

Insights: Quarter 4, 2021

Vietnam Economic Update Report

This Issue:

Vietnam's Economic Performance in Q4 2021

Vietnam remains a key manufacturing hub for global brands

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Vietnam's GDP rebounded sharply in Q4 2021, as factory activities accelerated

Vietnam's GDP grew by 5.22% (YoY) in Q4, 2021, thanks to eased COVID-19 restrictions and the recovering of economic activities. A strong recovery was witnessed in all key sectors in the country. For the whole year, the country's GDP grew by 2.58% - a substantial result, given the severe impact that the pandemic had on the country during 2021.

According to the General Statistics Office of Vietnam (GSO), the country's GDP in the fourth quarter of 2021 rose by 5.22% (YoY), a significant recovery from the previous quarter's contraction of when 6.02% (YoY). In total, Vietnam's real GDP grew by 2.58% (YoY) during 2021, falling short of the initial target of 6.5% and down from 2.91% in 2020.

The industry and construction sector increased by 5.61% in Q4, contributing to 63.80% of the GDP growth for the entire year. Within the sectors, processing and manufacturing continued to be the key drivers to the GDP, with a growth rate of 6.37% (YoY), contributing 1,61 percentage points to the economy's growth overall.

The economic outlook for 2022 is promising, with the long-awaited return of the services and tourism industries. The government has set a target of 6-6.5% in GDP growth and 3,900 USD in GDP per capita for 2022, focusing on COVID-19 prevention and control, as well as economic recovery, to achieve this goal.

Exports and imports reached new record in 2021

According to the GSO, Vietnam's total export and import turnover in 2021 reached a record-high number of 668.5 billion USD, an increase by 22.6% (YoY), making Vietnam one of the top 20 international trade economies. Exports boasted an impressive growth of 18.9%.



Source: Vietnam's General Statistics Office

Vietnam's trade surplus for 2021 is 4 billion USD. The country has maintained a trade surplus for the sixth consecutive year, primarily with developed markets with high demand, such as the US (with a trade surplus of about 80.1 billion USD) and Europe (close to 23.2 billion USD).

Export volume of processed and industrial products increased, with processed products taking up 89.2% of the total export structure.

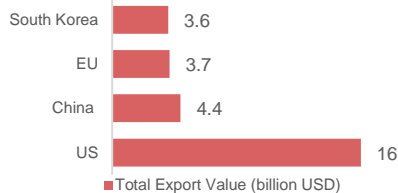
Vietnam remains a key manufacturing hub for global brands

After a prolonged halt in factory activities during June-September, the production surge during the last quarter of 2021 has helped Vietnam's garment and textile sector reach its export target of 39 billion USD, equivalent to 2019's result. Vietnam is still considered a key player in the supply chain of various global brands.

Relaxed COVID-19 policies from October have allowed businesses to reopen their factories and workers to return. The year-end exports of the textile and garment industry reached 39 billion USD, a near 12% increase from 2020.

The United States (US) has remained Vietnam's largest textile and garment export market. Vietnam exported 16 billion USD in product value to the US, a 12% rise YoY. Exports to the EU reaped a value of 3.7 billion USD, an increase of 14% (YoY).

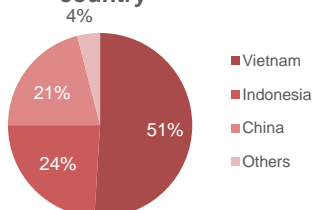
Vietnam's Largest Textile and Garment Export Markets 2021



Source: VITAS - Vietnam Textile and Apparel Association

Vietnam's textile and garment industry has gradually taken a more important role in the supply chain of several fashion giants. For instance, within footwear, NIKE and Adidas purchase from around 200 Vietnamese suppliers. According to Adidas' 2020 Annual Report, 42% of Adidas' total volume is sourced in Vietnam, making the country Adidas' largest sourcing country, followed by Indonesia with 29%, and China with 15%. Meanwhile, NIKE stated in its 2021 financial report that 51% of its sneakers were made in Vietnam, followed by China who holds 21% of the production volume.

NIKE's production volume by country



Source: NIKE's Financial Report 2021

Both companies maintained their supply chain operations in Vietnam even during the lockdowns. VITA, Vietnam Textile and Apparel Association, estimated that only 13-14% of total orders were moved to other production points during the lockdown period to be able to meet the delivery demands in November-December.

There are signs that orders are returning to Vietnam for 2022 across the industry. VITAS has developed three possible growth scenarios for the new year based on global trends. The most positive one results in an export turnover of up to 43.5 billion USD, and the lowest projection lands at 39 billion USD.



Vietnam currently ranks second on the list of global exporters of readymade garments, according to the latest figures from the World Trade Statistical Review 2021. However, Vietnam's textile and garment industry faces fierce rivalry from the rest of Asia. The country's main competitors – China, Bangladesh, Cambodia, and Pakistan, all have a more complete domestic supply chain than Vietnam. Furthermore, the labor costs at garment companies in Vietnam now reaches 26-30% of the total production costs, while Bangladesh, Cambodia, and Pakistan boast lower figures of around 20%. The competition is further complicated by the shortage of containers and the spike in logistics costs, as well as the unprecedented changes of market trends amid the pandemic.

The government has stepped in to support textile businesses in their recovery. It recently issued Decree No. 57/2021/ND-CP to provide tax incentives for industries operating with supply of raw materials, components, and spare parts. The Ministry of Industry and Trade (MoIT) is also offering supporting by facilitating the implementation of a development strategy for the garment, textile, and footwear sectors by 2030, as well as building a program on sustainable development for the sectors to be implemented until 2030.

