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# **EXPORT PROMOTION AND REGIONAL DEVELOPMENT IN VIETNAM**

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## Preface

This paper is the result of a field study in Vietnam. During our stay in Vietnam we met many people to whom we owe many thanks. We specially would like to thank Molly Lien and Marie Louise Thaning at the Swedish Embassy in Hanoi and Nguyen The Hung and Nguyen Thi Lien at General Statistics Office in Hanoi. We also want to thank our supervisor at the Economic Department in Lund, Yves Bourdet, who has helped us greatly.

## Abstract

This thesis examines the connection between export promotion, economic growth and social welfare in Vietnam. The impact of different export directions is also analysed. Our main method is testing of simple correlations between the mentioned variables. The material used is mainly provincial statistics.

We observe great regional differences in economic and social welfare, which have increased as Vietnam's economy has been liberalised. However, poverty reduction has been successful. We find strong correlations between export and economic growth as well as between export and social welfare, even though the latter are not as obvious. Export to OECD is found more rewarding than export to ASEAN considering both GDP growth and social welfare.

**Keywords:** Balassa, comparative advantage, export, export direction, poverty reduction, Vietnam

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## List of abbreviations

AFTA – ASEAN Free Trade Area  
ASEAN - Association of South East Asian Countries  
COMECON - The Council for Mutual Economic Assistance  
EU – European Union  
FDI – Foreign Direct Investment  
FIE - Foreign Investing Enterprises  
FTO – Free Trade Organisation  
GDP – Gross Domestic Product  
GSO – General Statistics Office  
OECD - Organisation for Economic Co-operation and Development  
RIA – Regional Integration Agreement  
SOE – State Owned Enterprise  
UN – United Nations  
US – United States  
USD – United States Dollar  
WTO – World Trade Organisation

# 1 Introduction

## 1.1 Statement of Purpose

This essay concerns trade openness as a possible means for Vietnam to achieve economic and social development. The two main questions which we try to answer are;

- Have Vietnamese provinces with relatively higher levels of foreign export achieved higher growth rates and better social results than other provinces?
- Does export to ASEAN have different effects on growth and social welfare than export to OECD?

## 1.2 Organisation of the Paper

The study is organised as follows: In chapter 2 the general political and economical background of Vietnam is outlined followed by a presentation of the country's current integration with the world economy. In chapter 3, relevant theory is presented. Chapter 4 discusses Vietnamese export's geography and structure. Chapter 5 is a presentation and interpretation of the results of our study where potential links between export and growth, and export and poverty, respectively, are discussed. In chapter 6 the paper and its conclusions are summarised.

## 1.3 Method

This study is based on a comparison between Vietnamese provinces regarding export size, export direction, growth and social indicators. The main procedure is to test simple correlations between these variables. Firstly, we examine whether export promotes growth in the case of Vietnam and if the direction of the export matters. Secondly, we study if there is a connection between export and different social indicators. When measuring the impact of the direction of export we focus on the *Association of South*

*East Asian Countries* (ASEAN) and the *Organisation for Economic Co-operation and Development* (OECD). ASEAN is used because it is an economic collaboration between not yet fully industrialised neighbouring countries. OECD, on the other hand, is used because the member countries are the world's richest and most industrialised. Trade with these two blocks consequently might have different effects.

## 1.4 Collection of Material

The statistics concerning trade are collected from mainly two sources: UN Comtrade database and the Vietnamese General Statistics Office's (GSO) Socio-Economic Development Report publications. When these sources could not provide sufficient information we used reports from the European Union, the Economic Intelligence Unit, and selected articles.

The material on export direction comes mainly from Comtrade (on national level) and International Merchandise Trade Vietnam 2003 (on regional and provincial levels). We used the latter also in cases when Comtrade material either was not available or lacked the product category used on provincial level.

## 1.5 Limitations

There are a few problems with our study, all related to limited supply of relevant material. The reader should take into consideration that the situation regarding availability and reliability of statistics in Vietnam is very different from industrialised countries. The material is, as mentioned, mainly collected from official sources and consequently the results of the study depend on the accuracy of these. Official Vietnamese statistics are, according to many sources, not always accurate and export quantities can be exaggerated. Therefore international data have been used whenever it has been possible, but on a provincial level such data do not exist.<sup>1</sup>

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<sup>1</sup> However, when material from both international and Vietnamese sources has been available we have not noticed any considerable differences. This increases the reliability of our study.



The greatest data problems concern trade directions. In order to measure this we had to use Vietnamese statistics on provincial export quantities of different goods. With this, and data from UN Comtrade, we have calculated export directions. These statistics are not complete for any single province, and too incomplete for most of them to draw relevant conclusions. For some provinces we did not find any information at all on which specific products were exported. Because of this, only provinces for which we were able to identify at least 50 % of the total export value are included in the trade directions studies. Out of a total of 64 provinces these only add up to 18. To get a comparable measure of export direction we assume that the trade directions of the volumes for which statistics were found is representative for respective province's total export.

A second problem is that unit prices for export products were not found on a provincial level. Therefore we used data on national level to get approximate values. When national prices were not found, a computed price-per-unit (mean value from two other ASEAN-countries, Indonesia and Cambodia) was used.

## 2 Vietnamese Economy in a Historical Perspective

### 2.1 General Background

Vietnam is a war-torn country that for a long time has been fighting against occupying foreign powers. In the mid-19<sup>th</sup> century France began its colonisation and in 1887 Vietnam became a part of French Indo-China. Japan occupied the colony during World War II, but on 2<sup>nd</sup> September 1945 Ho Chi Minh, the leader of the Communist Party founded in 1930, proclaimed the independence of Vietnam and formed a government in Hanoi. France tried to retake control over the region and the so-called Indo-China War broke out and proceeded until 1954 when Vietnam was divided with a line of demarcation through the 17<sup>th</sup> parallel at the Genève-conference. Internal antagonism soon developed into a civil war between the US-supported South Vietnamese government and communists supported by the North Vietnamese government. Within soon, United States started sending troops. In 1973 the US signed the armistice agreement and two years later the regime in South Vietnam was forced to give up. The country was unified 1976 into the *Socialist Republic of Vietnam* with Hanoi as capital. The Communist Party has governed Vietnam ever since.

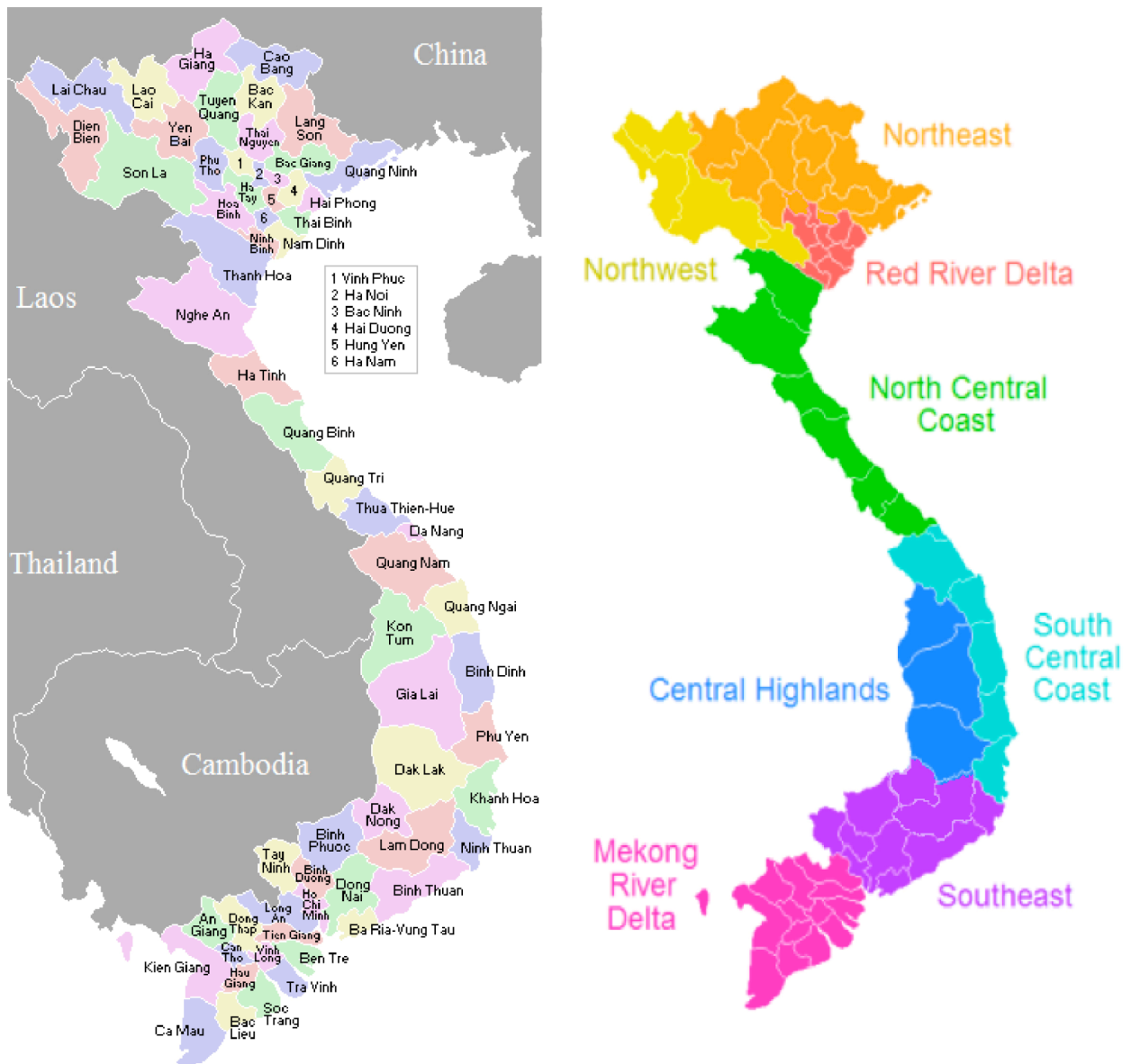
### 2.2 Vietnamese Regions and Provinces

Vietnam consists of 64 provinces, each one of them subdivided into districts and municipalities. The country is unofficially divided into eight regions; Northwest, Northeast, Red River Delta, North Coastal Coast, South Central Coast, Central Highlands, Southeast, Mekong River Delta.<sup>2</sup>

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<sup>2</sup> To which of these regions provinces belong differs to a small extent between different sources.

**Figure 2.1 Maps over Vietnam's provinces and regions**



Source: Wikipedia.com

### 2.3 Economic Reforms in Vietnam

The unification of Vietnam 1975-1976 meant that a centrally planned economy was introduced. A membership in the economic organisation of the communist countries, COMECON (The Council for Mutual Economic Assistance) guaranteed trade with other socialist countries and Soviet aid.

As many other developing countries, Vietnam relied on import substitution as a main strategy to develop its economy. This meant that domestic industries were

favoured and protected from international competition in order to make it possible to develop. The assumption was that this would not be possible facing highly advanced industries from the industrialised world. Self sufficiency and independence were two central objectives of national policies. The main way of achieving these goals was the usage of import tariffs. Even though national non-importing companies, often monopolies, gained from the policies, the economy as a whole was often harmed by inefficiency since it was disconnected from relative scarcities on the world market and protected from competition. Yet another problem was that the policies prevented the exploitation of economies of scale, since the home market often was not big enough (Baghwati & Krueger 1973:421). As a consequence the economy developed slowly. In the mid-eighties the country experienced hyperinflation and the will for economic reforms spread. At the sixth congress of the communist party 1986 the economic-political reform program *Doi Moi* (renovation) was launched (Kokko 1997:56-57).

### 2.3.1 Doi Moi 1986-1996

Doi Moi was the beginning of great changes in the Vietnamese economy, during a time when the country still was a part of the communist world. It included institutional and structural changes and a development towards market economy. In the long run, the reforms had mainly two broad economic effects; Vietnam became outwardly oriented instead of focusing on import substitution and changed from a centrally planned system into a market economy. One of the first reforms concerning the second aspect was price liberalisation. This started in 1987 and concerned primarily industrial products. The reform meant that state-owned enterprises could make own price decisions instead of using prices fixed by the state. Furthermore, companies became free to decide over inputs used. These two reforms were combined with a hardening of the soft budget constraints and an increasing pressure for efficient use of the available resources. As a consequence, the general level of competition in the economy increased. Naturally, so did efficiency. Moreover, the view on private enterprises started to alter in a liberal direction. Profits generated were no longer confiscated and the owners got power to decide over fundamentals such as labour and salary (Hakkala & Nilsson 1997:20-22).

