The Global Crisis and Medium Term
Growth Prospects for Developing Countries: The case of Vietnam

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Abstract:

Thanks to the high economic growth rate during the last 20 years, Vietnam is expected to join the middle-income country group by around 2010. The global financial crisis has severely impacted many countries, including Vietnam. The crisis together with the recent turbulence of macroeconomic development in the last two years has opened up several weakness of the economy, and begged the question whether Vietnam can continue her present course of economic development in the face of a changing world? This paper is an initial attempt to answer this question by (i) reviewing the economic development of Vietnam during the last 20 years, (ii) analyzing the impacts of the crisis on Vietnam and the policy responses by the government; and (iii) suggests some medium-term prospects and policy implications for the country.

Key word: Global crisis, Vietnam, growth, GDP decomposition
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I. Introduction

In the year 2008 and the first half of 2009, the world has witnessed the unfolding and heavy repercussions of the global financial crisis. Starting from a subprime market crisis in the US housing market, the world is now facing the danger of a greatest economic depression since the last great depression. To date, the contagious impacts of the crisis have been felt in all continents as well as most nations. Global economic growth has slowed down with numerous developed countries, including the U.S., EU and Japan, falling into recession. To respond to the complex development of the global crisis and economic recession, many governments have continuously applied economic stimulus packages to rescue their economies, such as writing off the bad assets from the banking system, tax reduction, investments in upgrading infrastructure and social security benefits. Central banks of countries have adopted a lax monetary policy as well as drastically cutting interest rate to the lowest level ever seen in many years and using unconventional monetary tools to improve the liquidity of the banking system.

The last 20 years have witnessed comprehensive reforms being implemented in Vietnam, which together with open-door policy to attract foreign direct investment and trade liberalization with the culmination of WTO accession in 2007 have created a growing dynamic private sector Vietnam. During this period, expansionary policies with extensive investment and huge credit expansion for a protracted period that the government pursued especially after the financial crisis in Asia have helped Vietnam to achieve high GDP growth rate since 1990. However, the situation changed dramatically in 2008 and 2009. Early 2008, there were real concerns of an overheating economy that forced the Vietnam's government to shift their priorities from economic growth to stabilization, raising interest rate and cutting back government spending. By the end of 2008 and into the 2009 Vietnam was facing new difficulty and challenges causing by the global financial crisis. The global crisis has led to the reduction of investments inflow, lower global commodity prices and trade. Demand for Vietnamese exports has significantly declined due to the recession in the US and Europe. The government responded by reversing the course of monetary tightening and fiscal austerity policy implemented in 2008. To stimulate the economy, the government also puts in place a large fiscal stimulus package. According to the World Bank’s in 2009 Vietnam’s GDP will growth 5.5% only, much lower than the expected 7.5%.

The global financial and economic crisis, though having its origin in the developed world, has far reaching consequences and is also expected to shape the growth and development prospects for developing countries including Vietnam for the foreseeable future. This study aims at relating the global financial and economic crisis’ impact on Vietnam to the approach by the Vietnamese government economic policies and to deduce conclusions regarding this approach from a development perspective. Since the recession hit Vietnam in last December 2008, the focus of the government has been on current short term developments, on how to boost the domestic demand and on how to deal with the immediate economic and social disruptions created by the crisis. Much less attention has been paid to the medium and longer term implications of the crisis for growth, poverty reduction and more broadly the development of the country.

The aim of this paper is to explore and understand how the ongoing crisis, the policy responses and the post-crisis global economy will shape and impact the medium term growth prospects of Vietnam. In the section II of the paper, we will first review the economic reforms and policies that Vietnam pursued and then examine the performance of the economy by decomposing GDP growth into its components. In section III, we examine whether and how the global financial crisis impacts Vietnam and the responses of the government. In section IV, we examine the emerging patterns of post-crisis world and its implication for development policy of Vietnam, whether, and if so how, the global crisis may affect some of the fundamentals of Vietnam development strategies and what could be the implications on the ability to cope with such crisis in the future.

II. Vietnam Economic Reform and Development

2.1 A brief overview of economic reform

The failure of the centrally planned model that Vietnam followed to develop its national economy after the national reunification in 1975 forced Vietnam to undertake economic reforms, with the first serious reform known as the *Doimoi* in 1986 and later the even more radical market-oriented reform of 1989 marked a turning point in the history of Vietnam's economic development.[2] After some initial success, complacency built up and the reform process in general slowed down during the period 1996 - 99, especially after the Asian crisis. However, since 2000 there have been renewed commitments to reform and some progresses have been achieved, especially in the development of private sector and trade liberalization.[3]

During the years immediately after the initiation of the economic reform, the focus was on macroeconomic stabilization and price liberalization.[4] Several measures to establish market institutions for the economy were introduced including the recognition of a multi-sector economy and property right.

In agriculture, decollectivization took place with land being redistributed to households, and output-contracting were introduced, the farming household is recognized as a basic economic unit. A particularly important reform was the new Land Law in 1987 and later amended in 1993 which increased security of tenure and allowed transfer of land-use rights to others.

In the industry and services sectors, together with the development of private sector state-owned enterprises are either being equitised or given more autonomy in business.

[2] As other economies in transition, Vietnam has had to deal with three key sets of reforms: liberalization and stabilization; institutional changes that support market exchange and shape ownership; and the establishment of social programs to ease the pain of transition (World Bank 1996).
[3] The privatization process has been accelerated when the Government allowed some large and "monopoly" firms in banking, insurance, petroleum, and telecommunication sectors to be privatized since 2006.
[4] The implementation was successful resulting in relief in the fiscal burden and price stabilization. In 1989 inflation was under control and since then it has gradually stood at a low rate except for 2004 and 2008.

Emergence of the private enterprise sector since the reforms is an important development. The 1990s also saw the emergence of the private sector thanks to first the introduction of the company law and private enterprise law in 1991 (later amended in 1994). These two laws together with the adoption of the new land law in 1993 and the labour code in 1994 provided the importance stimulus for the development of the private sector. However, the most significant reform in the development of the private business sector came in 2000 with the new Enterprises law. During 2000 –2004, about 90,000 private enterprises were registered under the new Law, (doubling the number of companies registered during the 9 years of the two previous laws) with the total capital equivalent to about USD 13 billion.[5] This sector is making rapid gains in terms of both its contribution to output growth and its growing freedom from the restrictions placed on it under central planning.

The one-tier banking system was replaced by the two-tier banking system which allows the State Bank of Viet Nam to assume traditional central bank functions. Other major policy changes include elimination of price control, liberalization of foreign exchange, and the removal of barriers to the movement of labor and goods from one region to the others in Vietnam.

Viet Nam has substantially liberalized its trade and investment policies since the late 1980s. During the early years of economic reform, Vietnam liberalized its trade regime through signing trade agreement with about 60 countries. It has also implemented preferential trade agreement with the European Union since 1992. Later on, the country actively sought membership of regional and global organizations.[6] Viet Nam has become a member of the Association of South East Asian Nations (ASEAN) since June 1995 and the Asia Pacific Economic Co-operation (APEC) since 1998. In 2000 Vietnam signed a historic comprehensive trade agreement with the USA to normalize the trade relation between the two countries. Recently, Vietnam has also joined regional integration clubs such as ASEAN - China Free Trade Area and ASEAN-Japan Comprehensive Economic Partnership. Most recently, in 2007 Vietnam became the latest member of the World Trade Organization.[7]

The Law on Foreign Direct Investment (FDI) was first promulgated in 1987 and later amended in 1990, 1992, 1996 and 2000 which helped Viet Nam to attract a large volume of foreign capital when domestic savings were not enough to meet the investment needs.

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[5] Some evidence suggests that the private sector may not be quite as healthy and robust as the numbers imply. See the paper by IFC "Beyond the Headline Numbers: Business Registration and Startup in Vietnam" http://www.ifc.org/ifcext/mekongpsdf.nsf/AttachmentsByTitle/PSDP-20/$FILE/PSDP-No-20-EN.pdf

[6] International integration processes picked up from the early 1990s after the collapse of the Berlin wall and Vietnam lost its traditional markets in Eastern Europe and Soviet Union in the late 1980s. The US trade embargo against Vietnam was only lifted in 1994, and the relationship with the US was normalized in 1995. Another important achievement and event is that since 1993 Vietnam has basically opened development assistance resources (ODA) which have contributed to the substantial increase of financial resources for Vietnam's development investment.

