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Economic structural transformation: The Vietnamese case for developing nations in a globalization context

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Abstract: Vietnam’s economic evolution presents a compelling case of transformative growth driven by its distinctive historical, cultural, and policy landscapes. Since the watershed Đổi Mới reforms of 1986, the country has navigated the complexities of market liberalization, socialist principles, and international integration, achieving remarkable development while preserving its economic sovereignty. Through a mixed-methods approach, this study delves into the impacts of Đổi Mới, assessing the successes and ongoing challenges in Vietnam’s economic restructuring. Results indicate a remarkable shift in GDP contribution from agriculture to industry and services, with a burgeoning private sector and enhanced international trade and investment. However, challenges in achieving equitable growth, inclusive development, and environmental sustainability remain salient amid global economic shifts. Vietnam’s experience underscores the critical need for targeted reforms in workforce development, economic diversity, infrastructural enhancement, environmental stewardship, and regulatory and financial governance. Vietnam’s proactive stance on economic autonomy and global participation highlights the importance of a nuanced approach in navigating the changing international landscape. In summary, Vietnam’s journey through economic structural reform provides a unique perspective on navigating development within a socialist-oriented market framework, serving as a distinctive exemplar for similar emerging economies contending with the vibrant currents of globalization.

Keywords: structural transformation; Vietnam’s reform; economic restructuring; economic innovation; economic liberalization; industrialization; urbanization

1. Introduction

The concept of economic structural transformation has long fascinated both economists and policymakers due to its profound impact on a nation’s development trajectory. The onset of the Industrial Revolution in the late 18th century served as a crucial turning point for such transformations. With the advent of machinery and technological advancements, manual labor gave way to mechanized production, leading to a major transition from agrarian to manufacturing-based economies, especially in the West. Today, economic structural transformation is recognized as the shifting of economic activities across the main sectors: agriculture, manufacturing, and services. This shift is integral to the modern economic growth process and is a key driver of development. Currently, many emerging economies are undergoing this transformative journey, albeit with unique trajectories. The Asian tigers, for instance, leveraged their comparative advantage in labor-intensive manufacturing to catapult themselves into the global economic arena. Conversely, several African nations, rich in mineral resources, are grappling with the “resource curse”, where an over-reliance

on natural resource exports stifles diversification and value addition.

Vietnam, a Southeast Asian country with a rich history and diverse culture, also has undergone significant economic structural transformation over the past few decades. This country stands as a paradigmatic exemplar of rapid structural transformation. The economic history of Vietnam is marked by a series of transformations that have propelled it from a primarily agrarian society to a balanced mix of agrarian, industrial and service. The French colonization in the mid-19th century initiated this shift, with the South designated for developing agriculture and the North for manufacturing. Post-1954 political division led to the adoption of different economic ideologies: communism in the North and capitalism in the South. Despite the significant economic strain caused by the Second Indochina War (1954–1975), the period between 1976 and 1986 saw attempts to integrate the North and South. However, this also was a period when Vietnam faced the most serious socio-economic crisis: production grew slowly, many important targets of the 5-year plan were not achieved. There was an evident misuse of resources, chaotic distribution channels, and pronounced unemployment. Essential commodities were scarce, and there was a palpable deficit in housing and sanitation. Within this burgeoning society, social equity was compromised, leading to a waning trust in the Party's governance and the State's administrative capabilities (Ministry of Education and Training of Vietnam, 2021). The root of these challenges lay in significant missteps in overarching strategies and policies. An overconfident ideology, spurred by previous triumphs, led to an overzealous pursuit of socialism. This, coupled with an ill-conceived economic framework and the inherent limitations of a centralized planning model, resulted in escalating bureaucratic inefficiencies. Externally, Vietnam contended with encirclement and sanctions from adversarial entities. Conflicts on both the Southwest and Northern frontiers inflicted substantial human and material losses, further stymieing the nation's economic productivity. In the broader context of global socialist systems, nations such as the Soviet Union, Eastern Europe, and China were grappling with socio-economic crises, which forcing them to explore various paths of reform with distinct approaches and degrees of transformation. While some achieved success in their endeavors, others encountered challenges (Marxist-Leninist Institute of Vietnam, 1991). Observing these global trends provided Vietnam with valuable insights, shaping its strategy towards the most appropriate and effective avenues for innovation.

The initiation of the *Đổi Mới* policy in 1986 was a defining moment that assisted Vietnam in its progression from being among the least developed countries in the world to achieving the status of a middle-income economy. The term "*Đổi Mới*" itself is a general term in Vietnamese meaning "innovate" or "renovate". Central to Vietnam's transformation has been economic liberalization and opening up to foreign investment, catalyzed a shift from a command economy dominated by state-owned enterprises to a "socialist-oriented market economy". The *Đổi Mới* reforms have led to the diversification of Vietnam's economic structure, with an increasing emphasis on private sector development and international integration. The agricultural sector, once the backbone of Vietnam's economy, has seen its share of GDP steadily decline, while the shares of industry and services have risen correspondingly. Especially, the industrial sector, accompanied by pivotal enterprises in manufacturing, information

technology, and electronics, driven by both domestic and foreign direct investment, has become the major contributor to Vietnam's economic growth. The subsequent influx of foreign direct investment, coupled with a strategic focus on export-oriented industries, propelled Vietnam into an era of industrialization and modernization. Meanwhile, the services sector has also expanded rapidly, with tourism, retail, and finance becoming increasingly important. The growth of the digital economy has further accelerated this development. Currently, with strategic policy revisions and updates aligned with modern developmental needs, Vietnam aims to reach the status of an upper-middle-income nation by 2030 and advance to a high-income economy by 2045 (The Communist Party of Vietnam, 2021).

Despite the positive developments, the path of economic structural transformation is fraught with challenges. Vietnam's reliance on low-cost labor, exports, and foreign direct investment, along with infrastructural strains, state-owned enterprise reforms, rising inequality, environmental concerns, and regulatory hurdles, pose significant challenges to its development goals. Moreover, global uncertainties add another layer of complexity to the country's economic outlook.

This research aims to comprehensively examine Vietnam's economic structural transformation, with a specific focus on the impact of the *Đổi Mới* reforms, in the context of contemporary global dynamics. The objectives are to identify key aspects of Vietnam's economic structural transformation, explore its achievements, assess challenges faced, and provide insights for policy decisions and strategic initiatives, both within Vietnam and in other developing economies. The study of Vietnam's economic journey offers a unique window into the complexities and potential of economic structural transformation in the modern era, offering valuable lessons for nations on similar developmental paths.

2. Literature review

Scholars and economists worldwide have explored the topic of economic structural transformation from various angles, contributing to a rich and nuanced understanding of how economies evolve and transform over time.

The concept of economic structural transformation refers to the shift of an economy from primarily agricultural outputs toward a broader spectrum of goods and services, typically encompassing both industrial and service sectors. This viewpoint has been widely accepted and expanded upon by numerous pioneering studies. For instance, Berthold et al. (2013) have argued that economic structural transformation is the reallocation of economic activity across three broad sectors (agriculture, manufacturing, and services) that accompanies the process of modern economic growth. This work presents key historical and universal aspects of structural change, advancing a multi-sectoral expansion of the traditional single-sector growth model, which integrates prevailing theories of structural transformation. Similarly, Robert and Allen (2017) highlighted that this significant transition goes beyond simply replacing economic sectors; it involves a comprehensive transformation of the organization of production, the nature of the workforce, and even societal norms and values.

In another study, Kunal (2019) identifies three standard patterns in economic development: a decline in agricultural employment, a bell-shaped trajectory in

industrial employment in early-stage economies (which diminishes in more advanced stages), and a consistent increase in service sector employment across all economies. However, after revisiting the conventional perspectives on structural transformation, the author contends that there are also diverging patterns in structural transformation. The traditionally established trajectory of structural change may not apply to low-income economies, where there is a direct shift from agriculture to services, circumventing the traditionally more productive manufacturing sector. This observation challenges existing theoretical frameworks for structural transformation and necessitates exploring alternative explanations for the diverse paths of structural change in developing countries.

Regarding the metrics for measuring economic structural transformation, the study (Berthold et al., 2013) identifies three principal indicators at the sectoral level: employment shares, value-added shares, and shares of final consumption expenditure. The study models structural transformation and growth, linking the benchmark model to indicators of structural change and dissecting the economic forces driving structural transformation, which include income effects and relative price effects. Despite providing extensive data on structural transformation in developed economies, the paper falls short in exploring the characteristics of structural change in less developed economies, as well as their unique transformation challenges and paths. Additionally, the authors' interpretation of structural transformation, which sidelines the role of industrial policy, implies that government policy does not significantly contribute to efficient economic equilibrium.

