Vietnam's Economy: Overview and Assessments of Prospects

Tran Dinh Thien[1]

[1] Vietnam Institute of Economics, Vietnam Academy of Social Sciences.
Email: trandinhthien09@gmail.com

Received on 5 November 2019. Revised on 12 November 2019. Accepted on 18 November 2019.

Abstract: Since 2007, Vietnam has gained considerable achievements with regard to economic development such as the attraction of Foreign Direct Investment (FDI) or international trade growth at a high level. However, the achievements still contain many uncertainties, entailing the decline in economic growth. The period of 2018-2019 witnessed the "abnormal" positive growth of Vietnam's economy while the regional and global economies were experiencing adverse impacts from the "US-China trade war" (begun with the "battlefield" of trade and now spreading to other "battlefields" such as technology and finance) as well as geopolitical turmoil in numerous hot spots. This positive growth is not something random but the result of a strong restructuring process that Vietnam had made efforts to implement in the previous stage. In the context that the world is currently going through many changes, it is a "strong dose of reagent" for the country's goal of becoming an upper-middle-income country by 2035.

Keywords: Economic growth, foreign direct investment, inflation, restructuring.

Subject classification: Economics

1. Overview of the period of 2007 - 2019

Vietnam's accession to the World Trade Organisation (WTO) in January 2007 has opened enormous opportunities for the country's economy. The consequent boom in trade and foreign direct investment led to the possibility of speeding up the economic growth. Vietnam would be able to quickly narrow the gap between it and other leading economies in the region.

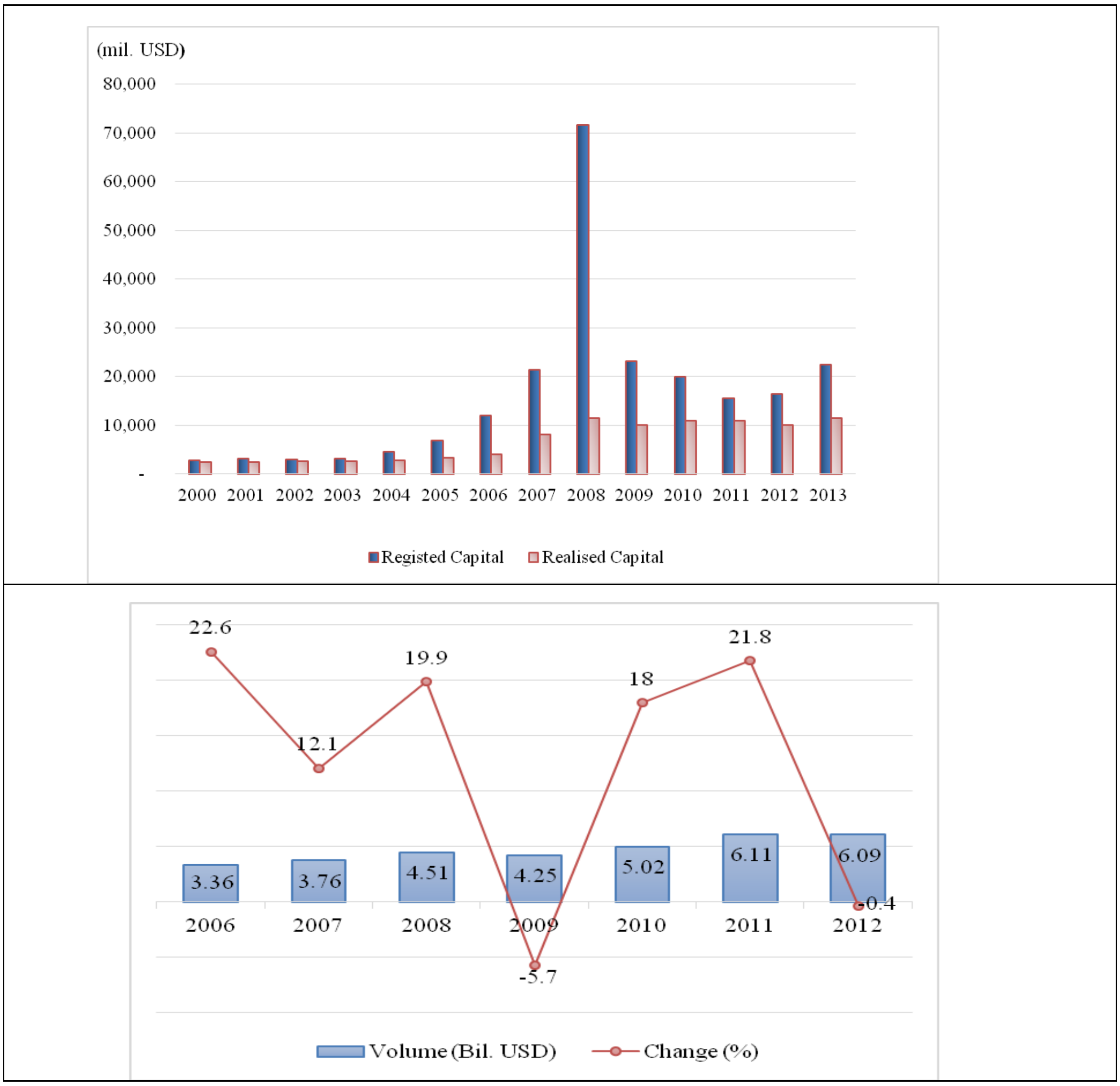
In fact, Vietnam has been, for years, seen as a "success story in attracting FDI" and being able to maintain its high commercial growth (Figure 1). These factors have created the two most important growing motivations for the country's economy during the period of *đổi mới*, or renovation.