[7] In a recent paper, Abbott et al (2009) observe that each time Vietnam reached a significant bilateral agreement, trade flows with that partner surged.

By 1987, the private sector virtually did not exist in Vietnam. By allowing foreign direct investment, Vietnam in effect imported/implanted the private sector of its own for the first time after the unification of the country. Since then FDI has indeed become an integrated part of Vietnamese economy and an important factor in Viet Nam's economic growth during the 1990s. In order to create a more level playing field and to ensure that its laws allowed for national treatment for FDI enterprises prior to Vietnam's 2006 accession to the World Trade Organization, in 2006 Vietnam promulgated two important laws, the Investment Law and the new Enterprise Law[8] creating a corporate law regime that applies to both foreign and domestic enterprises.[9]

As a result, after 20 years of reform, Vietnam has put in place the fundamentals of a market economy and opened up the economy to international flow of capital and trades in goods and services. The emergence of the market-based economy with appropriate institutions, stable macroeconomic environment and the support of the government for business development have allowed Vietnam to (i) unlock the potential of the agriculture sector, turning Vietnam from a food-hunger country to the world third largest rice exporter[10]; (ii) encourage the development of a vibrant domestic private sector; (iii) attract a large amount of foreign investment; (iv) realize its comparative advantages and gain more benefits from international trade. These factors underlie the economic success that Vietnam has been achieving since the early 1990s.

2.2 General performance: Trend in economic growth

Since its the 1989-reforms[11], Vietnam has recorded remarkable achievements in terms of GDP growth, macroeconomic stabilization, export expansion, and poverty reduction. It is now generally recognized that Vietnam is among the best developing countries in terms of achieving relatively high economic growth and reducing poverty incidence. Over the period 1990-2008, Vietnam's GDP growth rate averaged at over 7% per year. Still, today Viet Nam's growth rates remain among the highest in the region (second only to China). Figure 1 shows that except for the first two years (1990 and 1991) after economic reform

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[8] Specifically, on November 29, 2005, the National Assembly of Vietnam adopted the Law on Investment No. 59/2005/QH11 ("New LOI") and Law on Enterprises No. 60/2005/QH11 ("New LOE") which apply to all enterprises established by domestic and/or foreign investors.

[9] Besides FDI, Vietnam also started to receive the ODA from international donors since 1993 and the amount committed and disbursed has been increasing since then. These capital sources constitute a positive assistance to infrastructural construction such as transport and communication, information, agricultural and rural development, public health, education and training, administrative reform, legislation, and structural reform.

[10] Che et al (2003) report that market reform leads to increase in rice productivity, pointing to the importance of market competition, secured property rights and efficient use of resources. See http://www.crawford.anu.edu.au/degrees/idec/working_papers/IDEC03-7.pdf

[11] During the period 1980-88, some spontaneous microeconomic reforms such as the 'output-based illicit contracting' in agriculture and 'fence breaking' in manufacturing sector were introduced (as early as 1981). These micro-reforms revitalized the economy and helped raising the production outputs during the period 1982-85. However, such reforms were not significant enough to help sustaining economic growth due to the fundamental problems of resource misallocation and macroeconomic imbalances in the economy. In the mid-1980s, the inflation rate accelerated to several hundred percent forcing the government to change the domination of its currency.

where the GDP growth rate was around 5%, from 1990 to 1997, the GDP growth rate stayed at around 8 percent per annum on average. The GDP growth rate, however, went down between 1997 and 1999, partly because of the Asian financial crisis, and partly because of the dissipation of reform effects. Since 2000, the economy has regained its momentum growing at 7% per year, reaching 8.5% in 2007, before dropping back to an estimated 6.2% in 2008 due to the impact of the global economic recession.[12] High and continuous GDP growth rates and successful economic development over the period has resulted in overall improvement of people's welfare and significant poverty reduction. According to the Vietnam Household Living Standard Survey the total poverty incidence declined from 58% in 1993, to 37% in 1998, 29% in 2002, 19.5 in 2004 and 16% in 2006 (SRV 2003, Nguyen Viet Cuong 2009). Besides, there are improvements in other dimension of people's welfare such as the high percentage of literate adults (over 90%), higher life expectancy (over 70 years), lower under-five mortality rate (40 per 1000 live births in 2003).

2.3 Demand decomposition of GDP and economic growth

During the course of transition to a market economy, the structure of the economy witnesses gradual changes in terms of sectoral structure and ownership structure. As tabulated in Table 1, during this period, the structure of the economy has shifted towards industrialization and modernization. The proportion of agriculture, forestry and fishery in GDP has declined from 27.4 percent in 1994 and 20.3 percent in 2007.[13] The share of industry and construction in GDP has risen from 28.8% in 1995 to 38.1 percent in 2001 and 41.5 percent in 2007. Importantly, the share of the manufacturing sub-sector within the industry and construction sector increased from 15% in 1995 to 21% in 2008. The share of the services sector remains around 30%-40% in recent years.

The second important structural shift is the changes in the ownership structure of the economy. The shift in the GDP structure in terms of ownership remains slow as reflected by the relatively stable and significant share in GDP by the state-own sector, partly explained by the slow progress of the SOE equitisation program. Table 2 shows that the share of the state-own sector has decreased from over 40% in 1995 to 34% in 2008. However, the FDI sector has continuously increased its share from 6.3% in 1995 to 18.6% in 2008, demonstrating its greater role as an integrated component of the economy. Among the non-state sector, the private sector has also increased its role, accounting for nearly 10% of the economy. The business household remains an important sector of the economy, accounting for 30% of GDP. However, in terms of the growth rate, the domestic private sector and the FDI sector are the two sectors that have the highest growth rates, normally over 10% per year.

Demand Decomposition of GDP growth

[12] Decomposing the GDP growth by economic sectors (See Appendix 1) we see that with the lion's share in GDP and highest value added growth rate for many years, the industry and construction sector continues to make the largest contribution to the GDP growth rate.

[13] The sector accounted for 4 0.5% in 1991

Decomposition of Vietnam GDP to demand components during the periods 1995-2008 (Table 3) reveals the important and increasing role of domestic demand to GDP growth. The most important is domestic consumption component. The second important component is investment which has shown consistent growth since 2000. More often than not, external demand contributes negatively to GDP growth during these years.[14]

2.3.1 Consumption

Domestic consumption after a dip in 1999 and 2000 has kept rising as the single most important component of GDP growth. Vietnamese total consumption has been growing at a considerably faster rate than GDP growth rate. The contribution of consumption increased from 29.3% to 89.6% in 2007 and even 106% in 2008. What is the relative contribution of private versus government consumption in GDP growth? Private consumption growth clearly dominates total consumption growth. Using this decomposition, it is clear that growth is driven by domestic private consumption.

2.3.2 External sector

Vietnam has also seen a steady growth in its international trade over the period. The average growth rate of export and import is around 20%. The total value of international trade over the GDP, which is one indicator of the openness of an economy, reached 150 per cent in 2007, up from 61 per cent in 1994. The net exports account for only a small fraction of overall GDP growth. The decomposition of GDP by the demand factors by the traditional method is argued to underestimate of contribution of export to GDP growth. Therefore, we instead decompose the contribution of export separately in order to see the contribution of this component. As can be seen in Table 4, export component is a significant contributor to GDP growth during the last 10 years, especially since 2000. This is the ramification of the trade liberalization and export-led growth policies that the government pursued along the course of economic reform. During the last 20 years, the export growth rate has stayed at the average of around 20% per year (Appendix 2).

The structure of import and export has been substantially changed in comparison with the previous period. Vietnam has exported oil, various manufacturing and agriculture processing products, and imported not only consumption goods, but mainly raw materials for domestic production and initially progressive techniques and technology to promote the growth and efficiency of the economy. The composition of exports of Vietnam has gradually reflected the success of the industrialization process. The share of

[14] There are some limitations to this decomposition method as pointed out by (Kranendonk and Verbruggen 2008). This method underestimates the importance of exports for the growth in GDP, and overestimates the importance of domestic expenditure categories. The authors suggest an alternative method called ‘import-adjustment’ method. However, due to time limitation, we use the traditional method and estimate the contribution of export and import to GDP separately instead of the net export (Kranendonk and Verbruggen 2008).

manufactured products, particularly labor intensive products like textile and garment, footwear, and seafood, has been increasing and replacing the traditional agricultural products. In 2005, the share of manufactured handicraft products alone accounted for more than 40 per cent of total export value (CIEM 2005).

