



Vietnam's digital boom to lift the economy

Le Hoang Vu, Investment Director, EPA, Eastspring Vietnam

Vietnam's next phase of development will be led digitally. The country's fast-growing digital economy is likely to help the country become a high-income economy by 2045. While there will be challenges to overcome, this development journey will also present many opportunities for investments across sectors.

Vietnam is well known for its golden demographic population. Nearly 56% of its people are under 35¹, the highest among countries in the region with similar income levels. With Gen Xs and Gen Ys forming most of the country's labour force and consumer markets, and Gen Zs rapidly emerging as the next wave of consumers, Vietnam is set climb eight places to 18th position in the global ranking of top 30 largest consumer markets by 2030. The country's consumer class is expected to grow from 35 million to 56 million within this decade.²

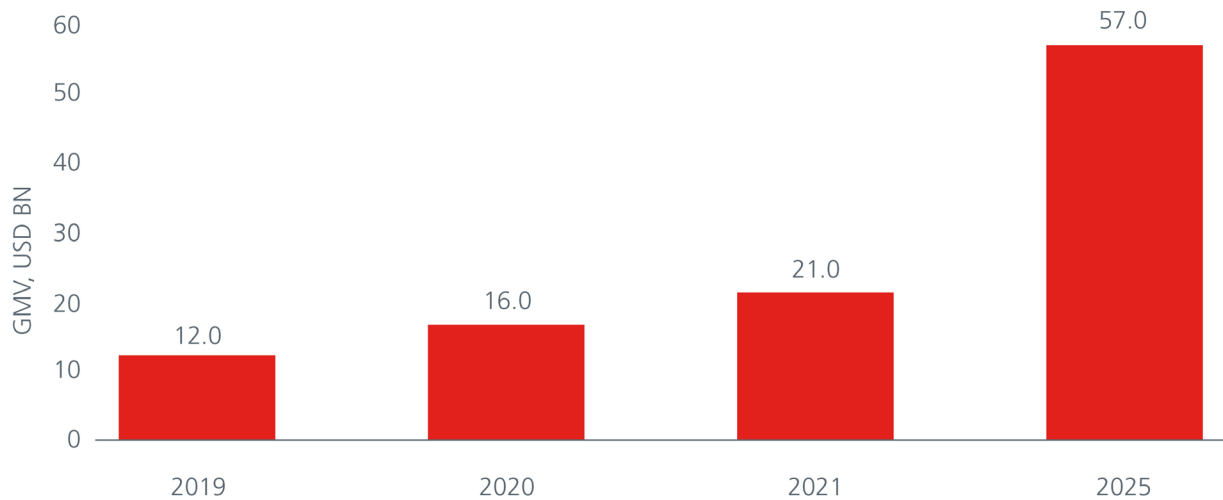
Separately, Vietnam's rising middle-income class is also boosting the consumer market.

The middle-income class earning above USD700 a month is estimated at one third of the population and expected to double its size by 2030³. Vietnam's rapidly growing middle-income class will underpin domestic consumption for services and higher value-added products. Furthermore, as the young middle class are ever ready to embrace new trends such as digitalisation and sustainability, this will likely present new investment opportunities in financial services, information technology, consumer goods and green products.

DIGITAL TRANSFORMATION TO PLAY A KEY ROLE

Vietnam's new Socio-Economic Development strategy for 2021-30 states the country's ambition to become a high-income economy by 2045. This suggests that the growth model must become more efficient, and the government has recognised that a digital transformation of its economy can significantly improve efficiency. Digitalisation is becoming an integral part of consumers' daily life in Vietnam. The country's digital economy is

Fig 1: Vietnam's fast-growing digital economy



Source: e-Economy SEA 2021, Roaring 20s: The SEA Digital Decade, GMV: Gross Merchandise Value

growing by double digits and the total market value is expected to hit USD57bn in 2025. See Fig 1. Eight million new digital consumers have embraced digital services since the start of the pandemic.⁴ Vietnam's digital market is fast growing underpinned by strong growth in e-commerce, fintech, and education.

E-COMMERCE IS THE BIGGEST GROWTH DRIVER

A Vietnamese internet user used to spend 3.1 hours online for personal use pre COVID-19, which spiked to 4.2 hours at the height of the lockdowns, and now rests at 3.5 hours per day; 80% of the users regard technology as being very helpful during the pandemic.⁵ E-commerce benefits the most from this trend when 88% of internet users shop online.⁶ It is estimated that 53% of the population has shopped online using social networking platforms, such as Facebook and Zalo, or e-commerce platforms, such as Lazada, Shopee, and Tiki.⁷

