

Adapting to new economic travails

The Vietnamese government has enacted Directive No.11 on supporting enterprises out of difficulties caused by COVID-19. **Ramond Mallon**, senior economic advisor from the Australia-Vietnam economic reform programme, writes about the economic outlook for 2020 under the shadow of the outbreak and opportunities for business through new government policies.

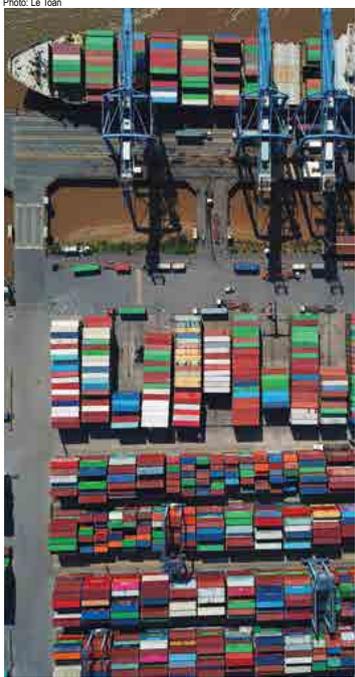


Photo: Le Toan

It is still too early to fully assess the full economic impacts of the COVID-19 outbreak on global equity markets, global commodity markets and supply, demand, and labor. This is addressed by impacting on businesses whose livelihoods are linked to such economic activities. More generally, the pandemic is impacting on investor and consumer confidence and this is depressing investment, demand and sales.

As recognised in Directive 11, Vietnam is not immune from such impacts. Indeed, the country's high level of economic integration with global economic markets could leave it especially vulnerable to the impact of a global economic slowdown. The spectre

of slowdown in economic growth and travel will restrict the opportunities for Vietnam to expand its access to global trade and tourism markets. On the other hand, government policies have so far been comparatively effective in containing the COVID-19 spread, and this has helped limit the most immediate economic costs of healthcare and loss of productivity.

Directive 11 recognises that the pandemic is likely to continue impacting on all sectors. It is importantly on tourism and hospitality sectors as people reduce travel and entertaining in order to minimise the spread of the virus. Education and health service providers face particular risks of contagion and are having to reorganise the way they provide services in order to reduce the risk of contagion. Retail sales are suffering

as consumers try to reduce spending because of ongoing uncertainty. The viability of markets has been negatively impacted. Declining consumer confidence means that sales of discretionary items are likely to slow further.

Some manufacturing firms have struggled to import essential inputs for their production, while others face difficulties in accessing markets. Some farmers and agriculture traders and processors have been affected by controls, especially at the Chinese border, that have limited opportunities to export agricultural products. The worst affected has

been the development of people in China and more recently have come after leaders moved so slowly to stem the spread. Others, such as Vietnam, have been prepared for taking risks steps to close their sales and schools and tourist areas despite the significant economic costs such measures bring.

However, some are finding the development a struggle to deal with. The first high-profile case, the imported federal outbreak, involved the cruise ship on the Diamond Princess which nearly 700 of the 3,700 passengers on board contracted COVID-19 and several died. Other similar vessels were released early into several countries, illustrating the equal history book that is being based in international waters during a global crisis.

With the world waiting, US President Donald Trump last Wednesday unveiled the first plan to curb the spread of COVID-19. Laying the blame of the outbreak in the United States squarely at the feet of Europe, Trump suspended travel for foreign tourists from the European Union to the US for 30 days starting last Friday, with limited exceptions for American

Various movements showcased in response to health emergency

Initially, extreme lockdowns on movement of people in China and more recently have come after leaders moved so slowly to stem the spread. Others, such as Vietnam, have been prepared for taking risks steps to close their sales and schools and tourist areas despite the significant economic costs such measures bring.

South Korea
The virus is somewhat under control in the hope of the South Korean thanks to a testing blitz impressive numbers last week showed that South Korea were over 700 times more likely to have taken a test than someone in the US.

The government decided against similar lockdowns, instead focusing on testing large numbers of people to try and uncover infection hotspots, along with encouraging social distancing. As of last week

And nations such as India have been more prone to dis-information being spread by some elected politicians, notwithstanding scientific evidence to combat the disease. Other territories, on the other hand, are seemingly getting it right.

Singapore
The city-state of Singapore has sharply enforced a home quarantine system and home tracking contact-tracing programme. Since the start of the outbreak thousands of people on the island have isolated themselves, and leaders have also made aware the harsh penalties for anyone who breaks related guidelines. Officials carry out spot checks in person to ensure compliance, while those who do not stay home could suffer

remains relatively impressive in terms of macroeconomic stability, despite some signs of a slowing economy. Third, under Directive 11 and other measures the government has reviewed its government to further reduce bureaucratic obstacles faced by business in investing and competing fairly in the market place. State-owned enterprises and other businesses will be under increased pressure to restructure to adapt to the economic challenges. Fourth, many businesses will attempt to minimise future risks by re-evaluating their dependence on single large markets for socio-economic performance.

One strategy will be to further diversify sources of production inputs and final products. More foreign investors may consider moving or relocating to Vietnam and elsewhere in Asia, and to build strategic production links with increased numbers of domestic firms. Finally, firms may look to invest more in IT, robotics, fintech and other new technologies to facilitate increased pressure to restructure to adapt to the economic challenges. Fourth, many businesses will attempt to minimise future risks by re-evaluating their dependence on single large markets for socio-economic performance.

