

VIETNAM



POLITICAL RISK REPORT / MAY 2025

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EXECUTIVE SUMMARY

The purpose of this political risk report is to assess whether Vietnam is a suitable destination for investors. Through an analysis of its economic, political, and energy landscapes, it establishes the risks posed to the stability in the country.

Regarding the **economic forecast**, the report finds that Vietnam's GDP will keep growing above world average. Before the trade tariffs threshold announced by the Trump Administration, the economy was expected to grow 6.1% in 2025 and 6% in 2026; after the US threats, estimations reduced the growth to 5.2% this year and 4% the next. The assumption of this report is that Washington and Hanoi will possibly find an accommodation in the months ahead; a quick agreement could bring the growth near to the first figures, although some impact will be registered. Additionally, Vietnam's economy will diversify in the medium and long term, with a focus on high-tech sectors and further potentializing its manufacturing industry, driven by a projected increase in foreign direct investment in the short term. Growth will also be pushed forward by Vietnam's reforms in SOE, streamlining state budget and managed by strict transparency standards. Vietnam's long-term growth will depend on boosting productivity and leveraging its demographic window of opportunity.

In relation to the **political outlook**, internal party dynamics are likely to remain stable in the short and medium term, favored by projected economic growth. Factionalism is unlikely to represent a risk to changes in policy direction, as the Party's legitimacy will continue to fundamentalism itself in economic growth. The anti-corruption campaign has and will continue to become the new business standard for internal and foreign business operations, whilst not presenting an inherent risk to foreign investors.

In the case of **resource prospects**, Vietnam is likely to develop its rare earth sector in the medium and long term, propelled by investments and an increase in international demand, but will fall short in rivaling China's dominance. Energy prospects will continue to see a short-and medium-term reliance on fossil fuels, but will see an important shift in its energy mix with a bigger role for renewable energy. The market of renewables is also likely to develop in the medium and long term, with wind and solar energies representing the biggest areas of interest

for investment. Food security outlooks are an area of moderate uncertainty, as though Vietnamese farmers have managed to adapt to these consequences in the short term, water stress depends largely on China's continued interference regarding Mekong River water flows.

SWOT ANALYSIS

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none">● Policy incentives for economic growth● Balanced stance to international blocks● Competitive labor force● Established manufacturing hub● Robust foreign investment	<ul style="list-style-type: none">● Administrative bottlenecks amid anti-corruption campaign● Foreign investment dependency● Reliance on fossil fuel supplies● High import reliance on China● Slow SOE privatization
OPPORTUNITIES	THREATS
<ul style="list-style-type: none">● Commitments to specialize workforce● Key China+1 diversification alternative● Development of green technologies and energies● Semiconductor industry development● Increased leadership role in regional trade	<ul style="list-style-type: none">● Climate change impacts● Performance-based legitimacy disappointment● Factionalism● Geopolitical risks incite trade tensions● Aging population

TIME FRAMES USED IN THIS REPORT	
Short-Term	1-3 years
Medium-Term	3-5 years
Long-Term	5-10 years

1. ECONOMIC FORECAST

- Vietnam's Real GDP is expected to grow between 5.2% and 6.1% in 2025 and between 4% and 6% in 2026, depending on the effect of US tariffs. Strong tariffs could prevent Vietnam from fully recover the 6%-7% annual growth of the two decades pre-Covid and could reduce the current account balance and slightly increase the public debt. But macroeconomic figures would still have a good tone.
- Vietnam's manufacturing sector is projected to sustain strong growth in the short to medium term, with an all-time high FDI disbursement of \$25.35 billion USD in 2024, and is expected to continue to grow, bolstering Vietnam's position as a growing manufacturing actor in global supply chains.
- Vietnam's ongoing SOE privatization reforms are expected to decrease current control of 20.5% of total enterprise state capital allocation, balancing efficiency-driven decisions with state-centric economic model in the medium term to long.

Vietnam's economic growth was set into motion with the institution of the *Doi Moi* reforms in 1986, which transformed Vietnam from a centrally planned to a market-oriented economy opened towards international markets and trade.¹ Vietnam's condition as one of the poorest countries in the mid-1980's has since then transformed into a key actor in global supply chains.² Since the reforms, Real GDP per capita exponentially increased from less than \$700 USD in 1986 to approximately \$4,500 USD in 2023.³

Despite challenges during COVID-19, Vietnam successfully maintained 2.6% Real GDP growth in 2021, amidst global lockdown.⁴ The economy was in its way to recover the pre-pandemic highs, but the US tariffs announced at the beginning of April 2025 could derail this

¹ Baum, Anja. "Vietnam's Development Success Story and the Unfinished SDG Agenda ." IMF, 2019. <https://www.imf.org/-/media/Files/Publications/WP/2020/English/wpia2020031-print-pdf.ashx>.

² Kam, Adric. "The Miracle Growth Story of Vietnam Has Further to Unfold." Oxford Economics, November 21, 2023. <https://www.oxfordeconomics.com/resource/the-miracle-growth-story-of-vietnam-has-further-to-unfold/>.

³ World Bank. "Vietnam Overview," October 8, 2024. <https://www.worldbank.org/en/country/vietnam/overview>.

⁴ IMF. "Real GDP Growth - Vietnam," 2025. https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/VNM?zoom=VNM&highlight=VNM.

ambition⁵. It is early to know their impact. President Donald Trump announced for Vietnam one of the highest ‘reciprocal’ tariffs (46%) because this southeast country has one of the largest trade surpluses with the US. Bilateral negotiations are still to be held; depending on their outcome, so will be the economic performance. The Vietnamese expectations could quickly recover, although some negative influence is expected for 2025 and 2026.

The assumption of this report is that, because of the geopolitical context –the confrontation between the US and China–, Washington and Hanoi will possibly find an accommodation in the months ahead. Only in this first epigraph, devoted to macroeconomic forecast, the potential effects of the tariffs are taken in consideration.

Figure 1: Macroeconomic Indicators

INDICATORS	2023	2024 e	2025 f	2026 f	2025 f	2026 f
			BEFORE the announcement of US ‘reciprocal’ tariffs		AFTER the announcement of US ‘reciprocal’ tariffs	
Real GDP (% Growth)	5.1	7.1	6.1	6	5.2	4
Inflation Rate (% GDP)	3.3	3.6	3.5	3.4	2.9	2.5
Budget Deficit (% GDP)	-2.4	-1.6	-2.2	-2.1	-3.4	-3.2
Public Debt (% GDP)	34.4	32.9	33.2	32	33.6	34.9
Unemployment Rate (%)	2.3	2.2	2	2	2	2
Current Account Balance (% GDP)	5.9	6.1	2.7%	2.3	3.2	1.9

Source: Data from the IMF. Due to the uncertainty created by the US tariffs and the pending bilateral negotiations, the macroeconomic outlook is presented in two set of figures: First, the IMF forecast published in March 2025; then, the one published in April just after the US announced its ‘reciprocal’ tariffs. 2024 estimations are from April 2025⁶

⁵ The White House. “Regulating Imports with a Reciprocal Tariff to Rectify Trade Practices that Contribute to Large and Persistent Annual United States Goods Trade Deficits.” Executive Orders, April 2, 2025.

<https://www.whitehouse.gov/presidential-actions/2025/04/regulating-imports-with-a-reciprocal-tariff-to-rectify-trade-practices-that-contribute-to-large-and-persistent-annual-united-states-goods-trade-deficits/>

⁶ Unless otherwise cited, all data and projections for this Macroeconomic Analysis are sourced from the International Monetary Fund (IMF)

Macroeconomic Indicators

Real GDP growth

Vietnam's Real GDP was expected to show stability around 6% growth, with a value of 6.1% Real GDP growth in 2025, and remain around 6% for 2026, at the beginnings of this year, according to the IMF.⁷ The World Bank similarly optimistic, projected a 6.5% real GDP growth in 2025 and 2026, mainly driven by upward global demand and newfound domestic consumer assurance.⁸ Updated figures after the announced US tariffs suggest a downward trend of Real GDP growth of 5.2% for 2025 and further decrease to 4% Real GDP growth in 2026.⁹

However, Vietnam's government keeps its higher economic projection of GDP growth for 2025 set at over 8%, an increase of 1-1.5 percentage points from the 6.5-7% target approved late 2024 and one percentage point higher than the 7.09% growth rate achieved in 2024.¹⁰ The government plans to focus on private enterprises, financial markets, securities, consumption, and exports.¹¹ Vietnam's economic and fiscal policy in the short term will be characterized by a focus on boosting exports, attracting foreign direct investment, and enhancing domestic consumption. Nevertheless, exports could weaken in case of a decline in global growth or increase in geopolitical tensions.¹²

Supporting growth projection, the OECD indicates that robust real wages are calculated to increase consumption. A positive expectation in accommodation monetary policies, fiscal support, and improvements in banks' loan portfolios assures a steady increase in investment.¹³

Inflation rate

Vietnam has sustained a stable index of inflation rate of between 2-4% almost every year since 2014. Exceptions to this have included specific years, including a 0.6% inflation rate in 2015

⁷ IMF. "Real GDP Growth - Vietnam," 2025.

https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/VNM?zoom=VNM&highlight=VNM.

⁸ World Bank. "Vietnam Overview," October 8, 2024. <https://www.worldbank.org/en/country/vietnam/overview>.

⁹ IMF. "Real GDP Growth - Vietnam," 2025.

https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/VNM?zoom=VNM&highlight=VNM.

¹⁰ Vietnam Economic Times "The National Assembly Raises GDP Growth Target to at Least 8 per Cent for 2025," February 19, 2025. <https://en.vneconomy.vn/the-national-assembly-raises-gdp-growth-target-to-at-least-8-per-cent-for-2025.htm>.

¹¹ Ibid

¹² Reuters. "Vietnam to Raise 2025 GDP Growth Target to at Least 8% despite U.S. Tariff Risks." February 12, 2025. <https://www.reuters.com/markets/asia/vietnam-says-revise-up-2025-gdp-growth-target-80-65-70-2025-02-12/>.

¹³ OECD Economic Outlook. "OECD Economic Outlook, Volume 2024 Issue 2." *OECD*, December 4, 2024. https://www.oecd.org/en/publications/oecd-economic-outlook-volume-2024-issue-2_d8814e8b-en/full-report/viet-nam_57d933c5.html.

predominantly attributed to falling energy and food prices,¹⁴ as well as during the COVID-19 pandemic where governmental management maintained inflation rates under control at 3.2% in 2020, with a decrease to 1.8% in 2021.¹⁵ In 2024, inflation rates increased to 3.6%¹⁶, and are predicted to decrease to 3.5% in the upcoming 2025. For 2026, it is expected to remain within the range of 3.4%.¹⁷ If higher tariffs are considered in the trade with the US and other countries, less imports could reduce inflation to 2.9% in 2025 and 2.5% in 2026.

Maintaining these stable rates will depend on government efforts, as commodity prices are predicted to hike up to 4.5% growth throughout 2025¹⁸, as well as pressures from global geopolitical tensions and the potential volatility in currency exchange rates.¹⁹ However, there is optimism that inflation will continue to rest below the National Assembly's sustained target range of 4-4.5%.²⁰

Budget deficit

Budget deficit was expected to reach to -2.2% of GDP in 2025, with a slight reduction to 2.1% in 2016.²¹ Considering potential tariffs impacts and a consequent reduction of exports, the IMF later added a percentage point to its forecast (-3.4% in 2025 and -3.2% in 2026), which would mean doubling the 2024 deficit.

Vietnam has not had a year's end positive budget deficit withholding great fluctuations, except for 2022 when it experienced a peak with a surplus of 0.7% GDP,²² highlighting the country's well management of the COVID-19 pandemic, and the positive effects of reopening its borders earlier than China did.

¹⁴ Nhan Dan. "Vietnam's 2015 Inflation Falls to 0.63%, Lowest in 14 Years." December 24, 2015. <https://en.nhandan.vn/vietnams-2015-inflation-falls-to-0-63-lowest-in-14-years-post38078.html>.

¹⁵ IMF. "Inflation Rate, Average Consumer Prices." www.imf.org, 2025. <https://www.imf.org/external/datamapper/PCPIPCH@WEO/VNM?zoom=VNM&highlight=VNM>.

¹⁶ Ibid

¹⁷ Ibid

¹⁸ Mai, Ngoc. "Vietnamese Gov't Forecasts CPI Growth of up to 4.5% in 2025." Hanoi Times, February 7, 2025. <https://hanoitimes.vn/vietnamese-govt-forecasts-cpi-growth-of-up-to-45-in-2025-329145.html>.

¹⁹ Vietnam Plus. "Vietnam's Inflation Forecast to Range between 3-4.5% in 2025." VietnamPlus, January 9, 2025. <https://en.vietnamplus.vn/vietnams-inflation-forecast-to-range-between-3-45-in-2025-post308054.vnp>.

²⁰ Government News - Socialist Republic of Vietnam. "Gov't Targets to Keep Inflation below 4.5% This Year." Government News, June 19, 2024. <https://en.baohinhphu.vn/govt-targets-to-keep-inflation-below-45-this-year-111240619142856101.htm>.

²¹ IMF. "General Government Net Lending/Borrowing ." Imf.org, 2025. https://www.imf.org/external/datamapper/GGXCNL_NGDP@WEO/VNM?zoom=VNM&highlight=VNM.

²² IMF. "General Government Net Lending/Borrowing ." Imf.org, 2025. https://www.imf.org/external/datamapper/GGXCNL_NGDP@WEO/VNM?zoom=VNM&highlight=VNM.

Public debt

Vietnam's public debt has decreased significantly since reaching an all-time high of 63.7% of GDP in 2016.²³ Expenditures in the first 9 months of 2024 totaled \$52.34 billion USD, rising only 1.4% yearly, among them including security, defense, state management, and local recoveries from Typhoon Yagi,²⁴ totaling by the end of 2024 VND 283.9 trillion (actual rate approximately \$11 billion USD).²⁵ ²⁶ With this, the public debt estimations for 2024 were a reduction to 32.9% of GDP.

The pre-tariff forecast elaborated by the IMF set Vietnam's public debt for 2025 at 33.2% of GDP and at a lower 32.6% in 2026.²⁷ This trend of declining public debt would change course in the case of a prolonged tariffs war, with a debt of 33.6% in 2025 and 34.9 in 2026.

Unemployment rate

Since the Asian Financial Crisis in 1998, unemployment rates in Vietnam have followed a downward progression.²⁸ For the past decade, it has maintained a steady average of around 2% unemployment rate, except for a small peak after the COVID-19 pandemic where it rose to 3.2%.²⁹ Unemployment rate was heightened by a significant number of workers perceiving limited employment opportunities, leading them to temporarily withdraw from the labor force rather than actively seek employment.³⁰ Forthcoming unemployment is expected to remain around that same 2% average in 2025 and 2026 (even in the case of trade tariffs in place).³¹ Youth unemployment continues to be a core interest of the government looking to advance initiatives in creating a more skilled workforce with vocational training, especially with a big shift of rural to urban work activities in this same age group.³² By addressing this skills gap,

²³ Stoffers, Andreas . "Low Public Debt as Recipe for Vietnam's Success and Repositioning." Friedrich Naumann Foundation, February 22, 2021. <https://www.freiheit.org/vietnam/low-public-debt-recipe-vietnams-success-and-repositioning>.

²⁴ Ibid

²⁵ General Statistics Office of Vietnam. "Socio-Economic Situation in the Fourth Quarter and 2024," 2024. <https://www.gso.gov.vn/en/highlight/2025/02/socio-economic-situation-in-the-fourth-quarter-and-2024/>.

²⁶ Thu, Thanh. "Public Debt Indicators Remain in Alignment with Expectations." Vietnam Investment Review - VIR, October 25, 2024. <https://vir.com.vn/public-debt-indicators-remain-in-alignment-with-expectations-116678.html>.

²⁷ IMF. "General Government Gross Debt - Vietnam," 2025. https://www.imf.org/external/datamapper/GGXWDG_NGDP@WEO/VNM?zoom=VNM&highlight=VNM.

²⁸ IMF. "Unemployment Rate ." imf.org, 2025. <https://www.imf.org/external/datamapper/LUR@WEO/VNM>.

²⁹ Ibid

³⁰ International Labour Organization. "Labour and Social Trends in Vietnam 2021, Outlook to 2030." International Labour Organization, 2022. https://www.ilo.org/sites/default/files/wcmsp5/groups/public/@asia/@ro-bangkok/@ilo-hanoi/documents/publication/wcms_837244.pdf.

³¹ IMF. "Unemployment Rate ." imf.org, 2025. <https://www.imf.org/external/datamapper/LUR@WEO/VNM>.

³² Source of Asia. "Labour Market in Vietnam: A Global Overview." Source of Asia, October 7, 2022. <https://www.sourceofasia.com/overview-of-the-vietnamese-labour-market/>.

Vietnam intends to strengthen capacities in upcoming generations, pushing for its economic development, which is likely to favor future rates of unemployment.

Current account Balance % of GDP

Just before Trump's plan for setting high trade tariffs, the IMF forecasted for Vietnam a current account balance of 2.7% of GDP in 2025, which would translate into \$126.876 billion USD, decreasing steadily from the past two years.³³ As for 2026, the current account balance was projected to continue decreasing to 2.3% of GDP.³⁴ But these figures would notably change if exporting to the US becomes more expensive for Vietnam. The IMF keeps a good prognosis for 2025, with a current account balance of 3.2% of GDP, but it sees a reduction to 1.9% in 2026 and 1.1% in 2027.

The State Bank of Vietnam reported in the third quarter of 2024 a positive trade balance of goods (\$12,620), services (\$3,967) and investment income (\$4,751) —all in net figures.³⁵ The US Office of Trade Representatives declared the trade deficit with Vietnam was \$123.5 billion in 2024, an 18.1% increase (\$18.9 billion) over 2023.³⁶ This trade imbalance consolidates Vietnam's position as the US' third largest trade deficit holder.³⁷

Investment in Vietnam as a Manufacturing Hub

A Look into Vietnam's Development of its Manufacturing Sector

Vietnam has emerged over the past couple of years as a key actor in global supply chain diversification, especially through the manufacturing sector, which continues to make up more than 20% of its GDP.³⁸ Investment in China has recorded historical downward shifts, mostly

³³ IMF. "Current Account Balance, Percent of GDP - Vietnam," 2025.

https://www.imf.org/external/datamapper/BCA_NGDPD@WEO/FRA/GBR/DEU/VNM.

³⁴ Ibid

³⁵ The State Bank of Vietnam. "Balance of International Payment," 2024.

https://www.sbv.gov.vn/webcenter/portal/en/home/sbv/statistic/boip?_afLoop=15573405159991755#%40%3F_afLoop%3D15573405159991755%26centerWidth%3D80%2525%26leftWidth%3D20%2525%26rightWidth%3D0%2525%26showFooter%3Dfalse%26showHeader%3Dfalse%26adf.ctrl-state%3D1bb01kycrs_9.

³⁶ Office of the United States Trade Representative. "Vietnam | United States Trade Representative," 2024. <https://ustr.gov/countries-regions/southeast-asia-pacific/vietnam>.

³⁷ South China Morning Post. "Vietnam Hopes to Stop Trump US Tariffs Trade Talks." March 13, 2025.

