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Vietnam’s economy to recover in the second half of this year

Singapore’s United Overseas Bank (UOB) anticipates continued economic recovery for Vietnam in the second half of this year, based on strong performance in the first half. Vietnam's economy began the year robustly, with GDP growth of 5.66% in Q1 2024, following 6.72% in Q4 2023 and 5.33% in Q3 2023. This represents the highest first-quarter growth since 2020, surpassing the 3.41% increase in Q1 2023.

The first-quarter growth was driven by a recovery in manufacturing and services and a rebound in external trade, marking the fastest trade recovery since 2021. The Purchasing Managers’ Index (PMI) reached 50.3 in May, indicating expansion for the second consecutive month. Industrial production grew by 8.9% year-on-year in May, sustaining growth for the third consecutive month in 2024.

Exports saw a 15.8% year-on-year increase in May, up from 10.6% in April, while imports grew by 29.9% year-on-year in May, up from 19.9% in April. Year-to-date, exports rose by 16% and imports by 18.6%, reversing the negative trend from the same period in 2023. The trade surplus stood at $8 billion from January to May, down from $9.8 billion last year.

Foreign direct investment (FDI) increased by 7.8% year-on-year to $8.3 billion in May, the fastest growth in the first five months since 2018, following a record $23.2 billion in 2023. Domestic activities also improved, with May retail sales up by 8.7% year-on-year, driven by the restaurant, hospitality, and tourism sectors.

Despite external risks like conflicts in Ukraine and the Middle East, Vietnam’s outlook is supported by a recovery in semiconductor demand, stable growth in China and the region, and ongoing shifts in global supply chains. UOB expects GDP growth to accelerate to 6% year-on-year in Q2 2024, maintaining a growth forecast of 6.0% for the year, aligning with the official target of 6.0%-6.5%. The saigontimes

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Vietnam is recognized it as a burgeoning hub for manufacturing and sourcing

Flexport, a leading U.S. logistics unicorn, is investing in Vietnam, recognizing it as a burgeoning hub for manufacturing and sourcing. "This is the right time to invest in Vietnam, a super important market," stated Sanne Manders, Flexport's president, during a visit to Ho Chi Minh City (HCMC).

Founded in 2013 by Ryan Peterson in San Francisco, Flexport boasts a valuation of $8 billion and has secured $2.3 billion in funding. Recently, its subsidiary opened an office in Vietnam, staffed by 12 employees who collaborate with local logistics partner ITL in HCMC. Flexport has been aiding 1,300 Vietnamese factories in transporting goods to 500 global importers, solidifying Vietnam as a strategic market.

Manders highlighted two primary advantages making Vietnam crucial: the shift of global businesses from China to Vietnam and the robust domestic market growth. "Vietnam is our second-largest maritime transport market [after China] and is poised for sustained growth," he said. The country's economy is forecasted to grow by 5-6% this year, with the logistics industry potentially doubling this rate.

Vietnam's exports are also on the rise, reaching $156.8 billion in the first five months of this year, a 15% increase year-on-year. Flexport sees Vietnam becoming a major production and logistics hub, driven by significant investments in its technology, consumer electronics industries, and booming e-commerce sector.

However, challenges persist. Freight rates on key export routes have nearly tripled due to tensions in the Red Sea, though they are expected to stabilize by year-end. High logistics costs and pressure to reduce carbon footprints add to the hurdles.

Looking ahead, Flexport plans to enhance its sea and air freight services in Vietnam, offer integrated logistics for global brands, and introduce new products for real-time supply chain management. "We believe that Vietnam's logistics industry has very promising potential," Manders affirmed, emphasizing opportunities through infrastructure improvements and digital technology adoption. Vnexpress

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Vietnam's e-commerce market is on track to achieve the $35 billion revenue target by 2025

Vietnam's e-commerce market reached $20.5 billion last year, up $4 billion from 2022, and is on track to achieve the $35 billion revenue target by 2025. Over the past four years, the sector has seen annual growth rates between 16% and 30%, the highest globally, according to the E-Commerce and Digital Economy Agency under the Ministry of Industry and Trade (MoIT).

In the first quarter of this year, total sales on the top five e-commerce platforms—Shopee, Lazada, Tiki, Sendo, and TikTok Shop—reached nearly $3 billion, a 78.69% increase from the same period in 2023. This growth significantly exceeded expectations, as e-commerce sales were projected to rise by only 35% this year.

Additionally, 766.7 million products were delivered to consumers in the first three months, marking an annual increase of 83.21%. Post-COVID-19, consumers are spending more, and online shopping has become an integral part of their habits. This trend, along with economic recovery and the development of digital infrastructure and new technologies, is boosting the confidence of local firms in the online retail market.

Government policies are also fostering growth. The national e-commerce development plan for 2021-2025 and the national digital transformation programme until 2025 with a vision towards 2030 are crucial to the sector's progress. The legal framework, including the Law on Electronic Transactions 2023 and the Law on Protection of Consumer Rights 2023, is being improved to ensure benefits and protection for users and businesses.

