



Aus4Reform Program



AUSTRALIA SUPPORTS ECONOMIC REFORMS IN VIETNAM

AUS4REFORM PROGRAM

VIET NAM'S ECONOMY IN THE FIRST HALF OF 2020

Enabling Regulatory Approach for the New Normal

INTRODUCTION

Following concrete achievements in 2019, Viet Nam enters the year of 2020 with major expectations and inspiration. However, the outbreak of COVID-19 pandemic compelled Viet Nam, as well as other countries, to implement unprecedented measures (such as social distancing, border closing, etc.). These measures are necessary and have significantly contributed to the success of Viet Nam in combating the pandemic, yet also resulted in adverse consequences to the economy. In such context, the Government has promptly imposed measures to alleviate difficulties for enterprises and people. The enterprises and people themselves were also supportive of the measures and actively adapted to “new normal” context. In addition, studies and debates have increased on the approach to and design of economic recovery program and, in longer term, post-COVID-19 economic paradigm.

This Report, titled *Viet Nam’s Economy in the First Half of 2020 – Enabling Regulatory Approach for the New Normal*, serves several objectives, including: (i) to update, and review macroeconomic development and policy changes in the first 6 months of 2020 with evidence-based analysis and perspectives of experts/Central Institute for Economic Management; (ii) to update the macroeconomic outlook for 2020; (iii) to provide in-depth analysis of selected economic issues, namely economic responses to COVID-19 outbreak in Viet Nam and new contents of Enterprise Law; and (iv) to make recommendations on economic reforms (including institutional reforms) and on macroeconomic policies in 2020.

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All remaining errors, views and opinions presented in the Report are solely of the authors and may not necessary reflect those of Aus4Reform Program and/or CIEM.

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ABBREVIATION

| | |
|----------|---|
| ADB | Asian Development Bank |
| AEC | ASEAN Economic Community |
| AFF | Agriculture-Fishery-Forestry |
| ASEAN | Association of Southeast Asian Nations |
| BEA | Bureau of Economic Analysis |
| BOJ | Bank of Japan |
| CIEM | Central Institute for Economic Management |
| COVID-19 | Coronavirus Disease 2019 |
| CPI | Consumer Price Index |
| CPTPP | Comprehensive and Progressive Trans-Pacific Partnership |
| DOC | Department of Commerce |
| ECB | European Central Bank |
| EIA | Energy Information Administration |
| ETF | Exchange Traded Fund |
| EU | European Union |
| EVFTA | EU-Viet Nam Free Trade Agreement |
| EVIPA | EU-Vietnam Investment Protection Agreement |
| FDI | Foreign Direct Investment |
| FED | Federal Reserve |
| FTA | Free Trade Agreement |
| GB | Government Bond |
| GDP | Gross Domestic Product |
| GSO | General Statistic Office |
| HNX | Hanoi Stock Exchange |
| IIP | Index of Industrial Production |
| ILO | International Labor Organization |
| IMF | International Monetary Fund |
| IR4.0 | Industrial Revolution 4.0 |
| LPR | Loan Prime Rate |
| JPY | Japanese Yen |
| M2 | Total liquidity |
| MoM | Month on month |
| MPI | Ministry of Planning and Investment |
| M&A | Merger and Acquisition |
| MLF | Medium-term Lending Facility |

| | |
|--------|---|
| NCIF | National Centre for Socio-Economic Information and Forecast |
| NPL | Non-performing loan |
| OECD | Organization for Economic Co-operation and Development |
| OPEC | Organization of the Petroleum Exporting Countries |
| PMI | Purchasing Managers Index |
| PBoC | People's Bank of China |
| QoQ | Quarter on Quarter |
| RCEP | Regional Comprehensive Economic Partnership |
| REER | Real Effective Exchange Rate |
| SBV | State Bank of Vietnam |
| SCIC | State Capital Investment Corporation |
| SOE | State-owned Enterprise |
| TSE | Tokyo Stock Exchange |
| UNCTAD | United Nations Conference on Trade and Development |
| USD | US Dollar |
| VND | Vietnam Dong |
| WHO | World Health Organization |
| WTI | West Texas Intermediate |
| WTO | World Trade Organization |
| YoY | Year on Year |

EXECUTIVE SUMMARY

1. In the first half of 2020, the outbreak of COVID-19 pandemic was rapid, complicated and unpredictable. To prevent the spread of the pandemic, various countries imposed drastic, even unprecedented, measures such as border closures, lock-down, quarantine and social distancing, etc. Since the end of April, some countries have relaxed lockdown measures and social distancing. Discussions of re-opening the economy have proliferated in various countries since Q2/2020.
2. The COVID-19 pandemic and prevention measures resulted in unprecedented adverse impacts on an array of on sectors and economic activities (such as tourism, transportation, trade, import and export, investment, finance, etc.). International organizations lowered their forecasts of world economic growth in 2020, with explicit statement of high severity.
3. Many economies encountered severe economic downturn right from Q1: GDP of US fell by 5%; Eurozone shrank by 3.6%, China fell by 6.8%, Japan fell into technical recession after two consecutive quarters of negative growth. A range of countries have implemented large-scale financial and fiscal supports to promote economic recovery, despite warnings of global debt crisis after COVID-19 period.
4. Oil prices dropped sharply. Gold prices kept upward trend. The USD appreciated against major currencies, despite ample fluctuations. UNCTAD forecasted global FDI to decrease by 40% as compared to 2019. The multilateral trading system (WTO) faced lots of challenges in its reform, mostly owing to lack of consensus of major economies.
5. The first half of 2020 witnessed timely and appropriate adjustment in policy approach. The COVID-19 pandemic compelled Viet Nam to reconsider and adjust the policy approach towards "dual goals", i.e. effective prevention of COVID-19 pandemic, and ensuring stability and socio-economic development. Accordingly, the Government has promulgated guiding documents, orientations on measures and urgent solutions for alleviating difficulties of production and business, ensuring social security, in responses to COVID-19 pandemic.
6. Difficulties during COVID-19 outbreak did not crowd out interest in medium and long-term economic reform programs and requirements such as boosting disbursement of public investment, restructuring of SOEs. Viet Nam has continued to deepen international economic integration, remarkably with the ratification of EVFTA and EVIPA.
7. In general, the reforms and policy responses in the first half of 2020 should be commended in some aspects, namely (i) the policymakers remained calm, and the responses engaged active consultation and high consensus of business community and people; (ii) the conduct of policies has been well-organized, closely linked with updating and evaluating growth scenarios, paying special attention to the evolution of COVID-19; (iii) policy space has been retained to cope with future scenarios; and (iv) momentum for business environment, built

during 2014-2019, was further improved, with no interruption even when priority was given to prevention of COVID-19 pandemic.

8. GDP grew by only 3.82% in Q1 and 0.36% in Q2. For the first 6 months of 2020, the growth was only 1.81%, the lowest since 2008. Viet Nam experienced higher growth than other economies in Asia.
9. Downturn was evident in all three economic sectors in the first half of 2020. The agriculture-forestry and fishery sector grew by only 1.19%, mostly attributed to (i) severe impacts of African swine fever from the end of 2019; (ii) difficulty in exports of agricultural products in some markets in early months of 2020; (iii) ineffective coordination of rice export management; and (iv) effects of salinity intrusion in the Mekong Delta region.
10. Industry and construction sector increased by 1.38% in Q2 and 2.98% in the first 6 months. The Index of Industrial Production was at the lowest, only attained 2.80%. The Purchasing Manager Index (PMI) tended to decrease, even at the lowest of 32.7 in April, mostly attributed to interruption of manufacture during the outbreak of COVID-19, resulting in reduction of output, increasing pressures on input prices and more expenses for firms.
11. Value-added of services sector only grew by 0.57% in the first 6 months of 2020, specifically, increasing by 3.26% in Q1 and decreasing by 1.76% in Q2. There was remarkable decrease of major sub-sectors, particularly tourism.
12. The business community experienced difficulties due to direct impacts of COVID-19. Nevertheless, these figures may not fully reflect challenges for business community due to (i) too short time for fully realizing consequences from the pandemic; and (ii) enterprises' adaptive measures in the new context.
13. COVID-19 compelled Viet Nam's enterprises and agencies to consider and apply digital transformation more quickly and thoroughly. Industries and sectors (such as healthcare, education, retail, etc.) have taken advantage of digital transformation initiatives and applications including distance learning platform, distance medical examination, online working, online shopping, etc. during the social distancing period. Various industries (such as healthcare, education, retail, etc.) made use of digital transformation initiatives and applications including distance learning platform, distance medical examination, online working, online shopping, etc. during the social distancing period. The advancement of digital application and transformation of the economy in the first months of 2020 was more remarkable than previous years.
14. Difficulties of enterprises have largely impacted on labor and employment in the first 6 months of 2020. Total labor force was estimated at 46.8 million people, down by 2.1 million people (QoQ) and by 2.2 million people (YoY). By mid-April 2020, nearly 5 million workers were affected from the pandemic, impacts of COVID -19 have been harder for vulnerable and female labors. Overall unemployment rate increased to 2.73% in Q2/2020.
15. Average inflation was 4.19% in the first half of 2020, significantly higher than those for corresponding periods of previous years. CPI in the first 6 months was

exposed to the pressure from some commodity groups such as essential foodstuff, medicines and healthcare. CPI pressure in the first half of 2020 was relieved owing to several factors, namely: (i) price of petrol and oil dropped by 19.49%; (ii) lower demand for transport and tourism as well as large-scaled domestic tourism stimulus package resulted in decreased prices of transport and tours; (iii) policy on supporting electricity tariffs. The decreasing trend of average CPI and core inflation, to certain extent, reflected the Government's effective efforts to control price and conduct monetary policy that helped anchor inflationary expectation.

16. VND-denominated deposit rate tended to decrease in the first half of 2020. To alleviate difficulties for production and business, the SBV twice lowered the ceiling for deposit, lending and policy interest rates. Interbank interest rates tended to decrease in the first 6 months of 2020.
17. Outstanding credits to the economy only increased by 1.3% in Q1/2020 and nearly 1.5% in Q2/2020 (QoQ), significantly lower than in the same period of 2016-2019. It was mostly attributed to negative impacts of COVID-19 on the economy and output by firms in the first half of 2020, resulting in weakened demand for credit. As of June 15, M2 increased by about 4.59% compared to the end of 2019. The movement of VND/USD exchange rate exhibited two separate phases in the first 6 months, i.e. quite stable from the beginning of the year to mid-March, and increased significantly since mid-March. The COVID-19 pandemic, to a certain extent, creates additional demand for non-cash payments.
18. The economic downturn under impact of COVID-19 pandemic was associated with slower investment growth. In the first 6 months of 2020, gross investment reached VND 850.3 trillion (33.0% of GDP), up by 3.4%, or 6.9 percentage points lower than the first half of 2019. Investment by the state sector grew by 7.4%. Viet Nam still appealed to foreign investors in the first half of 2020, with registered FDI capital of USD 15.7 billion, due to (i) rapid improvement of business and investment environment; (ii) opportunities from new FTAs and Investment Protection Agreements; and (iii) recognized policymaking capacity of the Government during times of external uncertainties.
19. For the first 6 months of 2020, total exports were estimated at USD 121.2 billion, down by 1.1%, equivalent to 109.3% of GDP. Exports of the FDI sector decreased by 6.7%, while exports of domestic sector increased by 11.7%. The COVID-19 pandemic had both direct and indirect impacts on Viet Nam's exports. Specifically: (i) demand for imported goods, particularly for Viet Nam's key export markets such as US, EU, etc. dropped sharply; (ii) trade has been limited, due to temporary border closure; (iii) customs clearance has been more difficult due to stricter quarantine; (iv) retaining employees and existence of enterprises were difficult; and (v) the declines of commodity prices.
20. Imports were estimated at nearly USD 117.2 billion, decreasing by 3.0%. Of which, imports of domestic sector went up by 0.1% and FDI sector decreased by 5.4%. Imports of production means and inputs were down by 2.8%, consumer

goods by 6.5%. Viet Nam retained a trade surplus in the first 6 months, though not as high as in 2018-2019.

21. Total state budget revenues were estimated at VND 607.1 trillion, equivalent to 40.1% of planned figures, decreasing by 8.1% (YoY). Total state budget expenditures were estimated at VND 676.2 trillion, equal to 38.7% of planned figures, rising by 10.4%. Government bonds issued in the first 6 months reached VND 87.04 trillion, declining by VND 18.08 trillion and 17.20% (YoY), much lower than those in corresponding halves of 2016-2018.
22. The report employs two forecast scenarios for 2020. Accordingly, economic growth for 2020 is projected at 2.1% in Scenario 1, and 2.6% in Scenario 2. Export growth may reach 3.1% in Scenario 1 and 1.9% in Scenario 2. Trade surplus is projected at USD 1.7 billion and USD 2.1 billion in 2020, respectively. Average CPI in 2020 will increase by approximately 4.3% and 4.5%, respectively.
23. The report analyzes evolvement of COVID-19 pandemic, with policy responses in Viet Nam. Viet Nam has strengthened the confidence of people and businesses in the battle fighting against the pandemic, in particular regarding policies toward the “*dual targets*”. More importantly, Viet Nam retained macroeconomic policy space to respond to adverse developments in the future. The report also identifies important opportunities for Viet Nam, including (i) partial shift of global supply chains, accompanied by FDI inflows; (ii) driving forces for innovation, development of digital economy; (iii) adjustment of business and production operations, shifting to “dual-approach”; and (iv) potential industries and services having a chance to flourish. Challenges and obstacles for Viet Nam were also identified, including unpredictable evolvement of the pandemic; disruption of global supply chains; maintaining dynamics of business communities; and challenges for both traditional and non-traditional securities of Viet Nam. On that basis, the report proposes policies that need to be implemented more rapidly and effectively.
24. The report elaborates on new amendments in the Enterprise Law 2020, from reforming market entry to upgrading enterprises’ quality. Importance changes were reflected in (i) objectives and principles of drafting Enterprise Law; (ii) continuously facilitating market entry and starting a business; (iii) improving the legal framework on corporate governance and protecting investors and shareholders; (iv) improving governance and performance of enterprises with state-owned capital; and (v) promoting capital market development.
25. Viet Nam’s economic prospects in the last 6 months of 2020 may be affected by a number of factors, including (i) uncertainty of the world economy; (ii) implementation of large-scale support packages, while lacking coordination between these measures at a global level, which can pose significant risks to the financial market and global debt situation; (iii) more complicated trade tensions between major economies; (iv) potential exposure to many trade defense lawsuits, tax evasion investigations, origin frauds, etc. despite high expectations for the positive impact of EVFTA; and (v) adaptability of enterprises to domestic

market in the context of the COVID-19 pandemic. In such context, this report emphasizes the need to continuously improving microeconomic foundation and reforming economic institution towards being more creative and environment-friendly, together with effective risk management - especially associated with COVID-19 pandemic - in the "new normal" context.

I. ECONOMIC CONTEXT IN THE FIRST HALF OF 2020

1. *Regional and global economic context*

1. In the first half of 2020, the outbreak of COVID-19 pandemic was rapid, complicated and unpredictable. To prevent the spread of the pandemic, various countries imposed drastic, even unprecedented, measures such as border closures, lock-down, quarantine and social distancing, etc. Since the end of April, some countries have relaxed lockdown measures and social distancing. Discussions of re-opening the economy have proliferated in various countries since Q2/2020.
2. The COVID-19 pandemic and prevention measures resulted in unprecedented adverse impacts on an array of on sectors and economic activities (such as tourism, transportation, trade, import and export, investment, finance, etc.). International organizations lowered their forecasts of world economic growth in 2020, with explicit statement of high severity. The International Monetary Fund (IMF, 2020) projects world GDP to decrease by 4.9%¹ in 2020, of which, GDP of advanced economies may contract by 8.0%; and global trade by 11.9%.

Table 1: World Economic Prospects

| | 2020 | 2021 | Difference* | |
|-------------------------------------|-------|------|-------------|------|
| | | | 2020 | 2021 |
| World (Growth rate: %) | -4.9 | 5.4 | -1.9 | -0.4 |
| Advanced Economies | -8.0 | 4.8 | -1.9 | 0.3 |
| <i>United States</i> | -8.0 | 4.5 | -2.1 | -0.2 |
| <i>Japan</i> | -5.8 | 2.4 | -0.6 | -0.6 |
| <i>United Kingdom</i> | -10.2 | 6.3 | -3.7 | 2.3 |
| <i>Eurozone</i> | -10.2 | 6.0 | -2.7 | 1.3 |
| Developing and emerging economies | -3.0 | 5.9 | -2.0 | -0.7 |
| <i>China</i> | 1.0 | 8.2 | -0.2 | -1.0 |
| <i>India</i> | -4.5 | 6.0 | -6.4 | -1.4 |
| <i>ASEAN-5**</i> | -2.0 | 6.2 | -1.4 | -1.6 |
| World Trade Volume (growth rate, %) | -11.9 | 8.0 | -0.9 | -0.4 |
| Non-fuel Price (% , in USD) | 0.2 | 0.8 | 1.3 | 1.4 |

Source: IMF (2020).

Note: * Difference between the forecasts for 2020 and 2021 with those released in April 2020.

** ASEAN-5 includes Indonesia, Malaysia, Thailand, the Philippines and Viet Nam.

3. After the lockdown of its states, production and consumption in the US sharply decreased. GDP fell by 5% in Q1,² the most significant decline since the 2008 crisis. Manufacturing PMI went down consecutively, even recorded the trough of 36.1 in April. Exports and imports showed downward trend, of which exports experienced much larger reduction, resulting in widening trade deficit. Exports

¹ In this report, growth was year-on-year basis, except otherwise stated.

² Reports of Bureau of Economic Analysis – BEA (28 May 2020)

attained USD 151.3 billion and USD 144.5 billion in April and May, decreasing by 20.5% and 4.5% respectively. Meanwhile, imports decreased by 13.7% and 0.8%, respectively, to the respective levels of USD 200.7 billion and USD 199.1 billion. Trade deficits widened to USD 49.4 billion in April and USD 54.6 billion in May.³ After the relaxation of lockdown measures, firms recovered their production and business. Manufacturing PMI increased to 39.8 in May and 49.8 in June (albeit still below 50). Retail sales increased by 17.7% after three consecutive months of contractions. Business confidence and consumer confidence indexes also recovered. However, with such complexity of COVID-19 pandemic, the downside risks of US economy remained evident.

4. The Eurozone also faced serious economic contraction. GDP in Q1 shrank by 3.6%, the sharpest decline observed.⁴ Of which, the three largest economies - including Germany, France, and Italy – witnessed their GDP contract by 2.2%, 5.3% and 5.3% respectively. Industrial production maintained a declining trend. In April 2020, industrial production decreased by 28%, of which Germany by 30.2%, France by 34.9%, Spain by 34.3%, and Italy by 42.5%.⁵ Business confidence went down significantly, attaining only -2.43 in May, the lowest level since September 2009 and negative value for the 9th consecutive month. Employment ratio went down by 0.2% in Q1, the first decline since 2013.
5. China was one of the most severely affected countries, since it saw the first COVID-19 cases, was the first to impose quarantine and suspension of production line, and already faced the second wave since mid-June. GDP fell by 6.8% in Q1, the first decline in decades.⁶ Manufacturing PMI plummeted to 37.5 in February (the lowest point since 2008 financial crisis) and recovered to 50.6 in May.⁷ Imports decreased continuously, by 14.2% in April and 16.7% in May, mostly attributed to declining domestic demand and commodity prices. Meanwhile, exports fluctuated, decreasing by 3.3% in May, after rising by 3.5% in April. Unemployment rate rose significantly, reaching 6.2% in February and 5.9% in May.
6. Japan fell into technical recession after two consecutive quarters of negative growth. GDP dropped by 2.2% in Q1, after decreasing by 7.2% in Q4/2019.⁸ Production witnessed downward trend since the beginning of the year; manufacturing PMI declined continuously from 48.8 in January to 38.4 in May. Both exports and imports contracted: exports decreased by 28.3% (the 18th consecutive month) and imports by 26.2% in May. According to SMBC Nikko Securities Inc., in Q1, profits of companies listed on the Tokyo Stock Exchange's First Section (TSE) dropped by 66.8%.⁹

³ Reports of Bureau of Economic Analysis - BEA (published on 8/6/2020 and 2/7/2020).

⁴ Reports of Eurostat (09/6/2020).

⁵ Reports of Eurostat (12/6/2020).

⁶ Reports of National Bureau of Statistics of China (20/04/2020).

⁷ Reports of National Bureau of Statistics of China (01/6/2020).

⁸ Report of the Japan Cabinet Office (08/6/2020).

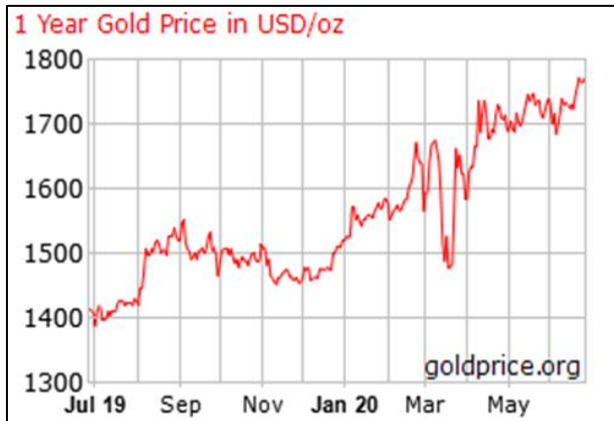
⁹ First Section mainly consists large companies, since the re-establishment of TSE in 1949. Updated data from <https://mainichi.jp/english/articles/20200515/p2g/00m/0bu/117000c> (Accessed on 18/6/2020).

7. The economic consequences of prioritized measures to combat the COVID-19 pandemic have been severe. When the disease has been gradually under control, due to increasing pressure from businesses, various countries gradually relaxed their lockdown measures and stimulated the economy. A range of countries have implemented large-scale financial and fiscal supports to promote economic recovery, despite warnings of global debt crisis after COVID-19 period.¹⁰
 - a. FED cut the interest rate twice in March 2020, from 1.5-1.75% to 0-0.25%; introduced economic stimulus packages, lending and supporting programs for businesses and consumers; implemented borrowing programs for SMEs, especially those in supporting industries; and activated corporate bond and exchange-traded funds (ETFs) purchasing program.
 - b. People's Bank of China (PBoC) also lowered the one-year loan prime rate (LPR) to 3.85% p.a.; the five-year LPR to 4.65% p.a.; the medium-term lending facility (MLF) for financial institutions to 2.95% p.a.
 - c. The Bank of Japan maintained 10-year yield target at 0%; and introduced economic stimulus package to minimize the impact of the pandemic, such as removing government bond-buying limit, increasing the purchases of corporate bond and corporate debt, supplementing ETF purchase target; offering loans at a 0% interest rate without collateral for firms; based on the actual situation when provinces relaxed lockdown measures.
 - d. The European Central Bank (ECB) cut 0.5 percentage point of interest rate for the emergency loan program for banks; and implements emergency longer-term refinancing to provide liquidity support for financial system. To recover from pandemic-induced economic contraction, EU members agreed to create fund of more than EUR 1.000 billion; and Germany has approved a rescue package of EUR 1.100 billion.
8. The evolution and consequences of COVID-19 remain complex and unpredictable as reflected by: (i) global increase of infected cases and deaths; (ii) disagreement on requirements and timing of re-opening economies; and (iii) significant differences in economic forecasts for 2020 and post-COVID-19 economic recovery scenarios. Notably, published data by June 2020 might not fully reflect serious consequences of COVID-19, because: (i) governments have quickly adopted support measures, and/or (ii) impacts of the pandemic have not been fully realized and captured in a window of several months.
9. Measures for preventing the spread of disease have reduced demand for energy and goods. Oil prices dropped sharply after the failure of OPEC+ agreement on production cuts, hit the lowest level in the last two decades (only USD 11.57 per WTI barrel and USD 19.33 per Brent barrel on 21/4/2020). Crude oil prices recovered only after EIA published a report showing contraction of crude oil inventories of US and exports of Arabia Saudi, along with expectations of increasing demand when disease became under control. On June 30, WTI oil price reached USD 39.6 per barrel while Brent oil price was USD 41.8 per barrel.

¹⁰ For example, Eichengreen (2020), Kharas (2020).

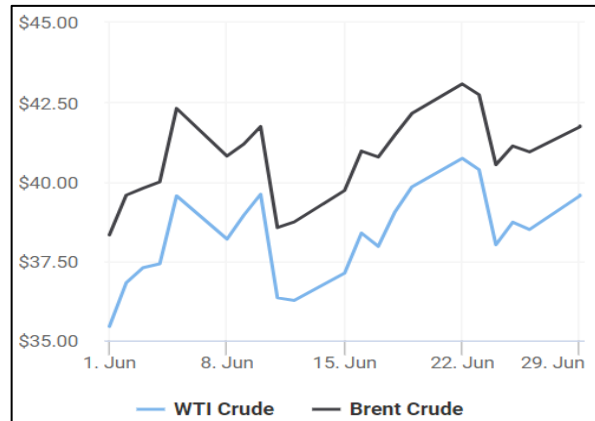
10. Gold prices kept upward trend, peaking at USD 1,761.9 per ounce on May 18 (the highest level since 2012). For the first 6 months of 2020, gold price has increased by nearly 17.3%. The main reasons include: (i) concerns about global economic prospects; (ii) large scale monetary and fiscal support measures in many economies; and (iii) devaluation of key currencies.

