ECONOMIC DEVELOPMENT UNDER REFORM AND WORLD INTEGRATION AND THE MAIN FACTORS INFLUENCING THE ECONOMIC GROWTH IN VIETNAM

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ABSTRACT: *The purpose of this paper was to give an overview of economic development under reform and world integration and to evaluate the main factors influencing the growth of the Vietnamese economy during the reform period (1990-2009). Based on statistical data on the Vietnamese economy in the period of 1990-2009, this study analyzed the factors affecting economic growth. The policy changes, economic development, poverty rates and living standards of Vietnamese population are analyzed over the reform period using qualitative methods. The results of this study show that economic growth under reform and world integration has reduced the poverty rate and increased living standards of population in Vietnam. An evaluation of the factors influencing economic growth is made using a quantitative model of total factor productivity (TFP) and another econometric model. The findings from this quantitative analysis show that the growth of the Vietnamese economy was determined by two factors: (1) capital investments, including foreign direct investment (FDI) and (2) the growth of exports. The results of these qualitative and quantitative analyses lay the foundation for policy recommendations for Vietnam Government to develop economy in the future*

Keywords: *Factors, Reform, Economic Growth, Poverty, Private Ownership , Land Rights, Membership in International Organizations, Capital and Foreign Investment, Imports and Exports, An Empirical Model , Total factor productivity (TFP) , Cobb-Douglas function.*

1. AN OVERVIEW OF ECONOMIC REFORM AND TRANSFORMATION PROCESS IN VIETNAM

After the sixth congress of Vietnam Communist Party in 1986, Vietnamese economic policy underwent a complete change. The new economic policy changed from a command, planned economy to a free-market, multi-sectored one. This period of change and new economic policies is called the renovation process ("Doi moi" in Vietnamese), and refers to the transition from a command-planned economy to the current, free-market one. In this process Vietnamese Government had to create:

- A new legal system;
- Macro-Economic Policies;
- Restructuring the state owned enterprises;
- Developing the private sector;
- Administrative reform;

❑ Preparing the conditions to go into integration process...

The Law on Foreign Investment was promulgated by the Vietnam National Assembly on December 29, 1987, and amended firstly in June 1990, secondly in December 1992 and finally in 1996. It is a legal document stipulating the basic principles concerning direct investments of foreign investors in Vietnam. According to this law, foreign investors can invest in Vietnam in any of the following forms:

- Contract of business cooperation
- Joint-ventures
- 100% foreign invested enterprise

Private Ownership

Since 1988, the Vietnamese government encouraged private enterprises, and this encouragement became official policy when the Private Business and Company Laws were established in 1990. In the private sector, the implementation of regulations provides the basis for private business to develop "without limitation in terms of scope and type in sectors and occupations that are not forbidden by laws." Private enterprise, limited liability companies, and joint-stock companies, all of which are medium- and small-sized companies operate under these Private Business and Company Laws.

In the private sector, the simplest form of business organization is a business owned by an individual. The second form is a business owned by groups of individuals, which can be called a partnership or collective business. Sole proprietorship and partnership business are useful in helping individuals of limited means to start a business without much property (money). In Vietnam, both such businesses are very small, with usually less than 25 million VND of capital and less than 20 employees. By American standards, these might be called "micro-enterprises." They are formed and operated by Prime Minister Decision No.66 under the Laws.

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- Contract of business cooperation;
- Joint-venture;
- 100% foreign invested enterprise;
- Enterprise in Export Processing Zone (EPZ); and
- Build-Operate-Transfer (BOT) project.

Since 1992, the Vietnamese Government began projects for converting state owned enterprises (SOEs), including the privatization, incorporation, or liquidation of a number of SOEs. This program is a part of the government's overall program to shift the Vietnamese economy from a command system to a free-market system. The Law on State Enterprises issued in April 1995 sharply

distinguishes between enterprises with public service functions and those operating on a commercial basis in a market economy. It also provides the legal framework for establishing state corporations. Today, we can see the initial results from the implementation of such pilot corporatization and equalization, which establish the institution and create the other necessary conditions for this work's execution on a large scale.

Since 2005, all kinds of business organizations in Vietnam (State Owned Enterprise, Private Domestic Company and foreign companies) are operating under one law—Business Law. With this new law, the Vietnamese Government created equality among different economic entities.

The transformation process has changed the ownership, management style, income distribution, and the role of Government in Vietnam's economy. In its former command economy, ownership was based only on State and cooperative. Now, it is based on the multi-sectored economy of state, cooperatives, private ownership, and foreign ownership. In the past the economy was closed, the Government had control of everything (e.g., establishing the prices of goods; the salaries paid to workers; production and trading decisions, subsidized capital from budget, etc. Today, like the U.S., the Government manages the economy by laws; the prices of goods are established by market forces; entrepreneurship is encouraged; trade is slowly being liberalized; the economy is open to world markets; the real estate market is open and financial and labor markets have been established.

In Vietnam there are now seven kinds of business organizations: state-owned, cooperative, private, limited, join-stock, foreign companies and small family business. All these are operating under laws. With these new policies, the government gives state enterprises autonomy and establishing market relations; implementing the state owned enterprises reform program, including the privatization, incorporation, or liquidation of a number of SOEs; establishing Private Business and Company Laws (now combined into Business Law and Investment Law); attracting foreign investment by establishing a new industrial zone, infrastructure fund and 'exchanging land by infrastructure'; reducing administrative formalities ; and creating new programs to eradicate hunger and poverty.

Land Rights

State polices gave autonomy to farm and household business to make their own production and consumption decisions. Combined with polices transferring long-term rights to use land to each farm and household, these have had a positive impact on living and production standards. As a result, for example, agriculture productivity has increased and the living standards of farmers have improved. They have also promoted a renovation of the operations of agricultural co-operatives and the development of new types of co-operatives. Since 1993, a new law on land was established, enabling Vietnamese people to buy and can sell

their land use rights (land continues to be owned by the federal government, people only own land use right, and before Vietnamese people couldn't buy or sell a land).

Membership in International Organizations

After 20 years of interruption, Vietnam resumed its relationship with such multilateral credit organizations as the International Monetary Fund (IMF), the World Bank (WB), and the Asian Development Bank (ADB) in October 1993. Consequently, Vietnam applied for membership in the Association of South-East Asian Nations (ASEAN) and became an official member in July 28, 1995. As an ASEAN member, Vietnam is committed to implement Common Effective Preferential Tariff Scheme (CEPT) for the realization of the ASEAN Free Trade Area (AFTA).

Vietnam applied for membership in the World Trade Organization (WTO) in January 1995 and became a full WTO member in the end of 2006. Vietnam has also been an official member of Asia – Europe Meeting (ASEM) since 1996 and member of Asia Pacific Economic Corporation (APEC) since 1998. Although the ASEM and APEC commitments and obligations are not binding, they all conform to WTO principles and thus, more or less, pressure Vietnam to make economic reforms. As a result of these associations, Vietnam now maintains trade links with 178 countries and territories, including all the world powers. Vietnam has also signed a bilateral trade agreement with 81 countries, of which the Vietnam–U.S. bilateral trade agreement (BTA) is the most comprehensive. It was negotiated on the basis of WTO principles and standards.

