



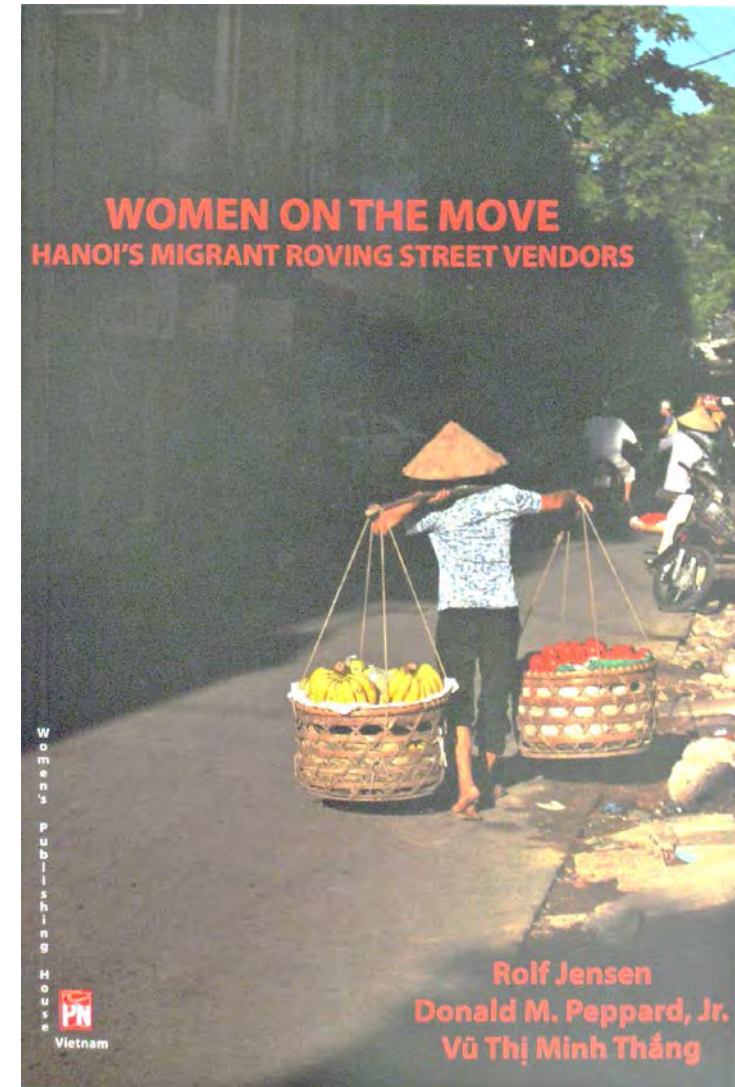
Case Study: Vietnam

By Katherine Theiss (ECON 6470: Growth and Development)



Presentation Overview

- Post-war economic landscape
- Economic Growth: Doi Moi (1986) to Present
 - Growth Models
 - The Second Unbundling
 - Baldwin
- Structural Transformation: Deeper than it appears
 - Gender Inequality (Women on the Move)
 - Banerjee and Duflo, 2019? Page
 - Milanovic,



Better Answers to
Our Biggest Problems

**GOOD
ECONOMICS,**



**BAD
ECONOMICS**



Abhijit V. Banerjee
and Esther Duflo

Presentation Overview (Continued)

- Response to COVID-19 and Long-Term Growth
 - IMF Predictions
 - Analysis and perspective
 - How to sustain long-term growth



Key Points

1. Vietnam had very rapid economic growth beginning with Doi Moi Reforms (1986).
2. Structural transformation has improved aggregate macroeconomic stability at the expense of raising income inequality (GIC and Gini coefficient slides).
3. Circular migrant street vendors illuminate the hardships faced by many rural families following Doi Moi reforms.
4. Vietnam has managed COVID-19 very well and the IMF predicts steady growth in the near future. Yet, it is not obvious if this performance will remain in the long term. As Vietnam approaches the Production Possibility Frontier and their growth depends more on innovation, it might slow down.
5. Female social mobility and economic empowerment is progressing but more support is needed to sustain long term growth.

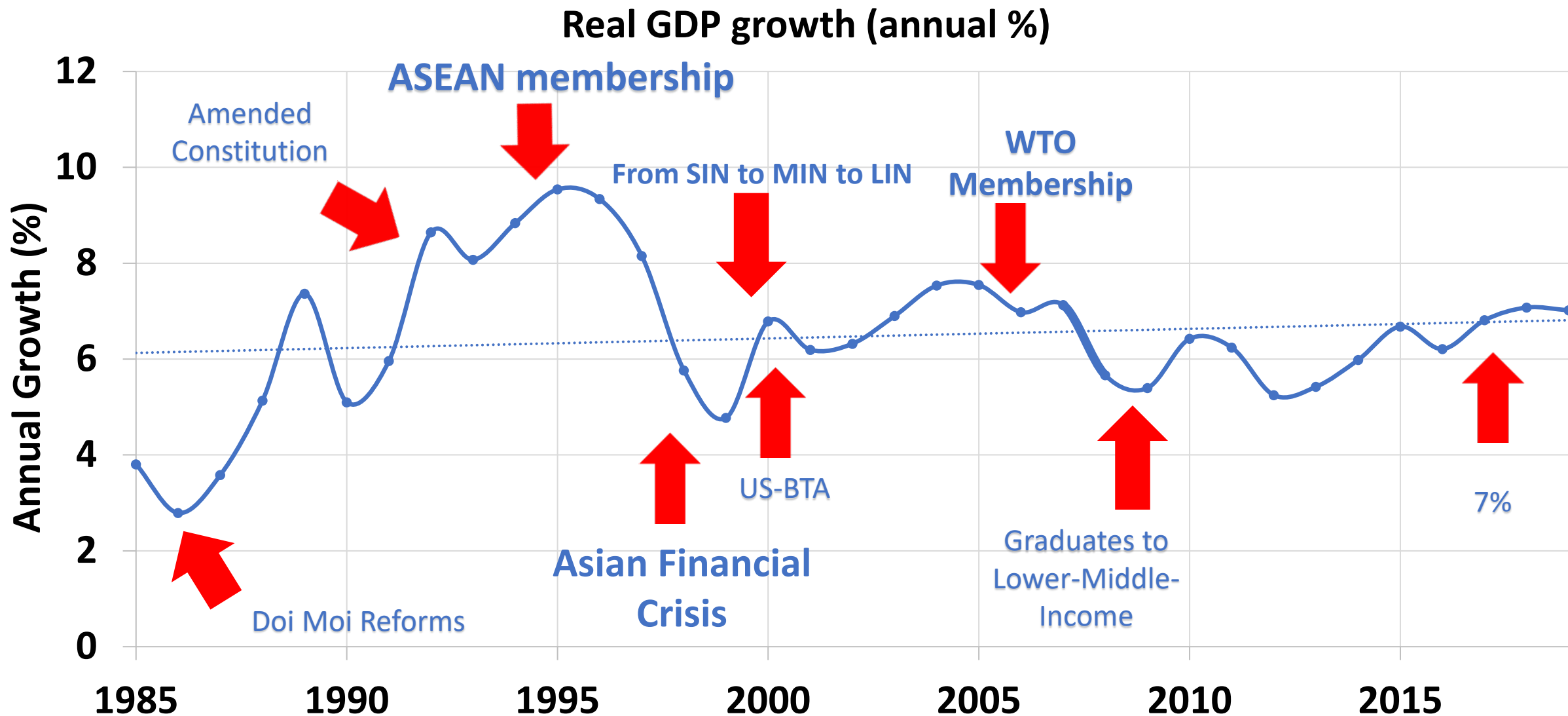
Brief History

- **1975: Vietnamese War ended**
- **Post-war challenges:**
 1. **Unify the North and South**
 2. **Develop a peacetime economy**
- **1975 - 1985: Manufactures shortages, high inflation & hunger**
- **1986: Doi Moi (“renovation”)**



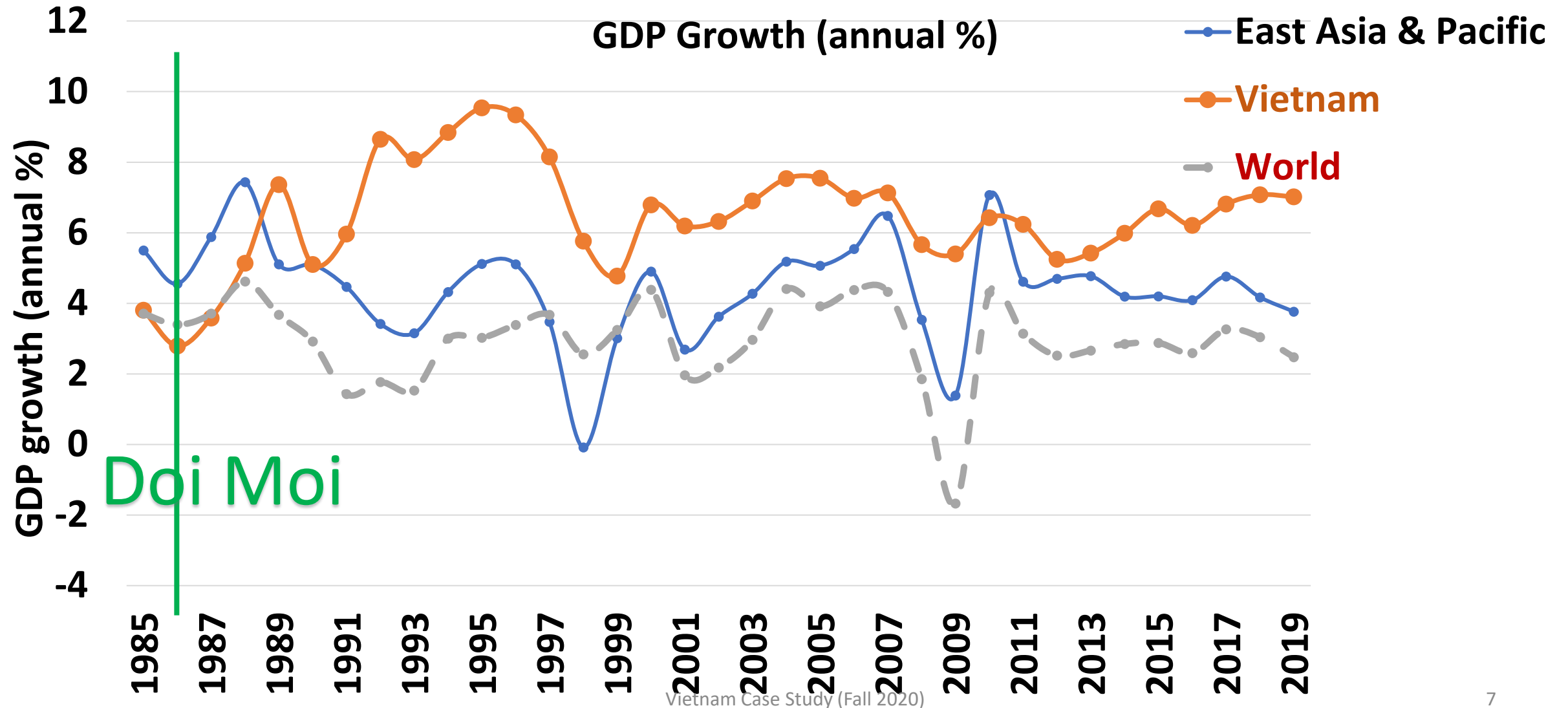


Economic Growth: Doi Moi to 2019





Resilient and Rapid GDP Growth



Milanovic (2019, p. ?) Has similar Figure

BRANKO MILANOVIC CAPITALISM, ALONE

*The Future of the System
That Rules the World*

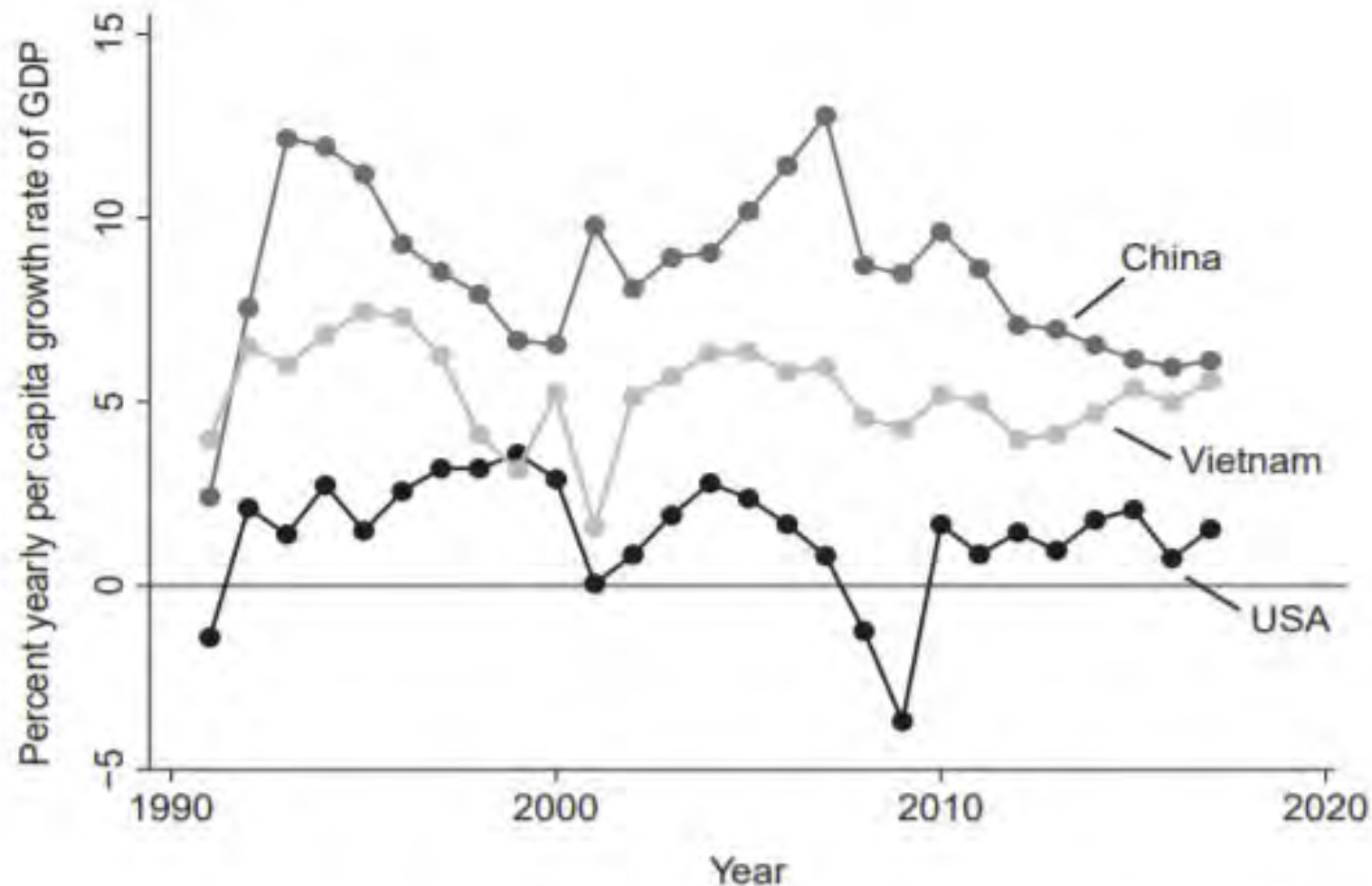


FIGURE 3.2. Growth rates of GDP per capita in China, Vietnam, and the United States, 1990–2016

