

THE GLOBAL DYNAMICS AND VIETNAM'S CHALLENGES IN 2021



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COVID-19 pandemic

The COVID-19 pandemic has caused a severe global recession whose impacts was only second to the two World Wars and the 1930 Great Depression. Many countries entered the crisis in fiscal precariousness and are less likely to elicit strong policy responses related to health care or livelihood support. Measures such as social distancing, vaccinations and medical treatment have helped slow the spread of the virus and saved many lives; while also support economic growth. However, the world future remains unpredictable and depends on the effectiveness of vaccines against new coronavirus variants; the delays in vaccination, the effectiveness of policy responses in limiting persistent economic losses; the developments in financial conditions and commodity prices, and the adjustment ability of the economies. Like the rest of the world, Vietnam has been hit hard by the COVID-19 pandemic. Despite achieving positive economic growth in 2020 (+2.9%) and being projected to be one of the fastest-growing economies in Southeast Asia in 2021-2022 by ADB's report in the first quarter of 2021, the fourth wave of disease outbreaks (caused by the new easily contagious Delta coronavirus) since early May 2021 will undoubtedly create more challenges for our country. The number of infected cases increased rapidly, and as of July 23, there was no sign of a decrease. Vietnam's vaccination rate, especially the share of the population fully vaccinated, is among the lowest in the world.

Digital economy trends

The world's production of goods and services is accelerating the process of digital transformation, especially for knowledge- and capital-intensive manufacturing industries. Today's digital economy trends mainly focus on the use of 5G technology, cloud computing, the Internet of things, artificial intelligence, machine learning,

automated production processes, 3D printing technology, advanced materials, and renewable energy. The National Digital Transformation Program (Decision No. 749/QĐ-TTg), officially approved in June 2020, has demonstrated the determination to form a digital economy, digital society and digital government in Vietnam. E-commerce flourish, which has grown at an average of nearly 30% per year throughout 2014–2020. In 2020, nearly two-thirds of businesses promoted the use of digital platforms. E-government has also been implemented with an increasing number of online public services integrated on the National Portal and a growing number of visits (Moriset, 2021).

Challenges from global climate change

Our world is currently facing global climate change challenges that no single country can solve, leading to the need to find measures to promote sustainable development quickly. The adoption of climate change policies in many nations and free trade blocs will fundamentally impact production, trade, and investment. Many countries determine green development as an essential strategy for economic recovery after the pandemic. Multinational companies face pressure to build environment-friendly value chains, which have a positive impact on the environment. Vietnam is one of the most affected countries affected by climate change (ranked sixth globally according to the KRI Global Climate Risk Index Report 2020). Over recent years, the Government of Vietnam has introduced several reforms to overcome internal barriers to sustainable development and greening the economy.

Strategic competition and policy adjustment of major economies

The rise of China has made strategic competition among major economies increasingly fierce. Entering a new stage of development, China launched a "Dual Circulation" strategy to improve economic and technological independence and self-reliance, reaching the goal of becoming a modern socialist power by 2049. China determines to take the domestic economy as the main driving force for development; continue to open up and integrate into the world but do it more cautiously and effectively; upgrade the quality of goods and services, and develop China-led production and supply chains. The US focuses on post-pandemic economic recovery, restoring relations with allies and partners, dealing with climate change, and ensuring American leadership in technology, and on handling relations with China. The EU launched a new trade policy within the framework of implementing "Strategic Autonomy", focusing on economic recovery, making digitalization and green economic development the top priority; shaping global rules towards globalization more sustainably and equitably, and taking more drastic actions to protect their interests. The EU focuses on signing and implementing FTAs; making commitments on environment, labour and production standards to FTA partners.

Domestic context: Socio-economic development strategy 2021-2030 and Vietnam's implementation of Free Trade Agreements

Vietnam has demonstrated its aspiration and vision to become a socialist-oriented developed country, aiming at becoming a middle-income country with modern industry by 2030 and a high-income developed country by 2045. Vietnam's socio-economic development strategy for the period of 2021–2030 is generally relatively consistent with the general trend of the world when emphasizing the role of science, technology and innovation in renovating the growth model and restructuring the economy...International economic integration, primarily through FTAs, is expected to bring many economic benefits and is also a vital driving force for Vietnam's economic recovery from the pandemic. Up to now, Vietnam has joined 17 FTAs, including three new-generation FTAs (EVFTA, CPTPP, UKVFTA), which illustrates Vietnam's efforts in increasing the depth and efficiency of economic integration as well as in improving diversity in economic partnerships.

