Vietnam’s economy struggles for independence

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The paper will use per capita GDP instead of GNI as the data on GDP are more readily available. This synopsis hopefully provides some answers to the struggle of Vietnam since 1975. The data on Vietnam used are from General Statistical Office of Vietnam (GSO). However, since 2010, GSO has revised GDP data from 2010 onward by 30% without touching data before that. The author assumed that the data in 1975 remained the same as before and updated the old GDP rates of growth with incremental growth factor so that new GDP of 2010 (the starting point of the new series 2010-22022) will be reached by the revised growth rates, which are higher than before. This means basically growth rates before 2010 are higher than before and compatible with the new series 2010-2022. Until the GSO revised completely the data from 1975 to 2022 by fully reexamining the basic census or reported data of the past, this is the best possible mechanical revision.

I. Basic observations on the economy of Vietnam

Here are some of the basic observations on the economy of Vietnam as compared to neighboring and other elated countries:

1. **Vietnam has made significant progress but much less than China and before that South Korea**. Vietnam was united on 30 April 1975. At that time, its per capita GDP in 1975 was merely $US 372 (calculated in 2022 $USD)[i], or 1$ a day, and less than a half of Indonesia at $US 865, but was still higher than that of China at $340 (see Table 1). The extremely low per capita of China was due to Mao’s Cultural Revolution. However, by 2022, Vietnam per capita GDP in 2022 has overpassed the Philippines, India, catching up with Indonesia, and reached $US 4,164, at the level of low middle income countries as defined by the World Bank. Per capita GDP of Vietnam has increased 11.8 times during the 1975-2022 period, though much less than 34 times achieved by China, and thus China is reaching the high middle income level and approaching high income level, around $US 14,000 (see Graph 1 and Table 1). The lesser achievement in Vietnam was due to the shorter period of high growth before deceleration as compared to South Korea and later to China. It is necessary to find out the reasons, though it may seem that greater achievement was obtained by South Korea and later by China because both countries emphasized on import and then adaptation and development of high technology together with the promotion of research at both universities and research centers, instead of encouraging foreign direct investment to utilize cheap labor as in Vietnam. China allows FDI but with a condition of transferring technology. The achievement of Vietnam’s industrialization lasted for 15 years (1990-2006) with an average annual rate of growth in GDP of 7.3% is laudable, but is comparatively short in comparison to that of South Korea for 20 years (1970-2000) at 8.1%, or China for 35 years (1978-2013) at 8.7%. Some Vietnamese analysts have written that Vietnam planned to be high-income (per capita GDP/income) of $14,000 and over by 2035.[ii] They may be

dreaming as if this target is measured in contant $USD of 2022 with zero inflation, Vietnam would have to achieve an average annual rate of growth in GDP of 10% given that the increase in population is approaching zero.