Vietnam Case Study (Fall 2020)

“Socialist Oriented Market Economy”

- **Advantages vs. limits of SOEs**
- **Evolving toward capitalism:**
 - Private businesses
 - Ending price controls
 - Phasing out SOEs
- **Eve of 2007 WTO accession:**
 - SOEs < 10% of total firms
 - Still present in all sectors
 - Large share of capital

Table 1 Firms descriptive statistics before WTO accession (2006-2007)

	SOEs	POEs
Exit (% of firms)	0.72	0.33
Mean log productivity (TFPR)	-0.1	0.02
Mean profitability	0.06	0.04
Mean log employment	5.81	3.13

(Source: Baccini et al. 2019, Journal of International Economics, Pages 75-92)

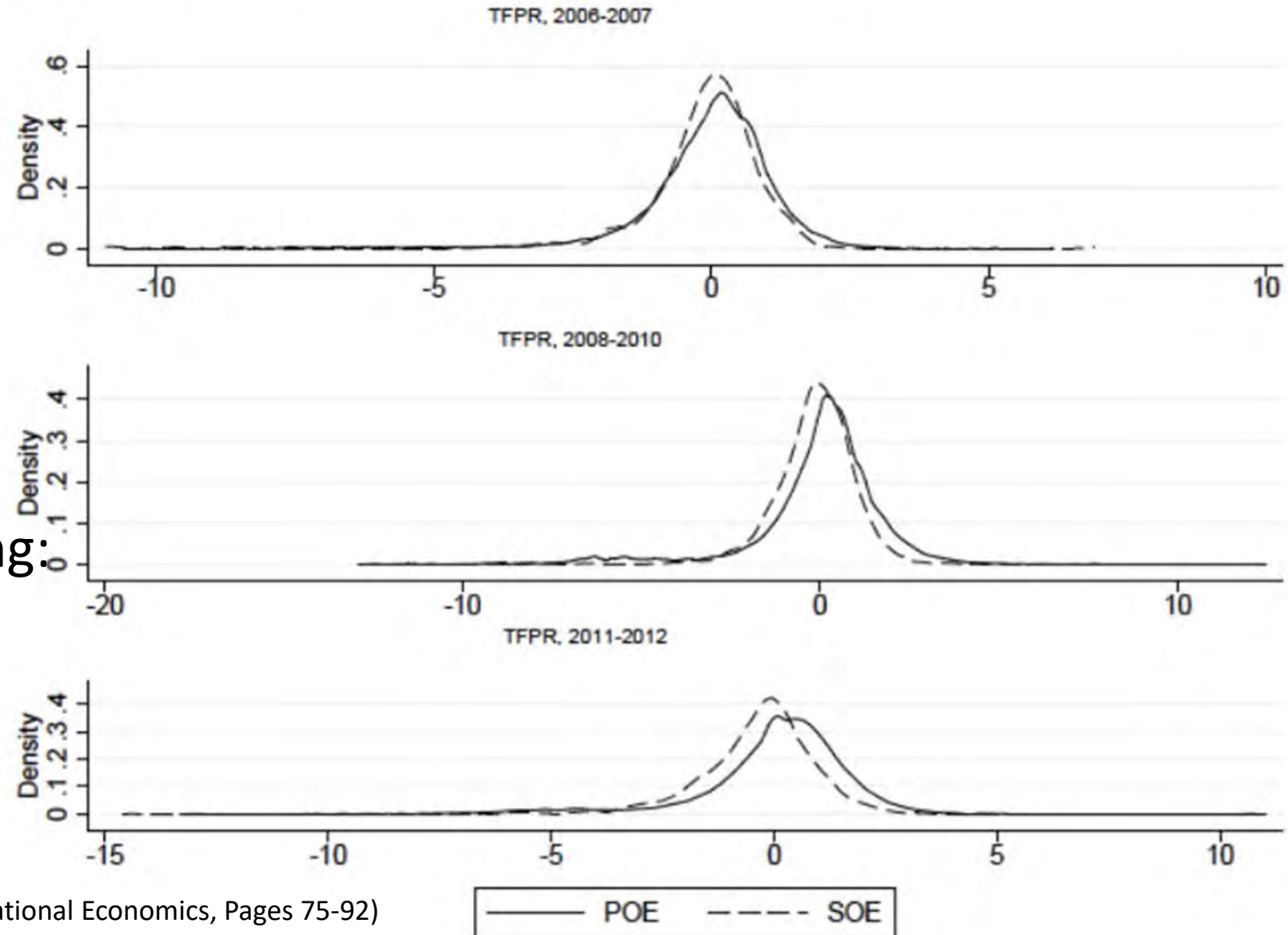


WORLD TRADE
ORGANIZATION

Limits of Political Capitalism

- Post-WTO entry:
 - SOEs hampered efficiency (Baccini et al. 2019)
 - 2016 Corruption Ranking: 113 (China was 79)
 - See also Table 3.1 Milanovic, 2019.

Figure 1 SOE and POE productivity distribution before and after WTO accession

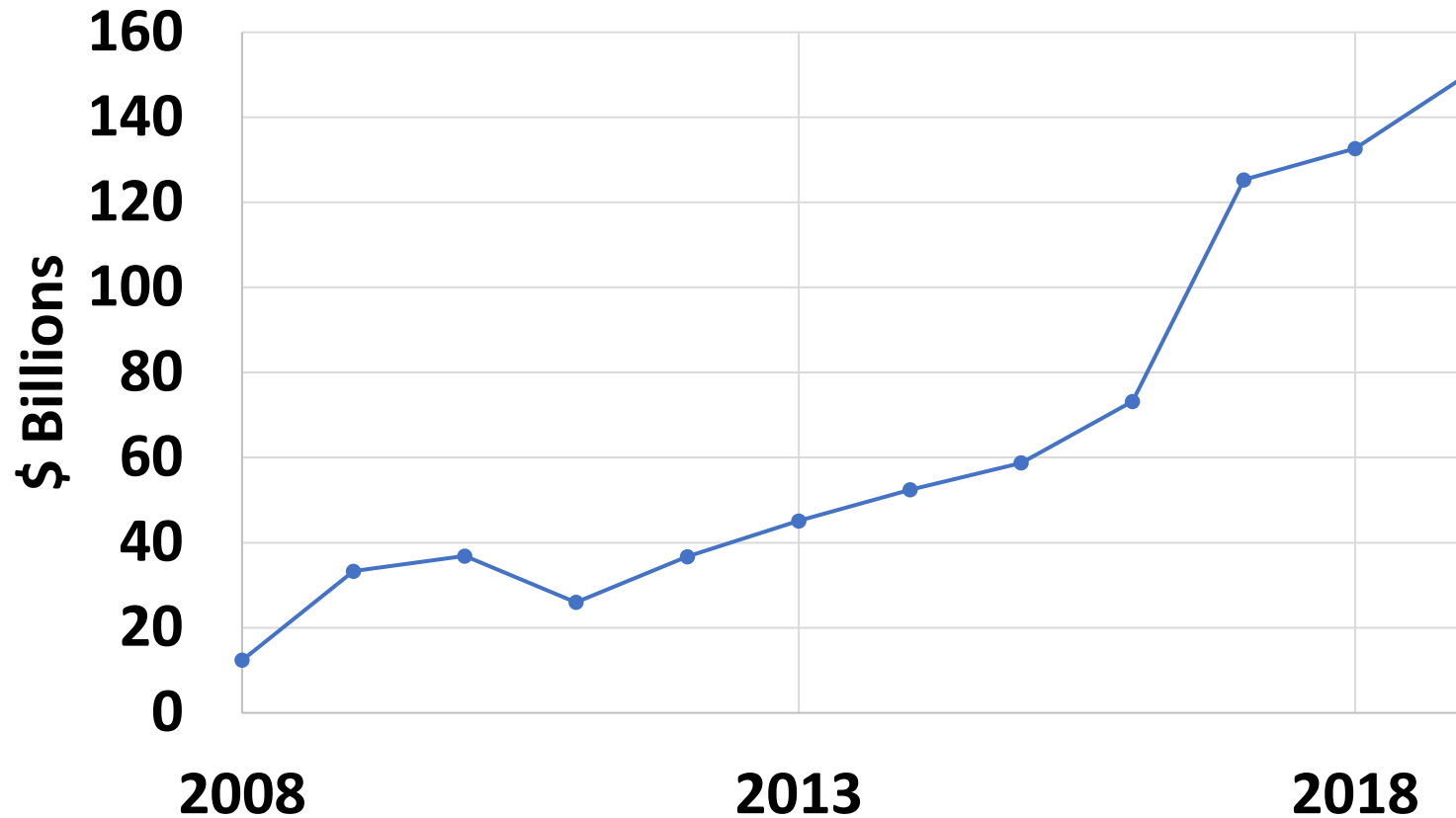


(Source: Baccini et al. 2019, Journal of International Economics, Pages 75-92)



Limits of Political Capitalism (Continued)

Market capitalization of domestic companies in Vietnam

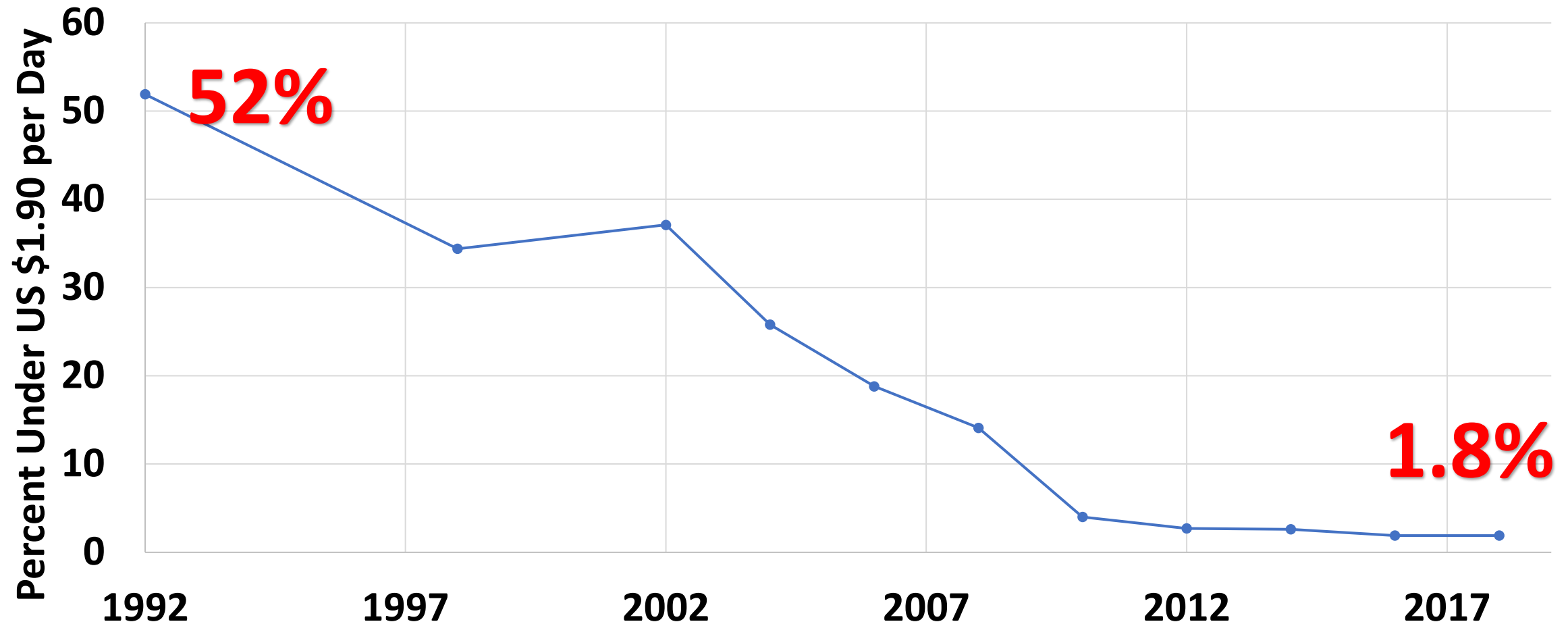


- **2001: U.S.-Vietnam Bilateral Trade Agreement** (McCaig, Pavcnik, & Wong., 2020)
 - **Tariff cuts favor foreign firms**
- **Yet, improved incentives and increased competition help explain nation's strong economic performance**
- **Farmers free from collective labor on cooperative farms?**



Plummeting Poverty (SDG one: done for Vietnam)

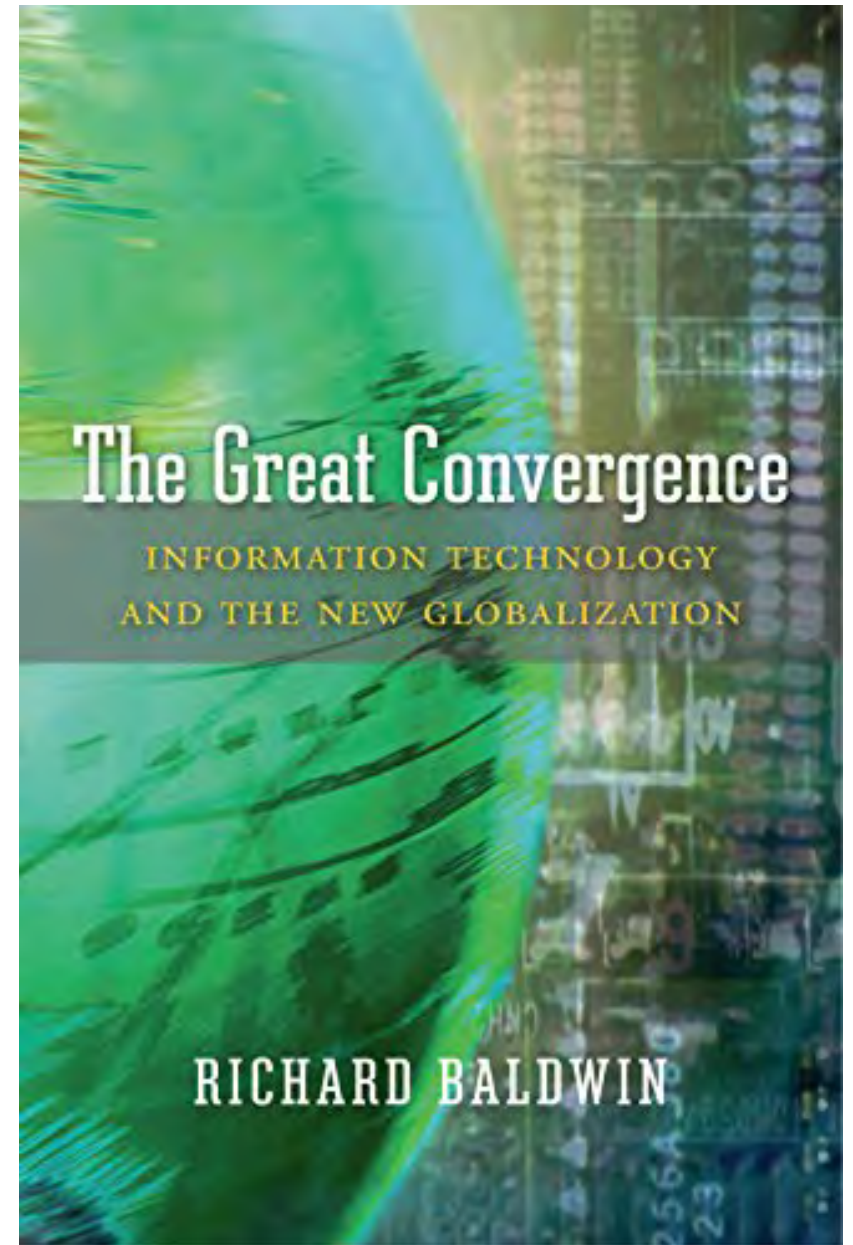
Poverty (% Under US \$1.90 per Day) Source: [Povcalnet.org](https://povcalnet.org)





