



ASIA PERSPECTIVE

Insights: Quarter 4, 2020

# Vietnam Economic Update Report

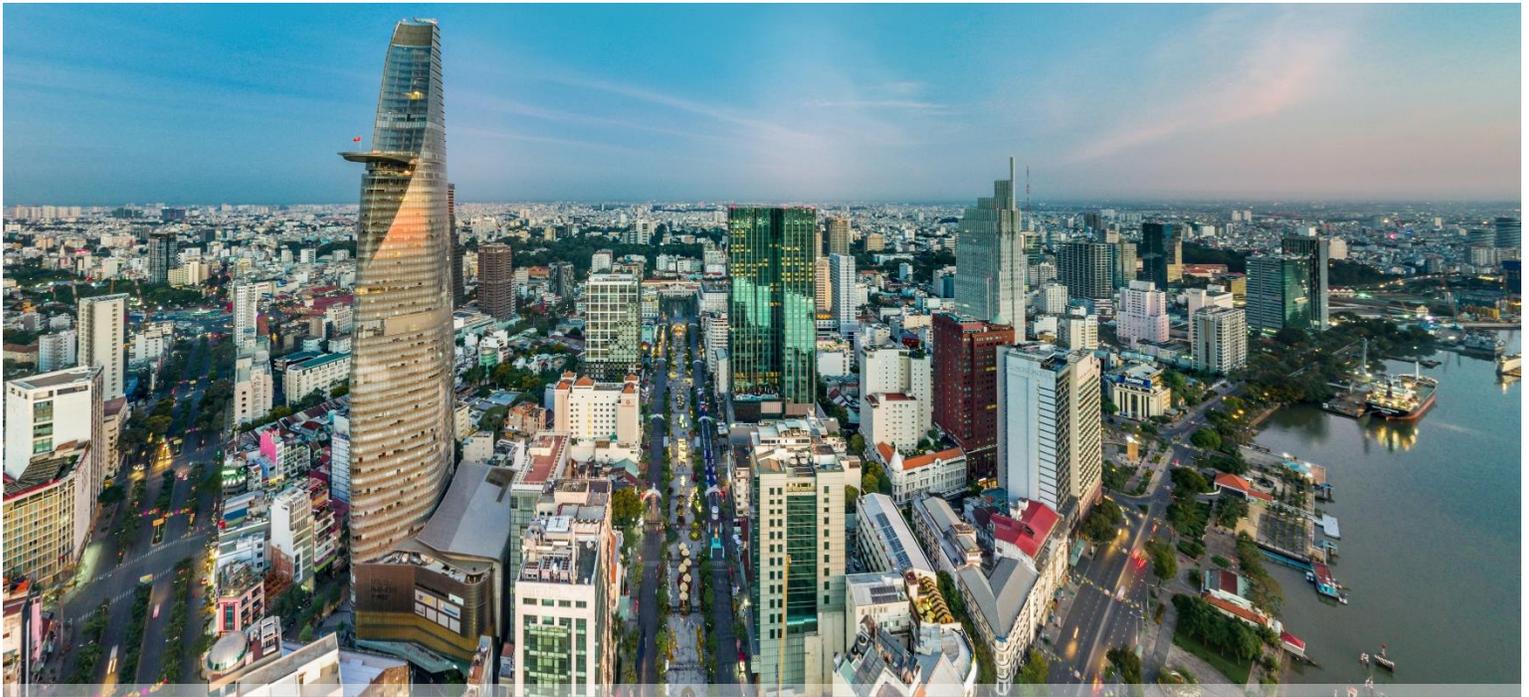
## **This Issue:**

Vietnam's Economic Growth in Q4

UK – Vietnam Free Trade Agreement

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# Vietnam's economy accelerated in Q4 thanks to recovering manufacturing

**With a drastic growth in manufacturing, Vietnam's GDP rose by 4.48% (YoY) in Q4 2020, resulting in an annual GDP growth of 2.91% – a remarkable economic achievement in a year affected by COVID-19.**

According to the General Statistics Office of Vietnam, the country's GDP accelerated by 4.48% between October and December, compared to the same period previous year. This is an acceleration from Q3, where Vietnam recorded a 2.69% growth (YoY). As a result, the GDP of 2020 as a whole grew by 2.91%, which is the lowest in the past decade, but nevertheless also making Vietnam the only country besides China in Asia to record a positive growth in 2020. The economic expansion in Q4 was majorly driven by the manufacturing sector which rose 8.63% compared to the year before.

