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VIETNAM INSTITUTE FOR ECONOMIC AND POLICY RESEARCH, formerly known as Viet Nam Center for Economic and Policy Research was founded on July 7, 2008. On August 26, 2014, Vietnam Institute for Economic and Policy Research was established on the foundation of Viet Nam Center for Economic and Policy Research, keeping the same abbreviation as VEPR as a Center of Excellence of Vietnam National University.

VEPR is an independent research organization under the University of Economics and Business, Vietnam National University, Hanoi. VEPR has continuously been growing and gaining reputation for thorough economic researches and timely policy discussions.

The main activities of VEPR include (i) provide quantitative and qualitative analysis of Viet Nam's economy issues and their impact on interest groups; (ii) organize workshops for policy dialogue which enable policy-makers, business leaders and civil society organizations to network, exchange then propose solutions to the current key policy's analysis.

One of the most popular publications of VEPR is the Vietnam Annual Economic Report, published annually from 2009.

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THE LANCHING CONFERENCE VIETNAM ANNUAL ECONOMIC REPORT

2021

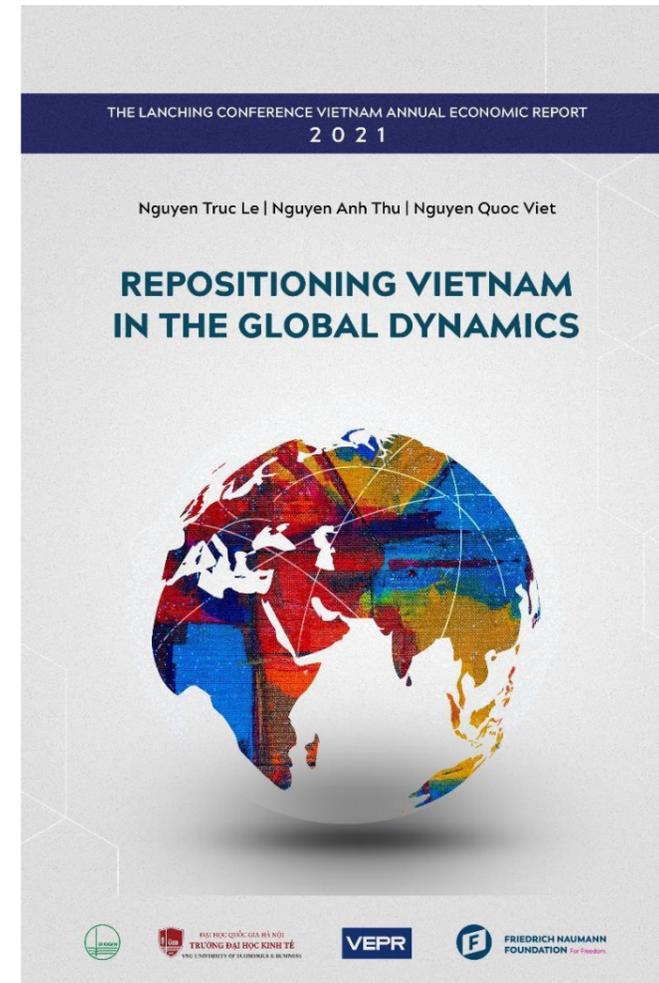
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REPOSITIONING VIETNAM IN THE GLOBAL DYNAMICS

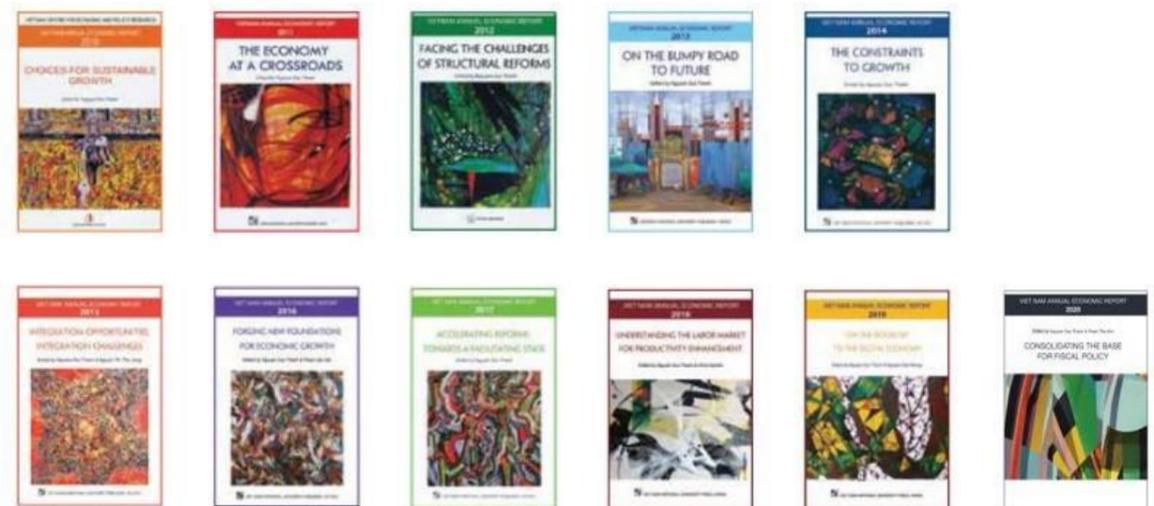
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AGENDA

VIETNAM ANNUAL ECONOMIC REPORT 2021 REPOSITIONING VIETNAM IN THE GLOBAL DYNAMICS

Time & Date: 8:00 – 12:00 pm, Thursday, July 29th, 2021

Format: Online

Language: Vietnamese – English

08:00 – 08:30	Registration
08:30 – 08:40	Welcome and Introduction
08:40 – 09:10	Opening speeches by: <ul style="list-style-type: none">- Assoc. Prof. Dr. Pham Bao Son, Vice President of Vietnam National University, Hanoi- Assoc. Prof. Dr. Nguyen Truc Le, Rector, VNU University of Economics and Business- Prof. Dr. Andreas Stoffers, Head of Country, Friedrich Naumann Foundation for Freedom in Vietnam
09:10 – 10:00	Presentation on the contents of "Vietnam Economic Annual Report 2021" <ul style="list-style-type: none">- <i>Assoc. Prof. Nguyen Anh Thu, vice-rector of VNU University of Economics and Business, director of Vietnam Institute for Economic and Policy Research (VEPR);</i>- <i>Dr. Vu Thanh Huong, Associate Dean of Department of Economics and International Business, VNU University of Economics and Business;</i>- <i>Dr. To The Nguyen, Lecturer in Department of Political Economy, VNU University of Economics and Business.</i>
10:00 – 10:45	Comments from experts <ul style="list-style-type: none">- <i>Dr. Vo Tri Thanh, senior expert in Economics;</i>- <i>Dr. Can Van Luc, Chief Economist of the Bank for Investment and Development of Vietnam (BIDV), Director of BIDV Training and Research Institute.</i>- <i>Dr. Tran Toan Thang, Head of Industry and Enterprise Economic Forecasting Department, National Center for Socio-Economic Information and Forecast, Ministry of Planning and Investment.</i>
10:45 – 11:50	Discussion between the Report's Contributors, the reviewers, and the audience <p>Moderator of the session: <i>Assoc. Prof. Dr. Nguyen Anh Thu, Vice-rector of VNU University of Economics and Business, Director of Vietnam Institute for Economic and Policy Research (VEPR)</i></p>
11:50 – 12:00	Closing Statement by University of Economics and Business

Edited by
Nguyen Truc Le
Nguyen Anh Thu
Nguyen Quoc Viet

**REPOSITIONING VIETNAM
IN THE GLOBAL DYNAMICS**

Hanoi, 7-2021

**REPOSITIONING VIETNAM
IN THE GLOBAL DYNAMICS**

Vietnam Annual Economic Report 2021

**REPOSITIONING VIETNAM
IN THE GLOBAL DYNAMICS**

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ABOUT VEPR

VIET NAM INSTITUTE FOR ECONOMIC AND POLICY RESEARCH (VEPR), formerly known as Vietnam Centre for Economic and Policy Research, was established on July 7, 2008 as a research center under the University of Economics and Business, VNU. VEPR has legal status and is headquartered at the University of Economics and Business, Xuan Thuy, Cau Giay, Ha Noi.

VEPR considers its primary mission to be carrying out economic and policy research to assist in improving the decision-making quality of policy-making institutions, enterprises, and interest groups by providing insights into the social, political, and economic factors that drive the economic affairs of Vietnam and the region. The main activities of VEPR include (i) providing quantitative and qualitative analysis of changing economic conditions in Viet Nam and assessing their impacts on various interest groups throughout the country, (ii) organizing policy dialogues among policy-makers, entrepreneurs, and other stakeholders to improve solutions to emerging issues, and (iii) conducting advanced training courses in economics, finance and policy analysis regularly and upon request.

Since 2018, VEPR has been awarded the status of the VNU Centre of Excellence by the President of the Vietnam National University, Hanoi. According to the 2019 Global Go To Think Tank Index Report conducted by the University of Pennsylvania, VEPR was ranked 59th among top 107 think tanks in Southeast Asia and the Pacific.

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Friedrich Naumann Foundation (FNF) is a German NGO, founded in 1958. The head office is in Potsdam and maintain offices throughout Germany and in over 60 countries around the world. It is important to the FNF to promote freedom and to accept the responsibility that goes hand in hand with freedom.

Since 2012, the FNF has been represented in Vietnam with a project office focusing on the promotion of the market economy, free trade and international integration. Together with renowned partners in Vietnam, the FNF carry out research projects, organise seminars, support advanced training courses to improve personal skills, publish books, organise courses for multipliers as well as educational trips to Germany and support research on current and diverse topics.

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Vietnam Annual Economic Report 2021, conducted by the Institute for Economic and Policy Research, University of Economics Business, Vietnam National University, Hanoi, has been completed with the help of many individuals and organizations. The first thanks, the contributors would like to send to the members of the Board of Directors of Vietnam National University, Hanoi, and the Board of Directors of the University of Economics Business, VNU, who have supported us during the implementation of the chain this report for many years.

The success of the project is due to the contributions of experts from the Adviser and Commentator Group, who have participated in discussions, seminars and workshops in different stages of the whole process. We would like to express our special gratitude to the authors, and scientists, leaders of faculties/units of the University of Economics Business, Vietnam National University, Hanoi, who have participated in developing the content, participate in discussion sessions and contribute content to each chapter of the Report.

We would like to express our sincere gratitude to the support of the Friedrich Naumann Institute in Vietnam in many aspects, especially the sponsorship of the event to publish this Report in July 2021.

We would also like to express our sincere thanks to the members of the support team of the Institute for Economic and Policy Research (VEPR), especially the Editorial Team. Their enthusiasm, dedication, patience and thoughtfulness are decisive factors for the Report to be published on time.

We would like to express our gratitude to the staffs of the Department of Scientific Research and Development Cooperation, the Department of Communication, the Department of Journals and Publishing of the University of Economics Business, VNU for their effective support and timely throughout the project and during the preparation of the Workshop to announce the Report.

Despite our efforts within the time limit, facing many difficulties when society is facing the Covid19 epidemic, absorbing the effective contributions and enthusiastic support of many experts and associates, we know the Report There are still many limitations and errors. Therefore, we sincerely look forward to receiving your contributions so that the author team has the opportunity to learn and improve in the next works.

Hanoi, July 28th, 2021

On behalf of the Contributors

Assoc. Prof. Dr. Nguyen Anh Thu

Vice Rector of UEB, Director of VEPR

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LIST OF ABBREVIATIONS

AAGR	Average annual growth rate
ADB	Asian Development Bank
AEC	ASEAN Economic Community
ASEAN	Association of Southeast Asian Nations
AFTA	ASEAN Free Trade Area
CMCN 4.0	Fourth Industrial Revolution
CPI	Consumer price index
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
DVX	Domestic value-added present in products exported to third countries
EU	European Union
EVFTA	EU-Vietnam Free Trade Agreement
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
FVA	Foreign value-added present in a country's exports
IMF	International Monetary Fund
GDP	Gross Domestic Product
GVC	Global value chain
GEVC	Global electronic value chain
MNC	Multinational corporation
MNE	Multinational enterprises
OEC	Observatory Economic complex
OECD	Organization for Economic Cooperation and Development
PCI	Product Complexity Index
PCI	Provincial Competitiveness Index
RCA	Ratio of existing comparative advantage
TFP	Total factor productivity
UKVFTA	Vietnam - UK Free Trade Agreement
UN	United Nations
VCFTA	Vietnam - Chile Free Trade Agreement
VKFTA	Vietnam - Korea Free Trade Agreement
WB	Vietnam - Korea Free Trade Agreement
WEF	World Economic Forum
WIPO	World Intellectual Property Organization

EXECUTIVE SUMMARY

The Vietnam Economic Annual Report (VAER) 2021 entitled "**Repositioning Vietnam in the global dynamics**" has been conducted in the context of a global recession under the impact of the Covid-19 pandemic. Along with the decline of productivity, economic growth, trade and global investment in recent years, the coronavirus shock cast a shadow over the world economy in 2020. Besides, globalization continues to advance steadily; however, there are also opposite trends. The fourth industrial revolution brings new opportunities and challenges; traditional and non-traditional security issues increase both in level and scale. Moreover, Vietnam continues to deeply integrate into the world, making the country increasingly sensitive to external fluctuations. The year 2021 can be considered a pivotal year for a new development phase of the Vietnamese economy. Therefore, the VAER 2021 will thoroughly analyze Vietnam's economy in the context of fluctuations in the world economy, reposition Vietnam in the global economy based on examining Vietnam's comparative advantages and participation in the global value chain, and the competitiveness of Vietnam economy.

The report consists of seven chapters. The first two provide an overview of the world and Vietnam's economy in 2020, followed by chapter 3, which analyzes the global dynamics and identifies some opportunities and challenges for Vietnam. The following three chapters contribute to repositioning Vietnam in the context of global upheaval based on two different approaches. Particularly, the report evaluates Vietnam's manufacturing industries in relation to other countries, based on examining the country's comparative advantages and value chains and looks deeply into each industry to identify Total Factor Productivity (TFP) contribution to their development. Specifically, Chapter 4 evaluates Vietnam's comparative advantages and participation in the global value chain, delving into the electronics and food industries. Chapter 5 evaluates Vietnam's competitiveness from an institutional perspective and an international approach. Chapter 6 assesses TFP's contribution to Vietnam's manufacturing industries, focusing on electronics and food, which were selected for in-depth analysis for several reasons. For electronics, this is an industry that: (i) makes a considerable economic and social contribution by contributing significantly to GDP growth and the state budget, creating many jobs for workers, and having great potentials to attract foreign investment; (ii) achieves impressive growth rates and achievements in the world market recently in terms of both trade and FDI attraction; (iii) has a high, and increasing comparative advantage ranking; and (iv) has a high level of current and potential participation in GVCs through trade and investment. The food industry was selected for the following reasons: (i) it is now becoming a rather sensitive industry and has received the attention of many countries during the Covid-19 pandemic due to the need to ensure food security; (ii) For Vietnam, it is one of the important economic sectors with the most significant number of enterprises, the second-largest pre-tax profit, and the fourth-largest number of jobs among the manufacturing and processing industries in Vietnam in 2020; (iii) it is consistently among the industry groups with the highest export value and records a substantial shift from a net import to a net export in the period 2012-2020, (iv) it is an industry with great potential for developing and increasing comparative advantages and participation in GVCs through FTAs and taking advantage of domestic agricultural products. Finally, Chapter 7 provides forecast scenarios for Vietnam's economic outlook for 2021 and provides policy recommendations in the short, medium and long term.

AN OVERVIEW OF THE WORLD ECONOMY IN 2020

The overview of the world economy in 2020 shows that the context of global volatility in recent years and especially the Covid-19 pandemic outbreak has made global economic growth slow and difficult to predict. The contraction was estimated at 4.3% in 2020, with developed economies seeing the most significant decline, followed by the emerging and developing economies. However, the growth in China remained solid. The pandemic is likely to lead to a lasting reduction in the level of potential economic growth over the next decade (World Bank, 2021).

Corresponding to the contraction in global output, *employment and income also fell sharply*. The workplaces closures due to COVI D-19 disrupted the global labor market on an unprecedented scale, four times higher than during the

global financial crisis in 2009. As a result, global labor income (before government income support measures) in 2020 was expected to decrease by 8.3%, equivalent to USD 3.7 trillion or 4.4% of global GDP in 2019.

Commodity markets also suffered a big shock, but the impact was disproportionate for different commodities. In particular, energy prices decreased the most but then recovered quickly; agricultural prices only changed slightly, and metals prices decreased slightly first but then continued to increase rapidly, becoming a featured phenomenon of 2020.

The financial system did not fall into crisis, but there were uncertainties. Although the positive response of countries' central banks has helped prevent the global financial system from falling into crisis, the instability is becoming more apparent. Debt levels were increasing, and bank balance sheets were getting weaker. The global debt hit a high record of 230% of GDP in 2019, fueling the fear of a fourth global wave of debt.

International trade and investment were also profoundly affected and severely impaired. Both trade in goods and services decelerated in 2020, by -7% and -20%, respectively, especially in tourism and transportation. Global FDI flows also fell by 35 %, from USD 1.53 trillion in 2019 to nearly USD 1 trillion in 2020 - the lowest level since 2005 and about 20% below the low point reached after the global financial crisis (UNCTAD, 2021).

In this context, governments had many *policy responses* such as expanding fiscal space to increase spending on health, subsidizing incomes and welfare payments, and salary subsidies for businesses. In addition, central banks have also implemented a series of different monetary policies to strengthen financial markets and mitigate the adverse economic impact of the pandemic. Trade policies and measures to support businesses were also used to deal with the pandemic. Due to quick and timely policy responses, the world economy had a remarkable recovery by the end of 2020.

The highlight in the global economy in 2020 was *the disruption in production activities and the trend of reshaping the global value chain*. Manufacturing activities have been stalled in most countries since March 2020, after the governments implemented measures to curb the pandemic spread. For the whole of 2020, global manufacturing output decreased by 4.1% compared to 2019 (UNIDO, 2021). High- and mid-high-tech industries have a higher post-pandemic recovery than low-tech industries. In addition, the pandemic has slowed and *disrupted supply chains around the world which could lead to a reshaping of global value chains*. It has been anticipated that companies will move their production out of China; this, however, is not easy and immediate since China plays the role of "dominant player" in the global supply chain of many products. However, some large companies have plans to shift their production to other countries in the region, especially Vietnam. Nevertheless, this entails high switching costs, especially in sectors such as electronics or automotive manufacturing. Moreover, the complex ecosystems that China has built around different GVCs are also difficult to transfer and replicate elsewhere. Therefore, the China + 1 strategy seems to be the most realistic and viable option. Any country or sub-regional economy which embraces this shift can get jobs and higher growth.

2020 is a challenging economic year for most of Vietnam's economic partners such as the US, Europe, Japan, China, Korea and ASEAN. The most significant decline in economic growth was in Europe (-6.2%), followed by Japan (-4.8%), the US (-3.5%), ASEAN (-3.3%), and South Korea (-1%). Only China achieved positive growth in 2020. Due to the large-scale outbreak of the pandemic, Europe was the region with the highest unemployment rate (8.31%), followed by the US (7.37%). China and South Korea had lower unemployment rates, at 5% and 4.07%, respectively, and Japan had the lowest unemployment rate (2.97%). Despite achieving positive growth, the consumer price index (CPI) increased the most in China (2.4%), followed by the US (1.2%), South Korea (0.54%) and the EU (0.5%). Although the price increase in the EU was meagre, there was a considerable variation among member countries. Japan was the only country to see deflation in 2020; however, the reduction was meagre (0.016%). Five out of six crucial economic partners of Vietnam had a current account surplus in 2020 with different levels such as Korea (4.6% GDP), ASEAN (3.4% GDP), Japan (3.3% GDP), Europe (2.66% GDP) and China (1.9% GDP). The US continued to increase its current account deficit by 3.1% of GDP. The Japanese Yen and the Euro both appreciated against the USD, in which the EURO increased by 8.9% in 2020. The CNY, after weakening against the USD at the beginning, also regained its value at the end of the year. Despite facing such difficulties, the economic outlook of Vietnam's important partners is very positive because most of the countries are capable of producing vaccines and have already implemented widespread vaccination strategies. This context will help

Vietnam maintain economic growth and ensure the smooth operation of trade and investment. However, whether or not economic growth can be achieved depends significantly on the level of disease control in Vietnam and the strategy of "living with" the pandemic in industrial parks and economic zones. The success of other countries in disease control, especially ASEAN members, are also of equal importance.

In short, it can be seen that in 2020, global economic growth decelerated and became more unpredictable; global trade and investment declined sharply; employment and income were hit hard; the commodity market suffered a great shock, and there were uncertainties in the financial markets. The pandemic has also disrupted global production networks and created a trend to reshape global value chains (GVCs). A host of governments and organizations to launch aggressive stimulus and bailout packages to help stabilize the economy. Central banking systems around the world have also stepped in to support the government in the recovery process. However, concerns about a fourth global wave of debt have become increasingly apparent.

AN OVERVIEW OF THE VIETNAM ECONOMY IN 2020

Vietnam's economy closed a turbulent 2020 with impressive growth results. The country achieved an annual GDP growth rate of 2.91% and is among the few economies in the world with positive growth. This is a remarkable result in the context that the epidemic has not been completely controlled, and the production and consumption sectors have been negatively affected. Production slowed down in all three sectors, in which the service sector was hit the hardest when its growth was only about one-third compared to the average of previous years. The number of enterprises dissolved and temporarily suspended operations increased rapidly. Labour and employment dropped sharply in the non-state enterprise sector. Business and consumer confidence both declined.

Regarding the components of aggregate demand, consumption plummets in industries that require close contact. Investment growth was the slowest in a decade but still at a decent level, mainly thanks to the disbursement of public investment from the public sector. FDI decreased slightly in the general slowing downtrend of global foreign investment flows. The most prominent bright spot of the economy comes from the export of the FDI sector, when this sector accounts for more than 72% of the total export value of the economy. The advantages brought by free trade agreements, US-China trade tensions, substantial economic stimulus packages from significant markets, and the adaptation of businesses in the context of the pandemic have resulted in trade surpluses. Vietnam's goods trade surplus in 2020 reached a record level, estimated at USD 20 billion. In which, exports of goods increased by 7.0%, while imports increased by 3.7%. On the contrary, due to the closure of the border with tourism for most of the year, service exports decreased by 68.4%, making Vietnam's trade deficit in services up to USD 12 billion, about eight times higher than that of the previous year.

The US and China are the two largest export markets and have the most robust growth in 2020. Meanwhile, imports into Vietnam come mainly from China and South Korea. Telephones and their components, computers and spare parts, machinery and equipment spare parts, textiles and fabrics, etc., are some of the items with the most considerable value in both export and import.

The CPI inflation in 2020 is moderate at about 3.23% and within the target set by the National Assembly and the government. The main contribution to inflation in 2020 comes from the increase in prices of food and food services of about 9.99% (mainly due to the sharp rise in pork and rice prices). In addition, the cost of educational items also increases by 4.08% due to the adjustment of tuition fees in many localities. Most of the remaining consumer items have a slight increase in prices from 1-2%, or even decreased such as traffic or culture, sports and tourism items.

The modest increase of the CPI in 2020 is mainly due to three main reasons. Firstly, gasoline prices fell and remained low for most of the year. Second, due to falling income and the impact of the pandemic, the demand for many goods and services in cultural, sports and tourism categories, therefore their prices, fell sharply. Thirdly, the prices of many imported production inputs tend to decrease due to a decrease in world demand. At the same time, the value of VND is kept stable (even slightly appreciated) against the USD, which helps to eliminate the exchange rate pass-through effect

into domestic prices. In addition, the postponement of price increases for some state-regulated price items, such as healthcare, helps contain inflation in the country.

The State Bank of Vietnam has reduced the policy rates three times, helping lower deposit and lending rates during the year. As a result, Vietnam is one of the countries in the region with the most substantial interest rate cuts. The reduction of interest rates of 1.5 to 2% percentage points and monetary expansion and easing/delaying the implementation of prudential regulations have supported liquidity and facilitated banks to access capital from the State Bank at a low cost. However, the decrease in lending interest rates has not caught up with the decline in deposit rates. This shows that the impact of the policy action on lending interest rates in Vietnam is quite limited.

The monetary policy expansion and financial regulation loosening have helped Vietnam maintain a similar growth rate of money supply and credit as in recent years. However, in the context of a sharp economic slowdown, a rapid increase in money supply and credit shows specific concerns about the destination of cash flows and the health of businesses. Some of the credit growth can help keep businesses afloat, roll over debt, and flow into government bonds and other asset markets like real estate and stocks.

The exchange rate continues to be stable in both the official and the free market. However, the devaluation of the USD in the international market, the large trade surplus, the steady foreign investment inflows, and the cautious view of the SBV are the main reasons for the VND to fluctuate with a narrow margin throughout the year.

Meanwhile, except for the gold market, Vietnam's real estate and stock markets are booming. In the stock market, both the VN-Index and the trading volume increased strongly and are considered one of the world's best growth markets in 2020. Besides many businesses benefit and have strong growth during the pandemic, the strong growth of Vietnam's stock market is also due to the increased saving of both firms and households in the context of the pandemic, plus monetary expansion, lowering interest rates by SBV. Similarly, real estate prices are also galloping in many localities across the country, in both the residential and industrial real estate markets. The supply of real estate tends to decrease in the big cities of Hanoi and Ho Chi Minh City while the demand is stable. In general, in the context of stagnation due to the pandemic, coupled with the expansionary monetary policy, a large amount of capital has flowed into the stock and real estate markets, creating the risk of price bubbles.

State budget revenue in 2020 is negatively affected due to the decline in production and expenditure. It is estimated that state budget revenue only reached 98% of the plan and decreased by 2.79% compared to 2019. This is the only year that budget revenue decreased in the past decade.

In terms of structure, state budget revenue is shifting towards increasing domestic revenue, while revenues from crude oil and import-export activities are decreasing due to deepening international integration. However, in 2020, up to 60% of domestic revenues did not meet the target.

Public investment disbursement in 2020 has made remarkable progress in many years, reaching about 97-98% of the target assigned by the National Assembly and the government. Capital spending from the state budget exceeded 10% of the estimate; recurrent expenditure is still the most significant component, exceeding 1.5% of the forecast; and interest payments were slightly lower than expected thanks to lower interest rates on government bonds. The burden of interest has increased rapidly in recent years as public debt is getting larger and larger. In addition, recurrent expenditure has exceeded the estimate for many years, showing that this source of expenditure has not been well controlled.

By the end of December 31, 2020, Vietnam's public debt was about 55.3% of GDP, government debt was approximately 49.1% of GDP, and the country's foreign debt was about 47.3% of GDP. In recent years, the growth rate of public debt has decreased compared to before, but the increasing debt scale is causing the burden of interest payment to increase rapidly. It is estimated that Vietnam has to spend about ¼ of the annual state budget to pay principal and interest in the coming years. In addition, compared to other ASEAN-5 countries, Vietnam is also the country with the highest public debt/GDP ratio, nearly double that of Indonesia and almost one and a half times that of the Philippines or Thailand.

THE GLOBAL DYNAMICS

Covid-19 pandemic

The Covid-19 pandemic has caused a severe global recession whose impact 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 supported economic growth. However, the world's 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). However, Vietnam still faces many challenges in implementing the digital economy compared to some other ASEAN countries (such as Thailand, Indonesia, the Philippines) in terms of the average level of people's connectivity, digital infrastructure, digital payment methods, and the progress of digital adoption in the public sector under the circumstances of Industry 4.0.

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. Many forecasts predict that China will surpass the US to become the world's largest economy by 2028. On the one hand, large countries have to adjust policies to maintain and strengthen their position in the international arena. On the other hand, these countries have to put efforts into coping with global issues such as climate change and epidemics, etc. With the motto "Make America great again", which consolidates its position as the number one superpower, 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 US values and advocates strengthening relations with ASEAN countries, including Vietnam. 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. Facing the risks of falling behind the US and China and getting caught in the strategic competition between these two countries; 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.

It can be said that the world situation of "two superpowers and multi-powers" is more clearly defined: The contradiction between economic integration and the increasing trend of separation. The entire production network and supply chain have been restructured in the direction of reducing the risk of breakage and disruption, which is aiming at: (i) bringing production closer to the market or the home country, (ii) shifting investment and global supply chains out of China, and (iii) adopting "China +1" strategy. In addition, countries tend to seek a balance between economic linkages and improved self-reliance. Greening the economy and digital transformation are also major trends that countries continue to promote.

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; improving the efficiency of international economic integration; developing information and telecommunications infrastructure to create a national digital transformation platform; and prioritizing a number of key projects to adapt to climate change. 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 for Vietnam

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. For some industries, climate change mitigation and adaptation requirements can create new business opportunities and occasions to participate in global value chains with higher standards, including in the agricultural and food sector that Vietnam has many potentials to grow. 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 for Vietnam

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. As of July 22, 2021, 61/63 provinces and cities have community transmission, especially the large number of infections in export-oriented industrial zones in regions such as Bac Ninh, Bac Giang, Hanoi, Ho Chi Minh City and surrounding areas. 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. Pressure from consumer demand for environment-friendly products/services pushes Vietnamese businesses to apply measures to minimize impacts on the environment if they want to increase their presence in the international market and strengthen their position within the global value chain.

Third, the process of digital transformation and greening the economy creates challenges in adjusting strategy and development models 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.

VIETNAM'S COMPARATIVE ADVANTAGE AND PARTICIPATION IN GLOBAL VALUE CHAINS (GVCS)

An overview of Vietnam's comparative advantage and participation in GVCs

In the period 2010 - 2020, Vietnam has achieved an impressive trade growth rate when import and export turnover has continuously increased, and trade surplus has been successfully maintained for the past 5 years. In 2020, amid the pandemic, Vietnam was one of the few Asian countries with positive trade growth and the highest recorded trade surplus of nearly 20 billion USD. FDI into Vietnam carried on a relatively stable growth rate over the years in 2010 - 2019. In 2020, although the Covid-19 pandemic had certain impacts on FDI inflows into Vietnam, these influences are not too significant. Specifically, the total newly-registered capital and implemented capital declined slightly. However, there are still encouraging results as the total additional registered capital still increased compared to the previous year, and the implemented capital still improved steadily through the quarters of 2020. These results show that trade and investment will continue to be strengths that Vietnam needs to take advantage of to enhance Vietnam's position in the international market in the coming time.

Over the period 2010 - 2019, Vietnam has a comparative advantage in 9/20 industry groups. However, in 2020, only 6 industry groups have comparative advantages, of which only 1 industry group has a high comparative advantage (Footwear and Headgear); 03 groups of industries with medium comparative advantages including Garments; Electronic Machinery and Equipment, and Leather and articles of Leather; and 02 groups of industries with low comparative advantage including Wood and articles of Wood, and Textile Materials. Over the whole period, Vietnam's comparative advantage has the following highlights. Firstly, the comparative advantage for most industry groups has decreased (7/9 industries have comparative advantage), even in the only industry group that Vietnam has a high comparative advantage in, which is Footwear and Headgear. Secondly, Vietnam is gradually losing its comparative advantage in agricultural products when Vietnam has no longer advantages in both animal and vegetable products in 2020. Thirdly, there is only one industry Vietnam has a high comparative advantage in, which is the electronics industry. However, the increase in comparative advantage in this industry is due to the presence and expansion of production, exportation, and investment of FDI enterprises in Vietnam. Fourthly, the industries that Vietnam does not have a comparative advantage in are those related to input materials such as plastic, rubber, mechanical machinery, metal, paper, or valuable products and technology such as transport, optical, musical, and medical equipment... Vietnam's comparative disadvantage helps to partly determine the GVCs' segments in which Vietnam has mainly participated. Thus, in 2020, although Vietnam has effectively controlled the Covid-19 outbreak and continued to thrive with a positive growth rate and impressive export records, Vietnam has really not taken advantage of these advantages to strengthen its position in the world market. Besides, the only industry in Vietnam with an increase in RCA is the electronics industry, however, this increase mainly depends on FDI enterprises in Vietnam.

Comparing the RCA of Vietnam with ASEAN nations and other countries in the world shows that two sectors namely Footwear and Headgear, and Electronic Machinery and Equipment are potential industries that potentially continue to make breakthroughs to enhance Vietnam's position in the world market. However, it should be recognized that even in relation to ASEAN countries, although Vietnam has a high RCA ranking, the gap in the RCA value of Vietnam with the leading ASEAN countries is still quite far and expanding. This is further confirmed when comparing the RCA value of Vietnam with the top countries in the world. Compared to other countries in the world, except for Footwear and Electronics, Vietnam's RCA ranking declines for the remaining sectors in 2020. It implies that in 2020, Vietnam has not taken full advantage of its effective strategies for controlling the pandemic and newly signed FTAs to improve its position in the GVCs. In contrast, Vietnam lags behind other countries in the world in improving RCA.

Over the period 2012 - 2019, Vietnam's product and market concentration indexes were both quite low but had a propensity to increase, especially the market concentration index. It shows that when Vietnam has signed more and more FTAs with different partners, Vietnam is increasingly focusing on several commodity groups in which Vietnam has great comparative advantages in and on markets of major partner countries as well as FTAs partner countries of Vietnam. The

rising product and market concentration indexes show that on the one hand, Vietnam is increasingly making better use of FTAs and its comparative advantages, but on the other hand, Vietnam will be more vulnerable to global economic shocks and trade barriers from partner countries.

Vietnam's participation in GVCs tends to decrease in the period 2010-2018. Although Vietnam's position still lies downstream, it has begun to improve and move towards a more upstream position. On the downstream side of GVCs, the substantial share of intermediate inputs for export processing in Vietnam that originated from China, Japan, Korea, Singapore, and ASEAN demonstrates that the East Asia regional scope overwhelms the international extent of Vietnam's value-added import structure. Meanwhile, on the upstream side of GVCs, Vietnam's intermediate input exports incorporated into export processing of more diversified partners by geography location, showing a more international scope. Upstream engagement of Vietnam includes China, Japan, Korea, ASEAN, the EU, Australia, and the US.

In terms of sector, the domestic value-added in exports of the processing and manufacturing industry is significantly lower than that of the primary sector including agriculture, mining, and service industry. This fact reflects the outsourcing, processing, and manufacturing nature of Vietnam's industry. Besides, it also emphasizes the role and potential of the agricultural sector in improving Vietnam's position through increasing the DVX of Vietnam. In addition, Vietnam's participation in GVCs by industry groups has shown a visual change in 2010 and 2018. In all three industry groups, manufacturing and service industries have increasingly participated in the upstream part of GVCs. In contrast, the GVC downstream participation of the three industry groups showed opposite trends. The primary sector tended to increase while the remaining two sectors decreased their participation in the downstream part.

Vietnam's comparative advantage and GVC participation in the electronic sector

Electronic industry plays an important role in the socio-economic development of Vietnam as it contributes to enterprise development, generates income for workers, makes significant contributions to the state budget, promotes exports, and creates value-added more than 2 times as high as the food industry. Since 2012, the Electronic industry has surpassed the Garment and Textile industry to become the largest exporting industry in Vietnam. During the 11 years period from 2010 through 2020, Vietnam's international ranking in terms of electronics exports has continuously increased and ranked sixth in 2020. The annual average growth rate of Vietnam's electronics exports has been at 34% during the period 2010–2020, greatly outnumbering the growth rates of the world's top ten electronics exporters.

Over the period of 2010-2020, exported electronic products of Vietnam ranked third in RCA value worldwide, after Taiwan and Malaysia, and experienced rapid and steady growth over the years in RCA value. Vietnam's average annual growth rate of RCA for Electronic products is 14% per year, much higher than that of other countries in the top 10 exporting countries of Electronics worldwide. Electronics is the only export group of Vietnam that has shown a rapid increase in RCA over the years, in contrast to the common decrease in RCA of other key export sectors.

The ten exported Electronic products with the highest RCA value of Vietnam ranged from 1.4 (electronic circuits) to 5.5 (phones), of which the highest was telephones. Telephones are also the commodity group with the largest export value of Vietnam and at the same time highest RCA in the world. However, most of the Electronic products with high product complexity (PCI) value are export items from Vietnam which currently do not have a comparative advantage. In contrast, except for integrated circuit products (with $PCI > 1$ and $RCA > 1$), all Vietnamese electronic products with high comparative advantages have low PCI values such as Telephones, Microphones and speakers, Broadcast equipment, Semiconductor equipment, Antennas, Electrical wires, Cables... In addition, the comparison between PCI and Vietnam's export value by item shows very clearly that the exported Electronics products of Vietnam mainly have a low level of specialization along with a low level of technology adoption, which can be produced in many other locations worldwide, regardless of their economic development's status.

In 2010 - 2017, Vietnam's position index in the electronic global value chain (EGVC) was negative, showing that the country was located in the downstream position, focusing on processing and assembling final products for export. In this period, Vietnam participated less in EGVC due mainly to reducing foreign value-added imports for domestic exports. However, the foreign value-added imports still accounted for the majority of Vietnam's total participation in EGVC,

showing that the Vietnamese electronics industry was still heavily dependent on foreign supply. However, albeit small, there was an increase in domestic value-added in Vietnam's exports of electronic goods. This good sign showed that Vietnam had been improving its position in EGVC, towards more to the upstream position, which potentially offering more value-added to the home country. However, a prominent feature of Vietnam's electronics industry is the "overwhelming" of FDI enterprises. FDI enterprises almost "cover" import and export activities of electronic goods, accounting for 95% of the total electronic export turnover in 2020.

For Vietnam's value-added export abroad, trading partners diversified more in 2010 - 2017, from main cooperation within the intra-Asia region towards inter-regional, especially in the European market, however, it is still heavily dependent on some key markets in Asia such as China, Korea, Taiwan, and Thailand. In contrast, for foreign value-added imports (backward linkage), Vietnam's trading partners have not changed significantly. Vietnam still mainly imports inputs for the domestic export of electronic goods from Asian markets such as China, Indonesia, Japan, Malaysia, Singapore, Taiwan, Thailand, and Korea. It also imports from some countries in other regions like the USA, France, Germany, and the UK, but not too many. In addition, compared with a number of countries that act as important knots in the EGVC, Vietnam's position is relatively similar to that of most of the compared countries, most of all located downstream of the EGVC and have relatively equal participation in EGVC. These results show that Vietnam is one of the important knots in EGVC. This is confirmed more clearly when observing the map of links between countries in EGVC, in which Vietnam had significant cooperation with major knots and penetrated deeply into the global electronics industry.

Vietnam's comparative advantage and GVC participation in Food industry

Food industry is an important economic sector in Vietnam and has more room for growth. This industry always has the largest number of enterprises, generates the fourth-largest jobs for workers (following textile-apparel, shoes, and electronics industries) and brings about the second-largest profits before tax (following electronics industry) among manufacturing industries in Vietnam. Besides the upward trend in terms of the number of enterprises and job creation, the Food industry has radically transformed from net importer into net exporter. Over the last few years, the Food industry has been recognised as one of the largest exporting industries in Vietnam (ranked eleventh since 2015 onwards). During this period, Vietnam's food exports have continuously increased from 43th rank to 26th rank in the world in 2020. However, due to the Covid-19 pandemic, Vietnam's food exports in 2020 decreased sharply by more than 18%.

With an RCA value of less than 1, Vietnam has no comparative advantage in the Food sector over the whole period of 2010 - 2020. Vietnamese food has a quite low RCA value in the world, which is smaller than that of Thailand and Indonesia within the ASEAN region, but it is larger than that of China. The average annual growth rate of RCA of exported food products of Vietnam tends to decrease over recent years through a decline of 3.8% per year on average and is likely to continue to decrease due to fierce international competition in this commodity group from emerging economies such as Brazil, China. In addition, the export of the food industry of Vietnam seems to have not kept pace with the growth momentum of other export industries.

The detailed RCA analysis shows interesting insights. Although Vietnam has no advantage in the whole food sector, when looking at a more detailed level, it can be seen that there are still several food products that have comparative advantages, even high advantages. The ten Food exports of Vietnam with the highest RCA values that fluctuate between 1.5 and 11.1, of which the highest comparative advantage belongs to processed crustaceans. These products are also the largest export items of Vietnam in the food industry by export value. Many of Vietnam's food products have the highest RCA in the world when compared with the same group of commodities coming from other countries, such as: processed crustaceans, fats and oils, processed fish and eggs, processed meat, vegetable waste, starch products. In particular, Vietnam's processed crustacean products have a greater comparative advantage compared to other countries in the world, when the RCA value of this item of Vietnam ranks 5th in the world and leads the Asia region.

Most of Vietnam's exported food products do not have high value for the Complexity index. Similar to the electronics industry, Vietnam tends to focus on exporting food commodities that have low PCI (e.g., processed crustaceans). In contrast, Vietnam has modest export value in terms of food products that have high PCI (e.g., pork fat and

poultry; animal fats and oils; rapeseed oil, mustard; starch production waste). This is a crucial characteristic that Vietnam needs to address in order to improve its position in the food industry in the near future.

Compared to the average of all industries, the food sector has a higher GVC participation index. However, the participation in GVCs of the food sector tended to decrease during 2010-2017, mainly due to the decline in the import of foreign inputs that caused participation in the downstream part of the GVCs of the food sector went down. Meanwhile, the proportion of domestic value-added in total exports in 2017 increased by 21.7 percentage points compared to 2010 as Vietnam is gradually developing the capacity of the domestic food industry to meet the needs of domestic and export markets. However, the participation in the downstream is still dominant over the participation in the upstream.

Unlike the dominance of FDI enterprises in participating in the value chain of the electronics industry, the leading companies in the food industry are mostly Vietnamese private enterprises. Vietnam's food industry participates in both inter-regional and intra-regional connections. Northeast Asia intra-regional linkages are strongest downstream of the value chain and focus on China, Korea, and Japan. In contrast, inter-regional links with EU and North American countries become more pronounced upstream. Vietnam's food value chain increasingly concentrates around GVC's hubs, namely China, the United States, and Germany. However, based on network analysis, it can be seen that Vietnam's position in the food export industry is still relatively isolated and has not penetrated deeply into the global market of the Food industry.

Prospects for Vietnam's comparative advantage and GVCs participation

With global upheaval, there are many macro trends, especially digital transformation, that can affect a country's participation in GVCs and its comparative advantage. In digital transformation, developed countries can consider backshoring which moves their production back to their home countries. If so, Vietnam, a labour-intensive country, will need to create practical solutions to catch up with the world's new trends. Specifically, we can move to more advanced activities in the backward linkage of GVCs, such as developing after-sales customer services or product distribution to heighten our value-added when participating in GVCs. To make it come true, Vietnam can exploit the advantages of geographical location, large trade openness and network of FTAs covering many major trading partners. Vietnam also needs to take advantage of the opportunity created by the changes in global FDI flows to attract more valuable FDI. As a result, Vietnam potentially can gain more benefits from international investment and heighten participation in GVCs.

With the analysis of the change of Vietnam's RCA in 2010 - 2020, two industry groups that had the potential to increase their comparative advantages in the near future are Electronics and Footwear. However, compared to other industries, the prospects for enhancing comparative advantages are challenging. On the other hand, the prospect for Vietnam to improve its position in GVCs is also quite positive as Vietnam will continue to move towards the upstream part.

Vietnam's electronics industry has been enjoying unprecedented favorable conditions and prospects for growth thanks to the expanded exporting opportunities, increased foreign investment attraction, and significantly reduced prices of electronics and telecommunication products resulting from tariff eliminations as well as the opportunity for Vietnam to become "the world's second largest production base" presented when a number of electronics and telecommunication giants declared to withdraw from China to relocate in Southeast Asian countries. Besides, Vietnam's electronics industry also faces numerous difficulties in the coming time. Those difficulties are the competition pressure in domestic market as Vietnamese enterprises' competitiveness has been still weak, the pressure of high-quality human resource training that has been placed on Vietnam's undergraduate education system and Vietnamese enterprises' brain that has been drained into multinational corporations, whereas Vietnamese enterprises' scales and levels are so small in the global playing field. The transformation of product structure from "hard" to "soft" one is also a big challenge for electronics businesses. Vietnam's electronics industry has a low local content ratio and the foreign-invested enterprises have dominated the value chain in Vietnam. Vietnam's electronics exports have a low Product Complexity Index, contain little complicated technological contents, and have many rivalries with the same level of competitiveness. These factors will constrain the ability of businesses to adapt to, and meet the newly-emerged urgent needs and to get in touch with movements in the global market.

Thus, in the near future, the comparative advantage of Vietnam in the exporting electronics industry is likely to continue to improve in the international market. Vietnam is mainly located in the downstream position of the chain but is moving towards the upstream position. This development trend is expected to continue in the near future, bringing more value-added to the country's electronics industry.

Positive prospects for enhancing the advantages of Vietnam's food industry come from a variety of channels. Firstly, extensive international economic integration through the ASEAN Economic Community (AEC) and FTAs have contributed to helping Vietnam position itself as an important player in the regional and global food value chains. In addition, partners at both the upstream and downstream sides of Vietnam's value chain are members of FTAs, creating favorable conditions for Vietnam's food products to access markets and enjoy tax incentives and trade facilitation. Secondly, Vietnam's food industry has actively participated in the downstream part of the value chain, thereby diversifying the input supply, creating a driving force for the increase in the proportion of domestic value and the growth of the industry in the future.

In addition, Vietnam's food industry also faces several challenges in the process of advancing its position. Vietnam's agricultural food products are mainly transported domestically by road, leading to high costs. The quality of Vietnam's export food products is not high. The quality of input supplies for the domestic food industry does not meet export standards, causing export processing enterprises to import foreign inputs to produce exports. At that time, Vietnam's exported food products may face difficulties when enjoying the tariff preferences of FTAs. Issues related to food safety, technical regulations, and quality standards have become a burden for households producing food for export due to the lack of a common enforcement mechanism.

There are four main factors that will continue to greatly influence the prospect of GVC participation as well as the export growth of Vietnam's food industry. Firstly, consumer tastes have changed towards healthier ones such as increasing consumption of fresh fruits, vegetables, or processed foods with organic ingredients. Secondly, the information technology revolution also brings many advantages to Vietnam's participation in food GVCs. Thirdly, increasingly strict standards and technical requirements provide opportunities to improve food product quality. Fourth, building and developing the brand of the food industry is getting more concerned in Vietnam.

In the short and medium-term, the position of the food industry in the global value chain is likely to improve as the production capacity of the domestic sector improves, leading to value-added imports as inputs for the export-processing industry decrease. In addition, the effective EVFTA will also open up opportunities to increase the export of value-added inputs for export production of EU countries. However, Vietnam's position of competitive advantage for export food products is likely to decrease because of extremely harsh international competition, especially from developed countries with high technology.

IMPROVING COMPETITIVENESS FOR PRODUCTIVITY AND GROWTH EFFICIENCY

In this chapter, the report analyzes the institutional reforms and policies aimed at improving the competitiveness of the Vietnamese economy both in the short and medium-term. This chapter focuses on: (i) Assessing the competitiveness of Vietnam in 2020, in comparison with others in the region, and through the perspective of enterprises and household business in the context of the Covid-19 outbreak. (ii) Identifying problems and shortcomings of Vietnam competitiveness in the new context, especially the role of competitiveness in improving the quality of growth associated with innovation and industrialization 4.0 as well as the difficulties of the global business environment; (iii) Providing some policy recommendation to improve competitiveness associated with productivity and efficiency of the economy in the new context.

