VIETNAM’S ECONOMY IN 2020 AND PROSPECT OF RECOVERY IN 2021 - 2025

Hanoi, January 2021
VIETNAM’S ECONOMY IN 2020 IN THE CONTEXT OF COVID-19 PANDEMIC
Global economic recession

Covid-19 exacerbated the growth downgrade

GDP declined more amid Covid-19 than for other crises

Disrupted value chain and supply chain, declined trade and investment, decreased international investor confidence

IMF & WB

World trade fell sharply

WB: 6&9/2020
Low economic growth but remarkable resilience

GDP slipped to 30-year low

Targets in 2020 and 2016-2020 period have not been achieved

However, compared to other countries...

...The decrease in GDP growth compared to 2019 is lower (percentage point)
Supply side: Decline in industry and construction, enterprises faced difficulties

Agriculture is less affected while services was hit hardest

Accommodation, food, transportation, support services fell sharply, healthcare, banking, information and communication grew well

Manufacturing increase slightly. Textile, footwear reduced due to decrease in export

Supply sources of more than 50% enterprises were affected

Enterprises that suspended operations increased by 1.5 times in most sectors

- Pandemic affected both employment and operation of enterprises
- Revenues loss was about 27%, employment was 20% lower
- Supply sources of more than 50% enterprises were affected
- 2/3 enterprises experienced cash flow shortage

(WB, 9/2020)
Demand side: Public investment, export, domestic consumption

Private investment decreased accompanied with difficulties of enterprises

FDI declined but slower than global and regional level

- FDI flow shifted away from China;
- Trade war and COVID-19 accelerated capital shift
- Other signs: Exports of some products to the US surged following presence of Chinese and Hongkong investors
Demand side: Record trade surplus, positive export growth...

Export and trade surplus

Export increased slightly despite of obstacles from partner markets

Export fell sharply in textile while increase significantly in wood, electronic, iron and steel

Export to the EU increased strongly to the US and China, showed positive signs thanks to EVFTA

Import of inputs decreased
Demand side: Significant decrease in domestic consumption...

Gross retail sales of good and services declined

<table>
<thead>
<tr>
<th>Year</th>
<th>Doanh thu bán lẻ hàng hóa</th>
<th>Dịch vụ lưu trú, ăn uống</th>
<th>Dịch vụ khác</th>
<th>Dịch vụ lữ hành</th>
<th>Tổng mức BLHHDV (đã loại trừ yếu tố giá)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>9.2</td>
<td>-1.2</td>
<td>6.8</td>
<td>8.5</td>
<td>-13</td>
</tr>
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<td></td>
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<td>9.8</td>
<td>8.5</td>
<td>4</td>
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<td>12.1</td>
<td>-59.5</td>
</tr>
</tbody>
</table>

Correlation between gross retail sales of good and services and private consumption

\[ y = 0.659x + 0.0185 \]
Impact of support packages is limited

Three main reasons for not receiving support of 82% surveyed enterprises:

- Interest rate fell sharply but not enough to stimulate borrowing

62 trillion VND support package is too low to disbursed as beneficiaries are difficult to determined

GSO, 9/2020

Monetary policies
- Mainly support existing clients, not create new demand
- The effectiveness of management tools reached the threshold (interbank interest rate is very low)

Fiscal policies
- Support at small scale (only 43 trillion VND for tax extension and land rent, instead of estimated 180 trillion VND)
- Disbursement of 62 trillion VND support packge is difficult
- 30% corporate income tax reduction for small enterprises (15.5 trillion VND)
  - Enterprises with profits: Supported
  - Enterprises with no profit due to Covid-19: not supported
- Reduction of some fee (negligible impact)
- Tax payment extension
  - Actual benefit is equivalent to saving interest (4%) on deferred tax (5 months)
- Increase family curcumtance deduction (10.8 trillion VND)
World economic outlook in 2020

Covid-19 has changed major trends

- Suy thoái KT toàn cầu
- Thảm họa NSNN, Nợ công
- Đút gà, dịch chuyển các chuỗi
- Phi toàn cầu hóa
- Sớm hóa nền kinh tế
- Chính sách tiền tệ siêu lỏng
Vietnam economic outlook in 2020

➢ Declining economic growth due to supply and demand shocks:
  ▪ Supply side: production was hindered by social isolation; supply chains were disrupted
  ▪ Demand side: Consumers cut down on spending because of unemployment, underemployment or reduced income
    • Enterprises cut their investment when facing less positive economic prospects and financial difficulties
    • Week export demand due to economic slowdown in partner economies