Doi Moi also had great impact on trade policy. Before 1989 the system of trading rights were characterized by state monopoly (Thanh 2005:77). Now the state started to

abandon the monopoly of trade and change import substitution towards export oriented policies.<sup>3</sup> The policy of export subsidies was launched.<sup>4</sup> Export quotas were replaced by tariffs and the number of goods concerned was decreased. Export zones were introduced, beginning in areas around Ho Chi Minh City.<sup>5</sup> Between 1989 and 1991, exchange rate reforms were carried through. Among other things this meant that one single exchange rate replaced many different rates, which made trade costs easier to calculate (Hakkala & Nilsson 1997:28-29). These changes combined made it easier for companies to export.

**Table 2.1 Macroeconomic development in Vietnam 1990-2005**

	<b>1990</b>	<b>1995</b>	<b>2000</b>	<b>2001</b>	<b>2003</b>	<b>2005</b>
Real GDP growth (%)	5.1	9.5	6.8	6.9	7.3	8.4
GDP per capita (current USD)	98	288	402	415	483	635
Inflation rate (%)	67.5	12.7	3.4	2.0	5.4	8.0
Exports (billion USD)	2	5	14	15	20	32.7
Imports (billion USD)	2	8	16	16	25	37.8
GDP composition by sector (% of GDP)						
<i>Agriculture</i>	38.7	27.2	24.5	23.2	22.5	20.9
<i>Industry and construction</i>	22.7	28.8	36.7	38.1	39.5	39.5
<i>Services</i>	38.6	44.0	38.8	38.6	38.0	38.0
GDP composition by ownership (%of GDP)						
<i>State</i>	31.7	40.2	39.0	38.4	39.1	38.4
<i>Non-state</i>	63.0	53.5	47.8	47.8	46.5	45.6
<i>FDI</i>	5.3	6.3	13.2	13.8	14.5	16.0

Source: Kokko 2005:10; Kokko 2006:3

Doi Moi was a combination of liberalization, stabilisation, institutional changes and structural reforms, and was apparently very efficient for the development of Vietnam's economy. 10 years after it was launched, Vietnam experienced extraordinary GDP growth rates, on average almost 10 percent per year. Despite this, inflation had

<sup>3</sup> Without such a reform companies are not able to make independent decisions about trade based on market demand. One reform in Vietnam was the dividing of former state trade organisations into smaller divisions responsible for a specific branch or a geographic region (Kokko 2005:14). The result was that trade became partly governed by enterprises following rules of market economy, and partly by the state.

<sup>4</sup> Export subsidies are similar to a negative tax with the opposite effects to those of an import tariff. The result of an import tariff is that home prices of importables rise above world prices while during export subsidy instead the home prices of exportables rise above world prices. Therefore, export production is favoured (Greenaway 1982:146-147, Krugman et al:197-198).

<sup>5</sup> This choice of location is not surprising since market economy elements prevailed in the south also after the Communist Party seized power and united the country.

been successfully reduced. Further effects of the reforms were large increases of exports and *foreign direct investments* (FDI), and sharp reduction of poverty (Thanh 2005:75). Nevertheless, liberalisation and export-promoting reforms continued.

### 2.3.2 Reforms 1996-2006

In 1998, the system of foreign trade based on licenses was abandoned. Since then, trade with foreign countries has in general become easier which has resulted in a large increase in the number of companies engaged in this activity. Recent reforms include export credits and zero export duty. However, the reforming will of the government does not necessarily mean that the Vietnamese economy has become liberal. The export promoting changes has not been accompanied by large reductions of import-substituting policies. This has consequences for the Vietnamese economy (Thanh 2005:77-78). According to Thanh, the export sector is characterised by a dualism with regionally and globally competitive *foreign investing enterprises* (FIEs) on one hand and large state corporations protected from competition on the other (Ibid 80). *State owned enterprises* (SOEs) presently represent 40% of GDP in total although some have been reformed and privatised in recent years. The state are about to retain control (more than 50%) over SOEs in the important fields of oil and gas, but also in the branches of mining, steel production and infrastructure, as well as insurance and banking (EU Report on Vietnam 2006:26). Despite economic stability, growth, and reforms, Vietnam's transition towards market economy remains incomplete.

## 3 Vietnam and the World Market

### 3.1 Comparative Advantage

According to the Ricardian model trade is a result of differences between countries. Labour is the only factor of production, and labour productivity is the production determinant. In a world without trade obstacles, countries will specialise in production and export of goods that they can produce relatively efficiently and import of products that are produced with low labour productivity. Production and trade patterns are determined by *comparative advantages*. According to the theory these advantages are rather relative than absolute, with the result that all countries gain from trade. The distribution of the benefits depends on the relative prices of the produced goods (see for example Krugman and Obstfeld 1997).

The classic Ricardian model has been expanded by Heckscher-Ohlin who take more production factors than labour into consideration. The model states that a country "that has a large supply of one resource relative to its supply of other resources is abundant in that resource". A country tends to produce relatively more of goods which require its abundant resources. Thereby these goods are exported and other goods imported. This promotes efficiency and gains for all nations.<sup>6</sup>

Economies of scale and increasing returns are other important reasons to trade. If the home market is too small for effective production of a good, trade can make efficiency possible by increasing the market size. This gives countries further incentives to specialisation.

### 3.2 Revealed comparative advantage

To identify and distinguish sectors where a country enjoys comparative advantages the economist Béla Balassa developed a method of measurement. This so-called Revealed Comparative Advantage (RCA) index is nowadays the most widely used for this

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<sup>6</sup> The theory does not take other consequences into consideration. International trade has, for example, strong distributional effects within countries since owners of the abundant factors gain from trade while other loose (Krugman and Obstfeld 1997:67-86).

purpose. The RCA index is measured by dividing a country's share of world exports of a particular product by its share of total world export. Balassa's formula is

$$RCA_{ij} \text{ index} = (X_{ij}/X_{wj}) / (\Sigma X_{ij}/\Sigma X_{wj})$$

where  $X_{ij}$  is country  $i$ 's export of commodity  $j$ ;  $X_{wj}$  is world's exports of commodity  $j$ ;  $\Sigma X_{ij}$  is country  $i$ 's total exports and  $\Sigma X_{wj}$  is the world's total exports. If the RCA index exceeds one it indicates that the country at issue has a comparative advantage in this particular product; the opposite is true for products with index lower than 1. With this method it is possible to compare comparative advantages between countries and over time. Countries with similar export specialisation are competitors in foreign trade while countries with different specialisation rather are complementary. The latter relation may generate increased inter-industry trade among the countries at issue (Nguyen 2002b:16-17).

Table 3.1 presents Vietnam's RCA value for a couple of interesting commodities. The index reveals that Vietnam has comparative advantages in primary products, such as minerals, and in labour intensive products, such as clothing. Important to take into consideration while discussing and analysing the RCA index is that it measures comparative advantage purely in terms of a country's share of world export of the product at issue. The fact that the import is ignored can mean that the RCA index is misleading, for example if the import of the particular product is considerable (Nguyen Tien Trung 2002b:18). Balassa's formula is based on trade patterns being totally determined by comparative advantages, which can be discussed. Probably trade policies, FDI and subsidies can also, at least to some extent, influence RCA (Balassa 1989:37).

**Table 3.1 – RCA Index for Vietnam 2000-2004**

	<b>Commodity</b>	<b>SITC*</b>	<b>RCA**</b>		<b>Commodity</b>	<b>SITC*</b>	<b>RCA**</b>
<b>1</b>	Fish etc.	03	12.38	<b>5</b>	Cereals (rice etc.)	04	4,33
<b>2</b>	Footwear	85	11.49	<b>6</b>	Articles of apparel and clothing	84	3,74
<b>3</b>	Crude rubber	23	7.53	<b>7</b>	Petroleum products	33	2,66
<b>4</b>	Coffee, tea, cocoa, spices	07	7.17	<b>8</b>	Vegetables and fruit	05	2,10

\*SITC 3 product categories \*\*RCA values (2000-2004 average)

Source: Coxhead (2007:33-34)



As can be seen, Vietnam experiences comparative advantage mostly in labour intensive sectors, such as footwear, clothing, and some agricultural production. Countries specialising in similar products are competitors in trade. According to Nguyen's calculation, focusing on the ASEAN countries, Vietnam's export structure is more or less complementary with Singapore, Malaysia and Thailand, and may rather compete with countries such as Indonesia and the Philippines. Indonesia is a rival in the markets of footwear, coal and coffee, and the Philippines a competitor in vegetables and clothing (Nguyen 2002a:17-19).

### 3.3 Vietnam and Trade Relations

In 1995 Vietnam joined ASEAN and thereby also its free-trade agreement AFTA. Trade with ASEAN countries is important and accounted for 17% of total export 2005 (WTO Accession 2006:24). This trade may increase further the coming years as tariffs between member states are to be reduced to 0-0.5%.

ASEAN is an example of a *regional integration agreement* (RIA). RIAs are sometimes established for political reasons, but economic matters are generally the driving force. RIAs are generally smaller than multilateral trade agreements, often just involving two countries, and hence they are easier to negotiate. The countries may find an agreement where all parts benefit, a rare situation when more countries are involved. RIAs generally result from negotiations between relatively similar countries in terms of endowment and income level. This is likely to help intra-industry trade and regional liberalisation, and the RIA members will focus on production in their relatively most efficient branches (Hoekman & Kostecki 2001:349-350)<sup>7</sup>.

Another important step towards world integration was normalisation of US relations. The long lasting US trade blockade on Vietnam, a consequence of the war, was heaved in 1994 and after only a short period of time an American Embassy and American trade offices were established. Today the US is Vietnam's main target for export with a share of more than 20% of total export value (WTO Accession 2006:24).

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<sup>7</sup> On the negative side, however, this means a reduction of government customs revenues (EU Report on Vietnam 2006:13-14).

Vietnam entered WTO as its 150<sup>th</sup> member in January 2007 after 13 years of negotiations. During this period the Vietnamese economy was liberalised, partly to adapt to the rules of WTO and other trade agreements<sup>8</sup>. This development affected the transition towards market economy and deepened integration with world economy. Vietnam's accession to WTO, whose members account for 90% of world trade transactions, is important for future trade development and will increase the possibility of comparative advantage exploitation (Ibid 24).

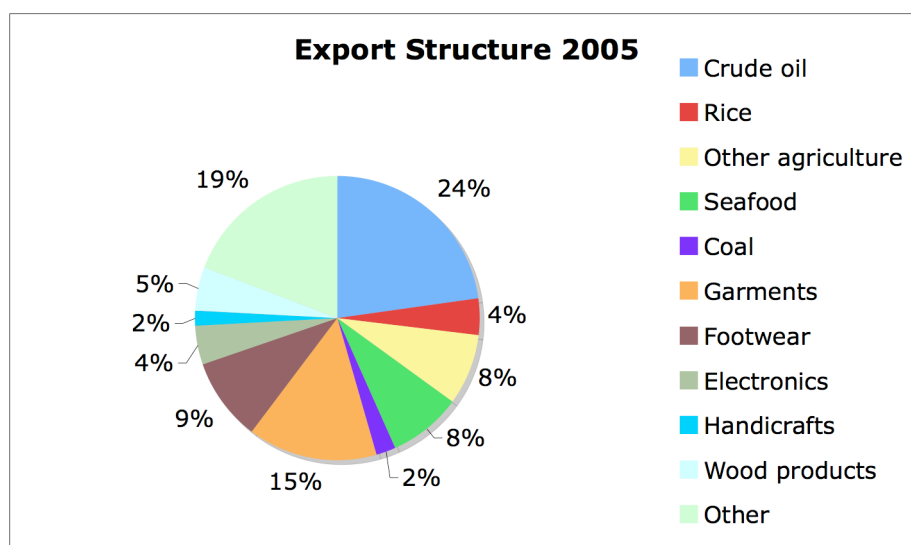
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<sup>8</sup> These include the trade agreements with the US and EU.

