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Vietnam Economic Update Report

This Issue:

Vietnam's Economic Performance in Q4 2022

Vietnamese manufacturing faces multiple difficulties

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Vietnam's GDP rose by 8% in 2022, the highest in 11 years. However, relatively low growth in December and a slowdown in the manufacturing sector indicate challenges in 2023.

According to the General Statistics Office of Vietnam (GSO), the country's GDP in the fourth quarter of 2022 grew by 5.9%. This rate is higher than the 5% growth of Q1 in 2022 but lower than Q2/2022 (7.8%) and Q3/2022 (13.7%). Overall, Vietnam's 2022 GDP grew at a rate of 8% YoY, the highest since 2011. Despite the impressive annual growth rate, the quarterly growth is showing a slowing momentum by the end of the year.

The manufacturing sector's growth in Q4/2022 slowed to 3.6% compared to the 7.2% growth in Q1, 9.5% in Q2, and 11.1% in Q3. The main reason for this slowdown is the diminished global demand for the sector, especially from vital export markets such as China, the United States, and the European Union. Overall, despite the generally positive economic performance during the year, the slowdown in the manufacturing sector and the economy in general in Q4/2022 indicate that challenges can be expected in 2023.

The Asia Development Bank predicts that Vietnam's economy will grow by only 6.3% in the upcoming year, pointing to a bleak global economic outlook in 2023. Geopolitical instability, persistent inflation, and high interest rates will continue to reduce demands and increase the debt burden along with business costs for enterprises.

Vietnam's export surplus in goods grew greatly in 2022

Vietnam achieved an export surplus of US\$11.2 billion in 2022. This represents a growth of 174.5% compared to 2021.

The export turnover reached a 2022 peak of US\$97.1 billion in Q2 before declining steadily the remainder of the year, reaching US\$89.04 billion in Q4/2022.

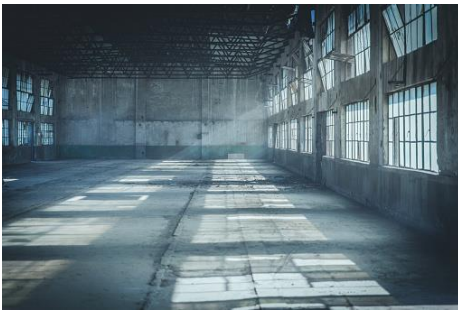


Source: Vietnam's General Statistics Office

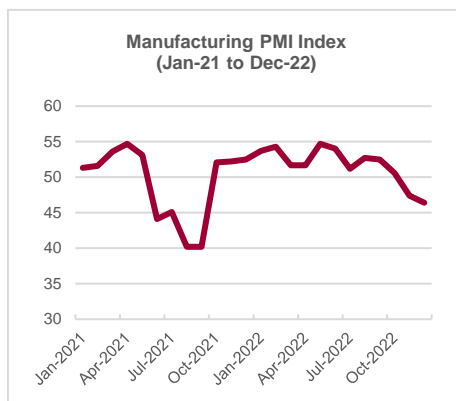
In 2022, the US remained Vietnam's largest export market with a total value of US\$109.1 billion, a 14% increase YoY. On the other hand, China maintained its position as Vietnam's largest import market with a total value of US\$119.3 billion, an 8.5% rise YoY.

Vietnamese manufacturing faces multiple difficulties

Despite rosy economic predictions at the beginning of 2022, many factory owners in Vietnam have expressed a bleak outlook as the year came to an end. With unstable geopolitical conditions, rising inflation, and increasing costs and interest rates, many factories have reduced their business expectations or ceased operation altogether. This development has also impacted factory employees and other workers.



According to S&P Global, Vietnam's Manufacturing Purchasing Managers' Index (PMI), an indicator demonstrating the general economic direction in the manufacturing sector, fell to 46.4 in December 2022. This is the most drastic fall since the 2021 COVID-19 lockdown.



Source: S&P Global

The problem with the sector arose in 2020 when many factories had to incur debts to stay afloat during the COVID-19 pandemic. However, with rising inflation in 2022, the State Bank of Vietnam (SBV) has raised the interest rate, making existing debts more expensive while also reducing new credit access for enterprises.

In addition, the Russia-Ukraine conflict has disrupted the global supply chain, increasing the costs of materials and fuel. The cost of labor has also gone up due to a 6% rise in the minimum wage that the Vietnamese Government implemented in July 2022 to help workers combat inflation.

Furthermore, the global economy's growth fell from 5.7% in 2021 to 2.9% in 2022, much lower than Vietnam's 8% growth rate. As a result, demand for Vietnamese export goods slumped. In the past, many enterprises could find new markets to compensate for the declining revenues in existing ones. However, the global nature of the current economic downturn has made this strategy unfeasible. Many factories have reported a reduction of 30-40%, or even 50%, in their export orders. Some factories have had to offer discounts of 30-40% or free delivery to attract buyers.



The fall in manufacturing activities has also increased unemployment among factory workers. According to an unofficial report of 44 labor associations in Vietnam, half a million employees have been impacted due to reduced working hours. About 42,000 workers have even lost their jobs. The slump in manufacturing jobs has spread to other sectors such as sales, customer service, and drivers among many others.

To alleviate this problem, the government has directed the SBV to raise credit limits for the national banking system by 1.5-2%, expanding credit access for enterprises. The easier access to credit is expected to compensate for the declining export market.

Vietnam's rise in high-tech manufacturing

In December 2022, the electronics giant Samsung opened Southeast Asia's largest research and development (R&D) center in Hanoi. This development shows Vietnam's increasingly capable tech manufacturing capacity and the fruits of the government's effort to attract foreign direct investments in the high-tech manufacturing sector.

The construction of such a major R&D center also demonstrates Vietnam's rising status in the global supply chain. Vietnam is now not only capable of producing electronics but also researching and generating innovations.



The R&D center, however, is not Samsung's only major investment in Vietnam. The company has also committed to mass producing semiconductor components in its factory in Thai Nguyen Province by July 2023.

Tech has become an area of fierce competition in a new cold war between the US and China, making it more politically challenging for many high-tech companies to remain in China. Vietnam, with its proximity to China, large population, cheap labor cost, and friendly relations with the US has emerged as an attractive alternative destination. In addition to Samsung, Vietnam has also attracted many other high-tech manufacturers. Apple and its supplier Foxconn and Luxshare have shifted the manufacturing of for example the Airpod and Macbook, from China to Vietnam.

Despite these positive developments, Vietnam still faces challenges from other manufacturing hubs like India, Brazil, and the Philippines. To become a leader in the sector, Vietnam should continue to offer bold policies in terms of taxes reduction and other incentives to attract more foreign enterprises while also increasing investments in education to improve the national technological skills.



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