



East Asia's last dragon Wired for success?

September 2024

Contents

Introducing Vietnam	1
Overview: Vietnam and the East Asian Development Model	5
Section 1: Human Capital - cultivate the people	12
1.1 Demographics	13
1.2 Skills	14
Section 2: Social Capital - be in harmony	16
2.1 Civil Society	17
2.2 Government	19
Section 3: Physical Capital - industrial revolution	22
3.1 FDI	23
3.2 Exports	25
3.3 Infrastructure	27
3.4 Consumption	29
3.5 Corporate structure	32
Section 4: Foreign capital - the art of Bamboo Diplomacy	34
4.1 Overview	35
4.2 China	38
4.3 US	42
Section 5: Financial capital - on the frontier of EM status	47
Summary	52
References	53

Introducing Vietnam

What does Vietnam mean to you? The exact answer will likely depend on how old you are and where you come from. But one thing is for sure: you will almost certainly find it easier to visualise this country in your mind's eye than most others.

The reason why is simple. For its entire history, Vietnam's geographic location has made it a prize asset, particularly for the neighbour it shares a long border with - China.

Vietnam has been continually fought over and colonised, making it well known the world over. And when people come to visit, work or invest here, they often find that the imprint, which those various Asian or European great powers have stamped on the country, elicits a comforting cultural familiarity too.

In the past, the politics of the “great powers” had devastating consequences for the indigenous population despite their ability to successfully fight back. In today's multipolar world, that has been turned on its head. Everyone is courting Vietnam as their “new best friend”.

“One of the world's most exciting investment stories”





Ho Chi Minh skyline

“The country has been on the ascendant since it embarked on the Đổi Mới policy in the 1980s”

This is one of only a few countries with a “red telephone” to Beijing, Delhi, Moscow and Washington, demonstrated during 2023/4 by visits from Chinese President Xi Jinping, US President Joe Biden and Russian President Vladimir Putin. And, the government works these contacts to its full advantage. These days it is not about the Little Red Book but the little black one. FDI and technology transfers are on speed dial.

Vietnam’s global popularity is a key reason why it is one of the world’s most exciting investment stories. But it is not a new story. The country has been in the ascendant since it embarked on the Đổi Mới policy (economic renovation) in the 1980s. Geopolitics has accelerated the pace, especially since China+1 supply chain diversification stepped up around 2018. And from a financial markets perspective, we believe the country will attain official EM status from FTSE Russell by the end of 2025 as well, triggering a fresh wave of stock market inflows.

The Vietnamese government is working hard to ensure the economy does not overheat in the process - learning valuable lessons from a banking crisis in 2012. It knows that superior and steady growth were the defining hallmarks of the preceding East Asian dragons. In this white paper, we will look at what makes Vietnam so compelling as the region’s last one, including what traits it shares in common with its predecessors, and where it is charting its own unique course.

Investors often ask whether domestic politics could upset this trajectory. We think this is unlikely based on four decades of opening up, irrespective of personnel changes within the Vietnamese Communist Party (VCP).

Like its Chinese counterpart, the VCP's legitimacy, or social contract with the people, rests on its ability to deliver shared growth. But unlike China and also India, Vietnam cannot turn inwards and rely on domestic consumption mixed with a large dollop of economic nationalism to deliver it. Vietnam is a large country by global standards but it is not a super-sized one.

It knows that it thrives from being embedded within the global economy. It likes having a wide circle of friends and they enjoy visiting a country where they feel welcome and at home.

So far and so much for the foreign perspective. For this is how anyone outside Vietnam frequently views the country – in relation to others. But while Vietnam's youthful population is outward looking, citizens also have a strong sense of national identity. One way this manifests itself is through the growing popularity of brands reflecting Vietnamese values and culture. It is a sign of a country growing in confidence about its place in the world.

And like other populous countries in the Global South, Vietnam's voice is carrying increasing global weight as its economy grows larger and stronger. It has heft for both geopolitical and domestic reasons (100 million plus of them). And it is certainly what the Vietnamese people themselves believe, consistently ranking among the world's most optimistic about their country's future¹.

Dragon Bridge, Da Nang

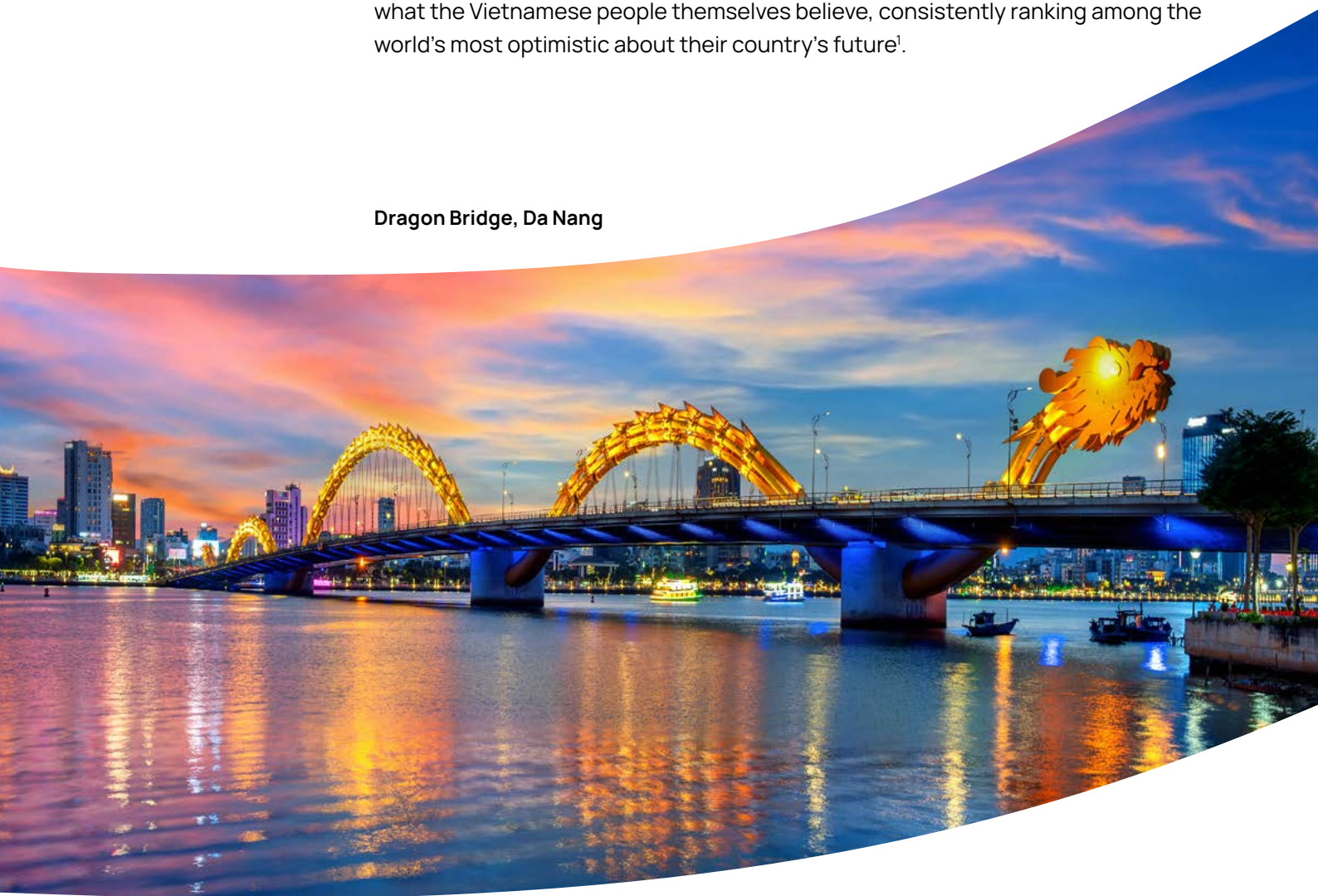
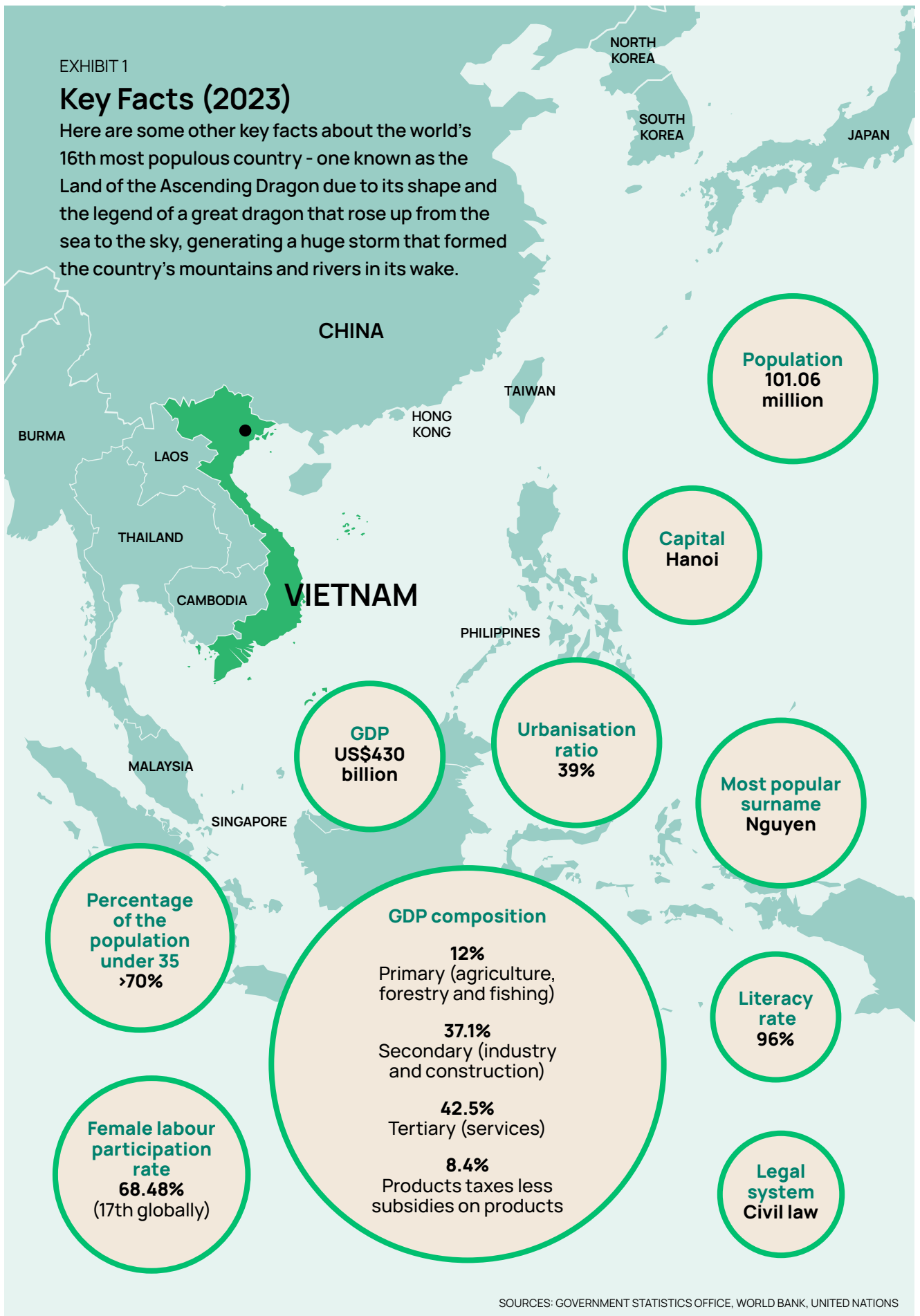


EXHIBIT 1

Key Facts (2023)

Here are some other key facts about the world's 16th most populous country - one known as the Land of the Ascending Dragon due to its shape and the legend of a great dragon that rose up from the sea to the sky, generating a huge storm that formed the country's mountains and rivers in its wake.



SOURCES: GOVERNMENT STATISTICS OFFICE, WORLD BANK, UNITED NATIONS

Overview

Vietnam and the East Asian development model

In 1993, the World Bank published a seminal white paper entitled *The East Asian Miracle*². This analysed how and why a group of East Asian countries achieved rapid and equitable growth in the decades after World War 2. Its conclusion: they were better able than most to accumulate and allocate human and physical capital to productive investments and technology. In the following sections of this white paper, we will examine Vietnam's development through the lens of these two forms of capital as well as three more interlinked ones: social, geopolitical and financial.

**“Absorbing
the good and
rejecting the bad”**

The East Asian development model: This was pioneered by Japan, before being adopted by South Korea, Taiwan, Hong Kong and Singapore (the four Asian dragons or tigers). The model is now well-known and more recently, China has been pursuing many elements of it: principally the move from poverty to advanced economy status (without getting caught in a middle-income trap) by shifting populations from the land to the cities where they progressively move up the value chain from labour-intensive manufacturing for exports to high-value-add exports, consumption and services.

