Michael Waibel / Werner Kreisel (Ed.)

The Pacific Challenge

Delevopment Trends in the 21st Century

Universitätsverlag Göttingen
2005

Bibliografische Information der Deutschen Bibliothek

Die Deutsche Bibliothek verzeichnet diese Publikation in der Deutschen Nationalbibliographie; detaillierte bibliografische Daten sind im Internet über <http://dnb.ddb.de> abrufbar.

This publication contains selected contributions of the interdisciplinary lecture series „Wird das 21. Jahrhundert das pazifische Jahrhundert?“,
held during the winter term 2003/2004
at the Georg-August-University, Göttingen

Cover Picture: Tradition & Modernity (Composition)

Foreground Picture:
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Background Picture:
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Cover Design: Michael Waibel & Margo Bargheer

Typesetting: Michael Waibel

ISBN 3-938616-10-5

Association for Pacific Studies

MICHAEL WAIBEL / WERNER KREISEL (ED.)

The Pacific Challenge

Development Trends in the 21st Century

Pazifik Forum **Volume 10**

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The Pacific Challenge
Development Trends in the 21st Century

Vietnam
A New Asian Economic Tiger?

Michael Waibel

The development of the Vietnamese economy has been widely praised as a success story. Since the promulgation of the Renovation (Doi Moi) Policy during the Communist Party's sixth National Congress in December 1986, the Vietnamese government has implemented many reforms (see Table 1) thereby gradually transforming from a central-planned socialist economy of heavy industrial and primary resource development to value-added services and goods production, as well as encouraging domestic and foreign investment, creating a market economy and raising the overall standard of living for it's people. In this context, a strategy of gradual integration within the world economy as well as a policy of export-orientated industrialisation have been adopted. In April 1992, a new state constitution was approved which reaffirmed the central role of the Communist Party of Vietnam (CPV) in politics as well as society and which outlined government reorganisation and increased economic freedom. Although Vietnam remains a one-party state, economic development has become more important as a national priority than adherence to ideological orthodoxy.

Following the popular 'flying geese model'[1] (see also paper of KREISEL in this publication) the latecomer nation of Vietnam has already been labelled as new 'economic tiger'. This expression is a synonym for a New Industrializing Country (NIC). Important characteristics of a tiger economy are high economic growth rates which are mainly export-led and which are primarily focused on the industrial sector: From exporters of raw materials and of low-value-added products, such countries have developed into exporters of partially and fully manu-

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[1] The 'Flying geese model' (FGM) of economic development was introduced by the Japanese economist AKAMATSU in the 1930s. It tries to explain the phased regionally agglomerated growth in East- and Southeast Asia. In the FGM, foreign direct investments (FDI) and trade play an important role: In the investing countries the relocation of labour-intensive industries releases resources for emerging industries, making it possible to upgrade the industrial structure. In the receiving countries, the inflow of FDI helps to transfer funds, management know-how and technology needed for catching up with the industrial countries. Following the FGM, Japan is regarded as leading goose, Singapore, Taiwan, Hong Kong and South Korea as tiger economies of the 1st generation, Malaysia and Thailand as tiger economies of the 2nd generation.

factured goods, achieving an increasing share of the global market. The exports of manufactured goods mostly originate from transnational corporations, in the case of the tiger economy of Malaysia, the percentage is even 90 % (WAIBEL/ JORDAN, forthcoming).

Table 1: Selected Reforms as a consequence of the introduction of Doi Moi Policy

1986	Proclamation of Renovation Policy (Doi Moi) at the Communist Party's sixth National Congress in December 1996
1987	First Law on Foreign Direct Investment (FDI)
1988	Resolution No. 10 - Allocation of land use rights to households
1990	Laws on Companies and on Private Enterprises dated Dec.
1991	Decree 322-HDBT Export Processing Zones Regulations dated October 18, 1991, revised 1994, 1997
1992	New Constitution of the Socialist Republic of Vietnam
1993	New Land Law - Land use rights can be transferred, exchanged, leased, inherited, and mortgaged; revised 1998
1994	Lifting of Embargo by the U.S.
1994	Labour Code dated June 23, 1994
1994	Ordinance on rights and responsibilities of foreign organisations and individual in Vietnam dated October 14, 1994
1995	Accession to the Association of Southeast Asian Nations (ASEAN)
1995	First Civil Code
1995	Fully Diplomatic Relations with the U.S.
1996	New Law on Foreign Investment dated 12 November 1996
1997	Decree No. 12/CP on Foreign Investment in Vietnam
1999	Law on Enterprises dated June 12, 1999
1998	Accession to the Asian Pacific Economic Community (APEC)
2000	Decree No. 24/2000/ND-CP, regulating in detail the implementation of the Law on Foreign Investment in Vietnam
2000	Enactment of a new Enterprise Law
2001	Ratification of the Bi-Lateral Trade Agreement (BTA) with the U.S.
2001	Law on the Organisation of the Government
2004	New Land Law: 13-2003-QH11 (Amended) dated July 2004
2006	Planned accession to the World Trade Organisation (WTO)

Source: Own Compilation.

This paper aims to answer the question, whether Vietnam can already be labelled a new 'economic tiger'. At the same time, the economic and the social development of Vietnam in the course of transition will be highlighted and finally, challenges still to be met will be shortly mentioned.

