VIETNAM'S COUNTRY RISK PROFILE: AN UPDATED ANALYSIS

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Abstract: ***To assess the current state of national risk in Vietnam, the study uses country risk index data provided by PRSGroup and country risk index data set computed by the research team. We calculate the country risk scores using standardizing factor loadings and Principal Component Analysis (PCA) in 1998-2022 for Vietnam and other countries in the ASEAN region. Based on data analysis and comparison of political risk index scores, financial risks, economic risks, and aggregated national risk index scores between Vietnam and countries in the ASEAN region, we drew several conclusions: First, Vietnam's country risk is currently low. Second, Vietnam's country risk remains relatively high during periods of economic crisis or the COVID-19 pandemic. Third, Vietnam's component risk scores have fluctuated positively during and after the COVID-19 pandemic, especially political risks. From the current situation of national risk in Vietnam, we propose several solutions to limit the impact of country risk on economic participants, especially businesses.***

• Keywords: *country risk, political risk, economic risk, financial risk, Vietnam.*

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1. Introduction

The 1997 Asian financial crisis - which began with the devaluation of the Thai baht and led to serious balance of payments problems in Asia, Russia, and Latin America - emphasized the broad definition of country risk. Following the Asian crisis, international lenders began to recognize country risks, which are any events that can reduce payment capacity or even threaten the risk of non-payment of debt from the borrower (borrowing country), often risks stemming from macroeconomic developments beyond the lender's control. Thus, it can be seen that national risk does not stop at credit risk, which is often reflected through national credit ratings but can also extend to economic, political, and financial risk.

As mentioned above, country risk is not a single component but a measure of many different aspects and dimensions of risk, from political to economic and financial. Using a single element of risk, political, economic, or financial risks, to represent country risk does not fully reflect the relationship between country risk and the attractiveness or unattractiveness of an economy or a country to international investment capital flows.

2. Theoretical basis of country risk

In the period before 1990, when political instability still appeared in most countries, country risk was often viewed mainly from the perspective of political risk. During the 1990s, views on political risk also changed somewhat compared to the previous period. Specifically, country risk is reflected through political risk, emphasizing government accountability. Accordingly, political risk is assessed by the level of non-transparency or corruption of the government officials in the political system, unstable economic policies, or weak management and property rights protection policies. Corruption is considered an essential aspect of political risk, stemming from poor public administration and loopholes in the legal system (Wei, 2000). After that, the close connection between economies worldwide and the emergence of economic and financial events has a severe level of impact not only within the scope of an economy but also spread to other economies, which has changed views on national risk. The 1997 Asian financial crisis further emphasized the broad scope of country risk, which extends to economic, political, and financial risks. Thus, when considering a specific country, viewing "country risk" with a more multidimensional aspect, compared to political risk or credit risk, becomes more relevant and popular because it has a broader, more comprehensive meaning instead of focusing on any specific risk.

Analyzing and assessing national risks is a task that plays a vital role for relevant parties. Identifying the correct type and nature of specific risks has significant implications for stakeholders, from regulatory agencies to economic entities in each country. The measurement, use, evaluation, and control of information about country risks will be different for different subjects and their professional activities.

For governments, assessing and measuring national risks helps countries, especially underdeveloped and developing ones, clearly understand the characteristics

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and actual economic, financial, political, and social context of the country to be able to have appropriate solutions to maximally support the development of the country's prosperity in many different aspects, enhancing its image, prestige, and position on the international arena.

For other participants in the economy

First, for indirect debt financiers, which are mainly financial institutions such as commercial banks. Country risk will relate to banking activities and services related to foreign customers and investors or commercial bank business and investment activities in foreign markets. The risk assessment will help commercial banks develop appropriate partner market access strategies, increasing business opportunities but at the same time not increasing the level of risk and risk of financial instability for the general operations of the entire bank. From there, the stability of the entire financial system in general, especially financial systems that rely heavily on the banking system, will also be guaranteed.

