Accelerate Sustainable Development in Viet Nam: Policy Options

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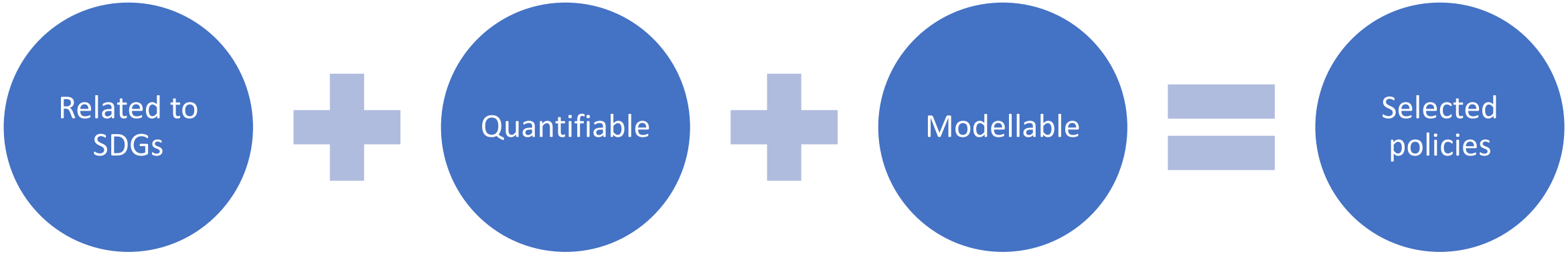
Jaromir Hurnik

Consultant, Macroeconomic Policy and Financing for Development Division
United Nations Economic and Social Commission for Asia and the Pacific (ESCAP)

Reasons for choosing policies



Scenario 1: Toward a greener economy

Development ambition

- COP 26 commitment – net-zero emission
- Goal 7: Ensure access to sustainable, reliable, and affordable energy for all
- Pursue green growth

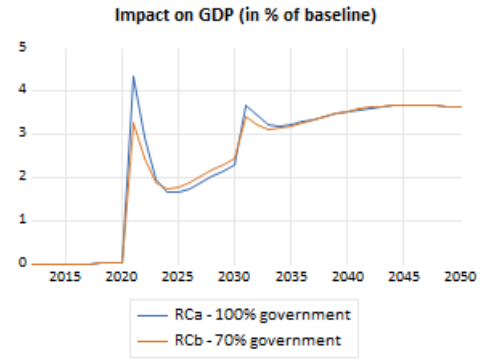
Policy actions

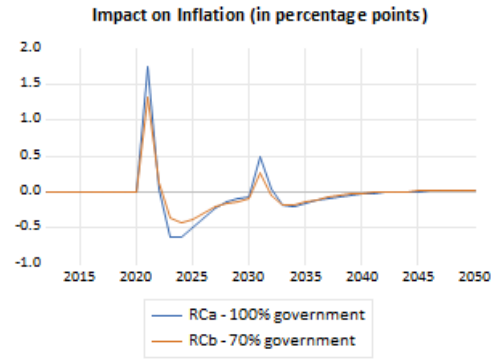
- Implementing policies (Power Development Plan VIII) to encourage renewable energy development, Increase investment in renewable energy, energy efficiency
- Applying tools to limit CO2 emission

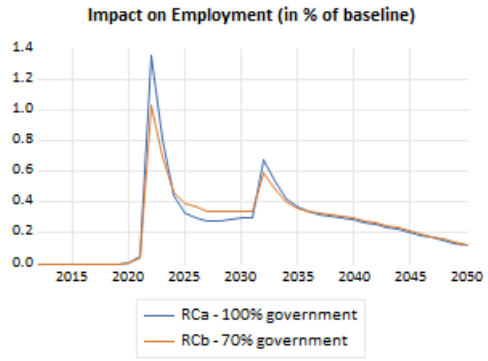
Policy assumptions

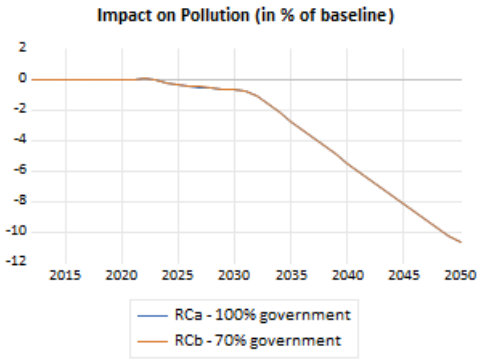
- Scenario 1.1: Development of renewable energy: Government will increase investment in renewable energy with an estimated spending of about 13.5 bil. USD per year until 2030 and 23 bil. USD per year from 2031 to 2050. Government spending 100% or 70%.
- Scenario 1.2. Introduction of a carbon tax: In 2023, around 25 USD per CO2 ton. In the long run, increase to 90 USD per CO2 by 2040. Carbon subsidy increased to 13.9 USD per CO2 in 2021 from 1.2 USD in 2020, ease completely until 2023. Extra revenue will be used to finance the budget deficit and pay back debt, with no increase in spending