Vietnam's economic achievements in the regional context

Vietnam's GDP per capita expressed in PPP dollars rose by an astonishing 5.9 % on average annually from 1990-2002. This is the highest growth of all Southeast Asian countries in the specified period (see Table 2). Only China outbalanced Vietnam with a stunning 8.2 % growth rate (see also paper of TAUBE/YIU in this publication). Also, Vietnam was able to avoid the worst effects of the 1997-98 Asian financial crisis. The sustained high rates of economic growth together with a remarkable macro-economic stability verify the success of Vietnam's opening policy. However, the GDP per capita with 2,300 PPP US$ is still relatively low. Even assuming that a substantial part of revenue is generated by the large informal sector in Vietnam, a fact unaccounted for by official statistics, the income gap has remained huge in comparison to second generation tiger economies such as Malaysia and Thailand. Furthermore, the living standards of countries like Indonesia or the Philippines outreach by far that of Vietnam.

Table 2: GDP, GDP per capita and the annual growth rate of GDP per capita of the Southeast Asian Countries and of China

	GDP	GDP per capita	GDP per capita annual growth rate (%)	
	PPP US$ billions 2002	PPP US$ 2002	1975-2002	1990-2002
China	5860,9	4,580	8,2	8,6
Indonesia	682,9	3,230	4,2	2,1
Thailand	431,9	7,010	5,2	2,9
Philippines	333,5	4,170	0,2	1,1
Malaysia	221,7	9,120	4,0	3,6
Vietnam	**185,4**	**2,300**	**5,0**	**5,9**
Singapore	100,1	24,040	5,0	3,8
Cambodia	25,7	2,060	..	4,1
Lao People's Dem. Rep.	9,5	1,720	3,3	3,8
Brunei Darussalam	6,7	19,210	..	..
Myanmar	..	1,027	1,8,	5,7

PPP: Purchasing Power Parity.

Source: UNDP 2004A: http://hdr.undp.org/statistics/data/excel/hdr04_table_13.xls (last accessed on the 15th of March 2005).

A further serious problem is the growing gap between rural and urban incomes in the process of transition (DAPICE 2003: 13ff.). These increasing socio-economic disparities have been clearly proven in the Viet Nam Living Standards Surveys jointly conducted by the State Planning Committee and the General Statistical Office in 1992-1993 and in 1997-1998 on a country-wide scale (see also HAUGHTON et al.: 2001) as well as in the 2002 Vietnam Household Living Standards Survey. According to KOH (2004: 56) two-thirds of the rich in Vietnam are found in the urban areas, and only ten per cent of the residents in the countryside are considered well-off. The areas which have profited most are the largest cities – the economic hub of Ho Chi Minh City in the south and the capital Hanoi in the north (NCSSH 2001: 90ff./WAIBEL 2002/BERESFORD 2003: 67f.). These metropolises are Vietnam's most outstanding motor of innovation, growth and modernisation (Waibel 2004[B]: 10). Meanwhile, a modern consumer society has evolved there. Transnational corporations have erected many hotel- and office towers in the Central Business Districts of these metropolises, which gain more and more resemblance to the skylines of the neighbouring capitals. Similarly as in the transition countries of Eastern Europe, the metropolitan areas represent main target regions for flows of foreign direct investment (FDI) and display by far the highest per capita incomes in the country (WAIBEL 2004[A]: 31; FASSMANN 1999: 17).

Moreover, the income disparity among the whole population which can be recognized through the GINI coefficient[2] has jumped significantly in Vietnam: The country's Gini coefficient rose from 0.350 in 1995 to 0.410 in 2002, just above the level of China, which has a Gini coefficient of 0.404 (LAM 2002). According to TAYLOR (2004: 2), '[…] inequalities are growing and becoming more visible, in contemporary Vietnam.'

On provincial level, the highest incomes disparities are to be found within the municipality of Vietnam's largest metropolis Ho Chi Minh City. Nowhere else in Vietnam can such a distinctive degree of polarisation as well as fragmentation of urban society be encountered. Here, the GDP per capita in PPP US$ of the richest 20 % of the population is 11 times higher than that of the poorest 20 % of the population (NCSSH 2001: 90). Not unusual for transitional economies, the income of these poorest 20 % is still higher than the average income per capita of almost all rural provinces in the country. An illustrating visual example for the increase in social polarisation is the huge city extension project Saigon South, just 4 km south of the central District No. 1 of Ho Chi Minh City with mixed residential and commercial urban development for a projected population in the year 2020 between 500,000 and 1,000,000 people (WAIBEL 2004[B]). The conceptual design and implementation of Saigon South is a visual symbol for the political wish to be part of a globalizing modern community as well as for an interna-

[2] The Gini coefficient receives a value of 0 to 1. If the Gini coefficient is 0, there is no disparity. The closer the Gini coefficient approaches 1, the higher the disparity is.

tionally standardized town planning, driven by neo-liberal market forces. In contrast, aggravated by the ongoing real-estate and speculation boom, Ho Chi Minh City's low-income inhabitants concurrently have almost no chance to get adequate shelter. Whereas numerous landless migrants are forced to build up marginal settlements with almost no security of tenure along the many canals of Ho Chi Minh City, the needs of the beneficiaries of transition are exclusively served within the well-guarded Gated Communities of Saigon South (see Figure 1).

