



ASIA PERSPECTIVE

Insights: Quarter 3, 2020

Vietnam Economic Update Report

This Issue:

Vietnam's economy grows in Q3 2020 despite rising COVID-19 cases

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Due to rising manufacturing and exports, Vietnam's GDP expanded by 2.62% (YoY) in the third quarter of the year, making it the only country in Asia besides China set for economic growth in 2020.

Vietnam's, Gross Domestic Product rose by 2.62% between July and September 2020 (YoY), an increase of 0.39% compared to the second quarter of 2020. As a result, the GDP in the first nine months of 2020 increased by 2.12%, making Vietnam the only country besides China in Asia to expect positive growth in 2020. The economic expansion was mainly driven by the industry-construction sector which grew by 3.08% thanks to the substantial recovery of manufacturing in September.

Merchandise export surged in Q3 by 34.4%, up to USD 80.07 billion, while the total import was USD 68.54 billion, expanding by 18.5% compared to Q2 2020. The highlight was August export of USD 27.7 billion, mainly due to Samsung's export of their new Samsung Galaxy Note 20.

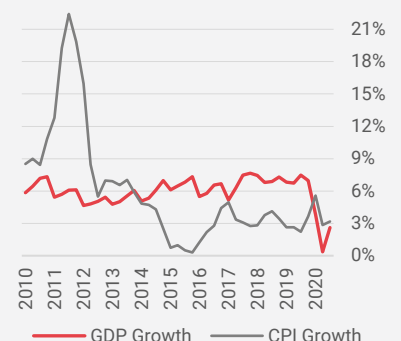
Industrial manufacturing grew slightly by 1.1% (YoY) in July, but declined in August due to the containment measures imposed due to the second wave of COVID-19 cases in Vietnam that month. The sector then rapidly recovered in September, increasing by 4.6% (YoY).

COVID-19 cases increase in August

After 100 days without any reported COVID-19 cases, Vietnam saw a new outbreak in late July, which slashed the domestic tourism that had just recovered. The number of visitors in August dropped by 19.3% from July. The outbreak was identified in Da Nang – the tourism hub of Vietnam which was welcoming visitors for summer vacation. After successful containment of the outbreak in August, all restrictions were lifted completely in late September, giving the people of Vietnam hope for a better winter season.

GDP and CPI growth over the past ten years in Vietnam

Vietnam recorded an GDP growth of 2.62% in Q3 compared to the same period last year, while the CPI between July and September increased by 3.18% (YoY).



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

Vietnam promotes the development of supporting industries

On the 6th of August 2020, Vietnam approved a resolution to promote the development of supporting industries from 2020 to 2030. It sets out clear targets for supporting industries and focuses on improving administrative policies and enhancing private sectors' capabilities through training and financial incentives.



There are about 1,800 enterprises in different supporting industries in Vietnam, accounting for about 4.5% of the total number of businesses in the manufacturing and processing industry. As a result, inputs for many manufacturing activities are sourced from other countries. For example, Vietnam is able to supply less than 1% of the cotton demands for its textile and apparel industry, meaning that most of the cotton is imported from either China or the US.

The underdevelopment of supporting industries has hindered local enterprises from participating in global value chains. Especially under the impact of COVID-19, the supply chain of multiple manufacturing industries in Vietnam has been heavily interrupted and many businesses have found themselves crippled by lack of input materials for production. In addition, the major recent free trade deal with the EU (EVFTA) also requires Vietnamese products to increase their localization level, including input material, to enjoy tariff eliminations. Therefore, the Vietnamese government is highly motivated to develop their domestic supporting industries

Under the resolution, targets have been set for Vietnam to be able to supply highly competitive supporting industrial inputs.

General Targets for Supporting Industries	
By 2025	By 2030
1,000 enterprises capable of supplying directly to Multinational Corporations and assembly enterprises; 30% of supporting enterprises are domestic	2,000 enterprises capable of supplying directly to Multinational Corporations and assembly enterprises
Meet 45% of essential needs for domestic production and consumption	Meet 70% of demands for domestic production and consumption
Make up for 11% of industrial production value	Make up for 14% of industrial production value

The following supporting industries are prioritized in the future policy framework with more specific targets:

- *Mechanical engineering*: such as high precision molds, standardized mechanical details, microelectronic circuits, components and spare parts for equipment using renewable energies. Set goal to supply the domestic demands by 45% in 2025 and by 65% in 2030.
- *Textile and garment*: fibers, technical fabrics, chemicals, auxiliaries and dyes for fabrics dyeing. Set goal to supply 65% of domestic demands in 2025.
- *Leather and footwear*: leather and leatherette, chemical tanning, shoe accessories. Set goal to supply 80% of the domestic demands in 2025.
- *Electronics*: develop supporting products, such as components of quartz, semiconductors, magnetic materials, batteries for high-tech industries.
- *Automobile*: connect production of electrical components, engines and engine details, lubrication systems, cooling system, fuel supply systems, power transmission system, etc. with assembly plants in the automobile industry.

The resolution also emphasizes on the actions to synchronize and complete policy mechanisms to facilitate supporting industries, including financial incentives, technical standards for respective industries, digitalization in industrial management, and other policies such as anti-monopoly and support in training for workers and management capacity.

In Vietnam's current state, developing supporting industries is a crucial strategy to improve participation in global value chains to help the economy grow sustainably.

EVFTA boosts Vietnam's rice export



As the EVFTA took effect on the 1st of August 2020, Vietnam's rice export is expected to bloom .

Each year, Europe imports around 2.3 million tons of rice (including milled rice, unmilled rice, fragrant rice) – to a total value of EUR 1.4 billion in 2019. The demand of rice is expected to expand further as Asian cuisine is becoming a trend, and some types of rice fit into the picture of healthy eating promoted in Europe.

By the first seven-month of 2020, Vietnam had passed Thailand to become the second-largest rice exporter in the world – only behind India. The main export markets for Vietnamese rice products were Asia and Africa (80% combined), while the EU only accounted for about 1.67%. This is mainly due to Vietnam's late market entry in Europe.

With the EVFTA in place, the EU has increased the quota of Vietnamese rice with 80,000 tons per year (including 30,000 tons of milled rice, 20,000 tons of unmilled rice, and 30,000 tons of fragrant rice). In September, more than 4,000 tons of fragrant rice from Vietnam have been registered for certification, ready to be exported under the EVFTA flag. With the low-cost position, Vietnam's rice export is facing a huge opportunity in the European markets. The only challenge that Vietnamese exporters need to overcome is to ensure the the required quality standard is met, otherwise they won't be able to enjoy the advantages from the trade deal.



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