Figure 1: Gold price, 2019-2020



Source: <https://goldprice.org/>

Figure 2: Crude oil price, 6/2020



Source: <https://oilprice.com>

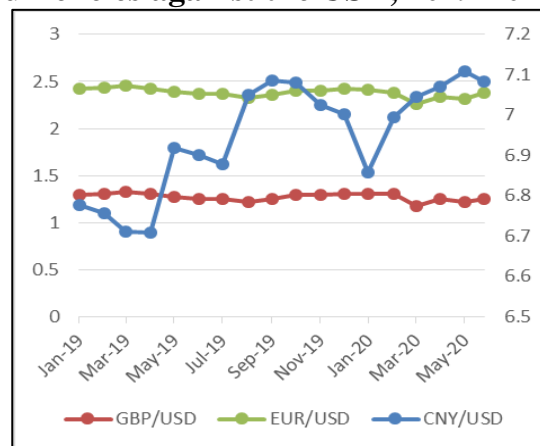
11. The USD appreciated against major currencies, despite ample fluctuations. The USD index reached 102.8 points on March 20 (at the highest since March 2003). Notably, the CNY depreciated against the USD in the first 6 months of 2020, even surpassing the level of 7 in May.
12. According to UNCTAD (June 2020), global foreign direct investment (FDI) was forecasted to decrease below USD 1 trillion in 2020 (for the first time since 2005), down by 40% (from USD 1.54 trillion) as compared to 2019. FDI would decline further by 5-10% in 2021. According to this report, the top 5,000 MNEs, accounting for the lion's share of global FDI, have adjusted their estimated average reduction of profit by 40% in 2020. In the early months of 2020, greenfield investment and M&A decreased by over 50%, and investment in infrastructure projects also fell by more than 40%.

Figure 3: USD Index, 2019-2020



Source: <https://www.marketwatch.com/investing/index/dxy>

Figure 4: Movement of selected currencies against the USD, 2019-2020



Source: The US Federal Reserve.
Note: CNY/USD is shown on the right-hand axis.

13. The US-China tension became more complicated, even escalated due to issues related to COVID-19 pandemic, resulting in conflicts on trade, technology, etc. COVID-19 pandemic arguably prompted plan by the United States to relocate global industrial supply chain, reducing dependence on China. Such policy phrases as “reducing dependency”, “enhancing autonomy” became more common in various countries. In this context, some economic cooperation initiatives - including trade agreements – have aimed more to promote trade diversion, even incorporate strategic competition that may affect trade flows and global value chains. Even in the field of medical equipment and supplies to prevent COVID-19, strategic actions aiming to affect trade have increased.
14. The multilateral trading system (WTO) faced lots of challenges in its reform, mostly owing to lack of consensus of major economies. Important agreements to international economic integration-such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the Regional Comprehensive Economic Partnership (RCEP), etc. – received more attention, though segmented in some countries. The possibility of China joining CPTPP was re-mentioned in Q2. UK officially announced its plan to join CPTPP in June. Thailand also had important considerations about similar plan. Efforts for signing RCEP have been increasing, even when internal concerns were experienced in India as well as escalation of conflicts at Sino-Indian border.

2. *Domestic economic context*

15. The first half of 2020 witnessed timely and appropriate adjustment in policy approach. Since the beginning of the year, the Government has been determined towards macroeconomic stability, inflation control, and growth promotion (Resolution 01/NQ-CP). In parallel, ambitious goals for improving business environment, enhancing national competitiveness were envisaged under Resolution 02/NQ-CP. In that context, the COVID-19 pandemic compelled Viet Nam to reconsider and adjust the policy approach towards "dual goals", i.e. effective prevention of COVID-19 pandemic, and ensuring stability and socio-economic development. Accordingly, the Government has promulgated guiding documents, orientations on measures and urgent solutions for alleviating difficulties of production and business, ensuring social security, in responses to COVID-19 pandemic, including Directive 11/CT-TTg on 4 March 2020, or Resolution 84/NQ-CP on 29 May 2020. Since the end of April 2020, studies to design economic recovery plan after COVID-19 have been promoted.
 - a. The Government issued Resolution 42/2020/NQ-CP dated 9 April 2020 approving financial relief package for people affected from COVID-19. The scope of support was estimated at over VND 62 trillion, targeting 7 categories of beneficiaries (approximately of 20 million people) including laborers, individuals whose income was significantly reduced, or those lost, underemployed and not ensure minimum standard of living. Target has been set out for the completion of payment for supported beneficiaries by the end of June 2020,. However, the group of contracted employers at enterprises

faced difficulties in accessing this relief package, mostly attributed to restrictive procedures and conditions.¹¹

- b. The Government promulgated Decree 41/2020/ND-CP on extension of the time limit for payment of taxes and land rental fees, which applied to 5 groups of enterprises affected by the pandemic, with estimated amount of VND180 trillion. This amount is significantly larger than initial proposal (VND 30 trillion).
 - c. Direct measures such as supporting of electricity tariffs, telecommunication fees, reduction and exemption of corporate income tax, reduction of interest from SME Supporting Fund, and 50% reduction of registration fee for domestically manufactured or assembled cars, etc.
16. Scenarios to assess the economic impact of COVID-19 epidemic have been proposed by international and domestic organizations.¹² Accordingly, related agencies have proactively developed, proposed responding measures under each scenario and consulted the Government. These activities are no new to Viet Nam; in practice, the scenario-based impact assessment has been regular since 2018 - when Viet Nam focused on addressing negative impacts of US-China trade war.
17. Priorities on alleviating difficulties for production and business have never been relaxed. By April, the Government consistently affirmed the message of striving to achieve the highest socio-economic goals, in spite of difficulties. Only in May did the Government propose to the National Assembly on adjusting socio-economic targets in 2020, and later reaffirmed the implementation of Politburo's conclusions on 5 June and the consensus of National Assembly against adjusting socio-economic targets for 2020. Such determination was also reaffirmed at the Prime Minister's Conference with businesses, focusing on 5 “key measures” of (i) attracting investment from domestic economic actors; (ii) boosting exports; (iii) promoting public investment; (iv) encouraging domestic consumption; and (v) attracting FDI.
18. The Government actively emphasized the need to attract FDI, based on the Politburo's Resolution 50-NQ/TW dated 20 August 2019. This presented a response to the context of rapid change, as foreign investors considered the diversification of investment locations, re-positioning value chain for reducing dependence on China. The Government has set up a special task force for actively attracting new investment waves. Unlike previous years, approach to

¹¹ According to this regulation, to receive support from the package, employees must have a written agreement to suspend labor contracts or take unpaid leave due to the impact of COVID-19 pandemic for 1 month or more and must be participating in compulsory social insurance. In fact, many businesses let employees take time off work instead of taking unpaid leave. In addition, if the financial statements of enterprise show revenue, the employee is not entitled to receive support.

¹² ADB assessed that the level of damage of Viet Nam's economy would range from USD 675 million - 3.7 billion (equivalent to 0.3-1.4% of GDP); the Ministry of Planning and Investment estimated that GDP would increase by 3.6-4.4% (2.4 to 3.3 percentage points lower than the target) if Viet Nam can basically control the epidemic from the second half of April 2020 and major trading partners control the epidemic in Q4/2020.

attracting FDI in the first half of 2020 seems to be more focused, practical and somewhat less publicized.

19. Strengths of economic prospects, strong external position, firm external balance and capability of attracting FDI inflows forged positive assessment of Viet Nam's economy by international organizations. The World Bank (WB) stated that domestic activities have recovered¹³; or the Index of Economic Freedom was positively evaluated.¹⁴ In its May report, S&P Global Ratings (S&P) kept national credit rating at "BB" and adjusted the outlook to "Stable" for Vietnam. This result is even more remarkable when S&P has downgraded and/or lowered assessment of prospects of dozens of countries.
20. According to the Viet Nam Provincial Governance and Public Administration Performance Index published at the end of April 2020, the most remarkable improvement in 2019 was recorded in corruption control of the public sector and improving publicity, transparency in the decision making process. However, reforms related to public administrative procedures hardly progressed, even weakened. The digital economy experienced faster growth in the first six months, arguably even faster than it was during previous years, highlighted by efforts towards e-government and digital transformation. In addition to the firm's adaptive efforts, increasing applications and digital platform of Viet Nam derived from swifter consideration and/or less caution of ministries and agencies (such as mobile money, 5G technology, etc.)
21. Difficulties during COVID-19 outbreak did not crowd out interest in medium and long-term economic reform programs and requirements. Boosting disbursement of public investment was considered a solution to compensate the reduction of growth momentum in 2020 and long-term. Measures to promote investment related to adjusting capital plans, finalizing procedures, allocating capital and fostering large-scale projects with spill-over/promoting effects were accelerated. Shortcomings of restructuring of state-owned enterprises (SOEs) were identified, including (i) slow equitization and transfer of state ownership rights to SCIC; (ii) slow restructuring of ineffective investment projects; (iii) inadequate model of corporate governance against international standards and practices; (iv) ineffective implementation of regulation on information disclosure; and (v) unclear and inappropriate execution of rights and responsibilities of agencies and individuals representing state ownership.
22. At its 9th Meeting, the National Assembly (term XIV) approved important documents such as EVFTA and EVIPA; resolution to recognize and enforce decisions of investment dispute settlement agencies in Viet Nam under Vietnam-EU Investment Protection Agreement and EU members; ratified Convention 105 on the abolition of forced labor; passed (amended) Investment Law, (amended)

¹³ Taking Stock: An Update on Viet Nam's Recent Economic Development in June 2020, accessed at <http://documents.worldbank.org/curated/en/289471591345919397/pdf/June-2020.pdf> (Accessed on 10 June 2020).

¹⁴ In 2020, Viet Nam ranked 105th in the world in terms of Index of Economic Freedom, up by 23 position compared to 2019. Among the low-middle income countries in East Asia, Southeast Asia and Oceania, Viet Nam was outstanding on "Global Knowledge Skills" - ranked 59th, up by 10 position compared to 2019.

Enterprise Law, Law on PPP Investment, etc. Preparations for the implementation of such documents have been shortly enforced. The Import-Export Agency of Ministry of Industry and Trade (MoIT) has promulgated EVFTA Implementation Plan in 2020 and subsequent years, while draft Government Action Plan has been prepared and expected to be officially submitted to Prime Minister after 15 days of receiving the Ministry of Foreign Affairs' notice on the enforcement of EVFTA.

23. Viet Nam's international position continues to improve. Aligned with ASEAN Chairmanship and “Cohesive and Responsive” theme of 2020, the Special ASEAN Summit and Special ASEAN+3 Summit on COVID-19 responses were held virtually in April and May. RCEP members were active in regulatory review of the agreement, aiming to finalize by the end of July 2020, to prepare for its signing on the margin of ASEAN Summit at the end of 2020. Ministries, agencies and provinces made more efforts in overcoming difficulties and collaborating with partners in various activities taken the year of dual roles for Viet Nam - as the Chairman of ASEAN 2020 and non- permanent member of United Nations Security Council - thereby improving the country’s position. Viet Nam has also been active in sharing experiences on prevention of COVID-19, and providing medical supplies to support epidemic prevention in some countries.
24. In general, the reforms and policy responses in the first half of 2020 should be commended in some aspects. *First*, the policymakers remained calm, and the responses engaged active consultation and high consensus of business community and people. In particular, communication played important role in stabilizing market sentiment, as well as sharing good business practices to cope with COVID-19. *Second*, the conduct of policies has been well-organized, closely linked with updating and evaluating growth scenarios, paying special attention to the evolution of COVID-19. *Third*, policy space has been retained to cope with future scenarios. *Fourth*, momentum for business environment, built during 2014-2019, was further improved, with no interruption even when priority was given to prevention of COVID-19 pandemic.

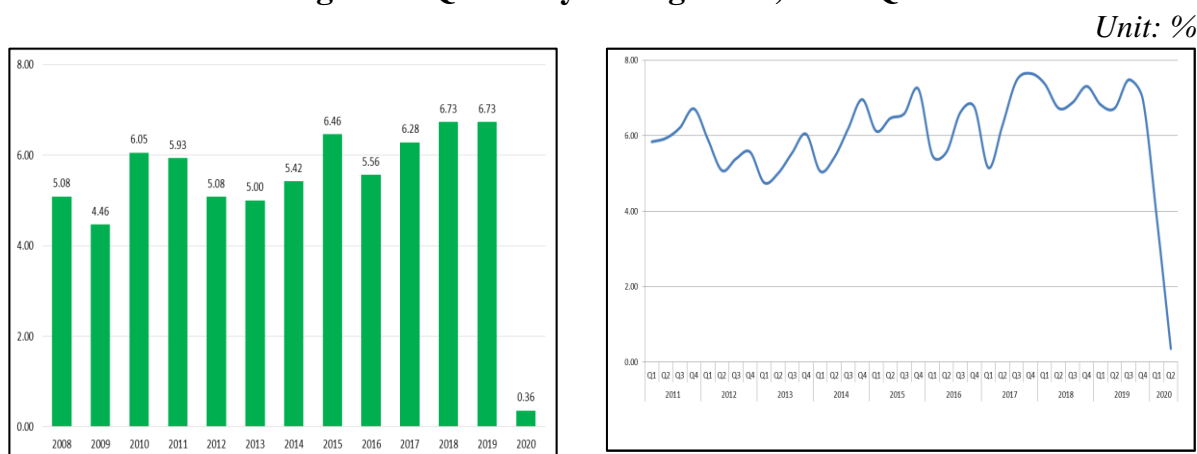
II. MACROECONOMIC PERFORMANCE AND OUTLOOK

1. Macroeconomic performance in the first 6 months of 2020

1.1. Real economy

25. GDP grew by only 3.82% in Q1 and 0.36% in Q2.¹⁵ For the first 6 months of 2020, the growth was only 1.81%, the lowest since 2008 (Figure 5). The growth figure in the first half of 2020 was slightly higher than that of 2009 – when Viet Nam suffered from the impacts of the global financial crisis and economic downturn.

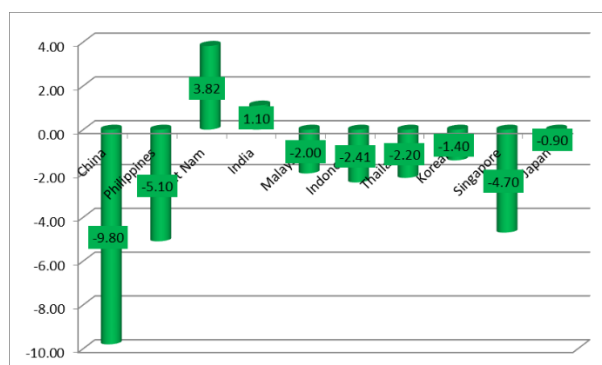
Figure 5: Quarterly GDP growth, 2011-Q2/2020



Source: General Statistic Office (GSO).

26. In Q1, Viet Nam experienced higher growth than other economies in Asia (Figure 6). Beside India and Viet Nam which attained positive growth in Q1, other economies witnessed negative growth in the context of COVID-19 pandemic. Of which, China was the most affected economy (decline by 9.8%).

Figure 6: GDP growth of selected economies, Q1/2020



Source: Tradingeconomics.com

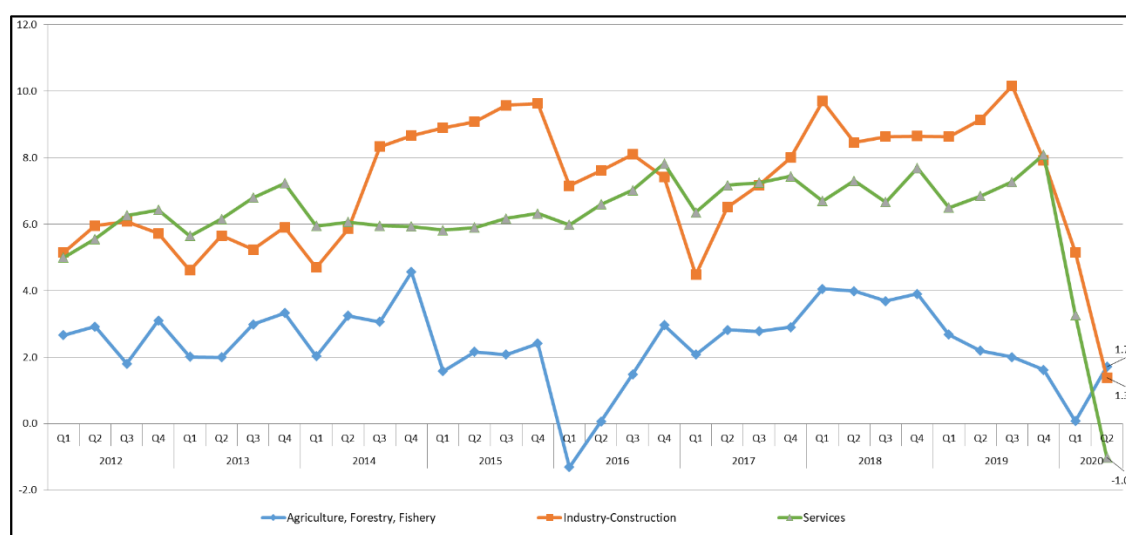
27. Downturn was evident in all three economic sectors in the first half of 2020. The agriculture-forestry and fishery (AFF) sector experienced significant challenges, attained growth of nearly 1.19%, only higher than the corresponding figure for 2016 and much lower than the ones of 2017-2019. Agriculture grew by 0.83%, mostly attributed to: (i) severe impacts of African swine fever from the end of 2019; (ii) difficulty in export of agricultural products in some markets (especially China) in early months of 2020; (iii) ineffective coordination of rice export management; and (iv) effects of salinity intrusion in the Mekong Delta region.

¹⁵ At the lowest during 2011-2019; and much lower than previous forecast.

28. Industry and construction increased by 1.38% in Q2 and 2.98% in the first 6 months. Despite sharp decline, growth rate in the first 6 months of industry and construction was still higher than that of AFF and services sectors. The manufacturing sub-sector grew modestly at 4.96%, lower than during 2016-2019. Industrial production experienced downward trend since Q4/2019 and severe impacts in the first 6 months. The mining sub-sector decreased by 5.40%, partly due to the fall of oil prices (equal to only 1/3 of the average in 2019) resulting in a 13.90% reduction of output in the first half of 2020.

Figure 7: GDP growth by sector, 2012-Q1/2020

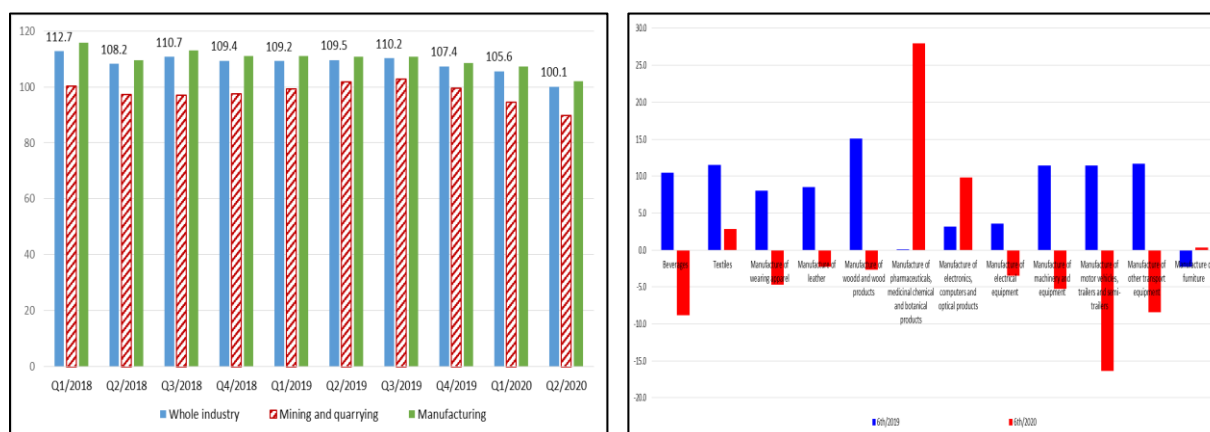
Unit: %



Source: GSO.

29. The Index of Industrial Production (IIP) was at the lowest, only attained 2.80% in the first 6 months of 2020¹⁶; of which manufacturing sub-sector, despite positive growth, only reached 4.60% (Figure 8). An important reason was the interrupted supplies of imported inputs during early months of 2020.¹⁷

Figure 8: Index of Industrial Production of Q2 and first 6 months



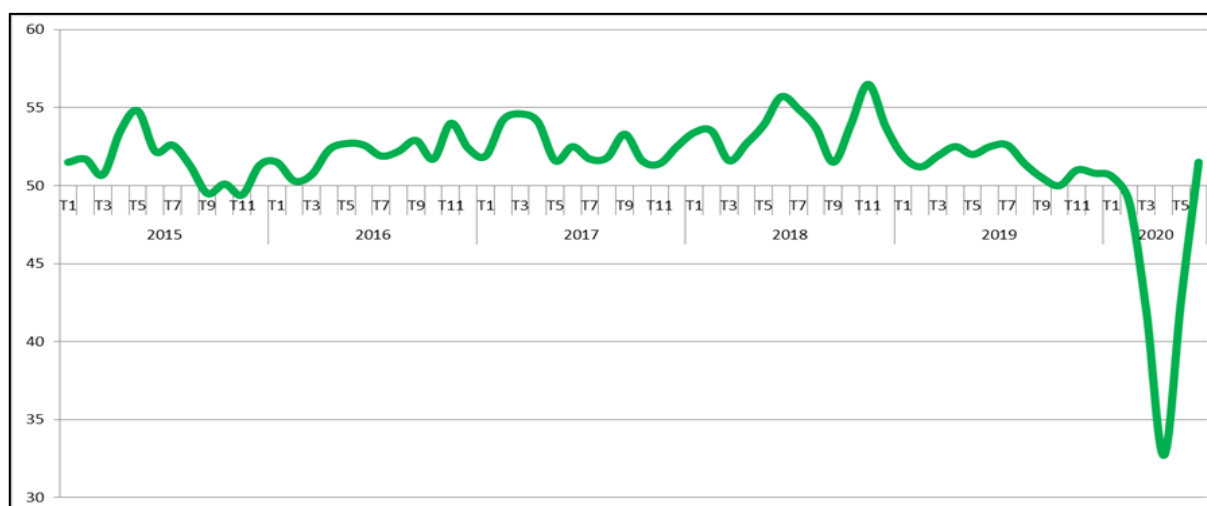
Source: GSO.

¹⁶ IIP only grew by 0.01% in Q2/2020.

¹⁷ For example, in the first 5 months, imports of fabric reduced by 17.2%; material for textile and garment, and footwear decreased by 14.2%.

30. Some manufacturing sub-sectors experienced significant reduction, of which motor vehicles decreased by 16.4%, other means of transport by 8.4%, beverages by 8.8%, wearing apparel by 4.7%, wood and wooden products by 2.7%. Notably, during the pandemic outbreak, enterprises were adaptive and focused on pharmaceuticals, medicinal chemical and botanical products, and this activity grew by 27.9% (Figure 8). In May and June 2020, industrial production began to recover, alongside socio-economic activities. IIP increased by 10.3% in June 2020 (MoM), but still decreased by 2.61 percentage points (YoY).
31. The Purchasing Manager Index (PMI) tended to decrease in the first half of 2020, even at the lowest of 32.7 in April, before recovery to 42.7 in May and 51.5 in June (Figure 9). The performance was mostly attributed to disruption of production during the outbreak of COVID-19, resulting in reduction of output, increasing pressures on input prices and more expenses for firms. Even in May 2020, when COVID-19 was under control in Viet Nam, the delivery time was lengthened markedly and access to imported inputs was quite challenging. However, COVID-19 created necessary pressures for Viet Nam to reform its industries more drastically toward increasing autonomy, proactively seeking for alternative sources of materials, and investing in development of domestic supply rather relying heavily on any single market.

Figure 9: Purchasing Manager Index, 2015-June 2020



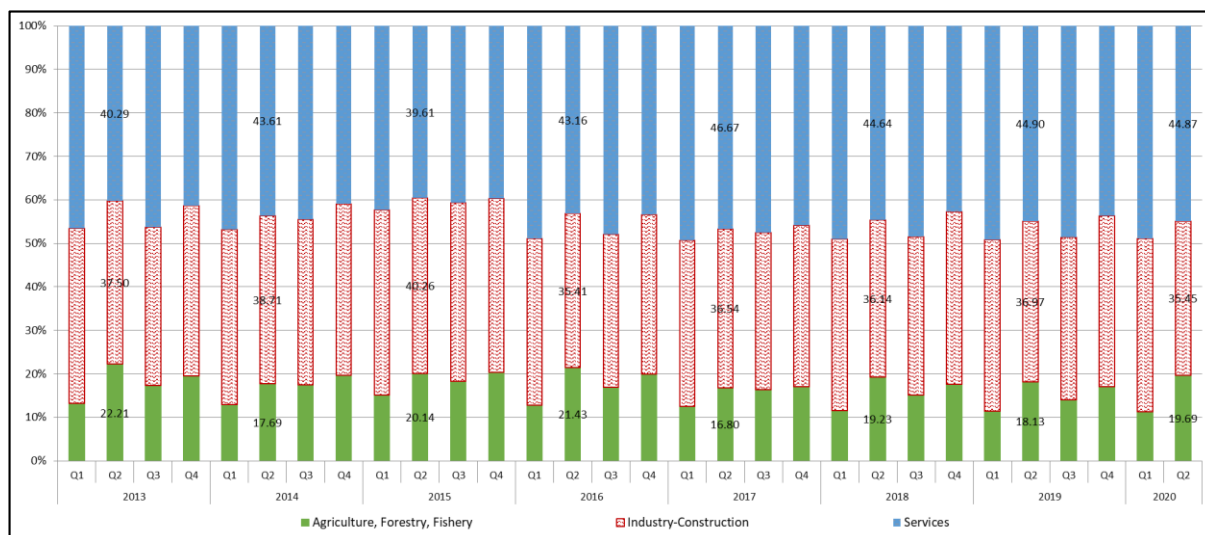
Source: Markit, HSBC.

Note: PMI=50 means no month-on-month change.

