

# Economic Environment

## Gross Domestic Product (GDP) Growth

Economy and society development in the recent years took place in the context of global market turmoil, the world economy is still facing a big risk with unpredictable factors and slowing down which has been caused by increasing protectionism and the lasting trade war. In such a context, Vietnam registered quite a high growth, with 5.25%-7.02% between 2010-2019 and a slowdown with 2.91% in 2020 and 2.58% in 2021 (due to the COVID-19 pandemic), and is expected to recover strongly at 6.1% for 2024 and 6.5 for 2025 and 2026, much higher than 5% in 2023, based on factors such as the strong recovery of the service and manufacturing industries, as well as exports reflecting the gradual improvement of global demand, domestic private consumption and investment are also on the rise; in addition, the real estate sector is also forecast to recover more strongly later this year and next year, boosting domestic demand as investors and consumers gradually regain confidence. With this growth rate, Vietnam is considered one of the highest growing countries in the region and in the world, thanks to internal resources and, making good use of the opportunities and ability to diversify and adapt to the challenges, although our economy is considered to have not yet returned to the pre-pandemic growth path. Therefore, to maintain this growth momentum in the coming years, competent authorities need to continue institutional reform; promote public investment to both stimulate short-term demand and contribute to solving the problem of infrastructure shortage – especially in the fields of energy, transport and logistics – which are bottlenecks hindering the growth; in addition, it is necessary to manage and closely monitor risks in the financial market and the asset quality of banks due to increasing bad debts. Vietnam's medium- and long-term economic prospects are very positively forecasted, enhancing by its participation in

new bilateral and multilateral trade agreements, and benefiting from the current shift in supply chains to lower cost countries.

Besides the results achieved, Vietnam is still facing many difficulties and challenges. Specifically:

(a) The recovery of economic sectors is still slow and uneven, especially the domestic consumption sector has not yet fully recovered. Weak domestic and international demand has had a direct impact on the aggregate supply. Global inflationary pressures and rising interest rates could impact domestic monetary policy and increase borrowing costs.

(b) The global economy has gradually been stabilizing but contains many political, economic and technological risks, etc. Geo-economic fragmentation is becoming increasingly evident. Global supply chains face many challenges. Geopolitical instability and fragmentation pose many challenges to trade and investment activities, reducing opportunities for cooperation and technology sharing among countries. In 2024, the world economy will continue to face 4 main risks and challenges: (i) epidemic situation is complicated, unpredictable, always has potential risks of new epidemic-prone disease; (ii) Trade and technology tensions between the US and China and among other major countries; (iii) Geopolitical risks in countries and regions such as conflict between Russia and Ukraine; (iv) Global financial instability risk. Vietnam cannot be unaffected by these challenges because its economy has now deeply been integrated and has been long opened.

(c) Competition to attract foreign direct investment is increasingly fierce. The shortage of skilled labor, especially in essential and technological fields, makes it difficult for Vietnam to restructure the economy. The problem of the current economy lies in the lack of demand for loans in the context of economic instability, not interest rates, so it is difficult to cut interest rates to support the economy. Furthermore,

trying to squeeze credit into the economy is likely to cause overinvestment which leads to a systemic risk.

(d) Climate change is creating new protectionist barriers related to greening, carbon credits, protectionism hidden in industry policies. Huge investment pressure is put on renewable energy development, etc. The heavy reliance on import and export makes our economy vulnerable to external shocks. Facing this fact requires Vietnam to further diversify its trading partners, thereby mitigating the shocks of a particular trading partner.

Year 2020 2021 2022 2023 2024 (Est.)

Year	2020	2021	2022	2023	2024 (Est.)
GDP Growth	2.91%	2.58%	8.025%	5.05%	6.1%

### **Sectorial Growth**

The structure of the Vietnam's economy, which is basically made up of three sectors: agriculture, industry and construction, and services, has been undergoing a considerable transformation over the last few years, with the agriculture sector declining its contribution while the industrial and service sectors increasing their shares.

