



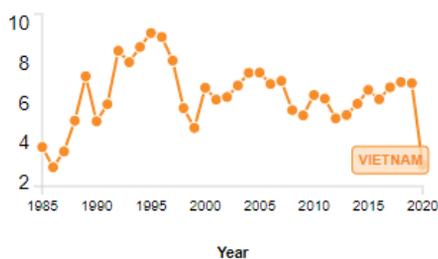
Country in Focus – Vietnam

Transformation and Growth Story

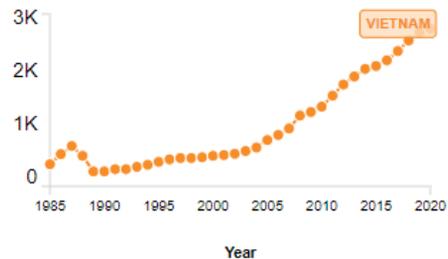
Over the last 30 years Vietnam has undergone a significant transformation that has spurred a remarkable streak of economic growth and social development. Today, Vietnam is at the forefront of conversation in the emerging markets universe as well as when it comes to the development of the ASEAN region and the pivotal role it plays as an exporter of goods into the global economy. An up-and-coming counterweight to China in terms of manufacturing capabilities and exports, Vietnam has not only excelled in its outward development but similarly has undergone rapid demographic and social change because of its newfound importance on the world stage. Its population reached 96.5 million in 2019 (up from about 60 million in 1986) and is expected to expand to 120 million by 2050. Even more remarkable is that according to the 2019 Population Census Report, 55.5 percent of the population is under 35 years of age, with a life expectancy of 76 years, the highest among countries in the region at similar income levels.

This spectacular transformation did not happen overnight. Ravaged by some 20 years of war by the end of 1975, Vietnam's economy had been one of the poorest in the world. It was only later in the mid-1980's when Vietnam's development was spurred forward through the economic and political reforms under Doi Moi, launched in 1986, with the aim largely to steer the country to becoming a "socialist-oriented market economy". Such reforms would facilitate one of the world's poorest nations at the time into a lower middle-income country today. Between 2002 and 2018, GDP per capita increased by 2.7 times and more than 45 million people were lifted out of poverty.

GDP Growth (Annual %) (VALUE)



GDP Per Capita (Current US\$) (VALUE)



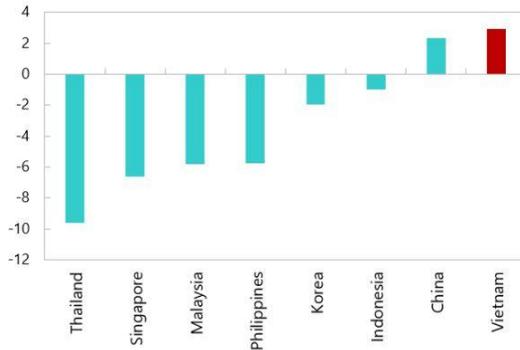
Such rapid industrialisation has been supported domestically by Vietnam's focused investment in its own human capital and infrastructure. Vietnam has made several large public investments in areas such as primary education and technology infrastructure. These have contributed to Vietnam's increasing attractiveness as a hub for foreign direct investment (FDI) and this has been fostered by various Japanese and Korean electronics companies such as Samsung, LG, Olympus and Pioneer (not to mention the countless European and American apparel makers setting up their shop in country), all of which have helped Vietnam move up the charts and become a significant exporter of both electronics and apparel in the region and globally.

