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The Recent Economic Situation of Vietnam and
Investment Risks

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I. Introduction

In 1986 Vietnam launched the Doimoi policy, which converted its planned economy into a market one. Thanks to this policy, Vietnam overcame serious difficulties and challenges facing the country during the 1970s and 1980s. Moreover, Doimoi policy still was the source of Vietnam's achievements in the last decades, in the field of economic development as well as poverty reduction. Now, with an income per capita of roughly US\$1,100, Vietnam is listed as a lower middle income developing country. However, at the beginning of the second decade of the 21st century, its development model seems not to be suitable for the new development period, even though it was fruitful in the past.

This paper focuses on the two following issues:

- How is the current economic situation, and
- About recent investment risks in Vietnam.

II. Current Economic Situation

This section will provide an overview of the current situation of Vietnam's economy, which key indicators from 2000 to 2009 are presented in Table 1.

1. General Information

Vietnam is located in Southeast Asia. It has a surface area of 688 km². Its population in 2009 was over 86 million, 70% of which live in the rural area. In Vietnam there are 54 ethnic groups, among which the Kinh people are the majority one accounting for 86% of the total population. The population growth rate decreased from 1.17% in 2002 to 1.06% in 2009 (GSO).

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TABLE 1
Key indicators of Vietnam's Economy

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Population, total, (millions)	77.6	78.6	79.5	80.5	81.4	82.4	83.3	84.2	85.1	86.0
Population growth (annual %)	1.35	1.28	1.17	1.17	1.20	1.17	1.12	1.09	1.07	1.06
Rural population (% of total population)	76	75	75	74	73	73	72	72	71	70
GNI, Atlas method (current US\$-millions)	30,203	32,328	34,279	38,096	44,278	51,349	58,035	65,215	76,781	86,517
GNI per capita, Atlas method (current US\$)	390	410	430	470	540	620	690	770	890	1005
GNI, PPP (current international \$-billions)	108	118	129	141	156	175	195	215	232	
GNI per capita, PPP (current international \$)	1,390	1,510	1,610	1,740	1,900	2,100	2,310	2,520	2,700	
Electric power consumption (kWh per capita)	295	335	386	441	502	573	649	728		
Electric power consumption (millions kWh)	22,904	26,365	30,784	35,653	41,200	47,593	54,596	61,970		
GDP (current US\$-millions)	31,173	32,685	35,058	38,867	45,404	52,804	59,835	68,625	90,645	91,531
GDP growth (annual %)	6.8	6.9	7.1	7.3	7.8	8.4	8.2	8.5	6.2	5.3
GDP per capita (current US\$)	402	415	440	480	553	635	711	806	1051	1,019
GDP per capita, PPP (current international \$)	1413	1526	1641	1773	1939	2143	2364	2602	2787	2,862
Inflation, consumer prices (annual %)	-1.7	-0.4	3.8	3.2	7.8	8.3	7.4	8.3	23.1	6.9
Agriculture, value added (% of GDP)	24.5	23.2	23.0	22.5	21.8	21.0	20.4	20.4	22.1	20.9
Industry, value added (% of GDP)	36.7	38.1	38.5	39.5	40.2	41.0	41.5	41.5	39.7	40.2
Services, etc., value added (% of GDP)	38.7	38.6	38.5	38.0	38.0	38.0	38.1	38.2	38.2	38.9
Exports of goods and services (% of GDP)	55.0	54.6	56.8	59.3	65.7	69.4	73.6	76.9	78.2	68.3
Exports of goods and services (current US\$-millions)	17,155	17,850	19,913	23,046	29,847	36,624	44,042	52,769	70,891	62,516
Imports of goods and services (% of GDP)	57	57	62	68	73	74	78	93	95	78
Imports of goods and services (current US\$-millions)	17923	18596	21725	26295	33275	38832	46771	63648	85886	71990
Trade (% of GDP)	112.5	111.5	118.8	126.9	139.0	142.9	151.8	169.6	173.0	146.9
Merchandise exports (current US\$-millions)	14,483	15,029	16,706	20,149	26,485	32,442	39,826	48,576	62,906	57,096

Merchandise imports (current US\$-millions)	15,638	16,218	19,746	25,256	31,969	36,761	44,891	62,687	80,416	69,949
Trade balance Merchandise (current US\$-millions)	-1155	-1189	-3040	-5107	-5484	-4319	-5065	-14111	-17510	-12853
Merchandise trade (% of GDP)	96.6	95.6	104.0	116.8	128.7	131.1	141.6	162.1	158.1	138.8
Tax revenue (% of GDP)	20.4	21.4	22.5	23.4	24.6	25.4	26.9	25.9	26.7	24.4
Market capitalization of listed companies (% of GDP)	na	na	na	0.4	0.5	0.9	15.2	28.5	10.6	
External debt stocks, short-term (DOD, current US\$-millions)	923	783	784	1,289	2,141	2,575	2,503	4,679	4,419	
External debt stocks, total (DOD, current US\$-millions)	12,825	12,585	13,344	15,991	18,049	19,114	20,126	23,865	26,158	
External debt stocks (% of GNI)	41.7	39.0	38.7	41.8	40.5	36.9	34.4	35.7	29.7	
Total debt service (% of exports of goods, services and income)	7.5	6.7	6.0	3.4	2.6	2.6	2.1	2.2	1.9	
Total debt service (% of GNI)	4.3	3.8	3.5	2.1	1.8	1.8	1.6	1.9	1.5	
General government gross debt (% of GDP)	na	31.7	32.5	33.3	38.9	42.2	43.0	45.6	43.9	49.0
Foreign direct investment, net inflows (BoP, current US\$-millions)	1,298	1,300	1,400	1,450	1,610	1,954	2,400	6,700	9,579	
Net official development assistance and official aid received (current US\$-millions)	1,681	1,432	1,280	1,772	1,846	1,913	1,845	2,511	2,552	
Gross domestic savings (% of GDP)	27.1	28.9	28.0	27.1	27.9	31.4	31.7	28.2	24.6	
Current account balance (current US\$-billions)	1.106	0.682	-0.604	-1.931	-1.591	-0.56	-0.164	-6.992	-10.787	-7.44
Current account balance (% of GDP)	3.5	2.1	-1.7	-4.9	-3.5	-1.1	-0.3	-9.8	-11.9	-8.0