Year 2020 2021 2022 2023 2024 (first 6 months)

Year	2020	2021	2022	2023	2024 (first 6 months)
Agriculture, Forestry & Fishery	2.68%	2.9%	3.36%	3.83%	3.38%
Industry & Construction	3.98%	4.05%	7.78%	3.74%	7.51%
Services	2.6%	1.22%	9.99%	6.82%	6.64%

## Foreign Direct Investment (FDI) Flow

Up to 30 September 2024, as many as 41,314 foreign-invested projects, which are still valid, from 148 countries and territories with a total registered capital of around USD491.71 billion, had been licensed in Vietnam, in which around USD 314.5 billion, equal to around 64% of total registered investment capital in effect, has been accumulatively disbursed. For 2024 in particular, up to 30 September 2024, there were 2,492 new foreign-invested projects with a total capital registered of above USD 13.55 billion were issued with Investment Registration Certificates ("IRCs"), increasing by 11.3% compared to the same period of 2023. In addition, there are 1,027 projects adjusting their investment capital with a total increased capital registered of above USD 7.64 billion, increasing by 48.1% compared to the same period in 2023; 2,471 capital contributions and equity acquisitions by foreign investors with the total capital contribution value of around USD 3.59 billion, decreasing by 26.2% compared to the same period of 2023. For the whole of new & additional funds and capital contribution & equity acquisition, from 1 January to 30 September 2024, foreign investors have registered to invest above USD 24.78 billion in Vietnam, increasing by 11.6% compared to the same period in 2023 (in which, Singapore leads the number of FDI enterprises investing in Vietnam with more than USD 7.35 billion, accounting for nearly 29.7% of total investment capital (an increase of 69% over the same period last year), respectively followed by China with USD 3.225 billion, accounting for 13.01% of total investment capital, South Korea with USD 2.892 billion, accounting for 11.67% of total investment capital, Hong Kong with 2.568 billion USD and Japan with 2.585 billion USD, both accounting for 10.43% of total investment capital; China is the leading partner in terms of the number of new investment projects (accounting for 29.3%); the Republic of Korea leads in the number of capital adjustments (accounting for 23.9%) and capital contributions & equity acquisitions

(accounting for 25.6%)]. Total capital disbursed in the first nine months of 2024 has reached above USD 17.34 billion, increasing by 8.9% compared to the same period of 2023. This steadily confirms active signs of Vietnam's FDI inbound stream which has heavily been affected by the global long lasting COVID-19 pandemic and consequential international economic crisis and domestic economic downturn.

Foreign investors have invested in 19/21 sectors in the national system of economic sectors. By sectors, the Processing and Manufacturing sector absorbs the largest quantity of foreign capital into Vietnam, with registered capital of above USD 298 billion presenting 60.7% of total investment capital and 17,387 projects. The Property & Construction sector stands behind with the registered capital of over USD 71.5 billion presenting 14.5% of total investment capital and 3,005 projects; the Electricity, Gas & Water Production and Distribution with the registered capital of around USD 41.7 billion presenting 8.5% of total investment capital and 196 projects; the Accommodation & Food services with the registered capital of above USD15.38 billion and 999 projects; and the Wholesale, Retail and Automobile & Motorcycles repair sector with the registered capital of around USD11.47 billion and 7,522 projects.

By localities, all 63 cities and provinces of Vietnam have been fully covered by foreign investment. Nation-wide, foreign investment most focuses on the South, especially Ho Chi Minh City ("HCMC"), Binh Duong, Dong Nai and Ba Ria – Vung Tau; and Hanoi in the North. Among the principal cities and provinces, HCMC is still the leading locality in attracting foreign investment with 12,912 projects valued at above USD 58.2 billion, followed by Hanoi invested with 7,462 projects valued at around USD43.7 billion, and Binh Duong registering 4,311 projects valued at above USD 42 billion, which are the most attractive ones and account for about 11.8%, 9% and 8.5%, respectively of the total registered capital in Vietnam. Dong

Nai receiving 1,948 projects valued at above USD36.2 billion and Ba Ria – Vung Tau receiving 570 projects valued at over USD36.34 billion stand behind, with the registered capital accounting for about 7.6% and 7.5%, respectively of the total registered capital.