COVID Resilience and Foreign Investor Appeal

Vietnam had continued to showcase resilience in the face of various adversities. The effects of Covid-19 were felt domestically but mitigated to a degree as Vietnam entered the pandemic with solid economic fundamentals and policy buffers in place. Immediately after COVID-19 outbreak in early 2020, the World Bank Group (WBG) shared a series of five policy notes with Vietnamese policymakers. These notes included a number of recommendations that were taken into consideration by the Government of Vietnam, including the adoption of safety nets to protect the most affected businesses and people, the speeding up of the digitization process by firms and government's agencies, and the acceleration of the public investment program which was viewed as the main instrument to jump start the economic recovery process, leading to a positive GDP growth rate of 2.9 percent in 2020. Strong foreign investment and current account surpluses strengthened external resilience and the wider build-up of these fiscal, external, and financial buffers prior to the pandemic made Vietnam more resilient to the shock. The government's response was noted to be both well-targeted and decisive in its containment measures and support. Taken together, these swift internal and external policy decisions helped the economy remain resilient as evidenced by its continued expansion in 2020 despite it being a perilous year due in large part to the global pandemic.

High growth in a perilous year

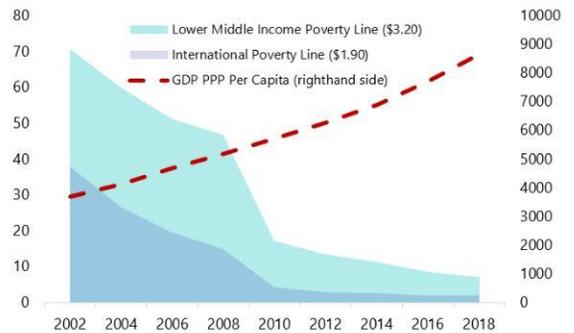
Vietnam's growth in 2020 was the highest in Asia. (percent)



Source: IMF, World Economic Outlook database.

Rising living standards

Structural transformation lifted Vietnam from poverty. (in percent of population and PPP in international currency)



Sources: World Bank, Vietnamese authorities and IMF staff calculations.
Note: PPP=purchasing power parity.

INTERNATIONAL MONETARY FUND

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Vietnam's sustained GDP growth is just one aspect why the nation continues to appeal to foreign investors. In recent years, trade tensions between China and the US have led investors to pursue a "China plus one" model, where investors look to shift some of their operations to other low cost countries so they are not solely reliant on China. Vietnam has been well placed to take advantage of this trend as a result of their extensive trade agreements with foreign countries, favourable business environment and proximity to China.

Vietnam remains one of the most competitive labour markets in Southeast Asia with minimum wages falling between US\$ 132 and US\$ 190 per month where as Malaysia's minimum wages range from US\$270 to US\$295, Thailand's from US\$248 to US\$265, and Indonesia's from US\$120 to US\$298. This is evident when you consider the manufacturing and processing sector accounts for 48% of total registered investment capital in the country.

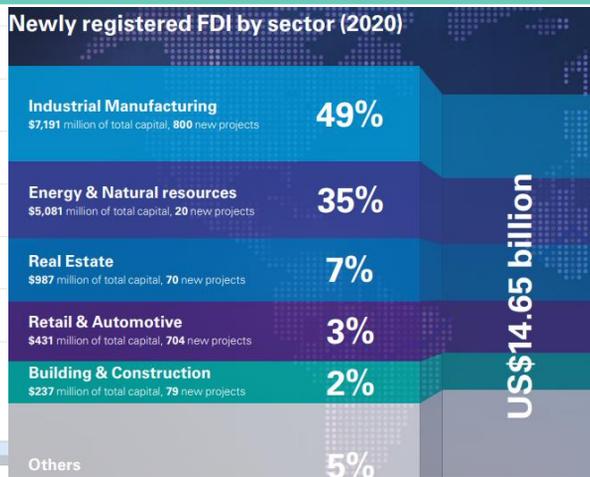
Foreign Direct Investment, Net Inflows (% of GDP) – Value (World Development Indicators)

The business environment of Vietnam is in line with its level of development, with the World Bank ranking Vietnam 70 out of 190 economies in the Ease of doing Business rankings in 2020?. The standard corporate income tax rate is highly competitive at 20% and the government has signed over 80 double taxation agreements including with Australia, Canada, China, France, Germany, Singapore, UK and the US. Similarly to the double taxation agreements the Vietnamese government has been proactively signing Free Trade Agreements and has 13 in effect with 6 more under negotiation enhancing its competitive advantage over other South-East Asian countries.

