

15TH SUSTAINABLE SHARED GROWTH SEMINAR
“MANUFACTURING AS IF PEOPLE AND MOTHER NATURE MATTERED”
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How to Break Through the Middle-Income Trap in the Growing Vietnamese Economy:

On the Basis of the Vietnamese Firm Survey

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Contents

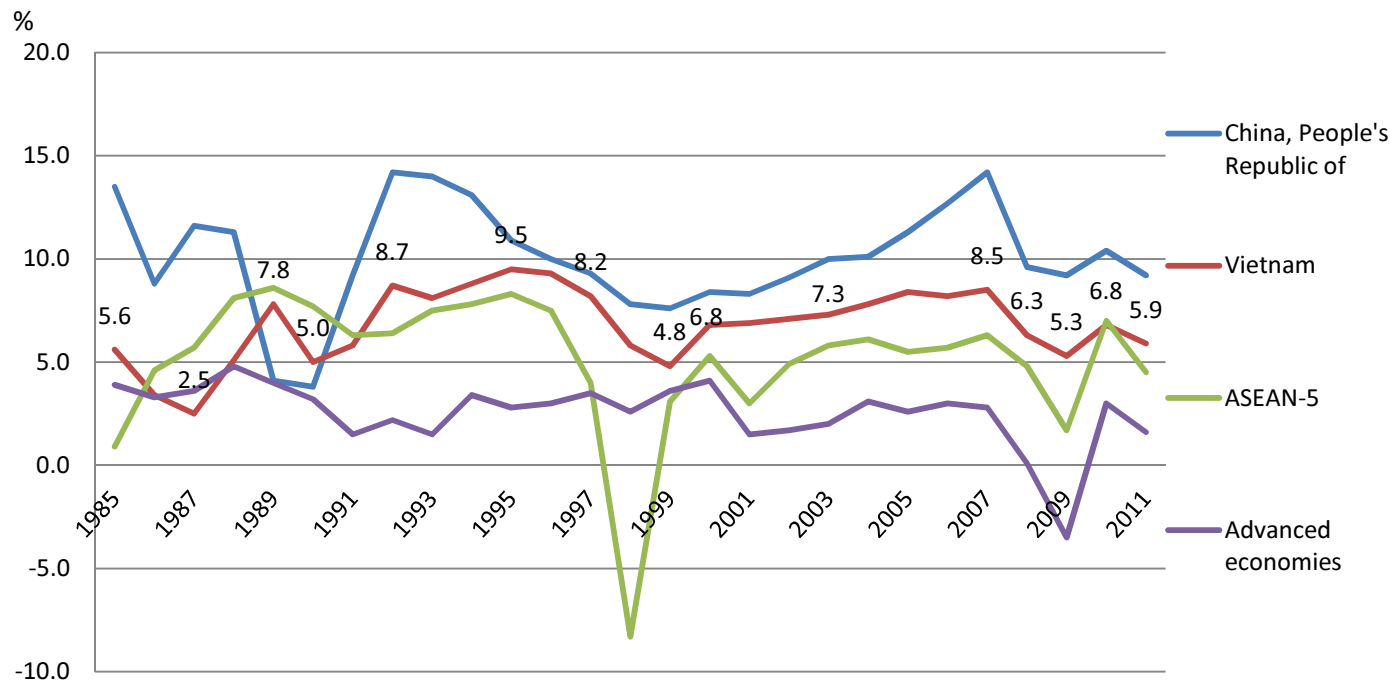
- Introduction
- I. Vietnam's Economic Growth
- II. Vietnam and The Middle-Income Trap
- III. Vietnam's Potential and Issues according to the Vietnamese Firm Survey
 - 1. Summary of Survey
 - 2. Vietnamese Firms according to the Findings
- Conclusion

Introduction: Focus

- Vietnamese Economy have been developing at high growth rate after Doi Moi.
- Japanese firms have taken notice of Vietnamese economy for investment since late 90's. Rising labor cost has been reported now.
- On the other hand, The debate of Middle Income Trap is hot among WB, ADB and East Asian Countries including China and Vietnam.
- How to break through or avoid the trap? We consider the condition with our survey results.

I. Vietnam's Economic Growth

(1) High Growth Rate next to China



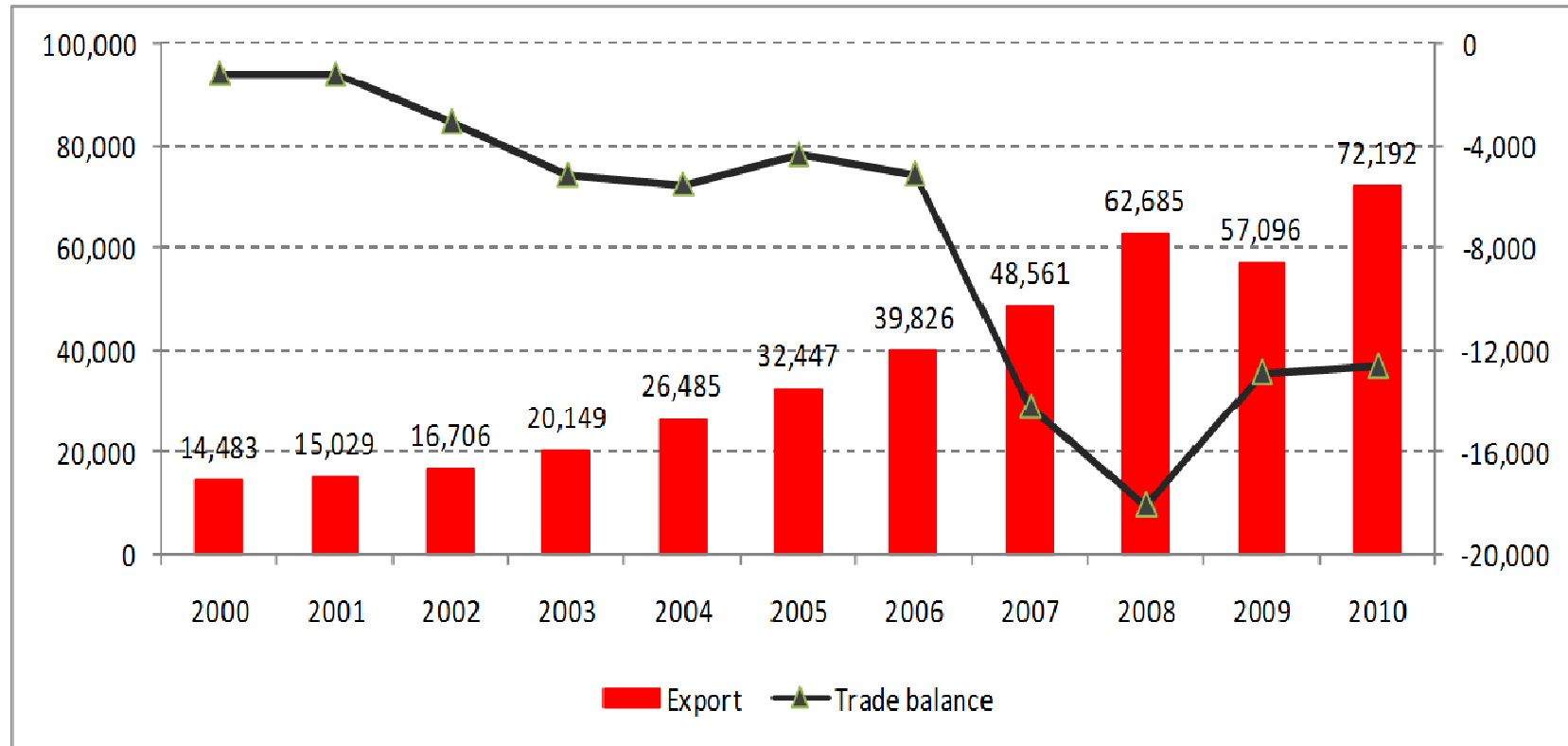
Note: ASEAN5 consists of Indonesia, Malaysia, Philippines, Thailand, and Vietnam.

