

Pathway towards a sustainable economic recovery

VBF, March 2024

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Report by **Decision Lab**

Foreword

In the wake of unprecedented global challenges, Vietnam has demonstrated remarkable resilience, emerging as an attractive destination for Foreign Direct Investment (FDI) post-2022. The sustained influx of FDI, amidst sluggish growth elsewhere, underscores Vietnam's allure as a dynamic and resilient economy.



As we navigate through uncertain times, the cautious optimism among foreign businesses emphasizes the urgency of fostering an environment conducive to sustained growth.

At the forefront of this growth trajectory lie Environmental, Social, and Governance (ESG) initiatives, increasingly embraced by foreign businesses operating in Vietnam. Yet, challenges persist in the effective implementation of ESG strategies. Divergent perspectives on the government's commitment to ESG underscore the imperative for a cohesive approach to facilitate business expansion and comprehensive societal contributions.

As we embark on this journey towards sustainable growth, it is imperative that all stakeholders collaborate to harness Vietnam's full potential as a premier destination for foreign investment. This report serves as a blueprint for action, offering insights and recommendations to guide our collective efforts in fostering a resilient and prosperous business environment.

Sincerely,

Nitin Kapoor

Nitin Kapoor
Co-Chairman
Vietnam Business Forum

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Background

The Vietnam Business Forum (VBF)¹ is a structured and ongoing policy dialogue between the Vietnamese Government and the business community for a favorable business environment that attracts private sector investment and stimulates sustainable economic growth in Vietnam.

This study², conducted in two phases (October 2023 and February 2024), compiles the perspectives of foreign companies operating in Vietnam. The study gathers a total of 655 responses from foreign business leaders, offering valuable insights into the current state and evolution of the Vietnamese business environment, including the status of ESG development and its alignment with the prevailing Vietnamese business context.

The VBF hereby extends its sincere gratitude to its 14 affiliated business associations/chambers of commerce for their commitment and diligence in conducting the significant survey. The invaluable support provided by these entities in engaging with prominent business leaders has been indispensable, facilitating prompt and proficient responses.

To read more about VBF and its activities, please refer to www.vbf.org.vn and/or reach out to VBF Secretariat at Email: info@vbf.org.vn; Tel.: (+84) 24 3715 2223.

¹ The Vietnam Business Forum Consortium is currently led by 06 consortium members including British Chamber of Commerce Vietnam (BritCham), Vietnam Chamber of Commerce & Industry (VCCI), American Chamber of Commerce in Vietnam (AmCham), Korea Chamber of Commerce in Vietnam (KoCham), Japanese Chamber of Commerce and Industry (JCCI), and European Chamber of Commerce in Vietnam (EuroCham). Additionally, 08 other business organizations and chambers of commerce partake in the Consortium as associate members, namely: AusCham, SingCham, CanCham, HKBAV, InCham, ThaiCham, SBA, and CTCVN.

The VBF activities primarily revolve around hosting a prestigious annual forum that facilitates dialogue between the business community and key Government leaders, alongside ongoing advocacy initiatives led by 14 specialized Working Groups (WGs) spanning various sectors such as Banking, Capital Markets, Power & Energy, Infrastructure, Investment & Trade, among others.

With over 25 years of operation, the VBF has demonstrated significant growth in terms of membership, activities, and reputation. The annual forum organized by VBF consistently garners considerable attention from Government authorities, businesses, local and foreign chambers of commerce, diplomatic missions, prominent international organizations operating in Vietnam, and the press.

² The survey is conducted by **Decision Lab**, a Vietnam-based market research consultancy with the mission to deliver agile, connected and decision focused market research.

Executive Summary

Foreign businesses have played a pivotal role in supporting Vietnam's post-Covid economy, with Foreign Direct Investment (FDI) continuing to be substantial post-2022. Despite global challenges and sluggish FDI growth elsewhere, Vietnam has witnessed noteworthy FDI expansion through 2023. The cautious business outlook of foreign companies at the time of writing underscores the imperative to further accommodate foreign businesses for sustained Vietnamese growth.

Simultaneously, numerous foreign businesses actively engage in Environmental, Social, and Governance (ESG) initiatives and have corporate goals/requirements. More than half of businesses are proactively addressing employee well-being and social equity. Notably, 20% of businesses allocate over 5% of their budget for ESG actions, with established risk assessments and data governance structures.

However, challenges persist in expanding and effectively implementing ESG strategies. Leadership awareness is deemed crucial, and market-based mechanisms currently underdeveloped pose limitations. Differing opinions exist among companies regarding the government's commitment to ESG, which signals the necessity for a stronger stance to facilitate business expansion and comprehensive contributions to society and the economy.

Despite challenges, Vietnam retains its appeal for foreign businesses, ranking among the top three attractive destinations. Vietnam's attractiveness stems from robust political foundations, affordable labor, and an expanding consumer market, necessitating continuous support for sustained growth. The focus on upskilling the labor force, particularly in the manufacturing sector, remains critical for fostering a resilient and prosperous business environment. Additionally, meeting ESG requirements will also be key to continually attracting foreign businesses.

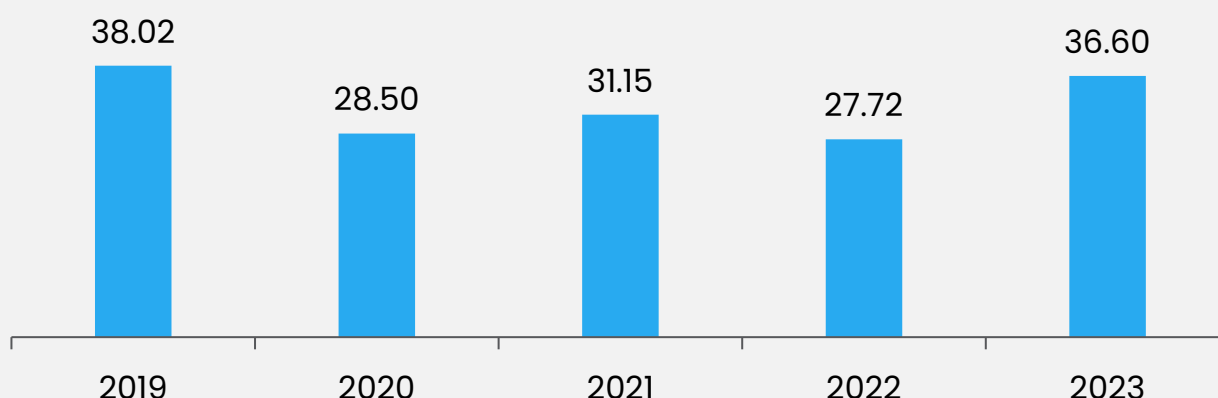
01 | Foreign Direct Investment resilience and contributions post-Covid

Foreign direct investment is a major source of growth in Vietnam, even amidst global cautious business climate

According to data from the Ministry of Planning and Investment, in 2022, the total newly registered capital, adjusted and contributed capital to buy shares and buy contributed capital of foreign investors reached about 27.72 billion USD. While this was an 11% decrease from that of 2021, FDI disbursement reached a record high in 5 years (2019–2023) at 23.18 billion USD.

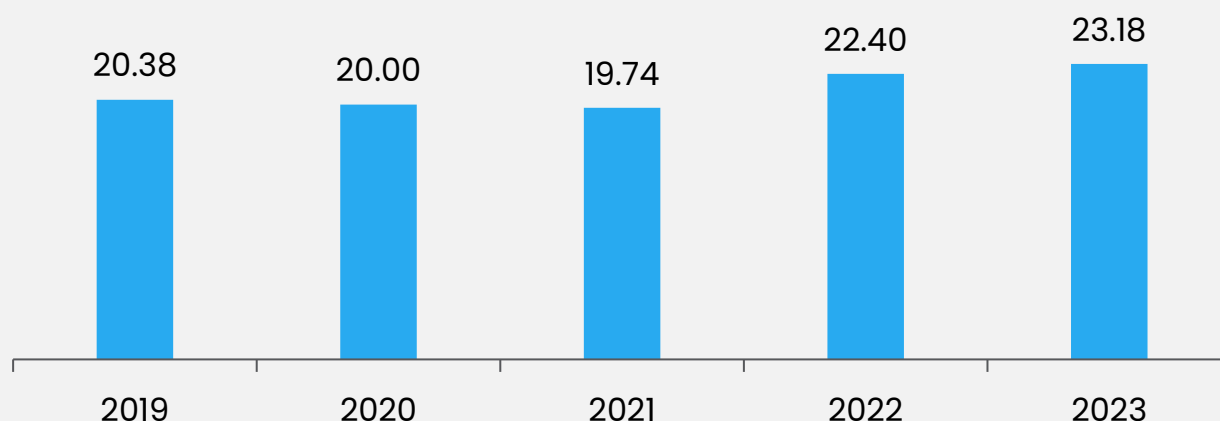
FDI observed an uptick in 2023, signifying an optimistic sign.

Registered FDI in Vietnam (2019 – 2023, in billion USD)



Source: Vietnam's Ministry of Planning and Investment

FDI Disbursement (2019 – 2023, in billion USD)



Source: Vietnam's Ministry of Planning and Investment

In the current business landscape, the prevailing sentiment of foreign businesses appears to be situated at a neutral standpoint, with indications that the manufacturing sector is experiencing a comparatively more adverse outlook than other sectors

The current Business Confidence Index sits at 45.9 out of 100. Generally, readings above 50 signal a positive outlook, whereas readings below 50 suggest lower levels of optimism.

In the first half of 2023, the global environment presented various challenges. Despite a modest economic growth rate of 3.72%, Vietnam demonstrated resilience amid global uncertainties.

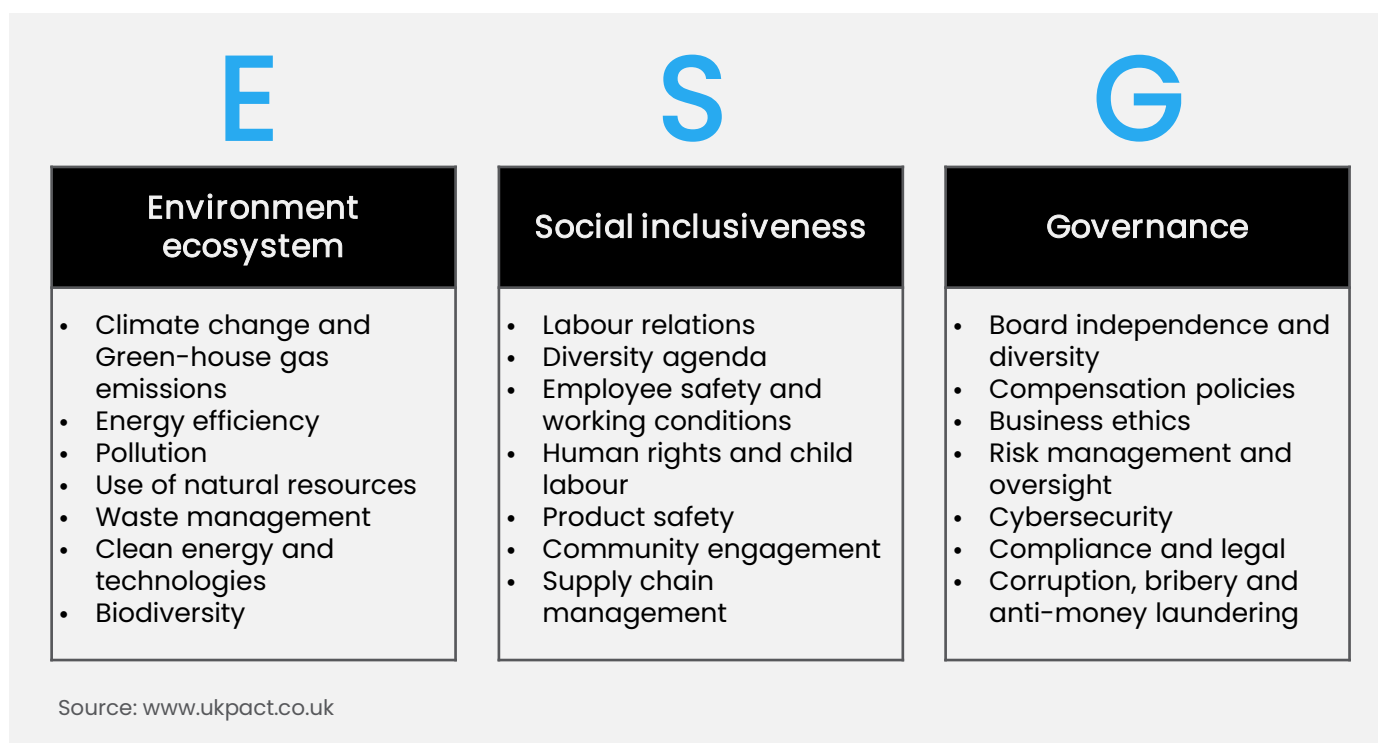


A business outlook score of 37.2 for the manufacturing sector suggests a relatively less optimistic outlook for manufacturing in comparison to other sectors. The industry is grappling with numerous difficulties and challenges, particularly in the face of a global decline in aggregate demand.

