

## Policy Choice in the Present Context of Vietnam



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**ABSTRACT:** Faced with the impact of Covid-19, the Vietnam Government steadfastly carried out at the same time the goal of repelling epidemics and economic development. Economic stimulus is a topic often mentioned at recent scientific conferences and regular sessions. Many confused opinions about the concept of great economic indicators have been revealed. The article is based on the some indicators of System of National Accounts (SNA) to analyze and make judgments about appropriate policies in the current context.

**KEY WORDS:** Consumption, demand size, export, GDP, gross capital formation, supply size.

### INTRODUCTIONS

Recently, the National Assembly of Vietnam approved a number of socio-economic targets, of which GDP growth rate in 2021 is 6% and per capita GDP increased by 1000 USD to 3,700 USD. The nature of GDP is to reflect the final aggregate demand including final consumption (of the population and the State), accumulation of wealth and net exports, both the National Assembly and the Government aim at GDP, i.e. pursuing a policy of aggregate demand management.

GDP from a spending perspective which many call "aggregate demand" is actually final demand. In principle of the System of National Accounts (SNA) of the United Nations, which Vietnam has applied since 1993 with Decision 183 / TTg of the Prime Minister, total demand includes intermediate demand and final demand. GDP from the expenditure side (demand side) includes final household consumption, final government consumption, gross capital formation and net export of goods and services.

Statistics<sup>1</sup> show that the ratio of final household consumption to Vietnam's GDP in the past 10 years accounts for about 68% (while this rate of China is only 39%, the United States 68%). Final government consumption as a percentage of GDP is 6% (China 14%, US 10%). Gross capital formation to GDP is 30% (China is 45%, US is 25%), the ratio of final household consumption to GDP of China is only 39%, To replace the shortage of final consumption of households, but still want high GDP growth; China puts in a very large amount of investment (accounting for about 45% of GDP). These shows that the final household consumption plays an important role in the GDP scale of Vietnam. This research based on data from Asia Development Bank (ADB) and Vietnam input – output tables, 2012 and 2019.

There are also a number of reports on Vietnam's economy such as reports by the World Bank, ADB; these reports are basically superficial, not very meaningful. The research of Nguyen, Quang Thai, Trinh Bui et al. (2019) is more insightful and meaningful. This article updates the data and some new issues of the Vietnamese economy to supplement and thickens the research of Nguyen et al.

### DISCUSS ECONOMIC GROWTH AND GDP GROWTH

GDP is an indicator in general theory of J. M Keynes in the 30s of the century before the world economy fell into great crisis. So nearly 100 years later, people still rush to the conclusion of it being both the joy and the sorrow of a nation. There are many basic aggregate indicators that measure the health of an economy, according to the United Nations System of National Accounts (SNA), these include gross domestic product (GDP), gross national income (GNI), Gross National Disposable income (GNDI) and gross national saving. GDP is only an indicator reflecting the initial income generation and an indicator to balance production accounts.

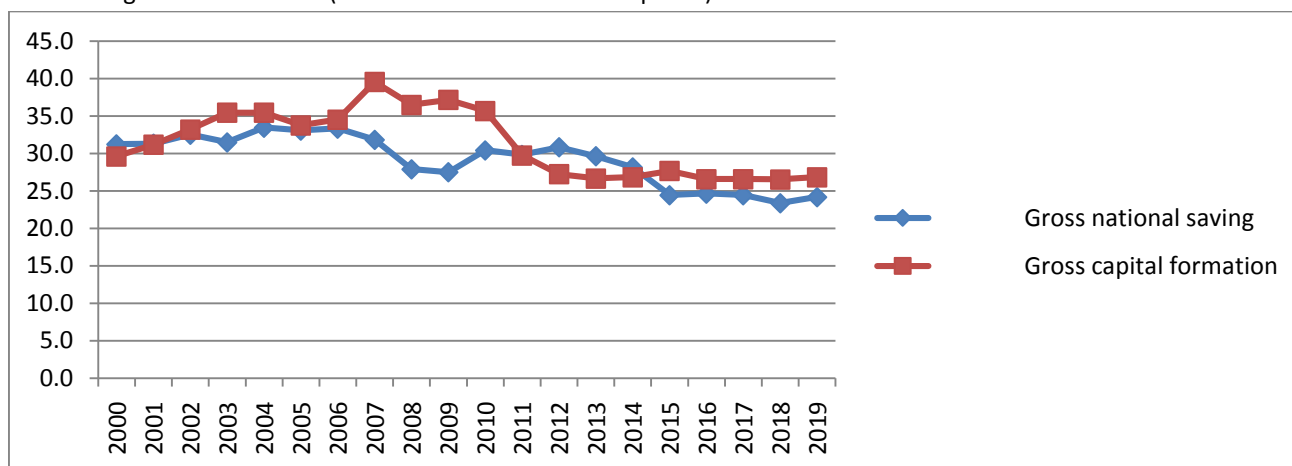
<sup>1</sup> <https://www.adb.org/publications/key-indicators-asia-and-pacific-2020>