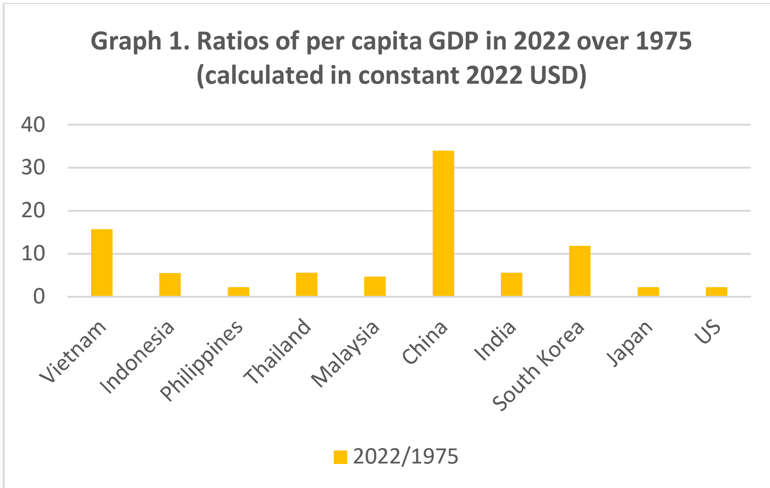


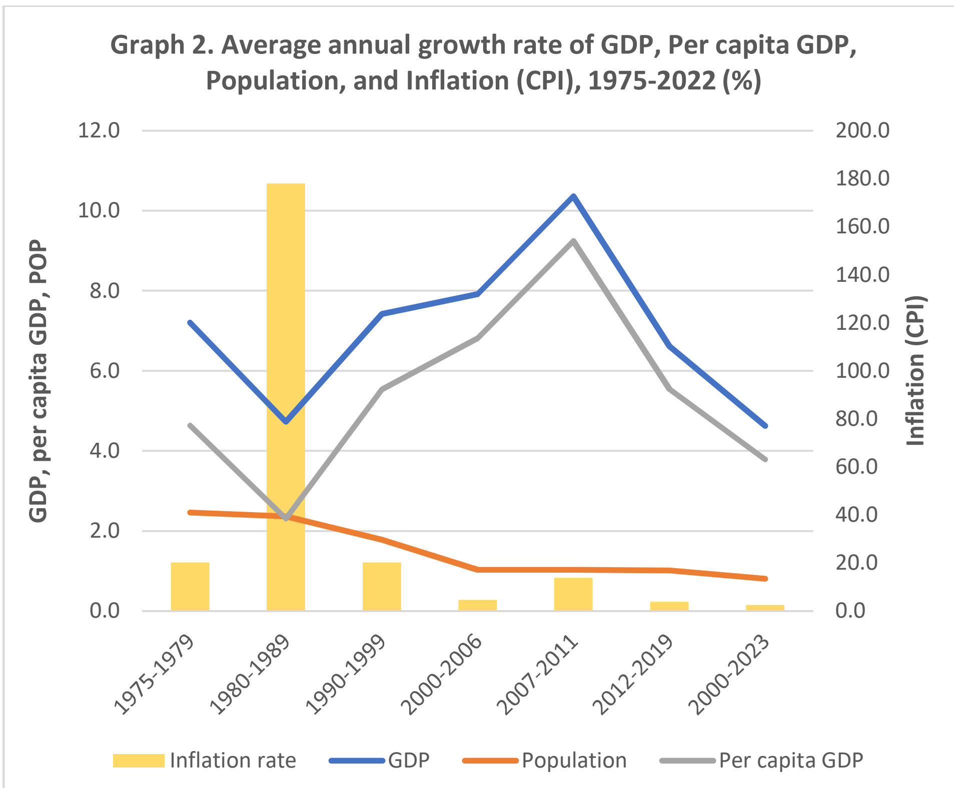
Table 1. Per capita GDP by a number of countries over time and average annual growth rates.

	Population (mil.)	Per capita GDP in 2022 USD			Ratios of per capita GDP		Average annual e growth rate in per capita GDP	
	2022	1975	2010	2022	2022/1975	2022/2010	1975-2009	2010-2022
Vietnam	98	372	2,311	4,164	11.2	1.8	7.1	6.5
Indonesia	124	865	3,166	4,784	5.5	1.5	3.8	3.5
Philippines	116	1,630	2,496	3,645	2.2	1.5	1.2	3.2
Thailand	72	1,255	5,725	7,072	5.6	1.2	4.4	1.8
Malaysia	34	2,640	8,881	12,466	4.7	1.4	3.5	2.9
China	1426	340	5,657	11,560	34.0	2.0	8.4	6.1
India	1417	422	1,402	2,366	5.6	1.7	3.5	4.5
South Korea	52	3,297	29,861	38,822	11.8	1.3	6.5	2.2
Japan	124	15,168	30,794	34,017	2.2	1.1	2.0	0.8
US	338	34,222	64,371	76,943	2.2	1.2	1.8	1.5

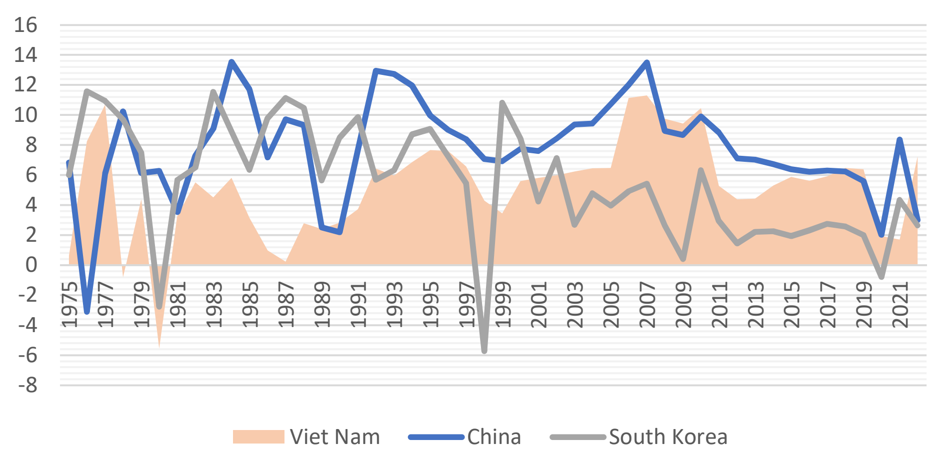
Sources: United Statistical Division for all countries except VN. Statistics after 2010 are from General Statistics Office of Vietnam and revised upward by 30%, therefore data before 2010 are obtained by applying previous rates of growth.