Second, for direct capital investors, debt capital and equity capital through the financial market. The issue of risk is always mentioned when evaluating the effectiveness of any investment activity. In the current globalization process, the capital movement between countries is even stronger. The issue of assessing the risk level of each country has become as popular as evaluating the risk of any investment activity. Economists and investors need to adjust (increase) the risk premium for economic and investment activities in assessment countries; in other words, it is necessary to consider investment and implement business-investment connection activities more carefully.

3. Country risk measurement

Based on previous country risk measurement methods and the research objectives of the article, we used country risk measurement data from 2 sources: PRS Group and self-measurement.

First, the results of country risk measurement are provided by PRS Group. PRS compiles a national risk index that includes financial, economic, and political risk groups. For the political risk index, ICRG has identified twelve different risk components (PRSGroup, 2024). Therefore, the country risk measures PRSGroup provides are relatively comprehensive and reliable.

PRSGroup issues monthly ratings for three separate risk categories (political, economic, and financial risks) and a composite country risk index derived from the previous three indices. In addition to assessing the current risk situation, the PRSGroup provides risk forecasts over one-year and five-year horizons.

(i) The political risk index aims to assess a country's stability level, obtained from the subjective assessment of ICRG experts whose task is to convert qualitative information into quantitative scores by answering a series of available questions. This index is calculated as the sum of 12 qualitative socio-political components. Scores can vary between 0 and 100 points. Below 50 is considered very high risk; 50–59.9 is high risk; 60–69.9 is moderate risk; 70–79.9 is low risk; and 80–100 is very low risk.

(ii) Economic risk measures the strengths and weaknesses of a country's economy. It is built on a set of five purely quantitative components (coefficients). The economic index is scored from 0 to a maximum of 50 points. The range 0%–24.9% is considered very high risk; 25%–29.9% is high risk; 30%–34.9% is considered moderate risk; 35%–39.9% is low risk; and 40%–100% is considered very low risk.

(iii) Financial risk index related to the country's ability to pay. The index evaluates a country's ability to generate enough hard currency to take on financial obligations to foreign countries. The index is based on five criteria with a maximum score of 50 points. The index has the same range of risk types as the economic risk index.

(iv) Composite country risk index: the political, economic, and financial risk categories are finally combined into a composite risk index with weights of 50%, 25%, and 25%, respectively. The composite risk index reaches values from 0-100. The higher the value of this index, the lower the level of risk and vice versa. PRS performs country risk grouping based on criteria similar to the political risk index.

Second, to ensure prudence in assessment, we quantified the country risks of ASEAN nations according to quantifiable risk components, including economic, political, and financial risks. The main methods used are Normalization of loadings and Principal Component Analysis (PCA). The input data evaluated according to the technical process of standardizing factor loading coefficients are taken from the World Bank (Worldwide Governance Index of the World Bank; data related to macroeconomics, balance of payments, and foreign debt). This method was adopted from Samman and GabAlla's study (2020). The components of each risk index are presented in Table 1.

Table 1. Country risk measurement from Samman and GabAlla (2020)

No.	Risk indices	Components
I.	Political Risks	(1) Control of coruption (2) Government Effectiveness Bureaucracy (3) Political stability and absence of violence/terrorism (4) Regulatory Quality (5) Rule of law (6) Voice and accountability
II.	Economic Risks	(1) Economic ratios: + Gross fixed capital formation (% of GDP) + Gross domestic savings (% of GDP) + Gross capital formation (% of GDP) + Gross domestic savings/ Gross fixed capital transformation (2) Balance of payment ratios: + Annual growth of exports/ annual growth of increase in worlds GNI + Annual growth of imports/ annual growth of GDP + Imports of goods and services +Merchandise exports/exports of goods and services
III	Financial Risks	(1) Ratios relating to GNI and exports + External debt stocks (% of exports of goods and services) + External debt stocks (% of GNI) + Public and publicly guaranteed debt service (% of exports of goods, services, and primary income) + Public and publicly guaranteed debt service (% of GNI) (2) Ratios relating to debt obligations + Total debt services (% of exports of goods, services, and primary income) + Total debt service (% of GNI) (3) Ratios relating to liquidity + Total reserves (% of total external debt) + Total reserves in months of imports

Source: Samman and GabAlla (2020)

