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TAKING STOCK

Recent Economic Developments of Vietnam

Special Focus: Vietnam's Tourism Developments:

Stepping Back from the Tipping Point-Vietnam's Tourism
Trends, Challenges, and Policy Priorities



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THE WORLD BANK

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ACRONYMS AND ABBREVIATIONS

ASEAN	Association of Southeast Asian Nations
CIT	Corporate Income Tax
CO	Certificates of Origin
CPI	Consumer Price Index
EAP	East Asia and Pacific
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GDC	General Department of Customs
GSO	General Statistics Office
ITDR	Institute for Tourism Development Research
IMF	International Monetary Fund
MCST	Ministry of Culture, Sports and Tourism
MOF	Ministry of Finance
MOIT	Ministry of Industry and Trade
MOLISA	Ministry of Labor, Invalids and Social Affairs
MPI	Ministry of Planning and Investment
ODA	Official Development Assistance
OOG	Office of Government
PMI	Purchasing Manager Index
PPP	Purchasing Power Parity
ROO	Rules of Origin
SBV	State Bank of Vietnam
SOEs	State-owned Enterprises
SEGs	State Economic Groups
SGC	State General Corporations
CPTPP	Comprehensive Progressive Trans Pacific Partnership
VAMC	Vietnam Asset Management Company
VASS	Vietnam Academy of Social Sciences
VAT	Value Added Tax
VHLSS	Vietnam Household Living Standards Survey
VNAT	Vietnam National Administration of Tourism
WB	World Bank

EXECUTIVE SUMMARY

Recent Economic Developments

The external environment has deteriorated during the first half of 2019, and downside risks predominate in the near-term. Global GDP growth is projected to decline to 2.6 percent in 2019 from 3 percent in 2018, reflecting broad-based weakness in advanced economies and major Emerging Market and Developing Economies. Reflecting slower growth and heightened policy uncertainty associated with protected trade tensions, global trade growth is protracted to weaken further from 4.1 percent in 2018 to 2.6 percent in 2019. Downside risks include a further escalation of trade disputes between the world's two largest trading nations, while a more pronounced downturn in global activity and increased volatility in financial flows.

Amidst rising global headwinds, Vietnam's economic growth momentum has been slowing since the beginning of the year. Vietnam's real GDP growth has decelerated to a still robust 6.8 percent in the first quarter of 2019 from a vibrant 7.5 percent pace in the same period of 2018. Slower growth reflects several factors. Agricultural output decelerated due to the outbreak of African swine fever and a decline in international prices. Weaker external demand moderated growth of the export-oriented manufacturing sector as well as overall export performance, even though Vietnam seems to have benefitted from some trade diversion due to the ongoing trade tensions between China and the US. Domestic investment appears to be slowed resulting from subdued credit growth and continued consolidation in public investment. Other macroeconomic indicators, such as more sluggish credit growth, subdued inflation and slower import growth are further signs of a cyclical moderation in economic activity. In contrast, service sector activity continues relatively strong, signaling sustained buoyancy in private consumption.

Despite a recent uptick in headline inflation, price pressures have remained subdued as credit growth moderated. The headline CPI rose by 2.9 percent (y/y) in May 2019, up slightly from 2.6 percent in January 2019, driven by hikes in administered prices (for electricity and fuel) and moderate food price increases. The State Bank of Vietnam maintained a prudent monetary policy stance to support its twin goals of sustaining macroeconomic stability and supporting overall economic growth. Credit growth is estimated to have slowed to about 13 percent (y/y) in March 2019 reflecting tighter credit policies.

Sustained fiscal discipline and robust growth supported a further decline in Vietnam's public debt-to-GDP ratio. The public debt-to-GDP-ratio has fallen from a peak of 63.7 percent in 2016 to an estimated 58.4 in 2018, based on the Ministry of Finance's definition, and is on track to continue to decline and remain below the legislated debt-ceiling of 65 percent. Taking advantage of favorable domestic market conditions, rising investor confidence and lower yields, the government has continued to shift into longer-dated domestic debt instruments, while also reduced the average interest rate.

Outlook and risks

Despite signs of cyclical moderation in growth, Vietnam's outlook remains positive. After peaking at 7.1 percent in 2018, real GDP growth in 2019 is projected to decelerate by 0.5 percentage points, led by weaker external demand and continued tightening of credit and fiscal policies. Nevertheless, real GDP growth is projected to remain robust with a slight deceleration to 6.5 percent in 2020 and 2021 (Table 1). While core inflation is expected to be contained by slower growth, further adjustments in administered prices (utility tariffs, health and education services) as well as the impact of swine fever and slower agricultural production on food prices will keep headline inflation at current levels but below the official inflation target of 4 percent. The current account surplus is expected to decline as a share of GDP, reflecting a significant fall-off in external demand. Continued fiscal restraint is expected to support further incremental reduction in the budget deficit and public debt-to-GDP over the forecast horizon.

Selected Economic Indicators

	2017	2018	2019	2020	2021
GDP growth (%)	6.8	7.1	6.6	6.5	6.5
Consumer price index (annual average, %)	3.5	3.5	3.7	3.8	3.8
Current account balance (% of GDP)	2.1	2.3	2.0	1.4	1.4
Fiscal balance (% of GDP), MOF	-2.7	-2.5	-2.5	-2.3	-2.2
Public debt ¹ (% of GDP)	61.4	58.4	58.3	58.0	57.6
Public debt ² (% of GDP)	58.2	55.6	54.4	53.3	52.5

Source: Government of Vietnam, IMF and WB.

Risks have intensified, reflecting heightened global uncertainty amid re-escalation of trade tensions and rising financial volatility. A further escalation of global trade tensions, heightened global and regional geopolitical uncertainty and rising volatility in the global financial markets could disrupt trade and financial flows and lead to a further slowdown growth outturns. Those external risks are compounded by domestic vulnerabilities, including potential slippages in fiscal consolidation, SOE and banking sector reform could undermine investor sentiment and growth prospects.

Vietnam needs to prepare to adjust macroeconomic policies in case some of these risks materialize and lead to a deeper than expected downturn. Against the backdrop of a strong cyclical recovery over the last few years, Vietnam started to tighten credit and fiscal policies to rebuild policy buffers. While growth has so far remained robust, a further deterioration of economic activity may call for an adjustment in the macroeconomic policy stance towards more accommodative monetary policy possibly supported by some fiscal stimulus. In addition, deeper structural reforms, including regulatory, SOE and banking sector reforms remain critical to boost investor confidence in the short term and raise potential growth in the medium term. To support long term fiscal sustainability, authorities should focus on stabilizing revenue generation and on enhanced spending efficiency. To address heightened uncertainty and increased global trade tensions, policy-makers should continue to focus on enhancing Vietnam's export competitiveness, and further deepening trade integration through bilateral and regional agreements (such as with the EV-FTA and the recently ratified CPTPP).

¹ Vietnam's Ministry of Finance's criteria.

² The IMF's definition.

Special Focus on Vietnam's Tourism Developments: Stepping Back from the Tipping Point-Vietnam's Tourism Trends, Challenges, and Policy Priorities

Vietnam has been experiencing a tourism boom for most of the past decade, establishing itself as one of Southeast Asia's top tourist destinations. The country has capitalized on surging global and regional demand, successfully captured market share from its Southeast Asian competitors, and, over the past 3 years, achieved record growth in both international and domestic visitors. More than 15 million foreigners now visit Vietnam each year, compared to only 4 million a decade ago, alongside roughly 80 million domestic traveler-trips, which have similarly quadrupled in number over the past 10 years.

The spending by these visitors has translated into rising employment and incomes for workers and firms in Vietnam's tourism sector, including for relatively poorer localities and segments of the population. By 2017, tourism directly accounted for 8 percent of Vietnam's GDP (with additional contributions via indirect multiplier effects), and was the country's single largest services export. Due to its tendency to employ high shares of low-skilled, rural, and youth workers, tourism has also had high pass-through effects on poverty reduction and in Vietnam. In the process, it also appears to have facilitated some redistribution of income from richer to poorer localities in Vietnam. As such, the sector's continued growth is viewed by the government as a strategic priority and an important contributor to Vietnam's socio-economic development.

The sector's rapid expansion, however, has brought it to a tipping point in its development, where continued growth, if not well managed, could have adverse economic, environmental, and social impacts. Rapid visitor growth has been achieved, in large part, through a shift to a lower-spending visitor mix, a continued emphasis on mass market tourism products, and increased concentrations of visitors into already-crowded and popular local destinations. This has exposed Vietnam's vulnerabilities in infrastructure capacity, tourism human resources, and environmental sustainability. If left unchecked, this profile of tourism growth risks diminishing its economic impacts, degrading natural and cultural tourism assets, and eroding local community support for tourism amidst perceptions that benefits don't sufficiently exceed the costs.

To ensure the long-term sustainability of the sector, strategic choices need to be made regarding the preferred pace, composition, and geographic balance of its future growth, and supported by decisive policy measures and investments in several areas. Key priorities include: (i) enhancing coordination of destination planning and product development, (ii) diversifying tourism products and visitor source markets, (iii) developing tourism workforce skills, (iv) strengthening local tourism value chain linkages, (v) improving visitor flow management, (vi) boosting destination infrastructure capacity and quality, and (vii) protecting environmental and cultural assets. Implementing these measures will require coordinated efforts by a wide range of public and private stakeholders, reflecting the transversal nature of the tourism sector and the wide variety and geographic dispersal of Vietnam's tourism destinations.

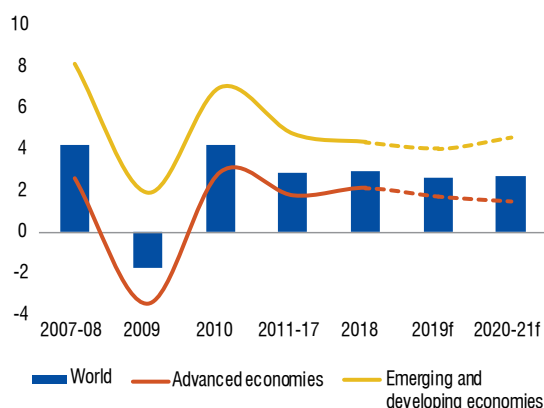
SECTION I

RECENT ECONOMIC DEVELOPMENTS



I.1 EXTERNAL ECONOMIC ENVIRONMENT AND GLOBAL GROWTH PROSPECTS³

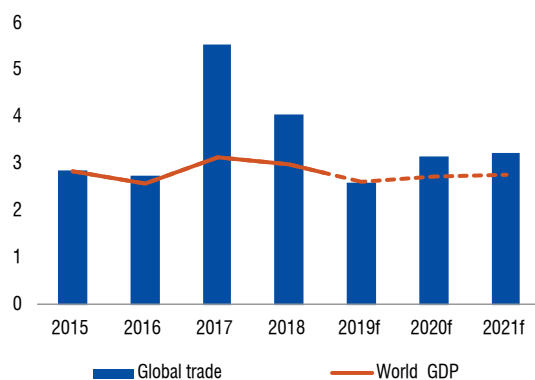
Figure I.1: Global GDP growth (%)



Source: World Bank.

4.6 on average in 2020-21. This forecast is largely predicated on the waning impact of earlier financial pressures currently weighing on activity in some large EMDEs (e.g., Argentina and Turkey).

Figure I.2: Global trade and GDP growth (%)



Source: World Bank.

being implemented in China and, to a lesser degree, the Euro Area, as well as firming domestic demand in some EMDEs. This modest projected rebound notwithstanding, global trade is expected to be weaker than previously envisaged over the forecast horizon, reflecting a softer outlook for global investment and evidence of a lower income elasticity of trade.

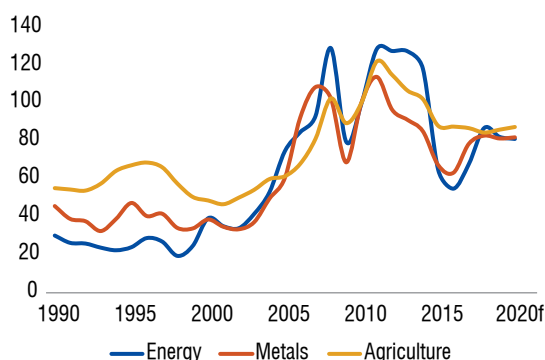
I.3 Global financing conditions are expected to remain volatile. This reflects a more accommodative monetary policy stance adopted by major central banks in the near term aimed at mitigating the deterioration in global growth prospects. Despite the recent recovery of EMDE markets from the 2018 correction episode, there is still considerable risk of “monetary shocks” associated with heightened global policy uncertainty. Financial market volatility will continue to have the strongest impact on countries with high vulnerabilities, such as weak growth prospects, high public debt levels, elevated policy uncertainty, and corporate and banking sector balance sheet exposures. Policy uncertainty, geopolitical risks, and

I.1 Following a projected deceleration in 2019, global GDP growth is expected to edge up to 2.7 percent in 2020 and to 2.8 percent in 2021 led by a recovery in emerging and developing countries (figure I.1). Global economic growth is projected to slow to 2.6 percent in 2019 from 3 percent in 2018, reflecting a broad-based weakness in advanced economies and major Emerging Market and Developing Economies (EMDEs) at the start of the year. Growth in advanced economies is projected to moderate from 2.1 percent in 2018 to 1.7 percent in 2019 and 1.5 percent on average in 2020–2021 toward its potential rate, as capacity constraints become more apparent and labor markets tighten. Growth in EMDEs is projected to slow to 4.0 percent in 2019 from 4 percent in 2018, before recovering to

I.2 Despite the projected uptick in global growth, external economic conditions are expected to remain challenging over the forecast period through 2021. The increase in tariffs by the United States and China that were announced in May 2019 are likely to have more pronounced effects than tariff hikes implemented in 2018. Beyond economic losses for the affected exporters, the re-escalation of trade tensions is contributing to heightened policy uncertainty, which is expected to dent confidence and investment. Barring a renewed escalation of trade tensions, global trade growth is projected to weaken further from 4.1 percent in 2018 and 5.5 percent in 2017 to 2.6 percent in 2019, and then stabilize to an average of 3.2 percent in 2019-21 (figure I.2). This forecast is predicated on new stimulus measures

³ This part is prepared by Ekaterine Vashakmadze (GMTPG, World Bank).

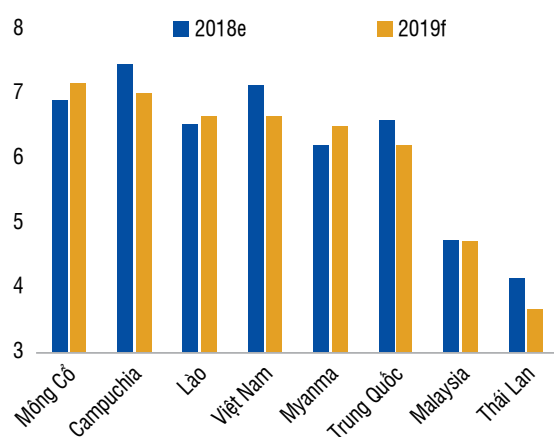
Figure I.3: Commodity price forecast
(Index=nominal U.S. dollars, 2010=100)



Source: World Bank.

further escalation of trade tensions between China and the United States, slightly lower commodity prices, and supportive global financing conditions, especially in the near term. The baseline forecast also assumes that authorities in China successfully calibrate supportive monetary and fiscal policies to address external challenges and other headwinds, as mentioned above. Growth in China is projected to slow to 6.2 percent in 2019, and to ease further to 6.1 percent in 2020 and 6.0 percent in 2021 amid continued domestic and external headwinds (figure I.4). Growth in the rest of the region is projected to decline to 5.1 percent in 2019 from 5.2 percent in 2018, before inching up to 5.2 percent on average in 2020-21, on the assumptions of a stabilization in global trade and resilient domestic demand to offset the negative impacts of slowing exports. While growth in the region is projected to remain robust in the near term, underlying potential growth—which has fallen considerably over the past decade, in large part reflecting slowing potential growth in China—is likely to decline further over the long term, largely owing to deteriorating demographic trends, especially in China, Thailand, and Vietnam.

Figure I.4: EAP Regional growth forecast (%)



Source: World Bank.

security concerns could also continue to adversely impact EMDE capital inflows. Oil prices are expected to average \$66/bbl in 2019 and \$65/bbl in 2020, with high uncertainty around the forecast. Overall, metals prices are expected to decline slightly in 2019 and 2020, reflecting a weaker outlook for global metal demand. Agricultural prices are expected to decline in 2019 and stabilize in 2020 (figure I.3).

I.4 Real GDP growth in the East Asia Pacific (EAP) region

is projected to slow from 6.3 percent in 2018 to 6 percent in 2019, and to ease further to 5.8 percent in 2020-21. If realized, this will mark the first time since the 1997-98 Asian financial crisis that EAP growth will drop below 6 percent. This outlook is predicated on a deceleration in global trade, no

I.5 Risks have recently intensified, reflecting the re-escalation of trade tensions amid heightened global uncertainty, and remain firmly tilted toward the downside. There is considerable uncertainty around the outlook for the global economy. Although unlikely in the near term, the simultaneous occurrence of a sharper-than-expected slowdown in China, Euro Area, and the United States could trigger a significant downturn in global activity. The further escalation of trade tensions could be highly disruptive to global activity in the context of complex and markedly integrated global value chains. The risk of severe and broad-based financial stress adversely affecting the outlook for EMDEs remains high amid elevated debt levels in many countries. Policy uncertainty and geopolitical risks remain high and could negatively impact confidence and investment in both the directly affected countries and globally.

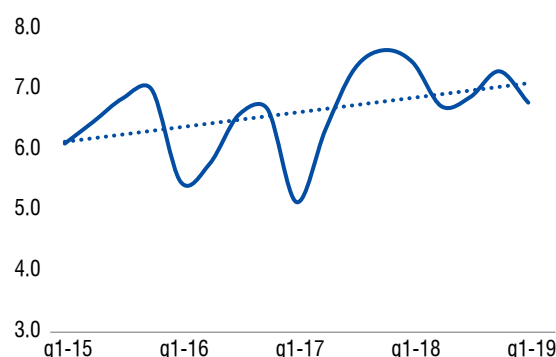
I.2. RECENT ECONOMIC DEVELOPMENTS IN VIETNAM

Vibrant Economic Growth, albeit Moderating

I.6 Following a bumper year in 2018, Vietnam's real GDP growth decelerated in the first quarter of 2019. Nevertheless, growth remained significantly above the first quarter outturns in 2016 and 2017 (figure I.5). The moderation in growth in early-2019 is due to both domestic and external factors. On the domestic front, a deceleration in agricultural output largely stems from a widespread outbreak of African swine fever that reduced livestock production, as well as a decline in prices for some agricultural products. A modest slowdown in the pace of growth in construction reflects a less sanguine real estate sector and ongoing consolidation of public investment. The services sector continued to benefit from strong household consumption and posted a slight acceleration in growth. Largely reflecting weaker external demand, manufacturing sector output growth moderated.

Figure I.5: Economic growth decelerated in the first quarter

Quarterly Real GDP growth (y/y, %)



Real GDP growth by sector (supply side, y/y, %)

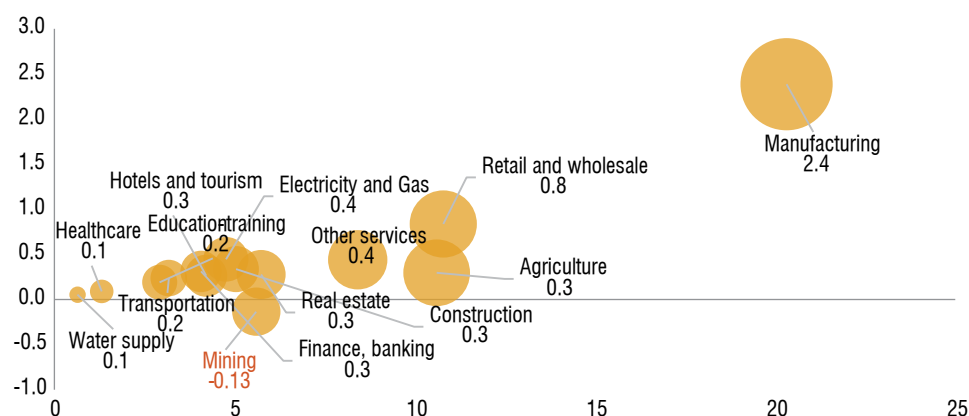
	q1-16	q1-17	q1-18	q1-19
Total GDP	5.5	5.1	7.5	6.8
Agriculture	-1.2	2.0	4.3	2.7
Industry & construction	7.2	4.2	10.2	8.6
Manufacturing	8.9	8.6	14.3	12.4
Construction	9.9	6.1	7.5	6.7
Services	6.0	6.6	6.4	6.5

Source: GSO.

