

# Economic Development and Challenges for Asian Traditional Economies (Vietnam's Case)

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The most impressive socio-economic development results have so far come from the more fundamental *doimoi* reforms in the early 1990s. Growth in the agricultural and other rural sectors throughout the 1990s fueled by such fundamental reforms has had by far the greatest impact on poverty reduction to date, and was clearly the main reason for the dramatic reduction in poverty rates. New data point out some possible setbacks, widening gaps in human well-being and a number of emerging challenges toward the achievement of other goals. Recent data and analysis also highlight some potentially serious emerging risks to the sustainability of Viet Nam's development process. Challenges are emerging on the economic and financial front, as well as in the social and environmental area.

**Keyword** : economic development, *doimoi*, emerging challenges

## ベトナムにおける経済問題

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ベトナムの社会経済開発計画であるドイモイを通じて、貧困は大きく減少した。しかしながら民衆間の格差は拡大し、この格差がドイモイの目標達成に障害となりつつある。また安定に対する潜在的で重要なリスクも存在しており、社会や環境の分野と同時に、経済や金融の分野においてもこの種の障害が顕在化しつつある。

キーワード：経済発展，ドイモイ，顕在化した障害

## 1. OVERVIEW

Viet Nam's impressive progress toward the achievement of socio-economic development goals up to 2010 and 2020 continues as confirmed by a new set of data surveys.

Although the development rate has been rather high over the last 10 years, Viet Nam' GDP scale is below 40 billions USD, still less than the turnover of

many multinational companies. Viet Nam's GDP per person is at some 482 USD and GDP per day at over 1.3 USD. That rate is higher than the poverty border as earlier measured but only at 65% the new standard of poverty border. At some 2,200 USD, purchasing power is below the 13th in the world and at 60% the average purchasing power in the region. Therefore, while the economic size is still small, sustainability and high developing speed is the right

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GDP STRUCTURE AND THE SPEED OF DEVELOPMENT (%)								
Year	The speed of Development (As at comparing price)				Structure (As at the real price)			
	Total	Agriculture- forestry- Water Products	Industry- Construction	Service	Total	Agriculture- forestry- Water Products	Industry- Construction	Service
1990	5.09	1.00	2.27	10.19	100.000	38.74	22.67	38.59
1991	5.81	2.18	7.71	7.38	100.000	40.49	23.79	35.72
1992	8.70	6.88	12.79	7.58	100.000	33.94	27.26	38.80
1993	8.08	3.28	12.62	8.64	100.000	29.87	28.90	41.23
1994	8.83	3.37	13.39	9.56	100.000	27.43	28.87	43.70
1995	9.54	4.80	13.60	9.83	100.000	27.18	28.76	44.06
1996	9.34	4.40	14.46	8.80	100.000	27.76	29.73	42.51
1997	8.15	4.33	12.62	7.14	100.000	27.77	32.08	42.15
1998	5.76	3.53	8.33	5.08	100.000	25.78	32.49	41.73
1999	4.77	5.23	7.68	2.25	100.000	25.43	34.49	40.08
2000	6.79	4.63	10.07	5.32	100.000	24.53	36.73	38.74
2001	6.89	2.98	10.39	6.10	100.000	23.25	38.12	38.63
2002	7.04	4.06	9.44	6.54	100.000	22.99	38.55	38.46
2003	7.24	3.20	10.34	6.57	100.000	21.80	39.97	38.23

Source: Annual Statistics 2003

way to prevent the economic out-of-date in comparing to countries in the region and in the world.

Especially notable, poverty has been more than halved since 1990 and continues to decline. On the environmental front, access to clean water has been further widened, as has forest cover. The area of effective governance is a potentially significant step to achieve all of the socio-economic development goals.

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*Doimoi* has successfully expanded people's choices, further liberalized their creativity and generated a substantial increase in domestic incomes and budgetary resources needed to support the related

socio-economic achievements and progress toward development goals up to 2010 and 2020.

## 2. SOME SETBACKS AND EMERGING CHALLENGES

New data point out some possible setbacks, widening gaps in human well-being and a number of emerging challenges toward the achievement of other goals. Particularly notable, following steady improvements during 1993-1998, food poverty and hunger among the poorest of the poor, mainly ethnic minorities, appears to have worsened in most regions of the country over the past 4 years. That point to some serious shortfalls and gaps in the inclusiveness of the country's development process.

