



RISE OF GLOBAL ECONOMIC PROTECTIONISM AND IMPACT ON VIETNAM



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Three events starting from Y2001 have changed the Global economy irrefutably and have brought us at the cusp of unbridled economic protectionism. First, it was the act of terrorism that took place on American soil, the 9 /11 strikes. Second, the Global Financial crisis of 2007/08 and lastly the Arab Spring movement and subsequent refugee crisis that divided the political lines into sharp right or left in developed economies of Europe and United States of America.

While it is not uncommon to see politicians clamoring for more local jobs and for protectionism during times of economic constriction and then quickly foregoing the argument in lieu of advantages offered by globalization as seen in past - but this time, it is very different. The threat of terrorism in conjunction with political upheavals and not so smooth economic sailing in developed markets has meant 'Protectionism' is here to stay and at-least for few more years. The election of Trump as President and his first few months in office only asserts this behavior is going to get stronger.

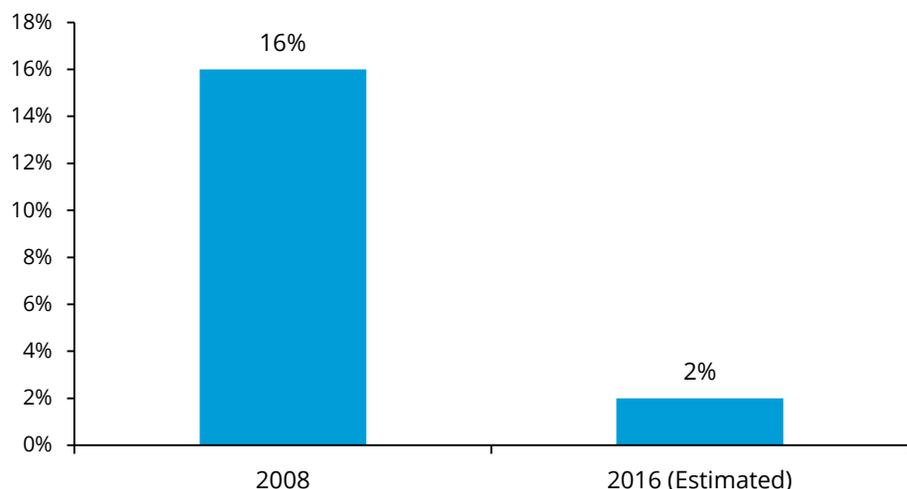
So does data substantiates that trade as a part of global GDP is getting impacted? Or is Global Capital flows so important for emerging markets drying up?

The answer is an unambiguous, Yes!

As per Chief Global Strategist at Morgan Stanley Investment Management, Ruchir Sharma – In the 2010s, for the first time since 1980s, global trade has been growing more slowly than the global economy. Big international banks have pulled back to within their home borders, afraid to loan overseas. After surging for more than three decades, flows of capital reached a historic peak of \$9 trillion and a 16 percent share of the global economy in 2007, then declined to \$ 1.2 trillion or 2 percent of the global economy.

The Tax competition where politicians are looking to reduce tax burden on local companies and make global competition less competitive, something seriously contemplated by Trump government means things don't look to improve in immediate time to come.

GLOBAL CAPITAL FLOWS AS A % OF WORLD GDP





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So what does it mean for a market like Vietnam?

Vietnam has been following the 'Flying Geese economic Model' where it wants to exports itself to prosperity and follow footsteps of Japan, Taiwan, Korea and more recently China which has already moved into a middle class economy (defined as Per Capita GDP of \$ 8 to \$ 12K/annum at nominal rate) in last 10 years. Vietnam is splendidly placed to do so. If one looks at the GDP growth over last 10 years it has registered a 5+ increase year- on -year; it is on the right side of demographic divided with 54% of population to be under age of 35 and an estimated Middle Class of 33 Million by 2020. Thus it is extremely important for Vietnam to catch this wave and make substantial inroads in next 20 years when majority workforce is still young. Japan, Korea and China grew rapidly when they had the demographic sweet-spot and Vietnam needs to do the same. However, the world seems a different place in current context than what it was till mid 2000s when exports from emerging markets were encouraged. The rise of protectionism will definitely impact Vietnam and it will need to engage in serious deliberations.

To put things in perspective, Vietnam in 1991 had a 0.04% share of global trade and is hovering the 1% mark now. This is a huge leap and as Vietnam embraces and seeps into the globalized economy, the vagaries of world trade impacts its economy more than ever in past.

The strategy to counter the situation is to drive domestic consumption that will help boost growth in coming years. This may be easier said than done as for number of years due to focus on exports; internal consumption has not been exactly encouraged. Also the manufacturers in Vietnam catering for domestic consumers need to step-up in their offering in this direction. To quote an example from FMCG industry in Vietnam that we have monitored closely has hardly seen any breakthrough innovation as per Nielsen's South East Asia Study in last 3 years. This behavior seems primarily systematic as manufacturers rely on tried and tested measures and providing for 'passable' than bring a 'wow experience' for Vietnamese consumer - Possibly the long foisted focus on exports needs to be mitigated to bring this change.

Having said this, the fundamentals of Vietnam Economy remain strong as explained above - Be It vibrant young population, growing middle class, Urbanization trend and a new found confidence that more than a decade of good growth has ingrained in population. However it will be interesting to see how markets adapt to the new order of protectionism and what holds in next 5 years to 10 years.

We are looking forward to exchanging further information with you and hearing your thought on this topic. Should you need further details in relation to this article, please contact Nielsen Vietnam at vietnaminfo@nielsen.com