

Vietnam's Digital Economy and Policy Implications for Vietnam - South Korea Cooperation

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Introduction

In recent years, the digital economy has received significant attention from many countries. The digital economy includes everyday economic and commercial transactions with people, businesses, and governments processed through information and communication technologies (ICT). It is referred to as the internet economy or web economy, with transactions and commercial interactions facilitated by internet-based social media, website platforms, mobile applications, artificial intelligence (AI), and the internet of things (IoT). As Vietnam's economy expands, the contribution of its internet-based or digital economy has significantly increased in recent years. This is partly attributable to Vietnam's attempts to develop a digital economy. The potential for Vietnam's digital economy development in the future is substantial which creates huge opportunities for Vietnam-South Korea cooperation in this area

The remainder of this paper is organized as follows. Following the introduction, Section 2 provides an overview of Vietnam's development policy on the digital economy. Section 3 analyzes the digital economy of Vietnam. Section 4 examines the prospects of Vietnam's digital economy and relevant policy implications for Vietnam-South Korea cooperation.

Vietnam's digital economy development policy

To achieve a high level of the digital economy, Vietnam will focus on three pillars: e-government, e-economy, and e-society. The e-government pillar aims to restructure the government infrastructure from public services to administrative procedures and develop an integrated system of online databases. It consists of data collection on population, land, business registration, finance, and social insurance connected to a national data center and accessible online. The e-economy pillar aims to build a digital economy, in which e-commerce plays a vital role. Vietnam has also set a goal of establishing 100,000 tech firms domestically to design and produce innovative products and services with a "Make in Vietnam". The e-society pillar aims to address Vietnam's digital gap by creating equal access to the internet and the use of online services.

Vietnam has implemented several laws to regulate its digital economy. The main document guiding the development of digital economy policies and strategies is Directive 16/CT-TTg, issued in 2017 to further

support the technological modernization of industry¹. This includes new digital infrastructure and networks, speeding up reforms to encourage businesses to adopt new technology, prioritizing the development of the Vietnamese ICT industry, building an innovation ecosystem, building technological skills, and raising awareness of the opportunities and challenges of Industry 4.0.

In 2020, Vietnam approved the National Digital Transformation Program by 2025, with an orientation toward 2030². This initiative will help accelerate digital transformation through changes in awareness, enterprise strategies, and incentives toward the digitalization of businesses, administration, and production activities. The program targets businesses, cooperatives, and households that want to adopt digital transformation to improve their production, business efficiency, and competitiveness.

In March 2022, the government issued Decision No.411/QD-TTg approving the national strategy for the development of the digital economy and society to 2025, with an orientation toward 2030³, which will play a significant role in helping Vietnam overcome the status of a low-income country and become an upper-middle-income country, respectively. The government has set a target that the digital economy will account for 20% of the gross domestic product (GDP) by 2025. Other important targets include 10% of the digital economy in each industry, 80% of enterprises using e-contracts, 50% of small and medium enterprises (SMEs) using e-contracts, 80% of the adult population using smartphones, 80% of the population aged 15 years and over having payment transaction accounts at a bank, and 70% of people at the working age are trained with basic digital skills. The strategy identifies the institutions, infrastructure, human resources, people, and businesses that play an important role in developing the digital economy and society. The strategy sets out 17 groups of tasks and eight groups of solutions, to bring digital technology and digital data to penetrate naturally by default into all aspects of business production and the business of enterprises and people's lives.

The government offers incentives for information technology (IT) companies involved in manufacturing the following items: software products and software services; digital information content; IT products; information security incident correction services; and information security protection. Eligible IT companies can avail of the following incentives: corporate income tax exemption for four years, reduced corporate income tax for 11 years following the period of exemption, and investment credits⁴.

Currently, multiple agencies are charged with supporting and regulating different aspects of Vietnam's digital economy. The current regulatory framework comprises commercial regulations and decrees issued by various ministries; of which, the Ministry of Information and Communication (MIC) is the main agency for telecommunication and ICT industry-related issues.