Figure 1: Strong FDI and International Merchandise Trade

Source: The General Statistics Office of Vietnam.

However, there was another side of the coin of the story: the sudden increase and decrease of FDI flows as well as import and export (Figure 2) have made it hard to control the macro stability. This pushed the economy into a long-lasting unstable state and growth decline.

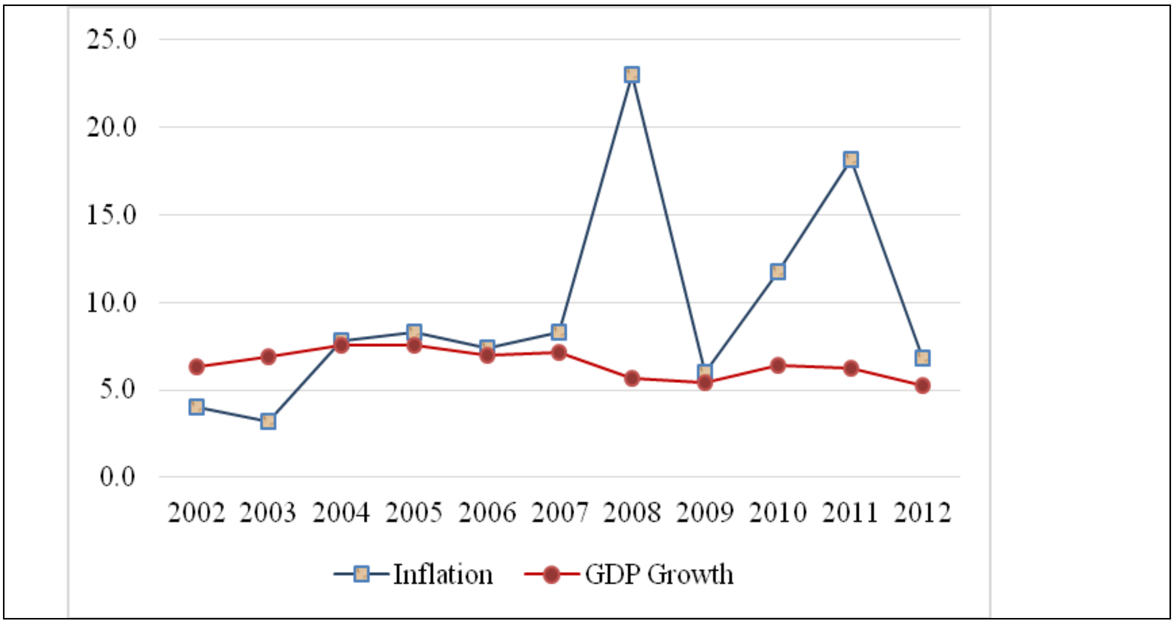
Figure 2: The Growth of FDI and International Trade are Weird



Source: The General Statistics Office of Vietnam.

This fact has inner reasons: Vietnam has not been well prepared (with regard to infrastructure, human resource, governance and macro regulation) for its integration in order to turn the opportunities into real development benefits. On the contrary, in the condition of a fast open-door economy, the poor internal capability has turned potential opportunities into development pressure and challenges, which were hard to overcome. Figure 3 indicates that Vietnam's economy soon fell into the prolonged instability, abnormal inflation increase and GDP growth decline in line with the "unexpected" growth of FDI and import-export.

Figure 3: Vietnam's Economic Growth and Inflation in Period of 2002-2012



Source: The General Statistics Office of Vietnam.

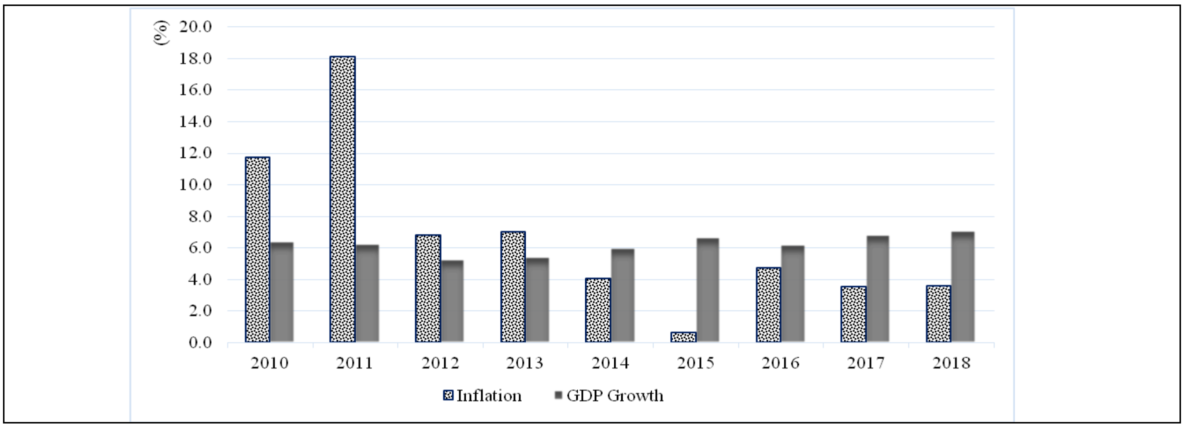
That Vietnam's economy fell into difficulties right after joining the WTO was really unconventionally. Not so many people might think that the accession to organisation could lead to such a situation of developmental, which was totally contradictory to everyone's prediction and expectation. Vietnam was not able to make use of opportunities for integration to move forward and narrow the gap with other leading economies in the region, which was so well done by China, the country joining the WTO five years earlier than it.

