DRAGON CAPITAL

Dragon Capital Report

From Frontier to Emerging Market: Vietnam's Upgrade Opportunity

June 2025

CONTENTS

1. INTRODUCTION

WHY NOW?

For many years, asset managers have tried to assess the impact that an upgrade to Vietnam's standing in major global equity indices would have on performance, liquidity and market maturity. This discussion – centred about a possible move from MSCI's and FTSE Russell's frontier equity indices to their more closely-followed emerging markets counterparts – has given managers a clear sense of the positive passive and active flows that such a graduation might trigger. But it has remained a theoretical exercise because index providers have wanted to see specific market reforms before approving an upgrade, and Vietnam has not introduced them.

Today, however, there are clear signals that an upgrade in FTSE Russell's index hierarchy could be announced in September 2025, with official inclusion as early as March 2026, triggered by reform around previous sticking points such as pre-funding requirements for trading.

While an upgrade would deliver significant benefits to Vietnam's stock markets – such as increased liquidity, valuation uplift and greater investor participation – there are broader and equally transformative implications for the country. Achieving EM status places Vietnam firmly on the global stage, giving it access to larger institutional investors, strengthening the country's voice in regional trade negotiations, and raising its profile to parity among ASEAN and other emerging market peers. Although quantifying the precise GDP uplift from these structural shifts is challenging, the potential long-term benefits extend far beyond market-specific outcomes. While this report focuses on market implications, investors should be aware of these wider-reaching economic and geopolitical advantages.

In this report, we revisit the investment case for Vietnam in the light of General Secretary Tô Lâm's modernisation agenda; look at the reforms that have made an upgrade more likely; and examine in detail what tends to happen to flows, performance and liquidity after an upgrade from frontier to emerging market status, drawing upon the evidence of countries that have previously made this transition such as Saudi Arabia and Kuwait.

We also consider likely knock-on impacts on areas such as corporate governance and IPOs; examine the challenges ahead for an upgraded market; and review the Dragon Capital products that will allow investors to invest wisely both before and after it occurs.

2. Vietnam's investment case refreshed

The demographic and economic case for Vietnam is well understood, but warrants fresh examination in light of the **new leadership** with progressive ideas. For a more detailed study of Vietnam's compelling positioning – and why it is an entrepreneurial transformation story with much more to it than demographics – read Dragon Capital's ***East Asia's Last Dragon – Wired for Success?*** Also see the appendix of this report for a summary of Vietnam's economy.

New Leadership

It is useful for investors to understand the impact of **Tô Lâm**, who became General Secretary in August 2024 (he was also President of Vietnam from May to October 2024).

Tô Lâm followed his inauguration with a call for "the new historical starting point, the new era, and the rising era of the Vietnamese nation." Some colloquially call this 'Đổi Mới' 2.0; Tô Lâm himself has characterised it as **National Rise**, seeing it very much as a distinct third era in modern Vietnam following independence and socialism (1930-1975) and reunification and Đổi Mới (1975-2025).

In practice, this means a resetting of Vietnam's trajectory with a firm emphasis on **modernisation** and **economic growth**. It commences with a **sprint period** for Vietnam to build the foundations for two specific goals: achieving **upper middle-income status by 2030** (a date with some significance as the centenary of the Communist Party of Vietnam), and **high-income status by 2045** (itself a centennial, of the foundation of the Socialist Republic of Vietnam).

These targets require a still greater pace of economic growth than Vietnam has already achieved, and both General Secretary Tô Lâm and Prime Minister of Vietnam Phạm Minh Chính have spoken of seeking **double-digit GDP growth**[1]**.** To achieve them, Tô Lâm sees the **Fourth Industrial Revolution**, particularly advances in artificial intelligence and digital technology, as an opportunity to move ahead. Two of Tô Lâm's seven strategic priorities are driving digital transformation and accelerating technological development, while others include party reform, organisational streamlining, and reducing waste through improved resource mismanagement.

Tô Lâm being sworn in as the
13th President of Vietnam, 22 May 2024

2. Vietnam's investment case refreshed

Continued

A **transformation of Vietnam's state apparatus** is the clearest signal yet of the scale of Tô Lâm's ambition; announced in December 2024, its work began in earnest in the first quarter of 2025 by merging 19 ministries into a more streamlined 14 reducing the number of government bodies by 35-40% and reorganising 13 party agencies, affecting 130,000 civil servants[2]. From an investor's perspective, the most significant of these mergers is the combination of the Ministry of Finance with the Ministry of Planning and Investment.

In March 2025, this was followed by a plan to **merge Vietnam's provinces** and eliminate district-level authorities. This is a major undertaking: Vietnam is divided into 63 major cities and provinces, with 700 administrative units at the district level and more than 10,000 at the communal level[3]. The overall ambition is **a 20% reduction of the state**, so as to cut red tape and to stop the negative impact of a bloated bureaucracy on business and growth. Tô Lâm has spoken of a state apparatus that is "lean, compact, strong, effective, and efficient."

Pre-Restructuring			
1 PM 5 Deputy PMs	18 Ministries 4 Ministrial Agencies 8 Gov. Agencies	63 provinces 634 districts 10,035 communes	2,000,000 people in civil service
1 PM 7 Deputy PMs	14 Ministries 3 Ministrial Agencies 5 Gov. Agencies	34 provinces No district 3,000 communes	100,000 cut in 2025-26 700,000 cut by 2030
Post-Restructuring			

Government Streamlining Efforts

If Tô Lâm achieves these ambitions, the end outcome should logically be positive for investors in Vietnam, who will be participating in a **supercharged growth story freed of cumbersome bureaucracy**. Getting to this point, though, is filled with challenges, and there is a **widespread expectation of disruption** as the reform of the state takes place.

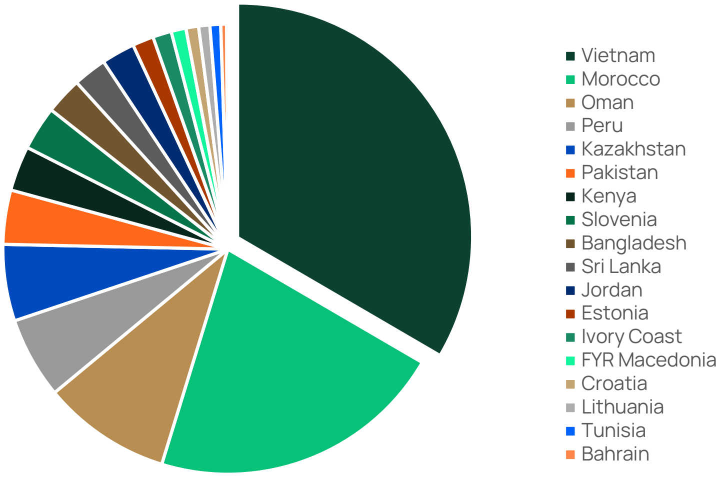
Vietnam's market metrics

Market Capitalisation & Liquidity: Vietnam's equity market has grown rapidly in size and trading activity. As of the end of 2024, the total market capitalisation of listed Vietnamese stocks was **$288 billion**, about 60% of GDP[45].

Vietnam Combined Market Cap ($bn) & Trading Value ($mn)
Source: Bloomberg

Average daily trading value is around **$860 million** (up 18% year-on-year in 2024)[6], with peak sessions frequently approaching or above the **$1 billion** mark. This level of liquidity is high for a frontier market – over 80% of volume comes from a vibrant domestic retail base – and even rivals some smaller emerging markets. Such liquidity improvements reflect Vietnam's increasingly developed market infrastructure and investor participation.

FTSE Frontier Index Weight: Vietnam is the largest constituent in the FTSE Frontier Index. Vietnamese equities make up roughly 36% of the FTSE Frontier Index's market capitalisation[7], which was $100.6 billion in February 2025. This means a Frontier Index fund would allocate 36% of its assets to Vietnam.

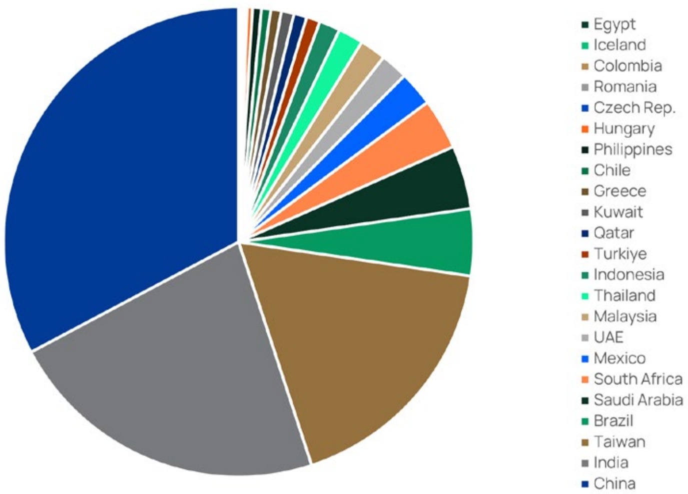


FTSE Russell Frontier Index: Country Net Market Cap Composition
Source: FTSE Russell

This heavy weight is a double-edged sword: it highlights Vietnam's relative maturity compared to other frontier markets, but also means Vietnam is constrained by the limited capital dedicated to frontier-market funds.

For comparison, Vietnam represented 24.77% of the MSCI Frontier Markets Index in February 2025[8] .

Projected FTSE Emerging Index Weight: Upon an upgrade to "Secondary Emerging" status, Vietnam's weight in the FTSE Emerging Markets (EM) Index is expected to be much smaller than in frontier, but within a vastly larger pool of capital. Estimates for Vietnam's initial weight range from about **0.3% up to 0.5%** of the FTSE EM Index. The FTSE EM Index had a total market cap of around **$7.7 trillion** in February 2025[9] , 77 times larger than the FTSE Frontier Index. So even a 0.5% weight would translate to a meaningful share in dollar terms – and as this report will discuss, some analysts believe Vietnam could eventually command closer to 1% with market growth.



FTSE Russell Emerging Index: Country Net Market Cap Composition
Source: FTSE Russell

3. Why is an upgrade likely now?

FTSE Russell added Vietnam to its watchlist in September 2018 for possible reclassification to Secondary Emerging market status. (FTSE Russell has four classifications: Developed, Advanced Emerging, Secondary Emerging and Frontier. Both Advanced Emerging and Secondary Emerging markets appear in the FTSE EM Index.)

In a review of reclassification candidates released in October 2024[10] , FTSE was specific about what Vietnam needed to do in order to be reclassified:

a. "Vietnam has yet to meet the **'Settlement Cycle DvP (Delivery versus Payment)'** criterion, which is currently rated as 'Restricted' due to the practice of conducting a pre-trading check to ensure the availability of funds prior to trade execution."

b. "Since, by default, the market does not experience **failed trades**, the 'Settlement – costs associated with failed trades' criterion is unrated."

c. "Additionally, improvements to the process for the **registration of new accounts** are required, as market prices can result in the extension of the registration process."

