

Can Vietnam take advantage of US-China conflict to stimulate economic growth?

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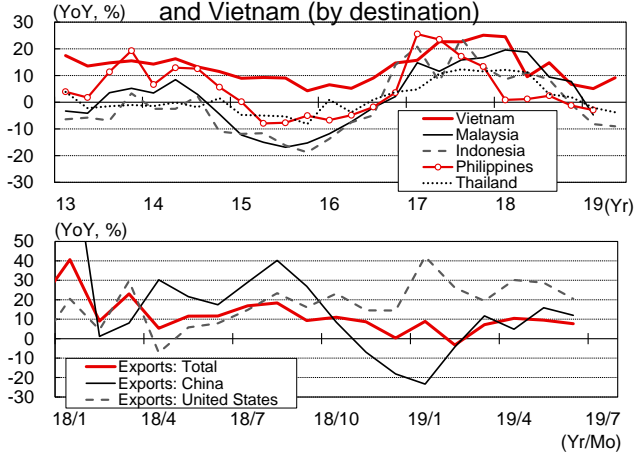
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The Vietnamese economy is continuing to expand steadily. Real GDP growth rate was +6.8% YoY in Jan-Jun, the same growth rate as Jan-Mar (+6.8% YoY), and remained firm. The breakdown by industry shows that growth of “Agriculture, Forestry and Fishery” decelerated while growth of “Service” accelerated and “Manufacturing” also maintained solid growth. Looking at exports where many countries recorded negative growth on a YoY basis recently, Vietnam maintained positive growth for the last two quarters (see chart 1).

On the back of solid growth of exports, it can be pointed out that strong export to the US with substantial growth of +20-30% YoY is one of the contributing factors, in addition to the trade structure which “Textiles and Footwear” accounts for approximately 25% of total exports and is insusceptible to the current sluggishness in automotive and semiconductor sectors. It appears that the export substitution effect (where exporters to the US change exporting countries/regions from China to neighbouring countries such as Vietnam in order to avoid additional tariffs imposed on Chinese products by the US) is boosting the strong export to the US. Looking at US imports from Vietnam by item based on US statistics, growth of “Electric Machinery” substantially accelerated since January 2019 and accounted for more than 30% of total imports in Jan-May (cumulative total, in value terms) (see chart 2).

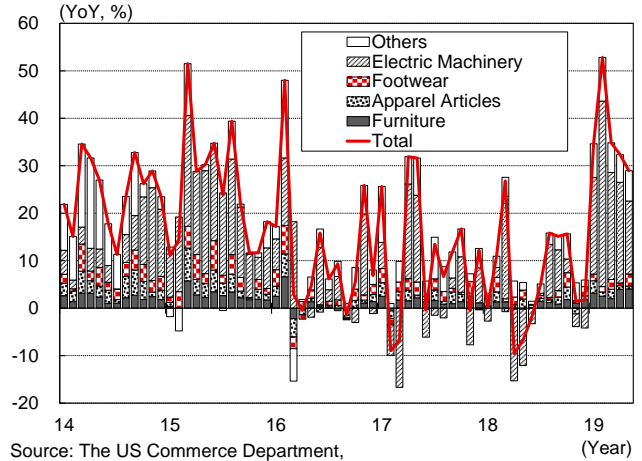
The firmness of the Vietnamese economy is also supported by solid external demand, and it is a likely scenario that changes in global supply chains will favour the interest of Vietnam and boost the economic growth, considering that there have been cases where manufacturers moved the production base from China to Vietnam as a result of an intensifying US-China trade conflict, and the implementation of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) has started. However, it is important to keep in mind that Vietnam, among other countries, has been included in the US Treasury’s currency monitoring list in the report on macroeconomic and foreign exchange policies of major trading partners released in May when the US reviewed the criteria of trading partners and expanded the number of countries subject to scrutiny, hence it is still unpredictable whether Vietnam will be able to enjoy the benefits associated with US-China trade conflict in the future. It is likely that Vietnam’s labor-intensive industries such as textile will be exposed to global competition with countries with lower labor cost in the mid-to-long term and it can be said that the country is facing a crucial moment if it can take advantage of these opportunities to upgrade its industrial structures and stimulate its economic growth.

Chart 1: Exports of main ASEAN countries and Vietnam (by destination)



Source: Individual country statistics, MUFG Bank Economic Research Office

Chart 2: US Imports from Vietnam (by item)



Source: The US Commerce Department, MUFG Bank Economic Research Office

(Translated by Makiko Stokes)

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