



CENTER FOR BUSINESS AND GOVERNMENT  
79 John F. Kennedy Street, Cambridge, MA 02138

tel: (617) 495-1134  
fax: (617) 496-5245  
david\_dapice@harvard.edu

## **CHOICES AND OPPORTUNITIES: ROADS OPEN TO VIETNAM**

**David O. Dapice**

**PREPARED FOR  
THE DEVELOPMENT STRATEGY INSTITUTE OF VIETNAM**

**September, 2000**

HARVARD UNIVERSITY

## **Executive Summary of “Choices and Opportunities: Roads Open to Vietnam”**

### Background

Vietnam’s growth has slowed since the 9% rates up to 1997, and it has been getting a lot of advice from donors that suggests developing a private sector, lowering trade barriers, and improving capital markets so as to take advantage of the global economy. This advice seems sensible to many but also hard to follow given various concerns about socialism, equity, and stability. The intent of the US is thought by some to still be hostile, and better relations with China do not lessen concern about their increasing competition in many industries also important to Vietnam. The best way to take advantage of science and technology, including the Internet, is also under discussion. What is agreed by all is that Vietnam is still poor and it has little land. People will have to move out of agriculture to eliminate poverty and to begin to “catch up” with others. Even equal *per capita* growth rates (say 5% a year) means \$20 extra in Vietnam, \$50 in China, and \$150 in Thailand.

Rather than repeat advice, this paper presents three plausible alternatives or scenarios of Vietnam’s economic future. Each one is the outcome of a thought process and consistent, with its policies and outcomes. Whatever is decided, it is best to be clear about the implications.

The bias of the author is that he believes the combination of faster and cheaper computers and communication is causing a revolution equal in importance to printing or electricity. To decide not to take part in these is like deciding to charge \$1 per kilowatt hour for electricity. It can be done, but what government would want to keep people in the dark? However, taking advantage of these developments (it now costs five cents per HOUR to lease a voice line across the Pacific Ocean! Telephone calls will soon be nearly free.) requires that decision cycles be speeded up. This is very hard for governments, and even for old-style state enterprises. To be slow is to be dead. This is why FDI has fallen 80% to 90% in 1999-2000 from 1996, while it has doubled or tripled in Korea and Thailand.

### Scenario 1: Business as Usual (Minus)

There are some in Vietnam who look back on the past decade with satisfaction and believe that a continued step-by-step approach is desirable. Most of these people would like the state banks to continue as they are, want large state enterprise monopolies, and are skeptical of the benefits of the Internet. They believe in self-sufficiency and protection. The author argues that this view is complacent because of likely slower growth in agriculture, the impact of the communications revolution, and the looming threat of foreign competition, especially from China. (There is a case study on the Motorbike Industry.) More of the same is likely to produce much slower growth, perhaps 4% to 5% a year over time, and 25% to 30% investment/GDP ratios, but with inefficient investment patterns. The most troubling aspect of this scenario is the implications for employment. There will have to be 1.4 million new jobs a year and few would be created in this scenario, much less helping to reduce under- and unemployment. The likely result would be falling behind and social evils. High income taxes (among the highest in the

world) would also be sure to drive the most qualified workers overseas, and lower total income tax collections. Technical capacity would slip too.

There is a “box” asking what a leading role means now. It clearly is not in providing direct employment, since SOE jobs will fall. The position of the state in farming is slight, and even in industry is down to 41% and may be overtaken by FDI based industry in a year or two. Its share in services is also likely to fall. So, a “leading role” could mean state ownership of certain “heavy” industries, electricity and telephones, and banks and railroads. However, trade concessions will make these positions weaken over time. Or, it could mean the state is moving into “path breaking” areas, but in software, it is clearly the private sector that predominates. A “leading role” is meaningful if it is defined as creating an environment in which all competitive firms can prosper.

### Scenario 2: Business as Usual (Plus)

In this scenario, pragmatic and technocratic elements balance the more cautious groups. The result is a compromise. There is more of a willingness to specialize production for export, more attempts to lower high prices and improve service (as in telephone/Internet), and more of an attempt to make public investment more efficient. There would be some banking reform and a better capital market, so that investment would be used more efficiently. With about the same level of investment, growth would increase to 6-7%, although there might be higher FDI. In this scenario, growth (double GDP by 2010) and poverty reduction targets are taken seriously. However, it would take faster and smarter reforms than in the 1996-1999 period.

There is a long analysis of job growth. SOE's will probably have fewer jobs over time. FDI will do well to absorb 100,000 per year (up from 60,000 in the 1990's) and the same is true for the formal private domestic sector, though this implies 20% annual output gains. Agriculture might be able to take another 200,000 a year, even though its income or product per capita is a third or fourth of other sectors. This implies that the nonfarm rural/informal sectors will need to absorb 1 million a year, just to absorb new entrants! This is a large amount, and will require an analysis of existing constraints. Three mentioned are actual behavior by state banks restricting credit to private borrowers, restrictions on land use at the local level, and controls on export or high marketing and transportation costs leading to poor processing and lost sales. Even with these reforms, it would mean “crowding in” to these jobs and zero productivity growth, though incomes would still be much higher than if the workers had stayed in agriculture.

There is a brief digression on the actual savings rate of Vietnam. It is not clear how big trade deficits really are (IMF sources are twice the official figures) and *Viet Khieu* inflows are large, and some may be investments rather than gifts. While official savings are 25% of GDP, the actual figure may be in the 15% to 20% range. This matters if the investment climate becomes worse, because then some of the inflows would stop.

There is also a “box” on the Vietnam-US Bilateral Trade Agreement. The US imports 100 times as much as Vietnam, and lower tariffs on manufactured goods should lead to

much higher export levels, and also more FDI for Vietnam. The author argues that the BTA *allows* Vietnam to succeed, but does not *ensure* it. Other steps will be needed so that the full benefits are realized, and the quantity and quality of FDI increase. Although Vietnam reached \$4 billion of manufactured exports last year, the Philippines has had its manufactured exports rise by \$4 billion a year recently due to its electronics sector. With respect to the “concessions” in telephones and banking, it is argued that the negotiated phase-ins are far too slow given technology and Vietnam’s needs, and that a truly smart policy would move much faster than the treaty proposes, if it does not want to create a situation where Vietnam’s firms pay ten times as much to talk to customers or suppliers as firms in other nations. The quicker a critical mass of foreign investors is reached, the faster the economy can create the jobs needed.

Another “box” deals with the impact of infrastructure in poor areas, and asks, “what kinds help?” Big projects like a refinery, a (little used) port or bridge, or a hydro-plant do little good for the regions they are put in. A better approach is to decentralize investment decisions, with some guidelines and oversight. The recent decision to delay completion of parts of the new North-South highway was wise. If east-west feeder roads are built and connect remote areas to markets and ports on the coast, their growth will eventually make completion of the north-south highway more productive.

### Scenario 3 – A Decision to Leap?

While faster is usually thought better than slower, it often entails some cost. This section discusses the policies for faster growth but also the tensions and risks. One risk is “losing control” in the sense that once powerful changes are unleashed, they are hard to reverse. Another is, as Deng Xiao Peng said, “When you open the window, the flies come in.” So part of opening up to information is getting messages that are unwanted. However, while the risks of this are well appreciated, the costs of moving slowly may not be. Increasingly businesses will need the Internet as a fundamental tool. This is why China, even while it tries to perfect “firewalls” (screens for the window), has decided to push the Internet. On a per capita basis, ten times as many Chinese as Vietnamese use the Internet. Are the Chinese naïve? Or have they weighed the costs and benefits more clearly?

The new technology does decentralize the power of information. Vietnamese firms will be able to grow faster. In scenario 3, the SOE’s will also grow faster, but they will probably have a falling share of industrial output, since private firms have been less connected in the past. It is a political decision if faster SOE growth is worth a smaller share.

The policies in scenario 3 would aim to promote growth. The private sector would not be a regrettable necessity but a pillar of the nation’s strength. Not only would good laws be passed, but they would also be implemented. There would be the emergence of a truly commercial banking system and capital market. Vietnam would aim to become one of the more connected nations (allowing for its income) instead of one of the least connected. Income tax rates would be cut to 25-30% to maximize revenues instead of punish skills. The extra taxes would be used to help the poorer regions and those displaced. High levels

of FDI would still cluster in the growth pole areas, so provision would have to be made for those that move to follow opportunity – implying changes in land zoning, finance for multi-unit housing, provision of roads and utilities, etc.

In this scenario growth would be about 10% a year, and investment from 35% to 40% of income. This would follow similar experiences in China, Korea, and Taiwan at lower income levels. Savings would come from more FDI, more reinvestment of profits, a shift in gold and dollars to banks, and greater portfolio capital flows, including from *Viet Khieu*. Millions of jobs would be created paying \$50 to \$100 a month, instead of the \$10 to \$20 a month seasonal farm jobs that now occupy 25 million workers. Such a leap will take some luck and skill, and is not without dangers. But it promises to lower poverty, build technical competence, and make the nation rich and strong faster.

There is a “box” on zero, negative, and positive sum games. Games refers to interactions between firms, nations, groups of people, or individuals. A zero sum game is like football, where one team winning means the other loses. A negative sum game is like a bad marriage or a situation where people ignore traffic rules. Everybody gets hurt. A positive sum game is like a good marriage or voluntary trade. Both sides benefit. Peasants view life as zero sum, because there is a fixed amount. But where technology exists to allow \$30,000 per person output per year, it is not too hard to get to \$3000 (Thailand) and if a nation stays at \$300, it is destroying wealth and squandering its potential. In that case, the system has become a negative sum game. In the opposite case, people try to help (or at least not hinder) each other, expecting they too will get ahead. Then all can move forward faster. Ultimately, a society chooses the kind of game it plays.

