

THE IMPACT OF THE COVID-19 PANDEMIC ON VIETNAM'S ECONOMY: SCENARIOS AND ACTIONS

FOREWORD

As the outbreak of the COVID-19 pandemic, global economic difficulties were happening very quickly and severely. The global economic downturn is no longer a risk it has become a reality, with the rate of global economic growth in 2020 will be negative. The “break” in both supply and demand will be prolonged globally until the anti-COVID-19 vaccine is widely used (the fastest prediction is until mid-2021); however, economic consequences will exist persistent in the medium to long term. The risk of a global crisis of a scale comparable to the 1930's recession was probable. The global economy and society will never return to its “normal” status before the pandemic, with the emergence of new development perspectives, latest trends, and new economic rules.

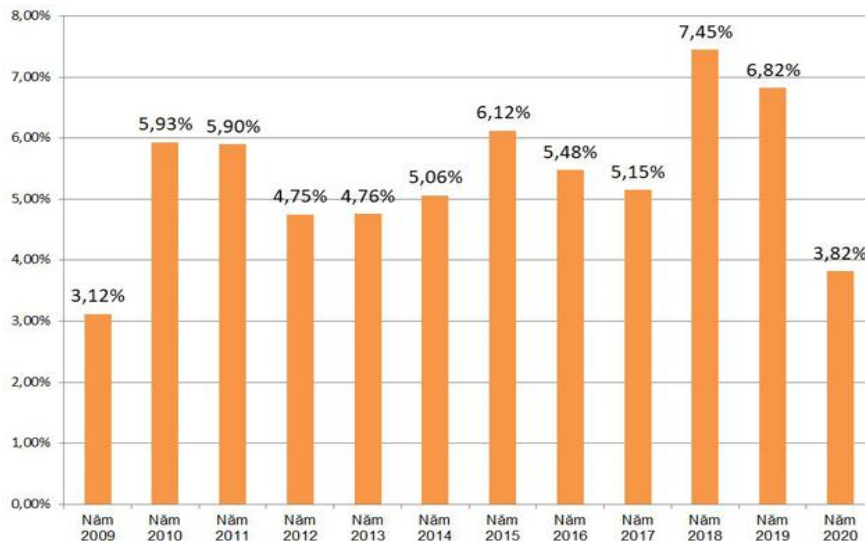
Vietnam's economy is likely to be severely and negatively impacted by the pandemic, that reflected by decreased tremendously in the growth rate, sharply increased unemployment, stagnated production, closed service, while enterprise's sector has to face a range of difficulties on a broad scale, the personal income of vulnerable groups markedly reduced, causing the potentials for social instability, especially if prices are not well controlled. In the case of prolonged COVID-19, if not seasonally ended, these difficulties will be many times larger.

In this context, the article aims to review the economic developments in Vietnam recently, and to forecast possible financial scenarios, opportunities, challenges, and thereby propose measures coping solutions for Vietnamese businesses. In particular, Professor John Quelch is a Principal Advisor of Vietnam Report, Former Vice Principal of Harvard Business School, USA will give valuable advice about the 7 Cs needed in the strategy to respond to COVID-19 of large Vietnamese enterprises.

I. Vietnam's economy in the first quarter of 2020

In the general context of the COVID-19 pandemic, the Vietnamese economy is also suffering from a slowdown in economic growth. According to data from the General Statistics Office, Vietnam's economic growth in the first quarter of 2020 was only 3.82%, which is the lowest increase compared to the same period of years in the period of 2011-2020 (*Figure 1*). In the first quarter of this year, agriculture, forestry, and fishery grew by 0.08%, industry and construction by 5.15%. In which, the processing and manufacturing industry increased by 7.12%, the growth rate was not high, but it still acted as the main growth engine of the economy. The growth rate of the service sector was 3.27%, of which, the wholesale and retail sectors increased by 5.69%, the activities of finance, banking, and insurance increased by 7.19%.

Figure 1: First quarter of 2020 economic growth compared to 2009-2020



Source: General Statistics Office

Data of the General Statistics Office also noted that in the first quarter of 2020, the business sector faced many difficulties due to the direct influence of the COVID-19 pandemic. The number of enterprises temporarily suspending their business with a term of up to 18.6 thousand enterprises, an increase of 26% over the same period last year.

