



October 2017



*Spotlight on Viet Nam*  
Executive summary



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# 1. Viet Nam in 2050

## Shift in global economic power

Chart 1.1:  
Nine facts and predictions  
that the CEO needs to  
know about the shift in  
global economic power

**Six** 

of the world's biggest nine economies in 2030 will come from the E7



the E7 will overtake the G7 in their size and purchasing power (in market exchange rate terms)

**58%**

of companies could have at least one global business unit head based in Asia before 2019

## China & India

will surpass US as the world's two largest economies by 2050 (in PPP terms)

**3x** 

as many degrees are now awarded in the E7 than the G7

Intra-E7 trade is growing  
**5x** 

as fast as intra-G7 trade

The most dynamic 'F7' economies are expected to be one third bigger in five year's time

Asia will represent

**66%**

of the global middle class population by 2030

**> 50%** of global CEOs are concerned about rising labour costs in emerging markets



E7: China, India, Brazil, Mexico, Russia, Indonesia and Turkey

F7: Viet Nam, Nigeria, Colombia, Peru, Morocco, Bangladesh and the Philippines

G7: Canada, France, Germany, Italy, Japan, the United Kingdom and the United States

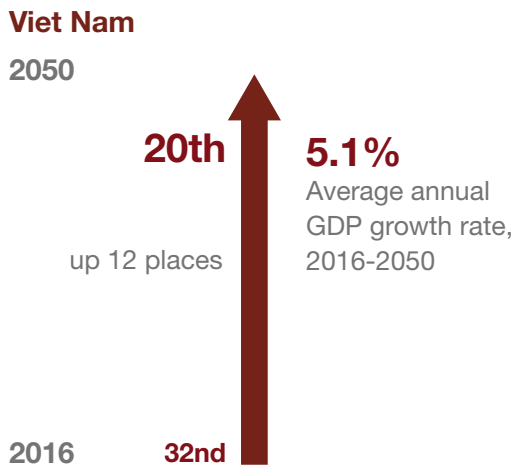
## Rise of Viet Nam – 20th largest economy by 2050

Viet Nam will be the fastest growing economy in the world between 2016 and 2050.

By 2050, we project that Viet Nam could be among the Top 20 economies in the world and Top 10 in Asia.

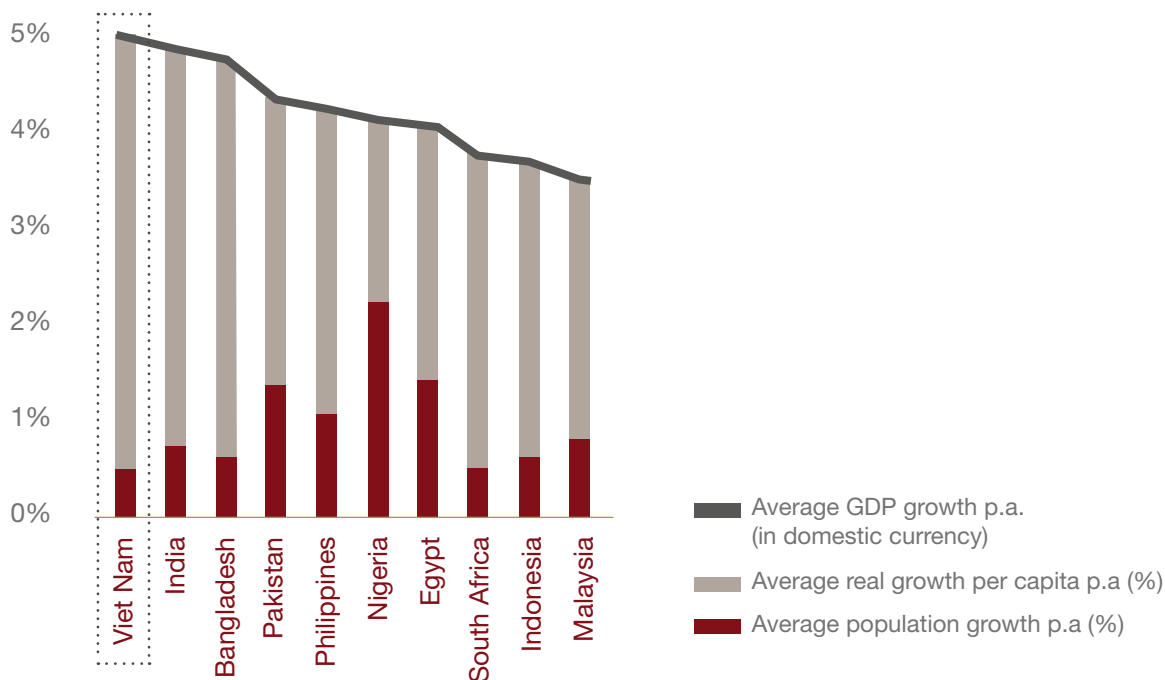
Growth in Viet Nam will be driven mainly by growth in real GDP per capita. This suggests that capital investment and technological progress will deliver tangible labour productivity enhancing benefits.