Current Status of Vietnam's digital economy development

Figure 1 shows that Vietnam's digital economy has grown significantly over recent years, from US\$ 14 billion in 2019 to US\$ 23.3 in 2022. In 2022, the size of the digital economy in Vietnam is higher than that

¹ See <https://datafiles.chinhphu.vn/cpp/files/vbpq/2017/05/16.signed.pdf>

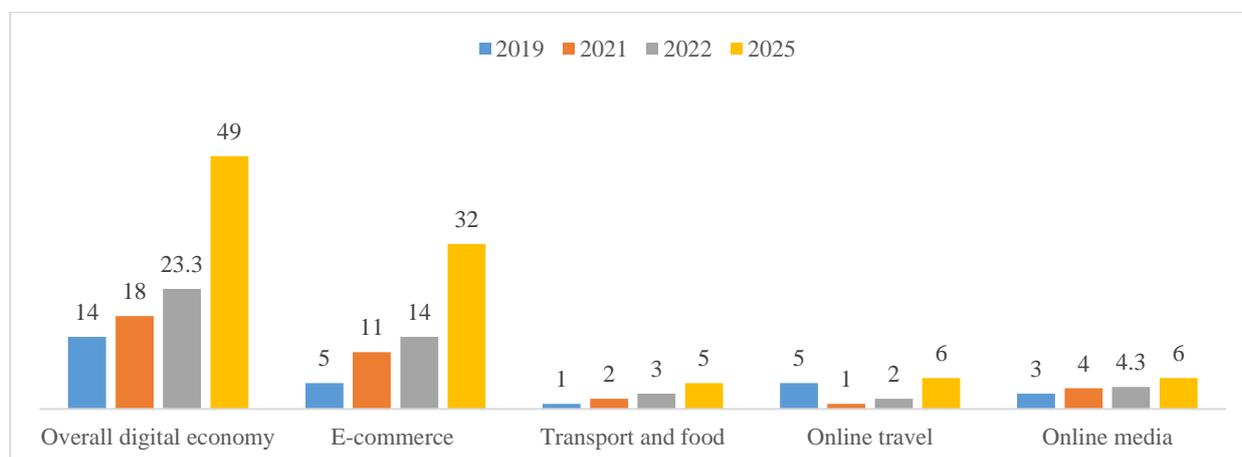
² See <https://datafiles.chinhphu.vn/cpp/files/vbpq/2020/06/749.signed.pdf>

³ See <https://datafiles.chinhphu.vn/cpp/files/vbpq/2022/03/411-qd-ttg.signed.pdf>

⁴ Dezan Shira & Associates (2022), Digital Economy Prospects in Vietnam and Identifying Government Support, Vietnam Briefing, Issue 49, <https://www.asiabriefing.com/store/book/digital-economy-prospects-vietnam-identifying-government-support.html>

of Malaysia (US\$ 21 billion), the Philippines (US\$ 20 billion), and Singapore (US\$ 18 billion) but lower than that of Indonesia (US\$ 77 billion), and Thailand (US\$ 35 billion). In terms of the growth rate, Vietnam's digital economy in 2022 has increased by 28% compared to 2021. This growth is also the highest among major economies in Southeast Asia (Indonesia, 22%; the Philippines, 22%; Singapore, 22%; Thailand, 17%; and Malaysia, 13%).