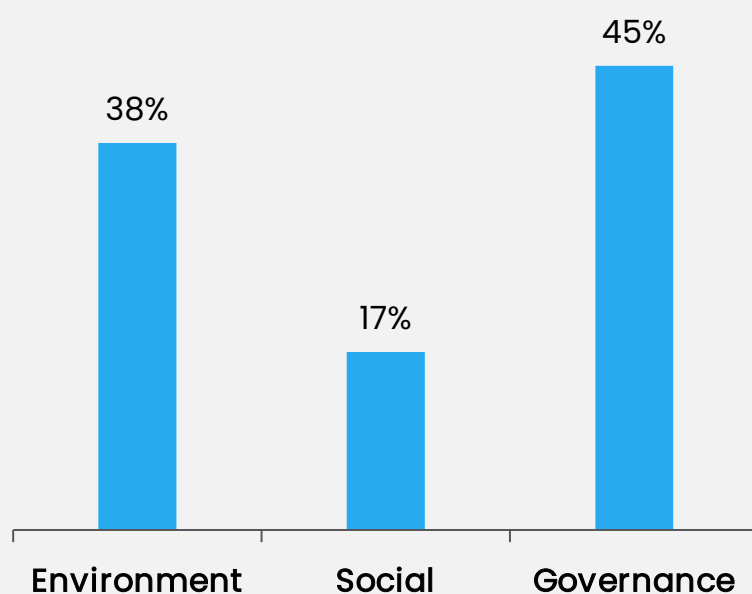


02 | ESG momentum among foreign businesses in Vietnam

Foreign businesses prioritize Governance and Environment in aligning their operations with ESG criteria



ESG Priority Ranking (top priority)



Q: How would you rate the level of priority your company assigns to aligning its operations in Vietnam with ESG criteria?

n = 173

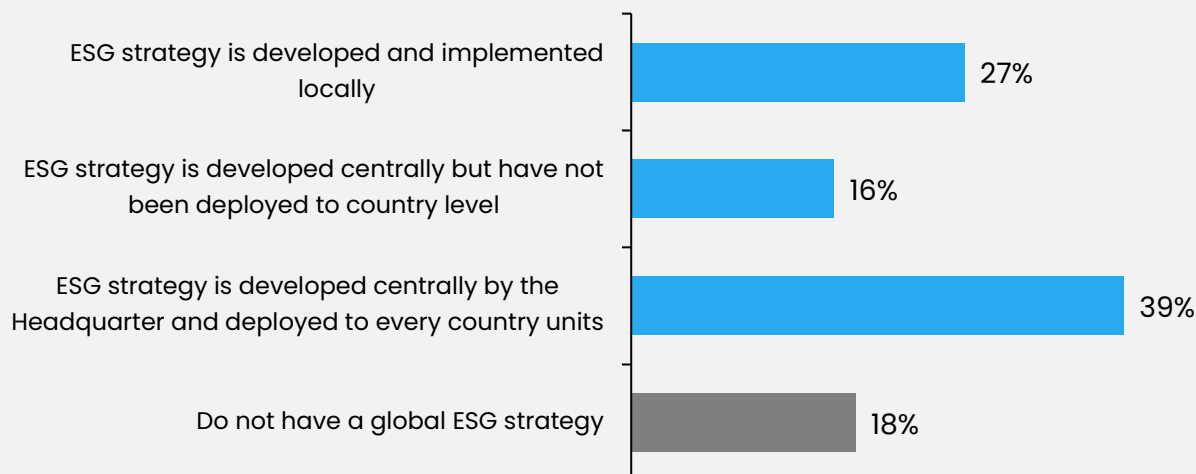
This emphasis on governance (i.e. focusing on certainty and reducing risks) stems from the recognition that effective corporate governance structures are pivotal in ensuring ethical business practices, transparency, and accountability.

At the same time, small businesses are more likely to rank the “social” aspect as their top ESG priority.

Approximately 8 out of 10 businesses reported to already have an ESG strategy developed, either by the global headquarters or locally

A promising indicator is that 34% of businesses have already actively initiated local ESG strategies, with many others either in the monitoring or planning phase.

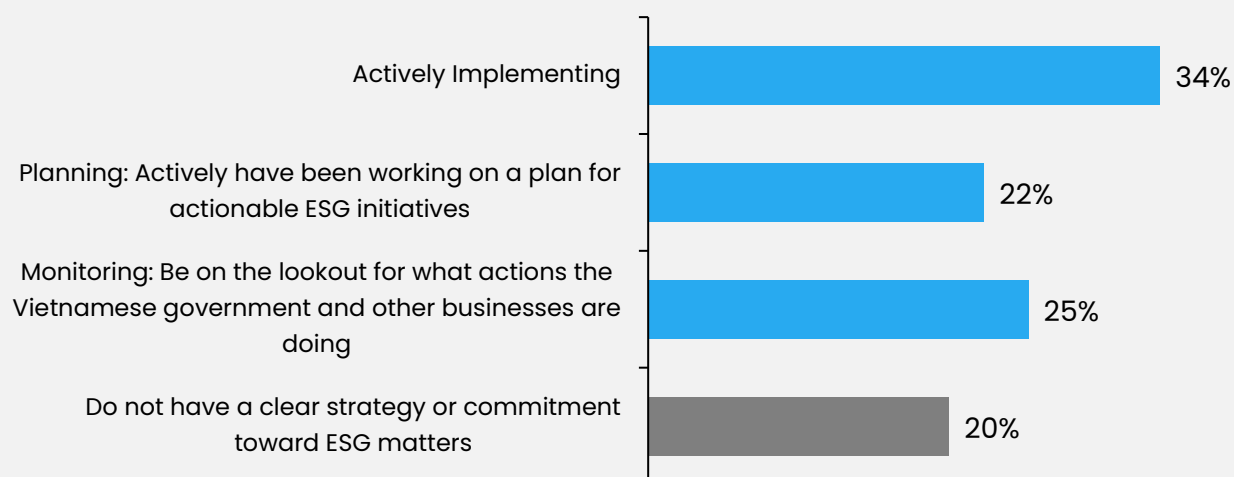
Global strategy



Q: How is your global company's ESG strategy developed and deployed across countries?

n = 173

Local strategy



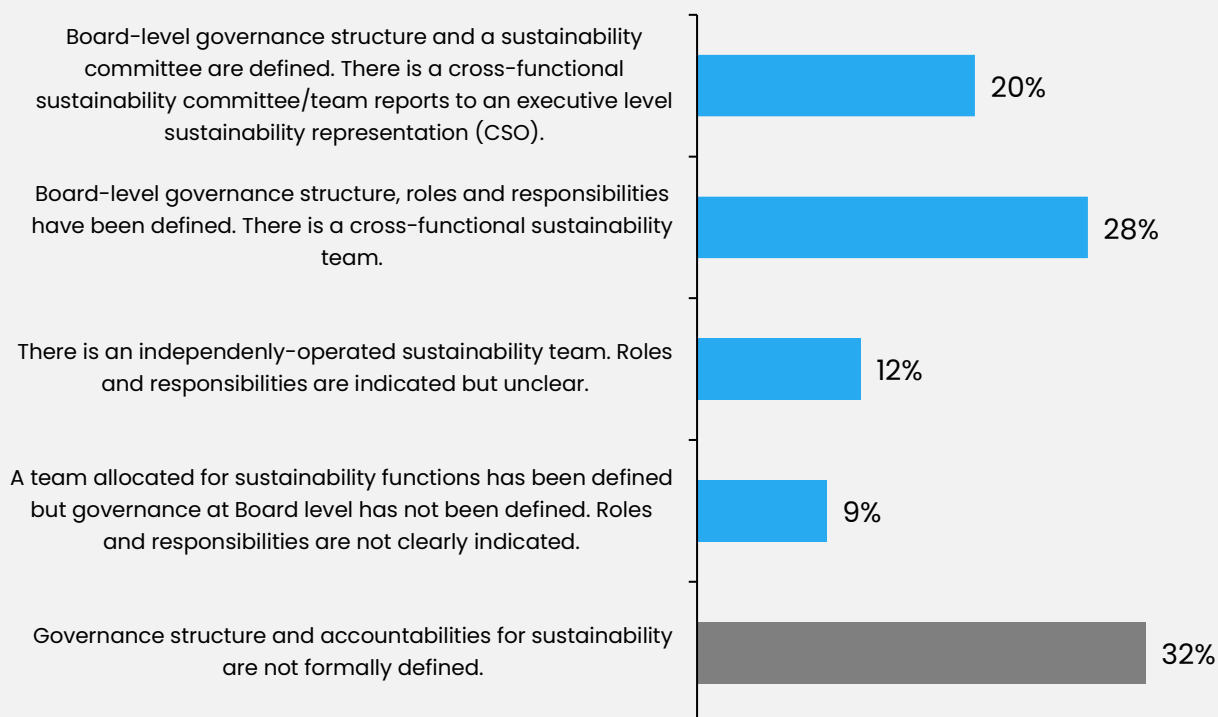
Q: In Vietnam, which of the following statements best describe the current approach of your company toward ESG matters?

n = 173

There is clear ambition towards ESG goals

60% of businesses have a board-level governance structure for sustainability and almost 60% have defined ESG targets

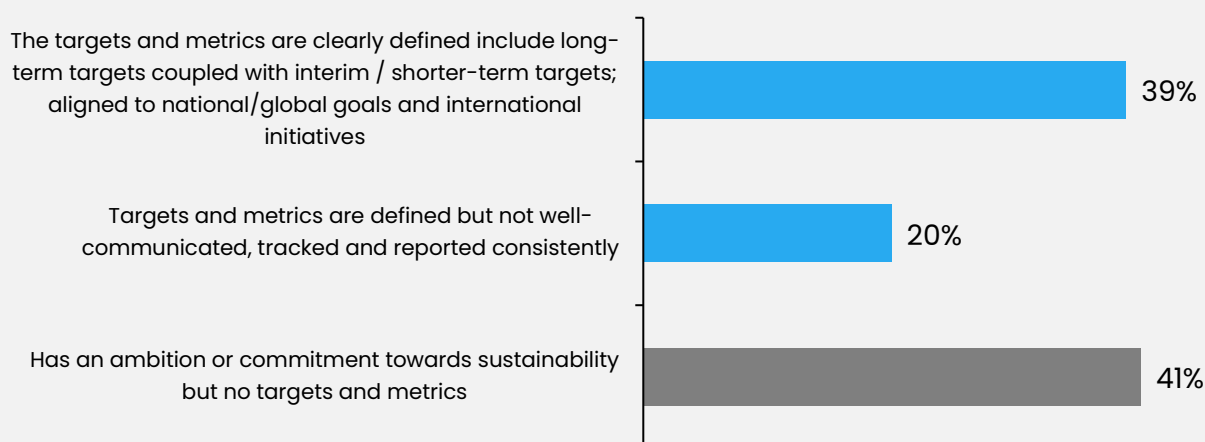
Governance structure



Q: How does your company define the governance structure that enables oversight of sustainability at the highest level?