Table 1 provides a summary of Vietnam's transformation process and Table 2 shows the major policy changes and integration times.

Table 1. The Vietnamese Transformation Process

Specific style	The command, planned economy	Transitional economy to the market
Ownership based on	State and Cooperative	Multi-sectored economy (State, Cooperate, Private, and Foreign)
Legal environment	According to the some Regulations	According to the Laws and Regulations
Mechanism to establish a price of goods	Price of goods was established by Government	Price of goods is established by Market
Mechanism of management	Command, subsidies from budget, closing economy	Operating by supply-demand Law, free to make business, liberalization of trade, open economy

Distribution of the income	By contribution of the labor	By contribution of the labor, investment capital, and result of business/activities

Table 2. Major changes in economic policies since the beginning of the reform era in Vietnam and important integration time

Year	Changes in economic policies
1986	Party Congress declares beginning of *doi moi (Reform)*
1987	Law on foreign direct investment – introduction of 'open door' policy
1988	Encouragement of private enterprises becomes official policy
1989	Foreign exchange rate system unified All budgetary export subsidies removed
1990	Private, Limited and Joint-Stock Company Laws allowed private company operating in Vietnam
1991	Private companies allowed to directly engage in international trade
1992	Vietnamese Government has had projects for the preparation and implementation of the reform program on state owned enterprises (SOEs), including privatization, corporatization and liquidation of a number of SOEs
1993	Law on land to allow people to trade on land right (to sell/to buy a land right)
1994	Vietnam gains GATT observer status
1995	Vietnam joins ASEAN
1998	A member of Asia Pacific Economic Corporation (APEC)
2005	Business Law allowed the same policy for all kinds of business by ownership
2006	Vietnam joins WTO

2.ECONOMIC DEVELOPMENT UNDER ECONOMIC REFORM AND WORLD INTEGRATION OVER 20 YEARS IN VIETNAM

Economic reform in Vietnam means transforming public sector and developing private sector and free-market. One way to measure this transformation process is to examine the ownership of both large and small business enterprises (Table 3). The number of SOEs has decreased about 75% in the transition period, from more than 15,000 units at the end 1991 to around 3,700 now. In contrast, business organizations in the private sector have increased from 26,091 companies (accounting for about 78% of total number companies in 1995) to 123,392 companies in 2006 (accounting for about 93.96 % of total companies). Similarly, foreign direct-investment projects have increased from more than 1,000 companies in 1995 to 4,220 now. Starting with a few thousand household businesses at the beginning period of renovation process, there are now hundreds of thousands of non-agricultural productive household businesses and micro-enterprises.

Table 3. Number of Enterprises by Ownership Sector

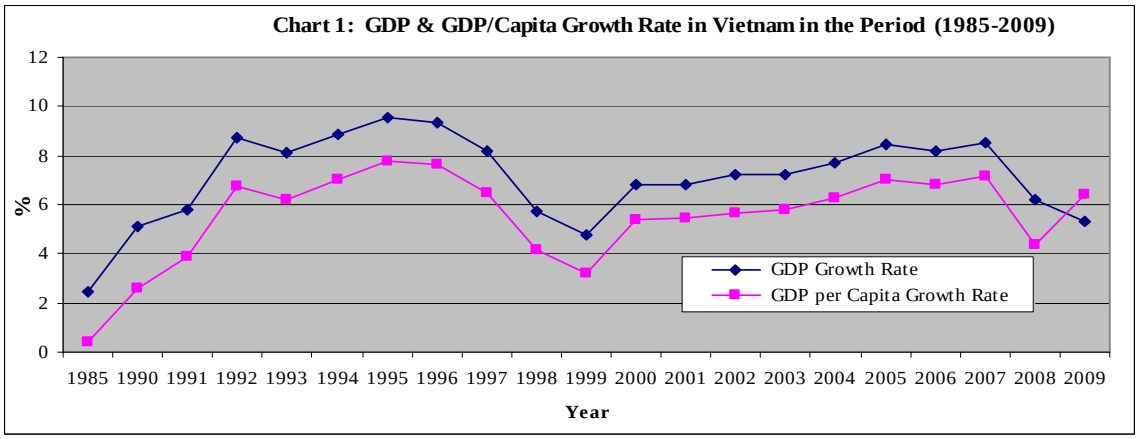
Years / Ownership	1995	2000	2001	2002	2003	2004	2005	2006
Totals	33,448	42,288	51,680	62,908	72,012	91,755	112,952	131,318
Number of SOEs	6,310	5,759	5,355	5,363	4,845	4,596	4,086	3,706
% of SOEs	18.87	13.62	10.36	8.52	6.73	5.01	3.62	2.82
Numbers of Domestic Private companies	26,091	35,004	44,314	55,237	64,526	84,003	105,169	123,392
% of Domestic Private Companies	78.00	82.77	85.75	87.81	89.60	91.55	93.11	93.96
Number of FDI Companies	1,047	1,525	2,011	2,308	2,641	3,156	3,697	4,220
% of FDI Companies	3.13	3.61	3.89	3.67	3.67	3.44	3.27	3.22
Small establishments, households	612,977	NA	NA	2,619,341	2,712,177	2,913,907	3,053,011	3,748,138

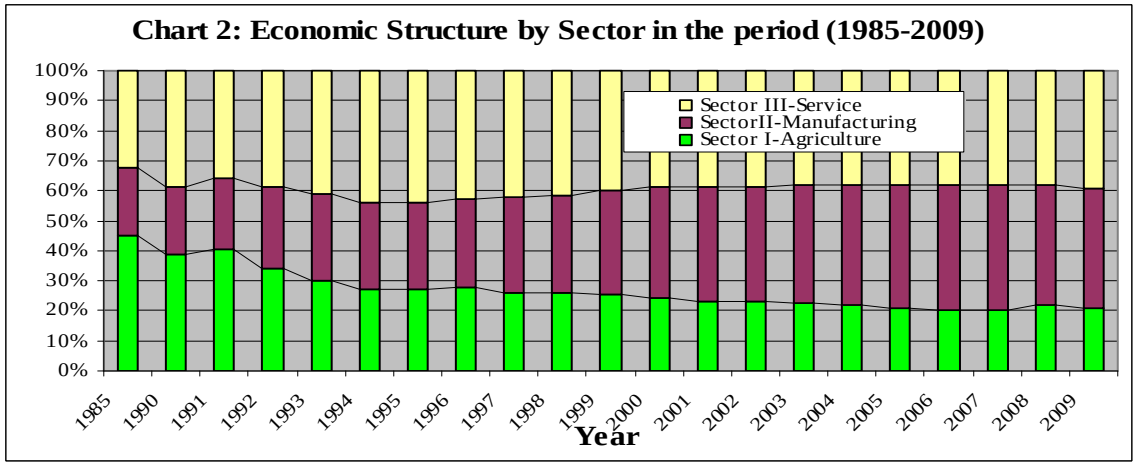
Source: Vietnam Government Statistic Office (GSO) 1995, 2000-2007

A second way to measure the impact of this transformation process is to measure Vietnam's gross domestic product (Chart 1). Economic reform and the transition to a market economy have led to strong economic growth. The Vietnamese economy has enjoyed growth and stability for more than 20 years during this time of transition. For example, gross domestic product (GDP) of Vietnam was only growing by 2.44% in 1985 before reform, but this has now increased to 4.45% per year in the period at the beginning of renovation (1986-1990), and has enjoyed an average growth rate of 7.44% per year in the period from 1991 to 2009. GDP per capita also has also increased after economic reform (from 105 USD in 1990 to 1,109USD in 2009)—see Chart 1 below. Similarly, the industrial and construction sector has achieved a high and stable growth rate, averaging 11.3% per year in the period 1990-2009. The average growth rate of the service sector was 7.16% per year and the average growth rate of agriculture sector was 4.2% per year during 1990 to 2009 (see Appendix 2).

