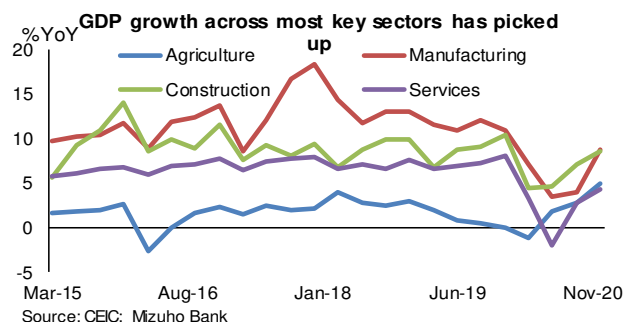
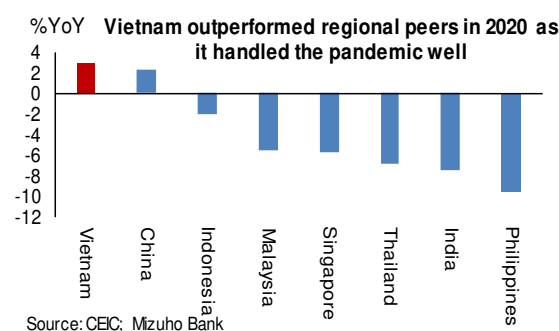


2021 Outlook: Resilient But Not Immune

In a nutshell: Although growth in Vietnam slowed in 2020 relative to its historical average, it stood out compared to regional peers. The authorities contained the pandemic in a swift and controlled manner leading to a soft landing rather than a crash. We expect more of the same this year, with the economic recovery picking up steam and returning growth to the 7% handle. There will be little need for aggressive monetary or fiscal policy stimulus. That said, with COVID-19 cases resurging and the vaccine drive yet to kick off, the risks to our forecasts are squarely skewed to the downside.

Resilient compared to regional peers

Vietnam's economy grew the fastest in Asia ex-Japan, and one of the fastest in the world, in 2020 as a testament to the authorities' effective handling of the COVID-19 pandemic (Figure 1). According to the IMF, Vietnam's success in containing COVID-19 offers a roadmap for other developing countries, in that the authorities recognised the real threat from COVID-19 early, raised awareness about it and stepped up containment measures in a cost effective manner. All this while receiving a public opinion buy-in with public sector and military support¹.



By industry, GDP growth in all key sectors picked up from Q2 2020, when a strict lockdown was across the country (Figure 2). In some sectors such as construction, growth in Q4 had almost returned to pre-pandemic levels. On the demand-side, government spending supported growth through 2020 but was unable to offset weak private consumption and investment spending. As such, anaemic domestic demand conditions led to import compression and a higher net exports contribution to headline growth.

2021 started off on strong footing with most monthly indicators showing solid improvements. In particular, January industrial production growth picked up to 22.2% YoY from 9.5% in December. We think this rise is not only a statistical bump given the moving Lunar New Year holidays (i.e. in January in 2020 and in February in 2021) but also

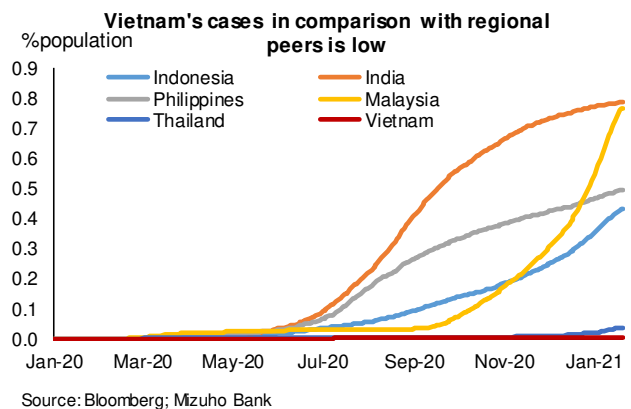
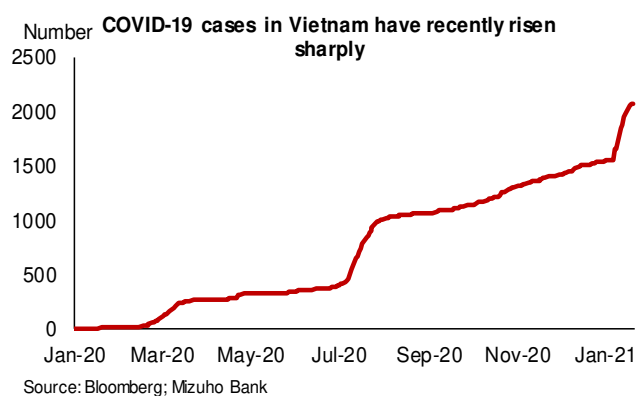
¹ <https://www.imf.org/en/News/Articles/2020/06/29/na062920-vietnams-success-in-containing-covid19-offers-roadmap-for-other-developing-countries>

reflective of a more genuine improvement in demand – underscored by better trade and retail sales for the month.