Source: complimented from IMF (2012) World Economic Outlook Database, October 2012 Version.

- Vietnamese Economy have been kept high growth rate next to China in East Asia since 1990's.
- Asian Currency Crisis 1997-98, World Financial Crisis have great impacts on ASEAN economy and both ASEAN and Advanced Economies respectively. However, the impacts were not so much on China and Vietnam.
- The average real growth rate of Vietnam from 1990 to 2010 is 7.4%.

I. Vietnam's Economic Growth

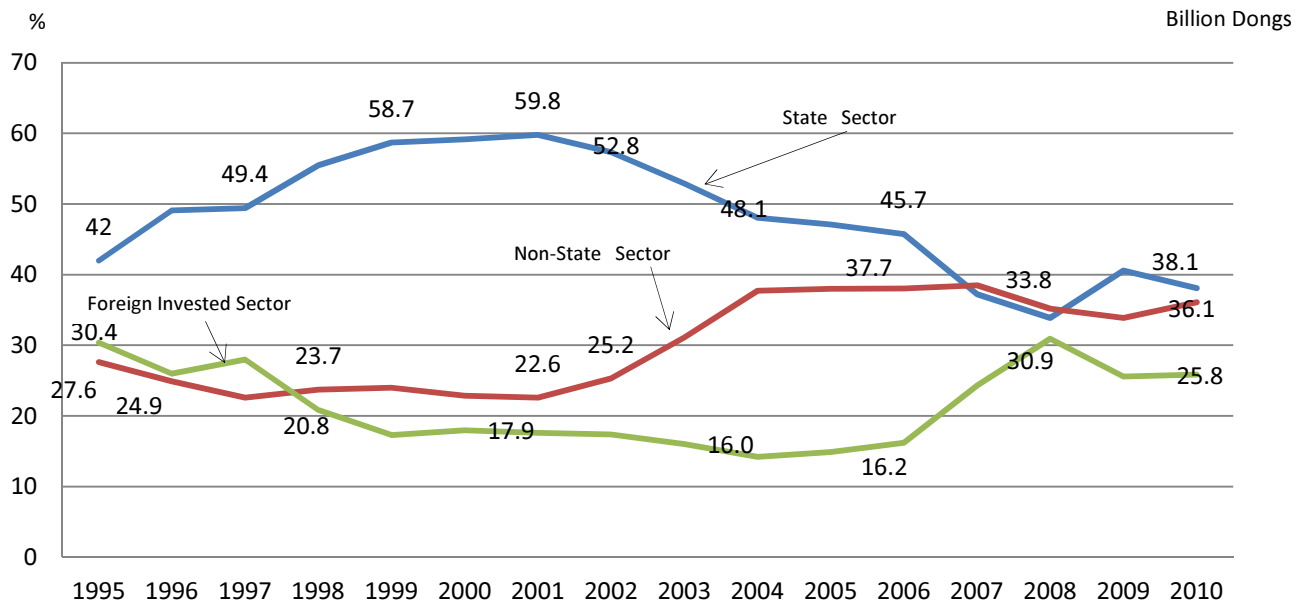
(2) Growth comes from Trade and Industry



- Economic growth through trade and the development of industry
- Degree of Dependence on Foreign Trade :74.7% 1995→171.1%
2008 →147.0% 2009→165.3% 2010
- Industry-GDP ratio:28.7% 1995 → 41.1% 2010

I. Vietnam's Economic Growth

(3) Three Sector Basis Growth



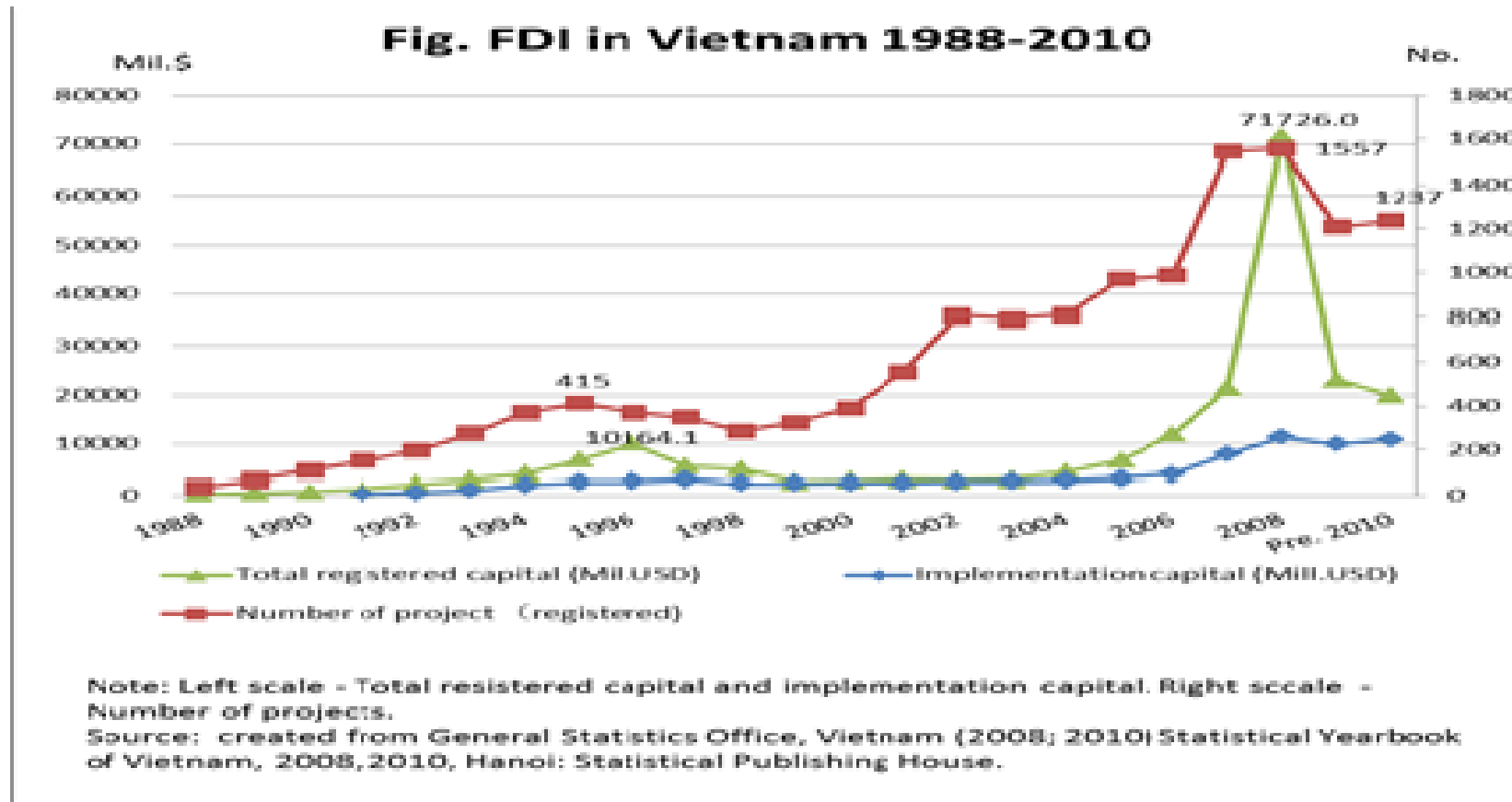
Note: growth Rate (av. in year) 2010/1995= total 17.7%, State 16.9%, Non-state 19.8%, Foreign 16.4%.

Source: computed from General Statistical Office, Vietnam (2008; 2010) Statistical Yearbook of Vietnam, Hanoi.