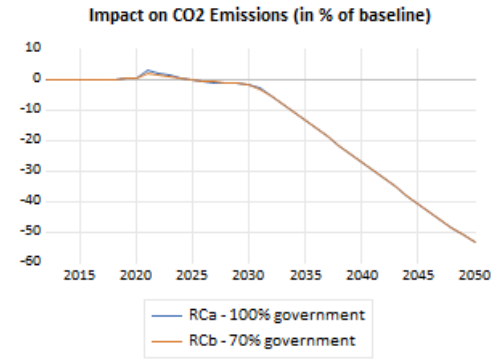
Scenario 1.1. Development of renewable energy: *Significant (~7% of 2020 GDP per year) investment package between 2021 and 2050 in renewable energy capacity increase.*

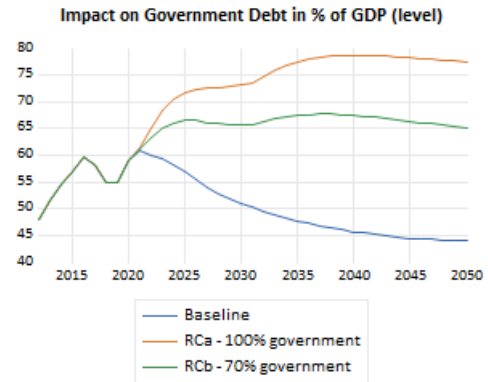


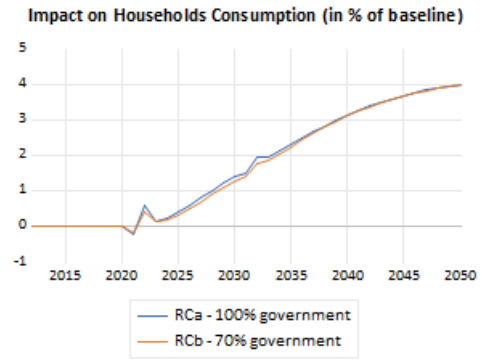


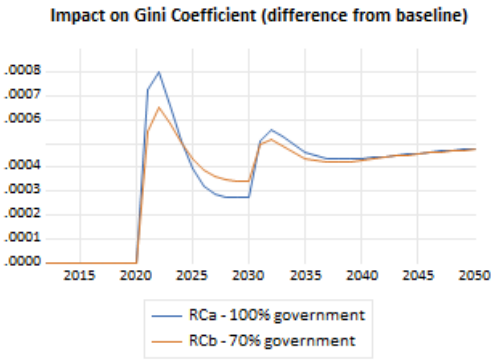


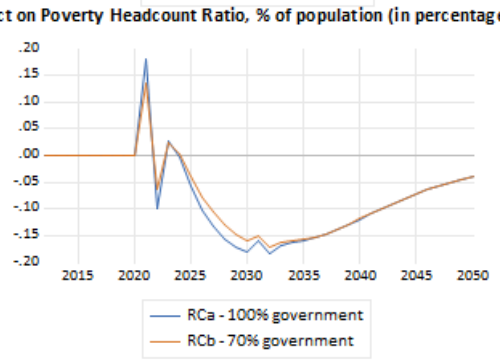






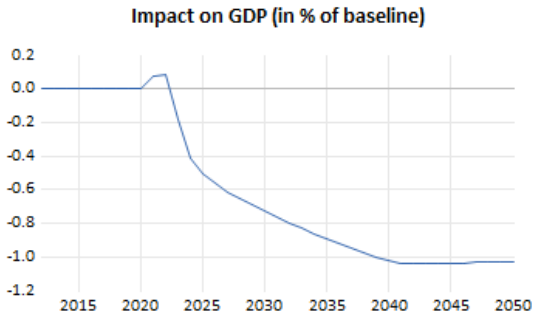


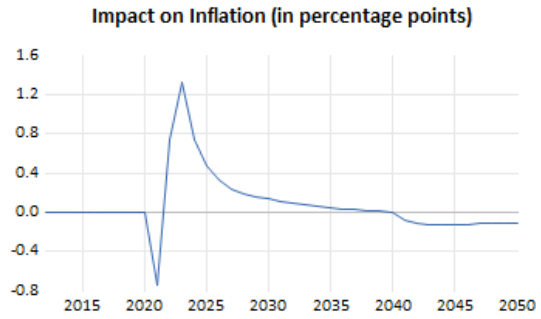


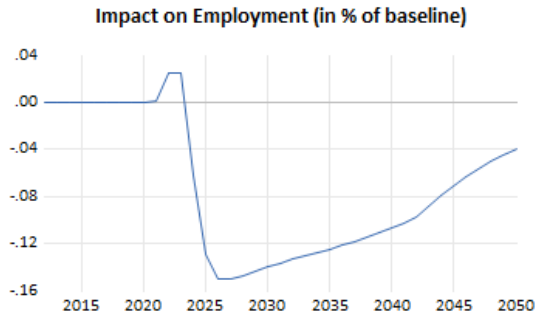