Lego chose Vietnam for its first carbon-neutral plant

In December, Danish toymaker The Lego Group announced plans to build a manufacturing operation in Vietnam, signed through a Memorandum of Understanding with Vietnam Singapore Industrial Park Joint Venture Company Limited (VSIP).



Lego plans to invest over 1 billion USD into the project, capturing the growing demand for its products in Asia, where it has received double-digit growth since 2019.

This will be the toy giant's second factory in Asia, after opening its first plant in China in 2016, and its sixth manufacturing site in the world. The move would help expand its global supply chain footprint to better respond to shifts in consumer demands, shorten the supply chain, and reduce the environmental impact caused by long-distance shipping.

Construction for the factory will start in 2022, with plans to start production in 2024. The project is expected to create 4,000 new jobs over a period of 15 years.

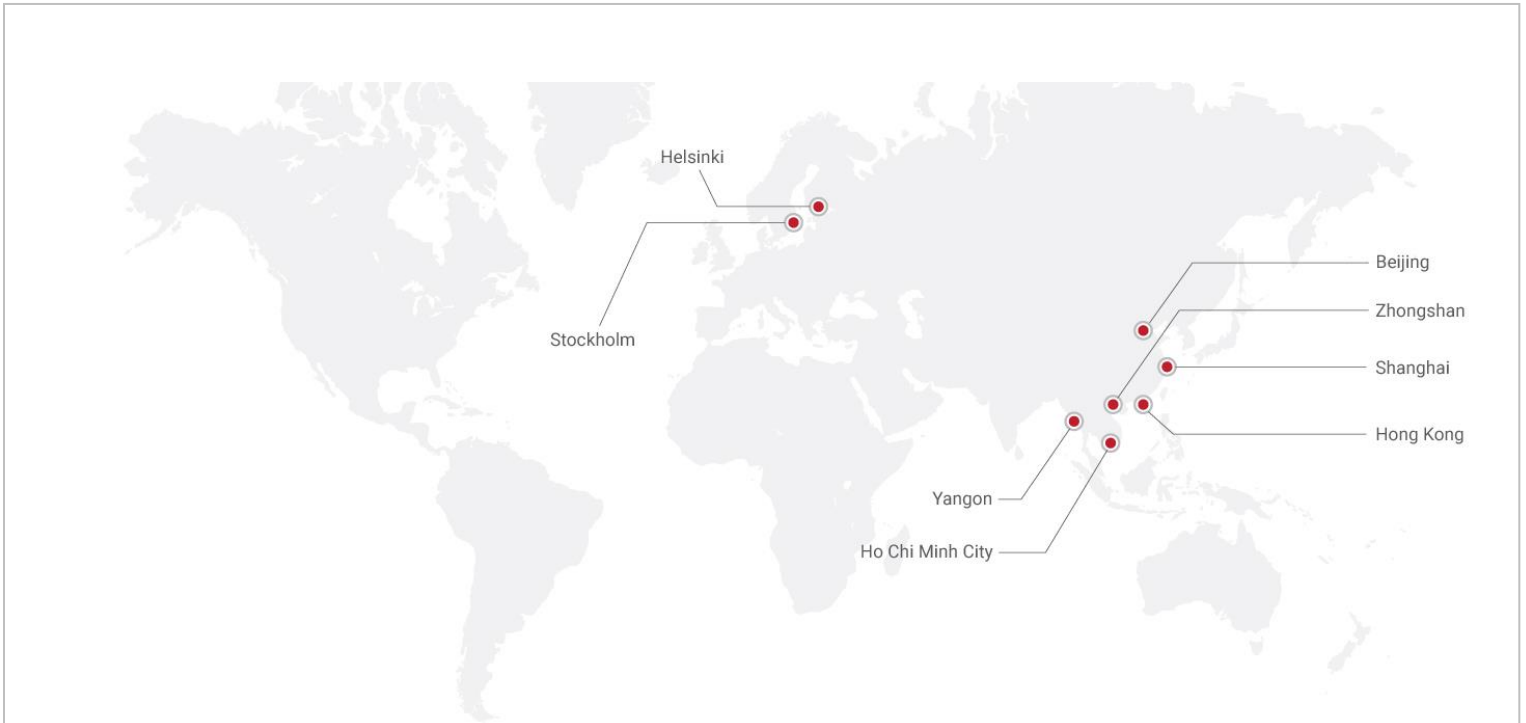
Solar panels will be installed on the factory's rooftop to generate electricity for its operations. Its building will meet the requirements to earn a LEED certification, a rating system for green buildings, and earn a gold rating which covers all areas of sustainability.

There are many factors that make Vietnam an appealing destination for supply chain expansion. The country boasts a favorable geographic location, low labor costs, strong governmental support, and multiple economic incentives, to name a few. Lego is not the first toy giant to open its factory in Vietnam. The country welcomed Japanese-based global toymaker, Namco Bandai, 14 years ago.



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Contact Asia Perspective

For full office postal addresses, please visit: <http://www.asiaperspective.com/contact-us/>

Shanghai

Tel: +86-(0)-21-340-106-10
shinfo@asiaperspective.com

Beijing

Tel: +86-(0)-185 0048 6766
beijinginfo@asiaperspective.com

Zhongshan

Tel: +86 18 826 002 703
zhinfo@asiaperspective.com

Ho Chi Minh City

Tel: +84-35 417 4913
vninfo@asiaperspective.com

Stockholm

Tel: +46-(0)-70-769-92-07
stockholminfo@asiaperspective.com

Helsinki Representatives

Johan Hackman
Tel: +358 400607378
johan.hackman@asiaperspective.com
Sami Lindstrom
Tel: +358 405774344
sami.lindstrom@asiaperspective.com