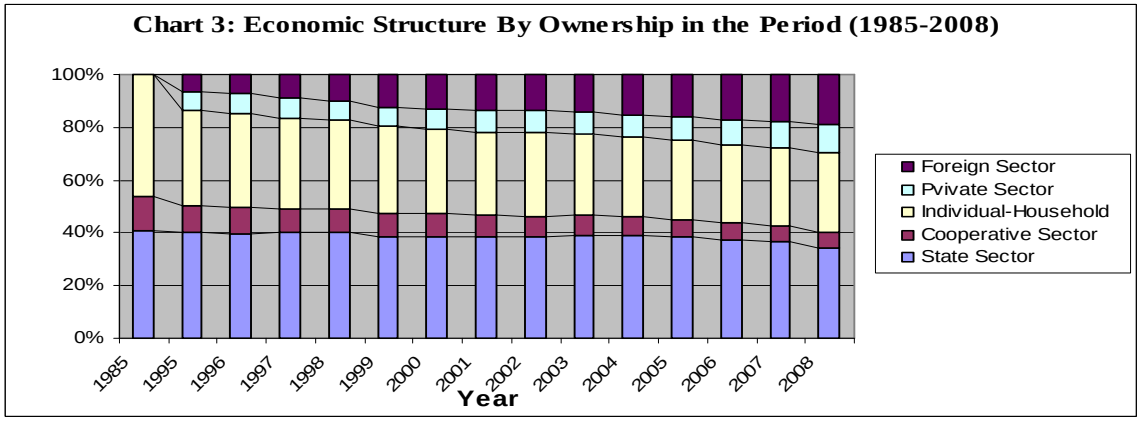
As result of these forces, the economic structure of Vietnam is shifting from an agrarian society to a modern, industrialized economy. For example, (1) the share of the industrial and construction sector was 22 % of the GDP in 1985 and this has increased to about 41% in 2009, (2) the share of the service sector was 32% in 1985, and has increased to 38% in 2009, and (3) the share of agriculture is down from 45% in 1985 to 21% in 2009 (see Chart 2 below). This shift of economic activity from an agriculture economy to manufacturing and service highlights Vietnam promise for the future.

Economic reform also changed the ownership structure of the Vietnamese economy. In 1985, before economic reform, there were only three sectors: state, cooperative, and individual household. There was no private or foreign sector. Since changing policy in 1988, Vietnam's 1990 share of domestic private sector (domestic private, limited companies) and share of foreign sector in GDP have been increasing (Chart 3). At the same time, the total share of state and cooperative sector have been decreasing in the transition period

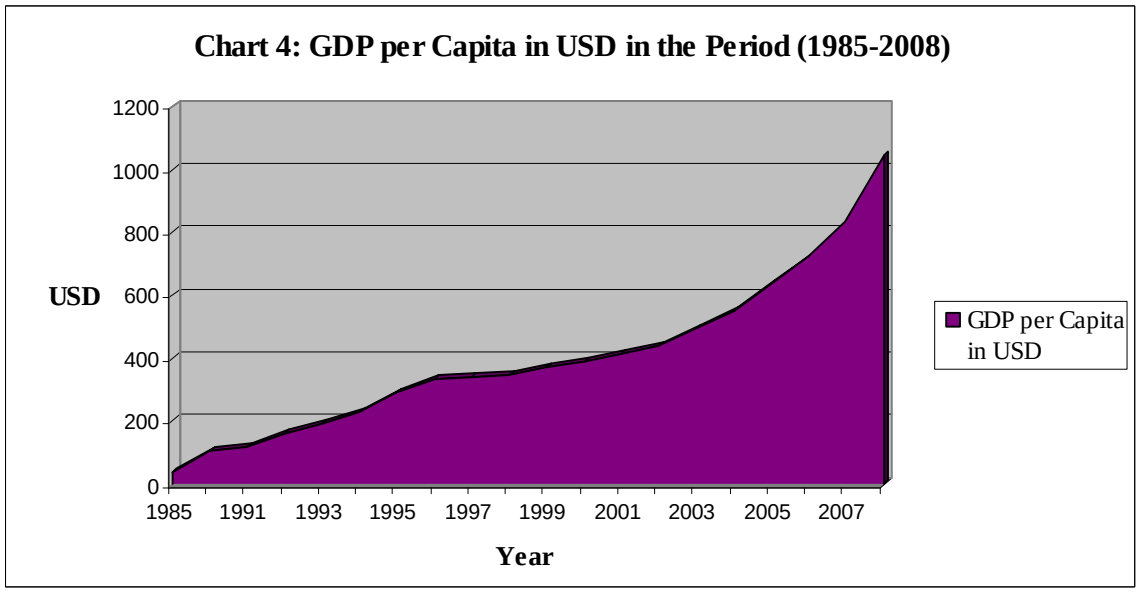




Besides economic reform, "reducing poverty" has been a priority for the Vietnamese Government. There are two programs in the government's Comprehensive Poverty Reduction and Growth Strategy to reduce poverty. The first, the Vietnamese Hunger Eradication and Poverty Reduction Program (Program 133), was launched in 1996 to integrate a range of anti-poverty initiatives that target 11 specific areas including health, education, and credit for the poor. In 1998, Program 135 was established to provide basic services to poor communities in mountainous and remote areas.



Economic development and poverty-reduction programs have had a positive impact on the living standards of the population. for example, there are now a million new jobs created every year, living standards now are more stable, and these standards are gradually improving. average income-gdp per capita per year has increased about 10 times, from less than 40 us dollars per capita in 1985, to about 105 us dollars per capita in 1990, and to about 1,047 us dollars per capita in 2008 (see chart 4 below).