I.7 Despite moderation, manufacturing and trade (wholesale and retail) continued to be the leading contributors to GDP growth in early-2019. The expansion of output in these two sectors combined contributed nearly half to overall GDP growth in the first quarter of 2019 (figure I.6). Manufacturing and retail trade accounted for 31 percent of Vietnam's GDP in real terms. The mining sector continues to face a structural slowdown, accounting for less than 6 percent of GDP in real terms, and negatively contributing (-0.13 percentage points) to the overall 6.8 percent increase in real GDP.

Figure I.6: Contribution to real GDP growth (percentage points) in Q1-2019

Size of circle indicates the sector's share of GDP



Source: WB estimates.

I.8 Sustained and robust GDP growth continues to support a dynamic labor market with strong job creation and real wage growth. Job creation remains buoyant in high productivity sectors, such as manufacturing and services. Employment growth was strongest in manufacturing, which benefited from the expansion of production facilities, in particular of the FDI-dominated labor-intensive export sectors. Employment in the trade sector (retail and wholesale) also expanded, on the back of robust services growth related to private consumption. In contrast, employment in the agricultural sector continued to fall sharply, as more job seekers shifted to other sectors (figure I.7). Reflecting favorable labor market conditions, the monthly average wage is estimated to have expanded by 7.4 percent in nominal terms or by about 3.9 percent in real terms in 2018 (figure I.8).

Figure I.7: Job creation by sector
(net, thousand)

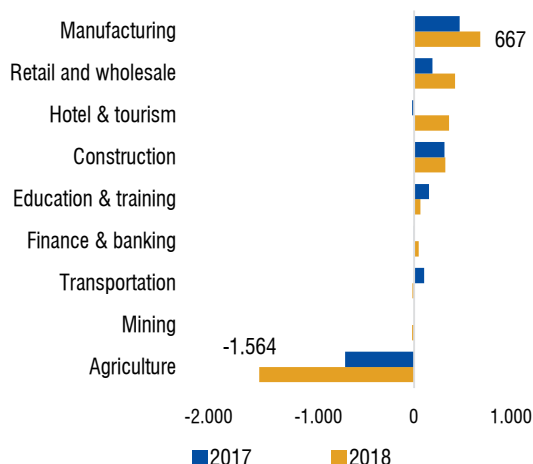
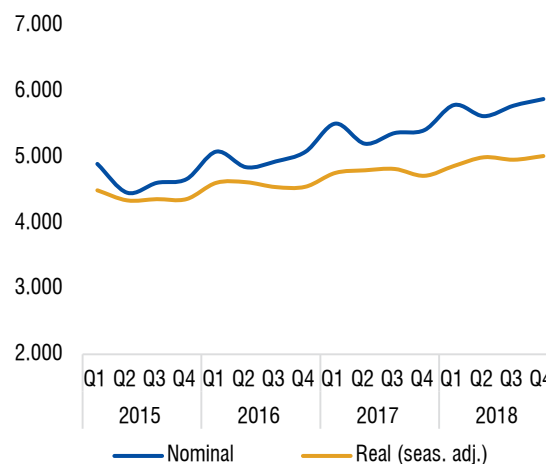


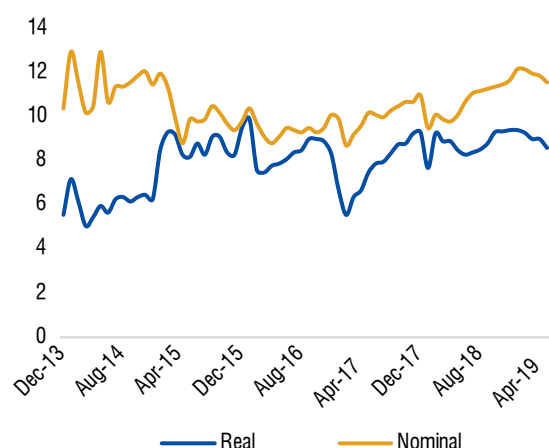
Figure I.8: Monthly average wage
(thousand dong)



Source: GSO and MOLISA.

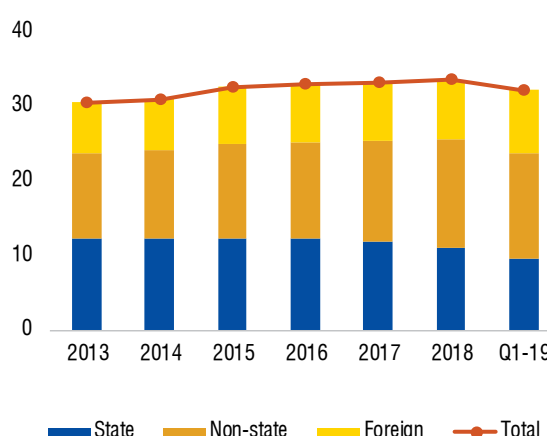
I.9 Domestic demand presents a mixed picture in the first quarter 2019. On one hand, the growth in retail sales – a proxy for private consumption – rose 11.6 percent in nominal terms (about 8.6 percent in real terms) in the first five months of 2019, underpinned by moderate inflation and salary increases (figure 9). On the other hand, the pace of investment growth decelerated somewhat. Total investment outlays, which accounted for 32.2 percent of GDP in the first quarter of 2019, grew by 8.8 percent in nominal terms, compared to 10 percent in the first quarter of 2018 (figure I.10). The share of state investment (financed by both the state budget and loans to state-owned enterprises) in GDP declined to 9.6 percent in the first quarter, significantly below the average rate of 12 percent in 2014-18, reflecting ongoing implementation of fiscal consolidation. While FDI remained substantial, private domestic investment was slowed by struggling private enterprise and weaker credit growth (discussed further below). The slowdown in investment, especially investment to support key development objectives, could have negative impacts on the expansion of production capacity and on potential growth in the longer term.

Figure I.9: Retail sales growth (y/y, %)



Source: GSO.

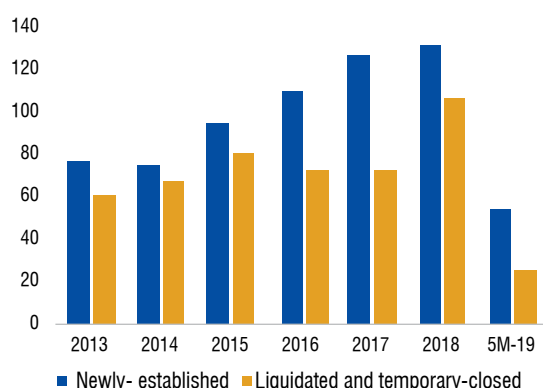
Figure I.10: Total investment outlays (% of GDP)



Dynamic Domestic Private Enterprise Sector Continues to be Dominated by Micro and Small Enterprises

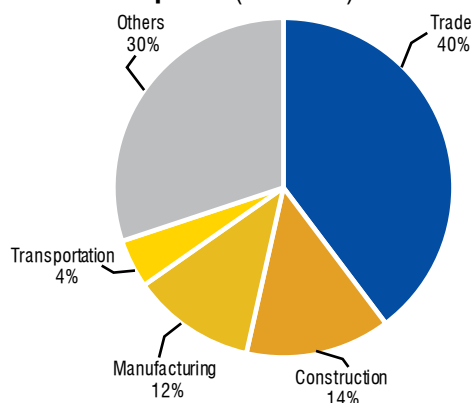
I.10 There is considerable churning in the domestically-owned private enterprise sector in Vietnam, with the registration of new and closure of existing enterprises both rising in recent years. A total of 107,000 firms closed or suspended business in 2018, compared with 73,000 business closures in 2017. Another 24,000 business closed shop during the first five months of 2019, a 18.3 percent increase over the same period last year (Figure I.11). The number of newly-registered enterprises increased by 131,000 in 2018 compared with 127,000 in 2017, significantly exceeding the number of closures during both periods. Newly registered enterprises also eclipsed closures in the first five months of 2019 with 54,000 new registrants. Among businesses that closed, trading enterprises suffered the most, accounting for 40 percent of all businesses that were liquidated or whose operations were suspended in early 2019 (figure I.12). A Survey of Vietnam Chamber of Commerce and Industry (VCCI)⁴ shows that difficulties in finding suitable markets, low competitiveness of domestic firms and products, limited access to financial and labor resources were among the main reasons behind enterprise liquidations or suspensions. Despite these challenges, the number of newly registered firms has consistently exceeded the number of firms that have been liquidated, at least since 2013.

Figure I.11: Newly-registered and closed enterprises (thousands)



Source: GSO.

Figure I.12: Liquidated and temporarily-closed enterprises (% of total)



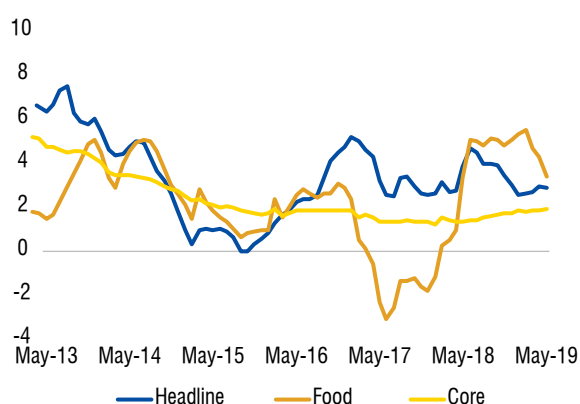
⁴ PCI 2019, VCCI.

I.11 The domestic private sector is dominated by micro and small enterprises (MSEs). Out of around 500 thousand existing domestic firms, 98 percent are small and microenterprises⁵. While these enterprises create the vast majority of jobs in the economy, many operate in relatively low productivity services (small retail, restaurants) and simple manufacturing. Most are focused on the domestic markets and few of these businesses are engaged in export activities. They often lack the scale, access to finance and technology to make them efficient producers.

I.12 To support MSEs to expand rapidly, the most important policy imperative is to provide a level playing field for all firms. While Vietnam has made progress in improving its business environment (as evidenced in the improvement in the World Bank Doing Business Ranking), some deep-seated distortions remain. The government needs to revisit the competition policy program to strengthen competition-supporting institutions and fully decentralize the decision-making process to allow equal access of all enterprises to key production factors, such as land, credit, labor and technology. In addition, the government needs to implement reforms to strengthen structural changes in the economy that will boost private investment and create greater efficiency in state-owned enterprises (SOEs) and continue to reduce a disproportionately large role of the state in the economy. The strong presence of SOEs results in inefficient prices and various other market distortions that suppress the domestic private sector. Rationalization of the role of the state requires the elimination of private sector distortions and an end to favorable treatment of SOEs. The state needs to relinquish the direct management of economic activities where no market failures exist and concentrate more on its role in providing a level playing field for all economic sectors.

Moderate Inflation and Subdued Credit Growth

Figure I.13: Consumer price index (y/y, %)



Source: GSO.

I.13 Despite a recent uptick in headline inflation, price pressures are expected to remain subdued in the short run. Vietnam's consumer price index has ticked up slightly in the first five months of 2019, driven by hikes in administered prices (for electricity and fuel). The headline CPI rose by 2.9 percent (y/y) in May 2019, up slightly from 2.6 percent in January 2019, and is attributed to moderate food price increases. Over the same period, core inflation ticked up slightly to 1.9 percent from 1.7 percent in December 2018, still below 2 percent, as has been the case since June 2015 (figure I.13). Nevertheless, modest inflationary pressures have emerged, due to the aforementioned hike in the power tariff and fuel prices as well as to a planned increase in

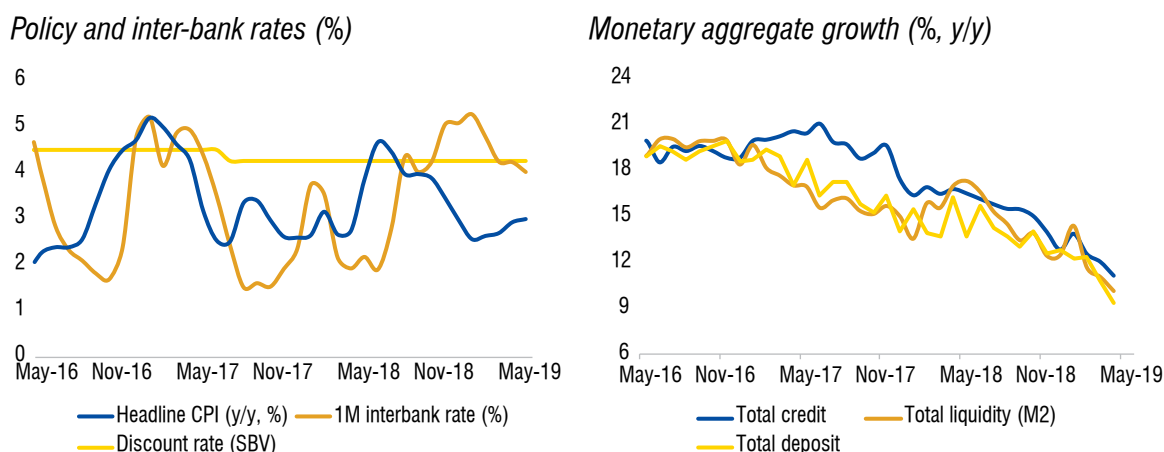
administrative prices for healthcare and education.

I.14 Despite moderate inflation, the State Bank of Vietnam maintained a prudent monetary policy stance to support its twin goals of sustaining macroeconomic stability and supporting overall economic growth. The targets include achieving GDP growth of 6.6-6.8 percent, maintaining CPI inflation below 4 percent, and reaching a credit growth rate of 14 percent. Monetary policy became somewhat more restrictive in 2018, when the State Bank of Vietnam (i) lowered the credit growth target across the banking system; (ii) set a credit ceiling growth for individual commercial banks; (iii) constrained real estate lending by imposing higher risk weights; (iv) limited short-term funding for long-term lending; and,

⁵ The 2017 Economic Census, GSO.

(v) contained consumer lending by introducing the cap on the share of cash loans as well as prohibiting further lending to clients with a bad credit history. As a result, credit growth has slowed to about 13 percent (y/y) in March 2019 compared with the annual target of 14 percent (figure I.14). In addition, less buoyant credit activity in the 2018 and first months of 2019 is partly hampered by growing risk aversion among banks that remain saddled with outstanding non-performing loans.

Figure I.14: Subdued credit growth



Source: State Bank of Vietnam.

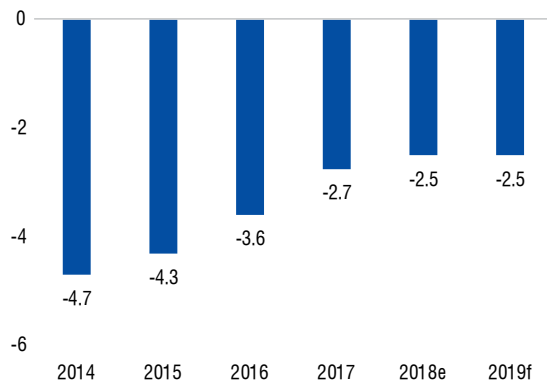
Sustained Budget Restraint Has Achieved a Further Reduction of Public Debt

I.15 The government faces some challenging fiscal policy choices, as it seeks to balance the twin objectives of economic expansion and macroeconomic stability. On the one hand, the government is seeking to accelerate public investment, especially for important infrastructure projects that are fundamental in supporting economic activity. On the other hand, with shrinking fiscal space, rigid current expenditures, slow tax revenue growth, and the need to strengthen fiscal sustainability, the government recognizes the need to continue with fiscal consolidation.

I.16 Reflecting the government's sustained commitment to fiscal consolidation, the fiscal balance improved in 2018. Robust economic growth and tax administration efforts helped to boost revenues, while tight disbursement of public investment helped to contain spending for the year. The Ministry of Finance reported that overall fiscal deficit declined from an estimated 4.7 percent of GDP in 2014 to 2.7 percent in 2017 and to an estimated 2.5 percent in 2018-19 (figure I.15). The cumulative decline over recent years largely reflects the government efforts to rationalizing public investment spending, and to a lesser extent strengthened revenue mobilization. The lower fiscal deficit has helped to reduce Vietnam's public debt from 63.7 percent of GDP in 2016 to an estimated 58.4 percent of GDP in 2018⁶ (figure I.16). Concurrently, increased reliance on non-debt creating deficit financing (proceeds from SOE equitization and disinvestment), longer maturities, and lower interest rates for domestic debt issuances has helped to ease debt service costs.

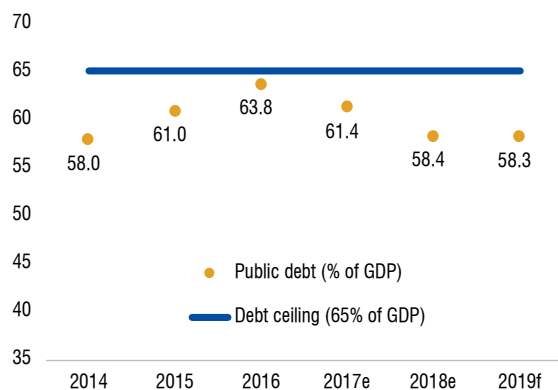
6 Public Debt Bulletin of the Ministry of Finance

Figure I.15: Overall fiscal balance (% of GDP)



Source: MOF, IMF and WB.

Figure I.16: Public debt (% of GDP)

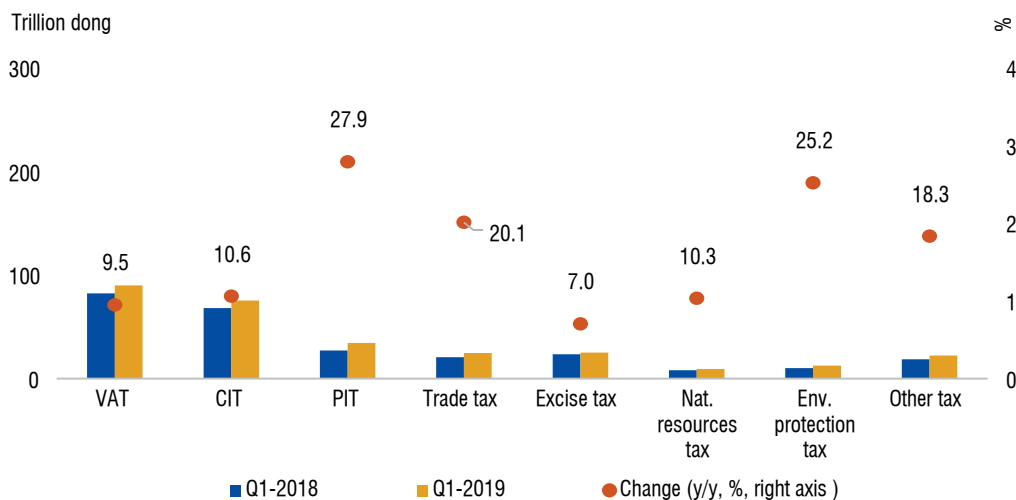


Source: MOF.

I.17 Fiscal outturns in the first four months of 2019 indicate continued progress in fiscal consolidation.

According to the Ministry of Finance, estimated budget revenues in the first four months 2019 increased about 14 percent compared with the same period last year and stood at 37 percent of the annual plan. The preliminary data shows Value added tax (VAT) and corporate income tax (CIT) collection rose by 10 percent, due to better tax administration. Tax collection for the personal income tax (PIT) and trade tax increased by more than 20 percent and is attributed to a broader tax base. During the same period, total expenditures slowed, up by only 4.4 percent (y/y) and accounted for about 26 percent of the annual plan. Slow public spending stems from both current and investment expenditures, which rose 5.4 percent (y/y). Interest payments on public debt declined by 4.9 percent (y/y), reflecting the easing public debt burden in Q1-2019.