## 4 Patterns of Vietnamese Export

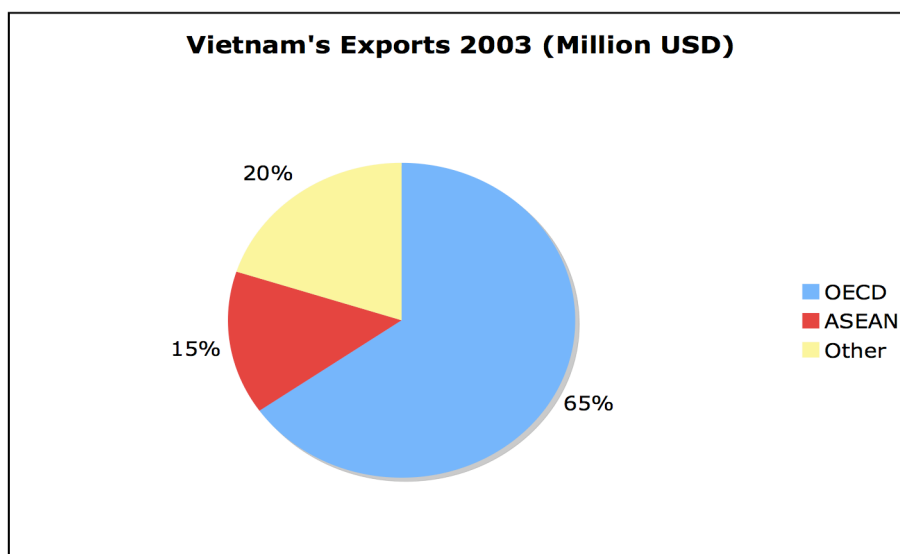
As shown in the macroeconomic table above, Vietnam's export during the last two decades has exhibited an impressive growth. It mainly concerns a few branches, displayed in figure 3.1. Figure 3.2 displays the export direction and illustrates how the majority of export is directed to the rich world (OECD).

**Figure 4.1 Export structure of Vietnam**



Source: Taking Stock and GSO (2005)

**Figure 4.2 Export directions of Vietnam**



Source: Comtrade

Export has high potential to continue to grow. There are, however, a few problems that reoccur in many branches. Value added and product quality is generally relatively low by international comparison, with low prices on the world market as consequence. Productivity is poor due to underdeveloped technology and despite very low wages production costs are high. The export is still concentrated to few commodities (see table 4.1), which make up most of Vietnam's comparative advantages (table 3.1). According to Freudenberg & Paulmier, Vietnam's export potential is highest for oil, footwear, arts and crafts, fishery, rubber, coffee, agricultural machinery, pepper, and clothing. The report suggests that the potential is more limited in rice, fruits and vegetables (Freudenberg & Paulmier 2005:4). A diversification of production would make Vietnam less sensitive to international business cycles and price changes on the world market (Ibid 15).

**Table 4.1 – Export size and direction of major export products**

	Export 2003 (billions of USD)	Export to ASEAN (%)	Export to OECD (%)
Clothes	3,5	1,2	90,5
Footwear	2,3	1	92,2
Fishery Products	2,2	0,3	75
Rice	0,7	30,8	50,1
Coffee	0,5	6,2	86,6
Crude Oil	3,8	31,2	44,2
Rubber	0,4	10,3	30,3

Source: Comtrade

## 4.1 Major Export Branches

### 4.1.1 Garment and textiles

Garment and textile production is one of Vietnam's most successful branches and has contributed the most to the increase in exports. The export turnover has grown from 1.9 billion USD in year 2000 to 4.8 billion USD 2005 and is forecasted to be 9.0 billion USD in 2010 (EU Report on Vietnam 2006:43). Much of the production is carried out in the southern regions while the inland is underrepresented.

In 2005, more than half of the total garment export value was directed to the US. Garments of 875 million USD were exported to the EU and 620 million USD to Japan. Only 705 million USD were exported elsewhere (Ibid 50). This has created a great number of new job opportunities and the sector now employs two million people, a quarter of all industrial workers, many of which are women (Freudenberg & Paulmier 2005:8). SOEs account for a large part of the garment production, but private enterprises are increasing their share (EU Report on Vietnam 2006:43).

The cotton production within Vietnam is very limited, though increasing, and most of the material used in the production is imported. Furthermore, the value added is still low (Ibid 43) generating much lower incomes from the export than what could have been the case. The wages in Vietnam are among the lowest in the world and the country's largest comparative advantage. However, the productivity is somewhat lower than in competitor states such as China. Despite this, the future potential for the export sector is regarded as high due to very ambitious targets set by the government, the expected boom as consequence of the WTO-entry, and further opening of the American market through enforced bilateral agreements (Freudenberg & Paulmier 2005:8). An enlarging industry of knitting cotton is developing in order to increase the value added and use the so far small-scaled cotton industry. Investments for this have mainly been poured into Ho Chi Minh City (EU Report on Vietnam 2006:46)

#### 4.1.2 Footwear

With Doi Moi the government started to encourage joint ventures with foreign partners. This was the embryo to an enormous growth in the footwear production. The policy attracted industries from Asian countries and the industry grew in an impressive way. In 1995, the export of footwear amounted to 338 million USD, in 2000 to 1.5 billion USD and in 2005 to 3.0 billion USD. This annual export growth of about 18% has made Vietnam the third largest footwear exporter after China and Italy. Today the sector is accounting for 10% of the total export, the main product being sport shoes. To a large extent, the production is centralised to Ho Chi Minh City, Dong Nai, and Binh Duong in the Southeast Region and Hai Phong in the Red River Delta. As in the case with garments SOEs hold a significant share of the market although private and foreign owned enterprises are dominating the sector. 95% of the production is exported. The EU is the largest market, but the share has decreased

while the American has strongly increased. A reason for this shift of trade partners is that Vietnam has been affected by strongly increased EU import tariffs, which are a result of anti-dumping measures (EU Report on Vietnam 2006:52-54).

Low wages and a well educated workforce are, as mentioned, Vietnam's main comparative advantages, but as in the garment industry, footwear production is not as efficient as in other competitive countries. The footwear export has high potential to continue to grow, but a development of the domestic production of material needed in the footwear production is desirable. Furthermore, it is important to diversify the production to include also designed products with higher value added. As a part of this development, Vietnamese footwear producers are suggested to build up and market own brands (Freudenberg & Paulmier 2005:8).

#### 4.1.3 Fishery products

The Vietnamese coastline is long and important for the economy because of the large fishing industry. Despite the fact that most of the production is consumed domestically, Vietnam is among the ten largest exporters of fishery products in the world and the export increased with 10.6% in 2005 (EU Report on Vietnam 2006:59). The sector, which employs 3.4 million people, is characterised by small-scale private firms and has been of huge importance in poverty reduction in the coastal areas. (Freudenberg & Paulmier 2005:5). 50% of the export is shrimp and 25% fish (Ibid 59).

Export from the sector has increased from 670 million USD 1996 to 1.48 billion USD in 2000 and 2.65 billion USD in 2005. EU accounts for 16% and the export to EU increased with 79% between 2004 and 2005. Japan is the main market for Vietnamese sea products and imports 30% of the production. Even though export to the US is harmed by tariffs it is still increasing, and 23% of total export is directed here (Ibid 59).

The government's goals for the fishery industry for the coming years are very ambitious and include increase of production from the 1.4 million ton of today to 2 million ton in 2010 and an increase in export with almost 50% to 4 billion in 2010 (Ibid 61). However, there are problems with increased pollution, and huge areas are in a dangerous ecological situation due to the intense fishing. At the same time the workforce is poorly protected. An increased control of water, environment, illness and

hygiene in the fishery industrial process is desirable. It is therefore hard to bring together the government's goals of production and export with its goals of environmental and ecological issues. At the moment two anti-dumping investigations in the US and new rules about traceability in the EU are on the table. Despite these obstacles the potential development of the sector is regarded as high (Freudenberg & Paulmier 2005:5).

#### 4.1.4 Agricultural products

Collective agriculture was abolished in late 1980's, and as a result the sector became the most privatized in the country by the mid-nineties (Kokko 1997:3). Agriculture is still very important for Vietnam and 70% of the population is economically dependent on it. Agricultural products are exported to more than 100 countries and account for 30% of the total export and 25% of GDP. Rice, coffee and rubber are the main export products. Asia is the largest market for rice, rubber, fruit and vegetables while Europe imports mainly coffee, honey and processed fruit and vegetables. The US mainly imports coffee, pepper and pineapple juice (EU Report on Vietnam 2006:64).

From being a net importer of rice in the eighties, Vietnam is today one of the world's largest exporters. Rice is the largest export product and despite the fact that just 25% of the production is exported, rice export generated almost one billion USD in 2004. Due to irregular quality and low value added, the price is low and thus the development of the sector has low potential. The coffee production is export oriented and only 5% is domestically consumed. Since the 1980s, the production has dramatically grown and Vietnam is now the second largest exporter in volume and third largest in value worldwide. Mostly Robusta variety is cultivated, but production of Arabica, with a higher price on the world market, is increasing. Production of organic coffee and other niche products are being developed, partly in the less developed central highlands (Freudenberg & Paulmier 2005:5-6).

The world market and the export orientation have had impact on the development of agriculture. The government has strategies on developing the sector and a few high technology agricultural zones have been established in the outskirts of Hanoi and Ho Chi Minh City. 2005 FDI to the sector was 5.8 billion USD, 25% higher than in 2004, and the Ministry of Planning and Investment forecast the increase to continue. However, this demands improved infrastructure, such as reliable

electricity and water supply, and revision of the poor legislation. As with other sectors, the Vietnamese agriculture has problems with low value added and poor quality, which generate low price on the world market. However, more brands are established by farmers and companies – on fruit for example - which increase the value added and thereby the price and income. Generally the rapid development of the agricultural sector has been of great importance for poverty reduction in rural areas. Another positive development is that an increasing number of farmers are cultivating fruit, vegetables, flowers etc. instead of rice because of considerably higher returns (EU Report on Vietnam 2006:65).

#### 4.1.5 Energy and oil

Vietnam has large resources of oil and gas. The production started in 1986 and has doubled since the middle of the 1990s. Japan, Singapore, the US and South Korea are the largest importers. The industry is to a large extent state run and the base of the state income. However, the income is much smaller than it would have been if the oil exported was refined instead of crude. Vietnam has no refineries and has to import all fuel. The oil sector is probably the one that loses the most due to poor value added. The problem has been identified and the Prime Minister has given PetroVietnam the order to build two refineries (EU 2006:94).<sup>9</sup> Therefore, the future potential of the sector is high. Furthermore, the offshore oil fields are supposed to be the largest outside of the Middle East and new fields are regularly explored, often in cooperation with foreign companies (Freudenberg & Paulmier 2005:4-5).

#### 4.1.6 Arts and crafts

Arts and handicrafts is still a small export sector but it is important in a socio-economic perspective. To a large extent, the goods are produced by poor people in rural areas and by minority tribes. Development of this sector is therefore important for poverty reduction and decrease of economic differences between rural and urban areas. The potential is high thanks to unique design and low prices. Problems for potential development include bad infrastructure, bad standardisation, and low product quality (Freudenberg & Paulmier 2005:11).

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<sup>9</sup> It seems, however, to be political problems concerning geographical location delaying the construction (Håkan Ottosson, personal interview).



## 5 Export and Regional Development

### 5.1 Export and Geographical Location

In this section we will focus on geographical differences regarding export, GDP and poverty. Table 5.1 presents statistics of GDP per capita, export per capita, and general poverty rate in Vietnam on national level and in eight unofficial regions. As can be seen there are large differences within the country. In some provinces export per capita is more than 100 times higher than in others. Also the poverty rate varies a great deal.

**Table 5.1 – GDP, export, and poverty in Vietnamese regions**

	GDP/cap 2003 (million Dong)	Exp/cap 2003 (USD)	General Poverty Rate 2004 (%)
Vietnam	4.8	201.2	19.5
Red River Delta	4.6	86.2	12.1
Northeast	3.0	20.9	29.4
Northwest	2.0	4.9	58.6
North Central Coast	2.7	18.8	31.9
South Central Coast	3.6	112.8	19.0
Central Highlands	3.2	83.8	33.1
Southeast	9.7	791.6	5.4
Mekong River Delta	4.3	124.0	19.5

Source: GSO (2005)

#### 5.1.1 Uneven regional growth

As can be seen in table 5.1, the regions hosting Hanoi and Ho Chi Minh City (Red River Delta and Southeast, respectively) have the highest GDP growth levels. These two major cities drive export and growth in their regions. The reasons, according to Kokko, is that they have agricultural potential at the same time as skilled labour and well developed infrastructure attract domestic and foreign investments. This so-called agglomeration effect has helped these areas to continue to grow even faster (Kokko & Gustavsson Tingvall 2005:12). The export per capita is by far the highest in Southeast region. The export of Red River Delta is surprisingly low; the region only has the fourth highest export per capita<sup>10</sup>.

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<sup>10</sup> It is difficult to know whether an exported product is counted to the region where it is manufactured, where the companies' head offices are situated, or elsewhere. It does not seem to exist routines for this.

