Private sector the key driver of Vietnam’s growth

John Hawksworth, chief economist for PriceWaterhouseCoopers in the UK (PwC UK), recently came to Vietnam to attend an APEC-related meeting as speaker. The Saigon Times Daily spoke with him about his views on Vietnamese and global economies.

The Saigon Times Daily. The APEC 2017 theme is “creating new dynamism, fostering a shared future.” What will be the dynamism guiding the global economy in the coming years?

John Hawksworth: Firstly, I have to say that the fastest growth among nations could be seen in emerging markets, particularly in Asia. China, though slowing down, is still growing at about 6% while India’s growth is more than 7%. The ASEAN economies may be growing at 5% or 6% on average. So I think that is really Asia which is the major driver of global growth, and this driver will continue for quite some time.

In terms of factors driving the growth, the first to be mentioned is technological change. We are seeing rapid technological changes, particularly in artificial intelligence, machine learning, robotics, and these areas are boosting productivity growth. However, some of them are not measured properly and captured in the GDP. So the official GDP numbers might underestimate the true growth rate. A lot of things on the Internet are free or nearly free. They are not entered in the GDP but countries will enjoy many economic benefits from them.

Besides technology, there will be quite a lot of other investments. You can see that in the Chinese proposal for the “One Belt, One Road” program. There is a huge need for infrastructure investment across Europe and Asia. Initiatives like “One Belt, One Road” are likely to see many trillions of U.S. dollars in investment over the next 10 or 15 years. There have been estimates of global infrastructure investment totaling about US$30 trillion between now and 2030.

The combination of technology and investment will be key drivers of global growth, supported in particular by the growth of the Asian emerging economies.

In PwC’s report “The Long View: How will the global economic order change by 2050?” which you authored, Vietnam is forecast to enjoy some of the fastest growth rates and become the 26th largest economy by 2050. What’s the basis for PwC’s projection?

As you can see, it is not possible to make precise forecasts until 2050. These are only projections of the potential growth if a range of proper policies are followed.

For Vietnam, there are a number of factors to be considered. Vietnam still has a relatively young population. Compared to other countries, China for example, you still have further years for the working population to contribute to your growth. A more important factor is that at the moment, a large amount of the population in Vietnam is still working in agriculture. Nearly half of the employment is in this area, which is considered having low productivity. As employment shifts from agriculture to manufacturing and services where productivity is much higher, that should boost overall productivity and growth in Vietnam.

That movement could be seen in the UK, U.S. and other developed countries. In the past, most people in these nations worked in agriculture, but now only a few percent of the labor force is still working there. It is a natural process of development that people move to higher productivity areas and to the cities. I think Vietnam still has a lot of room for this process to play an important role in your economic growth.

Obviously, this process does require continuous investment. This means continuing to invest in infrastructure, roads, railways, telecoms, digital networks, etc. In other words, investment in people. Vietnam has had a very good record for education compared to other middle-income countries. To be further developed, Vietnam should retrain people because of the rapid changes of technology and automation. You know, computers will take some jobs and people may be not working in one job for their whole life. They have to be retrained for several times so that they can be more flexible in their careers and adapt to the technological advances. Besides these investments, some other reforms should be done, especially in state-owned enterprises and building the private sector, which will be the key driver of not only economic growth but also employment growth.

With the investment and reforms in mind, the potential growth in Vietnam could be certainly achieved. Policymakers want to steer Vietnam towards becoming an industrialized economy. However, experts say Vietnam’s strength lies in agriculture and the country should continue making use of agricultural development. So what’s Vietnam’s real competitive advantage?

In the longer term, you would expect more people moving from rural and agricultural areas to manufacturing, and eventually to services. Vietnam is not only an industrialized economy but an agriculture-based economy because that is probably where most of the jobs are in the future. But think there may be some areas where Vietnam has a competitive advantage in agriculture. For reasons of food security, Vietnam should continue to produce products like rice and other crops. But I think that the key to development is to make agriculture more productive and efficient. Over time, you could increase investment in modern agricultural techniques and bigger farms, so that you can have more people in the agriculture and free them up to move into more productive areas elsewhere.

I’m not saying that you should stop agriculture completely but I think in the long run, agriculture will be a smaller share in the economy.

You’ve also researched Brexit’s global impacts. How will Brexit impact Vietnam in particular?

I don’t think there will be a big, direct impact of Brexit in Vietnam. The main impact will be on the UK and some other European countries like Ireland, Germany, France and so on. I do think that looking forward, the UK will need to look for new trading partners outside Europe. So the UK will need to make more efforts to do trade deals and increase trade investment with fast growing Asian economies, including Vietnam. That could open up the door for more productive trade and investment relations between the UK and Vietnam or ASEAN in general.

We’ve seen growing uncertainty in geopolitical relations and certain of protectionism. This trend of global protectionism is spearheaded by the Donald Trump administration. Have there been deals with this global trend?

That is certainly a concern. We identify the move towards protectionism as a risk factor, but the question is: How much protectionism will there be? I think one of the good signs is that China wants to continue to open up its markets. With the US-China trade talks, we see some progress in free trade being made.

Obviously, it’s disappointing that the United States decided not to go ahead with the Trans-Pacific Partnership (TPP) agreement. Maybe that deal can go ahead without the U.S. It may not bring quite such big benefits since the U.S. is such a big market. But at the same time, the U.S. does not want to join these other agreements. Perhaps there is a need for a new trade deal with ASEAN or Vietnam instead.

What is the biggest risk to the global economy in the next couple of years?

I think there are some concerns about geopolitical tensions in the Middle East, North Korea and so on. If those tensions are to escalate, that would be worrying. Secondly, there are concerns about a new financial crisis associated with the high level of debt in China. If that debt level leads to some problems in China then they could spread to elsewhere, too. Also, I think the rise in the U.S. interest rate is another risk as there are some emerging economies that borrow a lot of money in dollars. These economies might face some financial stress. I personally do not expect those things to happen but there are some downside risks nonetheless.