

INSTITUTIONAL IMPROVEMENTS FOR THE DEVELOPMENT OF DIGITAL ECONOMY IN VIETNAM

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ABSTRACT:

Digital economy which is a network of economic and social activities is based on digital technologies. The development of digital economy is inevitable and facilitated by Industry 4.0. The digital economy has unique characteristics which are different from other types of economies and it plays a crucial role in the socio-economic development of a nation. The development of the digital economy is essential for Vietnam. Nevertheless, in order to accelerate and keep pace with the world's trends, effectively and sustainably, the development of Viet Nam's digital economy must face numerous competitive pressures for development.

Keywords: Digital economy, development, institution, Vietnam.

1. Introduction

According to the "e-Conomy SEA 2019" report by Google, Temasek and Bain & Company, Vietnams digital economy topped US\$12 billion in 2019, four times higher than its value in 2015 and is expected to surge to US\$43 billion in 2025. Vietnams digital economy, together with Indonesias, take the lead in terms of growth rates in the Southeast Asia. While the regions average growth rate was 33 per cent since 2015, that of Vietnam was 38 per cent in the same period and contributed 5 per cent to the countrys GDP in 2019.

In order to develop the digital economy, Vietnam is still encountering various challenges with pressures from awareness to resources (human resources, capital and knowledge, advanced technologies, etc.), pressures from information infrastructure and innovation system to pressure from legal environment. In reality,

Vietnams proactive participation in the digital economy remains low. Institutions and policies still have many limitations and shortcomings and fail to keep pace with rapid changes in reality. Structure and quality of human resources fail to meet actual requirements. In order to accelerate and keep pace with the worlds trends, effectively and sustainably, the development of Vietnams digital economy must face numerous pressures and limitations, "bottlenecks" as follows:

2. Inadequacies affecting the development of digital economic content in Vietnam

First, institutional foundations for the digital economy fail to keep pace with rapid changes in reality

The policy system and legal frameworks still discourage enterprises from expanding and developing their business. Taxes applicable for domestic and foreign service providers in Vietnam

still have shortcomings. For example, Google, Facebook, Grab, and so on only have to pay 5 per cent of the foreign contractor tax whereas domestic enterprises providing similar services have to pay 25 per cent of corporate income tax apart from VAT and indirect tax consumer¹. In addition, certain existing legal regulations related to information technology are no longer suitable under the context of the digital economy. For instance, internet has been a fundamental infrastructure, but currently the cost is still high since it is subject to three types of service charge (telecoms service supply; public utility telecommunication service fund; Pay TV service supply). Intellectual property, cyberinformation security, coordination mechanisms when technological incidents occur, and so forth are obstacles preventing the economy from utilising many digital technologies into production and business activities, thus social productivity remains low.

Second, advanced technologies are still not synchronous and thorough

The newly-established national innovation system remains unsynchronised and ineffective. The national digital transformation is still slow and reactive thanks to limited infrastructures for digital transformation; many businesses are still passive with low ability to access, apply and develop advanced technologies whilst their market size is small. From enterprises perspective, first and foremost, slow technology upgrades will make domestic businesses less competitive than foreign ones. The majority of Vietnamese enterprises are small-sized, short of capital and poor technological capability and when a large number of small-sized enterprises uses outdated technologies from two to three generations, obviously it is a big barrier to digital transformation in both production and business activities.

According to Vietnam Reports the top 500 largest businesses (VNR500), capital resources requirements are the biggest obstacle that the majority of businesses face in the process of accessing and applying technologies. The lack of human resources in information technology is one of big challenges as digitisation is increasingly complicated, while technical infrastructure,

technology qualifications for the internet economy still demonstrate shortcomings, containing many risks in terms of information security and safety. Additionally, the connection among between enterprises and enterprises (collaboration network, data sharing, ecosystem, etc...) is not really effective, numerous enterprises are operating in a fragmented manner, leading to more domestic individual consumers buying goods and services online from abroad than foreign individual consumers buying goods and services online from Vietnam.

Third, investment capital for science – technology, digital technology and human resources for the digitisation of the economy remains low

Investment into industries that are ahead in digitisation (ICT, e-commerce, telecommunication, cloud computing, information technology, etc.) requires a large amount of capital, but the economy's investment capital is inadequate and the ability is poor. Regarding capital resources for science and technology in general, in 2016, total investment into science and technology was VND17,730 billion (roughly US\$764 million), which was equivalent to 1.42 per cent of total State spending and tended to decrease. Total spending on science and technology for the 2006-2010 period was 1.71 per cent of the total State expenditure annually, but reduced to 1.46 per cent in the 2011-2016 period. Therefore, the ratio of spending on science and technology to GDP was low and gradually decreasing, which was over 0.45 per cent of GDP in the 2006-2010 period and reduced to only 0.39 per cent in the 2011-2016 period².