Since 2011, Vietnam has put into practice the Plan for Restructuring the Economy and Renovating the Growth Model, focusing on three focal points: public investment, state-owned enterprises and the system of commercial banks. This, in essence, is the way to re-start market reforms in new circumstance with an aim to changing the system of resource distribution, restoring the macro stability and improving the growth rate.

However, the process was challenged with numerous difficulties and progressed in a slow manner. The economy has remained unstable. GDP growth rate decreased and troughed in 2012 and was not yet able to return to the 2010 level in 2016 (Figure 4).

It was not until 2017 that Vietnam's economy started to be improved. Over the next three years (2017-2019), the economy has witnessed a faster growth rate; and the Consumer Index Price (CPI) has been under a proper control as well as kept at a stable and low rate (under 4%/year).

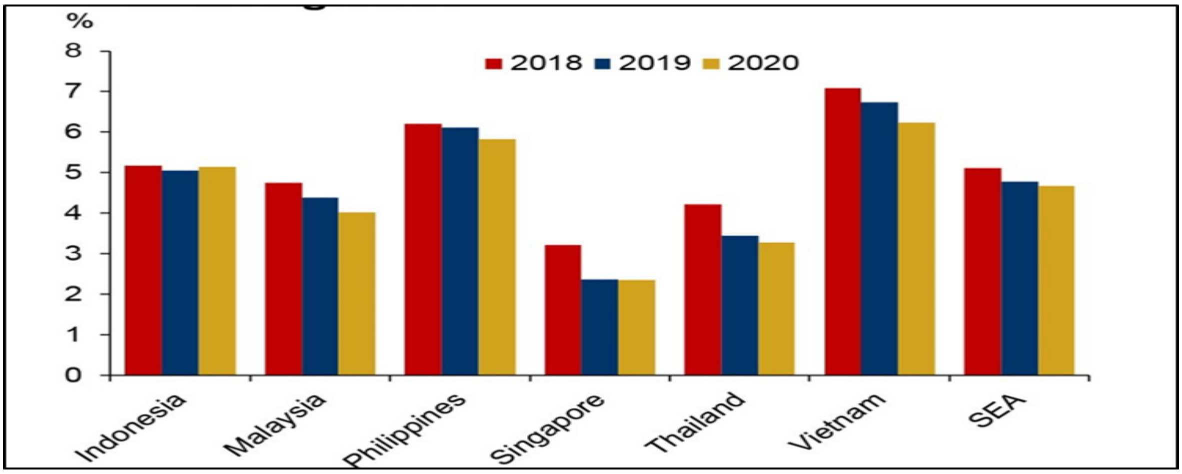
Figure 4: Vietnam's Economic Growth and Inflation in Period of 2010-2018



Source: The General Statistics Office of Vietnam.

It should be noted here that the two-year period of 2018-2019 was also the US-China trade war time, during which the trend of growth rate decline and turmoil covered the whole world's economy as well as those of the ASEAN. In such a challenging situation, Vietnam was still able to maintain a high GDP growth rate and good control of macro stability. Its achievements even surpassed those of the other ASEAN countries and are predicted to continue with the pattern in 2020 (Figure 5).

Figure 5: GDP Growth of Some ASEAN's Economies



Source: Cao Viet Sinh, Gabriel Demombynes, Victoria Kwakwa, et al., (2016), *Vietnam 2035: Towards Prosperity, Creativity, Equity and Democracy*, World Bank and the Ministry of Planning and Investment.

Another surprising achievement, which should be stressed, is that in 2019, Vietnam made a record of climbing 10 places up in the Global Competitiveness Index (GCI) of the World Economic Forum (WEF), while most of other ASEAN economies went down in their rankings (Table 1).

Together with efforts to accelerate the international integration and sign new-generation Free Trade Agreements (FTAs), Vietnam is now actively improving its investment environment and upgrading its national competitiveness. The fact should be acknowledged.

Table 1: Global Competitiveness Rankings of Asia-Pacific Countries/Territories in 2019

Countries/Regions	Ranking within Asia-Pacific	Global Ranking		Change
		2018	2019	
Singapore	1	2	1	Up
Hong Kong	2	7	3	Up
Japan	3	5	6	Down
Taiwan (Chinese Taipei)	4	13	12	Up
Republic of Korea	5	15	13	Up
Australia	6	14	16	Down
New Zealand	7	18	19	Down
Malaysia	8	25	27	Down
China	9	28	28	Down
Thailand	10	38	40	Down
Indonesia	11	45	50	Down
Brunei Darussalam	12	62	56	Up
Philippines	13	56	64	Down
Vietnam	14	77	67	Up
India	15	58	68	Down

Source: World Economic Forum, 2019.

In order to have a more authentic evaluation on the fast changing economy, we need to dissect the move of Vietnam's economy in 2019.

2. Vietnam's economy in 2019: "Unconventionally" bright

The latest data on Vietnam's economy shows that the positive trend continues to be strengthened (Table 2). This seems to be an "unconventional" achievement record in the context of the unstable global economy and sharp declining trend in growth rate under the impacts of the US-China trade war.