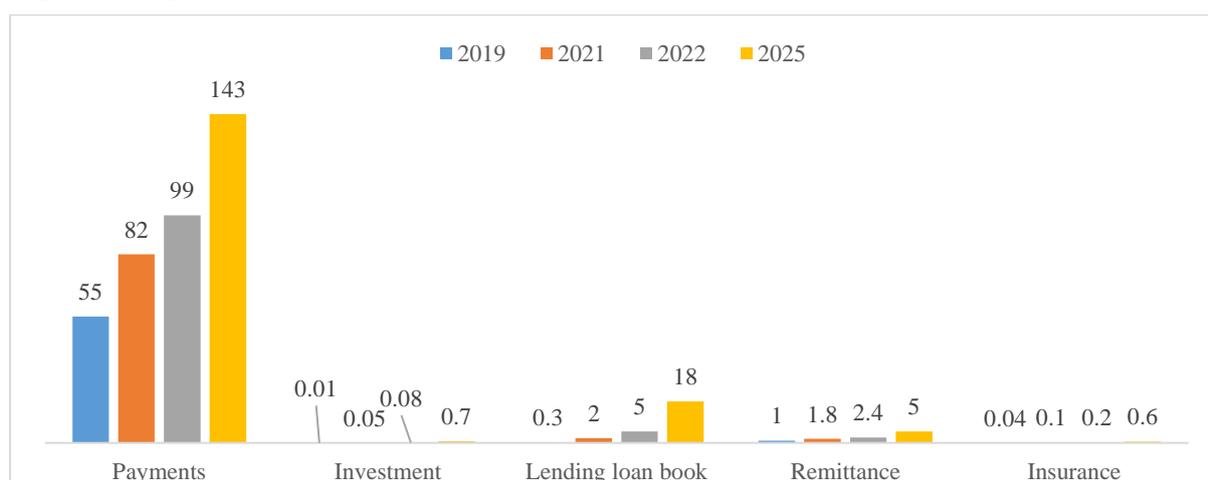
Figure 1: Vietnam's digital economy (US\$ billion)



Source: Google, Temasek and Bain & Company (2022), e-Economy SEA 2022, <https://economysea.withgoogle.com/report/>

The most important sector in Vietnam's digital economy is e-commerce, with the share dramatically growing from 35.7% in 2019 to 60% in 2022. This is followed by online media, transport and food, and online travel. In particular, after being heavily affected by the COVID-19 pandemic, the online tourism sector rebounded, reaching US\$ 2 billion in 2022.

Figure 2: Digital financial services (US\$ billion)



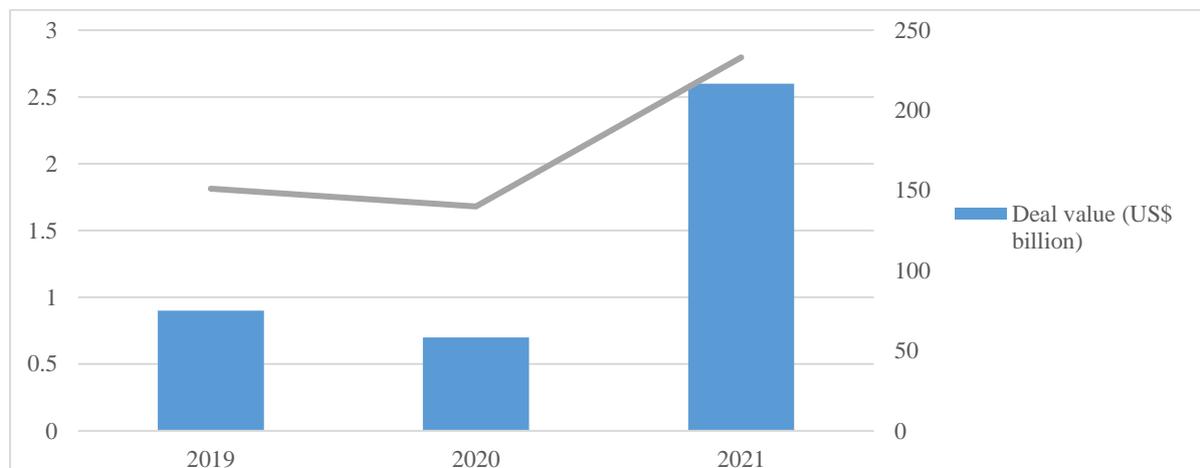
Source: Google, Temasek and Bain & Company (2022), e-Economy SEA 2022, https://economysea.withgoogle.com/report

Digital financial services continue to thrive in Vietnam (Figure 2). The largest contribution is payments, reaching US\$ 99 billion in 2022, an increase of 21% compared to 2021. Other important subsectors include lending loans and remittances, reaching US\$ 5 billion and US\$ 2.4 billion. According to the MIC, the

percentage of SMEs using digital platforms exceeds 30%⁵. The number of digital technology enterprises is estimated to reach 70,000 in 2022, an increase of 6,200 enterprises compared with the previous year, or 0.7 firms per 1,000 people. Urban digital users in Vietnam have the highest adoption of digital services, with e-commerce, transportation services, and food delivery topping the list with ratios of 96% and 85%, respectively.

