



Learning lessons for Vietnam's future prosperity

Vietnam has reaped impressive economic successes in 2019 and is expecting a bumper crop this year. **Raymond Mallon**, senior economic advisor to the Australia-Vietnam Economic Reform Programme, analyses these achievements and discusses priority actions needed for Vietnam to become a more prosperous nation in the coming decades.



Vietnam's growth of 7.0 per cent in 2019 was led by 11.3 per cent growth in the manufacturing sector. Total industrial sector output grew by 8.9 per cent, services by 7.3 per cent, and agriculture by 2 per cent. Growth has been achieved with macro-economic stability, including an inflation rate below 3 per cent and increased foreign reserves. Vietnam's ratios of trade and foreign investment are amongst the highest in the world and continue to grow.

Vietnam's economic performance last year was especially impressive, given global uncertainties and the slowdown in world trade and economic growth, but it has been the transformation in the sources of growth in Vietnam that is truly remarkable.

Whereas earlier decades of economic growth were driven by large inflows of foreign investment and public expenditure, recent growth has been increasingly driven by domestic consumption and private investment. Global experience suggests that a strong domestic private sector competing and innovating in a globally integrated and competitive economy, together with an effective system of public administration, provide a strong foundation for sustained economic growth.

Private domestic investment increased by more than 17 per cent in 2019, with 2.6 per cent growth in state investment and 7.9 per cent growth in foreign direct investment (FDI). This is the third successive year in which growth in domestic private investment has far outpaced state and FDI growth. As a result, the share of domestic private investment in national investment has jumped, from less than 39 per cent in 2016 to 46 per cent in 2019. This has helped accelerate growth in total factor productivity with the domestic private investment creating relatively more jobs and growth from each unit of capital invested.

Growth in exports by domestic firms also increased sharply (17.7 per cent) in 2019, while growth in exports by foreign-invested enterprises (FIEs) was a more modest 4.2 per cent. Nevertheless, FIEs still contributed 69 per cent of Vietnam's total exports in 2019, while domestic businesses accounted for 31 per cent.

Further sector developments

Another striking trend in 2019 was the rapid growth in IT-based services and the knowledge economy. Use of cashless payments systems jumped sharply. Most customs and tax payments are now being conducted through bank account transfers, and most formal businesses have registered for electronic tax payment systems. Rapidly growing numbers of people are paying power, telecoms, and water bills using non-cash systems. This promotes efficiency and transparency, and reduces opportunities for corruption and tax avoidance.

The economy has recorded sharp increases in the amounts of investment capital raised for digital startups and expansion, including for agriculture, e-commerce, and financial technology. The National Digital Transformation Plan targets Vietnam to be among the top-four ASEAN digitalised economies by 2025.

Tourism is another increasingly important sector. After several decades of sustained growth, tourism is now a major contributor to national employment and income growth. Importantly, the economic benefits of tourism are reaching people in rural areas that tend to benefit less from the development of industry and other services.

Farmers had a more difficult year because of the impacts of the African swine fever, climate change, saltwater intrusion in the Mekong Delta, and droughts in some regions. Nevertheless, there have also been some positive signs in agriculture with the development of new domestic and export markets for some higher value-added agriculture products

with improved packaging and quality standards. Rural workers also have increasing access to higher income earning opportunities in non-agriculture sectors and the share of the agriculture sector in total GDP and employment continues to decline in line with the ongoing restructuring of the economy. Urbanisation rates are expected to continue to increase. This should help reduce rural-urban gaps in labour productivity, but there will be social costs during this transition.

Recent years have also been a turning point in terms of the more substantive actions taken to address the adverse impacts of pollution and climate change on people's lives in Vietnam. While still much more needs to be done, accelerated growth in renewable energy is encouraging. Vietnamese people appear to be increasingly prepared to take action against environmental degradation in their communities.

Looking forward

Recent domestic private sector performance provides a strong foundation for future success. The key now is to learn from and build on recent successes. The government should continue to work with business and other stakeholders to identify remaining bottlenecks to productive business investment and to take actions to address these bottlenecks.

Recent efforts to target ASEAN-4 levels in the Doing Business Index and World Competitiveness Index under Resolution No.02/NQ-CP on the continued implementation of key tasks and solutions to improving the domestic business climate and national competitiveness in 2020 has helped ensure that government agencies are held accountable for delivering on reforms agreed between business and the government. Plans to establish a special working group to boost reforms and further simplify business procedures during 2020-2025 has a potentially important role to play in future success.

Vietnam also needs to focus more on the remaining institutional barriers to a competitive market economy. It is encouraging to see that land law reform is again on the national reform agenda. Current complexity and lack of transparency in markets for land use rights (especially agriculture land use rights) create inefficiencies and opportunities for corruption. There is a need for stronger and more transparent systems for property rights protection, including contract enforcement and economic courts. Stronger regulators that are independent of commercial interests are needed to enforce competition policy, to ensure standards (for example for health, education, and safety), and to oversee network industries (transport, power, and communications).

Sustained efforts are also needed to accelerate human resource development and infrastructure development to better meet the changing demands of society and Vietnam's increasingly knowledge-based public economy. Efficient public sector institutions are needed to ensure the provision of more relevant education and health services and to build the infrastructure needed to encourage increased investment in the emerging businesses that will generate more productive and higher-income employment.

And there is growing recognition that economic growth is merely a tool to help improve wellbeing. It is not an end in itself. More can be done to improve wellbeing via the effective provision of public services in rural and urban areas, by more effective environmental protection regulations and management, and by addressing the bottlenecks faced by those that have relatively less access to economic opportunities, including women.

While Vietnam is achieving relatively equitable economic development, reductions in remaining rural-urban and gender economic gaps can help ensure more equitable economic outcomes and

boost overall national productivity and competitiveness.

Vietnam is now achieving strong growth in renewable energy. The increasing availability of renewable energy at increasingly more competitive prices will provide new opportunities for Vietnam to generate greener growth and to gain a competitive advantage over countries that are acting much more slowly to reduce their dependence on fossil fuels.

New technologies are also providing opportunities to reduce environmental waste in manufacturing and reduce the use of chemical pesticides and insecticides in rural areas. Steps are also being taken to reduce the use of plastic and other non-biodegradable packaging. Accelerated progress in developing mass transport systems in urban areas and greater use of electric-powered public transport, cars, and electric cycles could help ameliorate pollution and congestion problems facing Vietnam's major cities. And Vietnam needs to continue planning for the difficult-to-predict impacts of climate change.

A big unknown is global economic and political developments and the impact of growing protectionism in some major international markets. Vietnam, as chair of ASEAN in 2020, can help promote regional leadership in international economic co-operation by facilitating the finalisation of the Regional Comprehensive Economic Partnership, and by encouraging additional countries to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership and other economic co-operation agreements.

There appears to be a strong national commitment to resolve remaining bottlenecks, and progress is being made in building the institutions needed to develop a competitive, equitable, and environmentally-friendly economy. Given recent progress, and the ongoing commitment to reform, the prospects for sustained improvements in Vietnamese living standards remain promising. ■