### Concluding Comments

This paper presents three different scenarios based on three different views. The perspective of this paper is that the world economy is becoming integrated more quickly and completely than before, and that fast-changing technologies allow a nation to choose the level of income that it wants. Some choose to grow quickly. Others cannot or choose not to. [There follows an example of training 10,000 software Internet programmers a year at a cost of \$10 million a year. Within a decade they would earn \$2 billion a year and paying \$500 million a year in taxes. This would add 1% to the national growth rate. In which scenario would this most likely happen?]

If we compare the three scenarios, #1 gets Vietnam to \$540 by 2010, #2 to \$650, and #3 almost to \$1000. Poverty would drop sharply in #3, almost vanishing by the food-only poverty measure, so long as smart social investments were targeted on poorer areas and groups. As we saw from the 1990's, poverty falls fast when rapid growth and widespread social services are combined. But if the country is richer, stronger, more technically capable, and has less poverty, why not choose #3? One possibility is that some do not believe that 10% growth is possible, but with 9% growth up to 1997 and the BTA and fast growth opportunities in electronics, surely the target is reasonable. Is it SOE's having too small a role? But they have been falling relatively for a decade, and this is likely to

continue. They would grow absolutely faster in #3 and be stronger and larger. Even if they take time to become competitive, higher tax revenues will allow subsidies.

The third reason for being cautious is that different groups may arise and be hard to manage. Vietnam may be seduced by a glamorous but empty consumer culture. In the extreme, even stability might be threatened. These are questions beyond the scope of an economist, but they are not foolish. However, they must be weighed against the benefits of faster job growth, better education, and greater national capacity. One source of concern has been corruption, and surely better civil service pay would reduce this more effectively than anti-corruption drives alone. The issues need to be weighed realistically.

There is a final “box” on the possible use of translation software, that would take text from English to Vietnamese or Vietnamese to English. The quality of this software is improving to the point that it is useable for rough translations in narrow topic areas such as medicine or business. Funding this with ODA and distributing it free would allow a much faster rate of connection than waiting for tens of millions of people to become fluent themselves. It would be one way to accelerate connecting with global information.

## ***Introduction***

Vietnam's record of economic growth was very strong in the 1990 to 1997 period, and has been somewhat lower since then. It remains one of the poorer countries in the world and the region, and potentially includable in the HIPC (Highly Indebted Poor Country) initiative which applies to the lowest income nations with the poorest repayment abilities.<sup>1</sup> There has been a lot of advice given to Vietnam about how to orient its policies for the next decade, and while there have been some variations, it is broadly consistent. The donors' advice has been to develop in particular the private sector by creating a level playing field, continue moves towards lower trade barriers, push for a more commercial banking system and capital market, and speed up global economic integration with special efforts to improve science and technology. Poverty will be reduced not only by fast, labor-intensive growth, but also by targeting investments in human and physical capital in poorer regions and improving institutions. The underlying assumptions are that there will be low budget deficits and inflation, a fairly priced exchange rate, and continuing improvements in the legal system and regulations.

To many Vietnamese, these seem reasonable long-term suggestions, but they are hard to reconcile with Vietnamese realities. First, there is a desire to create a "socialist market economy" though exactly what this should look like is still under discussion. Second, there is a desire among many, though not all, to have a continued "leading role" for the state sector. Third, there is concern for backward regions, income inequality, and undesirable social phenomena. Fourth, some argue the nation should retain the ability to protect the economy from possible international shocks or the dangers of capital outflows illustrated by the recent Asian Crisis. This concern with security sometimes takes the form of a desire for self-sufficiency in specific items such as rice, sugar, cement, and possibly fertilizer, steel and refined oil products. Self-sufficiency is often achieved but at the cost of high product prices and low returns to invested capital, or even losses. These industries also absorb scarce capital and create few jobs.

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<sup>1</sup> Vietnam's debt and income levels would qualify it for inclusion in HIPC if the Soviet debt were included at face value. However, the Soviet debt is being renegotiated to only 10% of its face value, and with that discount Vietnam would not qualify for HIPC.

If a diplomatic dimension can be added to an economic paper, there is suspicion among some of the designs of the United States, even while there is an appreciation of its science and technology and the importance of its market. Several years of negotiations over the bilateral trade agreement, and the protracted conclusion of negotiations are some indication of these conflicting tendencies. Some observe that in the negotiations the US forced Vietnam to make concessions in the areas of banking and telecommunications. It is debatable if this is hostile, given there are long phase-in periods more generous than for those in the similar Chinese-US trade deal. Nonetheless, some fear that the intent of these concessions is to weaken the current system rather than simply opening markets.

Another diplomatic and economic reality concerns China. The improving relations and settlement of some border issues should allow much freer trade, investment, and tourism. However, the very strength of the Chinese economy constitutes a potential problem because Vietnam tends to produce broadly similar products as the low end of China's industry. (Motorbikes, cement, fans, farm equipment, bicycles, etc.) China has had a decade more of economic reform, a much higher level of FDI and technology transfer, and also a much higher level of savings and investment. Trade flows between the two nations are not easy for either to control because of the many land routes and ports. How can Vietnam industrialize if its products cannot compete with China's? Similar concerns exist in a more moderate way for ASEAN, given the emerging free-trade area.

Another issue that arises in discussions concerns the proper role of science and technology in the economy, and the potential for high technology industry to contribute to overall growth. The role of the Internet is also folded into this discussion. There is a feeling that Vietnamese scientists are of good quality, but not well connected to ongoing commercial developments in science and technology. The importance of overseas training vs. better funding of traditional institutes, the dangers of opening up to the Internet vs. the opportunities of doing so, and the best ways to attract FDI in high technology are all issues that generate debate. Others are concerned that too much stress



on high tech will reduce needed investments in lower level education and rural infrastructure.

Lying behind all of these issues is the fundamental problem that all acknowledge. Vietnam is a poor and mainly rural country with limited land. Agriculture as a whole cannot grow more than 3-4% a year over the next decade, and any attempt to “catch up” will require a transfer of people and resources out of agriculture and into industry and services. If poverty is to be reduced (or eradicated by some definitions), somehow all of these elements will have to be combined and resolved, along with several others. Persistent poverty would be seen as a failure, especially now that more and more people are aware of how other Asians live in neighboring countries. It would contribute to social tensions and result in a weaker nation.

#### **Comparing Growth Rates**

There is a tendency for economists and some politicians to compare the rate of real GDP growth among nations. This is understandable, but it may not be the only or even the most appropriate measure of progress. Many people look at the rate at which their own lives improve. This involves the rate of real income growth per capita, adjusted for some measure of income distribution. If most of the gains of growth go to the upper fifth of the population, the other 80% may not be impressed by their gains so much as envious. Even more, people might compare themselves not so much to a prosperous group or region in *their* country but to other people with similar education or jobs in neighboring countries. If the last tendency applies, it will be harder for Vietnam to satisfy its population. Consider Vietnam, China, Thailand, and Korea. Assume that each country grows at 5% per capita. Then Vietnam would add to its income \$20 per person per year; China about \$45, Thailand \$150, while Korea would add \$500! Singapore's 5% per capita growth adds \$1500 per capita per year. These large differences underline the need for rapid and broadly based growth. However, improvements in social overheads such as better electricity, telephone, transport, water, health, and education services will also produce a sense of progress, as well as contribute to growth potential over time.

#### ***The Plan of this Paper and an Admission***

Rather than summarize or repeat advice that has already been given, this paper will suggest three different economic futures that Vietnam might plausibly choose. The

policies and growth rates associated with each one will be discussed. The assumption is that only the leadership can make the decisions regarding critical issues involving political variables. The economic implications of their choices should at least be clear, so whatever choice is made is consistent with reality. Choosing a higher or lower growth rate has political and economic implications. The economic aspects are emphasized here. All three scenarios are possible. The slowest scenario raises per capita income from about \$400 now to \$540 in ten years; the fastest to nearly \$1000. It is important to understand that a nation, over time, chooses its level of income by its policies. These choices are complicated and difficult, but they are made and they do have implications.

At the outset, the author wishes to make his biases clear. He believes there is a technical revolution going on in the world now, which will eventually be equal in importance to the development of printing or electricity. It is marked by the rapid fall in the price of telecommunications, the rising use of ever-faster computers, and the transformation of science, education and commerce as a result. There is also an apparent division of nations into those that grasp the essence of this digital revolution and those that ignore or resist it.<sup>2</sup> The recent performance of the US economy has surprised even many optimists. In the last two years, output has grown by nearly \$1000 billion (the value of China's entire GDP), unemployment rates have dropped to levels not seen in peacetime since the 1950's, and inflation has remained quiescent. Similar results have been recorded in Holland, Finland, Sweden, and the United Kingdom. These countries, along with several in Asia such as Korea and Taiwan, have found ways to separate the inevitably slow and drawn-out political decision process from the increasingly rapid pace of business decisions. Being fast is better than being big in this world, which is why venture capital is growing and seeking to fund new ideas.<sup>3</sup>

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<sup>2</sup> There is, of course, much more to science and technology than computers. However, many discoveries in science are accelerating due to these key technologies. The decoding of the human genome, the spread of global research over the Internet, and modeling everything from nuclear testing to global climate to protein folding are examples. It may be better to think of the computer-Internet technologies in the same way as electricity. They facilitate a wide range of other activities.

<sup>3</sup> Venture capital funds new or very young firms, often adding advice as well as money. Venture capital has been active in the US for many years, but is now becoming popular in Europe and Asia.

The new technologies allow entire industries, such as telecommunications or electric monopolies, to be challenged in an incredibly short time.<sup>4</sup> It is not necessary to respond to this revolution, just as it is not necessary to use electricity. However, the way that businesses do business with each other will be transformed in the next three to five years. Supplier networks will use the Internet as the primary method to announce and accept bids, transmit documents, and communicate. A recent estimate of electronic business to business sales in Asia was \$50 billion this year and \$1600 billion in 2004. The nations that fail to join these networks will be cut out of a huge slice of global trade.