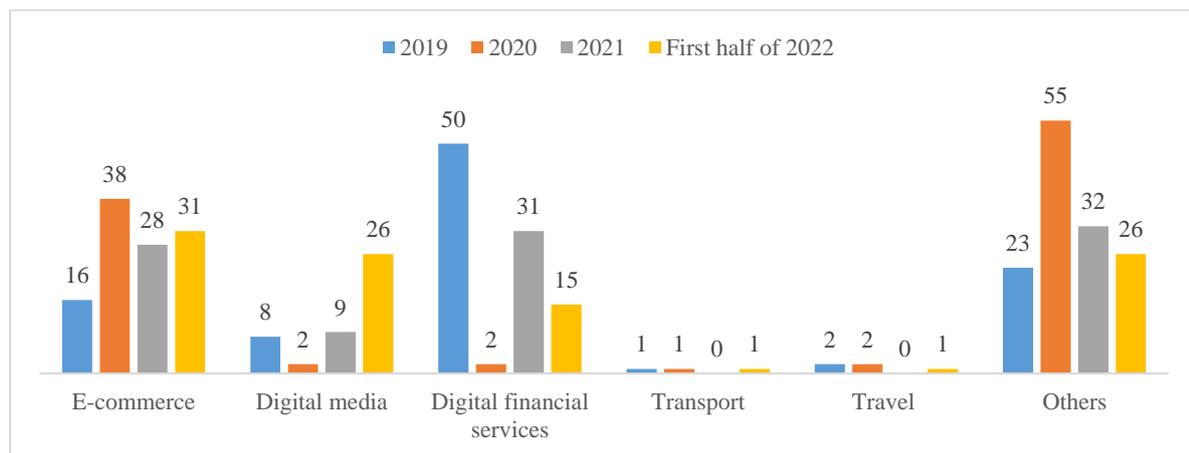
The frequency of a Vietnamese person consuming digital content is lower than the regional average. In particular, 23% of survey respondents answered that they watch video-on-demand at least once per week, followed by 19% for online gaming, and 16% for music-on-demand⁶. This shows that Vietnam still has significant long-term growth potential.

Figure 3: Private funding in value and deal count in Vietnam's digital economy



Source: Google, Temasek and Bain & Company (2022), e-Conomy SEA 2022, <https://economysea.withgoogle.com/report>

Figure 4: Private funding by sector in Vietnam's digital economy (%)



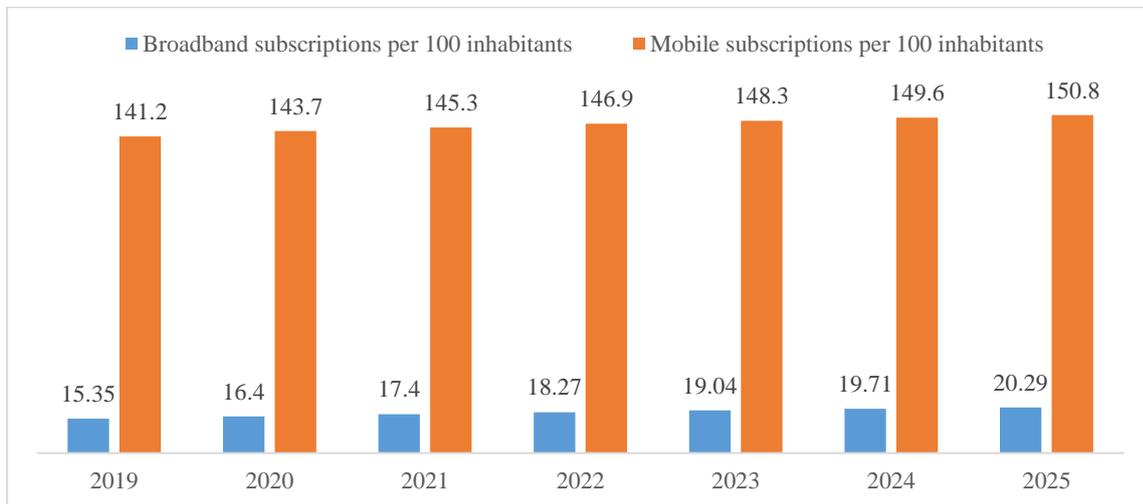
Source: Google, Temasek and Bain & Company (2022), e-Conomy SEA 2022, <https://economysea.withgoogle.com/report>

