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A STUDY ON ECONOMIC DEVELOPMENT OF VIETNAM SINCE ECONOMIC REFORM IN 1986

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1986 년 개혁 이후의 베트남 경제 발전에 관한 연구

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이 논문을 경제학석사학위신청 논문으로 제출함

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ABSTRACT

A STUDY ON ECONOMIC DEVELOPMENT OF VIETNAM SINCE ECONOMIC REFORM IN 1986

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본 논문은 1986년부터 본격화된 베트남의 개혁, 개방 및 통합 과정 속에 나타난 베트남 경제의 변화를 분석한다. 구체적으로는 베트남 경제의 개방화 과정과 일련의 경제적 변화, 외국 자본 유치와 국제 협력 등을 살피고 이에 따른 베트남 경제의 부문별 성장과정과 성장전략을 알아본다. 아울러 본 논문에서는 향후 베트남 경제의 성장 가능성과 문제점 등도 제시 한다.

베트남은 1986년 대대적인 정치경제 개혁 운동을 전개했다. 이 개혁의 목적은 계획 경제에서 "사회주의 지향의 시장 경제" 로의 전환이었다. 이에 따라 정부 주도의 계획과 자유 시장 시스템이 통합되었다. 집단 농장제도가 폐지되었고, 농산품에 대한 가격 통제를 철폐했으며, 농민들이 자신들이 생산한 농산물을 시장에서 판매할 수 있게 되었다. 아울러 외국인 기업을 포함하여, 사기업 설립과 해외 투자를 촉진시켰다.

이러한 총체적인 국가 개혁과 중앙정부 계획 경제에서 시장 경제로의 전환 및 개방 정책의 실행 덕분으로, 베트남은 괄목할 만한 경제적 성과를 거두었다. 특히 대외 무역과 투자는 경제 성장에 긍정적인 영향을 미쳤다. 그러나, 이 같은 성과에도 불구하고 본 논문은 베트남 경제 개혁이 충분히 만족스럽지 못하다고는 평가한다. 경제성장의 요구를 충족하지 못했으며, 국가 가능성과 세계화가 가져다 준 커다란 기회를 충분히 살리지 못하고 있다고 분석한다.

따라서 본 논문에서는 다음과 같이 베트남의 미래 경제성장 전략을 제안한다. 베트남 정부가 더욱 진전된 사회 및 경제 개발을 달성하기 위해서는 무엇보다 세계화 과정이 가져다 준 기회를 이용하고 국내와 국외 도전에 효과적으로 대응해야 하며 세계경제에 통합되는 과정을 적절히 통제해야 한다. 고려할 경제정책으로는 국가 행정의 현대화, 생산 요소 시

장의 활성화, 대외 무역의 확대와 세계 경제로의 적극적인 통합, 국영 기업의 독점 철폐 및 기업 개발 및 수입 대체 산업에서 수출 지향 산업으로의 산업 구조 변경을 시도해야 하며 특히 투자 동기 부여에 역점을 두어야 한다.

결론적으로 본 논문은 1986년 개혁 이후의 베트남이 큰 경제적 성장을 이루었다고 판단한다. 이러한 성장의 요인 중에 가장 중요한 요소는 무엇보다 세계 경제에로의 적극적인 개방과 통합을 들 수 있다. 그러나 다음 단계의 도약을 위해 베트남은 보다 신속하게 세계 경제의 변화에 적응해야 하며, 베트남의 지속 가능한 경제 발전에 맞는 새로운 경제정책을 개발해야 한다.

Chapter I INTRODUCTION

The main research question concerns the factors that: Since Vietnam has applied reforming policies for economical development from 1986s, we could see the face of Vietnamese economy and society has changed significantly. This reform intended to facilitate the transition from a centralized economy to a "socialist-oriented market economy”. The reform combined government planning with free-market incentives. The program abolished agricultural collectives, removed price controls on agricultural goods, and enabled farmers to sell their goods in the marketplace. It encouraged the establishment of private businesses and foreign investment, including foreign-owned enterprises.

Thanks to the comprehensive economic reform, the transformation from a centrally planned economy into a market economy and the implementation of open door polices, Vietnam has gained remarkable achievements in economic development. In the period 1990-2003, annual economic growth rate is 7.46%, per capita income (in USD) increases more than three times, economic structure shifts towards reducing the share of agriculture and increasing the share of industry and service (General Statistics Office of Vietnam, 2004). Foreign trade and investment have increasingly influenced economic development. These achievements, however, have yet to meet the requirements of development, and yet to correspond to the national potentiality and great opportunities brought by globalization. In the period 2000 to present, Vietnam had an average growth in GDP of 7.1% per year from 2000 to 2004 (General Statistics Office of Vietnam, 2005). The GDP growth was 8.4% in 2005, the second largest growth in Asia, trailing only China's. Government figures of GDP growth in 2006, was 8.17%. According to Vietnamese Minister of Planning and Investment, the government targets a GDP growth of around 8.5% for 2007. Especially, in this period, the economic sections of Vietnam have changed clearly. In 2003 the private sector accounted for more than one-quarter of all industrial output, and the private sector's contribution was expanding more rapidly than the public sector's (18.7 percent versus 12.4 percent growth from 2002 to 2003). Simultaneously, investment grew threefold and domestic savings quintupled (General Statistics Office of Vietnam, 2004).

In parallel with the economic reforms, the acceleration of the process of international economic integration has played a key role in enhancing efficiency and promoting economic growth. In 1992, Vietnam signed a trade agreement with the European Union. In 1995, Vietnam joined ASEAN and committed to fulfill the agreements under the AFTA by 2006. Vietnam applied for WTO membership in 1995 and expected to be a member in 2005. In 1998, Vietnam became a member of the APEC. In 2000, Vietnam signed the Bilateral Trade Agreement with the United States and the agreement became effective in December 2001. Most recent, Vietnam has also joined regional integration clubs such as ASEAN-China Free Trade Area (2002) and ASEAN-Japan Comprehensive Economic Partnership (2003).

Vietnam is often recognized as one among the best developing countries in terms of achieving high economic growth and reducing poverty incidence. However, some have argued that in international comparisons Vietnamese performance is not so spectacular and moreover, there remain many problems for sustaining economic growth and ensuring quality of development. The overall ambitious goal of Vietnamese Socio-Economic Development Strategy 2001-10 is to accelerate industrialization and modernization process in order to bring Vietnam out of underdevelopment and create a foundation so that by 2020 Vietnam will basically become "a modern-oriented industrialized country". Dealing with the existing problems and realizing the ambitious development goal cannot obviously be achieved without an appropriate structural adjustment and a considerable improvement of the competitiveness of Vietnamese economy. The process of trade liberalization and international integration creates new opportunities and huge benefits for Vietnam. At the same time, it may also cause some negative socio-economic impacts, especially in the short run and impose serious challenges to Vietnam's further development. To work out a pro-active and efficient integration strategy, it is very important to overview and to assess deeply the process of trade liberalization and integration in Vietnam. Vietnam has got remarkable achievements in terms of GDP growth, macroeconomic stabilizations, export expansion, foreign direct investment (FDI) attraction and poverty reduction. A given question is that: *To achieve those remarkable successes, how has Vietnamese government done and what results gained?* This thesis has been written out to answer that question.

Chapter II AN OVERVIEW ABOUT ECONOMY OF VIETNAM

2.1. Economy of Vietnam after the Second Indochina War in 1975

After the Vietnam War finished in 1975, destruction caused by the 1954~1975 between Vietnam and US seriously strained the economy of Vietnam. In the whole of Vietnam, the situation was worsened by the country's 1.5 million military and civilian deaths and its later exodus of 1 million refugees, including tens of thousands of professionals, intellectuals, technicians, and skilled workers (Ronald J. Cima, 1987). Since reunification in 1975, the economy of Vietnam has been plagued by enormous difficulties in production, imbalances in supply and demand, inefficiencies in distribution and circulation, soaring inflation rates, and rising debt problems). Between 1976 and 1986, the then-unified country had a planned economy. Though the government's Second Five-Year Plan (1976~1981) set extraordinarily high goals for annual growth rates for industry, agriculture, and national income and aimed to integrate the North and the South, the Plan's aims were not achieved: the economy remained dominated by small-scale production, low labor productivity, unemployment, material and technological shortfalls, and insufficient food and consumer goods. The more modest goals of the Third Five-Year Plan (1981~1985) were a compromise between ideological and pragmatic factions; they emphasized the development of agriculture and industry. Efforts were also made to decentralize planning and improve the managerial skills of government officials Vietnam is one of the few countries in modern history to experience a sharp economic deterioration in a postwar reconstruction period. Its peacetime economy is one of the poorest in the world and has shown a negative to very slow growth in total national output as well as in agricultural and industrial production. Vietnamese gross domestic product (GDP) in 1984 was valued at $18.1 billions with a per capita income estimated to be between $200 and $300 per year (Dang Xuan Ky, 2000; Dang Phong, 1995). Reasons for this mediocre economic performance have included severe climatic conditions that afflicted agricultural crops, bureaucratic mismanagement, elimination of private ownership, extinction of entrepreneurial classes in the South, and military occupation of Cambodia (which resulted in a cutoff of much-needed international aid for reconstruction).

In the 1980s, the country was at a crossroads between economic liberalization and complete government economic control. It is possible that the leadership changes undertaken at the Sixth National Party Congress of the Vietnamese Communist Party (VCP, Viet Nam Cong San Dang) in December 1986 marked the beginning of the end of an era dominated by revolutionaries who emphasized security at the expense of social welfare and modernization. In 1987 Vietnam took practical steps to resolve chronic economic problems such as rapid inflation, slow and erratic economic growth, deteriorating living conditions, and severe trade imbalances. The new economic policy laid out at the Sixth National Party Congress addressed these issues while avoiding others such as high unemployment and substantial arrearage on foreign debt payments.

At the party's Second Plenum in April 1987, a new, reform-oriented leadership proposed measures that would give greater scope to the private sector, reduce the budget deficit, and boost the output of agricultural and consumer goods in order to raise market supplies and exports. Specifically, the government sought to make prices more responsive to market forces and to allow farmers and industrial producers to make profits. Barriers to trade were lowered; the checkpoint inspection system that required goods in transit to be frequently inspected was abolished; and regulations on private inflow of money, goods, and tourists from overseas were relaxed. In the state-controlled industrial sector, wage raises were scheduled, and overstaffing in state administrative and service organizations was slated for reduction. Government leaders also planned to restructure the tax system to boost revenue and improve incentives.

Earlier efforts to reform the economy had employed methods similar to those proposed in 1987. These previous recovery policies, while achieving short-term gains toward economic recovery, eventually faltered because of poor implementation, lack of commitment, and decisions to industrialize and socialize the country regardless of cost. The 1987 effort to cure Vietnamese economic ills held more promise of being sustained, however. The power of the new reform-minded general secretary of the party, Nguyen Van Linh, appeared to strengthen as other reformers assumed key party Political Bureau positions. Moreover, Soviet pressure to improve economic performance increased markedly during 1987. A high Soviet official attending Vietnam's Sixth National Party Congress pointed out Vietnamese urgent need to reform and offered the Soviet Union's own reform efforts as a model for Vietnamese programs.