Figure I.17: Tax collection by types

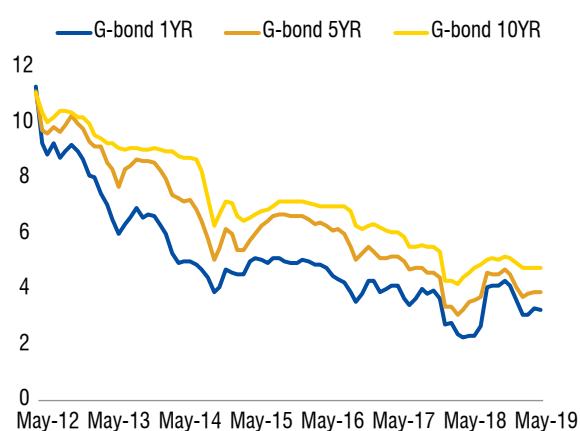


Source: MOF.

I.18 On the expenditure side, government efforts have focused mainly on consolidating investment spending. The revision of the Public Investment Law is expected to address some critical weaknesses of the public investment management system that are associated with the rigidity of the medium-term investment plan (MTIP) or the open-ended nature of the existing capital budgeting process. The draft amended law, which was reviewed by the National Assembly during its May 2019 session, further

delegates authority to the provincial governments for approving investment intention of all projects funded by their own budgets. An annual rolling mechanism is also being introduced in the draft law to allow the inclusion of new projects in MTIP outer years, hence reducing the discontinuity in the project preparation process. The draft amended law requires the identification of indicative allocation ceilings for spending agencies at the beginning of the capital budgeting process, an effort to deal with the common practice of inflating investment demands by spending agencies. While the consolidation of investment spending is welcome, greater transparency is needed in the overall State Budget, including for the allocation of recurrent spending. At the moment, basic information on the economic breakdown of recurrent spending is hard to get. For example, while the government publishes allocations for salary reforms, it does not publish the actual wage bill. Such information is critical to having a better understanding on the affordability and efficiency of recurrent spending, especially in light of limited fiscal space.

Figure I.18: Domestic Government bond yields (%)



Source: MOF.

I.19 Interest rates for government bond issuances have declined reflecting ample banking sector liquidity and improved investor confidence that has supported lower debt service costs. This trend in declining bond yields has been underway for a number of years, and yields have declined across all maturity terms (figure I.18). With historically low yields, the government has continued to rely on domestic market to meet its financing needs. Improved investor confidence is most recently evidenced by three credit rating agencies revised up its sovereign debt rating for Vietnam⁷.

I.20 Prudent management of the fiscal balance and improved public investment management

are needed, as the government ramps up implementation of the public investment program. As financing conditions continue to tighten globally, the government must continue to exercise prudent fiscal management to maintain long-term debt sustainability. In addition to mobilizing more revenues to meet spending needs, the government may benefit from diversifying sources of project financing to include overseas development assistance, general appropriations funding, and public-private partnerships. Beyond financing, public investment management needs to be improved to help maximize the efficiency of infrastructure investment in the medium-term, particularly in project appraisal, multi-year budgeting, portfolio management and oversight, and procurement.

I.21 On the revenue side, the government needs to place greater emphasis on strengthening revenue mobilization to support sustainability in budget consolidation going forward. Strong and rationalized revenue collection would help to both bring down fiscal deficit and provide sustainable resources needed for critical public investment and social spending. Several policy options to strengthen revenue mobilization include (i) Broadening the value-added tax (VAT) base (ii) Broadening the corporate income tax (CIT) base and reviewing tax incentives, (iii) Increasing excise rates; (iv) Expanding the personal income tax (PIT) tax base in line with international practice; (v) Building a modern property tax system; and, (vi) Rationalizing the revenue policies on natural resources and the environment. In addition, the Government should consider taxing the digital economy as a new revenue stream, given its rapid and

⁷ Moody's, S&P and Fitch

dynamic growth in Vietnam. Malaysia's experience so far with digital tax reform could inform policy options for Vietnam (Box I.1).

Box I.1: Taxing the Digital Economy: The case of Malaysia

Raising tax revenue from the digital economy is becoming increasingly important in Malaysia's fiscal reform efforts to further strengthen and diversify the Government's revenue base. Since the global financial crisis and subsequent oil price slump, achieving a near-balanced federal budget over the medium term therefore requires a deeper wave of reforms to diversify and strengthen the Government's revenue base, including the possibility of extending tax collection to the rapidly growing digital economy in Malaysia.

Malaysia's digital economy has experienced steady growth over the recent past, faster than the overall economy, and is projected to approach the government's target of 20 percent of GDP by 2020. A balanced approach to taxing the digital economy that extends the indirect and direct tax bases in Malaysia would significantly increase fiscal revenue over time. Given the sizable and growing presence of foreign providers across a wide spectrum of digital services in Malaysia — including search (Alphabet), social networking (Facebook), online advertising, ride- and accommodation-sharing services (Grab and Airbnb), and digital music streaming (Spotify) — it is reasonable to expect substantial future tax revenues from the digital economy, which would increase faster than the traditional tax base. The challenge is to modify the regime for indirect taxation so that it effectively captures the consumption of digital products services from foreign suppliers.

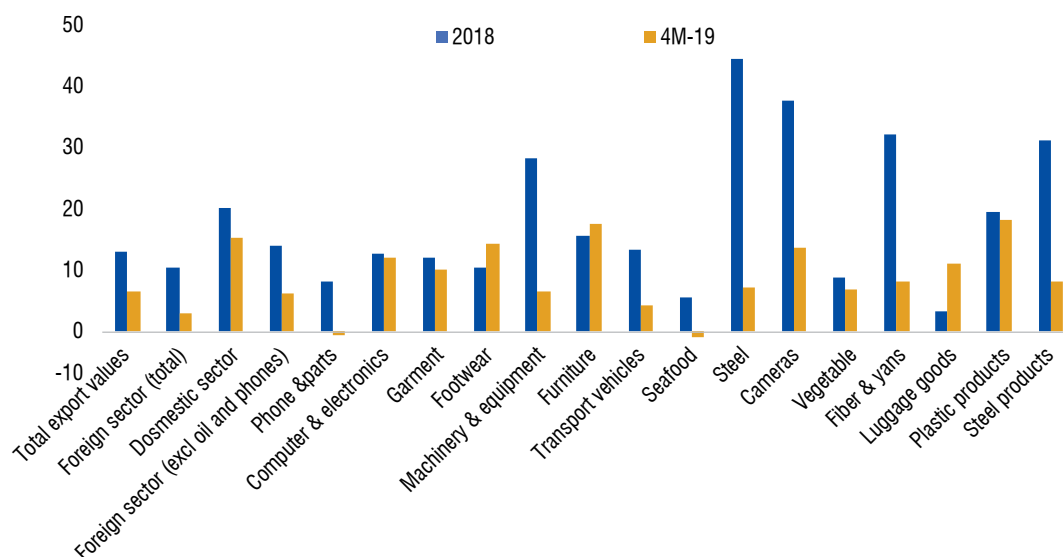
Digital tax reform could also help level the playing field between domestic and foreign suppliers of digital goods and services and support mainstream taxation, depending on the government's strategy. Some countries have taken additional steps to support mainstream taxation by reducing the ability of non-resident suppliers to divert profits. Although characterized as measures to tackle the digital economy, they are designed to deter cross-border profit shifting more generally.

Malaysia is considering four main options for taxing digital goods and services provided by non-resident companies: taxing digital transactions indirectly, by requiring suppliers to collect GST/SST in line with international practice; or directly, by redefining its permanent establishment rules, expanding its existing tax on technical services, or establishing a new, freestanding tax on the income from digital transactions. Each option has advantages and disadvantages, and some are being considered to be adopted in parallel.

Improved External Position Despite Ongoing Uncertainty

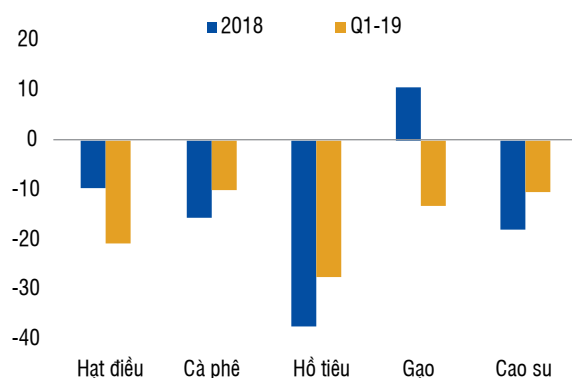
I.22 Export growth decelerated during the first four months of 2019, reflecting uncertain global trade developments. Vietnam's total exports are estimated to have expanded by 6.5 percent (y/y) in the first four months of 2019 in nominal terms. While this exceeds global and regional trade growth, it is less than half the growth rate of 13.2 percent in 2018 (figure I.19). Most export categories posted less buoyant growth. In particular, agricultural commodities contracted, with rice exports down by 18 percent in value terms and 5 percent in volume terms in the first quarter of 2019. Exports of seafood declined by nearly one percent, after posting strong growth over the past three years. Exports of phones — the largest single export item of Vietnam, which accounts for about 20 percent of total exports — declined by about one percent. In contrast, other key labor-intensive manufacturing exports, such as garments, footwear, furniture, electronics and computers continued to grow, but at a slower pace due to weakening demand in Vietnam's main export markets.

Figure I.19: Vietnam's export growth (y/y, %)



Source: Vietnam Customs office.

Figure I.20: Change in agriculture export price (% y/y)



Source: Vietnam Customs office.

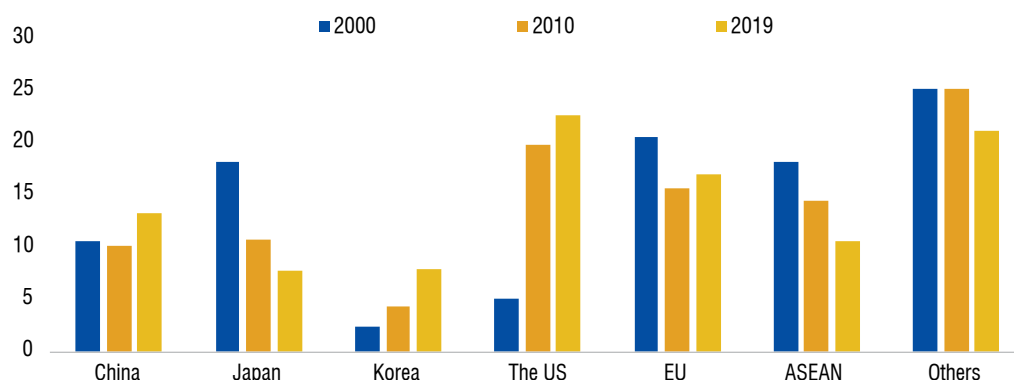
I.23 Vietnam's exports of agricultural commodities play an important role in supporting job creation and poverty reduction in rural areas. After robust growth of 17 percent in 2017, agriculture and fishery export growth decelerated to 2 percent in 2018 and declined by 7.5 percent in the first quarter of 2019. A number of factors have contributed to this fall-off in agricultural exports, including a sharp decline in prices for industrial crops (such as for cashews, coffee, and black pepper) in the context of fierce competition among exporting countries (figure I.20).

I.24 The slowdown in agricultural exports is being driven by various obstacles that are impeding Vietnam's access to its traditional

markets—aside from falling prices. Vietnam's major export markets are increasingly setting strict technical standards for imported agricultural products. Specifically, the Chinese market enhanced not only the quality standards of imported agricultural products, but also its management and border trade standards. The E.U. market has retained the yellow card warning for exploited seafood imported from Vietnam and has also drafted new regulations on substances used on plant breeding products. Similarly, the US market has maintained and increased its protection measures through the imposition of anti-dumping duties on Vietnamese seafood products and continuing the inspection program for catfish under the Agricultural Bill. In addition, the Japanese and Korean markets have also regularly reviewed and adjusted their regulations on food safety and increased the frequency of checking imported agricultural and fishery products, causing disadvantages for Vietnam's exports to these markets. Given the circumstances of the imposition of stricter standards, the agricultural sector needs to restructure to remain competitive, including toward smart agriculture, international integration, climate change adaptation, added value chain and sustainable development.

I.25 Vietnam's merchandise exports have been fairly diversified, underpinned by its openness of trade relationships. Vietnam is a member of 17 bilateral and multilateral trade agreements that have enabled Vietnam to increase its market access for its exports and new sources of foreign investment. Among Vietnam's trading partners, the United States remains the largest, accounting for nearly 23 percent of Vietnam's total exports in the four months of 2019. This is followed by the EU, China, ASEAN, Korea and Japan (figure I.21). Vietnam has successfully maintained stable market shares for its exports. A more diversified market would help Vietnam to sustain gains from its exports as well as mitigate economic risks from external economic fluctuations.

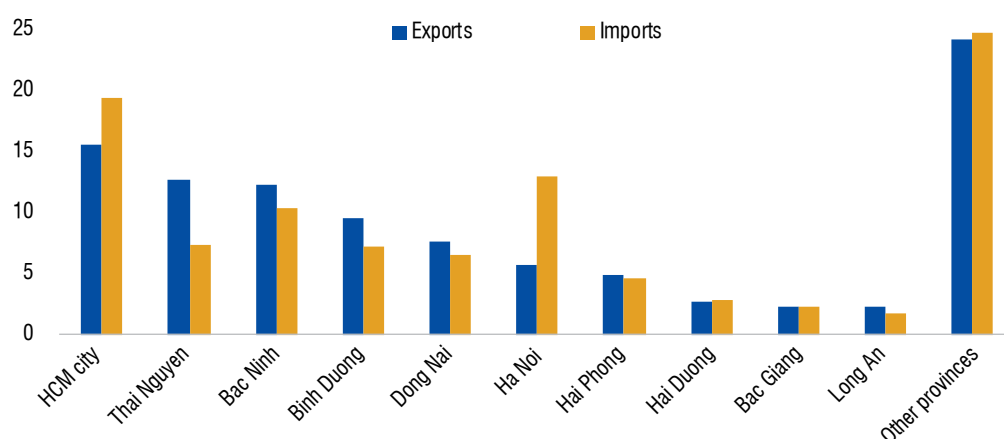
Figure I.21: Vietnam's export markets (% of total)



Source: Vietnam Customs office.

I.26 The impressive export performance for the country as a whole masks divergent trends across Vietnam's 63 provinces. The ten largest exporting provinces account for about 75 percent of Vietnam's total export-import value (figure I.22). These provinces fall into three categories (i) the country's economic hub (Hanoi and Ho Chi Minh city); (ii) smart phone assembly (Thai Nguyen and Bac Ninh); and (iii) low-value and labor-intensive manufacturing (Binh Duong, Dong Nai, Hai Phong, Hai Duong, Long An and Bac Giang). The uneven concentration of export-processing centers could pose some challenges for companies to recruit labor, logistics and other supplies. It could also lead to large unexpected increases in migration to some provinces and localities – a big challenge for local authorities in terms of providing basic public services for migrants.

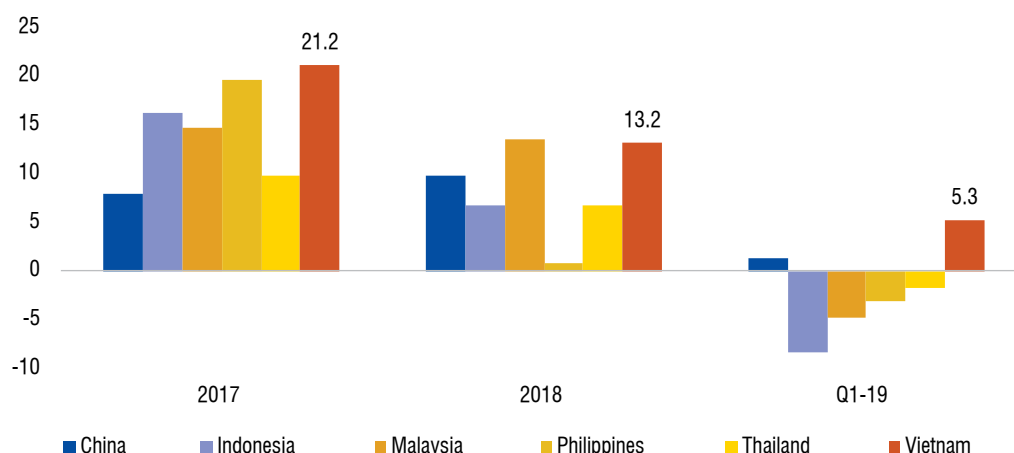
Figure I.22: Exports-imports by provinces (% of total)



Source: Vietnam Customs office.

I.27 Amid a moderation in trade activity, Vietnam has recorded the highest export growth rate among developing countries in East Asia in the past two years. Vietnam sustained this performance in the first quarter 2019 with positive export growth while most of the developing ASEAN countries experienced an unexpected decline (Figure I.23). In particular, Vietnam has witnessed strong growth in higher value-added manufacturing products, such as smart phones, computers and electronics – a category in which other developing ASEAN countries seem to be faring less well. Since 2015, Vietnam became the fourth largest exporter in ASEAN after Singapore, Thailand and Malaysia, and its share in total ASEAN exports has expanded markedly to nearly 17 percent in 2018 from 6.8 percent in 2010.

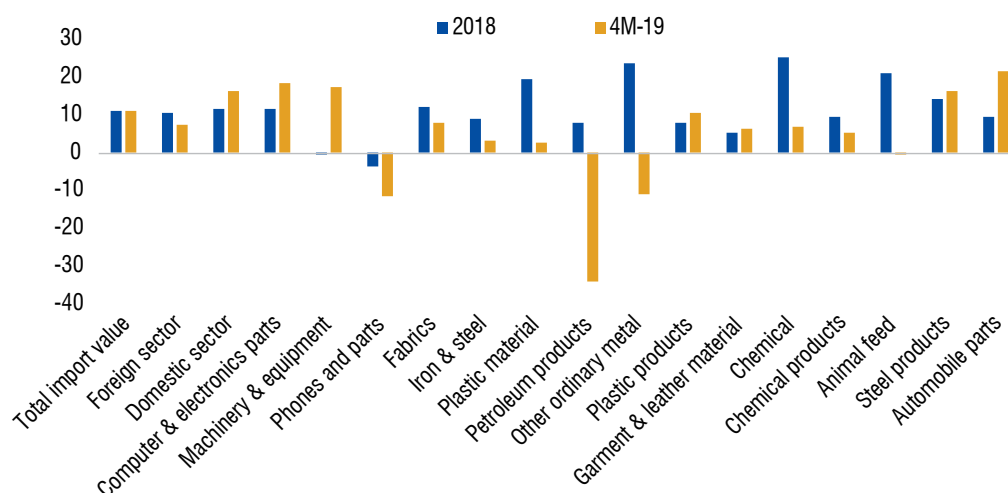
Figure I.23: Merchandise export growth in selected countries (%)



Source: Vietnam Customs office.

I.28 Import growth moderated during the first four months of 2019. Vietnam's total import value is estimated to have grown by 10.9 percent (y/y) in the first four months of 2019, slightly below the 11.1 percent growth rate in 2018 (figure I.24). Fuel imports declined substantially, by 34 percent in value-terms and 32 percent in volume terms, due to the expanding supply from domestic refineries. The imports of material and intermediate inputs for export processing also slowed, due to weaker external demand. As Vietnam's imports of intermediate goods are highly correlated with its exports, a deceleration in export performance will directly weigh on import activities.

Figure I.24: Vietnam's import growth (y/y, %)



Source: Vietnam Customs office.