If Vietnam does not manage to separate the inevitably slow pace of political, bureaucratic, and governmental decision making from its business decisions, it will choose to join the nations that fail to take advantage of the evolving world economy. This is a reality driven by global technology, and all successful firms respond to these forces, whether in China, Europe, Korea, or the US. Any business person knows this. Mr. Bui Quang Do of the Viet Nam Electronic Industry Association recently was quoted as saying that his association wanted to lobby the government for faster approvals. “For example, the Hanel project to produce color televisions took three years to get final approval. In the fast paced world of business, how can a business expect to succeed when it takes so long for a decision?” he said. [Viet Nam News, 17 August, p. 11] The answer to his question is seen in the decline in FDI approvals from nearly \$9 billion in 1996 to less than \$1 billion this year.<sup>5</sup> Without changed policies, local businesses will be unable to compete effectively against those that have faster and more responsive governments.

It might be argued that this technology jargon is fine for a few thousand software programmers or a tiny fraction of Vietnam’s industry, but doesn’t really apply to the overwhelming majority of the country. This is dead wrong. Technical change like this

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<sup>4</sup> The collapse of long distance telephone charges has put pressure on many old telephone companies. The new firms use cheap fiber optics to deliver international calls under ten cents a minute, or virtually free over the Internet. Even in electricity, the rise of gas microturbines and the coming of fuel cells may result in non-central small scale electricity generation being the cheapest source of power for many users.

<sup>5</sup> The FDI commitments for 1996 were \$8.6 billion, or 33% of GDP, though subsequent adjustments have brought the total down to \$7.7 billion by some estimates. (IMF/SBV) In the first seven months of 2000, FDI approvals totaled \$0.48 billion. This works out to an annual rate of under \$0.9 billion, or 3% of GDP. Actual inflows (foreign portion of realizations) are less than one-third of FDI commitments.

cannot be called revolutionary if it doesn't have a rapid and widespread impact. In Thailand, agricultural produce is being sold over the Internet. In Cambodia, villages are getting the Internet to sell their handicrafts. Even Pakistan is investing in widespread Internet access. China is supporting rapid increases in Internet use, and users grew from 2 million at the start of 1999 to 20 million at the end of 2000. Major companies and customers in autos, aircraft, electronics, steel, cement, food, and textiles are moving towards Internet based bidding. Organizations dominated by third world countries such as UNCTAD are urging members to become much more aggressive in understanding and promoting the new technologies. They argue that these technologies are an opportunity if used well, and are dangerous to ignore.

A final point in this argument about the impact of technology can be illustrated with some facts about telephone charges and costs. It now costs five cents (700 dong) per HOUR to rent a voice circuit over an optical fiber crossing the ocean.<sup>6</sup> This charge, plus local connection fees (like a local call) is what an international telephone call actually costs. If done over the Internet with a computer, the cost is nearly zero. Even if done over a normal telephone, the cost is very low. In Hong Kong, prepaid cards provide international call service to the US for five cents per minute. Many predict within a few years there will not be charges for long distance calls at all, simply a flat fee for unlimited calling anywhere. Imagine if there were two Asian firms, one with unlimited access to customers, technology, and suppliers – and the other paying several dollars a minute. Which would be more successful? What are the costs of maintaining a monopoly and charging prices for telephone calls among the highest in the world?<sup>7</sup> The results would be similar to charging a dollar a kilowatt-hour for electricity, when its cost was only five cents. Very few people would have power, and even they would not use much electricity. Even if it could be done, what government would want to keep so many in the dark?

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<sup>6</sup> The source is Telegeography 2000, an industry reference yearbook. These costs are actually declining by half every nine months due to advances in multiplexing light and improving switches and fiber. One optical fiber cable with up to 432 strands can easily carry all the telephone traffic in the world.

<sup>7</sup> In a worldwide ranking of 60 countries as to their E-business readiness, Vietnam ranked 54<sup>th</sup>, well behind Egypt and just ahead of Pakistan. The study was done by the Economist Intelligence Unit, a commercial research arm of the organization publishing The Economist magazine. China ranked 51 and India 50.

### ***Three Scenarios and How They Differ***

There are three different scenarios discussed in this paper. In each case they project a set of possible policies and an associated set of outcomes. These scenarios are different from standard input-output models that assume fixed coefficients or production function models that assume diminishing returns.<sup>8</sup> These scenarios are attached to views of the world and coalitions within Vietnam that support distinct types of policies. Obviously, there are complexities that this kind of exercise cannot hope to include. There are issues of world economic growth, oil prices, the health of various large Asian economies, etc. that could turn out to be quite significant. Rather than try to deal with such issues, the discussion will focus on Vietnam's policies and their implications.

#### **Scenario 1: Business as Usual (Minus)**

Many Vietnamese believe that the record of the 1990's is overwhelmingly positive and speaks for itself. Growth was rapid for most of the decade. The Asian Crisis had only a minor and temporary impact, and prospects for renewed rapid growth appear good. Poverty declined sharply, agricultural growth was strong, and exports leaped from \$2 billion in 1991 to \$12 billion in 2000. The pace of reform has been slow, but this has avoided mistakes and tensions. This view believes the government should continue to emphasize the leading role of the state sector and ensure that government owned banks continue to dominate the monetary system and direct a large share of credit to SOE's. Equitization should proceed, but mainly for the smaller SOE's. Those with this view also tend to be skeptical of the benefits of the Internet and are comfortable with policies that restrict its quality and increase its effective cost.<sup>9</sup> They want at most a slow change in the role of the telecoms monopoly and are comfortable with expensive long distance (international) telephone calls. They tend to worry about the riskiness of the international

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<sup>8</sup> In an Input-Output model, more inputs are proportionately better for growth. In a production function, the extra output per unit of investment falls with more investment. The scenarios assume different policies that create different productivities of both capital and labor.

economy and prefer self-sufficiency in many “key” goods. They argue that the current level of FDI is good for a poor nation, and should not be viewed as an issue.

This view would tend to leave current policies more or less in place, and might be viewed as complacent. Is it likely that the large gains in agriculture from the *Doi Moi* reforms of over a decade ago will be repeated? If the view that the world is moving quickly to communications intensive trade and investment systems is correct, where would these policies leave Vietnam? It is likely that much public investment is of low economic productivity, and a continuation of that pattern will add little to useful infrastructure, increase foreign debt, and may eventually create a disinclination of donors to continue large scale lending. If the large SOE’s remain in place more or less as they are<sup>10</sup>, the banking system is likely to face recurrent crises and demand fiscal resources that will detract from other uses. If Vietnam’s FDI stays under \$1 billion a year, while China’s grows from its \$40 billion level, how competitive will Vietnam’s industries be compared to China’s? Even now, Chinese motorbikes are selling for one-third the cost of local Hondas, and are gaining market share. [See box] Self sufficiency is marred by the inability of many factories, in sugar for example, to sell at prices close to the world levels except at a loss for many plants. In short, this critique of Scenario 1 policies argues that the past cannot be repeated in the next decade with the same or a similar policy mix. The world has changed and too many of the easy gains are past. Indeed, perceptive observers are already concerned with rapid credit growth of uncertain quality and rising deficits.

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<sup>9</sup> Extremely long waiting times cost human time and also incurs higher user charges. Depending on the time of day, the transfer rate may only be a few hundred bits per second! This makes effective use impossible.

<sup>10</sup> Inserting a Board of Directors may not change much in a SOE if similar pressures continue to blend many objectives, only one of which is efficiency.

### **Why Are Vietnamese Motorbikes so Expensive – and Can They Get Cheaper?**

Motorbikes in Vietnam are very costly. A State Pricing Committee expert commented in October 1999 that a Thai peasant had to sell only three tons of rice to buy a Honda motorbike, while a Vietnamese peasant had to sell nine tons. By August of 2000, the amount had risen to 20 tons! Why should a virtually identical Honda Dream II sell for about \$1000 in Thailand and \$2400 (recently cut to \$2200) in Vietnam? And why should Chinese motorbikes be selling for as little as \$700, even if their quality is somewhat lower? The answer is that local production has been protected by trade barriers. The motorbike manufacturers argue that these trade barriers are needed to overcome high startup costs. But is a 100%+ premium over prices in neighboring countries a reasonable charge for these costs? More importantly, can the producers adjust quickly enough to competition? While output of motorbikes rose from 62,000 in 1995 to 365,000 in 1999, the influx of Chinese bikes in 2000 threatens to dominate the market. They were reported to account for three-quarters of imported kits in the first eight months, in which there were 573,000 units. In 1999, the *extra* cost of the domestic motorbikes cost consumers over \$500 million, assuming that the Hondas were typical of those produced. It is not surprising that they are snapping up the more reasonably priced items so quickly. But what of the future? If Honda and the others cannot reduce costs to competitive levels, the boom in motorbike assembly will prove to be an unsustainable bubble. If they can, by paying low prices for the inputs (whether locally or foreign based) and not paying very high tariffs, then they will truly take root and become a viable industry. They say they will increase domestic component production. How many of the fast-growing industries are like the motorbike industry? How many will adjust and how many will fail? And has it been necessary for consumers to pay such a high price for these producers?

Given the uncertainties illustrated by the motor bike example, what growth rate in Scenario 1 is reasonable to expect? Investment levels would tend to be 25% to 30% of GDP, but investment would be inefficient. That is, it might take \$6 of investment to sustain \$1 of growth, which would probably average only 4% to 5% a year. Per capita GDP growth would be perhaps 3% a year. Thus, Vietnam would see its per capita income grow from \$400 to perhaps \$540 over the next decade, an annual gain of \$14 a year.