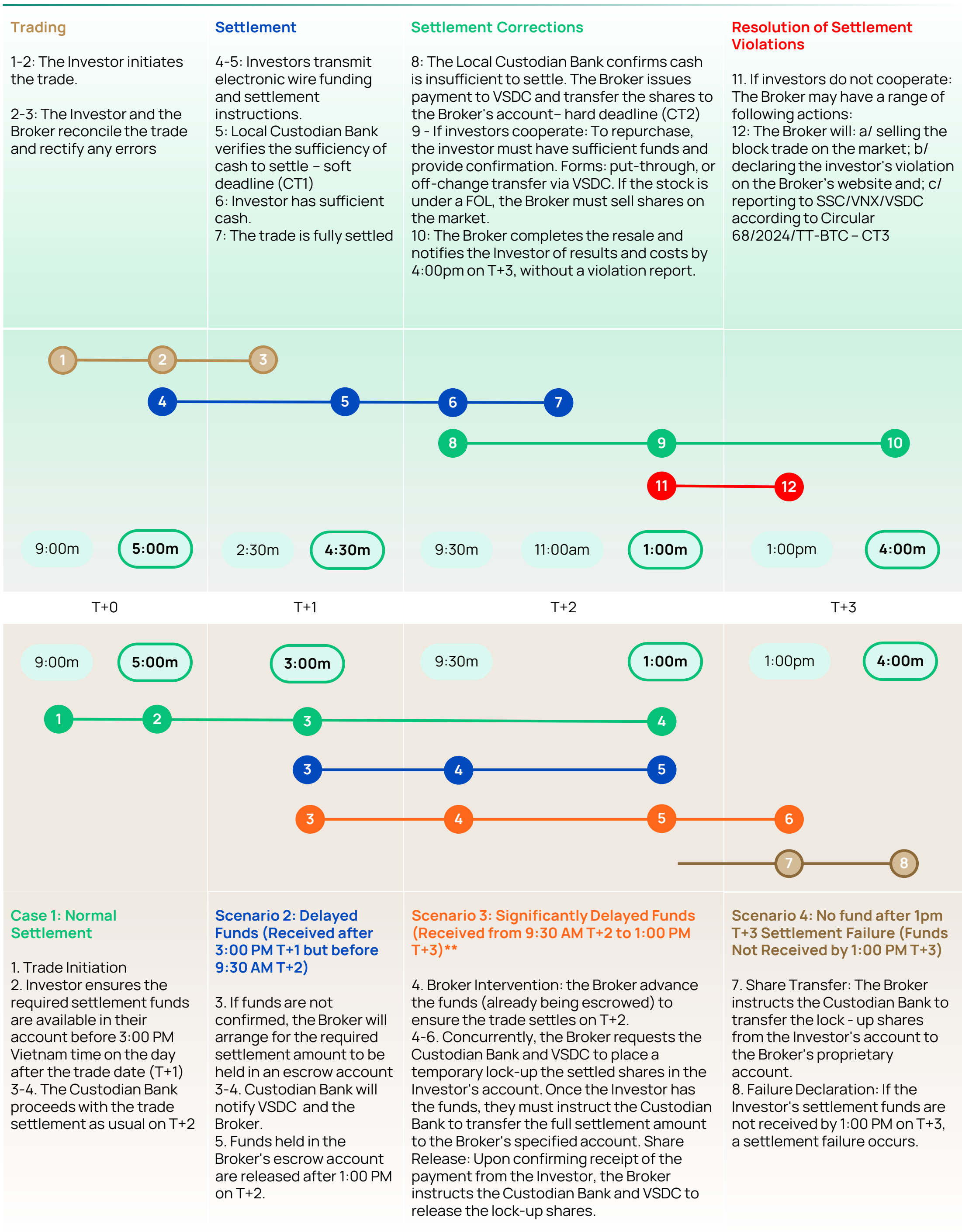
d. "The introduction of an efficient mechanism to facilitate trading between non-domestic investors in securities that have reached, or are approaching, their **foreign ownership limit** (FOL) is also seen as important."

Many of these matters are being addressed. On 18 September 2024, the Ministry of Finance issued **Circular 68/2024/TT-BTC**[11] , setting out amendments to regulations. Among other things, this Circular removes pre-funding requirements[12] for international investors purchasing equities, and updates regulations governing securities transactions, clearing and settlement, activities of securities companies, and information disclosure.

FTSE Russell acknowledged this progress in an update in April 2025, adding: "Given this development, FTSE Russell continues to monitor the market and seek feedback from market participants on the NPF (Non Pre-funding) model and the management of failed trades."[13]

Additionally, Vietnam launched the **Korean Stock Exchange (KRX) trading and settlement platform** on 5 May, 2025. This is intended to address several operational inefficiencies such as trade execution speed and settlement reliability, both of them relevant to FTSE EM inclusion. In March 2025, the State Securities Commission (SSC) has been working with securities firms to standardise practices and ensure market consistency. In a circular awaiting approval in April 2025 to complement the launch of the new system, a new definition was introduced for investor identification information, alongside rules for handling digital documents, the roles of depository members, and managing fractional shares.[14]

NPF SETTLEMENT BEFORE AND AFTER KRX IMPLEMENTATION



Other SSC measures underway include the development of **an electronic communication platform** between securities firms and custodian banks; a new **omnibus trading account** framework to simplify trading for foreign investors; and refinement of **trade allocation procedures**. A **central counterparty clearing mechanism** should be implemented in 2026.

3. Why is an upgrade likely now?

In the most direct reference to an upgrade, in May 2025 Deputy Minister of Finance Trần Quốc Phương said his ministry was implementing six initiatives specifically to prepare for FTSE Russell's September 2025 review session. They are:

- Effective implementation of the new KRX trading system discussed above;
- Review and amendment of Decree 155 to stipulate the deadline for public companies to announce the maximum foreign ownership ratio to increase transparency for market participants;
- Simplified account opening processes for foreign institutional investors, specifically for the indirect investment capital account;
- Study and implementation of omnibus trading;
- Increased stock market offerings and products, including shortening the time for IPOs;
- Establishment of a policy dialogue group to address issues to support the market upgrade process. This group will include representatives from the SSC, investment funds, international financial institutions, securities companies and experts.

In its March 2025 commentary, FTSE noted "the ongoing commitment of the Vietnamese market authorities to pursuing various market reforms to facilitate international investor participation in the Vietnam securities market, including upgrading the main trading platform." It also referenced the "constructive relationship" with the State Securities Commission of Vietnam, other market authorities and the World Bank Group.

While the reforms underway clearly meet the spirit of FTSE's request for speed and progress, there are other areas where Vietnam would benefit from further improvement:

- Compliance with international standards on DvP ensuring the simultaneous exchange of securities and cash, reducing counterparty risk;
- Better failed trade management;
- Further progress on foreign ownership limits (Vietnam could also introduce mechanisms such as non-voting depository shares to circumvent these limits, which are used in other EM markets such as Thailand);
- Enhancements to custodial infrastructure, such as allowing international banks to act as custodians;
- Simplification for investor registration for foreign investors;
- Full adoption of English-language disclosures by listed companies and regulators, which is much improved but incomplete.

Nevertheless, there is growing optimism that Vietnam's efforts to enact reform will be sufficient to meet the FTSE Russell criteria for promotion to the EM Index. The case for a graduation to MSCI's EM index is discussed later in this report.

4. What happens when a market is upgraded?

Many other markets have been upgraded from frontier to emerging market status by FTSE and MSCI in recent years, among them Saudi Arabia, Kuwait, UAE, Qatar and Pakistan. A close look at Saudi Arabia and Kuwait is instructive when considering the likely impacts for Vietnam of a similar upgrade.

Saudi Arabia

Saudi Arabia's equity market, Tadawul, was upgraded to emerging market status by both FTSE and MSCI in 2019. The lead-up to the upgrade was characterised by many **market reforms** similar to those underway in Vietnam, such as opening the market to Qualified Foreign Investors and modernising settlement mechanisms. Saudi is a much larger market than Vietnam and the comparison is not quite like-for-like, as Saudi was previously classified as *standalone or unclassified* rather than frontier. But important insights can be gleaned:

Foreign participation: Between the end of 2018 and March 2025, **foreign ownership in Saudi stocks increased almost fivefold** from around $23 billion to **$111.3 billion**[15] . A large portion of this growth occurred soon after inclusion in EM indices.

Saudi Exchange Ownership Value By Value (SAR m)

Source: Saudi Exchange

Performance: Along with this increase came strong performance: the MSCI Saudi Arabia index **outperformed** the broader MSCI EM index following its 2019 inclusion. This suggests that the reclassification improved global investor sentiment, boosted Saudi Arabia's profile, and drove substantial capital inflows, contributing to liquidity and price gains as well as an expansion of its investor base.

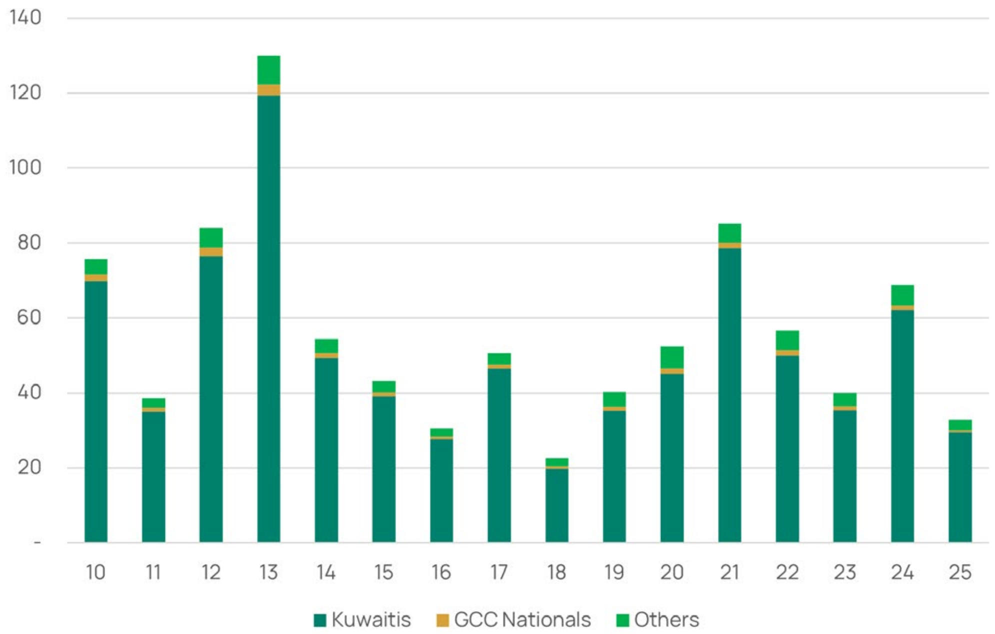
Saudi Arabia shows that market reforms and index inclusion can reinforce one another, with continued improvements post-upgrade attracting still further foreign participation. By March 2025, foreigners were accounting for **35.9%** of total buys and **37%** of total sells in Saudi equities[16] .