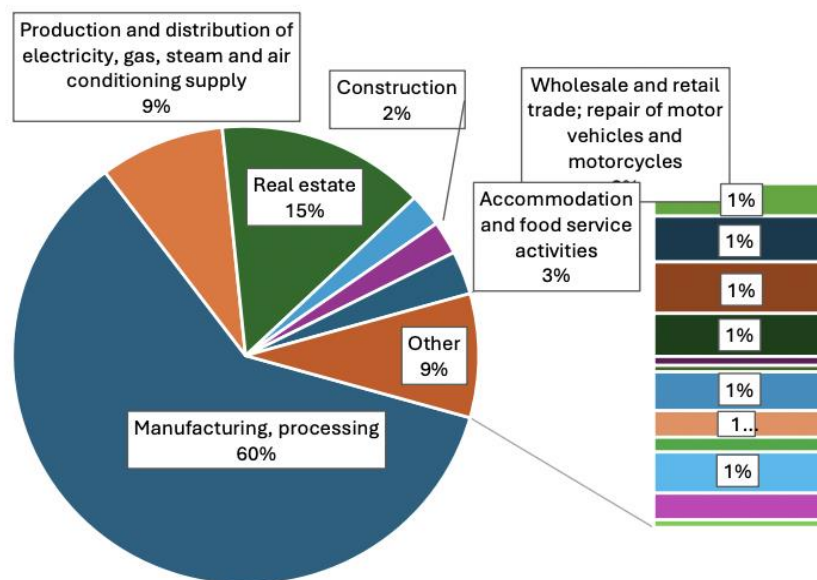
<https://www.scmp.com/news/asia/southeast-asia/article/3302178/vietnam-hopes-stop-trumps-us-tariffs-trade-talks>.

³⁸ Francois, Matthieu, Thomas Hansmann, Bo Huang, and Zoey Nguyen. "Boosting Vietnam's Manufacturing Sector: From Low Cost to High Productivity." McKinsey & Company, September 25, 2023. <https://www.mckinsey.com/featured-insights/asia-pacific/boosting-vietnams-manufacturing-sector-from-low-cost-to-high-productivity>.

attributed to an increasingly complex business environment.³⁹ As a consequence, the China +1 Strategy – which encourages diversification away from China to avoid reliance – has become even more relevant, with Vietnam positioned to stand out as an alternative.⁴⁰

Manufacturing has long been the backbone of the Vietnamese economy and investments, as demonstrated in *Figure 2* showcasing this sector's dominance in attracting capital. Growth in the sector has been consistent, with the manufacturing industry comprising 64.2% of 2023's total foreign investment with prospects of increasing in the short term.⁴¹

Figure 2: Accumulated total registered investment capital by industries (1998-2023)



Source: Asia Competitiveness Institute Research Paper Series⁴²

The Vietnamese government has implemented various initiatives to further strengthen its key advantages that have made it a leading destination for manufacturing production: low labor costs, well-developed infrastructure to support its export-driven economy, and strategic

³⁹ Lee, Chris. "China Is on Course for a Prolonged Recession." *The Strategist*, March 3, 2025. <https://www.aspistrategist.org.au/china-is-on-course-for-a-prolonged-recession/>.

⁴⁰ VP Fund Solutions. "Infrastructure Boom in Vietnam Thanks to 'China + 1.'" *Vpbank.com*, February 20, 2025. <https://www.vpbank.com/en/vpfundsolutions/news/2025/infrastructure-boom-in-vietnam-thanks-to-china-1>.

⁴¹ Acclime. "Vietnam Manufacturing Brief in 2024," 2024. <https://vietnam.acclime.com/downloads/guides/Vietnam%20Manufacturing%20Brief%202024.pdf>.

⁴² Banh, Thi, and Thanh Hang. "The Future Factory of the World: Is Vietnam Ready." *Asia Competitiveness Institute Research Paper Series*, 2024. <https://lkyspp.nus.edu.sg/docs/default-source/aci/acirp202417.pdf>.

location along major trade routes.⁴³ In 2025, these efforts have continued to yield results, as Vietnam attracted a proportional share of foreign investment, with 282 new projects approved and reported by the Ministry of Planning and Investment.⁴⁴ The manufacturing sector led the way, securing \$3.09 billion in investments, reinforcing Vietnam's leverage and interest in becoming a global manufacturing hub and alternative to Chinese production.⁴⁵

Investments made over the past decade have significantly enhanced productivity through Vietnam's transportation and industrial sectors, which consequently create more favorable conditions for investments and trade. One notable example is the surge in investment in 2016, which targeted railways, airports, and air cargo, leading to increased trade activity and strengthening Vietnam's position as a logistics hub.⁴⁶ Additionally, the continued development of the country's 600+ industrial parks highlights a strategic focus on industrial expansion, with Hai Phong emerging as a key area of interest.⁴⁷ The Hai Phong–Hanoi corridor is rapidly becoming a leading destination for foreign investment, driven by large-scale infrastructure projects that catalyze industrial growth. A next-generation free trade area is also under development in Hai Phong to promote a conducive investment climate for multinational conglomerates.⁴⁸ These initiatives align with Vietnam's aspirations to position itself as a key manufacturing hub, sustaining its ability to attract ongoing investments.

Vietnam as a possible rival to China in the Manufacturing Sector

Vietnam's strengths as a manufacturing alternative are further amplified by its low-cost labor, which provides economic incentives for stakeholders looking to diversify their supply chains in labor-intensive industries. These industries now constitute some of Vietnam's most prominent export products, including textiles, furniture, and apparel.⁴⁹

⁴³ Francois, Matthieu, Thomas Hansmann, Bo Huang, and Zoey Nguyen. "Boosting Vietnam's Manufacturing Sector: From Low Cost to High Productivity." McKinsey & Company, September 25, 2023. <https://www.mckinsey.com/featured-insights/asia-pacific/boosting-vietnams-manufacturing-sector-from-low-cost-to-high-productivity>.

⁴⁴ Ministry of Planning and Investment. "FDI Attraction in January." Mpi.gov.vn, 2025. <https://www.mpi.gov.vn/en/Pages/2025-2-11/FDI-attraction-in-January-gs8375.aspx>.

⁴⁵ Ibid

⁴⁶ Banh, Thi, and Thanh Hang. "The Future Factory of the World: Is Vietnam Ready." *Asia Competitiveness Institute Research Paper Series*, 2024. <https://lkyspp.nus.edu.sg/docs/default-source/aci/acirp202417.pdf>.

⁴⁷ Du Long. "List of Industrial Parks in Viet Nam 2024." Khu Công Nghiệp Du Long. Khu công nghiệp Du Long, February 2024. <https://dulongip.vn/en/handbook/list-of-industrial-parks-in-viet-nam.html>.

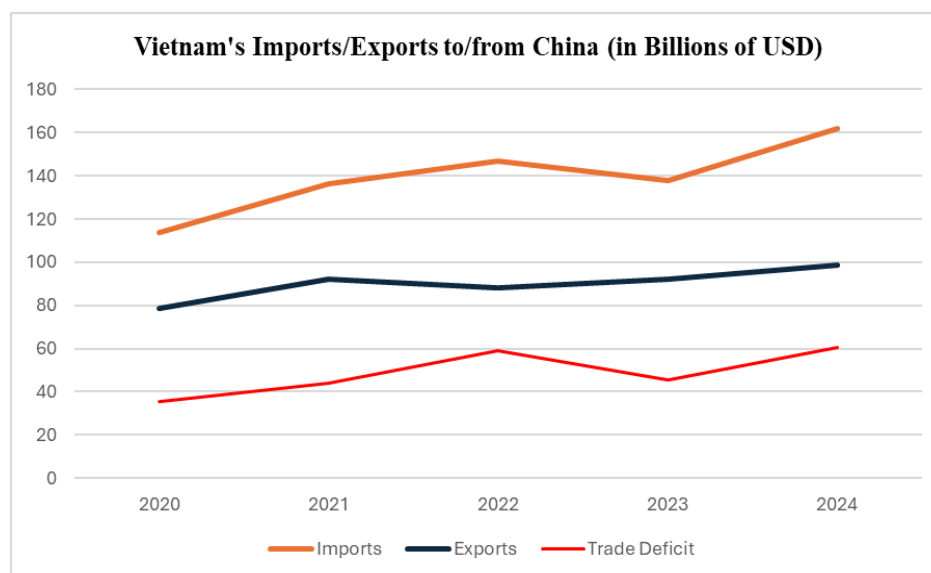
⁴⁸ An, Đại. "Hai Phong to Establish New Generation Free Trade Zone in 2025." *Laodong.vn*. Báo Lao Động, December 4, 2024. <https://news.laodong.vn/kinh-doanh/hai-phong-lap-khu-thuong-mai-tu-do-the-he-moi-trong-nam-2025-1430532.lido>.

⁴⁹ Center for WTO and International Trade. "Vietnamese Textiles, Garments and Furniture Benefit from Many Breakthrough Advantages in the Global Market." *Wtocenter.vn*, 2025. <https://wtocenter.vn/chuyen-de/24962-vietnamese-textiles-garments-and-furniture-benefit-from-many-breakthrough-advantages-in-the-global-market>.

Labor costs in Vietnam, which are 50% lower than China's, have been among the most economically compelling factors in Vietnam's purpose to become a manufacturing contender.⁵⁰ Its FDI is diversifying in order to propel different sectors, including high-end manufacturing and high-tech products, with the increasing presence of Samsung, Apple, and Intel demonstrating Vietnam's growth potential on this end.⁵¹

Although Vietnam has managed to pose itself as an alternative to China, it is highly unlikely that it can come to truly rival, much less surpass China as the designated manufacturing industry in global trade. In any case, Vietnam's efforts could potentially close the gap in strong industries such as textiles, machinery, which are likely to be major contributors to Vietnam's growth over the coming years.⁵² Vietnam's limited capacity and infrastructure are highly unlikely to equal China's large-scale production capabilities in the medium and long term. Further disadvantages of Vietnam's capacities in comparison to China, are demonstrated by its substantial reliance on imports from them compared in *Figure 3*.

Figure 3: Vietnam's Imports/Exports to/from China



Source: Author's elaboration from UN Comtrade Database and Vietnam Plus⁵³

⁵⁰ Vu, Nguyen Hanh. "Vietnam's Economic Outlook for 2025 and Key Sectors for Investors." Vietnam Briefing News, January 14, 2025. <https://www.vietnam-briefing.com/news/vietnams-economic-outlook-for-2025-push-for-digitalization-and-sustainability.html/>.

⁵¹ Levinson, Eric. "The Evolution of Asia's next Tiger Economy." Hubbis.com, 2025. <https://www.hubbis.com/article/vietnam-the-evolution-of-asia-s-next-tiger-economy>.

⁵² Kam, Adric. "Vietnam: Growth Will Be ahead of Regional Peers in 2025." Oxford Economics, December 16, 2024. <https://www.oxfordeconomics.com/resource/vietnam-growth-will-be-ahead-of-regional-peers-in-2025/>.

⁵³ UN Comtrade Database. "Trade Data." Un.org, 2025. <https://comtradeplus.un.org/TradeFlow?Frequency=A&Flows=X&CommodityCodes=TOTAL&Partners=0&Reporters=704&period=recent>

In relation to this, Vietnam recorded a difference of over \$60 billion in exports and imports in 2024, widening its trade deficit as well with China. This indicates a still present dependence on China as a resource provider for its production, mostly aimed at manufacturing.

Outlook of investment in Vietnam's manufacturing industries

Vietnam was substantially favored by the previous US-China trade war during President Trump's first mandate, as investors looked for alternatives in the midst of an uncertain business environment. In the medium term, and on the lookout during Trump's second mandate, Vietnam could benefit from these policies again, especially being strategically positioned as one of - if not the first - contender for China +1. Evidenced by Vietnam's ability to stand out among the ASEAN-6, with the fastest pace of growth, powered by manufacturing, a strong FDI with development in jobs, businesses, and technological sectors.⁵⁴

Slowdown of global demands due to US tariffs could have substantial impacts on Vietnam's economy which is highly dependent on exports and exposed to global change.⁵⁵ Vietnam's stability is potentially at risk of US tariffs, highly considering Trump's economic priorities of reducing US trade imbalances. Particularly, Vietnam has the largest trade deficit of the Asian countries behind China, and is also on the US Treasury's Foreign Exchange Monitoring List. While Vietnam's resilient manufacturing industry sustains its economic growth, international impacts on this sector are possible, in which case efficient government incentives would be key in addressing any repercussions.

Long term projections in this sector

Long term projections are driven by ambitious government targets aiming for sustainable high growth until 2045, aspiring to become a developed country with high target growths of GDP for each year.⁵⁶ The next decade will see adaptations in its most important sectors in order to meet these targets. In the case of the manufacturing industry, increasing the local procurement rate is a priority, as investing companies in Vietnam still rely on imports from countries abroad.

&AggregateBy=none&BreakdownMode=plus. ; Vietnam Plus. "Vietnam - China Economic, Trade Cooperation Flourishes." VietnamPlus, February 6, 2025. <https://en.vietnamplus.vn/vietnam-china-economic-trade-cooperation-flourishes-post309398.vnp>.

⁵⁴ Kam, Adric. "Vietnam: Growth Will Be ahead of Regional Peers in 2025." *Oxford Economics*. Oxford Economics, December 16, 2024. <https://www.oxfordeconomics.com/resource/vietnam-growth-will-be-ahead-of-regional-peers-in-2025/>.

⁵⁵ BNP Paribas. "Vietnam: Economic Success Threatened by Trump 2.0?" Economic Research Portal, February 11, 2025. <https://economic-research.bnpparibas.com/html/en-US/Vietnam-Economic-success-threatened-Trump-2-0-2/11/2025,51314#:~:text=Vietnam%20is%20also%20exposed%20to,to%20result%20from%20rising%20protectionism>.

⁵⁶ Dung, Phuong. "Vietnam Must Maintain Continuous Growth Rate until 2045: PM." VnExpress International. VnExpress International, February 21, 2025. <https://e.vnexpress.net/news/business/economy/vietnam-must-maintain-continuous-growth-rate-until-2045-pm-4852387.html>.

The government plans to have 70% of domestic production and consumption demand met by local companies by 2030 through developing supporting industries.⁵⁷ The government has also planned for a reduction of 25% of the agricultural workforce by 2030 to further transition its labor force into the industrial sector. Moreover, infrastructure development plans include 221 newly planned industrial zones, extending into emerging localities to promote balanced industrial growth.⁵⁸ These plans target 2030, encouraging investment in the real estate sector and creating new opportunities for investors and businesses.

Diversification of its economic activities, specifically in the increase of investment in high-tech and chip sectors is crucial for Vietnam's establishment in the global supply chain. Alongside diversification, policies will focus on further increasing productivity as Vietnam still ranks 136th in labor productivity, despite continuous efforts.⁵⁹ Vietnam will fall within the concept of an aged society by 2036, with fertility rates also falling to 1.91 in 2024 hitting record lows⁶⁰ and a rapidly aging population set to have 21% of its population over the age of 60 by 2040.⁶¹ This will evidently reduce the amount of population available to maintain needed productivity and economic growth. These figures also project upon Vietnam's window of opportunity, which is expected to close by 2039,⁶² urging following 10 years to increase efforts in policies that mitigate the consequences onto productive labor markets.⁶³ 2035 will thus most likely see the opportunities created by these investments on infrastructure, job and economy diversification in line with reaching the high-income status that is strived for.

Short-Term Forecast for FDI

FDI is expected to remain a steady source for Vietnam's growth. Even though investment commitments had decreased 3% in regards to 2023, the country reached an all-time high FDI

⁵⁷ Fukuoka, Yuki. "Vietnam's Quest to Become 'a Developed Country by 2045': Challenges of Sustaining Growth and Expectations for Foreign Capital," 2021. https://www.mitsui.com/mgssi/en/report/detail/_icsFiles/afieldfile/2021/08/02/2106c_fukuoka_e_1.pdf.

⁵⁸ Hanh, Vu Nguyen. "Vietnam's Industrial Zones: 2025-2030 Growth Outlook." Vietnam Briefing News, February 11, 2025. <https://www.vietnam-briefing.com/news/vietnams-industrial-zones-2025-2030-growth-outlook.html/>.

⁵⁹ Francois, Matthieu, Thomas Hansmann, Bo Huang, and Zoey Nguyen. "Boosting Vietnam's Manufacturing Sector: From Low Cost to High Productivity." McKinsey & Company, September 25, 2023. <https://www.mckinsey.com/featured-insights/asia-pacific/boosting-vietnams-manufacturing-sector-from-low-cost-to-high-productivity>.

⁶⁰ Hutt, David. "Vietnam: Alarm Bells Ring as Birthrate Hits Record Low." Dw.com, January 21, 2025. <https://www.dw.com/en/vietnam-birthrate-hits-record-low-2024/a-71360314>

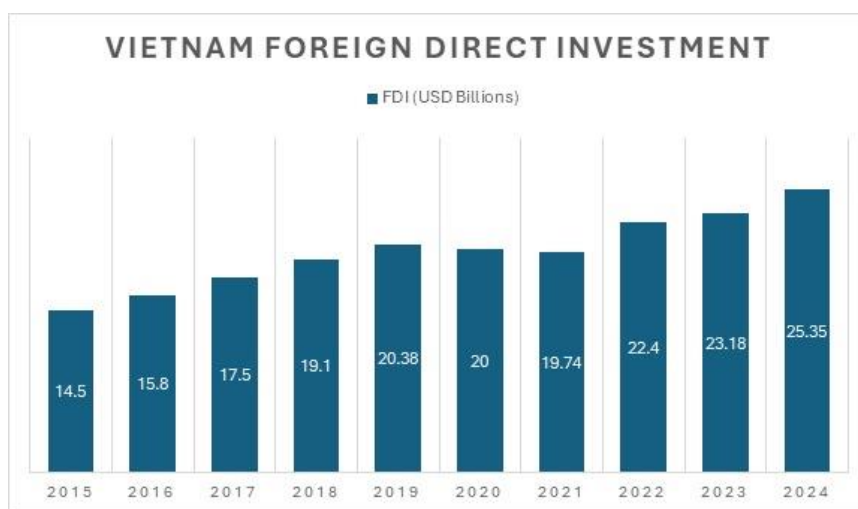
⁶¹ Banh, Thi, and Thanh Hang. "The Future Factory of the World: Is Vietnam Ready." *Asia Competitiveness Institute Research Paper Series*, 2024. <https://lkyspp.nus.edu.sg/docs/default-source/aci/acirp202417.pdf>.

⁶² UNFPA. "Ageing." UNFPA Vietnam, 2019. <https://vietnam.unfpa.org/en/topics/ageing-6>.

⁶³ Banh, Thi, and Thanh Hang. "The Future Factory of the World: Is Vietnam Ready." *Asia Competitiveness Institute Research Paper Series*, 2024. <https://lkyspp.nus.edu.sg/docs/default-source/aci/acirp202417.pdf>.

disbursement in 2024 of \$25.35 billion USD.⁶⁴ The past few years have seen a steady growth, showcased in *Figure 4*, as government policies are broadly conducive to FDI, further developing its export-oriented economy.⁶⁵ Resolution 50, for example, oriented to increase efficiency and quality investments, has fortified regulatory certainty for investors.⁶⁶ This is the case as well of Vietnam's Strategy for Foreign Investment Cooperation which focuses on boosting shares of foreign investment from key regions, whilst also developing the domestic market in order to transition into the 4th Industrial Revolution encouraging digitalization. Said focus on the domestic economy has also been a priority in handling investments, as Vietnam faces challenges to retain capital and increase the added-value in major sectors.⁶⁷

Figure 4: FDI Growth from 2015-2024



*Source: Author's elaboration from Trading Economics*⁶⁸

Vietnam's 16 FTA's as well as other bilateral or multilateral agreements have also provided a strong base to further enhance opportunities and attractiveness of investment within the country, such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, the European Union–Vietnam Free Trade Agreement, and the United Kingdom–Vietnam Free

⁶⁴ Nhan Dan. "Vietnam Achieves Record FDI Disbursement in 2024." January 6, 2025. <https://en.nhandan.vn/vietnam-achieves-record-fdi-disbursement-in-2024-post143065.html>.

