The Political Economy of Vietnam's Development: State Policies and Economic Progress

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Abstract

This paper asserts that although Vietnam has achieved some economic progresses, all of them are mainly viewed in terms of quantity and are somewhat politically influenced (the case of SOEs and the chronic but deliberative lack of information on management and financial transparency and of state corruption). This leads to incomplete understanding of the actual situation of economic development in Vietnam. Thus, it also leads to the illusion of somewhat of a management miracle - Vietnam government. The paper's analyses aim to reassess Vietnam's economic development process through some typical, selected issues to assert that Vietnam has partially failed to achieve economic development in terms of not only poor economic performance and dark economic indexes but more importantly such failures in their turn have outright and direct negative impacts on people's daily lives physically, materially.

Hot questions keep hanging over Vietnam society, such as whether the growth cake is equally and fairly shared among different economic and social sections? Whether the country's resources are being utilized effectively through sound macroeconomic policies? Whether the current economic structure is being transformed in the right direction, which in turn guarantees the stable and successful provision of resources to meet the people's living standards? Whether people's lives and acceptable living standards are guaranteed when heavy corruption, backed by vested, biased economic policies are everywhere? It is publicly urgent to outright answer whether the current economic growth would lead to certain, if not to say fundamental, human social development in terms of authentic living functioning or people's

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life quality improvement. Finally, it seems necessary to reassess not only the government's economic management but also its development doctrines and policies which in fact fatally influence not only the people's economic interests but also their overall life quality.

Keywords: Vietnam, development, economic policies, government management, living standard

Introduction: The Need to Reassess Vietnam's Development

Vietnam is viewed both domestically and internationally as having achieved a certain degree of success in its development process since its program of renovation, Doi Moi, commenced in 1986[3]. Vietnam has increased its GDP per capita by four times from around USD 200 in 1986 to USD 830 in 2007. Poverty reduction is another success story in Vietnam, with poverty being reduced from 78% in 1988 to around 15% in 2010. The Vietnamese government has also been able to maintain its macroeconomic stability for a rather long period of time, with an inflation rate of greater than 400% in 1986 being reduced to 5% in 1995 (General Statistical Office, 1997). Vietnam is now still one of the most promising destinations of FDI in the region (WB, 2010).

The Vietnamese government's development policies in general and its macro-economic ones in particular, are highly regarded not only domestically but also internationally. This fact can be seen through not only the rising amount of trade and FDI flows into Vietnam, but also increasing funds from international bodies. Both of these inflows help strengthen Vietnam's governmental institutions, as they are the unique cause of growth and development stability (UNDP Vietnam, 2007; Nguyen, 2007). Such viewpoints can be read everywhere in the literature and the press both inside and outside Vietnam. In addition, maintaining social and political stability has also received high acclaim from international and domestic analyses. These strengths, together with high economic growth, have aided Vietnam in consolidating its position in the global and regional political economy (World Bank, 2010).

However, while the above praises focus mainly on the quantitative dimensions of development, there are still remarkable differences in analyzing and evaluating Vietnam's economic development in terms of the quality and the causes of development outcomes and performances. This paper aims to go critically into the second direction to review and re-assess Vietnam's recent achievements through the lens of people's authentic living functioning or

[3]Doi Moi is a Vietnamese term which means "renovation" in English. Doi Moi is the name of and as well as propaganda calls for a nation-wide and comprehensive move from the former centrally planned economy following the Soviet tradition, into the market economy. However, at it early stage of late 1980s and early 1990s, Vietnam mainly focused mainly on economic development or more exactly on economic growth which emphasizes the attainment of economic criteria of GDP growth, inflation control, consumer good production and so on (while development should be understood in its most comprehensive sense as this paper suggests). Only until late 1990s and early 2000s up to now, the renovation process takes a more comprehensive task accounting for not only economic but also social changes, somewhat political changes. As a result, Doi Moi, to some extent, can bring about a more opened atmosphere to Vietnam's social life.

their actual quality of life. In other words, the most important requirement here is to examine whether Vietnam has assured its people of a real development, in which the development of, for, and by the people is guaranteed, whether their living standard and life quality is actually improved (World Bank, 2010).

Hot questions keep hanging over Vietnam society such as, firstly, whether the growth cake is equally and fairly shared among different economic and social sections? Whether the country's resources are being utilized effectively through sound macroeconomic policies, whether the current economic structure is being transformed in the right direction, which in turn guarantee the stable and successful provision of resources to meet the people's living standard, whether people's life and acceptable living standard is guaranteed when heavy corruption backed up by vested, biased economic policies are everywhere? Secondly, it is publicly urgent to outright answer whether the current economic growth would lead to certain if not to say fundamental human, social development in term of authentic living functioning or people's life quality improvement. Thirdly, it seems necessary to re-assess not only the government's economic management but also its development doctrines and policies which in fact fatally influence the people's not only economic interests but also their overall life quality.

