

SECTOR OVERVIEW

A. Health (hospitals and clinics, pharmaceuticals, and medical devices)

1. The health sector in Viet Nam constituted a \$13.1 billion market in 2012, following growth of 16.4% per year during 2009–2012; over 2013–2018, the market is expected to grow 15.5% annually and increase to \$30.6 billion.¹ Rapid growth of the health sector is expected to occur as increasing numbers of middle class and affluent Vietnamese seek new means to improve their quality of life, and are offered increasingly attractive health care choices as more modern, specialized, and less crowded hospitals and clinics are made available.² The government's pursuit of universal health care—an effort that aims to increase health care coverage from 67% in 2013 to 85% in 2020, and provide 24 million additional people with health care coverage—will stimulate health sector growth.³ This initiative is consistent with the Asian Development Bank (ADB) Operational Plan for Health 2015–2020.⁴

2. Health comprises three primary subsectors: (i) health care services (hospitals and clinics), (ii) pharmaceuticals, and (iii) medical devices.⁵ Health care services represent a \$9.7 billion market that has grown at 14.3% per year during 2009–2012; over 2013–2018, the market is expected to grow at 14.9% annually, increasing to \$21.8 billion.⁶ Health care services are primarily delivered by public (92%) and private (8%) hospitals, and private clinics.⁷ With only 2.01 beds per 1,000 inhabitants, Viet Nam remains critically short of hospitals.⁸ To address this problem, the government will continue to build public hospitals, but budget constraints will make increased involvement from the private sector necessary.

B. Education (primary and secondary, higher and supplemental education)

3. Education expenditure in Viet Nam has increased substantially as the number of middle class and affluent Vietnamese expands, personal income grows, and living standards improve. The education market is worth over \$6.4 billion (\$71 per capita), and grew 9.4% annually during 2008–2013; over 2013–2018, Viet Nam is forecasted to be the fastest growing education market in Southeast Asia, with annual growth of 11.8%, reaching \$11.2 billion in 2018 (\$118 per

¹ BMI Research. 2014. *Viet Nam: Pharmaceuticals & Healthcare Report Q2 2014*. London; Espicom Business Intelligence. 2014. *Vietnam Medical Devices Report*. London.

² Hospital capacity is seriously below current demand; it is not uncommon for two patients to be required to share a single bed.

³ The government's goal is a compulsory system with partial subsidies for the poor. In 2013, 67%–70% of the population had health insurance. The government aims to achieve 70%–75% health insurance coverage by 2015 and 80%–85% by 2020. A Gross, president and founder of Pacific Bridge Medical, believes this figure could reach 90%. *Viet Nam News*. 2012. Healthcare Sector Completes Universal Insurance Plan. 03 April; *Viet Nam News*. 2013. Health Insurance Project Goal: 80% Coverage by 2020. 03 April; *VOV World Service*. 2014. Viet Nam Gains International Experience in Health Insurance. March 4; Nhan Dan Online. 2014. Seminar Discusses Universal Health Insurance. <http://en.nhandan.com.vn/politics/item/2357502-seminar-discusses-universal-health-insurance.html>; Pharmaphorum. Viet Nam Pharmaceutical Market Update 2013. http://pharmaphorum.com/views-and-analysis/vietnam_pharmaceutical_market_update_2013/

⁴ ADB. 2015. *Operational Plan for Health, 2015-2020*. Manila

⁵ Medical devices are products used for patient diagnosis or therapy and include a wide range of products (e.g., syringes, thermometers, blood-sugar tests, prosthetic limbs, ultrasound scans and X-ray machines).

⁶ *Pharmaceuticals & Healthcare Report Q2 2014* (footnote 1, above).

