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# The Impact of Exports on Economic Growth in Vietnam

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## Abstract

In 2010, Vietnam achieved a total import-export turnover of US \$ 154 billion, but by 2019, that number increased more than tripled, reaching over \$ 500 billion. In 2020, while the context of complicated developments of the outbreak COVID-19 in the world, disrupting supply chain in international trade, Vietnam's merchandise exports remained the rising trend and exerted a positive impact on economic growth. In the article, the research team will present the results of examining the current situation of Vietnam's exports and economic growth in the period 2005 - 2019 and the first 9 months of 2020. By using Eview8 software to analyze the data series compiled every quarter in the period 2005 - 2019, the research team evaluated the impact of exports on Vietnam's economic growth in this period and pointed out some problems for export activities of Vietnam. Besides, the research team also considers the opportunities and challenges for export activities in the context of the COVID-19 pandemic. Finally, the research team made some recommendations to boost Vietnam's exports in the context of the COVID 19 pandemic.

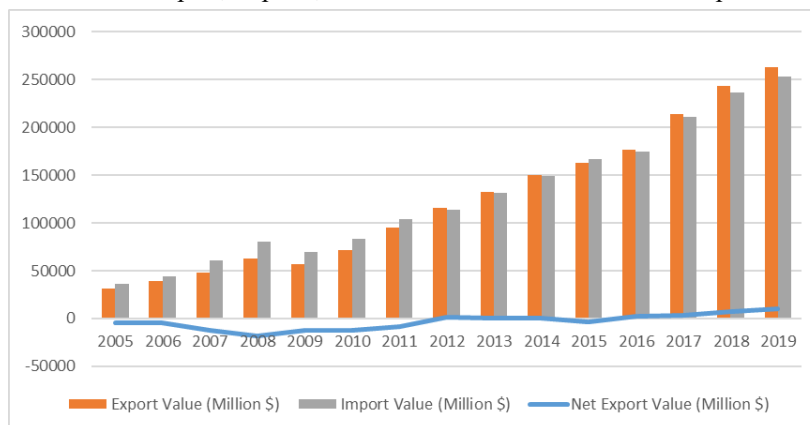
**Keywords:** Export, Economic Growth, Covid 19 Effects

## 1. Current situation of Vietnam's exports and economic growth in the period 2005-2019

### 1.1. Current situation of Vietnam's exports in the period 2005-2019

Summary of IMF-IFS data have shown that in the period before 2011, Vietnam is always a trade deficit country, in 3 consecutive years from 2012 to 2014, Vietnam started to have a trade surplus, but 2015 marked a coming back of the trade deficit situation with the trade balance deficit with 3.55 billion USD. Despite the trade deficit in 2015, the export turnover still increased to reach USD 162,016 billion, up 8% compared to 2014. Besides, in the first months of 2016, the trade surplus tended to return, although in the fourth quarter of 2016 the trade balance was in deficit, for the whole of 2016 the trade balance had a surplus of 2.2 billion USD. In the first months of 2017, Vietnam also faced a trade balance deficit, but the trade surplus returned in the last months of the year, and in 2017 Vietnam had a trade surplus of 2.92 billion USD. In 2018, the export value increased to 243.47 billion USD, the whole year reached the trade surplus with a surplus-value of 6.78 billion USD. In 2019, the export value continues to increase to 263,451 billion USD, and Vietnam continues to have a trade surplus with a value of 9,943 billion USD.

Figure 1: The value of export, imports, and trade balance of Vietnam in the period 2005 - 2019