Other Key Drivers of Growth

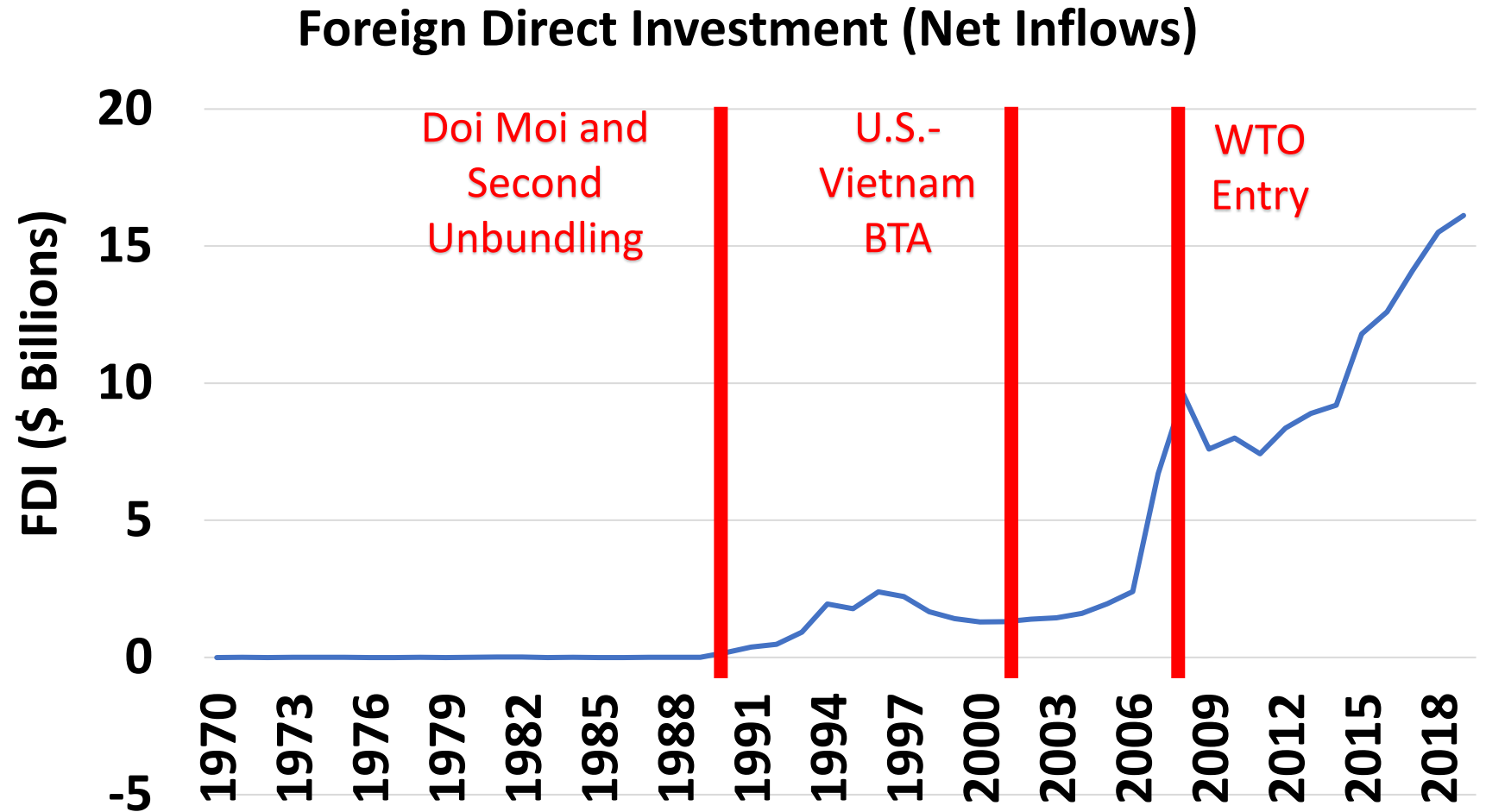
- Rapid urbanization
 - State investment in infrastructure
 - Tourism
 - Second Unbundling* (1990-present)
 - Trade surplus
 - Inward FDI
 - Reduction in barriers to adopting knowledge (Romer's Theory)
 - New Development Process
- *Richard Baldwin's term I think...





FDI Inflows

91% of people interviewed in Vietnam think globalization is a force for good. In comparison, only 37% support globalization in France.



Growth Models and the Second Unbundling

- Romer's Theory of Knowledge (1990)
 - Second Unbundling changed Vietnam's comparative advantage
 - Examples: Honda's Global Value Chain and Wire Harnesses
- The Effect: Thriving manufacturing sector and increasing Total Factor Productivity (TFP)



FIGURE 61: Geese versus starlings: the second unbundling disrupted the development ladder.



Increasing Total Factor Productivity ($\hat{\beta}_t$)

- Key Results:
 - Rising per capita incomes
 - Emerging middle class
 - Resilient GDP growth
- Romer: new, but not necessarily improved, varieties of products
- Aghion: “quality improving innovations” only

TFP =

$$\hat{B}_t = (1 - \alpha) \frac{\dot{A}_t}{A_t} + (1 - v) \alpha / v \frac{\dot{M}_t}{M_t}$$

Share of intermediate goods

Input substitutability

Quality Component

Product-Variety Component

Note: Romer model assumes away obsolescence of old intermediate products

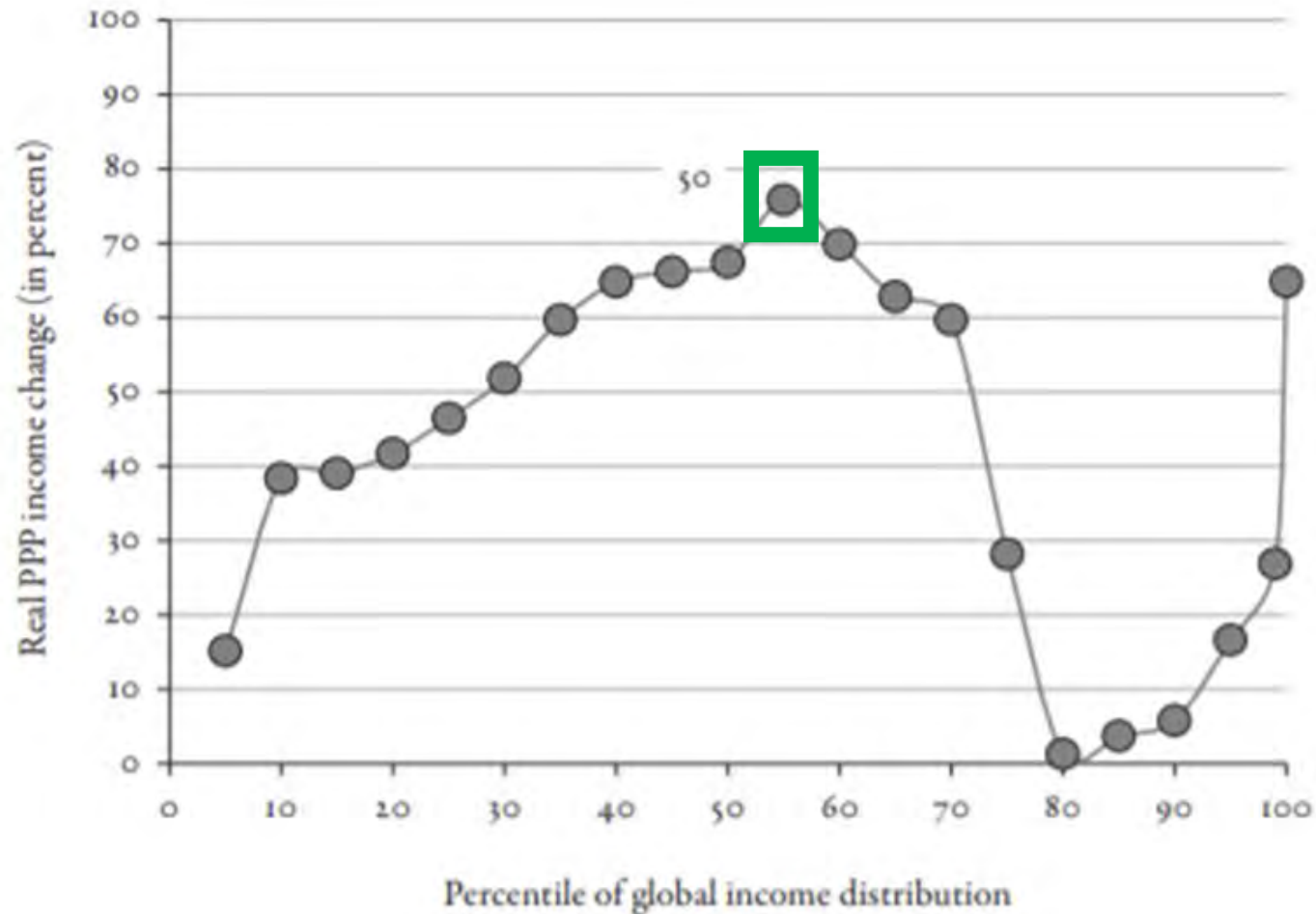


Aghion's Growth Model

$$g = \mu(\gamma - 1) = \lambda^{\frac{1}{1-\sigma}} (\sigma \pi L)^{\frac{\sigma}{1-\sigma}} (\gamma - 1)$$

- Romer and Aghion: Growth increases with labor supply and research productivity
- Aghion's model: Growth also increases with the frequency (μ) and size of innovations ($\gamma - 1$)
- **Raises the question: Will growth be sustained when Vietnam reaches the Production Possibility Frontier and their growth depends more on innovation?**

World Growth Incidence Curve

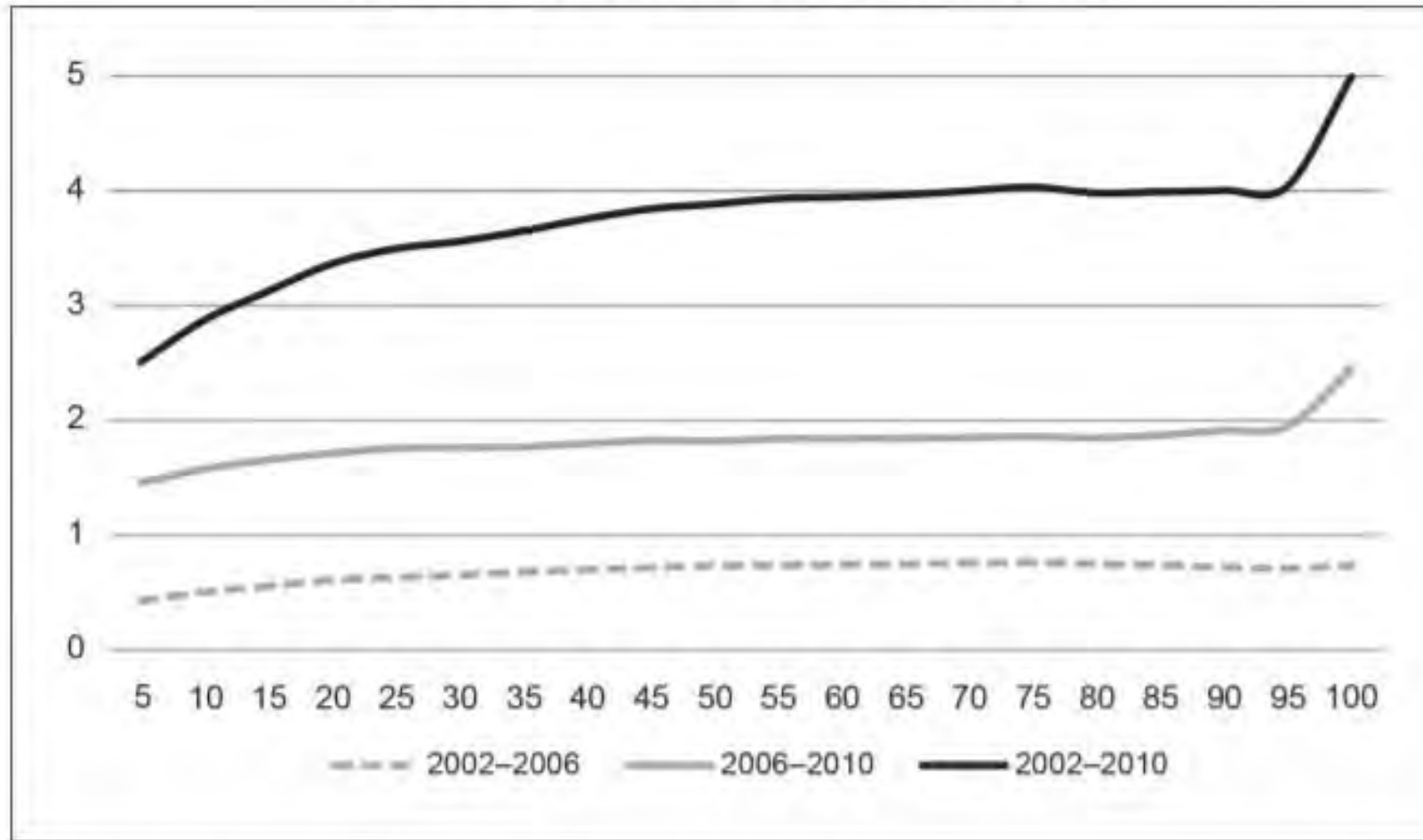


“In Vietnam [and Thailand] (where the population is not split into rural and urban), real incomes around the medians more than doubled. These groups were the main “winners” of globalization between 1988 and 2008.”
- Branko Milanovic

But this doesn't tell the whole story....

