

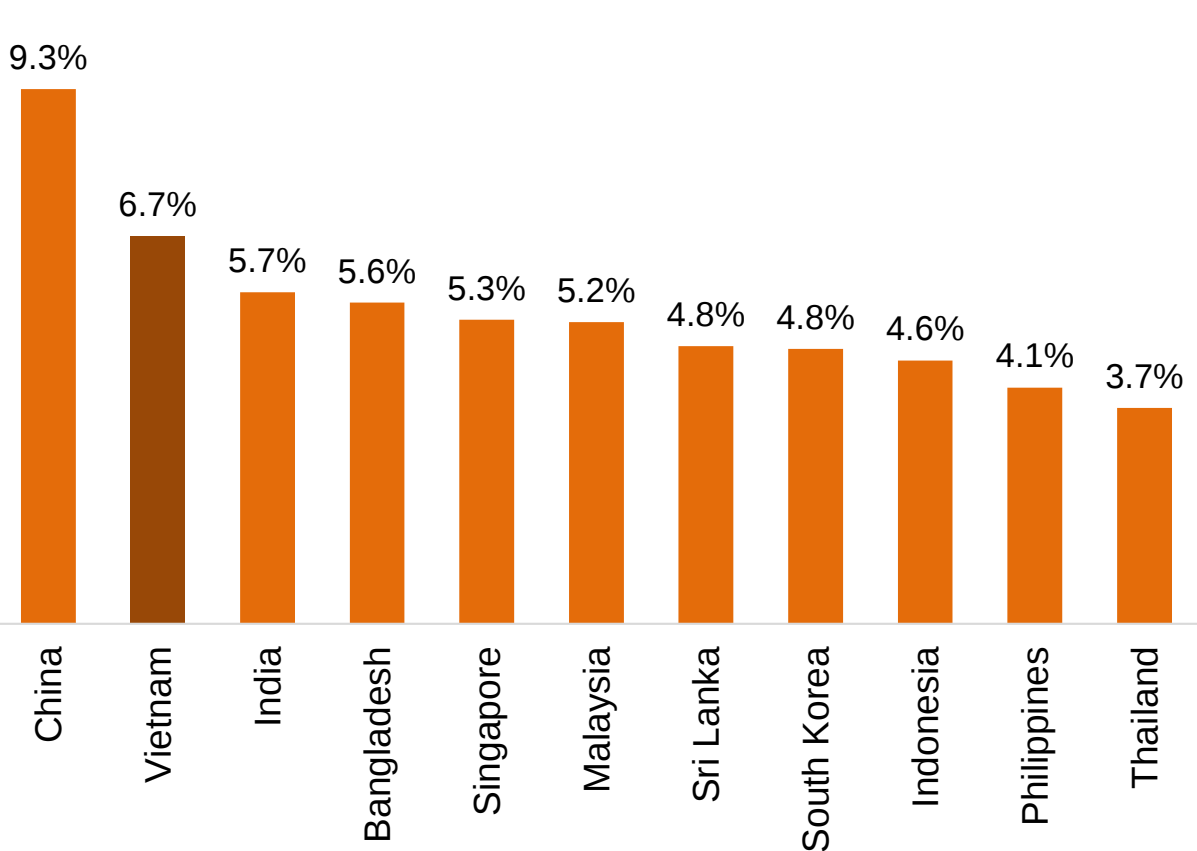
Vietnam: Navigating the Geopolitical Tension with a New Industrial Policy