⁵ <https://aecvcci.vn/tin-tuc-n10836/vietnams-digital-economy-grows-most-strongly-in-southeast-asia.htm>

⁶ <https://economysea.withgoogle.com/report>

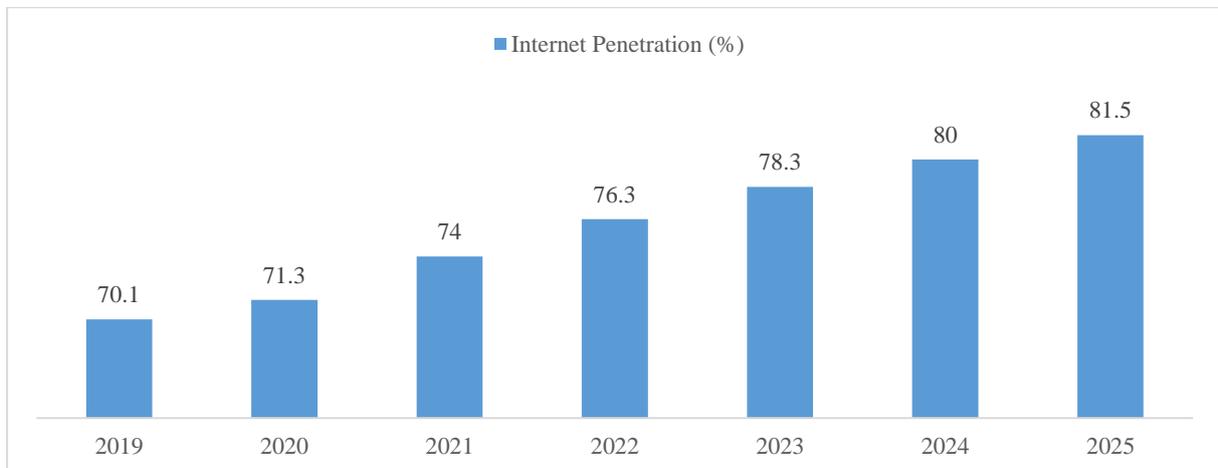
After a decrease in 2020, deal activities in Vietnam's digital economy recovered in 2021, reaching US\$ 2.7 billion. The number of deals also increased from 140 in 2020 to 233 in 2021 (Figure 3). This indicates that Vietnam's digital economy has received increasing attention from private investors. Most private funding value focuses on e-commerce, followed by digital financial services, and digital media. Meanwhile, private investments in online transportation and travel remain modest (Figure 4).

Figure 5: Some telecommunication development indicators in Vietnam



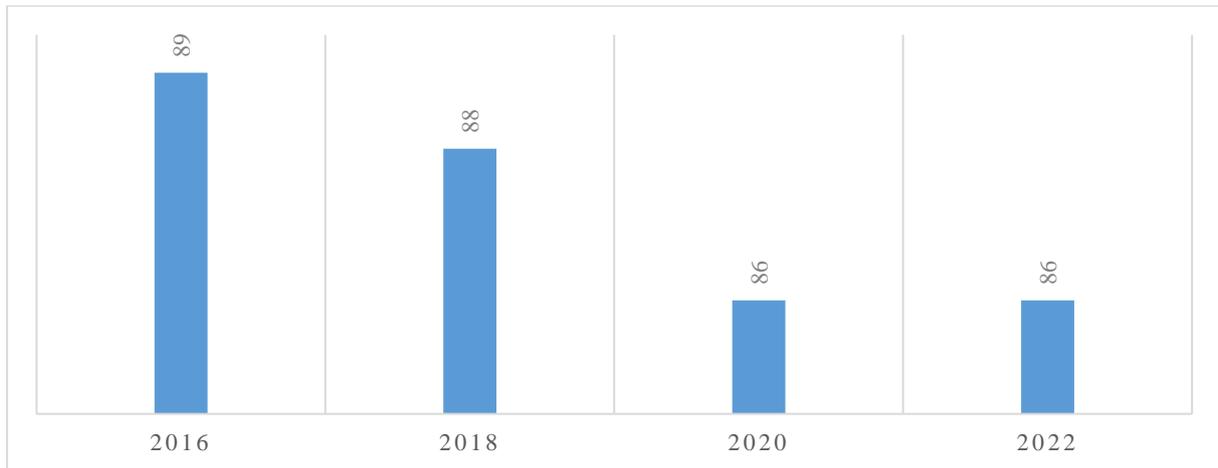
Source: Statista (2023), Digital Economy - Vietnam, <https://www.statista.com/outlook/co/digital-economy/vietnam>

