



Embassy of Italy
Hanoi

Prioritizing Business Opportunities for Italian Companies in Vietnam

2021

 Diplomazia
Economica
Italiana



Vietnam Macroeconomic Outlook

Vietnam's Macroeconomic Outlook

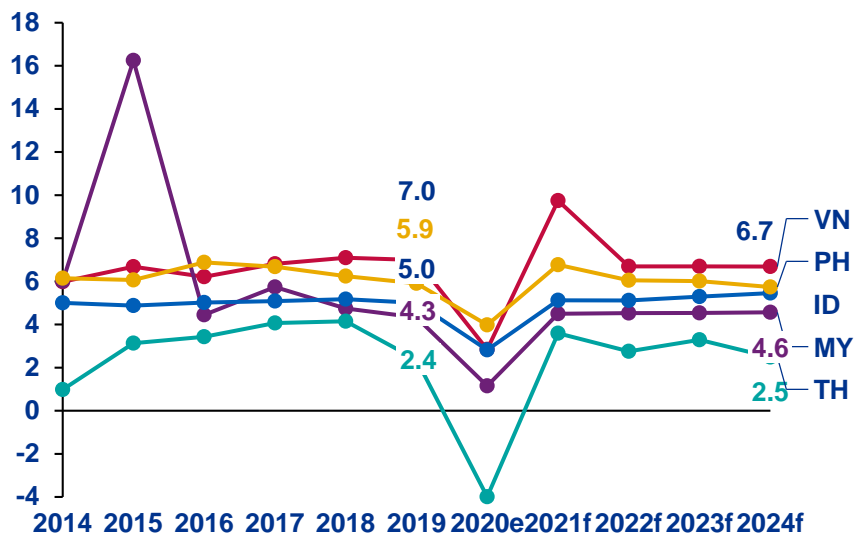
Indicators	Description
<div data-bbox="99 282 178 429">1</div> <div data-bbox="182 282 368 429">  </div>	<p>Vietnam's expanding labor supply</p> <ul style="list-style-type: none"> • Vietnam's population will continue to grow steadily over the next five years, and is expected to reach 100.4 million people by 2024. At this point, the country is expected to begin an aging trend, characterized by a rapid increase in the median population age • Vietnam has a large and youthful population that represents one of the largest workforces in Southeast Asia. Currently, working age population represents nearly 70% of the total population
<div data-bbox="99 444 178 591">2</div> <div data-bbox="182 444 368 591">  </div>	<p>Urbanization growth</p> <ul style="list-style-type: none"> • Urban population is expected to increase with an annualized growth of approximately 2.7% over the next 5 years, reaching nearly 40 million urban residents or nearly 40% of total population by 2024f. Rapid urbanization is driving the growth of Vietnam's middle class and domestic consumer base. Vietnam currently has one of the fastest growing middle classes, whose per capita consumption is rapidly converging on the ASEAN average
<div data-bbox="99 605 178 752">3</div> <div data-bbox="182 605 368 752">  </div>	<p>GDP growth and sustainable inflation rate</p> <ul style="list-style-type: none"> • Vietnam is one of the fastest growing economies in ASEAN, with expected GDP growth rate of 6.5% per capita through 2024. Expected in the post Covid growth This is expected to be driven by strong investment growth, and greater international economic integration through a growing list of trade agreements • The government has curbed inflation to single digits in recent years, and a return to stable growth is predicted following the COVID pandemic
<div data-bbox="99 766 178 913">4</div> <div data-bbox="182 766 368 913">  </div>	<p>Income growth</p> <ul style="list-style-type: none"> • Living standard have improved, driven by growth in per capita income, which is expected to continue to expand at an annualized growth rate of 7% through 2024 • Upward trend in the GDP per capita and income per capita in Vietnam is expected to drive demand for consumer spending. Per capita consumption is expected to converge on the ASEAN average by 2035
<div data-bbox="99 928 178 1075">5</div> <div data-bbox="182 928 368 1075">  </div>	<p>Inbound invest growth</p> <ul style="list-style-type: none"> • Growth in Vietnam's inbound investment is a reflection of the stable market conditions and positive economic outlook. Since 2013, investment values have grown at approximately 10% per annum, and reached USD 38.02 billion annual value in 2019.
<div data-bbox="99 1089 178 1236">6</div> <div data-bbox="182 1089 368 1236">  </div>	<p>Trade Relations</p> <ul style="list-style-type: none"> • Vietnam's current and increasing number of FTAs makes it one of the most globally integrated countries in the region. • Vietnam's transition from an agrarian economy to export-oriented manufacturing hub is reflected in its trade flows. Vietnam became a trade surplus country in 2012. This value has grown by more that 30% annualized over past 5 years

Vietnam Macroeconomic Outlook

Vietnam is one of the fastest growing economies in ASEAN with an expected GDP growth rate of 6.5% per annum, and stable inflation rate predicted through 2024