In their examination of the drivers and impacts of structural change, the work (Alcorta et al., 2021) provides a foundational understanding by offering a detailed and systematic review of the major discussions surrounding the role of structural change in economic development. Drawing on historical patterns of structural transformation, their research establishes a solid empirical groundwork for evaluating and analyzing structural shifts. Furthermore, it delves into the various factors driving structural change, encompassing technological advancements, shifts in demand, trade dynamics, financial systems, comparative advantages, resource endowments, policy developments, societal class interests, and the influence of various pressure groups. Crucially, the book engages with contemporary debates on inclusive growth, addressing how structural change impacts economic growth, the distribution of income, poverty alleviation efforts, labor market evolution, and environmental sustainability. By doing so, it offers a detailed and nuanced perspective on the role of structural change in fostering the inclusiveness and sustainability of socio-economic development.

In addressing effective methods for economic structural transformation, the paper (Jistin and Haipeng, 2023) proposes a detailed theoretical framework aimed at elucidating the complexities of structural transformation and the efficient distribution of resources within market frameworks. The authors outline three principal characteristics of economic structures: structurality, which refers to the inherent properties of economic sectors; durationality, indicating the time aspects of economic processes; and transformality, highlighting the potential for change and adaptation in economic activities. They propose a model to capture the dynamic nature of economic activities and their structural evolution, tackling the optimization issues encountered

by social planners engaged in structural transformation efforts. Their development of a competitive equilibrium theory explores a novel concept: structural equilibrium, alongside the established static and dynamic equilibria. This framework is adaptable and applicable to a variety of economic structures, including hierarchical production systems, consumer preference composites, technological advancements through adoption and research and development, shifts in infrastructure and economic institutions, and political institution transformations. Their work provides fresh insights into several contentious issues in economic development, such as the import-substitution strategy's failure in many developing nations during the 1950s and 1960s, the sustainable growth achieved through capital accumulation in Singapore and other East Asian countries, and the persistent poverty or middle-income traps in numerous developing economies.

For case studies and country-specific research, the evolution of Vietnam's economy, particularly post-Đổi Mới reforms, provides a unique case study of structural transformation. The research problems center on understanding the multifaceted aspects of Vietnam's economic structural transformation and its impacts on various economic and social dimensions.

The paper (Path, 2020) challenges conventional narratives by tracing the origins of Vietnam's Đổi Mới reforms not to local market-driven reforms during the socio-economic crises of the late 1970s but to earlier ambitions of integrating with Western economies for technological and economic modernization to enhance the quality and competitiveness of Vietnamese products within the socialist bloc. Despite reformist diplomats' early advocacy for economic openness, it was not until the combined pressures of an economic downturn and the military conflicts from 1979 to 1985 that their progressive ideas overcame the conservative military-first approach. However, these research's findings on the origins of Vietnam's reforms are under-recognized by official documents from The Communist Party of Vietnam.

The study (Javier, 2016) evaluates the extensive outcomes of the 30-year journey since Đổi Mới reforms, highlighting Vietnam's impressive economic growth and improvements in living standards. However, it also points out critical challenges that need addressing to sustain this growth, such as macroeconomic stability, cheap labor and natural resource dependencies, regional disparities, environmental concerns related to agricultural production, mining, and industrialization, and income inequalities.

Similarly, Sarma et al. (2017) analyze the uneven impacts of structural changes in Vietnam. Utilizing three rounds of the Vietnam Household Living Standards Survey from 2002, 2006, and 2010, the authors conduct a decomposition analysis and reveal that growth has predominantly benefited the affluent, with increased returns in agriculture and manufacturing seen mainly for the upper 10 to 20 percent, thereby exacerbating income inequality. The research also supposes that regional disparities in growth and inequality appear to stem from varied industrialization rates and structural effects.

Brian and Nina, (2013) contribute by linking structural transformation to labor productivity improvements, emphasizing the significance of reforms in agriculture, enterprise development, and international integration. The researchers also highlight the trend of labor transitioning from household businesses enterprises to formal

enterprise sector, as well as a noticeable shift of the workforce from state-owned entities to privately owned domestic and foreign firms. Their findings emphasize the critical need for ongoing reforms, enhanced investment in human capital, and the engagement of various economic sectors to maintain and drive economic growth.

The study (Tan, 2015) focuses on the role of economic structure in Vietnam's development in the period from 1986 to 2012, identifying the need for a shift towards more competitive industries to facilitate economic take-off. This suggests a strategic reorientation of Vietnam's industrial policies and determination of every economic sector's role to enhance competitiveness and growth.

Lastly, the thesis (Kien, 2014) explores the Vietnam's labor market dynamics from 1990 to 2011, noting a significant shift from agriculture to manufacturing, primarily driven by the private and foreign sectors. The author highlights positive spillover effects of this shift on job creation in other industries and on employment wages. However, the research also acknowledges the growing wage gap and the stagnation in manufacturing employment growth due to policy inconsistencies.

It is apparent that a substantial body of research focusing on the economic structural transformation, particularly with respect to Vietnam, has provided significant insights into the intricate nature of economic development. The studies have extensively documented historical patterns, theoretical underpinnings, and broad implications of structural change, offering a robust empirical base for understanding economic evolution. However, a significant gap remains in synthesizing these findings in the context of Vietnam's ongoing economic evolution. There is a particular need for updated research that incorporates recent data and examines the current challenges and opportunities facing Vietnam, such as environmental sustainability, technological integration, and regional disparities.

Besides, the literature review highlights significant strides in Vietnam's economic landscape, such as shifts in employment sectors and the rise of private and foreign-invested enterprises. Yet, research often glosses over the strategic policy implications necessary to amplify the efficacy of these transformations within the new global context. As Vietnam grapples with the dual challenges of maintaining its impressive growth trajectory and managing the side effects of rapid industrialization and urbanization, the need for policy-oriented analysis has never been greater.

In conclusion, the research gap is palpable in the lack of contemporary analyses that synthesize Vietnam's economic restructuring achievements and challenges with up-to-date data. There is an unmet need for scholarly work that not only documents these elements but also engages deeply with policy implications to enhance the effectiveness of economic transformation in today's complex world stage. Addressing this gap could provide pivotal insights for Vietnam as it seeks to navigate its economic future amidst the turbulent tides of global change.

3. Methodology

This study utilizes a mixed-methods methodology, integrating both qualitative and quantitative analytical techniques. Data is collected from a variety of sources, analyzed using robust methods, and cross-verified to ensure reliability. While our primary strategy involves the synthesis and reevaluation of existing secondary data,

this approach is designed to foster a nuanced understanding of the country's economic shifts within a global context. Our methodology is shaped by the constraints and objectives specific to our research, aiming to reinterpret available data through a novel analytical lens rather than generating new datasets.

- **Data Collection**

The quantitative aspect of the research involves collecting secondary data from various reliable sources, such as government reports, international organizations' databases, and academic publications. Principal sources for this study encompass data from the General Statistics Office of Vietnam, the World Bank, and documents issued by the Ministry of Planning and Investment of Vietnam. This information offers a historical view of Vietnam's economic progression, alterations in sectoral compositions, and key performance metrics, including GDP growth, inflows of foreign direct investment, and shifts in employment structures.

Regarding the qualitative component, the research incorporates an analysis of content from policy documents, official publications of the government, and addresses delivered by prominent government officials. This will help in understanding the government's perspective and policy direction in economic structural transformation. Additionally, academic journals, books, and previous research papers on Vietnam's economic development and structural transformation will be reviewed to gather insights and identify gaps in the existing literature. This review helps to solidify our understanding of the theoretical and practical aspects of Vietnam's economic transformation.

- **Data Analysis**

The quantitative data will undergo analysis through diverse statistical methodologies, focusing on trend analysis to track economic shifts and sectoral changes over time. This approach allows us to map the trajectory of Vietnam's economic transformation and assess its implications on employment and income distribution. Comparative analysis is further utilized to position Vietnam's experience in the context of global economic trends and other nations experiencing similar structural transformations.

The qualitative data will be analyzed through thematic analysis, where the content will be categorized into different themes related to economic structural transformation. This method aids in uncovering the underlying narratives and strategies that have shaped Vietnam's economic policies and reforms. This qualitative analysis adds depth to the findings, providing context to the quantitative results and helping in the formulation of nuanced conclusions.

It is important to note that while our methodological choices are shaped by the specific aims and constraints of our study, we recognize the limitations inherent to secondary data analysis and the interpretative nature of qualitative research. Our approach is grounded in the intention to contribute to the existing body of knowledge by reevaluating and synthesizing available information over the longest possible timeframe and with the highest degree of current relevance, through a distinct analytical framework, rather than pioneering new empirical data. We believe this method provides valuable insights into Vietnam's economic dynamics while acknowledging the boundaries and scale of our research initiative.

4. Results of structural transformation analyses for the exemplary economy

The structural transformation of Vietnam's economy has experienced significant changes and developments since the Đổi Mới. It covers the transition to a market economy infused with socialist principles, a focus on industrialization and modernization, and efforts to balance international integration with economic independence. The study results also delve into Vietnam's approach to infrastructure and urban development, the achievements in economic transformation, and the challenges faced in areas like labor dependency, infrastructure limitations, state-owned enterprise reforms, income disparities, environmental concerns, regulatory hurdles, and the impact of global economic changes. These transformative elements have steered Vietnam's path towards economic growth and development.