2.3.3 Investment

Vietnam also have relatively high contributions of investment growth to GDP growth. The total investment as ratio of GDP has increased considerably during the period. During the 1990s the ratio fluctuated around 28% before started increasing since 2000 until its peak at 43% in 2007 and 41% in 2008 (Table 4). Investment is high, especially for a low income country. According to the World Bank (2007) the large and increasing share of investment in GDP explains in part the high growth rate accelerated since 2000. The efficiency of the high level of investment has been questioned by various researchers due to the high ICOR as compared with other countries such as Taiwan or Korean when these countries were at the same stage of economic development.[15]

Of the three economic sectors, until 2006, the state sector was still the most important source of investment in the country. State investment is made either directly into public infrastructure or through loans to state-owned enterprises (SOEs), or in the form of grants to municipalities and private enterprises. But the state's share in investment has declined from 60% in 2001, to 29% in 2008 as private domestic investment increases and the inflow of foreign direct investment (FDI) increases. The recent decline in the state's share is due more to the increased private investment than to new inflows of foreign investment, however.

The domestic non-state domestic sector recorded a continuous upward trend as a significant source of investment. Private sector investment has increased from 27.6 in 1995 to 40% by 2008.[16] Both continued involvement of the state and increased saving and investment by Vietnam's private sector have contributed to continuing high rates of economic growth.

The FDI sector, during the 1990s and early 2000 saw a downward trend in their share of investment. FDI accounted for 30% of investment in the mid 1990s, but fell to 20% in the wake of the Asia financial crisis. Since then, the share of FDI in total investment kept falling until 2006. Very recently, new large FDI inflows have emerged, in part as a result of reforms committed to as part of WTO accession that relaxed rules restricting FDI and making Vietnam a more attractive FDI destination. In 2007 and 2008 FDI became the most important source of investment. The sudden increases in the share of the FDI sector during 2007-2008 can be partly explained by the WTO accession of Vietnam which

[15] See also Rebalancing Growth in Asia by Prasad (2009) at http://ftp.iza.org/dp4298.pdf

[16] Jensen and Tarp (2006) point out that private savings to fund private sector investment comes as much from retained earnings of firms as from savings by households. Reinvestment of corporate profits appears to be an important mechanism to maintain high rates of investment and growth.

created a hype expectation among international investors about the prospect of Vietnam (See Figure 2).[17] Although Vietnam has been successful in attracting FDI in recent years, the real benefits from FDI seem still controversial. Previous studies have found little evidence of technical spillover from FDI enterprises to local counterparts (Nguyen et al 2008). In addition, the country has become heavy dependent on FDI capital as an important source of input to sustain economic growth.

Illicit demand stimulus policy

The high level of investment may also be attributable to the state. The level of investment by the state sector can also be explained in part by the expansionary policy adopted by the government in responses to the Asia financial crisis. The government maintained investment levels, and increased its share to minimize the effects of the crisis and avoid recession, so Vietnam continued to experience growth and less effect from the crisis than most of its neighbors. In particular, the years of 2000-04 witnessed the implementation of the demand stimulus policy to revitalize the economy and the new commitments to reform continuation. The demand stimulus policy included several measures such as public investment in infrastructure projects, financial supports for SOEs to deal with their increasingly amounting inventories, budget injection to poverty reduction programs, raising wages and salaries, encouraging people to consume, and partially supporting enterprises to expand exports. This package of demand stimulus policies has had a positive impact on the economy, minimized the deflation situation and economic stagnation.[18]

Saving-Investment Gap

Investment and capital formation have played a key role in Vietnam's successful economic growth strategy. Using data from the Asia Development Bank, Figure 3 shows the evolution of the savings-investment gap of Vietnam during 1996-2008. In the mid 1990s, the gap was as big as 7.6% of GDP, which was later improve during the late 1990s and early 2000s. However, since 2002 the gap widened and became very large in 2007 and 2008 reaching 9.8%. The implication is that in order to meet the investment need and the growth target, Vietnam had to mobilize an amount of foreign savings equivalent to the order of 10% of its GDP if the domestic savings-GDP ratio does not improve. Comparing with other countries, especially China where the savings ratio reached 50% of GDP, the Vietnam's saving ratio is markedly low. The ratio of saving to GDP tends to come to a halt, thus widening the gap between domestic saving and investment.

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[17] Vietnam requires registration of intended FDI, and not all of those registrations are implemented.
[18] In the current implementation of the economic stimulus package, there has been little reference to the illicit and prolonged demand stimulus implemented in 2000-2004.

2.4. Growth accounting: capital, labour and total factor of productivity

Table 6 shows the breakdown of GDP growth during 1986-2008 into three components: capital (K), labor (L), and TFP (A) contributions.[19] The Table reveals a striking feature of the economic growth history of Vietnam, the decreasing contribution of TFP in GDP growth. During the early economic reform, TFP contribution to GDP growth was as high as 74%. This may be explained as due to the liberalization reform in the agriculture sector. Since the early of the 1990s, the TFP contribution to GDP growth declines significantly to 20% when the Asia crisis hit the country. During the crisis, the TFP showed a negative contribution. Only since 2001, the TFP regained its positive contribution to the GDP growth. The average TFP during this period is only 11%. When the global crisis hit the economy in 2008, the TFP fell to a negative number. In parallel with the falling contribution of TFP, the contribution of capital to GDP has been increasing to a worrying number, reaching 97% in 2008. This should not be a surprise as it is consistent with the decomposition in the previous sections, where the investment makes up a large part of GDP for a sustained period.

2.5 The run-up to the global crisis: 2007-2009

The past two years marked a memorable experience for Vietnam. After a long period of striving for high rate of economic growth in 2008, for the first time, the government publicly admitted the trade-off between economic growth and macroeconomic stability. Vietnam had experienced a huge credit expansion in 2007, which together with rising world energy and food prices has led to amounting inflationary pressures. In addition, in response to the huge capital inflow (both FDI and portfolio investment), the government inappropriately attempted to absorb this capital inflow while maintaining a fixed exchange rate. All of these forced the government to shift their priorities from economic growth to stabilization in 2008: a tight monetary policy and cutting back public spending on large projects.[20] The policy worked and brought down inflation, stalled the housing market and even busted the financial bubble. As the macroeconomic situation somehow improved by the end of 2008, the country has suffered from very negative impacts of global financial crisis and recession. As pointed out by the WB (2009), the policies implemented in 2008 were in a way good for Vietnam. However, in other way, the economy was not well prepared for the crisis with the self-caused recession in early 2008.[21] Entering the year 2009, Vietnam is facing new difficulty and challenges additionally hit by the global financial crisis. According to the World Bank's in 2009 Vietnam's GDP will growth 5.5% only, much lower than the expected 7.5%.

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[19] Cobb-Douglas function, $Y = AK^{\alpha}L^{1-\alpha}$, is assumed. Share of labor = 0.5 (α =0.5), L = Employment or Labor force (depending on whether or not employment data are available) , K = Capital stocks are computed using a perpetual inventory method.

[20] For further details, see WB (2008)

[21] Some would go further to argue that without the global crisis, Vietnam would still fall into recession by self-making anyway.

III. Impact of the global crisis and government responses

Being more deeply integrated into the regional and world economy, Vietnam gradually becomes more vulnerable to external shocks and crises. Unlike previous crises (i.e. the Asian Financial Crisis in 1997-1998) when Vietnam is still relatively isolated from the world and had pretty stable macroeconomic indicators, this time when the crisis occurred Vietnam has deeply integrated into the world economy and worse indicators of macro-economic conditions (such as high inflation, large current account deficit, volatile inflow of capitals, and fiscal imbalances). In 1997 when the crisis occurred in Thailand, the GDP growth was over 8% and the inflation rate was at all time low at 3.6%. In 2008, the GDP rate was 6.2% and the annual inflation rate was reported at 19.9%.[22] According to official statistics, the level of openness of the Vietnamese economy is relatively higher than other regional and world economies with the total import-export volume amounting to 150% of the GDP. Viet Nam, therefore, cannot keep itself at bay from the complex developments of the world economy.[23] Given the scale of the crisis and the conditions of the economy, the structure of the market and the policy options/ constraints, mitigating the negative impacts of the global crisis would be a stark job for Vietnam.