Human resource is one of the prerequisites for businesses to apply digital technology to all sectors and fields of the economy, thereby improving labour productivity. By 2018, up to 77.9 per cent of labourers nationwide had no technical qualifications. There was a critical shortage of workers in information technology – the area that is directly related to digital transformation. According to a report by Vietnamworks, the information technology sector fell short of 70,000 workers in 2018, and as many as 500,000 workers in 2020. A report by the World Economic Forum ranked

Vietnam 70th out of 100 countries and economies in human capital, 81st in high-skilled labourers, 75th in university quality, and 90th in technology and innovation. These indexes are much lower than those of some countries in ASEAN.

Fourth, investment into information technology infrastructure, the foundation of digital technology, remains inadequate

Information technology infrastructure has not been invested completely and synchronously in localities; the distribution of frequency bands for the development and improvement of 4G service quality, progressing to 5G is still delayed. On May 22, 2015, the Prime Minister signed Decision No 714, promulgating The list of national databases requiring priority development, such as: Citizens, business registration, land, finance, insurance. By the second quarter of 2018, the data of only one million enterprises nationwide had been updated and had not been shared for many other systems. The national databases on citizens, land, finance, insurance, taxes, customs, among others are still in the early stage of development. According to statistics by the Ministry of Industry and Trades Department of E-Commerce and Digital Economy, currently enterprises websites are mainly used to introduce products and services, about 20 per cent of websites accept orders via the internet but only 3.2 per cent allow online payment. Thus, the application of technology for social networks is a significant foundation for business, an important feedback channel for customers in the digital economy. However, social networks also pose many challenges for management work, including privacy protection, false information, inaccuracies, extreme statements; the provision of goods and services in e-commerce transactions is not done well, leading to the infringement upon consumers rights and interests. Nevertheless, legal regulations on consumer protection are not highly feasible, so consumers still suffer from many disadvantages and feel insecure when shopping online.

3. Solutions for continued institutional improvement to further develop the digital economy in Vietnam

According to the Vietnam Annual Economic Report 2019 entitled "Vietnam on the doorstep to

the digital economy"³. The trend of digitising the economy and social activities formed a solid foundation for the emerging of the Fourth Industrial Revolution which is thoroughly prevalent in developed countries and rapidly taking place in developing countries. The report emphasises that "With a young and vibrant population, high investment and its central location among Asian countries with high growth rate, Vietnam has got the opportunity to leap forward with the new digital tools available and if this digital transformation is well managed". In order to develop the digital economy, over the past time, Vietnam has attached much importance to accelerating the application and development of science and technology and innovation, studying and improving the accessibility of and proactively participating in the Fourth Industrial Revolution. To that end, the Government issued Directive No 16/CT-TTg, dated May 4, 2017 on improved accessibility of the Fourth Industrial Revolution and Decision No 999/QĐ-TTg dated August 12, 2019, giving the green light for a project to promote the sharing economy.

To grasp opportunities and overcome challenges mentioned above and to show strong determination, on September 27, 2019, the Politburo, the Party Central Committee issued Resolution No 52-NQ/TW on a number of policies on the nations proactive involvement in the Fourth Industrial Revolution, which sets specific targets that by 2025, the digital economy will account for 20 per cent of GDP, and demonstrates that the proactive involvement in the Fourth Industrial Revolution is an unavoidable necessity; a strategic, urgent and long-term task of overriding importance of the whole political system and the society, and closely combined with the nations in-depth international integration; concurrently, it is required to sufficiently and properly understand the comprehension and the nature of this Revolution to resolutely renew thoughts and actions, considering it a breakthrough for the development of the digital economy with appropriate steps and roadmap.

Under the current circumstance, the author would like to recommend a number of solutions to

further institutional improvements and develop the digital economy in the coming time, as follows:

First, further complete the framework for the effective implementation of digital economy

Legal framework is an essential element in the effective operation of the digital economy. An appropriate legal framework would facilitate the transformation between the tradition economy and the digital economy in a more rapidly and drastically in Vietnam, which means a complete legal framework for intellectual framework, digital banking, Fintech (Financial Technology), stock exchange, e-commerce, internet transactions, electronic customs, e-payment, online logistics, cyber security, cyberinformation security, and so on. This has created a legal framework for the State management on activities of the digital economy, and for continued improvements of institutions for the digital economy which is strong enough to support, facilitate, and adjust economic and trade relations which arise in the development of the digital economy more specifically, such as:

The improvement of legal environment and institutions includes business licensing, investment licensing, privacy, creating favourable investment environment. The improvement of legal environment is demonstrated through the promulgation and implementation of laws and the enactment of sub-laws adjusting e-commerce activities to adapt to international laws and practices in e-commerce transactions. It is necessary to regularly review, revise, supplement and introduce new policies, legal frameworks and mechanisms for the development of online payment in order to increase users and enterprises trust in the digital payment system; and manage online payment services at home and abroad, international and interdisciplinary.

