October 2017

Spotlight on Viet Nam
The leading emerging market

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The materials contained in this document were assembled in July 2017 and were based on information available at the time.

Viet Nam is an open economy with trading flow of USD340 billion, 1.6 times its GDP, and has attracted total registered foreign direct investment (FDI) of USD300 billion in 2016. The FDI sector accounts for approximately 70% of Viet Nam's export turnover, equivalent to 22% of GDP. The FDI sector has generated millions of jobs and contributed greatly to innovation and modernisation, boosting the economy's growth.

According to the World Bank's Doing Business 2017 Report, Viet Nam has improved nine ranks in terms of ease of doing business compared to 2016 (from 91st to 82nd). At the same time, Viet Nam ranks 60th out of 138 economies in the World Economic Forum's 2017 Global Competitiveness Report.

With a population of nearly 100 million people, over 60% are under the age of 35, Viet Nam is well-positioned to supply a young, abundant and quality workforce at competitive cost. Characterised by political, social and macro-economic stability, Viet Nam has continuously improved its institutional framework and transparency to gradually align with international commitments and standards. The government of Viet Nam has committed to creating favourable conditions for all investors and businesses, as they execute their long-term investment plan and actively participate in the global supply and value chain.

Viet Nam continues to drive the global economic integration agenda and expects to maintain annual average GDP growth rate of 6.5% to 7% over the period of 2016 – 2020. Its priority is on green growth and sustainable development, with three main engines: promotion of exports, domestic market growth and investment expansion. Viet Nam is currently focusing on improving the business environment and increasing its competitiveness, supported by the government's commitments to integrity, innovation and action to serve businesses and citizens. Viet Nam expects to become a dynamic economy and an attractive investment destination in ASEAN, and strives to integrate into the regional and global value chains.

The Vietnamese government commits to support and create the most favourable conditions for foreign businesses investing and operating in Viet Nam.

Nguyen Xuan Phuc

Prime Minister of Viet Nam

Viet Nam, stepping ahead into the 21st century

Since the 2000s, Viet Nam's economy has experienced strong growth, driven by international trade and foreign investment. Coupled with a young, educated workforce of more than 60 million people under the age of 35, Viet Nam has been hailed as one of the new 'workshops of the world'. It has become a major manufacturing hub for electronics and electrical products, clothing, footwear and furniture.

However, the future of Viet Nam lies beyond manufacturing and labour-intensive industries. People, knowledge and technology are tipped to be the economy's next growth engines as it transitions towards a medium-to-high-income economy by 2050.

Despite recording a GDP per capita of USD2,186 in 2016, Viet Nam boasts impressive scores in education. In OECD's PISA 2015 results[1], Viet Nam was ranked 8th among 72 economies, placing it ahead of more developed economies such as Hong Kong, China and South Korea, in terms of performance in mathematics, science and reading among 15-year-old students.

The government is also making an effort to increase education at the tertiary level. Over the past decade, enrolment rates have nearly doubled, from 16% in 2005 to 29% of the total population in 2015 with approximately 2.4 million students enrolled in institutions of higher learning.

The young Vietnamese demographic is also technologically proficient, embracing the mobile internet economy as a norm in their daily lives. Mobile phones now account for 34% of web traffic, a year-on-year increase of 40% based on data from StatCounter.

This has been contributing to a dynamic digital economy. While there were few information technology (IT) companies 15 years ago, there are now close to 14,000 IT companies. Viet Nam has also overtaken China to become Japan's second largest software outsourcing partner in 2016.

[1] *Organisation for Economic Co-operation and Development (OECD) Programme for International Student Assessment (PISA)*

Foreign companies are increasingly taking note of Viet Nam's technology aptitude and potential to move up the value chain. Viet Nam now produces half of Samsung's high-end S8 and S8 Plus smartphones and 80% of Intel's personal computer central processing units.

Viet Nam's investment opportunities extend beyond the manufacturing and technology sectors. Its diversified economy and varied geographical landscape are crucial factors shaping the development of often overlooked industries such as agriculture, tourism and hospitality and renewable energy.

Companies are also tapping into the large local workforce to support business process outsourcing (BPO). In 2016, Viet Nam was recognised as the number one pioneering location for BPO services[2].

These examples provide just a glimpse of some of the business and investment opportunities that Viet Nam has to offer. This publication aims to provide a snapshot of Viet Nam's future, its industries and what it takes to be successful participating in the economy that has come to be known as Asia's next rising star.

We invite you to explore Viet Nam's potential.

Chào mừng đến Việt Nam.

Vu Tien Loc

Chair of APEC CEO Summit 2017

Dinh Thi Quynh Van

General Director PwC Viet Nam

[2] *Cushman & Wakefield BPO & Shared Services Locations Index Report 2016*

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1. Viet Nam in 2050

Shift in global economic power

Taking a long-term view

After a year of major political shocks with the Brexit vote and the election of President Trump, it might seem brave to opine on economic prospects for 2018, let alone 2050.

However, it is important to take a longer term view of global economic prospects that looks beyond the short-term ups and downs of the economic and political cycle.

It is crucial to focus on the fundamental drivers of growth: demographics and productivity, which in turn are driven by technological progress and diffused through international trade and investment.

Understanding these fundamentals will help companies identify and build on core capabilities, while remaining flexible enough to ride out short term political and economic storms of the kind we have seen in both advanced and emerging economies in recent years.

Source: Adapted from PwC's World in 2050 foreword by John Hawksworth, Chief Economist (PwC UK)

Realignment of the global economy

At the macro level, we continue to see the shift in global economic power away from established advanced economies towards emerging economies in Asia and elsewhere.

Based on the findings from PwC's World in 2050 report, the world economy could double in size by 2042, growing at an annual average real rate of around 2.5% between 2016 and 2050. This growth will be largely driven by emerging markets and developing economies, where the leading E7 economies could comprise almost 50% of the world's gross domestic product (GDP) by 2050. Meanwhile, the developed G7 economies' share would decline to only just over 20%.

These trends are already taking shape, where China has overtaken the US to be the largest economy based on GDP in purchasing power parity (PPP) terms, and could be the largest valued at market exchange rates before 2030. India could overtake the US by 2050 to move into second place.

The impact of this shift will be felt across all areas of the economy, from trade direction, new middle income class to private sector investments. Please refer to Chart 1.1 for further details.

G7: World's seven major fully developed markets, consisting of Canada, France, Germany, Italy, Japan, the United Kingdom and the United States. E7: World's seven major emerging economies, consisting of China, India, Brazil, Mexico, Russia, Indonesia and Turkey.

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

China & India

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

Six

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

3x

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

Asia will represent

66%

of the global middle class population by 2030

In

2030

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

Intra-E7 trade is growing

5x

as fast as intra-G7 trade

>50%

of global CEOs are concerned about rising labour costs in emerging markets

58%

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

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

2014 **2019**

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

Adapted from PwC Megatrends. For more information, visit www.pwc.co.uk/megatrends

Rise of Viet Nam – 20th largest economy by 2050

Viet Nam, world's fastest growing economy

While the E7 economies are expected to dominate the global economy in 2030, they may not necessarily be growing rapidly. Leading the group of fastest growing economies in the world between 2016 and 2050 is Viet Nam, followed by India and Bangladesh.

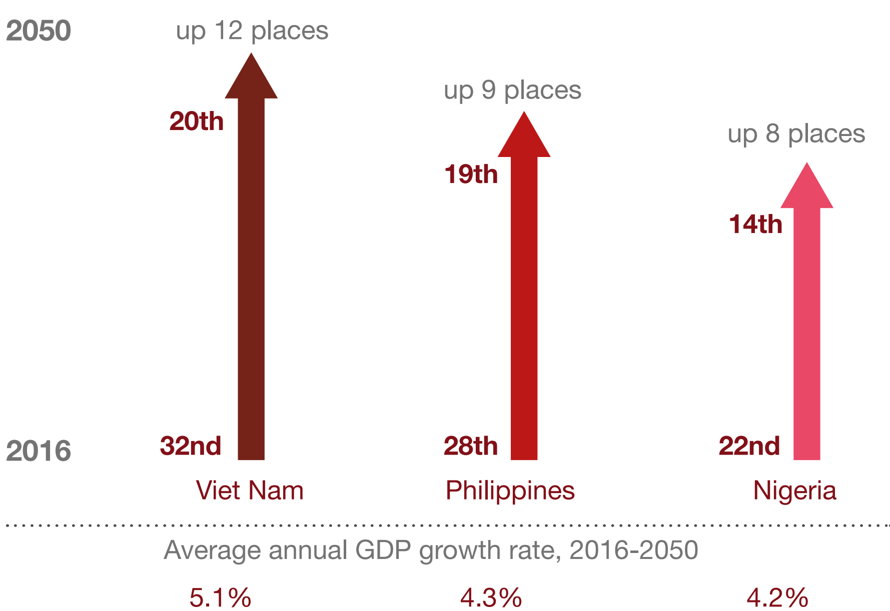
The average real GDP growth of Viet Nam could reach 5.1% p.a. between 2016 and 2050. Its economy will benefit from its youthful and fast growing working-age population, boosting domestic demand and output.

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

By 2050, we project that Viet Nam could be among the Top 20 economies in the world and Top 10 in Asia. For Viet Nam to realise this potential, growth needs to be supported by sustained economic reforms, the strengthening of macroeconomic fundamentals, public institutions and, crucially, mass education to ensure its rapidly growing working population contributes productively to long-term economic growth.

Chart 1.2: Projected GDP rankings (at PPP) of selected F7 markets by 2050

Viet Nam, the Philippines and Nigeria could make the greatest moves up the rankings by 2050.