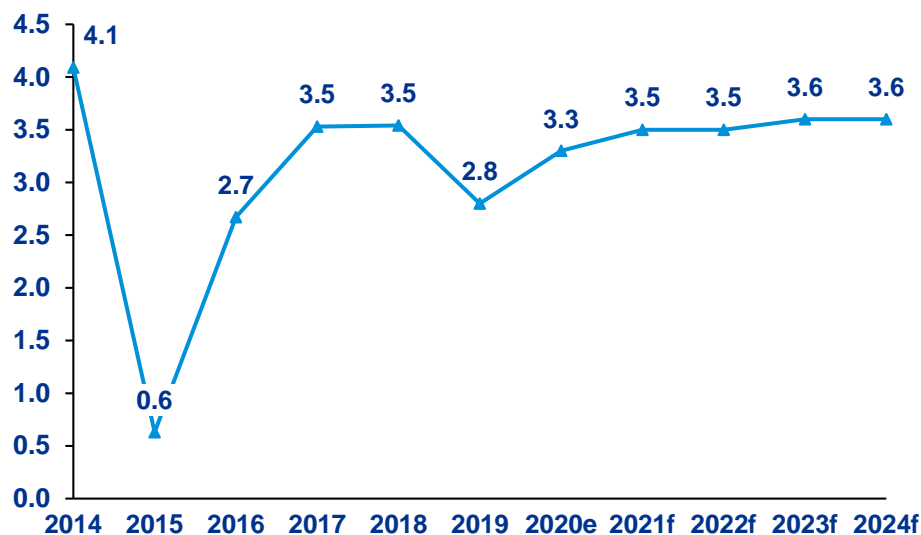
VIETNAM'S GDP & INFLATION RATE

GDP growth (%) of selected countries, 2014-2024f



Source: Fitch Solution

Vietnam's inflation rate (%), 2014-2024f



Source: Fitch Solution

- Vietnam's GDP is expected to grow by 6.5% per annum over the next 5 years, higher than that of selected regional peers such as Malaysia (4.3%), Thailand (2.5%) and Indonesia (4.6%). Strong FDI growth and increased international trade will deepen integration into the global economy via new FTAs.



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Vietnam Macroeconomic Outlook

Vietnam's large youth population offers a potential customer base for the services industry