Other common threads linking the East Asian dragons include:

- state-led investments in education and infrastructure
- an emphasis on macroeconomic stability to encourage savings and investment
- a desire for foreign technology
- co-operation between government bureaucrats and private sector corporates, amplified by targeted incentives to facilitate the development of key sectors
- indigenous R&D (in the later stages)





Like all the other East Asian dragons, geography places Vietnam in the Sinosphere

Vietnam is following the model through its policy of “absorbing the good and rejecting the bad”. This is also known as the backwardness advantage, whereby developing countries are able to leapfrog more advanced ones by introducing new technologies and industries at a lower cost.



Plus Vietnam has an in-built advantage: like all the other dragons, geography places it firmly in the Sinosphere. After more than a millennium under Chinese rule, the Vietnamese share many cultural traits including a propensity for hard work, entrepreneurial drive, setting a huge store on education, and working in harmony to achieve communal values.

Regional differences: There are some notable ones. South Korea and Taiwan kickstarted their high-growth phases by ditching import substitution for exports. China and latterly Vietnam did it by dismantling Soviet-style command economies in favour of market capitalism.



“Vietnam has become a manufacturing powerhouse, deeply embedded in global supply chains”

Perhaps most importantly of all, Vietnam’s timing is different. The Vietnam War (or War of American Aggression as it is known locally) ended in 1975, two decades after the Korean War. As we outlined in our introduction, today’s geopolitics is having a more prominent and positive influence on Vietnam’s development than it did for South Korea and Taiwan, even though both of these countries benefitted from it too.

Global finance is also now exponentially larger. Abundant foreign capital has necessitated less need for domestic financial repression to channel capital towards corporate borrowers building the country’s economic foundations. Consumption is consequently kicking in at an earlier developmental stage. So too, we now live in a less patriarchal age; many of Vietnam’s first generation corporate leaders are female and they are helping to shape the country in different ways.

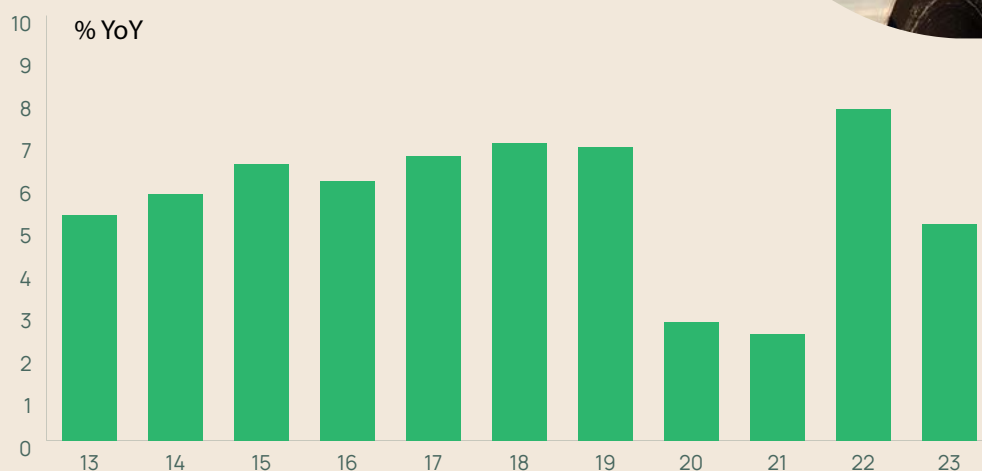
Vietnam is currently at the mid-point along the road to becoming an advanced economy, after achieving lower middle income status in 2011³. Getting this far was by no means a certainty given the ruined state of its economy at the end of the war in 1975.

Early stages of the model: In 1975, 70% of the Vietnamese population lived below the poverty line⁴. Today the figure is around 4%, with 2023 GNI per capita of US\$4,180^{5,6}. The government is targeting higher middle income status by 2030 (GNI per capita of US\$4,516 to US\$14,005) followed by high income status by 2045, the year of the Republic's centenary^{7,8}.

As exhibit 2 demonstrates, growth has been strong over the past decade and averaged 6.6% per annum over the last 30 years. Successful implementation of the early stages of the East Asian development model has enabled Vietnam to become a manufacturing powerhouse, deeply embedded in global supply chains and one of the best proxies for global growth. Its shared border with China also means that it has a more symbiotic economic relationship with its neighbour than the other dragons, similar in many ways to Mexico's with the US.

EXHIBIT 2

Sustainable GDP growth



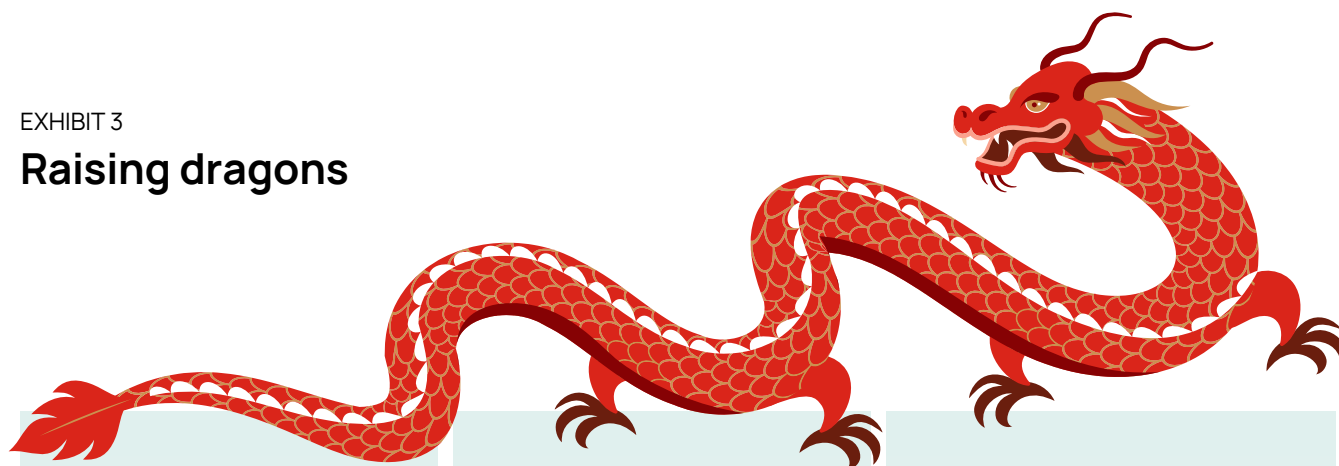
SOURCE: GSO



CREDIT: VNA

EXHIBIT 3

Raising dragons



1950s

Japan 🇯🇵

- Land reform and US-funded post war reconstruction
- Emergence of Keiretsu (interdependent group of companies tied to one bank)
- First five year plans: encouragement of high savings, exports, foreign technology transfers and companies in preferential sectors (shipbuilding, synthetic fibres, chemical fertilisers, machine tools and electronics)

Taiwan 🇹🇼

- Land reform and US-funded post war reconstruction
- First five year plans: encouragement of high savings, foreign capital and import substituting industrialisation, especially light industry (textiles, wood, leather, bicycles)

South Korea 🇰🇷

- War, land reform and US-funded reconstruction
- Import substitution especially for nondurable consumer goods (textiles, processed foods, chemicals)
- Emergence of chaebol (large family-owned business conglomerates)

China 🇨🇳

- First five year plans: beginning of industrialisation through central planning (the Great Leap Forward - iron, steel, coal, cotton)

1960s

Japan 🇯🇵

- Promotion of heavy industry and export-orientated manufacturing (consumer electronics - transistor radios)

Taiwan 🇹🇼

- Switch to export-oriented light industry: launch of the world's first export processing zone (Kaohsiung), beginnings of US and Japan-led outsourced production (toys, apparel, electronics components)
- Establishment of National Science Council

South Korea 🇰🇷

- First five year plans: government guided capitalism favouring export promotion and six industries (cement, synthetic fibres, electricity, fertilisers, oil refining and iron), launch of Guru industrial complex (light industry - apparel, toys)
- Establishment of Korea Institute of Science and Technology (aided by US)

China 🇨🇳

- Continuation of central planning and self-sufficiency (Cultural Revolution)

1970s

Japan 🇯🇵

- Industrial upgrading (cars, electronics - pocket calculators), pollution control and integration into the global economy (liberalisation of import quotas and capital controls)

Taiwan 🇹🇼

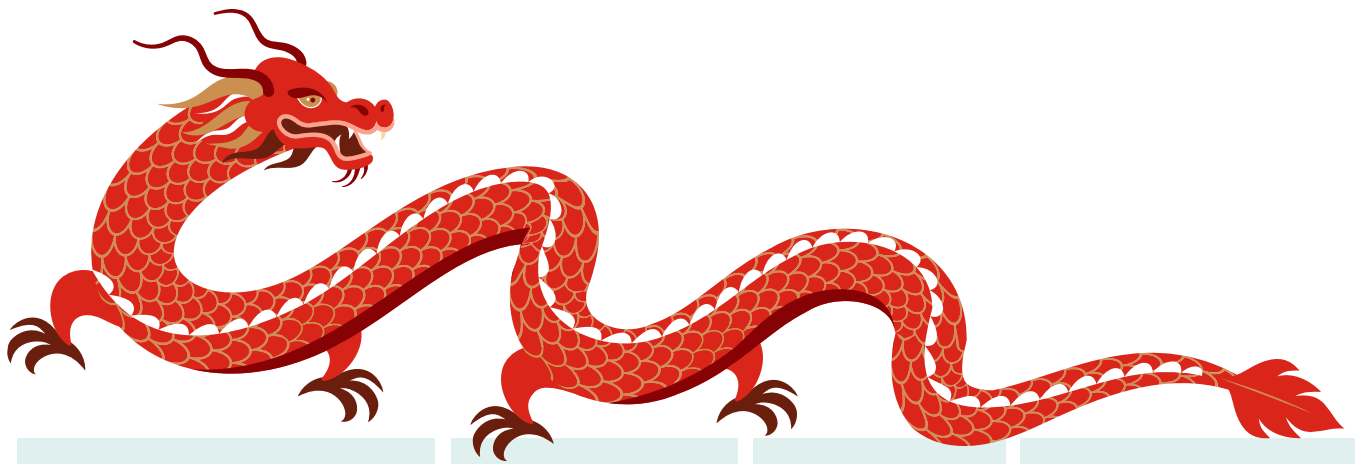
- Shift to heavy industry, industrial consolidation, plus renewed infrastructure development, export-oriented manufacturing, foreign technology transfers
- Launch of the Industrial Technology Research Institute (ITRI)

South Korea 🇰🇷

- Production targets and incentivisation of six strategic industries (steel, nonferrous metals, shipbuilding, machinery, electronics and chemicals)
- First Export processing zones in Masan and Iri

China 🇨🇳

- Launch of open door policy (beginnings of the market economy), development of light industry



1980s

Japan 🇯🇵

- Global manufacturing powerhouse taking measures to avoid or limit trade conflicts (US-Japan semiconductor agreement, Plaza Accord)

Taiwan 🇹🇼

- Industrial upgrading (computers, electro-optics, precision instruments, chemical products), tax incentives for companies investing in R&D, trade liberalisation
- Launch of Hsinchu Science and Industrial Park (home to new electronics companies TSMC and UMC)

South Korea 🇰🇷

- Industrial upgrading (electronics, TVs, integrated circuits, cars), deregulation and trade liberalisation
- Launch of national R&D programme

China 🇨🇳

- Move to heavy industry (iron, steel, materials, autos), encouragement of FDI, technology transfers, trade liberalisation
- Launch of first special economic zones (SEZs) in Fujian and Guangdong Provinces

Vietnam 🇻🇳

- Beginnings of industrialisation (Đổi Mới Policy)

1990s

Japan 🇯🇵

- Bursting of asset price bubble (the lost decade)

Taiwan 🇹🇼

- Pursuit of high-tech industries and capital intensive production (integrated circuits – design and fabrication, liquid-crystal displays)

South Korea 🇰🇷

- Pursuit of high-tech industries (bioengineering, microelectronics, optics, aerospace), liberalisation, restructuring (Asian financial crisis)

China 🇨🇳

- Industrial upgrading, trade liberalisation, market modernisation, infrastructure development, encouragement of FDI and technology transfers

Vietnam 🇻🇳

- Move to heavy industry (iron/steel, rubber/coal, crude oil)

2000s

Japan 🇯🇵

- Restructuring and recapitalisation

Taiwan 🇹🇼

- Development of knowledge-based and emerging industries to build an "intelligent Taiwan"

South Korea 🇰🇷

- Development of knowledge-based and emerging industries (high-speed broadband), fostering innovation (Guru Industrial Complex renamed Guru Digital Complex)

China 🇨🇳

- Shift to higher-end manufacturing, renewed infrastructure and fixed asset investment, harmonious development

Vietnam 🇻🇳

- Export-oriented light industry (apparel, footwear) and basic manufacturing (3C assembly)

2010s

Japan 🇯🇵

- Promotion of liberalisation, competition, expanded trade partnerships (Abenomics), plus infrastructure development and innovation (digitalisation, ESG, new energy, smart machinery)

Taiwan 🇹🇼

- Development of emerging smart industries (biomedicine, circular economy, green energy, smart machinery), participation in regional integration

South Korea 🇰🇷

- Pursuit of next generation growth engine initiatives (digitalisation, ESG, new energy, robotics), participation in regional integration

China 🇨🇳

- Shift to high-tech industries, self-developed technology (the Big Fund) and innovation (Made in China 2025).