As the spread of COVID-19 was effectively controlled in Vietnam, and the Free Trade Agreement with the European Union came into effect, Vietnam's manufacturing expanded by 5.82% in 2020 which led the way for the country's economic growth. Overall, the industrial sector's added value grew 4.8% from the previous year.

Merchandise export turnover in Q4 increased by 13.3% (YoY) and amounted to USD 78.9 billion. Imports expanded by 15.7% (YoY) to USD 76.4 billion. For the full year, exports grew 6.5% and imports gained 3.6% with a trade surplus of USD 19.1 billion – the highest value recorded since 2016.

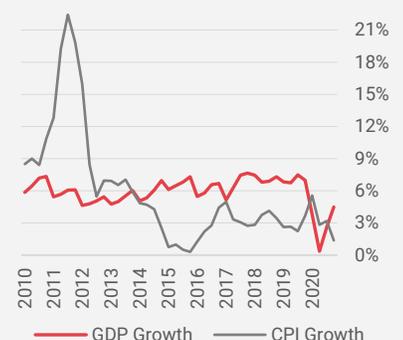
## Consumer's Confidence Recovered in Q4 2020

Vietnam's Consumer Confidence Index reached 121 in Q4 2020, indicating a recovery from Q2 when the same number was 117, which was the lowest number recorded since 2017.

Effective containment measures ensured the upturn of domestic consumer services, as well as domestic travel and tourism. As a result, total domestic retails and consumer services in Q4 were approximately USD 60.5 billion, increasing 6.4% from Q3 2020 and 8.0% YoY.

## GDP and CPI growths over the past ten years in Vietnam

Vietnam recorded an accelerating GDP growth of 4.48% in Q4 (YoY), while the CPI increased by 1.38% (YoY).



Source: General Statistics Office of Vietnam

# Vietnam signs Free Trade Agreement with the UK

On 29<sup>th</sup> of December 2020, Vietnam and the UK officially signed the UK – Vietnam Free Trade Agreement (UKVFTA). The UKVFTA came into effect on 31<sup>st</sup> December 2020. It is inheriting commitments from the EU – Vietnam Free Trade Agreement (EVFTA), but with necessary adjustments to ensure compliance with the bilateral trade framework between Vietnam and the UK.



Vietnam is currently the second largest Southeast Asian exporter to the UK, only behind Thailand, with a bilateral trade value of USD 6.7 billion in 2019. Between 2012 and 2019, the growth rate of Vietnam – UK bilateral import and export turnover increased by an average of 12.1% annually.

## Export and Import Value from Vietnam to the UK 2012 – 2019



Source: Trading Economics and Trending Economy Trade Data

The UK and Vietnam had been negotiating the agreement since August 2018. As the trade pact between the EU and Vietnam (EVFTA) does not apply to the UK, which finished the transition period to leave the European Union on 31<sup>st</sup> December 2020, the UKVFTA has taken effect since the following day.

Only two days after the signing of the agreement, more than 70% of Vietnamese exports and 65% of goods from the UK will enjoy tax reductions, with many subjected to a zero-percent tariff. After six years, more than 99% of goods traded between the two

countries will be liberated from all import duties.

Although the UKVFTA applies the same commitments to reducing import tariffs as the EVFTA, there are several new provisions on tariff-rate quotas and rules of origin.

The UK's tariff-rate quotas on 12 Vietnamese agricultural products, ethanol, and modified starches, are different from the EU's to align with the two parties' trade situation. In addition, due to the importance of the rice sector in Vietnam's economy, the countries will initiate a review of the tariff-rate quotas for Vietnamese rice after the date of entry into force of the UKVFTA.

