**MARKET REPORT**

Vietnam has made rapid economic progress since launching its first major economic reforms in 1986. It continues to develop from a low-cost labour economy to a higher value, high-quality enterprise marketplace. Vietnam has achieved the world’s second-highest growth rate per person since 1990, behind only China.



Vietnam is one of the most vibrant economies in Asia with a large market for capital goods and a growing domestic market for consumer goods. It has an ambitious programme of major infrastructure developments including new urban railway networks, a new international hub airport and expansion of regional airports. Increasing numbers of UK companies are following well established brands like Standard Chartered, HSBC, Karen Millen and Oasis into the market. Rolls Royce motor cars, Mini and Marks and Spencer established a presence in 2014.

In 2018, Viet Nam’s GDP growth rate hit a 10-year record high of 7.08%, making it one of the top growth performers in the region and the world. The average nominal GDP per capita was nearly $2,600. Viet Nam’s development builds upon socio-political and macro-economic stability, as well as effective inflation control and improvements in the quality of growth. Moreover, the purchasing power of the 95-million strong population has made Viet Nam an attractive market to foreign investors.

Trade and investment ties are an important element of the Free Tarde Agreement signed between the UK and Vietnam in 2020, which will see 99% of all tariffs eliminated after 7 years. The main exported goods included medicinal and pharmaceutical products, power generating machinery, chemical materials, professional and scientific equipment, metal ores, general industrial machinery, electrical and specialised machinery.

The UK Foreign Direct Investment (FDI) into Vietnam is currently USD 2.7 billion. It is expected to meet the USD 3 billion target set under the above agreement. The UK is the largest EU investor in Vietnam’s education sector, and the third largest EU investor in Vietnam.

Incentives for the UK companies exporting to Vietnam include:

* one of Department for International Trade (DIT)’s 20 High Growth Markets
* forecast to be one of the top 10 fastest growing economies in the next decade
* continuing liberalisation of its economy
* member of both Association of Southeast Asian Nations (ASEAN) and CCTP

Strengths of the Vietnamese economy include:

* young population of 90 million
* continuing economic reforms with sectors such as retailing being liberalised to attract foreign investment
* amongst the highest internet penetration in south east Asia with almost 32 million having broadband access

**THE ECONOMY BRIEF**

Among the world’s most impressive emerging market success stories of the past three decades, Vietnam has been achieving high growth rates, encouraging a huge reduction in poverty and attracting billions of dollars of foreign investment. What was, until relatively recently, considered a comparatively poor country by regional standards – with an economy previously weakened by decades of war – is now solidly middle-income. If Vietnam is able to maintain its current momentum, it might potentially achieve high-income status within the coming few decades.

Vietnam economic performance is resilient, reflecting strong domestic demand and robust export-oriented manufacturing. Central to this success has been the country’s ability to leverage its advantages; it benefits from a strategic location in South-east Asia with access to a range of developed and emerging markets, a substantial domestic market, political stability, and a strong culture of entrepreneurship and work.

Vietnam’s Gross Domestic Product (GDP) is $170.6 billion (agriculture – 17%, industry, manufacturing and construction – 40%, services – 43%); the country’s per capita purchasing power is around $3,600. Vietnam is set to see the highest GDP growth in the region. The government’s stated goal is to increase GDP per head to at least $18,000 by 2035.

An active trading nation, Vietnam is poised to play an important role in ASEAN’s regional integration story. In particular, the country has established itself as a powerhouse in agriculture and textiles. Vietnam’s manufactured exports, along with agriculture, are the most important sector of its economy as country is fast becoming a regional hi-tech manufacturing hub. Along with electronics, other new sectors to be developed in the future include mining and minerals processing. Foreign investor involvement has increased access to long-term foreign capital in much needed areas such as infrastructure and transport. Vietnam suffers from a significant infrastructure deficit – the country will require significant investments in infrastructure development by 2020.

The UK exports to Vietnam were £300 million in 2014, an increase of 12% on 2013. The main exported goods included medicinal and pharmaceutical products, power generating machinery, chemical materials, professional and scientific equipment, metal ores, general industrial machinery, electrical and specialised machinery.

Water and waste water, telecommunications, information technology, power generation, transportation infrastructure construction, environmental project management and technology, aviation, defence, and education will continue to offer the most promising opportunities for British companies over the short term as infrastructure needs continue to expand with Vietnam’s pursuit of rapid economic development. Healthcare will also be a growing sector as the government expands programs and an increasingly wealthy population spends more on medical treatment.