4. The current country risk profile in Vietnam

Table 2 shows descriptive statistics of country risk data for countries in the ASEAN region. The average value of country risk reached 74.44, while the minimum and maximum were 44.98 and 90.75, respectively. Most countries meet medium and low-risk thresholds compared to ICRG's country risk classification table. For each specific type of risk, the level of volatility is different. First, economic risk fluctuates between 20.2 and 48.54 (maximum score is 50), and the average value reaches 38.76, corresponding to low risk. Some countries in the study period had very high risk levels (0 to 24.9). Financial risk fluctuates from 22 to 50; the average value reaching 41 shows that most countries have low and very low-risk levels (maximum score is 50). Political risk has an average value of 68.44 in the moderate risk group, and countries with political risk scores below 50 are classified as very high risk.

Table 2: Descriptive statistics of country risk data of countries in the ASEAN region

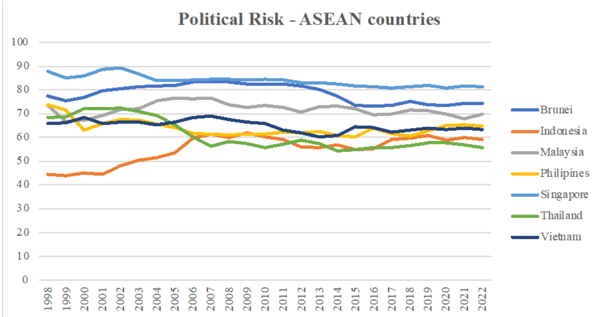
Indexes	Observation	Mean	Median	Standard Deviation	Min	Max
Country risk	175	74.44	71.69	8.76	44.98	90.75
Economic risk	175	38.76	37.92	5.08	20.20	48.54
Financial risk	175	41.68	41.71	4.39	22.00	50.00
Political risk	175	68.44	67.21	10.24	43.83	89.13

Source: Authors' calculations

4.1. Political risk

A detailed review of each country's political risk score during the research period in Graph 1 shows that Singapore has the highest political risk score (lowest risk level), although it has decreased. From nearly 90 points in 2000-2004, Singapore's political risk score remains above 80 - very low risk. Ranked second is Brunei, a country with low and very low levels of political risk throughout this period. Indonesia and Thailand have notable political risk score fluctuations in the region.

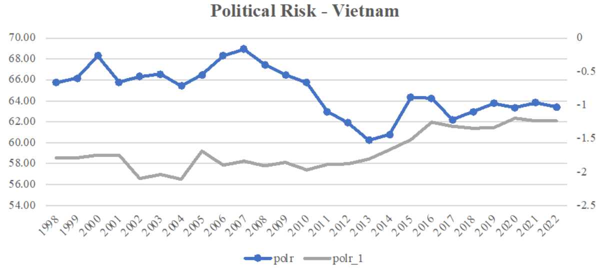
Graph 1: Political risk scores of ASEAN countries in the period 1998 to 2022



Source: Authors' calculations

In Vietnam, political risk (polr) is assessed by PRS as moderate risk (from 60-70 points) (Graph 2). Before 2007, political risk was assessed as low (risk score fluctuated around 66 - 69). However, from 2007 to 2013, the risk score decreased continuously to the threshold of 60 points for six years. During 2007 - 2013, Vietnam and other countries worldwide were affected by the Great Recession of 2008; the domestic economy faced pressure from bad debt, inflation, and a sharp increase in public debt; corruption is consistently above the world average. The promulgation of the 2013 Constitution has opened a solid and stable political-legal foundation, contributing to the creation of a true democracy, fairness, and equality in the rights and obligations of citizens. Because of that, Vietnam's political risk score in the following period improved, increasing from 60 points to more than 64 points in the next three years and maintaining around the 64-point threshold until 2022.