3.1 The impacts of global crisis on the Vietnam economy

As illustrated in the previous section, Vietnam's high economic performance is highly dependant on external stimulus. Although the country has witnessed strong domestic consumption growth in recent years, Vietnam's economy has continued to be driven by high external trade and increased foreign direct investment (FDI). The country's total trades are now equivalent to about 150% of gross domestic product (GDP), which is the second highest in the region, after Malaysia. Besides that, Vietnam has been one of the largest recipients of FDI in the world relative to the size of its GDP. Therefore, the country is particularly vulnerable to the unexpected global economic slowdown and unanticipated outflows of funds. With the global financial crisis unfolding, the GDP growth of Vietnam is forecasted to be lower than the previous years, ranging from 6.5% at the highest by WB to 5% by ADB and IMF and to 4,1% at the lowest by Deutsche Bank. For other countries, 5% GDP growth rate is something to desire for, but for Vietnam, an economy growing at 7.5-8% per year for a long period of time, the figure of 5% is worrying.

3.1.1 Export

In the fourth quarter of 2008, Vietnam's export fell significantly due to the direct and immediate impacts of the global financial crisis. The government revised downward its export growth rate, expecting a zero growth for export in 2009. There are two factors at work here (i) decreased aggregate demand in the export market; and (ii) a substantial reduction in the price of Vietnam's export commodities (especially crude oil prices and

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[22] During the year, the headline inflation rate was as high as 30%.

[23] To some extent, and ironically, it could be argued that the trade liberalisation policies that Vietnam pursued the last 20 years contribute to the exposure of the economy to external shocks.

other primary commodities). Although some of Vietnam major export products such as coffee, rice, pepper, rubber, crude oil and coal, report increases in volume in 2009, their decreased prices have led to the speculation that Vietnam may not be able to meet this revised growth rate. For a country that has an annual export growth rate of around 20%, this is clearly a serious setback.

In a recent study by Vietnam Academic of Social Sciences finds that although several export manufacturing sectors such as the textile, garment, leather and seafood processing industries were hit hard by the crisis, these industries are very much resilient and can bounce back once the world economy improves. This is because the demand for products of these industries is very inelastic. On the other hand, the report points to several sectors/segments of the economy such as furniture, electronics and the craft-village which are not very resilient and it may take time to improve because the world demand for these products are not inelastic.

Although the crisis has led to a significant fall in the export. However, it also leads to a more manageable trade deficit in the early 2009 (WB 2009). However, trade deficit is expected to grow significantly once the economy recovers. This is because of the import-export structure of Vietnam: (i) Vietnam's exports rely heavily on agricultural and raw commodities, and most manufacturing products still embody low value added; (ii) Vietnam's imports of intermediate products and machinery for domestic production and export may keep rising more rapidly once the economy recovers; (iii) Overseas final products, particularly luxury ones, are imported with high value as they appeal to Vietnam's middle-income consumers.

3.1.2 Foreign direct investment

In 2008, there was a large influx of FDI into Vietnam reaching US$ 64 billion of registered capital (tripled the registered FDI capital for 2007) and US$ 11.6 billion of implementation capital (compared with US$ 8 billion in 2007). In 2009, there has been a slowdown in the inflows of foreign direct investment resulted from the constraints of disposal capitals and the tightening of the world credit market. In the first 8 months of 2009, Vietnam has managed to attract about US$ 10.4 billion of registered capital much lower than 2008. The actual disbursement from investment projects is over US$ 6.5 billion also lower than 2008. All along the course of economic reform up to now Vietnam has relied more and more on FDI to sustain its high level of economic growth. The slowdown of FDI inflows in 2009 and the years to come will have serious consequences for Vietnam. The FDI sector plays an important role in Vietnam's export. According to official statistics, the FDI sector accounts for over 50% of Vietnam's export over the last 6 years.

3.1.3 The impacts on the labour market and society

The data on the impact of the crisis on labour market and employment in Vietnam is very much limited.[24] Since early 2009, the Vietnam Academy of Social Sciences has conducted repeated Rapid Assessment Surveys to assess the impact of the global crisis on Vietnam. The first survey conducted in early 2009 found that job losses were widespread at industrial zones (both in the North and the South) although some enterprises attempted several labour-hoarding measures to keep their skilled employees. The situation of the unemployed immigrants was very vulnerable due to the nonexistence of social security and non-reversible of immigration (the immigrated workers largely come from areas where arable land is scare and other opportunities are few). The second survey conducted in May 2009 found that there was evidence of green shoots with enterprises receiving orders and recruiting more employees.

3.1.4 The impact on Vietnam's economic reform

An indirect but critical effect of the global financial crisis on the Vietnam economy is that, to mitigate the impact on the domestic economy and to stimulate short-term economic growth, the government might delay or neglect and cancel some of its structural adjustment policies (reform in the state-owned enterprises, the banking sectors, improvement of the business environment). These structural adjustments are absolutely necessary for the sustainable growth of the Vietnamese economy. One example is that, to stimulate short-term economic growth, the Vietnamese government might resort to refinancing the inefficient banking sector, subsidizing loss-making large stage conglomerates and reviving real estate investment. Although these measures are quite useful and effective to stimulate short-term economic growth, they cannot ensure long-term sustainable growth and might generate new risks. Therefore, the Vietnamese government should speed up the structural readjustments which will help to transform Vietnam's growth model.[25]

3.1.5 Impacts through other channels

The global economic crisis, in addition to the direct effects of decreased exports and FDI inflows creating a sharp decrease in the aggregate demand, through the employment and income channels contributed to a further fall in the domestic demand as employment fell and domestic consumers and investors delayed their consumption and investment.

The Vietnamese banking system has suffered from indirect impacts though not having been directly hit by the crisis. This is because the financial and banking sector has not fully integrated with the global network. Further, the absent of such regulation as mark-to-the-market has helped the banking system in time of crisis.

In response to the booming of the stock and housing markets during 2006-2007 short-term capital inflows surged to a high level. The crisis has led to a reverse of these capital

[24] See also a study by UNDP (2009). Other impacts include lower demand for Vietnamese workers in other countries such as Malaysia, Taiwan and Middle East countries.
[25] http://www.tuanvietnam.net/vn/sukiennonghomnay/6934/index.aspx

inflows. Remittance is long considered important source of capital for the country. The crisis is expected to lower the inflow of this important source of capital. Other impacts include the fall in visitors of the tourism industry, lower income of farmers due to lower commodity prices.

3.2 Government responses

The government of Vietnam was quick to notice the impact of the global crisis and responded quite decisively. The government has responded by reversing the course of monetary tightening and fiscal austerity policy implemented in 2008. In light of these events, the government has recently revised downwards its GDP growth forecasts for 2009, from 7.5 percent to 6.5 percent, and has announced a six billion USD stimulus package. This package aims at mitigating the impact of the global financial and economic crisis on the Vietnamese economy and its people, and preventing a general slowdown of economic activity in Viet Nam.[26]

In terms of monetary policy, the government aggressively loosens its policy by cutting the base rate from 14% per year to 7% per year within a few months. Ceiling lending interest rate (1.5 times base rate) was lowered accordingly, from 21% to 10.5% for productive activities. Lending interest rates for credit card and consumption are negotiable and fluctuating between 12% and 15%. The government also announced its plan of 4% interest subsidy for working capital short-term loan for enterprises in total amount of USD 1 billion.

To stimulate the economy, the government also puts in place a large fiscal stimulus package which includes: one-off support of VND 200,000 per person for the poor on the last occasion of New Year Holiday; Corporate tax exemption, VAT reduction, personal income tax exemption for the first 6 months of 2009 and interest subsidy being extended to longer-term loans of up to 2 years for investment in agriculture and other productive activities.[27]

The policy adopted by the government has helped revitalized the economy. According to the report by GSO (2009), together with the recovery in other Asian countries, there are signs of a recovering economy which are arguably attributable to government stimulus policy.[28] In order to assist the economy further, the government is considering the second stimulus package.[29]

Some researchers (Pincus 2009) has pointed out that the policy options available for Vietnam's government are much more limited than those of China or other neighboring countries. While China and other Asian neighboring countries have maintained a surplus current account and sound fiscal balances, for several consecutive years Vietnam is

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[26] In some aspect, the large state-owned sector has made the task of stimulating the economy much easier.