**Table 5.2 – Economic and social variables in Vietnamese provinces**

	BNP/CAP 2003 (million Dong)	GDP growth 2000-2003 (%)	Exp/cap 2003 (ths. Dollar)	Percentage students	Number of people per doctor
<b>Red River Delta</b>					
Ha Noi City	8,78	37,7	246,2	14,6	1898
Hai Phong City	5,97	35,0	216,2	1,7	1487
Ha Tay	2,99	29,2	4,1	0,4	2632
Hai Duong	4,08	37,0	28,2	0,1	2455
Hung Yen	3,75	40,0	23,6	1,0	2753
Ha Nam	2,93	27,4	32,7	0,1	1691
Nam Dinh	2,84	23,8	26,2	0,3	2169
Thai Binh	2,97	19,2	25,7	0,2	1808
Ninh Binh	2,49	29,9	11,3	0,1	2254
<b>Northeast Region</b>					
Ha Giang	1,78	35,4	3,0	0,2	2146
Cao Bang	2,83	35,1	9,8	0,1	1417
Lao Cai	2,23	40,8	18,5	0,2	1889
Bac Kan	2,03	41,6	5,9	0,2	1148
Lang Son	3,19	33,0	58,0	0,1	1401
Tuyen Quang	2,55	35,3	0,4	0,2	1805
Yen Bai	2,46	30,8	4,2	0,2	1674
Thai Nguyen*	2,91	29,8	14,9	3,2	1456
Phu Tho*	2,81	31,0	54,9	0,3	2254
Vinh Phuc	3,94	48,5	13,3	0,1	3131
Bac Giang	2,14	25,3	16,5	0,2	2201
Bac Ninh	3,75	47,4	2,7	0,5	1965
Quang Ninh	5,41	42,9	37,9	0,3	1592
<b>Northwest Region</b>					
Lai Chau	1,62	24,8	0,9	0,4	1057
Dien Bien	2,21	26,6	1,6	n/a	n/a
Son La*	1,68	31,1	1,5	0,5	2248
Hoa Binh	2,39	24,7	12,2	0,1	1918
<b>North Central Coast</b>					
Thanh Hoa	2,76	29,7	16,5	0,2	2490
Nghe An*	2,87	35,1	19,7	0,8	3092
Ha Tinh	2,65	26,9	22,7	0,1	2436
Quang Binh	2,23	26,4	20,7	0,1	2176
Quang Tri*	2,46	25,1		0,2	1686
Thua Thien - Hue	2,60	30,2	23,4	3,3	2123
<b>South Central Coast</b>					
Da Nang City	6,46	42,3	350,1	6,1	1108
Quang Nam	2,75	30,6	27,4	0,1	2217
Quang Ngai	2,41	29,5	12,8	0,2	2171
Binh Dinh	2,98	24,7	90,0	0,7	2351
Phu Yen*	2,51	34,8	35,6	0,3	1573
Khanh Hoa	5,58	37,6	267,8	1,9	2363
<b>Central Highlands</b>					
Kon Tum	3,11	38,7	24,1	0,2	1871
Gia Lai	2,54	32,8	22,5	0,1	2695
Dak Lak		24,0	136,4	0,4	2257
<b>Southeast Region</b>					
Dak Nong	4,39	21,3	7,8	n/a	n/a
Ho Chi Minh City	12,75	34,3	1312,1	5,4	1369
Lam Dong	3,80	20,1	52,8	1,4	2231
Ninh Tuan	2,92	27,5	32,3	0,1	2266

Binh Phuoc*	2,50	44,7	143,7	0,0	2427
Tay Ninh	4,97	45,5	134,4	0,1	2014
Binh Duong*	7,09	52,9	1666,7	0,7	2518
Dong Nai	6,90	41,1	975,6	0,5	3123
Binh Thuan*	2,66	37,4	53,8	0,0	2249
Vung Tau	34,80	37,9	209,4	0,3	2053
<b>Mekong River Delta</b>					
Long An*	4,41	28,8	183,2	0,1	2500
Dong Thap*	3,62	27,5	68,4	0,2	2627
An Giang*	3,97	26,1	84,4	0,3	2694
Tien Giang*	4,06	26,9	54,6	0,1	2708
Vinh Long*	3,64	24,1	78,9	0,7	2698
Ben Tre	3,83	26,4	41,3	0,1	2613
Kien Giang*	5,40	35,5	82,0	0,1	3043
Can Tho City*	5,68	36,4	215,5	3,3	1447
Hau Giang	3,74	31,4	160,0	n/a	n/a
Tra Vinh	3,59	29,5	39,1	0,2	2915
Soc Trang	4,37	30,6	224,5	0,1	3117
Bac Lieu*	5,10	61,4	123,7	0,1	2126
Ca Mau	5,21	35,4	348,8	0,1	2672

Source: Comtrade and GSO (2005). \* These provinces are included in our selection in sections 5.2 and 5.3

However, the two growth-generating urban areas show different patterns on the linkage between export and growth. One explanation could be that the Southeast region is a financial centre and has a tradition of market economy. It has a comparatively very large production and also hosts many head offices of Vietnamese firms as well as of foreign companies, which might increase export. Red River Delta, on the other hand, is a political centre and might thereby get capital from all over the country for the national administration. It is likely that this affects growth in a positive way without increasing export. However the linkage between high GDP per capita and low poverty rate is obvious in the two regions, they are the most successful ones in this regard.

Development of these urban areas rise demand for raw material and other products, which generates growth in peripheral areas. According to Kokko's and Gustavsson Tingvall's regression there is a positive spatial spill-over effect, which means that a province growth affects neighbouring provinces positively. This is especially the case with Ho Chi Minh City (Kokko & Gustavsson Tingvall 2005:30), which can be seen in Table 5.2. In Southeast region many provinces have high or very high GDP per capita. The spill-over effect generally seems to be stronger in the south than in the north.

The differences in regional and provincial growth in Vietnam have many reasons. According to Kokko & Gustavsson Tingvall, the different variables of regional development can be classified into three categories: geography, history and policy (Ibid 13). Quality of soil, landscape, closeness to the sea and rivers as well as distance to the major cities are some

geographical characteristics with great importance. The level of development of infrastructure varies strongly.

The policy of the local government is important for the economic development and poverty reduction. Although the central government is powerful and decides most of the economic policy, company income tax included, there is some space for local government policy making, especially in public administration (Ibid 32). Efficiency of local administration differs greatly, which can be of great importance for investments and the establishment of new companies. The general attitude towards private companies also differs across the country, which can have effect on the development. According to a CIEM-report from 2003 (Ibid 34) most provinces nowadays have pro-business attitudes, but with huge differences, which can explain much of the differences in growth. Southern provinces, that generally are richer than northern, tend to be more positive to private sector activities than northern ones (Ibid 33) which probably is a heritage from the time the country was divided and only the northern part was ruled by the Communist Party promoting planned economy.

### 5.1.2 Income gap and geography

Vietnam's leadership has managed well in reducing poverty during recent decades and the poverty rate has declined from 58.1% in 1993 to 19.5% in 2004 (Kokko 2007). Private sector development and agricultural diversification are two important reasons. However there are still problems. The income gap is growing, especially that between ethnic Vietnamese and other ethnic groups, and between regions (Kokko 2005:14).

Poverty is concentrated to rural areas, which have a poverty rate of about 25%, compared to only 4% in urban areas. This results in huge migration from the countryside to the cities. Ethnic minorities in mountainous areas in Northwest region and in Central Highlands are still very poor (EU Report on Vietnam 2006:14). The poverty rate is six to almost ten times higher in these regions compared to Southeast. One striking example on a provincial level is Son La in the Northeast region, having a GDP per capita less than five percent of Vung Tau's, a province located in the Southeast region.

The rapid economic development is one obvious reason for the growing income and welfare gaps in Vietnam. This is a common pattern in early stages of industrialisation. Market economy and internationalisation permit some people to increase their wealth rapidly, while others, not taking part of developing sectors, are lagging after in relative terms.

In recent years, large parts of the financial burden of education and health care have moved from the state to the households. This reform, paradoxically called ‘socialisation’, has further increased social gaps. For the wealthy this has meant an improvement of education as well as health care, while the poor have experienced a worsening of conditions in these cases. From the richest quintile of the population one out of three children continues to university while almost nobody from the poorest quintile do so (Kokko & Gustavsson Tingvall 2005:5).

## 5.2 Export and GDP

Export is often considered as one of the main determinants of growth; this also seems to be the general view in the case of Vietnam. Kokko & Gustavsson Tingvall regard it the second most important variable, subordinate only to the investment rate (Kokko & Gustavsson Tingvall 2005:7). In the view of the Ministry of Foreign Affairs export is the most obvious strength of the Vietnamese economy because of the extraordinary high export growth rates during recent years, on average 17% between 2001 and 2005 (WTO accession 2006:23). The reasons for this achievement have already been mentioned; primarily policy changes regarding integration with the world market. In this section we attempt to test statistically if the connection between export and growth is valid.

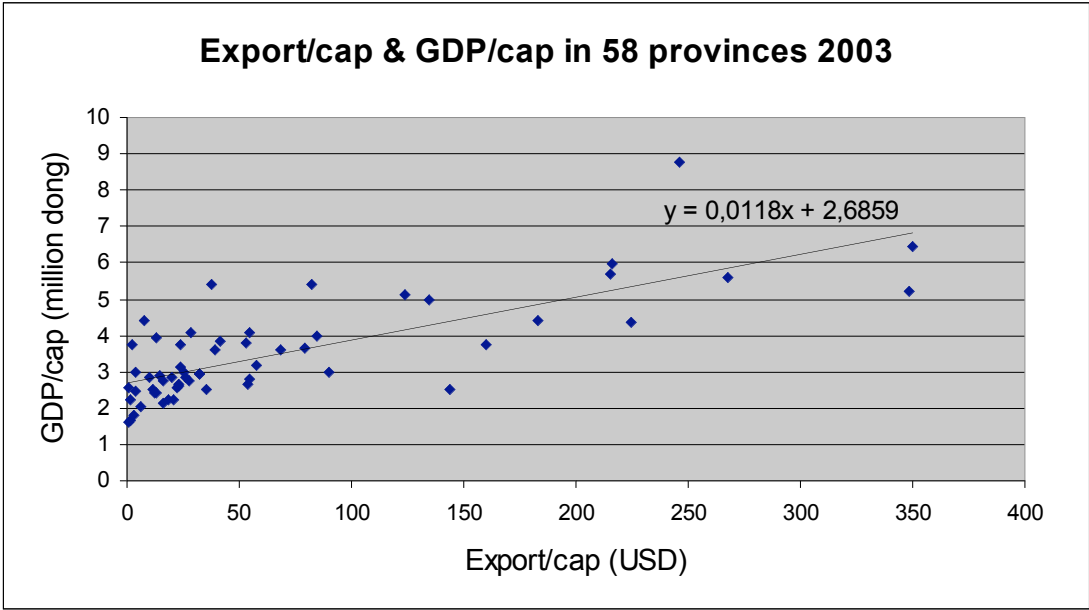
### 5.2.1 Export and GDP in Vietnamese provinces

The theory of comparative advantage suggests that there is a positive connection between export and GDP as a consequence of increased specialisation and efficiency. We have examined this relation in the Vietnamese case by plotting export and GDP for provinces where data is available. The result is shown in figure 5.1. Four outliers have been excluded in order to make the general pattern more viewable.<sup>11</sup>

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<sup>11</sup> The excluded provinces are Binh Duong, Dong Nai, Ho Chi Minh City and Vung Tau.

Figure 5.1



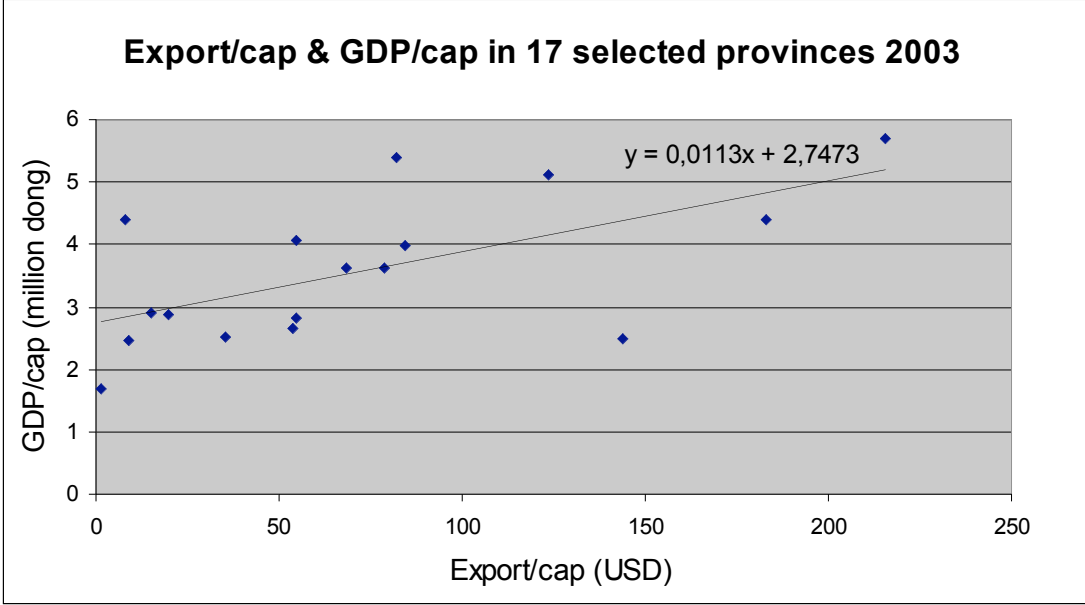
Source: GSO 2005.