Source: PwC World in 2050 and analysis

Chart 1.3: Viet Nam will overtake several more advanced economies by 2050

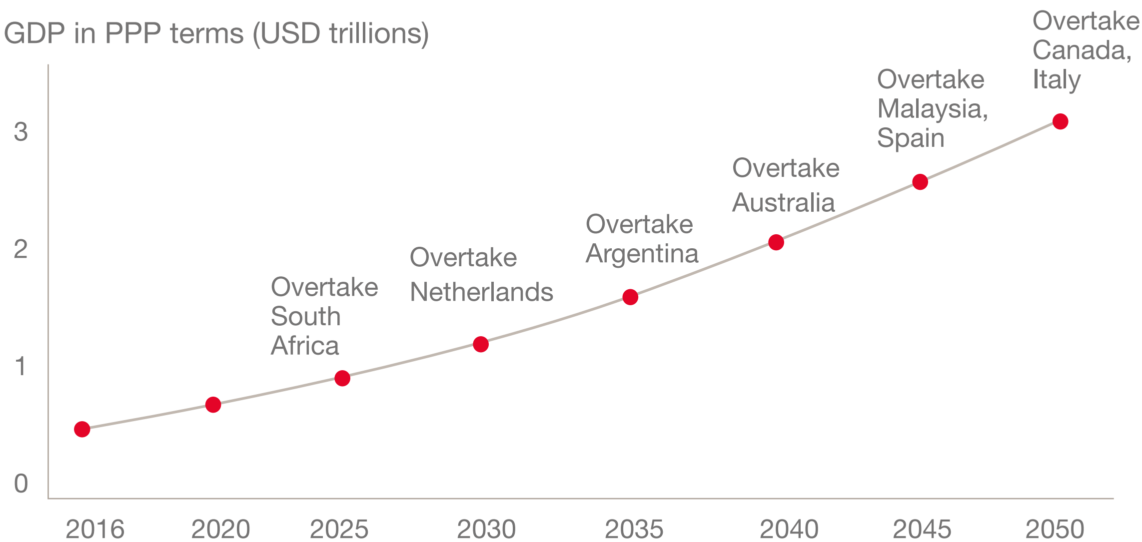
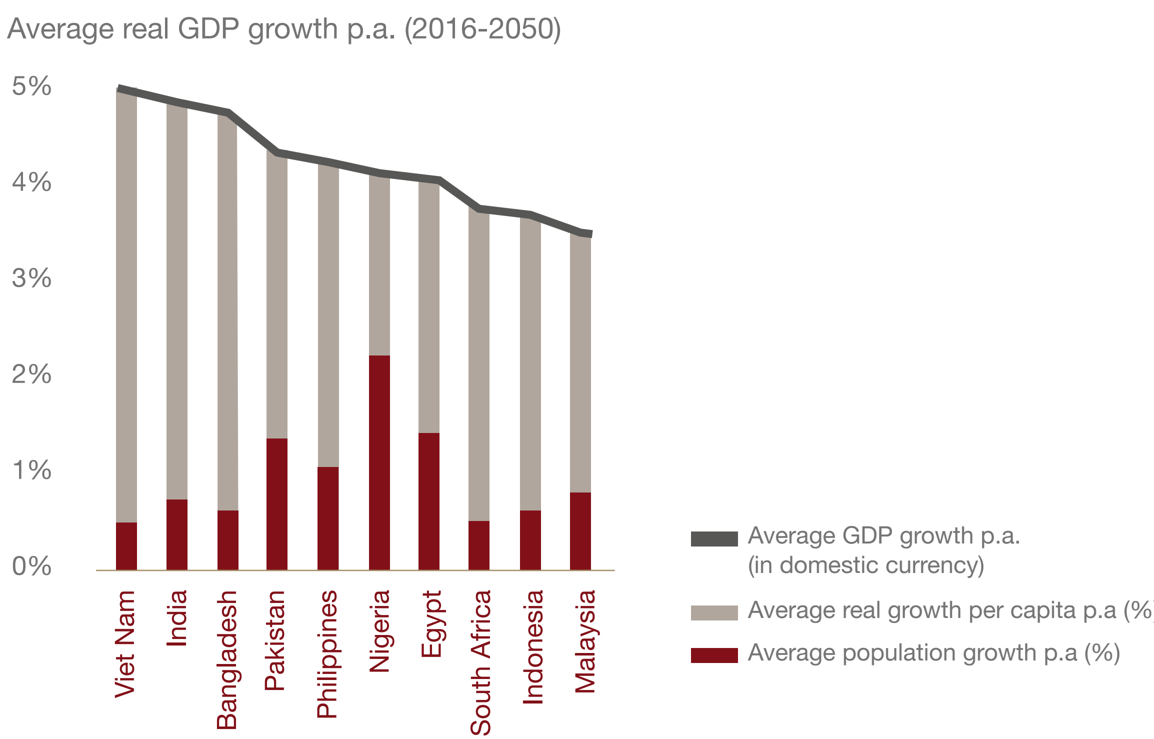
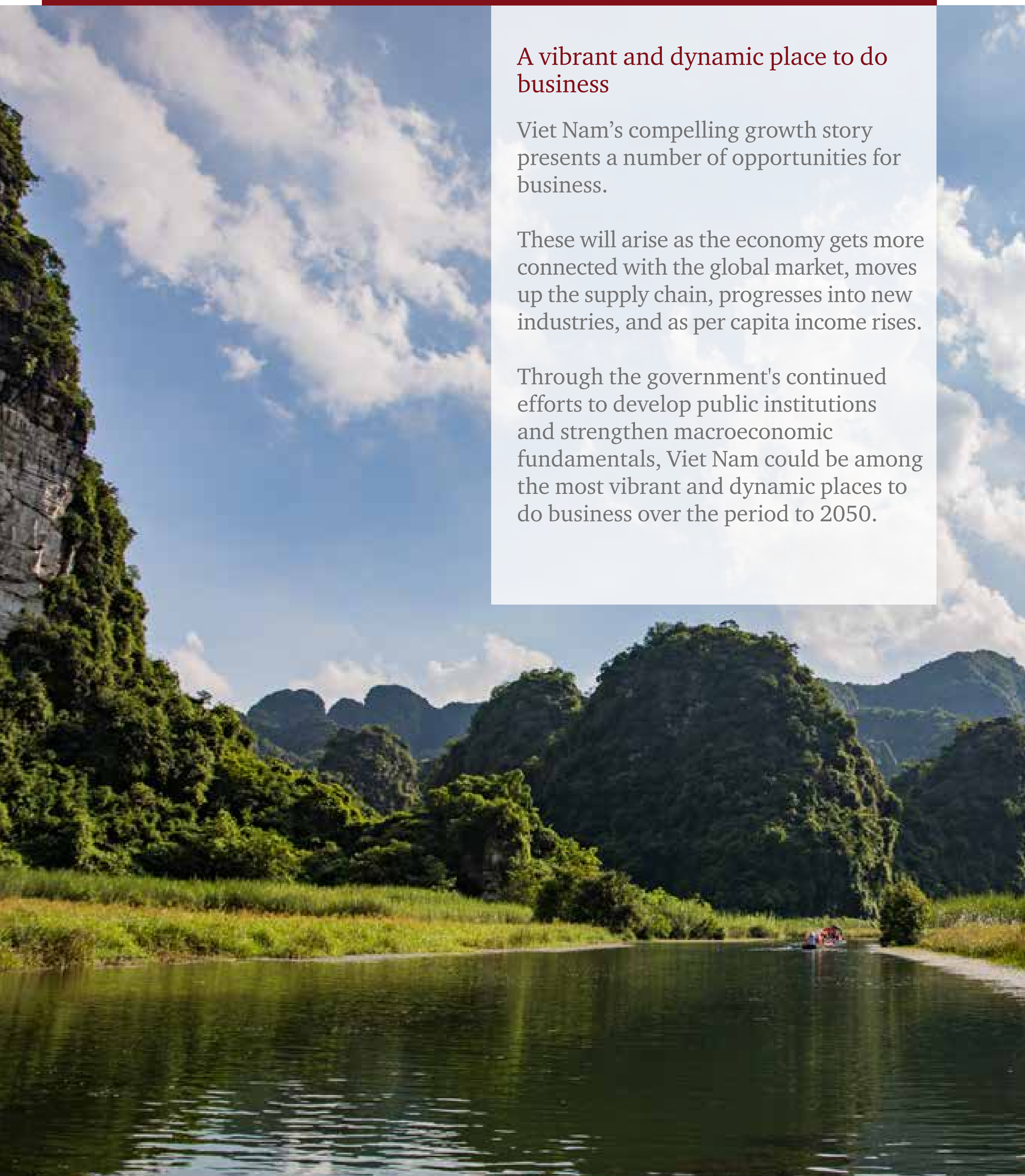


Chart 1.4: Top 10 fastest growing economies over the next 35 years



Source: PwC World in 2050

Three major growth engines drive opportunities for investors in Viet Nam



A vibrant and dynamic place to do business

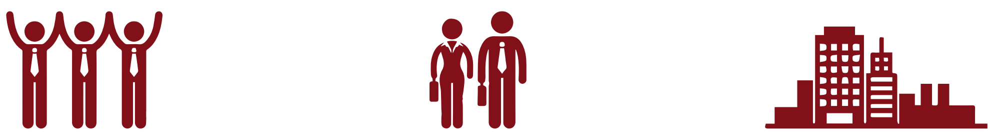
Viet Nam's compelling growth story presents a number of opportunities for business.

These will arise as the economy gets more connected with the global market, moves up the supply chain, progresses into new industries, and as per capita income rises.

Through the government's continued efforts to develop public institutions and strengthen macroeconomic fundamentals, Viet Nam could be among the most vibrant and dynamic places to do business over the period to 2050.

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

Chart 1.5: 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

By and large, the labour force in Viet Nam is cost-competitive, educated and increasingly skilled. This offers greater value and serves as an ideal production base for companies thinking of shifting or diversifying out of larger economies such as China.

Government committed to growth

Viet Nam has a stable socio-political environment which promotes predictable policies in business and trade. The government is also committed to creating a fair and attractive business environment for foreign investors.

Young and growing workforce

More than 1 million people enter the workforce annually

While baby boomers in the west reach retirement age, Viet Nam's baby boomers have only just entered the labour force. With a median age of 30.7 years, Viet Nam has a relatively young population. In comparison, China has a population with a median age of 36 years.

Viet Nam's population, currently the 14th largest in the world, is also set to swell from 91 million to around 110 million people by 2050.

These factors will help to fuel the labour market. With more than a million people added to the workforce annually, and nearly 70% of the population aged between 15 and 64, Viet Nam has a sustainable workforce.

Urbanisation and a large pool of rural workers

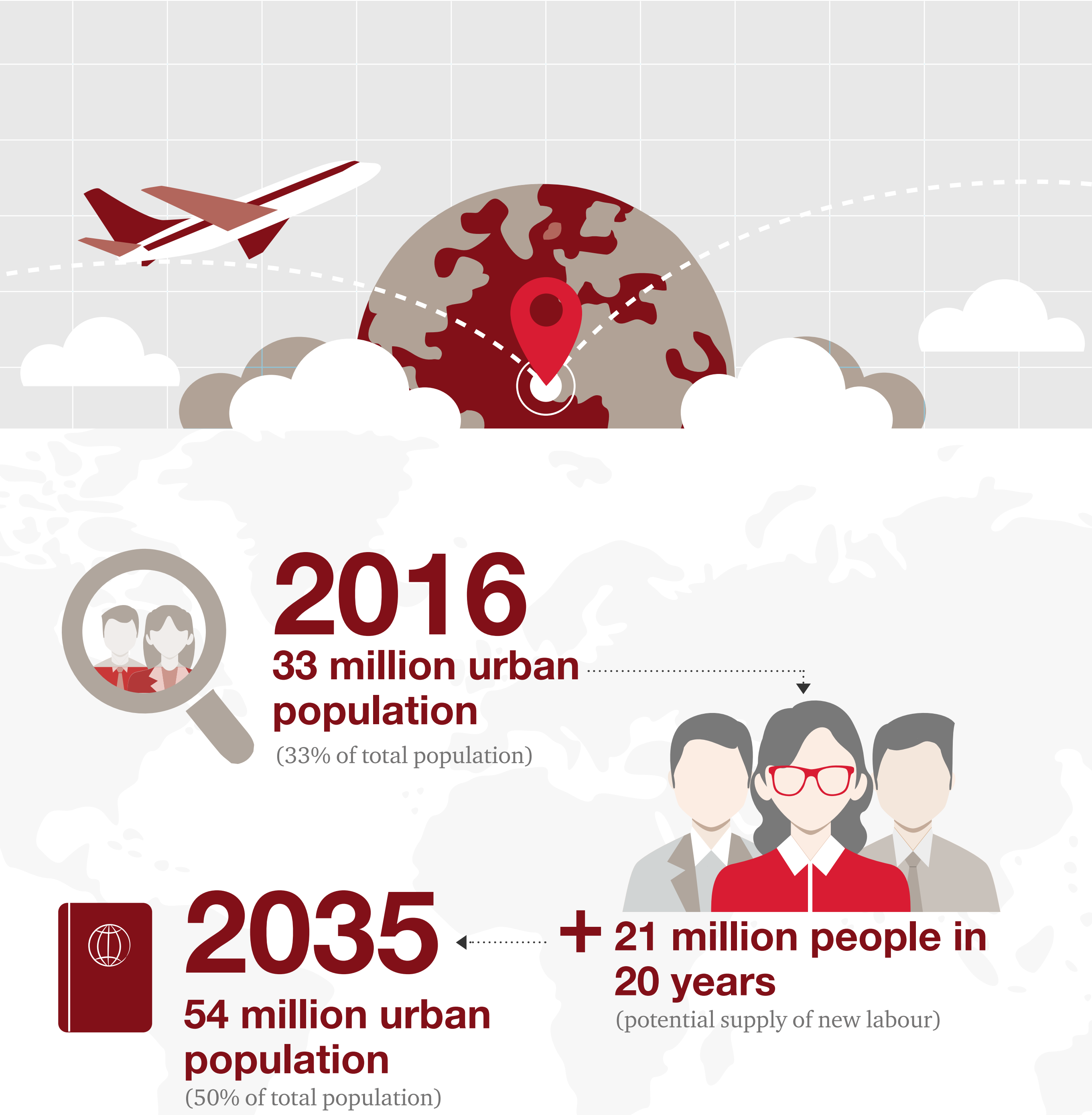
Viet Nam's urban workforce has much scope to grow, with only 34% of people living in urban areas. This is comparable to India but lower than China which is at 56%.

With an annual urban population growth rate of 4.1%, one of the highest in the region, the supply of rural workers will help lower wage pressures, giving Viet Nam time to build labour-intensive industries.