- Three Sector Basis Growth: State-owned + Private + FDI
- Share of FDI 25.8% 2010; Share of FDI Output: 25.1% 1995 → 40.5% 2008

I. Vietnam's Economic Growth

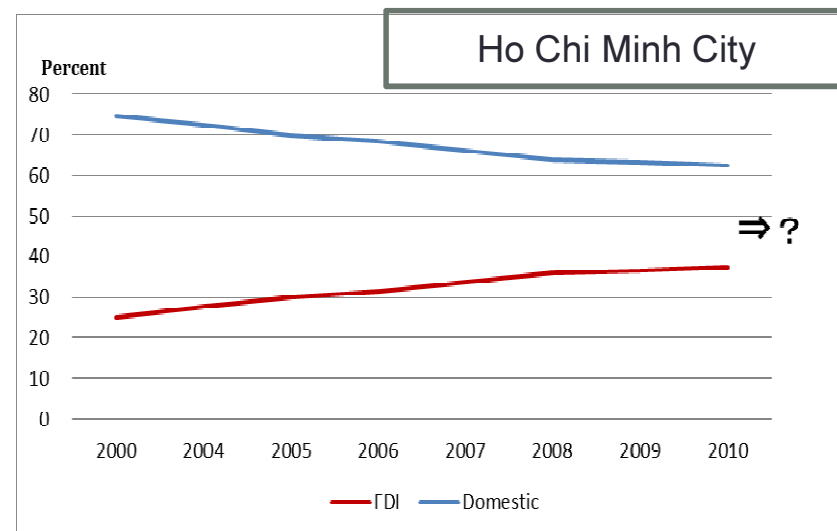
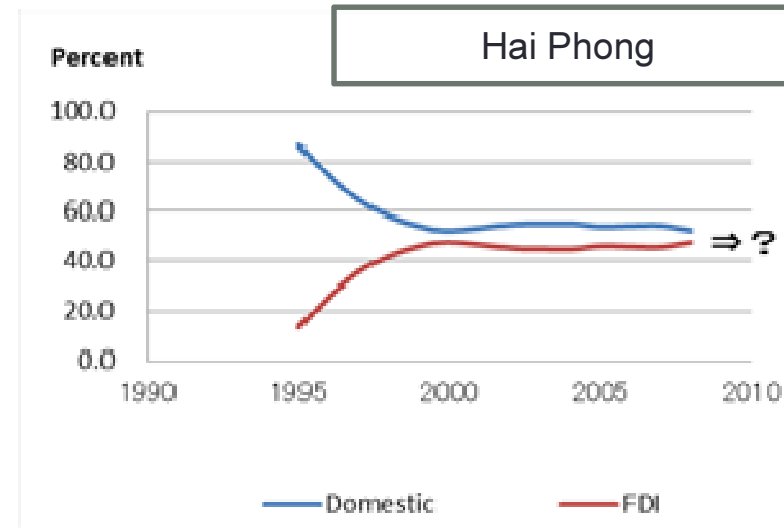
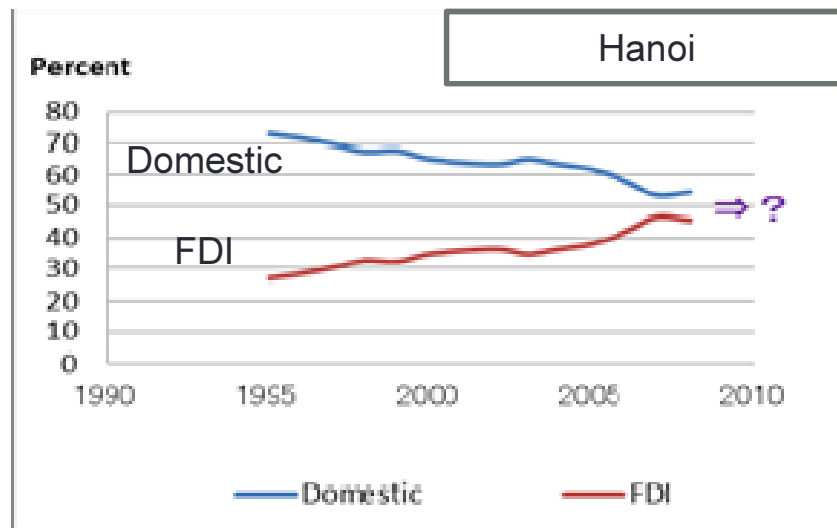
(4) Steady Growth of FDI



- FDI has been increasing since 1990's. It has rapidly increased in number after 2000.
- Although it has influenced by two crisis, the implementation has been increasing steadily.

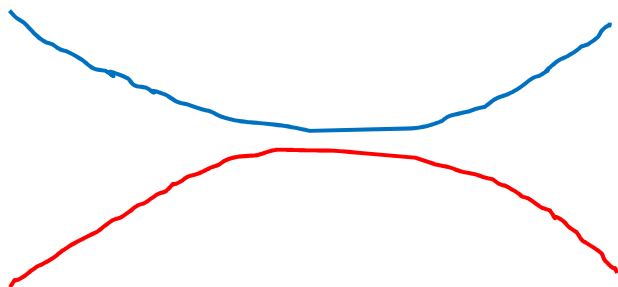
I. Vietnam's Economic Growth

(5) Balanced Growth among Domestic and Foreign Capital

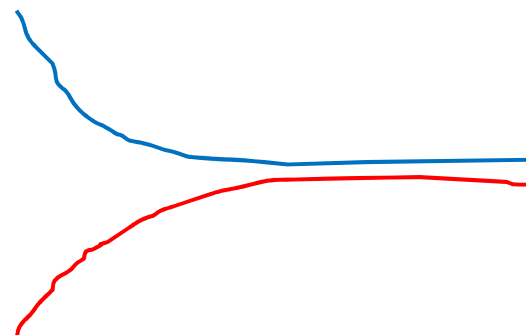


Which type will prevail in Vietnam?

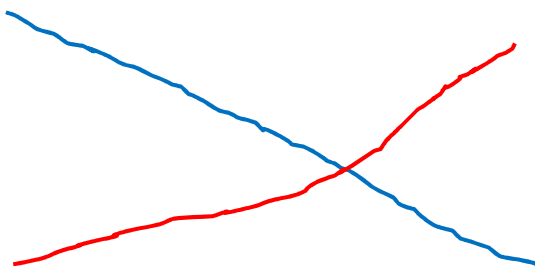
①U-Shape Symmetric



②J-Shape Symmetric



③X-Shape



- Which type will prevail ?
- ①U-Shape Symmetric ?
- ②J-Shape Symmetric ?
- ③X-Shape ?
- The best scenario is ①. The second is ②. Should be avoided is ③.