4.1. Key aspects of Vietnam's economic structural transformation

Vietnam's economic transition, initiated during the Đổi Mới period, has undergone multiple revisions to adapt to changing contexts. The latest 13th Congress of the Vietnam's Communist Party highlighted a vision for a modernized, internationally integrated market economy, governed by socialist orientations and led by the Communist Party. The primary elements of this economic structural transformation policy emphasize the subsequent aspects:

(1) Market economy and its principles:

Vietnam's government has transitioned its economic framework towards greater liberalization, evolving into a fully operational market economy grounded in market principles. Instead of depending on centralized planning, the dynamics of supply and demand are instrumental in dictating the availability and pricing of products. Vietnam emphasizes the application of uniform market pricing for goods and services, including those deemed essential for public welfare. Additionally, the policy promotes the enhancement of markets for production factors, highlighting the significance of contemporary transaction modes like e-commerce in fostering economic growth.

(2) Socialist perspective in economic activities:

Notwithstanding the adoption of a market-oriented model, the bedrock of the Vietnamese economy is fundamentally socialist. This socialist characteristic is prominently reflected in two aspects:

Firstly, the development goals set by the Vietnamese government are holistic, focusing not just on economic indicators but also on creating a society that is wealthy, strong, democratic, equitable, and civilized. At the core of these goals is the well-being and development of the population, reflecting a commitment to socialist principles.

Secondly, the ownership structure within the economy showcases a blend of socialist and market elements. Since the 1986 Renovation, Vietnam has allowed private ownership of small businesses to coexist with state-owned and collectively-owned companies. This mixed model is based on economic component theories, recognizing the role of diverse economic sectors in a socialist-oriented market economy. The state economy plays a critical role in maintaining macroeconomic stability, directing economic and social growth, and addressing market failures. The collective and cooperative sectors are geared towards service to their members,

promoting collaboration and efficiency. Cooperatives are further encouraged to form broader associations for greater impact. The private sector in Vietnam is identified as a vital engine for economic growth. It is encouraged to operate across all lawful domains with the aim of evolving into entities that can compete on a global scale. Meanwhile, the foreign-invested sector is crucial for attracting capital, advancing technology, modernizing management practices, and expanding export opportunities. This sector plays a significant role in integrating Vietnam's economy with global markets and standards.

Overall, the Vietnamese economic model showcases a unique fusion of socialist values with market-driven dynamics, aiming to balance growth with social equity and national development objectives.

(3) Focus on Industrialization and Modernization:

Vietnam's economic reformation is closely aligned with its goals for industrialization and modernization. This shift is discernible in the growing contribution of the industrial and construction sectors (jointly classified as 'industry') and the commerce and services sectors (collectively termed 'services') to the GDP, contrasted by a diminishing share from the agricultural, forestry, and fisheries sectors (collectively known as 'agriculture'). These trends signify a comprehensive move towards modernization across diverse sectors of the economy.

(4) Balancing International Integration with Economic Autonomy:

Vietnam is committed to fostering a contemporary economy that is integrated with the global market. The country is dedicated to establishing an environment favorable for investment and business, thereby actively seeking foreign direct investment. Simultaneously, Vietnam places a high priority on maintaining economic independence, with a focus on bolstering domestic businesses as the core of the national economy. Key strategic objectives include diversifying modes of international economic integration, avoiding over-reliance on a single market or partner, enhancing adaptability to external economic shifts, and assertively protecting domestic economic interests.

(5) Infrastructure and urban development, and balanced growth:

Vietnam's economic transformation is closely intertwined with its orientation towards infrastructure and urban development, with a keen focus on achieving balanced growth across the nation. This strategic approach acknowledges the vital role that infrastructure and urbanization play in fostering economic progress, improving living standards, and attracting investments. Investments in infrastructure of Vietnam emphasize on transport, energy, telecommunications and technology. Besides, Vietnam also promotes the development of urban zones, essential services, and infrastructure in urban areas. Policies have been designed to promote economic development in both urban and rural areas, ensuring that the benefits of growth are distributed more equitably. Addressing associated social issues, such as employment, education, and environmental challenges, is considered as the paramount to ensure balanced growth in Vietnam.

4.2. Achievements in Vietnam's economic structural transformation

(1) The adoption of market mechanisms has markedly accelerated Vietnam's

economic development and led to the creation of new markets

Since the implementation of the *Đổi Mới* reforms, Vietnam has undergone substantial transformations in its market mechanism. Transitioning from a centrally planned economy to a market-oriented system, Vietnam has emerged as one of the most vibrant and rapidly developing countries in East Asia. A notable accomplishment of this transition is the significant average annual GDP growth of 6.45% over a period of 37 years, spanning from 1986 to 2022. By the year 2022, Vietnam's GDP had escalated to an impressive \$358.92 billion, reflecting a robust growth rate of 8.02% compared to the previous year (**Figure 1**).

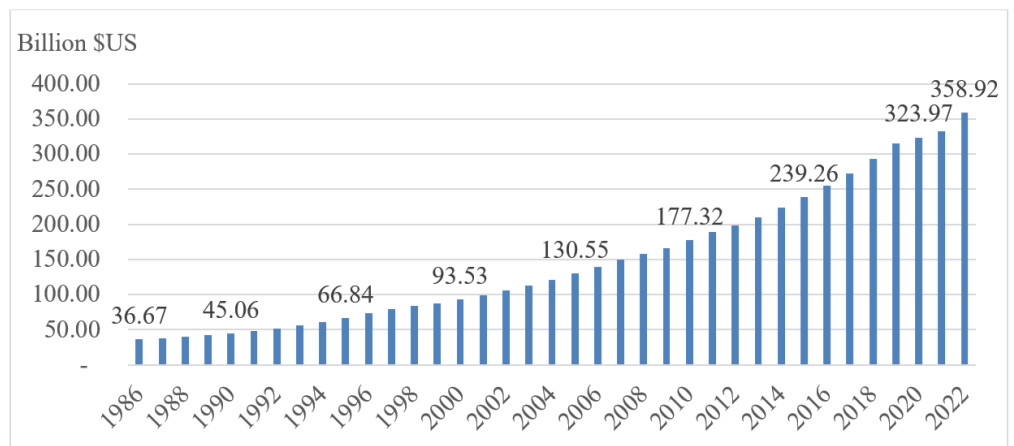


Figure 1. GDP (constant 2015 US\$) of Vietnam since the *Đổi Mới*.

Source: Compiled by the authors using data sourced from (World Bank, 2023).

Vietnam's remarkable growth pattern over the past thirty years has significantly elevated its status from one of the poorest countries globally to a lower-middle-income nation. In 2022, the country's GDP per capita reached \$4163.5, according to World Bank (2023), representing a nearly tenfold increase from 1986, the year marking the beginning of its economic transformation. Notably, Vietnam has made substantial strides in alleviating extreme poverty, reducing it from 50% in 1990 to about 2% in 2018 (World Bank and IFC, 2021). This trend of poverty reduction continued, with the rate further declining to approximately 1.2% by 2000 (Trung and Quynh, 2022).

This economic resurgence was accompanied by the development of diverse markets within the country. The introduction of a market mechanism led to the flourishing of various sectors such as manufacturing, services, and agriculture. For instance, the export market witnessed a surge with key products like electronics, textiles, and agricultural produce gaining significant traction in global markets. The financial market too matured, with the Vietnam Stock Exchange becoming an important hub in the region. Furthermore, the real estate market experienced growth, driven by urbanization and increased foreign investments. Such diversified market development not only bolstered Vietnam's economic resilience but also created avenues for both domestic and foreign investors to participate actively in the nation's growth story.

(2) Vietnam's enterprises bolster their inherent strengths thanks to innovations in ownership structures.

Before 1986, Vietnam's economy had two forms of ownership and two main

economic components, which were “state-owned enterprises” (SOEs) and collectives. There were very few individual economic entities, and there was no private ownership or foreign investment in the country. The state significantly controlled the economy, with tens of thousands of state-owned factories. During this period, these entities were referred to as state-owned factories rather than enterprises because they had almost no autonomy. The state was responsible for all decisions, including input usage, output production, distribution, consumption, and business results. In addition to state-owned factories, the collectives also played a significant role, with thousands of cooperatives in various industries. These cooperatives operated on a voluntary basis but followed a state-approved profit-sharing plan. In reality, the collective economic sector was merely an extension of the state-owned sector (Standing Committee of the National Assembly of Vietnam, 2019).