Vietnam 🇻🇳

- More advanced export-oriented manufacturing (electronics)

“Like Korea in the 1980s, Vietnam is now making a concerted push into higher technology”

Late stages: Will these be harder for Vietnam to implement? Many countries struggle to move beyond high middle income status. So far, Vietnam remains on the same trajectory as the original dragons. South Korea, for example, attained high middle income status in 1988 and has consistently ranked as a high income country since 2001⁹. Vietnam is projecting a similar time gap¹⁰. And like South Korea in the 1980s, Vietnam is now making a concerted push into higher technology and higher productivity, fuelled by a greater emphasis on higher education and continuing high FDI.

There are three key indicators to look out for as it moves forward, which will determine whether it is successful:

- how quickly leading foreign tech companies outsource more higher-end manufacturing to Vietnam;
- how successfully Vietnamese companies become embedded within foreign companies' supply chains;
- whether domestic national champions can start competing against their foreign peers, establishing recognised global brands in their own right. This will require indigenous R&D to replace foreign-sourced technology, as happened with the other dragons.



Hyundai manufactures its first car - the Pony - in the 1970s



VinFast delivers its first electric vehicle - the VF e34

Section 1

HUMAN CAPITAL

CULTIVATE THE PEOPLE



1.1 Demographics

“To reap a return in 100 years, cultivate the people”. So said Hồ Chí Minh, the founding father of modern Vietnam. In economic terms, this means a pool of ever more highly skilled people. Vietnam has been very successful at building this human capital, enjoying some of the world’s best demographics.

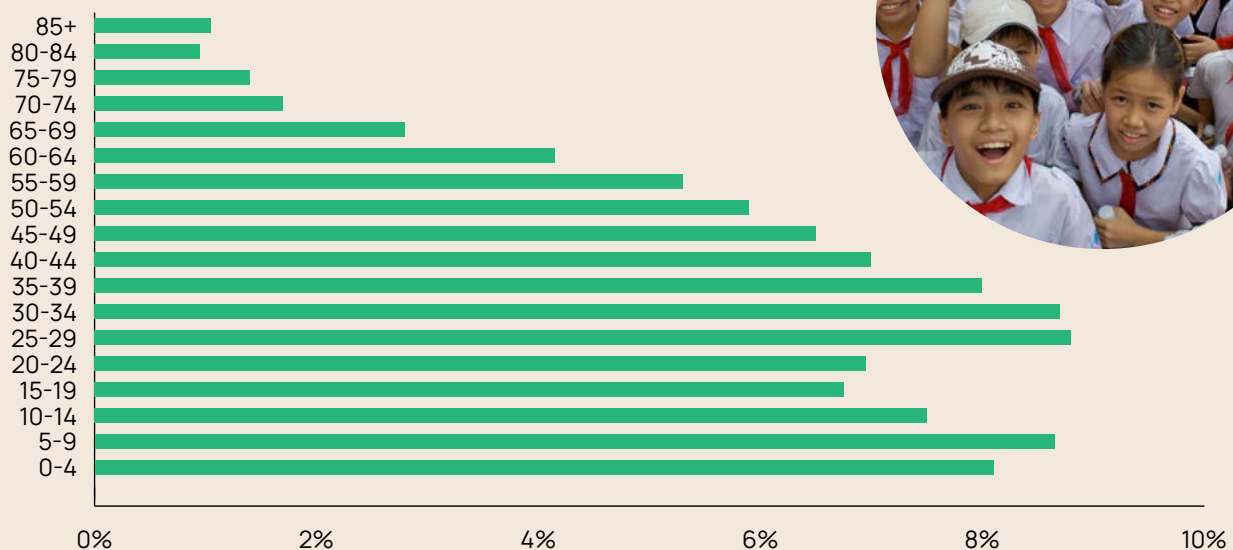
Growing population: This is a good starting point and in 2023, Vietnam became one of only 16 countries with a 100 million plus population¹¹. A second is making sure that population is young and upwardly-mobile. In this respect, Vietnam entered its golden population period (one or below dependents for every working age person) in 2007 (see exhibit 4)¹². This is not forecast to end until 2039, shortly before Vietnam’s targeted advanced economy status¹³.

33.1 - median age of the Vietnamese population

EXHIBIT 4

Young Population: 101.06m people

Population growth rate: 0.84% (2023)



Median age: In Vietnam this is 33.1 years, compared to 40.2 in China, which officially became an ageing society in 2021, in part thanks to its one child policy¹⁴. Vietnam is in less danger of becoming old before it becomes rich since the working age population is set to remain steady around the 68% mark for the next decade¹⁵.

1.2 Skills

Vietnam is some way from reaching the Lewis Turning Point, when surplus rural labour is fully absorbed into factories and wages push above inflation. The average monthly wage stood at US\$331 as of June 2023, 4.2 times lower than China and 14.5 times lower than the US¹⁶.

This is a huge draw for companies looking to move their supply chains to countries with a low-cost, expanding, proficient and productive workforce. Labour productivity per hour has doubled over the past decade, rising from US\$4.8 in 2014 to US\$10.3 in 2023¹⁷.

Moving up the value chain: The country's ability to do so will depend on the skills its workforce acquire over the coming decade, as those migrants who have already moved to the cities and their first factory jobs aspire to higher earnings prospects. Vietnam is a country that values education (see exhibit 5), but investors often ask about a potential tertiary education gap preventing this upskilling from taking place. Yet, here again, the country has been following the classic East Asian model: rapidly expand primary and secondary school enrolment to create the follow-on demand for tertiary education.

South Korea's precedent: Tertiary education enrolment there rocketed from 12% in 1980 to 42% in 1993¹⁸. Vietnam's ratio is already better than Korea's was when it became a high middle income country and is on a similarly fast upward trajectory (from 22% tertiary enrolment in 2009 to 42% in 2022)¹⁹. And this is just domestic enrolment. The country ranks in the top 10 globally for outbound student mobility, with the largest number studying in South Korea – Vietnam's largest foreign direct investor²⁰.

EXHIBIT 5

Education breeds confidence

PISA score 2nd highest in region

Country	Maths	Science	English
Singapore	575	561	543
OECD Average	472	485	476
Vietnam	469	472	462
Malaysia	409	416	388
Thailand	394	409	379
Indonesia	366	383	359
Philippines	355	356	347

SOURCE: OECD

- 11% of domestic labour force is highly skilled
- 26% are trained workers with degrees and certificates
- 42% tertiary school enrolment rate

“Taiwan is combatting its ageing demographics by targeting countries like Vietnam”

Private sector involvement: East Asian governments have historically outsourced much tertiary provision to the private sector, while subsidising the cost. Vietnam likewise. One of the government’s most recent flagship policies is allocating US\$1.06 billion for the training of 50,000 semiconductor engineers by 2030, up from the country’s 5,000 in place as of summer 2024^{21,22}.

Some students are likely to receive their degrees from the country’s leading tech company, FPT, which has five national campuses²³. Others will go to Vingroup’s VinUni, which was set up in 2018 and has a strategic co-operation agreement with Cornell and UPenn in the US²⁴.

Studying abroad: This is the destination for increasing numbers of Vietnamese students. Taiwan, for example, is combatting its ageing demographics by targeting countries like Vietnam. The 6,000 students that sign up to its 2024 INTENSE (International Industrial Talents Education Special) programme will receive two years of semiconductor training and placement at participating companies for a further two years²⁵. The government will also cover their tuition fees, with participating companies providing a living allowance.

Yet more Vietnamese students will study in the US where they rank as the country’s fifth biggest cohort²⁶. In 2023, 47.6% of the 21,900 Vietnamese students enrolled in higher education were studying STEM subjects²⁷. If they follow China’s lead, many will return home to aid its economic rise.

Chinese returnees were known as sea turtles. In Vietnam, turtles are also revered – as symbols of wisdom, good fortune and famously independence after a magical sword used during an uprising against China’s Ming Dynasty was reputedly returned to a turtle god living in Hanoi’s central lake.



FPT University



VinUniversity

Section 2

SOCIAL CAPITAL

BE IN HARMONY



2.1 Society

There have been many studies examining how East Asia's social underpinnings shaped its rise, especially Confucianism. This is a belief system, dating back to the fifth century BCE, that emphasises respect (or face) to elders and superiors and operating within the bounds of, and in harmony with, a wider group, be that a family or a country.

One example of Confucianism's enduring impact is the ability of East Asian government bureaucrats and industry leaders to work together to achieve long-term national goals, mostly famously demarcated by five-year plans (China, Japan and Taiwan all began their first ones in the 1950s, South Korea in the 1960s and Vietnam in earnest in the mid-1970s)^{28,29,30,31,32}.

Role of women: Confucianism has also been attributed as a key reason why women were relatively absent from the workplace in the early East Asian model development stages for Japan, South Korea and Taiwan; their role being to stay at home serving their husband and children. But this was less the case in China and Vietnam where communism has always been an equal opportunities ideology. Female participation in the Vietnam War helped to break gender divides down further.

The notion that “women and men have equal rights in all areas” was enshrined in the Republic's 1946 constitution and has played out in practice³³. Today, roughly one quarter of all active enterprises are registered to women and some of the most well-known companies are run by them - including Vinamilk, one of the most widely foreign-held stocks³⁴. Women also make up a majority of workers in Vietnam's electronics factories, accounting for 60% according to a recent International Labour Organisation (ILO) study³⁴.

*“Women and men
have equal rights
in all areas”*



CREDIT: VNA

Women make up a majority of workers in Vietnam's electronic factories



CREDIT: VNA

Gen Z: the digital natives who like global culture and Vietnamese traditions



**Fatherland Front
Headquarters**

Digital age: Another difference between Vietnam and its dragon forebears is that its rise is taking place during an age of more freely flowing information. As a country, Vietnam has always been open to outside ideas and these are readily accessible because its government has not erected a “great firewall” as China’s has. The large cohort of Millennials and Gen Z are all very active on social media platforms like Facebook and Instagram, the more so because Vietnam does not have domestic equivalents.

Civil society: In Vietnam this is known as xã hội công dân, or society of the citizens and operates along the same lines as the government, since it is embedded within it. The Vietnamese engage in vigorous debate and this is channelled from bottom to top through four main organisations (the Fatherland Front, Women’s Union, Youth Union and Confederation of Trade Unions). Decisions then flow back in the opposite direction. The last two decades have also witnessed a mushrooming of NGOs outside the big four.

2.2 Government

Mandarin class: East Asia's history of bureaucrats actively intervening in the economy traces its lineage back to the Mandarin class who administered their respective countries for many centuries, in contrast to Europe's rule by hereditary aristocracy. East Asia's system was more meritocratic since bureaucrats were recruited through competitive exams steeped in the Confucian classics: in Vietnam this lasted from the 11th to the 20th century, with elephants guarding the examination halls until the mid-19th³⁵.

These bureaucrats also worked for a ruler. And the tradition has continued through to the modern era, with rule by authoritarian government being a distinctive East Asian characteristic especially during the dragons' early growth phase - whether that be Lee Kuan Yew in Singapore, or Park Chung-hee in South Korea during the 1970s. What distinguishes Vietnam from China, in this regard today, is that foreign governments view its government as authoritarian but not antagonistic.



Mandarins at the tomb of Emperor Khải Định, Hue



The National Assembly

Checks and balances: The Vietnamese political system has more of these than the Chinese one that it closely resembles:

- The apex of Vietnam's government has “four pillar” positions rather than one: the General Secretary of the Communist Party, President, Prime Minister and Chair of the National Assembly. All four sit on a politburo of 15 members.
- Regional representatives on the Central Committee (which sits every six months and selects the Politburo) come from the provinces they are from rather than being rotated between them as in China. This leads to much greater emphasis on fiscal transfers so growth is shared across the country. Membership is also diverse, encompassing the leaders of civil society organisations, the judiciary and academic institutes.
- Delegates to the National Assembly, which sits every five years, are chosen through elections at provincial levels so there is some accountability. The National Assembly can and has rejected laws proposed by the executive branch. In 2020, it voted against a Ministry of Public Security proposal regarding the Law on Road Traffic³⁶. It is responsible for electing members to the Central Committee.
- Law-making in Vietnam has becoming increasingly inclusive: ministries can only issue administrative regulations within the law and must initially publish a draft for public comments, and also conduct a regulatory impact assessment.