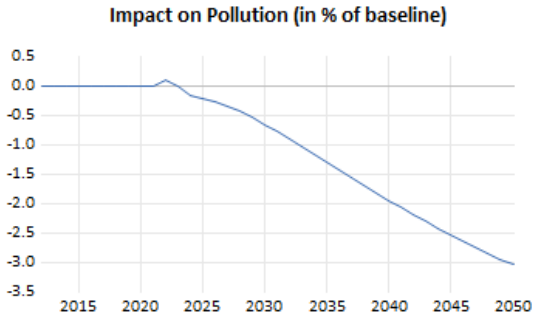
- Significant climate effect in the long run, reduction in pollution and CO2 emissions.
- The growth effect is positive and is driven by the substantial investment shock and improving productivity.
- Social impact is negligible.
- Pressure on fiscal balance is substantial, especially if it is fully financed by the government.

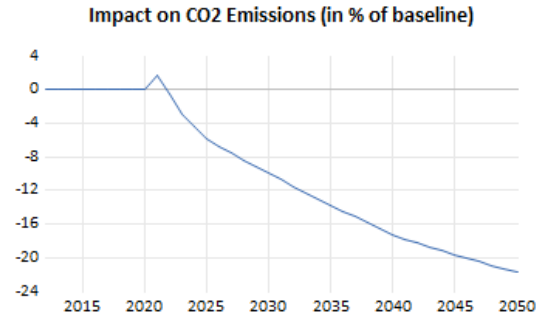
Scenario 1.2. Introduction of a carbon tax: *Implementation of a climate tax rate at 90 USD per tone CO2 and removal of carbon subsidies.*

