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**Working Paper**

## Viet Nam: The dragon that rose from the ashes

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## WIDER Working Paper 2018/126

### **Viet Nam**

The dragon that rose from the ashes

Finn Tarp\*

October 2018

**Abstract:** This study takes as its starting point what Gunnar Myrdal had to say about Viet Nam in the context of his seminal work, *Asian Drama: An Inquiry into the Poverty of Nations*, published in 1968. Myrdal pointed to the decisive nature of the Vietnamese people; and subsequent developments, which are explained in detail in this paper, demonstrate that amply. Viet Nam adopted a dogged and, in retrospect, very costly position on economic policy and management from 1976. At the same time, when the approach taken did not produce the hoped-for results, an effective course correction was initiated in 1986 in the context of a comprehensive, domestically owned reform programme known as Doi Moi. Since then, Viet Nam has come a very long way; the last three decades have witnessed one of the best performances in the world in terms of both economic growth and poverty reduction. People's living standards have improved significantly, and the country's socio-economic achievements are impressive from a human development perspective. Wide-ranging institutional reform has been introduced, including a greater reliance on market forces in the allocation of resources and the determination of prices. The shift from an economy completely dominated by the state and cooperative sectors, to one where the private sector and foreign investment both play key and dynamic roles. Significant strides have been made to further the transition from a centrally planned to a market economy, without giving up strategic leadership and influence by the state.

**Keywords:** Southeast Asia, Viet Nam, growth, poverty, inequality, human development

**JEL classification:** O1, O40, O53, N15

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## 1 Introduction

When Gunnar Myrdal's *Asian Drama: An Inquiry into the Poverty of Nations* was published in 1968 Viet Nam was in the middle of a devastating war (see the timeline in Appendix A). The United States (US) had escalated her military involvement drastically during the previous years as *Asian Drama* was written, and whatever data was available for socio-economic analysis was extremely poor. Moreover, it referred almost exclusively to South Viet Nam. Myrdal tellingly adds that South Viet Nam 'last produced national accounts in 1956' (1968: 479). *Asian Drama* also contains a series of pointed observations on the nature and wide-ranging consequences of French colonial domination from the early 1860s to 1954 and the associated severe exploitation of the country. Moreover, US action in Viet Nam is characterized as 'awkward': '... in the name of democracy the Vietnamese should be prevented from following their own will' (Myrdal 1968: 399).

Accordingly, while little could be done in the mid-1960s to forecast future political and socio-economic developments in Viet Nam in any meaningful way, it does in retrospect strike the reader's eye that Myrdal observed: 'The Vietnamese were by far the most numerous and most cultured of the Indo-Chinese people and it was from them, with their age-long tradition of opposition to Chinese invaders, that early resistance to French rule emerged' (1968: 170). Determination, unity, and willingness to experiment and recognize failure within the country's leadership came to play a critical role in Viet Nam's subsequent economic history and development process.

*Asian Drama* also highlights that:

The French intransigently discouraged even moderate nationalists, and then wrecked terrible vengeance on the innocent and guilty alike when violent agitation and conspiratorial activity became the customary mode of political expression... The predictable consequences of this stern policy of repression was to leave the underground Communist Party in the forefront of the Vietnamese struggle for independence (Myrdal 1968: 171).

Struggle was certainly to continue as the Vietnamese went on to resist the largest military power in the world; and the Vietnamese Dragon initially took a very costly path to post-war reconstruction and development after peace from 1976.<sup>1</sup> At the same time, few would now dispute that Viet Nam did eventually rise from the ashes in a most respectable manner. Gross domestic product (GDP) per capita rose from USD 231 in 1985 to USD 2,171 in 2016.

This paper aims to provide an up-to-date country study, which sets out an analytical narrative of the development experience over the past five decades. In doing so, an effort is made to identify turning points in economic strategies, policies, and performance, situated in the wider context of polity and society. The story begins with historical background in Section 2, and then moves on to the war period until 1975, the subsequent decade guided by the Second and Third Year Five-Year Plans (1976–80 and 1981–85), and a summary of the initial conditions in place in 1986. Section 3 outlines the process of economic growth, structural transformation, and rural change

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<sup>1</sup> See *Vietnam Culture* (2018) for how the Vietnamese Dragon is perceived locally: 'Like Chinese monarchs, Vietnamese sovereigns chose the dragon as the symbol of their power; but unlike the Chinese dragons, which were shown descending from heaven and spitting fire, the Vietnamese dragons were shown ascending from water. Though imposing and fierce, the Vietnamese dragons were never threatening.'

from 1986 onwards, while Sections 4 and 5 discuss, respectively, enterprises, industrialization, and service sector issues, and themes associated with openness [trade, aid, and foreign direct investment (FDI)]. Across Sections 3–5 the focus is on the role of policy-making, state interventions, and economic performance. Section 6 reviews what was achieved in terms of human development; and Section 7 concludes, relating back to *Asian Drama* and reflecting on future prospects and challenges for this dynamic Southeast Asian economy with an unusual history.

## 2 History

### 2.1 Pre-reunification

Myrdal notes that the social structure of the Vietnamese society:

. . . traditionally based on land ownership remained essentially unchanged under French rule. In Tonkin and Annam the dominant pattern was that of small, fragmented peasant holdings. . . . By contrast, Cochinchina contained many large estates, the bulk of them held by absentee French and Vietnamese landlords and cultivated by sharecroppers (1968: 170).<sup>2</sup>

In the North many peasants suffered from indebtedness and usury blocked any prospects of economic freedom. Moreover, according to Myrdal:

During the colonial era thousands of Tonkinese were transferred to the rubber plantations of the South, where they worked and lived more or less as peons. If anything, French rule widened the gulf between the rich and the impoverished in Vietnamese rural society, thereby providing a ready-made situation for Communist activists to exploit (1968: 170).<sup>3</sup>

Overall, some 82 per cent of the economically active population derived their livelihood from traditional, exceedingly low-productivity, village-based subsistence agriculture in the mid-1950s, and only 8 per cent of the population was urban in 1950 (see Myrdal 1968: 427, 467, 494). The level of human development was extraordinarily low (most rural people were poor and illiterate), landlessness extreme, and the Vietnamese were generally excluded from more modern sectors of the economy.

Banking, mining, large-scale manufacturing industry, and rubber production were jealously guarded French preserves, while most of the rice mills, sugar refineries, saw mills, and most of the internal trade were firmly in Chinese hands. The French

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<sup>2</sup> Tonkin refers to the Red River Delta region of northern Viet Nam, whereas Annam was a French protectorate encompassing the central region. Before the protectorate's establishment, the name Annam was used in the West to refer to Viet Nam as a whole. Cochinchina was the southern third of current Viet Nam. The three regions were divided into North and South Viet Nam in 1954 until unification in 1976. Pre-colonial Viet Nam also saw long periods of division, such as in the seventeenth and eighteenth centuries where ruling lords controlled their respective parts of the country with broadly similar agrarian village-based production systems.

<sup>3</sup> The Communist Party of Viet Nam (CPV) for Indochina was founded by Ho Chi Minh on 3 February 1930 in Hong Kong. It held its first National Congress, the supreme party organ, in 1935, and national congresses have been held every five years since 1976. The National Congress elects the Central Committee, and in between party congresses, the Central Committee is the supreme organ on party affairs. Immediately after a party congress, the Central Committee elects the Politburo and Secretariat and appoints the Secretary General.

colonial regime maintained a monopoly on the sale of salt, opium and alcohol. In addition, French settlers, usually of peasant stock and with a background in the lower ranks of the French army, acquired large amounts of land in Tonkin and Cochin-China. Also, Frenchmen of lower-class origin. . . occupied positions in government and business that the British in their colonial territories considered beneath them, and thus blocked the way for local people (Myrdal 1968: 169–70).

Colonial rule brought French-style institutions to support an exploitative production system. This meant that while the French imported cheap raw materials from Viet Nam they exported tariff-protected industrial products the other way. It is therefore no surprise that ‘from this type of colonial domination the emergence of a substantial Westernized upper class was hardly to be expected’ (Myrdal 1968: 170).

During the Second World War, where Viet Nam was occupied by the Japanese, the Viet Minh was founded by Ho Chi Minh in 1941 as a nationalist independence movement. It quickly established itself as the only organized movement opposing the Japanese, and after the end of the Second World War it started ‘a radical land reform by distributing land to the tenants in the part of the country they had gotten control of in their fight against the French’ (Myrdal 1968: 1316). As Viet Minh was trying to respond to the underlying land conflicts, negotiations with the French failed, and a decade long war known as the First Indochina (or French) War (1945–54) followed. It ended with French defeat at Dien Bien Phu and the Geneva conference in 1954 that divided the country into North and South Viet Nam.

In the North, Viet Minh took over the civil administration in early October 1954 and Ho Chi Minh became President of North Viet Nam, established as a socialist state led by the Viet Nam Workers’ Party that changed its name to the Communist Party of Viet Nam (CPV) at the Fourth Party Congress in 1976, and with Hanoi as capital. In the non-communist South, Ngo Dinh Diem assumed control based in Saigon. Yet, Viet Minh cadres remained active and fought the Diem government with support from the North.<sup>4</sup>

Myrdal notes that ‘. . . many tenants who had obtained land free under the Viet Minh, lost it again or had to pay rent and even back rent or compensation’, and he goes on to point out that ‘this contributed to the rebellion against the Saigon government that started in 1956 and it is one of the powerful undertones to the present conflict’ (1968: 1316).

The present conflict referred to above was the Second Indochina War (1954–75), also known as the American War or the Viet Nam War. It forms a crucial part of world history in the twentieth century and ended with US defeat and withdrawal. Viet Cong captured Saigon on 30 April 1975, and after national elections on 2 July 1976 reunification of North and South Viet Nam took place. The Socialist Republic of Viet Nam was formed under the leadership of the CPV, and the CPV remains firmly in control and, since 1988, is the only legal political party in Viet Nam.

The 1954–75 war brought gigantic destruction on top of French colonial exploitation. US bombings led to massive demolition of production sites and infrastructure and farmland was

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<sup>4</sup> The National Liberation Front of South Viet Nam (Viet Cong), which was founded in 1960, incorporated both guerrilla and regular army units, as well as a network of cadres, who helped organize peasants. Many Viet Cong soldiers were recruited in South Viet Nam, while others were attached to the People’s Army of Viet Nam, the regular North Vietnamese army.

heavily shelled and destroyed in both the North and the South.<sup>5</sup> The human and economic costs of the conflict went much deeper. Production and the vast majority of the labour force had been squarely focused on the war-time effort leaving the rest of the economy severely constrained; and human casualties and injuries were immense, both short and long term. Rummel (1998) has estimated the casualties to be 2.5 million while Obermeyer et al. (2008) give an estimate of 3 million. US spraying with Agent Orange affects many people to this day, and livestock stock numbers were slashed.

Out-migration of more than 1 million people, who fled from Viet Nam after reunification, and the imprisonment of large numbers of former associates of the government of South Viet Nam in re-education camps formed a ruthless part of the initial post-war state of affairs as well. The professional and entrepreneurial classes in the South were decimated and private ownership was abolished.

## 2.2 Post-reunification, 1976–85

The economic and human challenges of reconstruction and development facing Viet Nam in 1975 were enormous; and the task of unifying a fractured economy and people in what was one of the poorest countries in the world can only be characterized as daunting. The prevailing ideology at the time led to the adoption of a heavily centralized, socialist-inspired command-type approach to economic policy and management for the whole of Viet Nam with very ambitious goals.

While the command-type model was already established in the North and had indeed worked well under war-time conditions,<sup>6</sup> it marked a radical as well as risky change in economic organization in the South; especially when recalling earlier land conflicts. The way forward, including an emphasis on restoring infrastructure, building heavy industry, and promoting state ownership and entrepreneurship, was to be mapped out in five-year development plans; and in spite of the difficulties faced, ambitions were high and self-confidence pronounced.<sup>7</sup> Building a unified socialist economy in Viet Nam was to be achieved in a mere two decades! And the Fourth National Congress was united in the vision adopted.<sup>8</sup> Notably, while the Second Five-Year Plan for 1976–

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<sup>5</sup> See *Encyclopedia.com* (2018) for one account. Another is Nguyen et al. (2016: 239) who note: ‘The US bombings during 1965–72 destroyed all six industrial cities of the north as well as most of the provincial and district towns. All power stations, railway lines, roads, bridges, and sea and inland ports were seriously damaged . . . Consequently, the distribution of raw material and consumer goods was badly affected and delayed all large-scale construction.’

<sup>6</sup> It is neither new nor unexpected that economies in war rely on administrative command-type allocation principles, as one saw during the Second World War in for example the United Kingdom. Moreover, the Soviet Union, including its planning system, was at the time widely perceived as a development success.

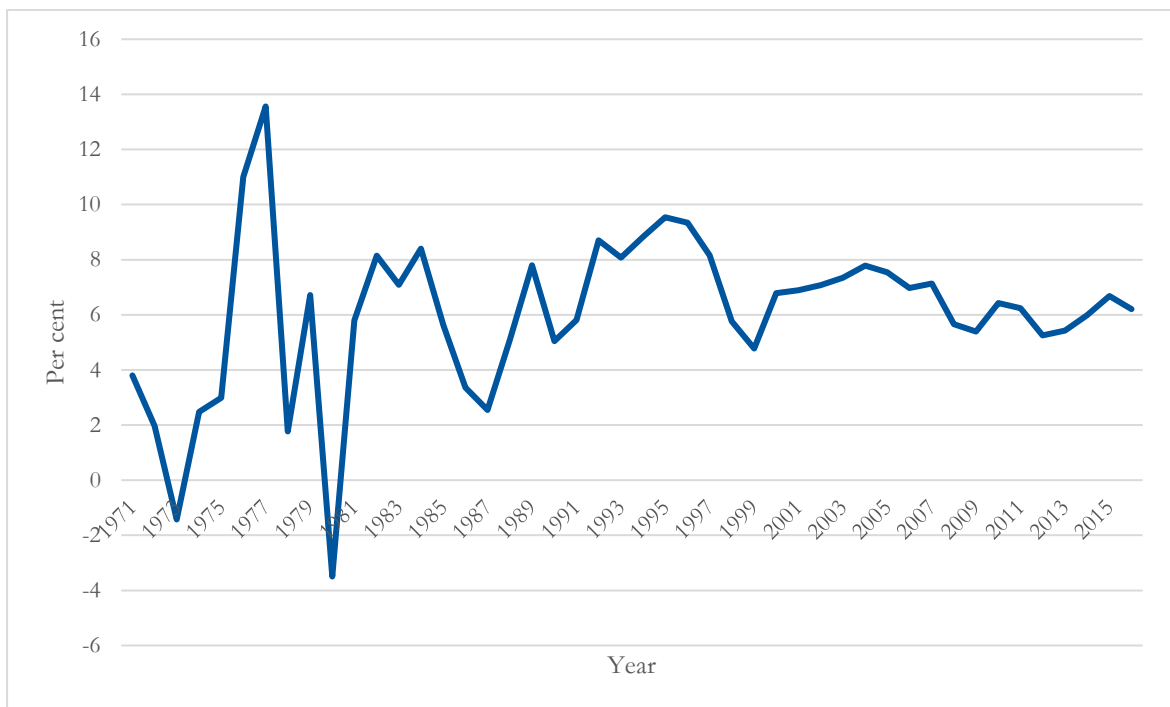
<sup>7</sup> The First Five-Year plan was pursued in North Viet Nam during 1960–65 as the US engagement escalated. While Myrdal (1968) includes an extensive Appendix 3 on *Economic Models and Their Usefulness for Planning*, the only reference to Viet Nam is the inclusion (see Myrdal 1968: 2001) of South Viet Nam in the group of countries for which the treatment of working capital in existing plans is ‘quite inconsistent and obscure’ followed in Table 1 (see Myrdal 1968: 2002) by an implied incremental input–output ratio of 2.00 for South Viet Nam for the period 1957–61 (without indication of source). It is thought provoking that only the Philippines had a lower ratio among the nine countries included in Myrdal’s Table 1.

<sup>8</sup> Rama (2008: 14) notes in his fascinating historical expose that Mr Le Duan, Party Secretary General, did not push at the Fourth National Congress in December 1976 for the idea that South Viet Nam ‘could provide a useful pilot for the use of market mechanisms’, while keeping the socialist model in the North. Those were ideas he had previously proposed. Instead the atmosphere at the Fourth Congress was understandably ‘upbeat’. A striking parallel can be found in Mozambique at the very same point in time. Having ‘defeated’ the Portuguese colonial power, Frelimo ambitiously declared in a jubilant tone that the coming decade would see the victory over under-development. While it was over-optimistic and, in retrospect, naïve to compare a victory in the battlefield with what was being faced in the

80 aimed at unifying the shattered (although markedly different) economies of the North and South in one socialist system no role was permitted for market prices, private trade, and individual entrepreneurship. The plan also set ambitious goals for economic development including a 13–14 per cent aggregate annual growth rate of the economy. It was soon to become evident that the model was not working.

Figures 1a and 1b show real GDP growth in Viet Nam since the early 1970s, and one notes that growth first spiked from a very low level as peace set in and then went on to drop badly in the later years of the Second Plan. While agricultural crop production, now dominated by village-collectives, and shown in Figures 2a and 2b, did not collapse outright from its already very low war-time level, production was extremely volatile from one year to the next. Severe food shortages were quickly experienced as a consequence, and in light of pent-up needs. Food-rationing was reintroduced, and Viet Nam had to rely on large amounts of food aid support from the World Food Programme and on financial and material support from the former Soviet Union and the Eastern European countries (see *ReliefWeb* 2000).

Figure 1a: Real GDP growth



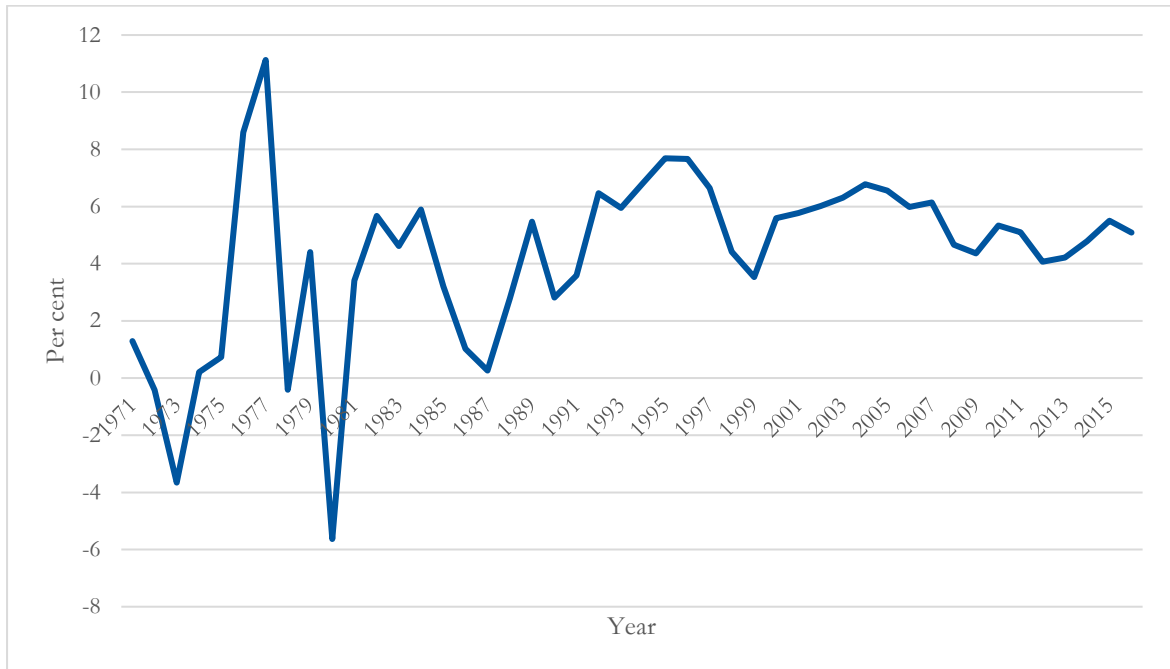
Source: Author's compilation based on data from IMF (2018a).

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development field, one should not overlook that the course of action taken appeared at the time self-evident to the leadership in these two poor, exploited, and destroyed economies.

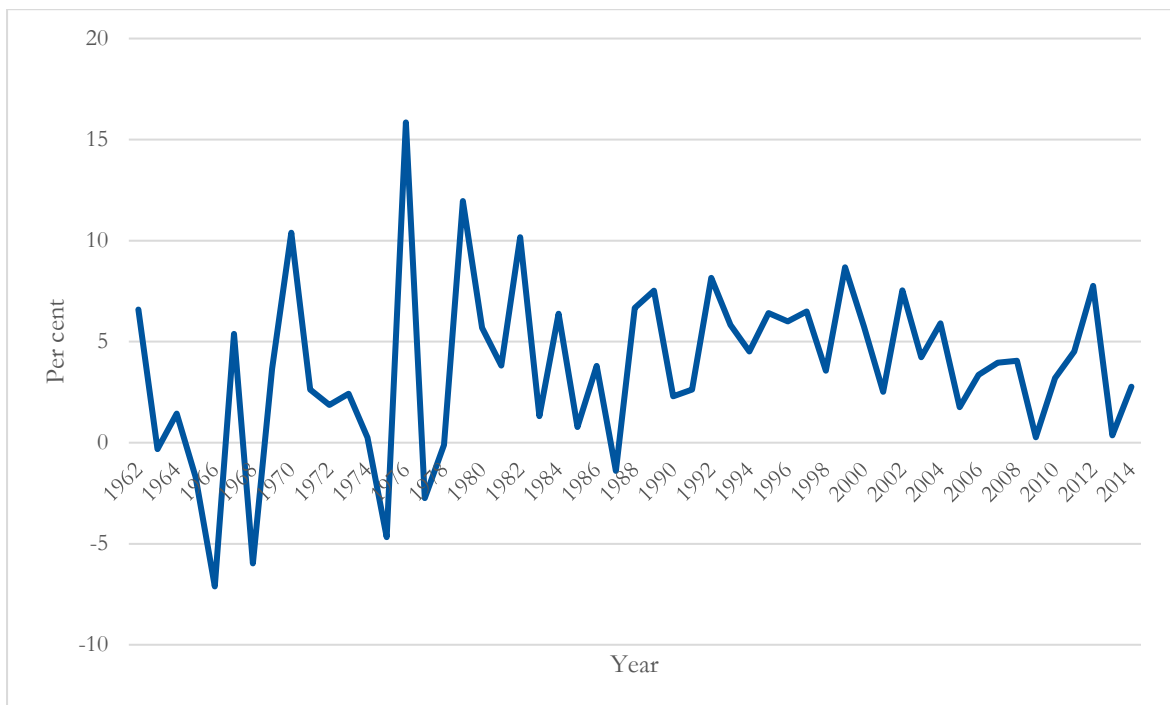


Figure 1b: Real GDP growth per capita



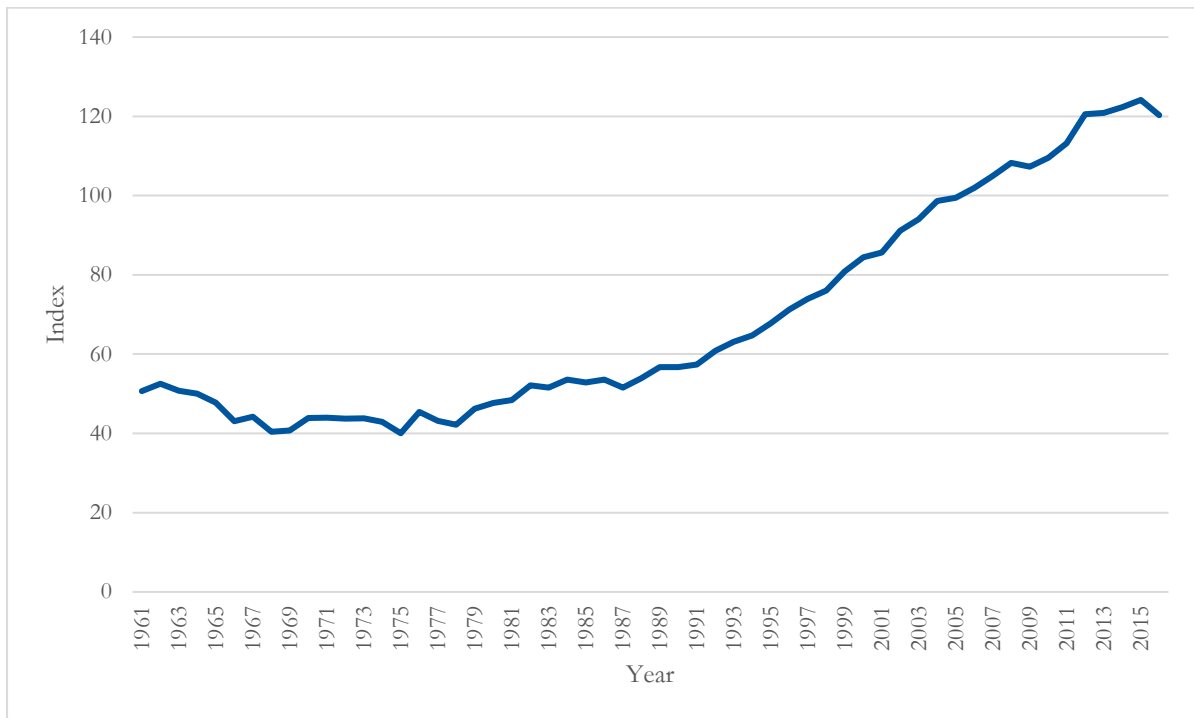
Source: Author's compilation based on data from IMF (2018a).

