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.\(^1\)

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.\(^2\)
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>
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.

**Building a new 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
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.7

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.8

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.9

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.10

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.11

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.12

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


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Contacts

Vietnam

Van Dinh Thi Quynh
Country Senior Partner, PwC Vietnam
dinh.quynh.van@pwc.com

David Tay
Markets Director, PwC Vietnam
david.tay@pwc.com

Asia Pacific

Raymund Chao
PwC Asia Pacific Chairman
Chairman, PwC China
raymund.chao@cn.pwc.com

Christopher Kelkar
PwC Asia Pacific Vice Chairman, Operations
Global Alignment Leader
christopher.s.kelkar@pwc.com

Sridharan Nair
PwC Asia Pacific Vice Chairman, Markets
sridharan.nair@pwc.com

David Wijeratne
Growth Markets Practice Leader, PwC Singapore
david.wijeratne@pwc.com

www.pwc.com/asiapacific

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