### *Widening disparities in Human well-being*

Most recent data indicate that a range of socio-economic disparities now is considerable wider than earlier estimated. Various calculations of consumption and income inequality as measured by the country's Gini coefficient point to a widening gap between

richer and poorer, particularly between urban and rural areas, the latter being where the vast majority of Vietnamese people live and work. Notably, the Gini coefficient measured in consumption expenditure terms has risen further to some 0.37 in 2002, up from 0.35 in 1998 and 0.33 in 1993. Measured in terms of income, the Gini coefficient has risen to around 0.42, close to the same order as China's income-based Gini coefficient, but at a much lower level of income per capital in the case of Viet Nam. Equally noteworthy, in terms of non-food expenditures, the Gini coefficient has risen to some 0.49, reflecting much greater inequality. For example, Vietnamese people living in provinces like Son La, Bac Can or Gia Lai have a more than 40% likelihood of suffering from food poverty and hunger throughout part of the year.

Available data on infant mortality and maternal mortality rates also reflect wide disparities in basic health conditions across the country. The likelihood of dying before one's first birthday is at least 8 times higher if one is born in a province like Kon Tum in the Central Highlands compared to an urban area like HCM City.

Wide disparities and gaps in human well-being also persist in other areas like child nutrition, maternal health and access to clean water, despite significant progress in most of these indicators at the national level.

In general, the slower rate of overall poverty reduction over the past 4 years compared with the 1993-1998 period highlights the challenge of trying to reach many of the remaining poor, especially the poorest of the poor, who are often in the most remote parts of the country.

### ***Quantitative achievements mask Qualitative weaknesses.***

A number of quantitative achievements continue to mask significant shortcomings in quality. For example, primary school pupils spend less than half the normal school day in class compared with many other countries in the region and elsewhere.

Although primary school enrolment rates are quite high, some 23% of pupils still fail to complete to grade 5. Similarly, in the health sector, a substantial share of staff in commune health centers lack adequate training and equipment for treating patients. In the environmental area, forest cover continues to expand, but the underlying quality of the new forest cover appears to be on the decline because of the introduction of non-native floral species and the associated loss of biodiversity.

### ***Persistent gender gaps.***

Significant gender gaps also persist in some important areas. While women's participation in legislative bodies is high, executive decision-making bodies in Viet Nam count among their members a much lower share of women. The share of female participation on representative bodies is relatively high-27%. However, the new Cabinet includes only 3 women out of 30 members. Similarly, women's representation on People's Councils is in the order of 20% on average at the provincial, district and commune levels. In contrast, however, female representation on the important People's Committees at the provincial, district and commune levels is substantially lower in the order of only 5%. Therefore, more targeted implementation of public administration reforms also appear urgent to redress such imbalances and ensure that women are also part of the decision making process in such executive decision making bodies.

## **3. EMERGING RISKS TO SUSTAINABILITY**

Recent data and analysis also highlight some potentially serious emerging risks to the sustainability of Viet Nam's development process. Challenges are emerging on the economic and financial front, as well as in the social and environmental area.

### ***Economic and Financial Sustainability***

Quality economic growth will be essential for

generating the needed resources and finance in a sustainable progress towards the achievement of development goals. In this context, one particularly worrisome recent finding discerned from available data and analysis is that the country's resources have been shifting increasingly towards inefficient high cost, low return investments rather than towards more efficient low cost, high return investments. As a consequence, every year passing seems to require a disproportionately higher value of financial investment to generate a given level of growth in Viet Nam. This is clearly not sustainable and is potentially destabilizing over the longer term, judging from the painful experiences of so many other developing countries over the past forty years. Therefore, the underlying quality of growth being generated in recent years warrants a careful review by policy makers and decision takers.

Especially notable, of the three major types of investment, public investment, foreign direct investment and domestic private investment, the latter appears to be generating by far the highest returns in terms of new jobs, poverty reduction and reducing inequalities. Since domestic private investment is also the largest potential source of future investment for Viet Nam, and tends to be more widely spread throughout the country, it offers by far the greatest scope for generating the incomes, tax base and sustainable finance needed to underpin the achievement of the development goals in a sustainable manner, including much more balanced and equitable growth and development across the country.

Available data and analysis also suggest that there is an urgent need for a much more deliberate policy shift to free up resources, particularly from state owned banks and state owned enterprises, for lower capital intensive, higher job creating industries in agricultural processing, garments, shoes and light manufacturing, not more cement, steel, fertilizers and sugar which can be imported much more cheaply than Viet Nam is currently producing. Similarly, the

real value of some large show case public sector projects appears to need more careful review in terms of their contribution to the sustainable well being of Viet Nam and the Vietnamese people.

### ***Safeguarding Social Sustainability***

Ensuring longer-term social sustainability will call for maintaining reasonable balance and equity across different regions and different social groups, while reversing a number of widening socio-economic disparities that have emerged in recent years. Socio-economic disparities are particularly acute between urban areas and rural areas. The labor forces is growing annually by some 1.2 million new young entrants mainly in rural areas, and underemployment is already high and rising as available farm land cannot effectively absorb more labor. Recent data indicate that underemployment in rural areas has reached 56% in 2002 (MOLISA 2003), particularly worrisome given the expected continued rapid growth in new young entrants to the labor force over the next five to ten years.