⁷ Stoxplus. Viet Nam Healthcare Sector Overview. <http://admincp.stox.vn/stox/download.asp?id=3277>

⁸ *Pharmaceuticals & Healthcare Report Q2 2014* (footnote 1, above).

capita).⁹ The Vietnamese people place great emphasis on education and scholarship, with households routinely spending significant resources on their children's education. In 2012, Vietnamese households spent on average 5% of their per capita income on education.¹⁰

4. Viet Nam's education sector includes three primary categories: primary and secondary education, higher education, and supplemental education. As Viet Nam has become wealthier, opportunities for schooling and further education for Vietnamese children and young adults have improved significantly. However, demand for education has increased at an even faster pace, while the cost, quality, distribution and accessibility of education remain uneven and fragmented across different regions and segments of the population. Although Viet Nam's public expenditure on education (21% of total government expenditures, or 6% of gross domestic product [GDP]) is much higher than the average for Southeast Asian nations (17% of total government expenditures and 4% of GDP), the current education capacity remains insufficient to meet demand (there are about 30 students per classroom), and the quality of education remains generally poor.¹¹ In response, the government has actively encouraged the private sector to invest in the education sector, to help construct schools, improve the governance and quality assurance of education programs, train teachers and administrators, and develop market-relevant curricula. This initiative is consistent with the ADB Sector Operations Plan for Education under Strategy 2020.¹²

5. Rapid growth is likely to continue in private education as a result of (i) Viet Nam's continued economic development; (ii) Viet Nam's young demographic profile, which is expected to result in a growing labor force for some 26 years; (iii) rising personal incomes and an expanding middle class; (iv) increasing urbanization; and (v) the desire of increasing numbers of Vietnamese to study abroad.

C. Fast-Moving Consumer Goods Manufacturing & Distribution

6. The fast-moving consumer goods (FMCG) sector in Viet Nam represents a \$25 billion market that grew at 11.1% per year during 2008–2013, and is expected to grow at 12.5% annually during 2014–2018.¹³ The high growth rates of the FMCG market can be explained in part by Viet Nam's level of FMCG consumption per capita, which is still quite low compared to Viet Nam's emerging market peers—e.g., the People's Republic of China (PRC), Indonesia, and Thailand. As of 2013, Viet Nam's per capita expenditure on food and non-alcoholic beverages was \$424; this compares to \$658 in the PRC, \$653 in Indonesia, \$870 in the Philippines, and \$897 in Thailand.¹⁴ Given this situation, competition is growing as many new FMCG manufacturers and distributors are looking to take advantage of this high growth and transformative period, in which new middle-class consumption habits and social norms are being formed.

7. Viet Nam's FMCG includes (i) beverages, (ii) packaged food, (iii) beauty and personal

⁹ Euromonitor International. 2012. *Consumer Lifestyles in Viet Nam*. November 2012.

¹⁰ The average annual education expense per student is about \$196. General Statistics Office of Viet Nam. 2012. *Viet Nam Household Living Standards Survey 2012*. http://www.gso.gov.vn/default_en.aspx?tabid=483&idmid=4&ItemID=13888

¹¹ World Bank. World DataBank, Education Statistics. [Databank.worldbank.org/data/reports.aspx?source=Education-Statistics---All-Indicators](http://databank.worldbank.org/data/reports.aspx?source=Education-Statistics---All-Indicators)

¹² ADB. 2010. *Education by 2020 – A Sector Operations Plan*. Manila; ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020*. Manila.

¹³ *Consumer Lifestyles in Viet Nam* (footnote 9, above)

¹⁴ Euromonitor International, Passport Portal Statistics. go.euromonitor.com/passport.html

care, (iv) home care, and (v) tobacco.¹⁵ Beverages account for the largest market share (44% of total FMCG sales), growing at 17.3% annually in 2013.¹⁶ Packaged food accounted for 33% of total FMCG sales, with growth of 13.2% per year in 2013.¹⁷ While many FMCG products are already quite popular, 70% of FMCG product categories still have penetration rates of less than 50% in urban areas, and far lower penetration rates in rural areas.¹⁸ The low penetration rates indicate that most FMCG product categories still have enormous sales growth potential through increased market penetration and product differentiation.