The first and second sets of questions as mentioned above mainly concern the economic, material and physical aspect of people's lives and their well-being. The third set of questions, which is in fact tactfully and deliberately avoided in Vietnam, is whether all the development achievements come as the consequences of the government's "perfect" policies, as the mainstream literature often describes.

The third question is related to government's responsibility in the sense that government and its policies should play important roles in managing and utilizing resources in a way that they can be best transformed into the people's actual living improvements. The mainstream literature usually depicts the aim of gaining and maintaining economic and social equity as the goal in itself of the government's policies. However, this paper raises a different question of whether economic and social equity is just a consequence of policies to mainly strengthen economic and political stability (Fforde, 2005a; World Bank, 2010). International endorsements, by foreign donors and investors, of Vietnam's development policies focusing on sustainability attainment, but are they somewhat economically and politically opportunistic?

Answering the above sets of questions would help to establish a firm basis of theoretical and empirical legitimacy, and solve Vietnam's current development issues. At the same time, development policies of the country would be hopefully improved qualitatively to aim at longer-run goals. A view of both the consequentialist (outcomes) and proceduralist (process) nature is taken in making this paper's policy suggestions. The paper, when focusing on these sets of issues, overtly voices its human right perspectives to protect at least the deserved economic interests of the people. It takes the people's stance in viewing Vietnam's development process with regard to the role and responsibility of the government.

On the surface this paper is one of policy analyses. However, methodologically, at its root, the paper is a deep research one built on the following theories which are integrated in an interdisciplinary way. First it stands on a Neo-classical economics stance to ask for effective economic management, effective allocation of resources (Rostow, 1992). Second, from a Neo-liberalism perspective, it asks for an economic restructure in which the market and especially the private sector can enjoy more economic freedom in comparison with that given to the SOEs (Stiglitz, 2005, 2006). Third, from a political economy perspective, the paper asks to take the State, its responsibility, its economic management in particular, its governance in general into account. This perspective also asks for a fuller consideration of equality issues which takes the interests of the poor and working people into all development policy arrangements. This perspective also requires taking into analyses political matters that are often ignored in purely economic research (Rawls, J. 1971; Nussbaum, 2000; Bresford, 2004). Fourth, from an agent perspective, the paper asks for a fuller scrutiny and consideration of the interests of different social classes, economic sectors, not just giving priority to the State and its children, the SOEs. The poor and the working people may surely have different economic interests that differ from those of the rich and the powerful SOEs. More investment into labor intensive industries instead of into capital intensive ones is an example of taking agency perspective to ask for a change in economic policies in Vietnam (Sen, 1997; Tran, 2004; Rato, M. 2004).

Fifth, from a capability approach perspective, the paper asks for taking into account people's real need of life, such as standard of living, consumer prices, inflation, employment, which all have very close and clear influence on people's daily lives, instead of taking a national average aggregation index like GDP growth rate. Recently, the Vietnam government, under the public pressure of guaranteeing a viable life for the people, has to change its development priority from GDP growth to economic stability: inflation reduction, price reduction, more employment, etc (Sen, 1999; Sugden, R. 1993; Robeyns, 2003; Robeyns et al, 2004). The paper, while standing on these theories to analyze and make arguments on the economy and the Vietnamese State's economic governance and policies, takes data and information (most of them are second hand data) from government ministries' sources, from the Government Statistics Office, from rich research by both Vietnam and regional and international researchers. A very important source is from NGOs and the independent press and media. Although in Vietnam there are not independent press and media by the West's standards, it means they cannot be fully independent without having to look up to the State. However, such press and media can still be a better source or at least a counter source of information compared to those directly influenced by the State. All of these data and information are processed and interpreted in the light of the above theories.

