

Insights from Kenneth Atkinson OBE

Enter the Dragon

A Dragon in Chinese culture is a mythical, auspicious, and supreme being/creature. In Chinese mythology, Dragons have great power to control wind and rain, soar through the skies, and turn over rivers and seas, as well as bringing prosperity to the world.

Being a believed benefit to farming in an agricultural society, dragons are considered mighty mascots, communicating between heaven, earth, and humans to bring good weather and hence plentiful harvests and/or a boom in wealth.

First a reflection on the year of the Cat – in Vietnam.

Over the past 30 years, Vietnam's economy has grown at an average of 6.8% per year; the second fastest growing economy in the world during this time, after China¹.

Whilst GDP growth fell below the initial targets of 6 to 6.5% for 2023 a figure of 5.05% was quite respectable, especially considering the challenges being faced by our major export markets, China, USA and Europe. The US probably had the most significant impact due to the historically high inventory level at the end of 2022, in an effort to avoid the supply chain issues experienced during and as a result of COVID. As destocking took place and as inventory levels reduced to more normal levels orders for our traditional exports started to pick up and exports ended the year just 6.5% below 2022 levels. With export turnover of USD683.0 billion, Vietnam still achieved a trade surplus of USD28.0 billion. One must not overlook the weakness in the PMI (Purchasing Managers Index) which only exceeded 50% in one of the 12 months of 2023.

However, the really bright spot was Foreign Direct Investment which reached a record figure of US\$ 36.6 billion and disbursed capital of US\$ 23.18 also a record figure.

The other key growth drivers were domestic consumption (with consumer spending growing at over 9%) and government spending particularly on infrastructure which will support the continued growth in FDI and the movement of goods.

Inflation was contained at 3.25% well below the figure of 4.5% set by the National assembly at the beginning of the year.

The Vietnamese Dong came under pressure in the last 6 months in 2023, partly because of the SBV's policy to reduce interest rates but performed better than other emerging market countries.

GDP per capita rose the almost US\$ 4300.

On the geopolitical front one of the most significant events was the upgrading of the strategic partnership between Vietnam and the USA, to the highest level. This was signed in a visit by President Biden and followed shortly after by a visit from President Xi Jin Ping showing the growing importance of Vietnam in the international arena.

Economic growth in 2024 will be driven by export resilience, sustained FDI and measures to boost domestic spending. The Government has laid out 2 scenarios for growth in 2024 ranging from 6.1% to 6.5%.

Regarding key tasks for Government for 2024, Minister Dung of MPI said Vietnam will focus on speeding up disbursement of public investment. It is expected that 95 percent of the disbursement workload will be implemented in 2024. In addition, five regional plans are expected to be submitted for approval in the first quarter this year. MPI have also announced

¹ Southeast Asia's Pursuit of the Emerging Market's Growth Crown, Bain & Co (2022)

that it will accelerate the reform of administration procedures related to land, construction, fire prevention, environment and customs. This will inevitably lead to further growth in FDI

I believe that we will see a rebound in exports starting from Q2 2024, also reflecting the growth in FDI, which will be bringing new manufacturing facilities. This growth may not be uniform and some sectors will be slower to pick up than others.

FDI will continue to grow as companies look to reduce supply chain and political risks and I would expect to see similar levels to 2023 with a shift in focus to towards more value added manufacturing, particularly in the chip and semi-conductor sector. Vietnam still offers good value to companies looking to shift supply chain. There will need to be a focus on training the required resources for this shift to value added manufacturing but organisations like FPT have already started training programs in preparation for this shift. Interesting statistics show that the growth in chip and semi conductor manufacturing globally is expected to grow from US\$ 550 billion last year to US\$ 990 billion by 2030.

Also of interest, when looking at a growth in better trained resources is the fact that SE Asia ranks third in the world for outbound international students with over 350,000 students, after China and India, and Vietnam with over 130,000 ranked number 1². Vietnam is also one of the countries seeing a significant shift in the K 12 sector with new international curricula supplementing local education systems and better preparing students for future international study. In 2021/2022 only 550,000 places were available for new enrolments at Vietnamese universities, for 795,000 applicants - a shortfall of almost 250,000 places.³ This will encourage the growth of Private Universities and a higher focus on technical training.

Industrial property will continue to see strong demand and generally the real estate sector will be spurred by regulatory changes and removal of bottlenecks although commercial and residential will be slower to rebound depending on the speed the Government can act to remove bottlenecks.

With the likely decreasing interest rate scenarios globally in 2024 this should result in a more stable VND to US\$ exchange rate.

There will certainly be a continued rebound in the Tourism sector although the visa policy is still not conducive to retirement travel, and MICE travel and even focused on Visa exemption for our stated target inbound markets, In spite of this we can expect to see a return to the levels of 2019 with over 18 million foreign visitors and domestic travel of over 100 million. The industry will gradually be forced to look at more green growth initiatives including recycling and non single use plastics.

Consumer demand is expected to continue its growth trajectory benefiting from demand for essential goods and health products. We can also expect to see more of a move to on line shopping.

However, we have to take into account that shipping costs pose a threat to recovery in the traditional exports of garments furniture and footwear because of the Red sea issues and a rise in consumer demand and an increase in electricity prices could pressure inflation.

Overall I continue to be optimistic and still believe the next 10-15 years will be golden years for Vietnam because of the demographics so let the dragon roar!

² Acumen SE Asia 24.

³ Ministry of Education and Training