Graph 2: Vietnam's political risk scores in the period 1998 to 2022



Source: Authors' calculations

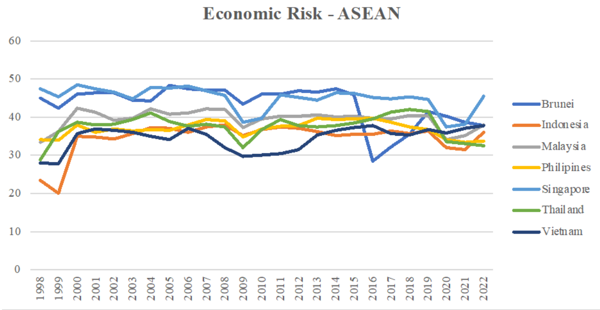
Polr_1 represents the political risk index score recalculated by the research team. Because the scoring criteria and scoring methods are different, the fluctuations of the political risk index do not have a certain difference. However, regarding fluctuation trends, the political risk score polr_1 also has changes consistent with the stages of Vietnam's socio-economic development. Polr_1 only considers six aspects: control of corruption, government effectiveness, political stability and absence of violence, legislative quality, rule of law, voice, and accountability. Therefore, polr_1's criteria do not consider socioeconomic conditions or investment profiles. This explains the sideways fluctuations of the political risk index polr_1 from 2007 - 2013.

4.2. Economic risks

Graph 3 shows specifically the level of economic risk score fluctuations of 7 countries in the ASEAN region. The lowest score is 20 points, and the highest is 48.54 points. Indonesia is the country that recorded the lowest economic risk score in the area (in 1999) when it reached 20.2 points and was classified in the group with very high economic risk. Some countries also have periods of high economic risk, such as Vietnam (1998-1999) and Brunei (2016). Brunei and Singapore are the two countries with the highest economic risk scores in the region, especially Singapore, which always remained above 35 points throughout the research period. Notably, during the study period, 2008-2009 and 2020-2021, economies experienced two crises: the Great Recession of 2008 and Covid 2020. Economic risk scores of most countries in All regions decreased sharply in 2008 and 2020, showing the impact of the crises on the economy (specifically GDP per capita, GDP growth, and budget balance).

Vietnam and Brunei are two countries with different fluctuations in economic risk scores compared to the general volatility of the entire region. Vietnam is also notable when the economic risk index score fluctuations are not in sync with other countries in the region, especially during the crisis periods of 2008 and 2020. A comparison between Vietnam's index risk score and the remaining countries (Graph 3) shows that Vietnam's economic risk score decreased continuously from 2006 to 2009 and increased again since 2011. Similarly, in 2020, when all countries were heavily affected by COVID-19, the economy was affected by nationwide blockade policies and travel restrictions of countries in the region and the region. Vietnam's economic risks decreased significantly in 2020 and increased again for the next two consecutive years. Most countries, such as Thailand, Singapore, and Malaysia, experienced relatively substantial changes in economic risk scores in 2020.

Graph 3: Economic risk scores of ASEAN countries in the period 1998 to 2022



Source: Authors' calculations

Graph 4 shows details of Vietnam's economic risk score fluctuations in 1998-2022 according to 02 calculation methods. There is a relative difference between these two indices from 2007 to 2012. The reason is that the ecor_1 index is calculated based on 02 groups of indicators related to macroeconomics (total fixed capital formation, total domestic savings, total capital formation) and indicators associated with the balance of payments (growth of exports of goods and services during the year, growth of imports of goods and services, imports of goods and services). Compared to ecor, ecor_1 does not consider some indicators, such as inflation and GDP growth, and the proportions of the components in the index are different. Therefore, there is a difference in the magnitude of the volatility. However, the fluctuation trends between ecor and ecor_1 are similar as they decreased sharply during the economic crisis period from 2007-2012 and 2019-2020.

