

Vietnam Outlook 2022: Economic prospects in the wake of COVID-19

Vietnam finished 2021 with a 2.58% GDP growth rate, despite witnessing one of the harshest COVID lockdowns in the world during the second half of 2021. Yet, the nation is also one of the rare economies to post two consecutive years of growth since the start of COVID-19 globally.

Key question: Does this equate to a negative sign in the economy performance and outlook?

February 2022

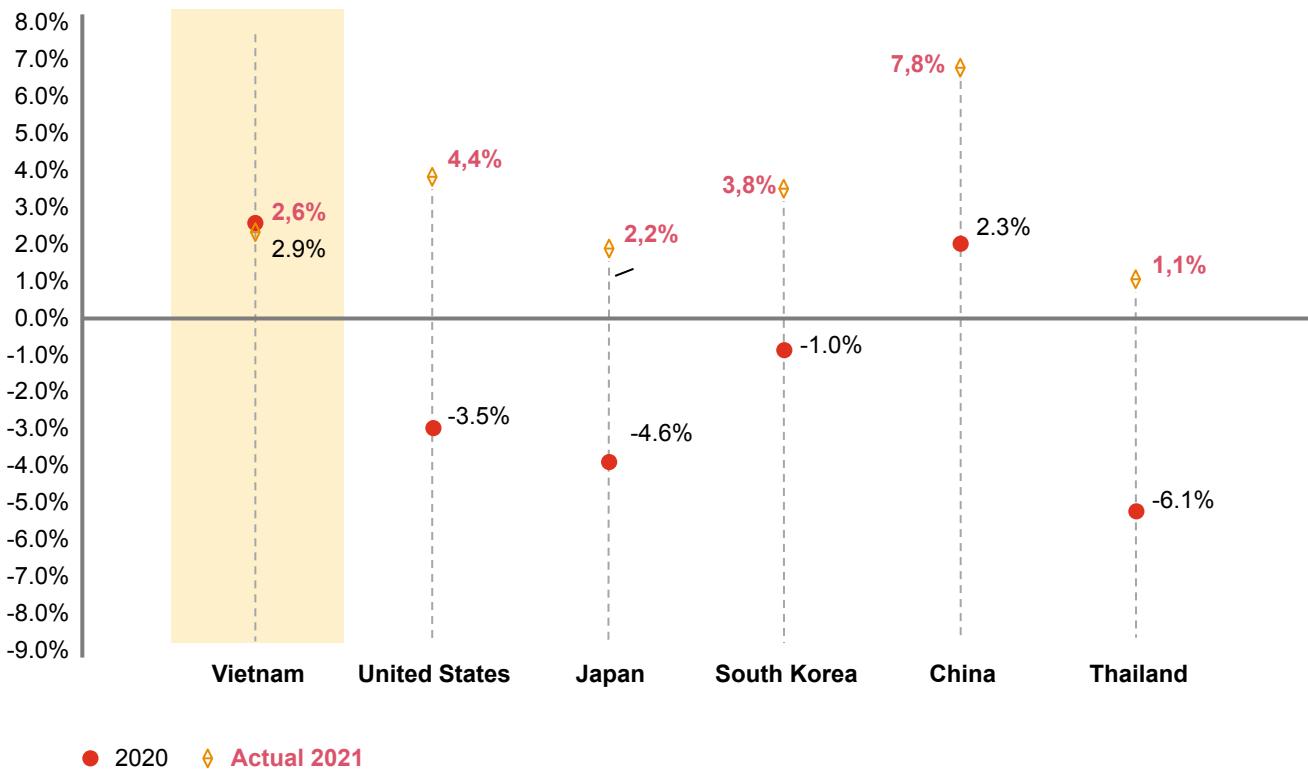
1. Vietnam's economy in K shape recovery

According to data released by the General Statistics Office (GSO), Vietnam recorded a 2.58% GDP growth rate - making it one of the very few countries with a 2021 growth rate lower than 2020. This is unsurprising, as the nation went through an extended lockdown in the second half of last year, causing serious economic ramifications. However, when considering both 2020 and 2021, Vietnam has been one of the only economies to record two consecutive years of growth since the start of this pandemic.

