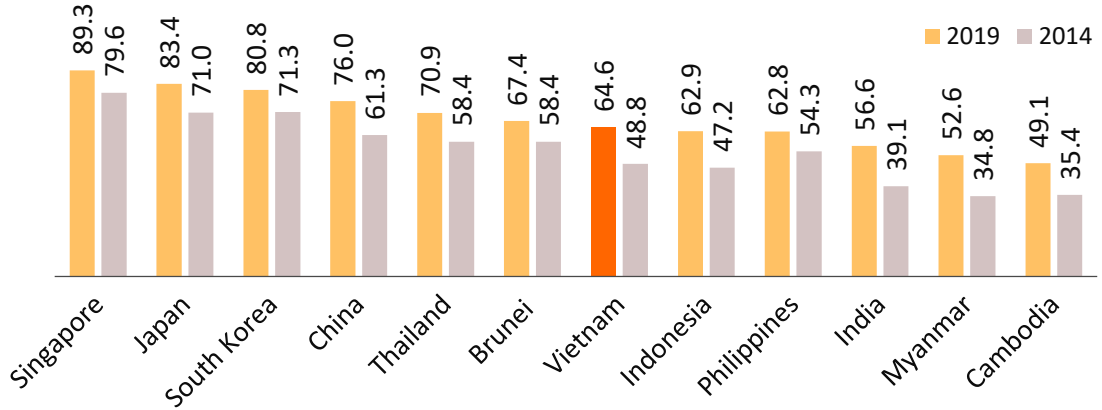
Mobile cellular subscriptions (per 100 people) in 2019



% of Individuals using the Internet in 2019



GSMA Mobile Connectivity Index



Enabler Score of the GSMA Mobile Connectivity Index

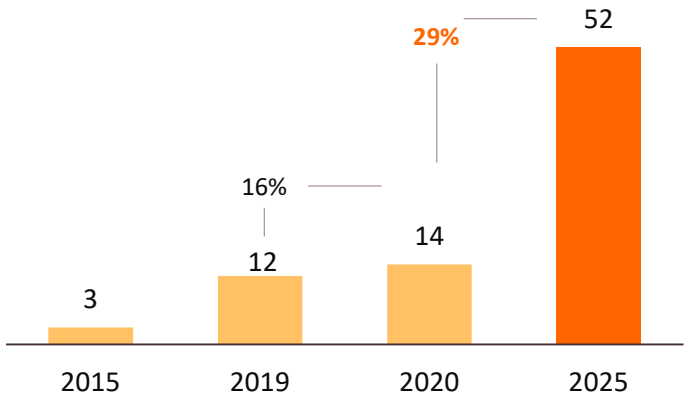
ASEAN + 3 country	Infrastructure	Affordability	Consumer Readiness	Content and Services
Brunei				
Cambodia				
China				
India				
Indonesia				
Japan				
South Korea				
Myanmar				
Philippines				
Singapore				
Thailand				
Vietnam				

Source: CEIC, GSMA, World Bank

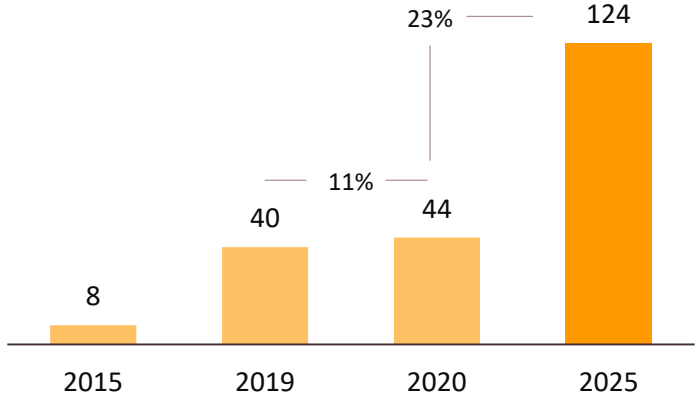
USD52bn will be the size of Vietnam's digital economy by 2025

Vietnam's digital economy will balloon to USD52bn by 2025 from USD14bn in 2020 or with the growth rate of 29%, according to the report by Google, Temasek and Bain & Company in 2020. The high growth has been primarily boosted by the COVID-19 pandemic leading to shifts in consumer behaviors to faster adopt digital services. Digital adoption happens greater in metro regions. Vietnam has the highest percentage of new digital consumers at 41% compared to that of regional peers. The digital adoption is likely to persist in the post-pandemic periods.