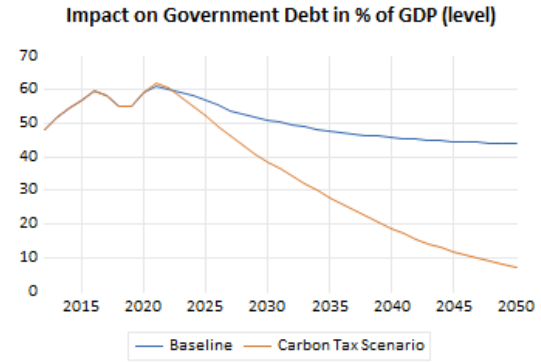


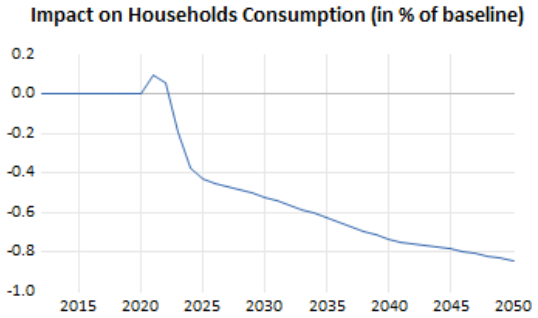


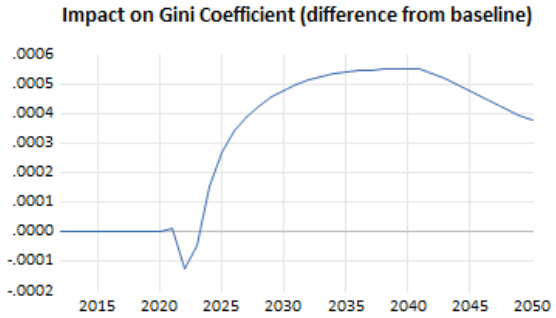


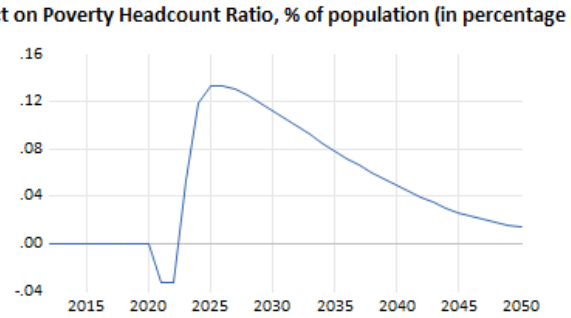












- Increasing price of fossil energy reduces and shifts energy consumption. Hence, effect on CO2 is positive even in the short run.
- With the rise in production costs, GDP declines slightly, but the impact remains small.
- If government does not utilize the extra revenue to boost social spending, the impact of the carbon tax on social indicators remains negligible but reduces the public debt significantly.

Scenario 2: Poverty and inequality reduction and social protection

Development ambition

- Inequality reduction
- Goal 1: End poverty in all its forms everywhere
- Goal 10: Reduce social inequalities
- Goal 4: Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

Policy actions

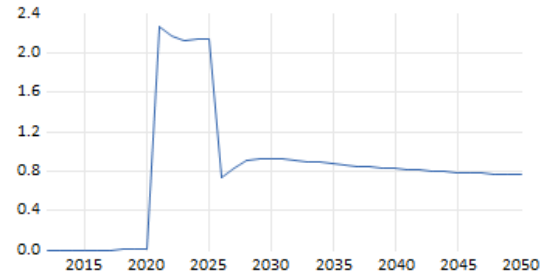
- Directive No.: 05-CT/TW, dated June 23, 2021 of the Secretariat on strengthening the Party's leadership for sustainable poverty reduction in 2030
- Implementing Socio-Economic Development Plan
- Implementing National Target Programs (NTP)
- Increase investment in education
- And other measures

Policy assumptions

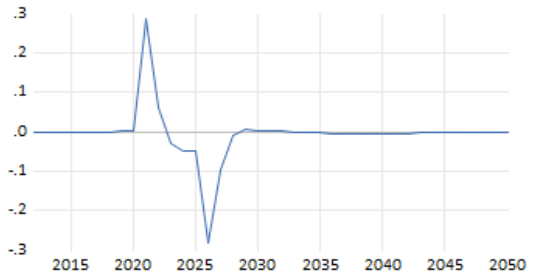
- Scenario 2.1.1: 2,443,796 bil. VND for NTPs funded by Government and private source as stated on NTPs, in infrastructure, health, education, social protection
- Scenario 2.1.2a,b,c,d: All investment packages for only one purpose.
- Scenario 2.2:Increase 4.55% of total state budget for education to achieve the minimum level of 20% by new finance from Gov. budget or reallocation from other investment

Scenario 2.1. Implementation of National Target Programs (NTP): *Large (39% of 2020 GDP) investment between 2021-2025. Only 15% is financed from government budget and it is mostly allocated to social spending.*

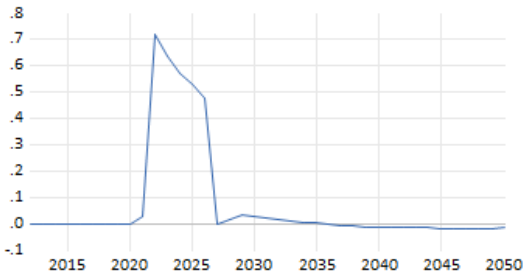
Impact on GDP (in % of baseline)



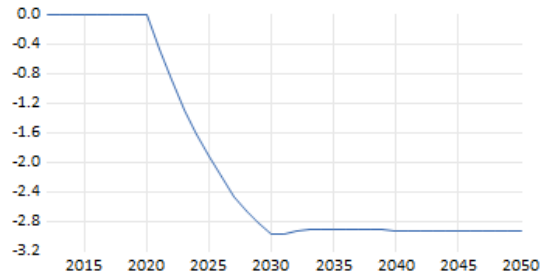
Impact on Inflation (in percentage points)