Vietnam's Economic Development and People's Lives: A Different Face of an Economic Miracle

Vietnam is considered to have experienced successful economic growth during the last 20 years or so, with average GDP growth rates of 6.5% (General Statistical Office, 2011), the lowest being 4.8% for 1999 and the highest being 9.5% for 1995, and, more recently, 8.4% for 2007. Poverty reduction is a remarkable achievement for Vietnam in terms of pro-poor development, which has helped to reduce poverty rates from 58.1% in 1993 down to 14.5% in 2008 (GSO, 2009). At the same time, exports and imports have increased at average annual rates of more than 10%, jumping to around 30% in period 2006-2010 (General

Statistical Office, 2011). FDI has also experienced record growth, with more than 20 billion USD registered annually during the period of 2007-2010 (General Statistical Office, 2011). Industries and services that are development priorities in the government's economic restructure strategy have grown at more than 10% annually (General Statistical Office, 2011). These achievements are of course noteworthy, making Vietnam one of the fastest growing economies in the world and the region. However, these achievements are being viewed and measured solely in terms of quantitative economic criteria and the economy is certainly not problem-free (World Bank, 2008).

Through just the limited lens of neo-classical economics and welfare economics, has Vietnam really made such perceived achievements? Some typical evidences can be selectively taken to assert that the government still has a lot to do with its economic policies which in turn would certainly have direct influence on people's lives and their living standards.

The next important issue is to examine the State's role in economic policies towards growth. Since the Asian financial crisis in the late 1990s, the Vietnamese government has planned to put more development priority toward the rural areas and the poor living there (Smith, 2004; Minford, Quang, Nguyen, and Brooke, 2004; World Bank, 2008, 2009, 2010). The first is to make rural areas a firm backbone for the national economy, in terms of its large market and as a source of food security. This effort is made to stabilize the economy and to avoid unrest in the rural areas. The second is to help push up the poverty reduction pace with more investment, along with existing poverty aid from the State. Those plans are carried out first with the financial policy combined with the low interest rate principles in the pro-poor approach. This approach has been used to help the poor to have more access to financial services. However, in fact most of those plans fail to achieve their goals when the low interest rates lead to high demand for credit inducing banks to ration out loans. It is even worse when banks choose only the close and easy access areas, grant loans to wealthier clients and refuse to provide credits for distant areas and "less promising" clients (Tran, 2004; World Bank, 2008, 2009, 2010).

The above example is taken just to assert that similar situations caused by such pro-poor policies have been seen as a common economic scenario in Vietnam up to present. The situation becomes even worse recently when such pro-poor policies go along with the government's grand policies in restructuring the industries and the banking system to deal with bad debts and bankruptcies, with financial and monetary policies designed to control inflation, etc. Those policies, instead of cooling down the situation, make it more serious (World Bank, 2011, 2012). In addition to failing to reduce poverty and inequality, those policies play as instruments of some small but powerful interest groups, with support and cooperation from government officials (at a high level), to serve their own interests by tricks in merging banks and companies, sometimes literally stealing wealth and property. It has been described as similar to what happened in Russia in the early 1990s when Russia's powerful interest groups and mafia cooperated with the Russian government to grasp national wealth overnight (Thanhnien Newspaper, 2012 Oct 25; Vietnamnet, 2012, Nov 2). Those policies not only make the poor in the far away and disadvantaged areas stuck and left farther behind the already wealthier areas but the whole economy is put in a dark light and a loss of popular belief in the government's abilities and policies (UNDP Vietnam, 2010b; World Bank, 2012).

During the October 2012 Assembly Meeting of the Vietnamese Parliament, Prime Minister Nguyen Tan Dung and President of the State Bank of Vietnam, Nguyen Van Binh were deeply questioned by Parliament on the government's responsibility for the implementation of financial and monetary policies, the banking system restructure plan, on some hot problems of recent illegal bank and company mergers, on issues related to social security, and on people's continuous complaints about their descending life due to high inflation, high prices, and unemployment which have come as partial consequences of government policy failures (Vietnamnet, October 22, 2012).

Prime Minister Nguyen Tan Dung and State Bank President Nguyen Van Binh both have accepted their mistakes in their respective responsibilities and promised to have solutions. The Parliament and the public keep a close eye on those recent events and issues, and are waiting for changes. However, Parliament Members say they are hopeful, but doubtful of positive changes. A lot of management weakness and failed policies happen for a long time and nothing changes, which undermines not only the public but also Parliament Member's trust of the Government (Vietnamnet, October 24, 2012). Government responsibility and accountability in such cases are far from expected, when the political system, where the Communist Party still asserts its complete control over the nation, does not allow a real and effective power-balance-checking mechanism (World Bank, 2012).