⁶⁵ US Department of State. "Vietnam." *United States Department of State*, 2024. <https://www.state.gov/reports/2024-investment-climate-statements/vietnam/>.

⁶⁶ Ibid ; Central Committee of the Communist Party of Vietnam. Orientations towards improvement of regulations and policies to enhance quality and efficiency of foreign investment by 2030 (2019). <https://lawnet.vn/en/vb/Resolution-50-NQ-TW-2019-improvement-of-policies-to-efficiency-of-foreign-investment-7B188.html>.

⁶⁷ Francois, Matthieu, Thomas Hansmann, Bo Huang, and Zoey Nguyen. "Boosting Vietnam's Manufacturing Sector: From Low Cost to High Productivity." McKinsey & Company, September 25, 2023. <https://www.mckinsey.com/featured-insights/asia-pacific/boosting-vietnams-manufacturing-sector-from-low-cost-to-high-productivity>.

⁶⁸ Trading Economics. "Vietnam Foreign Direct Investment." tradingeconomics.com, 2023. <https://tradingeconomics.com/vietnam/foreign-direct-investment>.

Trade Agreement.⁶⁹ Its main investors continue to be regional actors, Singapore being the largest one, followed by South Korea, China, Hong Kong, and finally Japan.⁷⁰

Projecting growth for the upcoming year, the start of 2025 has demonstrated dominant contributions by South Korean companies, with total investments exceeding \$1.25 billion USD⁷¹ during the first month. Overall, January of 2025 saw a 48.6% increase in investment recorded to January 2024, supporting projections of a substantial inflow of FDI expected for the rest of the year.⁷² Diversification of incoming capital have also expanded to not only manufacturing and real estate, but high-tech and renewable energy⁷³ as well, with companies like Foxconn and Goertek planning on expanding investments in the country.⁷⁴ Vietnam's strategic push in establishing itself in the global trade market is also represented in its outward FDI, where January 2025 showcased a cumulative overseas share of \$22.68 billion USD, with a special focus on mining⁷⁵. Although net outflows have remained relatively low,⁷⁶ Vietnam's investments abroad could create better conditions in harboring a more dynamic economic environment and more resilient domestic market in further years. This aligns with expected increase in FDI in the short term, especially with the China +1 strategy in place, as Vietnam continues to establish itself as financially appealing for investment.

Outlook of Vietnam's Corporate Group Framework

Vietnam has projected a revitalization of its key industries becoming one of modern history's biggest and fastest economic expansions.⁷⁷ Decisions signed in 2014, which approved the

⁶⁹ KPMG. "The Investor's Guide to Growth." KPMG, March 2024. <https://assets.kpmg.com/content/dam/kpmg/vn/pdf/2024/03/vietnam-2024-outlook-report-en.pdf>.

⁷⁰ Vietnam Plus. "FDI Disbursement in Vietnam in 2024 Hits Record High." Vietnam Plus, January 10, 2025. <https://en.vietnamplus.vn/fdi-disbursement-in-vietnam-in-2024-hits-record-high-post308003.vnp>.

⁷¹ Ministry of Planning and Investment. "FDI Attraction in January." Mpi.gov.vn, 2025. <https://www.mpi.gov.vn/en/Pages/2025-2-11/FDI-attraction-in-January-gs8375.aspx>.

⁷² Vietnam Law Magazine. "Vietnam Expects Big FDI Wave in 2025." 2025. <https://vietnamlawmagazine.vn/vietnam-expects-big-fdi-wave-in-2025-73543.html>.

⁷³ US Department of State. "Vietnam." *United States Department of State*, 2024. <https://www.state.gov/reports/2024-investment-climate-statements/vietnam/>.

⁷⁴ Vietnam News. 2025. "Việt Nam Expects Big FDI Wave in 2025." Vietnamnews.vn. 2025. <https://vietnamnews.vn/economy/1692009/viet-nam-expects-big-fdi-wave-in-2025.html>.

⁷⁵ Ministry of Planning and Investment. "FDI Attraction Situation in Vietnam and Vietnam's Overseas Investment in January 2025." Ministry of Planning and Investment, 2025. <https://www.mpi.gov.vn/en/Pages/2025-2-11/FDI-attraction-situation-in-Vietnam-and-Vietnam-s-emu1z8.aspx>. <https://www.mpi.gov.vn/en/Pages/2025-2-11/FDI-attraction-situation-in-Vietnam-and-Vietnam-s-emu1z8.aspx>.

⁷⁶ World Bank. n.d. "World Bank Open Data." World Bank. <https://data.worldbank.org/indicator/BM.KLT.DINV.WD.GD.ZS?locations=VN>.

⁷⁷ World Bank. "World Bank Report Outlines Path to High Income for Viet Nam through Higher Value Trade and Economic Reforms," November 21, 2024. <https://www.worldbank.org/en/news/press-release/2024/11/21/world-bank-report-outlines-path-to-high-income-for-viet-nam-through-higher-value-trade-and-economic-reforms>.

Industrial Development Strategy through 2025, towards 2035, focus on the development of the private sector and foreign-investment sector, agricultural and rural industrialization, and modernization.⁷⁸ According to the General Statistics Office (GSO), the industrial sector's contribution to GDP growth in 2024 was significant. The sector's value-added output rose by 8.32% compared to the previous year, accounting for 2.7 percentage points of the overall economic growth rate,⁷⁹ which supports the notion of a more positive outlook of support and determination for corporate group development in Vietnam.

Vietnam's SOE Framework

Vietnam's industrial landscape is complex mainly because of the nuanced classification of enterprises based on state ownership. Under Vietnamese law, institutions with less than 50% state ownership are categorized and treated as private enterprises, despite potentially significant government influence. This classification system blurs the traditional boundaries between state-owned enterprises (SOEs) and private companies, a distinct model from its Southeast Asian counterparts such as Japan and South Korea.

Vietnam's corporations are in their majority SOEs and contribute largely to the Vietnamese economy and plans for economic development, dominating most areas in the economy,⁸⁰ focusing in sectors such as energy security, food supply, telecommunications, petroleum, and finance.⁸¹ As of 2025, SOEs' assets were valued at nearly VNĐ4 quadrillion (actual rate \$163 billion USD) on behalf of the government, and currently hold control of 20.5% of the total enterprise capital in Vietnam.⁸² They generate substantial pre-tax profits, amounting to about VNĐ348.3 trillion (actual rate \$13 billion USD).⁸³ Additionally, the SOE sector contributes significantly to the state budget, with contributions reaching nearly VNĐ366 trillion (actual rate \$14 billion USD).⁸⁴

⁷⁸ VietNam Government. "Industrial Development Strategy through 2025, Vision to 2035," n.d. <https://vietnam.gov.vn/period-20112020/industrial-development-strategy-through-2025-vision-to-2035-10054959>.

⁷⁹ Hanh, Vu Nguyen. "Vietnam Manufacturing Tracker." Asean Briefing, March 18, 2025. <https://www.aseanbriefing.com/vietnam-news/vietnam-manufacturing-tracker>.

⁸⁰ OECD. "OECD Review of the Corporate Governance of State-Owned Enterprises in Viet Nam," October 15, 2022. https://www.oecd.org/en/publications/oecd-review-of-the-corporate-governance-of-state-owned-enterprises-in-viet-nam_a22345d0-en.html.

⁸¹ Nhan Dan. "Prime Minister Urges SOEs to Contribute More to Nation's Growth," February 27, 2025. <https://en.nhandan.vn/prime-minister-urges-soes-to-contribute-more-to-nations-growth-post144600.html>.

⁸² Viet Nam News. "PM Directs State Enterprises to Drive Sustainable Growth," February 27, 2025. <https://vietnamnews.vn/economy/1692975/pm-directs-state-enterprises-to-drive-sustainable-growth.html>.

⁸³ Ibid

⁸⁴ Ibid

The government of Vietnam has implemented a significant policy shift in managing state-owned assets. In a move to streamline decision-making and reduce bureaucratic delays, the oversight of SOEs has been transferred from the independent State Capital Management Committee (CMSC) to the Ministry of Finance.⁸⁵ This transition places SOE management under the same authority that controls state budget allocation and investment policies, enabling a more efficient and coordinated administration of state assets.

In the medium term, SOEs will likely continue moderate privatization efforts per Vietnamese governmental policy and are urged to lead the nation's economic development for Vietnam in becoming an upper-middle-income country by 2030.⁸⁶ In line with privatization efforts, Vietnamese executives are called to implement new business models unique to its structural framework,⁸⁷ which balances streamlining decisions with its state-centric economic model. Yet these efforts are highly unlikely to mirror the Southeast Asian corporate approach of family-owned corporation and interlocked business shareholding. Despite slow progress in these reforms,⁸⁸ the government is still committed to enhancing efficiency, underscoring the critical role of SOEs in Vietnam's development strategy.

Shipbuilding, Automotive, and Semiconductor Sector Analysis

SOEs and National Preference

As emphasized before, manufacturing in Vietnam has been the epicenter of its high economic growth, with projected growth targets of at least 9.5% for industry for 2025, which is 0.7-1.3 percentage points higher than in 2024.⁸⁹ SOEs and private national companies are likely to benefit from this projection and development in this sector, with lower borrowing costs – a result of government guarantees provided by state-owned banks – which held over 40% of the assets of all credit institutions at the end of 2020.⁹⁰ With established preferential political

⁸⁵ VietNamNet News. "Vietnam's Ministry of Finance Takes over 18 Major State-Owned Enterprises," March 1, 2025. <https://vietnamnet.vn/en/vietnam-s-ministry-of-finance-takes-over-18-major-state-owned-enterprises-2376437.html>.

⁸⁶ VietNamNet News. "Vietnam Pushes for SOE-Led Economic Acceleration with Higher Growth Targets," February 27, 2025. <https://vietnamnet.vn/en/vietnam-pushes-for-soe-led-economic-acceleration-with-higher-growth-targets-2375784.html>.

⁸⁷ VietNamNet News. "Vietnam's Ministry of Finance Takes over 18 Major State-Owned Enterprises," March 1, 2025. <https://vietnamnet.vn/en/vietnam-s-ministry-of-finance-takes-over-18-major-state-owned-enterprises-2376437.html>.

⁸⁸ Viet Nam News. "Experts Highlight Challenges for This Year," January 3, 2025. <https://vietnamnews.vn/economy/1690096/experts-highlight-challenges-for-this-year.html>.

⁸⁹ Fiinpro. "Government Proposes Raising 2025 GDP Growth Target to at Least 8%," February 11, 2025. <http://fiinpro.com/News/Detail/11340189?lang=en-US>.

⁹⁰ OECD Economic Outlook. "OECD Economic Outlook, Volume 2024 Issue 2." *OECD*, December 4, 2024. https://www.oecd.org/en/publications/oecd-economic-outlook-volume-2024-issue-2_d8814e8b-en/full-report/viet-nam_57d933c5.html.

incentives, both SOEs and private national companies are likely to further its development in the manufacturing industry, achieve moderate standards in shipbuilding and high standards in the automotive industry, with an increased focus on the chip sector.

Shipbuilding

Ship-building in Vietnam is one of the unique sectors that can be eligible for so-called ‘investment incentives’, highlighting the shipbuilding sector as a priority of the Vietnamese government.⁹¹ Sustained with Vietnam’s shipbuilding economic outlook and the growth of global trade, the country’s maritime transport demand is projected to grow approximately 10% annually from 2023 to 2030.⁹² Continuing to solidify its position in the global shipbuilding industry, it is ranked seventh globally in capacity, although its market share of shipbuilding remains modest.⁹³ The shipbuilding industry is dominated by China, South Korea, and Japan which currently account for more than 90% of the global shipbuilding industry,⁹⁴ making efforts of high standards of development for Vietnam highly unlikely.

Nevertheless, Vietnam continues to make strides, with 20 major domestic shipyards owned by the state, alongside 8 foreign shipyards established as joint ventures with Vietnamese shipyards.⁹⁵ In addition to this, the sector also benefits from more than 88 shipbuilding enterprises and 411 inland waterways vessel construction facilities that allocate local shipbuilders to manufacturing large-capacity vessels, specialized ships, and craft-fitted vessels which favor the international market.⁹⁶ During 2018-2021, Vietnam received new orders of shipbuilding from 25 countries, of which 49% were from ship owners in Greece, Japan, South Korea, and the UK, amounting to a total of 634,985 CGT seagoing vessels.⁹⁷ Projections for Vietnamese shipbuilding capacity are expected to reach \$680 million USD in 2032 and with a

⁹¹ Vietnam Marine & Marine Offshore Expo 2025. “Industry Facts - Facts of Vietnam’s Shipbuilding & Maritime Industry,” 2025. <https://marine-vietnam.com/industry-facts.html?ref=industry-facts&title=industry-facts>.

⁹² Trang, Huyen . “Vietnam’s Shipbuilding Industry Navigating Challenges.” Vietnam Investment Review - VIR, December 5, 2024. <https://vir.com.vn/vietnams-shipbuilding-industry-navigating-challenges-119062.html>.

⁹³ Ibid

⁹⁴ AFM Redaktion. “Shipbuilding Industry in South Korea: Adapting amid China’s Surge.” Asia Fund Managers, January 15, 2025. <https://asiafundmanagers.com/shipbuilding-industry-in-south-korea-stands-strong-on-global-footing/>.

⁹⁵ Vietnam Marine & Marine Offshore Expo 2025. “Industry Facts - Facts of Vietnam’s Shipbuilding & Maritime Industry,” 2025. <https://marine-vietnam.com/industry-facts.html?ref=industry-facts&title=industry-facts>.

⁹⁶ Trang, Huyen . “Vietnam’s Shipbuilding Industry Navigating Challenges.” Vietnam Investment Review - VIR, December 5, 2024. <https://vir.com.vn/vietnams-shipbuilding-industry-navigating-challenges-119062.html>.

⁹⁷ Daniel, Laurent, and Sunhye Lee. “Shipbuilding Policy and Market Developments in Selected Economies 2022.” *OECD Science, Technology and Industry Policy Papers*, no. 131 (July 7, 2022). <https://doi.org/10.1787/f3faeb3d-en>.

CAGR (Compound Annual Growth Rate) of 6.0% from 2023 to 2032.⁹⁸ Demand for specialized vessels from 2023 to 2027 also project a positive outlook for the Vietnamese shipbuilding sector.⁹⁹

Automotive Sector

The Ministry of Industry and Trade forecasts that Vietnam's automotive industry could grow by approximately 12% in 2025, with sales expected to reach 600,000 units nationally.¹⁰⁰ This industry is expected to grow at an average of 14%-16% each year until 2030, driving total sales to approximately 1 to 1.1 million units.¹⁰¹ Notwithstanding, the sector's most significant challenge is the inflow of completely built-up (CBU) imported vehicles, which will likely exert significant pressure on the domestic automotive industry.¹⁰² The national policy of the “Development Strategy for Vietnam’s Automotive Industry to 2030, with a Vision to 2045” has been drafted in efforts for Vietnam to become a leader in supplier of car parts, building eco-friendly cars, and promoting electric vehicles by 2045, through discounts and better infrastructure.¹⁰³

The automotive market sector in 2025 is projected to slow down,¹⁰⁴ following a decline in car sales of 30.81% month-on-month in 2024.¹⁰⁵ Despite this, the sector’s long-term outlook remains positive with a projected 7% increase year-on-year.¹⁰⁶ This mixed performance has led to political efforts aimed at boosting the sector’s economic recovery. Through direct legislation, the Ministry of Finance proposed the extension of a tax incentive for the automotive industry until December 31, 2027, stressing the political intentions to develop the sector.¹⁰⁷

⁹⁸ “Vietnam Shipbuilding Industry Research Report 2023-2032.” *Research and Markets*. China Research & Intelligence, May 2023. https://www.researchandmarkets.com/reports/5806830/vietnam-shipbuilding-industry-research-report?srltid=AfmBOoqsi_pDSHkF6KoKa-pSgoh7tJAR8NpFQPTjbrsOPWIKM1zPStDD.

⁹⁹ Ibid

¹⁰⁰ Vietnam Plus. “Vietnam’s Automobile Industry to Face Multiple Challenges in 2025,” January 25, 2025.

<https://en.vietnamplus.vn/vietnams-automobile-industry-to-face-multiple-challenges-in-2025-post308759.vnp>.

¹⁰¹ Alcomendas, Anby. “Vietnam Sets Goal to Supply Car Parts Globally by 2045.” AfMA, October 2, 2024. <https://afma.org.au/vietnam-sets-goal-to-supply-car-parts-globally-by-2045/>.

¹⁰² Vietnam Plus. “Vietnam’s Automobile Industry to Face Multiple Challenges in 2025,” January 25, 2025.

<https://en.vietnamplus.vn/vietnams-automobile-industry-to-face-multiple-challenges-in-2025-post308759.vnp>.

¹⁰³ Alcomendas, Anby. “Vietnam Sets Goal to Supply Car Parts Globally by 2045.” AfMA, October 2, 2024. <https://afma.org.au/vietnam-sets-goal-to-supply-car-parts-globally-by-2045/>.

¹⁰⁴ Joson, Antonina. “Vietnam Car Market Projected to Slow down in 2025.” AfMA, February 5, 2025. <https://afma.org.au/vietnam-car-market-projected-to-slow-down-in-2025/>.

¹⁰⁵ the-shiv. “Vietnam’s Automotive Industry: Industry Overview 2025,” January 26, 2025. <https://the-shiv.com/vietnams-automotive-industry/>.

¹⁰⁶ Ibid

¹⁰⁷ Vietnam Plus. “Ministry Proposes Incentives for Automobile Industry to Be Extended to End of 2027,” December 2, 2024. <https://en.vietnamplus.vn/ministry-proposes-incentives-for-automobile-industry-to-be-extended-to-end-of-2027-post304963.vnp>.

This legislative support emphasizes Vietnam's priority to reduce production costs and improve the competitiveness of domestic cars compared to imported cars. Thus, an accumulation of growth projections and political efforts are most likely to drive automotive sector growth to sizable standards.

In the industry of domestic cars, Vietnamese first-ever electric vehicle maker, VinFast (VFS.O), founded by Vietnam's largest corporate group, Vingroup, holds the most promise in the domestic market. VinFast entered the market in 2017 and now plans to double global sales, supported by a substantial increase in deliveries in 4Q24, selling more than 53,000 cars.¹⁰⁸ After only 3 years since the company's establishment, VinFast, has reported to be the fifth best-selling brand of automobile in Vietnam and in December 2021.¹⁰⁹ Its development fortifies a positive and innovative economic outlook of the automotive industry in Vietnam.

Developing Chip Sector

Vietnam is emerging as a pivotal actor in the global semiconductor industry, driven by a combination of competitive labor costs, favorable government policies and a projected increase of expertise in chip production.¹¹⁰ The sector shows significant promise to reach high standards, primarily driven by FDI and interest of foreign companies, while Vietnam's SOEs and private national companies play a secondary role in their participation.

