

AUS4REFORM PROGRAM

VIET NAM'S ECONOMY IN 2020 AND PROSPECTS FOR 2021

Innovation for adaption

INTRODUCTION

The year 2020 witnessed complex factors affecting Viet Nam's economy. Most notably, the complicated and unpredictable movement of COVID-19 pandemic has required Viet Nam, like other countries, to take unprecedented preventive measures (such as social distancing, border closures, etc.). These measures have significantly contributed to the success of Viet Nam in controlling the pandemics, but also brought about significant consequences to the economy. COVID-19 vaccine underwent a rapid development process for quick roll-out, despite concerns about accessibility. In such context, the Government of Viet Nam has targeted "dual goals", i.e., effective prevention of pandemic and alleviating difficulties for production and business. The business community and the people themselves had strong consensus with the Government's policy and actively adapted to the "new normal" state. The recovery program and, in longer term, the post-COVID-19 development paradigm was also studied and discussed widely.

This report, titled *Viet Nam's Economy in 2020 and Prospects for 2021 – Innovation for Adaptation*, serves several objectives, including: (i) to update, and review macroeconomic development and policy changes in 2020 with evidence-based analysis and perspectives of experts/Central Institute for Economic Management (CIEM); (ii) to elaborate on macroeconomic outlook for 2021; (iii) to provide in-depth analysis of selected economic issues; and (iv) to make recommendations on economic reforms (including institutional reforms) and on macroeconomic policies in 2021.

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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
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 Agreement for 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. The world economy was further affected by the complicated and unpredictable developments of the COVID-19 pandemic in the second half of 2020. International organizations updated their global economic outlooks for 2020 and 2021 with more optimistic assessment than those released in mid-2020, though with caution. However, there still exists the risk of uneven recovery of major economies, due to different transition out of COVID-19 pandemic.
2. The US economy continued its recovery, growth rate (YoY) was 33.4% in Q3/2020. China outperformed major economies in terms of recovery from the pandemic, GDP went up by 4.9% in Q3/2020. The Eurozone exhibited slow recover in the last 6 months of 2020 due to the strong outbreak of COVID-19. Japan continued to enjoy recovery in Q3/2020, GDP increased by 22.9% (YoY).
3. In the context of complicated development of the pandemic, economies have been considering various supporting measures, especially large-scale financial and fiscal stimuluses, despite the warnings about possible global debt crisis. The WTO's World Trade Outlook Indicator had a significant recovery, implying recovery of trade in Q3 as lockdown measures were eased.
4. While trade and investment activities were disrupted by COVID-19, FTAs were promoted to induce economic recovery. The context of COVID-19 also compelled all countries to consider new requirements for development paradigms, capacity building, future job opportunities for women; and digital transformation.
5. Domestically, the Government implemented appropriate, flexible, but consistent measures toward the “dual objectives”. If in the first half of 2020, the priority was towards effective control of the COVID-19 pandemic, the second half of 2020 witnessed a shift in the Government's policy conduct, towards managing uncertainty in light of the gradually controlled COVID-19 pandemic, creating a basis for economic recovery. The "second support package" has been considered and discussed, perceivably sufficiently large and strong to fulfill multiple objectives, not just economic stimulus.
6. In general, enterprises recovered from the initial social distancing stage with more fully opened business, stemming from the adaptation of Vietnamese enterprises. The COVID-19 pandemic has

changed the structure of global and regional markets, especially pushing businesses to promptly transform themselves digitally.

7. Improving business environment, enhancing competitiveness remains a cross-cutting task throughout 2020. Meanwhile, the restructuring of state-owned enterprises (SOEs) is still limited and incomplete in several objectives.
8. The second half of 2020 witnessed material progress of Viet Nam in international economic integration. EVFTA entered into force on August 1, 2020. The RCEP Agreement was officially signed, and the FTA between Viet Nam and the United Kingdom of Great Britain and Northern Ireland (UKVFTA) was officially signed on December 29, 2020, and came into effect on December 31, 2020. The year 2020 also witnessed Viet Nam's achievements in foreign affairs and international integration, such as promoting the roles of ASEAN Chairman, AIPA-41 Chairman, and the non-standing member of the United Nations Security Council.
9. GDP grew by 2.91% in 2020. The figure for the last 6 months has shown clear signal of recovery. Viet Nam's positive growth rate should be commendable.
10. The AFF sector grew by 4.69% in Q4/2020 and 2.68% in 2020. Agricultural exports were remarkable in the last 6 months of 2020 and contributed to overall AFF growth. The value added of industry-construction sector increased by 5.60% in Q4 and 3.98% in 2020. Industry had severe slow down, with growth rate much lower than 2011-2019 rates. The COVID-19 pandemic seriously affected the services sector, with annual growth rate contracting to 2.34%, despite recovery to 4.29% in Q4/2020- lowest level across sectors of the economy.
11. The business community experienced difficulties due to direct impacts of COVID-19. the innovation ecosystem has been gradually improved, thereby enabling a strong start-up wave. Manufacturing enterprises were more optimistic about production activities in Q4 and coming time.
12. The business community's prolonged difficulties have affected employment in 2020, especially after the second wave of COVID-19. Although relatively few enterprise chose to lay off their workers, they had to reduce wages and working hours. The impact of COVID-19 on labor-employment resulted in higher unemployment rate. The

productivity and quality of labor in the economy showed improvement, albeit immaterial.

13. The CPI inflation was more stable in the last 6 months of 2020. In the second half of 2020, average inflation rate was 3.23%, core inflation was averaged at 2.31% in 2020. CPI pressure was mainly eased by the weaker demand during the complex development of COVID-19 in consecutive months as well as policy responses from the government. CPI in the last 6 months of 2020 was exposed to the pressure from some services fees, including education and transport.
14. The SBV eased monetary to support enterprises and promoting economic growth, including via: (i) directing and adjusting policy instruments to lower market interest rates; (ii) debt rescheduling, exemption from or reduction of loan interests and charges, and maintaining classified loan groups, and (iii) promoting cashless payments and Fintech development.
15. The VND-denominated deposit and lending rates exhibited downward trend. The USD-denominated deposit rates remained at 0% p.a. for deposits of individuals and organizations. The inter-bank interest rates tended to decrease in 2020
16. The outstanding credits increased by 2.6% in Q3 on QoQ basis and 10.1% on YoY basis. Estimated credit growth for the whole year was about 11-12%. Total liquidity (M2) increased by 13.6% (YoY). M2 movement was consistent with the lowerings of interest rate instruments by SBV. The VND/USD exchange rate slightly decreased, i.e. VND had nominal depreciation against the USD in the last 6 months of 2020.
17. Life insurance market experienced a boom in 2020. Amid difficulties due to the COVID-19 pandemic, the promotion of cashless payment, including card payments, e-wallets, etc. progressed rapidly.
18. Gross investment at current prices reached VND 2,164.5 trillion in 2020, up by 5.7%. The investment-to-GDP ratio tended to increase, averaging 33.6%. The ICOR-based investment efficiency decreased sharply with the ICOR coefficient skyrocketing to 14.3. Public investment disbursement reflected a major improvement in 2020, reaching 82.8% of the planned figures. The Government has prioritized disbursement of public investment to promote economic growth. Total registered FDI reached USD 28.5 billion USD in 2020, down by 25%; the implemented capital was USD

19.98 billion, down by 1.96%. The trend of increasing capital contribution and share purchase has come to a halt.

19. In 2020, merchandise exports were estimated at nearly USD 281.5 billion, up by 6.5% with quite rapid recovery in Q3 and Q4. Exports still faced a lot of obstacles including: (i) increasing non-tariff barriers in importing countries; (ii) decrease in export orders, plus shortage of raw materials and inputs; and (iii) higher transportation and storage costs.
20. Imports reached USD 262.4 billion, up by 3.6%; of which domestic sector tended to decrease. Import growth in 2020 was largely from manufacturing sub-sectors. Viet Nam obtained a merchandise trade surplus in Q3 and Q4, reaching USD 19.1 billion in 2020. These achievements partly resulted from the effective policies by the Government together with the appropriate strategy for imports and exports, administrative reforms and improved business environment of Viet Nam.
21. Total budget revenues in 2020 was estimated to reach VND 1.5 quadrillion, equal to 98% of the adjusted estimate. Budget revenues to GDP ratio was estimated at 23.9%. Total state budget expenditures by December 15th, 2020 were estimated at VND 1,432.5 trillion, equal to 82% of the annual target. The average budget spending to GDP ratio in the 2016-2020 period was approximately 28% GDP. The scale of government bond issuance rose sharply in the last 6 months of 2020. For 2020, the issuance scale attained at more than VND 323.95 trillion, exceeding the adjusted plan for 2020 by 8%.
22. The report updates forecast for Viet Nam in 2021 by two scenarios. Accordingly, economic growth for 2021 is projected at 5.98% in Scenario 1 and 6.46% in Scenario 2. Exports are forecast to increase by 4.23% in Scenario 1 and 5.06% in Scenario 2. Trade surplus is projected at USD 5.49 billion and USD 7.24 billion, respectively. Average CPI in 2021 will increase by 3.51% and 3.78%, respectively.
23. The report analyzed current situations for regional linkages institutions and some requirements related to (i) contributing to synchronous regional and inter-regional infrastructure; (ii) creating experience and information exchange in effective state management; (iii) resolving harmoniously the conflicts among localities; (iv) joint discussion and reaching a consensus on regional

policies and regional projects list. Nevertheless, there have been some challenges or consequences of inadequate institutions for regional linkages, such as monitoring implementation of plan, comparative advantages among provinces/cities in the region, or linkages of development investment. The report also provided some implications for improving regional linkage institutions, emphasizing on (i) changing mindset and raising awareness; (ii) improving legal framework to facilitate linkage of local governments in the region; (iii) establishing a regional management organization; and (iv) applying digital technology and digital transformation to improve management.

24. The report analyzed policy perspectives to promote business innovation. Accordingly, the innovation activities had several characteristics, specifically: (i) Capacity of enterprises to invest in science and technology and innovation remained insufficient; capability to access to formal finance and to participate in global supply chains was limited; (ii) Technological content is not appropriately assessed, mainly related to internet-based or mobile-based applications instead of high-tech production methods; (iii) Creativity and commercialization of business ideas were modest; and (iv) Business culture and entrepreneurship were not sufficiently sustainable and mature. On that basis, some policies were recommended, including (i) to broaden legal space for innovation start-ups; (ii) to promote entrepreneurship centering on innovation start-ups; (iii) to employ a business-centered approach in the formulation and implementation of supporting policies; (iv) to develop human resources for innovation; (v) to promote the role of business associations; (vi) to enhance linkages and develop components of the national innovation ecosystem; and (vii) to accelerate the implementation of IR 4.0 strategy and new business models.
25. The macroeconomic development in 2021 could be influenced by a number of factor, namely: (i) uncertainties underlying the global economy; (ii) the COVID-19 pandemic and its variants and mutations still evolving in a complicated and unpredictable manner, with risk of future waves of COVID-19; (iii) the implementation of large-scale stimulus packages by many economies without coordination at the global level, posing significant risks to the financial market and the global debt; (iv) the IR 4.0 and digital transformation progressing rapidly, thereby affecting the

development of Viet Nam's domestic enterprises and market; (v) the ability to sustain substantial reforms to the investment and business environment which would affect the sentiment and decision of foreign enterprises in expanding their investment; (vi) faster growth of domestic demand, which induce exploitation by enterprises; (vii) various trade remedies, anti-circumvention investigations, origin fraud, etc., not only in the US market, despite expectation of the positive impact of EVFTA.

26. This report re-emphasizes the need to continuously improving the microeconomic foundations and reforming economic institutions towards enhanced creativity and environment friendliness, together with effective risk management - especially associated with COVID-19 pandemic - in the "new normal" context. These efforts are not separate, but a prerequisite part of Viet Nam's economic recovery plan.

I. ECONOMIC CONTEXT IN THE LAST 6 MONTHS AND 2020

1. *Regional and global economic context*

1. The world economy was further affected by the complicated and unpredictable developments of the COVID-19 in the second half of 2020. Many countries still imposed lock-down/isolation measures, but in a limited scope, rather than large scale or at the nation-wide as in the first half of 2020. Along with the progressive development of vaccine against the COVID-19, concerns about the ability of using vaccines for diplomatic purpose instead of ensuring open, timely, and equitable access have also emerged. Being worried about rapid spread of new COVID-19 variants, the World Health Organization (WHO) issued warnings about the risk of new waves of COVID-19 in late 2020 and early 2021.

Table 1: Global economic prospects

	2019	2020	2021	2022	Difference*	
					2020	2021
World GDP (growth rate, %)	2.3	-4.3	4.0	3.8	0.9	-0.2
Advanced economies	1.6	-5.4	3.3	3.5	1.6	-0.6
<i>US</i>	2.2	-3.6	3.5	3.3	2.5	-0.5
<i>Japan</i>	0.3	-5.3	2.5	2.3	0.8	0.0
<i>Eurozone</i>	1.3	-7.4	3.6	4.0	1.7	-0.9
Emerging and developing economies	3.6	-2.6	5.0	4.2	-0.1	0.4
Asia – Pacific	5.8	0.9	7.4	5.2	0.4	0.8
<i>China</i>	6.1	2.0	7.9	5.2	1.0	1.0
World trade (growth rate, %)	1.1	-9.5	5.0	5.1	3.9	-0.3
Non-fuel commodity price in USD (growth, %)	-4.2	2.2	2.4	1.3	8.1	-0.6

Source: WB (January 2021).

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

2. The international organizations updated their global economic outlooks for 2020 and 2021 with more optimistic assessment than those released in mid-2020, albeit with caution. According to the OECD (on 2nd December, 2020), the world GDP decreased by 4.2% in 2020 (compared with the forecast decrease by 4.5% released in September 2020). The World Bank (WB, January 2021) estimates that global GDP contracted by 4.3% in 2020, lower than the decrease forecast in June 2020 (down by 5.2%). The WB forecasts that GDP growth in 2021 may reach 4.0%.

However, there still exists the risk of uneven recovery of major economies, due to different transition out of COVID-19 pandemic.¹

3. The US economy continued its recovery. GDP growth rate (YoY, third estimate) was 33.4% in Q3/2020. However, compared to the pre-pandemic level, GDP still decreased by 3.5% in Q3/2020. Manufacturing exhibited expansion, PMI continuously increased from record low of 36.1 in April 2020 to 56.5 in December. Both exports and imports recovered after plummeting in April-May/2020, however still lower than pre-pandemic performance. The trade deficit widened rapidly, reaching USD 68.1 billion in November 2020, the highest level since August 2006. For the first 11 months of 2020, the US suffered a trade deficit of USD 604.8 billion, higher than for the corresponding period of 2019 (USD 531.4 billion).²
4. China outperformed major economies in terms of recovery from the pandemic. According to preliminary data by the National Bureau of Statistics of China, GDP went up by 4.9% in Q3/2020, much higher than for Q2/2020 (3.2%). China's manufacturing PMI grew rapidly, reaching 54.9 in November 2020 (the 7th consecutive month of expansion, and at the highest since November 2010). Exports reached a record high of USD 268.1 billion in November 2020 and USD 2,316.6 billion in the first 11 months of 2020, up by 21.1% and 2.5% respectively (YoY). Imports grew more slowly, only by 4.5% in November 2020, but down by 1.6% in the first 11 months of 2020 (YoY). Promoting "decoupling" from China – as articulated in recent literature - can be a big challenge for many countries.³
5. The Eurozone exhibited slow recovery in the last 6 months of 2020 due to the strong outbreak of COVID-19. GDP went up by 12.6% in Q3/2020, recovering from record fall by 11.8% in Q2/2020, but decreasing by 4.3% (YoY). Fiscal stimulus measures helped prevent economic downturn in 2020; however, it requires more time to completely recover. The Europe's economic recovery has been mainly driven by the production sector. Manufacturing PMI continuously increased from a record low of 33.4 in April to 55.5 in

¹ While East Asian/Southeast Asian countries have been controlling disease quite well; in Europe, America and India, the COVID-19 situation has been unpredictable, specifically the possibility of a third outbreak due to the new variant of COVID-19

² Source: <https://tradingeconomics.com/united-states/balance-of-trade> (accessed on 10/01/2021).

³ See: <https://www.orfonline.org/expert-speak/decoupling-from-china-may-be-tricky-while-chinese-exports-are-surgin/> (accessed on 10/01/2021).

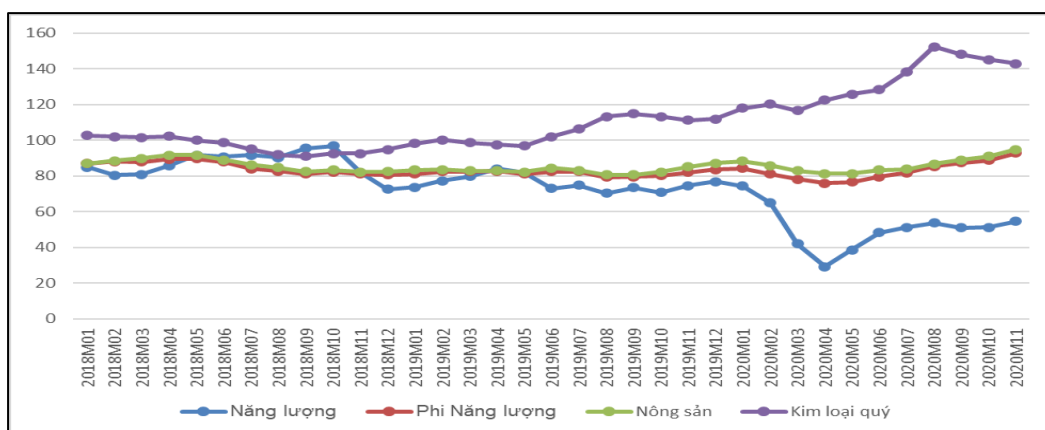
December 2020. The difficulties related to Brexit (from the end of 2020) significantly affected the region's economic recovery.

6. Japan continued to enjoy recovery in Q3/2020: GDP increased by 22.9% (YoY), from a decline by 29.2% in Q2/2020 (Cabinet Office of Japan). Manufacturing PMI has recovered markedly, rising from 38.4 in May to 49.7 in December 2020. Since July 2020, Japan has continuously achieved trade surplus. In November 2020, the surplus reached JPY 366.8 billion, as opposed to deficit of JPY 88.4 billion in November 2019. Imports contracted more slowly than exports.
7. In the context of complicated development of the pandemic, economies have been considering various supporting measures, especially large-scale financial and fiscal stimuluses, despite the warnings about possible global debt crisis.
 - a. The US Federal Reserve (FED) kept target interest rate unchanged at 0-0.25%; and was committed to buying bonds worth USD 120 billion/month until the labour market recovers more clearly and inflation reaches 2%. In addition, Fed eased some restrictions for protecting financial system during COVID-19 pandemic, and allowed banks to repurchase shares and to pay dividends, but only within certain threshold over revenues. Recently, the bailout package of USD 900 billion and budget of USD 1,400 billion (on 27th December) were approved to finance government agencies' activities till the end of 2021 and support the economy during COVID-19.
 - b. The European Central Bank (ECB) maintained the benchmark refinancing rate at 0%, with lending rates and deposit rates at 0.25% and -0.5%, respectively. Besides, the ECB added EUR 500 billion to the pandemic emergency purchase programme (PEPP), totaling EUR 1,850 billion, and extended the window for net purchases to at least the end of March 2022. Twenty-seven EU members also reached consensus on long-term budget with economic recovery package of EUR 1,800 billion to address the consequences of COVID-19. Each member government carried out supporting programs; for example, German government planned to spend nearly EUR 1,500 billion in 2020 and 2021 in response to COVID-19; France spent EUR 20 billion to increase equity of firms.
 - c. The People's Bank of China (PBoC) kept prime rate at 3.85% for one-year term (LPR) and at 4.65% for 5-year one. The PBoC

also pumped CNY 70 billion to maintain reasonable banks' liquidity. In addition, the Ministry of Finance of China issued government bonds of EUR 4 billion for 5-year, 10-year and 15-year terms to maturity, of which interest rate for 5-year term to maturity was -0.152%.

- d. The Bank of Japan (BOJ) maintained short-term rates at -0.1%, long-term rates at 0%, and implemented measures to support businesses facing difficulties due to the COVID-19 pandemic through providing interest-free loans, buying commercial papers and corporate bonds from lenders to ensure banks' liquidity. In addition, in order to support the stimulus package, the Cabinet of Japan approved a third additional budget package worth JPY 21,840 billion (equivalent to about USD 210 billion) mobilized by issuing new bonds for the fiscal year 2020. Accordingly, the total outstanding of new bond issuance in 2020 reached a record of JPY 112,000 billion (double the amount in 2009 after the global financial crisis).
8. According to ILO (15th December, 2020), about 81 million jobs were lost in Asia-Pacific region, due to the COVID-19 pandemic. Employment went down by 4.2% compared to pre-outbreak of COVID-19. Of which, women were affected more severely, with employment contracting by 4.6%, comparing to that of 4% for male employment. In addition, significant reduction of working hours resulted in lower average income. In Q1/2020, average income decreased by 9.9%, equivalent to a 3.4% contraction of GDP, and led to higher poverty rate.
9. According to the World Tourism Organization (UNWTO, 17/12/2020), foreign tourists fell by 72% over the first 10 months of 2020 (YoY), resulting in the loss of USD 935 billion. This figure was 10 times bigger than that during the economic crisis in 2009.
10. The WTO's World Trade Outlook Indicator (WTOI) had a significant recovery from the 84.5 points in August to 100.7 points in November. This figure showed a strong recovery of trade in Q3 as lockdown measures were eased. The WTO forecast that growth would be slow in Q4 due to reduction of demand and replenishment of inventory. The price index of energy and agricultural products recovered in Q4/2020 compared to mid-2020. However, price of energy remained lower than the pre-outbreak period.

Figure 1: Commodity index, 2018-2020



Source: World Bank Commodity Price.

11. While trade and investment activities were disrupted by COVID-19, free trade agreements (FTAs) were promoted to induce economic recovery. The Regional Comprehensive Economic Partnership (RCEP), signed on November 15, 2020, may contribute to phasing out tariff and non-tariff barriers, enhancing market access (with regards to goods, services and investment), simplification of customs procedures. The rules of origin under RCEP will create opportunities for its members to participate in the regional value chain, to access new markets, and to forge regional economic linkages.
12. The United Nations Conference on Trade and Development (UNCTAD) branded the RCEP region as an important FDI destination, accounting for 16% of global FDI. While global FDI has stagnated for the past decade, FDI into RCEP markets played an important role. The COVID-19 may cause FDI in the region to decline by about 15%; however, the figure was slower than that of global FDI (30-40%), and RCEP has driven FDI recovery.
13. The year 2020, especially the last 6 months, witnessed complicated geopolitical competition among key economies, not only limited to traditional economic and security areas. Even in various transitions out of COVID-19 pandemic, including health, digital transformation, etc., strategic competition has been more complex and direct. Some proposals for cooperation on trade, investment, infrastructure, and value chains became more controversial due to the potentially underlying competition for having influence and mutual restraint. In such a context, the differential possibilities of

ratifying RCEP in 2021 among its members⁴ may create additional challenges for implementing the agreement.

