

Asia's COVID recovery: Vietnam's breakout moment

A once-in-a-generation opportunity for the country that got it right

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HO CHI MINH CITY -- On a recent Friday in Vietnam's Ho Chi Minh City, friends kissed hello as they entered the Racha Room, a tunnel-shaped bar lit by warm, ochre lamps. Inside, patrons shouted over booming classic rock and sipped from each other's Old-Fashioneds.

It was a scene to strike a chill into the hearts of the COVID-conscious. A standing-room-only venue, windows clamped shut against the night air, and not a mask in sight. It might have been a glimpse into an eerie alternative reality -- a 2021 that could have existed had the coronavirus never broken out.

But the scene is a reality for Vietnam. The country was spared a year of lockdowns, horrific body counts, besieged hospitals, and corrosive national bickering about COVID-19 mistakes and trade-offs. While some criticized a harsh initial government coronavirus response, today, COVID-19 cases total 1,539 with 35 deaths -- a figure among the world's lowest, and especially astounding given the country's shared border with China. The economy, bars and all, has stayed open, propelling it to one of 2020's highest growth rates even while neighboring countries wrestled with recession.

Despite the decimation of health systems and economies abroad, 2020 was the year Vietnam introduced three trade deals, lured billboard investors like Apple suppliers, launched another airline, and rose to No. 6 from No. 7 in Southeast Asia by per capita income.

The contrast between life inside and outside Vietnam's borders could hardly be starker. Outside, hospitals are deluged and families hole up indoors for the better part of a year. Inside, people share entrees, go to school, fly on weekly business trips, hit the gym, and cram into buses and elevators. The same dynamic is reflected in the economy.



Morning rush hour after the government eased the nationwide lockdown in May 2020. © Reuters

"Recall that when the COVID-19 epidemic first emerged, [the World Trade Organization] and others forecast a plunge in global trade," VinaCapital CEO Don Lam told Nikkei Asia, adding that some suggested "Vietnam was among the countries at the greatest risk because exports play such an important role in its economic growth."

But, he said: "Instead, the opposite has come true. Vietnam's openness to trade is playing a key part in its quick economic recovery."

As work-from-home shopping boomed in the U.S. and Europe, for example, Vietnam's electronics and furniture exporters rode the demand wave. Manufacturers siphoned orders from nearby countries where COVID-19 shutdowns rendered rival factories idle.

Eateries and bars like Racha Room continued to operate, generating business for domestic companies like TradingFoe, which imports goods to Vietnam from Scandinavia. Last year it fielded an unexpected rash of demand for seafood imports, said marketing manager Linh Le.

"I'm very surprised," she told Nikkei at a business forum, surrounded by 100-plus maskless investors and entrepreneurs in a windowless conference hall. "I didn't know that with COVID-19, there'd be people who want to import so much."

Her young company reached profitability as of August, and made plans to expand to other parts of Southeast Asia and Europe.



Primary school students wear protective masks on their first day of class after the government eased a nationwide lockdown in May 2020. © Reuters

Grabbing market share has itself become a national preoccupation. The minimal lockdown meant domestic companies bounced back sooner and gained an edge in the region. More foreigners have singled out the communist country for investment, thanks to the recovered economy and the absence of a real coronavirus resurgence. At the same time, government officials say they will be more discerning in the investors they seek, with a focus on technology transfers that advance Vietnam up the value chain.

"Vietnam will actively and selectively attract foreign investments, taking high quality, efficiency, modern technology and environmental protection as the key benchmarks," Deputy Minister of Planning and Investment Tran Quoc Phuong said in October, when his ministry struck a deal with consulting company EY to secure investments, according to an EY press release.

This lays a foundation to improve the capacity of local suppliers, as well as that of local talent, who have received more training because travel bans prevent multinational companies from flying in foreign managers. Vietnam also increased public spending, a move to stimulate the economy that could have knock-on benefits for infrastructure, which has long been in need of upgrades.

But success has come at a cost. Many can't find work amid strict border closures, others have been victims of sweeping police powers used to both control COVID and muzzle criticism.