**INVESTMENT CLIMATE**

Vietnam’s competitive advantages have continued to draw export-oriented manufacturing investment. The country attracted a record $15.8 billion in 2016, up 9% on 2015, with landmark investments including $1.5 billion from LG Display’s for an organic light emitting diodes screen plant, and LG Innotek’s $550 million camera factory. Despite a trend towards muted international demand, Vietnam’s exports continued to grow strongly, by 8.6%, while imports rose by 4.6%, pushing the country’s trade surplus $2.68 billion, according to the GSO.

Foreign direct investment (FDI), and the jobs it creates, feeds through into higher domestic demand for goods and services. In what is already a market of 90 million people, investment has spurred economic activity. Domestic consumption has helped Vietnam to weather some of the international economic challenges of the past decade, and continued to do so in 2017. Retail sales, a good barometer of economic health, grew by 9.1%. Other strengths included tourism, with over 10 million visitors coming to Vietnam in 2017. The sector directly contributes about 5% to GDP, with its total impact estimated at more than 9%.

**INFRASTRUCTURE INVESTMENTS**

State-owned companies have traditionally been involved in the construction of infrastructure and have mostly secured projects such as power plants, transport and other national infrastructure using public funding. However, more private involvement is expected going forward with the emergence of public private partnership framework (PPPs).

The government has turned to PPPs to narrow the funding shortage, passing a decree in 2015 that created a unified legal framework to promote private investment in infrastructure projects. Expanding construction, tourism and retail business as well as an influx of foreign manufacturers should mean plenty of investment in new infrastructure, which will in turn give a boost to construction firms. The estimates show that the country should be investing $200 billion in infrastructure development during 2010-2020.

The government has already started rolling out projects, and in 2014 it issued a list of 127 infrastructure developments suitable for foreign investment in the run-up to 2020. In this regard, the government has been increasingly active in promoting projects involving transportation, utilities, industrial zones and energy infrastructure. Once under way, this activity will support the proliferation of supporting industries, such as construction and building materials. These developments will also help to address is the rapid pace of urban expansion, which has been outstripping existing infrastructure that has become overburdened with issues such as traffic, housing and urban environment.

**WATER SUPPLY AND SANITATION**

In the last two decades the Government of Vietnam has made considerable progress in improving water supply and sanitation in both urban and rural areas and rates of access to improved services are now significantly higher than those in neighbouring countries. Vietnam is also the only country in South-East Asia to have a formal national PES (Payments for Environmental Services).

There are, nevertheless, major disparities in water supply access between regions and between big cities and urban areas. Outside of the major cities, the quality and reliability of supply is a challenge while in rural areas, informal management arrangements rarely result in effective operation and maintenance in the long term. There are also significant inequalities in access between richer and poorer segments of the population. For example, while 95% of the richest urban quintile has a piped water connection in the yard, only 35% of the poorest have this level of service. In rural areas, just 3% of the poorest quintile has a house connection while for the richest quintile the figure is 43%.

The current installed drinking water supply capacity is 7 million m³ per day.

**Vietnam water supply and sanitation plans (2020)**

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| **Subsector** | **2020 Target** |
| Urban water supply (access to public piped network) | 85% |
| Rural water supply (access to clean water meeting Ministry of Health (MOH) standards) | 75% |
| Urban sanitation (proportion of wastewater treated) | 45% |
| Rural sanitation (use of hygienic latrines meeting MOH standards) | 85% |

Source: WSP World Bank Group

In order to meet the government’s ambitious targets, some 3.7 million people per year will need to gain access to water supply sources that meet government standards, of which around half in rural and half in urban areas. In the case of sanitation, about 1.6 million people per year will need access to wastewater treatment (in urban areas) and about 2.0 million to latrines that meet national standards (in rural areas).

***In order to meet the ambitious targets of the government, a capital expenditure of $1.562 billion for water supply and $1.142 billion for sanitation needs to be implemented on a yearly basis (estimated 2.5% of GDP).***

The sector faces the daunting task of expanding service provision to reach the poorer un-served population segments and at the same time putting measures in place to strengthen the effectiveness and sustainability of service provision, both technically and financially.

**SURFACE WATER RESOURSES**

Vietnam has a dense river network — 2,360 rivers with a length of more than 10 km, eight of them having large basins with a catchment area of 10,000 km² or more. This river network includes many international rivers that originate in catchments in other countries. About two thirds of Vietnam’s water resources originate outside the country, making Vietnam susceptible to water resources decisions made in upstream countries.