I.29 Vietnam seems to have benefitted from export diversion following the escalating China-U.S. trade dispute. Rising tariffs and associated increases in the cost of inputs and final products are expected to dampen international trade flows and global GDP in aggregate. At the country level, there are, however, both winners and losers. Based on U.S. trade data for the period since it imposed the first round of tariffs in mid-2018, Vietnam is among the beneficiaries of the trade dispute, at least in the short term. First quarter data suggests that Vietnam's Q1 goods trade surplus with the US rose to US\$13.5billion, up from US\$7.5billion Q1 last year, with gains concentrated in goods subject to increased tariffs. At the same time, as a highly open economy with a trade to GDP ratio of close 200 percent, Vietnam is exposed to heightened uncertainty and potential disruptions to global supply chains. The US Treasury classified Vietnam among nine trading partners on its "Monitoring List" that merit close attention to their currency practices⁸.

Box I.2: The United States - China Trade Tensions

The United States-China trade tensions, which started to escalate from mid-2018, has reverberated across the global economy. Rising tariffs and associated increases in the cost of inputs and final products are expected to dampen international trade flows and global GDP in aggregate. At the country level, there are, however, both winners and losers, as reflected in the U.S. trade data for the period since it imposed the first round of tariffs in mid-2018 that has been followed by retaliatory tariff hikes. Based on these figures, Vietnam is among the beneficiaries of the trade dispute, at least in the short term and the gain is roughly estimated at about 2.2 percent of Vietnam's 2018 GDP.

Figure I.25: The winners and losers of the trade war in the short-term

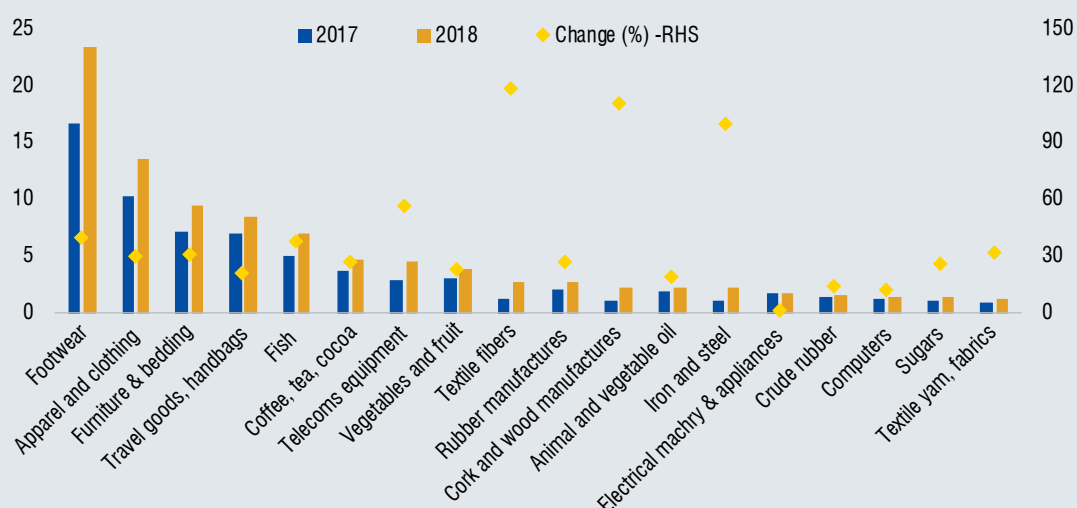


Source: The U.S Census Bureau.

The United States is among the most important markets for Vietnam's exports. On average from January 2005 to March 2019, the value of Vietnam's exports to the United States grew by about 35 percent and accounted for about 20 percent of Vietnam's total export earnings. Vietnam's key exports to the U.S. market are mainly consumer goods, such as footwear, garments, phones, furniture, travel goods, and seafood, and their shares in U.S. imports have continued to expand. The trade war has added another dynamic, however, as Vietnam's exports to the United States are currently comprised replacing exports from other Asian countries (i.e. there is not a lot overlap between goods produced in Vietnam and the goods made in the U.S). At the end of Q1-2019, Vietnam rank 7th among exporting countries to the US.

8 Other countries include: China, Germany, Ireland, Italy, Japan, Korea, Malaysia, and Singapore.

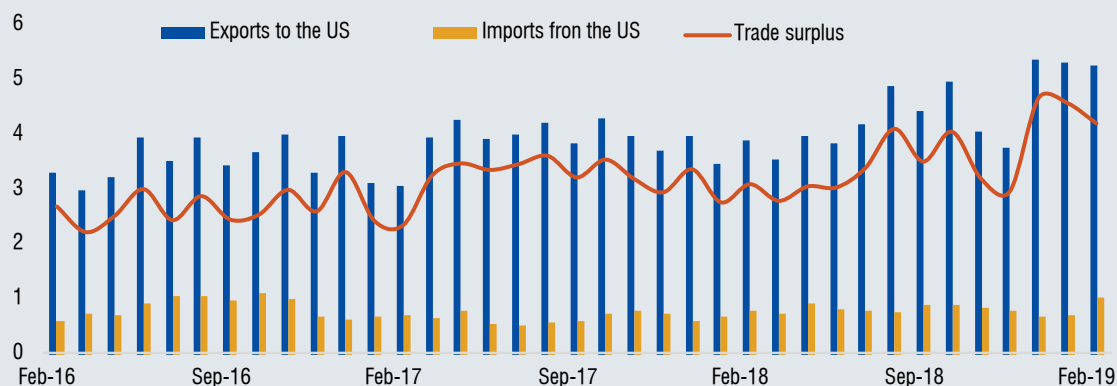
Figure I.26: U.S imports of goods from Vietnam (% of total)



Source: The U.S Census Bureau.

Given strong and sustained high growth in its exports, Vietnam has a substantial trade surplus with the United States, which reached US\$39.5 billion in 2018 and about US\$13.5 billion in the first quarter of 2019.

Figure I.27: Vietnam's trade in goods with the United States
(monthly, billion US\$)



Source: The U.S Census Bureau.

Figure I.28: Change of Share in the US imports of Goods
(Jul 2018-Mar 2019 to Jul 2017-Mar 2018, percentage points)



Source: The U.S. Census Bureau.

Escalating and prolonged protectionism between the United States and China could transmit to the world economy and Vietnam through various channels. On the one hand, trade diversion could lead to Vietnamese exports replacing some Chinese exports to the United States, now subject to higher import tariffs, as well as some U.S. exports to China being affected by China's retaliatory tariffs. Vietnam seems to be gaining in market share for those goods where the higher tariff imposed by the United States has caused Chinese exports to contract, such as phones and parts, apparel and clothing, furniture and bedding, plastic and rubber. Vietnam could also benefit from foreign investors relocating or rescaling their manufacturing production from China. There is some anecdotal evidence that such a shift towards Vietnam could already be underway, but there are no hard numbers to confirm it at this stage. On the other hand, Vietnam is being negatively impacted by the disruptions tied to

the trade dispute, such as a slowdown in global growth and trade and loss of investor confidence in general. Such dynamics are expected to intensify the longer the dispute persists and become increasingly expensive for Vietnam, and in the long-term could well outweigh any short-term gains.

Box I.3: Mitigating risks of fraudulent trans-shipments through effective management of rules of origin

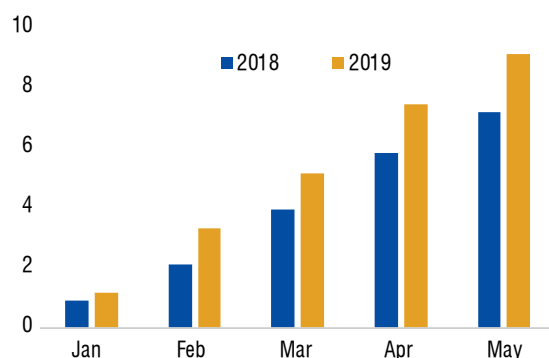
Ensuring proper application of rules of origin in trade is a key obligation under many multilateral and bilateral FTAs, including the CP-TPP and EVFTA. It is also critical to mitigate risks associated with trans-shipments to take advantage of preferential market access or to circumvent higher levels of import protection. Fraudulent transshipments can pose economic risks as they can trigger countermeasures under WTO rules. To ensure effective management of rules of origin the following policies can be considered:

- Simplifying Certificate of origin (CO) granting regulations and making them transparent Voluntary compliance can be encouraged if CO granting regulations are simplified. Commitments under recent FTAs, particularly Chapter 3 of the CP-TPP provide an anchor to strengthen existing regulations on rules of origin and procedures.
- Strengthening national single window mechanism Further transparency can be achieved by IT application in customs clearance procedures, especially through the national single window for all specialized control agencies, including those that review certifications of origin.
- Providing relevant trainings and awareness raising for exporters Applying international practice, particularly with requirements for enterprises with self-CO granting will allow these enterprises enjoy Generalized Systems of Preferences (GSP) on the one hand, but would raise risks of increased irregularities, either by enterprises' lack of capacity or fraudulent commitments. Corporate awareness raising is a way of making sure national interests are secured.
- Strengthening the collaboration with customs administration of key trading partners (the US, China, etc.) Such international collaboration would help set up early warning system for CO compliance monitoring. The intelligence exchange, especially targeted to risky areas including iron and steel, textile and apparels, and leather are footwear would help mitigate risks of investigation.

Applying technologies such as blockchain technology for origin traceability is a longer- term measure. Origin traceability should be applied in all supply chains and logistics system as crucial measure for transparent rules of origin and a clean production for export.

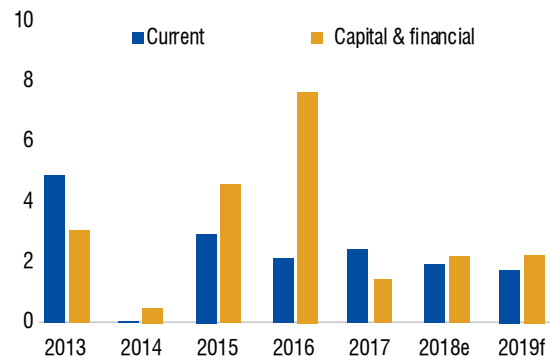
I.30 Despite a deceleration in export growth, Vietnam's external position strengthened, underpinned by a rise in the current account surplus and robust FDI inflows in 2018. The merchandise trade balance posted a record high surplus of US\$6.8 billion, which combined with strong remittances inflows, helped Vietnam to sustain a current account surplus for the seventh consecutive year in 2018. The capital account also remained surplus in 2018, due to sustained high FDI inflows (figure I.29 and I.30). The improved balance of payments allowed the State Bank of Vietnam to shore up foreign reserves over recent years to the equivalent of about 2.8 months of import cover in December 2018, up from 2.1 months in December 2015. Vietnam's trade balance recorded a small surplus (US\$ 750 million) in the first four months of 2019, given a moderation in import growth that more than offset a deceleration in export growth.

Figure I.29: FDI commitment to Vietnam
(accumulated, US\$ billion)



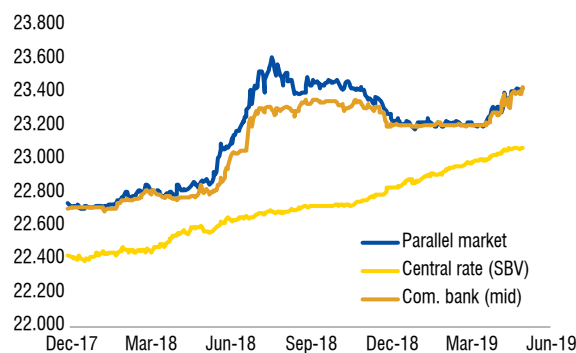
Source: MPI.

Figure I.30: Balance of payments
(% of GDP)



Source: SBV and WB.

Figure I.31: Vietnam dong/US dollar rate



Source: SBV.

I.31 However, despite a favorable external account position, some exchange rate pressures emerged in late-April, triggered by the volatile currency markets tied to rising trade tensions between the United States and China (figure I.31). The Vietnamese Dong has fallen to its lowest level ever against the U.S. dollar, crossing the 23,000 Dong per a dollar mark in late April. The central rate of State Bank of Vietnam (SBV) – a reference rate for commercial banks' transactions (within +/-3% band) has depreciated about 1 percent year-to-date. Last year, the Dong depreciated by 1.8 percent against the U.S dollar.

I.32 Vietnam maintains a floating exchange rate peg. Under the current regime, the SBV manages the exchange rate with reference to a basket of currencies of major trading partners to set the central exchange rate of Vietnamese dong to US dollars as a reference rate for commercial banks' transactions (within a +/-3 percent band of the reference rate). The SBV intervenes in the foreign exchange market by selling and buying foreign currency, with the aim of mitigating unexpected volatility of Vietnam dong. The SBV also intervenes on the foreign exchange market to support the country's macro-economic and monetary targets aimed at broader macroeconomic stability.

I.3 MEDIUM-TERM OUTLOOK: PROSPECTS FOR A FURTHER MODERATION IN GROWTH AND RISKS TILTED TO THE DOWNSIDE

I.33 Vietnam's medium-term growth trajectory is projected to remain stable, despite an expected gradual deceleration in 2019-21. In view of the moderation in economic activity in the first quarter of 2019 in Vietnam, subdued global growth and an escalation of trade tensions, the World Bank's baseline forecast projects real GDP growth in Vietnam at 6.6 percent in 2019 and 6.5 percent in both 2020 and 2021. Despite decelerating from the recent peak in 2018, growth robust growth is expected to support continued poverty reduction. While core inflation is expected to be contained by slower growth, further adjustments in administered prices (utility tariffs, health and education services) as well as the impact of swine fever and slower agricultural production on food prices will keep headline inflation at current levels but below the official inflation target of 4 percent. The government is expected to continue its cautious fiscal policy stance, where revenues are projected to stabilize and expenditures, mainly investment expenditure, are projected to be selectively tightened. Export growth is forecast to remain below the country's potential, given the weak external environment. However, the current account is expected to remain in surplus in 2019, although by a smaller amount than in 2018.

Table I.1: Selected economic indicators

	2017	2018e	2019f	2020f	2021f
GDP growth (%)	6.8	7.1	6.6	6.5	6.5
Consumer price index (annual average, %)	3.5	3.5	3.7	3.8	3.8
Current account balance (% of GDP)	2.1	2.3	2.0	1.8	1.8
Fiscal balance (% of GDP), MOF	-2.7	-2.5	-2.5	-2.3	-2.2
Public debt (% of GDP) ⁹	61.4	58.4	58.3	58.0	57.6
Public debt (% GDP) ¹⁰	58.2	55.6	54.4	53.3	52.5

Source: Government of Vietnam, IMF and WB.

I.34 The outlook is subject to risks – both domestic and external. Domestically, the key economic challenge relates to limited competitiveness, which may constrain the development of domestic private enterprises, creation of jobs, and improvement of productivity. There is potential to sustain growth at a healthy pace in the years ahead, but addressing structural bottlenecks is crucial. The impact of unfavorable weather and animal disease on agriculture presents a risk to overall economic growth as it might affect production and food inflation as well as poverty reduction in rural area. Externally, escalating trade disputes between Vietnam's major trading partners could disrupt trade flows more than projected in the baseline, and undermine Vietnam's export momentum and lead to deterioration in the current account over the medium term. Uncertain global growth prospects could lead to weakened external demand for Vietnam, and result in slower than projected growth, given Vietnam's high trade and investment integration with the global economy.

I.35 Vietnam needs to prepare to adjust macroeconomic policies in case some of these risks materialize and lead to a deeper than expected downturn. Against the backdrop of a strong cyclical recovery over the last few years, Vietnam started to tighten credit and fiscal policies to rebuild policy

⁹ Vietnam's Ministry of Finance.

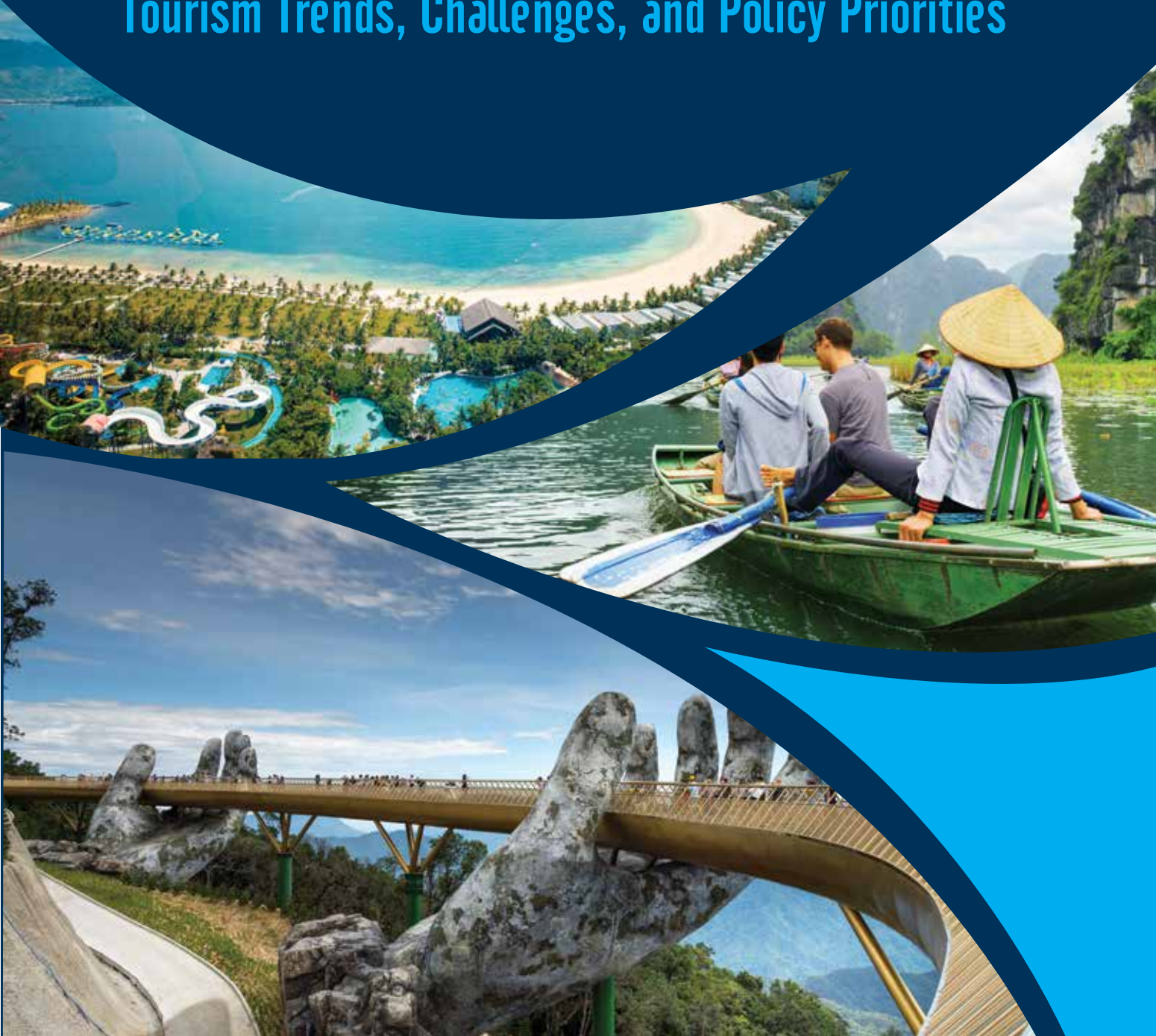
¹⁰ The IMF's Definition.

buffers. While growth has so far remained robust, a further deterioration of economic activity may call for an adjustment in the macroeconomic policy stance towards more accommodative monetary policy possibly supported by some fiscal stimulus. In addition, deeper structural reforms, including regulatory, SOE and banking sector reforms remain critical to boost investor confidence in the short term and raise potential growth in the medium term. To support long term fiscal sustainability, authorities should focus on stabilizing revenue generation and on enhanced spending efficiency. To address heightened uncertainty and increased global trade tensions, policy-makers should continue to focus on enhancing Vietnam's export competitiveness, and further deepening trade integration through bilateral and regional agreements such as with the EV-FTA and the recently ratified CPTPP.