14. The COVID-19 pandemic also compelled all countries to consider new requirements for development paradigms. Requirements related to sustainable development, especially environmental protection, and response to climate change, were discussed and accompanied by specific commitments, even by major economies. Requirements for capacity building and future job opportunities for women - associated with STEM and online working - were proposed and concretized into policy in multilateral fora (such as United Nations, APEC, etc.). In addition, the requirement for digital transformation became more explicit at both enterprise and government levels.

2. *Domestic economic context*

15. In the context of COVID-19 pandemic with many complicated developments and serious consequences in 2020, the Government implemented appropriate, flexible, but consistent measures toward the “dual objectives”, seeking to effectively prevent the pandemic while stimulating economic recovery and domestic production. In the first half of 2020, the priority towards effective control of the COVID-19 pandemic was conveyed through a series of timely solutions such as Directive 11/CT-TTg⁵, Resolution 84/NQ-CP⁶, Resolution 42/NQ-CP⁷ and Decision 15/2020/QD-TTg⁸; etc.
16. The second half of 2020 witnessed a shift in the Government's policy conducts, towards managing uncertainty in light of the gradually controlled COVID-19 pandemic. The Government also concretized supports to businesses and stimulus of economic recovery in the last months of 2020 to build growth momentum for 2021. Notably, the prudent fiscal policy in previous years helped maintain the space for

⁴ See the assessment of Economist Intelligence Unit (2020).

⁵ Directive No. 11/CT-TTg dated 04/03/2020 on urgent objectives and solutions for assisting businesses facing difficulties and assurance of social welfare amid COVID-19 pandemic.

⁶ Resolution No. 84/NQ-CP dated 29/05/2020 on tasks and solutions for dealing with difficulties in business operations, promoting disbursement in public investment and ensuring public order and safety during COVID-19 epidemic, aiming to maintain economic development and strive to achieve socio-economic development objectives and tasks.

⁷ The Government's Resolution No. 42/NQ-CP dated April 09, 2020 on assistance for people affected by COVID-19 pandemic.

⁸ Decision No. 15/2020/QD-TTg dated 24/4/2020 of the Prime Minister on implementation of policies on assistance for people affected by the COVID-19 pandemic.

Viet Nam to carry out response measures and to support vulnerable businesses and households. The SBV's measures to loosen monetary policy and temporarily reduce financial stress from the first 6 months of the year have also helped reduce liquidity pressure, lower capital costs and ensure continued credit expansion.

17. Considering the effects of second wave of COVID-19 and preliminary assessments on the progress and effectiveness of the support packages implemented since April 2020, the on-going policies were proposed to extend until the end of December 2020, even to the first 6 months of 2021.⁹ At the same time, the Government adjusted various supporting packages (Resolution 154/NQ-CP dated 19/10/2020 amending and supplementing Resolution 42/NQ-CP dated 09/04/2020 on measures to support people facing difficulties caused by the COVID-19 pandemic; or Decision 32/QD-TTg dated 19/10/2020 amending and supplementing number of articles of Decision 15/2020/QD-TTg dated 24/04/2020 on implementing policies to support people facing difficulties caused by the COVID-19 pandemic). As a whole, the year 2020 witnessed the issuance of about 120 documents related to labor policy support and business support.¹⁰
18. The "second support package" has been considered and discussed, perceivably sufficiently large and strong to fulfill multiple objectives, not just economic stimulus. This package may serve not only to support labor-intensive SMEs to maintain production and business, resume of operations, avoid further laid-off of employees, but also to support large businesses that are struggling with cash flow shortages due to massive revenue shortfalls while fixed and operating costs are large. Drawing from the experience of implementing previous support measures, it is of particular importance to concretize the conditions and criteria to ensure that businesses can have easier access, while minimizing risks and enhancing the responsibility of implementation agencies.
19. The WB survey results in Q3 showed that enterprises in general recovered from the initial social distancing stage, with the share of fully opened businesses to 94%; input supply disruptions were

⁹ Most recently, on December 29, the MOF issued Circular No. 112/2020/TT-BTC, stipulating that 29 fees and charges shall continue to be reduced by 50-100% from January 1, 2021 to June 30, 2021,

¹⁰ Compilation from COVID-19-related webpage at <https://luatvietnam.vn/covid-19-33096.html>

improved and revenue loss decreased. However, the level of recovery was uneven, specifically: (i) the decrease in average sales was more common in small firms than large ones; (ii) weak demand and differential competitive pressures among businesses; (iii) the firms depending on imported inputs are more vulnerable to supply chain disruptions; and (iv) liquidity was improved, but businesses still exposed to multiple risks of outstanding debts.

Figure 2: Selected results on supporting policies

Rescheduling and exemption of taxes and land rental fees

- Land rental fee deferral: VND 66,700 billion
- Extension of special sales tax for domestic cars: VND 10,000 billion
- Exemption and reduction of taxes and fees: VND 10,000 billion

Social security policy

- Disbursement: < VND 12,674 billion
- Support: > 12.7 million persons
- Support: > 26,000 business households

Direct support to employees

- Disbursement: < VND 900 billion
- < 889,000 workers; of which 44,000 employees with postponed contracts or unpaid leave; Nearly 760,000 workers without labor contracts lost their jobs; and 85,000 employees with terminated contracts but not eligible for unemployment benefits

Source: VCCI, December 2020.

20. The recovery of production and business activities, first and foremost, stemmed from the adaption by Vietnamese enterprises. According to the survey results by HSBC Navigator published in early December 2020, up to 68% of Vietnamese enterprises made changes to cope with the pandemic. At the same time, these businesses have continued to invest in sales channels, improve labour skills, customer experience, and cash/capital flow management; or to invest in technology to improve market access capability, to search for new customers, and enhance automation and operational efficiency.

21. The COVID-19 pandemic has changed the structure of global and regional markets, especially pushing businesses to promptly transform themselves digitally. The government has also transformed to a digital government, thereby ensuring consistency with business efforts. Through the issuance of Decision No. 749/QĐ-TTg (June 2020) approving the *"National Digital Transformation Program to 2025, with orientations toward 2030"*, Viet Nam has achieved important milestones in promoting digital economy development, specifically: (i) Viet Nam was among the first countries to develop the 5G network; (ii) Viet Nam ranked second in ASEAN in terms of digital economic growth¹¹, with the scale of the digital economy of about USD 14 billion USD; and (iii) Viet Nam ranked 42nd out of 131¹² countries and economies, holding the top position in the group of 29 countries with the same income level. The development of e-Government, including the connection of services to the National Public Service Portal and the National Single Window, continued to progress.¹³ Besides, there are a variety of pilot services and mechanisms aimed to support digital businesses, such as online dispute resolution, etc.¹⁴
22. Improving business environment, enhancing competitiveness remains a cross-cutting task throughout 2020. Full evaluation of the results was hardly possible because international organizations (WB, WEF, etc.) have not yet published their updated assessment of indicators on business environment and competitiveness 4.0. However, the business community and people showed positive assessments. The Business Environment Index (BCI) rank by the European Business Association rose by 24 points to 57.5 points in Q3/2020 (Figure 3). International credit rating institutions such as Standard & Poor's (S&P), Moody's and Fitch Rating still keep Viet Nam's national credit ratings at BB with a stable outlook amid the

¹¹ The growth rate averaged 27% p.a. during the period 2015-2020 (Google, Temasek and Brain&Company, 11/2020)

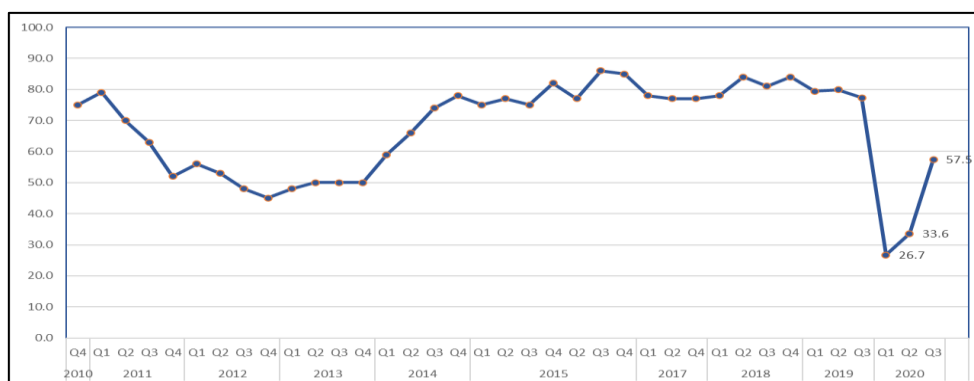
¹² Report of the World Intellectual Property Organization (WIPO).

¹³ Viet Nam has operationalized the e-Government system; 7/12 ministries have completed the provision of online public services at level 3 and level 4; Over 99% of operating enterprises have made electronic tax declaration and payment.

¹⁴ Most recently, the application of 'Digital Social Insurance' on mobile devices was announced on November 16, 2020; The Vietnam Free Trade Agreement (FTAP) portal was launched on December 23, 2020; the national database warehouse has been formed to facilitate free trade and open market of Viet Nam through gathering and updating information related to import and export activities.

context of a global economic downturn and many countries with downgraded credit ratings.

Figure 3: Business Climate Index (BCI)



Source: EuroCham, December 2020.

23. The MPI assessment of Vietnam's economic restructuring in the 2016-2020 period shows that restructuring of state-owned enterprises (SOEs) was still limited and incomplete in several objectives, including (i) failure to meet international standards on SOE governance; (ii) failure to complete the plan for equitization and divestment of state capital; and (iii) failure to fulfil the goal of "improving the efficiency and competitiveness of SOEs" and the goal of "completely handling inefficient SOE projects with prolonged losses". According to MOF report, until the end of Q3 2020, only 37/128 SOEs were equitized and divested (equivalent to 28% of the 2020 plan). Some reasons for slow equitization include: (i) lengthy process for enterprises to take stock of assets, especially land-related legal documents; (ii) some large economic groups and corporations having complicated financial status, wide range of operations, owning a lot of land in many provinces and cities nationwide, thus leading to multiple difficulties and time-consuming dealing with financial issues, approving land use plans, identifying and auditing enterprises' values, selling shares for the first time, plus with a lack of seriousness and drastic actions in directing and implementing of management bodies; (iii) some functional bodies being less active within their authority to advise and propose to address problems and shortcomings; and (iv) the COVID-19 pandemic with adverse impact on the implementation of the equitization plan.
24. The second half of 2020 witnessed material progress of Viet Nam in international economic integration. EVFTA entered into force on

August 1, 2020. The Government has promptly issued plans and guiding documents to implement the EVFTA (drawing lessons from the slow implementation of the CPTPP). On November 15, 2020, on the sidelines of the ASEAN Summit hosted by Viet Nam, the RCEP Agreement was officially signed after more than 7 years of negotiation. The FTA between Viet Nam and the United Kingdom of Great Britain and Northern Ireland (UKVFTA) was officially signed on December 29, 2020, and came into effect on December 31, 2020, thereby helping Vietnamese businesses sustain relatively favorable conditions when these partners leave the EU.

25. The year 2020 also witnessed Viet Nam's achievements in foreign affairs and international integration, such as promoting the roles of ASEAN Chairman, AIPA-41 Chairman, and the non-standing member of the United Nations Security Council. The 2020 ASEAN Chairmanship has helped Viet Nam to strengthen foreign relations with other countries, especially enhancing cooperation in epidemic prevention through high-level cooperation meetings, promoting United Nations-ASEAN cooperation, etc.
26. The Government of Viet Nam had various positive imprints of governance in 2020. *First*, the governance remained calm, engaging extensive consultation and consensus from the business community and the people. In particular, communication efforts has contributed significantly to stabilizing market sentiment, as well as helping to share good experiences of businesses in response to the COVID-19 pandemic. *Second*, the governance continued following basic principles associated with the update and evaluation of growth scenarios, paying special attention to the COVID-19 pandemic developments. Accordingly, the policy has showed appropriate adjustments, or requiring social distancing (when necessary) only in a minimally required scope instead of universal application or at all times. *Third*, the Government retained the policy space to respond to future scenarios. The Prime Minister and Ministers had direct and straightforward exchanges with the spirit of cooperation and construction with foreign partners to remove difficulties related to exports, imports, and investment, etc.¹⁵ *Fourth*, the momentum of business environment reforms from the previous periods has been maintained and uninterrupted even when the Government prioritized

¹⁵ Including the exchanges, justifications when the US Department of Treasury labelled Viet Nam as a currency manipulator in its Report in December 2020.

epidemic prevention, thereby enhancing Viet Nam's economic resilience.

27. Nevertheless, Viet Nam still needs to pay attention to a number of policy issues for future improvement. *First*, despite improvements compared to the previous years, public investment disbursement has not been fully and effectively exploited. Keeping the disbursement pace during the next 5-year socio-economic development plan (2021-2025) is essential but not easy. *Second*, information sharing among government agencies has not changed much, despite addition of online platforms.¹⁶ There is a lack of information and statistics related to gender, digital economy, etc., in the context of the COVID-19 pandemic in terms of both quantity and quality, thereby affecting related studies and policy recommendations during and after the pandemic. *Third*, Viet Nam has no material progress in improving industrial/sectoral policies towards a more focus. *Fourth*, the perception of Viet Nam's international economic integration process associated with enhancing economic independence and autonomy exhibited some differences, while there is a lack of thorough study to support policymaking process on this subject. *Finally*, the monitoring and evaluation of developments and impacts of foreign investment flows at both macro and micro levels, still expose various shortcomings that need to be improved, such as those in terms of information, criteria, and coordination among macro policies in managing capital flow, etc.

¹⁶ E.g., open.data.gov.vn

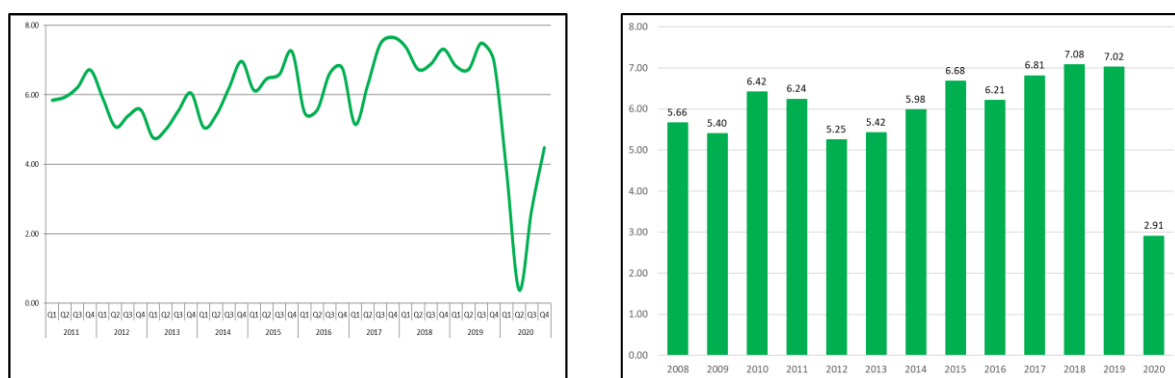
II. MACROECONOMIC PERFORMANCE AND OUTLOOK

1. *Macroeconomic performance in the last 6 months of 2020*

1.1. Real economy

28. GDP grew by 2.91% in 2020, of which the growth rate was 2.69% and 4.48% in Q3/2020 and Q4/2020 respectively (Figure 4).¹⁷ In spite of lower rates than 2011-2019, the figure for the last 6 months of 2020 has shown clear signal of recovery, compared with that of first 6 months, especially with Q2/2020.

Figure 4: GDP growth, 2011-2020

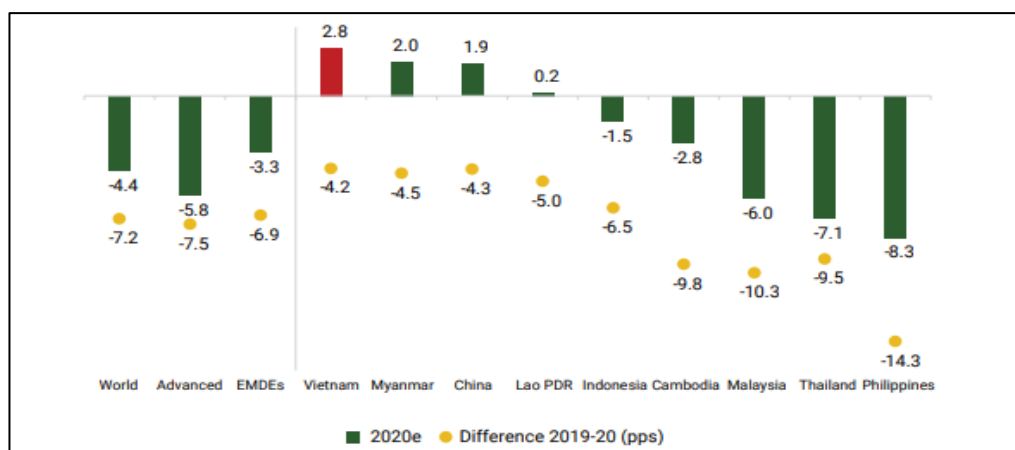


Source: General Statistic Office (GSO).

29. In the context that regional economies have been facing difficulties and negative growth rates were common, Viet Nam's positive growth rate should be commendable. Specifically, Viet Nam's growth, in the recovery process, was higher than reported figures of almost all economies in the world, including East Asia (Figure 5). Thus, Viet Nam's economy, to some extent, has arguably improved resilience as compared to previous periods (for example the period of 2008-2011).

¹⁷ In this section, all growth rates are on year-on-year (YoY) basis, unless otherwise specified.

Figure 5: Economic growth in selected countries



Source: WB (2020).

30. From expenditure side, the growth of final consumption remained slow (1.48% in Q4/2020 and 1.06% in 2020). Gross capital formation had slower growth, of 4.12% in 2020; contribution from trade balance of goods and services was improved in Q4,¹⁸ decreased in 2020 as a whole.¹⁹

Figure 6: Contributions of gross capital formation and final consumption to GDP growth



Source: GSO.

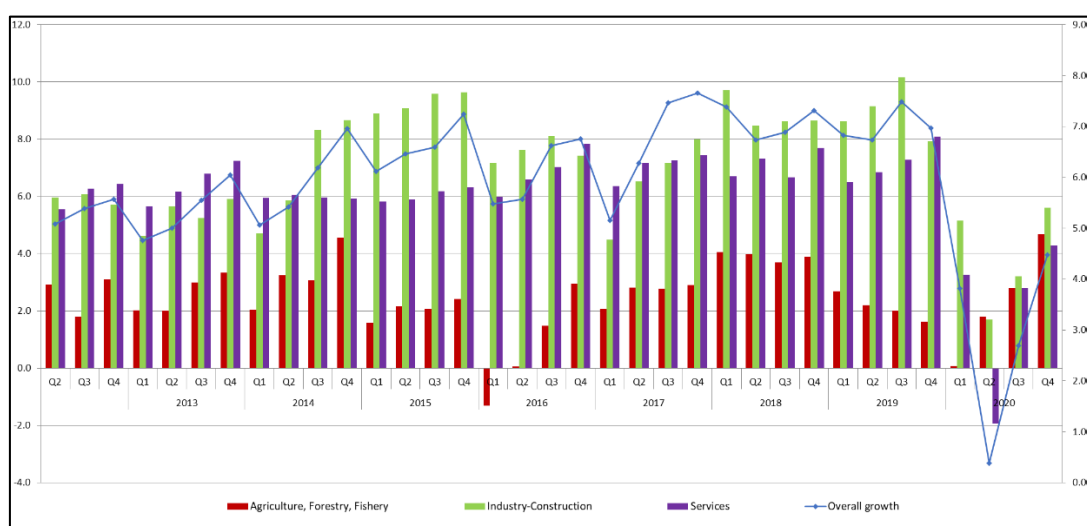
¹⁸ Exports of goods and services increased by 15.25%; imports of goods and services increased by 14.83%.

¹⁹ Exports of goods and increased by 4.97%; imports of goods and services increased by 3.33%.

31. The agriculture-forestry and fishery (AFF) sector grew by 4.69% in Q4/2020 and 2.68% in 2020 (Figure 7). In spite of difficulties due to natural disasters and epidemics, agricultural exports were remarkable in the last 6 months of 2020,²⁰ thereby contributing to the overall AFF growth. In the context of COVID-19 pandemic, agriculture assumed the role of a "buffer", and its growth clearly demonstrated adaptive and responsive capacity, particularly when agricultural exports encountered difficulties in some markets (especially China). The enhancement of trade promotion in major markets, promoting domestic consumption, and reorganizing the distribution system in linkage with producers were major highlights of AFF policy conduct in 2020.
32. The value added of industry-construction sector increased by 5.60% in Q4 and 3.98% in 2020. Industry had severe slow down, with growth rate much lower than 2011-2019 rates.²¹ Despite modest growth, the manufacturing sub-sector continued to be driver of industry, up by 5.82%. The mining and quarrying sub-sector decreased by 5.62% because the output of exploited crude oil and natural gas went down by 12.6% and 11.5% respectively.

Figure 7: GDP growth by sector, 2013-2020

Unit: %



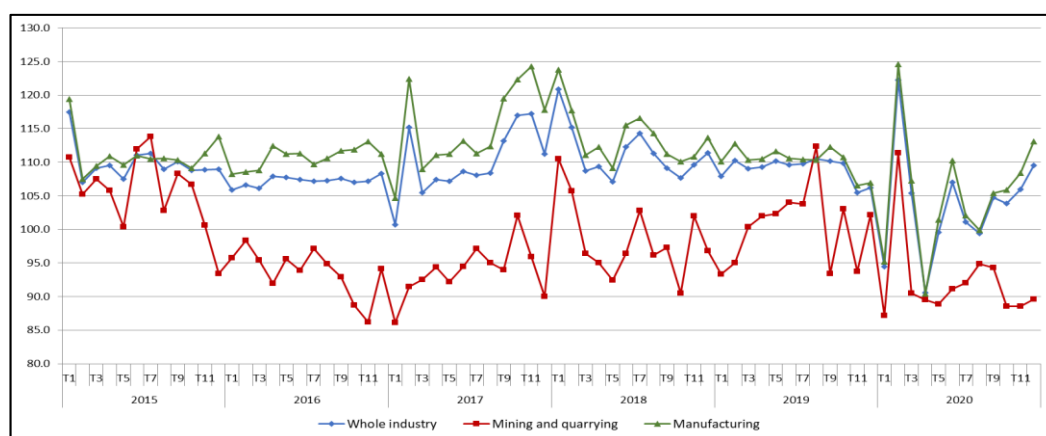
Source: GSO.

²⁰ Exports of AFF were estimated at USD 37.42 billion in the first 11 months of 2020, up by 2.4%, imports were at USD 28.05 billion, decreasing by 0.2% (YoY). Trade surplus of AFF amounted to USD 9.36 billion, up by 10.9% (YoY).

²¹ The value added growth rates of industry in 2011-2020 were 9.46%; 8.20%; 4.93%; 6.32%; 9.39%; 7.06%; 7.85%; 8.79%; 8.86%; and 3.36% respectively.

33. Viet Nam had slight recovery of industrial production towards the end of 2020: the Index of Industrial Production - IIP - rose by 9.52% in December, leading to increase of 6.31% in Q4. This figure resulted from the sharp increase of manufacturing sub-sector, by 13.13% and 9.04%, respectively. With the pandemic under control, the economy experienced recovery of domestic and export demand, increase of orders and quantity, which then required increase of labor. The number of employees working in industrial enterprises as of December 1, 2020 increased by 1.4% over previous month, but still decreased by 2.3% (YoY).