Unsound Economic Policies and State Corruption: Waste and Depravation of People's Living Resources

At present, economic and industrial restructure has been of a vital importance to the development progress in Vietnam which is also seriously considered as one of the most strategic choices for the country to get rid of the middle income trap[4] (World Bank and the Aid Effectiveness Forum, 2010). This restructure process has four aims for economic growth. The first is to promote the industry and service sections of the economy, eager to catch the level of new industrialized countries. The second is to make new comparative advantages not only for Vietnam's current development, but also for the future when Vietnam penetrates more deeply into the regional and international markets. The third is, therefore, to reallocate national resources and thus, development benefits as well, among different industries, classes and regions in an expectedly proper and more equal way. The fourth is to help establish the most powerful state-owned or state-influenced economic sectors to make them the backbone of the national economy (Perkins and Vu, 2010). It is important to see whether these economic and politico socio-related goals are complimentary to each other and really pro-development, whether the backbone is set up as a guarantee of the state's economic and then political power (UNDP Vietnam, 2010b).

[4] The term "middle income trap" is used to show developing countries which have moved from low income to middle income level by utilizing and resorting to their intensive uses of natural resources, cheap labor, and capital in low technology content industries. All lead to temporary economic growth, then a development bottleneck is created. This makes these countries unable to move to a higher section in the global supply chain where goods produced are of higher added values which are mainly created by technology and skillful labor.

The restructure and privatization process meets a lot of difficulties and progresses very slowly. Poor management, state-interest group cooperation and state corruption must take the biggest responsibility for this standstill. SOEs (state-owned enterprises), with their inherited and existing social and even political networks set in the central planning regime, can gain financial and budget favors from the state (Dapice, 2003; Saich, Perkins, Dapice et al, 2008). A more blurred cut between political powers and economic roles induces SOEs to abuse their economic-social-political positions to accumulate capital and allocate resources to unplanned and unvested uses, and of course, heavy corruption (World Bank, 2012). A more mixed up nature of "public" and "private" existing in SOEs makes the Vietnamese state lose much of its coherence and ability to impose important priorities on the changing structure of the entire economy. The state even lacks the capacity to evaluate the effectiveness of SOEs based on clearly defined performance criteria. It is also unclear for state assistance and coordination with relevant ministries in the implementation of centrally determined policies. All of such management weakness leads to a serious lack of transparency which is a rich land for big SOEs and their leaders, cooperating with state officials in huge corruptions (UNDP, 2006b).

Unsound and corrupted economic allocation of resources and therefore consequently improper, unfair distribution of income during the economic restructuring process is an important cause leading to Vietnam's poor economic picture at present (World Bank, 2009, 2011). How do we explain the fact that SOEs continue to receive large amounts of state support and priority when compared to the private sector and are showing unexpected economic performance? Why do large private businesses (who have close relations with state officials) gather to form powerful interest groups and cling to the government to seek rents (Bach, 2004; Beresford, 2004; Fforde, 2005a; UNDP, 2006b; UNDP Vietnam and MPI, 2010a)? Some may interpret that it is an inevitable and acceptable trade-off in the early stage of economic development for the sake of capital accumulation and also consolidation of political position (Rostow, 1992). The trade-off here means that the poor have to suffer the increasing inequality and may even be taken out of the development agenda (UNDP, 2006b; World Bank, 2008, 2010; Vietnam World Bank Partnership on Poverty Reduction, 2011).

Regarding SOE development policies, it is rather obvious that not all investments of equal financial value are equally good for Vietnam. Paradoxically, the country's resources (almost allocated to SOEs) appear to have been shifting increasingly towards inefficient high-cost, low-return investments and low job creation rather than towards more efficient low-cost, high-return investments and high job creation (UNDP, 2006b; UNDP Vietnam and the Ministry of Planning and Investment, 2010a; Saich, Perkins, Dapice et al 2008).

The Government gave large SOEs privileged access to capital (68% of the total available), fixed assets (55%), and bank credit (45%) as well as a high level of operational autonomy-they directly report to the Prime Minister (World Bank, 2010). SOEs are also involved in national industrial sector planning. For example, Vinashin prepared the national shipbuilding industry strategy and EVN worked out the power strategies for 5-year plans (Breu, et al, 2012). Many SOEs enjoy monopoly status in critical sectors. For instance, fertilizer (99%), coal (97%), electricity and gas (94%), telecommunication (91%), water supply (90%) and insurance (88%) (General

Statistical Office, 2011). SOEs create credit market distortions. Commercial banks tend to provide loans to SOEs rather than to more efficient small and medium sized private companies due to cross-ownership by SOEs, implicit government guarantees for SOEs and political influence (Breu, et al, 2012).