VIETNAM





Area
330,000km²



Population
97.3 million



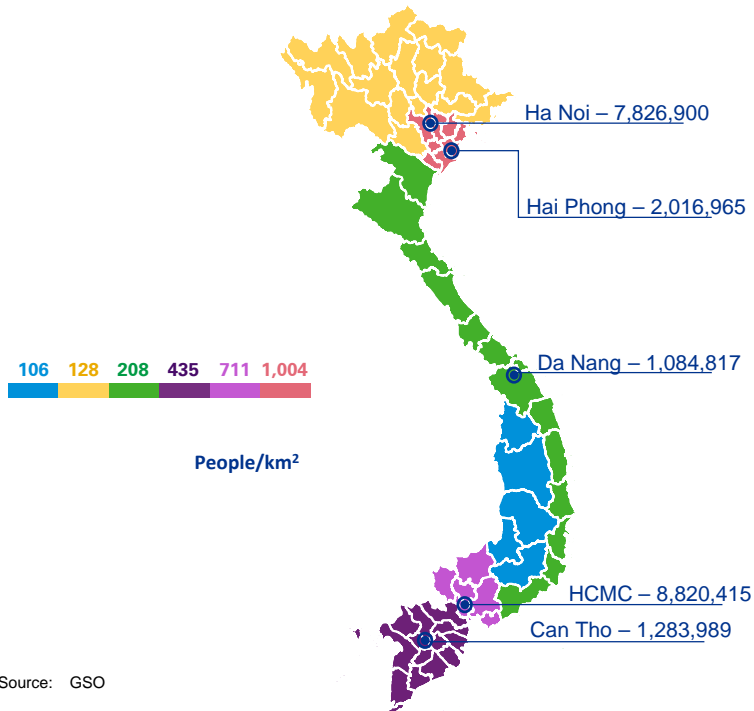
Number of Provinces
63



Capital
Hanoi



Currency
Vietnam Dong



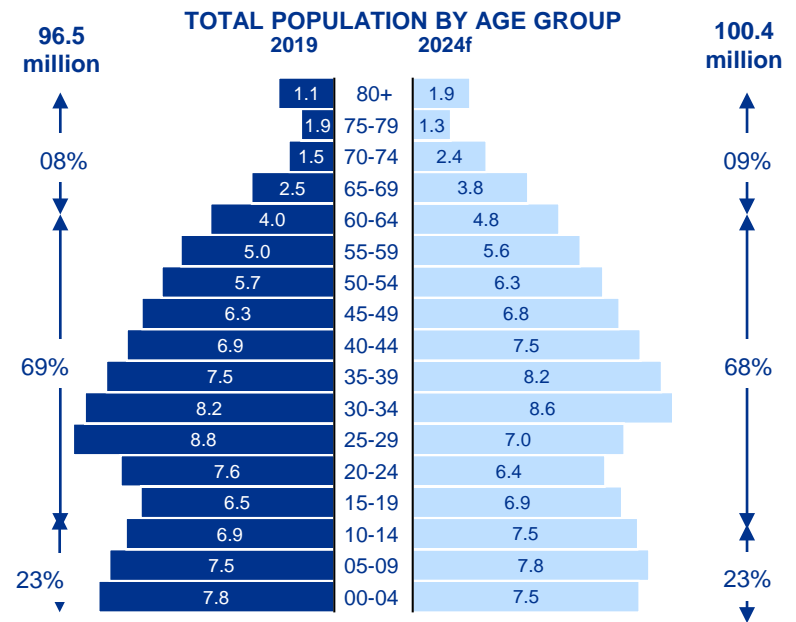
Source: GSO

POPULATION

- Vietnam population density varies by zones with most of the population concentrated in three largest areas of Vietnam: Red River Delta, South East region, and Mekong River Delta

POPULATION BY AGE

- Vietnam currently enjoys a “golden population” structure, in which 50% of the population is aged less than 30 years old.



Source: Fitch Solution

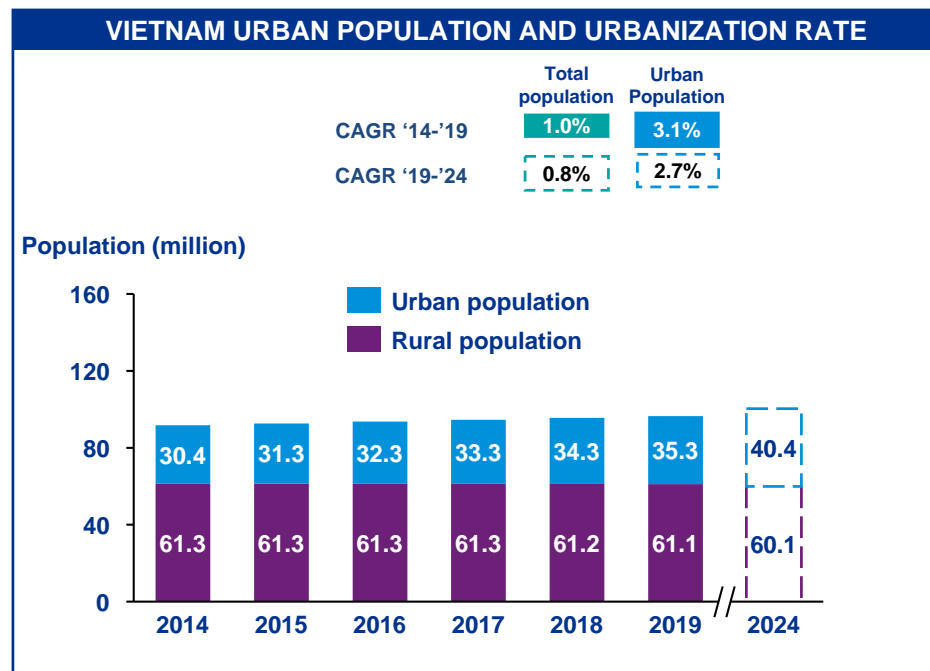


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Vietnam Macroeconomic Outlook

Vietnam's rapid urbanization drives higher income and purchasing power, which will benefit consumer demand



URBANIZATION RATE

Countries	Urbanization rate (%)			CAGR (%)	
	2014	2019	2024	'14-'19	'19-'24
Brunei	76.3%	77.9%	79.4%	1.5%	1.3%
Cambodia	21.8%	23.8%	26.1%	3.3%	3.1%
Indonesia	52.6%	56.0%	59.1%	2.4%	2.1%
Vietnam	33.1%	36.6%	40.2%	3.1%	2.7%
Laos	32.5%	35.7%	38.9%	3.4%	3.2%
Malaysia	73.6%	76.6%	79.2%	2.2%	1.9%
Myanmar	29.7%	30.9%	32.5%	1.5%	1.8%
Philippines	46.1%	47.2%	48.7%	1.9%	1.9%
Thailand	47%	50.1%	54.3%	1.9%	1.6%

