

Digitalisation & IT Sector Brief
VIETNAM



COUNTRY OVERVIEW

Snaking down from the Chinese border to the Gulf of Thailand, Vietnam is a destination that covers a huge array of bases. One of Asia's most dynamic nations, Vietnam has emerged with strength from the turbulence of its 20th century. Indeed, in recent years it has emerged as one of the top economic performers in ASEAN.

Export orientated manufacturing has been the mainstay of the country's robust economic growth over the last few years. The pandemic has slowed progress, but Vietnam's Ministry of Planning and Investment (MPI) has targeted annual average GDP growth of 6.5-7 per cent during the 2021-2025 period. Foreign investors are bullish on the country's prospects of achieving this goal with multinationals like Nestle, LG and Tetra Pak among those pledging to increase their footprint in the country.

Vietnam has one of the world's fastest-growing middle-class populations (defined by UK-based analytical NGO and data refinery enterprise World Data Lab as households with per-capita spending of between US\$11 and \$110 a day). As such, the country's digital transformation looks set to continue apace with end-users up and down the nation enthusiastically engaging with social media, e-commerce, and other cornerstones of the digital economy.



SECTOR OVERVIEW

Vietnam's digital economy is booming and is poised to be one of the region's most valuable. According to the e-Conomy SEA 2021 Report published by Temasek, Google and management consulting firm Bain & Company, the country's digital economy will see a growth rate of 31% in 2021 over the same period as last year, reaching \$21 billion. Accordingly, the report stated, Vietnam's internet economy could reach \$220 billion in Gross Merchandise Volume (GMV) by 2030, ranking second after Indonesia. Challenges remain despite the rosy outlook and the presence of a young, tech-savvy population and a high ratio of smartphone usage. Hurdles include legal barriers, digital connectivity, and a shortage of workers with digital skills. Others include regulations on data localization, connection data protection and internet speed that is below the world average.

General characteristics and trends

Vietnam plans to accelerate a digital shift as it seeks to attract hi-tech FDI and progress from a middle-income economy. Its government sees the automation of several processes as vital in helping to achieve these goals. The country's increasingly tech-savvy population will help as it attempts to meet its targets. Vietnam is among the top-10 countries with the highest number of smartphones. According to Statista, in 2021 the number of mobile internet users in Vietnam amounts to an estimated 71.54 million. That total is projected to reach 82.15 million users by 2025. Most of the population in Vietnam is young and within working age, indicating tech-forward consumers are receptive towards switching to online services.

- **Government prioritisation:** Vietnam has approved the National Strategy for Development of the Digital Economy and Society to 2025, with an orientation towards 2030. The Strategy aims to improve internet infrastructure and accessibility to 5g services, government digitization and technology application for various socio-economic fields. The government expects that by 2030, the digital economy will account for 30% of Vietnam's GDP. Analysts commented that this target looks ambitious on the surface as the digital economy currently accounts for 8.2% of GDP, however, it represents the government's optimism about Vietnam's digital economy and ready to support digital ecosystem.
- **Improvement in telecommunications infrastructure:** Further progress in Vietnam's digital transformation was the piloting of a 5G mobile network in the four cities of Ho Chi Minh City, Hanoi, Da Nang, and Hai Phong. State-run organisation MobiFone said that the results of the network have been satisfactory, with the download speed at approximately 2Gbps. With this success, MobiFone is ready to implement a 5G mobile network and applications for customers. It has also installed the first 5G broadcast stations in the four aforementioned cities. On the 5G platform, super high-speed data services such as hologram-3D calls via a 5G mobile network, online games using super-high bandwidth like cloud gaming, and virtual interactive applications between people in two different positions, have been successfully tested.

