

Exponential Growth in Economy of Socialist Republic of Vietnam



Manzil Pakistan is a national non-profit think tank dedicated to developing and advocating public policy that contributes to the development of Pakistan. Our aim is to shape Pakistan to a country where policies on decisions of national interest are driven by non-partisan strategic thinking and implemented through consensus in the best interest of the people of Pakistan.

Note: *This note document is compilation of generally available information on the subject.*

Introduction and Background

During the last two decades, there has been several changes in the international front from trade perspectives. This includes globalization, openness and trade liberalization, change of trade dynamics from resource based and low intensive technological products to moderate / medium and high technology products and increase in the share high end value added products in the international trade.

The Socialist Republic of Vietnam, since the end of its isolation in 1986 due to various conflicts, has initiated a series of reform both economic and political reforms. These reforms over the years and decades have been reflected in the integration of the country in world politics and the global economy. As a result of such successful and long term reforms, the Socialist Republic of Vietnam, today has been enjoying high GDP growth rates. Over the last one decade or so, it has been consistently ranked among the fastest growing economies in the world.

The current document is a preliminary review of Vietnam growth patterns. The impact of structural reforms from agri-based economy to a industrial and service based economy. The documents also look at the structural initiatives that have been taken to achieve such reforms. The main objective of this document is to set an example of the reform initiative in Vietnam and translate the applicable reforms for the structural changes needed for the developing economy of Pakistan. The economy of Pakistan is currently faced with low and fragile GDP growth rates, facing high current account deficits due low export growth and high growth in imports.

This document is an internal document of Manzil Pakistan, and solely for the purpose of policy making for any structural reforms. The document is largely a compilation of reports from other institutions including reports of State Bank of Pakistan.

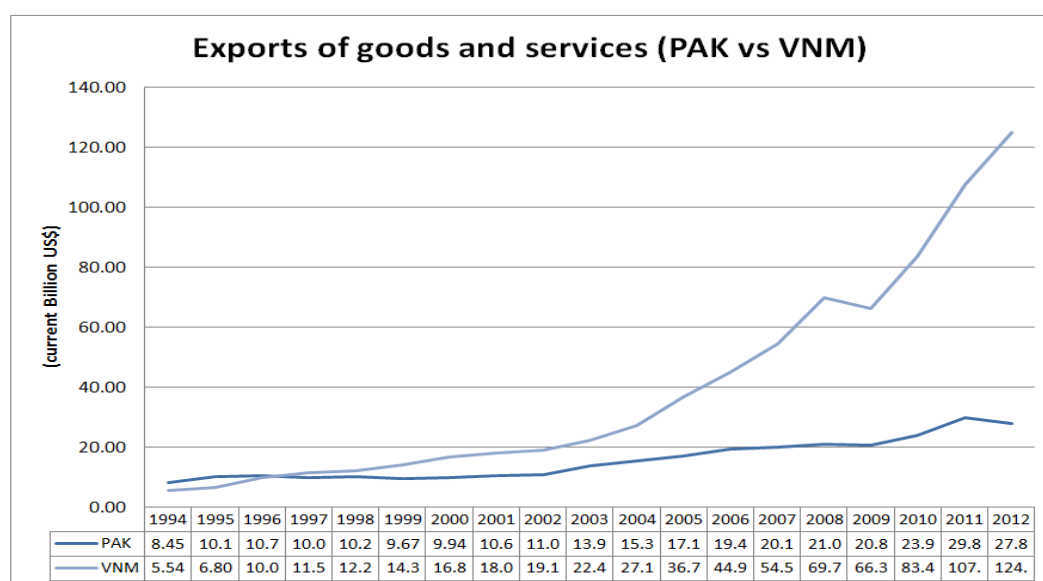
30-years (1989- 2018) Exports Comparison Vietnam vs Pakistan

Till mid-80s Viet Nam's exports and overall economy was in deep stress, inflation soared to