Vietnam's Growth Incidence Curve

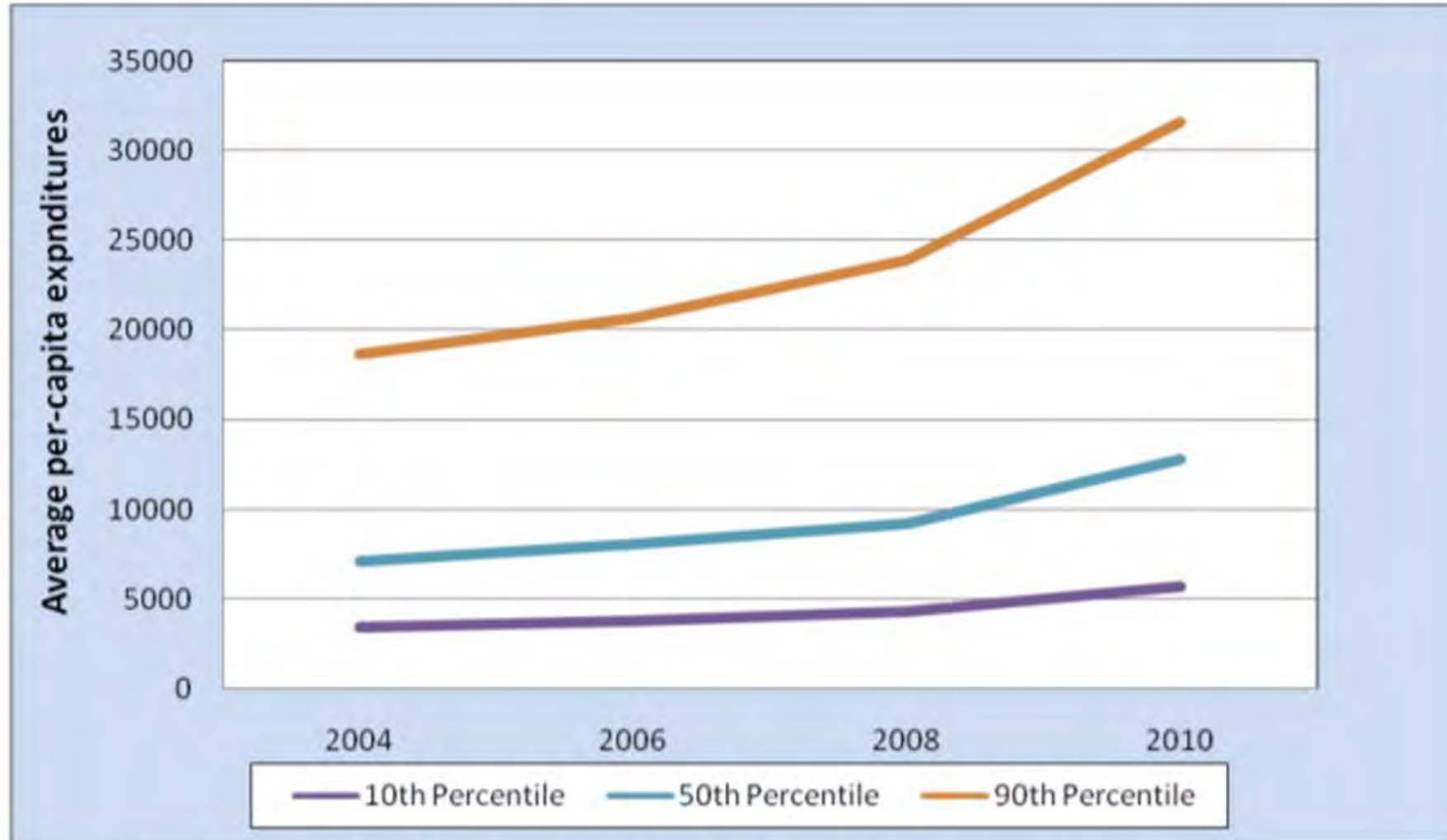
Figure 5: Growth Incidence Curves (GICs)



Source: Authors' calculations based on VHLSS 2002, 2006, and 2010.



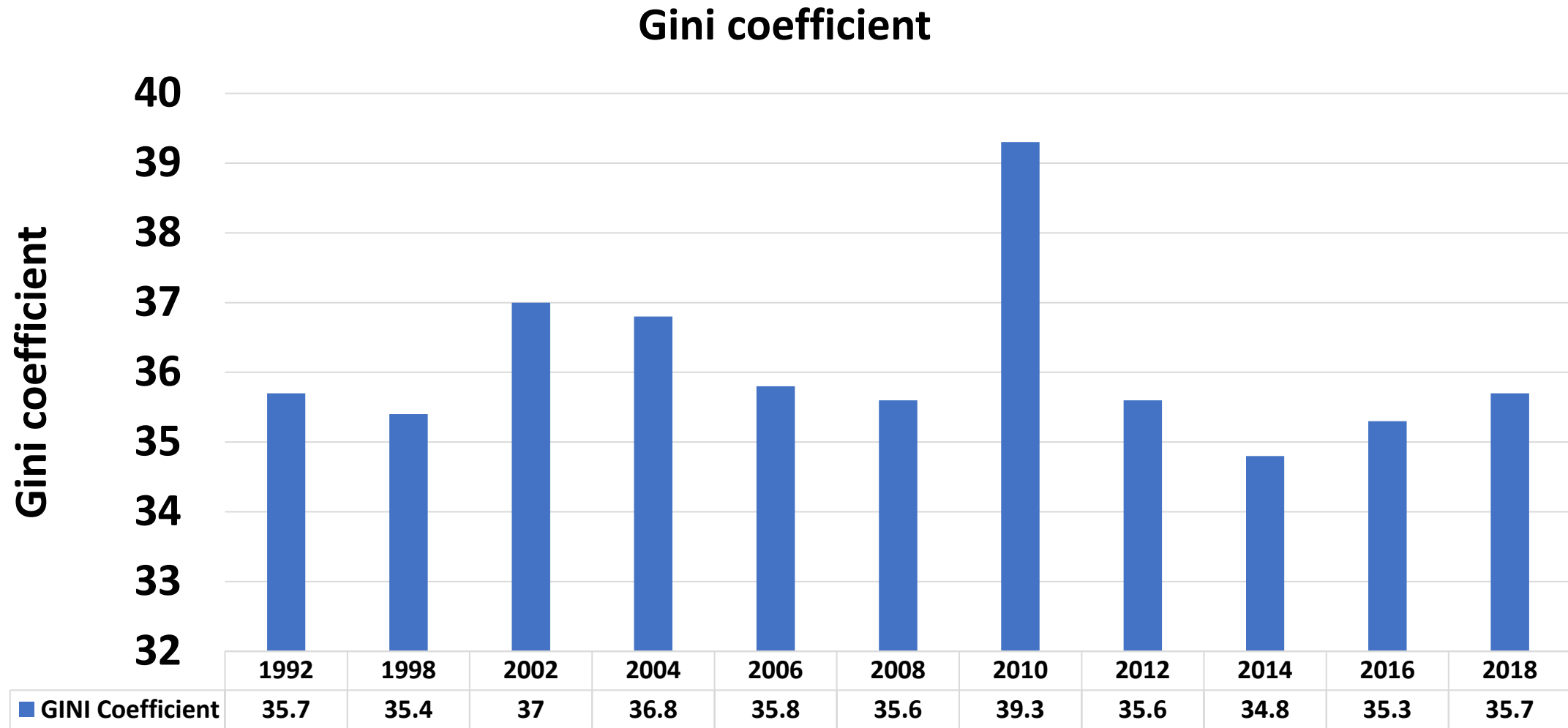
**Figure 11: Percentile Means for Per-Capita Expenditures: 2004-2010
(Jan 2010 Constant VND)**



Source: 2004, 2006, 2008, 2010 VHLSS: World Bank staff estimates



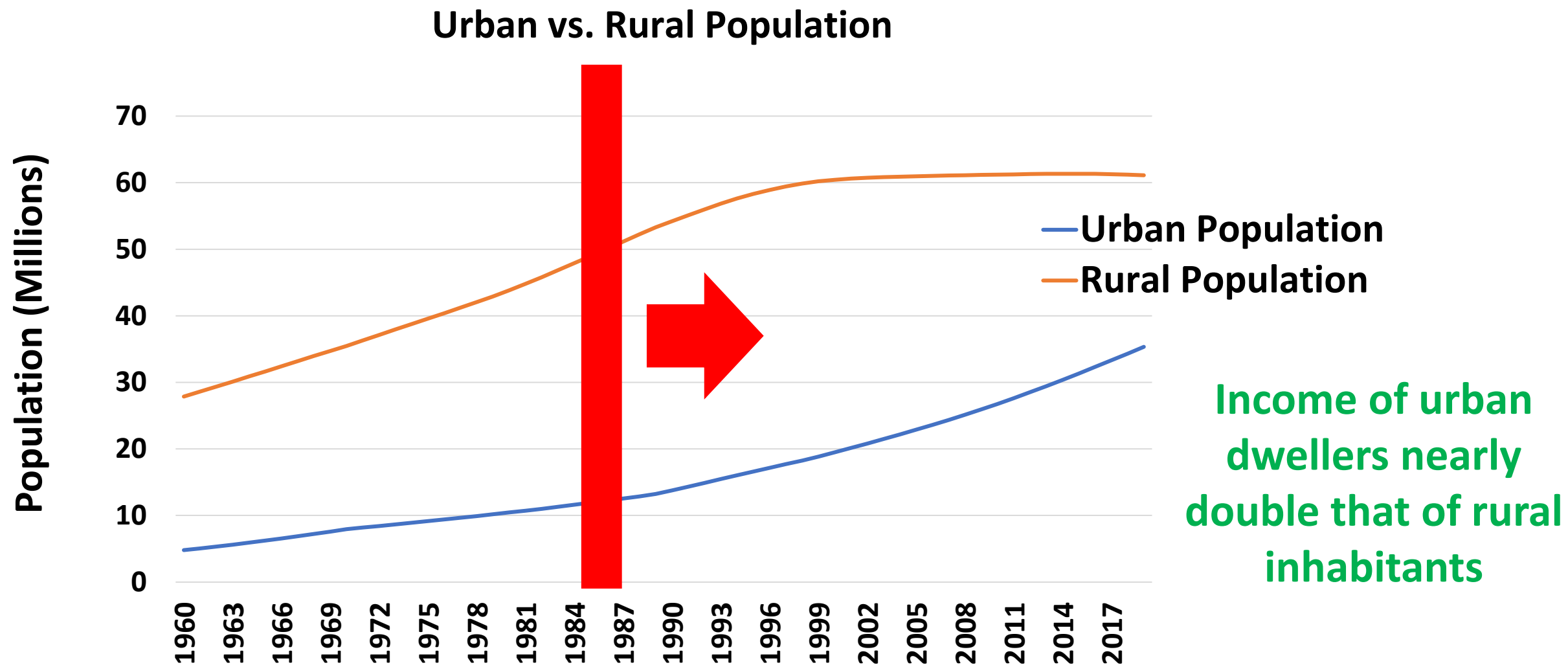
Inequality Persists Despite Greater Macroeconomic Stability



So what's going on?



Structural Transformation



Regional Inequality

- Lowest Poverty: Red River Delta (Hanoi) and South East (HCMC)
- Highest Poverty: North West, North East and North Central Coast

Table 1: Official Poverty Rates by Sector and Region: 2010 VHLSS

	Percent Poor (official estimates)
All Vietnam	14.2
Urban	6.9
Rural	17.4
Region	
Red River Delta (including Hanoi)	8.4
North East	24.2
North West	39.4
North Central Coast	24.0
South Central Coast	16.9
Central Highlands	22.2
South East (including HCMC)	3.4
Mekong Delta	12.6

Source: GSO Summary Tables for 2010 VHLSS, GSO website

Vietnam Case Study (Fall 2020)





Vietnam's Transition Economy: Labor Market Structure

- Doi Moi (1986): household responsible for economic wellbeing
- Unable to survive on agriculture alone
- Rural families must rely on market economy for outside income
- Do not want to uproot family



Female Rotational Migration



- 40-50% of migrants in Hanoi and Ho Chi Minh City are women
- 42% are informal workers (e.g. domestic workers and street vendors)
- Focus on: Hanoi's roving street vendors



Migrant Roving Street Vendors: Daily Life

- Migrate for days, weeks, or months
- Lack of Social Protection
- Social Isolation
- Risk of Violence and Sexual Abuse (Anderson et al. 2017)
- Housing Dissatisfaction
- Increasing urban incomes threatens livelihood





Household Networks: While Women Are Away

Tasks Performed by Husband While Street Vendor is in Hanoi

	Performs task alone	Shares task with others	Does not perform task
Looks after children-daytime	48%	21%	31%
Looks after children-evening	53%	20%	27%
Supervise homework	46%	8%	45%
Cook meals	34%	29%	37%
Wash dishes	22%	11%	67%
Go to market	45%	14%	41%
Clean house	30%	18%	52%
Wash clothes	36%	16%	49%

312 families with children 18 or under: 2008-2010

Partial Reversal of Traditional Gender Roles

Tasks Performed While Street Vendor is in Hanoi

	Husband	Parents-in-law	Children	Other
At least some participation	88%	39%	69%	12%
Looks after children-daytime	69%	33%	16%	5%
Looks after children-evening	72%	27%	16%	3%
Supervise homework	55%	22%	36%	5%
Cook meals	60%	25%	40%	3%
Wash dishes	33%	15%	62%	2%
Go to market	60%	22%	30%	4%
Clean house	48%	18%	52%	1%
Wash clothes	51%	17%	49%	2%

312 families with children 18 or under: 2008-2010

- Husband assumes responsibility for some (but not all) chores
- **Question: Is this reversal only temporary or does rotational migration contribute to a permanent transformation of gender roles?**



Migration and Gender Roles: Double Burden

What happens when women return to their villages?

Tasks Performed When Street Vendor is in Her Village

	Husband			Street Vendor (Migrant Female)		
	Performs task alone	Shares task with others	Does not perform task	Performs task alone	Shares task with others	Does not perform task
Looks after children-daytime	3%	29%	67%	50%	32%	18%
Looks after children-evening	4%	29%	67%	50%	32%	18%
Supervise homework	12%	19%	69%	32%	22%	46%
Cook meals	1%	12%	87%	73%	21%	5%
Wash dishes	<1%	6%	94%	59%	15%	26%
Go to market	2%	6%	92%	82%	11%	6%
Clean house	1%	8%	91%	69%	19%	12%
Wash clothes	1%	9%	90%	71%	19%	10%

312 families with children 18 or under: 2008-2010

Data suggests that the (partial) reversal in gender roles is only temporary; the responsibility for child rearing and household chores reverts back to women upon returning home



Female Social Mobility

While the majority of migrant women continue to adhere to traditional gender roles, their new earning power also enhances their status in their families and communities.

Making progress but more needs to be done!
Why?

Vietnam stands out

Vietnam's high female labor force participation rate outstrips the best performers among advanced Western economies.