Much will hinge on which lessons are learned, if any, by the ruling Communist Party. Freedom of expression has suffered in the past year, in response to the pandemic but also in the lead up to the next Party Congress that kicks off Jan. 25 to elect the leadership for the next five years. "I have no doubt the leaders will use the result of their success in managing the pandemic to help

them get more votes in the [party] central committee,” said Nguyen Phuong Linh, associate director in Singapore of Control Risks, the London-based risk consultancy.

Virus vanquished?

For all its optimism, Vietnam started off 2020 as panicked as anyone else. Initially, citizens hoarded food, masks and hand gel, isolating at home once schools and offices closed in April. Anxiety persisted in June, even after authorities had curbed the spread, reported a total of zero COVID-19 deaths and reopened the economy. With a trade-to-GDP ratio of 210%, Vietnam's businesses worried about the financial fallout as they watched the COVID-19 crunch in the United States and Europe, their two biggest customers.

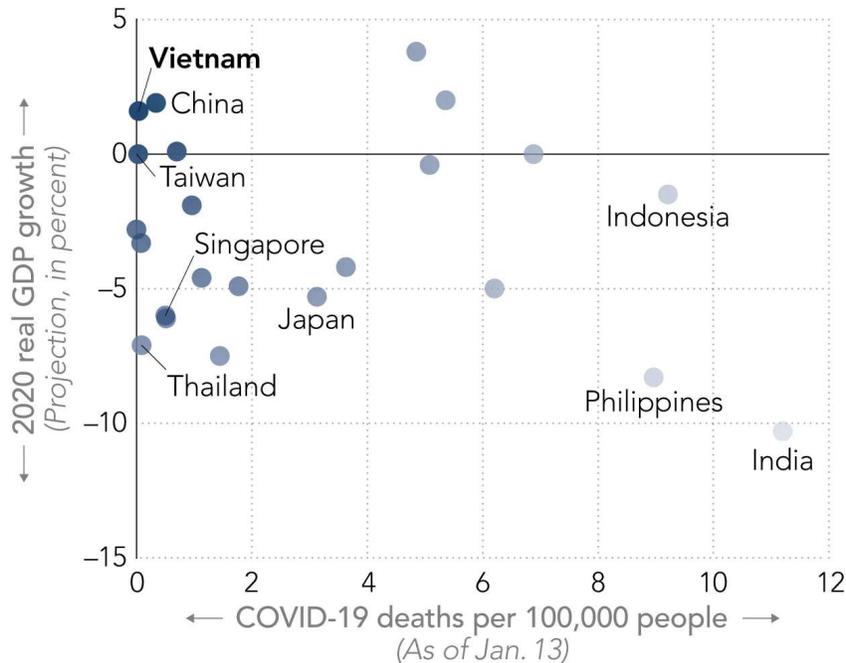
Vietnam was able to exit lockdown by the end of April, thanks to experience handling tropical diseases, including the 2003 SARS outbreak. Officials swiftly isolated patients, traced their contacts, did targeted testing, and were among the first to scrap international flights. No officials strayed from the dogged public messaging on handwashing and social distancing, conveyed through mass texts, communist-style street posters, announcements over speakers, and even a viral TikTok skit. As the world's understanding of the novel coronavirus evolved, Vietnam evolved with it: Next to handwashing posters, city governments later strung up banners exhorting people to keep rooms well-ventilated.

At the height of infections, the authorities banned taxis and sealed off any apartment blocks where tenants tested positive, barring thousands from even stepping outdoors. In 2021, some buildings still require masks for entry.

As uncertainty swirled, the one-party state also battled fake conspiracies with a blunt instrument, extinguishing online rumors about bleach remedies and bat soup, but also blocking criticism of the pandemic response. Some who aired their criticism on social media wound up facing arrest, according to the human rights monitoring organization Amnesty International.

COVID-19 pain index: Vietnam escapes the worst

Vietnam has seen more than 1,500 cases and 35 deaths. Minimal lockdown means business is bouncing back, while foreign investors see a COVID-resilient market.