32. Value-added of services sector only grew by 0.57% in the first 6 months of 2020; specifically, increasing by 3.26% in Q1 and decreasing by 1.76% in Q2. There was remarkable decrease of major sub-sectors such as accommodation and catering services by 20.7%; transportation and storage by 3.0%. Such decrease mainly resulted from travel restrictions during COVID-19, particularly sharp reduction of international tourists (by up to 55.8% in the first half of 2020). Finance, banking and insurance maintained growth of 6.78%, of which insurance business witnessed relatively high growth of 11% during the pandemic.

33. Tourism was dramatically affected during COVID-19 pandemic. According to estimation of the Vietnam National Administration of Tourism, in February-April, the industry already experienced damage of USD 5.9-7.0 billion. For the first 6 months of 2020, tourism decreased by 53.2% and forecasted scenarios for the industry showed negative growth, whether COVID-19 has been controlled by late June or by the end of 2020. Impacts on the tourism could have been more serious if Viet Nam did not succeed in prevention of pandemic and promptly reopen domestic tourism since the end of April.

Figure 10: GDP structure by quarters (%), 2013-Q2/2020

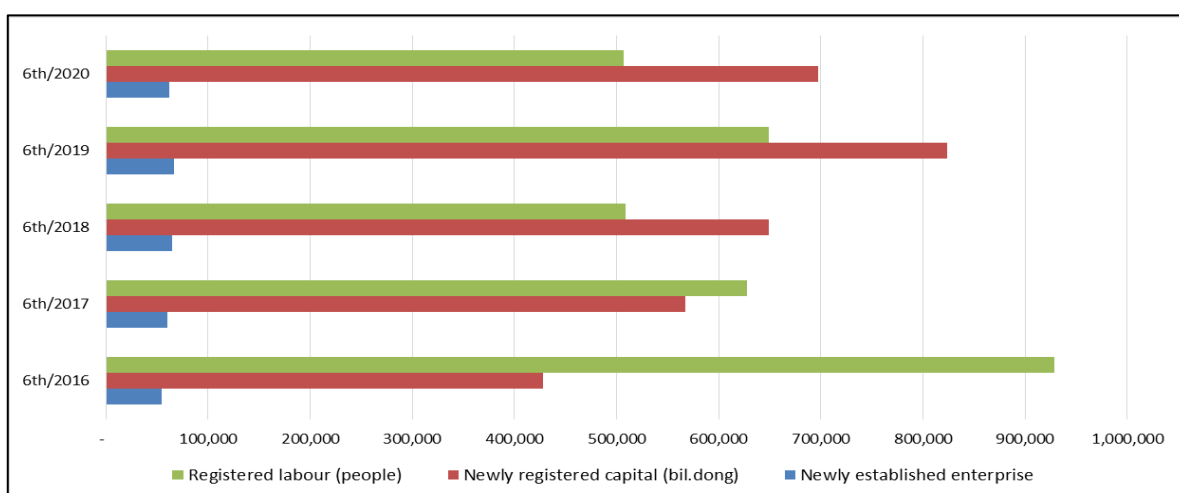


Source: GSO.

34. Economic structure (excluding the allocation of product taxes less subsidies on products) showed slightly changed on YoY basis. Due to difficulties in the first months of 2020 and relatively slow growth, the share of AFF increased slightly to 19.69% in Q2/2020. The share of industry-construction decreased to 35.45%, and that of services sector hardly changed, accounting for 44.87%.
35. By the end of Q2/2020, the business community experienced difficulties due to direct impacts of COVID-19. For the first 6 months of 2020, the number of newly registered enterprises was over 62,000, down by 7.3% and registered capital decreased by 19.0%. The number of inactive enterprise went up to 38.2%. GSO's survey showed that COVID-19 impacted on 85.7% of enterprises, mostly in terms of smaller consumption market (57.7%), lack of materials (22.1%), shortage of capital (45.4%).¹⁸ Nevertheless, these figures may not fully reflect challenges for business community due to (i) too short time for fully realizing consequences from the pandemic; and (ii) enterprises' adaptive measures in the new context.

¹⁸ Report on survey result of impacts of COVID-19 on production and business.

Figure 11: Selected indicators of enterprises' performance in the first 6 months, 2016-2020



Source: Business Registration Agency, MPI.

36. COVID-19 compelled Viet Nam's enterprises and agencies to consider and apply digital transformation more quickly and thoroughly. Various industries (such as healthcare, education, retail, etc.) made use of digital transformation initiatives and applications including distance learning platform, distance medical examination, online working, online shopping, etc. during the social distancing period. The advancement of digital application and transformation of the economy in the first months of 2020 was more remarkable than previous years.
37. According to survey on business tendency of manufacturing industry, only 27.3% of total surveyed enterprises perceived better business and production in Q2/2020 as compared to Q1/2020. Nevertheless, enterprises projected favorable conditions on Q3 as compared to Q2, when 49.1% of enterprises perceived improved tendency; 19.4% perceived more difficulties and 31.5% perceived more stability of business and production.

Figure 12: Business tendency (Q2/2020 as compared to Q1/2020)

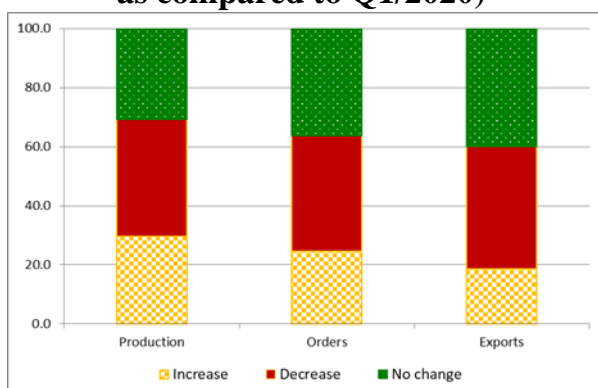
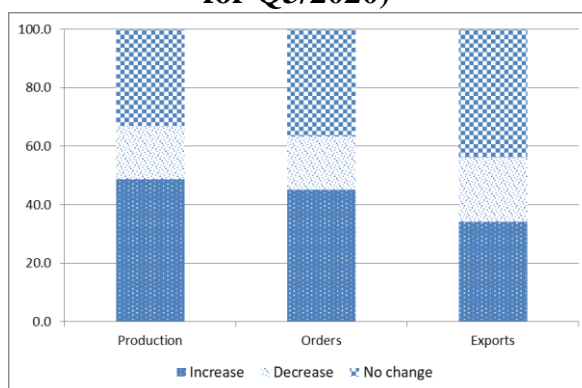


Figure 13: Business tendency (forecast for Q3/2020)



Source: GSO.

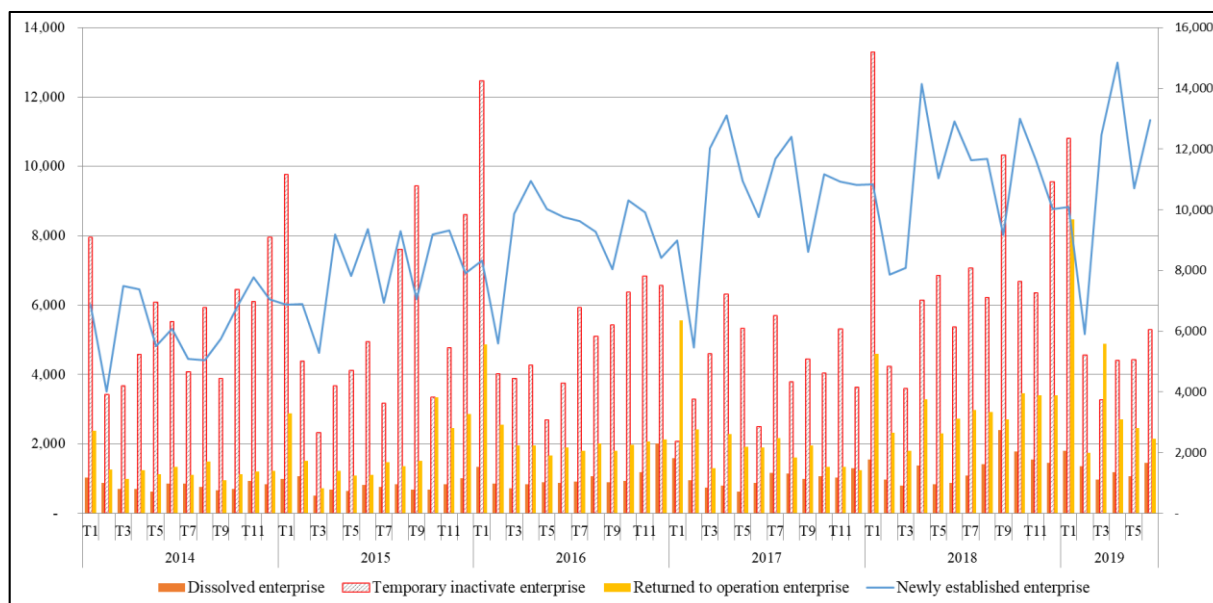
38. Difficulties of enterprises have largely impacted on labor and employment in the first 6 months of 2020. Total labor force was estimated at 46.8 million people, down by 2.1 million people (QoQ) and by 2.2 million people (YoY).

These figures also recognized the first decline after 5 years of consecutive increase (2015-2019). Labor participation rate was recorded at the lowest in the last 10 years, attaining only 73.8%.

39. By economic sector, total economically active labor by end of June 2020 was 53 million people, decreasing by 1.2 million people (QoQ) and by 1.3 million people (YoY). Of which, employment shrank mostly in rural areas, by approximately 564 thousand people (QoQ) and by 1.5 million people (YoY) (Figure 14). According to a GSO survey on impacts of COVID-19 on enterprises,¹⁹ by mid-April 2020, nearly 5 million workers experienced impacts from the pandemic, of which those in manufacturing experienced the most significant impacts (more than 1.2 million people). In addition to the training on skills for labor, measures by business community mostly concentrated on: (i) reduction of labor (28%); (ii) relaxation of working hours/rotated layoff (40%); (iii) unpaid leave; and (iv) reduction of wages.

Figure 14: Economically active labor by economic sector, 2013-Q2/2020

Unit: thousand people



Source: GSO.

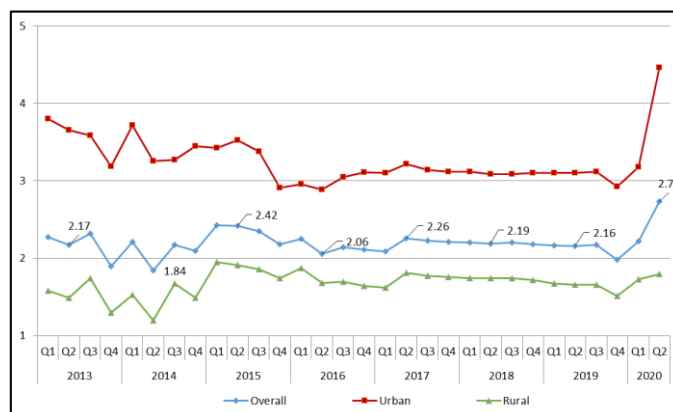
40. According to a rapid assessment by the International Labor Organization (ILO), impacts of COVID -19 have been harder for vulnerable and female labors. Estimation by this organization showed that the top four severely hit sectors²⁰ account for 44.1 per cent of female workers in Viet Nam (versus 30.4 per cent of male workers in the afore-mentioned sectors). Accordingly, the unfold consequences may weaken female's position in the labor market, if there is no appropriate gender policies.

¹⁹ The survey was implemented with 131 thousand enterprises and corporations on the impacts of COVID-19 in Q1 and the first 4 months of 2020.

²⁰ Including accommodation and catering services, manufacturing, wholesale and retail trades transportation and entertainment.

41. Overall unemployment rate increased to 2.73% in Q2/2020 (Figure 15), by 0.51 percentage point (QoQ) and 0.57 percentage point (YoY). Notably, unemployment rate of young population went up to 7.00% in the first 6 months of 2020, 5.4 times larger than that of adult population (from 25 years old and above).

Figure 15: Unemployment rate (%)



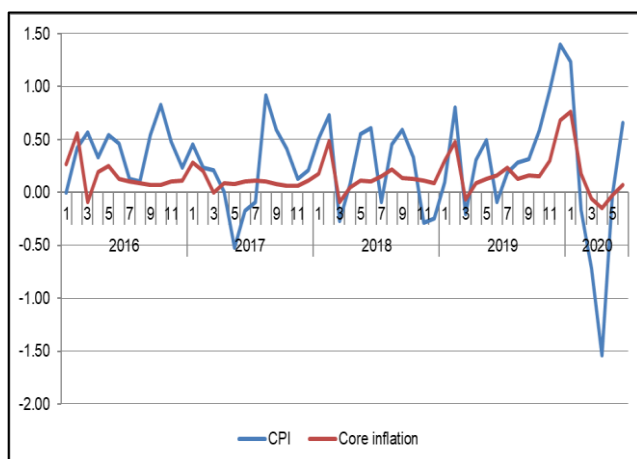
Source: GSO.

1.2. Inflation

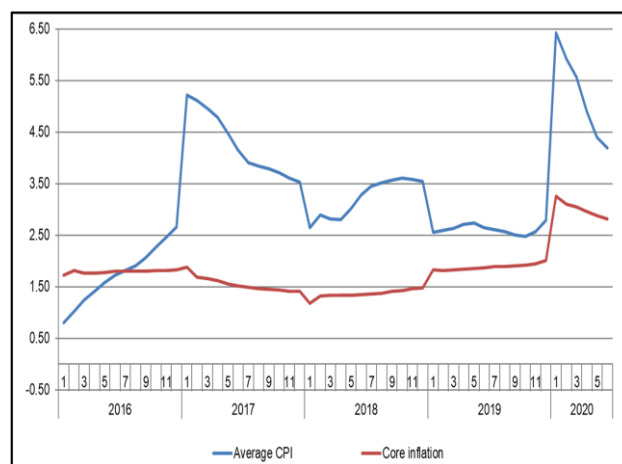
42. Average inflation in the first 6 months of 2020 was significantly higher than those for corresponding periods of previous years. However, the CPI-based inflation seemed to decelerate. Specifically, CPI decreased consecutively during February – May, and was up by only 0.66% (MoM) in June. Average CPI increased by 2.83% (YoY) in Q2 (which was below the rate of 5.56% in Q1). In the first half of 2020, average inflation rate was 4.19%.

Figure 16: Inflation, 2016-2020

(a) MoM



(b) YoY



Source: GSO.

43. CPI in the first 6 months of 2020 was exposed to the pressure from some commodity groups. *First*, price of several essential food-foodstuff soared up drastically, in particular pork, fresh vegetables,²¹ etc. Price index of food-foodstuff increased by nearly 14.3% in the first 6 months. This was attributed to such factors as weather conditions, climate change, diseases and the COVID-19 pandemic, which resulted in the shortage of supply and higher cost of access to supply. Pork price remained high, despite some reduction thanks to measures by

²¹ The price of fresh vegetables increased by 4.14% on average in Q1/2020. Pork price was up by 4.13% and in May and by 3.36% in June; and grew by 68.2% in the first half of the year. Source: GSO (2020).

the Government, relevant governmental bodies and local authorities.²² *Second*, the COVID-19 pandemic intensified demand for medicines and healthcare services in the context of disrupted and/or scarcer supply; accordingly, the price index of medicines and healthcare services was up by 3.29% in the first 6 months.

44. CPI pressure in the first half of 2020 was relieved owing to several factors. *First*, price of petrol and oil dropped by 19.49%, leading to the decrease by 9.26% of price of transport in the first 6 months. In fact, international oil price plunged dramatically, resulting in 9 downward adjustments of domestic oil prices since the beginning of 2020. After 4-consecutive upward adjustments during mid-May-end of June, oil price increased significantly in June (up by 14.2% MoM). However, the bounce was far below previous reductions and created lagged effects on the overall prices. *Second*, lower demand for transport and tourism as well as large-scaled domestic tourism stimulus package resulted in lower prices of transport and tours. The price index of culture, entertainment and tourism dropped by 0.5% in the first 6 months. *Third*, policy on supporting electricity tariffs for selected groups being adversely affected by the COVID-19 pandemic made electricity price was down by 0.28% (MoM) and 2.72% (MoM) in May and June, respectively. *Forth*, the Government exerted sufficient attention and efforts on controlling and stabilizing prices, aiming at market stabilization and responses to impacts of the COVID-19 pandemic.
45. Core inflation remained high in the first 6 months, attaining the average rate of 2.81% (Figure 16**Error! Reference source not found.**). Notably, core inflation tended to ease in March-May and slightly increased by 0.07% (MoM) in June. Unlike in 2019, core inflation in the first half of 2020 was hardly induced by the conduct of monetary policy.
46. The decreasing trend of average CPI and core inflation, to certain extent, reflected the Government's effective efforts to control price and conduct monetary policy that helped anchor inflationary expectation. In the difficult time of COVID-19 pandemic, average CPI and core inflation rates, albeit higher than in corresponding months of 2018-2019, were acceptable. However, despite more attention was given to addressing difficulties and economic stimulus, Viet Nam should have a prudent approach to monetary-fiscal policy management in order to retain sufficient policy management space and avoid creating further pressures on inflation.
47. Such factors as the Government's decision on putting a halt on upward adjustment of electricity price; lagged effects of policy on supporting electricity price for eligible groups being adversely affected by the COVID-19 pandemic since April 2020; etc. may help restrain price increases and control inflation in the rest of 2020. Complementary measures, namely enhancing transparency of electricity bills, etc. mitigate fluctuations of inflationary expectation. However, debates took place on the feasibility of inflation target for 2020 (below 4%)

²² Allowed to increase processed pork imports (up by 300% in the first 5 months), gave permission for live pig import (took effect since June 12), supported farmers to accelerate pig repopulation; directed licensed-pork importers to reduce selling prices, etc.

because: (i) production – business activities and consumers’ consumption have recovered, which may create pressures on raising prices of some commodity groups; (ii) international oil price tends to rise and prices of essential commodities (in particular pork) remain complicated; and (iii) lack of consensus on the rationale for adjusting regional minimum wage in 2021.

1.3. Monetary movement

48. VND-denominated deposit rate tended to decrease in the first half of 2020 (Table 2). Popular deposit rates by 19 June 2020 ranged from 0.1-0.2% p.a for demand and less-than-1-month deposits; 4.0-4.25% p.a for deposits with terms from 1 month to less than 6 months; 4.9-6.6% p.a for deposits with terms of 6 months to less than 12 months; and 6.5-7.4% p.a with terms of 12 months or more.
49. To alleviate difficulties for production and business, the State Bank of Vietnam (SBV) twice lowered the ceiling for deposit, lending and policy interest rates.²³ Accordingly, deposit rates for short terms, especially terms of less than 6 months and demand deposits, decreased significantly. However, the space for cutting down interest rates for terms of less than 6 months were narrower as average inflation was above 4% in the first months. For terms of 6 months and over 12 months, deposit rates fell more slowly because: (i) commercial banks, especially small banks, need to ensure stable sources of capital; (ii) competition for deposit under such terms was relatively severe to keep market share of deposits in the context of uncertainty; and (iii) competition from bond issuance by real estate corporations.²⁴

Table 2: Popular VND-denominated deposit rate of commercial banks

| | Demand | Shorter than 6 months | 6-12 months | Longer than 12 months |
|-----------------------|---------------|------------------------------|--------------------|------------------------------|
| End of June 2019 | 0.5-1.0 | 4.5-5.5 | 5.5-6.5 | 6.6-7.3 |
| End of September 2019 | 0.2-1.0 | 4.5-5.5 | 5.5-6.8 | 6.6-7.5 |
| End of December 2019 | 0.2-0.8 | 4.3-5.0 | 5.3-7.0 | 6.6-7.5 |
| End of March 2020 | 0.1-0.5 | 4.3-4.75 | 5.3-6.8 | 6.6-7.4 |
| End of June 2020 | 0.1-0.2 | 4.0-4.25 | 4.9-6.6 | 6.5-7.4 |

Source: SBV.

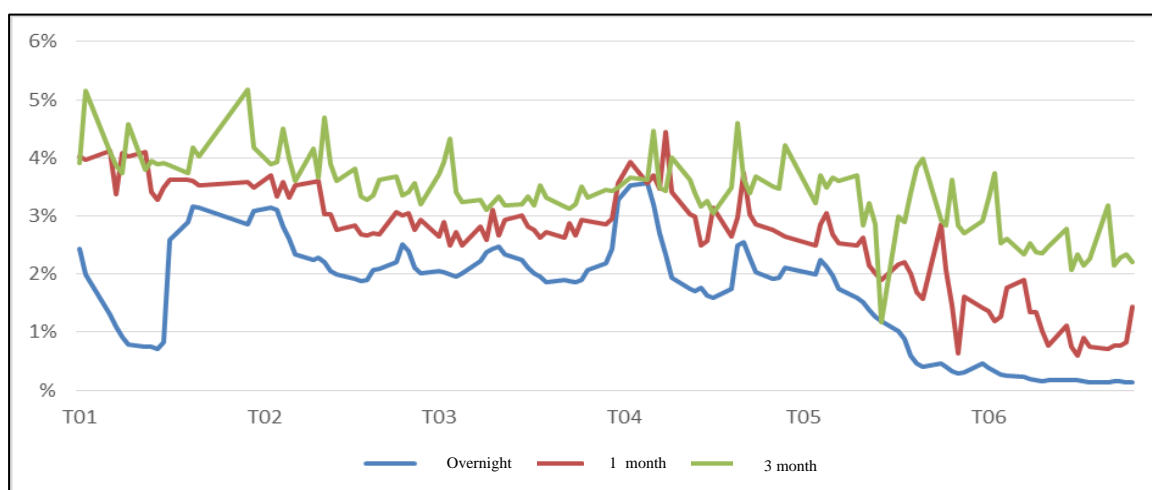
50. VND-denominated lending interest rates were maintained at 6.0-9.0% p.a for short term; 9.0-11% p.a for medium and long term. Commercial banks have provided interest rate support packages for firms, but reduction of interest rate have not yet met expectations. In general, difficulties of output of the economy increased the risk of bad debts and forced commercial banks to be more cautious

²³ In accordance with Decisions 418,419 and 420 /QD-NHNN dated March 16, 2020, and Decisions 918, 919 and 920 /QD-NHNN dated May 12, 2020 (details in the Appendix 1: Some policy changes)

²⁴ In the first four months of the year, real estate businesses accounted for 49.1% of the value of bonds issued, higher than the rate of 16% in the same period in 2019. The average deposit interest rate of real estate enterprises at a high level, over 11%/year.

in approving and disbursing capital. With that perspective, request to lower lending interest rates is still necessary (similar to the period prior to 2020); however, the context of COVID-19 and its consequences for the economy show that interest rate reduction hardly suffices. Efforts to lower lending interest rate by reducing deposit rates in an administrative manner may be counterproductive, because household deposits can then be diverted to other investment channels.

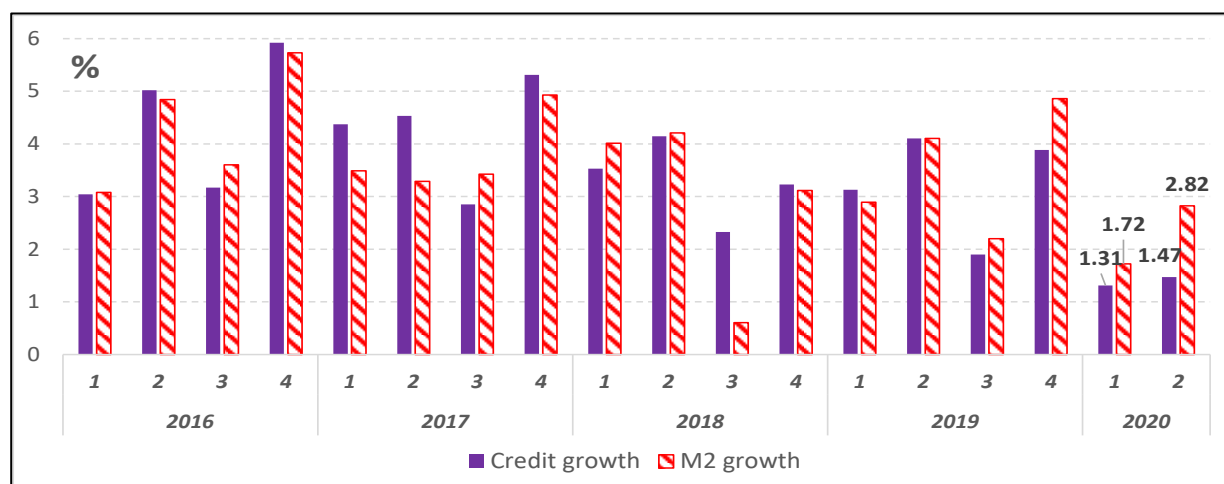
Figure 17: Interbank interest rate in the first half of 2020



Source: SBV.

51. Interbank interest rates tended to decrease in the first 6 months of 2020. The main reasons included: (i) relatively abundant liquidity of the system; (ii) decreasing demand for travel and transactions during and after social distancing; (iii) lowerings of policy interest rates by SBV; and (iv) slow credit disbursement.
52. Outstanding credits to the economy only increased by 1.3% in Q1/2020 and nearly 1.5% in Q2/2020 (QoQ, Figure 1). By the end of June 2020, outstanding credit was up by about 2.8% compared to the end of 2019. Credit growth rates in Q1 and Q2 were significantly lower than in the same period of 2016-2019. It was mostly attributed to negative impacts of COVID-19 on the economy and output by firms in the first half of 2020, resulting in weakened demand for credit. Credit growth in Q2 was slightly higher, owing to: (i) commercial banks being relatively cautious in lending activities in Q1 due to concerns about non-performing loans; (ii) SBV's efforts to induce commercial banks to reduce costs and to extend credits in Q2; and (iii) SBV's tight control of credit for potentially risky areas.

