ECONOMIC GROWTH OF VIETNAM IN 2011-2013

NGO VAN VU *

Abstract: Economic growth was one of the No.1 objectives of the 11th National Congress of the Communist Party of Vietnam and in Vietnam's 2011-2015 5-year socio-economic development plan. In the years of 2011-2013, there recorded positive signs of Vietnam's economic growth, but at the same time, there were negative ones. This article is an effort to review Vietnam's economic growth in the 2011-2013 period, from which the authors want to recommend some solutions for stimulating the economy.

Key words: Economic growth, 5-year plan, economic development, economic forecasts.

1. Positive and negative aspects of Vietnam's economic growth

The set target of the 2011-2015 5-year plan was to gain and sustain an average growth rate of 7 – 7.5% (which was then adjusted by the National Assembly down to 6.5 – 7%). Though this target was lower than that of the previous 5-year plan (7.5 – 8%), the actual growth rate of the economy in 2011 – 2013 was not achieved.

In fact, the growth rate of the economy has been going down since 2011, which was 6.42% in 2010; 6.24% in 2012 and 5.4% in 2013.

On average, the growth rate of the economy in 2011 – 2013 was 5.6%/year, which was much lower than the planned target, and also lower than the average growth rate of the 2001-2010 period (6.32%).

It could be said that the growth rate of Vietnam economy in 2011-2013 was the lowest ever for over the past 13 years. While this decreasing tendency of Vietnam's economic growth remained in Vietnam, there recorded considerable positive changes in the economies of the ASEAN region.

The growth rate of the industry-construction sector went down faster and much lower than the planned one. Many acute problems arisen from the economy were not well solved, such as high interest rates, difficulties in capital accession, high ratios of bad debts and inventory, limited market access, and frozen real estate market in the country. These were the main reasons to stagnation and/or shrink in many industrial and construction enterprises, even bankruptcy. According to an assessment made by the Ministry of Planning and Investment, in 2012, there were 56,214 enterprises that went bankrupt or had to shrink their operation or temporarily be halted. Of these, there were even foreign direct investment (FDI) companies. Bankruptcy cases were seen largely in the fields of finance, banking, real estate and construction material production. In the meantime, there were only a few cases of newly-registered and re-registered companies.

Despite that Vietnam could not achieve the planned targets, there recorded some positive aspects of Vietnam's economic

(*) Ph.D., Vietnam Social Sciences Review.

growth in 2011-2013:

- Gross domestic product (GDP) per capita, by real exchange rate, was higher than the set target (which was 1,960 USD per person in 2013).

- The highest growth rate was recorded to be in the services sector (which was 6.34%); and the growth rates of the agriculture-forestry-fishery sector and industrial-construction sector were 3% and 5.7%, respectively.

- Investment capital for economic growth was recorded to be less than in the earlier periods. From 2011 to present, the demand for investment capital was less than that of 2006 -2010. The ratio of investment capital to GDP in 2006-2010 was 39.2% on average while in 2011-2013, it was 31.1%, much lower than the estimated one.

- The growth rate was achieved in condition of lower rate of credit outstanding balance (which was 11% as against 33% of the 2006-2010 period).

- The export sector made an important contribution to Vietnam's economy, with a much higher growth rate than the general growth rate of the economy, and became the driving force of the economy.

2. Factors affecting Vietnam's economy

2.1. Downturn in world economy

As of late 2013, that is, 5 years after the global financial crisis, the recovery of the world economy was still slow, unstable and risky. According to assessments made by the World Bank (WB), International Monetary Fund (IMF) the Organization for Economic Cooperation and Development (OECD), the world economy kept decreasing, the growth rate of which was only 2.9% in 2013, that is, 0.3% lower than that of 2012 (3.2%); 1% lower than that of 2011 (3.9%) and 2.3% lower than that of 2010 (5.2%).

The growth rate of the *developed economies* was low, which was 1.2% in 2013 on average, lower than that of 1.5% in 2012, 1.7% in 2011 and 3% in 2010. There recorded positive signs from the United States economy but its growth rate was still a decrease, from 2.8% in 2012 to 1.6% in 2013. In Japan, the application of a loosened monetary policy by the government of Japan on a large scale resulted in positive changes in the economy, with a growth rate of 2%. In the meantime, the picture of European Union (EU) economy was gloomy, the growth rate of which was down from 0.3% in 2012 to 0.0% in 2013. Germany, the leading economy in EU and the locomotive of the Eurozone, was not an exception; its growth rate was only 0.5% in 2013, lower than the 0.9% growth rate of 2012. In the meantime, the growth rate of French economy was recorded to be 0.2%, higher than 0.0% of 2012. Gradual positive changes were seen in Spanish economy since economic recession, with a growth rate of 1.3% in 2013 and 1.6% in 2010.