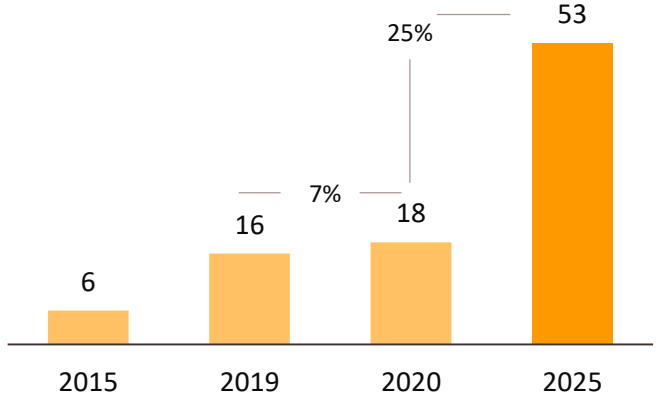
Vietnam (USD bn)



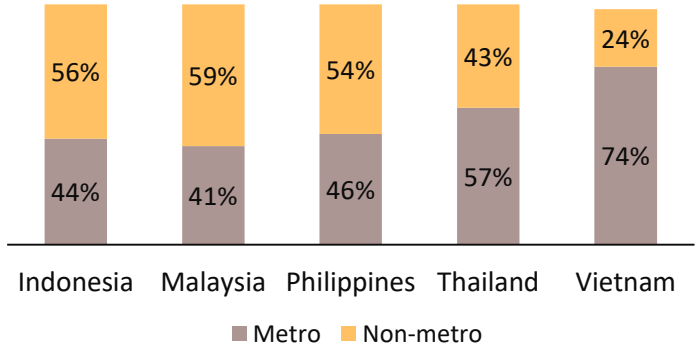
Indonesia (USD bn)



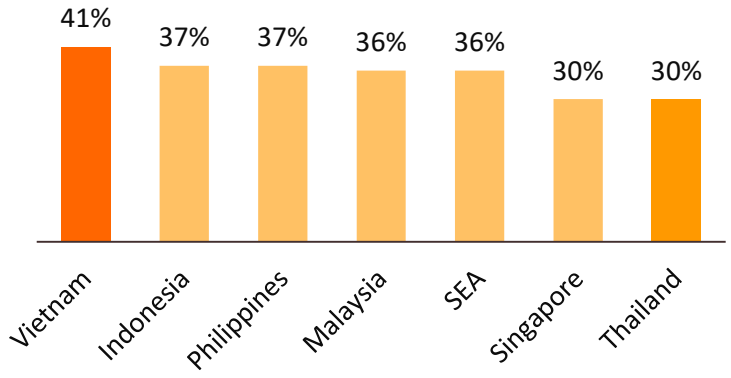
Thailand (USD bn)



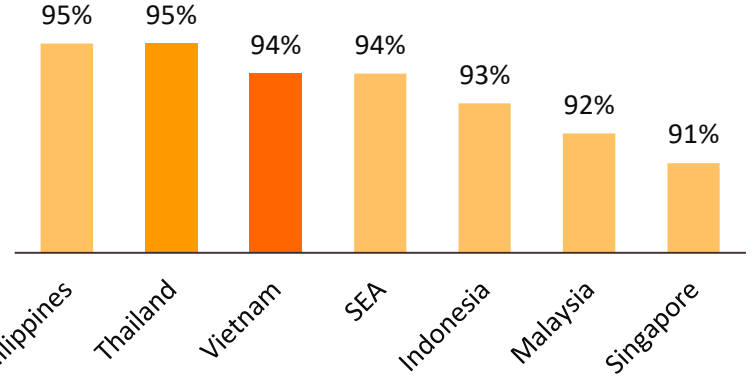
% of ne w digital consumers to services, by geography



