

# Chapter 13

## Challenges, Prospects and Strategies for CLMV: The Case of Vietnam

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March 2008

**This chapter should be cited as**

Vo, T. T. (2008), 'Challenges, Prospects and Strategies for CLMV Development: The Case of Vietnam', in Sotharith, C. (ed.), *Development Strategy for CLMV in the Age of Economic Integration*, ERIA Research Project Report 2007-4, Chiba: IDE-JETRO, pp.497-515.

## Chapter 13

# CHALLENGES, PROSPECTS AND STRATEGIES FOR CLMV DEVELOPMENT: THE CASE OF VIETNAM

*Vo Tri Thanh*

### ABSTRACT

Since 1986, Vietnam has made numerous efforts to reform its economy, while proactive international economic integration is among the key complementary orientations. Vietnam has then achieved significant socioeconomic improvements since 1990, with sustained GDP and export growth, stabilized macroeconomic environment, rapid poverty reduction, and mobilization of large FDI inflows. Nevertheless, Vietnam is still facing many challenges, such as low competitiveness, limited quality of growth, low level of industrialization, and risks of macroeconomic and social instability. To realize its development objectives, Vietnam needs further reforms in some key dimensions, such as institutional reforms, improvement of macroeconomic policies, development of production factor markets, SOE reform and private sector development, adopting an appropriate integration roadmap, and confrontation of social costs.

### 1. INTRODUCTION

Despite enormous attempts for economic development throughout the South East Asian region, there remains a large gap between Cambodia, Lao PDR, Myanmar, and Vietnam (CLMV), and other ASEAN members. To realize the ambitious goal of having an ASEAN Economic Community (AEC) by 2015, it is essential to reduce this development gap, which in turn necessitates further reforms in the CLMV countries.

Vietnam has good conditions to progress in reforming itself. The process of economic reform initiated since 1986, with an important view to proactively engage in international economic integration, has brought about important socioeconomic achievements, and laid more concrete foundations for future economic development in the country. Yet, the country still faces many challenges in further reforming itself, which makes realizing its development goals a difficult task.

This paper attempts to shed light on the challenges to and prospects for development in Vietnam and aims to contribute to a broader strategy for enhancing development in the CLMV countries as a whole. To facilitate a better understanding of Vietnam's current stage of economic reform, the next section will briefly review the reform measures in the country since 1980s, with important reference to the process of international economic integration. In this light, the section following it will elaborate further by summarizing the main economic achievements, as well as remaining issues. Then, the penultimate section will discuss the major development goals and challenges for Vietnam in the coming years, particularly as the country is committed to further reforms and development. The final section will identify some key aspects for further reforms in Vietnam.

## **2. PROCESS OF REFORM AND INTERNATIONAL ECONOMIC INTEGRATION**

Since its reunification in 1975, Vietnam has adopted bold measures to enhance economic rehabilitation and development. However, prior to 1980, the country remained under the centrally planned economic regime. Besides, the economy had been relatively autarkic, with only trade with the former socialist block.

Facing sluggish growth, Vietnam moved on to undertake reforms of its economy. Some microeconomic reforms were implemented, such as the contract system in rural areas, and the “three plans” for state-owned enterprises (SOEs) in 1981. These microreforms enhanced voluntary and decentralized interactions between individual agents and created new incentives for producers in raising outputs during the period 1982-85. As a result, Vietnam enjoyed a rather high rate of economic growth in the first half of the 1980s. However, there was not any significant change in macroeconomic management. Inflation became a serious problem and the failure of the so-called “price-salary-money reform” initiated in 1985 led the economy into crisis with hyperinflation.

In the aftermath of severe crisis and weaknesses in the outdated centrally planned economic regime, Vietnam started its *Doi Moi (Renovation)* process in 1986. The process has witnessed major changes in Vietnam’s ideology of economic management and development. For the first time, developing an economy of multicomponents was recognized as a vital need. Meanwhile, SOEs were given greater autonomy in making decisions on several aspects of business and production process.

Nevertheless, market-oriented reform package was for the first time implemented in 1989. Since then, the country has also pursued proactive trade liberalization and integration with the regional and world economy. Vietnam has been a signatory in an increasing number of bilateral and regional trade agreements, such as that with the EU in 1992, with the ASEAN in 1995, and with APEC in 1998, to name a few. The sector with foreign direct investment (FDI) has step-by-step become an integral part of Vietnam’s economy. Moreover, to effectively reap the

benefits from trade liberalization and integration, Vietnam had to accelerate its domestic reforms, including structural and legal reforms.