Decreases were also seen in the *developing economies*. GDP growth rate of developing countries went down sharply, from 7.5% in 2010 to 4.5% on average in 2013. China's GDP growth rate was 7.6% - the lowest ever for over the past 15 years, as the result of the policies carried out by Chinese government to brake or to control the measures for economic stimulation for the purpose of financial stability and supply – demand balance. Difficulties were seen in the Indian economy, the growth rate of which was slowing-down, only at 3.8% in 2013, much lower than the 6.3% rate of 2011.

Southeast Asian countries continued to be the driving force of the global economy. According to the Asian Development Bank (ADB), Southeast Asian economies were on the way to be an important part of the global trade and production chains. In 2013, Southeast Asian economies grew by 5.5% on average. The growth rate of Latin American economies went down under the impact of economic slowdown in China, as this is one of the biggest export markets for Latin America. In 2012 and 2013, the Latin American economy grew by only 2.9% and 2.7% respectively, which was far lower than that of 2011 (4.5%).

Decreases in the global trade were seen clearly in 2012. While the average growth rate of the global trade in 10 years, from 2001 to 2011, was 6%/year, in 2012, it was just about 4%. The world economic downturn did create large impacts on the economies in the world, including Vietnam's.

2.2. Inconsistencies in economic development strategy

Vietnam is pursuing a market economy with socialist orientations. Renovation (*Doi Moi*) started since the 6th National Party Congress (1986), but till present, a strategic thinking of economic development has not yet been consistent. Theoretically, a number of issues have been arisen, which need to be solved, including the rights to ownership, management of national resources and people's properties. Inconsistencies in economic development thinking could be seen in some strategies and plans of sectoral development and regional development, which were impractical, of no clear roadmaps and a national vision. Many of the policies were general and/or multi-purposed, such as the policy on development of a "*driving motive*" zone, or development of key economic regions. Management mechanisms were not really open, transparent and effective.

2.3. Limited quality of human resource

Labour force is an important factor to create important contributions to economic development of Vietnam, which possesses a large population with a young structure, and is now entering the "demographic dividend" structure. At present, the population of Vietnam is about 90 million people, of them 50.48% are female, and 66.35% are working-age population (approximately 57.08 million persons). The growth rate of the labour force is nearly twice than the population growth rate (2.12% against 1.1%). In the years of the 2011-2015 socio-economic development plan, the labour force of Vietnam kept growing, with more than 1.2 million persons joining in the labour force in 2012, that is, up by 2.2% as against 2011. The contribution made by the labour force to GDP in 1991-2000 was 28.6%, while that of 2001-2012 was only 21.3%.

In spite of certain improvements in labour quality, the rate of trained and high-quality labour in Vietnam is still low; and the gap of labour quality between urban and rural areas has been widening. The rate of trained labour was, respectively, 43% in 2011, 46% in 2012 and 49% in 2013. Provided that Vietnam is pursuing an indepth economic development model on the basis of capital efficiency and labour quality, improvement of trained labour will be a decisive factor.

2.4. TFP contribution to GDP is low

Total Factor Productivity (TFP) did not contribute much to the growth of Vietnam economy, which even tended to decrease in the 2001- 2012 period. In 1991- 2000, TFP contribution to GDP was 36.7%. Yet in 2001-2012, it was only 26%. In general, TFP contribution to Vietnam's GDP was much lower than the rate of 35-40% in some countries and territories in the region, which was, specifically, 32.2% in South Korea, 35% in Taiwan, 28% in Indonesia and 36% in Thailand. Labour productivity in Vietnam was low, compared with other countries in the world because of low technological level and limited management capacity, while production is heavily dependent on natural resources, especially in agricultural production.