Chart 1.6: Viet Nam's population age distribution, 2016

Source: Economist; National University of Singapore; PwC analysis

Chart 1.7: Viet Nam's urban population trend



Source: Viet Nam 2035, the World Bank

Rising middle class, rising consumption

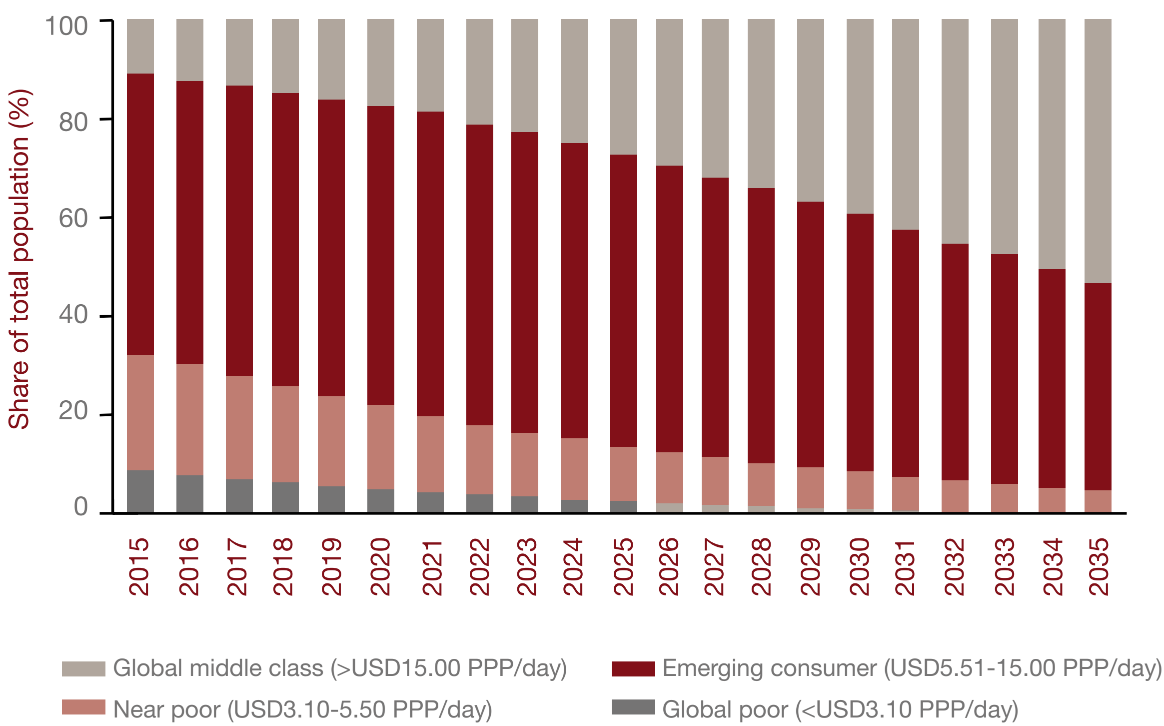
As Viet Nam's workforce becomes more urbanised, the resulting gain in productivity will translate into rising middle class affluence. This is particularly key as the top 40% of Vietnamese households own 55% of total income based on data from the World Bank.

Assuming 4% annual growth in average consumption, the World Bank projected that more than half (50 million) of the Vietnamese population will join the global middle class by 2035, compared to just 11% today.

In line with an average per capita growth of 5% over the past decade, a typical middle-class Vietnamese will see his or her income rising from just under USD6,000 today to at least USD15,000 by 2035 (in 2011 PPP terms)—comparable to Malaysia in 2001 or Brazil in 2014. By 2050, this figure will double to USD30,000.

A five-fold jump in the Vietnamese household consumption is not just within reach, it is the final demographic dividend that has yet to fully realise.

Chart 1.8: Rising share of total population with daily consumption of USD15 or more (in 2011 PPP terms)



Source: General Statistics Office of Viet Nam; the World Bank

Quality education advantage

Viet Nam's workforce is not just young but well educated. Public spending on education averages 5 - 6% of GDP, about two percentage points more than the average for low- and middle-income economies. Although some governments spend even more, Viet Nam's expenditure on education have been well-focused, aiming to boost enrolment levels and ensure minimum standards.

This point is proven by student achievements in OECD's PISA[1] 2015 assessment where Viet Nam was ranked 8th out of 72, ahead of more developed economies such as Hong Kong, China and South Korea.

Demographic sweet spot

The next three decades present the greatest potential for Viet Nam to use its demographic advantage to boost productivity and achieve outstanding growth. This is to complement current payoff from expansion-driven growth as a result of low-skilled labour projects.

Viet Nam now reaches a pressing decision point: seize this golden opportunity to leapfrog to higher-income status or risk falling into the trap of growing old before getting rich.

Chart 1.9: Highlight of PISA 2015 mean scores among selected economies

Economies		Science	Mathematics	Reading
Average score		493	490	493
1	Singapore	556	564	535
2	Japan	538	532	516
3	Estonia	534	520	519
4	Chinese Taipei	532	542	497
5	Finland	531	511	526
6	Macao (China)	529	544	509
7	Canada	528	516	527
8	Viet Nam	525	495	487
9	Hong Kong	523	548	527
10	China	518	531	494

Source: OECD PISA results

[1] PISA - Programme for International Assessment

Competitive economy, beyond low cost

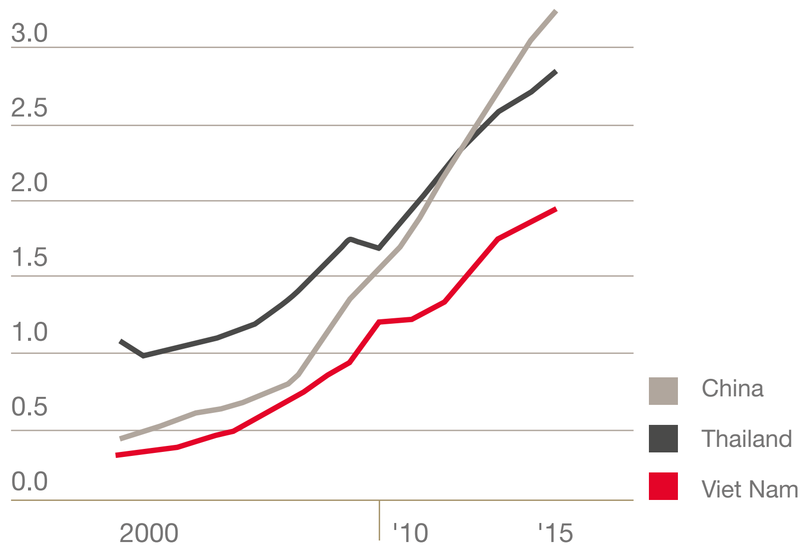
Cost competitive place for doing business

As China's manufacturing sector experiences rising labour cost, Viet Nam is well-positioned to be Asia's new manufacturing centre, particularly in the electrical and electronics sector. Labour cost in Viet Nam is estimated to be nearly half the cost in China and closely rivals Thailand (see Chart 1.10).

Viet Nam is also geographically poised to gain from rising wages in China. While other markets may claim to be as cost-competitive, Viet Nam's proximity to the manufacturing heartland of southern China will be valued by foreign investors who may still want to maintain links and relationships with China's supply chains.

Several global technology firms such as Samsung, LG Electronics, Nokia and Fuji Xerox have set up new production base in Viet Nam. For example, Samsung invested in a second production plant located at Thai Nguyen. With this new plant, Samsung will be able to double its local production capacity.

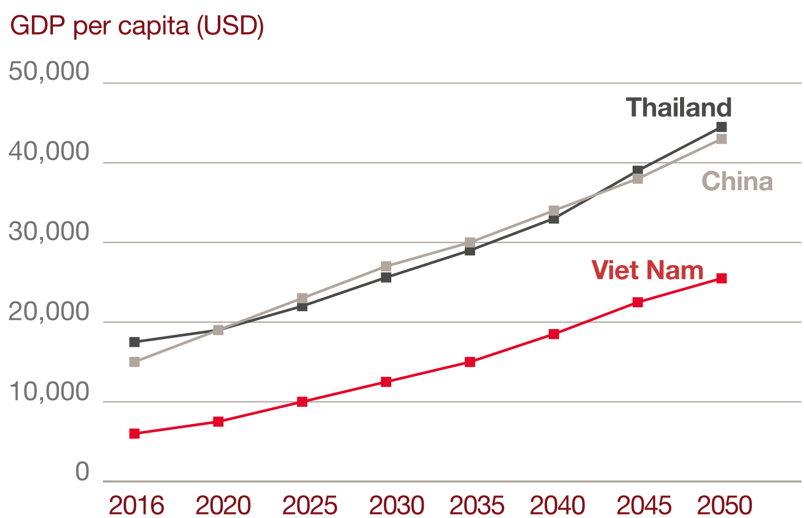
Chart 1.10: Manufacturing labour cost per hour in USD



Source: Economist Intelligence Unit

Chart 1.11: Comparative income level (GDP per capita)

Viet Nam's income level remains lower than China and Thailand over the long run.



Source: PwC World in 2050

Moving up the value chain

Viet Nam is transitioning from a low cost to a higher value added economy. In 2016, the World Bank classified Viet Nam as a middle-income economy. Although this was achieved on the back of low-cost manufacturing and improved agriculture productivity, we are seeing Viet Nam make the move up the global value chain.

Shifting gear into high technology

Viet Nam has become a fierce competitor to regional neighbours like Thailand, the Philippines, India and Indonesia in high technology investments and outputs. In a span of just five years since 2010 (see Chart 1.12), Viet Nam has overtaken these economies in terms of high technology exports.

Viet Nam not only serves as a base for the assembly of electrical and electronic (E&E) products for export, but also as one for the production of sophisticated devices. For example, half of Samsung's high-end S8 and S8 Plus smartphones and 80% of Intel's personal computer central processing units are currently produced in Viet Nam.

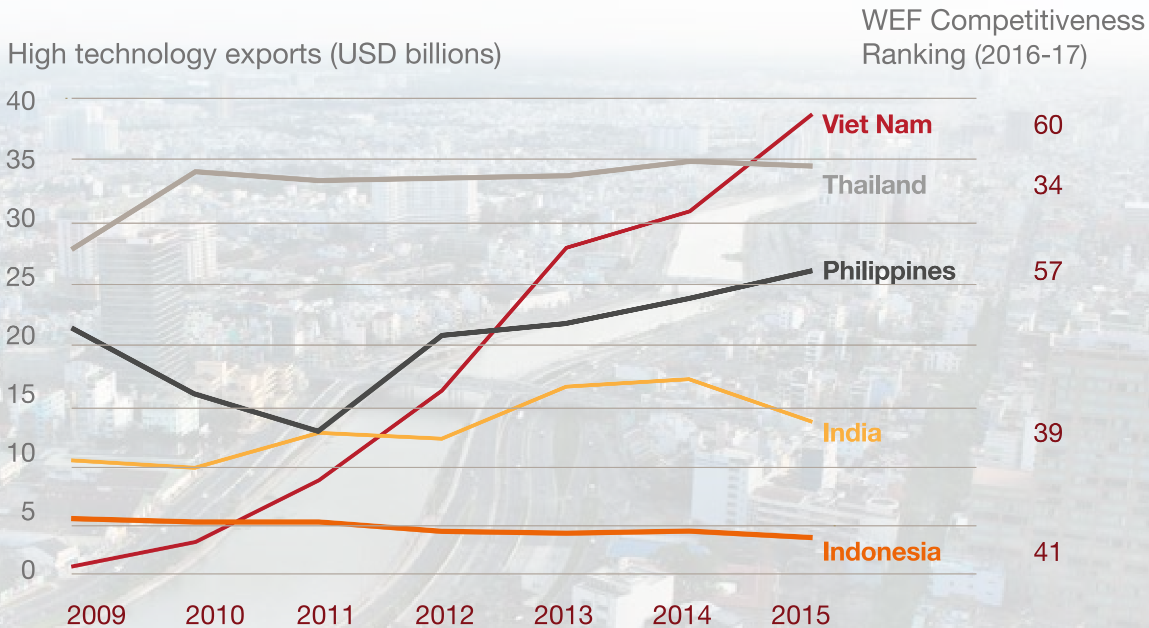
Samsung Electronics is also investing USD300 million in a research and development (R&D) centre in Hanoi. It is going to start operations in 2020, with 4,000 employees.

Making a name in digital

Apart from E&E, Viet Nam is experiencing an IT boom, with a growing number of IT and software companies. While 15 years ago there were few IT companies in Viet Nam, now there are close to 14,000.

In May 2017 VNG Corp, backed by Goldman Sachs and Singapore's sovereign wealth fund, Government

Chart 1.12: Viet Nam's high technology exports are higher than more competitive regional peers



Source: The World Bank; World Economic Forum (WEF)

of Singapore Investment Corporation (GIC), signed a preliminary agreement to list on Nasdaq. The company is one of Viet Nam's prominent technology start-ups and specialises in online gaming and entertainment as well as e-commerce. Its 2017 revenue was reportedly expected to reach USD180 million, a 70% increase from the previous year.