Kuwait

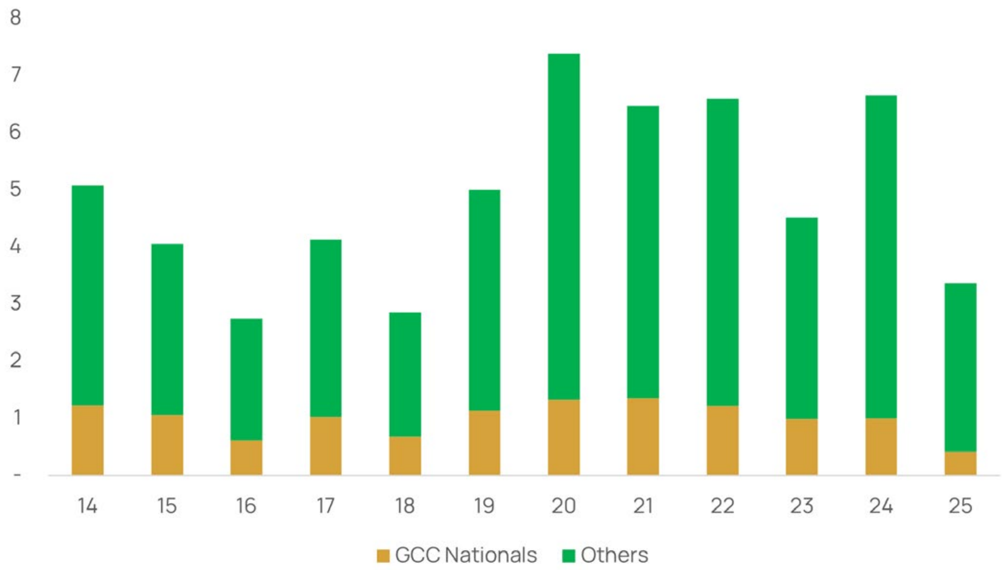
Kuwait was upgraded from frontier to secondary emerging market status by FTSE Russell in 2018 and MSCI in 2020 (with the announcement of the MSCI upgrade happening in 2019). Kuwait offers a closer parallel to Vietnam in terms of market size.

Foreign participation: After the announcement and the FTSE upgrade, Kuwait experienced about **$700 million in net foreign inflows** in H2 2018, and a further $1.1 billion in the first five months of 2019, far higher than the approximately $200 million a year earlier[17] . These figures indicate **substantial active buying in anticipation** of both the FTSE and the later MSCI upgrades. Estimates at the time projected $800-950 million of inflows from passive index trackers linked to the FTSE upgrade alone[18]. By the time MSCI announced its upgrade, analysts predicted a further **$2.8 billion** of passive inflows[19] (based upon a 0.5% index weight), and active flows of **$5-10 billion** were projected[20] .

A sense **of changing foreign participation** in Kuwait can be found in trading volumes data. In 2018, the 'others' category of investors defined by the Kuwait bourse – so non-Kuwaitis and non-GCC – accounted for **21.49%** of all buy trades of shares for the whole year, and in 2019 **18.1%**. In 2017, prior to any upgrade announcement, the figure was just 9.17%[21] . This shows how foreigners became much more active in trading the market, not only upon an upgrade but upon the expectation of one.



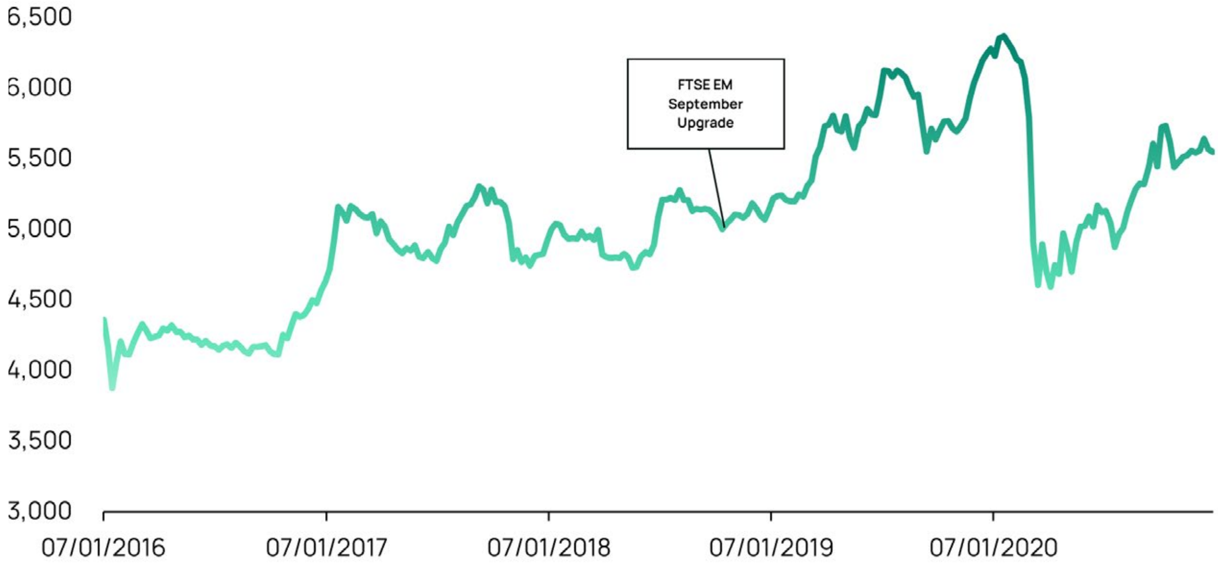
KSE Total Trading Value By Nationality (KD bn)
Source: Boursa Kuwait



KSE Foreign Trading Value (KD bn)
Source: Boursa Kuwait

Performance: Kuwait experienced a notable increase in market sentiment in the lead-up to the FTSE upgrade in September 2018. Its **index rallied by 9%** in the months leading up to that date as foreign investors sought to position ahead of inclusion. The market rose further ahead of MSCI inclusion.

4. What happens when a market is upgraded?



Kuwait Market (KWSEAS) Performance
Source: Bloomberg

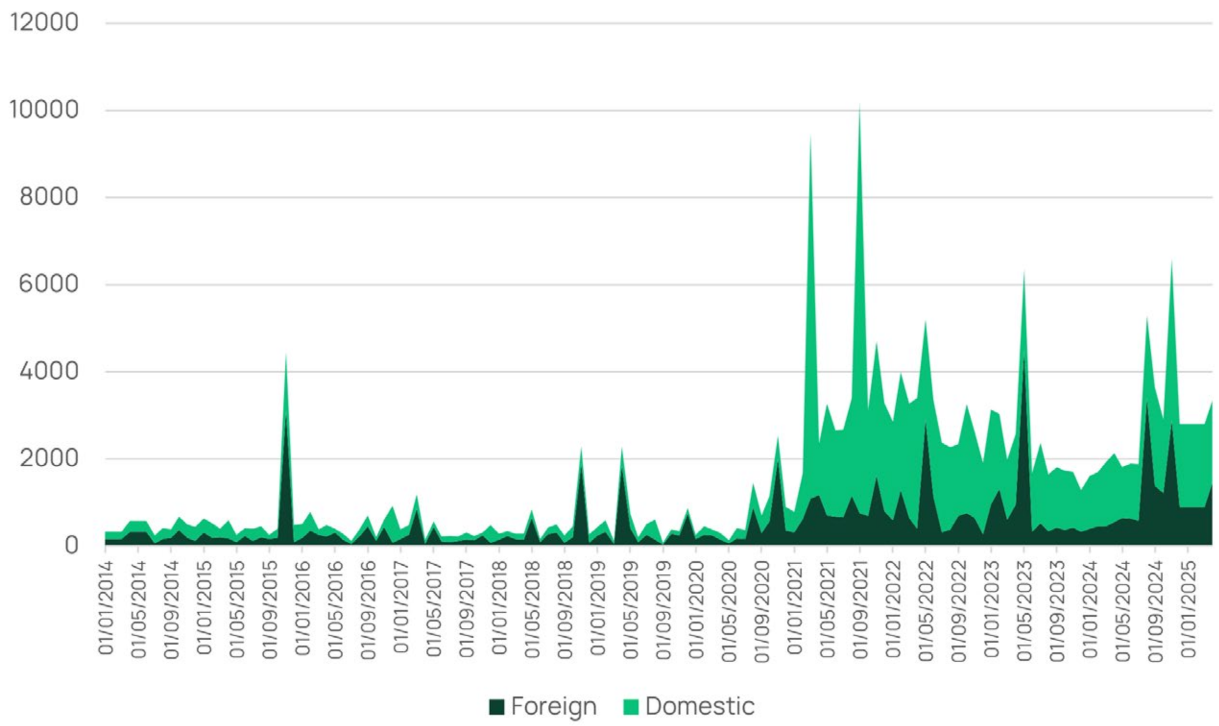
The lesson from Kuwait is that upgrade-driven inflows can meaningfully boost a market's liquidity and valuations even before the event, as investors reposition in advance. However, actual outcomes can diverge from initial forecasts, especially on the active side, which depends on discretionary decisions by fund managers.

Other cases

The **UAE** and **Qatar** upgrades (MSCI EM in 2014) were accompanied by large pre-inclusion rallies and subsequent increases in foreign ownership as accessibility improved. Both of these markets had to loosen foreign ownership limits, similar to Vietnam addressing its pre-funding rule.

Pakistan's brief promotion to EM in 2017 saw a surge of speculative inflows ahead of inclusion, though post-upgrade performance was mixed due to domestic factors. Pakistan saw an **all-time record for volumes** on its inclusion day in MSCI as passive funds transacted.

In Qatar, the Institute of International Finance estimates that net inflows into its equity market rose from $600m to $2.5 billion as a result of its upgrade, while in the UAE net inflows more than doubled to $2.1 billion[22] .



Total Trading Value of Qatari Equity Market – ADX (USD m)