But SOEs have become increasingly inefficient. Labor productivity of SOEs compared with the rest of the enterprise sector widened from 1:4 in 2000 to 1:10 in 2008. Between 2007 and 2009, the average return on equity (17%) was below that of foreign firms (27%) (General Statistical Office, 2000 to 2011). In 2011, four SOEs generated 80% of all SOE profits (oil, telecoms, mining, and rubber)-few of the remaining 1,300 are profitable (General Statistical Office, 2010). This leads to the fact that SOEs receive huge capital from the State but make modest contribution to the country's GDP (see table 1: "Structure of GDP by ownership"). SOEs have also created a huge debt burden (World Bank, 2009, 2012). Two large ones have recently defaulted on their debts: Vinashin and Vinalines. Vietnam's most indebted SOE ($11.4bn) EVN is running at a loss (Breu, et al, 2012, World Bank, 2012). It is easy to ask where the money goes. Is it state invested money, or it is money from taxes, (Breu, et al, 2012)?

Table 1:

Structure of GDP by ownership (% at current prices)

	1991	1996	2000	2006	2007	2008	2009
State sector	29.3	39.9	39.0	37.4	35.9	34.3	33.2
Non-state sector	70.7	52.7	47.7	45.6	46.1	47.0	47.5
FDI sector	0.0	7.4	13.3	17.0	18.0	18.7	19.3
GDP	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: General Statistics Office, various editions

SOEs and large private businesses tend to cooperate with the state in order to seek and maintain rents and compartmental interests on the one hand, but also create and take advantage of the social, political networks on the other hand. This phenomenon is seen as the foundation of a new wealthy class of distinct economic and political power whose capital accumulation is made through the exploitation of the poor's labor, and consequentially whose social and especially political power is built on the poor's social and political interest depravation (Baulch et al, 2011). Moreover, the unequal allocation and distribution of resources and consequentially incomes, in this case, is supported by government policies (Beresford, 2004; Taylor, 2004; UNDP 2006b; UNDP Vietnam and MPI, 2010a; WB, 2009b, 2010, 2012). The government is under increasing pressure from the Parliament and the public for public investment and expenses which are considered to be of chronic inefficiency causing huge public debts (UNDP Vietnam and MPI, 2010a, World Bank, 2010).

Some selective examples of such huge but ineffective investments are widely known domestically and internationally. Dung Quat oil refinery; Vinashin, the biggest shipbuilding company; and Vinaline, the biggest shipping company of Vietnam, appear as hot news in the media recently. These projects may be initialized with the expectation to help the country, to improve its economic position in world markets, to strengthen the nation's economic independence, to provide employment and modernization opportunities to the less developed areas of the country. However, such goals so far fail to be met (World Bank and the Aid Effectiveness Forum, 2010; UNDP Vietnam and the Ministry of Planning and Investment, 2010a; Hookway, 2011).

In the long run, such investments might raise questions concerning what the government defines as national economic security. Even in the near future and at present, the profitability that partly justifies these projects so far has not been proven and is still questioned by the legislature in its recent meeting sessions. Actually, the Dung Quat oil refinery project has been delayed 9 years and needed to have its capital investment doubled, making the total capital rising to US $3 billion, and could create only 1,000 jobs. Economists calculated that the annual interest this project pays to its creditors, if invested in garment or footwear industries, could provide around 500,000 jobs and produce bigger export revenue (Saich, Perkins, Dapice et al, 2008).

Vinashin, a state-owned company, the biggest shipbuilding enterprise, is funded by the Vietnam government with the hope to compete with other shipbuilding powers in the world and the region such as South Korea and Japan. Vinashin has shown a huge debt of VND 107,000 billion which is equivalent to more than US $5.03 billion (Bland, 2011). The public, the legislature and especially Vinashin's creditors all show serious concerns and frustration in this case and are waiting for relevant responses from the government in settling the problem. However, all of them cannot be satisfied with the way the government deals with this case. "…Investors involved in the $600 million syndicated loan say they have been surprised by the unresponsiveness of the Vietnamese government to their concerns" (Hookway, 2011).

The Vinashin case actually is not only a tough economic lesson in terms of possible losses of money, but also a tougher lesson for the Vietnam government in terms of their possible losses of credit to and trust by foreign investors whose investments have helped the country's economy over the last two decades. This credit loss is more serious when the country is in economic crisis with high inflation, currency devaluation and lack of capital for infrastructure improvement (Hookway, 2011; Bland, 2011). And a much bigger loss, which is just slightly mentioned in Vietnamese media, is that of the people's trust in the government economic management in particular and its political legitimacy in general (Reform and Development, 2010).