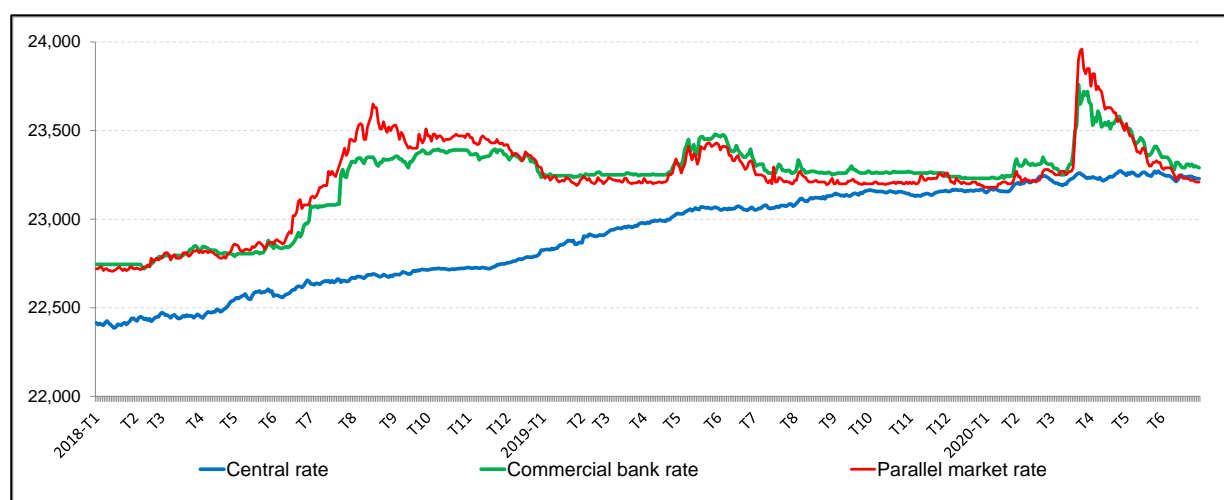
Figure 18: QoQ growth rates of credit and M2 (%)



Source: SBV.

53. Outstanding credit growth differed between commercial banks. Some banks witnessed negative credit growth. Others experienced positive credit growth, such as SHB, with growth of outstanding loan reportedly at 9.88% as of 31 May 2020 compared to the end of 2019.²⁵ Most banks with positive credit growth rates in Q1 were joint stock commercial banks and accomplished Basel II standards. Thus, difficulties from COVID-19 pandemic could not be the reason for commercial banks to slowly adapt to Basel II standards.
54. Total liquidity (M2) increased by 1.7% in Q1 and by 2.8% in Q2 (QoQ). As of June 15, M2 increased by about 4.59% compared to the end of 2019. M2 growth was in line with reduction of interest rate by SBV. Besides, M2 management helped to avoid pressure on inflation and VND/USD exchange rate.

Figure 19: VND/USD exchange rate, 2018-6/2020



Source: CIEM's compilation.

55. The movement of VND/USD exchange rate exhibited two separate phases in the first 6 months (Figure 2). From early January to mid-March, the VND/USD exchange rate was quite stable. Specifically, central exchange rate and

²⁵ Source: <https://cafeland.vn/tin-tuc/tin-dung-thoi-covid-19-nhung-ngan-hang-tao-hien-tuong-88124.html> (accessed on 2/7/2020).

commercial banks' selling rate showed almost no change. Meanwhile, the exchange rate on parallel market was lower than that at commercial banks. Since mid-March, the VND/USD exchange rate increased significantly, because USD was at the peak in the last 3 years. After that, the VND/USD exchange rate of commercial banks and parallel market were cooled down. The SBV slightly adjusted central exchange rate, which increased only 0.32% as of 30 June compared to end of 2019 and decreased by 0.03% compared to end of Q1. Meanwhile, the exchange rate on parallel market and commercial banks increased by 0.3% and 0.26%, respectively.

56. In mid-January 2020, Viet Nam continued to be in the US monitoring list²⁶ of currency manipulation. Having relatively large trade surplus²⁷ with the US, Viet Nam finds the task of having itself removed from the list difficult. Challenges prevail for Viet Nam in justifying its exchange rate management. More importantly, Viet Nam still needs to further elaborate against adjusting exchange rate to support exports-which the SBV has done quite effectively in 2019.
57. The COVID-19 pandemic, to a certain extent, creates additional demand for non-cash payments. A key reason was less demand for cash as people feared infection. In order to support the people, commercial banks have offered incentives for online payment, such as exemption of inter-bank money transfer fee, additional interest for online savings deposits and discount for shopping orders on ecommerce platform. Some banks realized remarkable increase in the number of transactions via online accounts, credit cards and e-wallets (from 43-63%).²⁸ Notably, changes in people's awareness and actions on promoting non-cash payment in the first 6 months was more material than previous years.²⁹

1.4. Investment

58. The economic downturn under impact of COVID-19 pandemic was associated with slower investment growth. Gross investment at current prices in Q2 reached VND 481.2 trillion (34.8% of GDP), increasing by 4%, or 7.2 percentage points lower than in Q2 of 2019. Overall, in the first 6 months of 2020, gross investment reached VND 850.3 trillion (33.0% of GDP), up by 3.4%, or 6.9 percentage points lower than the first half of 2019 (Table 3). At constant prices, gross investment only increased by 1.9% in the first 6 months.
59. Investment by the state sector grew by 7.4%, 5.3 percentage points higher than the corresponding figure for the first half of 2019. This growth rate was even higher than that of non-state sector and FDI sector. The disbursed investment from state budget was estimated at VND 154.4 trillion, up by 19.2% in the first 6 months, higher than the same period of 2016-2019.

²⁶ Report on "Macroeconomics and exchange rate policy of key trading partner" published by Department of Treasury.

²⁷ See more in section II.5

²⁸ <http://tapchitaichinh.vn/ngan-hang/kinh-te-tien-mat-se-lui-vao-di-vang-hau-covid19-321622.html> (Access on 29/6/2020).

²⁹ Since 2006, the Prime Minister issued Decision 291/2006/QĐ-TTg approving the Project on non-cash payment in the 2006-2010 period and orientations to 2020.

60. Facing the difficult economic situation in light of COVID-19 and the need to promote economic growth, the Government was more determined and aggressive in speeding up disbursement of public investment. The Government's Resolution 84/NQ-CP dated May 29, 2020 requested the reviews of regulations on budget, investment, construction and timely removal of barriers and obstacles to speed up implementation and disbursement progress and improvement of efficiency of public investment projects. However, weaknesses and limitations affecting the disbursement of public investment were no new, but instead have already existed for years and failed to make sufficient improvements. Notably, weaknesses prevail in actual implementation phase of almost all stages of project management cycle.

Table 3: Gross investment, current prices

Unit: VND trillion

| No. | Category | Q1 | Q2 | 6 months 2020 | Growth rate in Q2 (%) | Growth rate in 6 months (%) |
|------------|---|--------------|--------------|---------------|-----------------------|-----------------------------|
| | Total | 369.1 | 481.2 | 850.3 | | |
| I | State investment | 113.2 | 160.2 | 273.5 | 7.8 | 7.4 |
| 1 | State budget investment | 60.5 | 93.9 | 154.4 | 19.7 | 19.2 |
| 2 | Government bonds | 5.2 | 9.3 | 14.5 | 7.5 | 7.9 |
| 3 | State credit | 8.1 | 9.5 | 17.6 | -12.4 | -9.5 |
| 4 | Borrowings from other sources (by the State sector) | 17.5 | 22.7 | 40.1 | -11.8 | -13.3 |
| 5 | Investment by SOEs (Equity) | 13.1 | 14.6 | 27.7 | -9.5 | -8.9 |
| 6 | Other sources | 8.9 | 10.3 | 19.3 | 16.2 | 23.5 |
| II | Non-state investment | 166.6 | 209.3 | 375.9 | 4.9 | 4.6 |
| III | FDI | 89.3 | 111.6 | 200.9 | -2.4 | -3.8 |

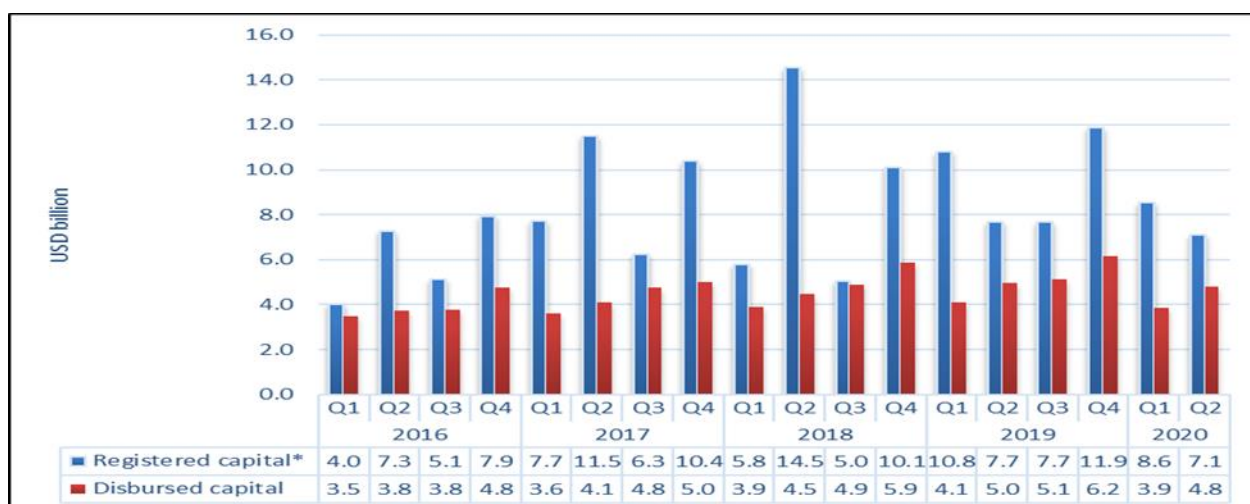
Source: GSO.

61. Beside efforts to promote public investment disbursement, attracting domestic private investment is considered one of the five "growth drivers" to help Viet Nam's economy recover from COVID- 19. Despite slower investment growth rate (only 4.6%), private enterprises actively adapted to the new situation. The non-state sector's role in sustaining growth momentum is still emphasized. Some studies estimated that a 1% increase in private investment would add 0.15 percentage point to Viet Nam's GDP growth (Dieu Thien, 2020). This direction of efforts is even more meaningful given the fact that non-state sector has a lower incidence of being affected by COVID-19 than others.³⁰
62. Viet Nam still appealed to foreign investors in the first half of 2020. Registered FDI in Viet Nam was estimated at USD 8.6 billion in Q1 and USD 7.1 billion

³⁰ Report on survey results assessing the impact of COVID-19 on production and business activities of enterprises (GSO, 2020).

in Q2, down by 20.9% and 7.1% respectively. For the first 6 months of 2020, registered FDI capital reached USD 15.7 billion, down by 15.1%. The implemented capital of FDI projects reached USD 8.7 billion, down by 4.9%.

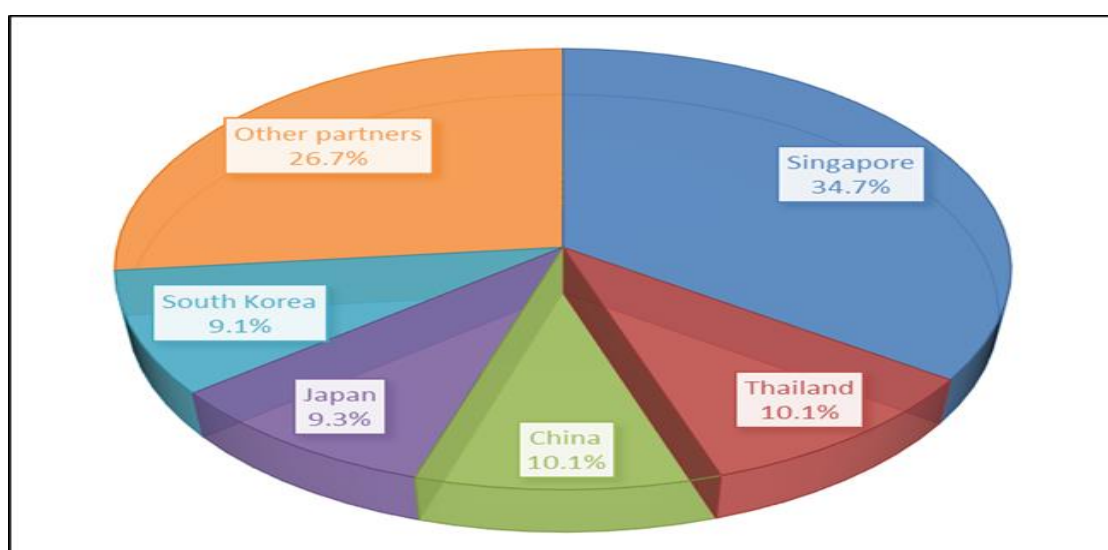
Figure 20: FDI's attraction in the first 6 months



Source: GSO.

63. In the first 6 months of 2020, Thailand emerged as the second-largest investor (from 8th position in the same period of 2019), only after Singapore, with total registered capital of up to USD 1.58 billion. Of which, added capital of the Long Son Petrochemical Complex Project in Ba Ria - Vung Tau was USD 1.39 billion. In fact, Thai investors increased presence significantly in Viet Nam since 2016 in various industries, from wholesale and retail trade to manufacturing industries. The top five investment partners all came from Asia, accounting for USD 15.67 billion or 73.3% of total registered capital.

Figure 21: Major investors in the first 6 months of 2020



Source: GSO.

64. In the context of COVID-19, foreign investors actively and promptly considered adjusting investment strategies. The most common trends included diversification of investment locations and/or withdrawing most crucial activities/stages back to their country of origin. Besides, the risks/consequences

of supply chain disruption caused by COVID-19 pandemic compelled adaptation via "shortening" supply chain. Accordingly, foreign investors continued/showed their intention more openly to move at least part of their production facilities out of Chinese market. However, the shift of investment out of China was even evident before 2020, mostly attributed to: (i) rapid increase of labour costs in China; (ii) decline in China's economic growth; (iii) US-China trade war; and (iv) more open business-investment environments and/or attractive investment policies from India and ASEAN countries. During COVID-19 pandemic and beyond, this shift may no longer be purely on commercial basis, but also triggered by economic measures³¹ and/or strategic-administrative orientations of the governments of investor's country of origin³².

65. Viet Nam still possesses ample advantages to attract more foreign investment. In addition to notable achievements in the prevention of COVID-19, fundamental and proven elements included: (i) rapid improvement of business and investment environment; (ii) opportunities from new FTAs and Investment Protection Agreements (such as CPTPP, EVFTA, EVIPA, etc.); and (iii) the recognized policymaking capacity of the Government during times of external uncertainties such as US-China trade war. Viet Nam has also taken significant steps to build trust with quality investors (who are big and have financial and technological potentials, and/or master critical stages in the global value chains) through a series of legal documents such as Decree 50- NQ/TW of the Politburo on August 20, 2019, Decision 850/QĐ-TTg of the Prime Minister on June 17, 2020 establishing the Task Force to promote foreign investment cooperation.
- a. The need to actively screen, approach and call for potential investors, with preferential policies to attract FDI into priority areas and target industries prevails. However, it is more critical to ensure effective linkage with FDI through improving domestic capacity, especially in terms of institutions associated with economic space for both private and FDI sector, industrial real estate infrastructure, transport infrastructure, information and communication infrastructure, and human resources quality.
 - b. The afore-mentioned conditions are necessary, but not sufficient, to attract foreign investment effectively. Viet Nam still needs to strongly affirm the requirement of promoting more effective and substantive foreign investment cooperation through improving strategic trust, concretizing cooperation activities, and sharing benefits. Regardless of scale and push-factors of investment shift away from China, foreign investors would find it difficult to engage in long-term cooperation if media and policy discussions in Viet Nam focus too much, even with negative views, on the magnitude of contributions and benefits of foreign-invested enterprises in exports and GDP. The desire to connect domestic with FDI firms and to promote technology transfer from the later is legitimate, but it should not and cannot be done with the

³¹ For example, USD 2.2 billion in Japan's economic bailout package to help Japanese manufacturers move their production processes out of China

³² E.g, various ideas are discussed around the possibility to set up the supply chain of "the QUAD" and their partners, or the US may ask a group of investors to leave China for other countries.

imposition on foreign investors, and/or with subjective assessment that foreign investors really need Viet Nam after they encounter difficulties in China. On the contrary, thorough understanding of the strategy of foreign investors is vital not only to adjust domestic policies but also to manage risks during the process of repositioning the value chain associated with US-China trade confrontation.

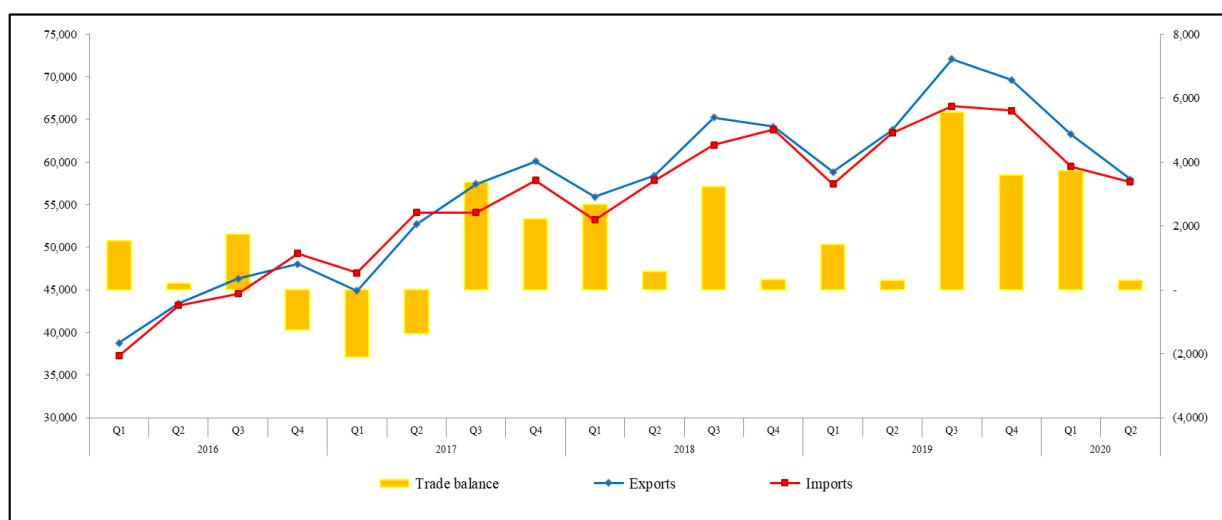
- c. Pragmatic approach in attracting FDI is not new, but still needs to be reaffirmed and emphasized in a rapidly changing world. Pragmatism must at least be reflected in the number of ‘big’ foreign investors that Viet Nam can attract, the number of localities eligible to welcome investors, and the stages which Vietnamese enterprises can participate in and master later on. Encouraging development of domestic private enterprises to compete at the regional and world levels is justified. However, the realization of such policy needs an appropriate focus and roadmap, considering the possibility of cooperation and learning from FDI firms instead of focusing on solutions to reduce incentives for FDI.

1.5. Trade

66. Merchandise exports reached USD 63.2 billion in Q1, and were estimated at USD 58.0 billion in Q2, reflecting YoY growth rates of 7.5% and -9.0% respectively. Reduction of export growth became more serious since Q2. For the first 6 months of 2020, total exports were estimated at USD 121.2 billion, down by 1.1%, equivalent to 109.3% of GDP. Of which, exports of the FDI sector only reached USD 79.8 billion, down by 6.7%, decreasing overall export growth by 4.7 percentage points. Exports of domestic sector increased by 11.7%, amounting to USD 41.4 billion, contributing 3.5 percentage points to the overall export growth.

Figure 22: Exports, Imports and Trade Balance, 2016 – Q2/2020

Unit: Million USD



Source: GSO.

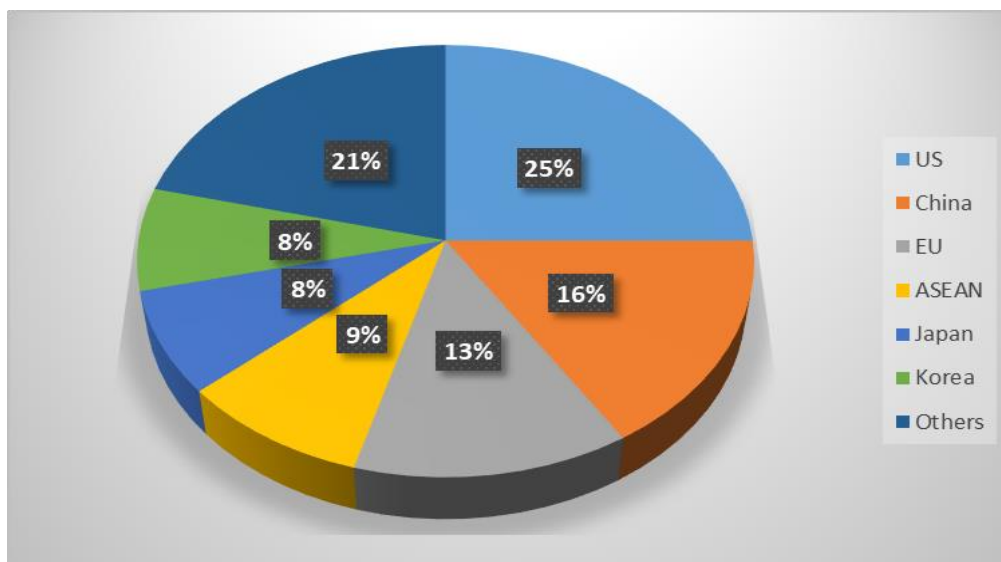
Note: Exports and imports are shown in the left-hand axis and trade balance is on the right-hand axis.

67. The COVID-19 pandemic had both direct and indirect impacts on Viet Nam's exports, especially since the beginning of Q2/2020. *First*, demand for imported goods, particularly for Viet Nam's key export markets such as US, EU, etc. dropped sharply. This could be attributed to the rapid spread of pandemic, resulting in controlling measures such as lockdown, restriction of large gathering, restriction of commercial centers, etc. that weakened demand for non-essential goods. *Second*, trade was limited, due to temporary border closure. *Third*, customs clearance has been more difficult due to stricter quarantine, which increased time and costs. Breakdowns and disruptions of the value chain affected imported inputs for export orders, especially since April. *Fourth*, retaining employees and existence of enterprises were difficult due to long-lasting period of cancellation and/or postpone of orders³³, making difficult for enterprises to cover labor cost, fixed costs, interest, etc. *Fifth*, the declines of commodity prices adversely affected many export items.³⁴
68. In Q2/2020, Viet Nam had 9 items with individual export value exceeding over USD 1 billion, altogether accounting for 70.2% of total exports. For the first 6 months of 2020, Viet Nam had 22 items with individual export value of over USD 1 billion, altogether accounting for 86.2% of total exports. Of which, some items achieved high YoY growth, such as computers, electrical products, spare-parts and components with value of USD 19.3 billion (up by 24.2%) and machine, equipment, tools and instruments (USD 10.3 billion, up by 25.2%). However, exports of 13 out of 22 key items decreased, including telephones, mobile phones and parts (down by 8.4%), textiles and garments (down by 15.5%), footwear (down by 6.7%), and means of transportation, parts and accessories thereof (down by 11.1%).
69. Exports of AFF products decreased, such as fishery products (down by 8.3%), vegetables and fruits (down by 11.4%), rubber (down by 27.8%). In addition to challenges from pandemic, Viet Nam's agricultural exports were also affected by the trade conflicts between large economies and more severe climate change. At the same time, importing countries applied more protectionist measures, technical barriers, new regulations on traceability, origin, and food safety standards. However, rice exports were remarkable in the first 6 months of 2020 due to (i) the increase in both value and volume (reaching over USD 1.7 billion, up by 19.3%); and (ii) debates and ineffective coordination of agencies involved in regulating rice exports in April.

³³ According to the Ministry of Industry and Trade, the number of textile and footwear orders in April and May decreased by about 70%, new orders from June onwards have not been negotiated. The diversion into the domestic market is not feasible because the businesses mainly processed and exported for foreign brands, so the models and materials cannot meet the domestic taste.

³⁴ In 4/2020, many agricultural items reduced prices, such as: cashew nuts (down 12.9%); tea (down 13.1%); pepper (down 19%). Notably, on 27/4, WTI crude oil price dropped by 77.3% to USD 15.72 per barrel.

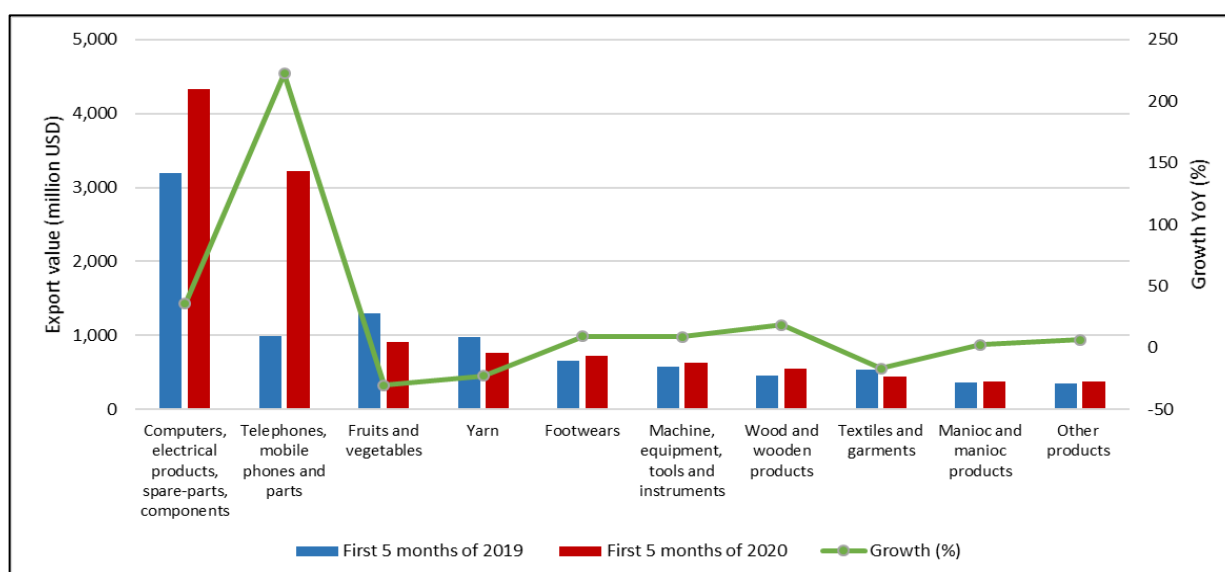
Figure 23: Export structure by key partners in the first 6 months of 2020



Source: GSO.