Figure 6: Internet penetration in Vietnam (%)



Source: Statista (2023), Digital Economy - Vietnam, <https://www.statista.com/outlook/co/digital-economy/vietnam>

The growth of Vietnam's digital economy has been attributed to various factors. Vietnam has made significant progress in developing hard and soft infrastructure for its digital economy. The number of broadband subscriptions per 100 inhabitants and mobile subscriptions per 100 inhabitants has improved in recent years (Figure 5). Also, the percentage of internet users has increased significantly (Figure 6). Vietnam has also improved its ranking in the e-government development index (Figure 7), which helps reduce the time for administrative procedures for private sectors.

Figure 7: Vietnam’s ranking in the e-government development index (EGDI) of the United Nations

Source: United Nations, The United Nations E-Government Development Database, <https://publicadministration.un.org/egovkb/en-us/Data-Center>

The future prospect of Vietnam’s digital economy and policy implications for Vietnam - South Korea cooperation

With a growth rate of 31% in 2022-2025 and 19% in 2025-2030, Vietnam’s digital economy is forecasted to reach approximately US\$ 49 billion by 2025 and between US\$ 120 billion and US\$ 200 billion by 2030. Vietnam is expected to experience the highest growth during the period 2022-2030 compared with other major economies in Southeast Asia (Figure 8).

Figure 8: Expected digital economy CAGR (Compound annual growth rate) (%)

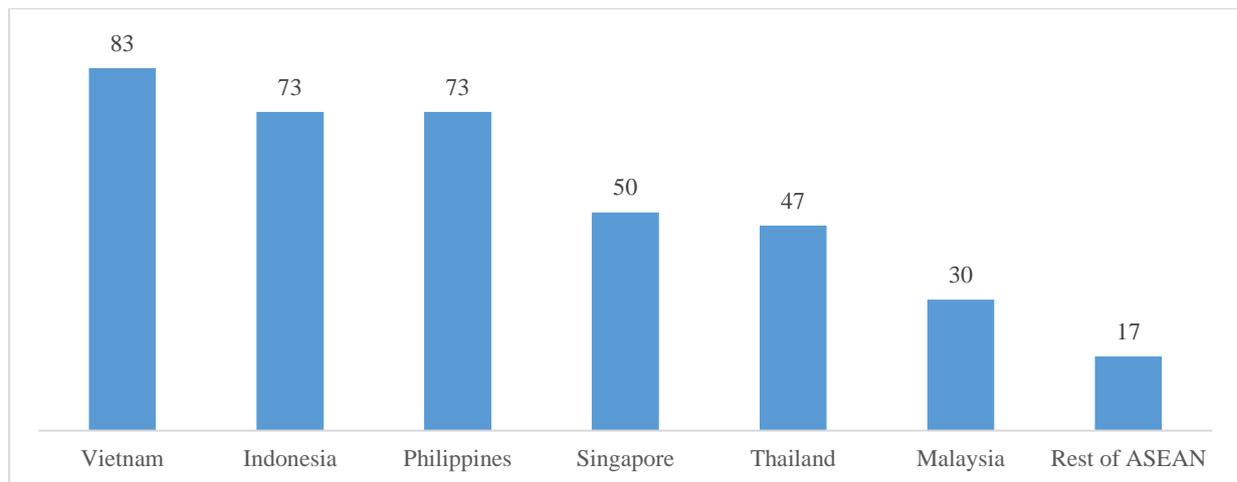
Source: Google, Temasek and Bain & Company (2022), e-Conomy SEA 2022, <https://economysea.withgoogle.com/report>

After the pandemic, Vietnam was one of the countries that quickly restored “new normal” activities. However, some consumption habits and trends formed and promoted during the pandemic are maintained and continue to develop. E-commerce is driving the growth of Vietnam’s digital economy, and 90% of digital consumers plan to maintain or increase their use of e-commerce platforms within the next 12 months.

