

Vietnam's economy in 2018: the bright spots

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Abstract: *The year 2018 was a pivotal year for the implementation of socio-economic objectives in the 2016-2020 period. Will Vietnam achieve economic breakthroughs in order to fulfill the National Assembly's Resolution 48/2017/QH14 dated November 10, 2017? The article analyzes some bright points of Vietnam's economy in 2018 and the prospects in the year 2019. It also provides some suggestions to mitigate existing challenges to the economy.*

Keywords: Economy 2018, Economic outlook 2019, Vietnam

1. Socio-economic context in 2018

The economic achievements in 2017, with a growth rate of 6.81%, higher than the target of 6.7%, and an inflation rate of 3.53%, lower than expected (4%), paved the way for the National Assembly's Resolution 48/2017/QH14 on the 2018 Socio-economic Plan with some key indicators as follows: (1) GDP growth rate of 6.5%-6.7%; (2) An increase of 7%-8% in the total export turnover; (3) The ratio of trade deficit to total export turnover below 3%¹.

Resolution 48/2017/QH14 also sets out some specific tasks in 2018: "Enhancing the macroeconomic stability; ensuring

the economic balances and, in particular, the balance of the state budget, capital investment, import and export, balance of payments, food and energy security, labor, employment, business and production promotion, economic growth... Encouraging the development of the growing private sector, supporting start-ups and innovative business, small- and medium-sized enterprises; proposing proper solutions to encourage the transition of household businesses into enterprises... Implementing effectively the process of international economic integration, maintaining socio-political stability in the context of new-generation FTAs and the overall strategy of international economic integration..."².

¹ Resolution 48/2017/QH14 on the 2018 Socioeconomic Plan. Available at: <https://thuvienphapluat.vn/van-ban/Thuong-mai/Nghi-quyet-48-2017-QH14-thuc-hien-ke-hoach-phat-trien-kinh-te-xa-hoi-2018-368639.aspx>

² Ibid.

The enforcement of the Law on Supporting Small- and Medium-sized Enterprises (SMEs) on January 1, 2018 is in line with Resolution 48/2017/QH14 in promoting the development of the growing private sector. Many SME-favored policies have now made available, such as lower income tax rate and trouble-free tax procedures and accounting regimes. SMEs also enjoy state supports in production, technology, marketing, human resource development as well as legal information and consultancy¹.

Besides, the 2017 Law on Foreign Trade Management effective on January 1, 2018 also has provisions for the effective implementation of the international economic integration process. Some significant regulations include ensuring transparency, publicity, equality, and simplified administrative procedures; ensuring the legitimate and interests of the state and entrepreneurs of all economic sectors; and promoting domestic production and export development².

The World Economic Forum 2018 on ASEAN (WEF ASEAN 2018) in Hanoi was joined by the heads of states of ASEAN countries, high-ranking leaders from major economies such as the US, Japan, South Korea as well as from

international organizations, together with 1,000 multinational corps and 800 Vietnamese enterprises. This event contributed to expanding economic cooperation between Vietnam and other countries, sustaining Vietnam's prestige and stature on the world economic map. Klaus Schwab, WEF Founder and Executive Chairman, referred to the WEF ASEAN 2018 as the most successful conference he ever attended. The topics of the conference were well matched for ASEAN countries and Vietnam in the context of Revolution 4.0 (H.L., 2018). The success of the conference also contributed to a large FDI disbursement of US\$ 19.1 billion in 2018, 9.1% up compared to the same period in 2017 (Anh Minh, 2018). It shows the strong confidence of investors in Vietnam's business environment. The country has become one of the attractive investment destinations not only in the region but also in the world.

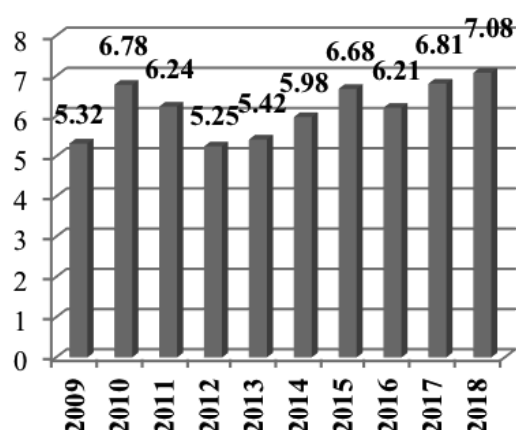
2. Bright spots of Vietnam's economy in 2018

With efforts made to reform the business environment and improve Vietnam's image in the international arena, the country's economy in 2018 could be captured with the bright spots. Many goals had been achieved beyond the targets set in Resolution 48/2017/QH14. Firstly, the most highlighted point was the 2018 GDP growth rate of 7.08%, which was the highest rate in nearly 10 years. While the GDP growth rate was just 5.32% in 2009, it climbed up to 6.81% in 2017 and 7.08% in 2018 (figure 1).