➢ Promoting new economic activities:
  ▪ E-commerce (logistics, electronic payment);
  ▪ Online services of healthcare, education, banking, government

➢ Revealing limitations in management mechanism:
  ▪ Appraisal and disbursement of public investment
  ▪ Lack of updated and reliable information system
  ▪ Cumbersome, inflexible and ill-timed administrative procedures
  ▪ Lack of economic institutions and policies to cope with large and sudden changing
Adjustments and prospect of recovery, 2021 - 2025
Vietnam economic prospect in 2021: Opportunities, risks and challenges

– Being success in stopping the spread of Covid-19 and maintaining macroeconomic stability are the foundation for economic recovery.

– Recovery of main partner economies could contribute to increase in Vietnam export in 2021.

– EVFTA, CPTPP, and RCEP will positively contribute to Vietnam’s recovery in 2021 and in the whole period 2021-2025.

– Vietnam is showing its “attraction” to international investors with strong resilience, potential recovery post-covid and opportunities from FTAs.

– Take advantages of supply chain shift.

– Private consumption and public investment will still be drivers of economic recovery in 2021.

– Industry and services sectors may achieve higher growth in 2021 thanks to recovery of consumer markets and supply sources.

– Manufacturing, wholesale and retail, transportation and warehouse are able to recovery strongly under well-controlled Covid-19 condition.

– World economy and key partner economies have not really get rid of difficulties, the recovery is facing uncertainty and risks.

– Covid-19 continues complicated and unpredictable.

– Impacts of economic stimulus policies are limited.

– Enterprises: SMEs have been “exhausted” after long difficult period.

– Production recovery of enterprises may take more time.

– Inflation pressure and macroeconomic instability.

– Sustainability of State budget is threatened due to high spending.

Growth scenarios for 2021 focus on five main issues: (i) Assumptions about Covid-19; (ii) Possibility of increasing export and FDI; (iii) Conditions that support the recovery of enterprises and private investment (including support packages, fiscal policies, monetary policies, recovery of partner markets, export orders); (iv) Disbursement of public investment; (v) Prospect of recovery of various sector
Adjustments in 2021-2025

• **World economic context:**
  – World economy is more uncertain and risky
  – Supply chains, GVCs, and trade flows will shift drastically toward more diversified direction
  – Trade protection and trade conflict tend to increase strongly
  – Digital economy, sharing economy are expected to develop faster.

• **Internal context:**
  – Requirement to innovate growth model is more urgent
  – Digital economy, e-commerce have opportunities to growth faster and become impetus for growth.
### The future of supply chain

<table>
<thead>
<tr>
<th></th>
<th>Reshoring</th>
<th>Diversification</th>
<th>Regionalization</th>
<th>GVC-replication</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Impact on international production</strong></td>
<td>Shorter, less fragmented VCs; rebundling of supply chains, more concentrated VA; less offshoring, less outsourcing;</td>
<td>Continued fragmentation of supply chains; increased platform-based supply chain governance; increased offshoring and outsourcing of services. More concentrated value added</td>
<td>Shorter physical supply chains, but not less fragmented. More geographically distributed value added. Decentralized governance, outsourcing</td>
<td>Much shorter and less fragmented value chains, rebundling of production stages. Higher geographically distribution of activities, but more concentrated value added. Increased outsourcing</td>
</tr>
<tr>
<td><strong>Main motivations</strong></td>
<td>Technology (automation, robot), policy environment (post Covid-19 autonomy, develop and protect strategic industrial capacity).</td>
<td>Technology (automation, platform, AI, Blockchain); sustainable trends (post Covid-19 supply chain risk management; capacity to monitor chains.</td>
<td>Policy environment (regional integration; need for post-Covid-19 autonomy); Technology (digitalization) Sustainable trends (increase possibility to recover chains).</td>
<td>Automation and digitalization, 3D print; policy environment (productive capacity of key industries post Covid-19)</td>
</tr>
<tr>
<td><strong>Key sectors</strong></td>
<td>High-tech industries, industries engaged deeply in GVC; services.</td>
<td>Services and industries engage deeply in GVCs,</td>
<td>Regional processing industries, industries which engage deeply in GVCs, primary industries.</td>
<td>Spindle-based industries, regional processing industries.</td>
</tr>
<tr>
<td><strong>Results</strong></td>
<td>Reduce FDI, divest and transfer investment; may increase NEM investment, reduce trade related to GVC.</td>
<td>Reduce FDI in assets, increase intangible assets; increase trade of services and data flows.</td>
<td>Increase intra-regional FDI, shift production Increase intra-regional trade</td>
<td>Reduce FDI; Increase trade of services, intangible assets, data flow and license fee Reduce trade related to GVC</td>
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</table>
### Regional supply chain shift