8. The FMCG market will continue to rapidly expand from 2015-2020 through the combined effects of increasing disposable incomes, greater urbanization, moderating inflation, increasingly attractive distribution channels, and higher investment in marketing. In particular, the expansion of foreign direct investment-driven export-oriented manufacturing will continue in Viet Nam, given the rising costs in the PRC. This trend will play a leading role in increasing the overall level of disposable income and consumption enjoyed by Viet Nam's burgeoning middle class. Given the high-growth prospects of the FMCG sector and Viet Nam's declining barriers to trade, competition will intensify and more creative marketing strategies will need to be implemented. Increasing demand from younger generations (e.g., "8X" and "9X" generations) will require FMCG businesses to adapt or altogether change their product offerings to cater to the different interests and outlook of younger Vietnamese consumers.¹⁹

D. Transportation and Logistics

9. In 2014, Viet Nam's transportation and logistics sector ranked 48th out of 160 countries, with revenues accounting for 15%–20% of the country's GDP.²⁰ The transportation and logistics market (about \$12 billion in size) is primarily concentrated around Ho Chi Minh City, through which 70% of Viet Nam's imports and exports transit.²¹

10. According to the Ministry of Industry and Trade, the transportation and logistics market has grown steadily by 25% per year, with the growth rate expected to remain at 20%–25% per year from 2014-2018.²²

¹⁵ Beverages include alcoholic drinks (beer, cider, ready-to-drink and/or high-strength premixes, wine, and spirits), hot drinks (coffee, tea and other hot drinks) and soft drinks (carbonates, fruit and vegetable juice, bottled water, functional drinks, concentrates, ready-to-drink tea, ready-to-drink coffee, and Asian specialty drinks). Packaged food includes fresh, packaged and prepared foods for home preparation and consumption. Beauty and personal care includes baby and child-specific products, bath and shower, deodorants, hair care, color cosmetics, men's grooming, oral hygiene, fragrances, skin care, depilatories, and sun care. Home care includes laundry care, dishwashing products, surface care, chlorine bleach, toilet care, polishes, air fresheners, and insecticides. Tobacco includes cigarettes, cigars and cigarillos, and smoking tobacco (pipe tobacco and roll-your-own tobacco).

¹⁶ Euromonitor International, Passport Portal Statistics (footnote 14, above)

¹⁷ Euromonitor International, Passport Portal Statistics (footnote 14, above)

¹⁸ Kantar Worldpanel Vietnam, FMCG Monitor: An Integrated Update of Vietnam FMCG Market, 12 Weeks Period Ending January 26, 2014. http://www.kantarworldpanel.com/dwl.php?sn=news_downloads&id=612

¹⁹ The "8X" generation refers to Vietnamese born in the 1980s, and the "9X" to those born in the 1990s; they (and later generations) grew up without the shocking experience of war and post-war circumstances that earlier generations lived through. As such, they tend to be more optimistic, and their consumer behaviors reflect the newfound opportunities and relative stability that prevails in modern Viet Nam.

²⁰ World Bank, Logistics Performance Index, 2014. lpi.worldbank.org

²¹ *VietnamNet Bridge*. 2013. Logistics Market: The Battle between David and Goliath. November 11.

²² *VietnamNet Bridge*. 2013. Logistics Market: The Battle between David and Goliath. November 11; Stoxplus. 2013. Viet Nam Logistics Sector Report. http://cms.stoxresearch.com/medialib/F/2013/2013-09/ReportLogisticsJuly2013Demo_20130905153921.pdf

11. The transportation and logistics sector is highly fragmented and includes (i) freight transport (road, rail, inland waterway, sea, and air); (ii) warehousing and distribution services; (iii) freight forwarding;²³ and (iv) integrated logistics services (third- or fourth-party logistics).²⁴ Growth in these areas is expected to be driven by: (i) growing import and export volumes, given Viet Nam's attractive low-cost manufacturing environment; (ii) increasing domestic consumption and improved consumption outlooks for export markets; (iii) the need for long distance freight haulage to cover the country's long north-south axis; (iv) Viet Nam's strategic location in Southeast Asia for trade and logistics; and (v) Viet Nam's World Trade Organization commitments, which opened the country's transportation and logistics industry to foreign businesses in 2014.