High income taxes (upwards of 75% on the portion of incomes over \$800 a month) would ensure that those who could earn a lot would be much richer in other nations, and that private firms in Vietnam would find it cheaper to hire foreign skilled workers in well-paid jobs. It would be too costly to attract skilled state enterprise workers, or indeed any qualified Vietnamese. Because SOE salaries are low, recruitment of their employees is a constant threat. Only the greater security of SOE employment

offsets the lower salary, even with various fringes. However, with income taxes among the highest in the world, Vietnam heavily taxes internal labor mobility, and thus helps prevent the emergence of a real labor market. The impact of this, of course, is to ensure that labor productivity remains low. Such high tax rates also result in *lower* tax collections than more moderate rates that would not drive people to evasion or emigration.

This growth performance would be disappointing to many aware of Vietnam's potential, and it is well below government targets, which project a doubling of real GDP by 2010. Yet some Vietnamese would object that 3% per capita growth is a better economic performance than most other nations, and would be acceptable if it kept the nation stable and secure. Yet would it do that? With gains in agriculture harder to come by, and rising levels of education, there is a need for both urban and rural nonfarm job growth to absorb the 1.4 million workers joining the workforce each year. State enterprises contribute nothing or are a negative for employment growth, and if they and low-return public investments absorb most savings, little will be left for the domestic nonstate sector. Nor will FDI provide much of a lift, in spite of the opportunities opened by the bilateral trade agreement with the US and WTO/AFTA membership. In recent years, industrial SOE growth has been only about 10% a year with stagnant employment, and the private sector would be hard pressed by Chinese competition. Without much urban industrial growth, as Dwight Perkins has pointed out, there is unlikely to be much "rural" industrial growth. In China's case, the town and village enterprises benefited from the orders of nearby urban factories, and were most successful where there was rapid urban growth along the coast. Expansion like that would not work in this scenario.

Where then would young workers go? Farms are already small and changes in cultivated area are minor. The young workers are not likely to be absorbed on ever smaller farms, especially if they are educated. It is most likely that they would congregate in urban areas, looking for informal sector work, mainly in services. This kind of work tends to be poorly paid and insecure. With continued utility monopoly pricing and modest FDI, even many services will have trouble increasing productivity and incomes of their



workers. This is because there would be less training (including less on the Internet) and also less investment in these sectors. With dim prospects and deflated expectations, these young workers would probably not be a source of stability. Many of those with the most marketable skills would probably seek ways to leave Vietnam. While they would send money home and pick up valuable skills, they would also deprive others of a chance to learn and fail to create a critical mass of skilled people. The well trained that stayed might be employed in traditional scientific institutes, but these are poorly connected to market opportunities and tend to be underfunded because of chronic tightness and competing claims in the government budget.

#### **What is Meant by a “Leading Role?”**

Many leaders in Vietnam strongly argue for a leading role of the state sector. Yet in what sense is there such a role now? It is well known that SOE employment is now less than 2 million out of a work force of nearly 40 million, and state enterprise employment is more likely to fall with continued equitization than rise as the remaining larger state firms finally complete downsizing. So the state cannot have a direct leading role in solving the problem of unemployment, one of the most urgent and important.

The state has a minor role (under 5% of output) in agriculture. Its state farms can offer help in extension or processing to nearby private farmers. Yet in terms of either employment or output, the SOE role in agriculture is and will be very small. It is in industry that most people understand the role to be important. Yet for several years the fastest growing sector has been that financed by FDI. Even when the FDI firms are joint ventures, the local SOE partner seldom has effective control of the company. Many of the newer FDI firms are 100% foreign. Within a year or two at recent growth rates, the FDI sector will be bigger than the SOE sector in terms of output. The SOE share of industrial output has been falling over most of the 1990's, from two-thirds to two-fifths.

Services are the remaining sector where the state might play a leading role. Of course, state management (public administration, defense, etc.) is by definition a state activity. Of the other services, the state accounts for half of output, with a large role in foreign trade, finance, some hotels, and construction. The state role in science and education is very significant, but these are usually placed in public administration. In terms of employment, the *private* sector (in 1996) accounted for 2/3 of construction, 88% of trade and transport, and three quarters of “other” services excluding education. These ratios are certainly higher now and are likely to continue rising as equitization, SOE downsizing and deregulation grow. Here again, the state role would not normally be described as leading.

If the SOE role is small and shrinking, what might a leading role mean? It could mean state ownership of certain, mainly “heavy,” industries such as sugar, cement, and steel. It could mean a major state presence in banking, construction, airlines, and railroads. It might mean state control of utilities such as electricity and telephones. In the cases of banking and telecoms though, if competition is allowed as negotiated in trade pacts, it may be difficult to retain SOE

market share without complex and questionable regulations. These regulations might cause trade frictions.

Another interpretation is that the state will open “path breaking” areas. Yet out of 25 existing software firms in the HCMC software park, 4 were foreign, 21 were private, and none were SOE. (In India, none of the software companies are state owned, and India is a world leader in software with \$35 billion worth of software exports. The fast growing electronic exports from Malaysia and the Philippines are also from local private or foreign companies.) It is hard to see how SOE's would be better equipped to respond to market opportunities than foreign firms like Intel or startups with bright young Vietnamese scientists. Most SOE's have trouble with fast paced businesses because they have to move cautiously and get approvals. Low salaries also tend to reduce their attractiveness to those that are highly qualified and can work in other countries.

What then is the practical intermediate term meaning of leading role? It is an important and valid concept if it means an efficient SOE sector, utilities and services that charge competitive prices for quality service, and a government that creates the incentives and environment that allow all viable firms to learn, invest, and prosper. It is very likely that the indirect role of the state will be the most important in promoting growth, but this does not rule out some direct role if competitive pressures are introduced and the SOE's are forced to become as efficient as the other firms in their industry. It is possible to create efficient SOE's, but they are rare and require from the government a firm hand and purpose. More often, the SOE's become an effective interest group and prevent competition, always arguing for more time to become competitive and requiring subsidies or high monopoly prices. (This is also true of protected FDI firms.) In that case, their deficits or monopoly prices make the nation poorer. For the very long term, the goal of using the state sector to directly manage the economy may remain, but in the next decade or two indirect management of the economy will likely be more effective.

In summary, the policies in Scenario 1 are:

- *A go-slow approach towards deregulation, freer trade, and real SOE reform.*
- *A continuation of government monopoly/control in banking and utilities.*
- *A reluctance to allow increases in Internet use up to regional levels.*
- *Opposition to a dynamic local private sector, especially if it hurts SOE's.*
- *Continued poor economic productivity of many public investments.*
- *Continued failure to attract either a high quantity or quality of FDI due to a combination of low transparency, unstable policies, and corruption.*

The likely result of this policy mix would be:

- *Extremely slow growth in either urban or rural industry output or jobs.*
- *A progressive falling behind other nations in income and technical ability.*
- *Sluggish income growth, similar to India's before its reforms.*
- *Low levels and quality of FDI.*
- *Growing foreign debt and eventual donor disenchantment.*
- *Urban migration without good jobs leading to social evils.*

It is worth repeating that if SOE borrowing is continued without fundamental reform of the incentive structure for the SOE's, it is likely that even a recapitalized banking system would again require substantial budgetary bailouts. These could create immense fiscal and monetary pressures and might lead either to renewed inflation or a period of budgetary austerity that would be very hard on the economy and government services. In such a scenario, poverty reduction would show little progress.

### **Scenario 2: Business as Usual (Plus)**

In Scenario 2, many of the same impulses that guided Scenario 1 would be in play, but they would be better counterbalanced by pragmatic and technocratic elements. The result would be a kind of negotiated policy mix in which neither side would be clear winners. In this scenario, there would be a greater appreciation of how rapidly the world is changing, and more of an appreciation of the costs of lagging so far behind Asian neighbors. Opportunities opened up by AFTA, the bilateral trade agreement with the US, and the WTO would be better, if incompletely, grasped. There would be a greater willingness to specialize in what Vietnam does efficiently, rather than trying to produce a wide range of costly goods in the name of self-sufficiency. Attitudes towards the Internet would be less restrictive, if not wholly supportive. Telephone charges would fall to levels

at the high end of ASEAN's other nations, currently about fifty cents a minute, though falling. Many politically attractive public investments with low economic returns would be delayed or reduced in scope, so that less public investment would actually have a greater impact. There would be the gradual but nontrivial introduction of competition in banking and sufficient freedom in capital markets so that new firms without official connections would find it possible to get loans or issue shares. In other words, this scenario assumes that the dangers of lagging behind allow the leadership to balance the arguments of those who want to push faster against those who want to go slowly. It is a scenario in which the growth and poverty reduction targets are taken seriously.

In such a scenario, there would not be much more investment than before. It would remain in the 25% to 30% (of output) range, though if FDI were attracted successfully it might go higher. However, the efficiency of investment would be higher. It might only take \$4 of investment to get \$1 of sustained output instead of \$5 or \$6. Growth would be close to 7% a year, and the target of doubling real GDP would be in reach. Over a ten-year period, income per capita would rise from roughly \$400 to nearly \$700, a gain of \$25-30 a year. Thus the gain in GDP per capita would be more than twice Scenario 1.

### ***Job Growth in Scenario 2 – The Need for a Private Sector:***

How effectively would this Scenario deal with employment issues? It is very likely that there would be a higher level of FDI in this case, and a faster growth in the private sector as well. Yet how many jobs could be created? From 1992/93 to 1997/98, the Living Standards Surveys show FDI based jobs growing from 20,000 to 335,000 during a period of high levels of foreign inflows. (These include both joint ventures and 100% foreign owned.) That works out to 63 thousand a year, or about 5% of annual labor force growth. The inflows during 1994-97 averaged \$2 billion a year, while current recorded inflows are perhaps one-half as much.<sup>11</sup> Even if the type of FDI were skewed towards labor-intensive export-oriented projects, and FDI regained the \$2 billion level of

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<sup>11</sup> The IMF estimated FDI inflows in 1998 at \$800 million vs. official figures of \$1.84 billion.

the boom period in the 1990's<sup>12</sup>, it is hard to see direct employment gains much over 100,000 per year. Indeed, even that would represent a huge jump from current levels, though the Box on the Bilateral Trade Agreement with the US gives some reasons for optimism. It is also true that a job in exporting often supports two or three others in transport, services, housing, etc. (This is the pattern in other ASEAN countries. It probably also holds true in Vietnam.) Thus, the FDI sector may improve greatly from current levels and still play a relatively modest role in adding new jobs, at least directly.