By nationality, 146 different countries and territories have so far invested in Vietnam. The Republic of Korea now is the biggest foreign investor with 10,003 projects and registered capital of around USD88.3 billion presenting around 18% of total registered capital, followed by Singapore investing in 3,707 projects with registered capital of above USD8.1 billion presenting 16.5% of total registered capital, Japan investing in 5,369 projects with registered capital of around USD76.1 billion, Taiwan investing in 3,186 projects with registered capital of about USD40.23 billion, Hong Kong investing in 2,616 projects with registered capital of over USD35.91 billion, etc. These top five economies have invested in 24,881 projects (accounting for about 61.4% of the total licensed projects) with total registered capital of around USD319.9 billion (accounting for approx. 66% of the total registered capital). Other countries and territories like China, British Virgin Islands, the Netherlands, Thailand and Malaysia, which have given impetus to get a steady foothold in Vietnam and are now among the top ten. The “top ten” investors account for over 79.9% of the total licensed projects and over 85.2% of the total registered capital in Vietnam.

### **Official Development Aid (ODA) and Preferential Loan Commitments**

Vietnam first received USD1.8 billion of ODA from international donors in 1993. The figure has been increased year by year and during the period from 1993 to June 2019, the total value of ODA commitments to Vietnam amounted to USD89.5 billion, total capital of signed ODA commitments and concessional loans reaching above USD86.66 billion in which about USD7.67 billion is non-refundable (accounting for 8% of

total ODA commitments and concessional loans), more than USD70 billion of loans with interest rates below 2% (equivalent to 90% of total ODA commitments and concessional loans) and USD1.7 billion of loans at lesser preferential rates but still lower than interest rates applied by commercial loans (accounting for 2%); USD3.5 billion/ year on average, has been provided by the community of 51 global donors (28 bilateral donors and 23 multilateral donors); of which, about 80% of Vietnam's ODA was mobilized from 6 banks, including: the World Bank (WB), Asian Development Bank (ADB), Japan International Cooperation Agency (JICA), Export-Import Bank of Korea (KEXIM), French Development Agency (AFD) and German Reconstruction Bank (KfW). ODA in Vietnam is implemented in three main forms, consisted of: non-refundable aid, accounting for about 10-12%; concessional loans accounting for about 80% with low interest rates, withdrawal period from 10-40 years and grace period of 5-10 years (non-refundable element is at least 25%); and mixed ODA accounting for about 8-10%, of which a part is non-refundable aid, and a part is concessional loan. Thanks to the positive economic development and the political stability, the ODA commitments by the international donor community to Vietnam despite still being quite high following the trend of being decreased from year to year and are predicted to be terminated in next 5 years. Particularly, in the 2011 – 2015 period alone, the total amount of signed ODA commitments and concessional loans reached about USD26.4 billion, making a large contribution to infrastructure investment; but in the 2016-2020 period, the total signed ODA commitments and concessional loans were only USD 12.99 billion, decreasing by 51% compared to the 2011-2015 period, due to many countries stop or reduce ODA to Vietnam when Vietnam became a lower middle-income country since 2010 and ODA inflows into Vietnam become less preferential when the country "graduated" from the official aid of the International Development Association – IDA (2017) and from the Asian Development Fund – ADF (2019) in line with the country's policy on mobilization of ODA and concessional loans focusing

on the quality and efficiency of ODA capital and concessional loans to ensure public debt sustainability.