Such home-grown success stories show that there is a growing population of entrepreneurs, engineers and technology experts. Part of it can be attributed to the global Vietnamese diaspora, a community of more than 4 million people, returning to pursue opportunities.

Government committed to growth

The Vietnamese government is committed to creating a fair and attractive business environment for investors. The government has also been consistent in improving its legal framework and institutions in order to boost business and investment friendliness, as illustrated below.

Conducive FDI environment

The Vietnamese economic expansion is attributed to the government's ability to attract foreign direct investment (FDI). In 2016, FDI inflows totalled USD24 billion, a 9% increase from the previous year. Viet Nam is now the fourth most attractive economy in terms of FDI in Asia, behind China, India and Indonesia.

Easier place to do business

In terms of ease of doing business, Viet Nam's overall ranking rose to 82 in the World Bank's Doing Business 2017 report, an improvement of nine positions from the previous year. The report indicated that corporate income tax reduction has been a significant factor in Viet Nam's improvement.

Openness to trade liberalisation

The accession to the World Trade Organisation a decade ago has facilitated the government's efforts to increase global integration and encourage more trades. Viet Nam is among the 12 participating members of the Trans Pacific Partnership Agreement (TPPA) negotiations, and is the only economy in the Association of Southeast Asian Nations (ASEAN) besides Singapore that has signed a free trade agreement with the European Union (EU).

In addition to free trade agreement partnerships, the Vietnamese government provides tax incentives and land rental waiver to attract more FDI inflows.

Addressing business issues holistically

The Vietnamese government has introduced its third 10-year Socio-Economic Development Strategy (SEDS) 2011-2020, which highlights the need for structural reforms, environmental sustainability, social equity and macroeconomic stability. It defines three "strategic breakthrough" areas:

- **Promoting skills development,** particularly for modern industries and innovation by embarking on a comprehensive overhaul of the national education system;
- **Improving market institutions,** to create an equal and competitive environment, and to drive administrative reform; and
- **Further infrastructure development** with a focus on improving transportation systems and big urban developments.

Developing a competitive private sector

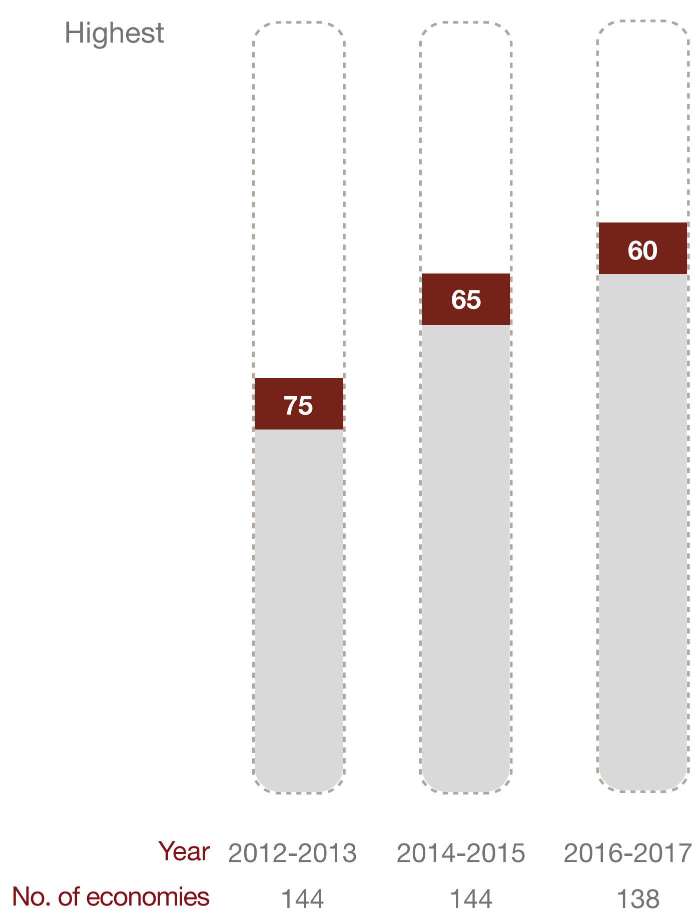
SEDS emphasises the development of a competitive private sector, a key engine to sustain economic growth, investment and employment.

To support private sector development, the government has embarked on improving economic institutions and enhancing the business environment such as levelling the playing field between state owned enterprises (SOEs) and private companies, streamlining administrative procedures and restructuring the banking system.

Under SEDS, Viet Nam has made improvements in the competitive environment of the private sector. The Global Competitive Index (GCI) report 2016-2017 ranks Viet Nam 60th among 138 economies. Compared to its ranking in 2012-2013, Viet Nam has made an impressive improvement of 15 positions.

Chart 1.13:
Viet Nam continues to improve its overall competitiveness to sustain economic growth

WEF GCI ranking for Viet Nam



Source: WEF Global Competitiveness Report

2. Sectors of opportunity

Spotlight on Viet Nam's hidden gems

In Part 1 we explored the macroeconomic factors that will pave the way for Viet Nam to transform itself into an economic powerhouse by 2050.

We now shift the spotlight to future hotspots within Viet Nam—specific sectors that we believe have the greatest potential for growth and investment.

For each of these featured sectors, we will highlight the advantages Viet Nam offers and how foreign investors can leverage on the opportunities.

The sectors of opportunity are:
- Business process outsourcing
- Solar and wind energy
- Luxury hotels
- Modern agribusiness and food
- Retail banking

2.1 Business process outsourcing

The case for business process outsourcing

Information and communications technology (ICT) is a booming sector in Viet Nam. In 2016, total ICT revenue was estimated at USD59.9 billion, an increase of 9.4% over the previous year[1]. This sector is supported by a strong telecommunications infrastructure, and now boasts nearly 14,000 players. Viet Nam's ICT master plan aims to turn the nation into a developed economy in ICT by 2020.

Within the ICT sector, business process outsourcing (BPO) is a particularly interesting industry that is poised for growth. Here's why.

There is tremendous room for growth

According to the Viet Nam Software and IT Services Association (VINASA), Viet Nam's BPO industry has grown 20% to 35% annually over the past decade. This growth far outpaces annual GDP growth of 5.2% to 7.1% over the same period, as per data from the World Bank.

There is still room for growth as Viet Nam's BPO industry is far from mature. Where mature BPO markets such as India and the Philippines are currently in terms of market size give us an indication of what the Vietnamese market can aspire to be (see Chart 2.1).

Viet Nam is increasingly touted as the next BPO alternative to these two prominent markets. In fact, as of 2016 Viet Nam has overtaken China to become Japan's second largest software outsourcing partner[2].

This growth potential is why Viet Nam was recognised as the number one pioneering location for BPO services by Cushman & Wakefield in 2016.

Chart 2.1: Comparison of BPO market revenues in 2015

Viet Nam's BPO market has significant room for growth.

Sources: VINASA; IT & Business Process Association of the Philippines; National Association of Software and Services Companies (NASSCOM)

[1] *Ministry of Information and Communications*
[2] *Japan External Trade Organisation*

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

Viet Nam has the potential to be more than just the new manufacturing centre of the world. Its low-cost production base and large supply of young labour can also support outsourcing of business services such as IT functions.

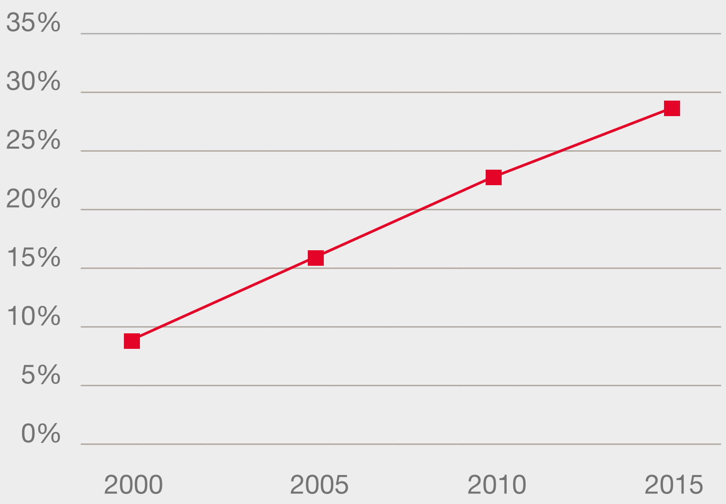
The growth in the local IT workforce is promising, with 40,000 new IT graduates entering the job market each year according to the 2014 Viet Nam Information and Communication White Book.

At the same time, the level of education is improving. Tertiary level enrolment rates have sharply increased over the past decade, with approximately 2.4 million students enrolled in tertiary education as of 2015[3].

This means that Viet Nam possesses a sustainable and steady pool of skilled talent, which is critical for knowledge intensive business services such as BPO.

Chart 2.2: Gross enrolment ratio, tertiary level (% of population)

Enrolment at the tertiary level for Viet Nam has grown significantly.



Source: UNESCO Institute for Statistics

[3] CIA World Factbook, 2016 estimate

Why Viet Nam?

Viet Nam offers the following advantages for the BPO market:

Strong human capital potential

40,000 IT graduates p.a. creating a sustainable source of educated labour.

96.8% literacy rate for working age population (15-60 years)[1].

Ranked 8th in PISA 2015 ahead of Hong Kong, China, the UK and the US.

English is encouraged as a working language The government also promotes the teaching of other languages such as Chinese and Japanese in schools.

Low cost

USD181 average monthly wage lower than the Philippines, Malaysia, Singapore and Thailand[2]

1st in terms of cost for BPO Pioneering locations in 2016 by Cushman & Wakefield

8th in terms of financial attractiveness in AT Kearney's 2016 Global Services Location Index

Stable business environment

Largely conflict-free due to its single-party rule, and homogenous and secular society.

Supportive government policies for FDI such as special enterprise zones, tax breaks and grants for technology companies.

Strategic location

Close proximity to major Asia Pacific economies hence smaller time difference compared to India and South American BPO providers.

Good cultural fit

Culturally compatible to East Asian economies such as Japan, Korea and China, which makes it easier to service these markets.

[1] Ministry of Education and Training, Viet Nam

[2] Human Capital Outlook: Association of Southeast Asian Nations (ASEAN), World Economic Forum

The way to play: business process outsourcing

Here are some ways investors can capitalise on the Vietnamese BPO market.

Set up, partner or acquire

In setting up local BPO operations, foreign investors can take advantage of government incentives that aim to encourage growth in the IT industry. For example, under Resolution 41/NQ-CP, a preferential 10% corporate income tax rate for 15 years is available for new investment projects which regularly employ more than 1,000 employees, and perform certain IT activities (including service of BPO or knowledge process outsourcing for export).

Partnering or acquiring local operations that are hungry for growth is another possibility. Bellsystem24 (which is owned by Japanese trading giant Itochu Corp) had recently acquired a 49% stake in a leading local call centre operator, Hao Sao Group. This move not only allows Bellsystem24 to expand its operations into Viet Nam, but also enables Hao Sao Group to leverage on this new relationship to acquire overseas customers[1].

Extension of business services in support of manufacturing activities

Viet Nam is emerging as a regional manufacturing hub and is ranked second in ASEAN in the sector, notably electronics, according to Japan External Trade Organisation (JETRO). Major electronic groups such as Samsung, Intel, Panasonic and Microsoft have moved to Viet Nam.

This presents opportunities for multinational companies (MNCs) in Viet Nam to raise the value added of their manufacturing operations to support services such as IT, logistics and e-commerce.

For example, in February 2017 SCC, Europe's largest privately-owned IT services business opened its new Global Delivery Centre (GDC) in Ho Chi Minh City. This new outfit is the company's second GDC, and will provide infrastructure technical support for customers, besides housing a software development centre[2].

Potential hubs for BPO

Da Nang is an ideal location for both BPO operations and ICT in general. The city was ranked first in the Viet Nam ICT Index 2016. This index is compiled by the Ministry of Information and Communications and ranks 63 provinces and cities nationwide in terms of their readiness for ICT development and application.

Hanoi and Ho Chi Minh City, which came in second and third on the index respectively are also choice locations. All three cities also offer special high-tech parks: Cau Giay Concentrated IT Park (Hanoi), Quang Trung Software City (Ho Chi Minh City) and Da Nang Hi-Tech Park (Da Nang).