Source: Summary of IMF-IFS data

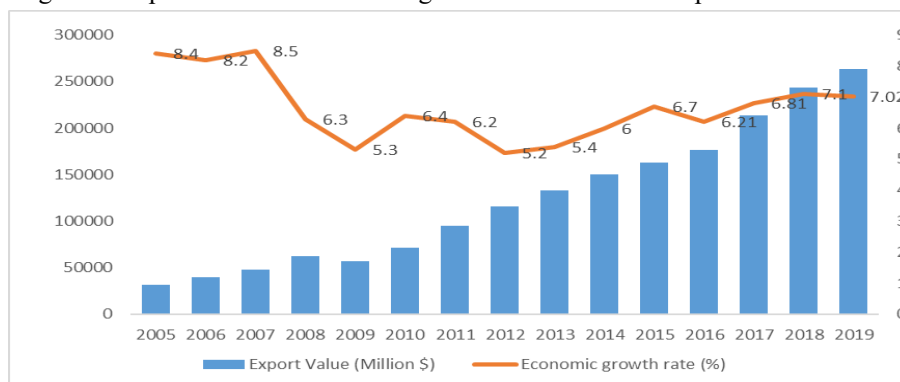
According to the General Department of Vietnam Customs in 2019, there are more than 20 groups of items that have achieved an export value over the US \$ 1 billion, of which 10 groups of goods have an export turnover of \$ 2 billion or more, including Items: Telephones and spare parts; Textiles; Computers, electronic products, and components; Shoes of all types; Wood and wood products; Seafood; Handbags, purses, suitcases, hats, umbrellas, umbrellas; Cameras, camcorders, and components; The coffee; fibers, textiles ... The structure of export products is changing in a positive direction, gradually reducing the content of raw export to increase the export of processed products and industrial products. The proportion of groups of agricultural products, aquatic products, fuel, and mineral products decreased; The proportion of the group of processed industrial goods has grown highly, playing an important role, leading to an increase in the country's exports. The restructuring of commodity groups is in line with the roadmap for the implementation of the strategic goals of commodity import and export in the 2011-2020 period, with a vision to 2030.

Vietnam accelerating the process of international economic integration has broadened export markets, Vietnam's goods have reached most markets in the world. A lot of products have gradually gained their foothold and competitive ability in many markets with high-quality requirements such as the EU, Japan, the US ... The incentives of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and European-Vietnam Free Trade Agreement (EVFTA) are expected not only to make export opportunities but also to be motivational effects to boost domestic production.

## 1.2. Vietnam's economic growth in the period 2005-2019

In the period 2005 - 2010, Vietnam's economic growth showed signs of slowing down. In the first half of the period 2005 - 2007, macroeconomic instabilities began appearance. One of the main reasons for this situation is the economic stimulus policy through loosening credit too large since 2000 to counteract the economic slowdown.

Figure 2. Export value and economic growth of Vietnam in the period 2005 - 2019



Source: Summary data from IMF-IFS and GSO

In the period 2005-2010, Vietnam's economic growth rate fluctuated from 5% to approximately 9% per year. In this period, the growth was unstable and never reached two numbers due to some reasons: The first, Vietnam's economic dependence on the fluctuations of the world economy; The second, Vietnam's production factors lack stability; The third, in this period, the world economy faced with the economic and financial crisis starting in the US in 2008 as well as the public debt crisis of Europe 2010, which exerted a great impact on the Vietnamese economy. The effects on Vietnam's economy from global crises are inevitable because of the export-driven growth orientation, while the import remained very large for domestic production and consumption.

After a long period of economic recession, in recent years, Vietnam's economic growth showed signs of recovery. In 2017 the growth rate was 6.81%, this figure increased to 7.1% in 2018 and slightly reduced to 7.02% in 2019 (Chart 2). The openness of the Vietnamese economy has increased sharply, Vietnam's exports have increased rapidly with a high growth rate of over 15% in the period 2011-2019 and 2019 the export-import turnover milestone of over 500 billion USD. According to Government Electronic Newspaper (2019), after 25 years of joining ASEAN, more than 10 years of joining the WTO, Vietnam has become the 22nd largest export economy in the world.

## 2. The impact of exports on economic growth in Vietnam in the period 2005-2019

Some people have suggested that enhance in increasing exports is unlikely to contribute to a higher GDP growth rate if the other conditions remain unchanged, and/or some other prerequisites are not satisfied. Some researchs have shown the faint role of the exports to the GDP increased in some nations and groups of countries. The research team has not found any study showing an inverse relationship between exports and economic growth

In the case of Vietnam in recent years, the openness of the economy has increased, exports are an important part of Vietnam's economy and one of the important pillars contributing to economic growth. In 2010, exports reached only 71 billion USD, so far, they are expected to reach 255 billion USD. To find out the relationship between Vietnam's exports and economic growth in the period 2005 - 2019, the research team collected quarterly data of GDP at 2010 prices (GDPR) and the value of export turnover (X) of Vietnam in the period 2005 - 2019 (*with 60 observations*). The price fluctuations are excluded from export value by dividing the value of the export by the CPI. The export value, after excluding the volatility of price, is denoted ( $X_R$ ). The variables "GDPR,  $X_R$ ", after logarithmic are denoted "LGDP<sub>R</sub>, LX<sub>R</sub>" respectively. The econometric model is used to examine the impact of exports on economic growth, the results are shown in Table 1.