Source: International Monetary Fund, Johns Hopkins Coronavirus Resource Center

Other aspects of the coronavirus response also uniquely highlighted the capabilities of an authoritarian state. It published patients' details, such as addresses, to aid in contact tracing; deployed security officers to knock on doors to find infected people; and tried to hack Chinese agencies to collect virus intel in January 2020, according to FireEye. The U.S. cybersecurity company said Vietnamese actors likely sent emails with malicious code to China's Ministry of Emergency Management and the Wuhan government, but did not say if the phishing attack succeeded.

It is hard to verify Vietnam's data because it does not disclose excess death figures, and domestic media are controlled by the state. Still, Hanoi is mindful it cannot afford to lose control of the virus, as a surge of just a few thousand cases could overwhelm the health system. After questions early in the crisis about how many cases may have gone unreported, Vietnam overcame most skepticism.

"The numbers are credible," Harvard Medical School infectious diseases specialist Todd Pollack said, noting hospitals are not overrun and Vietnam has a high ratio of coronavirus tests per positive case. "We don't see any evidence of widespread infection."

The country is acutely aware, too, the virus could come roaring back. For those who were complacent, for example, the summer brought an especially harsh smack of reality. After three months without reported local transmission, an unexplained cluster of cases emerged in July, forcing Vietnam to record its first casualty linked to COVID-19 and enforce city-level

shutdowns. An even smaller cluster surfaced in November, leading to a criminal probe of a flight attendant who broke quarantine rules.

Pandemic profits

Thanks to its performance on the public-health front, Vietnam has been given its biggest economic opportunity in decades. The country claimed one of the fastest rates of GDP growth in the world, at 2.9%, according to Vietnam's General Statistics Office, while aiming for 6.5% in 2021.

Consumer demand rose domestically and internationally. Americans and Europeans spent months of isolation on gardening, home improvement, and remote work, using products made in Vietnam. The country also gained market share from the lockdown of Asian neighbors. With their factories on pause, Vietnam picked up the slack.

Shipments of wood products and furniture totaled \$1.05 billion in January 2020, before global lockdowns, but jumped 47% by November when lockdowns were well under way, according to the latest statistics office data. In the same period, exports of phones, computers, and other electronics swelled 56%. For example Samsung, by far the biggest exporter in Vietnam, reported its highest-ever global revenues in the third quarter, worth \$61 billion.



A propaganda banner promotes mask-wearing in Hanoi, April 2020. © Reuters

This has boosted the fortunes of businesses like Viego Global, a sourcing company based in Ho Chi Minh City. Clients ordered garments and personal protective equipment because supply chain disruptions were making it harder to buy from India and China, says founder Jewel Nguyen.

"For a new company like us, it's a good opportunity," she said. "This is a time for companies to search out new, efficient supply chains."

She is taking coffee orders, too. Vietnam is the world's biggest exporter of robusta, commonly used for instant coffee. Cafes tend to serve the more-expensive arabica, but as consumers stay home, they are turning to the cheaper bean.

"People are being locked down everywhere. They need to use instant coffee," Nguyen said.

Investors also see Vietnam as one of the few prospects right now. The country ranked No. 2 in the world, behind the U.S., in a Euromonitor list of the most likely M&A destinations for 2021, based on criteria like industrial production and technology use.

"Vietnam is the only market where you can do deals," YKVN managing partner Truong Quang said in an interview at his law office, overlooking Ho Chi Minh City's colonial French cathedral and post office.

Side effects

As most Asian economies slammed shut borders, choking off economic growth, **Vietnam** bounced back. It targets **6.5% growth in 2021**.



With Asia's factories on pause, Vietnam picked up the slack. **Samsung Electronics reports its Galaxy plants in Vietnam at full capacity**. Apple is producing millions of AirPods.



Exports ballooned -- a growing part of the economy. **Over the decade to 2019, Vietnam's expanding trade volumes sent it up 16 places to No. 23** -- the biggest jump of all 50 countries ranked by the WTO.



