

# May Land Policy Hinder the Socioeconomic Growth?

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**T**he land policy affects the economic growth, turns land into values and budget income, generates development of related fields, improves ways of using decreasing stock of land and enhances housing quality. That is why people think Vietnam, after wartime, has nothing to develop but natural resources, including the land. Foreign experience, however, shows that the land is not important to the socioeconomic growth. Lack of natural resources and dependence on imported raw materials can't prevent Japan, Germany and some Asian countries from developing their economies based on the human resource. In addition, a wrong policy on land may hinder the socioeconomic development as shown in many cases.

In South Korea, the land price in 1975 rose by 13.3 times on average, and 28.5 times in Seoul; and while the housing price index rose by 6.8 times and the CPI by 4.6 times, the housing price index in Seoul was six times higher than the CPI. The realty crisis in the late 1980s was very serious with the result that workers found it hard to deal with rises in the house price and house rental. According to a rough estimate, profit from rises in the land price in 1989 was 35% higher than total income for all laborers in cities. Moreover, the higher land price made the land clearance for the building of infrastructure costlier. The price of a kilometer of road rose from 90-100 million won in 1970-72 to 27,000 million won in 1993, which caused harm for the sustainable development and social benefit for the public.

In Thailand, the busy realty market pushed the land price up to record levels. Investment in this market was only second to that in shares and accounts and this boom was one of the causes of the 1997 financial crisis.

In China, report of the Commission for State Reform and Development the hot development could make the realty market collapse because 61% of the total investment in real estate was from loan capital and some 120 million square meters of housing couldn't be sold. The collapse of this market would certainly lead to an economic crisis if no bold measure was taken to lower the land price.

To limit bad effects from the realty market to the socioeconomic growth, governments have taken strong measures to prevent the bubble from bursting.

The South Korean government imposed heavy fines on owners of too much land and heavy taxes on idle land and profit from sale of land. It also set limits on the urban land owned by each family and forced land owners to sell their extra areas (tax on such areas could rise to 11% of their value). Tax was also imposed on profit from rises in the land price of land caused by infrastructure built and services supplied by the State.

In Malaysia, the government forces land owners to develop the land in two years after securing the ownership and used taxes to prevent speculation on the land. When developing a piece of land, project owners should sell 30% of apartments at low prices (cut of 5% -15%) to low-income earners.

As for large extra land, the government could take back and

use it for large infrastructure projects or build apartment houses. Local government played decisive roles in the land development.

In China, the government stopped granting licenses to land developers if they wanted to build luxurious villas or resorts in suburbs. The market for first-class houses was well under control of the State.

Is the Vietnamese land policy following the same path as in neighboring countries and suffering failures without learning any lessons?

The land policy considers it as a source of budget income, sets its value to the market price and encourages auction of land in order to sell at the possibly highest price, which makes the land price rise quickly – by ten times within a short period – and more and more investors enter the realty market. The land price experienced high hikes in 1993, 2001 and 2007, which helped many people got rich overnight. According to a rough estimate, the profitability ratio in this market is often 10% higher than that in the Thai market, which attracts more and more foreign investors. Many companies from Singapore, South Korea and Taiwan have entered joint ventures with local companies to build big office buildings.

The land policy has produced the following bad effects on the socioeconomic development:

(1) It changes the course of changes in the structure of industry because investment only flows to profitable industries. At present, investors pour their money to stocks and real estates, some others put it in labor-inten-



sive industries with the result that industries requiring big investments but producing lower profit, such as high tech and heavy industries or high-quality services, couldn't develop normally.

(2) It causes price hikes and hyperinflation. The CPI in 2007, according to a rough estimate, may rise to 11%. Commercial banks are eager to supply loans for buying land, real estates and stocks and in the first nine months of 2007 their profit was 1.5 times higher than what they earned in 2006. The abundant supply of loans is one of causes of inflation. Many major banks in Europe, Japan, South Korea, Hong Kong and Thailand have face serious difficulties after lending too much money to investors in the realty market.

(3) It leads to lack of land for FDI projects. According to the Board of IP Management, falls in investment in IPs comes from the fact that the land is not available for projects because the cost of land clearance and compensations for the land lost to projects go high. Most foreign investors have thought main obstacles to their businesses were administrative procedures and land rental. The US Consulate in HCMC said that policies on land and priorities in this matter should be transparent and clear, otherwise the land would be accumulated by speculators and foreign investors would retreat.

(4) Increased price of land makes production cost higher. According to foreign observers, prices of staple exports from Vietnam are usually higher and their competitiveness lower in comparison with their rivals. In addition, the land rental in Vietnam - the highest in the region - forces foreign investors to consider removing their projects to surrounding countries.

The land price in big cities in Vietnam is unbelievable high. The land rental in HCMC is from four to six times higher as compared with China, and six times with Thailand while the infrastructure is not as good as theirs.

(5) It pushes up the cost of compensation for lost land, which prevents public works from being completed on time and makes it costlier to build roads and bridges with the result that the traffic congestion become more serious.

(6) It widens the gap between rich and poor. When many people get rich quickly by trading in real estates, the gap widens: 10.6 times in 1996; 12.1 times in 1999; 12.5 times in 2001-02; 13.5 times in 2005 and it keeps widening. The 2006 per capita GDP was US\$729 but the poor could make only US\$200 a year.

(7) It increases the number of residents who lost their land to public works. In many districts the resettlement program is commercialized. Many residents can not buy new houses with the compensations they get. Both the State and developers tend to pay compensations according to official prices and sell houses, flats and land at market prices. And

as a result, crowd after crowd of landless peasants have come to Hà Nội and HCMC to protest against unreasonable compensations and land policy and caused various social and political problems.

Thus, the realty market is experiencing unhealthy development and it may produce bad effects on the socioeconomic development and foreign investment. Many developing countries have faced the same problems as ones in Vietnam today. The Government had better learn their lessons and adjust the land policy accordingly.

In my opinion, the Government should keep tight control over town planning and land development. All violations in this matter should be punished severely. Limits on the land owned by a family in city should be set with a view to preventing accumulation of land and forcing owners to sell their extra areas. Heavy taxes must be imposed ownership of large area of land and houses or unused land, and on profit from trading real estate, especially the profit comes from the building of infrastructure invested by the State. ■

