

Challenges Facing Vietnam

What challenges is Vietnam facing today in its pursuit of economic growth? In order to consider what measures are important to accelerate growth, we have to focus on the challenges.

First, when we examine the question of economic growth for Vietnam at this juncture, we have to think it in the context of the current environment of intensified international competition. Amid ever-intense world- and Asia-wide competition, Vietnam is today at a crossroads of either landing on a higher growth path or pausing on level ground and lagging behind. In other words, economic growth of Vietnam has to be achieved in the process of integrating its economy with the international economy. This requires strengthening the competitive edge under free trade with other countries, which will enable Vietnam to withstand competition and increase exports.

Second, while Vietnam is pursuing a multi-sector economy in which the state-owned, private and foreign capital sectors all are to develop respectively, growth has been driven by the private sector and foreign investments. Thus it is imperative that, if economic growth is to be realized into the future, these sectors should

continue to act as the engine of the economy and support growth by keeping competitiveness in the products they turn out. And for this purpose, an environment must be put in place—an environment more conducive to private sector activities and with a broader access to foreign investment inflows, and institutional and policy reforms should be moved forward in such a direction.

Third, being one of the transition economies, Vietnam has to tackle not only "development" but "transition" as well. This requires that an essential part of institutional and policy reform efforts be used to eradicate vestiges of the planned economy, to implement reform measures designed to promote market economy and to put forward "transition" in an appropriate manner. These elements are indispensable for increasing efficiency of the economic structure and strengthening competitiveness. Thus, they are instrumental in achieving economic growth.

Fourth, Vietnam has to lay the basis for the economic activities. Although much progress has been made by the country's efforts and assistance by donors over the past decade, factors serving as foundation for the economic activities still fall short of sufficient, in both physical (e.g. economic

infrastructure) and non-physical (e.g. human resources) terms.

Taking into account the challenges facing Vietnam in its pursuit of the economic growth, the following three factors may have considerable impacts on the country's "ability to attain economic growth":

- Engine of growth (the private sector and foreign investments);

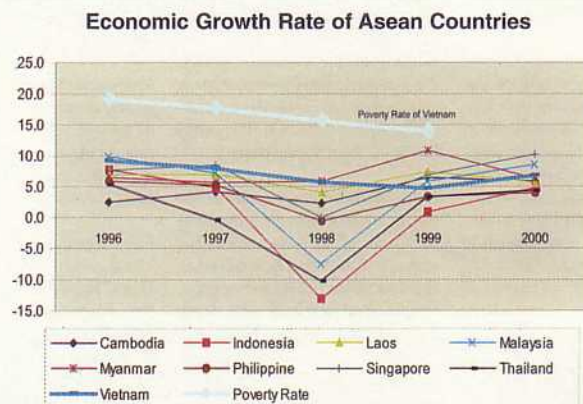
- Institution and policy, which determine how best Vietnam can demonstrate its potentials; and

- Foundation of the economic activities (physical component: infrastructure; non-physical component: human resources).

Improved institution/policy and foun-

ation for economic activities will boost the inflow of foreign investments, which in turn will further strengthen the engine of growth. "Ability to achieve economic growth" can be enhanced by upgrading institution/policy and by expanding and improving the basis for economic performance. In other words, Vietnamese competitiveness can be strengthened by this. In this context, development aid is able to make positive impacts on these factors.

Figure Vietnam's Growth: Comparison with Other Southeast Asian Economies



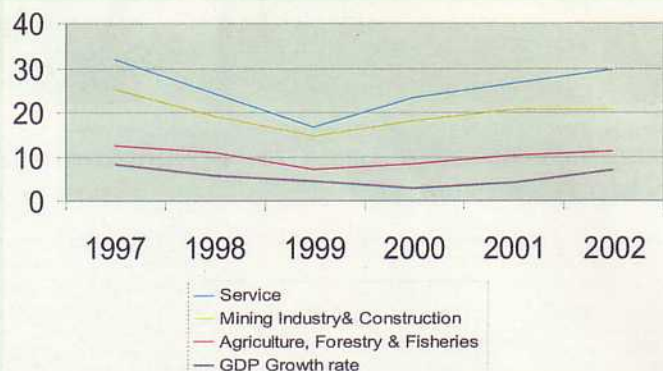
Source: Asean - Japan statistics 2002



Vietnam seeks growth while integrating its economy with the international economy

International competitiveness is significant for Vietnam, since the country is in pursuit of growth through external trade and foreign investments. Similar to other countries in East Asia, Vietnam's development strategy aims at growth while integrating its economy with the international economy. In the East Asian region where there is an abundant quality work force and individual economic activities can be interlinked with others, it would be rational to pursue sustainable growth based on trade and investments placing labor intensive industry as its central core.

Figure: Growth Rate of Individual Sectors in Vietnam



Source: Vietnam General Department of Statistics

Contact:

Head of Economic Section
Embassy of Japan
27 Lieu Giai st, Hanoi
Tel. (84 4) 846 3000
Fax (84 4) 846 3048

Chief Representative
JBIC
8th floor 63 Ly Thai To st, Hanoi
Tel. (84 4) 824 8934
Fax (84 4) 824 8937

Resident Representative
JICA
11th floor Daeha Business Centre
360 Kim Ma st.
Tel. (84 4) 831 5005
Fax. (84 4) 831 5009

Managing Director
JETRO
Unit 306—307-308, 3rd floor
63 Ly Thai To st.
Tel. (84 4) 8250630
Fax. (84 4) 8250552