70. In the first 6 months of 2020, exports to the two largest markets, including US and China, recorded positive growth. Exports to the US reached USD 30.3 billion, increasing by 10.3% (YoY). Exports to China amounted to nearly USD 19.5 billion, up by 17.4%. Notably, export of fruits and vegetables in the first 5 months to China decreased by 30.3% (Figure 23). Such decline of exports was arguably attributed to China's border-trade measures during COVID-19. However, this cost may compel Viet Nam to rethink more thoroughly about the restructuring of vegetable and fruit production in the medium and long-term, to avoid the congestion and damage of products at China's border date with Viet Nam – which was common in previous years.

Figure 24: Exports to China by product, 5 months/2019-5 months/2020



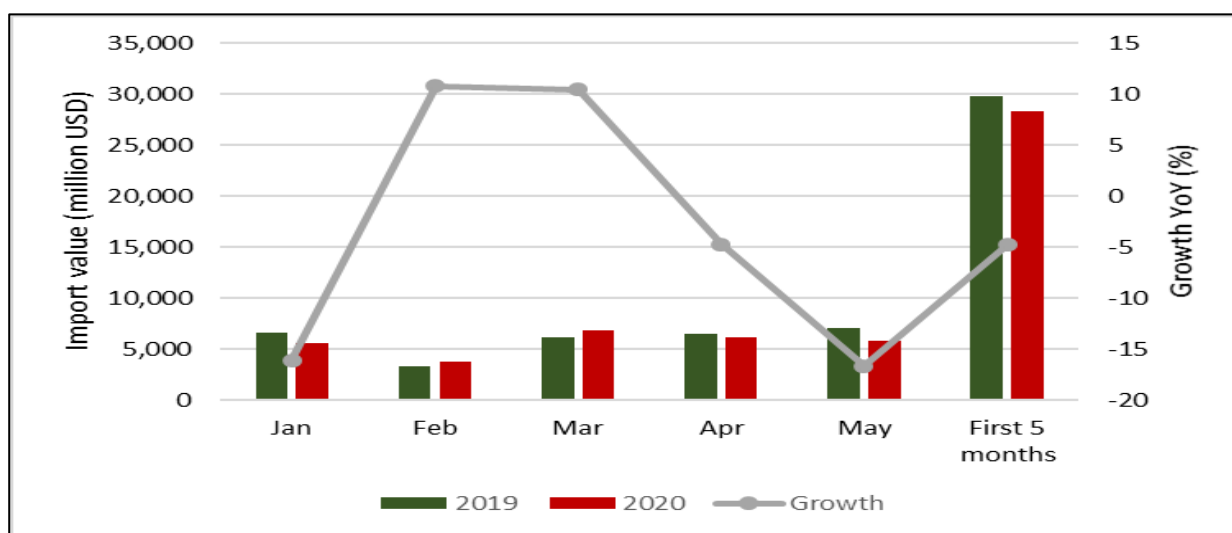
Source: General Department of Vietnam Customs.

71. Imports reached USD 59.5 billion in Q1 (up by 3.6%) and USD 57.7 billion in Q2 (down by 9.1% on YoY basis and by 3.0% on QoQ basis). For the first 6 months of 2020, imports were estimated at nearly USD 117.2 billion, decreasing

by 3.0%, equivalent to 105.1% of GDP. Of which, domestic sector imported USD 51.6 billion, up by 0.1%. FDI sector imported USD 65.6 billion, down by 5.4%.

72. In the first 6 months of 2020, imports of production means and inputs were estimated at USD 109.5 billion, accounting for 93.5% of total imports, down by 2.8%. Of which, imports of inputs for technological industries (such as computers, electrical products, spare-parts and components) accounted for the largest share, attaining USD 27 billion, up by 13.3% (YoY). Consumer goods was estimated at USD 7.7 billion, or 6.5% of total imports, down by 6.5%.
73. In the first 6 months of 2020, Viet Nam's imports from three key markets decreased (Figure 24). China was Viet Nam's largest source of imports, reaching USD 34.8 billion, down by 2.2%. Imports from South Korea reached USD 20.3 billion, down by 10.0%. Imports from ASEAN attained USD 14.2 billion, down by 11.9%. As exports has been strongly dependent on imported materials, the disruption of imports in the context of COVID-19 could affect exports in the second half of 2020.

Figure 25: Monthly import from China, 5 months/2019-5 months/2020

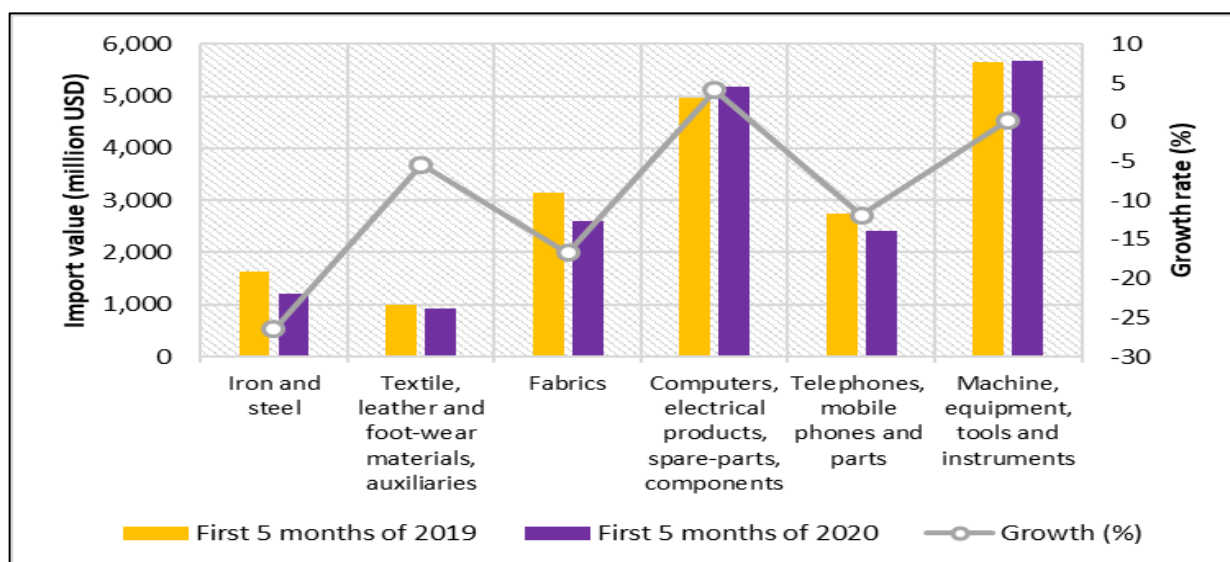


Source: General Department of Vietnam Customs.

74. In the first 6 months of 2020, imports from China – major supplier of materials for Viet Nam's key export and manufacturing industries – went down continuously (except March, Figure 25Figure 25). Iron and steel decreased by 26.5%; fabrics by 16.7%; telephones, mobile phones and parts by 11.9% (Figure 26Figure 25Figure 26). This situation forced Vietnamese enterprises, including FDI enterprises located in Viet Nam, to consider more seriously value chain management towards increasing resilience, reducing dependence on any single import market, and finding suitable domestic suppliers. The requirement is also consistent with improving compliance with rules of origin for making use of tariff preferences under CPTPP and EVFTA.

Figure 26: Major products imported from China, 5 months/2019-5 months/2020

Unit: Million USD



Source: General Department of Vietnam Customs.

75. Viet Nam retained a trade surplus in the first 6 months, though not as high as in 2018-2019. The trade surplus reached USD 3.7 billion in Q1 and USD 0.3 billion in Q2. For the first half of 2020, Viet Nam recorded a trade surplus of USD 4.0 billion, equivalent to 3.3% of exports. Domestic sector experienced trade deficit of USD 10.2 billion; FDI sector (including crude oil) had trade surplus of nearly USD 14.2 billion. Among the key partners, Viet Nam only had trade surplus with the US and EU, being USD 22.9 billion, and USD 9.0 billion, respectively. In contrast, the country suffered from the largest trade deficit with China (USD 15.3 billion), followed by South Korea (USD 11.0 billion).
76. The ratification of EVFTA by Viet Nam and EU in the first half of 2020 had important implications to enhancing the former's exports.³⁵ Being high-quality FTA with significant openness and linkage associated with comprehensive commitment on market access, improvement of business and institutional environment, EVFTA is expected to boost Viet Nam's development in general, and imports and exports in particular. The EU market had high income, significant purchasing power and demanding consumer appetite; therefore, Viet Nam may have significant export advantages as the first developing country implementing FTA with the EU. With experience from implementing CPTPP, the preparation for EVFTA was carried out more swiftly.³⁶
77. In spite of the elimination of up to 99.2% of import tariff lines by the EU³⁷, to benefit from such preferential treatment, all Viet Nam's exports must meet high

³⁵ On March 30, 2020, the European Council decided to ratify the EVFTA. The Vietnam's National Assembly ratified the EVFTA on June 8, 2020. The EVFTA will enter into force on August 1, 2020 in accordance with the provisions if the two countries have no other agreement.

³⁶ See Part I.2.

³⁷ According to EVFTA commitments, the EU eliminated duties on 85.6% of tariff lines as soon as the Agreement comes into effect, equivalent to 70.3% of Viet Nam's exports to the EU. After 7 years, the EU will eliminate duties on 99.2% of tariff lines, equivalent to 99.7% of Viet Nam's exports to the EU. For the remaining 1%, two countries commit to be reduced to 0% according to the tariff rate quota.

standards of rules of origin, SPS, TBT, intellectual property, labor, environment, etc. Typically, it would be difficult for Viet Nam to meeting the rules of origin in the short term because most of the materials and inputs for key export items were imported from China and ASEAN. In addition, commitments on trade and sustainable development might affect Viet Nam's enterprises in seeking and developing sources of inputs.³⁸

78. According to statistics, in the first 6 months of 2020, the Ministry of Industry and Trade was handling 13 trade remedies cases applied by foreign countries to Viet Nam's exports, and receiving 6 cases that are likely to be investigated. By June 2020, there have been 176 trade remedies cases against Viet Nam's exports, mostly imposed by the US (34 cases), India (26 cases), and Turkey (21 cases), etc.

1.6. Budget revenues and expenditures

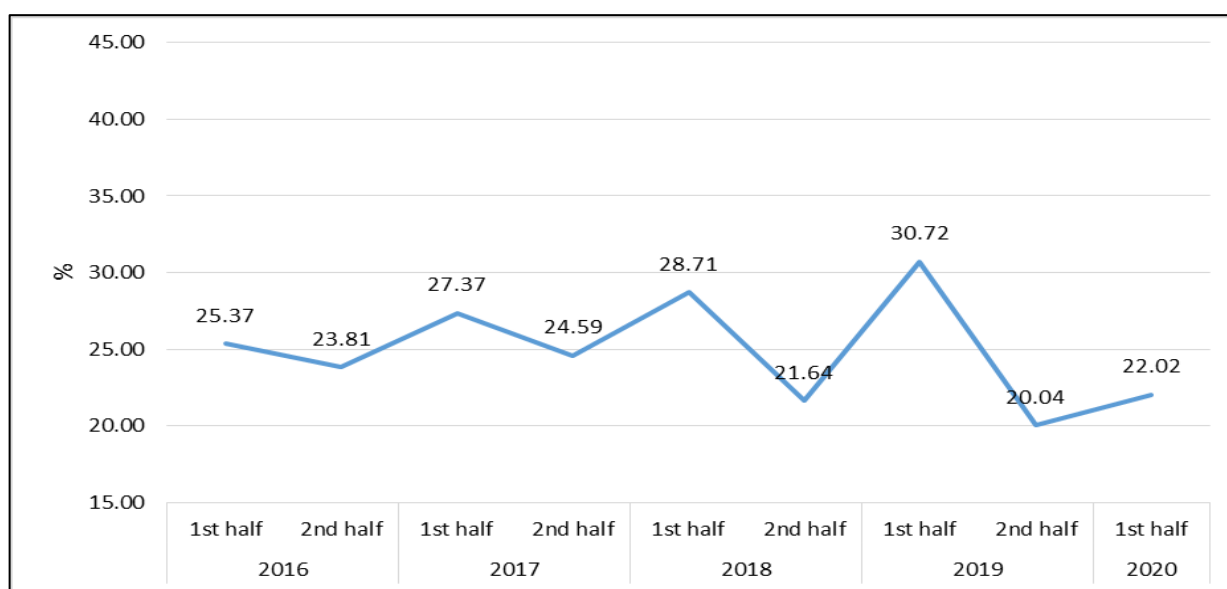
79. As of June 15th, 2020, total state budget revenues were estimated at VND 607.1 trillion, equivalent to 40.1% of planned figures, decreasing by 8.1% (YoY). Accordingly, state budget revenues were equivalent to 22.0% of GDP in the first 6 months of 2020, declining by 8.7 percentage points compared to the same period of 2019 and 0.4 percentage point compared to the average figures for first half of 2016-2019.
80. By structure, domestic revenues reached VND 503.8 trillion, down by 4%, equivalent to 39.9% of planned figures and accounting for 83.0% of total budget revenues. Revenues from crude oil attained only VND 20.2 trillion, shrinking by 22.0%, equal to 57.5% of planned figures and 3.3% of total budget revenues. Meanwhile, revenues from import and export reached VND 82.8 trillion, declining by 24.0%, equal to 39.8% of planned figures and 13.6% of total budget revenues.
81. The COVID-19 pandemic and economic downturn in the first 6 months adversely affected the budget revenues. The main effects included: (i) decline of production and business; (ii) disruption of imports and exports; (iii) decrease in prices of crude oil in the global market, despite recovery since May; (iv) reduction of employees' incomes; and (v) initial impact of Decree 41/2020 ND-CP dated April 8th, 2020 on extension of time for payment of taxes and land rental fees. However, the plan of budget revenues in 2020 was not adjusted. As a positive note in the first 6 months of 2020, fiscal policy contributed to alleviating difficulties for business community, including: (i) the broadening of scope of tax and land rental fee, from VND 30 trillion to VND 180 trillion at the time of issuance; and (ii) speeding up formulation process of Decree 41/2020/ND-CP and entry into force from the date of signing.³⁹
82. Total state budget expenditures as of June 15th, 2020 were estimated at VND 676.2 trillion, equal to 38.7% of planned figures, rising by 10.4%. Of which,

³⁸ For example, illegally caught fisheries and wood without sustainable forest origin (according to Forest Stewardship Council – FSC) are not allowed to access EU market.

³⁹ Not to mention other proposals (such as exemption or reduction of corporate income tax for some groups of businesses, etc.), which have not yet put into practice in the first 6 months.

recurrent expenditures amounted to VND 475.1 trillion, equivalent to 45.0% of planned figures, increasing by 7.7%. This level of expenditures has been mostly attributed to the increase of expenses to support some groups affected by COVID-19 (Resolution 42/NQ-CP on supporting people with difficulties, etc.). Development investment reached VND 140.3 trillion, equivalent to 29.8% of planned figures, up by 25.2%. Despite expectation to add growth driver during difficulties and double-digit growth, development investment expenditures were still low compared to the planned figures. Accordingly, full disbursement of development investment capital from state budget in particular and of public investment in general would face challenges in the last 6 months.

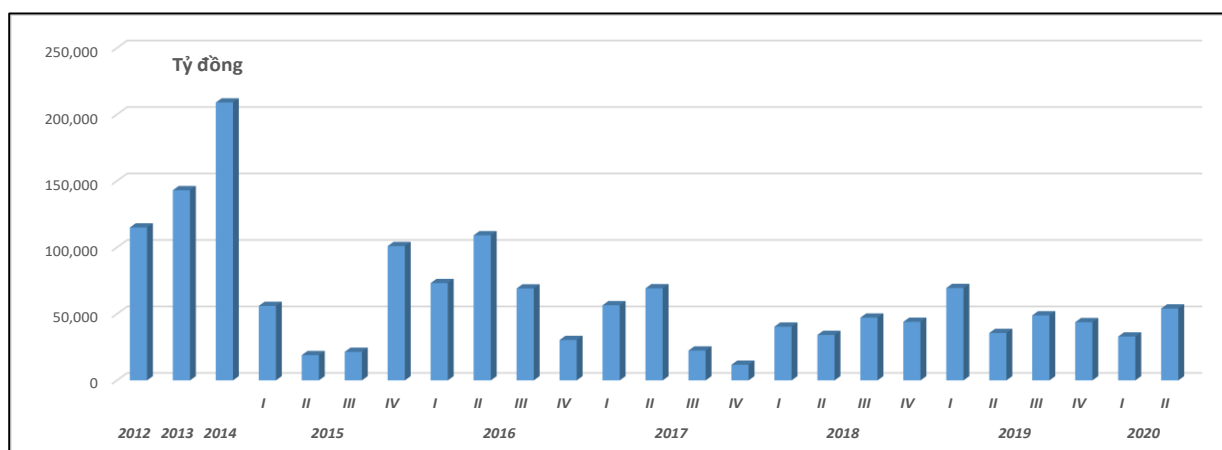
Figure 27: Budget revenues to GDP ratio



Source: GSO.

83. Government bonds issued in the first 6 months reached VND 87.04 trillion, declining by VND 18.08 trillion and 17.20% (YoY). The volume of government bonds issued in the first 6 months was much lower than those in corresponding halves of 2016-2018 (Figure 28) and lower than the planned figures (VND 50-60 trillion in Q1 and VND 60-70 trillion in Q2). The main reason was that government bond rates were less competitive than other channels (such as long-term deposits and corporate bonds, etc.). In fact, the successful bid rates of 5-year government bonds ranged from 1.8-2.2% per annum.

Figure 28: Government bond issuance, 2012-QII/2020



Source: HNX.

2. Macroeconomic outlook

84. This section updates forecasts for Viet Nam in 2020 by two scenarios. The development of forecasting scenarios is based on assessments of global economic prospects, the state of the economy in the first 6 months of 2020, as well as the space for domestic economic policies. *Under Scenario 1*, the world GDP decreases by 4.9% in 2020.⁴⁰ The US price increases by 1.22%.⁴¹ Export prices of agricultural products may decrease by 1%.⁴² World price of crude oil may reduce by 37.5%.⁴³ For Viet Nam, the VND/USD exchange rate of commercial banks is increased by 1%. Total liquidity increases by 10.0%. Outstanding credit rises by 8.0%. Import prices are assumed to fall by 0.5%. Population increases by 1.08%/year, and employment by 0.86%. The export volume of crude oil is assumed to be 4.1% lower than in 2019.⁴⁴ REER is assumed to decline by 1%. On the balance of payments, Government and (net) private transfers are assumed to decline by 10% and 5%, respectively. Implemented FDI (including both foreign and Viet Nam side) remains unchanged compared to 2020. The disbursement of investment from the State budget is VND 396 trillion.
85. *Scenario 2* retains most of the assumptions as in *Scenario 1*, except that: (i) the world GDP decreases by 2%; (ii) prices of agricultural exports increase by 1%; (iii) world price of crude oil decreases by 30%; (iv) total liquidity grows by 12%; (v) outstanding credit increases by 11%; and (vi) disbursement of investment from the state budget reaches VND 466 trillion.

⁴⁰ IMF forecast (June 2020).

⁴¹ Source: <https://www.forecasts.org/inflation.htm> [Accessed 3rd July 2020]

⁴² EIU forecast (16th June 2020).

⁴³ EIU forecast (16th June 2020).

⁴⁴ Source: <https://taichinhdoanhnghiep.net.vn/pvn-se-khai-thac-2036-trieu-tan-dau-khi-trong-nam-2020-d13263.html> [Accessed 3rd July 2020].

Table 4: Updated forecasts of macroeconomic indicators for 2020*Unit: %*

| | Scenario 1 | Scenario 2 |
|-----------------------------------|------------|------------|
| GDP growth | 2.1 | 2.6 |
| Inflation (average CPI) | 4.3 | 4.5 |
| Export growth | -3.1 | -1.9 |
| Trade balance (<i>bil. USD</i>) | 1.7 | 2.1 |

Source: CIEM's projection from macroeconometric model using annual data.

86. Economic growth for 2020 is projected at 2.1% in Scenario 1, and 2.6% in Scenario 2 (Table 4). Export growth may reach 3.1% in Scenario 1 and 1.9% in Scenario 2. Trade surplus is projected at USD 1.7 billion and USD 2.1 billion in 2020, respectively. Average CPI in 2020 will increase by approximately 4.3% and 4.5%, respectively.
87. Viet Nam's economic prospects in the last 6 months of 2020 may be affected by a number of factors. *First*, the world economy is still under ample uncertainties. In spite of consensus about possible world economic recession in the second half of 2020, perceived severity varies (with regards to the end of pandemic, recovery scenarios, the number of "hits", effectiveness of support packages in different economies, etc.). *Second*, the implementation of large-scale support packages, while lacking coordination between these measures at the global level, can pose significant risks to the financial market and the global debt status. *Third*, trade tensions between major economies can be more complicated, especially in the third quarter and the first half of the fourth quarter. *Fourth*, despite high expectations for the positive impact of EVFTA, Viet Nam may have to face many trade remedy cases, tax evasion investigations, origin frauds, etc., not only in the US market. *Fifth*, the adaptability of enterprises to the domestic market may determine production and consumption in the context of the COVID-19 pandemic.

III. SELECTED MACROECONOMIC ISSUES

1. Economic recovery post COVID-19: Opportunities and Policy recommendations

Evolution of COVID-19 pandemic

88. The COVID-19 disease was first reported in late 2019 and quickly became a worldwide pandemic. By the end of June 2020, the pandemic spread into 215 countries and territories, nearly 10.6 million cases and more than 513,000 deaths.⁴⁵ The number of new cases skyrocketed, in particular in late June 2020. Since mid-June 2020, the risk of the “second wave of COVID-19”⁴⁶ became increasingly evident.
89. Given difficulties and challenges for the world economy before 2020⁴⁷, the COVID-19 pandemic further intensified economic-political-social uncertainties and instabilities of all countries and territories. Unpredictability could be reflected by the wide-ranging forecasts of the global economic downturn and/or recession in 2020 by international organizations and policy research institutions. Debates on recovery scenarios of the global economy (following a V-, W-, L-, U-shaped, or “Swoosh” – the logo of Nike (🏃) became more regular, indicating the complexity and uncertainty in the current context.
90. In response to the COVID-19 pandemic, many countries implemented unprecedented measures (movement restrictions, border shutdown, temporary suspension of business activities and non-essential services, social distancing, large-scale expansionary monetary-fiscal measures, etc.).⁴⁸ As the number of new COVID-19 infected cases gradually decreased in Q2/2020, some countries relaxed social distancing measures, aiming at recovering production and business activities.⁴⁹

⁴⁵ According to worldometers.info. Accessed July 01, 2020.

⁴⁶ For instance, in China, the US, Japan, etc. During June 11-17, 2020, more than 130 new cases was recorded in Beijing (China) with community infection cases; forcing China reimplemented drastic measures such as isolation, blockade, school closures, flights suspensions, etc. During June 18-30, 2020, 254 new infection cases was reported in China. Tokyo (Japan) also reported new community infection cases, the number of new cases soared up (more than 40 cases daily).

⁴⁷ Including economic downturn in major countries; geopolitical tensions and conflicts, protectionism, extremism have become increasingly complicated in many regions; risks for global trade and investment have not yet relieved; competition among major countries regarding IR 4.0 and digital economy; etc.

⁴⁸ Since the beginning of the year to early June 2020, interest rates were adjusted downward 145 times by central banks worldwide (16 central banks cut down interest rates in May only). Large-scaled fiscal stimulus packages were introduced: Together with the aid package of USD 2,000 billion, the US enacted a stimulus package of USD 484 billion to aid small enterprises and the healthcare system. On May 25, 2020, Japan announced an almost-doubled increase of emergency aid package (from JPY 119.1 trillion to JPY 200 trillion); and also promulgated the 2nd additional stage budget for the 2020 fiscal year worth more than JPY 31,910 billion. On May 27, 2020, EC initiated EUR 750 billion fund (including EUR 500 billion aid and EUR 250 loans). South Korea (May 28) announced a KRW 40,000 billion program to support key industries, along with the 2nd financial supporting package worth about KRW 10,000 billion (equivalent to about USD 8.21 billion) to support small firms and business households. Germany established the Economic Stabilization Fund of EUR 100 billion for business support, and announced an aid package of EUR 10 billion to pay for additional unemployment benefits; etc.