**Nguyen Xuan Thanh
Fulbright School of Public Policy and Management
Fulbright University Vietnam**

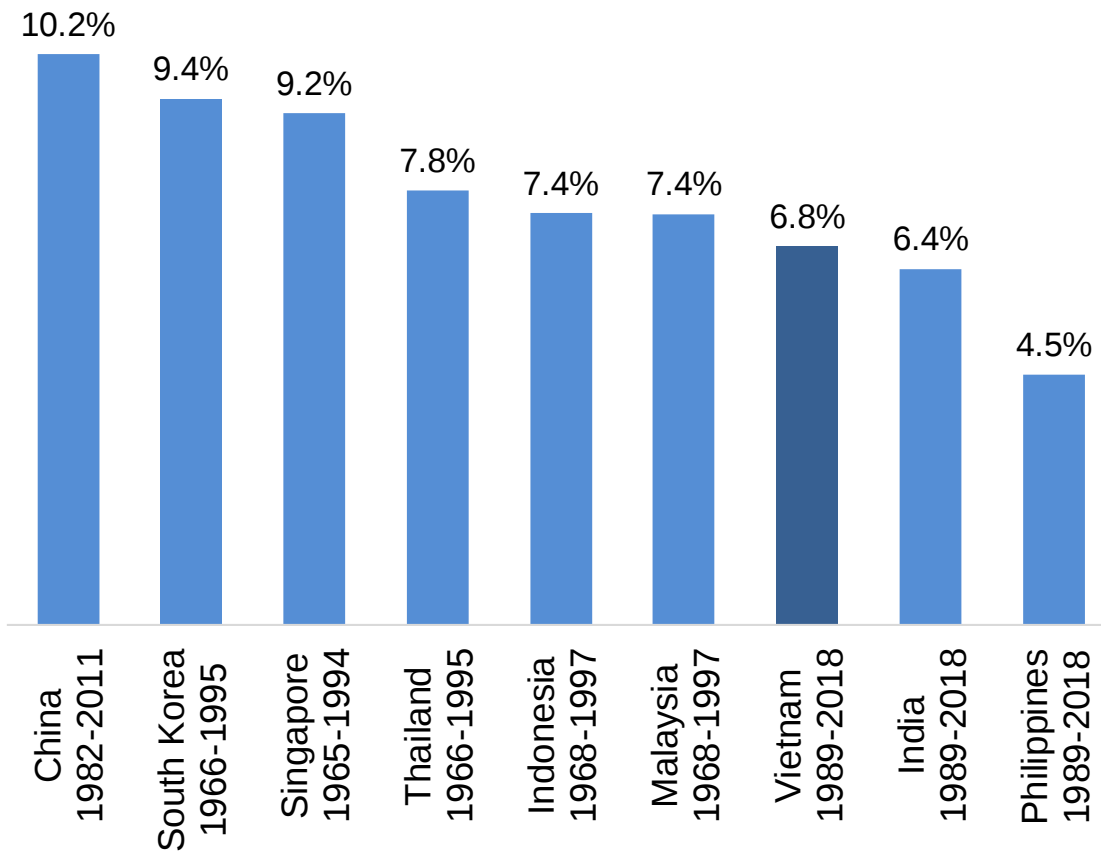
Singapore, 9 January 2025

Economic Growth in the Last 30 Years

A Glass Half Full: Viet Nam was the second fastest growing economy in the last 30 years (1991-2020)



