Vietnam's Economic Growth in 2011-2017: Hot-button Issues and Suggestions

Ngo Thang Loi

Professor, National Economics University Email: loisonglong@yahoo.com Received 26 March 2018; published 5 June 2018

Abstract: Vietnam's economic achievements in 2011-2017 have created positive grounds for targeting rapid growth of the whole period 2011-2020. This paper, however, aims to provide an in-depth discussion of the hot-button issues that have dominated the country's economic growth both in terms of quantity and quality from a reverse angle of such achievements. These issues include a manufacturing-based growth model, heavy reliance on foreign direct investment, and poor growth performance. Such "dark sides" have, to a certain extent, impeded our economic growth, and it is essential that breakthroughs should be made in the coming years in order to achieve rapid, sustainable and highly efficient growth.

Keywords: Vietnam Economy, Economic Growth, Processing, Offshoring, Income

1. Hot-button issues of economic growth in 2011-2017

Vietnam's economy in 2011-2017, facilitated by domestic and international factors and particularly the government's efforts, continued its growth momentum and achieved the highest growth rate and macroeconomic stability in 2017 (World Bank, 2017). Nevertheless, beside the optimistic results, there have been also thought-provoking issues over the period that would be of this paper's focus.

Firstly, a drastic decline of the oil and gas industry.

The growth rate of the mining industry in 2011-2017 fluctuated widely, as presented in Table 1, with more drastic drops towards the last two years of the period. This shrinkage accordingly affected a number of industries in the production and consumption chains. For example, the domestic oil processing (petrochemical) industry did not increase at all while the growth rate of liquefied gas production for years was negative. Moreover, due to high domestic demand, the imports of gasoline, oil, and natural gas expanded continuously (9% in quantity and 34% in value for

gasoline and 43% for liquefied gas in 2017). The decline of the domestic petrochemical industry could be attributed to (i) an unceasing decrease of the oil price, (ii) a big drop in the crude oil production, particularly in 2017, due to the decline in natural reserves, and (iii) few exploratory activities for new mining projects (only one new mine were put into operation in 2017).

Secondly, increasing reliance of growth on manufacturing sector.

Concerning agricultural activities, 80% of the varieties for high-tech agriculture (including both cultivation and livestock) are currently imported.

computers, optical products (growing at 32.7%, or 2.25 times faster than the manufacturing sector's growth rate), and televisions (30.5% or 2.1 times of the sector's growth rate). However, other subindustries with domestic inputs, such as farm produce processing, cattle feeding production, garment and textiles, footwear products, tobaco, or food processing, only reached a growth rate of one-third of the manufacturing sector's. Thus, in this case where the offshoring activities are the key dominants of the growth, the quality of growth should be reconsidered. In a near future when the labor price increases,

Other imported inputs have been also increased rapidly, such as fertilizers (11%), pesticides machinery (34.9%),and equipment and petroleum products for agriculture (17.3%). Whereas, the domestic production of these inputs was

	2011	2012	2013	2014	2015	2016	2017
Industry growth rate	6.8	5.8	5.9	7.6	9.7	7.57	9.4
Mining industry growth rate	-0.1	5	-0.16	2.4	6.5	-4	-7.1
Therein:							
Coal	3.9	-0.9	-1.7	0	3.6	-2.9	-0.5
Oil and gas	-0.8	10.2	-0.5	2.5	8	-8	-9.3

Source: Author's calculations based on GSO data.

very low, just 3.6% for cattle feed, minus 2.6% for pesticides, and 6.7% for chemical fertilizers (calculations based on GSO's 2017 data).

Regarding industrial sector, the majority in essence remain offshoring activities. Figure 1 represents the 2017 growth rates of selected sub-industries in the manufacturing sector. The sector's high growth rate (14.5%) was mostly contributed by the rapid expansion of the assembly activities for electronic products, Vietnam likely would be no longer the destination for offshoring companies.

Thirdly, the dominant role of FDI enterprises in economic growth.

Vietnam's rapid economic growth is conceived as a fast train which tilts its balance to the FDI sector. It is because FDI enterprises contributed about twothirds to the 2011-2017 avergage growth rate of the manufacturing sector (9.6%). In the year 2017 alone, the sector's growth rate of 14.5% added 9.4 percentage points to the total industry growth, of which Samsung and Formosa contributed 4.02 percentage points (42.7%) (author's calculations based on GSO data). The As presented in Figure 2, Vietnam's high export growth rate in 2017 (21.1%) was owing to the exports from FDI sector, which accounted for 73% (26% up, excluding





Source: Author's calculations based on GSO data.

number of industrial workers as of December 1st, 2017 increased by 5.1% compared to the same period in 2016, of which the figures for the FDI and non-public sectors grew by 6.9% and 3.9% respectively while the public sector saw a decrease by 0.7%.

crude oil). Similarly, import turnover in 2017 reached US\$ 211.1 billion, or 20.8% up compared to the previous year, of which the FDI sector made up 66% by 24% more. It is largely due to some FDI products with high export turnover, such as telephones (21%), electronics and computers (15%)



Figure 2: Growth of exports in 2017 (%)

Source: Author's calculations bases on GSO data.

and 36.5%). Nevertheless, the import value of spare parts and components for these products also accounted for large shares, for example electronic and computer components (20% of export turnover and 35% of growth rate), and telephone components (with corresponding figures of 12% and 53.2%).