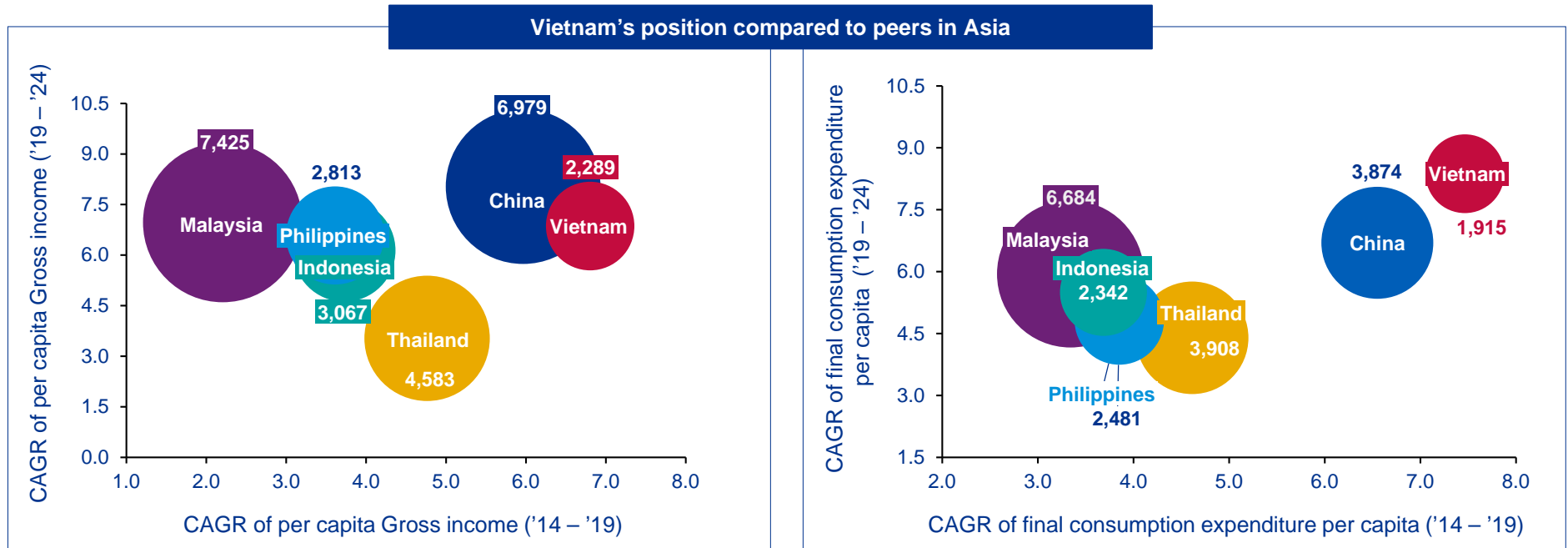
- The rapid growth of urban population in Vietnam is led by major cities such as Hanoi, HCMC and Da Nang
- The country has witnessed steady urbanization over the past five years, with the urban population now accounting for 36.6% of total population. This corresponds to a CAGR of 3.1% between 2014 and 2019. By 2024, Vietnam's urban population is forecasted to reach 40.4 million people, with a growth rate of 2.7% per annum, ranking third among ASEAN countries.

Source: Fitch Solution



Vietnam Macroeconomic Outlook

Although Vietnam's per capita gross income and consumer expenditure are relatively low, its growth rates are forecasted to be one of the highest among regional peers



Source: Fitch Solutions

Source: Fitch Solutions

- Vietnam's per capita gross income is still relatively low compared to other peers in Asia. However, its growth rate in the past five years has maintained the highest in the region at around 7% per annum and is estimated to grow at this stable rate until 2024.
- Similarly, compared to the other five Asian peers, Vietnam's consumption per capita is lagging. On the other hand, its future growth rate is predicted to be much higher than the other countries, at around 8.4% per annum, which will likely drive growth in overall spending



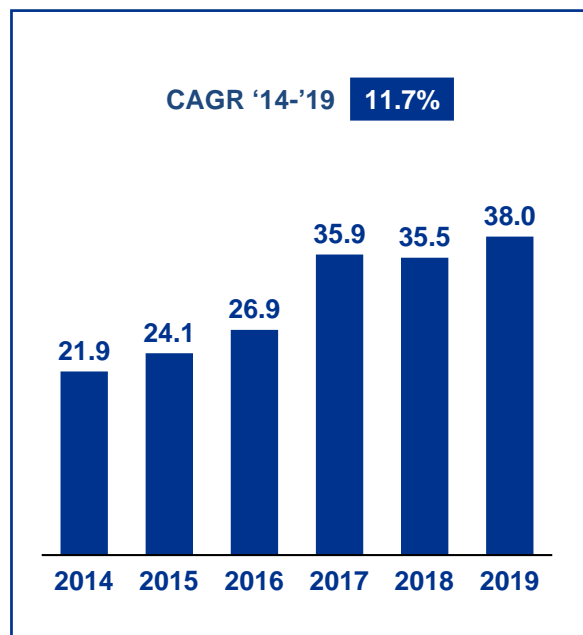
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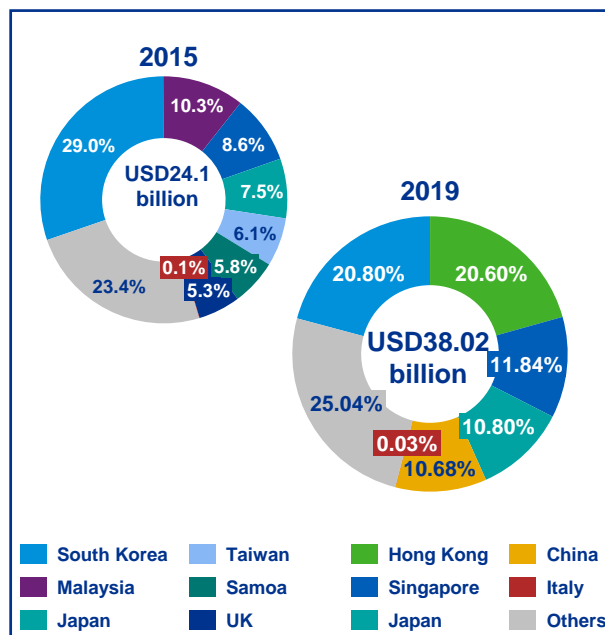
Vietnam Macroeconomic Outlook