Figure 8: Monthly Index of Industrial Production, 2015-2020

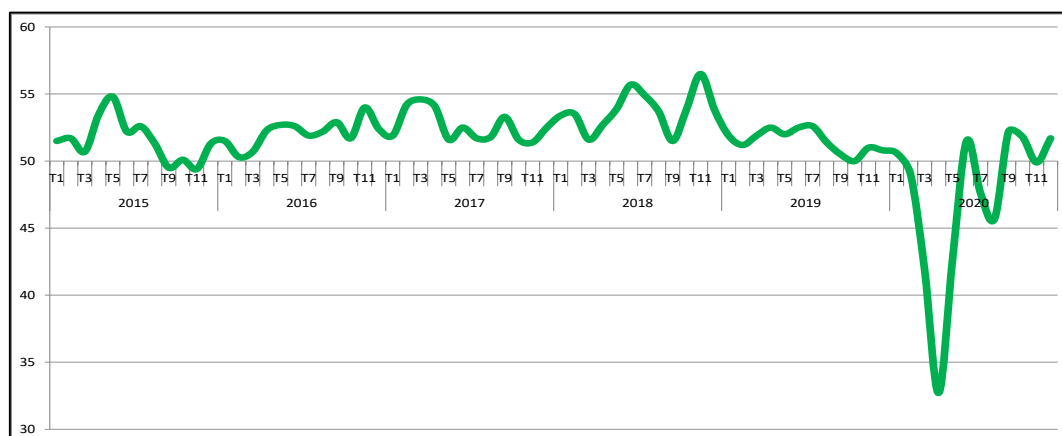


Source: GSO.

34. Selected sub-sectors exhibited increasing of IIP, including manufacture of drugs, pharmaceutical chemistry and pharmaceuticals by 27.1%; metal production by 14.4%, metal ore exploitation 13.1%, production of coke and refined oil by 11.4%; production of electronic products, computers and optical products by 11.3%; production of paper and paper products by 7.9%; production of furniture by 7.0%. While Viet Nam's major export markets faced difficulties, industrial production had opportunities from (i) enhanced export capacity thanks to EVFTA, RCEP; and (ii) the proposal of the MOF to amend Decree 218/2013/ND-CP on corporate income tax incentive for supporting industries.
35. The Purchasing Managers Index (PMI) followed a downward trend in Q3/2020 and somewhat recovered in Q4/2020 (Figure 9). This movement was mainly attributed to disruption of production during COVID-19, leading to a decrease in output, increasing pressure on input prices and increasing costs of businesses. In Q4/2020, when the COVID-19 pandemic was controlled in Viet Nam, the

manufacturing sector improved and recovered, the number of orders and jobs bounced back. However, the number of new export orders has not improved significantly due to weak demand in foreign markets, typically Europe, due to the COVID-19 pandemic.

Figure 9: Purchasing Manager Index, 2015-2020



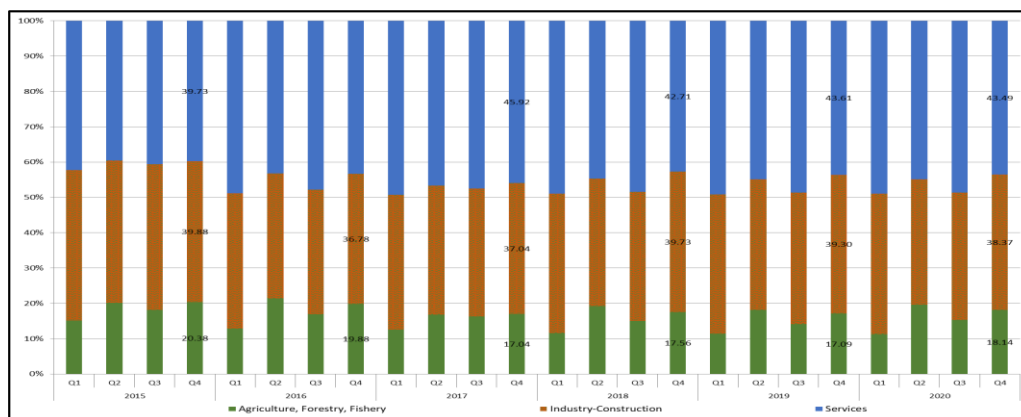
Source: Markit, HSBC.

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

36. However, European firms in Vietnam had relatively optimistic assessment of trade and investment environment, as well as their performance in the last two quarters of 2020. While in the first two quarters of 2020, the BCI was below average level (26.7 and 33.6 respectively), it has reached to 57.5 in Q3/2020 (Figure 3). The confidence of European firms has improved significantly, with 65% assessing stability of employment, 57% of investment plans and 44% expecting the increase of orders and sales.
37. The COVID-19 pandemic seriously affected the services sector, with annual growth rate contracting to 2.34%. By quarter, the growth went up to 4.29% in Q4/2020- the lowest level across sectors of the economy and much lower than the same period of 2011-2019. Towards the end of 2020, domestic retail sales of goods improved (up by 13.2% and 12.5% in November and December) due to the seasonal increase of consumer demand, thanks to control of the pandemic and stimulus programs to support enterprises. For 2020 as a whole, retail sales of consumer goods and services reached VND 5,059.8 trillion, up by 2.6% from the previous year. However, if excluding impacts of price increase, this figure decreased by 1.2%.
38. The tourism industry was heavily affected in the context of uncontrolled COVID-19 at global scale. The second half of 2020 saw

disruptions of domestic tourism due to the outbreaks in Da Nang (July-August 2020) or increased risks in Ho Chi Minh City (December 2020). The significant decrease of international tourists (up to 78.7% compared to 2019) also adversely affected the tourism industry. Revenues from accommodation and catering services attained only VND 510.4 trillion in 2020, down by 13.0%; travel revenue decreased up to 59.5%.²²

Figure 10: GDP structure by quarter (%), 2015-2020



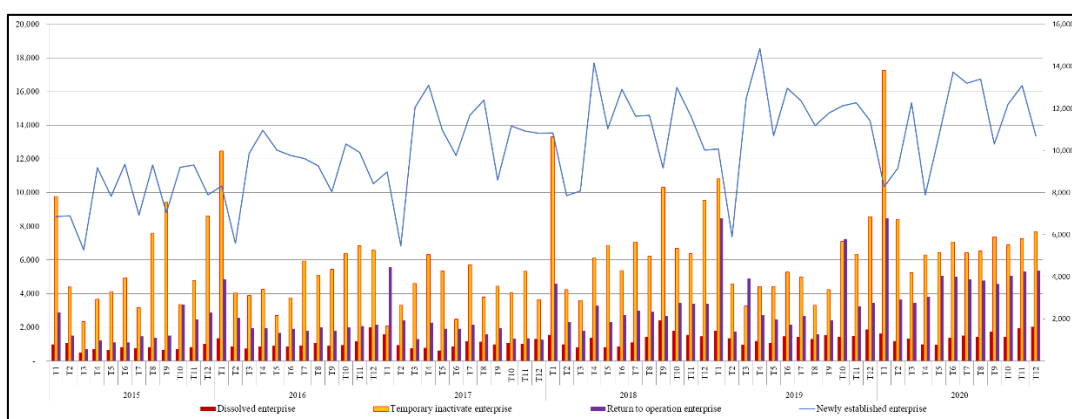
Source: GSO.

39. Economic structure (excluding the product taxes less subsidies on products) showed slightly changed on YoY basis. Due to difficulties in the first months of the year and relatively slower growth, the GDP share of AFF sector increased slightly to 18.34% in Q4/2020. That of industry-construction decreased slightly to 38.37%. The services sector had stable share of 43.49%.
40. In 2020, the business community experienced difficulties due to direct impacts of COVID-19. Some 101.7 thousand enterprises became temporarily inactive or ceased operations to wait for dissolution or dissolved, up by 13.9%. Of which, 46.6 thousands of enterprises became temporarily inactive, up by 62.2%; nearly 37.7 thousand enterprises ceased operations to wait for dissolution, down by 13.8%; nearly 17.5 thousand enterprises were dissolved, up by 3.7%.
41. Nevertheless, the innovation ecosystem has been gradually improved, thereby enabling a strong start-up wave. According to the report on National Brands in 2020 published by Brand Finance, the national value of Viet Nam increased by 29% in 2020 (the fastest in

²² These two ratios increased 9.6% and 99% in 2019.

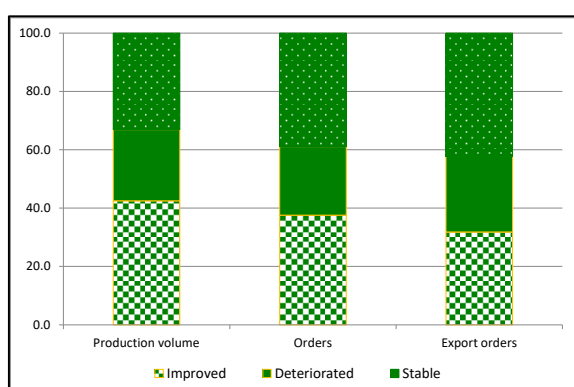
the world), reaching USD 319 billion, ranking 33rd (up from 42nd in 2019). The number of newly registered enterprises in 2020 was 134,941, down by 2.3%, but total registered capital was VND 2,235 trillion, up by 29.2%. For the whole year, the average registered capital reached VND 16.6 billion, up by 32.3%. The figures showed that the business sector itself, to some extent, has been restructured to adapt to new circumstances. Some industrial sub-sectors such as production, distribution of electricity, water, gas had the growth of newly established enterprises of up to 243%, agriculture, forestry and fishery: 30.1%, etc.

Figure 11: Selected indicators of enterprises' performance, 2016-2020



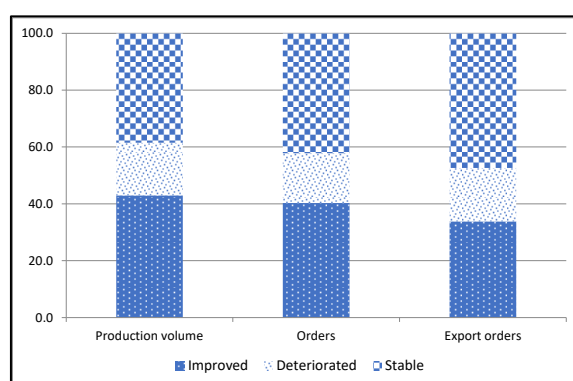
Source: Business Registration Agency, MPI.

Figure 12: Business tendency (Q4/2020 compared to Q3/2020)



Source: GSO.

Figure 13: Business tendency (forecast for Q1/2021)



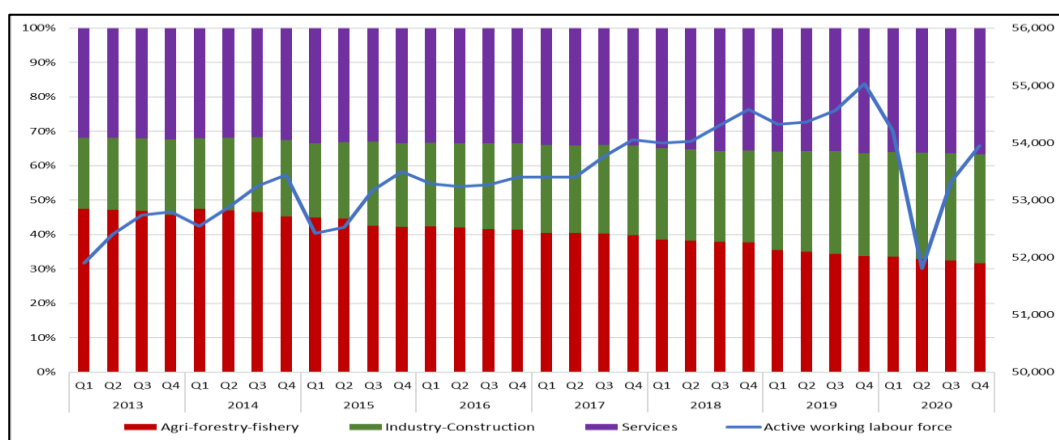
42. Manufacturing enterprises were more optimistic about production activities in Q4/2020 and coming time. The survey results on business tendency of manufacturing enterprises showed that 40.6% of enterprises had improved business conditions in Q4/2020 than in

Q3/2020 (Figure 12). The business community forecast that business condition would improve in Q1/2021, as indicated by 42.8% of enterprises (Figure 13); of which, the FDI sector was the most optimistic with 83.0% of enterprises expected improvement and stability in Q1/2021. The figures for non-state enterprises and state-owned enterprises were 80.5% and 77.7%, respectively.

43. The business community's prolonged difficulties have affected employment in 2020, especially after the second wave of COVID-19. Total labor force aged 15 and over was 55.1 million people in 2020, decreasing by 860.4 thousand people. The labor force participation rate was only 74.0%. The number of economically active labors aged 15 and over, as at the end of Q4/2020, was estimated at 53.9 million people, down by 1.02 million people. In particular, the number of employees in AFF decreased most rapidly, by 1.5 million people (Figure 14). Even for those currently employed, particularly for women, the quality of jobs was affected. Some policy discussions showed that female labor faced more burdens when implementing distancing policies due to COVID-19, including (i) doing housework; (ii) working from home; and (iii) educating their kids.

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

Unit: thousand people



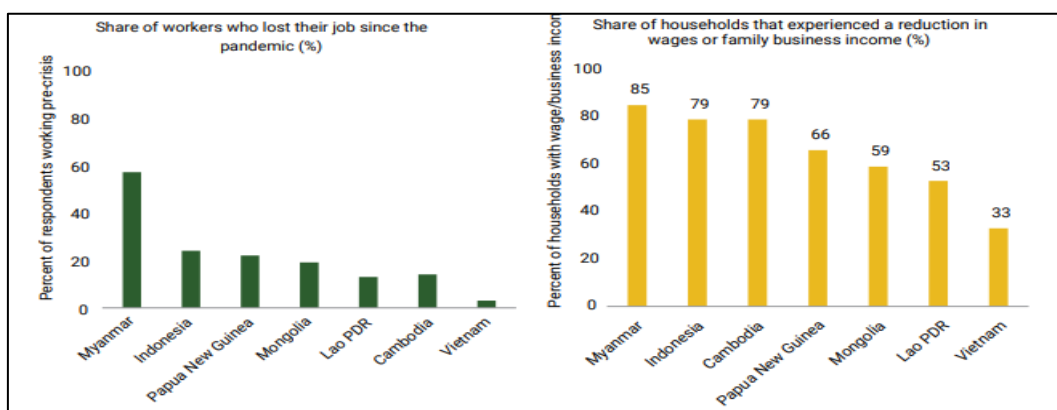
Source: GSO.

44. Although relatively few enterprises chose to lay off their workers, they had to reduce wages and working hours.²³ From an international

²³ The most recent survey by GSO showed that some 5.9% of labor lost their jobs, 2.4% unpaid leave, 5.0% rotation of leave and 7.8% reduction of wages.

perspective, the WB survey on household in East Asia and the Pacific showed that Viet Nam has been the country least affected by the COVID-19 pandemic (Figure 15).

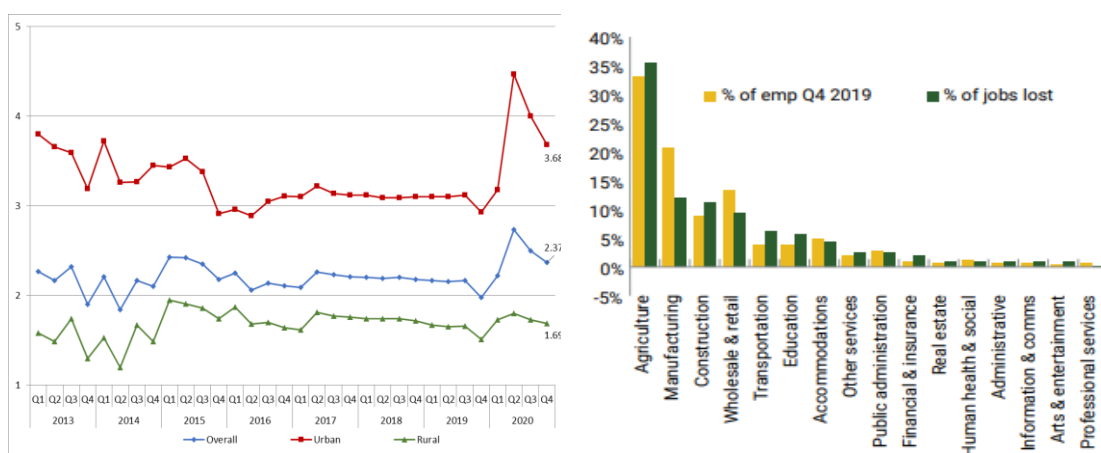
Figure 15: Effects of COVID-19 on labor and household in Viet Nam



Source: WB, December 2020.

45. The impact of COVID-19 pandemic on labor-employment resulted in higher unemployment rate, with certain percentage of workers leaving the labor force. The overall unemployment rate in Q3/2020 increased slightly compared to YoY basis (2.50%) - and almost returned to the pre-pandemic level, after increasing to 2.73% in Q2/2020. Data breakdown by gender showed that female workers were more vulnerable, female unemployment rate of 3.90% (Figure 16) and the most jobs lost were recorded in wholesale and retail trade, accommodation, financial services, education, transportation and real estate.

Figure 16: Unemployment and distribution of employment

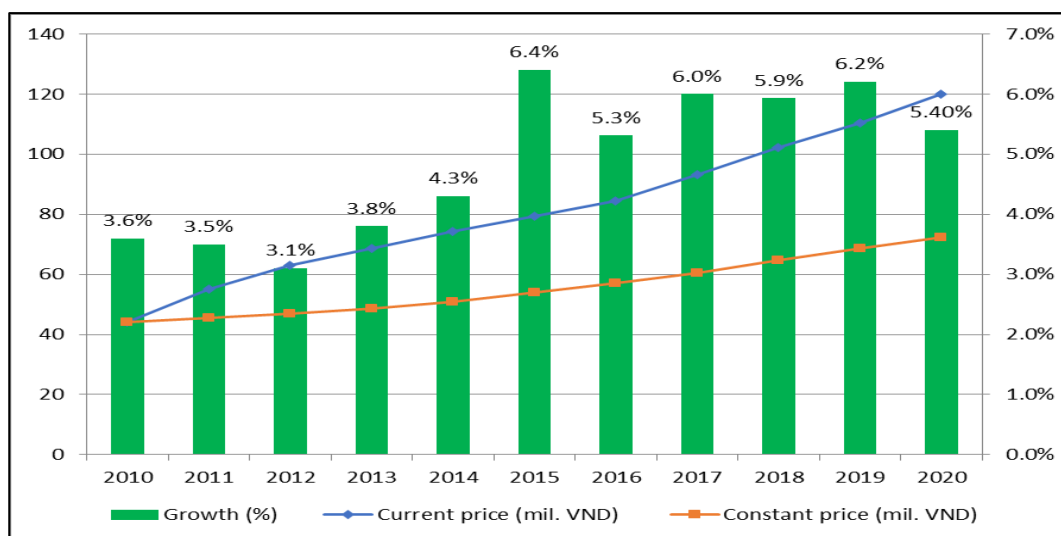


Source: GSO.

Source: WB, December 2020.

46. The productivity and quality of labor in the economy showed improvement, albeit immaterial. At current prices, in 2020, overall labor productivity was estimated at VND 117.9 million/employee (equivalent to USD 5,081/employee, up by USD 290 compared to YoY basis - Figure 17). At constant prices, labor productivity increased by 5.4% since labour skills were improved (the rate of trained workers with degrees and certificates in 2020 was 24.1%, higher than the rate of 22.8% in 2019).

Figure 17: Labor productivity, 2010-2020



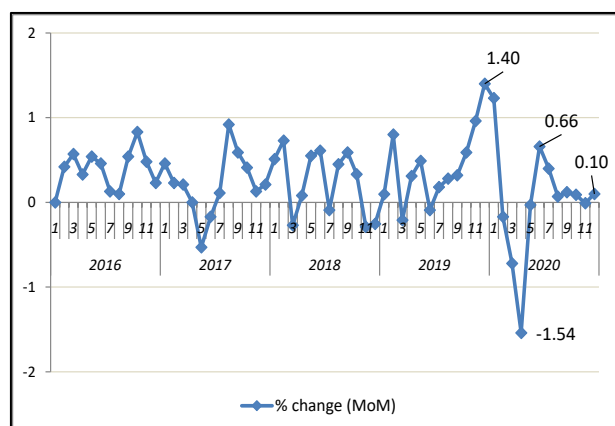
Source: GSO.

1.2. Inflation

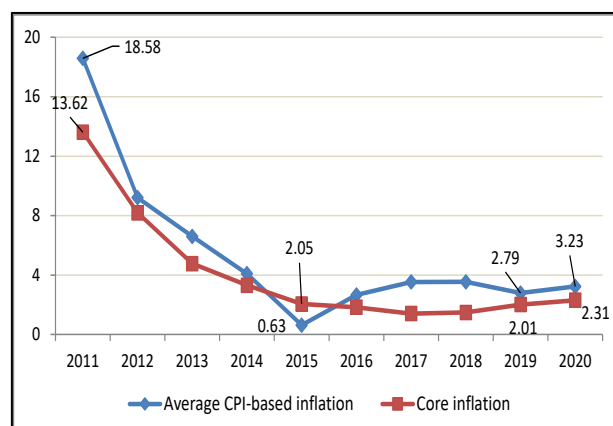
47. The Consumer Price Index (CPI) inflation was more stable in the last 6 months of 2020 (as compared to the first 6 months of the year). Following the downward trend in Q2, average CPI only increased by 3.18% and 1.38% in Q3 and Q4 of 2020, respectively. In the second half of 2020, average CPI-based inflation rate was 3.23%. The inflation was far from the National Assembly target of 4%, thereby creating more room to reduce interest rates to stimulate the economy (if necessary) in early 2021.
48. CPI in the last 6 months of 2020 was exposed to the pressure from some service fees. *First*, education fees increased by 4% in December 2020, compared to June 2020. *Second*, transportation fees were adjusted, increasing by 5.9% in the last 6 months of 2020, as compared to the early months. In which, air fares in Q4 increased by 2.9% compared to Q3, and decreased by 34.6% compared to Q4/2019.

Figure 18: Inflation, 2011-2020 (%)

(a) MoM inflation



(b) Core inflation and average CPI inflation



Source: GSO.

49. However, CPI pressure was mainly eased by the weaker demand during the complex development of COVID-19 in consecutive months as well as policy responses from the Government. *First*, the weakening and disruptions of transport and tourism demand at times resulted in lower prices of transport and tourism packages. The price index of cultural, entertainment and tourism decreased by 1.3% in 2020. *Second*, the policy on supporting electricity price for selected households affected adversely by the COVID-19 pandemic was renewed, taking effect in October-December 2020. *Third*, world commodity prices were less volatile: the USD import price index decreased by 0.6% in 2020 while the USD export price index declined by 1.3% (in particular, that of agricultural products and foodstuffs went down by 3.3%). *Fourth*, the ministries, line authorities and provinces continued to manage effectively retail channels, thereby avoiding hoarding consumer goods during the COVID-19 outbreak. *Finally*, the Government deepened efforts to reduce costs for enterprises, including measures to reduce unnecessary procedures, to enhance the adoption of public e-services, and to lower interest rate instruments.
50. Core inflation was averaged at 2.31% in 2020, lower than that of the first 6 months (2.81%). Although surpassing the "threshold" of 2.0%, core inflation in the early months was not due to pressure of monetary policy conduct. Instead, the downward trend of average CPI-based inflation and core inflation reflected the Government efforts in price control and effective monetary policy which helped anchor inflationary expectations – albeit hardly mentioned in 2020.