Therefore, arresting and reserving growing socio-economic disparities will require much greater attention to the development of rural areas, and further improving the local enabling environment for domestic private investment and domestic private business. This will be needed to generate meaningful employment for Viet Nam's rapid growing young labor force and ensure that migration to urban areas remains manageable.

### ***Social Gaps and the Migrant Poor.***

The social implications of growing migration to urban and industrializing areas is one of the biggest development challenges facing urban areas like HCM City and Ha Noi, and the more rapidly growing provinces like Binh Duong. Official projections based on current trends suggest that by 2020, only 45% of the country's population will live in rural areas well down from more than 75% today, implying substantial migration over the coming years and a national

transition to more rapid urbanization.

While much better and more timely data needs to be collected in this area, all available evidence indicates that most internal migration in recent years has been driven by the desire to escape poverty and the pursuit of a better life. In this context, the plight of internal migrant workers and their families is in need of much greater attention by various levels of government and the private companies that attract and benefit from migrant workers.

Many migrants typically lose access to basic social services when they leave their home province because of lack of residency permits. Provinces like Binh Duong that attract large numbers of migrant workers find local capacities over stretched in basic housing, health services, education and other public services. Increased crime and security have also become a significant concern of local governments, especially where migrants remain unemployed for extended periods of time. The environmental impact including deforestation in provinces like Binh Phuoc has also been substantial in some areas.

Therefore, creative and equitable solutions are needed to address these transitional challenges by both government and private companies. Inter-provincial transfers need to better take into account this growing challenge. Allowing those provinces experiencing substantial inflows of migrants to retain a larger share of taxes collected in their respective provinces would help ease the burden faced by local governments for providing adequate housing and basic social services, including basic health and education for migrant children. Similarly, allowing private companies tax breaks or other incentives for building quality migrant housing, and contributing to improved social services for migrant families would further help. Migrant workers building houses should be awarded residential certificates and their children allowed to join the public education system even before such certificates are issued.

### *The Evolving HIV/AIDS Treat*

Increasingly worrisome is the evolution and pattern of HIV/AIDS in Viet Nam which points to a potentially explosive challenge ahead that could also threaten socio-economic sustainability. While the officially reported infection rate may appear low at 0.28%, HIV/AIDS is spreading rapidly with reported infections so far this year heading towards a 25% growth rate for 2003. All 61 provinces and urban areas are now reporting cases of HIV/AIDS in contrast to only a few years ago when infections were largely confined to the major urban areas and a small number of border and tourist areas. Moreover, since 1999, over 40% of new infections have been reported in the 15-24 age groups, well up from just over 10% in 1994. All of this points to the rapid infiltration of HIV/AIDS into the general population, with potentially major repercussions for increased human suffering and a rising risk to socio-economic sustainability unless more broad based urgent actions are soon taken.

### *Environmental Treasure Chest Threatened*

On the environmental front, the threats to Viet Nam's environmental treasure chest are of continued concern. Forest cover is expanding, but its quality is reportedly weak. The number of rare and endangered species has risen from 721 to 857 in recent years. Rapid urbanization and industrial pollution threaten the quality of air and water in urban areas. Therefore, integrating environmental sustainability criteria and measures much more effectively into investment planning has become critical. Greater transparency and public debate on major projects, and the involvement in the decision making process of local communities impacted by such projects, would help better ensure that important environmental considerations are factored into the investment decision making process. In this context, there will also be a growing need for the effective planning of secondary cities to accommodate rapid urbanization and pressures on the environment.

### *Minimizing Corruption*

All of the country's senior leaders have raised serious concerns about growing corruption. In this context, infrastructure projects experience 30% losses due to waste and "administrative inefficiency" are of particular concern. The best safeguards here are increased transparency, reduced bureaucracy, open public debate and effective rule of law from the central to the local levels. Independent and reliable auditing capacity to support the oversight role of the National Assembly and People's Councils combined with a greater role of the local media in reporting on corruption and encouraging accountability would also appear urgently needed. Such safeguards would also help better ensure that state directed investments, including from the now very large Development Assistance Fund (DAF), are most effective in terms of sustainability and stability.

On a related issue, developing Viet Nam's domestic private business sector will be essential to achieving and sustaining most of Viet Nam's socio-economic development goals. However, as the private sector develops, Viet Nam will need to avoid the same grave mistakes made in a number of other developing countries where the interests of the State and private sectors, at both the institutional and individual levels, became so blurred that they ultimately corrupted and destabilized development. Public administration reforms that provide adequate salaries through performance-based remuneration, combined with the other aforementioned safeguards, would greatly help in minimizing this risk.