Figure 1: Social Polarisation in the urban fabric of Ho Chi Minh City: Marginal Settlements along a Canal – Gated Community within Saigon South

Credit: Michael Waibel 2003/2004.

Here, Vietnam's nouveaux riches will live, who follow an upscale Western lifestyle and value security as well as comfort (WAIBEL 2004B). In this way, the development of Saigon South is contributing to the increasing process of physical, functional and social segregation within the municipality of Ho Chi Minh City.

Besides Vietnam's undisputable success in economic respects, the country has also made tremendous progress in terms of social development, also compared to other low-income countries.

Vietnam's social achievements in the regional context

As a matter of course, the development level of a country can not only considered to be based on the GDP per capita but on the development level of social humanity as well (BOOTHROYD/NAM 2000: 160). The Human Development Index (HDI) has become a standard means of measuring well-being, since both economic and social indicators are taken into consideration[3]. Vietnam's score of 0.52 compared to a maximum score of 1.0 ranked it at 112st of 177 countries in 2002 (UNDP 2004A; see also Table 3). In 1990, Vietnam still had a considerably lower HDI value of 0.46 (UNDP 1992). Nowadays, Vietnam is part of the group of so-called 'medium human development' countries, as classified by the UNDP.

Although Vietnam's per capita income is lower than in most neighbouring countries, the social indicator of adult illiteracy rate for example, shows that Vietnam has a better position than more prosperous countries like Malaysia or Indonesia. The percentage of people in Vietnam living on 1 US$ per day is only slightly lower than in richer countries like China or the Philippines. More impressing, this percentage dramatically dropped from 50.8 % in 1990 to 13.6 % in 2002 (World Bank 2004: 15). This shows the massive success of Vietnam's poverty alleviation efforts in the 1990s. A key to rapid poverty reduction in the 1990s was the redistribution of agricultural land to rural households (World Bank 2004: 1). The World Bank even states that 'Vietnam's achievements in terms of poverty reduction are one of the greatest success stories in economic development' (World Bank 2004: 1). On the other hand, the decline in poverty is much more moderate when using the two-dollars-a-day poverty line: The contrast between these trends is due to the fact that a large proportion of the Vietnamese population is not badly poor anymore, but it is certainly not affluent yet (World Bank 2004: 15). This is supported by the fact, that all countries placing better in the HDI-Ranking have a lower percentage in the two-dollars-a-day indicator.

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[3] The HDI is a composite index measuring average achievement in three basic dimensions of human development - a long and healthy life, knowledge and a decent standard of living, measured by the GDP per capita in PPP).

Table 3: Human Development Index Rank and Income Poverty of the Southeast Asian Countries and of China

	HDI Rank	Adult illiteracy rate[a]	Population below income poverty line (%)		
		(% ages 15 and above) 2002	$1 a day[c] 1990-2002[b]	$2 a day[d] 1990-2002[b]	National poverty line 1990-2001[b]
Singapore	25	7,1	..	..	..
Brunei Darussalam	33	6,5	..	..	..
Malaysia	59	11,3	<2	9,3	15,5
Thailand	76	7,4	<2	32,5	13,1
Philippines	83	7,4	14,6	46,4	36,8
China	94	9,1	16,6	46,7	4,6
Indonesia	111	12,1	7,5	52,4	27,1
Vietnam	**112**	**9,7**	**13,6**	**58,2**	**50,9**
Cambodia	130	30,6	34,1	77,7	36,1
Myanmar	132	14,7	..	..	..
Lao People's Dem. Rep.	135	33,6	26,3	73,2	38,6

a. Data refer to the probability at birth of not surviving to age 40, multiplied by 100. They are medium-variant projections for the period.

b. Data refer to the most recent year available during the period specified.

c. Poverty line is equivalent to $1.08 (1993 PPP US$).

d. Poverty line is equivalent to $2.15 (1993 PPP US$).

Source: UNDP 2004A: http://hdr.undp.org/statistics/data/excel/hdr04_table_3.xls (last accessed on the 15th of March 2005)/World Bank 2004: 15.

Similar as for the economic indicators, there are huge regional disparities for social development indicators such as school enrollment, life expectancy and access to basic social services in Vietnam. Among the poorest provinces of Vietnam are those in the remote and mountainous regions, where a large proportion of the population consists of ethnic minorities (NGU 2004: 208f.). The National Human Development Report of 2001 shows for example, that in the province of Vietnam with the worst HDI-rank, the Lai Chau Province in the North-West, over 76.7 % of the population is without access to safe water (NCSSH 2001: 90f.). This is in sharp contrast to the best-classified province Hanoi[4] where the percentage is only 1.4 %. Another indicator which may illustrate the huge regional disparities is the infant mortality rate which is six times higher in Lai Chau (6.45 %) than in Hanoi (1.10 %) (NCSSH 2001: 100f.).

[4] In the study, the HDI rank for the Province of Ba Ria-Vung Tau was actually the best. However, this should be interpreted with care, since most of GDP of this province came from oil and gas revenues that accrue largely to the central Government (UNDP 2002: 89). Therefore the author chose the municipality of 2nd-placed Hanoi as comparative example.

According to World Bank (2004: 1/134), the further reduction of poverty in Vietnam may become progressively difficult as rural and ethnic minority households concentrated in remote areas will offer 'tougher pockets of resistance' (see also World Bank 2002: 4). These households will represent a great majority of the poor for many years to come.