Source: Nikkei Asia, International Monetary Fund, World Trade Organization

Vietnam's biggest private conglomerate, Vingroup, sold a \$203 million stake in its hospital business to a group led by Singapore state investor GIC in December, as well as a \$650 million stake in its property unit to investors including KKR and Temasek Holdings in June. Domestic private equity kept the powder dry, too, as managers reported several oversubscribed funds heading into 2021.

Rather than pit public health against the economy, Hanoi's mantra has been that protecting the former would safeguard the latter, which it calls "dual goals."

Last year Vietnam joined three trade accords. In November it hosted an online signing ceremony for the Regional Comprehensive Economic Partnership, a pact among 15 countries in Asia-Pacific. It enacted a long-awaited deal with the European Union in August, followed by a separate agreement in December with the United Kingdom, one of its first after Brexit.

Thanks to the economic growth, Vietnam ticked off a small milestone. GDP per capita squeezed past that of the Philippines, according to October projections from the International Monetary Fund. And in absolute terms, Vietnam's GDP overtook Singapore's and Malaysia's, giving it the fourth-biggest economy in Southeast Asia for the first time.

Tech spillover

COVID-19 should bring more lasting change to Vietnam than just a bump to exports, according to the government. It says the local pandemic response demonstrates to foreigners this is a safe place to invest.

"The success story in [the] COVID-19 fight could be the key for Vietnam to win trust from the international community, including foreign investors," said a post this month on the official government website.

With less of a virus threat to fight, officials have concentrated their bandwidth on the economy.

The communist party's economic tool of choice, the five-year plan, puts the technology sector at the center of Vietnam's ambition to become an upper-middle-income country by 2025. To that end, Vietnam notched a handful of high-profile investments in 2020, from Pegatron, a supplier for Apple and Samsung, to LG Electronics, which relies on Vietnam for its vehicle and smartphone businesses.

By year's end, nearly all of Apple's major suppliers in the region had set up shop in Vietnam or planned to do so. The relocations continue a "China Plus One" trend among companies that have reduced their reliance on Asia's biggest economy because of rising costs, the risks from a trade war with the U.S., and COVID-19 disruptions to the supply chain.



Employees go to work at the Samsung factory in Thai Nguyen province, north of Hanoi on Oct. 13, 2016. © Reuters

The pandemic coincided with Hanoi's decision, in June, to assemble a task force to attract higher-quality foreign investment, headed by Deputy Prime Minister Pham Binh Minh. Two months later, the Ministry of Industry and Trade announced South Korea's Cammsys was in talks to partner with Vietnamese manufacturers, which would include transferring its electric car components technology to them. Two months after that, in October, the planning ministry inked a deal with EY, which agreed to refer its multinational clients to Vietnam for investment. Ministry officials said at the time that they were interested especially in tech companies from Japan and South Korea.

The electronics sector already comprises Vietnam's largest export category, but is dominated by basic production and assembly. Increasingly, officials say they will approve high-tech and eco-friendly investments with more added value.

"Up to now, Vietnam has not only become a successful country in controlling and repelling the pandemic, but also taking advantage of this opportunity to enact the digital transformation of the country," Minh said in October, addressing Vietnamese from abroad who had returned to work in the country.

He told the diaspora group that by opting to do business here, they "contribute to creating jobs, vocational training for employees, and promoting the process of technology transfer."

Diaspora links helped Ho Chi Minh City-based Xelex advance its original design and equipment manufacturing business. Co-founder Nguyen Ai Huu said his company's latest contract is to produce power distribution units for a buyer in the United States, where Xelex has a Houston, Texas office run by his brother. The buyer will then supply the units to data centers run by Amazon, IBM, and others.

Wearing rimless glasses and a smartwatch, Huu said in an interview he'll license U.S. technology to make the devices, gaining experience he plans to adapt for data server clients in Vietnam.



A poster warning about the coronavirus disease in Hanoi, April 2020. © Reuters

"The benefit for us is we can be a manufacturer for a high-tech company in the U.S., a demanding market," he said. After that, he added, "We'll serve the Vietnam market and, someday, the world market."

If Taiwan and South Korea can graduate into roles vital to the tech supply chain, he said, "Why not Vietnam?"