[27] See WB (2009) for further details

[28] http://www.vneconomy.vn/20090828091054122P0C10/kinh-te-8-thang-buc-tranh-dang-sang.htm

[29] http://vneconomy.vn/20090901102716178P0C5/he-mo-kha-nang-tao-buoc-dem-cho-nen-kinh-te.htm

plague with a twin deficit (a large current account deficit of 12% in 2008 and double digit fiscal). The fall in world oil price also put a constraint on the fiscal policy of the government because 16% of government revenue comes from oil export. Some analysis done by the World Bank, however, suggests that there are rooms for fiscal policy implementation in Vietnam and the fiscal position of the country remains strong (World Bank 2009).

IV. Medium term prospects and policies

The current global financial and economic crisis is the worst since the Great Depression and Vietnam is being hit much harder than previous Asia financial crisis. But the crisis also renders Vietnam an opportunity to review and redesign its economic development policy to sustain the course of rapid economic growth, protect the country from future external shocks and to strengthen the internal sources of growth. The economic development policy that Vietnam pursued during the last 20 years has two important characteristics:

(i) Gradual domestic reforms - developing the private businesses while maintaining a dominant role of the state sector; and
(ii) Dependence on external stimulus - increasing export growth and attracting FDI.

The government has tackled employment generation and poverty eradication through export-led, investment-based economic growth with state intervention, creating five-year plans and industrial policy largely premised on this assumption. The approach, however, must be re-evaluated and alternative scenarios must be devised to prepare for what could be (i) a prolonged period of lower demand for Vietnam exports and lower inward FDI; and (ii) a shift in pattern of economic growth in the world. Accomplishing this will be very difficult because some of the assumptions that have traditionally driven policy-making must be reexamined and replaced. Accordingly, new strategies to drive economic growth must be designed and implemented. In what follows, we will first discuss the potentially emerging trends in the world and implications for Vietnam and then turn briefly to the unfinished reform agenda of Vietnam.

4.1 Re-balancing (external versus internal demand)

With the current global imbalances, deficit in the US and surplus in many Asia countries, especially China, the issue of rebalancing must be addressed. Although rebalancing growth implies building strong domestic demand in Asia countries the optimal policy mix for rebalancing will necessarily differ across national economies. Similar to other Asian countries, the issue of rebalancing growth has also been hotly debated in Vietnam: whether the country should shift its focus to domestic market instead of external demand. The following argument has been put forward in support of shifting toward domestic demand:

(i) for export oriented economy a decrease in external demand would be more deflationary to domestic economy than a similar decrease in domestic consumption;

(ii) given the United State's huge current account deficit, the export-led countries such as China and Japan would be less willing to finance the US imports; and

(iii) Vietnam is potentially huge market for its own production given its large population (approaching 86 million people), high economic growth rate and becoming a middle-income country (see Ohno 2009).

Admittedly, in view of the current global crisis in the short term, Vietnam inevitably will have to readjust its growth strategies and shift away from its dominant emphasis on export-oriented growth, especially if the crisis is prolonged in the form of a L-shape or W-shape recovery. However, the precondition for relying on domestic consumption for long-term economic growth is missing in Vietnam in the face of the already high level of consumption in Vietnam (See table 4). Although the domestic demand of Vietnam is nowadays significant and keeps growing but the household income is still low. Furthermore, unlike big countries such as US, China, or Indian where the domestic markets are large enough to sustain economic growth and to absorb excessive production capacity, the domestic market of Vietnam is still at much smaller scale. Comparing to China, Japan or other large exporters, Vietnam is a small and open country, and could still increase its export without worsening the global imbalances. In particular, during recent years, Vietnam has accumulated a large current account deficit.[30] Therefore, in the medium term if Vietnam would like to sustain high economic growth rate, it should continue with its export-oriented development strategy.

The above argument does not mean the domestic market plays a less important role in long run, however. Some elements of domestic consumption should be emphasized: the government would strengthen the provision of public goods, particularly those affecting the well being of individuals, addressing the bottle necks of the economy such as increases in human resources and healthcare. Growth rebalancing would also have an impact on the economy's macroeconomic variables. As a consequence of growth rebalancing, it is possible to expect that Vietnam will achieve an increase in the savings rate as well as decreases in domestic consumption and investment

4.2 Shifting Consumption Patterns

One of the often cited structural causes of the current global crisis is the unsustainable global imbalances between over-consumption in the US (large current account deficit) and over-saving in emerging China and other East Asian countries (large current account surplus). Such unsustainable global imbalances must be rebalanced either with a gradual decline or a sudden fall caused by a global crisis for example. As a result, the world consumption map may evolve into either a multipolar (with the US, EU, Japan, and emerging consumption Asia, which is the more likely scenario) or Asia-centered single-

[30] Unlike many export-oriented Asian economies, Vietnam has been running a trade deficit.

polar map. In either case, the emergence of consumption center in Asia (China, India and other current account surplus countries) may have important implication for Vietnam's export strategy. With the already high consumption level and low savings rate Vietnam may not have the luxury of being part of the consumption center. Instead, Vietnam may need to foster domestic savings, and rein in domestic consumption. Resources would be shifted from manufacturing industries that are concentrated on exports to developed countries to industries and services that serve the China, Indian and other emerging Asian markets.[31]

4.3 Investment-based growth

During the last 20 years, Vietnam's economic growth has relied on extensive investment which is financed by government debt or foreign savings (FDI and ODA). The question Vietnam facing now is whether it can still rely on the old strategy of investment-based development? The answer depends in part on the ability of Vietnam to sustain the inflow of foreign savings and in part on what Vietnam is going to do with such inflow.

Since the early of the economic reform, Vietnam have received a considerable transfer of resources under the form of Official Development Assistance (ODA) most of which is under the form of non-refundable grants, or loans in very favorable terms, implying that they have a large grant component built in. This important financial resource has contributed in the construction of important infrastructure, rural development, education, training, administrative reform. In the foreseeable future, given the commitment of the donors, the ODA will still be available but the terms of ODA loans are bound to become less advantageous as the country grows. Therefore, Vietnam should make the most of the resources it can tap, allocating the resources to the best and most efficient use.

The FDI sector has been playing a more and more important role in the economy of Vietnam, contributing to over 30% of total investment, 50% of export and industrial output. However, there is only limited evidence that indigenous Vietnamese enterprises benefit from the entry and presence of FDI firms in Vietnam. The question of domestic firms being crowded out by FDI has been raised in many public seminars. The current financial crisis has put Vietnam in a delicate position. On the one hand, Vietnam now would like to be more selective in attracting FDI while on the other Vietnam still needs to compete against other countries for the smaller pool of capital. The comparative advantage of Vietnam's abundant, cheap, skillful and compliant labor force has largely disappeared and will become less important. Vietnam cannot rely on the unskilled labor advantage to compete for FDI as it could in the last 20 years. Therefore, rather than seeking greater investment for its own sake, policy makers should concentrate on building a climate conducive to efficient investment. Vietnam still lags far behind other countries in the region in this aspect. The supporting domestic manufacturing sector has not emerged.

[31] Global saving glut in the words of Bernanke, Chairman of US Federal Reserve in 2005, See http://www.brookings.edu/opinions/2009/0802_china_spending_prasad.aspx and http://blogs.harvardbusiness.org/hbr/hbr-now/2009/08/trend-to-watch-shifting-consum.html

Investment by the state has been a major source of growth for Vietnam during the last 10 years. Given the worsen fiscal balance due to the implementation of the fiscal stimulus and smaller future revenue due to lower economic activities, Vietnam would find it more difficult to sustain the high economic growth rate by expansionary policies.

4.4 Economic reform: Unfinished agenda?

The recent economic growth had its roots of economic opening policies of which trade liberalization is at the center stage in the last decades. Since the membership of the World Trade Organization in 2006, tremendous economic changes and fluctuations have been observed in Vietnam. Having received great amount of FDI and presumably technology transfer, given cheap labor cost and abundant natural resources, Vietnam products and services is still less internationally competitive due to high transaction costs. Vietnam's WTO accession and membership is neither the beginning nor the end of the country's international integration. But the question is: Is traditional trade liberalization and openness policies are still driving and ensuring the national growth in the time to come? For many researcher and policies makers in Vietnam, the economic reform based on traditional trade liberalization theories seem running out of its momentum as most of the tariff and non-tariff barriers removal have reached the bottom. Finding a new fuel for growth is a high priority for Vietnam. This is even more valid in the crisis time when the economy hardly finds its competitiveness and advantages among its trading partners as well as competitors. The following challenges, old and new, are still facing Vietnam in the post-crisis era:

Infrastructure limitations: The absence of good infrastructure could potentially obstruct the country's economic growth. One of the most pressing issues would be a potentially serious power shortage, where the national electricity system may not be able to cope with the increased power consumption in the near future.