In the years 1996-99, however, the process of economic reforms in Vietnam slowed down. This period also witnessed the economic crisis in a number of Asian countries, most of which are important partners of Vietnam. As a result, Vietnam focused more on demand-stimulus policy, and opted to delay its economic reforms until a better outlook was justified.

The period 2000-07 marked significant efforts of Vietnam to reform and to accelerate international economic integration. Specifically, the country has made further commitments to reforms, both explicitly under international agreements and/or arrangements, and implicitly as a complementarity to fulfill other obligations. Those commitments have been, nonetheless, implemented unevenly. For instance, the SOE reform in Vietnam progressed rapidly in the cases of small and medium enterprises (SMEs), yet was rather impeded when the country moved on to renovate large corporations. International economic integration also saw a major change, as the country more actively participated in bilateral and multilateral negotiation of economic agreements. The Vietnam-US bilateral trade agreement (VN-US BTA), signed in 2000 and in effect since late 2001, was the most comprehensive trade agreement ever to which Vietnam has been a signatory. The country undertook deeper commitments within the ASEAN Free Trade Area (AFTA) framework, and started to adopt full AFTA commitments in 2006. Vietnam became an official member of the World Trade Organization (WTO) in late 2006, with commitments to be implemented beginning January 2007. Vietnam also participated in other multilateral agreement such as the ASEAN-China Free Trade Area (ACFTA),

ASEAN-Korea Free Trade Area (AKFTA), and others. Finally, it should be mentioned that the Party Congress X in 2006 and the new Government in 2007 have pledged commitments to further reform the national economy, with bold measures to curb corruption and accelerate administrative and SOE reforms, among others. The new Government is then expected to bring about a new wave of reforms, with more fruitful achievements, given higher public confidence.

### **3. ACHIEVEMENTS AND ISSUES**

The reforms that Vietnam had been undertaking, particularly since the start of *Doi Moi* in 1986, has laid important and concrete foundations for economic growth and development in Vietnam. This can be reflected by the impressive performance that Vietnam has achieved in almost all aspects, from growth to structural changes and poverty reduction. The achievements have been more evident since 1990.

*First*, Vietnam in general has successfully retained stability of the overall macroeconomic environment. Inflation has generally been under control since 1990, except for some years when it was under high pressure. Meanwhile, fiscal deficit and external debt have also been under control.

*Second*, the economic growth has accelerated, from 7.2 percent per annum on average in the 1990s to about 7.5 percent per annum on average in 2001-05, with the peak of 8.4 percent in 2005. Growth then slowed down a bit, to just over 8.2 percent in 2006, before rising up high to an estimated level of 8.5 percent in 2007.

*Third*, economic growth in Vietnam has been accompanied by positive structural changes toward industrial production and services. As can be seen in Table

1, the share of agricultural production in GDP has been on the decline, from over 40 percent in 1991 to just under 25 percent in 2000, and slightly under one-fifth in 2007. This has largely been induced by the rise in relative importance of industrial production, including manufacturing. In fact, industrial sector went up as percentages of GDP from 23.8 percent in 1991 to 36.8 percent in 2000 and just over 42 percent in 2007. The shift toward service provision has been less apparent, as the share of this sector only went up modestly, from under 36 percent in 1991 to 38.7 percent in 2000, before decreasing slightly to just over 38 percent in 2007. The shifts in labor force were more evident. Agriculture still accounts for the highest share of labor, albeit declining from 73.3 percent in 1991 to under 55 percent in 2007. Services continued to attract more labor than the industrial sector, yet both of them accounted for larger shares of labor, of 25.7 percent and 19.6 percent, respectively, in 2007, compared with their respective shares of 14.3 percent and 12.4 percent in 1991.

**Table 1: Contribution to GDP and mobilization of labor by economic sector.**

	Agriculture	Industry ( <i>manuf.</i> )	Services
<b>% GDP</b>			
1991	40.5	23.8 (13.1)	35.7
2000	24.5	36.8 (19.6)	38.7
2007	19.8	42.1 (21.6)	38.1
<b>% Labor Force</b>			
1991	73.3	12.4	14.3
2000	65.1	13.1	21.8
2007	54.7	19.6	25.7

*Source:* General Statistics Office (GSO) (Figures for 2007 are estimated).