The total annual runoff is 835 billion m³ but the shortage of water is aggravated in the 6-7 month dry season when the runoff is only 15 to 30% of this total. All the rivers traversing Vietnam provide an abundant supply of water (310 billion m³ annually). Around 7,500 water storage facilities are located in ten major river basins across the country. However, inadequate physical infrastructure results in a low utilization of only 53 billion m³ per year. In addition, the uneven distribution across Vietnam of the average annual rainfall of 1,960 mm and the prolonged dry season result in serious shortages of water in many areas.

**GROUNDWATER**

Groundwater resources are abundant with the total potential exploitable reserves of the country's aquifers estimated at nearly 60 billion m³ per year. However, despite the abundance of groundwater reserves, less than 5% of the total reserves are exploited for the country as a whole. In some areas, over-exploitation has resulted in falling water tables which contributes to further land subsidence and salinity intrusion, especially in the Mekong River Delta. Groundwater is emerging as an important source of water for domestic, industrial, and agricultural uses.

**NATURAL FACTORS**

Vietnam is subjected to natural hazards: droughts and river and coastal flooding. River water levels were forecasted to be lower in the 2016-2017 dry seasons: 15-35% lower than average in the Mekong Delta, 20-60% lower than average in the Central Highlands and 70% lower than average in the South-Centre region. At the same time, saltwater intrusion is expected to continue in the Mekong Delta with a higher than normal rate but less severe than 2015.

**IRRIGATION**

Due to the significance of its agriculture, almost 80% of all water recourses in Vietnam are used for irrigation, which is run by around one hundred overwhelmingly state owned irrigation and drainage management companies. Mostly surface water is used for irrigation (ground waters comprise only 1%). Almost 8,000 irrigation systems consist of 750 reservoirs with over a thousand of low dams and two thousand large pumping stations. The country’s 900 large and medium size hydraulic works systems have been spread across its 63 provinces (a large works system is serving an area of almost 2,000 ha).

The rice production in Vietnam still accounts for two thirds of its rural labour force and the households’ major source of income. Agriculture is still a key contributor to economic growth and poverty alleviation in Vietnam: the sector accounts for 30% of export and 60% of total employment.

The Vietnam part of the Mekong Delta (around 40,000 km2) produces 90% of the national rice exports and 60% of the national seafood exports. This unique waterscape is made of dense maze of canals, extensive rice fields and village orchards. The ongoing canal building process is nevertheless restricted by floods, erosion, poorly placed dikes, sediment starvation, the rise of sea level and other factors. Hence, the current trend for precision agriculture with efficient crop irrigation and higher returns, which is producing the demand for modern water control and measurement equipment and more flexible and resilient irrigation technologies.

The best sector opportunities include water quality and water safety engineering, asset management expertise, water and wastewater treatment technologies, products and equipment for water efficiency and recycling, flood management, leak detection, laboratory and field testing.

**WATER POLLUTION**

Rapid economic development in Vietnam has been one of the reasons for the growth of its wastewater treatment market. In addition, the boom in urbanisation and development of many industrial zones throughout the country has added to the demand. Concern is growing over wastewater treatment capacity in the urban and industrial areas.

Untreated industrial water from industrial parks, export processing zones and hospitals is the main source of water pollution in Vietnam. With only about 15% of wastewater adequately treated in the 33 wastewater treatment plants in urban areas, the majority of domestic wastewater is discharged back to the environment with resultant pollution effects. Current treatment capacity of 850,000 m3 per day is expected to increase by another 1,600,000 m3 per day from more than 40 new wastewater treatment plants under construction. The demand for cleaner technologies, products and equipment for efficient industrial wastewater treatment is growing. Nearly 78% of industrial zones have already started operating with dedicated wastewater treatment plants. The government is aiming to install wastewater collection and treatment to cover 70% of the urban population by 2025. The capital cost to achieve this target is an estimated $20 billion.

Rapid spill response technologies are also in demand in the country to prevent disastrous cases of industrial pollution (an accidental release of plant chemicals poisoned over 100 km of Vietnam’s central coastline in 2016, 53 gallons of oil spewed through a ruptured tanker’s pipe into Vietnam’s famous Ha Long Bay in 2017).