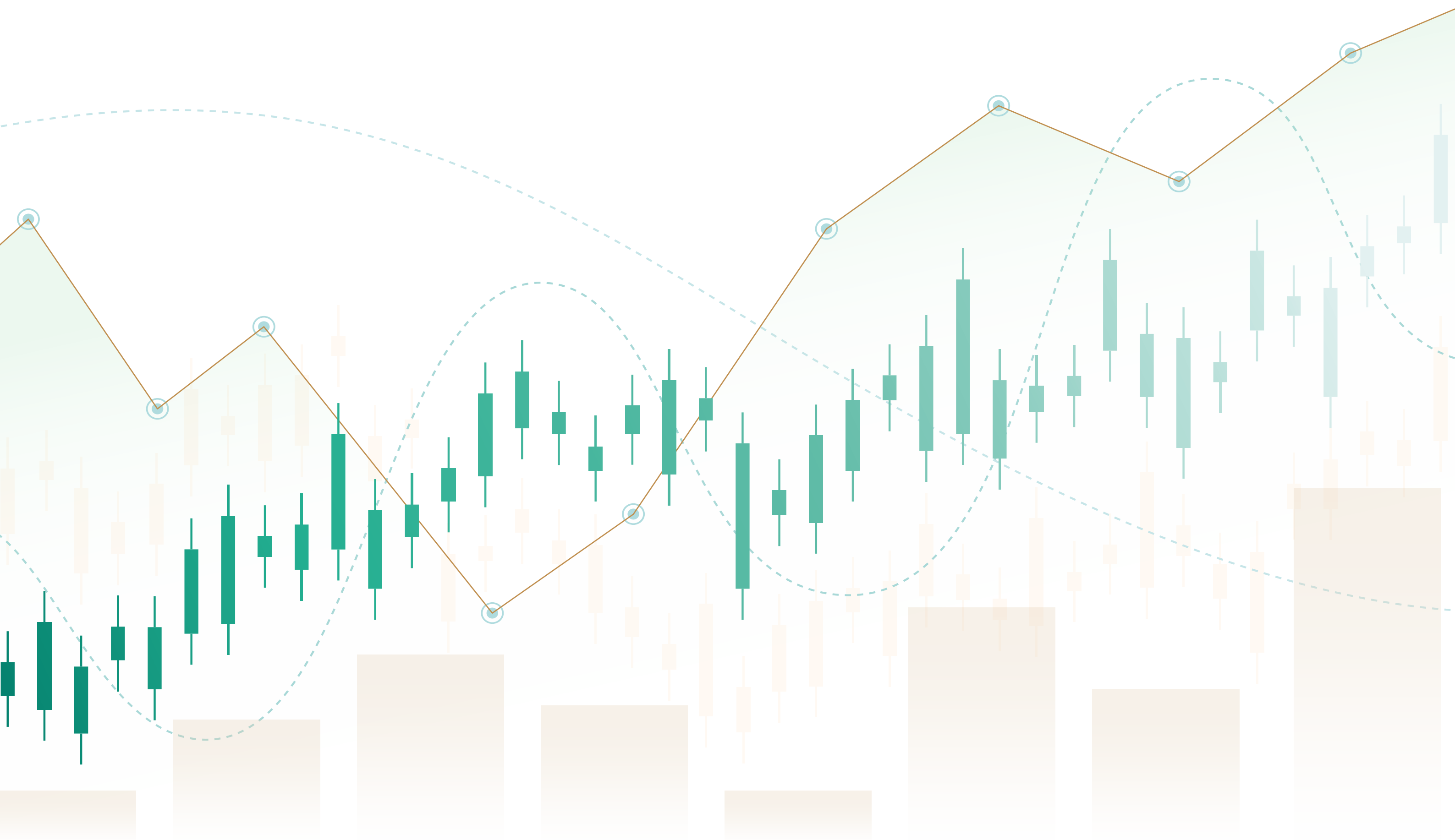
Source: Bloomberg

4. What happens when a market is upgraded?

Continued

The lessons of other market upgrades include:

- Meeting technical criteria, such as improving settlement systems and foreign access, is essential and an upgrade won't proceed without it;
- Upgrades prompt a short-term wave of enthusiasm accompanied by capital inflows, including ahead of the upgrade taking effect;
- Foreign ownership in a market tends to increase dramatically through an upgrade, but that capital is more likely to stay if the upgrade is followed by fundamental growth and continued reforms.



5. What should we expect if Vietnam is upgraded?

Should an upgrade occur, there will be an impact on both active and passive foreign flows, performance, sentiment, foreign positioning and liquidity. However, all of these themes are nuanced, require detailed analysis, and involve an element of guesswork in trying to assess their scale.

Index composition

An upgrade will take Vietnam from its dominant position of 36% of the FTSE Frontier Index market to a much smaller percentage share of a far larger index, which in turn accesses a far greater pool of capital.

With an upgrade to Secondary Emerging status, Vietnam's weight in the FTSE Emerging Markets (EM) Index is expected to be between **0.3% and 0.5%**[23] . Since the index has a total market cap of **$7.7 trillion** as of February 2025, a 0.5% weight would today imply a capitalisation of **$38.5 billion**.

Some analysts speculate Vietnam could eventually command closer to a **1% weighting** with market growth. Kuwait offers us a precedent for this: it began inclusion in FTSE EM in 2018 with a weight of about 0.5%, which rose to 0.9% as the market grew the following year. During this time, the number of Kuwaiti stocks included in the index rose from 12 to 15[24].

Vietnam's precise weight will depend on its relative performance and investability at the time of inclusion. Not all large Vietnamese stocks may qualify immediately due to foreign ownership limits or low free-float. If so, this could trim the effective weight and should be factored into projections.

Passive and active flows

An emerging-market upgrade is typically followed by two types of foreign investor inflows: **passive inflows** from index-tracking funds (ETFs and index institutional accounts that mirror the FTSE EM index), and **active inflows** from discretionary fund managers who make active allocation decisions.

They tend to appear in a particular **sequence** around an index upgrade:

- During a phase of **pre-announcement speculation**, active investors trade on rumours or rising expectations that Vietnam will be upgraded. This may already be happening.
- Next comes a **post-announcement** but **pre-inclusion** adjustment, which would come when FTSE announces Vietnam's upgrade, likely at a semi-annual review; typically this occurs six months before index inclusion. During this phase, active EM funds adjust their portfolios to at least a neutral weight in Vietnam by the time of inclusion.
- Then, on the actual **date of inclusion**, passive index trackers execute their purchases.

5. What should we expect if Vietnam is upgraded?

Continued

Passive Inflows: Passive EM funds will need to buy Vietnamese equities proportional to Vietnam's weight in the index. Based on a projected weight in the 0.3–0.5% range, analysts have commonly estimated about **$500–$600 million**[25] of inflows from FTSE EM index-tracking ETFs and funds at minimum. J.P. Morgan, for instance, projects "more than **$500 million**" of passive flows from a FTSE upgrade, given Vietnam's index weight and the assets benchmarked to it[26,27]. Vietstock (quoting SSC officials) notes ETF inflows "around $500 million to less than $1 billion" could be expected[28].

These numbers are in line with the $800-950 million of passive flows that followed Kuwait's FTSE EM inclusion.

Passive flows are easier to predict than active flows, as they are based not on subjective decisions but on index weight and the AUM of index funds. They tend to **occur around the actual inclusion date** as index trackers usually buy as close to the effective date as possible. One potential exception to this rule is if FTSE phases Vietnam's inclusion over time, in which case passive flows might also come in stages. But whatever the timeframe, a **half-billion dollar-plus wave of ETF buying** focused on Vietnam's largest liquid stocks is a reasonable expectation upon inclusion.

Active Inflows: Active investors such as emerging-market mutual funds, hedge funds, and other institutional investors often reposition their portfolios in anticipation of an upgrade **well before the passive flows hit**. FTSE Russell has noted that active EM funds typically manage **several times the assets of passive funds**, so their potential impact is larger in aggregate. Vietnam's projected active inflows of **$2.5–$7.5 billion** are broadly based on this idea – if active EM managers as a group have, say, 5x the AUM of passive EM funds, and if they eventually allocate in line with Vietnam's index weight, the inflows could be roughly 5x the passive amounts.

In practice, active flows tend to come in **earlier and more selectively**: many active funds will start increasing exposure to Vietnam **ahead of the official upgrade**, to get in early and ride the expected upside. Historically, we have seen substantial speculative active inflows for countries on watchlists. For example, Saudi Arabia attracted large active investments throughout 2018–2019 in anticipation of EM inclusion. Kuwait, as noted, saw over **$700 million** in active net buying in the second half of 2018, well before MSCI inclusion, as active funds and regional investors positioned for the upcoming reclassification.

By the time of actual inclusion, many active investors had already built positions, which is why active flow estimates vary widely – some of that money arrives pre-upgrade, pushing prices up beforehand. Analysts in Kuwait's case were expecting anywhere from a few billion up to $10 billion of active inflows around the MSCI upgrade: the wide range underscores the uncertainty, since unlike passive flows, active allocations are discretionary.

Are the estimates reasonable?

For Vietnam, the cited **$2.5–$7.5 billion** range for active inflow should be viewed as a **multi-year potential** rather than a single-day event. The lower end would imply many active funds take a cautious or underweight approach, while the high end assumes a broad-based allocation in line with index weight plus possibly some funds going overweight on Vietnam.

Given Vietnam's growth narrative, some active EM investors might indeed **overweight** Vietnam relative to its tiny index weight, seeing it as an underappreciated opportunity, which could push active inflows toward the higher end of the band. On the other hand, active inflows could be limited if valuations become too rich or if some funds prefer to wait for MSCI's upgrade (FTSE alone might not trigger every active EM fund to buy).

Longer term, the World Bank has estimated that an upgrade to emerging market status generally (so including both FTSE Russell and MSCI) could bring foreign net inflows of US$25bn by 2030[29].

Frontier outflows: When Vietnam is added to the EM index, it will concurrently be **removed from frontier indices**, which could cause **minor outflows** from frontier market funds which will have to sell their Vietnam holdings. The frontier investor base is much smaller – for perspective, MSCI Frontier Markets Index has only a few billion dollars tracking it – so the outflows from frontier funds, perhaps a few hundred million dollars at most, will likely be dwarfed by the incoming EM inflows. Nonetheless, this rotation effect can create some short-term volatility around the transition date.

In sum, **hundreds of millions in passive ETF flows and a few billion in active inflows** can be expected with a FTSE EM upgrade – a transformative amount for a market that currently has about $30-40bn in total foreign ownership. The precise figures will depend on Vietnam's index weight, global investor risk appetite at the time, and whether some funds wait for MSCI's move, but the direction and magnitude (billions of dollars in aggregate) are well supported by historical experience.

6. How would an upgrade impact market sentiment and liquidity?

Upgrades, by their nature, are positive, and tend to create a **feedback loop** of sentiment. History shows that markets often rally strongly in anticipation of an upgrade – the **'buy the rumour'** effect – and if the market believes a positive ruling by FTSE Russell is imminent, we should expect strong performance as the decision nears.

As discussed, both Kuwait and Saudi Arabia saw **rallies in local equities well ahead of an upgrade decision** because investors came to believe it was coming and positioned accordingly. While much of this is reflected in foreign investor inflows positioning ahead of a suspected re-rating, local investors often also buy in expectation that foreigners will buy more. This creates a **self-reinforcing cycle.**

Vietnamese stocks could still outperform regional ASEAN and frontier markets in anticipation of an EM upgrade. Analysts previously projected the VN-Index surpassing 1,370 points or even reaching 1,500 following an upgrade[30]. However, at the time of writing in early May 2025 it stood at 1,242, down from its mid-March peak of 1,336, following the global equity market correction triggered by the "Liberation Day" tariffs. Given the heightened global volatility, these optimistic targets may now be subject to downward revisions. Domestic sentiment remains relatively resilient, supported by ongoing local growth drivers, although short-term market performance is likely to remain volatile and sensitive to global headline risks.

VN-Index 3-Year Performance 2022-2025

Source: Investing

It's important to note, however, that markets can exhibit a **'buy the rumour, sell the fact'** pattern. After the inclusion is done and widely anticipated inflows have arrived, some investors, especially hedge funds, might take profits. In Kuwait's case, there was sustained strength into the MSCI inclusion, but once completed, the market faced other headwinds.

For Vietnam, **short-term volatility** around the inclusion date is possible – a spike on inclusion and perhaps a pullback thereafter if speculative money exits. That said, the medium-term trend often remains positive if the underlying fundamentals and liquidity story have improved, which appears likely for Vietnam.

Investor composition and behaviour

An EM upgrade would broaden Vietnam's investor base, bringing in large global institutions. These investors typically have a longer-term horizon than the frontier-focused funds and can enhance market stability. However, foreign institutions also respond to global risk sentiment: for example, in risk-off periods they might reduce EM exposures. A recent example of this was the reaction to the imposition of Trump's "Liberation Day" tariffs, which triggered a large spike in foreign net outflows from EM capital markets, including Vietnam.