Graph 1: GDP growth 2020-21 of selected countries

Unit: percentage

Source: ADB, IMF, FitchRatings, PwC Research and Analysis



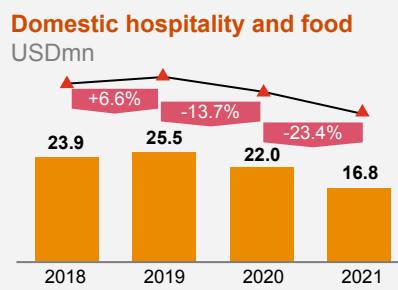
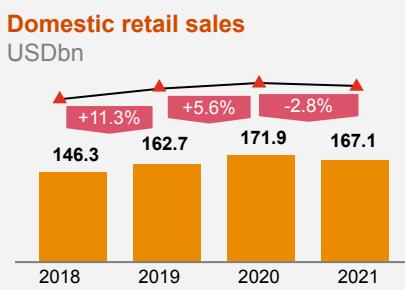
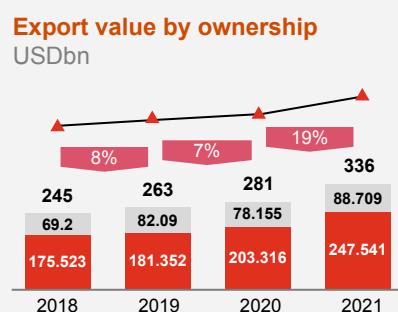
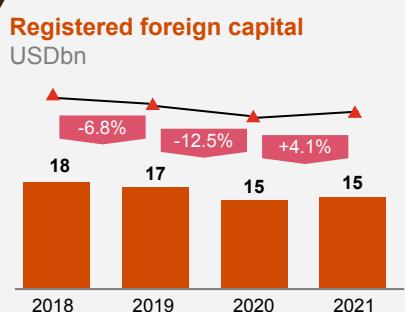
1. Vietnam's economy in K shape recovery (con't)

When considering both 2020 and 2021, Vietnam has been **one of the only economies to record two consecutive years of growth** since the start of this pandemic.

Of course, the GDP growth rate does not capture the actual impact of COVID-19. Vietnam has experienced what has often been referred to as a 'K-curve effect', meaning different industries have been impacted in different ways. For example, while tourism, hospitality, food services have been struck the hardest, export-based sectors for Vietnam have shown resilience over the past 2 years.

Graph 2: 'K-curve effect' in Vietnam

Source: FitchRatings, GSO, PwC Research



2. Building resilience through an export-based economy

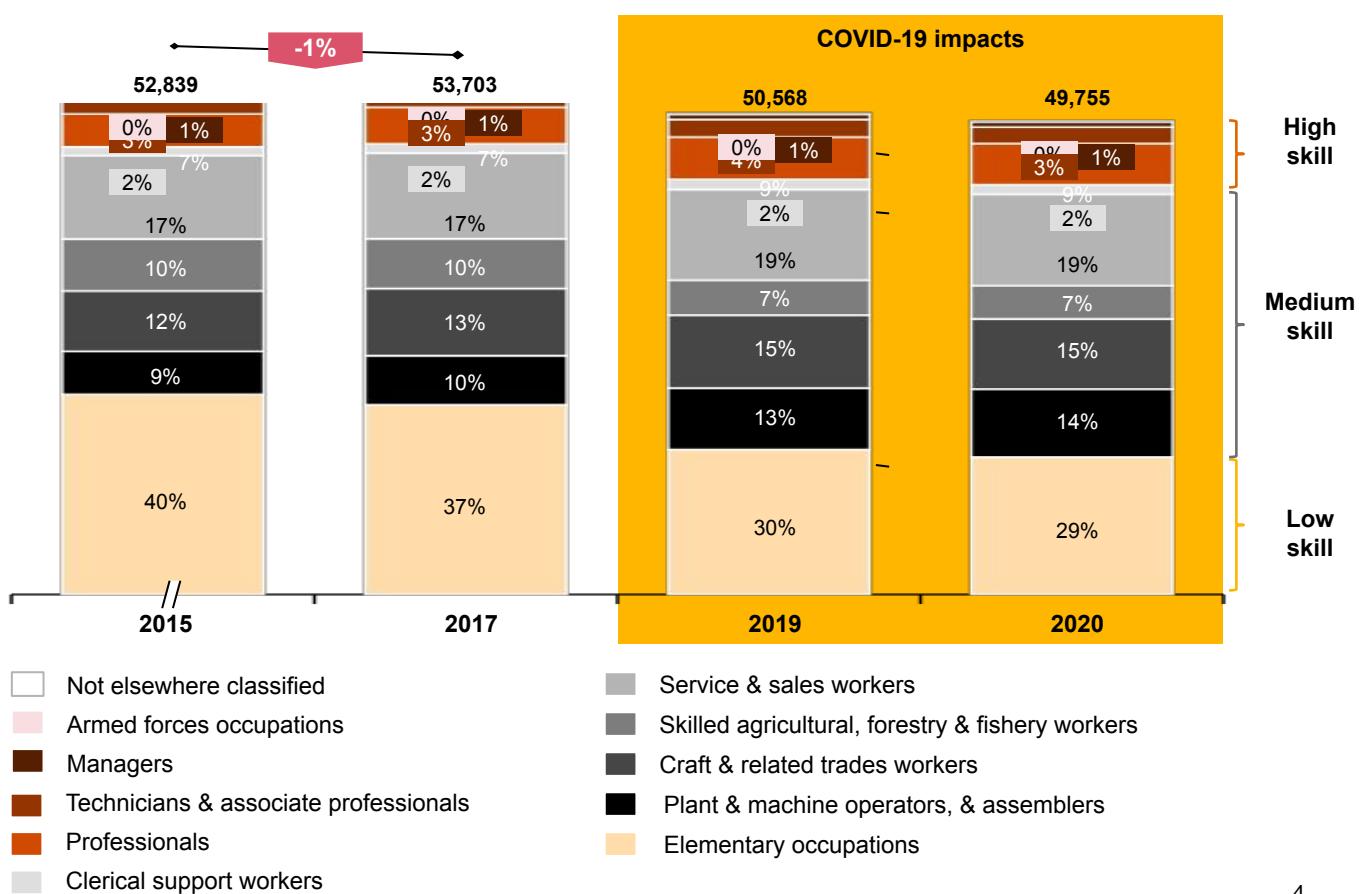
COVID-19 has reminded us of the fact that the country is an export-based economy, and Vietnam relies less so on tourism or hospitality. When comparing to neighbouring countries with a strong tourism sector, such as Thailand (-6% GDP growth in 2020), Philippines (-9.6%) or Cambodia (-3.1%), these countries have suffered substantial hits to their own GDP growth, while Vietnam was able to maintain positive growth during this time.

