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Vietnam's Economy in the Wake of Covid-19

*Nguyen Chien Thang and Pham Sy An**

Domestically, the Vietnamese government has introduced measures to alleviate the negative impacts of the COVID-19 pandemic on the people and businesses. In this picture, a man crosses a road in front of cafes and eateries, closed due to Covid-19 coronavirus restrictions, in Hanoi on February 17, 2021. Photo: Manan VATSYAYANA, AFP.

* *Nguyen Chien Thang is Associate Professor and Director General of the Institute for European Studies at the Vietnam Academy of Social Sciences; while Pham Sy An is Director of the Department of Macroeconomics and Institutions, Vietnam Institute of Economics at the Vietnam Academy of Social Sciences.*

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EXECUTIVE SUMMARY

- Vietnam's economic growth in 2020 declined sharply due to the Covid-19 pandemic, from a high of around 7 per cent to 2.91 per cent. This is better than many other countries where growth rates were negative.

- The Covid-19 pandemic has affected the economy on both the supply and demand fronts. On the demand front, aggregate demand comprising consumption, investment and exports has declined, with the tourism and food and beverage sectors the worst affected.

- On the supply front, the pandemic and social distancing measures have disrupted supply chains inputs and labour supply. According to a General Statistics Office survey, 85.7 percent of businesses were affected by Covid-19.

- Poverty and near-poverty rates worsened across Vietnam, with migrant and ethnic minority households disproportionately affected.

- Domestically, the government has introduced measures to alleviate the pandemic's negative impacts on the people and businesses. Beyond the pandemic, it will have to tackle persistent challenges such as poor infrastructure, lack of quality human resources, and underperforming state-owned enterprises.

- Externally, the Biden administration's economic, trade and human rights policies towards Vietnam bear watching.

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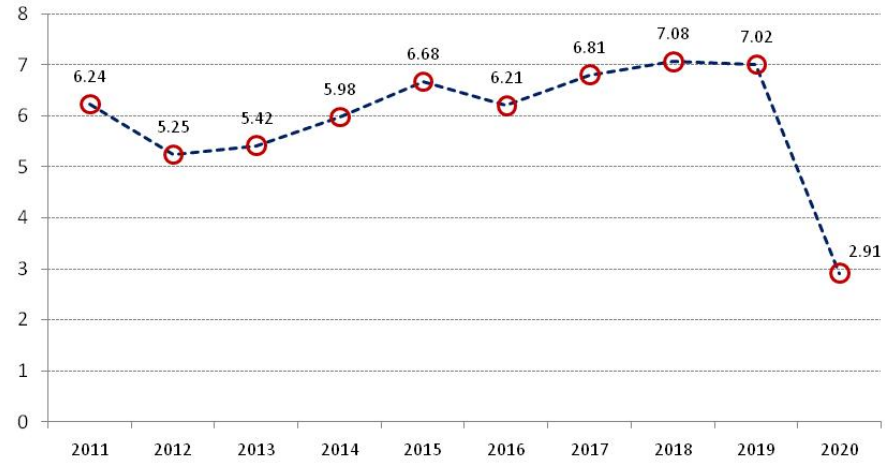
IMPACT OF COVID-19 ON VIETNAM'S ECONOMY

Before the advent of Covid-19 in early 2020, Vietnam's economic growth was generally trending upwards and remained high, averaging around 7 per cent in the last three years (2017-2019). The Covid-19 pandemic, however, has had a negative impact on the economy, which saw growth in 2020 slumping to 2.91 per cent, the lowest level in 10 years (2011-2020).

Graph 1. Vietnam's Economic Growth, 2011-2020 (%)



Source: General Statistics Office of Vietnam (GSO)

The pandemic's impact on the Vietnamese economy can be examined on both the supply and demand fronts. On the demand front, the pandemic and the social distancing measures mandated by the Prime Minister's Directive No.16/CT-TTg in early April 2020 caused a strong decline in domestic consumption. Major economies (such as the United States, China, EU, Japan, and South Korea) were also severely affected by the pandemic and the implementation of social distancing measures within their own borders, leading also to a decline in economic growth; this meant a decrease in import demand, including for Vietnamese goods.

According to projections by Vietnam's General Statistics Office, the retail sales value of goods and services is set to increase by 2.6 per cent in 2020, compared to 2019. However, a decrease is expected if the price factor is excluded, with a decrease of 1.2 per cent in 2020 compared to an increase of 9.5 per cent in 2019.[1] Revenue from accommodation and catering services also decreased in the first six months of 2020, falling by 18.1 per cent compared to the same period in 2019. Tourism revenue fell by 53.2 per cent in the first six months of 2020, and was the sector most severely affected by the pandemic and the implementation of social distancing measures.