2.2. Main keys of Doi Moi Policy in Vietnam after 1986

As mentioned above (in 2.1), the economy and society of Vietnam faced a lot of difficulties and challenges during the 1976-1986 period. To overcome that serious circumstance, at the Sixth Party Congress of the Communist Party of Vietnam (December 1986), the Vietnamese government adopted a Reform Program or Reform Policy, called Doi Moi even though the country still retains a single-party and centralized political system with the "unquestionable" leadership of the Vietnamese Communist Party. Doi Moi is characterized by a shift from a "central planning" to a "Socialist-oriented" market economy allowing for the private economic sector development, international economic integration and a number of legal reforms in various policy areas (Che, T.N., T. Kompas, and N. Vousden, 2002). The December 1986 measures were followed by other measures aimed at establishing a market economy. Under the leadership of the Party direction, several packages of policy have been implemented as follow:

- Making laws and improving the legal frame for economic activities: dozens of new laws and thousands of regulations were issued or amended to legitimize the socio-economic practices; and to promote the Rule of laws principles and compliance of international commitments.
- Implementing resolutely multi-sectoral economic policy. Individuals and organizations of all economic sectors have rights to start business in legitimate fields, and to compete equally.
- Encouraging foreign investment and protecting investor's possession rights of capitals, properties.etc,
- Promoting private business sector: Reducing startup and registration costs. Best practices of corporate governance; applying international standards in quality management.
- Administrative reform: simplification of the administrative procedures; streamlining Government's organs; decentralization of the investment licensing to provinces.
- Renovating the State's economic management functions and measures: The government

should limit its functioned in creating the favorable business environment and direct the development of economic sectors; correcting and regulating negative dimensions of the markets; implementing programs of social welfare, hunger elimination and poverty reduction; and ensuring the Socialist orientation kept on track. Planning should be reformed and upgraded. The State intervention should be done by laws and economic incentives.

- SOEs reform: Equitization, and separating the administrative management and state ownership rights and business management.
- Developing market factors and market segments: creating and improving the markets of services, finance, real estate, labour and science and technologie, ect. Developing securities and bonds markets to attract domestic and overseas capital sources.
- Promoting exports; expanding and diversifying foreign trade markets.
- Hamornizing domestic legal frame with integration commitments and roadmaps.

In the process of Doi Moi, it can be divided in three periods from 1986 to present as follows:

Period 1 (1986- 1996): Vietnam was really closed to a overall crisis due to negative consequences of the longtime central planning economy, added by destruction of consecutive wars and the threat of losing the assistances from Soviet Union block. This urgent context pushed Vietnamese reformers to start the reform course (called in Vietnamese as *Doimoi*) at the 6th Party National Congress, in 1986. The Party has recognized the existence of trade market and market economy, and promote a multi-sector economy, including private and foreign entities. A series of reforming policies were done, such as liberalizing price; removing barriers in distribution channels; promoting exports; prioritizing agricultural products and consuming goods; establishing markets for capitals and real estate and labor; attracting foreign direct investment. In rural areas, the output-assignment system was widely introduced, unchaining the production forces in this important field.

Just over a three year period, from 1986- 1989, Vietnam has transformed itself from a country of food- shortage to a country of highest rice exporting growth rates in the world. The Party 7th National Congress in 1991 consolidated the Doimoi policy and confirmed that the development of a Socialist oriented multi-sectoral economy in market mechanism under the state regulation was the path to Socialism in Vietnam. The reforms got more intensive momentum. Remarkably, the legal frame was constructed although in preliminary periods, but laying important backgrounds for economic activities. The Rule of laws was respected and the Constitution was amended in 1992, in which stated the legalized business freedoms for all sectors, encouraging foreign direct investment and property protection. Especially, the open in foreign policy and diversifying international relations helped Vietnam to break the isolation and integrate into international communities; symbolized by an ASEAN membership and normalization with the United States in 1995.

Period 2 (1997- 2000): The reform was continued but had to cope with negative impacts from the Asian financial crisis in 1997. Two major measures had been rolled out in this period, firstly the macroeconomic structural adjustment, particularly the lifebuoy rescue for banking system (under the plans of IMF and IFC), secondly encouraging investment and household expenditures (demand stimulus. Moreover, the Enterprise Law 1999 (with effect from 2000), which allowed private company registration with lowest costs and conditions and applied worldwide best practices of corporate governance, was introduced in an effort to revive the business sector and to capitalize the country's internal potential resources. As the result, Vietnam can be said to successfully minimizing the crisis' impacts. The average annual growth rate was still reached 6.0%, and the economy regained its momentum of high growth after 5 years of downturn.

Period 3: (2001- present): 15 years of Doi Moi process is a long period enough for Vietnamese reformers to review and draw their experiences for the continued reform and upgrading the ideology to a new high – *"Building the Socialist oriented market economy, intensifying the* *reform and integration process"*. If the 8th Party Congress in 1996 only talked about goods economy and market regulation mechanism, the 9th Congress officially put forth the notions of "Socialist oriented market economy". According to the 9th Congress's Resolution, "the Socialist oriented market economy in Vietnam is an economic model that works under market rules and is also based on and lead by principles and natures of the Socialism as well. It is reflected on three dimensions: possession rights, organizational management and distribution. It is a multi-sectoral economy, regulated by the market mechanism, and managed by the State for the vision of *"rich people in a strong nation, and a equal, democratic and civilized society*".

2.3. Economic Reform and Macroeconomic Performance

The economic reform program (known as Doi Moi) that launched in 1986 has deal with a wide range of areas such as economic institutions, property rights, macroeconomic policies, state-owned enterprises (SOEs), the banking system, and the international trade regime (Dang Xuan Ky, 2000; Dang Phong, 1995). After nearly 25-years of reform, the economy has changed dramatically. During the period of 1999~1997, Vietnam recorded the great achievements in terms of GDP growth, foreign trade expansion, and rapidly growing inflows of foreign direct investment (FDI). However, after 1997, some big obstacles appeared on the race course. The economy was slightly affected by the East Asian crisis that revealed some fundamental structural weaknesses such as the inefficiency of the SOE sector and the underdevelopment of the banking system. The last few years of the 1990s were characterized by slower growth in GDP as well as export and substantial decrease in FDI.

Table 1

GDP growth and Volume of Merchandise Trade, 1990~2012

Years	1990	1995	2000	2005	2010	2012
GDP growth (% of GDP)	5.0	9.5	6.8	8.4	6.7	6.1
Agriculture (% of GDP)	38.74	27.18	24.53	19.30	18.89	19.67
Industry (% of GDP)	22.67	28.76	36.73	38.13	38.23	38.63
Services (% of GDP)	38.59	44.06	38.74	42.57	42.88	41.70
FDI (bill USD)	0. 213	6.85	2.02	5.8	18.6	16.3
Export (bill USD)	2.404	5.45	14.48	32.4	72.2	114.57
Import (bill USD)	2.752	8.16	15.64	37.0	84.8	113.79

Note: GSO of Vietnam, 1990~2012.

The second round of reform measures were introduced right at the end of the last millennium and focused on the banking reform and improving business environment. Together with the recovery of the East Asian economies, Vietnam has regained the growth momentum for the last few years. The average annual growth rate in the period of 2000~2003 was over 7% (World Bank, 2003). All economic sectors grown with 3~4% in agriculture, 6~7% in services and over 10% in industry in term of average annual growth rate. High growth has been associated with positive changes in the economic structure. The share of agriculture in GDP decreased gradually, and only accounted for about 21.8 of GDP in 2003. By contrast, the share of industry in GDP increased to 40% compared with 28.8% in 1995 (General Statistics Office of Vietnam, 2004).

2.4. Rapid Growth of International Trade

One of the important characteristics of economy is the diversification and rapid expansion of foreign trade. In the past, traditional partners of Vietnam were only the former Soviet Union and East European countries. Now, number of trading partners was expanding to 221 countries/territories in the world. Foreign trade turnover has risen uninterruptedly, with the average annual rate of 19.67% during the period of 1990-2000 and 15.7% during 2001~2004, while the planed target to the period of 2001~2005 is 16%. Especially, it increased 20.8% ($20 billions) and 28.9% ($26 billions) for exports and 27.8% ($ 25 billions) and 24.9% ($31.5 billions) for imports in 2003 and 2004 respectively (General Statistics Office of Vietnam, 2005). So Vietnam has not only recorded high export growth rates, but also become a very open economy if measured with the share of international trade in GDP. The foreign trade-GDP ratio in recent years has exceeded 110%, an increase by 150% as compared with the 1990 level. These outstanding achievements are the outcome of the open door policy and a significant source of high GDP growth rates.

Table 2

The Major Imports Partner 2009

Rank	Partner	%
	World (all countries)	100
1	China	18,0
2	Singapore	10,4
3	Japan	9,7
4	South Korea	8,5
5	EU 27	7,8
6	Thailand	6,9
7	Hong Kong	4,8
8	United States	4,6
9	Malaysia	2,9
10	India	2,5

Note: EU Trade Commission.

Table 3

The Major Exports Partner 2009

Rank	Partner	%
	World (all countries)	100
1	United States	21,7
2	EU 27	18,1
3	Japan	11,6
4	China	7,4
5	Australia	4,5
6	Singapore	3,8
7	Philippines	3,2
8	Malaysia	3,1
9	South Korea	2,9
10	Thailand	2,3

Note: EU Trade Commission.

Table 4

The Major Trade Partner 2009

Rank	Partner	%
	World (all countries)	100
1	China	13.5
2	EU	12.2
3	United States	11.9
4	Japan	10.5
5	Singapore	7.6
6	South Korea	6.1
7	Thailand	5.0
8	Hong Kong	3.7
9	Malaysia	3.0
10	Australia	2.8

Note: EU Trade Commission.

Table 5

Goods Exports and Imports as Percentage of GDP 1990~2012

Years	1990	1995	2000	2005	2010	2012
Exports	22.17	25.05	45.60	56.3	65.3	73.8
Imports	22.70	36.35	43.60	57.2	68.2	68.3

Note: IDRC/CIDA Project GSO and authors' calculation for 1990~2012

2.5. Integration into the World Economy

Rapid increase in the values of exports and imports is an important indicator of how effectively Vietnam has integrated into the world economy. Vietnam joined ASEAN in 1995. In September 2001 the bilateral trade agreement with the United States was concluded. This has made a break-through into new and remote markets in America, Africa, Southwest Asia, thanks to that in separate 2002 the number of export address doubled compared 2001. Vietnam is now in the process of finalizing the AFTA road map for phasing out quantitative restrictions and reducing tariffs vis-à-vis ASEAN countries in 2006.

Vietnam applied for a membership of WTO on January. 4, 1995, and the WTO Working Party on Vietnam accession was formed on January 31, 1995. So far within the framework of WTO Working Party, Vietnam have accomplished 9 multilateral rounds of meetings and also bilateral negotiations with 6 partners, namely, Argentina, Brazil, Cuba, Chile, EU and Singapore among 27 partners have requirements to negotiate with Vietnam. At present Vietnam is active and urgent to complete last procedures. Vietnam is speeding up bilateral negotiations with the rest including a lot of partners hard to deal with such as United States, China, Japan…and intended to complete all bilateral negotiations in this August. These negotiations are a favorable condition to hold the 10th multilateral round of meetings in September 2005, and to make Vietnam become a membership of WTO in December 2005. This also means the MFN and preferential tariff schedules will replace the much higher current tariff rates. A large world market offers substantial potential for Vietnam to expand its exports in the near future.

Besides foreign trade, the rapid development of the foreign investment sector has contributed significantly to the economic growth of Vietnam. Up to December 2003, total registered FDI stock was $45.8 billions with 5441 projects. Total implemented FDI accounted for about 60% of total registered FDI (General Statistics Office of Vietnam, 2004). Through this activity, Vietnam economy has the opportunity to become a chain of the global production network. Exports of FDI sector has been about 25-30% of total export turnover. The growth rates of GDP of the foreign invested sector are always higher than that of the economy and the spillover effects from FDI enterprises are significant for the improvement of the competitiveness of the economy.