Year	Current Billion USD		Growth Rate (YoY)	
	PAK	VNM	PAK	VNM
1989	5.58	1.50	6.69%	49.64%
1990	6.22	2.33	11.47%	55.39%
1991	7.73	2.97	24.26%	27.43%
1992	8.44	3.43	9.28%	15.36%
1993	8.39	3.79	-0.57%	10.43%
1994	8.45	5.54	0.66%	46.32%
1995	10.13	6.80	19.91%	22.83%
1996	10.70	10.08	5.63%	48.10%
1997	10.04	11.57	-6.19%	14.82%
1998	10.25	12.20	2.11%	5.47%
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2012	27.82	124.70	-6.75%	15.89%
2013	30.70	143.19	10.37%	14.82%
2014	29.92	160.89	-2.55%	12.36%
2015	28.69	173.49	-4.10%	7.83%
2016	25.48	192.19	-11.17%	10.78%
2017	25.11	227.35	-1.46%	18.29%
2018	26.66	233.65	6.16%	2.77%
Average Growth Rate			5.99%	20.72%

over 700 per cent, economic growth slowed down, and export revenues covered less than the total value of imports. It then entered a growth spurt in the late 1980s, and continued on this trajectory almost continuously since then; its high growth journey outpaced the ASEAN peers in terms of economic performance. Also, the country emerged as a new manufacturing powerhouse in Asia; in fact, it is now the biggest ASEAN exporter to the US – Vietnam's exports to USA stood at US\$33.5 billion during 2015, compared to Korea (US\$8.9 billion), Singapore (US\$3.3 billion), Thailand (US\$3.2 billion) during the same period¹.

Pakistan was faring well in exports as compared to Viet Nam till 1996, however in 1997 Viet Nam with its steady pace outgrew Pakistan. For last 30-years Viet Nam's exports are increasing at average of 21% year-on-year basis. Whereas Pakistan's average export growth rate is idling around 7% and is often negative.

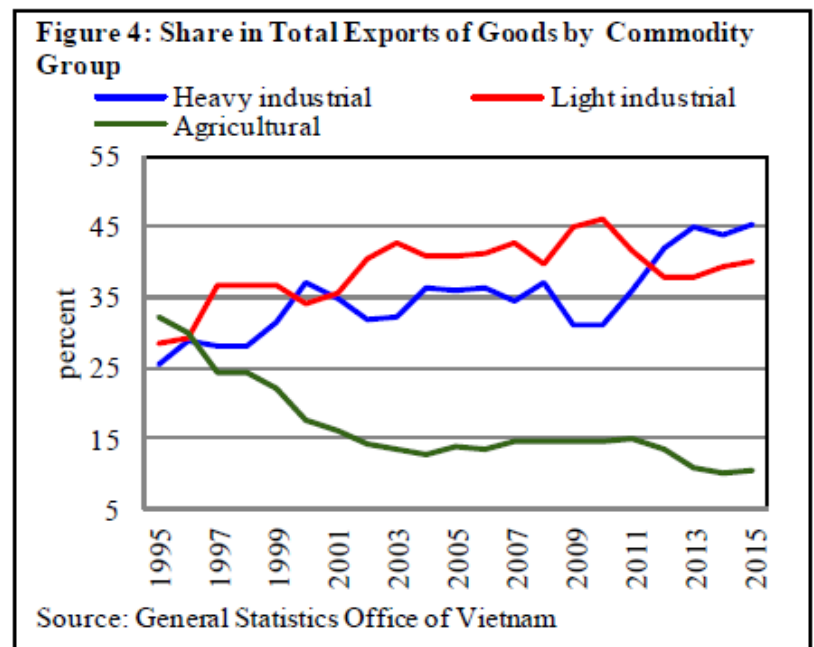
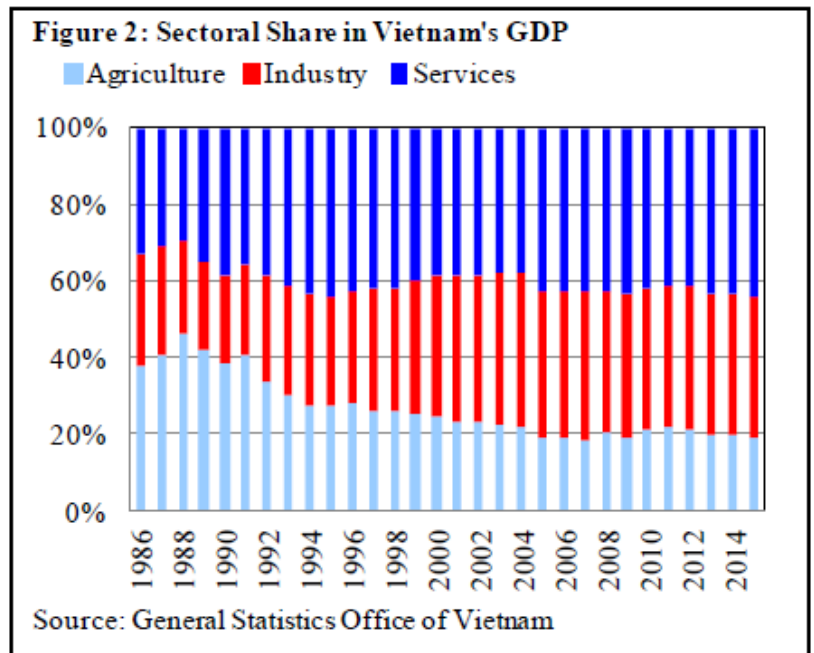