SECTION II

SPECIAL FOCUS: VIETNAM TOURISM DEVELOPMENTS

Stepping Back from the Tipping Point: Vietnam's Tourism Trends, Challenges, and Policy Priorities



II.1 STRATEGIC CONTEXT

II.1 The tourism sector is an important vehicle for economic growth, job creation and shared prosperity. As a source of foreign investment, tax revenue, and job creation, tourism offers an attractive source of export diversification away from primary and manufactured products. It is a labor-intensive and inclusive sector, which tends to employ more women and youth than most other sectors¹¹ and creates significant opportunities for SMEs. Through its supply linkages to other sectors, tourism also has strong multiplier effects on the rest of the economy, generating jobs and income opportunities along its value chain. Moreover, tourism can be a tool to develop lagging regions and remote areas where opportunities for industrial development are often limited, thus contributing to increased shared prosperity.

II.2 Global demand for travel and tourism is currently booming, especially among China's growing middle class, creating significant economic opportunities for tourism destinations in Southeast Asia. Worldwide, tourism demand is projected to grow by roughly 4 percent per annum over the next decade (2019-2029), outpacing expected global economic growth¹². Destinations in Southeast Asia have been key beneficiaries of this robust demand, receiving 130 million international visitors in 2018 (9.3 percent of total global international visitor flows)¹³, and the region's share of global demand is expected to expand further to 10.4 percent by 2030 (or 187 million visitors)¹⁴. Tourism demand from China has been especially strong, with the number of Chinese outbound travelers to Southeast Asian countries having grown at an average annual rate of 21.7 percent between 2012 and 2017 (reaching 25.3 million¹⁵) and expected to grow to 35 million by 2025.¹⁶

II.3 Vietnam, with its diverse natural and cultural tourism assets, is especially poised to benefit from this favorable demand landscape. According to the World Economic Forum's (WEF) latest 2017 Tourism Competitiveness Index, Vietnam ranks 32nd globally (out of 120 countries) in terms of the volume and attractiveness of its natural and cultural resources, and 3rd within the Southeast Asia region (behind Indonesia and Thailand). Notably, Vietnam is home to eight UNESCO World Heritage sites, tied with Indonesia for the most of any country in Southeast Asia. The country also features premier urban tourism destinations, such as Hanoi, Ho Chi Minh City, and Da Nang.

II.4 Against this backdrop, the Government of Vietnam is prioritizing tourism as a strategic sector and driver of socio-economic development. As codified in the Political Bureau's resolution on tourism sector development in 2017¹⁷, the objective is to convert tourism into a spearhead industry and Vietnam into a leading destination in Southeast Asia, through a focus on, inter alia (i) developing tourism infrastructure, (ii) strengthening tourism promotion, (iii) generating a favorable environment for tourism businesses, (iv) developing tourism human resources, and (v) improving State management of the tourism sector. Accordingly, the resolution sets ambitious quantitative targets for the tourism sector for the next few years (Table II.1). To this end, the government is currently preparing a new national tourism strategy (2018-2030) and action plan to guide activities and investments that will be needed to achieve these 2020 targets and to drive the development of the tourism sector over the coming decade.

11 UNWTO. 2010. Global Report on Women and Tourism 2010.

12 WTTC. 2019. *Travel & Tourism Economic Impact 2019: World*

13 UNWTO. 2019. *World Tourism Barometer*.

14 UNWTO. 2011. *Towards Tourism 2030*

15 UNWTO. 2018. *Outbound Tourism Statistics Database*

16 Goldman Sachs. 2015. *The Asian Consumer: The Chinese Tourism Boom*

17 The government's targets for the tourism sector are set out in the Political Bureau's Resolution No. 08-NQ/TW, published in January 2017

Table II.1: Government targets for Vietnam's tourism sector

Tourism indicators	Unit	Baseline (2016)	Targets (2020)
International visitors	<i>million</i>	10	17-20
Domestic visitors	<i>million</i>	62	82
Tourism revenues	<i>US\$ billion</i>	19	35
Tourism employment (direct)	<i>million</i>	0.7	1.6
Tourism contribution to GDP	<i>percent</i>	7	10

Source: Political Bureau Resolution 08-NQ/TW, January 2017.

II.5 Vietnam, however, is not alone in this pursuit to leverage the economic opportunities from tourism and will have to contend for market share with proactive regional competitors. Eager to capitalize on the rapidly-increasing outbound travelers to the region, many countries in Southeast Asia are prioritizing tourism in their economic development agendas, setting lofty visitor number targets, and formulating sector strategies and investment plans.¹⁸ In this fiercely-competitive environment for visitors, Vietnam will have to be strategic in focusing on the market segments where it has a competitive edge, resist the temptation to prioritize the quantity of visitors over their economic yield, and be cognizant of the implications of the pace and composition of its tourism growth for the sustainability of the sector and its impacts on the environment and natural and cultural assets.

II.2 VIETNAM'S TOURISM SECTOR PERFORMANCE

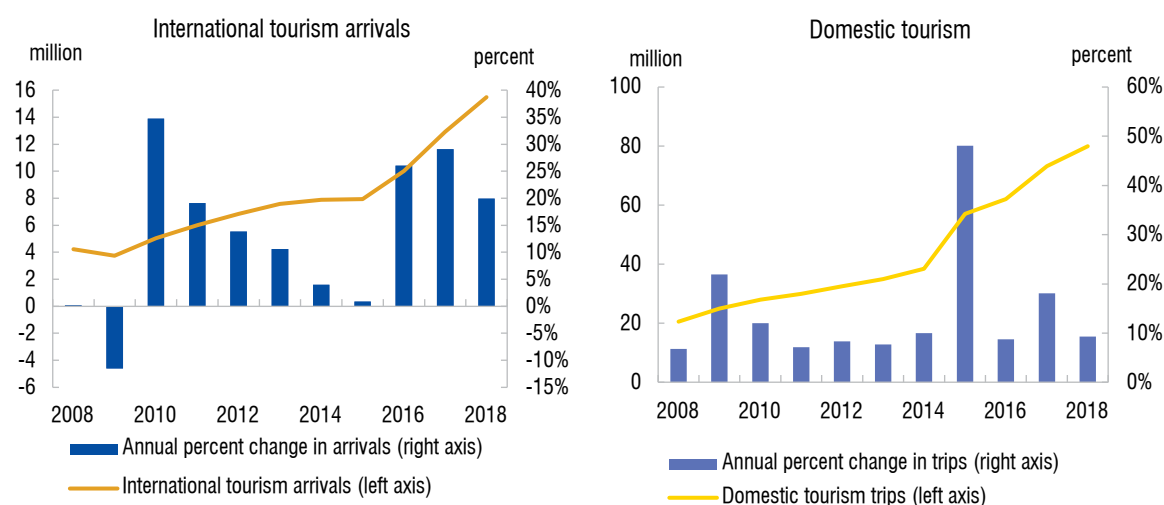
II.6 Vietnam has experienced a boom in both inbound and domestic tourism over the past decade. The number of international tourism arrivals to Vietnam has nearly quadrupled during this period, from 4.2 million in 2008 to 15.5 million in 2018 (Figure II.1). Moreover, there has been a marked acceleration in international visitor growth in the last 3 years, from an average of around 9 percent per annum between 2008-2015 to an average of 25 percent between 2016-18¹⁹. Domestic tourism in Vietnam, which is significantly greater in volume than inbound tourism from abroad, has experienced a similar surge—a four-fold increase in the number of domestic traveler-trips, from 20.5 million in 2008 to 80 million in 2018, underpinned by Vietnam's rapidly-growing middle class²⁰, who have a strong appetite for travel, and improving affordability of air transport amidst the growth of low-cost domestic air carriers.

18 Thailand and the Philippines are currently implementing their latest National Tourism Development Plans (for the periods 2017-2021 and 2016-2022, respectively), while Indonesia is preparing Integrated Tourism Masterplans for the development of 10 high-priority destinations.

19 The recent visitor growth surge appears to be persisting in 2019: the number of international visitors through the first 5 months of the year are up 8.8 percent over the same 5-month period in 2018

20 World Bank. 2018. *Climbing the Ladder: Poverty Reduction and Shared Prosperity in Vietnam*. Around 13 percent of Vietnam's population in 2016 was estimated to be part of the "global middle class" (defined as having a daily per capita consumption of at least \$15, in 2011 PPP dollars), up from 7.7 percent in 2010. This figure is expected to double to 26 percent by 2026

Figure II.1: Trends in Vietnam's inbound and domestic tourism



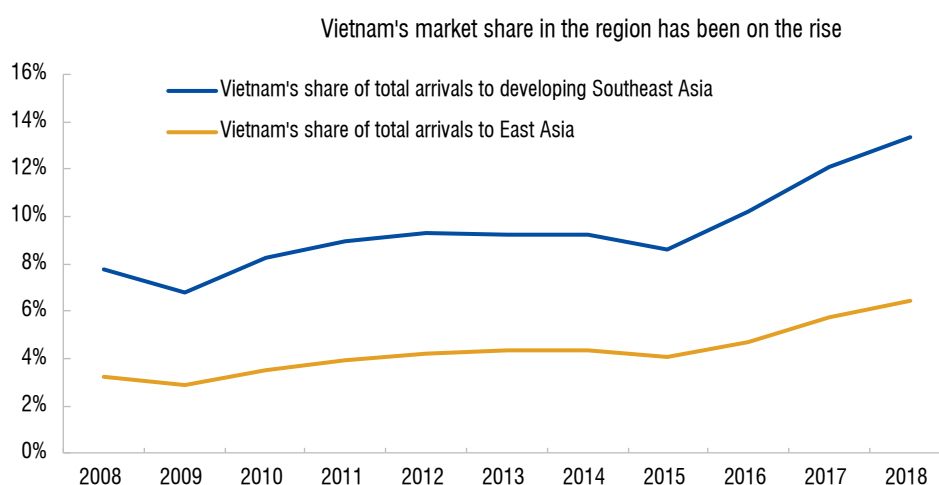
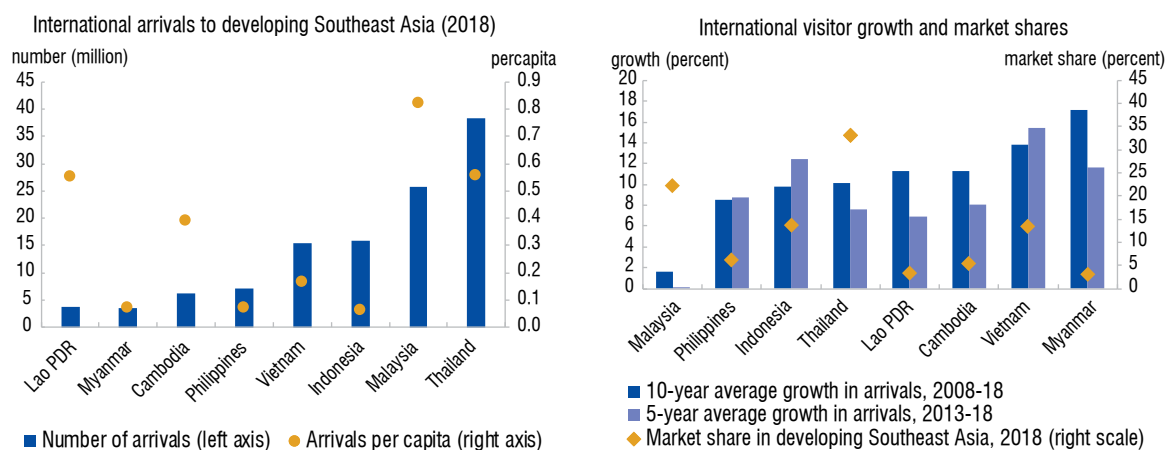
* The statistical methodology for measuring domestic tourism was changed in 2015, particularly with respect to the measurement of same-day visitors. This change accounts, in part, for the outsized increase in domestic traveler-trips between 2014 and 2015.

Source: Vietnam General Statistics Office (GSO).

II.7 Relative to the rest of developing Southeast Asia²¹, Vietnam's strong inbound tourism growth has enabled it to capture a growing share of tourism demand to the region, and bring its visitor count closer to the region's top performers. Over both the past 5 and 10 years, Vietnam's international visitor growth has consistently outpaced that of its competitors in developing Southeast Asia (Figure II.2), with the exception of Myanmar, where the higher 10-year growth reflects in large part its low starting level of visitors. As a result, Vietnam has been gradually capturing greater market share, not only of total tourism arrivals to developing Southeast Asia, but also of those to the broader East Asian region, including the larger and more developed tourism markets such as Singapore, China, Japan, and South Korea. Vietnam has now caught up with Indonesia in terms of overall number of international arrivals and narrowed the gap with the top arrival countries in the region—Malaysia and Thailand. On a per capita basis (i.e. factoring in relative country size), Vietnam's arrivals also appear to have significantly more room to grow compared to Malaysia and Thailand, where arrivals are already roughly 80 percent and 55 percent of their respective national populations.

²¹ Indonesia, Malaysia, Thailand, Philippines, Myanmar, Cambodia, Lao PDR, and Vietnam. This grouping is effectively the "developing economy" subset of ASEAN, and therefore excludes the high-income countries Singapore and Brunei-Darussalam.

Figure II.2: Vietnam's international arrival trends in a regional context



Note: Arrivals per capita is based on 2017 population figures.

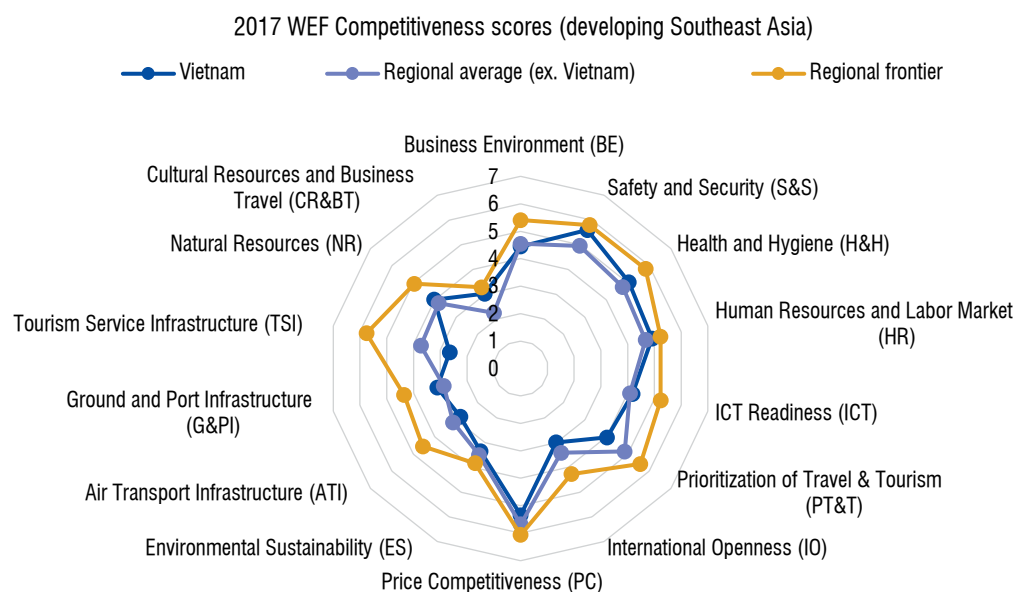
Sources: WDI, UNWTO, GSO.

II.8 Vietnam's growing regional market share appears to reflect, in part, recent improvements to various dimensions of its tourism competitiveness. The World Economic Forum's (WEF) Tourism Competitiveness Index scores and ranks countries according to a variety of physical and institutional factors relevant to tourism. In terms of its overall score on this index in 2017, Vietnam was ranked 67th globally, stood on par with the average of the rest of its regional competitors, but was not the top regional performer (i.e. on the regional "frontier") in any single dimension of competitiveness (Figure II.3). However, since 2015 (the prior iteration of the index), Vietnam has achieved the largest overall improvement in competitiveness among its regional peers, with its largest strides coming in the areas of ICT readiness, international openness, safety and security, and ground and port infrastructure (Figure II.4).

II.9 Despite these gains, important weaknesses in relative competitiveness remain. Vietnam still lags the rest of the region considerably with regards to its tourist service and air transport infrastructure, as well as its prioritization of the tourism sector. The latter primarily reflects a relatively low allocation of government spending to the tourism sector (1.4 percent of total government expenditure in 2017, 114th among global comparators), despite its declared strategic importance, as well as the limited coverage and comprehensiveness of Vietnam's tourism sector statistics (116th globally). On a global basis, it is also important to note Vietnam's weakness in the area of environmental sustainability (129th globally)—

although it ranks on par with its regional comparators, the region as a whole performs very poorly in this dimension. Finally, in the area of international openness, Vietnam's visa regime, which has been liberalized somewhat in recent years, still lags compared to the relatively more open visa policies of key regional competitors.²²

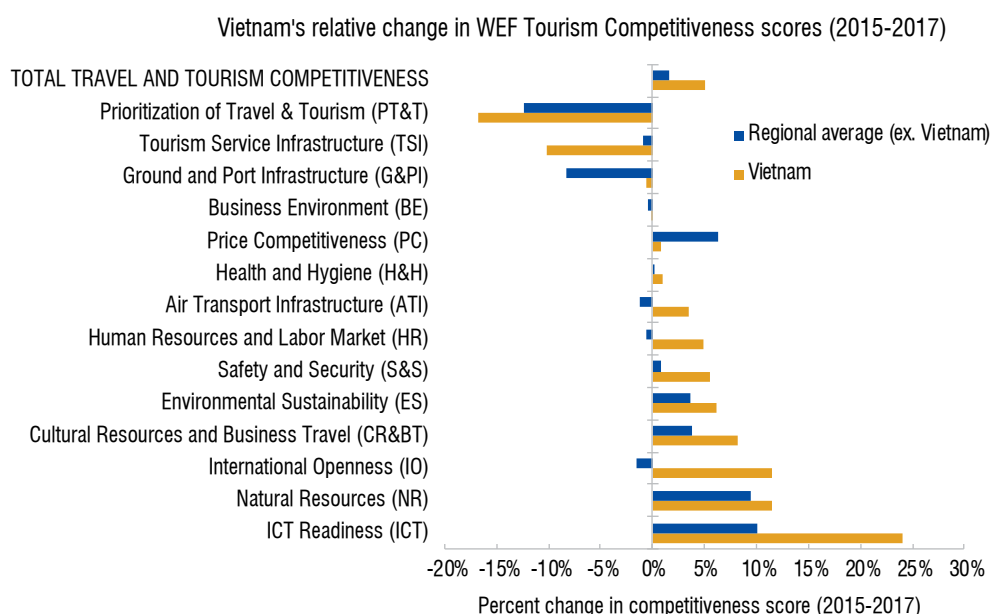
Figure II.3: Vietnam's WEF tourism competitiveness scores in a regional context



Note: Scores are on a 0-7 scale (7=most competitive).

Source: World Economic Forum (WEF).

Figure II.4: Changes in Vietnam's WEF competitiveness from 2015 to 2017

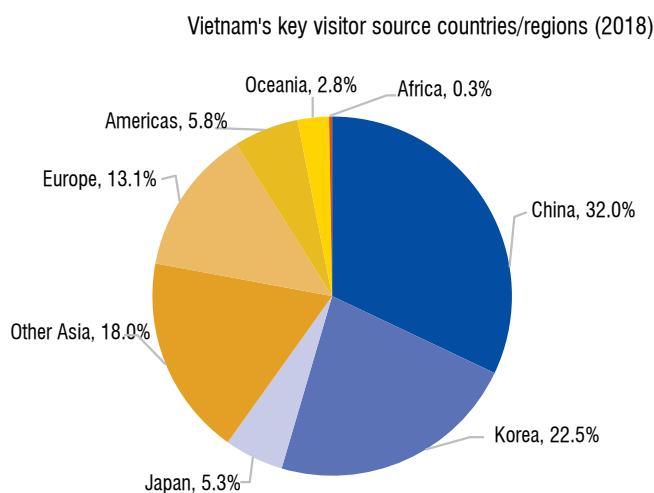


Source: WEF.

²² In early 2017, Vietnam extended its visa exemption policy to 5 additional European countries and introduced an electronic visa system for 46 nationalities. Vietnam currently grants visa-free travel to nationals of 26 countries. This compares to visa-free travel for 57 nationalities to Thailand, 168 nationalities to Indonesia, 162 nationalities to Malaysia, and 132 nationalities to the Philippines.