Driven by its low-cost workforce and large domestic market, Vietnam is becoming an attractive market for foreign investors

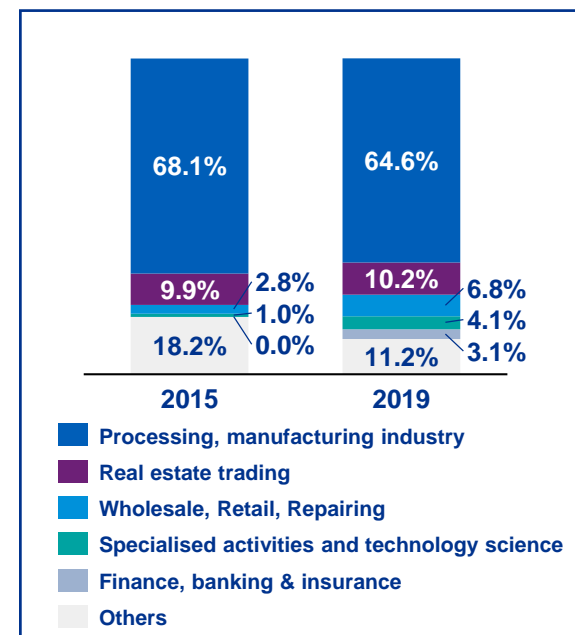
Value of Registered FDI in Vietnam
(USD billion)



Registered FDI in Vietnam by countries
(2015 vs 2019)



Registered FDI in Vietnam by sectors
(2015 vs 2019)



- Vietnam has attracted strong foreign investments for the past five years reflected by a growth rate of 11.7% per annum.
- Among various sectors, the industrial manufacturing and processing sectors have attracted the largest share of total FDI influx, maintaining an average of 66.3% in total FDI into Vietnam in 2015 and 2019
- Meanwhile, South Korea, Japan, and Singapore retain their position as Vietnam's top three leading sources of FDI, combining for a total of 43.44% in registered FDI into Vietnam in 2019

Source: GSO, Trade Press

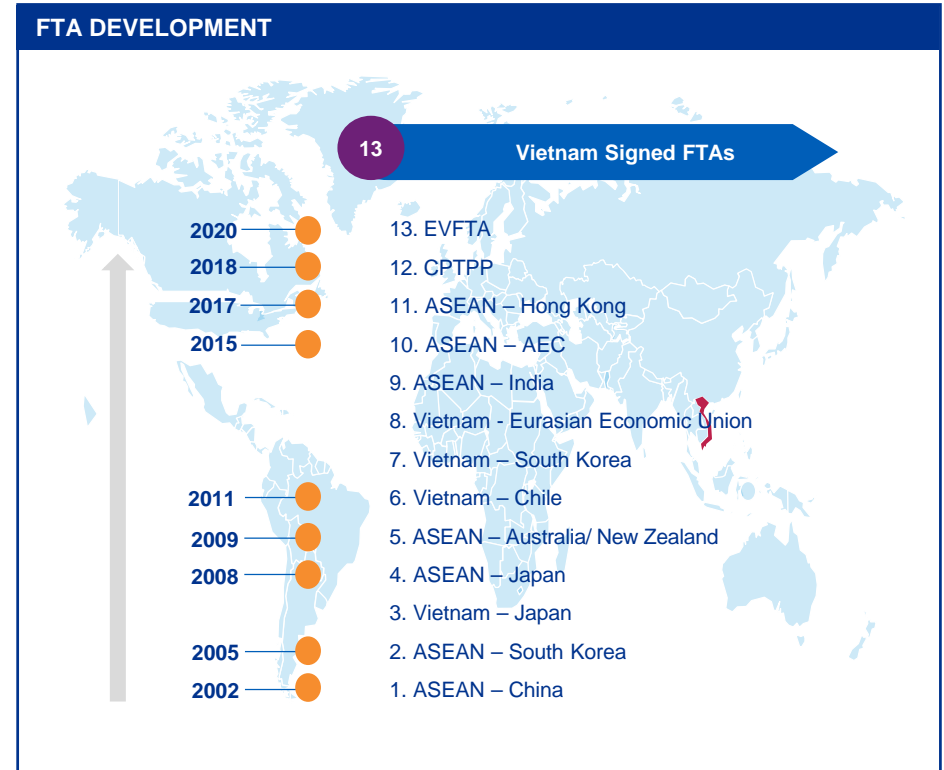
Vietnam Macroeconomic Outlook

Vietnam's current and increasing number of FTAs makes it one of the most globally integrated countries in the region