The Government has introduced support policies on taxes, finance, digital trade infrastructure development, cross-border e-commerce promotion, and research and development to encourage business engagement in the digital economy. By 2025, the Ministry of Industry and Trade aims for e-commerce to generate $35 billion in revenue, with 55% of the population shopping online and 50% making non-cash payments.

To foster fair competition, the MoIT is implementing public services to manage e-commerce firms and drafting a national trade development strategy for 2026-2030. This strategy focuses on enhancing business competitiveness and promoting green e-commerce. Vietnamnet

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The Ministry of Industry and Trade concerns over adding rooftop solar power to the national grid

The Ministry of Industry and Trade has expressed concerns over adding rooftop solar power to the national grid, citing instability and increased costs. In its latest draft decree on solar power, the ministry stated it "will not buy rooftop solar power in any form" except from projects approved under the National Power Development Plan 8 (PDP8).

The ministry's report highlights that rooftop solar power is weather-dependent, causing fluctuations in supply. Vietnam Electricity (EVN) must ensure a stable power supply at all times, necessitating the use of costly thermal power turbines during periods of insufficient sunlight. These turbines consume a significant amount of energy to start and even in standby mode.

The report also notes that sudden drops in solar output during cloudy or rainy conditions can affect electrical equipment and pose hazards. Additionally, the infrastructure investment required to integrate rooftop solar power into the grid is substantial.

Currently, solar power makes up 33% of Vietnam’s total energy production, which the ministry argues is too high for a developing country due to the associated high infrastructure maintenance costs. Unlike developed countries that can invest in advanced equipment to manage output fluctuations, Vietnam lacks such resources.

As a result, the government does not encourage the development of rooftop solar power for grid connection, though households are permitted to install these systems for personal use. Contradictorily, the PDP8 targets having 50% of commercial buildings and houses equipped with solar systems by 2030, highlighting a potential area of policy inconsistency. Vnexpress

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Brand reputation and product quality are important to Vietnamese consumers

Since the beginning of this year, a wide variety of foreign products have entered the Vietnamese market, with Ho Chi Minh City seeing a surge in promotional activities across different channels.

Highlighting Vietnam's significance as a trade partner, Kim Ki-hoon from the Republic of Korea's Ministry of Oceans and Fisheries noted Vietnam as the 4th largest food trading partner. He emphasized plans to expand partnerships with Vietnamese retailers and distributors to introduce a range of Korean seafood products, such as abalone, oysters, and seaweed. Korean companies also aim to strengthen ties with hotels, restaurants, and catering businesses.

Nguyen Anh Duc, Chairman of the Vietnam Retailers Association, emphasized the retail sector's substantial role, contributing 35% to Vietnam's GDP. He noted that growth is predominantly from traditional channels, indicating significant potential for modern retail expansion.

Statistics reveal a considerable need for more supermarkets and convenience stores. Vietnam requires one mega supermarket and one shopping outlet per 100,000 people, one medium-sized supermarket per 10,000 people, and 1-3 convenience stores per 1,000 people, presenting lucrative opportunities for distributors and retailers.

The Ministry of Industry and Trade reported that Vietnam's retail market exceeded US$180 billion in 2023, with expectations for continued growth. The market's expansion, alongside a rapidly increasing affluent population, including a doubling of the ultra-rich and a 70% rise in the affluent class over the past five years, is drawing renowned global brands.

A Euromonitor Market Research Organisation report highlighted the importance of brand reputation and product quality for Vietnamese consumers, with 26.1% frequently purchasing from well-known brands and 35.8% prioritizing higher-quality products even if it means buying less.

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China's growing investment in technology, electronics, renewable energy and infrastructure

Vietnam is experiencing significant foreign direct investment (FDI) growth, with Singapore leading in investment value and China in the number of new projects. In May 2024, investment and additional capital were nearly equal, indicating a positive trend.

According to the Foreign Investment Agency (FIA) under the Ministry of Planning and Investment (MPI), May saw the highest adjusted investment capital in the initial months of 2024. Do Nhat Hoang, FIA's director general, noted that although adjusted investment capital decreased by 8.7% in the first five months compared to the same period in 2023, this is an improvement from earlier months.

The total registered FDI capital in the first five months reached over $11.07 billion, a 2% year-on-year increase. Despite high interest from American and European investors in semiconductor and AI projects, these regions' investments remain modest, with US investors registering around $90 million.

Singapore was the top investor with nearly $3.25 billion, a 28.2% increase, followed by Hong Kong, Japan, China, and South Korea. These countries accounted for 73% of new projects and 73.5% of total registered investment capital. China led in the number of new projects, while South Korea topped capital adjustments and share purchases.

Chinese investors registered 347 new projects and ranked fourth in total registered capital at $1.126 billion. The 2023 Provincial Competitiveness Index highlighted a surge in Chinese investment, especially in northern provinces, driven by supply chain diversification and rising labor costs in China.

Minister of Planning and Investment Nguyen Chi Dung emphasized China's growing investment in technology, electronics, renewable energy, and infrastructure. Vietnam welcomes further Chinese investment in these areas, aiming to develop high-tech sectors, eco-industrial parks, and smart urban areas, leveraging China's expertise and strengths. VIR

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