These software parks offer special incentives, technology infrastructure such as fibre optic internet, and even human resource training centres that would benefit outsourcing vendors. They also house many software and IT firms.

[1] *Nikkei Asian Review, 7 December 2016*
[2] *SCC press release*

2.2 Solar and wind energy

The case for solar and wind energy

Viet Nam is looking at renewable energy to accommodate the growth in electricity demand. As a net energy importer, renewable energy will help reduce the stress energy imports (coal and gas) impose on Viet Nam's trade balance of payments. This section looks at two emerging forms of renewable energy in Viet Nam: solar and wind.

Viet Nam's growing energy appetite creates demand

Population growth, urbanisation, and industrialisation are driving the increase in domestic energy consumption.

Annual electricity demand had grown at a compound annual growth rate (CAGR) of 12.2%[1] from 2005 to 2014, and will continue to grow by 11.15% p.a. from 2016-2020 and thereafter at 7.4% to 8.4% p.a. from 2021-2030[2].

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) puts a stronger emphasis on renewable energy development.

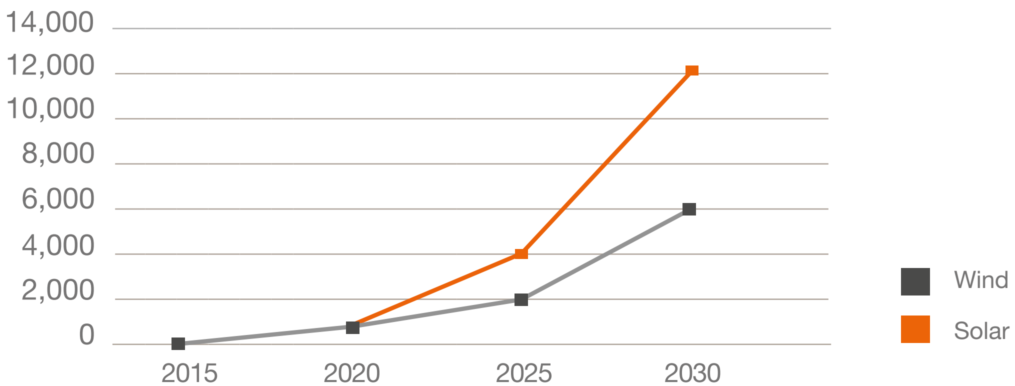
PDP 7 plans to nearly quadruple the installed capacity for renewable energy[3] to 21% as a percentage of total installed capacity by 2030, up from 5.37% in 2015[4]. Wind and solar energy have been prioritised as a means to increase the proportion of electricity generated from renewable sources.

In addition, the government is also incentivising the solar energy market by introducing the feed-in-tariff (FIT) scheme for solar plants. This has come into force in June 2017.

[1] Based on annual electricity demand statistics from the government of Viet Nam, as cited by Asian Development Bank
[2] Ministry of Industry and Trade/ Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) Energy Support Programme
[3] Includes small hydropower, solar, wind and biomass
[4] Institute of Energy (Viet Nam)

Chart 2.3: 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 are coal, hydropower (large- and medium-scale and pumped-storage hydropower) and gas turbines, each respectively accounting for around a third of total electricity production in 2015[4].

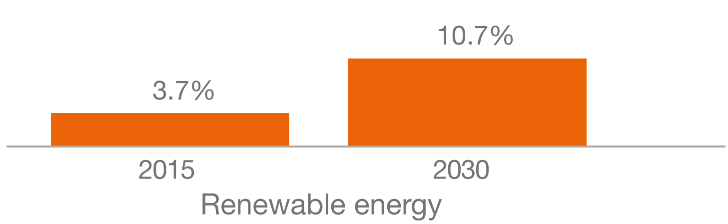
However, there are issues in sustaining these energy sources for the future, and we see this as a factor driving the need for renewable energy alternatives.

According to the Ministry of Industry and Trade (MoIT), while small hydropower can still be expanded, Viet Nam's large-scale hydropower potential is almost fully exploited. Gas turbines on the other hand rely on expensive and non-renewable fossil fuels, whilst coal emits the highest concentration of carbon dioxide per unit of energy produced compared to other fuels[5].

For these reasons, we believe that renewable energies for which Viet Nam has significant potential capacity such as solar and wind are set to grow.

Chart 2.4: Actual (2015) and target structure of power sources (% of total electricity production)

The government plans to nearly triple renewable energy's share of total electricity production by 2030.



Sources: Institute of Energy (Viet Nam) and PDP 7 (revised) as cited by MoIT/GIZ Energy Support Programme

[4] *Institute of Energy (Viet Nam)*
[5] *US Energy Information Administration*

Why Viet Nam?

Solar and wind power generation are likely to benefit from:

Suitable geography

67% of land suitable
(about 220,000 sq km) for solar photovoltaic systems[1]

Coastal and mountainous regions
suitable for wind turbines

Promising solar potential

2,000 to 2,500 hours of sunshine annually
one of the highest in the world

18TWh per year total technical solar potential[1]
60% attributable to the Southern region

Favourable wind conditions

5.5ms to 7.3ms average wind speed per year[2]
suitable for modern wind turbines

27GW theoretical potential
for wind power[2]

Investment friendly policies

No restriction on foreign ownership
of companies or assets involved in electricity generation[3]

Attractive incentives are being proposed
by the MoIT, land, investment and tax incentives[4]

Feed-in-tariffs of USD cents
9.35 per kWh
for grid-connected solar energy production

1 *Renewable Energy Developments and Potential in the Greater Mekong Subregion, Asian Development Bank*
2 *Wind Energy in Viet Nam: Potential, Opportunities and Challenges, Federal Ministry for Economic Affairs and Energy (Germany) and GIZ*
3 *Electricity regulation in Viet Nam: Overview, Tilleke & Gibbins*
4 *Viet Nam Briefing, Business Intelligence from Dezan Shira & Associates*

The way to play: solar and wind energy

Investors looking to expand into these relatively nascent markets should think through the following:

Choose an appropriate investment method
There are currently no restrictions on foreign ownership in the power generation sector in Viet Nam. Foreign investors may choose to either set up a 100% foreign invested company, enter into a joint venture, or a public private partnership in the form of build-operate-transfer projects (BOT).

While BOT is the most common form of foreign investment in the energy sector overall, renewable energies such as solar and wind may require a different approach due to the high technical and engineering capabilities needed. Partnering with local players is an effective way for foreign companies to penetrate this industry by offering technology, expertise and capital.

For example, as recently as June 2017, Korea's Hanhwa Group announced that it is partnering with Viet Nam-based BCG Bang Duong to develop and build a 100MW solar project in Thanh Hoa district, Long An under a USD100 million agreement. Hanhwa is reportedly supplying solar equipment, engineering, procurement and construction (EPC) services and arranging for international financing for the project; BCG will also arrange financing and will be in charge of developing the project, for example securing permits and signing purchasing power agreements with Viet Nam's national utility company EVN[1].

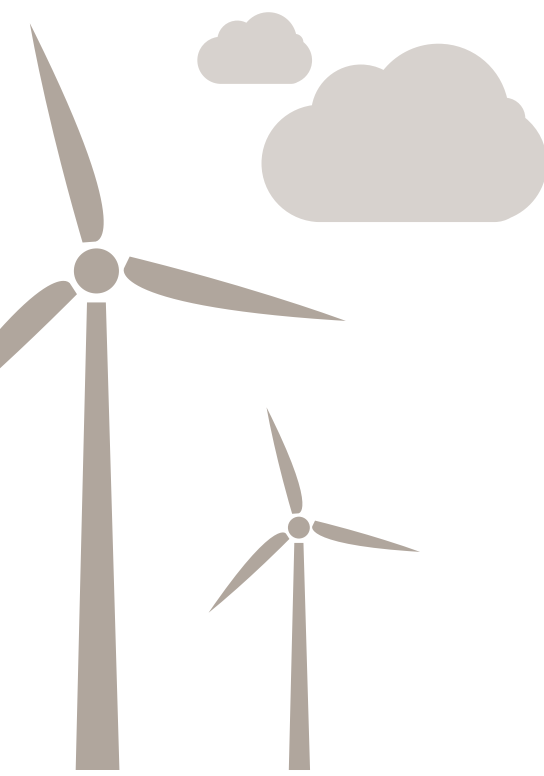
In 2017, Singaporean power investor The Blue Circle started the construction of its Dam Nai wind project in Ninh Thuan province, which will be the first 40MW wind project in Viet Nam[2]. The company is partnering with Transition Systems Viet Nam to build this USD68 million wind power plant[3].

[1] *PV-Tech, 29 June 2017*
[2] *The Blue Circle press release*
[3] *Viet NamNet Online Newspaper, 4 August 2016*

Location considerations

Viet Nam's southern region is suitable for solar projects due to its higher solar irradiation levels and relatively flat terrain.

On the other hand, the coastal areas in the south central region and the mountainous regions of central Viet Nam are more feasible as wind project sites as they see higher average wind speeds.



2.3 Luxury hotels

The case for luxury hotels

Viet Nam's tourism sector is expected to become a key contributor to the economy and its growth. According to the World Travel & Tourism Council, Viet Nam's tourism revenue in 2016 reached USD9.3 billion (approximately 4.6% of total GDP) and is forecast to nearly double to USD17.9 billion by 2027. Within tourism, we see the upscale and luxury hotel industry—those rated as four stars and above—as relatively untapped and having the greatest potential for investment.

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

There has been strong growth in the supply of four and five star hotels, which has increased 20% p.a. over the last 3 years (2013-2016)[1]. Nevertheless, the number of new upscale and luxury hotels is still relatively low compared to other major tourist destinations in the region, indicating that there is still room for further growth.

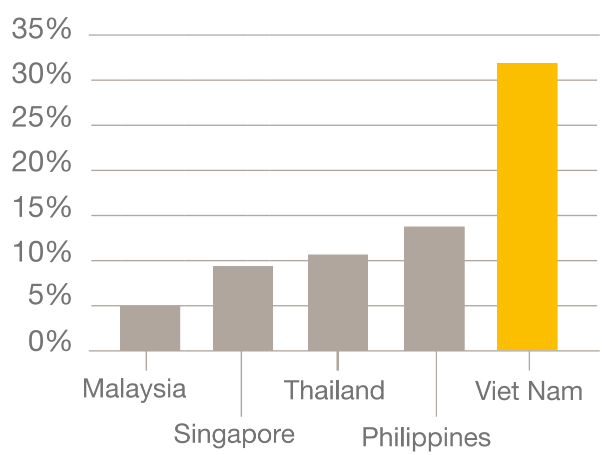
For example, in 2017 Ho Chi Minh City will see 1,007 new hotel rooms added market wide, whereas Bangkok and Jakarta respectively will have 2,876 and 3,193 new rooms in the upscale market alone over the same period[2].

This relatively low level of market saturation is supported by a thriving tourism sector. Viet Nam is quickly gaining ground as a popular tourist destination: international tourist arrival had grown by 26% in 2016 to 10 million visitors, a growth rate far higher than neighbouring ASEAN-5 economies (Malaysia, Philippines, Singapore, Thailand, see Chart 2.5).

On the domestic front, rising affluence will lead to increase in demand for luxury goods and services, which favours tourism. UK-based real estate consultancy Knight Frank reported in their 2017 Wealth Report that Viet Nam experienced the fastest growth in the number of ultra high net worth individuals[3] (UHNWIs) between 2000 and 2016 (320%), well above even China (281%) and India (290%). By 2026 the number of UHNWIs in Viet Nam is expected to grow by 170%, again placing it at the top of global growth rates.

Chart 2.5: Year-on-year growth in international arrivals for selected ASEAN economies (2016)

Viet Nam saw remarkable growth in international arrivals in 2016.