1.3. Monetary movement

51. In 2020, under the context of COVID-19, the State Bank of Vietnam (SBV) eased monetary policy to support enterprises and promoting economic growth. The key measures included: (i) directing and adjusting policy instruments to lower market interest rates; (ii) debt rescheduling, exemption from or reduction of lending rates and charges, and maintaining classified loan groups²⁴, and (iii) promoting cashless payments and Fintech development²⁵.
52. In 2020, the ceiling interest rates was lowered three times in March, May and September²⁶. By the end of 2020, the VND-denominated deposit rates at commercial banks decreased significantly compared to the pre-pandemic level (Table 2). In addition to the lower policy interest rates²⁷, the reduction of deposit rates could be attributed to: (i) abundant liquidity of the banking system, (ii) slow credit growth. Unlike the first eight months of 2020, the Decree 81/2020/ND-CP tightened conditions on bond issuance in small lots also eased pressure on deposit rates, enabling such rates to decrease.

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

	Demand	Shorter than 6 months	6-12 months	Longer than 12 months
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	3.7-4.25	4.9-6.6	6.5-7.4
End of September 2020	0.1-0.2	3.5-4.0	4.4-6.2	6.0-7.0
End of December 2020	0.1-0.2	3.2-3.9	4.0-6.0	5.6-6.8

Source: SBV.

²⁴ Circular 01/2020/TT-NHNN dated 13/03/2020 on credit institutions and foreign bank branches carrying out debt rescheduling, giving exemption from or reduction of loan interests and charges, and maintaining classified loan groups in order to help their clients affected by the COVID-19 pandemic.

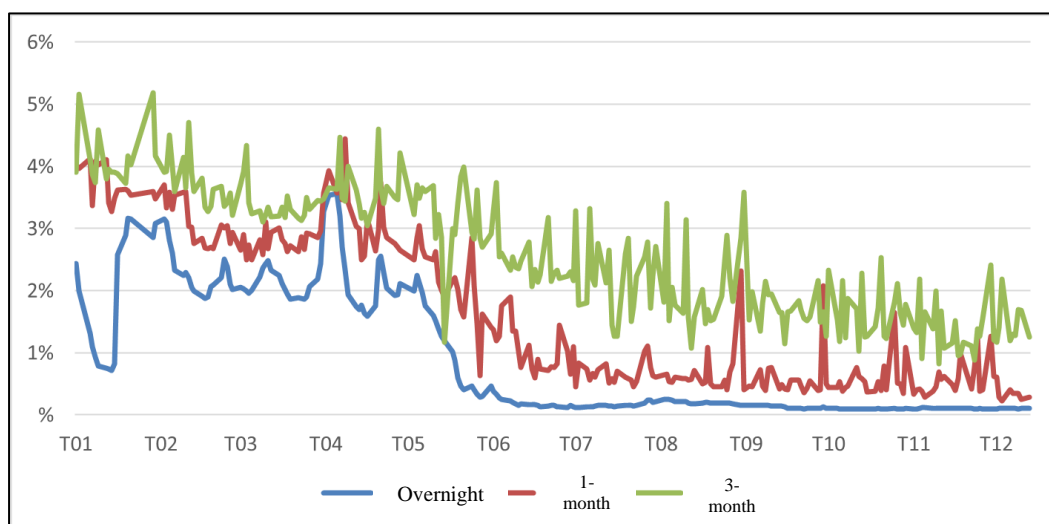
²⁵ According to Directive 01/CT-NHNN dated 03/01/2020 on implementing main tasks of the banking sector in 2020; and Directive 22/CT-TTg dated May 26, 2020 on accelerating the implementation of solutions to develop cashless payments in Viet Nam.

²⁶ According to Decisions No. 418, 419, 420, 421 dated March 16, 2020; Decision 918, 919, 920 dated May 12, 2020; and Decision 1728, 1729, 1730 dated 30/9/2020 of the SBV. (See details in Appendix 2). Previously, in 2019, the SBV gradually reduced interest rates in response to the lowerings of interest rates by central banks of major countries amid global trade tensions and economic recession.

²⁷ According to Decision 1729/QD-NHNN dated 30/9/2020 of the SBV, the ceiling interest rate for demand deposits or term deposits less than 1 month is 0.2%/year, for term deposits. 1 month to less than 6 months term is 4% per year.

53. The VND-denominated deposit rates decreased slowly for deposits with terms from 6 to 12 months, and over 12 months due to banks' competition for market shares. The VND-denominated deposit interest rates with terms of over 6 months only experienced a sharp decrease in September 2020 when competition for corporate bond market slowed down,²⁸ and commercial banks had enough time to restructure liquidity. Stable low inflation also makes it more likely for depositors to accept lower deposit rates.
54. VND-denominated lending rates exhibited downward trend as compared to the end of 2019. VND-denominated short-term rate was at most 4.5% p.a. for some priority sectors, down by 1.5 percentage points compared to the beginning of 2020. By October 2020, VND-denominated lending rates decreased by an average of 0.6-0.8 percentage point p.a. compared to the end of 2019, of which some commercial banks witnessed decline by 1-2.5 percentage points p.a.
55. The USD-denominated deposit rates remained at 0% p.a. for deposits of individuals and organizations. The popular USD-denominated lending rates ranged from 3.0-6.0% p.a., in which short-term lending rates were prevailing at 3.0-4.5% p.a., medium and long-term interest rates at 4.2-6.0% p.a. The USD-denominated lending rate in Q4/2020 was almost unchanged compared to the end of 2019.

Figure 19: Interbank interest rates in 2020

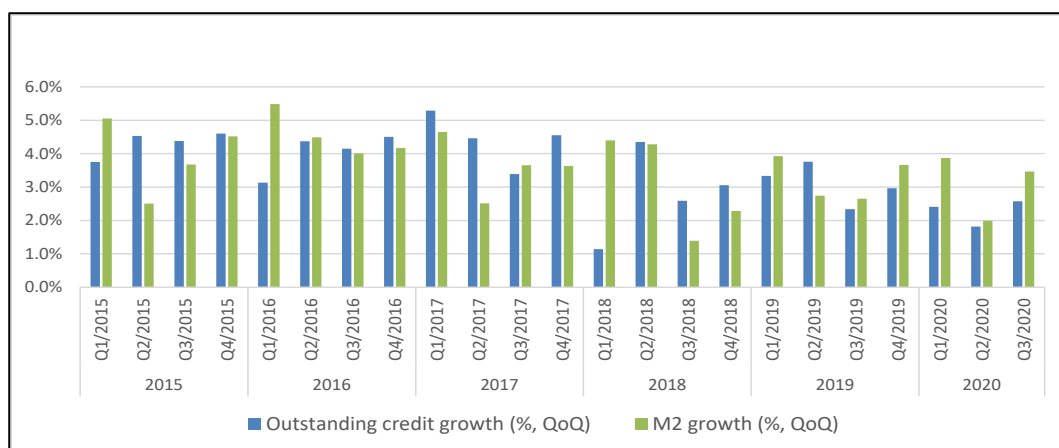


Source: SBV.

²⁸ Decree 81/2020/ND-CP takes effect from September 1, 2020, tightening bond issuance activities (See more in Appendix 2).

56. The inter-bank interest rates tended to decrease in 2020. In particular, inter-bank interest rates of all terms fell sharply from mid-May because SBV continuously pumped into the commercial banking system through bills²⁹ and buying foreign currency. Thus, almost all commercial banks had abundant liquidity in the context of low credit growth. By December 2020, inter-bank rates was at the lowest.
57. The outstanding credits in Q3 increased by 2.6% on QoQ basis and 10.1% on YoY basis. By December 21, 2020, credit growth of the economy reached 10.14% compared to the end of 2019. Estimated credit growth for the whole year was about 11-12%. This achievement was mainly attributed to the timely conducts of the Government and SBV in the directions of lowering lending rates, promoting credit on production, business and export.³⁰ In addition, enterprises reverted to traditional credit, instead of issuing corporate bonds in the last months of 2020.

Figure 20: Growth rate of outstanding credit and M2



Source: SBV.

58. Total liquidity (M2) in Q3 increased by 3.5% in Q3 on QoQ basis and by 13.6% (YoY). By December 21, 2020, M2 increased by 12.56% compared to the end of 2019 (the figure for the same period in 2019 was only 12.1%). M2 movement was consistent with the

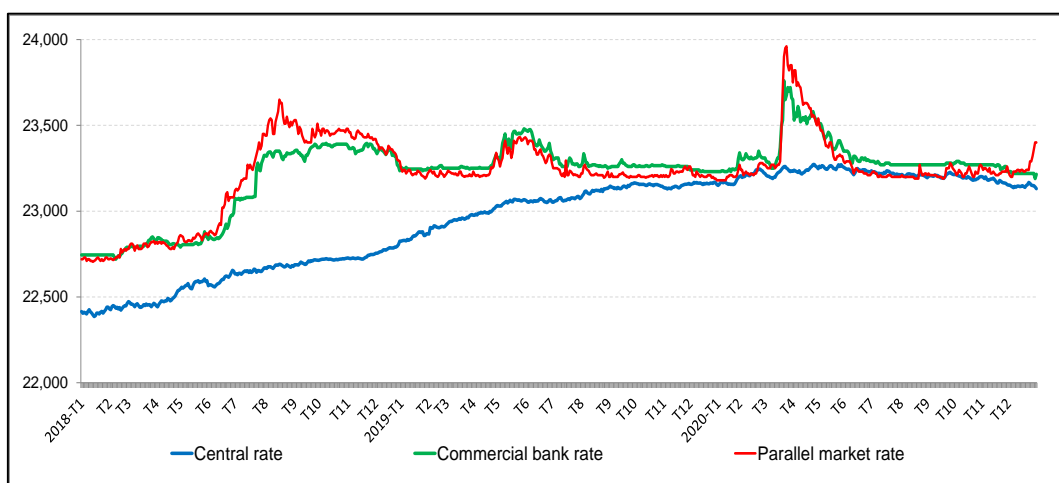
²⁹ The net injection was estimated at VND 300 trillion (Hoang Nu Ngoc Thuy and Nguyen Tuyet Nhung, 2021)

³⁰ Document 5596/NHNN-VP of the SBV to its affiliates; credit institutions, foreign bank branches on the task deployment for the last six months of 2020 and Circular No. 01/2020/TT-NHNN dated 13/03/2020 on credit institutions and foreign bank branches carrying out debt rescheduling, giving exemption from or reduction of loan interests and charges, and maintaining classified loan groups in order to help their clients affected by the COVID-19 pandemic.

lowerings of interest rate instruments by SBV. In the context of COVID-19, investment of economic organizations, to some extent, were affected, thus, their deposits increased by 10.4% in the first 9 months of 2020 (the figure for the same period in 2019 was 9.2%).

59. Deposits of individuals increased only 5.8% in the first 9 months of 2020, lower than the figure of 9.0% in the corresponding period of 2019. The reason may be the lower deposit rates which induced shift from deposits to other investment (such as gold, securities, real estate, virtual money, etc.). Notably, despite a stability in the second half of 2020, gold price exhibited high volatility. Still, domestic price varied with smaller amplitude than world price.
60. In addition, the purchase of USD by the USD led to increasing M2. In the context of FDI inflows into Viet Nam and relatively low foreign exchange reserves, the acquisition of foreign currencies for increasing foreign reserves was inevitable, so as to ensure the ability of maintaining macroeconomic stability and facilitating investment in Viet Nam. In this respect, Viet Nam needs to further discuss and clarify with the US, especially after the US Department of Treasury labelled Viet Nam as currency manipulator in December 2020.

Figure 21: VND/USD exchange rate, 2019-12/2020



Source: SBV.

61. The VND/USD exchange rate slightly decreased, i.e. VND had nominal depreciation against the USD in the last 6 months of 2020. As of the end of 2020, the central exchange rate decreased by 0.10% (YoY) and by 0.42% from the end of June 2020. The corresponding decreases in the commercial bank rates were 0.06% and 0.32% respectively. The commercial banks' buying and selling rates were

not significantly different from the central exchange rate, around 23,090 (buying rate) and 23,270 (selling rate). The central rate was also close to the parallel exchange rate. In general, the exchange rate on parallel market was lower than that of commercial banks.

62. Life insurance market experienced a boom in 2020. Revenues of insurance premium were estimated to increase by 16% in Q4 (YoY). In 2020, this figure was estimated to increase by 17%, of which the revenue of life insurance premium increased by 21%. People's concerns about disease fueled the growth of life insurance.
63. By December 17, 2020, the total capital mobilization of the securities market reached VND 383.6 trillion, increasing by 20% (YoY). The average transaction value on the securities market reached VND 7,056 billion/session, up by 51.5% compared to the average of 2019; the average trading value on the bond market reached VND 10,247 billion/session, up by 11.3%; the average trading volume of futures contracts on the VN30 index on the derivative securities market reached 157,314 contracts/session, up by 77%.
64. Amid difficulties due to the COVID-19 pandemic, the promotion of cashless payment, including card payments, e-wallets, etc. progressed rapidly. According to the SBV, in the first 6 months of 2020, the number of transactions via card reached 171,116,815, with total transaction value of VND 399,356.24 billion, doubled from the respective figures of 88,257,048 items and VND 194,715 billion in the first two quarters of 2019. Other forms of payment such as SMS Banking, Mobile Banking, Internet Banking, etc. reached 31,886,522 transactions and VND 2,651,935.99 billion, increasing by 92.7% in transaction value.³¹

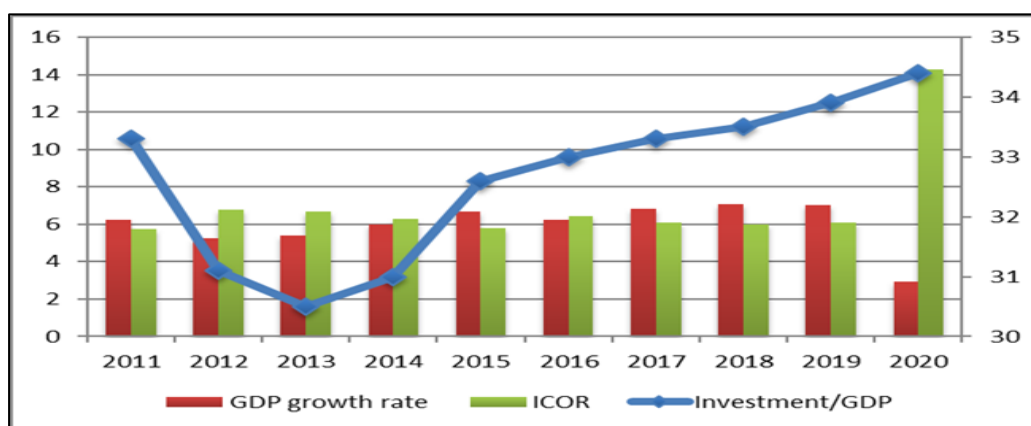
1.4. Investment

65. Gross investment at current prices reached VND 2,164.5 trillion in 2020, up by 5.7%, 4.5 percentage points lower than the investment growth rate in 2019. At constant 2010 prices, gross investment in 2020 was VND 1,551.7 trillion, up by 4.1%
66. In the period 2016-2020, the investment-to-GDP ratio tended to increase, averaging 33.6%, much higher than the period 2011-2015 (31.7%). However, the investment efficiency was not substantially improved (Figure 22). Even in the period prior to the COVID-19

³¹ <https://thitruongtaichinhviente.vn/thanh-toan-khong-dung-tien-mat-tang-manh-28769.html>

pandemic, investment efficiency was enhanced only slightly, which could be partly reflected through a modest decrease of ICOR from the average of 6.25 in the period 2011-2015 to 6.15 in the period 2016-2019. In 2020, due to the consequences of the COVID-19 pandemic, investment efficiency decreased sharply with the ICOR coefficient skyrocketing to 14.3.

Figure 22: ICOR-based investment efficiency



Source: Authors' calculation from GSO's data.

67. Public investment disbursement reflected a major improvement in 2020. According to the MOF, the disbursement by the end of November 2020 reached nearly VND 330 trillion, equivalent to 70.1% of the plan assigned by the Prime Minister (VND 470.6 trillion). The estimated disbursement by December 31, 2020 was nearly VND 390 trillion, or 82.8% of the plan assigned by the Prime Minister (higher than the years 2016-2019; 2019: only 67.46%). By economic ownership, investment from the state sector grew by 14.8%, up by 12.2 percentage points in 2020. Investment from the non-state sector only grew by 3.2%, decreasing by 14.1 percentage points. The FDI sector experienced a negative growth (-1.3%) in 2020, compared to a positive figure of 7.6% in 2019 (Table 3).
68. In the context of the COVID-19 pandemic with adverse impacts on various economic activities, the Government has prioritized disbursement of public investment to promote economic growth. The Government issued Resolution 84/NQ-CP dated May 29, 2020 on tasks and solutions for dealing with difficulties in business operations, promoting disbursement in public investment and ensuring public order and safety during COVID-19 pandemic. The Government's directions regarding ministries, branches and localities to drastically implement this Resolution in the second half

of 2020 contributed to noticeable changes which accelerated the disbursement of public investment. Accordingly, the key measures focused on three areas, including (i) reviewing and removing legal barriers related to budget, investment, and construction to accelerate the disbursement progress and improve the quality and efficiency of public investment projects; (ii) accelerating the assignment of detailed public investment plans to projects; and (iii) drastically accelerating the implementation of approved projects.

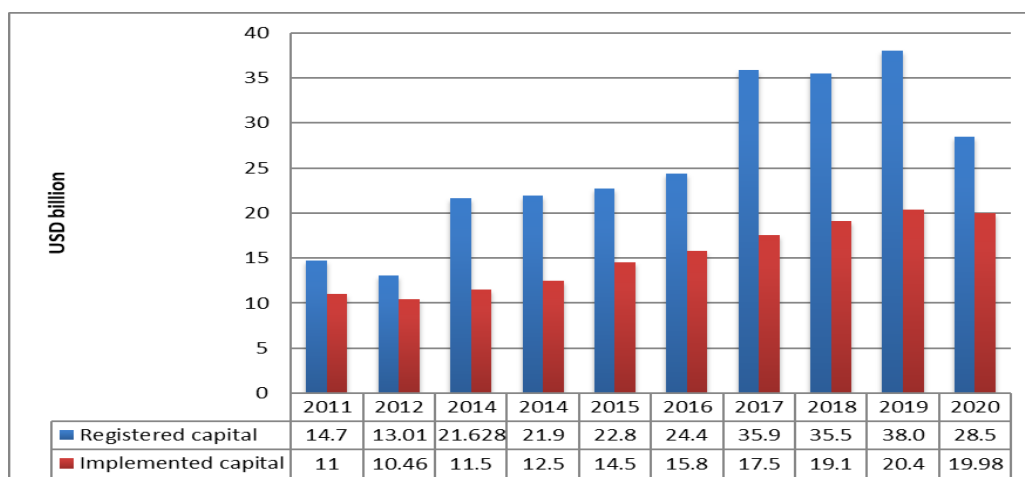
Table 3: Investment capital in 2020, current prices

No.		2020	2019	Changes (%)
1	State sector	728,9	634,9	14,8
2	Non-state sector	972,2	942,5	3,2
3	FDI sector	463,3	469,4	-1,3
	Total	2.164,5	2.046,8	5,7

Source: GSO.

69. According to MOF, Viet Nam's public debt in 2020 was about VND 3.63 quadrillion VND, approximately equivalent to 56.8% of GDP, below the statutory ceiling set by the National Assembly (65%). In light of the COVID-19 pandemic, this level of public debt implies an important fiscal space for future scenarios. Nevertheless, the direct debt repayment obligations of the Government was estimated to be equivalent to 24.1% of total budget revenues, which may increase to 27.4% in the future. This situation could put additional pressure on budget revenues, and reduce the room for giving fiscal incentives to support prioritized economic sectors.
70. Regarding FDI, registered capital reached USD 28.5 billion USD in 2020, down by 25%. The implemented capital was USD 19.98 billion, down by 1.96% (Figure 23). The manufacturing industry attracted the largest newly registered capital with USD 7.2 billion. Production and distribution of electricity, gas, water and air conditioning supply ranked second with the registered capital increasing by more than 400% thanks to projects invested by Singapore (USD 4 billion) in Bac Lieu and invested by Thailand (USD 1.386 billion) in Ba Ria - Vung Tau.

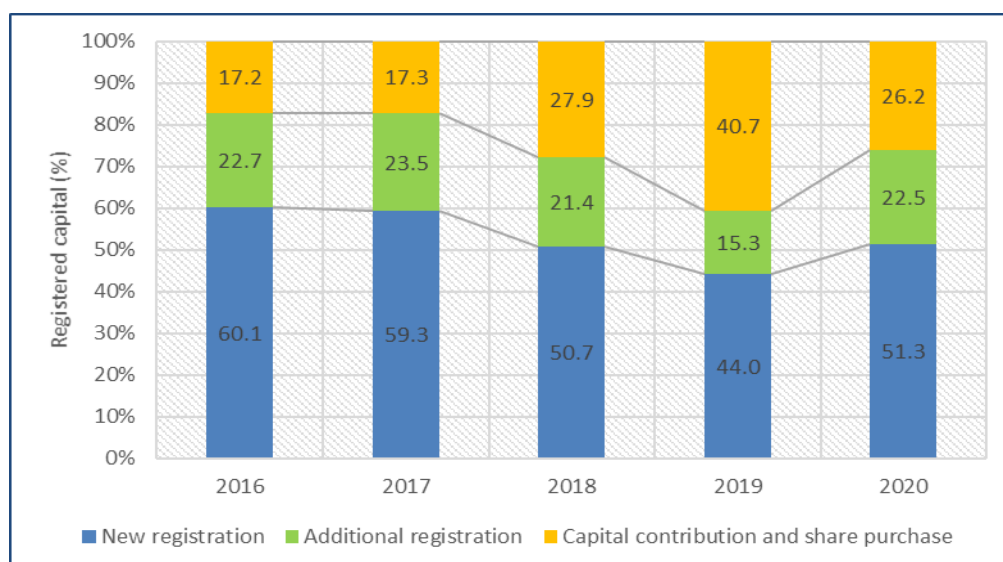
Figure 23. Vietnam's FDI attraction, 2011-2020



Source: Foreign Investment Agency (FIA-MPI).

71. The trend of increasing capital contribution and share purchase – taking place prior to 2020 - has come to a halt. The capital inflow of capital contribution and share purchase in 2020 decreased by 51.7%. Accordingly, the structure of the registered FDI inflows shifted towards higher share of newly registered capital (from 44% in 2019 to 51.3% in 2020); at the same time, the share of supplementary capital increased by 7.2 percentage points (Figure 24).