n = 173

Targets and metrics

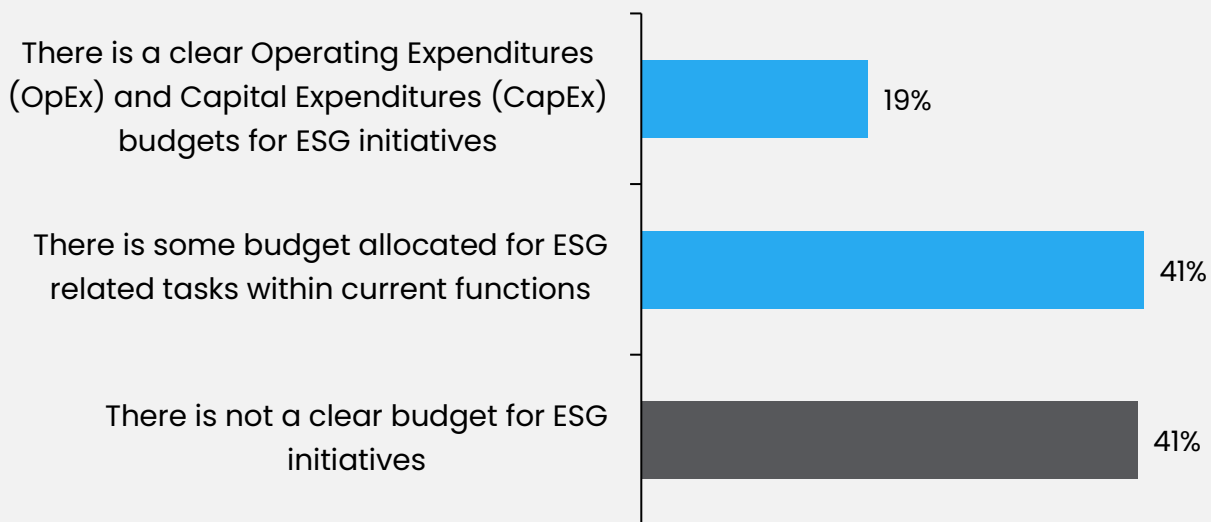


Q: Does your company have specific targets and metrics related to material ESG topics?

n = 173

Sixty percent (60%) of businesses also indicated that they have budget allocated for ESG initiatives

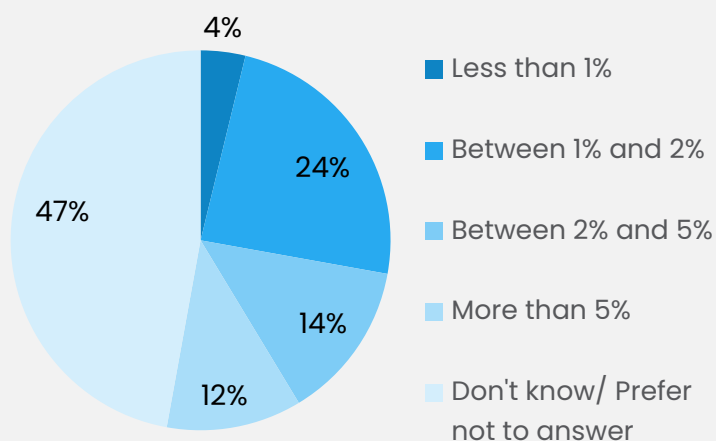
Resource allocation for ESG initiatives



Q: Which of the following statements best describe the current resources allocation for ESG initiatives in your company?

n = 173

Budget allocation (%) for ESG initiatives



Q: How much does the budget allocated for ESG initiatives account for your firm's total budget?

n = 104

Clear budget allocations for ESG initiatives are predominantly observed among large businesses.

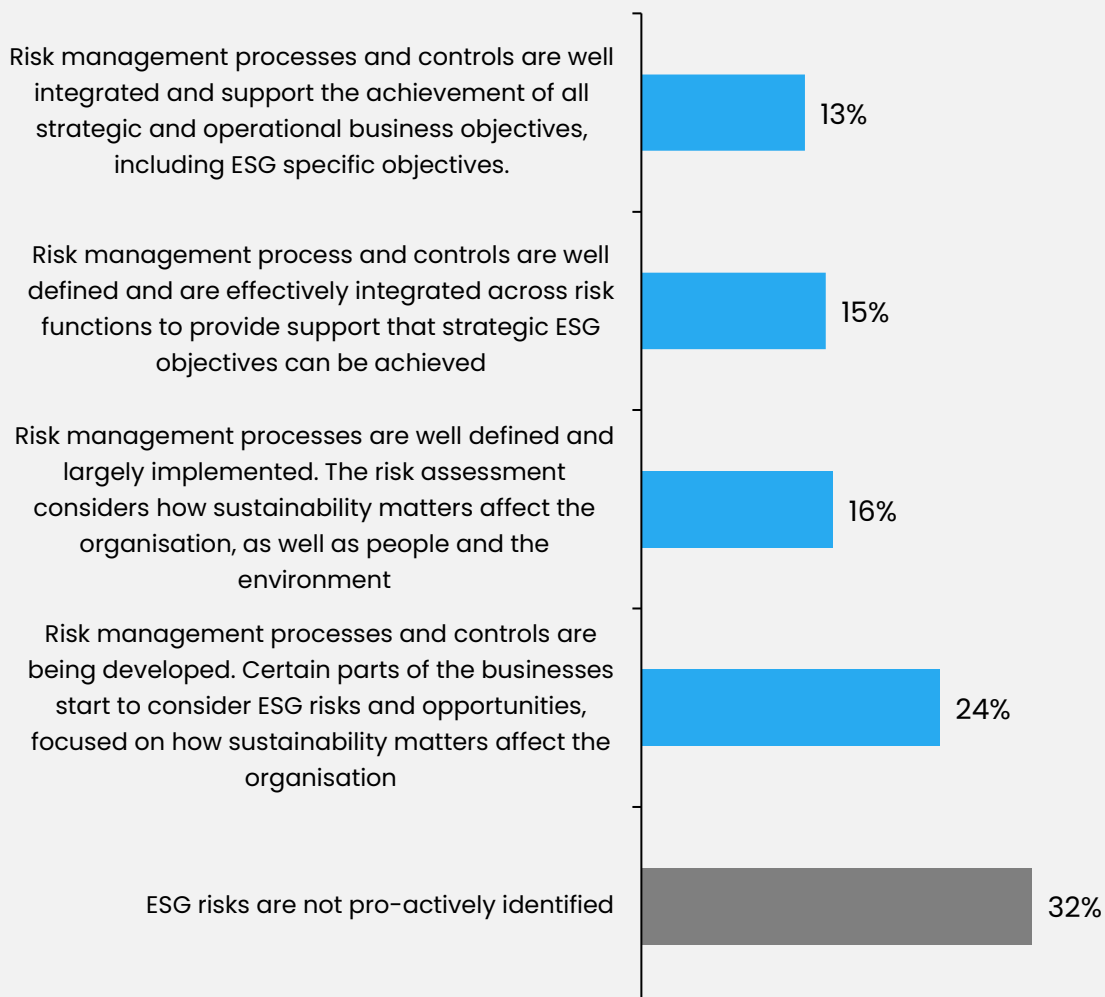
Fifty percent of those with some budget for ESG are allocating more than 1% of their total budget for ESG initiatives.

Around two-thirds of businesses already consider sustainability matters in their risk assessment

Integrating ESG into a risk-management framework aligns with the evolving landscape of responsible business practices. It not only helps in identifying and mitigating risks but also positions a company for sustainable growth.

While 68% of businesses responded already have this in mind, only 13% reported that risk-management processes are well integrated with specific ESG objectives.

ESG risk-management framework

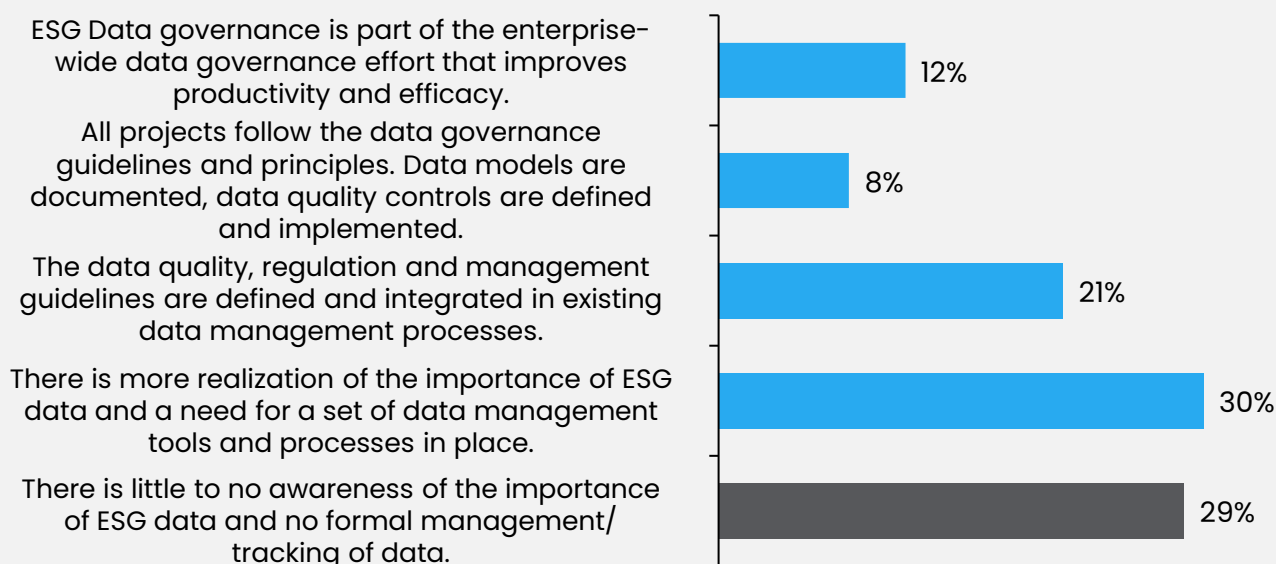


Q: To what extent is ESG embedded in your business' risk management framework?

n = 173

Broadly, businesses are currently in the initial phase of adopting ESG data governance and reporting practices and indicating a trajectory for further development

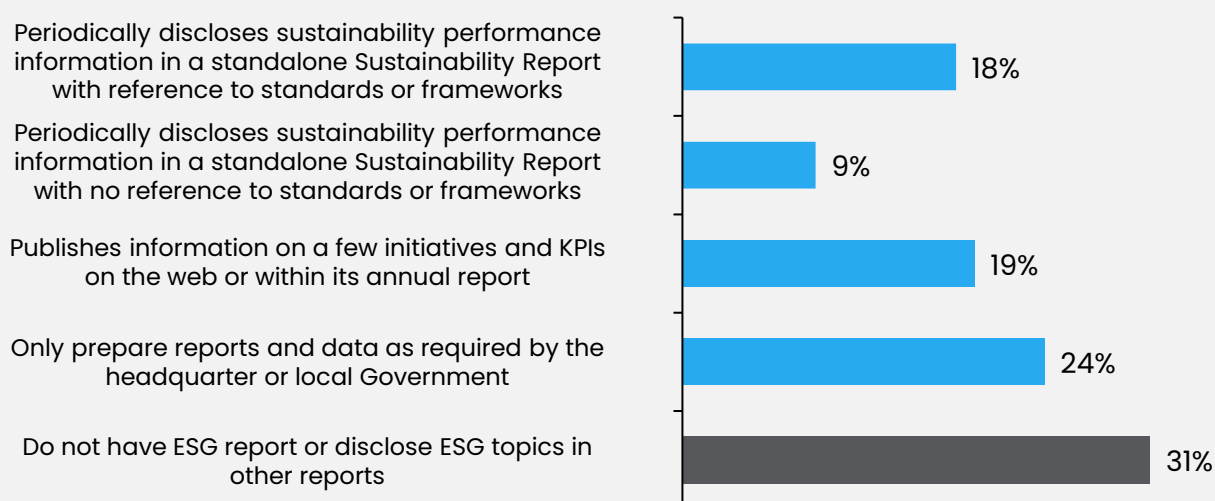
ESG data governance



Q: Which of the following statements best describe the current ESG data governance within your company?

n = 173

ESG reporting and disclosure



Q: Which of the following statements best describe the current ESG reporting and disclosure in your company?