Figure 2a: Crop production, yearly change



Source: Author's compilation based on data from World Bank (2018b).

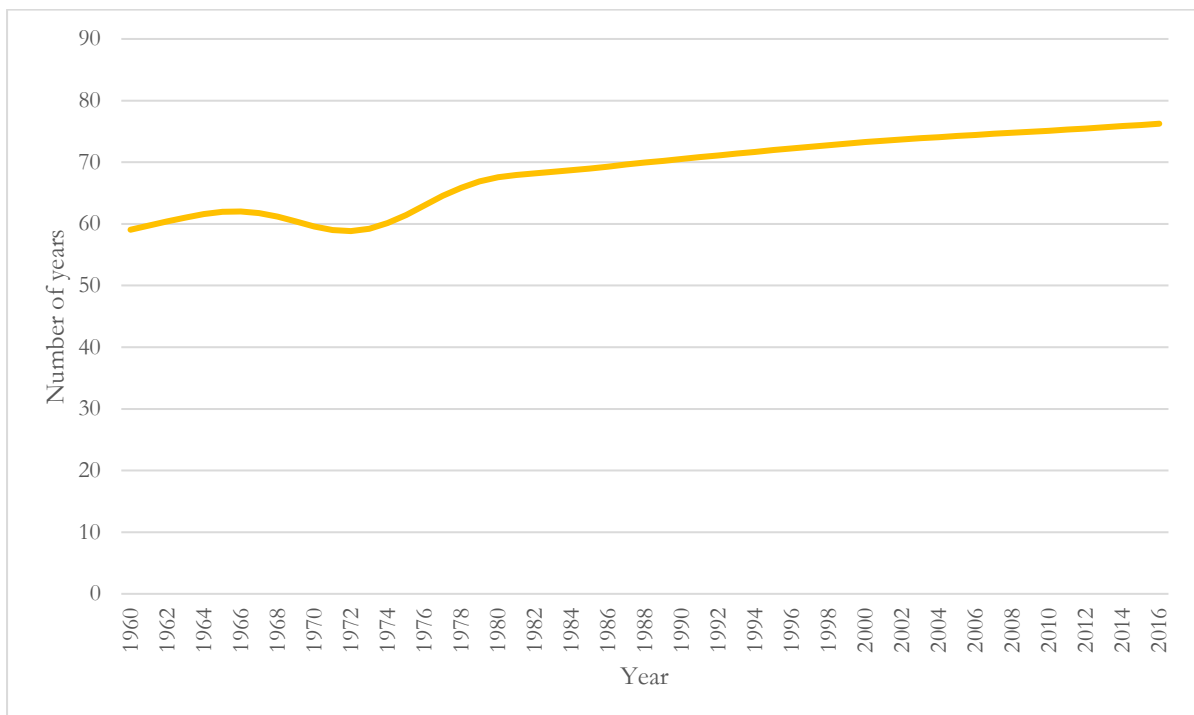
Figure 2b: Crop production per capita (2004–06=100)



Source: Author's compilation based on data from Food and Agriculture Organization (2018).

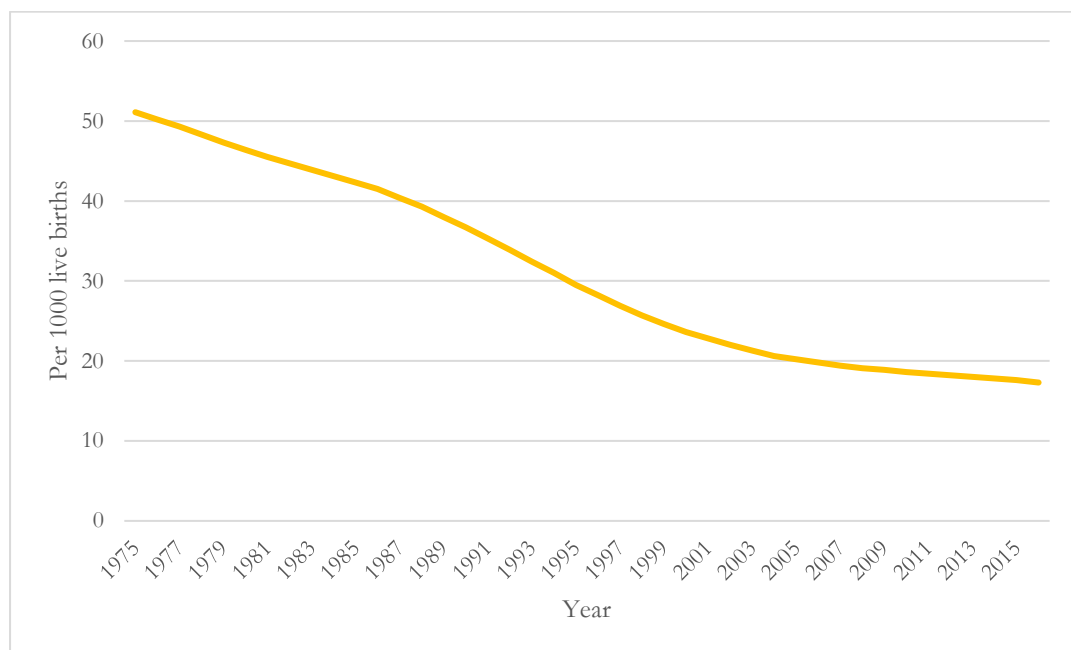
Data on human development for the early post-war period is scarce, but life expectancy and infant mortality shown in Figures 3 and 4 indicate that while life expectancy decreased notably towards 60 years at the end of the 1960s, it started to recover after the war, while infant mortality decreased relatively steadily after 1975.

Figure 3: Life expectancy at birth



Source: Author's compilation based on data from World Bank (2018b).

Figure 4: Infant mortality rate



Source: Author's compilation based on data from World Bank (2018b).

In sum, the Vietnamese economy was plagued by serious structural constraints and policy failures at the end of the Second Five-Year Plan. Aggregate growth turned negative and agricultural crop production did not recover from war-time lows. In any case, individual land ownership was abolished in 1980 in the whole country in line with the policies of the socialist transformation that had been promoted in North Viet Nam after the adoption of the 1959 Constitution. This course of action was taken even if the collectivized production sector was clearly inefficient. In addition, unemployment was high, and there were material and technological shortfalls as well as serious deficits in food and consumer goods supply.

Far from dynamic economic progress and transformation from an extremely low war-time base in a context of high expectations, central planning was yielding stagnation, and the role of the state continued to be paramount. Heavy state-led industrialization was prioritized in government budget allocations and in international collaboration (with foreign assistance flowing in from socialist partners including China, the Soviet Union, and Eastern Europe as discussed in Section 5). Some industrial growth did take place but at a very high cost, and the industrial sector was in any case too small to have any impact on overall economic performance and living standards in the short term where food supply was the overriding concern at the household level.<sup>9</sup> The Vietnamese intervention in Cambodia in late 1978 and the removal of the Khmer Rouge regime from power added further difficulties. It led to international isolation and even a Chinese attack along the northern border in early 1979.<sup>10</sup>

Cognisant of the failures of the Second Five-Year Plan, the CPV adopted a somewhat more gradual planning approach during the next five-year period (1981–85). The government presented plans for one year at a time, and policy nuances were introduced in response to policy experimentation

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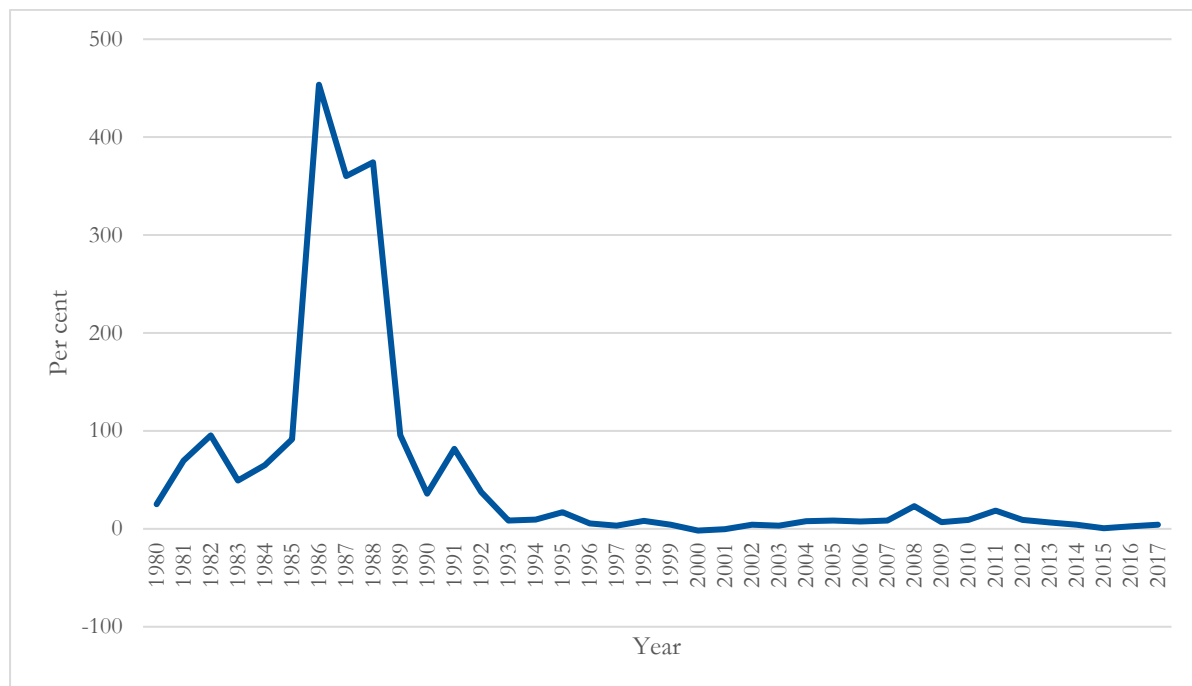
<sup>9</sup> See McKay and Tarp (2015) for a more recent account of how this concern has influenced policy making in Viet Nam for decades.

<sup>10</sup> This episode is typically referred to as the Third Indochina or Sino-Vietnamese War.

at the local level referred to as ‘fence breaking’ by Rama (2008).<sup>11</sup> Industrial policy started stressing development of small-scale industry to provide goods for domestic markets and export and to support heavy industry. Some room was also allowed for free enterprise activity; in agriculture policy started encouraging the ‘family economy’ in which family units instead of collectives were responsible for farming. In parallel, it was the stated aim to improve crop production by intensive cultivation, crop specialization, and employing advanced technologies.

As experimentation, learning and policy dialogue was going on both inside the CPV and in the public more widely during the first half of the 1980s, shortfalls had become endemic, and the country continued to experience high poverty and unemployment rates. In addition to unemployment, underemployment was also high; inflation exploded, and the current account was in persistent deficit as shown in Figures 5 and 6, respectively.

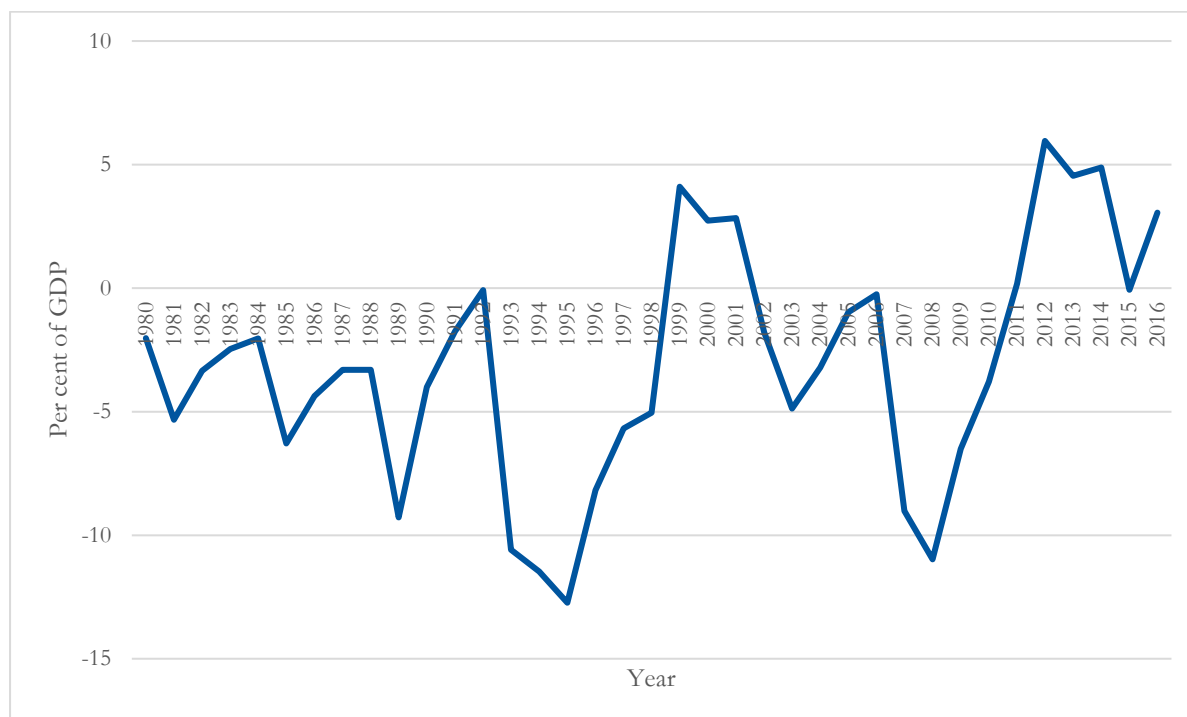
Figure 5: Consumer price index inflation



Source: Author’s compilation based on data from IMF (2018b).

<sup>11</sup> Rama (2008: 15–16) highlights that ‘Fence breaking experiments in agriculture mainly involved allocating land to farmers and directly contracting with them at prices above those set by the plan’, and that these experiments involved fairly high-level local leaders, who had in common that they were seen as ‘bullet proof’, given their track records during the wars’. See also Thanh (2011).

Figure 6: Current account



Source: Author's compilation based on data from IMF (2018b).

The wide-ranging nature of the crisis was manifest, and conditions were getting ripe for initiating a response in the form of a comprehensive reform programme.

### 3 Economic growth, structural transformation, and rural change from 1986

CPV General Secretary Le Duan passed away in July 1986, shortly after he had explicitly endorsed the need for policy change and reform; and the subsequent election of Nguyen Van Linh at the Sixth National Congress of the CPV in December 1986 coincided with the adoption of the Doi Moi 'renovation' programme that had been in the making.<sup>12</sup> Doi Moi was a far-reaching and comprehensive set of policy moves and in its adoption the CPV recognized that serious policy shortcomings and mistakes had been made and that they were responsible for Viet Nam's economic disappointments. A five-point action plan was issued. They included (see Stern 1987: 359):

- concerted efforts to increase the production of food, consumer goods, and exportable items;
- continued efforts to control small merchants and private capitalists, while acknowledging the reality of the need for supporting a persistent multi-sector economic structure;
- a combined effort to regenerate the planning bureaucracy while making the economic management system more efficient by decentralizing authority and making room for more independent decision-making;
- clarification of the lines of governmental authority, and the reorganization of state management apparatus; and

<sup>12</sup> For further details on the Sixth National Congress, see *Wikipedia* (2018).

- action to improve party organizational capabilities, leadership, and cadre training.

Vo Van Kiet (later to become Prime Minister of Viet Nam during the 1990s) delivered the Economic Report to the Congress. He highlighted that the production of grain and food products would be the main objective of the Fourth Five-Year Plan; that material incentives and end-product contracts would play a prominent role; and that the export of agricultural products would be emphasized as would FDI (see Thayer 1987: 15–16). All in all, a set of quite remarkable policy initiatives, designed to promote the establishment of a socialist-oriented market economy, not so dissimilar to what was happening in other socialist economies at the time. While this concept may be difficult to define precisely it certainly helped promote consensus and meant that the National Party Congress came out as united in 1986 as a decade earlier in 1976.

The party leadership had, in the formulation of Rama (2008: 18), first tolerated, then embraced, and finally scaled up ‘fence breaking’; and it merits adding that the composition of the Central Committee also changed. Provincial party secretaries, economic specialists, and technocrats increased their share from 11 to 46 per cent (Thayer 1987: 17). A multitude of practical measures and steps were subsequently taken in the rural sector including prominently the liberalization of the price of rice, the phasing out of agricultural cooperatives, and the redistribution of agricultural land to peasants (while keeping in place restrictions on the use of the land for rice production) (see Markussen et al. 2011). Concerted programmes for development of agricultural technology and inputs were also initiated. Of particular note, the land reform initiative was implemented in a remarkably egalitarian manner that came to serve Viet Nam well in the coming decades (see Ravallion and van de Walle 2008). More recently, attention has shifted to the efficiency costs associated with operating the large number of plots that individual households were allocated, and consolidation of fragmented plots is presently a priority on the policy agenda.<sup>13</sup>

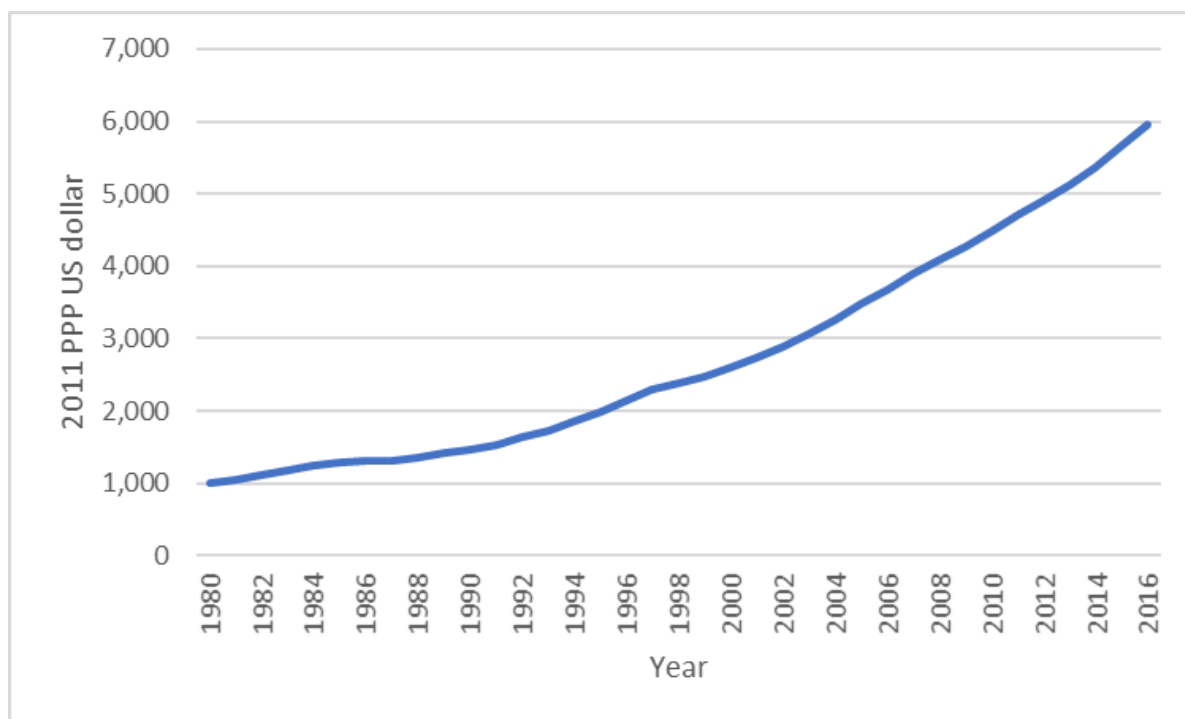
Economic growth reacted quickly to the Doi Moi reforms and has remained high, and also relatively stable, ever since (see Figures 1a and 1b). Figure 7 shows the very significant progress in the level of real GDP per capita over the years. Inflation got under control (see Figure 5), and savings and investment increased considerably (Figures 8 and 9).<sup>14</sup> While investment was driven initially by state investment (Figure 10), domestic credit to the private sector was expanded fast as well (Figure 11). Moreover, even if private consumption as a share of GDP soon started falling to a level around 60 per cent (see Figure 8), absolute increases in household consumption were impressive (Figure 12).

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<sup>13</sup> See Khai et al. (2013) for background on farmers’ access to land and land transactions.

