



Sustaining Viet Nam's Economic Miracle: the Role of Productivity Growth

Terms of Reference

Background and Objectives

For twenty-five years, Viet Nam's economy has expanded at an average rate exceeding those of Southeast Asia's 'miracle' economies in the 1960s-90s. Viet Nam's growth of real per capita GDP, at 5.4% per year since 1996, is among the fastest globally. This growth has been fueled mainly by accumulation of labour (through the demographic dividend) and capital (much of it through FDI). However, other macroeconomic forces have clearly contributed to growth through improvements in allocative efficiency. First, the reform of domestic economic policies, especially in the early years of *doi moi*, saw market forces replace command-economy mechanisms in the allocation of productive resources. Second, Viet Nam's dramatic opening to international trade has induced rapid structural change in the pursuit of comparative advantage.

Opportunities for major gains from further reform or trade opening are now limited. Therefore, whether Viet Nam can sustain rapid growth over the longer term will depend greatly on its capacity for productivity increase. In spite of sweeping changes, however, total factor productivity growth has been modest at just 0.4% per year since 1996. Labour's productivity growth rate has been robustly higher, averaging over 5% per year since 2007 when the country joined the WTO, while that of capital has been much lower. These contrasting rates convey the strong suggestion that productivity growth is due mainly to structural change at the sectoral level rather than to within-firm or within-industry sources. One-time changes, notably from command to market economy and from closed to open in international trade have induced massive resource reallocation from agriculture and low-productivity services to industry and higher-productivity services. Today, however, the share of agriculture in total employment is declining fast, and the pool of workers available to be reallocated from low to high productivity sectors and activities is also shrinking (the drastic slowdown in population growth rate will exacerbate this supply constraint). Growth over the long run will have to be sustained not by one-time policy reforms and structural changes, but by intrinsic sources of productivity growth—that is, the acquisition and application of new technologies, growth of human capital, and such gains as can be won at firm and industry level through learning by doing and learning by exporting.

The goal of ERIA's project *Sustaining Viet Nam's Economic Miracle: the Role of Productivity Growth* is to better understand the sources of Viet Nam's labour productivity growth in recent years and its prospects for the future, and to highlight any concerns regarding sustainability that need policymaker's attention. It will shed light on the following broad issue areas:



- Decompose Viet Nam's labour productivity growth into components induced by structural change (reallocation across sectors), and by fundamental determinants (within sector) and explore the drivers of each.
- Challenges to within-sector productivity growth, touching upon the supply and demand-side factors that determine labour productivity growth. The supply side consists of investment in human capital and upgrading the skills of the workforce, while the demand side includes investment by firms in new and improved technologies, and in demand for more highly skilled workers.
- Barriers to structural change in the labour market – in particular, movement of workers from low productivity sectors or regions to high productivity sectors or regions.
- Impacts of labour market changes on poverty and inequality.
- The effect of COVID-19 pandemic as it operates through changes in trade and FDI flows, which leads to changes in the labour market.
- Impact of the 4th industrial revolution (AI, automation etc.) on the manufacturing sector and labour market in Viet Nam.

Other topics proposed by research team members may also be covered.

Output

The final output of the project will be several publication-quality original research papers that will be published as ERIA Discussion Papers. The researchers are expected to submit the following intermediate deliverables:

- Detailed research outline (5,000 words): key research questions and hypothesis, brief literature survey, descriptive statistics, and analytical approach
- First draft of the paper (6,000-8,000 words): Extension of the Detailed Research Outline along with preliminary results.
- Second draft of the paper (maximum 10,000 words): Complete draft of research paper

Selected papers may be published as chapters in an edited academic book, or a special issue of a suitable international journal.

The project also envisions several general interest outputs (policy briefs, public seminars, etc) aimed at providing policy recommendations to policymakers in Viet Nam.

Project Team

This project is jointly led by Ian Coxhead (University of Wisconsin-Madison), Diep Phan (Beloit College) and Rashesh Shrestha (ERIA).

The project team will consist of experienced scholars with relevant expertise.



Timeline (subject to change)

<u>Deadline</u>	<u>Activity</u>
16 Jun 2021	Deadline for research proposals
30 Jul 2021	Formation of the research team
30 Aug 2021	Detailed research outline
15 Sep 2021	Preliminary research team meeting (virtual)
15 Dec 2021	First draft of paper due
15 Jan 2022	1st workshop (in Jakarta, if possible; virtual otherwise)
30 Mar 2022	Second draft of paper due
15 May 2022	2nd workshop (in Hanoi if possible; virtual otherwise)
30 June 2022	Final submission for ERIA discussion papers