## POLICY CHOICE IN THE PRESENT CONTEXT OF VIETNAM

Thus, considering GDP as the only indicator to assess the state of the economy is inadequate and sometimes mistaken. In many cases, GDP increases but the nation's assets are lost; the country's resources are smaller. The problems of GDP opacity can be listed below:

+ Ineffective investment (overinvestment and unnecessary investment) such as digging roads and filling roads at the end of the year, building monuments, gateways, building buildings that are not in use ... can increase GDP. at that moment, but there will be inflation risks (the root source of inflation is ineffective investment) and debt due to a lack of gross national saving relative to the amount of investment (figure 1). Gross national saving is the basic resource for reinvestment. If resources are lacking, it is necessary to borrow. Gross national savings are determined by gross national disposable income - (minus) final consumption (households and Government). Currently, net property income of Vietnam is always negative, meaning that foreign property payments are quite high; in 2019, it is estimated that overseas property payments are over 17 billion USD, fortunately in 2019; Vietnam also receives a current transfer (remittances) of about 16.7 billion USD to offset the transferred FDI money back to mother country. So, when the real resources are in shortage may lead to borrowing.

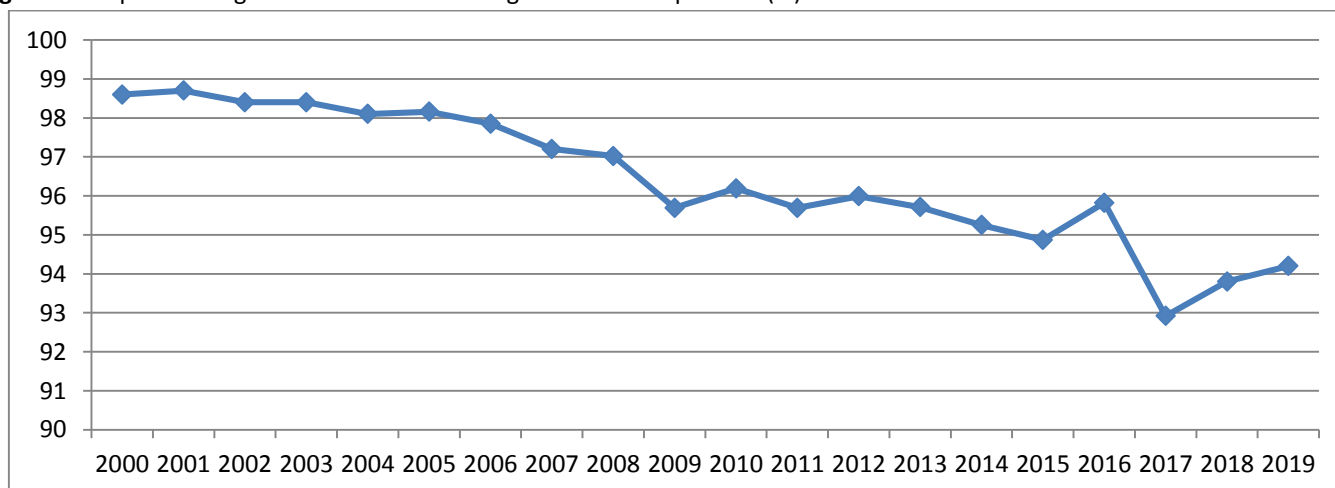
**Figure 1:** Savings and Investment (% of GDP at current market prices)