For an emerging economy like Vietnam, the K-curve is likely to also impact the broader population, potentially accelerating existing levels of inequality. For the first time in decades, food shortages had resurfaced in some parts of the country. This included certain districts in the more developed Ho Chi Minh City where households had to rely on humanitarian support to make it through the prolonged lockdown.

For a still-developing country, the hard stop of activities across a number of sectors put tremendous pressure on millions of low- to mid-skilled workers, who had to go through the pandemic outbreak with limited financial aid. Conversely, the emerging share of skilled workers in Vietnam benefited from fairly high job security during that period. In their latest Q4 2021 report, the International Labour Organisation (ILO) noted the widening gap in Vietnam between the minority of highly skilled office workers and the remaining population, due to one of the most difficult global crises in recent times.

Graph 3: Employment by occupation and skill level in Vietnam

Source: ILO, PwC Research & Analysis



2. Building resilience through an export-based economy (con't)

Vietnam remains a resilient economy as the country is expected to bounce back strongly in 2022 and **become the fastest-growing ASEAN economy, with GDP growth at 6.6%**, followed by Philippines (6.3%) and Malaysia (6%).

Source: International Monetary Fund (IMF)

Based on figures of 2021, the country is also on track to recover from COVID-19 in terms of total export value with 19% growth. Given the latest Regional Comprehensive Economic Partnership (RCEP) has come into effect on 1 January 2022, the trading relations with global markets will continue to be on the upward curve, allowing Vietnam to strengthen its growth in the region.