FTA DEVELOPMENT							
FTA with/ between	Vietnam	Malaysia	Thailand	Philippines	Indonesia	Cambodia	China
ASEAN	✓	✓	✓	✓	✓	✓	x
ASEAN-China	✓	✓	✓	✓	✓	✓	✓
India	✓	✓	✓	✓	✓	✓	x
Korea	✓	✓	✓	✓	✓	✓	✓
Japan	✓	✓	✓	✓	✓	✓	x
CPTPP	✓	✓	x	x	x	x	x
EU	✓	○	○	○	x	x	x
US	x	○	○	x	x	x	x

Legend: ○ To be ratified ○ In negotiation

- The Comprehensive and Progressive Agreement for Trans-Pacific Partnership ("CPTPP") and EU-Vietnam FTA ("EVFTA") are Vietnam's competitive trading advantages compared to other ASEAN countries.

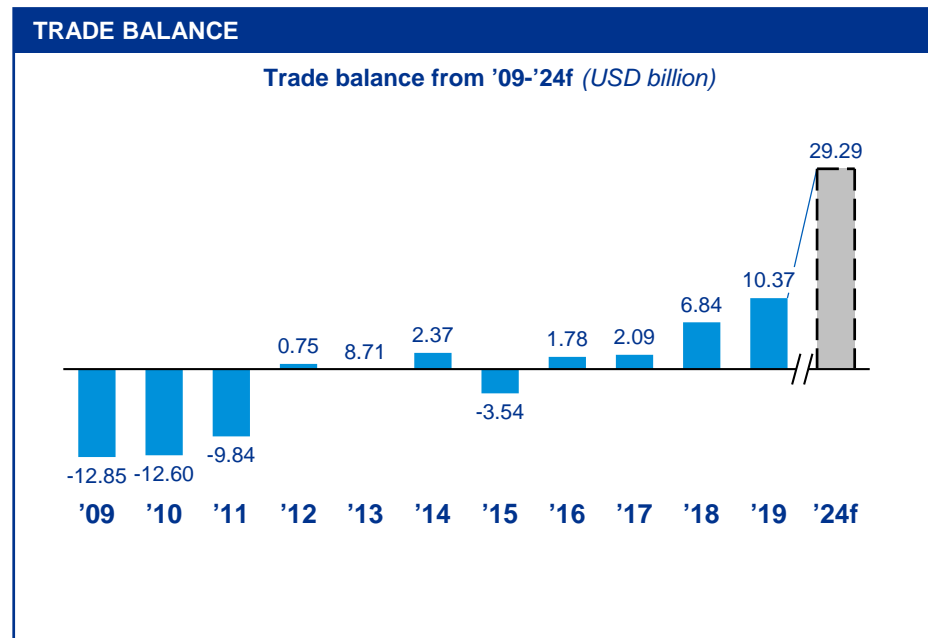


- With 13 signed FTAs, Vietnam is becoming a strategic hub for trade as well as an attractive market for consumption.
- While these agreements ease market access for foreign investors, the government will need to reform labor and improve technical skills.

Sources: Asian Development Bank (2019), KPMG Analysis, News articles

Vietnam Macroeconomic Outlook

Vietnam's trade balance is expected to expand driven by trade growth and inbound investment