*Fourth*, impressive economic growth has been significantly attributed to improvement in Vietnam's export performance. In the period 1990-2000, export growth of the country was dramatic, attaining 24 percent per annum on average. Increase in export somewhat decelerated in 2001, reaching only 3.8 percent. Since 2002, growth started to recover, rising continuously from 11.2 percent in 2002 to 19.1 percent in 2003 and 33.2 percent in 2004. After that, export grew at a slower pace, at 21.6 percent and 22.1 percent in 2005 and 2006, respectively, though the pace has itself been impressive in absolute terms. In the first year after its WTO accession, Vietnam successfully maintained high export growth, at an estimated level of 20.5 percent, and export value surged dramatically to USD 48 billion in 2007.

*Fifth*, together with Vietnam's view to develop the private sector and enhance its contribution to the national economy, FDI has been playing an integral role in Vietnam's socioeconomic development. The foreign-invested sector is contributing more and more to the national economy, as reflected by its share of 17.1 percent in GDP and of 57.7 percent in export (or approximately 36 percent if excluding oil) in 2006. Also, FDI presents another source of funds, together with hypothetical positive spillover effects, to support economic growth and poverty reduction in Vietnam. In 2006, FDI made up a share of 16.4 percent of total investment (Table 2).

*Finally*, the role of the domestic private sector has been continually enhanced and consolidated. The sector makes a sharply declining contribution to agricultural sector in terms of GDP, yet is accounting for an increasing export. Besides, the sector also contributed up to 33 percent of total manufacturing output. In another aspect, the private sector also became a major source of employment, absorbing as much as about 90 percent of about 1.3 million new labor market entrants each year.



**Table 2: FIEs' contribution to VN economy.**

	1992	1996	2000	2004	2005	2006
FIEs contribution to GDP (%)	2.0	7.4	13.2	15.1	16.0	17.1
Share of FDI in total investment (%)	22.0	26.0	18.0	15.5	15.7	16.4
Export by FIEs, excl oil export (USD mil.)	112	920	3320	8601	11,144	14,620
- Share of FIEs' exports (%)	5.3	23.4	22.2	33.1	34.4	36.9
No of employees in FIEs (1,000 persons)	n.a.	220	379	739	935	1,129

*Source:* Ministry of Planning and Investment (MPI).

The abovementioned economic achievements have enabled Vietnam to improve the social aspects of life for its people. Poverty incidence has been dramatically reduced, from 70 percent in the 1980s to 58 percent in 1993, 37 percent in 1998, 29 percent in 2002, and 14.7 percent in 2007. It should be mentioned that Vietnam has adopted a new (higher) poverty line since 2005, which further makes the progress in poverty reduction impressive. Human development, aggregating from improvements in life expectancy, education, and GDP per capita, also progressed, at least in absolute terms, though the improvements have been less impressive relative to other neighboring countries. In this sense, Vietnam has to a certain extent improved the set of choices available to its people, though further improvements are still required, particularly in their capability to exploit the benefits from those choices as well as newer ones.

Vietnam's socioeconomic achievements since 1990 can be attributed to four key factors. *First*, Vietnam officially acknowledges private ownership and rights of doing business for the private sector, including individuals, which induces profit-oriented economic activities on a market basis. *Second*, the country has pledged, and effectively implemented its commitments to market-oriented reforms, including

liberalization of price regime, and structural reforms. *Third*, Vietnam has been proactively undertaking the “open-door” policy and international economic integration, via trade, investment, and other economic arrangements. These have brought about significant resources to supplement growth in Vietnam as well as exerted pressures for the country to carry out reforms. *Fourth*, the country has been successful in ensuring a stable macroeconomic and social environment, together with its growth process, which facilitates effectively economic activities and improvement of social life of the people.

It should be stated, however, that Vietnam’s achievements are not outstanding, however impressive they may seem. Many weaknesses are still reflected, even in Vietnam’s aspects of strong performance. Despite rapid growth in exports, the country lacks competitiveness. In terms of growth competitiveness index (GCI), the country was ranked very low by the World Economic Forum, at only 53/59 in 2000, 60/75 in 2001, 65/80 in 2002, 60/102 in 2003, 77/104 in 2004, 81/117 in 2005, and 86/125 in 2006.

Besides, the quality of growth has been under constant review these days, due to fears that the (inefficient) public investment is playing a too important role in driving growth than it should be. Foreign investments have been increasing, particularly in recent years, but the benefits from them, including the positive spillover effects via technology transfer, competition pressures, and linkages that they may bring, were not fully reaped. This is perhaps attributed to the lack of medium-sized enterprises. In fact, most private firms in Vietnam are small in size, and this has seriously hindered positive spillover effects of FDI. To add to the problem, disbursement of FDI has been rather slow, and actual contribution of the source to capital stock in

Vietnam is much less convincing than what appear from figures on committed FDI.