The correlation between the variables in figure 5.1 is clearly positive, suggesting that they are connected. Provinces with high level of export per capita generally have high GDP per capita, and vice versa. Four provinces with high GDP or export values are excluded in order to make the pattern more viewable. These four, however, do not deviate much from the general pattern. The only province strongly deviating, Vung Tau, is ranked as number 11 in terms of export. The three remaining provinces have extraordinary high export per capita and are all in the top when GDP per capita is ranked. Interesting to note is that these four provinces all are located in the Southeast region.

### 5.2.2 Export and GDP in selected provinces

We study 18 provinces, for which we have reliable statistics concerning trade direction, to find out if different export partners generate different growth rates. Firstly, we examine whether the positive connection between export and GDP shown in figure 5.1 remains when these 18 provinces are used instead of all of them. If so, the selection can be considered as representative. The result is shown in Figure 5.2.

**Figure 5.2**



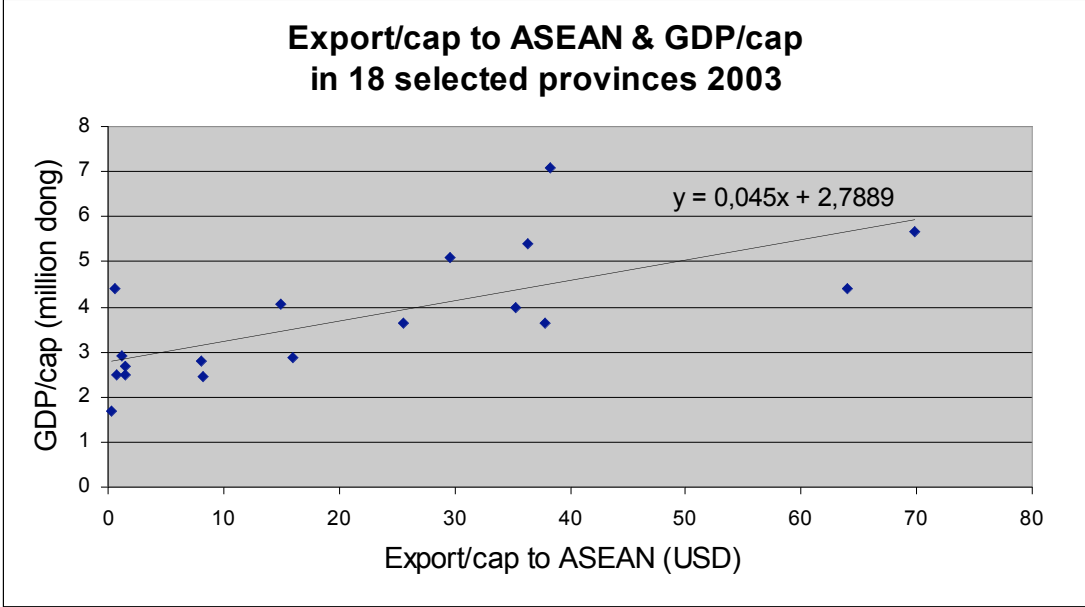
Source: GSO 2005. Binh Duong excluded as it is an extreme case

The slope in figure 5.2 is close to that of figure 5.1. This means that export has about the same effect on GDP in these provinces as in the country as a whole. We therefore find it useful to use this selection when trying to answer the question about the importance of export direction.

**5.2.3 Export direction and GDP**

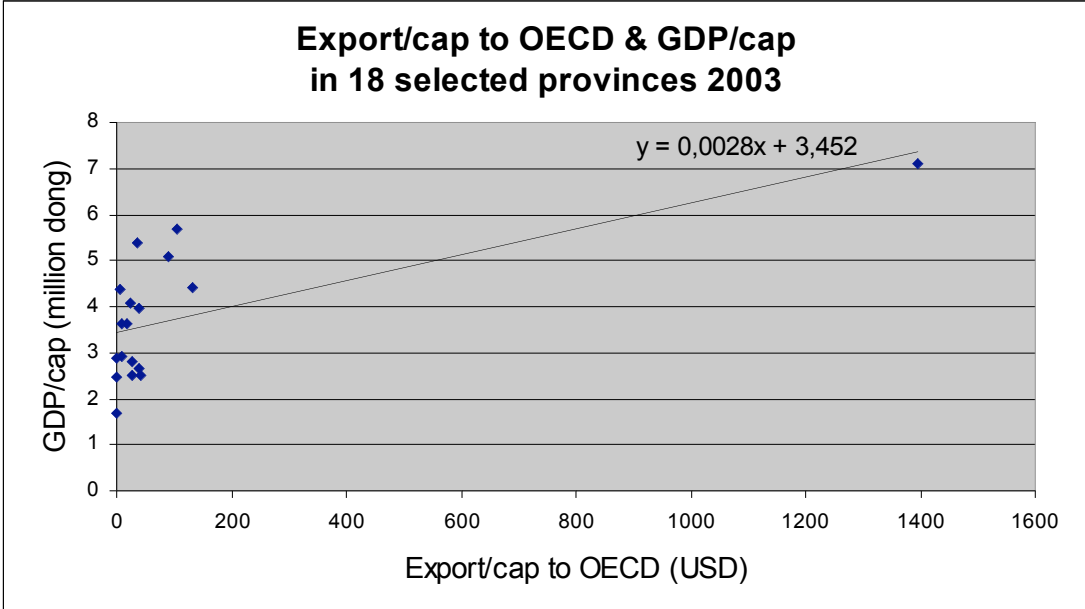
Is it from a growth point of view generally preferable to export to ASEAN or OECD? As mentioned above, different products are to a higher degree exported to either ASEAN or OECD. Depending on RCA these products can be expected to generate different outcomes in terms of wealth. Products with high RCA numbers, for example clothing (including footwear), fresh food (fish) and leather products, are largely exported to OECD. Consequently, regions with production in these fields can be expected to gain more from export, *i.e.* obtain higher GDP growth. In figures 5.3, 5.4a and 5.4b below the connections between GDP and export to ASEAN and OECD respectively are illustrated.

Figure 5.3



Source: Comtrade and GSO (2005)

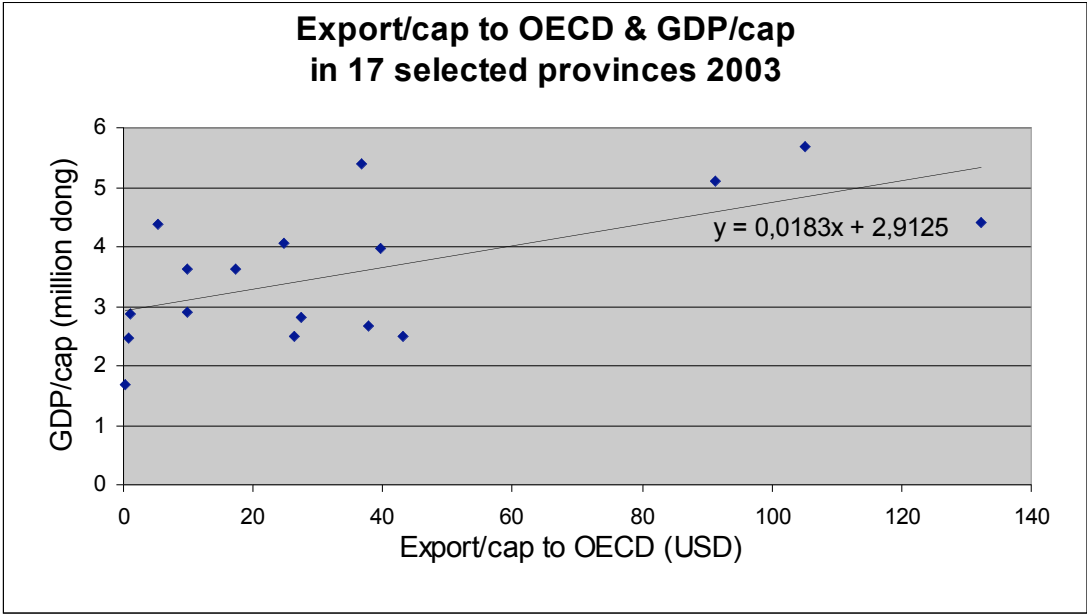
Figure 5.4a



Source: Comtrade and GSO (2005)



**Figure 5.4b**



Source: Comtrade and GSO (2005), Binh Duong excluded as it is an extreme case.

In both cases the trend is positive, but for export to ASEAN the slope is steeper. The earnings in terms of GDP size from export to ASEAN (figure 5.3) are more than twice as high as export to OECD (figure 5.4b<sup>12</sup>). Furthermore, the relation illustrated in figure 5.3 is more reliable than in figure 5.4b since the deviation from the trend line is smaller.

The result is somewhat surprising and not in line with our hypothesis. A couple of possible explanations can be mentioned. The increase in export during the last decades has to a considerable extent been directed towards OECD countries, and production has increased impressive within sectors primarily exporting to the rich world. As mentioned in chapter 4, value added in production of clothes, shoes etc. that mostly is exported to OECD, is low. The industries are still relatively new and underdeveloped, compared to for example agricultural branches (peanut, rice, and wheat flour) and heavy industries (crude oil, cement, and steel), all of which to a high extent are exported to ASEAN. Production of these latter products has by no means high value-added (rather the contrary), but the industries has been established for a long time and are possibly more developed. Therefore the problem of value added might not be severe.

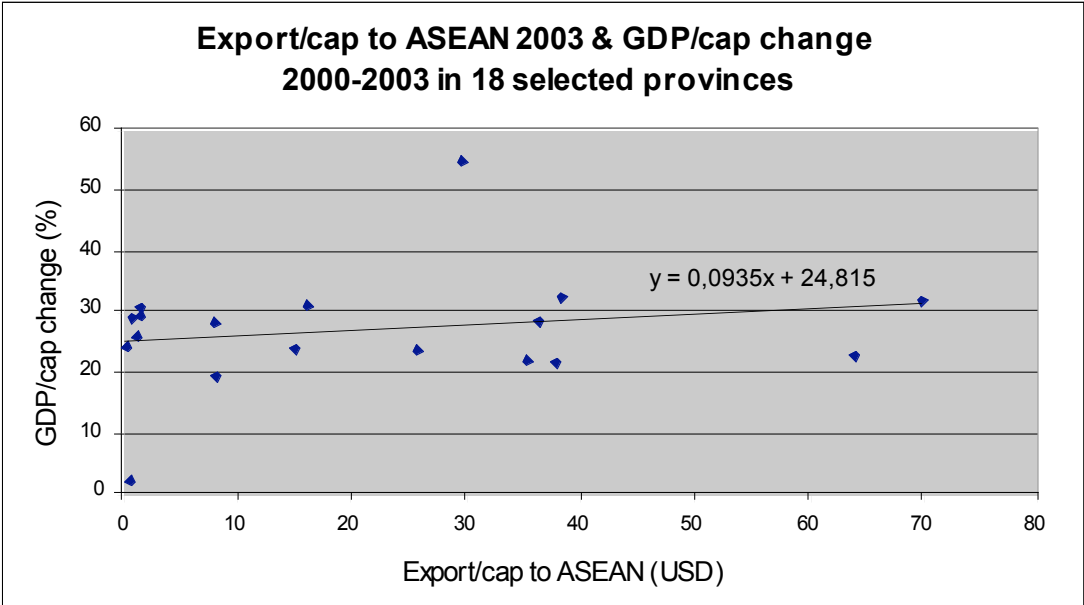
<sup>12</sup> If figure 5.3 instead would be compared to figure 5.4a, export to ASEAN would be 16 times more beneficial. However, figure 5.4b, where the extreme case has been excluded, probably is more representative.

Another possible explanation to the higher returns for export to ASEAN might be that the provinces in question have had a higher growth in the past. Consequently it is possible that these provinces have a higher GDP even though they have benefited less from the export development of recent decades, compared to provinces primarily exporting to OECD.

