QNB Economics
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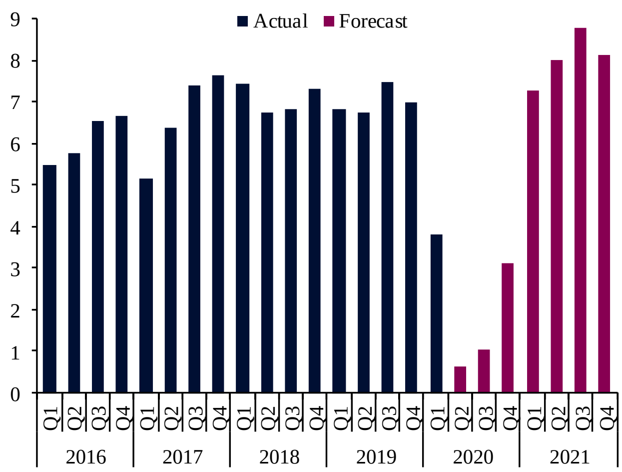
Vietnam remains an Ascending Dragon despite COVID-19

Vietnam is famously known as the land of the "Ascending Dragon" for its geographical shape. Its economy has seen broad-based growth and low inflation over the past few years, largely thanks to government reform efforts, fiscal restraint, and measures to strengthen the banking sector. Rising global trade tensions and volatility in emerging economies were felt in Vietnam during 2019. Nevertheless, Vietnam's economy is resilient.

Early and efficient border closures and rigorous contact tracing have allowed Vietnam to weather the COVID-19 pandemic better than other countries in Southeast Asia. Despite that, GDP growth has decelerated sharply in the first half of 2020 due to the impact of COVID-19 containment measures on both domestic and external demand.

We expect Vietnam's economy to rebound sooner and faster than most other countries for two main reasons (See Chart).

Quarterly GDP Growth
(% y-o-y)



Sources: Haver, GSOV and QNB analysis

First, Vietnam has already significantly relaxed its lockdown. Preventing widespread transmission of the virus allowed Vietnam to begin easing the lockdown in April. Businesses and schools have reopened and local transportation has resumed, including domestic flights.

Mobility data from both Apple and Google indicate that Vietnam is one of the few places in the world where activity has already recovered to more normal levels. However, people are expected to continue to practice social distancing for quite some time.

Second, the strengthening of supply-chains should benefit Vietnam. COVID-19 has demonstrated the vulnerability of just-in-time delivery and overly concentrated supply-chains. Vietnam's history of market-friendly reforms and a growing number of free-trade agreements have led outperformance at attracting FDI. Indeed, Vietnam is an obvious choice for companies considering where to locate, or relocate factories. We therefore expect Vietnam's economy to bounce back faster than most other countries in Southeast Asia.

Many large multinationals either already have operations in Vietnam, or are planning to invest in them. The most obvious example is Samsung, which is the single largest foreign investor in Vietnam, with reported investments of USD 17 billion. Most recently Samsung has already started construction of a $220 million research and development centre in Vietnam. Beyond that, press reports indicate that the likes of Google, Dell, Amazon, Apple and Nintendo are all currently making, or actively considering, investments. Vietnam's other major manufacturing success is in the clothing, footwear and apparel sector. For example, Japan's YKK Corporation, the world's largest zipper manufacturer, started operations at its second plant in late 2019 having invested US$60 million in the facility in Ha Nam province. YKK are joining major global brands, including Nike, Adidas, Uniqlo and H&M, that are already established in Vietnam.

We expect the slowdown in the first half of the year and a strong second half to result in GDP growth of around 2.1% for 2020 as a whole. While this would be Vietnam's lowest growth in decades, it is still expected to be much higher than most other countries.

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