Bright long-term prospects for Asia’s new rising star

Since the introduction of the Doi moi policy in the late 1980s, Vietnam has been one of the strongest-growing economies in the world – and looks to build on these reforms to continue sustainably growing far into the future. John Hawksworth, chief economist at PwC, delves into the key success factors that will propel Vietnam to 2050 and beyond.

Vietnam’s success has reflected a combination of visionary leaders, a shared sense of societal purpose, and an embrace of globalisation. Foreign investment has been strong in Vietnam, which has helped it become one of the new “workshops of the world”, initially in labour-intensive areas like clothing and footwear but increasingly extending into higher value-added sectors like electronics.

This strong and sustained economic growth has lifted Vietnam from being a relatively poor country in 1990 to a middle income economy today. It has also been associated with major improvement in living standards – though likely to slow to around 5.5 per cent in the 2020s, 5 per cent in the 2030s, and 4 per cent in the 2040s according to our model projections.

This projected growth profile reflects the inevitable deceleration of all economies as they mature and their populations age. We have seen this in the UK, US, Germany, Japan, and South Korea in the past and China today. But even in the 2040s, Vietnam could still be growing at around twice the 2 per cent trend rate likely in advanced economies like the US and the UK in the long run. Such growth rates, combined with a population rising above 100 million, would push Vietnamee towards greater discipline and restraint on public spending.

The government could also continue the gradual process already underway to make the exchange rate more flexible, so that it can act as a shock absorber for the economy. As in most advanced economies and an increasing number of emerging economies, this could also be linked to a move in the medium term to an inflation target set by the government but delivered by an independent central bank. This requires appropriate preparation, but also enhances financial stability and provide a strong platform for future growth.

Boosting private sector activity and creating domestic export champions

Looking beyond the next few years, one of the key challenges facing the Vietnamese economy is to develop its private sector and make its state-owned enterprises more efficient. Part of this will involve levelling the playing field for access to capital and land between state enterprises will need to be accompanied by a strong regulator and competition policy regime to avoid public monopolies turning into private monopolies in areas like energy and telecommunications.

Another priority for government policy should be to support the development of domestic suppliers to multinational companies investing in Vietnam in areas like motor parts, electronics, and other high-technology sectors. Experience from China and South Korea has shown that this will enable knowledge and technology transfers from multinationals to domestic suppliers, some of which can then eventually become Vietnamese export champions in their own right.

Technological progress – from adaptor to innovator

As Vietnam’s population ages, further economic development will rely increasingly on modern digital technologies in factories and offices to using the latest farm machinery and fertilisers to boost productivity in the agricultural sector (allowing more workers to move to manufacturing and services where their average productivity should be higher than it is in low-tech agriculture).

Once you look to 2030 and beyond, however, Vietnam – like Japan, South Korea, and China before it – will need to move from being an adopter of other countries’ technologies to an innovator in its own right. This will require developing a world class research base in selected areas linked to stronger universities and surrounding networks of entrepreneurial private companies, backed by government funding for basic science research and early stage business development. Intellectual property laws will also need to be developed and enforced more effectively as Vietnam develops its own technological innovations in the long run.

Having visited Vietnam recently for the APEC Senior Officials Meeting and listened...
Although there are challenges to overcome, Vietnam has the potential to achieve sustained, long-term success

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