

Vietnam's Economy in 2019: Situation, Risks, and Prospects for 2020

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Abstract: *Vietnam in 2019 achieved many positive economic results. In 2020, however, it is projected that the country would face both internal and external challenges, particularly under the negative impacts of the Covid-19 outbreak. In order to succeed the 2020 socio-economic development targets, the government of Vietnam in parallel with resolving internal economic issues needs to implement synchronous solutions for strengthening the macroeconomic environment and enhancing the economy's resistance and resilience against unpredictable external shocks.*

Keywords: Economic Growth, Macroeconomic Stability, Vietnam's Economy

1. Introduction

Vietnam's growth of total output higher than target in 2019 together with an inflation rate under control have contributed to the country's macroeconomic stability. The trade and budget surpluses also critically help lessen public and external debts and increase foreign exchange reserves as well as stabilize foreign exchange markets and exchange rates.

The achievements in 2019 therefore would contribute to the success of the 2011-2020 socio-economic development strategy and the 2016-2020 socio-economic development plan as the year 2020 marks the last year of their implementation periods. Nevertheless, the Vietnamese economy in 2020 might encounter both internal and external challenges which would disturb

the completion of its socioeconomic targets set at the beginning of the year.

The article first highlights some remarkable economic results of Vietnam in 2019 and then provides the analysis of external risks that may affect negatively the economy. Internal problems and risks as well as prospects are also identified, based on which some suggestions for policy makers are introduced.

2. Vietnam's remarkable economic results in 2019

Vietnam achieved its all 12 targets of socioeconomic development in 2019. Its economic growth reached 7.02%, higher than the goal set at 6.6%-6.8%.

The 2019 inflation rate of 2.79% was within the range of expectation while the growth rate of consumer price index (CPI) had been

maintained under 4% for five consecutive years, which has continuously fortified the ground for a rapid and sustainable economic growth. Despite the target set for a trade deficit in 2019, the country earned an estimated trade surplus of USD 9.9 billion besides a growth in exports of 8.1%, higher than the planned target of 7%-8%. The total investment capital expenditure satisfied the government's goal of 33.9%. As a result of high economic growth, the economy is stable with an (urban) unemployment growth rate was only 2.93%, much lower than the target of 4% set by the National Assembly.

It can be stated that Vietnam's economy experienced a successful year of 2019 when all targets regarding economic growth, inflation rate, trade balance, budget balance, and unemployment rate were met or exceeded. The results are attributable to the government's continuous efforts in improving business environment, reducing administrative procedures, and fortifying the base for economic growth through maintaining low inflation rate, easing budget deficit and public debt.

3. External risks to the economy

a) US-China trade war

The trade war between the US and China was ignited in 2018 by the US President Donald Trump's tariffs imposed on USD 50 billion worth of Chinese goods, which lasted until now. The incident more or less has affected the global trade and the growth of economies, including Vietnam.

China and the US have been Vietnam's largest partners for import and export respectively. In 2019, the country's imports from China was USD 75.3 billion, much higher than from its second largest exporter

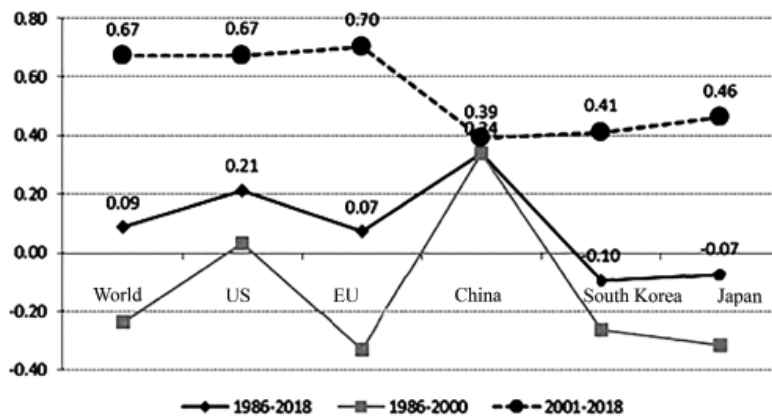
of South Korea (USD 47.3 billion) and other partners like ASEAN countries, Japan, and the EU. Meanwhile, exports from Vietnam to the US reached USD 60.7 billion, followed by the EU (USD 41.7 billion), China (USD 41.5 billion), and other markets of the ASEAN, Japan, and South Korea. (GSO, 2019).