Source: World Bank. World Development Indicators database, 2010. <<http://www.worldbank.org/>>

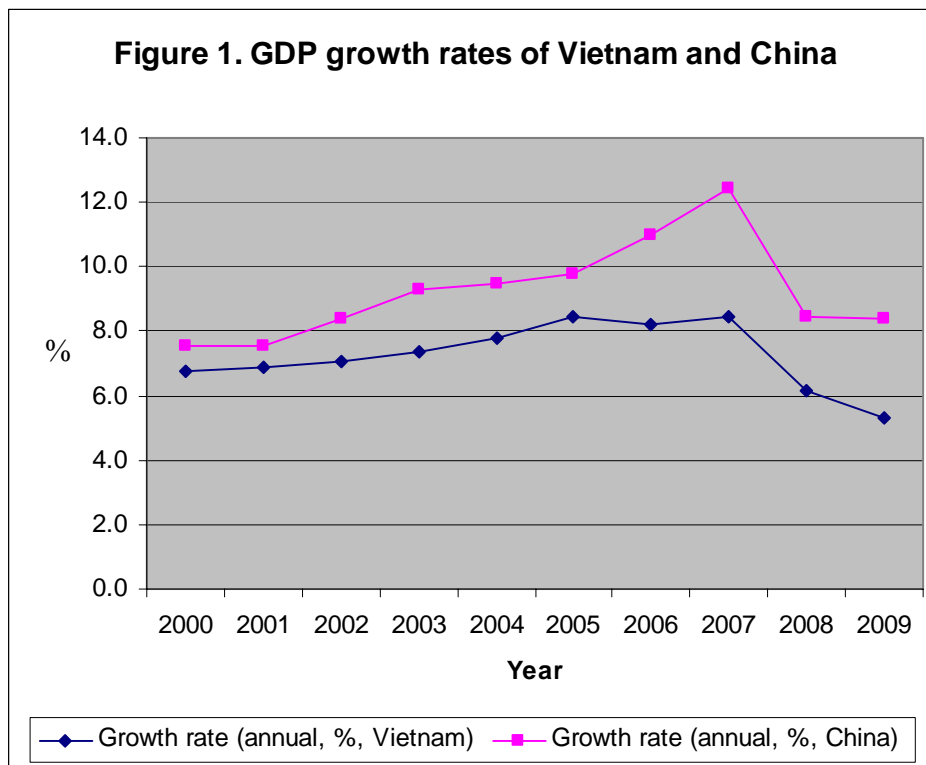
Vietnam General Statistical Office (GSO). <http://www.gso.gov.vn/>

International Monetary Fund (IMF). <<http://www.imf.org/external/index.htm>>

2. Economic Growth

From 1990 to 2009, Vietnam kept positive growth rates. In the last decade, its average growth rate was 7,25%. Due to the global economic crisis, the growth fell from 8.5% in 2007 to 6.2% in 2008 and 5.3% in 2009. However, Vietnam is regarded as “weathering the global crisis better than many other countries” (IMF. 2010). The continuous economic growth resulted in the increase of GDP per capita, at current prices, 2.5fold, from US\$402 in 2000 to US\$1,019 in 2009. The growth rates of Vietnam’s economy were lower than those of China (See Figure 1). In addition, in 2008 GDP per capita of China was threefold higher than that of Vietnam.

Currently, the agriculture contributes 21% value added to the GDP, the industry 40% and the service 39%.



Source of data: World Bank. World Development Indicators database, 2010.

3. Trade

Trade is a very important engine of the economic development in Vietnam. In the last decade, the export of goods and services grew continuously, with an exception of 2009. This resulted in rising the ratio of the export to GDP, from 55% in 2000 to 78% in 2008

and 68% in 2009. There was a boom in import of goods and services from 2000 to 2008, except its reduction in 2009, so that the ratio of the import of goods and services to GDP increased from 57% in 2000 to 95% in 2008 and 78% in 2009 (WB). There were the similar tendencies in import and export of merchandise. In spite of having very high ratio of import and export to GDP, Vietnam still ranks to one of the lowest opened countries. In the 2010 Index of Economic Freedom World Ranking issued by the Heritage Foundation & Wall Street Journal, Vietnam is ranked 144th out of 179 countries involved in the survey. With this position, Vietnam's economy is listed to repressed one. Main reasons of its low openness are the limitation of key institutional factors, which include not full efficient and transparent regulatory environment, non-transparent bureaucracy and unreliable legal system, slow reform of state owned enterprises (SOEs), widespread corruption and so on (the Heritage Foundation & Wall Street Journal, <http://www.heritage.org/index/Country/Vietnam>).

