



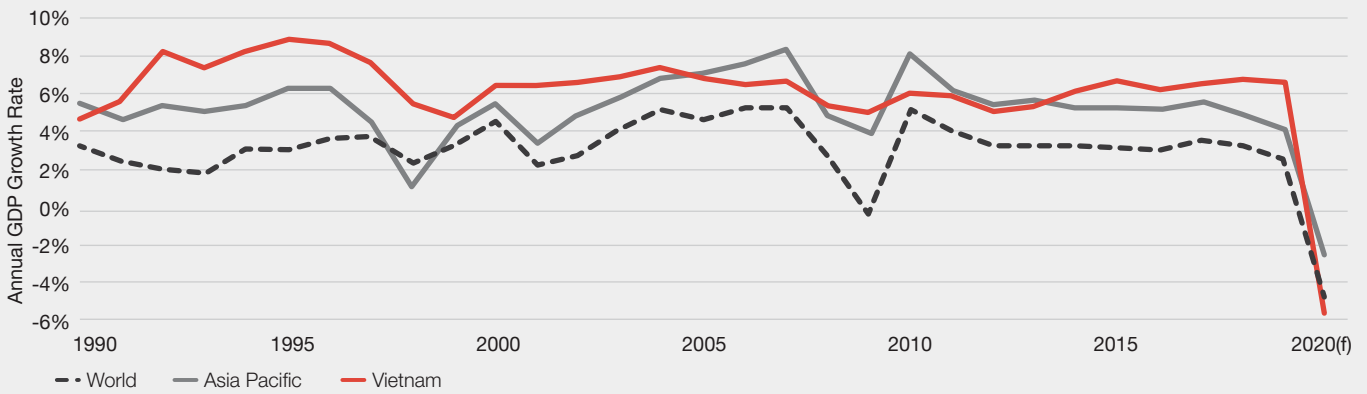
# Time to Act Vietnam

## A nation on the move

Vietnam has witnessed strong and stable economic growth between 5-8 per cent annually over the past 20 years, pushing its gross domestic product (GDP) from US\$40 billion in the year 2000 to US\$330 billion in 2019. Government reforms have played a key role in opening the market to private participation and in making Vietnam an attractive destination for investments. Foreign capital inflows have risen strongly in recent years to reach a 10-year high in 2019 – with changing trade and market dynamics driving a realignment of global manufacturing towards new locations such as Vietnam. Over the years, Vietnam has also continued to build upon its trading relations with global markets. Since its ascension into the World Trade Organization in 2007, Vietnam has entered into numerous Free Trade Agreements with various entities, the most recent being the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the EU-Vietnam Free Trade Agreement (EVFTA) – the latter of which has been estimated to contribute between 4.5 to 8 per cent to the nation's GDP growth over the next 5 to 10 years.<sup>1</sup>

Besides economic improvements, Vietnam has also strengthened its human capital by lifting more than 45 million people out of poverty since 2002. The nation has notably managed an effective response to COVID-19 so far – restricting the economic fallouts of the crisis, and enabling Vietnam to feature amongst few global economies expected to register positive GDP growth in 2020.<sup>2</sup>

## Economic growth trends for Vietnam, compared to regional and global averages

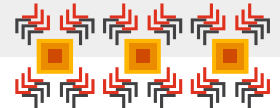


Source: International Monetary Fund (October 2020)

## Economic and Human Development Index (HDI) performance of key Asia Pacific markets



Source: International Monetary Fund (October 2020); United Nations



## The need for change

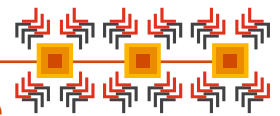
While the overall economy has made strong progress in the past few decades, there remains scope for Vietnam to further enhance the people's well-being – creating the need for more inclusive growth in the years ahead. Overcoming key growth challenges needs to be of utmost priority as Vietnam seeks to revive growth and design a stronger future trajectory – creating an urgency to act now.