Table 1: The impact of exports on economic growth in Vietnam in the period 2005-2019

Dependent Variable: LGDP				
Method: Least Squares				
Date: 10/17/20 Time: 21:22				
Sample: 2005Q1 2019Q4				
Included observations: 60				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
LX <sub>R</sub>	0.808704	0.057305	14.11216	0.0000
C	8.916939	0.311091	28.66345	0.0000
R-squared	0.774453	Mean dependent var		13.29846
Adjusted R-squared	0.770565	S.D. dependent var		0.315613
S.E. of regression	0.151177	Akaike info criterion		-0.907971
Sum squared resid	1.325553	Schwarz criterion		-0.838160
Log-likelihood	29.23913	Hannan-Quinn criter.		-0.880664
F-statistic	199.1531	Durbin-Watson stat		2.617676
Prob(F-statistic)	0.000000			

Source: The result from analyze by Eviews 8 software

The results of data analysis by using Eviews 8 software in Table1 have shown the impact of exports on GDP in Vietnam in the period 2005 - 2019 with the following quarterly data series:

$$\text{LGDP} = 8.916939 + 0.808704 \times \text{LXR} + e$$

*The results have shown that:*

The independent variable (LXR) is statistically significant (P-value of this variable is 0.0000, less than 5%); Determination coefficient of model  $R^2 = 0.774453 > 0.6$ ; the value Prob (F-statistic) = 0.000000 < 5% demonstrated that the model is statistically significant

GDP<sub>R</sub> is affected by export value over time, in particular, coefficient  $b_2 = 0.808704 > 0$  has shown that in the case of remaining unchanged of other factors, a rising in export value will make GDP tend to increase. When the value of exports rises by 1%, the GDP will increase by 0.808704%. This result demonstrated export value and economic growth have a positive relationship, increasing export value contributes to economic growth, this is consistent with the theory, and with the case of the Vietnamese economy.

The model results have shown that the value of the export turnover explained 77.4453% of the variation of GDP<sub>R</sub>. According to the research team, this is also appropriate, because Vietnam's economy has a large openness, exports are an important factor contributing to economic growth.

Table 2. Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	0.038375	Prob. F(1,58)	0.8454
Obs*R-squared	0.039672	Prob. Chi-Square(1)	0.8421
Scaled explained SS	0.019947	Prob. Chi-Square(1)	0.8877

*Source: The result from analyze by Eviews 8 software*

The results from Table 2 showed that the model did not have defects in the variance of variation, values Prob > 0.05

Table 3. Breusch-Godfrey Serial Correlation LM Test

F-statistic	4.335157	Prob. F(2,56)	0.0178
Obs*R-squared	8.044167	Prob. Chi-Square(2)	0.0179

*Source: The result from analyze by Eviews 8 software*

The results from Table 3 showed that the model did not have correlation defects with significant at 1%, values Prob > 0.01.