In the late 1980s and early 1990s, Vietnam gradually expanded autonomy for state-owned enterprises while phasing out state subsidies. The country restructured state-owned enterprises by dissolving inefficient ones that had been operating at a loss for an extended period, merging state-owned enterprises having similar products and markets, and reorganizing existing companies and industrial groups to create new state-owned corporations. Notably, Vietnam began experimenting with state-owned enterprise equitization (i.e., turning them into joint-stock companies) in 1992. For cooperative economic entities, the country transitioned by dissolving ineffective cooperatives, transferring or selling production materials to collective members for direct management in a household-based manner, and transforming active cooperatives into joint-stock cooperatives in accordance with the Cooperative Law. Meanwhile, the private economic sectors gained momentum, especially following the enactment of the Enterprise Law. This led to the emergence of thousands of non-state enterprises each year and indirectly promoted the development of household-based economic sectors. Also, Vietnam’s active and dynamic foreign investment attraction policy gradually facilitated the emergence and development of foreign-invested enterprises.

As a result of these reforms, there has been a significant transformation in the composition of enterprises in Vietnam’s economy. State-owned enterprises have seen a drastic reduction, from 12,297 in 1990 to approximately 1963 by 2020, accounting for just 0.3% of all enterprises in the country. Out of these, only 918 remain wholly state-owned. In contrast, non-state enterprises (primarily private-owned companies) and foreign-invested firms have experienced remarkable growth. The former comprises 660,055 entities, representing 96.5% of all enterprises in Vietnam. The latter, foreign-invested enterprises, number 22,242, accounting for 3.3% of all enterprises in Vietnam (Ministry of Planning and Investment of Vietnam, 2022). These enterprises have become major contributors to employment and have significantly increased the state’s revenue.

In terms of economic contribution, before 1986, state-owned enterprises held most of the fixed assets and circulating capital, employed nearly 3 million workers (15.5% of the workforce), and contributed to 39.7% of the GDP. Meanwhile, the non-state sector, consisting mostly of cooperatives, contributed 60.3% of the GDP (Vietnam Government News, 2014). By the end of 2021, after 35 years of renovation, the contribution of the state-owned sector to GDP has decreased to approximately

21.2%, with the number of workers in state-owned enterprises reduced to 1.0 million (of which only 0.6 million work in 100% state-owned enterprises), accounting for 6.8% of the total labor force in enterprises. In contrast, non-state enterprises have become increasingly dominant and have grown to contribute over 50% to Vietnam’s GDP, in which, the cooperative sector’s contribution has dropped significantly to 5.05%, and the remaining share primarily coming from private-owned enterprises. This shift underscores the increasing influence of private capital in Vietnam’s economy. These private enterprises have also attracted around 8.6 million employees, accounting for 58.6% of the total labor force in enterprises. Moreover, the share of foreign-invested enterprises, which did not exist before 1994, has now reached 20% of GDP, employing 5.1 million workers, or 34.6% of the total workforce in enterprises (General Statistics Office of Vietnam, 2023). These shifts in ownership types have not only led to enhanced economic output but also infused dynamism and competitiveness of the Vietnamese market.

Today, though SOEs represent a modest proportion in both enterprise numbers and GDP contribution relative to other entities, they remain paramount in Vietnam’s economic framework, especially in essential sectors such as energy, transportation, and telecommunications. Furthermore, the operational efficiency of SOEs is notably commendable, with 77.6% being profitable. In comparison, the profitability rate for non-state and foreign-invested enterprises stands at 39.3% and 47.5%, respectively (Figure 2).

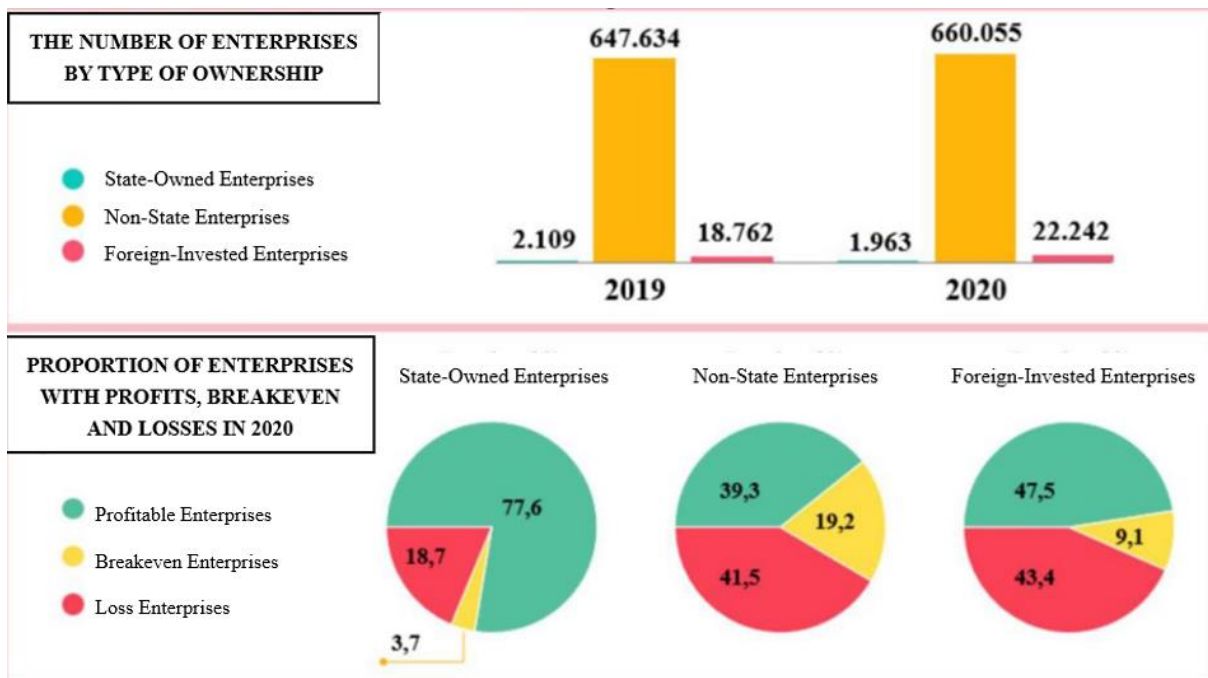


Figure 2. Number of operating enterprises and their business results in 2020 by type of ownership. Source: (Ministry of Planning and Investment of Vietnam, 2022).

(3) Vietnam’s economic sector structure has shifted towards industrialization and modernization.

In recent decades, Vietnam has undergone a significant restructuring of its economic sectors, leading to a notable transformation in its economic structure.

Originally an agrarian-focused economy, the nation has experienced a marked decrease in the agricultural sector’s contribution to GDP, dropping from over 42% in the late 1980s to approximately 11.9% by 2022. Conversely, the industrial sector’s share of GDP has seen a substantial increase, rising from 23% to 38.3%, while the services sector has expanded from 35% to 41.3% during the same timeframe (General Statistics Office of Vietnam, 2023) (Figure 3).

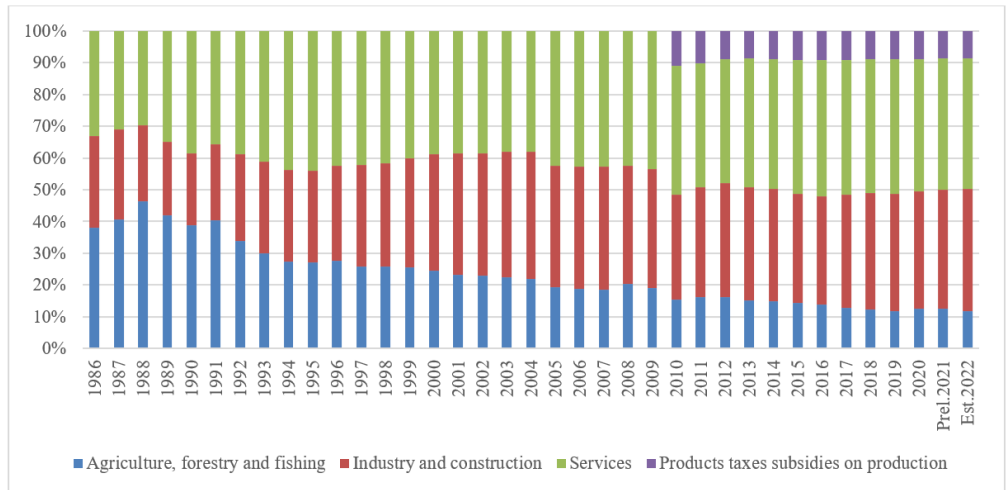


Figure 3. The economic sectors’ contribution in Vietnam’s GDP.

Source: Compiled by the authors using data sourced from (General Statistics Office of Vietnam, 2023).

Constituting a growing proportion of Vietnam’s GDP, the industrial and service sectors play a pivotal role in the country’s impressive overall economic growth rate of 8.02% in 2022. Specifically, the industrial sector grew by 7.78% and the service sector by 9.99%. In contrast, the agricultural sector witnessed a more modest growth rate of 3.36% (Figure 4).

