

## **Global and Vietnamese economy 2014-2015: Rebounding efforts to transfer to a new growth orbit**

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**From Editors:** *Global economy has transferred to a new growth stage, lower but more stable and balanced than the stage before. However, economic growth has been uneven in all country groupings; growth rate of emerging countries has been slowing down while it has recovered strongly in developed countries. Global economic growth still has to face many risks. In 2014, Vietnam has escaped from economic difficulties and shows signs of rebound. Recovery trend in 2015 was rather certain. 2014 and 2015 are the moment to review the thirty-year process of “Doimoi policy”, acknowledge new opportunities and challenges.*

*The book “Kinh tế thế giới và Việt Nam 2014-2015: Nỗ lực phục hồi để chuyển sang quỹ đạo tăng trưởng mới” (Global and Vietnamese Economy 2014-2015: Rebounding effort to transfer to a new growth orbit) by Prof.Dr. Nguyễn Xuân Thắng (Chief author) (Social Sciences Publishing House, 2015) provides an overview of global economy, and regional countries in 2014 and early 2015, and analyzes remarkable features of the Vietnamese economy in the context of thirty-year-reform via policy analysis framework. Editorial board presents the content summary of the book.*

**Keywords:** Global economy, Vietnamese economy 2014-2015, Economic growth

### **1. Global economy has stepped into a new growth orbit but envolved implicit risks**

In 2014, the world remained a more stable economic growth as moving into

a new growth cycle. However, growth rate in general is still low and it is beyond the potential rate in many countries. The motivation that boost the global economy to move into a new orbit

is the effort in applying advanced technological solutions to improve productivity and efficiency. In recent years, countries which apply technological advances, encourage innovation and creativity, and reform in depth, usually lay their development foundation earlier and pick up faster. On the contrary, economies which slowly reform and rely on exploiting and exporting natural resources to develop are confronting difficulties.

The global economy in 2015 and in the near future is cautiously estimated because of some concerns of possible risks, such as: disinflation, the economic stagnation in Europe, Japan and China; exchange rate fluctuation of the world strongest currencies, and bad impacts on international capital flows caused by contradictory monetary policies of federal banks... Additionally, the world political and security current situation have changed in an unpredictable manner, resulting in disadvantages to developing economy. These are big challenges to the world in 2015 and later especially when the new development agenda was adopted for the sake of ending global poverty and promoting sustainable development all over the world.

## **2. Vietnamese economy in short and long term: Spotlights and challenges**

### ***Spotlights***

In 2014, the economy changed significantly with many spotlights. Growth rebounded clearly at the rate of 5.98% (the highest in the past four years). Also,

growth less relied on the capital with ICOR of 5.18 (the lowest since 2007). Inflation stayed low, CPI on average continued to decelerate, hit 4.09% - the lowest percentage increase since 2004. Vietnam had a trade surplus for three years in succession, hit 2 billion USD while Balance of payment (including trade and service) greatly improved compared with the past years, it was lightly deficit of 0.2 billion USD. Export has maintained its rosy position with a stable increase and continued to focus more on much value-added productions. This is worthy for Vietnam especially when Vietnam has been completing a number of free trade agreements.

Labor market maintains stability, proved by light fluctuation of such indice as unemployment index, lack of job opportunities, working hours, no-social-insurance labors, payment for salaried employees. In terms of enterprises, number of enterprises in operation continues to increase because newly-established enterprises are much more than temporarily-stopped or dissolved ones. These good macroeconomic signals help to reserve resources for economic restructuring.

### ***Challenges***

In both short and long term, Vietnamese economy has to face challenges because it has not created breakthroughs in restructuring with the two focal points of public investment; and financial and banking system and state-owned enterprises. These weaknesses, there-

fore, cause two bottlenecks that prevent economic growth: bad debt and public debt. Budget deficit stay so high that public debt nears red line of 65% of GDP while the root cause of bad debt has not been resolved. The economy may come and be stuck in a vicious circle of “low economic growth-high bad debt and increasing public debt - low investment ratio - low economic growth”. Moreover, another structural weakness is related to domestic enterprises which most of them are small-sized and the size even trends to shrink. The workforce of 90% of these enterprises is under the optimal threshold (optimal threshold of work-force is defined as the workforce size that helps an enterprise to get the highest productivity when other factors of the enterprises are fixed).