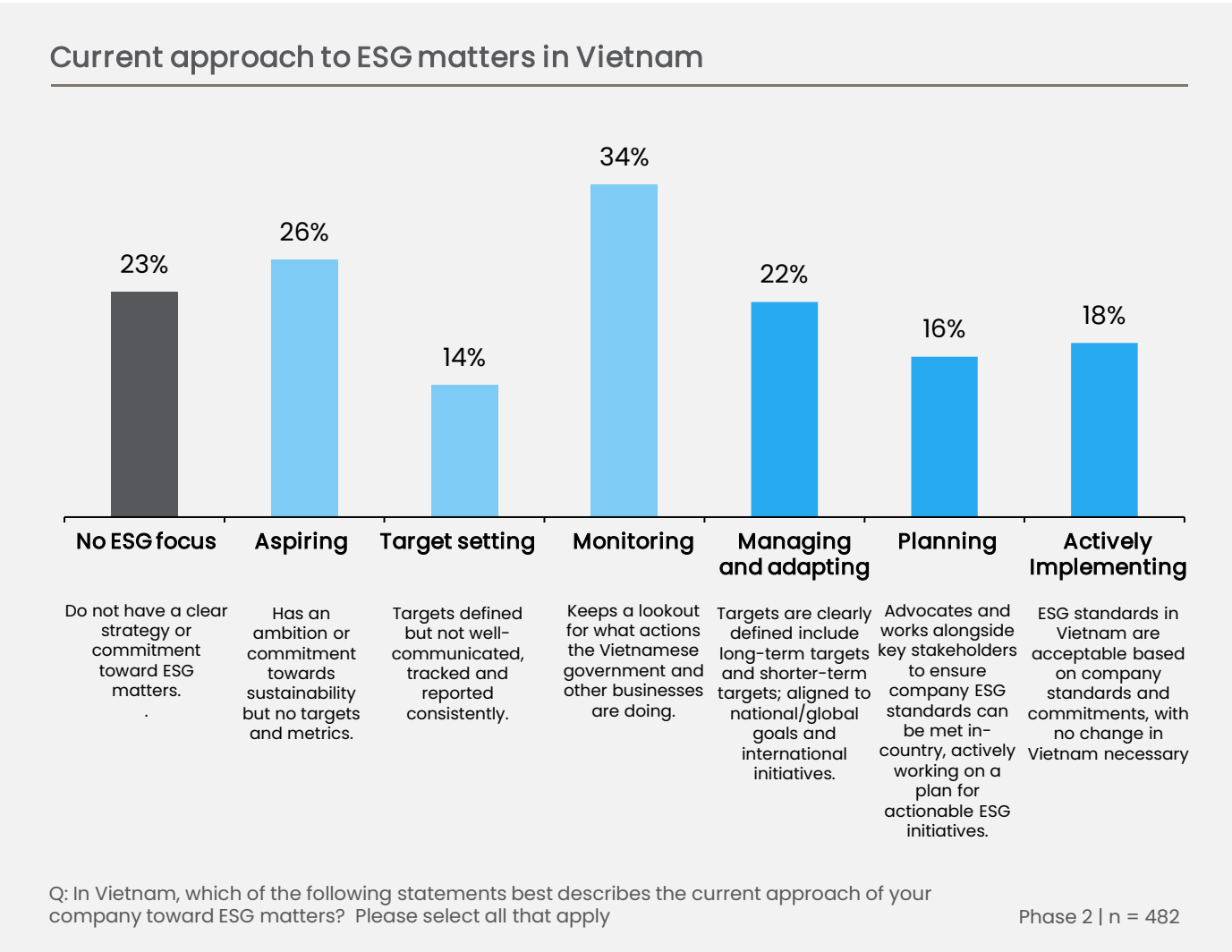
n = 173

03 | Evolving landscape of foreign business ESG efforts

Almost 80% of businesses surveyed are already approaching ESG matters, even though a significant portion is in their early stages

In February 2024, VBF, in collaboration with EuroCham's Green Growth Sector Committee and allied chambers, conducted a follow-up survey to the initial ESG study. This survey was designed to gain a deeper understanding of the current state of ESG initiatives and the level of commitment to ESG practices among the international business community in Vietnam.

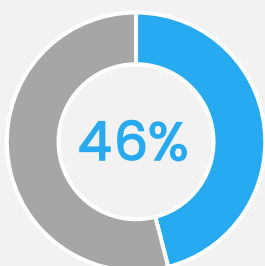
Over a third of businesses are in the monitoring stage, underscoring the urgency for concrete actions on ESG implementation. European businesses, including those in the process of setting ESG targets, will face new EU Directives like CBAM, Deforestation, and CSRD. These directives will reshape how businesses report and address their environmental and social impact.



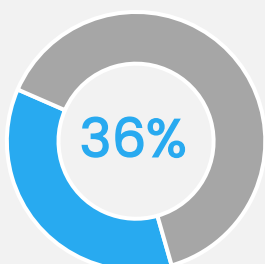
Nearly half (46%) of companies with ESG targets demonstrate a commitment to progress by setting time-bound goals

Additionally, KPIs, which are linked to departments and often performance/salary-related now involve ESG as a consideration for over a third of the companies.

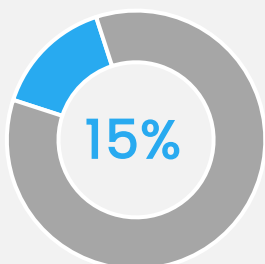
Types of ESG targets (Base: Applicable respondents)



Time-related to hit a certain level/percentage/structure of operating



Linked to management Key Performance Indicators



Capital-related into budget expenditure, profit etc.

3%
others

Focused on merits, product development, compliance, etc.

Q: Within your organization, are ESG targets set with a designated timeframe (e.g., achieving a milestone by 2030), tied to capital, or connected to other factors? If multiple targets exist, please choose the most prioritized one.

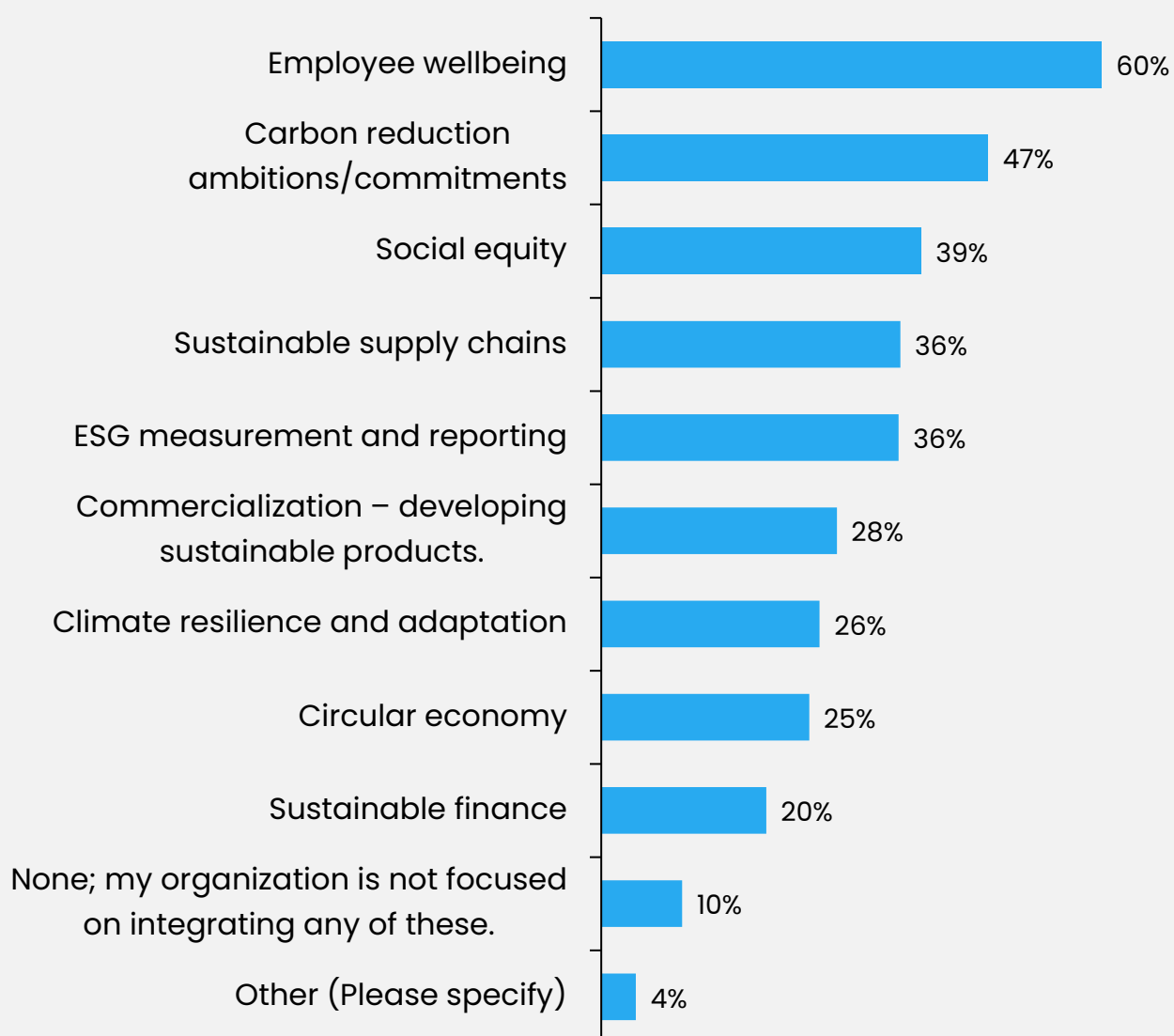
Phase 2 | n = 258

Enterprises are already focusing on improving employee well-being and social equity

The widespread adoption of carbon reduction ambitions and commitments is a positive indication. This provides a solid foundation for Vietnam to advance its carbon market strategy, thereby bolstering businesses' ESG environmental commitments.

Furthermore, businesses are actively optimizing production for a greener setup, emphasizing electric vehicles, enhancing biodiversity, and participating in community development initiatives.

Businesses' ESG initiatives



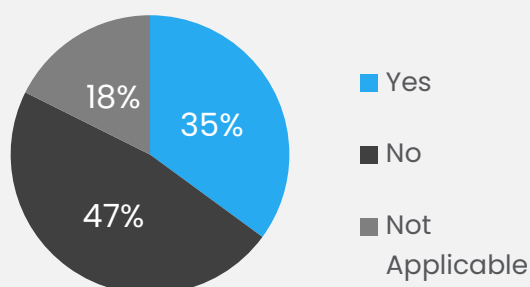
Q: What elements of sustainability and ESG, is your company having appropriate initiatives?
Please select all that apply.

*Other: Pro bono ESG work, good business practices, energy-efficient operations, etc.

Phase 2 | n = 482

Thirty-five percent of businesses responded that they have targets related to energy sourcing

Green energy targets

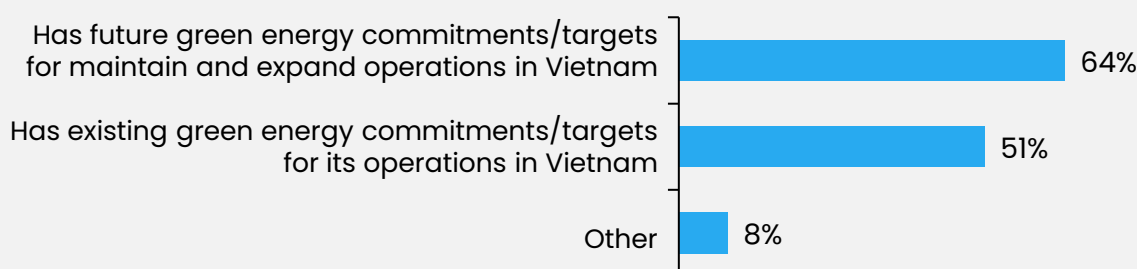


Q: Does your business have targets to source clean electricity / heating / cooling for producing products, services etc. in Vietnam? Phase 2 n = 482

Over 40% of manufacturing businesses in Vietnam have set green energy-related targets. Notably, more than half of those with targets are actively pursuing both current and future goals for their Vietnamese operations.

Furthermore, 8% of respondents with clean energy targets emphasize the criticality of achieving them, stating that their continued operation and any future expansion in Vietnam hinges on meeting these targets.

