

HOW FAST TO GROW TO CATCH UP

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1. Introduction

Since 1986, the Sixth Party Congress approved a broad economic reform package called "Đổi Mới" (Renovation) that introduced market reforms and dramatically improved Vietnam's business climate to allow private businesses to incorporate to do business with foreign investors. Vietnam becomes one of the fastest-growing economies in the world, and its average annual GDP growth rate is between 6% and 8% in the recent years. Production of many agricultural products such as rice, coffee, cashew nuts, etc. increases many folds, and Vietnam turns into a major exporter of these products.

Foreign trade and foreign direct investment im-

proved significantly. The shift away from a centrally planned economy to a more market-oriented economic model improved the quality of life for many Vietnamese. Per capita income, US\$220 in 1994, had risen to US\$550 by 2004 with a related reduction in the share of the population living in acute poverty. However, the average income is widely disparate—about US\$185 in populous rural/remote areas to about US\$1,700 in urban industrialized areas.

Despite its impressive GDP growth rates of the past decade, Vietnam remains as a poor country when compared with its neighbors, former adversaries and former allies. A brief overview of per capita GDP data of the countries appears as follows.

The people of Vietnam have put decades of war and the rigidity of the central planning economic system behind and are looking forward to the future to catch up with the rest of the world. They have more important things to worry about these days. They are young, ambitious, industrious, creative, and anxiously waiting for the opportunity to display their full potential. Their target is to catch up with the rest of the world by elevating Vietnam to a high position in the global economy so that the entire nation can switch its pride from military victories to glowing peaceful economic accomplishments.

This paper provides an overview of how fast Vietnam should grow in catch-

ing up with the rest of the world.

2. Relevant economic growth concepts

GDP and Per capita

GDP : GDP stands for Gross Domestic Products and is frequently used to depict the size of an economy. It is the total of annual productions of all final goods and services measured using the nominal currency. Per capita GDP indicates how well off the average citizen of a country is or the total GDP divided by the population size. When comparing economic performances of different countries, the per capita GDP measure is frequently used. The higher the per capita GDP, the more prosperous the country is.

GDP conversion

methods - The wealth of a country is reflected by the per capita GDP measure. When comparing economies, conversion of per capita GDP's to a common currency is required. Usually, the U.S. dollar is used as the common currency for international comparisons. Next, there are two distinct measures of GDP to choose from: Atlas and PPP (purchasing power parity). When the Atlas method is used, the common-currency GDP is obtained from converting the GDP to the U.S. dollar using an average international currency conversion rate. When the PPP method is used, the common-currency GDP is obtained using an imaginative way. The converters first determine the basket of goods and services that a typical person is consuming. Then, they determine how much the basket is worth if it is purchased or sold in the international

Table 1: 2004 Per capita GDP of selected countries in US dollars

| The U.S. | Japan | France | Singapore | Russia | Thailand | China | Philippines | Indonesia | India | Vietnam | Cambodia |
|----------|--------|--------|-----------|--------|----------|-------|-------------|-----------|-------|---------|----------|
| 41,400 | 37,180 | 30,090 | 24,220 | 3,410 | 2,540 | 1,290 | 1,170 | 1,140 | 620 | 550 | 320 |

Table 2: Countries and political systems

| Country | Political system | Political reason | Per capita GDP | Gov. transparency |
|-------------|------------------|---|----------------|-------------------|
| Singapore | Single-party | Ruled by the PAP (People's Action Party) since 1965. | 24,220 | 9.3 |
| China | Single-party | Ruled by the communist party since 1949 | 1,290 | 3.4 |
| Vietnam | Single-party | North Vietnam and all Vietnam ruled by the communist party since 1945 and 1975, respectively. | 550 | 2.6 |
| Japan | Multi-party | Ruled by multi-party since late 1940s. | 37,180 | 6.9 |
| South Korea | Multi-party | Ruled by military government from 1945 to mid-80s; multi-party since mid 80s | 13,980 | |
| Malaysia | Multi-party | Ruled by multi-party since 1963 | 4,650 | 5.0 |
| Philippines | Multi-party | Ruled by single party (Marcos from 1965-1986); multi-party since 1986 | 1,170 | 2.6 |



market. The international worth of the basket is the per capita PPP GDP.