It is critical to continue reviewing, supplementing and improving the legal system in intellectual property protection because of emerging challenges in the digital economy, that is how to manage the balance when the customer is the creator, the marginal cost of copying is zero, the enforcement of current laws is hard and the access to information is “free” and the content required by many viewers becomes a right. Therefore, the

improvement of intellectual property institutions must facilitate renovation, develop science and technology, and ensure transparency and high reliability in order to make sure that the intellectual property rights are protected and implemented effectively.

Second, increased investment into science and technology to modernise and synchronise digital technologies

Investment into industries that are ahead in digitisation (ICT, e-commerce, telecommunication, cloud computing, information technology, etc.) requires a large amount of capital, but the economy's investment capital is inadequate and the ability is poor. Regarding capital resources for science and technology in general, in 2016, total investment into science and technology was VND17,730 billion (roughly US\$764 million), which was equivalent to 1.42 per cent of total State spending and tended to decrease. Total spending on science and technology for the 2006-2010 period was 1.71 per cent of the total State expenditure annually, but reduced to 1.46 per cent in the 2011-2016 period. Therefore, the ratio of spending on science and technology to GDP was low and gradually decreasing, which was over 0.45 per cent of GDP in the 2006-2010 period and reduced to only 0.39 per cent in the 2011-2016 period⁴. Investment into science and technology by the society and businesses is gradually increasing but still low, about 0.3-0.5 per cent of GDP. Till now, total investment into science and technology by the society has reached 1 per cent of GDP, whilst that was 4.15 per cent in South Korea in 2013; and 2.01 per cent in China and Singapore. In other words, experience from countries ahead in the development of the digital economy shows that it is essential to have a strong support from the Government with an open management mindset to “untie”, assist small and medium-sized enterprises, and accelerate innovation. On the contrary, if management policy is not open, inflexible and stagnant, it will make both domestic enterprises and the country's economy vulnerable in competition with foreign enterprises and economies worldwide.

Third, attach much importance to educating and training high quality human resources

In the application of digital technologies, contributing to improving and implementing digital economy institutions in Vietnam. At present, the workforce in the digital content industry is about 148,000 people. Labour in the digital content industry is complex, so revenue will be many times higher than the average labour in the general economy, contributing to the orientation of career guidance and restructuring of human resources training in Vietnam, creating job opportunities for hundreds of thousands of technicians. It is set to realise the target: to develop the country's human resources in the digital content industry up to international standards; to develop the digital content and service industry to become a spearhead economic sector, making remarkable contributions to GDP growth and exports. The annual growth rate in revenue will be two to three times that of the GDP or more.

Therefore, training institutes and schools must be proactive and pay more attention to training human resources of high quality, reinforce and improve the qualifications of specialists and lecturers. Contents of training programmes must be renewed, updated and reality-based to well combine theory and practice. Training institutes and schools must increase investment into modern

instruments and technologies, coordinate with enterprises to provide practical training in connection with new technologies such as Internet of Things (IoT), AI, robotics technology, and foster linkages between schools and enterprises to provide training and practice in the application of information technology.

Fourth, encourage enterprises proactiveness and innovation

Enterprises proactiveness in developing digital technologies is actually an essential matter to the development of each enterprise. Enterprises that are slow to implement digital transformation will soon be eliminated because they cannot compete in productivity, and quality (the ability to understand customers through data, and to forecast to implement flexible production and business methods; the ability to create new models and services, etc...). As such, enterprises must strongly shift from "imitating" technologies available to "innovating technologies", developing new and advanced technologies, especially digital must be a strategic breakthrough. It is compulsory to have technologies made by Viet Nam to produce commodities made by Viet Nam (produced through the application of made by Viet Nam digital technologies), increasing the competitiveness of Vietnamese goods in the market ■

FOOTNOTES:

¹Bach Duong (2017), Tourism businesses, agriculture, digital economy made "miserable" by policy barriers, <http://vneconomy.vn>, dated December 3, 2017.

²In accordance with the Ministry of Science - Technologys data over years

³The announcement of Viet Nam Annual Economic Report 2019 at a conference jointly organised by Vietnam National University Hanoi University of Economics and Business (UEB – VNU) and the Friedrich Naumann Foundation (FNF) Viet Nam on May 29, 2019 in Hanoi.

⁴Calculations from the Ministry of Science and Technologys annual data

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TÓM TẮT:

Nền kinh tế số là mạng lưới các hoạt động kinh tế - xã hội dựa trên công nghệ kỹ thuật số. Sự phát triển của nền kinh tế số là điều tất yếu và được thúc đẩy bởi cuộc cách mạng công nghiệp lần thứ tư. Nền kinh tế số có những đặc điểm riêng biệt so với các nền kinh tế khác và có vai trò rất quan trọng đối với phát triển kinh tế - xã hội của một quốc gia. Việc phát triển kinh tế số là điều cần thiết đối với Việt Nam. Tuy nhiên, để tăng tốc, bắt nhịp xu hướng của thế giới, có hiệu quả và bền vững, việc phát triển nền kinh tế số Việt Nam phải đối mặt với không ít áp lực cạnh tranh để phát triển.

Từ khóa: Kinh tế số, phát triển, thể chế, Việt Nam.