Table 6

Contribution of various sectors to GDP

Years	1995	2000	2005	2010	2012
State	40.2	38,52	37,62	33,46	32,57
Collective	10.1	8,58	6,65	5,32	5,00
Private	7.4	7,31	8,51	10,76	11,14
Household	36	32,31	32,06	32,77	33,21
FDI	6.3	13,28	15,16	17,69	18,08
Total	100	100	100	100	100

Note: GSO of Vietnam, 1995~2012.

Business environment has improved remarkably in terms of infrastructure and also of institutional environment. Considerable share of public investment and foreign investment has been channeled to the development of infrastructure such as electricity, water, communication, roads and ports to meet the essential demand of investors. Institutional environment for business has become much more opener and transparent with a number of new laws and regulations issued recently. The Enterprise Law came into effect in January 2000 has reduced the entry barriers enormously. On average, it takes only 17 days and less than $40 to have a new business registered that is in sharp contrast with 99 days and $660 in the past[1] . The considerable reduction of barriers to entry has offered a big push to the expansion of private enterprises. Within less than three years since the law has come into force, more than 72,600 new private enterprises were licensed with around 1.6 ~ 2 millions new jobs were created.[2] To further level the playing field, the National Assembly promulgated of the Competition Law in 2004 and is working intensively to unify the Investment Laws and the Enterprise Laws for various types of enterprises.

2.6. Foreign Direct Investment Policies

FID Atraction

The Vietnamese Foreign Investment Law was promulgated in 1987. This is also the first law which designed to enhance the development of a market-oriented economy, and marks the very beginning of the open door policy of Vietnam. Moreover, attractive provisions of the law as well as related legal system have contributed to the establishment of a favorable environment for foreign investors. FDI inflows to Vietnam before 1996, it was substantially larger than the inflows after this year. FDI commitments in 1996 achieved a record of $8.9 billion. During 1997~1999, FDI inflows reduced at the annual average rate of 24% due to the Asian economic crisis. Since 2000 up to now FDI into Vietnam seemed to recover. Especially, the amount of FDI in 2004 soared to $4.2 billions

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[1] Vietnam Chamber of Commerce and Industry 2002

[2] Central Institute for Economic Management (CIEM) 2004

in 2004, corresponds to an annual average growth rate of 22% for the period 2000~2004 (General Statistics Office of Vietnam, 2005)

Table 7

Foreign Direct Investment 1990~2012 (Mil.USD)

Years	Number of projects	Registered Capital	Implemented capital
1990-1994	1,056	11,459	3,959
1995-1999	1,748	30,355	13,086
2000-2004	3356	16,716	12,956
2005-2009	6,266	135,023	36,938
2010-2012	4,668	51,852	32,460
1990-2012	17139	245,405	99,399

Note: GSO of Vietnam, 1990-2012.

Manufacturing and construction is the most attractive area for FDI which accounts for 52.7% of total registered capital for the period 1988~2003. The services sector makes up 34.4% and only 6.2 %went to agriculture, forestry and fishery (General Statistics Office of Vietnam, 2005). In the early years, FDI projects mostly come into construction, hotels, restaurants, and offices. Since 1999, FDI structure has shifted significantly, which is more and more supportive to the industrialization and modernization of the economy. In 2003, FDI on manufacturing and construction is $1426.4 millions, with 556 projects, accounts for 74.3% of total projects and 75% total registered capital; agriculture attracted only 29 projects with total registered capital of 47.3 million accounts for 3.9% of total projects and 2.5% of total registered capital; services attracts 156 projects with registered capital of USD368.2 million, equivalently 20.9% of total projects and 20.3% of registered capital (General Statistics Office of Vietnam, 2005).

Table 8

General Situation of FDI in Vietnam from 1991 to 2000

Categories	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Total registered capital projects	152	196	274	372	415	372	349	285	327	391
Capital- increased projects	9	13	60	84	151	162	164	162	163	174
Total registered capital (Mil. USD)	1,284	2,077	2,829	4,262	7,925	9,635	5,955	4,873	2,282	2,762
Registered capital inflows	1,275	2,027	2,589	3,746	6,607	8,842	4,782	3,929	1,609	2,166
Expanded capital	9	50	240	16	1,318	793	1,173	944	673	596
Implemented capital inflows (Mil. USD)	428	575	1,118	2,241	2,792	2,938	3,277	2,372	2,528	2,398
Capital inflows from foreign partners	375	492	931	1,946	2,343	2,549	2,911	2,209	2,244	2,166
Capital inflows from Vietnam partners	53	83	187	295	449	389	366	163	284	232
Contribution of FDI sector to GDP (percent)		2.00	3.60	6.10	6.30	7.39	9.07	9.80	11.75	13.28
National GDP growth rate					9.83	8.80	7.41	5.08	2.30	5.32
GPD growth rate of FDI sector					14.98	19.42	20.75	19.10	17.60	11.44
Growth rate of national industrial sector						14.20	13.80	12.10	11.60	17.50
Growth rate of FDI in industrial sector						21.70	23.20	23.30	21.00	21.80
Proportion of FDI in industrial sector						26.50	29.00	33.20	38.10	41.30
Contribution to State Budget (Mil. USD)				128	195	263	315	317	271	324
Labor force in FDI sector (thousand)					210	220	250	270	296	407

Note: GSO of Vietnam, 1991~2011.

Table 9

General Situation of FDI in Vietnam from 2001 to 2010

Categories	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total registered capital projects	555	808	791	811	970	987	1,544	1,171	1,208	969
Capital- increased projects	241	366	416	497	640	570	420	311	355	269
Total registered capital (Mil. USD)	3,265	2,993	3,172	4,534	6,840	12,004	21,348	71,726	23,107	18,595
Registered capital inflows	2,633	1,857	2,037	2,482	4,705	9,096	18,718	66,500	17,236	17,229
Expanded capital	632	1,136	1,135	2,052	2,135	2,906	2,629	5,226	5,871	1,366

Implemented capital inflows (Mil. USD)	2,394	2,978	2,791	2,860	3,300	4,100	8,034	11,500	10,000	11,000
Capital inflows from foreign partners	2,040	2,634	2,623	2,565	2,825	3,500	6,700	9,000	7,300	8,000
Capital inflows from Vietnam partners	185	250	100	143	475	600	1,334	2,500	2,700	3,000
Contribution of FDI sector to GDP	13.76	13.76	14.47	15.13	15.99	16.98	17.96	18.43	18.33	n/a
National GDP growth rate	6.10	6.54	7.26	7.79	8.48	8.29	8.68	6.18	5.32	6.25
GPD growth rate of FDI sector	7.21	.16	10.52	11.51	13.22	14.33	13.04	8.10	4.81	n/a
Growth rate of national industrial sector	14.60	14.80	16.80	16.60	17.10	16.80	16.70	13.90	7.60	13.80
Growth rate of FDI in industrial sector	12.60	15.20	18.00	17.40	21.20	19.90	19.70	17.50	9.20	17.40
Proportion of FDI in industrial sector	41.60	41.60	43.10	43.70	43.70	44.20	44.60	44.40	n/a	n/a
Contribution to State Budget (Mil. USD)	373	459	628	916	1,297	1,472	1,576	1,982	2,470	2,050
Labor force in FDI sector (thousand)	489	691	860	950	1,030	1,129	1,265	1,467	1,850	1,900

Note: GSO of Vietnam, 1991~2011.

East Asia is the most important source of FDI among more than 75 nations and territories have invested in Vietnam during 1988~2003. Taiwan, Korea, Hong Kong, Japan, and Singapore made up 54.2% of invested capital, in which Singapore was the biggest investor (with 357 projects and $7,399.1 million) followed by Taiwan, Korea, and Hong Kong. Japan ranked fifth during this time. In 2003 solely, FDI from these countries only accounted for 47.7% of total FDI in Vietnam, was still relatively high, however Taiwan became the biggest investor in this year, follows in turn ware Korea, Japan, Hong Kong and Singapore (only $54.8 millions). In recent years, Vietnam attracted a quite large amount of FDI from Europe, such as British Virgin Islands, France, Netherlands, and United Kingdom. Especially, up to 2003 British Virgin Islands invested in Vietnam 226 projects with $3421.7 millions, in solely 2003 respectively 29 and USD210.7 million which higher than Hong Kong, Japan and Singapore (General Statistics Office of Vietnam, 2004).

FDI Policy Environment

After a long period with low investment after the end of 1996, Vietnam has been again successful in attracting FDI. The new success not only has come from difficulties of South East Asia countries such as terrorist attacks, political conflicts and low growth rate, but from great progress that Vietnam has made in improving Law on Foreign Investment and long-term expenditure for infrastructure. As part of the decentralization process, more autonomy has been given to provinces in making decisions related to foreign investment. Local authorities are under competition to appeal to foreign investment and increase jobs for local people, which results in significant improvement of licensing mechanism.

Vietnam has made great efforts in designing and improving legal system related to economic activities in general and investment in particular. The foundation for a comprehensive legal framework for businesses has been promulgated including the Law on Commerce, Enterprise Law, Law on State Bank, Law on Credit Organizations, Law on Domestic Investment, and Law on Insurance. Since being issued in 1987, Law on Foreign Investment has been amended four times (1990, 1992, 1996, and 2000) with the orientation of openness, transparency, high competitiveness and favorableness; and gradual elimination the differences between the Law on Foreign Investment and the Law on Domestic Investment in order to build a common legal system for all kinds of enterprises corresponding to international practices.

The amended content in 2000 is as follows:

Foreign ownership: The restrictions imposed on foreign ownership was loosened by allowing 100% foreign owned enterprises invested in forestation, tourism, mechanics, information technology and technical publishing (printing technical documents, packaging, trademarks…). Other industries which have not been opened absolutely for foreign investment included construction, telecommunication, local telecommunication, petroleum exploitation and processing, precious minerals, consulting service (except for technical consultancy), air transportation, railway transport, sea transport, public transportation, ports, air station(except BOT, BT, BTO projects), travel, industrial explosive production, culture, press, radio, and television.

Land: Clearly identify responsibilities in compensation for taking space. If Vietnamese partners' capital in a joint venture business is land use rights, they take the responsibility to compensate, clear site, and fulfill all needed procedures to get the land use rights. In addition to this, the new law allows foreign invested enterprises to use land associated assets and land use right value as collateral for loans at licensed credit institutions in Vietnam.

Foreign currency: Abolishing the regulation that foreign invested enterprises and parties to business cooperation contracts must ensure their needs for foreign currency themselves. The amended law allows those enterprises "to buy foreign currency at any bank which is permitted of dealing in foreign exchange to meet current transactions and other allowed transactions under regulations on foreign exchange control". The Government ensures to help enterprises balance foreign exchange in case banks fail to meet the demand, and even allow enterprises (including foreign invested enterprises) to open account at banks overseas in some special cases with approval from the State Bank of Vietnam.

Capital transfer: Capital transfer is now free from ratification of foreign investment governing authorities. The 100% foreign owned enterprises are not obligated to give priority to Vietnamese partners when they make capital transfer. Tax exemption/reduction, which previously was granted when transferring capital to Vietnamese enterprises, is now abolished.