### 5.2.4 Export direction and development of GDP

To be able to disregard achievements in the past, while studying export’s impact on GDP, it is necessary to examine the GDP development. In figures 5.5, 5.6a and 5.6b below the value of the export to OECD and ASEAN respectively is plotted against the GDP change in the selected provinces.<sup>13</sup> The results of our study on export direction and GDP levels were surprising and contradictory to our hypothesis since ASEAN export was more rewarding while export to OECD was growing more. One could expect the fast developing industries to be correlated to high GDP growth. Therefore, we presume that the fast growing industries, mostly exporting to OECD, today generate more GDP-growth.

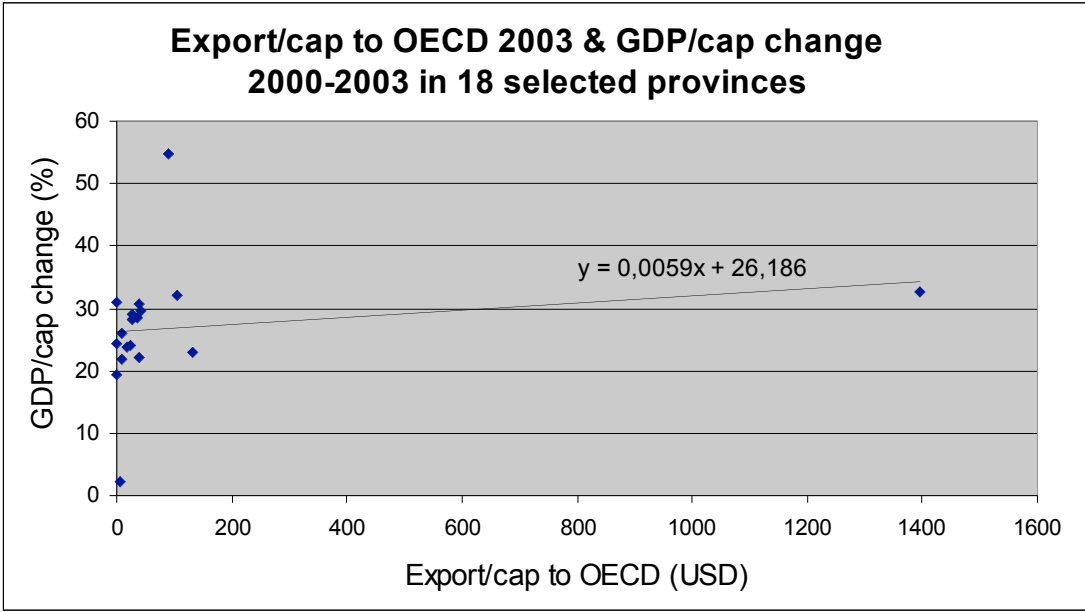
**Figure 5.5**



Source: Comtrade and GSO (2005)

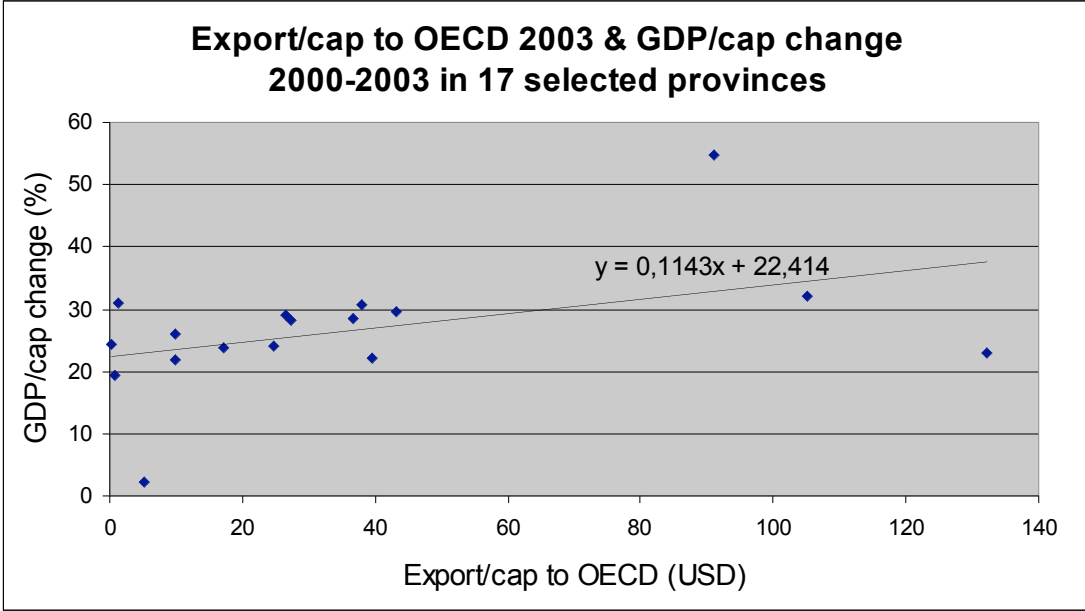
<sup>13</sup> Unfortunately, due to lack of statistics on export of Vietnamese provinces previous years, we do not plot GDP growth against export growth, but only against the export of 2003.

Figure 5.6a



Source: Comtrade and GSO (2005)

Figure 5.6b



Source: Comtrade and GSO (2005), Binh Duong excluded

The differences in the correlation between export to ASEAN and OECD and GDP per capita is obvious, as shown in figure 5.3 and 5.4. Figures 5.5, 5.6a, and 5.6b do not show a corresponding difference between GDP growth and export direction. When figure 5.5 is

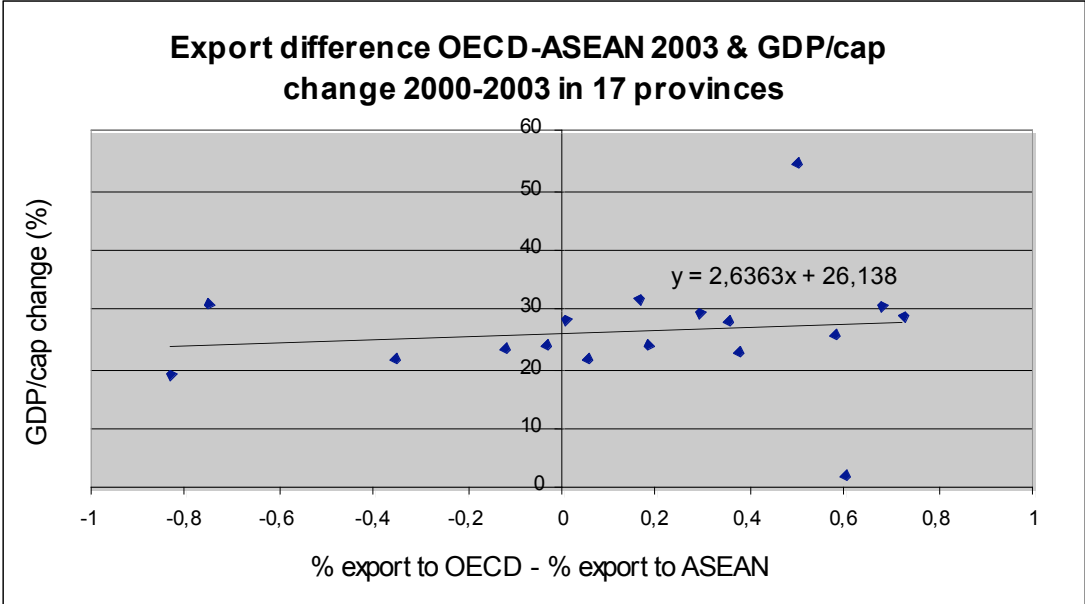
compared with figure 5.6a the difference still exists but when the extreme case Binh Duong is excluded (figure 5.6b) export to OECD seems to be more rewarding than export to ASEAN in terms of GDP growth.

### 5.2.5 Composition of trade directions and development of GDP

Figures 5.5, 5.6a, and 5.6b do not illustrate differences between export to ASEAN and OECD respectively for the individual provinces. The ones with large export to ASEAN might be the same as those with large export to OECD. Therefore, export per capita to ASEAN and OECD respectively for the selected provinces is illustrated in figure 5.7.

Is there, from a growth point of view, an optimal composition of trade direction? Does an extreme composition, with only export to either ASEAN or OECD, generate growth or is a mix of export partners to prefer? Is the pattern shown above repeated? Provinces focusing on one export partner probably export goods from a limited number of sectors while provinces richer and poorer countries as partners is presumed to have a more varied export. A varied production can be expected to be beneficial, at least in the long run, since more business possibilities are exploited.<sup>14</sup>

**Figure 5.7**



Source: Comtrade and GSO (2005), Binh Duong excluded

<sup>14</sup> Another reason is that the economy will be less vulnerable to international and domestic economic fluctuation. This is, however, not very relevant in our study since the years measured are too few.

The vertical axis in figure 5.7 illustrates the GDP growth between 2000 and 2003 and the horizontal axis shows the export to OECD (percentage of total) minus the export to ASEAN (percentage of total) in 2003. Provinces placed in the middle of the x-axis consequently export goods of an equivalent value to OECD and ASEAN. As can be seen, most provinces export more to OECD than to ASEAN (see also figure 4.2). The correlation between the two variables is slightly positive, again suggesting that OECD export is more rewarding in terms of GDP growth. The tendency is not a strong one though; all provinces at issue but two have had a three year growth of 20-33 percent. The two deviating regions, i.e. the ones with the lowest (Dak Nong) and highest (Bac Lieu) growth levels, both export mostly to OECD. Surprisingly, considering our hypothesis, a mixed composition does not generate better results<sup>15</sup>.

### 5.2.6 Summary of results

The section above presents three main results. Firstly, a positive correlation between export and GDP, as well as export and GDP growth, in Vietnamese provinces is observed. Secondly, export to ASEAN is more strongly connected in a positive way to GDP per capita size than export to OECD. Thirdly, export to OECD is more rewarding in terms of GDP growth than export to ASEAN.

## 5.3 Export and Social Indicators

Vietnam is often praised for its successful poverty reduction. We will in this section discuss whether this development is to some part due to increased export. This will be done by measuring simple correlations between GDP and export, on one hand, and two indicators of

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<sup>15</sup> A few provinces, however (especially Long An and Can Tho City), have high export per capita to both ASEAN and OECD and high GDP rates. These two are both located in the Mekong Delta, close to Ho Chi Minh City. Just like several of their neighbours they have a wide range of production and are exporting both agricultural and industrial products.

social welfare (the percentage of students among the population<sup>16</sup> and the number of medical doctors per person) on the other<sup>17</sup>.

How can export lead to poverty reduction? One obvious answer is that poverty reduction often is a result of high income, which, as we have seen, is in turn connected to large export. Consequently the discussion in the previous section to some extent is also valid here; a positive correlation could be expected. How can then export directly affect poverty? If branches that employ relatively many poor have a possibility of successful competition on the world market, a general increase in export will decrease poverty. In Vietnam's case cheap labour is the main comparative advantage, and integration with the world economy therefore can generate new employment opportunities in labour intensive industries. This is another reason why a positive correlation can be expected. As mentioned above, garment and footwear industries have been important in this regard, especially for poor women. Also the agricultural sector has benefited and developed with the consequence that poor rural areas have taken part of Vietnam's growth (EU Country Report on Vietnam 2006:14).<sup>18</sup>

### 5.3.1 GDP and higher education

We begin by comparing material from Vietnam's provinces concerning the percentage of students in the population and examine whether there is a connection between this variable and GDP. GDP growth often generates improvement in education since state and parents tend to spend more money on this when income and wealth is growing.<sup>19</sup> Our hypothesis is therefore that these variables also in the case of Vietnam are positively correlated.