Moreover, the regional income disparity seems to be increasing. Despite nationwide reduction, poverty incidence persists at high level in the isolated and ethnic regions. Another phenomenon is the “new poor” referring to migrants and farmers who lost land in the process of industrialization and urbanization. Job training and retraining in these cases turned out to be insufficiently effective, and thus, new directions should be identified and pursued to deal with this group of poor people. In addition, income gap—both between rural and urban areas and within provinces—appears to have widened.

In another aspect, Vietnam is still at a low level of industrialization. Its manufacturing sector (as percentage of GDP in 2006) is relatively smaller than other East Asian countries in the 1980s and 1997/1998, while remaining comparable to those of other developing countries in the 1980s and 1997/1998 (Table 3). This observation is also reflected in the pattern of manufacturing industry by technological level. Even in 2006, Vietnam has a very high share of low-tech products in manufacturing output, roughly 73 percent, while high technology ones only account for a modest proportion of about 7.3 percent, i.e., far smaller than those of East Asian countries in 1980 and in 1997/98. The shares of manufacturing and hi-tech exports of the country in 2006, while being higher than those of other developing countries 10 years ago, remained significantly smaller than those of East Asian countries in 1997/98 (Table 3).

More generally, Vietnam has followed similar pattern of the regional linkages as other EA economies but only at the initial stage. As a result, firms in Vietnam are still at very weak positions, with low value-added content, in the global/regional

**Table 3: Level of industrialization of Vietnam (preliminary assessment).**

	East Asia		Developing Cs		VN
	1980	97/98	1980	97/98	2006
1. Manufacturing (% GDP)	31	31	20	20	21.3
2. % of manufacturing industry by tech. level	58	51	78	76	73.1
+ Low technology	(73)	(69)	16	19	19.6
+ Medium technology	26	29	6	5	7.3
+ High technology	(20)	(21)			
	16	20			
	(7)	(10)			
3. Man. exports (% of total)	45	82	23	39	39
+ hi-tech (% of total)	-	34	11	29	4.5

*Notes:* The data for East Asian countries are based on those of newly industrialized economies and ASEAN-4 (excluding Singapore; in brackets).

*Source:* Cited from CIEM (2007).

value chains, regardless of whether the chains are producer-driven or buyer-driven.

Together with greater involvement in international arrangements, Vietnam is facing greater macroeconomic and financial risks. After a long period of high growth, inflationary pressures have seemed to pile up, and the country has recently experienced rapid changes in consumer price index, by 9.5 percent in 2004, 8.4 percent in 2005, 6.7 percent in 2006, and 12.6 percent in 2007.

Meanwhile, what can be observed over the last two years is an expansion of the banking system and a “boom” of stock market coupled with rather massive capital inflows (Table 4 and Table 5). This appears to reflect some overexpectation of people about how the economy and firms are performing. In addition, there has been

**Table 4: Some key indicators of Vietnam's stock market.**

	2001	2004	2005	2006	2007
Market capitalization (%GDP)	0.3	0.5	1.1	22.8	43.0
VN-index	235 (peak=571)	241	307	752	927 (peak=1170 in March)
HASTC-Index	..	..	91.3	243	324 (peak=460 in March)
Number of listed firms	10	26	41	193	253
- HOSTC/HOSE	10	26	32	106	138
- HASTC		...	9	87	115
Investment funds	0	1	1	3	4
Securities companies	8	13	14	55	78
Investment management funds	..	?	6	18	25
No of investors' accounts	8,774	21,616	29,026	≈ 130,000	≈ 300,000
- Institutional	71	193	257	<500	>500
- Foreign	0	207	427	1700	>8000

Source: State Securities Commission (SSC) and other sources (end of the year).

