How Much to Invest to Catch Up

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I. INTRODUCTION

According to Harvard University [1], Vietnam has been widely praised as a success story with various indicators of success such as a projected 7% rate of GDP growth, healthy exports, good progress with poverty reduction, improving social indicators and low inflation. However, Vietnam is starting at a very low point compared with its former allies, former adversaries and neighbors as indicated in Table 1.

Because of very low GDP level, it will take Vietnam a lot more efforts and many decades to catch up with the rest of the world. From an earlier publication entitled "How Fast to Grow to Catch Up," (*Economic Development Review*, issue No.136, December 2005) the authors presented numerous growth scenarios or combinations of a time duration and a growth rate, for Vietnam to catch up with the rest with the world.

The focus of this paper is to show how much investments are needed to elevate Vietnam's economy to various growth levels. Its intent is to provide its readers the great magnitude of investments that is required to transform Vietnam from a poor to a prosperous country.

II. VIETNAM'S ECONOMIC STRUCTURE

In order for Vietnam to develop a growth policy and realistically implement it, it is required to understand its economic structure that can be summarized in Table 2.

From Table 2, the most productive sector is the construction and industry (CI). However, this sector employs the fewest number of people, 13%. The CI sector's per-capita GDP is only US$1,692 compared with South Korea's per-capita GDP of 13,980 and with Singapore's amount of 24,200. With current per-capita GDP growth rate of 6%, this sector needs 36 and 46 years to catch up with South Korea's today per-capita GDP and Singapore's, respectively.

The next best sector is the services sector that has a per-capita GDP of US$995. It is a smaller amount than the CI amount. Certainly, Vietnam has to work much harder to elevate its productivity. With the current per-capita GDP growth rate of 6%, this sector needs 45 and 55 years to catch up with S. Korea's today per-capita GDP and Singapore's, respectively.

The most troublesome sector is agriculture, forestry and fishery (AFF). It employs 2/3 of the population and its per-capita GDP is at a miserable amount of US$183. The focus of economic strategists is to move millions of peasants from very low-paying agricultural jobs to higher-paying CI and service jobs, and the migration requires huge investments in factories, physical infrastructure and retraining and retooling of peasants.

III. FUNDAMENTAL ECONOMIC GROWTH CONCEPT

Some countries grow faster than others depending on the maturity of their economies. The maturity comes from low population growth rate, high per-capita GDP, high employment rate and high level of utilization of advanced technology and managerial practices. Developed countries with mature economy usually grow slowly while developing countries with less mature economy can grow very fast. The main force for the growth of a mature economy is technological and managerial innovations that increase the general productivity. A good growth rate for developed countries is between 1% and 4%, and the rates reflect the rate of growth in productivity caused by technological and managerial innovations. For example, technological innovations are new products such as new computers, and managerial innovations are new services such as cellular phone services and mass merchandizing approach offered by Wal-Mart (Wal-Mart is the largest American company that operates hundreds of super markets throughout the world, and it has total revenue of US$288 billion in 2004).

Developing countries such as Vietnam, India and Cambodia usually have high population growth rate, low per-capita GDP, high unemployment and low level of utilization of advanced technology and managerial practices. To move from a poor to a prosperous country, they may have to go through a few stages of growth as follows:

1. Utilization of surplus labor: The first phase of growth is to put unemployed people or young people to work at any jobs. If the countries fail to create new jobs for their own people, they need to attract foreign direct investments (FDI) to create jobs.

2. Adoption of latest technological and managerial developments from developed countries: This common practice enables developing countries improve their general productivity and develop light

Table 2: Vietnam's economic structure

GDP ($US bil. in 2004)	45.1
Population in 2004 (mil.)	82
Per capita GDP growth rate in 2004	5.94%

Table 1: 2004 per capita GDP in USD

U.S	Japan	France	Singa-pore	Russia	Thai-land	China	Philipp-ines	Indone-sia	India	Viet-nam	Cam-bodia
48,400	37,180	30,090	24,220	3,410	2,540	1,290	1,170	1,140	620	550	320

	Share of GDP	GDP ($US bil.)	Share of labor	Per capita GDP ($US)	People (Mil.)
Agriculture, Forestry, Fishery	22%	9.9	66%	$183	54
Construction & Industry	40%	18.0	13%	$1,692	11
Services	38%	17.1	21%	$995	17
All Sectors	100%	45.1	100%	$550	82

manufacturing and services industries.

3. Dramatic increase in agricultural productivity to free labor for manufacturing and service industries: Developing countries must be successful in increasing agricultural output while using less and less labor by using more machinery, modern scientific farming methods and better managerial practices. As a result, more people become available for manufacturing and services industries.