**Trade tensions:** Rising uncertainties in global trade pose new growth risks to export-led economies such as Vietnam, having a trade to GDP ratio of more than 200 per cent. As per the World Trade Organization, global markets imposed 102 new trade-restrictive measures over October 2018 to October 2019 – slowing down growth in exports. COVID-19 disruptions have also sharply impacted goods trade and expectations of rising protectionism could further restrict trade growth in the immediate future.<sup>3</sup>

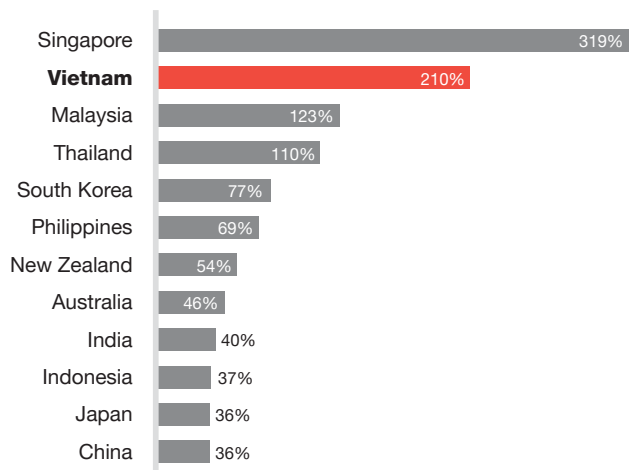
**Environmental sustainability:** Vietnam features amongst nations at significant risk of climate change, with its highly populated low-lying areas being threatened by more extreme weather and rising sea levels. The agriculture sector in particular is highly vulnerable, witnessing productivity concerns and resource scarcities that threaten food security. Accounting for more than one-third of the labour force at present, the agriculture sector also remains pivotal to poverty reduction efforts in Vietnam.<sup>4</sup>

**Institutional challenges:** As Vietnam works towards becoming a more attractive destination for global businesses and investors, focus will need to be given on further strengthening the institutional environment to drive economic growth with social prosperity. For example, strengthening intellectual property (IP) laws and enforcement will be key to boosting innovation to drive economic opportunities, while technology adoption can help improve the scale and efficacy of public services in the country.<sup>5</sup>

**Productivity challenges:** While the past two decades have seen Vietnam make significant improvements to human capital and productivity along with economic development, the country continues to face productivity challenges by regional and international standards. Vietnam's demographic advantage is also expected to soon begin to fade, with the share of population above 65 years increasing 2.5 times by 2050 – highlighting the need for a significant increase in productivity for Vietnam to maintain economic growth and reach its developmental goals.<sup>6</sup>