**Chart 1.2: Projected GDP ranking (at PPP) by 2050**



Source: PwC World in 2050 and analysis

**Chart 1.3: Average real GDP growth p.a. (2016-2050) of Top 10 fastest growing economies over the next 35 years**



Source: PwC World in 2050

## Three major growth engines drive opportunities for investors in Viet Nam

The following growth engines are expected to enhance opportunities for investors in Viet Nam going forward:

Chart 1.4: Viet Nam's growth engines



### Young and growing workforce

Viet Nam has a growing educated workforce and is now in a period of golden population structure, where 45% is under 30 years of age.

### Competitive economy, beyond low cost

The labour force in Viet Nam is cost-competitive, educated and increasingly skilled.

In a span of just five years since 2010, Viet Nam has overtaken Thailand, Philippines and India in terms of high technology exports.

### Government committed to growth

Viet Nam has a stable socio-political environment which promotes predictable policies in business and trade.

The government's 10-year Socio-Economic Development Strategy has led to improvements in Viet Nam's competitive environment. Viet Nam placed 60th among 138 economies in the 2016-2017 Global Competitiveness Index, an impressive improvement of 15 positions compared to its 2012-2013 ranking.

## 2. Sectors of opportunity

### Business process outsourcing

#### Why business process outsourcing?

**There is tremendous room for growth.**

Viet Nam's business process outsourcing (BPO) industry has grown 20% to 35% annually<sup>1</sup> over the past decade.

The sector is far from mature. Viet Nam is increasingly touted as the next BPO alternative to India and the Philippines. In fact, as of 2016, Viet Nam has overtaken China to become Japan's second largest software outsourcing partner<sup>2</sup>.

#### Chart 2.1: BPO market size (2015)

India's BPO market size gives us an indication of Viet Nam's potential.



Sources: The Viet Nam Software Association; National Association of Software and Services Companies (NASSCOM)

#### Viet Nam's manufacturing advantages can be applied to support business services.

40,000 new IT graduates enter the job market each year<sup>3</sup>, creating a young, educated and competitive labour market – ideal for knowledge intensive business services.

In 2016, Viet Nam was recognised as the number one pioneering location for BPO services by Cushman & Wakefield.

<sup>1</sup> Viet Nam Software and IT Services Association (VINASA)

<sup>2</sup> Japan External Trade Organisation

<sup>3</sup> 2014 Viet Nam Information and Communication White Book

The full Spotlight on Viet Nam report also covers the advantages Viet Nam offers and the opportunities for foreign investors for each of the sectors featured.

To read the full report, visit [www.pwc.com/vn/spotlight-on-vietnam](http://www.pwc.com/vn/spotlight-on-vietnam)

