

SOCIOECONOMIC PERFORMANCE

1. Viet Nam is in a steady transition from a centrally planned economy to a socialist market economy. Its socioeconomic development has been impressive. Before the Asian financial crisis in 1997, Viet Nam's economy grew at an average of about 8% annually from 1990. While growth slowed down after the crisis, it picked up in the 2000s and grew at an annual average of 7.5% between 1999 and 2006, the second fastest in Asia after China.
2. Investments in Viet Nam grew at an annual average of about 13.6% between 1999 and 2006, with foreign investments growing at an annual average of 14.3%. Industry and construction had been growing faster than the other sectors at about 10.2% annually between 1999 and 2006, while agriculture grew at about 3.9%. The share of industry and construction in the gross domestic product (GDP) steadily increased from 34% to 41%, while agriculture's steadily declined from 24% to 19%.
3. The period saw a relatively stable share of the state as the largest "owner" at about 40.7% annually while foreign investment-owners' share increased from 10.4% to 12.8%. The period also saw the share of private non-state owners increasing from 7.5% to 10.3%. The number of state-owned enterprises decreased from 5,759 in 2000 to 3,706 in 2006 while non-state enterprises more than tripled in number from 35,004 to 123,392. The number of foreign investment enterprises increased from 1,525 to 4,220.
4. Viet Nam's economy became more integrated with the world economy over the period. The share of exports in the GDP increased from 50% to 73% and the share of imports grew from 53% to 77%. Presently, Viet Nam is the second largest exporter of rice. Its other key exports are crude oil, coal, electronic parts, footwear, textile products, coffee, fishery products, and wooden products. In 2006, the top four destinations of its exports were the United States (19.7%), Australia (9.4%), Germany (3.6%) and the United Kingdom (3.0%). Viet Nam's imports in 2006 were mostly fuels and raw materials (67.6%) and machinery, instrument and accessory (27.7%). The top four sources of imports (9.7%) were Switzerland, Australia, the United States and Germany.
5. Viet Nam's growth has been accompanied by a significant reduction in poverty. Between 1998 and 2006, poverty incidence was more than halved from 37.4% to 16.0% and real income per capita doubled from \$360 to \$723. Viet Nam is classified among the "medium human development" countries, which includes Sri Lanka and Indonesia, and is ranked 105th among 177 countries. While poverty incidence has been reduced, there are indications that there is a widening gap between the rich and the poor. The share of total income of the poorest household quintile dropped from 8.0% in 1990 to 5.6% in 2006 while the share of the richest quintile increased from 42.7% to 49.3%. The average monthly per capita income in urban areas is also about double those in rural areas in 2006.
6. Viet Nam's transition and socioeconomic development agenda towards rapid economic growth and poverty reduction has been guided by 10-year strategies and 5-year plans. The period from 1991 to 2000 was guided by the *Socioeconomic Stabilization and Strategy to the Year 2000*, which prioritized macroeconomic stabilization, and placed greater focus on human and physical capital development. It included, among others, deepening reforms, rehabilitation and development of critical infrastructure, revitalization of education and health systems, reform of public administration, promotion of the private sector, commercialization of state enterprises, and promotion of exports and foreign investment.

7. The *Socioeconomic Development Strategy 2001–2010* is articulated through the Socioeconomic Development Plan (SEDP) 2001–2005 and the Socioeconomic Development Plan (2006–2010). SEDP 2001–2005 recognized the role of market-oriented economic institutions, while the state economy plays a leading role. It also aimed to increase the share of industry and services, increase investments and improve competitiveness. The plan was tasked with creating favorable conditions to rapidly promote exports and attract foreign capital and technology. The financial and monetary system was to improve its soundness and capital markets were to be developed to meet socioeconomic development needs. Human resource development was also to be addressed through comprehensive changes in education, training, and scientific and technological development; universal lower secondary education was aimed at.

8. The tasks set out under SEDP 2006–2010 include, among others, getting Viet Nam out of the low-income group, moving more strongly into the market economy, accelerating international economic integration, improving the quality of human resources for national industrialization and modernization, realizing equity and gender equality and encouraging people to get rich through legitimate ways, and developing a social security system.