% of new digital consumers out of total services consumers (SEA aggregate)



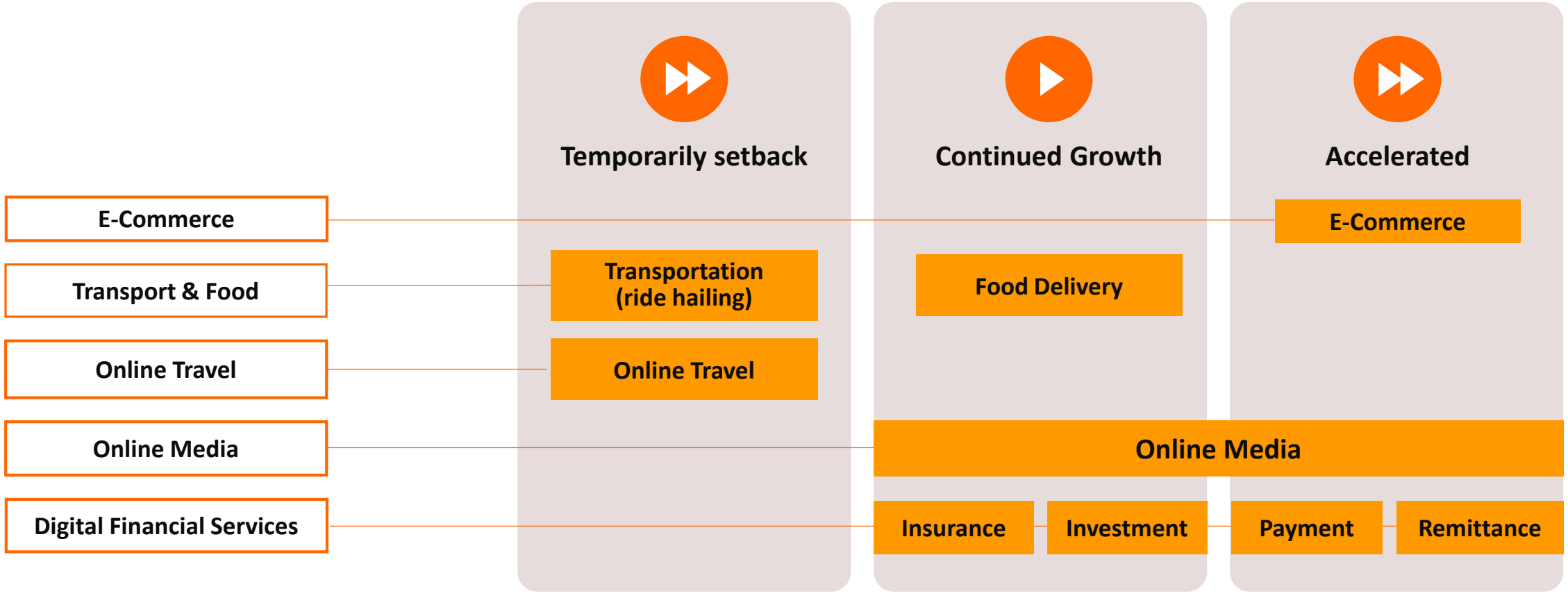
% of new digital consumers who will continue to use at least one digital service in the post COVID-19



Source: The e-Conomy SEA 2020 report by Google, Temasek and Bain & Company

E-commerce and digital financial services will be accelerated by COVID-19 and adoption is expected to grow faster

E-commerce, especially mobile commerce, and digital financial services are among the sectors that will grow rapidly as consumers are adapting to the new normal of the post-pandemic world. While the number of the unbanked population remains large, higher adoption of digital financial services such as e-wallets and mobile money would promote greater access to financial services in Vietnam. And this will in turn fuel the growth of mobile commerce.