The Role of Foreign Direct Investments (FDI)

One of the key factors in Vietnam's integration into the global economy and in the successful economic development is the promotion of Foreign Direct Investments (FDI). Inbound FDI are a reflection of the country's economic environment and are regarded as essential for the movement toward a market economy as well as for the creation of new industrial structures. Moreover, FDI are considered important to provide scarce investment capital, access to western markets as well as to facilitate the privatisation and restructuring process of Vietnam's transitional economy (MAI 2004: 14).

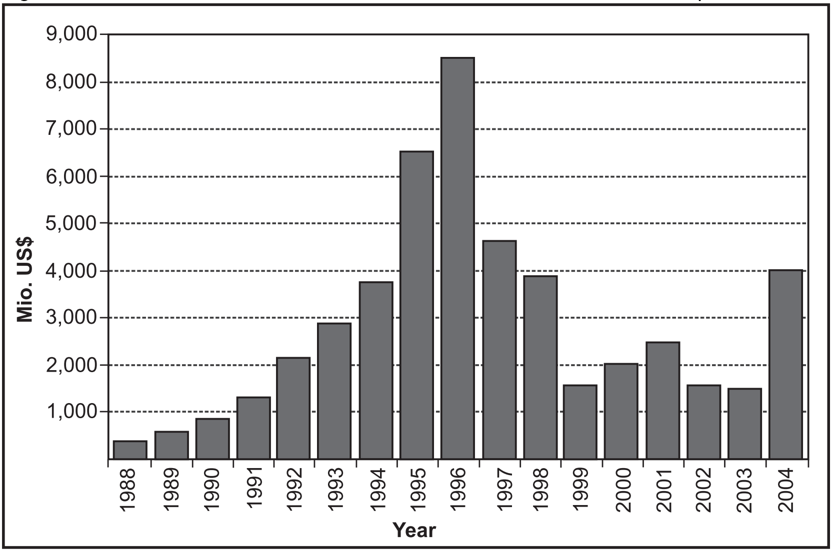
In 1987, the Vietnamese government promulgated for the first time a Law on Foreign Direct Investment which has been repeatedly amended and renewed since that time (see Table 1). In this context, the export-led industrialisation strategies of the tiger economies of the 1st generation served as a role model (REVILLA-DIEZ 1995: 164). According to KHAI (2003: 176) the FDI demand also put great pressure on the Vietnamese policy makers to adopt significant economic reforms in order to attract the much needed foreign capital. Like China, Vietnam was able to draw considerable benefit from outsourcing strategies of transnational corporations in the regional contest for favourabe locations. The main cause of the foreign investors to come to Vietnam was the search for abundant, well educated, highly literate and cheap labour (MAI 2004: 30). Another important motivation was the large and fast developing domestic market.

From a very low starting point, the FDI-boom set in at the beginning of the 1990s and reached a climax in 1996 (see Figure 2). In the turmoil of the Asian crisis the FDI inflows decreased dramatically. Since that time, the FDI inflows have mostly been modest, also relative to China (DAPICE 2003: 1).

Only recently have FDI begun to rise again significantly. Reasons for this are a low terrorist risk profile, the increasingly stable economy, the gradually improved investment environment, the Bilateral Trade Agreement (BTA) with the United States and increased economic prospects in the context of the accession to the WTO now planned for 2006. According to the recently published 'Vietnam Development Report 2005', the ratio of FDI inflows to GDP in Vietnam even surpasses that of China in the meantime (World Bank 2005: 38). However, the em-

employment effects of the foreign-invested sector are not tremendous: According to the Foreign Investment Department (FID), this sector employed 739,000 workers in 2004. Given the fact that approximately 1.0-1.2 million people enter the labour force of a total 38.6 million (2003) each year (GSO 2004: 39), the Vietnamese government will not be able to solely rely on foreign corporations to create sufficient jobs.

Figure 2: FDI Inflows to Vietnam 1988-2004, million US$, Committed Capital



Source: http://www.vietpartners.com/images/FDI-0804.gif

The actual committed FDI flows in Vietnam until the 20th of November 2004 totalled 45,368 million US$ for 5,021 projects with 25,959 million US$ already implemented (see Table 4).

Table 4: FDI by Country, total to November 20, 2004

Country or Territory	Projects	Total Capital (million US$)	Implemented Capital (million US$)
Singapore	332	7,953.7	3,228.3
Taiwan	1,235	7,180	2,789
Japan	481	5,351	4,122
South Korea	823	4,712	2,875
Hong Kong	320	3,142	1,893.4
Total	5,021	54,368.4	25,959

Source: VEA 2004[B]: 58.

The most important countries of origin of FDI flows into Vietnam are the tiger economies of the 1st generation, Singapore, Taiwan, Hong Kong and South Korea as well as of the leading goose Japan. This seems to confirm the flying geese model of economic development. With committed FDI flows of 253.6 mio US$, Germany is only on position 17 in the ranking of FDI donating countries, behind countries such as Australia, the Netherlands or Switzerland (VEA 2004[B]: 58). In contrast, Germany is the most important European trading partner of Vietnam.

The biggest German single investor has been the commercial enterprise 'METRO Group' which has successfully launched three huge superstores in the periphery of Ho Chi Minh City and Hanoi (see Figure 3). Five more openings, among others in Haiphong and in Danang are in the process of planning (SIEREN 2004: 25).