Not out of the woods yet

This early resilience, however, is already being put to test following a sharp increase in COVID-19 infections in late January/early February (Figure 3). The latest spread originated in the northern province of Hai Duong and spread to Hanoi as well as other parts of the country. The quinquennial party Congress had to be cut short by a day in early February and social restrictions have been imposed including limitations on domestic and international travel, school closures and cancellation of Chinese New Year related festivities.

Moreover, Vietnam’s vaccination drive is yet to begin. The government only approved the AstraZeneca’s vaccine on 30 January and expects the first doses of the vaccine to be given in Q1. Vietnam is also eligible to buy vaccinations from the COVAX programme, a global vaccine alliance, but the timeline on procurement is not definite.



Even so, Vietnam continues to be much better placed to handle the pandemic given the government’s preparedness regarding additional outbreaks (for example, authorities have stated that up to 10,000 tests could be carried out in one day²) and the relatively low case count in proportion to the population, especially when compared to regional peers such as Malaysia and India (Figure 4).

We, therefore, continue to expect that a relatively strong economic recovery is on the cards this year. **Our forecast is for GDP growth to bounce back to 7.0% this year from 2.9% in 2020.** Admittedly, repeated (albeit localised) COVID-19 infections and a slow vaccination program could prove to be significant headwinds. The risks to our forecast is unambiguously tilted to the downside. **That said, barring shock waves of COVID-19 and a prolonged nationwide lockdown, we expect GDP growth this year will be at least 5%-5.5%.**

Aggressive fiscal or monetary policy support is not warranted

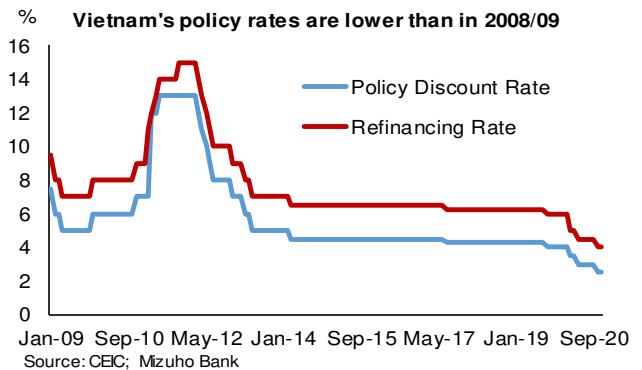
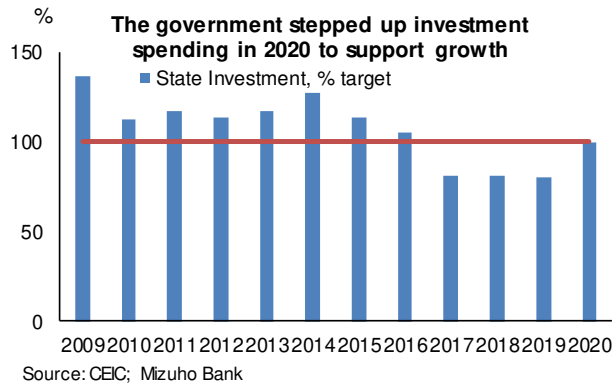
The support from fiscal and monetary policy will continue this year in the same targeted and prudent manner as in 2020. Last year, the government estimated that the fiscal deficit could widen to beyond 5.5% of GDP, although the actual deficit is reported to be lower at 4% of GDP³, and introduced a gamut of tax and social protection measures

² <https://www.reuters.com/article/us-health-coronavirus-vietnam-cases-idUSKBN29X353>

³ <https://e.vnexpress.net/news/business/economy/vietnam-fiscal-deficit-lower-than-projected-4218425.html>

to cushion against the blow from the pandemic.

Of particular note was the government's focus in boosting productive investment expenditures. After a few years of falling behind on its target, the government disbursed nearly 100% of total budgeted investment spending last year. This focus will remain steadfast even in 2021 (Figure 5). Beyond this, outright expansionary fiscal policy might not come into play this year, unless there is a rampant spread of the virus forcing more stringent lockdowns.