Institutional reform to improve Vietnam's economic position and competitiveness based on international assessment indicators, in comparison with other countries in the region, is a new approach of the Government of Vietnam which is highly appreciated and supported by the domestic and foreign business community. This approach is used by many

countries around the world. Thanks to those reforms, in parallel with implementation policies to improve competitiveness, Vietnam is increasing its positions in many global rankings. According to the Global Competitiveness 4.0 Report 2020, Vietnam's competitiveness in 2019 increased by 3.5 points (from 58 to 61.5), which is higher than the global average (60.7). With an increase of ten steps from 77 (2018) to 67 (2019), Vietnam is considered to be the economy with the best improvement globally.

Such improvement of competitiveness has contributed directly and indirectly to the potential growth of the Vietnam economy. In recent years, labor productivity has improved significantly, in the period between 2011 and 2015, it increased by an average of 4.3% per year, from 2016 to 2018, it increased up to 5.8% per year. In 2011, the average labor productivity reached 55.2 million VND/employee (2.691 USD), and then in 2018 it increased to 102 million VND/employee (4.520 USD). The improvement of Vietnam competitiveness not only aims at increasing labor productivity but also improving capital efficiency and total factor productivity (TFP), so as to change the growth model of Vietnam from heavily depending on quantities towards quality of growth. Based on calculations from previous studies, the contribution of TFP to growth in the period 2011-2015 is about 24.5%, and then in the next period, from 2015 to 2018, TFP contributed approximately 34.3%, which is a fairly high contribution to growth in the region. Based on the enterprise survey data set of the General Statistics Office (GSO) from 2011 to 2018, we calculate that the TFP of Vietnamese enterprises has increased steadily since the competitiveness has improved, the average growth rate of TFP in this period is about 1,4639 which is quite high. The improvement of TFP in parallel with competitiveness thus contributes to a positive signal of Vietnam's economic position in the medium and long term.

In 2020 and 2021, two issues have emerged affecting the position of the Vietnam economy and the competitiveness indicators in particular. The first issue is the growing trend of innovation and the Industrial revolution 4.0 based economy. The second issue is impact of the Covid-19 epidemic on economic activities and business environment difficulties enterprises and household business have been facing.

Since 2018, the World Economic Forum (WEF) has announced the Competitiveness Index 4.0 to create a level playing field for all economies in the context of Industry 4.0, and to promote new growth opportunities and quality based on: human resources, creativity, and innovation, resistance to external shocks, and penetration of the economy. The recent results of Competitiveness Index 4.0 ranking show that Vietnam still needs to focus on improving fundamental factors inhibiting the country's competitiveness and prosperity, namely:

- Institution: challenges in the indicators of Judicial Independence, Compliance Costs, Contract Dispute Resolution, Corruption and Property Rights;
- About skills: challenges of vocational training quality, the expertise of workers; Critical thinking in teaching;
- Product market efficiency: inadequacies in non-tariff barriers (management activities and specialized inspection);
- Business sophistication: Business Start-up, Bankruptcy
- Innovation: policies to encourage technology change, R&D activities; invention, etc.

THE ROLE OF TFP IN THE FOOD AND ELECTRONICS MANUFACTURING INDUSTRY

This chapter analyzes the role of TFP in Vietnam's food and electronics manufacturing industry in the 2011-2018 period. After more than 30 years of implementing the Doi Moi reform, especially in economic activities, Vietnam has joined the group of middle-income developing countries. Per capita income increased sharply, from 200 USD in 1990 to 1,331 USD in 2010 and about 2,750 USD in 2020. The economic growth rate has always been at nearly 7% in recent years. In order to achieve high growth rates, it is not necessary to increase the amount of capital invested or the number of laborers at the same rate. If labor and capital resources are utilized optimally by coordinating with the improvement of production organization, technological innovation, application of technical advances, improvement of quality, etc., sustainable growth can be achieved. Thus, in addition to the contribution of each input factor, there is also a new value created by the TFP factor.

TFP is a production result brought about by the impact of factors such as technological innovation, production rationalization, management improvement, and improvement of workers' labor skills. To support the sustainable growth and improve the competitive position of Vietnam in the new context, this report will focus on total factor productivity - TFP as well as factors affecting TFP in both the food and electronics industry in the period of 2011 - 2018.

Food and beverages account for the highest percentage of monthly expenditure of consumers (for approximately 35% of total spending). These products also make up around 15% of GDP. For the past 10 years, the growth rate of capital and labor is slowing down, while TFP has had a faster growth rate. This implies that the growth of Vietnam's economy is relying more on increasing quality, instead of quantity of capital and labor. Though these two sectors have high growth rates, their TFP remains low, which means that the growth of Vietnamese companies during this period was mainly driven by other factors, such as cheap labor, other than technology. The productivity of enterprises in these industries still relies heavily on the advantages of exploiting available resources and increasing investment. Increasing productivity due to the contribution of technological innovation, scientific application, and modern management methods in industries is still limited.

The electric industry contributed 40% to the increase of TFP, mechanical engineering contributed 37% and footwear contributed 35%. On average, in the past 5 years, the index of manufacturing electronic products, computers, and optical products increased by 13.9%, of which in 2017 the index peaked at 35.2%. Although it is considered an important industry and has attracted foreign direct investment and played a large role in exports, in fact, Vietnam's electronics industry is still in the early stages. This industry is at the beginning of the electronic product production chains and depends largely on foreign direct investment enterprises. Domestic enterprises have not yet participated in many of these areas in the global value chains.

The TFP of the electronics and food industries by scale

Regarding average TFP value by business scale, although there is a continuous fluctuation in the growth rate of TFP in the period 2011-2018, large enterprises show the advantage compared with small and medium enterprises. In fact, in every economy, the productivity of SMEs is lower than large businesses due to a lack of capital, new technology, and access to value chains. When analyzing the TFP index of these two industries, we find that large, small, and medium enterprises in the electronics industry always have a higher TFP than that in the food industry. This is explainable: since the electronics industry has been considered as a spearhead industry of Vietnam, it is facilitated to attract more foreign investment while the number of enterprises is fewer than that in the food industry. In terms of labor attraction and profit after tax of the electronics industry, it exceeds that of the food industry.

TFP of exporting electronic and food companies

Regarding the TFP of businesses in the food and electronics industries with import and export activities, overall, the average TFP of firms engaged in global value chains is higher than others that did not. In particular, the TFP of exporting electronic enterprises is higher than those businesses engaged in the export of the food industry, while the TFP of firms in these two sectors does not have much difference when viewed in terms of imports.

In addition, in the period of 2011-2018, the TFP of businesses in the food and electronics industries with import-export activities tended to increase, although the growth rate of TFP was not stable. This implies that perhaps Vietnamese businesses have not found a way to operate and grow sustainably. For enterprises that do not participate in import-export activities, the change in TFP over the years is not significant. A remarkable point is that since 2015, the group of electronic enterprises, even though they have no import-export activities, have shown signs of breakthrough TFP growth. The rapid growth of the electronics industry as well as the strong support from the government can partly explain this.

TFP of electronics and food industry by firm types

Foreign-invested enterprises have much higher TFP value than the remaining types of businesses over the years, followed by state-owned enterprises and private enterprises. Foreign enterprises are often seen to operate more efficiently via applying more modern technology, machinery, and management processes. In the period of 2011-2018, the TFP of state-owned enterprises tended to decrease, from 8.41 in 2011 to 6.97 in 2018. In contrast, the TFP of private enterprises and foreign-invested enterprises tended to increase, with growth rates of 3.22% and 10.67% respectively.

For the group of foreign-invested enterprises, the TFP of the food industry enterprises is higher than the TFP of the electronics industry. For groups of state enterprises, enterprises TFP higher TFP electronics enterprises food industry. For the private sector, in general, there is not too much difference between the food and electronics sectors, the TFP value of private enterprises is still much lower than that of the previous two types of enterprises. This suggests that the private sector still needs to accelerate development and improve further.

TFP of electronics and food industry by provincial competitiveness index

From the ranking of provincial competitiveness index, 63 provinces and central cities are divided into three equal groups each year. Thus, those groups' average TFP variation by year comes from two main sources: (1) The variation of the TFP of the provinces inherent in the group, and (2) The movement of the provinces between the groups.

One of the notable features of the two-sector average TFP is its unsustainability and strong fluctuations between years. The intensive cause of the phenomenon stems from a break in the declaration of business results of enterprises with the General Statistics Office. The data set includes 12680 enterprises, corresponding to 28143 observations. In other words, each enterprise on average only declared for more than 2 years. Therefore, the situation of relatively high TFP values in some years comes partly from a few large, efficient enterprises that only appear within one to two years.

Although TFP fluctuates between years, in general, the group of provinces with high competitiveness still achieves the highest level of productivity, followed by the middle group, and finally the group with low PCI. The separation between the two research sectors shows that the TFP of electronic enterprises is significantly superior to that of the food industry in provinces with high and medium competitiveness. As for enterprises in provinces with a less competitive environment, the superiority of the electronics industry over the food industry is not so obvious. For the food industry, the highest PCI group does not have too many advantages in terms of TFP compared to the other two groups.

VIETNAM ECONOMIC OUTLOOK 2021 AND SOME IMPLICATIONS

Global economic outlook 2021

According to most forecasts of the international organizations, the global economic outlook will be brighter in 2021, but it is uneven across regions, and there are still many uncertainties.

The global economic prospects have improved against the effective and timely policy responses and the backdrop of rapid vaccination rollouts in some large economies. According to IMF estimates, the global economy is projected to grow at 6% in 2021 and 4.4% in 2022; according to the World Bank, growth will reach 4% in 2021, while according to the OECD, this will be 5.8% in 2021 and 4.5% in 2022.

However, the recovery will be uneven across economies and regions around the world. A robust rebound is expected in the United States and China, but this will unlikely be sufficient to lift the rest of the world's economies (UN, 2021). The economic outlook for countries in South Asia, Sub-Saharan Africa, Latin America, and the Caribbean remains fragile and uncertain due to surging Covid-19 infections and lagging vaccination progress. With long-lasting pandemic risks and insufficient policy space to stimulate demand, the world's most vulnerable countries are facing the prospect of a lost decade. For many developing countries, economic output is only forecasted to return to pre-pandemic levels in 2022 or 2023 (UN, 2021).

In the medium term, the global economic outlook remains uncertain due to the impact of a pandemic lasting and the uncertainty existing in the economy before the pandemic. As a result, global growth is expected to moderate at 3.3% over the medium term. The pandemic has also exacerbated the risks associated with a decades-long wave of global debt. However, thanks to unprecedented policy responses, the Covid-19 recession is likely to leave more minor scars than the 2008 global financial crisis. A global economic recovery is expected to increase over time as confidence, consumption, and trade gradually improve along with the ongoing vaccination process, which is the key to help the world fight against the pandemic and get the global economy back on a sustainable, inclusive and resilient recovery path (UN, 2021).

The future of the world remains uncertain and difficult to predict. It depends on many factors such as the emergence of new virus variants, the effectiveness of vaccines, speed of vaccine procurement and distribution, the effectiveness of

policy responses, or developments of financial and commodity markets, and the economy's resilience. The ups and downs of these dynamics and the different characteristics of countries will determine the recovery speed and its impact in the medium and long term.

Vietnam economic outlook 2021

Compared to a year ago when Covid-19 started to break out around the world, the economic future is less uncertain thanks to the experience of responding to epidemics and the implementation of vaccination in many major countries worldwide. However, the world economic outlook still depends on controlling the disease on a global scale, which is unlikely to happen within 2021. The world's GDP may grow highly from a shallow base of 2020, but economic activities are likely not to return to the level before the pandemic happened, at least until the end of the year. Policies to support growth and ensure social security are expected to continue on a large scale, especially in developed countries. The IMF and OECD estimate global GDP growth rates of 5.2% and 4.25% in 2021, respectively.

The driving force for Vietnam's economic growth is forecasted to come from exports and public investment. With sizable foreign direct investment inflows (despite slowing down due to the impact of the Covid-19), the FDI sector's exports are expected to play the most crucial role in the economy's growth for many years to come. However, exports will depend heavily on the recovery of the world economy and the demand for Vietnam's traditional products, which were heavily affected in the past year. Meanwhile, the direct contribution of public investment to growth may not be as high as in 2020 due to limited fiscal resources. Besides, monetary expansion or lowering interest rates mainly helps reduce the interest burden of existing loans rather than promote new loans to expand production. However, once the future is uncertain and confidence has not returned, businesses' investment will be challenging to increase sharply even if interest rates further decrease. Many service industries are hardly expected to properly recover in 2021.

Outbreaks of the disease may induce production and consumption to a halt. Given the results achieved in the first six months of the year and the severe development of the current epidemic situation, we believe that the economic recovery process crucially depends on: i) the speed and scale of vaccination; (ii) effectiveness/side effects of disease control measures; (iii) packages to support and promote growth in the country. In general, we lower our economic growth forecast for 2021 by about 1-1.5 percentage points compared to before while assuming that the macroeconomic environment will continue to be stable.

In the base scenario (most likely), we assume that the pandemic will be under control by the end of Q3/2021; vaccination will be deployed quickly, and herd immunity will be achieved in Q2/2022; the macro-economy will remain stable. Economic growth for the whole year is forecasted at 4.5 - 5.1%. In an optimistic scenario, the pandemic is assumed to be controlled faster, right in August 2021, vaccination will be accelerated, and herd immunity will be achieved by the end of the first quarter of 2022. Economic growth for the whole year is forecasted at 5.4 – 6.1%. In the worst-case scenario, the pandemic is assumed not to be under control, and economic activities cannot return to normal until Q4/2021; the vaccination process is delayed due to lack of supply and limited capacity of the health system; policies to support people and businesses, the process of restructuring and digital transformation were promoted, but services, trade and FDI attraction recovered slowly. At that time, Vietnam's economy in 2021 can only grow from 3.5-4.0%.

Table 1. GDP Forecast in 2021

	Weight	2019	2020	6M 2021	GDP forecast based on different scenarios (%)		
					Pessimistic	Base	Optimistic
Agriculture, Forestry and fisheries	13.5-14.0%	2.01	2.68	3.82	2.5-3.0	3.0-3.5	3.5-4.0
Industry and Construction	36.5-37.5%	8.9	3.98	8.36	4.5-5.5	6.5-7.5	8.0-9.0

Services	38.0-40.0%	7.3	2.34	3.96	2.5-3.0	3.0-3.5	3.5-4.0
GDP		7.02	2.91	5.64	3.5-4.0%	4.5-5.1	5.4-6.1

Consumer prices are expected to increase moderately. However, many factors may cause consumer prices to rise faster in 2021. Firstly, a more or less recovery of the world economy will cause demand and prices of raw materials to increase and maintain at a higher level than the average of 2020. Second, the recent booming of real estate and stock is likely to spill over to consumer prices as it increases households' wealth and consumption, especially after the epidemic ends. In addition, after some delays, the roadmap to raise prices for some items under state control may take place in 2021, contributing to increasing inflation. Finally, if there are no natural disasters, consumer prices are expected to grow moderately, by 3-4% in 2021.

Short-term policy recommendations

Efforts to synchronously implement measures to control the Covid epidemic, develop vaccines domestically and take advantage of strategic relationships to conduct vaccine diplomacy, prioritize ensuring supply, and organize vaccination quickly and effectively prevent Covid 19 for both production and business enterprises and groups of business households that are heavily affected by restrictions and social distancing in major cities and key economic centers.

Due to limited fiscal resources, policies to support businesses and citizens during the pandemic need to be focused, thrifty, and at the correct address. The highest priority is to support those who have lost their jobs, both in the formal and informal sectors. Next, cost support for affected businesses such as exemption and deduction of union fees, loan interest, land rent, etc. should be provided if resources are available. Next, early designing a package of policies to stimulate and restore production/business in general for all types of enterprises and business households, and support policies/credit guarantees, especially for small/micro and medium enterprises, as well as business households after the epidemic has been basically controlled. All subsidies on income tax or luxury spending should be eliminated.

Public investment should only focus and accelerate on planned national key projects. Non-essential investment projects in localities need to be rectified. Saving recurrent expenses is also an important orientation as Covid-19 is still a mystery and the outlook of the economy is still uncertain.

Monetary policy should pay special attention to controlling money supply growth and directing credit flows to the manufacturing sector. In the last ten years, the growth rate of money supply and credit in Vietnam is still very high compared to other countries in the region and the growth of the real economy. This makes inflationary pressure on consumer prices as well as asset prices always standing in the economy. Besides, in the context of the current stock and real estate market booming, the control of credit flows into these markets should also be paid special attention to avoid potential risks.

Medium and long-term policy recommendations

Along with the short-term policies being implemented to minimize the negative impact of the Covid-19, Vietnam should stick with longer-term reforms to improve the macro foundation and reduce risks in the future. In all situations, inflation, interest rates and exchange rates need to be maintained to prepare for the post-pandemic recovery.

Enhancing competitiveness and improving the business environment is still a permanent requirement, in which it is necessary to identify and overcome barriers to improve rankings in the GIC 4.0 (WEF). In particular, it is necessary to continue to improve the local business environment for enterprises through the pillars of the PCI index, which not only supports the development of enterprises in general but is also proven to increase TFP of the local manufacturing industries. Moreover, the TFP of private enterprises in both studied sectors is low compared to foreign invested enterprises and state-owned enterprises. Therefore, to radically improve the internal strength of the economy, supporting policies to enhance the development of private enterprises should continue to be promoted.

Vietnam ought to make the most use of trade and investment agreements to enhance its position in the global market in the future. To this end, the FTAs' significant role should be recognized in the improvement of Vietnam's

competitive advantage and value added in the global value chain (GVC), and favorable conditions should be created for FTAs to achieve its fullest effect. All together, in order to mitigate the possible adverse impact of economic integration, Vietnam should take proper measures to enhance its durability through diversifying its goods and markets based on FTAs networks and competitive edge. Vietnam's participation in GVCs also needs to be enhanced. Particularly, the agricultural sector's role and potential should be also recognized and strengthened in improving Vietnam's position through increasing its indirect value-added exports (DVX).

First, the Government of Vietnam should promptly improve the logistics system including maritime, road, railways, and airways transport to foster the flow of goods and services. Second, the Government of Vietnam should cut down and simplify customs procedures, public administrative procedures to foster trade facilitation. Third, Vietnamese businesses should deepen their understanding of and ensure their compliance to international standards related to product quality, rules of origin, and so on to establish their foothold in world markets. Fourth, Vietnam should enhance the levels and quality of human resources to obtain the benefits from and make the most use of technology transfer from foreign businesses, thus improving Vietnamese enterprises' productivity.

Import and export activities play an important role in TFP growth. In order for Vietnam to improve its Total Factor Productivity (TFP) through participation in GVCs, Vietnam can realize this improvement through the establishment and enhancement of the connection with higher-income and more developed economies. From the backward linkage, Vietnam can make the most use of high-value, high-quality inputs to improve its productivity. From the forward linkage, Vietnam is accessible to the standards and know-how established by its importing partners. This reaffirms the particularly important role played by the FTAs concluded with developed economies that enable the technology and knowledge spillover so that Vietnam can promote its trading, investments, and participation in GVCs to improve its TFP. Vietnam should also consider participating in new value chains led by the EU (thanks to the EVFTA and through the EU's new trade strategy) and possibly by China (China has an economically autonomous strategy). - technology and build their own value chains) instead of the traditional chains in the past.

The trend of greening and digitization continues to be reinforced, opening up many new opportunities and new ways of doing things for most industries. For instance, electronics and food industries possibly develop the segment of clean and organic products; trade methods for products (using trading platforms, etc.).

Vietnam's electronics industry should heighten the role of FTAs to strengthen its connection with strategic partners in both upstream and downstream of GVCs; diversify trading partners outside of Asia to reduce the risk of being too dependent on certain countries in the region such as China. Furthermore, Vietnam also needs to improve the localization rate in electronic exports by (i) completing the database on supporting industries; (ii) proactively seeking partners, especially foreign partners, to expand the market for domestic supporting industries; (iii) enhancing cooperation with foreign countries to improve the quality of human resources and technology transfer to supporting industry enterprises; (iv) actively guiding and encouraging enterprises to confirm incentives for projects producing supporting industry products, etc. Besides, Vietnam also needs to enhance specialization and concentrate on manufacturing high and complex technological products, promptly responding to changing supply and demand trends for input materials of electronic technology and products on the international market.

It is necessary to focus on three main pillars to improve Vietnam's position in the food GVCs: first, improving processing or excellently performing specific tasks; second, improving the product features to make it better quality, more complex, or more valuable; third, upgrading functionality to acquire new skills in the value chain that the company has not done before. On the part of state management agencies: it is necessary to strengthen the implementation of existing commitments as well as sign new agreements on mutual recognition and post-audit in the field of technical barriers (TBTs); To encourage the import and transfer of food processing technology; Continue to make efforts to attract and create a favorable environment for FDI in the food industry; Promote the implementation of the program to build a Vietnamese brand for the food industry; Increased dissemination of incentives committed in food-related FTAs. On the business side: it is necessary to focus on researching tariff reduction roadmaps for Vietnam's food industry; Understanding and adapting

production to meet the rules of origin requirements; Learn and adjust production lines to ensure that quality requirements are aligned; Brand building and promotion. In particular, the food industry is one of the industries that Vietnam has advantages and should focus on building large domestic enterprises strong enough to lead the domestic market.



VEPR

VIETNAM ANNUAL ECONOMIC REPORT 2021

REPOSITIONING VIETNAM IN THE GLOBAL DYNAMICS



WHY IS “REPOSITIONING VIETNAM IN THE GLOBAL DYNAMICS”?

- Global recession due to the impact of the Covid-19 pandemic
- Global decline in productivity, growth and trade
- The fourth industrial revolution opens up many new opportunities and challenges
- Traditional and non-traditional security issues increase both at level and scale
- Vietnam continues to integrate deeply into the world and is sensitive to external fluctuations
- 2021 is considered the pioneer year of a new development phase of the Vietnamese economy





VEPR WHY CHOOSE FOOD AND ELECTRONICS INDUSTRY?

FOOD INDUSTRY

- Becoming a sensitive industry and receiving the attention of many countries during the Covid-19 to ensure
- As one of the important economic sectors of Vietnam
- Being among the industry groups with the highest export value in Vietnam and strongly shifting from net imports to net exports
- There is still a lot of potential for development, increasing comparative advantage and participating in GVCs through FTAs

ELECTRONICS

- Make an important contribution to the economy and society, make a great contribution to GDP growth and the state budget, create many jobs, attract foreign investment
- Achieving growth targets and impressive achievements in the world over the past time in terms of trade and FDI attraction
- Has a high ranking of comparative advantage
- Have the potential to participate in GVCs



VEPR

STRUCTURE OF CHAPTER GROUPS

**VIETNAM ANNUAL
ECONOMIC
REPORT 2021
INCLUDES
7 CHAPTERS**

The first two chapters
The first two chapters provide an overview of the world economic situation and Vietnam's economy in 2020. Chapter 3 analyzes the global context with new fluctuations, on that basis identifies a number of opportunities and challenges for Vietnam

The last two chapters
Vietnam's economic outlook and some policy implications

The next three chapters
Contributing to positioning Vietnam in the context of global upheaval, on two different approaches
Approach 1: Comparative advantage and value chain
Approach 2: Competitiveness and TFP



VEPR PROFESSIONALS

The reports were conducted with the consultation and review from international and Vietnam experts:

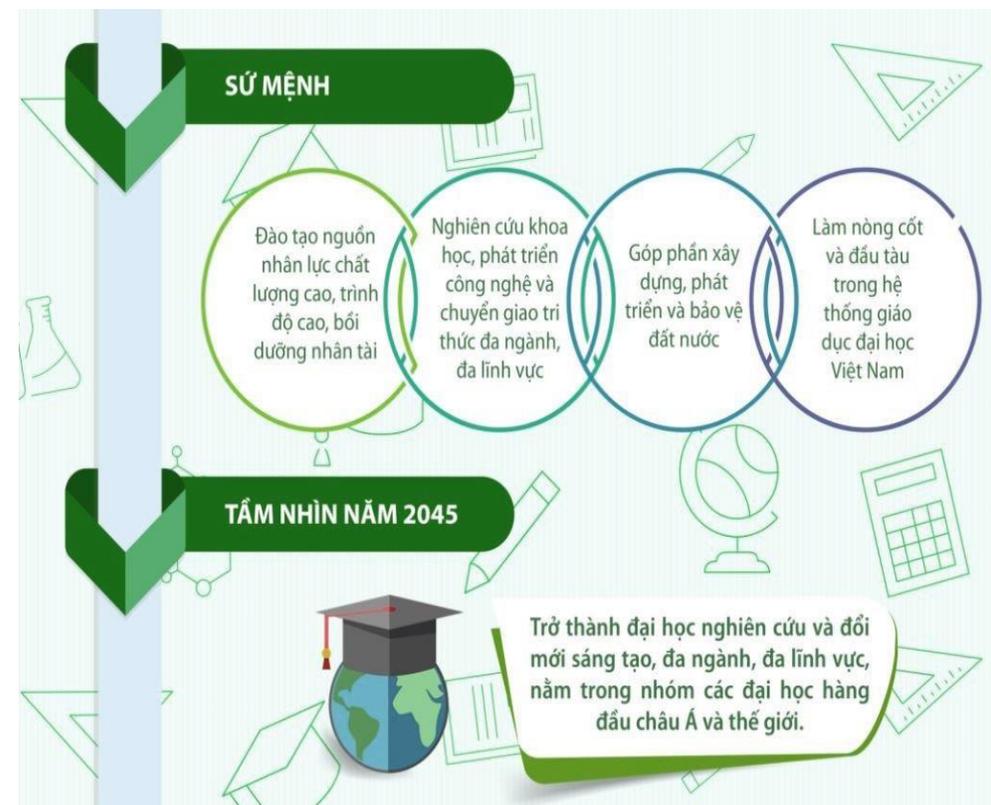
- Teams of international and Vietnam experts work together
- International experts will look at Vietnam's policy issues. The report will provide strategic advice to international investment groups and associations of FDI enterprises in Vietnam.





VEPR DEVELOPMENT STRATEGY OF THE ANNUAL REPORT

- VIETNAM ANNUAL ECONOMIC REPORT of UEB and VEPR must advise on important policies on the economy and integration of Vietnam.
- The report must combine a multi-dimensional approach, from the independent assessment of domestic researchers, combined with the approach of international experts
- The report will be a gathering place for prestigious researchers and teaching staff of the whole University of Economics. Cooperation with leading scientists in economics and business in the world.





VEPR

Contents

- Overview of the global economy in 2020
- The global dynamics
- Vietnam's comparative advantage and participation in global value chains
- Improving competitiveness for productivity and growth efficiency
- Role of TFP for some industries
- Vietnam economic overview 2020 and its outlook 2021
- Policy recommendations



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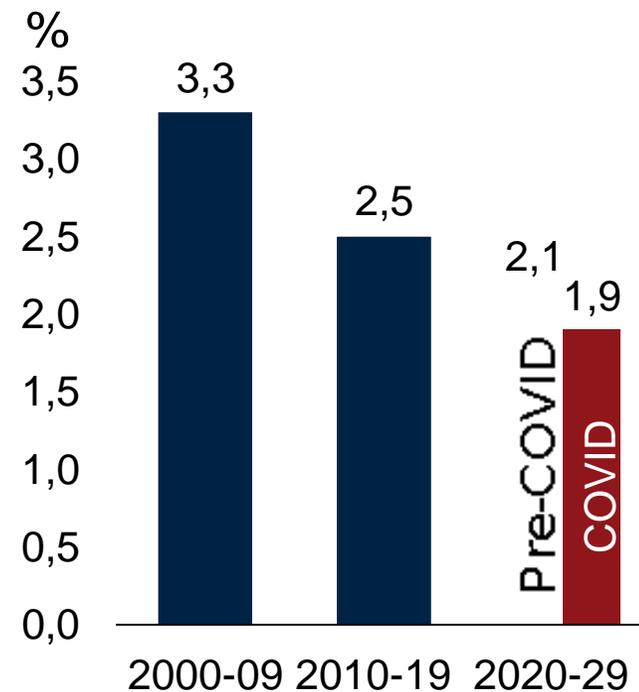
VIETNAM ANNUAL ECONOMIC REPORT 2021

OVERVIEW OF THE GLOBAL ECONOMY IN 2020



Decelerated and unpredictable global economic growth

GDP (% change to previous year)	2018	2019	2020	2021f	2022f	% change from forecast 2020M6	
						2020e	2021f
Global economy	3.0	2.3	-4.3	4.0	3.8	0.9	-0.2
Advanced economies	2.2	1.6	-5.4	3.3	3.5	1.6	-0.6
Emerging and developing economies (EMDEs)	4.3	3.6	-2.6	5.0	4.2	-0.1	0.4



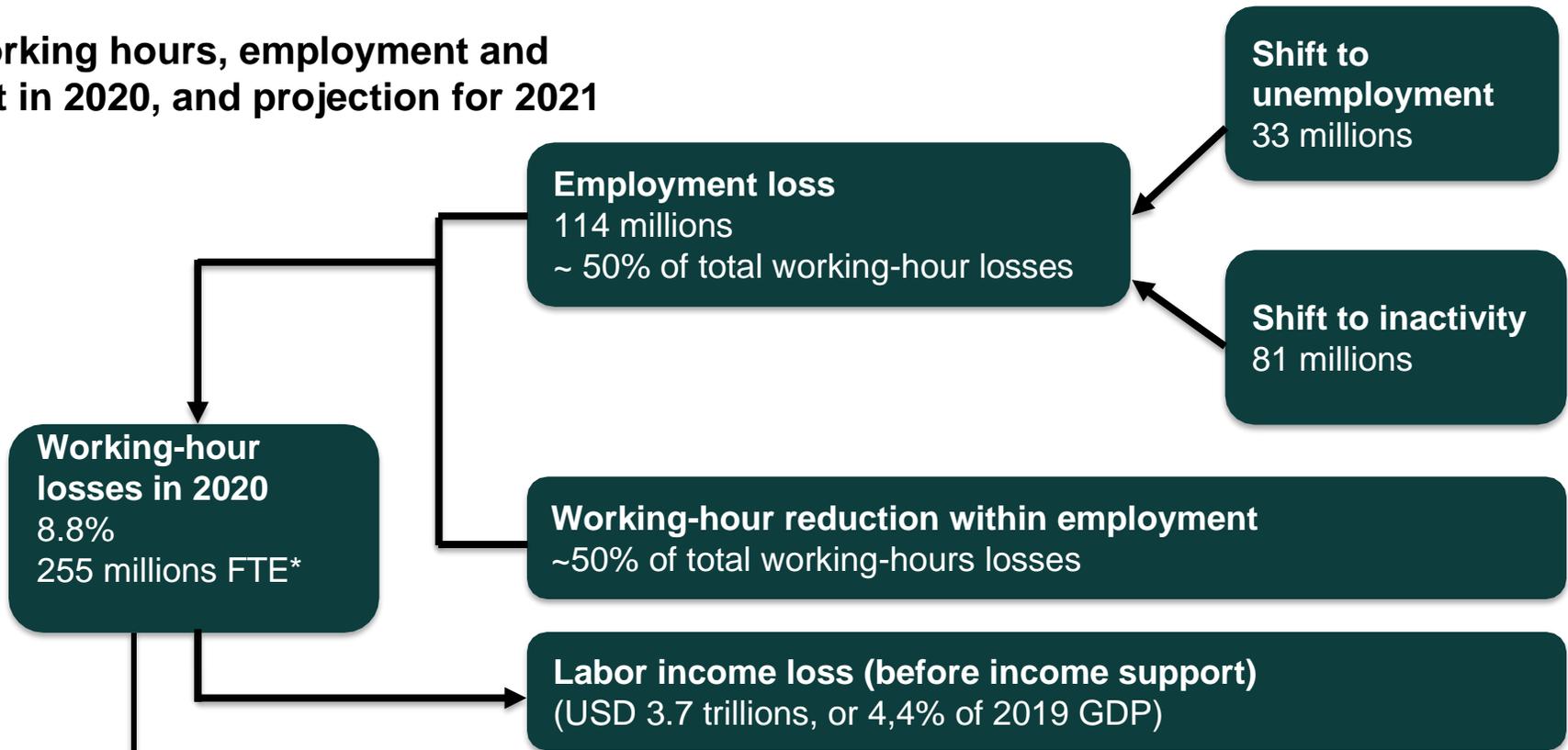
Source: GSP Jan 2021

Forecasting the impact of the pandemic on global growth potential



Estimates the working hours, employment and labor income lost in 2020, and projection for 2021

Plummeted employment and income



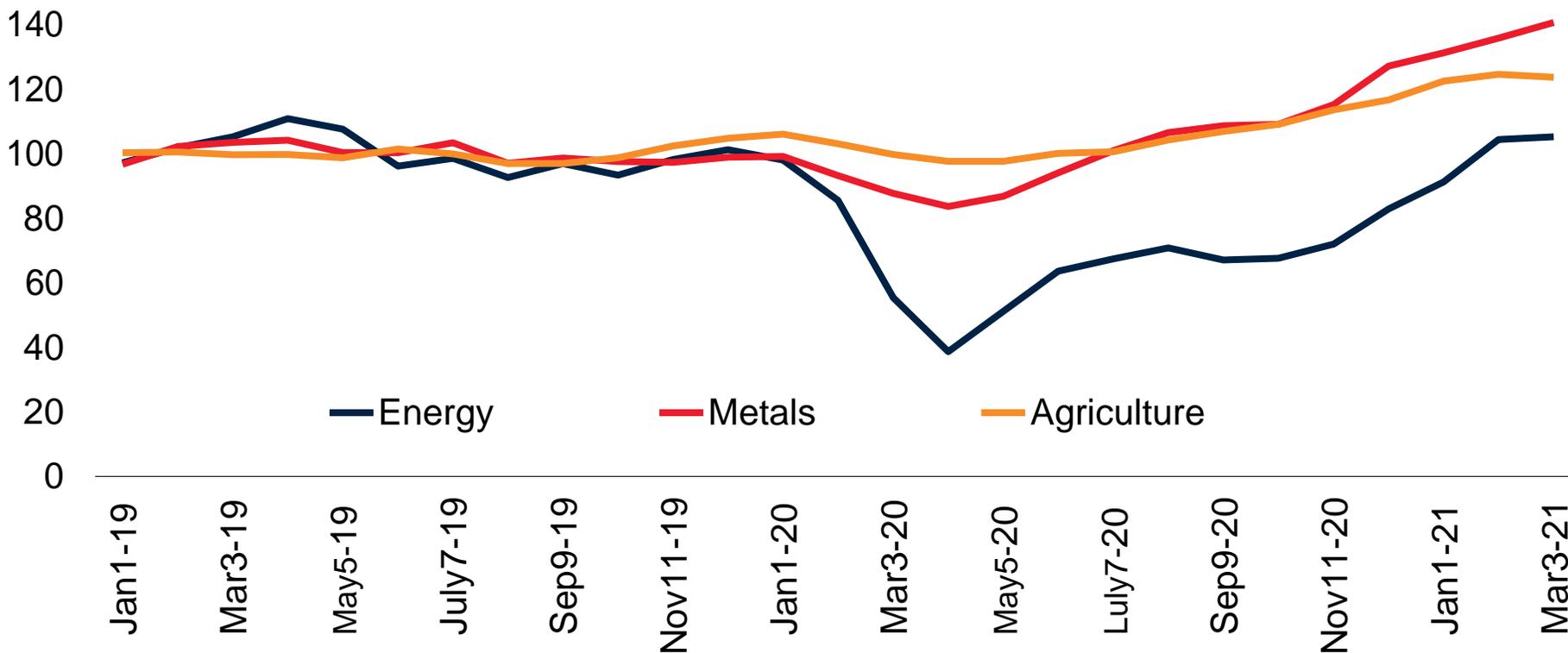
Working-hour losses: quarterly trends in 2020 and projections for 2021							
	2020				2021 projection		
	Q1	Q2	Q3	Q4	Baseline	Optimistic	Pessimistic
%	5.2	18.2	7.2	4.6	3.0	1.3	4.6
FTE*(million)	150	525	205	130	90	36	130

* FTE: full-time equivalent jobs (assuming a 48-hour working week)



Markedly change in commodity prices

Index, 2019 = 100

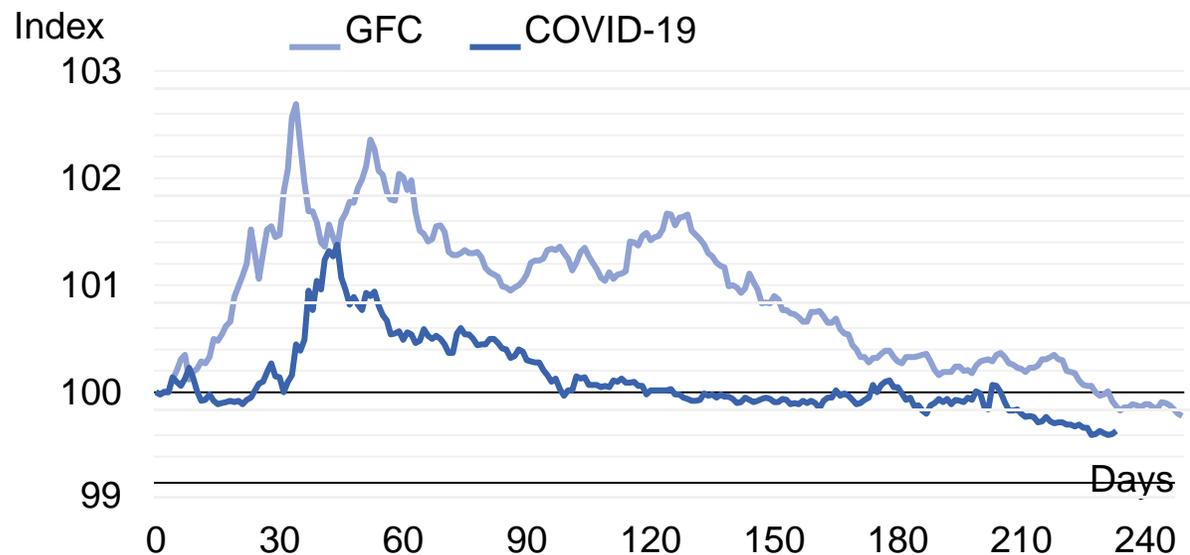


Source: USDA, World Bank, 2021



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The financial system did not fall into crisis, but there were uncertainties



The Goldman Sachs Financial Conditions Index (FCI) for 12 advanced economies, the euro area, and 12 emerging markets and developing economies (EMDEs). Aggregate figures are calculated using GDP weighting of US dollars at 2010 prices and market exchange rates. FCI is the weighted sum of short-term bond yields, long-term corporate yields, exchange rates, and stock market valuations. The last observation was on December 11, 2020.

The index equals 100 at the start of the respective events ($t = 0$): 9/9/2008 for the global financial crisis (GFC) and 21/1/2020 for COVID-19.

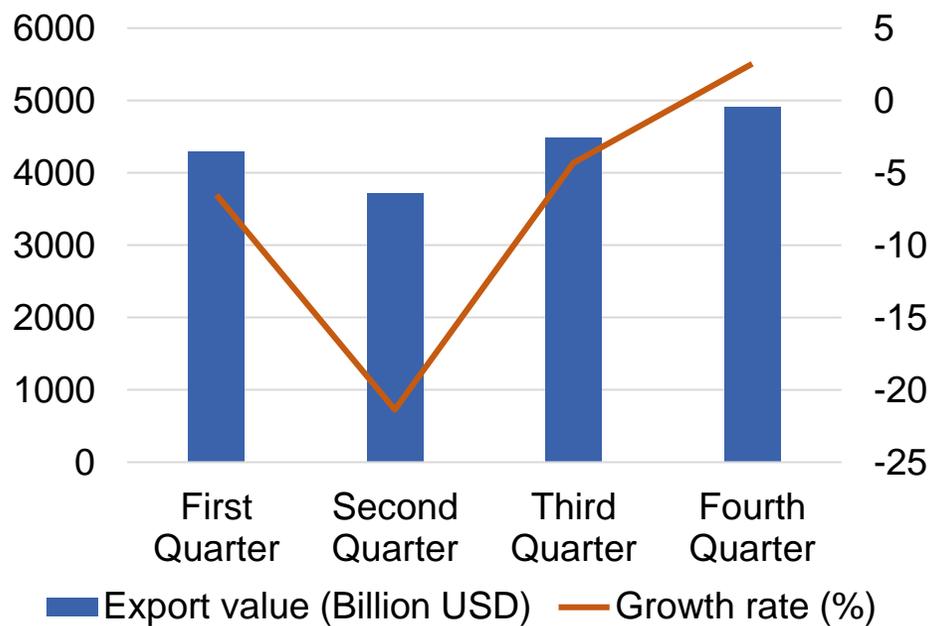
An up (down) index indicates tightening (easing) financial conditions, while a value above (below) 100 indicates tighter (more relaxed) financial conditions than the average since last year 2000

Source: GSP Jan 2021

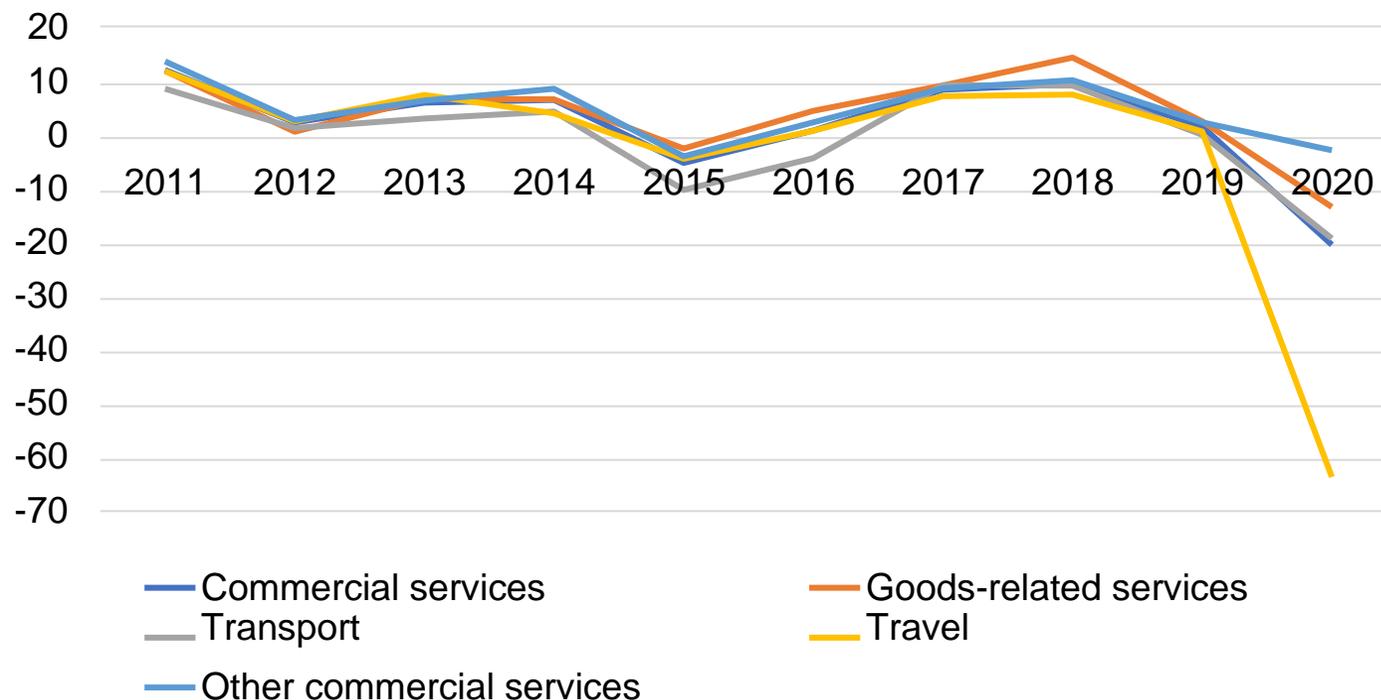


VEPR

International trade and investment were negatively affected



Merchandise export value and growth rate in 2020 by Quarter

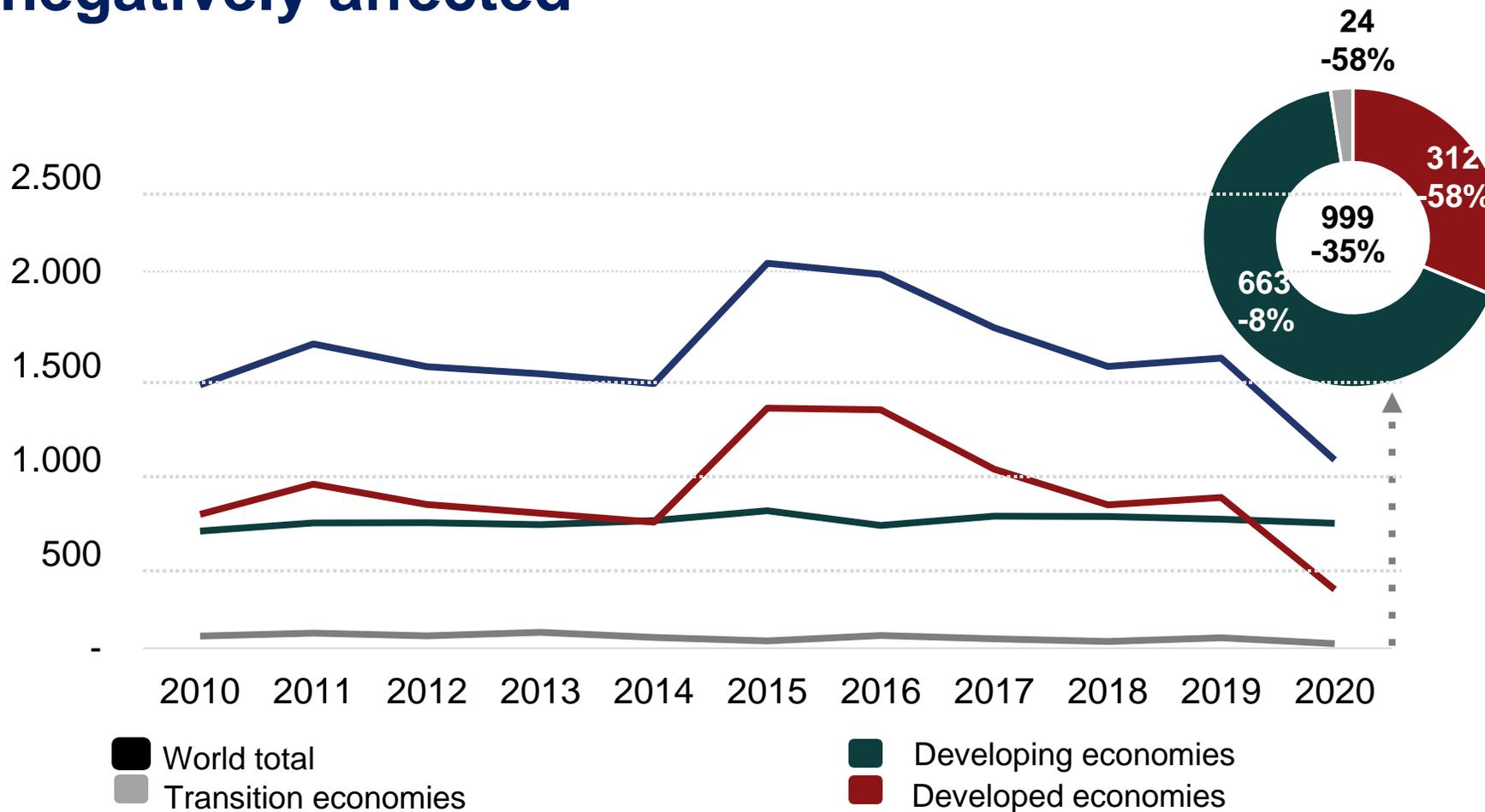


Export growth rates of major services in the period 2011-2020

Source: WTO Data Portal, 2021



International trade and investment were negatively affected



FDI Inflow, global and by group of economies, 2010-2020

Source: UNCTAD, 2021



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Global policy responses

Additional spending and lost revenue (due to tax breaks) (% of GDP in 2020)