Figure 3: Superstore of METRO AG in Ho Chi Minh City

Credit: Michael Waibel 2003.

The regional distribution of FDI has been very uneven and contributed to the rising disparities in Vietnam. This can best be illustred with the development of so-called Export Processing Zones (EPZ) and Industrial Zones (IZ) in Vietnam (see also paper of JORDAN in this publication). These zones usually offer a superior investment environment to that available outside: the physical infrastructure is better, rents are subsidized and one-stop approval and licensing procedures are available (World Bank 2004: 38/WAIBEL 2003: 12f.).

Similar as in the tiger economies of the 1st and 2nd generation, the development of EPZ/IZ has become a central part of export-led industrialisation in Vietnam (WAIBEL/JORDAN, forthcoming). In this process, the tiger economies like Singapore, Tawain or Malaysia actively exported their development model to Vietnam (WAIBEL/JORDAN 2004: 31f.). Characteristically, Vietnam's first EPZ, the Tan Thuan Export Processing Zone was licensed in September 1991 through a joint venture between the Peoples' Committee of Ho Chi Minh City and the Central Trading and Development Corporation (CT&D), owned by Taiwan's ruling Kuomintang Party (KMT) (WAIBEL 2003: 12). Typical for the transitional process of Vietnam as well, this happened one month *before* a decree of the Prime Minister officially legitimated the operation of such Export Processing Zones.

As of May 2004, almost 90 EPZ/IZ had been authorized, of which 61 were operational. (VEA 2004[A]: 51f.). About two thirds of all zones are located in the so-called Southern Key Economic Region (SKER), which consists of the economic hub of Ho Chi Minh City and the surrounding provinces (see Tab. 5)[5]. There alone, over 80 % of all EPZ/IZ Zones workers are employed (VEA 2004[A]: 51). Also, more than 80 % of all FDI implemented within EPZ/IZ have been realized in the SKER (see Table 5).

Tab. 5: Regional Disparities and EPZ in Vietnam, May 2004

	Vietnam (VN)	HCMC in % of VN	SKER in % of VN	Hanoi in % of VN	NKER in % of VN	CVKEZ in % of VN
No. of EPZ	61	19.7	65.6	4.9	13.1	13.1
Area in ha	9,006	15.9	74.9	3.2	10.0	12.5
FDI in million US$	10,885	14.1	83.6	6.4	10.1	5.0
Domestic Inv. in bill. VND	65,769	19.4	77.8	0.2	4.5	15.5
Utilisation rate in %	58.4	63.8	57.7	41.6	41.8	67.7

Source: VEA 2004[A] 51; Own calculations.

Furthermore, this region has received half of *all* disbursed FDI in Vietnam up to May 2004. In addition, the SKER is the only region of the country, which attracts sizeable volumes of labour migrants on a nation-wide basis (UNDP 1998). On the other hand, the Northern Key Economic Region (NKER) with the eco-

[5] According to a decree issued by the Prime Minister in August 2004, the SKEZ includes HCMC, Dong Nai, Binh Duong, Ba Ria Vung Tau and since July 2003 the provinces Tay Ninh, Binh Phuoc and Long An as well. The Northern Key Economic Region (NKER) includes Hanoi, Hai Phong, Quang Ninh, Hai Duong, Hung Yen, Ha Tay, Vinh Phuc and Bac Ninh. The Central Vietnam Key Economic Region (CVKEZ) includes the municipality of Da Nang and the provinces of Thua Thien-Hue, Quang Nam, Quang Ngai and Binh Din (WAIBEL/JORDAN, forthcoming)

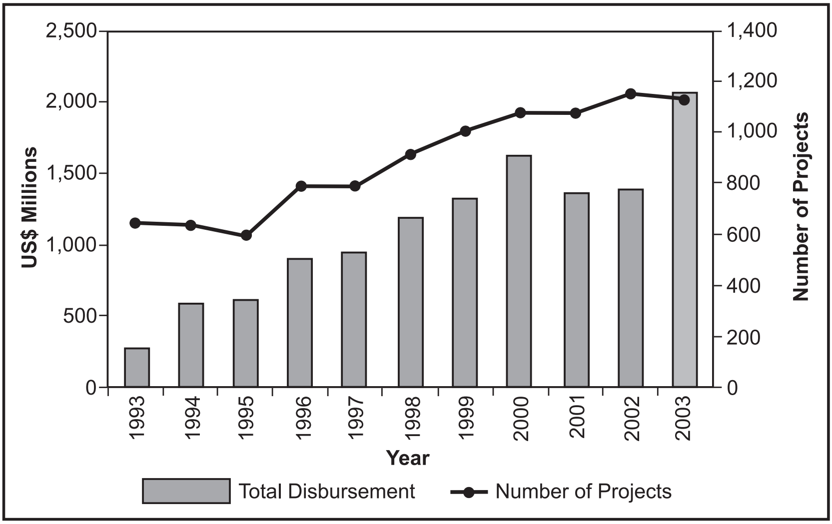
nomic axis Hanoi/Hai Phong attracts only 10 % of all FDI implemented within EPZ/IZ (see Table 5). Furthermore, the utilisation rate of the EPZ/IZ in the NKER is considerably lower than the average. So far, only 5 EPZ/IZ are actually located *outside* the key economic regions.
Although the EPZ/IZ have not contributed to a more even regional development of Vietnam either and mostly have not fulfilled the expectations of the Vietnamese government, these zones have been a valuable market economy oriented laboratory for the restructuring of the Vietnamese economy and for the set-up of a legal framework in respect of foreign investors (WAIBEL 2003/ BECKER 2004: 116f.).
Besides FDI, official development assistance (ODA) constitutes another major source of external capital for a developing country on its way towards a tiger economy.

