

Vietnam has also become a significant player in world agricultural markets, as production more than tripled between 1990 and 2013, with agro-food exports soaring, according to the OECD. Vietnam is now the world's largest exporter of cashews and black pepper, the second largest exporter of coffee and cassava, the third largest exporter of rice and fisheries, and the fifth largest exporter of rubber. Vietnam benefited greatly from the commodity price boom during the 2000s. But the subsequent sharp fall in world agricultural prices is proving challenging for Vietnam.

Over the past few decades Vietnam has emerged as an important oil and natural gas producer in Southeast Asia, according to the US Energy Information Administration. Vietnam has boosted exploration activities, allowed for greater foreign company investment and cooperation in the oil and gas sectors, and introduced market reforms to support the energy industry. These measures have helped to increase oil and gas production. Also, the country's rapid economic growth, industrialization, and export market expansion have spurred domestic energy consumption. Vietnam is a net exporter of crude oil, but is a net importer of oil products.

All these important developments have enabled Viet Nam's economy to expand impressively. The average annual GDP growth was 7.4% in the 1990s, and 6.8% in the 2000s, resulting in a tripling of GDP per capita over these two decades. Economic growth slowed to the still respectable 5.7% in 2010-14. As impressive as these high rates of growth might seem, they are also necessary to absorb the large numbers of youth entering the labor market each year.

Vietnam's economic growth has been a major success story, especially given that it was one of the poorest countries in the world during the 1980s. But economic growth is concentrated in the south of the country. And it pales compared with 10% annual average growth rate that China maintained for the three decades until its current slowdown.

Like most East Asian countries, Vietnam is benefiting from a demographic dividend, as its fertility rate declined from 3.6 births per woman in 1990 to 1.8 in 2012. Vietnam's population growth rate declined from 1.9% to 1.05% over the same period.

Urbanisation has also been an important growth driver, as the country's urban population rose from only 20% in 1990 to 32% in 2013. Migrants in urban areas work in higher value-added activities than back in rural areas. Indeed, agriculture's share in national employment fell from 70% in 1996 to 47% in 2012, paralleling significant increases for industry from 11% to 21% and for services from 21% to 31%. Urbanization is substantially a youth phenomenon. And large numbers of women migrate to cities to escape domestic violence.

### **Impressive poverty reduction**

Strong economic growth has driven large scale poverty reduction, with the share of the Vietnamese population living in poverty (based on a poverty line of \$1.25 a day) falling from nearly 60% in 1990 to less than 20% today. Vietnam's poverty reduction record was second only to that of China over this period, although large numbers still live in "near-poverty". The proportion of undernourished in the population has fell from 46% in 1990-92 to 13% in 2012-14. Nevertheless 12 million people suffered from undernourishment in 2012-14. And stunting is high for children under 5, at 23% in 2007-11.

Vietnam's poverty is now highly concentrated among ethnic minorities. Vietnam's ethnic minorities, which account for 15% of the population, account for half of the nation's poor. While their economic welfare has improved greatly, they started out much poorer than the Kinh majority population, and their gains have lagged behind the country overall. They face serious disadvantages in terms of education, employment, housing conditions, and access to improved drinking water and improved sanitation. Some 66% of Vietnam's ethnic minority population lives in poverty.

Vietnam's economic success has propelled it into "middle income" status. GDP per capita in purchasing power parity terms in 2014 was \$5629, a world away from the \$970 it registered in 1990. But it is still less than half that of China, and even further behind Thailand and Malaysia.

## **Going to the next level**

Like all middle income countries, including China, Thailand and Malaysia, Vietnam now faces the challenge of taking its economy to the next level. This will require deeper and more challenging policy reforms. Vietnam's competitiveness is still ranked below the average of the ASEAN-4 countries of Indonesia, Malaysia, the Philippines and Thailand, according to the World Economic Forum.

The slowing of growth in recent years highlights the necessity to accelerate structural reforms, and facilitate stronger development of the private sector, and more productivity-driven growth. The TPP promises to provide a new boost to the Vietnamese reform process.

But more serious efforts are required to reform the state-owned enterprise (SOE) sector. While their role has declined, they still account for one-third of GDP, half of exports, and over a quarter of domestic government revenue. And as they benefit from access to cheap capital, close connections to government regulators and policy makers, weak corporate governance, and limited competition, they are much less efficient than the private sector.

