

Role of the Property Market in Vietnam's Economic Growth and Its Accession to WTO

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The experience from developed countries shows the extremely important role of the property market, it gives impacts on a nation's socio-economic and political issues. In our country's process of transition into a market economy, this market has come into being along with other markets. It was legalized only when the 1992 Constitution allows the Government to grant land to organizations and individuals for long use and the 1993 Land Law rules that those who are granted land have five rights: transformation, transfer, rent, inheritance and mortgage of land-use right.

1. The property market in Vietnam

The property market was established only 10 years ago, including the market of land-use right and the market of houses. It has made positive contributions to the national development. Nevertheless, this market remains in the embryonic stage, facing a lot of potentials and challenges caused by unplanned operations, market failures and shortcomings in the system and policy. At present, in this market, the official trading holds a much smaller share than unofficial one, or 25 to 30%. Regrettably, unofficial operations are beyond reach of governmental agencies while the regulations on market management are complicated, cumbersome and ineffective. In addition, the rapid urbanization speed causes a rush into land speculation and its bad consequences to the expansion of production and business as well as the improvement of people's living standard.

However, the establishment and development of the property market has commercialized the country's huge assets and used them for socio-economic growth, especially in the construction of infrastructures and facilities for production and business and accommodation for people. Moreover, the task of market organization, management and expansion has recorded a lot of achievements.

Nevertheless, the Government is required to improve its execution of the 2003 Land Law and the 2003 Construction Law and rectify its guiding decrees including Decree 181/2004/NĐ-CP and directives on granting "red books", "pink books", so that the property market could grow fast and healthily and fulfill its role.

Furthermore, the market expansion has made significant contributions to Vietnam's process of international integration. It is clearly indicated in the attraction of foreign capital flows when the land (land-use right) and buildings on the land become important assets for capital contribution in joint ventures with foreign partners. This is proved by the fact that many high-rise buildings, offices, houses and modern infrastructures have been built and brought into operation, spurring urban development. In addition, the market expansion has good effects on the promotion of other markets of commodities, science and technology, capital (or the stock market), labor, etc. It also enhances the country's economic competitiveness in its process of regional and international integration.

2. The role of the property market in boosting Vietnam's socio-economic growth

The property market has given positive impacts on the country's socio-economic growth.

First, it has constituted an integrative system of different markets for the national economy together with other markets of capital, labor, science and technology, capital goods, services, etc. This market's bright operations will cause good effects on other markets and sustainable growth of the economy. Its spillover effects are obvious because the house-building sector uses products from 60 different lines. Property experts estimate if an amount of VND50 billion is invested in house construction per year, it will gener-

ate a growth of VND75,000-100,000 billion for other sectors annually (Source: Newsletter of the Central Economic Research and Management Institution, 2004).

Second, in market-ruled operations of the property market, prices rule behaviors of the buyer and the seller. Along with rules of the market, a healthy property market may automatically replace ineffective use of land with better functions. It will allocate materials, labor, technologies and capital to necessary areas. As a result, the operations of the property market lead to more effective use of limited land resources and funds. In fact, from 1990 to 2000, as much as 100% of farmland was allocated to individuals and organizations for long-term use. They have increased the national food output from 19 million to 32 million tonnes per year. Other Vietnamese agro-products including coffee, pepper and cashew nut also have taken high positions in export markets and greatly affected the supply and demand in the world market over the past years. These achievements are attributed to different factors, including extremely important contributions from the market of land-use right in particular and the property market in general.

Third, the property market has satisfied the property supply and demand and stimulated the attraction of development investment capital in different forms. The evidence shows it has allure huge funds from domestic and foreign sources into construction of houses and buildings for production and business. In 2002 alone, the money spent in building houses amounted to VND50,000 billion; in the foreign-invested sector, the total capital used in property deals (offices, hotels, and industrial parks) reached more than US\$12 billion. Therefore, the property market has step by step met the people's requirements of upgrading their houses on the one hand, and attracted important foreign capital flows to the

country's construction of modern cities and economic hubs on the other hand. At the same time, this market expansion will be the stimulus for enhancement of science and technology, production and business, labor productivity, and specialization level in the market mechanism because businesses usually operate on the basis of profit. This leads to fact that businesses have to regularly innovate their management and production technologies, reduce costs and promote the volume and quality of their properties to satisfy individuals and organizations' requirements.

Fourth, the market operations make favorable conditions for screening and training producers and traders in the property area. As a result, the country will have an army of skilled entrepreneurs serving the national industrialization and modernization.

The property market with high profitability and plentiful challenges will spark off partners' activeness and creativity in business ideas and methods, facilitate their trading freedom and thus encourage better exploitation of the country's land, labor and capital.

Fifth, the market expansion has created more revenues to the state budget. According to the National Tax Bureau, revenues from land and property reached VND4,645 billion per annum on average from 1996 to 2000 although as many as 70% of property deals were out of the government control. According to property experts, if these unofficial deals are contracted and strictly con-

trolled, the Government could earn VND20,000 billion from taxes and charges. This is really a huge income for the Government in the current tough time.

3. Effects of the market development on Vietnam's accession to WTO

The evidence shows the market property development has helped improve the use of huge sources of land and property, as well as the country's geo-political and geo-economic advantages. It sharpens competitive edges of the national economy and strengthens Vietnam's success in the regional and international playing fields on the basis of fair regulations. Some of positive effects are indicated below:

(1) The market expansion has created favorable conditions for foreign direct investment in hotels, tourist resorts, trading centers, industrial parks, hi-tech IPs, export processing zones, new residential areas... These projects satisfy not only local needs but also foreign partners' requirements. They also make the investment environment more attractive and at the same time enhance the national competitiveness.

(2) The extension of land-use rights has given important assistance to local investors when they enter joint venture with foreign partners by their contribution of land use right. It is estimated that until mid 2003, the local partner's total value of land-use rights in joint ventures amounted to more than US\$3 billion. In the mean time, the extension is

extremely important when local enterprises' finance remains meager for production and business. It also facilitates the country's using its valuable land resource effectively and geo-political and geo-economic potentials in FDI attraction and international integration.

(3) The development of the property market helps settle problems of sites for local and foreign businesses, enhance quality and reduce costs of using property and infrastructure. Therefore, their competitiveness will be promoted when joining the WTO.

(4) The thriving of property market will boost the expansion of other markets. Moreover, the reformation of state control over the property market will avoid the status of hot development, or balloon economy in the process of accession to the WTO.

(5) When the property market develops, farmland will be used more effectively, creating firm pre-conditions for an export-oriented agriculture with high competitive advantages when joining the WTO.

In short, the property market has proved its important role in Vietnam's socio-economic development. At the same time, it also makes significant contributions to the country's process of accession to the WTO. Therefore, the Government is required to perfect policies and regulations for strong and healthy expansion of the property market which is useful in the national industrialization and modernization as well as international integration. ■



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