1. **Economic growth has been decelerating since 2011**. Deceleration of growth rates is already happening in Vietnam (see pink line, Graph 2 and Graph 3). This is normal as it happened to

Korea and Japan, including China, after full potentials of a given new economic policy (market economy in the case of China and Vietnam) or stage of technology development have been realized, unless a new stage that brings forth labor productivity appears (of course given supply of population and natural resources). However, it is unfortunate that the period of high growth (at a lower level) was much shorter in Vietnam than in South Korea, and China. This deceleration cannot be blamed on the Covid. GDP growth rate was 5% in 2023 and is expected to be 6.1% in 2024, so the per capita GDP would be roughly 4% in 2023 and 5% in 2024 given that population growth rate is declining to less than 1% (at 0.7%). The deceleration trend will not be reversed unless new economic policy encourages high-skilled domestic production instead of relying on low- skilled labor to support foreign direct investment.



Graph 3. Growth rates of per capita GDP of Vietnam, China and South Korea (%)



2. **Vietnam is a minor power in Asia**. With a population of almost 100 million, 1/3 of the US and 1/10 of India and China but in terms of GDP is very small in compared to the US, China and India. However, with 100 million people, more than Germany of 80 million and almost doubled that of France and United Kingdom, domestic demand and supply with improvement of technical skill and labor productivity should be the main focus of its economic strategy. In addition, friendly and peaceful relations with neighbors should be the main consideration. The US will remain a powerful country and a center of technology however by 2035, China's GDP, signifying economic power, will be very close to that of the USA, assuming that: a) the US will grow at the same speed, b) the average annual per capita GDP of China will grow only at 5% instead of 6.1% as in the last 10 years and at the same time its population will decline from 1.426 billion people down to 1.363 in 2035 as projected by population experts (See Graph 5 and Table 2).

Graph 4. GDP of 2022 in $US Bil

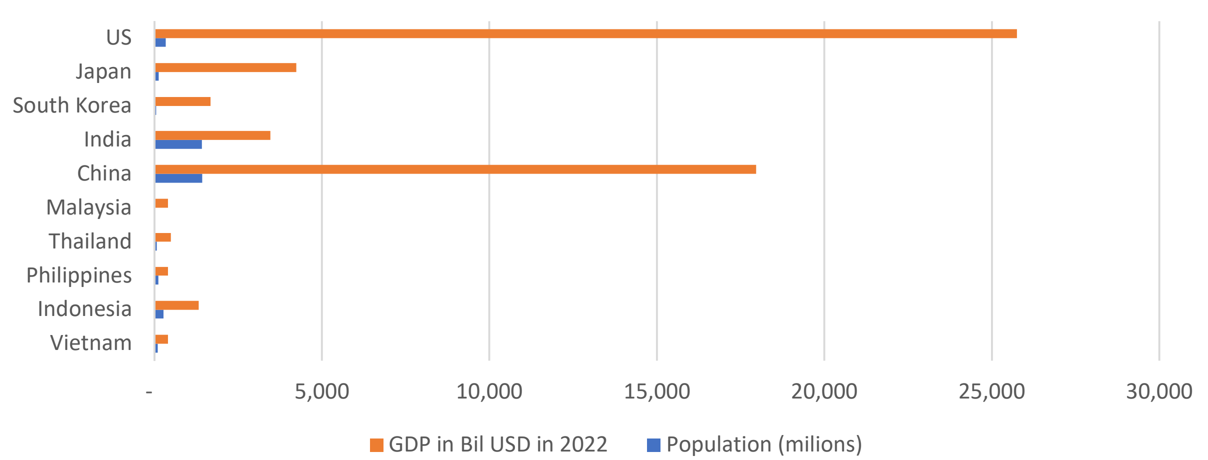


Table 2. Projection to 2035 of the economy of China vs US

	2022	2035
US		
Population (mil)	338	351
GDP per capita ($US2022)	76,943	93,375
GDP (Bil $US2022)	26,029	32,775
China		
Population (mil)	1,426	1,363
GDP per capita ($US2022)	11,560	21,798
GDP (Bil $US2022)	16,483	29,711