It is because Vietnam's economy is much smaller in size and weaker in capability yet greater in the openness compared to those of China's and the US's, while these are its two biggest trade partners. The conflicts between these two biggest trade partners push Vietnam's economy into a dilemma, which is highly likely to expose the country to strong negative impacts and vulnerability.

Table 2: The Nine-month Snapshot of Vietnam's Economy in 2019

Indicators (*)	Value, %
GDP	6,98
CPI	2,48
FDI	
- *Projects*	26,4
- *Registered Capital*	- 19,9
- *Realised Capital*	7,3
- *Supplemented capital, capital contribution and share purchase*	82,3
International Merchandise Trade	
- *Export*	8,2
- *Import*	8,9
Enterprise Status	
- *Newly established*	5,9
- *Registered capital*	34,0
- *Average capital*	26,6
- *New jobs*	13,4
Foreign tourists	10,8

Note: (*) - value over the same period last year

Source: The General Statistics Office of Vietnam.

However, Vietnam seems to have been dealing with those impacts from the US-China trade war in quite an efficient manner. The data in Table 2 shows that in the first nine months of 2019, Vietnam reached the highest GDP growth rate in the past nine years; CPI was, at the same time, well under control and reached its lowest level in the past three years. There have been also new moves in the attraction of foreign investments. The number of FDI projects has increased significantly (26.4%), but the average scope of the capital decreased, equivalent to only 40% of that of 2017. On the other hand, the inflows of Foreign Indirect Investment (FII) to Vietnam in 2019 increased dramatically, reaching a record of 82% in comparison to the same period in 2018. The M&A market in Vietnam has been ignited and shown signs of booming.

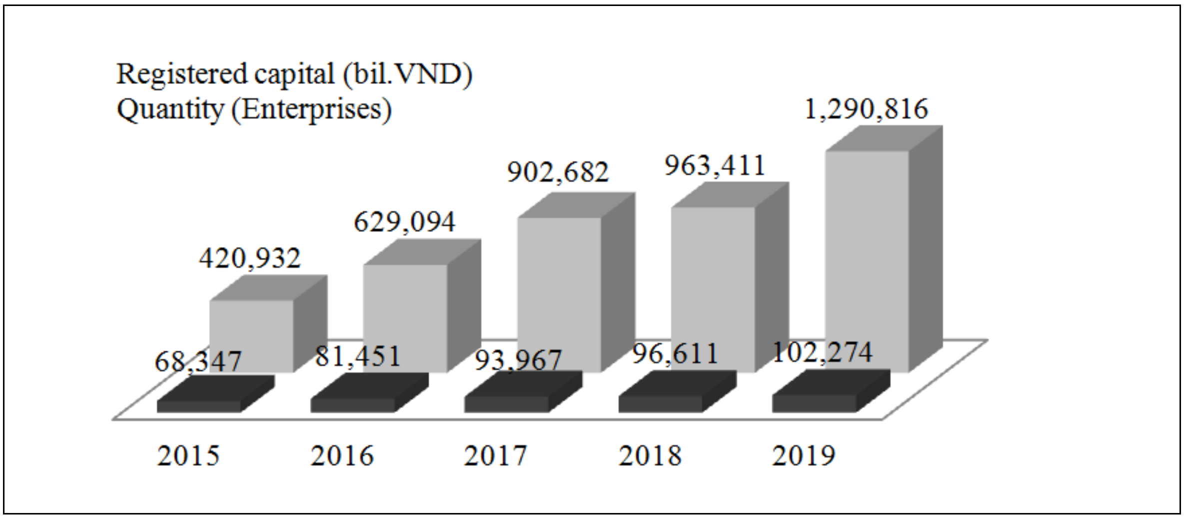
This unconventionally trend is closely related to the anomalous increase of "capital of Chinese-citizenship" invested into Vietnam since the start of the US-China trade war. The great number of small-scaled projects in Vietnam has caused justifiable worries about the level of technology and environmental impacts on the economy. It also carries the risk of increased Chinese goods intruding into Vietnam along with "investment flows" so that they can "change their origins" before being exported to the US.

In the "gloomy time" of the world trade, Vietnam's import-export growth in the first ten months of 2019 remained considerably high, continuing its role as the motivation for economic growth (Figure 6). However, changes in the structure of trade growth indicate a warning nature: 16.1% increase in the import from China causes a 47.9% increase of trade deficit for Vietnam from China in comparison to the same period in 2018. Meanwhile, the export from Vietnam to the US sharply went up (26.6%) [8]. This places Vietnam in the danger of being included into a "list" of economies that can be under sanctions by President Donald Trump's Administration for "origin frauds" (helping to export goods of Chinese origin to the US).

Recently, the development of enterprises in Vietnam has also been impressive. All three growth indexes (the number of enterprises, capital size and job creation) during the first ten months of 2019 are positive. This has proved the drastical return of trust in Vietnamese enterprises while the world economy is still in fluctuation.