Nowadays, Vietnam mainly exports raw materials, agricultural products, labor-intensive products, assemble products, of which agricultural and forest products accounted for 15.8%, aquatic products – 7.5%, light industrial and handicraft goods – 42.8% and heavy industrial products and minerals – 29.4% in 2009. Currently, the foreign invested sector plays a majority role in export of the country through its contribution of above 50% of export volume (GSO).

Vietnam has suffered from a serious trade deficit. In 2009, the total trade deficit was roughly US\$13 billions, and the country run US\$11.5 billions deficit with China, US\$4.9 billions with Korea Republic and US\$1.17 billions with Japan (GSO). The deficit of current account balance, which recorded roughly US\$10.8 billions in 2008, is also problematic. This has caused big challenges for the macroeconomic management of the government.

4. Investment

In Vietnam, the state investment at the beginning of the millennium accounted for about 60% of the total investment of the country. This rate decreased to 33.9% in 2008, then increased to 40.6% in 2009 due to an economic stimulus package of the government. The position of the state investment has been replaced by the private sector, which ratio in

total investment jumped from 22.9% in 2000 to 33.9% in 2009. In 2009, the foreign invested sector contributed to 25.5% of total investment (GSO).

The foreign direct investment increased slowly from 2000 to 2006. Then it experienced a boom in the following years when Vietnam became the WTO's 150th member on January 11, 2007. In 2009, the United States became the biggest investor in Vietnam. Japan is ranked as the fourth biggest investors. Despite, China having only the 16th position in investment ranking in 2009, it won about 90% of upstream projects, such as thermo-electric plants, mining, metallurgy etc., in Vietnam in form of EPC (Engineering, Procurement and Construction) contracts. However, Chinese constructors have been strongly criticized because of their providing equipment with low quality, their backward technology, the delay, damaging the environment and so on. Moreover, Chinese constructors still favor using Chinese labors, among them a number of workers reside illegally. This means that Vietnamese lose their job in their home country (VIETNAMNET, VNR500, <http://vef.vn/loai-bai-ven-man-bi-mat-viec-trung-quoc-trung-thau-o-viet-nam>).

Net official development assistance (ODA) and official aid have raised uninterrupted as showed in Table 1. During the last two decades, Japan was always the biggest country donor to Vietnam, and its ODA and official aid have contributed significantly to the economic and social development of the country.

TABLE 2
ICOR Comparison between Vietnam and China

Indicator - Year	2000	2001	2002	2003	2004	2005	2006	2007	2008
Gross Investment/ GDP (% , China)	35.1	36.3	37.9	41.2	43.3	44.0	44.5	43.1	44.4
Gross Investment/ GDP (% , Vietnam)	29.6	31.2	33.2	35.4	35.5	35.6	36.8	43.1	41.1
Growth rate (annual, %, China)	7.5	7.5	8.4	9.3	9.4	9.8	11.0	12.4	8.4
GDP growth (annual, %, Vietnam)	6.8	6.9	7.1	7.3	7.8	8.4	8.2	8.5	6.2
ICOR of China	4.7	4.8	4.5	4.4	4.6	4.5	4.1	3.5	5.3
ICOR of Vietnam	4.4	4.5	4.7	4.8	4.6	4.2	4.5	5.1	6.7

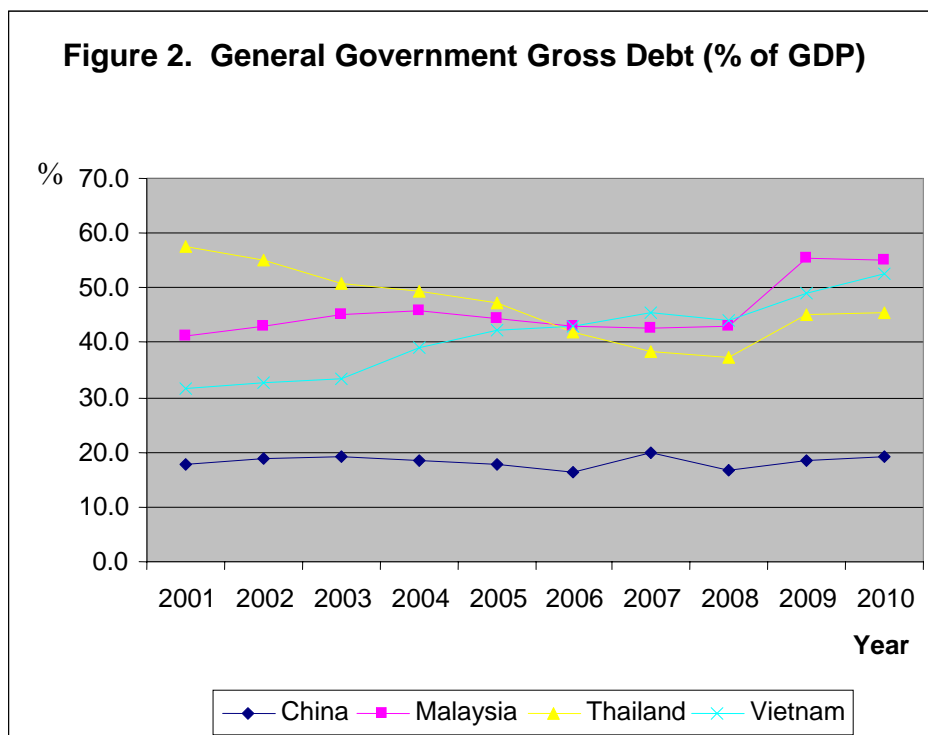
Source: World Bank. World Development Indicators database, 2010.