II. Vietnam and the Middle Income Trap

(1) WB, ADB and the Middle Income Trap

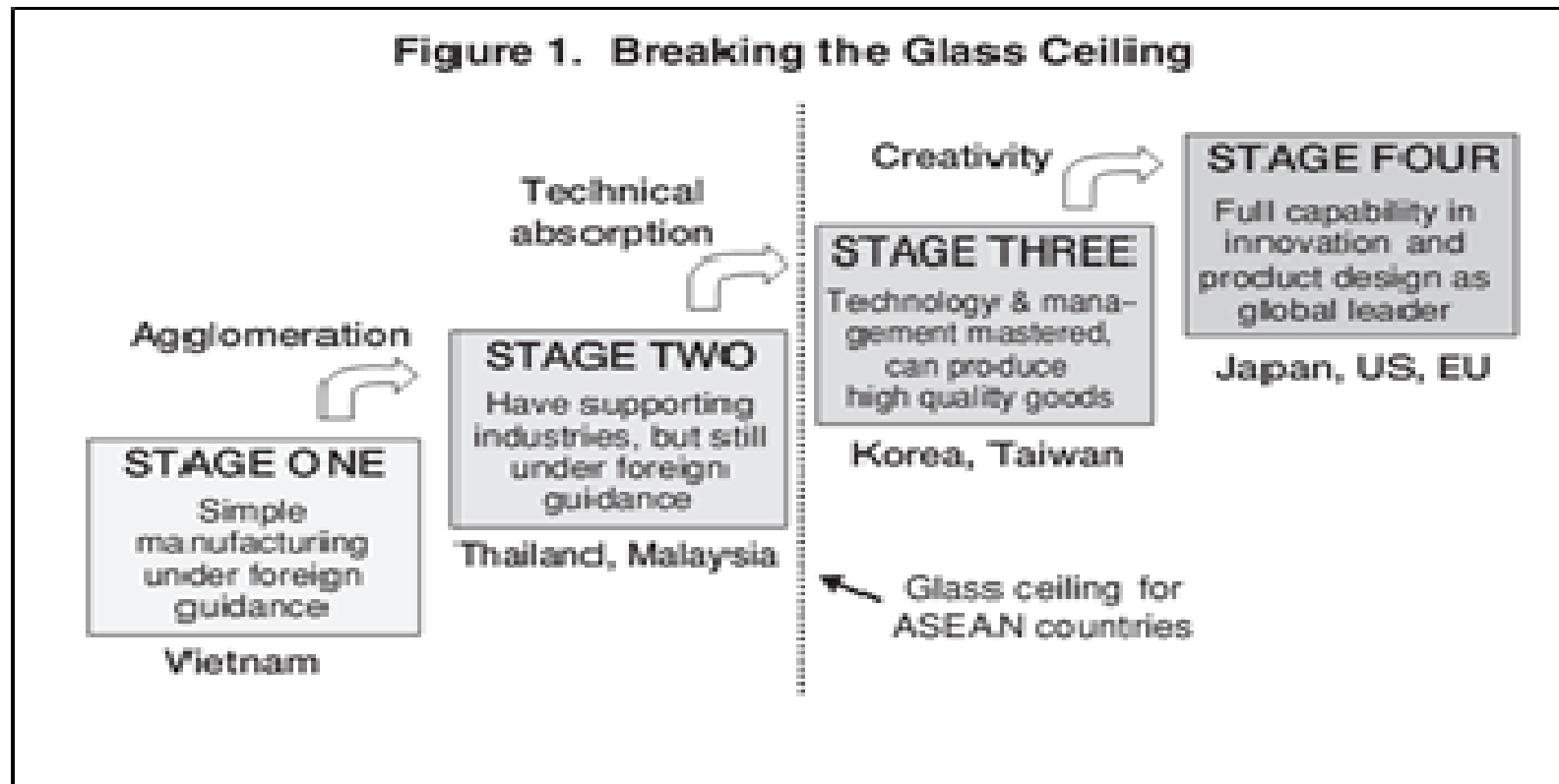
- WB Gill and Kharas(2007) *An East Asian Renaissance*
 - 2025 East Asia's GDP share to the world will be 40%.
 - 2010 Vietnam will become one of middle income countries. Because of that, 95% people of East Asia live in middle income country.
 - The way of becoming a high income country in East Asia in the future.
 - ①The way of diversification economy or
 - ②The way of industrial specialization
 - Anyway, they could not reach high income if they leave the economy just as they are. There is a “middle income trap”.
 - The core is “technology”.
- ADB(2011) *Asia 2050: Realizing the Asian Century*
 - East Asia would account for more than half of the world's GDP, trade, and investment by 2050.
 - The share of world GDP: 27% 2010→51% 2050 = Asia would regain the dominant status that it occupied in the world 250 years ago.
 - Three groups:
 1. High income 7 economies (South Korea••)
 2. Middle income 11 economies (China, India, Vietnam••),
 3. Low growth rate 31 countries → our focus here is how the second group will develop into the high-income advanced country.

II. Vietnam and the Middle Income Trap

(2) – 1. Vietnamese middle income trap

- Tran (2010) “Vietnam Economic Development Theory” subtitled “The Middle Income Trap and a New Doi Moi”
- Goldman Sachs O’Neill (2005) N-11: Vietnam is counted among the highest scoring group together with South Korea, China, Mexico (GES)。
- Ohno(2008) “Vietnam as an Emerging Industrial Country: Policy Scope toward 2020” -Glass Ceiling
- Too much emphasis on achieving macroeconomic targets such as growth, investment and exports and not enough interest on technology, education, living conditions, and industrial competitiveness.

II. Vietnam and the Middle Income Trap (2) -2. Ohno 2008



- Vietnam should develop an integral type, not a modular type, of industry through human resource development.

II. Vietnam and the Middle Income Trap

(2)–3. Masahiko Aoki, the five-phase economic development theory

- Aoki (2011a,b) developed the five-phase economic development theory by focusing on the relationship between population dynamics and economic systems. He also highlighted the similarity in the development patterns of Japan, China, and South Korea.
- ①Malthusian(M) = Large (Agricultural) Population
- ②Government-led(G)
- ③a la Kuznets(K) Structural Change by Population Shift
- ④Human capital based(H) = Constraint of Industrial Population
- ⑤Post demographic-transition(PD) = Declining Population
- ③→④ Middle Income Trap

Adaptation to Vietnamese Economy

- Vietnam: ②G→③K Current State.
- ③K→④H The key factor will be TFP and Human Capital Investment.
- The growth accounting of the mid-term social economic development plan of Vietnam (2010): The contribution of TFP sets 2.81% in 2010–2019.

II. Vietnam and the Middle Income Trap

(2)-4. Adaptation to Vietnamese Economy

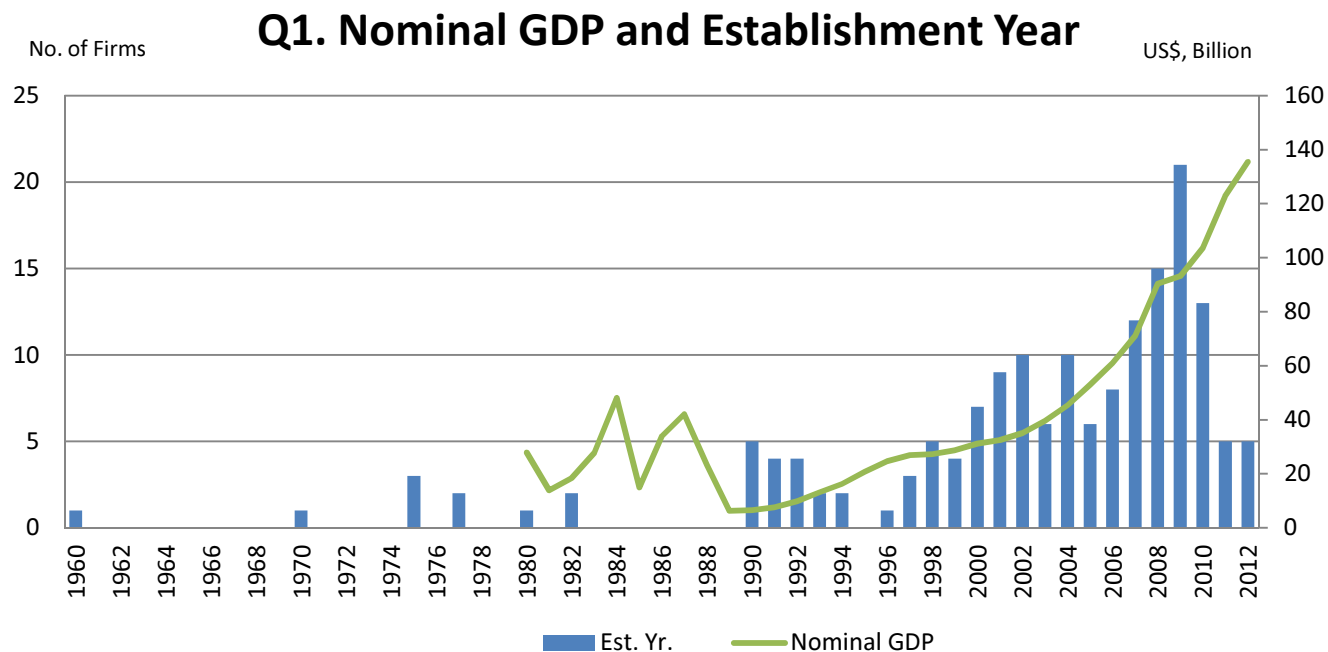
- Vietnam: ②G→③K Current State.
- ③K→④H The key factor will be TFP and Human Capital Investment.
- The growth accounting of the mid-term social economic development plan of Vietnam (2010): The contribution of TFP sets 2.81% in average in 2010–2019.