Source: IMF, 2021



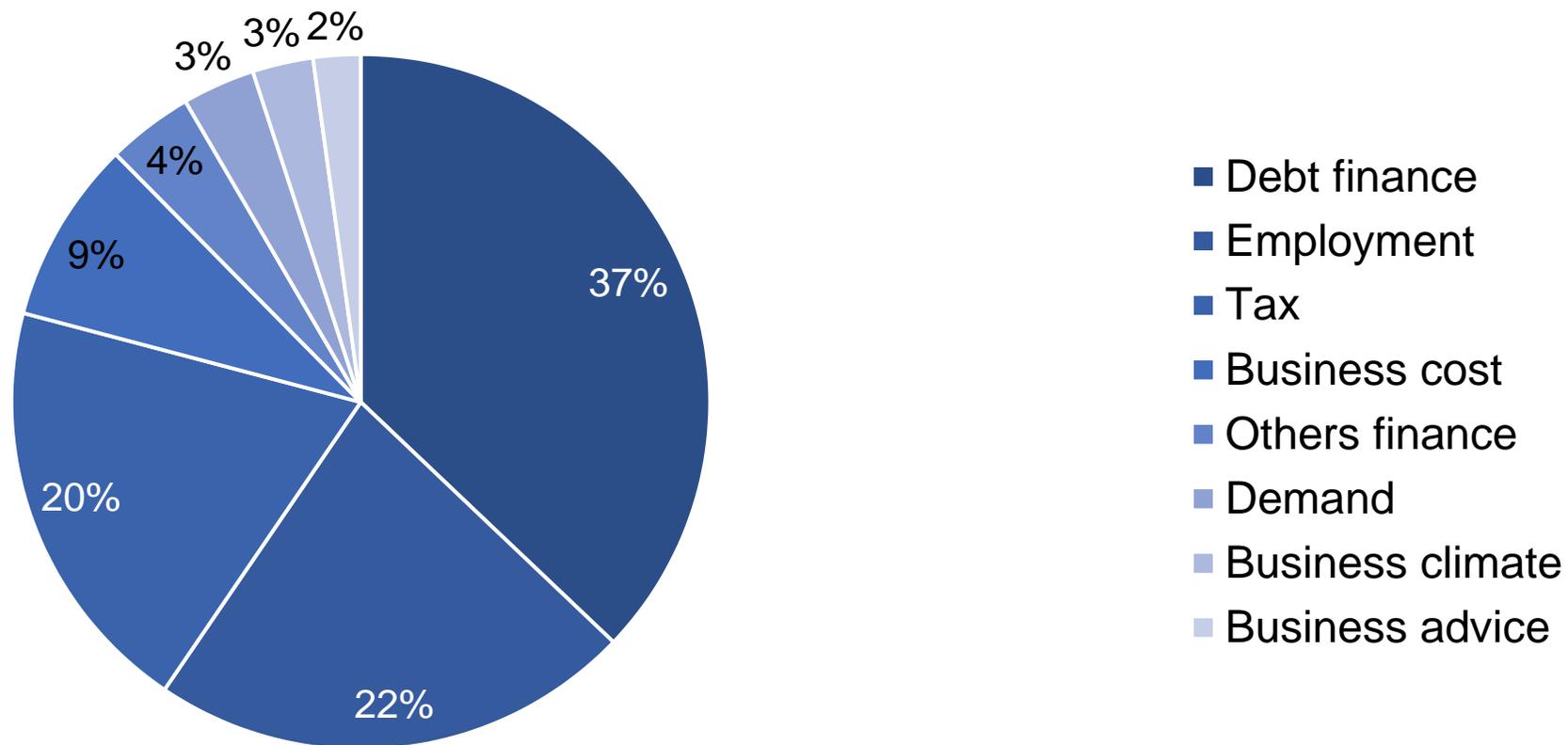
Percentage of countries implementing monetary interventions

Tool type	Measures	Developed economies (Usage rate)	Developing economies (Usage rate)
Interest	Policy rate cut	96.43	63.64
Lending operation	Liquidity provision	82.14	90.91
	Targeted lending	64.29	72.73
	Government bonds	46.43	72.73
Asset purchases	Commercial paper	3.57	63.64
	Corporate bonds	14.29	63.64
	Other private	10.71	36.36
	Remuneration	10.71	27.27
Reserve policy	Requirement ratio	50.00	9.09
	Compliance	21.43	0.00
	USD swap line	14.29	90.91
Foreign exchange	Spot intervention	10.71	9.09
	Swaps	14.29	0.00

Source: Calculated based on Cantú et al.(2021)



Business support measures around the world, as of April 2020



Source: World Bank, 2021

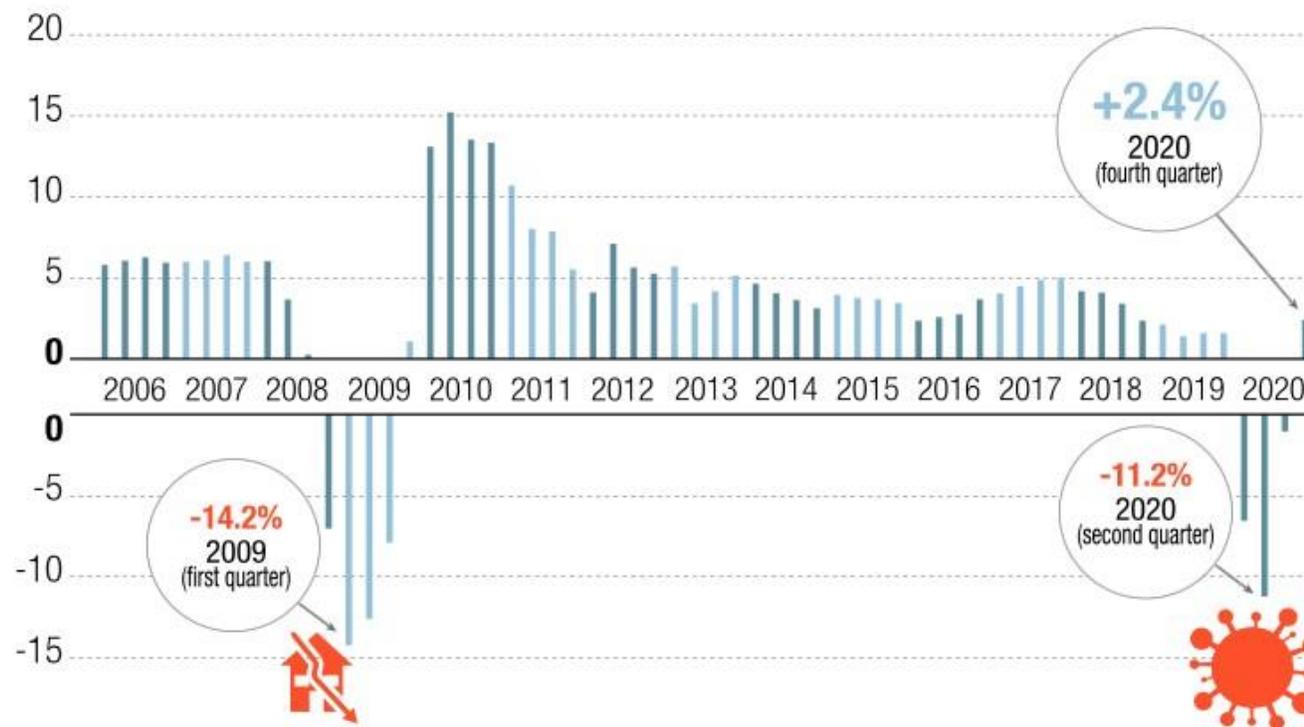


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Production disruption and the trend of reshaping the global value chain (GVC)

Growth rate of global manufacturing output (%/year)

World manufacturing output
(Year-on-year percentage change)



Abbreviation: Q, quarter.
Source: UNCTAD, based on <https://www.unido.org/resources-statistics/quarterly-report-manufacturing>, 2020 quarter 4.

Source: UNIDO, 2021



Production disruption and the trend of reshaping the global value chain (GVC)

- It has been anticipated that companies will move their production out of China; this, however, is not easy and immediate since China plays the role of "dominant player" in the global supply chain of many products.
- Some large companies have plans to shift their production to other countries in the region, especially Vietnam. Nevertheless, this entails high switching costs, especially in sectors such as electronics or automotive manufacturing. Moreover, the complex ecosystems that China has built around different GVCs are also difficult to transfer and replicate elsewhere. Therefore, the China + 1 strategy seems to be the most realistic and viable option.
- Any country or sub-regional economy which embrace this shift can get jobs and higher growth



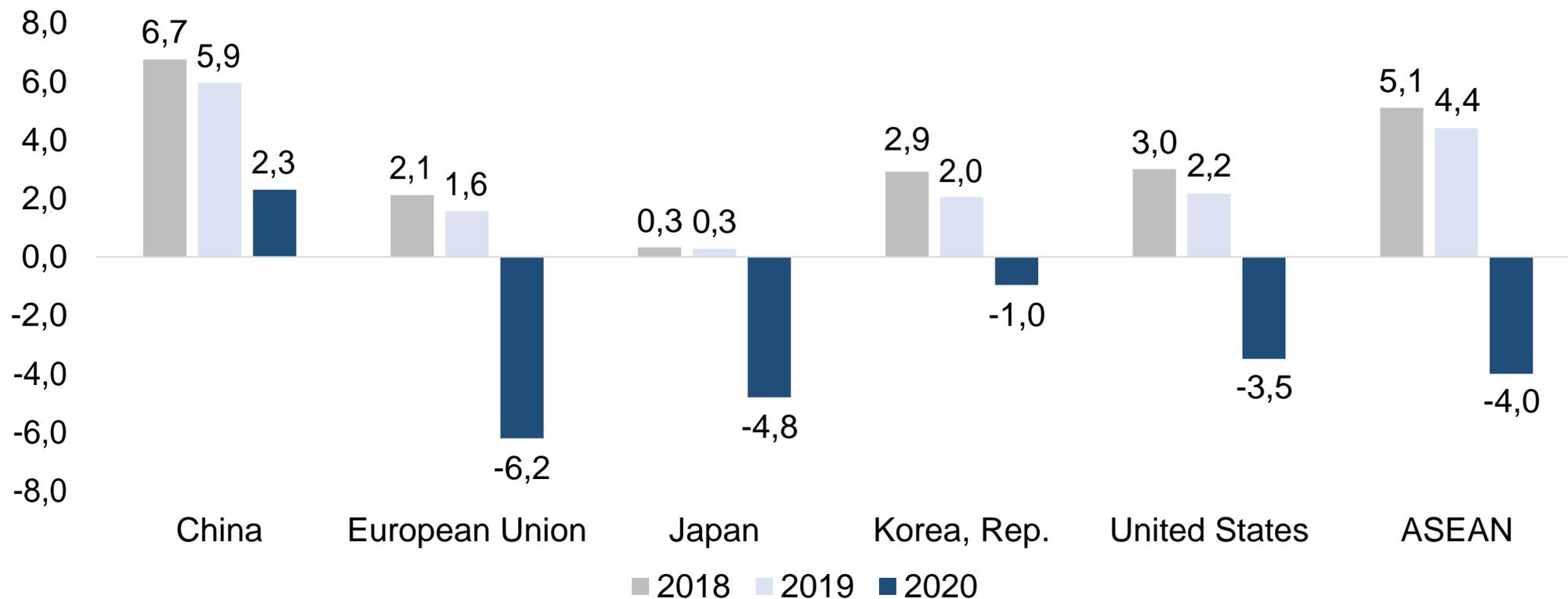
Economies of important regions and partners of Vietnam: US, EU, Japan, China, Korea and ASEAN

- USA, EU, Japan: major export partners
- China, Korea ASEAN: major import partners
- Japan: the largest ODA donor to Vietnam and the second largest investment partner of Vietnam
- South Korea: the largest investor in Vietnam with nearly USD 70.6 billion of registered capital as of December 20, 2020.
- More than 50% of Vietnam's export value goes to the following markets: the US (23%), China (16%), and the EU and the UK (14%) the second largest import partner in Vietnam.
- The US contributes more than 63 billion USD in the trade surplus and plays an important role in economic development in Vietnam (Trade map, 2021).

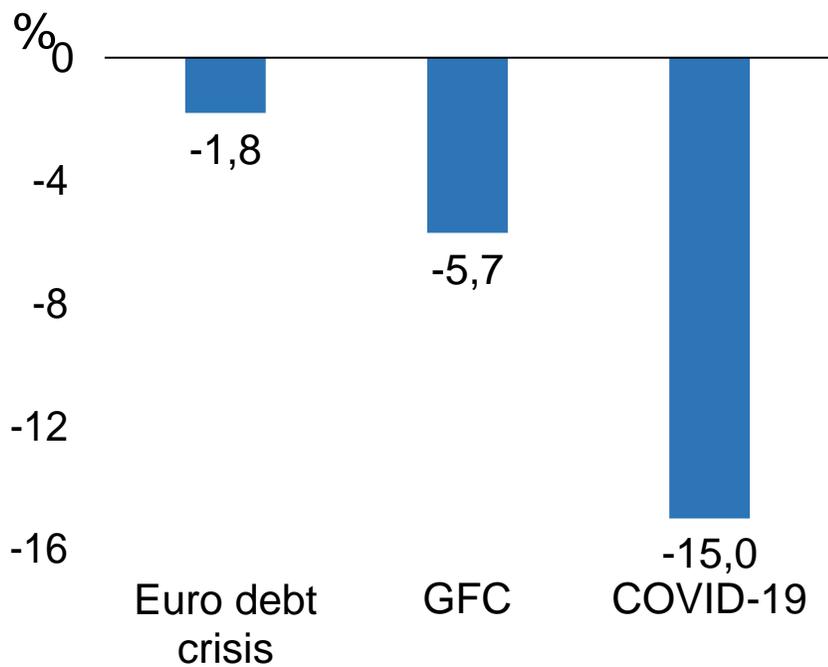
Partner	Trade balance with Vietnam in 2000(mil.\$)	Export market share (% of total exports of Vietnam in 2020)	Import market share (% of total imports of Vietnam in 2020)
China	- 35.318	17.37	32.22
EU (27)	20.423	12.46	5.61
Japan	- 1.007	6.85	7.76
South Korea	- 27.737	6.80	17.93
USA	63.309	27.38	5.27
ASEAN	- 7.323	8.22	11.65
World	20.132	100	100



Annual GDP growth rate (%)

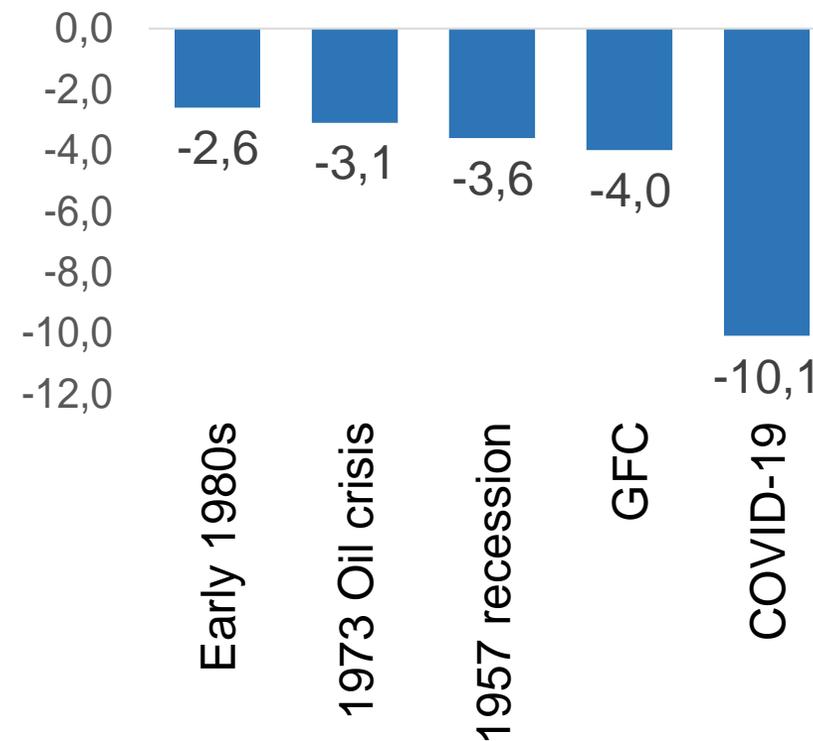


Source: World Bank Data, 2021



GDP decline in the euro area

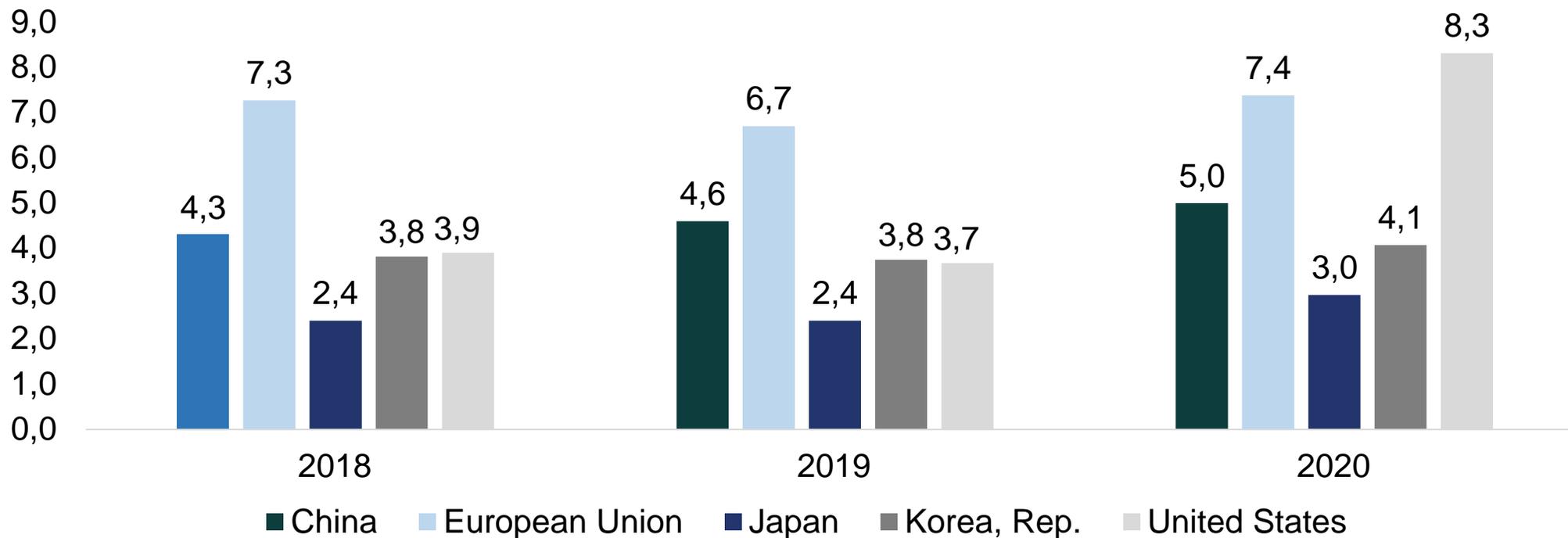
Source: World Bank (2021)



Impact of COVID-19 on US economic growth



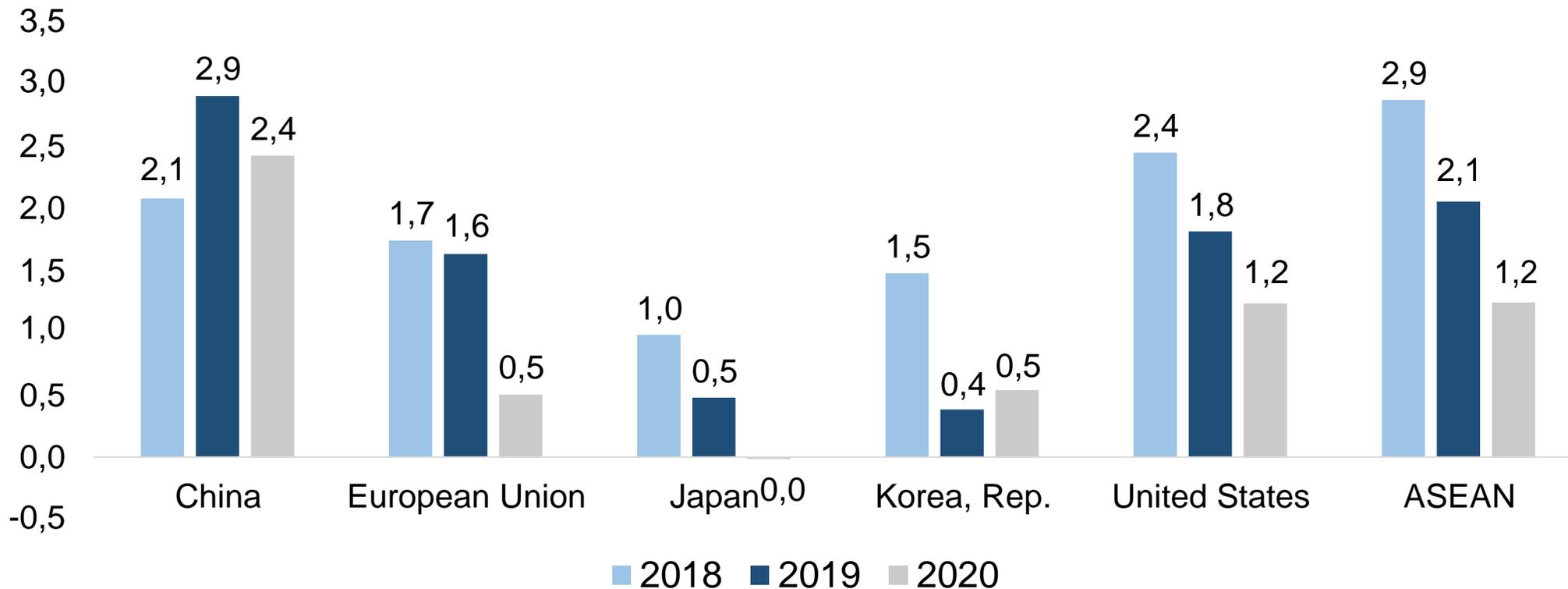
Annual employment rate (% of total labor)



Source: World Bank Data, 2021

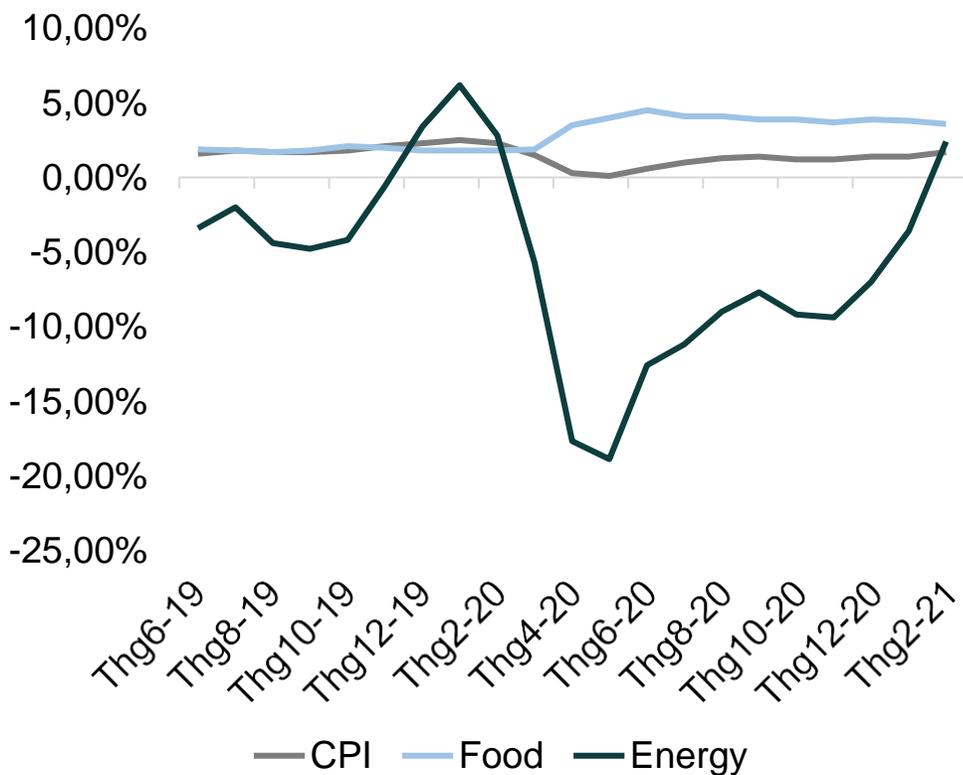


CPI index (% change annually)



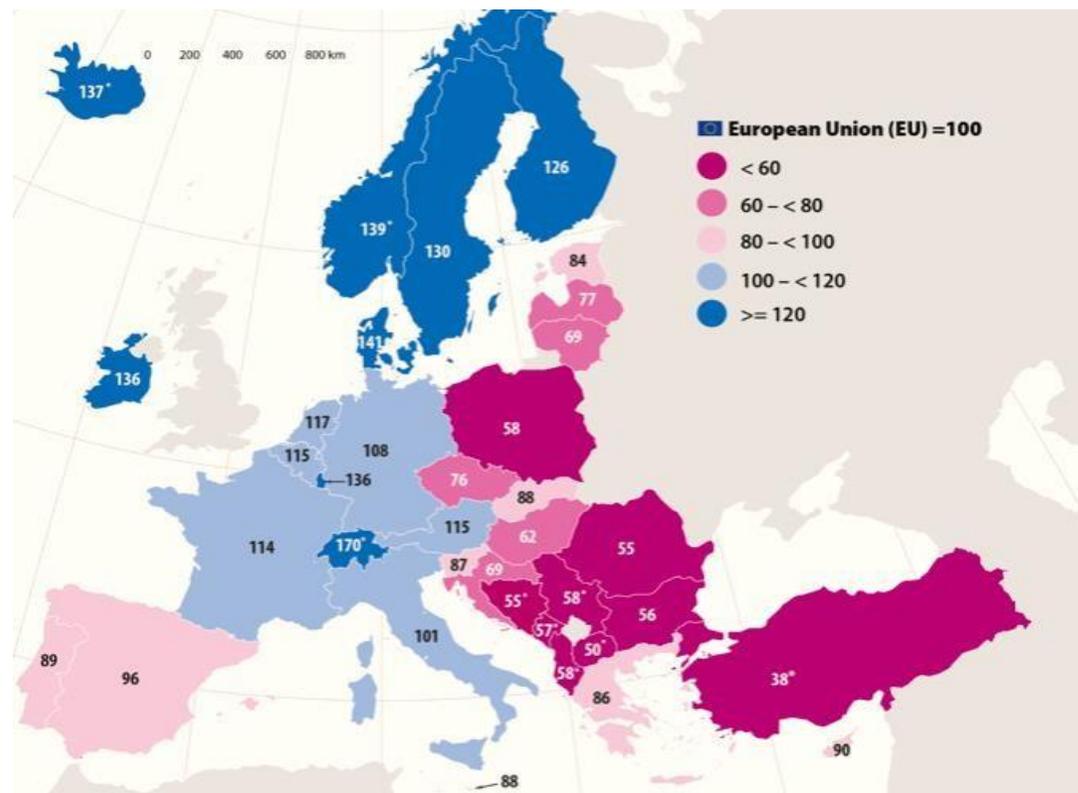
Source: World Bank Data, 2021

Price indexes in the US have sharp differences between sectors



Source: GSP Jan 2021

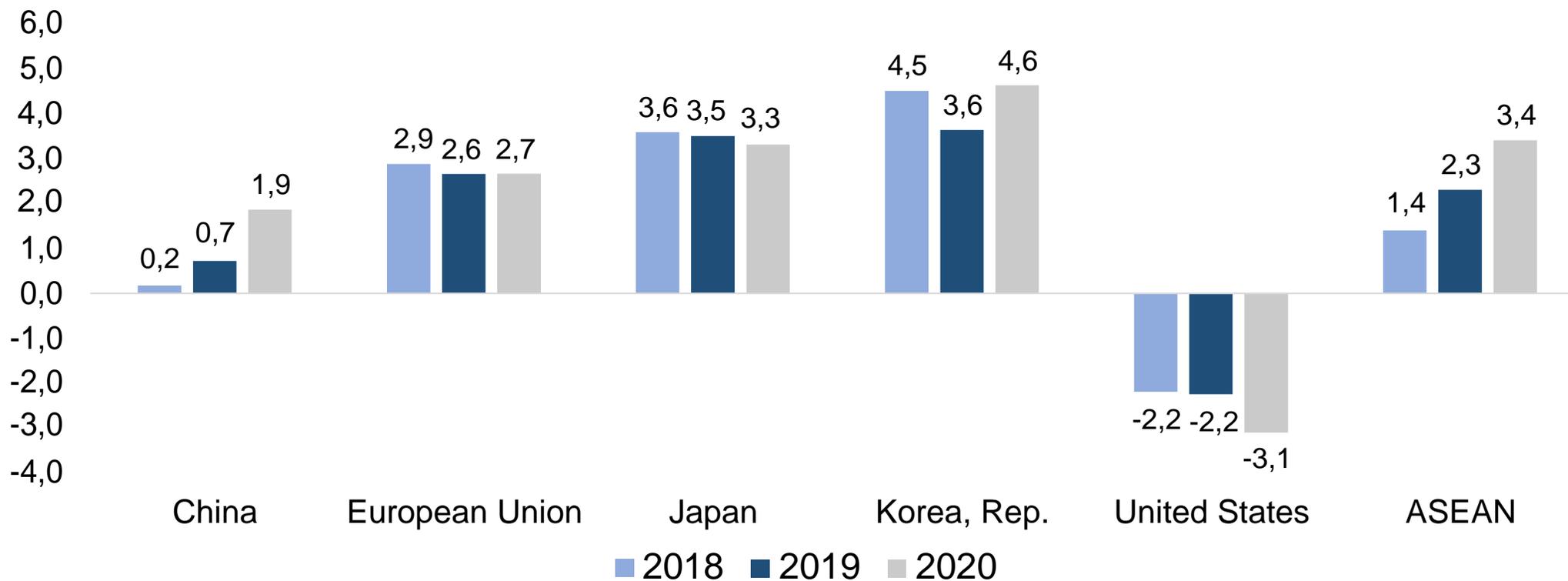
Price index in the EU has a clear difference between countries in 2020



Source: <https://ec.europa.eu/eurostat/web/products-eurostat-news/-/ddn-20210622-1>



Current account balance (% of GDP)



Source: World Bank Data, 2021



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Global economic prospect 2021

- The economic outlook of Vietnam's important partners is very positive because most of the countries are capable of producing vaccines and have already implemented widespread vaccination strategies.
- This context will help Vietnam maintain economic growth and ensure the smooth operation of trade and investment.
- However, whether or not economic growth can be achieved depends significantly on the level of disease control in Vietnam and the strategy of "living with" the pandemic in industrial parks and economic zones.
- The success of other countries in disease control, especially ASEAN members, are also of equal importance.



Global economic prospect 2021

- In 2021, the global economy will be brighter, expected to reach 4% (according to WB) or 5.8% (according to OECD) in 2021 and 2.8% (according to WB) and 4.4% (according to OECD) in 2022 but the recovery will be uneven across regions and countries.
- Emerging and developed economies will experience higher growth rates than developed economies.
- However, this growth depends heavily on the pandemic situation and global vaccine coverage as well as policy responses during the post-pandemic recovery.
- In the medium term, the global economic outlook remains uncertain due to the impact of a pandemic lasting and the uncertainty existing in the economy before the pandemic.



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THE GLOBAL DYNAMICS



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THE GLOBAL DYNAMICS

1. The Covid-19 pandemic

2. Digital economy trends

3. Challenges from global climate change

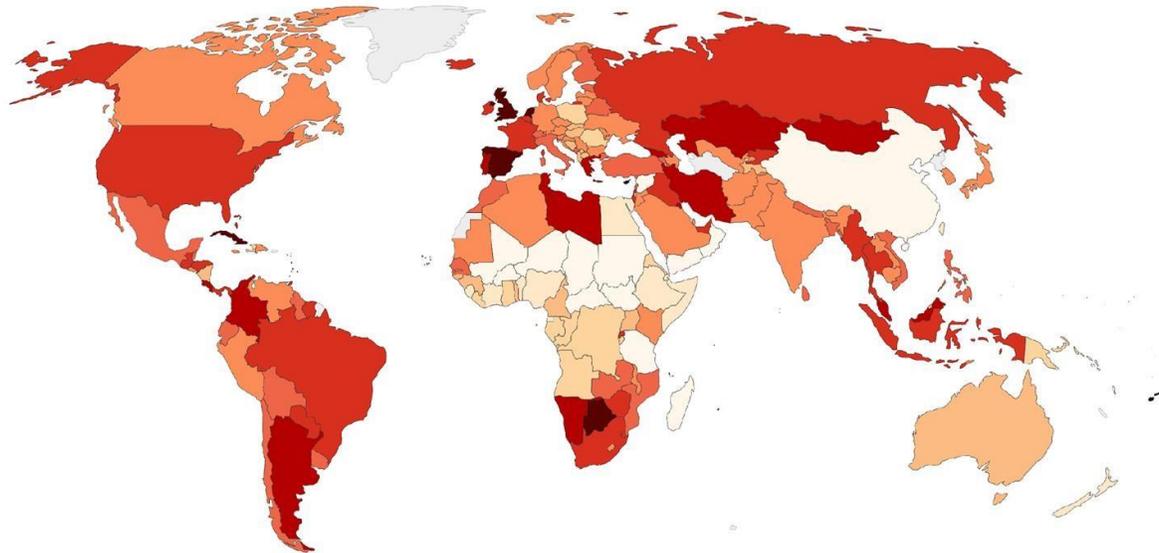
4. Strategic competition & policy adjustment of major economies

5. Domestic context: Socio-economic development strategy 2021-2030 and Vietnam's implementation of FTAs



THE COVID-19 PANDEMIC

- Globally: The pandemic has not been under control
- Severe global economic recession, high uncertainty



Infected cases
191,773,590

Deaths
4,127,963

New cases per day
512,231

Vaccination
13.6% (Fully vaccinated)

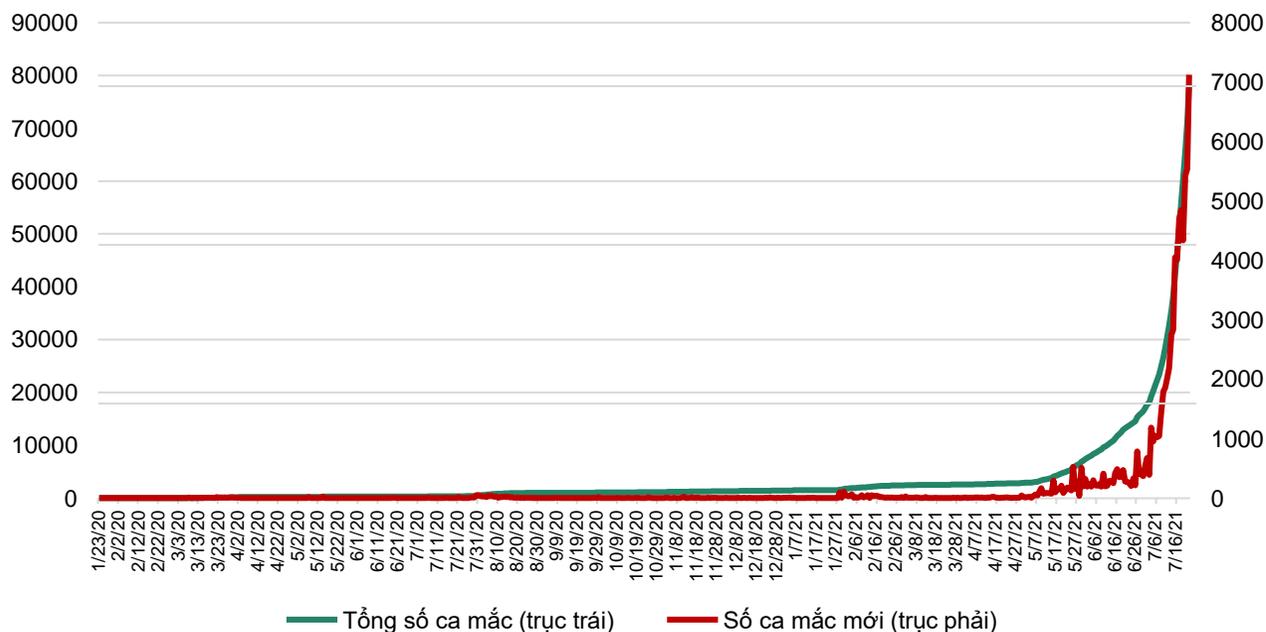
Coronavirus Dashboard as of 22/07/2021

Source: *Our World in Data (2021) based on the database of Mathieu et.al. (2021)*



THE COVID-19 PANDEMIC

- Vietnam: Complicated developments, the 4th wave of disease outbreaks
- The share of the population fully vaccinated is among the lowest in the world



Infected cases

81,678

Deaths

370

New cases per day

7,307

Vaccination:

0.4% (Fully vaccinated)

Cumulative number of infected cases and number of new cases in Vietnam as of 23/07/2021

Source: Our World in Data (2021)



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DIGITAL ECONOMY TRENDS

- The pandemic accelerates the process of digital transformation globally
- In Vietnam:
 - National Digital Transformation Program was approved in June 2020
 - The boom of E-Commerce: Average growth of nearly 30%/year during 2014-2020
 - Nearly two-thirds of businesses promoted the use of digital platforms (2020)
 - E-Government: The number of online public services integrated on the National Portal and the number of visits have increased rapidly.
 - Vietnam's conditions for digital transformation (e.g. digital infrastructure, people's connectivity, digital payment methods, progress in technology absorption) are limited in comparison with some other ASEAN countries.



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CHALLENGES FROM CLIMATE CHANGE

- Climate change has become a major challenge on the global scale.
- 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.
- Vietnam is one of the most affected by climate change (ranked 6th globally according to KRI Global Climate Risk Index Report 2020). Vietnam has introduced several measures towards green and sustainable development.



Strategic competition among major economies (esp. between the U.S. and China)

- Economic and technological independence and self-reliance
- Domestic market plays the leading role, main driving force for development.
- Continue to open up and integrate into the world but cautiously and effectively. Upgrade the quality of goods and services.
- Develop China-led production and supply chain.

China:
“Dual circulation”

- Consolidates the No. 1 position in economics and leadership in technology.
- Economic recovery
- Restoring relations with allies and partners.
- Dealing with climate change
- Handling relations with China
- Appreciate and advocate strengthening relations with ASEAN countries

The U.S:
“Make America Great Again”

- Economic recovery
- Digitalization and green development as the top priority
- Shaping global rules towards more sustainable and equitable globalization
- Take more drastic actions to protect their interests.
- Effectively exploit opportunities from FTAs; environmental commitments and production standards included in FTAs.

EU:
The new trade policy



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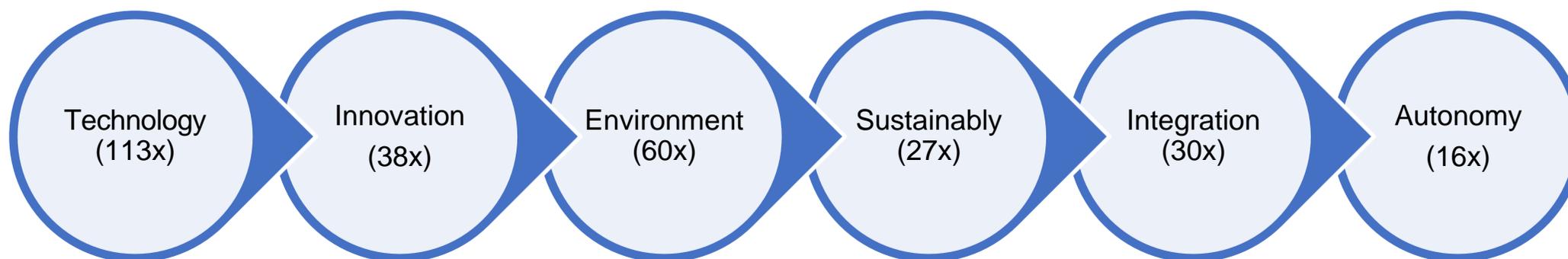
STRATEGIC COMPETITION AND POLICIES OF MAJOR ECONOMIES

- The world situation of “Two superpowers and multi-powers”
- Contradictions between economic integration and increasing trend of separation.
- Countries tend to seek a more balance between economic linkages and improved self- reliance
- Restructure of production networks and supply chains to reduce the risk of disruptions.
 - Bring production closer to the market or the home country
 - Shift investment and supply chains out of China
 - “China +1” Strategy
- The growing trends of digitalization and green development



Socio-economic development strategy 2021 – 2030

- Renovating the growth model, restructuring the economy based on ***science, technology and innovation***.
- Strengthening the ***independence and autonomy of the economy***
- Improving the ***efficiency of international economic integration***
- Giving priority to some key projects to adapt ***climate change***
- Developing information and telecommunications infrastructure to create ***national digital transformation platform***.

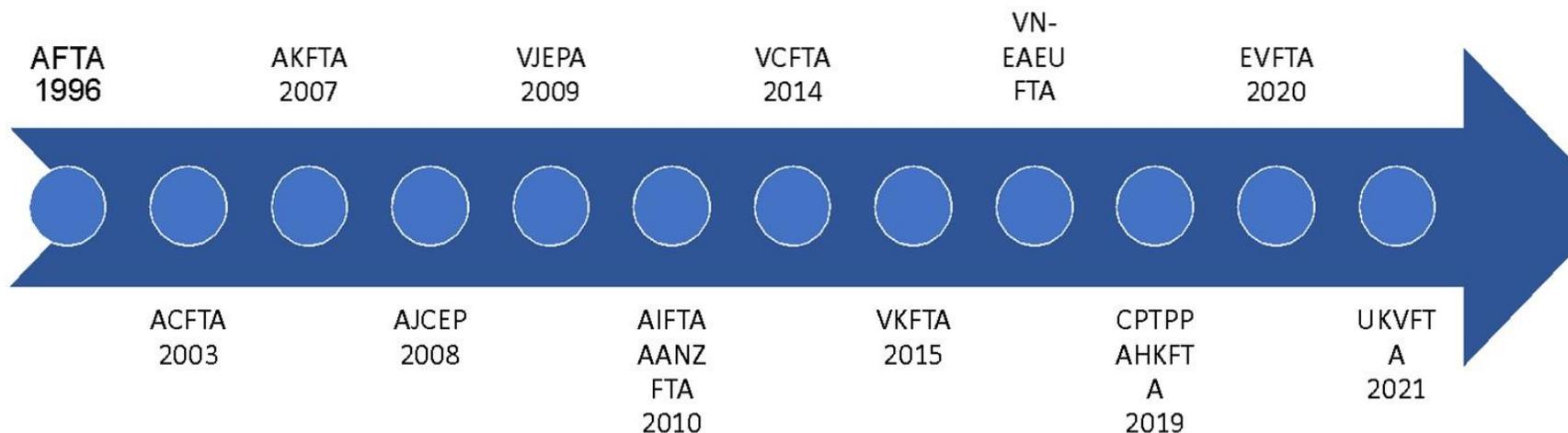


Frequency of some selected words in the Socio-economic development strategy 2021-2030



Deep integration in the international economy

- Participation in 17 FTAs: 14 FTAs in effect (03 new generation FTAs), 01 signed FTA, 02 on-going negotiation FTAs.



Vietnam's 14 FTAs in effect by July, 2021

Source: <http://trungtamwto.org>



Increasing Vietnam's footprint in global trade, investment and GVCs

- Opportunities from FTAs: increase the volume and quality of trade, investment; diversify partners
- Filling the market gap left by China
- Increasing FDI thanks to the FDI shift out of China and “China +1” strategy.
- More participation in GVCs led by Western nations and China.

Accelerating the digital transformation process

- Thinking changes in policy making and business operation to enhance the comparative advantages.
- Application and dissemination of technology and innovation.
- New business opportunities & models
- Increasing SME's participation in GVCs
- Development of services sectors and cross-border trade in services.
- Attracting FDI to create higher added value.

Green growth and sustainable development

- Creating new business opportunities.
- Participating in higher standard (e.g. in agricultural and food sector)
- Upgrading the production process and business of the entire economy.



Uncertainty and difficulties from the pandemic

- Severe global economic downturn
- Disruption of GVCs
- Limitations on testing and vaccinating capacity.

Climate change causes disruptions in production & trade

- Potential industries (agriculture, fisheries, forestry) are heavily affected.
- Limited capacity to cope with and adapt to climate change.
- Environmental regulations lead to new barriers to international trade.
- Pressure from consumers and partners

Adjustments to implement digitalization, green growth & FTA

- Governance aspect (adjustments of state policies, of firms' strategies and business models)
- Infrastructure aspect
- Human resources aspect
- Relatively large proportion of labour – intensive industries -> challenges in promoting digital transformation.

Competition pressure

- FTAs lead to increases in imports and presence of foreign enterprises.
- More difficult to access major markets due to higher standards and requirements for goods and services.

Other challenges

- Trap of processing and assembling, poor quality FDI
- Risks of increasing trade deficit and dependence on China.
- Risk of transshipment and international embargoes.