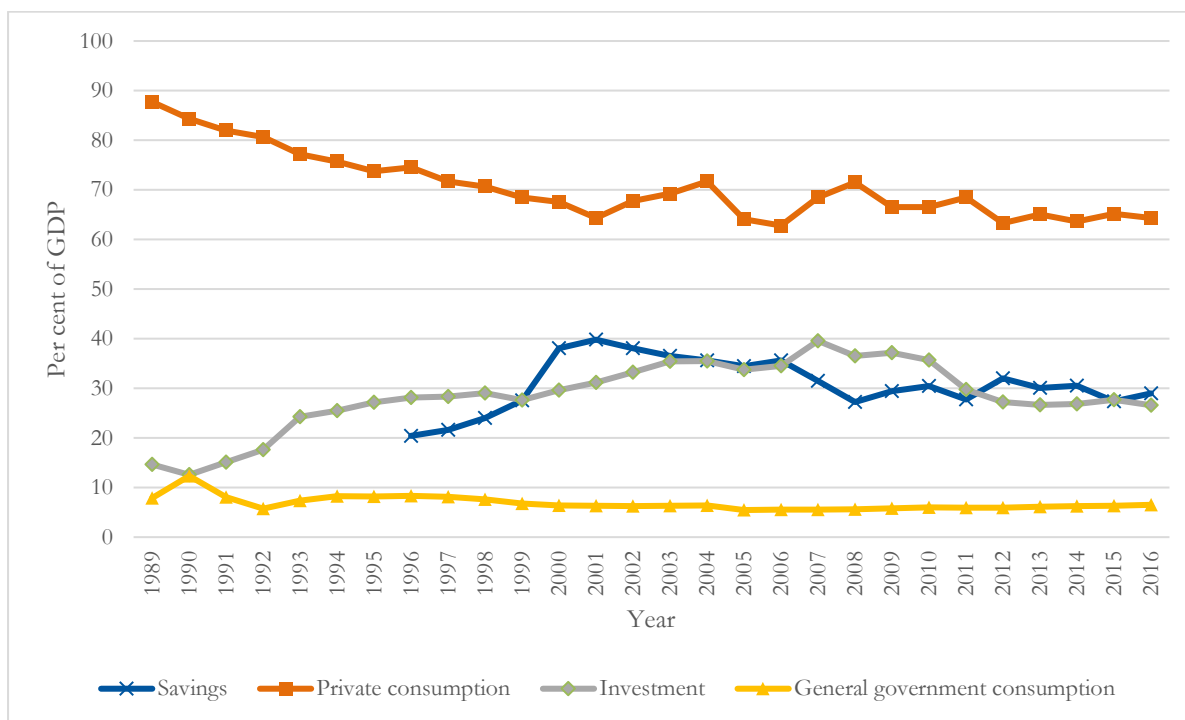
<sup>14</sup> For a study on rural household savings, social capital, and network effects, see Newman et al. (2014); on formal and informal credit, see Barslund and Tarp (2008).

Figure 7: Real GDP per capita, real purchasing power parity (PPP) corrected US dollar



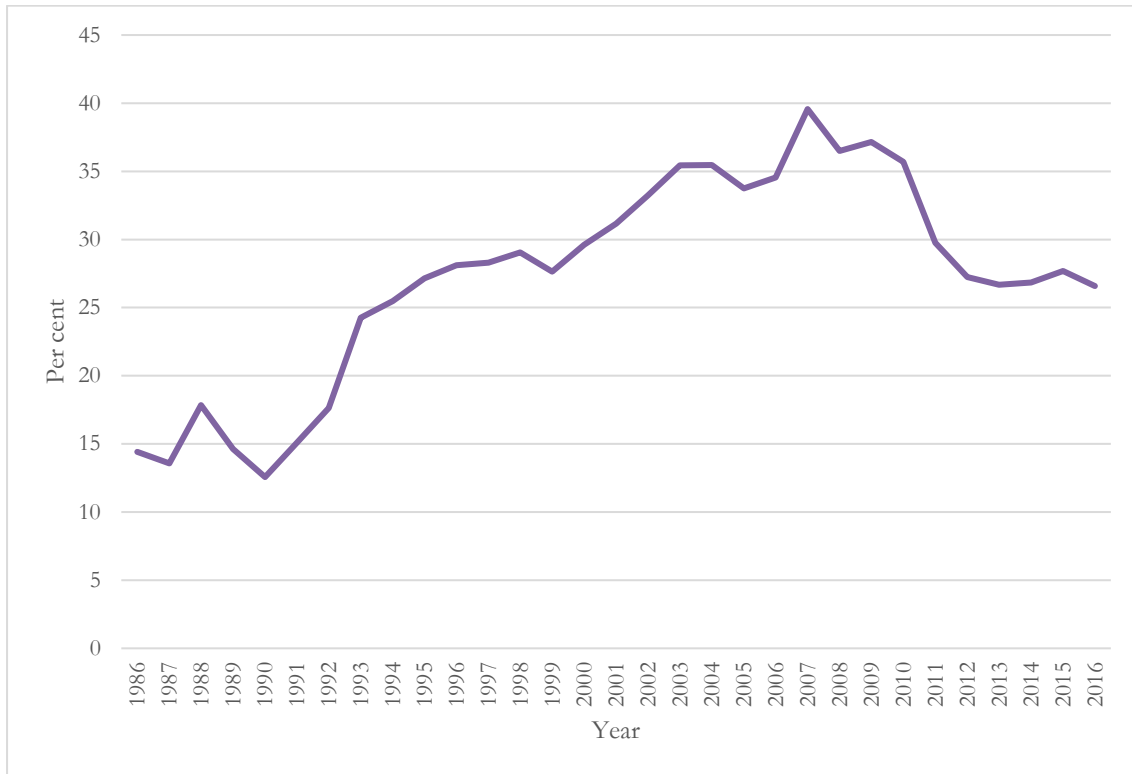
Source: Author's compilation based on data from IMF (2018b).

Figure 8: Private and public consumption, investment, and savings as percentage of GDP



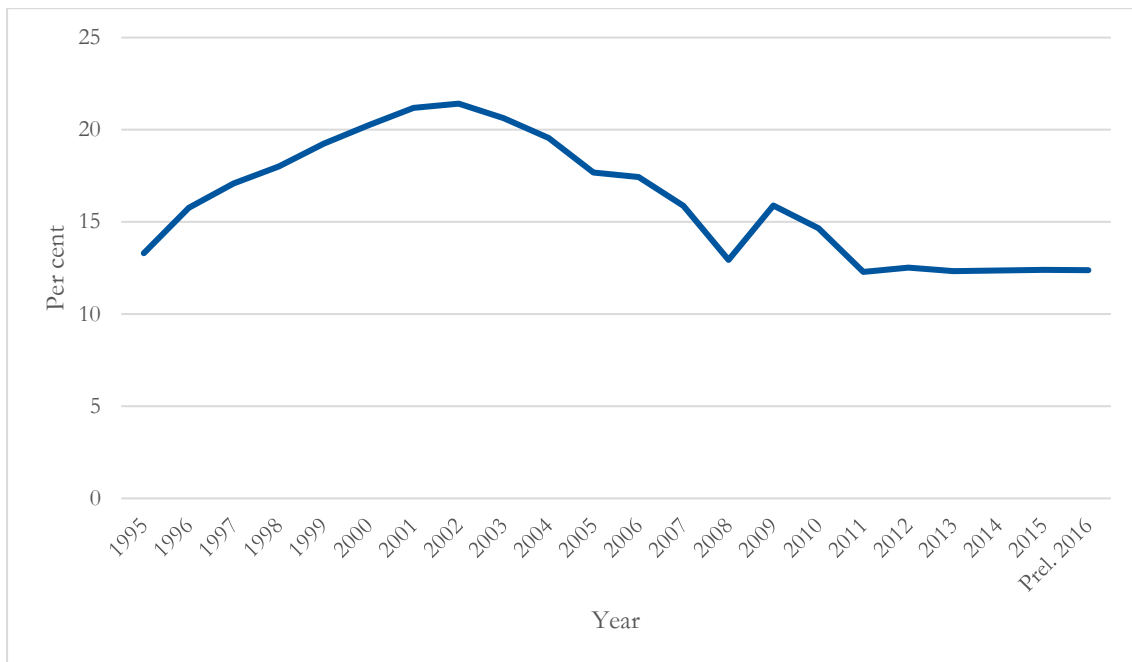
Source: Author's compilation based on data from World Bank (2018b).

Figure 9: Gross capital formation as a share of GDP



Source: Author's compilation based on data from World Bank (2018b).

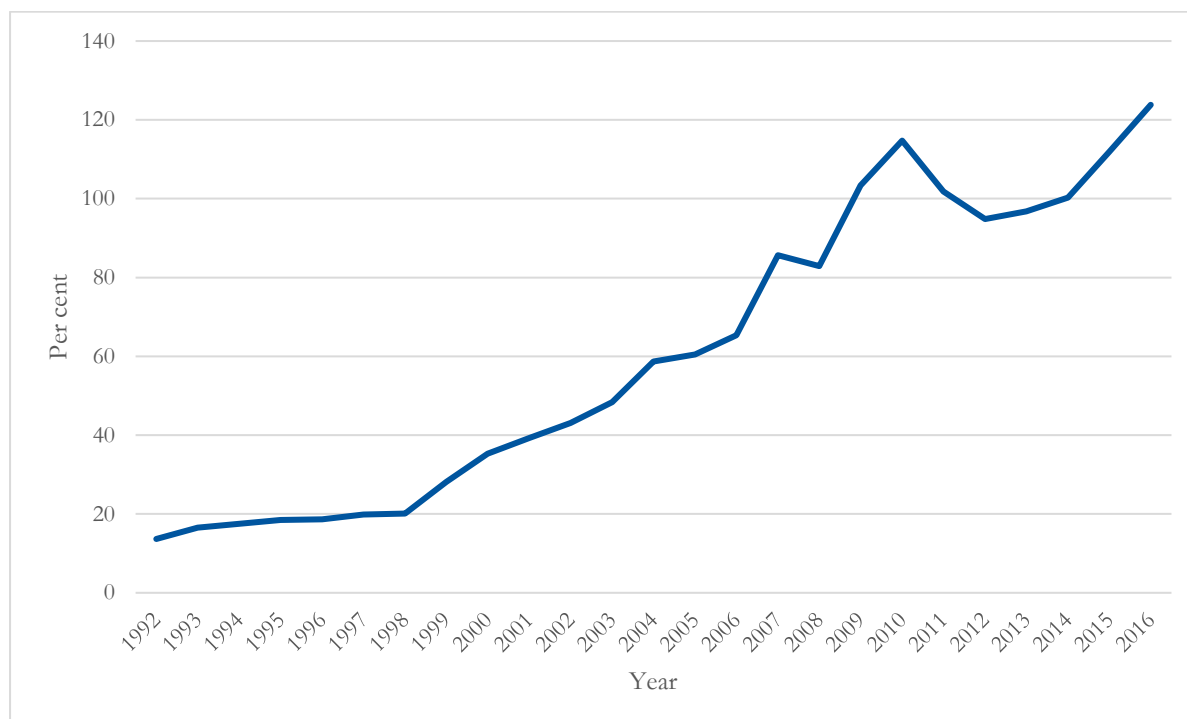
Figure 10: State investment as a share of GDP



Source: Author's compilation based on data from General Statistics Office of Viet Nam (2018).

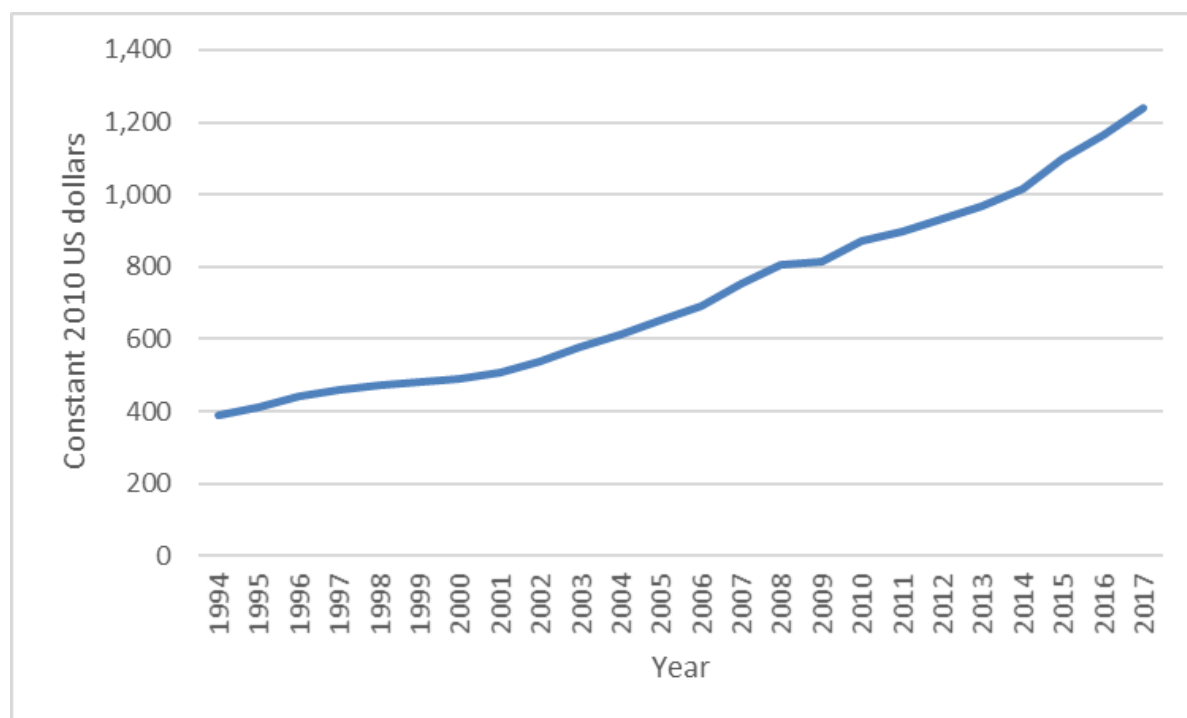


Figure 11: Domestic credit to the private sector as a share of GDP



Source: Author's compilation based on data from World Bank (2018b).

Figure 12: Household final consumption per capita

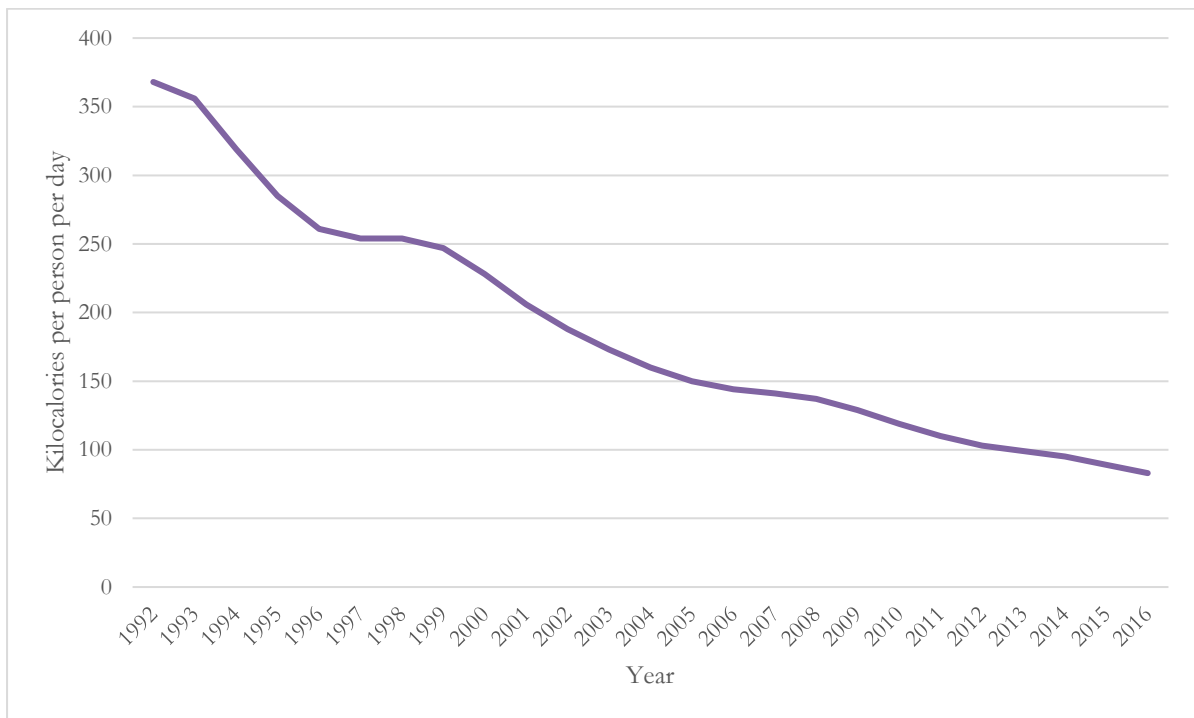


Source: Author's compilation based on data from World Bank (2018b).

Agriculture also responded soon after Doi Moi. Crop production expanded fast, and growth has remained positive (see Figures 2a and 2b). Importantly, the politically sensitive food deficit started declining quite significantly, as shown in Figure 13, alongside the substantial drop in under-nourishment of the Vietnamese population (Figure 14). A major reason behind this progress lies in the phenomenal progress in rice production, which stands out in Figure 15. In a short span of

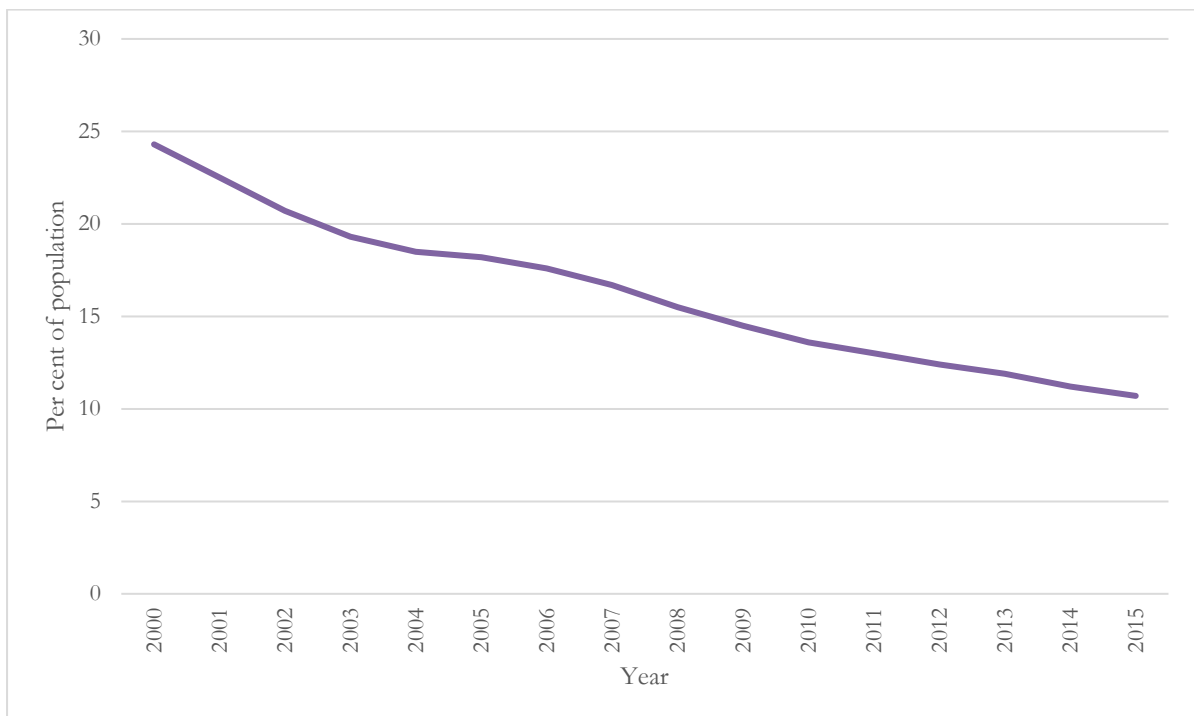
years, Viet Nam turned herself into a major producer and exporter of rice and other agricultural products, from having depended heavily on significant amounts of food imports.

Figure 13: Food deficit



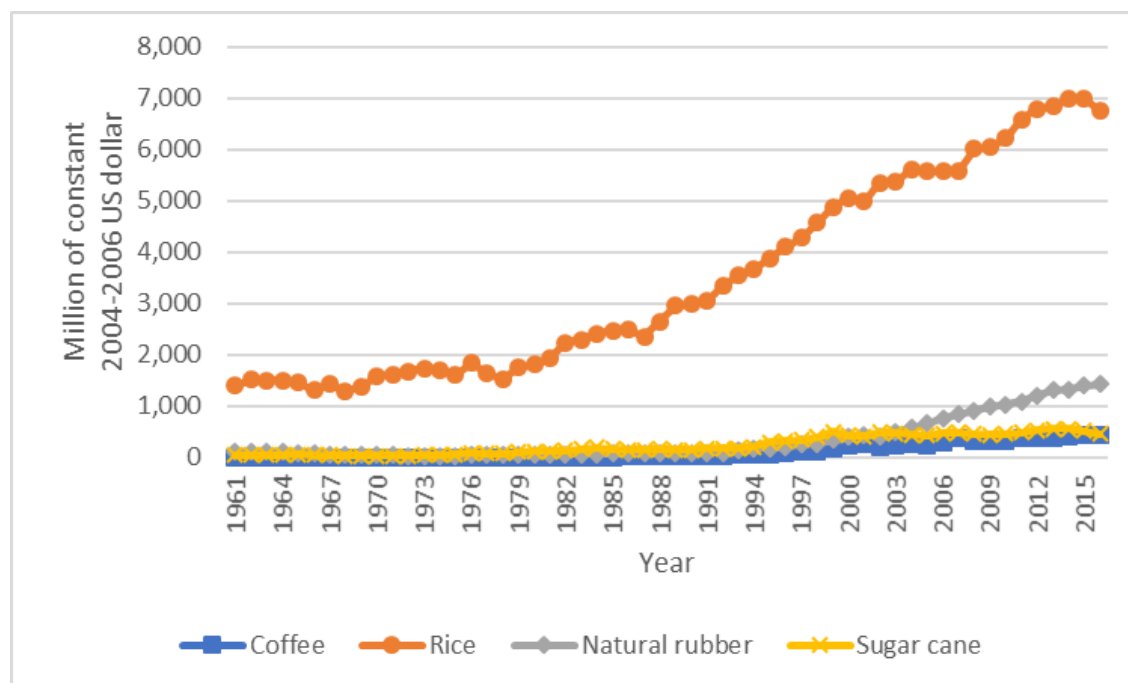
Source: Author's compilation based on data from World Bank (2018b).

Figure 14: Under-nourishment



Source: Author's compilation based on data from World Bank (2018b).

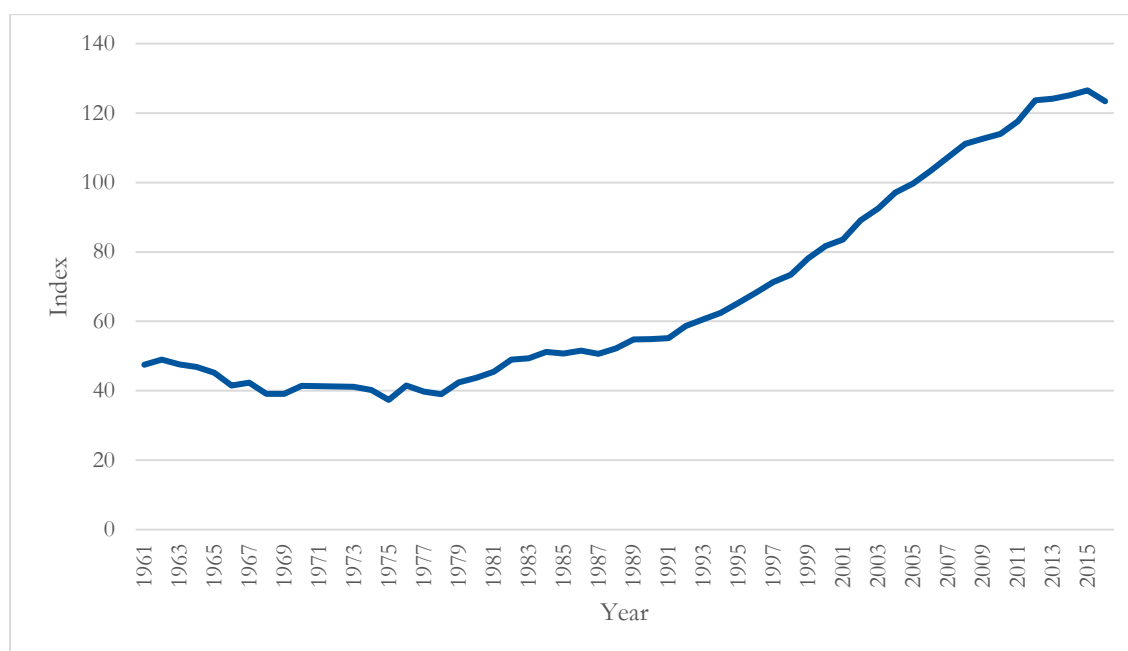
Figure 15: Value of agricultural production (main products)



Source: Author's compilation based on data from Food and Agriculture Organization (2018).