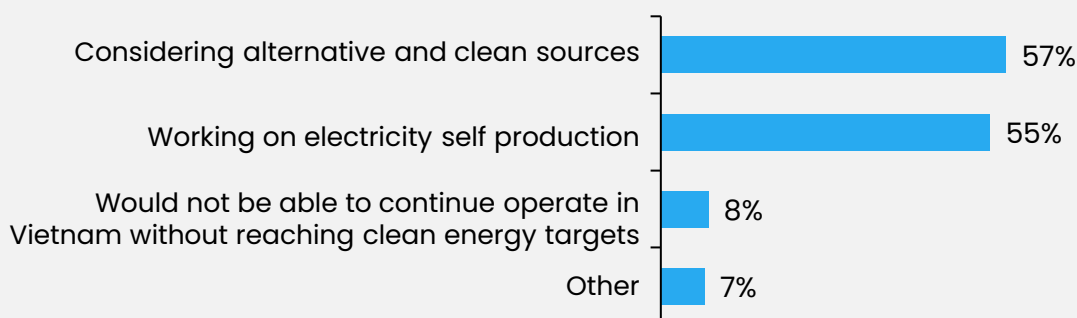
Green energy and operations in Vietnam (Base: Applicable respondents)



Q: How will a lack of green energy impact your ongoing operations in Vietnam in relation to planned company ESG commitments/goals? Please select all that apply

Phase 2 | n = 152

Energy management commitments/targets (Base: Applicable respondents)



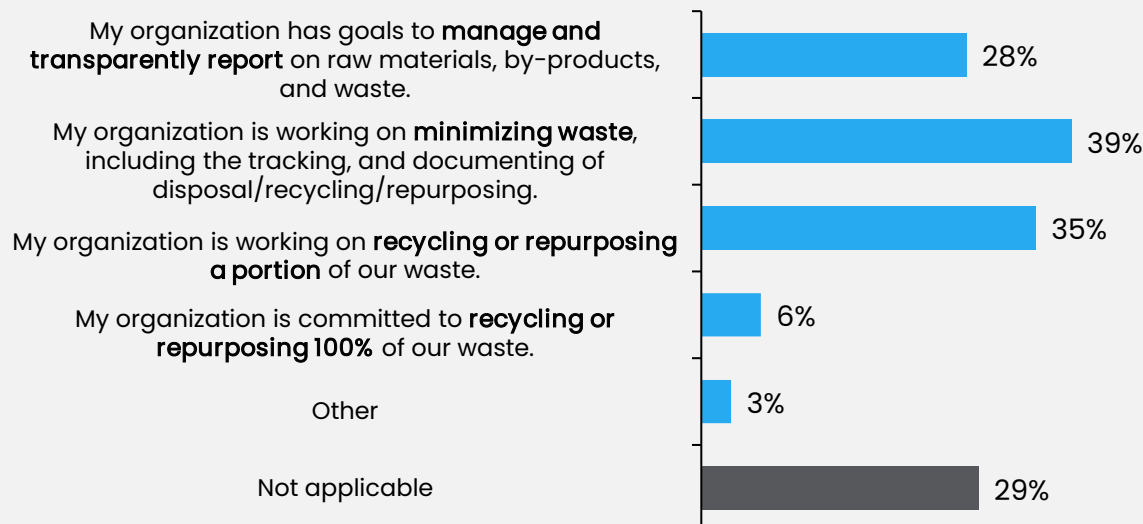
Q: Please choose statements below that best describe your organization's commitments/targets with regards to managing clean electricity/fuels/heating/cooling. Please select all that apply.

Phase 2 | n = 136

While a clear commitment hasn't been established, growing awareness presents a promising foundation for tackling waste and water management challenges

Notably, 25% of businesses has targets to manage these in Vietnam.

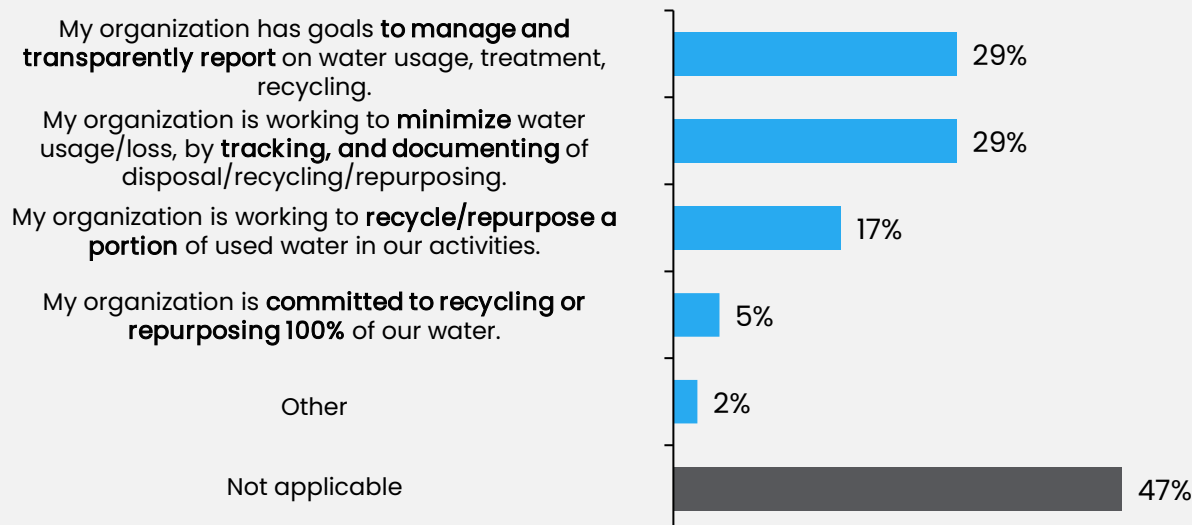
Waste management targets



Q: Please choose statements below that best describe your organization's commitments/targets with regards to waste management. Please select all that apply.

Phase 2 | n = 482

Water management targets



Q: Please choose statements below that best describe your organization's commitments/targets with regards to water management. Please select all that apply.

Phase 2 | n = 482

04 | Challenges and opportunities in expanding ESG initiatives

Market-based mechanism are yet to make a positive impact on foreign businesses' ESG initiatives

Establishing these mechanism, as well as improving access to green finance, current infrastructure, as well as the maturity of supply chain components would greatly benefit foreign businesses' implementation of Environmental initiatives.

Factors impacting Environment initiatives



Q: How do you evaluate the impact of the following factors to your Environment initiative implementation and objectives achievement?

n = 173

Comprehensive regulations as well as culture are also assessed to have the least positive impact on implementation of Governance and Social initiatives, underscoring the need to address these factors

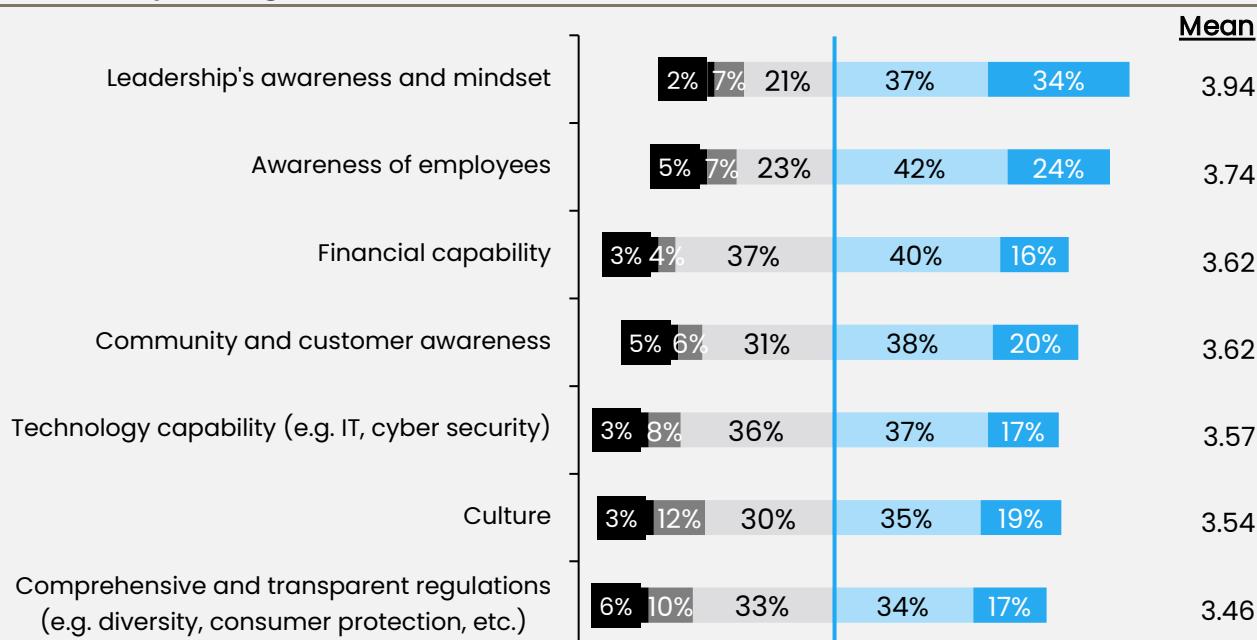
Factors impacting Governance initiatives



Q: How do you evaluate the impact of the following factors to your Governance initiative implementation and objectives achievement?

n = 173

Factors impacting Social initiatives



Q: How do you evaluate the impact of the following factors to your Social initiative implementation and objectives achievement?

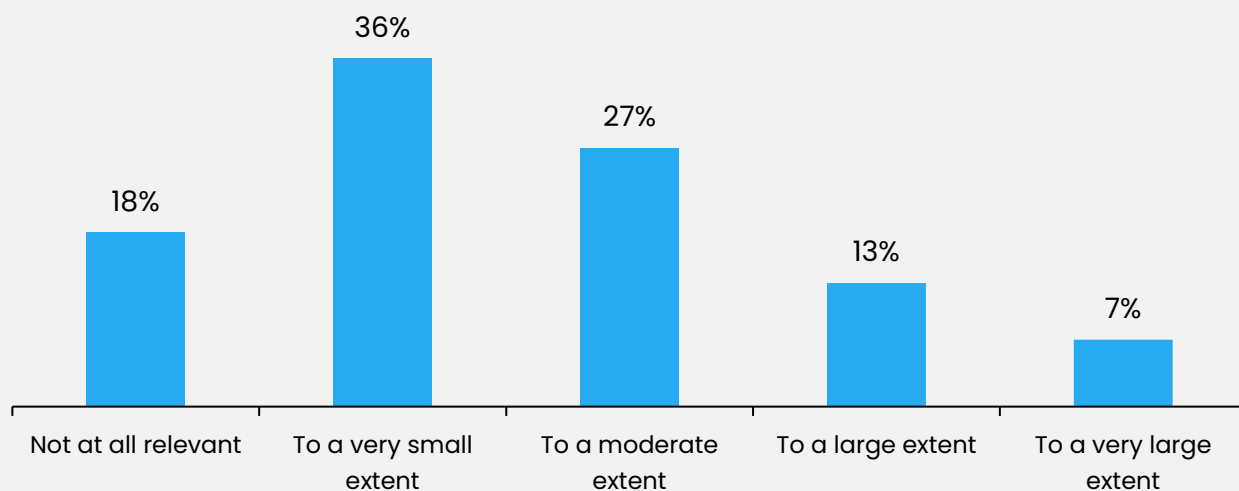
n = 173

■ Significantly negative impact ■ Moderately negative impact ■ No impact
 ■ Moderately positive impact ■ Significantly positive impact

A strong reaffirmation of the government's support for ESG and sustainable development could be beneficial

Slightly over one-fourth of businesses express confidence in Vietnam's commitment to sustainable and green development. Currently, more than half indicate that current strategies support only limited to moderate objective achievement. This suggests there may be a gap between expectations and progress

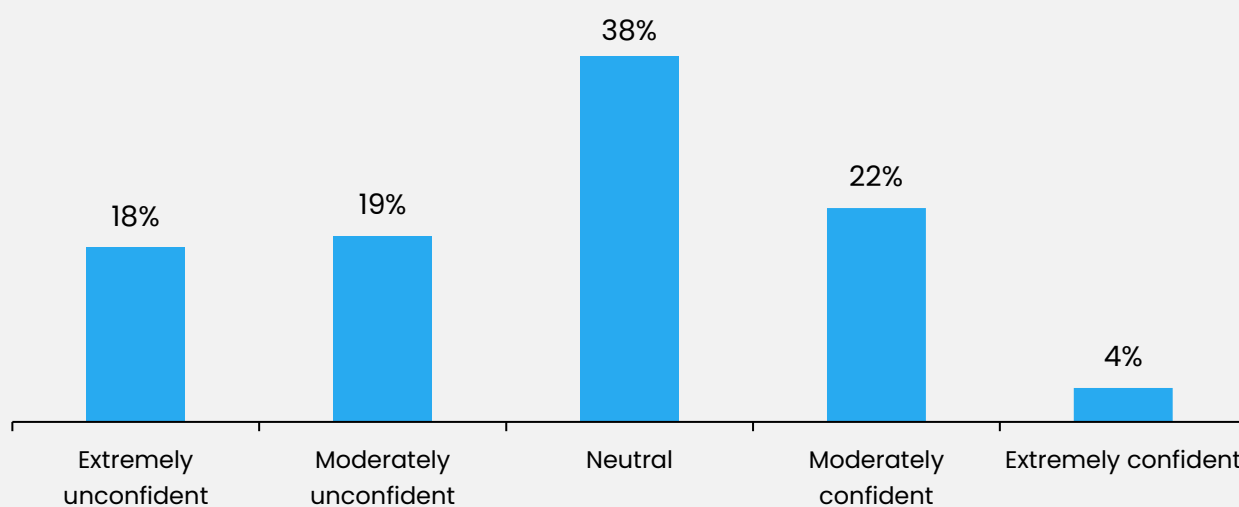
Vietnam's support for ESG initiatives



Q: To what extent do Vietnam's commitments, strategies (e.g. Vietnam's NDC, Green growth strategy, Sustainable development, Strategy for climate change, etc.), support your company's ESG objectives achievement?