From a monetary policy perspective, the State Bank of Vietnam has additional wiggle room to support the economy this year with headline inflation falling into negative territory. The shortages of pig supply (following mass culling after contracting the African swine flu) resulted in a sharp rise in food inflation in late 2019 and early 2020. This has created favourable base effects for inflation in Q1 2021. However, after lowering the policy discount rate by 150bp and refinancing rate by 200bp in 2020 to below GFC lows (Figure 6) and providing ample liquidity/credit support, **we expect no further action from SBV this year against the backdrop of improving growth.**

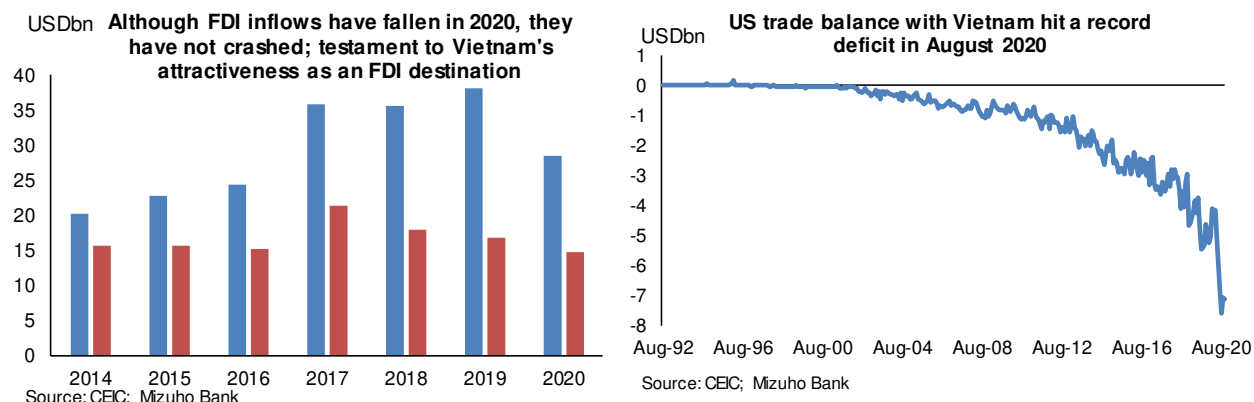
Longer-term outlook is still promising

As the economy recovers from the pandemic, the focus will shift back to longer-term growth prospects and structural reforms. **In this regard, Vietnam's longer-term growth prospects remain strong – we expect GDP growth to average 6.8% from 2022-2025.**

For one, **even in the face of the pandemic, the government has forged ahead with important Free Trade Agreements with the EU and UK**, which will help built a deeper market for Vietnamese exports. Importantly, the signing of the Regional Comprehensive Economic Partnership (RCEP) has further opened up major global economies to Vietnamese exports, at a time when supply chains have been reconfigured in Vietnam's favour following US-China trade tensions.

Second, the **political outlook looks stable, in sharp contrast to many countries in the ASEAN region including Myanmar and Thailand.** The re-election of Nguyen Phu Trong, for an unprecedented third time, as the head of the Communist Party of Vietnam (CPV) ensures that the focus on growth and corruption eradication stick. Moreover, at the five yearly congress, the CPV approved an ambitious economic blueprint which, among other things, targets higher private sector participation and “complete restructuring” of State Owned Enterprises.

While the laundry list of further reforms includes easing bureaucratic hurdles, reducing corruption, cleaning up the banking system as well as supporting domestic SMEs; Vietnam remains a competitive destination for FDI (Figure 7).



VND: Not likely to shed the 'currency manipulator' label

Against a weak USD backdrop, we expect the VND to appreciate at a modest pace. The US Treasury's labelling of Vietnam as a 'currency manipulator' will continue to have a limited impact on the VND given that many of the reasons behind the label are due to more structural factors (see Box 1). The most obvious of which is the expanding trade deficit between US and Vietnam on account of Vietnam's manufacturing advantages (Figure 8). That said, Vietnamese authorities would rather not have the tag and will look to better relations with the new Biden administration in due course.

