

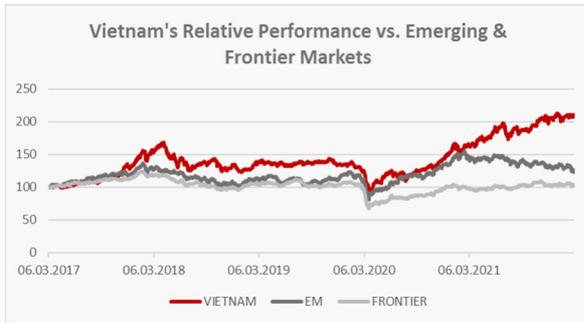
# The awakening dragon

Vietnam: a secular growth story



## Country update: Vietnam

Vietnamese stocks have surged to new highs in absolute terms and outperformed their frontier and emerging market peers for several years. Since 2017, the Ho Chi Minh Stock Exchange Index is +130.5%, during the same period the MSCI Emerging Markets are +17.9% and +39.6% respectively. More recently, Vietnamese stocks have also been a relative harbinger of resilience in a period fraught with geopolitical risk and macro uncertainty. For global investors, Vietnam represents an attractive secular growth story with the opportunity for near-term positive catalysts.



Source: Bloomberg

Vietnam's strong fundamentals are helping to deliver growth and raise productivity. The country has benefited from having one of the youngest populations in Asean<sup>1</sup>, with an average age of 32.5 years<sup>2</sup> and a high literacy rate (circa 95%)<sup>3</sup>. These dynamics, coupled with high levels of capital investments, have resulted in the country experiencing superior productivity gains relative to most other developing countries.

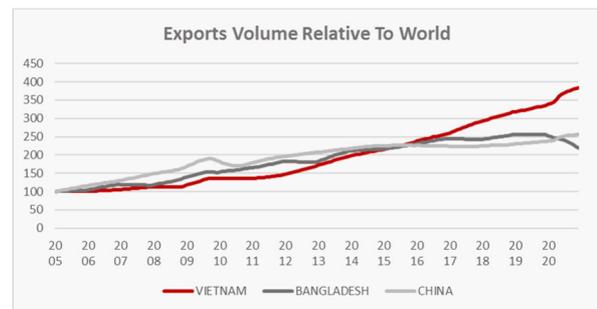


Source: BCA Research (Labour productivity per person employed, shown as a 3-year moving average)

Vietnam's competitiveness has also been aided by the fact that wage growth has been lower relative to other major export competitors (e.g. China and Bangladesh). This has enabled it not only to achieve

a higher global market share, but to do it at a faster speed than even its competitors.

In addition, this secular growth trend has also been supported by short-term developments. Since 2018, Vietnam has capitalised on trade tensions between the United States and China. As a result, Vietnam has grown from a low position to become one of the largest exporters within Asean over the last 15 years.



Source: BCA Research

Vietnam's positive trade balance has often come under pressure because of its reliance on certain exports, such as phones and spare parts. Demand for such components has waned recently due to already high mobile phone penetration in major economies. Nonetheless, what is often missed, is that Vietnam imports many of the materials required to produce its exported goods. Thus, when exports related to phones and spare parts are slowing, imports do tend to shrink in tandem, resulting in a softening impact on the overall trade balance.

Vietnam's competitive cost edge coupled with friendly government policies has also resulted in it becoming a destination of choice for global manufacturers. Brands such as Panasonic, Google, Sharp, LG Display have all invested into the region, seeking to diversify supply chains. Foreign direct

<sup>1</sup> Association of Southeast Asian Nations - An intergovernmental association of 10 member states in Southeast Asia, with the aim of promoting economic, political and socio-cultural progress in the region and among member states.

<sup>2</sup> PopulationStat, 2022. <https://populationstat.com/vietnam/>

<sup>3</sup> Statista, 2021. <https://www.statista.com/statistics/1008115/vietnam-literacy-rate-of-adults/>

investment has been resilient and is becoming more diversified as time goes on.

Government policy has not only been supportive to foreign investment. A \$15.3bn (4% GDP) stimulus package has been approved for 2022-2023. This package is centred on providing aid to those severely affected by the COVID-19 pandemic, especially businesses as well as expanding infrastructure expenditure. The country is targeting a gross domestic product expansion of 6.0% - 6.5%, in line with their five-year pre-pandemic average. The latest package is a further sign of the government's commitment to ensure sustainable growth and macroeconomic stability at a time when most Asean countries are reducing their economic stimulus programmes.

Vietnam is also attractive amongst its peer group because of its capital market characteristics. The country has a total equity market capitalisation higher than some Emerging Markets, for example Poland, Kuwait and Pakistan. Having a larger market capitalisation than other frontier markets, and similar to many Emerging Markets, is important because it gives investors a relative degree of comfort that they are not investing in the smallest companies within the region.



**Source information:** Unless otherwise stated, the data used in this publication are from NPB and Bloomberg, as at publication date.

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