The formal private sector, which includes cooperatives and “mixed” as well as registered private firms, has also grown. It added just over 50,000 jobs a year according to the two Living Standards Surveys. The recent change in the Enterprise Law should create a more favorable environment for these firms to grow, though they still face several obstacles. The large jump in registered private firms since January 2000 is unlikely to indicate completely new activity. Rather, many of these firms probably existed previously and declared themselves formally under the new law. Surveys will be needed to determine how much they are really expanding. The remaining barriers are possible to list though not explore in depth in this paper. One certainly is the reluctance of state commercial banks (in spite of new and permissive SBV regulations) to lend to a private firm when there is any risk of loss. The danger of criminal charges is present, and recent scandals have made loan officers risk averse. Thus, considerable dollar deposits in Vietnamese banks find their way offshore to gather interest while local businesses go without loans. It will be difficult to balance the need to instill a willingness to take wise *calculated* risks in a State Bank against the need to deter fraudulent activity. Faster bank deregulation would allow banks that are better able to make such decisions to extend loans.

A second problem, easier to remedy, concerns land. Specifically, local authorities cannot transfer more than one hectare per project of farmland to industrial or service use

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<sup>12</sup> An FDI inflow of \$2 billion a year in 2001-2005 is assumed in some internal Vietnamese projections. These are presumably gross inflows, though many FDI projects are repaying loans or paying dividends on the \$10-\$15 billion of past investment. Thus, the net inflows might be much less than the gross. Recent estimates by the IMF put net FDI inflows at only about half of gross inflows.

without getting the approval of the Prime Minister! Thus successful towns soon find themselves congested and polluted, even though expansion would be easy if a more flexible set of regulations were approved. Ideally, every town should have complete land use planning. This, however, would take several years to implement. Short-run changes might include increasing the per project deductible amount to 5 hectares (perhaps with provincial level approval), or allowing land use changes with 1-2 km of the town center at local option. There is a risk that farmland will be lost unwisely. But so long as the owner is content to sell and the private firm is paying a market price for the land and creating jobs, there will likely be many more gains than losses from such an easing in policy.

A third problem holding back private development has been the marketing and price structure. In many cases, state owned exporters did not pay for better quality products, such as rice or coffee. If private traders couldn't export, they had no reason to invest in processing or other mechanisms to raise quality, and the farmers had no reason to either, since they sold to the traders who treated all output the same – as low quality with a low price. If exporting can now be done more widely, quality differences will be reflected in prices, and this will induce investments and efforts by growers and processors. The recent growth of rice drying equipment in Soc Trang after rice export rules were liberalized is one example of this. It will be hard to *profitably* raise farm output very fast unless this lesson is taken to heart. Other examples, such as cutting high telephone costs to regional levels, would similarly act as a stimulus to private employment growth. International telephone calls would rightly be viewed as an essential business tool rather than a consumer luxury with a 1000% monopoly markup. This would encourage markets for higher value added fruits, vegetables, flowers, etc. which would displace low-profit rice. These three barriers are not the only ones, but they certainly are among the most important. Once loans and land become available, trading rules are less restrictive, and the costs of communications drop, private people can find out themselves about foreign markets, processing technology, and other constraints.<sup>13</sup>

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<sup>13</sup> This does not imply rejecting efforts to improve technical knowledge, for example. It does suggest that such efforts or projects, without these other barriers lowered, may not be very productive. However, a 1997 survey of smaller manufacturing firms in Vietnam did not find technical know-how to be a big problem.

It is hard to know just how much will be done about these various constraints. Perhaps formal private sector employment could double in the next five years, implying a gain of nearly 100,000 per year. Total private employment would then grow from about half a million to one million. This, however, is an outside limit. Productivity growth would be fairly high and growth rates in *employment* of 15% per year would imply growth in *output* of 20-25% a year. This is just possible, but unlikely. It would have Vietnam growing as fast as China's coastal provinces. Some provinces may grow as fast as that, but most will be slower, especially if overall growth is about 7%, not 10%, as in China.

If this analysis is correct, and if state enterprises have trouble expanding employment very much, then only 15% of the 1.4 million jobs needed annually to absorb new workers are likely to be generated by FDI and the formal private sector. If agriculture is growing only 3% or so in volume (though possibly more in value), then rural and informal nonfarm activity will have to take on a major share of the job creation.<sup>14</sup> The gains in agricultural employment from 1993-98 were about 400,000 a year – when agricultural growth rates were especially strong. Indeed, there are already signs of a slowing in farm employment. If this annual gain fell to 200,000, the nonfarm informal sector would need to generate nearly 1 million jobs a year to absorb workforce growth!

Is it reasonable to expect 1 million new jobs a year from the nonfarm informal private sector? At one level, the answer is positive, because poor people will find some way to live, even if poorly. At another level, the answer is probably negative if the answer means productive jobs that take advantage of existing skills and build new ones. In 1998, about 30% of all rural and urban workers were neither farmers nor professionals, and they then numbered about 12 million, relatively few of which (2 million) were in the formal sectors. An increase of 5 million in five years would be a 50% total or 8.4%

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<sup>14</sup> The two VLS Surveys found those self-described as mainly farmers fell from 71.7% to 69% in five years, implying an annual growth of 400 thousand, during a period of fast farm growth. A recent MOLISA study hoped for 50% farm workers in 2010, a level consistent with about 200,000 annual gains from 2001-2005.

annual increase for informal manufacturing and services. If those sectors had output growing at about that rate, it would mean that there would be zero productivity growth. Workers would be crowding into these jobs so quickly that there would be no productivity gains. This is not all bad, since output per worker in agriculture is only about a fifth or less of that in overall industry or trade and transport. Even in state enterprises, state farm workers earn less than half of the workers in state industry or transport, and two-thirds of those in trade. If movement is made from low to higher productivity sectors, average incomes rise. That movement helps increase very low farm incomes, and holds down gains in the non-farm sectors. An efficient economy does not have large sectoral differences in productivity, and of course this is also more equal.

So, the conclusion to this long digression is that 7% growth is good enough to keep the job situation from deteriorating, but would not help very much to reduce outstanding levels of underemployment in rural areas or unemployment in some urban areas. This qualified positive conclusion *assumes that difficult structural reforms in banking, trade, land use, and marketing/monopoly reforms will be taken*; that public investment will be more carefully deployed; and that telecom/Internet policy becomes more like ASEAN's. These would allow licensed FDI inflows to double from their current levels, and give a dramatic push to private sector growth. All of this is within reach, but would require more focussed and faster government policy actions than those of the 1996-99 period. Slower growth without such steps might not take place in 2000 with its high oil prices, or in 2001 when a certain lift from the US trade pact can be expected. However, the table would be set for something more like scenario 1 if the reforms were half-hearted. Indeed, with increasing foreign import competition and slower job growth, there could be severe economic troubles over the next five years without faster and more complete reforms.



### *A Digression on Investment by Overseas Vietnamese and Domestic Savings*

It is hard to measure what is not registered. For many years, *Viet Kieu* have sent annually hundreds of millions of dollars to their families. Often, these have been gifts to support consumption. However, at least some observers believe that a growing portion of it is unregistered investment. Estimates of private “gifts” are fuzzy, running from \$1-2 billion in recent years. Since we do not know, let us assume that half of these flows are really investment. This would suggest from \$500 to \$1000 million a year in investment, about as much as licensed investment! (Or a fraction of 1/3 of a \$2 billion total would give a similar amount of \$600 million.) It is hard to know if anything like this is being invested each year, but if investment per worker were \$5000, then 100-200 thousand jobs a year would be created through this source. This would be double or triple the formal FDI job growth, due to its (assumed, not known) less capital intensive nature. Obviously, more research is needed to understand the size and importance of this investment.

This large uncertainty brings us to the question of how high domestic savings really is. In 1999, recorded imports were nearly equal to recorded exports. The small trade deficit plus services and investment income ran a deficit of \$1 billion, but the large flows of “transfers” (mainly private gifts) allowed a surplus in the current account to be recorded. Thus, domestic savings were said to be higher than domestic investment of 26% of GDP. But are the flows of “gifts” from Overseas Vietnamese really gifts? If not, then they should count as capital inflows, and domestic savings are 2% to 4% of GDP lower.

Another separate point is that imports estimated by the Direction of Trade (DOT)<sup>15</sup> register the same value of exports from Vietnam as official sources but much higher import levels. In the 1995-97 period, trade deficits were double the officially recorded ones, meaning DOT estimates of Vietnam’s imports were about \$2 billion

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<sup>15</sup> The DOT is an IMF publication that uses import and export data of other nations to check the official trade data of any single nation. So, for example, Thailand’s exports to Vietnam should (plus freight) equal Vietnam’s imports from Thailand, and Vietnam’s exports to Thailand should equal Thai imports from Vietnam. If done for all nations, this shows Vietnam’s official exports are correct, but imports understated.

higher than the official ones. This is equal to 7-8% of GDP, and if it were also deducted from domestic savings, the result would be domestic savings of only 17% of GDP. Thus, there is real uncertainty about the actual level of savings in Vietnam. This may not matter if the capital flows that support the spending continue, but it would matter if they slowed. If it appeared that there were fewer profitable opportunities to invest, then even the Overseas Vietnamese flows might decrease, and certainly trade credits might too. This underlines the need to keep the economy open to productive investments, allowing them to earn a fair return.