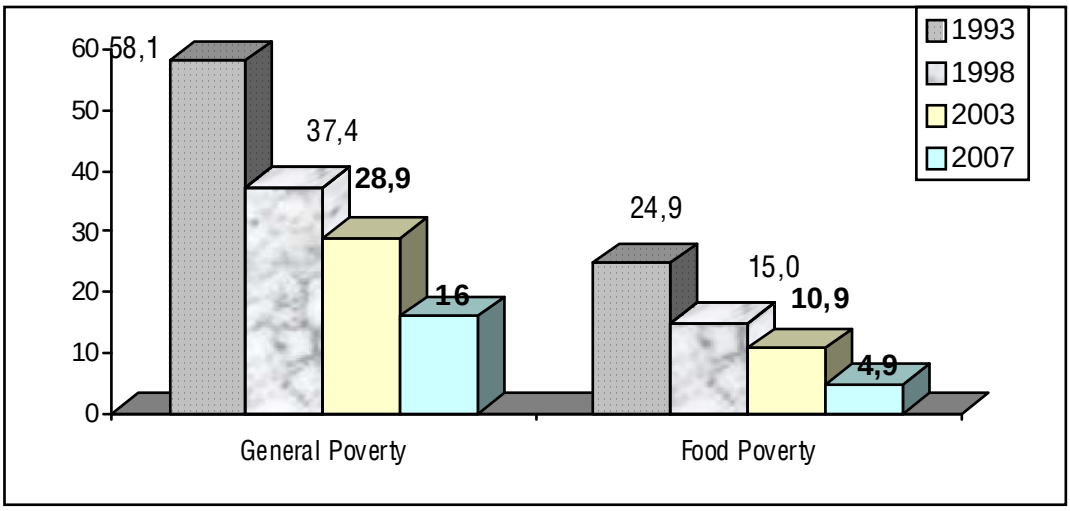
The World bank uses gross national income per capita (GNI) to classify national economies into one of four income groups: The low-income group includes countries having GNI or GDP per capita, of 935 US dollars or less. The lower-middle income group includes countries with GNI or GDP per capita from 936 US dollars to $3,705. The upper-middle income group includes countries having GNI or GDP per capita from $3,706 to $11,455. The high-income group includes countries with GNI or GDP per capita is $11,456 or more.

With GDP per capita of 1,047 US dollars, 2008 was the first year that Vietnam got out of the low-income country group and joined those countries in the lower-middle group.

The vietnamese general statistics office uses two measures of poverty: (1) the general poverty line and (2) the food poverty line. the food poverty line is calculated according to the expenditure required to purchase 2100 calories of food per person per day. the general poverty line is calculated on the basis of a "basket of goods essential for well-being", combined with expenditures sufficient to meet the standard of the food poverty line.

In 1993 the food poverty line was 62,477 VND per person-month, and the general poverty line was 96,700 vnd per person-month. in 1998, the food poverty line was 107.236 vnd per person-month and general poverty line was 149,156 VND per person-month. according to the results of the government's living standards surveys, the poverty rate of the population by general poverty line has been reduced from 58.1% in 1993 to 37.4% in 1998, 28.9% in 2002, and 16% in 2007. the poverty rate using the food poverty line has been reduced from 24.9% in 1993 to 15% in 1998, 10.9% in 2002 and 4.9 % in 2007 (see chart 5 bellow).

Chart 5. The vietnamese poverty rates, 1993 to 2007



3. THE MAIN FACTORS INFLUENCING THE ECONOMIC GROWTH

Capital and Foreign Investment

Economic growth has been high in Vietnam over the last 20 years due to several major factors. One is investment capital, which has been increasing from different sources and is concentrated in developing specific economic industries. Another is social investment outlays, which have increased about 28.5 times in the last 18 years from 7,581 billions VND at current price ($USD 1.35 billions) in 1990, 72,447 billions VND ($USD 6.9 billions) in 1995 to 637,300 billions VND (about $USD 38.6 billions) in 2008.

Investment capital has increased strongly as the Vietnamese economy has opened its economy to the world during its integration process. As result, foreign direct investment (FDI) has been increasing (see Chart 6). The foreign investment law was issued in 1987 and since 1988 foreign companies have established in Vietnam. There are 12,206 foreign investment projects licensed in the period of 1988-2009, accounting for 192.8 US$ billions of the total registered capital, including 67.4 US$ billions of implementation capital.

Foreign investment projects have been increasing year by year from different countries, including some from developing countries. The main countries with large foreign investment projects are the Asian Countries—e.g., Taiwan, Hong Kong, Korea, Japan, Singapore and Thailand. The developed countries with the most foreign projects and investments are France and United States. Chart 7 shows that, with integration policy, the investment capital source has been changing by ownership. Investment capital share of state sector was 40.2% of total investment capital in 1990 has decreased to 28.9% in 2008; investment capital share of non-state invested (domestic private sector) was 46.7% of total investment capital in 1990 and has decreased to 29.39% in 1995 but is now up again to 41.3% in 2008. In the meantime the investment capital share of foreign sector (FDI) was 13.1% of total investment capital in 1990 has increased in 29.8% in 2008. Increase in FDI has been speeding up export and import strongly in past years (see Chart 6 below)

Imports and Exports

Vietnam's integration policy also impacted Vietnamese exports and imports. Chart 8 shows that the value of exports has grown at an average annual rate of 19.9% per year during last 18 years (1990-2008). During the same period, the value of imports has grown at an average rate of 20.62% per year. The main products for export are petroleum, crude, rice, coffee, rubber, shoes and sandals, textiles, sewing products, vegetables and fruit, and marine products.

The main import goods are machines, oils and some industrial inputs, and high-quality consumption goods. In 1990, the state's sector played a leading role in exportation and importation but its role has decreased steadily in the past 10 years. Export value structure of the domestic sector was down from 70.73% in 1990 to 42.8% in 2008 and import value structure was down from 82.0% in 1990 to 63.3% in 2008. The foreign sector of the economy plays an important role in the export and import in last few years. For example the share of foreign sector accounted for 57.2% of export value and 36.7% import value in 2008 (see chart 8).

Chart 6: FDI, Export, Import in Vietnam in the Period (1990-2009)

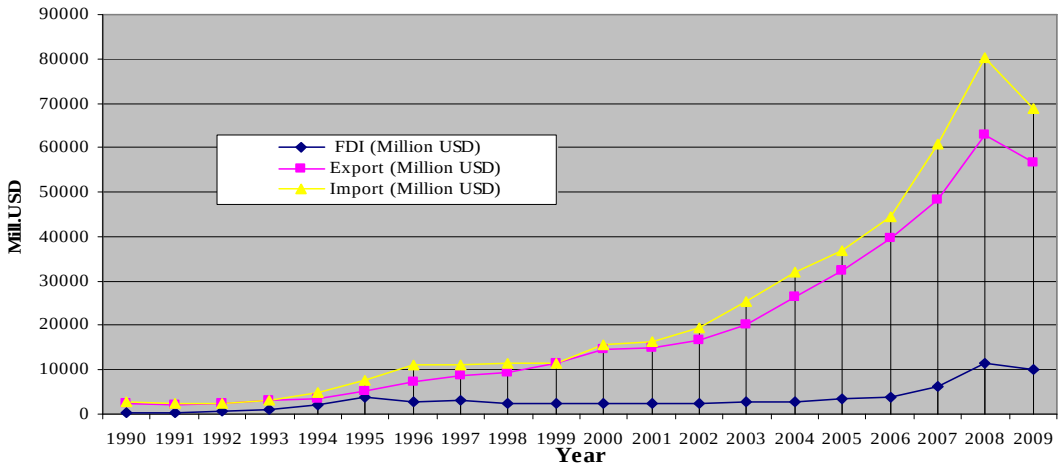


Chart 7: Capital Structure By Ownership in the Period (1990-2008)