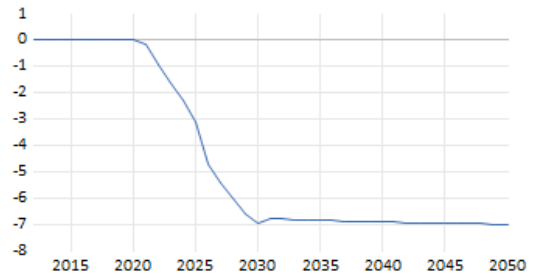
Impact on Employment (in % of baseline)



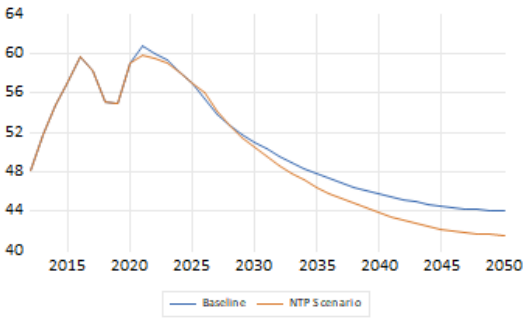
Impact on Pollution (in % of baseline)



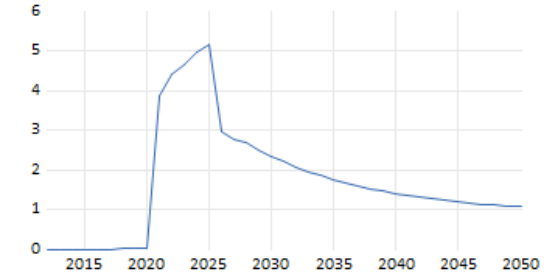
Impact on CO2 Emissions (in % of baseline)



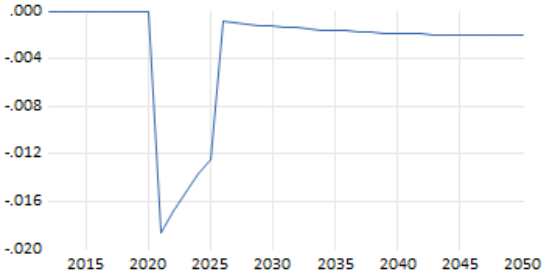
Impact on Government Debt in % of GDP (level)



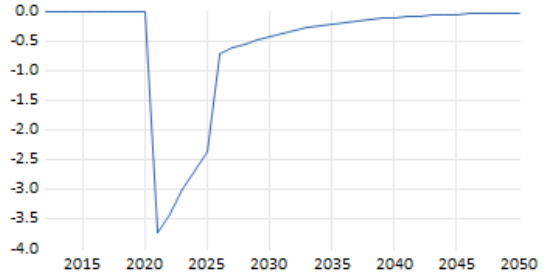
Impact on Households Consumption (in % of baseline)



Impact on Gini Coefficient (difference from baseline)



Impact on Poverty Headcount Ratio, % of population (in percentage point)



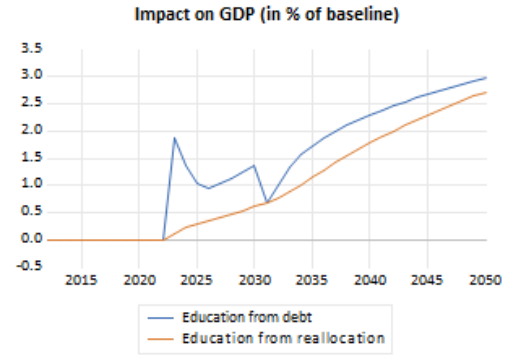
- The effect on the climate is positive as we assume infrastructure investment to boost energy efficiency, reduces CO2 emission.
- The impact on economic growth is positive, driven by the investment shock and productivity jump.
- Spending in social sectors yields a positive effect on fundamental and social variables.
- As a large part of the investment is financed by the private sector, the effect on fiscal is positive.