With more foreign ownership post-upgrade, Vietnam's market could become **more correlated with global EM flows**. This means sentiment in Vietnam will increasingly be tied not just to domestic factors but also to how emerging markets are viewed globally. On balance, inclusion tends to reduce Vietnam's idiosyncratic risk, making it more mainstream, but increases its linkage to the broader EM asset class sentiment.

As long as Vietnam's structural story remains intact, the **overall impact of the upgrade on market sentiment is likely to be strongly positive.**

Post-upgrade liquidity and valuation impact

Liquidity Boost: One of the most immediate effects of reclassification is a **boost in market liquidity.** The entry of passive and active EM funds means **higher daily trading volumes** and often more consistent turnover. Vietnam's liquidity is expected to deepen as foreign participation rises.

Domestic investors dominate volume in Vietnam, accounting for **over 80%** of trading, but post-upgrade a higher share of trading from foreigners should be expected. As discussed earlier, the proportion of Saudi Arabian equity trading undertaken by foreign investors increased dramatically around the time the market was upgraded to EM indices, contributing to record turnover values in subsequent years. We can expect a similar trend in Vietnam: foreign investors could go from a relatively small fraction of volume to a much larger presence.

This can **tighten bid-ask spreads** and improve the ease of trading, especially for large-cap stocks. Blue-chip Vietnamese stocks may start to trade more in line with global market hours (with ADRs or dual listings following later) and see more block trades as big institutions transact. Vietnam's market could evolve from a liquidity standpoint to behave more like an emerging market with higher volumes, greater depth, and perhaps participation in global trading rotations. This might mean, for example, seeing inflows during global EM rally periods, and vice versa.

A specific liquidity consideration is that foreign funds often concentrate on the largest, most liquid stocks. Volume may **rotate toward blue chips** (those in the VN30 domestic equity benchmark) as those constituent stocks will be included in the index baskets. Many mid- or small-cap stocks might not benefit directly from inclusion and could even see their relative liquidity share decline as attention shifts to index names.

However, the trickle-down effect, with more overall capital in the market, can eventually improve liquidity across the board, including mid-caps, as local investors rebalance portfolios. Additionally, higher liquidity tends to reduce volatility in the long run, as the market can absorb shocks better when there are more active participants. This could make Vietnam's market **less prone to the kind of trading halts or congestion issues** that occurred when volume spiked in the past, such as the HOSE trading system overload in early 2021 when retail activity surged. Vietnam is already upgrading its trading infrastructure with the new KRX system discussed in section 3. This, combined with more stable foreign liquidity, should result in a more robust trading environment.

Valuation Re-rating: Greater foreign participation and inclusion in EM indices often lead to a **re-rating of valuations** – essentially, stocks start trading at higher earnings multiples due to increased demand and a lower equity risk premium. There are a few reasons for this:

(1) Inclusion can **lower the cost of capital** for Vietnamese companies, as suggested by studies that find upgrades reduce perceived market risk. A lower cost of capital translates into higher fair valuations, expressed as price/earnings ratios, for equities.

(2) With more analyst coverage and global visibility, Vietnamese companies may get credit for their growth prospects more fully than when they were less visible members of frontier indices.

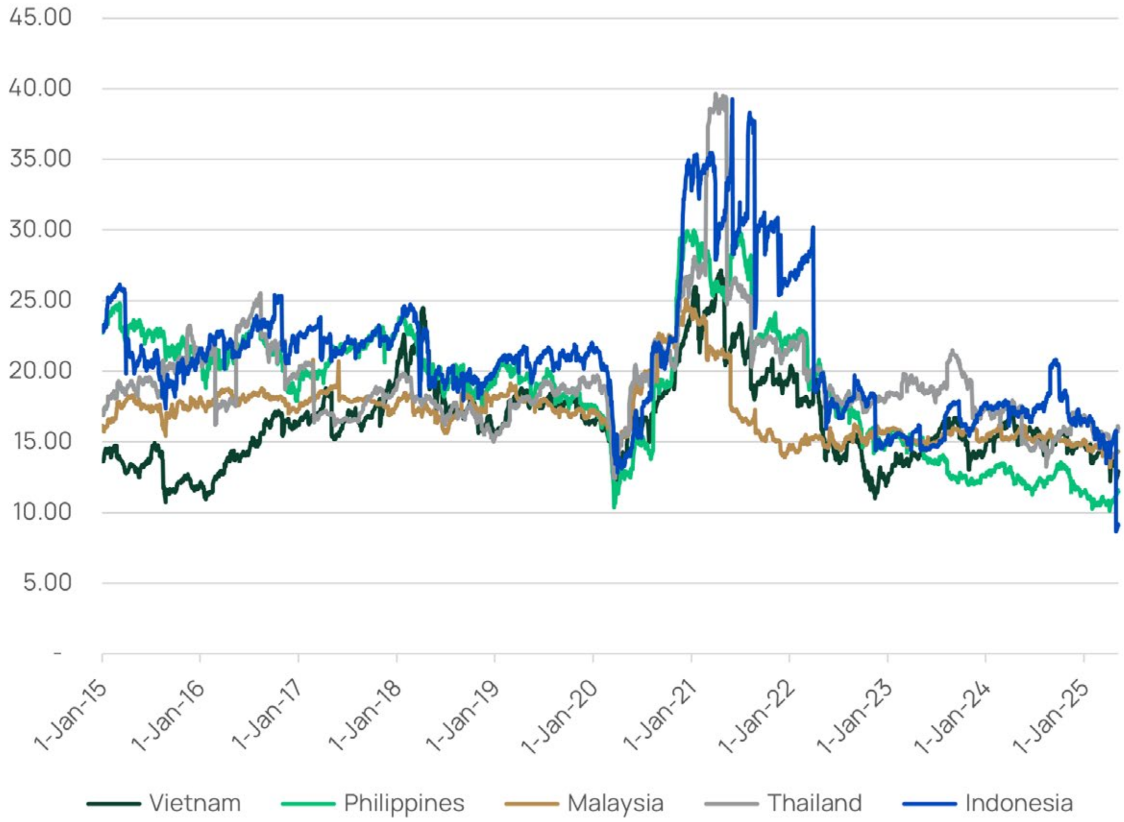
(3) The incremental buying pressure from new investors can simply push prices up. Both the UAE and Qatar saw P/E multiples expand in the wake of their MSCI EM upgrades in 2014, and Saudi Arabia's market was re-rated after 2019, supported by heavy foreign buying and improved investor perception of governance and market quality.

Which sectors and stocks benefit from an upgrade?

In Vietnam's case, blue-chip stocks – especially those included in the EM indices – could enjoy a valuation uplift. Sectors like **banks, consumer staples, real estate, and telecoms** all feature many large-cap firms and may see increased foreign ownership limits utilisation and higher prices. Notably, active EM funds typically **target large-cap, high-growth stocks with good liquidity.**

No	Ticker	Company Name	Exchange	Industrial sector (ICB) L1	Industrial sector (ICB) L2	Industrial sector (ICB) L3	Industrial sector (ICB) L4	Industrial sector (ICB) L5
1	ACB	Asia Commercial Bank	HOSE	Banks	Banks	Banks	Banks	Traditional Commercial Banks
2	BCM	Becamex IDC Corp.	HOSE	Financials	Real Estate	Real Estate Investment & Services	Real Estate Holding & Development	Industrial Real Estate Development
3	BID	BIDV	HOSE	Banks	Banks	Banks	Banks	Traditional Commercial Banks
4	BVH	Bao Viet Group	HOSE	Financials	Insurance	Life Insurance	Life Insurance	Life Insurance
5	CTG	VietinBank	HOSE	Banks	Banks	Banks	Banks	Traditional Commercial Banks
6	FPT	FPT Corp	HOSE	Technology	Technology	Software & Computer Services	Software	Software
7	GAS	PetroVietnam Gas	HOSE	Utilities	Utilities	Gas, Water & Multi-utilities	Gas Distribution	Gas Distribution
8	GVR	Viet Nam Rubber Group	HOSE	Basic Materials	Chemicals	Chemicals	Commodity Chemicals	Rubber
9	HDB	HDBank	HOSE	Banks	Banks	Banks	Banks	Traditional Commercial Banks
10	HPG	Hoa Phat Group	HOSE	Basic Materials	Basic Resources	Industrial Metals & Mining	Steel	Producers
11	LPB	LPBank	HOSE	Banks	Banks	Banks	Banks	Traditional Commercial Banks
12	MBB	MBBank	HOSE	Banks	Banks	Banks	Banks	Traditional Commercial Banks
13	MSN	Masan Group	HOSE	Consumer Goods	Food & Beverage	Food Producers	Food Products	Processed food
14	MWG	Mobile World Investment	HOSE	Consumer Services	Retail	General Retailers	Specialty Retailers	Specialty Retailers
15	PLX	Petrolimex	HOSE	Oil & Gas	Oil & Gas	Oil & Gas Producers	Exploration & Production	Exploration & Production
16	SAB	SABECO	HOSE	Consumer Goods	Food & Beverage	Beverages	Brewers	Brewers
17	SHB	SH Bank	HOSE	Banks	Banks	Banks	Banks	Traditional Commercial Banks
18	SSB	SeABank	HOSE	Banks	Banks	Banks	Banks	Traditional Commercial Banks
19	SSI	SSI Securities	HOSE	Financials	Financial Services	Financial Services	Investment Services	Investment Services
20	STB	Sacombank	HOSE	Banks	Banks	Banks	Banks	Traditional Commercial Banks
21	TCB	Techcombank	HOSE	Banks	Banks	Banks	Banks	Traditional Commercial Banks
22	TPB	TPBank	HOSE	Banks	Banks	Banks	Banks	Traditional Commercial Banks
23	VCB	Vietcombank	HOSE	Banks	Banks	Banks	Banks	Traditional Commercial Banks
24	VHM	Vinhomes	HOSE	Financials	Real Estate	Real Estate Investment & Services	Real Estate Holding & Development	Residential Real Estate Development
25	VIB	VIBBank	HOSE	Banks	Banks	Banks	Banks	Traditional Commercial Banks
26	VIC	VinGroup	HOSE	Financials	Real Estate	Real Estate Investment & Services	Real Estate Holding & Development	Residential Real Estate Development
27	VJC	Vietjet Air	HOSE	Consumer Services	Travel & Leisure	Travel & Leisure	Airlines	Airlines
28	VNM	Vinamilk	HOSE	Consumer Goods	Food & Beverage	Food Producers	Food Products	Dairy Products
29	VPB	VPBank	HOSE	Banks	Banks	Banks	Banks	Traditional Commercial Banks
30	VRE	Vincom Retail	HOSE	Financials	Real Estate	Real Estate Investment & Services	Real Estate Holding & Development	Other Real Estate Development & Operations

The VN30 leaders in banking, consumer, and technology sectors could become favoured in EM portfolios. These inflows could drive their prices up, perhaps faster than underlying earnings growth in the short term, implying P/E expansion. Vietnam's own market P/E may move closer to the EM average. Vietnam often trades at a discount to EM peers on metrics like P/E or P/B partly because of the perceived risk of being a frontier market. An upgrade could **narrow that gap** as global investors price Vietnam more like a mainstream emerging market.