**DECENTRALISED WASTEWATER TREATMENT**

The number of dispersed, small-scale wastewater collection and treatment systems in service of community has increased significantly for recent years. Some scattered sewage treatment systems have applied low-cost technologies such as sanitation systems in communities and groups of households. These systems use a septic tank with thin partitions, air filter BASTAF, and horizontalsubsurface flows. Unlike centralised processing systems with a large scale of investment, stakeholders involved in management of these wastewater treatment systems include non-governmental organisations, local communities and local governments.

The mode of decentralised wastewater treatment at residential complexes, manufacturing and medical facilities, has been applied more and more in Vietnam, due to the need of meeting increasingly strict environmental standards for wastewater, advantages of cost deduction on sewer construction, and flexibility in investment and management. Besides, the volume of wastewater treatment products, both imported and developed locally, is constantly growing. Such products and equipment involve reinforced concrete septic tanks with thin prefabricated walls, prefabricated anaerobic and aerobic treatment tanks made from composite based on AFSB and BASTAFAT technology, reinforced concrete distributed sewage treatment tanks with activated sludge technology.

**ON-SITE SANITARY FACILITIES**

The most popular sanitary facilities in urban areas are septic tanks, accounting for over 90% of households. This rate is different among urban areas, where sewage treatment has pending problems. For example, many households with septic latrines are still not connected to combined sewer system. Some households with flush toilets may discharge waste into general sewer without going through septic tanks or other locally processing facilities.

**NEW DEVELOPMENT**

New water projects are generally jointly funded by the Government of Vietnam together with international organisations, such as MFF and World Bank. Vietnam has announced 23 major water treatment projects for the current tendering period, including Yen Xa wastewater treatment plants and attendant sewer network in Hanoi (270,000m3/day) and Ho Chi Minh NLTN wastewater treatment plant (830,000m3/day).

The existing wastewater treatment plants in Vietnam meet only 12% of wastewater collection demand. Only 60% of 13,000 healthcare clinics nationwide have standard medical wastewater treatment systems.

The cost of further development of water supply network and wastewater collection and treatment capacities in Vietnam up to 2020 is projected at $10 billion.

**The overall investment demand (forecast):**

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| **Subsector** | **US Dollars** |
| Increasing water supply capacity | $1.6bn |
| Renovation of the existing system | $1.4bn |
| Wastewater drainage system | $6.3bn |
| Infrastructure (management, buildings, communication) | $0.9bn |

Source: VWSA

Key technologies and services in demand: waste to energy technology, advanced filtration, membrane filtration, anaerobic digestion, nitrification, biological denitrification, monitoring and testing equipment.

From November 2019, Ho Chi Minh City (HSMC) is included in the *Prosperities Fund’s Global Future Cities Programme*. This is an Official Development Assistance (ODA) Programme from the Foreign & commonwealth Office (FCO) relating to the water sector, which will deliver a Geographical Information System for the drainage network in HCMC (flood mapping). Its primary objectives include the improvement of the quality of the overall drainage system management and capacity of city authorities to adapt to, mitigate and control floods and the provision of comprehensive data to support the decision-making process of government and stakeholders in related-issues. The Programme has assigned Mott MacDonald as implementer.

The development of geographical information system for drainage network in HCMC consists of the following tasks:

Task 1: Review and assess Drainage network and flooding data management and Applications of GIS in Urban Management in HCMC

Task 2: Define the scope and carry out Geologic, Hydrologic and Topographic surveys of Drainage Network in HCMC

Task 3: Develop the comprehensive GIS system for Drainage Network of HCMC

Task 4: Using the newly established GIS system, develop flooding models for city scale, catchment area scale and neighbourhood scale

Task 5: Develop long-term development strategy for GIS system of drainage network in HCMC and propose integration strategy with the GIS system of the city.

**MARKET ENTRY**

Towards the sustainable water development, Vietnam’s leading international water supply, sanitation, water resources and purification event – VIETWATER – is being staged on November 10-12, 2021. This event is supported by Vietnam Water Supply and Sewerage Association (VWSA) and Vietnam Ministry of Construction (MOC), and it is the country’s largest business forum on water resources, water supply, sanitation and purification. It is designed to bring customers various products and technologies from 38 different countries and regions, with over 400 participating companies and international group pavilions from Australia, China, Czech Republic, Denmark, France, Germany, Poland, Singapore, South Korea, Taiwan, Thailand and United Kingdom.

The UK suppliers are being selected through Intec Export Intelligence, a delivery partner for British Water and Department for International Trade (DIT).

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*Sources: DIT, BBGV, OBG, VWSA, FCO, British Consulate General Vietnam*