**Table 5: Vietnam's Balance of Payments.**

(% GDP; unless otherwise indicated)

	1995	1996	...	2005	2006	2007
<b>CA balance</b>	<b>-12.6</b>	<b>-9.7</b>	...	<b>-0.9</b>	<b>-0.3</b>	<b>-3.1</b>
- Trade balance	-15.0	-12.6	...	-4.6	-4.6	-7.1
- Transfers (net)	3.0	4.8	...	6.4	6.6	7.4
<b>K-A balance</b>	<b>11.1</b>	<b>11.6</b>	...	<b>5.0</b>	<b>7.4</b>	<b>15.0</b>
- FDI	10.8	7.3	...	2.7	2.9	2.9
-L&M loan (net)	-1.2	0.4	...	2.6	1.9	2.1
- ST capital (net)	1.5	0.9	....	-1.9	0.5	2.2
Portfolio Inv			...	1.6	2.2	7.9
Off. reserves (US\$ mill)	1,376	1,797	...	8,557	11,483	19,931
External debt (% GDP)	122.63	106.48	...	32.2	30.2	30.8
Debt services(%exports)			....	5.6	5.3	5.5

Source: Estimates based on data from IMF (various issues) (Figures for 2007 are projected)

a tendency for banks to be “universal”. The large corporations, mostly the SOEs, also attempt to expand their investment to a wide range of activities. While economies of scope remain to be seen, this raises a risk of further capital inefficiency, and if one fails, the effect to the financial system and/or the overall economy may turn out to be devastating.

Finally, there recently emerged signs of asset price “bubble” in Vietnam. The surge of capital flows, in the form of indirect investment, has increased the demand for the stock market, while there is a limitation on the proportion of shares held by foreigners and equitization of SOEs has been slow. Besides, a large amount of people’s money is now diverted to the real estate market, which has to date pushed the price far beyond the intrinsic value. Together with a rather weak capacity to undertake financial supervision, these problems have given rise to some fear of asset price “bubbling”.

In all, Vietnam can take pride in what it has achieved so far. Given its low starting point, with enormous difficulties resulting from the wars, the country has strived to start and accelerate socioeconomic development. Notwithstanding occasional failures, Vietnam has generally been on a right track of development. Weaknesses still remain, however, in a number of aspects, and are becoming clearer as the market economy in Vietnam is better shaped. Such weaknesses prevent any assessment of socioeconomic achievements in the country from being too outstanding, and necessitate further efforts to ensure its end.

#### **4. DEVELOPMENT GOALS & MAJOR CHALLENGES**

Given the quick pace that the world economy is changing, Vietnam has set some basic development objectives for the years to come. These objectives are ambitious, yet are by no means impossible for the country. Specifically, these objectives are to:

1. to sustain high economic growth;
2. to escape the status of a poor country by 2010 (there is a high possibility that the objective will be realized in 2008);
3. to accelerate industrialization and modernization process so that by 2020, the country has basically achieved the status of “a modern-oriented industrialized country”; and
4. to materialize the slogan “Prosperous people, a forceful country, and an equitable, democratic and civilized society”.

The objectives have reflected Vietnam’s strong determination in developing itself, with significant attention to both economic and social aspects of people’s lives.

There exist, however, enormous challenges to Vietnam in achieving these development goals. To begin with, the country is still in transition, with low income, and needs to strive for industrialization. Besides, weaknesses and even vulnerabilities persist in some critical areas, such as the SOEs, the financial system and efficiency of public investment, and others. As discussed above, firms and enterprises in Vietnam still lack competitiveness, and are mostly small or medium in size. More and more private firms are established, yet very few of them can become focal or leading ones in the field. Furthermore, the infrastructure is still underdeveloped. Infrastructure services and utilities like transportation and electricity remain too

expensive and/or inefficient, resulting in high costs of doing business in Vietnam. Growth performance in the past year has been impressive, but to go further, Vietnam also needs better human and institutional capacity. Yet, it seems that the capacity is inadequate, which is highly attributed to the problems of public governance, and the quality of the education and training system. Finally, macroeconomic and social instability are still a threat, and have become more evident as a likelihood together with the country's deeper involvement in the regional and the world economy. Managing capital flows, avoiding wider poverty and income inequality, and reducing social risks and adjustment costs of trade liberalization and international integration are all but challenges that Vietnam needs to resolve on its way to sounder and more sustainable development.

## **5. KEY DIMENSIONS FOR FURTHER REFORM**

With its limited resources, Vietnam is unable to deal with all issues, challenges, and weaknesses at the same time. It is advisable, thus, that the country identifies key dimensions to undertake further reforms. Many of them can easily be put in place, and have already been well-documented, yet only some are broad and urgent<sup>1</sup>.

*First*, Vietnam needs decisive institutional reform to change the (still) state-led economic institutions into efficiency-enhancing institutions, with wider participation of its people. The legal framework should be improved to be better consistent with market-based economy and the country's commitments in international arrangements.