n = 173

Confidence in Vietnam's commitment to green development



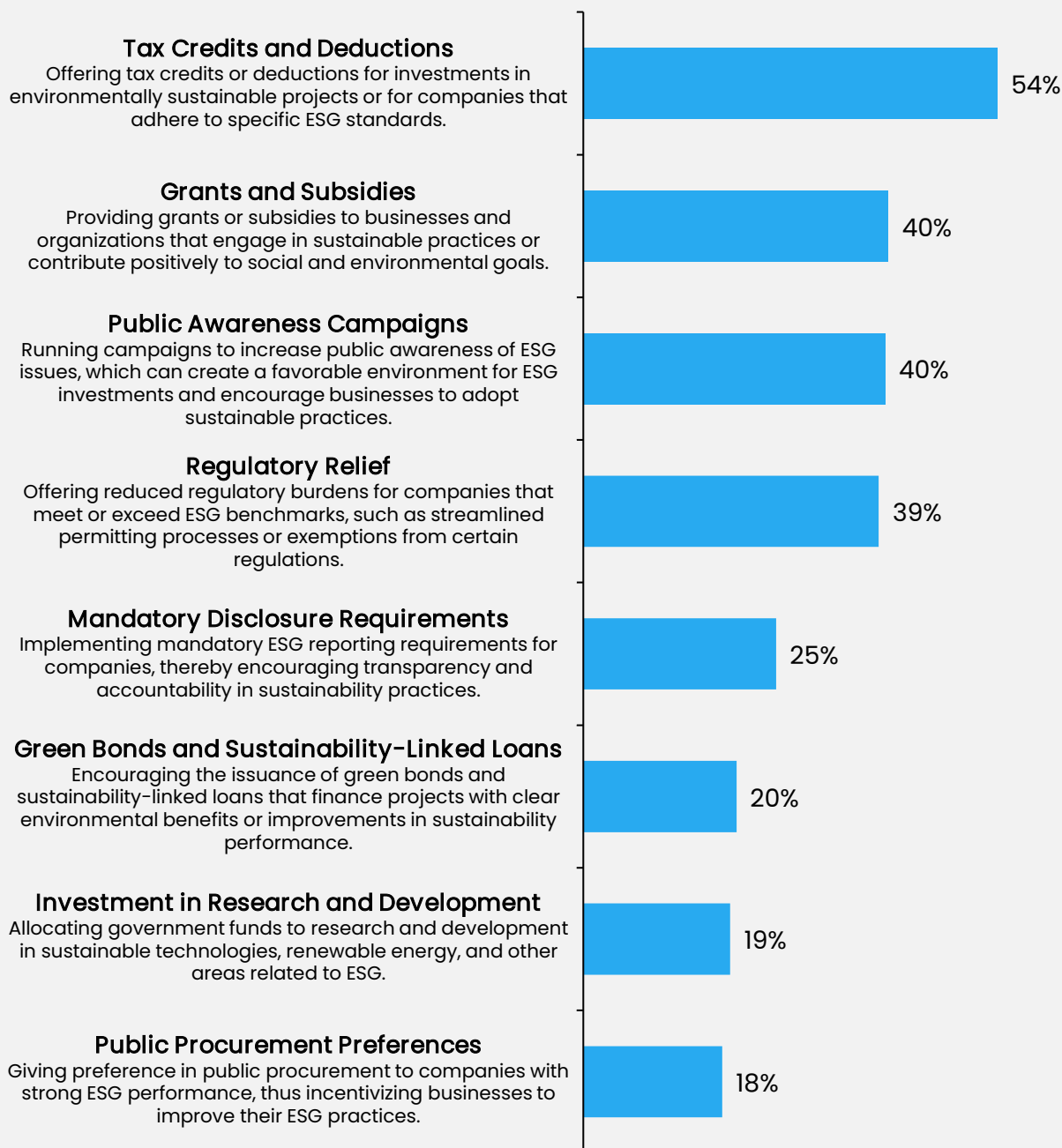
Q: How confident are you that Vietnam's commitments and objectives related to sustainable, and green development are achievable as expected?

n = 173

Businesses prioritize financial incentives and regulatory relief when seeking government support for their ESG efforts

Public awareness campaigns, though easier to implement, can be equally effective as financial incentives in promoting corporate engagement with ESG matters

Government support



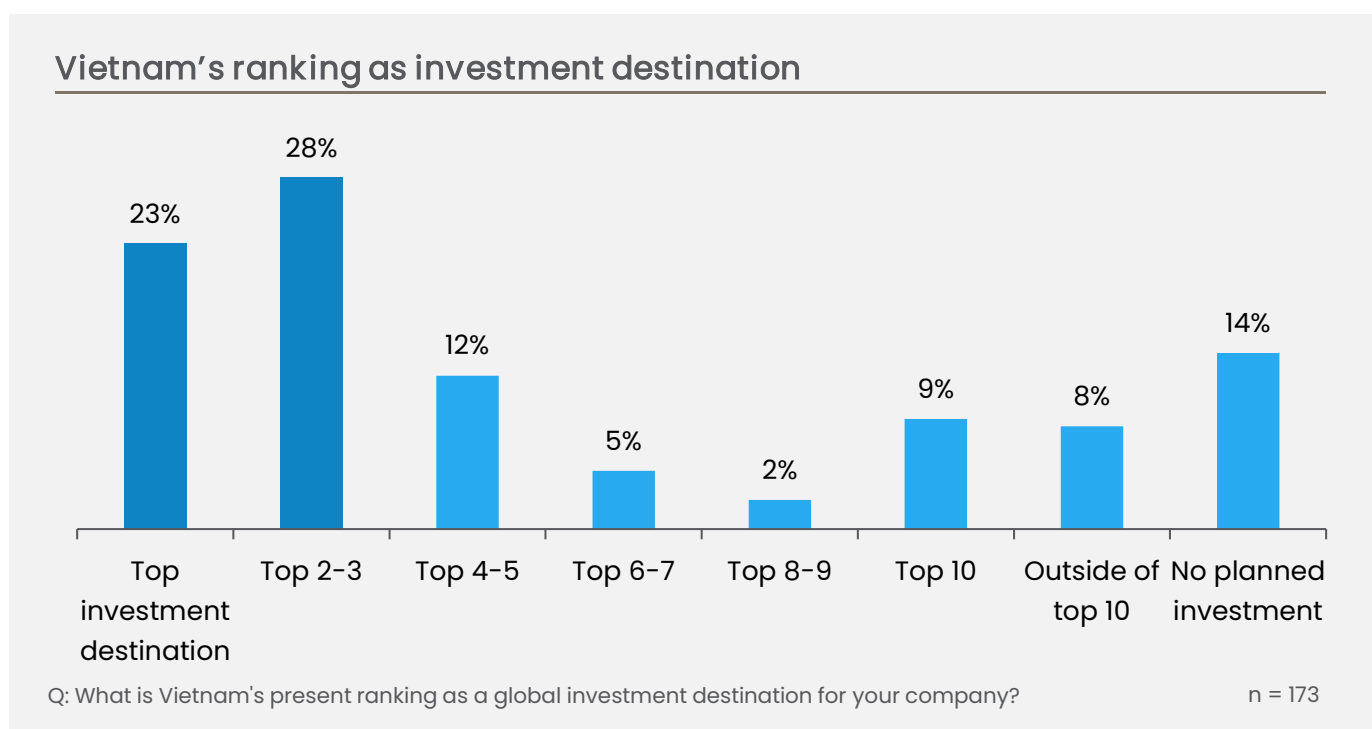
Q: Please choose the top three priorities for how the government can support corporates in ESG investment and impact reporting, particularly concerning government support.

Phase 2 | n = 482

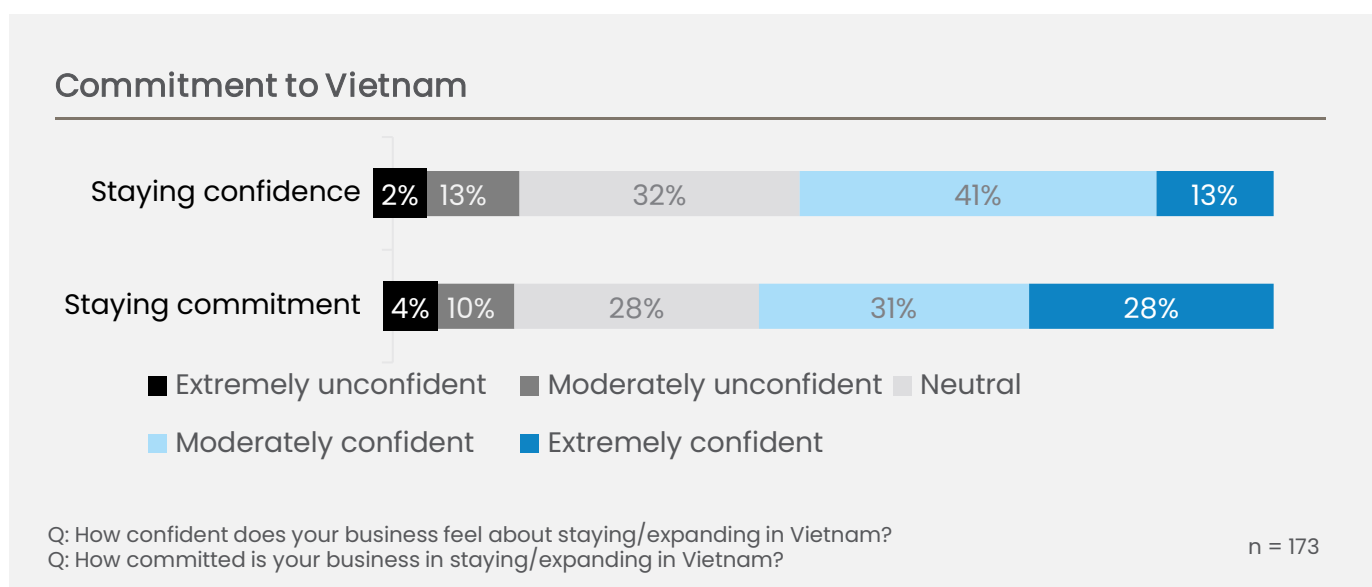
05 | Vietnam's continued attractiveness and growth prospects