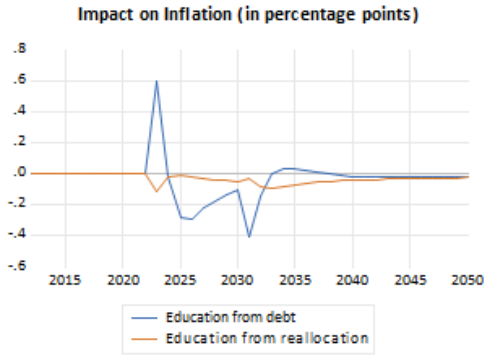
Scenario 2.1. Implementation of National Target Programs: *Alternative scenarios, when all the expected NTP investment (~39% of 2020 GDP) is spent on different subsectors, while assuming that is it fully financed by the government.*

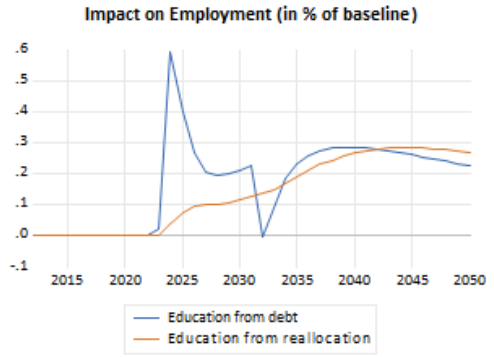


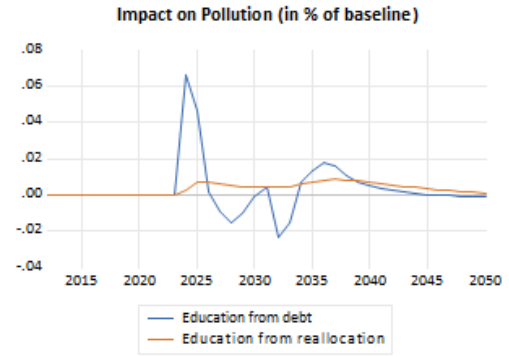
- Green investment enhances energy efficiency and impacts economic growth positively, driven by the investment shock and productivity jump.
- Investment in healthcare has a primary impact on productivity since it supports labor productivity.
- Significant spending in the social sector boosts household consumption and reduces poverty but only in the short term.
- Investment in education makes a positive contribution to social indicators, improves productivity and output.

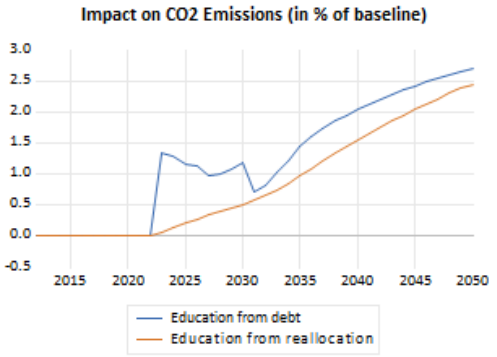
Scenario 2.2. More education for a better future: *Systematically higher education spending from 2023 until 2030 either financed from additional debt or from reallocation of the budget.*