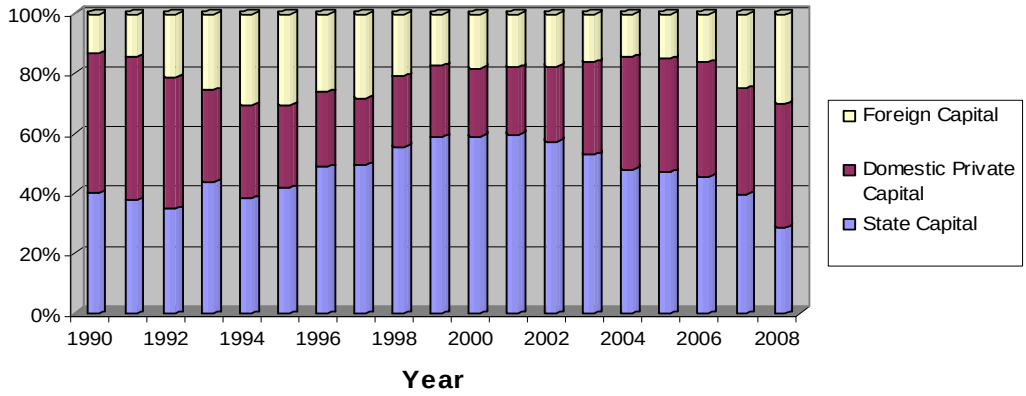
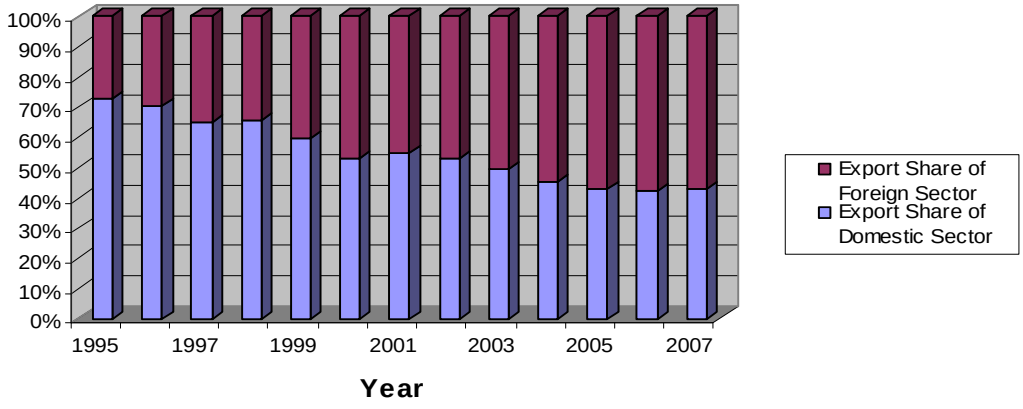


Chart 8: Export Structure By Domestic and Foreign Sector



The relationship between export and GDP growth can be analyzed to determine the influence of export to economic growth using the following formula:

$$\text{Export contributes in 1\% economic growth} = \frac{\text{Export Growth Rate (\%)}}{\text{GDP Growth Rate (\%)}} \times \frac{\text{Export}}{\text{GDP}}$$

Based on the above formula, the author calculated the contribution of export to 1% economic growth in Vietnam last years is about of 24%.

An Empirical Models

The author analyzed the relationship between capital and economic growth using the Cobb-Douglas production function: $Y = AK^{\alpha}L^{\beta}$,

Where Y is output (GDP), K is capital, L is labor and A is "knowledge" or the "effectiveness of labor" or total factor productivity (TFP) [2, p 7] and [1, p. 7, 8…]. The data sources used to calculate these indicators and this econometric model (Cobb-Douglas function) are based on statistic data (GDP, capital and labor for whole economy and for 3 sectors from 1990 to 2007)

The translog Cobb-Douglas production function is given by:

$LogY = LogA + \beta_K LogK + \beta_L LogL$ ($\alpha=\beta_K$, $\beta=\beta_L$).

The outputs from this model using SPSS program may be found in Appendix 4. Table 4 shows the results of this model with $\alpha=\beta_K$, and $\beta=\beta_L$.

Table 4. Model Result-Coefficients (a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Significance
		B	Std. Error	Beta	B	Std. Error
1	(Constant)	1.566	.094		16.585	.000
	LogK	.546	.015	.870	35.223	.000
	LogL	.235	.019	.304	12.330	.000

a Dependent Variable: LogGDP

From above result we have the following estimates: $\mathbf{GDP=1.566\ K^{0.87}L^{0.304}}$

and from Total Factor Productivity Model we know $G_{GDP} = G_A + \beta_K G_K + \beta_L G_L$, [3, p. 38]

where G_{GDP} is GDP growth rate, G_A is contribution of total factor productivity to economic growth; G_K is capital (K) growth rate, β_K is regression coefficient of capital (K); G_L is growth rate of labor and β_L is the regression coefficient of labor (L).

The capital growth rate is defined by calculating the average growth rate of capital investment and subtracting the depreciation rate. The depreciation rate in Vietnam ranges from 10% to 30% for machinery, and ranges from 2%-3% for buildings. A reasonable

average is 8% (to define this 8% is based on weight and depreciation rate of each group fixed asset). Capital investment growth rate in the past 20 year is about 14.17% per year. So G_K in the model TFP (Total Factor Productivity) is Capital Growth Rate - Depreciation Rate = 14.17% - 8% = 6.17%

The growth of GDP in Vietnam for the period 1990 to2007 is 7.64%. From the results of the regression model we have β_K =0.87, which means that the contribution of Capital Factor to the economic growth is 6.17%x 0.87= 5.38%. Average growth rate of labor in the period (1990-2007) in Vietnam is 2.63%, β_L from regression model is 0.304, so contribution of labor factor to the economic growth is 0.304x2.63% = 0.8%, the rest is contribution of total factor productivity (technology, management changing) is 7.64% - (5.38% + 0.8%) = 1.46%. Thus, relatively, "capital" contributed about 70.42% (5.38/7.64) to economic growth in Vietnam in the past 20 years, "labor" contributed about 10.47% (0.8/7.64), and "total factor productivity" contributed about 19.11% (1.46/7.64) to economic growth in Vietnam in past two decades.