SOEs control key industries of the economy, including electricity, petroleum and gas, mining and quarrying, the water supply, and banking. Reform has become urgent because a number of SOEs are showing signs of financial distress, while state-owned banks are accumulating significant amounts of non-performing loans. But the government likes SOEs because they can implement the government's

policies. And many SOE bosses like them in light of the opportunities for corruption.

More generally, Vietnam's competitiveness is undermined by several factors. Corruption is rampant, starting at the top with the prime minister and his cronies, and is getting worse. One creative trick is buying jobs that provide opportunities for corruption. For example, a board position can reportedly be had for \$100,000; a national parks job brings in bribes when the incumbent turns a blind eye to illegal logging; and a job as a steward with Vietnam Airlines is said to cost about \$25,000, but provide excellent opportunities for smuggling, including smuggling money outside the country for the elite.

The quality of the labor force also remains a problem, especially for the IT sector, as only 18% was educated with a technical or a college degree. Great improvements are necessary to infrastructure, notably roads, ports, airports, and electricity. The state-dominated financial system is weak and poorly regulated. Vietnam's legal system remains underdeveloped and ineffective in settling disputes.

In short, Vietnam is still very much in transition from a centrally planned to a market-based economy. And a much greater sense of urgency and leadership will be necessary for Vietnam to continue its very rapid economic development.

## **Frozen political development**

Despite the country's impressive economic development, its political development is still frozen. Vietnam remains a communist dictatorship, with the Communist Party of Vietnam (CPV) ruling the country since 1975. It suppresses all forms of political dissent, using a broad array of repressive measures. The criminal justice system is controlled by the CPV. Freedom of expression, association and assembly are tightly controlled. The Christian Montagnard population, and other religious minorities, have been singled out for persecution. Corruption is the

currency that keeps the political system working through patronage networks.

Like most authoritarian regimes in Asia, the CPV faces increasing challenges to maintain its grip on power. With prosperity and education, there are growing calls for democracy and greater freedoms, and also protests against corruption, especially by the younger generation in this very young country. The Internet and various forms of social media provide an effective vehicle for expression and protest. The government's reaction is to fight back with repression, including restrictions on Internet freedom, and punishment of dissident bloggers.

The CPV's days are certainly numbered. One day it will lose its grip on power. But history shows that fragile authoritarian regimes can hang on for very long periods of time.

This political system not only has great costs in terms of political and human freedoms. Such restrictions on freedom also limit the capacity for innovation and productivity to become new drivers of economic growth, as do restrictions on academic freedom. And the country's deep corruption, and inefficient SOE sector are also significant drags on economic growth.

### **In the midst of US/China rivalry**

As the US and China are increasingly involved in a big game of political rivalry in Asia, Vietnam is aligning itself with the US and its allies like Japan and Australia. Vietnam and China have a long history of animosity, with China regarding Vietnam as a southern home province. This realignment is most evident in Vietnam's membership of the US-led TPP, which promises to open up the Vietnamese economy and provide a new boost to growth.

However, with the shadow of US/China rivalry hanging over Vietnam, the US and its allies tend to go soft on this terrible regime, thereby relieving some of the pressure on it.

The Vietnamese government faces many complexities in managing public opinion. These were highlighted when the maritime dispute with China sparked anti-China protests, including labor protests against Chinese factories. At one point, the scope of the protests then turned beyond China towards domestic discontentment, and the government resorted to clamping down.

### **The next China?**

Vietnam has certainly come a long way. But the prospect of becoming the next China is farfetched, given that its population is only 7% of that of China. Vietnam could only ever be compared with a Chinese province like Guangdong.

Vietnam does have the potential to match China's GDP per capita one day. Its people are educated, diligent and aspirational. It has large natural resources. And the TPP holds great promise.

But a new wave of high economic growth of Chinese proportions would require leadership like that of Deng Xiaoping to open up and reform the economy more seriously, and leadership like that of Xi Jinping to root out the systemic corruption that is dragging the country down. Most regrettably, such leadership is not on the horizon. The likelihood is that Vietnam will muddle along as a middle income country that does not achieve its potential.