Extend the duration of enjoying preferential corporate income tax: Corporate income tax applied to foreign invested enterprises is often amended with the orientation of encouraging investment. To reduce discriminatory treatment and to avoid arbitrary tax reduction in conformity with international agreements that Vietnam has already signed and will engage in the future, the Government allows foreign invested enterprises (including 100% foreign owned enterprises) to transfer the losses of any taxable year to the next year and these losses will be offset by the taxable incomes of the next years but during no longer than 5 year. Moreover, foreign invested enterprises are granted tax incentives when investing in projects or areas of investment encouragement. Those incentive tax rates are applied during the time of implementing the investment project if the project meets any one of the five following criteria: (1) belongs to the list of special projects to investment encouragement; (2) belongs to the areas with the most disadvantaged socio-economic conditions that are listed in the special investment encouraged areas; (3) develops the infrastructure of industrial zones; export processing zones, and high tech zones; (4) invest in industrial zones; export processing zones, high tech zones and (5) belongs to special fields as medication, education and science.

Tax on transferring profits overseas: this tax was reduced from 5%, 7% and 10% to 3%, 5%, and 7% in 2003. At the end of 2004, in the effort to improve FDI environment, Vietnam's government decided to eliminate this tax entirely.

Corporate tax refund: in order to encourage reinvestment, the new law allows partial or total return of corporate tax if profits are reinvested (except for the cases stipulated in the Law on Oil and Gas) on the following conditions: reinvestment referred here above includes reinvestment in projects that enjoy favorable enterprise income tax, reinvestment capital used for 3 years or more. There are three levels of tax returns (100%, 75% and 50%) for three levels of taxes (10%, 15% and

20%). Import-Export Tax exemption: Import tax exemption applies to imported goods that are aimed at forming fixed assets, or producing, and at accessories and spare parts; special projects of investment encouragement and investment projects in the areas of disadvantaged socio-economic conditions will enjoy import tax exemption for materials of production during 5 years since production starts. Export tax is exempted for rice, mineral resources and forestry products.[3] Exemption of Value Added Tax: is applied to machineries, equipments, materials, spare parts and imported materials used for the production of exports.

Changing in the form of investment, splitting or merging of enterprises: The amended Law in 2000 permits FDI enterprises and the parties of business cooperation contracts to change their form of investment, to split and to merge or to integrate of enterprises during their operation. To facilitate the implementation of the amended law on FDI and further improve the business environment, the government passed 2 Decrees (No. 36/2003 and 38/2003). Decree 36/2003 gives permits to the foreign investors to buy a maximum of 30% (compared to 20% previously) of the total holdings of any Vietnamese company in 35 industries (compared to 12 in the past). Decree 38 allows foreign invested enterprises to transform into joint-stock companies, creating favorable conditions for such companies to be listed in the stock market. According to this Decree, a joint-stock company shall have at least one foreign founder whose share is of no more than 30% of the chartered capital. The founding shareholder may transfer his/her share over to any other foreign individuals or organizations. This Decree aims at creating a new channel for capital mobilization.

[3] In order to encourage attraction to foreign investment and the deal with the difficulties of the on-going projects the amended Law has legalized a number of provisions of the Government s Decree No. 10/1998/ND-CP and the Prime Minister s Decision No. 53/1999/QD-TTg related to import - export tax.

Another legal document (Decree No. 27/2003/ND-CP issued on March 13, 2003) allows enterprises of 100% foreign owned enterprises currently operating in Vietnam to cooperate in partnership with other foreign investors to form new 100% foreign owned enterprise in Vietnam. The Decree also allow 100% foreign owned enterprises established in Vietnam to form joint ventures with Vietnamese enterprises or joint-venture businesses, health care centers, educational and training centers, scientific research bodies. FDI enterprises are also permitted to join foreign individuals or organizations in the form of Business Cooperation Contracts (BCC). According to the Decree No. 27, the value of holdings in form of technology is completely upon the decision of the involved parties. In the past the value was defined be no higher than 20% of the legal capital. The system of two prices has also been gradually eliminated to level the playing fields between domestic and foreign investors. At present, common rates applied in telecommunication, clean water, airfares and electricity for all individuals or businesses irrespective of citizenship or ownership. FDI enterprises are now also allowed to recruit local and international staff directly in accordance with the Labor Code, not through any recruitment organization or labor supply units in Vietnam.

Besides the reduction or removal of trade barriers, Vietnam has also actively participated in bilateral and multilateral agreements in investment in its efforts to integrate the economy into the world economy. Vietnam has signed bilateral agreement on promotion and investment protection with 53 countries/territories in the world[4]. However, apart from a number of agreements signed after the effective date of the Vietnam - US trade agreement, all investment agreements of Vietnam were limited to MFN procedures, and do not include any incentives or special treatments within the

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[4] List of countries with which Bilateral Investment Promotion and Protection Agreements are in force(as on 28th September 2007) http://business.gov.in/doing_business/bipa.php

scope of Customs Union or the regional economic agreements. After 4 negotiation years, on November 14, 2003 in Tokyo, the Governments of Vietnam and Japan signed the agreement on investment freedom, promotion and protection. This was considered the key to a new investment wave from Japan to Vietnam. For the first time, Vietnam has agreed the context of a mutual agreement to (i) offer national treatment applied at the time issuing the license permit, and (ii) prohibit giving obligation requirements which cause difficulties to investment, such as export levels, domestic content, share of local staff, technical transfer, and R&D. This agreement lays foundation for further improvement of the investment environment in Vietnam, improving the stability and transparency as well as eliminating the discrimination between domestic and foreign investors.

To sum up, all changes in the policies to attract FDI and the favorable conditions offered to foreign investors, the new advantages achieved in FDI operation and the achievements gained during economic development have proved that FDI environment in Vietnam have witnessed remarkable improvement and become more transparent, freer and able to compete with other countries within the region.

Chapter III. FUNDAMENTAL CHANGES OF ECONOMY OF VIETNAM AFTER 25 YEARS OF REFORM

In 1986, Vietnam launched a political and economic innovation campaign. This reform intended to facilitate the transition from a centralized economy to a "socialist-oriented market economy" The reform combined government planning with free-market incentives. The program abolished agricultural collectives, removed price controls on agricultural goods, and enabled farmers to sell their goods in the marketplace. It encouraged the establishment of private businesses and foreign investment, including foreign-owned enterprises.

Thanks to the comprehensive economic reform, the transformation from a centrally planned economy into a market economy and the implementation of open door polices. Particularly, in comparison to the 1990~1995 period, it has gone through a few changes that would have both positive and negative impacts on the future development of economy of Vietnam. The average annual rate of growth in GDP declined from 8.2 to 7.5 and will likely be lower in the next two years due to declining petroleum prices and the slowdown of economic activities in the world. However, overall, the economy of Vietnam was on s sounder and more robust basic. One of the best achievements was on the reduction in the rate of growth in population, so that per capita GDP still increased meaningful, even by 3.2 during the worst years, in 1999. Per capita GDP in creased annually by 5.3 in the 1995~2000 period as compared to 6.3 in the 1990~1995 period.

The increase was lower but still reflected a significant rate of growth. Inflation decelerated from a very high two-digit ratio in 1995 to 4% in 1999 and fell to -1.7% in 2000 (General Statistics Office of Vietnam, 2001). The average rate of economic growth of 9% in the years of 1995~1996 was not sustainable since it relied on heavy foreign borrowing, leading to deficit in the balance of trade of over10% and deficit in the current external account of over 6% (General Statistics Office of Vietnam,1998). The slowdown in growth after 1997 brought the current external account to near balance in 1999. No doubt, the financial crisis in the East and South East Asia at the end of 1997 had positively impacted the economy of Vietnam. Without it, the continuation of an annual net foreign borrowing of $2 billions as a result of current account deficit would quickly have led Vietnam back to the status of dead-beat debtor. (Net foreign debt was at $12 billions at 2000 year-end and equaled 39.9% of GDP. Net foreign debt at one time had reached 86% of GDP before Russia and Western countries forgave a large amount of debt). Due to the adjustment for the exchange rate and the other measures, net exports become a positive factor in 1999 and 2000 in the contribution economic growth.

That counters partially the decline in the contribution to growth of households, government final consumption expenditure and gross capital formation, keeping overall economic growth in the two years at reasonable rates. The government has implemented a demand-stimulating policy to meet the economic slowdown. This policy resulted in a government budget deficit of over 4% in the two years 1999~2000. However, as deflation continued into 2001 in Vietnam and throughout the world, the demand-push policy would unlike bring inflation in the next year.

3.1. Role of government in reform process

The role of government in the economy is reflected in its ownership of enterprise, in the provision of government service and in state socio-economic policies, the most important of which are management and use of budget. In the 1995~1999 period, disregarding changes in policies and their effectiveness, the role of the government was actually enhance as compares to the 1990~19995 period. The share of state economic activities in terms of GDP increased from 35% to 40% during the two periods. From the point of view of ownership, the share of the state is higher than those mentioned above due to the state involvement in foreign direct investment corporations such as in the oil corporation.[5] The share of the stage in the value added of non-financial corporation declined from 69% in 1995 to 61% in 1999, of which its share of manufacturing

[5] According to the classification criteria used by the Generation Statistical Office of Vietnam, state ownership is defined as a holding of at least 90% with respect to foreign direct investment corporation, which is over 50% state-owned is classified into the foreign direct investment sector. It is important to understand this in order not to misinterpret the significance of value added or taxes originating from this sector.

declined from 57% to 50%, the decline in the stage share was mainly due to the increase in the share of foreign direct investors.

But overall, the state share increased as a result of its increased activities in sectors such as electricity and water, telecommunication, hotels and restaurant, tourism, finance and banking. Budget revenues increased marginally from 18.9% of GDP during the 1990~1995 period to over 20% recently. But overall, revenues tend to slowdown since 1995, from 23.3% of GDP in that year to 18.3 in 2000 (General Statistics Office of Vietnam, 2001).

Taxes and fees as a source of government revenues were unsteady, down from 21.6% of GDP in 1995 to 17.6% in 1999. Government revenues come from three main sources: taxes were from the state enterprises, taxes on imports and exports and revenues from oil production. Each source contributes about 3-5 % of GDP (Vietnam General Statistics Office 2000).. Foreign direct investors and the domestic non-state sector contributed each 1% of GDP. Tax collection from the domestic non-state sector may only improve if non-state corporations grow faster than now. Taxes from households activities, particularly in agriculture, are not expected to improve much as they would impair household income since households would not be able to recoup taxes paid by raising prices as in the case of corporations. Government financial statistics currently is not incomplete and the classified items "other" in various groupings have values that are higher than the detailed main items so that analysis of fiscal policies cannot be completed.

The main source of non-tax revenues is oil production; its contribution to the budget was about 3% of GDP. In 2000, owing to the increase in world market prices of petroleum, the budget revenue from this item was 5.3% of GDP, helping to increase the budget, though this source was unstable. Oil prices will tend to decline in the future due to the worldwide recession in 2001; its contribution to the budget is expected to be lower in 2002. From 2005, the revenue from oil production is expected to decline sharply due to an almost complete depletion of Bach Ho (White Tiger) oil, which is currently producing 80% of oil output of Vietnam. The newly discovered fields have negligible reserves except for the Su Tu Den's (Black Lion), which is 1/3 of Bach Ho's Grants from abroad to the budget were insignificant, making up 0.5~0.8 % of GDP

Budget expenditures increased from 21% of GDP during 1990~1995 period to over 24% and will tend to rise in the future owing to the coming reform of state enterprise. The budget deficit will likely be as high as 5% of GDP in the future. This shows that the Government needs to reduce its use of the budget for capital investment in state corporations and find additional sources for its revenues. On the expenditure side, the Government had tried to cut current expenditures, reducing its share of GDP from 18.3% in 1995 down to 14.8% in 1999. But the reduction was mainly channeled to capital expenditures, which increased strongly from 5.5% of GDP in 1995 to 7.4% in 1999 (General Statistics Office of Vietnam, 2000). Owing to the commendable attempt of the Government to reduce current expenditures, the rate of the growth in output of the general government sector (around 8-10 of GDP on average) fell from 8.4% in 1995 to 5~6% in the following years and became negative in 1999 (-1.8%). The effort to reduce current expenditure is laudable.