The results of regression equations indicate that capital plays an important role of economic growth of Vietnam. As mentioned above, the reform process has resulted in attracting significant foreign capital inflows into Vietnam. The foreign capital inflow is about 30% of total capital in Vietnam. Foreign capital inflows into Vietnam include FDI, ODA, Oversea national currency exchange and FII. These capital investments are important factor for the growth of the Vietnam's economy. The regression equations of the relation between FDI and growth show that FDI Foreign direct investment (FDI) has contributed to impressive economic growth in Vietnam

Based on the existing literature, it can be argued that economic growth and FDI depend

on a number of factors. Some of the main determinants are discussed below. The discussion is used to develop an empirical model.

Determinants of economic growth

Human capital

Human capital is long regarded as a determinant of economic growth (Mankiw (1992), Barro and Sala-i-Martin (2004), and Benhabib and Spiegel (1994)). Human capital also affects growth through its interaction with FDI. A number of proxies have been used to measure human capital. This study uses the number of university and college enrolment per thousand persons as a proxy for human capital in Vietnam.

Exports

The endogenous growth theory pioneered by Romer (1986) and Lucas (1988) has provided persuasive evidence for the proposition that an increase in exports as a percentage of GDP has a positive effect on economic growth. Grossman and Helpman (1991) and Barro and Sala-i-Martin (2004) have argued that a more open trade regime leads to a greater ability to absorb

technological progress and export goods that stimulates economic growth. Grossman and Helpman (1991) and Rodrik (1992) have pointed out that exports can potentially create growth-accelerating forces.

Government Consumption

Government Consumption has a significant positive impact on economic growth, because this consumption can create more social capital and then has positive impact on economic growth. Blankenau and Simpson (2004), Glomm and Ravikumar (1992, 1997, 1998), Eckstein and Zilcha (1994), Kaganovich and Zilcha (1999), Cassou and Lansing (2001) and Blankeanu (2003) have suggested that Government Consumption are positively related to economic growth in long-term. This study uses the annual government consumption as a percentage of GDP as a measure of government consumption in Vietnam.

Other determinants

The other well-known determinants of economic growth are domestic investment, labor force growth rate and FDI, both of which have been included as determinants of economic growth in Vietnam.

Based on the existing literature, the linkage between FDI and GDP growth in Vietnam is empirically examined by making use of the following equation.

GDP = f (FDI; DI ; HC; EX; GC; LA; FDI*HC ; FDI*EX) (5)

Based on theoretical and empirical research on the impact of FDI on economic growth, a system of equation is formed in which the real economic growth rate (GDP) are determined by FDI inflow (FDI), domestic investment (M), human capital (HC), level of export (EX), government consumption (GC), growth rate of labor force (LA), interaction of FDI and human capital (FDI*HC) to show the role human capital in the contribution of FDI to economic growth, interaction of FDI and export (FDI*EX) to show the role FDI in the contribution of export to economic growth.

Table 5. Variable definitions

Abbreviations	Variable definition
GDP	economic growth rate (annual %)
FDI	The ratio of realized FDI to GDP
DI	The ratio of realized domestic investment to GDP
HC	Number of university and college students
EX	Ratio of exports to GDP
GC	The ratio of government consumption to GDP
LA	Growth rate of labor force

The results of the regression models are presented in Table 6. Table 6 suggests that FDI is an important determinant of economic growth in Vietnam. The estimated coefficient of FDI in Table 6 is significant at 5% level. In other words, one can argue with 95% confidence that increase in FDI in Vietnam increases economic growth. Specifically, it is possible to argue that, other things remaining constant, an increase 1% in the ratio of realized FDI to GDP in Vietnam would contribute to an approximate 0.55% increase in economic growth.

The estimated coefficient of DI in Table 6 is significant at 1% level, implying that an increase 1% in the ratio of realized DI to GDP in Vietnam would contribute to an approximate 3% increase in economic growth.

The estimated coefficient of EX is significant at 5% level. It is possible to argue that, other things remaining constant, an increase 1% in the ratio of export to GDP in Vietnam would contribute to an approximate 0.168% increase in economic growth.

Human capital has a positive and statistically significant impact on economic growth in Vietnam, but the effect is poor. This result can be explained that the quality of human capital in Vietnam is poor. Therefore it is necessary to improve the education to increase the quality of human capital in the future.

The interaction of export and FDI has a positive and statistically significant impact on economic growth in Vietnam. Once again, the result indicates the important role of FDI in export of Vietnam.

The interaction of FDI and human capital has a positive and statistically significant impact on economic growth in Vietnam, but the effect is poor. This result can be explained that the quality of Vietnamese labor force is low and this constraints the benefitting from knowledge spillovers from FDI.

The estimated coefficient of government consumption and growth rate of labor force is not statistically significant.

Table 6. Estimated results for Equation (5)

Dependent Variable: GDP				
Method: Least Squares				
Sample: 1990 2008				
Included observations: 19				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	6.894207	1.522252	4.528952	0.0019*
FDI	0.553473	0.178399	3.102451	0.0146**
DI	2.994175	0.873248	3.428779	0.009*
EX	0.16863	0.063839	2.641506	0.0296**
HC	0.00701	0.003236	2.16727	0.0621***
LA	0.05142	0.116796	0.440252	0.6714
GC	-0.00096	0.011369	-0.08404	0.9351
EX*FDI	0.20462	0.084209	2.42984	0.0412**
FDI*HC	0.000903	0.000413	2.184802	0.0604**
R-squared	0.99816	Mean dependent var		12.45401
Adjusted R-squared	0.99632	S.D. dependent var		0.365115
S.E. of regression	0.022149	Akaike info criterion		-4.47698

Sum squared resid	0.003925	Schwarz criterion	-4.03587
Log likelihood	47.05436	F-statistic	542.469
Durbin-Watson stat	1.706707	Prob(F-statistic)	0

*Note: Robust standard errors in parentheses. ***Significant at 10%; **significant at 5%; *significant at 1%.*

The above results show that capital and exports have been very important to Vietnamese economic growth in the past two decades. Without reform and integration mentioned earlier, Vietnam couldn't have such impressive economic growth rate and success in reducing its poverty rate.

4.CONCLUSIONS AND RECOMMENDATIONS FOR FUTURE ECONOMIC DEVELOPMENT

Vietnam is in the process of world and regional economic integration. In the context of openness and integration, Vietnam is making major progress in economic development and improving the living standard of its population. As a full WTO member, Vietnam will have a lot of opportunities to expand its exports and attract foreign investment. From the above results of empirical models show that both these factors are expected to encourage economic growth. However, Vietnam also has some major challenges in improving investment environment, including:

(1) The process of restructuring SOEs goes slowly. This is to reduce a faith from investors

(2) The investment environment is not comprehensive (tax policy is complex, land policy is limited, and there is not an equal "playing field" for all kinds of enterprise).

(3) Administrative reform moves very slowly- this is also to limit investment.

To overcome these challenges, the Vietnamese government might consider several changes in its policies. Some possibilities are:

(1) *Speed up the process of restructuring SOEs, encouraging and creating conditions for private sector to participate in producing, processing and trading industries.* The state sector still dominates a lot of the product-processing enterprises. Meanwhile SOEs are now facing more pressures in the process of competition and integration. To overcome these current constraints of SOEs, the Government should speed the process of restructuring and reorganizing the state sector through equalization, business contracts, or perfecting the general company model in order to create conditions for enterprises to have more active rights in business activities. Removing subsidy factors would be especially helpful in helping private enterprises and enhancing their competitiveness.