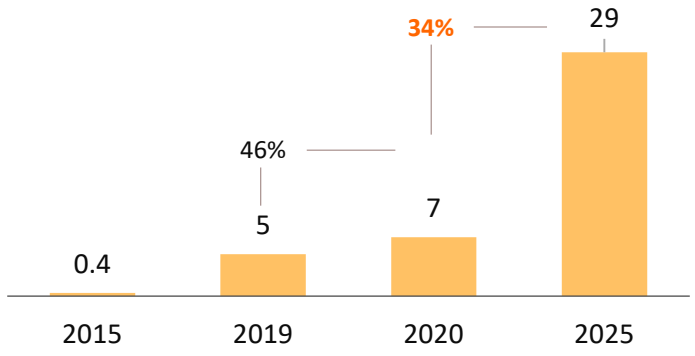


Source: The e-Conomy SEA 2020 report by Google, Temasek and Bain & Company

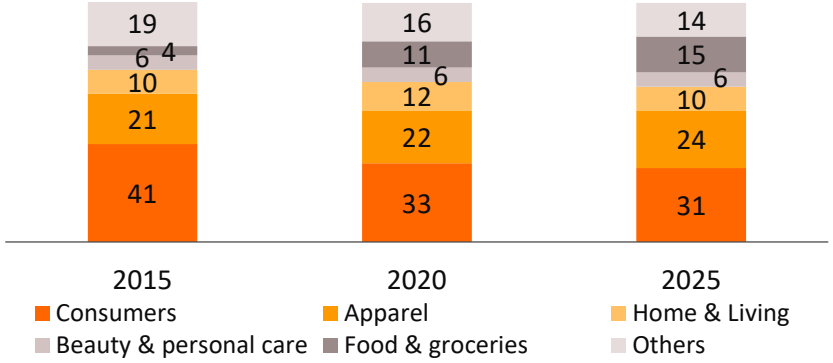
E-commerce market size will reach USD29bn in 2025 driven mainly by the growth of consumer products and apparels

USD29bn is the estimate of Vietnam's e-commerce market size by 2025, which will be among the largest in Southeast Asia. Regarding retail category distribution, it is in line with the regional trends that apparel and consumer electronics/consumer products are the largest two product categories in e-commerce by value sales. This is supported by young tech-savvy consumers who are not only the most prominent online shoppers, but also the most interested in fast fashion trends and new consumer electronics products. In addition, livestream platforms/social media have been introduced by e-commerce players in to increase website traffic and consumer engagement. Thanks to the COVID-19 pandemic, the growth of transport & food, and online media will be impressive.

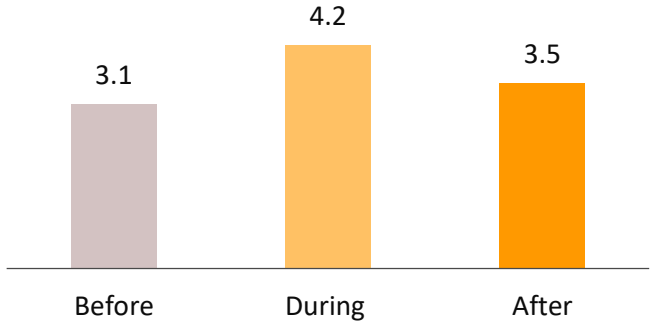
E-commerce



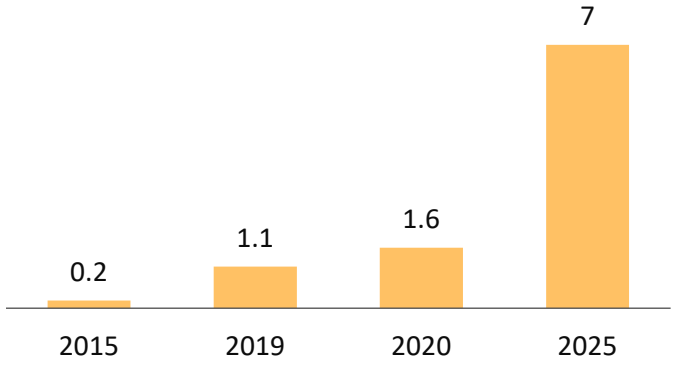
E-commerce GMV, retail category distribution (%) in SEA