Vietnam and Southeast Asian market P/E ratios 2015-25

Another impact is on **market composition and leadership:** with foreign buying focused on certain heavyweights, those stocks could outperform, leading the index higher. We might witness a period of blue-chip outperformance relative to smaller caps. This was seen in Pakistan, for example. Over time, as valuations of these leaders rise, it might incentivise **new equity issuance** (more on IPOs in the next section) and also raise the bar for corporate governance and performance as foreign shareholders demand better transparency and results.

6. How would an upgrade impact market sentiment and liquidity?

Continued

Increased liquidity and foreign presence can improve market quality – for instance, reducing volatility and deepening capital pools. Companies may find it easier to raise secondary equity or issue bonds if the market is more liquid and globally integrated. There is some empirical evidence that post-upgrade, **market volatility can decrease** and correlations with global indices increase, reflecting a more mature market profile. Additionally, Vietnam's inclusion might prompt further **regulatory enhancements** (authorities will want to maintain the EM status), which in turn supports investor confidence and potentially valuations.

Reclassification should help Vietnamese equities to **shed some of the frontier discount** they have carried, though how much of a valuation jump occurs will depend on global market conditions and Vietnam's own growth trajectory at the time of inclusion.

7. What happens afterwards?

In the aftermath of an upgrade, there are several other potential positive effects. One is a possible spur to IPO activity; another is a positive feedback loop leading to stronger corporate governance; and a third, closely watched, is the path from FTSE Russell upgrade to the more significant MSCI upgrade.

IPO pipeline and market expansion

One often overlooked benefit of achieving emerging market status is the potential **invigoration of the IPO pipeline.** When a market is classified as emerging and attracts more international capital, it tends to encourage companies (and governments via privatisations) to tap the market. There are a few reasons an EM upgrade can stimulate IPO activity:

- **Higher Valuations and Demand:** Inclusion can lift valuations and increase liquidity. Company owners see this as a good time to go public, since they can fetch better prices for their shares and be confident that there's sufficient investor appetite.

  For Vietnam, domestic unicorns or large state-owned enterprises might be more willing to conduct IPOs once the market is in the EM category, expecting strong demand from foreign investors who can now invest. History supports this: after Saudi Arabia's upgrade, the country saw a surge in high-profile offerings (most notably the Saudi Aramco IPO in late 2019, which, while largely sold to local and regional investors, was timed when the market was firmly in EM indices, ensuring global visibility). Additionally, Saudi listed its stock exchange, Tadawul, and numerous other companies in subsequent years, capitalising on increased foreign interest.

  An EM tag might similarly nudge Vietnam's government to **accelerate equitisation (privatisation) plans**, selling stakes in state firms via the stock market to international investors at favourable prices. It can also embolden private sector leaders such as large technology or retail companies to consider IPOs to fund expansion, knowing the market can absorb larger deals.

- **Confidence and Global Visibility:** Emerging market status confers prestige and credibility. Companies often prefer to list in a market that is on global investors' radar. If Vietnam is an EM, any IPO in Vietnam automatically has a wider potential audience, which may mean global EM funds can participate which either would not or could not have considered a frontier market IPO.

  This dynamic likely means more **multinational investment banks** will cover Vietnam and potentially underwrite Vietnamese IPOs, improving the capital raising process. We might see a pipeline of **IPO candidates that had been waiting for market conditions to improve** finally move forward.

  Vietnam has seen relatively few big IPOs in recent years (after a flurry around 2018). An upgrade could unlock these plans.

- **Market Depth and Benchmarks:** Once in the EM index, having more listed companies, especially in sectors that global investors want exposure to, can be self-reinforcing. To maintain or grow Vietnam's weight in the EM index, new large listings help. Policymakers might therefore promote IPOs of large companies such as big state banks, telecom firms, or subsidiaries of conglomerates to increase the market's size and sector diversity.

  Some frontier-to-EM markets have used their upgrade as a springboard to **modernise their market** with new product offerings and listings. For example, after its own promotion, Kuwait worked on attracting more foreign listings and launched a new market board to entice companies. Vietnam could similarly see innovation in its equity markets post-upgrade – perhaps allowing foreign firms to dual-list, or Vietnamese companies cross-list overseas, making the market more attractive overall.

Vietnam's government aims to increase market capitalisation to 100% of GDP by 2025[31] . Achieving that likely requires both price appreciation **and** new listings. An EM upgrade can act as a **catalyst** for that goal by boosting prices and by making new equity issuance more feasible. Already, there is talk of major companies (in banking and technology, for example) preparing to go public or spin off units in the coming years. EM status could accelerate those plans.

While an upgrade itself doesn't guarantee a flood of IPOs, it **creates favourable conditions** for a healthier IPO pipeline: higher demand, higher valuations, and greater confidence. We should expect that Vietnam's regulators and stock exchanges will actively leverage the EM promotion as a selling point to attract new listings. The likely outcome is an **expansion of the market's breadth** in the years following the upgrade, introducing fresh investment opportunities and further solidifying Vietnam's capital market growth.

Pathway to MSCI

Some markets, like Saudi Arabia, are upgraded by FTSE Russell and MSCI in the same year, but sometimes there is a gap: two years in the case of Kuwait, for example. This can be a consequence of different methodologies, timing, or differing conclusions on whether progress has been made on a particular issue. Crucially, MSCI has more rigorous requirements for access by foreign investors[32] .

We can say with certainty that an FTSE Russell upgrade is positive and certainly doesn't hurt Vietnam's chances of an MSCI upgrade to follow, though MSCI will draw its own conclusions independently on whether Vietnam should be included.

Vietnam did not feature in MSCI's 2024 classification review, although in the past MSCI has raised the same issues as highlighted by FTSE Russell. Vietnam is, though, mentioned in MSCI's Market Accessibility Review for June 2024, saying:

Vietnam has had an improvement in its rating for the Transferability criterion on the back of increased uptake for off-exchange and in-kind transactions following regulation changes. Besides this, Vietnam continues to work on market development plans to address certain accessibility issues, such as foreign ownership limits, prefunding requirements, and the lack of English disclosure of market information. MSCI will continue to closely monitor progress on these reforms.

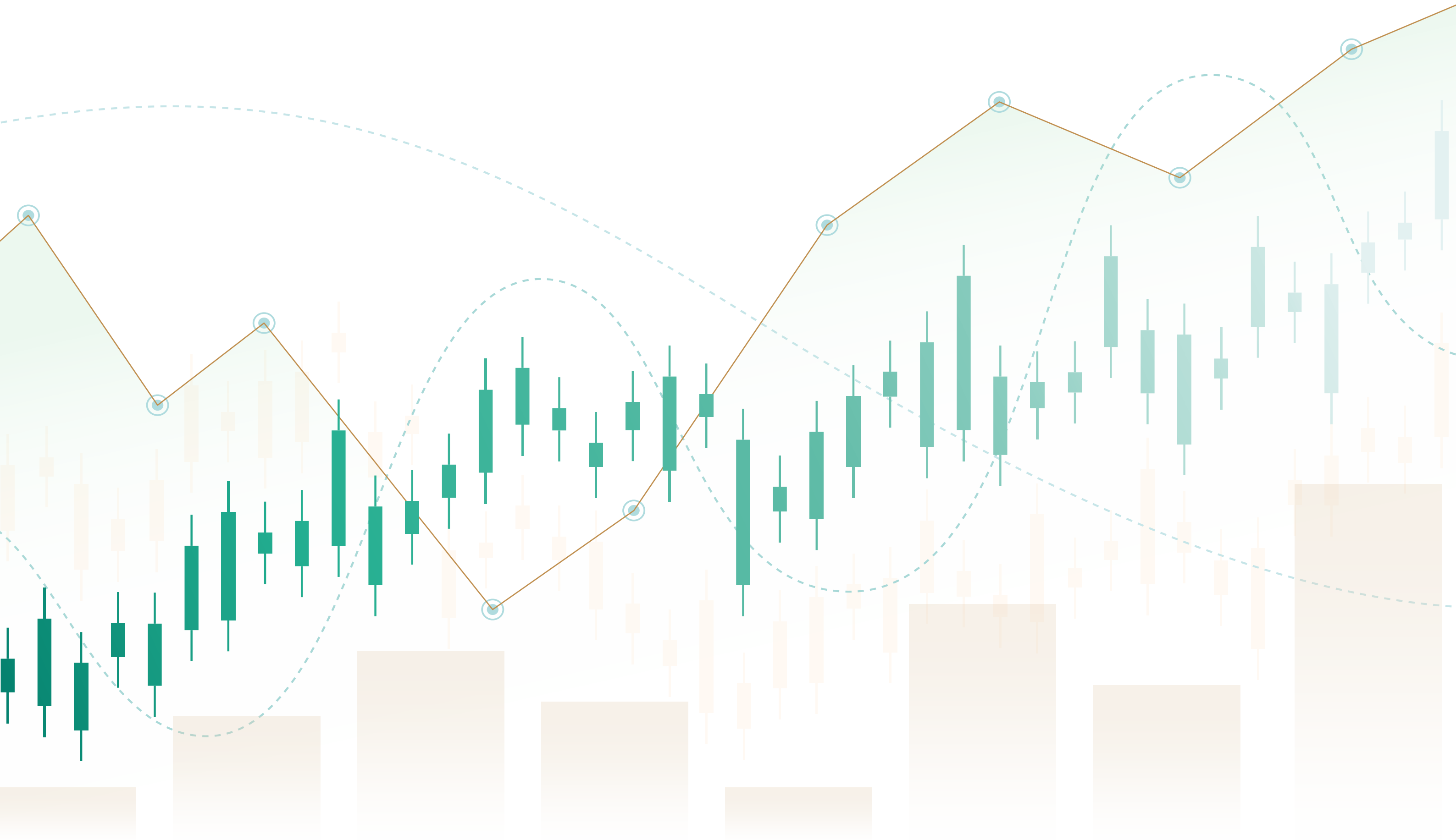
7. What happens afterwards?

Continued

The results of MSCI's classification reviews are published each June, following a consultation period that ends on March 31. It is unlikely that Vietnam would have completed sufficient reform by that date in 2025 to meet MSCI's criteria, so logically the earliest date Vietnam might be announced for an MSCI upgrade would be mid-2026; implementation happens the following year.

MSCI is followed by an even larger pool of capital than FTSE Russell: around $1.8 trillion is benchmarked to the MSCI EM Index. The World Bank has estimated that an upgrade to emerging market status generally (so including both FTSE Russell and MSCI) could bring foreign net inflows of US$25bn by 2030[33] .

One consideration is that if Vietnam is upgraded by FTSE but not immediately by MSCI, some global investors might stay on the sidelines. That could render the picture around foreign flows opaque: FTSE-based ETFs and some active funds might come in, MSCI-based ETFs and other active funds stay out. Vietnam's upgrade story might play out in stages rather than all at once.



8. Dragon Capital and an upgrade

Several Dragon Capital products allow investors to gain exposure to the Vietnam upgrade story – but in subtly different ways.

Vietnam Enterprises Investments Limited, or VEIL, is listed on the Main Market of the London Stock Exchange (Ticker: VEIL.LN). It is a closed-end listed investment vehicle launched in 1995 and is Vietnam's longest-running fund.

