



ASIA PERSPECTIVE

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# Vietnam Economic Update Report

## **This Issue:**

**Vietnam's Economic Performance in Q1  
Vietnam speeds up the development of  
supporting industries**

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# Vietnam's GDP grew by 4.48% in Q1 2021, underpinned by robust export

As the country gradually returns to normal conditions, Vietnam recorded a 4.48% GDP growth (YoY) in the first three months of 2021, slightly falling behind the forecast of 5.12%. However, it is still a promising sign that Vietnam, as one of the few countries with positive annual growth in 2020, is continuing its economic growth journey in 2021.

The growth was driven mainly by the processing and manufacturing industries (9.45% growth YoY), agriculture (3.16% growth YoY), industrial and construction (6.3% growth YoY), wholesale and retail (6.45% growth YoY). Though Vietnam's trade and production activities have continuously improved, certain sectors such as transport and tourism are still reeling from the COVID-19 impact, especially when fresh outbreaks occurred in some parts of the country right before the Lunar New Year holiday, the biggest holiday of Vietnam in which massive travelling activities had been planned but unfortunately had to be cancelled again.

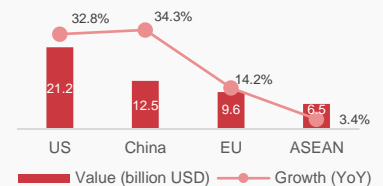
Thanks to the drastic and timely control of the COVID-19 pandemic, ongoing improvement of the business environment, and the optimization of free trade agreements, Vietnam's remarkable growth momentum is expected to continue. At the same time, the government is urged to adopt sustainable strategies to resolve socio-economic issues in the long run, such as decreasing labor market and slowdowns in job recovery and improvement in workers' wages.

Vietnam's export is likely to continue to boost growth recovery in Q2 2021

In January-to-March, Vietnam's export grew by 22% (YoY) to reach 77.34 billion USD while import gained 26.3% to reach 75.31 billion USD, resulting in a trade surplus of \$2.03 billion USD.

Export will continue to be Vietnam's key economic growth driver amid the COVID-19 recovery. The United States was Vietnam's largest export market in Q1 2021 with a turnover of 21.2 billion USD, up 32.8% (YoY). Other key trading partners such as China, EU, ASEAN also witnessed increasing volumes in the first quarter of 2021.

**Vietnam's top export partners in Q1 2021**



Source: Vietnam's General Statistics Office

Imported volumes from China remains the highest with an import turnover of 23.8 billion USD in 2021 Q1, followed with South Korean, ASEAN, Japan, EU and Japan, respectively.

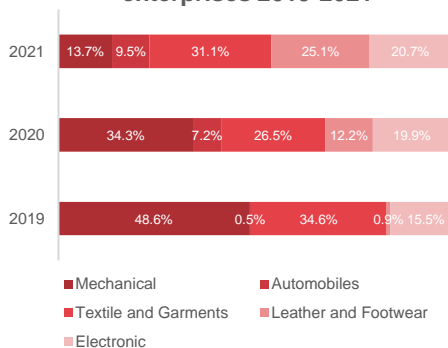
# Vietnam speeds up the development of supporting industries

The development of supporting industries (SI) is one of the most important strategies for an export-led economy like Vietnam to respond effectively to shortage of raw materials for the manufacturing sector and attract Foreign Direct Investment (FDI) in 2021.



Vietnam's manufacturing and processing industry, which always heavily depends on raw materials from overseas suppliers, especially in key industrial sectors such as electronics and textile, have faced tremendous difficulties in ensuring its supply amid the COVID-19 pandemic. Notably, while many firms involved in industrial production were concerned about the lack of orders, textile and garment businesses saw a surge in orders. Vietnamese textile and apparel enterprises already had orders until April 2021 and especially for items such as knitwear and popular goods, orders had been made until August 2021. If Vietnam will be able to capture this trend, the country will be ahead in the global supply chain after the COVID-19 crisis.

**Sector distribution between supporting industry enterprises 2019-2021**



Source: Web Portal of Supporting Industry of Vietnam

Last year, Vietnam set a target for supporting industry products to meet 70% of domestic demand, accounting for about 14% of industrial production value by 2030. Under this scenario, about 2000 enterprises will be capable of supplying directly to assemblers and multinational corporations in the country.

