Quality of the Economic Growth
A PROBLEM FOR VIETNAM

by Dr. PHAN NGỌC TRUNG

1. Growth of the GDP

In recent years, many events caused the international and regional economies to slow down but Vietnam still maintained a high growth rate that was often twice as high as the world growth rate and helped Vietnam be ranked among the world top three.

Table 1: Vietnam's growth rate in the past two decades

Year	1986-90	1991-95	1996-2000	2001	2002	2003	2004	2005
Growth rate	4.8	8.2	6.96	6.9	7.1	7.3	7.7	8.4

However, the quality of Vietnamese economic growth was poor because it came mainly from increases in capital and labor. In the years 1998 –2002 for example when the average growth rate was 6.3%, three factors that contributed to this result were: capital 57.5%; labor 20% and total factor productivity 22.5%. This means that the economic growth was based on increases in factor inputs while the share of knowledge, technology and managerial skills was very small.

In addition, the capital was not used effectively, which showed itself in the increasing ICOR index.

This shortcoming comes from: (1) structure of investment is unreasonable because the public investment is distributed among too many projects; (2) land clearance is slow; (3) Too much time and money is wasted; and (4) corruption and embezzlement is widespread. In ranking presented by the WEF in 2004 in terms of corruption and waste by the government, Vietnam was always ranked among the lowest ones.

Many countries have agreed that the GDP growth rate was not enough to measure the strength of the economy, because one of shortcomings of the GDP was the fact that any goods and services that could be turned into money was automatically added to the GDP regardless of their quality and benefit. The GDP, moreover, fails to reflect damage caused to the environment and national resources, and it also fails to reflect the equality of wealth distribution.

To deal with this shortcoming, many economists have introduced a concept of the Net Economic Welfare (NEW) with a view to measuring the sustainability of the economic growth and what the public benefit from this growth.

Table 2: Vietnam's ICOR over years

Year	1990	1995	2000	2001	2002	2003	2004
ICOR	2.95	3.35	4.83	4.78	4.83	4.74	4.74

Source: Trẻ Publishers, *Kinh Tế Việt Nam Trên Đường Rồng Hoá* ("Vietnamese Economy on Its Way to a Dragon Country"), HCMC, 2004, p. 277.

2. Changes in the structure of industry

In the past two decades, shares of service and manufacturing sector have increased at the expense of the agricultural one although absolute values of all sectors have been on the increase.

There are, however, many shortcomings besides this achievement. High growth rates are found mainly in traditional industries while the share of high-tech ones is still small. Structure of export is slow to improve because raw materials and semi-finished goods represent 60%. The trade gap is still high compared with the export value.

Table 3: Changes in the structure of industry

Year	1986	1990	1995	2000	2003	2004
Agriculture	38.06	38.74	27.18	24.53	22.54	21.76
Industry	28.68	22.67	28.76	36.73	39.47	40.09
Service	33.06	38.59	44.06	38.74	37.79	38.15

Source: 2004 Statistical Yearbook.

3. Competitiveness

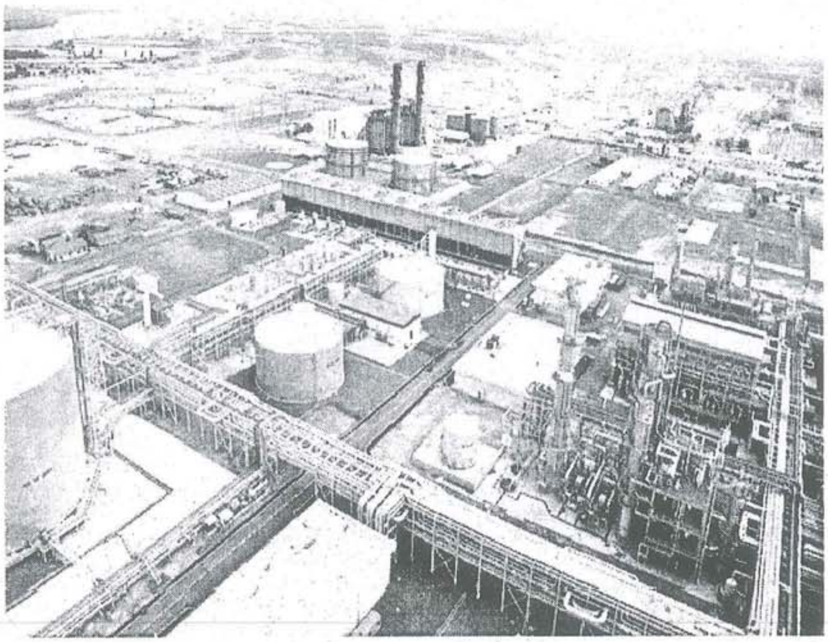
Most Vietnamese exports have poor competitiveness in both domestic and foreign markets because of the poor performance of the whole economy. In the WEF global competitiveness ranking, the Vietnam's position falls over years: from 49/59 in 2000 to 64/75 (2001); 60/80 (2002); 60/102 (2003; 77/104 (2004); and 81/117 in 2005. As for business competitiveness, Vietnam ranked 50/95 in 2003 and 79/104 in 2004.