How is it exposed to the upgrade theme?

VEIL gives investors access to Vietnam's leading blue chips, including many companies that have reached their limit for foreign investment. It may also invest in equity-linked instruments and private equity. It takes strategic holdings rather than a broad index position and can invest in pre-IPO and IPO transactions.

Its top holdings – which in February 2025 included Mobile World, VP Bank and FPT Corporation – are well-placed to benefit from index inclusion. Banks are considered to be one of the main sectors to benefit from an upgrade, and they represent 39.7% of VEIL's holdings.

Vietnam Equity (UCITS) Fund, or VEF, is an open-ended fund offering broad exposure to Vietnam equity markets.

How is it exposed to the upgrade theme?

Like VEIL, it is heavily exposed to sectors expected to benefit from an upgrade: in February 2025, 39.5% of the fund was in banks and 18.6% in consumer discretionary. Its three largest holdings on February 2025 were FPT Corporation, FPT Retail and MB Bank. VEF can also invest in pre-IPO and IPO transactions.

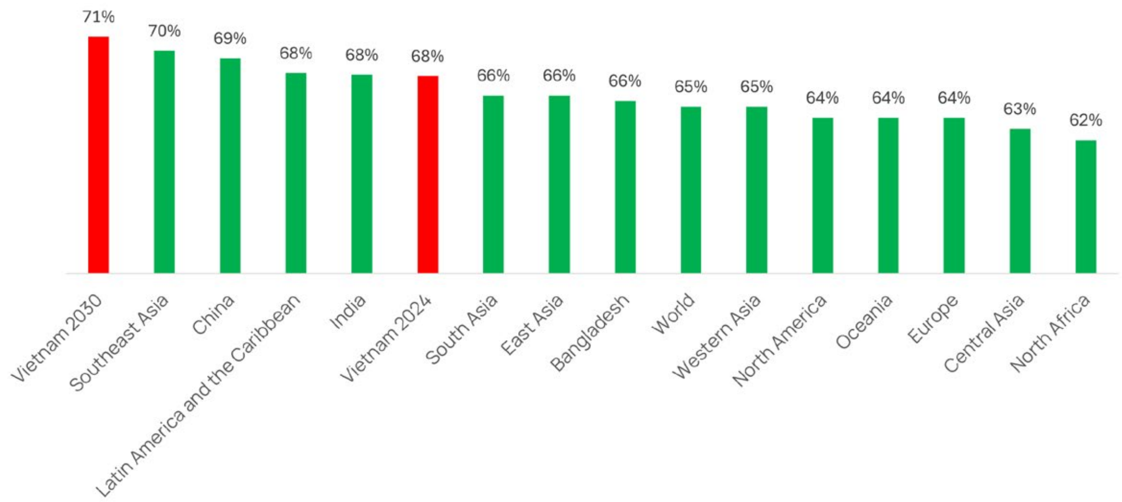
Diamond ETF (Ticker: FUEVFVND) is an exchange traded fund listed on HOSE, the Ho Chi Minh Stock Exchange. It is a passive product replicating the performance of the VN Diamond Index, which is comprised of HOSE-listed companies that satisfy criteria including foreign holdings that have reached at least 90 to 95% of an individual stock's FOL limit.

How is it exposed to the upgrade theme?

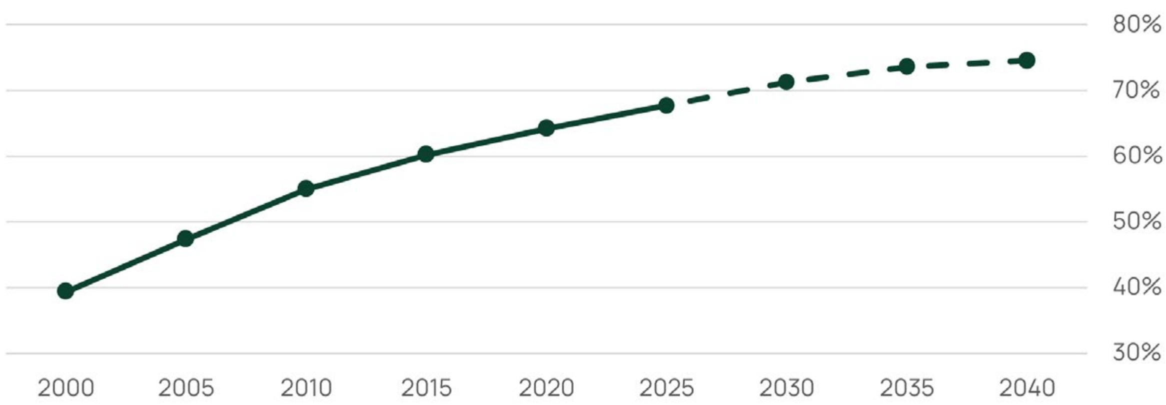
The passive nature of the product offers broad market exposure, but in being linked to an index made up of companies that have high foreign holdings, it is particularly attuned to the upgrade theme.

9. Vietnam: Big picture and statistics

Vietnam's population of 101.1 million[34] ranks it the third **most populous** country in Southeast Asia and the 16th in the world. Vietnam is in what is known as the **golden population structure** period, which means there are at least two people of working age for each dependent. 67.4% of the population are aged 15-64; those under 15 account for 23.3% and those over 65, 9.3%. Vietnam's **median age** is 33.4 years[35] , compared to 39.7 years in Thailand, 42.8 in Singapore and 30.9 years in Southeast Asia[36] .

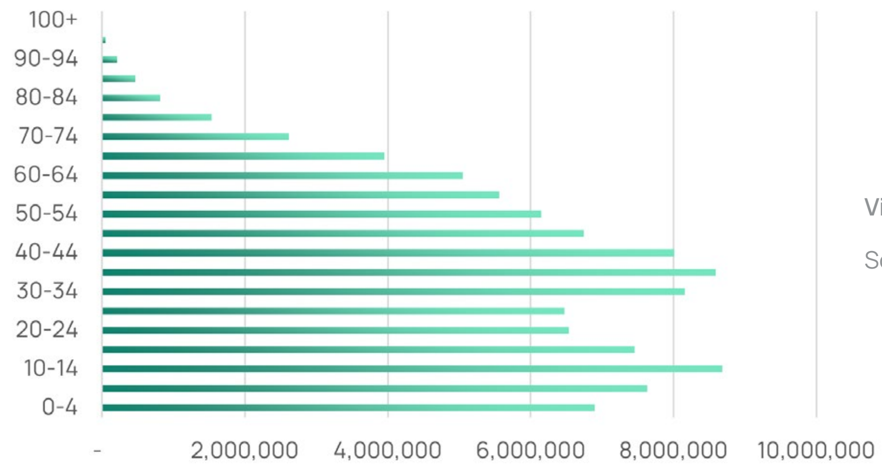


Vietnam has one of the highest working age populations
Source: Statista



Vietnam population in working age will continue to expand until at least 2040
Source: Population Pyramid

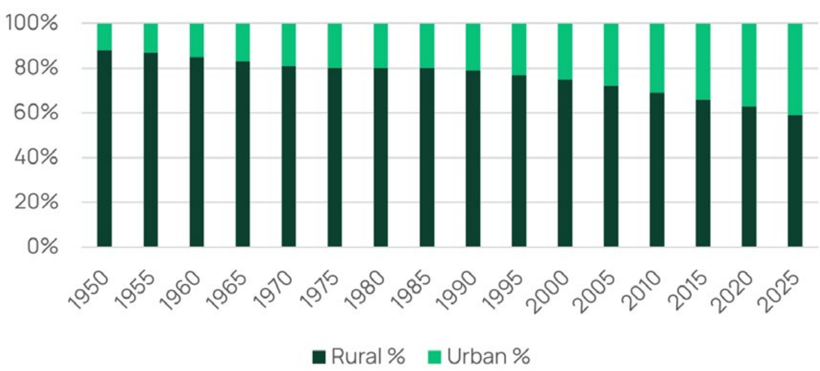
Today and for the near future, this represents a **demographic sweet spot**, though it will not last: as financial prosperity grows in the economy, so too does **life expectancy**. By 2030 there will be 18 million people aged 60 and over, up by 4 million from 2024[37] , and they are expected to live longer: life expectancy, at 72.3 years for men and 77.3 years for women, has increased by more than one year apiece since 2019. At the same time rates of **fertility** are declining: having stayed around the replacement level for 15 years to 2022, Vietnam's total fertility rate has fallen to 1.91 children per woman in 2024, and 1.67 in urban areas[38] . In time, this will lead to **pressure on Vietnam's healthcare and pension systems.**



Vietnam Population distribution

Source: Open Development Vietnam

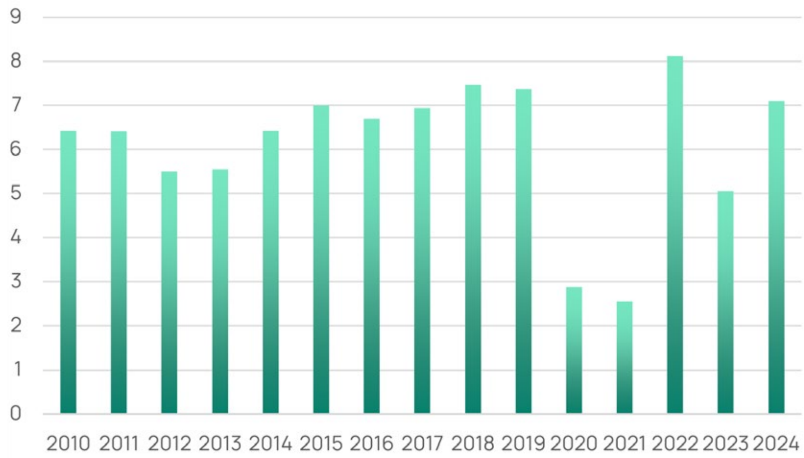
Vietnam is in a process of **urbanisation**. Although in 2024 the rural population was 61.8% of the total, compared to 38.2% for urban, the average annual population growth in 2019-2024 was 1.5 times higher in urban areas than rural[39] . For comparison, Vietnam's urban population stood at 28% in 2013; projections suggest that by 2040 more than half of Vietnam's population will live in urban areas, and 57% by 2050[40].



Urban and Rural population in Vietnam 1950-2025 (%)

Source: Open Development Vietnam

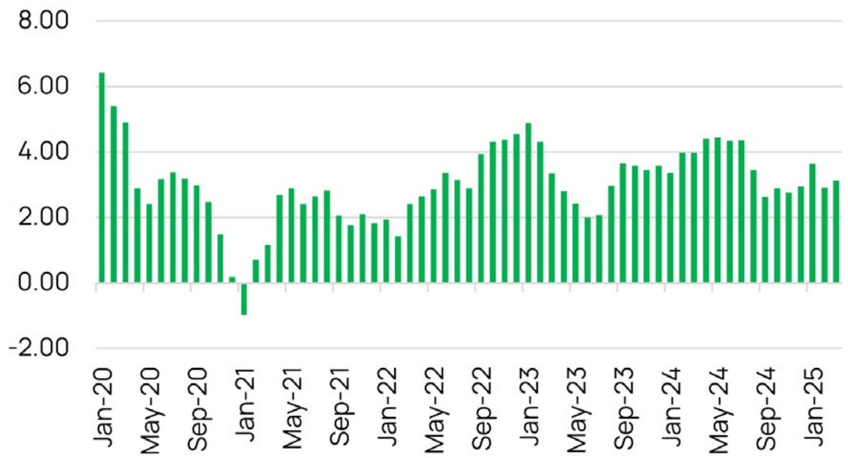
These demographic dynamics, coupled with the "Đổi Mới" ("restoration") economic reforms that commenced in 1986, have driven one of the f**astest-growing economies in Southeast Asia.** Vietnam recorded **7.09% economic growth in 2024**, beating forecasts not only of the World Bank and International Monetary Fund but also the National Assembly's own target of 6-6.5%[41]. This follows a long-term period of high growth: an average **6.25% from 2000 to 2024**[42].