Sources: The World Bank; Ministry of Tourism & Culture of Malaysia; Singapore Tourism Board; Central Bureau of Statistics (Indonesia)

[1] *Savills World Research*
[2] *JLL*
[3] *Ultra high net worth individuals are typically defined as individuals with net worth of at least USD30 million.*

> *Leisure travel grew by 30% last year, which is unlike anywhere else in the world.*
>
> **Michael Hoe-Knudsen**
> Regional General Manager IHG Viet Nam/Cambodia

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

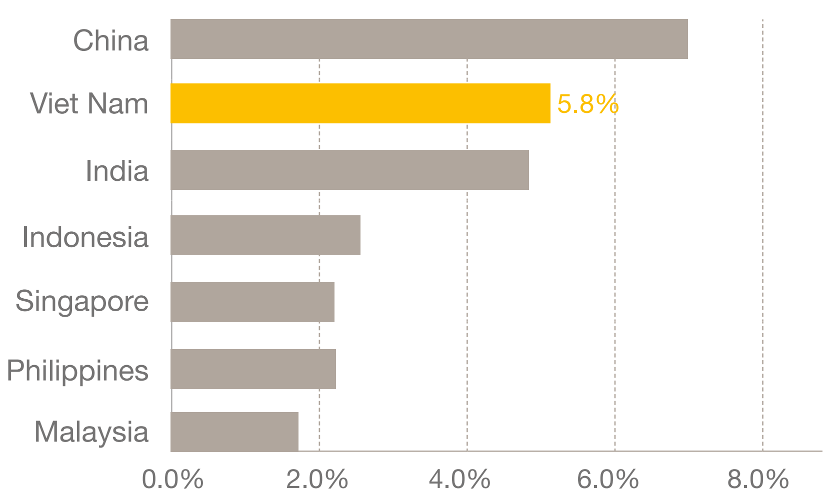
Viet Nam is also becoming more accessible to international tourists as a result of investments in transport infrastructure such as airports, road and rail, which have improved connectivity significantly.

Viet Nam is currently investing heavily on infrastructure, having spent an equivalent of 5.8% of its GDP on infrastructure in 2016. This is very much ahead of Indonesia and Thailand's infrastructure spending, at 2.6% and 1.6% respectively. In addition, air travel capacity is improving, with plans to build a new international airport near Ho Chi Minh City and to expand three existing ones.

With Viet Nam's 2020 Transport Master Plan well underway, Viet Nam will be able to cater to more tourist arrivals as well as provide access to new tourist destinations in the future. The hospitality industry is thus set to grow as new tourist destinations create demand and new markets.

Chart 2.6: Infrastructure spending as a percentage of GDP for select Asian economies (2016)

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



Source: JLL

Why Viet Nam?

Viet Nam has several key strengths that bode well for tourism, and by extension the luxury hotel market.

Advantageous geography

8 UNESCO world heritage sites including Ha Long Bay, Phong Nha-Ke Bang National Park and Hoi An Ancient Town

Diversified sources of tourism due to its cultural heritage and varied terrain, e.g. long coast lines, mountainous areas, Mekong Delta and Red River Delta

Proximity to main tourist markets of China, South Korea and Japan

Tourism-friendly

Electronic visas available for 40 economies including China, Japan, South Korea, the United States and the United Kingdom

Visa exemption available for 22 economies for specified stay periods ranging from 14 to 30 days

Travel-friendly climate

Sunny and travel-friendly climate suitable for tourism

Increasing connectivity

Airport investments including a new international airport near Ho Chi Minh City and expansion plans for three existing international airports

New metro systems planned for Hanoi and Ho Chi Minh City

High-speed railway between Hanoi and Ho Chi Minh City under consideration

New highways and proposed improvements

The way to play: luxury hotels

The high end hotel segment is mainly dominated by international brands, such as InterContinental Group, Starwood Hotels and Resorts and AccorHotels. There were reportedly 101 five star hotels and 299 four star hotels in Viet Nam as of May 2016[1]. Investors seeking a foothold in the market will be interested to know that:

Joint ventures and partnerships

Joint ventures with local developers are the typical mode of entry for foreign investors into Viet Nam, according to CBRE's Asia Pacific Investor Intentions Survey 2017. Under such agreements, the local firms employ an international operator to manage their assets and land banks. For example in December 2016, Hilton signed a management agreement with Vietnamese conglomerate BRG Group. Under this partnership, BRG Group will own a dual-branded property which will feature Hilton Hanoi West Lake and Double Tree by Hilton Hanoi West Lake. These two hotels will in turn be managed by Hilton[2].

Mergers and acquisitions

There are also mergers and acquisitions (M&A) property sales related to hotels. Among the most notable deals in 2016 were the sale of InterContinental Asiana Saigon Hotel for USD75 million, Singapore developer Low Keng Huat Limited's sale of Duxton Hotel Saigon for USD49 million and Keppel Land Viet Nam's sale of four-star hotel Sedona Suites Hanoi to BRG Group for USD31.5 million.

Hanoi and Ho Chi Minh City

Hanoi and Ho Chi Minh City, being the two cities that see the highest number of tourist arrivals and hence receive the highest tourist spends, are the mainstay hotel markets. Even so, compared to other cities in the region, Hanoi and Ho Chi Minh City still have plenty of capacity for new hotels. Both cities have lower numbers of new hotel rooms in 2017 compared to Bali, Jakarta and Manila despite seeing comparable and in some cases higher tourist arrival numbers (see Chart 2.7).

Up and coming destinations

Investments in tourism infrastructure and enhanced accessibility has also led to the rise of investment potential in coastal areas, such as Phu Quoc, Da Nang and Nha Trang. Viet Nam News reported that Phu Quoc will see the launch of Regent Phu Quoc in 2019, the result of a management agreement between Regent Hotels & Resorts and local property developer BIM Group.

Chart 2.7: International tourist arrival and new hotel rooms in selected cities in Southeast Asia

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

[1] *Viet NamNet, 11 August 2016*
[2] *Hilton press release*

CEO views

Michael Hoe-Knudsen
Regional General Manager of InterContinental Hotels Group (IHG) Viet Nam/Cambodia

IHG is the one of the largest hotel operators in Viet Nam, with six open properties in Hanoi, Da Nang, Nha Trang and Ho Chi Minh City. IHG is also in the process of opening a new project in Phu Quoc, and is bringing the Holiday Inn brand to Viet Nam by 2018.

Prosperous future for the hospitality industry

IHG has been in Viet Nam for a decade, having opened our first hotel in 2007. Today, we have grown to six hotels, with four InterContinental Hotels and two Crowne Plaza Hotels.

We are very optimistic about Viet Nam. In our pipeline are six new hotels, with a second InterContinental in Hanoi, InterContinental Phu Quoc opening in 2018, a Crowne Plaza and Holiday Inn in Ho Chi Minh City and numerous deals in other cities.

There is great demand both for business and leisure travel in Viet Nam, being one of the fastest growing economies in the region. Leisure travel has experienced significant growth of 30% in 2016. This is incredible and unlike anywhere else in the world.

Besides that, there is improved air connectivity to the world. Domestic travel and domestic flight departures are increasing with new airlines coming on board, which presents an overall positive outlook for the hospitality industry. Viet Nam's growing middle class will continue to travel a lot for business and leisure, providing great opportunity for growth.

Improved air connectivity is a critical success factor

Air connectivity is critical to our business, especially in Phu Quoc, Da Nang and Nha Trang. As we continue to grow with more hotels in those resort destinations, we need improved air connectivity and therefore the support of the local government to be successful.

Pro-business environment

The Vietnamese government and people have been very pro-business. The government has been undertaking tax reforms, and has shown a willingness to work with private companies and to bring in foreign direct investments.

For example, the Ministry of Foreign Affairs has been receptive to the industry's requests to soften visa rules. They have done so very successfully with the expanded 30-day free visa for certain economies.

Common misconception about the Vietnamese market

One misconception is the assumption that Vietnamese people are relatively low-skilled and lowly-educated. I think this is not true.

Vietnamese people are very skilled, hard-working and willing to learn. Of course, some level of training will be needed.

The critical success factors for doing business in Viet Nam

Choose the right partners

One critical success factor is having the right partner. The hotel owners we partner with are critical to our success. We have wonderful owners and partners in Viet Nam who believe in the IHG brand and Viet Nam, who continue to do business with us.

Cooperate with the government

Working with the government is important to continue to attract tourists to Viet Nam. For example, although the government did a great job in improving visa regulations, the regulations are still stricter in Viet Nam than in competing surrounding economies, and we hope to continue to engage the government on this. We also work together with the government on training opportunities, especially outside of Ho Chi Minh City and Hanoi.

Source for reliable market data to make informed decisions

Macroeconomic and detailed tourism market data is not always available. There are companies that provide proprietary information and we purchase it from them to help us make informed business decisions.

Invest in training

Although the workforce has a lot of potential, you still need to train them. The further you get away from Ho Chi Minh City and Hanoi, the more you need to invest in training. We help develop skills in secondary cities with the IHG Academy, where we partner with local universities and help train future hotel management students.

2.4 Modern agribusiness and food

The case for modern agribusiness and food

Agriculture is still a major economic sector in Viet Nam despite its move away from an agrarian economy. This sector accounted for 18% of GDP in 2016 according to the World Bank, and employed an estimated 17% of the total population[1]. For foreign players, the opportunities lie in helping to modernise agribusiness and food in Viet Nam, i.e. bring in modern food production techniques that employ high quality inputs, modern machinery and processes, and improve the food and beverage value chain. This is because:

Productivity and value add in the agriculture sector remain low

Viet Nam is among the world's top exporters of rice, coffee, cashew nuts and seafood. Although its stature as a global agricultural exporter has increased, the quality of the sector's growth in terms of productivity and value add overall remains low (see Chart 2.8). Hence there is a need to push for higher product quality, productivity and value add in areas such as rice and seafood.

The government is making efforts to develop the agricultural sector in an effort to modernise and increase the income of farmers. Technology is seen as a critical component of the modernisation process.

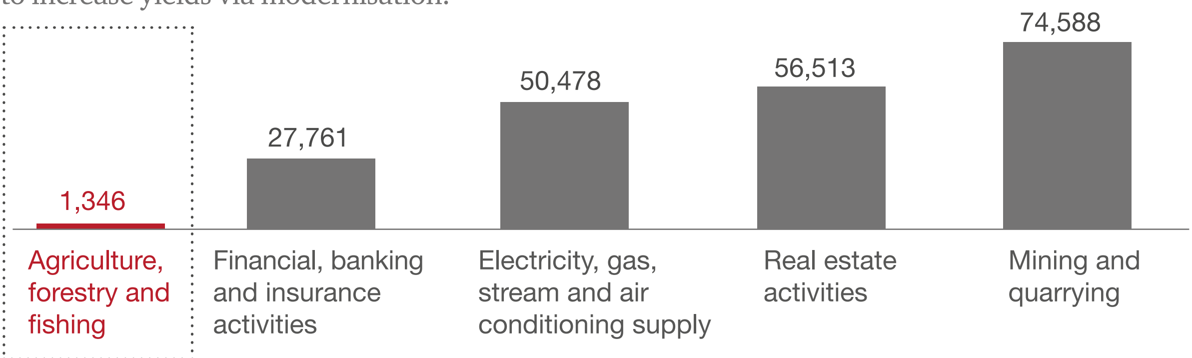
It offers potential solutions to improve food security, productivity and quality, as well as opportunities to diversify and move up the agriculture product value chain.

The government is looking to businesses to play a growing role in raising the sector's technology level and increasing farmers' access to modern technology applications. Hence for foreign investors, the opportunities lie in bridging the gap by bringing in new technology to help develop a much needed modern and diversified agriculture market for Viet Nam's farmers.

[1] *The World Factbook, CIA*

Chart 2.8: 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

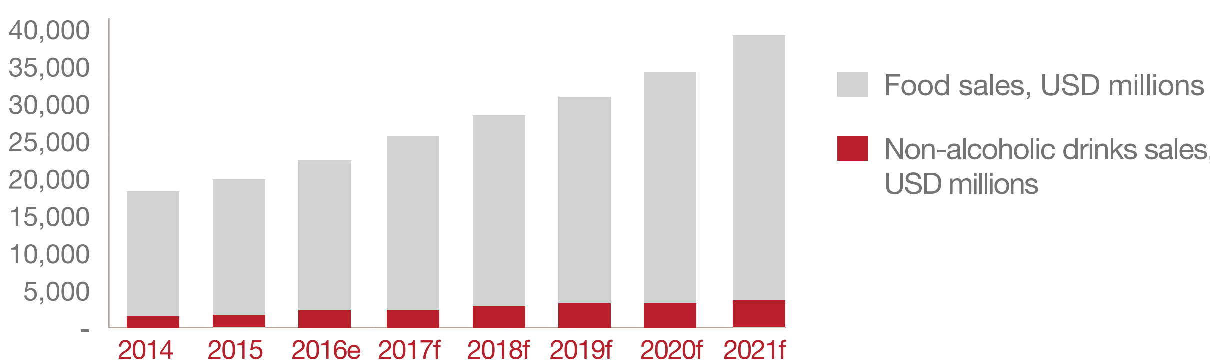
Viet Nam's food and beverage (F&B) industry has enjoyed rapid growth in the past couple of years, where package food sales has increased by a CAGR of 14% from 2011 and 2015, according to data from Euromonitor International. This is fueled by strong economic growth, rising income levels, rapid urbanisation and change in lifestyle. Consumers are increasingly exposed to Western culture and seek convenient, easy-to-prepare products.