As the UK left the European Union, the categorization of UK exports has been changed from "EU origin" to "UK origin". To reflect this, the definition and the administration of "originating products" in the EVFTA have been substituted by a new protocol, which explains the required working or processing of the products, in the UKVFTA.

Anticipating the potential impact of the UKVFTA on Vietnamese exports, the Vietnamese government focuses on five key categories:

- **Apparel:** This is a major export from Vietnam to the UK with a steady growth of 5-6% per annum. While China's apparel export to the UK is declining, the FTA will give Vietnam a competitive advantage compared to other emerging suppliers, such as Bangladesh, Cambodia and Pakistan.
- **Footwear:** Among the top exporters to the UK, Vietnamese footwear products had the second-highest import levies before the FTA.
- **Rice:** Vietnamese rice export to the UK grew 376% in 2019 from the year before and promises a significant expansion under the FTA's impact.
- **Wood and products from wood:** Vietnam is the sixth-largest exporter of wood and wooden products to the UK, accounting for 3.6% of all its import in the category.
- **Seafood:** The FTA reduces the tariffs and provides transparent commitments in ensuring quality for Vietnamese seafood exporters.

## Foreign Direct Investment in Vietnam grew during the last quarter of 2020



FDI in Vietnam grew by 1% (YoY) during Q4 2020. However, the total annual FDI declined by 2% from the year before.

While South Korea, Hongkong, and Singapore were the largest investors in 2019, China became Vietnam's third-largest investor in 2020, joining Singapore and South Korea in the top 3.

The manufacturing sector remained the most attractive for investors, accounting for 47.7% of the newly registered FDI in 2020.

### FDI in Vietnam 2014 – 2020



Source: Vietnam's Ministry of Planning and Investment

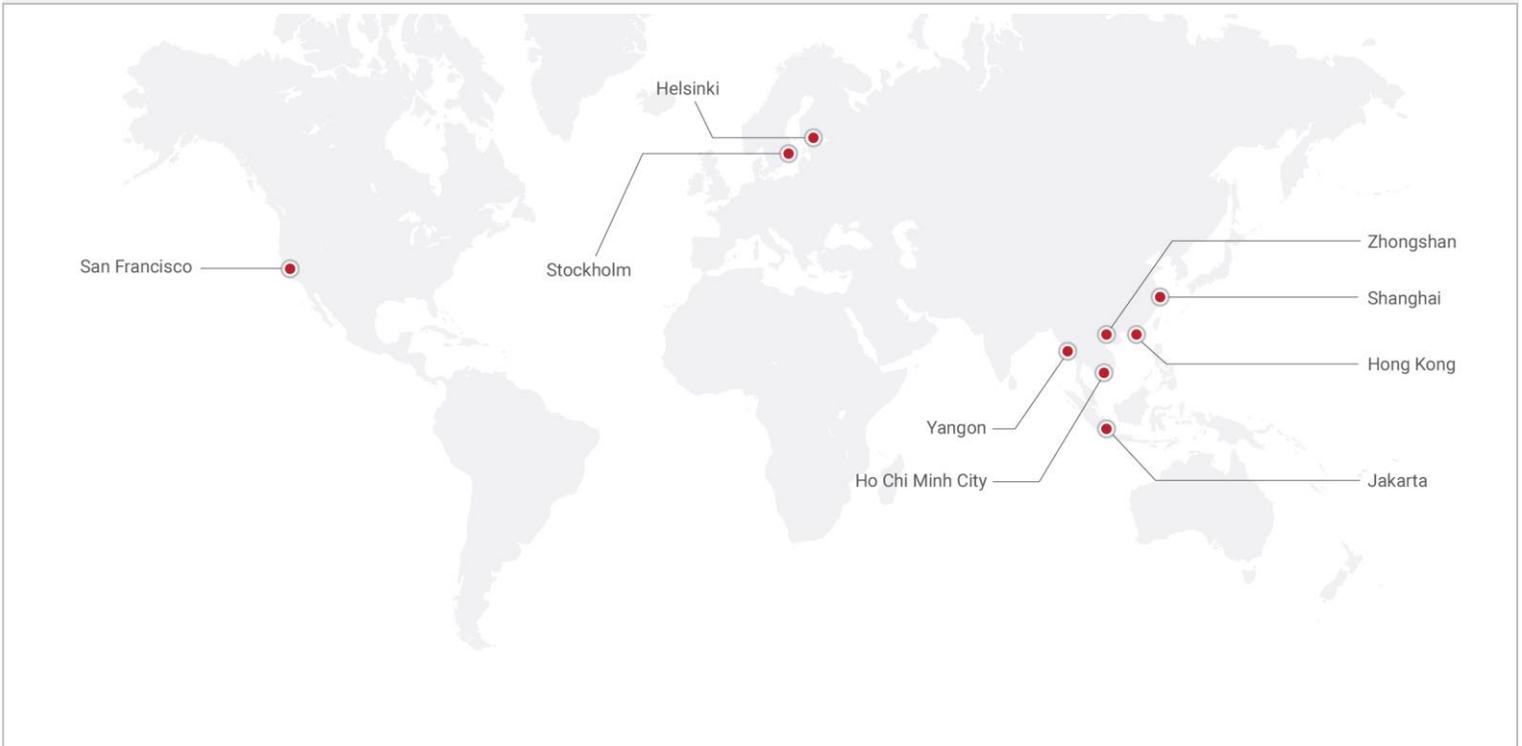
Due to the persisting trade tensions between the US and China, many international corporations have sought alternatives to diversify their supplies, and Vietnam appeared to be one of the best options. The country has seen an influx of FDI in manufacturing, especially for electronics. For instance, in November 2020, Foxconn – Apple's manufacturing partner – announced to move some of their iPad and MacBook assembly from China to its plant in Vietnam, which is to be operational during the first half of 2021.