The country's semiconductor market is projected to reach \$7.01 billion USD by 2028, with a CAGR of 60.69% from 2023 to 2028.¹¹¹ This expectation is supported by Vietnam's export value of electronics, computers and components, which reached \$72.6 billion USD in 2024, increasing 26.6% compared to the previous year, and representing 17.9% of the total export turnover,¹¹² demonstrating a substantial economic projection and turnover for the Vietnamese

¹⁰⁸ Nguyen, Phuong. "VinFast Speeds up EVs Deliveries, but Struggles to Sell Outside Vietnam." Reuters, February 13, 2025. <https://www.reuters.com/business/autos-transportation/vinfast-speeds-up-ev-deliveries-struggles-sell-outside-vietnam-2025-02-13/>.

¹⁰⁹ S. Nakajima, H. Kobayashi, and Y. Ueki, "Viet Nam 2045: Automobile Industry," in Viet Nam 2045: Development Issues and Challenges, ed. F. Kimura et al. (Jakarta: ERIA, 2023), 253–80.

¹¹⁰ Smith, Amelia. "Vietnam Becomes a Key Player in Chip Manufacturing ." Microchip USA , December 4, 2024. https://www.microchipusa.com/industry-news/vietnam-becomes-a-key-player-in-chip-manufacturing/?srsltid=AfmBOorOsuWejtTPdcAZkuuqZR-dC3qJT93AxxRWSkAH_oBzFg-DP7m5.

¹¹¹ Nhan Dan. "Vietnam's First International Semiconductor Exhibition to Take Place in November," October 24, 2024. <https://en.nhandan.vn/vietnams-first-international-semiconductor-exhibition-to-take-place-in-november-post140539.html>.

¹¹² Hanh, Vu Nguyen. "Vietnam Manufacturing Tracker: 2024-25." Vietnam Briefing , January 16, 2025. <https://www.vietnam-briefing.com/news/vietnam-manufacturing-tracker.html/>.

economy. Nevertheless, Vietnam's role in the semiconductor industry primarily focuses on the final stages of assembling, testing and packaging.¹¹³

The sector's growth is encouraged by strategic international partnerships, and as mentioned before, key foreign investments. Among these foreign investors, the U.S-Vietnam Comprehensive Strategic Partnerships, signed in September 2023, allocated \$2 million USD for cooperation on the semiconductor ecosystem development.¹¹⁴ Vietnam has approximately 180 foreign-led projects with a total registered capital of nearly \$12 billion USD.¹¹⁵ Among them, large national corporations demonstrate substantial investment in the assembly, testing and packaging area such as: Intel (\$4.1 billion), Amkor (\$1.6 billion), Hana Micron (\$673 million), and Hayward Quartz Technology (\$110 million).¹¹⁶ This is secured by Vietnam's semiconductor strategy until 2030, issued in September 2024, using the "C = SET + 1" formula, where C stands for Chips, S for Specialization, E for Electronics, and T for Talent, with +1 representing Vietnam as a secure destination for semiconductor investment.¹¹⁷

While FDI and multinational companies dominate Vietnam's semiconductor sector, domestic companies such as FPT Corporations and Viettel are emerging in the market. FPT has partnered with NVIDIA, since the last eight years¹¹⁸, signaling a stable growth in partnership with prominent foreign companies. However, these efforts remain modest compared to overseas investment, and despite a favorable outlook, Vietnam's semiconductor sector continues to face the challenge of a shortage in skilled labor. To address this, Vietnam's government has set forth a 2030 initiative that targets training 50,000 semiconductor engineers, including 15,000 in circuit design and 35,000 in other fields, with 5,000 specializing in AI and 1,300 instructors trained to international standards.¹¹⁹

¹¹³ Source of Asia. "Vietnam's Evolving Semiconductor Scene Unveiled," November 28, 2023. <https://www.sourceofasia.com/vietnams-evolving-semiconductor-scene-unveiled/>.

¹¹⁴ Bureau of East Asian and Pacific Affairs. "U.S. Relations with Vietnam ." United States Department of State, January 10, 2025. <https://www.state.gov/u-s-relations-with-vietnam/>.

¹¹⁵ Huong, Nguyen. "Vietnam Can Enhance Its Semiconductor Advantage." Vietnam Investment Review - VIR, February 12, 2025. <https://vir.com.vn/vietnam-can-enhance-its-semiconductor-advantage-122717.html>.

¹¹⁶ Ibid

¹¹⁷ Prime Minister. Promulgating the Strategy for developing Vietnam's semiconductor industry to 2030 and vision to 2050 (2024). <https://datafiles.chinhphu.vn/cpp/files/vbpq/2024/9/1018-ttg.signed.pdf>.

¹¹⁸ NVIDIA . "NVIDIA to Open Vietnam R&D Center to Bolster AI Development," December 5, 2024. <https://nvidianews.nvidia.com/news/nvidia-to-open-vietnam-r-d-center-to-bolster-ai-development>.

¹¹⁹ Ministry of Planning and Investment of the Socialist Republic of Vietnam. "Vietnam to Soon Implement Project on Human Resources Development in Semiconductors," April 24, 2024. <https://www.mpi.gov.vn/en/Pages/2024-5-3/Vietnam-to-soon-implement-project-on-human-resourc3s3j0h.aspx>.

2. POLITICAL OUTLOOK

- Following To Lam appointment within the Communist Party of Vietnam, 44% of the Politburo members now come from the security field, suggesting an influx from this sector. However, factionalism is not expected to be significantly impacted by this. Short-term projections indicate stability and the continuation of current policies.
- The legitimacy of the Communist Party of Vietnam will remain rooted in economic growth in the long-term. While social improvements driven by this growth are unlikely to cause a rift within the Party, who continues to respond effectively to meet current needs through responsive government policies.
- Vietnam's anti-corruption campaign will continue to characterize regime standard, demanding strict and transparency-driven business environment for both national and foreign industries. However, it may also create bureaucratic bottlenecks in the short to medium term.

Political Landscape of Power in Vietnam

Vietnam's political institution establishes itself in its tradition of collective leadership, looking upon its 'four pillars' (General Secretary of the Communist Party, President of Vietnam, Prime Minister, and Chairperson of National Assembly) in order to create a balance and check of power amongst the highest representatives. After the death of President Quong, former Secretary General of the CPV, Nguyen Phu Trong, took on the role of President as well, and accumulated a vast amount of power during his thirteen years of mandate. Trong's third-term appointment raised worries of unconstitutionality in violation of Article 17(1) of the Charter of the CPV,¹²⁰ as well as both an indicator and a short-term solution to deeper issues of factionalism and division within the party.¹²¹

¹²⁰ LawNet. "Điều Lệ Đảng Cộng Sản Việt Nam 2011." Điều lệ Đảng Cộng sản Việt Nam 2011 Số hiệu Khongso - LawNet. lawnet.vn, January 19, 2011. <https://lawnet.vn/vb/Dieu-le-Dang-Cong-san-Viet-Nam-nam-2011-25120.html>.

¹²¹ Poling, Gregory B. "The Passing of Vietnam Party Chief Nguyen Phu Trong." Csis.org, 2024. <https://www.csis.org/analysis/passing-vietnam-party-chief-nguyen-phu-trong>.

Factionalism and Turnover of Leaderships in the CPV

The turnover of leadership in the CPV in the last 4 years showcases a systematic challenge in the role of leadership, amid party purges claiming anti-corruption campaigns. Lack of consensus, showcased after Quong's death in 2018, and the decision for a Secretary General in 2021 where Trong uptook his third term, hint at internal divisions and factionalism.¹²² Factionalism within Vietnam's state affairs are demonstrated within struggles of ideology between divisions of factions of: reformists, conservatives and military elites, but also divisions between pro-China vs pro-USA, and between the military and security factions represented by the People's Army and the Ministry of Public Security.¹²³ However, none of these factions are formally recognized as the CPV does not allow for 'interest groups'.¹²⁴

Tensions between the most prominent division North (conservatives and advocacy for state control) and South (reformists who favor decentralization and market-oriented policies)¹²⁵ have become more present as southern factions have lost great representation especially throughout Trong's thirteen years of rule through anti-corruption campaigns.¹²⁶ Former Prime Minister Nguyen Tan Dung, for example, once very popular over former Secretary General Nông Đức Mạnh, was criticized for rapid marketization, and was condemned and outed for charges of corruption.¹²⁷ At present, they are reflected in the lack of balance in factional distribution of power, as none of the top 4 positions, except for Chairman Trần Thanh Mẫn, are held by a Southerner, as well as that 3 of them have a security or military background.¹²⁸

The upcoming Party Congress and leadership transition in 2026 could serve as a critical catalyst for movements within the factions trying to consolidate power in order to secure key positions in the Politburo and Central Committee, as has been the case with General Secretary To Lam.

¹²² Ibid

¹²³ Vu, Khang. "The Analytical Obsession with 'Factions' in Vietnamese Politics." *The Diplomat*, March 10, 2023. <https://thediplomat.com/2023/03/the-analytical-obsession-with-factions-in-vietnamese-politics/>.

¹²⁴ Giang, Nguyen Khac. "2025/14 'Vietnam's Bureaucratic Reforms: Opportunities and Challenges in 'the Era of National Rise.'" ISEAS Yusof Ishak Institute, 2025, no. No. 14 (February 20, 2025). <https://www.iseas.edu.sg/articles-commentaries/iseas-perspective/2025-14-vietnams-bureaucratic-reforms-opportunities-and-challenges-in-the-era-of-national-rise-by-nguyen-khac-giang/>.

¹²⁵ Giang, Nguyen Khac, and Nguyen Quang Thai. "The Selfevolution of the Vietnamese Communist Party's Central Committee." *Contemporary Southeast Asia* 44, no. 1 (2022): 56–86. <https://doi.org/10.2307/27130808>.

¹²⁶ Nitta, Yuji. "Vietnam Political Shuffle Could Signal Revival of Southern Faction." *Nikkei Asia*, February 11, 2025. <https://asia.nikkei.com/Politics/Vietnam-political-shuffle-could-signal-revival-of-southern-faction>.

¹²⁷ VnExpress International. "Former Party Leader Nong Duc Manh, Former PM Nguyen Tan Dung Receive Golden Star Order, Vietnam Government's Highest Decoration." January 21, 2025. <https://e.vnexpress.net/news/news/politics/former-party-leader-nong-duc-manh-former-pm-nguyen-tan-dung-receive-golden-star-order-vietnam-government-s-highest-decoration-4841416.html>.

¹²⁸ National Assembly of Vietnam. "Standing Committee of the National Assembly." *Quochoi.vn*, 2019. <https://quochoi.vn/UBTVQH/gioithieu/pages/cac-thanh-vien-khoa-XV.aspx?ItemID=4611>.

Party's Shift in Interest in preparation for the 2026 Party Congress

Over the past year, there has been a noticeable shift in the consolidation of security factions within the CPV, particularly under the leadership of General Secretary To Lam, who has strategically appointed key positions in anticipation of the 2026 Party Congress. This is evident in the growing presence of individuals with security-background positions in both the Politburo and the Secretariat, as currently 44% of the Politburo is made up of members who come from the Ministry of Public Security.¹²⁹ Such developments likely underlie inherent insecurities in the regime and fears about revolts, creating a need to uphold an assertive and security-based order.¹³⁰

These movements give rise to concerns of a lack of balance in favor of security-led power in the Party, especially with the bureaucratic streamlining reforms which will significantly reduce the number of ministries in order to streamline and optimize the political system, as well as Central Committee and National Assembly seats. Post-reform organization of these seats presents a high likelihood of increased dominance by factions, particularly—and most likely—from the security and military apparatus.¹³¹

Possible Traditional Diversification of Power and Shifts in Policy Direction

Fears of factionalism struggles affecting the stability of interior politics in the party, has led to Lam's also courting the South. Through political maneuvers and acknowledgment of politically influential Southern politicians, such as the aforementioned former Prime Minister Nguyen Tan Dung,¹³² Lam can further manage to put in place a leadership of his making that will most likely provide for him keeping his position after 2026.

However, it is unlikely that tensions could build up within the factions enough to result in political maneuvers that would change the current direction of policies. As of now, with a

¹²⁹ Abuza, Zachary. "Vietnam's To Lam Consolidates Power through Personnel Changes at 10th Plenum – Analysis." Radio Free Asia, February 2, 2025. <https://www.eurasiareview.com/02022025-vietnams-to-lam-consolidates-power-through-personnel-changes-at-10th-plenum-analysis/>.

¹³⁰ Abuza, Zachary. "Vietnam's To Lam Is Ruthlessly Cementing Control and Reshaping the Party in His Image." South China Morning Post, August 24, 2024. <https://www.scmp.com/week-asia/opinion/article/3275678/vietnams-lam-ruthlessly-cementing-control-and-reshaping-party-his-image>.

¹³¹ Vietnam Law Magazine . "Vietnam Slashes Government Apparatus, with 9 Ministries, Agencies Cut." 2024. <https://vietnamlawmagazine.vn/vietnam-slashes-government-apparatus-with-9-ministries-agencies-cut-73128.html>; Giang, Nguyen Khac. "2025/14 'Vietnam's Bureaucratic Reforms: Opportunities and Challenges in 'the Era of National Rise.'" ISEAS Yusof Ishak Institute, 2025, no. No. 14 (February 20, 2025). <https://www.iseas.edu.sg/articles-commentaries/iseas-perspective/2025-14-vietnams-bureaucratic-reforms-opportunities-and-challenges-in-the-era-of-national-rise-by-nguyen-khac-giang/>.

¹³² Abuza, Zachary. "Vietnam's To Lam Consolidates Power through Personnel Changes at 10th Plenum – Analysis." Radio Free Asia, February 2, 2025. <https://www.eurasiareview.com/02022025-vietnams-to-lam-consolidates-power-through-personnel-changes-at-10th-plenum-analysis/>.

positive outlook in economic projections, it is probable that To Lam will consolidate his power ahead of 2026 with policies focused on improving efficiency set to continue. Changes to this could depend on the success of his proposed reforms to streamline the bureaucratic system, approved by the CPV's Central Committee last November of 2024.¹³³ Although traditionally from the conservative faction and having shown efforts to centralize governmental power from the provinces,¹³⁴ Lam has shown favor policies in line with economic growth through increased foreign investment, interaction with other countries, especially being receptive to efforts by Western partners such as the US, in an effort to keep the 'bamboo-diplomacy' approach to their advantage.¹³⁵

Risks to institutional stability

Although there is a chance of a heightened security-focused decision making, a shift in institutional stability is not expected. Vietnam continues to follow the tradition of collective leadership, which acts as a balance of power within the system. Not only does Lam's courting to the South reflect political interests targeted towards economic growth, but the appointment of President Luong Cuong, who is a general himself and represents the military faction, also holds a balance to Lam, who comes from the Ministry of Public Security. Furthermore, the Politburo elected last October of 2024 Tran Cam Tu as standing chairman of the Secretariat instead of Lam's preferred candidate, putting Tu as head of the investigative body that can investigate leadership beyond Lam's control.¹³⁶

Vietnam's political foundation and Party legitimacy fundamentally rest on its collective leadership, and this makes Lam accountable to the rest of the Party and its different bodies, especially at times where the anti-corruption policy has laid such a close eye on government officials. Possible change in direction of policies is highly unlikely, taking into account that the CPV's legitimacy lies on its economic growth.

¹³³ Thuy, Thi, and Mai Truong. "Vietnam's Bureaucratic 'Revolution': Rationales and Challenges." *The Diplomat*, January 29, 2025. <https://thediplomat.com/2025/01/vietnams-bureaucratic-revolution-rationales-and-challenges/>.

¹³⁴ Khac Giang, Nguyen. "Anti-Corruption Politics and Shifts in Central-Local Relations in Vietnam." *Fulcrum*. July 19, 2024. <https://fulcrum.sg/anti-corruption-politics-and-shifts-in-central-local-relations-in-vietnam/>.

¹³⁵ Parameswaran, Prashanth. "Vietnam's To Lam Faces Complex Challenges." *GIS Reports*, November 20, 2024. <https://www.gisreportsonline.com/r/vietnam-to-lam/>.

¹³⁶ Abuza, Zachary. "To Lam Moves to Secure Full Term at Pinnacle of Vietnamese Power." *Radio Free Asia*, November 2, 2024. <https://www.rfa.org/english/opinions/2024/11/02/comment-vietnam-to-lam/>.

Economic and Social Legitimacy in Vietnam's Party Politics

Legitimacy of the CPV based on Economic Growth

The CPV's shift towards market-oriented reforms post *Doi Moi*, inherently anchored party legitimacy and survival to the continuous social improvements of the Vietnamese people from economic growth driven by the government. Socio-economic development has become the most important source of legitimacy, while maintaining a balance between political ideology, boosting economic development and keeping absolute power.¹³⁷

The CPV employs a performance-based legitimisation,¹³⁸ which emerged as a response to the erosion of traditional and merely political sources of legitimacy. This shift depreciated the Party's political assets, now having sought new foundations for its rule, mainly focusing on the well-being of its people. Article 4 of the Vietnamese Constitution states that the Party holds power to protect the interests of the working class and laborers, while being subject to the supervision of the people.¹³⁹ The social improvements of the Vietnamese people propel and solidify the legitimacy of the Party anchored in its responsibilities for the benefit of the country-nation, people's prosperity, freedom and happiness,¹⁴⁰ maintaining themselves accountable to Vietnamese citizens. This performance-based legitimacy has placed significant pressure on the CPV to deliver prolonged and consistent economic results, continually needing to demonstrate its ability to meet the evolving needs and expectations of its population. Failure means threat to regime security, necessitating the creation of a source of legitimacy that is not reliant on high growth rates.¹⁴¹

Projection for the Stability of the Party's Legitimacy in the next 3-5 years

Vietnam's political trajectory in the medium term is highly likely to remain anchored to the CPV's capacity to sustain economic growth and translate it into broad-based societal

¹³⁷ Vu-Thanh, Tu-Anh, 'The Political Economy of Industrial Development in Viet Nam: Impact of State-Business Relationships on Industrial Performance, 1986–2013', in John Page, and Finn Tarp (eds), *The Practice of Industrial Policy: Government—Business Coordination in Africa and East Asia* (Oxford, 2017; online edn, Oxford Academic, 20 Apr. 2017), <https://doi.org/10.1093/acprof:oso/9780198796954.003.0009>

¹³⁸ Dung, Phan Xuan, and Benjamin Tze Ern Ho. "How Regime Legitimation Influences Vietnam's Strategy toward US–China Strategic Rivalry." *International Journal of Asian Studies* 22, no. 1 (2025): 25–44. <https://doi.org/10.1017/S1479591422000286>.

¹³⁹ The Constitution of the Socialist Republic of Vietnam (2017). https://constitutionnet.org/sites/default/files/tranlation_of_vietnams_new_constitution_enuk_2.pdf.

¹⁴⁰ Lam, Vu Trong. "Communist Party of Vietnam's Social and State Leadership Is Objectively Inevitable." *Tap Chi Congsan - Communist Review*, December 9, 2021. https://www.tapchicongsan.org.vn/web/english/politics/detail/-/asset_publisher/4Hmoof4LxcG/content/communist-party-of-vietnam-s-social-and-state-leadership-is-objective-inevitability#.

¹⁴¹ Hutt, David. "Why Is Vietnam Becoming a Police State?" *The Diplomat - Asia Pacific Current Affairs Magazine*, May 17, 2024. <https://thediplomat.com/2024/05/why-is-vietnam-becoming-a-police-state/>.

advancement. Through upholding public accountability, which has represented itself through the current politically-driven anti corruption campaign, the regime continues to reinforce its political, social and economic commitment to the people.