	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022
GDP (% y/y)	4.5%	7.0%	8.6%	7.2%	6.0%	6.2%
CPI (% y/y)	1.4%	0.2%	1.7%	2.7%	2.3%	2.6%
Policy Rate (%)	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
USD/VND*	22500 -	22600 -	22500 -	22500 -	22400 -	22300 -
	23700	23500	23400	23500	23500	23500
	23100	23170	23000	23100	23000	22950

Note: Values in black are historical whereas those in blue represent forecasts.

* Point forecast is for end-period.

Box 1: US-Vietnam Uneasy Truce on Trade

Our **view that the Biden Administration is far more favourable for Vietnam**, for the obvious reason that Vietnam is **spared the vagaries of Trump-style zero-sum game tirade on bi-lateral trade imbalance, is unchanged. But** it would be complacent not to recognise this as an **uneasy relief rather than an unconditional resolution from latent trade risks.**

Immediate Relief ...

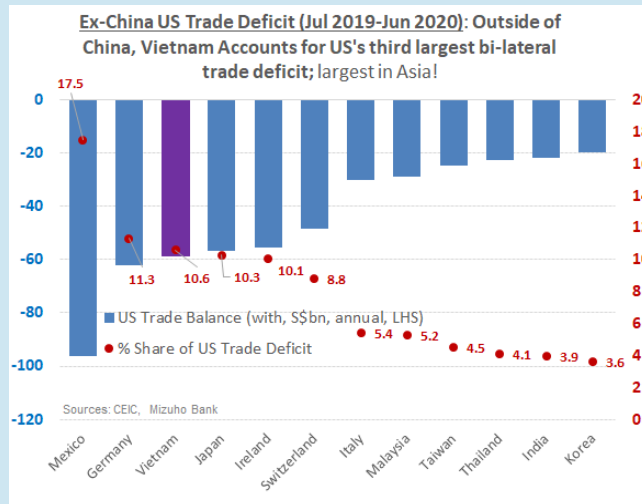
Countries with > \$40bn US bi-lateral trade			US Treasury Report on FX (December 2020)		
Country	Bi-lateral Trade \$bn	Goods Surplus vs. US* \$bn	US Treasury Conditions to Assess Currency Manipulation		
China	660	310	1	Trade surplus vs. U.S. is more than US\$20bn	
Canada	617	24	2	C/A surplus exceeds 2% of GDP (previously 3%)	
Mexico	612	96	3	Persistent (6-mths) one-sided intervention (FX reserve build-up >2% of GDP)	
Japan	218	57	Currency Manipulator All three Conditions Met Vietnam Switzerland Conditions (1) & (2) met Germany Japan Korea Italy Malaysia Taiwan Thailand Conditions (1) & (3) met India Conditions (2) & (3) met Singapore Only Condition (1) but because of the disproportionately large share of US goods deficit China		
Germany	184	62			
Korea	131	20			
UK	127	-9			
France	89	15			
India	88	22			
Italy	78	30			
Taiwan	76	25			
Netherlands	74	-18			
Brazil	71	-13			
Ireland	68	56			
Switzerland	63	49			
Singapore	60	-1			
Vietnam	59	58			
Malaysia	52	29			
Belgium	59	-11			
Thailand	44	22			
12 Largest bi-lateral Trade Partners Trade Surplus (vs. US) of at least \$20bn * Jul 2019 - Jun 2020					

First things first. The **Biden Administration is justifiable cause for relief** as far as Vietnam diplomats and trade officials are concerned; having had to walk on eggshells with a **predictably unpredictable Trump Administration** that could **with little warning escalate trade antagonism**. The case in point being the **December 2020 US Treasury Report that labelled Vietnam as “Currency Manipulator”**, which, while does not necessarily need to descend into, **opens the doors to, punitive tariffs**. The **zero-sum bottom-line approach to bi-lateral trade by the Trump Administration’s iteration of “America First”**, regardless of strategic considerations, meant that **Vietnam’s potential to gains from supply-chain reconfiguration as a result of US-China conflict was exposed to not only risks of collateral damage to global demand, but a cascading clamp down on supply-chain migration.**