Of the current expenditure, disbursements for the benefits of households such as for education, health, culture, entertainment, etc. amounted to 7% GDP, equal to almost of the total expenditure. Current transfers to households tended to decline, from 3.3 of GDP to 2.5% (Vietnam General Statistics Office 2010).

3.2. Changes of Structure about Population and Labor, Industry, and Agriculture

3.2.1. Population and Labor

The rate of growth in population declined significantly down from 2.3% in the 1980's to 1.7% between 1990~1995 and 1.5% in 1995~2000 (General Statistics Office of Vietnam, 2000). With the decline in population growth, per capita income may continue to increase significantly even with slower economic growth in the coming years. The population in Vietnam increased on average by one million a year, which were until 1997 sufficiently absorbed by the expanded labor market. But from 1998, new jobs declined significantly. In 1999, only 600 thousands new jobs were created of which 500 thousands were in agriculture, reflecting to some degree a disguised unemployment (General Statistics Office of Vietnam, 2000).

Labor in the state sector increased annually by 100 thousands between 1995~1998 but declined in 1999. Thus, no new jobs (net) were created in the private trade, restaurants and services sectors declined significantly in two years and did not increased much in the other two years. Even in the years with highest economic growth, the state sector, including state-owned enterprises, did not create enough new jobs for the growing population. This is the main reason why the private sector should be more strongly developed in order to absorb new entrants to the job market. In 1999, employment in the state sector was 3.4 millions, accounting for 9% of the labor force, of which 1.8 millions were employed in the state enterprises, making up 4.7% of the labor force. As state enterprises are estimated to own 60% of fixed assets of the economy and to produce 30% of GDP (General Statistics Office of Vietnam, 2000), but generate little employment, they are implicitly highly capital intensive and are not appropriate for a country with a large labor force under utilized in agricultural activities.

The policy aiming at encouraging the development of the private sector has been implemented since early 2000 with the abolition of discrete power to grant business licenses, which was replaces by almost automatic approval of licenses upon application. This measure was one of the necessary steps in the new policy.

3.2.2 Industry

During the ten years following the 1989 reform, the structure of economic activities had been substantially transformed. The share of agriculture in GDP dropped from 32.7% in 1990 to 20.8% in 1999. The following industries have increased their shares, in descending order: manufacturing, mining (mainly petroleum), construction, electricity and water. The shares of service industries either increased marginally or declined. The share of manufacturing in GDP increased, but with about 17.7% currently is lower than that of Malaysia (19.6%) and Thailand (19.2%) in 1990 (General Statistics Office of Vietnam, 2000).

The share of financial activities (including banking, insurance, pension funds and other financial services) was still very small (around 2% of GDP) and tended to decline. As far as this industry was concerned. Vietnam was lagging far behind Thailand, which had a share of 3% in 1980 and 6.1% in 2000. It was also far below the Philippines, which was 3.7% in 1980 and 4.5% in 2000 (General Statistics Office of Vietnam, 2001). Further analysis showed that the operating cost of the banking system in Vietnam is twice that of other countries, thus inflating its share of GDP. The financial industry, the cornerstone of a modern economy, should be further developed and become more efficient.

3.2.3 Agriculture.

Agricultural reform is the most significant to the cause of economic development and poverty reduction of Vietnam - a country with 75% population and 90% the poor living in rural area. From a country that was always short of food and had to import 0.5~1 million tons of food to meet the people's demand annually, Vietnam has become a food exporter. It is now the world's second biggest rice exporter, right behind Thailand. Food grain production development, agricultural restructuring towards developing high-value industrial and fruit trees like coffee, rubber, cashew, litchi, etc, as well as strong development of agriculture, including domestic animals, fowls and forestry have been paid special attention in Vietnam. Vietnam now is the world’s biggest peppercorn exporter, and the third biggest coffee and rubber exporter.

Table 10

Structure of Vietnamese GDP by sector (%)

Period	Agriculture	Industry	Services
1985-1990	33.57	26.70	39.73
1990-2000	25.79	31.28	42.94
2000-2010	19.18	40.01	40.81

Sources: GSO of Vietnam, 1985~2011.

Table 11

Growth rate of output value in sub-sectors in Agriculture (%)

Period	Crop	Livestock	Forestry	Fishery
1990-1995	5.9	5.8	0.3	10.7
1995-2000	6.5	6.3	3.2	10.0
2000-2005	3.5	7.1	1.4	12.2
2005-2010	3.7	7.0	3.1	8.8

Note: GSO of Vietnam, 1985~2011.

Table12

Structure of Vietnamese GDP by sector (%)

Period	Agriculture	Industry	Services
1985-1990	33.57	26.70	39.73
1990-2000	25.79	31.28	42.94
2000-2010	19.18	40.01	40.81

Sources: GSO of Vietnam, 1985~2011.

Determining factors for the development of agricultural sector are:

- Realization of land allocation to farmers and transformation of agricultural cooperatives and state-owned farms into household enterprises, making the agricultural sector most privatized in Vietnam economy, in which state economy accounts for 3%
- Increase of proportion of capital and labor force in inputs (87% added value)
- Development of irrigation and adequate provision of inputs for agriculture like machines, insecticide, and chemical fertilizer
- Application of advanced biology achievements to diversify products, raise productivities and product quality
- Trade liberalization and export promotion.

3.3. Transition of Institutional Service, Structure, and Saving and Capital Formation

3.3.1. Institutional service

Market oriented economic reform has pushed up the expansion of the service sector. The service sector's annual growth rate is 7% in the period of 1991~2000. Trade, hospitality, restaurant, tourism, and road transportation experience a rapid development. In recent years, scientific and technological, educational and training sectors have had high growth rate, manifesting the government's priorities and efforts in promoting human resource, science and technology.

The service sector's growth rate, even increasing in recent years, is still lower than that of the first half of 1990s. Despite some industries that have high technological content and added value, and that significantly influence the strengthening of competitiveness of the economy as well as enterprises, fields like finance, banking, insurance, telecommunication, air transportation, sea transportation, manufacturing support service and consulting service, etc, are slowly developed. Real estate business is out of control. This situation results from: uncompleted institutions for service markets, protection and incentive policies for state owned enterprises and low openness for foreign investors.

3.3.2. Institutional structure

The share of economic activities, the most important of which are manufacturing and financial activities, are major indicators for measuring the effectiveness of modernization in the initial stage of the development. However, the shares of corporations in GDP are also no less important in measuring the progress of economic management. Corporation is a higher form of organization, in which ownership can be separated from management, making it possible to professionalize managers and popularize ownership in order to raise capital.

With regards to institutional structure, an economy may be divided in to four sectors: non-financial corporations, financial corporations, the general government services, and the households and non-profit institutions sector serving households (the household sector is short). The economy of Vietnam is still basically a household economy. Production of households in agriculture, small-scale manufacturing and trading still claims a larger share of GDP, amounting to 41% in 1999 though down from 45% in 1995. Between 1995 and 1999, the share of corporations (financial and non-financial) increased from 45% to 50% GDP, of which the share of non financial sector increased from 42.9% to 48.6% (General Statistics Office of Vietnam, 2000).

The increase in the share of corporation was mainly due to the increase in the share of foreign direct investment corporation. Its share was 12.2% of GDP. The share of non-state domestic corporations did not change and stayed around 3% of GDP. Nevertheless, in order to analyze the performance of this sector, it is important to dissect it at micro level. This sector grew at a higher rate than state-owned corporation in 1997 and 1998 (respectively 21% and 7.2%). Before and after these two years, its rate of growth was lower. In general, with respect to the management of the domestic corporations, there was no significant change in organization in the 1995~1999 period.

3.3.3. Saving and capital formation

Ten years of reform have given the economy a new face. In 1990, gross saving in the economy was only 8.5% of GDP and gross fixed capital formation was 10.4%. from 1995 on, gross capital formation had never been below 25% of GDP and the saving rate reached 27.1% in 2000, the year of lowest rate of economic growth.

The two sectors that contributed most to saving were the non-financial sector and house hold sector. The non-financial sector contributed 33.3% to saving in 1999. However, the main source of saving in this was, however, depreciation, which contributed 74%~88% to its saving. Thus it can be said that the highest source of saving was households, contributing 31%~48% to total saving. Before 1992, the rate of saving of the general government sector had been negative, but it had since become an important source, contributing 11%-24% to total saving and tended to increase recently. The excess of GCF over saving is net borrowing from abroad. (Net borrowing in the SNA includes funds from foreign direct investment).

Net lending from abroad amounted to $1.8 billions in 1996 and 1997 and fell to $156 millions in 1999. Although gross capital formation (GCF) and saving increased, GCF was mainly concentrated in the state sector[6]. According to information on investment outlays, investment in the state sector increased significantly in the last five years, making up 38.3% of total investment funds of economy in 1995 and 61.6% in 1999. Investment in the state sector relied mainly on the budget and on borrowing (70%) and not on own funds. Though on the decline, borrowing of state state-owned corporations still represented 50% of total lending from the banking system to the economy. State-owned corporations however produced only 30% of GDP and were mostly in the red or at break-even levels (General Statistics Office of Vietnam, 2000).

GCF of the household sector had been declining from 22.3% of the total GCF of the economy in 1995 to 15.7% in 1999. But this sector has contributed the most to national saving, making up 35.4% of this value. GCF in the general government sector (in terms of infrastructure and office construction) is significant and equal to 1/2 of household's in 1999. GCF of corporation is the largest, making up 70% of total GCF. The corporations sectors, which include mostly state-owned ones and foreign direct investors, however, are highly capital-intensive and as a result do not generate enough new jobs for economy.

Foreign direct investment had substantially declined since the 1997 financial crisis, culminating at $2.4 billions in 1997 and falling back to over $1 billion in 2001. Investment commitments also shrank from a high $8.6 billons in 1996 to 1.6 in 2000. It is most likely that the share of foreign direct investment in Vietnam will continue to decline in the face of economic recession beginning in 2001 in the most developed countries of Asia (Japan, Taiwan, Singapore, South Korea) and all

[6] It is regrettable that detailed statistics on GCF was not publicly available for state-owned corporations and public infrastructure separately

over the world, particularly in the USA.

3.4. Foreign trade and investment

Vietnamese exports amounted to 49% of GDP and imports to 52% in 1999. Thus, after ten years of reform. Vietnam has become a very open economy, above world average. The ratios of exports and imports over GDP of Vietnam were almost equal to those of Thailand (export ratio = 56.7% and import ratio = 51%) and way above those of China (export ratio = 23% and import ratio = 21%).

Owing to its openness, the economy of Vietnam would be more vulnerable to regional and worldwide crises than China. The impact was well reflected in the recent financial crisis in 1997, with a significant decline in its rate of economic growth. Before that, exports grew at an annually rate of over 20% but only at more or less than 10% recently. Imports were also similarly affected. Vietnam is still a natural resource-based economy. Its exports of natural resource made up 63% of total exports of goods, though exports of light manufacturing goods also increased and reached 37% of the total amount.