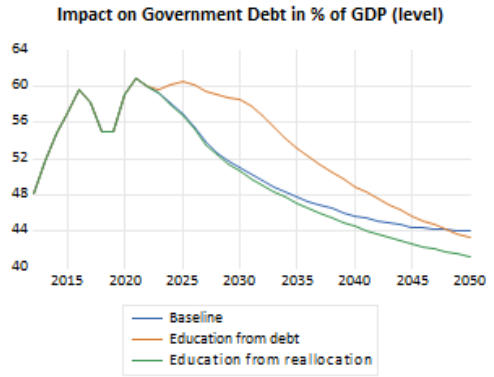


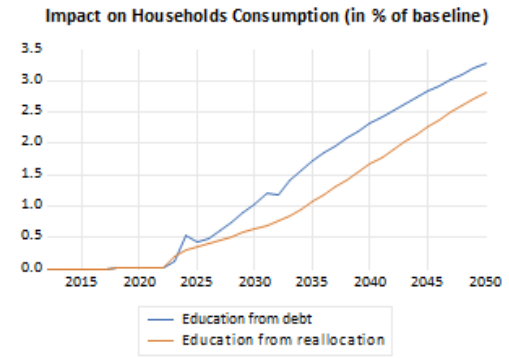


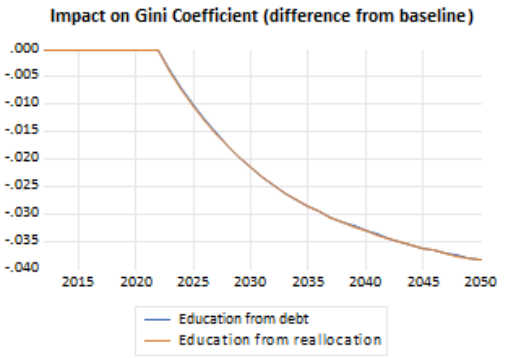


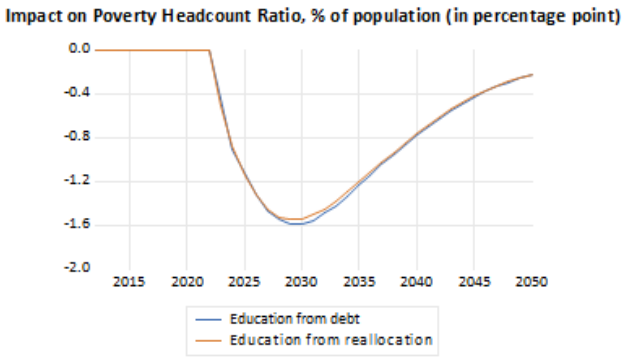












- Climate effect is negligible.
- Increased investment in education will have a positive short-term effect on both GDP and employment due to the additional government stimulus. The positive effects of educational investment manifest.
- Fiscal pressure is increasing unless investment is from reallocation of other investments. However in this case, as a trade-off, economic impact is more moderate.
- Social variables improve notably in the case of education investment.

Scenario 3: Toward innovation-based growth

Development ambition

- Restructuring economy, transform economic growth model
- Goal 8: Ensure sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all

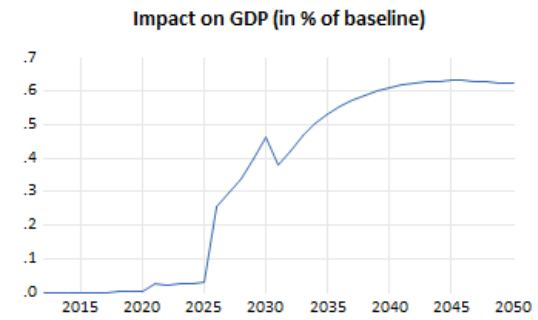
Policy actions

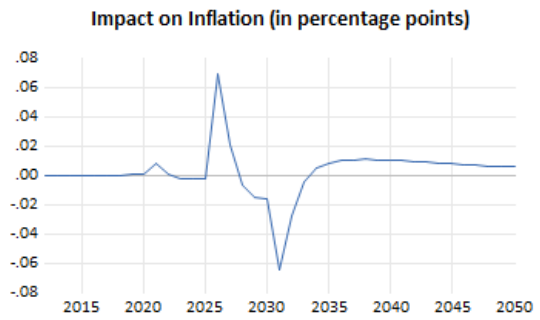
- Resolution of the 13th National Party Congress
- Resolution No. 54/NQ-CP promulgating the Government's Action Program to implement the National Assembly's Resolution on Economic Restructuring Plan for the period 2021 – 2025
- Decision No. 36/QD-TTg on Promulgating the General Plan to improve productivity based on science, technology and innovation for the period 2021 – 2030
- Information and Communications Infrastructure Plan, etc.

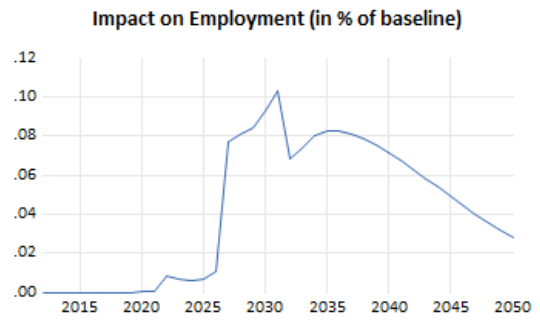
Policy assumptions

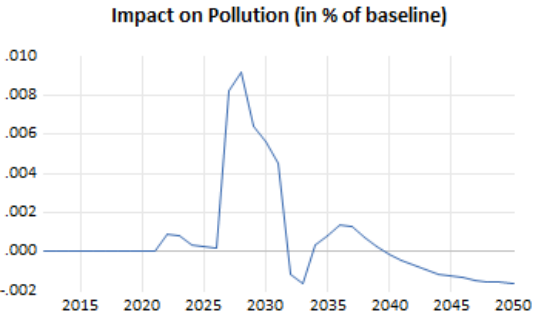
- Scenario 3: Implementing ICIP with the package of 266.7 trillion VND for the entire 2021-2030 period, of which capital from the state budget is 11.8 trillion VND and capital from other sources is 254.9 trillion VND.