3. Solutions for strengthening economic growth of Vietnam

Assessments made by some economic research institutions in the world showed that in spite of difficulties, the world economy in 2014 will be recovered, with an estimated GDP growth rate of 3.6%, which is 0.7% higher than that of 2013 (2.9%). This will be mainly owing to economic recoveries in the developed countries, especially European and American economies, as exports and investments world-wide will be promoted. According to a world economic outlook report made by Conference Board – a leading research institution in the United States, the world economy will be recovered despite of China's economic slowdown. The 3 large economic centers in the world, namely the United States, the EU and Japan, will be all recovered, which will create spill-over effects on other economies in the world. Accordingly, the developing and emerging economies will expectedly gain higher growth rates as a result of increasing demands from the developed economies. Tensions in international finance are now decreasing and a new global economic cycle with increasing tendencies will facilitate the growth of many emerging economies in the world.

The network or connections in international economics, especially economic connections in Asia in general and ASEAN in particular, will undergo deep changes toward cooperation and competition through free trade agreements (FTAs). The 21st Asia-Pacific Economic Cooperation (APEC) Summit in Bali (Indonesia) in October 2013 was considered to be the "catalyst" to strengthen trade cooperation in the region and in the world, creating strong leverages for the world economy.

The recovery of the world economy has been contributing to facilitate the economy of countries and regions. In Vietnam, there recorded positive signs of macro-economic stability, though the growth rate was still low.

In order to achieve the growth objectives of the two concluding years of the 2011-2015 Plan, it is suggested that Vietnam needs to well carry out the following solutions:

The first is to continue innovation in economic thinking

For nearly 30 years of Renovation (*Doi*

Moi), Vietnam has removed the centrally-planned economic mechanism and shifted to the socialist-oriented market economy and international integration. However at present, Vietnam is facing many difficulties and/or obstacles created by the old ways of thinking, which are still influencing the people's thinking. They are for example, the issues of ownership, economic components, or the roles of State economy and state-owned enterprises, which have not yet been clarified and reached consensus. As a consequence, bottle-necks in development become more serious and more difficult to be solved. In practice, for many years, a fair competition environment has not yet been created for all the economic entities. The enactment of the Enterprise Law (2005) and the Investment Law (2005) were aimed at creating a fair legal environment for business and investment of the economic entities in the country, yet after 8 years of enforcement, discriminations among different types of enterprises remained.

Therefore, critical changes in thinking, in mindset and vision must be made to create favorable conditions for effective realization of three core strategic contents of the 2011-2020 Strategy, including: i) completion of the mechanism of market economy with socialist orientations; ii) development of human resource; and iii) development of a synchronous infrastructure system. The realization of these three strategic contents will have strong impacts to change the socio-economic situation of the country as good as expected.

The second is to speed up economic restructuring toward enhancing quality and efficiency, plus with a shift in growth model.

Following the Resolutions of the 3rd Meeting of the Party Central Committee (Congress XI), priorities must be given to three important fields, including: i) investment restructuring, with focus on public investment; ii) restructuring of state-owned enterprises, with focus on restructuring of state groups and corporations; iii) financial restructuring, with focus on the system of commercial banks. For these, effective measures must be carried out for stimulating demand in the economy.

For investment restructuring, the Law on Public Investment must be completed soon. The government has demanded the ministries, sectors and provinces to implement investment plans effectively, solving the problems of investment dispersion and waste, and at the same time to enhance management, supervision and inspection work. The Ministry of Planning and Investment must consider giving priority to urgent and key projects, providing counter-part capital to official development assistance (ODA) projects, capital for site clearance, and to new rural development projects, from State budget or government bill sources.

On restructuring of state-owned enterprises (SOE reform), once the Plan of SOE Restructuring up to 2015 was approved by the government, the ministries, sectors and provinces must, based on their functions and tasks, well implement the plan, with emphasis given on the responsibility of leaders of state corporations and groups. SOE contribution to GDP should be from only 15 to 18% by the year 2015, and to below 10% by 2020, similar to those of most economies in the world. In addition, the government should provide state budget assistance to enterprises that are potential for development, which can be in the forms of debt clearance, debt circling, debt rescheduling, debt swap and additional capital allocation. Another important point is to enhance transparency in debt settlement procedures. The government, ministries and lines need to enhance trade promotion, creating conditions for enterprises to consolidate and expand their markets at home and abroad, for solving problems of inventory and goods consumption so that they can pay their debts and expand their production and business.

On financial restructuring, the Ministry of Finance should collaborate with the State Bank of Vietnam and other relevant ministries, sectors and provinces to carry out, synchronously, the measures in accordance with the Plan on restructuring of banks and stock exchange market; and at the same time, improve the legal environment for a healthy and safe financial market to be created. The work of debts classification must be carefully checked by banks, with appropriate measures to be carried out in the direction of providing continuous loans to enterprises that are capable of development; having correct information of customers and improve professional ethics of bankers.