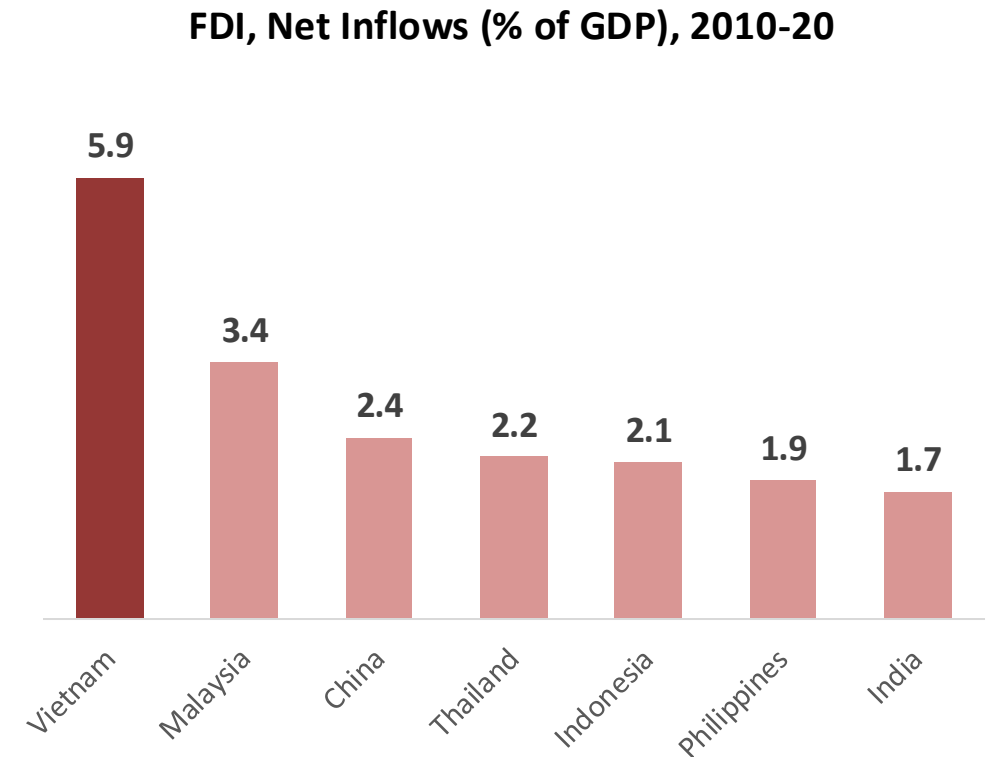
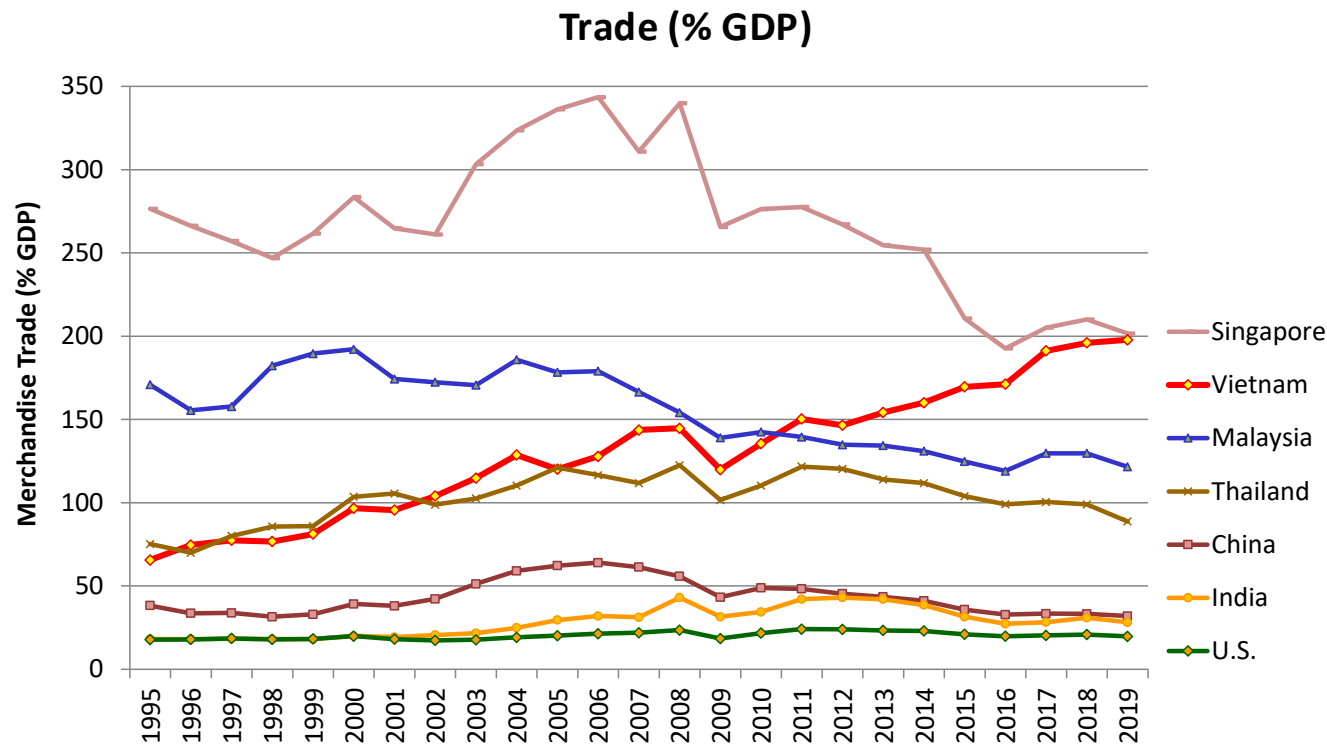
A Glass Half Empty: Viet Nam was significantly behind East Asian economies that achieved rapid growth in a 30 year period.