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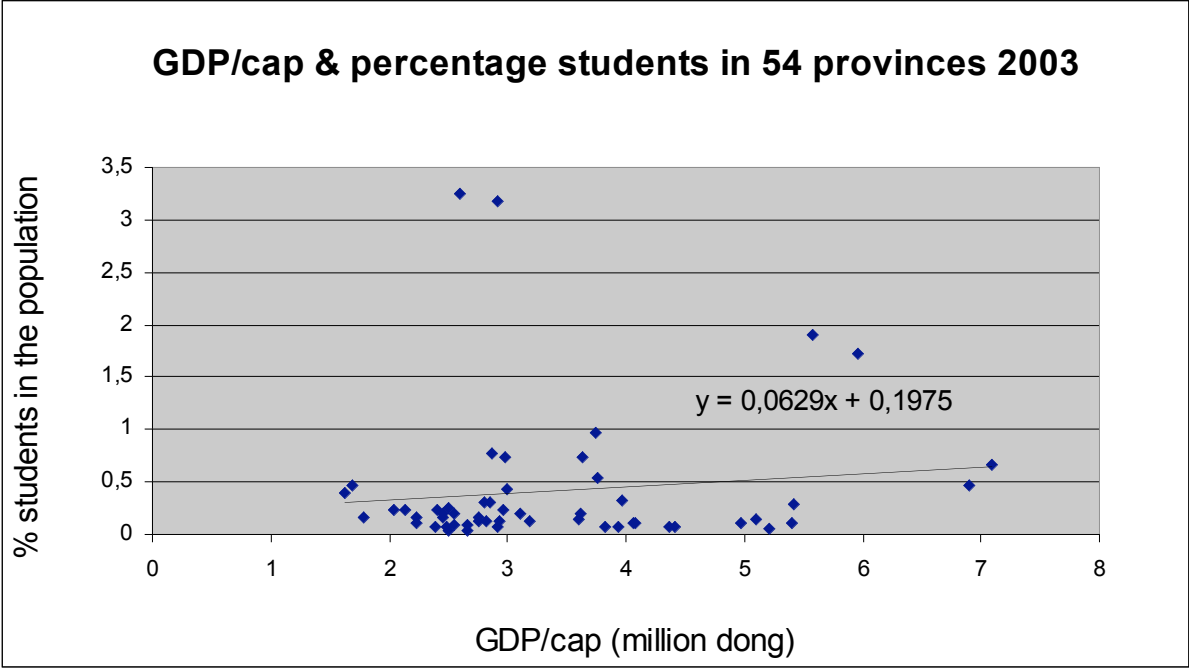
<sup>16</sup> One reservation can be made on this choice of social indicator. The education level might not be perfect since some provinces to a high degree specialise in production with low requirements of skilled labour. People in these provinces might very well study in other provinces.

<sup>17</sup> Statistics concerning social variables are collected from GSO publications. In '*Socio-Economical Development Report of 64 Vietnamese Provinces 2005*' (GSO 2005) we have collected statistics on provinces' population, GDP, export and main export products for 2000 and 2003. Here we have also found in which volumes these main export products were exported in 2000 and 2003.

<sup>18</sup> Structural changes connected to increasing trade openness can, however, also have negative consequences. Price fluctuations on the world market and other uncertainties become larger with a less protected market and may increase the vulnerability and impoverishment of people especially in rural areas (Thanh 2005:87). This means that provinces with relatively high exports can be stricken with higher poverty rates. Increasing income differences in general is another possible negative consequence. This has happened in Vietnam even though absolute poverty in the same period of time has decreased. In what way income differences are connected to poverty is a matter of discussion. Some argue that the successful development in Vietnam would not have been possible to the same extent without the allowing of income differences as a means of stimulating entrepreneurship (Kokko & Gustavsson Tingvall 2005:7-8). The question of increasing income differences and the possible connection between this and an opening of the market does, however, not lie within the frame of this essay.

<sup>19</sup> This is even more plausible since the private share of education financing has increased in recent years due to government reforms (Kokko & Gustavsson Tingvall 2005:12).

Figure 5.8



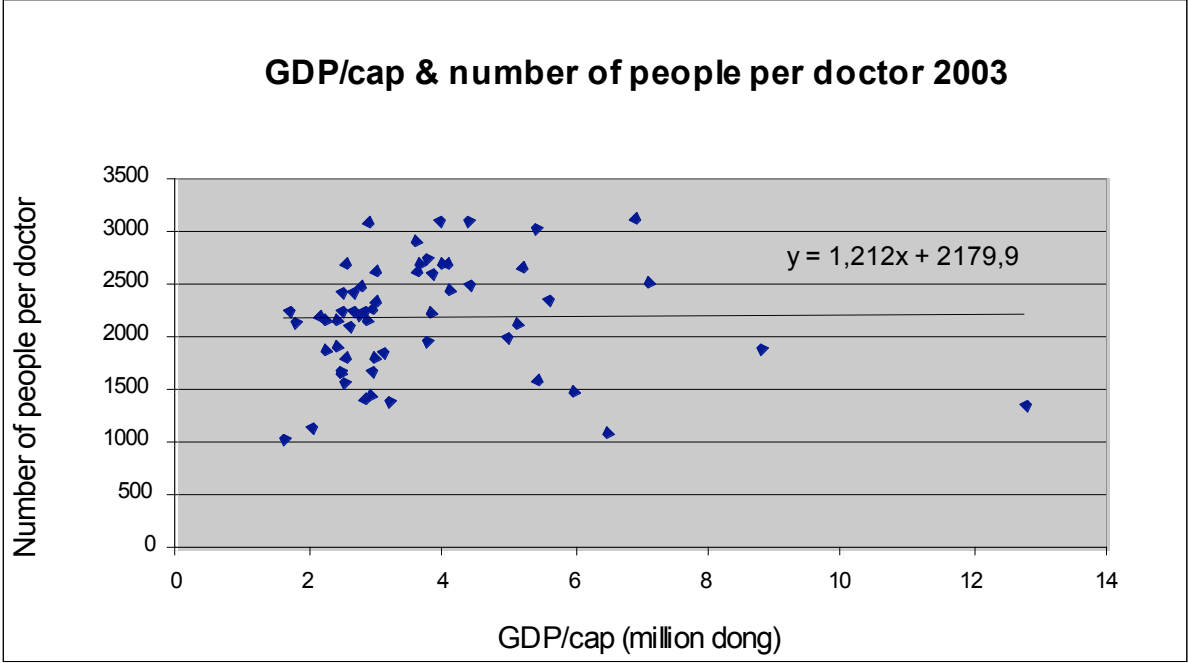
Source: GSO (2005)

Figure 5.8 displays the percentage of university students among the population and GDP per capita in Vietnamese provinces. Five extremes have been taken away. The figure presents a positive relation between the percentage of students and GDP per capita. Even though it is obvious that certain provinces, especially Hanoi City with a student percentage of 14.6, are favoured in this regard by the state, figure 5.8 suggests that GDP per capita also matters. In wealthier provinces more people have a possibility of higher education.

### 5.3.2 GDP and health care

We continue by examining how development of GDP affects health care by plotting the simple correlation between GDP per capita and number of people per medical doctor in Vietnam’s provinces. Our hypothesis is, as above, that high GDP is correlated to high density of medical doctors (few people per doctor).

Figure 5.9



Source: GSO (2005), Vung Tau excluded

Figure 5.9 displays the number of people per medical doctor and the GDP per capita in Vietnamese provinces. The relation between the two parameters is slightly positive, suggesting a negative correlation between GDP and density of medical doctors. However, if the province Vung Tau (now excluded as an extreme case) is included, the relation in figure 5.9 instead turns slightly negative. This makes the plausibility of either relation illustrating reality low<sup>20</sup>. Provincial GDP per capita does consequently not seem to affect doctor density. This is supported by the fact that the mentioned Vung Tau, Vietnam’s richest province, has a doctor density close to the country’s average. A probable reason is that health care to a large extent is state controlled.

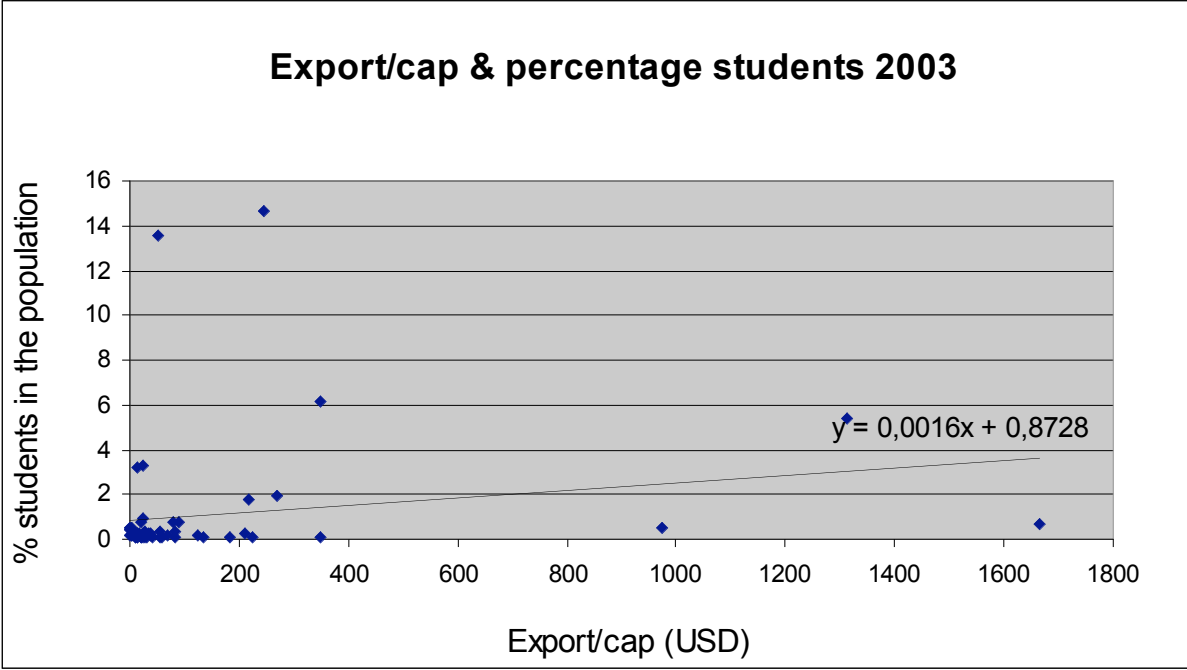
### 5.3.3 Export and higher education

We will now test whether there is a relation between export and university education. Considering the two reasons mentioned in the introduction to section 5.3 we believe that there is a positive correlation between export and level of education in Vietnamese provinces.

<sup>20</sup> One should be aware of that even though the figures above present a positive correlation between GDP and two social variables they do not tell whether most of the population or just a small number of it take part of the wealth. Our results might hide great differences of income and social indicators within the provinces.



Figure 5.10



Source: GSO (2005)

Figure 5.10 shows the simple link between percentage of university students in the population and export per capita in 59 Vietnamese provinces. The diagram present a positive relation which however is uncertain since tendencies in the figure of a reversed relation also are prevalent. Whether high export affects the number of students or vice versa the diagram cannot tell. Both causal connections are possible.

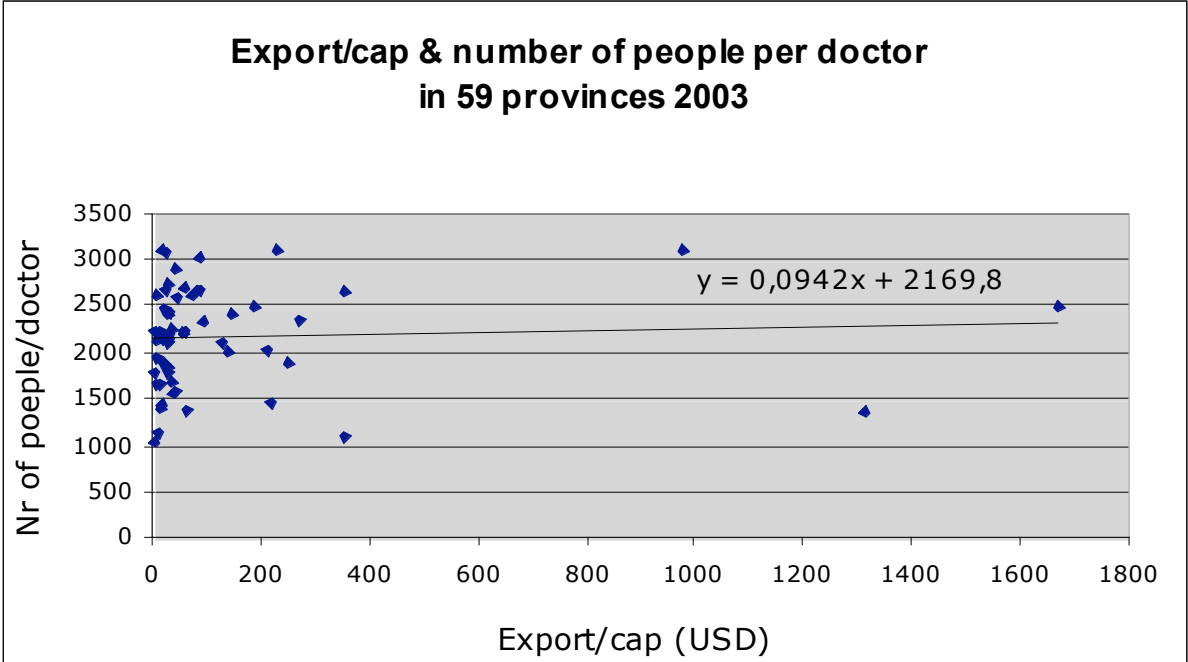
A couple of interesting observations can however be made. Four provinces deviate from the general pattern. Lam Dong and Hanoi city have by far the highest percentages of students (13.6 and 14.6 percent respectively) but proportionally low export per capita. Hanoi is the political centre and hosts many main universities. These attract students from all over the country leading to the province’s large student population. In addition the state administration employs a large number of individuals who do not directly contribute to export. This can be compared to the situation in the other major town Ho Chi Minh City, Vietnam’s financial centre, where many large and trade oriented businesses are based. The case of Lam Dong, situated in the Southeast, is perhaps more surprising. Its export level is strikingly low for a province situated in the most trade oriented region of the country. At the same time the concentration of students is the country’s second largest. This is hard to explain without detailed information on provincial conditions.