Vietnam continues to stand as an alluring investment destination

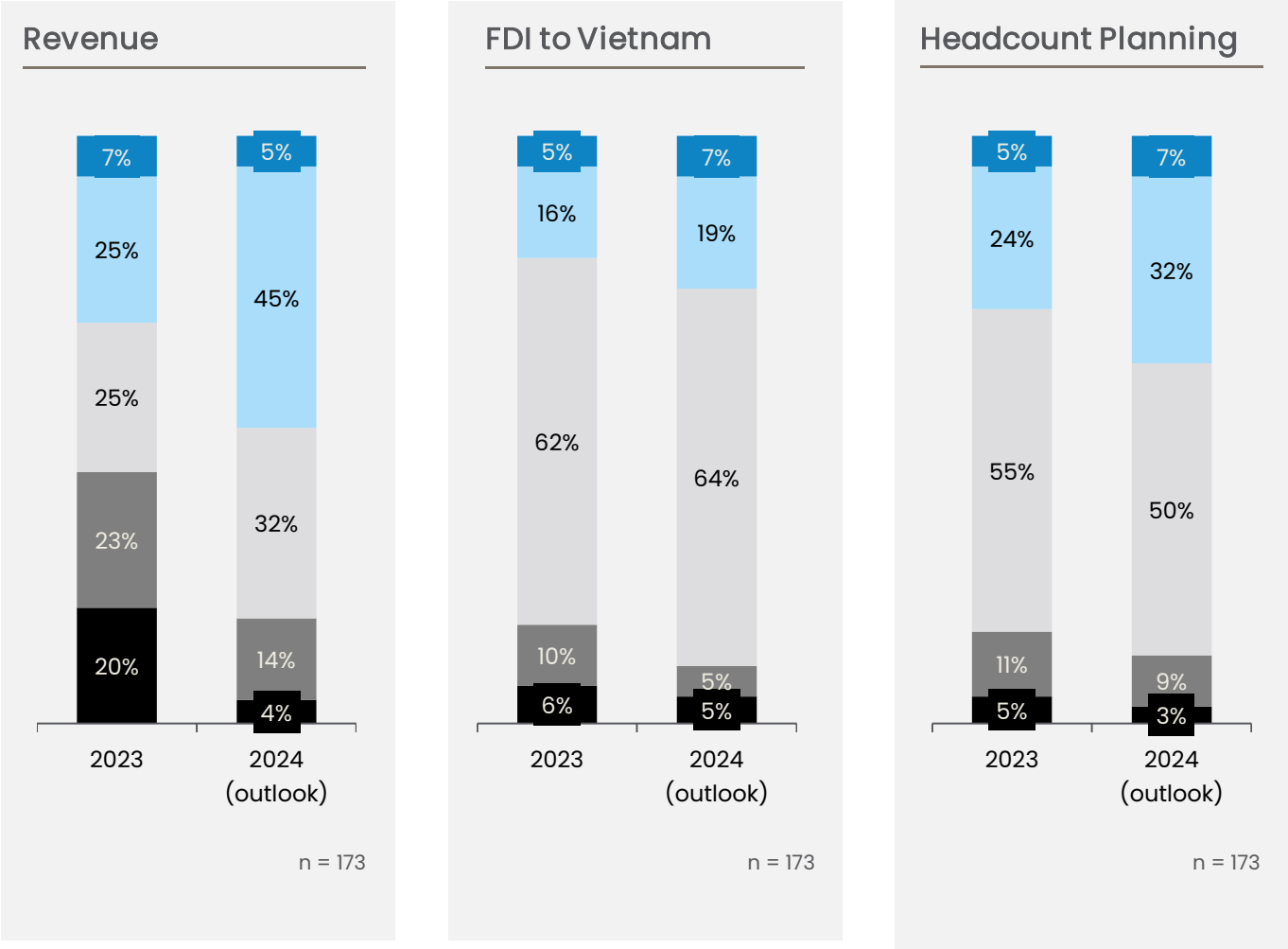
More than half of the businesses surveyed rank Vietnam in their top three investment destinations; A significant majority express a notable degree of confidence and commitment in their decisions to stay and expand operations in Vietnam.



Businesses appear to remain largely committed, however are less confident regarding continued FDI potential.



Although nearly 50% of businesses have reported a decline in revenue in the first half of 2023 compared to the first half of 2022. Nevertheless, there is a discernible opportunity as enterprises express heightened expectations for the first half of 2024



■ Significant reduction ■ Moderate reduction ■ Maintain the same level ■ Moderate increase ■ Significant increase

Whereas the figure indicates a substantial decline in revenue from 2022 to 2023, it's noteworthy that Vietnam experienced robust growth in the preceding year, 2022. The decline observed in 2023 could potentially be indicative of the market correcting and stabilizing to a more predictable trajectory.

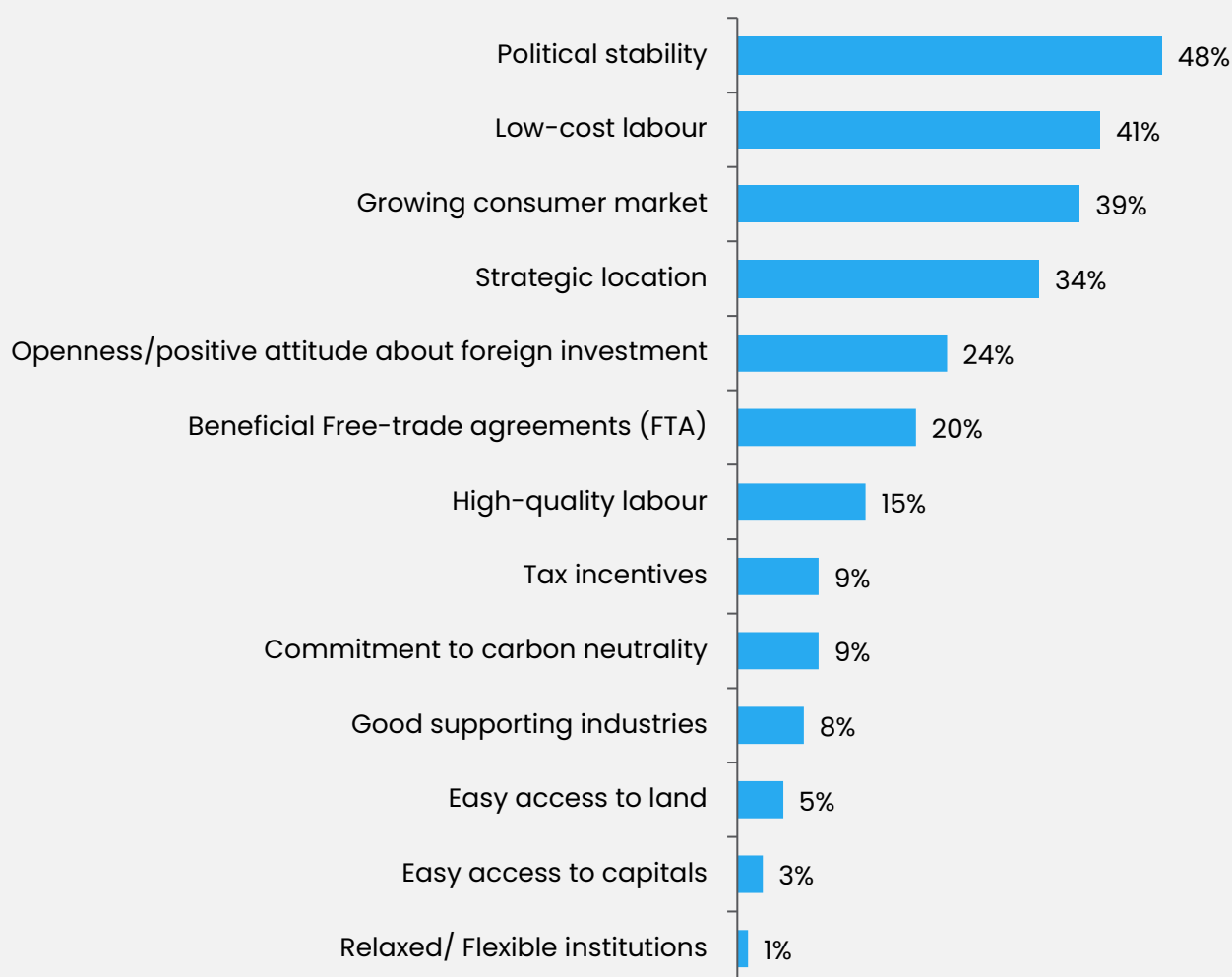
Q (revenue): Compare first half of 2023 to the first half of 2022, has your business' revenue increased, decreased or stayed about the same? | Compare first half of 2023 to the first half of 2024, do you expect your business' revenue to increase, decrease, or stay about the same?
Q (FDI to Vietnam): Compare first half of 2023 to the first half of 2022, has your business' global company increased or decreased its direct investment (FDI) into their entity in Vietnam? | Compare first half of 2023 to the first half of 2024, does your business' global company plan to increase or decrease its direct investment (FDI) into their entity in Vietnam?
Q (Headcount Planning): Compare first half of 2023 to the first half of 2022, has your business expand or retract your headcount, or no change? | Compare first half of 2023 to the first half of 2024, do you expect your company's headcount to expand, retract or stay the same?

Vietnam's appeal lies in a strong political stability. To sustain attractiveness, ongoing efforts are essential

Vietnam's attractiveness also stems from affordable labor, a growing consumer market, and a strategic location. These factors, while catalysts for growth, highlight the need for continuous improvement to create a robust business environment.

To enhance the appeal for investors and promote sustainable development, the focus should be on cultivating a high-quality workforce, improving institutional frameworks and easing access to land and capital. This strategic approach not only accelerates economic growth but also builds a resilient and progressive economic foundation.

Vietnam's attractiveness as investment destination



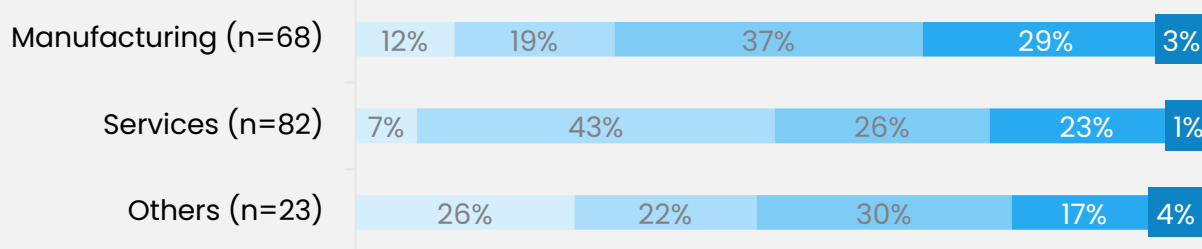
Q: What is attractive about Vietnam as an investment destination for your business? Please choose up to 3 options

n = 173

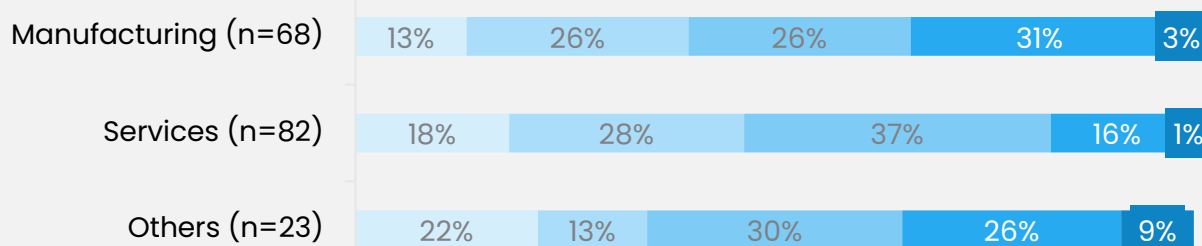
Improving the Vietnamese labor force, especially within the manufacturing factor, could greatly improve Vietnam as an investment destination

Only 15% of foreign businesses are finding Vietnam's quality of labour attractive (see page 30).

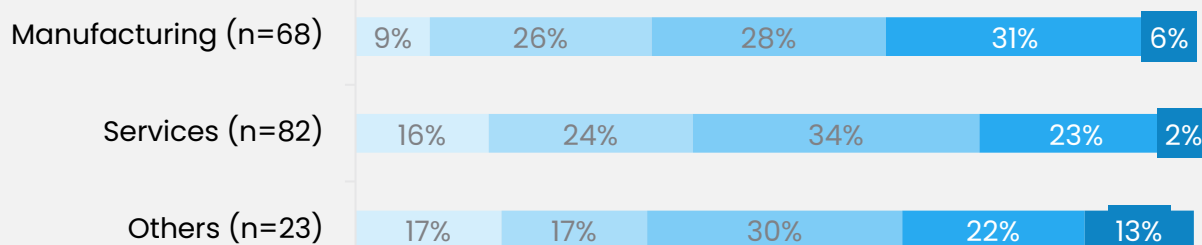
Language skills



Technical skills



Soft skills



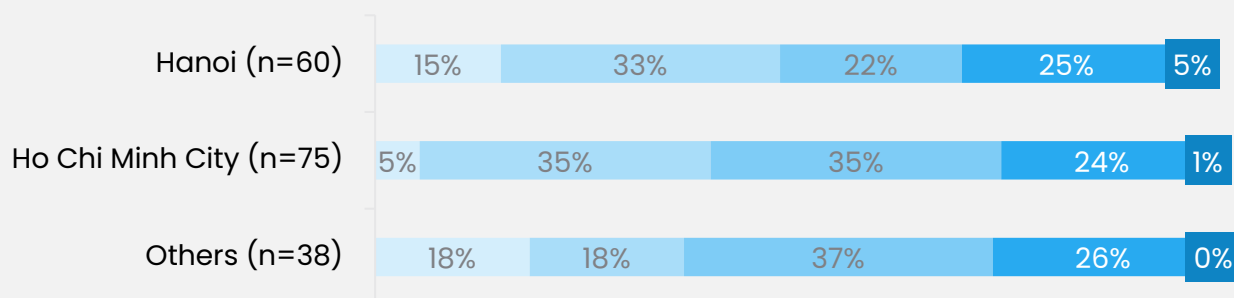
No gap Extremely large gap

Q: On the scale from 1 - 5, please help assess the gap in skill sets between what is required for the business and what is currently available in Vietnamese labour market?
With 0 - no gap and 5 - extremely large gap.