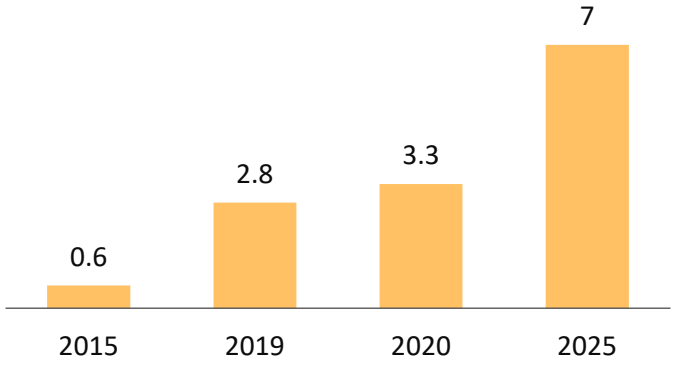
Average hours spent online per day (personal use)



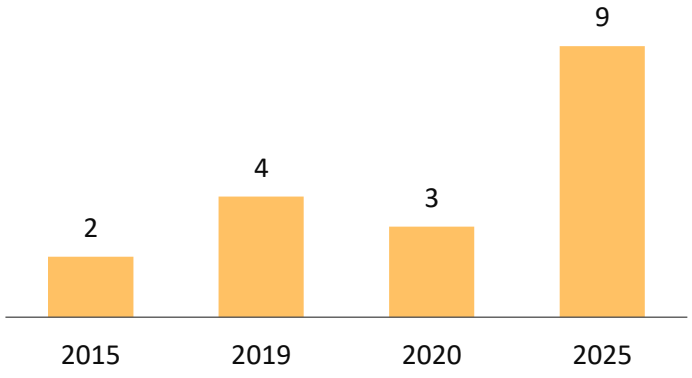
Transport & Food



Online Media



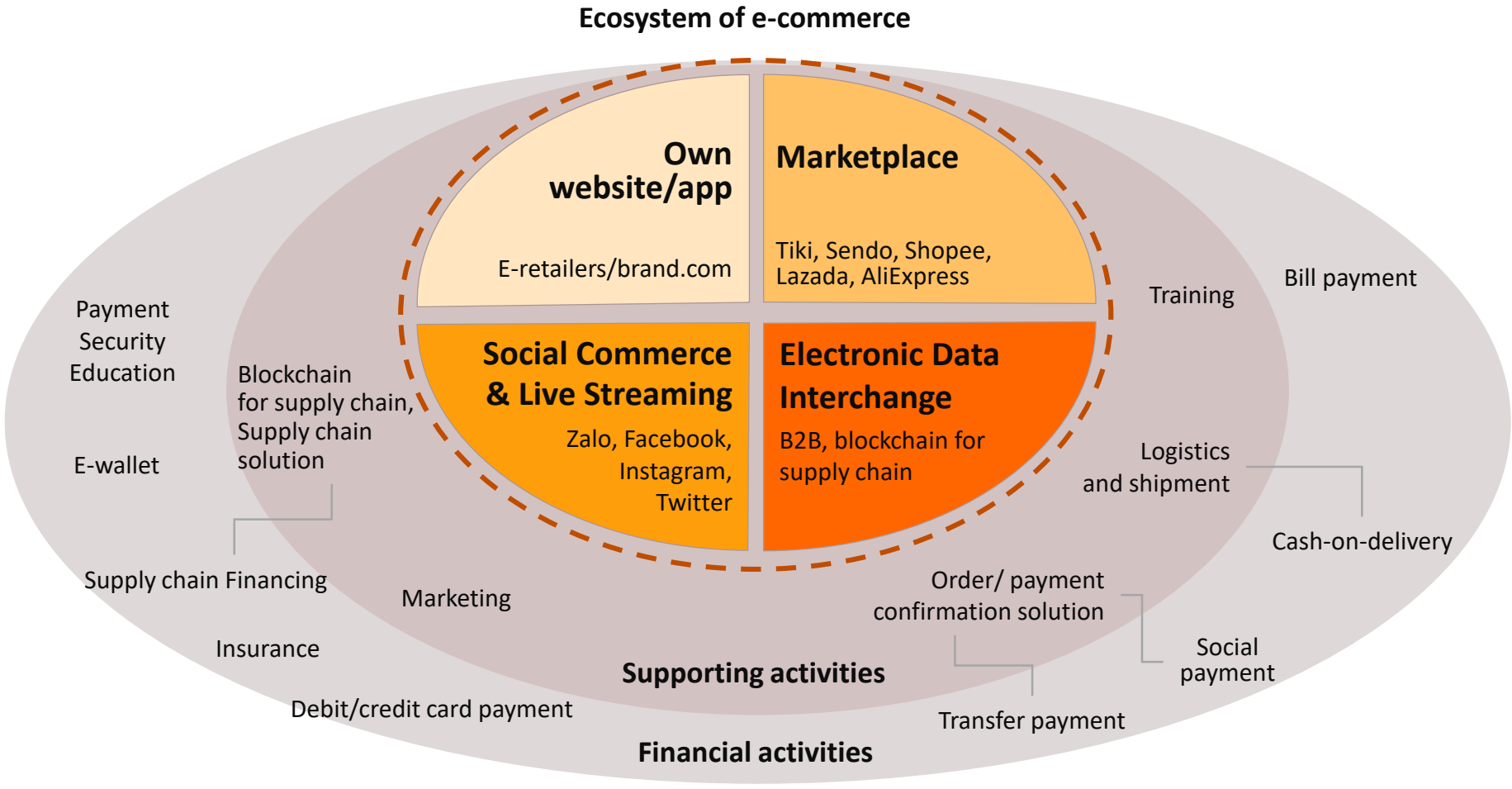
Online Travel



Source: The e-Conomy SEA 2020 report by Google, Temasek and Bain & Company

Exponential growth of e-commerce in Vietnam offer business opportunities within its grand ecosystem

Due to the fast and robust growth of Vietnam's digital economy, this offers business opportunities for both local and foreign players in the country's e-commerce ecosystem, particularly supporting activities from training to supply chain solutions as well as financial activities and financial solutions.



Source: Krungsri Research

Political stability is secured following the recent 5-year reshuffle and policies will continue to support foreign investment

In the 1Q 2021, there was a cabinet reshuffle following the 5-year policy cycle and Vietnam is going to have new leaders. Former Prime Minister Nguyễn Xuân Phúc is now the President, and Mr. Phạm Minh Chính supersedes him as the new Prime Minister. Investors are optimistic that the new administration will pursue policies favorable to foreign investors. It is reported that the new PM will likely to focus on reviving domestic economy and tourism through a swift deployment of vaccination against the pandemic and the adoption of a vaccine passport to reopen the country. In addition, there will be fast implementation of public spending on infrastructure projects to stimulate growth and improve connectivity as well as developments of special economic zones and industrial zones across the country to boost the manufacturing sector.