The case of Vinashin might be the tip of the iceberg of SOEs which shows that the reasons leading to such crises lie not only in the government's poor economic management, ineffective financial supervision but also state corruption (Gainsborough, Dang and Tran, 2009; Reform and Development, 2010). And the answer to such issues requires radical changes, at least in the current institutions, which can facilitate more effective economic management, stricter financial and investment supervisions and most of all-government accountability (Saich, Perkins, Dapice et al 2008).

During the recent Parliament Meeting on October 30, 2012, the National Assembly and its members warned that due to the government's poor economic management public expenditure and investment, the country's limited resources which should have been used to actually improve people's living standards are now being used in a seriously ineffective way. In return it negatively influences people's daily lives. Mr. Lê Như Tiến (Deputy Chair, Assembly's Committee for Culture, Education, Youth and Children) asserts that "not taking all the SOEs' extremely huge debts, but only Vinashin's debt of over US $5.03 billion, the government could have provided a lot of public services to the people and does not have to break its promise to give a pay-rise to employees nationwide. To build a classroom costs US $25,000; a museum: US $50,000; a health clinic: US $100,000. The Vinashin debt could be used to build either 214,000 classrooms, 107,000 museums, or 53,000 health clinics. And with 11,000 communes in the whole of Vietnam, each commune could have either 20 classrooms, or 10 museums, or 5 health clinics" (Vietnamnet, 2012, October 30).

The above facts of Vietnam's economic development lead to the need for reassessing the role of SOEs, their investment efficiency in particular and the government's economic management in general. The present method of economic development and management is creating a rich land for biased, vested, corrupt interest groups and state officials. It causes a big waste and depravation of people's living resources. In turn, lack of resources directly leads to negative effects on people's livelihood: unemployment, low income, lack of education and health service, etc.

The nearest solution may include further expansion of private businesses instead of putting large financial resources into SOEs. It is rather clear that there is an urgent need for a much more deliberate policy-shift to free up resources for lower capital-intensive, higher job-creating industries like garments, footwear, light manufacturing and processing, balanced with cement, steel, fertilizer, automobile and shipbuilding industries. Similarly, the real value of some large showcasing of public sector projects appears to need more careful review in terms of their contribution to the sustainable development of Vietnam, the well-being of the Vietnamese people, and the goal of equitable development which promises to bring equal benefits to all parts of the population (UNDP Vietnam and the Ministry of Planning and Investment, 2010a). It is necessary to reiterate that Vietnam is a country with a large youth population whose need of employment is very high. Proper economic policy in general and resource allocation planning in particular must be well designed for the sake of the working people in terms of their employment security.

Government's Poor Economic Management: High Inflation and High Unemployment

Vietnam's macroeconomic policies are perceived to be successful in reducing and effectively controlling hyper-inflation in the 1990s. But now it is this policy that leads to high inflation rates in the recent five years (2006 to 2011) with rates going beyond 2 digits[5]. All of these phenomena force not only the poor but even the middle income people to suffer much difficulty (Thanh Nien, January 10, 2008). The government promised parliament that the year 2008 would see more effective price and inflation control, say, CPI (Consumer Price Index) below 12%. But in fact the CPI reached 32% for the whole commodity basket and 97% for food (which accounts for 70% of the people's spending) in August 2011 (Thanh Nien, August 15, 2011). The government argues that inflation is still under control and such a CPI rate is needed to stimulate economic growth. This argument continued until recently when, in late 2011 and early 2012, the government could not turn away from high CPI and inflation which seriously affects people's lives, especially the poor and the middle class (Pham, 2011). The government's growth priority now must give way to inflation and CPI control. The consequences otherwise would be social and political unrest (Saich, Perkins, and Dapice et al,

[5]Vietnam GSO's declared annual inflation rates, according to many economists, are usually lower than those calculated and provided by IMF, WB or independent researchers.

2008; World Bank and the Aid Effectiveness Forum, 2010; Hookway, 2011).

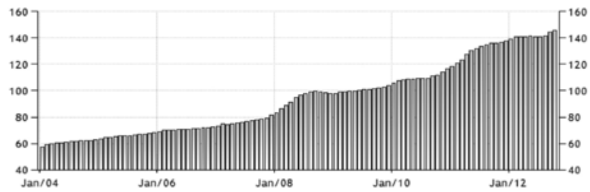

Figure 1: Vietnam consumer price index (CPI)

Source: General Statistics Office of Vietnam, various years

A near hope of the poor in Vietnam to have better living standards seems to be still far away when Vietnam entered 2011 in a phase of heightened macroeconomic vulnerabilities. This was characterized by a high and rising inflation rate, extreme volatility in the foreign exchange market, rapidly dwindling international reserves, a sharp rise in economic risk following the default of one of its biggest state-owned enterprises (Vinashin), high levels of fiscal and trade deficits, and weaknesses in the banking and corporate sectors (WB, 2012).