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### Shanghai Office

**Address:** Room 605, Bund Center,  
No.222 East Yan'an Road, Huangpu Dis-  
trict,  
Shanghai 200002, China  
中国上海市黄浦区延安东路222号外滩中心  
605室,  
邮编: 200002

**Tel:** +86-(0)-21-340-106-10

**Email:** shinfo@asiaperspective.net

### Jakarta Office

**Address:** Menara Rajawali, Ground Floor, Jl.  
DR. Ide Anak Agung Gde Agung, RT.5/RW.2,  
Kuningan, Kuningan Tim., Jakarta, Daerah  
Khusus Ibukota Jakarta 12950, Indonesia

**Tel:** +62 (0)878 7286 8132

**Email:** jonas.elmnas@asiaperspective.net

### Stockholm Office

**Address:** Malmkillnadsgatan 32  
Stockholm, AB 111 51, Sweden

**Tel:** +46-(0)-70-769-92-07

**Email:** stockholminfo@asiaperspective.net

### Zhongshan Office

**Address:** No. 23, Tongji West Road, Nantou  
Town, Zhongshan City,  
Guangdong 528427, China

**Tel:** +86 18 826 002 703

**Email:** bobo.lin@asiaperspective.net

### Hong Kong Office

**Address:** Room 1002, 10/F., Golden Gate  
Commercial Building, 136-138 Austin  
Road, Tsimshatsui, Kowloon, Hong Kong

**Tel:** +85-(0)-227-399-698

**Email:** hkinfo@asiaperspective.net

### Yangon Office

**Address:** 2nd Floor, Urban Asia Center,  
(10/H) Mahabandoola Rd, Botahtaung  
Township, Yangon, Myanmar

**Tel:** +95-(0)-1243-33-77

**Email:** yginfo@asiaperspective.net

### Ho Chi Minh City Office

**Address:** The Hive District 1, 26 Huynh  
Khuong Ninh Street, Da Kao Ward, District 1,  
Ho Chi Minh City, Vietnam

**Tel:** +84-28-7301-3900

**Email:** vninfo@asiaperspective.net

### Helsinki Representatives

Johan Hackman:  
**Tel:** +358 400607378  
**Email:** johan.hackman@asiaperspective.net

Sami Lindstrom:  
**Tel:** +358 405774344  
**Email:** sami.lindstrom@asiaperspective.net