II.10 The vast majority of international visitors to Vietnam originate from Northeast Asia, especially China, South Korea and Japan. Collectively, these three countries accounted for 60 percent of Vietnam's international arrivals in 2018 (Figure II.5). A significant share of visitors (11 percent) also come from the nearby Southeast Asian nations. Other top visitor source markets are the United States (4.4 percent) and Russia (3.9 percent), reflecting their strong historical Cold War era links to Vietnam.

Figure II.5: The bulk of Vietnam's international visitor originate from Northeast Asia



Source: GSO.

II.11 These key visitor source markets have not changed significantly in recent years, but there has been a marked increase in the share of Chinese and Korean visitors—relatively lower-yielding visitor segments. Most top source markets recorded robust double-digit growth rates in the range of 10-20 percent between 2015 and 2018, but in the case of China and South Korea, annualized growth over this period averaged around 43 percent, a remarkable increase given the already-high level of arrivals from these countries and their maturity as tourism source markets for Vietnam. As a result, the share of total arrivals from China and South Korea has ballooned from 31 percent in 2012 to 55 percent in 2018. While this trend has benefitted overall arrival numbers, visitors from these two markets tend to have shorter lengths of stay, on average, than visitors from longer-haul markets such as Europe and the United States, and, in the case of China, also spend relatively less per day (Figure II.6). This shift therefore represents an erosion in the overall economic yield of Vietnam's international visitor mix, evidenced by the stagnant average daily spending of visitors between 2014 and 2017 (US\$96), and a decline in their average length of stay (from 11.1 days in 2013 to 10.2 days in 2017).²³

²³ Estimates are based on the GSO tourist survey, and refer to the average length of stay (ALOS) of international visitors excluding those who are overseas Vietnamese returning home (who tend to stay slightly longer, on average). The decline in ALOS in recent years is also partly attributable to improvements in regional transport connectivity (particularly the growth of low-cost air carriers), which have enabled shorter and more affordable visits, particularly from nearby Southeast Asian nations.

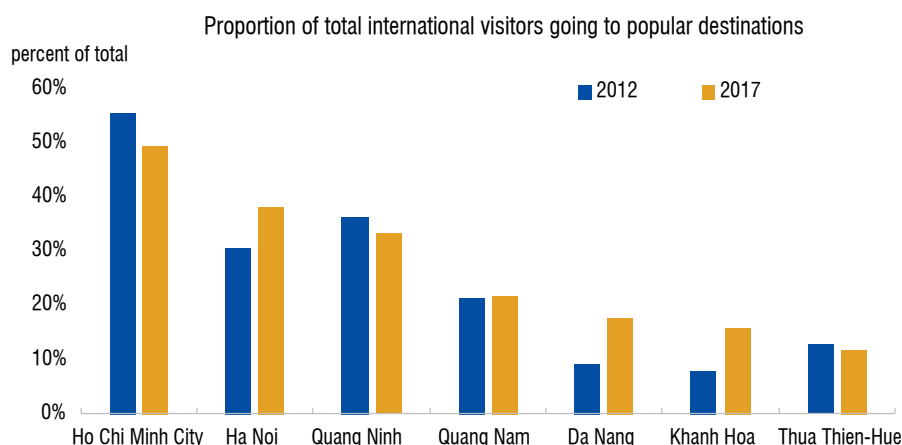
Figure II.6: Characteristics of international visitor source markets



II.12 At the same time as the nationality structure of foreign arrivals has become more concentrated, the demand patterns by purpose of visit and destination have remained relatively stable. More than two thirds of international visitors continue to come to Vietnam primarily for holidays and leisure²⁴, as they have been doing for most of the past decade, and the business or MICE (meetings, incentives, conference, and events) segments do not appear to have grown in relative size. More importantly, foreign visitors have, on balance, continued to flock to the same set of popular local destinations. While the share of foreign tourists choosing to visit Ho Chi Minh city has declined slightly over the past 5 years, Hanoi has become increasingly popular (in part as a gateway into Vietnam), as have the beach cities of Da Nang and Nha Trang (in Khanh Hoa). Meanwhile, the provinces of Quang Nam (home of the Hoi An Ancient City), Quang Ninh (gateway to Ha Long bay), and Thua-Thien Hue (featuring the old imperial capital of Hue) have broadly maintained their popularity (Figure II.7). Although there is no precise definition or measure of the “mass market” tourism segment in Vietnam, the continued tendency of visitors to choose these well-established destinations which are (1) the staple of most tour packages, (2) predominantly urban sites, and (3) tend to have a wide spectrum of accommodation for multiple classes of travelers and price points, certainly seems to suggest that the bulk of Vietnam’s recent tourism growth has likely been mass market in nature.

²⁴ The estimated breakdown of international visitors by purpose of visit varies depending on the Source: immigration data (last reported by purpose of visit in 2014) showed leisure travelers accounting for 60 percent of total visitors. The GSO survey of tourists found that 82 percent of international visitors came for leisure purposes in 2013 and 85 percent in 2017, while the corresponding figure from the VNAT visitor surveys was 74 percent in 2014 and 77 percent in 2017. The average leisure visitor share across these three sources is 72 percent in 2013/14 and 81 percent in 2017.

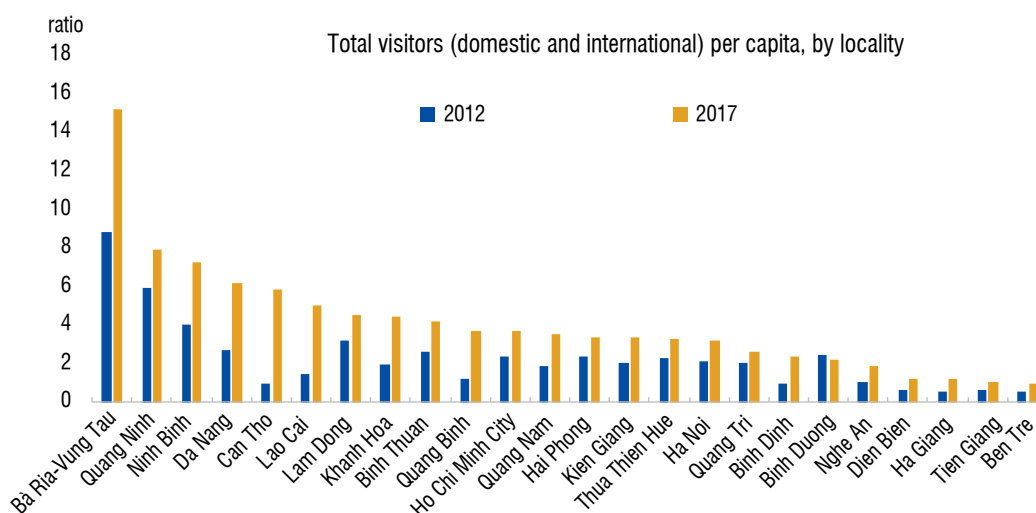
Figure II.7: Key local destinations for international visitors to Vietnam



Source: Data compiled from local Departments of Culture, Sports, and Tourism.

II.13 The lack of product and location diversification is placing strains on Vietnam's most frequently-visited destinations and elevating risks of overcrowding. Since the recent acceleration in international arrivals has coincided with rapid growth in domestic tourism, destinations which are also popular with domestic travelers are facing increasing over-tourism pressures, especially in months when the seasonality of domestic and foreign travelers overlaps. These include Ho Chi Minh City, Hanoi, Da Nang, Khanh Hoa, Quang Ninh and Quang Nam, among others. Indeed, looking at the total (international plus domestic) visitors per capita to these destinations—one proxy for the degree of tourism intensity—it is clear there has been a significant increase over the past 5 years from already-high levels (Figure II.8). This rising visitor traffic, relative to the local populations, is already being reflected in certain measures of over-tourism. A recent study by TravelBird²⁵, an online travel provider, has ranked Hanoi as fifth worldwide on the list of cities at highest risk of over-tourism and strained tourism carrying capacity, behind crowded tourist hotspots such as Barcelona, Amsterdam, and Venice. Similarly, a joint McKinsey and WTTC assessment of overcrowding in global tourism destinations placed Ho Chi Minh City in top quintile of cities where the visitor experience is at high risk of degradation due to overcrowding.²⁶

Figure II.8: Visitor numbers have increased significantly relative to local populations



Source: Data compiled from local Departments of Culture, Sports, and Tourism.

²⁵ TravelBird. <https://www.traveldailynews.com/post/most-welcoming-cities-and-the-effects-of-over-tourism>

²⁶ McKinsey and Company (2017). Coping with Success: Managing Overcrowding in Tourism Destinations.

II.14 These patterns of tourism development threaten to negatively affect the quality of the visitor experience in many of Vietnam’s destinations, contributing to low rates of repeat visits. The share of repeat international visitors to Vietnam stood at around 32-40 percent in 2017, depending on the survey source,²⁷ which is low compared to key regional competitors such as Thailand, where around 60 to 70 percent of international arrivals in 2016 were returning visitors, and Indonesia, which had 55 percent repeat visitors in 2016.²⁸ Part of this reflects Vietnam’s status as an emerging destination—at the margin, most new visitors are coming to discover the country for the first time, increasingly incentivized by the beauty and variety of its attractions and the relative affordability of visiting (Table II.2). However, despite some improvements since 2013, a significant share of these visitors still come away dissatisfied with important elements of their experience, such as their interactions with local vendors, the littering habits of locals, traffic unsafety, and the lack of tourism products and services (the latter of which is perceived to have worsened between 2013 and 2017). Left unaddressed, these issues, in combination with the increased crowding in destinations, risk deterring first-time visitors from returning and fueling negative word-of-mouth referrals.

Table II.2: Sentiments of international visitors regarding their experience in Vietnam

Key reasons for visiting (% of visitors surveyed)			Reasons for bad impression (% of visitors surveyed)		
	2013	2017		2013	2017
Attractive site	62.9	71.2	Cheating of goods and services	31.1	24.3
Convenient access/transport	12.7	16.3	Having trouble with vendors	30.9	22.4
Value of currency	21.1	23.8	Lettering habits of locals	27.6	25.8
Ease of immigration procedures	10	10.1	Traffic unsafety	39.1	42.7
Safety	29.2	27.7	High cost of goods and services	5	4.6
Other	14.6	13.5	Poor foreign language skills of service employees	8	8.4
			Bad attitude of hotel employees	2.6	2.4
			Lack of knowledge of tour guide	3.9	3.2
			Lack of tourism products and services	16.1	18

Source: GSO Survey of Tourist Expenditures (2013), GSO Features of Tourists (2017).

II.3 ECONOMIC IMPACTS OF TOURISM

II.15 The rapid increase in international visitors to Vietnam has brought a significant net inflow of foreign income into the country. Revenues from international visitor spending have nearly doubled in absolute value from 2013 to 2017 and risen both as a share of Vietnam’s GDP and of total goods and services exports (Figure II.9). Outbound tourism spending by Vietnamese residents has also grown robustly during this period, but even after accounting for these tourism “imports”, Vietnam’s travel services balance has remained positive, meaning tourism consistently provides a net inflow of external income to

²⁷ According to GSO’s visitor survey, the rate of repeat visitors (those who have been to Vietnam two or more times) stood at 31.6 percent in 2017, down from 33.9 in 2013. In contrast, the VNAT Survey of International Visitors reports an increase in the repeat visitor rate from 30 percent in 2014 to 40.4 percent in 2017.

²⁸ The repeat visit rate in Indonesia is likely even higher, since the question on Indonesia’s 2016 international visitor exit survey asks the number of times the visitor has visited in the past 3 years, which means that those declaring only visit during this period may actually have also previously visited.

Vietnam. Moreover, travel services represent Vietnam's single largest services export, accounting for 68 percent of total services exports in 2017.

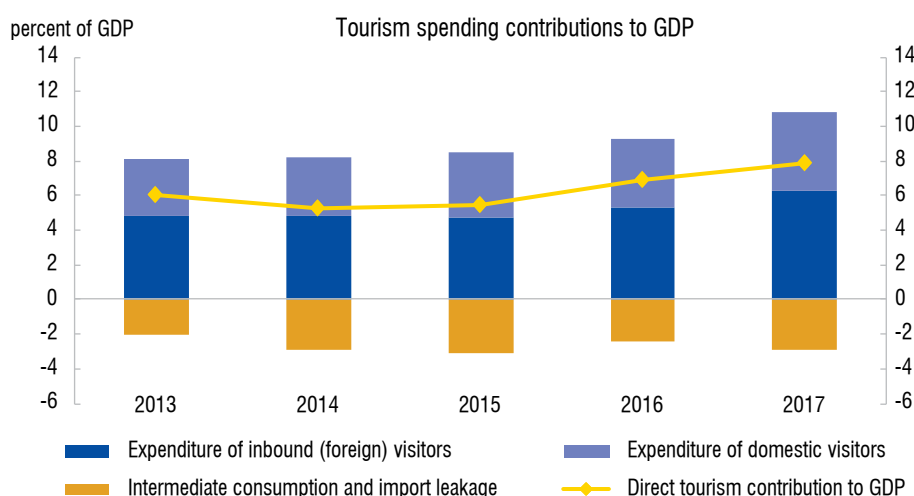
Figure II.9: Tourism has been a key source of foreign income for Vietnam



Source: VNAT Annual Tourism Reports, Tourism Information Technology Center (TITC).

II.16 In combination with the robust spending by domestic tourists, tourism's direct contribution to Vietnam's economy and employment has been rising steadily. For each dollar of direct visitor spending on tourism-linked activities (travel, accommodation, tour services), a portion goes toward imported goods and services (also known as spending "leakage"), meaning its direct contribution to GDP is generally less than one-for-one. In Vietnam, this tourism leakage factor has been relatively low—around 0.27 cents per dollar compared to an average of 0.47 cents for the Southeast Asia region²⁹—meaning a relatively large share of recent visitor spending growth has been retained in the domestic economy, helping to drive the tourism sector's contribution to GDP from 6 percent in 2013 to 7.9 percent in 2017 (Figure II.10). Furthermore, VNAT estimates that the tourism sector directly employed 750,000 workers in 2017 (around 1.4 percent of Vietnam's total employment), up from roughly 450,000 in 2013.³⁰

Figure II.10: The tourism sector's importance to Vietnam's economy has been growing



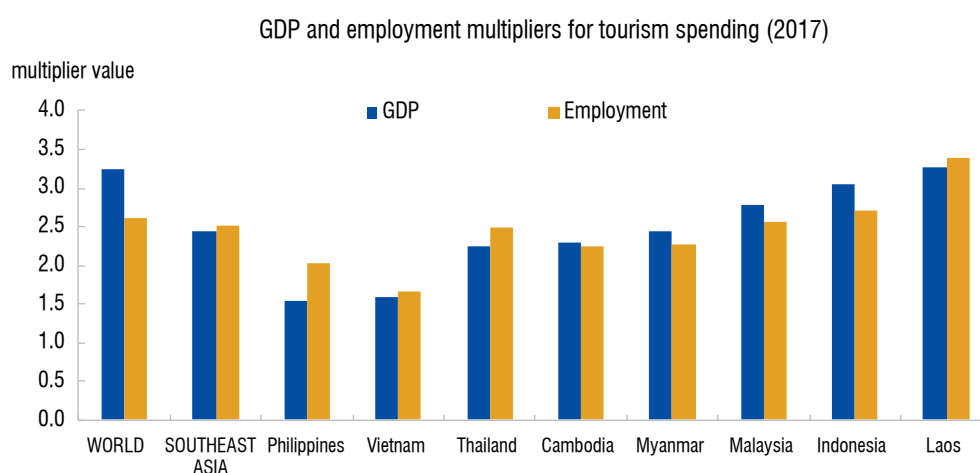
Source: Vietnam Tourism Satellite Accounts (TSA) as estimated by TITC, GSO.

²⁹ WTTC. 2018. Travel and Tourism Economic Impact 2018: Vietnam.

³⁰ ITDR. 2017. Analysis of Current Development Status of Vietnam Tourism.

II.17 The multiplier effect of tourism spending on the total economy, however, is lower in Vietnam compared to regional and global averages. The World Travel and Tourism Council (WTTC) estimates that, in 2017, every 1 dollar of tourism spending in Vietnam that was retained in the domestic economy (i.e. did not leak abroad through imports) created an additional 0.6 dollars in income for the rest of the economy via (i) the additional indirect demand it generated for other economic sectors with backward and forward links to tourism, and (ii) the additional spending it induced among employees earning income in these linked sectors. This tourism GDP multiplier value of 1.6, however, is considerably smaller than elsewhere in developing Southeast Asia, where it averaged around 2.4 in 2017, and also lower than the global average for the tourism sector of 3.3 (Figure II.11). The same is true for the tourism spending multiplier impact on employment in Vietnam—around 1.7, compared to regional and global averages of 2.5 and 2.6, respectively. This points to a need to strengthen tourism sector linkages to the rest of Vietnam’s economy, enabling workers and firms in other sectors to indirectly benefit from Vietnam’s growing tourism.

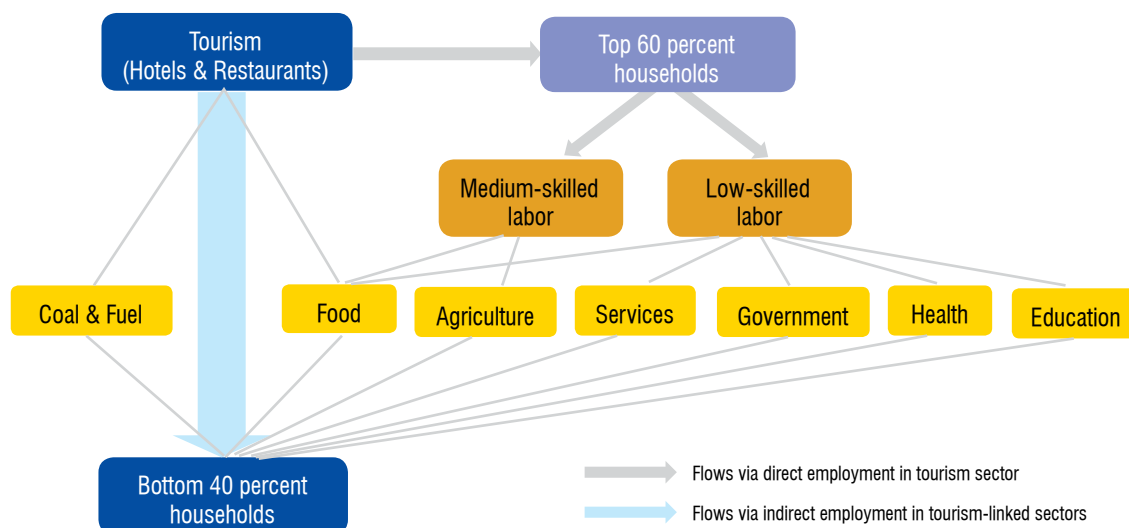
Figure II.11: Multiplier effects of tourism spending



Source: World Travel and Tourism Council (WTTC).

II.18 Beyond its aggregate economic benefits, tourism, due to its tendency to employ high shares of low-skilled, rural, and youth workers, has had high pass-through effects on poverty reduction and increased shared prosperity in Vietnam. Using structural path analysis based on Vietnam’s 2011 social accounting matrix (SAM), Figure 12 maps how the tourism sector, represented by hotels and restaurants, disproportionately benefits households in the bottom 40 percent of the income distribution in Vietnam. Over half of the benefits of increased spending on tourism flow directly to the bottom 40 percent. An additional 10 percent of benefits are passed indirectly to the bottom 40 percent through the top 60 percent households, predominantly through sectors such as food, agriculture, and services.