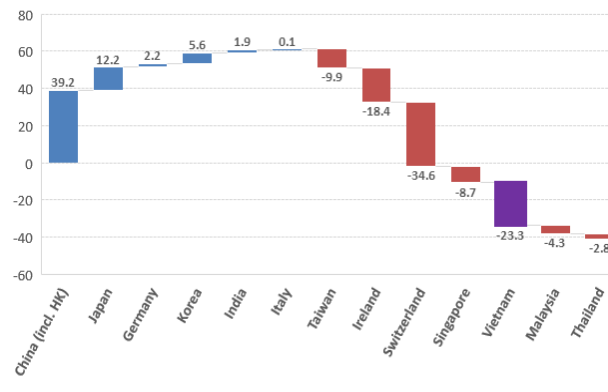
And so, the **Biden Administration brings with it immediate relief** from the vagaries (at times tyranny) of a reckless, shoot from the hip “America First” policy under Trump and his trade hawks. Not only because **Biden’s approach will be one of multilateralism rooted in trade accords and rules**. But crucially because **Biden is better placed to understand the trade-off and allowances required to gain the strategic advantage** (against China) of allies in Asia. At least until manufacturing capacity in the US is broadened and deepened.

... But Lingering “Risks

But this relief must be appreciated in the context that **US’ large and widening trade deficit with Vietnam is necessary compromise tolerated by the US, not an equilibrium trade position cherished**. Point being, the increasing focus on the **perils of growing twin deficits in the US** taken alongside **the rapid ascend of Vietnam up the value chain** means that at the margin, **Vietnam will be seen an emerging direct competitor to US manufacturing** (which has a fairly wide spectrum of value-add).



Larger deficit with ASEAN Led by Vietnam. Lands Vietnam on "Currency Manipulator" List along with Switzerland. Thailand Taiwan & India added to "Monitoring List". (Chg in Jul 2019-Jun 2020 US Bilateral Net Trade Position vs Jul 2017-Jun 2019 Avg, US\$bn)



In turn, the **US Treasury will be less inclined to give Vietnam a free pass unequivocally and indefinitely**. Especially given that **Vietnam's combination of its absolute trade surplus with the US and the pace at which the imbalance has blown out** render it a major risk to US trade position. In fact, there is **no guarantee that the Biden Administration will be in a rush to relieve Vietnam of its "Currency Manipulator" label** given the **bona fide need to assess the merits of the case** as well as the **political calculus involved in undoing Trump-era "tough" policies on trade**. And even if more serious rivalries based on technological dominance is quite a few years away, the issue of **major competitors such as China, Japan, Korea and even Taiwan setting up manufacturing base in Vietnam to circumvent US Treasury scrutiny on bi-lateral trade imbalances** means that the **US could perceive these to be backdoor mercantilism**. Consequently, the US could start **paying closer attention to Vietnam, applying pressures accordingly if it deems fit**. In other words, **proxy competitive trade policies channeled via Vietnam** as well as **Vietnam's ascendancy as a manufacturing hub in Asia (in its own right)** are developments that **may not be able to deflect geo-political ramifications** that exist in a climate of prolonged US-China tensions; as the two super powers battle it out for domination on many dimensions.

Near-term Benefits from US-China Conflict Overwhelm

The good news though is that in the **near-term Vietnam continues to be the beneficiary of supply-chain reconfiguration driven by two overarching trends** that result in massive investments into its manufacturing sector. **First** is the **relocation of supply-chains** out of China, which had started with lower value-add manufacturing (e.g. apparel, footwear) even before the US-China "trade war" emerged; but has since intensified to include more upstream and higher-value manufacturing. **Second** is the **increasing demand to invest in deliberate (over-)capacity/redundancy** given the need to mitigate higher risk of supply-chain disruptions. On both accounts **Vietnam is well-placed as a destination for manufacturing firms** given its **low cost of labour** and a relatively well-placed labour force **alongside China-type policies to enhance connectivity** that is **critical to replicate a desirable manufacturing eco-system** not unlike China (although on a very different scale and expertise). Put differently, the **road to divesting away from China features Vietnam prominently** as a tried and tested solution. And so **as the world gets past pandemic uncertainties and readies for a more coordinated approach to China** by Biden's Administration, which involves deepening alliances elsewhere in Asia, **Vietnam appears well placed for ascendancy led by manufacturing investments** in the near-term; so long as it remains vigilant to the precarious geo-political environment that could persist.

VND is the Canary & Bugbear

For now, the **VND remains in equal parts the canary in the coal mine and the bugbear with regards to Vietnam's vulnerabilities to trade antagonism**. Point being, the **lack of VND appreciation** (up ~0.7% since end 2019 compared to ~8% gains in CNY, 2>4% gains in KRW, ~2.5% gain in JPY), in contrast to other Asian currencies despite its stellar trade gains and growth out-performance, is a **bugbear for the US Treasury**. And **for any de-escalation of tensions (with the US Treasury), some degree of VND appreciation may be a good start**. And in turn, **US Treasury rhetoric/pressures on VND in the next report could also be a canary** (in the coalmine) to indicate the potential for more drastic trade action against Vietnam.