With regard to investment demand, total investment increased by 5.7 per cent in 2020 – the lowest increase in the 2011-2020 period. This comprised investments from three main sources – the state sector, which increased by 14.5 per cent; the non-state sector, which increased by 3.1 per cent; and foreign direct investment, which decreased by 1.3 per cent.[2] This is a notable fall compared to 2019, when total investment increased by 10.2 per cent compared to 2018. Thus investment demand growth came largely from the state sector, with on-year growth increasing from 2.6 per cent in 2019 to the abovementioned 14.5 per cent in 2020. This

highlights the important role the state has played in limiting the decline in aggregate demand during this period of economic uncertainty.

There was also a slight decrease in export growth. In 2020, Vietnam's total export turnover increased by 6.5 per cent compared to 2019, of which exports by the domestic sector decreased by 1.1 per cent and the foreign-invested sector (including crude oil) increased by 9.7 per cent. In contrast, in 2019, total export turnover increased by 8.1 per cent compared to 2018, of which exports by the domestic sector increased 17.7 per cent and the foreign-invested sector (including crude oil) increased 4.2 per cent. This fall in overall export growth in 2020 illustrates how the pandemic's negative impact on investment and the global value chain also affected Vietnam's exports.

In sum, the Covid-19 pandemic has reduced aggregate demand (consumption expenditure, investment, and exports) growth as well as slowed down production and economic growth. The government is thus currently in the midst of implementing measures aimed at stimulating aggregate demand and restoring economic production.

On the supply front, the pandemic and social distancing measures have disrupted inputs for supply chains and labour supply. For instance, automobile manufacturers such as Honda, Nissan, Toyota, Ford, and Hyundai have halted production in Vietnam due to the scarcity of input components as well as the social distancing measures. Operations are only likely to resume when social distancing restrictions are lifted and supply chains are reconnected.

Many enterprises, especially those that rely on foreign specialists and workers, have also been heavily affected by Covid-19 due to a shortage in labour supply. The cost of labour for businesses has further increased due to the need to provide masks, disinfectant liquid, and the implementation of safety measures to prevent the spread of the virus.

According to a 2020 survey by Vietnam's General Statistics Office, 85.7 per cent of businesses have been affected by Covid-19. The construction and service sectors have been the most affected, with 86.1 per cent and 85.9 per cent of businesses being hit respectively. In the agriculture, forestry and fishery sector, the proportion of businesses affected by the pandemic was lower, at 78.7 per cent. However, there were specific industries such as aviation, accommodation services, catering services, travel services, education and training, textiles, leather production, leather products, electronic manufacturing, and car manufacturing which had over 90 per cent of businesses affected by the pandemic. These industries were heavily affected by disruption in global and regional supply chains as well as the implementation of social distancing measures.[3]

Classified by size, micro firms saw the biggest drop in revenue, followed by small, medium, and large firms. Given that the vast majority of businesses in Vietnam are micro and small-sized ones, the pandemic has therefore affected a vast number of businesses in the country.

However, there has also been a small proportion of firms which have found opportunities from the pandemic. These businesses operate in industries such as insurance, health care, postal and delivery services, e-commerce, and information technology, which benefit from the increase in online transactions. In particular, social distancing during the pandemic has encouraged consumers to stay home, search for goods on the internet, and place orders online. This consumer trend promotes e-commerce and logistics services.

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From a social perspective, the loss of income brought about by the pandemic has raised the poverty rate and near-poverty rate in Vietnam. According to a 2020 survey conducted by the UNDP and UN Women in Viet Nam, the proportion of income-poor households in Vietnam increased dramatically from 11.3 per cent in December 2019 to 50.7 per cent in April 2020. The proportion of near-poor households increased from 3.8 per cent to 6.5 per cent across the same time period.[4] More importantly, the survey also highlighted that ethnic minority households, households with informal workers, and migrant families have been disproportionately affected by the pandemic. The survey estimates that ethnic minority households' income in April and May 2020 dropped by 75 per cent and 64.3 per cent respectively compared to December 2019 income levels, while income loss for the Kinh-Hoa majority[5] was less at 69.7 per cent and 48 per cent respectively. Likewise, migrant households experienced income loss of 74.9 per cent and 56.8 per cent respectively, while non-migrant households' incomes dropped 69.2 per cent and 47.5 per cent respectively.