Each of the GDP conversion methods has its own pros and cons. The Atlas method is quite simple to use, and it assumes that the locally produced good and services are sold at the same local prices to both international and local buyers. The *real purchase power of the local population could be significantly different* because the local prices could be very low or very high due to local market condition of supply and demand. For example, haircuts in Vietnam are very cheap, and one can buy a haircut or two for a dollar in Vietnam. On the other hand, phone services in Vietnam are very expensive because there are fewer suppliers of phone services in Vietnam. The PPP method takes out the local price factor so that the same basket of goods and services is priced at standard international prices. However, *the PPP basket cannot be traded at the international prices for some countries because international buyers may not be interested in such goods and services at such locations*. This paper uses the Atlas method for its practicality and tradability. In other words, actual prices

that are negotiated between two real buyer and sellers are the best prices, not some imaginative prices associated with the PPP method.

Developed and developing countries: 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

Table 3: Transparency indices of three single-party countries

| Year | Singapore US\$24,000 | China US\$1,290 | Vietnam US\$550 |
|------|-------------------------|--------------------|--------------------|
| 2004 | 9.3 | 3.4 | 2.6 |
| 2003 | 9.4 | 3.4 | 2.4 |
| 2002 | 9.3 | 3.5 | 2.4 |
| 2001 | 9.2 | 3.5 | 2.6 |
| 2000 | 9.1 | 3.1 | 2.5 |
| 1999 | 9.1 | 3.4 | 2.6 |
| 1998 | 9.1 | 3.5 | 2.5 |
| 1997 | 8.7 | 2.9 | 2.8 |
| 1996 | 8.8 | 2.4 | N/A |

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 usually have high population growth rate, low per capita GDP, high unemployment and low level of utilization of advanced technology and managerial practices. Their growth usually comes from the ability to put their unemployed people to work at any jobs, and the ability to absorb latest technology and managerial practices from the developed countries. If the countries fail to do these two things on their own, they need to attract foreign direct investments (FDI) to create jobs and bring with them latest technology and managerial practices. The per capita GDP growth rates for developing countries vary a great deal from -3% to 10% depending on their ability to maintain political and macroeconomic stability, to adopt a suitable macroeconomic model to energize and motivate the entire population in economic development, to establish rule of law, to improve governmental transparency, to create jobs, to attract FDI, to trade with the rest of the world especially with rich countries, and/or

to absorb the latest technology and managerial practices from developed countries.

Countries and political systems: When comparing economies in search of a GDP-growth model, it is necessary to group countries with a similar political system together. From a study conducted by Tran, Shafer, Ogburn and To [1], the researchers classify political systems of a number of countries in the Southeast Asia and Pacific region, and brief summary of the countries and their political systems is displayed in Table 2. Governments of countries with the same political system usually adopt similar political/economic policies for economic growth. The countries of comparison in this paper are divided into two groups: multi-party and single-part.

Governmental Transparency: From the same study conducted by Tran, Shafer, Ogburn and To [1], there is a strong correlation between governmental transparency and per capita GDP—the higher the governmental transparency, the higher the per capita GDP. Transparency index is published annually by a non-profit and non-governmental agency named Transparency In-

ternational with 10 as the most transparency and 1 as the most corruption. Its published data have played a major role in helping governments improve their transparency.

Multi-party countries are usually required less governmental transparency than single-party countries to produce the same per capita GDP amount because of number checks and balances inherent in the political system. People in multi-party countries usually run into few restrictions when engaging in economic activities than those in single-party countries. To compensate for these restrictions, the single-party governments must be very transparent in guiding the people in economic pursuits. Table 2 shows a summary of per capita GDP's and governmental transparency indices of three single-party countries in the Pacific region, Singapore, China

