

**Vietnam's efforts in building sustainable
economic development in the post-pandemic period**

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Abstract

The post-pandemic context is characterized by a long-term uncertainty of world economic development. The short-term prospect of recovery is unclear. Resources for development are depleting, resulting in financial and monetary difficulties, spreading to other social issues. This economic uncertainty is accompanied by the major power competition that has expanded not only in political, economic and security sectors but also in the fight against the pandemic. These events happen on top of the lasting issue of climate change. Given this uncertain external context, the issue of sustainable development has become more significant. Making efforts to overcome challenges and take advantages of emerging opportunities, Vietnam set the target for a sustainable economic development in the post-pandemic period, enabling synergies with APEC agenda in the post 2020.

Current status

Vietnam's economy has been largely impacted by the Covid-19 but remained resilient. The country has made its best to control to limit the infected patients around 1000 people so far. For the last 9 months, the Gross Domestic Product (GDP) growth rate was 2.12%, and is expected to reach 2.5% for 2020, much lower than the previous year, which was about 7%. In the first 9 months, the total import - export turnovers increased 1.6%, export increased 4% compared to the same period last year²⁴⁵, although the export market was narrow which made 47% of export enterprises unable to export. In the first six months of 2020, more than 30 million Vietnamese laborers,

²⁴⁵ Tapchitaichinh.vn, "Xuat khau 9 thang: Doanh nghiep noi vung vang vuot bao Covid-19" (Export in 9 months: Enterprises strongly weather the storm), 10/2020, <http://tapchitaichinh.vn/su-kien-noi-bat/xuat-khau-9-thang-doanh-nghiep-noi-vung-vang-vuot-bao-covid19-328401.html>

about half of total labor forces were negatively impacted during the social distancing. The average income of laborers has been reduced about 5%. While 86% of enterprises have been negatively impacted by the Covid-19, the hardest hit sectors are those who work in the service sector (72%), industry and construction (67.8%) and agriculture, forestry and fishery industries (25.1%). In addition, the country witnessed a rising unemployment of 2.73% in the second quarter, the highest in the last 10 years, increasing vulnerabilities of enterprises, especially small and medium enterprises. Some sectors such as tourism and aviation sector may recover only after 3-4 years. It is expected that the tourism will lose about 20 million of international tourists in 2020²⁴⁶.

A new normal

A new normal has been being shaped by co-existence with the Covid-19. A new normal is characterized by domestic and international uncertainty. The life style has adjusted toward less travelling, less gathering, more virtual meetings and conference, and online education and working as people are changing their ways of interaction, living, working and communication. While the some of main drivers in the old normal for Vietnam's economy were foreign direct investment (FDI) and exports, now the country is and will be in severe difficulty with reduction of exports and FDI. This set a requirement for the government to look for new drivers.

Challenges

Striving for sustainable development faces many difficulties caused by both external and internal factors. Externally, the major power competition, protectionism and unilateralism together have increased global uncertainty, which in turns would reduce investors' confidence and consumers spending attitude. Internally, Vietnam's economy is characterized by internal shortcomings and weaknesses of a developing economy with low-middle income trap. Its growth depends on capital, cheap labor and foreign investment areas which are negatively impacted by the Covid-19.

²⁴⁶ General Statistics Office, "Thong cao bao chi Tinh hình Lao dong viec lam Quy II va 6 thang dau nam 2020" (Press release about the situation of labour in quarter II and the first six months of 2020), 7/2020, <https://www.gso.gov.vn/default.aspx?tabid=382&idmid=2&ItemID=19674>

In the short term, the most concern is that Vietnam's domestic economic power is weaker this year than last year, which may delay the speed of recovery. This context has caused concerns of a prospect of a long period of slow global economic recovery that would inhibit Vietnam's efforts to build a sustainable economic growth and development. Former domestic drivers for traditional growth which are external demands and private consumption may not be as effective as they used to be, due to reduction of demands in the region and the world. Other concerns would be:

Reduction of input materials for production: Due to high export growth rate, Vietnam has to import input materials for production because of weak supporting industries and limited capacity to exploit raw materials. As Vietnam's main import markets are fighting the Covid-19 (China, South Korea, Japan...), about 54% of enterprises (especially textiles, footwear, automobile and electronic production sectors) are facing shortages of input materials for production.