Vietnam Full Year GDP Growth

Source: Trading Economics

The **outlook for Vietnam's growth is positive**: in February Vietnam revised up its GDP growth target for 2025 to **at least 8%** from 6.5-7% previously[43], while the World Bank projects **6.8% growth for 2025 and 6.5% in 2026**[44], though both of these projections came before the imposition of heavy tariffs upon exports to the US, discussed below. **Inflation** has been stable, averaging around 3.5% annually over the past decade, and the World Bank expects it to stay at that level in 2025[45].



Five-Year View Of Vietnam Inflation

Source: Trading Economics

9. Vietnam: Big picture and statistics

Continued

One influence upon economic growth beyond Vietnam's control is the **external trade environment,** and in particular the **tariffs** set by the Trump administration in April 2025. Since the USA had a US$123.5 billion trade deficit with Vietnam in 2024, the third highest after China and Mexico, it was a natural candidate for tariffs, and the **46%** levied upon Vietnam on April 2 (effective April 9) was among the highest rates worldwide[46]. This was despite Vietnam showing pragmatism, pledging to remove trade barriers for American companies, agreeing to import US energy products such as liquefied natural gas, and approving Starlink satellite internet services[47].

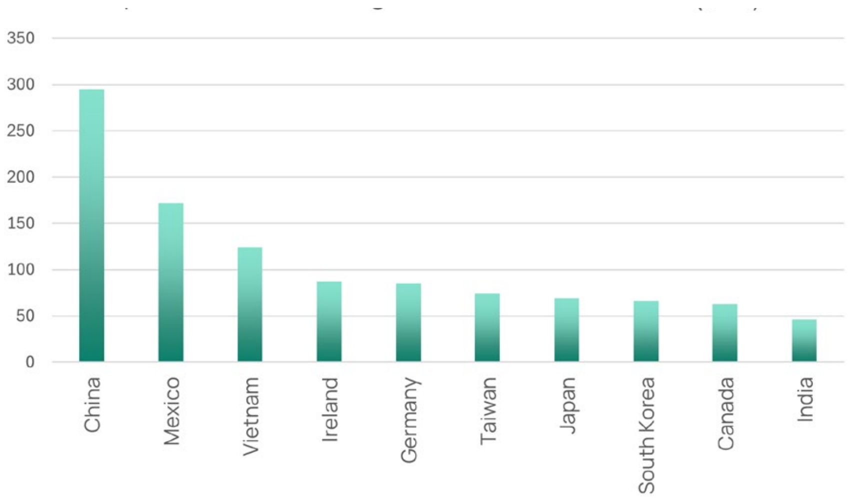
The tariff shock may not be as dramatic as it would at first appear. Consider the example of a pair of running shoes. While those shoes might retail in the US for US$100, their manufacturing cost could be $20, and the tariff would be 46% on the $20, not the US$100. There is still a hike, but not as obtuse as the headline number would suggest.

Nevertheless, Dragon Capital estimates that, if the tariffs are imposed at this level, the hit to Vietnam's GDP will be between **1.4-2%**[48] . That said, a characteristic of Trump policy is a heavy opening salvo with the potential for subsequent negotiation, and Dragon Capital expects Vietnam to continue to be proactive with economic transactions and non-trade negotiations and "to target a tariff level on par with regional peers."

"The tariff shock is a stress test – not an endgame.
Vietnam is in the middle of a transition: graduating from a low-cost exporter to a strategic trading partner while navigating global protectionism. Tariffs of this magnitude are painful, especially for key sectors like electronics, machinery, apparel, and footwear. But the relative impact – when viewed against Vietnam's proactive diplomacy, ongoing structural reforms, and regional cost advantages – is likely manageable."

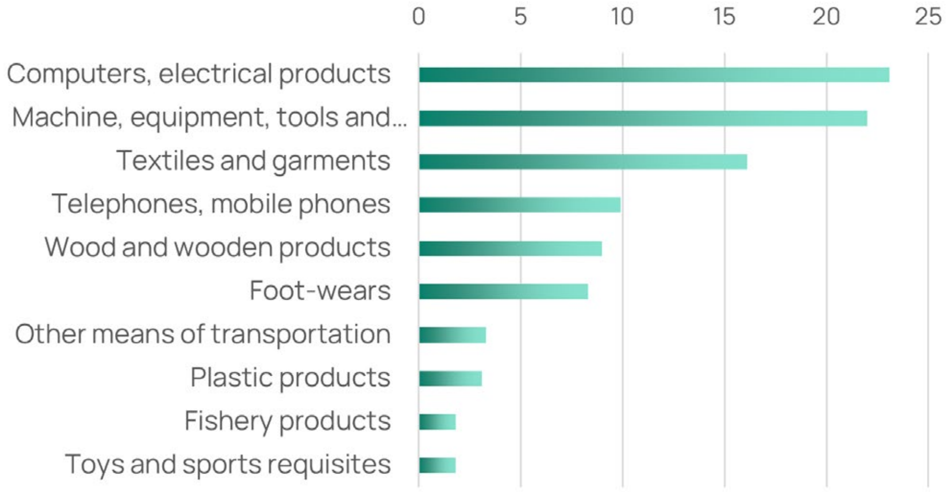
Dragon Capital, April 3 2025.

Vietnam is also considered a master negotiator with a long track record of developing Free Trade Agreements around the world, reflected in the FDI numbers below. That, and the fact that US-Vietnam links have been deepening for many years, suggests potential for an improvement in the US tariff arrangement.



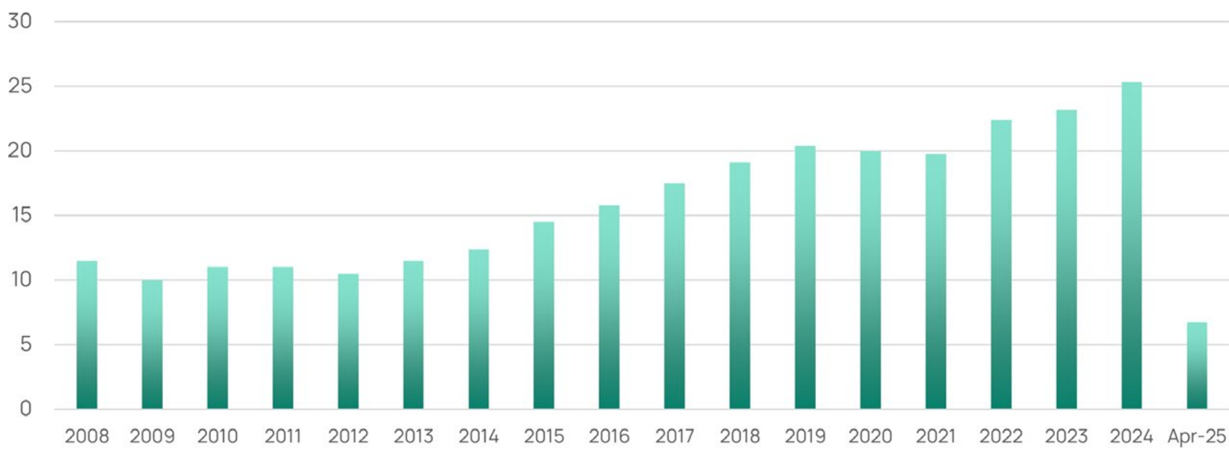
Top Countries with Largest Trade Deficits With US 2025 ($bn)

Source: U.S. Census Bureau. Data covers goods only.



Top 10 Components of Vietnam Exports to the U.S ($bn)
Source: Ministry of Industry and Trade

While **registered FDI**, representing future inflows, fell 3% to US$38.2 billion in 2024, **disbursed FDI grew 9.4%** year on year to an all-time high of US$25.4 billion[49]. FDI remains one of the most significant drivers of economic growth. In 2024 Singapore was the most active foreign investor, followed by South Korea, China, Hong Kong and Japan[50]. Investment was broad-based across 18 of Vietnam's 21 economic sectors, led by **manufacturing and processing**. Other sectors attracting foreign direct investment include real estate, power generation and distribution, wholesale and retail.



Vietnam FDI Disbursement from 2008 - 2025 ($bn)
Source: Ministry of Planning and Investment

Summary

- A series **of reforms to market structure have increased confidence that Vietnam will be promoted from FTSE Russell's Frontier Index** to a Secondary Emerging market, moving it in the FTSE EM index, in late 2025.
- A study of other markets to have made the same progression, notably Saudi Arabia and Kuwait, tells us that such an upgrade is accompanied by significant foreign inflows – including active, discretionary flows – as well as strong market performance and the momentum for further positive market reform. Saud Arabia experienced a fivefold increase in foreign ownership in its market over seven years bracketing its upgrade (by both FTSE Russell and MSCI); Kuwait saw US$1.8 billion of net foreign inflows in just under a year around its own FTSE upgrade.
- Vietnam is expected to gain a weighting of between 0.3 and 0.5% in the FTSE EM Index, which may grow towards 1%. This would mirror Kuwait's initial entry at a 0.5% weighting, growing to 0.9% as the market grew and more stocks were considered eligible for inclusion.
- Analysts expect more than $500 million of passive inflows from index-tracking ETFs and funds, and potentially $1 billion or more.
- Active flows are harder to predict and projections vary from $2.5-7.5 billion, depending on the view active managers take of the market, its valuation and potential.
- While passive allocations tend to come close to the date of index inclusion, active flows represent a gradual and long-term allocation, starting from expectation of an upgrade and continuing afterwards. Active inflows are phased and their pace is affected by many factors, some of them external to Vietnam.
- An upgrade is expected to have a positive impact on market sentiment, liquidity and volatility.
- Longer-term, an upgrade may spur greater IPO activity, improvements in corporate governance, and hopefully a subsequent upgrade by MSCI to its own EM index, triggering a still greater volume of capital.
- Vietnam's long-compelling investment case is now galvanised by a modernisation and growth agenda under General Secretary Tô Lâm. It is, however, also affected by protectionist tariffs imposed by the Trump administration.

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12. The pre-funding mechanism requires investors to fully deposit funds into their accounts before placing orders to buy securities. This system, traditionally designed to reduce counterparty risks and ensure trade settlement, imposes a significant operational and financial burden on institutional investors. Pre-funding can constrain liquidity and market access, making it a critical barrier to attracting large-scale foreign institutional participation. The elimination of this mechanism is crucial to align Vietnam's financial markets with international standards, enabling its reclassification from a frontier to an emerging market.
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