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<sup>1</sup> Some major parts in this section are taken from Bui and Vo (2007), Vo (2005), Vo and Nguyen (2006), and Vo et al. (2007).



Meanwhile, establishing an efficient and effective administrative and enforcement system should be given no less importance.

*Second*, Vietnam still needs enormous works to improve its macroeconomic policies, both in terms of formulation and enforcement. Regarding monetary policy, the State Bank of Vietnam should be *renovated*, to be a more modern and relatively independent central bank, while the money market should be developed with more monetary instruments available to both the central bank and market participants. Changes to fiscal policy are also necessary, on both revenue (income, asset taxes) and expenditure (public salary system, public bond-based investment) sides of the State Budget. More importantly, the need for an effective coordination between monetary and fiscal policy should be carefully addressed, to better facilitate growth and ensure macroeconomic stability.

*Third*, Vietnam should continue to develop markets for production factors, particularly in terms of institutions. In the land market, better clarifications and simplification of procedures are required with respect to ownership, registration, land clearance, asset/wealth tax, and others. Meanwhile, the supervision system needs improvement to better contribute to overall financial security, while development of institutional investors and bond market, especially one for corporate bond, should be given high priority as complementary measures to support capital market development. In the labor market, improvements are necessary for improving employer-employee relations, and for enhancing the role of labor unions, while the regulations on minimum wage and social safety net should be undertaken in a more systematic manner, with predictability.

*Fourth*, Vietnam should accelerate its SOE reform, development of private

sector (especially SMEs), and attraction of efficient FDI with high technology and transfer of skills and knowledge. To begin with, the country should further reduce any antiexport bias that the incentive structure has created. Besides, work remains to be done to improve the overall business environment and to create a “level playing field”, while reducing transaction costs for businesses. Instead of direct intervention into the economy in an administrative manner, the Government should be redirected to areas with high positive externalities to the rest of the economy, such as infrastructure, information, education, and training. To arrive at higher efficiency of the infrastructure projects, the participation of foreign and private firms in transparent public- private partnership schemes should be induced. The establishment of industrial zones with good master planning and appropriate support by local authorities (e.g., in land-site clearance) is also essential for business development.

*Fifth*, given its limited resource, Vietnam needs to identify and adopt an appropriate integration roadmap, rather than merely follow the current proliferation of free trade agreements. Having joined the WTO and other agreements, the country should first implement its commitments effectively. In addition, as a member of the ASEAN, Vietnam should continue to support and promote the ASEAN integration, especially the materialization of the AEC, as well as the East Asian integration in which the ASEAN plays a vital role. Vietnam can benefit substantially from participation in the East Asian network in manufacturing and tourism. In another direction, the country should work for appropriate cooperation with advanced economic partners, i.e., those with strengths in investment, technology transfer, and human resource development, among others. In this line, the forms of bilateral

cooperation can go beyond the economic and trade arrangements.

*Sixth*, Vietnam needs to find itself appropriately positioned in the game to reap the benefits from a fast-growing China, as well as in the regional production network in order to avoid the so-called “low-cost labor trap”. There have been a number of opportunities for Vietnam to enter a “win-win” game with China. For instance, China has a huge market, with fast growth in economic size and consumption. Comprehensive cooperation commitments have also been enacted between Vietnam and China, both directly under the cooperation between the two countries, and indirectly under the framework of the ASEAN-China cooperation (including the Early Harvest Program between China and ASEAN) or the Greater Mekong Subregion (GMS) cooperation (“Two corridors and 1 belt”, “One axis, two wings”). Foreign investors also have high expectation of Vietnam’s growth prospects and many like to invest relying on the “China + 1” strategy.

Despite these, some concerns should be raised, particularly with the widening trade deficits of Vietnam against China (of over USD 2.8 billion and nearly USD 4.4 billion in 2005 and 2006, respectively) and with the pattern of “North-South trade” where Vietnam exports primary commodities to, and import manufacturing products and consumer goods from China. Unless some improvement is made, Vietnam may risk engaging in a low value-added part in the value chain, and accordingly enjoying rather low benefits from the regional production network.

*Seventh*, Vietnam should confront social costs in a determined manner and build up a social consensus. Encouragement of private sector development, particularly those of SMEs, is apparently a need, and can be undertaken via a range of measures, including facilitation of their access to formal finance. Besides, the country should

establish its own social safety nets, with views to ensure the (minimum) living standard for the people and to ensure equity as it endeavors to get income tax from its people. Also, effective utilization of family and kinship supports may prove to be a good direction for Vietnam to pursue.

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