In the first ten months of 2019, there were 107 countries and territories investing into Vietnam. Hong Kong (China) leads the list with an investment capital of USD 6.45 billion. Following up is the Republic of Korea with USD 5.52 billion, making up 19% of the total investment into Vietnam. The third place in the list belongs to Singapore, which is followed by China, Japan and others. Among the countries and territories, investments from China and Hong Kong tend to increase in comparison to the same period in 2018 due to the impacts of the US-China trade war. Specifically, the investment from China has almost doubled, while that from Hong Kong (China) has increased by 3.84 times in comparison to the same period in 2018. [8]

Figure 6: No. of Newly Established Enterprises in Nine Months of Year during 2015-2019



Source: The General Statistics Office of Vietnam.

Explaining clearly essence of the "upward" trend of Vietnam's economy recently will help to identify prospects of the economy and evaluate its real competence accurately in the current unstable world.

It is grounded to affirm that the improvement in Vietnam's growth rate and the country's stable trend, which is ever-more attracting foreign investments, is not simply out of "benefits" from the US-China trade war. This attractiveness originates from changes in the basic structure of the economy itself, which had happened far before the US-China trade war.

Continuously in many years, Vietnam has made efforts to implement strong reforms in two aspects, internal institutions and open-door policies to integrate with foreign countries, thereby establishing a new foundation for growth and development.

Some administrative reforms that Vietnam has yielded success can be named as followings: i) reform in the growth and development model with two main orientations: prioritising the private sector and targeting a high growth rate based on the firm macroeconomic stability; ii) active engagement in new-generation FTAs (especially the CP-TPP and EVFTA), thereby creating strategic advantages in comparison to other economies in the region; iii) implementation of new strategies in attracting FDI with priorities over attracting high technologies to create high added values and linking chain - global production network; iv) encouragement for startups and innovative activities; v) government reforms along with developing the "tectonic state" (a term of Vietnamese origin, implying a state which is constructive and facilitating).

The above reforms clearly show the desire and measures to develop a risk-resilient economy, thrive to a high development level and narrow the gap between Vietnam with countries that started earlier. Although achievements have been still modest so far, those reforms clearly indicate orientations of making fundamental structural changes to firmly improve the situation. The US-China trade war with its severity and very intense negative impacts is playing the testing role in Vietnam's reform efforts. That testing is, in fact, bringing about positive results. Vietnam is an increasingly attracting destination for foreign investments. That results from efforts in improving the internal investment environment and actively integrating into the world.

According to the ranking of the best economies for investment by the US News & World Report, Vietnam has impressively stepped up from place 23 in 2018 to place 8 in 2019.

The publication asserted that reforms of economic policies conducted since 1986 had made Vietnam a stronger and more competitive country. It had also become more integrated since its accession to the WTO in 2007, the Association of South East Asian Nations (ASEAN), the Asia-Pacific Economic Cooperation (APEC) forum and major trade agreements. Invest-in is the category that Vietnam earned the best scores in being ranked in this ranking by the US News & World Report.

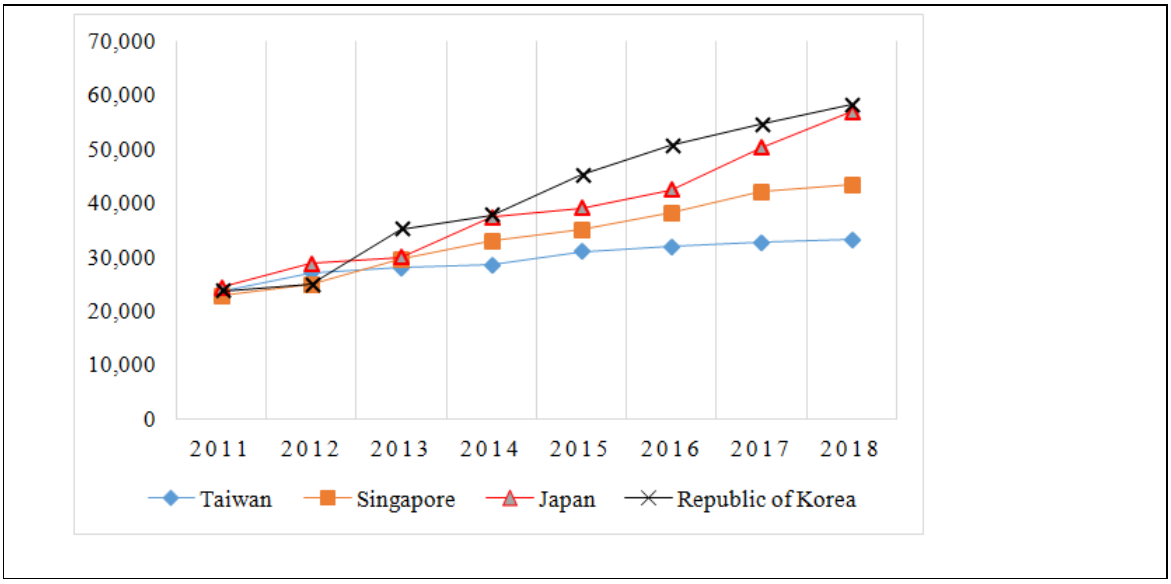
For overall results, the country stands 39th in the 2019 list, stepping up from the place 44th in 2018. Among the categories, Vietnam scored the highest in "Open for business" thanks to its low production fee.

The ranking was based on the evaluation

by 7,000 company leaders worldwide with eight categories reflecting criteria, namely the start-up spirit, economic stability, favourable tariff policies, innovation, skilled labour force, expertise in technology, dynamism and corruption. The criteria were compiled based on a report in 2011 by the World Bank (WB), which emphasised four factors that could make a nation an ideal destination for investment: the people, environment, relations, and legal framework.