The other deviating regions Binh Duong and Dong Nai, with student concentrations close to the country’s average, have very high export. These provinces border to each other and also to Ho Chi Minh City and have experienced an industrial boom as a trickle-down effect from this city. They both produce a wide range of products for export, of which shoes, garments, and a variety of agricultural products, are of particular importance (GSO 2005). It is not surprising that high export is not connected with high percentage of students in this case since the mentioned export industries are labour intensive and do not require an educated workforce.

5.3.4 Export and health care

Considering the results illustrated in figure 5.9 it would be surprising if the correlation between export per capita and doctor density would be clearly positive, even though it is a theoretically plausible hypothesis.

Figure 5.11



Source GSO (2005)

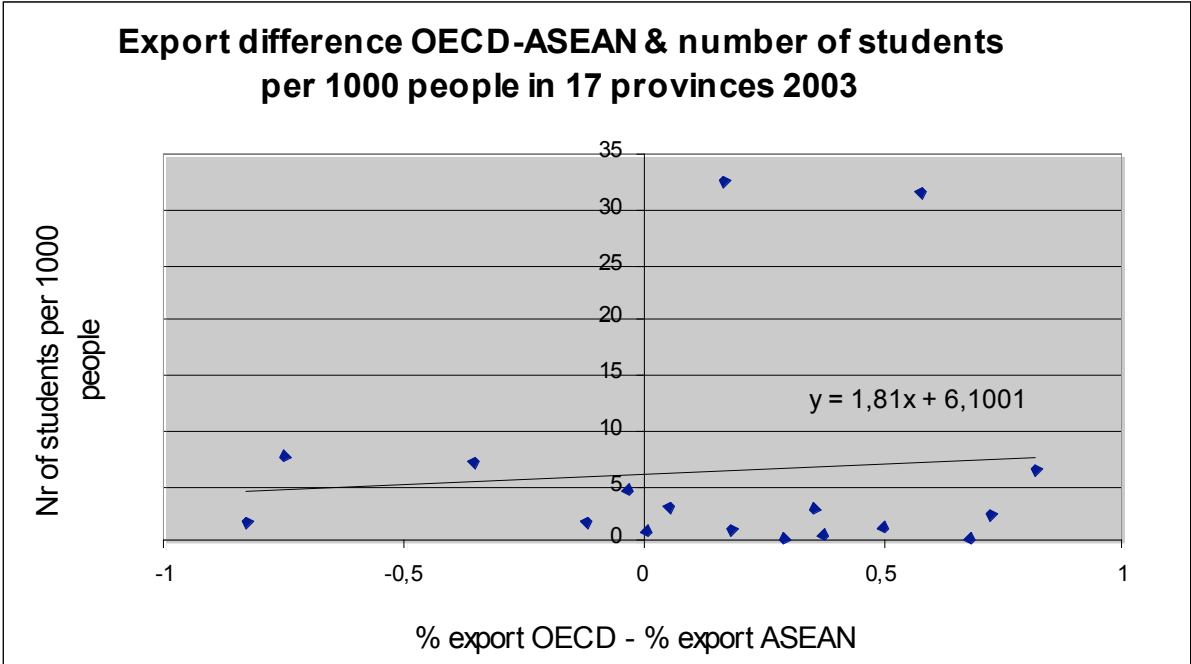
In figure 5.12 the number of people per medical doctor in 59 Vietnamese provinces is plotted against export per capita value. The three extremes concerning export per capita are, once again, Ho Chi Minh City, Binh Duong, and Dong Nai. These provinces all have high export levels but widely differing doctor densities spread on both sides of the national average. The

relation between the two parameters shown in figure 5.11 is slightly positive, suggesting a negative correlation between export and density of medical doctors. As with the connection between GDP per capita and doctor density (figure 5.9) this is not what we initially would have expected. However, the deviation from the trend is large, supporting the above-mentioned hypothesis that doctor density is being determined by state policy or other factors.

### 5.3.5 Export direction and education

To test if there are any differences between provinces exporting more to ASEAN than to OECD we have made a plotting analogous to the one in figure 5.7 but with the GDP variable replaced with education. Since the result from figure 5.7 suggests that export to OECD is linked to higher GDP growth (even though the tendency is not strong) we would expect that it is also connected to high percentage of students.

**Figure 5.12**



Source: GSO (2005), Vung Tau exluded

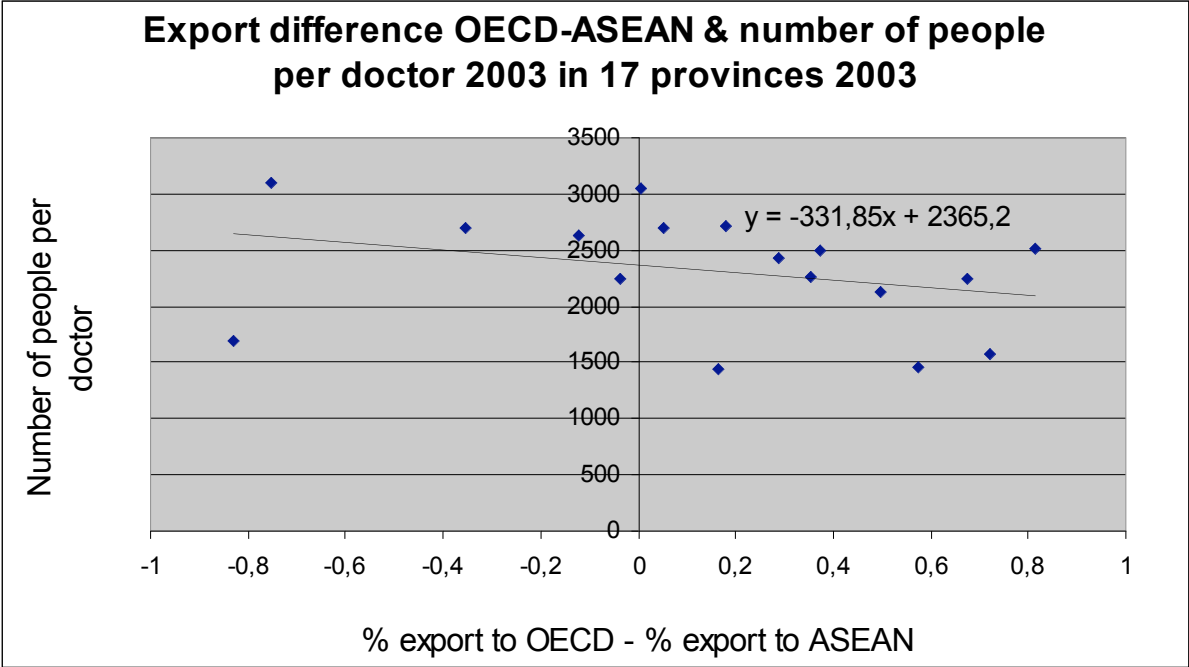
Figure 5.12 measures how the number of students per 1000 inhabitants in our selection of 17 Vietnamese provinces is related to the degree of export to ASEAN and OECD respectively. Provinces exporting more to ASEAN are located to the left on the horizontal axis and vice versa. As expected, the trend is positive, suggesting that provinces exporting more to OECD also have a higher percentage of students. As in figure 5.7 the result can not be considered

highly reliable since the trend instead turns negative when the two extreme cases, concerning numbers of students, are excluded. Nevertheless, OECD export seems to be beneficial for university education enrolment.

### 5.3.6 Export direction and health care

We now make a similar plotting concerning health care. Based on the results above, our expectation is that provinces that to a high extent export to OECD also have better statistics concerning density of medical doctors.

Figure 5.13



Source: GSO (2005), Vung Tau excluded

Figure 5.13 is similar to 5.12 except that number of students is replaced by number of people per doctor. The correlation is clearly negative, suggesting that provinces exporting more to OECD have more medical doctors in relative terms. In line with our hypothesis, export to the rich world is more rewarding for health care than export to neighbouring countries.

### 5.3.7 Summary of results

There are clear positive connections between the percentage of students and GDP per capita while student concentration does not seem to affect doctor density in any direction. As in the case of GDP, export is strongly positively correlated to percentage of students. There is,

however, rather a negative connection between doctor density and export levels. Finally, regions exporting more to OECD have a higher percentage of students and better health care in terms of doctor density.

## 6 Summary and Concluding Remarks

This paper examines trade openness and its connection to economic and social development in Vietnam. Regional and provincial patterns concerning these variables are mapped out. We evaluate possible gains from export promotion on national as well as regional and provincial level and test whether export direction matters in this regard. The results are based on provincial comparisons.

Regional economic and social differences in Vietnam are huge. Between the richest and the poorest region GDP levels differs by a factor of five and poverty rates by a factor of ten. The regions of the two major cities, Red River Delta and Southeast, are the richest ones together with the Mekong Delta, situated in the south close to Ho Chi Minh City. Both major towns have high GDP growth, but the export of Ho Chi Minh City is much larger than Hanoi's. The latter, being the centre of the state administration, has a higher education level. Neighbouring provinces gain from the closeness to these cities and develop as a trickle-down effect. Provinces situated in mountainous areas often suffer from poor infrastructure and thereby low FDI. They have low GDP levels, high poverty, and poor social welfare. The percentages of minority groups are often high in these provinces.

The first result to emerge is that there is a strong correlation between export and GDP size as well as GDP growth, strongly suggesting that export promotion matters for economic development. Vietnam has experienced an impressive growth during the last decades. Our conclusion is that this to a large extent is a result of progressive export promotion. From being a very poor country focusing on self sufficiency and limited trade with the communist world, reforms of Doi Moi and beyond has integrated Vietnam with the world economy. This integration includes membership of international organisations as ASEAN and more recently WTO. This development means a continuing embracement of market economy fundamentals and an effective exploitation of comparative advantages, which has made the export sector successful.

We have also examined a possible connection between GDP, export, and social variables. Here we have found strong positive correlations between education level on one hand and GDP and export levels on the other. These variables can be assumed to affect each other in a positive way. Education increases human capital, which in turn is a strong component of export and GDP growth. The generated welfare also increases possibilities of financing education. This spiral of development can be expected to develop the export

structure of Vietnam towards an industry less reliant on unskilled labour. Such a development would increase value added and thereby export revenues.

In the case of the connection between GDP per capita/export per capita and doctor density the answer is not as straight forward. The GDP per capita level does not seem to affect doctor density, and high export levels seem to decrease it. This is somewhat surprising, but probably a result of egalitarian policies on national level. Just as the fact that poverty reduction has been very successful, this proves that rapid economic liberalisation in developing countries can lead to social improvements for everyone also in the short and medium term. This contradicts the common view that huge welfare differences have to be accepted at the early stage of development. However, income differences are growing also in Vietnam.

Concerning trade directions, our results are generally harder to draw conclusions from. Export to ASEAN is more strongly connected in a positive way to GDP per capita size than export to OECD, but on the other hand, export to OECD is more rewarding in terms of GDP growth. This may seem as a paradox, but might just be a result of wealth and economic growth in the past. Provinces exporting more to OECD also have a comparatively higher percentage of students and better health care in terms of doctor density. If the development of GDP growth that we have found continues, these provinces will also become more rewarded when it comes to GDP size. In the long run, growth is more relevant than absolute GDP levels. The systematically differing growth levels are connected to differences in export directions of commodities. Vietnam's main comparative advantage is cheap labour, and most commodities with high RCA naturally have labour intensive production. Many of these commodities, fish, footwear, clothing etc, are mainly exported to OECD and probably generate higher profits than other commodities. One indication of this is that export of such commodities has increased more than export of other goods. Many of these export sectors, however, suffer from low value added. This is likely to change as education levels rise and business know-how develops as a result of increased cooperation with foreign companies. Hence, export growth potential is high and, consequently, so are the prospects of a continuing GDP growth and poverty reduction. Provinces exporting more to OECD have higher education levels and better health care, suggesting that exporting to OECD rather than to ASEAN is preferable also from a social welfare point of view.

The broad results of our study is that liberalisation and export promotion to the rich world rather than to neighbouring countries has been beneficial for Vietnam in an economic as well as a social sense. This development is likely to continue as the integration with the

world economy proceeds and export grows. It is reasonable to believe that this Vietnamese recipe of economic success could be used also by other developing countries.



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