The Role of Official Development Aid (ODA)

With the beginning of the Doi Moi reforms, Vietnam has received rising shares of development aid from the international community. Since the mid-1990s, Viet Nam has consistently been among the top ten recipient countries of ODA, according to OECD statistics (UNDP 2004[B]: 2). The sectoral distribution of infrastructure-related ODA has changed over time: From 1993 until 1995, water and sanitation projects were dominant while energy projects accounted for the largest share of infrastructure disbursements from 1996 to 2000. The large development banks became active during this period. Between 2001 and 2003 the dominant sector was transport, representing over 50 percent of total disbursements in infrastructure.
In 2003, Vietnam broke the 2 billion US$ barrier for the first time (see Figure 4) which represents an increase of 45 percent over 2002 (UNDP 2004[B]: 6). Simultaneously, the number of projects fell slightly to 1,130, implying a drastic boost in the value of the average project. This massive increase in ODA disbursements can be explained by three main factors: the re-emergence of projects with disbursements larger than 100 million US$; almost doubling of ODA disbursements of Japanese yen; and the depreciation of the US$ against the euro and Japanese yen (UNDP 2004[B]: 6). In 2003, major infrastructure like the upgrade and rehabilitation work on the National Highway No. 1 remained the largest ODA category with total disbursements of 847 million US$. The second major ODA category in 2003, accounting for 26 percent of total disbursements in Vietnam, was policy support.

According to UNDP (2004[B]: 7) ODA to Viet Nam can still be characterized as a large number of small projects combined with a small number of large projects. In 2003, 25 bilateral donors in addition to the World Bank, the Asian Development Bank, the UN Agencies and other multilateral organisations reported ODA disbursements in Viet Nam (UNDP 2004[B]: 29).

Figure 4: Total ODA Disbursement and Projects, 1993-2003



Source: UNDP 2004[B]: 6.

The top six donors in 2003 were Japan (599 million US$) (see Figure 5), the World Bank (575), the Asian Development Bank (252), France (106), Australia (65) and Denmark (61) (UNDP 2004[B]: 29f.). Germany was the ninth largest donor with a total disbursement of 40 million US$.

In contrast to the regional distribution of FDI, the regional distribution of ODA in the last years has mirrored much more the local distribution of poor households in Vietnam (UNDP 2004[B]: 37). Nevertheless, the ODA-Report of the UNDP (2004[B]: 39) stresses the importance of looking at the evolution of regional disparities in basic human development indicators in order to avoid major geographical differences and at the same time calls for a more even spatial allocation of ODA not only in terms of general disbursements, but also by type and sector.

Figure 5: Highway Improvement ODA-Project of Japan

Credit: Michael Waibel 2004.

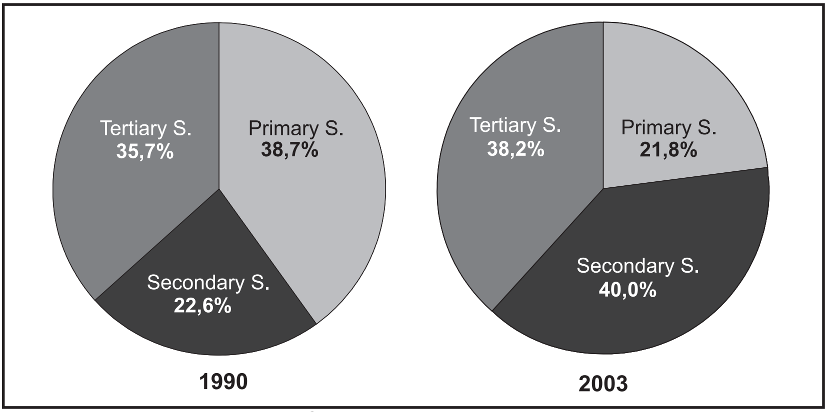
Results: Structural Changes of the Economy

In the past 15 years, considerable progress was made in the restructuring of the economic sectors. Between 1990 and 2003, the proportion of industry and construction substantially increased from 22.6 % to 40.0%. At the same time, the proportion of agriculture, forestry and fishery decreased from 38.7 % to 21.8 % (see Figure 6). Despite this shrinking portion, the output of agriculture, forestry and fishery ensured national food security, which had been an essential problem just two decades ago.

The average annual growth of the manufacturing industry of 11.4 % in the period from 1993-2003 is impressingly large, which underlines the success of Vietnam's strategy of industrialisation. A major driving force of this growth has been the highly dynamic private sector which also increasingly contributes to the growth of exports. While less dynamic than their private sector counterparts, state-owned enterprises (SOEs) in manufacturing have also been increasing their output at an impressive rate, which according to World Bank (2005: 70) would be considered more than acceptable in many countries around the world.

Although the average annual growth in the agricultural sector was comparatively lower with 4.2 % in the same period, ARKADIE/MALLON (2004: 180) state, that this growth was 'also impressive compared with long-term historical trends and international experience'.