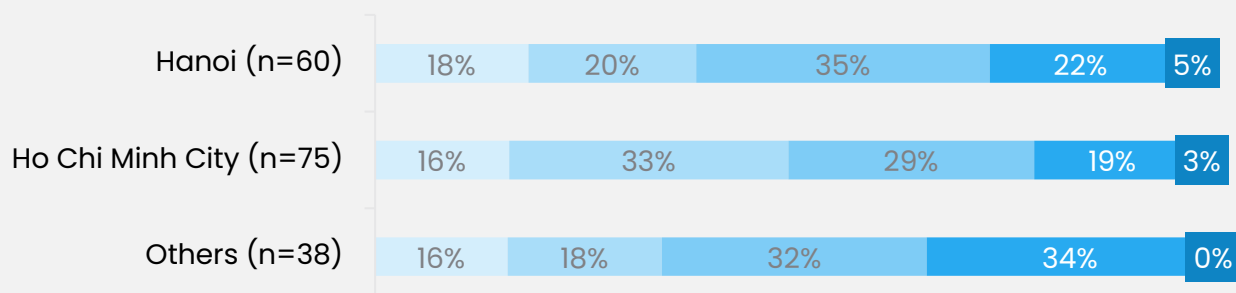
n = 173

Although the skills gap is less pronounced in HCMC and Hanoi, narrowing the gap in other cities would significantly enhance Vietnam's labor market, meeting the growing demand for skilled workers

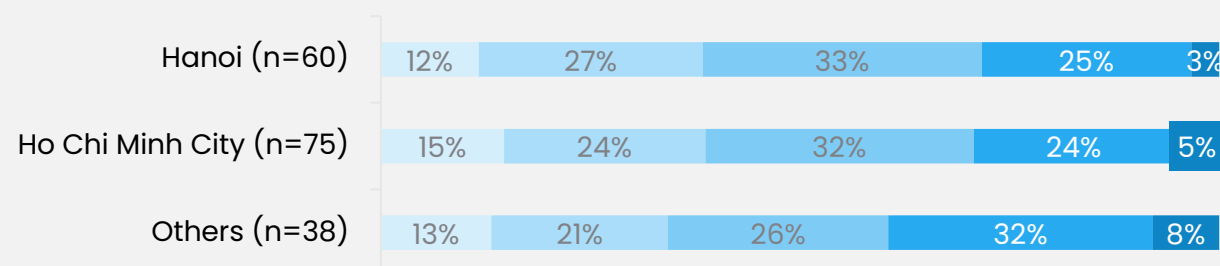
Language skills



Technical skills



Soft skills

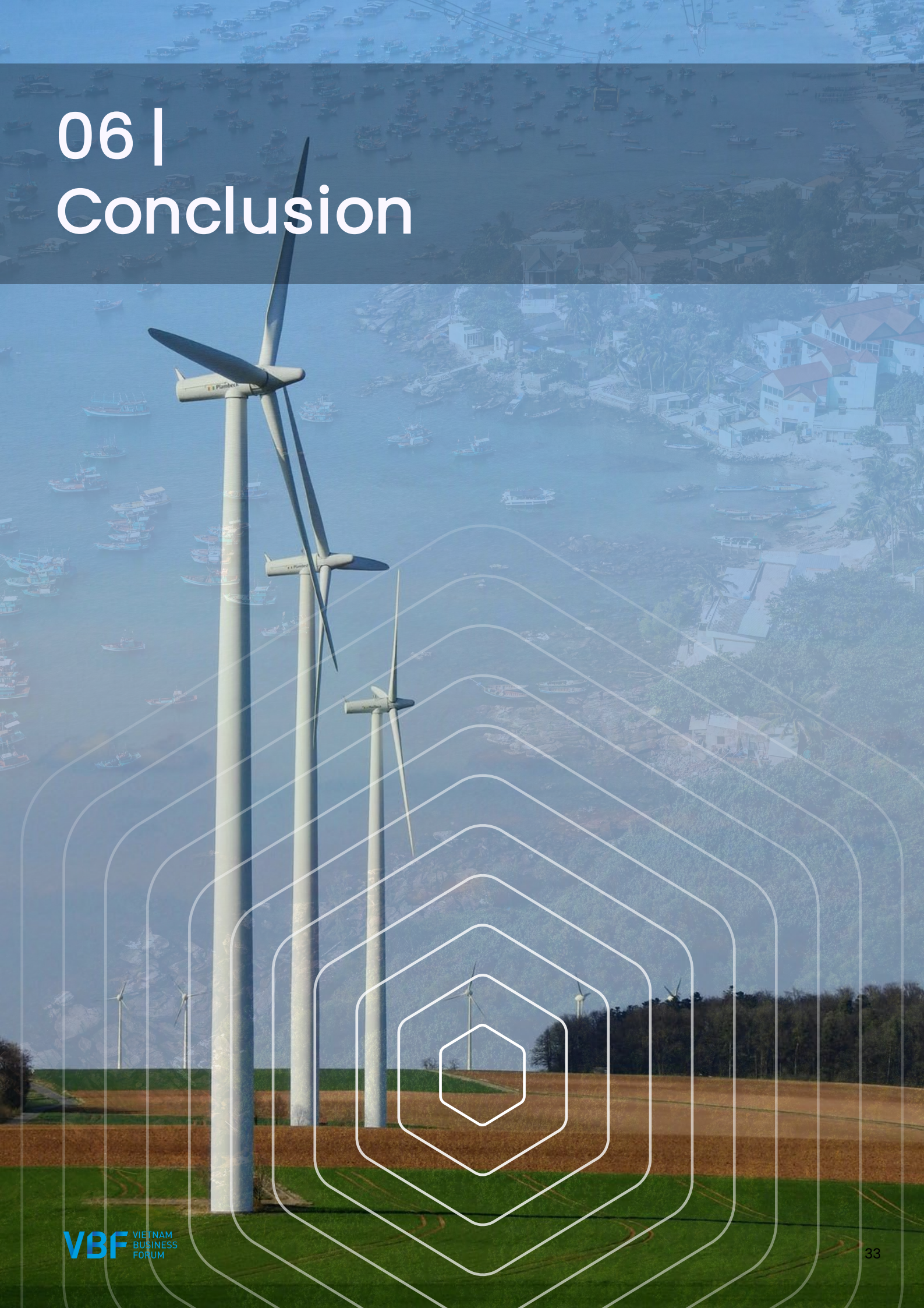


No gap  Extremely large gap

Q: On the scale from 1 - 5, please help assess the gap in skill sets between what is required for the business and what is currently available in Vietnamese labour market? With 0 - no gap and 5 - extremely large gap.

n = 173

06 | Conclusion



Conclusion

Foreign Direct Investment (FDI) remains a critical driver of Vietnam's economic growth. To ensure its continued positive impact, a two-pronged approach is recommended.

Green Solutions, Green Investments

Vietnam should actively promote market-oriented solutions that make green technologies for energy, waste management, and water treatment readily available. This not only enhances environmental sustainability but also attracts ESG-focused companies, a growing segment in today's globalized market. Companies increasingly prioritize ESG factors when making investment decisions. Demonstrating alignment with these standards is essential to attract FDI seeking to establish new operations or expand existing ones. Regulatory changes and well-designed financial incentives, like tax breaks and grants, can further encourage foreign firms to adopt global sustainability practices within Vietnam.

Investing in Our Future Workforce

Continued investment in workforce development is crucial. Upskilling and reskilling the Vietnamese workforce will not only boost overall productivity but also position Vietnam as a more attractive destination for FDI seeking a skilled and adaptable labor force.

While public awareness campaigns play a role, long-term sustainability requires education that empowers citizens to make informed choices for their health, environment, and finances. Public-private partnerships, collaboration with NGOs, and international aid can all contribute to these workforce development initiatives.

By prioritizing these strategic actions, Vietnam can solidify its position as a premier FDI destination while fostering long-term economic growth and environmental responsibility.

07 | Methodology

Methodology



Purpose

The purpose of this study is to collect business leaders' opinions about their business situations, which reflects the state of Vietnam's business environment and helps identify any potential changes in the economic climate.



Research and Data Collection

The survey is conducted using an online questionnaire, scripted and managed by a survey and data management platform.

The survey is distributed by VBF and VBF's affiliated business chambers to business leaders.



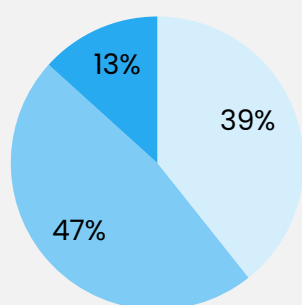
Result

Among the invited, 655 completed the full questionnaire. Phase 1 in October 2023 received 173 responses, while phase 2 in February 2024 received 482 responses.

Respondents' Profile

Phase 1: Oct 1st to Oct 31st, 2023 | n=173

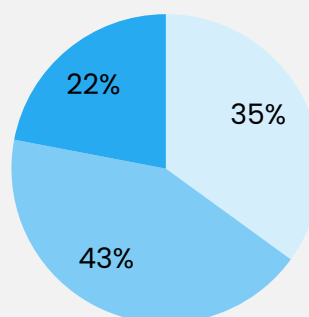
Business Sectors



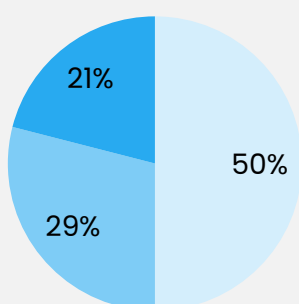
- Manufacturing, including construction (n=68)
- Services (n=82)
- Others - agricultural, mining, etc. (n=23)

Business locations

- Hanoi (n=60)
- Ho Chi Minh City (n=75)
- Others (n=38)



Business size

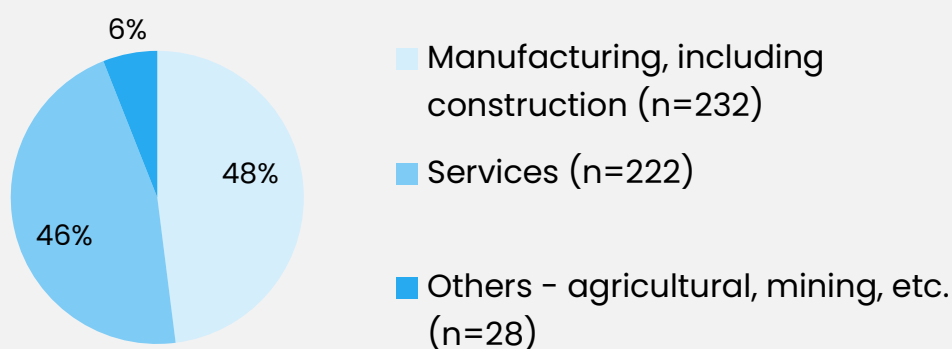


- Small - fewer than 100 employees (n=86)
- Medium - 101 to 500 employees (n=51)
- Large - more than 500 employees (n=36)

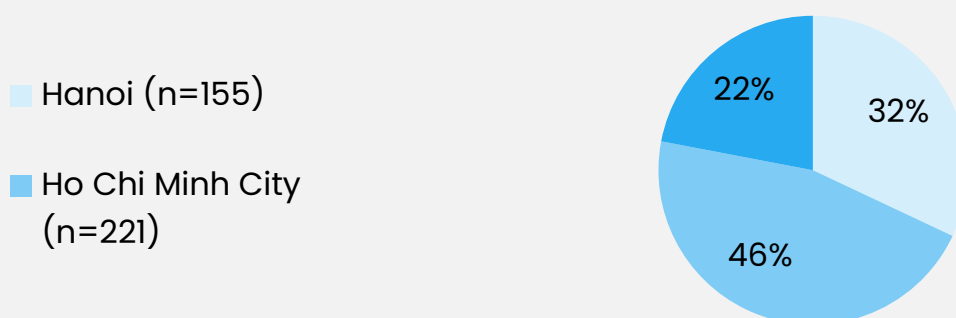
Respondents' Profile

Phase 2: Feb 6th to Feb 26th, 2024 | n=482

Business Sectors



Business locations



Reach out to us

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