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Viet Nam: Economic Update
Market Report

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Prepared by the New Zealand Embassy in Ha Noi

Summary

- Viet Nam will be one of the few economies this year to experience positive growth, with predictions of GDP growth of between 1.5% and 2.8%.
- This flows from Viet Nam's containment of COVID-19, continued export growth and solid inward FDI, albeit at reduced levels.
- Viet Nam's cash reserves have given it a buffer to provide some COVID-19 relief to citizens and businesses.
- COVID-19 impacts have been most keenly felt in the tourism services, aviation and textile sectors. Nationwide unemployment has risen to 4.5%, but the reverberations have been felt more widely in the significant informal sector and amongst vulnerable groups.
- Nonetheless, the economic consequences have been less severe than for much of the world, and forecasts for 2021 are that Viet Nam will remain one of the fastest growing economies in the region if COVID-19 can be contained.
- For New Zealand, goods trade to Viet Nam has continued to grow this year, with strong increases in dairy and horticulture exports in particular. Trade in services has taken the greatest hit, with education and tourism severely affected.

Report

Assessing the impact

The COVID-19 pandemic has exacted an uneven toll across Viet Nam's economy but, nevertheless, GDP growth has stayed in positive territory and Viet Nam will remain one of the better performing economies in the world in 2020. The economy expanded 2.12% in the first nine months of this year and official government growth forecasts for 2020 are between 2.5% and 2.8%. Independent observers (The World Bank and ADB) are more cautious at between 1.5% and 2.8%. Given Viet Nam's strong and consistent growth rates of 6-8% in recent decades, 2020 will record the slowest growth since the "đổi mới" (renovation) reforms of 1986 that set the course for Viet Nam's socialist-oriented market economy.

Sustained high growth has helped Viet Nam reduce poverty, provide employment, educate a workforce, and become a major manufacturing hub in Southeast Asia. The major negative impact this year has been felt in the services sector (down 6.3%) and in the garments and textiles sector (down 16%), whereas the agro-forestry and fishery sectors are projected to increase by 1.8%, and the industry and construction sector projected to increase by 3.08%.

Average inflation for the nine months to end September 2020 was 3.85%, mainly attributed to food price increases. While COVID 19 has had some impact on food production, drought, salt intrusion, and African swine fever combined have had impacts on food production and prices.

Looking ahead to 2021 the most optimistic scenario sees growth rebounding to between 6% and 7%, although the World Bank currently predicts growth between 1.5% - 4.5%, depending on how far into 2021 the impacts of COVID-19 stretch.

Growth in exports and FDI

In the first nine months of 2020 the value of Viet Nam's exports was up 4.2% on the previous year and, in Q3 alone, exports rose 11% to US$80 billion. During this time a decrease in Vietnamese exports of garments, mobile phones, and machine parts has been offset by surging global demand for personal computers. Exports of personal computers and related products rose more than 20%, according to government statistics.

The United States is still Viet Nam's largest export market, buying US$46.7 billion worth of exports, up 19% this year, followed by China and the European Union.

Foreign direct investment is still flowing into Viet Nam, and in the 9 months to September Viet Nam attracted US$21.2 billion. Viet Nam is continuing to attract FDI diversifying out of China. But FDI is nevertheless down nearly 20% from last year. Viet Nam's closed borders and limited flight connectivity have contributed to dampened investment activity. Viet Nam has opened its border slightly to allow for short-term visits from investors and experts.

Who has been most affected?

In the first half of 2020 the pandemic affected 30.8 million Vietnamese workers through salary cuts, compulsory leave, reduced hours or job losses. The official unemployment rate in urban centres is now 4.5%, the highest level in 10 years. This figure does factor in the significant impacts on the informal sector and underemployment.

Service sectors like tourism, accommodation and food service and certain manufacturing sectors like textiles have been hardest hit. Industry associations report that 80% of businesses in the textile and garment sector have cut their workforce, and more than half have reduced operating capacity by 50% due to a slump in demand.

There were 30,000 business closures in the year to June, is one-third higher than normal. Vietnamese migrant worker remittances were estimated at 6.4% of Viet Nam's GDP in 2019 and it is expected that these have been significantly affected due to COVID-19 impacts.

Viet Nam Government response

The Viet Nam Government has used a range of fiscal and monetary tools to support businesses and households affected by COVID-19 including tax breaks and tax deferrals, and direct financial assistance. It has also directed commercial banks to offer preferential terms on loans, and is accelerating disbursements of government infrastructure spending. The overall package is expected to cost around US$2.6bn, or 1% of GDP in 2020. While more than 150,000 tax relief and land-fee relief applications were received by the end of June, the initiatives have been criticised by businesses as being too small and with conditions that are too difficult to meet. The fact that Viet Nam had accumulated significant cashflow reserves prior to the pandemic has meant it has not required any additional borrowing for COVID-19 related expenditure.

Impact and opportunity for New Zealand

Viet Nam currently ranks as New Zealand's 15th largest two-way trading partner and the value of our goods exports have stood up well in the COVID-19 environment. In the year to September 2020, New Zealand's goods exports to Viet Nam increased by NZ$80.5m to NZ$834m. This was driven by dairy (up $45m), fruit (up $22m), frozen fish (up NZ$11.5) and various processed foods (up $12.5m), offset by a number of sectors showing small decreases. Timber, pulp and paper products, after reporting the lowest Q2 export value in over five years, came back strongly to end the year to September 2020 at $106.5m, 4.5% higher than 2019. Processed foods, including supplements and formulated powders, has grown from NZ$4m to NZ$50.5m in the past five years.

Dairy trade is a mixed story. While overall value increased due, in the main, to whole milk powder and skim milk powder, this was offset by a 15.5% ($21m) decrease in butter exports. Viet Nam's dairy market is fiercely competitive and New Zealand's share of some segments is decreasing overall as the market becomes more attractive to other large producers.

In the year ending June, two-way trade in services with Viet Nam decreased by 1.7%. More significant drops are expected through 2020 and early 2021 as tourism and travel remain constrained in both directions. Education services are a key export for New Zealand in this market. According to September statistics 1668 Vietnamese students have remained in New Zealand to complete their studies.

Some New Zealand companies are moving to address COVID-19 challenges and opportunities. Following periods of lockdown Vietnamese consumers have accelerated their online purchasing, particularly at the premium end of the market where New Zealand products compete. A number of New Zealand firms have created online campaigns and worked with online influencers to market through e-commerce channels and, supported by New Zealand Trade and Enterprise, are looking to boost their digital brand building and e-commerce capabilities.

This year has also seen more New Zealand firms establishing an in-country legal presence, or employing a local manager, to help manage partner relationships while it is difficult to do so from New Zealand.

Future outlook

While Viet Nam's economy has weathered the COVID-19 pandemic better than many, in the context of decades of high growth the economic shock this year has had a big impact on certain sectors of the economy. If the global economy rebounds in 2021 then Viet Nam's traditional drivers of growth – export trade and foreign direct investment – will provide a degree of resilience and Viet Nam is well positioned to recover fairly quickly.

In addition Viet Nam has a large network of FTAs and is continuing to deepen trade integration in an effort to diversify its markets and FDI sources. The European Union-Viet Nam FTA came into force 1 August, (see The Impact of the European Union - Viet Nam Free Trade Agreement (EVFTA) for NZ exporters) and the UK and Viet Nam have committed to move ahead swiftly to conclude a UK-Viet Nam FTA. The Regional Comprehensive Economic Partnership, involving New Zealand, Viet Nam and 13 other countries, was signed 15 November.

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