### **The Bilateral Trade Agreement with the US: How Good a Deal?**

The US is a huge market, importing about 100 times as much each year as Vietnam. It normally imposes low tariffs on most goods if a nation has normal trading relations, and almost all nations do. However, Vietnam does not and thus its manufactured exports to the US pay very high (40% or more) tariffs compared to under 4% for most other nations. Not surprisingly, most exports from Vietnam to the US are not manufactured goods. If the recently concluded negotiations on a Bilateral Trade Agreement (BTA) are ratified by the Congress and National Assembly, it is very likely that manufactured goods exports to the US will rise sharply. A recent World Bank study put the initial additional export value at nearly \$800 million<sup>16</sup>, but this could be easily rise considerably over time.

There are two points to make about the BTA in this paper. One concerns the variables influencing its ultimate impact on trade and investment. The other is, how important are the concessions made by Vietnam in telecoms, banking, and other services? With respect to the first question, the BTA is best understood as a necessary but not sufficient step to increase exports and investment. It will *allow* Vietnam to attract more FDI, but will not *ensure* that it does. Progress in transparency, regulations, infrastructure charges, etc. will also influence foreign investors. It would not be surprising if FDI increased in 2001 after the Agreement is ratified, but the upwards bump will be short lived if bad experiences recur. In several dimensions, Vietnam is now regarded as one of the more difficult places in Asia to invest. The low level of licensed FDI in 1999-2000 is testimony to that. FDI in China, Thailand and Korea are all stable or up sharply from 1996, while Vietnam is down 80 to 90%. If Vietnam can improve its reputation, it is likely to attract much more and much better quality investment. This will also support higher levels of exports and jobs. It is important to note that while 1999's level of Vietnam's manufactured exports was about \$4 billion, the annual **increase** in manufactured exports from the Philippines has been \$4 billion! This gives some idea of what is possible once a dynamic sector like electronics decides to concentrate in a country. Thus, it is crucial for a combination of good policies to support each other. The effect is multiplicative, not additive.

This brings us to the second question. What will be the impact on Vietnam of agreeing to the negotiated concessions in various sectors, but especially telecoms and banking? Unfortunately, this question is asked meaning, "What damage to Vietnam?" One line of thinking

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<sup>16</sup> "The Effect of the United States Granting Most Favored Nation Status to Vietnam," Fukase and Martin, November 1999 (World Bank Policy Research Working Paper)

goes, “If the US demands something, it must be bad for Vietnam. The only question is how bad.” The better question is, “How fast should Vietnam reform its telecoms and banking?” That is, without reference to the US, what pace of reforms would be in Vietnam’s best interests? It is no secret that equitization has been moving slowly due to resistance of the SOE’s and often their localities. So long as state banks remain effective monopolies who must dedicate a large portion of their loans to weak or even “dead” firms, the potential for creating 1.4 million jobs – largely private jobs – each year remains dim. Is Vietnam more threatened by a lack of millions of jobs or by the scheduled reforms of SOE’s being implemented? A truly commercial banking system will lend to strong SOE’s, just as it would lend to strong private companies. The *only* way to make SOE’s competitive is to make them compete. A three to nine year phase in is slower than optimal, not faster, if Vietnam wants to reach its growth and poverty reduction goals.

This is even truer for the telecoms sector. The level of charges for international calls and direct Internet lines is among the highest in the world, by a factor of several times China. There is already foreign aid in place to connect all communes by 2003, so there is no excuse for these wildly inflated prices except the fact that the telephone company has six times as many workers per telephone as Indonesia! Given that telephone and Internet connections are or are becoming as important as electricity, is it wise to create a jobs program in a critical infrastructure area and then charge ludicrous prices for it? If attracting FDI and helping the private and efficient SOE firms were a serious aim, there would either be a drastic and immediate price cut or a rapid introduction of competition to force more reasonable prices and efficient business operations. Again, it would not take a perceptive and determined government three to six years to do this. It would happen in one or two. If Vietnam doesn’t start to react in market time instead of diplomatic time scales, it will find itself outmaneuvered and outfought in the contest for FDI and exports.

In summary, the BTA is a good step that will come to full potential if the timetables in it are ignored and faster and fuller reforms are undertaken. If the Agreement sparks a new round of reforms, it could mean many billions of additional FDI and exports over the next five years. If no or few further steps are taken, the BTA may turn out a disappointment, leading to far less incremental activity than was hoped for or expected. If many or all of the extra steps are taken, it is likely that exports will rise to other nations as well as the US, and in a variety of goods, not simply one or two such as garments and shoes. Getting to a critical mass of FDI and production is critical for real success, and the BTA with other steps would allow Vietnam to finally reach that critical mass.<sup>17</sup>

### Summary of Scenario 2

In this scenario, the potential benefits of more rapid FDI, export, and private sector growth would lead to policies such as:

- *Faster movements to a commercial banking system and capital markets*

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<sup>17</sup> A February 1997 World Bank Working Paper (#1733) by Kinoshita and Mody argues that FDI tends to cascade as lead investors are seen entering a country. This leads to a critical mass and large FDI flows.

- *Less politically motivated but low economic return public investments*
- *Specific movements (land, marketing) to foster faster private sector growth*
- *Faster movements to reach ASEAN standards in telecoms and Internet service*
- *Better transparency and regulation to attract higher levels/better quality FDI*
- *Steady but gradual efforts to reform or equitize SOE's and reduce protection.*

These improved policies represent a faster pace of effective reform than the last five years and assume a growing awareness of the changed world economy and of productive ways to deal with it. The policies outlined above would have significantly different implications than those in Scenario 1. To be specific, it is likely that the policies of Scenario 2 would result in:

- *A higher GDP growth rate (7%) with similar investment levels.*
- *A faster spread of knowledge and technology within Vietnam.*
- *A healthier banking and capital system with diminished future burdens.*
- *Faster local private and FDI growth of output and jobs.*
- *A greater ability to absorb rural labor productively.*
- *Lower levels of foreign debt and greater capacity to pay it.*

### **What Kind of Infrastructure Helps a Poor Area?**

There is an impulse in Vietnam, as in most other nations, to spread the benefits of public investment geographically, even if economic returns are higher in some regions than in others. However, Vietnam is unusual in that once it has decided to help a particular province or region, it frequently finds it difficult to select an economically efficient public investment, or even one that reduces poverty very much. An expensive port that is underutilized will not help a poor province. Even a refinery may not “pull in” many additional activities. There are many examples in Indonesia of large LNG or other large projects in poor provinces with virtually no linkages, and serious poverty within a few kilometers of the huge investment. Even the Hoa Binh dam, one of the largest projects in Vietnam, left many of those flooded out quite poor, and there are few other factories or activities close to it, in spite of a good road to Hanoi. What is likely to work?

One problem is that there is seldom a neutral economic analysis of the project that proves decisive. It is likely that, at least, a 10% rate of return can be found in some project in every province. If the proposed project only has a 2 or 3% return – even if that is the cost of the ODA loan – it doesn't make sense to invest in such a low return project. Things that normally have good returns such as well selected rural roads, electrification, fruit trees or tree crop credits (in some regions), or small scale river ports and improved ferries often get ignored. It might take several smaller projects to equal one bigger one, and often persuading the central government of one big project is easier. It would be helpful if donors or suppliers exercised more restraint in their activities, but ultimately it is the responsibility of the Vietnamese government to select projects that have higher returns.

Many of the proposed projects are good ideas at some point but ought to be delayed. For example, the new North-South highway can have parts deferred until East-West feeder roads into Highway 1 are improved and multiplied. As the interior regions grow, it will become more sensible to connect them to each other. The delayed phasing of parts of the North-South highway are a welcome sign that this is beginning to be practiced, though much more of this type of analysis is needed. Recently, there has been a move to decentralize investment decisions so that all sectors are allowed to propose projects financed by borrowing at a commercial interest rate, although special poverty projects may receive some subsidy. This takes the pressure off choosing just one project or losing the money to another province altogether, at least from the provincial perspective. And the competition among roads, electricity, agriculture, etc. helps ensure that a number of possible projects are considered. In some provinces, a portion of these funds can be used to help those hit by natural disasters. Changes of this nature can help push public investment in a more efficient direction, and also reduce poverty.

### **Scenario 3 – A Decision to Leap?**

There is a natural tendency to prefer faster to slower growth if other things are equal. But other things are not usually equal in such cases. The third scenario will specify policies that would generate faster growth, but also create strains of various sorts that may be judged not worth the extra growth. There would also be more of a chance of

“losing control” in the sense that once rapid and powerful changes are introduced, they are hard to reverse. There is the additional difficulty captured by Deng Xiao Peng: “When you open the window, the flies come in.” Unwanted thoughts, ideas, and “cultural pollution” *inevitably comes in some degree* with a decision to open up to information. The messages are not crafted to destabilize Vietnam, except in the unimportant cases of a few zealots, but they do reflect the societies from which they come. These societies have different histories, assumptions and beliefs than are held by many Vietnamese. These views, and the more rapid growth of non-state sectors, will create new and perhaps unwelcome realities. This section describes policies and outcomes, but does not presume that this scenario will be preferable to other possible scenarios. It comes down to a political and cultural judgement.

It is fair to say that leaders in Vietnam appreciate the dangers of going too fast or of, for example, allowing the Internet to develop too quickly without controls. However, it is also probably true that these leaders do not appreciate just how rapidly the world is changing and how costly it would be NOT to *promote* going faster. The use of the Internet as a business tool is spreading with such rapidity that a nation that fails to take advantage of its access to information and communication will hobble its businesses in a fundamental way. If businesses fail to thrive, then employment growth will tend to be of low quality, and the instability that all want to prevent will threaten. To put it into numbers, the World Wide Web, the user-friendly version of the Internet, took only four years to reach 50 million users. (There are now over 330 million people on-line) To reach fifty million, telephones took 74 years; radio took 38 years; and television took 13 years. As computers and communications costs plunge, it is likely that there will be over one billion users within the next few years. To ignore a technology such as this, or to embrace it in a suspicious and reluctant way, would create huge costs for businesses. This needs to be placed against the real problems that a rapid opening up might entail.