Period	GDP Growth Rate	Capital Contribution	Labor Contribution	Total Factor Productivity (TFP)
2010-2014	6.79	2.90	1.08	2.81
2015-2019	6.22	2.62	0.79	2.81

III. Vietnam's Potential and Issues according to the Vietnamese Firm Survey

(1) Summary (2)-1. Vietnamese Firm according to the Questionnaire Survey

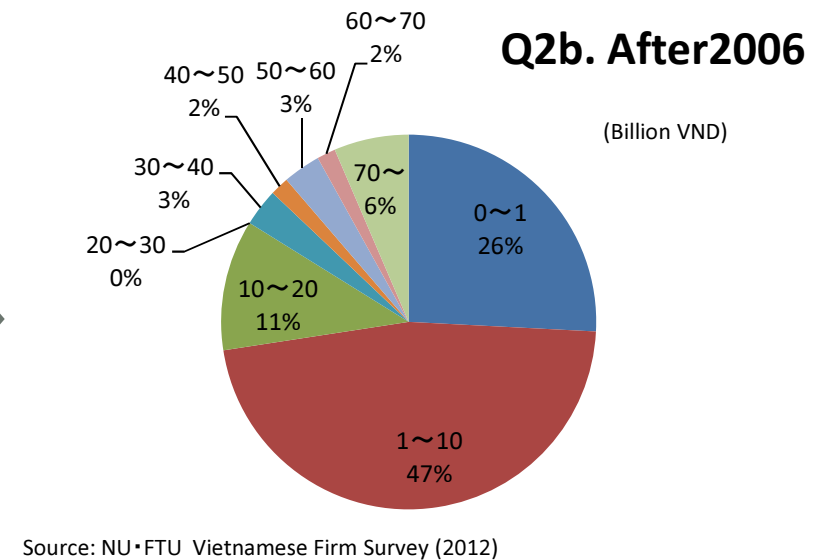
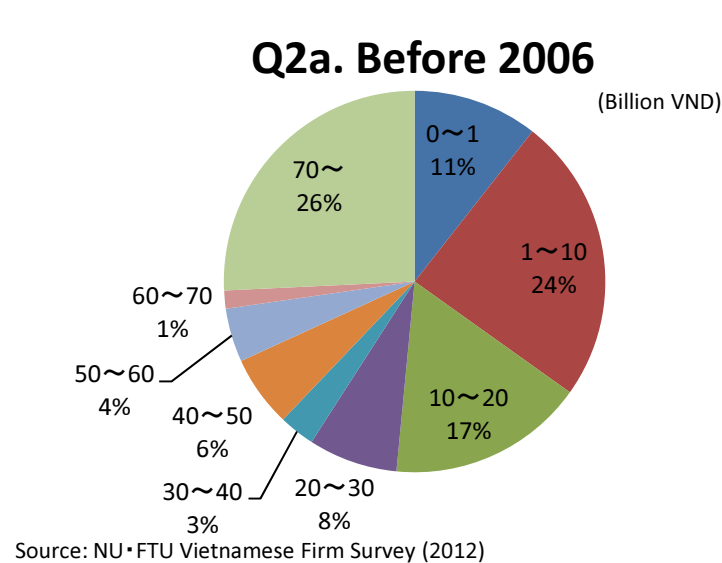
- Questionnaire to Vietnamese manufacturing firms was carried out from May to October, 2012 with the cooperation of VCCI.
- Total: 192 Firms. Firms established in line with GDP growth.



Source: IMF World Economic Outlook (April 2012), NU•FTU Vietnamese Firm Survey (2012)

III. Vietnam's Potential and Issues according to the Vietnamese Firm Survey

(2)-2. Composition of Establishment Years of Respondent Firms



- Since 2007 firms with small scale capital are increasing.
- Only a few of these firms have alliances with foreign firms.

III. Vietnam's Potential and Issues according to the Vietnamese Firm Survey

(2)-3. Competitive Relationship

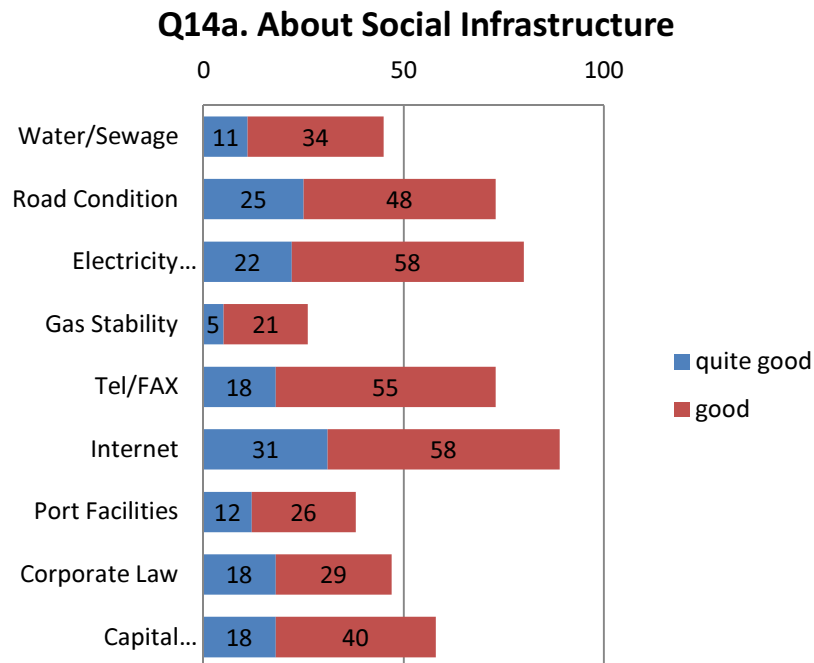
Q12. Number One Import-Competing Country and Q12. Number Two Import-Competing Country Cross Table

Frequency		Q12. No. 2 Import Competing Country								Total
		China	South Korea	Thailand	Japan	Taiwan	Europe	Singapore	Other ASEAN	
Q12. No. 1 Import Competing Country	China	0	2	8	1	9	2	2	6	30
	South Korea	0	0	0	1	0	0	0	0	1
	Thailand	0	0	0	0	1	0	1	0	2
	Japan	0	0	0	0	0	1	0	0	1
	Taiwan	1	0	0	0	0	0	1	0	2
	Europe	0	0	0	0	0	0	2	0	2
	Singapore	0	0	1	0	0	0	0	0	1
	合計	1	2	9	2	10	3	6	6	39

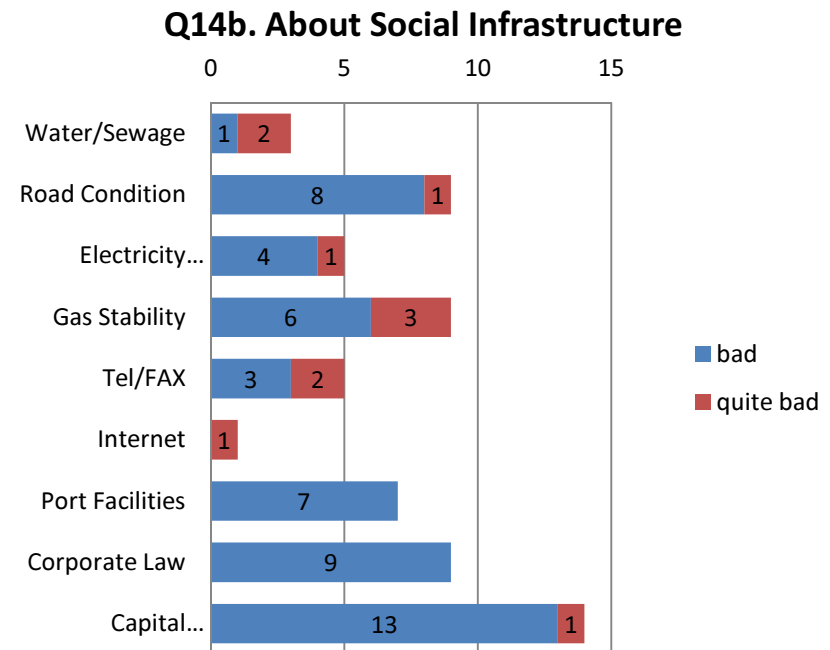
- Vietnamese firms compete with Chinese, Korean, Taiwanese and ASEAN countries' products and firms.

