CHAPTER 1. BACKGROUND

1.1. Country at a glance: basic information and national statistics

*Population*

Vietnam is a populous country with more than 80 millions inhabitants. By population Vietnam ranks the 13 in the world. The intensity is 236 persons per sq. km. The population is comparatively young: more than 60% of its population in the ages of 15-60 which contributes to the unemployment problem of the country; every year this population group is added 1 million people.

There are 54 minorities living throughout of Vietnam. Nearly each has its own language, writing and culture. The Kinh is the largest ethnic group, which account for 90% the total population. Other minorities spread out mainly in the North mountain areas and in the highland. Vietnamese of Chinese origin are a small number, but plays an important role in the economic life of the country.

The official language is Vietnamese the alphabets of which consist of Latin letters. Such writing was introduced in the 17 century.

*Geography*

The area of Vietnam is more than 330,000 square km. Vietnam has a shape of the letter S and is located in the South-East Asia, in Indo-China. It has borders with China, Cambodia and Laos in the North, in the West. The China Sea is in the South and the East borders. In addition to the territory in the mainland, Vietnam still has some islands in the sea.

Vietnam has the tropical climate. There are two large deltas in the country, the Red River one in the North which comes from South of China and Mekong one in the South which also comes from the China. There is a highland of Tay Nguyen in the Central Vietnam. High mountains are in the North and North-West.

Vietnam is rather rich by natural endowments. In the off shores it has very large reserves of oil which ranks the first exchange earnings for the country. Coal is of economically significance. In addition there are some mines of other minerals like mangan, phosphates, aluminum, bauxites, titan, copper, gold, crom, and rubin.
Administration and State

The capital is Hanoi which is in the North. Ho Chi Minh City is a largest city and economic center of the country. The country is divided into 57 provinces and 4 cities under the central authority.

The political regime is socialist republic established in 1945. There is an only one political party with ruling role. The President is a head of the State, the Prime Minister – the Government. The National Assembly elects them for 5-year term. The National Assembly is the highest legislative body with more than 400 seats. The voters choose their delegates in general election in every 5 years.

History

Vietnam experiences a long history of 4,000 years since the first kingdom Vanlang of dynasty Hung was established. In the period from 2nd century BC to the 10th century, Vietnam was occupied by the northern feudalism. The history was marked by the continuous wars against the invaders. The victory by the King Ngo Quyen ended this period and opened the new era for the country.

The country started a period of prosperous development in terms of economy and culture. But in this period it remained to face wars launched by the northern neighbor.

In the 17 - 18 centuries feudalism in Vietnam faced a crisis. Fractions of feudalism fights against each other for the power. Using the opportunities, Man dynasty from the North attempted to invade again, but they failed. The triumph victory by King Quang Trung ended as fast as ever the war and the peace came for a relatively long time.

In 18 century the French invaded Vietnam and Vietnam became its colony for about a century. The colonial regime was ended when the Second World War was over thanks to the patriotic movements of Vietminh. The first democratic republic of Vietnam was founded in 1945 and the French left the country. But they came back soon. The war lasted for 9 years. The victory at Dien Bien Phu battlefield and the Conference on Indochina in Geneva put an end to the war in 1954.

The American came to replace the French in the South, starting a more than 20 years war. The country was united in 1975, since then it has renamed as the Socialist Republic of Vietnam.

Economics

Vietnam is an agrarian country as 80% of its population is living in rural area. Agriculture accounts for 24% of GDP, manufacturing - 36% and services- 40%. In the last 2 decades the country belongs to the countries with fastest growth rates in the world. In 2002 the total GDP
is USD 30 billions, while GDP per capita is USD 400, in PPP is USD 2,000. The internal and external accounts have manageable deficits. (See more details in chapter 2)

**Social development**

In 2002 Vietnam ranks 104 over 170 countries in the world by human development index. It has high literacy rate of 94% of population thanks to the compulsory primary education throughout the country. Birth rates are controlled at about 2% while child mortality is low (0.36%).

**1.2. Literature Review**

In 1986, the Government of Vietnam launched an economic reform process called *Doi Moi* which began the transformation of a centrally planned economy to a market oriented economy (Liu, 2001). Prior to this time, the centrally planned economy followed a Soviet model where a large central bureaucracy determined the allocation of resources according to national priority with a priority to eradicate capitalistic economic forms and the creation of state-owned enterprises and collectives (Quang and Kammeier, 2002). The *Doi Moi* policy resulted in a gradual movement to integrate with the world market economies and a new form of resource allocation. State control has since been reduced considerably.