Consider for a moment the counter-argument to the view that all of this is meant to weaken socialism. If indeed, the Internet and communications in general are such a plot, why have the Chinese pushed so aggressively to get their people on line? Why will

20 million be connected by the end of 2000, while the Vietnamese number will be perhaps 100,000? This works out to a per person ratio in Vietnam less than one-tenth that of China! Are the Chinese naïve? Do they fail to see the plot? Or are they more worldly-wise, appreciating that the costs of lagging behind far outweigh the benefits of trying to keep the window shut? This does not mean that they abandon efforts to restrict the content, but they realize that some people will find ways around their firewalls (electronic methods to screen content), and that yet it is still better to move ahead.

The world is, of course, bigger than the Internet, though the Internet is a symbol of a new century and of immense possibilities as well as potential troubles. If information is allowed to come in faster and at a lower cost, then the power of information is decentralized. This has many implications. One is that the private sector would grow faster, creating more and better jobs. Of course, it would not if other policies were not favorable, but it would be senseless to give people access to information so that they saw new market opportunities and then deny them the means to take advantage of them. If the private sector grew faster, then the state sector would have *relatively* less of a role in the economy – even if it grew *absolutely* faster than in scenario 2! That is, since scenario 3 has a much higher growth rate, it is likely that the sectors identified with SOE's would have higher demand and be able to grow faster. But, the private sector would grow faster still, so that the relative share of the SOE's would shrink. It remains a political decision if a faster growth rate and more jobs are reward enough to offset a smaller SOE share.

What policies would mark scenario 3? There would be a clear decision, that the private sector was not a regrettable necessity, but a major pillar of the nation's strength. Steps would be taken to hasten the emergence of a truly commercial and law based banking and capital market. Regulations based on new laws would actually be implemented, not just proclaimed. The changes in the quality as well as the cost of the Internet and telecoms would aim to move Vietnam from one of the least connected to one of the more connected nations in the region, considering per capita income.<sup>18</sup> Aggressive

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<sup>18</sup> Vietnam has done pretty well increasing its numbers of telephones, but charges are so high that their use to communicate outside the country is very limited. Overseas time use per line is a third of the Philippines, for example. Internet quality is low and effective total costs are also high relative to the region.

deregulation would encourage FDI. Income tax rates would be set so as to maximize tax revenues over time, not try to equalize incomes or punish or drive away the successful. (This would mean top marginal tax rates of only 25% to 30%.) There would be an effort for the government to respond in a timely way to legitimate requests of business associations, rather than just a few firms. The emphasis would shift from slowing or preventing changes to accommodating them by helping to train or pension off displaced workers, assisting workers moving to the growth poles, and accelerating the redeployment of capital and labor through clearer bankruptcy and banking laws.

Higher levels of FDI would be spread more widely than in the other scenarios, but would still tend to settle in the existing growth pole areas or places close to them. This will either mean that the movement of people is accommodated or the income differentials would increase even more than now. Developing clear land laws for multi-unit housing, mortgage markets, and urban infrastructure would all be necessary. If the water, lighting, and telephone companies were well run and charged enough to cover costs, they would be able to issue bonds on domestic markets to help finance their expansion.

It is frankly speculative exactly how fast real GDP might grow, but a growth rate of about 10% seems reasonable for this scenario. It was what China, Taiwan, and Korea managed over five year periods of rapid growth from low per capita income levels. Often investment levels exceeded 30% of GDP, and in Vietnam they would probably rise to the 35% to 40% level. Some of this would come from additional FDI, but quite a lot would come from rapidly growing and profitable firms reinvesting their profits back into their own firms. (This assumes that equitization promotes efficient firms and that overstuffed SOE's are helped to reduce their surplus employment.) Another portion would come from existing holdings of dollars and gold that people would decide to put in the bank, feeling it was secure and likely to earn a good return – without incurring the wrath of the tax collector! In such a scenario, it might even be possible to sell bonds to *Viet Kieu* and generate a special kind of portfolio inflow. Certainly, as more firms with good accounting



and real profits listed on the stock exchange, more foreign money would be drawn in that way too. Money seeks opportunities, and there would be more of them in scenario 3.

A growth rate of 10% or so should also result in a faster growth of tax collections. Some of these will be needed to help manage the problems caused by urban growth, but more could also be pumped into better schools, roads, power, and rural credit in remote or poorer regions. Remember that an average resident in a poor area has only 40% of the consumption as one in a wealthy region. If investments are made in education, health, and transportation/communications, it is very likely that most of those in poorer regions will find a way to produce more where they are or move to where their life will be much better. Again, in nations that invested heavily in their people and grew rapidly, there tended to be a very rapid decline in poverty. These investments would also help improve the role of women (already relatively good in most areas) and reduce pressures to farm marginal lands. While special efforts will be needed in regions prone to disasters or with isolated ethnic groups, most should benefit. Labor intensive growth will generate millions of steady jobs paying \$50 to \$100 a month in a factory or services, rather than \$10 to \$20 a month in seasonal farm work.

There is always a tendency to downplay problems in a “good” scenario, just as the tendency is to stress difficulties in a “bad” one. What is the downside of scenario 3? One of the more subtle difficulties is that institutions and attitudes take time to change. Even if policies are judged the right ones when looking backwards, that is not always so clear in the middle of the stream. It takes more than skill and leadership to make a rapid transition from one set of attitudes and practices to another. It also takes luck. After a leap, there is no going back. Unfortunately, many in Vietnam are not fully aware of how rapidly the world is changing, and thus will not quickly see the need for uncomfortable changes needed to adjust to new realities. Resistance to the inevitable is not fruitful, but can result in lost time, reduced popular support, and a long period of unproductive paralysis. This is what has happened in many African countries and, arguably, Myanmar. If oil prices are high, the weather is good, and the world economy strong when key changes are made, the

extra benefits may persuade the doubtful. If things go wrong, even through no fault of the policy makers, resistance may mount and progress slow.

In summary, the policies of Scenario 3 are:

- *A rapid series of steps to support private sector growth.*
- *An aggressive move to improve banks and capital markets.*
- *Strong moves to make SOE's efficient or equitized.*
- *Enthusiastic support of quality Internet and telecom services.*
- *Continued moves to lower trade barriers and specialize vs. self-sufficiency.*
- *Administrative reforms resulting in more FDI and better public investment.*

These policies would result in the following outcomes:

- *Growth in GDP of 10% with investment of 35% to 40% of output.*
- *Extremely rapid growth in manufactured exports and FDI.*
- *"Catching up" of Vietnam in technical and scientific skill levels.*
- *Rapidly increasing demand for urban workers, especially skilled.*
- *Private sector growth similar to coastal China's in the 1985-95 period.*
- *Growth of a more diversified, sophisticated economic structure.*

### **Zero, Positive, and Negative Sum Games**

One branch of economic and political theory concerns the relations of different individuals, groups or institutions. When they are interacting, it is called a game. A game can be football, or marriage, or competition among firms or provinces or political parties. The study distinguishes between three kinds of games:

1. A zero sum game is like football or chess. When one side wins, the other loses. There is only one prize and getting it is good for the winner and bad for the loser. Power in politics is often viewed as a zero sum game.
2. A negative sum game is when both sides are worse off. A bad marriage, gang warfare that kills or hurts many people, or not following traffic rules and having lots of accidents would be examples of this. "Bad" behavior makes all worse off.
3. A positive sum game is one where both sides can benefit. A good marriage, voluntary trade, or friends helping each other would be examples of this kind of "good" behavior that helps all feel better off. (You enjoy helping a friend, and he is likely to help you if the tables are turned. It is a kind of insurance too.)

In a classic isolated traditional village, where land and technology are fixed, it is pretty clear that if one family gets richer, another one is getting poorer. This helps explain the deeply seated suspicion of great wealth in tightly knit communities. If, unusually, a farmer stumbled upon a better growing technique or superior seed, he could share it with his neighbors or use it to buy more land from those hit by misfortune. Most often, a rich farmer will help his family or close friends but not everyone. Life is viewed as zero sum.

When the richest nations are producing \$30,000 per person per year, it is not especially hard to get to \$3000, or a tenth of the frontier. (Thailand is there, for example, even though it produces few scientists or engineers, has a poor urban environment, and still has weak bankruptcy laws and problems with shaky banks and dishonest politicians.) If a country persists at 1% of the frontier, it is usually engaged – often unknowingly – in a negative sum game. In that unhappy case, human talent and capital are wasted as institutions fail to find ways to use these resources productively, and the competition of various groups acts mainly to checkmate each other rather than finding better ways to lower costs, improve products, or allow able people to produce more. In such cases, the actors tend to feel better if they are as badly off as someone else at a low level. They do not prefer a situation in which both are better off, but the other is superior. There is nothing rare or pathological about such feelings. They are one kind of equilibrium, but not a terribly productive one.

The opposite situation is one where progress is so widespread and optimism so pervasive, that most are rising and there is a tolerance of some rising faster and farther. This is much more likely if it is felt that differences are earned by hard work, human qualities such as intelligence or strength, or even luck. When every person works to improve his own lot, but does not sabotage or even assists others, the entire system is likely to advance broadly and help raise most people.