MSMEs: The MSMEs face the more difficulties than other enterprises especially during the Covid-19. About 94%-97% of MSMEs working mainly in the tourism, education and training, commerce sectors are hardest-hit enterprises²⁴⁷. The main reasons, among others, are reduced revenue to cover incurring cost, temporary termination of operations, limited liquidity, capital, finance access, shortage of input materials, small market, low technology and limited capacity to meet the bank loan requirements, according to a survey carried out by the National Economic University²⁴⁸. Hence, with extended social distancing, the MSMEs would easily go bankruptcy.

Reduction of FDI inflows: Foreign Direct Investment (FDI) plays an important role as one of key drivers for Vietnam's economic development, as it accounts for about 70% of Vietnam's export. However, due to the economic recession in the world, the FDI

²⁴⁷ General Statistics Office, "Bao cao ket qua khao sat danh gia tac dong cua dich Covid-19 den hoat dong san xuat, kinh doanh của doanh nghiep", "Report on Survey on impact assessment of Covid-19 on enterprises' production and business activities", 5/2020, <https://www.gso.gov.vn/default.aspx?tabid=382&idmid=2&ItemID=19623>

²⁴⁸ Do, Van Huan, "Anh huong cua Covid-19 den cac doanh nghiep – Ket qua tu dieu tra khao sat doanh nghiep" (Impact of Covid-19 on enterprises – Results of enterprises survey), National Workshop on "Policy to overcome impact of Covid-19 for economic recovery and development", Publisher of National Economic University 2020.

inflows reduced about 19%²⁴⁹ compared with the same period last year. It's urgently that the country has to look for new ways to attract FDI and new drivers for the economy to maintain sustainable economic development.

In the long term, more uncertainty would be in many different fields, for instance the energy security, the water security. There are some warnings and predictions relating to non-traditional security issues, for instance possible wars on water resources, which now together with the traditional security issues have gradually emerged to become more severe and intense for Vietnam.

Opportunities

Vietnam, however, has been taking certain advantages of the changes of certain trends for its development. Most remarkably, many countries are readjusting the globalization toward more human-centric with the attention to the issues of reducing the inequality, and financial inclusion and development partnership, and supply chain resilience. Vietnam can cooperate with APEC members for promotion of healthcare partnership, vaccine development.

With the advantages of geopolitical position, improved business environment, potentials for development in the medium term, it is expected that Vietnam have more opportunities to attract foreign investment as a result of the new trend of relocation of manufacturers due to global supply chain disruption. Many foreign direct investment enterprises from the United States, European Union, Japan, and South Korea have been looking for new investment destination for moving their production and manufacture. According to a recent Japan External trade Organization's survey on supply chain source diversification with 30 Japanese enterprises operating abroad, half of them want to expand and diversify their production in Vietnam²⁵⁰. One of the main reasons is that Vietnam is among fastest developing markets in the Southeast Asia and

²⁴⁹ <https://congthuong.vn/da-nang-thu-hut-dau-tu-tao-dot-pha-trong-trang-thai-binh-thuong-moi-bai-1-nhan-dien-nhung-kho-khan-co-hoi-145339.html>

²⁵⁰ Congthuong.vn, "Doanh nghiệp tuoc lan song dich chuyen chuoi cung ung: Khong thay doi, kho tiep can" (Facing the shift wave of supply chain: Enterprises must change to access), 14/10/2020, <https://congthuong.vn/doanh-nghiep-truoc-lan-song-dich-chuyen-chuoi-cung-ung-khong-thay-doi-kho-tiep-can-145389.html>

maintains a dynamic growth on global market share in the manufacture areas. In addition, Vietnam has maintained positive Gross Domestic Product economic growth, and successfully controlled the Covid-19. Domestic supporting industries may cooperate with FDI enterprises to enhance their position and capacity in participation in the global value chain and supply chain. However, the domestic enterprises need to overcome certain constraints such as shortage of human resources in the supporting industry while the government will need to develop high quality infrastructure.

In addition, Vietnam has great opportunities to access to European Union market, advanced technology, and investment with the recently ratified European Union-Vietnam Free Trade Agreement and European Union-Vietnam Investment Protection Agreement since 1/8/2020. The FTA is expected to enhance Vietnam's key exports such as footwear and textiles to the EU, creating more competitive advantages over Chinese competitors in these areas. Hence, Vietnam is expected to be able to restructure its international trade to less depend on few markets.

