

Vietnam maintains stable growth supported by export expansion

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Vietnam's real GDP growth was +7.7% YoY in Oct-Dec 2017 (Jul-Sep: +7.5% YoY), maintained high growth. It posted +6.8% YoY in full year of 2017, managed to achieve the government's annual target (+6.7% YoY). Looking at the full year growth by main industries, "Services" maintained solid growth of +7.4% YoY and "Manufacturing" accelerated to +14.4% YoY backed by strong exports (Meanwhile, "Mining" stood at -7.1% YoY).

Looking at exports by items, "Phones & Spare Parts" and "Computer & Electronic Components" showed solid increase (see chart 1). Looking at exports by capital sectors, "Foreign Invested Sector", which accounts for around 70% of total, led the overall growth. Behind the strong exports, there is an expansion of Foreign Direct Investment (FDI) in areas such as "Electronic and Electric" aiming to utilize relatively lower labor costs and geographical advantage of being located between China and ASEAN. FDI newly registered capital was USD 21.3 billion, jumped to +42.3% YoY in 2017 (see chart 2). Sectors receiving FDI range from "Electronic and Electric" to "Infrastructures" such as ports and industrial complexes and basic materials industry, such as petroleum refining and steel, expected to reinforce the industrial base in the future.

Going forward, the economy is expected to maintain stable growth supported by an increase in exports due to moderate expansion of global economy while domestic demand remains solid. In addition, expansion of trade and investments, as a result of joining the comprehensive economic partnerships such as ASEAN Economic Community (AEC), EU-Vietnam Free Trade Agreement (reached a final agreement at the end of 2015, to take effect in 2018), Trans-Pacific Partnership (TPP) agreement (eleven countries excluding US reached a rough agreement in November 2017), will also make a positive contribution to the growth in the mid- to long-term. In ASEAN, following the tariff elimination by the six founding member countries (see note) in 2010, the newer four member countries including Vietnam eliminated all tariffs in general in early 2018. However, the Vietnamese government has introduced new non-tariff measures such as rigorous inspection procedures towards importers while it abolished 30% import tariff on motor vehicles. Such movements could block the production shift to areas of strength in response to tariff elimination, and needs to be monitored.

Note: ASEAN-6, or six founding member countries, comprising Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore and Thailand. ASEAN's newer four member countries are Vietnam, Cambodia, Laos and Myanmar.

Chart 1: Vietnam's Export by Items

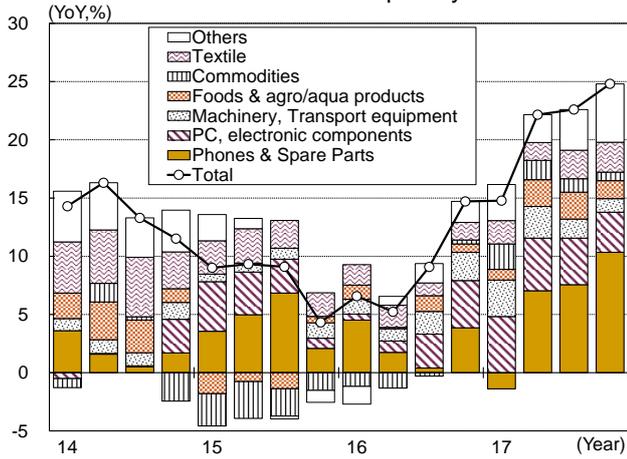
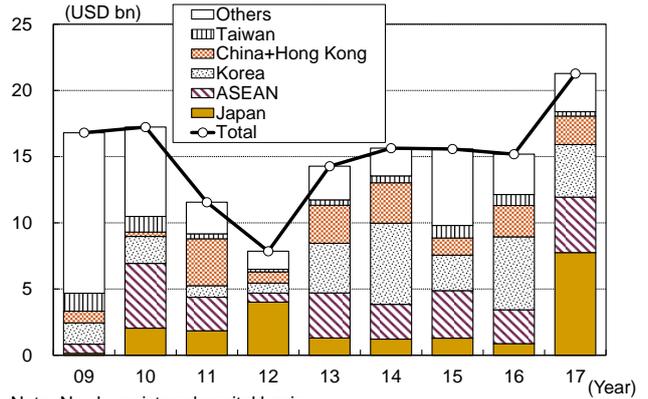


Chart 2: Vietnam Foreign Direct Investment (FDI)



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