The Vietnamese economy is thus affected by the US-China trade war in both direct and indirect ways through the following channels:

Firstly, the ongoing economic conflict between China and the US has produced negative impacts on the Chinese economy, resulting in a decline in this country's production and economic growth. China's economic growth in 2019 was only 6.1%, down from 6.6% in 2018. Since China is the largest importer of Vietnam, the drop in its economic growth means lower demand for imports from Vietnam. Among Vietnam's largest importers, the exports to China only grew at 0.2% (GSO, 2019). Moreover, China's exports to the US was also obstructed by the trade conflict, leading to a cut in its imported inputs from Vietnam.

Secondly, high tariffs on Chinese products have created a gap in the US market and bring opportunities for Vietnamese manufacturers. In fact, the US in 2019 was Vietnam's largest importer and with the highest market growth rate of 27.8%, significantly higher than those for the other key importers. For example, the market growth rates for South Korea, Japan, and the ASEAN were respectively 8.3%, 7.7%, and 1.9% while the Chinese market only increased by 0.2% and the EU, as Vietnam's second largest import market,

Figure 1. Coefficients for the correlation of economic growth between Vietnam and selected countries and regions in 1986-2018



Source: Author's calculations based on the World Bank's data. (<https://databank.worldbank.org/source/world-development-indicators>)

even witnessed a negative growth of minus 0.7% (GSO, 2019).

Thirdly, the fact that China is Vietnam's major exporter triggers the US wariness about re-export of Chinese products through Vietnam. As a result, the US Department of Commerce in late 2019 decided to impose a tax rate of 456.23% on Vietnam's cold-rolled and corrosion-resistant steel products, for which the materials were imported from South Korea and Taiwan (China) (Kim Thoa, 2019). Although Vietnam's steel industry is not greatly affected by the US tariff, the incident was an alert for Vietnam towards performing more rigorous inspection and supervision over imported inputs for domestic products targeting the US market. Nevertheless, there have been cases where foreign products are detected to be relabeled with Vietnamese brands in order to avoid the US tariff.

In general, the US-China trade war is likely to produce high risks to Vietnam's economy. The Vietnamese government has

put in place measures to curb the negative impacts of this trade war, such as close surveillance and strong sanctions to restrict imports from China and labeling goods for re-exporting to the US. At the same time, Vietnam also demonstrates its keenness towards the US in controlling fraudulent trading by requesting the US for joint check on product labeling and for combating trade origin frauds.

b) Increasing dependence of the Vietnamese economy on the world economy

The world economy in 2019 experienced instabilities due to the US-China trade war, the US-Iran conflict, the tension between the US and North Korea and between the South Korea and Japan, as well as the protests in Hongkong (China). These complicated happenings are sometimes pushed to the peak. Such instabilities together with the unpredictability of the world economy pose certain risks to the Vietnamese economy, especially in the case of its growing dependence on the world economy.

This dependence is proven by the correlation of economic growth between Vietnam and other countries/regions based on its trade relations with these partners in 1986-2018. It can be seen in Figure 1 that the correlation coefficients in 1986-2000 were quite low, which means the Vietnamese economy was less dependent on the world economy and other trading

partners in case of instabilities. In 2012-2018, however, the correlation coefficients increased significantly, from 0.09 in 1986-2018 to 0.67 in 2001-2018. As a result, if the world economy experiences a high growth, so does the Vietnamese economy. The same is for the case of slow growth. Generally speaking, the correlation coefficients of economic growth between Vietnam and other countries/regions rose between the periods of 1986-2000 and 2011-2018. The coefficients for the correlation between Vietnam and China, however, almost unchanged over the periods of time. In particular, when the economies of China, the US, the EU, Japan, and South Korea stand independently, there is no or less severe impacts on other countries and Vietnam if one of them encounters economic shocks. However, if these major economies are interconnected or interdependent, just one of them experiencing economic shocks could produce adverse effects on the others and Vietnam. Thus, in the context of openness and international economic integration, the Vietnamese economy becomes increasingly dependent on the world economy as well as on other countries/regions, resulting in diversified risks to the country's economy.