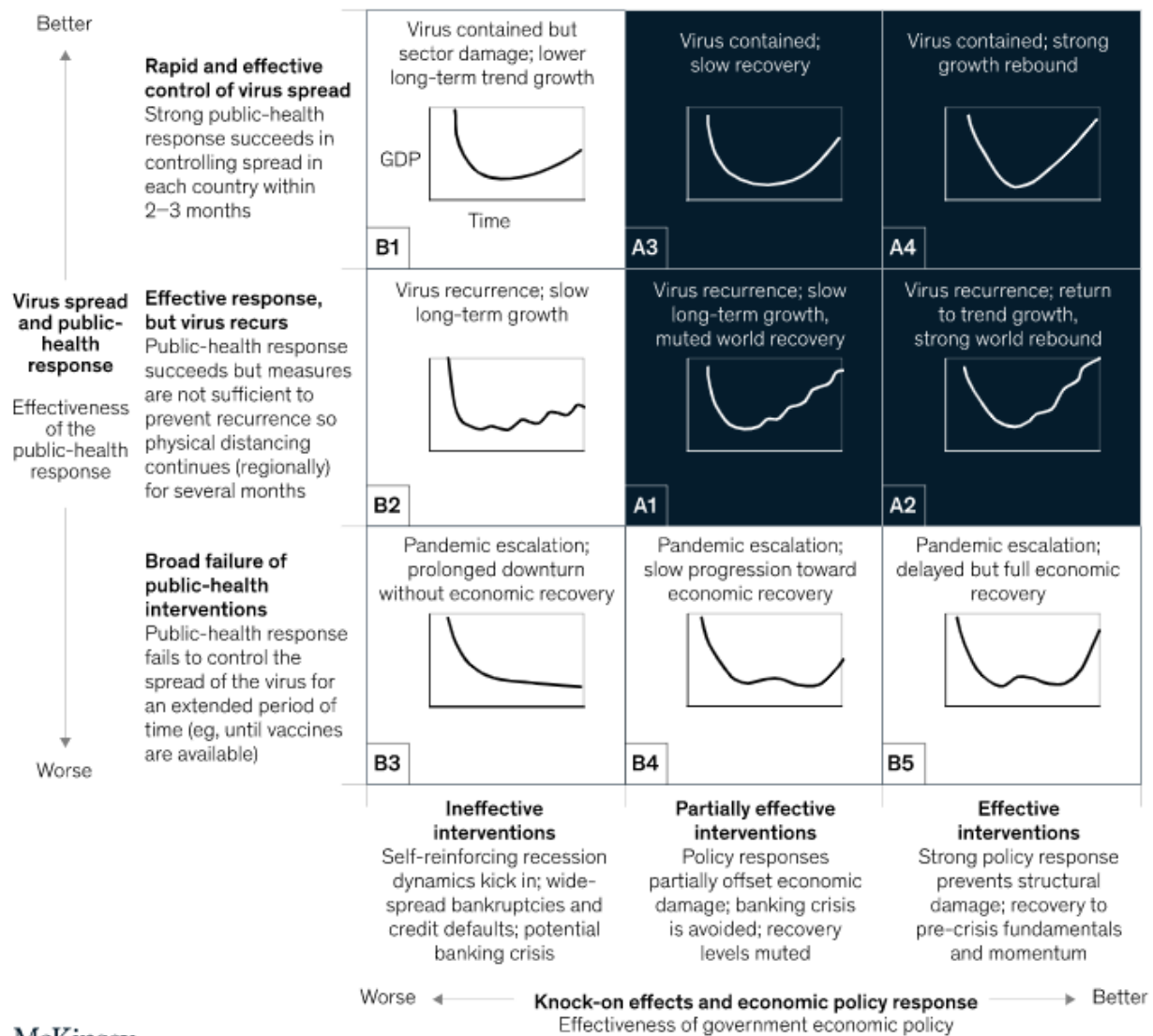
II. Economic scenario according to the extent of disease outbreak and government intervention policy

According to many financial experts, the world economy is “extremely” unstable. The macroeconomic situation will be determined by policy responses in three main areas: health, currency, and fiscal. Although the pandemic is unpredictable, it is still necessary to provide a scenario to be ready to respond and minimize impacts on the economy.

Due to the impact of the pandemic, especially the tourism and export industries, and the weakening of domestic demand, the new rating organization Fitch Ratings forecasts that Vietnam's GDP growth rate in 2020 will be slowed to 3.3% from 7.0% in 2019. Meanwhile, on March 31, another independent study by market research firm Fitch Solutions adjusted Vietnam's growth rate by about 2.8%. Both forecasts show that Vietnam's economy may be the lowest growth rate since the mid-1980s. However, Fitch expects Vietnam's economy to recover by 2021, with expected growth is 7.3% when domestic and domestic demand gradually improves exports, tourism, and FDI increase again.