KEY EXPORT AND IMPORT COMMODITIES

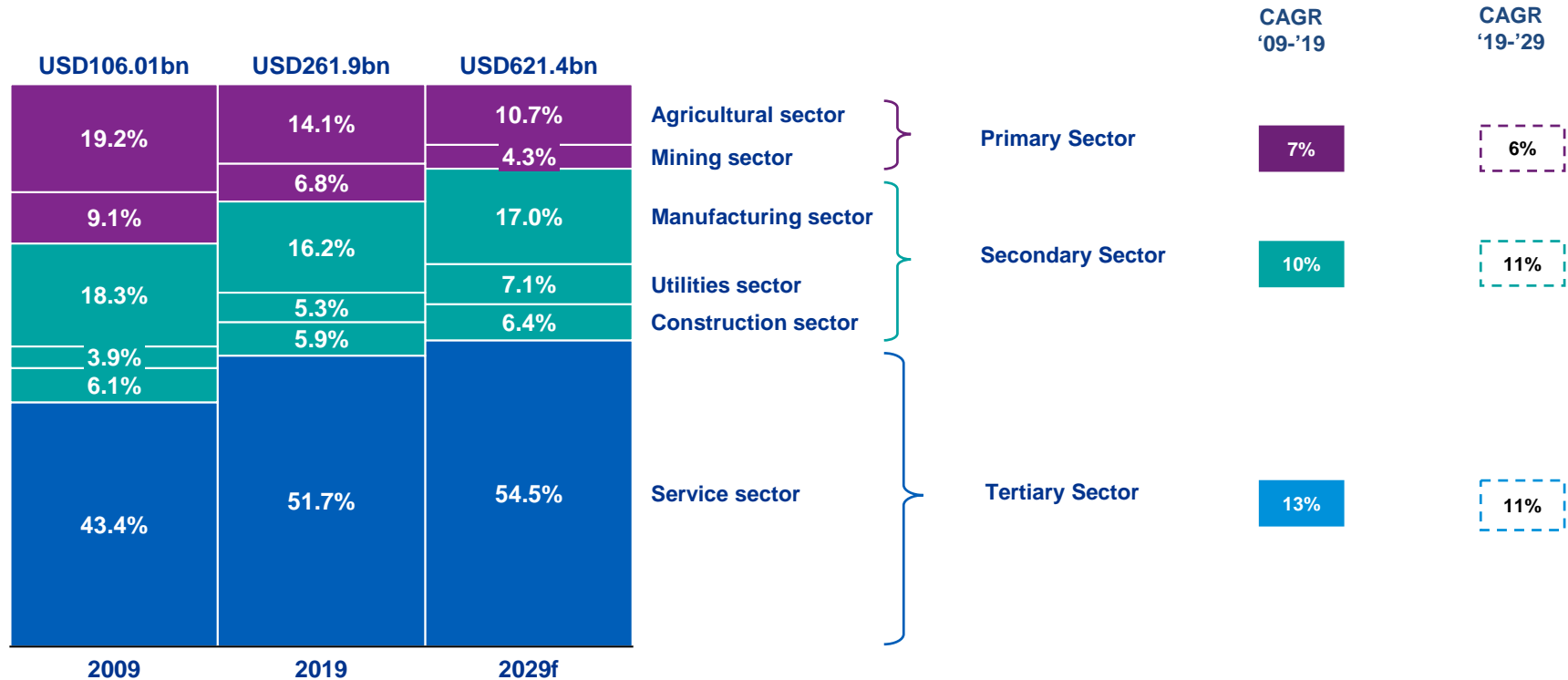
Top 5 key export commodities in 2018		Export value (USD bn)	Top 5 key import commodities in 2018		Import value (USD bn)
	Broadcasting Equipment	42.8		Integrated Circuits	23.0
	Telephones	23.1		Telephones	10.8
	Integrated Circuits	16.0		Refined Petroleum	8.6
	Textile Footwear	11.4		Light Rubberized Knitted Fabric	5.8
	Broadcasting Accessories	8.81		LCDs	3.6

- In 2012, Vietnam transitioned to become a net exporting country with a trade surplus of USD 0.75 billion. Between 2014-2019, the trade balance grew by 34% per annum, and it is expected to continue to expand
- Vietnam is diversifying its trade profile from basic manufacturing such as garment products to other value-added manufacturing, such as electrical components and mobile phones. Vietnam expansion plans by Samsung, Apple, LG, and Google are indicative of Vietnam's global acceptance as a high end manufacturing destination
- Vietnam is developing an ecosystem to supply multinational manufacturers operating in the market, including an emerging group of local cooperates such as Vingroup (electrical and mobile phones) and THACO (automobiles)

Source: OEC, Statista

Vietnam Macroeconomic Outlook

Service and manufacturing sectors are emerging as important pillars of the economy, contributing to almost 70% of the country's GDP





- Vietnam is moving from a low cost, agricultural-based economy to a higher value-added manufacturing, service-based economy.
- The secondary and tertiary sectors are emerging as main pillars of Vietnam economy, posing a growth rate of 10% and 13% respectively between 2009-2019. Meanwhile, the agricultural sector only grew by 13% in the same period with less contribution to Vietnam GDP over the years.

Source: Fitch, KPMG Analysis

Vietnam Macroeconomic Outlook

Vietnam is an attractive market for foreign manufacturers and investors that was to access its emerging consumer market

	Population	97.3 million (2019)
	Median age	32.5 years old (2019)
	Urbanization rate	36.6%
	Disposal income Growth	7.9% (‘19-’24f)
	GDP Growth	7.08% (2019)
	FDI registered capital	USD 35.5 billion (2019)
	New FDI Projects	3,046 (2019)
	FTAs	16

Vietnam has a young, large, and rapidly urbanizing population that is growing in purchasing power

Domestic consumer market

Vietnam is emerging as Asia’s manufacturing hub, driven by rising FDI inflows and expanding lists of free trade agreements

Export-oriented manufacturing hub

Vietnam offers Italian companies the opportunity to localize manufacturing and also the chance to promote Italian products to an emerging consumer base.