Key political figures in the new Administration



General secretary of the Communist Party: Nguyễn Phú Trọng



President: **Mr. Nguyễn Xuân Phúc**, a former Prime Minister



Prime Minister: **Mr. Phạm Minh Chính**



Central Bank Governor: **Ms. Nguyen Thi Hong**

Some of New Policy Frameworks and Initiatives

The National 10-year Socio-Economic Development Strategy (2021-2030)

In March 2021, Prime Minister Nguyen Xuan Phuc outlined the 10-year national development plan during the 13th National Party Congress and some key issues are:

- Achieving annual GDP growth of 6.5-7.0% during 2021-2025.
- Moving toward a developed nation with modern industry and upper-middle income (USD7,500 per person) by 2030, and a developed nation with high-income (USD18,000 per person) by 2045.
- Aiming for fast and sustainable development through science, technology, innovation, and digital transformation.

The National Digital Transformation Strategy

The country plans to become a digital society by 2030 and some key initiatives are:

- Implementing strategies to achieve to e-government as part of efforts to form a digital Government by 2025.
- Developing the digital economy, improving the competitiveness of the economy, for example, the digital economy should account for 20% of GDP by 2025 and 30% of GDP by 2030.
- Pursuing digital development, narrowing the digital gap, for example, fiber optic broadband network infrastructure should cover over 80% of households and 100% of communes by 2025. And the percentage of the population with electronic payment account should be more than 80%.