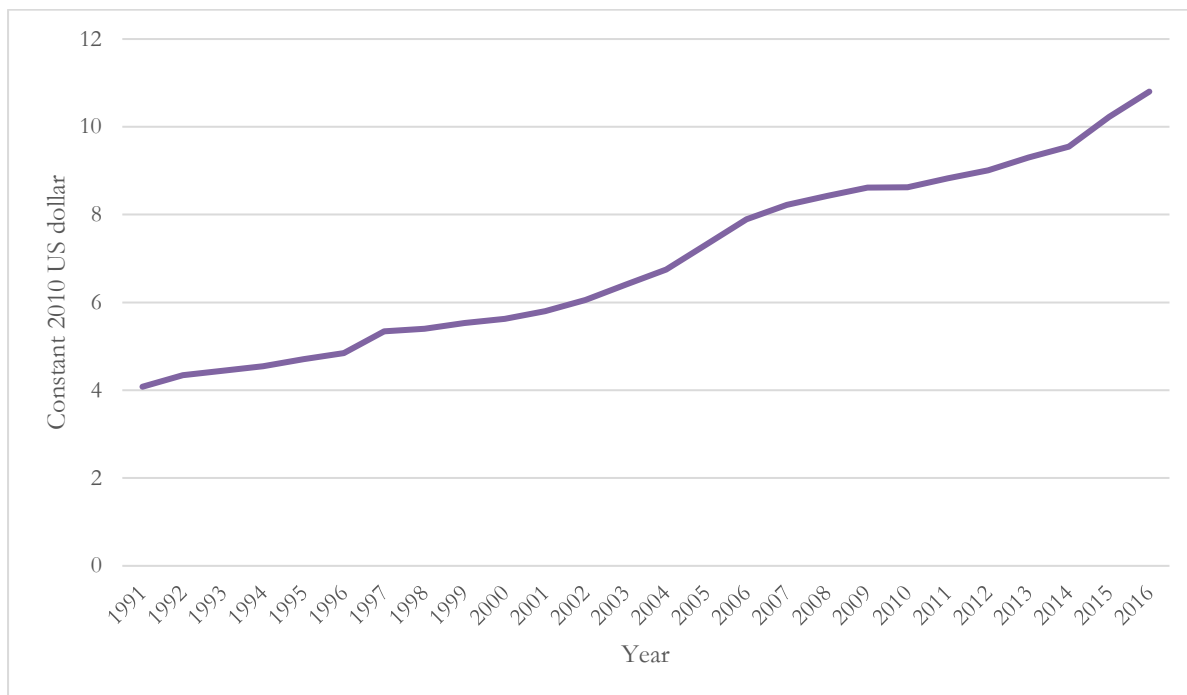
Other indicators of the significant economic impact of the Doi Moi reforms are reflected in the quite impressive increases in the index for agricultural production per capita (Figure 16) and the value added per worker in agriculture (Figure 17), industry (Figure 18), and services (Figure 19). We will revert to the tapering off of the labour industry value added from around 2000 in Section 4; Figures 17–19 also highlight the very substantial differences in levels of value added between the three sectors. This remains a key challenge for the future to which we shall revert in the conclusions in Section 7.

Figure 16: Agricultural production per capita (index 2004–06=100)



Source: Author's compilation based on data from Food and Agriculture Organization (2018).

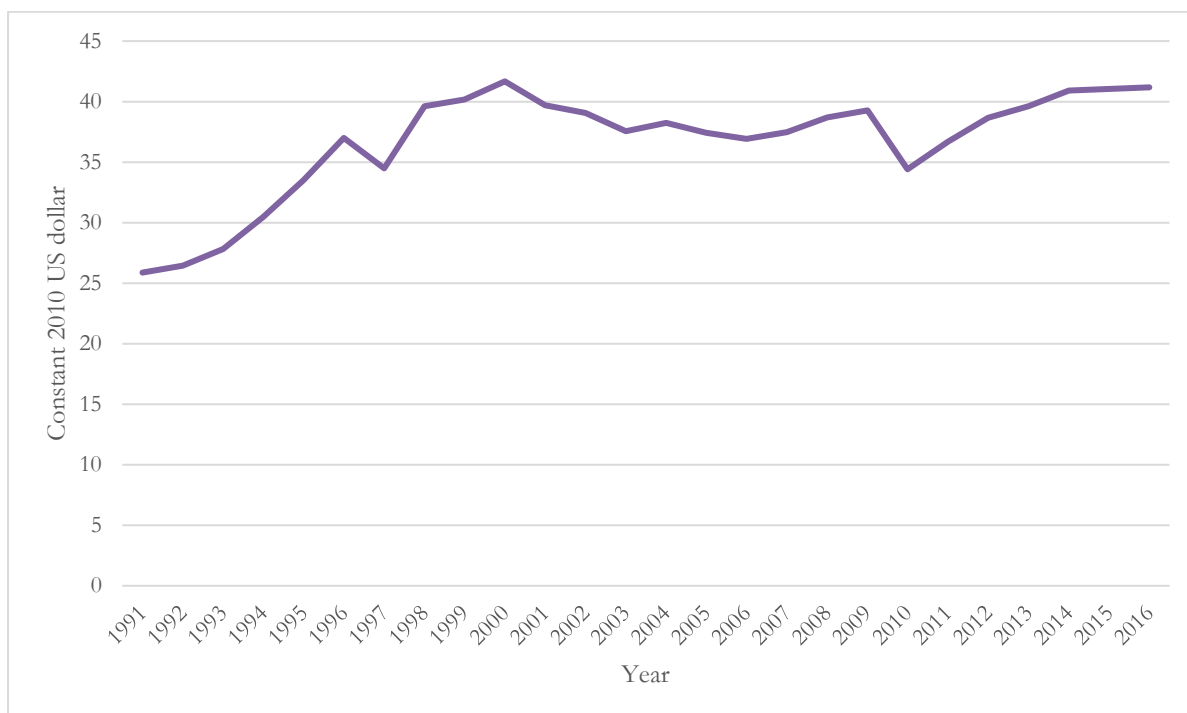
Figure 17: Agriculture value added per worker



Notes: Total value added of agriculture sector divided by the number of people employed in the sector. The value added from 2010 onwards excludes taxes and subsidies.

Source: Author's compilation based on data from World Bank (2018b).

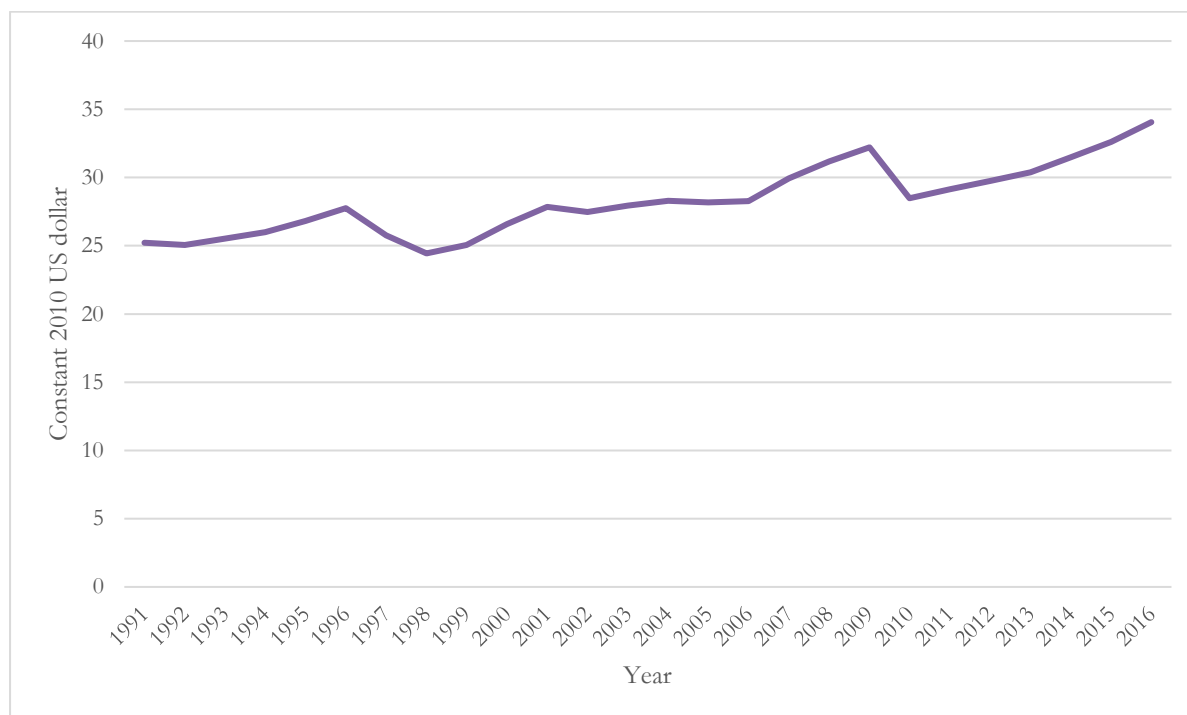
Figure 18: Industry value added per worker



Note: Total value added of industry sector divided by the number of people employed in the sector. The value added from 2010 onwards excludes taxes and subsidies.

Source: Author's compilation based on data from World Bank (2018b).

Figure 19: Services value added per worker



Note: Total value added of services sector divided by the number of people employed in the sector. The value added from 2010 onwards excludes taxes and subsidies.

Source: Author's compilation based on data from World Bank (2018b).

Sector shares of value added and total employment are shown in Table 1; and it becomes immediately clear, as is also evident from Figure 20, that Viet Nam is a case of successful structural transformation. Workers have over the past three decades gradually migrated to urban areas and have been employed there. In contrast to the strict traditional Lewis (1954) dual-sector model, agriculture was by no means ignored in Doi Moi. In fact, agriculture was very much at the core and was actively supported by state coordinated support measures. Consequently, and importantly for the process of structural transformation, agriculture has grown substantially in absolute terms.<sup>15</sup> In sum, the general economic transformation story that emerges from Viet Nam includes a combination of labour moving out of agriculture to be absorbed in expanding higher value-added industry and services sectors. This implies that structural change contributed to aggregate growth over and above the impact from high levels of investment and technical change.<sup>16</sup> At the same time, significant changes took place in rural organization and life (see Tarp 2017).<sup>17</sup>

<sup>15</sup> The Vietnamese structural transformation process may therefore be said to be better captured by the Ranis and Fei (1961) two-sector model formulation than Lewis' (1954) original formulation.

<sup>16</sup> McCaig and Pavcnik (2013) conclude that structural change accounted for a third of the growth in aggregate labour productivity. Abbott et al. (2017) argue that a significant part of growth originated from technological change that benefitted agriculture as well. For the importance of industry switching firms for productivity change, see Newman et al. (2013); for industry agglomeration, see Howard et al. (2016).

<sup>17</sup> For detailed panel data studies on the development of the rural sector in Viet Nam since 2002, see also UNU-WIDER (2018a). A recent book is Tarp (2017) on structural transformation, and two recent papers are Markussen et al. (2017) on happiness and Newman et al. (2015a) on property rights; but there are many more studies such as Markussen and Tarp (2014) on political connections and investment in land. Also, detailed bi-annual research reports are available from 2006 on the characteristics of the Vietnamese rural economy (see Ayala-cantu et al. 2017).

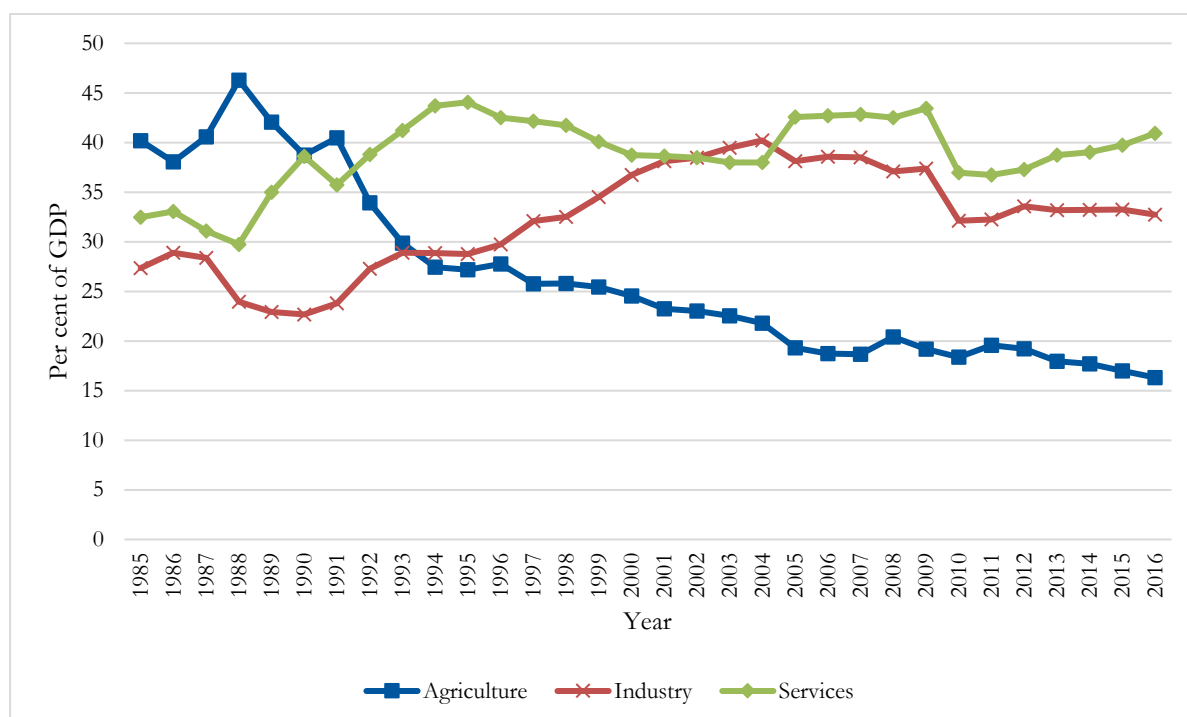
Table 1: Sector shares of value added of GDP (VA) and total employment (Empl.) in percentage

	1985		1995		2005		2015	
	VA	Empl.	VA	Empl.	VA	Empl.	VA	Empl.
Agriculture	40.2	#N/A	27.2	70.6	19.3	54.6	17.0	43.9
Industry	27.4	#N/A	28.8	10.5	38.1	18.9	33.3	23.3
Services	32.5	#N/A	44.1	18.9	42.6	26.5	39.7	32.8
Taxes and subsidies on products	#N/A	—	#N/A	—	#N/A	—	10.0	—
Total	100.1	#N/A	100.1	100.0	100.0	100.0	100.0	100.0

Notes: Taxes and subsidy data are available only from 2010 onwards. Until 2009, GDP = value added, and since then GDP = value added + taxes – subsidies. As most taxes are levied on industry (approximately 58 per cent) followed by services (approximately 30 per cent) (according to Hoai et al. 2016), this leads to some downward bias in the industry share in 2015 in this table compared with previous years.

Source: Author's compilation based on data from World Bank (2018b).

Figure 20: Sectoral value added



Source: Author's compilation based on data from World Bank (2018b).

The CPV National Congresses have from 1991 onwards maintained a strong focus on the continued shift towards a more market-oriented economy and an enhanced role of the private sector, while at the same time stressing state control and coordination as fundamental characteristics of the Vietnamese economy and society. Goals and strategies continue to be articulated in five-year plans, which play an important role in resource allocation.<sup>18</sup> To illustrate, the Tenth National Congress in 2006 approved (two decades after Doi Moi was initiated) the Eight Five-Year Plan (referred to as the Five-Year Socio-economic Development Plan) on the doorstep of Viet Nam joining the World Trade Organization (WTO) on 1 January 2007.<sup>19</sup>

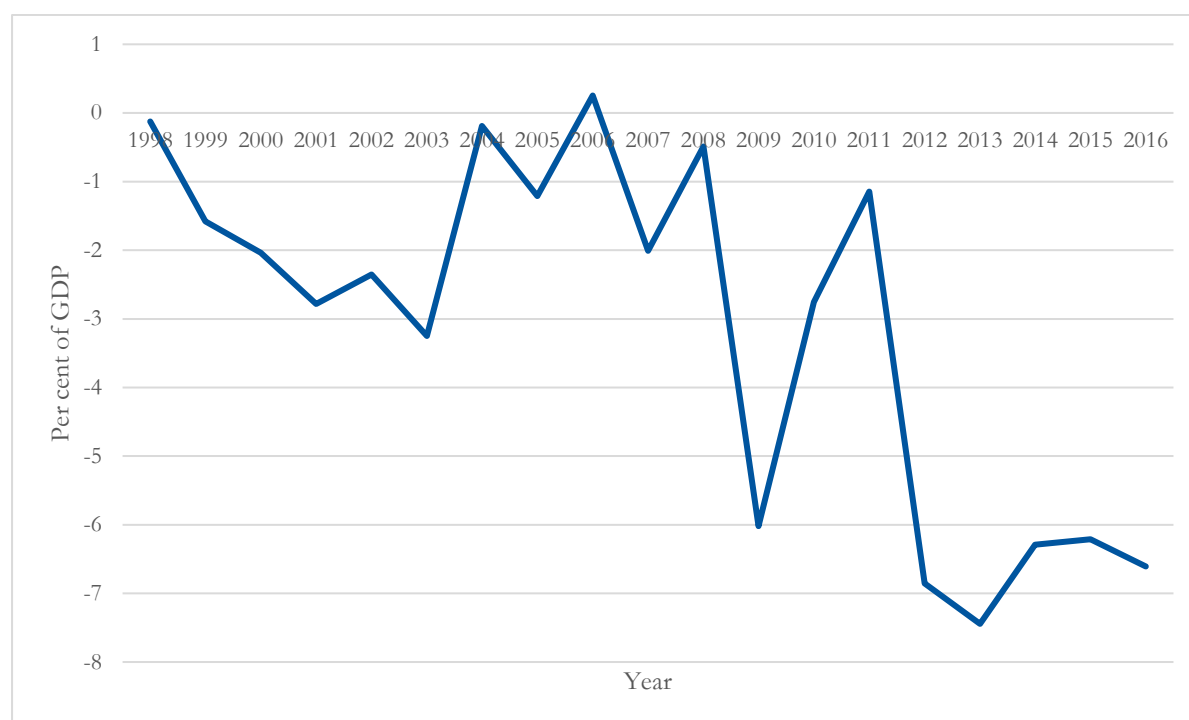
<sup>18</sup> The opening of the domestic economy to the international market started well before Doi Moi, but was restricted to the socialist countries.

<sup>19</sup> The National Congress also deliberated extensively on whether existing party members should be allowed to engage in private ownership without restriction on the number of employees they could hire; and while the amendment was approved, it was subsequently restricted to party members, who had worked in state-owned enterprises, which had

As regards macroeconomic and rural sector policies, they have in general been focused on very ambitious investment and infrastructure development programmes (across the whole economy), and counter-cyclical measures have on many occasions been taken. Viet Nam managed the 1997 East Asian financial crisis and 2007–08 financial crisis and its aftermaths much better than other countries. This was achieved through a combination of substantial fiscal stimulus and keeping in place controls of capital movements.<sup>20</sup> In spite of the occasional instability, which is hard to avoid in a rapidly changing global and domestic economic environment, macroeconomic management has over the years been solid. Growth versus inflation aims have been balanced while responding to severe external shocks (in particular the global financial crises) and generally holding to the objectives of growth and poverty reduction.

Government budget deficits (Figure 21) have occasionally given rise to concern. However, the public debt to GDP ratio averaged less than 45 per cent from 2000 until 2017, where it reached less than 62 per cent (*VietnamNet* 2018; *Trading Economics* 2018); and importantly, total external debt has been kept below 50 per cent of GDP since the turn of the century (Figure 22). Moreover, foreign currency reserves have been very respectable both as a share of external debt and of GDP (Figure 23). Finally, Figure 24 illustrates the very significant change in Viet Nam’s international economic and financial relations to which we return in Section 5 after addressing enterprises, industrialization, and services in Section 4.

Figure 21: General government fiscal balance



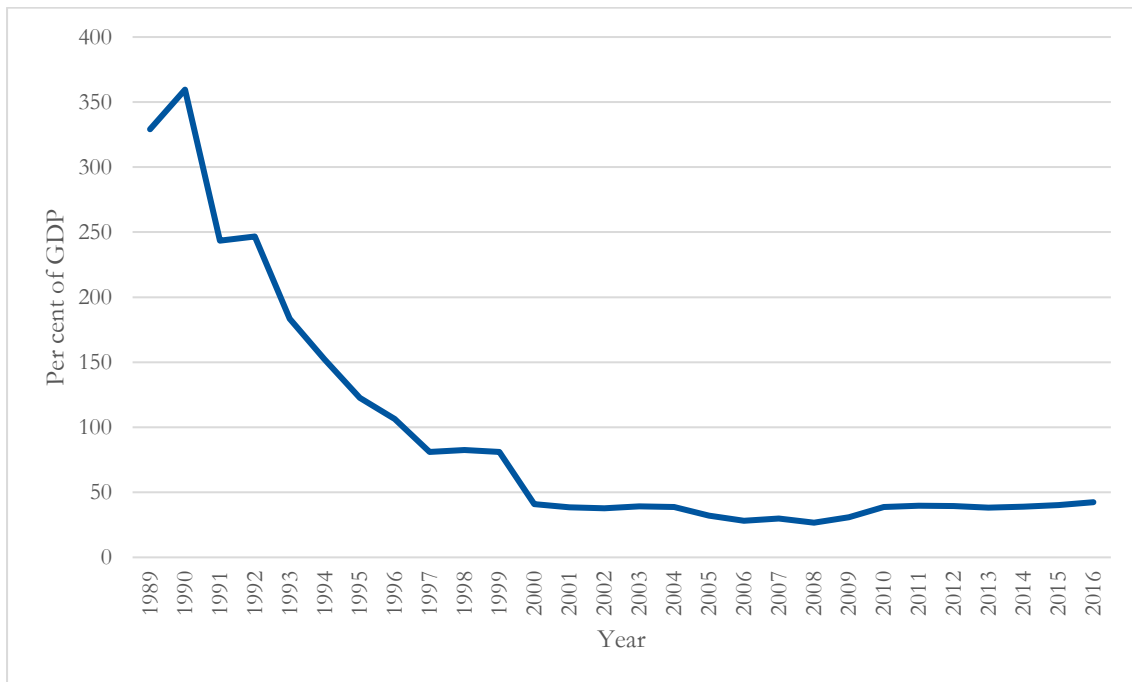
Source: Author’s compilation based on data from IMF (2018b) (Forecasts since 2015.)