3. Vietnam is still an attractive investment destination

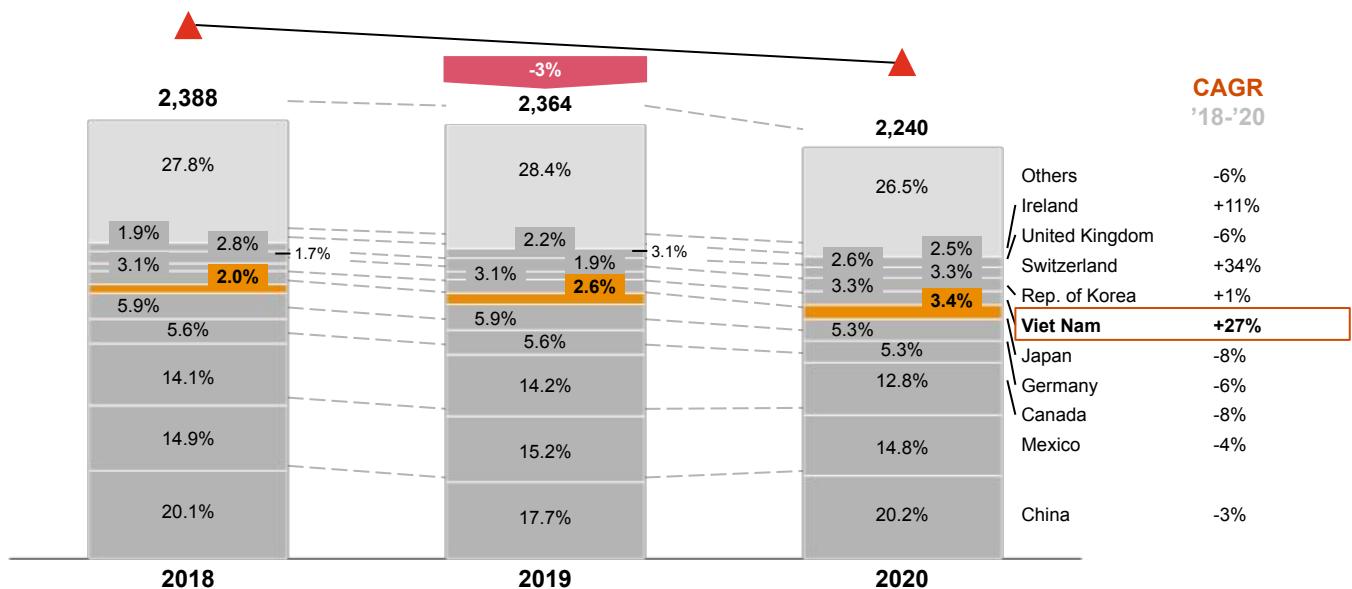
While COVID-19 has been the headline since late 2019, other recent profound economic shifts still warrant mention and consideration.

Vietnam has become the destination of multiple supply chain and manufacturing relocations, due to strong economic fundamentals and a favourable investment environment when compared with neighbouring markets. According to the Foreign Investment Agency (FIA), the country still recorded a total new, adjusted capital and share purchases by foreign investors reached 31.15 billion USD as of December 20 2021, up 9.2% annually.

Graph 4: Top suppliers of U.S. goods imports, 2018-2020

Unit: USDbn

Source: UNComtrade, PwC Research



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Source: Foreign Investment Agency (FIA)

Since 2019, Vietnam has continued to rise as an emerging manufacturing hub in the region, capturing the bulk of new manufacturing investments. Relocations from China, or from other parts of Southeast Asia, have driven growing FDI in recent years. This trend has been a key driver for strong economic performance during the COVID period. For instance, while the pandemic resulted in a slowdown of trade with the U.S which represents the largest exports market for the country, Vietnam exports have continued to grow and since 2019, Vietnam has significantly increased its market share within U.S imports.

4. Home to a favourable supply chain environment

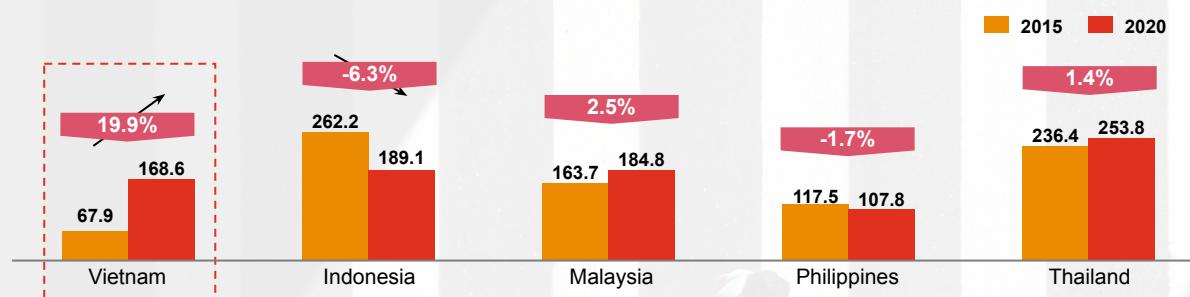
The capacity to build a robust and productive manufacturing ecosystem is one of the main reasons leading to Vietnam being one of the key winners in the supply chain relocation battle. This has included the means to build a network of industrial suppliers and providers to support large inbound manufacturers, as well as improving the country's power, road, and transport infrastructure.

Up until quite recently, Vietnam has chiefly been known for textile and garment manufacturing. However, in recent years, Vietnam has emerged as a leading hub for manufacturing of electronics in Southeast Asia (SEA).

