

DEVELOPING WAY AND GROWTH'S POTENTIAL OF VIETNAM ECONOMY TO 2010

Abstracted by
LÊ THÀNH Ý

In 2009, the Ministry of strategy and finance of Korea decided to continually sponsor Korean and Vietnamese scientists in implementing Knowledge Sharing Program - KSP in 3 years 2009-2011. After one operating year, researching results have been announced by analysts in the conference for reporting the last result "Developing way and growth's potential of Vietnam economy to 2010" held in Hanoi in March 2010. This article summarizes main contents of the report that is presented and discussed in the conference.

I. Vietnam economy's growth

To achieve the goal of producing forecasts about GDP growth and economic structure in medium/ long term to 2020, researchers have focused on analyzing and assessing Vietnam economy's growth after renewal policy, conversion to market mechanism and integration to the global economy to recognize main challenges to sustainable growth. Then unbiased view based on international one about Vietnam economy's growth is made

Analyzing the transition process of the economy, researching team showed that since 1986, Vietnam has patiently followed the process of comprehensive reform toward market and gradually

integrated in the global economy. By practical solutions for renewal, Vietnam has got out of post-war's recession. Growth has been promoted fast, the average growth rate of annual GDP has been raised to 6.12 % (in the period of 1991- 2000) from 2.47 % (in the period of 1985- 1990) and has been stabilized at the level of over 6.19% (in the period of 2000-2006). Thanks to growth and economic development, the people's income has been increased; then their living-standard has been continuously improved.

The trend of Vietnam economy's development is big investment and conservatively fast growth. In the mid of 90th decade, the rate between investment

and Vietnam GPD is higher than the average level in industrial countries, the investment level in current years has been continually increased. This lets Vietnam become one of countries which have the highest rate between investment and GDP. State enterprises that have big scale receive most big investment. However, the big investment in State economy sector can not make high efficiency. Thereby, macro balance is not ensured, causing many obstacles to the economy's sustainability.

Thinking about this remarkable growth rate, two questions have been raised: is it right if Vietnam has successfully implemented "take-off strategy" and has been following the converting way called "catch up growth"? And if it is right, can Vietnam maintain its rate of "catch up growth"?

By maintaining the high level of economic growth in the last two decades, the first question is well satisfied. Besides, Vietnam economy's characteristics also match the view that Vietnam is successfully stimulating the economic growth and may be on the converting way of *catch up*.

About the second question, ideals proposed in the conference show the confidence that Vietnam can maintain the rate of "catch up growth". The reason for that is on aspect of demography, there has been a reduction in both birth rate and dead rate in the speed of Vietnam's population growth. The proportion of people in the working age is gradually increasing. The theory

of modern growth admits Malthus^(*) equilibrium. According to this theory, the high birth rate leads to small investment in human. This results in the low growth. By contrast, if the birth rate is low, investment in human resources will be higher leading to the higher growth. In fact, countries that fast adapt Malthus equilibrium theory have successfully implemented the industrialization's process. They have been able to catch up with leading countries due to benefit gained from overcoming undeveloped situation. Basing on the real development of economies in the East Asia- in which there are fast changes in demography and strongest growth in the left half of 20th century, researching team has found out that while birth rate is reduced, changes in demography are expected to gather with "take-off" growth.

Other implication of growth theories is that when a country successfully escapes from the trap of property of Malthus. Advantages from underdeveloped can help maintaining the level of "catch up growth"; however, real evidences show that the faster growth of go-after countries comes from knowledge's pervasiveness. The global knowledge is seen convergence force. According to analysts, in the developing process, it is easier to maintain growth than kindle it. Although there are outbreak growths, a few of them can be maintained in long-term. Therefore, according to researching

(*) T.R Malthus (1766- 1834) is an English economist, his theory of population shows the reason for poverty by a simple rate between population's growth rate and wealth's growth rate- corresponding to minimum living-standard.

team, to maintain economic growth in Vietnam, firstly, it is necessary to develop and promote favorable regulations for maintaining the producing motivation and the ability of self-adjustment under effects of external shocks.

II. Resources for Vietnam economy's growth

Playing the role of additional analyses that supply the essential information for building the growth's model and plan, researchers have used the approach of growth accounting and regression to make a comparison among some countries, and then access the result of Vietnam economy's growth. Among factors of growth, researchers pay specific attention to the role of Total Factor Productivity Growth-TFPG. By this they can clarify the role of each affecting factor, especially the reasons for common judgment that Vietnam economy's growth depends much on investment, it is not really raised from the productivity's increase.

Researching results show that in the period from 1990 to 2006, the average growth rate of Vietnam's annual GDP is 6.4%, the inputs' accumulation of capital investment and labor accounts for 2/3. Of which the increase in fixed asset has the biggest proportion. Period from 2001 to 2006 also indicates that GDP growth depends mostly on capital and raw labor. In the trend of increasing investment, the distribution of fixed assets' accumulation to the growth is increasingly big but this is not totally the reason for GDP's growth rate. Analytic data shows that the distribution of Total Factor Productivity (density between

TFP and GDP) has been increased by the time, from 35.6% at average level in the period 1990- 2000 to 38.4% in the period 2001-2006.