## Solar and wind energy

### Why solar and wind energy?

#### Viet Nam's growing energy appetite creates demand.

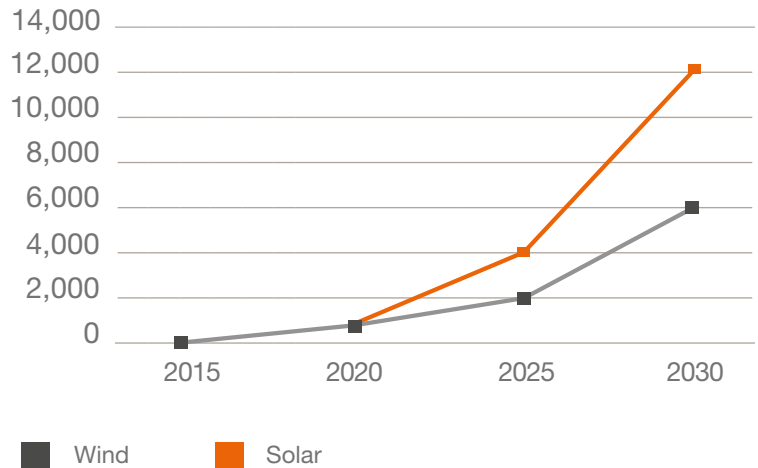
Population growth, urbanisation, and industrialisation are driving an increase in domestic energy consumption. There is a pressing need to secure new sources of energy to support continued economic growth.

The government's revised National Power Development Master Plan VII (PDP 7) aims to nearly quadruple the installed capacity for renewable energy by 2030.

In particular, emphasis has been placed on developing solar and wind energy.

#### Chart 2.2: Actual (2015) and target installed capacity (MW)

Wind and solar energies are prioritised under the revised PDP 7.



Sources: MoIT/GIZ Energy Support Programme, PDP 7 (revised)

#### Sustainability and constraints in the current energy mix will drive the need for renewable energy.

Viet Nam's current major sources of electricity generation face the following issues

- Hydropower<sup>1</sup> potential is almost fully exploited,
- Coal and gas turbines rely on expensive and exhaustible fuels.

Solar and wind energy are the best alternative energy bets as Viet Nam possesses significant potential capacity for them.

<sup>1</sup> Specifically large- and medium-scale and pumped- storage hydropower





## Luxury hotels

### Why luxury hotels?

**There is plenty of room for the upscale and luxury hotel segment to grow.**

The number of new upscale and luxury hotels in Viet Nam is still relatively low compared to other major tourist destinations in the region.

This relatively low level of market saturation is supported by a thriving tourism sector: international tourist arrival had grown by 26% in 2016 to 10 million visitors.

**Chart 2.3: Comparison of international tourist arrival and new hotel rooms**

City	International tourist arrival (2016)	Total new hotel rooms (2017)
Bali	4.9 mln	3,892 (upscale)
Hanoi	4.0 mln	843 (market-wide)
Ho Chi Minh City	5.2 mln	1,007 (market-wide)
Jakarta	2.4 mln	3,193 (upscale)
Manila	5.9 mln (Philippines)	3,101 (market-wide)

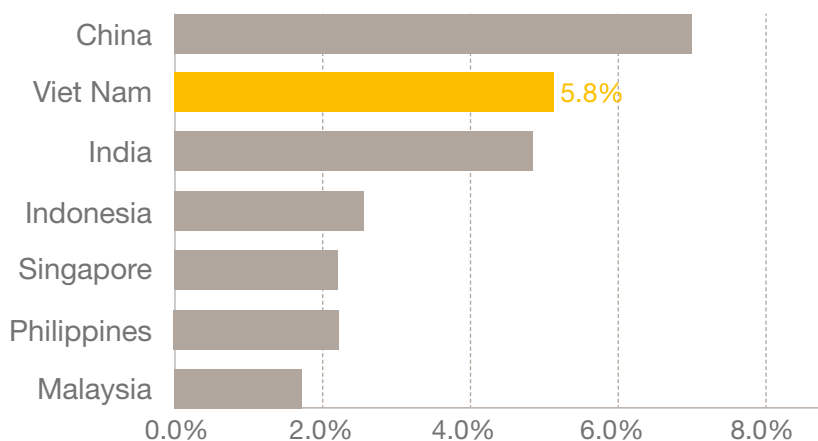
Source: JLL

**Increasing infrastructure connectivity will support the growth in tourism, which bodes well for the hotels industry.**

Viet Nam is currently investing heavily on infrastructure, ahead of ASEAN counterparts. Investments in transport infrastructure such as airports, road and rail have improved connectivity significantly.

**Chart 2.4: Infrastructure spending as a percentage of GDP**

Viet Nam has invested heavily in infrastructure. This is a boon for tourism in general.