(2) Perfecting tax policy. In general, tax policy at present is complex and contains too many time-consuming procedures. Granting tax credits could considerably improve cash flows for businesses when high tax rates in the industry have greatly affected enterprise profit. To help enterprises in all processing and trading industries improve their

competitiveness, the government should simplify the tax code, applying the same fair tax rate to both SOEs and private ones in order to create an equal and explicit, sound competition business environment for all kinds of enterprise; and speed up the process of awarding tax credits.

(3) Modify land policies: Although many amendments have made to the legal system and land regulations, accessibility as well as the transfer of land-use rights is still limited. The registration and procedures involved in land transactions are still in the building process. This hampers private enterprises in expanding business sizes or changing location to a more convenient one.

(4) Improve investment opportunities, the business environment, and the "playing field" for all kinds of enterprise. According to the results of enterprise surveys, investment and business environment at the present is still unsound and risky due to unstable policies, unequal application of federal laws, and internal corruption. The government needs to create an equal "playing field" for enterprises in all economic sectors by rapidly setting up competition and anti-monopoly laws that apply to all economic sectors, control and prevent unsound competition behaviors like price control or market manipulations.

(5) Reform administrative procedures rapidly and thoroughly in all fields, particularly in the areas of customs and tax. Simplifying procedures for investment licensing, loan borrowing, exporting and importing of goods, and land will increase incentives to improve production and business efficiency of all economic sectors

(6) Develop sustainable economic growth to benefit the poor. Economic indicators show that living standards are improving and that the poverty rates are decreasing in the reform period. However, the differential gap among alternate population groups is still high as measured by income or assets. There is also a differential gap in the poverty rates among the different provinces. This means that, although most of society has benefited from the county's economic growth, such disadvantaged groups as the landless, migrant workers, ethnic minority groups, elderly, women, and children have benefited less and the rich have benefited more. Regions with large ethnic minority groups also have high levels of poverty compared to other regions. To address this problem, the government should develop strategies for sustainable economic growth that will (1) benefit the poor, (2) further develop the country's economic infrastructure, (3) support job creation, and (4) develop non-farm employment opportunities in the rural areas of the country.

PHÁT TRIỂN KINH TẾ NHỜ CẢI CÁCH VÀ HỘI NHẬP VÀ NHỮNG YẾU TỐ CHÍNH TÁC ĐỘNG ĐẾN TĂNG TRƯỞNG KINH TẾ TẠI VIỆT NAM

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TÓM TẮT: *Mục tiêu của bài nghiên cứu là giới thiệu một cách tổng quan về phát triển kinh tế Việt nam do cải cách và hội nhập kinh tế quốc tế mang lại và đánh giá những nhân tố chính tác động đến tăng trưởng kinh tế Việt nam trong giai đoạn đổi mới (1990-2009). Dựa vào số liệu thống kê về kinh tế Việt nam giai đoạn 1990-2009, nghiên cứu này đã phân tích các nhân tố tác động đến phát triển kinh tế Việt nam. Những thay đổi về chính sách, phát triển kinh tế, tỷ lệ nghèo đói và mức sống dân cư Việt nam trong giai đoạn đổi mới được phân tích dựa trên việc sử dụng các phương pháp phân tích định tính. Kết quả phân tích cho thấy tăng trưởng kinh tế nhờ cải cách đổi mới chính sách kinh tế và hội nhập quốc tế đã có tác động làm giảm tỷ lệ nghèo đói và tăng mức sống dân cư tại Việt nam. Đánh giá các nhân tố tác động đến tăng trưởng kinh tế, nghiên cứu đã sử dụng các mô hình định lượng gồm mô hình tổng năng suất nhân tố và mô hình kinh tế lượng khác. Những khám phá từ phân tích định lượng đã chỉ ra rằng đóng góp cho tăng trưởng kinh tế Việt nam được xác định bởi hai yếu tố chính đó là (1) đầu tư vốn xã hội bao gồm cả đầu tư trực tiếp nước ngoài; (2) tăng trưởng xuất khẩu. Kết quả phân tích định tính và phân tích định lượng là cơ sở đưa ra các hàm ý và kiến nghị chính sách cho Chính phủ để phát triển kinh tế cho giai đoạn tới.*

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APPENDIX

Appendix 1: GDP Growth and GDP per capita of Vietnam in the period 1990-2008

Year	Population (Thousand Pers)	GDP-Fixed price (Billion VND)	GDP Growth (%)	GDP per Capita (USD)
1985	60,096.0	15,804	2.44	37
1990	66,016.7	131,968	5.10	105
1991	67,242.4	139,634	5.81	115
1992	68,450.1	151,782	8.70	158
1993	69,644.5	164,043	8.08	190
1994	70,824.5	178,534	8.83	229
1995	71,995.5	195,568	9.54	288
1996	73,156.7	213,832	9.34	333
1997	74,306.9	231,264	8.15	343
1998	75,456.3	244,596	5.76	344
1999	76,596.7	256,269	4.77	372
2000	77,635.4	273,666	6.79	391
2001	78,685.8	292,535	6.84	413
2002	79,727.4	313,247	7.20	440
2003	80,902.4	336,242	7.26	492
2004	82,031.7	362,435	7.70	552
2005	83,106.3	393,031	8.43	636
2006	84,136.8	425,135	8.17	723
2007	85,154.9	461,189	8.50	835
2008	86,789.0	490,530	6.23	1,047
2009	85789,6	515909	5,32	1.109
Average 1990-2009	**1.53%/year**		**7.44%/year**	

Source: Calculate from Vietnam Statistic Data- GSO *and IMF Statistic Data*

Appendix 2: GDP Growth by Sector

Year	GDP		Sector I		Sector II		Sector III	
	Bill VND	%	Bill VND	%	Bill VND	%	Bill VND	%
1990	131968	5.09	42003	1.00	33221	2.27	56744	10.19
1991	139634	5.81	42917	2.18	35783	7.71	60934	7.38
1992	151782	8.70	45869	6.88	40359	12.79	65554	7.58
1993	164043	8.08	47373	3.28	45454	12.62	71216	8.64
1994	178534	8.83	48968	3.37	51540	13.39	78026	9.56
1995	195567	9.54	51319	4.80	58550	13.60	85698	9.83
1996	213833	9.34	53577	4.40	67016	14.46	93240	8.80
1997	231264	8.15	55895	4.33	75474	12.62	99895	7.14
1998	244596	5.76	57866	3.53	81764	8.33	104966	5.08
1999	256272	4.77	60895	5.23	88047	7.68	107330	2.25
2000	273666	6.79	63717	4.63	96913	10.07	113036	5.32
2001	292535	6.89	65618	2.98	106986	10.39	119931	6.10
2002	313247	7.08	68352	4.17	117125	9.48	127770	6.54