- ICOR are calculated by the author.

Vietnam's ratio of gross investment over GDP rose continually from 2000 to 2008, and there were a jump of these rates in 2007 and 2008. These ratios of China in the same period were some higher. But in comparison with Vietnam, China recorded higher annual growth rates, thereby China's ICORs were lower than those of Vietnam, although China has higher development level (see Table 2). The unusual high ICOR of Vietnam in recent years is the evidence that the country has used inefficiently the investment capital. This is the result of the weakness in the government management, the low efficiency of state enterprises, the corruption etc.

5. Inflation and Debt

At the beginning of this decade, Vietnam suffered from a deflation of -1.7% in 2000 and -0.4% in 2001. In the two subsequent years, the inflation rates were relatively low at 3.8 and 3.2%. Since 2004 the inflation has become more serious, especially in 2008 at the rate of 23.1%, partly due to the world economic crisis, but mainly due the macro-management of the government. In the year 2010, Vietnam has to deal with the high inflation and puts effort to keep its rate at one digit.



Source of data: World Bank. World Development Indicators database, 2010. The figures of 2010 are estimated.

General government gross debt consists of gross domestic public and publicly guaranteed debt, and gross external public and publicly guaranteed debt. Among China, Malaysia, Thailand and Vietnam, China enjoyed lower government gross debt which has been stable at around 20%. In recent years, Vietnam's government debt increased at high rate. According to the latest report of the government, the gross government debt by the end of 2010 was at 56.7% of GDP (Nguyen Tan Dung, October 2010). An important amount of the guaranteed government debt is to finance state enterprises, which operate at very low efficiency. In addition, we have to take into account that the figure of Vietnam's government debt in Table 1 does not include non-guaranteed debt. But this is seen as an implicit debt of the government because in many cases, the government should pay this kind of debt for state enterprises. The government debt in Vietnam is problematic.

6. Prospect and Comments

Because of success in the macroeconomic stability in this year, the Asian Development Bank (ADB) updated its forecast of Vietnam's economic growth for 2010, from 6.5% to 6.7%, and for 2011 from 6.8% to 7%, while the inflation projection is lowered to 8.5% for 2010 and 7.5% for 2011 (ADB, <http://www.adb.org/vietnam/main.asp>).

In the Global Competitiveness Report 2010-2011 released by the World Economic Forum, Vietnam jumps by 16 places to 59th position. In the detail of index components, Vietnam has good positions in market size (35th), labor market efficiency (30th), innovation and sophistication (53rd), quality of education (59th), and good and market efficiency (60th). Its low positions consist of quantity of education (105th), higher education and training (93rd), private institution (91st), public institution (73rd), macroeconomic environment (85th), infrastructure (83rd) (World Economic Forum 2010). The improvement of the competitiveness position is mainly thanks to progress in the macroeconomic stabilization. Thanks to the introduction of the market mechanism into the economy, Vietnam has reaped remarkable results during two last decades. Engine for the development came from the exploitation of resources, especially land, labor force, natural resources, which in the past were chained by the central planned regime. External resources also have significantly contributed to its achievements. In addition, high saving rate of around 30% and external markets have been sources of fruits of the country.

However, a number of the momentums created by Doimoi policy seems not help for the next development period. Vietnam aims at a new Middle Income Country by 2020. To achieve this goal, it prepares new development policies, which focus on the stable and sustainable growth.

III. Investment Risks

This section will analyze investment risks which investors should take into account when they invest in Vietnam.

1. The Governance

Governance is “the process of decision-making and the process by which decisions are implemented (or not implemented)”. (UNESCAP) Despite efforts and progresses in the governance have been made, shortcomings in this field still remain and bring about risks for investors. Analysis of this issue is based on key standards of good governance (UNESCAP).

Participation. In Vietnam, the process of decision-making and decision-implementing involves not full interest representatives. In reality, important decisions in the national level as well as in local level do not take into consideration of the voice of full vulnerable groups, among which peasants are the most vulnerable one. In Vietnam until now, the referendum of the most important national decisions has never took place. In addition, the civil society in Vietnam is not developed, so that people can not protect their interests through independent organizations such as labor unions, associations. Vietnam has been warned, for example by Economist Intelligence Unit (EIU), of the danger of the “crony capitalism” and “vested political interests”, who “may impede reform, thereby preventing the necessary restructuring of some SOEs, which will hamper overall improvements in competitiveness and will constrain Vietnam’s growth performance”, as quoted by Ben Wilkinson and et al (2008, p3). In reality, such vested political interests have influenced not only the reform of SOEs, but also the allocation of national resources such as land and public budgets.