Facing that fact, Vietnam has set up a national plan to prioritize the areas in need of ODAs. ODA commitments and concessional loans from foreign donors are still one of the important resources for investment in key socio-economic infrastructure projects, which are very extensive and important. According to the Ministry of Planning and Investment, the scale of ODA commitments and concessional loans that can be provided by foreign donors to Vietnam would reach USD25.82 billion in the 2021-2025 period (or about USD5.13 billion per year); In particular, the total ODA capital and concessional loans that Vietnam has signed for the period of 2021 – 2023 reached about USD 3.35 billion, of which ODA commitments account for about 30.9%, concessional loans from foreign donors account for about 64.8%, and non-refundable ODA grants account for about 4.3%. If adding the amount of transitional capital from the previous period, the ODA commitments and concessional loans from foreign donors for Vietnam in the period of 2021 – 2025 will be probably higher. However, the capital is slowly disbursed, accounting for 75.51% of the total signed capital, the disbursed amount fell to more than USD0.44 billion in 2021, compared to about USD3.5 billion in 2010, USD 5.655 billion in 2014 – the highest in all periods, USD 1.654 billion in 2019 and USD1.64 billion in 2020. In 2023, disbursement of projects using ODAs and concessional loans from foreign donors have just reached 50.9% of the plan assigned by the Prime Minister due to 9 main groups of causes: Difficulties in negotiating and signing loan agreements; differences in policies, processes and procedures between Vietnam and donors; investment preparation, project design and procedures do not meet the requirements for quality and time-limits; difficulties in plan preparation and assignment; difficulties in tendering; site clearance and counterpart capital arrangement; disbursement, payment and final settlement procedures; limitations in resources and

capacity of the governing body, project owner and project management board; difficulties due to objective changes of conditions such as merging districts and communes.

The trend of reducing ODA capital has had a significant impact on the progress of construction projects and has limited investment capital on a large scale. In all aspects, the role of ODA is not only meaningful in providing potential resources for the Vietnamese economy but can also help our country fulfill all the targets of the United Nations Sustainable Development Goals (SDGs). When ODA capital is completely cut, Vietnam will be forced to increase its independence and autonomy in capital mobilization and business operations in terms of both input and output resources. Moreover, Vietnam will have to have a series of adjustment steps for the transition from “relying on ODA” to “not using ODA”, especially in infrastructure development.

### **Regional and Global Integration**

Regionally, in the position of an official member country of ASEAN since 1995, Vietnam is a party to several intra-ASEAN free trade agreements concluded and signed with the end goal of creating a single market and production base, characterized by free flow of goods, services, and investment, as well as freer flow of capital and labor. These include the following, among others:

(a) ASEAN Trade in Goods Agreement (“ATIGA”), which aims to achieve free flow of goods in the region resulting to less trade barriers and deeper economic linkages among Member States, lower business costs, increased trade, and a larger market and economies of scale for businesses;

(b) ASEAN Framework Agreement on Services (“AFAS”), which is to work towards free flow of trade in services within the region. It aims to substantially eliminate restrictions to trade in services among ASEAN countries in order to improve the efficiency and competitiveness of ASEAN services

suppliers. AFAS has been replaced by the ASEAN Trade in Services Agreement (ATISA) signed by ASEAN economic ministers on 23 April with more new content towards opening up, more liberalization of services and took effect on 20 October 2019. It is hoped that ATISA will lay a new foundation for promoting trade in services in the region and improving the competitiveness of service exporting enterprises in ASEAN;

(c) ASEAN Comprehensive Investment Agreement (“ACIA”), which is ASEAN’s main economic instrument to realize a free and open investment regime. The ACIA, as one of the economic instruments for regional economic integration, aims to create a free, facilitative, transparent and competitive investment environment in ASEAN;

(d) ASEAN Agreement on the Movement of Natural Persons (“AAMNP”), which streamlines and makes transparent the procedures for immigration applications for the temporary entry or entry of stay of natural persons. It covers business visitors, intra-corporate transferees, contractual service suppliers, and other categories of natural persons to be determined by ASEAN Member States;

(e) Mutual Recognition Arrangements (“MRAs”), which are framework arrangements established in support of liberalizing and facilitating trade in services.

Globally, thanks to the excellent preparations, Vietnam officially became the 150th member of the WTO from November 2007, and at the same time, achieved the Permanent Normal Trade Relations (“PNTR”) with the US in the same year. In addition to an ASEAN – China Free Trade Agreement as of 2004 and a Framework Agreement on Comprehensive Economic Cooperation among the ASEAN countries and the Republic of Korea of 2005, there are a separate one between Vietnam and the Republic of Korea taking effect in 2015, a Comprehensive Economic Partnership Agreement between ASEAN countries and Japan, a separated one between Vietnam and Japan in 2008, an ASEAN – India FTA, an ASEAN-Australia-New Zealand FTA in 2010, and an FTA between Vietnam and Chile becoming effective since

2014.