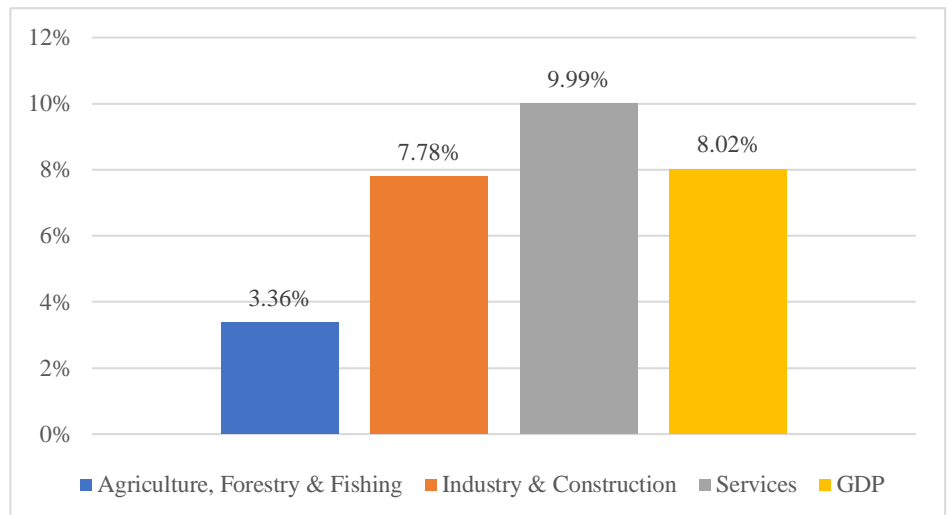


Figure 4. The contribution in GDP growth rate of the economic sectors.

Source: (General Statistics Office of Vietnam, 2022).

Employment trends mirrored these shifts: Employment in agriculture, which once engaged over 62.7% of Vietnam’s workforce in 2001, has now reduced to around 27.6%, while the industrial sector, benefiting from foreign investments and

technological advancements, now employs about 33.3% of the workforce, up from 14.5% in 2001. The service sector’s employment share has also seen an uptick, currently engaging approximately 39.1% of the workforce, a rise from the earlier 22.8% (General Statistics Office of Vietnam, 2022).

In essence, Vietnam has transitioned from an agriculture-dominated economy to a balanced mix of agriculture, industry, and services, impacting GDP and employment.

(4) Vietnam has actively pursued international integration, attracting substantial foreign investments, while it remains vigilant in preserving its national independence.

In the pursuit of economic liberalization, Vietnam promulgated the Law on Foreign Investment in 1987, which, after several revisions, has evolved into the current Investment Law. Leveraging its advantageous geographical position, competitive labor costs, and continuously improving business climate, Vietnam has become a favored destination for foreign direct investment (FDI).

Following the implementation of this law, Vietnam experienced a significant surge in net FDI inflows, escalating from \$40,000 in 1986 to \$10.36 million in 1987. This upward trajectory in FDI has been maintained over the years. By 2022, the net FDI inflows into Vietnam reached \$17.9 billion (Figure 5). Furthermore, over the last decade, the annual average growth rate of net FDI inflows into the country has steadily remained around 9%.

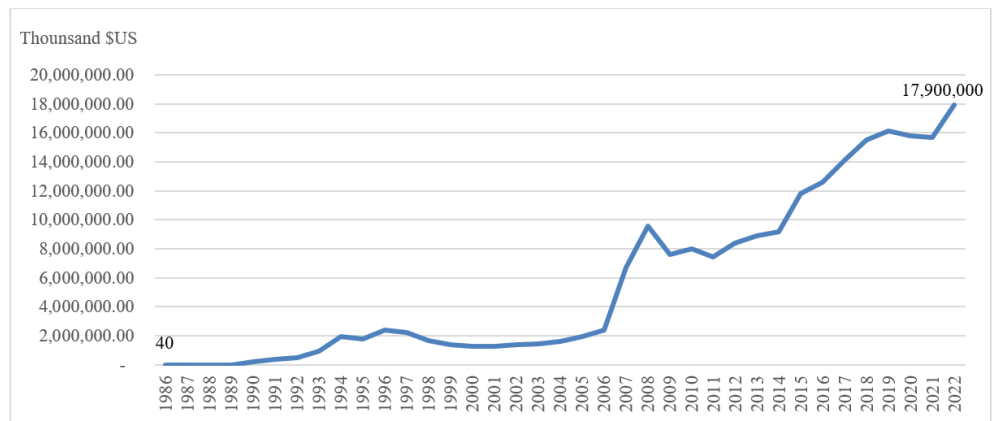


Figure 5. Net foreign direct investment inflows (current US\$) of Vietnam.
 Source: Compiled by the authors using data sourced from (World Bank, 2023).

As of December 2022, the total newly registered capital, adjusted and contributed capital to buy shares and buy contributed capital of foreign investors reached about \$27.72 billion, making up 18.3% of the total societal investment. The capital generated by FDI projects was estimated at \$22.4 billion, an increase of 13.5% over the same period last year. As of 2022, Vietnam has 36,278 valid projects with a combined registered capital of around \$438.7 billion. Of this amount, 62.5% represents the realized capital from foreign investments. Predominantly, international investors have directed their investments into Vietnam’s processing and manufacturing industries, infusing over \$16.8 billion, which represents 60.6% of the total capital in this sector (Ministry of Planning and Investment of Vietnam, 2022). This shows that in the context of the global investment flow tending to decline due to the strong global trade restructuring process, the Vietnamese economy still has strong attractiveness for investors to continue pouring capital. These foreign-invested enterprises primarily

target the export market.

Furthermore, Vietnam's active pursuit of economic openness and global integration has brought about substantial achievements in international trade. The nation's total trade turnover has experienced a remarkable increase, rising from \$5.2 billion in 1990 to \$730.2 billion in 2022. The FDI sector has played a significant role in augmenting Vietnam's export capabilities, contributing \$276.76 billion, which accounts for 74.4% of the total export turnover in 2022. This has resulted in a trade surplus of \$41.9 billion, effectively offsetting the \$30.7 billion deficit of the domestic sector, and resulting in a net surplus of \$11.2 billion (Trang, 2023). This positive trade balance has been instrumental in maintaining a robust balance of payments and ensuring macroeconomic stability.

Vietnam's major economic partners span across various continents. Key partners include China, the United States, Japan, South Korea, and the European Union (General Statistics Office of Vietnam, 2022), in which the European Union, bolstered by the EU-Vietnam Free Trade Agreement (EVFTA) that came into effect in 2020, has seen mutual trade and investments surge, and become one of Vietnam's top trading partners.

Despite its international integration, Vietnam has been strategic in ensuring its national independence remains uncompromised. The country's leadership maintains a balanced foreign policy, engaging with superpowers without leaning too heavily towards any one entity. This equidistant approach has allowed Vietnam to harness the benefits of global integration while preserving its sovereignty. The "Three Nos" policy—no military alliances, no affiliating with one country against another, and no foreign military bases on Vietnamese soil—underscores this commitment to independence (Ministry of National Defense of Vietnam, 2019).

Vietnam's integration into international organizations, such as the World Trade Organization (WTO) and the Association of Southeast Asian Nations (ASEAN), further exemplifies its global approach. Participation in such organizations not only boosts its economic profile but also allows Vietnam to actively contribute to and shape global norms and practices.

Generally, through a combination of strategic partnerships, balanced foreign policies, and active participation in international forums, Vietnam has positioned itself as both an attractive investment destination and a sovereign entity on the global stage.

(5) Vietnam is balancing rapid urban growth with sustainable development practices in its urbanization process.

Since 1986, Vietnam's swift economic progress has been a catalyst for substantial urbanization. The proportion of the population residing in urban areas has escalated from 20% in 1986 to 39% by 2022. This shift towards urban living has led to a migration of workers from rural agricultural sectors to urban industrial and service sectors, with the urban population expanding at an annual rate of 3.2% (World Bank, 2023). In response, Vietnam has fostered rural industrialization and strategically redirected resources to less prosperous regions, enhancing the availability of essential services and infrastructure.

By the year 2022, Vietnam had established 888 urban zones, predominantly of small to medium size and distributed evenly across the country. These urban areas have experienced robust economic growth, averaging 12%–15% annually and

contributing approximately 70% to the national GDP. Notably, five central cities, home to only 22% of the population, accounted for 46.8% of the GDP and attracted significant foreign investments (Huong, 2023).

Infrastructure development has played a critical role in supporting Vietnam's economic expansion. Between 2010 and 2017, 53% of the Official Development Assistance (ODA) received by Vietnam was allocated to infrastructure projects, according to OECD (2019). The country's focus has been on enhancing transportation infrastructure, including roads, airports, and seaports. Investment in infrastructure, representing 5.7% of Vietnam's GDP, is the highest in Southeast Asia. The quality of Vietnam's infrastructure has been ranked 77th out of a total of 141 countries (87th in utility infrastructure, specifically) (World Economic Forum, 2019).