Figure 24. Registered FDI structure

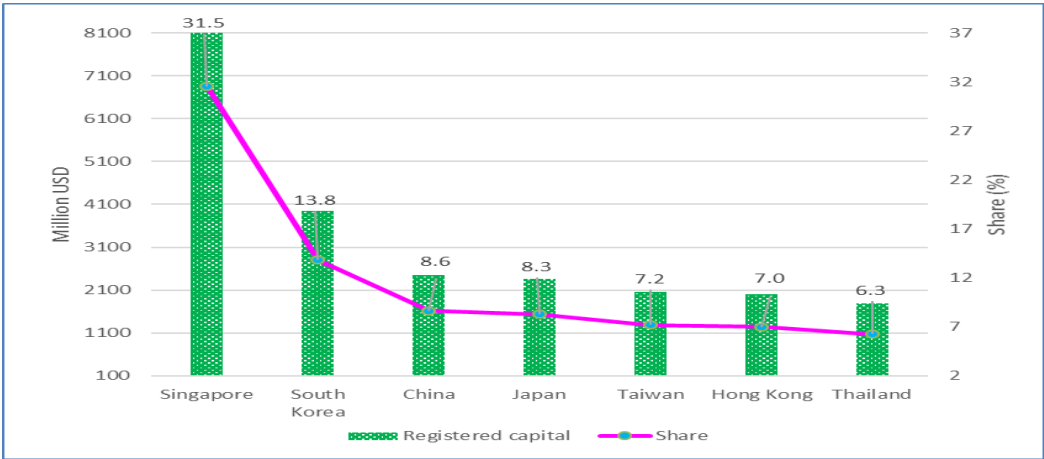


Source: Authors' calculation from FIA's data (MPI).

72. Viet Nam attracted more FDI inflows from a small number of major investment partners. In 2020, investors in 7 countries and territories in Asia registered USD 23.6 billion, accounting for 82.8% of total

registered capital in 2020, of which Singapore and Korea altogether already accounted for 45.3% (Figure 25).

Figure 25. FDI attraction by major partner



Source: Authors’ calculation from GSO’s data.

73. The US-China trade war and the COVID-19 pandemic were arguably key inducements to further investment shift towards Southeast Asian countries, aiming to diversify investment locations, minimize risks and adverse consequences of "interruptions" and “disruptions" in the supply chains. As a dynamically developing market, with a rapidly growing middle class, a dense network of FTAs, and an improved business and investment environment, Viet Nam further appeals to foreign investors. However, some critical challenges to Viet Nam include: (i) managing the macroeconomic impacts of increasing FDI inflows; (ii) addressing bottlenecks in infrastructure and human resources; and (iii) promoting cooperation within ASEAN to jointly attract investment instead of “racing to the bottom”.

1.5. Trade

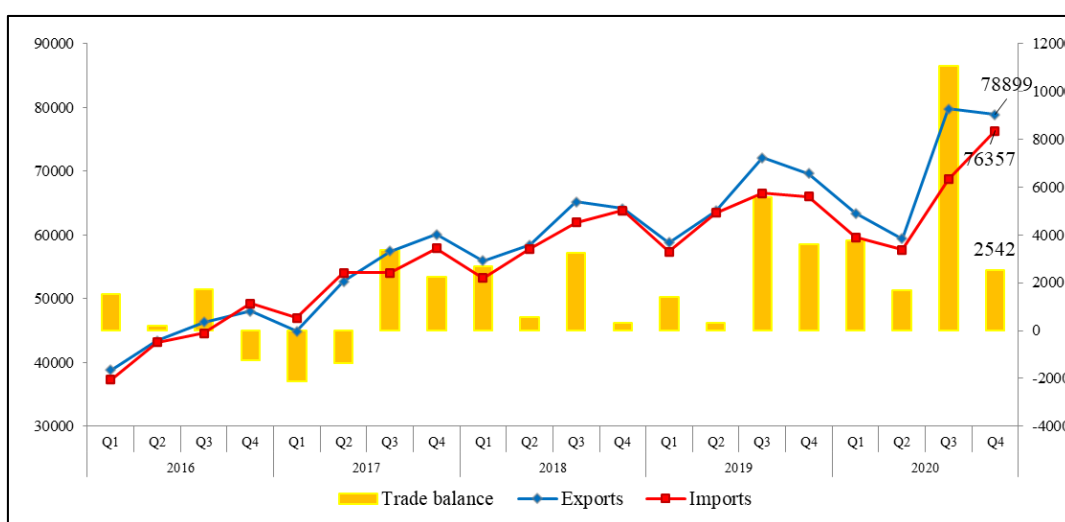
74. Exports reached USD 79.8 billion in Q3, and USD 78.9 billion (estimated) in Q4, with growth rates of 10.7% and 13.3% respectively (Figure 26). For 2020 as a whole, merchandise exports attained nearly USD 281.5 billion, up by 6.5%. The export growth recovered quite rapidly in Q3 and Q4 after difficulties due to the consequences of the COVID-19 pandemic and related prevention measures in Q2/2020.³²

³² Viet Nam's exports fell sharply in Q2 (down 6.9%) and only increased slightly in the first half of 2020 (0.2%).

75. Exports of the FDI sector witnessed a strong recovery in the second half of 2020, thereby contributing significantly to the overall export growth in 2020. Specifically, exports of the FDI sector reached USD 56.5 billion in Q3, and USD 59.6 billion (estimated) in Q4, up by 12.6% and 20.7% respectively. Exports of the domestic sector reached USD 23.3 billion in Q3 (up 6.4%) and slightly decreased in Q4 to reach USD 19.3 billion (down 4.8%). For the whole year 2020, the export turnover of the domestic sector reached USD 78.2 billion, down by 1.1%. The export turnover of the FDI sector (including crude oil) was USD 203.3 billion, up by 9.7%.

Figure 26: Exports, imports and trade balance, 2016-2020

Unit: million USD



Source: Authors' calculation.

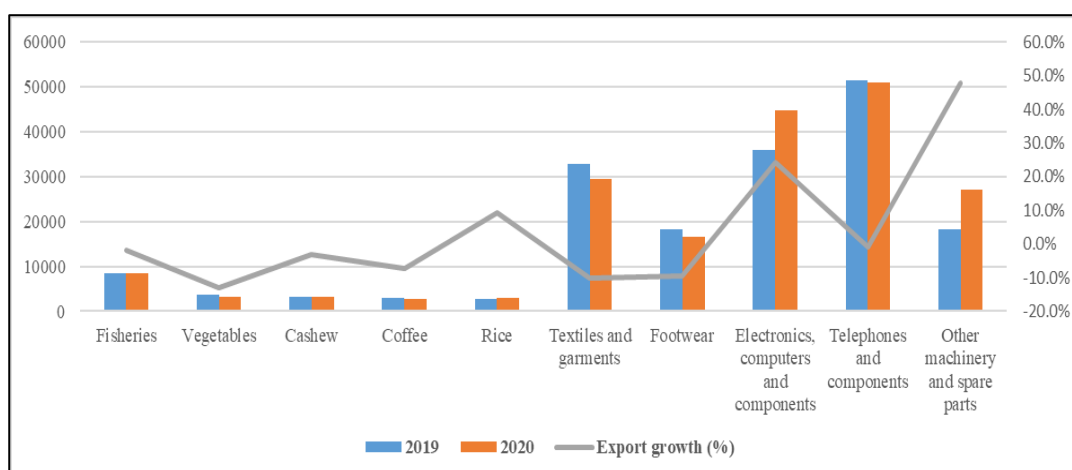
Note: Imports and exports are shown on the left axis; trade balance is on the right axis.

76. Exports still faced a lot of obstacles in Q2/2020. Some specific difficulties included: (i) increasing non-tariff barriers in importing countries; (ii) decrease in export orders, plus shortage of raw materials and inputs; and (iii) higher transportation and storage costs. In this context, Viet Nam made multiple efforts to promote export growth through: (i) more effective penetration of traditional markets and expansion and development of new markets via FTAs; (ii) developing traditional international trade combined with e-

commerce in light of the robust IR 4.0³³; and (iii) enhanced internal reform efforts by enterprises and associations to help export growth.

77. Q3 had 10 commodities with export value of over USD 1 billion each, altogether accounting for 75% of total exports. In Q4, this number increased to 12, altogether accounting for 77.2% of total exports. For 2020 as a whole, there were 31 items with export value of over USD 1 billion each, accounting for 91.9% of total exports (6 exported goods items with over USD 10 billion each, altogether accounting for 64.3%). Despite decrease in AFF exports (except for increased rice exports due to rising prices), the export growth of manufacturing industrial goods contributed a major part to the general export growth rate. Some export products with impressive growth rates were computers, electronic products and components (24.4%); machinery, equipment, tools and spare parts (47.8%, Figure 27).

Figure 27: Contribution to export growth by commodity 2020



Source: General Department of Customs and GSO.

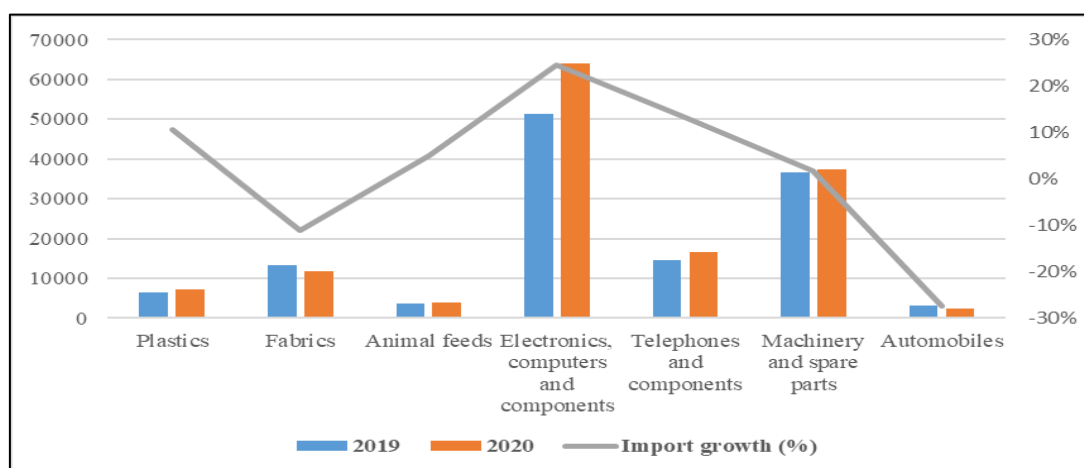
Note: Exports is shown on the left axis; export growth is on the right axis.

78. The US remained the largest export market of Viet Nam in 2020 with a turnover of USD 76.4 billion, increasing by 24.5%. China ranked second with USD 48.5 billion, up by 17.1%. Exports to other major markets such as the EU, ASEAN, Korea, and Japan all decreased by 2.7%; 8.7%, 5.7% and 5.1% respectively.

³³ E-commerce has thrived, with the sale increasing by 25%, becoming an important distribution channel of the economy in the context of the pandemic. (the Government's 5-year socio-economic report in the period 2016-2020)

79. Imports reached USD 68.7 billion in Q3 and USD 76.3 billion (estimated) in Q4, increasing by 3.3% and 15.7% respectively. For 2020 as a whole, imports were estimated at USD 262.4 billion, up by 3.6% (Figure 26). Imports of the domestic sector tended to decrease, reaching USD 24.6 billion in Q3 (down by 6%) and USD 25.3 billion in Q4 (down by 5.4%). Imports of the FDI sector, however, increased sharply to USD 44.4 billion in Q3 (up by 10%) and USD 51.1 billion in Q4/2020 (up by 30%). Overall, in 2020, the domestic sector's imports reached USD 93.6 billion, decreasing by 10%, or 4.1 percentage points lower than overall import growth rate. The FDI sector's imports reached USD 168.8 billion, up by 13%, contributing 7.6 percentage points to overall import growth.

Figure 28: Contribution to import growth by commodity 2020



Source: General Department of Customs and GSO.

Note: Imports is shown on the left axis; import growth is on the right axis.

80. Regarding commodity structure, import growth in 2020 was largely from manufacturing sub-sectors such as electronics, computers and components with USD 64 billion, up by 24.6%; phones and accessories with USD 16.6 billion, up by 13.3%; plastic products with USD 7.2 billion, up by 10.6% (Figure 28). More popular import growth across sub-sectors may signal the start of economic recovery, with production plans being implemented to meet demand in late 2020. Imports of consumer goods were estimated at USD 16.8 billion, down by 3.8%, accounting for 6.4%. CBU automobile imports fell sharply by 27.4%, reaching USD 2.3 billion.³⁴

³⁴ Regarding the cars of fewer than 9 seats, the impact of the COVID-19 pandemic caused a decline in supply from overseas factories as well as a decline in domestic demand, leading

81. Viet Nam's imports from 6 traditional markets remained high, altogether accounting for over 80% of total imports in 2020. China continued to be the largest supply of imports, accounting for USD 83.9 billion, up by 11.2%. South Korea followed with USD 46.3 billion, down by 1.5%; ASEAN market reached USD 30 billion, down by 6.9%; Japan reached USD 20.5 billion, up by 5%.
82. Viet Nam obtained a merchandise trade surplus of nearly USD 11.1 billion in Q3/2020 and USD 2.5 billion in Q4/2020. The overall balance of merchandise trade was estimated to reach a surplus of USD 19.1 billion in 2020. The domestic sector recorded a trade deficit of USD 15.5 billion, while the FDI sector (including crude oil) had a record trade surplus of USD 34.6 billion. Thus, the year 2020 is the 5th consecutive year that Viet Nam had an increase in trade surplus. These achievements partly resulted from the effective policies by the Government together with the appropriate strategy for imports and exports, administrative reforms and improved business environment of Viet Nam even amid the complicated developments of the COVID-19 pandemic.
83. EVFTA, entry into force on August 1, 2020, broadened opportunities for Viet Nam to penetrate the EU market. Some products have partly taken advantage of the incentives through a significantly increased number of EUR1 C/O forms, such as footwear, seafood, plastics, rattan products, bamboo, knitting, agricultural products. Compared to July 2020, exports of agricultural products to the EU in August and September 2020 increased by 11.5% and 32.4% respectively, partly confirming an improved quality of Vietnamese agricultural products in meeting EU's strict standards on design and quality of commodities. Besides, shrimp exports to the EU started to grow steadily since early Q3, reaching USD 472.3 million, up by 5.2% in the first 11 months of 2020.
84. However, EVFTA poses many challenges, especially non-tariff measures, quality standards, food safety, traceability, pesticide residues, packaging and labeling specifications, environmental standards, corporate social responsibility standards, etc. In addition, possible adjustments after the UK and Northern Ireland leave the EU

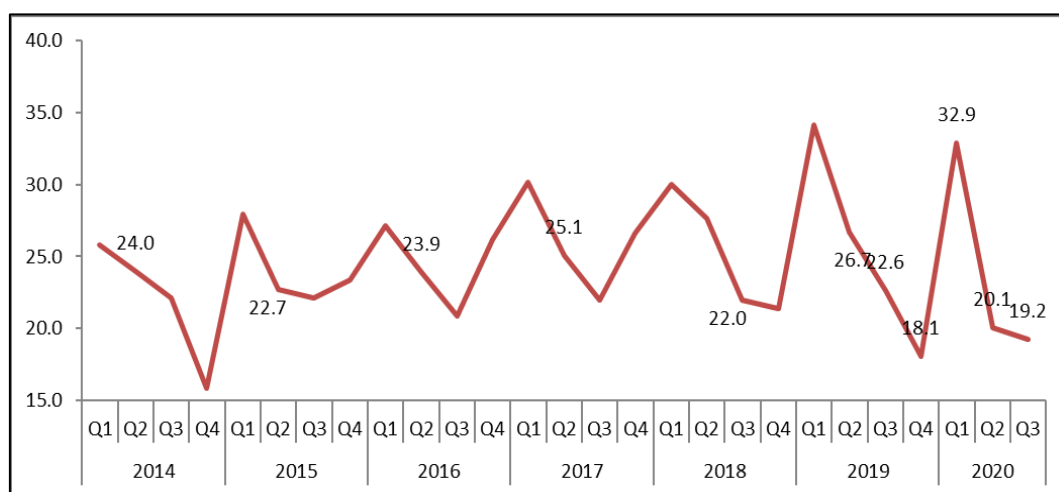
to a reduction of imported cars to Viet Nam. In addition, domestically assembled vehicles were entitled to a 50% registration fee exemption under Decree 70/2020/ND-CP, thereby lowering the cost of buying a car. This helped boost the purchasing power for this product.

may adversely affect Viet Nam's future exports to these markets, even with the presence of UKVFTA.

1.6. Budget revenues and expenditures

85. Total state budget revenues in Q3 reached VND 306.6 trillion, rising 10% on QoQ basis, but decreasing by 12% on YoY basis. Over the first 9 months of 2020, total state budget revenues were VND 975.3 trillion, falling by 10.8% (YoY). The reasons were significant reduction of some revenue items such as corporate income tax (down by 15%), value added tax (down by 13%), import tariff and export tax (down by 23%), etc. in the context of COVID-19 pandemic and countermeasures that disrupted the private sector's business activities as well as trade activities.
86. Regarding the structure of corporate income tax revenues in the first 9 months of 2020, the FDI sector accounted for the largest share (45%), the non-state sector made up 33.2% and the SOEs constituted 21.8%. These figures imply that the COVID-19 pandemic had less negative impacts on FDI firms than on domestic firms.
87. By Q4/2020, the collection of budget revenues was somewhat accelerated. Therefore, total budget revenues in 2020 was estimated to reach VND 1.5 quadrillion, equal to 98% of the adjusted plan, increasing by nearly VND 184 trillion compared to the report of the National Assembly at the beginning of the year. The ratio of state budget revenues to GDP was 23.9%.

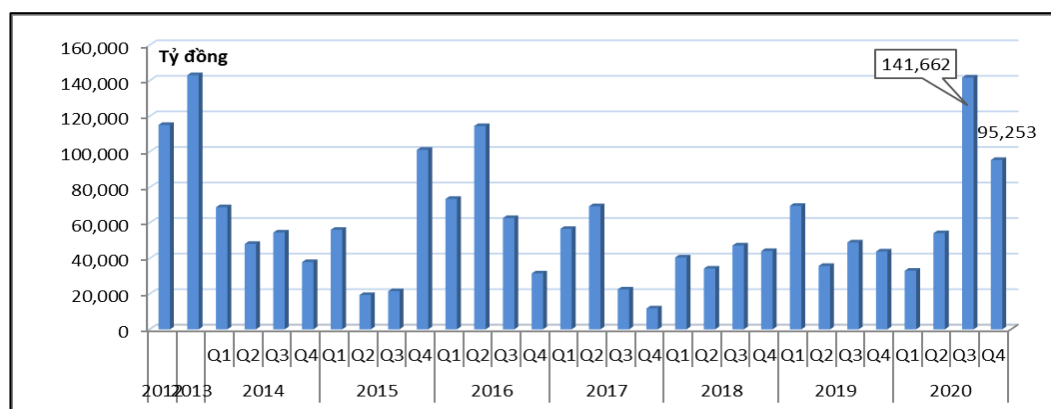
Figure 29: Budget revenues to GDP ratio (%)



Source: MOF.

88. For the period from 2016 to 2020, total budget revenues attained VND 6.89 quadrillion, equivalent to 100.4% of the plan. The structure of budget revenues has shifted towards higher share of domestic revenues (from 68% on average in 2011-2015 period to 85.5% in 2020), while the proportion of crude oil revenues and import-export activities decreasing from 30% on average in the 2011-2015 period to around 14.2% in 2020.
89. Total state budget expenditures by December 15th, 2020 were estimated at VND 1,432.5 trillion, equal to 82% of annual plan. Of which, recurrent expenditures were VND 966.7 trillion, equal to 91.5% of the plan; development investment was VND 356 trillion, or 75.7% of the plan; interest payment was VND 98.8 trillion, equal to 83.6% of the plan. The average ratio of budget expenditures to GDP in the 2016-2020 period was approximately 28% GDP (for the period 2011 – 2015: 29.5%).
90. The Government has implemented a number of tax measures to support enterprises affected by COVID-19, including (i) extension of tax payment, exemption of late payment interest due to the impact of COVID-19 (Official letter 897/TCT-QLN of the General Department of Taxation dated 3rd March 2020) and (ii) extension of time for payment of taxes and rental fee (Decree 41/2020/ND-CP dated 8th April, 2020). However, for longer-term, the Government had no new tax incentives for prioritized industries.

Figure 30: Government bond issuance, 2012-2020



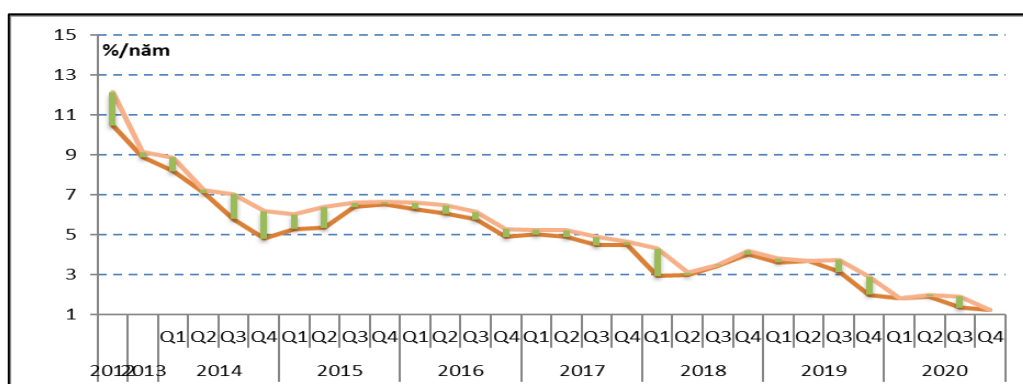
Source: HNX.

91. The scale of government bond issuance rose sharply in the last 6 months of 2020. Government bond issuance reached VND 141.6 trillion in Q3/2020. This was high record of issuance volume since 2014. The issuance volume in Q3/2020 was 3.3 times higher than the

average amount in Q3 of previous years. In Q4/2020, the issuance scale reached VND 95.25 trillion. For 2020, the issuance scale attained at more than VND 323.95 trillion, exceeding the adjusted plan for 2020 by 8%.

92. Interest rates for successful bids went down gradually from 1.35-1.92% p.a. in Q3/2020 to 1.22% p.a. in Q4/2020. Despite larger volume of government bond issuance, the obligation of the Government was somewhat limited due to lower lending rates. Since COVID-19 adversely affected the output and capital needs of enterprises, the increase in government bond issuance did not have a large crowding-out effect on the private sector. The challenge is thus to use the proceedings from government bonds effectively. In turn, the requirement is to disburse the proceedings effectively in the future.

Figure 31: Interest rates of successful bids (% per annum)



Source: HNX.

93. Regarding the structure of the investors in the governance bond market, insurance corporations accounted for 54%. The rest were assumed by commercial banks, financial institutions and investment funds. However, on the secondary market, commercial banks were the main player, accounting for 82.5% of total transaction value. Meanwhile the insurance sector only made up 2.74% of the total transaction value.
94. Due to the complicated developments of the COVID-19 pandemic in 2020, business on digital platforms (for example e-commerce) became more popular. In this regard, the prompt promulgation of the Law on Tax Administration in 2019, which supplemented the regulations on tax administration for e-commerce including building a database and broadly implementing electronic tax services such as electronic tax returns, electronic invoices and online tax payment,

was somewhat appropriate. Still, controversy arose over the right time to apply these regulations – as the people and businesses were struggling with COVID-19.

95. Besides the legal framework for tax administration on digital platforms, Viet Nam made several efforts regarding: (i) raising awareness on tax regulations and strengthening punitive actions; (ii) building technical infrastructure for e-tax administration (such as apps for tax code registration, tax declaration, tax payment, interdisciplinary system among tax authorities, customs, commercial banks and payment providers); (iii) building capacity for human resources in charge of tax administration on e-commerce; and (iv) collecting international experiences of tax administration for business activities on digital platforms.

