Vietnam - An Asian Developing Country in Transition

Case Study

Australia - government education resource

Introduction

Vietnam is a country in transition. Its economy is undergoing rapid change as it moves away from non-market socialism to a market economy with a socialist orientation. Meanwhile, politically, it remains a communist state governed by one party - the Communist Party of Vietnam. Vietnam is the 12th most densely populated country in the world with a population of more than 78 million people, and land area of 325,000 sq. km. It is made up of a long narrow landmass bordering Cambodia, Laos and China, with the whole of its east coast located on the South China Sea.

Vietnam is a country with vast natural wealth, rich in mineral resources and with significant human resource potential. With much of the population still depending on subsistence farming, Vietnam has a GNP per head of only $US 300 per year and is classified as one of the poorest countries in the world.

Recent Economic Development

From agriculture to industry

Economic reforms are transforming Vietnam from an agricultural economy to an industrial and services economy. As the data below shows, agriculture's share of total output has decreased markedly while output in the industrial and services sectors has increased. Given this shift you would expect increased migration to towns and cities, however, this has not been the experience in Vietnam, and it remains a predominantly rural society with much of the population living in rural areas.

<table>
<thead>
<tr>
<th>Sector</th>
<th>%GDP 1990</th>
<th>%GDP 1994</th>
<th>%GDP 1997</th>
<th>%GDP 1999</th>
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</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>41</td>
<td>29</td>
<td>26</td>
<td>25.8</td>
</tr>
<tr>
<td>Industrial</td>
<td>23</td>
<td>30</td>
<td>31</td>
<td>33.5</td>
</tr>
<tr>
<td>Services</td>
<td>36</td>
<td>42</td>
<td>43</td>
<td>40.7</td>
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</table>

Agriculture is focused on farming rice, coffee, cashews, corn, potatoes,
rubber, soybeans, tea, marine products, while clothing and footwear, electronics, computers and parts are key growth industries. The services sector is concentrated on tourism.

**De-Collectivisation of Land**

The sale of land is not permitted in Vietnam with the state retaining all land ownership. Economic reforms, however, have led to household farming replacing collective farming, with land rights guaranteed for twenty years on cropland and fifty years on forestland. While farmers cannot own land, they have the right to use, inherit and rent out land, as well as use it as collateral.

**State-Owned Enterprises (SOEs)**

The growing industrial and services sectors are dominated by SOEs, while agriculture is predominantly small scale private sector. While the shift to a market system is happening, a significant degree of state ownership of enterprises exists which thwarts increased competition with the private sector. One way of increasing economic efficiency is ongoing microeconomic reforms with an emphasis on increasing the privatisation of SOEs.

All SOEs now determine their own production inputs and outputs and are fully responsible for self-financing and accounting. Even with these changes the Government has stated that SOEs will predominate for the foreseeable future, and that it will retain complete ownership over large enterprises, with the remainder converted into share holding companies. In March 1999 Vietnam's Prime Minister announced that it was essential to merge large SOEs into conglomerates capable of competing globally.

**Economic Growth**

Vietnam's economy has experienced very strong growth over the past decade with GDP averaging 7.5%, even though growth in the last few years has not been quite so high. However, first quarter growth in 2000 has strengthened to 5.6%, with 5.3% forecast for the year.

**Real GDP Growth (%)**

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</thead>
<tbody>
<tr>
<td></td>
<td>5.1</td>
<td>6.0</td>
<td>8.6</td>
<td>8.1</td>
<td>8.8</td>
<td>9.5</td>
<td>9.3</td>
<td>8.8</td>
<td>5.8</td>
<td>4.8</td>
<td>5.6</td>
</tr>
</tbody>
</table>

A number of factors account for this economic slow down towards the end of
the decade:

- The slow pace of economic reforms
- Inefficiencies in some areas, such as SOEs and banking
- Decreased domestic demand/consumption
- Decreased investment/foreign investment
- Decreased industrial output
- The impact of the East Asian financial crisis

Some of the factors contributing to stronger economic growth in 2000 are:

- Strong world economic growth
- Recovery in the Asian region
- Improving manufacture and commodity prices
- Rapid growth in Vietnam's industrial sector, especially the non-state sector

A Program of Action

In order to hasten economic growth and reduce poverty, Vietnam's Government has outlined a seven-fold 'Program of Action' as an extension of the Doi Moi reforms. The measures are to:

- Improve the competitiveness and efficiency of the economy
- Reform the state enterprise sector and develop the private sector
- Strengthen the financial sector
- Develop the rural sector and reduce poverty
- Invest in human resources and protect the environment
- Improve public administration, transparency and participation
- Raise productivity through infrastructure investment.

Poverty

As a non-market socialist system, Vietnam had a relatively egalitarian economy at a low level of income. The transition to a market economy has meant a more uneven degree of income and wealth in Vietnam as not all regions and sectors of the economy have had the same opportunities. This has led to a widening gap between the rich and poor, with urban areas faring better than rural areas.