Rule of law. During the international integration process, Vietnam has improved remarkably its laws, which now are more in accordance with international standards. Recent issued laws such as Investment Law (2005), Business Law (2005) have contributed significantly to improvement of the competitive environment. However, there

are not enough independence between legislature, judiciary and executive bodies. Such legal system can not guarantee the impartial enforcement of laws. Thereby it can not protect effectively interests of citizens, and creates risks for investors. But in Vietnam nowadays, it seems that foreign investors suffer from these risks less than Vietnamese investors.

Transparency. Transparency have been improved in recent years under pressure of Vietnam's commitments with international bodies and organizations. Legal documents and official government decisions now are freely available and directly accessible to the public, for example through internet. However, transparency is still one of the important weaknesses of the governance in Vietnam. In reality, there are dark areas the public is not easy to access or is not provided with clear and enough information and in manner following rules and regulations. These areas include the real use of public budgets, explicit and implicit subsidies for key state enterprises, tenders etc. Promulgation of some unpredictable decisions of the governmental institutions is not unusual. This makes the lack of transparency more serious. Until now, the Vietnamese economy has been not regarded as a market economy according to a provision of Vietnam's accession to the World Trade Organization. In reality, Vietnamese government has still applied non-market measures to regulate the economy. A typical one is price control, for example, sometimes the government instructs state enterprises to remain sell prices or state commercial banks to reduce interest rates. In many cases, the lending or borrowing between state commercial banks and state enterprises were guaranteed implicitly by the government. This has worsened the competitive environment and has caused risks for state enterprises as well as state commercial banks. So, "in the medium to long-term, Vietnam's financial system could be at considerable risks" (Ben Wilkinson and et al, 2008, p. 39).

Accountability. Good governance constrains accountability of governmental institutions, the private sector and civil society organizations to the public. In reality in many cases, decisions or actions of an organization or institution caused negative consequences, such as damage of the environment, loss of public budgets, damage of assets of citizens, but it is difficult or impossible to determine who are accountable to. This firstly is due to the

lack of transparency and the low effectiveness of the rule of law, secondly is because of the stagnation of the bureaucratic system.

2. Corruption

In Vietnam, corruption has become serious problem comes from widely sources, of which the lack of transparency in the governance is an important one. A weak legal framework also creates good environments for corruption. Nowadays, in Vietnam many people have laundered and become rich thanks to the non-clearness of the land law. In addition, in Vietnam there are no strong and independent agencies and organizations and a self-motivated civil society, to supervise and to fight against corruption.

Corruption has occurred in any field. It makes the business environment worse off, it damages the image of the country. During the two last decades, Vietnamese government launched many programs and measures against corruption. But it has not been prevented.

3. State Owned Enterprises

In Vietnam, state enterprises are regarded as playing “the leading role” in “a market economy with socialist orientation”. To realized this strategy, a number of state companies were founded. Especially on March 7, 1994, the government issued “Decree No 91/TTg about the pilot establishment of business group”. Up to 2003, 18 so-called “corporations 91” were founded according to this Decree. In 2004, Vietnam began to equitize state corporations. From 2005, some state corporations have been converted into state economic groups. Currently, there are above 10 state economic groups in Vietnam. State economic groups as well as other state corporations have been favored by government in getting funds from government budget or state banks. The government still guaranteed their borrowing funds from international market. This kind of subsidy or support in reality have negative effect on their business operation and as a source of corruption. The large amount of funds have been used wastefully because, firstly, managers have no engine to use effectively these public funds. State companies have worked at very low efficiency. In 2009, 40.6% of the total investment funds fell into the state sector , but it produced only 35.13% of GDP (GSO). In reality, the establishment of state companies generally and state economic groups specially are mainly through bureaucratic measures, and have been not driven by the market force, such as through mergence, sell or buy of companies. An important shortcoming of state enterprises is that

their manpower, especially their managers have been not well trained. Therefore, the management of a too large firm is beyond their ability. In addition, state enterprises are a fat land where interest groups can extend their influences.

VINASHIN (Vietnam Ship Industry Group) is a state company which became a state economic group in 2006. This company has been hoped to become one leading state group and it was the most favored state company. In 2005, Vietnamese government issued US\$750 bonds in the international financial market to finance VINASHIN. Moreover, VINASHIN still borrowed at least US\$600 millions from foreign banks. This company also got a huge amount of funds, especially credits from state banks, as it required. But, due to the bad management with many crazy investment projects and corruption, in June 2010, its total debt was at least VND86,000 billions (equivalent to US\$4.6 billions), which were equal to 83% of its total assets (Nguyen Tan Dung, November 2010, p. 7). To save VINASHIN, the government continues pumping money into it. The case of VINASHIN can be seen as a signal of the collapse of the leading role of state enterprises.

Though there are some good state enterprises, such above described issues are facing state companies now. The key problems facing SOEs in Vietnam are the unclear ownership, the bad management and the lack of an efficient mechanism to supervise them.

4. Labor Force

Since 2006, Vietnamese government raised minimum wage and salary every year. On January 2006, the Prime Ministerial Decree No. 03/2006/ND-CP raised minimum wages and salaries for unskilled and manual labors who were working in foreign invested enterprises and foreign bodies and organizations. The level of minimum wages and salaries is discriminated between regions as follows: increasing from US\$45 to US\$55 (VND870,000) monthly in urban Hanoi and Ho Chi Minh City, from US\$40 to US\$50 (VND790,000) in their suburbs and within other Vietnam's major cities, and from US\$35 to US\$45 (VND710,000) in other rest areas. The decree was in effect on February 1, 2006.