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been privatized, and private entrepreneurs were not permitted to join the CPV (see Thayer 2007). This changed in 2011 when CPV allowed private entrepreneurs as party members.

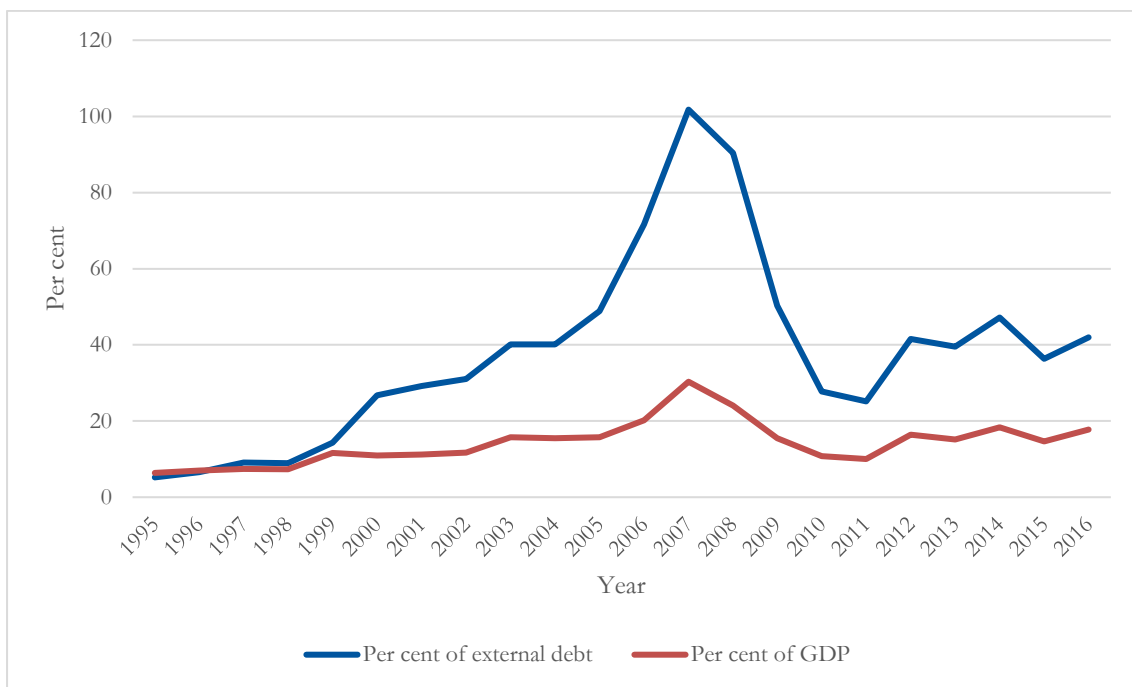
<sup>20</sup> See Abbott and Tarp (2012) and Thurlow et al. (2011) for detailed studies.

Figure 22: Total external debt as a share of GDP



Source: Author's compilation based on data from World Bank (2018a, 2018b).

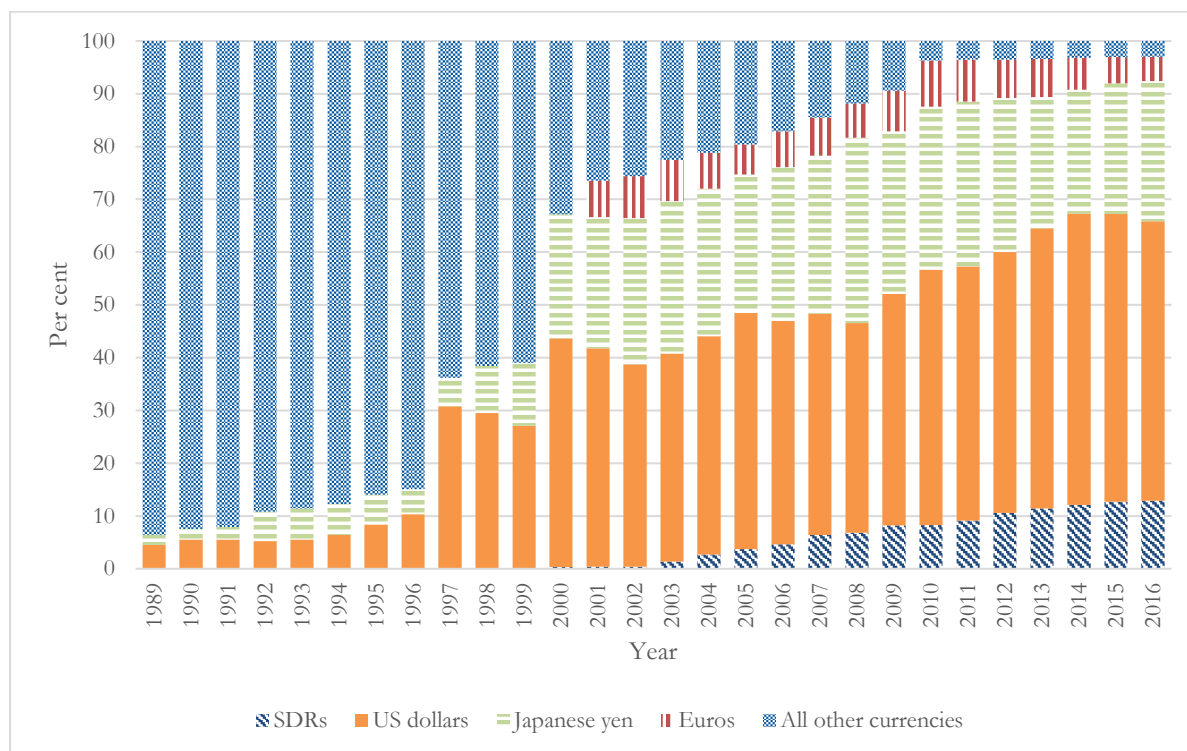
Figure 23: Foreign currency reserves



Source: Author's compilation based on data from World Bank (2018b).



Figure 24: Currency composition of long-term external public and publicly guaranteed debt



Note: SDRs, special drawing rights.

Source: Author's compilation based on data from World Bank (2018b).

#### 4 Enterprises, industrialization, and service sector issues

State-owned enterprises (SOEs) were central to the pre-Doi Moi reconstruction and industrialization drives in North Viet Nam, and from 1975, in the whole of Viet Nam. Heavy industry was prioritized in government budget allocations within the planned economy framework; market prices had no role to play; private trade was not recognized; and the role of the SOEs was restricted to implementing plans and achieving production targets decided on and passed down from central levels. No company law existed, and all industrial and service firms were in principle to be brought under state ownership and management. This created obvious disruptions in the South, where drastic nationalization efforts were taken after reunification. Ngu (2002) reports that by early 1978 a total of 1,500 private enterprises in the South, with 70 per cent of privately employed workers, had been converted into 650 SOEs. In spite of the fact that none of the industry targets set for the 1976–80 Five-Year Plan were met,<sup>21</sup> state ownership was pushed forward, and in 1986 SOEs accounted for 40 per cent of GDP (Frank 2013: 2). SOEs were given more flexibility in decision-making and planning in the 1981–85 plan and experienced a growth turnaround even if costs were high.

From 1986 Doi Moi included a series of further important steps to give the SOEs autonomy. Detailed targets were reduced to broader socio-economic guidelines; price controls for consumer goods were abolished; and industrial production was to focus on food, consumer goods, and

<sup>21</sup> For example, Ngu (2002: 4) notes target achievement rates of 32, 21, and 24 per cent for cement, steel, and chemical fertilizers, respectively.

exports. At the same time government subsidies were significantly reduced. This forced SOEs to become more self-reliant. It also brought out in the open their lack of efficiency and that many were loss-making entities. From the early 1990s this led to the liquidation of many SOEs across the economy. The total number of SOEs fell from 12,297 in 1991 to 6,264 in 1994 (among which respectively 2,599 and 2,062 were industrial SOEs), and further down to 5,355 in 2001 (see Ngu 2002: 7; Thanh 2011: 5). In contrast, the number of private small and medium enterprises (SMEs) grew from 10,859 in 1994 to 24,131 in 1997 (World Bank 1998: 30). Trading SMEs tripled in this period. Growth in other sub-sectors was less impressive, though still significant. Total industrial output grew annually by rates well above 10 per cent during the latter half of the 1990s, and SOEs continued to dominate, accounting for more than half of total industrial output. They were followed by foreign invested companies with one-fourth (often in joint ventures with SOEs),<sup>22</sup> and other firms with one-fourth. Some 90 per cent of the approximately 5,000 private firms in industry were concentrated in four sectors: food and beverages, garments and shoes, metal and metal products, and wood and paper products (World Bank 1998: 29).

The somewhat tentative changes during the 1990s were to accelerate drastically after the Enterprise Law was enacted in 1999 (National Assembly 1999). It made it easier for private enterprises to enter and operate. Nguyen et al. (2016, 2014) document the industry sector changes in detail, including both the continued drop in SOE numbers to 2,980 exclusively state-owned SOEs and 670 with 50 per cent state ownership in 2005 and that the number of private sector firms (including both industrial and service sector firms) shot up to over 200,000 by 2006. Other telling data is that the number of micro firms with fewer than ten employees increased their employment share from 22.4 per cent in 2002 to 44.7 per cent a decade later. Manufacturing accounted for more than 80 per cent of industrial activity, and annual industrial sector growth was generally around 15 per cent with far lower growth rates in SOEs in the first decade of the 2000s. Service sector developments were quite similar, and in 2005 over half of Viet Nam's enterprises were in services, with the highest percentage being in wholesale and retail commerce. The highest increase in enterprises between 2000 and 2005 were in health-related services and in business services. The vast majority of very small and small enterprises were in services, with wholesale and retail trade having three-quarters of the enterprises with fewer than five employees (see UNDP 2005: 10). An impressive part of the services sector development has been the very rapid expansion of the tourism sub-sector, which in 2015 accounted for 13.9 per cent of GDP, more than 11 per cent of total employment, and 5.6 per cent of exports (*The Voice of Vietnam Online* 2016).

Over the past decade the above developments have been intensified through a vast number of further legal and economic policy steps. One highlight is the 2005 Enterprise Law that unified the legal foundation for all enterprise types (i.e. SOEs, FDIs, and private firms) to create a level playing field for their operations. Table 2 shows the formidable changes in the ownership structure of enterprises, Figure 25 the changes in employment structure, Figure 26 how net turnover has evolved, and Figure 27 the developments in profits before taxes. The shift away from a completely state-dominated economy to one where the private sector and foreign invested firms tower could not be clearer.<sup>23</sup> Moreover, the developments over the last couple of years where available statistics are less systematic confirm that these trends continue (see *Nhân Dân* 2018). For example, the government has announced further ambitious SOE divestment and restructuring plans for the

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<sup>22</sup> Further comments on the foreign invested companies, which were allowed entry after the 1987 Law on Foreign Investment and which form a critically important part of the changed enterprise landscape in Viet Nam are made in Section 5.

<sup>23</sup> Eckardt et al. (2018) stress that foreign companies include major global players such as Samsung, Intel, and LG, and that they are primarily active in export-oriented, labour-intensive manufacturing.

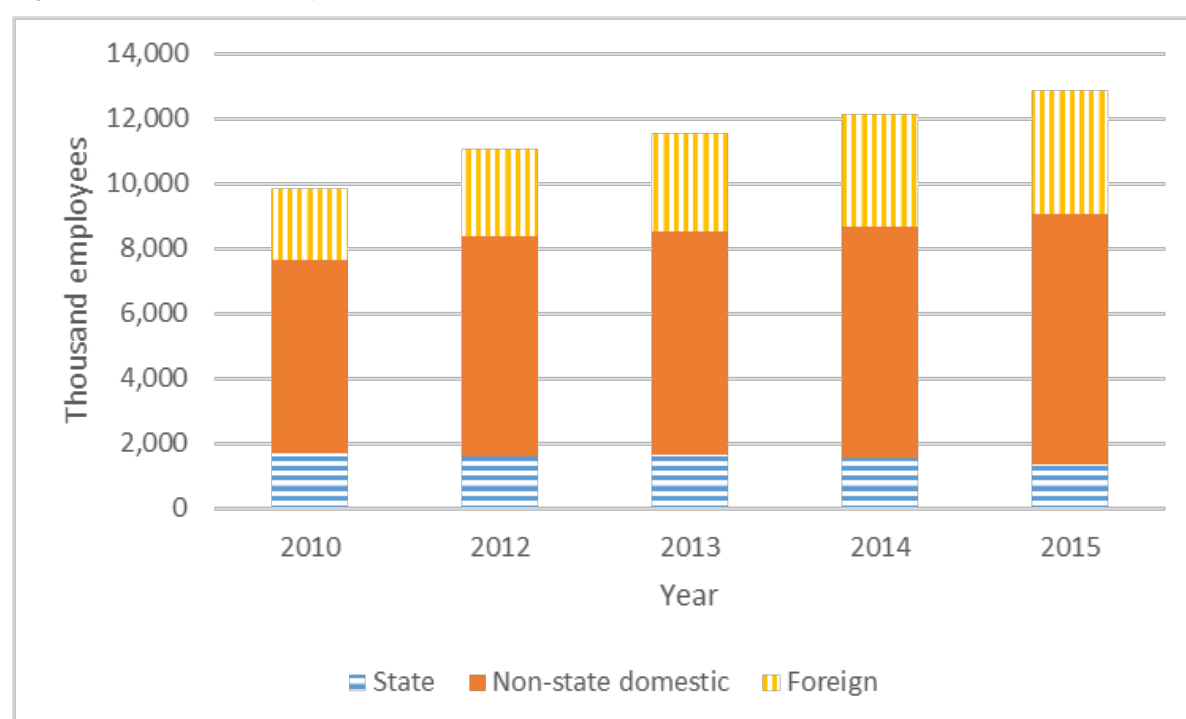
period until 2020; meanwhile, the number of private SMEs continued to grow with around 100,000 new firms in 2016 (see *Vietnam Briefing* 2017).<sup>24</sup> In conclusion, it merits highlighting that while labour value added in agriculture and services has generally been on an upward trend as already pointed out, this is not the case for industry (see Figure 18). Although the rapid expansion and greater absorption of labour in industry is clearly welcome,<sup>25</sup> this has attracted considerable attention in the domestic policy debate in Viet Nam, and we shall revert to this topic in Section 7.

Table 2: Number of enterprises

Sector	2010	2012	2013	2014	2015
State	3,281	3,239	3,199	3,048	2,835
Non-state domestic	268,831	334,562	359,794	388,232	427,710
Foreign	7,248	8,976	10,220	11,046	11,940
Total	279,360	346,777	373,213	402,326	442,485

Source: Author's compilation based on data from General Statistics Office of Viet Nam (2018).

Figure 25: Number of employees

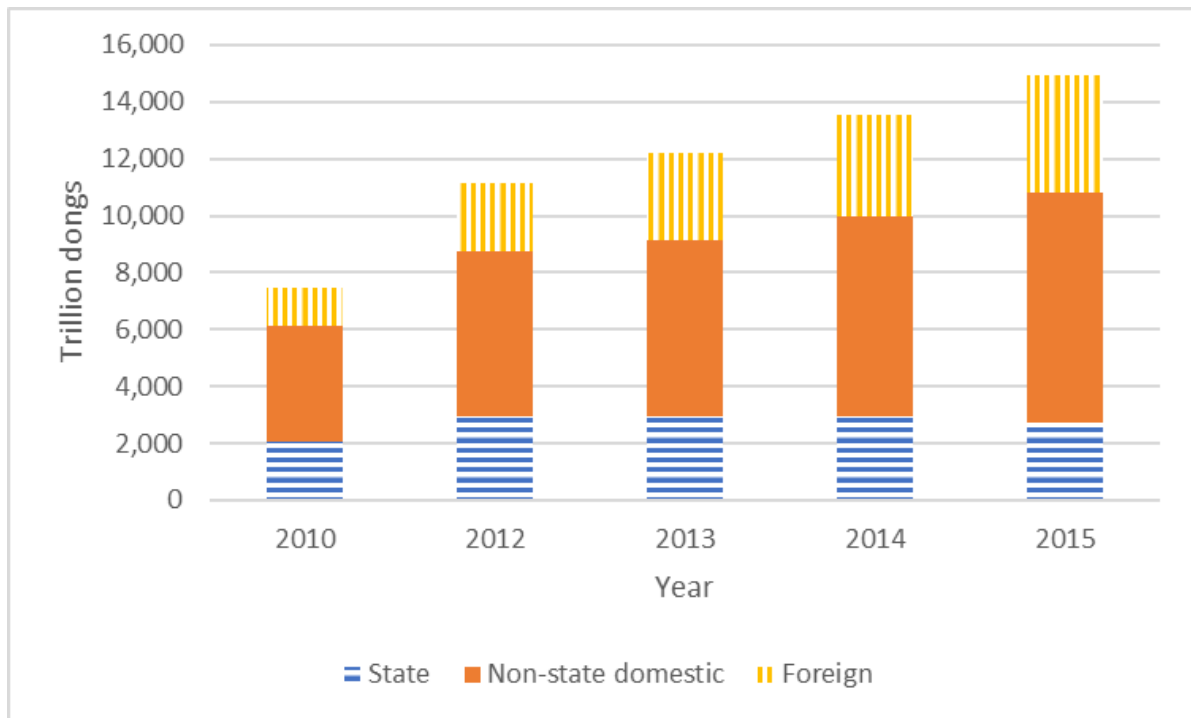


Source: Author's compilation based on data from General Statistics Office of Viet Nam (2017).

<sup>24</sup> For detailed panel data studies on the development of the SME non-state manufacturing sector in Viet Nam since 2005, see UNU-WIDER (2018a). The two most recent papers are Calza et al. (2018) on drivers of productivity in SMEs and Sharma and Tarp (2018) on managerial personality; but there are many more studies of interest, such as Hansen et al. (2009) on whether government support matters, Rand and Tarp (2011) on gender as well as corruption issues in Vietnamese SMEs, and Howard et al. (2016) on industry agglomeration. Detailed bi-annual research reports are also available on the characteristics of the Vietnamese business environment (see Brandt et al. 2016).

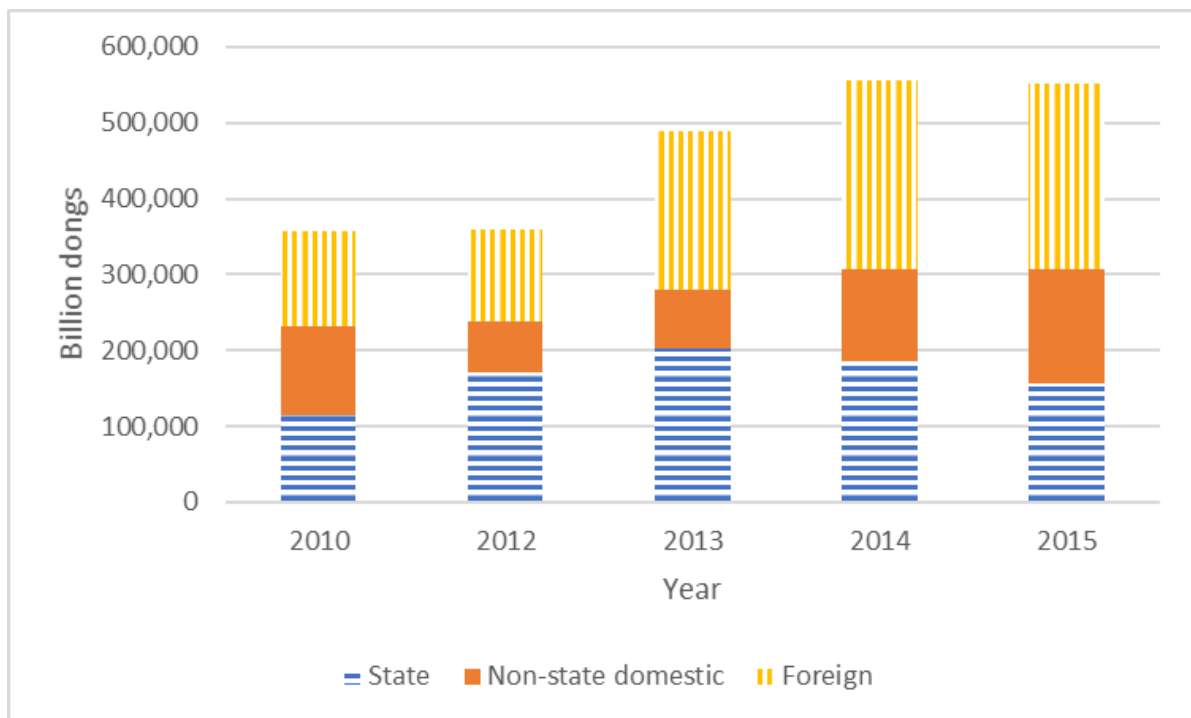
<sup>25</sup> Eckardt et al. (2018) note that manufacturing added an estimated 1.5 million new manufacturing jobs in Viet Nam between 2014 and 2016 alone.

Figure 26: Net turnover



Source: Author's compilation based on data from General Statistics Office of Viet Nam (2017).

Figure 27: Profit before taxes



Source: Author's compilation based on data from General Statistics Office of Viet Nam (2017).

## 5 Openness: trade, aid, and FDI

In parallel with the domestic reforms in agriculture, industry, and services already discussed, in 1986 Viet Nam began an extraordinary process of opening up its economy to regional and global economic forces. As discussed by Tarp et al. (2003), this has included reliance on mobilizing both foreign aid and FDI, and the quantity and composition of international trade changed dramatically. Viet Nam joined the Association of Southeast Asian Nations (ASEAN) in 1995 as relations with the US normalized and is also a member of the Asia-Pacific Economic Cooperation. The key economic and trade programme for ASEAN is the ASEAN Free Trade Area (AFTA), and AFTA's core instrument is the Common Effective Preferential Tariff. By joining ASEAN, Viet Nam therefore undertook early on international commitments in trade policy, which have had profound impact as set out in what follows.<sup>26</sup> Other subsequent significant initiatives included the US–Viet Nam Bilateral Trade Agreement in 2000 and Viet Nam's accession to the WTO in 2007 as WTO member number 150.

Abbott et al. (2009) and Abbott and Tarp (2012) review the host of institutional and policy changes involved; and it stands out that rather than being a standard case of export-led growth, Viet Nam saw more limited declines in investment than in export and import around the 1997–98 and 2008–09 global crises. There is therefore much to suggest that solid investment and macroeconomic management and trade policy combined with an impressive record on sticking to the programme of building up the necessary institutional framework to benefit from continued international integration, including a strong and focused coordinating role by the state, had a lot to do with the success achieved.<sup>27</sup> Moreover, Viet Nam has stayed on track since accession to the WTO, and presently has 16 bilateral and multilateral free trade agreements; in 2018 Viet Nam became one of the 11 signatories of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (TPP), the successor of the TPP after the US withdrew (see Eckardt et al. 2018).