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VIETNAM'S COMPARATIVE ADVANTAGE AND PARTICIPATION IN GLOBAL VALUE CHAINS



Compare with ASEAN and top countries in the world

Comparative advantage

Participation in GVCs

Revealed Comparative Advantage (RCA)

Market Concentration Index and Product Concentration Index

GVCs Participation Index

GVCs Position Index

Network Map

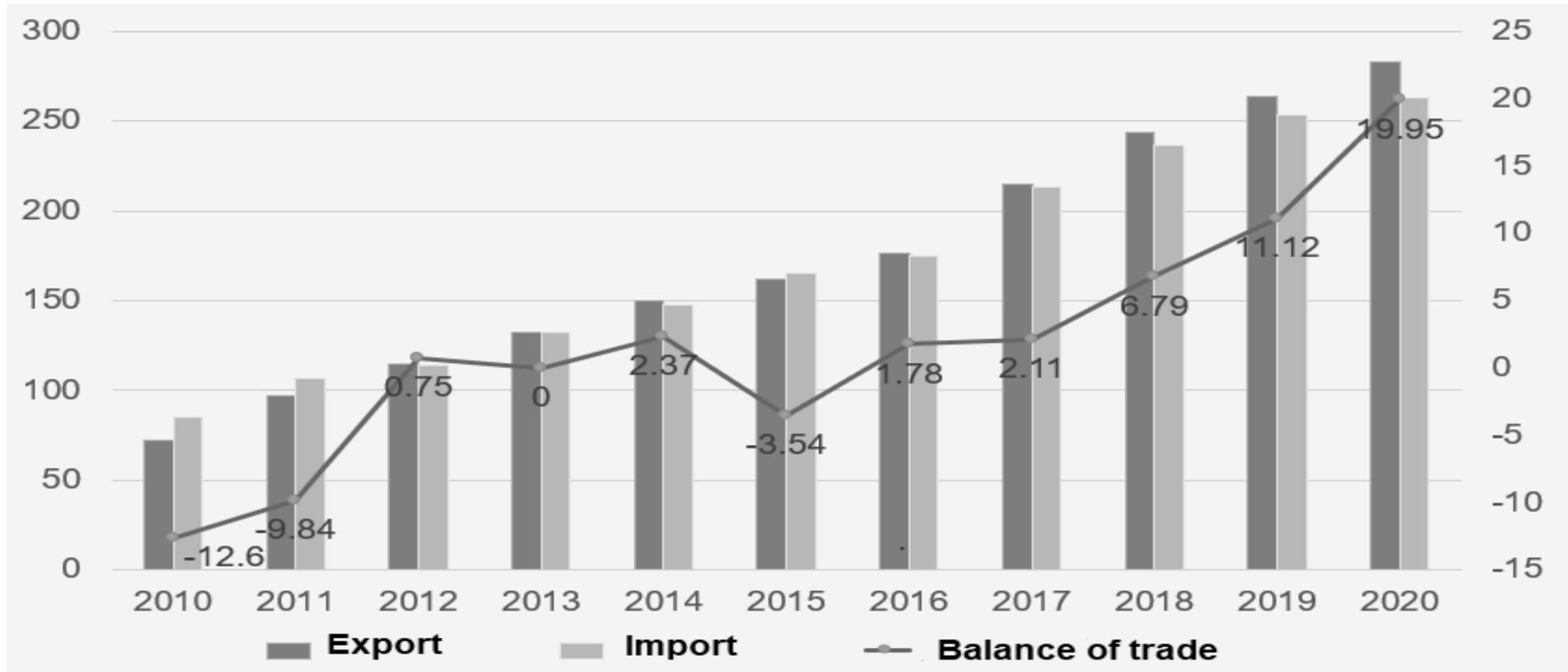


MAIN CONTENT

1. An overview of Vietnam's comparative advantage and participation in Global Value Chains
2. Vietnam's Comparative advantage and GVC participation in the Electronic industry
3. Vietnam's Comparative Advantage and GVC participation in the Food industry
4. Assessment, Prospects and Recommendations



VIETNAM'S TRADE

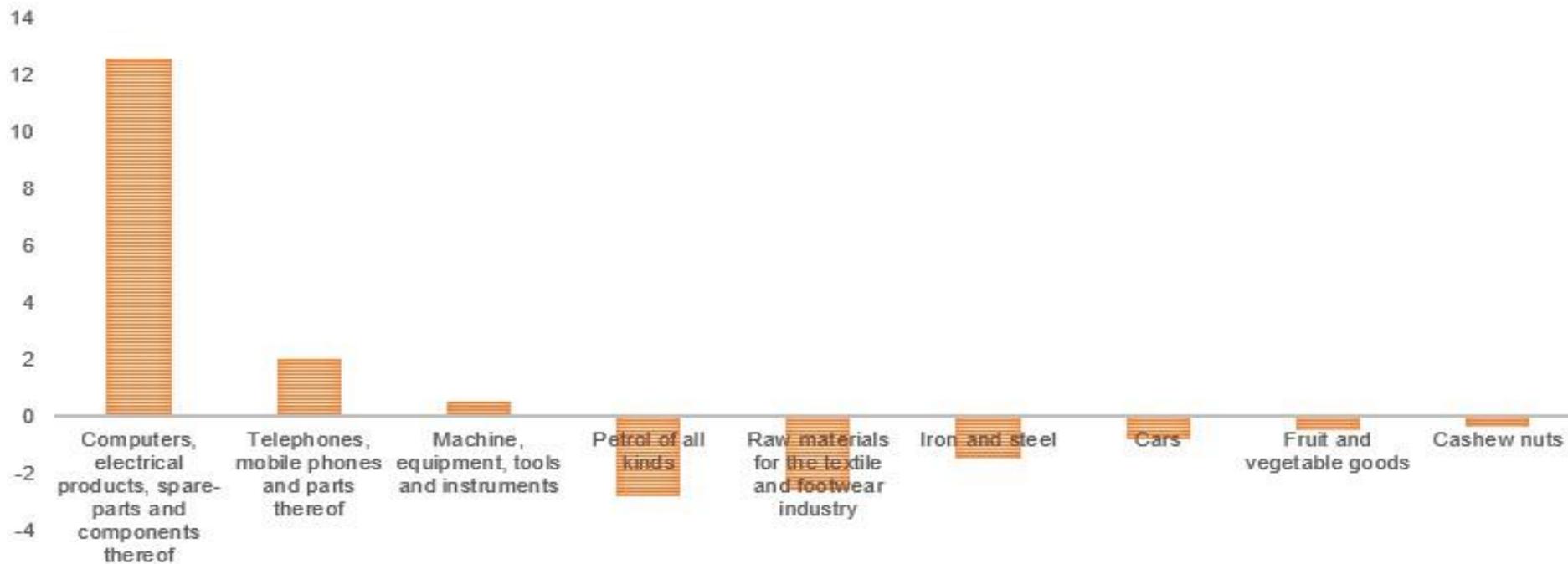


Export-Import turnover and Trade balance of Vietnam in 2010 - 2020 (Unit: Billion USD)

Source: General Department of Vietnam Customs, 2021



VIETNAM'S TRADE

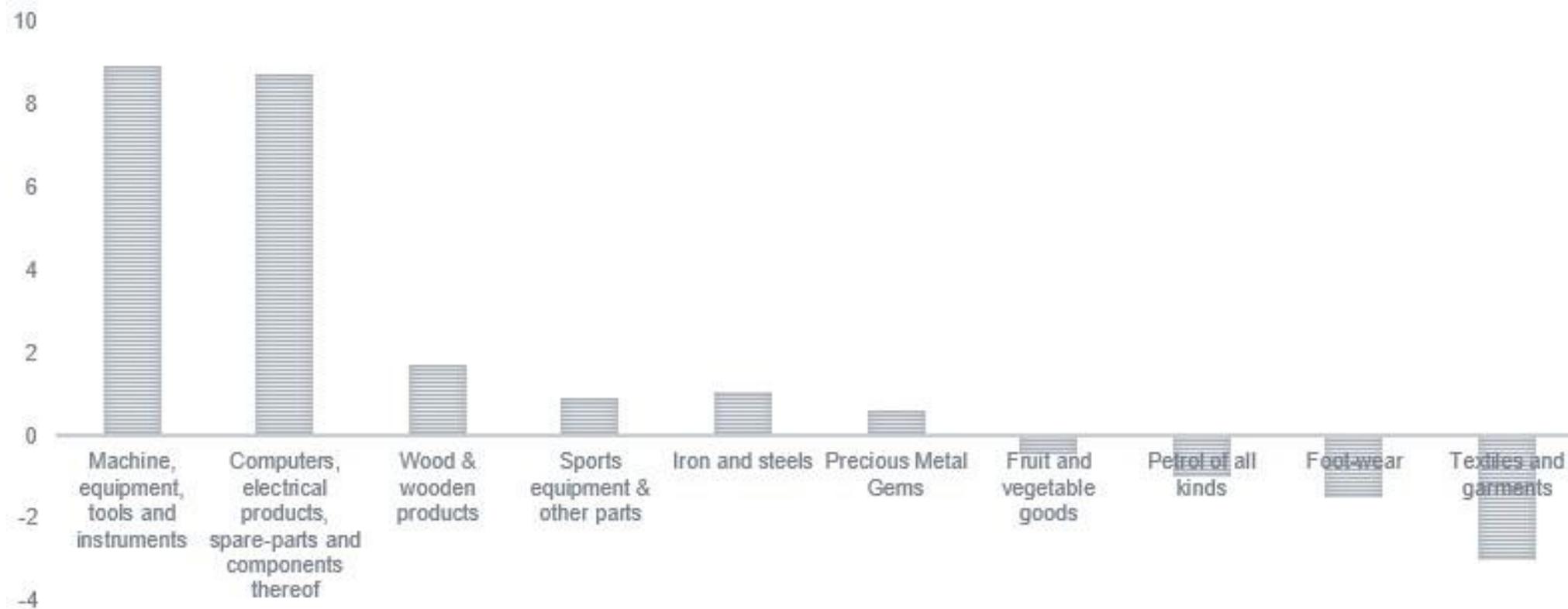


Changes in import value of some commodity groups in 2020 compared to 2019 (Unit: billion USD)

Source: General Department of Vietnam Customs, 2021



VIETNAM'S TRADE

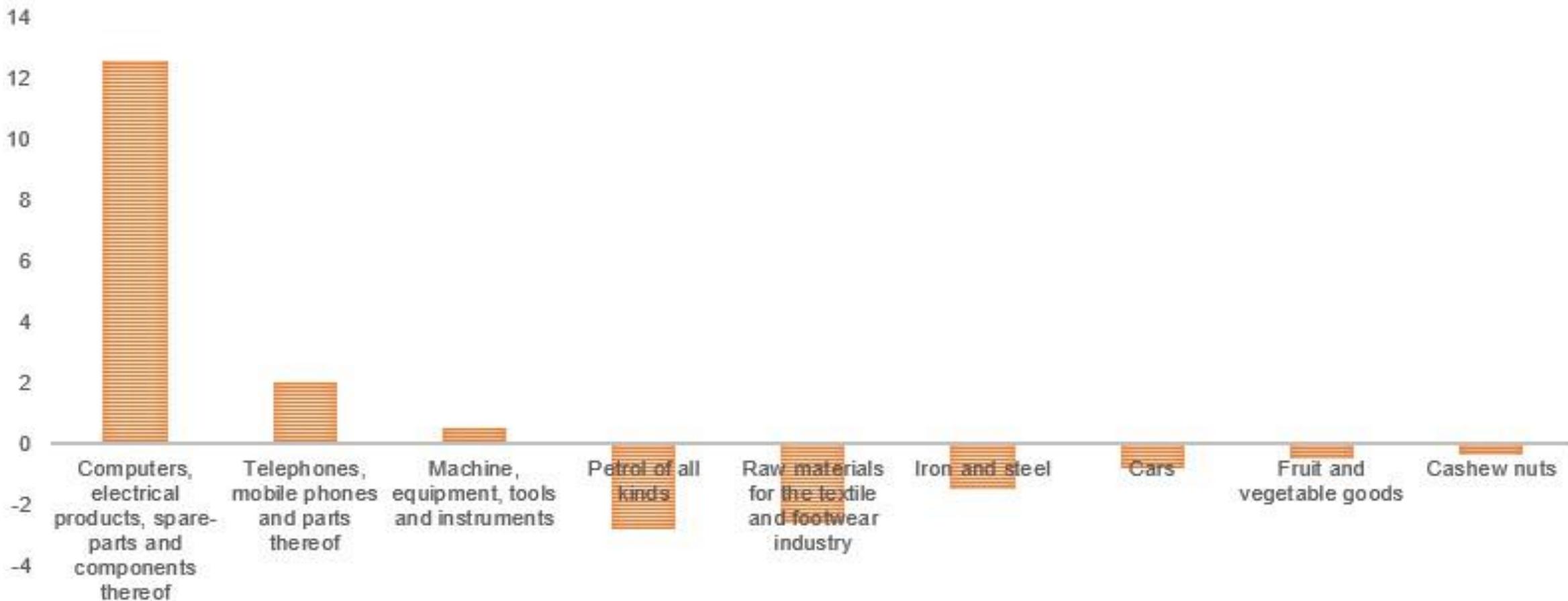


Changes in export value of some commodity groups in 2020 compared to 2019 (Unit: billion USD)

Source: General Department of Vietnam Customs, 2021



VIETNAM'S TRADE

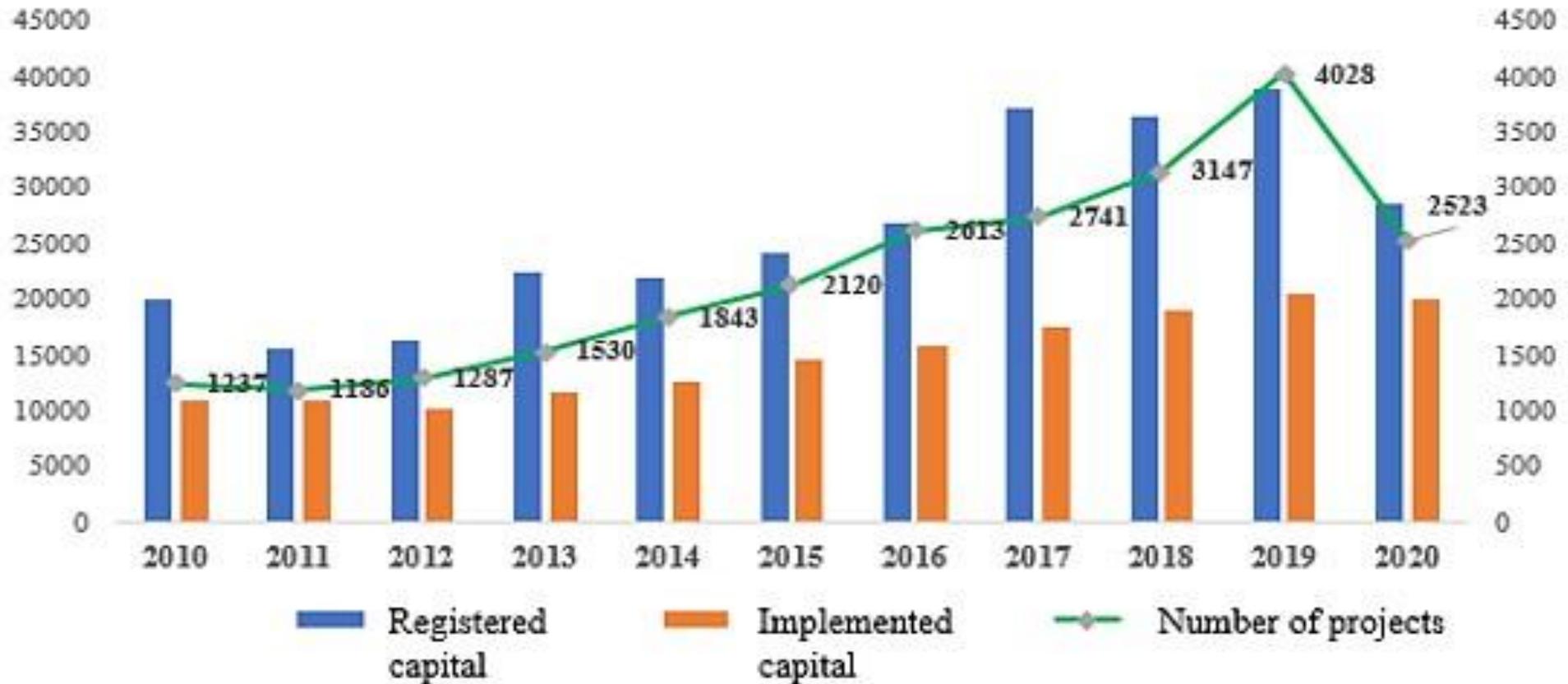


Changes in import value of some commodity groups in 2020 compared to 2019 (Unit: billion USD)

Source: General Department of Vietnam Customs, 2021



FDI INTO VIETNAM

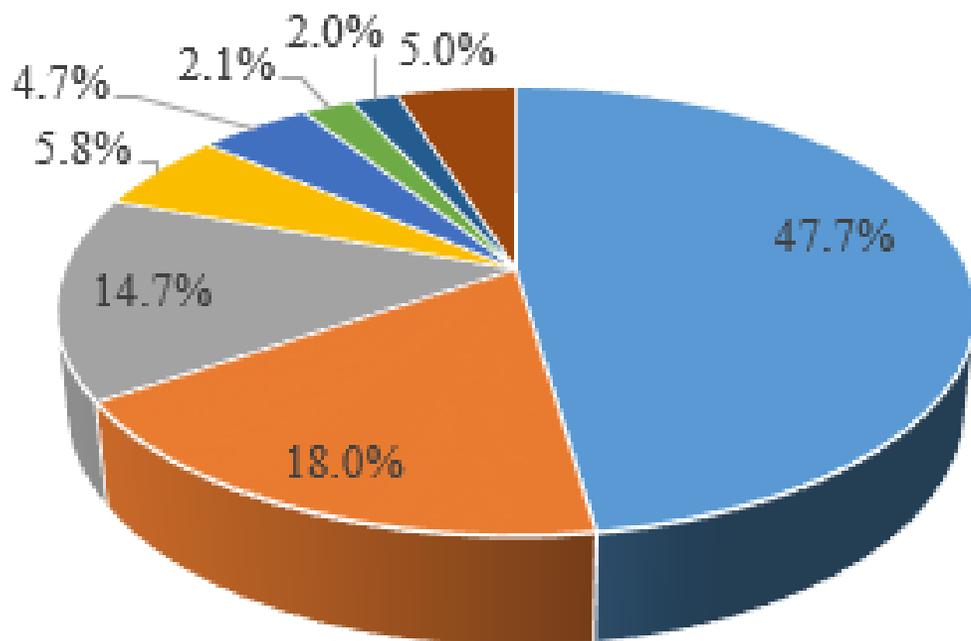


Number of FDI projects, total registered capital and implemented capital in Vietnam in 2010 - 2020

Source: General Statistics Office, 2020 and Foreign Investment Agency, 2021



FDI INTO VIETNAM



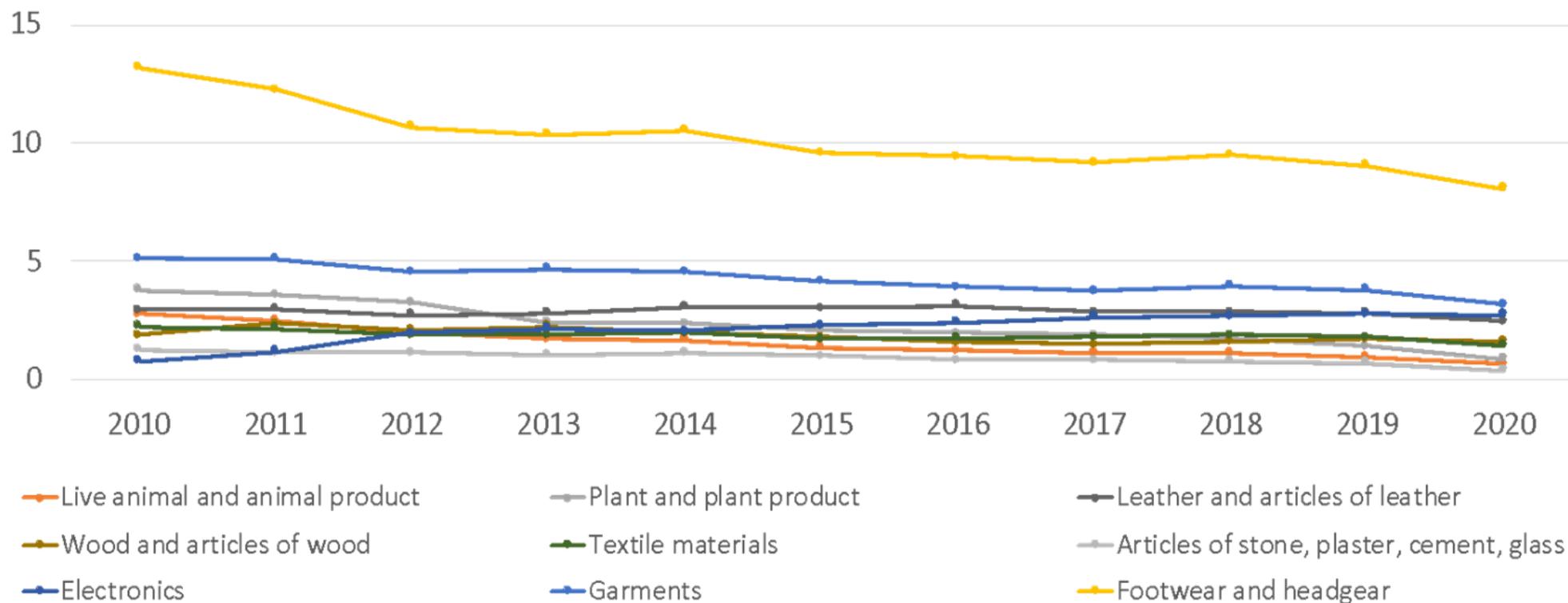
- Manufacturing, processing
- Production, electricity, gas, steam and air conditioning supply
- Real estate activities
- Wholesale and retail trade; repair of motor vehicles and motorcycles
- Professional, scientific and technical activities
- Transportation and storage
- Construction
- Other sectors

FDI flows into Vietnam by sector in 2020

Source: Foreign Investment Agency, 2021



VIETNAM'S COMPARATIVE ADVANTAGE

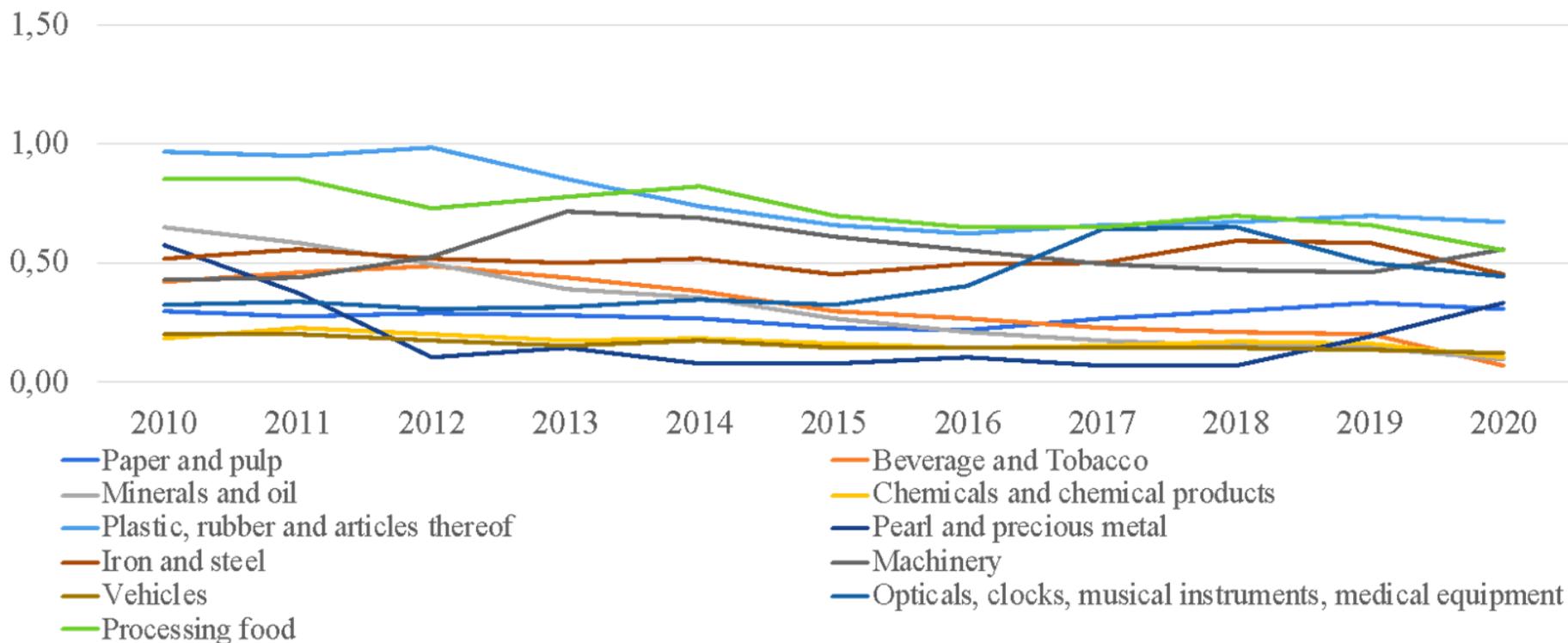


Vietnam's comparative advantage in the period 2010-2020

Source: Authors' calculations



VIETNAM'S COMPARATIVE ADVANTAGE



Vietnam's comparative disadvantages in the period 2010-2020

Source: Authors' Calculations



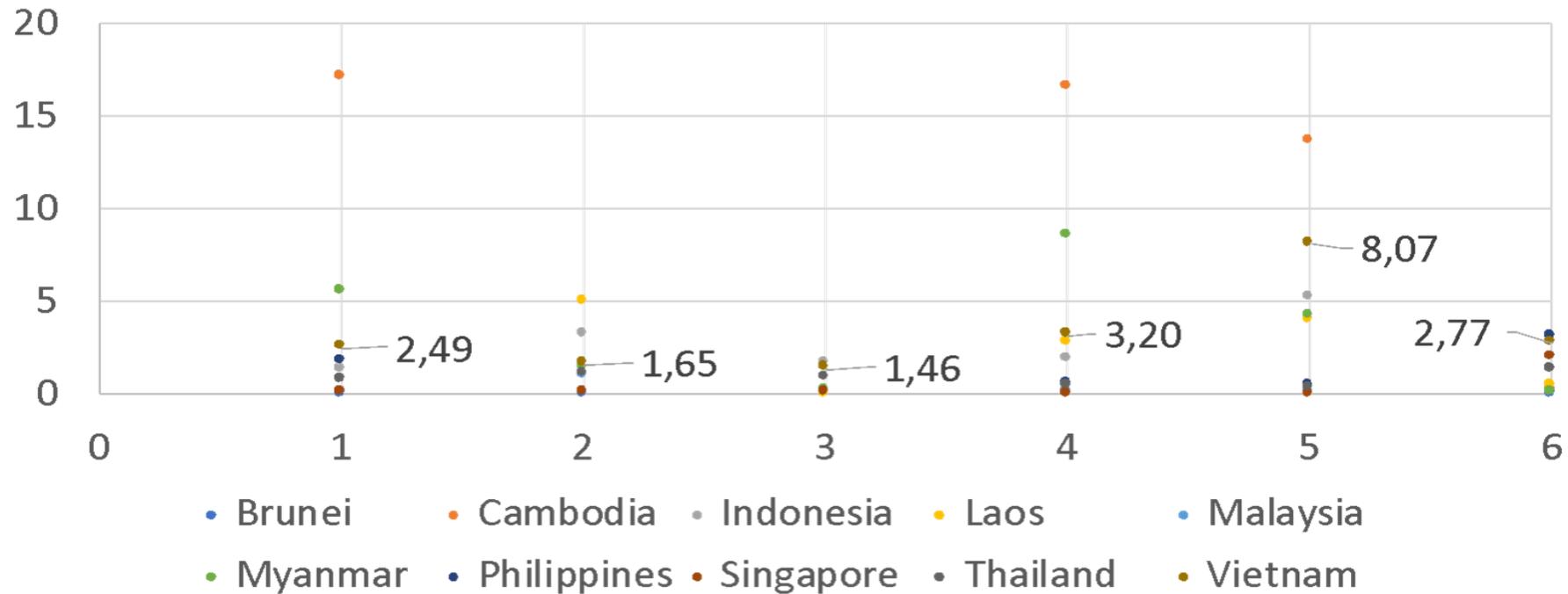
Vietnam's RCA rankings in ASEAN

No.	Sectors	Ranking in 2019	Ranking in 2020
1	Leather and articles of leather	3 (Cambodia, Myanmar)	3 (Cambodia, Myanmar)
2	Wood and articles of wood	4 (Laos, Indonesia, Malaysia)	4 (Laos, Indonesia, Philippines)
3	Textile materials	2 (Indonesia)	2 (Indonesia)
4	Garments	3 (Cambodia, Myanmar)	3 (Cambodia, Myanmar)
5	Footwear and headgear	2 (Cambodia)	2 (Cambodia)
6	Electronics	3 (Malaysia, Philippines)	3 (Malaysia, Philippines)

Source: Authors' Calculations



VIETNAM'S COMPARATIVE ADVANTAGE



1: Leather and articles of leather;
 2: Wood and articles of wood;
 3: Textile materials;
 4: Garments;
 5: Footwear;
 6: Electronics

RCA comparison in ASEAN in 2020*

Source: Authors' Calculations



VIETNAM'S COMPARATIVE ADVANTAGE

Vietnam's RCA Ranking in the world

No	Sectors	Ranking in 2019	Ranking in 2020
1	Leather and articles of leather	11	16
2	Wood and articles of wood	47	52
3	Textile materials	32	36
4	Garments	22	26
5	Footwear and headgear	5	4
6	Electronics	5	5

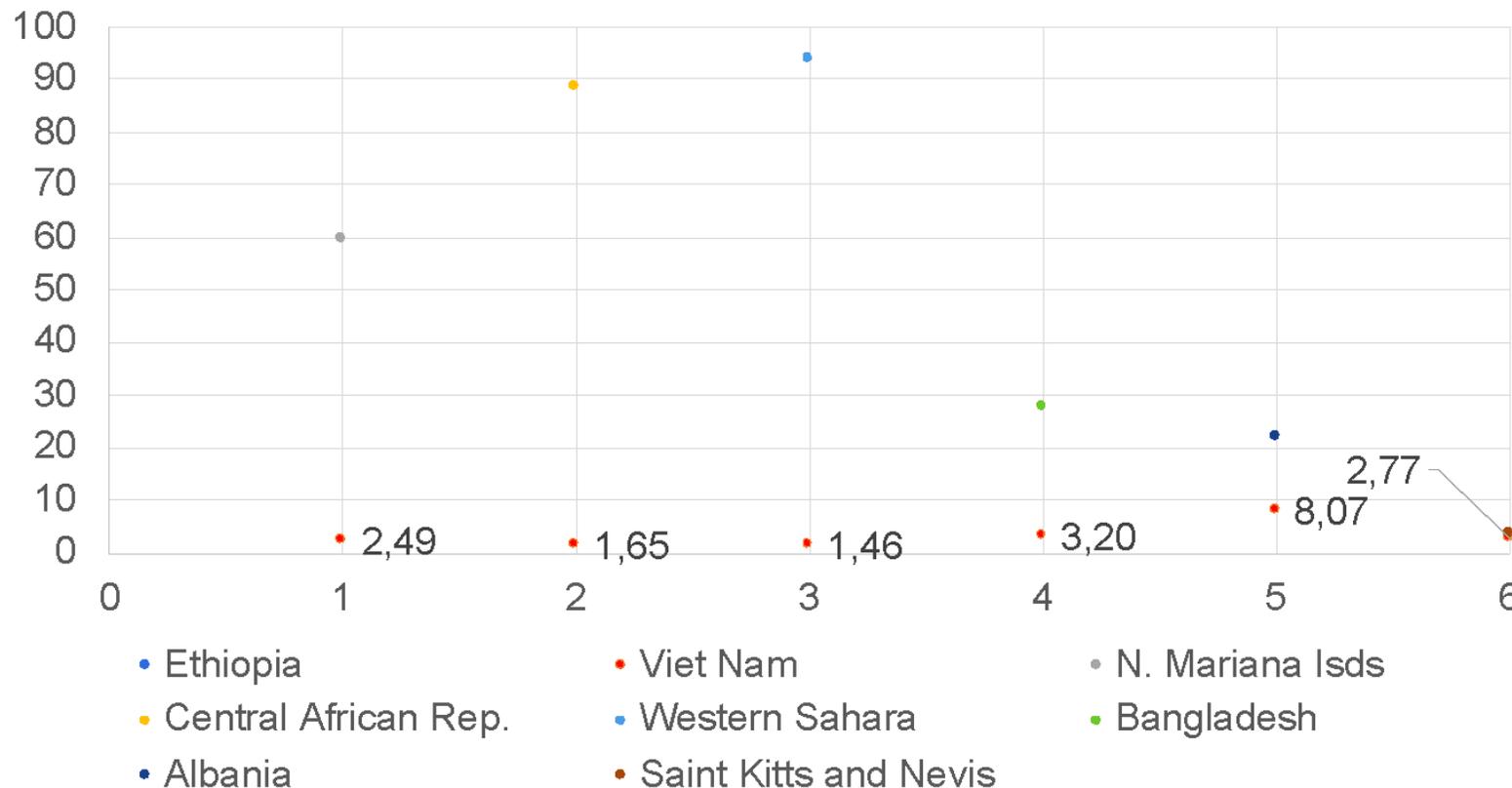
Source: Authors' Calculations



Comparison of Vietnam's RCA with top countries in the world in 2020

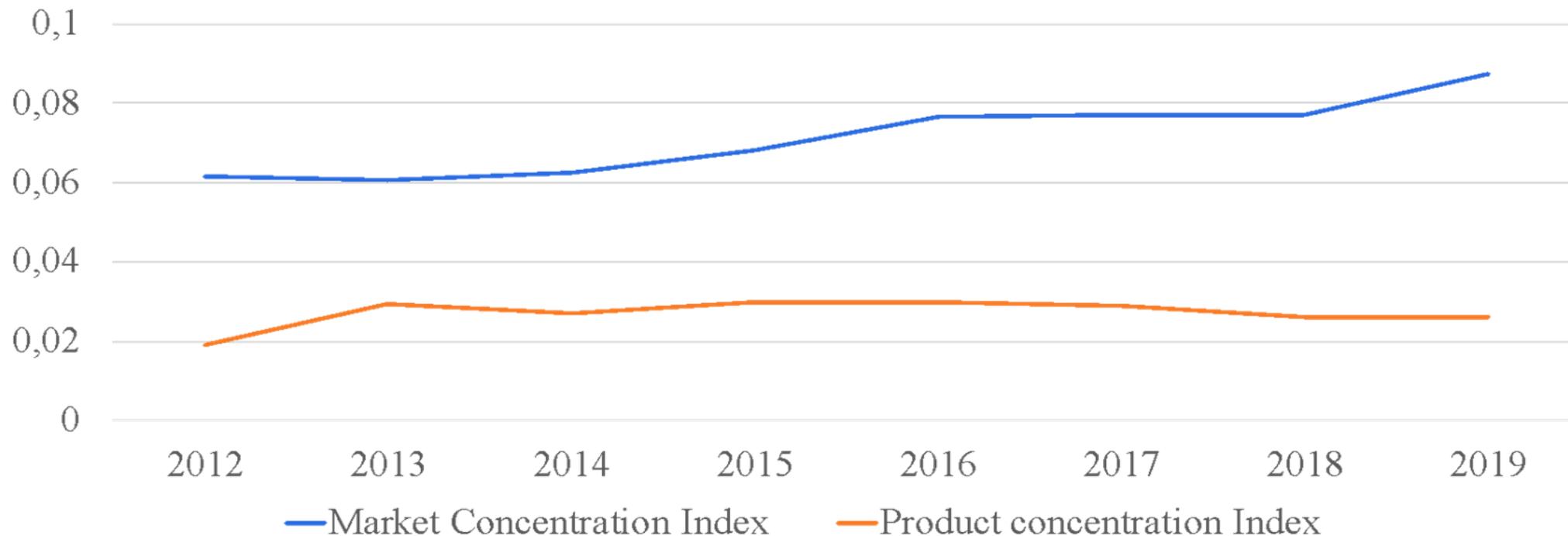
Source: Authors' Calculations

1: Leather and articles of leather; 2: Wood and articles of wood; 3: Textile materials; 4: Garments; 5: Footwear; 6: Electronics





VIETNAM'S COMPARATIVE ADVANTAGE



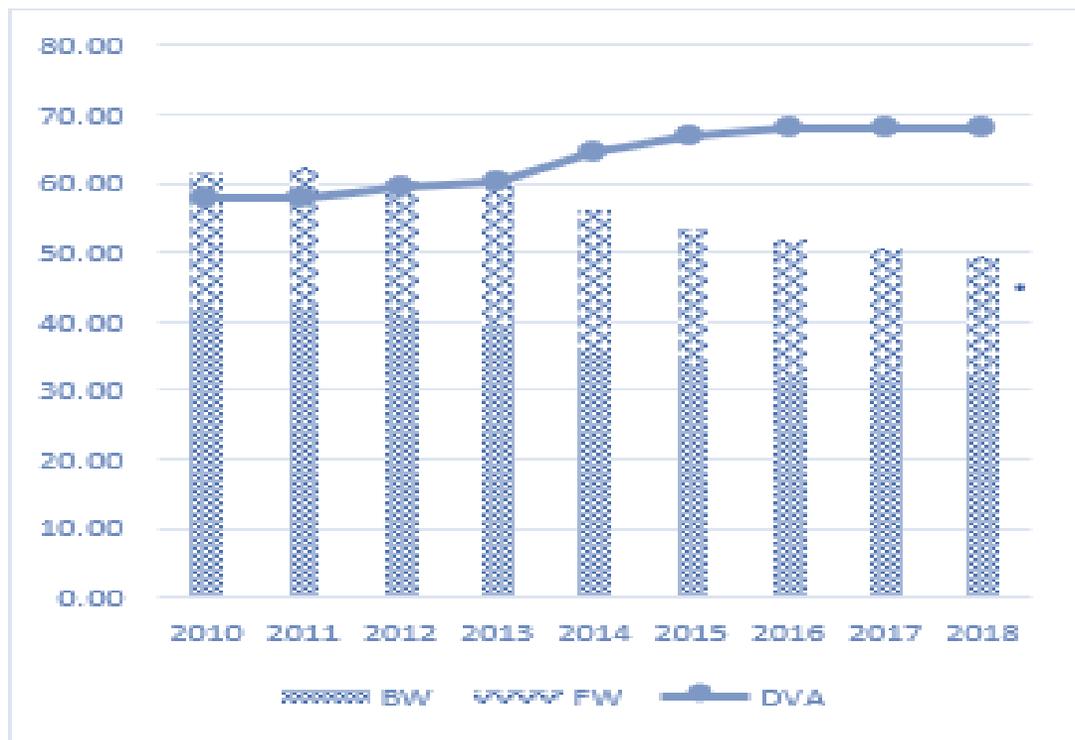
Vietnam's market and product concentration index in the period 2012 - 2019

Source: WITS (2021)



Vietnam's participation in GVCs

Vietnam's participation in GVCs



Vietnam's position in GVCs



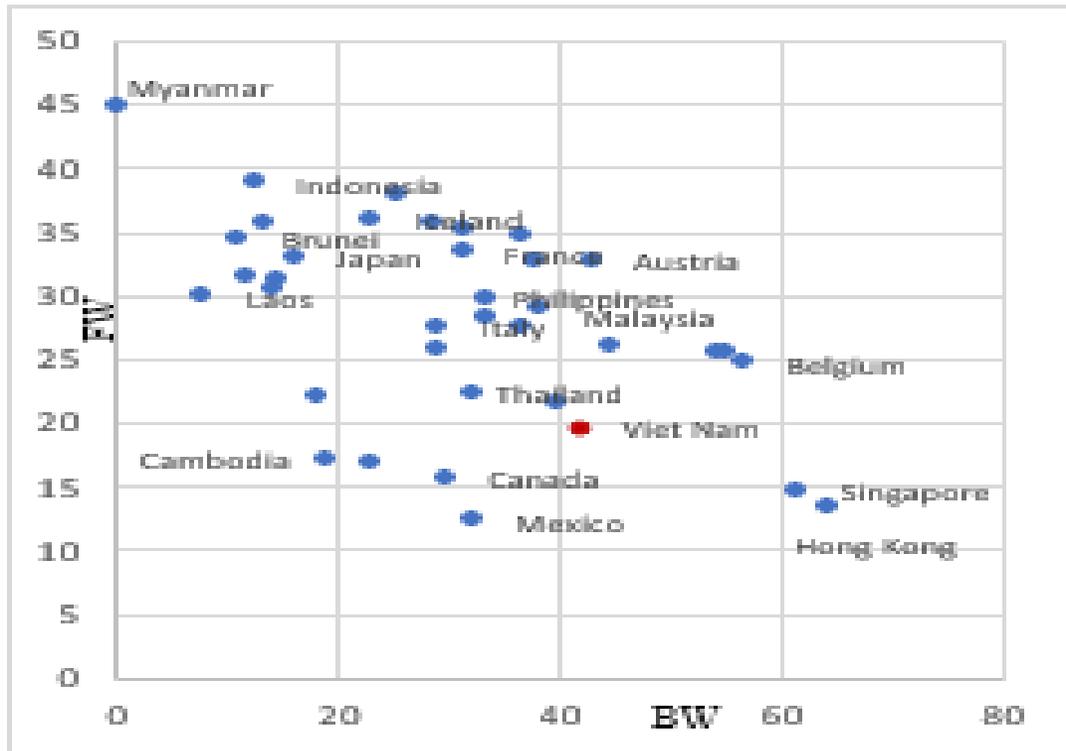
Vietnam's participation and position in GVCs in the period of 2010-2018

Source: Author's calculations from UNCTAD-MRIO databases

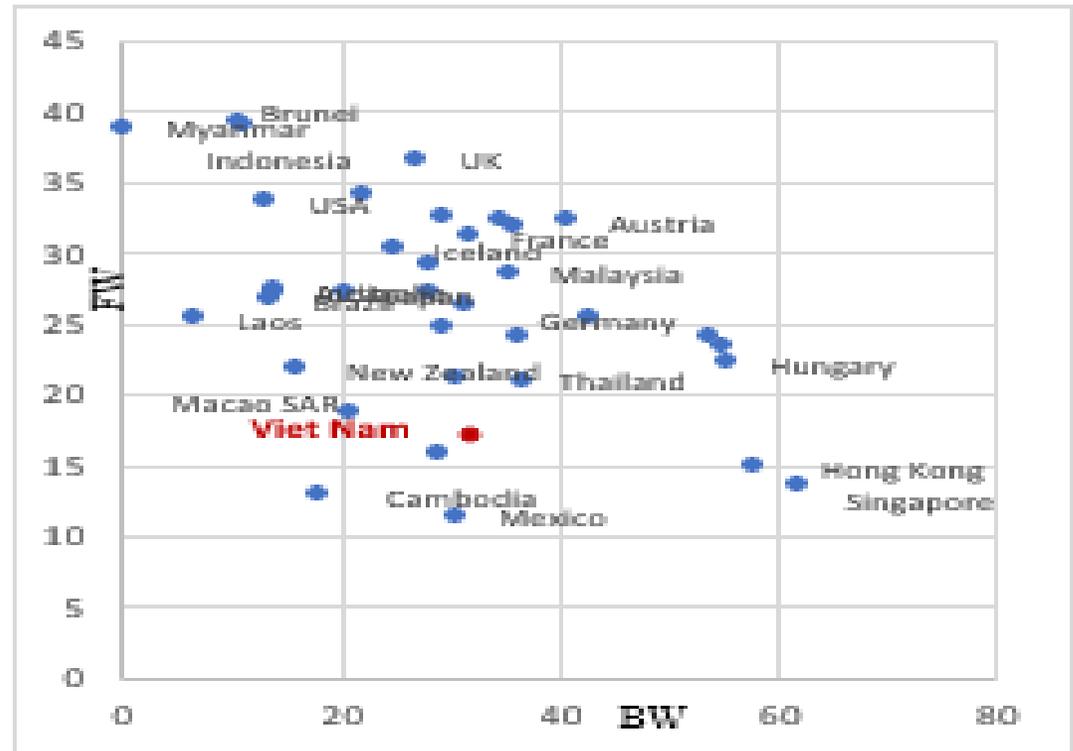


Vietnam's participation in GVCs

a. 2010



b. 2018



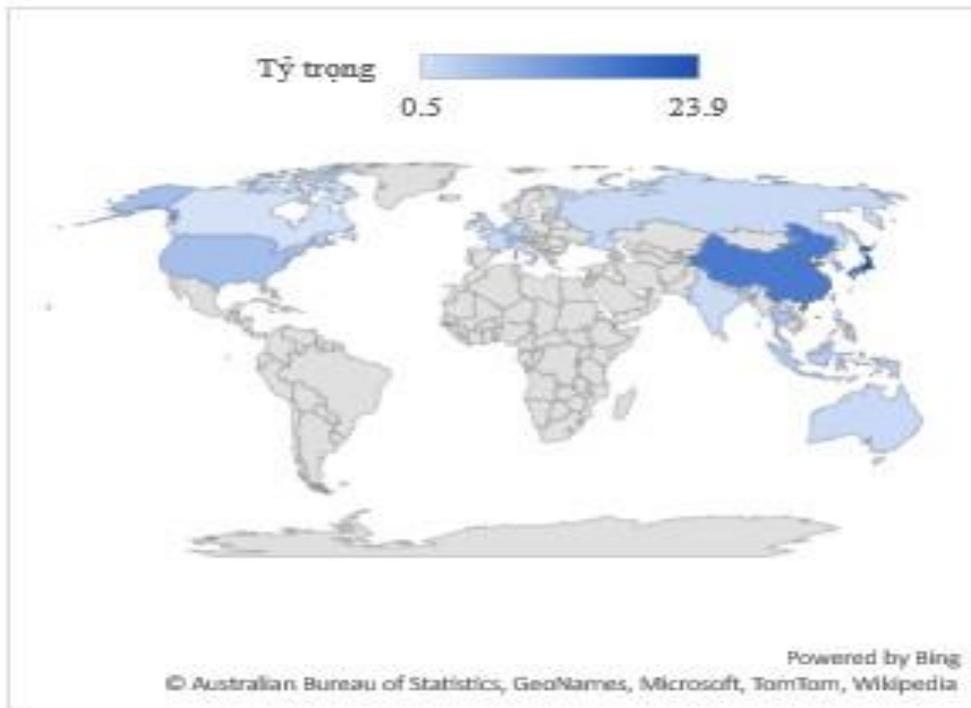
Participation of Vietnam and some selected countries in GVCs in 2010 and 2018