9. **Recent Developments and Continuing Challenges.** Viet Nam became a member of the World Trade Organization (WTO) in January 2007.¹ Its membership is expected to improve its exporters' access to foreign markets, increase the competition faced by domestic suppliers from foreign suppliers, and improve access to capital markets. Cheaper imports would help control inflation. Market-friendly reforms required by the WTO would help improve the investment climate and attract more investments. With greater domestic competition and banks allowed to compete on equal footing regardless of ownership, inefficient producers may close and its workers rendered unemployed, which would require retraining and social protection responses. For improved efficiency in the allocation of capital and to meet increased competition, the reform of the state-dominated banking system would need acceleration.

10. Maintaining a high economic growth rate would entail a larger role to be played by the private sector, which would need facilitation through the regulatory environment and availability of basic infrastructure. Improved governance and modern public administration would help improve the allocation and use of resources. Viet Nam is also taking on the challenges of sustainable economic development and climate change, particularly in view of its low-lying deltas and long coastline. The widening income gap and potential employment costs of increased domestic competition would need to be addressed. Transparency and accountability in public service delivery are also needed.

11. The double-digit inflation of early 2008 has exposed the weaknesses of some of Viet Nam's policies, such that the Government has changed its priority in 2008 from rapid growth to stabilization, curbing inflation and the trade deficit.² The stabilization steps adopted includes "cutting government expenditures, stopping inefficient public investment projects, postponing new ones, and allowing greater flexibility of the exchange rate."³ The Asian Development Bank (ADB) observed that Government's capacity for macroeconomic policy management needs

¹ IMF. 2007. Article IV Consultation-Staff Report. Washington, DC, and P. Tumbarello. 2007. WTO Accession will Help Vietnam Strengthen Economy. Washington, DC. R. Adhikari in an interview with Indochina Consultancy and Construction Investment, 2006.

² ADB. 2008. *Asian Development Outlook Update*. Manila, and World Bank. 2008. Executive Summary of *Taking Stock*. Hanoi.

³ World Bank. 2008. Executive Summary of *Taking Stock*. Hanoi.

attention, including the development of the monetary policy framework.⁴ Despite the challenges presently faced, ADB concluded that Viet Nam's medium- and long-term economic prospects to be good.

Table A1.1: Country Economic Indicators, 2001–2006

Item	Fiscal year						
	2001	2002	2003	2004	2005	2006	2007
A. Income and Growth							
1. GDP per Capita (\$, current) ^a	415.4	439.8	488.9	553.9	636.7	723.5	830.4
2. GDP Growth (% in constant prices)	6.9	7.1	7.3	7.8	8.4	8.2	8.5
a. Agriculture	3.0	4.2	3.6	4.4	4.0	3.4	3.4
b. Industry and Construction	10.4	9.5	10.5	10.2	10.6	10.4	10.6
c. Services	6.1	6.5	6.5	7.3	8.5	8.3	8.7
B. Saving and Investment (current and market prices, % of GDP)							
1. Gross Domestic Investment	31.2	33.2	35.4	35.5	35.6	36.8	41.6
2. Gross National Saving	27.5	27.0	25.8	27.0	34.7	35.0	–
C. Money and Inflation (annual % change)							
1. Consumer Price Index ^b	(0.4)	4.0	4.3	7.8	8.4	7.4	8.3
2. Total Liquidity (M2)	25.5	17.6	24.9	29.5	29.7	33.6	46.0
D. Government Finance (% of GDP)							
1. Revenue	21.2	22.3	25.3	27.4	28.0	26.8	24.9
2. Expenditure and Onlending	24.4	24.2	26.4	26.2	27.3	27.5	28.1
3. Overall Fiscal Surplus (deficit) ^c	(3.5)	(2.3)	(2.2)	(0.2)	(1.1)	(1.8)	(5.4)
E. Balance of Payments							
1. Merchandise Trade Balance (% of GDP)	1.5	(3.0)	(6.5)	(8.5)	(4.6)	(4.6)	(14.6)
2. Current Account Balance (% of GDP) ^d	2.1	(1.7)	(4.9)	(3.5)	(1.1)	(0.3)	(9.8)
3. Merchandise Export (\$) Growth (annual % change)	3.8	11.2	20.6	31.4	22.5	22.7	21.9
4. Merchandise Import (\$) Growth (annual % change)	3.7	21.8	27.9	26.6	15.0	22.1	38.3
F. External Payments Indicators							
1. Gross Official Reserves (including gold, \$ million)	3,765	4,231	6,359	7,186	9,216	13,591	23,872
(in weeks of current year's imports of goods)	11.2	11.0	9.4	9.3	10.0	–	–
2. External Debt Service (% of exports of goods and services)	6.7	6.0	3.4	2.6	2.6	–	–
3. Total External Debt (% of GDP)	39.2	38.7	41.1	40.5	36.9	33.9	–
G. Memorandum Items							
1. GDP (current prices, D billion)	481,295	535,762	613,443	715,307	839,211	973,790	1,144,015
2. Exchange Rate (D/\$, average)	14,725	15,280	15,510	15,741	15,859	15,994	16,179
3. Population (million)	78.7	79.7	80.9	82.0	83.1	84.1	85.2