According to Charles Runckel (Business-In-Asia.Com), at this time, the minimum wage in Cambodia was US\$45 per month, in Beijing US\$63, in Shanghai US\$70 and in

Thailand US\$70. Vietnam's wage rates were lower than those of China and Thailand 10-15%, in terms of the minimum as well as the effective rates.

In 2007, the Prime Ministerial Decree No 167/2007/NĐ-CP, which was in effect on January 1, 2008, raised wage and salary of workers and staff in Vietnamese enterprises. For unskilled and manual laborers in the foreign invested enterprises, Decree No 168/2007/NĐ-CP stipulated to increase their minimum wage and salary to VND1,000,000 (US\$60) per month in urban Hanoi and Ho Chi Minh city, VND900,000 (US\$54) in the suburbs of these cities and within other Vietnam's major cities, and VND800,000 (US\$48) in other rest areas, from January 1, 2008.

In 2008, Vietnam's economy experienced very high inflation at 23.1%, therefore there were 762 strikes, in comparison with 541 in 2007, mainly in textile and wearing apparel industry and manufacture of leather products (BBC, 2009). On October 10, 2008, the government issued Decree No 110/2008/NĐ-CP to increase wage and salary in Vietnamese enterprises. In foreign invested enterprises and foreign bodies and organizations, Decree No 111/2008/NĐ-CP was applied to raise minimum wage and salary to VND1,200,000 (US\$66) for region 1 (urban Hanoi and Ho Chi Minh city); VND1,080,000 (US\$60) for region 2; VND950,000 (US\$52) for region 3; and VND920,000 (US\$50) for region 4. Both of these Decrees came into effect on January 1, 2009.

On October 30, 2009 the government promulgated Decree No 97/2009/NĐ-CP about minimum wage and salary in Vietnamese enterprises, applied from January 1, 2010. The levels of minimum wage and salary monthly are distinguished between 4 regions: VND980,000 (US\$52) for region 1; VND880 (US\$47) for region 2; VND810,000 (US\$43) for region 3; and VND730,000 (US\$39) for region 4. Issued on the same date, Decree No 98/2009/ND-CP increases minimum wage and salary in foreign invested enterprises and foreign bodies and organizations, from January 1, 2010. The levels in 4 regions are as follows: VND1,340,000 (US\$72) for region 1; VND1,190,000 (US\$64) for region 2; VND1,040,000 (US\$56) for region 3; and VND1,000,000 (US\$54) for region 4. So, from 2006 to 2010, in Vietnam the minimum wage in terms of local currency was increased about by 50%, and in terms of US\$ by 33%.

TABLE 3

Nominal Growth Rate of Minimum Wage and Inflation (%)

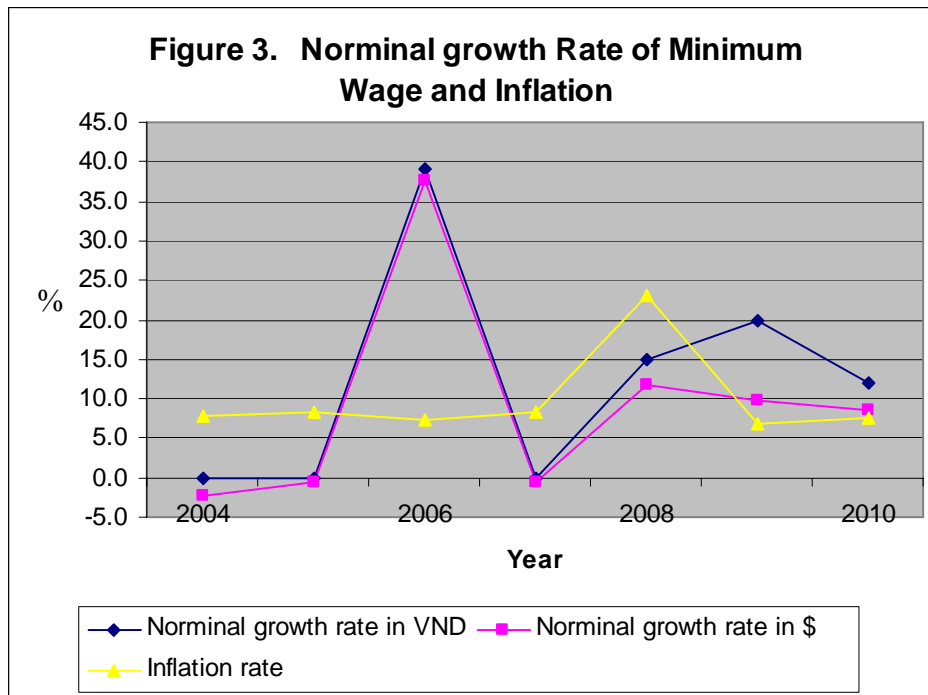
Year	2004	2005	2006	2007	2008	2009	2010
In term of VND	0.0	0.0	39.0	0.0	15.0	20.0	12.0
In term of US\$	-2.3	-0.6	37.6	-0.6	11.7	9.8	8.5
Inflation rate*	7.8	8.3	7.4	8.3	23.1	6.9	7.5

Source: - Calculation of the author

- * : Vietnam General Statistical Office

Table 2 compares nominal growth rates of minimum wage in term of VND and US\$ and inflation rates. In 2003, Vietnam applied a new minimum wage which was kept until 2006. In 2006, the new minimum wage went up 39% which were roughly covered the accumulated inflation of the period 2003-2006. In 2007, the minimum wage was not changed although the inflation recorded 8.3%. The increase of the nominal minimum wage of 15% in 2008 could not compensate the high inflation of 2007 and 2008. The increase of minimum wage rate in subsequent years was somewhat higher than that of the inflation. In term of US\$, the growth rates of the nominal minimum wage were lower than those in term of VND, due to the depreciation of dong.