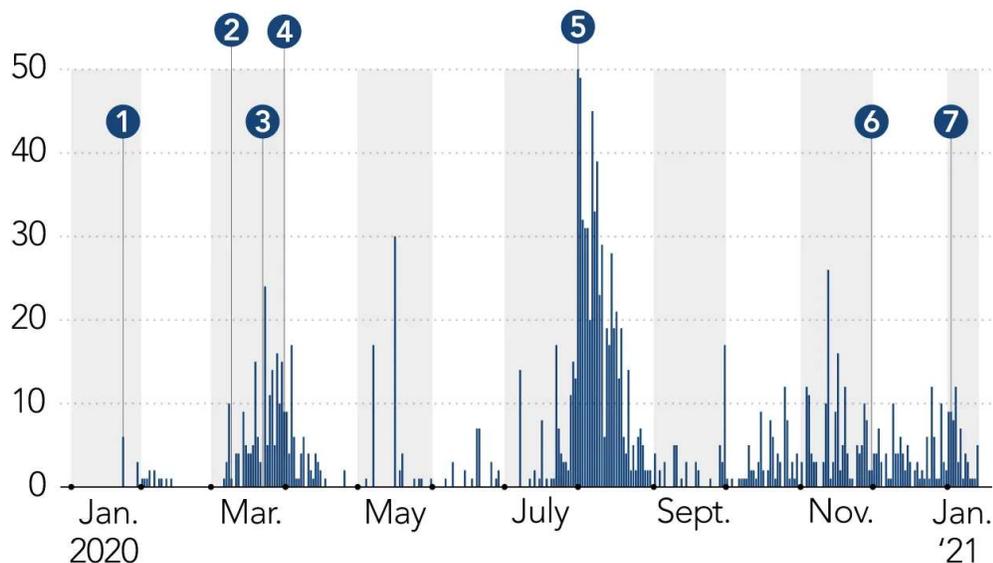
Huu reached for his rose-gold iPhone to pull up photos from another major order: tablets for the government. The Vietnam government asked Xelex to design it a tablet for official use, running on Intel's 12th-generation chip.

Qualcomm, the world's biggest supplier of phone chips, offers one sign of potential tech transfers to come. In June it debuted a research and development center in Hanoi, its largest in Southeast Asia outside Singapore. The center will work with local partners from Viettel, a telecommunications firm, to Bkav, a smartphone maker, to patent and commercialize mobile technologies. The news is part of a broader campaign from the government to stoke domestic tech champions. That's why it held a groundbreaking this month for the National Innovation Center, also in Hanoi, to bring together foreign and domestic companies to conduct research.

"This is a precious opportunity for Vietnam to enter a new era of innovation," Nguyen Chi Dzung, minister of planning and investment, said this month in remarks carried on the national VTV station. He said if the country is going to hit the targets mapped out at the twice-a-decade party congress, "we must rely on innovation, science, and technology."

Hard and fast

Preventing the virus's entry, along with dogged public hygiene messaging, has been key to containing the rampant case numbers seen elsewhere. *(Daily new cases)*



- 1 Jan. 24, 2020:** First cases identified; flights between Vietnam and Wuhan are canceled
- 2 Mar. 9:** Government app to aid tracing, NCOVI, is launched
- 3 Mar. 22:** Borders are closed to travelers, with some exceptions -- including foreign investors
- 4 Mar. 31:** Nation goes into lockdown, emerging three weeks later; nationwide media campaign boosts solidarity
- 5 July 31:** Second wave of infections rises; daily cases peak at 50 and first deaths recorded
- 6 Nov. 30:** First local transmission reported in 89 days, prompting criminal probe of quarantine violation
- 7 Jan. 2, 2021:** New U.K. variant reported; Vietnam suspends flights from all countries with virus mutation

Source: World Health Organization, Johns Hopkins Coronavirus Resource Center, media reports

Local capacity remains limited. Harvard analyzed eight Asian countries' exports, calculating how much of their value came from domestic companies. Vietnam had the lowest value, 55%. It remains eclipsed by peers from Malaysia, which has a bigger ecosystem of electronics producers, to Thailand, a key source of outbound investment in Southeast Asia.