III. Vietnam's Potential and Issues according to the Vietnamese Firm Survey

(2)-4. Evaluations of Social Infrastructure by Vietnamese Firms



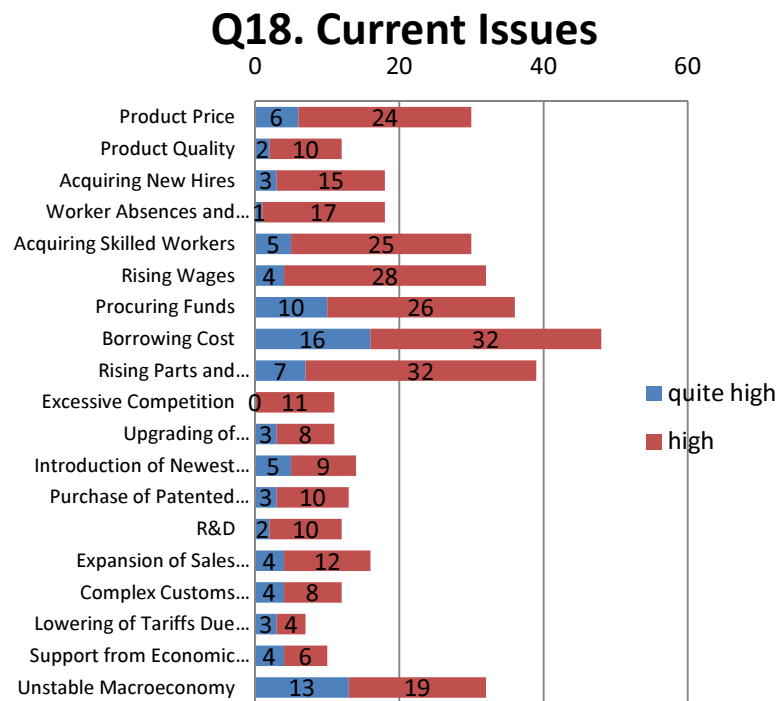
Source: NU • FTU Vietnamese Firm Survey (2012)



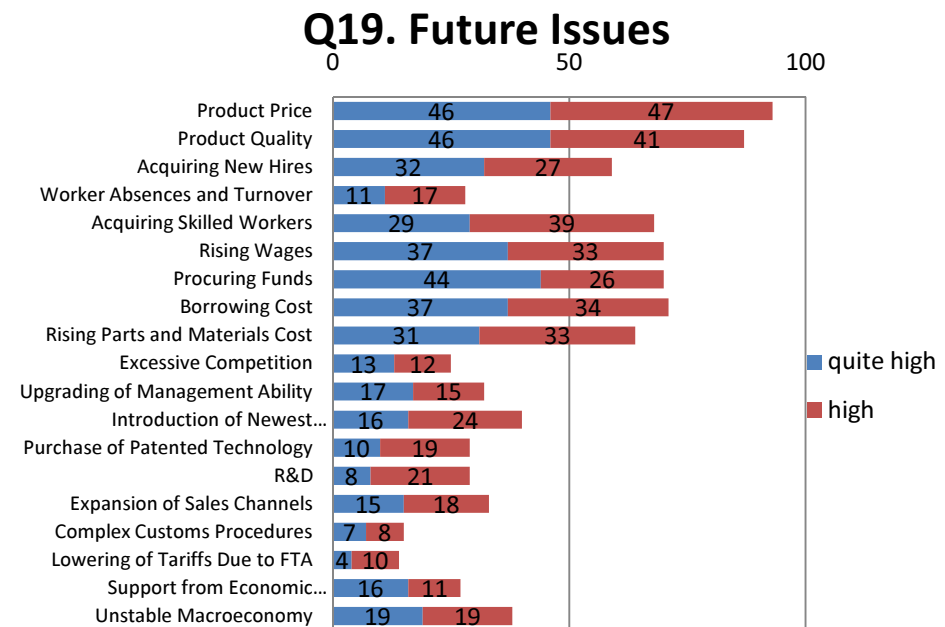
Source: NU • FTU Vietnamese Firm Survey (2012)

- High evaluation: Internet, Electricity Stability, Road Condition
- Low evaluation: Capital Procurement Gas Stability, Road Condition
- There is a large gap in the perceptions between local and Japanese firms.

III. Vietnam's Potential and Issues according to the Vietnamese Firm Survey (2)-5. Confronting Issues –current and future



Source: NU • FTU Vietnamese Firm Survey (2012)

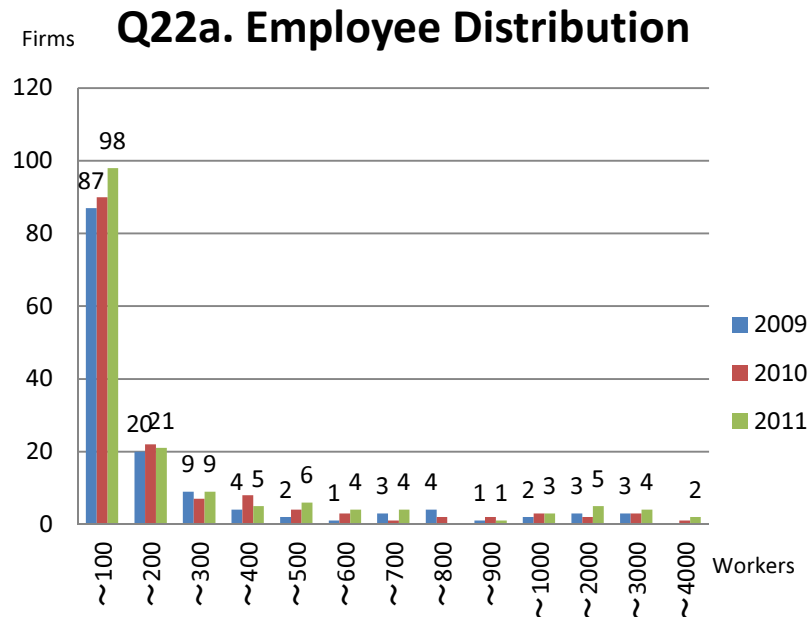


Source: NU • FTU Vietnamese Firm Survey (2012)

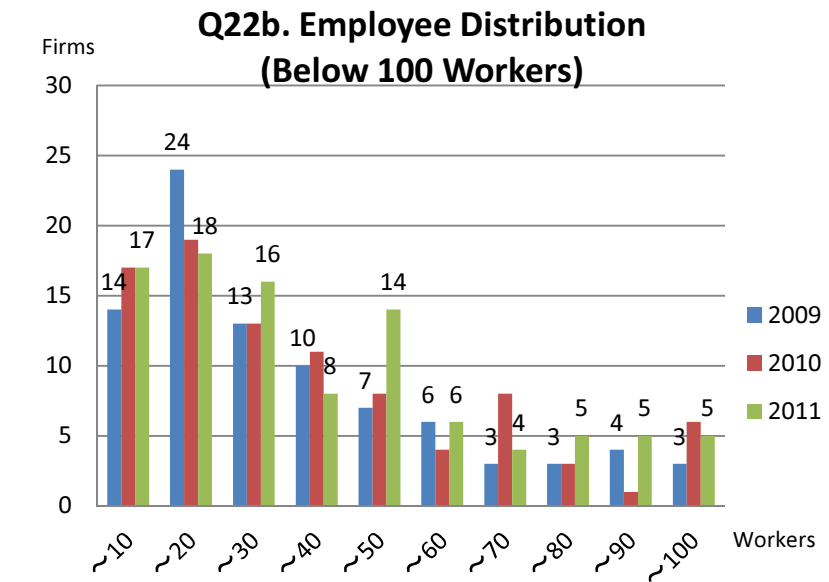
- **Current Issues:** Borrowing Cost, Rising Parts and Materials Cost, Rising Wages
- **Future Issues:** Product Price and Quality, Procuring Funds, Rising Wages
- Awareness of Vietnamese firms towards to construct a competitiveness.

