Vietnam on the Ascendant: The Critical Imperative for an All-Economy Transformation

A Call to Action for the Nation's Business Leaders

Vietnam's rise to Emerging Market status creates a critical capital divide. While listed giants benefit from cheap funding, non-listed firms face a growing competitive threat. Comprehensive governance and transparency are now non-negotiable for every company's survival.







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1. The Milestone and the Manifest Rewards

The recent (or imminent) reclassification of the Vietnamese stock market from a Frontier Market (FM) to an Emerging Market (EM) status by leading index providers like FTSE Russell and MSCI is nothing short of a historic zenith for our nation. This achievement is not merely a technical adjustment of market indices; it is a powerful global affirmation of Vietnam's stable political environment, our resilient economic fundamentals, and the decades of unwavering commitment to reform and opening. This new status confirms our place in the global league of dynamic emerging economies, positioning us for a future defined by high-quality growth and national prosperity.

The most direct and immediate benefit lies in the massive influx of global capital. Unlike the niche funds that typically operate in Frontier Markets, Emerging Markets are the primary target for vast pools of institutional money, including large pension funds, sovereign wealth funds, and global asset managers. It is estimated that billions of dollars of passive investment will automatically flow into our equity markets as index-tracking funds are mandated to reallocate assets according to the new EM weightings. Crucially, this change also unlocks the gates for active investment from fund managers whose mandates previously prohibited investment in

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Frontier Markets. These active investors control trillions of dollars, bringing not only capital but also sophisticated oversight and long-



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term commitment. This increased demand for Vietnamese assets fundamentally lowers the cost of capital for our listed corporate champions, making their financing cheaper and their valuations more attractive on the global stage. Simultaneously, the status upgrade reinforces our

national reputation and validates the efficacy of the government's regulatory and governance reforms, ensuring the long-term stability required for sustained foreign direct and indirect investment.

(Bild I: Goldener Fluss: Eine abstrakte Darstellung von fließendem Kapital (dargestellt durch goldene oder leuchtende, fließende Linien), die sich aus einem großen, internationalen Ozean kommend, in die vietnamesische Landschaft (angedeutet durch einen modernen Stadtplan oder eine beleuchtete Küstenlinie) ergießt.)



2. The Dangerous Illusion of Irrelevance

Despite this celebratory backdrop, a dangerous misconception persists among the vast majority of our enterprises—the non-listed companies that form the backbone of the Vietnamese economy. Many business leaders outside of the stock exchange believe this upgrade is an elite concern, relevant only to the large, publicly traded companies and without consequence for their own daily



operations or competitive position. This thinking is fundamentally

flawed and represents a critical threat to their future viability.

The shift to Emerging Market status changes the structural dynamics of the entire economy. It introduces a new, harsher principle of selection that will inexorably affect every firm, listed or not. The market is now being subjected



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to global standards of competition, capital allocation, and professional oversight. Failing to recognize this shift—and failing to act on it—will result in palpable damage and a severe competitive disadvantage. The market now follows laws where efficiency, scale, and cost of capital are the ultimate arbiters of success.



3. The Mechanism of Market Selection: The Capital Divide

The positive effects of the EM upgrade are not distributed equally; they create a widening Capital Divide—a wedge separating the financial fates of listed and non-listed entities. Our large, publicly traded firms, the main beneficiaries of the EM status, suddenly gain access to cheap, abundant, and patient international equity capital. This translates into an immense strategic advantage. They can easily finance massive capital expenditure, invest aggressively in research and technology, absorb higher marketing costs, and secure the best talent through superior compensation packages.

In stark contrast, the average non-listed SME remains constrained. They rely almost exclusively on local bank financing, which remains



significantly more expensive and often requires collateral, restricting their capacity for aggressive growth or long-term strategic investment. This disparity in the cost of funds is the primary destructive mechanism. When a competitor can raise growth capital at half the cost, that is not a marginal inconvenience; it is an existential competitive threat that shrinks profit margins and stifles innovation across the board.

The impact is felt acutely in two critical areas. Firstly, the listed giants use their cheap capital to wage a talent war, luring away top management, engineers, and financial experts from smaller, private enterprises, thereby degrading the operational and intellectual capacity of the non-listed sector. Secondly, while international Private Equity (PE) funds now look more favourably upon Vietnam,



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they are highly selective.
They only target nonlisted firms that already
meet the global EM
standard for
governance,
transparency, and
structure. Private firms
lacking this immediate
level of professionalism
are simply bypassed,
further starving them of
growth capital. Ultimately,

this competitive erosion leads to Market Share Consolidation. The capital-rich listed entities will systematically out-compete the private, capital-constrained firms, leading to forced closures or heavily discounted acquisitions. The imperative, therefore, is to act now before market share is irrevocably lost.



4. The Urgent Mandate: Comprehensive Professionalization

This is where the political mandate for the EM upgrade aligns perfectly with corporate self-interest: the need for comprehensive and mandatory professionalization across the entire economy. The upgrade must not only be a reform for the stock exchange but a catalyst for national business practice reform. The

Professionalization of the Vietnamese enterprise is no longer a voluntary exercise in "good practice"; it is the unavoidable price of admission to the world's major capital markets and the only reliable defence against being outmanoeuvred by well-funded rivals.

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For every single enterprise,

regardless of listing status, the path to survival and prosperity in this new EM environment requires a full embrace of global best practices. Leaders must initiate immediate and deep internal reforms that address the core concerns of sophisticated international investors and regulators. These actions are designed to make the company "EM-Ready," thus ensuring viability, attracting PE, or preparing for an eventual listing.

This includes moving beyond traditional, familial management structures to establish truly independent and competent Boards of Directors, ensuring a clear separation between ownership, management, and oversight. Sound Corporate Governance is the bedrock of investor trust and long-term performance. Furthermore, adopting and strictly adhering to International Financial Reporting Standards (IFRS) or an equivalent, and securing annual, high-quality



audits from reputable international firms is essential. Finally, private companies must simplify and clarify complex ownership structures. They must resolve historical ambiguities regarding land-use rights, and ensure absolute compliance, making the company "audit-ready" for any future M&A or IPO process. This structural integrity is key to unlocking international Private Equity. For companies facing complex internal friction points or in need of swift turnaround strategies, consulting services focused on comprehensive restructuring, such as those offered by firms like VIET Transformation Advisors, are becoming an indispensable tool to meet these rigorous new EM-standards.

The continued success of the EM status also depends on the sustained commitment of our key national institutions. The State Bank (SBV) and the Central Administration must continue to streamline the remaining operational hurdles that still classify Vietnam as a Frontier Market by some index criteria, notably solving the pre-funding requirements. Local Commercial Banks and financial institutions have a profound duty to support this transformation by prioritizing financial products, advisory services, and lending terms that reward firms embracing these higher EM standards.



5. Conclusion

The elevation of Vietnam to an Emerging Market is a source of national pride and a tribute to the diligence of our Party and Government. It is an extraordinary opportunity to inject the necessary high-quality capital into our economy, securing decades of growth. However, this opportunity comes with a fierce, unavoidable challenge: the urgent transformation of every enterprise within our borders. The new market dynamic is a potent form of natural selection, favouring the professional and the transparent. For the national good, and for the long-term survival of our private



businesses, the response must be collective, comprehensive, and immediate. We must not allow the benefits of this milestone to be confined to a few listed champions; they must cascade throughout the entire economic landscape.



The future is defined by preparedness, not by hope alone. Let us initiate a strategic discussion on how your firm can navigate this change and transform competitive threat into opportunity.



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