In a recent study by McKinsey, it is possible to show possible scenarios for economies based on virus control capability, health system response, and government policy response (*Figure 2*).

Figure 2: Economic scenarios under the impact of COVID-19 pandemic



McKinsey & Company

Source: Article “[COVID-19: Implications for business](#)” published in McKinsey

Scenarios from A1 to A4 all lead to the recovery of the V and the U-shaped scene, which are most expected to be realistic, despite the differences in different countries and regions. Meanwhile, extreme scenarios (B1-B5) can cause economic severe structural damage due to the length of time it takes the vaccine to be used in the community besides inadequate policy responses to prevent widespread consequences such as bankruptcy, unemployment, and a financial crisis.

Based on some macroeconomic data, government policy responses, economy's trade activities and the most feasible scenarios of the global economy, it is possible to put forward some following situations with the Vietnamese economy:

Scenario 1: Quickly recovered global economy and so does Vietnam's one

When a pandemic is controlled on a global scale around the second quarter of 2020, global economic growth returns quickly in a V-shape in four possible scenarios as predicted by McKinsey. Vietnam's economy will start showing signs of rapid recovery from the beginning of the third

quarter of 2020. The production, business, import - export activities have been restored; therefore, companies can aim to meet the growth targets when the authorities offer solutions as well as the Government increases disbursement into large infrastructure projects. The probability of this scenario is expected to be 20%.

Scenario 2: Slowly recovered global economy and quickly recovered Vietnam's one

When the pandemic is controlled globally on the third quarter of 2020, global economic growth slowly recovers in the U-shaped shape in four possible scenarios as predicted by McKinsey, Vietnam's economy will start showing signs of recovery at least from the beginning of the third quarter of 2020, with speed between the U-shaped and the V-shaped. In this scenario, the authorities still need to offer bailouts quickly and the Government still needs to increase public spending to stimulate demand and support production. The probability of this scenario is expected to be 60-70%.

Scenario 3: Global economy deeps in new recession and Vietnam's economy is in the stage of stagnation

The pandemic worldwide reoccurrence is possible; the recovery of growth in major economies (such as US, EU) is slow as speed between the U-shaped and the L-shaped. Vietnam's economic prospects of achieving 2020 growth target are not feasible due to the decline in export orders despite being an open economy. The probability of this scenario is expected to be 10-20%.

In the context of the declining macro-economy, the gloomy market, the advice of experts from leading fund and asset management companies in the world (JPMorgan, Amundi, HSBC, LGIM, and Invesco) for Investors in the present time are focus on improving the effectiveness of risk management. In terms of stocks and the S & P500, most believe that it is difficult to make an accurate prediction right now, but in general, it will plummet. The market will experience a significant decline and severity depends on the policy responses of countries as well as the spread of the pandemic. During this time, investors should only invest in safe stocks with little leverage and companies with a clean balance sheet. These experts also agree that this is an opportunity to invest in other derivatives to expand the portfolio to avoid risks as well. Regarding an expanded fiscal policy implemented by increasing the money supply by printing large amounts of money and distributing it to the public to stimulate the economy (helicopter money), experts all believe that The use of fiscal policy tools to bail out the economy, businesses, and the people is necessary at this time and the financial support will be able to produce different results depending on the country itself and the government policy responses. The use of all tools in hand to ensure a reverse conical recovery (V-shape) is necessary for the present time.

III. Strategies for VNR500 enterprises during crisis: Not only to get ready for the worse but also ready for fully recovery for the most possible scenario after the pandemic

In any crisis caused by external factors, businesses will normally go through 4 stages to adapt and overcome the crisis. These four stages can be briefly described in a 4D abbreviation model corresponding to the stages: Discover, Decide, Design, Deliver.