III. Vietnam's Potential and Issues according to the Vietnamese Firm Survey

(2)-6. Composition by Employee Size(1)



Source: NU•FTU Vietnamese Firm Survey (2012)

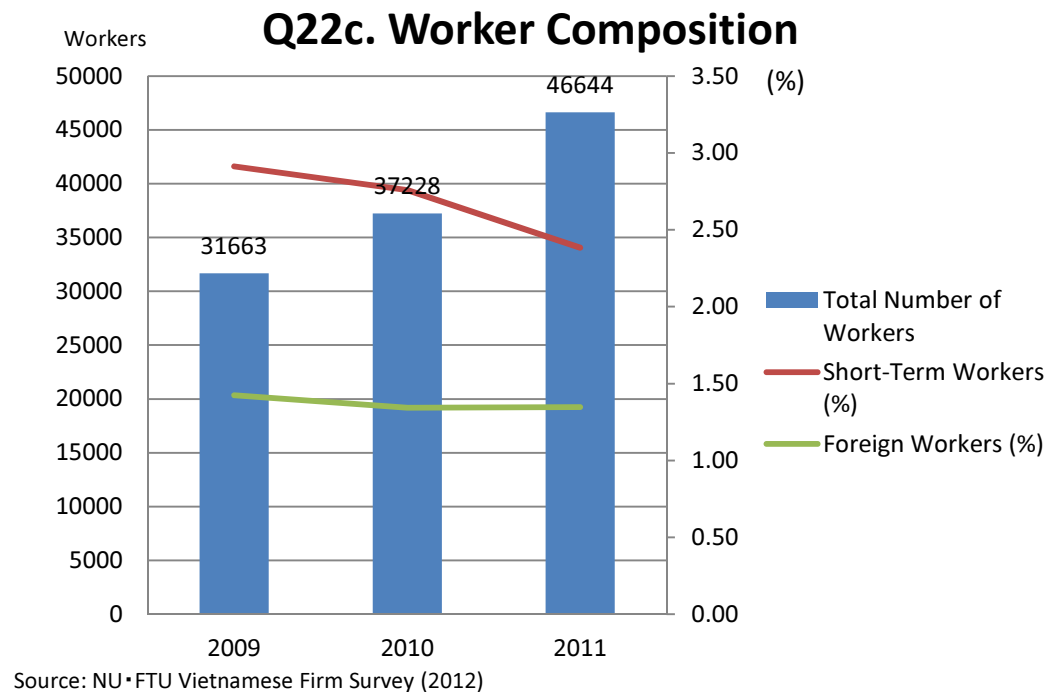


Source: NU•FTU Vietnamese Firm Survey (2012)

- Firms with employees less than 100 are dominantly many.
- In the category of employees below 100, firms with employees less than 10, 10-20, and 21-30 are dominantly many.
- 71% of firms are in the black. Only 16% of firms export goods.

III. Vietnam's Potential and Issues according to the Vietnamese Firm Survey

(2)-7. Composition by Employee Size(2)



- the number of employees increased by a factor of 1.5, while the share of foreigners employed remained fixed and the share of short-term employment dropped.
- → the recent start ups of small- and medium-scale enterprises have been providing large employment opportunities.

III. Vietnam's Potential and Issues according to the Vietnamese Firm Survey

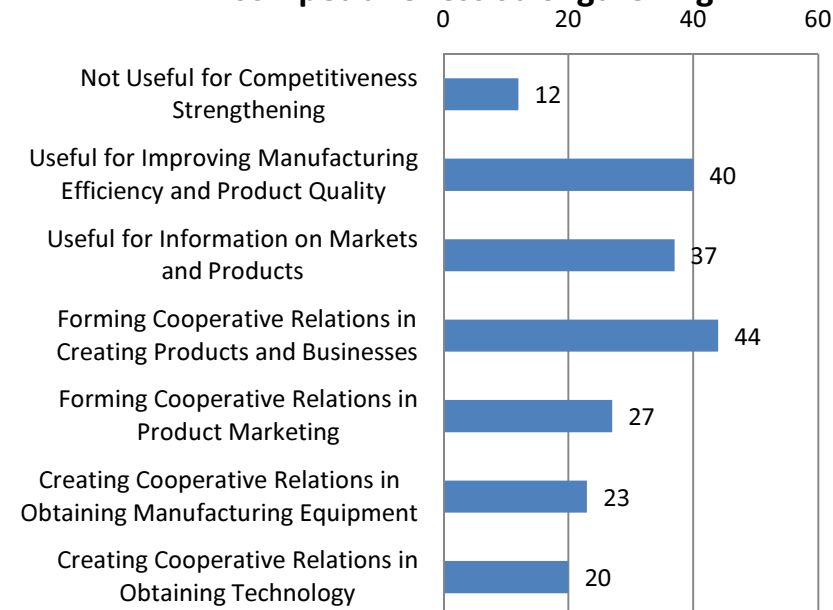
(2)-8. Relations with Foreign Firms

Q20b. Type of Foreign Firm Transaction



Source: NU • FTU Vietnamese Firm Survey (2012)

Q21. Relations with Foreign Firms on Competitiveness Strengthening

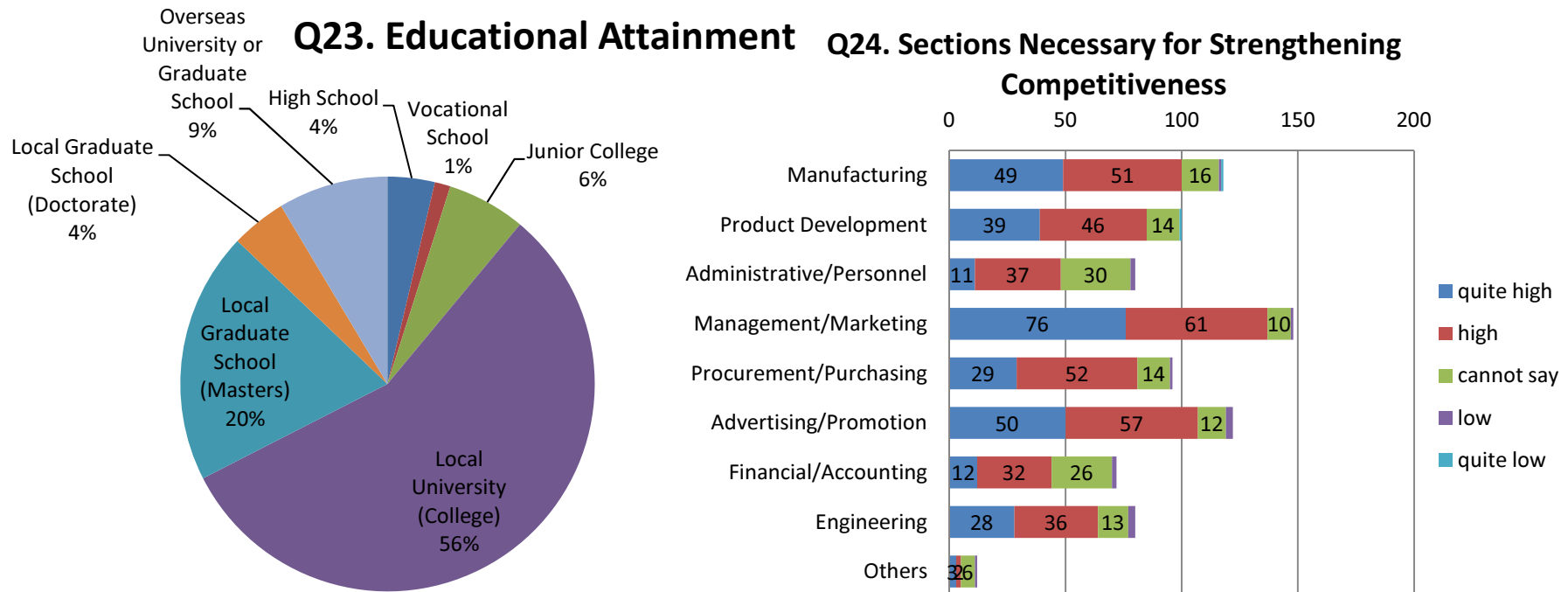


Source: NU • FTU Vietnamese Firm Survey (2012)

- More than a half of effective response firms have relations with foreign firms. Although most of them are Japanese firms, they have relations with a variety of countries.
- “Creating Products and Businesses” and “Improving Manufacturing Efficiency” seems to have effects on strengthening competitiveness.

