Opportunities and Challenges for Vietnam in the Global Financial Crisis

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Presented at
Key Challenges in the Process of Urbanization in Ho Chi Minh City:
  Governance, Socio-Economic, and Environmental Issues
  Workshop
  16-18 September 2009
  Ho Chi Minh City, Vietnam

1. Challenges For Vietnam Economy in the Global Financial Crisis

Vietnam’s economic condition over the past year shows: First, the global financial crisis did not drag Vietnam’s growth down to below zero, but the decrease from 8.5% pre-crisis to 3-5% during crisis is a serious fall. The countries with negative growth were at the rates of 2%-5% pre-crisis. Without relevant solutions, Vietnam may lose the position of growth rate as “Asia’s tiger”. Second, there are two major components that make up Vietnam’s growth: exports and foreign investment. Statistics show that both these components fell in the period of crisis. Exports grew at 17-24% before and only 2.4% during crisis (nearly 10 times). Export increases accounted for gold exports. The decreases are caused by the fall in food processing, textile, leather shoe manufacturing, which were Vietnam’s major production that had a large labor force. Although total investment capital in the first quarter raised by 9%, this growth rate is below the average growth rate of the reform area (16%), in which the FDI growth in the first quarter fell by 32%, and registered FDI capital fell by 40%. Third, unsellable inventory is piling up with 67% increase, causing many businesses possible bankruptcy due to production inefficiency. Fourth, beside reduced production and bankruptcy, 15% of total jobs were cut, causing high unemployment in urban areas and job shortage in rural areas. Fifth, unemployment causes the life standards for a group of the population to deteriorate. Low quality of life will cause consumption to fall, and social disorder, fraud, smuggling, robbery and drug addiction to rise. Sixth, rising unemployment make people to migrate into big cities like HCMC or Hanoi, causing traffic congestion, accidents and environmental pollution.

2. Challenges For Vietnam Economy in the Global Financial Crisis

The global financial crisis causes various challenges for Vietnam as shown above. However, we can still find opportunities for development within these challenges. First, current economic status shows a few hopes for us, such as increased domestic investment and several domestic service sectors like telecommunication or transportation service also increased. Therefore, we have opportunities in domestic investment which has not been fully capitalized yet. Domestic investment will focus in sectors with high development potentials like services, construction, small-scale production and processing that are flexible on technology. Second, when the crisis creates rising unemployment, people think about investing in themselves in order to get jobs. This is an opportunity for training services and educational
programs to increase. **Third**, when the crisis reduces exports, we need to think about market diversity, restructuring markets and export products. **Fourth**, reduced foreign investment gives us opportunities to reconsider projects and their performance. Slowing investment coming into the country gives us time to reconsider the selective process to pick out efficient project that relevant to the domestic environment. Also, it is time we have to spend on reforming the administrative procedures, urban planning and development. **Fifth**, with slowed growth rates causing increased spending on production and tax support, it is time for us to reconsider and restructure our spending to prevent budget deficit. **Sixth**, Vietnam is a newcomer to the playground of free market and commerce, also we are in the middle of integration and economic transformation. This is, therefore, our chance to learn how to deal with crisis, what causes the crisis, how to prevent and defend against crisis, and how to stabilize the economy.

3. **Proposed Solutions to Bring Vietnam out of Crisis.**

From the abovementioned factors, the solutions to tackle challenges and seize opportunities, bringing the country out of crisis and into stable economic development, might include:

(1) Tighten fiscal policies, reduce government spending. (2) Economic restructuring towards efficiency, including planning and development. (3) Utilize internal sources, combined with external support. Domestic investment stimulation policy has also been released. We haven’t been able to assess domestic capital properly, therefore our policy might not be sufficient in stimulating domestic investment through secured channels like saving risk insurance. (4) Sustainable development solutions need to be developed to stimulate the economy and protect the environment and social justice. Life quality of the people is falling. Do we really want a development project that add one unit of value but takes away more than one from the environment? (5) Invest in educational and scientific projects to improve the education system and the labor force’s skills. (6) Diversify the markets for Vietnamese products. (7) Last but not least is the administrative reform to increase transparency and professionalism in governmental management.