That trend is the most clearly reflected in investment inflows to Vietnam from East Asian economies such as the Republic of Korea, Japan, Singapore and Chinese Taipei (the territory of Taiwan) long before the outbreak of the US-China trade war (Figure 7). The trend of increasing investments into Vietnam from these "time-tested" investors has remained unchanged during the trade war.

Figure 7: Major Sources of FDI in Vietnam



Note: Accumulated base, in millions of USD

Source: Foreign Investment Agency of Vietnam.

The Republic of Korea (RoK) is the biggest investor into Vietnam in all spheres: the number of projects, the amount of investment capital, the coverage of investment (in sectors and provinces) and especially the number of big groups as investors. In 2019, China (including Hong Kong) has become the year's biggest investor in Vietnam. However, progressively, by February 2019, among the 130 countries and territories still having valid investment projects in Vietnam, the RoK has come out on top with the total registered capital of USD 63.7 billion, making up 18.4% of Vietnam's total investment capital (Table 3).

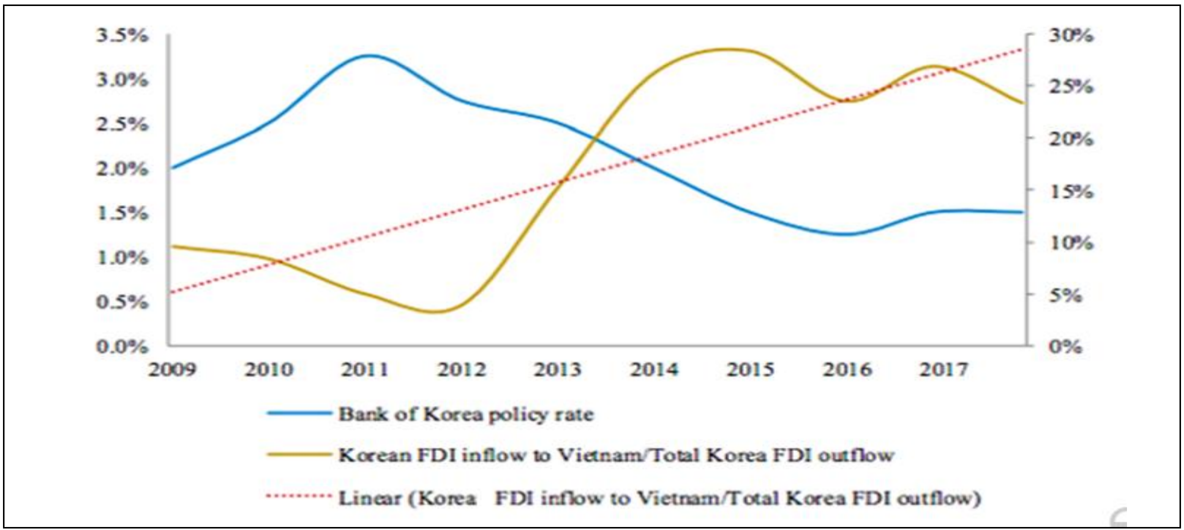
Table 3: Foreign Direct Investment Projects Licensed by Main Counterparts

Countries/Year	2018	2019	Trend
Republic of Korea	3,657.6	2,095.8	Up
China	1,217.1	2,023.8	Down
Japan	6,592.1	1,582.3	Up
Singapore	1,423.6	1,465.0	Down
Hong Kong (China)	1,128.9	1,251.4	Down
Thailand	898.6	441.4	Up
Others	3,058.3	2,113.7	Up

Source: The General Statistics Office of Vietnam.

After the FTA signing between the RoK and Vietnam in 2015, promoted by the high investment growth, the trade volume between the two countries has increased by nearly 50%. Overtaking the US, the RoK has become Vietnam's second largest trade partner, ranked only after China. In 2018, their two-way import-export turnover was USD 68.2 billion (Figure 8).

Figure 8: Vietnam Has Become The Hottest Investment Destination of the RoK's FDI Flow