Figure II.12: Flow of tourism benefits to the bottom 40 percent in Vietnam

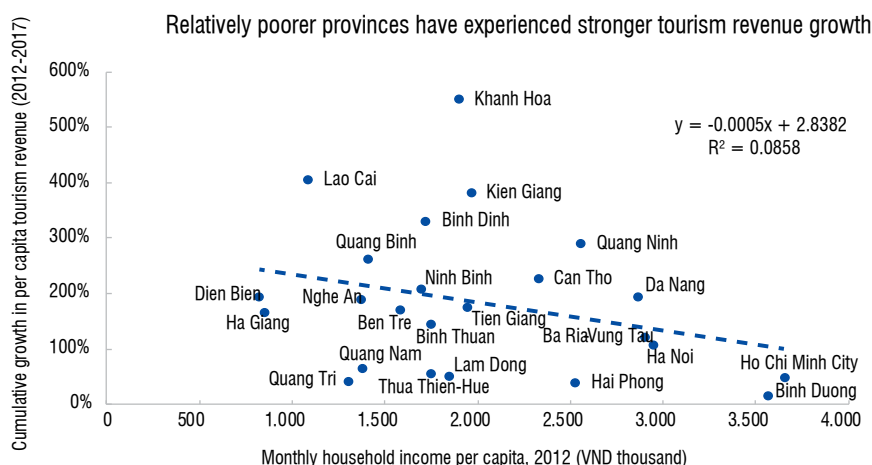


* This figure depicts only the benefits of tourism (hotel and restaurant) spending that flow to the bottom 40 percent, which represent 64 percent of total tourism spending. The width of the arrows connecting the different elements (e.g. sectors) in the figure is proportionate to the relative magnitude of the flows between them.

Source: Author's estimations using Vietnam's 2011 Social Accounting Matrix (SAM).

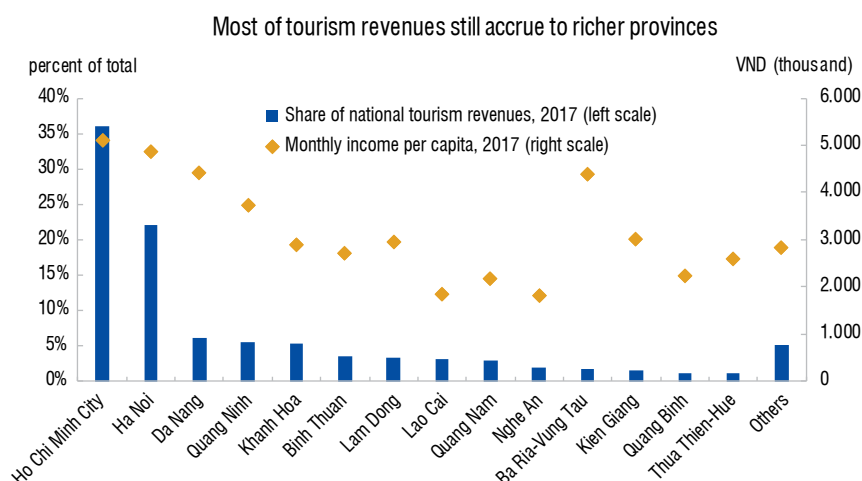
II.19 Furthermore, tourism also appears to have facilitated some redistribution of income from richer to poorer localities in Vietnam. On average, provinces and municipalities with lower levels of income per capita in 2012 experienced relatively faster growth in tourism revenues per capita in the subsequent 5 years (Figure II.13). In some localities, such as Khanh Hoa, this revenue growth outperformance is the result of relatively faster growth in international visitors, who tend to spend more on average, than their domestic counterparts. In other cases, such as Lao Cai and Ninh Binh, revenue growth has been driven by the surge in domestic visitors, which has more than compensated for their relatively lower average spending. Despite this promising trend of tourism-led income “convergence”, Vietnam’s richer provinces still capture the majority of tourism sector revenues (Figure II.14), and the geographic distribution of tourism earnings remains highly concentrated—60 percent of revenues accrue to just 2 of Vietnam’s 63 localities (Ho Chi Minh City and Ha Noi), and nearly 90 percent to only 9 localities.

Figure II.13: Tourism revenue growth among localities



Source: Author's compilation of data from local Departments of Culture, Sports, and Tourism.

Figure II.14: Tourism revenue distribution by locality



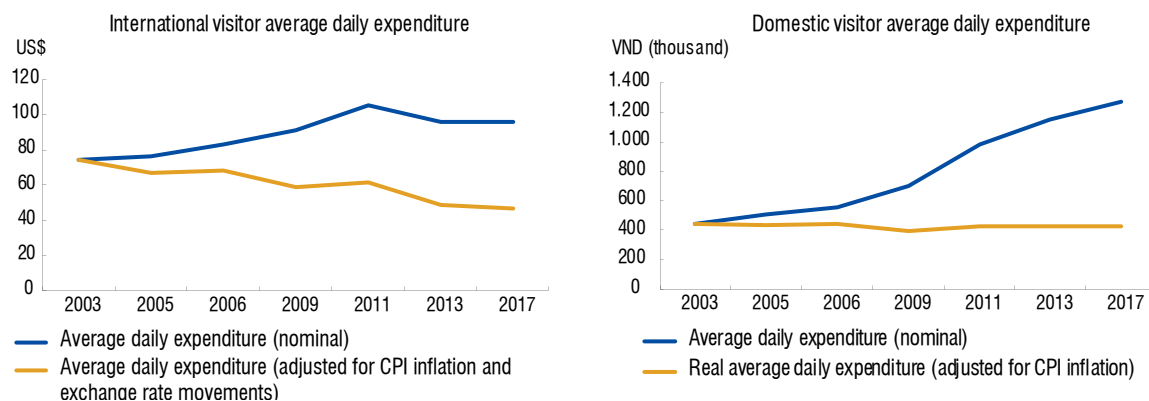
Note: Tourism revenue shares are calculated based on sample of 24 localities with the largest number of foreign arrivals in 2017.

Source: Author's compilation of data from local Departments of Culture, Sports, and Tourism.

II.20 In light of these generally-favorable economic impact dynamics of tourism spending in Vietnam, the recent decline in average daily visitor spending poses risks to the durability of tourism benefits. According to the GSO's tourist expenditure survey,³¹ which has been conducted every few years since 2003, the average daily spending per international visitor peaked in nominal terms in 2011, at US\$106, and has since declined and leveled off at around US\$96 (Figure II.15). However, given the continued depreciation of the Vietnamese dong vis-à-vis the U.S. dollar over the past decade (which raises visitors' local purchasing power per USD), and local price inflation (which erodes purchasing power), it is more instructive to look at the evolution of average expenditure adjusted for these two opposing effects. On this adjusted basis, average daily international visitor spending has been on a steady decline since 2003. As discussed above, in the past several years, this decline predominantly reflects the shift towards a larger share of Chinese visitors in the nationality mix of inbound tourism, who spend less on average per day. For domestic visitors, average daily spending has been rising in nominal terms since 2003, but has effectively been flat in real terms. In other words, although Vietnamese nationals are traveling domestically in greater numbers, they do not appear to be allocating a greater share of their real incomes to tourism-related spending.

³¹ Visitor expenditure data is difficult to collect and different surveys can often yield considerably different results. This is the case in Vietnam, where GSO and VNAT both conduct visitor expenditure surveys. The analysis in this chapter elects to use the GSO's survey, given its longer history (since 2003), consistent sampling and methodology, and its use in the calculation of Vietnam's Tourism Satellite Account (TSA). The VNAT survey, in contrast, has only been conducted twice to date (in 2014 and 2017). The GSO surveys visitors at their accommodation establishments, while VNAT conducts its survey at entry/exit gateways. The two surveys paint a contrasting picture of visitor expenditure since 2013—the GSO survey shows stable daily average expenditure of international visitors, whereas the VNAT survey shows a considerable increase.

Figure II.15: Trends in daily average expenditure of international and domestic visitors



Source: GSO tourist expenditure surveys.

II.21 If this expenditure erosion persists, Vietnam will have to rely on increasingly faster growth in visitor numbers to sustain or increase the economic yield of tourism activity. Such a dependence on a greater volume of tourism could exacerbate current overcrowding pressures in certain destinations, place additional strain on local infrastructure, and degrade key natural and cultural tourism assets.

II.4 CHALLENGES TO SUSTAINABLE TOURISM DEVELOPMENT

II.22 The characteristics of Vietnam's recent tourism development—rapid visitor growth, declining visitor yield, and rising overcrowding pressures—have revealed important challenges that will need to be addressed to ensure that future tourism growth is more sustainable, inclusive, and geographically-balanced.

Master plan implementation compliance

II.23 In Vietnam there is a strong recognition of the importance of demand-driven and integrated master-planning for tourism destinations. Unlike some other countries in the region, where tourism has been encouraged but left to develop in a largely organic and disorderly manner, Vietnam has, for some time now, emphasized a more structured planning approach to the tourism sector. Master plans have been regularly developed at both the national level (the most recent one in 2012 for the 2013-2017 period) and for specific provinces, municipalities, and their encompassing tourist zones, including, where relevant, trans-jurisdictional tourism zones such as the Mekong Delta. In the last 2 years alone, 9 such plans have been developed and approved (1 regional and 8 tourist zones).³² These plans are periodically updated based on evolving circumstances, targets are recalibrated, and retrospective analyses of implementation progress are also frequently undertaken to inform these updates.³³

II.24 However, adherence to these master plans has often proven problematic, potentially undermining tourism development objectives and sustainability. Many of the plans have either not been properly followed or have been modified during the course of their implementation, often on the basis of special business interests rather than objective performance metrics. This has sometimes enabled investments which pose threats to the sustainability of tourism growth. In Da Nang, for example, many small parcels of land that were originally zoned for residential use have, over time, been converted

³² VNAT Annual Tourism Reports, 2016 and 2017.

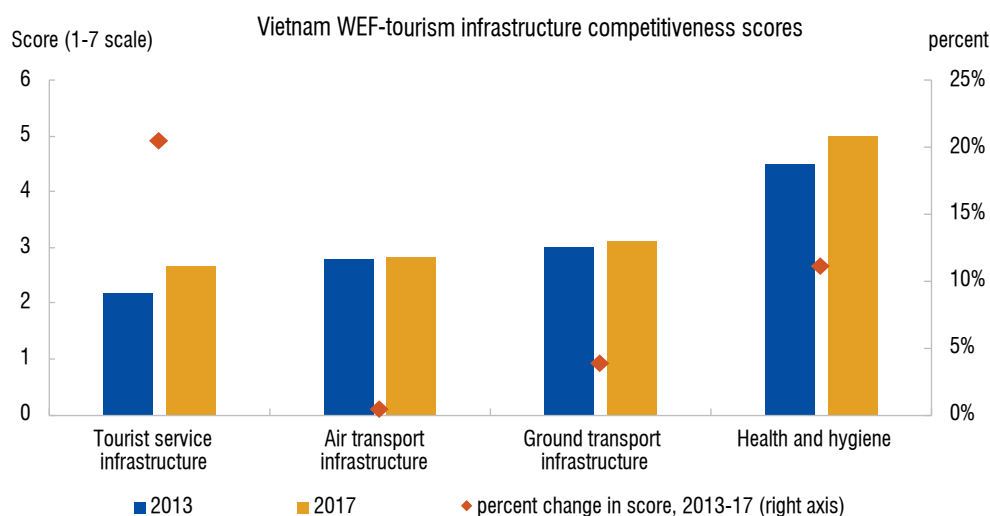
³³ See, for example, Quang Nam Province. 2016. *On the results of 10 years implementation of Resolution No. 06-NQ/TU by the XIX Quang Nam Provincial Party Committee and direction, solutions for tourism development in the period 2017-2025.*

to large hotels whose demands for basic services (e.g. electricity, water, solid waste and wastewater disposal) far exceed the amounts initially provisioned for residential land plots. Another example is the proliferation of privately-financed cable car services in tourist areas throughout the country, which have facilitated access for mass groups of visitors to sites where such visitor volumes and peak loads were not necessarily provisioned for in the respective tourism master plans. Going forward, implementation compliance with planning objectives and targets will have to be more closely monitored and enforced to avoid such potentially-detrimental investment patterns and developments.

Infrastructure capacity strains

II.25 The rapid increase in tourism arrivals and the accompanying expansion in accommodation supply it has stimulated risk overwhelming transport and services infrastructure. As mentioned earlier, the recent rise in tourism intensity—as measured by the increase in visitors per capita, both at the national level and in various localities—is leading to problems of overcrowding, traffic congestion, and pollution, particularly in already-densely populated urban destinations such as Hanoi, Da Nang, and Ho Chi Minh City. Most tourism-related infrastructure investment in recent years has focused on expanding the supply of accommodation to keep up with this visitor growth. Over the past 3 years (2015-2017), the stock of rooms nationwide has grown nearly 7 percentage points faster, on average, than the preceding 7 years (16.3 percent compared to 9.6 percent), and the year-on-year increase in 2017 (20.1 percent) was the single largest in the last 15 years. Each new hotel room brings with it increased demands for electricity, water, waste management, and other basic services. However, improvements to such services capacity and other critical infrastructure to support the rapidly-increasing volume of visitors have been lagging. According to the WEF Tourism competitiveness index, between 2013 and 2017, while Vietnam’s improvement in tourist service infrastructure—which primarily captures the increase in accommodation capacity—was significant, complementary improvements to air transport infrastructure, ground transport infrastructure, and health and hygiene (which captures sanitation and water access) lagged considerably, and were even negligible in the case of air transport (Figure II.16).³⁴

Figure II.16: Tourism-relevant infrastructure constraints



Source: WEF.

³⁴ Indeed, many airports in Vietnam’s major tourist cities, such as Hanoi, Ho Chi Minh City, Da Nang, and Hue are already facing overload troubles—Tan Son Nhat International Airport in Ho Chi Minh City, for example, was built to accommodate 25 million passengers per year, but received 32 million in 2016.

II.26 The supply of tourism workers has been increasingly unable to keep up with the demands of the rapidly-growing sector. According to VNAT estimates, Vietnam's tourism sector directly employed around 750,000 workers in 2017, but will need roughly 870,000 workers by 2020 to keep up with demand growth, or 40,000 per year.³⁵ However, current tourism schools churn out only around 15,000 graduates nationwide each year, a significant shortfall. This labor supply gap is most clearly seen in the growing shortage of qualified tour guides—in 2015, there were approximately 1.57 licensed tour guides per 1,000 international visitors, but this ratio has since fallen to 0.96 in 2017. For guides with licenses to tour domestic visitors, the ratio has similarly declined from 0.17 guides per 1,000 domestic visitors in 2014, to 0.11 in 2017. In certain localities, the strains on tour guide capacity are even more pronounced—the international guides-to-visitor ratio is as low as 0.04 in provinces such as Ba Ria-Vung Tau, Ninh Binh, and Binh Thuan (Figure II.17).

II.27 Importantly, the tour guide workforce also appears to exhibit a noticeable gender imbalance. The ratio of male-to-female tour guides is 2 at the national level, but is as high as 4.6 in some localities. This potentially suggests the presence of either explicit or implicit barriers to female entry into this segment of tourism services, or a structural weakness in the recruitment process or training of women in tourism schools.

Figure II.17: The scarcity of tour guides is acute in many localities



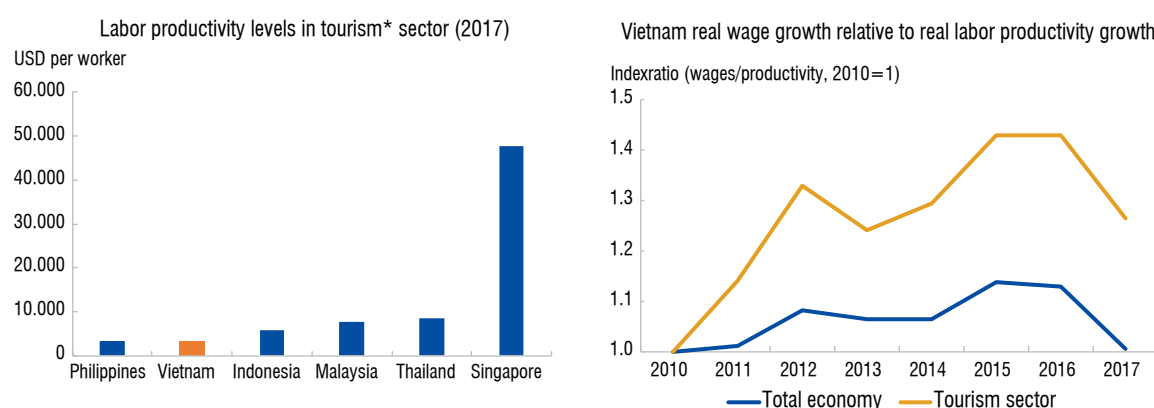
Source: VNAT Annual Tourism Reports, GSO.

II.28 Low labor productivity levels in Vietnam's tourism sector, relative to other sectors in the economy and to tourism labor productivity of regional competitors, also suggests the presence of significant skills gaps. Real labor productivity growth in Vietnam's accommodation and food services sector (the closest proxy for the tourism sector under the ISIC Rev. 4 industry classification) has languished for most of the past decade—growing at an average annual rate of 1.4 percent since 2010, compared 4.7 percent

³⁵ Vietnam News, "Supply of skilled tourism workers falls short", April 2017, <https://vietnamnews.vn/society/374395/supply-of-skilled-tourism-workers-falls-short.html#uK1mGBuMyxvgjRvI.97>; and "VN Lacks Human Resources in Tourism", November 21, 2018, <https://vietnamnews.vn/society/422369/vn-lacks-human-resources-in-tourism.html#v2dLSLMbqtlLux5y.97>

for the overall economy—resulting in a labor productivity level for the sector that is only 23 percent of the economy-wide average (in 2017), and among the lowest in Southeast Asia (Figure II.18). Furthermore, while economy-wide average real wages in Vietnam have grown broadly in line with real productivity over this period, the real wage-productivity growth gap in the tourism sector has increased (Figure II.18), suggesting persistent skills shortages and a bidding up of wages to attract skilled labor to the sector.³⁶ Indeed, data from the Vietnam Association of Tourism Training show that only 42 percent of workers in the sector are trained specifically in tourism, whereas 38 percent have come from other sectors, and 20 percent have no official training. A large percentage also fail to meet foreign language requirements.³⁷ The upside is that workers who invest in and acquire the skills sought by employers in the sector stand to benefit, at the least in the short term, from this wage-productivity “premium.”

Figure II.18: Tourism sector labor productivity and wages



*Tourism sector is approximated by accommodation and food services (per the ISIC Rev. 4 classification).

Sources: GSO, International Labor Organization (ILO), Pacific Asia Travel Association (PATA).

Environmental, cultural and social sustainability

II.29 If not properly managed, rapid tourism growth threatens to exacerbate Vietnam’s already-elevated environmental pressures and poor sustainability practices. Southeast Asian countries are among the worst performers globally in terms of environmental sustainability, but Vietnam lags even relative to this low regional benchmark. In that latest 2017 WEF Tourism Competitiveness rankings, Vietnam ranked below the developing Southeast Asia average in nearly all dimensions of environmental sustainability considered in the index, with the exception of baseline water stress and coastal shelf fishing pressure (Figure II.19). Vietnam’s relative weaknesses are especially pronounced with regards to air pollution (i.e. levels of particulate matter), wastewater treatment, and the overall stringency of environmental regulations. As increasing numbers of tourist continue to flow in, stress on these three weak points will only grow. The same is true of other key environmental threats not captured in the WEF index, such as the accumulation of plastic waste, which is already among highest in the world in Vietnam (as is the mismanagement of this waste) and a significant threat to land and marine ecosystems.³⁸ Indeed,

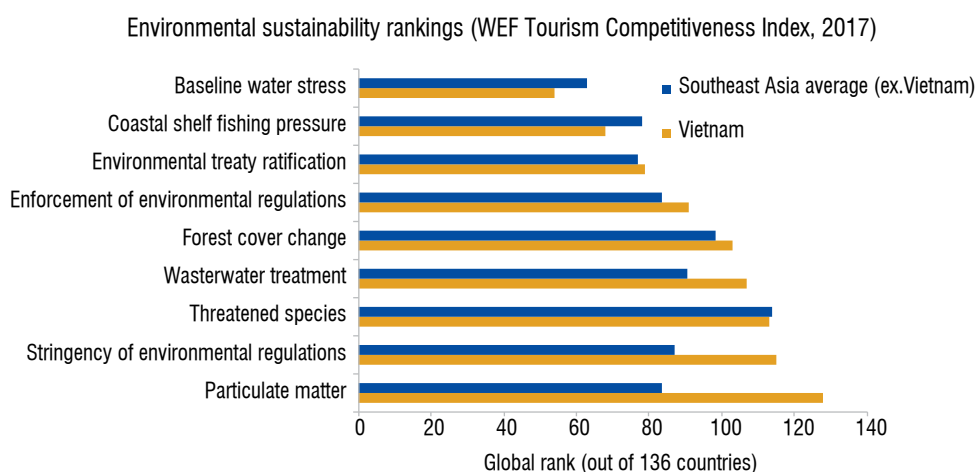
36 Faster wage growth in a sector, relative to productivity, implies the share of income accruing to labor is rising (relative to the capital share), which usually results from increased worker bargaining power. However, since there is no reason, a priori, to expect that worker bargaining power in Vietnam is stronger in the tourism sector than in other sectors, a skills shortage is the more likely interpretation of the observed growing wage-productivity gap.