Source: JLL



## Modern agribusiness and food

### Why modern agribusiness and food?

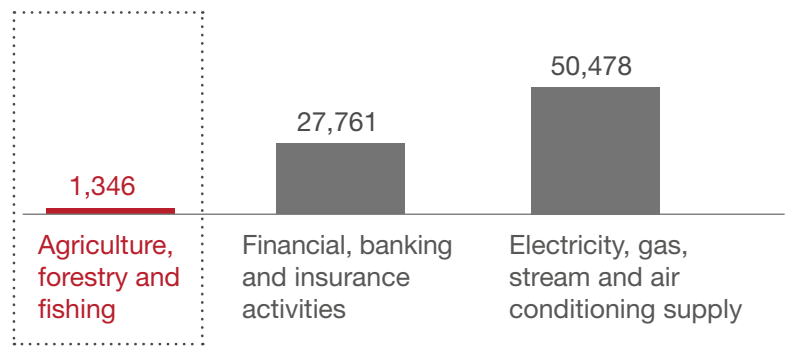
**Productivity and value add in the agriculture sector remain low.**

Although agriculture accounts for 20% of Viet Nam's total exports, sector productivity is relatively low.

The government is looking to businesses to play a role in raising the sector's technology level and increasing farmers' access to modern technology.

### Chart 2.5: Productivity of employed population by industry, preliminary 2015 (USD per person)

Labour productivity for agriculture is the lowest among industries in Viet Nam, indicating a need to increase yields via modernisation.



Source: General Statistics Office of Viet Nam

Exchange rate: VND22,733 per USD

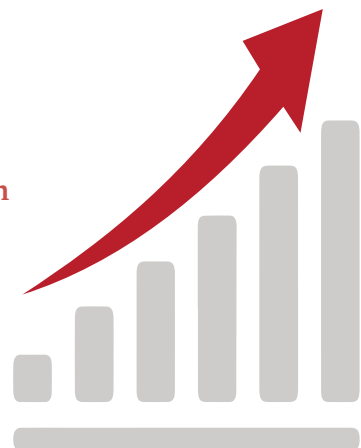
### Changing consumer demands are opening up opportunities in the food system.

Economic growth, rising income levels, rapid urbanisation and changes in lifestyle are driving the change in eating habits.

Consumers increasingly demand for higher quality packaged and processed food and beverages which are convenient and easy-to-prepare.

**11.2%**  
forecast annual growth  
in food sales up to 2021

Source: BMI



## Retail banking

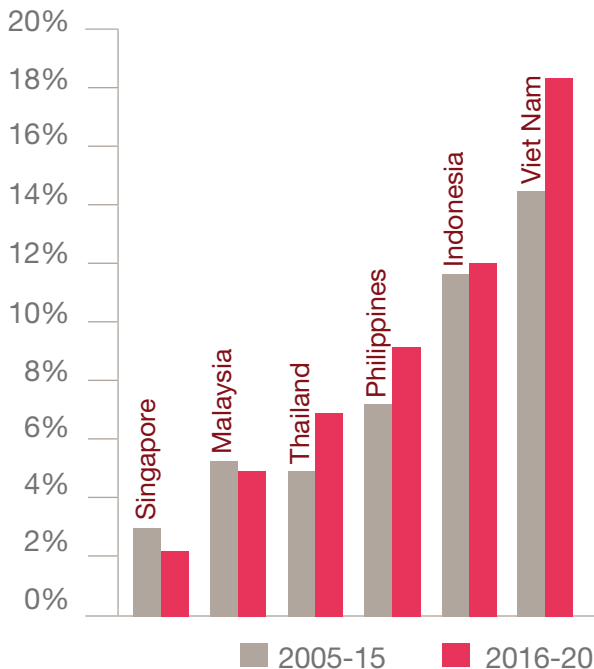
### Why retail banking?

**Demand for a range of retail banking products is set to grow.**

Viet Nam's middle class is growing fast. This rising affluence will drive demand for more complex banking products, e.g. bancassurance and wealth management.

As a result, banks in Viet Nam are shifting focus from corporate banking to retail banking. The Asian Banker expects Viet Nam's retail banking income to experience a CAGR of 25% between 2016 and 2020.