Companies in Vietnam have used the pandemic pause to increase the capacity of local staff, as well. Multiple firms say Vietnamese employees are stepping in while foreign colleagues cannot enter the country. More than half, 56%, of personnel managers said they would prioritize reskilling or upskilling in the coming quarter, according to a survey that recruitment company Adecco released in August.

Infrastructure face-lift

Not all Vietnamese escaped 2020 unscathed. Besides the record-setting storms that killed scores of people, millions more found themselves out of work.

Scarlet lettering on "for rent" signs is plastered on countless buildings across downtown Ho Chi Minh City and Hanoi, as well as in beach towns from Da Nang to Phu Quoc. These are the areas of Vietnam most reliant on foreign tourism, which was wiped out once the borders slammed shut. By September, nearly one-third of the population had suffered job losses, pay cuts, or reduced hours, the statistics office said. Most of these workers were in hospitality, entertainment, food and beverage, construction, or export sectors like textiles.

Domestic travel resumed mostly unabated, clearing the runway for Vietravel Airlines, which took off in December and became the sixth Vietnamese carrier. But without cross-border flights, airlines saw revenues dive and sought bailouts from the state.

To speed up the overall recovery, Hanoi approved limited relief funding of \$2.7 billion, though polling showed citizens with less income or education were less likely to know about it. The government also cut taxes and fees, offered loans, and ramped up public spending -- including on much-needed infrastructure.

As with much of Southeast Asia, Vietnam's roads and ports have not kept pace with the buzz of an economy moving ever deeper into global trade. From 2009 to 2019, Vietnam made the biggest jump among 50 countries that the WTO ranked by merchandise trade volume, climbing 16 rungs to No. 23.

Banner projects are in the works to buttress this growth, from an airport outside Ho Chi Minh City that began construction this month, to a new national highway running along the spine of the country. Such projects got another cheerleader in 2020, when Prime Minister Nguyen Xuan Phuc directed local governments to shell out on public works, dangling penalties for those that dragged their feet. The result: State investment rose 14.5% in 2020 versus 2019, far higher than the 1.6% increase in private investment.



Containers are loaded onto a ship at Tien Sa port in Da Nang city, March 2020. © Reuters

"One of the key drivers [of recovery] would be the government decision to prioritize investment in infrastructure," Philippe Richart, CEO of INSEE Vietnam, and group executive committee member of Siam City Cement, told Nikkei. "All players in the industry will benefit from this trend related to infrastructure."

By the first half of 2020, Vietnam had fast-forwarded the timelines of more than a dozen massive projects. Phuc's order was meant to support a post-COVID-19 rebound. But, in addition to a short-term burst of economic activity, the spending push raises the prospect of a more enduring bonus, an infrastructure face-lift that will accommodate future trade.

Other legacies may be nonfinancial. In fending off the coronavirus, Vietnam was transparent almost to a fault, according to observers who hope this approach will prevail in a country better known for the opacity of party reshuffles and land deals. The government shared constant updates about its COVID-19 response, minutiae of patients' movement history like grocery trips and flight numbers, and how it ruled whether a death was linked to the disease.

"I believe that lessons learned from this success in terms of transparency, accountability, and social cohesion will help the government in dealing with future crises," Caitlin Wiesen, United Nations Development Program Vietnam representative, said in a December speech.

From improved governance and infrastructure to better-equipped workers and suppliers, a range of outcomes is possible in Vietnam after the pandemic. But it's not toasting a victory over the virus yet.

Vy Le, co-founder of Do Ventures, said the country must capitalize on this moment. The lockdown, while brief, did alter consumer behavior and propel e-commerce and digital payments, she said, while the subsequent lifting of the lockdown has allowed people back into stores, offices, and factories. Both changes present an opening for companies.

"Vietnam has an advantage because we can walk about freely in the street, we can meet merchants," she said in an interview at a tea shop, flanked by leafy plants and glass walls. "Definitely," Le added, "this is an opportunity for Vietnam to move ahead."