¹ Law on Supporting Small- and Medium-sized Enterprises. Available at: <https://thuvienphapluat.vn/van-ban/Doanh-nghiep/Luat-Ho-tro-doanh-nghiep-nho-va-vua-2017-320905.aspx>

² 2017 Law on Foreign Trade Management. Available at: <https://thuvienphapluat.vn/van-ban/Thuong-mai/Luat-Quan-ly-ngoai-thuong-2017-322219.aspx>

Figure 1. GDP growth rate in 2009-2018 (%)



Source: Dao Hung, 2018.

The result confirms the timely and effective policies by the Government and authorities at all levels in order to improve the business and investment environment, which in turn has become one of the driving forces to boost the economic growth.

Secondly, economic structure has shifted from natural resource intensive industries to processing and manufacturing industries.

The national index of industrial production (IIP) in 2018 rose by 10.2%, lower than 11.3% in 2017 but still higher than the years of 2012-2016. The processing and manufacturing industries grew by 12.3% and continued as a key player to contribute 9.5% in the growth of the industry sector. The power production and distribution saw an increase by 10% while the industry of water supply, waste and waste water treatment enjoyed a growth of 6.3% higher, contributing to the growth of the sector 0.9% and 0.1% respectively (table 1).

Table 1. Index of industrial production (IIP) in 2016-2018 (%)

	2016	2017	2018 (est.)
Industry sector	107.4	111.3	110.2
Mining	93.2	95.9	98.0
Processing and manufacturing	111.3	114.7	112.3
Power production and distribution	111.5	108.9	110.0
Water supply, waste and waste water treatment	108.0	107.1	106.3

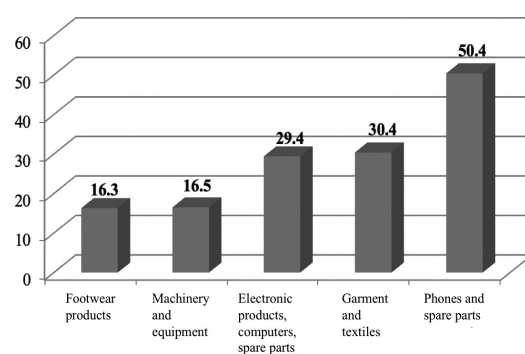
Source: GSO, 2018.

In contrast, the mining industry had a negative growth rate, down by 2% (mainly due to a decrease of 11.3% in crude oil exploitation) and reducing 0.3 percentage points in the overall growth rate (GSO, 2018).

Thirdly, the export turnover in 2018 was US\$ 244.72 billion, 13.8% up from 2017, much higher than the set target of 7%-8% in Resolution 48/2017/QH14.

There were 29 products with the export turnover of more than US\$ 1 billion, 9 products of over US\$5 billion, and 5 products of over US\$ 10 billion (GSO, 2018) (figure 2).

Figure 2. Top 5 exports in 2018 (US\$ billion)

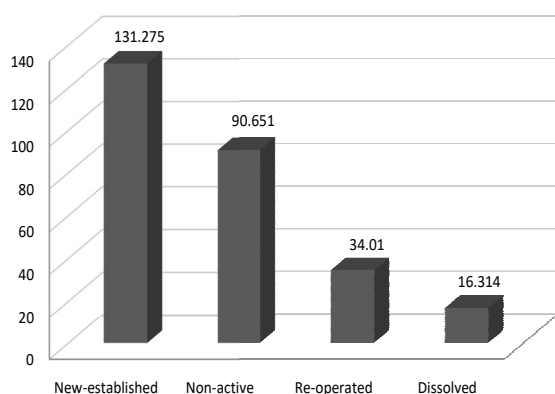


Source: Nam Anh (2018).

Notably, these top five products all are from processing and manufacturing industries. The structure of key exports has also shifted from mineral and unrefined products to processed and manufactured goods. A trade surplus of US\$ 7.2 billion, which is the largest ever, is another bright spot in 2018. It is far beyond the target of limiting trade deficit of below 3% in Resolution 48/2017/QH14.

Fourthly, a higher number of newly established enterprises is also a bright spot in 2018. While the number were 110 thousand in 2016 and 126 thousand in 2017 (To Ha and Minh Dung, 2018), it continued to grow to 131.275 thousand in 2018 (figure 3).

Figure 3. Business entities in 2018
(thousand unit)



Source: Dao Hung, 2018.

The high spirit of entrepreneurship is a result of the Government's direction to ministries and agencies for a timely release of guidance documents for the implementation of the Law on Supporting SMEs. These documents include Decree 39/2018/NĐ-CP dated March 11, 2018 on further details of several regulations prescribed in the Law on Supporting SMEs; Decree 38/2018/NĐ-CP dated March 11,

2018 on detailed regulations on investment in small- and medium-sized start-ups; and Decree 34/2018/NĐ-CP dated March 8, 2018 on the establishment, organization and operation of the credit guarantee fund for SMEs. These documents help ensure business rights and equal accesses as well as build up the confidence of enterprises and SMEs in particular.