Lam's leadership, although short for now, has been defined in a renovation of economic growth ideals and streamlining of Vietnam's bureaucracy, solidifying the Party's mandate and legitimacy. As seen throughout this report, there will be a continuation of economic growth in the medium term, supported by a number of reforms and efforts to advance existing sectors as is the manufacturing and the restructuring of SOE's in their privatization, but also diversification in high-tech sectors. These efforts are evidence to Vietnam's goals of 2030 in becoming an upper middle-income country, and will thus sustain for this period of 5 years a stable environment in regards to the legitimacy of the Party.

Furthermore, social improvements from this economic growth are unlikely to result in a break of the Party's stability, as the population's well-being is a priority of the Party's behavior fundamented in this same growth. The population has become accustomed to this system, and as long as economic conditions remain favorable, there is little incentive or pressure for significant political change.

Scenario Construction I: Future of Economic and Political Stability of the CPV

In order to explore the future of the economic and political stability of the regime some scenarios will be examined. The scenarios will be built attending the impact of some drivers, trying to answer the following research question:

Research question—In the next 10 years, how could the legitimacy of the CPV be impacted by changing economic and social conditions?

As an initial consideration, the evolution of Vietnam's economic and political landscape will be dictated by how the government navigates both internal and external pressures affecting long-term stability. The impact of the drivers is assessed under the assumption that, regardless of leadership changes within the Communist Party of Vietnam, economic performance and governance effectiveness will remain the primary factors shaping political legitimacy and public confidence over the next decade.

DRIVERS	POSSIBLE SCENARIOS		
	CPV sustains legitimacy through moderate economic and political reforms	Stagnating growth and rising dissent create pressure for reforms and weaken stability	Economic downturn and social unrest lead to crisis of legitimacy for the CPV and regime change
Satisfactory growth	++	-	--
Underperforming growth	--	-	++
Income Inequality and Social Discontent	+	++	++
Government Responsiveness & Policy Adaptation	++	-	--
Urbanization & Middle-Class Expectations	+	++	++
Skilled Labor	+	-	--
External Economic & Political Pressures	+	-	++
Digital Transformation	-	+	++
Internal Party Stability	++	+	--
Public Trust in State Institutions due to Corruption Scandals	+	-	--

Legend:

++ → very positive impact on the plausibility of the scenario

+ → positive impact on the plausibility of the scenario

- → negative impact on the plausibility of the scenario

-- → very negative impact on the plausibility of the scenario

Scenario 1: CPV sustains legitimacy through moderate economic and political reforms (Most Likely)

Among the possible outcomes, this scenario remains the most likely due to Vietnam's ongoing commitment to economic growth and long-term development goals, extending even beyond the 2035 time frame to 2045, when the country aims to achieve high-income status. The government's policy direction toward achieving 10% annual growth for the 2045 goals underscores this ambition, with major economic reforms reinforcing Vietnam's position as a growing investment hub.¹⁴²

Key measures supporting this trajectory include aforementioned circumstances that have been discussed in this report. These include the reform of state-owned enterprises to encourage privatization and foreign investment, as well as the expansion of free trade agreements to facilitate market access. For example, the EU-Vietnam FTA is set to eliminate nearly all tariffs by 2030, creating stronger trade prospects beyond 2035.¹⁴³ Additionally, prospects for investment growth are also supported in the upscaling of major industrial zones, such as Hai Phong, especially in the case of its future free trade area zones. Further plans for investment in high-tech and value-added industries also contribute to this ambition, both from policy reforms that shift attention towards this sector, and supported by companies like Samsung, a consistent source of investment for the country with reported plans of enlargement.¹⁴⁴

Further improvements in skilled labor development also favor this scenario, especially propelled by policy measures as is Resolution 06/NQ-CP 2023,¹⁴⁵ focused on the development of a more flexible, efficient, and sustainable labor market towards Vietnam's growth in the international arena. These policy reforms aim to confront Vietnam's need for a highly productive workforce, taking into account its population's aging rates.¹⁴⁶ At present, anti-corruption policies have strengthened public trust in the government, reinforcing institutional

¹⁴²VietNam Net News. "Vietnam Aims for 10% Growth to Achieve High-Income Status by 2045." 2024. <https://vietnamnet.vn/en/vietnam-aims-for-10-growth-to-achieve-high-income-status-by-2045-2357503.html>.

¹⁴³ European Commission. "EU-Vietnam Free Trade Agreement." trade.ec.europa.eu, 2020. <https://trade.ec.europa.eu/access-to-markets/en/content/eu-vietnam-free-trade-agreement>.

¹⁴⁴Huong, Nguyen. "Samsung Calls for Investments in New Areas." Vietnam Investment Review - VIR, February 14, 2025. <https://vir.com.vn/samsung-calls-for-investments-in-new-areas-122817.html>.

¹⁴⁵LuatVietnam. "Resolution 06/NQ-CP 2023 Develop Labor Market toward International Integration for Fast Socio-Economic Recovery" LuatVietnam, 2023. <https://english.luatvietnam.vn/lao-dong/resolution-06-nq-cp-2023-develop-labor-market-toward-international-integration-240826-d1.html>.

¹⁴⁶Ibid

stability and confidence in governance.¹⁴⁷ These advances and reforms procure a solid base for potential continuation of growth for the next decade.

However, the anti-corruption campaign has also provoked bureaucratic delays as officials have become hesitant to approve large-scale projects in fear of political scrutiny. Further risks to this scenario include situations in relation to US trade policy and external economic pressures previously mentioned. Should patterns of tariff crackdowns persist through future US administrations, this could reflect upon a growth rate that is less than what the government needs to reach its goal of a developed economy in the following 20 years, as well as pressures to decrease the present trade balance.¹⁴⁸ Nevertheless, taking into account the US fundamental interest in diversifying away from China, this scenario continues to hold the most likelihood of plausibility.¹⁴⁹ Even more so, when Vietnam continues having the bamboo-diplomacy as a core value of its foreign policy, with no indication of changes to this position.

Scenario 2: Stagnating growth and rising dissent create pressure for reforms and weaken stability (Moderately Unlikely)

In 10 years horizon, Vietnam is moderately unlikely to experience stagnating growth that will create pressure and weaken stability, as the country has taken significant steps to sustain economic expansion. The government has actively pursued reforms and investment strategies to support long-term development, as previously assessed. However, there are certain factors that can create conditions that lead to slower growth, and thus, give way to the plausibility of this scenario.

In regards to being able to maintain growth goals, although the government targets 8% GDP growth for 2025, past growth has remained around 6-7%, suggesting a pace that may fall short of long-term economic goals.¹⁵⁰ Moreover, there are still concerns about the country falling into the middle-income trap, which recognizes the need to also prioritize measures that will

¹⁴⁷ Do, Khuong Manh Linh. "Can Vietnam's 'Era of Rising' Break the Middle-Income Trap?" East Asia Forum, March 5, 2025. <https://eastasiaforum.org/2025/03/05/can-vietnams-era-of-rising-break-the-middle-income-trap/>.

¹⁴⁸ Bangkok Post. "US Tells Vietnam to Improve Trade Balance amid Tariff Risks." March 14, 2025. <https://www.bangkokpost.com/business/general/2979853/us-tells-vietnam-to-improve-trade-balance-amid-tariff-risks>.

¹⁴⁹ US Department of State. "Vietnam." *United States Department of State*, 2024. <https://www.state.gov/reports/2024-investment-climate-statements/vietnam/>.

¹⁵⁰ IMF. "Real GDP Growth." www.imf.org, 2025. https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/VNM?zoom=VNM&highlight=VNM.

increase value-added investments in its economy.¹⁵¹ Despite ongoing efforts to improve workforce skills, a gap remains between domestic talent and global industry standards, further exacerbated by youth unemployment concerns.¹⁵²

However, Vietnam still benefits from a young and expanding workforce, with a strong demographic dividend at the moment, further supported by a window of opportunity that is stated to remain until 2039. Taking into account the reforms and measures the government is putting into place to increase domestic economic promotion, improving education, infrastructure, and efficiency in bureaucratic processes, the government has shown to be open to reform and growth, positioning a solid base for future economic prospects and setting an attractive environment for investors.¹⁵³ Given that economic growth is still expected to continue, even if not at the necessary rate, the likelihood of regime-threatening protests remains low, as a stable economy mitigates large-scale political tensions.

Scenario 3: Economic downturn and social unrest lead to crisis of legitimacy for the CPV and regime change (Highly unlikely)

A drastic economic downturn leading to social unrest and ultimately, regime change in Vietnam is highly unlikely, given the Communist Party's strict oversight of the economy. Economic performance is the key pillar of the Party's legitimacy, making it a top priority for surveillance and management.

With that said, there are potential reasons why the Party's legitimacy could be found in a compromising position. First of all, as stated above, economic growth could fall short of expectations, staying within the 6-7% of the past years and not reaching the double digit growth it needs to meet long-term goals. The public's reaction to this will be detrimental to the ongoing credibility of the party, as this slow-down could erode public confidence provoking widespread discontent.

¹⁵¹ Ha, Thai. "Vietnam Must Achieve High Growth until 2045 to Avoid Middle-Income Trap: Prime Minister." The Investor, 2025. <https://theinvestor.vn/vietnam-must-achieve-high-growth-until-2045-to-avoid-middle-income-trap-prime-minister-d14622.html>.

¹⁵² B& Company. 2025. "Vietnam's Labor Market and Future Trends." B-Company. January 24, 2025. <https://b-company.jp/vietnam-labor-market-and-future-trends/>.

¹⁵³ US Department of State. "Vietnam." United States Department of State. 2024. <https://www.state.gov/reports/2024-investment-climate-statements/vietnam>.

Moreover, as previously stated, the Vietnamese economy remains highly vulnerable to external factors. A swift economic downturn could also be the result of regional or international conflicts, which has historical precedent in the region of Southeast Asia. Even more concerning, an escalation of conflict in the South China Sea could disrupt Vietnam's trade, one of the many reasons being that some of its most important ports, like Vũng Tàu and Hai Phong, depend on these waters. Chinese aggression, particularly concerning the Paracel and Spratly Islands, poses an even more direct risk. Vietnam has been firm in defending its sovereignty over these territories, but any escalation, whether military or diplomatic, could strain the Party's ability to maintain stability.¹⁵⁴

If Vietnam were drawn to a broader geopolitical conflict, it could face trade restrictions from China itself, furthering economic risks. Offshore oil and gas fields in these contested waters are crucial to Vietnam's energy security, as well as a vital fishing ground for Vietnamese fishermen. These risks are not unprecedented, given past conflicts such as China's deployment of the HD-981 oil rig into Vietnam's Exclusive Economic Zone and the repeated detainment of Vietnamese fishermen near the Paracel Islands.¹⁵⁵ A weak or divided response, showing a lack of factional cohesion, or failure to reassure the security of the public could undermine trust in the Party's leadership, and escalate tensions enough to destabilize party legitimacy and result in a regime change.

However, this scenario remains the most unlikely, as Vietnam's economy is expected to remain positive in the coming years, and even in the event of a slowdown, it is unlikely to trigger mass protests large enough to challenge the one-party system, which maintains strong political and societal control. Regarding the risk of conflict escalation that could result in economic upheaval, the probability still remains low, as the South China Sea is of critical strategic interest to multiple global actors. Any large-scale confrontation would be economically detrimental to all parties involved, given that one-third of global trade flows through this region.¹⁵⁶ The country has also demonstrated resilience in handling crises, as seen in its swift post-COVID-19 economic recovery, reinforcing confidence in its ability to navigate future challenges.

¹⁵⁴ Viet Nam News. "Việt Nam Reaffirms Sovereignty over Paracel, Spratly Islands." 2025. <https://vietnamnews.vn/politics-laws/1656151/viet-nam-reaffirms-sovereignty-over-paracel-spratly-islands.html>.

¹⁵⁵ Yergin, Daniel. *The New Map. Energy, Climate, and the Clash of Nations*. New York: Penguin Usa, 2020.

¹⁵⁶ Center for Strategic and International Studies. "The Critical Role of Chinese Trade in the South China Sea." CSIS, 2019.

Corruption, Elite Dynamics, and Regional Tensions in Vietnam

Vietnam's political landscape, characterized by a one-party system under the Communist Party of Vietnam (CPV), has in recent years implemented its anti-corruption campaign, known as the “*Blazing Furnace*”. As a result, high-profile government officials and executives of large SOEs have faced persecution for involvement in illicit enrichment schemes, even facing the death penalty.¹⁵⁷ Since 2013, nearly 20,000 party members have been disciplined and in 2021, approximately 7,500 individuals have been investigated.¹⁵⁸ High-profile prosecutions can demonstrate systemic risks for SOE leaders, yet do not signify an inherent danger for all executives operating within the system. Rather, Vietnam's anti-corruption drive has created a trade-off between long-term transparency and short-term investment friction.

Corruption Risks for SOEs and Foreign Corporations

Executives of large SOEs, who inherently work closer to the government, are under more scrutiny than executives of foreign corporations. This is because of Vietnam's Communist Party staking its legitimacy in being a defender of the people and if the system and its subordinates are viewed as corrupt, it weakens the party.¹⁵⁹ Therefore, SOEs, being largely owned by the Vietnamese government, directly reflects its legitimacy and essential value to the people. The focus of scrutiny is high-profile cases, however the latest corruption scandals have not reportedly deterred further business confidence in Vietnam, nor promulgated fear within investors of being investigated.¹⁶⁰ The business community in Vietnam has somewhat grown accustomed to the idea that the Communist Party might be staring over their shoulder,¹⁶¹ normalizing the oversight of the CPV. As a result, the balance between governance and economic activity has become a predictable, albeit cautious, part of doing business in Vietnam.

The 2018 Anti-Corruption Law has extended its scope to regulate non-state organizations, detailing that acts of corruption committed by office holders in non-state organizations include:

¹⁵⁷ ET Online. 2024. “How Vietnam's Real Estate Tycoon Got Caught in a ‘Blazing Furnace’ in Country's Biggest \$12.5-Billion Corr.” The Economic Times. Economic Times. April 12, 2024. <https://economictimes.indiatimes.com/news/international/world-news/how-vietnams-real-estate-tycoon-got-caught-in-a-blazing-furnace-for-12-5-billion-fraud/articleshow/109241974.cms?from=mdr>.

¹⁵⁸ Jefcoate, Sofia. “Vietnam's ‘Blazing Furnace’: An Explanation of Vietnam's Anti-Corruption Campaign and Its Impacts – Human Development Forum Foundation.” HDFS, September 16, 2024. <https://hdfs.org/vietnams-blazing-furnace-an-explanation-of-vietnams-anti-corruption-campaign-and-its-impacts/>.

¹⁵⁹ Root, Rebecca. “Anti-Corruption: Vietnam's ‘Blazing Furnace’ Crackdown a Double-Edged Sword for Lawyers.” International Bar Association, June 4, 2024. <https://www.ibanet.org/Anti-corruption-Vietnam-blazing-furnace-crackdown-a-double-edged-sword-for-lawyers>.

¹⁶⁰ Hutt, David. “Vietnam Reels from Historic €11.4 Billion Corruption Scandal.” DW, December 1, 2023. <https://www.dw.com/en/vietnam-reels-from-historic-114-billion-corruption-scandal/a-67606137>.

¹⁶¹ Ibid

embezzlement, taking bribes, bribing or brokering bribery benefitting from one's influence over the enterprise or organization's operations or for personal gain.¹⁶² These crimes are also specified in the Penal Code of Vietnam.¹⁶³ Yet, Anti-Corruption Regulations do not set out any specific activity that non-SOEs must carry out to prevent or detect corruption, contrary to state organizations, state officials, and public employees, other than implementing measures for the prevention of corruption and providing information about acts of corruption committed by officeholders.¹⁶⁴ Thus, in a lack of specification for non-state corporations, these measures reflect the government's prioritization of addressing corruption within the public sector. This lack of specificity underscores the lower risk of exemplary discipline for foreign executives in Vietnam.

Indirect Risk of the "Blazing Furnace" to Foreign Investors

Although, foreign executives are less likely to be directly targeted to serve as exemplary discipline, businesses may face indirect risks impacting their operational and investment strategies. These challenges arise from bureaucratic caution, regulatory ambiguity, and the government's inward-focused priorities, as a result of a more intense focus on the public sector.¹⁶⁵

Low-level officials, who previously had discretionary authority over permits, procurements, and investment approvals, are continuously opting to delegate decision-making to superiors to avoid personal liabilities.¹⁶⁶ This shift has created a delay in routine processes, such as business renewals and reviews of project proposals, resulting in extended timelines for necessary approvals due to more caution and deliberation on behalf of rank-and-file officials.¹⁶⁷ Sectors that are perceived as highly scrutinized, such as real estate (historically associated with corruption), natural resources, and infrastructure have heightened vulnerability.¹⁶⁸ Officials are

¹⁶² Dung, Nguyen Duy, and Nguyen Tat Thanh. "Private Sector Corruption in Vietnam: From Legislation to Its Impact on the Economy." *International Journal of Professional Business Review* 8, no. 2 (February 23, 2023). <https://doi.org/10.26668/businessreview/2023.v8i2.1490>.

¹⁶³ Ibid

¹⁶⁴ Socialist Republic of Vietnam. Anti-Corruption Law, 4 § (2018). <https://www.economica.vn/Content/files/LAW%20%26%20REG/Law%20on%20Anti-Corruption%202018.pdf>.

¹⁶⁵ Pham, Giang. "Diverging from the 'Blazing Furnace:' Vietnam's Opportunity to Attract More U.S. Investors." CSIS, September 10, 2024. <https://www.csis.org/blogs/new-perspectives-asia/diverging-blazing-furnace-vietnams-opportunity-attract-more-us>.

¹⁶⁶ Root, Rebecca. "Anti-Corruption: Vietnam's 'Blazing Furnace' Crackdown a Double-Edged Sword for Lawyers." International Bar Association, June 4, 2024. <https://www.ibanet.org/Anti-corruption-Vietnam-blazing-furnace-crackdown-a-double-edged-sword-for-lawyers>.

¹⁶⁷ Wong, Sarah. "Explainer: Vietnam Cracks down on Corruption. What Is the Impact on Foreign Investors?" Asian Legal Business, June 25, 2024. <https://www.legalbusinessonline.com/features/explainer-vietnam-cracks-down-corruption-what-impact-foreign-investors>.

¹⁶⁸ Ibid

reluctant to approve foreign investment and inadvertently commit an error and be caught in an anti-corruption drive, resulting in bureaucratic stagnation.

Foreign firms, now, are consistently embracing a more conservative and risk-averse approach to compliance. Consequently, this precedent strains foreign firms to avoid innovative strategies or complex deals that are likely to attract suspicion from the Vietnamese government, which directly stifles market dynamics. In this context, Vietnam's government is most likely to continue prioritizing domestic political stability over reforms critical to foreign investors.¹⁶⁹ This reduces the fear for foreign executives facing exemplary discipline, contrary to its SOEs' executives counterparts, which are more likely to face scrutiny, yet not exemplary discipline.

Mitigating Indirect Risks

The anti-corruption campaign has become a cornerstone of Vietnamese politics and has cemented itself as the new normal.¹⁷⁰ Therefore, SOEs, alongside foreign corporation executives must adapt strategies accordingly. The campaign precisely prioritizes the element of transparency, compliance with local law and due diligence.¹⁷¹ Companies conducting business in Vietnam must ensure successfully transmitting transparency in their financial sources, technical capabilities, safeguarding the legitimacy and credibility of their investments, while considering the integrity of their partners and suppliers.