Doing research on factors that make per capita growth or the growth per worker, researchers show that growth speed tends to remarkably increase. This can be explained by the gradual reduction in population growth rate and the increase in labor productivity through periods. Growth speed of per capita GDP has increased from 4.13% in period 1990-2000 to 6.18% in period 2001-2006. At that time the growth rate of average GDP per a worker also increases from 3.25% to 5.31%. Fixed asset's distribution per a worker is increased between these two small periods, but there is also a remarkable increase in TFP from 2.13% to 2.85%. According to above calculations, researchers said that GDP growth is associated with remarkable increase in TFP. Therefore, high level of investment in Vietnam economy is not the waste of resources in 2010.

Based on methodology and unified analytic data, the comparison among collected figure of Vietnam's growth and other countries is made. As a result, GDP growth or GDP growth per a worker of Vietnam is higher than many countries in the early years of 21st century. Especially, TFP's increase of Vietnam has been equal to that of China and higher than most countries in the region. The reasons for that are capital collection and big distribution to labor from the increase in fixed assets. This result makes scientists optimistic about the prospect for Vietnam's growth

through Vietnam Government's policy in expanding market access, improving competitive ability, and improving the investment and business environment to integrate.

Financial crisis and globally economic recession have big effect on speed of economic growth, however, growth rate of Vietnam annual GDP is expected to increase by from 7.5% to 8%. Vietnam's Economic growth in the period from 2007 to 2020 can reach 8% annually. Reasons for this are the gradual increase in TFP's distribution and maintained important role of fixed asset in output's increase. In Vietnam, technology innovation, especially technology transfer through FDI is important motivation for productivity increase and the important point need to be cared is policy's changes have big effects on productivity.

Analysts said that Vietnam economy's reform that focuses on basic conversion of the economy from the centralized planning to market mechanism form has promoted economic development and economic efficiency. This goal has been achieved by effective allocation and use of economic and financial resources through motivating employees, accessing market and strongly attracting FDI. Applied market mechanism allows private enterprises and foreign- invested enterprises to develop, this contributes to overcoming the ineffectiveness in State Secretary, thanks to that, the whole economy's productivity has been gradually increased.

With open-door policy, Vietnam has expanded commerce and strongly

attracted foreign investment, thereby; competitive ability of many enterprises has been gradually built and improved, making remarkable contribution to successful export. Law of Foreign investment in Vietnam (announced in 1987 and continually amended later on) has created favorable conditions for raising many investment sources. Improved managerial skill and innovated technology have fast promoted process of industrialization and socio- economic development. Positive integration into the region and the world has distributed to position enhancement, accessing market ability of Vietnam and the increase in foreign investors' trust for Vietnam's Government. With good results from current reform of regulation and current conversion of the economy, analysts have confidence in new advances in integration and increase in growth rate of Vietnam economy.

According to analysts, beside potentials and developing advantages, there is still limitation and obstacle on Vietnam's developing way. They are growth based much on investment, ineffective public-investment, explosion of financial investment that is not corresponding to made value added, low TFPG, low growth of employment, weak infrastructure, ineffective utility services in both traffic and energy, and high price that causes high business cost...

Especially, the biggest obstacle to Vietnam economy's growth is human resources' quality. The unbalance between labor supply and labor demand in each branch, each field is still big; the co-ordination between training

institutions and using ones is still loose. In addition, there is still disagreement about obviousness and accountability in resources allocation. They are seen factors that interfere with the guarantee of macro balance.

III. Challenges to Vietnam economy's growth

Since the conversion to market economy, Vietnam has gained encouraging achievements when development potential is not limited. However, difficulties and challenges of making potential come true are still big.

In the process of transferring from a low income economy, Vietnam is trying to fast promote industrialization that needs big investment. This let Vietnam be in big and complicated challenges. This complexity is shown clearer in socialist orientation market economy that is closely related to economic sectors in both establishment way and capacity's improvement, enhancement. According to researchers, to diversify the economy type, legal framework needs to be conservatively adjusted and improved. Besides, to go further, more qualified human resources and better institutional management are needed. Up to now, these capacities still seem to be limited; they are not strong enough for sustainable development. Core reason for that are weak State management and many insufficiencies in the system of training and education.

In the context of deeper integration into the economy of the region and the world, lack of macro stability and social stability causes potential risks. Both Asia Development Bank (ADB) and

International Monetary Fund (IMF) forecast that Vietnam's inflation rate in 2010 will be higher than expected level and deficit level of current account will exceed 9.4% GDP. Big budget's deficit, public debt and State- guaranteed debts have raised the government's debt to 46% GDP and the number bad debts is expected to increase.