Macroeconomic stability in 2020 was negatively affected by Covid-19 in 2020, although inflation remained low under 4 per cent. The budget deficit increased sharply (from 3.36 per cent of GDP in 2019[6] to 4.49 per cent of GDP in 2020[7]) due to an increase in government spending for pandemic-related financial support for citizens and businesses. Accordingly, debt indicators for 2020, namely public debt (as percentage of GDP), foreign debt (as percentage of GDP), government debt payments to total budget revenue, and foreign debt repayment (as percentage of total exports) all increased compared to the previous year (see Graph 2 below).

Covid-19 has affected all aspects of socio-economic development such as economic growth, trade activities, labour, employment, and income of workers. To mitigate this disruption, the Vietnamese government has implemented a series of timely and strong measures aimed firstly to limit the spread of the virus and then secondly to promote economic development. The measures have shown initial success at controlling the spread of the virus, with Vietnam having come close to completely halting local transmission.

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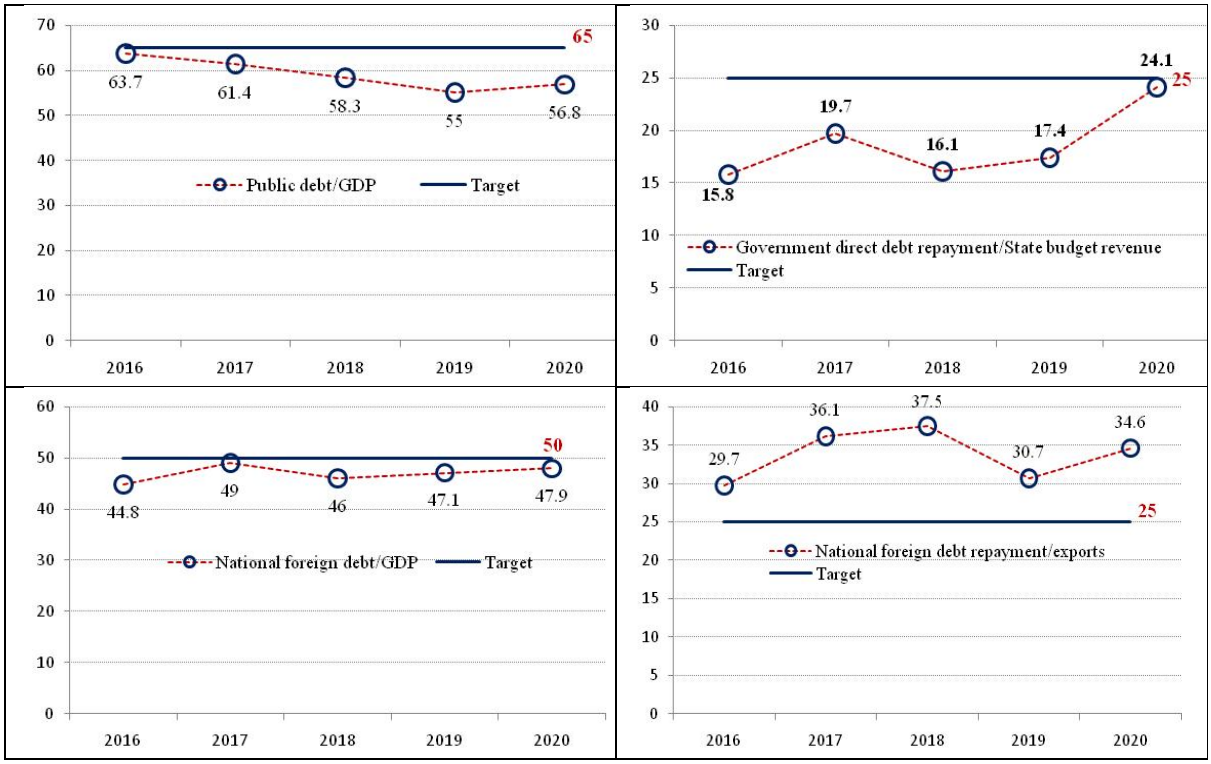
Graph 2. Public Debt, Foreign Debt, payment of government debt (in percentage)



Note: figures in 2020 are estimated by Government.
Source: Government's report (2020)[8]

SOLUTIONS AND PROSPECTS FOR VIETNAM'S ECONOMY

Vietnam's economy grew by 2.91 per cent in 2020, significantly below the target of 6.8 per cent set at the beginning of the year. However, this is nonetheless a very impressive result, given the current global economic slump. According to *The Economist*, Vietnam is among the 16th most successful emerging economies in the world, and has the potential to close the income gap with some developed countries during the Covid-19 pandemic.[9] This is due largely to Vietnam's success in controlling the spread of the pandemic and mitigating its negative impacts. In addition, because of the pandemic, Vietnam is now more determined to transform its economy through innovation and digitalisation.

