



ASIA PERSPECTIVE

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Vietnam Economic Update Report

This Issue:

Vietnam's Economic Growth in Q3

EU – Vietnam Free Trade Agreement

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Vietnam's economy maintains high growth in the third quarter

The Vietnamese economy rose 7.31% in the third quarter YoY, manufacturing, and exports being the main drivers of the economic growth. As a result, experts forecast the annual GDP growth of Vietnam to reach 7.05% in 2019, revising the initial target of 6.8%.

The manufacturing sector grew 10.8% and was the main driver of the industrial sector's growth, especially in basic metals, machinery, equipment, rubber, and plastic products. Moreover, exports increased by 10.7%, while imports rose by 10.0%.

Inflation was kept at a low level. The average consumer price index (CPI) in nine months increased by 2.5%, being the lowest 9-month average increase in the past 3 years.

Furthermore, due to its geographical proximity to China, the fast-growing economy, and investment incentives from the government, Vietnam has become an attractive market for foreign investors, contributing to the growing economy. A result of the ongoing trade tensions between the US and China. However, if the trade war persists, the export-reliant Vietnamese economy will certainly be affected by the global recession.

The Vietnamese consumer confidence remains high in the third quarter

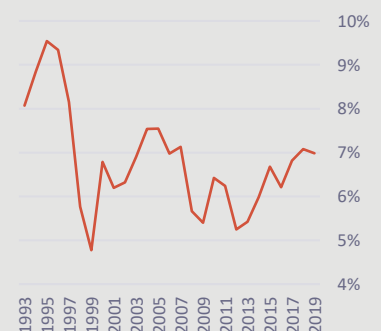
Having the most positive consumers, just after the Philippines and India, Vietnam remains among the most confident markets globally.

Health remains the top concern of Vietnamese consumers, partly due to the rising air pollution. Furthermore, people are taking action towards their health, spending more money on medical insurance premiums and health-care products.

However, the spare cash spending level is lower than at the beginning of the year due to the increase in utility prices.

Vietnam's GDP growth

As shown in the graph, Vietnam's economy maintains a high growth of around 7% in 2019 YoY.



The EU – Vietnam Free Trade Agreement

On June 30th, the European Union and Vietnam signed a Trade Agreement (EVFTA) and an Investment Protection in Hanoi. The EVFTA is an ambitious pact providing almost 99% elimination of customs duties between the EU and Vietnam.

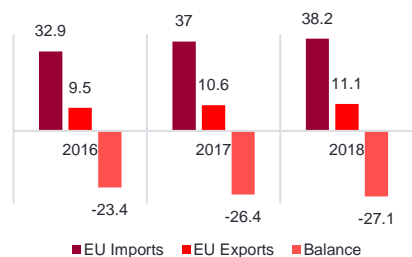
The EVFTA is considered to be a new generation bilateral agreement and contains important provisions for intellectual property (IP) rights, investment liberalization, and sustainable development. This includes a commitment to implement the International Labor Organization (ILO) standards and the UN Convention on Climate Change.



Vietnam and the EU are long-standing trading partners, with the EU being the second-largest trading partner in the Association of Southeast Asian Nations (ASEAN), with main exports such as electronics, garment, pharmaceutical products, etc. In 2018, Vietnam exported about €38.3 billion worth of goods to the EU and imported about €12.5 billion in value of goods. Other than the trading relationship, the EU is one of the largest foreign investors in Vietnam with a total direct investment of €6.1 billion in 2017, especially in the industrial processing and services sectors.

EU-Vietnam: Trade in Goods

(Value in €Billions)



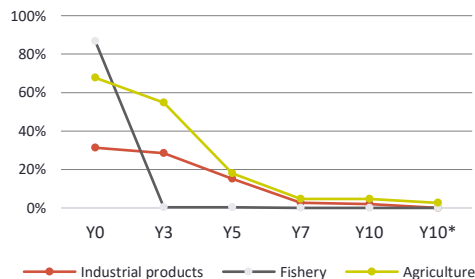
Source: European Union, Trade in goods with Vietnam, 2019

The below charts show the roadmaps of tariff elimination by the EU for Vietnam's products and by Vietnam for EU products.

Extensive coverage is already achieved initially, with 65% of EU exports to Vietnam coming in duty-free day one. The remaining trade, with the exception of some products, will be liberalized after 10 years. The EU will liberalize 71% of its imports from Vietnam from day one and 99% will enter duty-free after seven years.

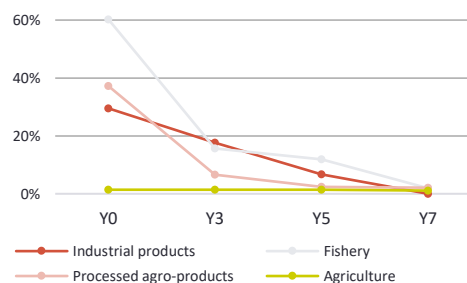
Custom duties will be removed over a transitional period so that domestic producers can gradually adapt. The transitional period will be a maximum of seven years for Vietnamese goods and 10 years for EU goods. Consumers from both sides will benefit from lower prices and exporters from strengthened competitiveness.

Tariff elimination by Vietnam for EU products (Value in %, accumulated)



Source: European External Action Service, Delegation of the EU to Vietnam

Tariff elimination by EU for Vietnam's products (Value in %, accumulated)



Source: European External Action Service, Delegation of the EU to Vietnam

Google moves Pixel Production from China to Vietnam



In August this year, the tech giant, Google, chose to shift its Pixel smartphone production from China to Vietnam starting this year.

Moving the production makes sense due to the ongoing pressure placed upon Google with higher Chinese labor costs and increasing tariffs – the result of the ongoing trade war between the US and China.

Google will take over an old Nokia factory located in the northern Vietnamese province of Bac Ninh. The factory is located 130km from the Chinese border and is within the same province where Samsung developed its smartphone supply chain more than a decade ago, giving direct access to an experienced workforce.

Companies with manufacturing in the northern provinces of Vietnam, such as Bac Ninh, can bypass the tariff influence of the trade war while maintaining their facilities in proximity to China to minimize transportation cost and delivery time.

The forecast for this year is to ship about 8-10 million smartphones, twice the amount from last year, making Vietnam a key part of Google's drive for growth in the smartphone market.



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