“Law-making in Vietnam has become increasingly inclusive”

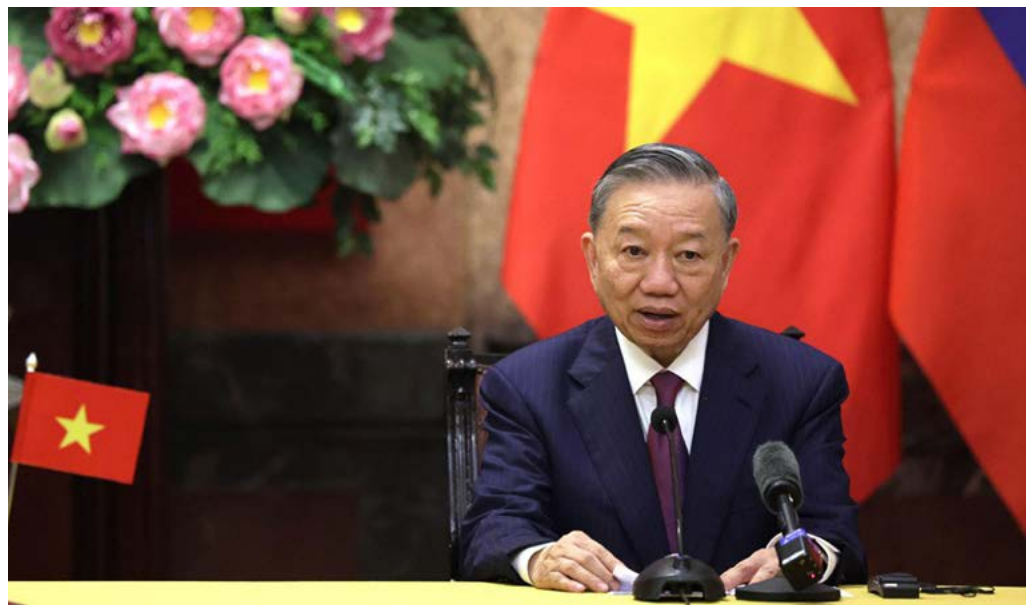


**Former General
Secretary Nguyễn
Phú Trọng**

Continuity: After over a decade in the post, General Secretary Nguyễn Phú Trọng died in July 2024³⁷. His death was not unexpected given a long period of ill health and his successor, Tô Lâm, has pledged to continue Trọng's policies including an anti-corruption campaign, dubbed the Blazing Furnace. Trọng initiated the drive in the belief that the maintenance of shared growth depended on rooting out corrupt officials.

We believe that the government will continue to uphold Vietnam's determination to move up through the global supply chain, maintain the country's outward focus and bolster its ongoing efforts to build a law-based state (nhà nước pháp quyền). We base this view on the fact that the government continued to reaffirm its pro-business policies throughout the transition from one generation of leaders to the next.

***"Building a
professional,
modern, equal,
strict, honest
judicial system"***



Vietnam's General Secretary Tô Lâm

A socialist state ruled by law: For a country to attract significant FDI, investors need to feel confident that its legal system will protect their rights. Vietnam has built solid legal foundations, with the VCP's 13th Party Congress in January 2021 pledging to continue building a "professional, modern, equal, strict, honest judicial system"³⁸. Vietnam has a constitution, which is amended roughly every 10 years. Constitutional revisions in 2001 introduced the notion that Vietnam is a "socialist state ruled by law". In 2013, amendments improved the checks and balances, vesting judicial power through the court system rather than the executive or legislative branch.



Section 3

PHYSICAL CAPITAL

INDUSTRIAL REVOLUTION

3.1 Foreign Direct Investment (FDI)

“Two geopolitical rivals - China and the US - are likely to become more dominant forces”



How quickly and successfully a country industrialises depends on the quality and flexibility of its physical capital. It is not enough to simply encourage rural labourers to become factory workers. Those workers need to become more productive for a country to ascend the value chain. And they need the right infrastructure to support them. As with the earlier dragons, Vietnam is achieving this through a combination of the government's long-term strategic vision (five-year plans), enhanced by the willingness of other countries and their companies to fund its development.

As they scaled the back of the economic value chain between the 1960s and 1990s, the original dragons maintained investment to GDP ratios above 20%, sustained by high domestic financial savings³⁹. They still maintain similar investment ratios, but the location in which they invest a chunk of them in has shifted - to Vietnam^{40,41,42,43}.

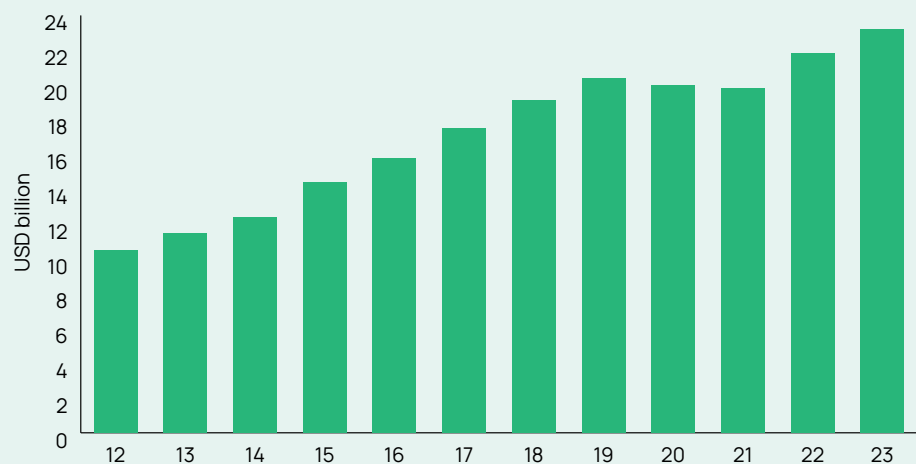
Open arms: FDI has been a huge contributor to Vietnam's industrialisation. The total FDI disbursement to GDP was 5.4% in 2023 and has averaged around 6% over the last 30 years⁴⁴. The government has initiated multiple policies to encourage foreign companies since its first FDI investment in 1988 and has always been more open than its East Asian predecessors to fully foreign-owned entities (in 2023 only about 13% were joint ventures)^{45,46}.

As exhibit 6 shows, FDI disbursements have also risen steadily over the past decade, hitting US\$23.18 billion in 2023, plus a further US\$10.84 billion during the first half of 2024 (up 8.2% year-on-year)^{47,48}. The Ministry of Planning & Investment forecasts that pledged FDI could reach \$40 billion during 2024, up from US\$36.6 billion in 2023⁴⁹.


EXHIBIT 6

Rising FDI disbursement

The only way is up (COVID aside)



SOURCE: GSO



MADE IN VIETNAM

FDI flows have helped make Vietnam the world's manufacturer of choice and this will continue to ramp up, if history is a guide. Manufacturing currently accounts for about one quarter of GDP, or about two-thirds of the other dragons at their peak⁵⁰. In Taiwan it peaked at 39.4% of GDP in 1986, and in China at around 40% just over a decade ago^{51,52}.

Taiwan heavily relied on two foreign countries for its FDI – Japan and the US, which respectively accounted for 28.4% and 26.48% between 1952 and 1997⁵³. Between 1988 and 2023, Vietnam's biggest contributors were respectively South Korea, Singapore, Japan and Taiwan⁵⁴. As of June 2024, South Korean FDI stood at US\$87.5 billion through 10,000 projects⁵⁵.

Over the next decade, two geopolitical rivals – China and the US – are likely to become more dominant forces as we outline in Section 4. China already is, if its total is added together with Hong Kong's. It leapfrogs Taiwan into fourth place since 1988 and ranks first during the first half of 2024 in terms of newly registered projects⁵⁶.

3.2 Exports

“World-beating export statistics”

The original dragons were all known as the “world’s factory” at one point or another. In Vietnam’s case, this marks a return to its roots since its 3,260km long coastline has always made it a trading nation.

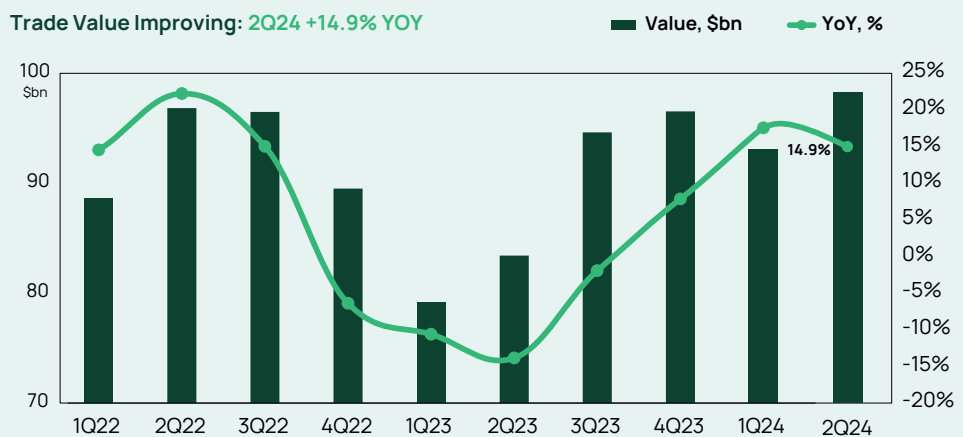
The country’s trading stats, including 18 Free Trade Agreements (FTAs), are pretty world-beating⁵⁷. They include a 2022 trade to GDP ratio of 184% and 87.2% export to GDP ratio in 2023^{58,59}. The former puts Vietnam just behind city states like Hong Kong and Singapore in the global rankings, while the latter far exceeds China’s peak 36% export to GDP ratio in 2006^{60,61}.

And Vietnam’s global export share continues to climb. In the first half of 2024, exports hit US\$190.723 billion, up 14.9% year-on-year (see exhibit 7)⁶². The nature of those exports and their destination also provide a clear picture of where Vietnam currently sits in the value chain and where it is likely to head next.

EXHIBIT 7

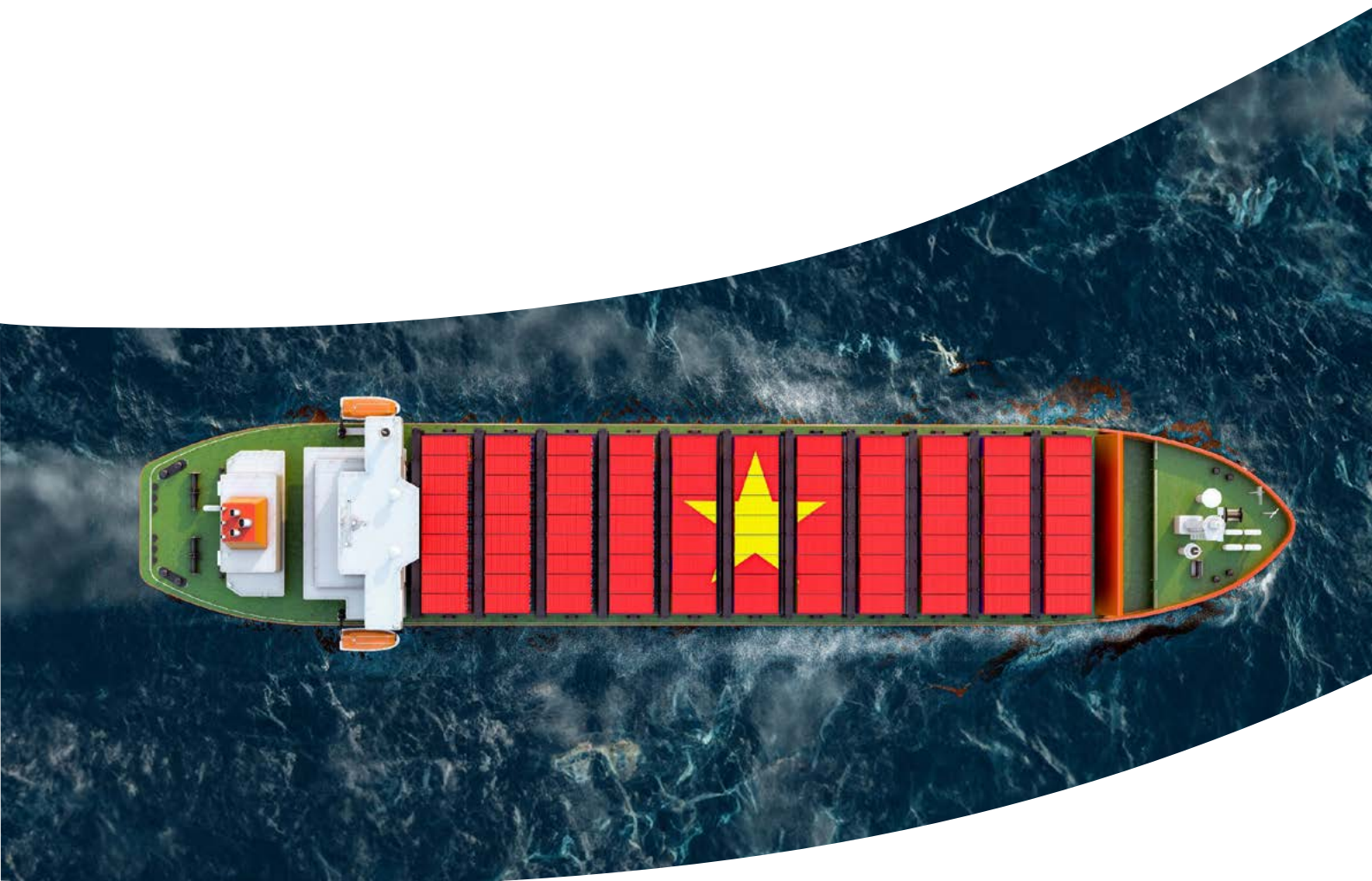
Exports: Picking up

Trade Value Improving: 2Q24 +14.9% YOY



SOURCE: GSO

Most favoured destination: North America is where the biggest percentage of exports end up and the figures have ramped up quickly since 2018 when Chinese manufacturers began shifting final assembly plants for electronics products to Vietnam to avoid US tariffs. In 2023, the US accounted for 27.4% of Vietnam’s exports, almost double China’s 17.29% level. In 2017, the respective figures were 19.3% and 16.4%⁶³.