⁴⁹ Most states in the US entered the 1st-stage of the relaxing plan; the stock exchange and Wall street

91. Viet Nam reported the first 2 cases of COVID-19 infection in late January 2020, the number of new cases increased at modest rate and attained only 16 by late February 2020. Since March 07, 2020, new cases soared up with community transmission. Viet Nam declared the pandemic situation nationwide and implemented stringent movement restrictions, social distancing since April 01, 2020. Since the second half of April 2020, the number of new cases gradually decreased with no community transmission, Viet Nam basically controlled the disease successfully. By June 2020, Viet Nam was able to control new infection cases from people returning from abroad, most patients were recovered, no death and more than 2 months without new cases from within the community.⁵⁰

Policy responses of Viet Nam

92. In each stage of COVID-19 pandemic, Viet Nam implemented flexible, timely, appropriate policy responses with the involvement of the whole political-social system. With the principle of “fighting against the pandemic like fighting against an enemy”, controlling disease was set as the top priority in order to consolidate social stability and people’s confidence, to mitigate losses and then gradually switch to disease prevention, restore of production – business activities and economic recovery after the COVID-19 pandemic.
93. Since the start of the COVID-19 pandemic, the Government promulgated Directive 11/CT-TTg dated March 04, 2020 that set out 07 groups of measures and tasks to support enterprises and dismissed workers who were severely affected by the pandemic and in economic difficulties, aiming at addressing difficulties for business and production activities and ensuring social security. Upon implementing the Directive, relevant ministries and line ministries initiated specific measures such as: lowerings of interest rates⁵¹, debt restructuring; preferential programs; deferral and rescheduling of tax payment and land rental; reducing prices of electricity, oil and petrol, services, etc. for prioritized groups; etc. Important regulations include Decree 41/2020/ND-CP dated April 08, 2020 on deferral of tax payment and land rental fees; Resolution 42/NQ-CP on assistance for people being adversely affected by the COVID-19 pandemic, and Resolution 84/NQ-CP on tasks and measures to alleviate difficulties in production and business, promoting disbursement of public investment and ensuring social safety and security.⁵²
94. Aiming at promoting public investment, the Government enacted Resolution 41/NQ-CP dated April 09, 2020 approving the transformation of some urgent projects from Public-Private Partnership (PPP) to being fully funded by the state

reopened partially since May 27; Japan relaxed social restrictions since June 01; etc.

⁵⁰ By June 17, 2020, Viet Nam reported 335 infection cases of COVID-19, 325 cases were recovered, no death.

⁵¹ During September 2019-end of May 2020, the SBV cut down key interest rates 3 times with the total downward adjustment of 1.75 percentage points (annualized); at the same time reduced the ceiling of deposit rates by 0.8-1.25 percentage points (annualized); lowered lending rates for some prioritized areas. In comparison to other countries in the region, the reduction of Viet Nam was most significant (Thailand, Malaysia and Indonesia: down by 0.5 percentage point; the Philippines: by 1.25 percentage points; China: by 0.3 percentage point; India: by 0.75 percentage point).

⁵² Details in Session I.2. (Domestic economic context).

budget in order to strengthen driving forces for economic growth. Accordingly, at the 9th session of the National Assembly XIV, the Standing Committee of the National Assembly approved the transformation of 3 PPP component projects of the North-South Expressway Project to public investment projects fully funded by the state budget.⁵³ The Ministry of Finance (MOF) implemented measures to ensure sufficient funds for public investment projects in 2020 such as: prioritizing projects with good progress, timely addressing bottlenecks for public investment (in particular land clearance), seeking approval by the National Assembly on the proposal of crossing out undisbursed public investment capital in 2020 to reduce state budget deficit; etc.

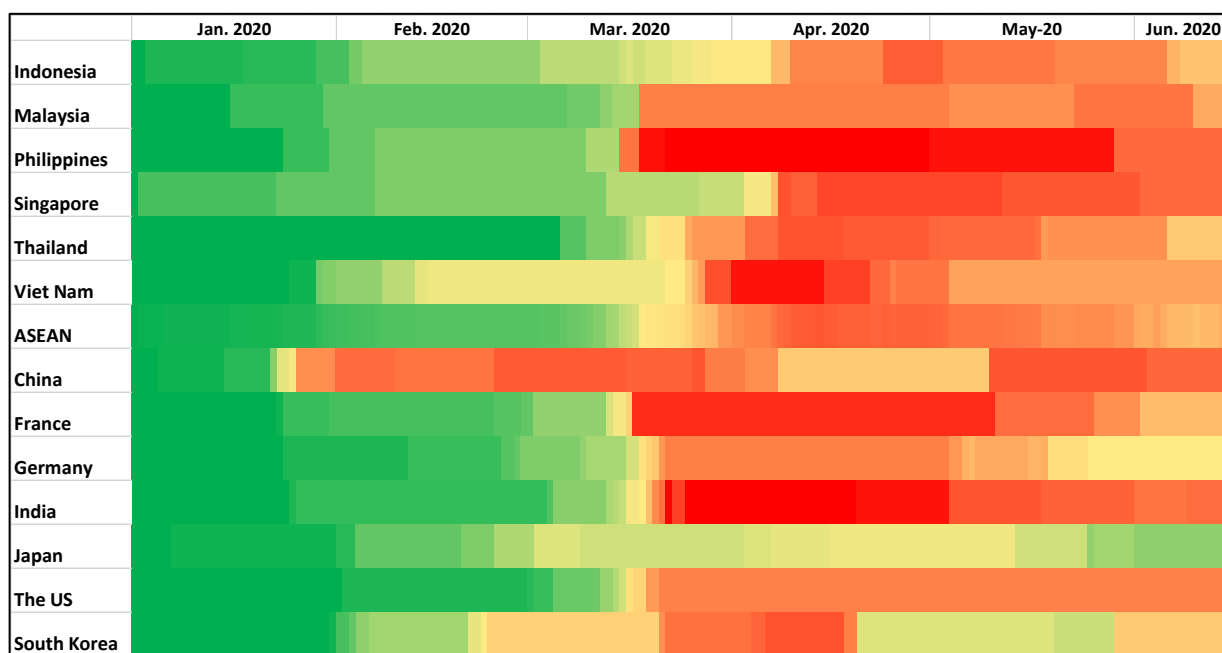
95. As the COVID-19 pandemic became under control since late April, Viet Nam cautiously relaxed social distancing and entered “new normal” period. The Government set out the “dual target” of promoting production and business, and preventing disease and strictly avoiding re-occurrence of the pandemic. The scenarios were developed in parallel with measures for economic recovery after COVID-19. In the conference with the business community in May 2020, the Prime Minister pointed out 5 “growth drivers”, including mobilizing domestic investment; boosting exports; fostering public investment; promoting domestic consumption and attracting FDI.
96. The above-mentioned policies contributed to effective disease control and prevention and appropriate responses to consequences of the COVID-19 pandemic of Viet Nam.
 - a. Viet Nam’s success in controlling and preventing the disease, maintaining and promoting production – business operations was firstly attributed to systematic, determined and flexible instructions and implementations. Policy measures were based on actual situations and regularly updated scenarios and related analysis-forecasts – the experience that Viet Nam has acquired from previous difficult times such as the US – China trade war.
 - b. According to the COVID-19 Government Response Stringency Index⁵⁴, Viet Nam’s responses were implemented much earlier than those of other countries in the world (Figure 29). Since late April 2020, travel restrictions were gradually relaxed to resume business and production operations as well as people’s life while necessary cautions were in place. Meanwhile, some countries such as the US, Japan lifted restrictions much sooner than Viet Nam.
 - c. Viet Nam strengthened the confidence of people and businesses in the fight against the pandemic, in particular regarding policy responses to realize the “dual target”. Information on COVID-19 pandemic, scenarios and policy

⁵³ Including 3 projects: Mai Son – 45 Highway; Phan Thiet – Dau Giay and Vinh Hao – Phan Thiet.

⁵⁴ COVID-19 Oxford Government Response Stringency Index (OxCGRT) is a composite measure that traces governments’ responses to the COVID-19 pandemic. The index collects available information on 17 indicators of government responses, including: 08 policy indicators of containment and closure policy such as school closures, movement restrictions and blockade, etc.; 04 indicators of economic policies such as income support to citizens or provision of foreign aid, etc.; 05 indicators of health system policies such as testing regime, emergency investments into healthcare services, tracing contacts, etc. The index takes the value from 0 to 100, of which 0 = the least strict, 100 = the strictest.

measures of the Government was conveyed in a transparent, diversified and regular basis, which has been accompanied with mass policy consultation. Viet Nam arguably turned the tide of public distrust, from “*eroding confidence after the Formosa occurrence*”⁵⁵, to gaining strong belief thanks to “*transparently and smoothly handling the pandemic*”.⁵⁶

Figure 29: COVID-19 Government Response Stringency Index



Source: Hale et. al. (2020).

Note: Color scale that the closer to 100 value, the redder the color is. Database was updated as of June 15, 2020.

- d. More importantly, Viet Nam has retained macroeconomic policy space to respond to adverse developments (if any) in the future. According to the WB, Viet Nam’s BOP, budget deficit and the financial sector – major transmission channels of external shocks to the domestic economy – remained relatively positive. As a note, prudent fiscal management measures during the period of 2016-2019 improved policy space for the Government in carrying out fiscal – monetary supports in the first 6 months of 2020.

Opportunities and challenges for Viet Nam in the context of COVID-19 pandemic

97. Despite complicated evolvments and consequences, the COVID-19 pandemic is expected to bring about important opportunities, even turning points for development process of many countries, including Viet Nam.
 - a. The COVID-19 pandemic accelerates partial shift of global supply chains, accompanied by the inflows of FDI for various countries, including Viet Nam.
 - The shift of supply chains away from China (China-plus-one) began prior to the COVID-19 due to: (i) economic downturn and increasing

⁵⁵ In 2016.

⁵⁶ Lowy Institute (2020).

labor cost in China; (ii) the US – China trade war; and (iii) competition from ASEAN and India. However, in the context of the pandemic, the shift was reinforced by not only own benefits of enterprises but also national policy in order to reduce dependence on Chinese market and/or to lessen adverse impacts of supply chain disruptions in the future.⁵⁷

- Advantages and attractiveness of Viet Nam to foreign investors were significantly improved, even prior to the COVID-19 thanks to: (i) drastic reforms of business environment, in particular from 2014; (ii) the US – China trade tension; (iii) difficulties of the Chinese economy (economic growth reduction, higher labor cost, structural changes, risk of debt crisis, etc.); and (iv) Viet Nam’s important FTAs (CPTPP, EVFTA, RCEP). The COVID-19 pandemic has not weakened or disrupted these factors. Instead, relatively effective responses during the COVID-19 pandemic strengthened confidence of foreign investors in Viet Nam’s business environment. For instance, the implementation of EVFTA and expedited ratification of EVIPA by EU members may benefit EU investors who are considering moving investment out of China.
- b. The COVID-19 pandemic further induces innovation, development of digital economy and new economic models in Viet Nam.
 - Prior to 2020, digital economy was considered to have high potential in Viet Nam with high ratio of internet users and improving ICT infrastructure.⁵⁸ Growth rate of digital economy attained 39% in 2019, ranking 2nd in Southeast Asia (just behind Indonesia). Value of e-commerce transactions grew at the average rate of 81% p.a. in the period of 2015-2019.⁵⁹ Viet Nam was active in studying and exploring opportunity from digital economy; established and improved regulatory framework; successfully implemented technological applications such as platforms for e-commerce, online travel, tech-cars or e-wallet connected with domestic banks, etc.
 - The COVID-19 pandemic did not crowd out Viet Nam’s focus on digital economy. Instead, the disruption of some economic operations based on traditional platforms urged Vietnamese agencies and enterprises to be more active in studying and applying digital platforms in management, production and business operations, implementing such methods as online delivery, e-payment, online-learning, etc. In fact, Vietnamese

⁵⁷ The US, EU and Japan initiated plans to encourage and provide financial supports for enterprises to shift their production operations out of China. About 30-40 enterprises of the US and EU had intentions to move a portion of their business activities out of China. Survey by Nikkei Asian Reviews (end of May 2020) revealed that more than 70% of respondents would like to diversify supply chains to reduce dependence on China.

⁵⁸ Internet users in Viet Nam reached about 61 million in 2019. According to Viet Nam Internet Network Information Center (2019), the number of domain names attained 500,000, in which “.vn” was the leading national domain name with highest registered number in the Southeast Asia, top 10 in the Asia-Pacific region. The rate of IPv6 adoption was around 40%, that ranked the 2nd in ASEAN, 8th globally with more than 21 billion internet users (according to Asia-Pacific Network Information Center, APNIC).

⁵⁹ According to Google, Temasek and Bain&Company (2019).

government and enterprises were generally adaptive to new economic models and methods. Approach and application of digital economy and e-government development were accelerated compared to the period of 2018-2019.⁶⁰

- New and non-traditional economic models (such as circular economy) attracted more attention post COVID-19, aiming at a more efficient utilization of inputs (promoting the use of available secondary materials as inputs for production, developing recycling plans to replace disrupted supply, etc.), gradually reducing dependence on external supply chains and strengthening sustainable recovery.
- c. A number of Vietnamese enterprises adjusted business and production operations, shifting to “dual-approach”: technological enterprises participate in production of healthcare facilities, garment and textile enterprises produce and export face masks, etc. Typical cases include Vingroup and Bkav that produce ventilators and medical devices to support fighting against and preventing COVID-19; members of the Viet Nam textile and garment group who are pioneers in manufacturing antibacterial cloth face masks; etc. As the result, management authorities are compelled to quickly study and improve relevant regulations, including market entry, preferential policies, etc.
- d. Some potential industries and services have a chance to flourish after COVID-19. For instance, a number of garment and textile companies of Viet Nam have grasped opportunity to promote exports of medical supplies (face masks, protective facilities, etc.).⁶¹ Rice exports of Viet Nam increased significantly in terms of both quantity and price, in particular since Q2.⁶² Data integrated and sharing platforms have been drastically developed and gradually applied in actual activities: data sharing to support health declaration; platforms for telemedicine, online conference, cloud computing, etc.⁶³ Scientific and technological activities in associated with disease containment have been enhanced and achieved encouraging outcomes

⁶⁰ According to Ministry of Information and Communication (2020), before COVID-19, about 40 ministries and provinces had connected into the national data integrated and sharing platform, which increased to 70 recently. About 50% ministries, line ministries and provinces developed data integrated and sharing platform at ministerial/provincial level (27% in 2019).

⁶¹ In the first 4 months of 2020, Viet Nam exported more than 415 million face masks, altogether worth more than USD 63 million.

⁶² According to the Agency of Foreign Trade (MOIT), rice exports attained the highest growth rate among agricultural products with the value of about USD 1.4 billion, up by 18.9% while export value of the whole industry decreased by 4.1%. In May, rice exports increased by 11.7% in terms of quantity and by 35.7% in terms of value with 750,000 tons worth USD 395 million. Notably, export price of Vietnamese rice in May jumped to the highest level in recent years, attained USD 527 per ton on the average, up by 21.4%.

⁶³ In early March 2020, Viet Nam Social Insurance implemented data sharing platform with the Ministry of Health to support health declaration; cooperated with Ministry of Justice to issue health insurance card for children in accompanying with issuing birth certificate and receiving death data (61/63 provinces have integrated). Telemedicine platforms was launched on April 18, 2020; VOV Basic24 health examination and consultation platform was launched on April 24, 2020; Zavi online conference platform was launched on May 15, 2020; etc.

(developed and produced SARS-CoV-2 detection materials that can replace imported ones and are accredited internationally).⁶⁴

- e. More opportunities are open for Viet Nam to enhance its role in promoting regional cooperation and bilateral and multilateral relations in fighting against COVID-19 pandemic. “COVID diplomacy” was strengthened in both bilateral and multilateral framework with key partners (Special ASEAN and ASEAN+3 Summits on COVID-19; special ASEAN Foreign Ministers online conferences with some partners; Special ASEAN Economic Ministers on COVID-19; providing medical supplies of disease containment for some countries, etc.). Thanks to those efforts, Viet Nam can gain more investment and business opportunities for enterprises, at the same time seek more experience sharing and technical assistance for economic development post COVID-19.

Box 1: Some results of the Special ASEAN and ASEAN+3 Summits on COVID-19

On April 14, 2020, as the Chair of ASEAN 2020, Viet Nam held online Special ASEAN and ASEAN+3 Summits on COVID-19. Joint Declaration of the Special ASEAN Summit emphasizes ASEAN’s solidarity in responding to COVID-19 in the spirit of a “Cohesive and Responsive ASEAN”. Upon discussions and sharing information on responding to the disease by member states, ASEAN Leaders agreed: (i) to further strengthen public health cooperation to contain the pandemic and protect people; (ii) to promote exchange of information and experience sharing, technical assistance and scientific and technological cooperation in containing and preventing the transmission of the disease; (iii) to discuss and development the post-pandemic recovery plan, including market opens for trade and investment, recovery and development of regional supply chains, food security; and (iv) to underscore the importance of a multi-stakeholders, multi-sectoral and comprehensive approach by ASEAN to effectively respond to COVID-19 and future health emergencies. The Summit initiated specific initiatives, including: to encourage the development of a regional reserves of medical supplies; to consider formulating an ASEAN standard operating procedures for public health emergencies; to develop ASEAN guidelines on the provision of emergency assistance by ASEAN mission in third countries to nationals of ASEAN member countries in crisis situation; and to propose the establishment of the COVID-19 ASEAN response fund; etc.

The Special ASEAN+3 Summit highly appreciated the activation of regional cooperation mechanism in responding to disease emergencies of ASEAN+3 such as national risks assessments; periodic reports on Risk Assessment on the International Dissemination of COVID-19 in ASEAN region; video conferences of the ASEAN+3 Senior Officials Meeting on Health Development (ATP SOMHD) on strategic and policy matters; implementation of the International Health Regulations (IHR) 2005 and through existing mechanisms, including, among others, the ASEAN Emergency Operations Center (EOC) Network for public health emergencies, the ASEAN BioDiaspora Virtual Centre, the ASEAN+3 Field Epidemiology Training Network (FETN); etc. Joint Statement of the Summit reaffirms that ASEAN+3 is willing to share experience, policy

⁶⁴ Viet Nam was the 5th country in the world that successfully produce this material with low cost and user friendly.

responses, treatment methods, epidemiological research and clinical treatments; to provide medical supplies; to promote cooperation in production of COVID-19 diagnostics anti-viral medicines and vaccines. ASEAN+3 Leaders also recognized and agreed on timely support for ASEAN+3 nationals (in particular vulnerable groups) in accessing to healthcare services and returning to their home countries. Besides, ASEAN+3 Leaders initiated the establishment of an ASEAN+3 task force on responding to epidemic; requested China, Republic of Korea and Japan to provide support and assistance in building capacity for the public health system in terms of both financial and technological and professional aspects; proposed the establishment of an ASEAN+3 reserve of essential medical supplies; made proposal on enhancing the role of ASEAN+3 Macroeconomic Research Office (AMRO) in preparing a plan for economic recovery and development post COVID-19; taking advantages of existing mechanism on ensuring economic and financial stabilization and food security of ASEAN+3 such as the Chiang Mai Initiative Multilateralization (CMIM), ASEAN+3 Emergency Rice Reserve (APTERR), etc.

Source: Compilation from Viet Nam Government Portal and National ASEAN 2020 Committee Portal.

98. COVID-19 pandemic, however, poses challenges and obstacles for Viet Nam.

- a. The evolvement of the pandemic remains unpredictable, in particular in major economies and key trade – investment partners of Viet Nam. The challenge is further intensified given high openness of Viet Nam with significant dependence on exports, imports and tourism. Amongst its 17 major economic and tourism partners⁶⁵ (altogether accounting for about 80% of trade, 90% of investment and 80% of tourism revenues), most of them hardly enter new normal situation in Q3/2020 or become under safe condition in short run, even face material risk of the 2nd wave of COVID-19 pandemic. Promote exports of high-demand products (such as medical supplies) is no easy task because of underdeveloped domestic supporting industry that may lead to the potential shortage of inputs.
- b. The disruption of global supply chains due to COVID-19 reveals more obviously the vulnerability of the economy.⁶⁶ If the pandemic lasts for long, Viet Nam's macroeconomic policy space would likely be narrowed down, restricting policy responses to future social security issues. Without sufficient monitoring of the situation, the shift of global supply chains may make Viet Nam become the destination of low-tech and environmentally-unfriendly manufacturing establishments. The shift to production of goods

⁶⁵ Including Japan, South Korea, Chinese Taipei, Thailand, China, Hong Kong (China), Germany, Australia, British Virgin Islands, Samoa, India, Indonesia, the US, Singapore, Malaysia, Netherlands, and Russia.

⁶⁶ “Bottlenecks” of the growth paradigm, including poor infrastructure, weak institutions and management efficiency that are insufficient to meet development requirements, low labor skills that result in inefficiency in absorbing and utilizing available resources. Natural resource-intensive and labor-intensive industries with static comparative advantages still account for the major share in economic structure. Industries mainly processing ones with low domestic content and value added, modest technological and processed content. Agricultural industries remain small-scale, fragmented and subject to high risk (in terms of market, price, impacts from environmental and weather conditions) that result in unstable livelihood and living of the majority of agriculture-based populations.

in emergency (such as face masks) should be considered seriously to avoid excessive production that may result in inflexibility in case of economic recovery and/or changes after COVID-19. To other extent, rushing for some initiatives on supply chain shift without prudent consideration – will make the country stuck in the competition amongst major countries, rather than improving its resilience.

- c. As micro-, small- and medium-sized enterprises accounts for more than 98% of total enterprises, maintaining dynamics of business community's after COVID-19 pandemic remains a significant challenge. Vietnamese firms are generally at low stage in regional and international value chains and production networks. Weaknesses and shortcomings of private sector development remains prevalent, despite significant policy attention and new achievements. Meanwhile, the FDI sector has not yet met the expectation of technological transfer and building technological capacity for the economy. The GSO's survey (May 2020) unearthed tremendous difficulty of enterprises in accessing to inputs, output markets and materials for production.⁶⁷
- d. The COVID-19 pandemic reinforces challenges to both traditional and non-traditional securities of Viet Nam. For instance, cybercrime has increased drastically in the context of complicated evolvement of COVID-19 and rising demand for online platforms.⁶⁸ Addressing consequences of drought, salinity intrusion, climate change, diseases, etc. become more challenging (in particular in Mekong Delta River), which has more severe implications to water security and food security.
- e. Strategic competition amongst major countries was intensified after COVID-19, posing new challenges for foreign economic relations of Viet Nam. The confrontation between the US and China and strategic gatherings in the region and worldwide become increasingly complicated and unpredictable, which potentially create pressure of choosing side at certain times, in certain key areas (technology, medical supplies, supply chains, etc.). The COVID-19 pandemic disrupted various important diplomatic activities, affected the progress toward the signing of RCEP, mid-term review of important mechanism of ASEAN and the development of ASEAN vision post 2020, etc.

⁶⁷ Survey of nearly 130,000 enterprises showed that 42.8% of large enterprises faced with difficulties in seeking for inputs, focusing on garment and textile, footwear industries (71%), electronics and automobile industries (62.1% and 58.1%, respectively); 45.5% of respondents were in shortage of capital; 57.7% of respondents experienced drastic drop of demand; 47.2% of respondents were unable to export their products; etc.

⁶⁸ In May 2020, Viet Nam Cyber Security Center reported 439 attacks into the cyber networks of Viet Nam (increased by 16.3% compared to that in April 2020). More frauds and cheating via online applications were detected, which used sophisticated methods (pretending to staff and officials of legal enforcement authorities or governmental bodies; sending messages of winning prizes; applying for jobs or working abroad; “arranging” projects; applying for loans; calling for investment, aids, multi-level marketing; virtual money; establishing fake websites of banks to collect users’ data; seeking supports for pandemic containment; etc.), leading to great loss of assets and reputation for victims.

Policy recommendations

99. Viet Nam's responses to the COVID-19 pandemic in the first 6 months of 2020 had some important implications.

- a. *First*, policymaking process should be calm, stepwise, and cautious, with sufficient consultation and high consensus of all relevant ministries, line ministries, provinces, business community and citizens. The implementation process should be transparent, timely and effective. For instance, attracting FDI in association with more effective FDI screening and improved quality of FDI projects is appropriate. However, realizing this policy direction after COVID-19 requires high determination, even considerations of trade-offs. The policy discussion should also be “neutral” instead of discrimination against foreign investors.
- b. *Second*, the conduct of policies should be associated with regular updates and assessments of growth scenarios. To this extent, building capacity for economic analysis, in particular regarding new aspects of COVID-19, is important. Results and outcomes of implementing supporting measures for enterprises and citizens in the first months should be regularly assessed in detail through interviews with relevant stakeholders in order to draw lessons and identify necessary adjustments (if needed). Each policy recommendation/supporting package should take into consideration development and policy responses of the regional and global economy as well as of major economy and key partners.
- c. *Third*, the Government should retain policy space to respond to post COVID-19 scenarios. Accordingly, macroeconomic stability remains fundamental to strengthen the confidence of enterprises and consumers as well as consensus on reforms and restructuring initiatives.
- d. *Forth*, business environment reform should be further promoted on the basis of remarkable achievements during the period of 2014-2019. Sharing experience in maintaining reforms in pandemic is critical to ensure that the reforming process will not be disrupted even if disease containment is the top priority. Thus, Viet Nam should renew identified or undergoing reforms to attract foreign investors, while at the same time improve potential growth of the economy (and then better appeal to foreign investors). The COVID-19 context also requires a more open approach to reforms: reform should not be confined as only “cut”, “removal”. On the contrary, FDI attraction, trade facilitation and enhancement of business environment should aim at deeper participation into the regional and global value chains, in association with improving standard conformance, building capacity of developing and utilizing appropriate technical standards and regulations.⁶⁹
- e. *Fifth*, utilization of technological breakthroughs (IR 4.0, sharing economy, digital economy, e-government, etc.) should be accelerated. Substantial results will be achieved only if efforts to develop digital economy, e-

⁶⁹ According to UNESCAP (2019), if the number of NTMs increases by 1 (for instance from 2.5 NTMs to 3.5 NTMs imposed on each product), FDI is potentially up by 12%.

government are in parallel with digital transformation at industrial, sectoral and firm-levels. Infrastructure of and access to digital economy must be sufficiently inclusive, covering difficult and remote areas, vulnerable groups such as women, citizens in mountainous areas, etc.