Figure 6: The contribution of the different economic sectors to Vietnam's Gross Domestic Product, in 1990 and 2003



Source: CIEM 2003: 19/VEA 2004[C]: 45.

Also, the primary sector diversified its range of products to coffee, tea, cashews, pepper, cinnamon, rubber, fruit and vegetables as well as to seafood and aquaculture. Furthermore, the high growth rate in agriculture substantially helped to slow the widening gap between rural and urban incomes (AKARDIE/MALLON 2003: 180). Also, agricultural growth has generated non-agricultural rural employment opportunities in food processing industries and services (AKARDIE/MALLON 2003: 190).

Trade Balances

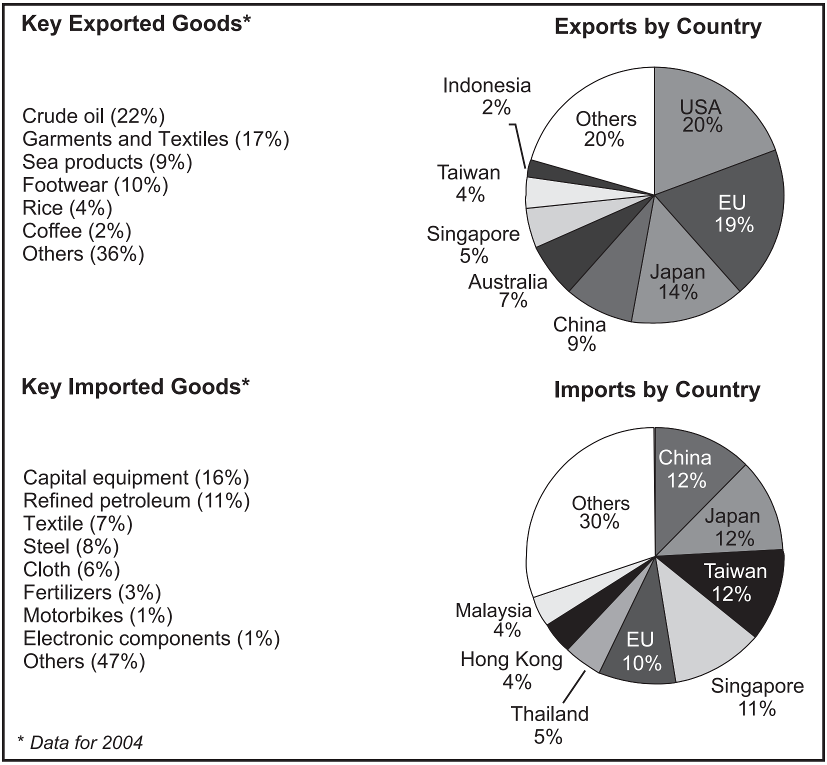
The main engine for economic growth in Vietnam has been the expansion in exports which reflects the rising integration of the Vietnamese economy in world markets. According to DAPICE (2003: 3) Vietnam's export growth is an 'unambiguous success'. From a closed economy with a very low ratio of trade to GDP, Vietnam has transformed to an economy whose foreign trade is larger now than its GDP (UNDP 2003: 54f./ARKADIE/MALLON 203: 186).

The value of export goods and services rose from 500 million US$ in 1986 to 3,760 million US$ in 1993 and finally reached 20,176 million US$ in 2003 (ARKADIE/MALLON 2003: 67/VET 2004: 50). The ratio of exports to GDP more than doubled from 1993 to 2003 (UNDP 2003: 54f.).

At the same time, the growth rate of imports was much higher than that of exports: The value of import goods and services rose from 4,199 million US$ in 1993 to 25,227 million US$ in 2003 (VEA 2004[B]: 50). Therefore, the resource balance is increasingly negative from -442 million US$ in 1993 to -5,051 millions US$ in 2003. Whereas Vietnam has a trade surplus with the U.S. and the European Union, huge trade deficits exist with the tiger economies Taiwan, South Korea and Singapore as well as with China. In 2003, the trade deficit amounted to nearly 7 percent of Vietnam's GDP.

The overview of the export and import structures in Vietnam (see Figure 7) verifies the successful reorientation and diversification of the Vietnamese economy from the former Comecon countries towards Western and Asian markets.

Figure 7: Overview of the Export and Import Structures in Vietnam, 2003



Source: VEA 2004[B]: 56; UNDP 2005.

The signing of the Bilateral Trade Agreement (BTA) with the United States in 2001 helped to advance the United States to be the most important export market, followed by the European Union and Japan. For the coming years Viet Nam has committed - under the Asian Free Trade Area (AFTA) and agreements with the World Bank and the IMF - to liberalize its trade and investment rules even further. The gradual development of a transparent, rules-based trading and investment system will be required for the later entry into the WTO. So far, Vietnam has undertaken nine rounds of multilateral negotiation on accession to the

Word Trade Organisation, WTO, and has completed bilateral negotiations with six of 27 partners requesting talks. According to an announcement of Trade Minister Truong Dinh in March 2005, however, Vietnam will miss its end-of-2005 deadline, so that the first months of 2006 will be the new target (VEA 2005). Certainly, the accession to the WTO will further boost foreign trade.