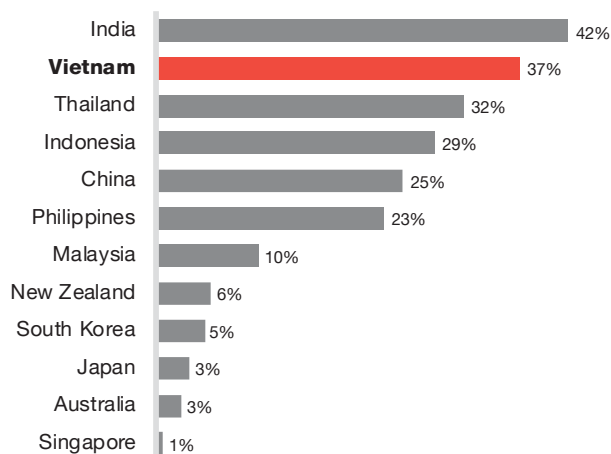


## Trade to GDP ratio, 2019



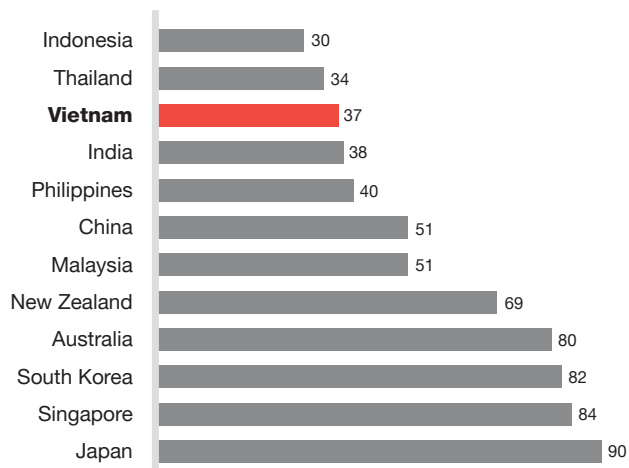
Source: World Bank

## Agriculture employment, % of total employment, 2018



Source: World Bank

## International IP Index, 0-100 (highest), 2020



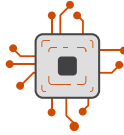
Source: US Chamber of Commerce

## Building a new future

Tackling these growth challenges has become necessary to repair, redesign and rebuild Vietnam's economy for a post-COVID-19 future – while enabling a more socially inclusive and environmentally sustainable growth trajectory. This requires all stakeholders (the government, businesses and the society) to shift from old conventional growth models and build new growth pillars for the future.

Pillar

1




### Advancing the digital economy

- Building digital value chains for resilience
- From digital risk to digital trust — collectively enabling the pathway

Pillar

2

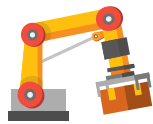


### Enabling regional enterprise growth

- Propelling companies for growth within Asia Pacific
- Boosting regional trade in services as a new growth lever

Pillar

3




### Rebalancing supply chains and fostering innovation

- Developing balanced and resilient regional supply chains
- Fostering a collaborative innovation ecosystem

Pillar

4

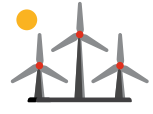


### Expanding and future-proofing the labour force

- Upskilling today to be relevant tomorrow
- Preparing the employees of tomorrow

Pillar

5



### Building climate change resilience towards a net-zero future

- Building solutions for a net-zero circular economy
- Adopting technology to address food and agriculture concerns

**1****Pillar 1 - Advancing the digital economy**

Digitalisation has become a significant need for Vietnam, to improve industrial competitiveness and enhance human capital. Digital solutions can help Vietnam in boosting productivity to further attract manufacturing investments, while digital channels can help improve the reach of essential services such as health and education. Digital adoption has become even more vital in the future, with COVID-19 related disruptions making resilience a key priority for organisations. Businesses now need to focus on digital adoption at the right points across their value chains while becoming more cyber resilient. The government is also required to extend greater support to transform small and medium-sized enterprises (SMEs) and take steps to strengthen trust in digital systems.<sup>7</sup>

**2****Pillar 2 - Enabling regional enterprise growth**

Moving outside domestic shores has become crucial for business growth, prioritising expansion within Asia Pacific to target growing regional demand. Vietnamese businesses will need to localise and be more agile in new regional markets, exploring alliances and acquisitions to lower entry barriers and growth risks. Government support will also be crucial in helping businesses internationalise. Digitalised services offer potential to grow cross-border trade, but will require national agencies to assist businesses in identifying the right target markets and building their brand presence overseas.<sup>8</sup>

**3****Pillar 3 - Rebalancing supply chains and fostering innovation**

Vietnamese businesses need to better prepare themselves to benefit from a growing rebalancing of global supply chains with more integrated regional networks in Asia Pacific. Local suppliers looking to become preferred partners for leading global brands need to focus beyond a price-based positioning strategy and offer more differentiated propositions (e.g. engineering excellence or technology leadership) to remain competitive. Businesses also need to take a lead in fostering more agile innovation – working with the government, funding bodies and academic institutions to build more specialised ecosystems suited to Vietnam’s fast changing requirements.<sup>9</sup>

**4****Pillar 4 - Expanding and future-proofing the labour force**

Aligned with Vietnam’s changing growth needs, its workforce also needs to be equipped to drive higher value addition. Reskilling initiatives need to drive a shift to new skills that can support the industry’s move up the value chain e.g. from labour-intensive production to higher value-add segments such as electronics and automotive. The government needs to take a lead by highlighting its growth vision and driving more targeted engagement with other ecosystem participants, all across the “education journey”. Businesses need to build an agile talent plan, in line with their industry’s growth trajectory – while helping SMEs in their supply chains to bridge capability gaps.<sup>10</sup>

