

## What does Donald Trump's election mean to Vietnam?

The surprise victory of Donald Trump in the race for US President has unsettled the world's markets. Unlike the widely-expected victor Hillary Clinton, Mr. Trump is a blank slate in terms of how he might govern, although some of the positions he espoused on the campaign trail promise to upend the world order of the past decade. While it remains to be seen how his campaign positions materialize into policy, the following is VinaCapital's preliminary take on how a Trump administration could affect Vietnam in several key areas over the next 12 months.

### Trade and FDI

The passage of the Trans-Pacific Partnership (TPP) – already in doubt before the election – now appears to be out of the question. One will recall that various estimates put the impact of TPP on Vietnam's GDP at +11% over the next ten years. Furthermore, the prospect of TPP was seen by many as the impetus for the high amounts of foreign direct investment (FDI) that Vietnam has recorded over the past few years.

Obviously, the lack of TPP will affect some future investment, particularly in the textiles and apparel sector, which was largely seen as the biggest beneficiary of the trade pact. Nevertheless, we believe that FDI will continue to be strong. First, Vietnam's macroeconomics are on reasonably stable ground for continued growth and the country offers a stable government. Second, Vietnam's labor costs continue to be low – about half those of China's – and that is not likely to change in the short- or mid-term. Third, Vietnam's large and young population, both as a pool of labor and as a steadily more affluent market, is an attractive demographic that is too good to pass up.

Korean and Japanese companies in particular have been the largest investors in Vietnam, investing an estimated USD84 billion over the past two decades, well before TPP was on the table. It is irrational to believe that they will look to unwind those investments or significantly change their strategies now that it is off the table.

Furthermore, Vietnam will benefit from the other free trade agreements which it has entered, including those with the EU (which remains on track to take effect in 2018), Korea, Russia, and the AEC, to name a few. Vietnam's global integration will continue, with TPP or without.

From a broader trade standpoint, Mr. Trump's protectionist themes bear monitoring. On the campaign trail, he threatened to impose a 45% across-the-board tariff on Chinese imports and a 35% tariff on Mexican imports; it remains to be seen if Vietnam might be caught up in the protectionist frenzy. The US is Vietnam's second largest market (after the EU), accounting for 23% of all exports, with textile and footwear comprising 43% or USD12 billion of total exports to the US during the first nine months of 2016, according to government data.

Hit by high tariffs in the US, Chinese companies could send their products in higher quantities to Vietnam, particularly steel (some types of which are already subject to anti-dumping tariffs in Vietnam) and other construction materials, for which demand is expected to remain high for the next several years due to continued property and infrastructure development. This would put pressure on the average selling prices. We would expect the Vietnamese government to closely monitor any such moves, and impose additional tariffs if warranted. Meanwhile, Vietnamese companies that produce goods that compete with those produced in China could face stiffer competition.

## Currency

The tariffs Mr. Trump has suggested he will impose on Chinese products will make them less competitive in the US. As a result, China may attempt to let the Yuan devalue further (it has devalued 4.6% year-to-date thus far) as a way to boost exports, with a likely ripple effect on regional currencies including the Vietnamese dong (VND), just as was seen in August 2015; Vietnam could be forced to follow suit to remain competitive.

China's latitude in this area is limited, however. On the campaign trail, Mr. Trump labelled the country a currency manipulator, and has vowed to take action against the country once in office (although the form such action could take is uncertain). Extreme currency moves by China would only serve to make his case and further antagonize the US, its largest trading partner.

## Markets

Like other markets in Asia, the VN Index saw a drop as the US election results were being reported, although it slightly recovered at the end of trading. We expect a degree of further instability in the weeks ahead as the markets have a better view of what a Trump presidency might do. In the short-term, we believe that investors' interest in emerging and frontier markets could waiver as US equities become more interesting. The repatriation of funds from US corporations will also affect cash flow, which could mean higher re-investment, dividends or share buybacks. In the longer term, emerging markets may benefit. If the US economy rebounds, and anticipated corporate tax reductions (from 35% to 15%) there lead to higher earnings per share and valuations, emerging market assets will look like a bargain.

Gold has traditionally been an important asset in Vietnam. However, we see little meaningful impact from higher gold prices as the Vietnamese government has successfully weaned the domestic population away from their long-time preference for gold.

## Conclusions

From VinaCapital's perspective, Mr. Trump's election changes little in the near term. Our funds have limited exposure to companies focused on import/export, preferring instead to focus on those companies participating in Vietnam's domestic consumption growth. Of course, we will closely monitor what happens in Washington in terms of trade and monetary policy, as well as currency and interest rate issues, as these issues could ultimately impact growth at home.

Should Mr. Trump's policies succeed in spurring higher growth in the US, we believe Vietnam will benefit. A stronger US economy could offset slower growth in China. Time will tell. What we do know, however, is that a President Trump will -- at least initially -- bring a higher level of volatility to global markets and economies. As such we believe that the Vietnamese government should further accelerate the pace of privatization and other reforms that will continue to foster GDP growth through domestic consumption.

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