Exports of services have expanded, accounting for 16% of total exports and 8% of GDP. Unfortunately, they seemed to be declining, down from $2.6 billions in 1998 to $2.2 billions in 1999. Important among exports of services are telecommunication, transport and tourism. It is also regrettable that the State Bank of Vietnam would not release any detailed statistics on these areas. It is important to note that these detailed statistic are needed for analysis

Table 13
Vietnam: Import and export revenue and growth rate, trade deficit in 1990~2000

Year	Export (mil.US$)	Growth rate (%)	Import (mil.US$)	Growth rate (%)	Trade deficit (mil.US$)	Percentage of trade deficit (%)
1990	2404	23.5	2754	7.3	350	14.6
1991	2087	-13.2	2338	-15.1	251	12
1992	2581	23.7	2541	8.7	-40	-1.5
1993	2985	15.7	3924	54.4	939	31.4
1994	4054	35.8	5825	48.5	1771	43.7
1995	5449	34.4	8155	40	2706	49.7
1996	7256	33.2	11144	36.6	3887	53.6
1997	9185	26.6	11592	4	2407	26.2
1998	9360	1.9	11499	-0.8	2139	22.9
1999	11541	23.3	11742	2.1	201	1.7
2000	14483	25.5	15636	33.2	1153	8

Note: General Statistics Office of Vietnam, Ministry of Trade, 1990~2000.

Vietnamese exports grew more slowly than those of its neighbors after 1997 because of the policy to sustain the exchange rate of the Vietnamese dong (VND). Comparing 1999 and 1996 and using the USD as standard, the value of VND dropped by 16%, the Thai Baht by 50%, the Philippines Peso by 39% and the Indonesia Rupee by 91%. As a consequence, the value of VND had increased substantially relative to regional currencies, making Vietnamese goods less competitive vis-a-vis its neighbors. Starting with the year 2000, the State Bank of Vietnam has relaxed its control over the VND's value, which has since declined.[7].

3.5. Monetary and Credit Policies

[7] But in August 2001, it was still 26% higher than Baht, 49% higher than Rupee, a bit lower than the Peso but 30% lower than Chinese Yuan. It is important that the market be allowed to regulate the VND, especially now that deflation has set in and prices of agricultural products have decline substantially on the world market

The financial and banking system in Vietnam is still too underdeveloped to met the demand of the economy. Its operating cost was very high, amounted to 4.2% of total assets, which was double that of Malaysia. Lending, subject to government plan, is oriented to beef up the leading role of state- owned enterprises (SOE). The share of lending to SOE however had declined from 57% in 1995 to 45% in 2000. Because SOE's on the whole were either in the red or at break-even levels, the share of non-performing loans (NPL) was very high. According to the State Bank of Vietnam, the share of NPL amounts to 13% but according to the IMF, it could reach 30%. If costs were fully accounted for pursuant to international standards, the banking and financial system of Vietnam would have gone bankrupted long ago. It is important to note that banks with a share of NPL of 3% or more are classified as unsold.

Since 1999, the money supply grew strongly, at 57% in 1999 and 39% in 2000, as a result of the demand push policy. The reasons why the high rate of increase in money supply did not generate inflation need to be investigated. Speculatively, one of these reasons may be the policy of State Bank to increase its international reserves by attracting USD from the market, which was unaccounted for in the calculation of the money supply. That policy would increase VND on the market and withdraw USD from it, so that the money supply remained the same. If that speculation were correct, the implementation of the demand push policy would not generate inflation. The main point is what type of demand needs to be pushed.

3.6. Household Income

Income from own production was thus the most important source, reflecting the prevailing role of own and small-scale production in the economy. As income increased, final consumption expenditures of households also increased. However, households still managed to maintain their saving rate at 14% previously and 12.7% in 1999.

Disposable income of households is derived from 4 sources with the following share in 1999:

- Own production 48.8%
- Salary employment 43.9%
- Property income (net) 2.7%
- Current transfers (net) 4.5%

In addition, household income was supplemented by the individual final consumption expenditures of government, which correspond to free services provided to households such as healthcare and education, etc. This is not record as part of the household income, but makes up 7% of GDP and 10% of the household income. Related to household income is the labor compensation paid to civil servants whom work in general government providing government services (public administration, security, education, health, etc.). The above statistics on income also include extra budgetary pay, which is not includes in the labor compensation officially recorded in the budget. The method does not account compensation in the budget. Thus this method does not account for illegal payments. The extra-budgetary pay amounted to 35.5% of official compensation of employees in 1999 and 38~54%in previous years. The non-transparent compensation policy continues to weaken the public sector and creates unfairness in compensation.

3.7. Regional economic development[8]

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[8] Geographical areas

Region I: *Red River Delta* includes the following provinces: Hà Nội, Hải Phòng, Hà Tây, Hải Dương, Hưng Yên, Hà Nam, Nam Định, Thái Bình, Ninh Bình.

Region II: *North East* includes the following provinces: Hà Giang, Cao Bằng, Lào Cai, Bắc Kạn, Lạng Sơn, Tuyên Quang, Yên Bái, Thái Nguyên, Phú Thọ, Vĩnh Phúc, Bắc Giang, Bắc Ninh, Quảng Ninh.Region III*: North West* includes the following provinces: Lai Châu, Sơn La, Hòa Bình.

Vietnam is a country with a large population, geographically elongated and economically unevenly developed. Thus, it is important to analyze its regional development. The following analysis focuses on the movement of population across regions and their economic growth on the basis of recently compiled regional accounts. Until now, regional accounts only provide GRP and per capita GRP data, which are good indicators to track regional economic development. They are, however, not appropriate to analyze regional income. One obvious example is Ba Ria-Vung Tau province. Where per capita GRP is twice as high as in Ho Chi Minh city. Its value added is mainly derived from oil exploitation and therefore most of it will be transferred out of the province. The more appropriate indicators for analysis regional income and standard of living are disposable incomes.

Regional economies have undergone significant changes due to the inter-regional movement of population. Ha Noi and Ho Chi Minh city remain centers, which attract population from elsewhere. Between the 1990-1995 and 1995-2000 periods, Ha Noi had a lower annual average rate of increase in population, reaching 2.4% as compare to the previous rate of 2.8%. On the other hand, Ho Chi Minh city had a slightly higher rate of population increase, increasing from 2.3% to 2.4%. Ba Ria-Vung Tau continues to attract population strongly; its previous rate was 3.1% and recently 3.0% other provinces near Ho Chi Minh city like Dong Nai and Binh Duong maintain their attractiveness with an annual growth rate of population at 2.6% due to foreign direct investment in the area.

Region IV: *North Central Coast* includes the following provinces: Thanh Hóa, Nghệ An, Hà Tĩnh, Quảng Bình, Quảng Trị, Thừa Thiên Huế.
Region V: *South Central Coast* includes the following provinces: Đà Nẵng, Quảng Nam, Quảng Ngãi, Bình Định, Phú Yên, Khánh Hòa.
Region VI: *Central Highlands* includes the following provinces: Kon Tum, Gia Lai, Đắc Lắc, Đắc Nông.
Region VII: *North East South* includes the following provinces: Hồ Chí Minh city, Lâm Đồng, Ninh Thuận, Bình Phước, Tây Ninh, Bình Dương, Đồng Nai, Bình Thuận, Bà Rịa-Vũng Tàu
.Region VIII: *Mekong River Delta* includes the following provinces: Long An, Đồng Tháp, An Giang, Tiền Giang, Hậu Giang, Vĩnh Long, Cần Thơ, Bến Tre, Trà Vinh, Sóc Trăng, Bạc Liêu, Cà Mau.

Overall, the Red River Delta, the Northeast, the North Central Coast and the Mekong River Delta had a lower rate of population increase, slightly over1%, i.e. below the national annual average of 1.5%. This statistic indicates that there has been an outward movement of population in these regions. Besides Ho Chi Minh city and Ha Noi, Da Nang and Hai Phong have also been selected by the central government as focal centers for the development of the country. During a process of economic development and industrialization, the concentration of population around the focal centers is unavoidable and probably needs to encouraged within an overall development plan. That is the reason why these four cities have been selected. Nevertheless, the latter two cities have yet to prove their attractiveness, and for the time being rather reflect a failure of the measures taken by the government to stimulate their economic development and thus population growth. Hai Phong population grew at annual rate of 1% only which is too low for a focal point. Da Nang grew at 1.9% which was above the national average. However, the rate of increase in population in these two provinces has declined.

The Central Highlands continues to be the region that had the strongest pull on population from elsewhere. Its average annual growth rate remains at 4.9%. due to the expansion of coffee growing, its GRP growth has been the highest in the last five years, with an annual average of 9.1%, and has also accelerated. But per capita GRP grew only at 4% a year, less than the country’s average rate of 5.3%. The recent decline in coffee bean’s prices from $3.5/lb to $0.5/lb in 2001- an 85% fall – is expected to have a devastating impact on the economy of the region, which is specialized in coffee growing.

Hai Phong has not been under the pressure of population growth but its economic growth was unspectacular, achieving only a per capita GRP annual rate of growth of 3.8%, which was almost the lowest in the country, just barely a head of Ba Ria-Vung Tau.

Ba Ria-Vung Tau had the lowest average growth average growth rate in per capiat GRP, which was at 3.5% and is still on the decline. In 2000, its rate was -2.6%.the Northeast and Southeast regions in the North are poor areas, with a high concentration of minorities. Their GRP grew annually at a quite high rate 7%. With a low increase in population probably due to the outward movement of population, their capita GRP grew significantly, at 6% a year[9], faster than in Ho Chi Minh city and Hai Phong, and above the average rate achieved in the 1995~1999 period. This indicates the success of the government policy to give prority to the development of poor areas with a high concentration of minorities.

The North Central Coast region (including Thanh Hoa, Nghe An , Ha Tinh and up to Hue) apparently recorded no change. It is still the region of the country, which has the lowest rate of growth in GRP and per capita GRP. Moreover, its per capita income is also very low, equal to only 17% of that of Ho Chi Minh city, and no better than on regions with high concentration of minorities like the Northeast and Southeast. It is important that an appropriate development policy be developed for this populous region with more than 10 million people.

Chapter IV BIG CHALLENGES FOR ECONOMIC DEVELOPMENT IN THE GLOBAL INTEGRATION

4.1. Human resource

Vietnam has abundant human resource (of close to 40 million people), but proportion of skilled labors is still very low (21% of the total labor force). In the labor market, therefore, there exists a

9 Statistic Yearbook 1995~2000; Statistical Publishing House, Hanoi, 2001

paradox: labor supply is high, meanwhile enterprises are lacking skilled labors, especially technical workers, marketing, designing and financial specialists, and business administrators. Productivity is low. For example, productivity in the garment sector is as high as 2/3 of that in China, and increases more slowly than wage rises. In recent years, wages increase 9% annually while labor productivity increases fewer than 7%, lessening Vietnamese advantage in low labor cost. This results from the gaps between vocational training size and economic development requirements, between training activities and the labor market demand, and from the lack of a relevant mechanism to encourage learning and attracting talents in business sector.

4.2. Business support services

Business support services like management consulting services, legal consulting, investment consulting, information provision, and marketing, etc, have not developed to meet enterprises' demand. Business support services have been paid attention and developed only since the introduction of the law of enterprises, and now, they contribute just 1% of GDP. High cost of business support services limits the accessibility of small and medium enterprises. In general, in a risky business environment, many enterprises have short-term goals and aim to set relations with the state system for incentive, preference or priority rather than focusing on their own competitiveness and long-term business strategies. As a result, the economy develops unhealthily basing on unsustainable growth factors and has low growth competitiveness.