As the US and China are the world's two largest economies, the trade war between them not only disturbs their economies but the global economy. The Vietnamese economy is certainly affected as well. If the trade relation between these two countries is improved (as suggested by the signed Phase 1 trade deal between them), the world economy in general and the Vietnamese economy in particular will probably benefit.

4. Internal risks to the economy

a) Low disbursement of public investment

Vietnam's disbursement of public investment in 2019 was low. As for the first nine months of 2019, the disbursement rate of public investment was only 45.71% and 49.14% of the volume assigned respectively by the National Assembly and the Prime Minister, even lower than that for the same period of 2018. Low disbursement is also observed for government bonds and official development assistance (ODA) and the rates in some ministries and localities are below the country's average. Among 31 ministries and 19 localities with a disbursement rate of below 50%, 17 ministries/central agencies and one locality had disbursed only less than 30% of public investment (Thuy Quyen, 2019).

The investment growth rates for four recent years (2016-2019) are presented in Table 1. While there was an increase in the total investment capital as well as in the investment by the non-state and FDI sectors, investment by the state sector saw a sharp decrease over the period of 2016-2019. The investment growth rate for the state sector down from 7.3% in 2016 to just 3.8% in 2018 and 2.6% in 2019, indicating a slow growth of public investment in the two years of 2018 and 2019.

Table 1. Investment growth rates (%) in 2016-2019 by sector at current price

Year	Total	State	Non-state	FDI
2016	8.9	7.3	9.5	10.4
2017	12.3	6.9	17.1	12.8
2018	11.2	3.8	18.5	9.8
2019	10.2	2.6	17.3	7.9

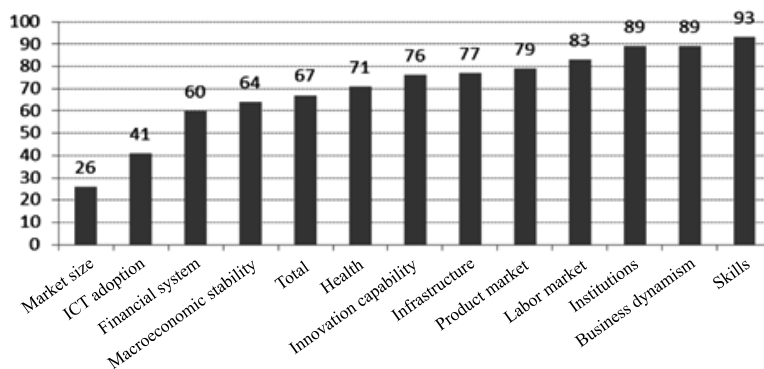
Source: GSO, 2019.

While low disbursement of public investment in the short term can be offset by the investment growth in the non-state sector, it still poses risks to the sustainability of the economy in the long run. It is because projects with positive spillover effects would be halted and private investments for infrastructure are slowly implemented.

b) Improved economic competitiveness but with low level of key indicators

Vietnam's competitiveness index has climbed up 10 places to stand at 67 as ranked by the World Economic Forum (WEF). The country is also the most improved economy globally. Among the key index components, market size earned the highest rank (26), followed by ICT adoption (41), financial system (60), and macroeconomic stability (64). Some index components, however, were ranked at a low level such as skills (93), institutions and business dynamism (89), and labor market (83) (Schwab, 2019).

Figure 2. Rank of index components for Vietnam's competitiveness index in 2019



Source: Schwab (2019).

Figure 2 presents the rank for Vietnam's competitiveness by index component. Despite a lift in the total score, key index

components which reflect the country's long-term economic growth like innovation capability, infrastructure, institutions, and skills ranked in the bottom half. Among those, infrastructure, skills and institutions remain the bottlenecks that hinders the growth of the Vietnamese economy.