The primary objectives of the Country Assistance Strategy (CAS) for Vietnam are to restore the growth momentum and to improve the quality and sustainability of development. This CAS proposes an expanded program of IDA support for the FY99-02 period. The World Bank Group program consists of financial and advisory activities that support the government's announced seven priority areas:

1) improving economic management and competitiveness;

2) strengthening the financial system;

3) reforming state owned enterprises;

4) raising productivity through infrastructure;

5) accelerating rural development and increasing environmental protection;

6) investing in people and promoting social equity; and

7) improving public administration, transparency, and participation.

To resolve differences by the government and the World Bank about the pace of Vietnam's reform, the Bank is launching a major program of advisory and technical assistance services to deepen overall support for policy actions and social programs. The World Bank will shift its emphasis to
1) a deeper focus on poverty and social issues in its program, including mitigating the social costs of adjustment and the East Asian crisis;

2) establishing a stronger link between projects and policy dialogue;

3) seeking to build stronger partnerships and to have more decentralized implementation of projects;

4) increasing lending for rural development; and 5) improving aid coordination and moving towards program lending in certain sectors (WB, ADB and IMF, 1999).

The socio-economic development strategies and plans is now being applied to the National System of Account (MPI, 2001).

The emerging role of the Comprehensive Poverty Reduction and Growth Strategy (CPRGS) was prepared by the Government of Vietnam, and supported by Vietnam’s international partners. Building on Vietnam’s ten-year Socio Economic Development Strategy, the CPRGS puts poverty at the center of Vietnam’s development. Many donors are planning to use the CPRGS to design their assistance strategies in Vietnam (WB, 2001). Poverty Reduction Strategy Papers (PRSPs) are prepared by member countries in broad consultation with stakeholders and development partners, including the staff of the World Bank and the IMF. Updated every three years with annual progress reports, they describe the country's macroeconomic, structural, and social policies in support of growth and poverty reduction, as well as associated external financing needs and major sources of financing (IMF, 2004). Poverty reduction is considered as integrated part of the National, Sectoral and Provincial 10-Year Socio-Economic Development Strategy (2001-2010), 5-Year Socio-Economic Development Plan (2001-2005) and Annual Socio-Economic Development Plan. The Comprehensive Poverty Reduction and Growth Strategy is a document that elaborates all general objectives, institutional arrangements, policies and solutions of the 10-Year Strategy and 5-Year Plan into detailed specific action plans. Between the 1980s and 1990s, Vietnam carried out significant economic reforms, notably stabilization, the introduction of positive real interest rates, trade liberalization, and initial property rights as a reform in agriculture. Relating these changes to the empirical growth literature, the author finds that Vietnam's growth acceleration is approximately equal to earlier forecasts. Conditional convergence also suggests that the country's high growth rate will decelerate unless further reforms are taken. The author then looks at the level of institutional and policy development in Vietnam compared with other emerging market economies. While Vietnam's policies have improved, they did so starting from a very low base. So, it can be simultaneously true that Vietnam's policies have improved and yet are rather poor in comparative perspective. A comparison of governance indicators, financial sector issues, and the infrastructure of international integration reveals serious institutional weaknesses in Vietnam that need to be addressed if a high growth rate is to be sustained (WB, 2002).
World Bank (2004) research shows that over the past decade Vietnam achieved impressive results with rural poverty reduction interventions using a participatory, community-driven approach. Participatory initiatives started in the early 1990s and are adapted and scaled up through partnerships with the government, donors, and civil society. This strategy design also contributes to the eighth Millennium Development Goal, which calls for stronger international partnerships for development. Community and demand driven development projects have been supported by a national focus on poverty reduction. These projects are coupled with strong commitments to economic reforms that emphasize greater opportunity from the market through policies that strengthen individual and private property rights. In combination these activities advance ownership and asset security to promote investment and capital formation. Overall control and management is established by decentralizing decision making from central authorities to provinces, communes, villages, households, and ultimately individuals. The process will enhance transparency, governance, and social inclusion. Across Vietnam, the share of people living in poverty fell from 58 percent in 1992 to 29 percent in 2002.