The principal export goods are crude oil, garments and textiles, footwear, sea products, rice and coffee. For example, Nike and Addidas rely on Vietnam as one of their most important production locations. On the import market side, the regional neighbours China, Japan as well as the tiger economies of Taiwan and Singapore play the most significant role. In an initial assessment, this certainly underlines the adaptability of the Flying Geese Model. The principal import goods are refined petroleum, textile, steel, cloth and fertilizers. However, the dominance of agricultural and labour intensive light manufacturing goods on the export side versus the dominance of preliminary products and manufactured goods on the import side indicates that Vietnam still is a developing country. So far, Vietnam has no significant production base for high-tech products and the know-how transfer from the Export Processing and Industrials Zones, hoped for by the Vietnamese government, is rather marginal (WAIBEL/JORDAN, forthcoming).

An illustrating example for this assessment is that Vietnam has to export crude oil and to import refined petroleum products at the same time. The completion of the country's first oil refinery, the long-troubled Dung Quat refinery, a US$1.3 billion project located in Quang Ngai province was already licensed in 1997, but had to suffer from several delays (DZUNG 2003). The political decision of the Vietnamese government to develop its central provinces and therefore to choose Quang Ngai province turned out to be a great mistake. This location is approximately 1,000 kilometres from the country's main oil fields off Vietnam's southern shore and also far away from the country's economic hubs Ho Chi Minh City and Hanoi (DZUNG 2003). As a result, the refinery's location implies higher transportation costs for both crude oil and refined products which makes a profitable operation rather complicated. Also, the petroleum industry in Southeast Asia already has surplus capacity which significantly dampens the economic prospects. In 2002, the state-run Russian Zarubezhneft Group finally withdrew from the project. On December 31, 2002, Vietnam had to reimburse Russia the $235 million it had invested in the joint venture (DZUNG 2003). Consequently, the Vietnamese Government decided to dissolve the joint venture and to carry out the project alone (DZUNG 2003). Now it is due to become operational by the end of 2005 or early 2006. The difficulties in establishing its own refinery production are not the only challenge the Vietnamese government has to meet on its way to become a new Asian economic tiger.

Development Challenges

As shown, Vietnam has made tremendous progress in terms of economic and social development since the introduction of Doi Moi reforms. Not wrongly, the upheaval of the Vietnamese economy is widely recognized as a success story.

None the less, international development agencies like the World Bank, the International Monetary Fund or the UNDP as well as scientists have identified some problem fields which still need to be addressed to further develop towards a new Asian economic tiger. To name a few, the modernisation of the legal framework aiming at promoting domestic capital and attracting foreign investments, the implementation of the Public Administration Reform (PAR) envisioning a more transparent, participatory and predictable public administration, the reduction of red tape, corruption and nepotism, the acceleration of the cumbersome restructuring of the state-owned enterprises, the increase of banking efficiency and of revenue mobilisation, more attention to environmental protection issues (DIGREGORIO et al. 2003), more respect for human rights as well as the promotion of information technology and education, which are lagging far behind China, are often mentioned as challenges Vietnam still have to meet.

The way the author of this paper sees it, the main development problem will be the alleviation of the increasing inequalities of the Vietnamese society. This concerns the huge and growing gap between rural and urban incomes on one hand as well as the growing social differentiation of the overall society caused by the market economy on the other. The World Bank (2004: 2) even states that 'The next decade may well be characterized by inequality in Vietnam.' At the moment, the economic reality is in sharp contrast to the still existing egalitarian ideology of the Communist party of Vietnam (see also KOH 2004: 56f.). In some way, this dilemma can be interpreted as the price of the successful opening towards a globalizing economy in the course of Doi Moi reforms. A more spatially equilibrated regional development policy would help to close the gap between political and economic objectives but slow down the economic growth for Vietnam for years to come. For the Vietnamese government which apparently legitimizes itself strongly with high economic growth rates, this seems to be a rather uninspiring alternative.

The answer to the question if Vietnam is already a new Asian economic tiger is consequently ambivalent. The metropolitan regions like Ho Chi Minh City and surroundings as well as the capital of Hanoi certainly show substantial characteristics of a tiger economy. A large proportion of the urban population of these metropolises can already be labelled as a so-called post-modern society. However, most of the rural and mountainous provinces still bear more resemblance to a developing country. If the Vietnamese government will be able to meet most of the above mentioned challenges in the foreseeable future, the author is optimistic that the nation of Vietnam will contribute to the vision of the 21st century as a 'Pacific Century'.

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Abstract

Vietnam's impressive economic development in the past two decades has led many to already label the country as a new Asian economic tiger, which can be accredited to the popular 'flying geese model' of regional growth. Consequently, the author investigates and evaluates Vietnam's economic and social achievements in the recent years, also in the regional context. In particular, the role of foreign direct investments (FDI) and of official development aid (ODA) as major external capital sources is examined. Furthermore, the restructuring of the economic sectors and the development of trade is reviewed. By doing this, the author tries to identify similarities and contradictions of the Vietnamese development in the context of the label of an Asian tiger economy and in the context of the flying geese model. The answer to the question if Vietnam is already a new Asian economic tiger remains ambivalent: Whereas the metropolitan regions like Ho Chi Minh City and surroundings as well as the capital of Hanoi certainly show substantial characteristics of a tiger economy, most of the rural and mountainous provinces still bear more resemblance to a developing country. Consequently, the author calls for a reduction of the increasing spatial and social inequalities of the Vietnamese society but recognizes the development dilemma of the Vietnamese government at the same time.