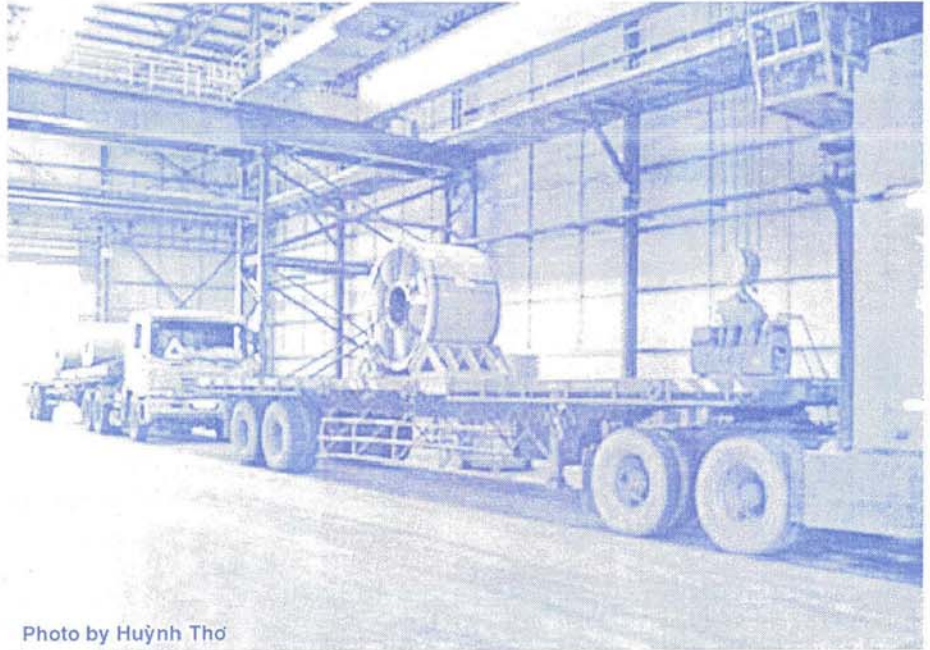


Photo by Huỳnh Thơ

and Vietnam. The higher the transparency index, the higher the per capita GDP.

3. Vietnam's catching-up growth scenarios

The GDP_t or the per capita GDP of country, *t* years from now, can be computed using the following formula:

$$\text{GDP}_t = \text{GDP}_0 \cdot (1 + g)^t \quad (1)$$

Where GDP₀ is the current GDP (or US\$550 for Vietnam in 2004) and *g* is the per capita GDP growth rate. This formula can be used to project future GDP levels of a country using the currently GDP and a growth rate of *g*.

Table 4 shows the per capita GDP of seven countries including Vietnam in 20, 30, 40 and 50 respectively at constant per capita GDP growth rates of 1%, 2%, 4% and 6%. A long-term per capita growth rate of 6% is considered very high for any country, and this rate is only sustainable when the country has not reached its maturity yet. When it is non-attainable, the abbreviation of N/A is used. Any long-rate growth rate beyond 6% requires the country to possess many grand things such as highly energetic and innovative population, lasting peace with neighbors and global powers, domestic political stability without using of force or coercion against the oppositions, and possession of many trusted and strong political economic allies.

There are few interesting inferences that can be

Table 4: Per capita GDP growths of comparative countries

| Years | Growth | MULTI PARTY | | | | SINGLE PARTY | | |
|-------|--------|-------------|----------|-------------|---------|--------------|-----------|---------|
| | | Philippines | Malaysia | South Korea | Japan | China | Singapore | Vietnam |
| 2004 | N/A | 1,170 | 4,650 | 13,980 | 37,180 | 1,290 | 24,200 | 550 |
| 20 | 1% | 1,428 | 5,674 | 17,058 | 45,367 | 1,574 | 29,529 | 671 |
| | 2% | 1,739 | 6,910 | 20,774 | 55,248 | 1,917 | 35,960 | 817 |
| | 4% | 2,564 | 10,189 | 30,632 | 81,466 | 2,827 | 53,025 | 1,205 |
| | 6% | 3,752 | 14,913 | 44,836 | N/A | 4,137 | 77,613 | 1,764 |
| 30 | 1% | 1,577 | 6,267 | 18,843 | 50,113 | 1,739 | 32,618 | 741 |
| | 2% | 2,119 | 8,423 | 25,323 | 67,346 | 2,337 | 43,835 | 996 |
| | 4% | 3,795 | 15,082 | 45,343 | 120,590 | 4,184 | 78,490 | 1,784 |
| | 6% | 6,720 | 26,707 | 80,294 | N/A | 7,409 | N/A | 3,159 |
| 40 | 1% | 1,742 | 6,923 | 20,814 | 55,356 | 1,921 | 36,031 | 819 |
| | 2% | 2,583 | 10,267 | 30,868 | 82,095 | 2,848 | 53,435 | 1,214 |
| | 4% | 5,617 | 22,325 | 67,118 | 178,502 | 6,193 | 116,185 | 2,641 |
| | 6% | 12,034 | 47,829 | 143,794 | N/A | 13,269 | N/A | 5,657 |
| 50 | 1% | 1,924 | 7,648 | 22,992 | 61,147 | 2,122 | 39,800 | 905 |
| | 2% | 3,149 | 12,516 | 37,628 | 100,073 | 3,472 | 65,136 | 1,480 |
| | 4% | 8,315 | 33,046 | 99,351 | 264,226 | 9,168 | 171,982 | 3,909 |
| | 6% | 21,552 | 85,654 | 257,514 | N/A | 23,762 | N/A | 10,131 |

drawn from Table 4. If Vietnam could sustain a long-term per capita GDP growth rate of 6%, its projected GDP of US\$3,159 after 30 years would be still behind Malaysia's 2004 GDP of US\$4,650, and its projected GDP of US\$10,131 after 40 years would be still behind South Korea's 2004 GDP of US\$13,980.