A particularly significant element of the opening-up process has been the promotion of development zones. They have included industrial zones, economic zones, export-processing zones, and high-tech zones, and firms that have been willing to invest have benefitted from preferential governmental policies, modern infrastructure, and access to utility services (for details, see Ernst & Young 2013). UNIDO (2015: 88) reports that in 2015 there were 313 economic zones in Viet Nam [292 industrial parks, 18 special economic zones, (3 of which are referred to as export-processing zones and 15 of which are referred to as economic zones)]; and that 40 per cent of Viet Nam's total exports originate from the economic zones. In connection with the unification of the various official exchange rates in 1989, Figure 28 shows that the dong was devalued significantly to approach the market parallel rate. By 1992, the parallel premium had fallen to less than 1 per

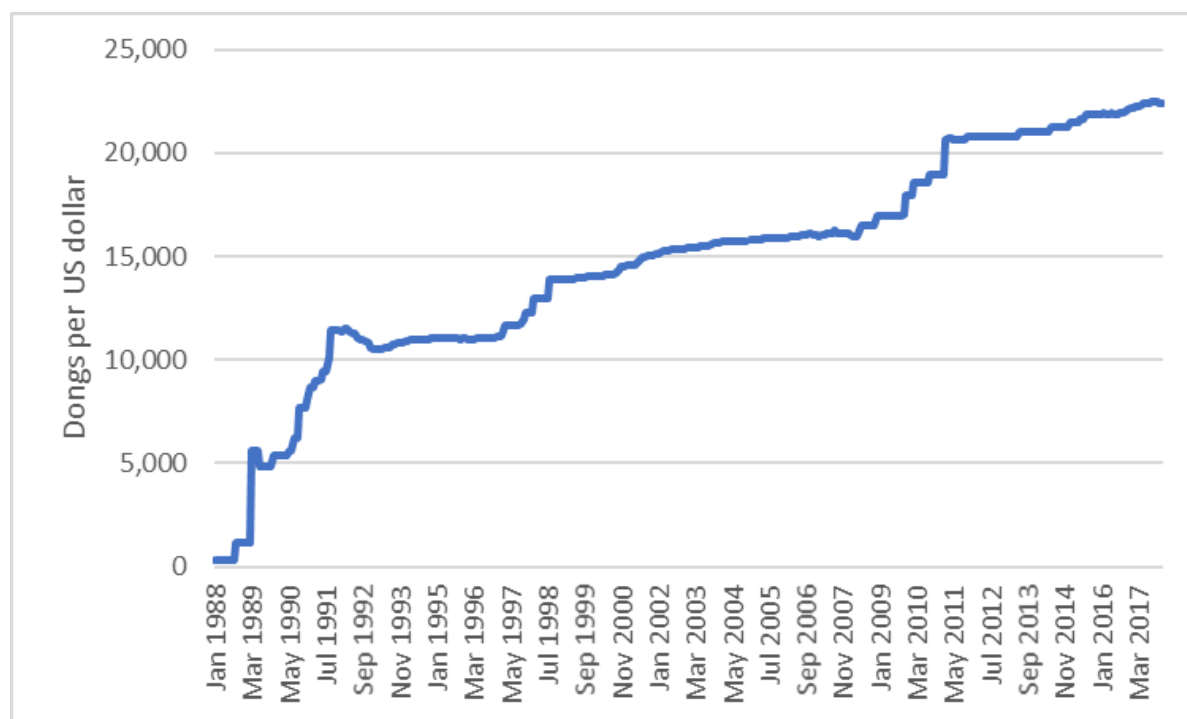
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<sup>26</sup> Focus in what follows is on major overall trends. For analytical papers on the impact of globalization crises, lessons from trade agreements, technology transfers, productivity spillovers, enterprise behaviour, and income growth related to international trade and foreign investment, see for example Newman et al. (2015b, 2017, 2018), Abbott and Tarp (2012), Abbott et al. (2009), and Tarp et al. (2002); on firm-level technology and competitiveness, see Central Institute for Economic Management et al. (2015).

<sup>27</sup> It is striking that many in the international community, including in particular the International Monetary Fund (IMF), argued for a strategy that emphasized stability over growth and faster SOE reform (see IMF 2010), and did not seem to grasp what it actually took to steer the reform process safely and successfully through difficult times. The World Bank was much more receptive, and, as Rama (2008) explains, built up its concessional lending programme to the point where the lending to Viet Nam from the International Development Association was second only to that of India.

cent (see Dodsworth et al. 1996: box 1), and significant measures had been taken to change the mono-bank system into a commercial banking system (see Kovsted et al. 2005).

Figure 28: Vietnamese dong to the US dollar

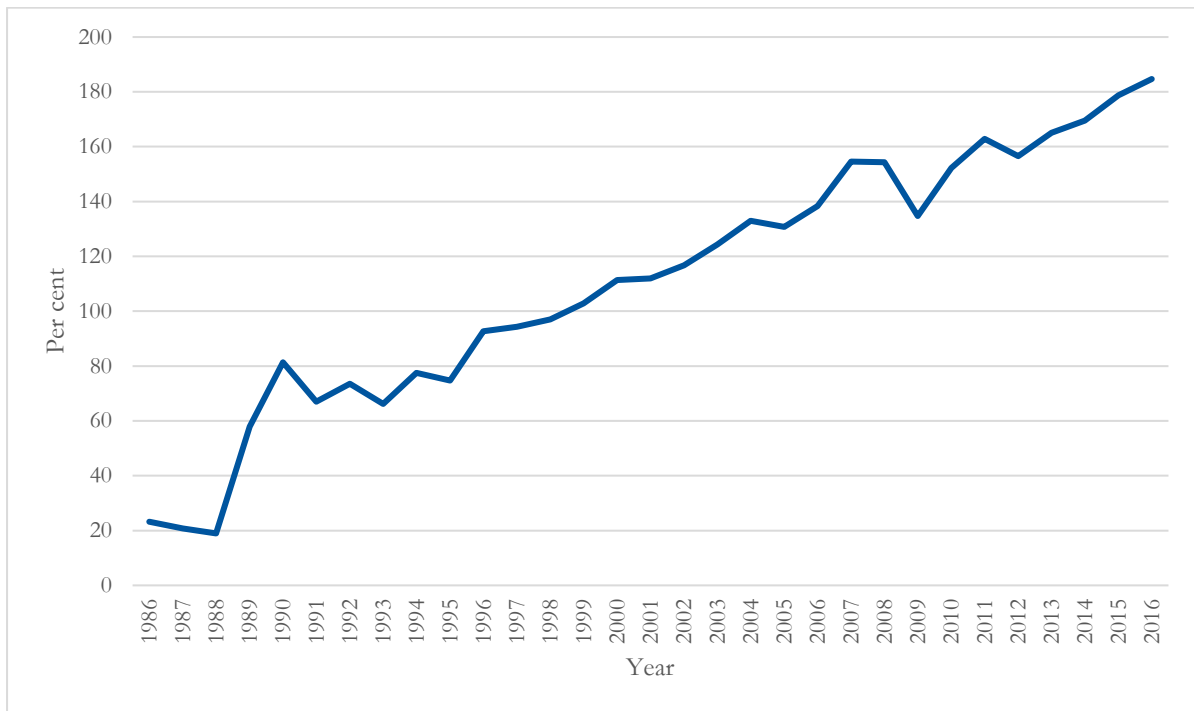


Source: Author's compilation based on data from IMF (2018a).

A first and quite impressive impact of the changes in international trade policy is the consistent increase in the openness of the Vietnamese economy as measured by the foreign trade (export plus import) share of GDP. It increased from a mere 20 per cent in 1986 to more than an impressive 180 per cent in 2016 (Figure 29). While the trade balance during a significant part of the 1986–2016 period was in deficit (Figure 30), it has since 2011 been in surplus, suggesting that the long-term growth strategy has indeed paid off. Interestingly Viet Nam's dependence on foreign aid has been falling quite steadily since the turn of the millennium where aid accounted for some 5 per cent of GDP to now 1.5–2 per cent (Figure 31).<sup>28</sup>

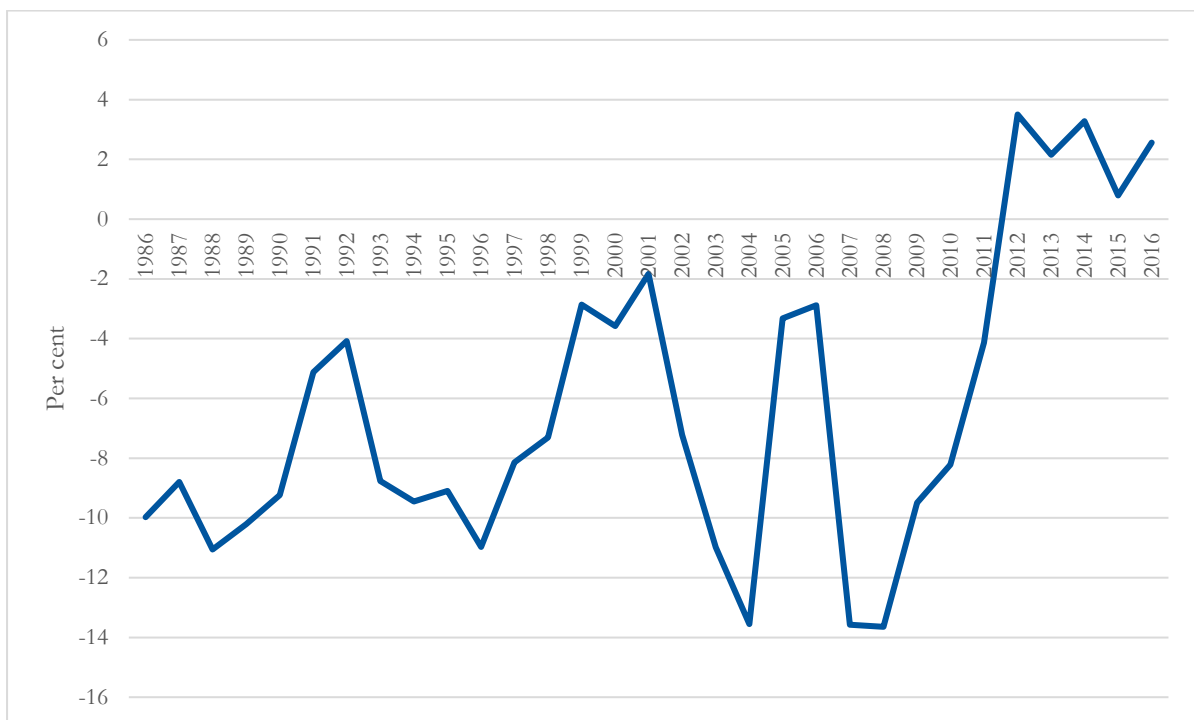
<sup>28</sup> Trinh (2014) concludes that foreign aid had a significantly positive role in promoting economic growth in Viet Nam from 1993 to 2012; a result that is in line with the positive assessment results from the general literature over the past decade (e.g. see Arndt et al. 2016). So the drop in the aid/GDP ratio is both a result of aid phasing out from some donors (the nominator) and of substantial GDP growth (the denominator).

Figure 29: Foreign trade as a share of GDP



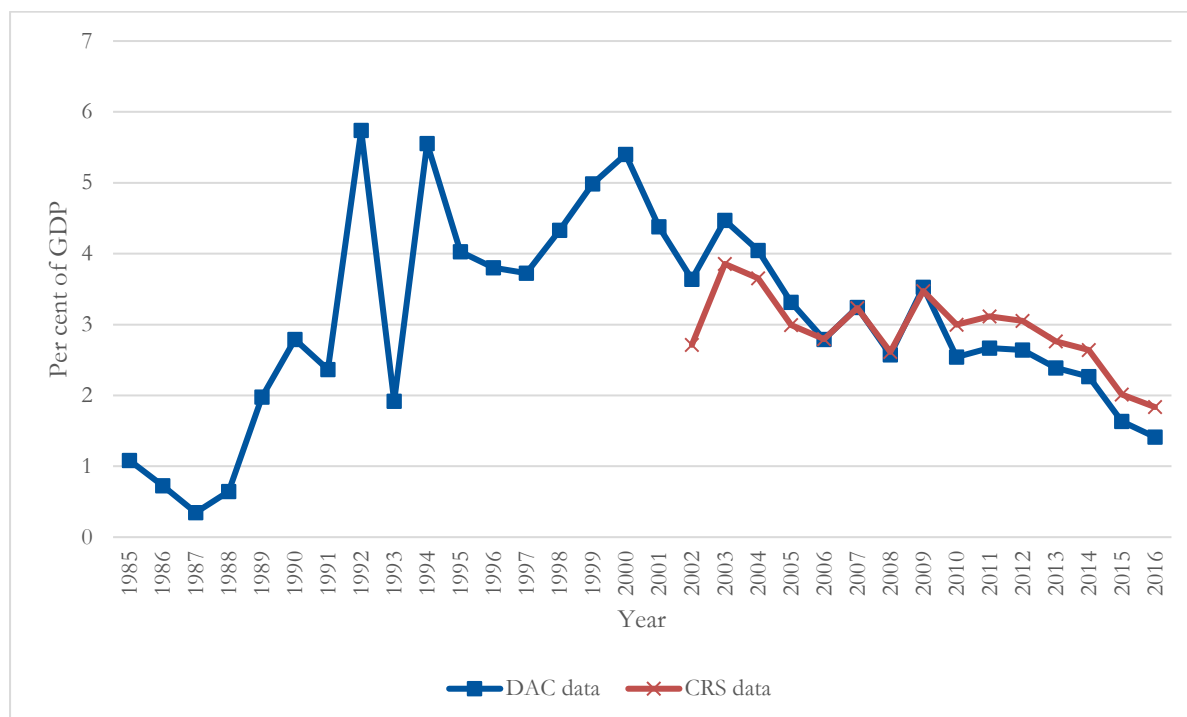
Source: Author's compilation based on data from World Bank (2018b).

Figure 30: Trade balance as a share of GDP



Source: Author's compilation based on data from World Bank (2018b).

Figure 31: Total official development assistance as a share of GDP



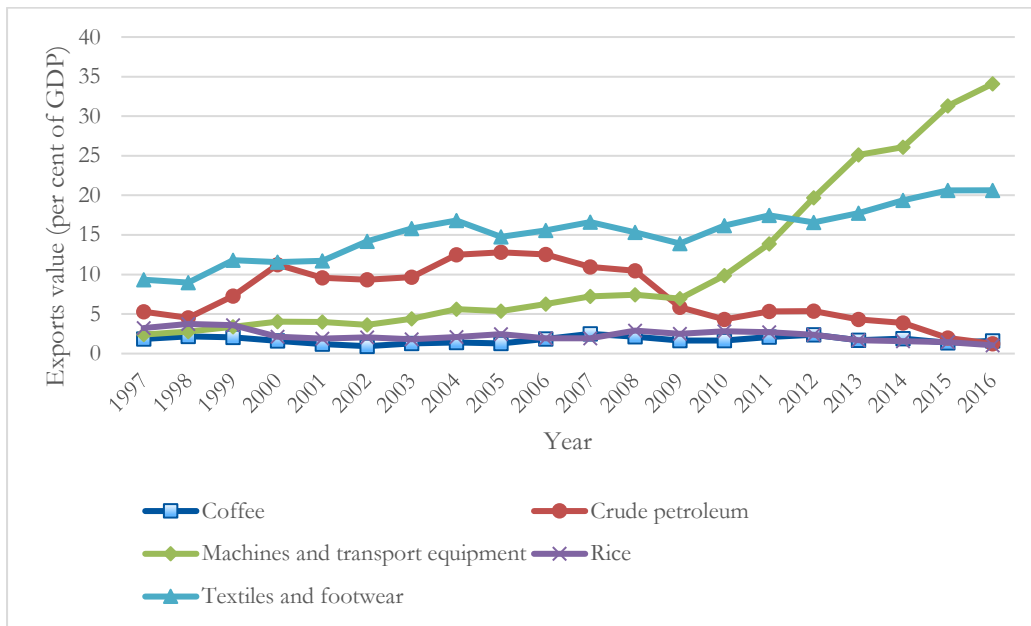
Note: Due to differences in how aid data is collected and aggregated there are some differences in the information available through the Development Assistance Committee (DAC) and the Creditor Reporting System (CRS).

Source: Author's compilation based on data from OECD (2018) and World Bank (2018b).

Viet Nam's main exports are rice, coffee, textiles, and machinery (Figure 32). Especially textiles and machinery have become more important export commodities in the 2010s. Oil discoveries were made in the early 1980s in offshore fields, and crude oil exports peaked in 2004. However, since then the production has decreased, and Viet Nam is currently a net importer of oil products (World Energy Council 2018). Figures 33 and 34 illustrate the impressive success in the production and export of agricultural export goods, and also the declines, especially in value terms, in more recent years. However, this fall has been more than compensated by manufacturing exports. Main imports are as could be expected machinery, chemicals, metals, and oil products (Figure 35), and manufacturing success from 2007–08 is particularly clear from the trade balance by goods categories shown in Figure 36. During the crisis, Viet Nam maintained focus on investment and expansion and certainly managed to reap the economic benefits in global manufacturing markets after WTO membership became a reality.

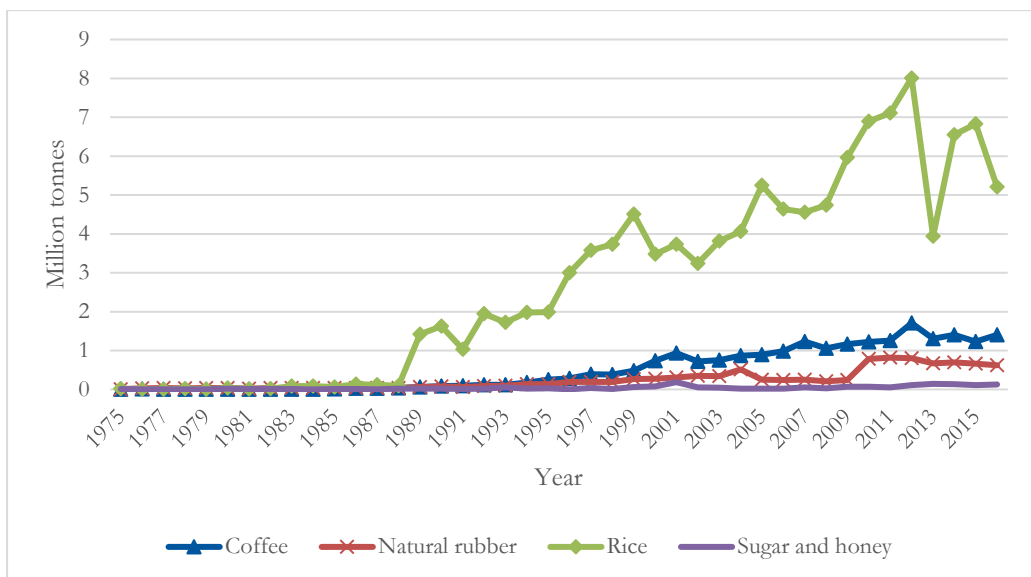


Figure 32: Main export commodities



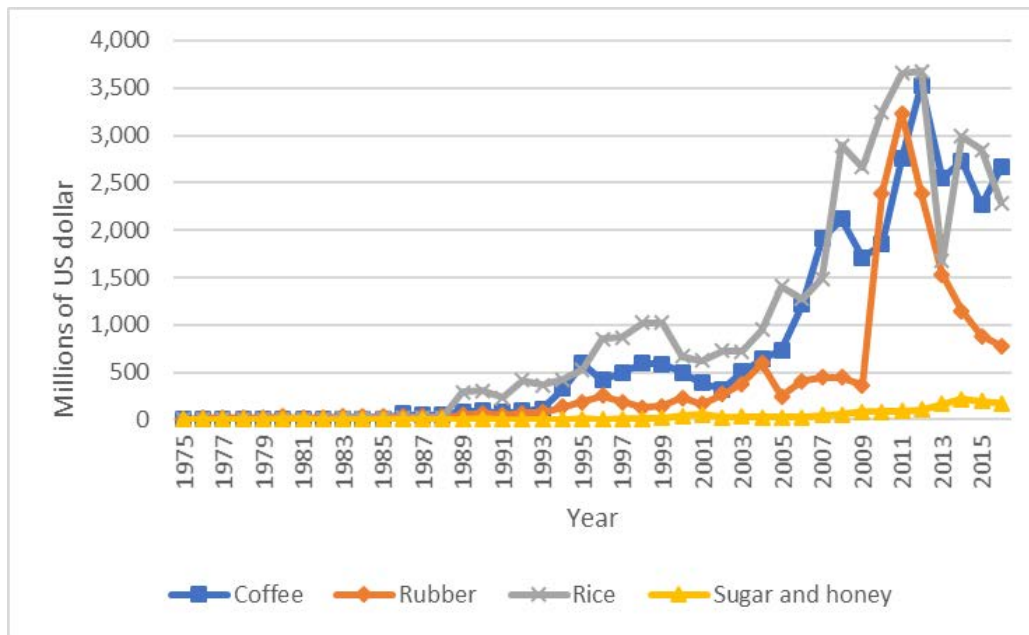
Source: Author's compilation based on data from UN (2018) and IMF (2018a).

Figure 33: Volume of agricultural exports (main products)



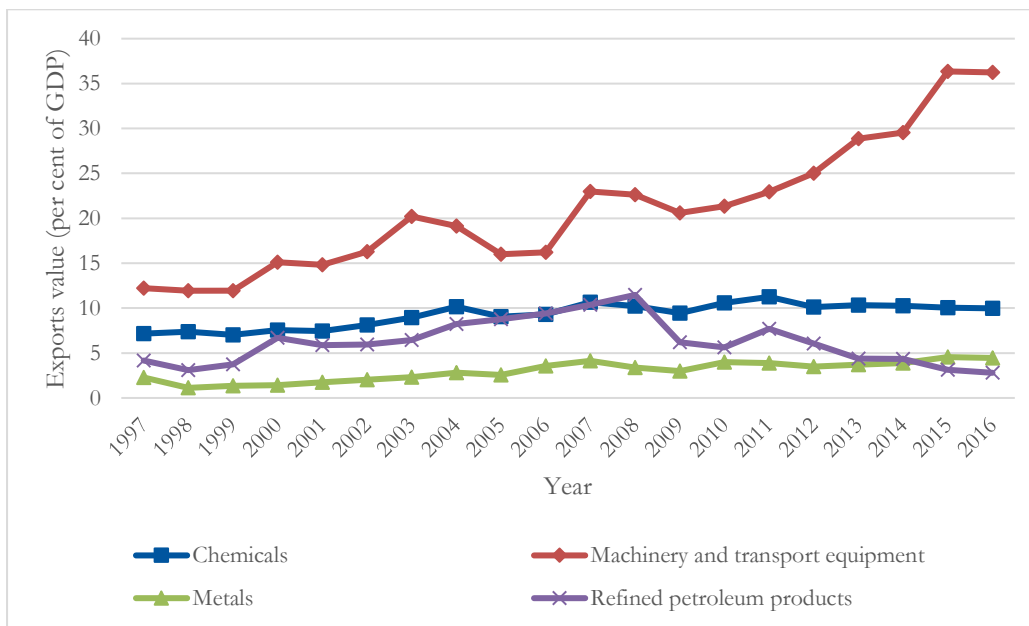
Source: Author's compilation based on data from Food and Agriculture Organization (2018).