- **Robust tech talent pool:** Vietnam is home to a plethora of innovative tech talents. According to the Global Innovation Index 2021 ranking by World Intellectual Property Organization (WIPO), Vietnam ranks as the most innovative country among the lower-middle-income countries, ranking higher than neighbouring countries of Indonesia, Thailand, and the Philippines. The information technology industry is young but developing rapidly with over 440,000 employees in 2013. This could be attributed partially to the rigorous school curriculum that gears towards STEM. According to research conducted by the World Economic Forum, Vietnam is one of the top 10 countries with the most engineering graduates (100,390 in 2015). Moreover, Vietnam's Program for International Student Assessment (PISA) score is among the world's highest. According to MOET, Vietnam had 505 scores from reading comprehensive, the 13th highest score out of 79 participating countries and territories. In mathematics, Vietnamese students had 496 scores, the 24th highest score. In science, they had 543 scores, the fourth-highest score. This result is extraordinary given that Vietnam is among the lower per capita income participating countries (US\$ 4098 in 2010 PPP dollars). Another important source that contributes to Vietnam's talent pool is the return of the Vietnamese diaspora (Viet Kieu) with their enormous investment in education and technical skills. The integrated Vietnamese Diaspora network consists of business contact networks, professional associations, and dedicated independent institutes. Vietnam is also one of the largest recipients of remittances in the world; \$17Bn flowed in 2019, equivalent to 6% of GDP.
- **The rise of Tiktok:** Between remote learning on Microsoft Teams and Zoom, Vietnamese Gen-Zs continue to surf short video content on TikTok. By August 2020, Decision Lab had reported that TikTok had been downloaded by up to 30 per cent of all mobile users in Vietnam. By 2021, the platform reported having 16.69 million users (that's about 17% of the country's population). In June 2020, TikTok launched TikTok for Business in Vietnam. This gives Marketers access to the TikTok Ads Manager to run conversion funnels targeting the burgeoning Vietnamese youth demographic. Several brands have seen marketing success on the platform, such as Viettel, VNG and Maybelline New York.
- **The boom in live streams & online events:** Instead of in-person events, virtual conferences have swiftly become the norm. With attending workshops or networking events off-limits due to the pandemic, live streams have been trending for B2C and D2C SMEs in Vietnam since 2019. Livestreams have helped entrepreneurs and SMEs market their services and sell their wares over social media networks like Facebook and Instagram and E-commerce apps like Shopee. B2B networking events were among the first to "go digital", with businesses hosting more webinars than ever before. These have the additional benefit of being easily recorded and edited for video content. Vietnam Digital 4.0, a Google Vietnam initiative, has moved all its in-person classes to online webinars on Youtube. The shift has gained them thousands of additional viewers.



MAIN PRODUCTS, SERVICES, AND SEGMENTS

E-payment options and apps

Pioneers in the Super App category such as WeChat and Alipay originated in China, Vietnam's northern neighbour, and it's no surprise that the trend has filtered down strongly. Significant service-based apps in Vietnam include Grab, Now, Baemin and Be (ride-hailing/food delivery apps) and VinID (online mall). Mobile payment-based apps build their payment platform first then connect to stores and shops to enable mobile payments. Examples include Momo, Zalo Pay, VN Pay, Payoo and AirPay.

E-commerce growth

The top four players on the e-commerce scene in Vietnam are Shopee, Tiki, Lazada and Sendo. Business is booming for these and smaller players with roughly 49.3 million people – that's around half of the nation's total population – making online purchases in 2021. Shopee came to Vietnam in Q2 2017 and has been rising fast since. It leads the domestic e-commerce game by a healthy margin. By Q3 2020 they were already earning 62.7 million visits quarterly. From big brands to SMEs, everyone is setting up shop on the major e-commerce channels. By 2025, over 70 per cent of Vietnam's 100 million population is expected to be using e-commerce transactions. As per Statista, the country's e-commerce revenue will cross US\$6 billion by the end of 2020, with projections closing in near US\$9 billion by 2025.

Banking and money transfer

Vietnam's digital banking scene has experienced significant changes in recent years, with banks and fintech innovators launching an impressive array of digital tools ranging from mobile payments solutions and wealth management platforms to e-commerce systems. Some of these digital propositions have scaled rapidly, making Vietnam one of Asia-Pacific's fastest-growing markets for digital banking.

According to a recent report released by McKinsey and detailing 15 Asia-Pacific markets, the share of Vietnamese customers using digital banking tools at least once monthly doubled from 41 per cent in 2017 to 82 per cent in 2021. For comparison, active users of digital banking in the region increased from 65 to 88 per cent of the customer base.

The large majority (73%) of Vietnamese consumers are multi-channel banking users. This means they use a combination of digital banks and physical branches. Despite the change in consumer behaviours, banks are not doing enough to capture digital sales, due to limited digital offerings and a lack of meaningful engagements with digital users. Accordingly, three strategic moves banks can consider in closing this gap include rethinking the role of branches. Banks need to strengthen branches' omnichannel delivery – measuring both financial goals and customer satisfaction.

The McKinsey report suggested they should transform their business model to digital-first, or integrated omnichannel engagement centred on the deployment of artificial intelligence (AI) and machine learning (ML) capabilities.

Other digital banking opportunities are present among Vietnam's sizeable informal economy, which accounted for more than 56 per cent of workers in non-agricultural sectors in 2018, according to the International Monetary Fund. This informal economy still relies heavily on cash, and the demand is increasing for greater financial inclusion. Banks could seek to incentivise informal economy workers to turn to mobile banking through new strategies in microfinancing, agency distribution, and customer incentives.