Chinese data reinforces this trend. Vietnam accounted for 4.5% of China's total exports in the first half of 2024 thanks to its role as a transshipment hub⁶⁴. In June 2024, the top two items coming across the border were integrated circuits (ICs) and telephones⁶⁵. As a result, Vietnam now ranks as China's third largest export destination after the US and Hong Kong, overtaking both South Korea and Japan, which were just above it in the 2023 rankings⁶⁶. And the figure has doubled since 2017, rising from US\$69.7 billion that year to US\$137.6 billion in 2023⁶⁷.

FDI businesses: These also account for about 98% of Vietnam's high technology exports, a ratio that will need to come down in order for the country to move up the next rungs of the development ladder⁶⁸. The challenges and potential, in this respect, are clear.

In 2023, Vietnam ranked 17th globally by world export share (excluding intra-EU trade)⁶⁹. Korea ranked fifth, thanks to the high value of its tech exports, and Mexico sixth due its trade relationship with the US. If Vietnam can become more Korean in terms of tech sophistication and more Mexican in its relationship with its large neighbour to the north, then it too could soon sit alongside them in the rankings.

3.3 Infrastructure

One major difference between China and Vietnam's growth model is that Vietnam has not relied much on fixed asset investment, whereas China has frequently used it to pump prime its economy. The difference is partly a function of Vietnam's centralised budgets, which give the central government greater control over the provinces. By contrast in China, Local Government Financing Vehicle (LGFV) debt ballooned to a provincial average of 70.6% of GDP in 2021 thanks to a land auction system that spurred local governments to create some of the world's best infrastructure, but also some of its most redundant⁷⁰.

Ambitious plans: Vietnam's challenge is creating infrastructure that keeps pace with its growth and does not stymie its potential. In the first half of 2024, disbursements of public investment funds hit only 30.49% of Prime Minister Phạm Minh Chính's target⁷¹. In June, he urged officials to raise the rate to 95% by the end of the year⁷². Approvals have been taking longer in the wake of the anti-corruption campaign and political transition.

EXHIBIT 8

Infrastructure development

Paving the future



Highways: Phạm also called for the completion of 3,000km of highways before the end of 2025 and 5,000km by 2030⁷³. At the end of 2023, 1,892km was in operation, of which 475km was completed that year⁷⁴.

Rail: As we outline in Section 4, Vietnam is seeking China's help to fund the improvement and expansion of its rail network. This includes concessional loans from the Beijing-based Asian Infrastructure Investment Bank (AIIB), which pledged US\$5 billion in July 2024⁷⁵.

Other infrastructure projects include:

- **Ho Chi Minh's Long Thành International Airport:** After breaking ground in 2022, construction is ahead of schedule with a projected opening date early 2026^{76,77}.
- **Ho Chi Minh Metro line:** The first line from Ben Thanh in District 1 to Suoi Tien in District 9 is due to begin its trial run later this year after some delays⁷⁸. In July, the city government unveiled a US\$34 billion plus plan to complete six lines covering 183km by 2035⁷⁹.
- **Quang Trach 500KV Power Line:** A transmission line that more than doubles capacity from the centre to the north was completed in the third quarter of 2024. This key piece of infrastructure will help ease power supply in the North, where demand is ramping up because so many factories are setting up across the border from China.



CREDIT: ARUP

Ho Chi Minh's Long Thành International Airport



CREDIT: VNA

A bridge under construction in Quang Binh province



Quang Trach 500KV Power Line



Ho Chi Minh Metro Line

3.4 Consumption

By 2035, more than half the Vietnamese population should be middle class and more than half will be living in cities^{80,81}. And not just in the two most well-known ones – Hanoi and Hồ Chí Minh – at the two ends of the country either. Vietnam's long, thin geography lends itself to the growth of other conurbations for new urban dwellers to settle in such as tier 2 cities Can Tho, Da Nang and Haiphong. All three are rapidly expanding.

**39% urbanisation
ratio end 2023**⁸²

Consumer optimism: Strong GDP growth is fuelling this. Consumers are optimistic, both about the health of their future finances and the security of their residence rights after the January 2023 abolition of the hộ khẩu registration system (similar to China's hukou permits, which stopped rural migrants from accessing public services in the cities they had moved to in order to work in the factories)⁸³. Land reform has also played a critical enabling role in propelling Vietnam's citizens up the income scale. In 1993, the government issued certificate of land use rights (red books) that enabled them to sell their plots to property developers⁸⁴. The current challenge is building more urban housing to accommodate migrants that have moved there.





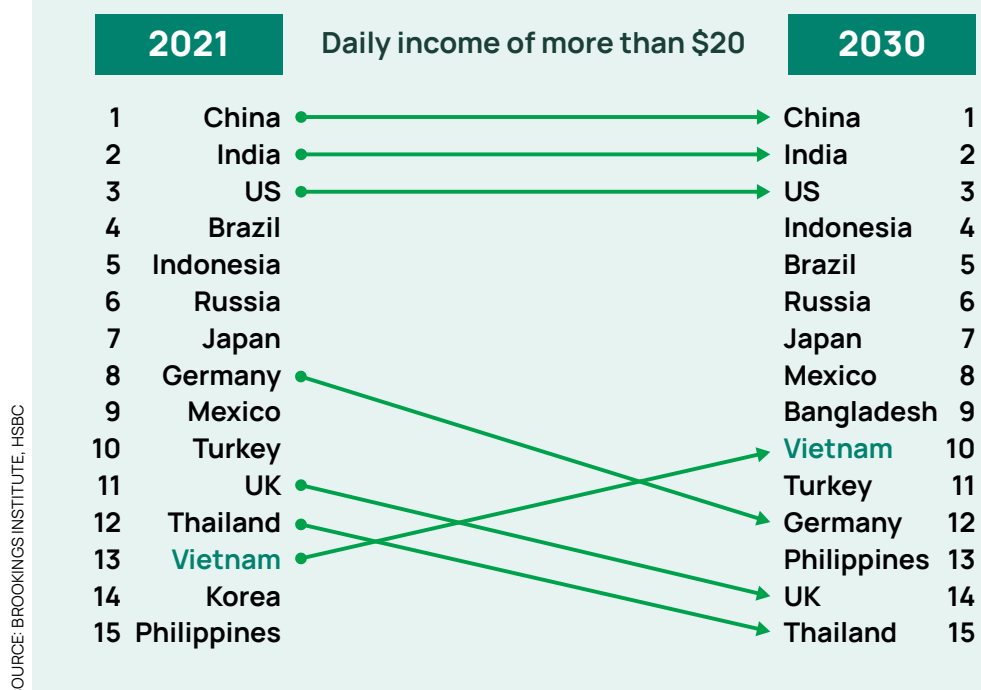
Young student buying a laptop, Tay Ninh Vietnam

Changing faces: Increasing incomes and youthful demographics are changing the size and the face of Vietnamese consumers (see exhibit 9). Google's recent *Year in Search* report reinforces how digitally-connected Gen Z is changing the dynamics. This highlights more searches relating to self-improvement, embracing diverse identities (a 50% increase in LGBT searches in 2022) and brands that reflect Vietnamese values⁸⁵. Consumers are also now more discerning, with growing interest for “best” or “best value” rather than just “affordable”.

EXHIBIT 9

Rising consumer affluence

The world's biggest consumer markets



Tourism: This is a card that Vietnam is playing, which the former East Asian dragons did not possess. In the first half of 2024, the country received 8.8 million visitors, up 58.4% year-on-year, with the largest number coming from respectively South Korea, China, Taiwan and the US⁸⁶.

The government projects up to 28 million international tourists by 2025 and 130 million domestically⁸⁷. Tourism is an increasingly sunny contributor to growth: from a projected 8% to 9% of GDP in 2025, rising to 13% to 14% by 2030.

In China, by contrast, the figure is just over 3% and in South Korea just below 4%^{88,89}. Only Japan comes close to Vietnam's popularity, at an estimated 6.2% in 2023 thanks to a huge surge of interest in the country over the past decade or so⁹⁰.



Ba Na Hills in Da Nang

3.5 Corporate sector

It did not take long for Vietnam's private sector to discover its entrepreneurial spirit after the government enacted laws on private enterprises in 1990 and again in 1999⁹¹. In many ways, Vietnam's South never lost it after experiencing command style economics for just a short period after 1975. And by 2008, Vietnam's privately owned enterprises (POEs) had overtaken state-owned enterprises (SOEs) by output value for the first time (see exhibit 10)⁹².

EXHIBIT 10

Structure of Vietnamese corporate sector

From SOEs to POEs

	2005	2022
Domestic private sector	47.2%	50.5%
State-owned enterprises	37.6%	20.5%
Foreign invested enterprises	15.2%	20.5%
Product taxes less subsidies on products	0%	8.5%

SOURCE: GSO

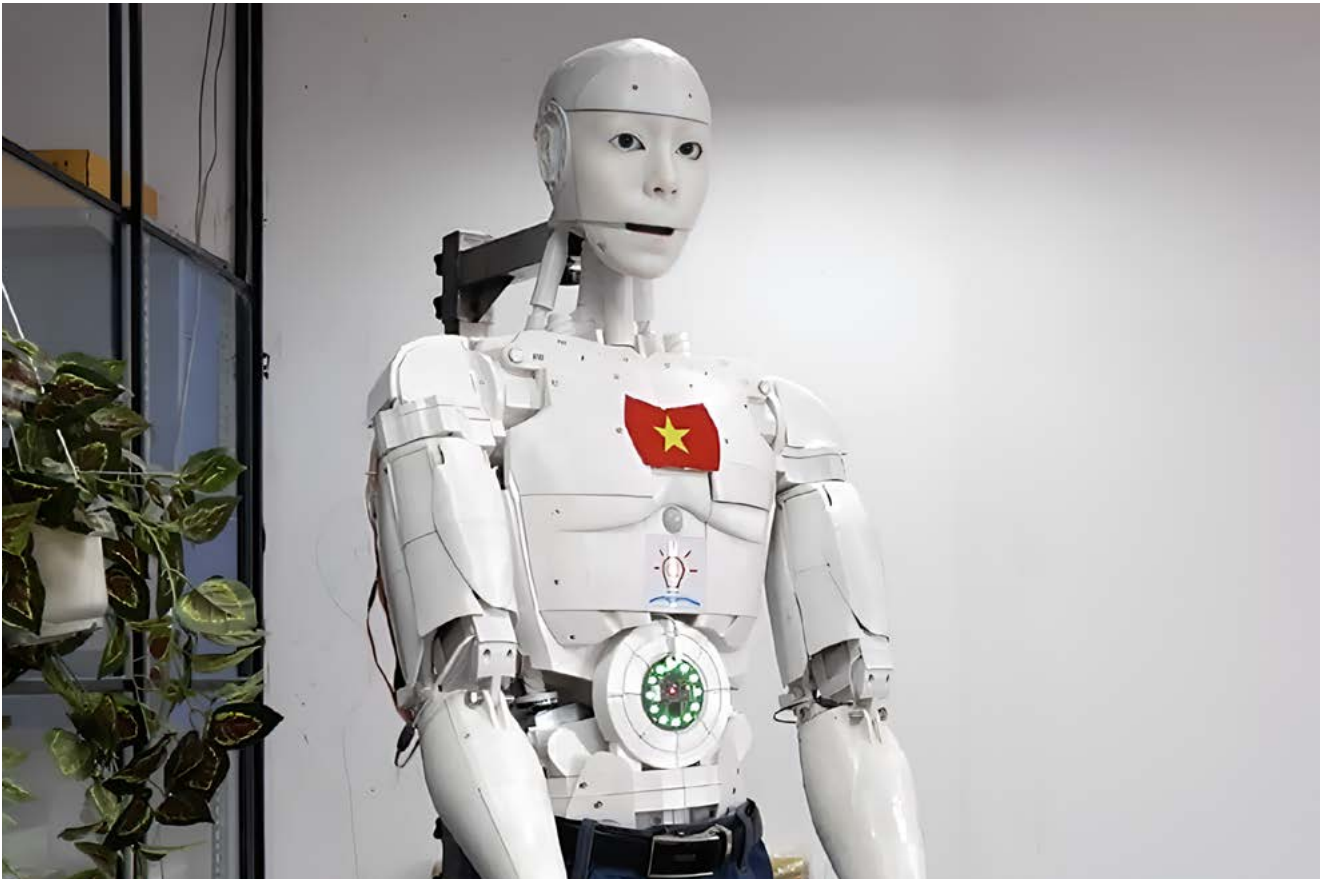
“The entrepreneurial spirit of Vietnam’s private sector”

Origin stories: There are three main types of Vietnam POEs. One cut their teeth after studying in the former Eastern bloc and launching their first businesses there as the Soviet Union was collapsing around them. This group includes Phạm Nhật Vượng, founder of Vingroup, Vietnam's largest conglomerate. A second started off in SOEs, such as Trần Đình Long of steel group Hoa Phat and Mai Kiều Liên CEO of Vinamilk. A third have only ever known POEs, including the three founders of electronics retailer Mobile World.