In the case of Bac Ninh province, the average wages in its industrial zones, in recent years were as follows: VND980,000 in 2007, VND1,200,000 in 2008, and VND1,300,000 in 2009. No doubt, this amount of wages can not meet basic needs of the workers, especially who come from other provinces. In 2009, there were 17 strikes, lower 19 strikes in 2008, in the industrial zones of Bac Ninh. The strikes mainly happened in China and Taiwan invested enterprises. (Bac Ninh Management Board of the Industrial Zones).



In China, based on China’s first minimum wage law on March 1, 2004, minimum wages are legally set by provinces, municipalities, and autonomous regions. There are two forms of minimum wage. One monthly minimum wage is set for full-time workers, and one hourly minimum wage for part-time workers. The minimum wages, therefore, are different across provinces.

In 2010, there are waves of raising the minimum wage and salary. Around 30 provinces and municipalities in the country have increased or will raise their wages. In Guangdong province, the minimum wage was increased by 10% to 1,100 yuan per month (around US\$165) from 1,000 yuan (US\$150). The minimum wage in Beijing was raised by 20% to 960 yuan (US\$140) per month from 800 yuan (US\$120), from 1 July. In February 2010, officials in Jiangsu province increased the minimum wage to 960 yuan (about US\$140) per month, the same as Shanghai (Andy Allen, 2010).

In 2006, minimum wage per month in Beijing was 640 yuan (US\$81), in Shanghai 750 yuan (US\$95), and in Guangdong 780 yuan (US\$100). Legally, local and regional minimum wages should be set at about 40 to 60 percent of average monthly wages. (China Labour Bulletin. 19 Feb 2008). So, from 2006 to 2010, the minimum wage in term of local currency was raised about by 50%, and in term of US\$ by 65%.

According to Qiu Quanlin (China Daily 03/20/2010), Guangdong's highest minimum wage for part-time workers rose to 9.9 yuan (US\$1.48) per hour, and the lowest was 6.4 yuan (US\$0.95) per hour. In comparison to 2003, 2004, China hour wage increased about twofold.

TABLE 4
China hourly manufacturing rates, 2002 - 2004

Year	Basis (Yuan)	Basis (U.S. Dollar)	Index (U.S. = 100)
2002	4.73	0.57	3
2003	5.17	0.62	3
2004	5.50	0.67	3

Source: U.S. Dept. of Labor, VentureOutsource.com, February 2008

The above analysis shows that, from 2006 to 2010, the monthly nominal wage in term of local currency, in Vietnam and China was increased nearly by the same level of 50%. However we have to take into account that during this period, the inflation in Vietnam was much higher than that in China. Moreover, during the same period, in term of US\$, the minimum wage rate of China rose (by 65%) much higher than that of Vietnam did (by 33%). In the absolute level of US\$ term, the current minimum wage of China is about twofold higher than that of Vietnam.

Table 3 and 4 present in detail the data of wages and salaries in Vietnam. Generally speaking, labor costs in Vietnam are low and competitive in attracting the foreign investment. But the negative side is that strikes should happen if wage rates are too low. Besides, the quality of labor is a challenge facing Vietnam. Due to the weakness of the educational and training system, the economy has been not provided with good skilled labors and managers. During the last three decades, Vietnamese government launched many programs to reform the education and training. Despite of these efforts, no significant performances in this area have been recorded. The key reason of this failure, from my viewpoint, is the problem of the ideology, which really hinders the international integration of Vietnam in the field of education and training.

TABLE 5
Average Salary/wage per Month of a labor by Industry and Ownership

Unit: US\$

Industry	2009					Survey on April 1, 2010				
	Household	Collective	Private	State	Foreign invested sector	Household	Collective	Private	State	Foreign invested sector
Average	85	72	133	140	127	103	106	139	144	144
A. Agriculture, forestry and fishery	70	37	139	119	76	92	53	98	129	238
B. Mining and quarrying	96	68	140	173	278	116	114	136	207	198
C. Manufacturing	78	82	119	134	116	91	116	116	140	127
D. Electricity, gas, air-condition	104	-	118	160	155	102	71	125	166	215
E. Water supply, garbage and waste water disposal	104	47	146	131	-	85	64	130	134	249
F. Construction	97	86	149	192	246	111	112	154	182	378
G. Whole sale and retail trade, repair of motor vehicles	89	125	141	163	264	99	193	152	153	258
H. Transport, storage	119	125	157	198	285	138	139	177	203	254
I. Hotels and restaurants	77	-	111	127	173	92	132	117	145	171
J. Communication	91	-	222	183	-	69	-	205	176	284
K. Financial intermediation, banking and insurance	-	75	234	237	264	130	120	296	210	289
L. Real estate, renting business activities	77	-	191	314	327	120	-	265	197	380
M. Scientific activities and technology	135	200	177	162	252	129	92	207	176	248
N. Public administration	109	71	148	125	199	107	99	152	132	284
O. Defense; compulsory social security, Activities of Party and of membership organizations	-	18	133	107	-	54	59	114	124	174
P. Education and training	88	71	119	141	189	86	91	160	139	357
Q. Health and social work	66	-	136	139	257	90	40	136	143	242
R. Recreational, cultural and sporting	64	130	108	129	119	95	98	141	148	144