Table 4. Variance Inflation Factors

Date: 10/17/20 Time: 21:23

Sample: 2005Q1 2019Q4

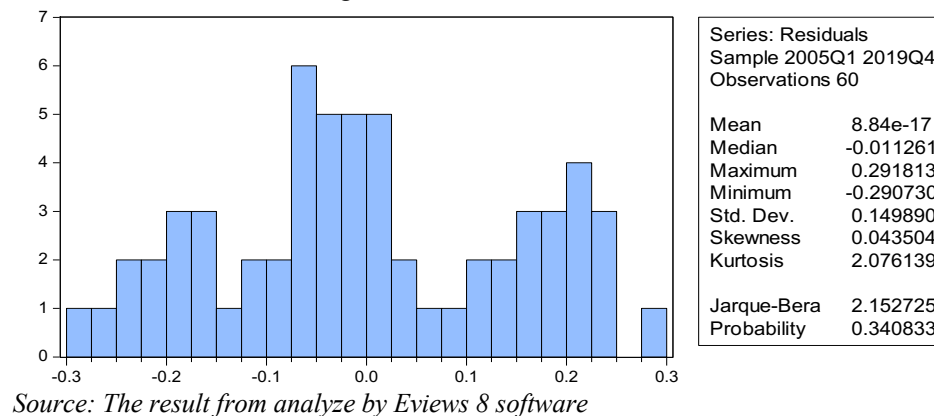
Included observations: 60

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
LXR	0.003284	254.0720	1.000000
C	0.096778	254.0720	NA

*Source: The result from analyze by Eviews 8 software*

The results from Table 4 showed that the model did not have multicollinearity defects, VIF values <2.

Figure 3. Standard distribution remainder



The results from Table 4 showed the normal distribution residue, Probability value = 0.340833 > 0.05.

It can be seen that the econometric model results support the view that exports play an important role in the growth of the Vietnamese economy in the period 2005 - 2019. In the coming time, there should be solutions to promoting export activities to support economic growth in Vietnam, especially in the context of many difficulties caused by Covid-19.

### 3. Some problems in Vietnam's export performance in the period 2005 - 2019

Although remarkable results have been achieved, there are still several issues that need to be resolved in the export activities in the 2005 - 2019 period.

*Firstly, the added value of export products is not high, the export efficiency of some products is not commensurate with the potential.* Small-scale and scattered export enterprises, outdated production technology, limited management, and business capacity, and poor competitiveness compared to international competitors. The main export products of Vietnam are in basic commodity groups, such as petroleum and minerals, agricultural products, textiles, footwear, seafood, furniture, and electronics ... These products are exported mainly in the form of raw or preliminary processing, leading to low added value. Besides, these products are labor-intensive, but on the trend of no longer growing rapidly in the world, besides, they are very easily affected by the lowering of costs from competitors in the region with low labor costs.

*Secondly, the structure of exports is not diversified, the localization rate of raw materials is low.* Although the structure of export goods has gradually changed from exporting raw materials to the group of industrial products, it is still the processing type. Notwithstanding that the localization rate has gradually increased, businesses need to meet the strict requirements of quality, technical standards, and the localization of raw materials to ensure the conditions for enjoying preferential tax rates.

*Thirdly, Vietnam enterprises have not built a close link in the supply chain for export goods.* The linkage between raw material producers, processing enterprises, and exporters have not been established effectively to contribute to stabilizing raw material sources and to create proactive in regulating export volume. The formulation, promulgation, and application of technical standards to exported goods is limited

*Fourthly, the export strategy is not linked to the exploitation of strengths in agriculture.* Vietnam is a country where agriculture accounts for a large proportion with quite diverse products. However, Vietnam is facing the risk of losing its advantages of tropical monsoon agriculture in global competition. Currently, Vietnam's exports are mainly competitive in terms of quantity and price, especially agricultural products, including livestock, farming, and aquatic products. But Vietnam's agriculture does not pay attention to quality standards and food hygiene and

safety for agricultural products. Therefore, Vietnam's agricultural products are difficult to penetrate large markets. The work of building brand names and improving product quality has not been given due attention, so it is easy to encounter market risks.

*Fifthly, exports focus on some familiar markets, with poor product categories.* The coordinating role of the industry associations is not effective, leading to unfair competition. Besides several pioneering enterprises and FDI enterprises have stable export markets, built up a reputation in export activities, most Vietnamese enterprises do not build their stable market; have not actively grasped, learned, and researched the world market, and are not confident enough in investing in export promotion and exploitation market. Due to these reasons, not only the competitiveness of enterprises and products is not high but also limit the ability to access and expand the market.