Yet, rapid development and urbanization have environmental repercussions. Addressing sustainability concerns, Vietnam has embraced green strategies, targeting a low-carbon economy and bolstering resilience against environmental fluctuations. Committed to the Paris Agreement, Vietnam aims to reduce greenhouse gas emissions by 8% by 2030. Balancing urban growth with environmental stewardship underlines Vietnam's dedication to a sustainable, flourishing future.

4.3. The challenges of the Vietnam's economic structural transformation

Vietnam's economic restructuring, while remarkable in its accomplishments, has confronted a series of formidable challenges that demand strategic responses.

(1) Over-reliance on low-cost labor and skilled labor shortage

One of the cornerstones of Vietnam's early economic success was its abundant pool of low-cost labor, particularly in the manufacturing sector. According to Numbeo (2023), Vietnam ranks 24th out of 33 Asian countries in the Rankings by Country of Average Monthly Net Salary (After Tax). In 2022, Vietnam was the fourth most affordable South-East Asia's market after Cambodia, Myanmar, and the Philippines, with an average total labor cost of \$108,196 per month (BIIA, 2023). This reality stems from historical factors, as Vietnam began its transformation from an agrarian society with limited industrialization. This historical legacy has resulted in a significant portion of the workforce possessing low skill levels, especially in rural areas. A large part of the labor force transitioning to industrial or service sectors can only participate in low-value-added stages, which offer lower wages. Furthermore, Vietnam has been confronted with competition from other countries in the region and on a global scale. The strategy of enticing foreign investment through cost-effectiveness, with the goal of attracting industrial firms and maintaining competitiveness, lead certain sectors to emphasize the importance of low labor costs, thus perpetuating their dependence on a low-skilled workforce. As a result, Vietnam's economy has long relied on low-cost industries such as footwear, garments, and agricultural exports. The presence of vast pools of low-cost labor has positioned Vietnam as a primary hub for labor-intensive business operations, particularly in manufacturing.

Considering the historical perspective and taking advantage of available resources, this is an inevitable choice for Vietnam in the early stages of innovation. However, as global economic dynamics evolve, characterized by rising wages in Vietnam and competitive labor costs in neighboring countries, the nation faces the

pressing need to transition towards higher-value-added production. From 2012 to the present, the basic wage level in Vietnam has undergone 7 adjustments, nearly doubling (from 1,050,000 VND per month in 2012 (The Government of Vietnam, 2012) to 1,800,000 VND per month in 2023 (The Government of Vietnam, 2023)). While increasing the minimum wage in recent years has contributed to improving the lives of workers, on the other hand, it is creating significant challenges as the advantage of low labor costs diminishes. The risk of continued reliance on low-cost labor is a potential erosion of Vietnam's competitive edge in the international market.

Furthermore, a pronounced skills gap has emerged, particularly in high-tech and advanced industries. The rapid development of technology-driven sectors demands a workforce with specialized skills and expertise. Many foreign companies looking to invest in high-tech manufacturing require highly-qualified human resources, especially after the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) took effect in Vietnam since 2019. However, Vietnam faces a noticeable deficit in this regard, with a substantial proportion of its labor force lacking the necessary qualifications. According to the ILO and ILSSA (2022), a striking 82.5% of workers in Vietnam's manufacturing sector lack formal degrees or certifications. Vietnam ranks 79th out of 134 countries in the Global Talent Competitiveness Index 2023, much lower than other countries in the Southeastern Asia region, such as Singapore (2nd), Malaysia (42nd), and neighboring China (40th). Particularly in terms of talent retention, Vietnam ranks only 89th out of 134 countries (INSEAD, Descartes Institute for the Future & the Human Capital Leadership Institute, 2023). The shortage of skilled labor leads to lower labor productivity compared to other countries in the ASEAN Economic Community. Vietnam's labor productivity is notably lower, standing at just one-seventh of Singapore's, one-fifth of Brunei Darussalam's, and even lower than that of Malaysia, Thailand, and Indonesia (ILO, 2021).

The reasons for this shortage of human resources can be traced to deficiencies in the education and vocational training system in Vietnam. Higher education institutions emphasize theoretical knowledge over practical skills, not align their programs with the rapidly growing economy and the demand for skilled labor, resulting in a gap between the skills taught in universities and those demanded by the job market. Limited collaboration between educational institutions and industries exacerbates this mismatch. Additionally, a lack of investment in research and development and innovation also hampers technological advancements and skill development in Vietnam (Phan and Dinh, 2023).

(2) Over-dependence on exports and FDI

Vietnam's remarkable economic transformation has been accompanied by a significant dependence on exports and FDI. While these factors have played a crucial role in the nation's growth, they also present a set of challenges and vulnerabilities.

Vietnam's export dependency is evident in its high export-to-GDP ratio. According to World Bank (2023), exports of goods and services from Vietnam increased from 54.2% of GDP in 2010 to 93.3% in 2021. This exposes Vietnam to external economic shocks and global market fluctuations. The most current fact, which is the intense trade conflict between the United States and China and the Covid-19 pandemic, shown a negative impact of disruptions in international trade on the global economy, including Vietnam. In the pandemic, major trading partners of Vietnam, such

as the United States, the European Union, Japan, France, and others, significantly reduced their import demands. Large orders were also postponed as countries closed their borders to limit the spread of the disease. Vietnam's key export items faced a dual impact when input materials were hindered, and the destination markets were in fluctuations. As a result, export growth in 2020 declined by more than 31% compared to 2019 (Xuan Nguyen, 2021), which had a direct influence on the country's economic stability and growth.

In terms of foreign investment, net FDI inflows into Vietnam which reached \$17.9 billion in 2022, represents a substantial portion of the country's economic activity. Excessive dependence on FDI exposes Vietnam to the risk of capital flight in times of global economic uncertainty. Sudden outflows of foreign capital can disrupt the stability of financial markets and impact economic performance. Concerns of capital flight and vulnerability to external shocks demand the government to implement policies for addressing over-reliance challenges.

It can be seen that Vietnam's reform efforts prioritize exports and FDI as primary drivers of economic development, making dependence on them difficult to avoid. The pursuit of an export-led growth strategy and the attraction of foreign investment have gradually integrated Vietnam into global value chains and deepened international integration. This approach has proven successful. In the current context, Vietnam has no intention of changing this strategy. However, it requires better planned strategies to diversify its economy and mitigate the risks linked to its significant dependence on exports and FDI, thereby enhancing the overall comprehensiveness of its approach.

(3) Infrastructure Limitations

Vietnam's robust economic growth and urbanization have brought forth substantial hurdles in the realm of infrastructure development. During a recent review of the past decade's implementation of the Party's Resolution on infrastructure construction, government leaders candidly acknowledged that despite country's faster progress with increased resource allocation and deliberate efforts, the problems identified in the 2012 Resolution, including a lack of synchronization and poor connectivity within the infrastructure system, continue to impede the development (Minh Khoi, 2023).

Vietnam's technical infrastructure suffers from a lack of coordination and inter-sectoral connectivity, resulting in reduced operational efficiency. Specifically, the transportation sector lacks harmonious combination of road, waterway, and railway systems and does not consistently integrate yet with the irrigation, telecommunications, and electricity systems. Multimodal transport organizations lack proper connections, leading to imbalances among different transportation modes (Open Development Vietnam, 2022). Notably, while Vietnam's seaport system attracts significant FDI, it struggles to meet demand, leading to congestion issues amid increased import and export activities. Despite its relatively high ranking in maritime transport connectivity (19th out of 141 countries), the efficiency of seaport services only ranks 83rd out of 141 (World Economic Forum, 2019). Besides, the power infrastructure lacks synchronization between power sources and grids, posing concerns about stability, which can disrupt industrial activities and business operations. Irrigation infrastructure is fragmented and lacks cohesiveness, while urban infrastructure is deficient and of subpar quality. Social infrastructure is both

insufficient and underdeveloped, failing to meet basic social service requirements, particularly in healthcare, education, culture, and sports facilities. Environmental infrastructure, especially in rural areas, remains neglected (Minh Khoi, 2023).

On the administrative side, institutional reforms are not synchronized, and the pace of policy promulgation has been sluggish, with a lack of groundbreaking policies to mobilize state, social, and natural resources for infrastructure development. Several areas still lack legal regulations and regulatory frameworks, such as the Telecommunications Law and the Law on Urban Development Management. Policy mechanisms have lagged behind the changing landscape, particularly those related to digital infrastructure development, urban development in tandem with public transportation, and public-private partnerships (Ministry of Science and Technology of Vietnam, 2023).

National and local leaders have also emphasized the challenges in infrastructure development arising from capital constraints and inefficiencies in attracting non-state resources. Ministries and localities have not allocated sufficient capital for critical infrastructure projects, further exacerbating the issues faced in infrastructure development.

According to The Global Infrastructure Outlook (2023), Vietnam is projected to require a total investment of \$605 billion by 2040 to reach its infrastructure objectives. However, there is an estimated shortfall of \$102 billion between investment need and current trends. This gap is most pronounced in the areas of road development, water supply, and electricity provision (**Figure 6**).