Source: <https://www.adb.org/publications/key-indicators-asia-and-pacific-2020>

+ GDP growth is based on foreign investment (FDI), in principle the calculation of GDP in terms of permanent residence, the gross value added of the FDI sector is included in the GDP of the host country. The FDI sector may increase GDP, but also increase the money flow out of the country. GDP at current prices in 2019 increased compared to 2000 by 13.7 times, outward cash flow in 2019 compared to 2000 increased by 55.3 times; The current price GDP in 2019 compared to 2010 increased by 2.8 times, the corresponding cash outflow growth rate was 4.3 times. That means the growth rate of money outflow is 1.5 times higher than that of GDP; thereby, the ratio of gross national income (GNI) to GDP is decreasing. In 2000, the ratio of GNI to GDP was 98.6%, in 2019, this ratio decreased by 94% (figure 2)

**Figure 2:** Proportion of gross national income to gross domestic product (%)



Source: gso.gov.vn

## POLICY CHOICE IN THE PRESENT CONTEXT OF VIETNAM

### SUPPLY-SIDE POLICIES AND AGGREGATE-DEMAND MANAGEMENT POLICIES

Supply-side policy can be understood as being created by micro reforms and that are the micro foundations of macroeconomics to increase the potential growth of the economy.

In the short run, there will be a difference between real growth and potential growth due to the effects of the economic cycle and therefore the aggregate demand management policy essentially helps the economy absorb the shocks that generate the most, the changes in final demand through the use of policy tools to influence aggregate demand components. The implementation of the stimulus policy has been agreed upon by economists with 3 basic principles, when applied, must be timely, right to the right audience and only used in the short term.

In fact, in addition to supply-side policies that mainly affect aggregate supply such as industrial policy, science and technology, etc., or only aggregate demand such as increased government spending, wage increases, etc. some policies affect to aggregate supply and demand as well as the tax policy, public investment, etc. The separation the impact of the policy can be difficult, but most importantly, in the design of the policy, trade-offs need to be taken into account between efficiency gains and costs created. In the models of general equilibrium and the System of National Accounts aggregate demand is understood to include intermediate demand and final demand. Final demand here includes household consumption expenditure, government consumption expenditure, gross capital formation and the net export (-import) of goods and services; gross of final demand is ultimately gross domestic product (GDP). This concept is similar to Keynes's conception of aggregate demand, the change of final demand will induce impacts to supply size and Leontief quantified this relationship

### SHOULD STIMULATING AGGREGATE DEMAND IN THE ECONOMIC CONTEXT OF VIETNAM?

In the current context in Vietnam, the relationship Keynes - Leontief suggests that an increase in demand factors will stimulate production, and then spread to income. Among the demand side factors including intermediate demand and final demand are domestic products and imported products. On the other hand, the OECD's suggestion in connection with this issue provides a method of quantifying the value added in trade. The concept of this problem was given by Robert Kopman et al (2008) when studying China in a research paper "How much Chinese exports are actually made in China? This study estimates how pervasive domestic value added while in the outsourcing manufacturing industry? They analyze this case by quantifying the value of raw exports and processed exports. This study is the follow-up to the article on "Changing economic structure based on the relationship between final domestic demand and production, value added and import" published in the British Journal of Economics, Management & Trade, 2014.

In fact, the impact from the demand side in the short term depends on the supply capacity of the economy, if the supply capacity is limited or weak, the increase in aggregate demand for any reason essentially only makes price increase and trade deficit only, and real income will not change much. Conversely, if growth potential is abundant and improved, an increase in aggregate demand will ultimately actually increase output as Keynesian theory suggests.

When considering and proposing stimulus policies, it is necessary to understand that the Keynes-Leontief relation not only quantifies the final demand side effect on output, but also quantifies the effect on the final demand side on gross value added. Increase-gross value added of the economy. Using Leontief system for calculating of the relationship of demand to output, income and imports to see the spillover from the domestic final demand to production will be an important basis for the above mentioned policy proposals. Considerations of interfering with final demand factors shows as below:

**Final household consumption - C:** The spread of this factor on production value decreased sharply (-14.1%). In household consumption including final consumption of domestically produced products and consumption of imported goods, consumption of imported goods will not help GDP because these goods cannot be produced domestically. They are imported, essentially reducing GDP; In the case of using domestically produced goods, due to Vietnam's economy is mainly outsourced, without supporting industries, so using domestic goods actually only stimulates imports, the raw materials from imported. Indeed, statistics show that 60% of imports are for production materials, about 30% are for machinery and equipment, only approximately 10% are for final household consumption.

Assuming that the input - output table, 2012 represents the period 2010 - 2015 and the input - output table IO, 2019 represents the period 2016-2021. Calculation from the input - output model shows that the spillover effect from final consumption on income has decreased by 20.4 percentage points compared to the previous period (Appendix 1).