Territorial Divisions and Elite Networks

Regional networks of loyalty influence economic interests through business. Addressing this, the ongoing anti-corruption political campaign aims to suppress overt fragmentation. Instead, political resignations and persecution of high-profile economic cases of elites reflect intra-party purges rather than regional schisms or the remote possibility of a split between the North and the South.

¹⁶⁹ Pham, Giang. "Diverging from the 'Blazing Furnace:' Vietnam's Opportunity to Attract More U.S. Investors." CSIS, September 10, 2024. <https://www.csis.org/blogs/new-perspectives-asia/diverging-blazing-furnace-vietnams-opportunity-attract-more-us>.

¹⁷⁰ Hutt, David. "Vietnam Reels from Historic €11.4 Billion Corruption Scandal ." DW, December 1, 2023. <https://www.dw.com/en/vietnam-reels-from-historic-114-billion-corruption-scandal/a-67606137>.

¹⁷¹ Wong, Sarah. "Explainer: Vietnam Cracks down on Corruption. What Is the Impact on Foreign Investors?" Asian Legal Business, June 25, 2024. <https://www.legalbusinessonline.com/features/explainer-vietnam-cracks-down-corruption-what-impact-foreign-investors>.

Provincial departments of line ministries are characterized as “dual subordinate”, reporting both to provincial governments (People’s Committees) and national line ministries.¹⁷² Yet, budgets and appointments are managed by provincial executives, which create strong alignment of the departments with the local interest.¹⁷³ The correlation between management and local interests instigates the CPV’s campaign to disrupt these provincial dynamics by curbing local power. The second phase of “blazing furnace”, focuses on targeting companies managed by family members or associates of senior politicians that access exclusive business opportunities at the provincial level.¹⁷⁴ This maneuver on behalf of the Vietnamese government directly undermines the economic interests of provincial elites that inadvertently perpetuate entrenched corruption and cronyism. Additionally, since 2021, half of the members of the Central Committee of the Communist Party of Vietnam who were removed on behalf of corruption were provincial leaders, which resulted in a decrease of provincial representation from 40% to 28%.¹⁷⁵

Firms with operations in various provinces are able to survey through the 2021 Provincial Competitiveness Index (PCI)¹⁷⁶ – which assesses the economic governance quality of provincial authorities annually – governmental effectiveness, characterized by a network of loyalties of local officials to deter investors. The rate of businesses paying unofficial fees significantly dropped from approximately 70% to 41.4% from 2006 to 2021, having reached the lowest percentage in 16 years.¹⁷⁷ This strategy on behalf of the Vietnamese government is likely to continue incentivizing provincial authorities to improve their governance practices, reduce loyalties, and mitigate regional tensions by aligning economic competitiveness among provinces with national interests, creating an environment of inter-provincial competition rather than a North-South division

¹⁷² Bai, Jie, Seema Jayachandran, Edmund J Malesky, and Benjamin A Olken. “Firm Growth and Corruption: Empirical Evidence from Vietnam.” *The Economic Journal* 129, no. 618 (October 17, 2017): 651–77. <https://doi.org/10.1111/econj.12560>.

¹⁷³ Ibid

¹⁷⁴ Khac Giang, Nguyen . “Anti-Corruption Politics and Shifts in Central-Local Relations in Vietnam.” *Fulcrum*, July 19, 2024. <https://fulcrum.sg/anti-corruption-politics-and-shifts-in-central-local-relations-in-vietnam/>.

¹⁷⁵ Ibid

¹⁷⁶ PCI. “The Provincial Competitiveness Index (PCI),” 2019. <https://pcivietnam.vn/en>.

¹⁷⁷ Giang, Nguyen Khac. “Vietnam’s Anti-Corruption Campaign: Economic and Political Impacts.” ISEAS Yusof Ishak Institute 2023, no. 41 (May 18, 2023): 4. <https://www.iseas.edu.sg/articles-commentaries/iseas-perspective/2023-41-vietnams-anti-corruption-campaign-economic-and-political-impacts-by-nguyen-khac-giang/>.

3. RESOURCES PROSPECTS

- Vietnam's rare earth sector is likely to increase its position in the global supply chain, with increased investment efforts from countries like Japan, Canada, Australia and South Korea in place. The development of the Dong Pao mine will be key to achieving expectations of growth objectives.
- The country's energy mix will continue to be dominated by fossil fuels in the short term, but project a high level of investments in the medium and long term in regards to renewable energies, which is projected to total \$714 billion USD in the long term. Hydrocarbon production will continue to decrease in the short term due to lack of reserves and ageing gas fields, but will see an increased imports of LNG as well as efforts of exploration, restricted by tensions in the South China Sea.
- China is most likely to continue tampering with water flows in the Mekong River through its installation of dams, posing a risk to Vietnamese food security. However, local communities continue to adapt to these challenges through crop rotation and water retention strategies.

Vietnam's Rare Earth Sector

Vietnam's rare earth sector holds immense potential, being the second largest reserves just after China, and although slow in exploitation, it has experienced steady growth in the past years.¹⁷⁸ Export volume from 2021-2024 reached approximately \$160 million USD, with growing international demand.¹⁷⁹ Rare earth mineral deposit points are distributed mainly in Northwestern and Central territories, including those of North Nam Xe, Nam Nam Xe, Dong Pao, Muong Hum, and Yen Phu.¹⁸⁰ Taking into account that these reserves are valued at an

¹⁷⁸ Moon, Ji Won. "The Mineral Industry of Vietnam." USGS, 2022. <https://pubs.usgs.gov/myb/vol3/2022/myb3-2022-vietnam.pdf>.

¹⁷⁹ Taiwan News. "Vietnam Rare Earth Metals Market Trends, Opportunities, and Future Forecast (2021-2033)." March 6, 2025. <https://www.taiwannews.com.tw/news/6053202>.

¹⁸⁰ Nguyen, Uyen. "Vietnam's Rare Earth Mining Industry: An Overview." Vietnam Briefing News, April 13, 2023. <https://www.vietnam-briefing.com/news/rare-earth-mining-vietnam.html/>.

estimated \$3 trillion USD, Vietnam's approximate 20 million tons of rare earth reserves hold great leverage in pushing forth the country's mining and technological development sectors.¹⁸¹

Development of the Rare Earth Sector

Vietnam has various strategies in order to exploit its rare earth sector looking to become a key player in the global supply chain. In 2023, the government released a plan with the goals of exploiting and processing more than 2 million ores by 2030, and producing up to 60,000 tonnes of rare earths equivalent per year.¹⁸² Its ambitions, as reported by the Ministry of Natural Resources and Environment, set a timeline to 2030, to complete all necessary procedures for concluding licensed exploration projects at the Bac Nam Xe and Nam Xe mines in Lai Chau, along with others in the northern region.¹⁸³ The plan also includes advancing the search for mining technologies related to deep processing and establishing a processing facility.

However, the past years have presented this plan with strenuous obstacles that make reaching its ambitions more challenging. Among the key initiatives for achieving this was the auctioning of Dong Pao, Vietnam's largest rare earth mine and one of the largest globally, containing significant bastnaesite reserves that could elevate Vietnam to a leading position among rare earth producers.¹⁸⁴ Auctioning of the Dong Pao mine attracted a lot of interest, validating the development of this sector in securing significant foreign investment that could offset Vietnam's technological gaps in industrial-scale exploitation. Australian mining firm Blackstone LTD, in collaboration with Vietnam Rare Earth JSC—the country's primary domestic processor—had been preparing to bid for concessions.¹⁸⁵ However, development plans stalled after Vietnam Rare Earth JSC's chairman, Luu Anh Tuan, faced corruption charges in 2023, and has not resumed since, creating uncertainty over the investment landscape.¹⁸⁶ This setback added pressure to the sector, which is already burdened by a lack of

¹⁸¹ Ibid

¹⁸² Rajah & Tann Asia. "Vietnam's New Mineral Geology Law." January 10, 2025. <https://www.rajahtannasia.com/viewpoints/vietnams-new-mineral-geology-law/>.

¹⁸³ Ministry of Natural Resources and Environment. "Rare Earth Mining - an Important Turning Point of Vietnam." Ministry of Natural Resources and Environment, June 15, 2023. <https://en.monre.gov.vn/geology-and--minerals/rare-earth-mining--an-important-turning-point-of-vietnam-8111.html/>.

¹⁸⁴ Guarascio, Francesco, and Khanh Vu. "Inside Vietnam's Plans to Dent China's Rare Earths Dominance." Reuters, September 25, 2023, sec. Commodities. <https://www.reuters.com/markets/commodities/inside-vietnams-plans-dent-chinas-rare-earths-dominance-2023-09-25/>.

¹⁸⁵ Asia Financial. "Vietnam to Restart Giant Rare Earths Mine in Bid to Rival China." Asia Financial, September 25, 2023. <https://www.asiafinancial.com/vietnam-to-restart-giant-rare-earths-mine-in-bid-to-rival-china>.

¹⁸⁶ Guthrie, Craig. "Rare Earth Arrests Rock Vietnam's Critical Minerals Plans." Miningmagazine.com, October 23, 2023. <https://www.miningmagazine.com/surface/news/1461089/rare-earth-arrests-rock-vietnams-critical-minerals-plans>.; Hobbs, Coby. "Vietnam's Great Untapped Rare Earth Bounty - Asia Times." Asia Times, May 29, 2024. <https://asiatimes.com/2024/05/vietnams-great-untapped-rare-earth-bounty/#>.

technology in order to achieve the industrial level production it needs to meet its growth goals. Although Vietnamese rare earth exports are reported to have increased, this same year, Vietnam's rare earth production fell to 600 mt from 1,200 mt in 2022, and has continued to decrease in 2024 to only 300mt.¹⁸⁷ This output remains well below the 60,000 tonnes annually required to achieve the 2030 goal.

Opportunities of Growth and Key International Partners in Development

Even so, the government remains firm on its intentions to achieve its targets. The National Assembly passed a new Mineral and Geology Law set to take effect in July 2025, built upon the 2010 Mineral Law, expecting to provide a legal framework that enhances state management over mineral resources.¹⁸⁸ The enhanced monitoring of mining activities, efficiency in administrative processes, and digitalization of procedures aims to establish a safer investment environment. Sustained international interest in investment in this sector of the country is set to grow, especially from Japan, Australia, Canada, and South Korea.¹⁸⁹

Japan, which has maintained supply agreements with Vietnam since 2010 following China's shipment blockades over South China Sea tensions, is seeking to invest through SRE Vietnam Holdings Corporation to triple rare earth processing and diversify metal production for its electric vehicle, semiconductor, and high-tech industries.

Australia, through Blackstone LTD remains committed to investing in Vietnam's rare earth sector, with continued interest in concessions in Dong Pao, and supporting Vietnam's ambition to become a key player in the global supply chain.¹⁹⁰ Additionally, Australia has a special interest in clean energy investments, which is also one of Vietnam's key priorities in the development of this sector.¹⁹¹ Vietnam poses a great potential in this area since rare earths are vital to the manufacturing of clean energy products such as renewable energy technologies,

¹⁸⁷ Nasdaq. "Top 11 Countries by Rare Earth Metal Production (Updated 2024)." Nasdaq.com, 2024. <https://www.nasdaq.com/articles/top-11-countries-rare-earth-metal-production-updated-2024>. ; McLeod, Charlotte. "Top Rare Earth Reserves by Country." Investing News Network, February 5, 2025. <https://investingnews.com/daily/resource-investing/critical-metals-investing/rare-earth-investing/rare-earth-reserves-country/>.

¹⁸⁸ Vietnam Plus. "New Law to Enhance State Management of Mineral Resources." February 7, 2025. <https://en.vietnamplus.vn/new-law-to-enhance-state-management-of-mineral-resources-post309487.vnp>.

¹⁸⁹ Ibid

¹⁹⁰ Minh, Minh. "Australia's Blackstone to Pursue Rare Earth Plan in Vietnam despite Partner's Arrest: Exec." The Investor, 2023. <https://theinvestor.vn/australias-blackstone-to-pursue-rare-earth-plan-in-vietnam-despite-partners-arrest-exec-d7099.html>.

¹⁹¹ Tachev, Viktor. "Renewable Energy Investments in Vietnam – Asia's next Clean Energy Powerhouse." Energy Tracker Asia, June 9, 2024. <https://energytracker.asia/renewable-energy-investments-in-vietnam-asias-next-clean-energy-powerhouse/>.

electric vehicles, and green construction materials.¹⁹² Through its businesses, Australia has recognized that Vietnam still remains in the early stages of its mining sector, taking this opportunity to offer efficiency, sustainability solutions, and skills training, already engaged in those efforts as seen through the Blackstone Minerals' nickel project in Ta Khoa.¹⁹³

The Saskatchewan Research Council in Canada, has also signed a five-year agreement with Vietnamese group HTG in importing 400 tonnes of rare earth metals per year looking to further their production capacities.¹⁹⁴ In the case of South Korea, there has been interest by various companies for the exploration, exploitation, but also development of processing technology projects mostly in the province of Lai Chau.¹⁹⁵ POSCO, which is currently investing \$1.2 billion USD in Vietnam, is looking into furthering the process of extraction and processing, collaborating with Vietnamese businesses in the transfer of knowledge and technology in design for this sector.¹⁹⁶ This transfer of knowledge and continued investment from various countries will be key determinants in Vietnam's ability to build a solid foundation for its rare earth sector, particularly in meeting its 2030 targets. While Vietnam holds substantial rare earth reserves, it lacks the technology to process them and add value domestically. The efforts being put into the acceleration of technological development, as well as efficiency in bureaucratic processes will be critical in order to try to minimize the normal 10-15 years that rare earth development processes normally take.¹⁹⁷

Vietnam's ambitions in the Rare Earth Sector in the face of China's Dominance

In the medium term, Vietnam is en route to establishing a solid foundation for the development of its rare earth sector. Nevertheless, it is not likely to be able to surpass China in this manner, even less in the next five years. Chinese rare earth production accounts for 60-70% of global

¹⁹² Australian Trade and Investment Commission. "Vietnam and Australia Partner for Greener Mining Solutions" Australian Government, 2024. <https://www.austrade.gov.au/en/news-and-analysis/analysis/vietnam-and-australia-partner-for-greener-mining-solutions>.

¹⁹³ Ibid

¹⁹⁴ Government of Saskatchewan. "SRC Expects to Produce 400 Tonnes of Rare Earth Metals per Year Beginning in 2025." Government of Saskatchewan, 2025. <https://www.saskatchewan.ca/government/news-and-media/2024/april/15/src-expects-to-produce-400-tonnes-of-rare-earth-metals-per-year-beginning-in-2025>.

¹⁹⁵ Ministry of Natural Resources and Environment. "Rare Earth Mining - an Important Turning Point of Vietnam." Ministry of Natural Resources and Environment, June 15, 2023. <https://en.monre.gov.vn/geology-and--minerals/rare-earth-mining--an-important-turning-point-of-vietnam-8111.htm>

¹⁹⁶ Vietnam News. "Posco International to Invest in Nuclear Energy, Rare Earths in Việt Nam." 2025. <https://vietnamnews.vn/economy/1692880/posco-international-to-invest-in-nuclear-energy-rare-earths-in-viet-nam.html>.

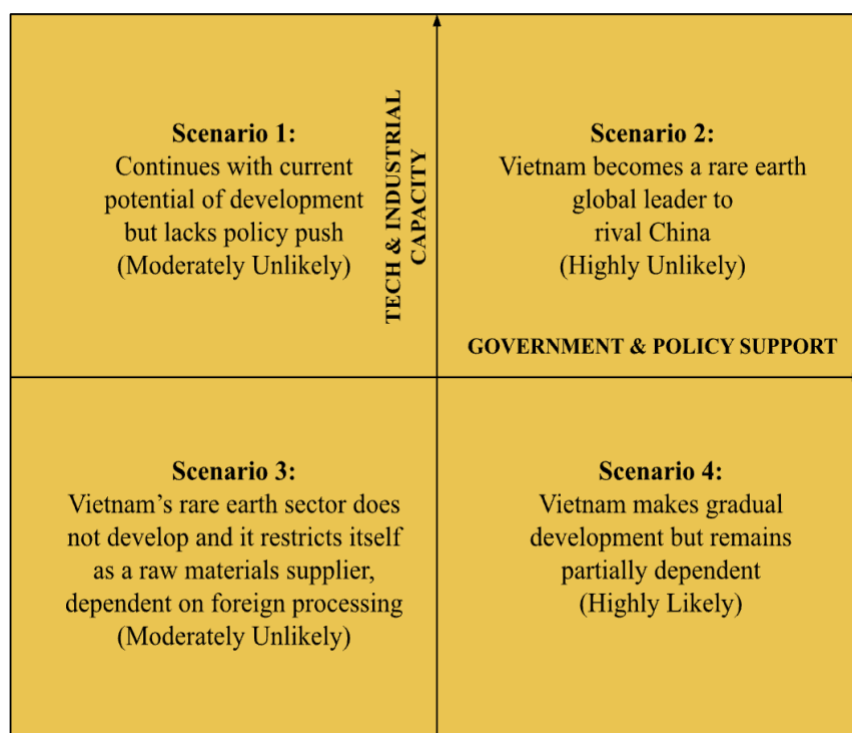
¹⁹⁷ Mining Vietnam. "The Potential of Vietnam's Rare Earth Elements: Opportunities for Negotiation, 'Finding Partners' for Cooperation ." Mining Vietnam, December 13, 2023. <https://miningvietnam.com/2023/12/13/industry-news-the-potential-of-vietnams-rare-earth-elements-opportunities-for-negotiation-finding-partners-for-cooperation/?lang=en>.

production, and 90% of refining capacity.¹⁹⁸ China's long-established expertise gives it an upper hand in relation to any other international competitor on the field. However, for Vietnam in the next five years, the sector holds significant potential, fueled by rising international interest to meet domestic climate goals through sustainable development, where rare earths play a key role in. Government policy-making towards creating a safe environment for investment is most likely to persist, giving a chance for Vietnam to well-position itself in strengthening its role in the global rare earth supply chain.

Scenario Construction II: Vietnam's Leadership in Rare Earth (RE) Global Supply Chain

Research question—Will Vietnam advance its rare earth sector to secure a place in the global supply chain and challenge China's influence in the next 10 years?

Figure 5: Scenarios on Vietnam's Growth of Rare Earth Sector



Scenario 1 - Continues with current potential of development but lacks policy push (Moderately Unlikely): This outcome is moderately unlikely, taking into account existing policy pushes already en route looking to transform the rare earth and mineral economic sector, as well as the attraction of investment of international corporations. This scenario's vulnerability lies in the

¹⁹⁸Zimtu Capital Corp. "China's Rare Earth Dominance and What It Means for the World," November 29, 2024. <https://www.zimtu.com/chinas-rare-earth-dominance-and-what-it-means-for-the-world/>.

absence of policy which would hinder infrastructure improvements, and necessary investment in processing capabilities. Vietnam would in this case, miss an opportunity to solidify its role in the global supply chain, leaving it unable to compete with dominant players like China.

Scenario 2 - Vietnam becomes a rare earth global leader to rival China (Highly Unlikely):

Vietnam becoming a rare earth global leader enough to combat China remains highly unlikely. This is due to the lengthy timeline required for rare earth development and processing, along with China's established dominance which Vietnam cannot defy. Vietnam is still in the early stages of development and lacks domestic technology expertise. While Vietnam's position may improve over the coming decade, it is improbable that it will rival China or risk potential repercussions from challenging its market control in such a rapid manner.