E. Retail Sector (Food Services)

12. In 2012, Viet Nam's retail market was \$96 billion. Despite being affected by the economic downturn since 2008, the retail market has continued to maintain double digit growth, with a 10.4% annual growth during 2007–2012; it is expected to grow at 3.6% annually over 2013–2017 (reaching \$115 billion), as macroeconomic concerns subside, consumer confidence increases, and higher disposable income enables further consumption.²⁵

13. There are two main retail channels in Viet Nam: store-based (modern retailing) and non-store based (traditional wet market retailing, home shopping, internet retailing, and direct selling). According to the Viet Nam Retailers Association, store-based modern retailing accounted for 20%–25% of the retail market in 2013, which is much lower than Viet Nam's regional peers such as Malaysia (60%), the Philippines (33%), and Thailand (34%).²⁶ Store-based modern retailing is expected to grow quickly, accounting for 45% of the retail market by 2020.²⁷ Within the store-based retail market, there are four product categories in which larger players have developed significant market share: (i) electronics and appliances; (ii) apparel, footwear and accessories; (iii) general merchandising (e.g., shopping malls, department stores, supermarkets, hypermarkets, and convenience stores); and (iv) food services (e.g., coffee shops, smoothie shops, bars, cafés, bistros, and restaurants). The other product categories—health and beauty, home and garden, leisure and personal goods—are highly fragmented and characterized by small, local, family-owned and family-operated retailers with limited financial resources and operating experience.

14. Within the retail sector, food services present one of the most attractive investment opportunities, representing a \$33.3 billion market that grew at 6.1% per year during 2007–2012; by 2017, the market is expected to reach over \$35 billion.²⁸ Food service has rapidly evolved since 2010 with the arrival of numerous foreign brands. As of the end of the first quarter of 2014, 9 out of the top 10 global quick service restaurants chains had entered Viet Nam.²⁹

²³ Freight forwarders, also known as non-vessel operating common carriers or agents, organize shipments of goods for individuals or companies to a market, customer or final point of distribution.

²⁴ Integrated logistics services are logistics services integrated or bundled together by the logistics provider. These services cover the entire supply chain, from transportation to warehousing, cross-docking, inventory management, order processing and fulfillment, product returns, packaging, and freight forwarding.

²⁵ Euromonitor International. 2013. *Passport: Retailing in Viet Nam*. June 2013; Euromonitor International. 2014. *Passport: Consumer Foodservice in Viet Nam*. January 2014.

²⁶ Viet Nam Business Network. 2013. *Foreign Brands Set Bar High*. 21 May; Viet Nam News. 2013. *Retail Sector Eyes Growth Opportunities*. 9 December 2013.

²⁷ Foreign Brands Set Bar High (footnote 26 above).

²⁸ Consumer Foodservice in Viet Nam (footnote 25 above);

²⁹ The top-10 ranking of quick service restaurant chains is based on non-United States system-wide sales.

15. The retail sector is expected to further expand for the same reasons the FMCG market is expanding (para. 8). Given Viet Nam's declining barriers to foreign retailers, competition will intensify and more creative marketing strategies will need to be deployed.³⁰ Rapidly increasing demand from 8X and 9X generations (para. 8) will require revamped and redesigned product offerings to cater to the different interests and outlook of younger Vietnamese consumers.

³⁰ Beginning in January 2015, foreign retailers will no longer be subjected to an economic needs test that typically restricts their ability to expand beyond a single retail location.