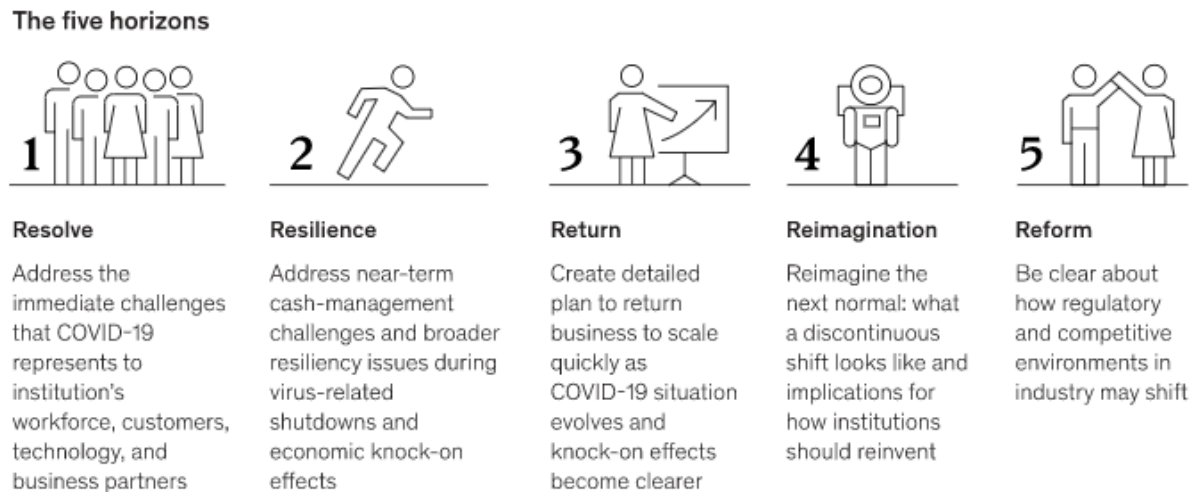
However, all 4 processes in the 4D model may not be fully implemented in reality due to the widespread and complex crises unpredictable as COVID-19, profound and serious impact on businesses in all aspects from business, personnel, management and even the risk of bankruptcy.

That may start from 1) Insufficient problem discovery. This may be due to incomplete forecasting and impact assessment of the crisis, not including the unpredictable developments of the crisis. During this pandemic, many businesses have not accounted for the multifaceted impact on production and business activities and the survival of their businesses. 2) Lack of flexible decision. The lack of flexibility decisions in the context of crisis may stem from many issues such as incomplete information, lack of experience in dealing with the crisis... 3) Passive crisis coping design. From inadequate problem discovery and inflexible decision-making, it can lead to a passive, non-realistic crisis coping design because crises sometimes involve multiple causes. Due to technical reasons, these causes must have specific solutions and coping plans, not general ones. All of these steps will lead to 4) Failure in practice.

In a way, COVID-19 can be considered as an experience for businesses in risk management, especially financial management and supply chain management, to enhance resistance to other epidemics or pandemics, which may be even more dangerous in the future.

To survive the pandemic and shorten recovery time, businesses should begin to build action processes based on the 5-stage model represented by the following 5 Rs (Resolve, Resilience, Return, Reimagination, and Reform) (Figure 3).

Figure 3: Action process on model 5R



Source: Article "[COVID-19: Implications for business](#)" published in McKinsey

Strategic adaptation priorities during the COVID-19 pandemic and readiness for recovery for the most possible scenario for the VNR500 enterprise's community and business leaders

In this crisis, apart from establishing an integrated nerve center to ensure effective implementation of the 4D model (*Integrated nerve center is a flexible structure to manage crisis detection, make decisions, design solutions, and implement with 4 cross-functional groups: Workforce protection; Supply-chain stabilization; Customer engagement and Financials stress testing; all off coordinated by Nerve-center integration team*) and gradually undergone in the flexible 5R phase as above, the VNR500 enterprise's community should exploit and develop the following strategic priorities:

1. Cut cost

Cutting costs is not a new strategy in optimizing business operations, but always the most important and basic strategy during a prolonged crisis with supply chain difficulties and the market. All cost items should be thoroughly reviewed and reduce to the maximum. Switching to an online working model can help cut premises rental costs, administrative costs and the necessary costs of operating directly at the business.

2. Developing the domestic supply chain

Just over two months of the outbreak, many large enterprises faced a serious shortage of supply due to frozen input markets and limited trade between nations. In order to be proactive in production and business activities, it is necessary to develop and exploit domestic supply chains in this period actively. Besides, it also avoids too much dependence on some input markets, and should instead take advantage of EVFTA and CPTPP provisions to diversify the input supply chain.

3. Dissemination of technology application in enterprises' operations

Digital transformation in businesses is a topic and strategy that has been mentioned a lot in the past but maybe it was through the COVID-19 pandemic to see the importance of this strategy. Online business models, e-commerce, online working, even using robots in the factory have also shown a prominent role during this time. The digital transformation must have specific, long-term and comprehensive strategies and orientations, but it will undoubtedly bring high efficiency for the community of large enterprises.