Source: World Bank, World Development Indicators

Economic integration, openness, and FDI have been instrumental to sustain Vietnam's fast economic growth

Vietnam is now a highly export-oriented and FDI-driven open economy.
But Vietnam is facing a more difficult global environment with rising geopolitical tensions.



Source: World Bank's World Development Indicators

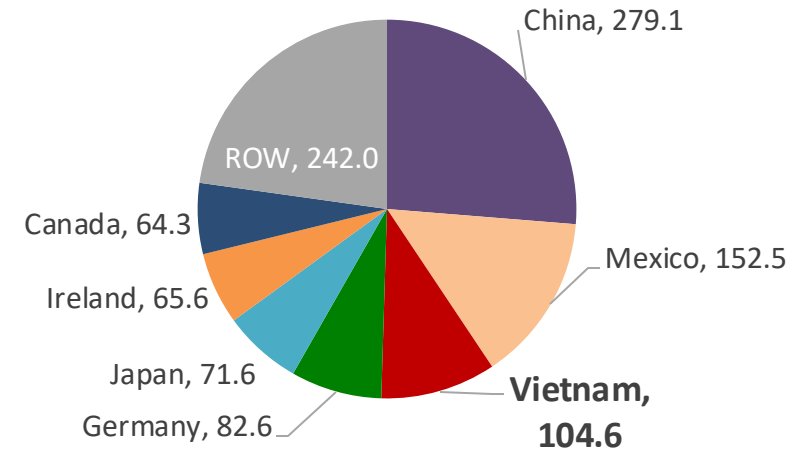
Responding to Geopolitical Challenges

- Painful past experience of choosing side
- Being neutral is a de-risking strategy
- Diplomacy: Maintain neutrality and intensify ties with all major powers
- Defense: “Four No’s” defense policy
 - No military alliance
 - No foreign military base
 - No alignment with one nation against another
 - No use or threat of force
- Two Strategic Decisions in 2023
 - Upgrade relationship with the U.S. to “Comprehensive – Strategic Partnership”
 - Join China’s Community of Shared Future

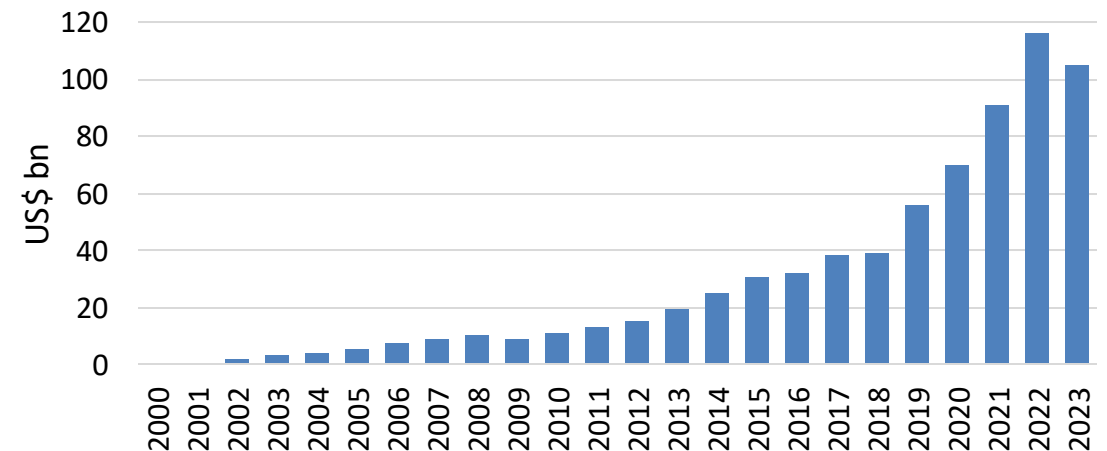
Short-Term Challenge: Managing Trump's Tariffs

- Preparing for a 10-20% across-the-board tariff on all imports and from all trading partners.
- Managing trade diversion
 - Higher tariff on China (60%) causing more trade diversion.
 - Being transparent and cooperative with the U.S. in preventing transshipment.
- Vietnam can be a target given its fast rising surplus of trade in goods with the U.S.
 - Commitment to import more from the U.S. (agricultural products, heavy machinery, aircraft, military hardware, and LNG).
 - More market-based management of the exchange rate.
 - Closer cooperation in security.
 - Connection with the new officials/advisors.