The FDI sector plays such a key role because domestic firms in general, and the private ones in particular, still have weak capability in production and marketing while there is still limited association and support from the FDI enterprises.

According to the GSO (2017), in 2017, 12,113 enterprises declared their dissolution and 60,553 enterprises were processing for dissolution (as approximate

of investment capital). This was high compared to other countries who used to be in the same conditions of growth and technological level as Vietnam today. For example, Japan in 1970s, or South Korea and Taiwan in 1980s, their ICORs just fell in the range of 2.5-3. There are many factors that contribute to the low return on investment, among those the most noticeable include (i) improper allocation of investment capital to serve industries or sectors of driving forces, (ii) inappropriate structure of investment capital with high proportion of public investment, (iii) inadequate management of capital investment process.

Labor productivity in 2011-2017, on average, increased to 4.7%. According to

as in 2016). Among operating enterprises, 55.2% of them admitted constant difficulties or their production unchanged, 61% having problem of competition, 32.7% with financial

 Table 2: Vietnam's ICOR and productivity growth rates in 2011-2017

	2011	2012	2013	2014	2015	2016	2017	Average 2011 - 2017
ICOR	5.34	5.92	5.63	5.18	4.88	5	4.9	5.2
Productivity growth rate (%)	3.49	3.06	3.83	4.72	6.68	4.91	6	4.7

Source: Author's calculations bases on GSO data.

constraints, and 32% unable to recruit workers. Also in 2017, out of 126,859 newly established enterprises, there were only 16,200 ones in the manufacturing sector (equivalent to 12.8%).

Fourthly, poor growth performance.

Growth performance is reflected in indicators like incremental capital-output ratio (ICOR) and labor productivity.

Table 2 shows Vietnam's average ICOR for the period 2011-2017 was 5.2 (i.e., VND 1 of value added requires 5.2 VND the GSO, however, Vietnam's avergage labor productivity in 2017 (USD 9,894) was only equivalent to 7% of Singapore's, 17.6% of Malaysia's, 36.5% of Thailand's, 42.3% of Indonesia's, 56.7% of Philippines', and 87.4% of Laos'. Ramarkably, the productivity gap between Vietnam and other countries continue to increase. For example, the gap between Vietnam and Singapore grew from USD 115,087 in 2006 to USD 131,333 in 2016, and the corresponding

figures for Laos were USD 220 and USD 1,422. Low labor productivity is explained by (i) high (tangible and disguised) unemployment rate, (ii) large proportions of low- and mediumtechnology enterprises coupled with 90% of small and medium enterprises (SMEs) facing constant difficulties, and (iii) low labor skills since employment mainly from processing industries.

2. Suggestions for 2018 and the coming years

We use trend analysis to estimate the 2018 growth rate while also taking into account changes (forecasts) of business

problems in 2017 with solutions suggested as follows:

First, removing difficulties for domestic enterprises. To do so, the solutions should aim to address the operational difficulties. - The most important thing is to accelarate the implementation of the government's Resolution 19/2016/NQ-CP dated April 28, 2016. This would help to improve the business environment, facilitate business and investment activities, and ensure the legal rights of investors. There should be absolutely not unreasonable barriers and business conditions that obstruct the operation of enterprises, as well

conditions in 2018 to provide a basis for appropriate solutions.

It is possible that Vietnam could reach a growth rate of 6.57% in 2018. The GSO's survey for the production trend in the first

Table 3: Estimates for GDP growth rate in 2018 basedon trend analysis of the growth rates in 2011-2017

	2011	2012	2013	2014	2015	2016	2017	2011- 2017
Growth rate (%)	6.24	6.25	5.42	5.98	6.68	6.21	6.81	6.25
Growth coefficient		1.01	0.87	1.11	1.12	0.93	1.1	1.05

Source: Author's calculations bases on GSO data.

quarter of 2018 revealed that 48.2% of survey enterprises experienced better production (compared to 44.5% in 2017) while 49.2% expecting larger production volume (up from 46.2% in 2017), 43.6% having higher number of contracts (up from 39.3% in 2017), and 35.8% foreseeing an increase in exports (compared to 32,3% in 2017). Thus, the economic growth in 2018 will be likely 0.3%-0.5% higher than the average rate of the period 2011-2017, which is in the range of 6.5%-6.9%.