The next decade may see the emergence of a more prominent fourth group; those who started their careers in multinationals. The government is all too aware that while FDI companies bring capital, technology and skills development, Vietnam will only progress if some of their local staff leave and create domestic champions, which can compete internationally.



Mai Kiều Liên, CEO, Vinamilk



Trí Nhân, the first robot built in Vietnam with artificial intelligence



Indigenous R&D: In South Korea, this transition kicked off in earnest around 1982 with the launch of a National Research & Development programme. At the beginning of the 1980s, R&D stood at only 0.77% of GDP⁹³. By 1995, it had rocketed to 2.5% and today it stands at 4.93%, second only to Israel. Vietnam is transitioning from roughly the same base after recording a 0.43% R&D to GDP ratio at the end of 2021⁹⁴.

One spotlight has fallen on FPT Corp, which has broadened from outsourced IT services to a one-stop-shop. Its semiconductor arm, FPT Semiconductor, also developed Vietnam's first integrated circuit (IC) chip in 2022⁹⁵.

The Vietnamese themselves certainly anticipate a domestically-led tech future, a positive indicator. *Google Year in Search 2023* reported high interest in AI, with the top local AI search query being: “robot trí tuệ nhân tạo đầu tiên của việt nam chế tạo phục vụ cho ngành” or Vietnam's first AI robot created to serve industry⁹⁶.



Section 4

FOREIGN CAPITAL

THE ART OF BAMBOO DIPLOMACY

4.1 Overview

“Like bamboos with strong roots, solid stems and flexible branches, Vietnamese diplomacy is soft and clever but still persistent and resolute”

Nguyễn Phú Trọng

Throughout this white paper, we have highlighted how geopolitics is turbocharging Vietnam's progression up the value chain. The government skilfully manages its global relations through a policy of strategic autonomy, known locally as Bamboo Diplomacy. Be friends with everyone, threaten no-one.

It consequently seeks co-operation with countries it has a sensitive relationship with (đối tác - partners of co-operation) and acknowledges contradictory and different interests with countries it does not (đối tượng - objects of struggle). In 2019, it articulated this further through its “Four Nos” defence policy: no military alliances, no foreign bases on Vietnamese soil, no siding with one country over another, no force in international relations⁹⁷.

Vietnam's policy of not taking sides in the Sino-US struggle for influence across Asia has led both superpowers to court its favour and other countries to value its neutrality. This has helped it to become the world's biggest beneficiary of the China+ 1 strategy, otherwise known as China de-risking (US allies) and China offshoring (Chinese companies looking for cheaper, tariff-free alternatives). The new government under General Secretary Tô Lâm has pledged to maintain the same course.



Prime Minister Phạm Minh Chính receives South Korean Prime Minister Han Duck-soo in July 2024

CREDIT: VNA



“Vietnam’s success is Samsung’s success”

Lee Jae-yong, Chairman, 2024

No company demonstrates Vietnam’s ability to attract multinationals better than its largest investor, Samsung Electronics. The South Korean tech giant first began producing colour TVs for domestic sale in 1996, before opening its Bac Ninh factory complex in 2009^{98,99}. Over the past 30 years, it has invested US\$22.4 billion in Vietnam and has announced plans for a further US\$1 billion per year into the future¹⁰⁰.

Samsung has progressively shifted ever more technologically-sophisticated manufacturing from China, where it has been under cost pressure (from rising wages) and political pressure (from the US, concerned about advanced technology transfers). Today, it employs 2,500 at an R&D research centre in Hanoi and its domestic supply chain is becoming more Vietnamese¹⁰¹.

One decade ago, there were only a handful of Vietnamese companies producing cardboard boxes to package mobile phones. As of July 2024, there were 310, some there thanks to a co-operation programme between Samsung and the Vietnamese government for it to share its smartphone manufacturing knowledge with 50 local enterprises¹⁰².

EXHIBIT 11

Bamboo Diplomacy timeline

Bamboo is the world's fastest growing plant and over the past few decades, Vietnam's diplomatic equivalent has spread rapidly right across the world.

- 1987** Approves first Foreign Investment Law
- 1991** First pilot project for an Export Processing Zone (EPZ) in Ho Chi Minh
- 1994** Normalisation of relations with the US and lifting of a two-decade trade embargo
- 1995** Becomes a full member of the Association of Southeast Asian Nations (ASEAN)
 - Signs a Framework Agreement on co-operation with the EU
- 1998** Enters the Asia Pacific Economic Cooperation (APEC) forum
- 2001** Signs a Bilateral Trade Agreement (BTA) with the US
- 2007** Becomes the 150th member of the World Trade Organisation (WTO)
- 2008** Samsung Electronics begins building its first mobile phone factory in Vietnam
 - Upgrades diplomatic relations with China to Comprehensive Strategic Partnership, its highest level
- 2016** Upgrades diplomatic relations with India to Comprehensive Strategic Partnership
- 2018** Becomes a founding member of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)
- 2019** Signs an FTA and Investment Protection Agreement (EVFTA) with the European Union (EU)
- 2022** Lifts diplomatic relations with South Korea to Comprehensive Strategic Partnership
 - Becomes a founding member of the Indo-Pacific Economic Framework for Prosperity
- 2023** Upgrades diplomatic relations with Japan and the US to Comprehensive Strategic Partnership
- 2024** Lifts diplomatic relations with Australia to Comprehensive Strategic Partnership



4.2 China

“As close as lips and teeth.” This famous quote by China’s former paramount leader, Deng Xiaoping, underlines just how intertwined Vietnam and China have always been. And the complexities of unravelling that relationship start with the country’s very name “Viet” “Nam” or Viet people of the south. To the Han Dynasty, this meant anyone living south of the Yangtze River and therefore beyond the Middle Kingdom; the tribes settled all the way down to the Red River Basin in today’s North Vietnam.

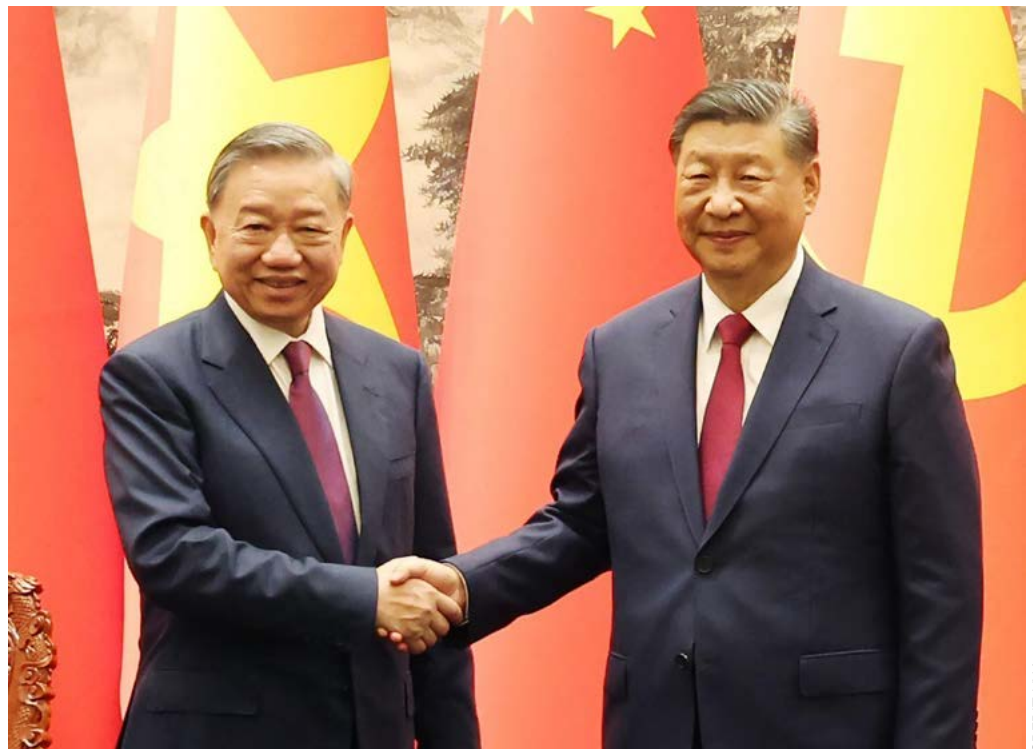
Forging Vietnam’s identity: For almost its entire history, Vietnam’s identity has come from defining itself as not part of various Imperial Chinese dynasties and continually defending itself against them.

The ISEAS-Yusof Ishak Institute’s 2024 State of Southeast Asia Survey illustrates this unease. The main geopolitical concern for Vietnamese citizens is aggression in the East Sea where a number of islands are contested by China, which refers to it as the South China Sea. Their concern (72.5%) also ranks second regionally only to the Philippines (90.2%), which similarly has a history of contentious island disputes with China¹²⁰.

Border strength: However in recent decades, the Vietnamese government has successfully turned its border with China from a source of conflict to one of economic strength. As exhibit 12 illustrates, there is increasing cross-connectivity, largely funded by China. And an agreement to improve cross-border transportation links was one of the highlights of a series of agreements marking Xi Jinping’s visit to Vietnam in December 2023¹²¹.

*“As close as lips
and teeth”*

Deng Xiaoping



Vietnam President Tô Lâm and China President Xi Jinping

EXHIBIT 12

BORDER STRENGTH

Growing connectivity across the border is encouraging greater two-ways flows



SOURCES: SEE REFERENCES 122 - 126



Samsung Factory in Thai Nguyen Province

CREDIT: VNA

“Vietnam’s relationship with China has many similarities to Mexico’s with the US”

Connectivity is important to China since it views Vietnam as a gateway to ASEAN in the South and increasingly since 2018, as a tariff-free conduit to the US. Chinese electronics companies like BOE, Luxshare and Sunny Optical have been pouring across the border and setting up factories in Northern Vietnam to take advantage of a cheaper workforce, avoid tariffs and satisfy the international end-clients like Apple to which they act as preferred suppliers.

US bound: The top destination for Vietnam’s electronic products is the US, as we outline in section 3.2. The latter’s import stats highlight a sudden and significant shift starting in 2018 when the Sino-US trade war began in earnest.

That year, the US recorded US\$49.1 billion in imports from Vietnam, a figure that had been steadily increasing by about US\$3 billion a year until then¹²⁷. But in 2019, the figure shot up by one third to US\$66.4 billion and by the end of 2023 stood at US\$114.4 billion.

China rebound: Those electronic exports also increasingly return to China - Vietnam’s largest trading partner and China’s 6th largest at the end of the first half of 2024^{128,129}. All Northern Vietnam-based companies have an eye on China’s 1.4 billion consumers, of whom nearly 100 million live in the provinces that border Vietnam - Guanxi (50.47 million people akin to the size of Spain), Yunnan (46.93 million akin to Argentina) and beyond Yunnan - Guangdong Province with a further 126.6 million people (the size of Japan)^{130,131,132,133}.