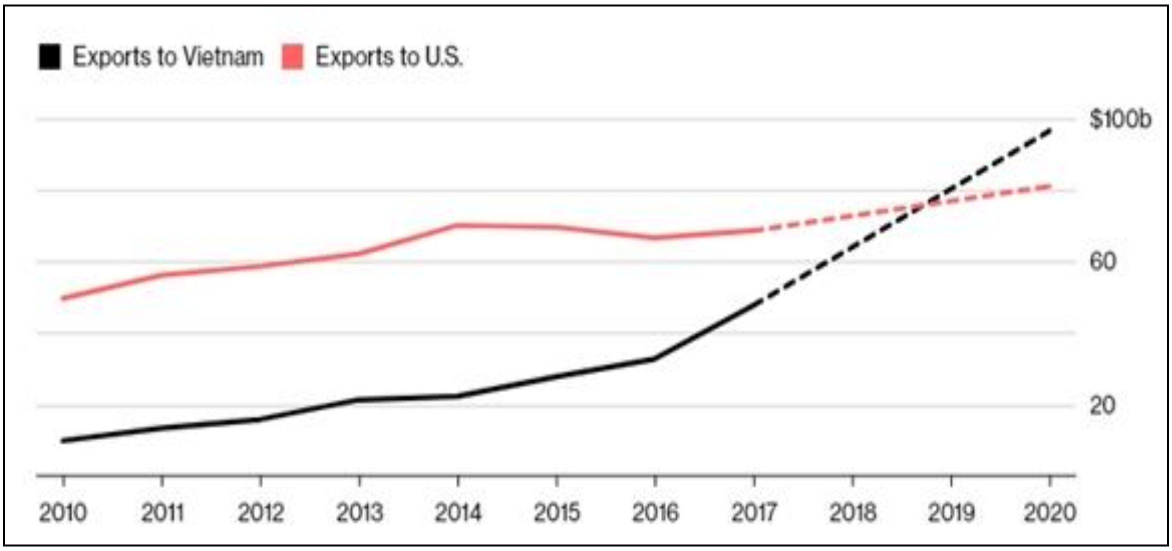


Source: The General Statistics Office of Vietnam.

The two countries are targeting a bilateral trade turnover of USD 100 billion in 2020 - a really tough goal when there is only one more year to go. Nevertheless, the US-China trade war seems to play a strong motivating role in the realisation of this goal. It should be noted here that the export turnover of the RoK to Vietnam has surpassed that to the US (Figure 9).

Enterprises of the RoK are being driven away from China due to the US-China trade war; and most of them have chosen Vietnam as their next destination. There are good reasons to predict a boom in the export from the RoK to Vietnam in the years to come.

Figure 9: Vietnam's Export Performance: Republic of Korea versus US



Source: The General Statistics Office of Vietnam.

3. Prospects of Vietnam's economy in the period to come: positive and bright, yet full of challenges

It is risky to make any predictions of long or even medium term in such unforeseeable fluctuations of the world's economic and political affairs. The riskiness of such predictions is high from technological, geopolitical and economic perspectives.

However, for Vietnam's economy, the short-term projection is based on highly-convincing foundations.

Major international institutions such as the WB, the International Monetary Fund (IMF), or the Asian Development Bank (ADB) have all made their predictions about Vietnam's economy in 2020. The predictions might be more or less different from one another in their extents, but they are consistent in terms of the basic trend: while the global and regional economies continue to be trapped with difficulties or even to face a more declining and unstable state in some years to come, the prospects of Vietnam's economy are still seen as positive with two emphasised points:

Firstly, Vietnam will be still able to maintain a high GDP growth rate and macro stability in comparison to the majority of other economies in the world.

Secondly, GDP growth will be slowing and inflation increasing compared with 2017-2018, albeit not by much. The main argument provided by the WB is that Vietnam's economy cannot move fast forward alone in an unstable and declining world.

Table 4: Vietnam's Economic Prospects of 2020-2021

Selected economic indicators	2017	2018	2019	2020	2021
GDP growth (%)	6.8	7.1	6.6	6.5	6.5
CPI (annual average, %)	3.5	3.5	3.7	3.8	3.8

Source: World Bank (2019), "Taking Stock: Recent Economic Developments of Vietnam", *Special Focus: Vietnam's Tourism Developments - Stepping Back from the Tipping Point-Vietnam's Tourism Trends, Challenges and Policy Priorities*.

The ADB has also forecasted the similar trend in "Asian Development Outlook 2019 Update: Fostering Growth and Inclusion in Asia's Cities" released in September 2019 [7].

Accordingly, the developing Asia's GDP is forecasted to slow down from 5.9% in 2018 to 5.4% in 2019 and 5.5% in 2020. Inflation rates across that region are projected to increase from 2.5% in 2018 to 2.7% this year and in 2020. Meanwhile, Vietnam's GDP is forecasted to slow from 7.1% in 2018 to 6.8% in 2019 and 6.7% in 2020 – just a slight decrease and thus can ensure that it is still one of the highest-growing economies in the region. The macro control of Vietnam remains good with the inflation rate projected to decrease from 4.2% in 2018 to 3.4% this year and in 2020 [4].

According to the above predictions, the prospects of Vietnam's economy in some years to come are optimistic. The enhancement in efforts to reform and open the economy for integration, which is most clearly shown through the promotion of new strategies in attracting FDI, and the active implementation of FTAs, has increased the practicability of the above-mentioned trend.

Among the factors, which create huge and different advantages in attracting foreign investments and differences for Vietnam, the "golden population" (the 100-million-people market with a high potential of income growth) and the "trade and investment hub" are truly stood-out ones. The fact that Vietnam has participated in 16 FTAs, covering most of the biggest markets, enables investors to easily get access to the market and build up their business network at the global scale.

Vietnam has five sectors/areas with tremendous development potentialities in the future: i) industries with traditional comparative advantages such as textile, footwear, electronics, agricultural production and aqua-culture; ii) tourism, entertainment, education, healthcare, pharmacy and retail distribution to serve consumers; iii) connection, supporting network, production value chains and logistics; iv) infrastructure and real estate, including those for housing, offices, tourism, retail and industrial zones; v) platform economy, green economy, smart cities, fintech, e-commerce and others.

These are priority areas targeted for foreign investments in the period to come. However, not everything is advantages for Vietnam. The country's economy itself is suffering from several weaknesses and unreleased bottlenecks. They are: i) insufficient infrastructure; ii) incomplete reform in the public sector; iii) unqualified human resource and strong trend of pay rises; iv) weak contingent of domestic enterprises and lack of an effective connection mechanism with the FDI sector

In external relations, the large reliance on China's market and the danger of being made use of for commercial fraud, which can lead Vietnam to sanctions imposed by the US in the context of global trade conflicts, especially between the US and China, and have not been controlled yet, constitute a warning-worthy fact.