**Chart 2.6: Growth of middle-class population**



Source: Brookings Institute

### There are opportunities to modernise Viet Nam's cash-based society.

More than 90% of payment transactions in Viet Nam are in cash; 27% of the population uses debit cards, and less than 5% use credit cards.

Cash may currently be king, but not for long. The take up rate in digital payment has been very encouraging – National Payment Corporation of Viet Nam (NAPAS), an intermediary payment service provider, saw transaction values paid via its system double between 2015 and 2016.



## 3. Winning in Viet Nam

### It is no plug-and-play

Foreign companies seeking to capture Viet Nam's advantages and opportunities will need to embrace a mind-set that there is no one-size-fits-all strategy and no plug-and-play model to creating a successful business here.

Based on the interviews we have conducted with multinational companies in Viet Nam, we found that businesses seeking to turn their investments in Viet Nam into a success will need to plan and develop their capabilities around three broad domains.

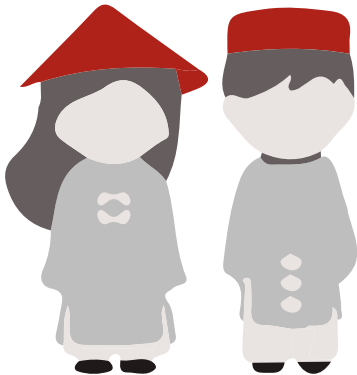
*Don't assume it's the same as any other economy in the region or that you can copy and paste your model here.*

**Jorge Becerra**  
Managing Director of  
Cargill Premix & Nutrition

**Chart 3.1: Three capabilities needed for a successful business in Viet Nam**

# 1.

**Create a localised go-to-market strategy** by spending time understanding the local people and market



# 2.

**Build stakeholder trust** by showing the commitment to invest in Viet Nam for the long-term



# 3.

**Invest in local talent** by training and placing trust in them



# 1.

## **Create a localised go-to-market strategy**

No economy is the same.

Due to inherent differences such as timing and resource considerations, foreign companies need to avoid the tendency to set-up quickly in Viet Nam and to extrapolate solely based on their experience in other economies.

The advice here is to spend time to study and understand the local environment – its people, culture, marketplace, customers and regulations.

*Spend time to study and understand the local market and environment well, from the people, culture, marketplace, customers to the regulations.*

**Raymond Sia Say Guan**  
CEO of Hong Leong Bank Viet Nam

*Viet Nam is not a Korea 20 years ago, or a China 10 years ago. In some sectors, like IT, Viet Nam is not far behind from the global standard.*

*We see Viet Nam as a mixture of past and present. Simple Post-China type of hype may not be appropriate.*

**Kim Seung Rok**  
President and CEO of Woori Bank Viet Nam



# 2.

## Build stakeholder trust

For the Vietnamese, trust underpins the way in which people conduct business and make purchase decisions.

It should be the basis for companies to build their supply chain, distribution network, market presence and customer loyalty.

Given Viet Nam's changing regulatory environment, businesses also need to establish a constructive and open relationship with the government.

“

*Trusted relationships in Viet Nam are very critical and take time to build. But once built, it's easier to discuss business.*