¹ SBP Staff Notes 01/17 (Vietnam as a New Manufacturing Powerhouse: Key Lessons)

Major force behind turnaround in Vietnamese economy is their “Doi Moi (Renovation) Policy” which was launched in 1986 and was based on *socialist-oriented market economy structure*. As a result of these reforms, the share of industrial value added increased from about 25 percent in mid-eighties to more than 30 percent in 2015. Although the share of agriculture declined, but in absolute terms it maintained its contribution; and more importantly, the agricultural productivity doubled during this period. Moreover, investment to GDP ratio also increased from 14.4 percent in 1986 to 27.7 percent in 2015.

For increasing its exports the country adopted two pronged industrial policy: encouraging export oriented manufacturing activities and attracting foreign investment by relaxing foreign exchange regulations. The influx of foreign direct investment not only contributed to the productivity enhancement in high-tech manufacturing sector, it also boosted activities in other sectors of the economy due to backward and forward linkages.

A number of downstream domestic industries also benefitted, which had upgraded their technologies to meet the high input requirements of the foreign firms. These developments gradually shifted Vietnam’s production structure from resource-based to hi-tech manufacturing. The changing pattern of production was also reflected in the composition of exports. Two aspects are particularly worth noting: first the share of light and heavy machinery in the total exports increased, while that of agricultural products declined.



State Bank of Pakistan in its staff note dated May 2017 lists down below “Key Lessons” that can help transform Pakistan’s economy

Factors behind Successful Implementation of Reforms

1. Continuity in economic policies with strong political will can help change economic outlook:

The consistency and continuity in policies helped Vietnam give a strong positive signal to stakeholders, who benefited from a stable business environment. With a democratic governing structure, Pakistan can also achieve consistency in its economic and financial policies by involving all democratic partners and giving them due ownership of the policymaking process, so that critical policies and development plans could not be reversed in case of a change in the government.

2. Removing energy shortages:

One of the key enablers of Vietnam’s economic transformation was the increase in the country’s power generation capacity. Vietnam initiated a number of traditional as well as alternate energy projects, which proved critical in ensuring that its industrial units had constant access to power supply. Pakistan has been facing severe energy shortages which had virtually crippled the country’s manufacturing sector – before the power sector received a sharp policy focus quite recently. Encouragingly, the recent energy projects under the CPEC are likely to ease energy constraints in the country in near future.

3. Dealing with public sector enterprises:

Vietnam successfully handled the inefficiencies of its state enterprises (SOEs) by their restructuring and putting them into competition with the domestic and foreign private firms. Pakistan also needs to effectively implement its plans for restructuring and privatization of ailing public sector enterprises.

4. Institutional strengthening:

Vietnam showed substantial progress in strengthening its regulatory regime. Regulations were issued to protect ownership rights of firms, facilitate ease of doing business, and strengthened corporate governance of public institutions. It also took appropriate measures to improve governance and transparency of regulatory bodies, and upgraded the financial-reporting standards and risk-management framework for banks. As a result, business sentiments improved, which, in turn, encouraged private firms (both local and foreign) to invest in the country.

5. Investment in export oriented sectors:

This is very important lesson drawn from Vietnamese experience; as it adopted a deliberate and well thought policy to attract foreign investment in its export oriented sectors. With this, despite the pressure of profit repatriation by foreign firms, the country’s overall balance of payments remained comfortable with the help of booming exports. Pakistan can also offer incentives foreign firms (also to domestic firms) to invest in export oriented sectors.

6. Skilled workers can lead an economy towards high standards:

Vietnam paid substantial attention towards skill development of its labor force and incentivized corporate-sponsored training programs for the workers. This helped improved productivity of their workers. In case of Pakistan, as CPEC related investments are picking up pace, the demand for highly skilled labor force is expected to increase; this not only requires policy focus and investment by the public sector, but also is an opportunity for private sector educational institutions to design tailor made skill improvement programs.