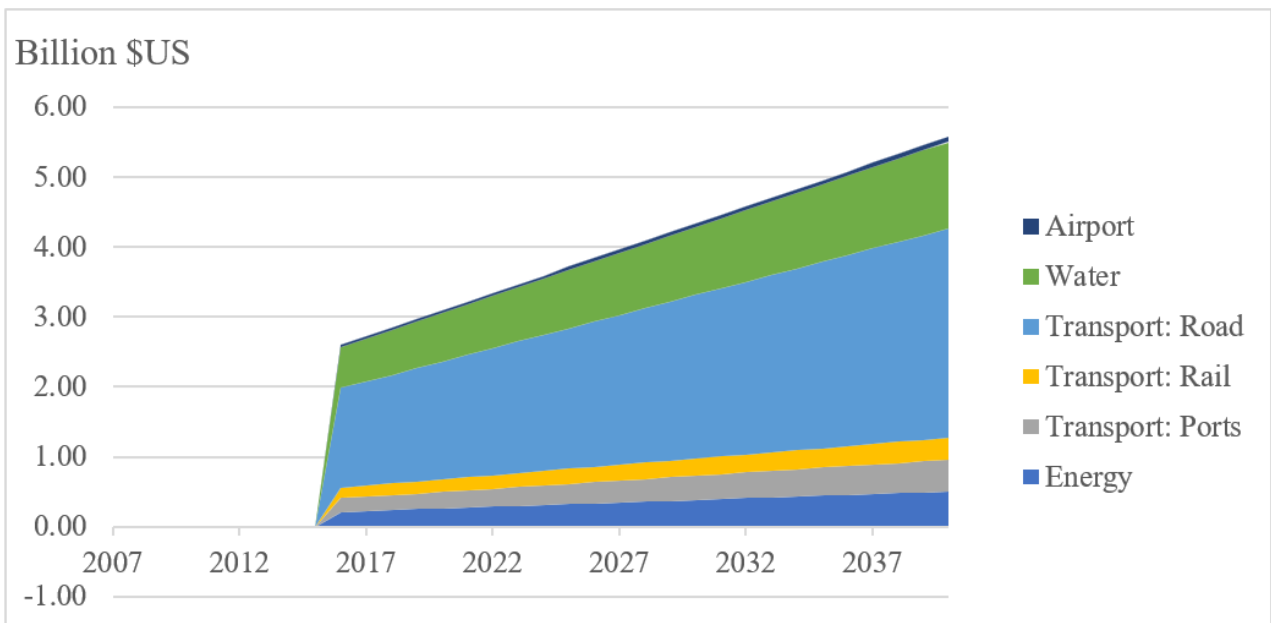


Figure 6. Vietnam’s infrastructure investment gaps for each sector.

Source: (The Global Infrastructure Outlook, 2023).

(4) Inadequacy in state-owned enterprise reform

SOEs play a dominant role in the Vietnamese economy. However, the inefficiencies of some large SOEs, which still dominate crucial sectors of the economy, pose significant fiscal risks. Data from The Ministry of Finance of Vietnam (2022)

revealed that the pre-tax return on equity of SOEs was 11.42% in 2019, which declined to 9% in 2020. The pre-tax return on total assets was 5.44% in 2019 and dropped to 4% in 2020. These figures are significantly lower compared to the private sector. This is an alarming message of the suboptimal performance of SOEs in managing equity, especially when SOEs often have exclusive access to various preferential treatments, most notably financial benefits. These include the ability to obtain loans at concessional interest rates supported by government backing, the advantage of on-lending from government borrowings, access to government-guaranteed loans for SOEs, and both direct and indirect loans from local authorities (Economic Committee of the National Assembly and UNDP in Viet Nam, 2013).

One of the important phases in SOE reform in Vietnam is equitization or privatization, which align with the objective of transitioning Vietnam's economy from a centrally planned system to a market-oriented one with socialist characteristics. However, it faces challenges in valuating the enterprises that is regarded as one of the most intricate, expensive, and time-consuming steps in the process. It also represents a critical bottleneck that hinders the successful privatization of a substantial number of SOEs (ADB Institute, 2020). Without a robust asset valuation monitoring system in place, there is a risk of losing state assets during this phase, making it a significant obstacle to the effective privatization of SOEs.

According to the report from the Ministry of Finance of Vietnam, both the equitization and divestment of state-owned enterprises have been progressing slowly and falling below the planned targets. For example, in the list approved by the Prime Minister in Document No. 991/TTg-ĐMDN, for the period of 2017–2020, there were 128 enterprises scheduled for equitization, but by March 2020, there were 92 enterprises that had not completed the process. In terms of divestment, another list approved by the Prime Minister in Decision No. 1232/QĐ-TTg aimed to divest from 403 enterprises during the same period, but only 21.8% of the planned divestments have been realized so far. Additionally, the transfer of representative rights of state capital ownership to the State Capital Investment and Business Corporation (SCIC) has been completed for only 30 enterprises, with a total value of 630 billion VND (Huong, 2022).

On the other hand, despite equitization efforts, the government tends to retain a majority stake in most equitized SOEs, and many of these entities don't promptly list their shares on the stock market. This delay erodes investor confidence, particularly among foreign investors, in the government's equitization program. Moreover, since ownership is insignificantly divested, decision-making authority remains within the government's grasp, private sector strategic partners often have limited room to reshape these companies into more competitive entities. Post-equitization, the operations and management of production and business activities often remain stagnant, with some units adhering to outdated practices, heavy bureaucracy, and administrative approaches, creating inefficiencies that hinder the enterprises' ability to adapt to technological trends. In fact, when equitization plans stipulate that the government maintains a controlling interest, these enterprises may receive less attention from investors.

(5) Income Disparities

While millions have been lifted out of poverty, disparities in income and

opportunities between urban and rural areas, and between regions, have widened. The Gini coefficient, a measure of income inequality, increased from 35.6 in 2012 to 37.5 in 2022, indicating a rise in income disparity. The income growth rate of the poorest group is always lower than that of the richest group, further aggravating this situation. The top 20% of households by income have an average monthly income per person that is 7.6 times greater than that of the bottom 20%. Meanwhile, the inequality in average per capita monthly living expenses observed between the wealthiest group and the poorest group was 3.2 times in 2022.

Urban areas, particularly major cities like Ho Chi Minh City and Hanoi, have witnessed faster wealth accumulation than rural regions. The monthly income per capita in urban areas in May 2022 reached nearly 5.95 million VND which is 1.54 times higher than the average income in rural areas, which is 3.86 million VND. Also related to regional inequality, in 2022, the Southeast region boasted the highest monthly average income per person, reaching 6.33 million VND, while the Northern midlands and mountains had the lowest monthly average income per person at 3.17 million VND, which is less than half of the income in the Southeast (General Statistics Office of Vietnam, 2023). Such disparities emphasize the need for inclusive growth policies from the government to ensure equitable development.

(6) Environmental Concerns

The swift pace of urbanization and industrialization has intensified environmental issues, encompassing climate change, deforestation, and air and water contamination. Vietnam's ranking on the Environmental Performance Index 2022 is a concerning 178 out of 180 countries, reflecting a decline over the past decade (Yale University, Columbia University & McCall MacBain Foundation, 2022). The nation's particularly low scores in the categories Climate Change, Climate Change Mitigation, and Ecosystem Services highlight the urgency of these issues. Notably, climate change amplifies other problems like public health risks, biodiversity depletion, and agricultural challenges. Thus, for Vietnam, harmonizing economic aspirations with environmental sustainability is a pressing concern.

(7) Regulatory and Financial Hurdles

Vietnam's business climate, despite reforms, remains intricate. Ranked 70th out of 190 economies on the World Bank's Doing Business 2020 report (World Bank, 2020), businesses in Vietnam grapple with various regulatory and financial hurdles. Vietnam's regulatory framework has often been criticized for its complexity and lack of clarity. During parliamentary sessions, Vietnamese National Assembly delegates have candidly highlighted the deficiencies in legislative efforts, including the short duration of laws' effectiveness, ineffective incorporation of input from citizens and experts, and partiality in the lawmaking process. Businesses, both domestic and foreign, have struggled to navigate a regulatory landscape that is constantly evolving. This can lead to uncertainty and hinder long-term investment planning.

Besides, while efforts have been made to streamline administrative procedures, bureaucratic red tape remains a hurdle for businesses. Lengthy and cumbersome administrative processes can result in delays and increased costs for investors and entrepreneurs. The survey (VCCI and USAID, 2022) revealed that approximately 38% of businesses encountered challenges in accessing information about administrative procedures. Notably, FDI enterprises, large-scale corporations, and well-established

companies generally found understanding administrative procedures to be more challenging compared to other groups. When questioned about customs procedures, businesses pointed out inconsistencies in regulations and a lack of inter-agency coordination. In terms of specialized management and inspections, various deficiencies persist, primarily stemming from intricate procedures, an extensive list of goods subject to specialized inspection, and persistent challenges in conducting specialized inspections.