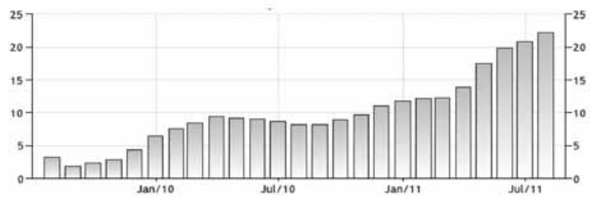

Figure 2: Vietnam inflation rate

Source: General Statistics Office of Vietnam, various years

Real GDP growth has decelerated from 6.8 percent in 2010 to 5.9 percent in 2011, and further to 4 percent in the first half of 2012-as higher prices have lowered domestic demand, affecting sectors such as construction, manufacturing and utilities. Industrial production has slowed, inventory for key industrial products has accumulated, and a large number of small and medium enterprises (26,000 companies) have either closed, been liquidated or temporarily suspended their operations. Such economic status has led to a serious situation of unemployment with over 2.5 million people unemployed in 2012. High inflation, increasing consumer prices, and job losses have doubled the miserable living condition of the poor (World Bank, 2012).

According to GSO, 31.7 percent of companies in Vietnam plan to downsize. More than 26,300 companies shut down or halted operations in the first six months of 2012, up 5.4 percent from the same period last year. There will be challenges for the economy and the employment situation. Of the closures, 4,100 companies have shut down permanently, an increase of 35.4 percent year-on-year (GSO, 2012).[6]

Those figures compare to 36,195 new companies that were established in the period, down 12.5 percent from the first half of last year. Fewer new businesses and more closures are the result of difficulties that local companies are unable to overcome, according to the report. Vietnam's unemployment rate continues to rise in 2012 as not only the world but mainly the domestic economy is in difficulties (GSO, 2012).

Even in the two biggest economic centers of the country, Hanoi and Ho Chi Minh City, where people from all over the country head to in search

[6]All statistical data provided by GSO of Vietnam is considered inaccurate for many reasons. The unemployment rate presented here is estimated to be much lower than the actual number. The fact that most of Vietnamese workers do not inform the government offices of their employment status, and the informal economy of Vietnam cannot be measured, etc, are among the reasons leading to the inaccuracy of official data.

of jobs, the employment picture is not bright. Since October 2011, the unemployment rate in Hanoi has increased. In 2011, Hanoi had 16,100 unemployed people, a 4-fold increase annually due to the closure of production, processing facilities, and shortage of orders. Lately, 844 companies, branches, representative offices and legal offices finalized procedures for liquidation or bankruptcy in the capital city. GSO (2012) assessed that the layoffs and unemployment might continue in 2012. "Around 10% of unemployed applicants in Hanoi used to be managers, which showed that unemployment also affects high-level people. Vietnam had about 52.7 million people aged 15 years or older in 2012 (GSO, 2012).

Ho Chi Minh City last year had more than 107,700 unemployed people, double the previous year. According to the Ho Chi Minh City Job Promotion Centre, the higher number of the unemployed was attributed to the difficult economy and companies going bankrupt. Even management staffs became unemployed and have not been able to find new jobs, accounting for 7% of total unemployed applicants (GSO, 2012).

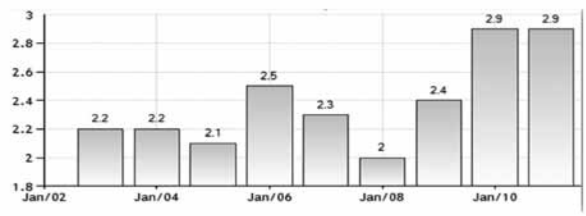

Figure 3: Vietnam unemployment rate (percentage of the labor force)

Source: General Statistics Office of Vietnam

While the stabilization efforts currently made by the Government may have contributed to a cyclical slowdown, Vietnam's trend growth rate has been on a downward path for the last 5-6 years, largely on account of the slow pace of structural reforms. Inefficiencies in state-owned enterprises, banks and public investments have been a drag on the country's long-term growth potential. With lingering inefficiencies in state-owned enterprises and weaknesses in the banking system, stimulus measures being presently carried on will contribute to preserving an inefficient growth model, going against the Government's own desire to move towards a more productive and competitive economy. The country remains susceptible to future bouts of macroeconomic instability, there is little doubt that Vietnam government's current measures to stabilize the economy and ensure social stability has helped to stem the tide of instability and to rebuild the Government's economic management credentials (World Bank, 2012).