- f. *Sixth*, the COVID-19 pandemic and its consequences spread beyond borders of individual countries. Thus, it is necessary to have a comprehensive, closely coordinated approach at regional and international levels. Effective international cooperation remains a pillar for development and economic restructuring; however, a more friendly economic policy on some products that are expected to have direct contribution to international cooperation after COVID-19 is essential.
100. With that perspective, Viet Nam should focus on fundamental, basic and long-vision measures that have been identified prior to the COVID-19 pandemic. However, the process should be more rapid, more efficient and more substantive:
- a. To effectively implement economic restructuring, focusing on strategic breakthroughs, shift of growth paradigm, and enhancement of labor productivity, competitiveness and resilience of the economy.
 - b. To further reform business environment. To identify objectives and develop appropriate plans for the 2021-2025 period. To review, amend and remove unnecessary legal procedures for enterprises. To revise conditions and regulations on customs clearance of goods, including effective and full implementation of the National Single Window and ASEAN Single Window.
 - c. To improve industrial policy that has sufficient focus and feasibility. To improve trade policy in consistency with industrial policy, resting on revisiting value chains, taking opportunity of repositioning supply chain away from China, etc. To effectively implement important FTAs such as the CPTPP and EVFTA. To build capacity for attracting and utilizing foreign capital in line with the Resolution No. 50-NQ/TW of the Politburo, to strengthen the linkage between domestic and foreign enterprises. To mobilize and allocate appropriate resources for developing industries/services sectors that Viet Nam has dynamic and static competitiveness, focusing on those that have critical role in establishing/improving industrial clusters and promoting regional linkages. To effectively penetrate the domestic market.
 - d. To promote access to and application of IR 4.0. To review, adjust and substantially implement e-government development plan, aiming at digital government in line with digital transformation plans of enterprises. To reform regulatory framework, technical infrastructure, data sharing, administrative procedures, tax policies, management of digital assets, etc. To study and propose sandboxes for typical policies of new economic models using technological platforms (sharing economy, circular economy, etc.). To improve competition policy in the context of IR 4.0 (competition in digital

platforms, using economic evidence, etc.). To build capacity of measuring digital economy.

- e. To effectively implement international economic integration. To take advantage of international roles to effectively participate in the newly established and/or being adjusted value chains in the region through diversifying, multi-lateralizing and balancing relations with major countries and key partners.
- f. To substantially integrate socio-economic development priorities in the new context (digital economy, national digital transformation, new FDI attraction orientation, etc.) into bilateral and multilateral cooperation, integration initiatives, development of action plans to deepen trade relations with strategic and comprehensive partners. To be more active in regional and global efforts to address traditional and non-traditional security challenges. To actively initiate common rules, norms, standards that Viet Nam has potential benefits, in particular at organizations and forums under reform pressures (WTO, WHO, etc.).

101. New and/or prioritized tasks after COVID-19 pandemic include:

- a. To pay more attention to assess losses and damages by COVID-19 in various aspects to propose appropriate economic stimulus measures with sufficient scale, timing and well targeting. To ensure information transparency; and to establish an effective monitoring and supervision mechanism, aiming at avoiding abuse of policy measures that may otherwise undermine policy efficiency and trust.
- b. To relax social distancing with caution, to prudently shift to economic recovery under “new normal” situation. To prioritize SMEs development to facilitate economic activities, increase demand and provide means of living for people. To rapidly overcome the disruption of supplies; to diversify export markets through facilitating trade promotion, seeking for new markets and taking advantages of opportunities from FTAs. To facilitate customs clearance in the pandemic context. To propose more favorable immigration procedures imposed on foreign experts and skilled workers working for key projects that are in consistent with safety requirements of disease containment and prevention.
- c. To prioritize state budget for measures on strengthening health system, disease containment and prevention, provision of basic services and livelihoods for vulnerable groups. Fiscal policies (tax exemption, reduction and relaxation, debt restructuring, etc.) to support enterprises should be further examined and implemented appropriately. To review and access implemented programs and policies to ensure future policy space. To accelerate the progress of appraisal, approval and implementation of stimulus packages and responsive policies.
- d. To accelerate and improve efficiency of public investment disbursement to create momentum for economic recovery and growth after COVID-19; to speed up disbursement process in 2020. To prioritize allocation of state

budget for key projects with significant spillover effects (infrastructure, climate change adaptation, development of intelligent agriculture, innovation, etc.).

- e. To prepare for the shift in investment flows and reposition of production networks and supply chains by big multinational corporations. To better use representative agencies abroad in studying best practices of foreign countries and making policy recommendations in response to COVID-19 pandemic and future economic development.
- f. To improve existing reporting and community-based monitoring mechanisms to ensure effective implementation and timely address arising issues.
- g. To integrate gender issues in formulating supporting policies.

Box 2: Coronavirus – The end of sexist economy?

As the COVID-19 pandemic spread, most analysis and discussions focused on economic impacts of policy measures with inappropriate attention to potential impacts on gender. However, if gender gap in safety nets is widened, women would be first to suffer. To ensure gender equality, policy measures should pay attention to the following aspects:

(i) Vulnerability of women: Women accounts for major share in major sectors that are vulnerable to crisis (administration, tourism, social and community services), and they are more likely be made redundant under labor market contraction. Women are among labor groups with lowest paid relative to men. Thus, women are more vulnerable, in particular under “austerity” measures and lavish government spending. Women also account for larger proportion than men in caring profession. In Wuhan, the start of COVID-19 pandemic, women accounted for 90% of nurses involved in healthcare while the corresponding figure of the health and social sectors globally was 70%. Consequently, to fully account the cost of COVID-19 pandemic, the stimulus packages should include social protection measures that seek to retain women’s productive participation in the labor force – for example compensatory payments for workers in temporary employment.

(ii) Long-term impacts of gendered labor division: The COVID-19 pandemic will have greater consequences for women than men in the labor market. Faced with unprecedented levels of unemployment, many labour in the working age need to prematurely access retirement savings. At retirement, superannuation balances of women are 30-40% lower than those of men, suggesting that the incidences of poverty and homelessness of women may be higher. Gender-responsive social security measures should be enacted, such as reducing fees and/or compensating contributions for women low-income.

(iii) Economic impact of the burden care: The COVID-19 pandemic aggravates existing gender inequalities because it enacts an uneven financial and psychological toll, originating from the stereotype that women are typically primary caregivers in the home. To avoid worsening this inequality, governments can support policies that protect women, while employers can “undo” unhelpful gender norms: the flexible work

arrangements occurring worldwide should become a “new normal”. This would support family-friendly workplaces on a permanent basis, not just in an emergency.

In short, gender should be prioritized in response to the COVID-19 pandemic. Progressive fiscal reforms that address existing inequalities and treat the sexes as economic equals are vitals. Gender-responsive COVID-19 policies are critical, because how economies emerge from the crisis will be dependent on how inclusive their policy responses are.

Source: Extracted from Davda and Chattier (2020).

- h. To promote international cooperation in disease containment and prevention, responses to impacts of the COVID-19 pandemic. To actively initiate and/or participate in regional and international initiatives on fighting against, preventing and responding to COVID-19 pandemic. To mobilize and make good use of international supports (in terms of finance, expertise, etc.) to improve the responsive capacity and effectiveness.
- i. To consult business community to understand actual need and timely address related issues. However, consultation should be more focused to avoid overlapping and time and cost burden for enterprises.
- j. To retain appropriate communication with updates, accuracy and sufficient coverage. It is necessary to establish information sharing channels among enterprises rather than only among ministries, line ministries, business associations in order to strengthen linkages, to share experience in responding to difficulties arising from disease development and relevant policy measures.

2. Enterprise Law 2020: From reforming market entry to upgrading enterprises' quality

- 102. The Law on Company and Law on Private Enterprise issued in 1990 marked an official legal recognition of private businesses. Since then, the contents of laws on company and private enterprise have been amended and supplemented 3 times under the name of Enterprise Law in 1999, 2005 and 2014. On 18 June 2020, the National Assembly of Viet Nam passed the “4th” Enterprise Law.
- 103. Each amendment of the Enterprise Law was a big reform on the right to do business, representing a change in economic thoughts. Accordingly, there were big leaps on enterprises and economic development. The Enterprise Law 1999 was the first “revolutionary” step of changing management thought and reforming market entry, acting as a background for institutional reforms of regulations on doing business up until now. Specifically, the people, instead of only having right of doing business in the areas permitted by law, have that right in the areas not prohibited by law. Market entry was enabled, via freedom to start a business with simple procedures and low cost; removal of the minimum capital requirement; freedom in choosing, changing and supplementing business lines; freedom to choose and expand business locations, etc. Inheriting that spirit, the Enterprise Law 2005 and Enterprise Law 2014 further expanded freedom to do business and reduce time of starting a business.

104. Apart from afore-mentioned reforms, the Enterprise Law 2014 marked a new quality development by establishing a legal framework on corporate governance compatible with good international practices in order to ensure safety and protect interests of investors, especially minority shareholders. Right after this Law took effect, Viet Nam was ranked 87th out of 190 countries and territories in Protecting Minority Shareholders by the WB in 2016, 90 positions higher than the year 2013 (169th out of 185). After that, Viet Nam's rank in Protecting Minority Shareholders gradually decreased to 97th out of 190 in the WB's Doing Business Report published in 2019. Viet Nam's lower ranks during the 2015-2019 period mainly came from the fact that many countries introduced more meaningful reforms.
105. In this context, the amendment of the Enterprise Law (2020) improved legal framework on corporate governance to reach good and popular regional and international practices; fostering development of enterprises and attracting capital and resources into production and business; and contributing to improving business climate according to the goals set by the Government (i.e. in the top 4 of ASEAN). The Enterprise Law 2020 replaces the version in 2014 and will take effect from 01 January 2021 with significant changes as follows:

Objectives and principles of drafting Law on Enterprise

106. The latest Enterprise Law was drafted on the principle of continuously inheriting and bringing into play good outcomes and impacts of reforms in previous Enterprise Laws in 1999, 2005 and 2014 to ensure full freedom to do business on the principle that enterprises can do business in all areas not prohibited or limited by laws. The objectives of the Enterprise Law 2020 are as follows⁷⁰:
- a. The general objectives are to finalize the legal framework on corporate governance to reach good and popular regional and international practices; to foster development of enterprises and attract capital and resources into production and business; and to contribute to improving business climate according to the goals set by the Government (to be in the top 4 of ASEAN).
 - b. Detailed objectives include:
 - Creating most favorable conditions for establishing and registering business; reducing cost and time in starting a business; contributing to increasing Viet Nam's rank in Starting a business indicator by at least 25 positions (according to the WB's ranking).
 - Enhancing mechanism to effectively protecting legitimate rights and interests of investors, stockholders and members of enterprises; fostering corporate governance to reach good and popular regional and international standards and practices; increasing Viet Nam's rank in Protecting Minority Shareholders by at least 20 positions (according to the WB's ranking).

⁷⁰ Proposal 533/TTr-CP dated 28 October 2019 by the Government submitted to the National Assembly on (amended) Enterprise Law.

- Improving management efficiency, publicity, transparency and accountability of enterprises in which the State holds a controlling share; creating favorable conditions for business households to bring into play their potentials and contribute to economic development.
- Creating more favorable conditions and reducing cost of restructuring enterprises in forms of merging, dividing, separating and transforming types of enterprises.

Basic changes in approach to drafting and amending Enterprise Law

107. According to the survey by the Organization for Economic cooperation and Development (OECD) in 2019, since 2015 when OECD issued the Principles of Corporate Governance, 84% of the 49 surveyed countries have amended their laws on company and securities to improve their legal framework on corporate governance in line with best principles on corporate governance. In line with this trend, Viet Nam's Enterprise Law and Securities Law have been amended; of which, the (amended) Securities Law was passed by the National Assembly in 2019. Important changes in the approach of the (amended) Enterprise Law 2020 include:

- a. Shifting from “passive compliance” to “active” in amending and supplementing regulations, not only to overcome shortcomings and limitations but also to improve legal framework towards compatibility with international standards.
- b. Taking best regional and international standards and practices as measures and objectives of amendment. In the report on the draft of (amended) Enterprise Law, the general objective is to finalize the legal framework on corporate governance to reach good and popular regional and international standards and practices. Some detailed objectives towards best standards and practices include: (i) enhancing mechanism to effectively protect legitimate rights and interests of investors, shareholders and members of enterprises; fostering corporate governance to reach good and popular regional and international standards and practices; and (ii) increasing Viet Nam's rank in Protecting Minority Shareholders by at least 20 positions (according to the WB's ranking).

Continuously facilitating market and starting a business

108. Market entry is the whole process from the time an investor starts procedures to the time he/she can begin business activity. This process includes many steps which are covered by many different laws. In terms of time and cost, procedures to establish an enterprise and starting a business in Viet Nam are still complicated and costly, compared with international and regional ones. In 2019, Viet Nam was ranked 114th out of 190 countries and economies according to the WB's ranking (Table 5:).

109. Facing that situation, one objective of amending the Enterprise Law 2020 is to create most favorable conditions for establishing and registering enterprises; reducing cost and time in starting a business; and contributing to increasing Viet Nam's rank in Starting a business by at least 25 position (according to the WB's

ranking). In details, the Enterprise Law 2020 has various important changes such as:

- a. Supplementing regulations on registering enterprises through online portal. Accordingly, a person who establishes an enterprise can register his/her enterprise online by sending an electronic dossier (without compulsory submission of a hard copy dossier like today).
- b. Removing unnecessary administrative procedures, including: (i) procedure of notifying stamp sample; (ii) procedures of changing information of enterprise manager, etc.

Table 5: Procedure, time and cost in Starting a business indicator

| No. | Procedure | Time | Cost |
|-------|---|---|--|
| 1 | Registering an enterprise and publicizing information | 3 days | VND 100,000 for registering, VND 300,000 for publicizing information |
| 2 | Making a stamp | 1 day | VND 450,000 |
| 3 | Notifying stamp sample | 1 day | |
| 4 | Opening a bank account | 1 day | |
| 5 | VAT invoice | 10 days | VND 200,000 |
| 6 | Business license tax | 1 day, being implemented concurrently with above-mentioned ones | VND 2,000,000 |
| 7 | Registering of employment | 1 day, being implemented concurrently with above-mentioned ones | 0 |
| 8 | Registering social insurance | 1 day, being implemented concurrently with above-mentioned ones | 0 |
| Total | 8 procedures | 16 days | |

Source: WB.⁷¹

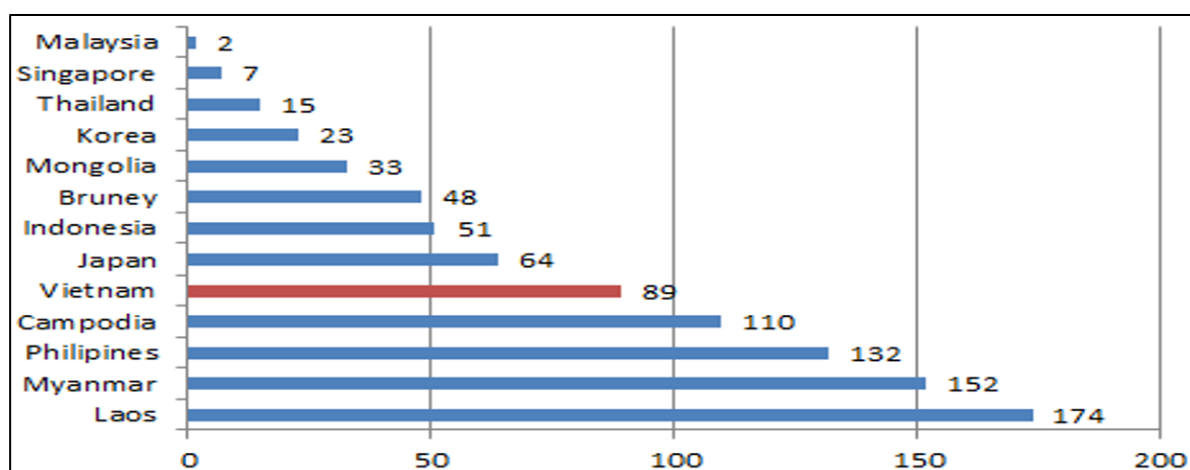
110. These amendment of the Enterprise Law along with some other reforms on business license tax, electronic invoice, etc. are expected to significantly shorten time and cost of starting a business in Viet Nam, leading to higher rank of Viet Nam according to assessments of international organizations (WB).

⁷¹ In practice, Viet Nam has made many changes and reforms. However, these reforms will be expectedly recorded in Doing Business Report 2020 (not published yet).

Improving legal framework on corporate governance and protection of investors and shareholders

111. Protecting investors and shareholders is the most important content in the legal framework on corporate governance. Good regulations on protecting shareholders is very important because they contribute to turning an enterprise into a safe means of doing business, thus fostering and mobilizing investment capital. Important principles of protecting shareholders are to ensure treating shareholders equally; to protect legal rights and interests of minority shareholders from being abused by big ones and managers; to effectively control conflicts of interest within enterprises; and to facilitate shareholders in proceeding against managers in case of violating their responsibilities.
112. Compared with the Enterprise Law 2005, the Enterprise Law 2014 made a break-through reform related to protecting investors and shareholders. Accordingly, Viet Nam's regulations on protecting investors and shareholders was consecutively improved: 87th out of 190 countries and territories in 2016 (compared with 122nd in 2015, 117th in 2014 and 169th in 2013). Still, protecting minority shareholders in Viet Nam was only ranked 97th in 2019, much lower than Indonesia (51st), far behind Thailand (15th), Singapore (ranked 7th) and Malaysia (ranked 2nd) (Figure 30).

Figure 30: Some countries' ranks in Protecting Minority Shareholders



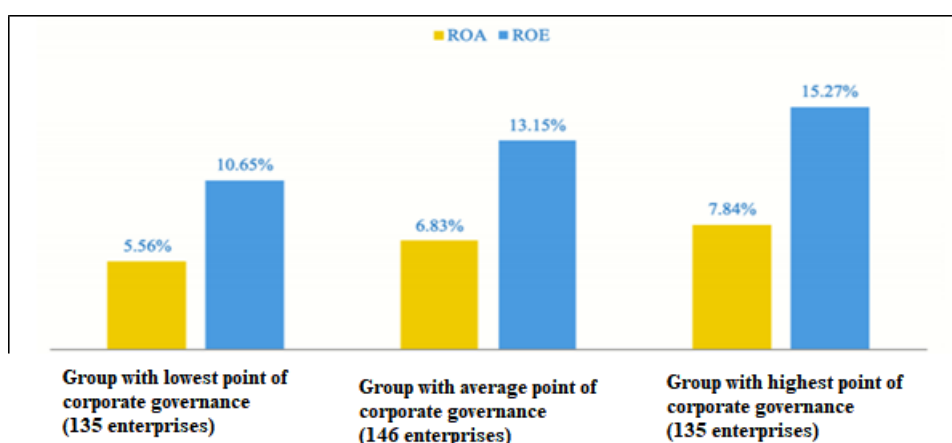
Source: WB.

113. Important changes in the Enterprise Law 2020 compared to the one in 2014 include: broader scope of shareholders' rights to give them favorable conditions in protecting their legitimate interests; limiting managers in abusing their positions and rights to cause losses to the enterprise and shareholders; expanding shareholders' rights to access to information on business performance (reducing requirement of share ownership from 10% to 5% in accessing information on business performance or summoning the general meeting of shareholders, etc.); giving more favorable conditions to shareholders in taking proceedings against managers (by supplementing right to request the Court to force the company to provide necessary information to implement right of initiating a lawsuit against a manager); promoting corporate governance model to be closer to good international standards and practices (removing requirement on establishing a

board of inspectors in case of a limited company not being a state-owned one; instead, the company can choose another corporate governance and controlling model suitable to their business and international practices), etc.

114. Corporate governance is not only an institutional issue but also an important factor in doing business and ensuring sustainable development of enterprises. A good institutional environment is measured by 8 important factors which include institutional factors on “corporate governance”. Good corporate governance helps improve an enterprise’s competitiveness and ensure long and sustainable development as well as reduce internal conflicts and disputes. Good corporate governance also helps enterprises prevent risks, ensure stable operation and better control costs; thus they can focus more on the goal of increasing revenues and profits. Performance of listed companies in Viet Nam shows that the group of enterprises with good corporate governance have higher average profits than ones in the group with weak corporate governance (Figure 31).

Figure 31: Good corporate governance and business performance



Source: Evaluation report on corporate governance of listed companies in 2019.

115. In recent years, corporate governance has become more and more alarming in Viet Nam in such aspects as awareness, facts and consequences. A key reason for recent internal disputes in the coffee sector and some cases in banking and financial sector is weak corporate governance. Because of lack of a good framework on corporate governance, a conflict of a family can become a conflict of an enterprise, conflicts between enterprises and weaken enterprises’ operations. Poor corporate governance can lead to inability to control conflicts of interest, a big shareholder controlling whole operations of enterprise and its management structure, which can nullify the management system; abusing minority shareholders’ interests; consequently, the enterprise may collapse. All financial crises in the region and in the world, notably the global financial crisis 2008-2009, have a reason of poor corporate governance. Therefore, among the biggest requirements and changes after the crisis is to reform corporate governance.
116. Changes in the Enterprise Law 2020 directly focus on fostering and improving corporate governance. In this aspect, impacts of the Law can be transformative, contributing to improving quality and competitiveness of enterprises as well as building a business community with upgraded quality.

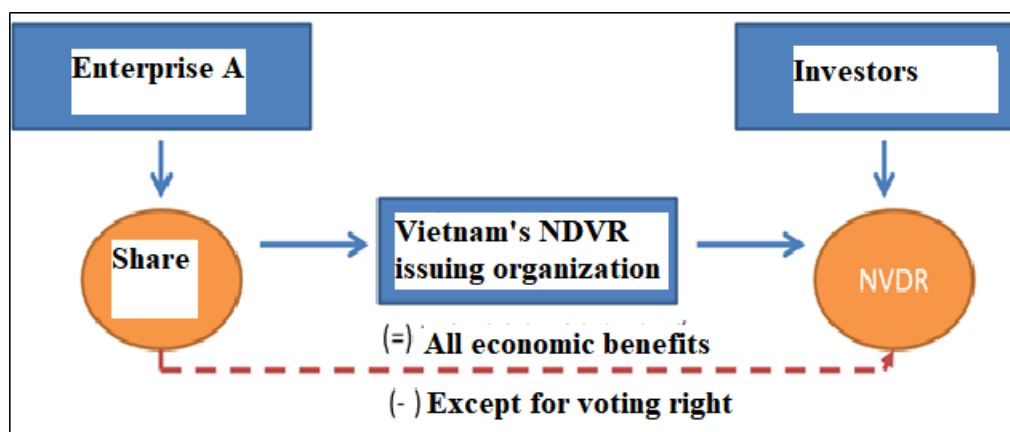
Improving governance and performance of enterprises with state-owned capital

117. Restructuring, renewing and improving performance of state-owned enterprises (SOEs) is a big direction of the Communist Party and the Government. The Resolution 12-NQ/TW dated 03 June 2017 by the fifth Plenum of the 12th Central Committee of Communist Party on continuous restructuring, renewing and improving efficiency of state-owned enterprises (hereinafter called Resolution 12-NQ/TW) clearly mentions various viewpoints, namely: SOEs shall operate in line with market mechanism, with economic efficiency being main criterion for assessment, with autonomy and self-responsibility, and compete equally with enterprises of other economic ownerships in accordance with the law; ensuring publicity, transparency and accountability of SOEs. The Enterprise Law has amended many regulations on enterprises with state ownership in order to improve governance such as increasingly centralized control of power, fighting against conflicts of interest and ensuring transparency in SOEs' operation, supplementing regulations to broaden the scope of related people (adding new ones like son-in-law, daughter-in-law and wife or husband's siblings) in governance structure and controlling transactions that can lead to frauds; and supplementing regulations on publicizing information of enterprise, etc.

Promoting capital market development

118. Changes in the legal framework on corporate governance in the Enterprise Law will improve protection of shareholders, changing enterprises into safe means of doing business; thus, promoting mobilization of investment capital. Good corporate governance will increase safety and investors' confidence which contribute to capital market development.
119. In addition, the Enterprise Law 2020 has added regulations on Non-Voting Depository Receipt (NVDR). Accordingly, NVDR shall be issued by an institutional shareholder which shall issue NVDR in proportion to ordinary shares deposited as an underlying asset. NVDR has full interests, rights and obligations in proportion to ordinary shares, except for voting right (Figure 32).

Figure 32: Non-Voting Depository Receipt in Viet Nam under Enterprise Law



120. Contents on NVDR in the Law are expected to help diversify traded securities, concurrently give enterprises, especially ones in sectors with limited foreign

investor ownership, more material opportunity to attract capital, also from foreign investors. With NVDR, the goal of state management is still ensured but enterprises can mobilize more capital from investors, which they cannot do otherwise.

121. As such, the Enterprise Law 2020 will, directly and indirectly, have big impacts on capital market development, giving enterprises more material opportunity to attract formal finance other than loans provided by credit institutions. However, finalizing and enforcing laws just create environment and broaden opportunities for enterprises. Realizing such opportunities will depend mostly on enterprises: they are more likely to succeed and/or develop faster if they understand and actively endeavour.
122. The fourth amendment of the Enterprise Law, passed by the National Assembly on 18 June 2020 continuously inherits and brings into play good outcomes and impacts of previous reforms mentioned in previous Enterprise Laws in 1999, 2005 and 2014 in ensuring freedom to do business on the principle that enterprises can do business in all areas not prohibited or restricted by laws. Besides, the Enterprise Law 2020 has made a big leap towards improving quality of enterprises through break-through amendments related to corporate governance in line with best international practices. From experiences in building and enforcing previous laws on enterprises, it is expected that the Enterprise Law 2020 shall lay an important ground for improving corporate governance in particular and quality of enterprises in general.