<table>
<thead>
<tr>
<th>Region</th>
<th>Main trends</th>
<th>Motivations</th>
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</thead>
</table>
| Asia   | - Production shift from China to low-cost countries (Southeast Asia, India and other South Asian countries);  
          - Supply chain regionalization;  
          - China attracts capital flows into technology industries;                                                                                           | - Increase in China’s labor cost;  
          - Trade war, Covid-19;  
          - Japan’s policies to move away from China;  
          - Regional FTAs (RCEP, CPTPP).  
          - BRI initiative to connect regional infrastructure;  
          - Technological progress, IR 4.0 |
| America| - Reshoring;  
          - Supply chain regionalization;  
          - Formation of new technology supply chain.                                                                                                | - US’ policies to encourage enterprises to move away from China;  
          - Us-China trade war;  
          - Regional FTAs (USMCA);  
          - Change in wage gap (China’s salary has exceeded Mexico’s).  
          - IR 4.0                                                                                                                                  |
| EU     | - Supply chain regionalization.  
          - Reshoring to increase supply chain resilience.                                                                                               | - Regional supply chains has been firmly established thanks to efficient production system; large market; diverse resources.  
          - High economic integrity (EU), despite Brexit;  
          - Covid-19;  
          - IR 4.0.                                                                                                                               |
Opportunities gap

Motivation and ability to shift supply chain and Vietnam's export

Motivation and ability to shift supply chain and Vietnam's import
<table>
<thead>
<tr>
<th>Country</th>
<th>Current mid-range manufacturing capacity/industrial clusters</th>
<th>Labor (Cost, readiness, flexibility)</th>
<th>Connectivity and accessibility to commercial offers</th>
<th>Business environment</th>
<th>National Risk (Political and economic)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
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<tr>
<td>Mexico</td>
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<td>Vietnam</td>
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<td>Central and Eastern Europe, excluding Romania</td>
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<td>Maroc</td>
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<td>Turkey</td>
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<td>Thailand</td>
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<td>India</td>
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<td>Romania</td>
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<td>South Africa</td>
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<td>Egypt</td>
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<td>Saudi Arabia</td>
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<td>Kenya</td>
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<td>Colombia</td>
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<td>Nigeria</td>
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<td>Brazil</td>
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Sources: Fitch Solutions (2020). Noted: high score means lower risk and more favorable in attracting supply chain shift.
Distance and high technology index

Sources: [https://atlas.cid.harvard.edu/](https://atlas.cid.harvard.edu/)
## Access targeted companies

<table>
<thead>
<tr>
<th>Product</th>
<th>China’s export (bil USD-%)</th>
<th>Global export (bil USD)</th>
<th>% The US's import (%)</th>
<th>Complicatio n level</th>
<th>Imported companies in the US</th>
</tr>
</thead>
<tbody>
<tr>
<td>Computer</td>
<td>130 (49%)</td>
<td>265</td>
<td>27%</td>
<td>0.97</td>
<td>Hp Inc C O Xpologistics (ca)</td>
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<td>Acer America Corporation (ca)</td>
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<td>Lenovo Mixed Bp (ca)</td>
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<td>Compal Electronics Inc lor Care (tn)</td>
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<td>Qch Inc Computer (ca)</td>
</tr>
<tr>
<td>Office machines accessories and parts</td>
<td>90, (36%)</td>
<td>250</td>
<td>18%</td>
<td>1.17</td>
<td>Pegatron Computer Inc (tx)</td>
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<td>Cloud Network Technology Singapore (tx)</td>
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<td>Wiston Infocomm Technology (tx)</td>
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<td>Expeditors International Of Washington Inc</td>
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<td>Thermaltake Inc (ca)</td>
</tr>
<tr>
<td>Toys</td>
<td>28 (60%)</td>
<td>46</td>
<td>25%</td>
<td>0.19</td>
<td>Walmart Stores Inc (ar)</td>
</tr>
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<td>Mattel Inc (ca)</td>
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<td>Melissa Doug Inc (ct)</td>
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<td>Costco Wholesale Corporation (wa)</td>
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<td>Ikea (ca)</td>
</tr>
</tbody>
</table>