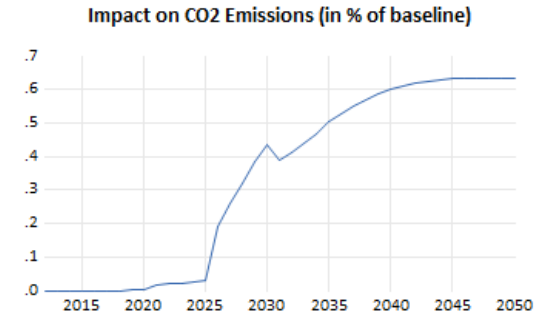
Scenario 3: Toward innovation-based growth: *Around 4% of 2020 GDP investment in ICT infrastructure, mostly financed by the private sector (95% from private contribution).*

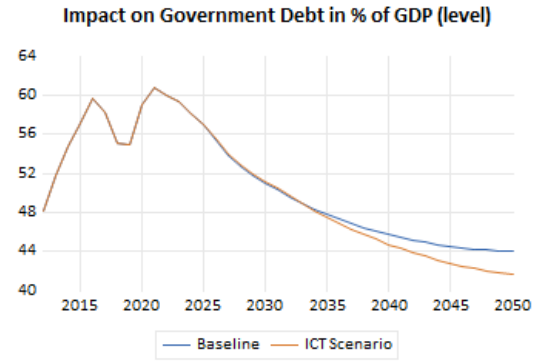


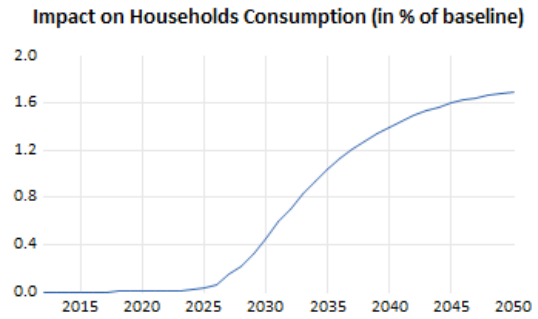


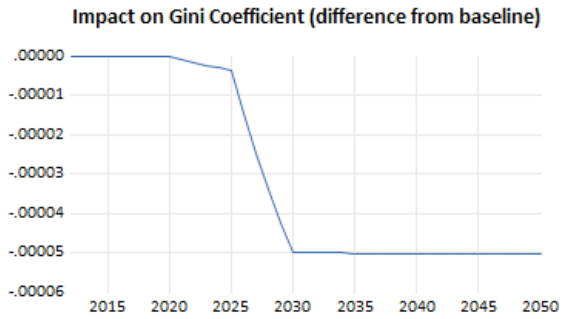


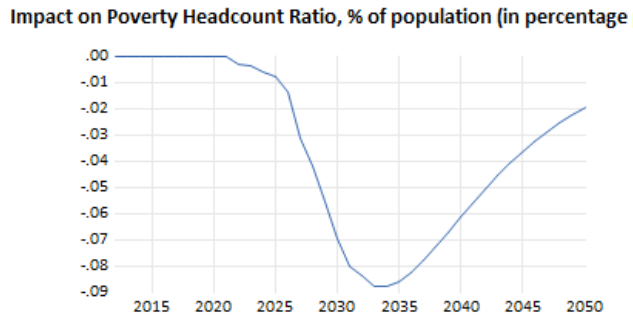












- There is a positive effect on growth stemming from the additional investment, but given that the size of this investment package is relatively moderate, the impact is correspondingly smaller.
- Environmental effect is negligible.
- Social effect is positive as financial inclusion improves.
- Fiscal effect is positive as it is mostly financed by the private sector.

Takeaway policy messages

- A **holistic, long-term approach** that support a transition to green and inclusive development can bring economic benefits.
  - When taking a longer view, one could see government debt would eventually converge to the baseline level that assumes fiscal consolidation, but people and the environment are much better off.

- **How Vietnam implements green and social policies is crucial** for both its people and the environment.
  - Investing in human capital and social protection is key to ensure that green and digital transitions are just and inclusive
  - Conclusions drawn from scenario simulations highlight the significance of private sector financing, investment in energy efficiency focused and digital infrastructures, and diversification of the policy package.

- **Navigating a balance** between prudent public debt management and realizing long-term development goals is essential.
  - Combination of policies that attain sustained, inclusive and green development while do not jeopardize fiscal sustainability must be carefully analyzed
  - Macroeconomic models are useful tools for this task

Thank you

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