In 2021, Vietnam Industry Agency will team up with other agencies to attract investment to bolster global production chains, and capitalize on existing trade agreements. The ministry is also planning to conduct appropriate solutions to generate incentives with clear targets for businesses relating to raw materials, production plans, processing, markets and distribution. Besides, the establishment of two centers, which aim to facilitate industrial development and help supporting industries in northern and southern regions of Vietnam, will be carried out.



Moreover, the various Free Trade Agreements (FTAs) that Vietnam has signed in recent years, and the resulting flow of investment capital, provide numerous opportunities for the country's supporting industries as foreign investors have paid more attention to these. Additionally, Vietnam is considered an ideal destination for investors thanks to high trust in Vietnam's safety in the middle of the pandemic. The increasing FDI has somewhat solved the lacking investment capital problem of Vietnam's SI enterprises that are mostly medium- and small-sized, allowing them to expand production at more significant scale. Other existing limitations in terms of human resources, management and capacity are needed to be addressed as well to create breakthroughs in 2021.

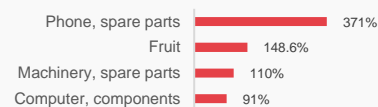
## UK-Vietnam Free Trade Agreement (UKVFTA) to take full effect in May

Even though already being temporarily implemented as of January the 1<sup>st</sup>, the UK-Vietnam Free Trade Agreement (UKVFTA) became officially effective from the 1<sup>st</sup> of May 2021.



As a result, goods imported into Vietnam from UK and the vice versa will be eligible for reduced tariff preference, which will surely boost trading activities between two long-term trading partners even further.

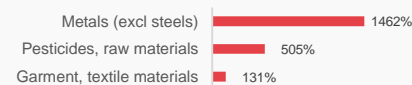
**Growth of Vietnam's export items to UK, Jan 2021 (YoY)**



Source: Nhan Dan Online - Central Organ of the Communist Party of Vietnam

Historically, Vietnam is considered by the UK government as a promising opportunity for UK exporters because of its potential to be one of the top 10 fastest growing economies in the next decade, having already surpassed Singapore to become Southeast Asia's fourth-largest economy in 2020.

**Growth of Vietnam's import items from UK, Jan 2021 (YoY)**



Source: Nhan Dan Online - Central Organ of the Communist Party of Vietnam

Moreover, the trade agreement that reduces technical barriers to the provision of services will highly encourage more foreign investment from the UK in different sectors such as professional services in engineering, architecture, IT, educational and financial services as well as renewable energy.



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### Shanghai Office

**Address:** Room 605, Bund Center,  
No.222 East Yan'an Road, Huangpu Dis-  
trict,  
Shanghai 200002, China  
中国上海市黄浦区延安东路222号外滩中心  
605室,  
邮编: 200002

**Tel:** +86-(0)-21-340-106-10

**Email:** shinfo@asiaperspective.net

### Zhongshan Office

**Address:** No. 23, Tongji West Road, Nantou  
Town, Zhongshan City, Guangdong Province,  
China 528427

**Tel:** +86 760 2251 8150

**Email:** zsinfo@asiaperspective.net

### Beijing Office

**Address:** 6 Jiuxianqiao Lu, Chaoyang District,  
Beijing 100096, China

**Tel:** +86-(0)-185 0048 6766

**Email:** beijinginfo@asiaperspective.net

### Yangon Office

**Address:** 2nd Floor, Urban Asia Center,  
(10/H) Mahabandoola Rd, Botahtaung  
Township, Yangon, Myanmar

**Tel:** +95-(0)-1243-33-77

**Email:** yginfo@asiaperspective.net

### Hong Kong Office

**Address:** Room 1002, 10/F., Golden Gate  
Commercial Building, 136-138 Austin  
Road, Tsimshatsui, Kowloon, Hong Kong

**Tel:** +85-(0)-227-399-698

**Email:** hkinfo@asiaperspective.net

### Stockholm Office

**Address:** Malmkillnadsgatan 32  
Stockholm, AB 111 51, Sweden

**Tel:** +46-(0)-70-769-92-07

**Email:** stockholminfo@asiaperspective.net

### Ho Chi Minh City Office

**Address:** Dreamplex, 62 Tran Quang Khai,  
Tan Dinh Ward, District 1,  
Ho Chi Minh City, Vietnam

**Tel:** +84-28-7301-3900

**Email:** vninfo@asiaperspective.net

### Helsinki Representatives

Johan Hackman:  
**Tel:** +358 400607378  
**Email:** johan.hackman@asiaperspective.net

Sami Lindstrom:  
**Tel:** +358 405774344  
**Email:** sami.lindstrom@asiaperspective.net