Scenario 3 - Vietnam's rare earth sector does not develop and it restricts itself as a raw materials supplier, dependent on foreign processing (Moderately Unlikely):

Vietnam has acknowledged the need to expand its rare earth sector and has already taken key steps to diversify partnerships and develop domestic processing capabilities, making this scenario moderately unlikely. It is also unlikely that government support for these efforts will diminish, given Vietnam's strong interest in advancing technology, attracting high-tech investments, and developing clean energy mechanisms, which would be greatly supported by improvements in the structure of its rare earth sector.

Scenario 4: Vietnam makes gradual development but remains partially dependent (Highly Likely):

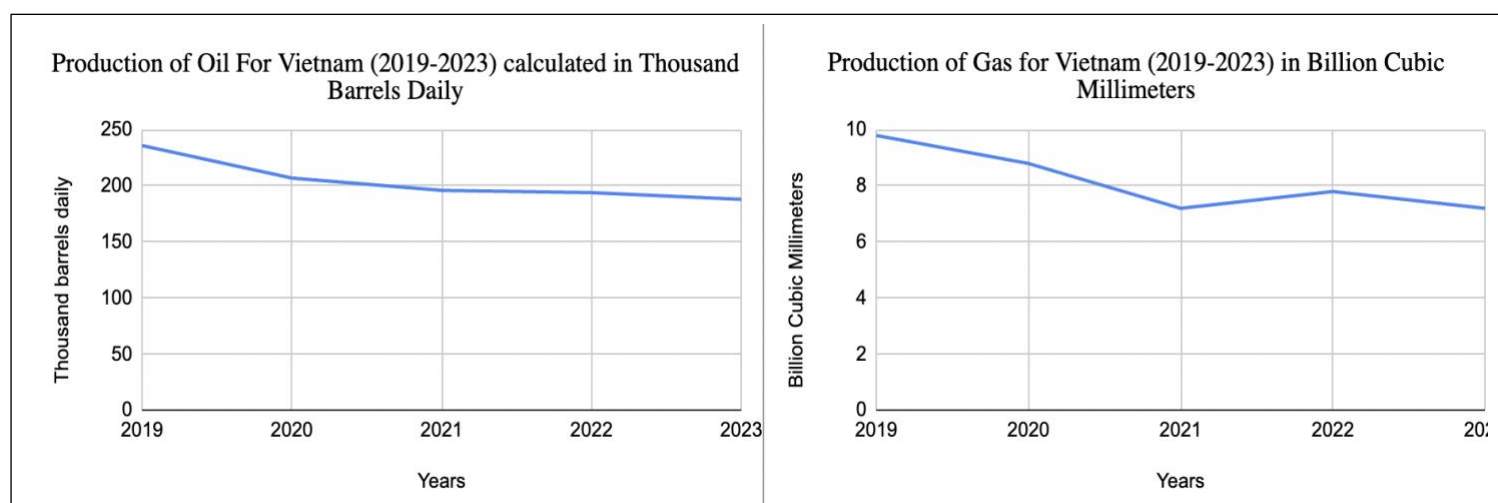
This scenario is the most probable outcome, taking into account increasing foreign investment and agreements with other countries and companies. This is accompanied by policy efforts to build domestic capacity and increase efficiency and transparency in the sector. However, due existing technological limitations, it is probable to remain partially reliant on external actors during the process, in order to integrate itself into high-value segments of the supply chain. With this, in the next 10 years, it is likely to gain some degree of independence based on this growth, but will most probably fall short of fully challenging China's dominant competition.

Energy Mix and Energy Security

Trends in Hydrocarbon Production

Vietnam's hydrocarbon production is expected to face continued challenges in both the short and medium term, even as energy consumption is projected to grow at an annual rate of 8% through 2030, maintaining Vietnam as the second-largest energy consumer in ASEAN.¹⁹⁹ Both oil and gas production have seen struggles stemming from declining reserves and ageing gas fields in its major fields, as well as disrupted exploration efforts largely due to ongoing tensions in the South China Sea, where most of its key reserves are located.²⁰⁰ This can be seen in its steady decline in production over the past years in *Figure 6*.²⁰¹

Figure 6: Production of Oil and Gas Trends for Vietnam (2019-2023)



Source: Author's Elaboration from the Statistical Review of World Energy for 2024

In the case of oil, Petrovietnam – Vietnam's state-owned enterprise and backbone of the country's petroleum industry – has made notable strides in slowing production annual decline rates from 11% from 2016-2020, to 1% after 2023, due to improved management and technical developments.²⁰² Although production remains in decline, Petrovietnam has managed to

¹⁹⁹ Mordor Intelligence. "Vietnam Oil and Gas Market Trends." [mordorintelligence.com](https://www.mordorintelligence.com/industry-reports/vietnam-oil-and-gas-market/market-trend), 2023. <https://www.mordorintelligence.com/industry-reports/vietnam-oil-and-gas-market/market-trend>. ; Asia Natural Gas and Energy Association. "Natural Gas & Energy in Vietnam." Asia Natural Gas & Energy Association, September 5, 2024. <https://angeassociation.com/location/vietnam/>.

²⁰⁰ Ibid

²⁰¹ Energy Institute, KPMG, and Kearney. "Statistical Review of World Energy." *Energy Institute*. Energy Institute, 2024. <https://www.energyinst.org/statistical-review>.

²⁰² Vietnam News. "Low Replenishment of Reserves Causes Headaches for Petrovietnam." 2025. <https://vietnamnews.vn/economy/1484798/low-replenishment-of-reserves-causes-headaches-for-petrovietnam.html>.

maintain a positive outlook, projecting growth of 10% for 2025.²⁰³ To meet rising consumption demands, especially with goals of a growing economy, the Vietnamese government is seeking to accelerate oil exploration activities. Recent discoveries, such as those in the Cuu Long Basin, reflect this renewed ambition to bolster domestic production.²⁰⁴ Under these efforts, the government is also committed to constructing an additional 500,000 cubic meters petroleum storage facilities by 2030,²⁰⁵ with the construction of these facilities in the Dung Quat Oil Refinery having commenced this February.²⁰⁶ However, in the near term and extending into 2030, oil production is expected to remain aligned with slow trends, with growth projected at a minimal CAGR of just 0.5% by 2030.²⁰⁷

That being said, there is a strong emphasis on developing the gas sector and expanding LNG imports, positioning natural gas at the core of Vietnam's Power Development Plan VIII (PDP8). This strategy aims to gradually phase out coal usage in line with Vietnam's climate commitments.²⁰⁸ As Vietnam's economy grows, its gas demand is projected to triple by 2030.²⁰⁹ The country currently lacks the production capacity to meet this surge, prompting the government to increase efforts both to try to boost domestic output and to secure LNG imports.²¹⁰ Nevertheless, the country has faced difficulties ramping up gas production quickly, which has most likely contributed to its continued reliance on coal for energy security. Under PDP8, the government plans for gas to account for 25% of electricity consumption by 2030, but achieving this target will require significant infrastructure development and investment.²¹¹

Vietnam's first LNG import terminal, Thi Vai, only received its inaugural shipment in 2023, demonstrating that Vietnam's speed in developing this sector is not necessarily at the pace

²⁰³ Vietnam Plus. "Petrovietnam Sets Double-Digit Growth Target for 2025." December 16, 2024. <https://en.vietnamplus.vn/etrovietnam-sets-double-digit-growth-target-for-2025-post306747.vnp>.

²⁰⁴ Craig, Jonathan. "Major New Oil Discovery in Cuu Long Basin Vietnam." GeoExpro, February 11, 2025. <https://geoexpro.com/major-new-oil-discovery-in-cuu-long-basin-vietnam/>.

²⁰⁵ Oficina Económica y Comercial de España en Ciudad de Ho Chi Minh. "Informe Económico y Comercial," 2024. <https://www.icex.es/content/dam/es/icex/oficinas/050/documentos/2024/07/anexos/iec-vietnam-2024.pdf>.

²⁰⁶ Truong, Thi Diep Ha. "Groundbreaking Ceremony for the Project 'Construction of Additional Crude Oil Storage Tanks for the Existing Dung Quat Oil Refinery.'" Department of Grassroot Information and Foreign Information, Ministry of Culture, Sports and Tourism, February 7, 2025. <https://www.vietnam.vn/en/le-dong-tho-khoi-cong-du-an-xay-dung-bo-sung-be-chua-dau-tho-cho-nha-may-loc-dau-dung-quat-hien-huu>.

²⁰⁷ Taiwan News. "Vietnam Oil and Gas Upstream Market to Reach 182.25 Thousand Barrels per Day by 2030, Growing at a 0.5% CAGR." March 6, 2025. <https://www.taiwannews.com.tw/news/6053378>.

²⁰⁸ Wengel, Florian. "Vietnam's Eight National Power Development Plan (PDP8) – Green Finance & Development Center." Green Finance and Development Sector, June 5, 2023. <https://greenfdc.org/vietnams-eight-national-power-development-plan-pdp8/>.

²⁰⁹ Vietnam Economic Times. "Wood Mackenzie: Vietnam's Gas Demand to Grow Triple by 2035." Vietnam Economic Times, September 6, 2024. <https://en.vneconomy.vn/wood-mackenzie-vietnams-gas-demand-to-grow-triple-by-2035.htm>

²¹⁰ Ibid

²¹¹ Ibid

needed to meet 2030 goals.²¹² A promising development is the Block B gas project, a joint venture with Japan's Mitsui Oil Exploration Co. Ltd. with an estimated investment of \$12 billion USD²¹³, which is expected to deliver its first gas by 2026 and supply an additional 11.3 million cubic meters per day by 2030.²¹⁴ While domestic production will not likely grow rapidly enough to meet demand, Vietnam is poised to attract substantial investment in LNG infrastructure, not only through increased imports but also through advanced projects such as LNG-to-power initiatives.²¹⁵

Energy Transition Goals

Vietnam's energy sector is undergoing long-term transformation to achieve energy transition goals, exacerbated by the need to secure national energy, increased importance of combating climate change, while still balancing sustained economic growth.²¹⁶ Vietnam is ambitious in its compromise in reducing their coal consumption, yet short term projection will increase coal consumption to sustain current energy needs.

The use of coal-thermal power in Vietnam will continue to increase.²¹⁷ Vietnam's National Coal and Mineral Holding Corporation Limited (Vinacomin), the country's largest coal miner, aims to sell 50 million tonnes of coal and projected revenues of \$6.78 billion USD in 2025.²¹⁸ The growth of Vinacomin has not been unprecedented, nor is expected to slow down. In 2024, 37.2 million tonnes of coal were produced and 46.8 million tonnes were sold, overall the contribution of coal mining of Vinacomin to the state budget was \$297 million USD.²¹⁹ The substantial coal production and contribution to state revenue, highlight the industry's importance of the country's planned economic development.

²¹² Asia Natural Gas and Energy Association. "Natural Gas & Energy in Vietnam." Asia Natural Gas & Energy Association, September 5, 2024. <https://angeassociation.com/location/vietnam/>.

²¹³ Orissa International. "Vietnam's Gas-To-Power Initiatives Secure USD 12 Billion Investment." Orissa International, 2024. <https://www.orissa-international.com/business-news/vietnams-gas-to-power-initiatives-secure-usd-12-billion-investment/>.

²¹⁴ Mitsui & Co. "Final Investment Decision for the Development of Vietnam Block B Gas Field ." Mitsui & Co, 2024. https://www.mitsui.com/jp/en/release/2024/1248975_14372.html.

²¹⁵ PwC. "Vietnam's Eighth National Power Development Plan (PDP VIII) Insights and Key Considerations for Investors," 2023. <https://www.pwc.com/vn/en/publications/2023/230803-pdp8-insights.pdf>.

²¹⁶ Viet, Nguyen Vu, Vu Thi Phuong Lien, and Do Dinh Duy. "The Impact of Energy Transition on Socio-Economic Issues: Evidence from Vietnam." *Journal of Ecohumanism* 3, no. 8 (January 3, 2025): 10843. <https://doi.org/10.62754/joe.v3i8.5694>.

²¹⁷ Neefjes, Koos, and Ngo Thi To Nhen. "Prospects for a Socially Just Energy Transition in Viet Nam: 2021 and Beyond ." Friedrich Ebert Stiftung, April 2021. <https://asia.fes.de/news/towards-a-socially-just-energy-transition-in-viet-nam.html>.

²¹⁸ Vietnam Plus. "Vietnam's Mining Giant Eyes Sale of 50 Million Tonnes of Coal in 2025," January 3, 2025. <https://en.vietnamplus.vn/vietnams-mining-giant-eyes-sale-of-50-million-tonnes-of-coal-in-2025-post307736.vnp>.

²¹⁹ Ibid

Vietnam's reliance on coal production and short-term dependency does not negate its structured commitment to prioritize energy transition goals for the decarbonisation of the electricity system. Cooperation commitments were strengthened by Vietnam's engagement to net zero mission target by 2050 at COP26.²²⁰ National efforts to transform the energy sector are highlighted in the Global Coal to Clean Power Transition Statement,²²¹ the Energy Transition Action Plan²²² – which prioritizes phasing out outdated coal-fired power plants – and the EU-Vietnam commitment Just Energy Transition Partnership (JETP).²²³ JEPT committed \$15.5 billion USD to project turning points for all greenhouse gas emissions by 2030, limit peak coal capacity to 30.2GW, as well as adopting accelerated renewable energy.²²⁴ Supporting JEPT, the Sustainable Energy Transition Programme (SETP), further allocated €142 million (actual rate \$154 million USD) in grants to accelerate the renewable adoption of energy sources.²²⁵ The substantial allocation of foreign capital underlines Vietnam's acknowledgment of technological costly and long-term barriers to replace coal, alongside their Nationally Determined Contribution²²⁶ commitments to eventually cease coal imports by 2050. The commitment of Vietnam's energy transition will be exemplified by ample national and international commitments, yet coal production is highly unlikely to cease significantly in the short-term.

Energy Mix

Vietnam's current energy mix is still dominated by fossil fuels. In 2023, total energy supply was composed of 46.77% coal, 28.89% hydropower (its most significant-low carbon source), 9.98% gas, 9.58% solar, 3.77% wind, 0.87% oil, and 0.14% bioenergy. A visual representation of this can be seen in *Figure 7*.²²⁷ Sustained growth of overall energy demand is expected over the following years, considering the Ministry of Industry and Trade estimated an increase of

²²⁰ Nhan Dan. "Roadmap to Realise Vietnam's Commitments at COP26," n.d. https://special.nhandan.vn/lotrinhcop26_en/index.html.

²²¹ Dung, Thuy. "Action Plan for Global Coal to Clean Power Transition Statement Issued." Socialist Republic of Vietnam - Government News, February 18, 2025. <https://en.baohinhphu.vn/govt-adopts-action-plan-to-implement-global-coal-to-clean-power-transition-statement-111250218093147551.htm>.

²²² ASEAN Centre for Energy. "Vietnam Unveils Coal Phase-out Plan, Intends to Stop 2 Coal-Power Plants by 2030 ." March 5, 2025. <https://aseanenergy.org/news-clipping/vietnam-unveils-coal-phase-out-plan-intends-to-stop-2-coal-power-plants-by-2030/>.

²²³ European Commission . "Political Declaration on Establishing the Just Energy Transition Partnership with Viet Nam," December 14, 2022. https://ec.europa.eu/commission/presscorner/detail/en/statement_22_7724.

²²⁴ Ibid

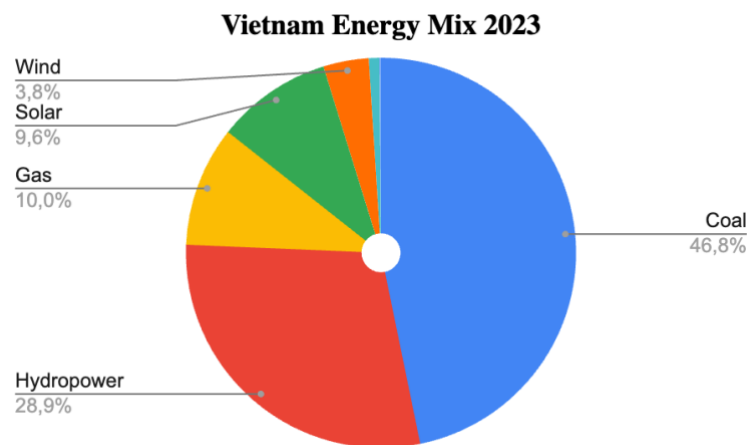
²²⁵ Delegation of the European Union to Vietnam. "EU-Vietnam Sustainable Energy Transition Programme (SETP)." EEAS, December 27, 2023. https://www.eeas.europa.eu/projects-setp_en.

²²⁶ Vietnam. "Vietnam NDC 2022." United Nations, November 2, 2022. <https://unfccc.int/documents/622541>.

²²⁷ Energy Institute, KPMG, and Kearney. "Statistical Review of World Energy." Energy Institute. Energy Institute, 2024. <https://www.energyinst.org/statistical-review>.

35% from current demand levels by 2030, mainly due to Vietnam's developing industrial economy growth and goals.

Figure 7: Vietnam's Energy Mix for 2023



Source: Author's Elaboration from the Statistical Review of World Energy for 2024

Vietnam's renewable energy sector holds remarkable potential for growth. With an estimated potential of 1.2 terawatts of renewable energy potential – 15 times the current installed capacity – government policies are capitalizing this advantage, such as the PDP8 which also aims to increase the share of renewable energy above 10% by 2030.²²⁸ Vietnam's renewable energy strengths lie particularly in solar and wind power, driving increased investment in this sector which is projected to total \$714 billion USD as a solid long-term market opportunity ²²⁹. The development of the solar market is focused on utility-scale projects and rooftop solar PV installations, an important area of opportunity for investors and technology providers in the renewables industry.²³⁰ Key approved projects for this growth include the Hai Lang Green Hydrogen Solar PV Park commissioned in 2027 with a power generation capacity of 4,300 MW, and the Ho Chi Minh Rooftop Solar PV Park with power generation capacity of 1,000 MW, commissioned this 2025.²³¹ Vietnam's wind sector, which has emerged as one of its fastest-growing renewable markets with investors such as GE Renewable Energy and Siemens

²²⁸ Vân Nguyễn. "Vietnam's Renewable Energy Holds Significant Growth Potential." Vietnam Economic Times, September 8, 2024. <https://en.vneconomy.vn/vietnams-renewable-energy-holds-significant-growth-potential.htm>.

²²⁹ Tachev, Viktor. "Renewable Energy Investments in Vietnam – Asia's next Clean Energy Powerhouse." Energy Tracker Asia, June 9, 2024. <https://energytracker.asia/renewable-energy-investments-in-vietnam-asias-next-clean-energy-powerhouse/>.

²³⁰ Taiwan News. "Vietnam Solar Energy Market ." March 6, 2025. <https://www.taiwannews.com.tw/news/6053354>.

²³¹ Ibid

Gamesa,²³² benefits from strong coastal wind corridors and favorable feed-in tariffs issued by Vietnam's Ministry of Industry and Trade.²³³ Under PDP8, wind power is set to be central in the 31% renewable energy share in Vietnam's energy mix, with offshore wind power expected to grow 6GW by 2030,²³⁴ making it a key focus for foreign investment.