Source: Author's calculations from UNCTAD-MRIO databases

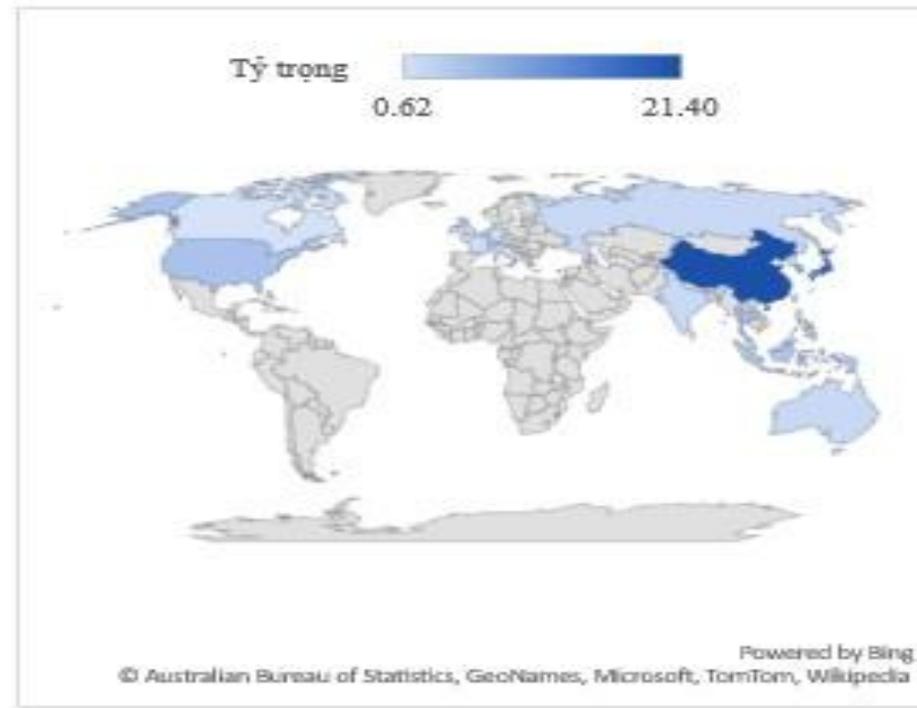


Vietnam's participation in downstream GVCs

a. FVA 2010



b. FVA 2019



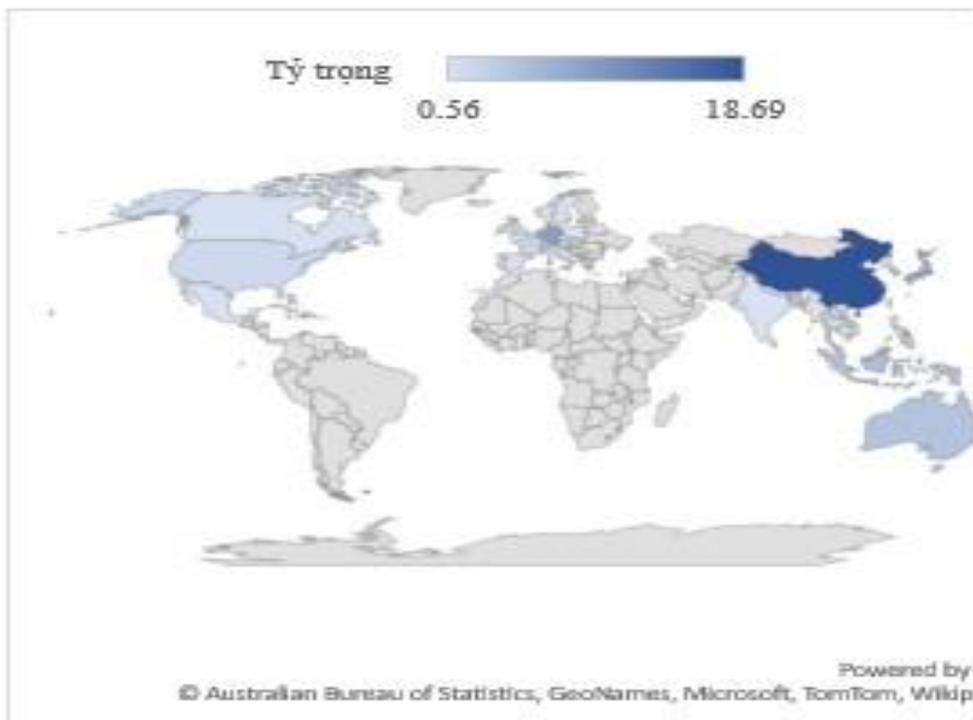
Value-added exports of goods from Vietnam, by value added creator, 2010 and 2018 [%]

Source: Author's calculations from UNCTAD-MRIO databases

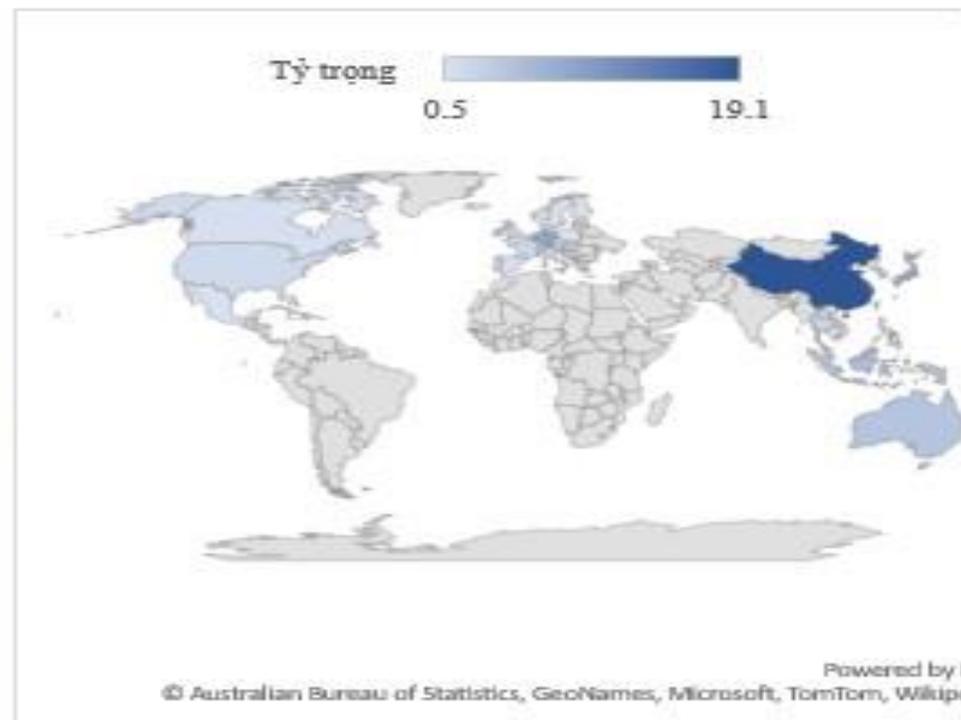


Vietnam's participation in upstream GVCs

a. DVX 2010



b. DVX 2019

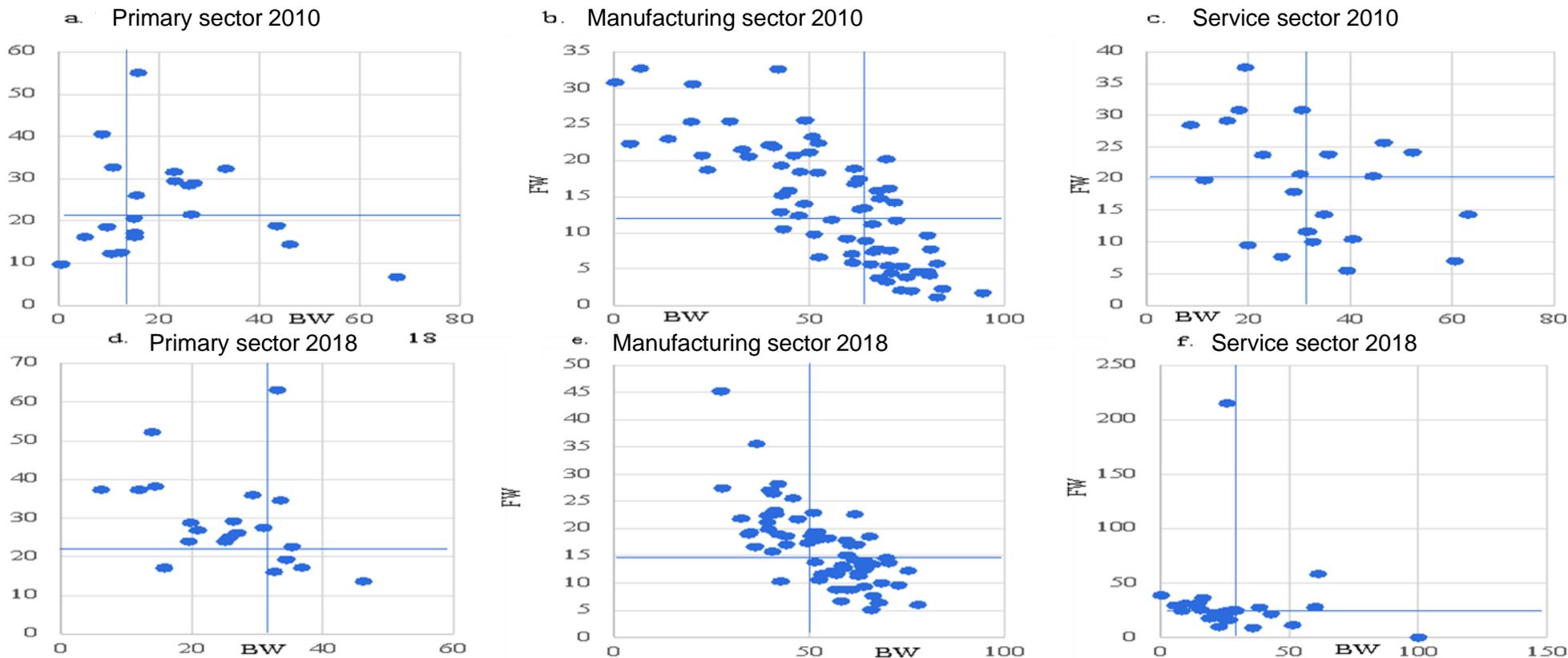


Vietnam's value-added exports incorporated in other countries' exports, by country, 2010 and 2018 [%]

Source: Author's calculations from UNCTAD-MRIO databases



Vietnam's participation in GVCs



Vietnam's participation in GVCs, by sector, 2010 and 2018 (%)

Source: Author's calculations from UNCTAD-MRIO databases



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2. Vietnam's Comparative Advantage and Participation in Global Value Chain in the Electronic industry



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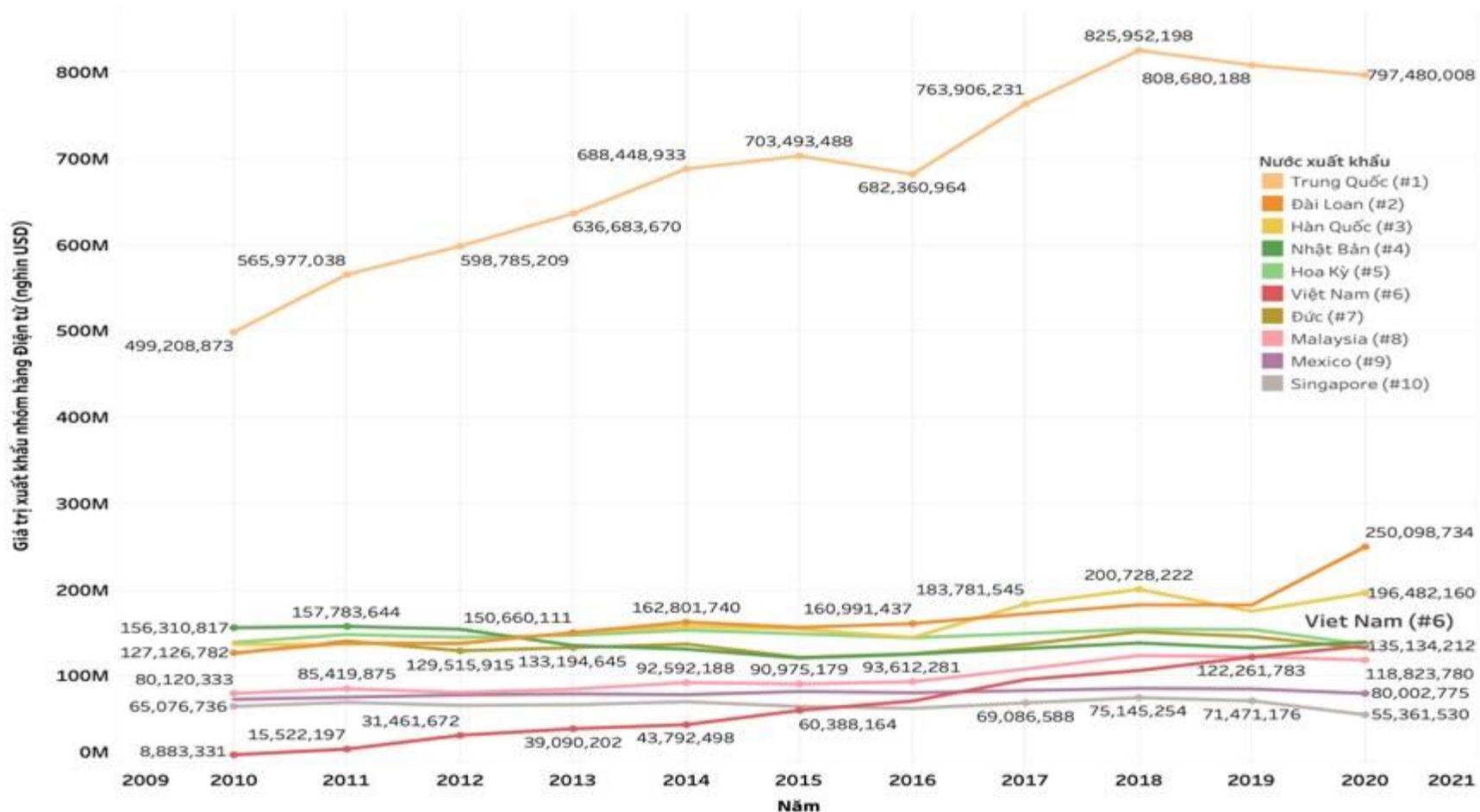
Overview of the Electronic Industry (EI)

- Plays an important role for the socio-economic development in Viet Nam
- Creates the 3rd largest jobs, following textile-apparel and leather-shoes industries
- Generates income for workers and makes contributions to the state budget
- The before-tax profit per worker is 2 times as high as the Food industry
- Attracts a large number of FDI projects
- Have become the largest exporter in Viet Nam since 2012



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OVERVIEW OF THE ELECTRONIC INDUSTRY (EI)

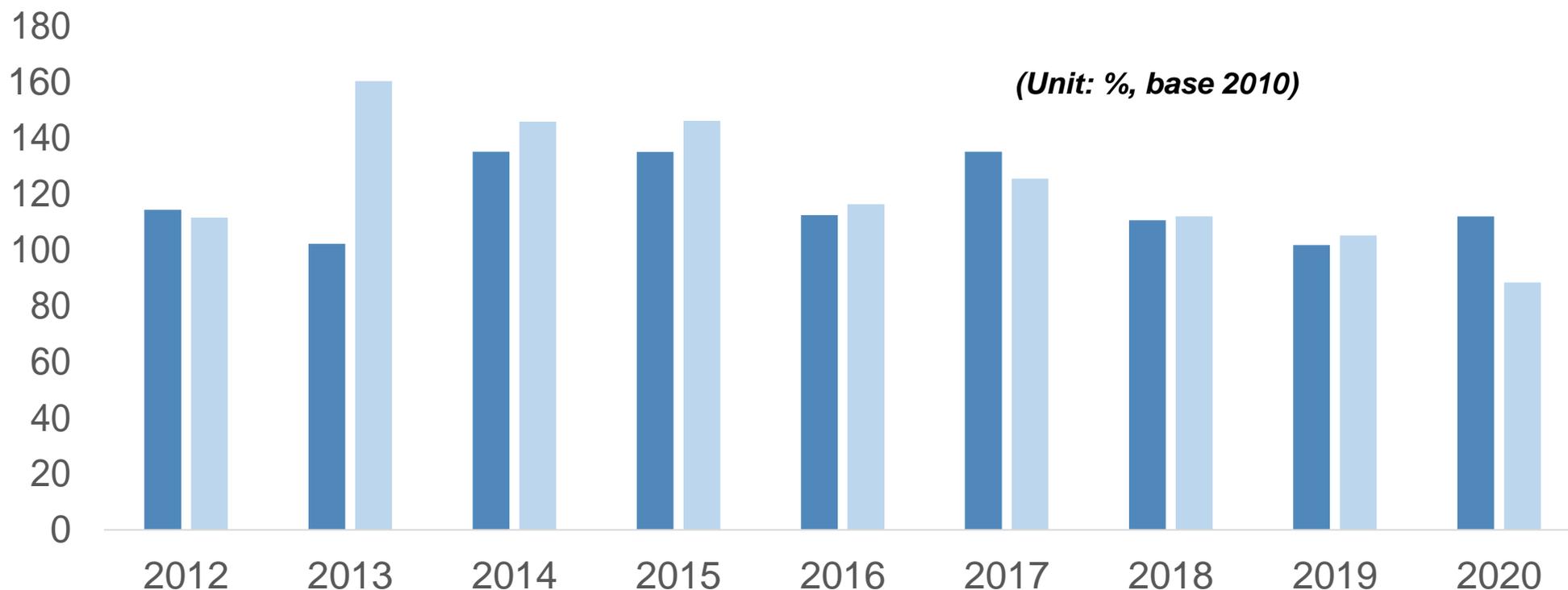


Ranked the 6th in the world in 2020

Viet Nam's EI exports compared to the world's top ten exporters during 2010 – 2020 *Source: Authors' own calculation based on data from BACI and UN COMTRADE, 2021*



Overview of the Electronic Industry (EI)



■ EI's manufacturing index

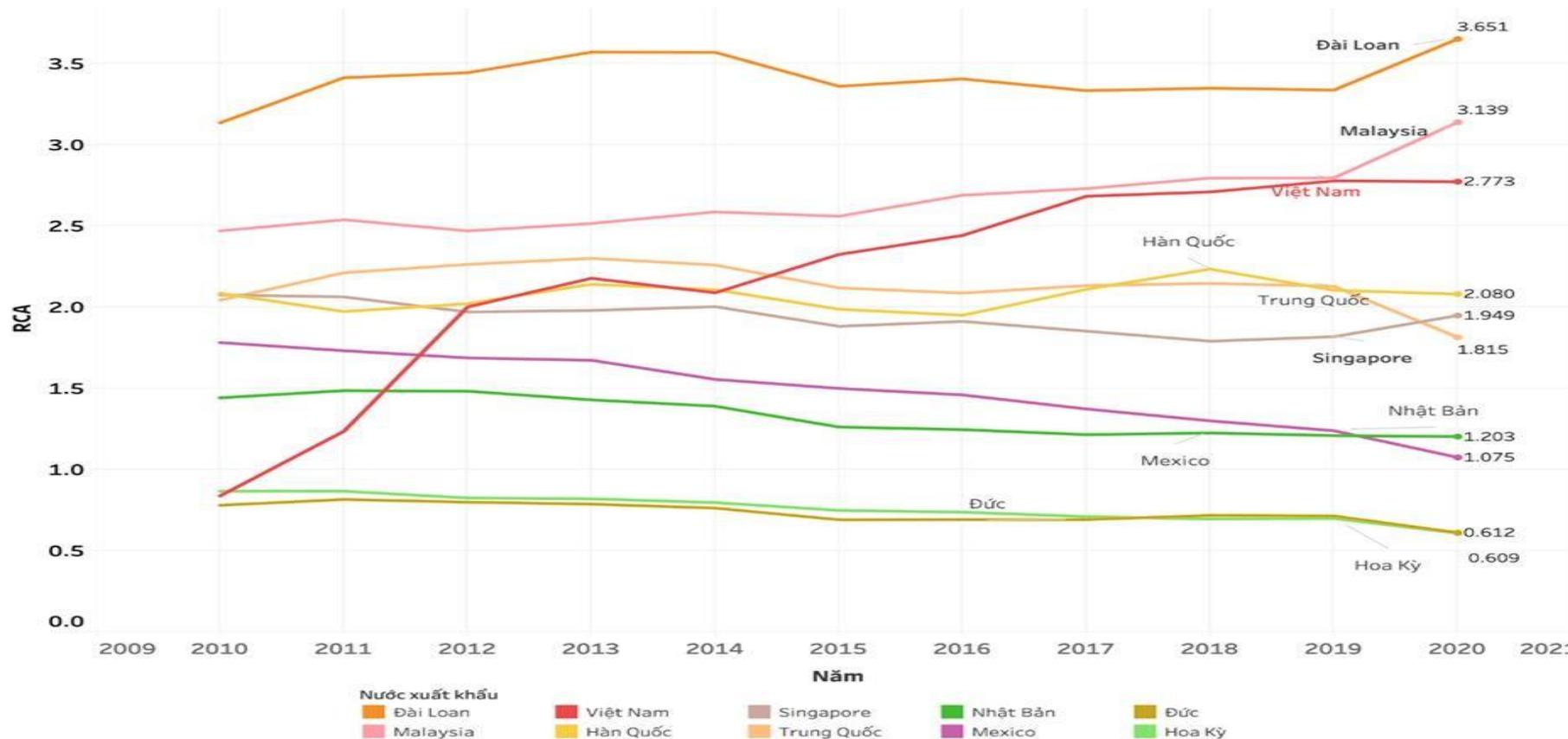
■ EI's consumption index

Manufacturing and Consumption Index Trend for Viet Nam's Electronics Industry

Source: Viet Nam Statistics Yearbook (GSO)



COMPARATIVE ADVANTAGE



Ranked 5th in the world in 2020

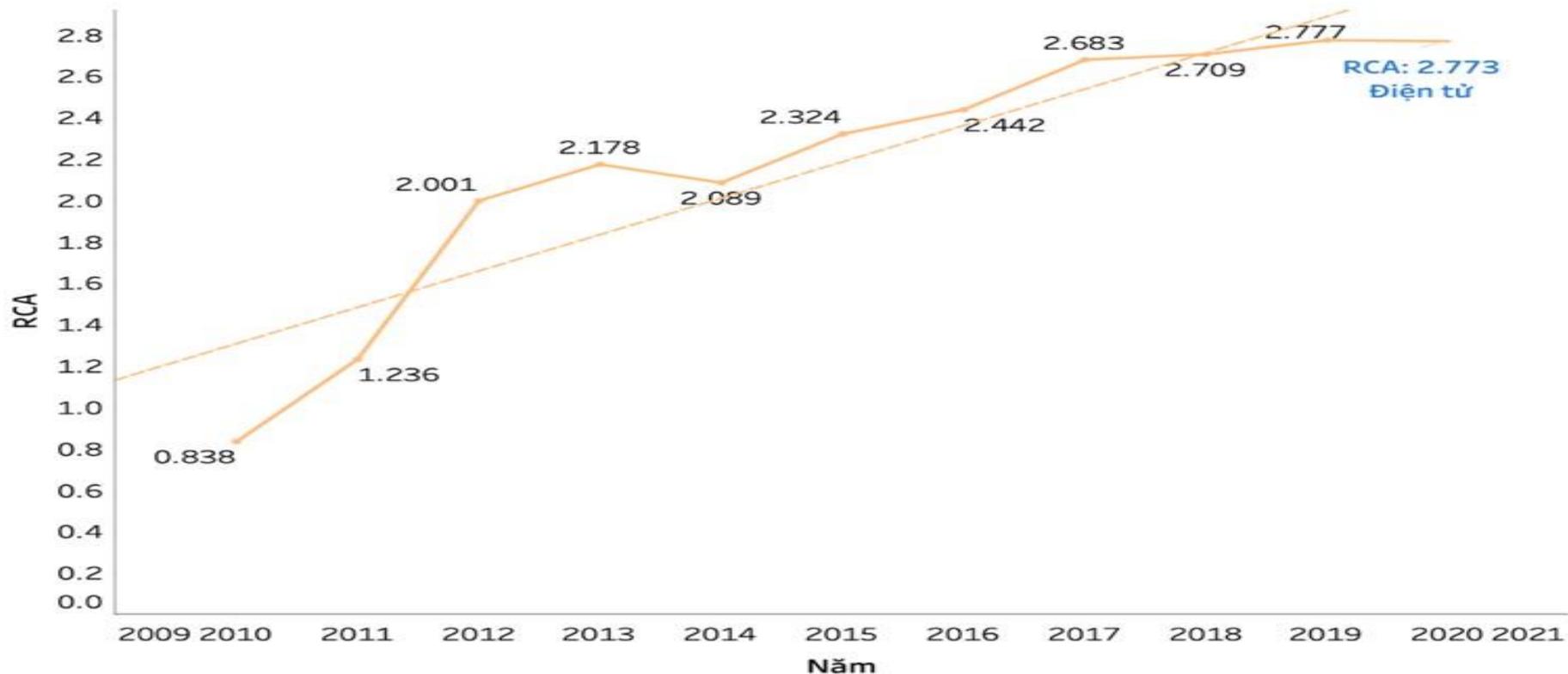
Ranked 3rd in the world over the whole period

RCA of Viet Nam's Electronics products compared to the world's top ten exporters during 2010 – 2020

Source: Authors' calculations, based on BACI & UN COMTRADE, 2021



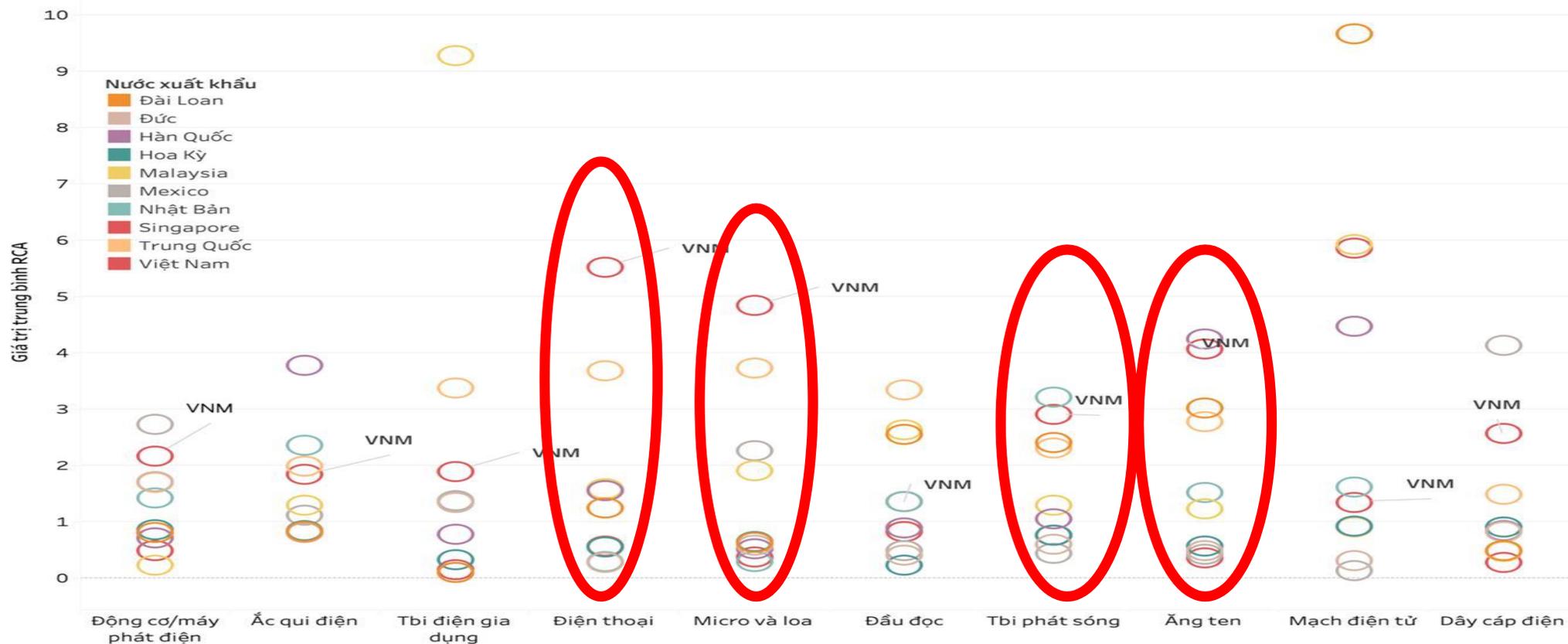
COMPARATIVE ADVANTAGE



Growing trend of Vietnam's Electronics products RCA
Source: Authors' calculations, based on BACI & UN COMTRADE, 2021.



COMPARATIVE ADVANTAGE



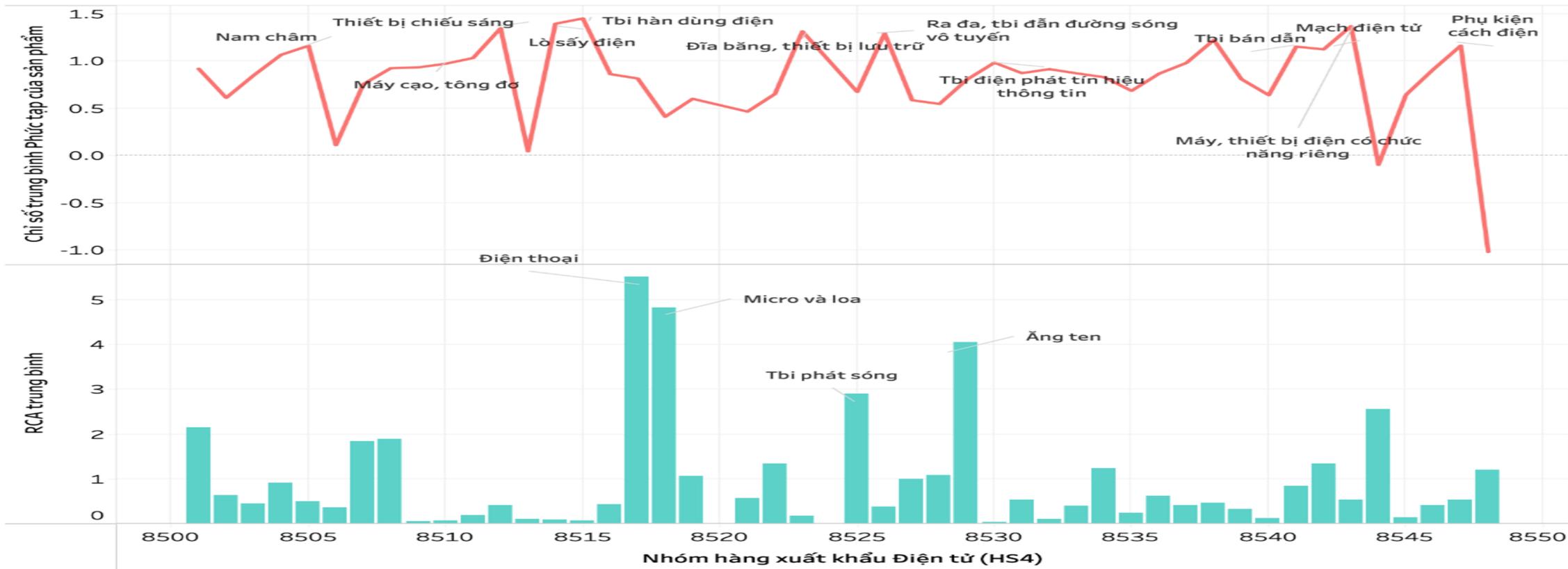
Average RCA of Top 10 Vietnam's Electronics Products compared with world major exporters for Electronics Products (2010-2020)

Source: Authors' calculations, based on BACI & UN COMTRADE, 2021



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PRODUCT COMPLEXITY INDEX (PCI)



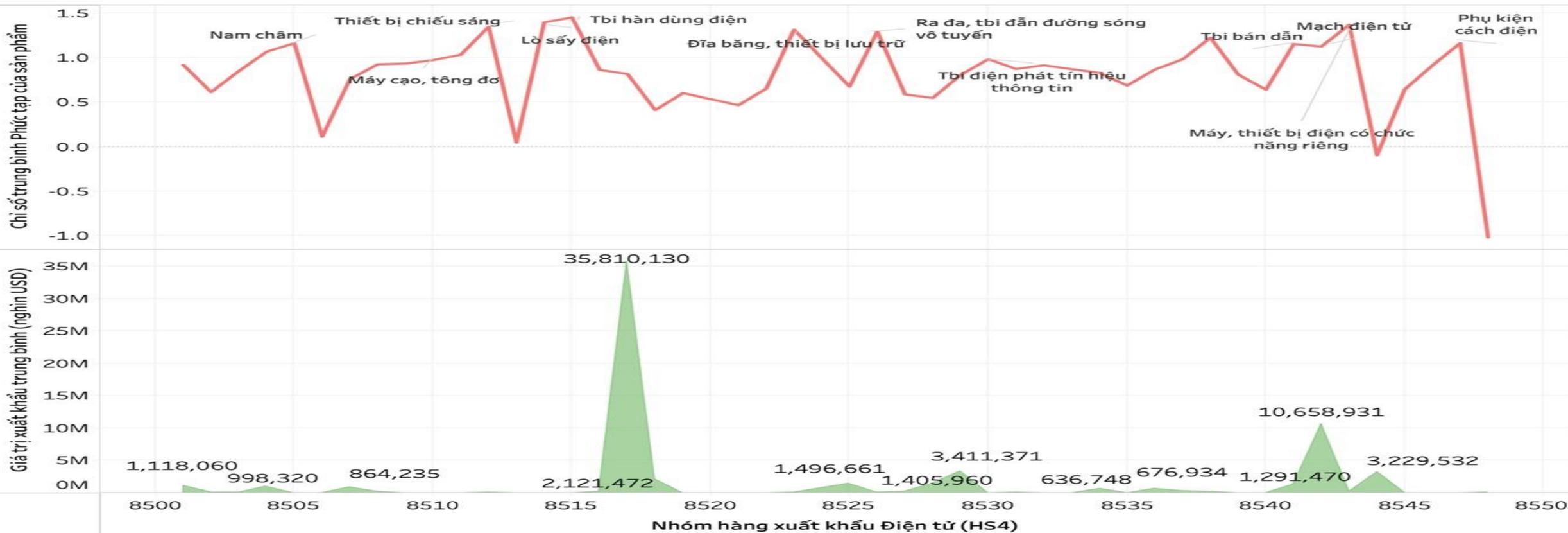
Average PCI and RCA of Vietnam's Electronics Products (2010-2020)

Source: Authors' calculations, based on BACI & UN COMTRADE, 2021.



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PRODUCT COMPLEXITY INDEX (PCI)

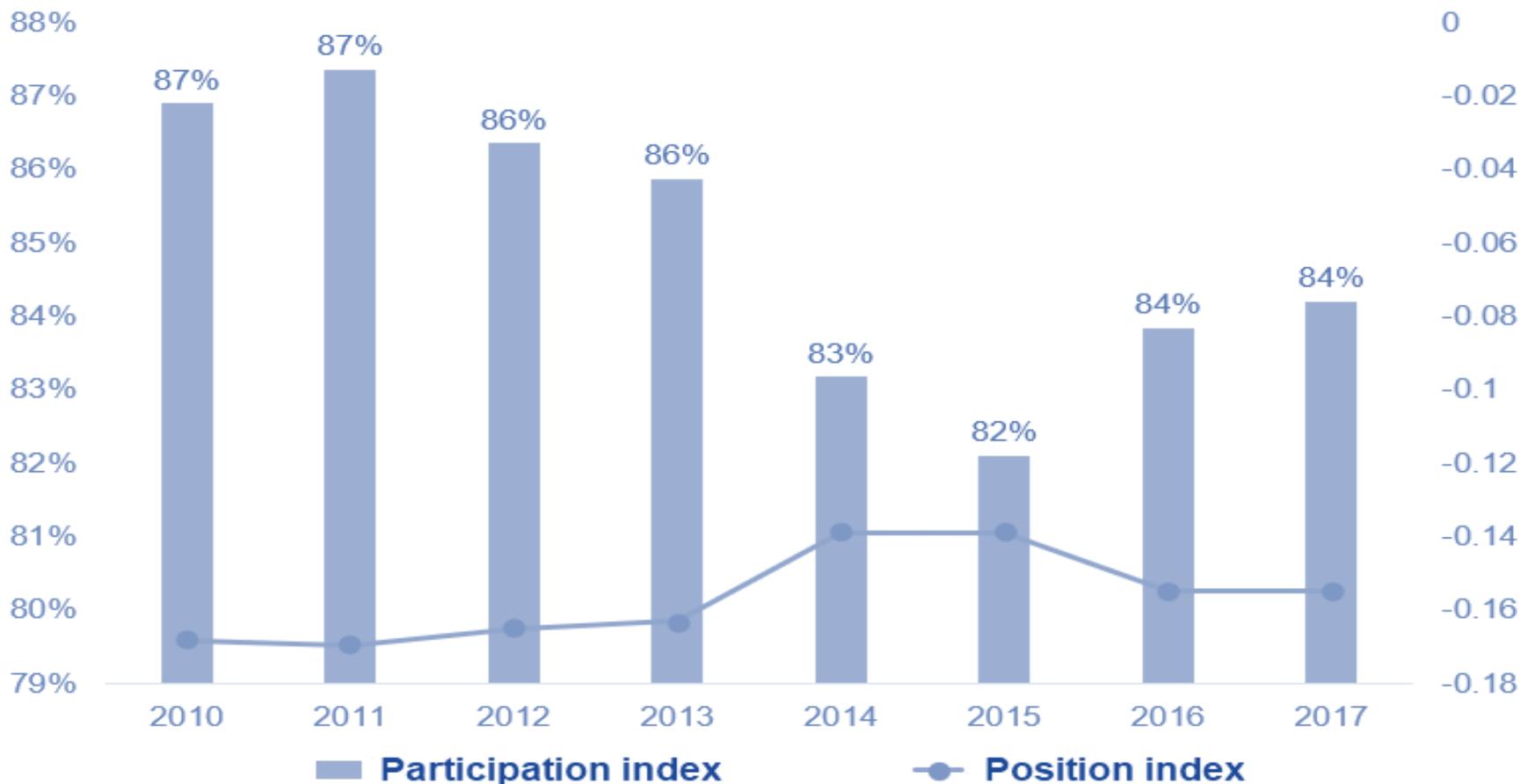


Average PCI and export value of Vietnam's Electronics Products (2010-2020)

Source: Authors' calculations, based on BACI & UN COMTRADE, 2021



PARTICIPATION OF VIETNAM IN EGVC

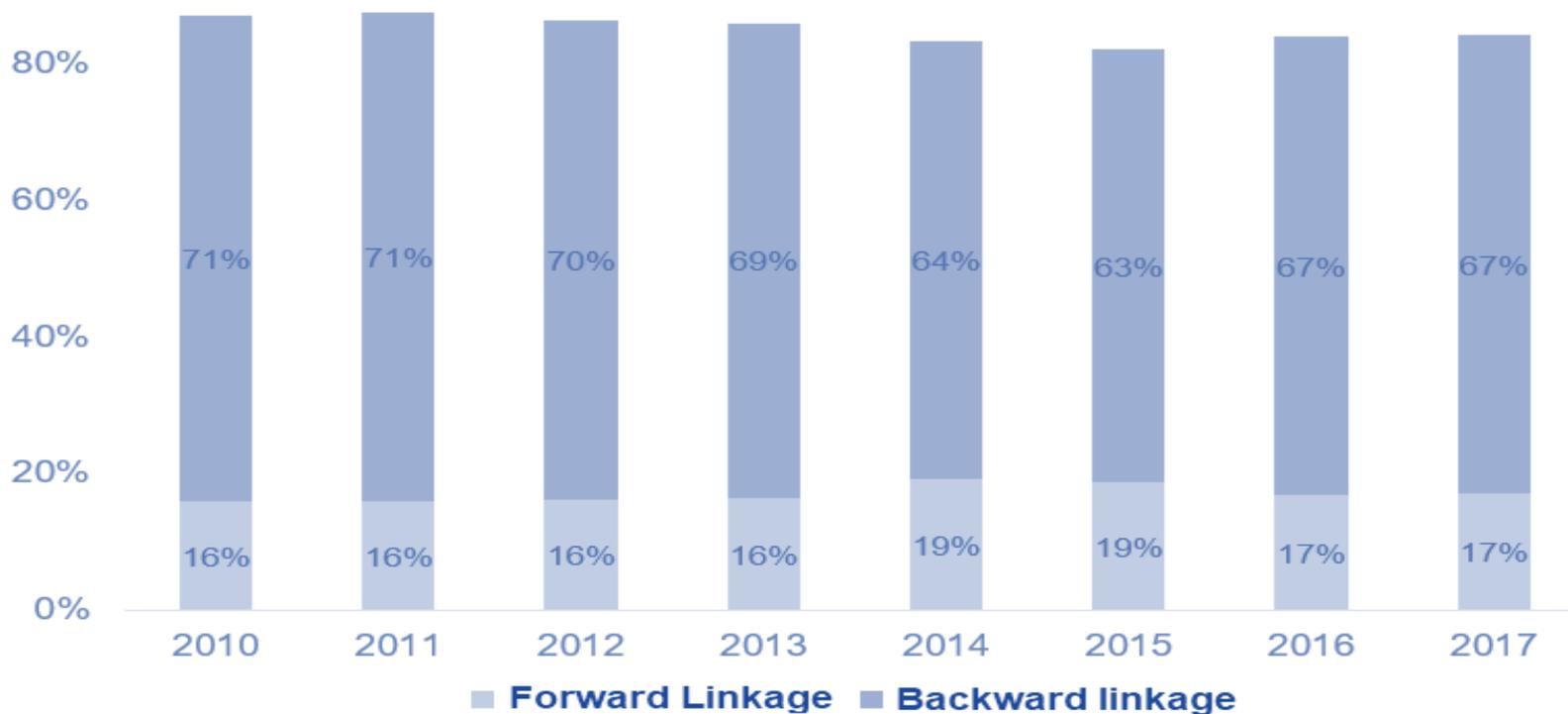


Vietnam's participation and position indexes in EGVC

Source: Author's calculations from UNCTAD-MRIO database.



PARTICIPATION OF VIETNAM IN EGVC



Composition of Vietnam's participation in EGVC

Source: Author's calculations from UNCTAD-MRIO database.

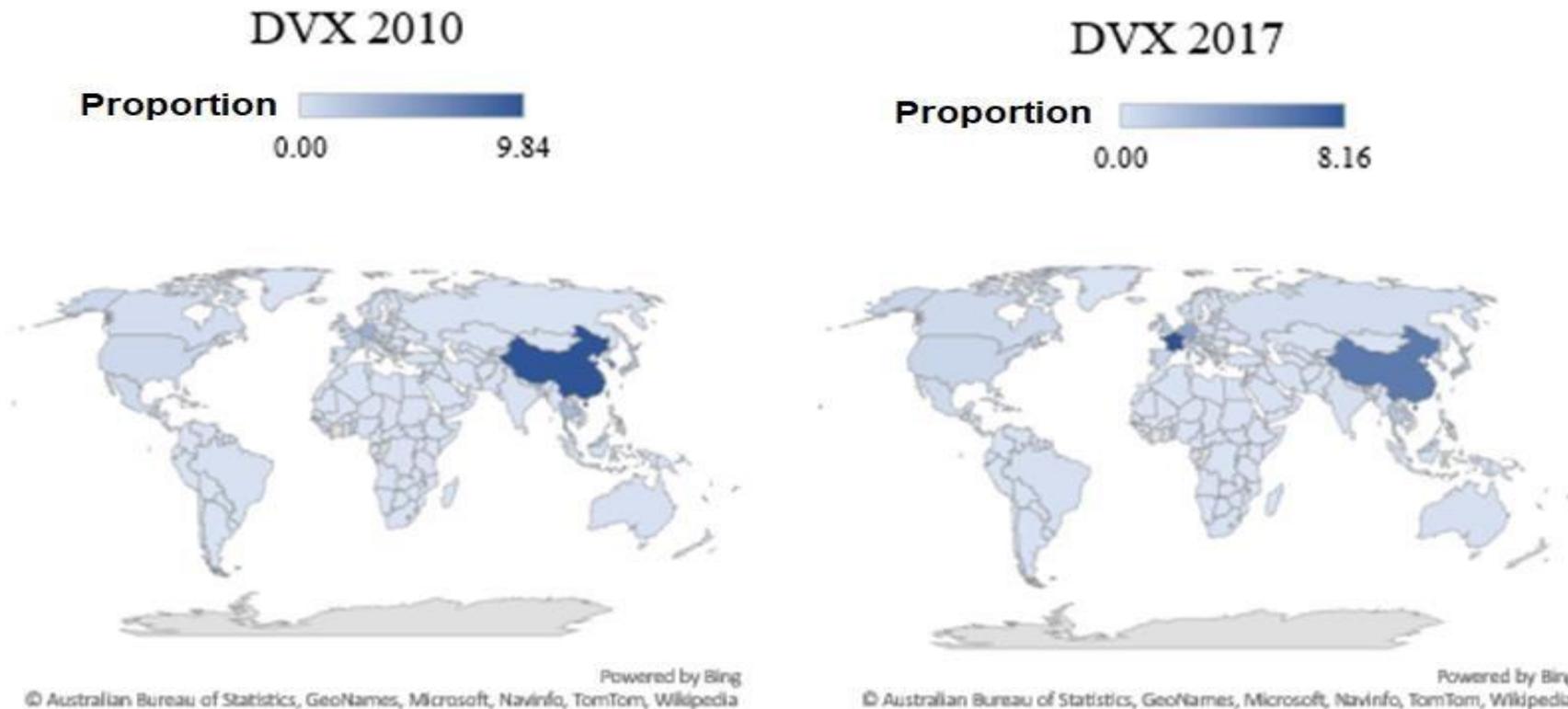


PARTICIPATION OF VIETNAM IN EGVC

- The "overwhelming" of FDI enterprises in the export of Vietnam's electronics goods, accounting for 95% of the total export turnover in 2020
- The current localization rate of the electronics industry is very low, only about 5-10%.
- Some explanations such as:
 1. Vietnamese enterprises have not yet met the very high standards of the global producers in the value chain;
 2. Low quality of human resources;
 3. Global enterprises often have business practice choosing suppliers that are familiar or of the same nationality as them;
 4. Vietnam still has to rely heavily on imported basic materials such as manufactured steel, plastics,...

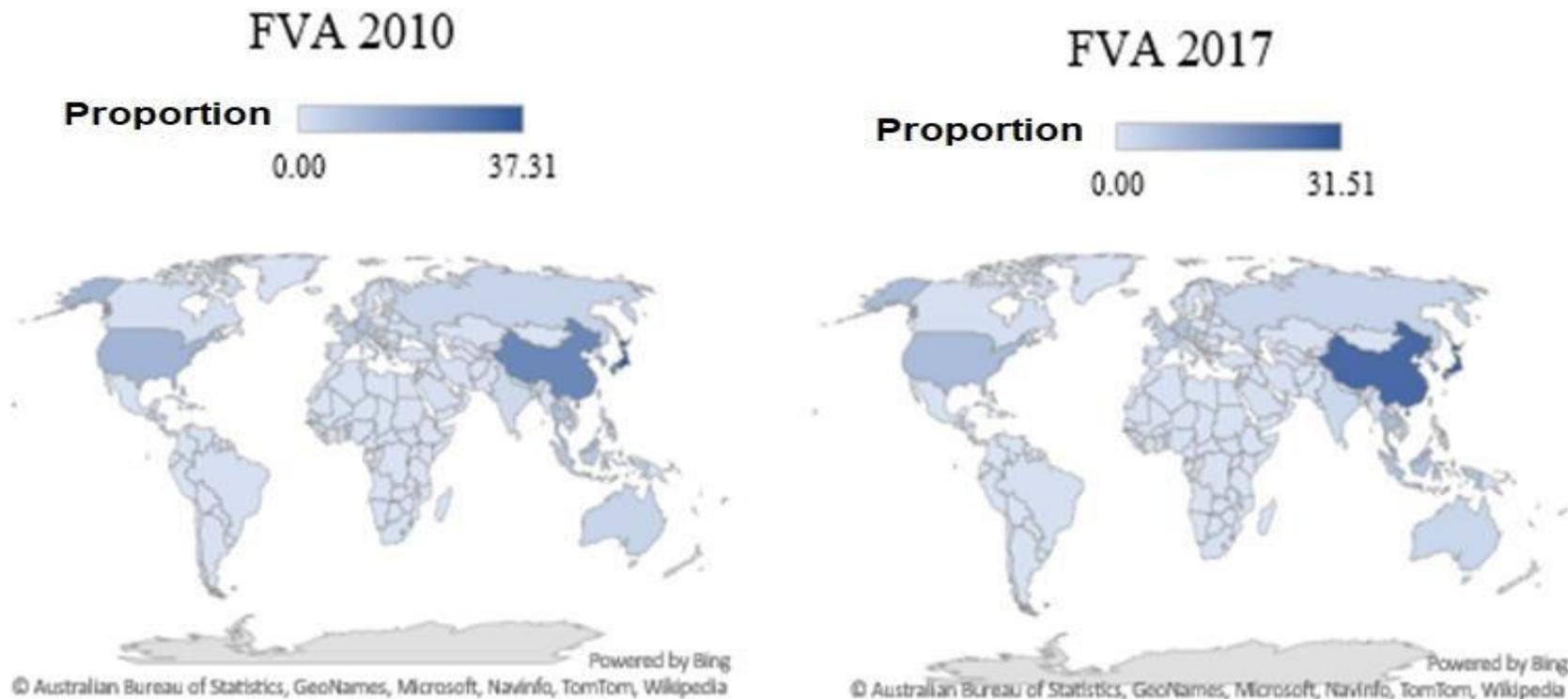


PARTICIPATION OF VIETNAM IN UPSTREAM EGVC



Proportions of domestic value-added in Vietnam's electronic exports abroad and continued to be exported to third countries (%) in 2010 and 2017

Source: Author's calculations from UNCTAD-MRIO database.

