

## How the Russia-Ukraine War Is Impacting Vietnam's Economy

**Vietnamese businesses are already seeing the fallout from the conflict in Eastern Europe, and the impacts are only set to increase.**

By **Thoi Nguyen**

On February 24, Russia's President Vladimir Putin ordered his troops to invade Ukraine. Most Western countries, including the United States, European Union, United Kingdom, Australia, and Canada quickly imposed sanctions on Russia in response. These sanctions were unusually tough and some analysts believe that they are intended to hobble Russia's economy and punish Putin, his high ranking officials, and wealthy oligarchs who are considered close to the Kremlin.

These sanctions against Russia will have a significant impact on the global economy, and Vietnam's economy will not be spared the fallout. Russia has been locked out of the SWIFT international payment messaging system, Western countries have effectively frozen \$630 billion in Russian foreign reserves, and many large banks and financial institutions have frozen Russian overseas assets totaling some \$3 billion.

Removing Russia from the SWIFT system in particular has created a nightmare for Vietnamese businesses, who export goods and products to Russia, as there is difficulty now in making and receiving payments from Russian entities. Before the Russia-Ukraine conflict, bilateral trade between Vietnam and Russia was growing steadily, despite the negative impacts of the COVID-19 pandemic. Vietnam exports a diverse range of products to Russia and bilateral trade between the two countries has reached \$7.2 billion in 2021. Of this, Vietnam's total export value made up \$4.9 billion, a 25.9 percent increase over 2020.

Vietnam's agriculture is one of the sectors that has suffered most from the Ukraine conflict and has been forced to find new ways to survive. Truong Dinh Hoe, general secretary of the Vietnam Association of Seafood Exporters and Producers, stated that Vietnamese business owners trading with Russia are worried about collecting payments after Russia's exclusion from the SWIFT system. For example, the Phuc Sinh Group, a Vietnamese export business that engages in around \$10 million in trade with Russia each year, has said that it is losing considerable revenue due to the Western sanctions.

The war has also caused world gasoline prices to rise, posing difficulties for Vietnam's agricultural production and its import and export of agricultural, forestry, and fishery products. Furthermore, some Vietnamese shipping lines have refused to accept orders to transport goods from Vietnam to Russia due to sanctions. In particular, businesses that rely on input materials from Russia or Ukraine face the risk of direct supply shortages caused by the war, while the Vietnamese airline industry could also suffer as the rising cost of oil flows through to the consumer.

Vietnam's tourism industry is also set to be affected. Russia was the sixth largest source of international tourists prior to the COVID-19 pandemic, but the sanctions have made many

Russians worried about not being able to access funds if they travel abroad. This is something that will clearly impact Vietnam's reopening to international tourists last month.

The conflict ultimately will cause shortages and increase prices for many commodities such as oil, gas, and grains, of which Ukraine is one of the world's largest exporters. As a result, inflation will increase, and Vietnamese businesses that depend on imported materials but are unable to increase their selling prices to offset the rising material costs will face trouble. The inflation risk also has the potential to slow down consumption and capital investment in Vietnam's economy, including state public investment.

There is no doubt the Russia-Ukraine conflict has worsened inflation and disrupted supply chains. This conflict will also cause delays and increased costs in many industries and lead to shortages of many basic commodities, which directly increases the input prices for businesses. On the other hand, the global economy will be stagnant and make the international investment environment more difficult for many businesses.

It is too early to judge the impact of the Russia-Ukraine war on Vietnam's economy. But it can be seen that it already had a negative impact for many Vietnamese businesses and caused the macro risks for the Vietnamese economy to increase.

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