Table 4 shows how fast Vietnam must grow to catch with other countries in 20, 30, 40 and 50 years when others also grow at lower rates such as 1%, 2%, 4% and 6%. When the catching-up rate is beyond 12%, it is considered non-attainable or N/A. How to compute a catching-up rate gx appears as follows:

a. Use Formula (1) to project the future per capita GDP of the other country using a slower growth rate (1%, 2%, 4% or 6%), the number of years (20, 30, 40 or 50 years),

and its 2004 per capita GDP.

b. Use Formula (1) to project the future per capita GDP of Vietnam in each cell using the same number of years (20, 30, 40 or 50 years), Vietnam's 2004 per capita GDP of US\$550, and a high growth rate gx in such a way that the Vietnam's projected per capita GDP be equal to that of the target country's projected GDP using a lower rate of growth.

Table 5 shows that Vietnam must work very hard to catch up with other countries that are also growing. Vietnam could catch up with the Philippines in 20 years at 8% growth rate if the other grew at 4%. Vietnam could catch with Malaysia in 40 years at 7.59% if the other grew at 2%. Vietnam could catch up with South Korea in 50 years at 8.82% if the other grew at 2%. Vietnam

could catch with China, a country currently with very high rate of growth, in 40 years at 8.28% if the other grew at 6%. Vietnam could catch with Singapore in 50 years at 10% if the other grew at 2%.

If Vietnam wanted both — to remain as a single-party country and to have high per capita GDP growth, it would have to be more transparent than China in the next five years (or from 2.6 to 3.4/10) and Singapore (or from 2.6 to 9.3) in the next fifteen years. If Vietnam could not obtain high enough governmental transparency and still wanted to have high economic growth, changing political system to multi-party would be another option. Thus, significant governmental reforms are needed if Vietnam wants to elevate its economic position high enough in the world.

4. 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. In addition to economic growth, Vietnam must also go through a great deal of governmental reforms, mainly governmental transparency to follow the good examples of China and Singapore, the two single-party countries in the region. ■

Reference

- 1) Tran, Shafer, Ogburn, To, "Systemic Impact of Governments on Economic Development," *Economic Development Review*, No. 97, September 2002, pp 4-9.
- 2) Transparency International, <http://www.transparencyinternational.org>
- 3) Vietnam Country Index, Source — Ministry of Trade, <http://www.vietpartners.com/Ctrybrief.htm>

Table 5: Vietnam's catching-up growth rates

| Years | Others' Growth | MULTI PARTY | | | | SINGLE PARTY | |
|-------|----------------|-------------|----------|-----------|--------|--------------|-----------|
| | | Philippines | Malaysia | Korea, S. | Japan | China | Singapore |
| 20 | 1% | 4.89% | N/A | N/A | N/A | 5.40% | N/A |
| | 2% | 5.93% | N/A | N/A | N/A | 6.44% | N/A |
| | 4% | 8.00% | N/A | N/A | N/A | 8.53% | N/A |
| | 6% | 10.08% | N/A | N/A | N/A | 10.62% | N/A |
| 30 | 1% | 3.57% | 8.45% | N/A | N/A | 3.91% | N/A |
| | 2% | 4.60% | 9.52% | N/A | N/A | 4.94% | N/A |
| | 4% | 6.65% | 11.67% | N/A | N/A | 7.00% | N/A |
| | 6% | 8.70% | N/A | N/A | N/A | 9.06% | N/A |
| 40 | 1% | 2.92% | 6.54% | 9.51% | N/A | 3.18% | 11.02% |
| | 2% | 3.94% | 7.59% | 10.59% | N/A | 4.20% | N/A |
| | 4% | 5.98% | 9.70% | N/A | N/A | 6.24% | N/A |
| | 6% | 8.02% | 11.69% | N/A | N/A | 8.28% | N/A |
| 50 | 1% | 2.54% | 5.41% | 7.75% | 9.88% | 2.74% | 8.94% |
| | 2% | 3.55% | 6.45% | 8.82% | 10.97% | 3.75% | 10.02% |
| | 4% | 5.58% | 8.54% | 10.95% | N/A | 5.79% | N/A |
| | 6% | 7.61% | 10.62% | N/A | N/A | 7.82% | N/A |