*Sixthly, trade promotion, and finding out new markets are not effective.* Although the current economic policies are export-oriented, the State's investment in trade promotion and market research is still inadequate; The Ministry of Industry and Trade and the industry associations have organized many trade promotion activities in key markets with the State's funding support, but a lot of enterprises are still hesitant and lack the confidence to participate and exploit opportunities to expand their market

#### **4. Challenges and opportunities for Vietnamese export activities in the context of the COVID-19 epidemic**

##### **4.1. Challenges for Vietnamese export activities**

The COVID-19 epidemic is still complicated in many areas of Europe, America, ASEAN, the Middle East ... The application of measures to limit travel, temporarily close immigration, and limit in gathering, buying with large numbers of people as well as activities in commercial centers ... that cause the demand for goods such as textiles, footwear, wooden products ... to decline sharply.

Due to the effects of the Covid 19 epidemic, many importers of Vietnam's goods have announced to postpone orders with the application of force majeure terms and temporarily not negotiated for year-end orders, which makes Vietnam facing difficulties for the output market, especially with two main export markets, the US and the EU. Cancellation and postponement of long orders and not being able to sign new orders makes exporters face difficult to pay salaries to workers, suppliers, rent space, pay interest on bank loans

Besides, Vietnam as well as many countries restrict travel, reduce international flights to and from, and recommended limiting in the face to face meeting has seriously affected transactions and work between individuals. Vietnamese enterprises with foreign partners, especially for activities that require direct work exchange. Moreover, difficult and slow clearance activities due to disease control have increased costs and time for exporters. Meanwhile, due to the decrease in demand, the prices of key export products of Vietnam also decreased at the same time, which greatly affected the performance of exporters.

The trend of reducing global trade value happens while the world economy is at the end of a growth cycle with the impact of the US-China trade war, now adding the impact of the COVID-19 epidemic. This downtrend will take place in the medium term and have a strong impact on the global economy. Vietnamese exporters may face disruptions to the global trade supply chain and greatly affect their production and business situation.

##### **4.2. Opportunities for Vietnamese export activities**

Although facing many challenges posed to Vietnam's export activities in the context of the COVID-19 epidemic, Vietnam's merchandise export also has positive expectations in the near future. Incentives under the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the European-Vietnam Free Trade Agreement (EVFTA) are expected to have a boost to domestic production.

**For the EU market**, thanks to the opening commitments in the EVFTA Agreement, Vietnam is expected to export to the EU market to achieve a decent growth of over 20% by 2020, this increase will continue in the following

years. Seafood is a commodity with many competitive advantages in the EU market, which is expected to be the most benefiting item from EVFTA. Seafood export turnover to the EU accounts for about 15% of the total seafood export turnover of Vietnam. EU is the second-largest seafood export market of Vietnam after the United States. The EVFTA Agreement comes into effect, a lot of tariff lines will be cut, and Vietnam's seafood products will compete with those of other countries, which contribute to boosting seafood exports of Vietnam in this potential market. Export of agricultural and forestry products to the EU accounts for about 13% of the total export turnover of agricultural and forestry products of Vietnam, the effective EVFTA is an opportunity to bring Vietnamese agricultural products to this market. It is forecasted that in 2021, the export of agricultural products to the EU will increase by about 10% of the total export turnover to the EU

In addition, the EVFTA Agreement has opened new opportunities for pangasius exporters. To take advantage of, businesses need to prepare before the tax rate of pangasius will drop to 0% in the next 3 years. In the short term, the whitefish processing factories in China have not still run leading to a shortage of whitefish supply, especially in the EU market, this is also an opportunity for Vietnamese pangasius businesses in the context of epidemic COVID-19 still complicated.

Furthermore, the Forest Law Enforcement, Governance, and Trade Voluntary Partnership Agreement is approved, facilitating the export of timber and timber products to the EU. These are factors that help create growth drivers, remove difficulties for export activities in the coming time.

**For the Countries in the CPTPP market.** In the first quarter of 2020, despite facing the COVID-19 epidemic, exports to the nations in CPTPP had fairly good growth, especially in some markets that had not previously had FTAs such as Canada, Mexico ... Specifically:

With the Canadian market, according to the latest statistics of the Import and Export Department of the Ministry of Industry and Trade (2020), in the first 3 months of 2020, Vietnam's exports to Canada are estimated at 858 million USD, up 4.2% over the same period with many key export products such as telephones and components, textiles, footwear, seafood, tea, pepper, cashew nuts, coffee, furniture

With the Mexican market, export value to the Mexican market also reached more than 727 million USD, up 46.5% over the same period in 2019. The main exported products are computers, electronic products, and components, phones of all kinds and components, footwear, textiles ...