4. Massive development of the industrial and service sectors: During this phase, the country must be able to create numerous new non-agricultural industries. If the domestic private and state sectors fail this mission, the country must do its best to bring in FDI to take on this task.

5. Massive training of workers for new jobs: The country must develop massive training programs to move workers from the agricultural sector to the expanding industry and service sectors.

Vietnam is currently in the first two phases: utilization of surplus labor and adoption of latest technological and managerial developments from developed countries.

IV. HOW MUCH TO INVEST FOR RAPID GROWTH

Vietnam would need at most 10 million people in the AFF sector in the long run, and it has to migrate at least 44 million people to the other two sectors as soon as possible. Ideally, Vietnam should complete this migration in 20 years or at least two to three million people of existing peasants and their new offspring per year while continuing to improve the productivity of this sector. How much to invest to move from a starting point (or one sector or a starting per-capita GDP) to a target level (or a target sector or a target per-capita GDP) is computed as follows:

Total investment (US$) = (target per-cap GDP – current per-cap GDP) * population * required investment rate

According to a study conducted by Harvard University, the required investment rate for Vietnam is between US$3 (for private sector) and US$5 (for the state sector) to generate a new dollar of GDP. The private sector is much more efficient in utilizing investment dollars and more workers than the state sector. The migration away from the AFF sector requires lots of investments such as education and training of peasants, new factories, better transportation system, creation of a new managerial class to manage much large CI/Services sectors, etc. Further, if Vietnam wants to elevate its economy to the levels of Malaysia and South Korea, it also requires a great deal of investments. A summary of how much investments are needed to move from a starting point to a desired destination is presented in Table 3.

From Table 3, to move people from a low per-capita GDP level to a target level, Vietnam needs to invest:

§ US$178 billion in the state services sector to absorb 44 million peasants but only 107 in the private services sectors to obtain the same result.

§ US$199 billion in the state Services sector to absorb 44 million peasants but only 332 in the private services sectors to obtain the same result.

§ US$1,681 billion in the state sector to move Vietnam to Malaysia's current level but only 1,008 in the private sectors to obtain the same result.

§ US$5,506 billion in the state sector to move Vietnam to South Korea's current level but only 3,303 in the private sectors to obtain the same result.

The next issue is the sources of funds, i.e., where Vietnam finds the money to finance the above endeavors. The sources are state, private and foreign. The state source is very limited by the amount of taxes collected on a small GDP of $42 billion and rampant corruption. Obviously, Vietnam needs lots of private and foreign investments for this epic migration. Consequently, the Vietnamese government must do its best to change its laws and regulations to provide level-playing fields for all individuals and sectors to invest and to ascertain that their investments are safer in Vietnam than anywhere else in the world. Otherwise, Vietnam would grow very slowly and could not catch up with the rest of the world that is growing too.

V. CONCLUSION

When a country grows, its competitors also grow. For Vietnam to catch up with the rest of the world, it has to grow much faster than others and also needs a great deal of new investments. Vietnam has an investment choice between the state sector and the private sector. The state sector is much less efficient than the private sector by a ratio of 5 to 3 or consumes a lot more resources to generate an additional dollar of new GDP. Consequently, the Vietnamese government must do its best to encourage massive private investments. Any delay or hesitance would mean an economy that grows much slower than the potential of its people.

References

[1] Daprice, David, "Vietnam's Economy: Success Story or Weird Dualism – A SWOT Analysis", Harvard University, Vietnam Program, Center for Business and Government, May 2003, available on the web.

[2] Transparency International, http://www.transparencyinternational.org

[3] Vietnam Country Index, Source – Ministry of Trade, http://www.vietpartners.com/Ctrybrief.htm

Table 3: How much to invest to move up

From	To	Starting GDP ($US)	Target GDP ($US)	GDP gain ($US)	People (Mil.)	Total GDP gain ($US bil.)	Private Investment ($US bil.)	State investment ($US bil.)	Private Saving ($US bil.)
AFF-VN	Service-VN	183	995	812	1	0.8	2.4	4.1	1.6
AFF-VN	CI-VN	183	1,692	1,509	1	1.5	4.5	7.5	3.0
AFF-VN	Service-VN	183	995	812	44	35.7	107.2	178.6	71.5
AFF-VN	CI-VN	183	1,692	1,509	44	66.4	199.2	332.0	132.8
Vietnam	Malaysia	550	4,650	4,100	82	336.2	1,008.6	1,681.0	672.4
Vietnam	South Korea	550	13,980	13,430	82	1,101.3	3,303.8	5,506.3	2,202.5