Opportunities and challenges for Vietnam's economy

Opportunities

First, the opportunity to increase Vietnam's footprint in trade and investment flows and its position in the global value chain. The COVID-19 pandemic disrupted value chains, causing MNCs to restructure value chains, disperse investment activities out of China or implement the "China +1" strategy, making Vietnam a new destination for production. Besides, strategic competition and policy adjustment of major countries help Vietnam to take advantage of cooperation frameworks, strategic partnerships and comprehensive partnerships; to fill the market gap left by China when it moves up to the segment of high-end goods and services; and to increase exports to the US in the context of the US-China trade war. Furthermore, the implementation of signed FTAs, especially EVFTA, CPTPP, UKVFTA and RCEP, helps Vietnam increase the volume and quality of trade and investment, diversify partners and participate in value chains led by Western nations and China.

Second, the general trend in the world and the COVID-19 pandemic accelerate the digital transformation process in Vietnam. Digitizing the economy helps to change policy-making processes and business operations in order to enhance the comparative advantages of industries and businesses; promote the application and dissemination of technology and innovation; create new opportunities and business models; increase the participation of small and medium enterprises (SMEs) in global value chains; develop service sectors and cross-border trade in services, and attract FDI to create higher added value.

Third, challenges from climate change and commitments in new-generation FTAs are the driving force behind green growth and sustainable development in Vietnam. In addition, pressures from global environmental policies and Vietnam's major trading partners (the US and the EU) create motivation for the Vietnamese government to improve regulations and policies and for enterprises to change their production and business models. Consequently, the entire economy's production process and business

standards could be upgraded to better harmonize with international trade practices and increase the presence of Vietnamese goods in the global market.

Challenges

First, the pandemic creates many challenges for Vietnam. The Covid-19 pandemic has caused a massive shock on both the supply and demand sides, severely reducing overall global output and international trade and investment, leading to a contraction of Vietnam's international trade and investment activities. The pandemic has disrupted the global supply chain and affected Vietnam's production and export activities. This becomes increasingly severe during the fourth wave of the outbreak. This situation will put tremendous pressure on the production of goods, the export capacity and the ability to meet signed orders for foreign partners in all industries, especially in electrical machinery and equipment and the food industries in 2021. In addition, the covid-19 testing and vaccination program have a significant impact on Vietnam's economic recovery after the pandemic.

Second, climate change causes unusual weather phenomena, causing disruptions in production and international trade. Particularly, industries in which Vietnam has much potential for exports, such as agriculture, fisheries, forestry, etc., are easily affected by extreme weather phenomena. Meanwhile, Vietnam's capacity to cope with and adapt to climate change is still limited. The application of environmental regulations can lead to new barriers to international trade due to significant disagreement between countries and regions regarding climate change policies, emissions targets and implementation schedules

Third, the process of digital transformation and greening the economy creates challenges in adjusting strategy and development model from both governance aspects (adjustments of state policies, of firms' strategies and business models), and developing infrastructure and enhancing human resources. The relatively large proportion of labour-intensive industries is also a challenge in promoting digital transformation in Vietnam.

Fourth, the implementation of FTAs increases imports, and the presence of foreign enterprises creates fierce competitive pressure on Vietnamese firms. Access to the markets of major economies has become more difficult because of many barriers as other countries strengthen measures to protect their domestic markets, enforce higher standards and requirements for goods and services, which are greener, cleaner and safer.

Finally, due to a lack of screening and monitoring mechanisms, Vietnam could risk falling into the trap of processing and assembling, which leads to the attraction of poor quality FDI. This means that FDI moves from China and other countries to Vietnam to take advantage of preferential treatment that Vietnam can get within its FTAs framework. Vietnam is also facing the risk of increasing trade deficit and depending

on Chinese goods for raw materials, machinery and technology. Moreover, there is the risk of transshipment and international embargoes.