With the Singapore market, exports from Vietnam to the Singapore market increasing strongly due to Singapore's efforts and urgent diversification of supply sources and production materials, in the context of an interrupted supply from the Chinese market. Singapore considers Vietnam to be one of the key markets to help it offset the shortage of goods, especially agricultural products, seafood, construction

**For the US market.** At the end of 2019, the US Department of Agriculture (USDA) officially confirmed Vietnam's pangasius management and monitoring system equivalent to that of the US. This affirmed that Vietnam's capacity to control quality and food safety in pangasius production and export chains has met one of the most stringent requirements, it provides opportunities for Vietnamese pangasius products to approach and expands export markets easier not only in the US but also in other fastidious markets. In particular, the anti-dumping tax rate on the US market decreased, the results of the equivalent recognition of the food safety management and control system on pangasius announced by the US Department of Agriculture are a favorable basis that helps Vietnam's seafood products improve their competitiveness

**For the Chinese and Japanese markets.** Export activities to China and Japan have shown signs of recovery since March because the disease situation in these countries is gradually being controlled. The gradual easing of export activities will be an opportunity for Vietnam to export agricultural and aquatic products to these markets in the coming time.



The COVID-19 epidemic puts great challenges to the trend of globalization and international integration. However, Vietnam needs to make the most of the benefits from the new generation of free trade agreements, turning challenges into opportunities, and we fully believe in achieving double victories in 2020: Medium the COVID-19 epidemic has been successfully prevented and prevented, both develop socio-economic and maintain the reasonable growth rate.

### **5. Some recommendations to boost Vietnam's exports, support economic growth in the context of the Covid-19 pandemic**

Base on research on the impact of exports on growth, studying the actual situation of exports in the period 2005-2019, studying opportunities and challenges for Vietnam's export activities in the context of Vietnam participates in the new generation of free trade agreements and the impact of the COVID-19 pandemic, the research team has proposed several ways to promote Vietnam's exports in the coming time:

The Ministry of Industry and Trade needs to promptly provide information to enterprises and commodity lines to proactively formulate a plan to overcome the difficult period and recover after the epidemic has been controlled. It is necessary to continue to synthesize, study, and evaluate the effects of COVID-19 epidemic prevention measures, which are responsible for difficulties in the trade, and limit entering in major export markets, thereby making forecasts impact on commodity groups, products and propose measures to support enterprises

To review and select alternative markets capable of supplementing the decline in export turnover to the Chinese market, to plan trade promotion accordingly. Support businesses to find new, potential markets, such as India, Sweden ... Take advantage of opportunities from the EVFTA Agreement to promote production, especially seafood products; linking production with processing and consumption; support enterprises to take advantage of opportunities, set up plans to expand the seafood market, especially when the tax rate of pangasius will be reduced to 0% in the next 3 years. Besides, encourage investment in fruit trees, perennial industrial crops; plant and take care according to technical processes to get high economic efficiency, ensure traceability for agricultural products imported to European countries.

Restructuring production and commodity export markets, focusing on producing products that meet high standards, building the origin of goods and geographical indications. It is important to continue to take advantage of the CPTPP Agreement in the context of the COVID-19 epidemic. Negative impacts from the COVID – 19 pandemics, although affecting Vietnam's exports, this time is also a "waiting period" for Vietnam to continue to review the legal system and amend the legal documents on CPTPP implementation, capacity building for the enterprises.

Restructuring export markets in the direction of market diversification, to avoid dependence on one market and one partner; to take advantage of exports to potential markets. To attach importance to developing new export products and environmentally friendly export products. Disseminate, consult and train production and export enterprises on the application of goods quality standards of foreign markets.

Building scenarios and forecasting the impact of trade in general and international trade in particular on the development and growth of Vietnam's economy to promptly make decisions and operating mechanisms; promptly provide information to businesses and industries to actively build a plan for a balanced using their resources to overcome the difficult period and recover after the epidemic has been controlled.

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