(female labor force participation rate, latest, percent)

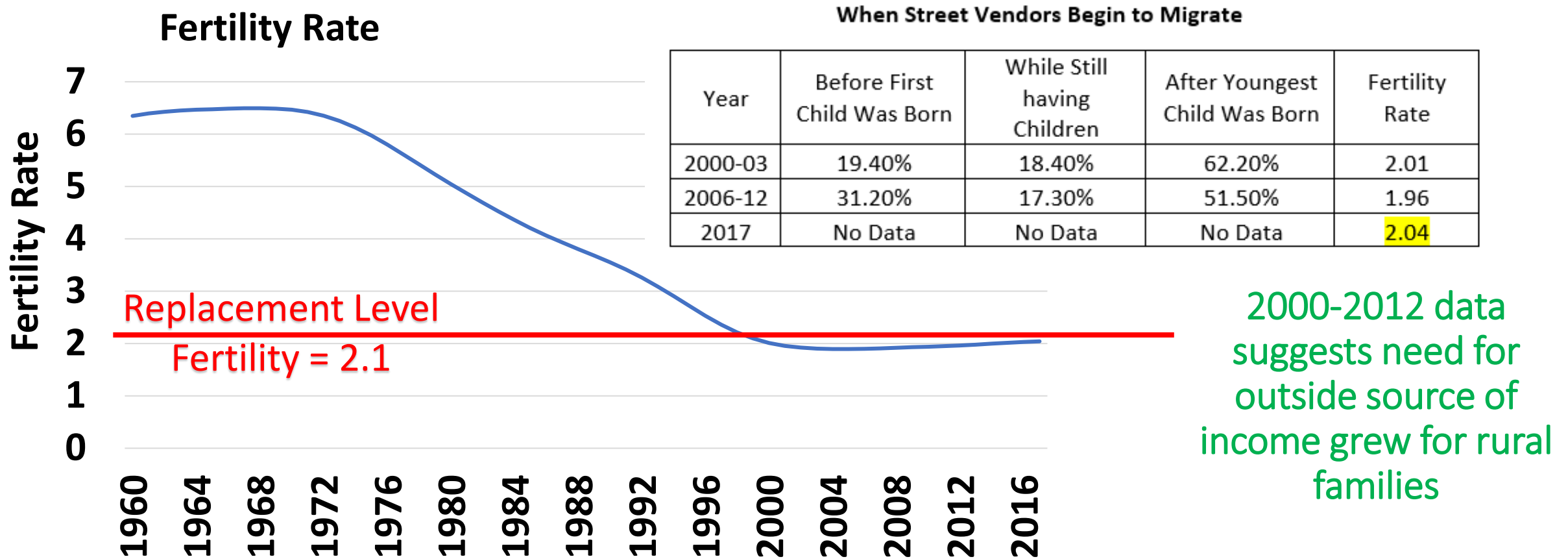


Sources: World Bank, World Development Indicators; and IMF staff calculations.

Note: Data are for 2016. Latest data for Cambodia, China, and India are for 2014, 2010, and 2012, respectively. AE = 21 advanced economies excluding Asia. Data labels in the figure use International Organization for Standardization (ISO) country codes.



Impact of Migration on Fertility Rate



Low fertility: persistence of a male-dominated family structure and economies that provide major advantages to women as long as they do not have children



Fertility Rate and Gender Equality

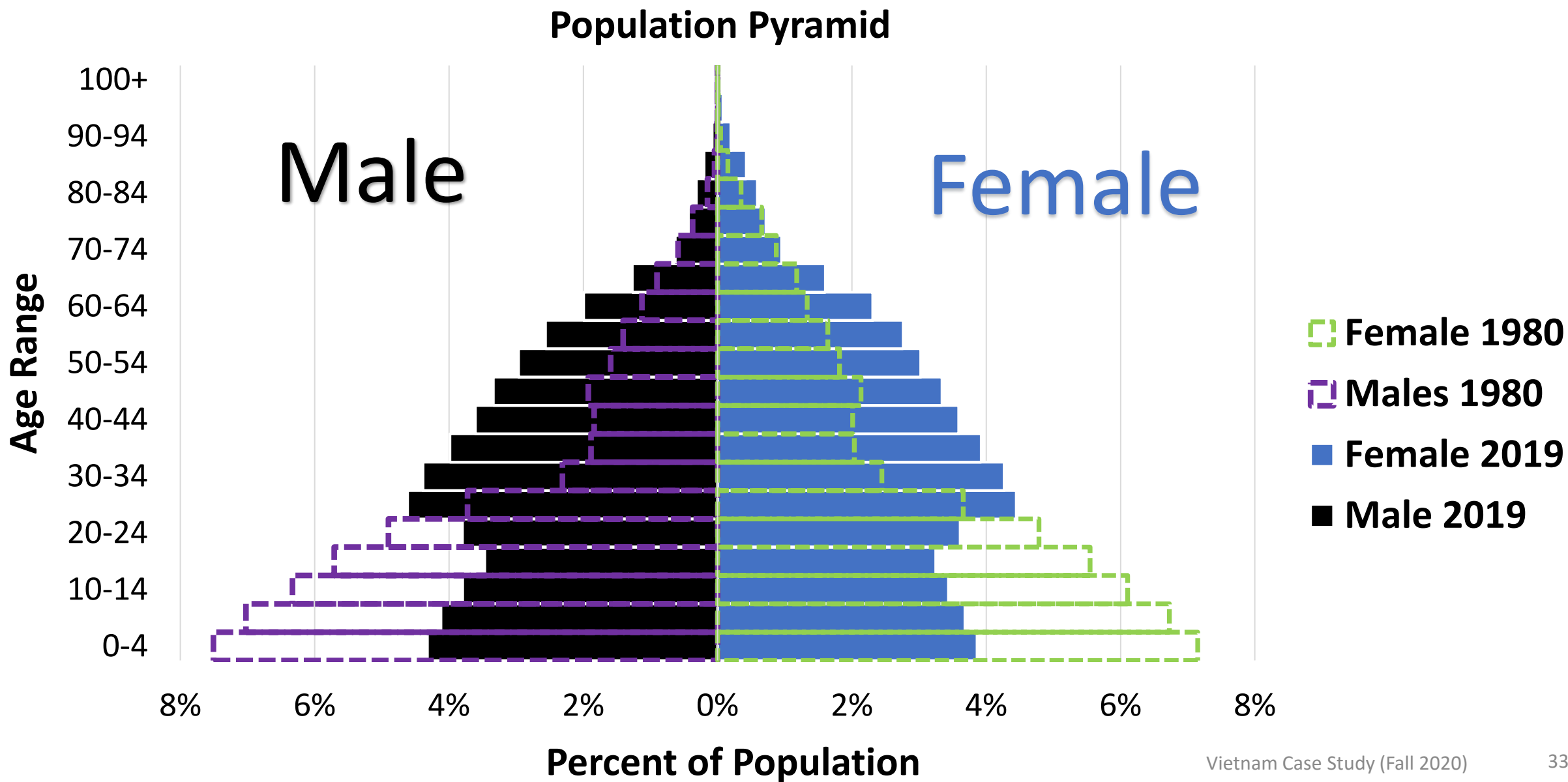
When Street Vendors Begin to Migrate

Year	Before First Child Was Born	While Still having Children	After Youngest Child Was Born	Fertility Rate
2000-03	19.40%	18.40%	62.20%	2.01
2006-12	31.20%	17.30%	51.50%	1.96
2017	No Data	No Data	No Data	2.04

- 2013: 'We are Women' UN Program
- 2013: Six month maternity leave (among the longest in Asia)
- 2015: Tax incentives for hiring females
- 2016: Over 70% of migrants have health insurance (compared to 36.4% in 2004)
- Yet, informal workers still lack access to resources
- Men's participation in family planning practice remains modest
- **Gender equality is an important factor in achieving the replacement level fertility (2.1)**

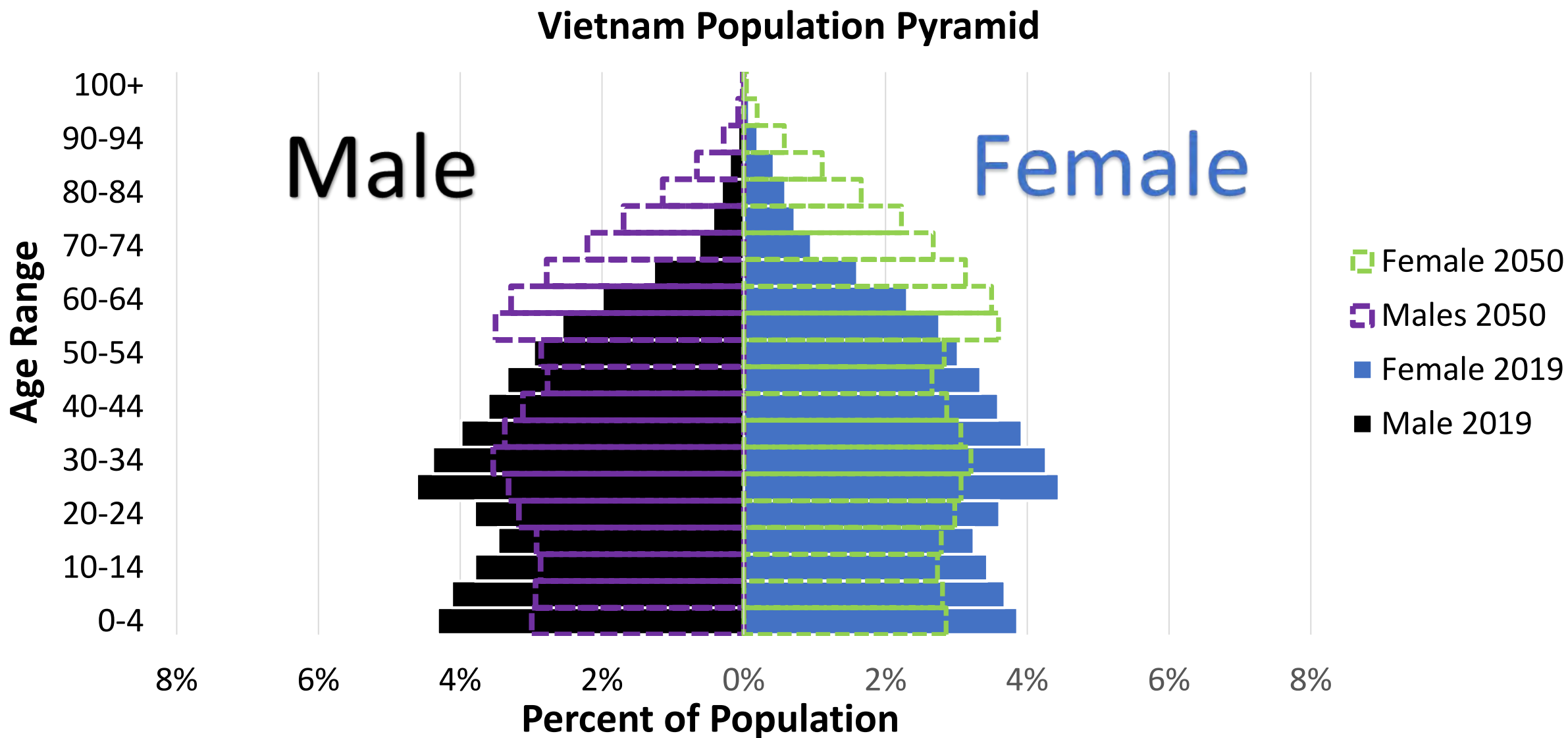


Demographic Transition: 1980 to 2019





Demographic Transition: 2050 Predictions



Scope for Improvement

- Migrant Workers
- Formal vs. Informal Labor
- Barriers to Educational Attainment/Career Advancement
- Severe Double Burden
- Gender Biases and Societal Norms
- Limited access to credit
- Gender Pay Gap

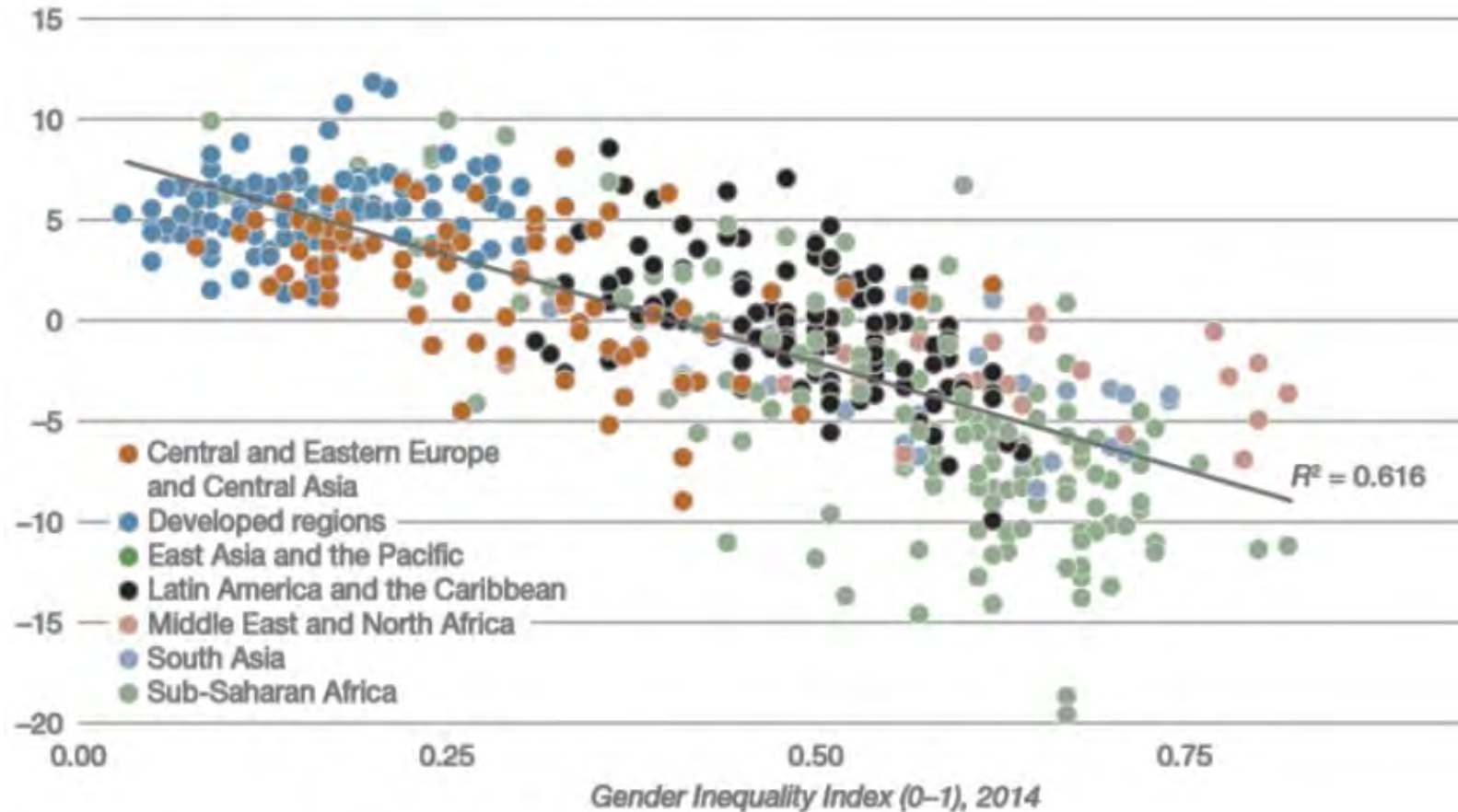


Female Economic Empowerment and Long-Term Growth

- **Faster Economic Growth**
 - **Drives Human Development**
 - **Higher Income Per Capita**
 - **Stronger national competition**
- **Growth under Romer and Aghion Framework**

Gender equality is associated with faster economic growth

GDP per capita average growth (%), 1990–2010

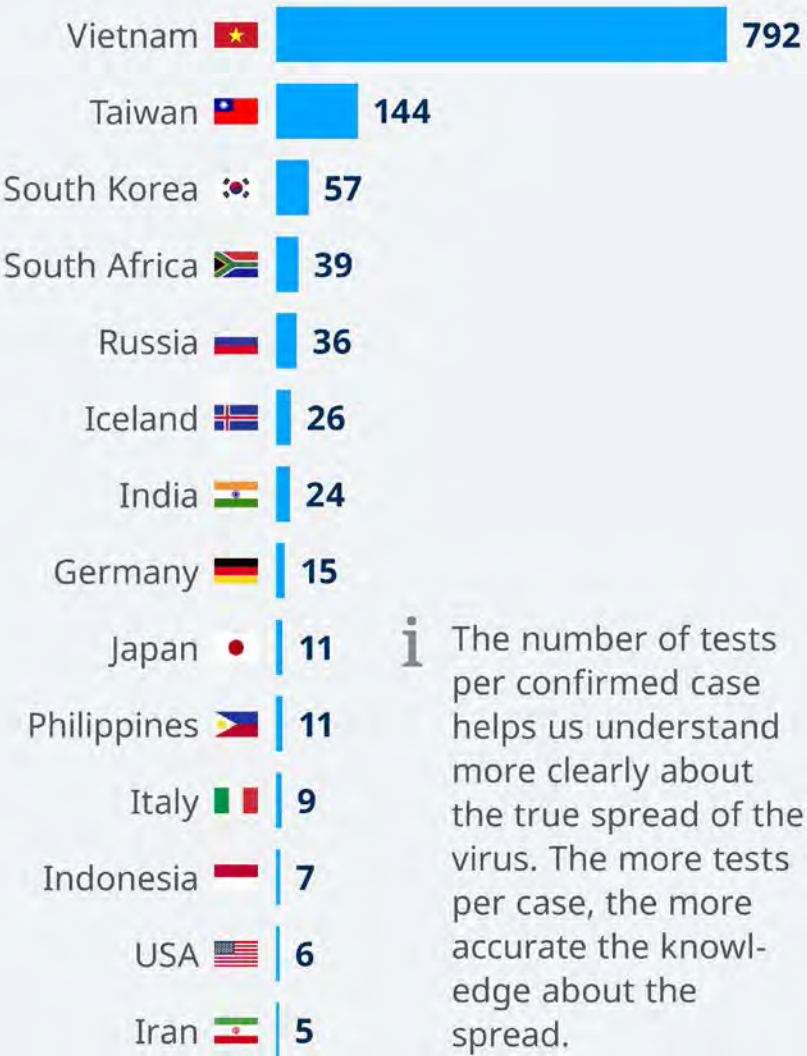


Note: GDP per capita growth was regressed on initial income to control for convergence. Years range from 1990 to 2010.