Conclusion: Vietnam's Development Forward or Backward?

This paper closes with the conclusion that although Vietnam has achieved some economic progress, all of them are mainly viewed in terms of quantity and are somewhat politically influenced (the case of SOEs and the chronic but deliberate lack of information on management and financial corruption). This leads to an incomplete understanding of the actual situation of economic development in Vietnam. Thus, it also leads to the illusion of somewhat of a management miracle-the Vietnam government. The paper's analyses aim to reassess Vietnam's economic development process through some typical, selected issues to assert that Vietnam has partially failed to achieve economic development in term of not only poor economic performance and dark economic indexes but more importantly such failures in their turn have outright and direct negative impacts on people's daily lives physically, materially.

In the longer run, Vietnam's ambition to maintain high growth into the next decade will require as bold a set of reforms as the one adopted with Doi Moi. The challenge is arguably more difficult than the previous one, and few countries in the world have accomplished it. Vietnam is endowed with a young and hard-working labor force. This is a vital asset to meet the country's ambitious goals, if the country manages to equip itself with relevant skills, and match it with necessary capital. It also needs a level-playing field to maximize its potential. As people become more educated and production becomes more sophisticated, demands for predictability, trust and a level playing field will grow. Transparency is a critical element in this process (WB, 2011).

Concentration of economic power in a small number of large firms undermines efforts at creating a level and transparency playing field. Or in the language of freedom, this concentration of economic power in a small number of interest groups is depriving the working people from freely and equally entering economic and production activities. This in turn prevents the whole economy from optimizing its overall resources. Large firms and industries that circumvent rules to their advantage are promoting corruption, and undermining efficiency, which damages the country's potentials, too. The governance challenges are complex, but Vietnam's medium term outlook will be much better if they are addressed sooner rather than later. There needs to be greater emphasis on efficiency of public investment, restructuring of SOEs and the whole economy, guarantee and maintain transparency and other structural reforms even if this means some moderation in short-term growth (World Bank, 2011).

In a country whose economy is controlled by the State cooperating with a small number of economic powers (interest groups), the people have no voice in deciding important issues concerning not only their economic but also socio-politico interests (World Bank, 2011). The recent hot issue in Vietnam society which attracts not only attention from the public but also appears frequently in the Parliament's agenda is that of fighting against interest groups and state corruptions as they are considered dangerous threats to the stability of the nation (Thanh Nien News Paper, 2012, Oct 15).

In October 2011, the Government announced its intention to restructure state-owned enterprises, the public investment regime and the financial sector. Blueprint for reform in each of these areas already exist or are being developed. For example, MPI is working to develop a restructuring plan for public investment including the formulation of a Decree on medium-term investment planning, a new law on public investment, and a law on spatial planning. A report by National Steering Committee for Enterprise Restructuring and Development (NSCERD) was published in December 2011 with ambitious targets on SOE equitization. It was followed by a draft restructuring plan for SOEs for 2011-15 by Ministry of Finance's Steering Committee which includes measures on management and supervision of state capital and performance monitoring of SOEs. Government Decision 254 on "Restructuring credit institution system in the 2011-2015 period" provides a framework to deal with weak banks and sets out a number of restructuring options. But what is perhaps missing is a 'restructuring roadmap' with a clear timetable and an effective oversight/checking/supervising mechanism for implementing it. Without these reforms, especially in a context of continued global economic uncertainty, the economy is unlikely to shift to a higher growth path and at the same time avoid recurring macroeconomic imbalances such as those seen in the past four to five years (WB, 2012).

Abbreviation and Acronyms

ADB: Asian Development Bank

EVN: Vietnam Electricity

FDI: Foreign Direct Investment

GDP: Gross Domestic Product

GNP: Gross National Product

GSO: General Statistics Office

GSRV: Government of the Socialist Republic of Vietnam

HDR: Human Development Report

IMF: International Monetary Fund

MPI: Ministry of Planning and Investment

NCSSH: National Centre for Social Sciences and Humanities

SBV: State Bank of Vietnam

SOE: State Owned Enterprise

UNDP: the United Nations Development Programs

UNHDR: United Nations Human Development Report

USD: US Dollar

VINASHIN: Vietnam Shipbuilding Industry Group

VINALINE: Vinalines Container Shipping Company

WB: World Bank

PPP: Purchasing Power Parity

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