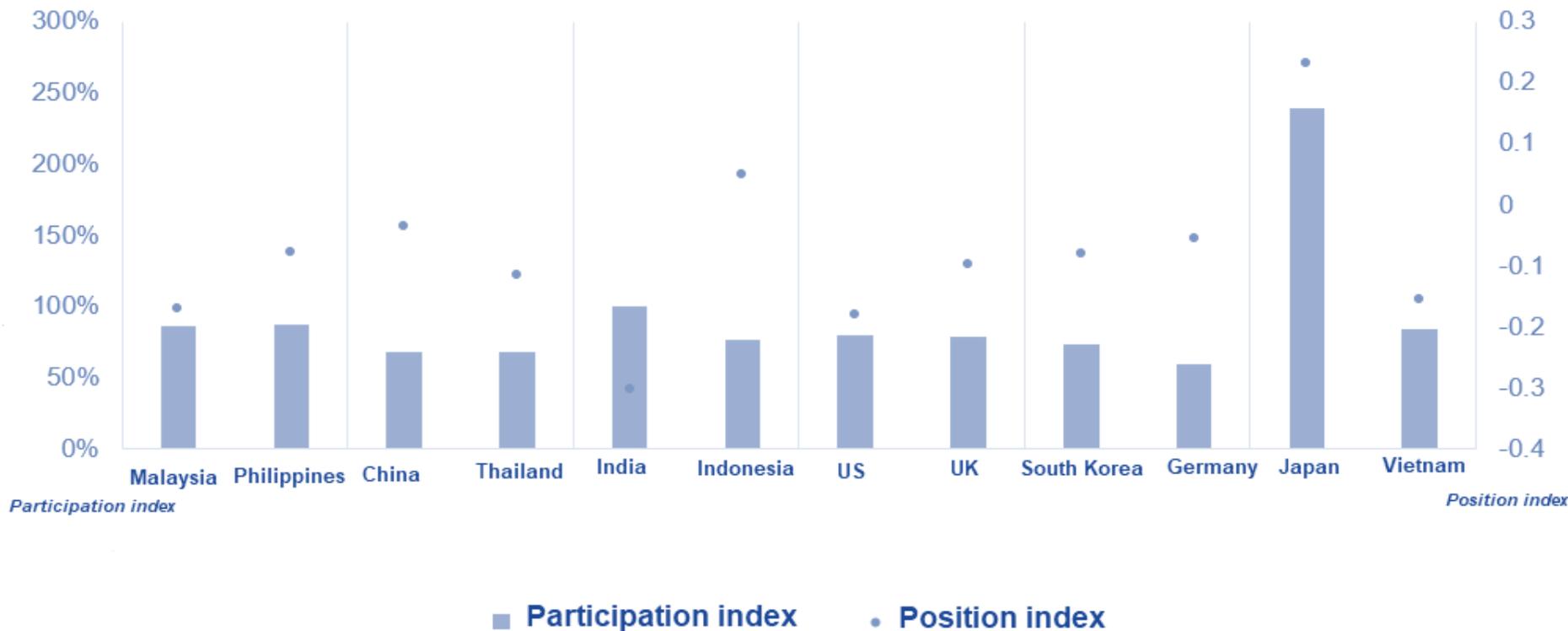


Proportions of foreign value-added in Vietnam's electronics exports (%) in 2010 and 2017

Source: Author's calculations from UNCTAD-MRIO database.



PARTICIPATION OF COUNTRIES IN EGVC IN 2017



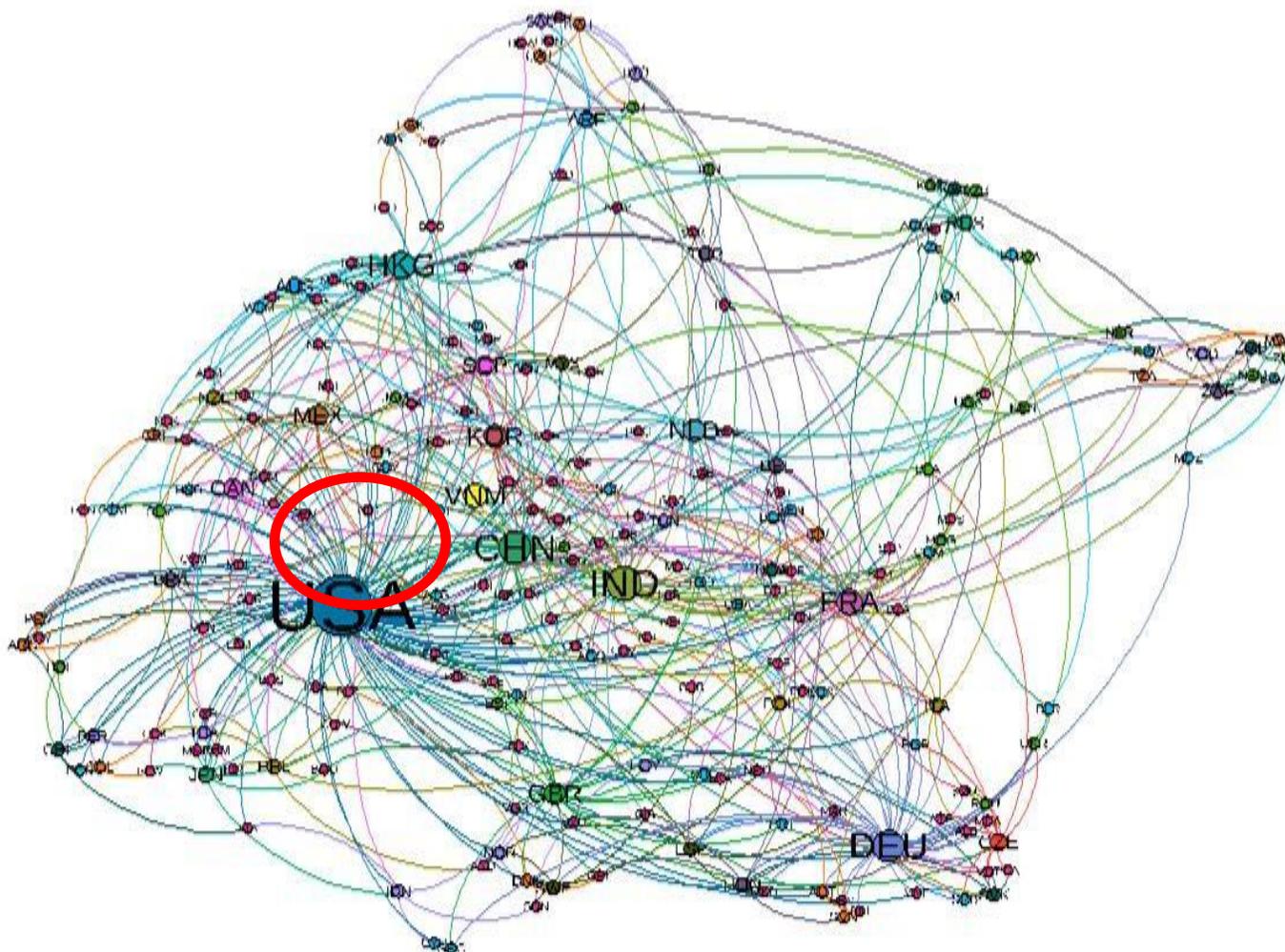
Country's participation and position indexes in EGVC in 2017

Source: Author's calculations from UNCTAD-MRIO database



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PRONETWORK OF WORLD TRADE IN ELECTRONIC DUCTS



Network of World Trade in Electronics Products (2020)

Source: Authors' calculations, based on BACI & UN COMTRADE, 2021



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3. Vietnam's Comparative Advantage and GVC Participation in the Food industry



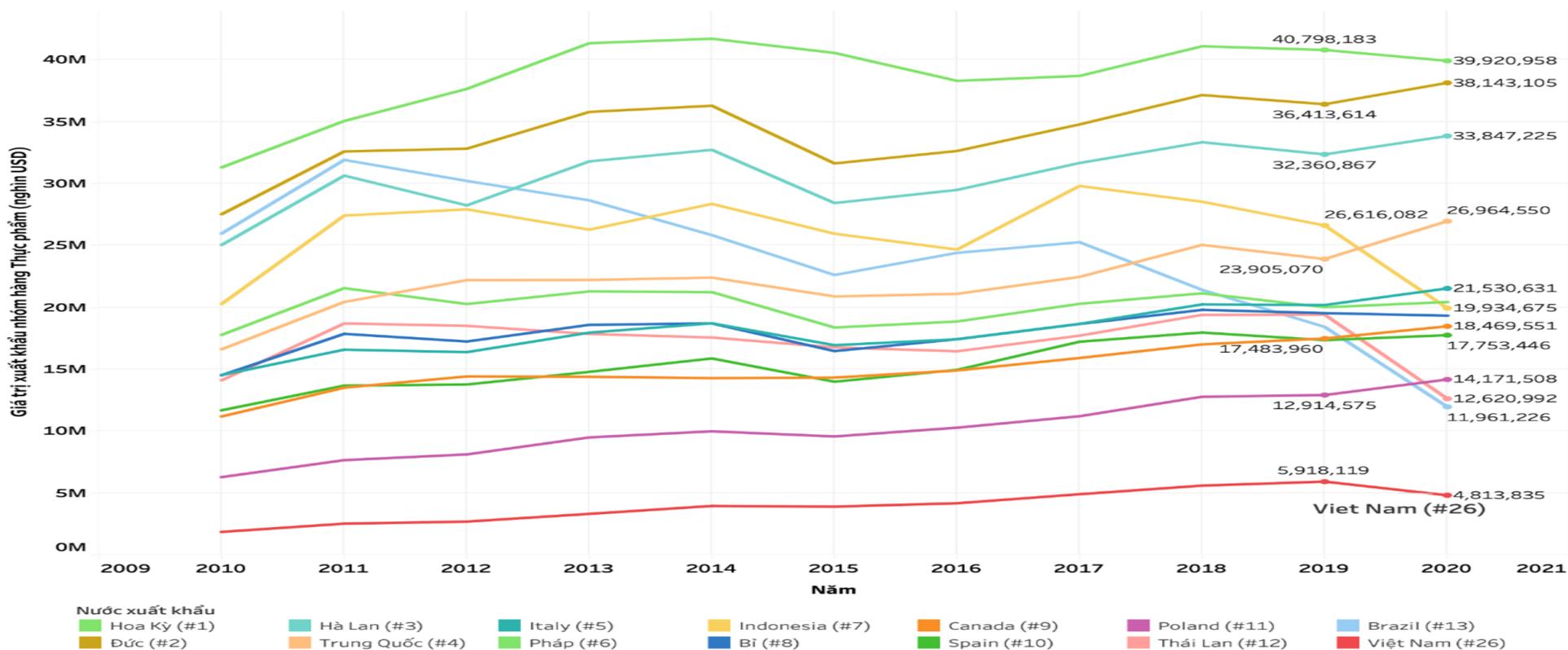
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Overview of Food Industry

- Plays an important role for the socio-economic development in Viet Nam
- Has the largest number of enterprises
- Creates the 4th largest jobs, following textile-apparel, leather-shoes and electronics industries
- Earns the 2nd largest profit before tax among manufacturing industries
- Transforms from net-importer into net exporter



Overview of Food Industry (FI)



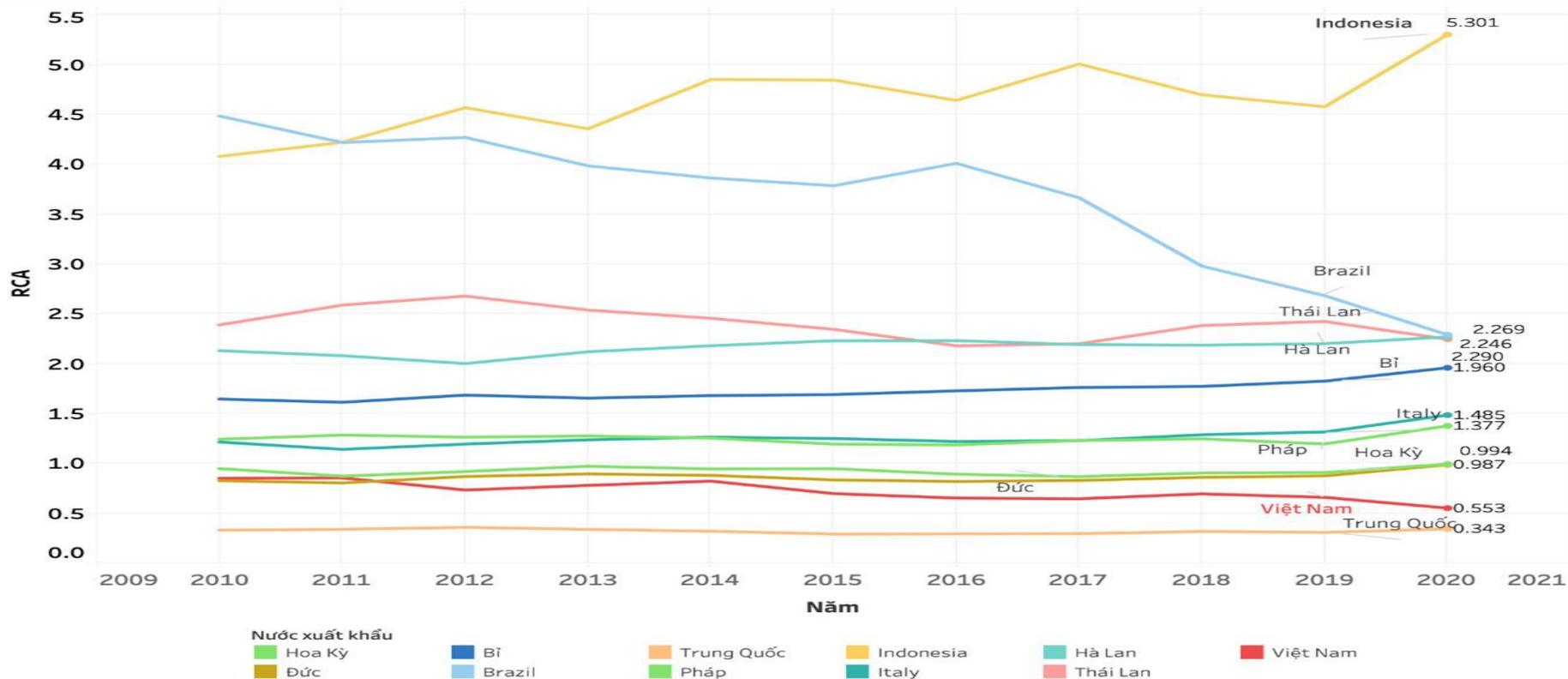
- Ranked the 11th in Viet Nam
- Ranked the 26th in 2020 in the world

Viet Nam's FI exports compared to the world's top exporters during 2010 - 2020

Source: Authors' own calculation based on data from BACI and UN COMTRADE (2021)



COMPARATIVE ADVANTAGE

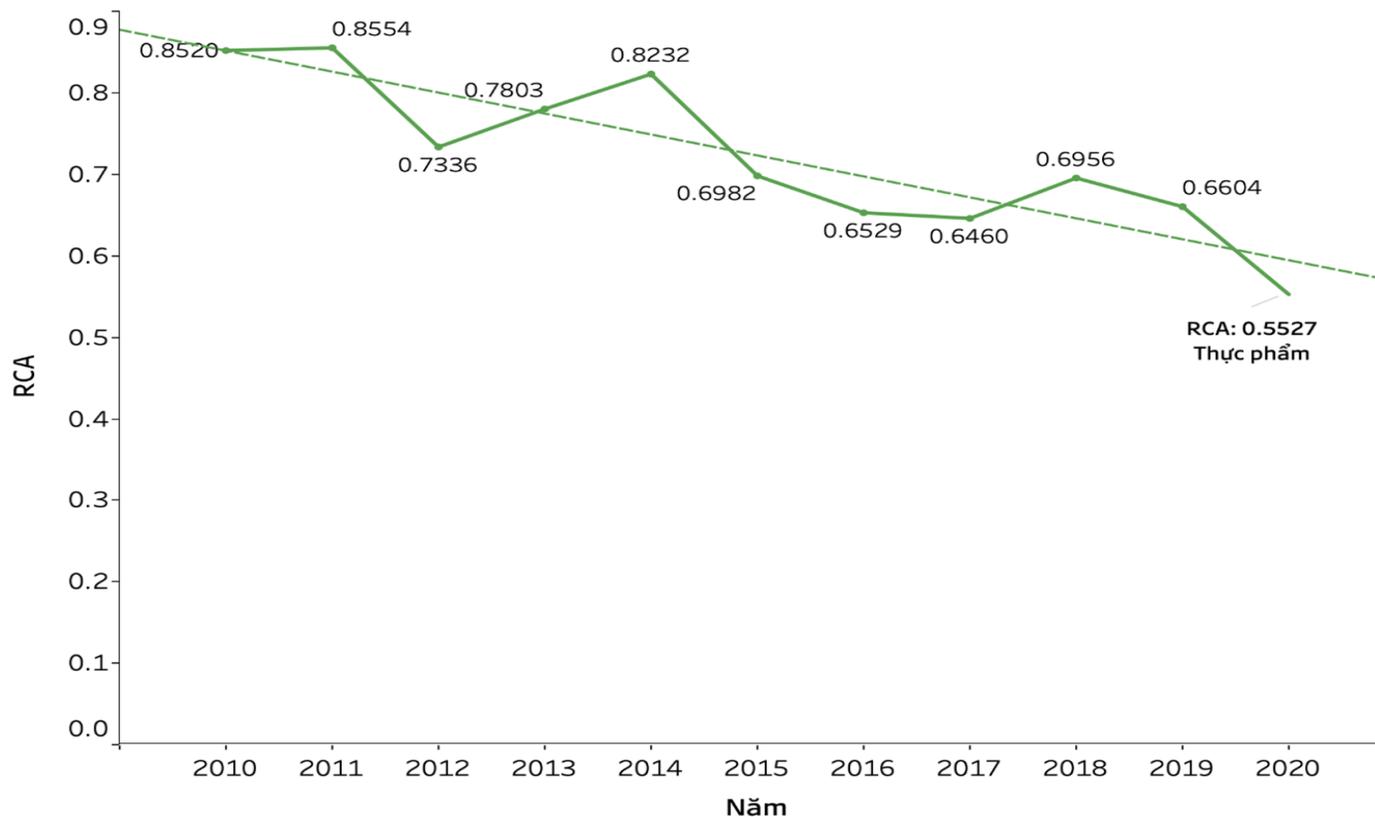


RCA of Viet Nam’s Food products compared to the world’s top ten exporters during 2010 – 2020

Source: Authors’ calculations, based on BACI & UN COMTRADE, 2021



COMPARATIVE ADVANTAGE



Decline trend of Vietnam's Food Products RCA

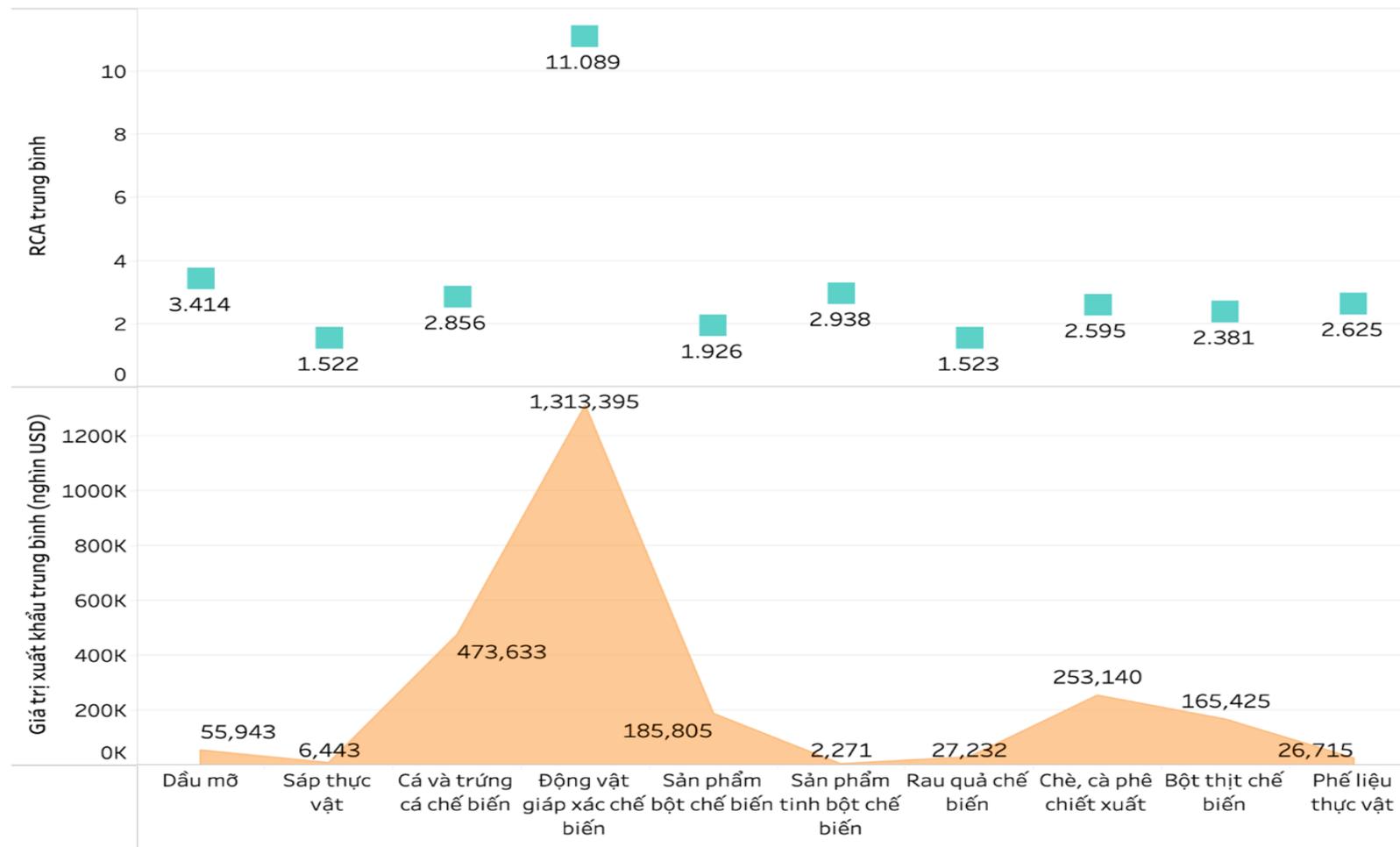
Source: Authors' calculations, based on BACI & UN COMTRADE, 2021



COMPARATIVE ADVANTAGE

Average RCA and Export value of Vietnam's Food Products (2010-2020)

Source: Authors' calculations, based on BACI & UN COMTRADE, 2021

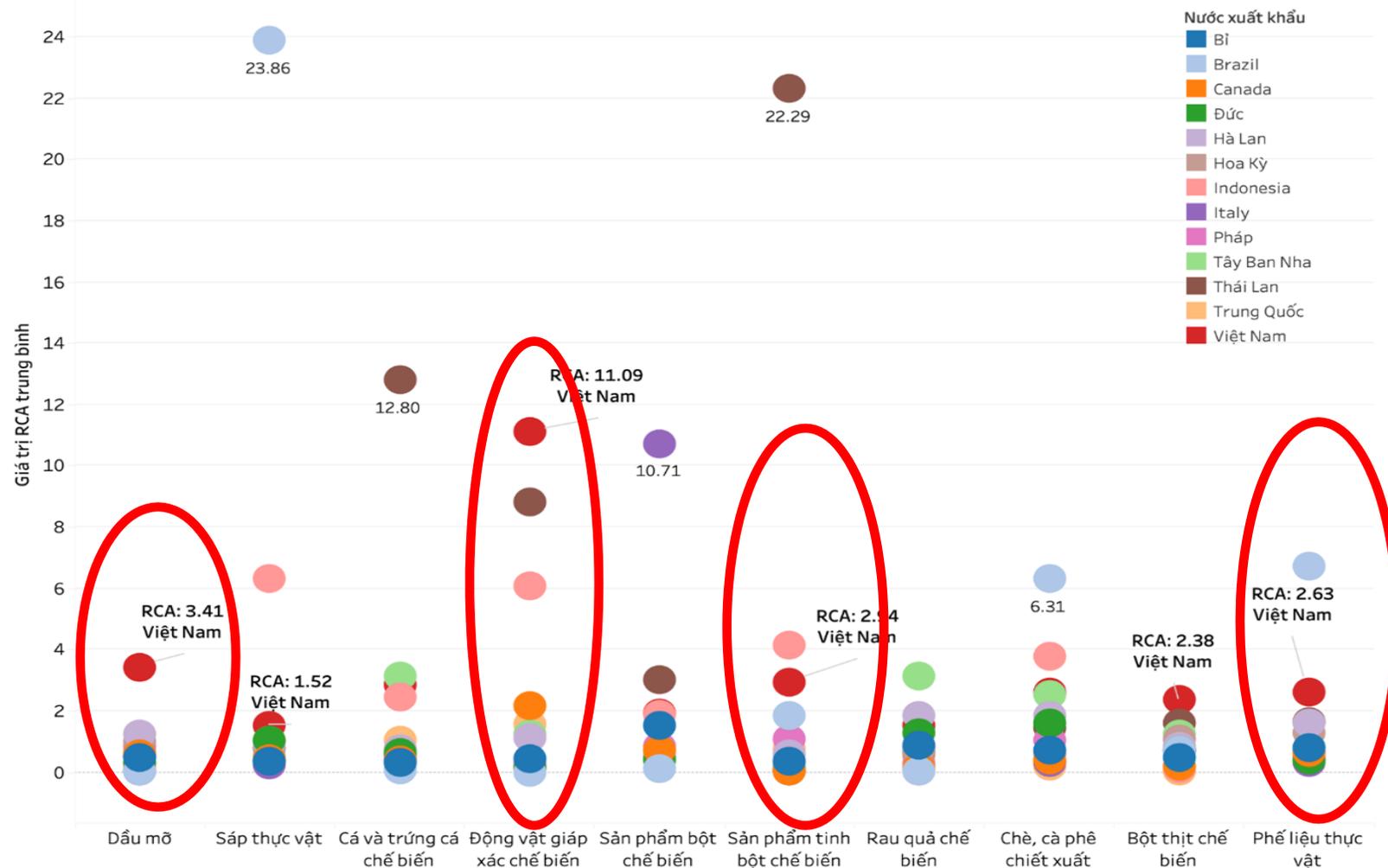




COMPARATIVE ADVANTAGE

Average RCA of Top 10 Vietnam's Food Products compared with world major exporters for Food Products (2010-2020)

Source: Authors' calculations, based on BACI & UN COMTRADE, 2021



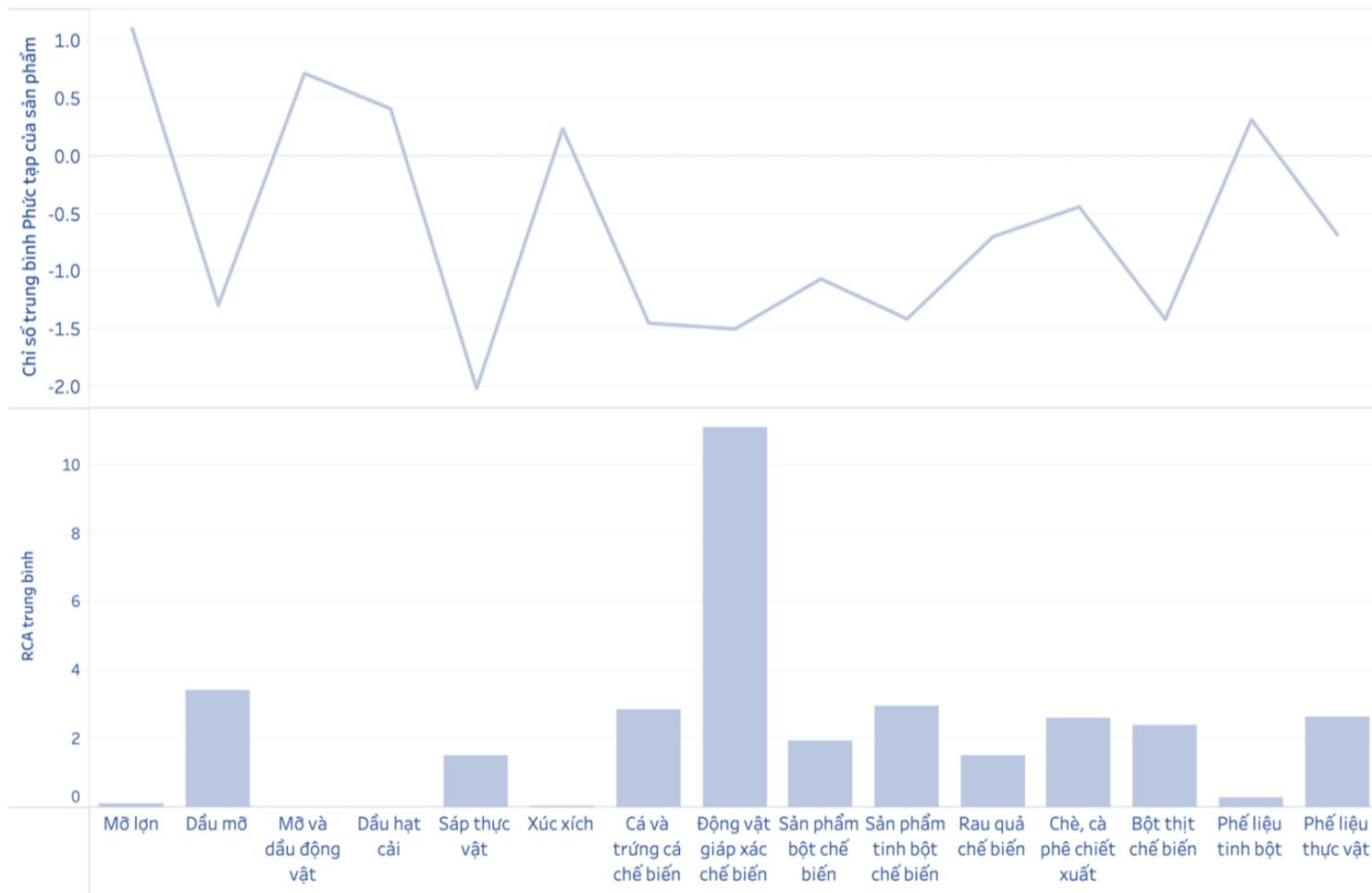


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COMPARATIVE ADVANTAGE

Average PCI and RCA of Vietnam's Food Products (2010-2020)

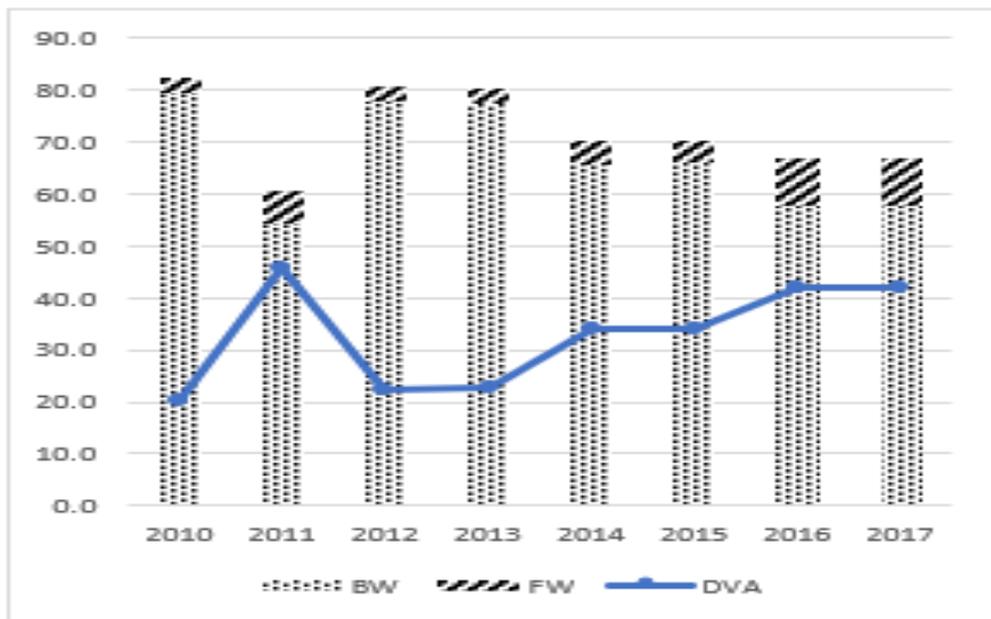
Source: Authors' calculations, based on BACI & UN COMTRADE, 2021



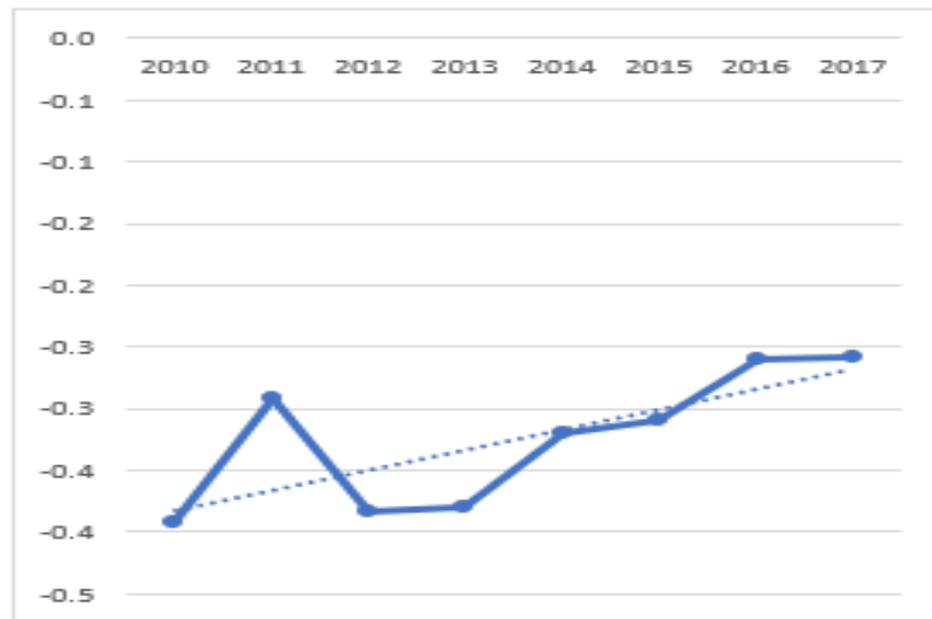


Vietnam's participation in food GVCs

a. Food GVC participation index and share of domestic value-added (%)



b. Vietnam's position in Food GVCs



Vietnam's participation and position in food GVCs

Source: Author's calculations from UNCTAD-MRIO databases



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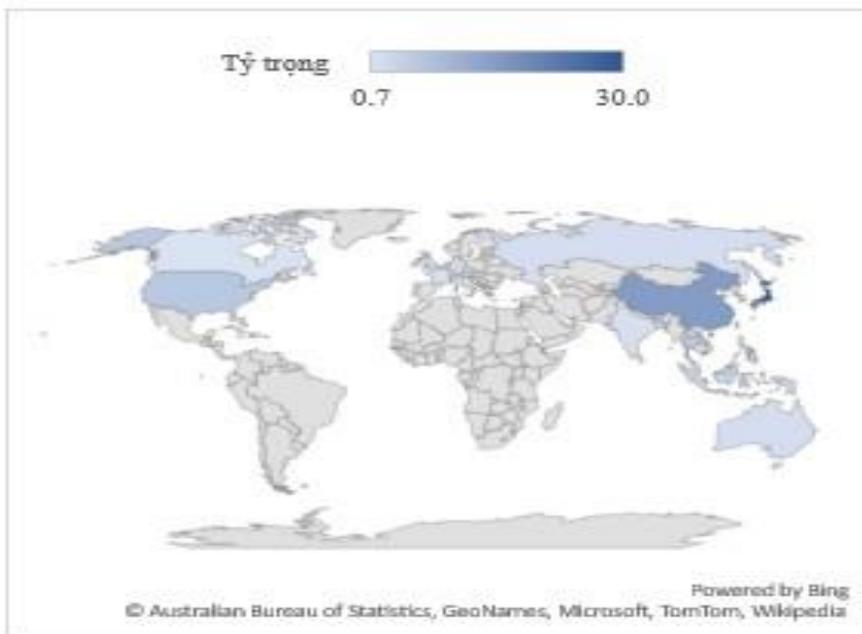
Vietnam's participation in food GVCs

- The leading enterprises in the industry are mostly Vietnamese private enterprises, especially in the seafood processing sub-sector.
- According to VN-Report 2020 ranking of TOP 500 largest enterprises in Vietnam:
 - The food industry has 23 enterprises,
 - In which, the number of enterprises in TOP 100, 200, 300, 400, 500 is 5, 5, 5, 5, 3 respectively.
 - 18 of the above 23 enterprises are Vietnamese enterprises, of which there are 15 private enterprises and three state-owned enterprises
- Since the food industry's exports are geared toward direct consumption rather than as inputs for export processing abroad, the upstream participation of the industry is somewhat modest.

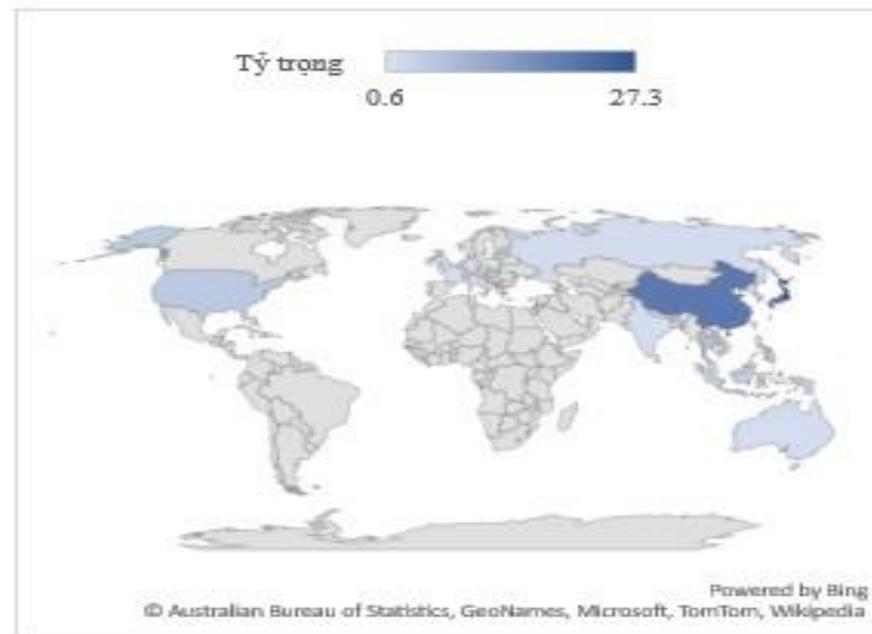


Vietnam's participation in food GVCs

a. FVA2010



FVA2017



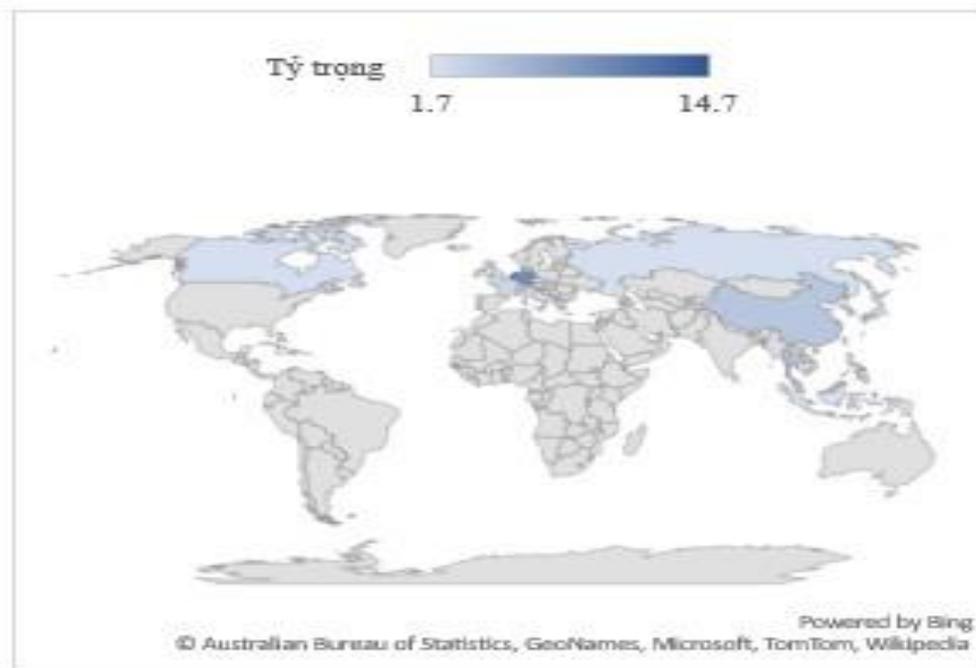
Value added exports of food from Vietnam, by value added creator, 2010, 2018 [%]

Source: Author's calculations from UNCTAD-MRIO databases

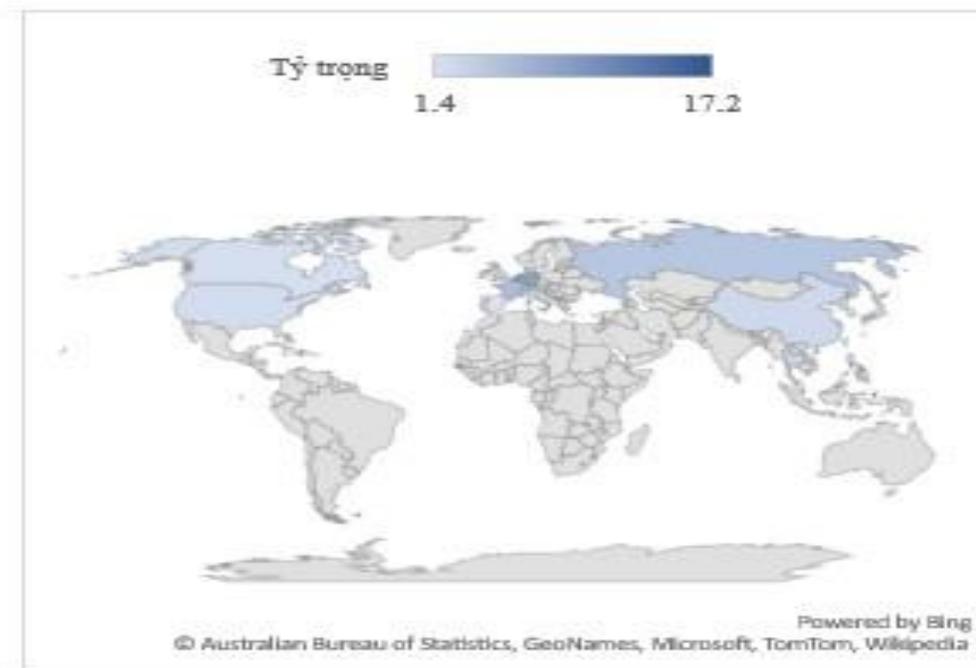


Vietnam's participation in food GVCs

a. DVX2010



b. DVX2017



Vietnam's value-added food exports incorporated in other countries' exports, by country, 2010, 2018 [%]

Source: Author's calculations from UNCTAD-MRIO databases

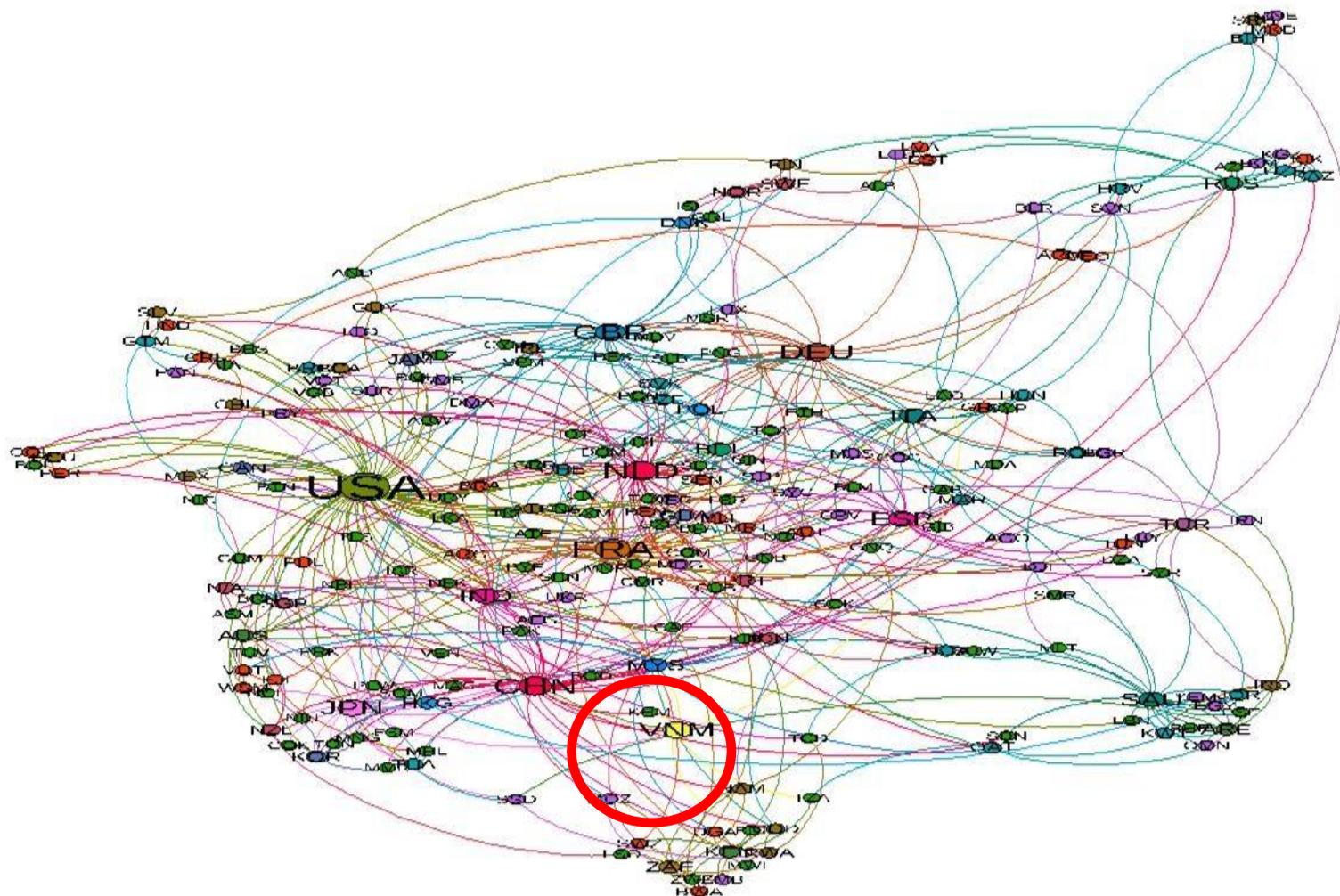


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NETWORK OF WORLD TRADE IN FOOD PRODUCTS

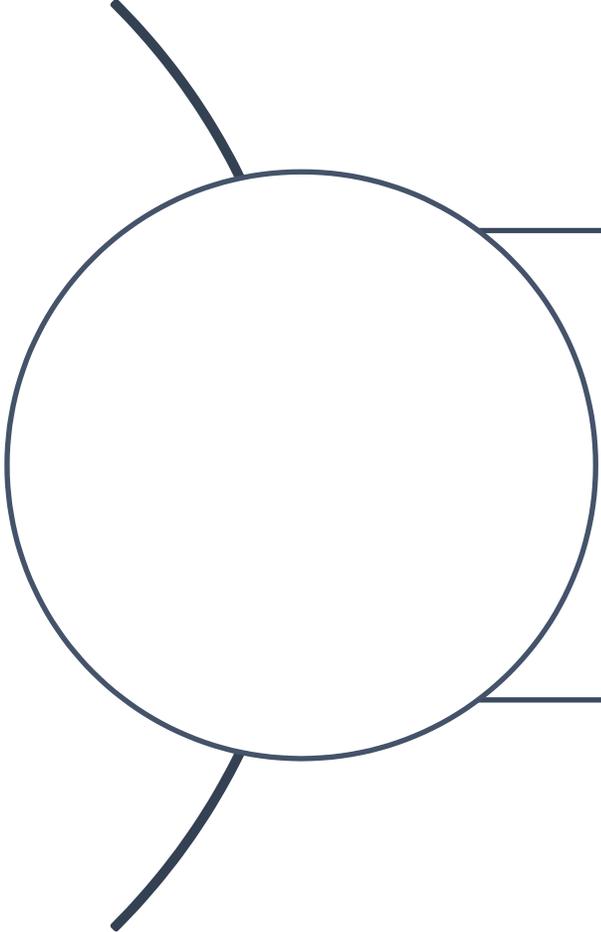
Network of World Trade in Food Products (2020)

Source: Authors' calculations, based on BACI & UN COMTRADE, 2021





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4. Assessment, Prospects and Recommendations



1. Vietnam has been creating premise advantages to build up its position in the global marketplace

- Trade and investment will continue to be the premise advantages that Vietnam needs to exploit to enhance its position in the international market.
- In 2020, Vietnam had a comparative advantage in 6/20 groups of goods. In which, two industries are Shoes, sandals, hats and Machinery & electronic equipment, have potential breakthroughs to heighten Vietnam's position in the world market.
- Although still located downstream in GVCs, Vietnam's position has begun to improve and moved towards a more upstream position.
- Vietnam is highly concentrated around four major hubs of the GVCs, namely Northeast Asia, EU, North America, and ASEAN. In there, the FVA partnership structure is more regional than global. Meanwhile, the DVX partnership structure is more inter-regional, more global.