Source: Development Indicators 2015, IMF staff estimates, and United Nations Development Programme 2015 Human Development Report.



Number of COVID-19 tests per confirmed case



i The number of tests per confirmed case helps us understand more clearly about the true spread of the virus. The more tests per case, the more accurate the knowledge about the spread.

COVID-19: Response and Long-Term Growth

Vietnam

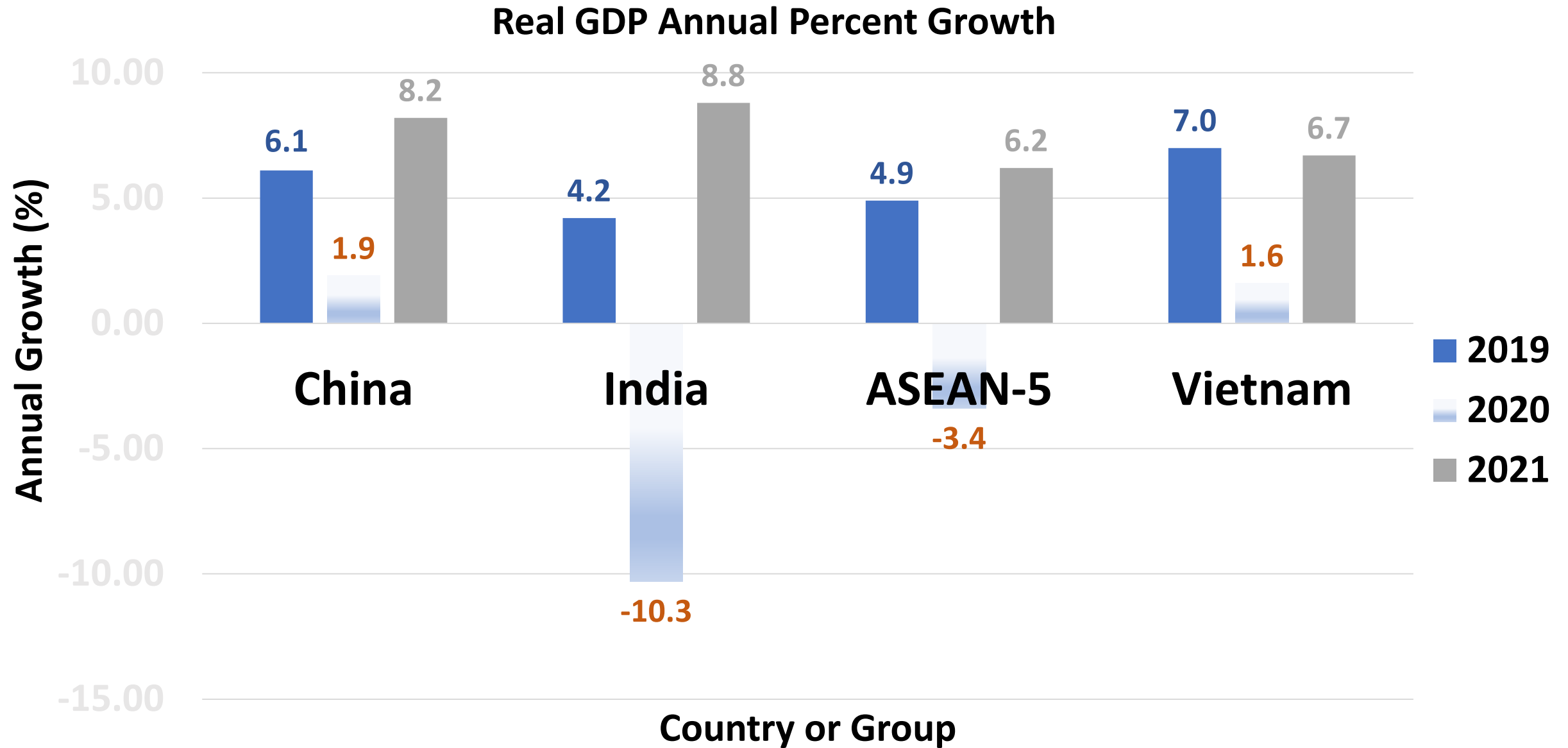
Total cases
1,385

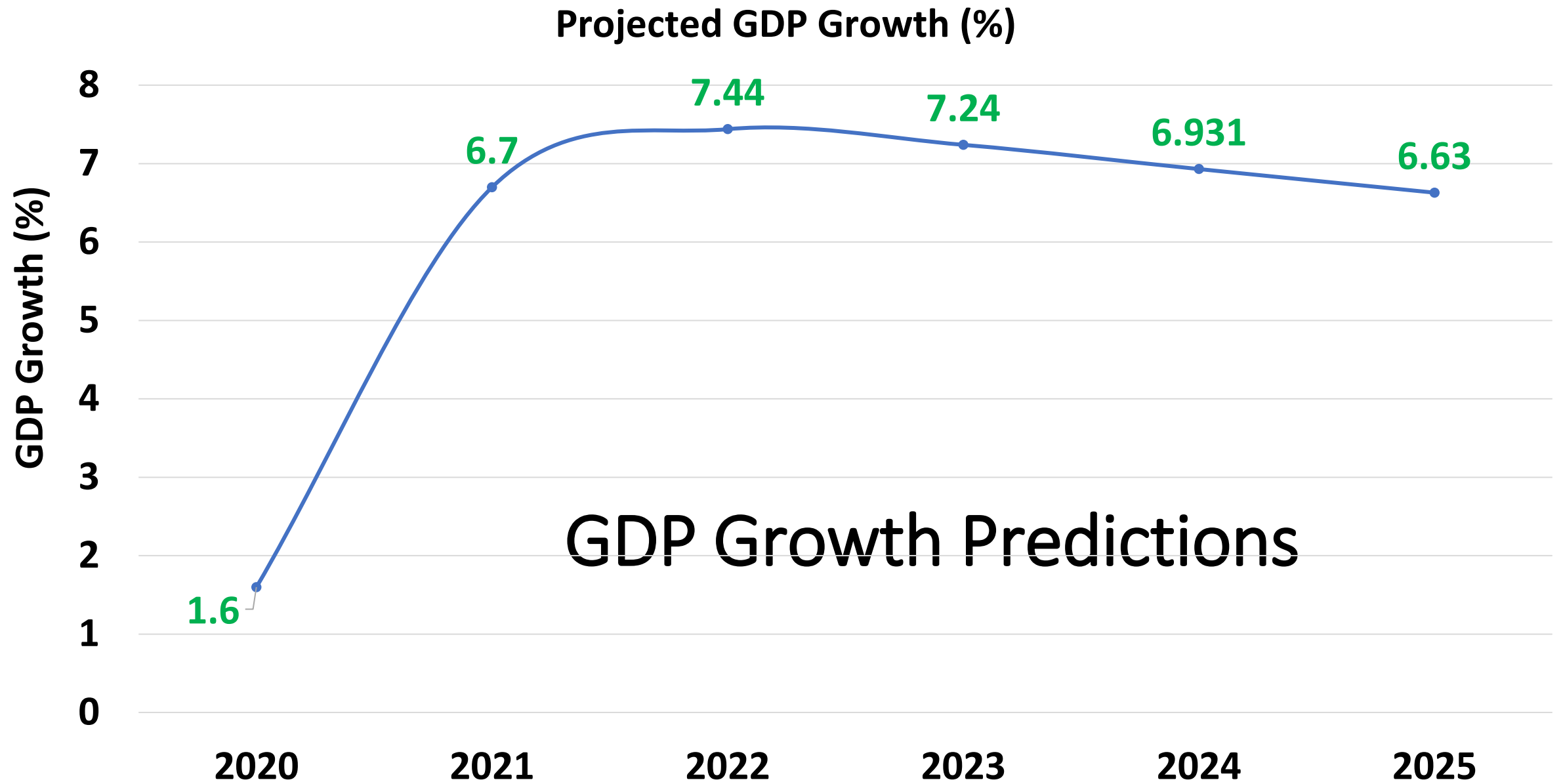
Recovered
1,225

Deaths
35



World Economic Outlook: October 2020







Final Remarks

- Structural transformation promotes macroeconomic stability as shown by resilient GDP growth, but also reinforces income inequality
- Gender equality and female economic empowerment is progressing but more supported is needed to sustain long-term growth



Vietnam Case Study (Fall 2020)

Thank you!

Questions?

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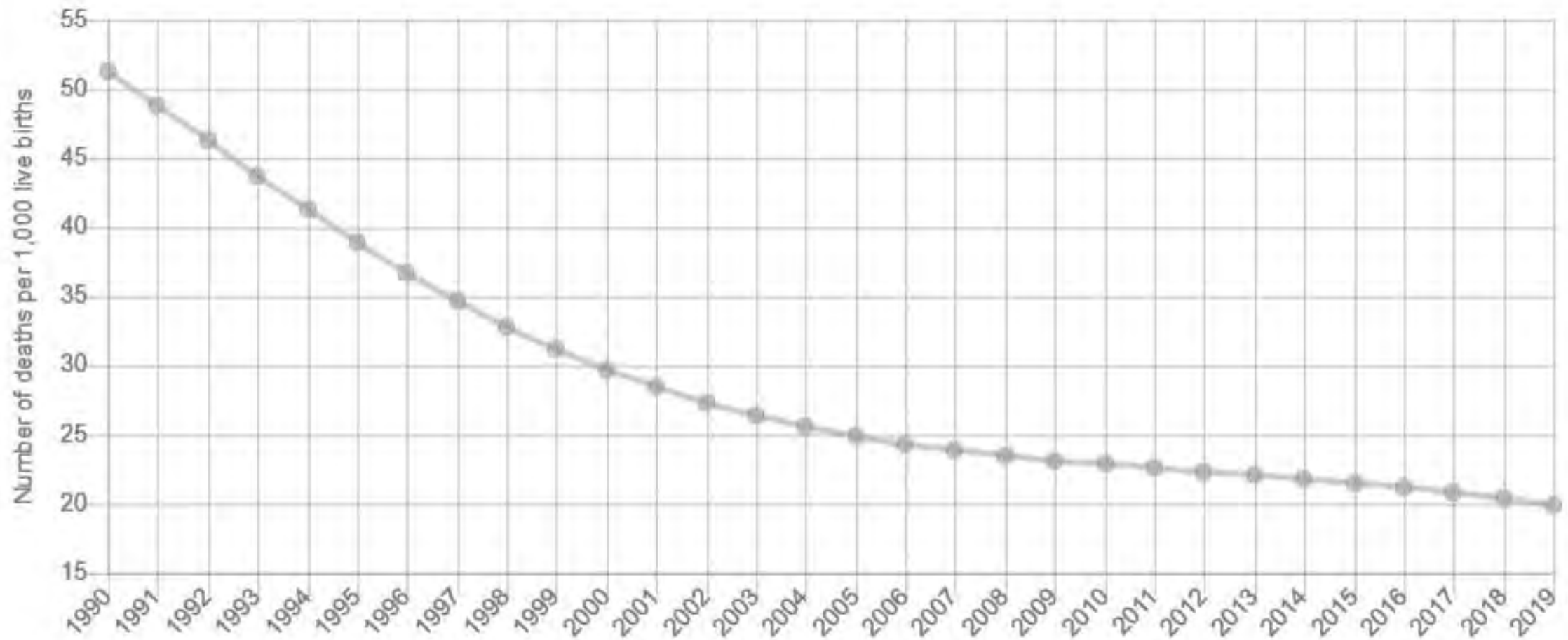
Appendix