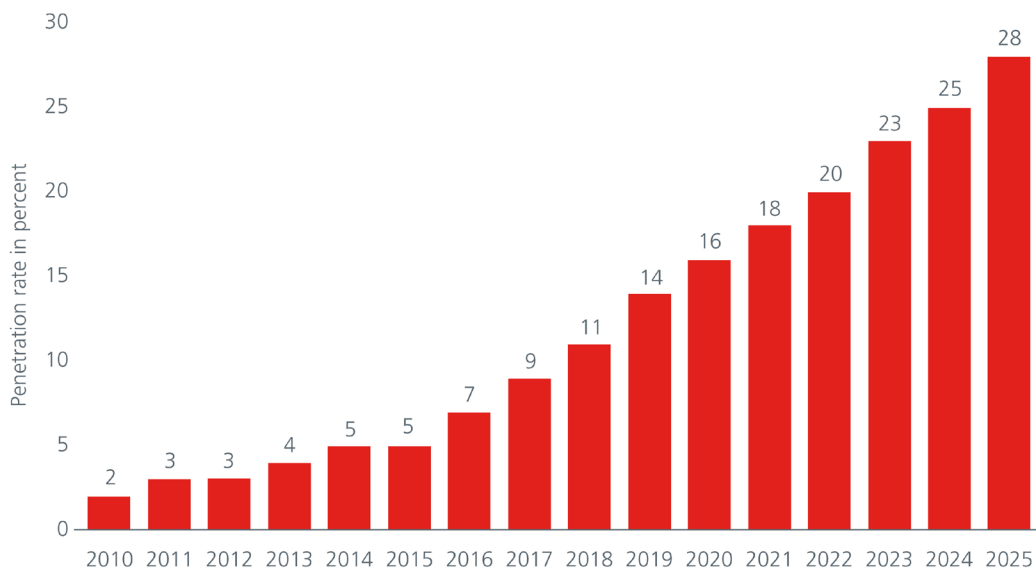
With increasing internet penetration, wider adoption of smartphones and various online shopping platforms, the e-commerce market is expected to generate a higher growth of 25% per annum and have a market value of USD35bn by 2025 – one tenth of total retail sales according to the country's long-term vision.⁸ An increasing number of foreign investors have been seeking investment opportunities in many Vietnamese e-commerce platforms. Vietnam e-commerce, boosted by the digitalisation trend and compounded with fast growing funding, is on track to achieve high growth rates.

DIGITAL BANKING IS GAINING MOMENTUM

As a vital sector of the country, financial services are capitalising the digitalisation trend. Following the State Bank of Vietnam's plan for digital transformation by 2025⁹, the financial services industry has been designated to take a pioneering role in establishing an entirely digitalised, human-centered system. Given this, Vietnamese banks are pursuing notable

Source: ⁴Data up to 1H2021, Google, Temasek and Bain, e-Economy SEA 2021 Report. ⁵Google, Temasek and Bain, e-Economy SEA 2020 Report. ⁶Vietnam Ministry of Industry and Trade, e-Commerce and Digital Economy Agency, Vietnam E-commerce 2021 Report. ⁷Digital Vietnam: The Path to Tomorrow, World Bank August 2021. ⁸Prime Minister of Vietnam, Decision no. 645/QĐ-TTg. ⁹State Bank of Vietnam, Decision no. 810/QĐ-NHNN.

Fig 2: Vietnam’s online banking penetration rates are on the rise



Source: Statista based on data 2010-2019, Forecasts for 2020-2025.

strategies for digital development. Top commercial banks are observed to spend 20%-70%¹⁰ of their capital expenditure on digitalisation. Aggressive digital development strategies are critical to become winners in the financial services sector, where retail lending and investments are fast growing, and young users are rapidly embracing digital solutions.

Just like e-commerce, the ease and convenience of digital banking will transform the way people conduct financial transactions. Digital financial services are also becoming critical enablers, with 99% of digital merchants now accepting digital payments and 72% adopting digital lending solutions. Active users of select banking apps in Vietnam recorded a growth of 73% year-on-year in the first nine months of 2020¹¹, which is the highest region wide. However, digital banking penetration is still moderate, especially in the e-payment, digital remittance, and online investment segments. Still the rise of e-commerce will continue to drive

e-payments. There is plenty of room for growth in Vietnam’s digital financial services over the coming years.

FUTURE WILL BE SHAPED BY VIETNAM’S DIGITAL NATIVES

According to a McKinsey research report,¹² by 2030, 40% of Vietnam’s consumption will be driven by the country’s digital natives i.e., those born between 1980 and 2012. This group of people tend to live online and on their smart phones. Their preferences and purchases are guided by various elements. For example, an online entertainment company must enable more end-to-end services to increase overall user experience while online banking channels must facilitate remote transactions to increase satisfaction. Companies wishing to capitalise on these behavioural shifts will have to offer innovative digital offerings that ultimately increase customer satisfaction. A happy customer is a loyal customer.

Source: ¹⁰Top commercial banks’ financial statement breakdown. ¹¹Google, Temasek and Bain, e-Economy SEA 2020 Report. ¹²<https://www.mckinsey.com/featured-insights/future-of-asia/the-new-faces-of-the-vietnamese-consumer>

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