The need for a more skilled workforce: Slow human development can put an end to fast economic growth. The domestic supply of skilled labour continues to be a constant challenge. One of the reasons behind the lack of skilled labour is that the education system is not up to the task with generally out-of-date curricula, which does not meet the present working requirements.

Macroeconomic stability and crisis: Crisis is very costly for long-term growth and development. Macroeconomic stability is very important in diverting potential crisis. Vietnam macroeconomic indicators are not good at the moment. Although inflation remains lower at the moment, once the world economy recovers inflation can get out of control. Trade deficits have recently been a recurrent problem of Vietnam and over time reached critical unsustainable levels. Although most of the growth in the trade deficit is from purchases of intermediate goods and capital equipment, many imported items were semi-finished products and luxury consumption goods. The government has continued to operate at a budget deficit for many years. In 2009, the budget deficit may increase due to the implementation of the economic stimulus package. More worrying is the substantial off-budget spending in Vietnam. The volatile inflow of hot money into real estate and stock markets is also a cause of concern. Another problem is the weakness in risk management and financial capacity supervision in many companies and financial institutions. The system of gathering and analysis of information on financial market fluctuations and a reasonable roadmap for capital account liberalization are challenges for Vietnam's policymakers.

V. Conclusion

Thanks to the high economic growth rate during the last 20 years, Vietnam is expected to join the middle-income country group by around 2010. The success of Vietnam in the past depends in part on a series of gradual reforms and expansionary investment.
The problem facing the country at the moment is how to sustain economic growth and avoid the "middle-income trap" that many countries in the regions are stuck. The experience of China and other East Asian countries suggests that high growth rates can be sustained over 20 years. But counter examples could also be found in Vietnam's neighboring South East Asian countries where high economic growth rate has not been sustained for such a long period. In 2008, as the global financial crisis unfolds, the severe impacts have been felt on all continents including Vietnam. The crisis together with the recent turbulence of macroeconomic development in the last two years has opened up several weakness of the economy, and begged the question whether Vietnam can continue her present course of economic development in the face of a changing world? The paper has pointed out that (i) Vietnam can no longer rely on expansionary investment to sustain its economic growth – the country must allocate the scare resources to the best and most efficient and productive use; (ii) the economic reform is running out of steam and Vietnam is losing its competitiveness – due to such weakness as inadequate infrastructure, lack of a skilled labour force; high transaction costs and the risk of macroeconomic instability; and (iii) new emerging trends in savings and consumption will shape the course of Vietnam economic growth.

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Table 1: GDP structure by economic sector, 1990 - 2008 (current prices)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
GDP (current prices)	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**
Agriculture, Forestry & fishery	27.18	27.76	25.77	25.78	25.43	24.53	23.24	23.03	22.54	21.81	20.97	20.40	20.34	22.10
Industry and construction	28.76	29.73	32.07	32.49	34.49	36.73	38.13	38.49	39.47	40.21	41.02	41.54	41.48	39.73
Manufacturing	14.99	15.18	16.48	17.15	17.69	18.56	19.78	20.58	20.45	20.34	20.63	21.25	21.26	21.10
Services	44.06	42.51	42.15	41.73	40.07	38.73	38.63	38.48	37.99	37.98	38.01	38.06	38.18	38.17

Source: GSO

Table 2: GDP share and growth rate by ownership, 1995 - 2008

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
GDP structure at current prices (%)														
GDP (Current prices)	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**
State sector	40.18	39.93	40.48	40.00	38.74	38.52	38.40	38.38	39.08	39.10	38.40	37.39	35.93	34.35
Non-state sector	53.51	52.68	50.44	49.97	49.02	48.20	47.84	47.86	46.45	45.76	45.61	45.63	46.12	46.97
Collective sector	10.06	10.02	8.91	8.90	8.84	8.58	8.06	7.99	7.49	7.09	6.82	6.53	6.21	6.02
Private sector	7.44	7.40	7.21	7.24	7.25	7.31	7.95	8.30	8.23	8.49	8.89	9.41	10.19	10.81
Household sector	36.02	35.25	34.32	33.82	32.93	32.31	31.84	31.57	30.73	30.19	29.91	29.69	29.72	30.14
Foreign invested sector	6.30	7.39	9.07	10.03	12.24	13.27	13.76	13.76	14.47	15.13	15.99	16.98	17.96	18.68
Growth rate at constant 1994 prices (%)														
GDP (constant 1994 prices)		**9.34**	**8.15**	**5.76**	**4.77**	**6.79**	**6.89**	**7.08**	**7.34**	**7.79**	**8.44**	**8.23**	**8.46**	**6.18**
State sector		11.28	9.67	5.56	2.55	7.72	7.44	7.11	7.65	7.75	7.37	6.17	5.91	4.22
Non-state sector		6.60	5.18	3.77	4.24	5.04	6.36	7.04	6.36	6.95	8.21	8.44	9.37	7.23
Collective sector		3.56	2.64	3.50	6.04	5.46	3.24	4.91	3.43	3.83	3.98	3.51	3.32	3.11
Private sector		10.62	6.15	5.74	4.89	9.70	13.43	12.92	10.20	12.30	14.01	14.85	15.73	10.88
Household sector		6.58	5.63	3.40	3.63	3.88	5.49	6.07	6.06	6.21	7.49	7.56	8.58	6.80
Foreign invested sector		19.41	20.76	19.10	17.56	11.44	7.21	7.16	10.52	11.51	13.22	14.33	13.04	8.09

Source: GSO and calculations by authors.

Table 3: Decomposition of GDP, 1996 – 2008

Decomposition of GDP growth rate (%)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Expenditure on GDP	9.34	8.15	5.76	4.77	6.79	6.89	7.08	7.34	7.79	8.44	8.23	8.46	6.18
Final consumption	7.25	4.63	3.44	1.40	2.46	3.42	5.33	5.72	5.18	5.29	5.96	7.58	6.56
Private consumption	6.64	4.31	3.19	1.83	2.12	2.98	4.97	5.25	4.67	4.75	5.40	7.00	6.07
Government consumption	0.61	0.32	0.25	-0.43	0.34	0.44	0.36	0.47	0.51	0.54	0.55	0.58	0.49
Investment (Gross capital formation)	3.87	2.67	3.63	0.37	2.99	3.29	4.02	3.95	3.66	3.97	4.31	10.10	2.77
Gross fixed capital formation	3.56	2.69	3.35	0.45	2.83	3.08	3.82	3.73	3.41	3.26	3.35	8.31	1.51
Increase in stocks	0.31	-0.03	0.28	-0.09	0.16	0.21	0.20	0.22	0.25	0.70	0.96	1.79	1.25
Net exports	-1.18	1.14	-1.20	3.01	1.20	-0.22	-3.66	-3.21	0.39	1.57	-1.56	-13.23	-3.24
Export						4.94	6.42	8.34	11.86	5.86	9.28	7.77	3.57
Import						-5.16	-10.08	-11.55	-11.47	-4.29	-10.83	-21.00	-6.81
Errors	-0.61	-0.28	-0.10	-0.01	0.13	0.41	1.39	0.89	-1.44	-2.38	-0.49	4.01	0.09