Source: [https://atlas.cid.harvard.edu/](https://atlas.cid.harvard.edu/)

China export > $25bil, The US imports 15%, Gross global export> $30bil
Economic growth in 2021 and adjustments for 2021 - 2025

❖ World economic context:

o **Baseline scenario:** world economy recovers, Covid-19 pandemic is gradually controlled. In this scenario, major economies like the US, EU, and Japan achieve positive growth again. Growth of the US is predicted to reach 3-3.5%, China growth is predicted 5-6%.

o **Optimistic scenario:** World economy recover faster. Global trade and investment recover strongly. In this scenario, China economy growth can reach 6-8%, The US economic growth can be more than 3.5%.

❖ Internal context:

o Scenarios associated with following assumption: recovery of export, domestic market; resilience of the economy; and recovery of business and public investment..
## Forecast of main macroeconomic indicators

<table>
<thead>
<tr>
<th>I. GDP growth (%)</th>
<th>2020</th>
<th>Baseline scenario</th>
<th>Optimistic scenario</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Agriculture, forestry and fishery</td>
<td>2.68</td>
<td>2.70</td>
<td>2.97</td>
</tr>
<tr>
<td>- Industry and construction</td>
<td>3.98</td>
<td>6.64</td>
<td>7.22</td>
</tr>
<tr>
<td>- Services</td>
<td>2.34</td>
<td>7.23</td>
<td>8.17</td>
</tr>
<tr>
<td>- Product taxes less subsidies on production</td>
<td>2.4</td>
<td>4.75</td>
<td>5.19</td>
</tr>
</tbody>
</table>

| II. Component of GDP(%) | | | |
|-------------------------| | | |
| - Agriculture, forestry and fishery | 14.27 | 13.72 | 13.65 |
| - Industry and construction | 34.2 | 33.61 | 33.67 |
| - Services | 41.7 | 43.23 | 43.26 |
| - Product taxes less subsidies on production | 9.8 | 9.45 | 9.42 |

| III. CPI yoy (%) | 3.23 | 3.8 | 4.2 |
| IV. Productive investment/GDP(%) | 34.4 | 32.72 | 33.18 |

Source: NCIF, 12/2020
# Adjusting economic forecast, 2021 - 2025

<table>
<thead>
<tr>
<th>GDP growth</th>
<th>Unit</th>
<th>Est 12/2019</th>
<th>Est 12/2020</th>
<th>Adjustment (% point)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Baseline scenario</td>
<td>Optimistic scenario</td>
<td>Baseline scenario</td>
</tr>
<tr>
<td>GDP growth</td>
<td>%</td>
<td>7</td>
<td>7,5</td>
<td>6,3</td>
</tr>
<tr>
<td>- Agriculture, forestry and fishery</td>
<td>%</td>
<td>3</td>
<td>3,4</td>
<td>2,9</td>
</tr>
<tr>
<td>- Industry and construction</td>
<td>%</td>
<td>8</td>
<td>8,5</td>
<td>7,2</td>
</tr>
<tr>
<td>- Services</td>
<td>%</td>
<td>7,4</td>
<td>8,05</td>
<td>6,5</td>
</tr>
</tbody>
</table>

Sources: NCIF, 12/2020
Policy implication in 2021

- Continue policies to exempt and reduce tax, fees; rental extension.
- Cut down business conditions and compliance costs; improve human resource quality in export industries to move up to higher level in value chain.
- Accelerate investment in digital infrastructure, provide digital services to people and enterprises in association with building e-government (population management, administration, employment).
- Accelerate disbursement for large-scale and pervasive transportation projects (such as highways, airports, seaports; industrial park infrastructure) right from the beginning of the year.
- Promote export to EU, especially key products like electronics and electronic components, textile, footwear, wood and wood products, seafood, vegetables, processed agricultural products.
Policy implication, 2021 - 2025

• Accelerate institutional reform and improve business environment

• Upgrade synchronously infrastructure, improve logistics system to attract and prepare to receive shifted capital flows

• Complete policies of developing industrial parks and export processing zones to form large-scale, modern and synchronous industrial zone to attract high-tech projects in the electronics and automobile sectors. Promote the development of industrial clusters.

• Increase R&D efforts, develop human capital and encourage investment in upstream industries to increase productivity and competitiveness

• Support and accelerate digital transformation in business sector.
Thank you for your attention