Ultimately, a society ends up collectively choosing the kind of game it plays. Societies can shift from one kind of game to another. If economic differences become too large, if merit matters less and less over time and connections more and more, then a society may switch from a positive to a negative sum mentality. In the opposite case, if a society senses that it has to pull together to catch up to its neighbors or its own potential, it will change its ways of thinking and start to cooperate, and competition will be fruitful rather than destructive. In such cases, especially when technology is available to raise incomes, it is easy to make rapid progress.

In summary, scenario 3 pushes harder in the direction of connecting to the world economy, attracting capital and technology, allowing the fast to grow (while helping the slow to run faster), and phasing out less efficient firms while creating opportunities for the competitive ones to grow and attract resources. It would mean opening up much more to trade, investment, information, and (inevitably) different ideas. It would be hard to control this process once the path were taken, and it is likely that the SOE sector would become less important more quickly than in the other scenarios. Per capita growth rates would be half again to double those in scenario 2 (5% vs. 8-10%), and poverty reduction would be faster. Per capita income would rise to \$600 in five years and reach nearly \$1000 in ten years, compared to about \$500 and \$640 in scenario 2. It is true that regional differences would initially widen, so the politics of managing this transition would be demanding. The economy would rapidly become more robust when confronted with international economic shocks relative to the other scenarios, just as a Korea or Taiwan ended up in better shape than more isolated economies. This would be due to a more diversified economy with more capital, technology, and skills. The best protection against capital outflow, if one has capital inflows, is to have productive investment opportunities. Vietnam has the ability to create many opportunities and could grow rapidly for a long time if it chose to. The question is if the risks and negatives of this path are perceived as outweighing the positive aspects. This is a question that an economist cannot answer.

### *Concluding Comments*

This paper has tried to suggest the types of choices open to the Vietnamese leadership, and their economic implications. The fundamental perspective is that the world economy is becoming integrated quickly to a greater degree than before, and that fast-spreading technologies allow nations to choose the level of income that they want. Some nations understand this and grow quickly. Others decide for one reason or another to choose other policies which slow growth. Consider one example. More and more training, especially in computer and software fields, is being done over the Internet. There is a worldwide demand for Internet professionals alone amounting to 800,000 this year, and an additional 3 million over the next five years.

Suppose Vietnam wanted to produce 10,000 such experts each year<sup>19</sup>, and they earned \$30,000 a year each – a reasonable amount within the region. Within ten years, there would be 70,000 such people earning \$2 billion a year. What would it cost to produce these people? The cost of a \$500 computer per person and the costs of the course, which are low if taken over the Internet or even if taken at a local school. It would

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<sup>19</sup> There are over 1.5 million high school students each year in grades 10-12. If the students are selected from high school senior graduates, about 2% of the class would be needed. The 70,000 figure is taken because it is 1.4% of demand over eight years, which is also Vietnam's share of global population.

be necessary to study programming and English for two years, and then work for a year or two to gain sufficient experience. For perhaps \$10 million a year, *each class* earns a return of \$300 million in income and (at an assumed 25% tax rate, not 75%; at the higher rate nothing would develop) a \$75 million tax benefit each year! This would add 1% to the national GDP growth rate. From this group, it is reasonable to expect some would themselves become businesspeople, starting firms, hiring others, and paying taxes. The benefits would be likely to cascade, building year after year, and would be large even if the assumptions in this example are optimistic. For example, there would still be some leakage of skilled programmers to other countries, but with reasonable income taxes and cheaper and better communications, many more would be happy to stay.<sup>20</sup> Under which scenario would an investment like this most likely take place?

It may be useful to summarize the implications of the assumed growth rates in each scenario. This is done in the following table., with some rounding. It is assumed that 2000 GDP is about \$30 billion and per capita income about \$400.

**Total and Per Capita GDP in Three Scenarios**

	GDP Growth		(\$ Billion)		(\$ Per Person)	
	<u>Total</u>	<u>Per Capita</u>	Total GDP		Per Capita GDP	
			<u>2005</u>	<u>2010</u>	<u>2005</u>	<u>2010</u>
Scenario 1:	4.5%	3.0%	\$37	\$47	\$464	\$537
Scenario 2	6.5%	5.0%	\$41	\$56	\$511	\$652
Scenario 3	10.5%	9.0%	\$49	\$81	\$615	\$950

Source: Calculations based on assumed growth rates in each scenario. Population is assumed to grow 1.4% a year.

There has not been a close analysis of the poverty implications of the three scenarios, but it is obviously easier to reach a particular level of income if the average income is \$900 instead of \$500. While the income distribution *may* become less equal with rapid growth, if government policy is to invest in physical and human capital in all areas and groups, then most people will float on the rising tide. This is not a theoretical generality. In the Living Standards Surveys, the average real spending was up 43% (7.5%

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<sup>20</sup> The Indian software industry exports many skilled people, but still has a thriving local software industry and exports \$35 billion of software a year from India. With proper conditions, Vietnam could also succeed.

a year), but even the bottom fifth rose 29%, while the top fifth rose 55%. This period, from 1992/93 to 1997/98, was marked by rapid growth, nearly as fast as projected in scenario 3. According to World Bank analysis,<sup>21</sup> which uses a poverty level based on food budgets at caloric adequacy and median non-food spending, the poverty rate declined from 58% to 34%, with even sharper declines in the depth and severity of poverty. That is, even for those still under the poverty line, their incomes rose closer to the desired minimum level. (Using a lower food-based poverty line, the poverty rate fell from 25% to 15%.)

The rural areas still had in 1998 a 45% poverty level, compared to only 9% in urban areas. This difference is expected, given that expenditures per person in urban areas are 120% more than rural. It would be unsurprising if many younger people in rural areas decided to move to places that offered better opportunity. Again, which scenario would provide more of these migrants with good opportunities? It has to be scenario 3, with its higher investment levels. The migrants' higher incomes and consumption would create a demand for rural output, helping those they left behind. If rural per capita income could be doubled, it is likely that rural poverty would decline very considerably. At a lower poverty line, such as the one favored by the Vietnam government, poverty could virtually disappear in a decade or so. If the highest priority is eliminating low incomes rather than controlling the income differentials among households, faster growth would be better than slower growth – so long as smart investments were made in poorer areas and groups.

If scenario 3 promises faster growth, lower poverty, higher tax revenues, more FDI, and a better grasp of technology than the other scenarios, why might it not be preferred? One reason is that it might simply look out of reach. Can a poor country grow so fast? In Africa, this might be a reasonable question. In Vietnam, with China, Korea and Taiwan as recent examples, the question is less daunting. Indeed, even in the 1990's, Vietnam itself grew about 9% a year up to 1997. Growing just 1% more when there are

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<sup>21</sup> "Who Gained from Vietnam's Boom in the 1990's? An Analysis of Poverty and Inequality Trends" by Glewwe, Gragnolati, and Zaman, World Bank Development Research Group.

so many opportunities arising from electronics and software, and the US trade deal, is hardly an unreasonable hypothesis. Rapid growth is possible for Vietnam in this decade.

Another objection might be that the state enterprises have an unacceptably modest role in the fast growing economy, compared to the slower growing scenarios. Yet this objection may confuse relative and absolute levels. It is likely that efficient SOE's would grow very well in scenario 3, and faster than in scenario 1 or 2. If the object is to develop strong and large state firms in certain sectors, fast growth will work better than slow growth. If, as some suspect, state firms will take a long time to develop competitive skills, higher tax revenues from fast growth could be used to nurse them along. It is only if the relative share of the SOE's is considered crucial that slower growth might be preferred. Yet the 1990's have seen a sharp decline in SOE share and current trends are for more of the same. If this has been acceptable for so long, why would a continuation of the trend be objectionable?

A third objection is really more cultural and political than economic, but not less important because of that. If a private sector is unleashed and the state loses control of information flows, it will not be able to act in the same way as before. Domestic economic interests, partly competitive with state enterprises, would arise. Students and professional workers, while still a small minority of the total population, would develop ideas that would be hard to manage. Even the general population may think in more western or consumerist terms. These concerns are perhaps the real fear behind the argument about hostile forces. Again, it is not that CNN is trying to undermine socialism, but that its worldview is different and pervasive. Repetition often persuades where reason will not. Will Vietnam's culture be seduced by a glamorous foreign consumer culture? Will domestic stability be threatened by the rise of domestic interests that will have to be given a voice? These are questions beyond the ability of an economist to answer. They certainly point to realistic concerns. But they also need to be weighed against the positive side of faster growth. If national strength is gained from wealth, technology, and a better-educated people, faster growth will provide it more certainly than slower growth. If corruption is better reduced by adequate pay for civil servants than by periodic anti-

corruption drives, then higher tax revenues can help reduce corruption, itself one source of discontent. These are issues that need to be discussed realistically, and decided by those in Vietnam who hold the country in their hands, and will fashion the future for their children.

### **A Faster Way to Connect?**

The nations that rank higher in their ability to deal with the Internet tend to have a large proportion of their population that speaks English. This is not surprising, for something like 80% of the information on the Internet is in English. Yet relatively few English speakers have been trained in Vietnam and it would take years to develop a large fraction of the population to be fluent. Is there any way to accelerate the process? Yes, probably.

With ever faster processors and ever cheaper computer memory, the quality of **translation programs** has been rising to a level where they can now be used for rough translations of material in a particular field, though still not for general translation. If Vietnam wanted to speed effective access to information on the Internet, it could seek funds to provide – for free – a translation program to interested users. If the users translated particular sections by skilled human effort, they might be asked to send the rough (machine) and final (human) translations to the software developers. By refining the vocabulary for phrases and meaning, the package would improve over time. Fairly good translation programs now exist for continental European languages to and from English, but the existing ones for Vietnamese-English are not so good. This is probably a function of insufficient effort to incorporate an appropriate vocabulary and poor algorithms which take phrases from one language into another, using the context for clues as to their real meaning. Initial effort might go into software aimed at business, agriculture, scientific, and medical translation. If Internet users could easily access English language information, the benefits of this communications device for research and commerce would be much greater.