

## Vietnam's economy maintains stable growth supported by export and investment expansion

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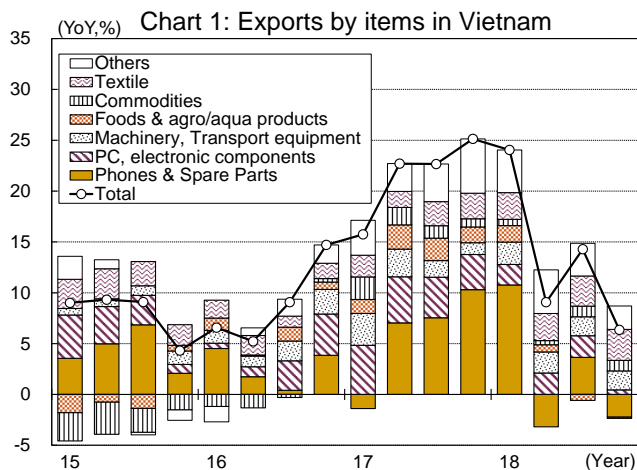
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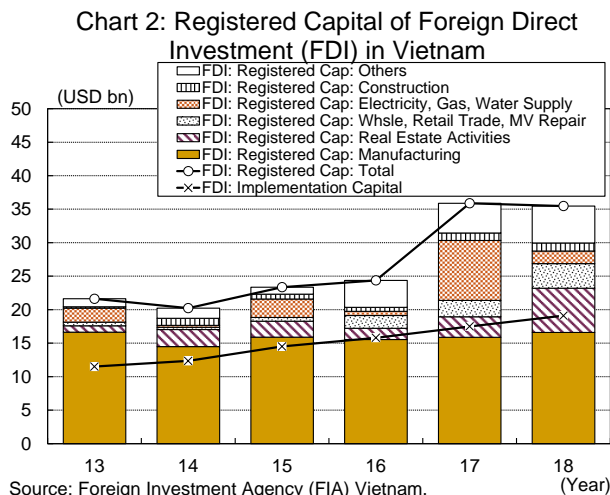
(ORIGINAL JAPANESE VERSION RELEASED ON 30 JANUARY 2019)

Vietnam's economy has maintained stable growth while in Asian economies decelerating trend has become slightly more distinct particularly in exports reflecting softening of production activities in manufacturing sector globally. Vietnam's real GDP growth accelerated to +7.3% YoY in Oct-Dec 2018 (Jul-Sep: +6.8% YoY), bringing growth in full year of 2018 to +7.1% YoY, exceeding the government's target (+6.7% YoY) and logging the highest level since 2007. Looking at real GDP growth in full year by main industries, "Construction" accelerated to +9.2% YoY, "Service" remained firm at +7.0% YoY, and "Manufacturing", which supports exports, recorded +13.0% YoY. Looking at exports by items, while a pace of expansion in growth of "Phones and Spare Parts" decelerated due to a reactionary decline to high levels recorded in the previous year, "Textiles, Garments and Footwear" and "Machinery" remained firm (see chart 1). On the back of firm exports, there have been factors such as relatively lower labor costs and an expansion of Foreign Direct Investment (FDI), trying to leverage Vietnam's geographic advantage of being centrally positioned in ASEAN and bordering South China region. In fact, FDI Registered Capital in 2018 maintained an increasing trend in main sectors such as "Manufacturing" (see chart 2. Note, however, that the total amount of FDI Registered Capital was USD35.5 billion, -1.2% YoY, slightly declining due to a reactionary drop in "Electricity" from the previous year where several large-scale investments were made).

Going forward, the economy is expected to maintain stable growth as Vietnam is seen as one of the places most benefit from the prolonged US-China trade conflict as production and investment alternative to China. An expansion of trade and investment associated with joining region-wide economic partnerships such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP, took effect on 14 January 2019) and Vietnam-EU Free Trade Agreement (FTA, scheduled to come into effect in autumn 2019) will also make positive contribution to the growth in the medium-to-long-term. Nevertheless, Vietnam ranked 69th among 190 economies in the World Bank's Ease of Doing Business Ranking (2019), down from 68th in the previous year, and ranked 141th among 186 economies in the Heritage Foundation's Index of Economic Freedom (2018), the lowest among ASEAN member countries, despite the gradual tariff elimination and easing of restrictions on foreign investment so far. Reducing non-tariff measures such as requiring importers to submit a certificate from the authority of exporting country and enhancing transparency in business environment through state-owned enterprises (SOEs) reform have been discussed as issues, and promoting reform in such areas will be essential to further strengthen industrial infrastructure through an expansion of private investment.



Source: General Statistics Office of Vietnam, MUFG Bank Economic Research Office



Source: Foreign Investment Agency (FIA) Vietnam, MUFG Bank Economic Research Office

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