On the way of sustainable development, Vietnam's big challenges are problems in human resources management, flow of investment capital, cost reduction in liberation of trade. Though financial market has been established, many of its basic issues needed to be continually and deeply reformed. Facing up with fluctuations of globally financial crisis after joining WTO, Vietnam have made changes in policy: conversion from strongly promoting growth to forming macro stability and promoting economic development. Measures of Stimulus and fiscal promotion have distributed to jobs' creation and regaining growth momentum of the economy. However, these solutions still show many potential contradictions between the implementation of aid policy in short-term and long term reform. There is no difference between enterprises that effectively produce and ineffective ones in applied mechanisms to support the loan interest rate. Whereas long-term reform of structure requires effective operation of enterprises so there must be appropriate measures for ineffective ones.

The requirement of deep and wide integration makes the country has to face more external shocks, so policy considerations may be narrowed. Because regulations of international

commerce must be observed strictly, many administrative regulations in domestic will be invalid by the time; as a consequence, it is more complicated to solve economic management's issues.

While there are fast changes in the world and policy of the post WTO era, the planning process of national policy will meet many risks if the country cannot catch up with changes in the world reality. Analysts emphasize the important role of the information's collection, processing, sharing and effective analysis. Due to unexpected effects and side effects arisen in the process of planning and implementing policy, there is a need of supporting vulnerable groups and ignoring demand of other benefit groups. Careful consideration of adjustment's rate and volume of Macro policy that consists of monetary policy, fiscal policy and exchange rate should be made due to arisen unpredictable consequences. Having awareness of policy's effects on many different aspects, researchers propose that the effective combination of policies is needed and macro policy should be supported by measures at micro level of enterprises scale.

Being a developing country that has been badly affected by the globally economic crisis, learnt lessons from challenges has been fully applied in the adjustment of developing orientation. Analysts believed that leaders and policy makers need to seriously review the current developing model, and then the construction of essential content of developing model in the future will be promoted. Thereby, important issues needed to be concerned are:

- Building market types that are effectively operated. In each market, there must be maximum efforts included policy, regulations, and participants for development.
- Comprehensively construction of the infrastructure system (included both soft and hard one), creating favorable premises to stimulate the strong development of economic activities.
- State management must fulfill its role of promoting and improving creative ability and preventing risks in macro economy and social risks as well.
- Strengthening the international connection to consolidate the national position.

IV. Prospects from forecasts of Vietnam economy's growth in period 2010-2020

1. GDP growth in the period 2010-2019

Investment capital, labor force and TFP are important elements of economic growth. Analyzing the development trend of population and labor in the past time and in the following years, the researching team believed that: population growth rate is expected to gradually reduce from 1.28% (in 2010) to only 1.02% (in 2019). Change in percentage of people at the working age is not big, increasing from 66.25%(in 2010) to 67.35%(in 2015) and this number will be 67.68%(in 2019). The investment capital which is measured in growth of fixed assets' accumulation is expected to reduce to 8.25% (in 2015) from 9.07% (in 2010).

Based on results of input's analysis, researchers pay special attention to TFP in growth plan. Thereby, the basic plan of growth has been set. In this plan, TFP

will annually make up 2.81% of GDP growth during the period. With this plan, if all jobs are well done, restrictions are overcome and the annual level of TFP is raised to 3.81%, GDP growth of the whole country will be expected to reach the level of 7.29% on average (2010-2014), about 6.72% (2015-2019) and the average level in the period 2010-2019 will be 7.01%.

2. GDP structure divided by groups of economic sectors

Analysing the data sequence about the distribution structure to GDP growth of sectors such as agriculture, industry, and service of Korea and South East countries in period 1960-2006 and of Vietnam since 1970, researchers have determined the correlation covariance and then forecasted the distribution trend of each group of sectors to Vietnam GDP annual growth in the period 2010-2019.

Researchers' forecast shows that the distribution's proportion of the agriculture to GDP growth will be conservatively reduced, from 19.8% (in 2008) to 14.5% (in 2019). Contrary to the agriculture, at this time, proportion of the industry and service tend to increase, from only 41.9% to 44.1% (in the industry) and from 38.1% to 41.4% (in service).

In the context of building strategy for economic development in the period 2011-2020, with objective of clarifying the two big questions that go together with Vietnam economy's "take-off" and ability to maintain pace of "catch up growth", the report has both additional and opponent value in interpreting

Vietnam economy's developing prospect in the next period. The report has additional value because it has provided an evidence for the study in which there are arguments about model of economic growth that is essential to be examined and learnt. The report has opponent value because of its important conclusions which are clearly different from many other research projects in the increase trend of TFP in GDP growth.

With general and basic approach and models built based on equilibrium theory of Mathis and modern equilibrium, "this study is carried on a standard way so it can bring oriented suggestion for the strategic research of Vietnam today". Researchers' suggestions also make useful distributions to theoretical research of development in general and economic development in particular in Vietnam, the country has just overcome the situation of underdeveloped.

About choosing the developing way for Vietnam in the medium term, although it has been just preliminarily outlined, analysts have mentioned the way to establish all kind of market, creating more favorable conditions and stimulating economic activities, especially, State must have ability to encourage creation and prevent risks in economy, society, ecological environment and international cooperation. Sent message of researchers to responsible people is *there is need of improving the institutional capacity, socio-economic infrastructure and global association.*