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GENERAL ASSESSMENTS AND OUTLOOK OF VIETNAM ADVANTAGES

2. The challenge of declining comparative advantage and participation in GVC

Comparative advantage:

- 2010-2019: RCA of most export industries tends to decrease, except Electronics
- 2020: Comparative advantage of all industry groups declines
- Loss of advantage in agricultural products
- High RCA from FDI sectors
- No advantage in industries related to input materials
- Wide gap in comparative advantage between Vietnam and leading nations within ASEAN and in the world. Expanding gap in 2020
- 2020: Declining in RCA worldwide rank with 4/6 industries with advantage (excluding Footwear and Electronics)
- Vietnam has not taken full advantage of its effective strategies for control the pandemic and newly signed FTAs to improve its position in the GVCs during the pandemic



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GENERAL ASSESSMENTS AND OUTLOOK OF VIETNAM ADVANTAGES

2. The challenge of declining comparative advantage and participation in GVCs

- Participation in GVCs
 - Decrease of level of participation in GVCs
 - Still mainly engage in GVCs downstream activities such as outsourcing and final product assembly, which produce small added values
- Economic background: Digital transformation, FTAs and Investment mobility

3. Outlook

- Only increasing trends of RCA detected for Electronics and Footwear Industries
- For other industries, increasing comparative advantage is more challenging
- The prospects for Vietnam to increase its position in GVCs is optimistic as Vietnam continues to move towards the upstream position in GVCs



1. Viet Nam's Electronics industry has created a firm platform for advancing Viet Nam's position

- Became the largest exporter in Viet Nam and listed in the world's top ten exporting countries in 2019, and 2020; with high export growth rate
- The RCA indicator ranked the 5th in the world in 2020 and remained resilient in spite of the Covid-19 pandemic
- Attracted a large number of the world's electronics giants
- Have good potential for growth
- Bear significant meaning for advancing its position in GEVC as value added exports increase steadily and upstream position is enhanced



2. However, Vietnam also faces many challenges

- The level of participation in EGVC slightly decreased
- Low localization rate
- The complexity of the export product is low
- FDI enterprises are the main participants in EGVC

3. Prospects

- The comparative advantage of Vietnam's electronics industry is likely to continue to improve in the international market.
- Vietnam still be mainly located downstream of the value chain but will increasingly towards the upstream position, bringing more value-added to the country



1. An industry with a lot of potential for growth

- Having a large export volume: ranked 11th in Vietnam from 2015 up to now, the world ranking continuously increased and ranked 26th in 2020
- There is no comparative advantage over the entire food industry group but a high comparative advantage in the world market with some products such as processed crustaceans, fats and oils, and processed fish and caviar.
- Have the highest GVC participation index
- Domestic private enterprises are the major and leading participants participating in GVCs

3. Prospects

- The position in GVCs is likely to improve as the capacity of the domestic manufacturing sector has improved
- However, Vietnam's competitive advantage position for export food products is likely to decrease if Vietnam does not have appropriate policies in the context of severely harsh international competition in this commodity group.



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VIETNAM ANNUAL ECONOMIC REPORT 2021

IMPROVING COMPETITIVENESS FOR PRODUCTIVITY AND GROWTH EFFICIENCY



VEPR CONTENTS

01

Assessment of the competitiveness of Vietnam in 2020, relatively in comparison with other countries in the region, and through perspective of enterprises and household business in the context of the outbreak of Covid-19 disease.

02

Identifying problems and shortcomings of Vietnam competitiveness in the new context, especially the role of competitiveness in improving the quality of growth associated with innovation and industrialization 4.0 as well as the difficulties of the global business environment.

03

Policy recommendation to improve competitiveness associated with productivity and efficiency of the economy in the new context.



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Improving Vietnam's economy competitiveness based on international assessment indicators

- ***Institutional reform to improve Vietnam's economy position and competitiveness*** based on international assessment indicators, in comparison with other countries in the region, is a new approach of the Government of Vietnam which is highly appreciated and supported by the domestic and foreign business community.
- MTKD – Doing Business (WB)
- **Global Competitiveness Index in IR 4.0 (WEF)**
- **Readiness for the future production (WEF)**
- **Global Innovation Index (WIPO)**
- **Logistics Performance Index (WB)**
- **E - Government (UN)**
- **The travel & tourism competitiveness (WEF)**



Improving Vietnam's economy competitiveness based on international assessment indicators

Thanks to those institutional reforms parallel with implementation policies to improve competitiveness, Vietnam is increasing its competitive ranking in many global ranking.

	Rating index	2016		2017		2018		2019		Data collection period
		Point	Rank	Point	Rank	Point	Rank	Point	Rank	
1	Global Competitiveness Index			57.9	74	58.1	77	61.5	67	Before September of the publication year
2	Doing Business	63.83	82	67.93	68	68.36	69	69.8	70	1/6 years ago => 31/5 year announced
a	Global Innovation Index	35.4	59	38.3	47	37.9	45	38.8	42	Until December before publication year
4	The travel&tourism competitiveness	-	-	3.78	67	-	-	3.9	63	2 years ago
5	Logistics Performance Index	2.98	64			3.27	39			2 years ago
6	E-Government	0.593	89	-	-	0.514	88	-		2 years ago
	Global information security	-	-	0.245	100	-	-	0.693	50	2 years ago
7	Human Development Index	0.68	119	0.685	119	0.69	118	0.693	118	
8	Per capita GDP	5.608	169	5.896	167	6.233	164	6.609	150	



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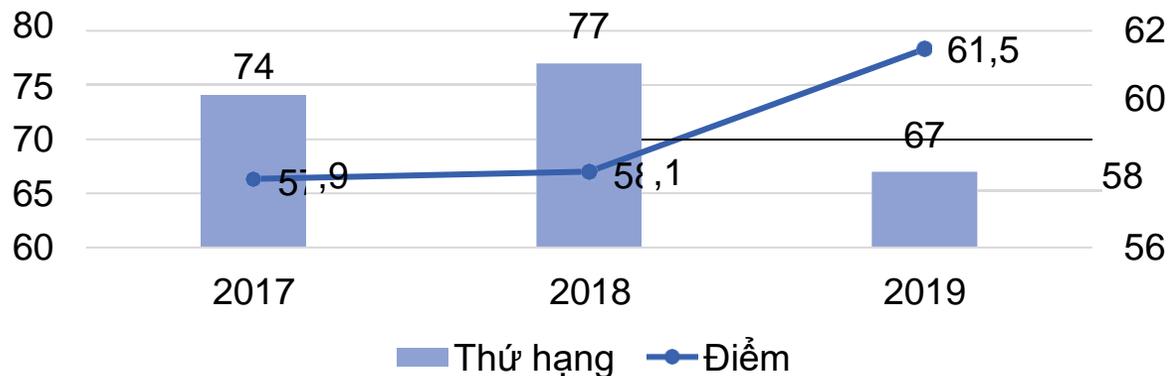
Improving competitiveness indicators and impact on productivity and efficiency

- Social labor productivity (GDP/number of employees) improved in both value and speed.
- Improving the business environment directly contributes to investment growth and business development (shown by the growth in the number of newly-established enterprises, the amount of registered capital, the number of enterprises returning to operation; reduction in number of enterprises dissolved; development of FDI; increase in investment capital of the whole society)
- Thanks to the sophistication of the market, both traditional business sectors and the household business (by 2020 there are more than 5 million household business, not including individuals doing business base on new technology platforms such as e-commerce, technology taxis...) has created more job opportunities and income for employees in recent years.
- Improving competitiveness contributes to transforming economic restructuring effectively.
- Such enhancement of competitiveness has contributed to improving the quality of growth, increasing investment efficiency of the economy through improving TFP.

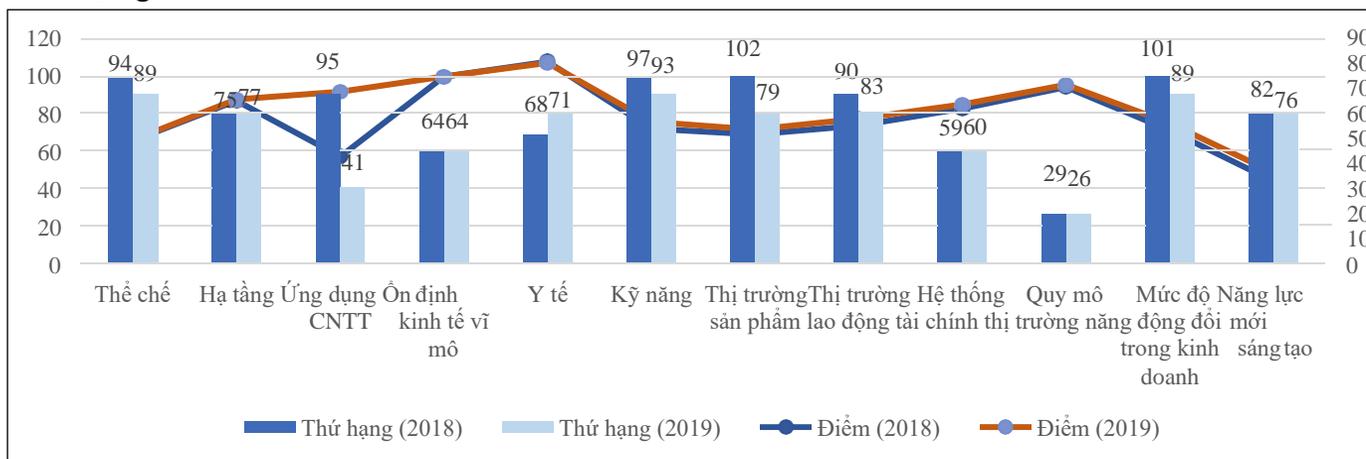
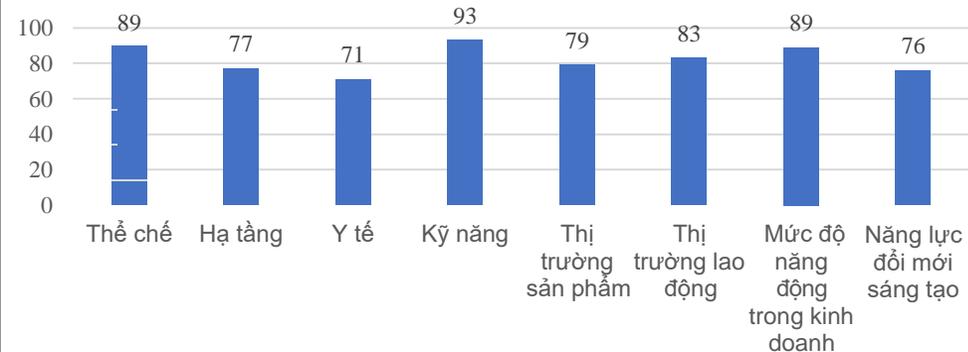


Some of the improvements achieved on national competitiveness

Scores and rankings of national competitiveness



8/12 pillar of competitiveness with very low ranking



Scores and rankings of national competitiveness By Sectors (18-19)

Source: World Economic Forum, Global Competitiveness Report

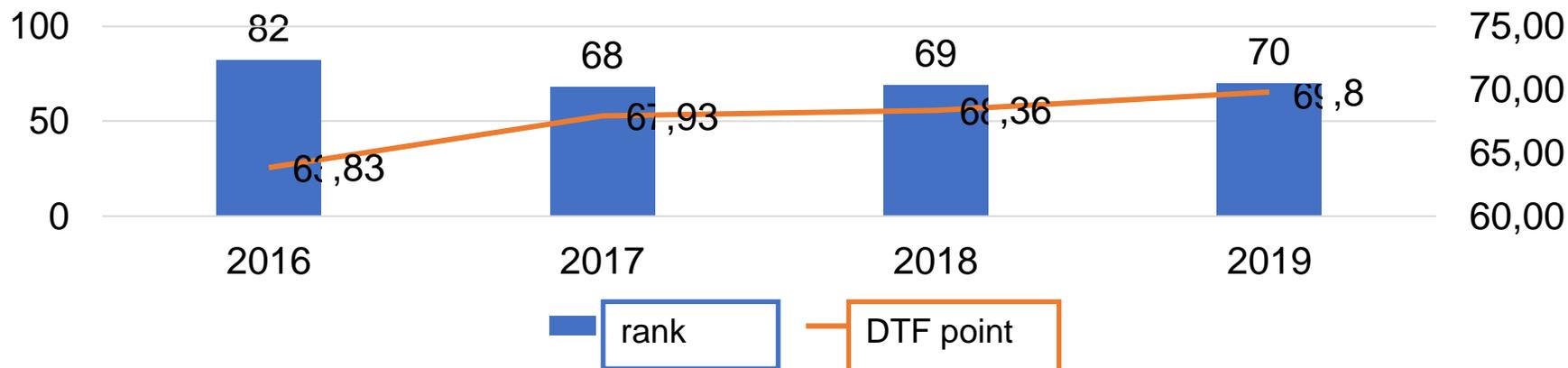


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Quality of doing business and national innovation index improved

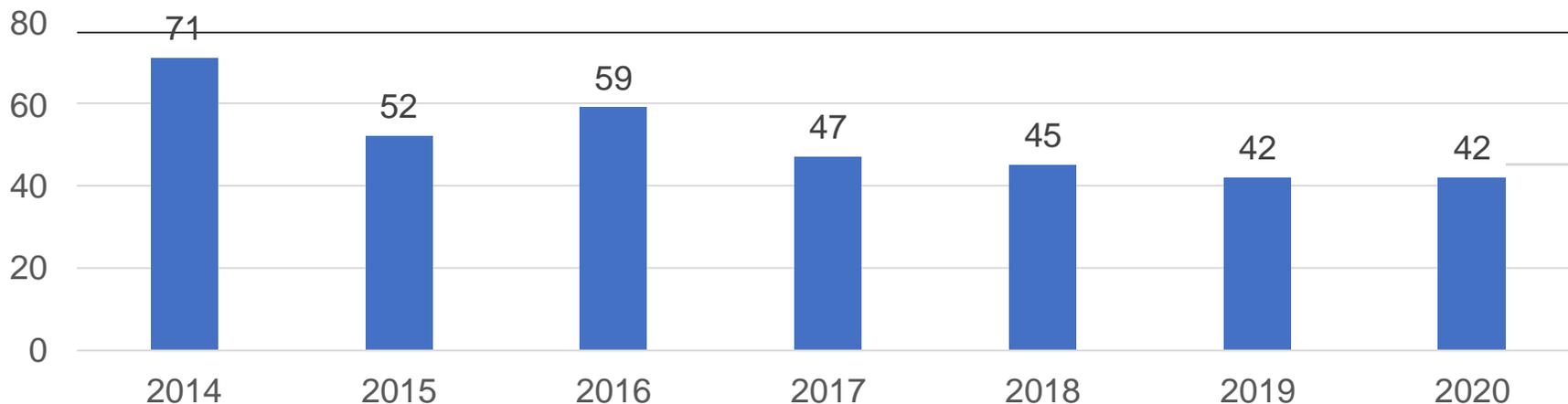
Source: WB
DoB 16-20

Business environment rankings and scores



Source: WIPO
(2019), GII
2019

Global Innovation Index Ranking

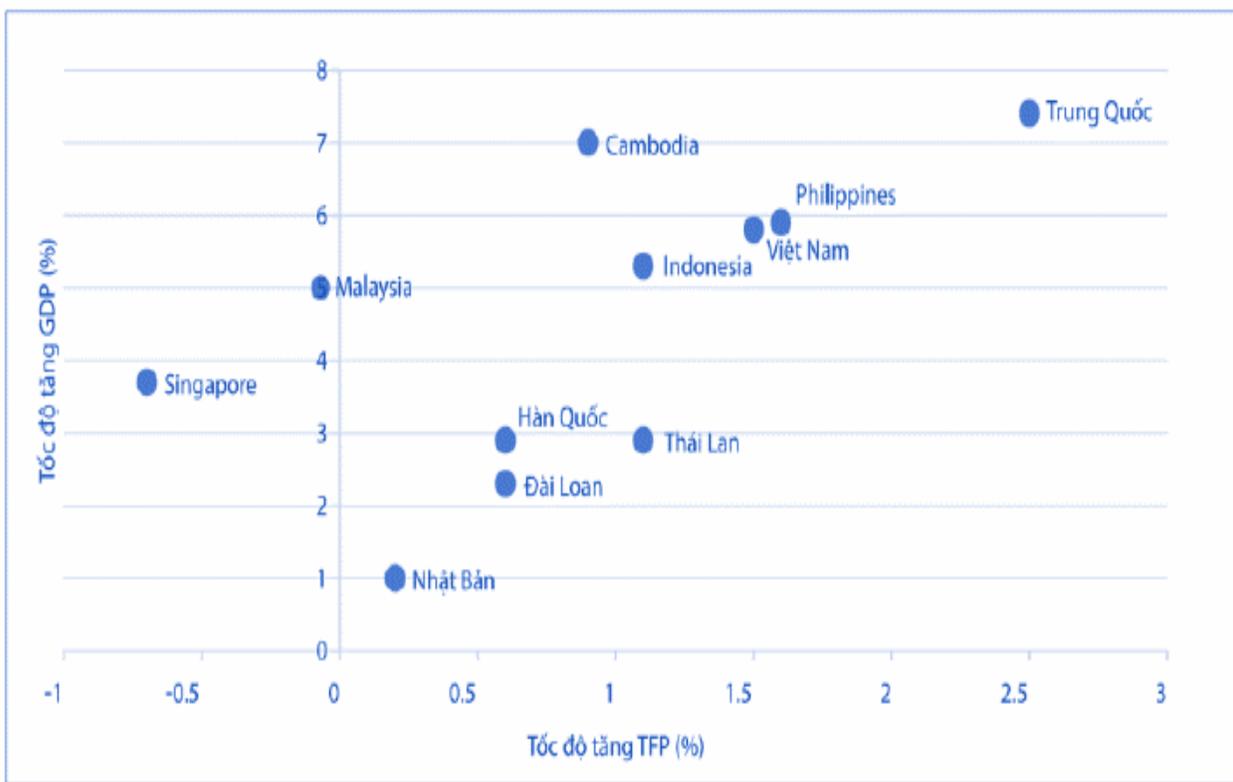




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TFP is improved in the period of improvement of competitiveness from 2014 to 2019

GDP and TFP of Vietnam and ASEAN



Source: Total Economy Database, The Conference Board

Contribution of Capital, Labour and TFP on GDP of Vietnam



Source: Pham Dang Quyet (2020). Growth model in long run approach.



VEPR TFP of Vietnamese enterprises from 2011 to 2018

Total factor productivity (TFP) of enterprises in Vietnam from 2011 to 2018 increased and decreased depending on domestic and foreign economic impacts. In general, there is a steady upward trend after the institutional reforms and enhance competitiveness effectively from 2014.

Year sat	Summary of tfp_va		
	Mean	Std.Dev	Freq.
2011	4.2356509	12.33743	4.233
2012	6.1764165	20.24616	3.512
2013	5.0599006	34.53641	4.284
2014	5.0427593	25.90425	4.618
2015	7.792284	18.84342	2.514
2016	6.1702611	17.1879	5.015
2017	6.1547774	20.71354	5.571
2018	7.0082104	20.29617	3.241

Source: The author's calculation is based on the enterprise survey of the General Statistics Office of the Ministry in 2011 - 2018



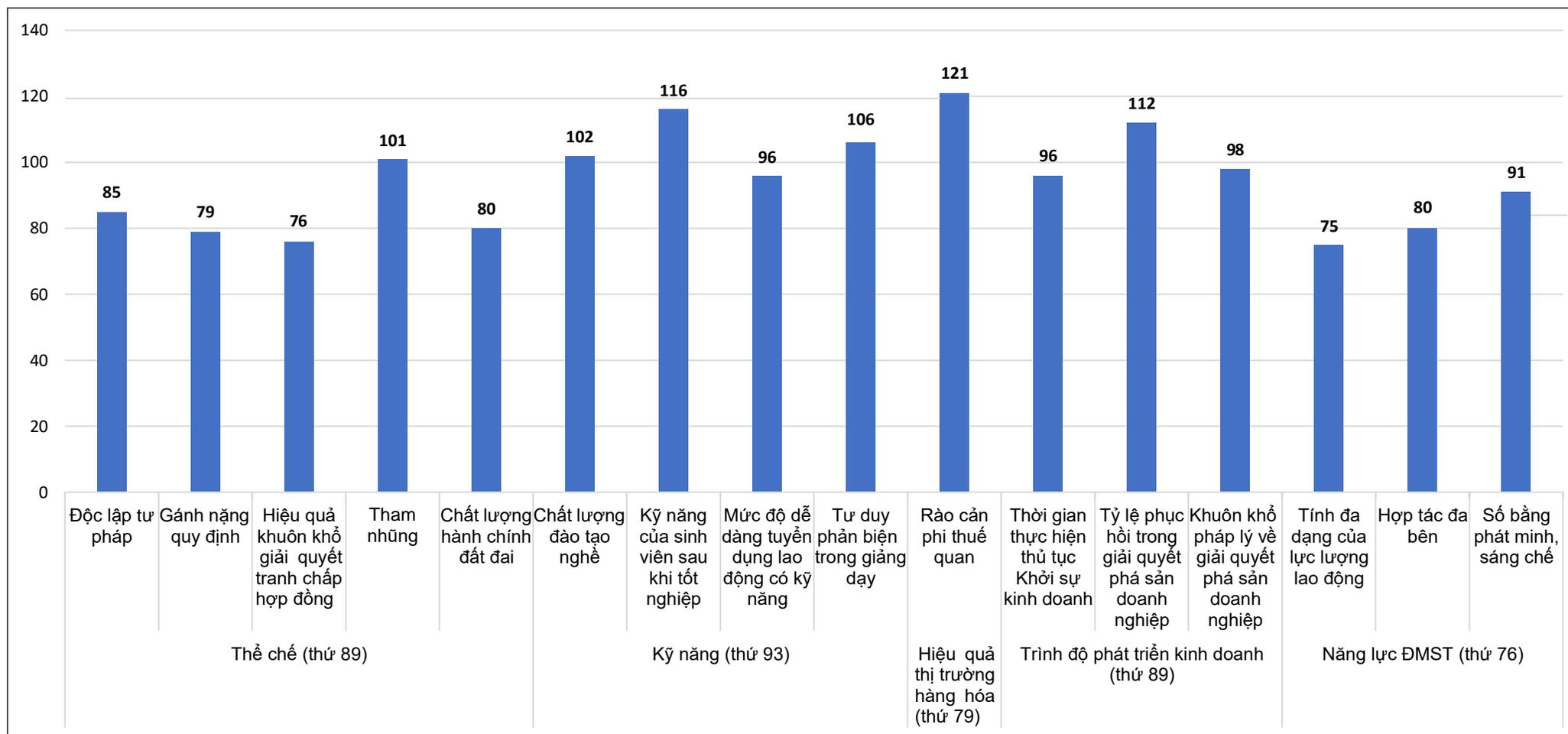
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02 issues affecting the position of Vietnam's economy and competitiveness indicators in 2021

- The growing trend of innovation and the Industry 4.0 based economy
- Impact of Covid-19 on the economy and business environment of enterprises and business households in Vietnam.



Factors Affect Vietnam's 4.0 Competitiveness



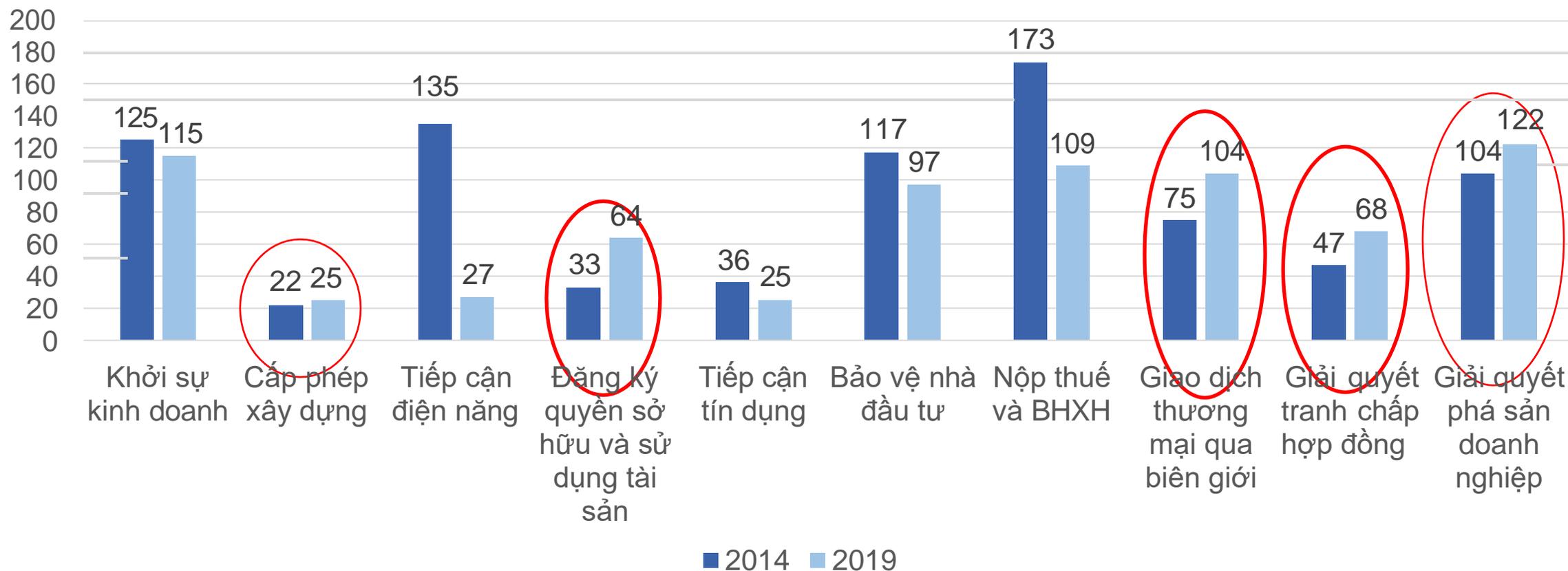
Source: World Economic Forum, Global Competitiveness Report (2019)



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Barriers to competitiveness from Doing Business: After six years, there are five indicators that both decrease in score and rank

Business Environment Index Rankings



Source: WB

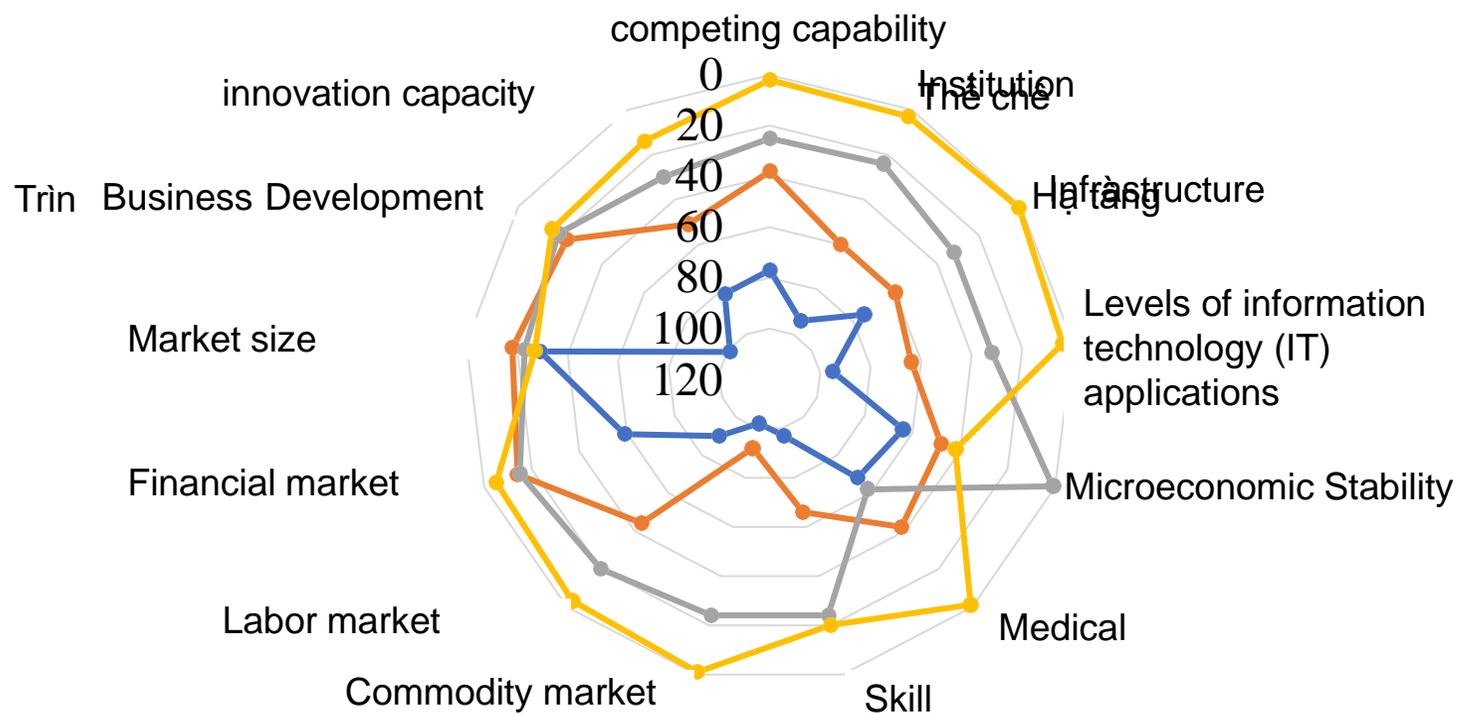


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In ASEAN, Vietnam' competitiveness just higher than Laos, Cambodia

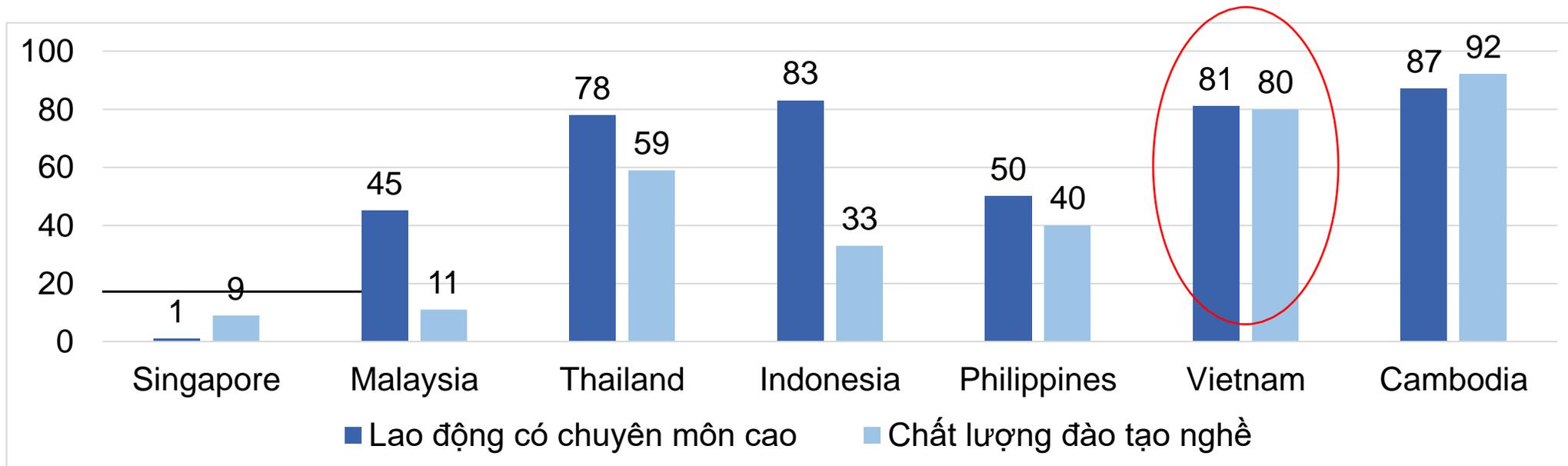
Thứ hạng các trụ cột NLCT của Việt Nam vs. ASEAN

— Vietnam — Thailand — Malaysia — Singapore





Barriers to Human Resource Quality



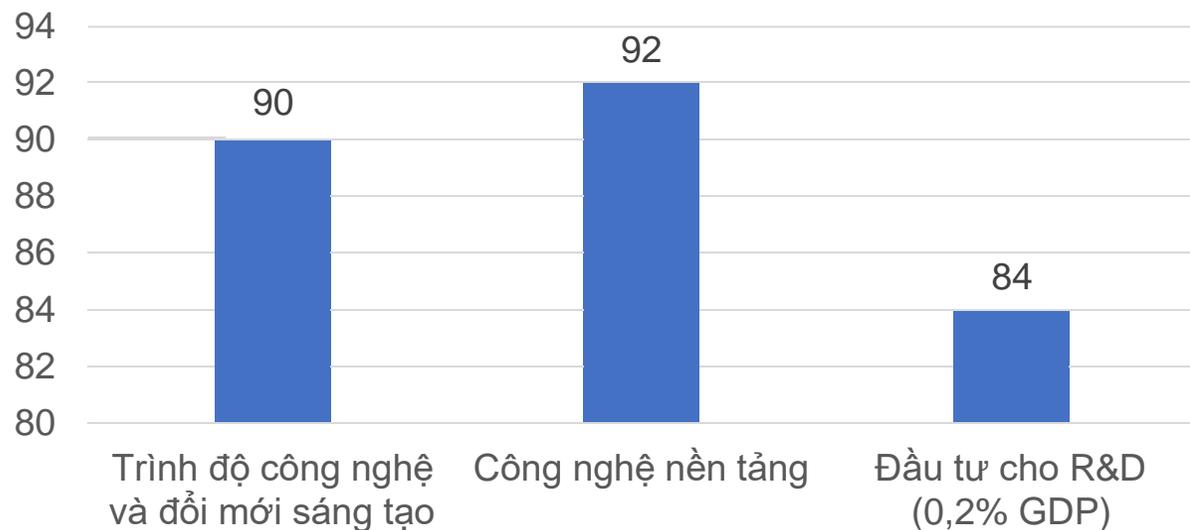
Source: WEF (2018), Readiness for the Future of Production Report 2018

- According to the General Statistics Office (2014), the processing and manufacturing industry accounts for only 9% of the total number of highly skilled workers (in developed countries this rate is up to 40 - 60%).
- According to JICA's survey, out of 2,000 Vietnamese IT students, only about 90 candidates (equivalent to 5%) passed professional surveys.
- The trained workforce in Vietnam is only approximately 20%, while Singapore is 61.5%, Malaysia is 62%, the Philippines is 67%.



Barriers to Innovation

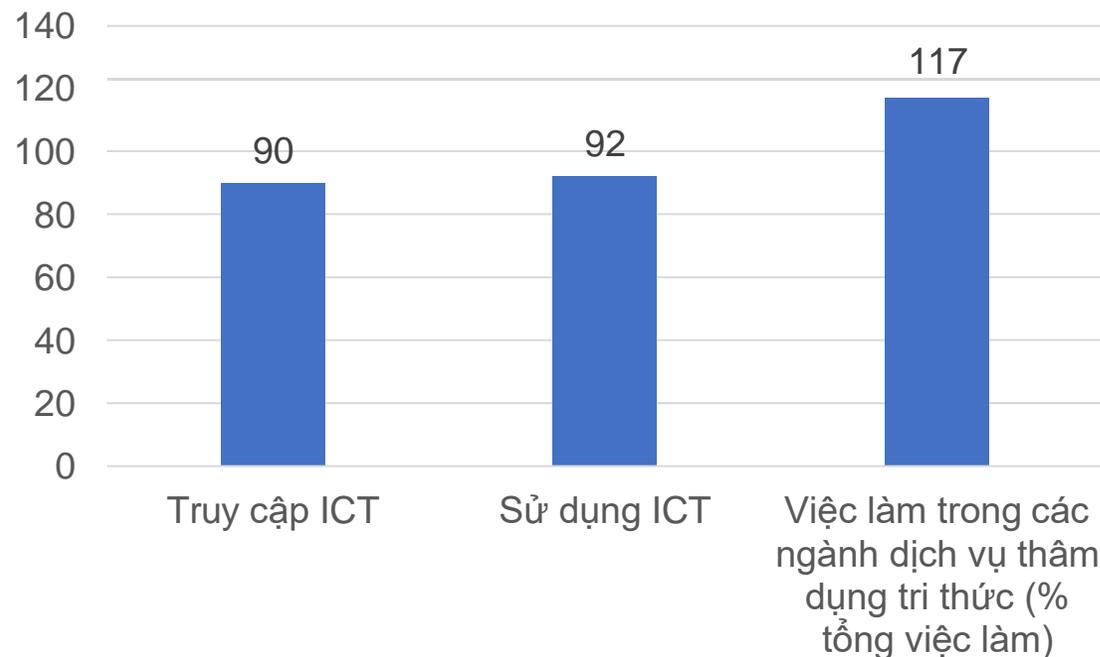
Ranking of Readiness indicators for future Production (with 100 economies)



Source: WEF (2018), Readiness for the Future of Production Report 2018

The value of medium and high-end industrial products of Vietnam accounts for only 30% of the total export value, while countries in the region are 80%, as low as the Philippines also account for 50%.

Ranking of some indicators in Innovation and Change (WIPO)



Source: WIPO (2019), GII 2019

The overall ranking of innovation: 42/129



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ROLE OF TFP FOR THE MANUFACTURING INDUSTRIES



**Situation
Economic
growth in
Vietnam**

- From a poor and underdeveloped country, Vietnam has joined the group of middle-income developing countries. Economic growth rate has always been close to 7% in recent years.
- However, Vietnam's economic growth is still not sustainable. Mainly due to expansion in breadth, leading to overheated economy
- Enterprises have to face competitors in the world with potential in technology, finance and modern management.



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THE ROLE OF TFP

- Total factor productivity (TFP) refers to the production result generated by the influence of intangible factors (e.g. technological innovation, production rationalization, management improvement) on improving efficiency of using fixed assets, labor, or tangible factors.
- TFP growth rate indicator reflects the depth of the production and business process
- TFP reflects the contribution of factors such as experience, labor skills, economic restructuring or services, quality of investment capital mainly technology...
- The growth rate of TFP is an important indicator in analyzing the quality of economic growth and assessing the scientific and technological progress of an industry or a country.



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DATA

The data was collected from the enterprise survey form of the General Statistics Office in the period from 2011 to 2018. The research focuses on 2 industries: Food processing industry (sector code level 2: 10) and Manufacturing industry of electronic products, computers and optical products (sector code level 2: 26).

After removal, the sample has 12,680 enterprises and cooperatives with 28,143 observations. In which, there are 10,830 enterprises in the food processing industry, accounting for 85.41% of the total number of enterprises studied.





RESEARCH METHODS

Measurement of firm's TFP, research based on Cobb-Douglas production function and calculation based on Solow balance (1956).

The study uses the GMM estimation method (Wooldridge, 2009) to calculate the TFP value of the enterprise.

In this study, TFP was assessed based on industry, size and type of enterprise, impol and expol activities, and competitive level of the local business environment.

The research team performed a percentile regression model with TFP and the above classification criteria to check the results

$$Q_N(\mu_q) = \sum_{i: y_i \geq \mu_q} q |y_i - x_i' \mu_q| + \sum_{i: y_i < \mu_q} (-q) |y_i - x_i' \mu_q|$$

where y_i is TFP and x_i are the factors affecting TFP



RESEARCH RESULTS AND DISCUSSION

The situation of enterprises in the electronics and food industries in Vietnam in the period 2010-2020

Actual situation of average TFP value of food and electronics enterprises

Year	TFP of 2 industries	TFP of the food industry	TFP of the electronics industry	GDP growth (%)
2011	4.42	4.14	7.19	6.24
2012	6.59	6.18	9.21	5.25
2013	5.35	4.85	9.41	5.42
2014	5.42	5.06	8.27	5.98
2015	8.19	7.04	13.84	6.68
2016	6.48	5.62	11.61	6.21
2017	6.38	4.95	13.29	6.81
2018	7.48	5.63	12.61	7.08
Medium	6.28	5.43	10.67	6.21

Source: Calculations of the research team



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The situation of enterprises in the food and the electronics industries in Vietnam from 2010 to 2020

- It is undeniable that the productivity and quality of Vietnamese enterprises have improved. In the period from 2011-2018, the trend of TFP has many fluctuations, but compared to 2011, in 2018, the coefficient of TFP of the two industries increased about 1.7 times to 7,483 due to the change in perception of the scope important of TFP, productivity has increased.
- The average TFP growth rate of the electronics and food industries is 11.05%, 5 times higher than the national average.
- When divided into 2 industries, we see that the electronics industry has a higher TFP value than the food industry over the years. The average TFP for the period 2010-2018 of the electronics industry was 10.67, while that of the food industry was 5.43. This is also quite similar when the average values of capital, labor, net revenue and gross profit of the electronics industry are larger than that of the food industry.



TFP of electronics and food industry by business size

Average TFP value by firm size

Year	Two industries			Food			Electronic		
	Small	Medium	Big	Small	Medium	Big	Small	Medium	Big
2011	2.95	6.06	15.13	2.98	5.69	14.60	2.75	9.05	17.79
2012	5.28	6.47	14.05	5.19	6.25	13.22	6.39	7.87	17.66
2013	4.22	5.81	14.55	4.18	5.08	13.51	4.62	11.18	18.38
2014	4.26	5.68	13.73	4.26	5.31	13.00	4.25	8.51	16.53
2015	3.59	7.15	16.90	2.63	6.04	16.27	7.60	12.23	18.74
2016	3.81	6.84	18.62	3.15	6.14	17.74	6.85	10.45	21.21
2017	3.75	7.99	16.35	3.10	5.89	14.22	7.62	18.70	20.92
2018	3.74	8.61	19.20	3.15	4.56	19.36	5.74	18.02	19.00

Source: Calculations of the research team



TFP of electronics and food industries breaks down businesses by size

- In terms of scale, large enterprises always have an advantage over small and medium enterprises when the TFP value in 2018 of large enterprises in these two industries is about 2.5 and 5 times higher than that of small and medium enterprises.
- In fact, in all economies, the productivity of SMEs is always lower than that of large enterprises because the investment in capital of small and medium enterprises is also much less. It is always difficult for SMEs to access leading technologies and participate in production supply chains
- When dividing the TFP index of the two industries, it is found that large, small and medium enterprises in the electronics industry always have a higher TFP coefficient than the food industry.



