

A 'dark shadow' looms over a key part of Vietnam's economy

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Vietnam's economy grew at a 5.1% year-over-year clip in the first quarter of 2017, data released by the [General Statistics Office of Vietnam](#) (GSO) showed on Wednesday.

That was the slowest growth in three years, and weaker than 2016's full-year growth of 6.21%.

While there were a variety of factors that weighed on growth, the big story is the "dark shadow" that looms over

the mining industry, the fourth biggest contributor to GDP, according to a note from BMI Research that was sent out to clients on Thursday.

Vietnam's mining industry contracted 11.4% during the first quarter, shaving a whopping 2.5 percentage points off GDP.

"While it is hard to pinpoint the exact reason for the sharp contraction in the mining sector in Q117, we believe that it could be due to a combination of a recent drop in coal prices, higher natural resources tax (which was implemented since July 1 2016), declining output from mature oil fields, as well as higher production costs due to the depletion of coal layers which are easier to access," BMI wrote.

The research firm is not expecting the sector to come roaring back anytime soon:

"Given that the extraction industry is dominated by state-owned Vietnam Coal and Mineral Industries Corporation and PetroVietnam, we expect mining output to remain volatile over the coming quarters, and the government could continue to rely on cheaper imports to fuel its growing energy demands, instead of increasing domestic output."

It wasn't just mining that weighed on growth during the first quarter.

The [worst drought in nearly 100 years](#) continued to wreak havoc on the agricultural sector, which grew at 2.03% in the quarter, its [second weakest growth rate since 2011](#).

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Additionally, Samsung's decision to [stop production of the Galaxy Note 7](#) caused a 10.7% drop in exports related to the production of mobile phones. This was notable as [Samsung is Vietnam's largest exporter](#), accounting for about 22.7% of its exports. Despite Samsung's decision to stop producing the Galaxy Note 7, Vietnam's exports still managed to grow at a 14% YoY pace in the six months between October 2016 and March 2017.

Still, BMI expects growth to snap back.

While the research firm downgraded its 2017 growth forecast from 6.4% to 6.1%, it believes Vietnam's future remains bright. It points to a relatively young, cheap, and large, skilled labor force, a wide range of free trade agreements, and an improving business environment as reasons for optimism.

Additionally, the service sector remains robust, especially the tourism sector, which saw receipts grow at a 9.3% YoY rate. "We believe that the government's effort to boost the tourism sector through a combination of measures such as aggressive marketing campaigns, visa-exemptions, and ease of custom procedures will continue to pay off over the coming quarters," BMI said.

(source: business insider)