In terms of access to finance, despite improvements in the banking sector, many businesses still find it challenging to secure affordable loans, especially for small and medium-sized enterprises. This can stifle entrepreneurship and limit business expansion. On the other hand, Vietnam was grappling with a high level of non-performing loans in its banking sector. This issue not only affects the stability of financial institutions but also reduces the availability of credit for productive investments.

(8) Challenges from the current global landscape

Escalating trade tensions, especially between the U.S. and China, exert pressure on Vietnam's predominantly export-oriented economy. Data from World Trade Organization (2023) reveals a decline in global merchandise trade volume growth to 3.0% in 2022, from 9.6% in 2021, with projections indicating a further slump to 0.8% in 2023. This trend poses risks to Vietnam's trade prospects. Furthermore, a global trend towards protectionism jeopardizes Vietnam's market access. Disruptions from the persistent COVID-19 pandemic and the Russia-Ukraine conflict have unsettled global supply chains, impacting Vietnam's manufacturing, which constitutes nearly 40% of its GDP. These challenges highlight the urgency for Vietnam to recalibrate its economic approaches.

5. Discussion and policy implications of economic structure in the changing global context

The research results on Vietnam's economic structural transformation offer valuable insights and lessons that can inform policy decisions and strategic initiatives, not only within Vietnam but also in other developing economies. These insights are perceived in the complexities and potential of economic structural transformation in the modern era:

Firstly, in terms of historical perspective, Vietnam's journey from an agrarian economy to a balanced mix of agriculture, industry, and services underscores the significance of the country's response suiting historical context. Policymakers in other developing economies can learn that understanding their unique historical background and leveraging it strategically is crucial for successful transformation.

Secondly, the Đổi Mới reforms in Vietnam demonstrate the power of economic liberalization and opening up to foreign investment. This could be considered the main core of Vietnam's economic transformation. Other nations can take the importance of embracing market-oriented policies and attracting foreign investments to drive economic growth and diversification. This includes fostering a competitive business environment, improving corporate governance, and ensuring equitable economic participation across all sectors.

Thirdly, emphasizing human resource development is crucial, especially in developing countries like Vietnam grappling with overreliance on cheap labor and skilled worker shortages. Specific actions could include establishing comprehensive skills development programs that cater to the evolving needs of industries; collaborating with educational institutions and the private sector to design curriculum and training programs, apprenticeships and internships aligned with industry; and providing incentives for companies to invest in employee training and development. Additionally, policies enhancing research and development activities to foster innovation and facilitate higher-value industries; creating investment incentives for non-traditional sectors such as technology, renewable energy, and creative industries will reduce over-reliance on low-wage labor.

Fourthly, Vietnam's experience shows that economic diversification is essential for reducing dependence on specific sectors or foreign capital, and building resilience. This includes supporting domestic industries, especially emerging industries with growth potential; expanding into new markets and developing robust fiscal policies to manage external risks.

Fifthly, prioritizing infrastructure development, especially in urban areas, is vital for balanced growth. To address infrastructure challenges in Vietnam as well as developing countries, a strategic blend of approaches is essential. Essential strategies should include diversifying funding sources via domestic investments, FDI, and international aid, complemented using innovative financial tools such as infrastructure bonds. The role of Public-Private Partnerships (PPPs) is pivotal, necessitating a solid legal framework and the development of appealing, transparent projects. Enhancing management efficiency through the adoption of smart technologies is crucial for optimal use of infrastructure. Furthermore, adherence to sustainable building practices and incorporating climate change adaptation measures will guarantee long-term sustainability. These concerted efforts are indispensable for the sustainable development of infrastructure in emerging economies.

Sixthly, in Vietnam, effective SOE reform is key to economic modernization. Prioritizing the privatization and equitization of SOEs, especially in non-strategic sectors, is crucial to increase private sector participation and competition. This requires transparent valuation processes for fair asset pricing. Enhancing corporate governance is also essential, involving adopting international best practices and establishing independent, professional boards to increase transparency and operational efficiency. In addition, strengthening financial discipline and aligning SOEs' strategic objectives with national development priorities will make them more efficient and responsive to market demands. Overall, these reforms aim to transform SOEs into competitive entities, contributing effectively to Vietnam's broader economic growth.

Seventhly, addressing income inequality and promoting social inclusion are essential for sustainable development. Reviewing and adjusting the minimum wage to reflect living costs, expanding social safety nets to protect vulnerable populations, and promoting financial literacy and access to banking services in underserved areas can help ensure that growth benefits all segments of society.

Eighthly, integrating environmental sustainability into economic activities is increasingly important. Robust enforcement of environmental regulations and standards, incentives for businesses to adopt green technologies and practices, and

responsible resource management are key considerations.

Ninthly, regulatory and financial reforms are imperative prerequisites for achieving economic transformation amidst global integration. It is necessary to conduct regular regulatory reviews to identify and eliminate unnecessary hurdles, establish financial mechanisms to provide affordable loans and grants, especially to small and medium enterprises, promote digitalization of government services to reduce administrative burdens.

Tenthly, developing strategies to navigate global uncertainties gain heightened significance within the geopolitical landscape characterized by shifting dynamics and divergent integration perspectives. Diversifying trade partners and markets, strengthening diplomatic and trade relations, and establishing contingency plans are strategies that can enhance a nation's resilience in the face of external shocks.

These insights emphasize that economic structural transformation is not a one-size-fits-all process. As we navigate through the intricate narrative of Vietnam's economic transformation within the broader canvas of globalization and regional integration, our study has endeavored to shed light on the multifaceted aspects of this journey. However, the vast expanse of this topic, coupled with the dynamic nature of economic development, inherently presents limitations that bound the scope of our inquiry. Recognizing these limitations not only underscores the rigor of our research but also carves out pathways for future scholarly exploration, ensuring the ongoing evolution of our understanding of economic structural transformations.

One significant limitation of this research is the lack of comparative analysis between different economic development models, including the examination of how Vietnam's economic development strategies may be applied or adapted by other developing countries. Comparative analyses are crucial to understand the diverse ways countries can implement Vietnam's reform strategies within their unique socio-political and economic contexts, helping to identify the challenges and best practices associated with adopting similar economic reforms.

Addressing this gap, a potential direction for future research could involve examining economic reforms within the context of multilateral cooperation frameworks or development projects, including the Greater Mekong Subregion (GMS) Program. An in-depth study on the GMS Program's contribution to creating economic development corridors would offer invaluable insights into how such collaborative initiatives can bolster connectivity, economic growth, and regional integration. This research could entail detailed investigation into the development of functional economic nodes along these corridors, assessing their influence on local economies, trade facilitation, infrastructure development, and the implementation of environmental and social safeguards. Additionally, analyzing the effectiveness of Vietnam's policies and strategies within the GMS framework could shed light on best practices and pinpoint areas requiring enhancement. This encompasses a review of policy coherence, challenges in policy implementation, and how GMS initiatives align with Vietnam's broader development objectives.

Overall, future studies could significantly enrich our understanding of the GMS Program's impact on shaping Vietnam's economic environment. This research will not only benefit Vietnam but also offer crucial insights to other nations within the GMS framework, aiding in the formulation of policies and practices that promote equitable

and sustainable regional growth.

6. Conclusion

The study of Vietnam's economic structural transformation, while rooted in its specific historical and cultural context, transcends these boundaries to offer universal insights pertinent to contemporary global dynamics. Vietnam's experience underlines the significance of adaptability and strategic foresight in economic policy-making. The country's ability to embrace market liberalization while retaining its socialist orientation demonstrates the delicate balance required in aligning national priorities with global economic trends. This underscores a key lesson for other nations that the importance of crafting economic policies that are flexible and responsive to both domestic needs and international developments.

Furthermore, Vietnam's journey highlights the critical role of inclusive growth and sustainable development in economic transformation. This approach ensures that economic gains are not at the expense of ecological integrity or social equity, fostering long-term resilience and stability. The study also brings to light the importance of human capital as a cornerstone of economic growth. For countries at similar stages of development, prioritizing human capital development is essential in building a robust and dynamic economy capable of adapting to technological advancements and shifting market demands.

Lastly, Vietnam's experience serves as a reminder of the ongoing challenges that emerging economies face in a rapidly changing global environment. Issues such as infrastructure development, regulatory efficiency, and strategic international integration remain as pertinent concerns. Addressing these challenges requires a proactive and innovative approach, coupled with a commitment to continuous learning and adaptation.

In essence, Vietnam's economic structural transformation is not just a reflection of a singular national experience, but a set of broader lessons that resonate with developing countries worldwide. These lessons underscore the importance of strategic agility, inclusive growth, human capital development, and sustainable practices in navigating the path of economic transformation in an increasingly interconnected and dynamic global landscape.

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