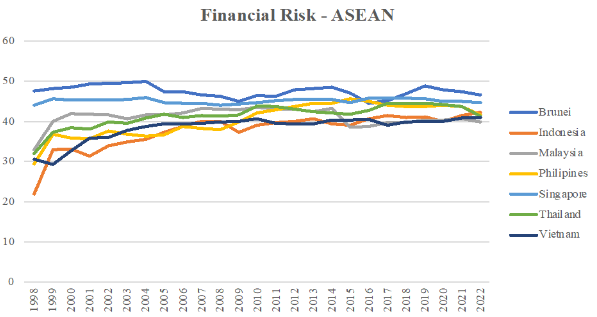
Graph 4: Vietnam's economic risk score in the period 1998 to 2022

Source: Authors' calculations

4.3. Financial risk

Financial risk is calculated based on foreign debts, current accounts, exchange rate stability, and international payments. Brunei and Singapore are still the two countries with the highest financial risk scores. Despite declining scores during 2015-2016 (due to the economic crisis caused by falling oil prices), Brunei is still ranked high in the financial risk index. This result is partly because Brunei is a large oil-exporting country, and its foreign revenue, current account, and international payment value are all high. The remaining countries generally have similar fluctuations in financial risk scores. The financial risk score improved significantly from 1998 to 1999 and remained high from 2004. Some countries with significant changes include Indonesia, the Philippines, Thailand, and Vietnam, moving from high-risk groups to very low-risk groups. This shows that the financial potential of countries in the region has improved significantly and remained at a high level recently.

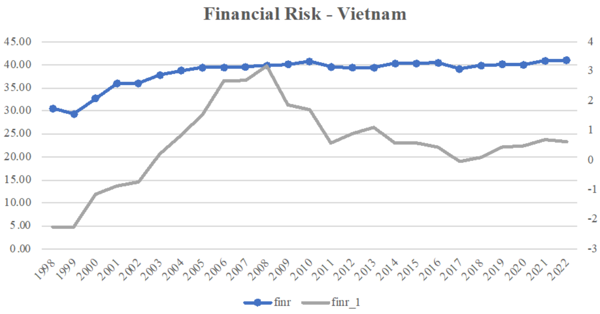
Graph 5: Financial risk scores of ASEAN countries in the period 1998 to 2022



Source: Authors' calculations

Graph 6 shows the relationship between the two indices finr and finr_1 according to two calculation methods. Finr is calculated mainly according to the ICRG experts' forecast method. These forecasts are often from projections issued by the government or relevant official organizations, combined with some of their subjective conclusions. Meanwhile, finr_1 is calculated based on actual published data of 03 groups of indicators, including GNI and export flows, current income that can cover debt obligations and payment ratio accounting in corporate finance. It can be seen that finr_1 focuses little on exchange rate stability but is mainly concerned with issues related to the country's ability to repay debt. Graph finr_1 shows a substantial change in the financial risk score from 1999 to 2008. The 2008 crisis and its lasting impact until 2011 affected the Vietnamese economy, affecting the ability to pay national and corporate debts. The financial risk index finr_1 decreased sharply afterward and remained around the 0-1 threshold for the remaining period.

Graph 6: Vietnam's financial risk score in the period 1998 to 2022

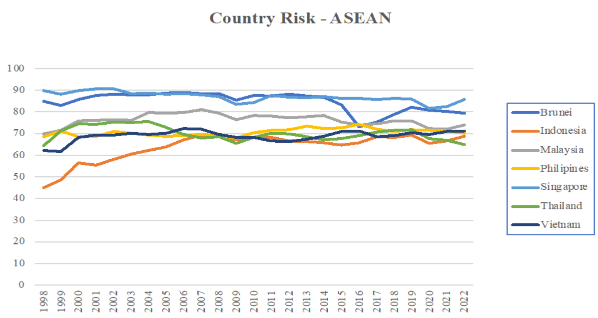


Source: Authors' calculations

4.4. Aggregated country risk

To assess the aggregate risk of countries, political, economic, and financial risk categories are combined with weights of 50%, 25%, and 25%, respectively. If we look at the correlation of aggregate risk scores of countries, we can see that Indonesia has the lowest aggregate risk index score (Graph 7). During 1998-2022, the country is classified as very high risk and high risk. It wasn't until 2006 that Indonesia's composite risk score increased to over 60, which has remained at that level ever since. Vietnam, the Philippines, and Thailand are three countries with similar composite risk index scores classified as having a medium risk level. Malaysia was a low-risk country throughout the study period, although there was an improvement in risk index scores between 2004 and 2007; following the 2008 financial crisis, Malaysia's country risk level tended to increase and has yet to reach the same score as the pre-crisis period. Brunei and Singapore are two countries with very low-risk levels. This has been partly explained when analyzing financial, economic, and political risks. However, Brunei fell into recession after the 2016 oil price crisis, and the composite risk index score dropped sharply. Although there was a subsequent increase (due to the recovery of oil prices), it was still lower than Singapore.