**5****Pillar 5 - Building climate change resilience towards a net-zero future**

Facing a growing sustainability risk in the form of more extreme weather events and frequent natural disasters, Vietnam needs to prioritise action on minimising the economic and social costs of climate change. The agritech sector in particular requires government and business attention, utilising technology to enhance access to information, improve productivity and strengthen food security. Plans to build a circular economy also need to be better designed for more visible impact – creating incentives to form a tri-entity partnership between governments, businesses and communities for large scale adoption, in order to move towards a net-zero climate impact.<sup>11</sup>

**The way forward**

There is now an urgent need for action. The government needs to become more proactive in enabling change, businesses need to take a lead in driving new solutions and the society needs to become a more active collaborator to sustain long term impact. Regional collaboration has also become a necessity to make Asia Pacific more resilient and future-ready, but will require growing markets such as Vietnam to evolve into a more regional role than remain domestically focused – serving as providers of an aspirational workforce, drivers of economic activity and testing grounds for consumer-focused innovation. Emerging as a key destination for manufacturing investments, Vietnam can also make a significant contribution to addressing the region’s fast-growing demand – but will need to better prepare itself to cater to Asia Pacific’s fast evolving consumer needs.<sup>12</sup>

Much needs to be done. It’s now the **‘Time to Act’** and move together towards a stronger shared future.



## Endnotes

1. International Monetary Fund, World Economic Outlook, October 2020; Vietnam Investment Review, 'FDI inflow makes new 10-year record in 2019', December 2019; Ministry of Industry and Trade - Vietnam, Impact of the EU- Vietnam Free Trade Agreement (EVFTA) on Vietnam, 2020
2. International Monetary Fund, World Economic Outlook, October 2020; International Monetary Fund, 'Vietnam's Success in Containing COVID-19 Offers Roadmap for Other Developing Countries', June 2020; World Economic Forum, 'Viet Nam shows how you can contain COVID-19 with limited resources', March 2020.
3. World Trade Organization, 'Report shows trade restrictions by WTO members at historically high levels', December 2019; World Trade Organization, 'Trade set to plunge as COVID-19 pandemic upends global economy', April 2020; World Economic Forum, 'Coronavirus could reduce world trade by up to a third', April 2020
4. World Bank, Climate Change Knowledge Portal - Country Context for Vietnam, 2020; Food and Agriculture Organization Statistics, 2020; International Monetary Fund, 'Boiling Point', September 2018
5. U.S. Chamber of Commerce, 2020 International IP Index, February 2020; World Bank, Worldwide Governance Indicators, 2019
6. World Bank, 'Vietnam – Overview', October 2020; World Bank, Vibrant Vietnam Forging the Foundation of a High-Income Economy, May 2020
7. PwC discussions with subject-matter specialists
8. Ibid
9. Ibid
10. Ibid
11. Ibid
12. Ibid



# Contacts

## Vietnam

---

### **Van Dinh Thi Quynh**

Country Senior Partner, PwC Vietnam  
[dinh.quynh.van@pwc.com](mailto:dinh.quynh.van@pwc.com)

### **David Tay**

Markets Director, PwC Vietnam  
[david.tay@pwc.com](mailto:david.tay@pwc.com)

## Asia Pacific

---

### **Raymund Chao**

PwC Asia Pacific Chairman  
Chairman, PwC China  
[raymund.chao@cn.pwc.com](mailto:raymund.chao@cn.pwc.com)

### **Christopher Kelkar**

PwC Asia Pacific Vice Chairman, Operations  
Global Alignment Leader  
[christopher.s.kelkar@pwc.com](mailto:christopher.s.kelkar@pwc.com)

### **Sridharan Nair**

PwC Asia Pacific Vice Chairman, Markets  
[sridharan.nair@pwc.com](mailto:sridharan.nair@pwc.com)

### **David Wijeratne**

Growth Markets Practice Leader, PwC Singapore  
[david.wijeratne@pwc.com](mailto:david.wijeratne@pwc.com)

**[www.pwc.com/asiapacific](http://www.pwc.com/asiapacific)**

© 2020 PwC. All rights reserved.

PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see [www.pwc.com/structure](http://www.pwc.com/structure) for further details. This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.

At PwC our purpose is to build trust in society and solve important problems. PwC is a network of firms in 155 countries with over 284,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at [www.pwc.com](http://www.pwc.com).

127079159