Health and diagnostics

Vietnam leads in healthcare coverage as compared to its regional counterparts. Vietnamese' health expenditure contributes to a large portion of the country's GDP. Digital healthcare solutions can reduce costs and resources per patient. The socialist government has promised that by 2025, 95% of its citizens will have digital medical records and the project pilot is ongoing in 24 provinces.

Vietnam embraced digital tech in healthcare through telemedicine, hospital information system, mHealth. There are four digital health segments in focus during the early stage of digital health development in Vietnam – Health Information Technology, Telemedicine, Consumer Health Electronics, and Healthcare Big Data and AI-based products and services.

Of the country's working-age population, nearly half are under 40 years of age. This is favourable for the adoption of innovative science and technology. The government regularly posted information on policy, control measures and chronology of daily COVID cases numbers on its website. Essentially this pushed digital uptake and reliance than ever before. The govt. has also introduced trackers and assistance in diagnosis and treatment.

Digital health companies that understand Vietnam's unique population health challenges and can provide collaborative solutions will gain access to one of Asia's fastest-growing healthcare markets. Through this market access, companies can achieve early-entrant advantage and meaningfully help Vietnam's financial and physical burden of disease.

Digital advertising

Vietnam's digital advertising market alone is worth \$301 million, and that number is expected to double by 2024, according to Statista. Even so, the Vietnamese digital marketing scene still has a long way to go. Digital marketing agencies still struggle to source qualified talent, while brands handling their marketing in-house regularly grapple with poorly-conceived campaigns and confused or ineffective messaging. Copycat campaigns and derivative ads are very much the norms, leaving considerable room for more creative, localized marketing. New agencies such as Hanoi-based WeCreateContent are among those filling the gap in the market with acclaimed campaigns for clients ranging from Vespa to the Bundesliga.

Higher education and vocational training

Vietnam's government recognises that access to higher education and vocational training is imperative for its economic growth. But the country currently absorbs only 37% of under-25s into its education system. Vietnam's e-learning prospects are expected to grow at a CAGR of 18.3% during the forecast period 2019-23. Online education is expected to see strong growth in the coming years as faster internet speeds allow for even more efficient video conferencing and real-time teaching online.

In 2020, telecom operators – Viettel, VNPT, Vietnamobile and Mobifone agreed to provide free mobile data for students, teachers and parents if they were using e-learning methods. The government has set aside \$415 million from the state budget in the ICT sector. The govt. is also looking for firms to support and sponsor education technology infrastructure, internet connection and software.

As estimated, the EdTech Market in Vietnam may value up to \$3 billion. In addition, the Vietnamese authorities have promoted E-learning initiatives, enabling parents and students to switch their attention towards online learning and digital resources. The government has itself shared thousands of e-lectures and videos including research works.

Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), the German development agency, in cooperation with Vietnam's Directorate of Vocational Education and Training and departments of Labour invalids and Social Affairs in eight cities and provinces, offered short training courses for 1,000 workers affected by the COVID-19 pandemic.



REGULATION

Registration and legal requirements

Vietnam's efforts to regulate its digital sphere have courted controversy of late as Hanoi follows Europe and China in enacting extensive rules governing how companies use and move data.

Hanoi takes a centralized approach to sensitive data, which it defines broadly. Any data related to health, finances, politics, location, life and social relationships can be considered sensitive under the proposed rules.

Vietnam's draft Decree on Personal Data Protection will force businesses to receive state approval if they want to process sensitive data or transfer data overseas. Businesses also would need to ask users for explicit consent to collect data, such as through windows that pop up on apps or websites.

Critics of the draft decree include Google, which along with Japanese e-commerce giant Rakuten and others warned it could "damage" Vietnam's digital ambitions and could run afoul of free trade rules. Observers say that parts of the regulation would be hard to implement -- particularly with 80% of the country's cloud computing controlled by foreign companies -- but that it also strengthens data privacy in a country where it has long been the norm to sell phone lists to spammers or send bank details via unencrypted chat apps.

Vietnam recently passed a new decree (Decree 85) to tighten regulation on e-Commerce. The decree – which also encompasses social networking websites – stipulates that foreign businesses are required to comply with Vietnamese laws and that Vietnamese e-commerce providers are required to verify the identities of foreign businesses selling goods on their e-commerce platforms. They are also required to do the following:

- Ask foreign businesses to comply with export and import laws for those businesses that have no presence in Vietnam;
- Ask foreign businesses to determine commercial agents in Vietnam; and
- Organise the implementation of import activities regarding goods traded by foreign businesses.



