

Insights: Quarter 3, 2021

# Vietnam Economic Update Report

**This Issue:**

Vietnam's Economic Performance in Q3 2021

EU investment surged after a year of EU-Vietnam FTA

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# Vietnam's GDP slumped to 6.17% (YoY) in Q3 following COVID-19 curbs

**Vietnam's GDP growth slumped to 6.17% (YoY) in the third quarter of 2021, marking the first decline since 2000. The decline is attributed to stringent pandemic policies across key areas over the past few months, including business hub Ho Chi Minh City.**

According to the General Statistics Office of Vietnam (GSO), the country's GDP in the third quarter decreased by 6.17% (YoY) compared to the same period last year, this is the largest decrease since Vietnam first started to record and announce quarterly GDP in 2000. As a result of this major reduction, Vietnam's GDP only grew by 1.42% (YoY) in the first nine months of 2021, which is likely to affect the Vietnam's ability to reach their growth target this year. According to the forecast of the Ministry of Planning and Investment, the full-year growth of Vietnam could land on between 3.5% and 4%, far below the government's initial target of around 6.5%.

The outbreak has forced authorities to implement strict lockdowns in Vietnam's largest cities and provinces, including its business hub Ho Chi Minh City, and prompted companies to cease their production. As a result, the industry and construction sector dropped by 5.02%, while the service sector dropped by 9.28% in the third quarter.

## Exports and imports retained high growth rates in the first nine months

According to GSO, the total export and import turnover of Vietnam reached US\$483.17 billion in the first nine months of 2021, a YoY growth of 24.4%.

In the third quarter alone, export turnover reached US\$83.89 billion, up by 5.2% compared to the same period last year. This number increased by 7.2% compared to the second quarter, and 7% compared to the first quarter of 2021.



Source: Vietnam's Custom Statistics

In the first nine months, the US remained Vietnam's biggest export market, spending over US\$69 billion on Vietnamese products, a YoY rise of 27.6%. China came in second with US\$38.5 billion, up 18.3% YoY. The EU and ASEAN followed with US\$28.8 billion and US\$20.6 billion, up by 11.6% and 21.2%, respectively.

# EU investment in Vietnam surged after a year of EVFTA

After a year of implementing EVFTA – the EU-Vietnam Free Trade Agreement - Vietnam is witnessing a strong wave of investments from the EU. Despite the pandemic, EU investments in Vietnam rose by US\$483 million (YoY) in the first nine months of this year, to a total investment value of over US\$22 billion. Trade between the EU and Vietnam has also prospered ever since EVFTA took effect.

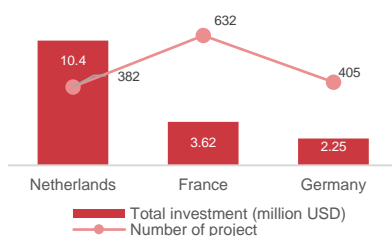


According to a report that the Government sent to the National Assembly in early October, trade exchange and direct investment capital that has been poured into Vietnam from EU countries has increased sharply after the EVFTA took effect August 1, 2020.

As of September 2021, the EU has a total of 2,242 investment projects flowing into Vietnam from 26 out of 27 member countries, an increase of 164 projects compared to the same period last year. The total registered capital of these projects reached US\$22.24 billion, accounting for 5.55% of total FDI in Vietnam.

The Netherlands is the leading country with 382 projects and a total capital of nearly US\$10.4 billion (accounting for over 46% of EU investment capital in Vietnam). France ranked second with US\$3.62 billion, followed by Germany with US\$2.25 billion.

Vietnam's top EU investors (as of September 2021)



Source: VnExpress, 2021

According to the government, EU's investment trend is still mainly focused on high-tech industries. However, investments have recently shifted towards service industries, clean energy, supporting industries, food processing, high-tech agriculture, and pharmaceuticals. FDI inflows from the EU into Vietnam in the medium to long-term is expected to keep increasing.

To welcome the wave of investments from EU members, many regions in Vietnam have been focusing on preparing clean land funds (vacant land managed by the government that is prepared for new project implementation). They are investing in infrastructure and developing a high-skilled labor force by organizing occupation and skills development training courses, mainly in the fields of agriculture, industry, and logistics. In addition, Vietnam's regions also focus on completing and implementing mechanisms and policies to encourage foreign investment and to simplify administrative procedures to create more favorable business environments.



After a year of implementing the EVFTA, trade between Vietnam and the EU has also prospered, despite difficulties and obstacles caused by the pandemic. During the year, total import and export turnover between Vietnam and the EU reached US\$54.6 billion, a YoY increase of nearly 12%. Comparably, Vietnam exported US\$38.5 billion to the EU, and imported US\$16.2 billion.

Vietnam's main export products to the EU are phones, computers, electronic products and components, shoes, textiles, garments, machinery, equipment and appliances, tools and spare parts, iron and steel products.

