

Awakening the Tiger: Vietnam's surge in the global economy

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Vietnam has witnessed substantial growth lately, recovering rather abruptly from the global chaos caused by the pandemic. Since then, the nation has welcomed a surge in foreign direct investments (FDI) and seen



its manufacturing sector expand which, combined, have been the backbone of its economic recovery. The reason has, at least in part, been as a consequence of companies looking for investment opportunities outside of China, following Washington/Beijing tensions. It has been driven by Vietnam's move toward enhancing industrial infrastructure to attract high-tech projects. GDP growth is heading north, aided by solid exports and burgeoning domestic consumption. It is currently ranked the 3rd best performing ASEAN nation and considered the 35th largest economy in the world. Last year, the country attracted US\$37 billion in FDI.

Vietnam's economic resilience

Surprisingly, Vietnam has demonstrated significant resilience in recent decades, reporting consistent growth rates, notwithstanding global economic challenges. The country, once viewed as primarily an agriculturally based economy, has transitioned to a diversified industrial powerhouse with focus on manufacturing and software, financial and retail services. Sound post-pandemic government policy has enabled a firm push toward infrastructure development, FDI attraction and fair trade. Additional support from Hanoi also comes in the form of supportive tax relief and low-interest loans for business, which have all helped improve public spending.

Factors fuelling the boom

Vietnam's stable government, competitive labour costs and geographical location have attracted an influx of FDI from global manufacturers. As a result, not only capital but technological and managerial foreign expertise have entered the country, improving business practice and industry. Special economic zones offer tax breaks and new trade agreements like the CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership) and EVFTA (EU-Vietnam Free Trade Agreement), reducing trade red tape and enhancing economic trust. Due to the level of interest and FDI, the country is now heavily investing in itself through infrastructure, transport networks and energy systems projects.

Challenges and solutions

However, the country's rapid rise to prominence has not been without issues. These include labour shortages in high skill sectors and environmental pressures caused by fast industrialisation. Skilled labour needs have exceeded supply in IT and advanced manufacturing, in particular. Industrial activity, sustainability and compliance have been questioned by international environmental standards agencies, which has previously affected trade relations and global integrity. In response to these concerns, the government has ramped-up focus on education and training to close the skills gap, especially in STEM fields. Education partnerships and internships are in place to provide a workforce better prepared for modern industry demand. Vietnam has also laid down stricter industrial pollution regulations and incentives in industrial zones to comply with international standards. In addition, the government has fostered innovation by investing in research and development centres and tech parks. In embracing advanced technology like automation and AI, Vietnam is improving efficiency and productivity across nearly all sectors.

Investment opportunities

There are abundant investment opportunities in Vietnam in several high growth sectors. Both the technology and electronics sectors are thriving, boosted by an increase in demand for high end commercial tech products and Vietnam's newly established reputation as a key assembly hub for global electronics.

Renewable energy is also a profitable area as the government commits to reducing carbon emissions and increase the production of its renewable energy sources by 2030. Real Estate and infrastructure are too a high growth area as urbanisation and economic growth increase demand for housing and public facilities. Industry success stories attributed to FDI in Vietnam are plentiful. Many major tech firms have grown their production operation facilities in-country, providing thousands of new jobs contributing to local economies. Renewable energy (wind and solar power) projects have delivered technological and infrastructure improvements in rural areas, demonstrating how specialised targeted investments can yield results for international businesses and benefit the local communities.

Governance

President Vo Van Thuong resigned in March 2024, exactly a year after he was sworn in following an extensive anti-corruption “violations” campaign led by Communist party secretary-general Ngyen Phu Trong. Ironically, Thuong replaced Nguyen Xuan Phue who was also forced to resign for alleged violations just last year. The official message of this resignation was that Hanoi is doing all it can to improve transparency and accountability with its governance, thus signalling firm reform. Many thought that Thuong would replace 79-year-old secretary-general Ngyen Phu Trong when he steps down in 2026, it is therefore believed that the crackdown was an excuse to target political foes.

Members of the government are selected in Vietnam by the President on the advice of the Prime Minister (currently Pham Minh Chinh). The presidency, however, is known in reality to be a ceremonial position only and that the real power resides with the Secretary General and the National Assembly. Vo Van Thuong was succeeded by Vo Thi Anh Xuan as President following the resignation. Prior to her new interim role, Thi Anh Xuan served as Vice President from 2021. She has long been recognised for her public service, having previously held various roles within government.

Future outlook

Analysts are optimistic and believe that Vietnam’s economic outlook for the next six months will continue to grow through strong exports, continuing FDI and a robust increase in domestic consumption.

The nation's economy will also benefit significantly from major trading partnerships with the US and Europe.

As the country becomes accepted as an international manufacturing hub in Asia and, more significantly, an alternative to China, export potential will only increase. The adjustment of trading agreements to include the CPTPP is also expected to entice additional foreign investors. Nevertheless, there are some uncertainties that could hamper this promising trend. Supply chain disruptions due to global logistical challenges caused by the existing cold war climate, and the threat of new COVID-19 waves of infection are a concern. Geopolitical tensions could also threaten the current export-driven model. Domestically, skilled labour shortages in business zones and rising inflation might also hurt economic stability and growth. Hanoi must keep a firm eye on these issues in order to secure its position as a leading Southeast Asian tiger economy.

Conclusion

Vietnam's impressive transformation illustrates a capacity for strategic adaption amid intense economic uncertainty. The country has effectively managed to position itself as a critical cog in the wheel of global industrial supply chains. The proactive government's approach to improve infrastructure and produce favourable trade policies has attracted substantial foreign investment and created a dynamic business environment. This has set Vietnam on a trajectory to become a major player and exhibits all the characteristics that qualify it as an Asian tiger. As the nation builds on these foundations and leverages geopolitical indifference, its future looks increasingly more promising.

"In waking a tiger, use a long stick." - Mao Zedong

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