U.S. Trade Deficit in 2023, US\$bn



U.S. Trade Deficit with Vietnam



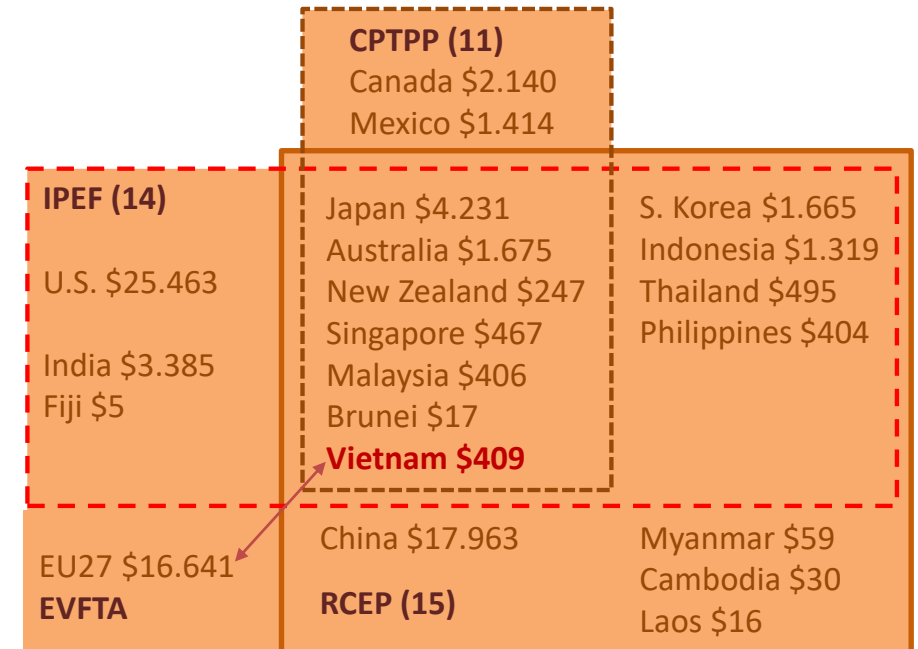
Source: USITC Data Web

Medium-term: The Need for A New Industrial Policy

- Vietnamese policymakers' view: The government's capacity to manage global and regional geopolitical tensions will put Vietnam in a strong position to benefit from friendshoring and shifts in global supply chains.
- Successful implementation of existing free trade agreements (FTAs).
- Past experience with industrial policy
 - Failures of picking winners (e.g. shipbuilding industry with the collapse of state-owned Vinashin)
 - Serious corruption linked with provision of state Vina shin subsidies.