III. Vietnam's Potential and Issues according to the Vietnamese Firm Survey

(2)-9. Educational Attainment and Strengthening Sections



Source: NU•FTU Vietnamese Firm Survey (2012)

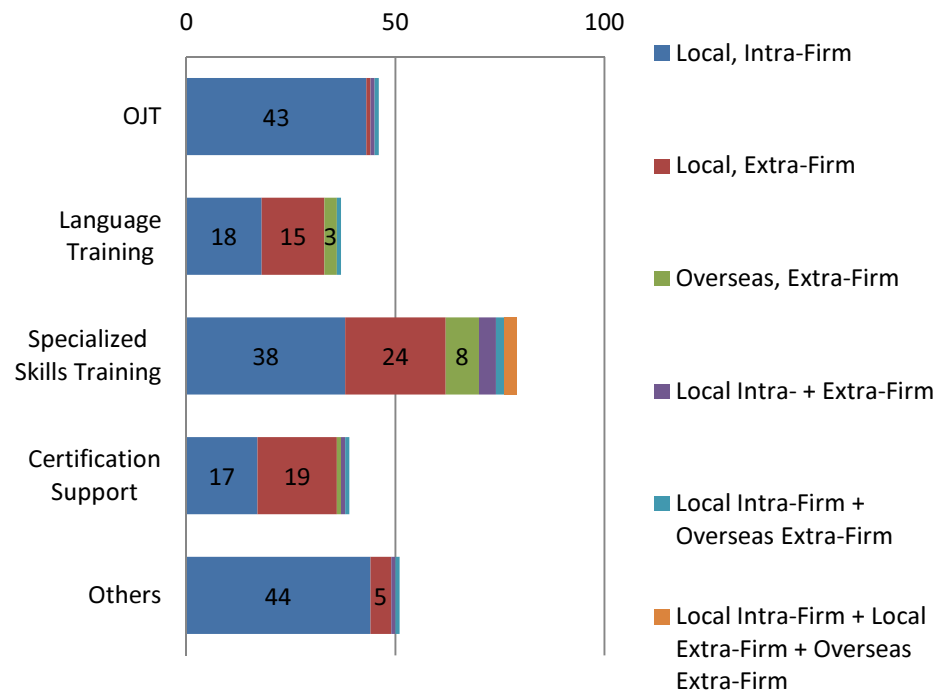
Source: NU•FTU Vietnamese Firm Survey (2012)

- E.A. of Chief Executives are high, Local University.
- Awareness of Strengthening Section: Management/Marketing, Advertising/Promotion, Manufacturing, Product Development

III. Vietnam's Potential and Issues according to the Vietnamese Firm Survey

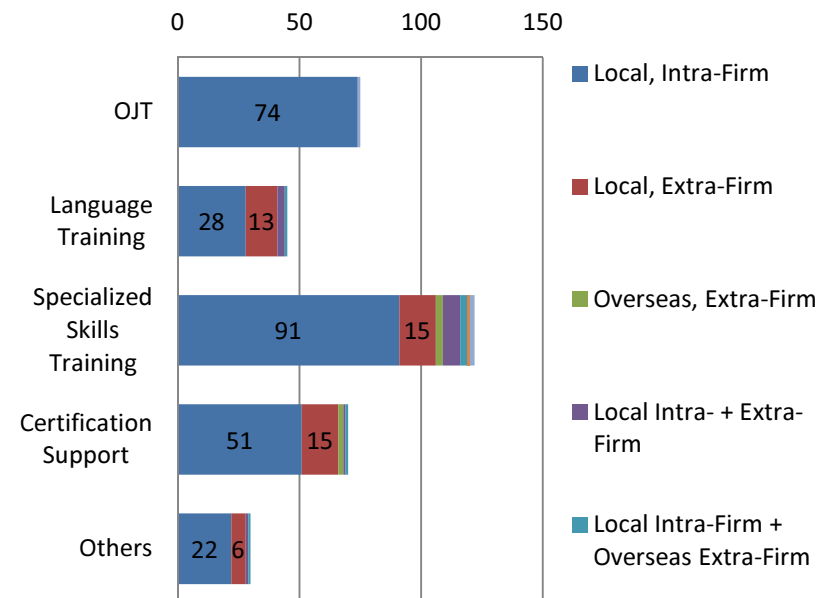
(2)-10. Support System

Q25a. Support System--Managers



Source: NU•FTU Vietnamese Firm Survey (2012)

Q25b. Support System -- Staff



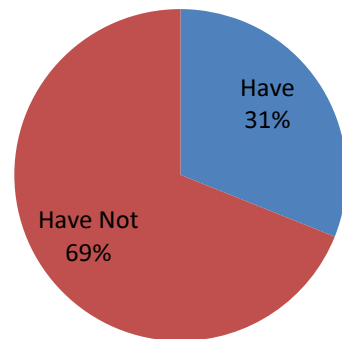
Source: NU•FTU Vietnamese Firm Survey

- Specialized Skills Training, OJT and Language Training are done at “Local, Intra and Extra Firm”.
- There is a sense of tension in the management section of local firms facing globalization, even among local small- and medium-scale enterprises.

III. Vietnam's Potential and Issues according to the Vietnamese Firm Survey

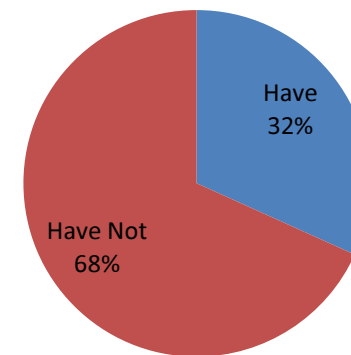
(2)-11. Labor and Management Problem

Q29a. Absence Without Permission



Source: NU•FTU Vietnamese Firm Survey (2012)

Q31a. Worker Turnover



Source: NU•FTU Vietnamese Firm Survey (2012)

- Absence without permission is 1/3.
- Worker turnover is also 1/3.
- Frequencies are both 0.5–1 person per month.
- 19% of firms experienced some labor problems. Almost of them are demand higher wages.
- Results shows the tendency of that manager and labor cooperate with each other.

Conclusion

- Vietnam's economy has grown fast after the adoption of the Doi Moi policy as a tri-sector foundation development.
- A domestic/foreign sector U-shape symmetric development or a parallel type J-shape symmetrical development is a desirable development framework for Vietnam's future.
- Overview of the “middle-income trap”. How this trap could be avoided?
- According to the survey, business start ups of recent years have a lot of social foundation and have provided employment opportunities.
- There are problems such as small exports and weak relations with the overseas markets and firms, large dependence on the local market, difficulties in “materials procurement” and “capital procurement”, and “wage increases”, but there is already a steady development.
- The direction of this development is such that there is high awareness about upgrading, on top of the existing foundation, of “marketing capability”, “quality of employees”, “product price”, and “product quality”. Moreover, the high educational attainment of Vietnam's managers, irrespective of small- and medium-scale enterprises, holds hidden possibilities of further development in the future. Even in the case of employee relations, stable employment and a possibility of collaboration between employers and employees have shown up.
- Indeed, the awareness of the outside world is limited as could be seen in the evaluations of social infrastructure, but there is the potential to overcome the issue through appropriate policy measures in the future.