4. Increasing gap between poor and rich

Besides achievements in poverty alleviation, improvements in HDI and better supply of health care and education services, the gap between the richest 20% and the poorest 20% of the population increased over years, from 4.1 times in 1990 to 6.5 times in 1995 and 8.1 times in 2002.

- The quality of education services of all levels is poor because the reform in this sector didn't produced intended results.
- Discrimination against patients who enjoy medical insurance system is widespread and non-state sectors still meet with difficulties in engaging the health caring service.
- The eco-system is damaged seriously: water and air are polluted; deforestation and forest fire at large scale are common; and many factories still exist in residential areas.

Photo by Huỳnh Thơ



- Quality of human resource is poor. Up to 2003, some 80% of the labor force took no training. As for graduates from all kinds of schools and universities, they have poor knowledge of foreign languages and practical expertise.

- From 80% to 90% of technologies employed in Vietnam are imported; and 75% of production lines employed have finished their amortization. Regarding equipment and machines employed by local concerns, 10% are modern, 38% rather old and 52% very old. The Ministry of Science and Technology estimated that replacement of technology is the weakest ability of local concerns. A poll among 24 Japanese companies about 10 ASEAN countries came to conclusion that Vietnam got only 1.9/5.0 mark and ranked 7/10, higher than Cambodia, Laos and Myanmar.

5. Measures to improve the quality of economic growth

- Better allocation and employment of natural and human resources: In 2004, five years after the Companies Law, for example, the private investment amounted to some US$11 billion; 3 billion from immigrant remittance; and 1.2 billion from export of labor. We need right policies to turn these sources of finance into investment instead of spending them on luxury goods. In public expenditure, strong measures should be taken to prevent waste, corruption and embezzlement. According to our calculations, the growth rate could be 8.3% - 8.7% in 2003 instead of 7.24% if waste and corruption were stopped.

- Better business climate to attract foreign direct investment: The FDI amounted to US$4.2 billion in 2004 and 5.8 billion in 2005 while the ODA rose from 3.4 to 3.7 billion in the same period. The Government should keep improving the business climate to facilitate the inflow of foreign finance.

In 2004, the Vietnam's GDP was US$45.5 billion while export value was 26 billion and import 31.5 billion. This means that the economic growth depends a lot on the world market, so the competitiveness at all three levels (national, corporate and individual product) must be enhanced continuously by increasing added value in all goods and services for export.

- Achievements in the technological revolution should be applied to the local production in order to increase the share of total factor productivity in the economic growth.

- Solving social problems: In the past few years, the UN appreciated efforts made by Vietnam to reduce poverty but the per capita GDP is still below US$2 per day. To deal with this problem, job creation programs must be beefed up. Vietnam should create some 1.5 million jobs a year, which beyond reach of the public sector, so the Government should facilitate the export of labor and encourage the development of nonpublic sectors as sources of new jobs.

- The monetary policy and the banking system must be reformed continuously in order to help them adapt to the international market and contribute more actively to the economic growth. In addition, the administrative reform is also a must in order to enable the administrative machinery to keep a close watch on economic activities instead of directly running or hindering them.■

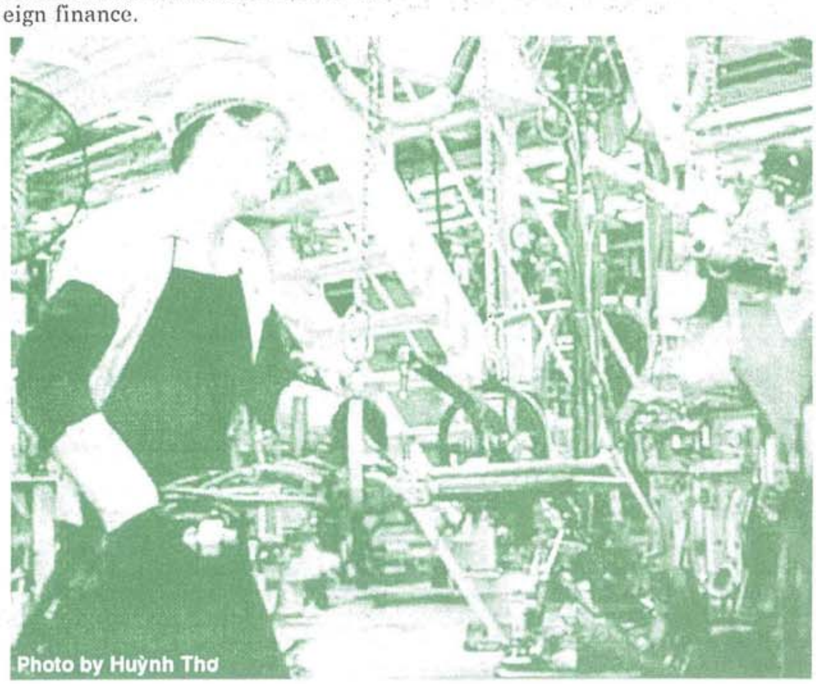


Photo by Huỳnh Thơ