activities										
S. Other services	102	47	112	98	88	94	100	120	130	193
T. Household assistance	59	-	31	92	221	80	63	103	84	327
U. Activities of International organizations and agencies		-	-	-	253	-	-	-	-	386

TABLE 6
Average Salary/Wage per Month of a Labor by Skill and Ownership

Unit: US\$

Industry	2009					Survey on April 1, 2010				
	Household	Collective	Private	State	Foreign invested sector	Household	Collective	Private	State	Foreign invested sector
Average	85	72	133	140	127	103	106	139	144	144
A. Leaders, administrators	-	42	380	179	348	204	115	411	164	580
B. High skilled specialists	200	135	213	174	291	136	134	227	172	284
C. Medium skilled specialists	123	47	139	129	147	119	130	140	129	194
D. Office staff	117	46	126	84	140	124	83	150	101	145
E. Employees, salesclerks	88	68	114	88	131	94	74	118	106	155
F. Skilled labors in agriculture, forestry and fishery	98	51	148	133	66	112	64	105	128	229
G. Labors in handicraft and relating jobs	95	67	122	119	136	109	99	116	141	172
H. Assemble and equipment operation workers	123	111	134	150	110	131	140	125	148	113
I. Unskilled labors	71	85	90	89	90	88	94	100	99	136
J. Army force	-	-	-	-	-	-	-	-	194	-

Source: Vietnam General Statistical Office.

Note: The original data are in VND, the author converts them into US\$, according the average exchange rate of 18,118 VNDong/US\$ for 2009 and 19,000 VND/US\$ for 2010.

5. Private sector

The formation of the private sector in Vietnam is quite different from that in developed capitalist countries. In the second half of the 1950s, the policy of the transformation of capitalists and the collectivization in the North Vietnam indeed abolished the private sector. Afterward, the private sector was regarded as “the seed of the capitalism” and therefore was prohibited from developing. This policy was applied again in South Vietnam in the end of 1970s, when the country was unified.

The private sector, thanks to the Doi Moi policy to be promulgated in 1986, was restored through dissolving agricultural and handicraft cooperatives, the privatization of SOEs, the investment of overseas Vietnamese especially from the former Soviet Union and East Europe and so on. This sector has become more vigorous and takes more important role in the economy. After two decades, many new capitalists in Vietnam became very rich and accumulated huge assets. But, in contrast to developed capitalist countries such as Japan, where big capitalist families have their hundred year history of doing business and the accumulation and they receive the respect of the public, in Vietnam channels of the assets of those capitalists come from the equitization, the land, the crony relationship, doing business and so on.

The private sector in Vietnam, as description above, has a short history, therefore its businessmen are nowadays in the phase of the exercise of doing business, with low management skills and having no long-term strategy. Their business enthusiasm is still impeded by the low confidence in the government policy on the protection of the property rights, as the consequence of the past policy on the private sector as well as the current policy on “a market economy with socialist orientation”. The property rights index is reported by the Heritage Foundation and the Wall Street Journal as a subcomponent of the Index of Economic Freedom. In their 2010 Report, Vietnam got the score of 15, compared to 90 of Hong Kong, 90 of Singapore and 80 of Japan (the higher scores the more desirable with the range from 0 to 100) (<http://www.heritage.org/index/Ranking>).

6. Favorable investment Conditions and Atmosphere for Japanese Investors

We can say that Vietnamese and Japanese are most trusted friends of each other in Asia. Between the two nations there is sympathy and support for each other. Japanese investors

are welcome in Vietnam. There are no conflicts between Japanese investors and Vietnamese with respect to territorial, economic, historical, cultural or political reasons. Two countries have similar interests in the region, and two governments have consensus voice to many issues in the regional as well as international forums. In the whole country, Vietnamese people from the deltas to remote mountain areas have benefited from Japan's projects of the infrastructural and social development. Moreover, labors and local people are impressive by the investment and doing business of Japanese investors. Therefore, in Vietnam Japanese investors can enjoy favorable conditions and atmosphere for their investment. They should take these advantages in their investment decisions and selections. And they should invest with good technology and keep guarantee the bilateral benefits between the investors and the labors, the local people and Vietnam as the whole.

IV. Conclusion

On the threshold of the new development period, big challenges are facing Vietnam. Factors which have brought about performances in the past should not be effective in the future. Engines of the reform in last decades seem to fade away. Vietnam needs to speed up the reform to determine a new suitable development strategy.

The focus of this paper is to provide investors with the information about investment risks in Vietnam, and is to make them more cautious and selective in their investments. The short-term prospect of Vietnam's economy is well evaluated. But its mid- and long-term prospect depends on how the reforms, of which the political one is the key element, will be pushed up.

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