2003	336242	7.34	70827	3.62	129399	10.48	136016	6.45
2004	362435	7.79	73917	4.36	142621	10.22	145897	7.26
2005	393031	8.44	76888	4.02	157867	10.69	158276	8.48
2006	425373	8.23	79722	3.69	174259	10.38	171392	8.29
2007	461443	8.48	82436	3.40	192734	10.60	186273	8.68
2008	490191	6,23	85560	3,79	204934	6,33	199685	7,2
2009	515909	5,32	87653	1,83	215047	5,52	213209	6,63

Source: Vietnam GSO *1990-2008*

Appendix 3: GDP, Capital and Labor by Sectors in the period 1990-2007

Year	GDP-Bill. VND	Capital (K)-Bill. VND	Labor (L)-Person	Log GDP	LogK	LogL
			All sectors			
1990	131968	22190.6	28412.3	5.1204686	4.34616905	4.453506
1991	139634	26285.5	30134600	5.1449912	4.41971624	7.479065
1992	151782	40189.1	31815000	5.1812203	4.60410828	7.502632
1993	164043	54770	32718000	5.2149577	4.73854274	7.514787
1994	178534	54296.3	33664000	5.2517209	4.73477024	7.527166
1995	195568	64685	34590000	5.2912978	4.81080358	7.538951
1996	213832	74315	35792000	5.3300727	4.87107648	7.553786
1997	231264	88607	36994000	5.364108	4.94746803	7.568131
1998	244596	90952	37867000	5.3884494	4.95881225	7.578261
1999	256269	99855	36420000	5.4086961	4.99936982	7.56134
2000	273666	115109	37609600	5.4372208	5.06110928	7.575299
2001	292535	129460	38562700	5.4661778	5.1121356	7.586167
2002	313247	147993	39507700	5.4958869	5.17024117	7.596682
2003	336242	166814	40573800	5.526652	5.2222325	7.608246
2004	362435	189319	41586300	5.5592301	5.2771942	7.61895
2005	393031	213931	42542700	5.5944268	5.33027372	7.628825
2006	425135	243306	43436100	5.6285269	5.38615282	7.637851
2007	461189	306100	44171900	5.6638789	5.48586333	7.645146
			Sector I			
1990	42003	3160.43	20740.3	4.6232803	3.49974618	4.316815
1991	42917	4072.22	22167.2	4.6326294	3.60983123	4.345711
1992	45869	4933.47	23272	4.6615193	3.69315249	4.366834
1993	47373	10552.23	23556	4.6755309	4.02334425	4.372102
1994	48968	7808.6	23820	4.6899124	3.89257318	4.376942
1995	51319	11839.59	24122	4.7102782	4.07333666	4.382413
1996	53577	12914.44	24775	4.7289784	4.11107558	4.394014
1997	55895	15186.57	25443	4.747373	4.1814597	4.405568
1998	57866	14369.35	26036	4.7624235	4.15743712	4.415574
1999	60895	16679.7	25199	4.7845816	4.22218824	4.401383
2000	63717	16354.63	24481	4.8042553	4.21364072	4.388829

2001	65618	12256.85	24468.4	4.817023	4.08837887	4.388606
2002	68352	12968.84	24455.8	4.8347512	4.11290113	4.388382
2003	70827	14166.7	24443.4	4.8501988	4.1512687	4.388162
2004	73917	15012.75	24430.7	4.8687443	4.17646025	4.387936
2005	76888	16123.3	24351.5	4.8858586	4.20745393	4.386526
2006	79722	18087.79	24172.3	4.9015782	4.25738551	4.383318
2007	82436	19890.34	24103.9	4.9161169	4.29864221	4.382087
			Sector II			
1990	33221	5217.33	3041.5	4.5214127	3.71744831	3.483088
1991	35783	7303.41	3130.4	4.5536767	3.86352568	3.4956
1992	40359	11001.78	3915	4.6059404	4.04146296	3.592732
1993	45454	20297.25	4045	4.6575721	4.3074372	3.606919
1994	51540	20486.7	4319	4.7121444	4.31147201	3.635383
1995	58550	18784.96	4582	4.7675269	4.27381027	3.661055
1996	67016	23520.95	4629	4.8261785	4.37145486	3.665487
1997	75474	31015.23	4633	4.8777974	4.49157501	3.665862
1998	81764	34802.45	4675	4.9125621	4.54160982	3.669782
1999	88047	37280.05	4239	4.9447146	4.57147649	3.627263
2000	96913	46334.86	4929.7	4.986382	4.66590786	3.69282
2001	106986	54859.68	5551.9	5.029327	4.73925327	3.744442
2002	117125	62654.77	6084.7	5.0686496	4.79695414	3.784239
2003	129399	69217.88	6670.5	5.1119309	4.84021829	3.824158
2004	142621	81311.93	7216.5	5.1541835	4.91015427	3.858327
2005	157867	91486.22	7785.3	5.1982914	4.96135568	3.891275
2006	174259	102763.2	8296.9	5.2411952	5.01183762	3.918916
2007	192734	133134.4	8638.3	5.2849583	5.12429029	3.936428
			Sector III			
1990	56744	13812.87	4630.5	4.7539199	4.14028392	3.665628
1991	60934	14909.86	4837	4.7848597	4.17347357	3.684576
1992	65554	24253.88	4628	4.8165992	4.38478122	3.665393
1993	71216	23920.58	5117	4.8525776	4.37877171	3.709015
1994	78026	26001	5525	4.8922393	4.41499005	3.742332
1995	85698	34060.45	5886	4.9329707	4.53225038	3.76982
1996	93240	37879.61	6388	4.9696023	4.5784055	3.805365
1997	99895	42405.2	6918	4.9995438	4.62741912	3.839981
1998	104966	41780.2	7156	5.0210486	4.62097051	3.85467
1999	107330	45895.24	6982	5.0307211	4.66176765	3.84398
2000	113036	55427.45	8198.9	5.0532168	4.7437249	3.913756
2001	119931	62343.48	8542.4	5.0789315	4.79479104	3.93158
2002	127770	72369.39	8967.2	5.1064289	4.85955491	3.952657
2003	136016	83429.42	9459.9	5.13359	4.92131922	3.975887
2004	145897	92994.32	9939.1	5.1640464	4.96845642	3.997347
2005	158276	106321.5	10405.9	5.1994151	5.0266211	4.01728

2006	171392	122455	10966.9	5.2339905	5.08797652	4.040084
2007	186273	153075.2	11429.7	5.2701499	5.18490484	4.058035

Source: Vietnam GSO 1990-2008

Appendix 4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.980(a)	.960	.959	.05827

a Predictors: (Constant), LogL, LogK

ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.594	2	2.797	823.746	.000(a)
	Residual	.234	69	.003		
	Total	5.828	71			

a Predictors: (Constant), LogL, LogK b Dependent Variable: LogGDP

Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta	B	Std. Error
1	(Constant)	1.566	.094		16.585	.000
	LogK	.546	.015	.870	35.223	.000
	LogL	.235	.019	.304	12.330	.000

a Dependent Variable: LogGDP