Still, in the short term, coal is most likely to retain a significant share in the energy mix due to its established infrastructure and the time and resources needed for energy transitioning to renewables. Nevertheless, with PDP8 goals set for the end of the decade, the government's continued efforts in renewables will increase their role in the country's energy mix, this is especially the case for solar and wind power. Gas, as previously noted, is also positioned for growth during these upcoming years.²³⁵ In the case of hydropower, the country's second-most important source of energy, will most likely continue to be a critical component through the following years. However, it is prone to face challenges due effects of climate change and drought, which have already critically affected the operation of two of the biggest hydroelectric power plants in the country.²³⁶

Food Security and the Role of Climate Change

Vietnam's rice production is vital in regards to sustainable and reliable food security within the country.²³⁷ The rice industry comprises two-thirds of employment in rural areas and foreign exchange,²³⁸ while also being a crucial economic pillar in development policies across governmental levels.²³⁹ Vietnam leads the world as third largest in rice production, accounting for approximately 15% of the world's total rice exports.²⁴⁰ Consequently, climate change poses

²³² Vietnam Briefing News. "Renewables in Vietnam: Current Opportunities and Future Outlook ." 2022. <https://www.vietnam-briefing.com/doing-business-guide/vietnam/sector-insights/industry-spotlight-vietnam-s-renewable-energy-market>.

²³³ Vietnam Briefing News. "Vietnam to Set Annual Solar and Wind Prices under New Rules." December 19, 2023. <https://www.vietnam-briefing.com/news/vietnam-to-set-annual-solar-and-wind-prices-under-new-rules.html/>.

²³⁴ Tachev, Viktor. "Renewable Energy Investments in Vietnam – Asia's next Clean Energy Powerhouse." Energy Tracker Asia, June 9, 2024. <https://energytracker.asia/renewable-energy-investments-in-vietnam-asias-next-clean-energy-powerhouse/>.

²³⁵ Barnes, Mark. "Vietnam's Power Development Plan 8: What You Should Know." Vietnam Briefing News, May 17, 2023. <https://www.vietnam-briefing.com/news/vietnam-power-development-plan-approved.html/>.

²³⁶ Asia News. "Drought Dries up Vietnam's Power Supplies." 2023. <https://www.asianews.it/news-en/Drought-dries-up-Vietnam%E2%80%99s-power-supplies-58640.html>.

²³⁷ The Ministry of Agriculture and Rural Development. Approving scheme for restructuring of Vietnam's rice industry by 2025 and 2030 (2021). <https://www.fao.org/faolex/results/details/es/c/LEX-FAOC209384/>.

²³⁸ World Bank, and Asian Development Bank. "Climate Risk Country Profile - Vietnam." Asian Development Bank, 2020. <https://www.adb.org/publications/climate-risk-country-profile-viet-nam>.

²³⁹ Thong Anh Tran, and Brian R Cook. "Water Retention for Agricultural Resilience in the Vietnamese Mekong Delta: Towards Integrated 'Grey-Green' Solutions." International Journal of Water Resources Development 40, no. 3 (May 16, 2023): 532–53. <https://doi.org/10.1080/07900627.2023.2207674>.

²⁴⁰ Ministry of Industry and Trade. "Vietnam's Rice Exports: Opportunities and Challenges." VIOIT, n.d. <https://vioit.org.vn/en/strategy-policy/vietnam-s-rice-exports--opportunities-and-challenges-4404.4144.html>.

a considerable risk for Vietnam's food security, alongside upstream dam construction in the Mekong Delta and saltwater intrusions. In the medium and long term these risks will exacerbate effects on food security in Vietnam, nevertheless ongoing political planning to diversify the rice industry will mitigate the effects in the following years.

Climate Change Impacts on Vietnam's Rice Production

Climate change entails a present systemic risk to Vietnam's rice industry, most significant in the Mekong Delta, in which 90% of Vietnam's rice is farmed, while also being one of the world's regions most at risk to climate change.²⁴¹ This region, reported in losses 2024 exceeding \$2.96 billion USD due to salt intrusion,²⁴² which is the pollution of freshwater aquifers by saline waters. The projection of anticipated costs for 2030 exceeds \$2.8 billion USD,²⁴³ showcasing climatic shifts that translate directly to economic risks for the Vietnamese population.

Mekong River Transboundary Flow Issues

Food security in Vietnam is intrinsically linked to the Mekong River, which originated in the Tibetan Plateau and flows through China, Myanmar, Laos, Thailand, Cambodia and southern Vietnam. This essential water source faces complex and interconnected challenges associated with transboundary water stress due to upstream hydro dam construction by China,²⁴⁴ which alter the river's natural flow and collectively threaten water availability in lower Mekong countries such as Vietnam.

Vietnam's water resources are destined mainly to cultivate the country's source of food security in agriculture, which accounts for 70% of the total water use and maintains one-third of Vietnam's employment.²⁴⁵ The vulnerability of the sector is particularly because of large-scale hydropower dams for power in China – which store water in mega-reservoirs– and are attributed as the key responsible for substantial water fluctuation in the Vietnamese Mekong

²⁴¹ Ghosal, Aniruddha. "In Vietnam, Farmers Reduce Methane Emissions by Changing How They Grow Rice." AP News, April 23, 2024. <https://apnews.com/article/vietnam-rice-methane-climate-mekong-e82d9101bcd440751a9d0db060b10c0f>.

²⁴² Minh, Gia. "Mekong Delta Incurs \$3B Annual Losses due to Salt Intrusion ." VnExpress International, March 16, 2024. <https://e.vnexpress.net/news/environment/mekong-delta-loses-3b-a-year-to-salt-intrusion-4723065.html>.

²⁴³ Ibid

²⁴⁴ Trang, Thong Anh. "The Mekong Delta's Transboundary Water Problems." East Asia Forum. April 30, 2022. <https://eastasiaforum.org/2022/04/30/the-mekong-deltas-transboundary-water-problems/>.

²⁴⁵ Kong, Sasha. "Vietnam's Water Crisis Threatens Food Security." FairPlanet, March 12, 2022. <https://www.fairplanet.org/story/vietnams-water-crisis-threatens-food-security/>.

Delta (VMD).²⁴⁶ China, crucial actor in the control of the upstream dam development, has more than 10 mainstream dams that have been completed and/or are under construction,²⁴⁷ which translate into transboundary hydrological transformation that no longer guarantees steady and predictable upstream flow for Vietnam.²⁴⁸ An expectation of change in Chinese actions towards the disposal of uninterrupted downstream water is not guaranteed by the country's history.²⁴⁹ At hand, the implications of reduced water flows place Vietnam in a precarious position to assure their food security. These interconnected challenges entail balancing the need of agriculture, China's control of water flows into VMD and the food security of Vietnam.

Economic and Social Implications of Reduced Rice Production

The dependency on the Mekong River constitutes a significant priority for the Vietnam government, as over 15 million smallholder farmers in the Mekong Delta depend on it for their livelihoods.²⁵⁰ Not only is the rice production at large responsible for national economic growth, but also is responsible for individual household incomes in Vietnam, which translates into socio-economic implications in need of addressing for instituting reliable food security in Vietnam. The VMD sustains over 50% of Vietnam's total rice production, feeding more than 20 million people currently.²⁵¹ That being so, 60% of the population is engaged in agriculture and the rice sector constitutes 14% of GDP in Vietnam.²⁵² Yet, Vietnamese rice farmers have low technical sources and the limited pressure of the main market, which does not demand compliance and sustainability prioritization.²⁵³ In addition, farmers are not adequately equipped to integrate technological incentives and are not rewarded or compensated accordingly, especially considering rice grown in Vietnam is mayorly over-fertilised, over-pesticide and uncertified.²⁵⁴

²⁴⁶ Thong, Anh Tran, and Cook, Brian R.. "Water Retention for Agricultural Resilience in the Vietnamese Mekong Delta: Towards Integrated 'Grey-Green' Solutions." *International Journal of Water Resources Development* 40, no. 3 (May 16, 2023): 532–53. <https://doi.org/10.1080/07900627.2023.2207674>.

²⁴⁷ Biba, Sebastian . "China's Hegemonic Choice in the Mekong Region." *East Asia Forum*, August 30, 2019. <https://eastasiaforum.org/2019/08/30/chinas-hegemonic-choice-in-the-mekong-region/>.

²⁴⁸ Silvers, Jack. "Water Is China's Greatest Weapon and Its Achilles Heel." *Harvard Political Review*, October 16, 2020. <https://harvardpolitics.com/china-water-policy/>.

²⁴⁹ Ibid

²⁵⁰ Rikolto. "A Sustainable and Inclusive Rice Sector in Vietnam," January 13, 2025. <https://www.rikolto.org/projects/a-sustainable-and-inclusive-rice-sector-in-vietnam>.

²⁵¹ Bihn, Le Thanh. "Vietnam: Drought and Salinity in the Mekong Delta Threatens Food Security." *InDepthNews*, January 3, 2024. <https://indepthnews.net/vietnam-drought-and-salinity-in-the-mekong-delta-threatens-food-security/>.

²⁵² Tran, Phung Phi. "Climate Change Impacts on Food Security in Vietnam: A Comprehensive Review" *Asian Impact Management Review (AIMR) | Asian Impact Management Review*, September 12, 2024. <https://www.aimr.asia/environmental-impact/climate-change-impacts-on-food-security-in-vietnam-a-comprehensive-review/>.

²⁵³ Rikolto. "A Sustainable and Inclusive Rice Sector in Vietnam," January 13, 2025. <https://www.rikolto.org/projects/a-sustainable-and-inclusive-rice-sector-in-vietnam>.

²⁵⁴ Ibid

Adaptation Strategies and Future Outlook

Food security remains top priority in Vietnam, yet without compromising agriculture as a cornerstone to the country's economy.²⁵⁵ The ongoing measure on behalf of the Vietnamese government procures balancing economic necessities with climate-resilient development practices. Acknowledging the need of transformation in the rice sector the Vietnamese government has implemented a shift in focus from quantity to quality, from food security to food safety and mitigating effects of climate change,²⁵⁶ alongside cooperative initiatives and diversification of crop rotations.

The government has responded with adaptive initiatives targeted to combat climate change and saltwater intrusions, by promoting farmers to rotate un-usable rice fields into shrimp ponds or growing salt-tolerant crops such as coconut.²⁵⁷ This initiative indicates compromise and resilience from Vietnamese farmers who also benefit economically earning 50% more than their rice monoculture counterparts.²⁵⁸ Climate change presents risks to the rice sector, yet social and political initiatives have managed to respond to these risks accordingly.

Dialogue with China regarding dam obstruction, has also been continuously addressed by the Mekong River Commission, which regardless of lack of jurisdiction on dam construction,²⁵⁹ push for a Mekong-wide dialogue. Transboundary water challenges underscore the role of institutions and their role in governance,²⁶⁰ consequently enabling the Vietnamese government to procure responsibility, including initiatives such as Lancang-Mekong Cooperation Leader's Meetings²⁶¹ and the Mekong-US Partnership Plan of Action 2024-2026.²⁶² Understanding external concerns with downstream flow, water retention has been flagged as top priority,²⁶³

²⁵⁵ Thong Anh Tran, and Tortajada, Cecilia. "Responding to Transboundary Water Challenges in the Vietnamese Mekong Delta: In Search of Institutional Fit." *Environmental Policy and Governance* 32, no. 4 (March 10, 2022): 331–47. <https://doi.org/10.1002/eet.1980>.

²⁵⁶ The Ministry of Agriculture and Rural Development. Approving scheme for restructuring of Vietnam's rice industry by 2025 and 2030 (2021). <https://www.fao.org/faolex/results/details/es/c/LEX-FAOC209384/>.

²⁵⁷ Yuen, Kai Wan, Tang Thi Hanh, Vu Duong Quynh, Adam D. Switzer, Paul Teng, and Janice Ser Huay Lee. "Interacting Effects of Land-Use Change and Natural Hazards on Rice Agriculture in the Mekong and Red River Deltas in Vietnam." *Natural Hazards and Earth System Sciences* 21, no. 5 (May 12, 2021): 1473–93. <https://doi.org/10.5194/nhess-21-1473-2021>.

²⁵⁸ Ibid

²⁵⁹ Roney, Tyler. "What Are the Impacts of Dams on the Mekong River?" *Dialogue Earth*, July 1, 2021. <https://dialogue.earth/en/energy/what-are-the-impacts-of-dams-on-the-mekong-river/>.

²⁶⁰ Kong, Sasha. "Vietnam's Water Crisis Threatens Food Security." *FairPlanet*, March 12, 2022. <https://www.fairplanet.org/story/vietnams-water-crisis-threatens-food-security/>.

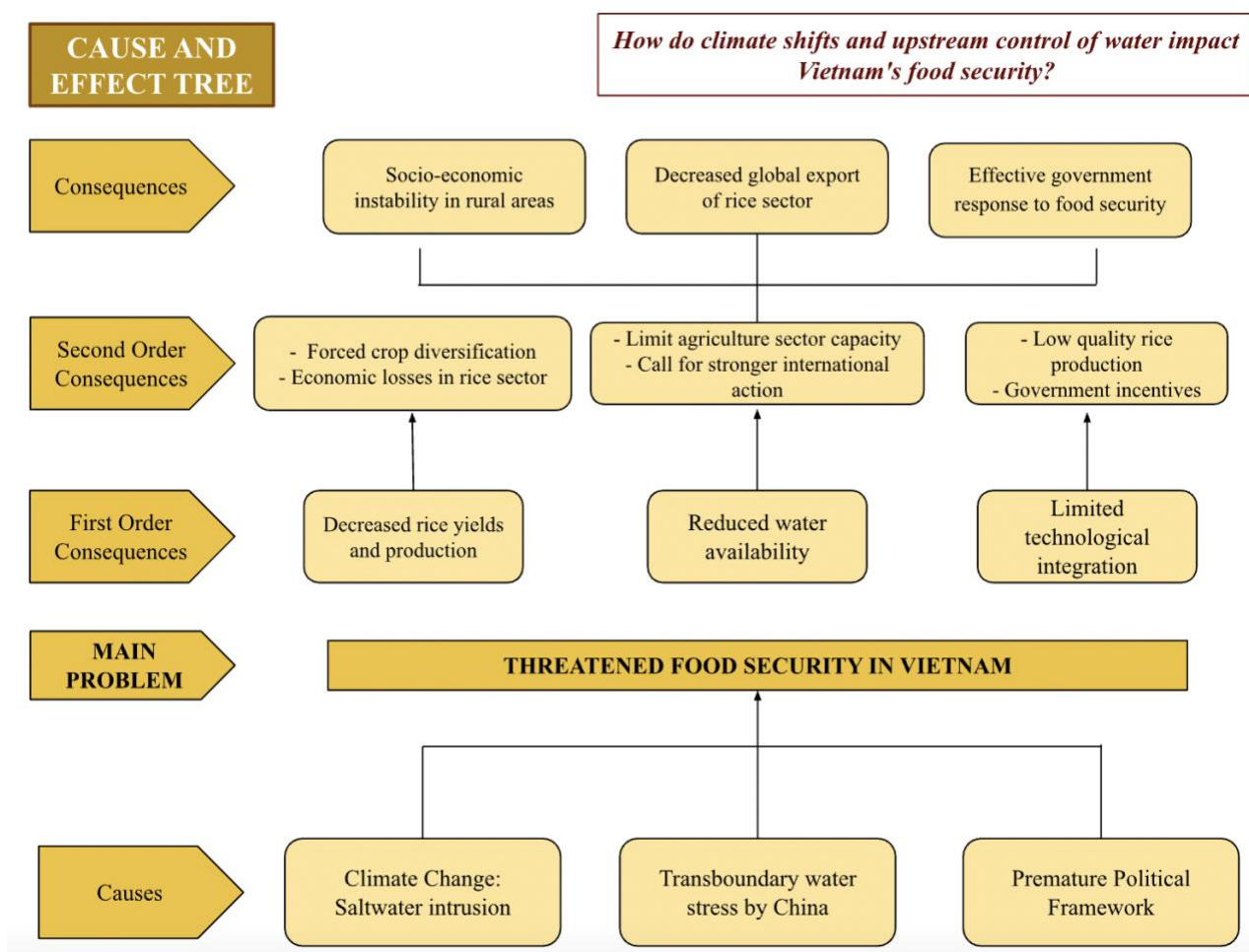
²⁶¹ Lancang-Mekong Cooperation. "Leaders' Meetings-Lancang Cooperation," 2017. http://www.lmcchina.org/eng/node_1009687.html.

²⁶² Mekong - U.S. Partnership. "Mekong-U.S. Partnership Plan of Action 2024-2026," n.d. <https://mekonguspartnership.org/about/plan-of-action/>.

²⁶³ Thong, Anh Tran, and Cook, Brian R. "Water Retention for Agricultural Resilience in the Vietnamese Mekong Delta: Towards Integrated 'Grey-Green' Solutions." *International Journal of Water Resources Development* 40, no. 3 (May 16, 2023): 532–53. <https://doi.org/10.1080/07900627.2023.2207674>.

implemented alongside grey-green solutions and green approaches which are ultimately more sustainable.²⁶⁴ Challenges presented by climate change, stress on water flow and institutional gaps, all are effectively addressed by the government, which entitle a positive medium to long term food security outlook.

Figure 8: Cause and Effect Tree



Through *Figure 8*, this report wishes to highlight the complex interplay between environmental stressors and political constraints shaping Vietnam's food security outlook. At its core, the diagram reveals how climate-induced saltwater intrusion and upstream water control serve as primary stressors, amplified by limited domestic coordination and weak transboundary governance. These upstream drivers propagate a series of downstream effects, from reduced

²⁶⁴ Anh Tran, Thong . "Solutions for Vietnam's Water Scarce Delta | East Asia Forum." East Asia Forum, May 2, 2023. <https://eastasiaforum.org/2023/05/02/solutions-for-vietnams-water-scarce-delta/>.

rice productivity to export volatility and socio-economic vulnerability in rural areas. Crucially, the model underscores that these challenges are not isolated, as they reinforce one another, leading to repeating problems that increase risk and reduce the ability to respond effectively. Addressing them requires a shift from reactive crisis management to anticipatory governance, integrating environmental diplomacy with long-term water resource planning.

CONCLUSION

Vietnam's historical transformation to transition into a market-oriented economy has led it to focus on reframing state-owned enterprises, establishing itself as a key actor in the global supply chain and enhancing domestic incentives for foreign investment. As a result, the Vietnamese economy is expected to experience long-term economic growth and development in the manufacturing sector, particularly in the automotive and semiconductor industry.

Significant investments have been made in the renewable energy sectors, specifically with high investments in solar and wind power, as Vietnam looks to decarbonize and reduce imported fuels. Additionally, stricter regulatory standards have created a more transparent business environment for investors who seek to conduct business in Vietnam.

As Vietnam continues to implement government incentives towards privatization, its transition provides for significant opportunities in the national economy. The current political landscape signals regime stability through economic-based legitimacy, which encourages investors to develop industrial zones and economically contributing social improvements.

However, demographic challenges and slow bureaucratic procedures are expected to persist in the short and medium term. Vietnam also remains vulnerable to fluctuations in global trade and trade disputes which would likely disrupt key industries and affect long-term growth. Additionally, lack of water stability due to China's continuous construction of dams, can significantly impact its food security.

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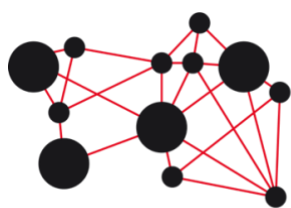
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