5. Prospects and discussion

The analysis reveals potential risks and challenges facing Vietnam in the critical year of 2020 despite the country's 2019 achievements. Some solutions are thereby suggested as follows:

Firstly, regarding the US-China trade war, the signing of the Phase 1 trade deal though not be able to completely resolve the economic conflicts between the two countries is still expected to produce positive impacts on the world economy as well as the economy of Vietnam.

Secondly, the temporary subsidence of the US-China has not reduced risks to the world economy yet. The tension between Iran and the US and others in the West is escalating

since the death of the Iranian General Qasem Soleimani caused by the US, resulting in Iran's missile attack on the US military base in this country. This ever-increasing conflict poses risks to the economic growth and macroeconomic stability globally and to the Vietnamese economy particularly.

Thirdly, the government of Vietnam has pointed out the causes to the low disbursement of public investment, which would certainly obstruct the escalation of

public investment disbursement and the country's economic growth in 2020.

Fourthly, new opportunities for Vietnamese firms in the EU market has been brought about by the EU-Vietnam Free Trade Agreement (EVFTA), which was signed mid-2019 and approved by the EU parliament in early 2020. The question confronting the businesses, however, is how to upgrade their technology and management process in order to satisfy the EU market requirements with their products. Besides, challenges in implementing the EVFTA are also significant due to its high commitments on a broad scale that covers different issues, ranging from state-owned enterprises, public procurement, public services and investment to intellectual property, sustainable trade and development, rules of origin, and so forth.

Fifthly, the Covid-19 outbreak in early 2020 has hit hard the world and the Vietnamese economy (see further Bich Tram, 2020). Particularly for Vietnam, many industries and sectors have been seriously affected. The tourism industry, for example, has suffered an estimated loss of USD 7 billion due to a cut/slow growth in the volume of tourists (from China, South Korea, Japan, etc.) (Hoai Thu et al., 2020). Meanwhile, the Covid-19 occurrence also hinders the export of farm produce to and imported inputs for industrial production from China (Nguyen Hanh, 2020) and limit the flow of foreign labor from China and South Korea. Vietnam's economic outlook therefore will not be so optimistic. The set growth target of 6.8% appears to be a big challenge to the policy governance in Vietnam.

Some institutions and experts have introduced their scenarios regarding the

assessment of the Covid-19 pandemic impacts on the Vietnamese economy. According to the Ministry of Planning and Investment, the annual economic growth would be lower than the set target, at 6.27% or even down to 6.09% if the pandemic is contained in Quarter 1 and 2 of 2020 respectively (Ngoc Vy, 2020).

Three scenarios have been proposed also by the research team from the BIDV Training and Research Institute. For the baseline scenario, Vietnam's GDP in 2020 would decrease by 0.83 percentage points as GDP drops by 1.23 percentage points in Quarter 1 and 0.71 percentage points in Quarter 2. Under the positive scenario when the outbreak is strictly curbed and stringent measures (like closure of border gates or restrictions on tourism and trade) are removed for a return to normal activities in the beginning of Quarter 2 of 2020, the economic growth would be reduced by 1.22 percentage points for Quarter 1, 0.39 percentage points for Quarter 2, and 0.32 percentage points for the whole year. As for the negative scenario which would unlikely to happen, the outbreak would become a global-wide pandemic while preventive measures would not take effect, resulting in severe consequences that exhaust Vietnam's economy, the economic growth would be reduced by 1.24 percentage points for Quarter 1, 1.46 percentage points for Quarter 2, and 2.71 percentage points for the whole year (Thanh Thanh, 2020).

6. Conclusion

Vietnam's economy in 2020 would encounter many challenges and, in particular, the global-wide shock caused by the Covid-19 spread from China since late 2019. It is uncertain to give any

prediction about the economic situations. Thus, the best way for Vietnam to stabilize its economy is to consolidate the macroeconomic environment and enhance the economic resistance and resilience through retaining low inflation rate, improving business environment, and increasing foreign exchange reserves. In addition, it is necessary to have a synchronous implementation of fiscal and monetary solutions in a proper magnitude and for the right target groups in order to mitigate the negative consequences of the Covid-19 epidemic to the economy □

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