IV. RECOMMENDATIONS

123. Viet Nam had significant socio-economic achievements in 2019. Economic growth recovery was robust. Macroeconomic stability was improved. More importantly, macroeconomic foundation was strengthened, monetary and fiscal policy space has been retained even though Viet Nam's economy was exposed to external shocks and risk of cyclical downturn.
124. Hardships in both domestic and international context in the first 6 months of 2020 compelled Viet Nam to prioritize COVID-19 prevention. Despite reaffirming "dual goals" including economic one in responding to the pandemic, consequences for the economy are still perceived as serious. In the second half of 2020, Viet Nam's economy may face more difficulties and challenges. The COVID-19 pandemic exhibits rapid, complex and unpredictable evolvement, which can place economies - including Viet Nam and its key partners – to cope under major socio-economic challenges. Therefore, despite commendations on epidemic prevention and opportunity for economic recovery, Viet Nam still needs to be cautious in assessing the situation, and to implement appropriate measures for promoting economic recovery, fostering reform momentum, and ensuring social security.
125. Viet Nam is moving closer to a new strategy of socio-economic development. The inputs prepared for new Socio-Economic Development Strategy are widely consulted. The COVID-19 pandemic did not delay that preparation, but instead presented new issues and dimensions for Viet Nam to consider and integrate more thoroughly, such as requirements for sustainable development, role of the State, diversification of economic structure, etc. Effectively handling short-term economic problems - not only related to COVID-19 - in 2020 and creating fundamentals for formulation and implementation of more strategic, longer-term measures are thus essential.
126. Viet Nam still has ample opportunities for economic development. Such opportunities may have been identified and/or difficult to fully quantify, such as from mega-FTAs (EVFTA recently and possibly RCEP), from interest of foreign investors, or access to IR4.0. However, Viet Nam needs to look into inherent difficulties and challenges, such as quality of human resources and infrastructure, inadequacies of information and statistics for policymaking, or ability to retain momentum, and "quality" of reform for important areas (business environment, etc.).
127. This report emphasizes the need to continuously improving microeconomic foundation and reforming economic institution towards being more creative and environment-friendly, together with effective risk management - especially associated with COVID-19 pandemic - in the "new normal" context.

1. Recommendations on further reforms of microeconomic foundation

128. Further concretize and implement resolutions of Party Central Committee on shifting economic growth paradigm and effective implementation of international economic integration and private sector development; IR4.0.

129. Continue to provide instructions and organize effective implementation of basic Laws of market economy institutions such as the (amended) Enterprise Law, (amended) Investment Law, (amended) Bidding Law, Law on Public Debt Management, Law on Intellectual Property, (amended) Competition Law; Law on Cybersecurity; etc.
130. Continue to prioritize business environment reforms toward facilitating production and business activities in line with Resolutions 02/NQ-CP in 2020.
131. Finalize, promulgate and detailize the National Strategy on the Fourth IR. Identify, issue policies and prepare necessary conditions to promote digital transformation in Viet Nam.
132. Research, identify and consult on strategic economic directions for 2021-2030, incorporating obstacles and priorities for development after COVID-19.
133. Proactively engage in exchanging and cooperating with partners to effectively implement CPTPP, EVFTA and coordinate with partners to sign RCEP. Make good use of Cooperation and Capacity Building chapter under FTAs for improving capacity for Viet Nam's firms, particularly adapted to post COVID-19 context. Seek further recognition of Viet Nam's full market economy status. Closely monitor and analyze new actions and attitudes of major economies to non-marketed economies to propose appropriate solutions.
134. Finalize regulations for implementing CPTPP and EVFTA. Further review commitments under concluded, signed or pending FTAs and international treaties of Viet Nam to make relevant regulatory improvements. Reassess the effectiveness of implementing FTA for identifying lessons and policy changes.
135. State agencies should disseminate more information on signed and pending FTAs of Viet Nam to enterprises; support and provide instructions for enterprises to participate in the integration process to ensure harmonized implementation of FTAs, especially strengthen businesses' responses to technical barriers by trading partners – particularly in COVID-19 context.

2. *Recommendations on macroeconomic policies*

136. Reaffirm the priority of macroeconomic stabilization, create more space for conducting macroeconomic policies, flexibly conduct macroeconomic policies to cope with adverse movements of global and regional economies (especially US-China strategic rivalry, COVID-19 movement, risk of global debt crisis, geopolitical conflicts, etc).
137. Accelerate the process of economic and sectoral restructuring toward diversification, strengthen economic resilience of the economy in response to unpredictable developments of international trade and global economy.
138. Accelerate the process of restructuring, equitization and divestment of SOEs; formulate and issue specific plans on the use of capital from divestment of SOEs publicly and transparently, associated with personal responsibility to have serious and effective solutions.

** Monetary policy:*

139. Continue active, flexible, prudent and synchronous conduct of monetary policy to stabilize macroeconomic environment, control inflation, alleviate difficulties for production and business under COVID-19 context.
140. Manage exchange rates in accordance with market movements, macroeconomic balance and objectives of monetary policy. Justify against supporting exports via devaluing VND. Closely monitor the exchange rate of USD, CNY, Euro as well as prices of some essential commodities in international market to flexibly and cautiously manage exchange rate, aiming at mitigating impacts on inflation and macroeconomic environment of Viet Nam. Effectively justify exchange rate management to US partners.
141. Cautiously consider further reduction of interest rate for promoting growth in the second half of 2020. Look into the space to lower lending rates for priority areas.
142. Flexibly manage liquidity of commercial banks to support credit activities, issuance of Government bonds, prevention and response to volatility of indirect investment flows and remittances.
143. Simplify process, procedures, conditions for getting credit, especially for priority areas (including SMEs, women-led and/or women-managed enterprises, labor-intensive enterprises, etc.)
144. Implement regulatory sandboxes for fintech, particularly peer to peer lending.
145. Study, expand formal finance for firms in the value chain.

** Fiscal policy:*

146. Ensure strict discipline of state budget expenditures to fulfil state budget deficit target for 2020 and reduce pressure for budget revenues.
147. Assess the implementation of Decree 41/2020/ND-CP, Resolution 42/NQ-CP for identify issues of effectiveness, procedures, scope, etc., so as to revise and adjusted accordingly for ensuring social security.
148. Look into the room for adjusting corporate income tax rate, personal income tax rate for some groups of taxpayers.

** Trade policy*

149. Vietnamese diplomats and trade representatives abroad (particularly in key markets) should be given more autonomy in meeting, finding information about situation/policies of partners and some other necessary activities (instead of waiting for domestic instructions).
150. Identify solutions for diversifying exports to the US market, to ensure sustainable export growth. Review regularly and seriously the origin of Vietnamese goods exported to the US, avoiding origin fraud. Update scenarios of trade with the US.
151. Identify measures to alleviate difficulties for exports to China. Closely monitoring imports from China to promptly address the possibility of Chinese

products being redirected to non-US markets or their circumvention of trade war with the US.

152. Build capacity in the areas of competition, anti-subsidy, anti-dumping, trade dispute settlement and market control, together with providing legal support for enterprises.
153. Ensure harmonization of relevant commitments and technical requirements (especially with regard to rules of origin, regulations related to agricultural products). Improve institutions related to such issues as intellectual property, labor, environment, food hygiene and safety, etc., taking into account requirements after COVID-19 pandemic.

** Price and wage policy*

154. Seriously assess the impacts of minimum regional wage adjustment on production and business. Actively provide timely and transparent information to enterprises and employees. Decide not to adjust minimum regional wage in 2021.
155. Study, consider the timing and magnitude of price increases for some state-managed commodities to avoid pressure on inflation.

** Investment policy*

156. Enhance monitoring and evaluating of investment flows (in particular indirect investment via the securities market) to control risks of "hot money", businesses with high financial leverage and contagion effects.
157. Concretize Resolution 50-NQ/TW dated 20 August 2019 of Politburo and communicate about directions to attract FDI in the new context. Encourage foreign investors with established presence in Viet Nam.
158. Identify, promulgate strategies and measures to promote technological transfer from foreign-invested enterprises in line with international practices and commitments and consensus of foreign investors.
159. Study, update international experiences on investor-state dispute resolution mechanism for effective implementation of EVIPA.

3. Other related recommendations

160. Improve availability and quality of statistics related to informal sector, gender development, digital economy, and trade in services./.

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APPENDIX

Appendix 1: Some policy changes

| No. | Contents | Until the end of June 2020 |
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| | <p>Policies on trade and integration</p> <p><i>Focus: Continuing to implement signed free trade agreements and support imports of some medical goods to combat COVID-19.</i></p> | <ol style="list-style-type: none"> 1. Policies on imports and exports: <ul style="list-style-type: none"> • Decree 07/2020/ND-CP dated January 5, 2020 on Viet Nam's Special Preferential Import Tariff to implement the ASEAN - Hong Kong Free Trade Agreement for the period 2019-2022. • Resolution 15/NQ-CP of February 20, 2020 on signing the Agreement on Multilateralization of the revised Chiang Mai Initiative. • Resolution 44/NQ-CP dated 11/4/2020 approving the Agreement on mutual assistance in the field of customs between Viet Nam - United States. • Resolution 19/NQ-CP dated 28/02/2020 approving the Memorandum of Establishment of ASEAN-China Center between ASEAN members and China. • Decree 39/2020/ND-CP dated 3 April on Viet Nam's Special Preferential Import Tariff to implement the Viet Nam-Cuba Trade Agreement for the period 2020-2023. 2. Circular 09/2020/TT-BCT dated 14/5/2020 regulating the roadmap for the application of import and export border gates for goods temporarily imported for re-export, border-gate transfer business, and sending to bonded warehouses. <ul style="list-style-type: none"> • For goods temporarily imported for re-export or transited goods, if imported into or re-exported out of Viet Nam via a land border, such import or re-export may only be carried out through international border gates. The main gate (bilateral border gate) is opened under the provisions of Decree No.112/2014/ND-CP. 3. Policies on import tax exemption for a number of products in service of COVID-19 prevention <ul style="list-style-type: none"> • Decision 155/QD-BTC dated 07/02/2020 on the list of goods eligible for import tax exemption for the prevention and control of acute respiratory infections caused by new strains of Corona virus. • Decision No.436/QD-BTC of March 27, 2020 supplementing goods eligible for import duty exemption in the List of goods eligible for import tax exemption for the prevention and control of acute respiratory infections caused by new strains of Corona virus by Decision 155/QD-BTC. Product groups are all medical equipment |
| | Policies on business environment | <ol style="list-style-type: none"> 1. Decree 10/2020/ND-CP of January 17, 2020, provisions on automobile-transportation business conditions and activities. |

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| | <p>improvement</p> <p>Focus: <i>Promoting the implementation of Resolution 02 on continuing the main tasks and solutions to improve the business environment and enhance national competitiveness in 2020</i></p> | <ol style="list-style-type: none"> 2. Decision 345/QD-BTC dated 16/3/2020 approving the Scheme of application of financial reporting standards in Viet Nam. 3. Decree 35/2020/ND-CP of March 24, 2020 guiding the Competition Law. <ul style="list-style-type: none"> • Detailed implementation guidelines related to: Identifying relevant markets and market shares; Assessing the impact or the possibility of substantial anti-competitive effects of anti-competitive agreements; Identify significant market power; Economic concentration, Competition proceedings. 4. Decree 37/2020/ND-CP of March 30, 2020 supplementing the List of industries and trades eligible for investment incentives attached to Decree 118/2015/ND-CP guiding the Investment Law. Additional business investment activities include: <ul style="list-style-type: none"> • Investment in product distribution chains of small and medium enterprises; Investment in incubation facilities for small and medium-sized businesses; Investment in technical facilities to support small and medium-sized enterprises; Investment in a common business area for small and medium-sized businesses. 5. Decree 52/2020/ND-CP of April 27, 2020 on construction investment and golf course business. 6. Directive 22/CT-TTg of May 26, 2020 on stepping up the implementation of the solution of developing non-cash payment in Viet Nam. <ul style="list-style-type: none"> • Urgently completing the review, amendment, supplement and completing the legal corridor for non-cash payment, electronic payment, to meet the requirements of developing models, products and services. new payment. 7. Decree 58/2020/ND-CP dated May 27, 2020 providing for the compulsory social insurance premium to be paid to the Insurance fund for occupational accidents and diseases. <ul style="list-style-type: none"> • Enterprises are proposed to apply a lower level of social insurance premium payment (only has to pay 0.3% of the salary fund as a basis for social insurance payment instead of 0.5%), if some conditions are met. |
| | <p>Monetary policies and governance of credit institutions</p> <p>Focus: <i>Implementing expansionary monetary policies to support the economy.</i></p> | <ol style="list-style-type: none"> 1. Circular 01/2020/TT-NHNN dated 13/3/2020 providing regulations on credit institutions, foreign bank branches to restructure the repayment period, exemption and reduction in interest rates and fees, debt group holding unchanged to support customers affected by COVID-19 epidemic. <ul style="list-style-type: none"> • Credit institutions, foreign banks' branches decide on the exemption and reduction of interest and fees according to internal regulations for the outstanding debts arising from credit granting activities (except for the activities of buying and investing in enterprise bonds). 2. Decision 418/QD-NHNN dated March 16, 2020 on refinancing interest rate, rediscount interest rate, overnight lending interest rate in inter-bank electronic payment and lending to to offset capital |

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| | | <p>shortage in clearing of the State Bank of Viet Nam with commercial banks. Whereby:</p> <ul style="list-style-type: none"> • Refinancing interest rate is 5.0%/year; Rediscount interest rate is 3.5%/year; The overnight lending interest rate in inter-bank electronic payment and lending to offset the capital shortage in clearing of the SBV for banks is 6.0%/year. <p>3. Decision 419/QD-NHNN dated March 16, 2020 on the maximum interest rate for VND deposits of organizations and individuals at credit institutions and foreign bank branches in accordance with Circular 07/2014/TT-NHNN.</p> <ul style="list-style-type: none"> • The maximum interest rates: 0.5%/year for demand deposits and terms deposits of less than 1 month; 4.75%/year for deposits from 1 month to less than 6 months (except for People's Credit Funds and Microfinance Institutions, maximum of 5.25%/year). <p>4. Decision 420/QD-NHNN dated March 16, 2020 on the maximum interest rates for short-term loans in VND by credit institutions and foreign bank branches for borrowers to meet capital needs in some economic sectors under the provisions of Circular 39/2016/TT-NHNN.</p> <ul style="list-style-type: none"> • The maximum interest rate for short-term loans in VND for credit institutions and foreign bank branches is 5.5% per annum, except for People's Credit Funds and Microfinance Institutions applying 6.5%. <p>5. Decision 421/QD-NHNN dated 16/3/2020 on interest rates of compulsory reserve deposits and deposits in excess of compulsory reserves of credit institutions and foreign bank branches at the State Bank Viet Nam. Whereby</p> <ul style="list-style-type: none"> • Interest rates on compulsory reserve deposits and deposits in excess of compulsory reserves are 1.0%/year and 0.0%/year for VND and 0.0%/year and 0.5%/year for foreign currency. <p>6. Decision 422/QD-NHNN dated March 16, 2020 on interest rates for deposits in VND of Viet Nam Development Bank, Viet Nam Bank for Social Policies, People's Credit Funds, Financial Institutions Micro at the State Bank of Viet Nam.</p> <ul style="list-style-type: none"> • The interest rate applicable to VND deposits of Viet Nam Development Bank, Viet Nam Bank for Social Policies, People's Credit Fund, Microfinance Institution at the State Bank of Viet Nam are the same at 1.0%/year. <p>7. Decision 423/QD-NHNN dated March 16, 2020 on the deposit interest rates of the State Treasury, Viet Nam Deposit Insurance at the State Bank of Viet Nam.</p> <ul style="list-style-type: none"> • Interest rate on VND deposits is 1.0%/year, on foreign currency deposits is 0.05%/year <p>8. Circular 04/2020/TT-NHNN amending Circular 26/2013/TT-NHNN on the fee of payment service through the State Bank of Viet Nam.</p> |
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| | | <ul style="list-style-type: none"> • Discount 50% of transaction fee paid via inter-bank electronic payment system. <p>9. Circular 05/2020/TT-NHNN dated May 7, 2020 on refinancing of Social Policy Bank under Decision 15/2020/QD-TTg regulating the implementation of policies supporting people having trouble due to the COVID-19 pandemic. Whereby:</p> <ul style="list-style-type: none"> • The maximum refinancing amount is VND 16,000 billion; The refinancing interest rate is 0%/year; The interest rate for refinancing overdue capital is 0%/year; the refinancing term is 364 days; No collateral required. <p>10. Decision 918/QD-NHNN dated 12/5/2020 on refinancing interest rate, rediscount interest rate, overnight lending interest rate in inter-bank electronic payment and lending to offset the capital shortage in the clearing of the State Bank of Viet Nam for banks.</p> <ul style="list-style-type: none"> • Refinancing interest rate is 4.5%/year; Rediscount interest rate is 3.0%/year; The overnight lending interest rate in inter-bank electronic payment and lending to offset the capital shortage in the clearing of the State Bank of Viet Nam for banks is 5.5%/year. <p>11. Decision 919 / QD-NHNN dated 12/5/2020 on the maximum interest rate for VND deposits of organizations and individuals at credit institutions and foreign bank branches in accordance with the provisions in the Circular 07/2014/TT-NHNN.</p> <ul style="list-style-type: none"> • The maximum interest rates: 0.2%/year for demand deposits and terms deposits of less than 1 month; 4.25%/year for deposits from 1 month to less than 6 months (except for People's Credit Funds and Microfinance Institutions, maximum of 4.75%/year). <p>12. Decision 920/QD-NHNN dated 12/5/2020 on maximum interest rates for short-term loans in VND of credit institutions and foreign bank branches for borrowers to meet capital demand in economic sectors and industries under the provisions of Circular 39/2016/TT-NHNN.</p> <ul style="list-style-type: none"> • The maximum interest rate for short-term loans in VND for credit institutions and foreign bank branches is 5.0% per annum, except for People's Credit Funds and Microfinance Institutions applying 6.0% |
| | <p>Fiscal policies and State budget management</p> <p>Focus: <i>Supporting businesses, workers affected by COVID-</i></p> | <p>1. Decree 41/2020/ND-CP dated April 8, 2020 on extending the time limit for paying taxes and land rental fees.</p> <ul style="list-style-type: none"> • Enterprises, organizations, households and individuals doing business in a number of economic sectors are allowed to extend the tax payment time and land rent for 6 months, extend the time for corporate income tax payment to 5 months; Value added tax, personal income tax of business households and individuals are extended until December 31, 2020. |

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| | <p><i>19; and Removing obstacles in public investment.</i></p> | <ol style="list-style-type: none"> 2. Decree 40/2020/ND-CP dated April 6, 2020 guiding the Law on Public Investment. Noteworthy points: <ul style="list-style-type: none"> • Prescribing the time for appraisal of public investment programs or projects without construction components from the date the appraising agency receives a complete and valid dossier: National target program: Not exceeding 60 days; Public investment program (excluding national target programs): No more than 45 days; Group A projects: No more than 45 days; Projects of groups B and C: Not more than 30 days. 3. Resolution No.75/NQ-CP of 2020 on dealing with obstacles in investment projects of enterprises whose owner representative is State Capital Management Committee. Noteworthy points: <ul style="list-style-type: none"> • For projects valued not more than 50% of the equity and not exceeding the capital of Group B projects, the Board of Members or the company's President shall decide to invest the project. For the remaining projects, the Members' Council or the company's President shall report to the State Capital Management Committee at the enterprise for consideration and approval. 4. Circular 23/2020/TT-BTC dated 13/4/2020 providing for advance and borrowing of state budget funds. Accordingly, from June 1, 2020, the conditions for the advance of state budget are as follows: <ul style="list-style-type: none"> • In case the state budget fund, provincial budget fund is temporarily in deficit, the state budget may be advanced, provided that: There is no overdue outstanding of the state budget advance debt at the time of the request for advance payment; There is a written approval of the Standing Committee of the provincial People's Council; The level of advance request must not exceed the remaining amount of the local budget expenditure estimate assigned by the Ministry of Finance. 5. Resolution 42/NQ-CP 2020 on measures to support people facing difficulties due to the Covid-19 pandemic. Noteworthy points: <ul style="list-style-type: none"> • Laborers working under labor contracts had to agree to postpone the implementation of labor contracts or took unpaid leave from 01 month or more are supported with 1.8 million VND/person/month. • Employees had his/her labor contract terminated and are ineligible for unemployment subsidies; and Employees without labor contracts who lose their jobs; are entitled to VND 1 million/person/month. |
| | <p>Price and inflation control policies Focus: <i>Decreasing input prices, supporting the</i></p> | <ol style="list-style-type: none"> 1. The Resolutions of the Government's regular meetings of January, February, March, April 2020 <ul style="list-style-type: none"> • In the spirit of the above Resolutions, the Ministry of Industry and Trade issued a document instructing EVN to reduce the applicable electricity price from April to June 2020. Accordingly, a 10% reduction in electricity charges for most electricity price brackets; 100% reduction of electricity bill for isolated and concentrated medical examination and treatment facilities with suspected |

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| | <p><i>economy against COVID 19 and in line with world price movements.</i></p> | <p>COVID-19 infected patients; 20% discount on electricity for medical examination and treatment facilities conducting examinations, tests and treatment of patients infected with COVID-19. In addition, a 20% discount on the electricity for hotels and tourist accommodation facilities used to isolate infected, COVID-19-infected patients.</p> <ul style="list-style-type: none"> • Announcement No.132/TB-VPCP of March 29, 2020 on the conclusions of Prime Minister Nguyen Xuan Phuc at the Government's Standing Committee with the Price Steering Committee on March 20, 2020 on stabilization solutions price of pork, promoting agricultural production and processing. |
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Appendix 2: Macroeconomic statistics

| | <i>Unit</i> | <i>2017</i> | | | | <i>2018</i> | | | | <i>2019</i> | | | | <i>2020</i> | |
|---|-------------|-------------|-----------|------------|-----------|-------------|-----------|------------|-----------|-------------|-----------|------------|-----------|-------------|-----------|
| | | <i>I</i> | <i>II</i> | <i>III</i> | <i>IV</i> | <i>I</i> | <i>II</i> | <i>III</i> | <i>IV</i> | <i>I</i> | <i>II</i> | <i>III</i> | <i>IV</i> | <i>I</i> | <i>II</i> |
| <i>GDP growth</i> | | | | | | | | | | | | | | | |
| Overall | % | 5.2 | 6.3 | 7.5 | 7.7 | 7.4 | 6.7 | 6.9 | 7.3 | 6.8 | 6.7 | 7.3 | 7.0 | 3.7 | 0.4 |
| <i>Trade</i> | | | | | | | | | | | | | | | |
| Growth rate of exports | % | 14.9 | 22.3 | 22.5 | 24.3 | 24.8 | 10.4 | 15.1 | 6.5 | 5.2 | 9.0 | 10.7 | 8.4 | 7.5 | -9.0 |
| Growth rate of imports | % | 25.2 | 24.2 | 20.5 | 15.9 | 13.3 | 8.0 | 16.1 | 9.8 | 7.7 | 9.6 | 7.7 | 2.7 | 3.6 | -9.1 |
| Exports/GDP | % | 106.2 | 105.4 | 98.5 | 80.9 | 121.2 | 106.4 | 104.7 | 80.8 | 120.6 | 107.6 | 122.7 | 80.4 | 122.9 | 97.5 |
| <i>Money</i> | | | | | | | | | | | | | | | |
| M2 growth (YoY) | % | 3.5 | 3.3 | 3.4 | 4.9 | 4.0 | 4.2 | 0.6 | 3.1 | 2.9 | 4.1 | 2.2 | 4.9 | 1.7 | 2.8 |
| Credit growth (YoY) | % | 4.4 | 4.5 | 2.9 | 5.3 | 3.5 | 4.1 | 2.3 | 3.2 | 3.1 | 4.2 | 1.9 | 3.9 | 1.3 | 1.5 |
| Interbank/central VND/USD exchange rate (average) | Dong | 22219 | 22371 | 22442 | 22451 | 22434 | 22555 | 22674 | 22742 | 22902 | 23037 | 23107 | 23153 | 23205 | 23245 |
| <i>Investment</i> | | | | | | | | | | | | | | | |
| Investment/GDP | % | 32.0 | 33.4 | 35.1 | 32.5 | 31.9 | 33.6 | 35.9 | 32.8 | 32.2 | 33.9 | 36.2 | 33.9 | 30.9 | 34.8 |
| Implemented FDI | Bil. USD | 3.5 | 3.8 | 5.2 | 5.0 | 5.8 | 4.5 | 4.9 | 5.9 | 4.1 | 5.0 | 5.1 | 6.2 | 3.9 | 4.8 |
| <i>Other indicators</i> | | | | | | | | | | | | | | | |
| Inflation (YoY) | % | 4.7 | 2.5 | 3.4 | 2.6 | 2.7 | 4.7 | 4.0 | 3.0 | 2.6 | 2.7 | 2.2 | 2.0 | 5.6 | 2.8 |
| State budget deficit/GDP | % | 0.4 | 1.4 | 3.3 | 6.7 | -1.8 | 1.3 | 2.1 | 8.9 | -5.9 | -1.0 | 1.0 | 13.6 | -4.0 | - |
| Current account | Bil. USD | -1.1 | 0.3 | 4.3 | 3.0 | 3.9 | 0.5 | 3.0 | -0.6 | 1.8 | -0.2 | 6.1 | 5.2 | 4.2 | - |
| Balance of payment | Bil. USD | 1.4 | 1.0 | 2.3 | 7.7 | 7.3 | 1.2 | -0.5 | -1.9 | 7.2 | 1.9 | 4.9 | 9.3 | 3.1 | - |

Source: Authors' compilation.