4.3. Enterprise system

Vietnamese enterprises are still very weak and have low competitiveness. According to the global economic forum, in 2003 Vietnam's growth competitiveness ranks 60 among 102 countries, and its enterprises' competitiveness ranks 50 among 101 countries. Apart from nearly 4,290 state owned and 4,300 foreign invested enterprises there are only 140,000 private enterprises operating under the law of enterprises. Ratio of people to enterprises is 1/400. Generally, enterprises have small size. Close to 47% state owned enterprises have legal capital of less than $300,000. Average legal capital of private enterprises is $80,000 (Vietnam General Statistics Office 2004). In general, Vietnamese enterprises are at low development level in terms of technology, management capacity and labor expertise.

Capital mobilization capability is low, especially for middle and long-term capital. Most enterprises have yet to get appropriate business strategies to expand themselves in the international market. High monopoly of state owned enterprises, discrimination between state owned and non-state enterprises, and slow implementation of state owned enterprise reform have been obstructing the improvement in investment and business process. A big weakness of Vietnamese enterprises is loose linkage among them and with the rest of the economy in value chains: input suppliers – inter-medium manufacturers - finished product manufacturers - distributors, to make high added value. Prices of agricultural products are down seasonally because they are not timely distributed, meanwhile processing factories, lacking production materials, have to outsource at high prices. More than 90% steel is produced by material imported, resulting in heavy dependence on the world price. 80 cent in every $1 of garment exports is spent on imported materials or accessories. Limited linkage is one of the main reasons why added value growth rate is lower than output value growth rate in industrial and agricultural sectors. The Government's efforts to set up clusters in which state corporations and foreign companies are key actors have yet to get good results.

Table 14

Number of acting enterprises as of annual by types of enterprise

Years	2005	2008	2009	2010	2011
State owned enterprise	3,83	1,72	1,42	1,18	1,18
Central	1,71	0,86	0,76	0,64	0,55
Local	2,12	0,86	0,66	0,54	0,45
Non-state enterprise	92,70	95,35	95,81	96,23	96,23
Private	32,50	24,21	20,22	17,18	5,06
Collective name	0,03	0,03	0,03	0,03	0,06
Limited Co.	49,25	53,65	56,81	58,70	59,54
Joint stock Co. having capital of State	1,03	0,94	0,73	0,61	0,54
Joint stock Co. without capital of State	9,89	16,52	18,02	19,71	21,03
Foreign investment enterprise	3,47	2,93	2,77	2,59	2,59
100% foreign capital	2,68	2,40	2,29	2,14	2,31
Joint venture	0,79	0,53	0,48	0,45	0,46
Total	100	100	100	100	100

Note: GSO of Vietnam, 2005~2011.

4.4. Science and technology

Technological level of most industries is more backward compared with regional countries. Most enterprises are at the stage of technological absorbing through importing machines and equipments. Technological and knowledge content in Vietnamese goods is low, products are mainly based on capital and labor. In 2003, capital contributed 52.7% to economic growth, labor 19.8%, and total production factors 28,2%. Scientific and technological market, both supply and demand, is infant. 80% budget for scientific research and technology is from the State, opposite to the situation of developed countries. Large state corporations that have adequate resources for research and technological applications are not put under pressure of innovation due to incentives in the protection regime. Domestic private enterprises need to innovate their technology, but they are in affordable. Capacity of technology transfer from foreign sector to domestic sector is low due to incomplete policies on attracting transnational corporations in hi - tech industries, limited capability of Vietnamese labors to absorb transferred technology, and weak linkage between domestic and foreign enterprises, especially backward linkage. Organization model of R&D agencies does not encourage the relation between them and users – enterprises.

4.5. Credit and Banking

The Vietnamese credit and banking market has revealed some weaknesses. Financial depth is low, around 67% GDP. Capability of capital mobilization and lending of commercial banks is low, credit quality is not high and most of the credits are short-term credit. The credit market is relatively monopolistic; state commercial banks make up 67% total mobilized capital and 80% credit market. State owned enterprises, to some extent, are monopolistic customers of commercial banks, making up 80% credit balance but contributing just 38.9% GDP. The banking system restructuring is not as rapid as it is expected. Interest rate of VND is at a relatively high rate (8~14% annually) and tends to rise due to the impact of consumer price index increase. Ratio of bad debt in commercial bank is high, about 6%. If counted by international indicators, this number can be higher (3 times) and the settlement heavily depends on state owned enterprise reform process. The financial market is less developed despite of the establishment of non - banking financial institutions like financial companies, insurance companies, leasing companies and investment fund. The security market is too small and has yet to be an efficient channel for capital mobilization for the economy.

4.6. Macroeconomic environment

Vietnamese macroeconomic stability indicators are assessed to be high. However, it has some signs of instability, shown as follows: The state budget revenue, even accounting for 21~22% GDP, is still limited. The state expenditure on wages increase, debt payment, and irregular expenditure rises radically while the budget revenue is not stable. The state budget surplus is high, 5.0% GDP in 2003.

The state investment capital balance, especially capital invested in big projects, is tense, while debt of projects is rising and has yet to be solved. Up to now, outstanding debt in the fundamental construction sector is VND11,000 billion, accounting for 25% total investment capital from the state budget and more than 50% state budget capital for fundamental construction in 2003. Losses in the state investment, as reported in mass media, make up 30% due to weaknesses in planning, allocation, supervision, and assessment. The increase of the state credits, especially those given to state owned enterprises, not only restrains resources for private investment, but also distorts interest rate and the credit market.

A number of capital invested in protected and poorly competitive industries like garment, iron and steel, sugar can, etc, makes some troubles, especially in the acceleration of integration process. In 2003, trade deficit was 13.1% GDP and this is the highest level in the last 5 years. In the first half of 2004, consumer price index increases 7.2%, higher than projection for 2004. Price of essential materials and consumer goods goes up radically, obstructing production and business activities, slowing down investment in construction, and negatively effecting people’s real income.

4.7. Public institutions

Despite of great endeavor of the State, the institution reform in Vietnam is carried out very slowly. The legal system is inadequate, asynchronous, not detailed, inconsistent, and not close to the reality so that it is hard to be realized. There lack fundamental laws of a market economy like law of competition and law of intellectual copyright. Some laws are irrelevant with the market economy. Domestic legal system is not completely consistent with international commitments and WTO rules. A number of legal documents are not timely and consistently issued, obstructing the implementation of law. Administration reform is not thorough. The administration apparatus is slowly innovated, ineffective and inefficient. The corruption and the abuse of public rights for private benefit of a part of state officials are handled slowly. Presently, the administration apparatus is considered as the weakest and most slowly changed part, and the biggest cause obstructing the progress of Vietnamese comprehensive reform.

4.8. Physical infrastructure system

This system, even remarkably improved recently, still restrains competitiveness. The infrastructure network has not been developed nationwide, limiting a large number of rural and minor ethnics people to access to market economy and international integration opportunities. The prices of some infrastructure services in Vietnam are higher than those in regional countries and tend to increase (like electricity and water), negatively affecting low - cost - based competitiveness of Vietnam. The dual prices for domestic and foreign customers have yet to be completely settled. Construction of a developed infrastructure is a big challenge to Vietnam, which requires external support through FDI and ODA.

4.9. Competition in the domestic market

In the domestic market, Vietnam has to face with a lot of problems rising from the liberalization of economic sectors in the committed integration process. Many industrial and agricultural products are less competitive compared with those imported from EU, US, Japan, China and ASEAN. For instance, the price of some domestically produced goods is higher than international price: garment 15%, steel 25%, paper 27%, urea 31%, sugar 40%, and soda 63% (General Statistics Office of Vietnam, 2010). Pressure of competition put on key services like finance and bank, post and telecommunication, and information technology is even heavier. Thousands of state owned and private enterprises existing under import substitute and protection policies will hardly remain in this competition. Decreased profit, loss, bankruptcy and unemployment - inevitable consequence of the structuring following the commitments to access international organizations, especially WTO, may cause unfocused economic, political and social effects.

When Vietnam join WTO[10], foreign companies may promote their exports to Vietnam, instead of investment, because import substitute polices lose their effects and Vietnam's investment environment is less competitive than other regional countries. Potential opportunity costs imposed by globalization can be a reason for some stake- holders to obstruct Vietnam's integration process. Challenges of integration, however, emerge from not only external environment but also the national economy's weaknesses, requiring all economic institutes to be transformed to adapt to rapid development of trade relations, investment and technology transfer.

4.10. Competition in international market

Vietnamese commodities, when accessing to international market, have to compete with those

[10]The General Council approved Viet Nam's accession package on 7 November 2006. Viet Nam became the WTO's 150th member on 11 January 2007.

from more developed countries. In a backward agricultural economy that is characterized by the exploitation of natural resources, raw materials and non - processed agricultural products are making a large proportion in Vietnam's exports (57% in 2003). A rise in proportion of industrial goods and handicrafts is mainly focused on processed and assembled goods that have low added value due to advantage in low labor cost. High added value exports made up a small proportion. Structure of Vietnam’s key exports does not much differ from those coming from China and ASEAN, but they lack specialty and service that cause low competitiveness due to rapidly increasing cost.

CHAPTER V BASIC POICIES AND RECOMMENDATIONS FOR ECONMIC DEVELOPMENT IN THE FUTURE

The above mentioned analysis proves that it is time for Vietnam to move driving forces of the economy from import substitute, preferential industries, protection mechanism and state owned enterprises to a liberalized competitive environment, a knowledge and high technology based economy while still taking advantages of low labor cost. Vietnam has to rapidly promote competitive advantages through stabilization of macroeconomic environment, modernization of public institutions, enhancement of initiatives, improvement of business environment, and sophistication of enterprises' strategies and operations. These are prerequisite for the promotion of export and attraction of domestic and foreign investment. In order to obtain these goals, the Government of Vietnam should be determined to implement the following policies:

5.1. Set in SOE Reform Program

Following equitization process set in SOE reform program. Equitize large and efficient SOEs. Sell shares widely to enterprises' insiders and outsiders. Speed up the equitization of state corporations in electricity, post and telecommunication, chemical, metallurgy, banking and insurance sectors. Minimize proportion of SOEs in the economy. Accelerate the transformation of SOEs in which the State holds 100% share into one-member limited companies, ensure the real independence and responsibility of these companies. Remove subsidy for SOEs through incentive credit, debt relaxation, debt forgiveness, and loss compensation. Purify corporate finance, settle bad debt and redundant employees. Prevent the transformation from state monopoly into enterprise monopoly. Strengthening the control and regulation of super profit of state corporations that have dominant market shares. Gradually form state agglomerates to avoid SOE monopoly. Minimize the formation of new SOEs. Develop SOEs only in industries and locations that other economic sectors are unable or unwilling to participate in.

5.2. Promote domestic private economy and Improve foreign investment environment

The facts show that this sector has greatest potential for development, acceleration of growth rate, and enhancement of economic efficiency and competitiveness. In order to exploit these potentials, the State should create an equal play-ground for the private sector, remove discrimination against the private economy, especially in market access, land rent, and credit channels, abolish unnecessary permits that are irrelevant with the market economy, settle the irresponsibility of some organizations and individuals that obstruct enterprises' performance, actively implement private enterprise supporting programs, and develop business-support infrastructure and services

Despite great endeavor of the government in recent years, Vietnam' environment for FDI is less attractive than regional countries. In order to raise FDI inflows, Vietnam has to improve its investment environment towards equality, transparency, consistence, foresee ability, attractiveness and competitiveness. Expand investment forms and fields for foreign companies compatible with WTO commitments in market opening. Settle the inconsistence in policy making and implementation, bureaucracy of administration apparatus, remove obstacles for FDI enterprises; adjust the law towards creating an equal playground for all economic sectors but still pursuing commitments in FDI encouragement.