The negotiations for an FTA between Vietnam and 28 Member States of the EU were initiated in June 2012 and basically ended in December 2015 to create conditions for Vietnam's products to penetrate more easily into five of the largest economy in the world, with much lower tax rates. The FTA with the EU, together with the Trans-Pacific Partnership Agreement ("TPP") renamed later as CPTPP, are the two new-generation FTAs, i.e. with the widest range and highest level of commitments from Vietnam so far. In June 2018, FTA with the EU was divided into two Agreements, one is the EU – Vietnam Free Trade Agreement ("EVFTA") and the other is the EU – Vietnam Investment Protection Agreement ("EVIPA"). Upon completion of legal review process, the two Agreements were signed on 30 June 2019, and EVFTA officially took effect on 1 August 2020 while the EVIPA will come into effect after being ratified by the EU member states.

Additionally, on 29 December 2020, the UK – Vietnam Free Trade Agreement ("UKVFTA") was officially signed in London and came into force on 31 December 2020. The UKVFTA was negotiated based on the principle of inheriting the commitments made in the EVFTA with necessary amendments to ensure compliance with the bilateral trade framework between Vietnam and the UK.

The coming into effect of an FTA between Vietnam and Eurasian Economic Union (EAEU), including Russia, Belarus, Armenia, Kazakhstan and Kyrgyzstan, in 2016 connects the former ally with ex-URSS space. Concurrently, on 4 February 2016, 12 countries contracting the TPP, including Vietnam, attended the signing ceremony for authentication of TPP wordings in Auckland, New Zealand. With the authorization of the PM, the Minister of Industry and Trade VU Huy Hoang Vietnam on behalf of the GoV signed authenticity of wordings of TPP and 35 bilateral agreements in domains related to financial services, textiles and garment, agriculture, intellectual property, etc. that Vietnam has agreed with the TPP countries. These

bilateral agreements were expected to take effect at the same time with TPP in 2018. However, in January 2017, the US's retreat from the TPP invalidated this Agreement; but 11 remaining member states of TPP decided to continue performance of such Agreement in an appropriate form without the US in May 2017, issued their joint declaration to change the name of this Agreement to Comprehensive and Progressive Agreement for Trans-Pacific Partnership ("CPTPP") and to amend some contents of TPP under the CPTPP in November 2017, and officially signed the CPTPP in Santiago City, Chile on 8 March 2018, which was effective for Vietnam since 14 January 2019. At present, the United Kingdom is currently negotiating to join the CPTPP.

Furthermore, on 12 November 2017, ASEAN and Hong Kong (China) officially signed a Free Trade Agreement ("AHKFTA") and a Bilateral Investment Agreement ("AHKIA"). AHKFTA officially came into effect with Hong Kong and 5 ASEAN member countries (including Laos, Myanmar, Singapore, Thailand and Vietnam) from 11 June 2019, similarly to AHKIA from 17 June 2019.

Recently, the Regional Comprehensive Economic Partnership ("RCEP") Agreement among ASEAN and the six partners who have signed FTAs with ASEAN, including China, the Republic of Korea, Japan, India (withdrew from this agreement), Australia and New Zealand negotiated from May 2013 was executed by 15 countries on 15 November 2020 and took effect on 1 January 2022; this shall establish the largest free trade area in the world; the Vietnam-Israel Free Trade Agreement (VIFTA) was signed on 25 July 2023 and expected to come into effect on 15 October 2024, making Israel the first country in West Asia with which Vietnam has signed an FTA and Vietnam is also the first country in Southeast Asia with which Israel has signed an FTA.

Besides, several FTAs are being prepared, e.g. the negotiations on a FTA between Vietnam and European Free Trade Area (EFTA) consisted of Switzerland, Norway, Iceland and Liechtenstein initiated in May 2012; the same on the

Comprehensive Economic Partnership Agreement (CEPA) between Vietnam and the United Arab Emirates (UAE) took place from August 2023.