2. Macroeconomic outlook

96. This section updates forecast for Viet Nam in 2021 by two scenarios. The development of forecasting scenarios is based on assessments of global economic prospects, the state of the Vietnamese economy as well as the space for domestic economic policies. *In scenario 1*, the world GDP increases by 4.0% in 2021³⁵. Prices of the United States rise by 1.924%.³⁶ Export prices of agricultural products increase by 12.6%.³⁷ The crude oil price increases by 11.4%.³⁸ For Viet Nam, VND/USD exchange rate of commercial banks decreases by 0.5%. Total liquidity increases by 13%. Outstanding credit rises by 12.0%. Import prices decrease by 0.5%. Population increases by 1.08%/year, and employment by 0.86%. The export volume of crude oil is assumed to be the same as in 2020.³⁹ REER is assumed to go down by 1%. On the balance of payment, (net) government and private transfers are assumed to decline by 5%. Implemented FDI (including both foreign and Viet Nam sides) goes up by 2%. The disbursement of investment from the state budget is VND 420 trillion.
97. Scenario 2 retains most of the assumptions as in Scenario 1, except that: (i) prices of agricultural exports increase by 15%; (ii) world

³⁵ According to World Bank Forecasts (January 2021).

³⁶ Source: <https://data.oecd.org/price/inflation-forecast.htm> [Accessed 1st November, 2020].

³⁷ EIU forecast (15th December, 2020).

³⁸ EIU forecast (15th December, 2020).

³⁹ Source: <https://petroVietNam.petrotimes.vn/petroVietNam-border-frame-wild-kep-nop-ngan-book-in-country-year-2020-dat-83-ngan-ty-dong-594919.html> [Accessed 1st November, 2020]

price of crude oil increases by 20%; (iii) total liquidity rises by 14%; (iv) outstanding credit increases 13%; (v) implemented FDI (including both foreign and Viet Nam side) goes up by 5%; and (vi) the disbursement of investment from the State budget is VND 477.3 trillion.

Table 4: Updated forecasts of macroeconomic indicators for 2021

Unit: %

Criteria	Scenario 1	Scenario 2
GDP growth	5.98	6.46
Inflation (average CPI)	3.51	3.78
Export growth	4.23	5.06
Trade balance (bil. USD)	5.49	7.24

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

98. Economic growth for 2021 is projected at 5.98% in Scenario 1 and 6.46% in Scenario 2 (Table 4). Exports are forecast to increase by 4.23% in Scenario 1 and by 5.06% in Scenario 2. Trade surplus is projected at USD 5.49 billion and USD 7.24 billion, respectively. Average CPI in 2021 increases by 3.51% and 3.78%, respectively.
99. The macroeconomic development in 2021 could be influenced by a number of factors. *First*, the world economy is still under high uncertainties. External risks and challenges are material. The US is expected to continue its measures to contain China in terms of economic – trade- technology. The US may strengthen its alliance with a number of partner countries to implement these measures. Trade conflicts among major economies induce trans-national corporations to relocate their production to avoid high tariffs. This is both an opportunity and challenge for Viet Nam. *Second*, the COVID-19 pandemic and its variants and mutations are still evolving in a complicated and unpredictable manner. The risk of future waves of COVID-19 remains ample. One related consequence is higher logistics costs for production, import and export activities. *Third*, the implementation of large-scale stimulus packages by many economies without the coordination of these measures at the global level can pose significant risks to the financial market and global debt. *Fourth*, the IR 4.0 and digital transformation continue to progress rapidly, thereby affecting the development of Viet Nam's domestic enterprises and market. *Fifth*, the ability to sustain substantial reforms to the investment and business environment

would affect the sentiment and decision of foreign enterprises in expanding their investment. *Sixth*, domestic demand can increase faster. Businesses, therefore, can focus on exploiting the domestic market. *Seventh*, despite expectation of the positive impact of EVFTA, Viet Nam may encounter various trade remedies, anti-circumvention investigations, origin fraud, etc., not only in the US.

III. SELECTED ECONOMIC ISSUES

1. *Institutions for regional linkage: Current situation and some requirements*

Institutional reform of regional linkages and results

100. Promoting regional linkage has always been one of the top priorities and elaborated in the Documents passed by the National Party Congress. The Draft Strategy for socio-economic development 2021-2030 emphasizes the task of ***“formulating specific mechanisms and policies to promote regional development, regional linkages and strong coordinating institutions for regional economic development, with focuses on making regional master plans towards integrated, multi-sector, forming a value chain and effective implementation, using the regional master plans as a basis for regional development management”***. The 2013 Constitution stipulates that *“the State builds up and perfects economic institutions, promotes regional economic linkage to ensure the unity of national economy”* (Article 52).
101. Since 2005 up to now, the Government and the Prime Minister have issued a number of documents related to coordination and integration among state administrative agencies and localities within region⁴⁰. Specifically, since 2015, the Government and the Prime Minister continue further attention to regional linkage and have promulgated legal documents in the direction of: (i) pilot programs to promote regional linkage by financial support mechanism (only applicable to the Mekong Delta region)⁴¹ and (ii) concretizing the tasks of the

⁴⁰ Include: Decree No. 14/2005/ND-CP dated November 16, 2005 on mechanism of coordination among state administrative agencies in formulating and examining the implementation of policies, development strategies, master plans, plans; Decision No.159/2007/QĐ-TTg dated October 10, 2007 on Regulation on coordination among ministries, line-ministries and localities in development of key economic regions (now replaced by Decision No. 2360/QĐ-TTg dated December 22, 2015 on Regulation on organization and operation of regional coordinating organisation of key economic regions in the period of 2015-2020; Resolution No. 128/NQ-CP dated September 11, 2020 on the tasks and solutions to enhance the development of key economic regions; Directive No.19/CT-TTg dated July 19, 2019 on solutions to promote growth and sustainable development in the Southern key economic region; Directive No. 25/CT-TTg dated October 11, 2019 on solutions to promote growth and sustainable development in the Northern key economic region; Directive No.27/CT-TTg dated November, 2019 solutions to promote growth and sustainable development in the Central economic region; and so on.

⁴¹ According to the Decision No.593/QĐ-TTg dated April 6, 2016 on promulgation of pilot Regulation on socio-economic development integration in the Mekong Delta region for the

regional agency (the coordinating organizations for development of key economic regions and the Mekong Delta Coordinating Council) as well as consolidating the organizational apparatus of the key economic regions and the Mekong Delta region. Besides this, ministries and line-ministries have actively reviewed and formulated draft Decrees/Resolutions/Schemes/Circulars, etc. on division of regions serving regional master plan; on connecting traffic networks of provinces within a region, within sub-regions and each locality; on developing regional branches and sectors through planning and so on. In the period of 2015-2020, among 06 socio-economic regions, the Mekong Delta region has received special attention from the Government, the Prime Minister and donor community in promoting regional linkage and solving problems of climate change.

102. The central government (ministries and line-ministries) played critical roles in formulating legal regulations on regional development, in designing policies/schemes/projects and funding for the implementation of regional and inter-regional development projects. Similarly, local government played important roles in building master plans, plans, socio-economic development policies based on characteristics and conditions of each locality to realize national and regional development strategies and master plans. Local authorities organized bilateral and multilateral meetings (between some localities within a region or outside the region) to exchange, discuss and reach a consensus in building a Vision/Strategy for regional and sub-regional linkage; in developing cooperation Agreements on the areas of parties' interests. In addition, local authorities encouraged related stakeholders (such as business, households, training institutions, research institutes and so on) to participate and coordinate in some contents which have been mentioned in the Agreements.

103. Regional coordinating organizations⁴² (including: the Mekong Delta coordinating council and the coordinating organizations for key

period 2016-2020.

⁴² This Organization has been established under: the Decision No.825/QĐ-TTg dated June 12, 2020 on the establishment and promulgation the Regulation of the Mekong Delta Coordinating Council in the period of 2020-2025; Decision No.20/2004/QĐ-TTg dated February 18, 2004 on the establishment of the Coordinating Organization for Development of KERs; Decision No. 941/QĐ-TTg dated June 25, 2015 on the establishment of the coordinating organization for development of KERs in the period of 2015-2020 (replaced Decision No. 20/2004/QĐ-TTg); Decision No.2059/QĐ-TTg dated November 24, 2015 on the establishment of the steering committee, the council of the key economic region in the

economic regions) are performing the roles of assisting the Prime Minister in “researching, directing and coordinating regional development activities in key economic regions (KERs)” and in “directing, coordinating, inspecting and supervising the implementation of regional linkage and sustainable development of the Mekong Delta region”. Currently, 24/63 provinces and cities directly under the central government have participated in the coordinating Organizations. Soon after stabilizing the organization, the members of the coordinating organizations (including Chairmen of Provincial People’s Committees) joined meetings and made coordination plans for each region in the period of 2016-2020; and are now implementing the plans. In particular, the coordinating organizations have carried out some joint activities to promote regional socio-economic development, such as: making a list of priority regional investment projects; organizing workshops, seminars on regional logistic connectivity, on effective development of industrial and economic zones; developing joint programs for regional tourism development, tourism promotion and joint tourism resource training. The local authorities clearly raised awareness of the importance of regional linkage in socio-economic development through the above activities.

104. The contents of regional cooperation agreements are more and more comprehensive, and numbers of coordination documents tend to increase over time. Provinces with less developed socio-economic condition are likely to seek to cooperate with big and dynamic cities (such as: Hanoi, Ho Chi Minh city, Da Nang and so on) rather than cities/provinces with less or the same socio-economic condition. The way of cooperation is diverse, such as: experience sharing, information exchange, field works. In recent years, regional linkage has expanded into some forms: joint fairs and exhibitions, regular joint meetings, regional electronic portal building, regional or bilateral cooperation agreements.
105. *In general*, over the past years, regional linkage activities had positive impacts on a numbers of aspects, including: (i) partially addressing the isolation in policy formulation and implementation in different localities; (ii) contribution to synchronous regional and inter-regional infrastructure; (iii) experience sharing and information

period of 2015-2020; Decision No. 2360/QĐ-TTg dated December 22, 2015 on Regulation on organization and operation of regional coordinating organization of key economic regions in the period of 2015-2020.

exchange for more effective state management; (iv) resolving harmoniously conflicts among localities on investment attraction, environmental resources and social issues and so on; (v) joint discussion and consensus on regional policies and regional projects list; and (vi) engaging different key stakeholders to collaborate, especially getting big enterprises to participate in regional conferences and investment/trade promotion meetings.

Some challenges from institutions for regional linkage and its consequences

106. Overtime, regional linkage still shows certain limitations. For example, the regional cooperation agreements take forms only, being highly administrative with no real linkage. Regional economic linkage, seemingly, was not based on specialization and division of labor towards value chain or development of supporting industries. Some long-term and strategic regional activities have not received sufficient attention and were slowly implemented, such as: development of networks of industrial zones, economic zones; attraction and management of investment, especially FDI; pollution problems solving; and so on. Regional linkage activities are irregular. Various contents included in the agreements have not been implemented or have lagged behind schedule.
107. Regional linkage in formulation, implementation and monitoring of master plans remains weak and ineffective. When developing their own regional or provincial master plans, the localities paid little attention to opinions of neighbors - some localities were even not interested in other local masters plan and might be hesitant to give their own real comments due to fear of breaking good relationships, unless the contents of other local master plans had direct impacts on their locality. The coordination in formulation of master plans did not bring much results, so it is unlikely to implement those plans effectively in the absence of clear need for regional linkage right from inception stage.
108. The identification of comparative advantages among provinces within a region to make a list of regional investment priority projects is limited. The localities within a region identify their own advantages similar to others, thus producing very few regional linkages. This leads to competition for investment between localities, then eliminating each other's advantages to some extent.

109. Regional linkages in development investment, especially in investment and use of regional common assets (e.g. basic infrastructure) were modest. The phenomena of localities asking the Central government for additional projects in their own (e.g. highway rehabilitation projects, seaport projects, airports, economic zones, museum, monuments and so on) were not rare.
110. Regional linkage in supporting businesses to form industrial clusters hardly existed. A number of clusters had been initially formed in the Mekong Delta region (such as fisheries, rice, fruit trees) or in the South East region, in the Red River Delta region (such as manufacturing industry) or in the Central Coastal region (such as tourism). However, this initial formation mainly originated from the initiative of businesses, and was hardly induced by the support from the Central and local government.
111. The limitations in regional linkage stems from various reasons, including some bottlenecks from *regional linkage institutions*. Specifically, there has been no law or Decree concretizing the content of “promoting regional economic linkage” as mentioned in Article 52 of the 2013 Constitution. There was only a pilot Regulation on socio-economic development linkage applied for the Mekong Delta region in the period of 2016-2020 according to Decision No. 593/QĐ-TTg dated April 6th, 2016. The remaining socio-economic regions have not yet applied any incentive mechanism from the central government to promote regional linkage. Besides, in recent years, a number of documents by the Government and the Prime Minister on promoting sustainable growth in the region set out various measures and tasks for ministries, line-ministries and local authorities. Some tasks are tough and need more time to deploy, especially reviewing, formulating and submitting draft policies on regional linkage to competent authorities for approval. Therefore, how promptly these policies come into practice heavily depends on the progress of completing tasks assigned to ministries, line-ministries and local authorities⁴³. In

⁴³ For instant: although Decision No. 593/QĐ-TTg came into effect immediately after it was issued (April 6, 2016), and is considered to be a new and big step in policy design. This Decision is the first legal document on regional integration regulation. However, the policy mentioned in the Decision is quite general, thus some policies expecting to contribute to promoting regional integration exist only on paper. On 17th November 2016, the Prime Minister issued Decision No. 2220/QĐ-TTg on promulgation of action plan to implement Decision No. 593/QĐ-TTg. This action plan has clearly identified 7 areas and

addition, regional or sub-regional cooperation agreements/strategic vision have not clarified the conditions for implementation, resources for implementation, measures and specific responsibilities of each stakeholder, schedule and action plan. Hence the implementation of those agreements encountered many difficulties.

112. The role of the Central government in coordinating regional development and encouraging local authorities to cooperate remained unclear. The framework for regional linkage management, especially in allocating development resources among localities, was absent. The rise of projects, especially of industrial zones, industrial clusters, seaports, airports, hydropower plants, etc. all originated from the approval of guidelines and decisions by the Central agencies. In this aspect emerges the lack of horizontal collaboration among ministries and line-ministries in evaluating and approving investment projects at provincial level.
113. Local authorities encountered various difficulties in identifying potential sectors or products that they can cooperate, thereby clarifying specific activities for each locality. Besides, “tenure” and “local interests” seemed to stand till, so that the local authorities are well unaware of the important and benefits of regional linkage. The “tenure” mindset sometimes caused local authorities to make a hasty and short-term decision in local economic development. The “local interests” thinking sometimes induced local economies to develop independently, lacking regional vision, wasting resources, thus being unable to significantly contribute to regional and nation growth. There is still no mechanism to form “common assets of the region” for local authorities to jointly exploit and manage.
114. The assignment of economic development tasks at local level may make provincial authorities less interested in cooperation. According to legal regulation, the Central government performs the function of state management in areas of economy, society, natural resources,

31 specific tasks assigning to many relevant agencies (such as: MPI; MOF; Ministry of Agricultural and Rural Development; Ministry of Industry and Trade; Ministry of Natural Resources and Environment; Ministry of Science and Technology; Provincial People’s Committees, and South-Western Steering Committee). The action plan also fixed the deadline for each assignment from November 2016 to October 2020. However, many important tasks (such as: adjusting and supplementing regional master plans with integrated methodology; formulation of unified financial policy to attract and promote investment and trade and so on) have not completed. Some tasks seem to be difficult to fulfil because the relevant agency in charge no longer exists.

environment, security, defense and foreign affairs, while provincial government are organized and operated on the principle of democratic centralism and assigned the same tasks related to economy, society, natural resources, environment, security and defense. Economic development tasks were assigned to the provincial authorities, while the number of provinces tended to increase, making the average size of administrative unit in Vietnam too small⁴⁴. Therefore, local authorities are unable to take advantages of economies of scale as well as ineffectively solve exogenous problems. Besides, the only measure for economic development performance of local authorities is economic growth rate, thus causing no need for integration among local authorities.

115. Except for the Mekong Delta region, the remaining socio-economic regions do not have any coordinating agency to take charge of regional activities linkage, in harmonizing interests of stakeholders and in resolving common regional issues. Even the Mekong Delta region and four KERs have established coordinating organizations, but these organizations remained weak as they had no administrative management, made no administrative decisions, and had no “real power” in allocating budget lines for regional projects⁴⁵.
116. During discussion on regional or inter-provincial linkages (e.g. infrastructure building, development of production linkages, water resource regulation and sharing, etc.), local authorities often face challenges in coordination mechanism, such as sharing of provincial budget, costs and benefits for regional common assets. Technical support for joint regional projects is also constrained. In addition, there remained no effective measure to encourage good regional linkages as well as deter bad ones.

Directions to improve regional linkage institutions

117. Improving regional linkage institutions in the period 2021-2030 needs to follow the below principles:
 - Enhancing regional linkage based on respects, interests harmonization and equality between stakeholders to create trust among local authorities within region.

⁴⁴ In 1976, there were 38 provinces. In 1991 and in 1997, there were respectively 53 provinces and 61 provinces. From 2008 and now, there are 63 provinces. In 2019, the average population size of a province/city is 1,531 million people.

⁴⁵ Funding for the coordinating organizations is largely to maintain their daily operations.

- Ensuring regional linkage towards maximizing the benefits of the whole region as well as the country in line with the national strategy, national master plan, regional master plans and sectoral master plans approved by competent authorities. In the case of conflict of interest between local authorities and the whole region and with the interest of the whole nation, the interest of the whole nation and region must be above that of the provinces.
 - Encouraging diverse forms of cooperation that bring effective socio-economic development for the country and/or for the whole region; at the same time, having a regulation on obligatory cooperation among local authorities within a region, especially in the areas requiring large investment resources or complex projects such as: regional infrastructure, environmental protection, natural resources protection, biodiversity conservation, crime prevention.
 - The Regional Coordinating Organizations must be fully empowered and have capacity to assume the role of coordinating local authorities related to regional linkage.
 - Ensuring synchronous and effective legal documents on regional linkage and discipline in implementation of regional policies.
118. To promote regional linkage, systematic and consistent solutions need to focus on:
- *Changing mindset and raising awareness of the benefits and importance of regional linkage*, especially in changing the mindset of leaders at central and local levels about their role in regional linkage. Specifically:
 - (i) The central government plays a central role in building necessary institutions to create an enabling environment, to encourage effectively regional linkage, to harmonize and protect interests of participants. In particular, in allocating investment budgets to localities, the Central government must change thinking as follows: the overall national interest should be given the highest priority i.e. to give priority to national projects, next to inter-provincial projects and followed by provincial projects.
 - (ii) The local government must change the mindset of “maintaining structure of closed production” or “closed economic development” in making policy on local development. While participating in regional linkages and making decisions on regional and provincial socio-economic

development, local authorities must put overall national and regional interests before their own interests.

- (iii) Raising awareness of the role of local authorities in proactively researching and giving priority contents of regional linkage, appropriate methods and mechanisms for regional and sub-regional cooperation. The central government plays the roles in guiding and creating an appropriate and favorable environment as well as examining and removing difficulties for each region.
- *Continuing to improve the legal framework to facilitate regional linkage:*
 - (i) Conduct in-depth research and promulgate a Law on regional development to ensure applicability to the big cities. One important content of the Law on Regional development is that there should have regulations on regional linkages, including: forms and contents of regional linkage; coordinating organizational structure; operating regulation of coordinating organization; rights, responsibilities and obligations of relevant stakeholders; mechanism of division and identification of benefits or risks among the participants; procedures of regional linkage; incentive and sanctioning mechanism for regional linkage and so on. In addition, there is a need for clear regulations on revenue and spending sharing mechanisms between localities for regional projects as well as having mechanisms and policies to encourage the private sector to invest in regional projects. In the period of 2021-2030, local authorities must cooperate under the direction of the Central government in such areas as: master plans/planning; infrastructure construction (especially national arterial traffic axes, seaports, airports, urban development and so on); natural resources (especially water resources); and climate change.
 - (ii) Quickly review, amend and supplement the 2015 Law on State Budget and its guiding documents in order to perfect legal provisions in the management and administration of the state budget, thus ensuring to create favorable conditions for coordination of local state budget to implement common regional goals.

- (iii) Study and set up a Regional development Fund whose task is to mobilize financial resources for regional programs/projects.
- *Establishing Coordinating Organization with full power:*
 - (i) Currently, among 06 socio-economic regions there exists a model of the Mekong Delta Coordinating Council established in June 2020. Compared to the model of the Coordinating Organization of Development of KERs established under Decision No. 941/QD-TTg, the model of the Mekong Delta Coordinating Council has taken a step forward in terms of operations, functions and tasks; and its organizational structure has been further strengthened (e.g. expanding membership: not only limited to 4 provinces/cities listed in the KER but also covering 13 provinces/cities in the Mekong Delta region; mobilizing participation of 01 representative experts and 01 prestigious representative from business community of the region). At present, the model of the Mekong Delta Coordinating Council appears to be more appropriate than that of the Coordinating Organization of Development of KERs. Therefore, in the period of 2020-2025, it should maintain the model of the Mekong Delta Coordinating Council.
 - (ii) For 05 remaining socio-economic regions, it is necessary to study and establish a Regional Coordinating Council in each region to coordinate regional development activities and promoting implementation of regional projects. The Regional Coordinating Council is not at administrative level, instead, only delegated by the Central and local governments to perform numbers of functions related to integration of national and local socio-economic development. The Regional Coordinating Council is an interdisciplinary coordinating organization established by the Prime Minister and performs the function of advising, proposing and assisting the Prime Minister in directing, coordinating and inspecting implementation of regional linkage, of regional sustainable development, including development of KERs apart of socio-economic regions).
 - (iii) Regarding the organizational structure of Regional Coordinating Council: (i) the Chairman of the Council is the Deputy Prime Minister; (ii) Permanent Vice Chairman is the

Minister of Planning and Investment; (iii) Vice-Chairmen are: Ministers of a number of Ministries assigned to take the lead in implementing important tasks to exploit the potentials and strengths of the region as well as solving some big issues of the region⁴⁶; (iv) Members include: permanent member (Deputy Minister of Planning and Investment) and members (Deputy Ministers or at the same level from ministries and line-ministries; Chairmen of Provincial People's Committees in the region; representatives of experts, scientists and business). The Regional Coordinating Council may set up sub-units to act as focal points for coordination in different sectors or in different sub-regions.

- (iv) The Regional Coordinating Council must have some main functions, namely: (i) to advise and propose to the Prime Minister strategies, master plans, policies, projects at regional and inter-provincial scales; (ii) to assist the Prime Minister in coordinating, inspecting and supervising ministries, line-ministries and local authorities in implementation of regional master plans, strategies, mechanism, policies, projects at regional scale and at inter-provincial scale; (iii) to establish sub-units to act as focal points for coordination in different sectors or in different sub-regions (if necessary); (iv) to develop plans and action plans for implementation of regional master plans; and develop yearly regional coordination plans; (v) to select proposals from local authorities and to propose regional investment projects (and submit to the Prime Minister); (vi) to comment on provincial master plans and provincial socio-economic development plans; (vii) to monitor and speed up solving inter-discipline issues; to guide and support localities to deal with issues at inter-provincial level; to coordinate with other provinces/cities/economic centers in other regions in socio-economic development;

⁴⁶ For instance: (i) the Red River Delta region and the Southeast region with high potential for developing high-tech industries, financial services, specialized healthcare, qualified human resources and so on, the Vice-Chairman of Regional Coordinating Council would be the Minister of Science and Technology, Minister of Education and Training, Minister of Finance and Minister of Transport; (ii) the Northern Central and Central Coast region with high potential for developing marine tourism, seaport services, petrochemical industry and so on, the Vice-Chairman of Regional Coordinating Council would be Minister of Culture, Sports and Tourism, Minister of Transport, Minister of Industry and Trade, Minister of Agriculture and Rural development.