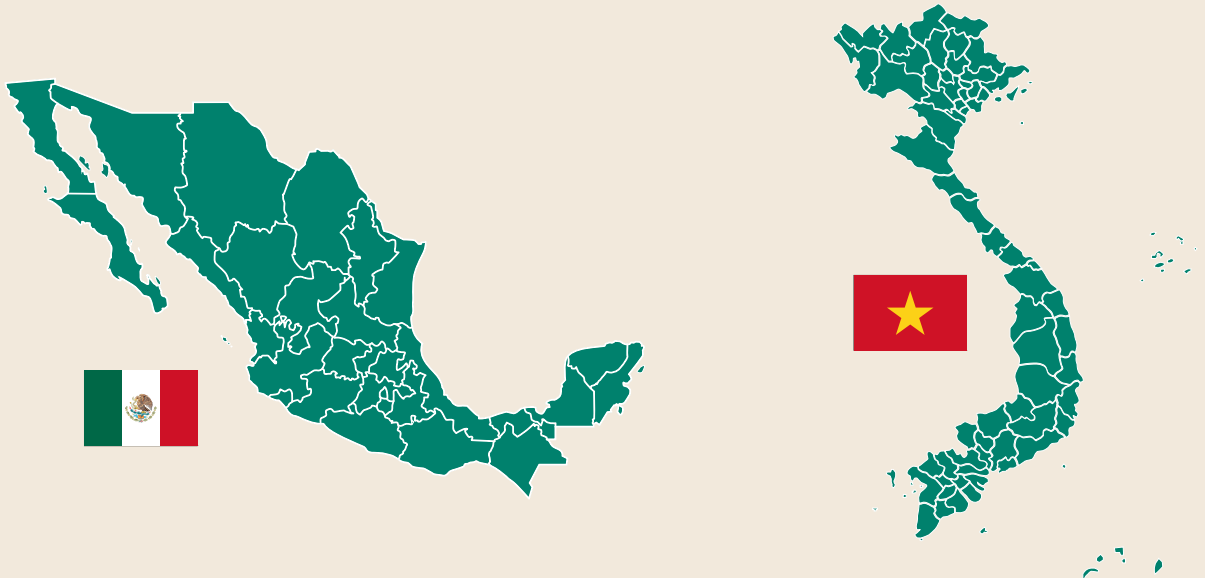
The right cocktail: Vietnam’s relationship with China has many similarities to Mexico’s with the US. Indeed, Mexico is sometimes described as more Asian than Latin American given the export-oriented structure of its economy compared to the commodity-driven ones that its neighbours operate.

In the first six months of 2024, Mexico ranked as North America’s largest trading partner accounting for 16% of the latter’s US\$415.4 billion combined imports and exports¹³⁴. Mexico is not only a cheap and convenient location for companies serving US consumers but also for serving Mexican ones. Similarly, we believe that Vietnam has the right ingredients to make the jump from sixth largest trading partner to first with China.

EXHIBIT 13

Vietnam is becoming to China what Mexico already is to the US

Everybody needs good neighbours



Mexico	2023	Vietnam
1,964 km ²	Land area	331 km ²
130.74 million	Population	101.06 million
30.8	Median age	33.1
81.6%	Urbanisation	39%
Mexico City 22.5 million, Guadalajara 5.5 million	Largest cities	Ho Chi Minh 9.6 million, Hanoi 8.5 million
US\$10,327	GDP per capita	US\$4,284.5
US\$20.6	Labour productivity (GDP constant 2017 at PPP)	US\$10.3
46%	Tertiary education enrolment	42%
US\$673.83 billion	Imports	US\$326.36 billion
US 56%	Largest import partner	China 33.5%
Refined petroleum	Largest import item	Integrated circuits
US\$649.3 billion	Exports	US\$354.72 billion
US 77%	Largest export partner	US 27.4%
Cars	Largest export item	Broadcast equipment

SOURCES: CIA FACTBOOK, DRAGON CAPITAL, GSO

4.3 US

“America’s relationship with Vietnam in the 21st century has many echoes of its previous ones with Japan, South Korea and Taiwan during the second half of the 20th”

When former US President Barack Obama visited Vietnam for the first time in 2016, it marked a symbolic moment for relations between the two countries and a new statement of intent from the US, which was pivoting to Asia to enhance regional engagement¹³⁵.

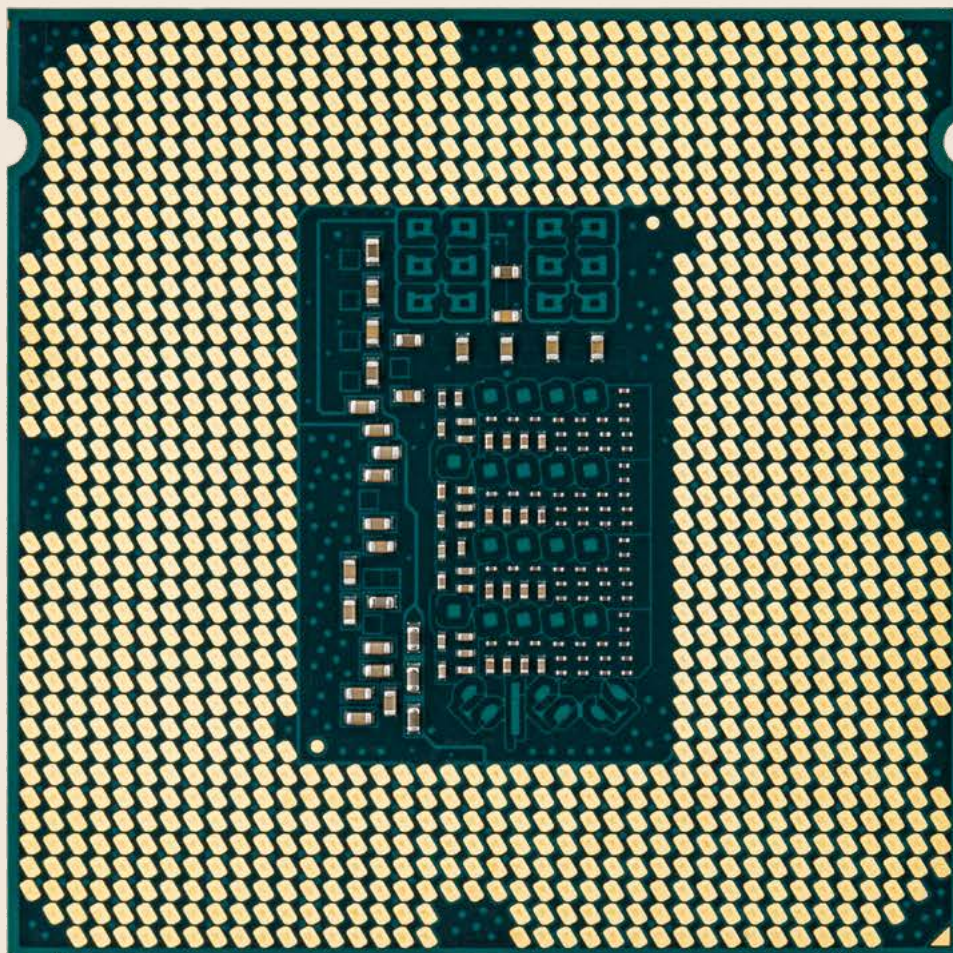
Since then, Vietnam has upgraded its diplomatic relations with the US to their highest level and in June 2024, the two countries held their first Comprehensive Strategic Partnership Economic Dialogue¹³⁶. The Americans promised, among other things: expanded co-operation on supply chain resilience in the semiconductor sector; support for Vietnam’s high-tech workforce; advancing the renewable energy transition; working on the legal and regulatory environment to support high-quality investment; and co-operation on critical minerals.

America’s relationship with Vietnam in the 21st century has many echoes of its previous ones with Japan, South Korea and Taiwan during the second half of the 20th. In all instances, there has been both a geopolitical angle (trying to embed countries within the US world order and contain China), and an economic one (outsourcing manufacturing to cheaper allies).



US President Joe Biden in Hanoi

CREDIT: VNA





**Vietnamese Prime Minister Phạm Minh Chính
with Nvidia founder Jensen Huang**

CREDIT: VNA

***“American tech
giants have a
fast-expanding
presence”***

As we discussed in Section 1.2, the US educated and trained many South Korean, Japanese and Taiwanese students post WW2 who then went back to their countries to create some of today's best-known global brands, particularly in electronics. It also helped both South Korea and Taiwan to establish their electronics industries by part-funding the creation of science and technology institutes, plus licensing advanced technology to help fledgling companies succeed. This included Taiwan's UMC (from RCA) and South Korea's Samsung Electronics (from Micron)^{137,138}.

Training: Marc Knapper, US Ambassador to Vietnam has frequently highlighted Washington's desire to increase “Vietnam-US co-operation in high tech industries” through multiple investments¹³⁹. One of the most visible symbols of this comes from the Electronic Design Automation (EDA) sector, the part of the semiconductor supply chain, which American companies dominate. Synopsys, for example, has a collaboration with the Authority of Information and Communication Technologies Industry (AICTI) of Vietnam to help it establish a semiconductor research institute, while Cadence is working with FPT, the University of Arizona and Vietnam's National Innovation Centre (NIC) to train local engineers^{140,141}.

Many other American tech giants have a fast-expanding presence too. In December 2023, Nvidia founder and CEO Jensen Huang said the company wants to make Vietnam its “second home”¹⁴². It plans to train local talent for developing AI and digital infrastructure through its partnerships with companies including FPT, Viettel and Vingroup¹⁴³.

Apple of Tim Cook's eye: In April 2024, Apple CEO Tim Cook visited Vietnam with an offer to help Vietnam's NIC build an R&D centre focused on digital transformation¹⁴⁴. Vietnam now ranks fourth globally in Apple's supply chain behind China, Taiwan and Japan thanks to the group's decision to diversify away from China and bring ever more high-end manufacturing across the border¹⁴⁵. One of Apple's

CREDIT: VNA



Vietnamese Prime Minister Phạm Minh Chính speaks to Apple CEO Tim Cook

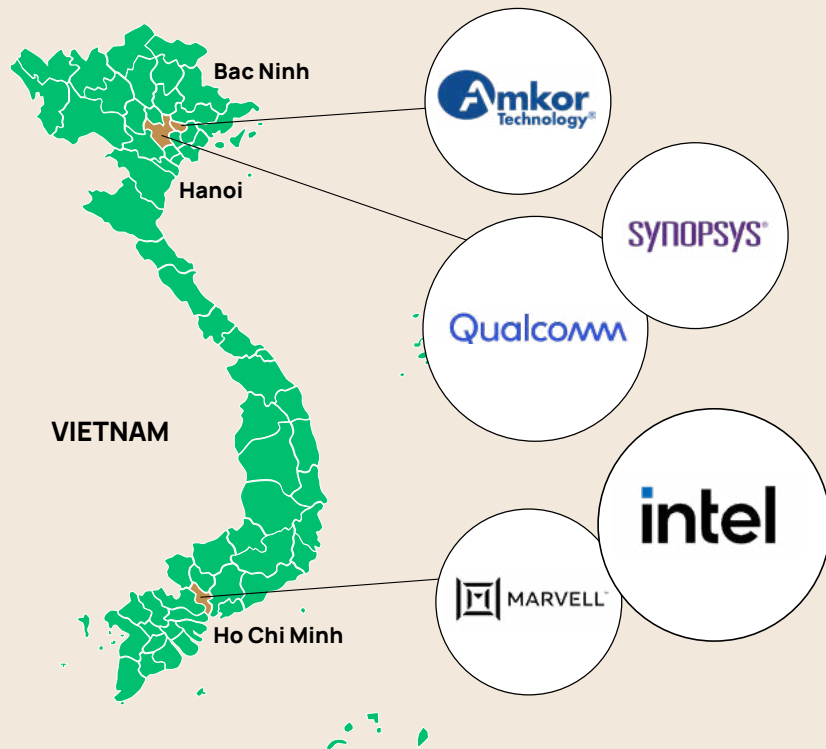
Chinese suppliers, BYD, is relocating design and development of new iPad products to Vietnam¹⁴⁶. Another, Taiwan's Foxconn publicly announced plans to hire nearly 70,000 workers during 2024 for its expanding factories in Bac Giang province¹⁴⁷.

Silicon Delta: The Vietnamese government hopes that being home to the world's second largest reserves of rare earths will be an enabler in the construction of a complete semiconductor supply chain. One spot for Vietnam's nascent Silicon Valley (or Silicon Delta) lies around Ho Chi Minh's new airport in District 9 (see exhibit 14). Will the Saigon Hi-tech park, which is based there, one day rival Taipei's Hsinchu Science Park, established in 1980 and today housing the global HQs for TSMC, UMC and others¹⁴⁸? It is what the Vietnamese government hopes for. By 2030, it wants high-tech products to account for 45% of the country's manufacturing and processing¹⁴⁹.

EXHIBIT 14

US semiconductor companies in Vietnam

From Silicon Valley to Silicon Delta



Mind the gap: US trade figures depict a fairly black and white picture of relations between the two countries. They show that while the US is Vietnam's largest export destination, the same is far from true in reverse. In 2023, exports to Vietnam stood at just US\$9.84 billion compared to imports from Vietnam of US\$114.4 billion¹⁵⁰.

The resulting US\$104.58 billion deficit ranks third globally behind China and Mexico, no mean feat for a country that is respectively 41 and four times smaller by GDP¹⁵¹. Will the US try to rectify this situation? US presidential hopeful Donald Trump famously does not like trade deficits. However, our view is that the policy will remain the same: US investments in Vietnam continuing to accelerate and exports from them flowing back, as they once did from China. What a Trump presidency might result in is some pressure on Vietnam to start purchasing something in return such as defence equipment.