37 Vietnam News, “Supply of skilled tourism workers falls short”, April 2017, <https://vietnamnews.vn/society/374395/supply-of-skilled-tourism-workers-falls-short.html#uK1mGBuMyxvgjRvI.97>

38 According to Jambeck, J.R., et. al (2015), Vietnam is the fourth worst country globally in terms of its plastic waste problem, based on an index of indicators measuring, among other things, the levels of plastic waste generated, the share of this waste that is mismanaged, and the degree to which the waste flows as debris into the marine environment.

examples of growing piles of plastic bags and other trash on once-pristine beaches across Vietnam are increasingly commonplace these days.

Figure II.19: Vietnam lags the region in multiple dimensions of environmental sustainability



Source: WEF.

II.30 Destinations where natural assets represent the main tourism attraction are especially at risk.

In Ha Long Bay (Quang Ninh province), pollution and damage to marine wildlife from tourist boats and floating fishing villages in the Bay have been an ongoing issue for some time. Although the government has taken important remedial measures in recent years, such as relocating fishing villages and tightening regulations on boat emissions, high boat traffic and an aging boat fleet continue to pose risks, not only for the local environment but also for the overall tourist experience. Similarly, in the Mekong Delta region, booming river tourism has increased waste and pollution in and along the river basin, threatening the livelihoods of local species, ecosystems, and communities. In Phong Nha-Ke Bang National Park (UNESCO's World Heritage site), in Quang Binh province, plans to construct a new cable car leading up to Son Doong cave have incited fears about the potential damage to the surrounding forest from the construction process, and to the cave ecosystem from the surge in visitors the cable car would enable.³⁹

II.31 Rampant tourism growth also threatens the sustainability of key culture-based tourist areas.

In Hoi An, for example, the number of visitors (domestic and international) to the Ancient City has doubled in the last two years (from 1.2 million in 2015 to 2.4 million in 2017). Local authorities have begun charging tourists a fee to enter the Ancient City, but this has yet to materially curtail the rapid visitor growth and associated overcrowding. Meanwhile, in Sa Pa (Lao Cai province)—the gateway town to the surrounding iconic rice paddies, Fansipan mountain, and the cultural Cat Cat village—the proliferation of hotels, resorts, and other tourist-related construction (including a cable car up to Fansipan) has led to increased deforestation, traffic congestion and pollution, and thus beginning to erode the once-idyllic character of the destination and the quality of the overall tourist experience. The risks of this development pattern are not limited to predominantly cultural tourism destinations—in major cities such as Hanoi, historical and heritage buildings are gradually being replaced by modern hotels and other commercial structures to accommodate visitor growth. Without stronger heritage preservation efforts, the cultural tourism appeal of such destinations is at risk of being diminished in favor of more mass-market tourism offerings.

³⁹ Currently, only around 800 people visit Son Doong annually through specialized eco-tours. In comparison, the proposed cable car would bring about 1,000 people every hour, a dramatic shift that could threaten the fragile ecosystems within the cave.

II.32 Finally, the tolerance of local communities to tourism and its potentially-adverse impacts risks being increasingly strained. Over the years, a variety of surveys and studies have been conducted on local community perceptions of and attitudes towards tourism in Vietnam's popular destinations. A 2015 survey of 480 local residents in Hue found that although tourism provided residents with a sense of community well-being and community pride, there was a general dissatisfaction with the quality of employment available, a sense of low empowerment to participate in policy-making and decisions related to tourism.⁴⁰ A similar survey in Hoi An in 2016 found that residents generally perceive tourism as bringing positive economic and sociocultural development, but are concerned about its environmental impacts.⁴¹ In Sa Pa, a series of interviews with local community members in 2012 revealed a perception that tourism has primarily benefited the non-poor and tour operators, although it was, on balance, still viewed as a contributor to poverty alleviation.⁴² These findings reveal a clear risk that public sentiment could turn against tourism if the sector is seen as not bringing sufficient employment or income benefits or its potentially-adverse environmental impacts not properly mitigated.

II.5 CONCLUSIONS AND POLICY PRIORITIES

II.33 Vietnam has been highly successful at increasing visitor arrivals in recent years and reaping the economic benefits from this booming tourism activity. The country has capitalized on surging global and regional tourism demand, effectively captured market share from its Southeast Asian competitors, and is experiencing record growth in both international and domestic visitors. The spending by these visitors has translated into rising employment and incomes for workers and firms in Vietnam's tourism sector, including for relatively poorer localities and segments of the population.

II.34 However, the focus must now shift to developing the sector in a more environmentally, culturally, and socially-sustainable manner. Rapid visitor growth has been achieved, in large part, through a shift to a lower-spending visitor mix, a continued emphasis on mass market tourism products, and increased concentrations of visitors into already-crowded and popular local destinations. This has exposed Vietnam's vulnerabilities in infrastructure capacity, tourism human resources, and environmental sustainability. If left unchecked, this profile of tourism growth risks diminishing its economic impacts, degrading natural and cultural tourism assets, and eroding local community support for tourism amidst perceptions that is not bringing sufficient economic value or enabling local workers and firms to participate and capture their fair share of this value.

II.35 The analysis above suggests several tourism policy and development priorities that, collectively, could help address some of Vietnam's key tourism development challenges. These priorities are detailed below, and also summarized in Table 3 along with some of the key stakeholders responsible for their policy/design/preparation, financing, and implementation. This stakeholder mapping is indicative, rather than exhaustive, and meant to highlight the complex system of actors for a transversal sector such as tourism. Certain actions are under the primary control of government entities, while others require collaboration between the public and private sector. Moreover, within the public sector, different levels of government have overlapping or complementary roles, and in some case differing incentives, which can introduce inconsistencies between the design and implementation of certain measures.

40 Suntiikul et. Al (2016), "Impacts of tourism on the quality of life of local residents in Hue, Vietnam." *Anatolia: An International Journal of Tourism and Hospitality Research*.

41 Adongo and Choi (2017), "Tourism in Hoi An, Vietnam: impacts, perceived benefits, community attachment and support for tourism development". *International Journal of Tourism Sciences*, Vol 17, No. 2.

42 Hall, Garry and Truong (2014). Tourism and poverty alleviation: perceptions and experiences of poor people in Sapa, Vietnam. *International Journal of Tourism Sciences*, Vol 22, No. 7.

- a) **Strategic coordination of destination planning and product development.** The increase in the number of local Departments of Culture, Sports and Tourism in recent years has helped enable a more destination-specific approach to tourism management, but it has also incentivized greater competition among localities to attract visitors and meet local tourism targets, including exploiting their tourism assets in unsustainable ways, and gravitating towards mass-market tourism segments. Furthermore, it has given a competitive advantage to richer provinces with larger tourism promotion budgets. If Vietnam is to successfully transition to higher-value and more sustainable tourism, there must be a more holistic national strategy that (i) encourages localities to develop and promote products which contribute to the diversity of tourism in Vietnam as a whole, and (ii) allocates resources to tourism development in economically-lagging localities to facilitate a more equitable spread of tourism benefits. This more strategic and geographically-balanced approach will require better coordination of master planning between national and local levels, stronger enforcement of these plans (including decisions on land allocation and use), and more vigilant monitoring of private investments to ensure that projects being approved are suited to and supportive of the type of visitors and products that are being targeted for development.
- b) **Product and market diversification** A shift towards higher-spending visitors and away from mass market tourism segments can contribute to several of Vietnam's key tourism objectives—namely the dispersal of tourists away from crowded destinations and a more equitable distribution of tourism benefits. Achieving this requires efforts on two key fronts. First, marketing and promotion must be increasingly targeted at relatively higher-spending visitor source markets, such as Europe and the Americas. Furthermore, since most tourists generally do not visit sites in isolation, but rather as part of broader itineraries within certain geographic clusters (e.g. the Hue-Da Nang-Hoi An corridor), efforts should also be made to market “secondary” tourism attractions in poorer areas within or nearby these existing clusters, so as to better leverage tourism's poverty reduction potential. Second, new and higher-quality tourism products need to be developed, both to encourage visitors to spend more but also to stay longer. This will also help address current visitor perceptions that Vietnam lacks tourism product variety and encourage a higher share of repeat visitors. For destinations with natural and cultural heritage sites and other at-risk tourism assets, such product development and diversification could focus on providing more eco-friendly offerings. Meanwhile, in poorer areas that could potentially be linked to nearby clusters of tourism activity, the development of community-based tourism (CBT) products could be prioritized to help unlock new economic opportunities for local residents. However, stakeholders must ultimately be wary of a supply-driven pursuit of these type of products on the basis of their perceived inclusivity or sustainability. In many cases, ecotourism and CBT are highly site-dependent and have inherent scale constraints that limit their economic impact. This must be weighed against the potentially-greater marginal economic benefit of developing less niche tourism products.
- c) **Strengthening tourism human resources and local economy linkages.** Vietnam's relatively low import leakage of tourism spending compared to the rest of the region suggests the sector already employs a fairly large share of local labor and resources. To sustain this local content, however, the supply of skilled tourism labor, which has become more and more scarce in recent years, will need to grow faster to keep up with accelerating demand. This is particularly important for enabling the development of higher-value, niche, or eco-friendly tourism products, which tend to require more specialized tour guides and knowledge. Furthermore, links to other sectors in the tourism value chain (e.g. agriculture, transport, recreation) will need to be strengthened to help increase the “multiplier” impact of tourism spending on the rest of the economy, which is relatively lower in Vietnam than the rest of the region. This involves ensuring that there is (i) a sufficient quantity of local workers and

firms in the linked sectors that produce the various goods and services demanded by tourists; and (ii) that these local goods and services meet the quality standards required by different tourism market segments. These skills and quality shortages can begin to be addressed through targeted training programs for tourism sector professionals, and technical assistance to firms to obtain various product and service quality certifications.

- d) **Visitor flow management.** In tourist destinations or sites which are either at risk of overcrowding or have already breached capacity limits, it will be important to consider introducing measures or systems for improved visitor flow management. This could include, inter alia (i) use of tiered pricing with higher access fees for more fragile areas (such as the entrance fees charged in Hoi An Ancient City), or setting minimum expenditure thresholds for tour access; (ii) “congestion pricing”, whereby above-average entrance fees are charged for certain tourist sites during peak demand periods; (iii) outright quotas on the maximum number of visitors to certain sites at any given point in time, such as those recently imposed by authorities at the Great Wall of China⁴³; (iv) use of digital technologies to control crowds such as apps allocating visitors to specific time slots, akin to the approach recently adopted at El Nido in the Philippines⁴⁴; and (v) the development of alternative tourism products to divert and re-distribute visitors away from the most popular attractions.
- e) **Enhanced infrastructure, services, and quality standards for destination sustainability.** Ensuring sustainability requires both infrastructure investments and the development and enforcement of quality standards. Clearly, Vietnam’s infrastructure capacity needs to be expanded to support the rising volume of visitors—both transport infrastructure to avoid traffic congestion and ensure safety, and basic services infrastructure such as sanitation and waste management to minimize negative environmental externalities. Increased public investment in such infrastructure must therefore be prioritized for tourism areas facing the greatest capacity pressures, and could be financed in part through earmarked local excises taxes (e.g. for waste management) on various tourism services such as accommodation and restaurants. But the quality of this infrastructure must also meet higher standards—the private sector will have a greater incentive to connect to public service systems, rather than opting for private solutions, if those systems provide the quality that they demand. Moreover, public standards in the industry can hold the private sector accountable in areas such as waste management and pollution, among others. The aforementioned development of more eco-friendly tourism products can also minimize the strains on infrastructure in mass market tourism areas.
- f) **Environmental and cultural asset preservation.** Effective conservation efforts must combine policy, monitoring, and financing measures. On the policy front, the designation of specific natural/cultural sites and attractions as protected or heritage areas is one key foundational measure. In destinations such as Hanoi, where a growing number of historical buildings are being torn down to make space for modern high rises, stronger cultural heritage preservation regulations or guidelines are also an important consideration. Monitoring measures would entail identifying or establishing intuitions and systems to track key risks to destinations’ natural, cultural and social assets and identify growing pressure points (e.g. the proliferation of single-use plastics). The financing side of the equation involves mobilizing revenue streams dedicated to asset preservation, so that there are sufficient resources to manage protected areas and heritage sites, properly enforce regulations, and maintain both the assets and any public infrastructure and services linked to them. Charging visitor access fees is one approach for ensuring revenues for preservation grow commensurately with visitor

43 Authorities at the Badaling section of the Great Wall of China, which receives up to 100,000 visitors per day during peak weekend periods, have implemented a maximum daily quota of 65,000 visitors, effective June 1, 2019.

44 As of November 2018, visitors to designated “premium” stops in El Nido, such as the Small Lagoon and Big Lagoon, have to pre-register their visit and are assigned a specific time slot.

demand, thus contributing to sustainability. Establishing partnerships with private foundations or enterprises to help co-manage and co-finance preservation efforts is another option in the package of possible solutions.

Table II.3 Summary of priority policies and actions to address Vietnam's tourism development challenges

Recommendations	Responsible stakeholders (public and private), by key role/function		
	Policy/design/preparation	Financing	Implementation
1. Strategic destination planning and product development			
National tourism sector strategy	Ministry of Culture, Sports and Tourism (MCST), Vietnam National Administration of Tourism (VNAT)	MCST	N/A
Destination master plans (incl. enforcement and investment monitoring)	VNAT, City and Provincial Tourism Departments, City and Provincial Peoples Committee's Planning Departments	City and Provincial Tourism Departments	City and Provincial Tourism Departments, City and Provincial Peoples Committee's Planning Departments
2. Product and market diversification			
Destination marketing and promotion	VNAT, Vietnam Tourism Association (VITA), City and Provincial Tourism Departments	VNAT, VITA, City and Provincial Tourism Departments	City and Provincial Tourism Departments, VITA
New product development	VNAT, City and Provincial Tourism Departments, Private tour operators and service providers	Private tour operators and service providers	Private tour operators and service providers
3. Tourism human resources and local economy linkages			
Workforce training programs	VNAT, Ministry of Labor, Invalids and Social Affairs, City and Provincial Tourism Departments, Private tourism sector employers	MCST, Ministry of Labor, Invalids and Social Affairs	Tourism schools and vocational training centers (public and private), private tourism sector employers
SME support (technical and financial)	VNAT, Ministry of Planning and Investment (Department of Enterprise Development)	Ministry of Planning and Investment (Department of Enterprise Development)	Business development service providers (private and public)
4. Visitor flow management			
Fee pricing and administration	VNAT, City and Provincial Tourism Departments, City and Provincial Peoples Committees	City and Provincial Peoples Committees (for administration expenses)	City and Provincial Tourism Departments, Tourism site operators
Central management systems (apps and digital technologies)	VNAT, Office of Government, City and Provincial Peoples Committees	VNAT, City and Provincial Peoples Committees	City and Provincial Tourism Departments, Vietnam Tourism Association

Recommendations	Responsible stakeholders (public and private), by key role/function		
	Policy/design/preparation	Financing	Implementation
5. Infrastructure development			
Infrastructure planning and investment	Ministry of Planning and Investment, Ministry of Construction, VNAT	Ministry of Planning and Investment, City and Provincial Peoples Committees	City and Provincial Peoples Committee's Planning Departments
Infrastructure management and quality monitoring	N/A	Ministry of Planning and Investment, Ministry of Construction, City and Provincial Peoples Committees	City and Provincial Peoples Committee's Planning Departments
6. Environmental and cultural asset preservation			
Designation of protected areas	Ministry of Natural Resources and Environment (MONRE), City and Provincial Peoples Committees, Development Partners (e.g. UNESCO)	N/A	N/A
Management of protected areas and natural/cultural sites (including financing mechanisms)	MONRE, MCST, City and Provincial Peoples Committees	MONRE, MCST	MONRE, MCST, City and Provincial Peoples Committees
Monitoring of risks to sustainability	VNAT, MONRE, City and Provincial Peoples Committees	VNAT, City and Provincial Tourism Departments, VITA	Institute of Tourism Development and Research, VITA
Heritage conservation regulations and/or guidelines	MONRE, MCST, City and Provincial Peoples Committees, UNESCO	N/A	N/A

II.36 If effectively implemented, these and other measures could help Vietnam avoid a fate of over-tourism and environmental, cultural, and social degradation. Vietnam currently stands at a tipping point in its tourism development and is at risk of slipping down a trajectory that leads to the over-exploitation of and damage to the assets that attract tourism in the first place. A number of leading global tourism destinations have already crossed this threshold and are now dealing with the political, social, and economic consequences (Box II.1). While it may be unpalatable to consider interventions that could potentially slow the sector's current growth momentum, mitigating damage and changing course after the fact is generally costlier and more difficult than taking preventative measures. If Vietnam acts decisively now, it can re-position its tourism sector on a more sustainable growth path and as a driver of inclusive economic growth for decades to come.

BOX II.1 Crossing the tipping point—some cautionary tales

In recent years, environmental pollution and damage related to uncontrolled tourism growth has forced several popular destinations in the East Asia and Pacific region to take extreme measures to deal with the resulting fallout, including, in some cases, temporarily closing off to visitors. The resulting economic loss (due to both foregone tourism revenue and the cost of remedial measures) serves as a cautionary example of the potential consequences Vietnam could face if it does not proactively and effectively address the threats posed by continued rapid tourism growth.

- **Boracay, Philippines.** The Philippines, like Vietnam, performs poorly on various indicators of environmental sustainability, particularly the lack of enforcement of environmental policies (e.g. connectivity to sewage treatment plants, 30-meter beach easement). These problems became particularly acute in Boracay Island—one of the country’s most popular destinations, receiving more than 1.7 million visitors per year—which was officially closed to tourism for 6 months in 2018 in response to continued direct dumping of sewerage from hotels. The destination has since re-opened with stricter management of tourism infrastructure and activities, but at an estimated cost of US\$0.4 to 1.6 billion to the Philippine economy, according to a recent study by the Philippine Institute of Development Studies.^{1/}
- **Ko Phi Phi Leh Island, Thailand.** Receiving over 5,000 tourists and 200 boats a day caused great damage to Ko Phi Phi Leh island—made famous by the movie “The Beach”—including to 80 percent of the Maya Bay’s coral (according to estimates by the National Parks Department). Consequently, the island was closed for 4 months in 2018 in attempt to clean up pollution and allow the natural ecosystem to “heal”. With the destination receiving an estimated US\$12.6 million in revenue per year from tourism, the economic impact of the temporary closure was significant.
- **Jellyfish Lake, Palau.** As one of Palau’s top attractions, the Jellyfish lake attracted a lot of tourists, but also significant use of sunscreen, many forms of which are toxic to jellyfish and coral reefs. The high influx of tourists, together with changes in water temperature, reduced a relatively stable jellyfish population of around 5 million to nearly zero by 2016. The lake was closed for two years to give time for the jellyfish population to recover. It re-opened in January 2019, and now requires permits for visitors wishing to swim in the lake.

^{1/} Reyes et. al. 2018. “The Boracay Closure Socioeconomic Consequences and Resilience Management.” Discussion Papers DP 2018-37. Philippine Institute of Development Studies (PIDS).

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