TFP by import-export business

Average TFP value of enterprises with and without exporting

Year	Two industries		Food		Electronic	
	Yes	No	Yes	No	Yes	No
2011	8.56	3.21	7.41	3.24	15.78	2.79
2012	9.28	5.62	8.13	5.58	14.63	6.44
2013	10.18	3.83	8.71	3.78	16.44	4.39
2014	9.97	3.97	9.12	3.94	13.40	4.34
2015	11.43	5.99	9.71	5.52	16.59	9.71
2016	12.22	6.38	11.61	5.52	14.64	11.54
2017	12.75	4.67	9.34	4.07	19.34	8.86
2018	15.86	4.71	14.17	3.86	17.62	8.33

Average TFP value of enterprises with and without importing

Year	Two industries		Food		Electronic	
	Yes	No	Yes	No	Yes	No
2011	12.41	2.71	12.48	2.74	12.21	2.18
2012	13.10	5.03	12.54	5.06	14.51	4.26
2013	12.43	3.71	11.76	3.65	14.00	4.58
2014	11.87	3.76	11.76	3.74	12.17	4.08
2015	14.46	4.46	13.76	4.13	15.94	8.46
2016	17.42	4.79	19.79	4.06	13.34	10.71
2017	16.06	4.15	13.82	3.72	18.74	7.83
2018	17.03	4.11	16.56	3.61	17.39	6.74



- In the period 2011 - 2018, the TFP of enterprises in the food and electronics industries with import-export activities tended to increase, although the growth rate of TFP was not stable.
- In general, the TFP of enterprises participating in the global value chain is higher than the TFP of only domestic enterprises.
- The TFP of electronics firms has a much higher export activity than those of the food industry, while the TFP of firms in these two industries does not have much difference in import activity.
- Vietnamese businesses have not yet found a way to operate and grow sustainably. For enterprises that do not participate in import-export activities, the change in TFP over the years is not significant.



TFP rating by type of business

Average TFP value by business type

Year	Two industries				Food				Electronic		
	Government	Private	Foreign	Cooperative	Government	Private	Foreign	Cooperative	Government	Private	Cooperative
2011	8.40	2.88	18.56	1.61	8.62	2.94	20.96	1.61	7.04	1.96	14.81
2012	5.93	5.01	18.28	2.01	5.54	5.09	20.05	2.01	7.35	2.56	15.80
2013	8.44	3.47	20.84	2.91	8.36	3.46	25.12	2.94	8.78	3.52	16.16
2014	7.80	3.60	20.74	3.10	7.33	3.64	26.95	3.10	10.09	2.94	14.23
2015	7.49	4.87	19.97	2.52	7.61	4.84	23.61	2.52	6.72	5.22	17.03
2016	8.97	4.16	21.43	3.61	8.04	4.21	26.46	3.61	15.07	3.51	18.00
2017	5.62	4.07	19.81	2.02	6.06	4.08	19.63	2.02	4.15	4.03	19.91
2018	6.97	3.84	20.54	1.59	4.57	3.89	27.03	1.59	17.80	3.55	18.18



Evaluation of TFP by type of enterprises

- FDI enterprises have a higher TFP value than other types of enterprises over the years, followed by state-owned enterprises and private enterprises.
- From 2011 to 2018, the TFP of State-owned enterprises tended to decrease, from 8.41 in 2011 to 6.97 in 2018, in contrast, the TFP of private enterprises and foreign-invested enterprises tended to increase, with growth rates of 3.22% and 10.67% respectively.
- In the group of foreign-invested enterprises, the TFP of food industry enterprises is higher than the TFP of electronics enterprises.
- For state-owned enterprises, the TFP of the electronics industry is higher than the TFP of the food industry.
- For the private sector, in general, there is not too much difference between the food and electronics sectors, the TFP value of private enterprises is still much lower than that of the previous two types of enterprises.



TFP value by provincial competitiveness index

Average TFP value by group of provincial competitiveness index (PCI)

Year	Two industries				Food		Electronic		
2011	5.26	3.56	3.93	4.70	3.53	3.99	9.93	3.79	2.82
2012	8.88	3.57	4.29	8.45	3.31	3.97	12.99	7.90	8.47
2013	5.33	5.01	6.83	4.69	4.46	7.05	10.13	9.59	4.64
2014	6.22	5.34	3.30	5.84	4.91	3.35	9.00	8.24	2.06
2015	9.45	9.61	3.17	7.14	9.62	3.14	19.12	9.56	3.75
2016	7.71	6.07	3.32	6.62	5.53	3.23	12.02	11.20	5.85
2017	7.16	5.99	4.23	5.27	5.17	3.63	13.55	13.36	10.67
2018	8.16	7.69	4.77	5.65	6.82	3.55	13.09	11.34	11.91

Nguồn:



Evaluation of TFP according to provincial competitiveness

- The average TFP of the two industries is unsustainable and fluctuates strongly over the years. The main reason is due to the break in the declaration of production and business results of enterprises with the General Statistics Office
- In general, the group of provinces with high competitiveness still has the highest productivity, followed by the middle group, and finally the group with low PCI. This suggests the positive impact of improving the quality of the local business environment on production
- The estimated coefficient of PCI decreases with the percentile of TFP, the group of enterprises with larger TFP will be less affected by local



Analysis of factors affecting TFP of Vietnam's food and electronics industry

Factors	Type of business				
	q10 (1)	q25 (2)	q50 (3)	q75 (4)	q90 (5)
Private	-0.187 (0.383)	-1.150*** (0.220)	-1.274*** (0.178)	-1.210*** (0.139)	-0.780*** (0.085)
Foreign	1.439*** (0.403)	0.734*** (0.227)	0.530*** (0.179)	0.416*** (0.136)	0.596*** (0.111)
Cooperative	-0.328 (0.383)	-1.525*** (0.243)	-1.650*** (0.210)	-1.512*** (0.216)	-1.091*** (0.200)
Fixed assets	-0.091 (0.089)	-0.098 (0.077)	-0.291*** (0.068)	-0.456*** (0.071)	-0.373*** (0.105)
Capital	-0.448*** (0.108)	-0.315** (0.141)	0.021 (0.093)	0.122 (0.076)	0.143 (0.103)
Age	0.065** (0.033)	0.110*** (0.024)	0.081*** (0.023)	0.094*** (0.026)	0.047 (0.033)
Tax	0.855 (12.969)	21.615 (17.523)	39.492*** (10.743)	43.042*** (7.333)	40.193*** (6.268)
industrial area	0.604*** (0.085)	0.724*** (0.060)	0.949*** (0.055)	1.054*** (0.041)	1.035*** (0.056)
PCI	2.359*** (0.325)	2.104*** (0.279)	1.932*** (0.232)	1.747*** (0.266)	1.211*** (0.368)
Coef	-11.540*** (1.408)	-8.812*** (1.180)	-7.172*** (0.994)	-5.558*** (1.121)	-2.713* (1.485)
Obs	16921	16921	16921	16921	16921
PseudoR2	0.078	0.122	0.191	0.224	0.196

Note: Standard error in brackets is Bootstrap with 200 replicates; * statistical significance at the 10% level; ** at 5% significance level; *** at 1% significance level. The model also controls for industry differences. Type of state ownership is considered as the base variable



- Private firms have a negative effect on TFP value with a higher dummy regression coefficient in the middle quartile group (0.25, 0.5, 0.75). The regression coefficients of these firms are lower in the tail percentiles (0.1, 0.9).
- The group of FDI enterprises is the group that has a positive influence on the TFP value in all 5 quintiles
- The majority of enterprises in the electronics industry are foreign-invested enterprises, so the average TFP of the electronics industry is higher than that of the food industry.



- The productivity of Vietnamese enterprises has improved. In the past 10 years, the growth rate of capital and labor has slowed down, while TFP has grown faster
- Large, small and medium enterprises in the electronics industry always have a higher TFP than the food industry.
- Promoting foreign trade is an effective policy to promote the competitiveness of enterprises
- In the group of foreign-invested enterprises, the TFP of food industry enterprises is higher than that of electronic enterprises.
- For state-owned enterprises, the TFP of the electronics industry is higher than the TFP of the food industry.
- For the private sector, there is no big difference between the food and electronics sectors. The TFP value of private enterprises is still much lower than that of the other two types of enterprises



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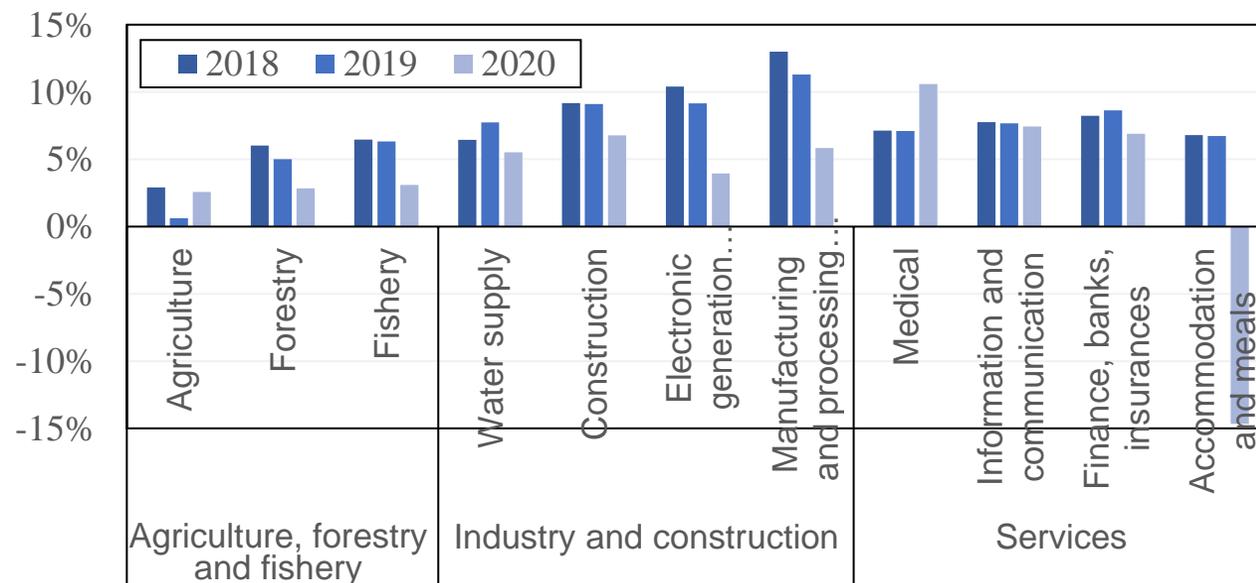
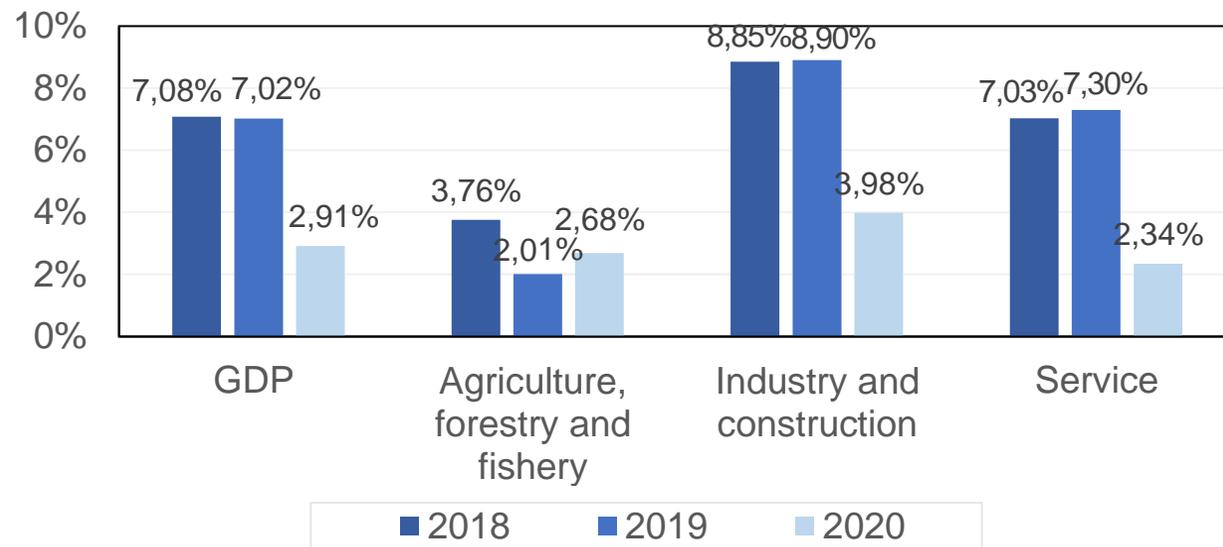
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VIETNAM ECONOMIC OVERVIEW 2020 AND ITS OUTLOOK 2021



VEPR Production and Growth

- Vietnam's economic growth has improved significantly in the second half of 2020. GDP in 2020 increased by 2.91%, less than ½ the figures in previous years.
- In which, agriculture, forestry and fishery increased by 2.68%; industry and construction increased by 3.98%; the service sector increased by 2.34%.
- Fisheries, electricity and water production, manufacturing, transportation & warehousing, accommodation & catering are the most affected industries. In contrast, agriculture, healthcare, media and banking-finance were the sectors that kept high growth rates.

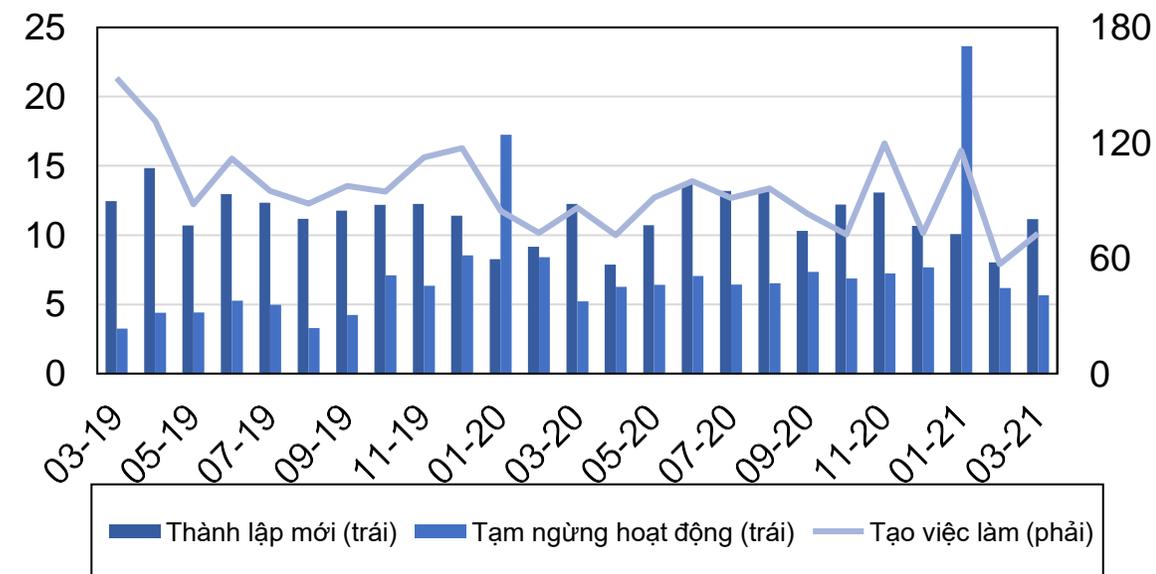
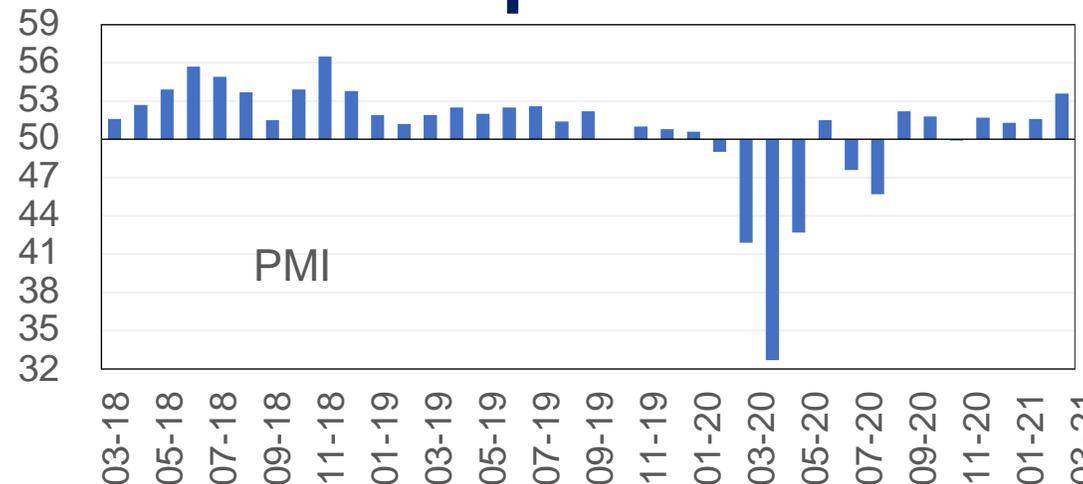




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Establishment and dissolution of enterprises

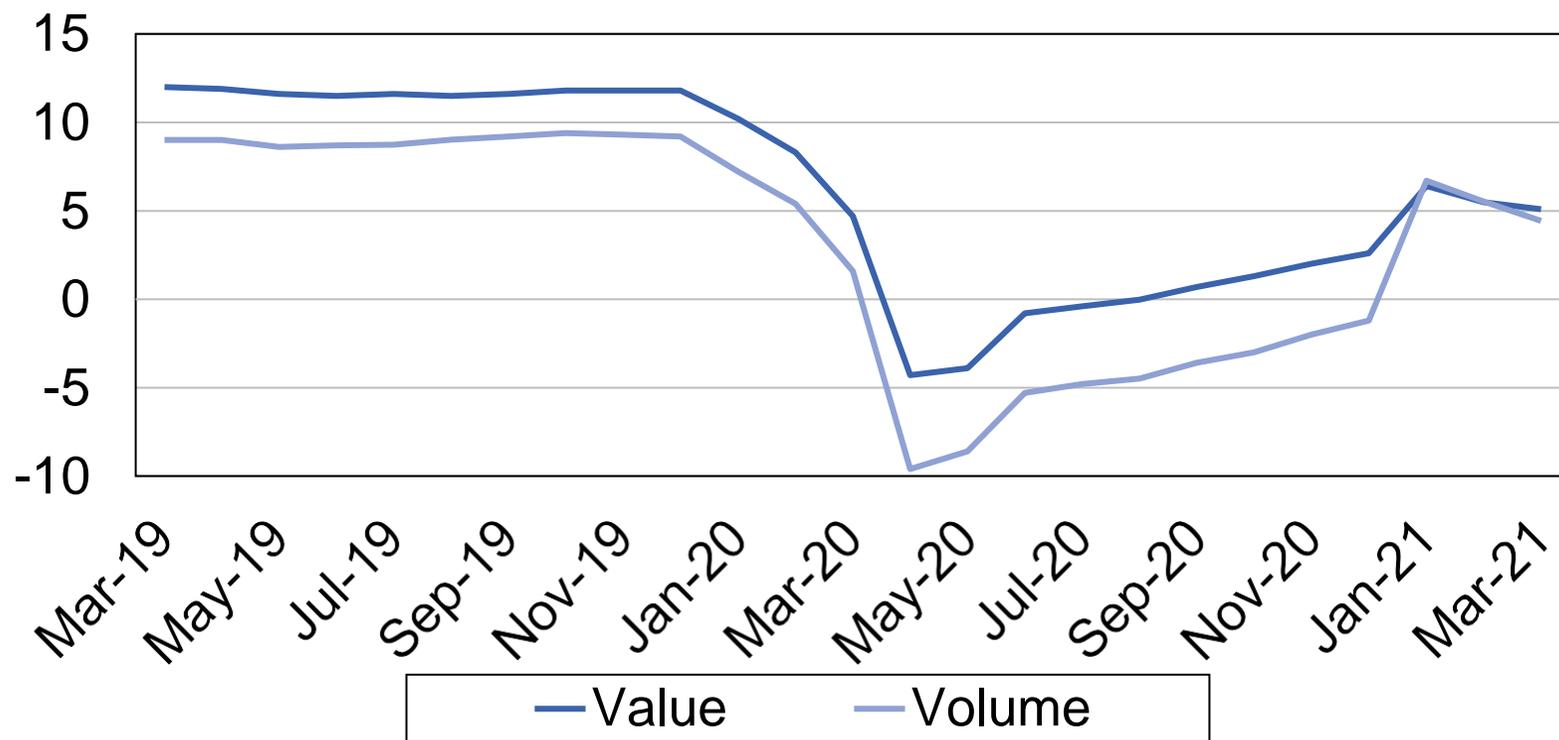
- PMI dropped sharply in the second quarter and recovered in the last months of the year.
- In 2020, the whole country has 134.9 thousand newly registered enterprises, down 2.3%. The number of enterprises suspending business and waiting for dissolution procedures was 92.79 thousand enterprises, increased by 16.7% compared to the previous year.





Consumption

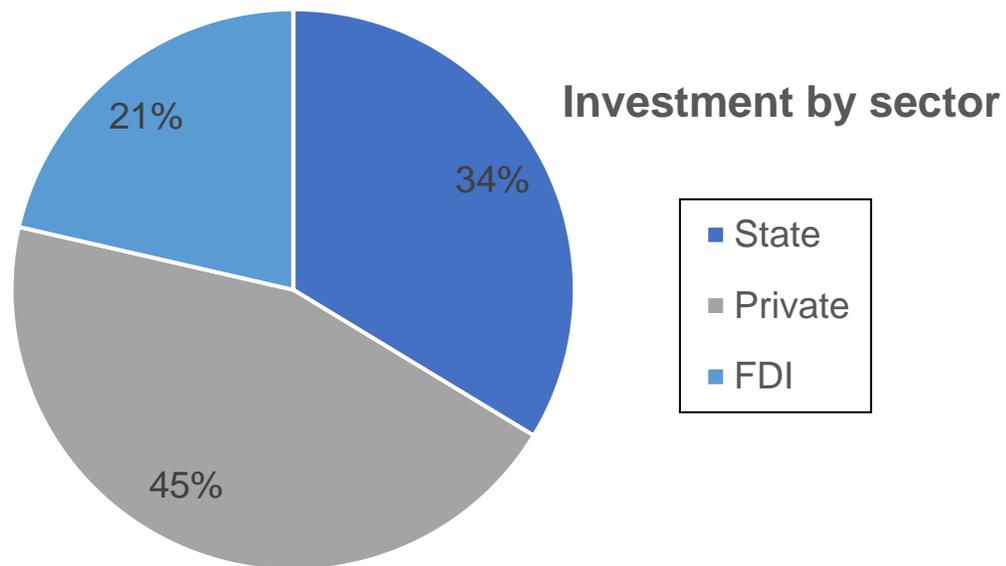
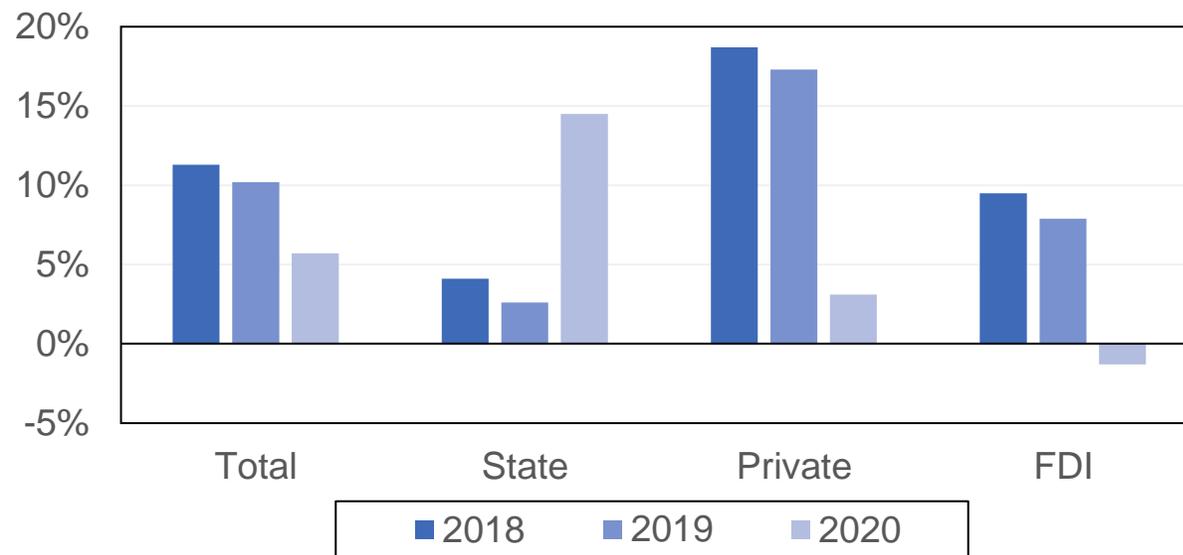
- In 2020, the total retail sales of consumer goods and services reached VND 5,059.8 trillion, increased by 2.6% in value and decreased by 1.2% in volume compared to the previous year.





VEPR Investment

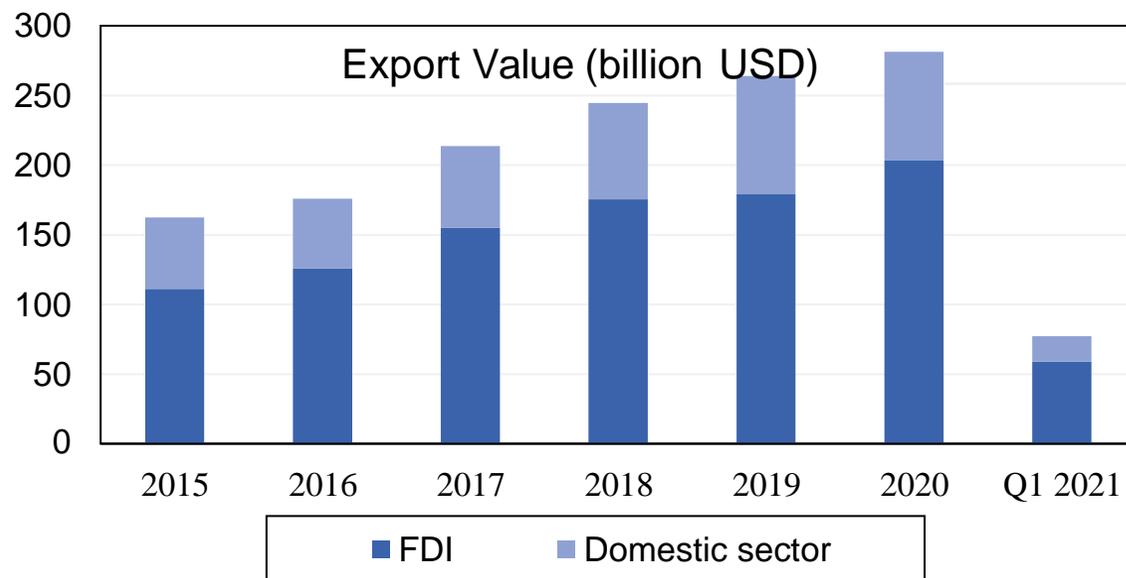
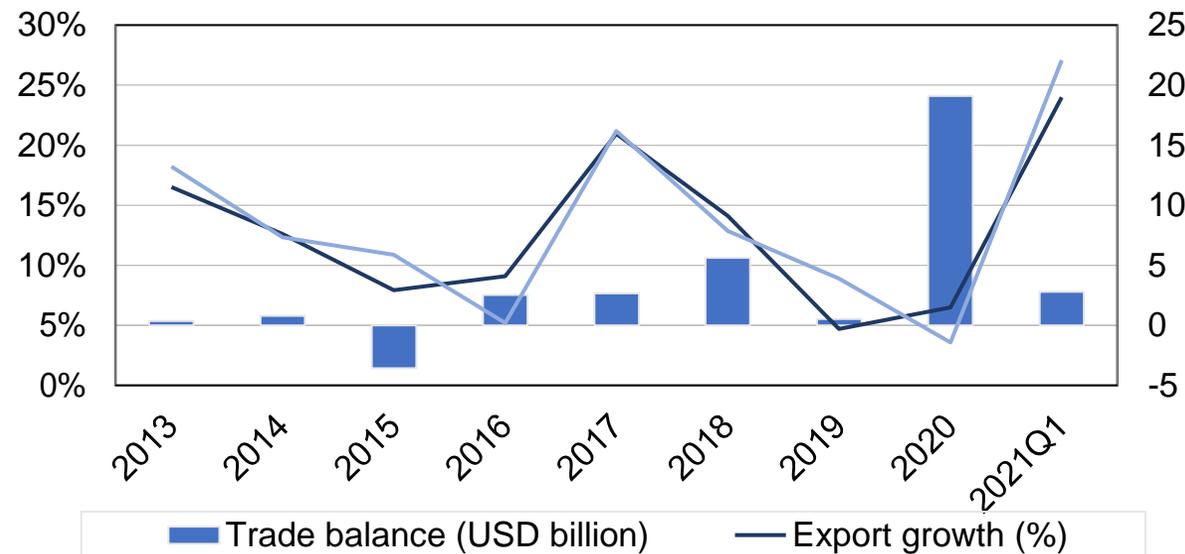
- Total realized investment at current prices in 2020 reached VND2,164.5 trillion, up 5.7%.
- Investment from the state sector increased sharply, reaching VND729 trillion, accounting for 33.68%, up 14.8%.
- Newly and additionally registered foreign investment reached USD21 billion, down 6.87%.





VEPR International Trade

- The balance of trade in goods in 2020 has a surplus of USD19.95 billion.
- Merchandise exports and imports increased by 7.0% and 3.7%, respectively.
- The domestic sector had a deficit of USD13.92 billion, the FDI sector had a surplus of USD33.87 billion.
- The export of some key products still belongs to the FDI sector.
- Service trade deficit was about USD12 billion.

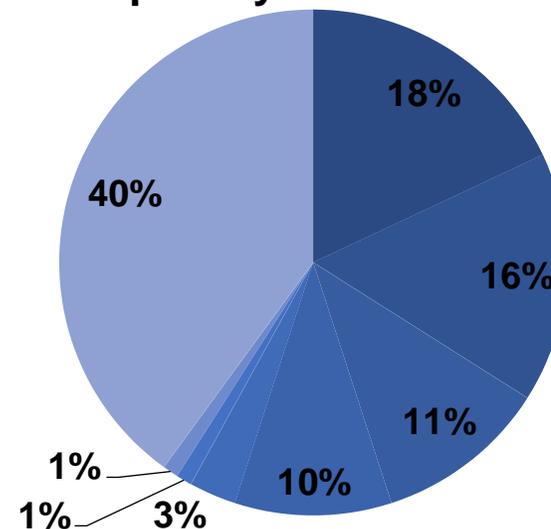




VEPR Key Trade Markets

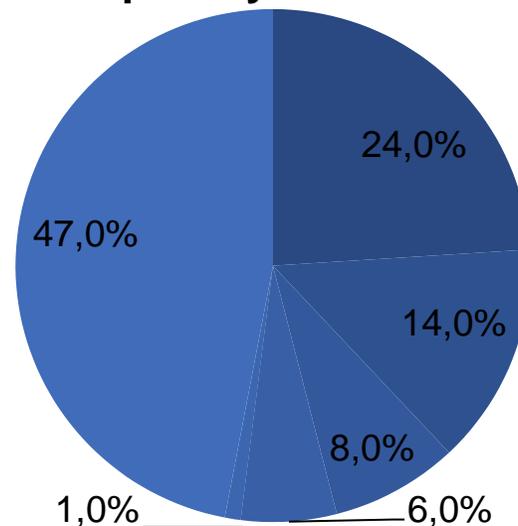
- Computers & Components, Phones & Components, Machinery & Spare Parts, Textiles & Raw Materials are the major commodities both in terms of export and import.
- The United States (accounting for 27.3%, up 25.7%) and China (accounting for 17.3%, up 17.8%) are the two largest export markets.
- China (32%, up 11.5%) and South Korea (17.9%, down 0.3%) are the two largest import markets.
- The US is Vietnam's largest export surplus market, reaching a record of USD63.4 billion.

Export by Item in 2020



- Phones and components
- Computers, electronic products and components
- Textiles
- Machinery, equipment, tools and spare parts
- Seafood products
- Rice
- Precious stones, precious metals and products
- Others

Import by Item in 2020

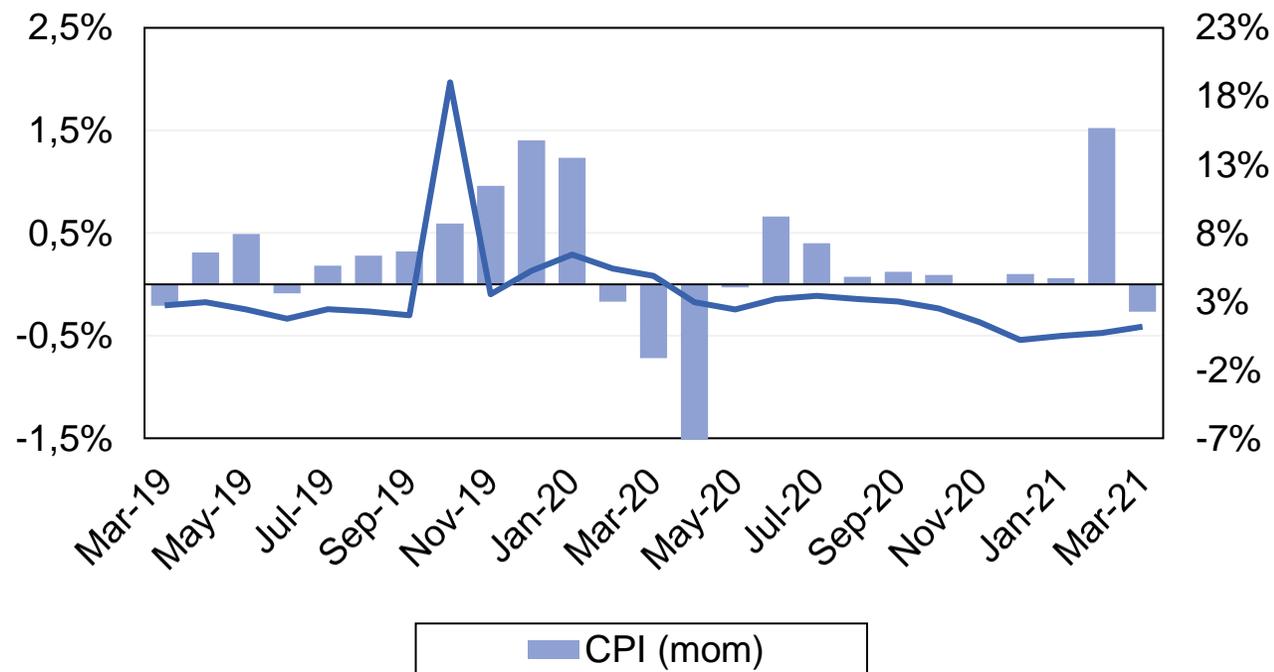


- Computers, electronic products and components
- Machinery, equipment, tools and spare parts
- Group of textile raw materials, leather shoes
- Phones and components
- Iron and steel scrap
- Others



Average CPI in 2020 increased by 3.23% (yoy), however inflation pressure tends to increase in 2021 due to

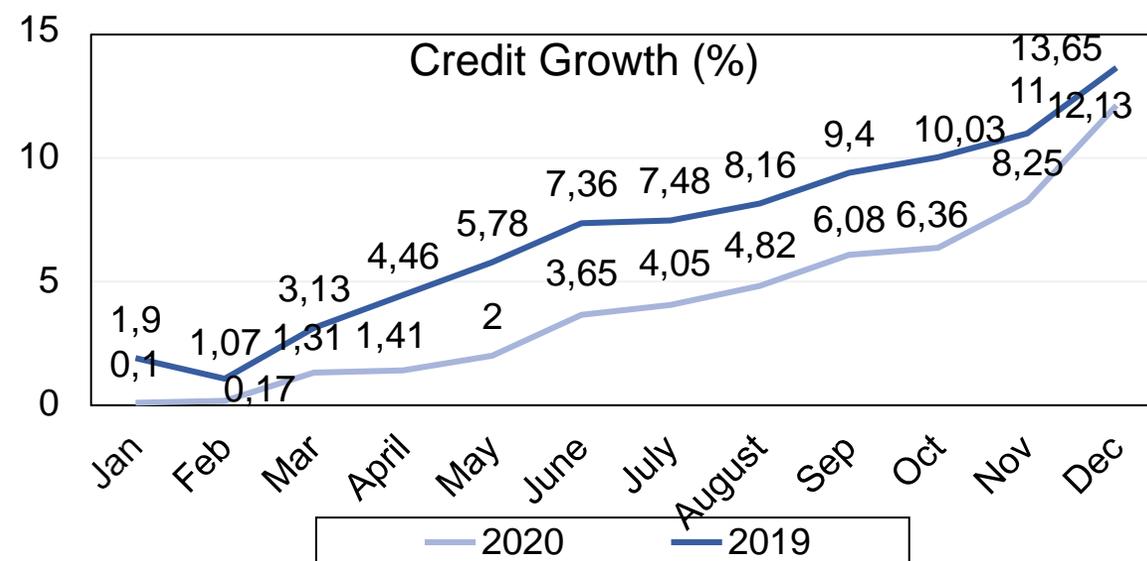
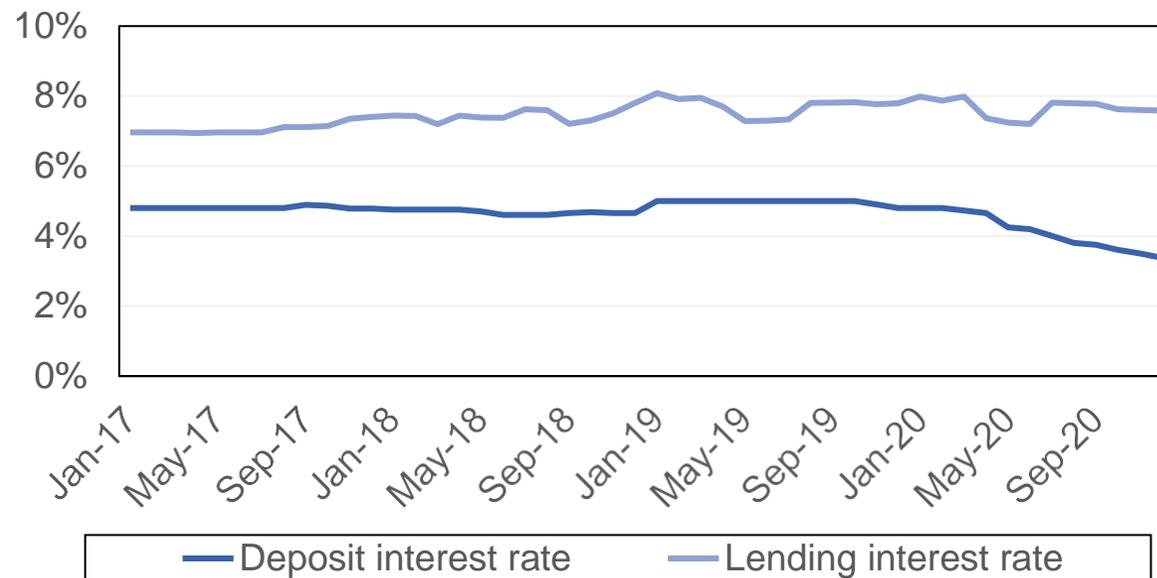
- The sharp increase in producer prices in the past time will gradually be transferred to consumer prices.
- The disruption in the supply chain due to epidemic prevention measures.
- The demand recover if the epidemic is controlled.





VEPR Interest Rate and Credit

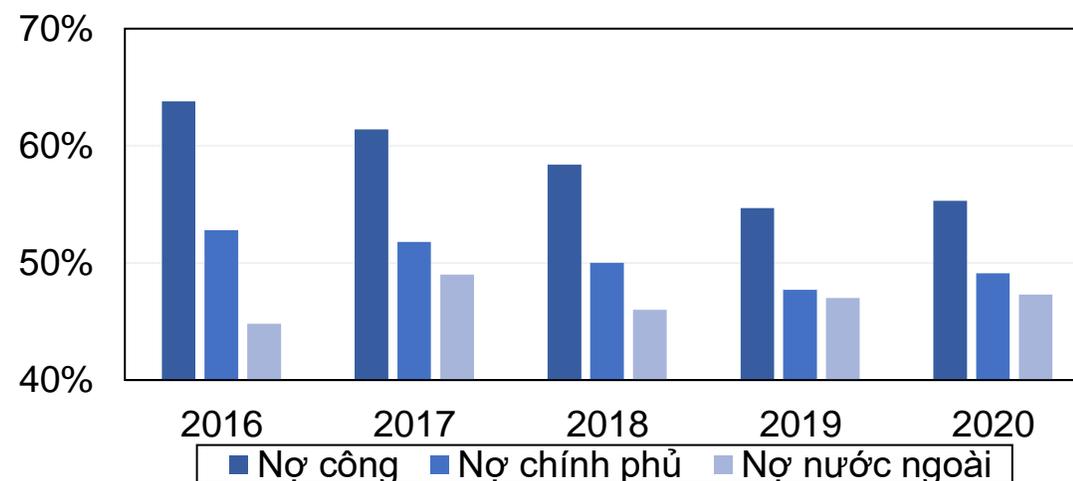
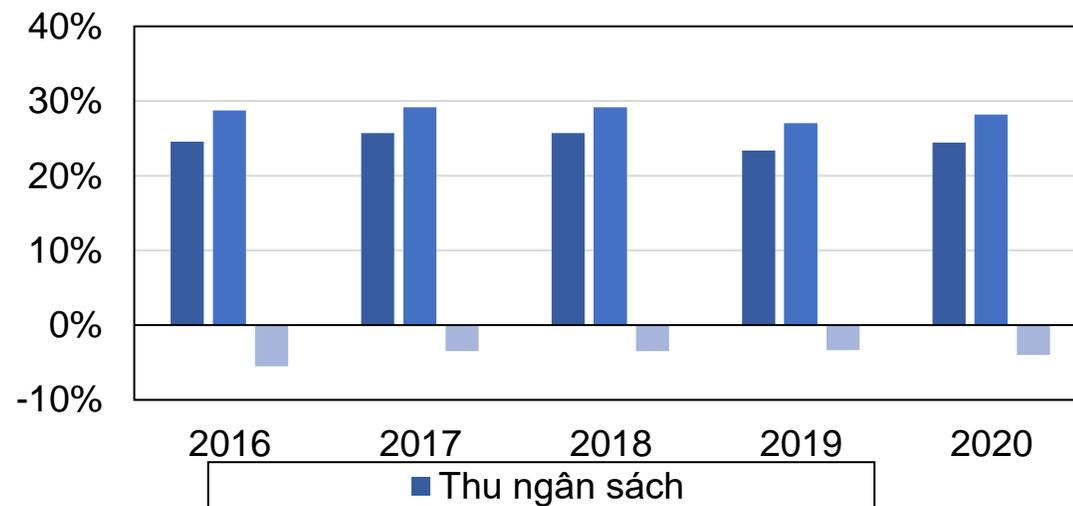
- The State Bank of Vietnam has three times adjusted policy rates and relaxed financial safety conditions.
- Money supply growth reached 13.26%, credit growth reached 12.13%, about 1.5 percentage points lower than in 2019.
- Deposit rates fall faster than lending rates, especially at the end of the year.
- The money supply/GDP and credit/GDP ratios exceeded 192% and 146% respectively, very high compared to similar countries in the ASEAN region.





VEPR State Budget and Public Debt

- According to the MoF, the revenue in 2020 was over VND1,508 trillion, equal to 98% of the adjusted planned, down 2.79% compared to 2019.
- The expenditure in 2020 was VND1,788 trillion, up 0.8% compared to the planned.
- Capital expenditure accounted for about 30% of the total state budget expenditure, exceeding 10% of the estimate; recurrent expenditure exceeded 1.5% of the estimate.
- Public debt/GDP is estimated at 55.3% by the end of 2020.





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GDP Forecast and Prospects in 2021



GDP Growth Forecast in 2021 (%)

- Base case scenario: Domestic epidemic is under control by the end of Q3, vaccination is accelerated and economic activities are almost normal again in early Q4;
- Pessimistic Scenario: Strict distancing measures will last until Q4, economic activities will be halted;
- Optimistic scenario: Social distancing measures are lifted and economic activities return to normal in August.

					GDP Growth Forecast (%)		
	Weight	2019	2020	1H2021	Pessimistic	Base Case	Optimistic
Agriculture, Forestry & Fisheries	13.5-14.0%	2.01	2.68	3.82	2.5-3.0	3.0-3.5	3.5-4.0
Industry & Construction	36.5-37.5%	8.9	3.98	8.36	4.5-5.5	6.5-7.5	8.0-9.0
Services	38.0-40.0%	7.3	2.34	3.96	2.5-3.0	3.0-3.5	3.5-4.0
GDP		7.02	2.91	5.64	3.5-4.0%	4.5-5.1	5.4-6.1



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Prospects in 2021

- Disease prevention and control measures continue to cause difficulties for production and consumption; reduce/delay investment; backup savings of people and businesses increased; asset markets are on the rise. The escalation of world fuel prices makes production more difficult.
- Inflation rate is forecasted to be in the range of 3-4% due to limited aggregate demand despite rising raw material and fuel prices.
- Exports continue to be the main driver of economic growth in 2021; Manufacturing and banking - finance - insurance, healthcare, etc. continued to achieve high growth rates.
- Growth in 2021 can reach 4.5 - 5.1% (according to the base-case scenario).



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IMPLICATIONS



Short-term policy recommendations

- The top priority is to ensure social security, keep the macroeconomic environment stable, reduce the burden on businesses that have to suspend operations, and support businesses that are still in operation.
- Public investment should only focus and accelerate on planned national key projects. Saving recurrent expenses is also an important orientation when Covid-19 is still a mystery, the future of the economy is still uncertain.
- Monetary policy should pay special attention to controlling money supply growth and directing credit flows to the manufacturing sector.
- The recovery of major economies that are important partners of Vietnam such as the US and China will be an advantage for exporters. Therefore, it is necessary to focus on supporting these business groups as a growth engine for 2021.



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Policy recommendations in the medium and long term

- In all situations, inflation, interest rates and exchange rates need to be maintained stable to prepare for the post-pandemic recovery period.
- Enhancing competitiveness and improving the business environment is still a permanent requirement, in which it is necessary to identify and overcome barriers to improve rankings in the 4.0 Competency Index (WEF). Enhance the internal strength of the economy through supportive policies to promote the development of private enterprises.
- Realizing the particularly important role of FTAs in helping Vietnam improve its position, along with increasing the resilience of the economy, it is necessary to create an environment to take advantage of opportunities from FTAs.
- Improving TFP through participation in GVCs: establishing and engaging with developed countries.
- The trend of greening and digitization opens up new opportunities for almost every industry. With 2 industries of electronics and food, it is possible to research new opportunities and new ways of doing things such as developing the segment of clean and organic products; Trade methods for products (using trading platforms...)



RECOMMENDATIONS FOR THE ELECTRONIC INDUSTRY

- ❖ Upgrading Vietnam's comparative advantage, participation and position in EGVC.
- ❖ Leveraging the role of FTAs to enhance connectivity with strategic counterparts and diversify trading partners outside of Asia
- ❖ Improving localization rate
- ❖ Strengthening the ability to specialize and focus on manufacturing high technological and complex products, promptly respond to the recent trends of supply and demand regarding input materials for electronic products in the international market.



- ❖ Maintain comparative advantage, focus on high-quality products; maintain participation and enhance position in GVCs
- ❖ Focus on three main pillars includes processing, product, and function
- ❖ It is necessary to have a strategy to develop major domestic food companies into TNCs.
- ❖ Promote the implementation of signed commitments, encourage technology transfer, create an environment to attract FDI, promote brand programs, propagate FTAs
- ❖ Exporting enterprises need to step by step improve the quality and diversify foreign supply sources; strengthen production capacity and increase the use of domestic supply to reduce imports of value-added inputs of the industry, creating a premise for exporting input goods for export processing in foreign markets; learn about FTAs



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THANK YOU