Contribution to GDP growth rate by percentage (%)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Expenditure on GDP	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Final consumption	77.63	56.82	59.62	29.35	36.29	49.62	75.24	77.87	66.52	62.65	72.39	89.63	106.17
Private consumption	71.13	52.88	55.30	38.35	31.29	43.23	70.19	71.46	60.00	56.30	65.66	82.76	98.18
Government Consumption	6.50	3.94	4.31	-9.00	5.01	6.39	5.05	6.41	6.52	6.35	6.73	6.88	7.99
Investment	41.48	32.72	63.02	7.70	44.06	47.65	56.82	53.79	46.93	46.99	52.42	119.33	44.74
Gross fixed capital formation	38.12	33.05	58.12	9.48	41.71	44.62	54.02	50.81	43.79	38.67	40.76	98.23	24.46
Increase in stocks	3.36	-0.33	4.90	-1.78	2.34	3.03	2.81	2.97	3.15	8.32	11.66	21.11	20.28
Net exports	-12.62	13.95	-20.84	63.15	17.65	-3.23	-51.65	-43.73	5.06	18.58	-18.90	-156.37	-52.48
Export						71.61	90.74	113.61	152.25	69.40	112.73	91.88	57.72
Import						-4.85	-142.39	-57.34	-47.19	-0.82	-31.63	-248.24	-110.20
Errors	-6.49	-3.48	-1.81	-0.19	1.96	5.97	19.59	12.08	-18.52	-28.21	-5.93	47.36	1.49

Source: GSO and calculations by DEPOCEN

Table 4 Share of GDP by its component 1995-2008

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Prel. 2008
								Structure (%)						
TOTAL	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100,00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**
Gross capital formation	27.14	28.10	28.30	29.05	27.63	29.61	31.17	33.22	35.44	35.47	35.58	36.81	43.13	41.13
Gross fixed capital formation	25.42	26.32	26.70	27.02	25.70	27.65	29.15	31.14	33.35	33.26	32.87	33.35	38.27	36.00
Changes in stocks	1.72	1.78	1.60	2.03	1.93	1.96	2.02	2.08	2.09	2.21	2.71	3.46	4.86	5.13
Final consumption	81.80	82.79	79.90	78.51	75.43	72.87	71.19	71.33	72.58	71.47	69.68	69.38	70.81	73.42
State	8.19	8.35	8.13	7.62	6.79	6.42	6.33	6.23	6.32	6.39	6.15	6.03	6.05	6.15
Private	73.61	74.44	71.77	70.89	68.65	66.45	64.86	65.10	66.26	65.08	63.53	63.35	64.76	67.26
Trade balance (goods & services)	-9.10	-10.97	-8.14	-7.30	-2.85	-2.46	-2.28	-5.17	-8.36	-7.55	-4.18	-4.56	-15.85	-16.54
Statistical discrepancy	0.16	0.08	-0.06	-0.26	-0.21	-0.02	-0.08	0.62	0.34	0.61	-1.08	-1.63	1.91	2.00

Source: GSO

Table 5: Structure of investment by ownership (current prices), 1995 – 2008

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total (%)	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**
State sector	42.03	49.08	49.43	55.52	58.67	59.14	59.81	57.33	52.90	48.06	47.11	45.74	37.21	28.55
State budget	18.74	22.36	21.75	22.45	24.21	25.80	26.74	25.09	23.82	23.79	25.63	24.76	20.17	16.18
State credit*	8.37	9.47	11.72	15.71	18.83	18.37	16.85	17.46	16.30	12.25	10.48	6.63	5.73	4.10
Owned equity of SOEs and Other mobilized funds	14.92	17.24	15.96	17.36	15.63	14.97	16.22	14.78	12.78	12.03	11.00	14.35	11.31	8.28
Non-state sector	27.61	24.94	22.61	23.73	24.05	22.88	22.59	25.29	31.09	37.73	38.00	38.05	38.47	39.96
Foreign invested sector	30.37	25.97	27.96	20.75	17.28	17.97	17.60	17.38	16.01	14.21	14.89	16.21	24.32	31.49

Note: In 2006, data is adjusted by Vietnam Development Bank

Source: GSO and calculations by DEPOCEN

Table 6. Growth Accounting 1986 – 2008

Year	GDP Growth rate	Labour	Capital	TFP
1986	2.79	n/a	n/a	**n/a**
1987	3.63	76.50	42.59	**-19.09**
1988	6.01	0.00	25.84	**74.16**
1989	4.68	15.00	29.96	**55.04**
1990	5.09	16.98	23.98	**59.04**
1991	5.81	20.49	27.10	**52.40**
1992	8.70	15.27	27.25	**57.48**
1993	8.08	14.02	56.28	**29.70**
1994	8.83	12.54	55.39	**32.08**
1995	9.54	11.36	56.78	**31.87**
1996	9.34	12.98	60.76	**26.27**
1997	8.15	12.70	67.73	**19.57**
1998	5.76	17.60	97.88	**-15.48**
1999	4.77	23.81	101.80	**-25.60**
2000	6.79	32.74	72.01	**-4.75**
2001	6.89	15.43	71.92	**12.65**
2002	7.08	20.23	72.91	**6.86**
2003	7.34	17.24	71.87	**10.89**
2004	7.79	17.43	67.72	**14.85**
2005	8.44	8.54	63.02	**28.44**
2006	8.23	15.84	65.74	**18.42**
2007	8.46	12.29	78.31	**9.40**
2008	6.18	12.82	97.65	**-10.48**

Note: Source: Author's calculations, 2008 is estimation; Gross capital/GDP = 2; Share of labor = 0.5,

Appendix 1: GDP growth rate by sector at constant 1994 prices, 1995 – 2008

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Growth rate (%)														
GDP	**9.54**	**9.34**	**8.15**	**5.76**	**4.77**	**6.79**	**6.89**	**7.08**	**7.34**	**7.79**	**8.44**	**8.23**	**8.46**	**6.18**
Agriculture, Forestry & fishery	4.80	4.40	4.33	3.53	5.23	4.63	2.98	4.17	3.62	4.36	4.02	3.69	3.76	4.07
Industry and construction	13.60	14.46	12.62	8.33	7.68	10.07	10.39	9.48	10.48	10.22	10.69	10.38	10.22	6.11
Services	9.83	8.80	7.14	5.08	2.25	5.32	6.10	6.54	6.45	7.26	8.48	8.29	8.85	7.18
Contribution to GDP growth rate by percentage point (%)														
GDP	**9.54**	**9.34**	**8.15**	**5.76**	**4.77**	**6.79**	**6.89**	**7.08**	**7.34**	**7.79**	**8.44**	**8.23**	**8.46**	**6.18**
Agriculture, Forestry & fishery	1.32	1.15	1.08	0.85	1.24	1.10	0.69	0.93	0.79	0.92	0.82	0.72	0.70	0.73
Industry and construction	3.93	4.33	3.96	2.72	2.57	3.46	3.68	3.47	3.92	3.93	4.21	4.17	4.19	2.54
Services	4.30	3.86	3.11	2.19	0.97	2.23	2.52	2.68	2.63	2.94	3.42	3.34	3.57	2.90
Contribution to GDP growth rate by percentage (%)														
GDP	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Agriculture, Forestry & fishery	13.80	12.36	13.30	14.78	25.95	16.22	10.08	13.20	10.77	11.80	9.71	8.76	8.32	11.81
Industry and construction	41.16	46.35	48.52	47.18	53.81	50.97	53.39	48.95	53.37	50.48	49.83	50.68	49.50	41.16
Services	45.04	41.29	38.18	38.04	20.24	32.81	36.54	37.85	35.86	37.72	40.46	40.55	42.17	47.03

Source: GSO

Appendix 2: Basic Macroeconomic Indicators, 1994–2008

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008*
GDP per capita (1994 $)	228	288	338	361	357	374	402	413	440	492	553	639	723	834	1034
GDP share (%)															
Agriculture, forestry & fishery	27.4	27.2	27.8	25.8	25.8	25.4	24.5	23.2	23.0	22.5	21.8	21.0	20.4	20.3	22.1
Industry and construction	28.9	28.8	29.7	32.1	32.5	34.5	36.7	38.1	38.5	39.5	40.2	41.0	41.5	41.5	39.73
Services	43.7	44.1	42.5	42.2	41.7	40.1	38.7	38.6	38.5	38.0	38.0	38.0	38.1	38.2	38.17
GDP growth (%)	8.8	9.5	9.3	8.2	5.8	4.8	6.8	6.9	7.1	7.3	7.8	8.4	8.2	8.5	6.2
Agriculture, forestry & fishery	3.4	4.8	4.4	4.3	3.5	5.2	4.6	3.0	4.2	3.6	4.4	4.0	3.7	3.8	4.1
Industry and construction	13.4	13.6	14.5	12.6	8.3	7.7	10.1	10.4	9.5	10.5	10.2	10.7	10.4	10.2	6.1
Services	9.6	9.8	8.8	7.1	5.1	2.3	5.3	6.1	6.5	6.5	7.3	8.5	8.3	8.8	7.2
Export growth (%)	35.8	34.4	33.2	26.6	1.9	23.3	25.5	3.8	11.2	20.6	31.4	22.5	22.7	21.9	29.1
Import growth (%)	48.5	40.0	36.6	4.0	-0.8	1.1	33.2	3.7	21.8	27.9	26.6	15.0	22.1	39.8	28.6
Inflation rate (%)	14.4	12.7	4.5	3.6	9.2	0.1	-0.6	0.8	4.0	3.0	9.5	8.4	6.6	12.6	19.9
Urban unemployment rate (%)	6.1	6.4	5.9	6.0	6.9	6.7	6.4	6.3	6.0	5.8	5.6	5.3	4.8	4.6	4.7