Figure 34: Value of agricultural exports (main products)



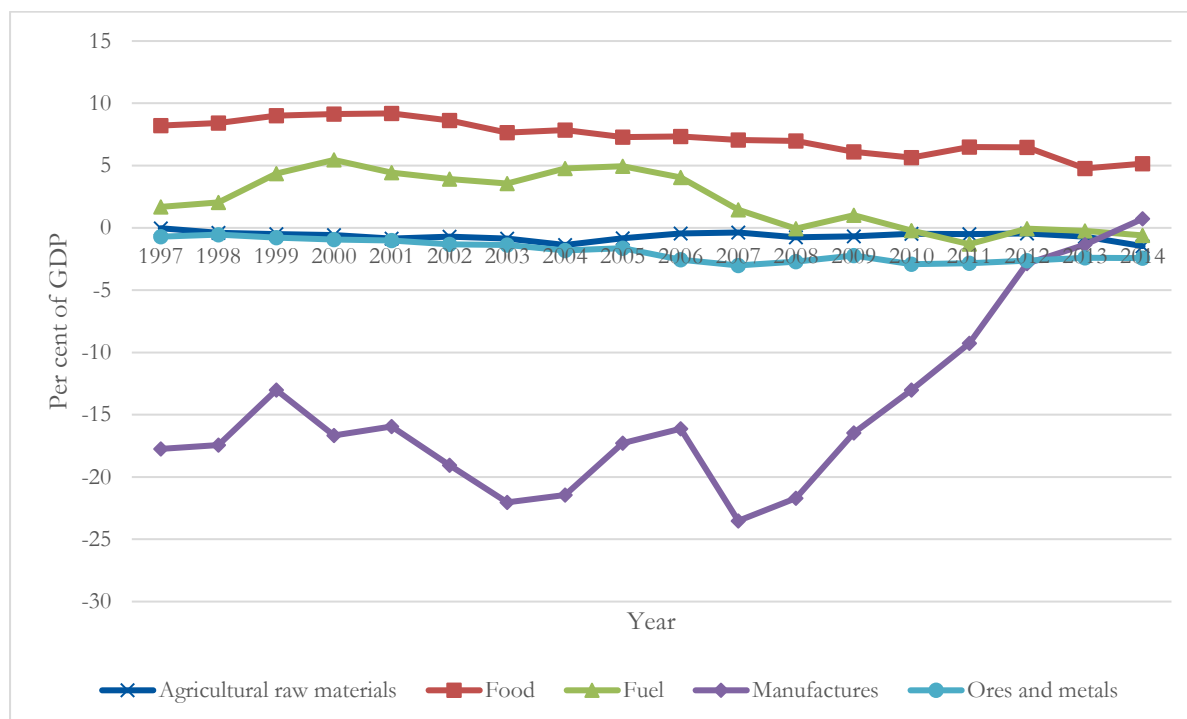
Source: Author's compilation based on data from Food and Agriculture Organization (2018).

Figure 35: Main import commodities



Source: Author's compilation based on data from UN (2018) and IMF (2018a).

Figure 36: Trade balance by goods categories



Source: Author's compilation based on data from World Bank (2018b).

Reference has already been made to the role of foreign aid in more recent years. It should also be recalled that North Viet Nam received significant financial and technical support from the Union of Soviet Socialist Republics (USSR) and China before reunification, and that from 1954 onwards South Viet Nam became heavily dependent on foreign aid from the US, in particular. After reunification foreign aid continued to flow in, though amounts are not known in detail. Cima (1987: 150–51) estimates that the Soviet Union, China, and Eastern Europe provided foreign assistance during the Second Five-Year Plan from 1976–80 worth USD 3–4 billion whereas Western aid amounted to roughly USD 1–1.5 billion.<sup>29</sup> The following picture is painted by Cima:

In the late 1970s, Vietnam relied heavily on economic assistance from both Western and Soviet-bloc donors to finance major development projects. [However, following Vietnam's membership of the Council for Mutual Economic Assistance (Comecon) and the associated] closer ties with the Soviet Union, its incursion into Cambodia in December 1978, and its border fighting with China in early 1979, aid from China and from Western countries and multilateral organizations dropped. . . Aid from China, reportedly close to USD 300 million in 1977 and 1978, dropped to zero in 1979. . . Following Vietnam's occupation of Cambodia, only Sweden continued to provide any significant amount of economic help. Some multilateral assistance, such as that for development of the Mekong River, was made available by the United Nations Economic and Social Commission for Asia and the Pacific, however. Western and multilateral assistance, therefore, did not stop entirely, although the yearly average of about

<sup>29</sup> To compare: the total Vietnamese government budget amounted to USD 2.5 billion in 1976 while investments amounting to USD 7.5 billion were planned for the 1981-85 Five-Year Plan (Cima 1987: 150). This suggests that an amount equivalent of two-thirds of the investment programme came from abroad.

US\$100 million through 1986 provided only a fraction of the country's hard-currency needs (1987: 176).

Viet Nam was clearly in a vulnerable situation and becoming very dependent on the USSR. Cima (1987) adds that during the Third Five-Year Plan, the Soviets provided USD 5.4 billion in balance-of-payments aid, project assistance, and oil price subsidies, and that total economic aid for 1986 was an estimated USD 1.8 billion. However, frictions were frequent, and Cima states:

in the early 1980s, announcement of the Third Five-Year Plan was delayed until the Fifth National Party Congress of March 1982 while Vietnam waited for the Soviet Union to confirm its aid commitments; and that Vietnam in the mid-1980s suffered first reduction, and then elimination of Soviet price subsidies for purchases of Soviet oil (1987: 166).

This provides a telling insight into the massive difficulties in macroeconomic management in those early years after reunification, though remittances from overseas Vietnamese played a moderating role at the household level.

One of the institutional decisions of the Sixth National Congress in 1986 was to establish a Commission for Economic Relations with Foreign Countries, and Viet Nam clearly aimed at stimulating foreign aid inflows as part of the Doi Moi renovation effort. As Figure 37 shows, the response was forthcoming once Viet Nam had withdrawn from Cambodia in the late 1980s and the world had witnessed the downfall of the former USSR.<sup>30</sup> Aid flows doubled and rose more than five-fold during the decade from 1993 and Japan quickly established itself as the leading donor, with the World Bank and the Asian Development Bank in important second and third place. Countries in the European Union added important amounts that have nevertheless all but disappeared in most recent years as Viet Nam has achieved lower middle income status. The inverted U-shape of the share of aid in GDP from 1985 to 2015 is notable and a reflection of success.<sup>31</sup>

Doi Moi, including domestic reforms, trade opening, and accession to the WTO increased the credibility of Viet Nam among international investors, and FDI increased very significantly from 1989 onwards (Figure 38) and has been high ever since. From 2005, the IMF balance-of-payments statistics also registers outflows of Vietnamese investments abroad. Doanh (2002) analyses the difference between registered and implemented capital, and adds that the decline in the case of Viet Nam should also be related to domestic investment climate factors.<sup>32</sup> In any case, the total registered FDI capital has reached a very significant level, reported to amount in 2017 to a record high of almost USD 36 billion. Among the 19 industries and sectors that attracted FDI capital in 2017, the manufacturing–processing industry remained on top with almost 45 per cent (see *Viet Nam News* 2017). Finally, Figure 39 illustrates the relative size of FDI to that of state and non-state sectors, underlining that FDI is a key source of investment funding in addition to the derived agglomeration, technology transfer, and productivity impacts that FDI is associated with. The

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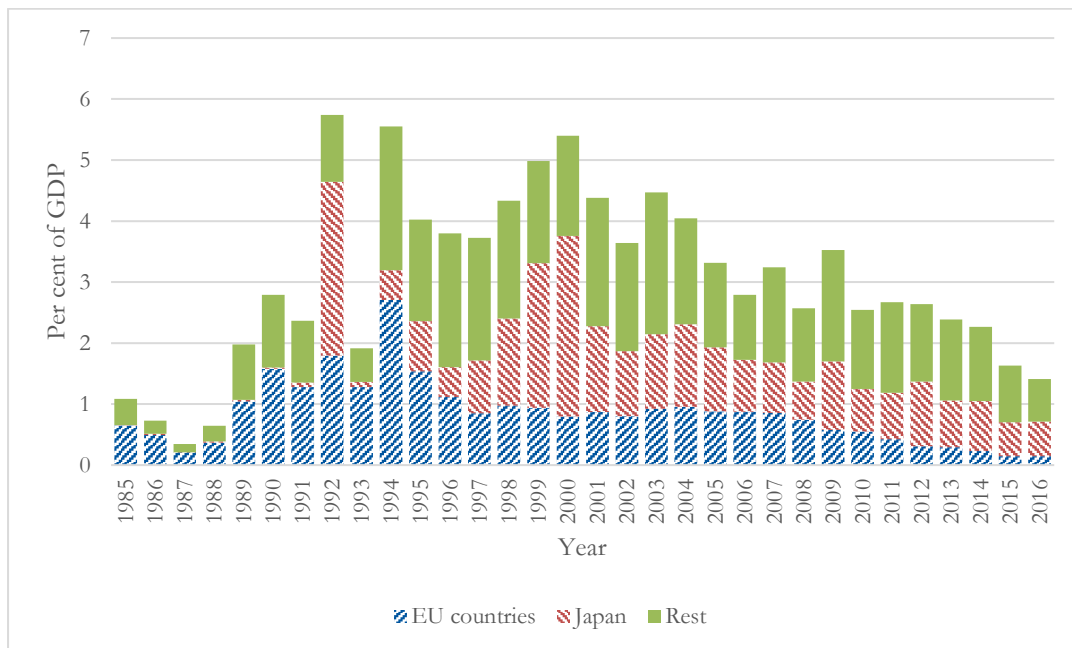
<sup>30</sup> Hansen and Tarp (2004) provide an overview of aid flows and management from 1993 on which this paragraph draws.

<sup>31</sup> Raghuram Rajan, during his term as Chief Economist of the IMF, presented an early version of Arvind Subramanian and his own much cited paper on what the cross-country evidence really has to say about aid's impact on growth (Rajan and Subramanian 2008). The context could hardly have been more at odds with the thesis presented and the empirical evidence has since been refuted (see Arndt et al. 2010).

<sup>32</sup> Hansen et al. (2003) provide regional context and further data on the distribution of the FDI received.

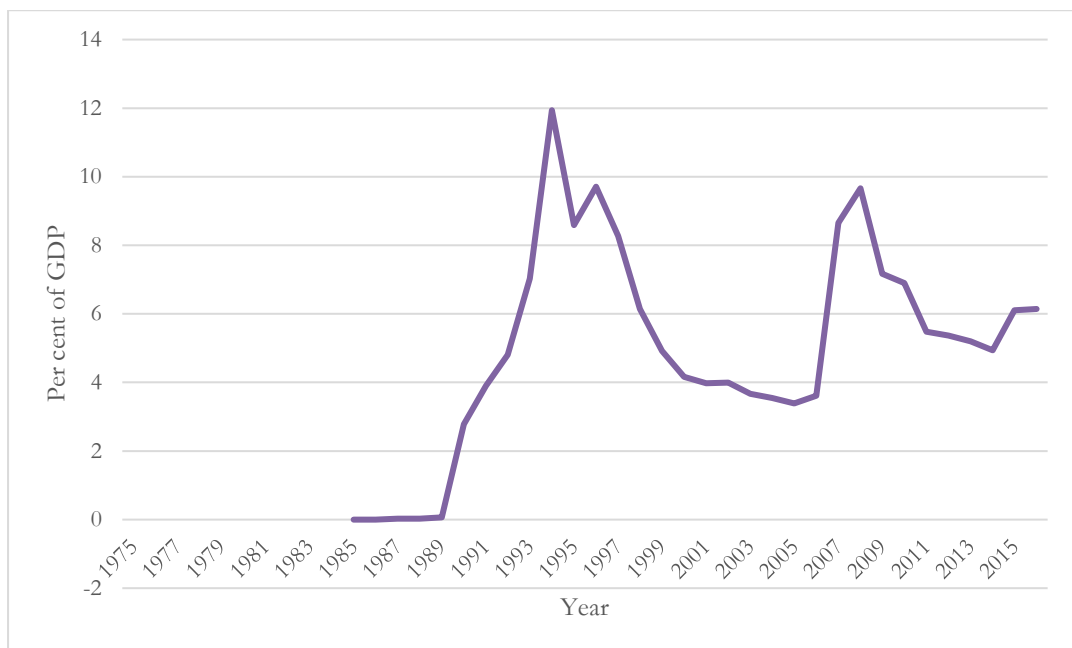
gradually shifting balance between state and non-state investment is in line with the discussion in Section 4.

Figure 37: Total official development assistance as a share of GDP by donor groups



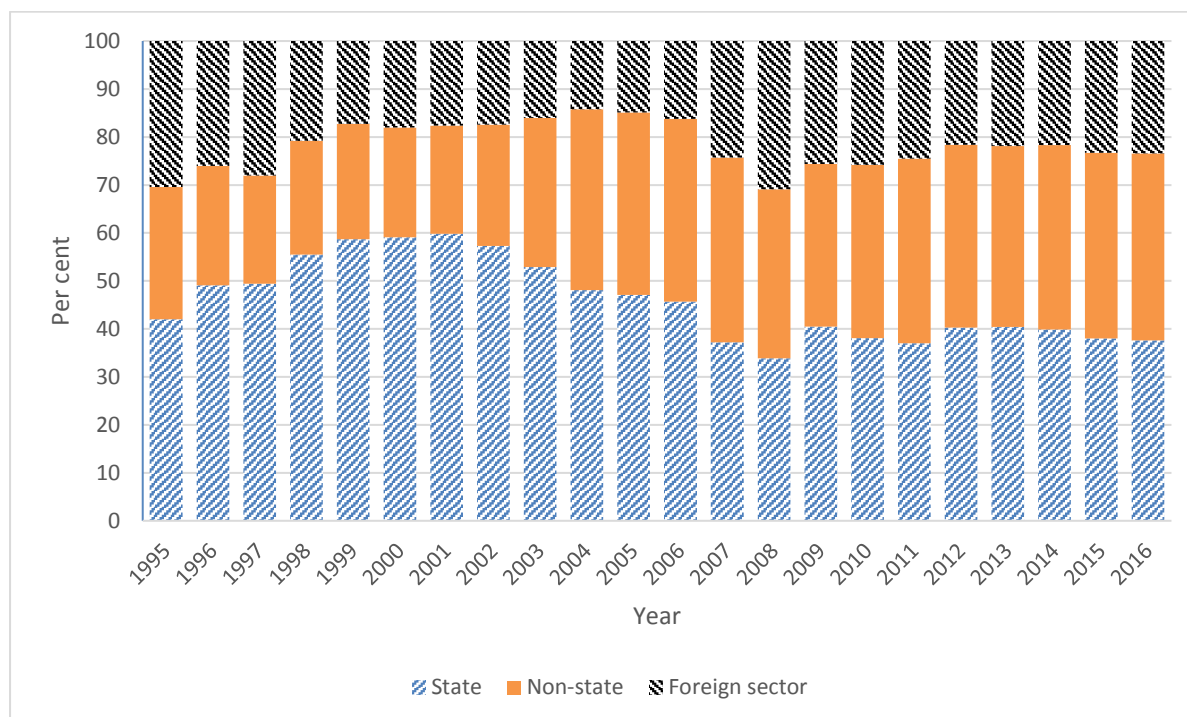
Source: Author's compilation based on data from OECD (2018) and World Bank (2018b).

Figure 38: FDI net inflows as share of GDP



Source: Author's compilation based on data from World Bank (2018b).

Figure 39: Investment by sector



Source: Author's compilation based on data from General Statistics Office of Viet Nam (2018).

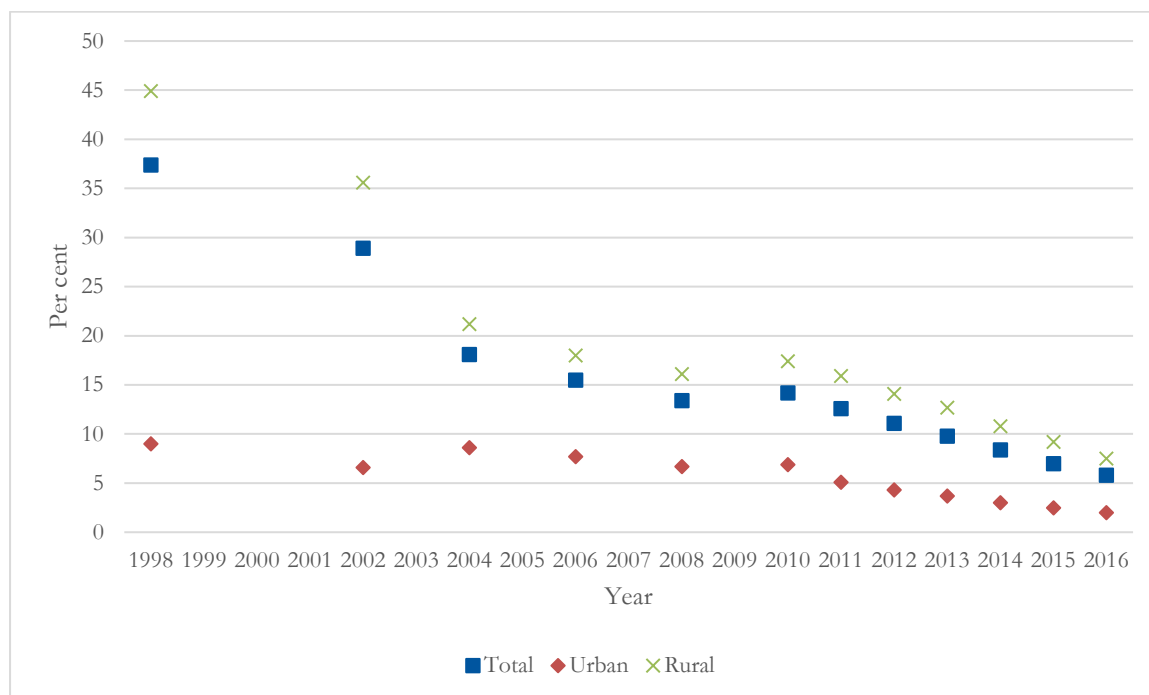
## 6 Human development

While Viet Nam's growth record is impressive many observers would argue that it is surpassed by achievements in terms of human development. The poverty rate was 58 per cent in 1993, and Figure 40 demonstrates developments since 1998. While poverty has not been eliminated it has fallen significantly: in 2016, it was less than 6 per cent for Viet Nam as a whole, with the rural rate being 7.5 per cent and the urban rate being 2.0 per cent. Remaining poverty is particularly associated with poverty among the ethnic minorities in North and Central Viet Nam that account for about 10 per cent of the population.<sup>33</sup> Inequality measured by the Gini coefficient for consumption rose moderately from 33.4 per cent in 1993 to 39.3 per cent in 2010 (Figure 41). It then fell to 35.6 per cent after which it has risen again to 37.6. While it does appear that inequality has risen this is an encouraging performance, and arguably reflects that the majority of the Vietnamese has had their share of growth benefits.<sup>34</sup> However, it should be highlighted that the Gini measures relative inequality and, therefore, hides changes in absolute differences in income and consumption.

<sup>33</sup> Glewwe et al. (2004) provide 628 pages of excellent background and analysis on poverty in Viet Nam during the 1990s based on the 1993 and 1998 rounds of the Viet Nam Household Living Standard Survey (VHLSS). See Tarp (2017) for more recent panel data analysis and further information on the ethnic minorities, and the World Bank (2012) overview with the telling title *Well Begun, Not Yet Done*.

<sup>34</sup> Jensen and Tarp (2005) analysed spatial inequality following trade liberalization in a Computable General Equilibrium model relying on data on all of the 5,999 households surveyed in the VHLSS and a 2000 Social Accounting Matrix (SAM) for Viet Nam. They concluded that the government should be proactive in combining trade liberalization measures with a pro-poor fiscal response to avoid increasing poverty and inequality. This is exactly what the government has done. See Thurlow et al. (2011) for an illustration.

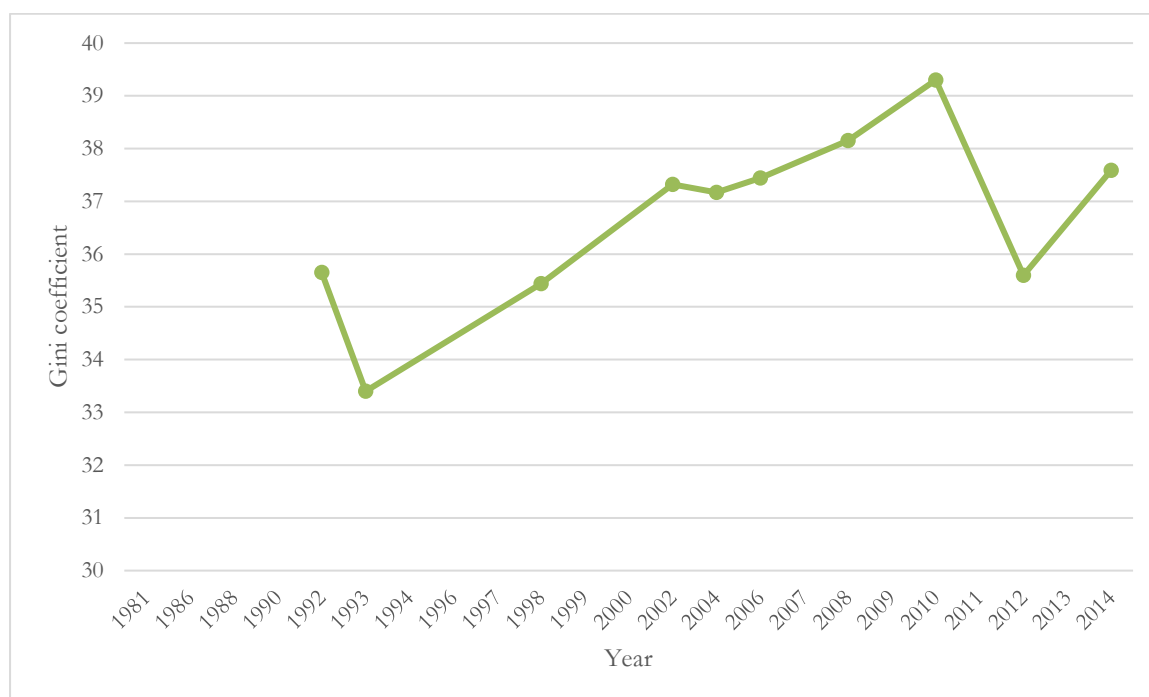
Figure 40: Poverty headcount rate



Notes: The poverty rate measures the share of the population deemed poor. It is calculated based on average monthly income per capita of households and the government’s poverty line for the 2011–16 period.

Source: Author’s compilation based on data from General Statistics Office of Viet Nam (2018).