Notes on assumptions: a) Average annual per capita GDP of the US will be the same of 1.5% as in the 2010-2022 period. B) Average annual per capita GDP of China will be lower, at 5% instead of 6.1% as in the 2010-2022 period.

II. Stages of reforms and economic policy in Vietnam since 1975

The reform started in 1986 in Vietnam, so-called Đổi Mới (renovation) but in fact it was a restoration of a market economy, by dropping state price control, allowed private enterprises, all of which has since permitted the economy of Vietnam to function more effectively. The US dropped trade embargo against Vietnam in 1994 and allowed Vietnam to join the World Trade Organizaion in 2007 in order to enjoy equal access to other member states' markets with lower tariffs; this was 6 years after China joined it in 2001.

The role of the state has however still been important, at one period (2007-2011) the effort to build up huge state enterprises in ship manufacturing and other projects generated high inflation, corruption, bankruptcy, and thus lower economic growth. Since 2012, the economy has reverted back to its normal self: a highly bureaucratic state with low pay thus cannot function in an effective and impartially.

There were many phases of the economic reform in Vietnam:

1980-1989 period: Economic decline after the war was a result of many factors: the most important ones were the banning of private businesses including household farming, and the imposing of central planning and price control. However, due to the need to purchase grains, the government had to allow price bidding for procurement after a given supplier contract was satisfied. But that action was uncontrollable, inflation soared to an annual rate of almost 200% for many years. In 1986, with the decision to change the old money with the new fiat money with a restriction of the exchangeable amount as a form of forced saving, but the decision to print money for food procurement, without understanding that there is always a close economic relationship between prices and money supply, created inflation in 1986 to almost 800%. (see Graph 2 from the right side).

Table 3. Average annual growth rates of GDP, Population, per capita GDP, inflation in Vietnam by periods from 1975-2022 in Vietnam

	GDP	Population	Per capita GDP	Inflation rate (CPI)
1975-1979	7.2	2.5	4.6	20.2
1980-1989	4.7	2.4	2.3	177.9
1990-1999	7.4	1.8	5.5	20.2
2000-2006	7.9	1.0	6.8	4.6
2007-2011	10.4	1.0	9.2	13.8
2012-2019	6.6	1.0	5.5	3.9
2000-2023	4.6	0.8	3.8	2.5

Source: United Nations Statistics Division

1990-1999 period: The reform in 1986 started badly but allowed private enterprises and market prices set by supply and demand, which created conditions for the economy to grow. With the control of money supply established, interest rates were set higher than inflation rate, tax rates were imposed on imports and the allowance of money remittances from Vietnamese overseas, the economy was turned around: inflation was down and GDP growth rates were higher. This period 1990-1999 period achieved average annual rate of GDP growth at 7.4%, per capita growth rate at 5.5% and inflation was down to 20%. It is also remarkable that inflation went down to only 0.1% in 1999, the last year of the period.

2000-2006 period: The economy was totally stabilized with average annual GDP growth rate of 7.9% and annual inflation of 4.6%.

2007-2011 period: The government attempted to build up super large state enterprises in shipbuilding, ocean transportation and bauxite mining and aluminum production backfired with corruption, growth rate was higher but it also brought high inflation, leading to very high inflation rate (at high average annual rates of 13.8% for 5 years) but at the last year of the period, 2011, growth rate was down to 6.4% and inflation was at almost 20%, leading to lower growth in the following period.

2012-2023 period: The economy performed better with less grandiose plan of the previous period.

III. Special features of Vietnam’s recent economic reforms

It is necessary to review to actual policies carried out in Vietnam and their results in order to visualize what further actions need to be done to stimulate further growth. This part will focus on the two areas that economic statistics reveal the actual or implicit policies.

Reducing the role of the state enterprises and increasing the role of FDI enterprises

In terms of the overall economy reflected in GDP, the share of the state sector (including production of goods and services of state-owned enterprises and state administration) the share of the state sector