Similarly, as Covid-19 accelerates the enterprises' digital transformation, for instance, online education, sharing digital data, meeting rising good quality service demands of middle-income classes. Small enterprises have demonstrated their flexibility and resilience by application of e-commerce to reduce cost and optimize resources while doubling their revenue and productivity and improving sustainable growth in the long-term. It is expected that digital transformation for SMEs in Vietnam may contribute from US\$24 to US\$30 billion to Vietnam's GDP in 2024, accelerating the economic recovery in the post pandemic²⁵¹. The Covid-19 then has forced the enterprises to transform their mindset to make remarkable digital changes to catch up with global digitalization trends.

²⁵¹ Congthuong.vn, "Chuyen doi so cua cac DNVVN co the dong gop 30 ty USD vao GDP Vietnam" (Digital transformation of SMEs may contribute to US\$30 billion to Vietnam's GDP), 10/9/2020, <https://congthuong.vn/chuyen-doi-so-cua-cac-dnvv-n-co-the-dong-gop-30-ty-usd-vao-gdp-viet-nam-143585.html>

Policy Response:

Given these challenges and opportunities in the context of a possible prolonged Covid-19, it is forecast that it would take at least 2 to 3 years for Vietnam's recovery in the post-Covid-19, and so the country should prepare short, medium and long-term measures. The general strategy is to effectively respond to the Covid-19, while at the same time start the process of economic recovery and strengthen the economic resilience to deal with the situation of uncertainty and complexity.

A self-reliant, inclusive and sustainable economy: Strengthening an autonomous, self-reliant economy, reducing dependence on external materials and supply chain, paying attention on the market of nearly 100 million people has been further emphasized by Vietnam's Prime Minister Nguyen Xuan Phuc in the Covid-19 context. This requires acceleration of economic restructure that supports the development of potential sectors, deepening the participation in the global value chain. Moreover, the government views that sustainable economic growth will be based on the control of the spread of the Covid-19, Vietnam's macro-economic stability, strengthened public expenditure and reforms. "Leaving no one behind" is the motto that Vietnam government looks forward to, by carrying out timely responsive measures for economic restructure and development and paying attention on the vulnerable groups. Thus, Vietnam is targeting at inclusive and sustainable economic restructure, with emphasis on development issues, building a cycle economy and green economy, infrastructure, upgrading health care and education.

Short-term policy: Effectively respond to the Covid-19

Dealing with the Covid-19, the government of Vietnam has been making great efforts to control the breakout of Covid-19, maintained safe co-existence with the Covid-19 and active restructure of the economy²⁵². Two major waves of Covid-19 outbreaks occurred, one in March and the other in July. While the country applied the full lock down for the whole country in April, it changed to limited lock down for only the

²⁵² Launched in 17/4/2020.

infected places in July, to reduce the large-scale negative economic impact of the Covid-19. While in the initial phase, Vietnam placed the priority for protection of the people, in the later phase, the country changed to follow double targets, i.e. controlling the Covid-19 and maintaining the sustainable economic development at the same time.

The government has taken various types of actions to support the affected people. For instance, the first financial relief package worth US\$2.7 billion to provide financial aid for about 20 million people. The *credit and social assistance package* has targeted small and medium enterprises (SMEs), cooperatives, and households, unemployed labors, who are most hard hit by the Covid-19. The State Bank of Vietnam has cut down the re-discount interest rate and refinancing interest rates to encourage domestic credit growth. The Ministry of Finance has deferred tax payment and land rents. The second package worth US\$800 million for businesses and laborers affected by the Covid-19 is being proposed.

However, only few enterprises and households can access support from the government with about 18% out of the first package being disbursed, missing 80% of enterprises²⁵³. The reasons are enterprises' failure to meet the conditions set by the government and lack of information about the policy²⁵⁴. Moreover, it is not easy for the government to reach out to the vulnerable groups in Vietnam, which are mainly from the informal economy. The informal sector includes 19.5 million of labor by quarter II/2020, accounting for about 56.2% of total labor. This group has limited access to social security policy while their income is only about 2/3 of the formal sector. This causes a requirement for policy adjustment to better meet the demands of the most vulnerable and affected groups.

