Vietnam Economic Update Report

This Issue:
Vietnam’s Economic Growth in Q1
EU Finalizes EVFTA Ratification Process
Unsurprisingly, the coronavirus had a heavy impact on Vietnam’s economic growth as the outbreak hurt key industries such as tourism and retail. The GDP growth in the first quarter of 2020 slowed down to 3.82% (YoY), which is the lowest since the second quarter of 2009.

Vietnam’s Gross Domestic Product (GDP) rose with 3.82% during Q1 2020 (YoY), a major fall from 6.97% recorded in the last quarter of 2019. The growth rate was even lower than the worst-case scenario forecasted by the government, which was set to 4.52%. The moderate economic expansion was mainly driven by industry-construction and service sectors, of which manufacturing was the most significant contributor with an increase of 7.12% (YoY). As a first estimation, Asia Development Bank (ADB) forecasts Vietnam’s total 2020 GDP growth to 4.8%, and the inflation rate to around 3.4%.

During the first quarter, Vietnam’s merchandize export turnover was USD 59.08 billion, an increase of only 0.5% (YoY). The total import was USD 56.26 billion, decreasing by 1.9% (YoY).

Overall, the economy was hit heavily during the first quarter. In March alone, exports shrunk by 12.1% (YoY), while imports fell by 10.1%. Further, international visitors dropped by 63.8% in February and by 68.1% in March (YoY).
EU Finalizes EVFTA Ratification Process

In February 2020, the European Parliament voted in favor for the EU – Vietnam Free Trade Agreement (EVFTA). By the end of March, the European Council finalized the ratification of the agreement, completing all formalities from the European side.

EVFTA is an ambitious trade agreement between the EU and Vietnam, and the second FTA between a country in SEA and EU (Singapore being the first). When in full effect, it will phase out more than 99% of tariff lines and trade barriers between the EU and Vietnam. However, Vietnam commits to eliminate 65% of the tariffs on imports from EU right away, with the rest being phased out over a decade of implementation.

Share of top exports from the EU to Vietnam with immediate tariff removal first day of EVFTA
(by number of products in each category)

<table>
<thead>
<tr>
<th>Product Category</th>
<th>Current rate</th>
<th>Percentage of products with immediate tariff removal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Machinery, equipment &amp; parts</td>
<td>Current rate: 0 – 25%</td>
<td>79%</td>
</tr>
<tr>
<td>Pharmaceutical products</td>
<td>Current rate: 0 – 7%</td>
<td>76%</td>
</tr>
<tr>
<td>Chemical products</td>
<td>Current rate: 0 – 20%</td>
<td>63%</td>
</tr>
<tr>
<td>Other vehicles than cars &amp; parts</td>
<td>Current rate: 0 – 45%</td>
<td>19%</td>
</tr>
</tbody>
</table>


Likewise, 71% of EU duties on Vietnamese imports will immediately be eliminated, while the remaining tariffs is projected to be eliminated within a seven-year period. Current top export categories from Vietnam to the EU includes phone equipment and components, computer parts, footwear and apparel.

Share of top exports from Vietnam to the EU with immediate tariff removal on first day of EVFTA
(by number of products in each category)

<table>
<thead>
<tr>
<th>Product Category</th>
<th>Current rate</th>
<th>Percentage of products with immediate tariff removal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phone equipment &amp; components</td>
<td>Current rate: 0 – 14%</td>
<td>79%</td>
</tr>
<tr>
<td>Computers &amp; components</td>
<td>Current rate: 0 – 3%</td>
<td>100%</td>
</tr>
<tr>
<td>Footwear</td>
<td>Current rate: 0 – 17%</td>
<td>43%</td>
</tr>
<tr>
<td>Apparel</td>
<td>Current rate: 0 – 12%</td>
<td>43%</td>
</tr>
</tbody>
</table>

Source: EVFTA - Appendix 2-A-1: Tariff Schedule of Vietnam, European Commission

A major milestone in the agreements finalization took place in February 2020, when members of the European Parliament casted their votes on EVFTA to approve the agreement. Nearly two-thirds of the Parliament voted in favor of the EVFTA. A month later, on the 30th of March 2020, the European Council completed all procedures on the EU’s side and gave the final consent.

On Vietnam’s side the National Assembly (NA) Standing Committee has agreed with the proposal of the State President that the EVFTA will be submitted to the upcoming 9th NA session for approval. The final consent is expected to be in early May.

Presuming Vietnam accomplishes the formal procedures for agreement of the EVFTA in May, the agreement will be in effect after one month. Therefore, businesses should be prepared for the changes in terms of tariff lines and other trade requirements before July this year.

In addition to the reduction of trade duties between the EU and Vietnam, EVFTA also regulates non-tariff aspects, including services, government procurement, labor and intellectual property. For example, both parties will commit to ensuring the freedom to join independent trade unions and comply with UN conventions, such as combatting climate change and protecting biodiversity.

Electricity produced from renewable sources increased drastically in Q1 compared to same period last year

The total production and import of power were 57.29 billion kWh in Q1 2020, an increase by 6.3% (YoY), according to Vietnam Electricity – the largest power company in Vietnam.

However, some energy production sources in the national supply decreased, such as gas-fire thermopower and hydropower, declining 15.9% and 30.4% respectively.

In contrast, other energy sources expanded significantly. Renewable energy saw a massive growth, increasing by more than 28 times (YoY). Further, coal-fired thermopower grew by 21.3% and oil-fired power climbed from 0.02 to 1.02 billion kWh.

Electricity Production by Source in Q1 2019 and Q1 2020 (billion kWh)

Among the renewable energy sources, solar power is the most influential part, accounting for 84% of the total production of the green energy sector in Vietnam.
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