

Insights: Quarter 1, 2022

Vietnam Economic Update Report

This Issue:

Vietnam's GDP eased to 5.03% (YoY) growth in the first quarter of 2022

Factories in Northern Vietnam struggle with labor shortages

www.asiaperspective.com





Vietnam's GDP eased to 5.03% (YoY) growth in the first quarter of 2022

GDP growth of Vietnam slightly dipped to 5.03% (YoY) in Quarter 1 2022, slowing from the 5.2% growth registered the Q4, 2021. Nevertheless, the continued loosening of Covid-restrictions has aided economic activity in the quarter.

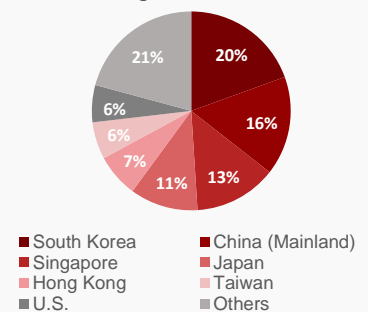
According to Vietnam General Statistics Office' report, the country's GDP in quarter 1, 2022, reached 93 billion USD. The growth rate of 5.2% is higher than the 4.72% of Q1 in 2021, and the 3.66% growth in Q1/2020. The manufacturing sector contributed the most to this quarter's GDP growth, with a 7.79% increase in the sector, equivalent to 2.05 percentage points added to the total growth rate of the economy. Industrial production experienced a 7.07% growth in the quarter.

In addition, retail sales of consumer goods also showed positive signs with a 4.4% growth YoY. The increase sales indicate that consumer's purchasing power is recovering. As the government deemed the Covid-19 situation to be under control, with 79.3% of the population vaccinated, and a death ratio declining to just 0.8% of total infections, the government's decided to lift almost all Covid-restrictions, which has helped the economy to rebound. Looking ahead, the economy is expected to grow at a far faster rate in 2022 than it did the previous year, as the loosened restrictions will help foster the increase in international tourism and trade.

Record-high foreign direct investment (FDI) demonstrates positive signs of economic growth

FDI in Vietnam in the first three months of 2022 was estimated to have reached a value of 4.42 billion USD, up 7.8% compared to the same period in 2021. This is the highest value of FDIs recorded in Q1 in 5 years, showing a rise in the Vietnamese market's attractiveness to foreign investors.

FDI projects in Vietnam by region in Q1/2022



Source: Vietnam's General Statistics Office

South Korea, China, and Singapore hold the greatest number of FDI projects in Vietnam during the quarter. Looking at industries, the manufacturing sector received 3.44 billion USD - accounting for 77.8% of the total realized FDI capital, followed by the real estate sector.

Factories in Northern Vietnam struggle with labor shortages

After the Lunar New Year 2022, businesses and workers in Vietnam's Northern provinces face difficulties in manufacturing due to labor shortages.



Labor shortage in the first quarter has been a recurring problem in many manufacturing enterprises in Vietnam for many years. The main reason is that during the Lunar New Year, workers return to their hometowns to celebrate Tet – the Vietnamese lunar new year - and decide to not return to find better jobs closer to home, most are workers with low level of skills who can easily leave their jobs. Moreover, there are plenty of factories in Vietnam in urgent need of workers, giving workers various options to choose from.

However, in 2022, the problem was aggravated by the surge in the number of COVID-19 cases. In February and March, daily COVID-19 infections climbed to record-high levels after the government shifted from a "zero-covid" strategy to a "living with COVID" strategy. In just seven days, from March 7th to March 14th, nearly 1.7 million COVID-19 cases were confirmed in Northern Vietnam, with the hotspots being Hanoi, Bac Giang, Vinh Phuc, Nam Dinh, Bac Ninh, and Nghe An, where a great number of factories are located. Workers who got infected during the Lunar New Year holiday postponed their return to the factories, and workers who caught the virus from colleagues had to stay at home, which caused a long production interruption in businesses during Q1/2022.

As reported by VnExpress, human resource director Nguyen Van Huy of the electronics manufacturer New Wing said that, during his 10-year long career, he has never

witnessed as bad labor shortages as it was in March 2022. More than 2,000 workers, or 10 percent of the workforce in the factory, were infected by the Omicron variant in February. As electronics and apparel industries work in a chain system, one person can easily affect the entire production team.



Businesses have been trying to attract workers using various methods. Some businesses have lowered their recruitment standards; Changshin Vietnam Co., Ltd. needs to recruit at least 1,000 unskilled workers, and the requirements have been so simplified that new workers only need to know how to read, write and have good health; all requirement on educational background, experience, or any other skills have been removed. Other employers try to retain and recruit more workers by adding more benefits such as salaries during the training period, monthly and quarterly bonuses, child support allowance, and the like.

The Government is also aware of the problem and actively trying to support businesses. At the end of March 2022, the Government issued a Decision to subsidize housing rents for workers, with a total amount of nearly 288 million USD, to encourage them to return to work. The subsidy will be handed via businesses to help attract workers back to the factories. This support is expected to help manufacturing enterprises quickly resume production.