Pham Hong Hai  
CEO of HSBC Viet Nam

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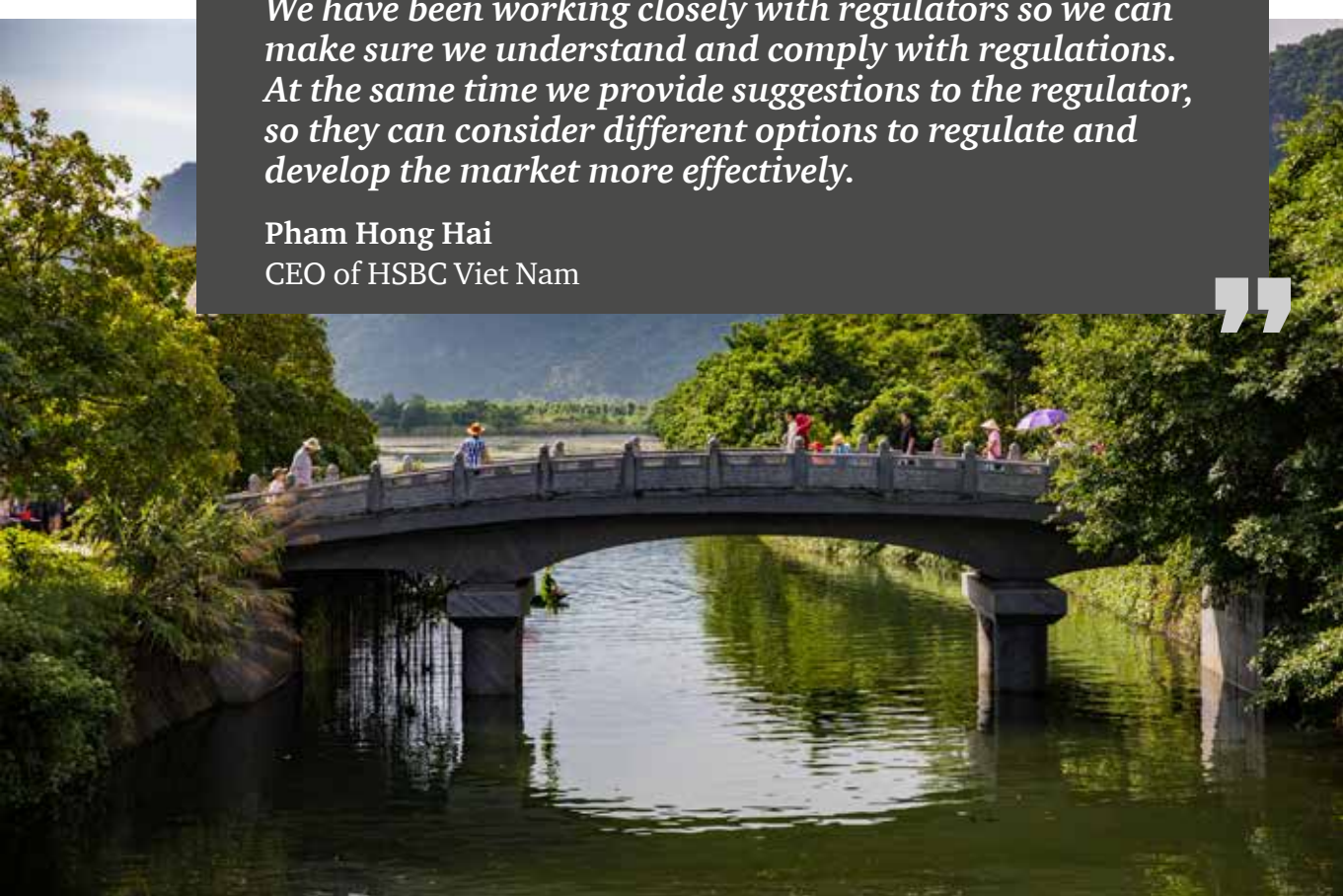
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*We have been working closely with regulators so we can make sure we understand and comply with regulations. At the same time we provide suggestions to the regulator, so they can consider different options to regulate and develop the market more effectively.*

Pham Hong Hai  
CEO of HSBC Viet Nam

”

”





# 3.

## **Invest in local talent**

Vietnamese employees are often praised for being hard-working and skilful but there is a need for professional development to ensure the workforce remains competitive. There are also areas of the economy where talents are scarce and in high demand.

To tackle the talent issue, companies are investing heavily in local talent development.

*When you invest aggressively in talents, people will respond. They will grow and increase their contribution and they tend to stick for a long time with the company.*

*We make sure we have the right development plans for people, invest aggressively for talent and make sure it is a business with a purpose - where people see where they fit, why are they important and, more importantly, how their contribution makes a difference.*

**Jorge Becerra**

Managing Director of Cargill Premix & Nutrition

*IHG has 4,000 employees right now in Viet Nam and we're going to need another 4,000-5,000 employees over the next 3 years. It's about training and developing local talent at every level, from entry to leadership positions.*

*To help develop skills, we have the IHG Academy where we partner with local universities to help train future hotel management students and leaders.*

*We also send Vietnamese managers abroad to see how things are done in different economies and bring in talent from outside to show best practices in our hotels.*

**Michael Hoe-Knudsen**

Regional General Manager of InterContinental Hotels Group (IHG)  
Viet Nam/Cambodia

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