Figure 41: Inequality of consumption measured by the Gini coefficient



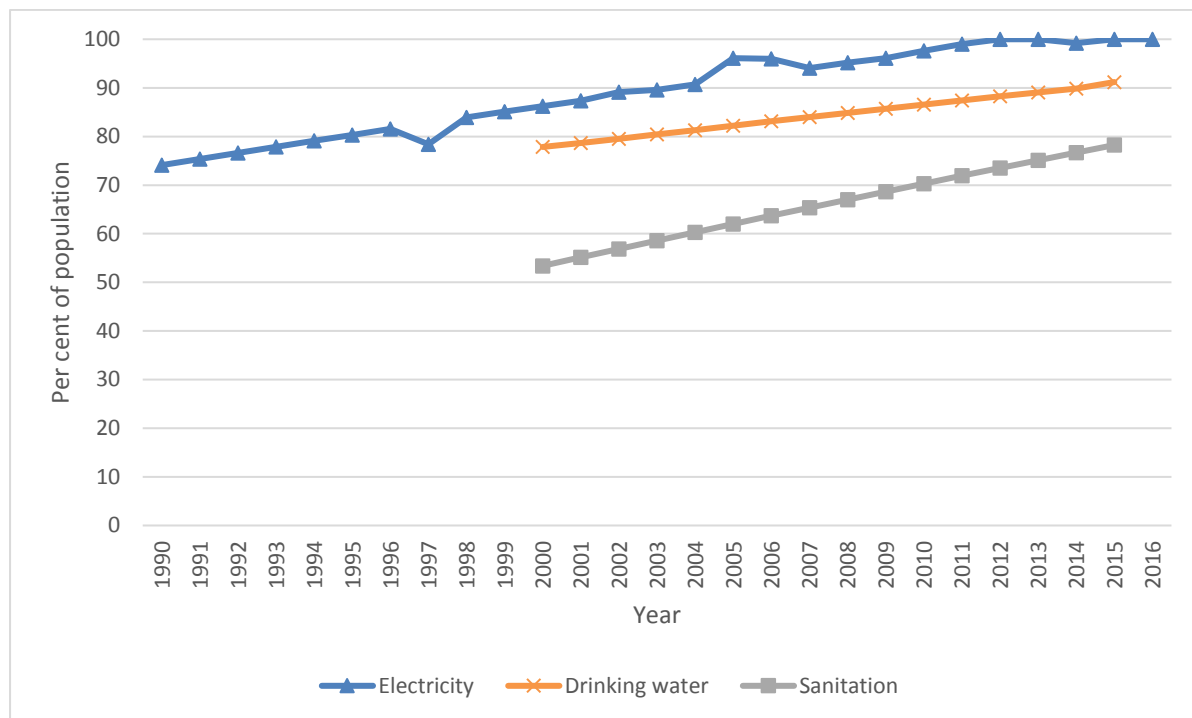
Source: Author’s compilation based on data from UNU-WIDER (2018b).

McKay and Tarp (2017: 213) document that in the Viet Nam Access to Resources Household Survey rural panel already referred to, overall living conditions have in general improved according to three measures of welfare: (i) food consumption, (ii) household income, and (iii) household ownership of assets. However, there are exceptions such as the province of Lao Cai, and the data

also documents that even in provinces where average living conditions improved, the situation deteriorated for a sizeable minority of households. Migration of some household members seems to have a positive impact on the remaining household members; yet belonging to a non-Kinh<sup>35</sup> minority is significantly associated with smaller increases in food consumption and income. In sum, what has been achieved in Viet Nam in terms of growth and poverty reduction is impressive, but important challenges remain.

Turning to other dimensions of human development, life expectancy at birth was more than 76 years in 2016 (see Figure 3) and infant mortality 17.3 per 1,000 births. Access to basic services (electricity, drinking water, and sanitation) has expanded rapidly, as can be seen in Figure 42, reflecting substantial public investment in these social goods. Though child malnutrition has continued to fall, stunting nevertheless is around a relatively high 25 per cent and the share of underweight children below 5 years of age is 14 per cent, indicating that more remains to be done (Figure 43). Finally, tertiary school enrolment is now at almost 30 per cent (Figure 44), reflecting the progress achieved since the mid-1990s where only 2–3 per cent entered tertiary education.

Figure 42: Access to basic services

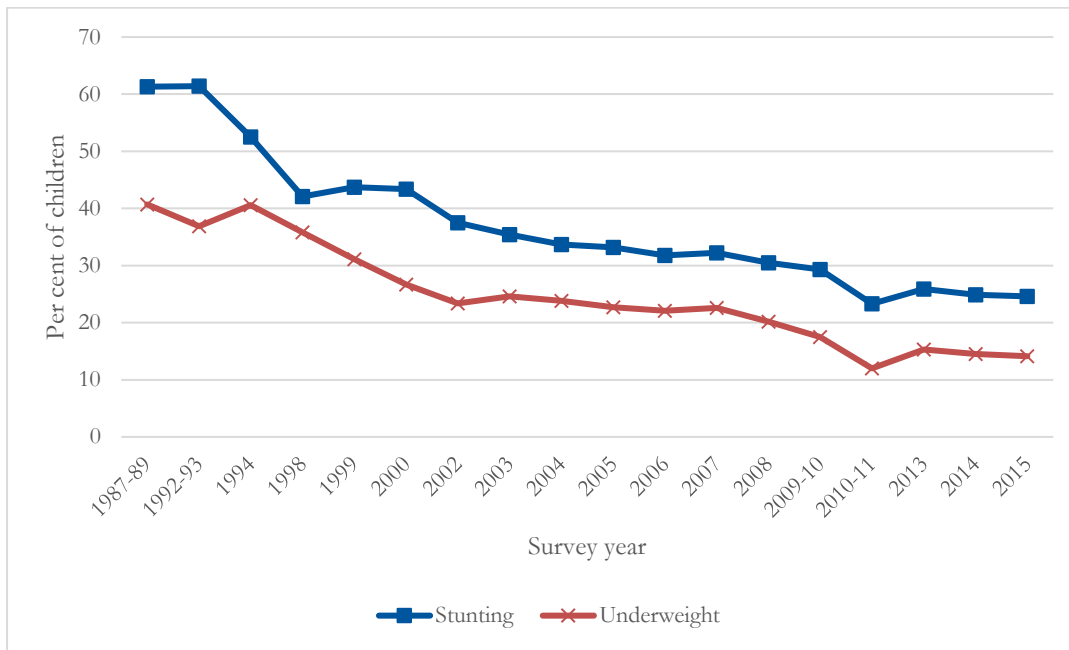


Source: Author's compilation based on data from World Bank (2018b).

<sup>35</sup> The majority of the Vietnamese population are of Kinh background.



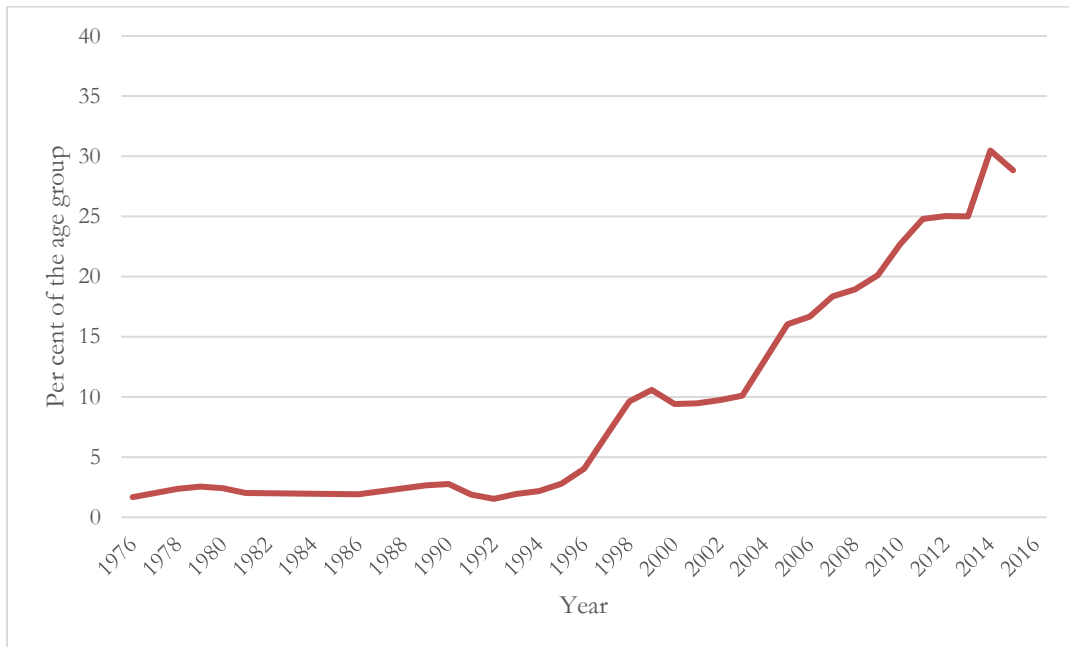
Figure 43: Child malnutrition



Notes: Stunting refers to the percentage of children aged 0–59 months who are below minus two standard deviations from the median height-for-age of the World Health Organization Child Growth Standards. Underweight refers to percentage of children aged 0–59 months who are below minus two standard deviations from the median weight-for-age of the World Health Organization Child Growth Standards.

Source: Author’s compilation based on data from UNICEF (2018).

Figure 44: Tertiary gross school enrolment



Source: Author’s compilation based on data from World Bank (2018b).

## 7 Conclusions and final reflections

This study took as its starting point what Myrdal (1968) had to say about Viet Nam in the context of the *Asian Drama*. It was clear that little detailed information and data were available at the time in the middle of the war. However, Myrdal was right in pointing to the decisive nature of the Vietnamese people, and subsequent developments have demonstrated that amply. Viet Nam emerged victorious in the war and the CPV went on to take a dogged and, in retrospect, very costly position on economic policy and management from 1976. At the same time, when the approach taken did not produce the hoped-for results, the CPV pursued Doi Moi in an equally persistent manner; and it has certainly paid off. Viet Nam has come a long way indeed since the Doi Moi reform process was initiated in 1986, and the past more than three decades have witnessed one of the best performances in the world in terms of both economic growth and poverty reduction. People's living standards have improved significantly, and the country's socio-economic achievements are impressive from a human development perspective. Wide-ranging institutional reform has been introduced, including a greater reliance on market forces in the allocation of resources and the determination of prices. The shift from an economy completely dominated by the state and cooperative sectors to one where the private sector and foreign investment play key and dynamic roles should also be highlighted. Significant strides have been made to further the transition from a centrally planned to a market economy, without giving up strategic leadership and influence by the state.

Viet Nam, over many years, depended heavily on the USSR and the Comecon members, and only after a reluctant start in the 1980s did the international community start engaging more broadly. Large-scale investment programmes were pursued during the 1990s, and the international community assumed responsibility for supporting a wide variety of social and economic reform initiatives. Importantly, the determination of Viet Nam to maintain 'ownership' of the reform process has been evident and absolutely fundamental to the success achieved (see Hansen and Tarp 2004). The reforms were truly generated by Viet Nam herself in an impressive manner where search for workable and mutually agreed solutions with a minimum of losers was central, at a time where so many other countries were giving in to heavy-handed pressure from the Bretton Woods institutions and others (Tarp 1993). In contrast, in Viet Nam the international community had to adopt patient dialogue, bargaining, and technical advice to find effective ways of securing the attention of the Vietnamese authorities and people. Much can be learnt from this experience for international relations and for foreign aid more generally at a conflict-prone moment in world history.

In the midst of the success achieved it is equally important not to lose track of the fact that Viet Nam remains a lower middle income country according to the World Bank classification, with GDP per capita considerably lower than in some other Southeast Asian countries. How the country can rapidly and sustainably continue to transform itself and its economy to a wealthier and modern high-income society is a critical policy challenge. While future success cannot be taken for granted, it would fortunately seem as if there is a lot of awareness about this in Viet Nam. Caution is justified for many reasons.

First, Viet Nam has, as documented in detail by Hoai et al. (forthcoming, 2018) in their SAM-based analysis, stressed that it is time for the country to make focused efforts targeted at transforming the economic growth model towards a more sustainable one which does not rely to such a large extent on expanding capital and labour inputs.<sup>36</sup> Technological upgrading has so far played a relatively modest role in Viet Nam's success, though by no means has it been completely

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<sup>36</sup> The SAM dataset is available in Hoai et al. (2016).

absent. Nonetheless, the advantages of low labour costs have started to run out of steam and more technological upgrading will be required across the board. This was already been touched upon in Section 4 in relation to industry sector performance, where it was noted that labour value added in industry has not been on a consistent upward trend (see Figure 18). This reflects that much of the employment created is in quite basic functions that do not add greatly to the value added per worker. While the trend may have turned from 2010 onwards, efforts need to be scaled up in combination with continued export engagement. External demand extension can, in addition to generating foreign exchange, also help strengthen internal economic integration and technological upgrading further (e.g. see Newman et al. 2015b, 2017), and productivity dynamism will no doubt be needed to sustain growth in the future. So, it is time to pursue a proactive policy approach to avoid being caught in what is sometimes referred to as a ‘middle income trap’. Viet Nam can in many ways be said to have by now harvested the relatively easy ‘low-hanging fruits’,<sup>37</sup> achieved by a strong focus on an expansionist (domestic and foreign) investment-driven model of growth coupled with recovery from a very repressed level. Furthermore, what stands out is that this process has been guided by a strong coordinating state. Nonetheless, it is time to look ahead—development policy challenges never go away; they simply change in nature, because of past failures and/or successes. One specific future dimension of this will surely be how Viet Nam will handle (or not) issues associated with the increasing digitalization of the global economy and the availability of labour-saving technology.

Second, reference was already made to the significant existing differences in the level of labour value added (see Figures 17–19). This reflects that Viet Nam has by no means arrived at the ‘modernization’ point where labour is optimally allocated across sectors. Moreover, existing differences contribute to visible disparities in income and living standards in spite of the efforts of the government to redistribute towards poorer groups of people. In spite of recent progress, the ethnic minorities are far from included on an equal basis and gender equity also leaves much to be desired. In addition to gender- and group-based policy initiatives, this implies that productivity in agriculture will have to increase a lot more. This will have to involve both further investment and technology-driven productivity increases in agriculture and relocation of workers to other non-farming-based activities. While much can be achieved in improving processing of agricultural products, significant shifts of people towards dynamic urban centres will also have to be factored in. How to manage the inherent equity issues in such a process and ensuring no one is, in UN-SDG terminology, left behind will no doubt remain a challenge. The same goes for the need for forward-looking urban and spatial planning, which leads us to the next point, climate change.

Third, Viet Nam is typically expected to be susceptible to climate change for a number of reasons. They include the following: (i) much of Viet Nam’s population depends on agriculture; (ii) the position of Viet Nam at the end of the Red and Mekong Rivers exposes the country to inland flooding; and (iii) the long, low-lying coastline is vulnerable to cyclones. The combination of rising sea levels and cyclones is likely to be particularly challenging: it could lead to displacement of large numbers of rural people and undermine valuable transport, energy, and urban infrastructure and impact on longer-term development. At the same time, Arndt et al. (2015) conclude that the negative impacts on agriculture are modest until 2050. Instead, larger costs are caused by rising sea levels and cyclone strikes that undermine urban infrastructure and capital. The insight is that costs are more limited for agriculture which is a shrinking sector in relative terms in relation to both people and output; while present spatial patterns of urban areas are highly vulnerable, especially in

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<sup>37</sup> As shown by Arndt et al. (2012) in their comparative path analysis of Viet Nam and Mozambique, a specific dimension of this is that Viet Nam has benefitted greatly from inherent economic multiplier-effects due to a more tightly linked up economy than Mozambique, as demonstrated in their respective SAMs. Viet Nam has, so to speak, got more ‘bang for the buck’ in terms of poverty reduction for the exact same policies.

scenarios that go beyond 2050. The implication is that there is a window of opportunity to act, at least with standard rates of depreciation of the existing capital stock. However, the window is quickly narrowing and spatial planning shifting focus towards higher lying areas of the country is going to be an essential requirement to adapt effectively to climate change.

Fourth, Rama (2008) pointed out a decade ago that the task of managing the Vietnamese economy and society has become a much more complex set-up as a result of the changes associated with Viet Nam's transformation following Doi Moi. This includes obviously the radically increased openness of the economy to world economy, which makes it increasingly important to be able to adapt policies and courses of action to changing circumstances outside Viet Nam's control. It also means that the number of domestic stakeholders with conflicting interests has become much larger; and this inherently makes the consensus-seeking (growth-focused) approach adopted in the past harder to maintain and pursue successfully. Furthermore, the legitimacy of the existing state and party apparatus depends critically on what will happen to the by now widespread corruption.<sup>38</sup> It is therefore clear that 'new feedback mechanisms from society to state' (Rama 2008: 48) will be needed in the coming years. One development of note in this regard is the increasing role of the National Assembly,<sup>39</sup> but there are many other issues looming here. Overall, none of these challenges referred to here have become less important over the past ten years; and Viet Nam continues to be ranked relatively low in indices such as the Worldwide Governance Indicators and the Transparency International corruptions perceptions index (see World Bank 2018c), trying to capture voice, accountability, and control of corruption.

Finally, while caution is required for the above reasons, there is also a lot of reason for optimism as regards the future of development in Viet Nam. The Vietnamese people are not prone to rest on their laurels (see Rama 2008; Eckardt et al. 2018), the economy is increasingly being focused on forward-looking manufacturing, information technology, high-tech industries, and agriculture, and Viet Nam will for years to come be able to harvest a demographic dividend with a relatively young and growing labour force (Figure 45). Eckardt et al. (2018) note that half the Vietnamese population is below 35 years of age and stress that Viet Nam has invested heavily in education. They also argue that 'Vietnam's efforts to promote access to primary education and to ensure its quality through minimum quality standards have paid off' and note Viet Nam's ranking as 8 in the latest 2015 OECD Programme for International Student Assessment (see OECD 2018b). Whether one agrees with the exact ranking or not,<sup>40</sup> this does bode well for the future when taking account of what will be required to do well in the global economic environment where global technological and IT advance will be a determining factor for economic and social progress. At the same time, Viet Nam will as a *sine qua non* have to continue the process of institutional reform to turn this potential into reality in the coming decades. This is so in general for the economy as a whole and in particular for the higher education and vocational training systems. Viet Nam continues to lack workers with the necessary technical and soft skills, illustrated by the fact that

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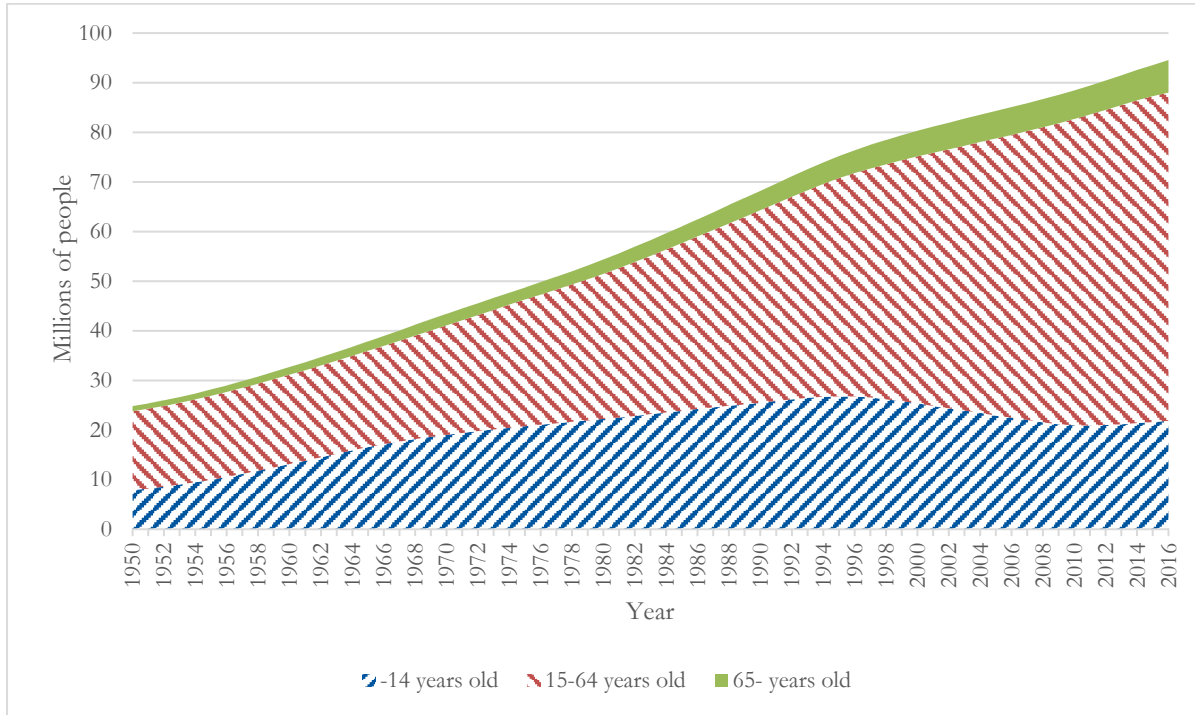
<sup>38</sup> See Rand and Tarp (2012, 2016) for one dimension hereof.

<sup>39</sup> This includes the series of leadership changes introduced at the Tenth CPV Congress in 2006 (see Koh 2008), including that the Eighth Five-Year Plan had to be approved by the National Assembly before being implemented. Moreover, '... if the use of laws and rules to regulate government and state affairs was a dominant theme of political reform in the past two decades, the trend was now seen in the running of party affairs. . . . Another outcome is allowing different opinions on alternatives to be articulated, while retaining the power to accept or reject them within the Central Committee and the Political Bureau. It would be reasonable to say that these changes constitute political reforms designed to democratize the Party through raising the status of the Central Committee, especially in respecting the collective's decision on personnel decisions, and in reducing the roles of powerful individuals in making such decisions' (Koh 2008: 671–2).

<sup>40</sup> For a critical view, see Jerrim (2017).

despite the improvement of language proficiency of Vietnamese students over the years, a major breakthrough is yet to materialize. If this does not change it will soon emerge as a key bottleneck for continued economic development and become a major stumbling block in the context of global technological and IT advance.

Figure 45: Viet Nam's population by age group



Source: Author's compilation based on data from World Bank (2018b).

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## Appendix A: Timeline of key selected events

1930	The Workers' Party of Viet Nam, which was renamed in 1976 to the Communist Party of Viet Nam, is founded by Ho Chi Minh on 3 February in Hong Kong
1941	Viet Minh is founded by Ho Chi Minh as a League for the Independence of Viet Nam
1945–54	First Indochina (French) War
1954	Geneva conference that divides Viet Nam into North and South Viet Nam with North Viet Nam led by the Viet Nam Workers' Party.
1954–75	Second Indochina War (1954–75), also known as the American War or the Viet Nam War
1960	Viet Cong is founded as the National Liberation Front of South Viet Nam
1968	Gunnar Myrdal's <i>Asian Drama</i> is published
1975	Viet Cong captures Saigon on 30 April and the war ends
1976	National elections on 2 July and reunification of North and South Viet Nam
1976–80	Second Five-Year Plan is approved by the Fourth National Congress
1978	Viet Nam invades Cambodia and removes Khmer Rouge; Viet Nam becomes member of Comecon
1979	China attacks northern border of Viet Nam, referred to as the Third Indochina or Sino-Vietnamese war
1980	Individual land ownership is abolished
1981–85	Third Five-Year Plan is approved by the Fifth National Congress
1985	GDP per capita [in purchasing power parity (PPP) terms] is USD 231
1986	Doi Moi renovation reform programme and Fourth Five-Year Plan is approved by the Sixth National Congress
1987	Law of foreign investment allows entry to companies offering foreign direct investment
Late 1980s	Viet Nam withdraws from Cambodia
1991	The Soviet Union dissolves on 26 December
1995	World Trade Organization (WTO) Accession Party established; Viet Nam joins the Association of Southeast Asian Nations
1997	Asian financial crisis; Viet Nam joins the Asia-Pacific Economic Cooperation

1999	New Enterprise Law is enacted; ‘most favoured nation’ agreement with Japan
2000	United States (US)–Viet Nam Bilateral Trade Agreement is signed
2005	The Enterprise Law is revised to provide unified legal foundation for all enterprise types
2007	Viet Nam joins the WTO
2007–08	Global financial crisis
2016	GDP per capita (in PPP terms) is USD 2,171
2018	Viet Nam is signatory to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the successor of the TPP after the US withdrew