Further economic growth is seen as the main way of alleviating poverty. The following table looks at economic growth and how it may affect five key causes of poverty, with suitable policies put into action.
<table>
<thead>
<tr>
<th>Poverty issue</th>
<th>Economic growth</th>
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<tbody>
<tr>
<td><em>Isolation</em> - geographically, linguistically, socially and intellectually</td>
<td>Can lead to better education, communication systems and transport infrastructure</td>
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<td><em>An inability to manage risks</em> - such as from typhoons, flooding, pests, illness, unplanned births and price fluctuations</td>
<td>Can lead to money invested in health centres, education, savings, disaster preparation and a more stable economy</td>
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<tr>
<td><em>A lack of available resources</em> - particularly land, credit, technology and useful information</td>
<td>Can lead to more efficient resource allocation among vulnerable groups and provides for greater access to services</td>
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<td><em>Inadequate participation in the planning and implementation of government programs</em></td>
<td>Can lead to increased education and, as people are less worried about basic survival, more time can be invested participating in government programs</td>
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<tr>
<td><em>A lack of sustainability</em> - both financial and environmental</td>
<td>Can lead to an increased focus on sustainable activities as people are less worried about basics</td>
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**International Trade**

Previously, as a non-market socialist economy, Vietnam's major trading partners were largely the East European member countries of the Council for Mutual Economic Aid (Comecon), with the ex-Soviet Union being the most important. With the collapse of communism and the Soviet Trade Bloc, Vietnam needed new trading partners.

The more open (liberalised) trade that has occurred in Vietnam's decentralised market economy is a result of extensive trade reforms. Since the mid-1980s, rapid increases in the volume of external trade, and success in attracting large amounts of external resources have helped Vietnam become part of the global economy.

In becoming an open economy global competitiveness required:

- Flexible exchange rate regime
- Lower tariffs
- Decreased quantitative restrictions, and
- Decreased export controls.
The result has been a rapid growth in the export sector and increased openness to foreign investment (FI). However, Vietnam relies heavily on foreign investment and foreign aid. A high percentage of FI in Vietnam goes to joint ventures, typically with SOEs. Foreign investment is concentrated in the textile, clothing and footwear industries and the hotel services sector. Because of the high level of bureaucratic and regulatory impediments involved in channeling FI into the private sector.

Vietnam's Government has been slow to implement microeconomic reforms to increase competition in the export sector, and export growth has been highly dependent on agricultural exports. The industrial and service sectors will be of increasing importance.

Vietnam's main exports are: rice, corn, potatoes, cashews, tea, crude oil, marine products, rubber, soybeans, coffee, garments, shoes, electronics, computers and parts.
Vietnam's main imports are: machinery and equipment, petroleum products, fertiliser, steel products, motorbikes and cars.

Vietnam is a member of the Association of South East Asian Nations -ASEAN (1995) and Asia Pacific Economic Co-operation-APEC (1998) and is considering joining the World Trade Organisation (WTO). The recent trade agreement with the United States is seen by some as an important first step in WTO accession. Some of the benefits for Vietnam may be:

Increased economic growth
The expansion of agricultural processing and light manufacturing sectors
Increased income earning opportunities
Increased food output and increased food security.
The access to, and importation of new technologies from more advanced economies is also a major benefit of WTO membership.

Australian Aid

As a prosperous country with modern technology and a strong national interest in the stability and development of Vietnam, and the region, Australia has good reason to continue fostering and developing a strong bilateral relationship that already exists. Australia is one of Vietnam's largest aid donors, and will provide $73.2 million assistance in 2000-2001. Australia's aid program to Vietnam has three main objectives:

1. **improve the livelihoods of the poor through support for better rural services, including health and infrastructure**

   Australian assistance will be focussed on water supply and sanitation, flood
control, rural infrastructure and services, and agriculture. The My Thuan Bridge, opened in May 2000 has been jointly funded by the Government of Vietnam and the Government of Australia, and has been one of Vietnam's highest priority national infrastructure projects. This bridge opens up transport access to a major export area in the Mekong Delta region and links this major rice growing area to Ho Chi Minh City.

Australia's support for better health services has helped improve health and safety for the Vietnamese people. The health sector remains a priority area, specifically projects to prevent malaria and dengue fever, and the provision of primary health care for women and children in four provinces.

![Total aid flows to Vietnam](image)

- **improve the capacity for medium to long term development through human resource development**

People are Vietnam's most abundant resource and therefore investing in them is crucial to economic growth and development. Education has a positive correlation with the level of economic growth, and so Australia assists in this area with the provision of education and training. At present around 550 Australian Government sponsored Vietnamese scholarship students are studying at tertiary institutions in Australia. Australia also provides in-country English language training and short course technical training for government officials.

2. **support the Government of Vietnam's reform program by increasing the effectiveness and accountability of government, including through capacity building, systems development and policy advice**
As Vietnam continues to develop its market-oriented economy and participates in global trade, effective governance is important. This involves assisting the banking, legal and accountancy sectors to meet international standards so that public and private sector development occurs. It also encourages the Government of Vietnam to be more efficient, accountable and transparent.

Some of Australia's activities in this area include:
* Training courses in international law
* State Owned Enterprise privatisation and audit (pilot programs)
* Support for enhancing research skills in public policy and international human rights law at the Ho Chi Minh National Political Academy in Hanoi
* Enhancing the capacity of the Government of Vietnam in monitoring and evaluation of aid programs.

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