Strictly follow the procedure for information taking from enterprises that are regulated by forthcoming legal documents before issuance, prevent incomplete implementation and negative effects on the business investment environment. In order to improve business environment, create a unified legal framework and playground for all economic sectors and institutionalize Vietnamese commitments to international integration, the Vietnamese Government should issue Competition Law, Unified Enterprise Law applied for all forms of enterprises and Common Investment Law applied for both domestic and foreign investment.

5.3. Promote backward and forward linkages between enterprises though clusters

In order to create high added value based on the reduction of intermediate costs in the value chain (manufacturing and distribution), Vietnam should settle the separation between industries through clusters. A cluster is a group of suppliers, manufactures, distributors, infrastructure and institutions that have interdependent relations in the creation of a product brought to end consumers. Core enterprises in the value chain are usually leading manufactures and distributors that have advantages in production capacity, technological base, investment capital or market relations Clusters in Vietnam can be divided in to three groups: FDI driven, domestic private enterprise driven and SOEs driven. Vietnam should promote FDI and domestic private driven clusters, and at the same time, take advantages of leading SOEs through incentives, not administrative tools like local content requirements. Besides, the state support is very important to raise the capability of Vietnamese suppliers who are mostly small and medium enterprises and to help them establish forward linkage with leading manufacturers and distributors.

5.4. Develop production factor markets

Up to now, the goods and service markets are relatively developed meanwhile production factor markets like capital, real estate, telecommunication, labor, scientific and technological markets are still infant, limiting the accessibility to resources of economic actors. An urgent task of the Government, therefore, is to make policies on pushing dynamic and orderly development of markets. ***Real estate market:*** Implement the Law of Land Meet enterprises' demand on land for business activities. ***Capital market:*** Enhance the capital market through banking system, expand and enhance the efficiency of the security market and other financial tools. Establish the Bank for Social Policies, boost the restructuring and operation innovation of commercial banks to be relevant with market mechanism, create a consistent and transparent legal framework to enhance banks in all economic sectors in business, fair competition, and meeting capital and banking service demand of enterprises and people. Expand the participation of foreign banks in capital and banking service market. Follow pilot equitization plan with the participation of foreign banks for two state owned commercial banks, namely the Bank for Foreign Trade of Vietnam and the Bank for Housing in the Cuu Long River Delta. ***Scientific and technological market:*** Improve institutions of a market economy towards creating an equal business environment, preventing monopoly, reducing protection, and putting competition pressure on enterprises so that they have to innovate technology to raise their competitiveness. Encourage foreign invested companies to invest in technology innovation and transfer. Develop venture capital companies and scientific and technological enterprises participated by foreign partners. Encourage scientific and technological organizations to participate in official transactions in the market.

Innovate operation forms of R&D organizations towards changing from subsidy and administrative management mechanism to market mechanism. Support small and medium enterprises in investment in technology innovation. ***Labor market:*** Enhance the examination of the implementation of the Labor Law, ensure right interest of employees and employers. Promote transactions to create exchange between labor supply and demand. Discourage appointment and recruitment based on relations. Strengthen training for workers, specialists and managers. Boost the state investment in the construction of infrastructure in rural and minority group areas. Encourage domestic private enterprises and foreign investors to offer infrastructure goods and services.

5.5. Maintain macroeconomic stability

Check the capability of state budget revenue in order to collect right and sufficiently for the state budget, prevent fraudulent, tax evasion, generate budget income to compensate budget revenue lost by tariff reduction commitments. Enhance inspection, solve breakdown in budget expenditure. Restrain over- expenditure in a possible limit. Control balance of payment and import surplus. Strengthen the role of the State Bank in money circulation, purify the capital market and control inflation. Set a rational interest rate for VND, prevent from negative effects on development investment. Observe the world market price, ensure the national reserve, actively interfere by appropriate measures to stabilize the market price, deal with speculation in price increase or monopoly linkage for price increase.

5.6. Strengthen the state administration reform

The strengthening of state management capability should be starting from policy making process. Building a powerful database system, using modern quantitative tools and consultation to research into international and domestic environment, forecasting, determination of policy options and selection of optimal policy are essential to have appropriate policies, to ensure feasibility through specific resources towards long run economic development tendency and rational agenda. Knowing experiences of countries that have similar socio-economic conditions is very necessary for Vietnam when determining its own way in a sharply internationalized environment. Besides, participants in policy making process, especially those are directly affected by policies, have to be diversified.

In the current condition, the construction of institutions for enterprises and markets like capital, labor, real estate, science and technology, and service is an urgent task. New laws must be consistent with the reform and integration process. Administration procedures should be further reformed towards simplification of administrative procedures, application of "one-door" mechanism, and concrete and clear regulations on individual responsibilities at work. Enhance the master program in the state administration reform for the period 2001~2010 to build an administration system operating under the principles of jurisdiction, effectiveness, efficiency, transparency, responsibility and participation. Simplify the administration apparatus, increase the state management decentralization, raise the right and responsibility of local authorities, improve working style of administration offices, modernize information system and management tools. Public in formation on Vietnam's economic reform. Develop training for state officials. Reform wages to ensures their lives and raise their responsibilities. Penalize strictly state institutes and officials that break the law and obstruct enterprises. Be determined to fight against corruption. Continue to restructure the state budget and decentralize finance and state budget. Widen the participation of non-state organizations in public services through tendering, develop public service market. Support and encourage non-profitable organizations under the supervision of the State and community. Build a system for supervision, assessment and management of the implementation focusing on outputs, service distribution outcomes and impacts to raise the transparency and responsibilities of administration bodies who are considered as the weakest and most slowly reformed sector and the biggest obstacles to Vietnam's comprehensive reform process. Public response plays a significant role in this system.

CHAPTER VI CONCLUSION

The thesis analyzed deeply new context of the years of Vietnam economic reforming, opening and integrating process since 1986. This thesis has also examined the process of economic reform in Vietnam over the period of 1986 to present, and provided a political, economic and socio-cultural analysis of the growth of the economy. However, although the concentration is on the period immediately following Doi Moi and covering the next two decades, the thesis has also briefly considered what the determinants impact will be on the future economic growth. The majority of existing studies on Doi Moi Policy in Vietnam have involved a focus only on the political and economic factors involved in development of economy and this thesis has presented this as a weakness in the methodologies of the studies. This thesis contends that the cultural environment and unique social network, built upon a foundation of Confucianism, and Soviet style ‘socialization’ has either significantly constrained or facilitated aspects of the impact of political and economic policies underpinning the national strategy for development and inclusion into the global economy.

In order to provide a full analysis, the thesis has relied on eclectic theory, especially with its concern to the local advantages and combined this with support to the collection of quantitative data sources by government officials and economic analysts from both Vietnam and around the world. Data from the Vietnam General Statistics Office (working closely with the Ministry of Planning and Investment) demonstrates the basic tenets and analysis of this research, underpinning the international opinions, applauding the policies and outcomes of the last two decades of economic reform. The original problems with collection of reliable data experienced in the first period of this thesis research is an issue that is being tackled by the Vietnam General Statistics Office and the latest data summaries are an attempt to demonstrate its improvements in effectively provided the vital statistics needed for planning future economic policy reforms. The data also clearly re-enforces many of the major findings of this research.

Basing on those foundations, the thesis shows measures making leaps in reform and global integration which are bridging and connecting Vietnam to the world, attracting sources to Vietnam and taking Vietnam integrated deeply and widely into world economy, pushing up whole country's rapid and sustainable development. Vietnam has witnessed fundamental changes during the years of comprehensive reform towards market and the world economy. High economic growth rate, macroeconomic stability and perspectives, opportunities to gain high profit in business, achievements in poverty reduction are the factors attracting domestic and foreign investment and support of the world community.

The Vietnamese Government has realized the need of further changes to fulfill the task to transform into a market economy, maintain high and stable economic growth rate, and comprehensively integrate into the world economy. Great domestic and foreign direct investment inflows to substitute industries result in the development of less competitive industries while the Government of Vietnam starts to lessen trade barriers following international commitments. Labor-intensives based export oriented policies are losing their effects when wages rise faster than labor productivity. Slow implementation of state owned enterprise reform and slow development of production factor markets have obstructed non-state enterprises' development. Therefore, Vietnam has to be more active when opening to the international market, rapidly transform from import substitute and protection mechanism, preferential industry and state owned enterprises promotion into a highly competitive environment and knowledge and high technology based export while still taking advantages of low labor cost based export activities. The Government plays a great role in this transformation cause. With further strengthening policies on development of enterprises, abolishment of monopoly of state owned enterprises, development of production factor markets, macroeconomic stabilization, acceleration of integration process, and modernization of public sector, Vietnam will gain higher benefit from opportunities in the globalization as well as minimize possible costs and reach the projected goals.

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Acronyms

ADB	Asian Development Bank
AFTA	ASEAN Free Trade Area
ASEAN	Association of Southeast Asian Nations
CIEM	Central Institute for Economic Management
CPI	Consumer Price Index
CPV	Communist Party of Vietnam
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GSO	General Statistics Office
IMF	International Monetary Fund
MPI	Ministry of Planning and Investment
PFM	Public Finance Management
PPC	Provincial People Committee
ODA	Official Development Assistance
SCIC	State Capital Investment Corporation
SEDP	Socio-Economic Development Plan
SNA	System of National Accounts
SOE	State-Owned Enterprise
VCCI	Vietnam Chamber of Commerce and Industry
VDR	Vietnam Development Report
VND	Vietnam Dong
WTO	World Trade Organization

저작물 이용 허락서

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	(영문) A STUDY ON ECONOMIC DEVELOPMENT OF VIETNAM SINCE ECONOMIC REFORM IN 1986				

본인이 저작한 위의 저작물에 대하여 다음과 같은 조건 아래 조선대학교가 저작물을 이용할 수 있도록 허락하고 동의합니다.

1. 저작물의 DB 구축과 인터넷을 포함한 정보통신망에의 공개를 위한 저작물의 복제, 기억장체에의 저장, 전송 등 을 허락함.
2. 위의 목적을 위하여 필요한 범위 내에서의 편집과 형식상의 변경을 허락함.
   다만, 저작물의 내용변경을 금지함.
3. 배포, 전송된 저작물의 영리적 목적을 위한 복제, 저장, 전송 등을 금지함.
4. 저작물에 대한 이용기간은 5년으로 하고, 기간 종료 3개월 이내에 별도의 의사 표시가 없을 경우에는 저작물의 이용기간을 계속 연장함.
5. 해당 저작물의 저작권을 타인에게 양도하거나 또는 출판 허락을 하였을 경우 1개월 이내에 소속대학에 통보함.
6. 조선대학교는 저작물 이용의 허락 이후 해당 저작물로 인하여 발생하는 타인에 의한 권리 침해에 대하여 일체의 법적 책임을 지지 않음.
7. 소속대학의 협정기관에 저작물의 제공 및 인터넷 등 정보통신망을 이용한 저작물의 전송, 출력을 허락함.

동의여부 : 동의 (O) 반대 ( )

2013년 12월 일

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