Vietnamese factories are encouraged to have clear recruitment plans and reasonable production plans for the expected labor gap following the Lunar New Year, as the situation reoccurs annually. In addition, manufacturing enterprises should also look into reviewing their benefit packages to retain the workers and avoid disruptions.

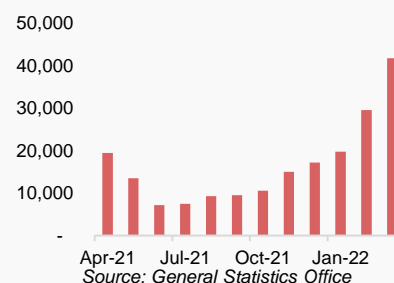
Vietnam tourism is predicted to have a positive development from 2022 onwards

Vietnam officially opened for international tourists on March 15, 2022. Now, international visitors do not have to quarantine and only need to submit a negative COVID-19 test upon arrival.



The reopening has shown many positive results for the tourism industry. The report by the General Statistics Office showed that in March 2022, the number of international visitors was 41,700, up 41.4% compared to February and 2.2 times higher than the same period in 2021.

Number of foreign tourists to Vietnam



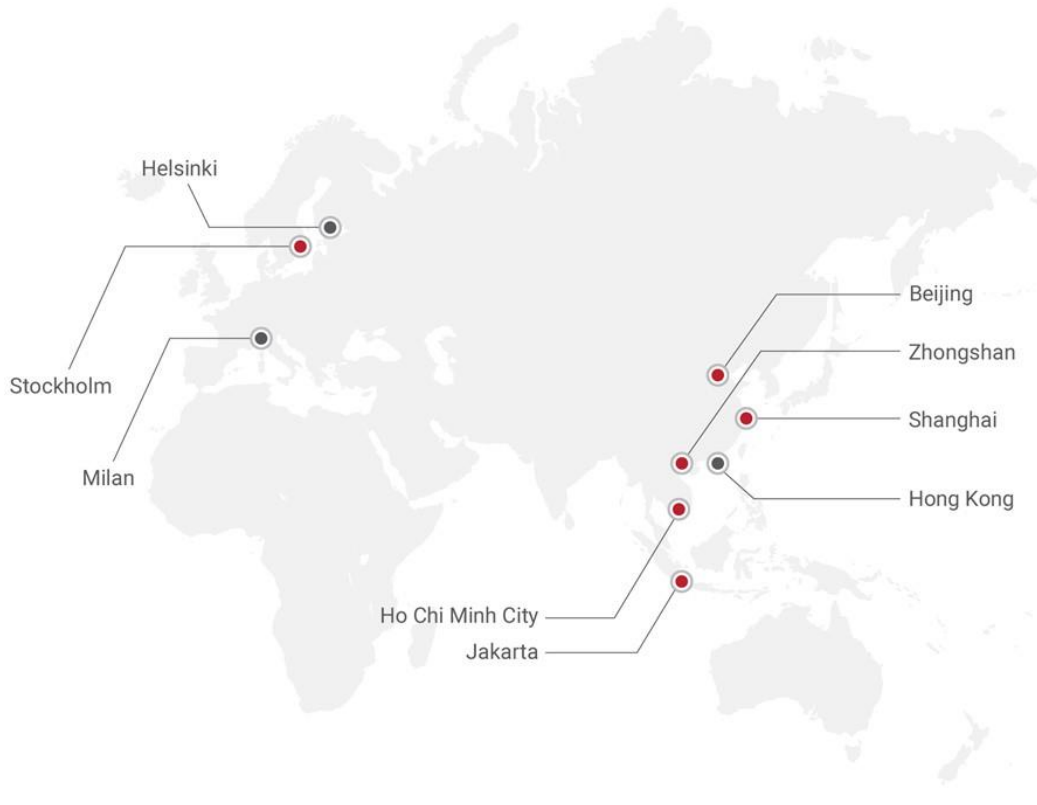
The Director-General of Vietnam National Administration of Tourism shared with the press that in 2022, the tourist industry's goal is to attract over 5 million international visitors and serve 60 million domestic tourists. Based on that, the total revenue from tourism aims to reach an ambitious number of 17.5 billion USD.

A series of tourism promotion programs are being planned and implemented from 2022 to reach the goal, most notably "Vietnam tourism development program for the period 2022-2026". Tourism businesses are expected to be able to access a 15 billion USD package to aid socio-economic recovery when Vietnam's tourism industry fully opens the domestic and international tourist market.



Asia Perspective is an independent management consultancy with global presence and local knowledge. We assist our clients with business advisory regarding analysis, strategy and implementation. Our mission is to turn our clients' Asia business vision into reality and add significant value to your business.

We offer specialist services covering purchasing, market entry, commodity strategy and financial advisory. This includes market research and forecasts, sourcing and pricing strategy, M&A advisory, risk assessment studies etc.



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

Hong Kong

Tel: +85-(0)-227-399-698
hkinfo@asiaperspective.com

Jakarta

jininfo@asiaperspective.com

Helsinki Representative

Johan Hackman
Tel: +358 400607378
johan.hackman@asiaperspective.com

Milan Representative

Luca Poggiaroni
Tel: +39 393 9113552
luca.poggiaroni@asiaperspective.com