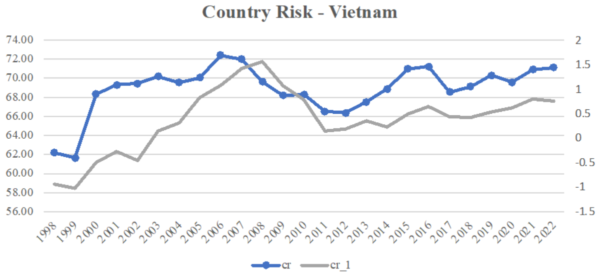
Graph 7: Country risk index scores of ASEAN countries from 1998 to 2022



Source: Authors' calculations

Graph 8 shows Vietnam's country risk index score fluctuation according to 02 calculation methods. Cr and cr_1 are the indices calculated according to the PRS and synthetic methods, respectively, by the research team. It can be seen that there are similarities in fluctuations between the two indices, cr and cr_1, during the entire research period. However, the cr_1 index calculated by the research team fluctuated later than the PRS index from 2007 to 2010. This difference may be due to calculation criteria and data collection methods input material. PRS uses survey results, assessments, and expert opinions more. The national risk measurement indicators the research team built are based on publicly available national data. Expert forecasts may come first, but actual data shows what has happened for each country. The period 2008-2012 recorded a decrease in index scores, showing that Vietnam's national risk level increased during the recession period and after the 2008 world economic crisis. With a composite risk score that has improved from 2012 to the present and reached around 70, Vietnam is now classified as low-risk.

Graph 8: Vietnam's country risk score for the period 1998 to 2022



Source: Authors' calculations

5. Recommendations to reduce country risks in Vietnam

For corporations and companies looking for foreign suppliers and customers, evaluating investment opportunities and analyzing country risks in a specific context is necessary. Each stage in the economic cycle can impact economic changes, causing economic and financial risks. More precise distinctions between countries and business sectors also need to be made. For example, Southeast Asia was once a group of economies experiencing positive changes, likened to the Asian tigers, but also experienced crises afterward (Thailand, Brunei, Indonesia). Thus, it is necessary to analyze specific and individual country risks instead of analyzing country risks in groups.

Business managers should perform in-depth analyses of interest rates, stocks, and national balance of payments, predicting how macroeconomic policies may occur and fiscal deficits—main and current accounts. More importantly, managers must build and test scenarios and predict probabilities for each scenario to determine the risks and benefits associated with specific business opportunities.

In addition, business managers also need to develop their country's risk management policies and strategies. Depending on characteristics such as the type of business activities, risk management experience, and financial capacity of the business. In the context of globalization, the new economy, and the gradually changing role of governments, analyzing and managing national risks are now vital.

Build a country risk exposure warning system. Business organizations need reliable and timely reporting systems to manage country risk effectively. This system must alert all aspects of business organizations' operations, including cross-border and domestic risks and business relationships with third parties. Business managers will be required to receive periodic reports, at least annually, on the extent of changes in country risk. Expanding to the scope of the economy, the government should encourage organizations to develop sets of indicators to assess and identify country risks and the risks that constitute them. The country risk exposure warning system will have additional input criteria to make more accurate judgments.

Develop a country risk analysis process. Business organizations can develop a country risk analysis process to measure and evaluate relevant risks. Factors that need to be considered and assessed include analysis of component risks, regular risk analysis to ensure timely monitoring of changes, early warning of changes in country risks, the impact of regional agreements, and analysis of political factors of each country.

Build a country risk ranking system. The risk rating system is the result of a country risk analysis process. Qualitative and quantitative economic, political, and financial risk analyses will be used to determine each country's market position. Country risk ratings are essential to country risk management and should be carried out by state regulators.

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