Supporting private sector development, especially MSMEs: The country focuses on development of the private sector with special attention to support MSMEs, assisting the start-up, unemployed workers. The private sector plays an important role and is

²⁵³ Baochinhphu.vn, "Ho tro Doanh nghiep Covid-19: Kip thoi, dung cho, lan toa rong" (Support for Covid-19: Timely, right target and large spillover effect), 15/10/2020, <http://baochinhphu.vn/Kinh-te/Ho-tro-DN-trong-dich-COVID19-Kip-thoi-dung-cho-lan-toa-rong/410724.vgp>

²⁵⁴ Baochinhphu.vn, "Ho tro Doanh nghiep Covid-19: Kip thoi, dung cho, lan toa rong" (Support for Covid-19: Timely, right target and large spillover effect), 15/10/2020, <http://baochinhphu.vn/Kinh-te/Ho-tro-DN-trong-dich-COVID19-Kip-thoi-dung-cho-lan-toa-rong/410724.vgp>

expected to be a new driver for economic growth as it accounts for nearly 45% of total investment for the economy. Increasingly aware of this fact, the government has targeted to support the private sector, especially MSMEs in terms of tax relief. Other macro programs are being implemented for enterprises such as creation of a favorable business environment, fiscal and monetary instruments, and administrative procedures reforms, to facilitate domestic production and business and enhance competitiveness, making enterprises more resilient.

Optimizing public investment: The government focuses on more effective disbursement of public investment for fiscal stimulus, increasing the total supply in the long term and total demand in the short term, compensating for the reduction of private investment. It is estimated by the World Bank that in Vietnam, if public investment increases 10%, the GDP growth rate also increases 0.6%²⁵⁵. Prioritized projects are those that may have largest spilling over effects while avoiding technical and financial losses and enhancing the competitiveness of the economy.

Medium and long-term policy: Structural reforms:

A more active FDI promotion policy: Due to the reduced FDI inflows, the country focuses more on effective utilization and management of existing FDI, while at the same time reduced barriers to FDI flows and prepares land pools and human resources development. Some priority areas for attraction of FDI include industrial, energy sectors. In addition, in June/2020, the government has established a working group tasked with foreign direct investment promotion to attract high quality FDI. High-ranking officials have organized various meetings with leaders of multinational corporations to attract innovative, large-scale, high technology projects.

Active integration to the global supply chain: The global value chain and supply chain restructure toward diversification is expected to further escalate in the coming time. Vietnam would take advantages of this global trend by participating in the global supply chain. This requires the restructure of industrial production, human resource

²⁵⁵ World Bank, “Vietnam: Potential policies responses to the Covid-10 epidemic”, 3/2020, <http://documents1.worldbank.org/curated/en/525351589879488061/pdf/Vietnam-Potential-Policies-Responses-to-the-COVID-19-Epidemic.pdf>

development, support for innovation, creation of more favorable regulatory and legislative frameworks to facilitate the development of services more intensively and extensively in the coming period.

Digital transformation: Given the social distancing, the digital development at both national and enterprises levels have been leveled up, contributing to enhancing the national resilience. During the Covid-19 pandemic, in June 2020, the government issued the National Digital Transformation program by 2015, orientation by 2030 with the aim to develop digital government, digital economy, digital society and establish global digital technology enterprises. Promotion of the use of digital technology for digital economy, which is one of the best choices for the economy and the enterprises given the context that the pandemic has changed the social and working habits of people. Key areas to be prioritized are online working, education, e-commerce, virtual events, showrooms, and automated vehicles. This strategy is supported by the policy of human resource development that targets at development of skilled labor.

Strengthening regional linkages: Vietnam has chosen to maintain its support for trade liberalization, opposing protectionism as a way to fight Covid-19 for economic resilience. In practice, Vietnam continues to facilitate trade and investment through implementing its networks of FTAs, for instance ASEAN-led Free Trade Agreements (FTAs), Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), Economic Partnership Agreement with Japan, Free Trade Agreement with South Korea, and the recently signed Vietnam-EU Free Trade Agreement (FTA), and looking forward to the Free Trade Area of the Asia Pacific (FTAAP). The ASEAN-China Free Trade Agreement will subject to review and is expected to facilitate fast and strong bilateral economic development. These FTAs are expected great opportunities for Vietnam to exploit its competitive advantages of cheap labor cost to enhance the level of governance and connectivity and take part in the process of shaping new rules and regional trade architecture.

As the Covid-19 pandemic is yet over and may extend further in 2-3 years until vaccine is available, it is necessary for each country to closely monitor the development and possible impacts of the pandemic. Vietnam has been trying to do its

best to timely respond with uncertainty by recovery policy that focuses on domestic reforms and international integration, enhancing the resilience of the economy. Many key areas can be further promoted for cooperation with other APEC members as they are in line with APEC's key objectives and areas such as trade and investment facilitation, digital economy, and support for MSMEs, which have only limited resources and capacity to absorb the shock. Vietnam's individual efforts for sustainable economic development would be hence multiplied upon the synergy with APEC priorities.