This current situation is the barrier for Vietnamese enterprises to improve efficiency and foster innovation. Only by improving efficiency and fostering innovation, can Vietnamese enterprises upgrade and shift from labor-intensive assembly stage of production to join in global higher value-added chain in world trade in general and Vietnamese import-export in particular. Besides, one of big reasons that prevent Vietnamese enterprises from growing is significant disadvantages in business environment. This causes business cost increase, including land cost, infrastructure investment, environment cost, startup cost, taxes, custom, and so on. In labor market, high-productivity jobs and high-

quality jobs in general and jobs for youth in particular have become a new challenge recent years.

*In medium and long term*, on one hand, Vietnam has to deal with problems because its current growth largely relies on capital, labor and natural resources which all near the threshold, namely: investment ratio has increased to a large level (over 30% of GDP) so it is hard to climb more; many natural resources have exhausted; the risk of aging population is nearing causing close tie in labor market and social security system. On the other hand, total factor productivity - the second factor supporting economic growth, has been slowing down. Similarly, labor productivity has been decelerating.

### **3. Vietnamese economy in medium and long term: Boosting reform to move to a new growth cycle.**

In this context, in medium and long term, Vietnam needs to implement effectively growth model transfer to match with the quality change of national development.

According to the Global Competitiveness Report annually made by World Economic Forum, via getting GNI per capita at 2,045 USD at the end of 2014, Vietnam completed the first stage of development (called *factor-driven growth*, the economic growth is based on factor endowments) and move into the second stage (called *efficiency-driven growth*, more efficient production is developed and product quality in-

creases)<sup>(\*)</sup>. In 2020, GNI per capita of Vietnam is estimated to hit 3,000 USD and at that time, Vietnam will officially step in the second stage of development (GNI per capita is from 3,000 to 8,999 USD). In accordance with the methodology of the Global Competitiveness Report, with this qualitative change, weighted index for efficiency enhancers rises 1.5 times from 35% to 50%, weighted index for innovation and sophistication rises twice from 5% to 10% while weighted index for basic requirements (which primarily help to boost resources mobilization) decreases from 60% down to 40%<sup>(\*\*)</sup>.

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(\*) According to theories of growth model, the report divided the world countries into three groups in ascending developed level, measured by GNI per capita. They are: Stage 1: <2.000 USD; Stage 2: 3.000-8.999 USD; and Stage 3: >17.000 USD and two other groups: one is in the transition from stage 1 to stage 2 (2.000 - 2.999 USD) and the other is in transition from stage 2 to stage 3 (9.000 - 17.000 USD).

(\*\*) Also in this report, in the 1<sup>st</sup> stage (factor-driven), 4 first pillars (in the total 12 pillars to measure national competitiveness index) which express the basic requirements for growth, play important roles in: (i) public and private institution; (ii) infrastructure; (iii) macroeconomic environment stability; (iv) primary-educated labor force. In the 2<sup>nd</sup> stage (efficiency-driven), 6 continuous pillars (from the 5<sup>th</sup> to the 10<sup>th</sup>) play important roles in: (i) higher education and training; (ii) goods market efficiency; (iii) labor market efficiency; (iv) financial market development; (v) agility in applying technological readiness; (vi) large market size (both international and domestic). In the 3<sup>rd</sup> stage (innovation-driven), 2 highest pillars (the 11<sup>th</sup> and 12<sup>th</sup>) play important role: (i) production of new goods and services; (ii) New products and technology.

Vietnam new growth model will be the cooperation between: (i) *utilizing the remaining potentials of resources mobilization*; (ii) *promoting efficiency of resources use and allocation*; and (iii) *maintaining and encouraging innovation and creativity to take the best opportunities brought by international integration and advantages of geoeconomic of Vietnam*.

#### 4. Policy implication for Vietnam

With the major directions mentioned above, in order to break the bottleneck of development, boost the economic recovery to move into a new fast sustainable growth cycle, Vietnam needs to implement such following groups of resolutions:

(i) ***Maintaining macroeconomic environment stability***: This is the prerequisite requirement to diminish systematic risks and erroneous signals about resources allocation, causing asset speculation instead of investment for improving manufacturing and technology... when the inflation increases. For this target, a careful monetary and fiscal policy is much needed to control inflation and keep macro balances including budget deficit, public debt, current account deficit at adequate level. Exchange rate policy needs to be more flexible and market-oriented, prevent Vietnam from being valued highly to avoid implicit macro instability and upgrade international competitiveness of Vietnamese goods and import-export services.