The third is to strengthen foreign investment for economic development

In context of frozen real estate market and high rate of bad debts in the credit system, FDI has become necessary more than ever. However, for FDI inducement, Vietnam must improve and stabilize its business environment for attracting foreign investors. Corruption has been for years one of the critical causes to worsen the business environment of Vietnam, which could be seen not only in the economic field but also in others, such as in education, health… According to Transparency International, Vietnam was one of the most serious corrupt countries, which ranked 123rd out of 174 countries on the list in 2012.

The fourth is to reduce stage budget spending and taxes of different kinds in order to facilitate enterprises' production and business.

For state budget balance, the ministries, lines and sectors at both central and local level should be demanded by the government to consider revising, removing unnecessary or unreasonable policies on state budget expenditure, restricting giving advance capital to projects due to difficulties in state budget balance and capital mobilization; ensuring budget allocation at all levels, sharing the difficulties between central state budget with local state budget. At present, state budget deficit in Vietnam is about 5% of GDP, so it is necessary to reduce state budget expenditure, especially regular spending items (which often account for 20% of GDP and 3 times higher than investment for development). In addition, the subjects to tax imposition should be expanded; import tariffs on products that are not necessary or can be made at home should be increased; and export tariffs on products made from natural resource exploitation should also be raised.

Continuous, strong and effective measures must be carried out for overcoming the difficulties of enterprises in their production and business, with market facilitation and bad debts settlement. For a few years recently, company income tax has been reduced to 22% in Vietnam, but it is still high. There should have an appropriate roadmap for company income tax reduction, down to 20% by the year 2015. First and foremost, policy measures should be applied to extend the timeframe for tax payment, such as value-added tax (VAT) and company income tax; or to reschedule debts for enterprises in agriculture, forestry, fishery, garment, textile, leather footwear..., which are often labour-intensive, with a large force of workers.

The fifth is to build an open and transparent public administration, and to enhance accountability

At present, administrative procedures are still the very big barriers to socio-economic development of Vietnam. For this problem to be solved, disclosure in expenditure items and transparence in state budget allocation criteria are a must for the ask-give practices and negative behaviors to be removed. The supervision roles of the National Assembly and of the people should be strengthened. At the same time, the government agencies must be responsible and accountable for using state resources in their operation; effective mechanisms on responsibilities of the heads of state agencies must be applied to deal with ineffective or wrongly-purposed use of State budgets. This, if well done, will make policy-makers and state budget spenders become more responsible with their decisions.

References

1. The Communist Party of Vietnam (2011), *Documents of the 11th National Party Congress*, Political Publishing House, Hanoi.

2. The Government of Vietnam (2011), *The Report on Socio-economic Situation in 2011, 2012 Plan and the 2011-2015 5-year Socio-economic Development Plan*, delivered at the 2nd Meeting of the National Assembly (Convocation XIII) on October 20, 2011.

3. The Government of Vietnam (2012), *Report on Socio-economic Situation in 2012 and Tasks for 2013*, delivered at the Opening Session of the 4th Meeting of the National Assembly (Convocation XIII) on October 22, 2012.

4. Tran Tho Dat (2013), “Mid-term Review of Implementation of 2011-2015 5-year Socio-economic Development Plan”, International Conference Book: *A Review of 2011-2015 Plan Implementation at the First Half and Strategic Adjustments*, Hanoi.

5. To Duc Hanh (2013), *“On Implementation of Economic Growth Objectives in Vietnam’s 2011-2015 5-year Plan”*, International Conference Book: *A Review of 2011-2015 Plan Implementation at the First Half and Strategic Adjustments*, Hanoi.

6. Nguyen Thi Mui (2012), “Bad Debts Problems in Vietnam and Solutions”, *Finance Review*, No. 11.

7. Nguyen Ke Tuan (chief editor) (2013), *Vietnam Economy in 2012: Macro-economic Stability and Economic Restructuring Strengthening*, National Economics Publishing House, Hanoi.

8. Nguyen Sinh Cuc (2014), “Overview of Vietnam’s Economy in 2013 and Forecasts for 2014”, *Communist Review*, No. 855.

9. Kim Ngoc (2014), “The World Economy in 2013: Recovery Unstable and Potentially Risky”, *Communist Review*, No. 855.