



ASIA PERSPECTIVE

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Vietnam Economic Update Report

This Issue:

Vietnam's economy saw moderate growth in Q2 despite COVID-19 pandemic

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Vietnam's economy expanded slightly in Q2 2020 despite COVID-19 pandemic

Due to COVID-19 containment measures, such as social distancing and border closure, Vietnam's economic expansion slowed down in Q2 2020, however still maintaining a positive growth.

Vietnam's Gross Domestic Product (GDP) rose as little as 0.36% between April and June 2020 compared to the same period previous year. This means a slowdown from the growth of 3.82% in Q1 this year. As a result, the GDP rose by only 1.81% in the first six months of 2020, the lowest recorded growth in the past decade. The small expansion was majorly driven by the agriculture sector which rose by 1.72% and construction which rose by 1.38%. The traditional economic driver – the service sector – contracted by 1.76%, due to a sharp decline in tourism.

As global demands shrank further in Q2, Vietnam's trading was notably affected. Merchandise export turnover plunged by 9.0%, while the total import fell by 9.1%, compared to Q2 previous year.

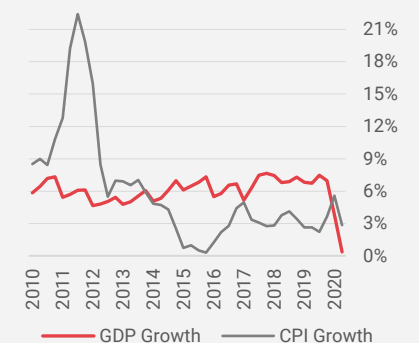
The economic downturn was particularly severe in April, with export and import dropping by 18.4% and 7.9% respectively from March. However, the country became more optimistic toward the end of the period. In June, export and import grew by 9.5% and 12.8% respectively from the month before.

Vietnam Ratifies Free Trade Agreement with EU

On the 8th of June 2020, Vietnam's National Assembly ratified the EU – Vietnam Free Trade Agreement (EVFTA) by voting it in favor by 94.6% of the votes. This followed the earlier ratification by the EU in February. Subsequently, the EVFTA will come into force during July or August this year, immediately abolishing tariffs on 71% of the exports from Vietnam to the EU and 65% of the exports from the EU to Vietnam. It is expected to accelerate foreign investments in Vietnam, especially in manufacturing of electronics, footwear and apparel.

Vietnam's GDP growth and CPI over the past ten years

Vietnam recorded an insignificant GDP growth of 0.36% in Q2, the lowest over the past decade, whereas the CPI between April and June rose by 2.83% YoY.



Source: Socio-economic reports, General Statistics Office of Vietnam

Vietnam eases lockdown, encouraging businesses to reopen

After the escalating number of COVID-19 infected cases in March, the Vietnamese government imposed social distancing and national lockdown to suppress the outbreak. By the end of April, the situation seemed to be under control, and containment methods were lifted.



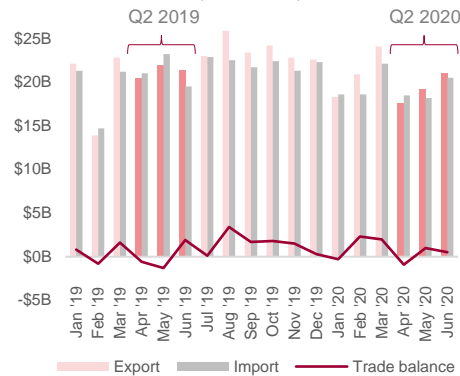
Vietnam recorded the first COVID-19 case in January – a tourist from China. Soon after that, local transmission cases were reported. However, just a month later, the outbreak was contained, and no new cases were found. From 17th of March 2020, a second wave of the coronavirus outbreak occurred with a higher number of local transmissions, resulting in international flights being cancelled as well as an introduction of national lockdown, compulsory quarantine and social distancing. As the result, the number of new cases declined once again, and stopped after one month.

At the end of April, domestic containment methods were lifted. The government encouraged businesses to reopen and attract new investments, especially in manufacturing.

However, the success in suppressing the healthcare crisis does not equal Vietnam's ability to resist an economic downturn. According to the International Monetary Fund (IMF) forecast, weaker domestic and international demands is expected to slow the economic growth significantly from 7% in recent years to around 2.7% in 2020. But that impact is still milder than in most countries in Southeast Asia.

In Q2 2020, Vietnam's international trade was significantly impacted by COVID-19. The total trade plummeted by 9.05% compared to the same quarter in 2019. After a rough couple of months, export turnover finally saw an improvement in May as a trade surplus of 1.0 billion USD was achieved.

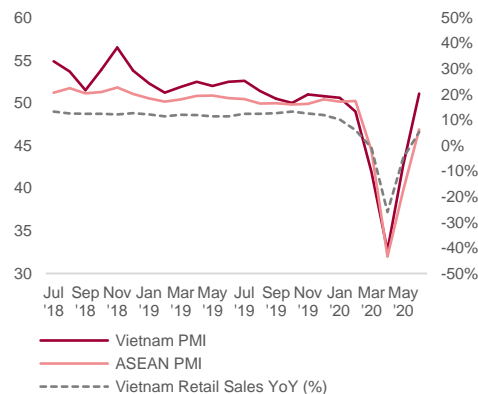
Vietnam's monthly trade performance
(billion USD)



Source: Monthly Statistic Information, General Statistics Office of Vietnam

The economic recovery is more obvious from a domestic perspective. Although Vietnam's purchasing managers' index (PMI), measuring the direction of economic trends in manufacturing, dropped in the same way as that of other countries in Southeast Asia, it has shown optimistic signals since the lockdown was lifted. Furthermore, as businesses resumed, industrial production rebounded and consumers came back to restaurants and shops, boosting the retail sales during Q2.

PMI and Retail Sales Growth YoY (%)



Source: Retail Sales YoY of Vietnam and PMI data of Vietnam, Thailand, Indonesia, Malaysia, and the Philippines, Trading Economics

The quick resumption of production and business operations after the short stringent lockdown has made Vietnam an even more attractive alternative sourcing location to China. As the trade war between the US and China continues, companies have already sought to shift their production to other countries, and Vietnam is one of the potential destinations. Now the achievement in containing the coronavirus spread will accelerate that momentum.

Apple partially shifts its production of AirPods to Vietnam



After the Phase-one trade deal between the US and China in January, Apple slowed its planned sourcing diversification from China. However, as the coronavirus outbreak interrupted the supply chains in China, Apple decided to quickly relocate part of its production to other countries, including Vietnam.

Since March 2020, Apple has been recruiting a large number of positions in Vietnam, leading to speculations that Apple have started to produce a great quantity of its classic AirPods in Vietnam.

It is estimated that approximately 30% of Apples classic AirPods will be produced in Vietnam, beginning as early as in March and speeding up in Q2. The production does not yet include the new version, AirPods Pro.

One of Apple's suppliers, Luxshare Precision Industry, has recruited thousands of workers in the Bac Giang province to assemble the AirPods. Another assembler, Inventec, is also building a factory in Vietnam to meet Apple's demands.

Even if the production in China is recovering from the trade tensions and the pandemic, diversifying the supply base will still be an irreversible trend. Giant companies like Apple, Google, Sony, etc. will be likely to opt for alternatives to China, diversifying their supplier base to at least two, or more, countries.



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