The government of Vietnam's development strategy is set forth in its Comprehensive Poverty Reduction and Growth Strategy (CPRGS), which focuses on:

a) high growth through a transition to a market economy,

b) an equitable, socially inclusive, and sustainable path of growth, and

c) the adoption of a modern public administration, legal, and governance system.

Within this strategy, the International Monetary Fund (IMF) is supporting Vietnam's growth and poverty reduction efforts, in the context of a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF). Concurrently, the World Bank has taken the lead in supporting the Government's structural and institutional reforms in a number of sectors, and has backed the reform program through a series of Poverty Reduction Support Credits (PRSCs) targeting key areas for reform in the economy. Specifically reforms will need to focus on liberalizing foreign trade, restructure or divest state-owned enterprises (SOEs), strengthen the banking system, create a better climate for the development of the formal private sector, and improve the efficiency, equity, and transparency of public spending. The World Bank Group is combining its instruments of assistance to support the objectives laid out by the CPRGS, which include analytical and advisory activities, project support as a result of activities by the International Finance Corporation (IFC) support, the Mekong Project Development Facility (MPDF), and the Multilateral Investment Guarantee Agency (MIGA). A Country Assistance Strategy, presented to the Board in August 2002, sets out the planned support of the CPRGS objectives during the Bank's FY03-05. The IMF has assumed responsibility for advising on the monetary policy and has also been directly involved in financial and banking reforms. These activities will: minimize directed lending, interest rate liberalization, and the process of re-capitalization. The IMF and the World Bank are currently
collaborating to strengthen the capacity of the General Statistics Office in the area of economic statistics. The IMF is focusing on improving balance of payments, national income accounts, and price statistics, while the World Bank concentrates on data analysis and high-quality household and enterprise surveys (IMF and WB, 2003).

In the ten-year socioeconomic strategy endorsed by the Ninth Party Congress in April 2001, the authorities further articulated their development objectives in terms of economic growth and poverty reduction. To reach these objectives, the government indicated that its structural reform priorities were to change Vietnam's trade and financial policies, liberalize the climate for private investment, increase the efficiency of public enterprises, and improve governance. The author argues that the pace of implementation of trade reform—which has been impressive so far—is raising new challenges. On one side, fast liberalization of trade reform may soon conflict with the slow pace of implementation of other reforms, including restructuring of state-owned enterprises and state-owned commercial banks. On the other side, Vietnam would greatly benefit from fast implementation of trade reform and particularly fast accession to the World Trade Organization (WTO), especially after China's recent WTO accession. Auffret concludes that implementation of trade reforms will be a testing ground to reveal the extent of Vietnam's commitment to a market-oriented economy (WB, 2003).

In a World Bank report (2003), the linkage between governance/public management and poverty reduction is explored before outlining possible governance and public management indicators and the choices made by the SG. The paper next outlines baseline information on governance and public management experiences in Vietnam and refers to some of the key factors and policies to achieve goals in this field.


Since 1998, the Report on Vietnam’s Economy has been published annually by CIEM. Many macroeconomic issues, such as growth and economic structure, investment, trade, monetary and fiscal policies, employment policy, and projections for the next year are analyzed in these reports.

The market status of Vietnam’s economy, as related to the US-Vietnam catfish case is discussed in the excellent study by Adam McCarty and Carl Kalapesi (see Adam McCarty and Carl Kalapesi, 2003). Jan Kees van Donge and Le Xuan Nghia (1999) completed a further evaluation on the impact of the Swedish aid program on Vietnam economy. This paper discusses policy reform and dialogue, socio-economic development in the period of reform, the macroeconomic impact of aid inflows, the future of Vietnamese development and the case for programme aid. The issues on structural reforms are given in the World Bank report (2001).

By using econometric analysis, Rhys Jenkins (2002) analyzed the affect of trade and FDI on employment in Vietnam. CIEM-FES (2003) is a collection of reports discussing the social impacts, especially the impacts on employment, in the context of Vietnam's cession into WTO. STAR-Vietnam in cooperation with CIEM has prepared an annual economic report "An Assessment of the Economic Impact of the UN-Vietnam Bilateral Trade Agreement" (CIEM-USAID 2002).