## Subsistence labor surged in Q3

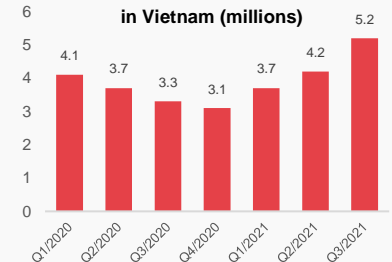
Subsistence labor is labor that produces products for individual and family use. The GSO has recently published a report on labor and employment in the third quarter of 2021. According to the report, there is notable data regarding the amount of subsistence labor. In addition, the unemployment rate far exceeded the usual 2% figure.



Subsistence labor is often characterized by a self-contained and non-profit nature, accompanied by low efficiency and low productivity. Therefore, this form of production is gradually narrowed when the economy and technology develop.

However, the number of self-employed workers in the third quarter of 2021 was 5.2 million people (a YoY increase of nearly 2 million people). Notably, this number reached the highest level in recent years, which shows that the prolonged Covid-19 pandemic has made a large number of workers encounter difficulties in their work and switched to self-sufficient jobs.

Number of subsistence labor in Vietnam (millions)

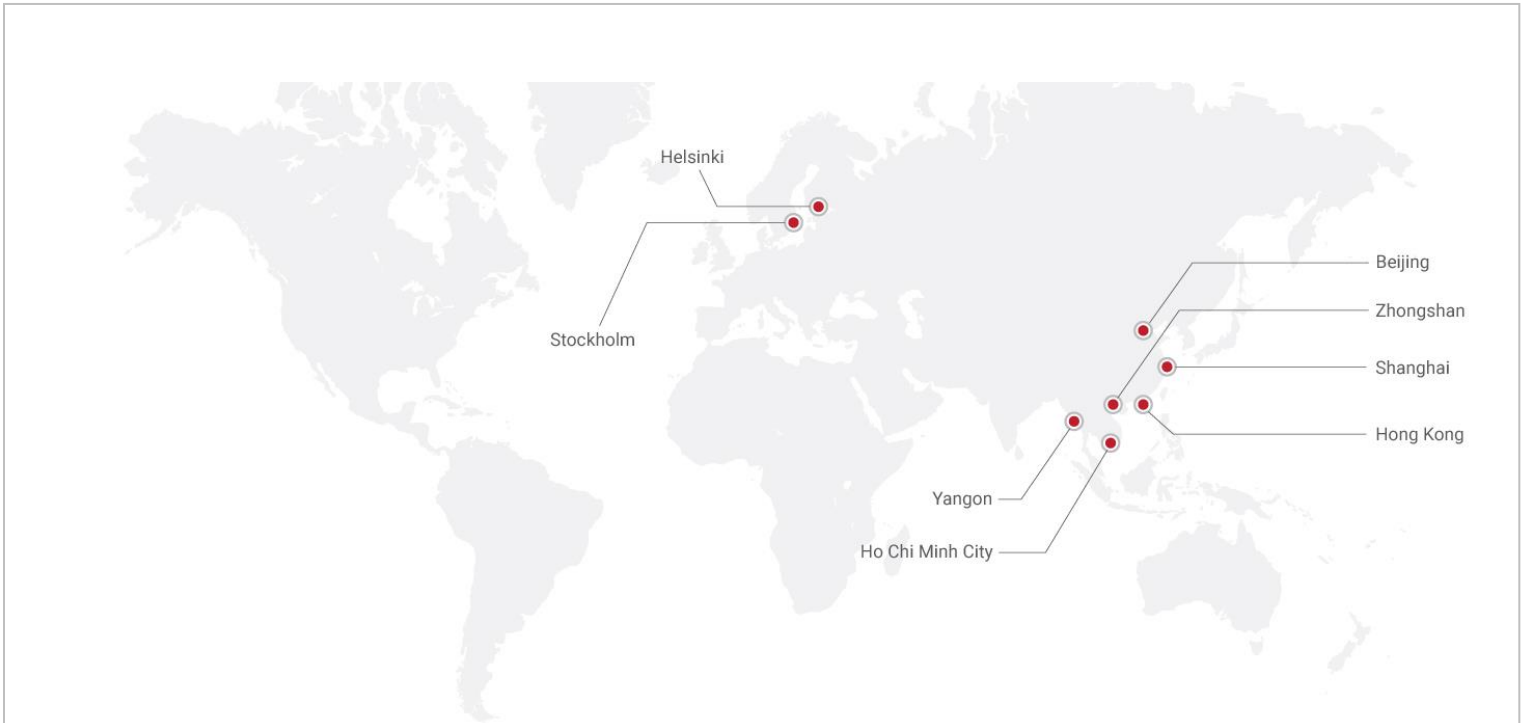


The complicated developments of the 4th wave of the pandemic, and the prolonged social distancing period in many regions, also pushed the unemployment rate in the third quarter of 2021 far beyond the usual 2% figure. The unemployment rate of the working age population in the third quarter was 3.98%, an increase of 1.36% compared to the previous quarter and an increase of 1.25% over the same period last year.



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