* 2008: estimation
* Sources: Statistical Yearbook (1994 – 2008)

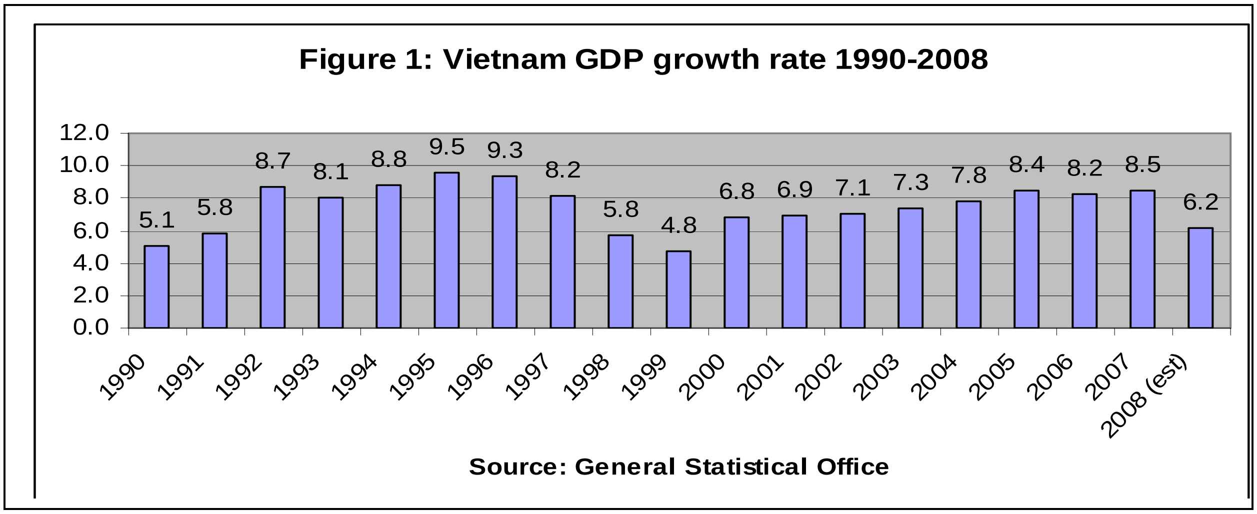


Figure 1: Vietnam GDP growth rate 1990-2008
12.0
10.0
8.0
6.0
4.0
2.0
0.0
5.1
5.8
8.7
8.1
8.8
9.5
9.3
8.2
5.8
4.8
6.8
6.9
7.1
7.3
7.8
8.4
8.2
8.5
6.2
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008 (est)
Source: General Statistical Office

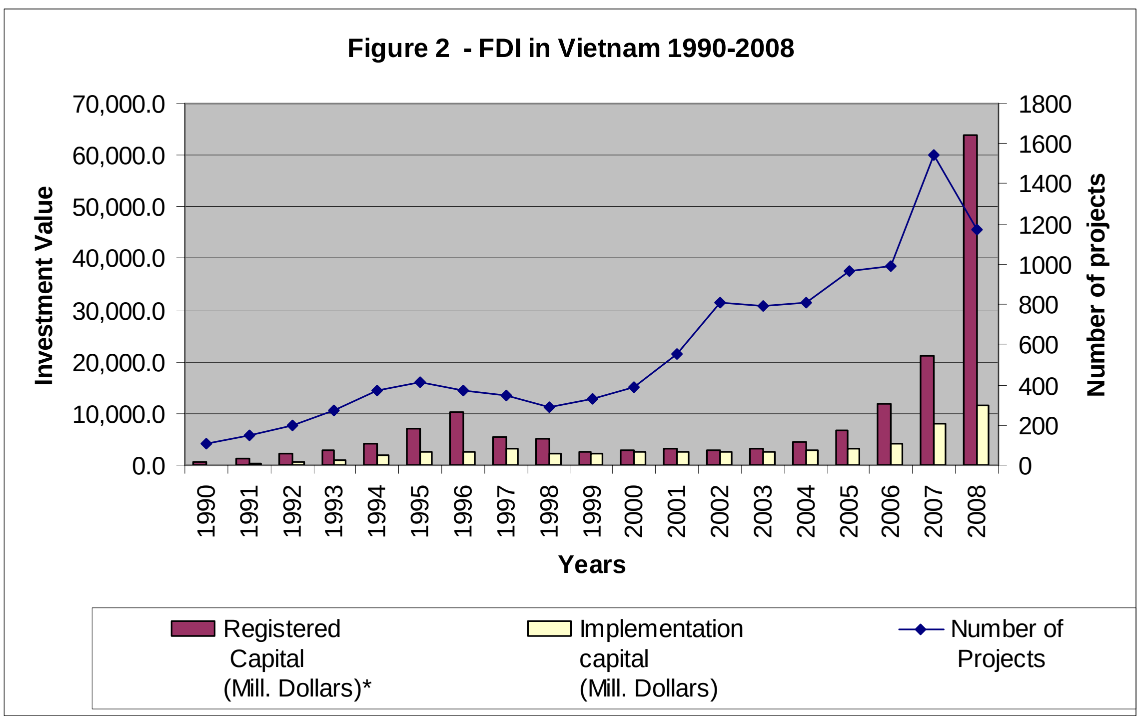
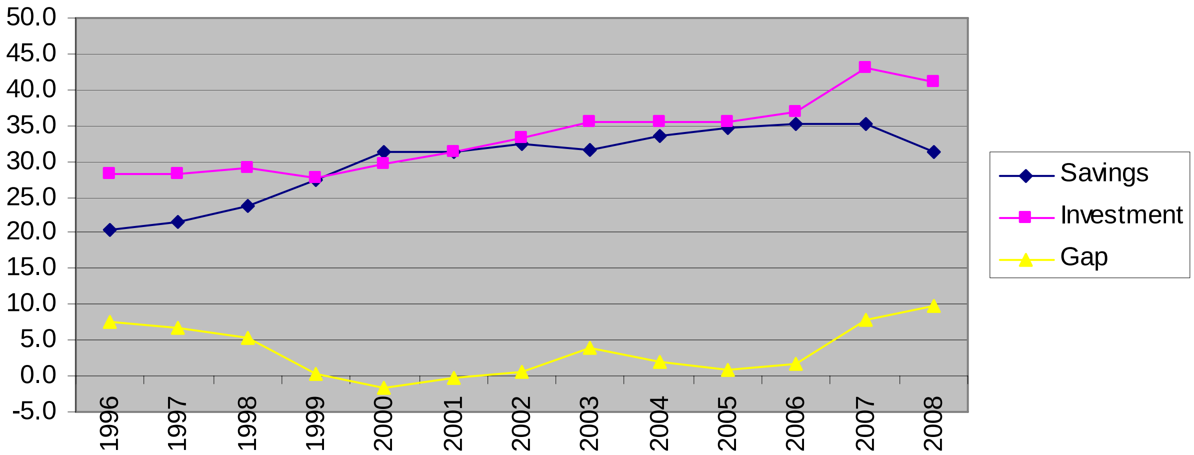


Figure 2 - FDI in Vietnam 1990-2008
Investment Value
70,000.0
60,000.0
50,000.0
40,000.0
30,000.0
20,000.0
10,000.0
0.0
Number of projects
1800
1600
1400
1200
1000
800
600
400
200
0
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
Years
Registered Capital (Mill. Dollars)*
Implementation capital (Mill. Dollars)
Number of Projects

Figure 3: Vietnam Investment - Saving gap 1996-2008



Source: ADB