MARKET ENTRY

Setting up a business in Vietnam

Vietnam allows 100% foreign ownership of a business in most industries. These include trading, IT, manufacturing, and education. However, some industries restrict foreign ownership. Examples of these include advertising, logistics, and tourism. In such cases, foreign investors will need a Vietnamese joint venture partner.

World Trade Organization (WTO) agreements regulate foreign ownership for most business lines. However, there are some business lines not regulated by WTO agreements or local laws. In such cases, approval from the ministry involved in that industry is required.

There are no minimum capital requirements in Vietnam for most business lines. However, it must be enough to cover expenses until the business becomes self-sustaining.

The Department of Planning and Investment will assess if the capital contribution is in line with a business. A lot of businesses set capital of \$10,000. However, from our experience, it is possible to open a business service company with \$3,000.

A business address is required to incorporate a company in Vietnam. Service-based businesses, like consulting companies, can use a virtual office address. However, some business lines must have a physical location or office. These include manufacturing, restaurants, and retail trading, among others.

All companies in Vietnam must have at least one resident director. He or she doesn't need to have residency status at the time of incorporation. However, they will need a residential address in Vietnam.

Promotion

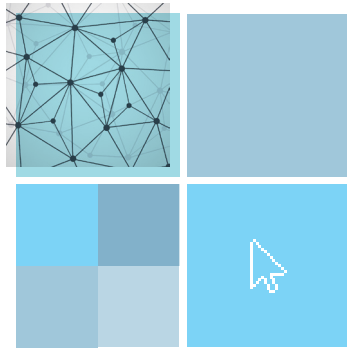
The Vietnam Trade Promotion Agency (VIETRADE) is the governmental organization responsible for the national regulation of trade and the promotion of industry and trade. It provides a wide spectrum of services to assist Vietnamese and foreign enterprises. These include providing business information to trade support institutions and enterprises; conducting market research and analysis to formulate national trade promotion policies, assisting Vietnamese and foreign enterprises to identify business opportunities at trade missions abroad, hosting foreign business missions to Vietnam and organizing business meetings, seminars, and conferences for Vietnamese and foreign enterprises.



RECOMMENDATIONS AND TRENDS

Vietnam is expected to enter a phase that will witness the most rapid growth yet regarding digital and IT services and products in the country. The National Digital Transformation Programme by 2025 outlines several goals and targets. Opportunities within the digital sector include:

- **5G adoption:** Vietnam is vigorously promoting the adoption of 5G countrywide. In December 2020, the country's largest network operator Viettel announced the launch of a 5G commercial trial. In doing so it became the first network operator in Vietnam to provide 5G services to customers. It was joined by MobiFone, which became the second mobile player in the country to launch a commercial service. In September, Viettel revealed that it has reached speeds of over 4.7 Gbps over a 5G network it researched tested and established. Vietnam has been encouraging the development of Viettel, the biggest state-owned military telecommunications company in the country, which has been attempting to increase its presence in neighbouring Southeast Asian states as well as in other developing countries in regions such as Latin America and Africa. The number of 5G subscriptions in Vietnam is forecast to reach 6.3 million in 2025, according to network equipment maker Cisco.
- **Move away from cash:** Cash is king in Vietnam and most people do not have bank accounts. While the use of mobile wallets has risen, most consumers still prefer to use cash on delivery (COD) for online shopping and e-commerce sites. A solution to this is mobile money which is the use of telecommunications for payment of small value transactions. The government in March 2021 allowed a pilot program for mobile money service which will run for two years. Even so, around 70 per cent of Vietnam's population are internet users and thus opportunities for digital payments are immense.
- **Social media potential:** With its young population and high social media usage, there's huge potential for SMEs to utilize social networks. SMEs make up 90% of businesses in Vietnam and can take advantage of social media marketing tools to access global value chains. These networks are powerful tools employed by brands to reach their consumers both domestically and internationally. As a result, social-media related strategies such as social commerce and influencer marketing are increasingly seen as key to winning over the market.
- **Improving digital skills:** One area in which Vietnam is seen to be lacking is in terms of available digital skills. In theory, the digitalization process will create seven times more jobs than it destroys. The World Bank predicts that 10 million net new jobs would have been created mainly in modern services (finance, communication, tourism) and to a less extent in manufacturing. Unfortunately, Vietnam is seriously lagging behind its main competitors in the region in terms of available digital skills today. The main takeaway of this exercise is that the success of the digital transformation of the Vietnamese economy will require upgrading the digital skills of its local labour force. Otherwise, Vietnam will gain little (or not as much as expected) from this process, as many Vietnamese won't be able to find a job.



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