The majority of consumers focus on “Food Delivery” (60%) and “Online grocery shopping” services (54%)⁷.

Digital financial services are expected to grow dramatically, with lending loans and digital investments rising sharply by around 56% and 106% between 2022 and 2025, respectively. Likewise, this period’s growth rate for remittances, payments, and insurance is predicted to be high. Vietnam is also expected to have more digital deal activities in between 2025 and 2030. In a survey, 83% of respondents believed that there will be an increase in private funding value in Vietnam’s digital economy, which is significantly higher than in other Southeast Asian countries (Figure 9).

Figure 9: The expected increase in deal activity in 2025-2030 versus today (% answers)



Source: Google, Temasek and Bain & Company (2022), e-Conomy SEA 2022, <https://economysea.withgoogle.com/report>

There are driving factors for the high development potential of Vietnam’s digital economy, including the relatively high economic growth and government priority on digital transformation, increasing investment in digital infrastructure, increasing capital through foreign direct investment (FDI), and official development assistance. Other motivations include loans via fintech platforms, venture capital, increased exports/new markets including tourism, more knowledge and technology transfers/jobs and skills, young population, growing domestic middle class, and attractive ICT tax incentives.

On the other hand, the key challenge for Vietnam in the digital transition will be to sustain strong macroeconomic fundamentals and keep foreign debt and inflation under control, while simultaneously investing efficiently in infrastructure and human capital to unlock productivity potential. Another obstacle is the lack of coordination among different public agencies in the implementation of national digital economy strategies.

There has been a rapid development in Vietnam-South Korea relations over recent decades. These two countries had boosted their diplomatic relations to a comprehensive strategic partnership level in 2022. In the economic field, South Korea and Vietnam have become the top trading partners for each party. South Korea is currently the most important foreign investor in Vietnam. Vietnam is also the main beneficiary of

⁷ <https://economysea.withgoogle.com/report>

South Korea's foreign aid. South Korea's development aid to Vietnam is distinctive in that it focuses on socioeconomic development by sharing development experiences through education and vocational training.

In particular, South Korea is considered among the leading digital economies in the world with top relevant indicators in 2022, such as digital revenue (US\$ 154.4 billion), broadband subscriptions (44.50 per 100 inhabitants), mobile subscriptions (145.4 per 100 inhabitants), and internet use (92.6% of the population)⁸. South Korea ranks fifth among the 132 economies featured in the Global Innovation Index (GII) 2021 by the World Intellectual Property Organization (WIPO)⁹.

With South Korea's high digital competitiveness and Vietnam's substantial development potential in the digital economy, there are huge opportunities for cooperation between the two sides to support Vietnam's digital economy, including e-commerce, educational technology (Edtech), the ride-hailing industry, IT services finance, and banking and logistics. In e-commerce, cooperation between South Korea and Vietnam should focus on creating e-commerce platforms and digital payment modes, such as e-wallets. In Edtech, the need for online learning tools in Vietnam after the COVID-19 pandemic remains high. Thus, South Korean investors can increase investments in Edtech in Vietnam, such as learning management systems, school administration, enterprise learning, and early childhood education. The ride-hailing field is a relatively nascent industry in Vietnam, so there are many opportunities for foreign firms' presence. South Korean investors may concentrate on associated services, such as food delivery, hire, and shopping services. Finally, in logistics, cooperation between South Korea and Vietnam should focus on investing in technology infrastructure and creating digital logistics maps, centralized data warehouses, and digital platforms linking multimodal transport services in Vietnam.

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⁸ <https://www.statista.com/outlook/co/digital-economy/south-korea#key-market-indicators>

⁹ https://www.wipo.int/edocs/pubdocs/en/wipo_pub_gii_2021/kr.pdf

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