The Government's efforts in improving the business and investment environment in 2018 has been recognized by the World Bank in its report of Doing Business 2019. Vietnam is honored, together with Indonesia, as the country with most reform initiatives in the last 16 years. Both have 42 initiatives. There are six among 10 indicators for business environment in Vietnam have been improved in 2018 compared to 2014, including access to electricity (108 levels up), tax payment and social security (up 42 levels up), Investor protection (28 levels up), Starting business (21 levels up), Access to credits (4 levels up), Building permits (1 level up) (Ha Duy, 2018).

3. Vietnam's economic outlook and challenges

Vietnam's economic outlook in 2019

It is projected that Vietnam's GDP would grow at 7% in 2019. This optimistic prediction is rooted from the "new factors" of the economy.

Firstly, the official approval of the National Assembly of Vietnam for the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) on November 12, 2018 is expected to bring new opportunities for Vietnam's economy in 2019.

CPTPP has 11 participating countries with a total GDP of about US\$ 10,000

billion, accounting for nearly 13% of the global GDP. CPTPP would help expand export markets, attract investment, promote growth and policy reforms in a more simplified and transparent manner. As a CPTPP member, Vietnam expects to increase its export revenue by 4% (about US\$ 4.09 billion). The total import value would also rise by 3.8%-4.6% (about US\$ 4.93 billion) (D.T., 2018).

It is anticipated that CPTPP would help boost Vietnam's GDP growth by 1.32%, equivalent to US\$ 1.7 billion. The impacts might be greater if Vietnam reduces tariffs and liberalizes the services sector (2.01%) (Le Ninh, 2018).

Secondly, Vietnam's Committee for State Capital Management, launched in September 2018, is authorized to assume the state ownership in 19 state-owned enterprises (SOEs) with an equity of above VND 1 million billion and a total asset value of VND 2.3 million billion. It is expected to transform the management and operation of many SOEs towards transparency, cutting loss, and more profitable business activities.

Thirdly, entering CPTPP also helps improve Vietnam's business environment more strongly. Furthermore, the boom of start-ups and private firms together with efforts to build a tectonic government would create another driving forces for the country's economic development in 2019.

Fourthly, the economic restructuring momentum in 2018 with the growth of the services and industry sectors, particularly the processing and manufacturing industries, would continue to boost the economic growth in 2019.

The supporting factors from the demand side, like improving consumer confidence, low inflation rate, increasing social investment due to higher contribution from FDI and private sectors, would also enhance the prospects for the economy in 2019.

Existing challenges and suggestions for Vietnam

Although in the short term there have been economic achievements in 2018 and prospects for Vietnam in 2019, the country still faces certain obstacles in the medium and long terms.

Low scientific and technological level: A majority of private enterprises are applying the technology of two or three generations behind the world's current level. Up to 76% of the imported machines and technology were produced in 1960s while 75% of the equipments are already depreciated and half of them were refurbished (Duc Trung, 2018). The quality of Vietnam's scientific and technological research in the world ranked 89th in 2014 while Malaysia was at 27th, Indonesia 46th, Thailand 60th, and Philippines 9th. Vietnam's ratio of patents and applications over 1 million people in 2014 ranked 92th in the world compared to Malaysia at 3th, Thailand 7th, and Philippines 84th (Nguyen Thi Minh Thu, 2017).

Economic backwardness: Vietnam is the world's 13th largest in terms of population, but only ranked 134th in terms of per capita income despite a rapid growth to over US\$ 2,3000 in 2016. The country's gross national income (GNI) accounts for 0.9% of the total GNI of the East Asia-Pacific region. Its per capita GNI is about 21.3% and 35.5% of the region's real GNI per capita in US\$ and in purchasing power parity respectively, just about 21% and

38% of the world's real GNI per capita in US\$ and in purchasing power parity respectively (Tu Giang & Lan Anh, 2018). *Labor productivity*: Vietnam's increasing labor productivity over the time mainly relies on the structural shift from agriculture to industry and services. By 2017, there were still 21.6 million workers in agriculture, forestry and fishery with a labor productivity of VND 35.5 million per labor per annum, equal to 38.1% of the country's general labor productivity.

Vietnam's growth rate of labor productivity (4.7%) was not higher than those of other East Asian countries and much lower than China's (9.07%). It is also lower than the average GDP growth rate of 6.21% and the average real wage growth rate of 12.59% per year over the same period (Duc Trung, 2018).

Quality of human resources: The quality of human resources in Vietnam has not kept in pace with the structural shift. By the end of 2017, 40% of the labor workforce remained in agriculture, contributing only 15.34% of the total GDP (H. Duy, 2018).

In order to cope with those challenges, possible solutions could be as follows:

- + Building the legal corridor for a scientific and technological base to serve the economic restructuring process and transformation of the growth model. There should be policies to promote the development of markets for the products of science and technology towards integration and improvement of labor productivity.

- + Establishing training mechanisms for a skilled and highly qualified human resource and improving the human capital for a changing environment of knowledge and skills.

- + Building institutions of a modern market economy towards transparency.

- + Building mechanisms and policies for better utilization of human capital in order to encourage all economic entities in innovation and creation. There should be also preferential policies for high quality laborers since they are key actors of the modern market economy □

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