



# Vietnam ascending

Investment opportunities and challenges in navigating one of Southeast Asia's up and coming economies

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## This could get structural

Over the past week in Ho Chi Minh City, we engaged with companies, analysts, and officials, where the mood among investors was cautiously optimistic. A year into Vietnam's recovery from an export downturn, a bond market crisis and major political change, the country finds itself at a crossroads. While the immediate outlook may seem unremarkable, deeper structural shifts underway could position Vietnam for sustained, long-term growth.

## A tepid recovery, for now

On the surface, the picture is mixed. Investors remain hesitant, concerned by the potential fallout from looming US tariffs on Vietnamese exports. Domestically, the economy is grappling with rising interest rates, while consumer demand, though improving, remains tepid. In Ho Chi Minh City, the property market has seen some recovery, with newly launched residential projects selling quickly, but overall transaction volumes remain subdued. At present, there are few signs of a rapid rebound.

Yet, there are indications that this could change. The government, under the new leadership of Secretary-General To Lam, is pursuing a broad-based structural agenda aimed at pushing the economy onto a higher growth trajectory.

## Political will for change

To Lam's ambitions are clear: he does not want Vietnam to follow in the footsteps of its regional neighbours, such as Thailand, growing old before it grows rich. The new leadership has raised the gross domestic product (GDP) growth target for 2025 to 8%, up from the 6.5%-7% forecast under the previous administration, signalling a more aggressive pursuit of higher growth. Even more ambitiously, the government's plans extend beyond the short term, with a target of double-digit growth rates from 2026 onwards.

Demographically, this is Vietnam's last window to achieve high-income status before its population ages, and the government is keenly aware of this. What appears to be emerging is a long-term plan that could lay the foundation for a structural economic transformation, far beyond the immediate recovery.

## Government reforms: efficiency at the forefront

The most striking feature of Vietnam's strategy is the unprecedented government reforms currently underway. The sprawling bureaucracy is being streamlined to expedite approvals and reduce inefficiencies. Plans are in place to consolidate the country's 63 provinces into fewer administrative units, a necessity given the country's population of over 100 million. Additionally, the government intends to reduce its two million-strong workforce by 20%, with USD 5 billion earmarked for severance pay.

In tandem, there is a concerted effort to establish clearer lines of authority and accountability, with officials now working with well-defined key performance indicators (KPIs). On the ground, even the smallest changes are visible: traffic enforcement has been modernised, with cameras and heavy fines replacing the traditional reliance on police. These seemingly minor adjustments reflect a broader ambition to improve governance and bolster investor confidence.

## Infrastructure: a structural game-changer

For the first time, infrastructure has taken centre stage in discussions with investors. Vietnam's infrastructure is woefully underdeveloped relative to its economic potential, creating bottlenecks that hinder growth. Fortunately, the government's balance sheet is in relatively strong shape, with debt-to-GDP standing at a manageable 33.5%. This gives the country the fiscal flexibility to invest in long-needed infrastructure projects.

Key priorities include transportation, water management and power. Among the most ambitious projects are high-speed rail links, such as the Hanoi-Ho Chi Minh City route and the Haiphong-Shenzhen corridor—the latter likely to be funded by Chinese investors. In urban transportation, the focus is on resolving congestion by building additional ring roads, bridges and public transit solutions.

### Asia Ingredients Group distribution centre near Ho Chi Minh City. Taken during a road trip to Vietnam, February 2025.



Credit: Yeu Huan Lai, February 2025

## Real estate: a short-term engine of growth

In the near term, the property sector remains the primary driver of economic activity. Corporate bond issues, which previously threatened market stability, have largely been resolved. Projects facing bond maturity issues have refinanced via traditional bank loans, and while the residential market remains subdued, it is showing signs of life. With supply lagging behind demand, particularly in Ho Chi Minh City, prices have risen meaningfully.

### A scale model of Nam Long Investment's Waterpoint Township project in Ho Chi Minh City. Taken during a road trip to Vietnam, February 2025.



Credit: Yeu Huan Lai, February 2025

The government's recent reforms in real estate law and land management are likely to provide a long-term boost to the sector. Simplifying land title processes and introducing a new land-use rights law should make it easier for developers to bring projects to market. Meanwhile, the mortgage market—following 2023 reforms that led to lower interest rates—has yet to see the expected surge in demand. For now, many homeowners remain hesitant to increase leverage, though this could change if interest rates fall further.

Despite the challenges, the Vietnamese government has shown a clear understanding of the property market's role in boosting both consumer sentiment and economic growth. The sector's recovery could well provide the foundation for broader economic expansion.

## Geopolitics: tariffs and the shift in supply chains

In recent months, the looming threat of US tariffs has cast a long shadow over Vietnamese equities. Paradoxically, some investors argue that the imposition of tariffs could catalyze a market rebound. The prevailing view is that US tariffs on Vietnam will be less severe than those on China, giving the country a competitive edge. This tariff differential strengthens Vietnam's appeal as a preferred destination for manufacturers seeking to diversify their supply chains. Notably, Chinese firms have continued to invest in industrial real estate in Vietnam, underscoring the shift in regional production dynamics.

Vietnam's ability to navigate the geopolitics of US-China tensions will be pivotal to its economic ambitions. High-profile investments—such as the Trump Organization's USD 1.5 billion resort project in Northern Vietnam and Vietjet Air's purchase of 200 Boeing jets—will be key in cultivating smoother diplomatic relations with Washington. The country may well have a unique opportunity to leverage the US-China trade war to further strengthen its economic position.

## Consumer sector: lagging behind

The consumer sector, however, is likely to remain a laggard in Vietnam's recovery in the short term. After years of pandemic-induced uncertainty and a slowdown in the electronics sector, consumer sentiment remains relatively subdued. While the recovery in real estate and construction will likely provide some boost to demand, investors would do well to focus on companies with the strongest execution and consumer franchises in the meantime.

## Financial reforms: a slow but necessary process

The pace of financial sector reforms is another key area for improvement. While there is an obvious need for banking and capital market reforms, the government has thus far prioritised physical infrastructure development. The financial reforms will come eventually, but they are likely to remain a secondary focus in the short term. This slow pace could pose a risk to the longer-term sustainability of growth, as a modern, robust financial system will be crucial to supporting the country's expansion.

## Still in early stages, but a promising future lies ahead

While Vietnam's economic outlook may seem subdued at first glance, deeper structural shifts suggest the potential for sustained long-term growth. The country is demonstrating a commitment to improving governance, expanding infrastructure, and cultivating a more competitive business environment. These efforts position Vietnam to harness its demographic advantages and capitalise on emerging geopolitical opportunities. If these reforms gain traction, the nation's trajectory could evolve from cautious optimism to a period of more dynamic growth in the years ahead.

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