

Insights: Quarter 2, 2022

Vietnam Economic Update Report

This Issue:

Vietnam's Economic Performance in Q2 2022
European FDI continue to grow despite global
uncertainties

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Vietnam's GDP grew 7.72% (YoY) in the second quarter of 2022, the highest rate for the same quarter since 2011. The significant growth was driven by accelerating manufacturing activity and a recovery in service output.

According to the Vietnam General Statistics Office (GSO), Vietnam's GDP faced a strong growth in Q2 2022, rising from the 5.05% growth in the first quarter of the year. At 7.72% (YoY), the growth was well above the consensus estimate of 5.9% (range 4.5-6.5%). According to the GSO, the latest figure is the highest growth rate for the April-June quarter since 2011.

The GDP for the first half of the year grew at 6.42% (YoY), higher than the recorded 2.04% growth in the same period in 2021. According to the GSO, Vietnam's growth this half year has been relatively high compared to other countries in the region and the world. Despite the promising numbers, the GSO still warns that the economy will face challenges for the remainder of the year, including soaring inflation and the ongoing global political instability. For the full year of 2022, the GDP growth is expected to land at around 6% to 6.5%.

The rebound in GDP growth can be largely attributed to a recovery in almost all industries following the easing of covid restrictions introduced at the beginning of the year. Most notably, the industry and construction sector and the service sector contributed significantly to the economy, growing by 8.87% and 8.56% and making up 46.85% and 48.59% respectively.

Exports and imports retained high growth rates

Vietnam's exports rose to US\$32.65 billion in June 2022, growing by 21% year-on-year and 8.7% compared to Q1 2022. Imports grew by 15.7%, landing at a value of US\$32.37 billion. Thus, Vietnam registered a trade surplus of US\$28 million, a significant change compared to the US\$56 million deficit in the same month 2021.

Vietnam's import-export (Jan-Jun 2022)



Source: General Statistics Office of Vietnam

For the first half of 2022, Vietnam's total merchandise exports and imports reached a surplus of US\$71 million, with exports increasing by 17.3% to US\$185.94 billion, and imports rising 15.5% to US\$185.23 billion.

The US remains Vietnam's largest export market, followed by China in second place. Export value amounted to US\$36.2 million and US\$17.9 million respectively in the first four months of the year.

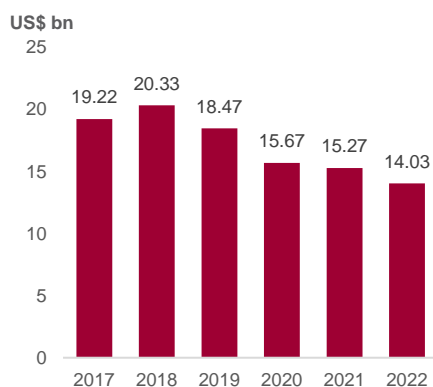
European FDI continue to grow despite global uncertainties

Global uncertainties characterize foreign investments in the first half of 2022 as FDI flows into the nation slips compared to the same period 2021. Nevertheless, European businesses' confidence in Vietnam's business environment remains strong.



Despite a promising first quarter of 2022, FDI flows to Vietnam dropped by 8.1% to US\$14.03 billion in the first half of the year. The processing and manufacturing industry registered the largest amount of investments. With investments at nearly US\$8.84 billion, the sector accounted for almost 63% of the total registered investments. The real estate sector came in second place with an investment capital of US\$3.15 billion, accounting for 22.5% of total investments. A total of 84 countries and regions had invested into the country during the period.

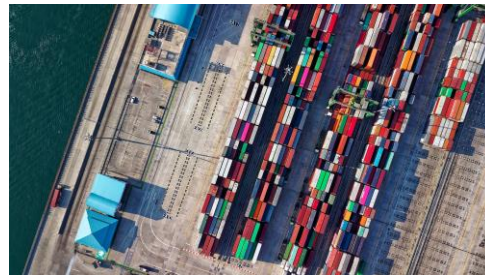
FDI in Vietnam for the first half year



Europe stands as one of Vietnam's key partners; authorities are putting increasing efforts to attract investments into the country, offering numerous investment and business opportunities for European businesses. Since the EU-Vietnam Free Trade Agreement (EVFTA) was first introduced in 2020, Vietnam has registered a significant growth in investment capital

and projects. Inflows from the region has helped launch development programs in infrastructure, agriculture, and in particular, projects fostering renewable energy projects. As of 2021, Ho Chi Minh City alone had 1 044 projects set up by European businesses, accounting for 12.18% of the city's total FDI.

However, despite the prosperous outlook, the second half of 2022 appears to be uncertain. According to the Business Climate Index (BCI) - the leading indicator of the European business and investment community in Vietnam - the BCI during Q2 2022 dropped to 68.8 points compared to the 73 points recorded in the previous quarter. Still, a rating above 50 points indicates a positive and optimistic outlook on the country's business environment.



Most insecurities are caused by factors beyond the Vietnamese government's control, including uncertainties following the war between Russia and Ukraine, soaring commodity prices, and supply chain disruptions mainly caused by China's zero-covid policy. Although the share of business leaders who believe the economy will stabilize in the third quarter has dropped, from 69% in 2021, to 60% in 2022, 76% still expect that their company will increase FDI into Vietnam before the end of the third quarter.

The numbers indicate that despite the growing uncertainties compared to previous years, European businesses' confidence in Vietnam's business environment remains positive and the country continues to be a promising destination for foreign businesses to invest in.

Increased focus on developing Vietnam's high-tech agriculture



Vietnam's agriculture industry plays a vital part in the country's economic development, contributing around 20% to the GDP. In recent years, production and trade in agricultural products have continued to grow, and even as the global economy was heavily affected by COVID-19 in 2020 and 2021, Vietnam's total food production reached nearly 44 million tonnes, not only to meet domestic demand, but also to serve exports. However, to enable international competitiveness and successfully boost the industry's exports, the country needs to increase focus and efforts on developing its high-tech agriculture.

Lâm Đồng, Vietnam's leading province in high-tech agriculture production and smart agricultural development, recently introduced new efforts to train a highly skilled workforce, expand international cooperation and attract foreign investments. Investments have mainly been directed at machinery, factory upgrades and HR training to meet international standards, which would also allow farmers to utilize beneficial incentives from the EVFTA.

Currently, high-tech agriculture covers around 21% of the cultivated area and the average production value of high-tech and smart agriculture accounts for 45% of the total production value of the farming industry, leaving plenty of room for growth. High-tech agriculture investments into the province has brought approximately 30-50% higher economic efficiency compared to conventional production.

Thus far, a total of 47 enterprises and 9 agricultural parks in Vietnam have received high-tech agricultural certificates.



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