Extra Information

Demographic Notes

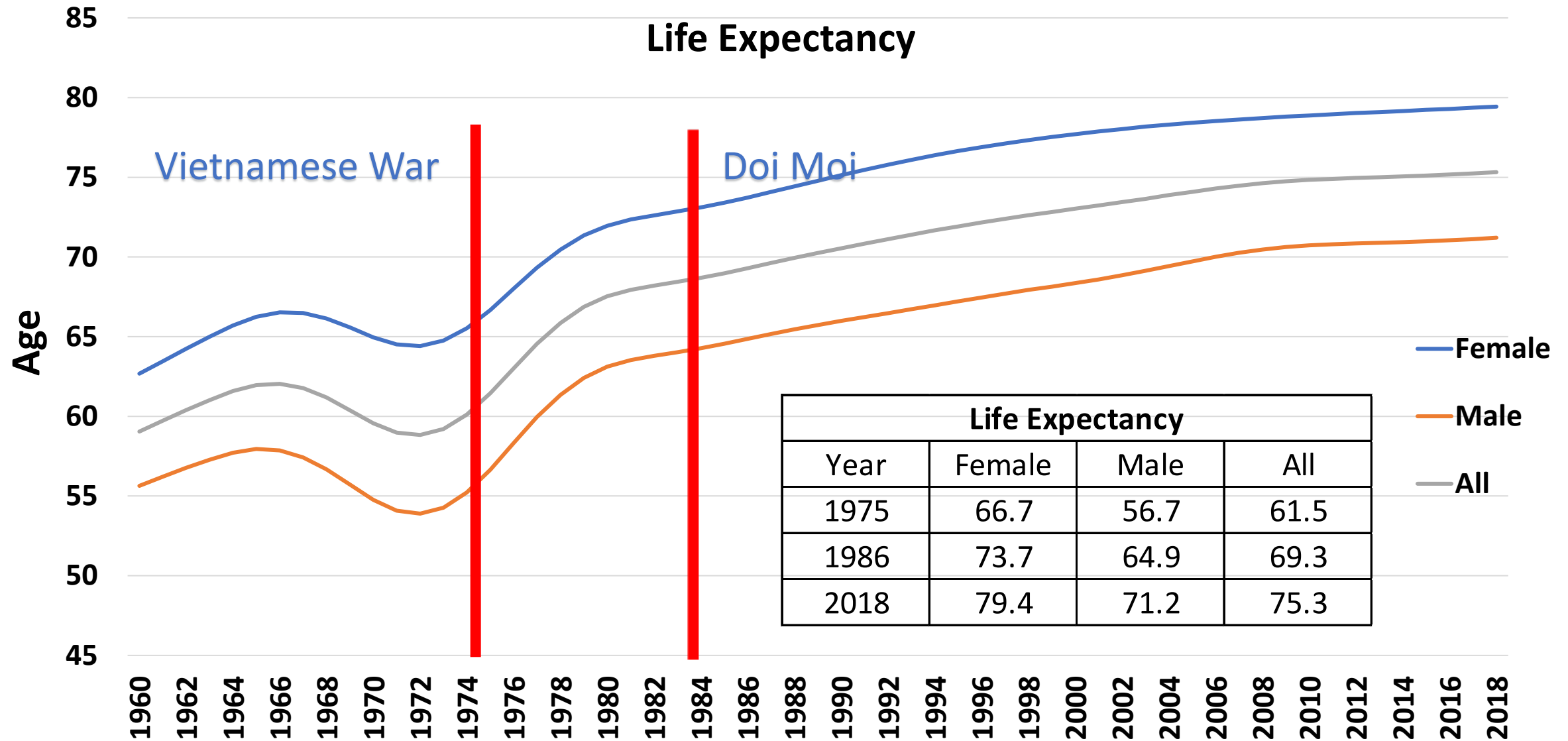
Child Mortality

Trends in under-five mortality rate





Life Expectancy



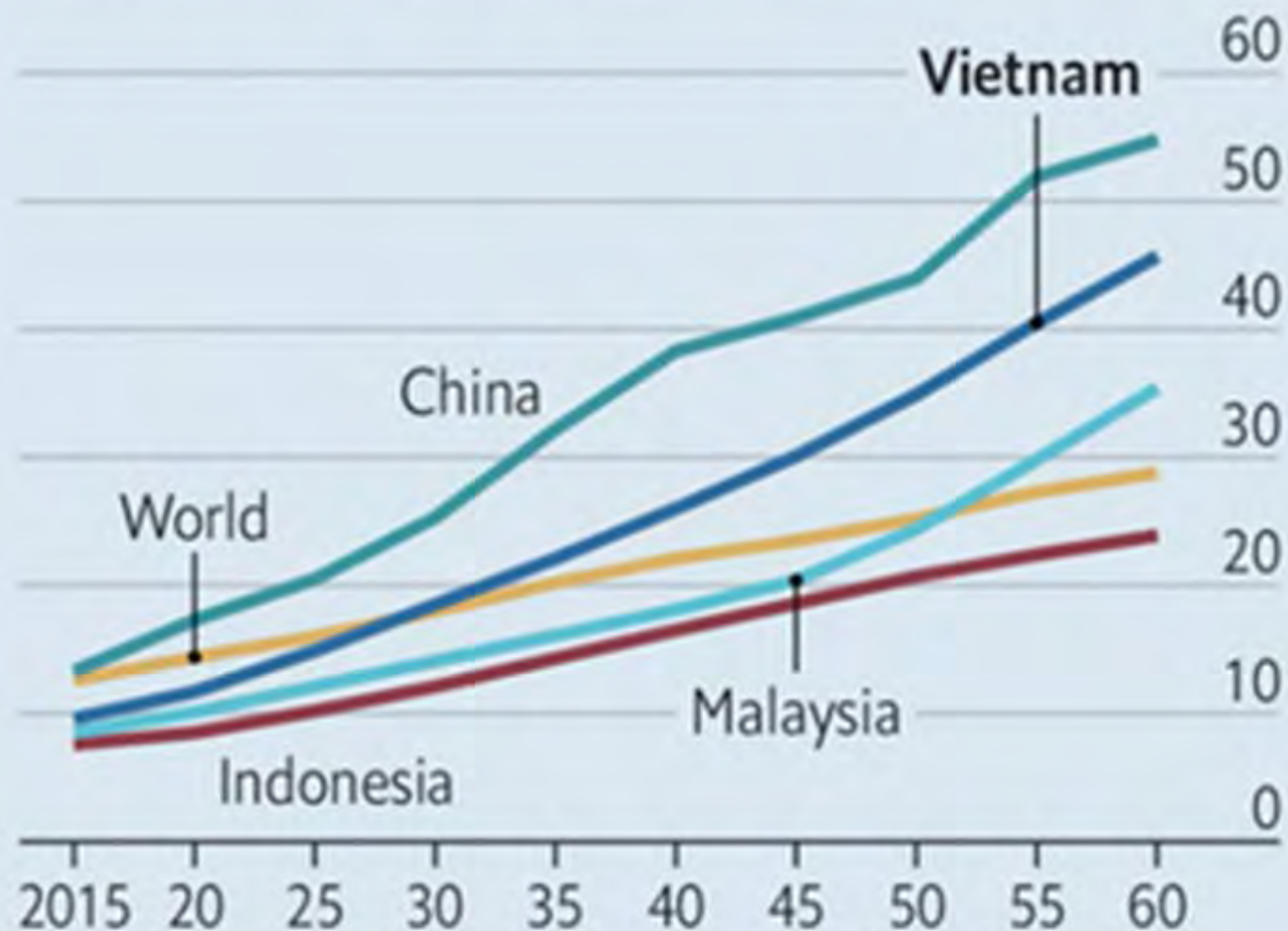


Dependency Ratio

Old before its time

Old-age dependency ratio, forecast

People over 64 per 100 people aged 15-64



Source: UN Population Division

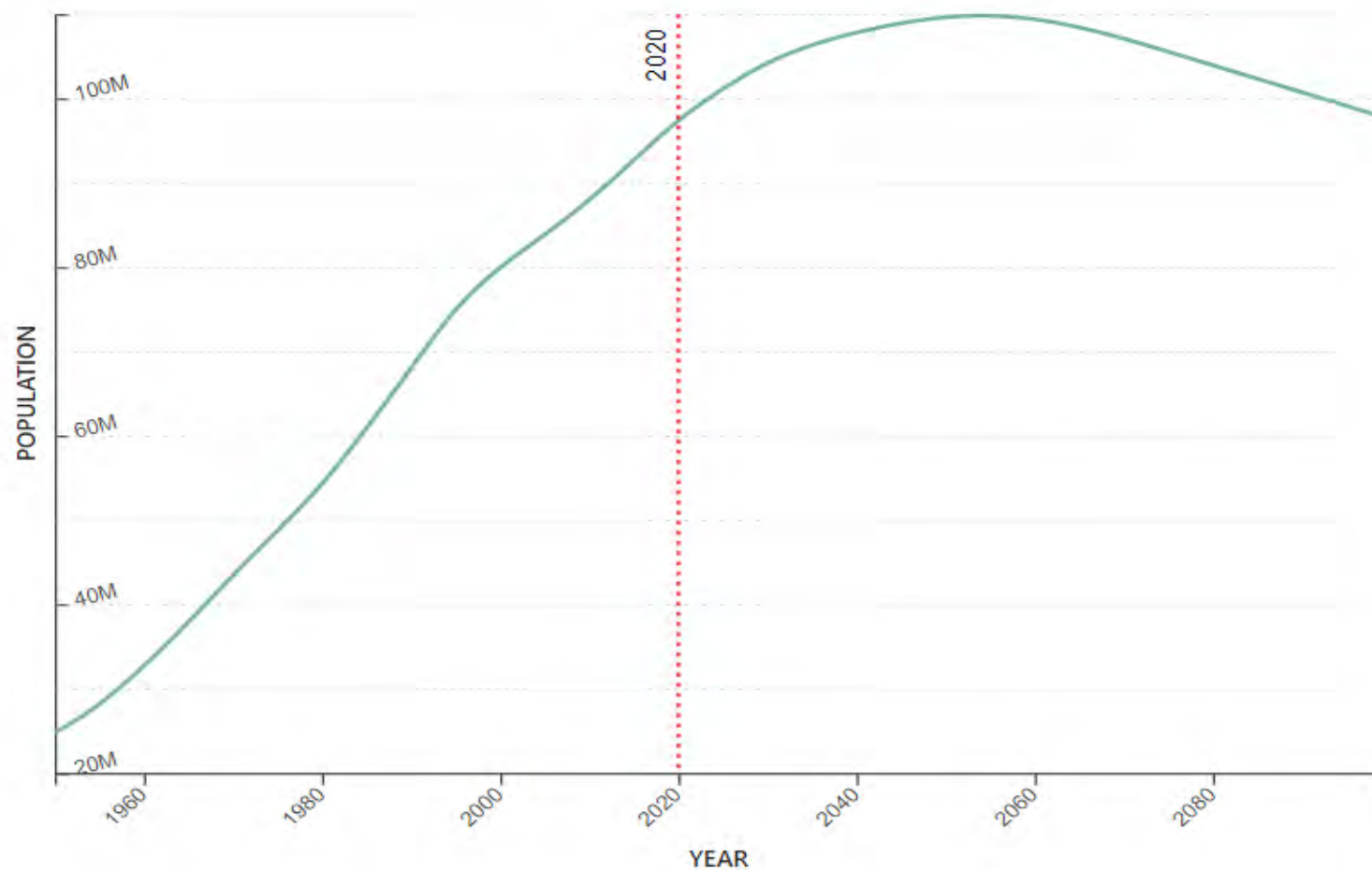
Viet



Population Forecast

Vietnam Population 2020 (Live)

97,729,841



Source: UN World Population Prospects 2019

Political Capitalism Notes

**Table 1:** Sectoral distribution of SOEs activity (summary statistics in 2007).

Statistics	% of Firms	% of Capital
Agriculture	36.1	81.1
Mining	7.5	82.9
Electricity	4.4	79.2
Manufacturing	5.4	40.2
Manufacturing Sector (ISIC 2-digit)		
Manufacture of food products and beverages	2.8	16.4
Manufacture of tobacco products	67.7	86.3
Manufacture of textiles	5.6	17.2
Manufacture of wearing apparel	1.4	11.3
Tanning and dressing of leather	3.8	2.8
Manufacture of wood and of products of wood and cork, except furniture	1.1	13.7
Manufacture of paper and paper products	1.6	20.6
Publishing, printing and reproduction of recorded media	0.3	1.0
Manufacture of coke, refined petroleum products and nuclear fuel	9.1	13.2
Manufacture of chemicals and chemical products	3.2	19.8
Manufacture of rubber and plastics products	3.3	42.2
Manufacture of other non-metallic mineral products	3.7	32.8
Manufacture of basic metals	5.6	22.4
Manufacture of fabricated metal products, except machinery and equipment	2.3	25.0
Manufacture of machinery and equipment	4.3	23.6
Manufacture of office, accounting and computing machinery	0	0
Manufacture of electrical machinery and apparatus	4.5	14.0
Manufacture of radio, television and communication equipment and apparatus	3.0	10.7
Manufacture of medical, precision and optical instruments, watches and clocks	3.0	4.6
Manufacture of motor vehicles, trailers and semi-trailers	11.8	21.0
Manufacture of other transport equipment	2.0	2.6
Manufacture of furniture	1.7	17.9
Manufacture of gas	0.07	89.7

Note: The manufacturing sector is at the ISIC 2-digit.



TABLE 3.1. Countries that have systems of political capitalism

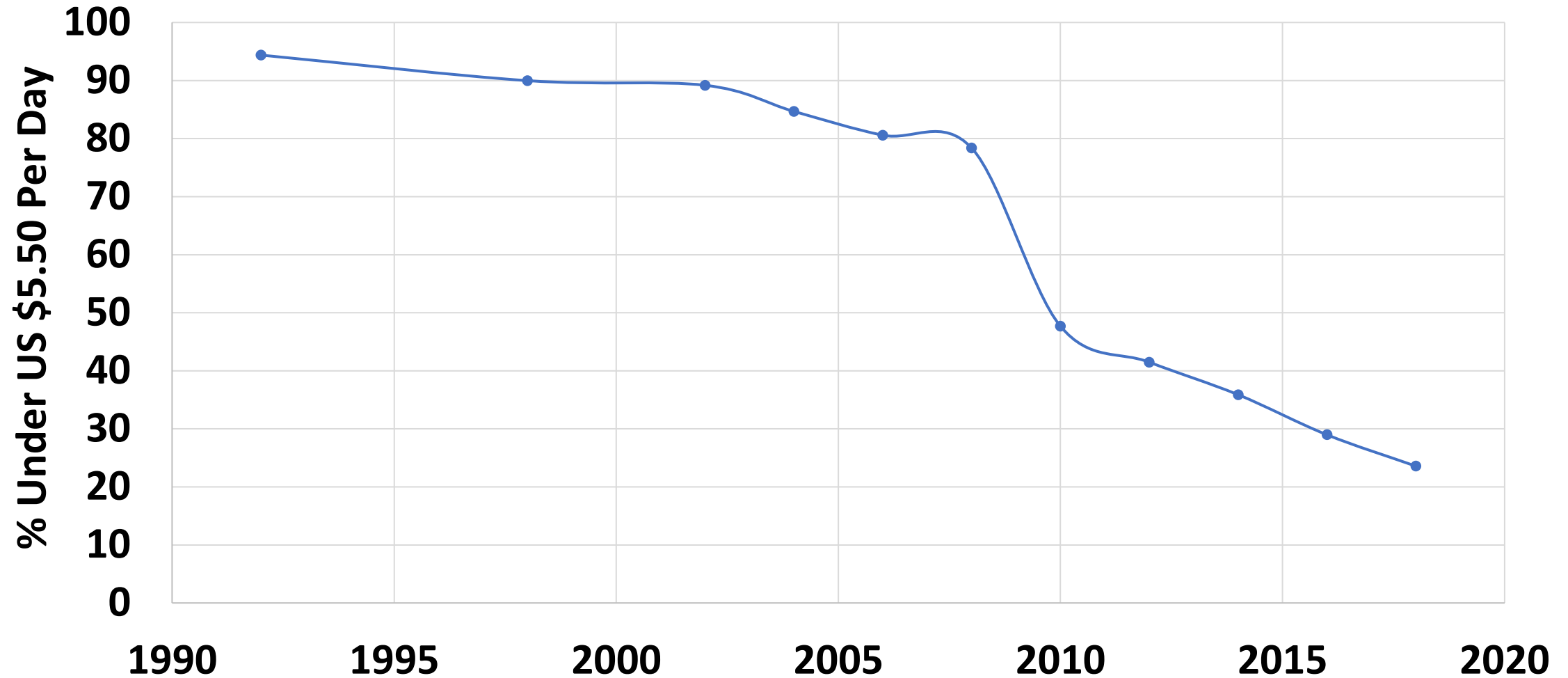
<i>Country</i>	<i>Political system</i>	<i>Number of years in power (up to 2018)</i>	<i>Average GDP per capita growth rate between 1990/1991 and 2016</i>	<i>Corruption ranking in 2016⁴</i>
China ¹	Single party rule since 1949	69	8.5	79
Vietnam ¹	Single party rule since 1945, extended in 1975 to South Vietnam	73	5.3	113
Malaysia	One party in power since 1957 (ended in May 2018)	61	3.7	55
Laos ¹	Single party rule since 1975	43	4.8	123
Singapore	One party in power since 1959	59	3.4	7
Algeria ¹	Single party rule since 1962	56	1.8 ²	108
Tanzania ¹	One party in power since 1962	56	3.5	116
Angola ¹	Single party rule since 1975	43	1.1	164
Botswana	One party in power since 1965	53	2.8	35
Ethiopia ¹	Single party rule since 1991	27	4.1	108
Rwanda	Single party rule since 1994	24	2.6 ³	50
<i>World</i>			<i>2.0</i>	<i>88</i>