Additionally, although Vietnam has still kept a good control of exchange rates so far, the fact that it is "trapped" between the two leading trade partners with regard to import and export has put the country's domestic currency and monetary policies under risks.

The focal task of Vietnam at present is to overcome the obstacles in the years to come, and there are grounds to believe that the country will yield positive results.

Vietnam's great aspiration is to rise fast to escape from its backwardness in the period to come. It has set certain objectives to thrive in some areas, especially in the digital economy. It is also making efforts to become an upper-high-income country in the next 10-15 years.

In doing so, Vietnam has to reach an average economic growth rate of 7.5%/year in the next ten years. The implementation of the task needs to be actively started right in 2020 [4].

4. Conclusion

The FDI, as well as goods import - export, have been the two most important motivations of Vietnam since the country's accession to the WTO. However, the "strong fluctuations" of the two factors has made it hard to control the macro stability and pushed the economy into a long-lasting unstable state and growth decline.

Efforts to restructure the economy as well as institutional reforms focusing on the business environment improvement have helped Vietnam to show signs of strong revitalisation regardless of negative impacts from the international context.

However, the regional and global scenarios are increasingly becoming unstable and unpredictable, which is projected to adversely affect the prospects of Vietnam's economy in the time to come. Therefore, to accomplish the set goal of becoming an upper-high-income country before 2035, Vietnam needs to make more concerted efforts to restructure its economy with two main driving forces, namely developing an equitable and transparent business environment and reforming the public administrative apparatus to move towards the target of the "tectonic state".

Notes

[1] This paper was translated by Vu Xuan Nuoc, edited by Etienne Mahler.

[2] The article was written within the framework of a research of the National Foundation for Science and Technology Development (NAFOSTED) entitled "Restructuring Vietnam's economy in 2011-2020 towards sustainable development".

References

[1] Ngân hàng Thế giới (2018), "Điểm lại: Cập nhật tình hình phát triển kinh tế Việt Nam", *Chuyên đề đặc biệt "Tạo thuận lợi thương mại bằng cách hợp lý hóa và cải thiện tính minh bạch của các biện pháp phi thuế quan"*. [World Bank (2018), "Taking Stock: An update on Vietnam's recent economic developments", *Special Focus: Facilitating Trade by Streamlining and Improving the Transparency of Non-Tariff Measures*].

[2] Ngân hàng Thế giới (2019), "Điểm lại: Cập nhật Tình hình Phát triển Kinh tế Việt Nam", *Chuyên đề đặc biệt "Phát triển du lịch tại Việt Nam: Nhìn lại từ điểm tới hạn - xu hướng, thách thức và ưu tiên chính sách cho ngành du lịch Việt Nam"*. [World Bank (2019), "Taking Stock: Recent Economic Developments of Vietnam", *Special Focus: Vietnam's Tourism Developments - Stepping Back from the Tipping Point - Vietnam's Tourism Trends, Challenges and Policy Priorities*].

[3] Cao Viết Sinh, Gabriel Demombynes, Victoria Kwakwa, et al., (2016), *Việt Nam 2035: Hướng tới Thịnh vượng, Sáng tạo, Công bằng và Dân chủ*, Ngân hàng Thế giới và Bộ Kế hoạch và Đầu tư Việt Nam phối hợp thực hiện. [Cao Viet Sinh, Gabriel Demombynes, Victoria Kwakwa, et al., (2016), *Vietnam 2035: Towards Prosperity, Creativity, Equity and Democracy*, World Bank and Ministry of Planning and Investment].

[4] Nguyễn Quang Thuấn (chủ biên) (2018), *Kinh tế Thế giới và Việt Nam 2017-2018: Tạo lập nền tảng cho tăng trưởng nhanh và bền vững*, Nxb Khoa học Xã hội, Hà Nội. [Nguyen Quang Thuan (chief author) (2018), *Economies of the World and Vietnam in 2017-2018: Creating Platform for Rapid and Sustainable Growth*, Social Sciences Publishing House, Hanoi].

[5] Nguyễn Quang Thuấn (chủ biên) (2019), *Kinh tế Thế giới và Việt Nam 2018-2019: Hướng tới năm 2020 hoàn thành các chỉ tiêu của kế hoạch 5 năm*, Nxb Khoa học Xã hội. [Nguyen Quang Thuan (chief author) (2019), *Economies of the World and Vietnam in 2018-2019: Moving towards 2020 to Accomplish Targets of Five-Year Plan*, Social Sciences Publishing House, Hanoi].

[6] Lee Han Woo, Bùi Thế Cường (2015), *Việt Nam - Hàn Quốc: Một phần tư thế kỷ chia sẻ cùng phát triển*, Nxb Đại học quốc gia Thành phố Hồ Chí Minh, Tp. Hồ Chí Minh. [Lee Han Woo, Bui The Cuong (2015), *Vietnam - Republic of Korea: A Quarter of Century of Sharing and Development Together*, Ho Chi Minh National University Publishers, Ho Chi Minh City].

[7] Asian Development Bank (2019), *Asian Development Outlook (ADO) 2019: Strengthening Disaster Resilience*.

[8] https://www.gso.gov.vn/default.aspx?tabid=621&ItemID=19388, retrieved on 12 September 2019.