Changing tastes also present opportunities for growth around food trust and nutrition. Vietnamese consumers in particular are increasingly concerned about hygiene, food safety and health, which are the major factors fuelling growth in the F&B industry. This will benefit packaged foods as they are generally considered to be safer and of a higher quality compared to fresh or unpackaged food.

In addition, with consumers becoming more aware, sophisticated and discerning about their food selection, there are opportunities for businesses to innovate and differentiate their products from the mass market. This includes marketing and distributing organic and premium foods.

Chart 2.9: Viet Nam's food and drink spending outlook to 2021

Food sales are expected to increase at CAGR of 11.2% up to 2021 according to BMI.



Source: BMI, national statistics

Exchange rate: VND22,733 per USD

e/f=BMI estimate/forecast

Why Viet Nam?

Viet Nam has several strengths that would entice foreigners to invest in agribusiness.

Large agriculture base with modernisation potential

Agriculture sector accounts for **20%** of Viet Nam's total exports

2nd largest exporter of rice and coffee globally

Top 5 world's leading exporter of seafood, tea, cashews, black pepper, rubber and cassava

6% year-on-year growth in exports of agriculture, forestry and fishery products in 2016 according to the Ministry of Agriculture and Rural Development (MARD)

Food consumption trends

Increasing willingness to pay premium prices for quality and hygienic food due to concerns about food safety

Middle-and affluent-class expected to more than double in size by 2020 from 12 million to 33 million[1]

11.2%
forecast annual growth in food sales up to 2021[2]

[1] Boston Consulting Group
[2] BMI

Free trade agreements with developed markets

Potential to export high value agriculture products and food to developed economies

Investment incentives

Corporate income tax incentives for investment projects of manufacturing or processing agricultural products

Exemption or reduction of levies and rents for land use

Investment capital support mechanisms

The way to play: modern agribusiness and food

Agriculture investments in Viet Nam is still relatively untapped compared to its manufacturing counterparts, receiving around USD4 billion or 1.2% of total FDIs in the first 11 months of 2016 according to the Viet Nam Chamber of Commerce and Industry. The following are some avenues for foreign players to venture into the agribusiness in Viet Nam.

Bridge the gaps

The current gaps in Viet Nam's agribusiness industry – low yield, labour intensiveness and reliance on relatively inefficient, traditional techniques represent opportunities for companies to capture the market by introducing inputs or processes that can facilitate efficient agriculture.

Case in point: Bayer Viet Nam, partnering with the Cuu Long Rice Research Institute, introduced the Dry Direct Seeding Technology which helps farmers manage weeds more efficiently. Moreover, in response to climate challenges and rising demand for diversified rice breeds, the company also launched two new rice varieties that demonstrate higher yields and tolerance towards environmental factors over in-bred rice[1].

Seeing an opportunity to improve access to floating fish feeds for customers in north central Viet Nam, where customers are switching to intensive farming practices, Cargill opened its tenth aqua feed line in Ha Nam province. According to the company, this modern feed line will produce high quality extruded feed for Tilapia and other local fish species. The location reduces delivery times, and Cargill also aims to increase fish farmers' output and efficiency while reducing their environmental impact with the high quality feed[2].

Forge partnerships

Partnering with local companies is another way for foreign companies to make headway into the market by bringing expertise and new technology to the table.

As part of its investment in clean agriculture, VinEco inked cooperative contracts collectively worth over USD46.5 million with NETAFIM and Teshuva Agricultural Products from Israel and KUBOTA from Japan in July 2015. The foreign partners will supply technology, equipment and techniques that will enable the local company to achieve large scale agricultural production adhering to GLOBALCAP and VIETGAP quality assurance standards[3].

Bring higher value added products into the market

There are also considerable opportunities in the sector for the production and distribution of premium agriculture and food products. For example Kitoku Shinryo, a major Japanese rice wholesaler, will begin primarily growing a popular rice variety cultivated in Japan known as koshihikari in northern Viet Nam. It targets an initial output of around 500 tons which will be supplied to local Japanese restaurants and China.

Another Japanese company, Kushima AoiFarm, has begun production of Japanese sweet potatoes in Viet Nam. With the aid of production technology from Japan, the first-year output is projected to be 1,250 tons, and a portion will be exported to Singapore and Hong Kong.

[1] *Viet Nam Investment Review, 21 November 2016*
[2] *Cargill press release*
[3] *Viet Nam Economic Times, 21 July 2015*

CEO views

Jorge Becerra
Managing Director of Cargill Premix & Nutrition
(Former Managing Director of Cargill Feed & Nutrition Viet Nam cum Country Representative of Cargill, Incorporated in Viet Nam)

Cargill is among the biggest importers and traders of commodities in Viet Nam, providing market access to critical raw materials and ingredients locally. It operates in a number of sectors from steel, food and beverage ingredients to animal nutrition (feed, additives, and feed ingredients) and has close to 2,000 employees working across 23 sites in Viet Nam.
The commodity group is among the first American companies to venture into Viet Nam when relationships were normalised between both economies in 1995. It is also the first American company to distribute products directly in the Viet Nam.

Viet Nam's fragmented agriculture sector

Agriculture is among the biggest sources of revenue for Viet Nam, though the sector is highly fragmented. In the animal feed industry for example, we have over three million farming households. Many of them don't have access to information, technology, capital and know-how.

With the limited extension systems for farmers, we have to place emphasis on training our people and training local farmers, providing them with our resources and knowledge and services. We invest in helping farmers be more efficient, more productive and to grow their business. This in turn allows us to grow together with them.

Fewer and bigger farms in the future

If you look across the world, it's just a natural progression to have bigger farms. In US and Brazil, they have a very large commercial agribusiness, while in Japan and Korea they have smaller high premium family-owned farms, though they are still much bigger than Vietnamese farms. For Viet Nam, this is where I see agriculture moving towards: fewer, bigger, more efficient farmers. However as to what will it look like in the future, it will be a Vietnamese answer, based on local resources, capabilities and market demands.

Changing consumer expectations of food

Vietnamese people's eating habits and expectations are changing. For instance, diets are more nutritious because of higher purchasing power. Demand for food in Viet Nam has also shifted from food security to food safety as people want to know where the food is coming from, whether it's safe for them and their families. It's also due to multiple food scandals over the years. We see building consumer’s trust in food safety as a motivation and an ongoing opportunity to improve our offerings to meet consumers' changing needs, at the same time to advocate for food transparency.

Right balance between global innovations and local application

The Vietnamese market has very specific needs and requirements and we need to ensure that we offer global innovations and technologies that meet the needs of the local market.

Collaboration to address supply chain gaps

There are many areas that will continue to need investment and improvement in Viet Nam, from infrastructure, the regulatory system, and education to production systems for many different industries.

Collaboration is essential to address the resource and supply chain constraints. In our business, this means working with the government and different stakeholders from producers and retailers to put in place proper regulatory framework and controls for the supply of animal feed. Similar collaborations are required for the different areas of the economy that demand investments needed to secure future growth for Viet Nam.

Five areas to focus on when investing in Viet Nam

There are a couple of principles that companies need to pay attention to when investing in Viet Nam.

Do your research, do not assume it is the same as any other economy in the region or that you can "copy and paste" your model here.

Have a good strategy ready. This is an extremely competitive marketplace, being an open economy. There is very tough competition across all industries, and between both multinational and local companies.

Know whom you are partnering with. If you are partnering, make sure you fully understand whom you are going to collaborate with.

Have the right structure and right design when you establish your business, and make sure you understand the regulations. It can be a complex environment, but if you have good advice and build good relationships, then your business is fairly doable. In terms of offering, you need to tailor your offering to the needs of the market.

Make sure you understand the local culture, their value system and the rules of society in Viet Nam. Build trust with the government by establishing a constructive and open relationship with the government to create effective dialogue that goes both ways.

For example, we have dialogues with the government on the different rules and regulations to make sure we have a proper understanding to allow for full compliance. At other times we provide constructive feedback by sharing knowledge on how specific issues are being addressed in other economies. These help the government to decide what is the best framework for whatever specific issue they are addressing.

2.5 Retail banking

The case for retail banking

Viet Nam's banking and financial services sector is undeveloped but boasts high growth potential. Within this sector, we foresee room for growth in retail banking, in particular payment cards and wealth management services.

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

There are a number of factors driving retail banking growth in Viet Nam. First, retail banking is still relatively untapped in Viet Nam. Only 31% of the Vietnamese adult population had a bank account in 2014, according to the World Bank.

Second, the growing population and rapidly burgeoning middle class means affluence, consumption and financial transactions will rise.

Third, Viet Nam's population is relatively young, where 60% of its people are under the age of 35. This young group of customers are looking for more convenient, consistent and accessible financial services.

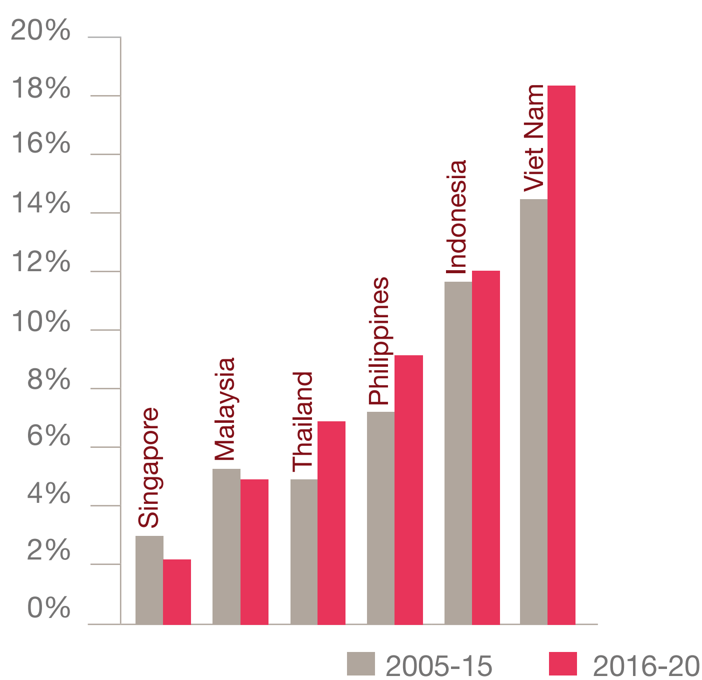
These factors are expected to drive demand for diversified retail banking products and services such as payments, transfers, bancassurance and wealth management, all delivered through convenient channels such as mobile banking.

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 2.10: Viet Nam's rising middle class

Viet Nam's middle class will grow faster than the ASEAN-5 economies. This rising affluence is one of the factors that will drive demand for more complex banking products.

Growth of middle-class population



Source: Brookings Institute

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

Currently, more than 90% of payment transactions in Viet Nam are in cash[1]. Even the market for payment cards is relatively untapped: around 27% of the population use debit cards, and less than 5% use credit cards.

Nevertheless, Viet Nam has a good base to make the transition to a cashless society. The Vietnamese are well connected to their mobile devices, with a mobile penetration rate of 147%[2] and a smartphone penetration of 31% and rising[3].

This presents a unique opportunity in the FinTech space to change the way people conduct their financial activities via mobile or digital payment instead of cash.

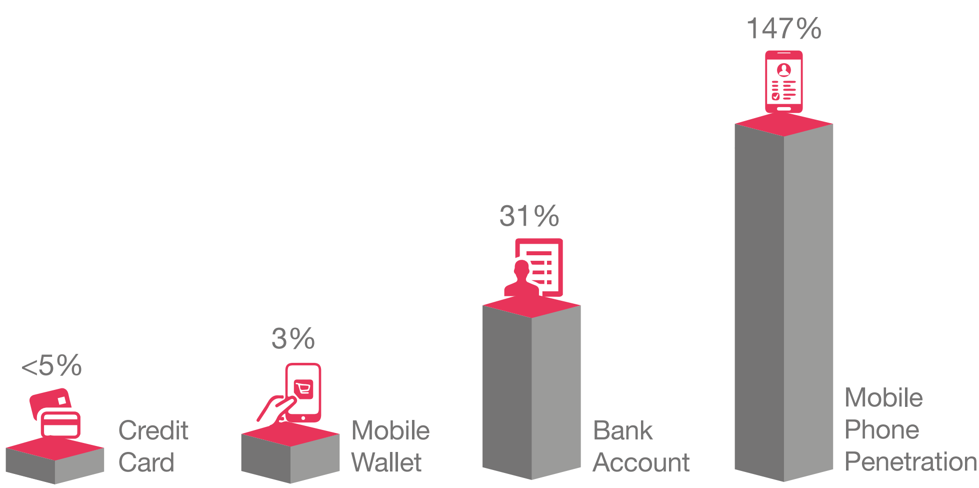
The take up rate in digital payment has also been very encouraging. For example, the National Payment Corporation of Viet Nam (NAPAS), an intermediary payment service provider, saw transaction values paid via its system double between 2015 and 2016[4].