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Opportunities for Italian companies in Emerging sectors

Brief summary of industry opportunities for Italian enterprises(1/2)

Industry

Apparel & Footwear

Cars

F&B

Pharmaceuticals

Education

Industry overview and hypothesis

Traditional manufacturing industry such as apparel and footwear is particularly attractive for FDI thanks to it being one of the country's biggest export sectors. Vietnam will need to import high-quality raw materials and machineries to align with the global standards. Industry growth is expected to slow down when it achieves scale, however it will remain one of the fastest growing comparable sectors in the region.

Higher urbanization rate and expanding middle class is contributing to the significant growth of the automotive industry. It is expected that Vietnam's car ownership will follow Thailand's growth model. If Vietnam follows regional growth trajectories, its auto industry could double in the next 10 to 15 years, and reach the current auto penetration rate of Thailand in 20 years. The latter comparison would represent a more than 3x growth in car ownership for the country.

A growing middle class along with a young and urbanizing population will drive the demand for imported high quality food and beverages. Italian F&B products are popular in ASEAN. Vietnam is one of the fastest growing destinations for Italian F&B exports. Based on current growth rates, Vietnam's consumption for Italian F&B products could reach USD 2bn within the next 10 years.

An aging population and an increase in health awareness will contribute to the aggregate consumption for pharmaceutical products. Despite having one of the lowest income per capita in South East Asia, pharmaceutical sales per capita in Vietnam has the highest growth rate. If Vietnam's pharmaceutical sales continues to grow at current rate, its expenditure per capita could reach the current level of regional countries by 2025.

Vietnam's public education sector is experiencing challenges, such as overcrowding in classrooms, and underfunding when compared to peer markets. This is driving growth in private and overseas education

Opportunities for Italian Companies

To align with global standards, Vietnam will have to import high quality raw materials and machinery.

Vietnam's nascent auto industry and a growing middle class will increase the demand for Italian vehicles and componentry

Italian F&B products in Vietnam is still underpenetrated. However, the demand has increased over the past few years which indicates a growing opportunity in this market.

Vietnam is heavily dependent on imports, especially from EU for APIs. This dependency will continue as Vietnam becomes a hub for branded generic drugs, creating opportunities for Italian companies.

Opportunities for Italian investors may exist in bilingual schools, which represent a large revenue pool and student population. This section is particularly attractive to middle-class Vietnamese that plan to study overseas



Brief summary of industry opportunities for Italian enterprises (2/2)

Industry	Industry overview and hypothesis	Opportunities for Italian Companies
Renewable Energy	<p>Vietnam is expected to experience strong demand growth for the power sector. If Vietnam does not bring more power generation online in the near-term, demand growth will likely outpace supply, creating shortages by the mid 2020s. This will be particularly acute at times of peak load</p>	<p>Vietnam's natural hydro endowments and lower cost on implementing solar and wind power plants are driving opportunities for Italian energy investors</p>
Furniture	<p>Vietnam is one of the fastest growing destinations for both European and Italian furniture exports among regional Asian countries. This is driven by rising disposable incomes, and growth in real estate and hospitality industries. With more than 1,500 furniture exporters, Vietnam is also an attractive destination for foreign companies looking for offshore manufacturers</p>	<p>Vietnam is projected to become both an attractive destination for export and a localized manufacturing hub for Italian furniture companies</p>
Tourism	<p>Thanks to Vietnam's rising disposable income, international travel is increasing in popularity. As the economy develops, Vietnam's outbound travel is expected to increase similarly to other countries in the region such as Thailand. Currently, COVID-19 has slowed growth in Europe travels, but it is projected to return to 2019 levels by end of 2024</p>	<p>As Vietnam gains in per capita spending capacity, European tourism will become more popular, benefiting Italy</p>

Glossary (1/2)

ABV	Alcohol by volume	Etc.	Et cetera
AEC	ASEAN Economic Community	EU	European Union
AFF	Agriculture, forestry and fishing	EVFTA	EU-Vietnam Free Trade Agreement
API	Active Pharmaceutical Ingredient	EVIPA	EU-Vietnam Investment Protection Agreement
ASEAN	Association of Southeast Asian Nations	F	Forecast
Avg	Average	F&B	Food and Beverage
bn	billion	FDI	Foreign Direct Investment
CAGR	Compound annual growth rate	FMCG	Fast Moving Consumer Goods
CBU	Complete Built-up	FTA	Free trade agreement
CIT	Corporate Income Tax	GDP	Gross domestic product
CKD	Complete Knocked-Down	GI	Geographical indication
CMT	Cut Make Trim	HCMC	Ho Chi Minh City
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership	i.e.	id est
DALY	Disability-adjusted life year	LCD	Liquid-crystal Display
E	Estimate	m	million
		No.	Number

Glossary (2/2)

ODM	Original design manufacturer
OTC	Over the counter
p.a.	per annum
R&D	Research and Development
SCT	Special Consumption Tax
SKD	Semi-Knocked-Down
US	United States
USD	United States Dollar
Vietnam – EFTA	Vietnam – European Free Trade Association
VND	Vietnam Dong
VSIP	Vietnam Singapore Industrial Park
WTO	World Trade Organisation



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