

Prepared by the New Zealand Embassy in Ha Noi, Viet Nam

Summary

- Viet Nam's recent economic development has propelled it, in just one generation, from being one of the poorest countries in the world to an (almost) middle-income country. The burgeoning middle class exhibits increasingly sophisticated consumer behaviour, including for foreign-sourced products, and in its demand for education services.
- Foreign trade has helped fuel this remarkable growth. In recent decades Viet Nam has risen as a destination for manufacturing, with a shift in low-wage production moving from China to Viet Nam. The size of the economy is expected to reach US\$1 trillion by 2035.
- A burgeoning middle class, political stability, and the long-term economic outlook present strong opportunities for New Zealand businesses. Further, Viet Nam's dynamic and quickly-evolving commercial environment has emerged as a promising retail market for New Zealand exporters seeking to expand and diversify offshore.

Report

Overview of the Vietnamese economy

- In the 30 years since Đổi Mới (renovation) reforms in 1986, the Vietnamese economy has shifted from a socialist 'command and control' model to one that embraces many features of a modern market economy; albeit remaining under the banner of a 'Socialist Oriented Market Economy'.
- Since 1990, Viet Nam has been the second fastest growing economy in the world after China, and over the ten years prior to the COVID-19 pandemic GDP growth averaged around seven percent per year.
- Foreign trade has helped fuel this remarkable growth. Today China accounts for around 25 percent of Viet Nam's two-way trade, up from 10 percent in 2000. In recent decades, Viet Nam has also risen as a destination for manufacturing, with a shift in low-wage production moving from China to Viet Nam, as wages in China rose by 37 percent between 2014 and 2018. Part of Viet Nam's competitive edge comes from being a 'China + 1' destination for foreign direct investment.

Future potential

- Viet Nam is heavily economically integrated, signing bilateral or regional trade agreements with economies accounting for 60 percent of global GDP. As a single-party state, Viet Nam typically has political stability and macro-economic consistency. In the absence of further external shocks, Viet Nam's economic fundamentals should remain positive for the foreseeable future.
- The Vietnamese Government has set a goal to reaching upper middle-income status by 2035, and becoming a modern industrialised country by 2045. Based on GDP per capita growth, this trajectory would put Viet Nam today at the same point in its growth curve as Malaysia in the early 2000s. Viet Nam's National Assembly has continued to endorse strong GDP growth targets in excess of five percent per annum, however this is likely to be difficult to achieve in the short term due to the economic disruption caused by COVID-19 and recent inflationary and cost pressures.

Viet Nam's burgeoning middle class

- Viet Nam's open trade and economic policies have led to the creation of millions of jobs, particularly in manufacturing, hospitality, tourism and in the retail sector. This has led to a burgeoning middle class and growing

sophistication in consumer behaviour, including for foreign-sourced products and education services. GDP per capita grew from US\$100 in 1990 to US\$2700 in 2019. Today 55 percent of the population is under 35 years of age.

- Between 2016 and 2021, Viet Nam led ASEAN in terms of *growth of per capita spending* by the middle 60 percent of the population, with a compound annual growth rate of 10.1 percent. This growth rate is higher than that of other major ASEAN markets such as Singapore, Malaysia, or the Philippines.¹
- Prior to the pandemic, the World Bank projected that by 2035 Viet Nam's middle class would grow to 50 percent of the population, and in the same time Viet Nam's \$200bn economy would grow to close to \$1 trillion in value.² This would mean 36 million more consumers entering the middle class in Viet Nam in the next decade.³ The COVID-19 pandemic slowed Viet Nam's growth in 2020 and 2021, but it now appears better positioned than many to rebound strongly as the pandemic subsides.
- Urbanisation will continue to be a major driver of Viet Nam's demographic change. The percentage of the population living in rural areas has been steadily decreasing since 1960. In 2020, around 63 percent of Viet Nam's population resided in rural areas, down from 85 percent in 1960.⁴ Disposable incomes in the urban centres of Ho Chi Minh City, Ha Noi, and Da Nang are significantly higher than the national average and more middle-class consumers in these cities are adapting to western-styled dining, with a willingness to spend more for food and drink – including wine and imported spirits.