Section 5

FINANCIAL CAPITAL

ON THE FRONTIER OF EM STATUS

	SYMBOL	OPEN	BID	ASK	PROJECT	VOL
opening, PT	CRC					
	CRE	□	6.02	6.19		
	CSM		ATO	14.9	14.9	
	CSV	□	15.2	16		
	CTD	□	ATO	ATO	40.45	
	CTF	□	ATO	ATO	62	
	CTG	□	ATO	ATO	23	
	CTI	□	ATO	ATO	23.45	
	CTR	□	14.9	14.8	14.9	
	CTS	□	ATO	ATO	64	
	CVT		ATO	ATO	16.85	
	D2D	□		42.55		
	DAG	◆◆	34	33.5	34	
	DAH		5.35	5.1	5	
	DAT		6.6	6.8		
			12.7	14.35		

There is a strong correlation between the depth of a country's financial markets and the strength of its GDP growth. The fifth and final source of capital examined in this white paper is one of the most important of all.

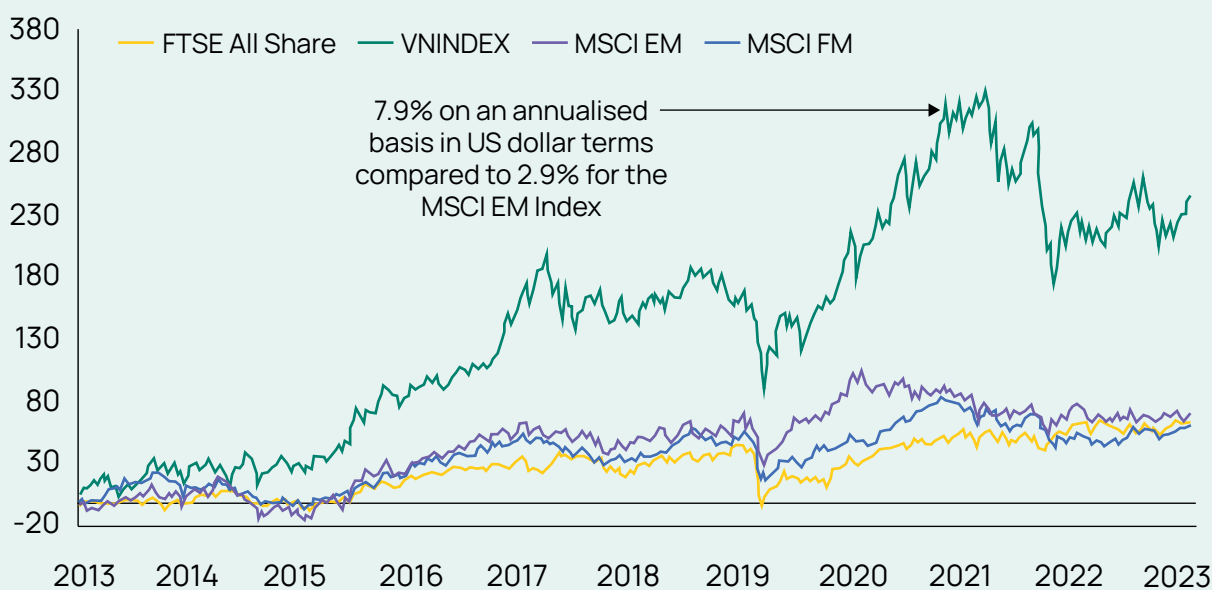
The Vietnam of 2024 stands poised to experience two very large and beneficial shifts over its near-term horizon. Where the equity markets are concerned, it should shortly move from frontier to emerging markets status, starting with FTSE Russell Secondary Emerging Markets (EM) Index inclusion, followed by MSCI.

Equities: Over the past decade, Vietnam's stock market has outperformed the broader EM sector (see exhibit 15). To the end of August 2024, the VN Index was up 7.9% on an annualised basis in US dollar terms compared to 2.9% for the MSCI EM Index.^{152,153} Only India recorded a better 10-year performance, with the Sensex up 9.7%¹⁵⁴.

EXHIBIT 15

Stock market returns

Total return in GBP

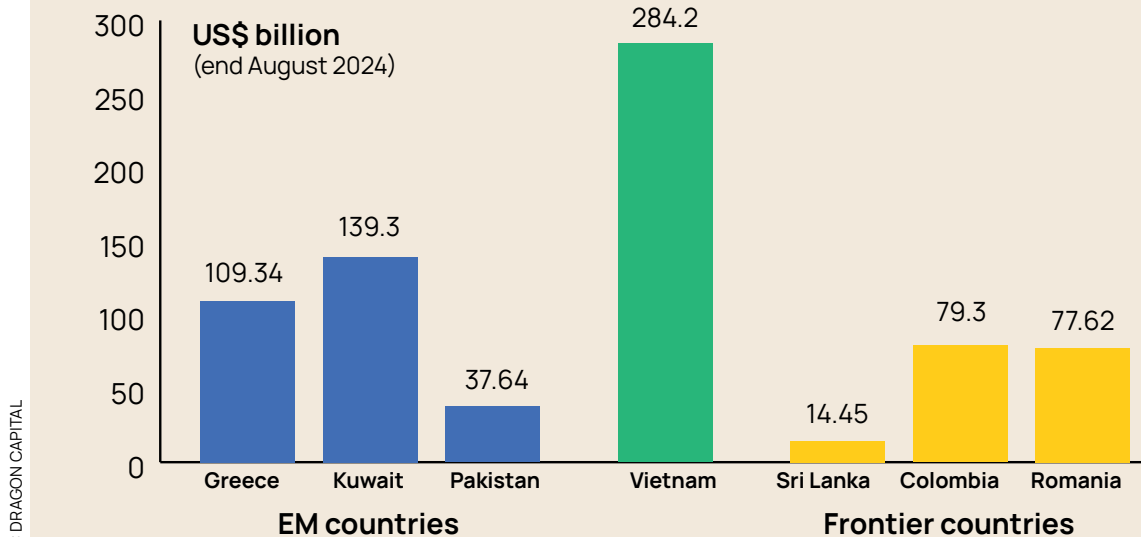


SOURCE: DRAGON CAPITAL

Vietnam's equity markets are not only much larger than other constituents of frontier market indices, but plenty of EM ones too (see exhibit 16). At the end of 2023, Vietnam's stock market capitalisation to GDP had also risen above 60%, a higher ratio than a number of neighbouring countries including Indonesia^{155,156}.

EXHIBIT 16

MSCI Outperformer



Bonds: Vietnam is getting close to investment grade status. As of July 2024, its long-term foreign currency ratings were respectively:

- **Fitch:** BB+ rating, stable outlook (upgraded December 2023)¹⁵⁷
- **Moody's:** Ba2, stable outlook (upgraded September 2022)¹⁵⁸
- **S&P:** BB+, stable outlook (upgraded May 2022)¹⁵⁹

At roughly 10% of GDP, Vietnam's bond markets are less developed than its equity markets¹⁶⁰. However, when added together with its stock market to GDP ratio, plus credit to the domestic private sector (125.9% of GDP), the overall picture is of a country that has made significant progress in achieving the market depth necessary for successful financial intermediation¹⁶¹.

The government's stance is to adopt a measured approach, after a previous boom-bust saw foreign investors pile in and out again in quick succession. In 2006, the VN Index quadrupled over the space of 12 months after investors woke up to Vietnam's potential, before collapsing towards the end of 2007¹⁶².

Since then, stock market growth has been far more in tandem with Vietnam's underlying GDP. At the same time, greater sophistication has created a far more varied investment scene and strong foundations to absorb the flows expected from an EM upgrade (see exhibit 17).

EXHIBIT 17

The difference a decade makes

	January 2014	August 2024
Market Cap	\$53bn	\$284bn
Listed Companies	922	>1,500
Companies >\$1bn	9	45
Companies >\$10bn	0	3
Daily Turnover, 1mo	\$151m	\$742m
Trading System	Thai-designed system installed in 2000	New system to be implemented
Products	Two offshore ETFs	11 offshore ETFs 15 local ETFs Index futures Covered warrants Pension funds prefunding solution imminent
		Significant uplift in scale, diversity and operational capacity

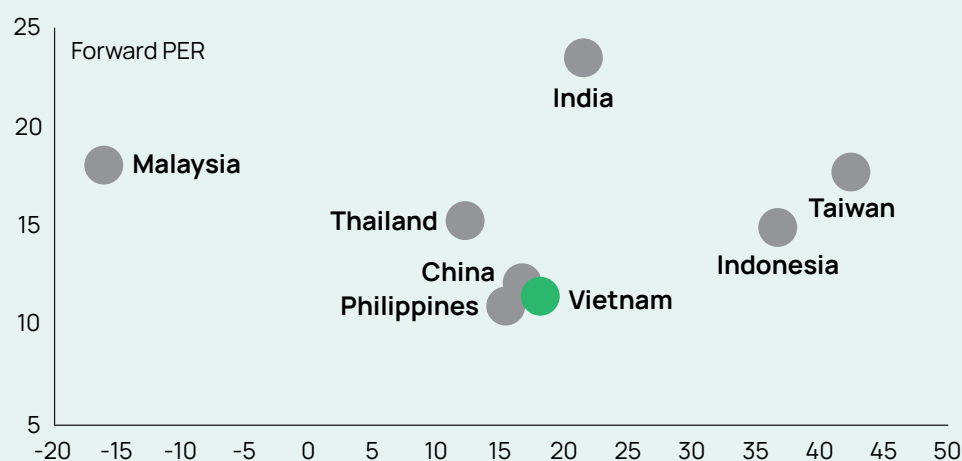
SOURCE: BLOOMBERG

We expect FTSE Russell inclusion to lead to inflows of US\$2 billion to US\$3 billion. Through to 2030, the World Bank estimates the figure could hit US\$25 billion if the MSCI moves Vietnam to EM status as well¹⁶³. This should also prompt a valuation re-rating (see exhibit 18).

EXHIBIT 18

Valuation re-rating?

Market forecasts and valuations. Value for growth vs Asian Peers



SOURCE: DRAGON CAPITAL



Ho Chi Minh Stock Exchange Building

FTSE Russell EM upgrade: Our working assumption is for 2025 even though Vietnam has overcome the index provider's final requirement concerning pre-funding settlement procedures. In July 2024, the State Securities Commission (SSC) unveiled a final draft circular governing a workaround solution ahead of a longer-term plan to set up a central counterparty clearing house (CCP)¹⁶⁴. This, however, was too late for FTSE Russell in 2024, given that Vietnamese circulars incorporate two months of public comments and the index provider announces its decision every September.

MSCI: In order to secure an upgrade, Vietnam needs to meet the index provider's requirement in relation to foreign ownership limits (FOLs). A number of sectors including banking, construction materials, oil and gas, and property, cap foreign ownership at a 35% to 49% range.

KRX system: Vietnam's equity markets should also take a second significant step forwards with the roll out of a new trading system developed by Korea Exchange (KRX)¹⁶⁵, which is in the process of being implemented. This will encompass a dedicated platform for retail investors and introduce day trading (T+0)¹⁶⁶. In addition to upgrading the market infrastructure, it should also make retail investors an even more dominant force on the stock market - a trend that has become more pronounced since 2020¹⁶⁷. Their growing presence means that the market continues to rise even when foreign investors become net sellers.

Retail surge: At the end of June 2024, roughly 8% of the Vietnamese population had a securities brokerage account (8.04 million)^{168,169}. If the country continues to follow the path of its East Asian peers, then there is still a long way to go. In South Korea, for example, one in three of the adult population trade the stock market and in Taiwan the figure is more than half^{170,171,172,173}.

Citizens deposits are also hitting record highs – reaching US\$262.2 billion at the end of the first quarter of 2024¹⁷⁴. In Ho Chi Minh, GDP per capita is getting close to the US\$8,000 to US\$10,000 level when individuals transition from being simply savers to becoming investors. They are completing their journey to becoming middle class as Vietnam moves closer to upper middle income status.

Summary

In this white paper, we have examined Vietnam in the context of the former dragons. Like them, it has been fostering high and inclusive growth by getting the policy fundamentals right.

The ascending dragon is living up to the legend of its name through:

Geopolitical pulling power - a country that two rival superpowers want to call their own and where everyone else feels at home;

Domestic confidence in rising affluence - Vietnam's baby boomers are young, not old;

Equality in all spheres - women do not labour to enter the workforce, they dominate a number of key sectors

Vaulting up the value chain - laying the foundations for advanced economy status through skills upskilling and the beginnings of indigenous R&D;

Export powerhouse - taking advantage of the China+ 1 strategy to become a central player in global supply chains and China's domestic ones;

FDI magnet - sound policy fundamentals and macroeconomic stability boost the attractiveness of a country that invests plentiful foreign flows in its human and physical capital development;

Strategic vision and intervention - long-term government planning through five-year plans, incentivisation and co-operation with industry to achieve national goals



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