E-commerce, a rapidly growing market that has the potential to achieve USD10 billion revenue by 2020 according to the Association of Viet Nam Retailers, will also further drive the adoption of non-cash payment.

With the gradual shift towards a cashless society, more banks see technology applications, such as mobile banking and internet banking services, as the key to success for retail banking.

Chart 2.11: Viet Nam's payment systems are relatively untapped

Despite low payment instrument penetration rates, Viet Nam has strong potential for alternative payment channels due to its high mobile penetration rates.



Sources: PwC Entertainment & Media Outlook 2017-2021; the World Bank; Asian Banker Research and Viet Nam Economic Times

[1] Ken Research
[2] Viet Nam Economic times, 23 November 2016
[3] PwC Entertainment & Media Outlook 2017-2021
[4] Viet Nam News, 17 January 2017

Why Viet Nam?

Viet Nam's retail banking sector shows high growth prospects due to a number of factors:

Largely untapped market

Fastest retail banking income growth in Asia Pacific according to The Asian Banker, CAGR of 25% 2016-2020[1]

Only 2% of the population own a credit card[1]

Over 90% of payments are made in cash[2]

Only 31% of the adult population has a bank account[3]

Increasing wealth

One of the fastest growing economy in the world over the period to 2050[4]

6.2% forecast GDP per capita growth (2016-2020), higher than Malaysia, Thailand and Indonesia[4]

Rising middle class with more than half the population entering middle class by 2035[5]

[1] Viet Nam Economic Times, PwC interview, 15 November 2016
[2] Export.gov, 20 July 2017
[3] The Global Findex Database 2014
[4] World in 2050 Report, PwC
[5] Viet Nam 2035 report, the World Bank
[6] Statista
[7] PwC Entertainment & Media Outlook 2017-2021

Increasing digital connectivity

48.2% internet penetration rate in 2016, forecast to rise to 65.7% by 2021[6]

31% smartphone penetration rate in 2016, forecast to increase to 58.5% by 2021[7]

Opportunities for acquisition

Strategic foreign investors needed for several local banks as they look for growth and development opportunities

The way to play: retail banking

There are a number of opportunities for foreign investment in the retail banking sectors. Here are a few examples to consider.

Invest in domestic retail banks

The government is increasing the limits of foreign ownership in Vietnamese banks, providing opportunities for foreign banks and investors to participate in Viet Nam's retail banking sector.

Among the banks seeking to draw on foreign bankers are Saigon Joint Stock Commercial Bank, Viet Nam's fifth-largest bank by assets. It is looking to raise as much as USD700 million and was the first Vietnamese bank to be granted government approval to sell a majority stake to foreign investors in April 2017.

In addition, consumer finance also provides good opportunities for foreign investors. Consumer finance has been the fastest growing sector over the last few years and is seeing strong demand.

Supply and develop IT systems to support rising e-payment/digital banking

Banks will need to invest more in their IT systems to support the growth of e-payment as their IT infrastructures are not expanding as fast as the e-payment market.
For instance, the State Bank of Viet Nam plans to accelerate the second phase of the Inter-bank Payment System Project worth USD118 million. The aim of the investment is to upgrade the technology to improve the quality of the telecom network and allow for two million transactions a day.

Invest in FinTech

Foreign investors are investing in Viet Nam's FinTech companies as they are ideally positioned to capitalise on digital payment growth.

Last year was a very active year for FinTech in Viet Nam. The sector raised a total of USD129 million in 2016, accounting for 63% of all start-up deals locally, according to Topica Founder Institute, a start-up accelerator in Southeast Asia.

One of the biggest FinTech investments involves M-Service, which operates the mobile payment app MoMo. It raised USD28 million from Standard Chartered Private Equity and Goldman Sachs. MoMo is the first payment app in Viet Nam to be ranked number one in the finance category of both the iOS and Android app stores.

CEO views

Raymond Sia Say Guan
CEO of Hong Leong Bank
Viet Nam

Hong Leong Bank is a regional bank based in Malaysia, with presence in Singapore, Hong Kong, Viet Nam, Cambodia and China. It is one of only eight fully foreign-owned licence banks in Viet Nam, and is the first Southeast Asian bank to be granted the licence in 2009.

The bank began operations in Viet Nam in 2009 and has expanded its branch network in Ho Chi Minh City, Hanoi and Binh Duong, with one transaction office in Cho Lon.

Viet Nam, continued development

Viet Nam's market is extremely dynamic, and ever-changing. With an unbanked population of around 60-70%, Viet Nam's retail banking is a segment Hong Leong Bank Viet Nam is very much focused on and where we want to make a difference. Looking at the bank's history in Viet Nam, one of the things that we would have liked to do differently is to enter the market much earlier to build on our brand and business presence.

Viet Nam's banking market is evolving

The government welcomes foreign players and investors, and takes a well-controlled approach to open up the market.

Focus on digital

In Viet Nam, Hong Leong Bank does not have a large physical branch network as we do in Malaysia.

Instead, we leverage on technology and digital such as internet and mobile banking to grow our market presence and network.

In light of digital disruption trends, we certainly want to collaborate with digital and technology companies. At the same time, we continue to review all our processes using digital technology as a platform to improve efficiency and customer experience.

Factors to include in your winning strategy

No one-size-fits-all strategy.
We should not assume that best practices in other markets would work in Viet Nam.

Understand and appreciate the local market.
Take time to know the customers and to engage with key stakeholders to ensure actions and involvements are in line with the goals and aspirations of the company.

The evolution of policies and regulations is inevitable, and we strive to understand and take immediate actions to ensure our stakeholders' needs are met.

Build relationships with business partners, authorities and regulators to ensure our actions and involvement are consistent as we move forward.

Find the right talents and retain them. We do emphasize a lot on local talent development, as the turnover rate among educated and skilled employees is high in Viet Nam. To search for the right talent would usually be a bit more challenging in a growing and developing economy.

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 invest and develop local resources and capabilities, as well as navigate existing business challenges before they can secure their future and success in Viet Nam.

They 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, as shared by CEOs of foreign companies in Viet Nam that we interviewed.

> ***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

Even within Viet Nam, strategies need to be adapted to the local environment, which can vary from province to province.

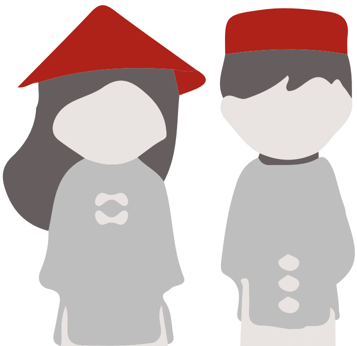
> ***A misconception of foreign companies is to think of Viet Nam as one homogenous market. Businesses have to develop a different strategy for different regions in Viet Nam.***
>
> **Pham Hong Hai**
> CEO of HSBC Viet Nam

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.

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, hence it is vital to research the market and localise the go-to-market strategy to adapt to the local business environment.

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

I believe that the key to success in Viet Nam's market is to hire good employees and maintain good relationships with them, like a family business.

For example, there is a well-known Korean food company which is regarded as one of the most successful foreign investors in Viet Nam. This company has developed its distribution channel not just based on a buy-sell relationship with retailers, but also by teaching them how to increase profit. This is how the company embodied the Korean concept of "jeong" (affection). By providing guidance in terms of decorating stores, displaying products, selling orders and communicating with customers, this company has helped retailers improve their business performance.

Kim Seung Rok
President and CEO of Woori 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.

> *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

Given Viet Nam's changing regulatory environment, businesses need to establish a constructive and open relationship with the government. An open dialogue can help clarify regulation matters and provide feedback on industry development plans.

> *We have been working closely with the regulators to make sure we understand and comply with regulations. At the same time we provide them with suggestions 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. A number of MNCs have established their own programs or collaborated with the government to train the local workforce.

> *In a growing and developing economy, the search for the right talent is usually more challenging.*
>
> *What we've been doing is not just emphasizing on quantity or size but also looking into the quality of the staff force as well.*
>
> *Our people, personnel, human capital is of primary importance and we place a lot of emphasis on human capital development and a strong push to develop the local talent.*
>
> **Raymond Sia Say Guan**
> CEO of Hong Leong Bank Viet Nam

> *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 IHG Viet Nam/Cambodia

Developing and placing trust in local talents also bring huge benefits to foreign firms in terms of increased loyalty and retention. The local talent also know their market best, and in some cases can be better qualified to address market opportunities and challenges.

> ***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

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GLOSSARY OF TERMS

ASEAN	Association of Southeast Asian Nations
BOT	Build-operate-transfer
BPO	Business process outsourcing
CAG	Compound annual growth rate
E&E	Electrical and electronic
EPC	Engineering, procurement and construction
EU	European Union
F&B	Food and beverage
FDI	Foreign direct investment
FIT	Feed-in-tariff
GCI	Global Competitive Index
GDC	Global delivery centre
GDP	Gross domestic product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
ICT	Information and communications technology
IT	Information technology
JETRO	Japan External Trade Organisation
M&A	Mergers and acquisitions
MARD	Ministry of Agriculture and Rural Development
MNC	Multinational company
MoIT	Ministry of Industry and Trade
NAPAS	National Payment Corporation of Viet Nam
NASSCOM	National Association of Software and Services Companies
OECD	Organisation for Economic Co-operation and Development
PDP 7	National Power Development Master Plan VII
PISA	Programme for International Student Assessment
R&D	Research and development
SEDS	Socio-Economic Development Strategy

SOE	State owned enterprise
TPPA	Trans Pacific Partnership Agreement
UHNWI	Ultra high net worth individual
VINASA	Viet Nam Software and IT Services Association
WEF	World Economic Forum

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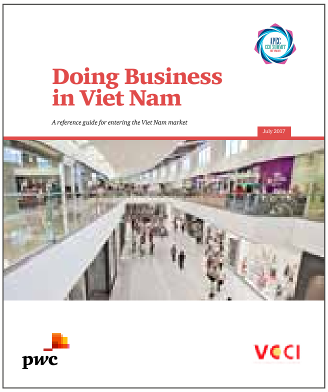

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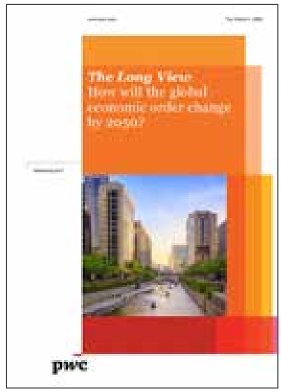

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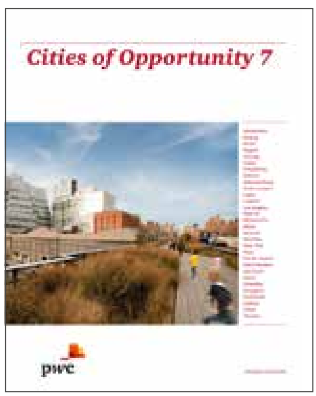

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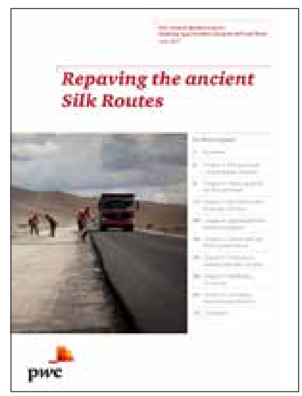

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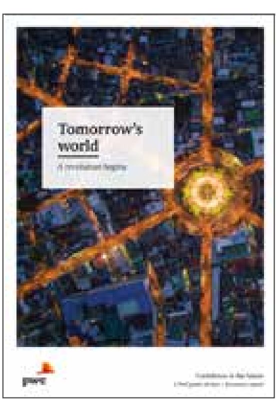

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