Opportunities for New Zealand

- Viet Nam presents a dynamic and quickly-evolving commercial environment. The value of the retail market is currently US\$108 billion annually, although this also took a hit during the COVID-19 pandemic. In 2021, nationwide retail sales were 12 percent lower year on year due to Viet Nam's strict lockdowns and social distancing requirements, but these started to show signs of recovery towards the end of the year.
- The majority of Vietnamese retail grocery trade still occurs in traditional settings, but the rapid development of modern convenience stores, supermarkets, and other retail spaces presents a significant growth opportunity and valuable product-to-market mechanism for exporters, especially in the food and beverage sector. The widespread and rapidly growing use of social media and e-commerce sites illustrates that Vietnamese retailers and consumers are quick to embrace technology in their consumer habits.
- New Zealand's trade relationship with Viet Nam is heavily weighted towards commodities, especially exports of dairy, horticulture and timber for New Zealand, and electrical equipment and machinery for Viet Nam. Viet Nam is currently New Zealand's 15th largest trading partner, and New Zealand and Viet Nam have agreed, as part the Strategic Partnership, to work towards a USD2 billion trade target by 2024.
- Viet Nam presents New Zealand exporters with attractive demographics for growth and receptivity for New Zealand's premium products and services, including dairy, fruit, and timber. New Zealand's high-quality education also continues to make New Zealand a popular destination for middle class Vietnamese wanting their children to study overseas.
- In addition to food and beverage, Viet Nam's growing manufacturing sector will continue to fuel a market for New Zealand primary products, particularly timber and aluminium.
- Forestry products are New Zealand's second highest commodity export to Viet Nam. The local wood processing industry has become one of Viet Nam' top export industries over the past ten years. Wood processing export revenue has increased from approximately \$1 billion in 2004 to over \$10 billion in 2019.
- Technology and innovation are other areas of opportunity and growth potential, particularly in fields such as high-tech and low-emissions agriculture, sustainable food production, water and natural resource management, digital transformation, marine science and technology, and innovation and technology to address environmental degradation and the threat of climate change.

¹ [The Future of ASEAN: Viet Nam Perspective](#)

² Viet Nam 2035; World Bank

³ [The new faces of the Vietnamese consumer | McKinsey](#)

⁴ World Bank

Issues that can affect trade

- For all of the potential, trade with Viet Nam is not always straightforward and there are barriers still to be addressed. Rules and regulations can be vague, challenging and inconsistent, and there is a heavy reliance on paper-based systems adding to larger bureaucratic processes. Businesses can face high start-up costs, unexpected tax assessments, shortages of skilled personnel, and challenges with land acquisition and transfer regulations. Local chambers of commerce have also raised concerns about the lack of logistics hubs and warehouse space, especially as e-commerce has soared.
- New Zealand firms can be shielded, to an extent, from some of these challenges where there is a capable local agent and/or distributor but the legal system, the tax system, and the state of infrastructure can all challenge firms wanting to do business in Viet Nam.
- Viet Nam's dynamism and extraordinary growth over the last 30 years can also sometimes disguise the fact it is growing from a very low base. As such, it retains many features of a developing economy. While the number and percentage of wealthy high-net-worth individuals and billionaires in Viet Nam is growing quickly, and the middle class is set to reach 50 percent of the population (up from 10 percent in 2015), the average monthly income of 6,000,000 VND (US\$260) remains low compared to other economies in the region.

More reports

View full list of market reports from MFAT at www.mfat.govt.nz/market-reports

If you would like to request a topic for reporting please email exports@mfat.net

To get alerts when new reports are published: go to mfat-reports.info/pdf

To contact the Export Helpdesk

Email exports@mfat.net

Call 0800 824 605

Visit Tradebarriers.govt.nz

Disclaimer

This information released in this report aligns with the provisions of the Official Information Act 1982. The opinions and analysis expressed in this report are the author's own and do not necessarily reflect the views or official policy position of the New Zealand Government. The Ministry of Foreign Affairs and Trade and the New Zealand Government take no responsibility for the accuracy of this report.