

Thirty years ago, Vietnam was one of the poorest countries in Southeast Asia. Since then, its real GDP has increased rapidly. A series of economic and political reforms has been responsible for its so-called 'economic miracle'.

Vietnam has benefitted from the increased protectionism in trade between China and the United States (US). For example, Vietnam has increased production of goods that are substitutes to those made in China to such an extent that Vietnam is popularly referred to as 'China plus one', in recognition of its similar comparative advantage to China.

Rising export revenue is only one reason for Vietnam's spectacular economic growth. With a rapidly growing population, Vietnam has invested heavily in its human capital and physical capital in the form of infrastructure, including cheap access to the internet.

A third reason for this success is how Vietnam has moved towards trade liberalisation. This is shown through its free trade agreement with the US and its membership of organisations of countries that have agreed to trade freely with each other, such as ASEAN and the TPP. These initiatives involve the removal of tariffs and other tools of protection, increasing the potential for Vietnam to trade with other countries.

Nevertheless, there are possible dangers in this strategy. Vietnam's economy is heavily dependent on its exports which in 2017 were over 90% of GDP. This reliance puts Vietnam at risk from downturns in the global economy and in the economies of its main trading partners. Even more worrying is the repeated threat from the US that it may put import tariffs on manufactured goods from Vietnam.

Source: World Economic Forum, 2018

Table 1.1 Vietnam's balance of trade in goods and services and real GDP growth, 2009 to 2018

	Balance of trade in goods and services ('000 billion dong) ¹	Real GDP growth (% change from previous year)
2009	-188 557	5.4
2010	-177 215	6.4
2011	-114 887	6.2
2012	+113 697	5.3
2013	+77 350	5.4
2014	+128 965	6.0
2015	+33 169	6.7
2016	+115 342	6.2
2017	+140 282	6.8
2018	na	7.1

¹ The dong is Vietnam's currency.

Source: Trading Economics, August 2019

- (a) Using the data in Table 1.1, compare Vietnam's balance of trade in goods and services between 2009 and 2011 with that from 2015 to 2017. [2]
- (b) (i) Explain the relationship you would expect between the annual change in the balance of trade in goods and services and the annual change in real GDP growth. [2]
- (ii) Consider the extent to which this relationship is evident in the data in Table 1.1. [2]
- (c) Using the information provided, explain **one** supply-side reason why Vietnam has experienced 'spectacular economic growth'. [2]
- (d) Assess the likely macroeconomic effects of pressure on the exchange rate of the Vietnamese dong arising from Vietnam's increased exports. [6]
- (e) Assess whether Vietnam's 'economic miracle' is likely to persist over the next few years. [6]

Section B

Answer **one** question.