– = not available, () = negative, D = dong, GDP = gross domestic product.

^a Computed from per capita GDP in Dong divided by the average exchange rate for the year.

^b Annual change (% , period average).

^c Excluding grants and including on lending.

^d Excluding official transfers.

⁴ ADB. 2008. *Asian Development Outlook Update*. Manila.

Sources: Asian Development Bank, General Statistical Office of Viet Nam, International Monetary Fund, Ministry of Finance of Viet Nam, and State Bank of Viet Nam. ADB Country Strategy and Program, Viet Nam 2007-2010.

Table A1.2: Social Indicators

Social Indicators	Viet Nam		ASEAN ^a	DMCs ^b
Population (million)	66.2 (1990)	76.6 (2006)	102.9 (2004)	178.7 (2004)
Population (growth rate, %)	2.3 (1990)	1.3 (2006)	1.2 (1975–2004)	1.3 (1975–2004)
Labor Force (million)	35.0 (1989)	37.7 (2006)	51.1 (2006)	101.9 (2006)
Labor Force (growth rate, %)		2.6 (2005)	1.1 (2006)	2.2 (2006)
Unemployment Rate (%)		2.5 (2005)	5.1 (2006)	4.4 (2006)
Life Expectancy at Birth (years)	67.0 (1990)	73.7 (2005)	68.4 (2005)	65.2 (2005)
Poverty Incidence (% of population)	51.0 (1992–1993)	24.1 ^c (2004)	18.6 ^f (1999–2003)	32.4 (1999–2003)
Infant Mortality (per 1,000 live births)	44.0 (1992)	16.0 (2005)	19.3 (2004)	58.3 (2004)
Adult Literacy Rate (% of population)	88.0 (1990)	90.3 (1995–2004)	90.6 (2004)	86.4 (2004)
Youth Literacy Rate (% of population)	94.0 (1990)	93.9 (2000–2004)	98.0 (2004)	92.1 (2004)
Children Underweight for Age (% under age 5)	52.0 (1980–1985)	28.0 (2002)	17.7 (1996–2004)	34.1 (1996–2004)
Sustainable Access to Improved Sanitation (% of population)	18.0 (1988–1990)	71.0 ^d (2004)	82.7 (2004)	58.1 (2004)
Sustainable Access to Improved Water (% of population)	27.0 (1988–1990)	89.5 ^e (2004)	91.7 (2004)	76.8 (2004)

ASEAN = Association of Southeast Asian Nations, DMC = developing member country.

^a Average of Indonesia, Malaysia, and Thailand.

^b For all reporting developing member countries, except Pacific countries and ASEAN.

^c Percent of the population below the national poverty line.

^d Average for urban and rural areas

^e Average for urban and rural areas

^f Indonesia only.

Sources: Asian Development Bank. Various Issues. *Key Indicators*. Manila; United Nations. 2007/2008. *Human Development Report*. Washington, DC.; and World Bank. 2008. *World Development Indicators*. Washington, DC.