For Vietnam to remain on its long-term growth trajectory going forward, macroeconomic policies will need to remain supporting in 2021 to ensure a resilient and inclusive recovery.



Source: World Bank Indicators



Source: KPMG – Investing in Vietnam 2021



Renewable Energy Transition, Challenges and Opportunities

As a bi-product of Vietnam's growth story, its environmental footprint has become a cause for some concern. Due to rapid industrialization, and consequently the nation's increasing reliance on fossil fuels, Vietnam's power sector itself accounts for nearly two-thirds of the country's greenhouse gas emissions. There is an urgent and exciting opportunity for Vietnam to pivot and focus more on its clean energy transition and there is scope to move towards a green recovery post-pandemic.

One of Vietnam's advantages is its access to an abundant offshore wind resources that are located close to demand centres and in relatively shallow water as well as areas further offshore which have higher wind speeds and thus higher energy yields.

According to a report by the World Bank, if Vietnam is able to set a high growth target for its offshore wind industry this year, the renewable wind sector has the potential to supply 12% of Vietnam's electricity by 2032 - playing a significant role in sustainably meeting the country's rapidly growing electricity demand. In turn, this could prevent over 200 million metric tons of CO2 emissions through coal-fired power generation replacement and grow the economy by a minimum of USD/\$50 billion by stimulating the growth of a strong, local supply chain, creating thousands of skilled jobs and exporting to other offshore wind markets globally.

Aside from wind power, solar power generation is an increasingly attractive option for Vietnam due to more recent cost reductions and short construction timelines. The draft Power Development Plan 8 (PDP 8) which was released in February 2021 by the Government of Vietnam is significantly different from previous plans (which relied heavily on hydropower, coal, and natural gas sources) and highlighted the Government's commitment to reducing its carbon emission with a strong emphasis on non-hydro renewable capacity. As of 2020, solar and wind capacity in Vietnam was 16.6 gigawatts (GW) and 0.6 GW, respectively; under the draft PDP 8, Vietnam plans to increase solar capacity to 18.6 GW and wind capacity to 18.0 GW by 2030.

However, a clear challenge Vietnam will face with increased capacity coming online, is the lack of developed grid infrastructure to support it. The country desperately needs new transmission and distribution networks to accommodate the additional electricity production and to transmit it to the required locations. Some of the country's transmission lines are operating at maximum capacity, especially in the southern region where solar capacity is concentrated. Despite solar capacity in Vietnam is increasing significantly in 2020, the country plans to reduce its renewable energy output by 1.3 billion kilowatt hours in 2021 because it does not have the transmission capacity needed. The Government recently adopted new legislation that improves and prioritizes grid development which is also a leading principle in the draft PDP 8. These priorities include building more high-voltage transmission lines and expanding grid infrastructure, which would help ease grid congestion and integrate renewables.



Outlook

Despite the current Covid-19 challenge in the short-medium term, the Vietnamese economy is expected to show improved annual growth, with GDP growth expected to strengthen to 6.8% year-on-year in 2022.

Vietnam maintains the potential to harness the effects of the Covid-19 crisis and to accelerate positive change domestically. Similarly, to what has transpired in larger, more developed economies, Vietnam has the potential to realise its ambition of becoming an equally advanced digital economy. Lockdown environments have accelerated the need for digital transformation and Vietnam's vibrant domestic businesses are doing just that as they make the shift to offering more services online.

According to Premier Pham Minh Chinh, the forecast GDP in 2022 will expand to a range between 6% to 6.5%, forecast inflation for 2022 will be at about 4%, while below that level through 2021, exports in 2021 will end up growing 10.7%.

As restrictions ease and the country accelerates its Covid-19 vaccination program, the government is tasked with restoring Vietnam's reputation as a reliable global supplier of everything from Walmart Inc. furniture and Adidas AG sneakers to Samsung Electronics Co. smartphones.

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