Graph 5: Computer and electronics products gross value - selected SEA countries

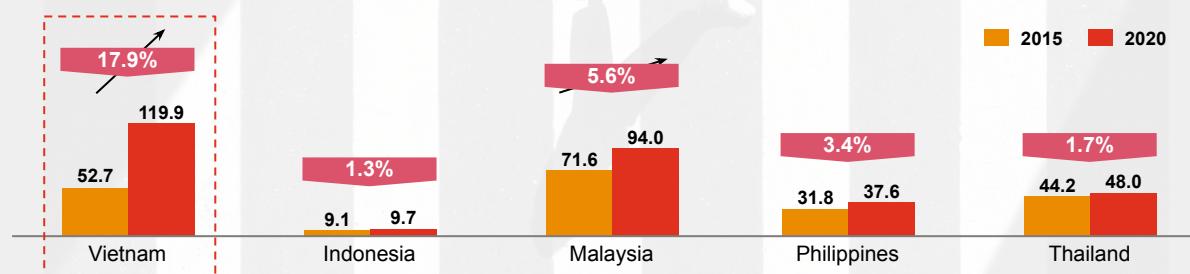
Unit: USDbn

Source: Oxford Economics, Trademap, PwC Research



Computer and electronics products export value - selected SEA countries

Unit: USDbn



4. Home to a favourable supply chain environment (con't)

Graph 6: Major relocation of US-export consumer electronics manufacturers happened since 2019

Source: PwC Research

Company	Factory	Est. year	Province	Area (ha)	Initial investment (USDmn)	Product	
						Components	Finished / Semi-finished products
Foxconn	Fuhong Precision	2007	Bac Giang	12.5	33	Cables, LCD screens, plastic components	Phones, headphone (wire), speakers
	Funing Precision	2007	Bac Ninh	6.2	N/A		
	Fushan	2011	Bac Ninh	70	N/A		
	New wing	2015	Bac Giang	283	N/A		
	Fuyu Precision	2020	Bac Giang	2.4	N/A		
Goertek	Goertek Vina	2013	Bac Ninh	27	N/A	Audio components	Flycam, headphone (wire & wireless)
	Goertek Vina 2	2019	Bac Ninh		260		
Luxshare	Luxshare Vietnam	2016	Bac Giang	22	N/A	Audio components	Headphone (wire & wireless) & Speaker
	Luxshare Nghe An	2019	Nghe An	20	70		
	Luxshare Van Trung	2019	Bac Giang	38	180		
Foster	Foster VN	2006	Binh Duong	1	3.5	Audio components	Headphones
	Foster Da Nang	2008	Da Nang	3	N/A		
	Foster Bac Ninh	2010	Bac Ninh	4	12		
	Foster Quang Ngai	2013	Quang Ngai	1	29		
Intel	Intel Products	2007	HCMC	4.6	1,000	Integrated circuits, processors	

4. Home to a favourable supply chain environment (con't)

Graphic 7: Many other plans of relocation in 2020 & 2021 have been delayed due to COVID-19

Source: PwC Research

Top player	Location	Investment (USDmn)	Product	Tentative commencement	Latest update
Foxconn	Bac Giang	270	iPad, Macbook	Jan 2021: Investment confirmation for a new plant (Fukang)	Postponed due to COVID outbreak until further notice
	Thanh Hoa	1,300	N/A	Feb 2021: Proposed location for a new 150ha plant	
Goertek	Nghe An	100	Headphone, VR headset	Jan 2021: Start construction for a new 29ha production plant	
Luxshare	Nghe An	N/A	Audio components	May 2020: Start construction new production plant Jan 2021: Announced plan for new R&D center	
Wistron	Ha Nam	273	Led screens, computer peripherals	Apr 2020: Invested in a new 23ha plant	
Pegatron	Hai Phong	19	Samsung stylus	Mar 2020: Investment confirmation for first production plant in VN	
	Hai Phong	481	Electrical components	Apr 2020: Proposing a second plant	
	N/A	500	N/A	Planning 3rd factory with R&D in 2025-2026	
Foxlink	N/A	N/A	N/A	Dec 2020: Registered new entity for component manufacturing activities	

This trend is expected to carry on for the next few years. Both the relocation of investment from other markets and the surge in foreign manufacturing investment will continue so long as there is overall strong fundamentals and an attractive investment environment.

Looking ahead, Vietnam is projected to grow at a noticeably higher pace in 2022. This optimism, in part, is due to the high vaccination rate which has allowed the nation to restore most of its economic activities in late 2021. As we enter the "living with COVID" endemic phase and short of the country tightening restrictions, Vietnam is well placed to realise its growth potential with businesses resuming operations and borders reopening progressively.

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