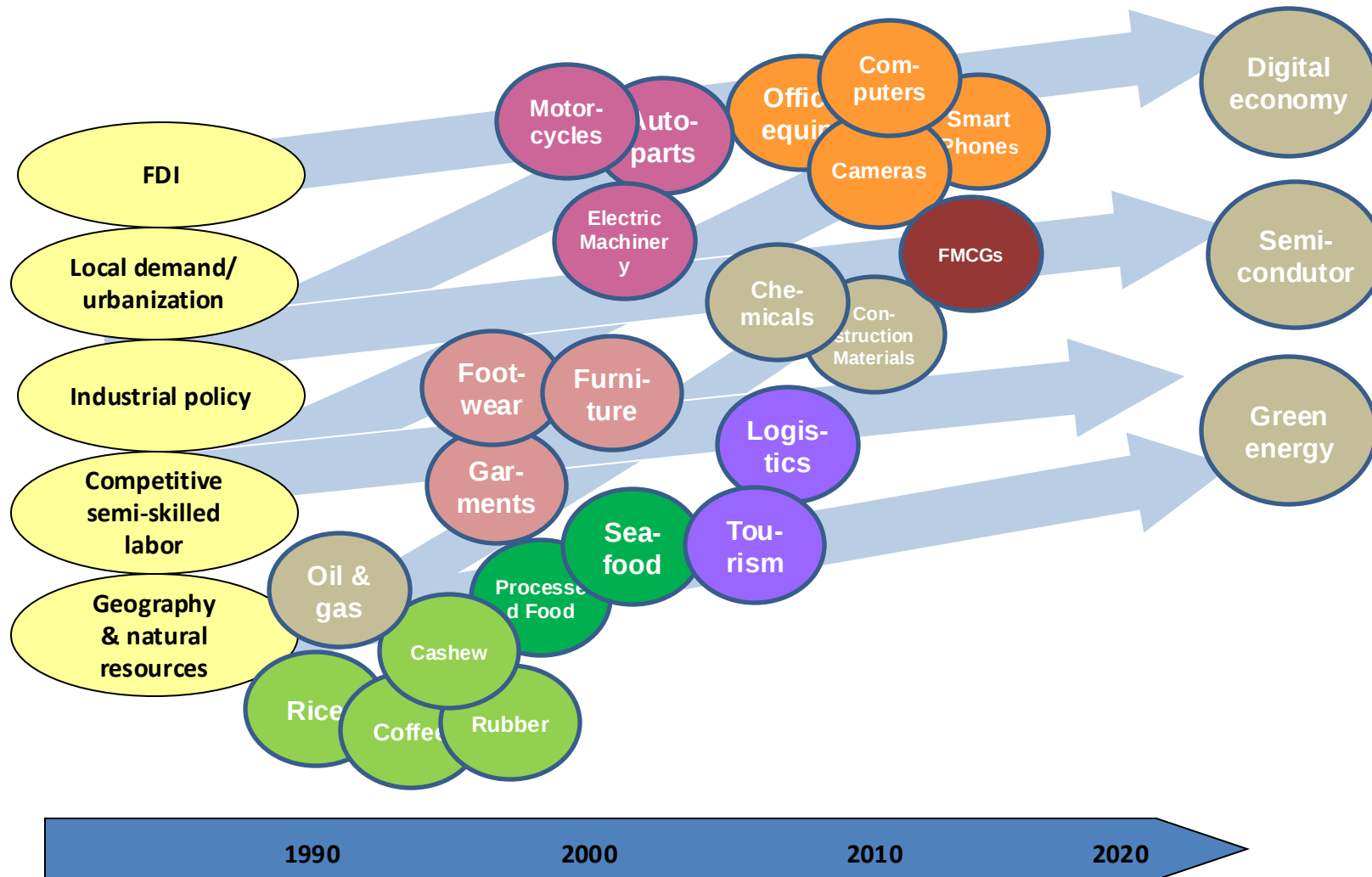
Vietnam still want its existing FTAs to be the foundation for future economic development

Economic Agreements (GDP 2022, \$bn)



Focus of the New Industrial Policy

The Evolution of Industrial Clusters in Vietnam



- Digital economy and semiconductor industry
 - Strategic considerations (e.g. U.S.'s Chip Act)
 - Open to all partners with "friendshoring" strategy for manufacturing
- Green energy
 - An area that will have broad-based international support
 - Facilitate domestic sustainable energy transformation
 - Current domestic policy fragmentation
- Infrastructure development
 - There is enough fiscal space to boost public investment for infrastructure
 - Uncertainty with private sector participation and public private partnerships.
 - Pressure from China to be more active in BRI (e.g. railways).

Semiconductor Industry

- Foreign direct investment
 - Vietnam is still only attractive to the assembly, test and package (ATP) plants in the value chain
 - Want to attract fabrication plants, but does not have competitive supporting infrastructure and services
 - The Government of Vietnam cannot provide large subsidies to attract investment in semiconductor.
- Policy priorities
 - Human resource development in AI and electronics engineering
 - Startups in chip design
 - Infrastructure for the digital economy

Conclusion

- There is a very strong political consensus to continue the policy of “neutrality” in the face of rising geopolitical tensions: Vietnam will not choose side.
- Given the past failures of picking winners and current political aversion to provision of large subsidies, the essence of Vietnam’s industrial policy is to leverage existing free trade agreements, push for closer supply chain collaborations with all partners, and seek external funding for sustainable infrastructure development.
- Vietnam’s de-risking strategy will make its economy even more dependent on both the U.S. and China.