(viii) to mobilize resources for regional development; (ix) to hold annual meetings⁴⁷; (x) to build regional data and information sharing network; and (xi) to manage Regional Development Fund.

- (v) To make the Regional Coordinating Council operate professionally and effectively, it is necessary to form specialized units⁴⁸ to assist in providing professional and administrative support. The specialized units can be established temporarily and then dissolve, or can be permanent (for example: maintaining the assisting units is the Office of Regional Coordinating Council, Coordinating Teams at ministerial level and at provincial level).
- *Applying digital technology and digital transformation* to improve capabilities of regional governance; building digital infrastructure connecting smart cities operating Centers of localities in the region and set up regional smart operation Center managed by Regional Coordinating Council to serve decision making, especially related to regional and inter-regional issues, towards building a “digital” region.
 - Concentrating state resources and speeding up the implementation of projects, synchronizing socio-economic infrastructure, especially key infrastructure of transportation for intra-regional and inter-regional connections (road, aviation, seaport and waterway).
 - Building and developing an information system, data, socio-economic information exchange among localities in the region. Information and data should be updated on guidelines, policies, institutions, cooperation programs, intra-regional and inter-regional cooperation activities, market forecasts, product demand and so on for each level from central, regional and local. In addition, it is necessary to study and formulate regulation on

⁴⁷ “The topic of the year of regional integration” is the topic of sectors, of socio-economic development tasks playing an important role in creating regional integration (such as: planning activities, infrastructure buildings, investment attraction, business supporting, production supply chains and so on). “The topic of the year of regional integration” should accompany a roadmap and specific steps of implementation with clear performance evaluation indicators. This leads to make effective and efficient regional cooperation.

⁴⁸ These assisting units are a group of experts in regional development and regional integration.

sharing and access to information between stakeholders including businesses and communities.

2. *Promoting business innovation: A policy perspective*

119. IR 4.0 has been inducing significant changes in the world and Viet Nam's economy, both positive and negative ones. Though Viet Nam failed to benefit from the previous 3 IRs, IR 4.0 is offering noticeable opportunities for the country. To take the most advantages and minimize challenges of the IR 4.0 in the post COVID-19 context, Viet Nam should urgently address institutional issues to pave the way for new technologies and business models, aiming to improve skills in line with technological advances. In particular, it is critical to facilitate development of enterprises based on scientific and technological foundation and to promote innovation.
120. Amid the difficulties due to COVID-19, a number of enterprises have been and are struggling to seek for new business opportunities, implementing new measures to maintain business and manufacturing activities, namely enabling digital transformation; actively looking for new markets for inputs and outputs; applying new technologies in developing and introducing new products and services.

Definition of innovation

121. The term "Innovation" has proliferated globally for the past 10 years and in Viet Nam for the past 7-8 years. There are various definitions of "innovation"⁴⁹, all of which agree on the common aspects of new characteristics, improvement and spillover effects.
- b. The Law on Science and Technologies (Law No. 29/2013/QH13 dated June 18, 2013), Article 3: "*Innovation refers to the creation, application of achievements, technical, technological and management solutions to enhance the efficiency of socio-economic development, increase productivity, quality and added value of products and goods*".
 - c. The Organization of Economic Cooperation and Development (OECD) identifies 4 types of innovation referring to changes in business operation process, including: product innovation, process innovation, organizational innovation, and marketing innovation.

⁴⁹ According to Wikipedia, Baregheh et. al. (2009), there are about 60 definitions of innovation.

- d. Business innovation is the process of creating and applying new knowledge of new technologies, new management, new business models, new markets in the combination with input resources in order to create new products and services that have higher value added and better satisfy market demands.
122. Business innovation may be internally originated through the research and development of new technologies in order to develop new methods to produce new products and services that can meet market demand. Innovation may be induced by external factors such as new consumption demands, changes of customers' expectations, which compel enterprises to change their production, manufacturing, designing, marketing and distribution activities.

Current status of business innovation in Viet Nam

123. According to WEF, Viet Nam was at early stage of efficiency-based development, not yet attained the innovation-based status (The Global Competitiveness Report 2017-2018). WEF's Readiness for the Future of Production Report classified Viet Nam as a Nascent country i.e. at low readiness level with the sub-index of technology and innovation of 3.09/10 point, ranked 90th out of 100 economies.
124. Big enterprises have been increasingly aware of the important role of investing in innovation to create comparative advantages for economic integration and development. Major corporations and enterprises have gradually collaborated with universities and research institutes to promote innovation through R&D activities. Some big corporations have established their own universities or research institutes to create in-house ecosystems.
125. MSMEs started to acknowledge that innovation could create comparative advantages for their survival and development. However, to make innovation become reality, these firms need suitable human resources with good professional skills and financial capacity to conduct R&D activities in their operation fields.
126. Regarding the awareness of Vietnamese enterprises, the survey conducted in 2018 by the National Agency for Science and Technology Information under Ministry of Science and Technology revealed that among 7,641 surveyed enterprises, 4,709 (61%) engaged in innovation activities; 2,841 (37%) had no innovation activity, and 91 (2%) were unclear about innovation.

127. Notably, Vietnamese enterprises have not undergone a sufficient long development process; most of them remained at the early stage of development and were mainly engaged in processing and assembling process. In order to participate in higher value-added stages, Vietnamese enterprises should make more in-depth investment in technology and technological advancements.
128. *Capacity of enterprises to invest in science and technology and innovation remains inadequate; capability to access to official financial sources and to engage in global supply chains is limited:*
- a. The research by the Military Technology Academy in 2017 showed that investment in scientific and technological innovation and R&D accounted for about 0.3% of revenues on average, i.e. modest relative to other countries (India: 5%; South Korea: 10%; and Japan: 50%). According to the GSO, in the period 2014-2017, investment in innovation-related R&D by Vietnamese enterprises was increasing, but attained only 1% of gross revenue while the average amount of advanced countries in ASEAN (Singapore, Thailand, Malaysia) was at least 9% of gross revenue.
 - b. According to IFC's survey, only 21% of Vietnamese SMEs participated in the global supply chains while the figure was 30% in Thailand and 46% in Malaysia. A survey by VCCI showed that only about 30% of enterprises were able to access to bank credit. Accessing to finance, regardless of capital from the community or venture capital or bank credit, remained difficult for start-ups.
129. *Technological content is not appropriately assessed, which mainly related to internet platforms or mobile applications instead of high-tech production methods.* According to the MOIT's survey in 2018, 98% of Vietnamese industrial enterprises had no preparation or insufficient preparation for IR 4.0. Technological capacity of domestic enterprises was modest, labor productivity remained low due to few high-tech products and services with high value added and low progress in advancing to higher value stages in the global value chains.
130. *Modest creativity and commercialization of business ideas.* Viet Nam's education paid much attention on problem-solving skills with low applicability, instead of encouraging formulation of mathematic problems that resemble those in real life. Consequently, skills of

good students are only exposed in school environment and hardly converted to feasible initiatives. Technological staff are short of adequate knowledge base, creativity and flexible mindset in doing business. The linkage and collaboration between scientists and technological researchers and businesses are ineffective that are incapable of creating market-based products.

131. *Business culture and entrepreneurship are not sufficiently sustainable and mature.*

a. More young people consider innovation start-up as a more attractive career choice compared to a job in state agencies or foreign enterprises. For most of them, start-up is trendy and offer opportunities for them to showcase themselves. They thus pay inappropriate attention to studying, acquiring knowledge and experiences related to technology, market, management, etc. before starting a business.

b. On the other hand, the 2017/2018 Global Entrepreneurship Monitor (GEM) report indicated that Viet Nam had high percentage of fear of failure relative to countries with the same development level and higher than the average of advanced economies, attaining 46.6% in 2017. In particular, easy acceptance of reality or satisfaction of achievements may discourage entrepreneurs to strive further in their career. This fact is clearly reflected by the retail and household business models as well as small and fragmented businesses in Viet Nam.

132. Viet Nam ranked 42nd out of 131 economies in the 2020 Global Innovation Index (GII), unchanged compared to the position in 2019, despite improvement compared to 2014 (71st position). WIPO experts contended that this result was more advanced relative to the current development status of Viet Nam. In particular, in comparison to the performance in 2019, GII sub-indices of Viet Nam attained significant achievements.

a. According to WIPO, in 2020, Viet Nam's innovation system improved remarkably in the pillar of business sophistication, ranked 39th, advancing by 30 positions compared to that in 2019. In which, the noticeable achievement was the sub-index of innovation linkages with better results of the university/industry research collaboration sub-index (ranking increased by 10 positions, from 75th to 65th) and state of cluster development sub-index (jumped by 32 positions, from 74th to 42nd). Knowledge

absorption sub-index advanced by 13 positions, ranked 10th – a notable progress thanks to leading status in high-tech imports (ranked 4th) and FDI net inflows (ranked 19th).

- b. Infrastructure pillar also improved considerably, advanced by 9 positions compared to that in 2019. In which, the most significant improvement was witnessed in the sub-index of ICT infrastructure (increased by 6 positions) thanks to the improvement of sub-indices of ICT access (advanced by 4 positions from 90th to 86th) and ICT use (jumped by 27 positions, from 92nd to 65th).
 - c. The sub-indices of knowledge creation and knowledge diffusion attained positive changes compared to these in 2019, in which the knowledge diffusion sub-index ranked 14th thanks to high position in high-tech net export (ranked 2nd). In particular, the ranking of sub-index of scientific and technical articles increased by 13 positions relative to that in 2019, from 74th to 61st.
 - d. The pillar of creative outputs ranked 38th, improving by 9 position compared to that in 2019. There were 6 sub-indices under this pillar improved relative to 2019 with high positions, such as Mobile app creation (ranked 10th, up by 3 positions); Trademark by origins (ranked 20th, up by 4 positions). The ranking of high-and medium-tech manufacturing sub-index advanced by 4, from 27th to 23rd. Specifically, with 33 brands in the Top 5000, led by Viettel Telecom, Viet Nam ranked 19th in the new sub-index of Global brand value.
133. According to the WIPO report, those ranking higher than Viet Nam in the GII 2020 were advanced and high-income economies. Out of 29 low-middle income countries in the GII 2020, Viet Nam had the highest position (Viet Nam also took the leading position among 26 low middle-income countries in the GII 2019). Among ASEAN members, Viet Nam was at the 3rd position after Singapore and Malaysia.
 134. In the GII 2020, WIPO considered Viet Nam as a model for other developing countries in identifying innovation as one of national priorities. Viet Nam, together with other developing countries of China, India and the Philippines, achieved the most impressive progress in the ranking of GII indices. Viet Nam also took the leading position among low middle-income economies and was among the top 50 countries for ranking progress recently.

135. The survey conducted with 458 enterprises in 3 major cities/provinces of Hanoi, Danang and HCMC in late 2019⁵⁰, focusing on 4 major components of (1) product/services innovation; (2) progress innovation; (3) marketing innovation and (4) organizational innovation, indicated that:

- a. Vietnamese enterprises have performed relatively well in terms of product/services innovation. They paid appropriate attention on developing new products/services; however, the upgrading progress remained modest. As a result, new products could not make breakthroughs that lead to changes in comparative advantages and comparative structure of industries/sectors. Besides, inappropriate attention to developing new products via upgrading existing ones makes product life cycle of Vietnamese enterprises shorter and less diversified than that of foreign counterparts.
- b. Vietnamese enterprises had relatively good performance in process innovation. Production/manufacturing process and application of new technologies for upgrading products' quality are of key interest of process innovation of Vietnamese firms. Another priority is to provide trainings for the human resources so that they are capable of applying new technology or ICT, etc. However, inappropriate attention is paid to process innovation to achieve higher production and supply efficiency as the value of these sub-indices were the lowest in process innovation criteria, resulting in high production cost and high price.
- c. Vietnamese enterprises paid more attention to marketing innovation but attained no significant breakthroughs and key changes.
- d. Organizational innovation in Vietnamese enterprises seems stagnant as power mainly concentrates on leaders while empowerment is inappropriately implemented; administrative management remains the focus, instead of than performance management; numerous and redundant procedures and regulations leading to slow decision-making process; etc.

⁵⁰ Current situation of Vietnamese enterprises' innovation activities, Le Anh Hung, Compliance Certification Center (QUACERT), Directorate for Standards, Metrology and Quality.

136. Viet Nam's innovation ecosystem has been established and flourished thanks to the great support from the Government. Specifically, the Government approved the Project No. 844 on "Supporting national innovation and start-up ecosystem to 2025" in 2014. In 2017, the National Assembly promulgate the Law on Supporting SMEs, the first legislative document that identifies supporting programs for SMEs' innovation start-ups. In general, the ecosystem is increasingly dynamic with the participation of more enterprises, technological corporations, start-up incubators and start-up accelerators.
137. Nevertheless, innovation ecosystem in Viet Nam remains inadequate. High-tech parks mainly focus on attracting investment (mostly FDI) in software manufacturing and processing industries (lack of identical products and services of IR4.0). Some large technological corporations have invested in high-tech parks, but technological spillover effects to the economy are modest⁵¹. In the meanwhile, most start-up supporting agencies are small-sized and offering some basic supports for start-ups; necessary physical infrastructure is limited; linkages among investment funds and with large companies are inadequate; institutional framework remains insufficient, etc. As a result, large-scaled effects could not be achieved.⁵² In turn, a number of start-ups moved to Singapore and some other countries to improve their innovation products.
138. The legal framework for technological advance and innovation remains inadequate. Key weaknesses lie in: (i) ineffectiveness of policy and programs on supporting innovation start-ups and technological innovation which fail to meet expectation of enterprises, in particular start-ups, in turn attributed to limited assessment, awareness and understandings of innovation start-ups that are not in line with current trends; (ii) overlapping functions and

⁵¹ Intel assembles computer chips in Saigon High-tech Park (SHPT), but in fact, it mainly engages in resembling and processing works to serve international markets. In Hoa Lac High-tech Park, the majority of enterprises supply software, manufacture communication equipment, plane components, etc. Moreover, the fact that Intel assembles computer chips or Samsung assembles smartphones in Viet Nam does not lead to significant technological spillover effects for the domestic economy.

⁵² To achieve a large-scaled success, a complete ecosystem should comprise of 6 determinants, including living environment for technological experts; high quality human resource; physical infrastructure for research works; sufficient pro-innovation policy and institutions, being governed by a high quality system with skillful staff, operating flexibly and effectively in comply with market mechanism.

- mandates among ministries, line-ministries and management agencies at all levels; (iii) non-substantive incorporation of comments from stakeholders, in particular direct beneficiaries of public policies; and (iv) unattractive tax and financial incentives for start-ups.
139. Besides, the effectiveness of policy and legal framework in guiding and managing technological research and innovation appliance is limited: there remains a significant gap between the definition of R&D and innovation. Innovation refers more to technological applicability and effects on mass-distribution of products in associated with financial efficiency. Meanwhile, research activity is only the starting point in the product/service value chains of the commercialization process.
 140. Few university and colleagues design curricula on innovation start-ups or update new technology trends and start-ups models in the world. Most training institutions have no mechanisms to encourage innovation activities. Excessive focus on teaching works at universities and colleagues and rigid funding regimes for research activities drastically hampered research capacity and the development of innovation start-ups.
 141. Regarding capital market and investment, 180 venture funds targeted or had operations in Viet Nam, of which, 23 had Vietnamese legal entities, 23 were purely Vietnamese. The volume of capital poured into Vietnamese start-ups increased multiple times in the last 5 years, specifically: USD 205 million in 2016, USD 291 million in 2017, USD 881 million in 2018, USD 798 million in 2019, before decreasing to USD 166 million in the first half of 2020 (according to statistical data of Topica Founder Institute and Cento). In 2019, Viet Nam ranked 2nd among the largest markets for venture investment in Southeast Asia, accounting for 21% of total investment (Indonesia accounted for 54% and Singapore accounted for 18%). The biggest deal was in financial technology, worth USD 300 million (SoftBank Vision Fund and GIC Pte (Singapore) invested USD 300 million in VNPAY – a start-up of payment gateway in Viet Nam).
 142. In 2019, more than 200 international and domestic funds attended Viet Nam Venture Summit; more than 600 start-ups and more than 40 start-up supporting organizations and business incubators participated in various programs in Hanoi and HCMC. 18 international and domestic funds committed to invest USD 425 million in innovation start-ups in Viet Nam in the period of 2019-

2021. By the end of 2020, implemented capital was equivalent to more than 50% of committed amount regardless of the COVID-19 pandemic. At the 2020 Viet Nam Venture Summit, 33 investment funds committed to invest USD 815 million in innovation start-ups in Viet Nam in the period 2021-2025. Viet Nam set the target of having 5 technology unicorns in 2025 and 10 technology unicorns in 2030.

143. Large corporations play important roles in various aspects such as financial capacity, technological capacity, and ability to link with multinational markets that facilitate large-scaled commercialization of successful ideas. A number of innovation programs and start-up funds have been established by Vietnamese corporations, for instance FPT – Vietnam Innovative Start-up Accelerator – VIISA; Viettel - Viet Challenge, IOT Hackathon, Viettel Advanced Solution Track; Vingroup –Vintech City, VinAI Research, Asanzo Start-up Fund. Large foreign corporations also initiated various programs to encourage innovation start-ups in Viet Nam, for instance Qualcomm Vietnam Innovation Challenge, Grab Venture Ignites launched in early 2020. Besides, there are other programs implemented globally or regionally by Amazon/AWS, Microsoft, Google, Facebook.
144. The policies to develop start-up supporting organizations remain inadequate, which neither facilitates both supply and demand nor effectively improve competitiveness of enterprises, in particular SMEs. Inconsistent and incomplete regulation and policy framework for innovation start-up development resulted in modest number of start-up businesses that were successfully incubated or promoted; insufficient investment as well as inadequate linkage and cooperation in investing in innovation start-ups relative to the great potential and high demand of Vietnamese ecosystem. Innovation start-up supporting system has been unable to establish a network of experts or information sharing. Despite certain successful communication efforts, a number of individuals and start-up groups have not accessed to information on start-up supporting organizations or could not afford the costs of consulting and training in order to conduct their businesses.
145. Intermediaries to support innovation start-ups have flourished in various forms such as co-working space, business incubator or accelerator nation-wide. There were more than 1,400 start-up supporting organizations, including 196 co-working spaces, 69 business incubators and 28 accelerators.

146. The National Innovation Center (NIC) was established pursuant to Decision No. 1269/QĐ-TTg of the Prime Minister dated October 2nd, 2019 with the mandates of supporting the innovation start-up ecosystem, facilitating shift towards ICT-based growth paradigm. NIC, together with innovation start-up centers, scientific parks, high-tech parks, etc. throughout the countries are expected to support start-ups and innovation community in various forms such as co-working space, connection network within the ecosystem to promote technological advances and commercialization of research results.
147. Nevertheless, Viet Nam has significant achievements regarding innovation start-up. By 2019, Viet Nam had about 3,000 innovation start-ups. There were 2 Vietnamese start-ups with the value of more than USD 1 billion and around 10 with individual value exceeding USD 100 million. More and more Vietnamese start-ups have accredited their reputation, namely VNG (first Vietnamese start-up with value of more than USD 1 billion), Abivin – the champion of Start-up World Cup 2019, Finhay (fintech), Luxstay (accommodation services), Sendo (e-commerce), Momo (e-wallet), Topica (education), etc. Vietnamese start-ups have closed the gaps with leading groups in the region such as Indonesia and Singapore.

Policy recommendations

148. *First, to broaden the legal space for innovation start-ups.* The Government should have more determined measures to further lure investment flows from the public and private sectors to start-ups. In parallel to study policies on establishing a specialized capital market for innovative start-ups in order to strengthen capital mobilization for start-ups as well as improve post-investment liquidity for venture capitalists. To encourage development of various types of innovation start-ups via tax incentives.
149. *Second, to promote entrepreneurship centering on innovation start-ups.* The Government should promote entrepreneurship and assist enterprises to encounter their challenges, stress the role of innovation start-up culture as the core of sustainable business. On that basis, Viet Nam will be able to narrow the development gap with more advanced countries and promptly achieve the target of become an industrialized and modernized country.
150. *Third, to employ enterprise-centered approach in the formulation and implementation of supporting policies for science and technology and innovation.* State agencies and large enterprises

develop fundamental research foundations and conduct key applied research, including such issues as technologies and markets, products, technological solutions, which will facilitate the exchanges among stakeholders in the innovation ecosystem in order address economic – product and social issues using technologies. At the starting point of policy formulation process, state management agencies should clearly identify policy objectives, policy contents, take enterprises as the key subjects of their policies, seriously consider other affected objects as well as others that potentially create positive policy effects. As a result, policy design and implementation will be more effective.

151. *Forth, to develop human resources for innovation.* To promote investment in education, R&D; to develop universities as enablers of innovation, eagerness to learn and critical review of students. To integrate start-ups into the education system right from general curricula so that the youth can develop start-up entrepreneurship early in order to prepare for future business. To incentivize Vietnamese talents studying and living abroad – who acquire international culture and modern knowledge – to collaborate with Vietnamese agencies and organizations. To support start-ups of Vietnamese abroad and promote the connection between them with domestic counterparts so that they can realize potential markets in Viet Nam. To improve the quality of management staff at local supporting agencies for innovation ecosystem, to revert to proactive approach. To enhance capacity of business leaders, aiming to innovate management and, ultimately, growth paradigms.
152. *Fifth, to promote business associations as the connector between the State and innovation start-ups.* Business associations, sectoral associations should strengthen their reputation, capacity and influence to better connect the State and start-ups. At the same time, to effectively perform the important role in policy debates, allowing the business community to supervise and evaluate state agencies in order to propose recommendations on improving the quality of state services. To enhance the role of associations in manufacturing and business innovation. Sectoral associations should help link enterprises in the same industry so that they can jointly conduct R&D activities. Results of R&D activities will serve innovation of the whole industry, resources of many enterprises can be pooled for R&D projects.

153. *Six, to enhance linkages and develop components of the national innovation ecosystem.* To promote and develop both quality and quantity of innovation supporting intermediaries nationwide. To create effective linkages among supporting organizations (incubators, accelerators, etc.), research institutes/universities, large domestic and international corporations, consultant network, investment funds, investors in order to establish a complete national innovation ecosystem and effectively support business community and innovation.
154. *Finally, to accelerate the implementation of IR 4.0 strategy and new business models.* Effectively implementing the national IR 4.0 strategy will create significant impacts on the whole economy, to contribute to improving innovation capacity and innovation activities Vietnamese enterprises. At the same time, the implementation of new business models such as sharing economy, approved by the Prime Minister in 2019, will enable enterprises to apply innovation achievements in order to more effectively utilize resources, develop new business models and expand their markets.