Source: Nikkei Asia, SBV, Local Media compiled by Krungsri Research

Appendix: Overview of Online Behaviors in Vietnam

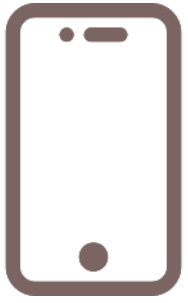


Overview of internet use

Total number of internet users (any device)	Internet users as a percentage of total population	Annual change in the number of internet users	Average daily time users aged 16-64 spend using the internet	% of users accessing the internet via mobile devices
				
68.72 million	70.3%	+0.8% +551 Thousand	6Hr 47min	94.7%

Source: We Are Social Report: Digital in Vietnam (January 2021)

Mobile internet use

Total number of mobile internet users (Cellular and /or WIFI)	Mobile internet users as a percentage of total internet users	Smartphone internet users as a percentage of total internet users	Feature phone internet users as a percentage of total internet users	Average daily time users aged 16-64 spend using mobile internet
				
65.08 million	94.7%	94.3%	2.9%	3Hr 18min

Note: The numbers refers to users who access the internet via mobile phones

Source: We Are Social Report: Digital in Vietnam (January 2021)

Overview of consumer goods e-commerce

Number of people purchasing consumer goods via internet



45.06
million

Total Value of the consumer goods e-commerce market



USD6.03
billion

Annual Growth in the total value of the consumer goods e-commerce market



+36.3%

Online consumer goods purchases: Average annual spend per user



USD132

Source: We Are Social Report: Digital in Vietnam (January 2021)

E-commerce growth by category

Travel, Mobility & Accommodation



-40.5%

Fashion & Beauty



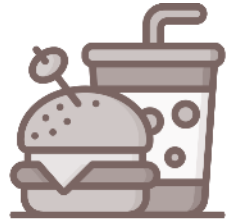
+37.2%

Electronics & Physical media



+32.6%

Food & Personal care



+45.9%

Furniture & Appliances



+33.6%

Toys, DIY, & Hobbies



+34.9%

Digital Music



+33.2%

Video games



+35.3%

Source: We Are Social Report: Digital in Vietnam (January 2021)

E-commerce purchases by age group

Purchased a product online in the past month: **16-24 years old**	Purchased a product online in the past month: **25-34 years old**	Purchased a product online in the past month: **35-44 years old**	Purchased a product online in the past month: **45-54 years old**	Purchased a product online in the past month: **55-64 years old**
				
70.6%	81.8%	85.3%	83.5%	75.3%

Source: We Are Social Report: Digital in Vietnam (January 2021)

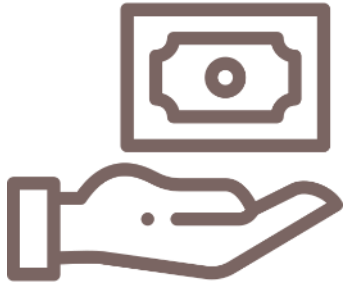
Overview of Vietnam's digital payments

Number of people making digitally enabled payment transactions



36.23
million

Total annual value of digitally enabled consumer payments



USD8.61
billion

Annual change in the value of digitally enabled consumer payments



+19.3%

Digital payments: Average value of annual transactions per user



USD238

Source: We Are Social Report: Digital in Vietnam (January 2021)

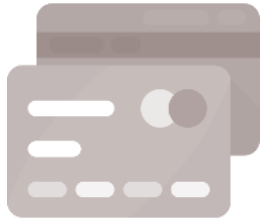
Overview of financial inclusion in Vietnam

Has an account with a financial institution



30.8%

Has a credit card



4.1%

Has a mobile money account



3.5%

Makes online purchases and/or pays bills online



20.5%

% of women with a credit card



+3.7%

% of men with a credit card



+4.6%

% of women making online transactions



+21.2%

% of men making online transactions



+19.8%

Source: We Are Social Report: Digital in Vietnam (January 2021)

KRUNGSRI RESEARCH

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