**For investment demand:** The calculation from the input - output model shows that the spread of investment to production also decreased sharply (-17.1%) but the spillover rate decreased to value added only about -5.6% (Appendix 1). In this study investment is divided into state sector investment ( $I^S$ ), domestic private sector investment ( $I^P$ ) and FDI sector investment ( $I^F$ ). The results show that among the factors of the final aggregate demand, investment of the FDI sector was also the factor that spill over to the worst

## POLICY CHOICE IN THE PRESENT CONTEXT OF VIETNAM

income, investment of the state sector in the period 2016 - 2021 induced to production value and value added decrease compared to the period 2010 – 2015; In the period of 2016 - 2021, private investment induce to both output and the value added increased compared to the period 2010 – 2015 (Appendix 2).

**For export:** In the period of 2016 - 2021, exports strongly spread to the production value (up 11.7%), but spread to the value added decreased (-13.3%) compared to the period 2010 – 2015, but on the other hand, export has a strong impact on imports (up 52%) (Appendix 1). This confirms that the current export is basically the export of raw products, natural resources and outsourcing products, but also causes a strong trade deficit of domestic economic area. In final demand, the export was decomposed export of FDI are (Ef) and export of domestic area (Ed), we can see Ef induce to value added and production income becoming gradually lower (Appendix 3).

## SOME CONCLUSIONS

Through the above arguments, it can be seen that for the Vietnamese economy, any intervention on demand factors does not increase income from production, but only increases the domestic economic sector's trade deficit and risks. on inflation. It is clear that aggregate demand management policies are not suitable for Vietnam today where potential output is not showing signs of improvement through appropriate supply-side policies. The costs to pay for stimulus would be very high as well.

The demand-side stimulus policy is effective when it is based on a very strong production base (the supply side). With a supply-side background such stimulus on the demand side may be justified. This is completely different from Vietnam when the supply side is still weak, the production is basically outsourcing, and the intervention on the demand side does not increase income but only makes the economy face many macro risks.

Over the past years, we have witnessed the achievements that supply-side policies have brought to the country, especially many major reforms in the 2000-2006 period such as allowing enterprises to directly import and export, and issue, enterprise law 2000, removes barriers in business establishment, pushes up too SOE equalization process ... Therefore, Vietnam's policy needs to be consistent with the view that at present we need to sacrifice short-term goals (GDP growth ...) to bravely abandon aggregate demand management policies and persevere. Stepping up measures to restructure the economy - basically supply-side policy. Accordingly, the "key" is to reform economic and political institutions (adjust economic boundaries to separate administrative boundaries, eliminate the province's economy ...) so that people are active and want to invest in production instead of just speculating on land.

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### Appendix 1: Spillover coefficient of final demand factors on production and value added (times, %)

	2012			2019		
	Final consumption	Gross capital formation	Export	Final consumption	Gross capital formation	Export
Induced impact to output	1.27	1.35	1.53	1.09	1.12	1.7
Changing				-14.10%	-17.10%	11.70%
Induced impact to value added	0.6	0.43	0.69	0.48	0.41	0.59
Changing				-20.40%	-5.60%	-13.30%
Induced impact to import	0.22	0.39	0.31	0.19	0.37	0.48
Changing				-12.10%	-3.90%	52.00%

Source: Author's calculations from input-output tables, 2012 and 2019 of Vietnam

### Appendix 2. Output and value added was induced by type of investment

	2012			2019		
	I <sup>s</sup>	I <sup>p</sup>	I <sup>f</sup>	I <sup>s</sup>	I <sup>p</sup>	I <sup>f</sup>
Induced impact to output	1.68	1.63	1.7	1.54	1.92	1.83
Induced impact to value added	0.71	0.62	0.65	0.57	0.76	0.55

Source: Author's calculations from input-output tables, 2012 and 2019 of Vietnam

### Appendix 3. Supply size is induced by type of export (times)

	2012		2019	
	E <sup>f</sup>	E <sup>d</sup>	E <sup>f</sup>	E <sup>d</sup>
Induced impact to output	1.55	1.54	2.2	1.8
Induced impact to value added	0.28	0.32	0.18	0.25
Induced impact to compensation of employees	0.2	0.27	0.15	0.2

Source: Author's calculations from input-output tables, 2012 and 2019 of Vietnam