Given Vietnam's strong economic fundamentals and in preparation for the all-important five-yearly 13th Party Congress that was held in early 2021, the Vietnamese government has paid particular attention to the twin goals of controlling the pandemic while promoting economic growth. On the economic front, the government has proposed various monetary, fiscal, and social security policies to help businesses and citizens tide over the most difficult period of the Covid-19 shock. Firstly, monetary measures include a credit policy package which aims to restructure debt and reduce interest rates for the total outstanding loans; secondly, a new loan package with a total committed limit of about VND 300,000 billion (US$13 billion) with a preferential interest rate of 1-2.5 per cent per year, much more favourable than the normal credit scheme of 4.5 per cent per year; thirdly, a fiscal package with a total value of VND 180,000 billion (US$7.8 billion) including deferral of tax and land rental payments for

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enterprises (extension of payment deadline to five months);[10] and fourthly, a social security package worth VND 62,000 billion (US$2.7 billion) for more than 20 million workers and disadvantaged citizens.

This provides financial support for a maximum of three months to workers who are unemployed or underemployed because of Covid-19; to employers who face difficulties in paying salary to workers; to individual business households which have ceased business operations; and to disadvantaged groups.[11] These measures are expected to remain in place for some time.

Although the impact of the abovementioned measures cannot be adequately assessed yet, the support package, especially the social security package, has already reached many disadvantaged groups such as poor households, near-poor households, and families recognised for their meritorious service to the country.[12]

On the healthcare front, the Vietnamese government has implemented strict and proactive measures to curb the spread of Covid-19 across the country and to quickly isolate cases when they occur.[13] Due to the government's consistent implementation of these containment measures, the situation is now largely under control. If there are no further mass outbreaks and support packages and policies continue to stimulate the economy, the possibility of economic recovery is very high.

The shock from the Covid-19 pandemic is likely to pass, but the Vietnamese economy will still have to grapple with uncertainties and challenges that are expected to linger on. One key uncertainty is the new Biden administration's policies towards the region in general, and its orientation towards Vietnam in particular. Will the US-China trade war escalate or cool with Biden at the helm, and what are the implications for Vietnam? What will the Biden administration's trade and investment policy towards Vietnam be like? Will it follow up with additional trade sanctions after the US Treasury Department labelled Vietnam a currency manipulator in December 2020?[14] How will Vietnam respond if the Biden administration decides to take a tougher stance on human rights issues?

Challenges for Vietnam in the next few years will include problems that had persisted way before the pandemic but have yet to be resolved. These include the wanting quality of infrastructure, which ranks 77th amongst 141 economies; the lack of high-quality human resources, which ranks 93th,[15] and the slow pace of state-owned enterprise (SOE) reforms. Vietnam had targeted to equitize 127 SOEs between 2017-2020, but as of June 2020, however, only some 28 per cent of this target has been achieved.[16]

In general, the Covid-19 shock has had a negative impact on most enterprises across different industries. Although the government has introduced measures to support businesses, global and regional production networks and value chain supplies are still disrupted. Support packages by the government thus can only partially relieve the pain and loss of businesses and employees. Such difficulties will accumulate in the coming years as the government attempts to restore the economy and stimulate production, while coping with the unpredictable developments that will accompany the change of power in the United States. At the same time, it also has to tackle the abovementioned chronic problems to promote sustainable economic growth.