4. Changing business model, innovating marketing methods

In just two months of the pandemic, the mode of purchase and consumer habits of consumers have changed. From the direction to the store, consumers now mostly choose online, order online and deliver goods quickly with the help of technology applications. This also shows that businesses should study new approaches to the market; invest significantly in R&D to find the most effective business model during the crisis and post-crisis.

5. Support and protect your personnel in a new context

Many organizations have applied flexible and prudent protections to their employees and customers. Many businesses have moved to a work-from-home model for the majority of their employees. Although working at home is more or less affecting work efficiency, most employees will not be as focused as at work. Therefore, business leaders need to enhance online communication and balance business needs with expected goals as well as employee morale so that employees are always aware that their welfare and health are the priority during this difficult time. Business leaders should also change working standards, issue new rules to adapt to a remote working environment, and of course, for a part of the person who still has to go to the office, optimal protection for their safety and health.

6. Keep track of indicators, the progress of the pandemic and develop coping scenarios using both economic and epidemiological inputs

The close monitoring of inside factors and outside factors of the organization is essential to understand the progress of the pandemic development; therefore, provide flexible response scenarios can offer. Reference to the scenarios of the pandemic affecting macroeconomic from research and policy-making agencies is also needed in this period.

7. Taking into account the post-pandemic COVID-19 possibilities

There is a saying that sometimes an insider does not see as clearly as an outsider. During a pandemic, due to insecurity, sometimes planning for the organization after the pandemic is over. The model depicting the 5R above is a viable planning tool for business leaders that can be applied to ensure business response and adaptation to changes and resilience post-pandemic phase.

8. Developing the model of the Nerve Center to plan for the next stages

Indeed, it will take a long time to recover the economies, restore production and business activities of enterprises, and the purchasing power of consumers as before. During a crisis and insecurity such as the COVID-19 pandemic, consumer spending and spending habits will also change, some forms of shopping will also be different and emerging forms of shopping new. Capturing those trends to ensure businesses soon position themselves in the post-market market is an integral part of the *Nerve Center*. It is a flexible structure for crisis management, decision-making, solution design and implementation, with four cross-functional groups (Labor Protection; Supply Chain Stability; Customer Interaction and Financial Management) and is coordinated by the Nerve Center Integration Team.

Strategic Suggestions from Prof. John Quelch for VNR500 Enterprises

Professor John Quelch, Principal Advisor for Vietnam Report's programs, Former Vice Principal of Harvard Business School, introduced the 7C (7-C) Rule for leaders and managers to lead businesses beyond through the current difficult period. Professor John Quelch's 7C Rule covers the following topics:

1. Calm

Your customers, employees, partners will always consider you as a leader to support them through this challenging and stressful time. Your calm is a prerequisite factor.

2. Confidence

You should be confident to lead your organization successfully through the crisis with minimal losses not only to the company but also to your shareholders, who have been and are trusting on your leadership in the difficult days ahead.

3. Maintain Communication

You must maintain the information updated and active communication to avoid the spread of harmful rumors. You should have a specific communication strategy that includes strategic decisions and priorities not only for outsiders but also for internal staff. It needs to be done timely.

4. Collaboration

This is the time for you to increase the coordination between departments in the company, call on all resources to maximize their capabilities, establish “tactical” teams with clear missions. This cohesive effort is not only an effective way to minimize the disadvantages caused by negative rumors and increase trust for the whole organization but also to help identify potential hidden talents.

5. Community

You must maintain regular exchange of information and active communication to avoid the spread and spread of false rumors. You must have a specific communication strategy that includes strategic decisions and priorities not only for outside the organization but also for internal communication within the organization. It needs to be done immediately, and always, avoiding the situation of information falling into “hibernation” will be very detrimental to your organization because false rumors spread very quickly.

6. Compassion

At this moment, sympathy and kindness are as important as the above factors. We may be used to and can cope with crises like this, but many of our employees have not yet experienced or are naturally too weak to handle the shocks of a crisis panic. Perhaps they have relatives in the vulnerable group, or even their health is not good, they are worried and insecure about the disease, they need sympathy and humanitarian behavior of our leaders. If they want to take time off work, want to work from home, or want more time to take care of their families and close people, we should be willing to facilitate them. Sympathy and humanity in our conduct, as a leader of the organization, for employees and workers are extremely important in this time of crisis.

7. Cash

One of the core issues in every stage, whether crisis or not, is the amount of money or broader is the financial strength of the organization. The short and long-term financial strength of the organization is essential because not only your employees but also your customers, supply partners will look at this point first to consider the future long-term cooperation. Therefore, it is necessary to conserve cash and maintain the financial strength of the organization during this time.