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competitive advantage in innovating in such areas.

Policy responses
Policymakers are in uncharted waters. There is no ready-made model to deal with the COVID-19 challenge. National leaders face the dual challenge of containing the virus, while also engaging with businesses, workers, and other stakeholders to sustain investment and employment growth and reduce the potential for contagion in workplaces.

Sustaining employment and income is important because the social and personal costs of reduced employment and income-bearing opportunities can be high and will exacerbate the direct human costs of infections. A strong domestic economy is also needed to help finance the costs of health prevention and mitigation measures.

More specific economic responses that could be taken include support to facilitate innovation in economic activities, accelerated efforts to improve the business environment to encourage sustained employment and income growth, and targeted efforts to stimulate economic growth.

The government may need to consider providing fiscal stimulus supporting actions to reduce bottlenecks to efficient public investment and expenditure, while also removing remaining obstacles to private sector access to finance and capital markets. Confidence

will also be important in sustaining consumer demand and business investment.

Directive 11 represents a promising start towards action on the above policy responses. A frequent challenge in Vietnam is getting the agencies to take concrete action to implement government directives. Regular meetings with business and labour representatives could help to identify emerging concerns and to hold line agencies accountable for implementing reforms in the national interest.

To conclude, while Vietnam appears to have been remarkably successful in containing the outbreak, it is having a significant negative impact on global and Vietnamese economic growth prospects, with the full extent of the negative impact unknown.

The challenge for the government is to continue developing and implementing policies that contain the spread of the virus, while also minimising the social and economic costs resulting from the expected global recession. It is important to monitor, learn and adapt policy responses as new information becomes available.

With new policies such as Directive 11 being introduced to help stimulate business investment and employment, Vietnam may well emerge from the pandemic in a relatively better economic situation than in other countries where government have been slower to act.

Refusing to disguise symptoms can lead to worse health outcomes for many people, and fighting the disease is a priority.

Self-employed workers
Self-employed workers who have self-isolated themselves have been offered \$100 per day, and people who are not able to remain at home can stay in a government facility.

Taiwan
The territory used lessons learned during the 2003 SARS outbreak to good use with its government and people highly prepared.

Taiwan banned arrivals from Wuhan from January 23, far earlier than any other part of the world. After securing its borders, Taiwan continued to enforce a strict quarantine system and home tracking contact-tracing programme. Since the start of the outbreak thousands of people on the island have isolated themselves, and leaders have also made aware the harsh penalties for anyone who breaks related guidelines. Officials carry out spot checks in person to ensure compliance, while those who do not stay home could suffer

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Committed spending will raise those at risk out of the doldrums

Prime Minister Nguyen Xuan Phuc recently signed and promulgated Directive No.11/CT-19 on urgent tasks and solutions to help businesses overcome difficulties caused by the COVID-19 outbreak. **Ken Atkinson**, founder and senior board advisor at Grant Thornton Vietnam, assesses the impact of the economic measures to facilitate businesses in the face of the global pandemic.



First and foremost, we really need to put resources into preventing the outbreak. It is having a significant negative impact on global and Vietnamese economic growth prospects, with the full extent of the negative impact unknown.

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However, with the new measure to suspend visa exemptions for several countries, along with e-visas too, the message is clearly that Vietnam is closed to visitors from Europe and other countries with a high number of cases.

So this will make it harder to reinvigorate trade and tourism from those countries, when e-visas and visa exemptions are restored. This is a good illustration of the dilemma facing the government when having to make conservative decisions regarding containment and prevention versus business needs.

In addition, there needs to be a reliable source of up-to-date information regarding such things as changes in and travel restrictions, areas that are quarantined, advice on containment and prevention. This source needs to be widely published to avoid the spread of false or inaccurate information to business and the public at large. The foreign business chambers would be a good vehicle for distributing information to foreigner living and working in Vietnam.

In fact, if the outbreak lasts over six months, nearly three-quarters of firms in Vietnam could go bankrupt as their revenues will fall to cover operational expenses, according to a survey by the Private Economic Development Research Board with the Government's Advisory Council for Administrative Procedure Reform.

The next step major step after prevention and containment and immediate support for business is to prepare plans, including and promotion plans, to be implemented as soon as we see that COVID-19 is under control and the number of new cases starts to fall globally. This will be important especially for such sectors as tourism, transportation, and real estate, which need to be implemented at the press of a button to let the world know Vietnam is again open for business.

It will be difficult for many businesses and families with loved ones displaced with the virus but Vietnam has shown resilience in the past and also has a good track record in containment, prevention, and treatment.

have a template for those businesses which were applied successfully at that time.

Access to working capital loans and rescheduling of existing loans for financially sound businesses is also important as addressed as part of the credit support package announced by the State Bank of Vietnam but this needs to cover well-merited and viable small- and medium-sized enterprises as well as big businesses.

Unfortunately most lending in Vietnam is asset based, with many of the businesses needing financial support will probably not have assets to pledge to secure emergency financing and this is something that will have to be addressed by the government.

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