In order to achieve the target growth rate, it is essential to address the growth

as a serious execution of the tectonic government that considers enterprises as the main driving force of the economy.

- Another way is to resolve financial difficulties for private sector and SMEs. Concerning SMEs, it is necessary to continue stronger support through credit policies to promote production and business efficiency, facilitate the operation of credit institutions, diversify lending forms, simplify loan and payment procedures, as well as ensure the credit safety and quality for the capital security of businesses.

Second, issuing policies to push the growth of the oil and coal industries.

- It is necessary to closely monitor the market changes to have policy responses and to regulate domestic production and business activities, in order to ensure the optimum efficiency and better contribution of these industries to the GDP growth;

- There should be studies and policies on taxes and fees to remove difficulties and cut costs for enterprises, develop markets, improve domestic competitiveness, and boost exports in order to increase production ouput thereby.

Third, continuing to shift from processing industries to manufacturing sectors by improving the association between domestic and FDI enterprises.

- Policies on FDI attraction should be continuously fortified. Nevertheless, the quality of FDI inflows need to be focused in order to increase their effectiveness. Particular attention should be paid to large-scale FDI projetcs and investors with original technology. Vietnam should only allow FDI inflows that come with a roadmap of technology transfer and offer cooperation with domestic firms.

- Cooperative linkages between FDI and domestic enterprises should be developed. This solution aims at linking these two types of business, enabling technology transfer, and strengthening the role of domestic firms in economic growth. Accordingly, it is necessary to develop and implement a roadmap of linking FDI and domestic enterprises based on the global value chain and with the view of boosting the development of supporting industries. Main directions for consideration could be: (i) coordinating or requesting FDI enterprises to have chain profiles and announce potential components to local firms when formulating projects for investment licences; (ii) taking initiative in cooperating with appropriate partners and accepting production components of comparative advantages and higher value added; (iii) creating favorable mechanisms for the development of supporting industries in manufacturing sector as the key to the linkage of domestic and FDI firms.

Fourth, intensifying research and development (R&D) of high technology in high-value agricutural production as well as for climate change response.

The key to this solution is to reduce the "processing" tendency in the agricultural sector. The most important concentration, from our viewpoint, is to effectively implement R&D of high technology in farming. The practical and pressing action is creation (by external transfer and domestic research) and adoption of new crop and livestock varieties (both in short and long terms) that help to bring in higher economic values and resilience against sea level rise, salinity intrusion, drought, westsouthern wind, and cold. Targeted locations should be specific to areas highly affected by climate change, such as Mekong delta, the Central and Central Highlands, and the Northern mountainous areas. New varieties in additon to meeting requirments of "climate-smart agriculture" should be of high economic value and applicable to mass production and advanced technology. Fifth, promoting R&D and strengthening start-up businesses.

- The promotion of start-ups should be implemented from a business-centric viewpoint to guide scientific and technological activities in research units, institutions, and universities. In the current context, it is necessary to form a model of competitive centers, of which the focus is to link universities, research institutions, and businesses. The Ministry of Science and Technology should play as the mediator while the Government would assist scientific and technological innovation, and enterprises provide financial support for universities and research institutions.

- Specific tasks and R&D roadmap should be set for agencies, research institutions, professional schools - particularly in technical fields. The new suggestion of this proposal is not to assign general tasks to these institutions. Rather, there should be R&D contracts tailored to new technology that is applicable for production and adaptable to local characteristics.

- R&D activities related to technology innovation should be encouraged in hi-tech parks as a special priority for investors. From our point of view, hi-tech parks are the best places for "research incubator" development and technology application. The tested technology then could be replicated in enterprises and locations of demand.

Sixth, intensifying policies that stimulate domestic investment, particularly from private sector.

Domestic demand and investment stimulation is a policy that creates the "two-in-one" effect for Vietnam to overcome its economic weaknesses. Domestic investment tends to decrease gradually over time. The investment share in the 2017 GDP was 33.3%, which should have been between 34%-35% for faster growth. There should be an increase of domestic investment from private sector to about 45%-50% while public investment should reduce to around 30%. It is necessary also to have policies that help to create an investment environment and opportunities for investors.

- Concerning investment environment, there should be more favorable credit policies for domestic firms, particularly SMEs, to boost production and business. Besides, greater priority should be given to SMEs in procedures such as business administration, land lease, enterprise establishment, etc. as well as tax policies. - On investment opportunities, various types of support are needed for enterprises, such as the provision of information (about markets, regulations, export barriers, customers and suppliers), more regular communication via business dialogues between enterprises and local authorities, prompt elimination of production and business difficulties for enterprises, and introduction and provision of specific guidance on business management, etc.

3. Conclusion

Although Vietnam's achievements in 2011-2017 are remarkable, there are still some problems of the growth patterns that long exist. They signal the unsustainability of the country's economic growth. Thus, the economic restructuring in association with the transformation of growth model has aimed to address those issues.

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