IV. RECOMMENDATIONS

155. Notwithstanding ample uncertainties underlying the global economy and the COVID-19 pandemic, important achievements and experiences in 2020 provided ground for Viet Nam's optimism towards 2021. Macroeconomic stability is consolidated, while the room to operate macroeconomic policies has been preserved and consolidated. Economic growth sustains a recovery momentum, while Viet Nam is among Asian countries that recover relatively quickly in the context of COVID-19. Business and investor confidence were cemented. A new Government will soon be set up, to carry out measures and tasks, including reforms, to achieve socio-economic development goals in the period 2021-2025. In this context, in addition to addressing short-term issues affecting economic activities, Viet Nam needs prompt and more extensive reforms of microeconomic foundation and legal system to better facilitate production - business activities. From that perspective, the COVID-19 pandemic is an important "reminder" for Viet Nam to pay more attention to quality reforms for sustainable development.
156. The process of international economic integration remains progressive. Viet Nam has implemented important FTAs such as CPTPP, EVFTA, and more efforts will be needed to study the orientation and timing of RCEP ratification. Promoting ASEAN's role in the new context coupled with competitive initiatives led by superpowers in the Asia-Pacific region and shifting FDI inflows are also important, albeit not easy. It should be recognized that the international economic integration process is not only accompanied by improved access to markets and resources. Instead, actively implementing commitments to trade and investment liberalization - even at behind-the-border level - towards a quality, consistent, and business-friendly general rule is an important driving force to promote market-based reforms in Viet Nam. These commitments also come with many challenges and uncertainties; but the benefits from reforms and from meeting conditions to access FTA partner markets are sufficiently attractive to Viet Nam.
157. The opportunities from economic integration and domestic reform are enormous, but not automatic. The business community and the people can believe in Viet Nam's potential in the integration process, but such potential can only become prospects and realized in a suitable policy environment. Such a policy environment must be associated with clear and consistent changes, consistent with Viet

Nam's international commitments and development goals, while demonstrating friendliness, encouragement and incubation of creativity and development of the business community.

158. This report re-emphasizes the need to continuously improving the microeconomic foundations and reforming the economic institution towards enhanced creativity and environment friendliness, together with effective risk management - especially associated with COVID-19 pandemic - in the "new normal" context. These efforts are not separate, but a prerequisite part of Viet Nam's economic recovery plan.

1. Recommendations on innovation and reform of the microeconomic foundation

159. Further concretize and implement the Resolutions of the Party Central Committee on shifting economic growth paradigm and effective implementation of international economic integration and private sector development; IR4.0.
160. Continue to guide and organize the effective implementation of fundamental laws of market economy institutions such as the (amended) Enterprise Law, the (amended) Investment Law, the (amended) Bidding Law; Law on Public Debt Management; (amended) Public Investment Management Law; Law amending the Law on Insurance Business, Intellectual Property Law; (amended) Competition Law; Cybersecurity law; (amended) Labor Code, etc.
161. Continue further business environment reforms toward facilitating production and business activities in accordance with Resolution 02/NQ-CP in 2020.
162. Organize and implement effectively the National Strategy on IR 4.0. Identify, issue policies and prepare necessary conditions to promote digital transformation in Viet Nam.
163. Research, identify and consult on strategic economic directions for 2021-2030, incorporating obstacles and priorities for development after COVID-19.
164. Accelerating the process of SOE restructuring, equitization and divestment; publicly and transparently formulating and promulgating a specific plan for the use proceedings from SOE divestment, associated with personal responsibility for strict and effective solutions.

165. Actively engage in exchanging and cooperating with partners to effectively implement CPTPP, EVFTA, and prepare conditions for RCEP implementation; Make good use of Cooperation and Capacity Building chapters under FTAs for improving capacity for Viet Nam's firms, particularly adapted to 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-market ones to propose appropriate solutions.
166. Improve 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 to identify lessons and required policy changes.
167. 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 the COVID-19 context.

2. Recommendations on macroeconomic policies

168. Reaffirm the priority of macroeconomic stabilization, creating 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, dealing with FDI inflows, trade scenarios with the United States, risk of global debt crisis, geopolitical conflicts, etc.).
169. Accelerate economic and sectoral restructuring toward diversification, strengthening economic resilience of the economy in response to unpredictable developments of international trade and global economy.

**** Monetary policy:***

170. Continue active, flexible, prudent and synchronous conducts of monetary policies to stabilize macroeconomic environment, control inflation, alleviate difficulties for production and business under COVID-19 context.
171. 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 the conduct of exchange rate policy to US partners.

172. 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.
173. 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.
174. Simplify process, procedures, conditions for getting credit, especially for priority areas (including SMEs, women-led and/or women-managed enterprises, labor-intensive enterprises, etc.).
175. Implement regulatory sandboxes for fintech, particularly peer to peer lending.
176. Research new trends in cryptocurrencies, their implications for Viet Nam.
177. Study, expand formal finance for firms in the value chain.

** Fiscal policy:*

178. Ensure strict discipline of state budget expenditures to fulfil state budget deficit target for 2021 and reduce pressure for budget revenues.
179. Quantitative assessment of policies that support businesses and people in the context of COVID-19 to identify efficiency, process and scope issues, etc. so as to revise and adjusted accordingly for ensuring social security.
180. Look into the room for adjusting corporate income tax rate, personal income tax rate for some groups of taxpayers.

** Trade policy*

181. 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).
182. 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.

183. 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.
184. Build capacity in the areas of competition, anti-subsidy, anti-dumping, trade dispute settlement and market control, together with providing legal support for enterprises.
185. 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 of post COVID-19 pandemic.

** Price and wage policy*

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

** Investment policy*

188. 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.
189. Concretize Resolution 50-NQ/TW dated 20 August 2019 of the Politburo and communicate about directions to attract FDI in the new context. Encourage foreign investors with established presence in Viet Nam.
190. 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.
191. Study, update international experiences on investor-state dispute resolution mechanism for effective implementation of EVIPA.

3. *Other related recommendations*

192. 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 December 2020
	<p>Policies on trade and integration</p> <p>Focus: <i>Signing and implementing Trade Agreements.</i></p>	<ol style="list-style-type: none"> 1. Resolution 102/2020/QH14 dated 8/6/2020 on the ratification of the Free Trade Agreement between Vietnam and the European Union, issued by the National Assembly 2. Resolution 103/2020/QH14 dated 8/6/2020 on approving the Investment Protection Agreement (EVIPA) between one party is Vietnam and the other party is the European Union and European Union member countries, issued by the National Assembly 3. Circular 11/2020/TT-BCT dated 15/6, providing rules of origin in the Vietnam - EU Free Trade Agreement. 4. Decision 1949/QD-BCT 2020 on the amendment of Circular 11/2020/TT-BCT regulating the rules of origin of goods in the Vietnam - EU Free Trade Agreement, issued by Industry and Trade 5. Decision 1575/QD-BCT dated 16/6/2020 on the amendment of Circular 05/2020/TT-BCT amending Joint Circular 47/2011/TTLT-BCT-BTNMT regulating the management of import, export and temporary import - re-export substances that deplete the ozone layer in accordance with the Montreal Protocol on ozone depleting substances 6. Decision 1635/QD-BCT dated June 19, 2020 on the organization "Vietnam Grand Sale 2020 - Vietnam Grand Sale 2020" (Program) <ul style="list-style-type: none"> • The program is implemented to stimulate the demand of the domestic consumer market, promote production and business activities, gradually restore the economy affected by the Covid-19 epidemic and contribute to ensuring economic growth of the country 7. Circular 30/2020/TT-BCT dated 26/11/2020 guiding the implementation of the Vietnam - EU Free Trade Agreement on trade remedies, issued by the Minister of Industry and Trade

		<ul style="list-style-type: none"> • Guidance on the application of bilateral safeguard measures, anti-dumping measures and countervailing measures to implement the EVFTA <p>8. Circular 44/2020/TT-BCT providing for suspension of trading in temporary import for re-export of medical masks, medical gloves and epidemic prevention and control clothing, issued by the Minister of Industry and Trade.</p> <p>9. Circular 09/2020/TT-BKHDT dated November 27, 2020, guiding the preparation of bidding documents for the procurement of goods for bidding packages under the governing scope of the CPTTP, issued by the Ministry of Planning and Investment.</p> <p>10. Resolution 92/NQ-CP 2020 dated 11/6/2020 on the signing of the Agreement between Vietnam and Sri Lanka on cooperation and mutual assistance in customs field, issued by the Government.</p> <p>11. Resolution 109/NQ-CP dated 23/7/2020 on approving "Agreement on regular air transport between Vietnam - Council of the Swiss Federation", issued by the Government.</p> <p>12. Resolution 110/NQ-CP dated 23/7/2020 on approving the First Protocol amending the ASEAN Trade in Goods Agreement (ATIGA), issued by the Government.</p> <p>13. Decree 95/2020/ND-CP dated 24/8/2020 on guidance on implementation of procurement bidding under the CPTTP</p> <p>14. Decree 111/2020/ND-CP dated September 18, 2020 on Vietnam's Preferential Export Tariff and Special Preferential Import Tariff for the implementation of the EVFTA for the 2020-2022 period.</p> <p>15. Law on International Agreements, dated November 13, 2020, issued by the National Assembly</p> <p>16. Resolution 181/NQ-CP dated 22/12/2020 on the signing of the ASEAN Legal Framework Agreement on Food Safety, issued by the Government.</p>
	Policies on business environment improvement	<p>1. Law on Construction amended on June 17, 2020.</p> <ul style="list-style-type: none"> • Some new points: clearly clarifying the appraisal competence and responsibility of the investment decider, the investor from the authority of the specialized construction agency in the

		<p>appraisal of the feasibility study report on construction investment and construction design; especially reviewing the provisions of the relevant laws so as not to overlap.</p> <p>2. Law on Enterprises 2020, dated June 17, 2020</p> <ul style="list-style-type: none"> • Notable points: Focusing on aspects of corporate governance, investor protection, and expanding those who are allowed to establish businesses <p>3. Law on Investment 2020 dated June 17, 2020</p> <ul style="list-style-type: none"> • Some notable points: Prohibiting debt collection services; Reducing the number of industries in which business is conditional; adding many branches and forms of investment incentives; and regulations related to foreign investors... <p>4. Law on Investment under the public-private partnership model, dated June 18, 2020</p> <ul style="list-style-type: none"> • Narrowing the investment sector under the public-private partnership model, including 5 areas: Transport; Electricity grids, power plants, except hydroelectric plants and other cases of the State monopoly in accordance with the Electricity Law; Irrigation; clean water supply; drainage and wastewater treatment; waste treatment; Medical; educations; Information technology infrastructure. • Additional contents on: Competence to decide investment; Investor selection mechanism; Revenue sharing mechanism. <p>5. Resolution 116/2020/QH14 dated June 19, 2020 on reduction of corporate income tax payable by 2020 for enterprises, cooperatives, non-business units and other organizations, issued by the National Assembly.</p> <ul style="list-style-type: none"> • 30% reduction of corporate income tax payable in 2020 for businesses whose total revenue in 2020 does not exceed VND 200 billion <p>6. Decision 2093/QĐ-BCT dated 07/08/2020 on approving the Scheme on Designing a competitive electricity retail market model issued by the Ministry of Industry and Trade.</p> <ul style="list-style-type: none"> • The implementation plan for the competitive electricity retail market is divided into 3 phases: In the first phase (until the end of 2021), the necessary preparations for the competitive electricity retail market will be focused (legal documents, restructuring the electricity industry, ...). The next
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		<p>phase (from 2022 to 2024) allows electricity users to buy electricity in the spot market. After 2024, step by step, electricity consumers will be given the right to choose their own electricity retailer instead of buying from only one geographic retail unit as before.</p> <p>7. Decision 857/QĐ-BKHDT dated June 3, 2020 approving the list of online public services under state management to be integrated and provided on National Public Service Portal 2020.</p> <ul style="list-style-type: none"> • Integrated services include: (i) Public services/administrative procedures in the field of establishment and operation of the business; (ii) Public services/administrative procedures in the bidding sector; and (iii) Public services/administrative procedures in the field of outward investment from Vietnam <p>8. Circular 06/2020/TT-BLĐTBXH dated 20/8/2020 on the list of jobs with strict requirements on occupational safety and sanitation issued by the Ministry of Labor, War Invalids and Social Affairs.</p> <ul style="list-style-type: none"> • List of 32 jobs with strict requirements on occupational safety and sanitation. <p>9. Decree 67/2020/NĐ-CP dated June 15, 2020 amending Decree 68/2016/NĐ-CP providing for conditions for trading in duty-free goods, warehouses, and locations for customs procedures, customs gathering, inspection and supervision</p> <p>10. Resolution 115/NQ-CP dated August 6, 2020 on solutions to promote the development of supporting industries, issued by the Government.</p> <ul style="list-style-type: none"> • Objectives: By 2025, Vietnamese enterprises will have the production capacity to meet 45% of the demand for domestic production and consumption; accounting for about 11% of industrial production value; There will be about 1,000 enterprises capable of directly supplying assembly enterprises and multinational corporations in the territory of Vietnam, of which domestic enterprises account for about 30%. By 2030, supporting industrial products will meet 70% of the demand for domestic production and consumption; accounting for about 14% of industrial production value; There will be about 2,000 enterprises capable of directly supplying assembly enterprises and multinational corporations in the territory of Vietnam. <p>11. Resolution 124/NQ-CP in 2020 on the Action Program to implement Resolution 23-NQ/TW on the orientation to formulate national industrial development policies to 2030, with a vision to 2045, promulgated by the Government.</p>
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		<ul style="list-style-type: none"> • Specific targets: by 2030 that the industrial ratio in GDP would reach over 40%; the proportion of processing and manufacturing industries in GDP would be about 30%, of which manufacturing industry would be over 20%. The proportion of high-tech industrial products value in the processing and manufacturing industries would reach at least 45%. The growth rate of industrial value added would be on average over 8.5%/year, of which the processing and manufacturing industry would be 10%/year on average. The growth rate of industrial labor productivity would reach an average of 7.5%/year. The Industrial Competitive Performance Index (CIP) would be in the top three of ASEAN countries. The rate of employees in the industrial and service sectors would be over 70%. A number of large-scale domestic industrial enterprises with international competitiveness would be developed. <p>12. Resolution 128/NQ-CP dated September 11, 2020 on tasks and solutions to promote the development of key economic regions, issued by the Government.</p> <p>13. Decree 135/2020/ND-CP dated 18/11/2020 regulating the retirement age.</p> <ul style="list-style-type: none"> • Gradually increasing the retirement age for male employees to 62 (from 2028), and for female workers to 60 years (from 2035)
	<p>Monetary policies and governance of credit institutions</p> <p><i>Focus: Implementing expansionary monetary policies, supporting the economy; tightening the issuance of corporate bonds.</i></p>	<p>1. Circular 77/2020/TT-BTC dated August 14, 2020 guiding Decree 81/2020/ND-CP amending Decree 163/2018/ND-CP on the issuance of corporate bonds, issued by the Ministry Minister of Finance</p> <p>2. Decree 81/2020/ND-CP dated July 9, 2020 amending Decree 163/2018/ND-CP providing for the issuance of corporate bonds. Main contents:</p> <ul style="list-style-type: none"> • Limiting the scale of issuing private corporate bonds to suit the capital size of the business: not exceeding 3 times of its equity. • Limiting the situation in which enterprises split the issuance of corporate bonds into different groups and batches to increase mobilization from individual investors. • Clearly defining the purpose of capital use in the corporate bond issuance documents, • Increasing professionalism and oversight of corporate bond issues and requiring clearer disclosure and aggregation of market information

		<p>3. Decision 1728/QD-NHNN dated 30/9/2020 on refinancing interest rate, rediscount interest rate, overnight lending interest rate in interbank electronic payment and loan to offset capital shortfall in clearing payments of the State Bank of Vietnam to banks</p> <ul style="list-style-type: none"> • The SBV's regulations on interest rates are as follows: Refinancing interest rate: 4.0%/year; Rediscount interest rate: 2.5%/year; Overnight lending interest rate in inter-bank electronic payment and loan to offset capital shortage in clearing payment of the State Bank of Vietnam to banks: 5.0%/year. <p>4. Decision 1730/QD-NHNN dated 30/9/2020 on the maximum short-term loan interest rate in VND of credit institutions, foreign bank branches for borrowers to meet the needs capital demand for a number of economic sectors as prescribed in Circular 39/2016/TT-NHNN issued by the State Bank of Vietnam.</p> <ul style="list-style-type: none"> • The maximum short-term loan interest rate in VND in credit institutions is 4.5%/year. • People's Credit Fund and Microfinance Institution apply the interest rate of 5.5%/year. <p>5. Decision 1729/QD-NHNN dated 30/9/2020 on the maximum interest rate applicable to Vietnamese dong deposits of organizations and individuals at credit institutions, foreign bank branches according to regulations in Circular 07/2014/TT-NHNN issued by the State Bank of Vietnam</p> <ul style="list-style-type: none"> • The maximum interest rate applicable to demand deposits and terms less than 1 month is 0.2%/year • The maximum interest rate applicable to term deposits from 1 month to less than 6 months is 4.0%/year; Particularly, People's Credit Funds and Microfinance Institutions apply the maximum interest rate of 4.5%/year.
	<p>Fiscal policies and State budget management</p> <p>Focus: <i>Continuing to innovate and improve the</i></p>	<p>1. Resolution 128/2020/QH14 dated 12/11/2020 on the State budget estimate for 2021 issued by the National Assembly.</p> <ul style="list-style-type: none"> • Accordingly, the State budget estimate in 2021 will be about 4% of GDP overspending <p>2. Resolution 136/NQ-CP dated September 25, 2020 on sustainable development issued by the Government</p>

	<p><i>performance of state-owned enterprises.</i></p>	<ul style="list-style-type: none"> • Some additional targets: Rate of people using digital products, equipment and solutions: 80% in 2025 and 100% by 2030; By 2030, reaching 100,000 digital technology enterprises. <p>3. Decree 80/2020/ND-CP dated 8/7/2020 on the management and use of non-refundable aids that are not under official development assistance of foreign agencies, organizations and individuals for Vietnam</p> <p>4. Decree 129/2020/ND-CP dated October 27, 2020 on the functions, tasks and operating mechanism of Vietnam Debt Trading One Member Limited Liability Company</p> <ul style="list-style-type: none"> • Stipulates the functions, duties and operating mechanism of the Vietnam debt trading one member limited liability company with 100% charter capital held by the State. <p>5. Resolution 161/NQ-CP dated 29/10/2020 on promoting innovation and improving the performance of state-owned enterprises issued by the Government.</p> <p>6. Decree 140/2020/ND-CP amending Decree 126/2017/ND-CP on the transfer of state-owned enterprises and single-member limited liability companies with 100% charter capital invested by state-owned enterprises to become a joint stock company; Decree 91/2015/ND-CP on investment of state capital in enterprises and management and use of capital and assets in enterprises and Decree 32/2018/ND-CP amending Decree 91/2015/ND-CP</p> <p>7. Decision 2185/QD-TTg in 2020 on the assignment of the investment plan with state budget capital in 2021 issued by the Prime Minister.</p> <p>8. Allocating the investment plan to the state budget capital in 2021 according to the total investment and capital structure of the project approved by a competent authority and the order of priority is as follows: a) Payment of outstanding debts from basic construction; b) Recovery of advance capital; c) Urgent projects to overcome consequences of natural disasters and epidemics; d) The project has been completed and handed over and put into use but the capital has not been fully allocated; e) Reciprocal capital for projects using ODA and concessional loans from foreign donors; f) The project is included in the list of medium-term plans for public investment in the 2016-2020 period and has been allocated annual capital; g) The investment preparation and planning tasks have completed the prescribed procedures as of December 31, 2020.</p>
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	<p>Price and inflation control policies</p> <p>Focus: <i>Tightly controlling the market, minimizing impacts from storms and floods.</i></p>	<ol style="list-style-type: none"> 1. Directive 13/CT-BCT dated September 1, 2020 on ensuring national food security until 2030, issued by the Ministry of Industry and Trade. <ul style="list-style-type: none"> • Objective: by 2030, providing and distributing fully, diversely and safely foods with increasingly high quality, contributing to economic growth, ensuring the improvement of human life, political and social stability in all situations. 2. Resolution 180/NQ-CP dated December 17, 2020 on the plan to support electricity price reduction and electricity bill reduction (phase 2) for electricity users, issued by the Government. <ul style="list-style-type: none"> • Supporting for electricity price reduction, electricity bill reduction (phase 2) for customers using electricity to overcome difficulties for production and business in the impact of Covid-19 epidemic. 3. Electricity of the Ministry of Industry and Trade, the Ministry of Agriculture and Rural Development on stabilization of food and food prices, especially pork prices. 4. Circular 112/2020/TT-BTC regulating the rates of a number of charges and fees to support and remove difficulties for production and business, ensuring social security to cope with the Covid-19 epidemic, issued by the Ministry of Finance <ul style="list-style-type: none"> • Valid from January 1, 2021 to June 30, 2021. 5. Directive 06/CT-BTC dated 21/12/2020 on strengthening the management, administration and price stabilization during the Tan Suu Lunar New Year in 2021, issued by the Ministry of Finance. <ul style="list-style-type: none"> • Strengthening the management, administration and stabilization of market prices during the period before, during and after Tet to actively control market stability, avoiding abnormal fluctuations affecting economic and social life.
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Appendix 2: Macroeconomic statistics

	<i>Unit</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>GDP growth</i>													
Overall	%	7.4	6.7	6.9	7.3	6.8	6.7	7.3	7.0	3.7	0.4	2.7	4.5
<i>Trade</i>													
Growth rate of exports	%	24.8	10.4	15.1	6.5	5.2	9.0	10.7	8.4	7.5	-9.0	10.7	13.3
Growth rate of imports	%	13.3	8.0	16.1	9.8	7.7	9.6	7.7	2.7	3.6	-9.1	3.3	15.7
Exports/GDP	%	121.2	106.4	104.7	80.8	120.6	107.6	122.7	80.4	122.9	97.5	116.2	86.1
<i>Money</i>													
M2 growth (YoY)	%	4.0	4.2	0.6	3.1	2.9	4.1	2.2	4.9	1.7	2.8	3.5	-
Credit growth (YoY)	%	3.5	4.1	2.3	3.2	3.1	4.2	1.9	3.9	1.3	1.5	10.1	10.1
Central VND/USD exchange rate (average)	VND	22434	22555	22674	22742	22902	23037	23107	23153	23205	23245	23198	23174
<i>Investment</i>													
Investment/GDP	%	31.9	33.6	35.9	32.8	32.2	33.9	36.2	33.9	30.9	34.8	37.5	33.9
Implemented FDI	Bil. USD	5.8	4.5	4.9	5.9	4.1	5.0	5.1	6.2	3.9	4.8	5.1	6.2
<i>Other indicators</i>													
Inflation (YoY)	%	2.7	4.7	4.0	3.0	2.6	2.7	2.2	2.0	5.6	2.8	3.2	1.4
State budget deficit/GDP	%	-1.8	1.3	2.1	8.9	-5.9	-1.0	1.0	13.6	-4.0	-	-	-
Current account	Bil. USD	3.9	0.5	3.0	-0.6	1.8	-0.2	6.1	5.2	3.1	-0.5	8.4	-
Balance of payment	Bil. USD	7.3	1.2	-0.5	-1.9	7.2	1.9	4.9	9.3	3.1	2.0	5.3	-

Source: Authors' compilation.