Important Information

This publication has been prepared by Mizuho Bank, Ltd. ("Mizuho") and represents the views of the author. It has not been prepared by an independent research department and it has not been prepared in accordance with legal requirements in any country or jurisdiction designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

Disclaimer

Unless otherwise stated, all views or opinions herein are solely those of the author(s) as of the date of this publication and are not to be relied upon as authoritative or taken in substitution for the exercise of judgement by any recipient, and are subject to change without notice. This publication has been prepared by Mizuho solely from publicly available information. Information contained herein and the data underlying it have been obtained from, or based upon, sources believed by us to be reliable, but no assurance can be given that the information, data or any computations based thereon are accurate or complete. This publication provides general background information only. It is information in summary form and does not purport to be complete. This publication has been prepared for information purposes only and is not intended by Mizuho or its affiliates to constitute investment, legal, accounting, tax or other advice of any kind and all recipients of this publication are advised to contact independent advisors in order to evaluate the publication, including, without limitation, the suitability of any security, commodity, futures contract or instrument or related derivative (hereinafter, a "financial instrument"), product or strategy herein described. This publication is not intended to be relied upon as advice to investors or potential investors and does not take into account investment objectives, financial situation or needs of any particular investor. It is not intended for persons who are Retail Clients within the meaning of the United Kingdom's Financial Conduct Authority rules nor for persons who are restricted in accordance with US, Japanese, Singapore or any other applicable securities laws.

This publication has been prepared for information purposes only and is not intended by Mizuho to market any financial instrument, product or service or serve as a recommendation to take or refrain from taking any particular course of action or participate in any trading or other strategy. This publication is not an offer to buy or sell or a solicitation of any offer to buy or sell any security or any of the assets, businesses or undertakings described herein, or any other financial instrument, nor is it an offer to participate in any trading or other strategy, nor a disclosure document under applicable laws, rules, regulations or guidelines. Nothing contained herein is in any way intended by Mizuho or its affiliates to offer, solicit and/or market any financial instrument, product or service, or to act as any inducement to enter into any contract or commitment whatsoever. Neither the author, Mizuho nor any affiliate accepts any liability whatsoever with respect to the use of this publication or its contents or for any errors or omissions herein.

Mizuho and its affiliates, connected companies, employees or clients may take the other side of any order by you, enter into transactions contrary to any recommendations contained herein or have positions or make markets or act as principal or agent in transactions in any securities mentioned herein or derivative transactions relating thereto or perform or seek financial or advisory services for the issuers of those securities or financial instruments.

All of the information contained in this publication is subject to further modification without prior notice and any and all opinions, forecasts, projections or forward-looking statements contained herein shall not be relied upon as facts nor relied upon as any indication of future results. Opinions stated in this publication are subject to change without notice. Future results may materially vary from such opinions, forecasts, projections or forward-looking statements. The information contained in this publication may not be current due to, among other things, changes in the financial markets or economic environment. Mizuho has no obligation to update any information contained in this publication. Past performance is not indicative of future performance.

This is a strictly privileged and confidential publication. This publication contains information addressed only to a specific individual and is not intended for distribution to, or use by, any person other than the named addressee or any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation. Save with Mizuho's prior written consent, you may not disclose, divulge, reproduce or furnish any information contained herein to any other party. Please notify the sender immediately if you have mistakenly received this publication.

Singapore: Mizuho is licensed as a bank under the Banking Act (Chapter 19) of Singapore, and is regulated by the Monetary Authority of Singapore.

Japan: Mizuho is authorised and regulated by the Financial Services Agency of Japan.

United Kingdom / European Economic Area: In the UK, Mizuho is authorised by the Prudential Regulation Authority and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of MHBK's regulation by the Prudential Regulation Authority are available upon request. This publication may also be distributed by Mizuho International plc ("MHI"). MHI is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

United States: This publication is not a "research report" as defined in Commodity Futures Trading Commission ("CFTC") Regulations 1.71 and 23.605. The content of publications distributed by Mizuho Securities USA Inc. ("MSUSA") is the responsibility of MSUSA. The content of publications distributed directly to US customers by Mizuho is the responsibility of Mizuho. US investors must effect any order for a security that is the subject of this report through MSUSA.

© 2014 Mizuho Bank Ltd