[1] General Statistics Office (2021), Báo cáo tình hình kinh tế - xã hội Qúy IV và năm 2020 (Report on socio-economic situation of 4th Quarter and year 2020), 17 February, 2021, https://www.gso.gov.vn/du-lieu-va-so-lieu-thong-ke/2020/12/baocao-tinh-hinh-kinh-te-xa-hoi-quy-iv-va-nam-2020/.
[2] General Statistics Office (2021).
[3] General Statistics Office (2020), Tọa đàm đánh giá tác động của đại dịch Covid-19 đến doanh nghiệp Việt Nam (Seminar on Assessment of Covid-19 impact on Vietnamese enterprises), 21 July 2020, https://www.gso.gov.vn/du-lieu-va-so-lieu-thong-ke/2020/07/toa-dam-danh-gia-tac-dong-cua-dai-dich-covid-19-den-doanh-nghiep-viet-nam/.
[4] UNDP and UN Women in Viet Nam (2020), *Covid-19 Socio-Economic Impact on Vulnerable Households and Enterprises in Viet Nam - A gender-sensitive assessment*, p. 10.
[5] Kinh (Viet), Hoa (Chinese) are two major ethnic groups in Vietnam that tend to perform economically better than others.
[6] Anh Minh (2020), Ngân sách 2019 thâm hụt gần 8.7 tỷ USD (Budget deficit in 2019 was about US 8.7 billion), 15 May 2020, https://vnexpress.net/ngan-sach-2019-tham-hut-gan-8-7-ty-usd-4099709.html.
[7] Trinh Dung (2020), Dự ước thu, chi Ngân sách nhà nước năm 2020 đều giảm so với dự toán (Estimated revenue and expenditure of state budget for 2020 all are lower than forecast), 20 October 2020, https://nhandan.com.vn/tin-tuc-kinh-te/du-uoc-thu-chi-ngan-sach-nha-nuoc-nam-2020-deu-giam-so-voi-du-toan-621249/.
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[9] Thu Thu (2020), The Economist: Việt Nam lọt top 16 nền kinh tế mới nổi thành công nhất thế giới, nhiều triển vọng thu hẹp khoảng cách với các nước phát triển trong đại dịch Covid-19 (The Economist: Vietnam is in the top 16 most successful emerging economies in the world, with many prospects for narrowing the gap with developed countries during the Covid-19 pandemic), 19 August 2020, https://cafef.vn/the-economist-viet-nam-lot-top-16-nen-kinh-te-moi-noi-thanh-cong-nhat-the-gioi-nhieu-trien-vong-thu-hep-khoang-cach-voi-cac-nuoc-phat-trien-trong-dai-dich-covid-19-20200819051311544.chn.
[10] Nghị định số 41/2020/NĐ-CP của Chính phủ về Gia hạn thời hạn nộp thuế và tiền thuê đất, ban hành ngày 8/4/2020 (Decree No. 41/2020 / ND-CP of the Government on extension of deadline for tax and land rental payment, issued on 8 April 2020), https://thuvienphapluat.vn/van-ban/thue-phi-le-phi/Nghi-dinh-41-2020-ND-CP-gia-han-thoi-han-nop-thue-va-tien-thue-dat-438649.aspx.
[11] Nghị quyết số 42/NQ-CP của Chính phủ về Các biện pháp hỗ trợ người dân gặp khó khăn do đại dịch Covid-19, ban hành ngày 9/4/2020 (Resolution No. 42 / NQ-CP of the Government on measures to support people facing difficulties caused by the Covid-19 pandemic, issued on 9 April 2020), https://thuvienphapluat.vn/van-ban/Lao-dong-Tien-luong/Nghi-quyet-42-NQ-CP-2020-bien-phap-ho-tro-nguoi-dan-gap-kho-khan-do-Covid-19-439526.aspx.
[12] This refers to families who had members who fought and died or were wounded in past wars (such as the wars of resistance against the French and Americans, and the Chinese). Some of them come from families of revolutionary martyrs. So in difficult times, the government is expected to reward them by providing material support.
[13] When any Covid-19 case (so-called F0) is identified, the individual will be taken to a hospital for compulsory treatment, while all F1 (direct contact with F0) will be taken to quarantined camps for health tests, and all F2 (direct contact with F1) and F3 (direct contact with F2) are required to isolate at home for two weeks. These strict and proactive measures have been successful to curb the spread of Covid-19.
[14] Alan Rappeport, "Trump Administration Says Vietnam and Switzerland Manipulated Currency", *The New York Times*, 16 December 2020, at https://www.nytimes.com/2020/12/16/us/politics/trump-

vietnam-switzerland-currency-trade.html. In 2019, Trump accused Vietnam of being the single worst abuser on trade with the United States, worse than China.

[15] WEF (2019), The Global Competitiveness Report 2019, [http://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf]

[16] Le Son (2020), Vì sao cổ phần hoá doanh nghiệp chậm? (Why Equitization of SOEs is Low?), Vietnam government news, 6 August 2020, at http://baochinhphu.vn/Tai-co-cau-doanh-nghiep/Vi-sao-co-phan-hoa-doanh-nghiep-cham/403328.vgp.

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