*(ii) Improving economy efficiency by reforming institutions, governance and structural reforms:*

- *Reforming institutions and state governance* toward consolidating right of possession, reforming administrative procedure, strengthening transparency, whereby, business cost and business risks decrease and positively impact on the economy.

- *Restructuring public investment:* effectively implementing Law of Public Investment; making economic development master plans logically basing on the close association between the national benefit and international integration and joining in global value chains. Besides, closely linking public investment, national master plan and regional plans together to ensure that an economic zone is not divided by administrative boundary and local benefit.

- *Restructuring state-owned enterprises:* In order to implement effectively the State's role in orientation guiding and accommodating the economy, state-owned enterprises need to be restructured by divesturing from areas that private-owned enterprises probably perform better. The enterprises that are much controlled by the state, need to be treated as equally as other types of enterprises, applying "hard budget constraint" and information transparency in accordance with the regulations of listed companies; the enterprises to be continued need to meet such following

requirements as: appropriate size; technological capacity to narrow the technological gaps with multinational groups and favour the target of upgrading information technology; business management improvement; separation between Right of possession and management; tight supervision closely attached with leaders' accountability.

- *Developing private sector:* Making favorable conditions to support private sector to become an important motivation of the economy, to have equal access to diversified resources and opportunities, to develop appropriately for the potential and become the real crucial motivation for growth and development.

- *Restructuring financial and banking system:* Immediate solution is to resolve bad debts. However, bad debts is tightly related to enterprises, collaterals (land),..., therefore, which institutions concerned to enterprises (such as Law on Enterprises, Law on Bankruptcy), land use (Law on Land use) need to be adjusted appropriately, otherwise bad debts in VACM (Vietnam Asset Management Company) will be risky and hard resolved if they are not sold to strategic investors. Besides, boosting weak banks fixing, even forcing them into bankruptcy if necessary. Improving credit access for every type of business entity, especially middle and long term loaning according to equality assurance regulations.

- *Handling public debts*: Public debt can make necessary resources for developing countries, hence, to assure public debt safety, it is not necessarily to reduce public debt but to use it effectively, such as: (i) Classifying investment requirements and public expenditure according to priority (for example: must-do items despite of high public debts, impossible items even when affordable...); (ii) strengthening transparency, accountability, economization, state control and community participation in borrowing process including aims to borrow, implementation of important projects/programs funded by borrowing money; (iii) institutionalizing and boosting public - private - partnership, implementing creative solutions such as public investment, private management, and so on; (iv) consisting on energy price subsidy (that supports environment protection); (v) taking Law on Asset into effect (that helps decrease speculation) considering to levy higher luxury tax on demerit goods (that helps to increase equality).

**(iii) Maintaining and encouraging innovation and creativity by implementing appropriate industrial policy**, namely: (i) remove the barriers that prevent enterprises to expand their size to the optimal level; (ii) quickly completing negotiations on FTAs of the new generation (such as TPP, EU to promote the economic effectiveness to fit the enterprise's size); (iii) continuing to attract multinational groups investment with

heading technology to direct global value chains; (iv) encouraging to establish industrial clusters; (v) encouraging research and development (R&D) activities as well as technology upgrade, especially medium technology; making preferential regulations for domestic enterprises in R&D in order to break through and deeply participate in the global value chains ; (vi) supporting establishment of venture capital and others to share and reduce the risks of information technological enterprises; (vii) considering to invest in technological and creative activities, for instance: centers for quality verification and confirmation for new productions; (viii) Encouraging and supporting startup in the field of technology; (ix) Promoting higher education reform with the focal point at establishing high-level technical higher education institutions to build up a generation of skillful engineers, closely cooperating these institution with enterprises, especially technological companies; (x) promoting logistic services development, facilitating the development of potential technical industries; (xi) speeding up urbanization in the relation with the global chains to expand agglomeration effects.

With a thorough message about the much-needed requirement to transfer to a new growth model which is based on efficiency and technology promotion through knowledge and creativity, it is hoped that this book will be an useful reference for Vietnamese readers about global and Vietnamese economy □