



The prominent trends ahead for the economy

Vietnam has reaped impressive economic successes in 2019 and is expecting a bumper crop this year. **Raymond Mallon**, senior economic advisor from the Australia-Vietnam Economic Reform Programme, provides analysis about what these achievements and what else the country needs to do in order to become a more prosperous nation in the forthcoming decades.



Vietnam's growth of 7.02 per cent in 2019 was quite impressive. Growing by 11.3 per cent, the manufacturing sector helped drive strong growth. Total industrial sector output grew by 8.9 per cent, services by 7.3 per cent, and agriculture by 2 per cent. This strong growth has been achieved with macro-economic stability, including an inflation rate below 3 per cent and increased foreign reserves.

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 economic growth has been driven by growth in domestic consumption and private investment. Global experience suggests that a strong domestic private sector competing and innovating in a globally integrated and competitive environment, combined 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 domestic private investment growth 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 because domestic private investment tends to create 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 68.8 per cent of Vietnam's total exports in 2019, while domestic businesses accounted for 31.2 per cent.

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 e-tax payments 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.

Moreover, 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 digitalised economies in the ASEAN by 2025.

Industry developments

Tourism is another successful sector. After several decades of strong growth, tourism is now a major contributor to national employment and income growth. Importantly, much of this is reaching rural areas that tend to benefit less from the development of industry and other services.

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

Last year was also a turning point in terms of more substantive actions to address the adverse impacts of pollution and climate change on people's lives in Vietnam. While still much more needs to be done, rapid growth in renewable energy and other national environmental initiatives are encouraging. Vietnamese people appear to be increasingly prepared to take action against environmental degradation in their communities.

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 implement actions to address these bottlenecks.

Recent efforts to target ASEAN-4 levels in the Doing Business Index and the World Competitiveness Index under the 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 worked well because it helps 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 from 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 agenda. Current complexity and lack of transparency in markets for land use rights (especially agriculture land use rights) creates inefficiencies and opportunities for corruption. There is a need for a stronger and more transparent systems for property rights protection, including contract enforcement and economic courts. Stronger regulators and independence 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).

Humanity and technology

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 market economy. Efficient public sector agencies and regulators 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 it is always important to recognise that economic growth is merely a tool to help improve wellbeing. It is not an end in itself. More can be done to improve living standards via 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 eco-

nomical gaps can help ensure more equitable economic outcomes and boost overall national productivity and competitiveness.

Vietnam is now achieving strong growth in renewable energy. 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 to 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.

Another big unknown is the global economy and growing protectionism in some leading markets. Vietnam, as chair of the ASEAN in 2020, can help promote regional leadership in global 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 is clearly a strong national commitment to resolve remaining concerns, and solid progress is being made in building the institutions needed for a competitive, equitable, and environmentally-friendly economy. Given recent progress, and the ongoing commitment to reform, the prospects for sustained growth in Vietnam remain promising. ■