Macroeconomic Stability Notes



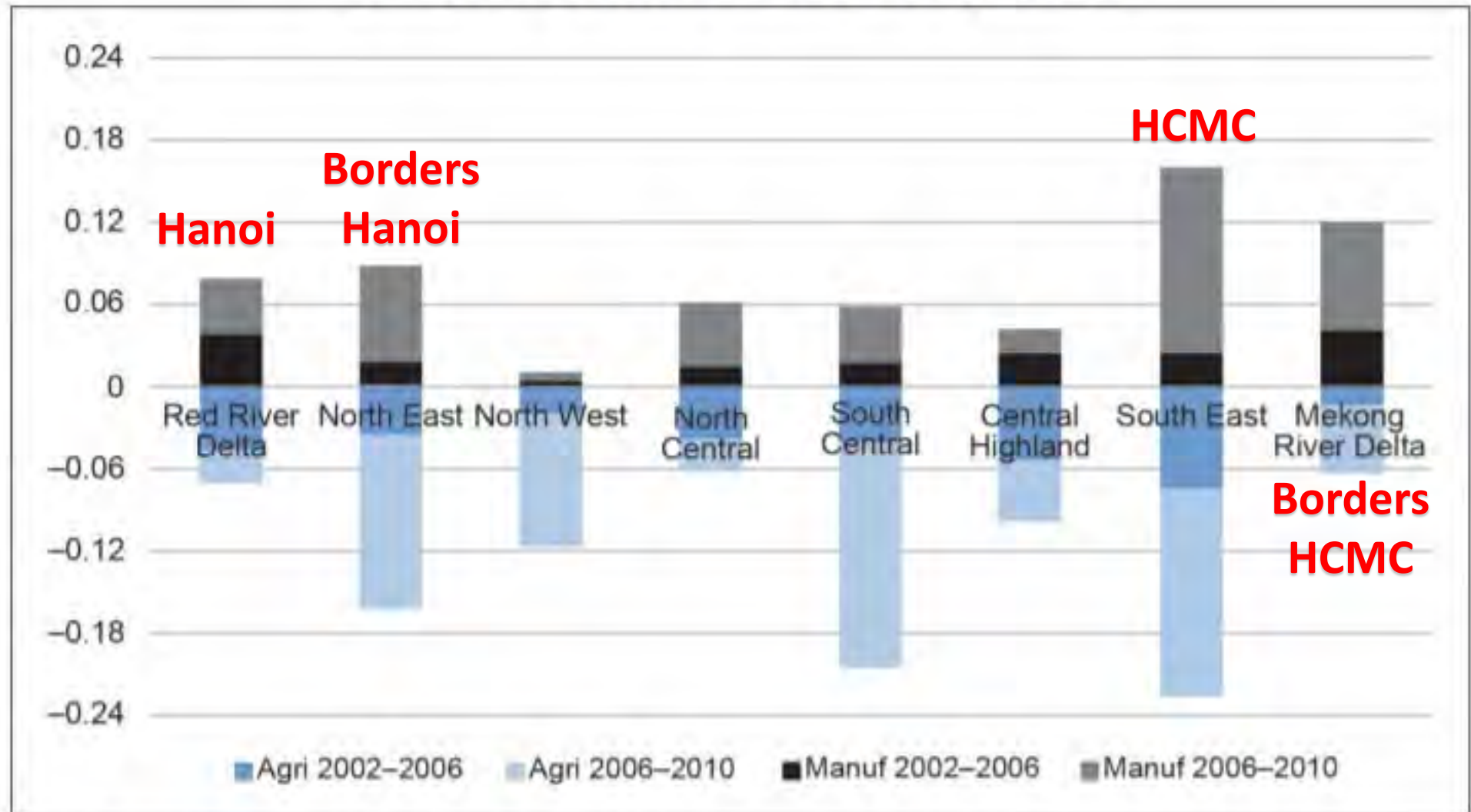
Reasons for high growth: Poverty Reduction

% Under US \$5.50 Per Day





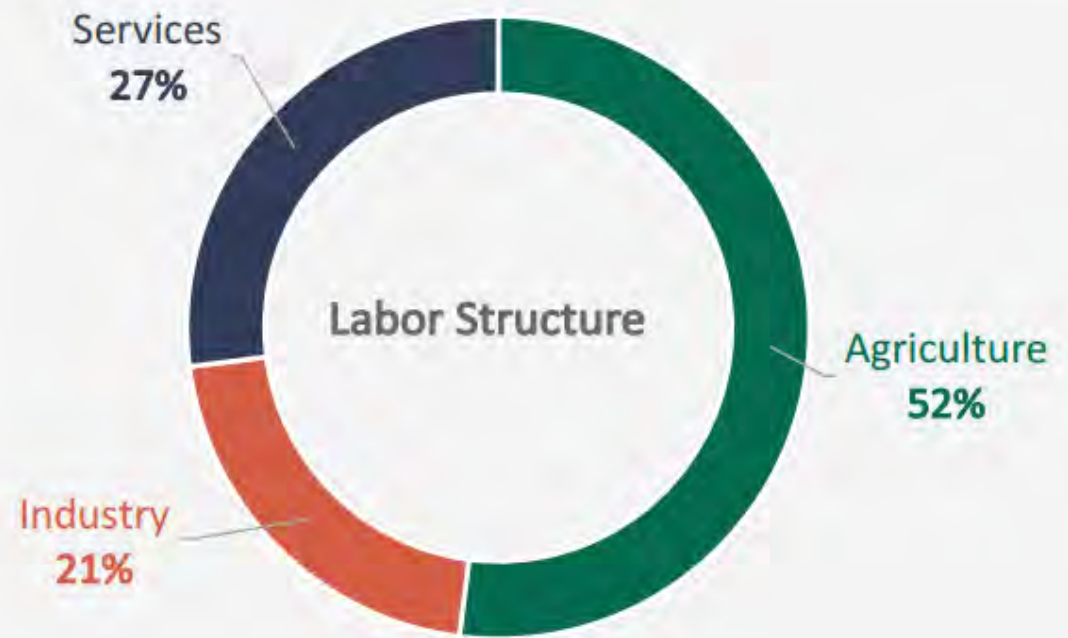
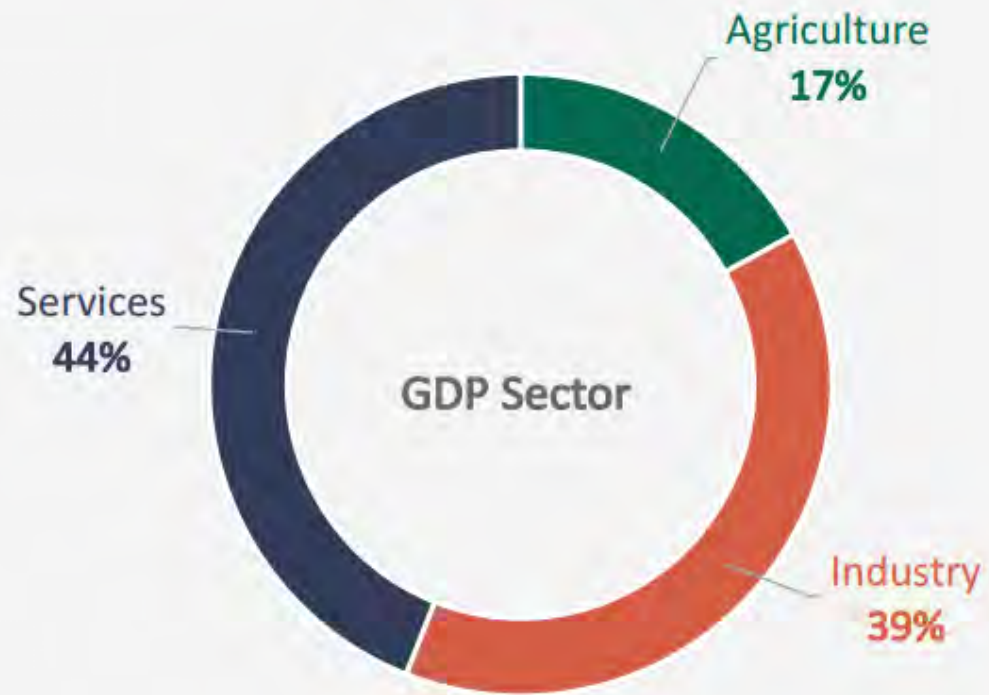
Change in Sectoral Participation by Region



Source: Authors' calculations based on VHLSS 2002, 2006 and 2010.

Structural Transformation Notes

GDP and labor force breakdown



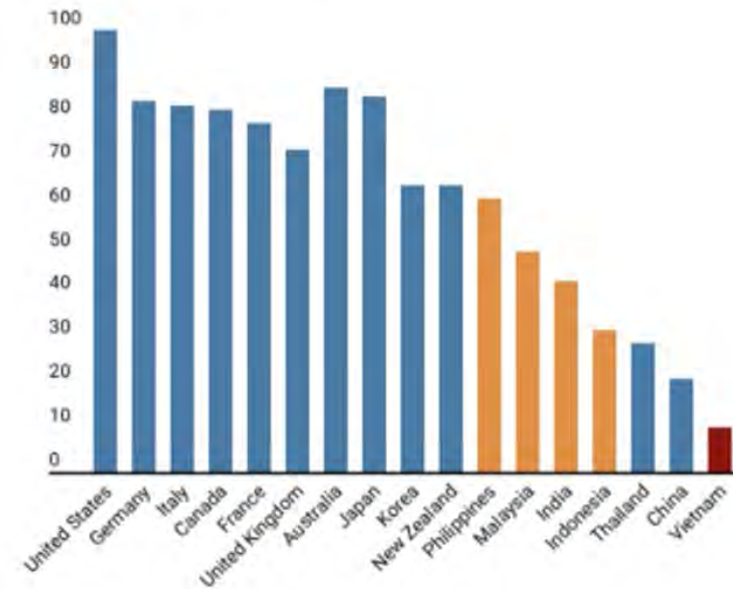
Source: Quyen, Ngo Ha (2019). Reducing Rural Poverty in Vietnam. Mekong Development Research Institute



Peaking early

Vietnam's working-age population peaked at the lowest per capita income level relative to the United States.

(purchasing power parity in US dollars)



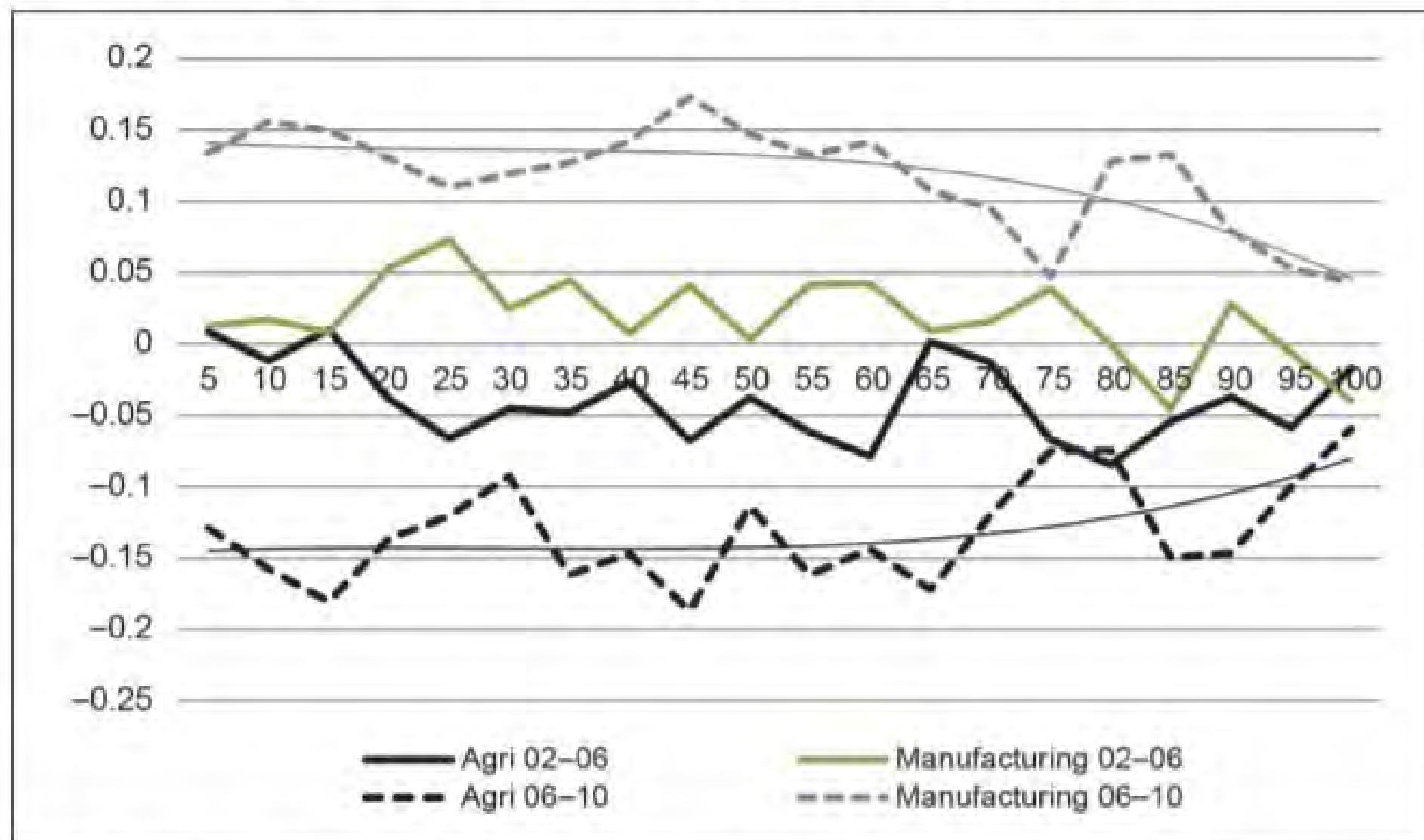
Sources: IMF World Economic Outlook database; and IMF staff calculations based on United Nations World Population Prospects: 2015 Revision (medium-fertility scenario).

Note: Orange bars based on IMF staff projections. For Malaysia, the income level relative to the United States is calculated from the April 2017 WEO projection for 2020. For India, Indonesia, and the Philippines, the income levels are calculated by applying the projected purchasing power parity per capita income growth rate in 2022, starting from 2023 and up to the year in which the working-age population share is projected to peak, respectively.

Income Inequality Notes



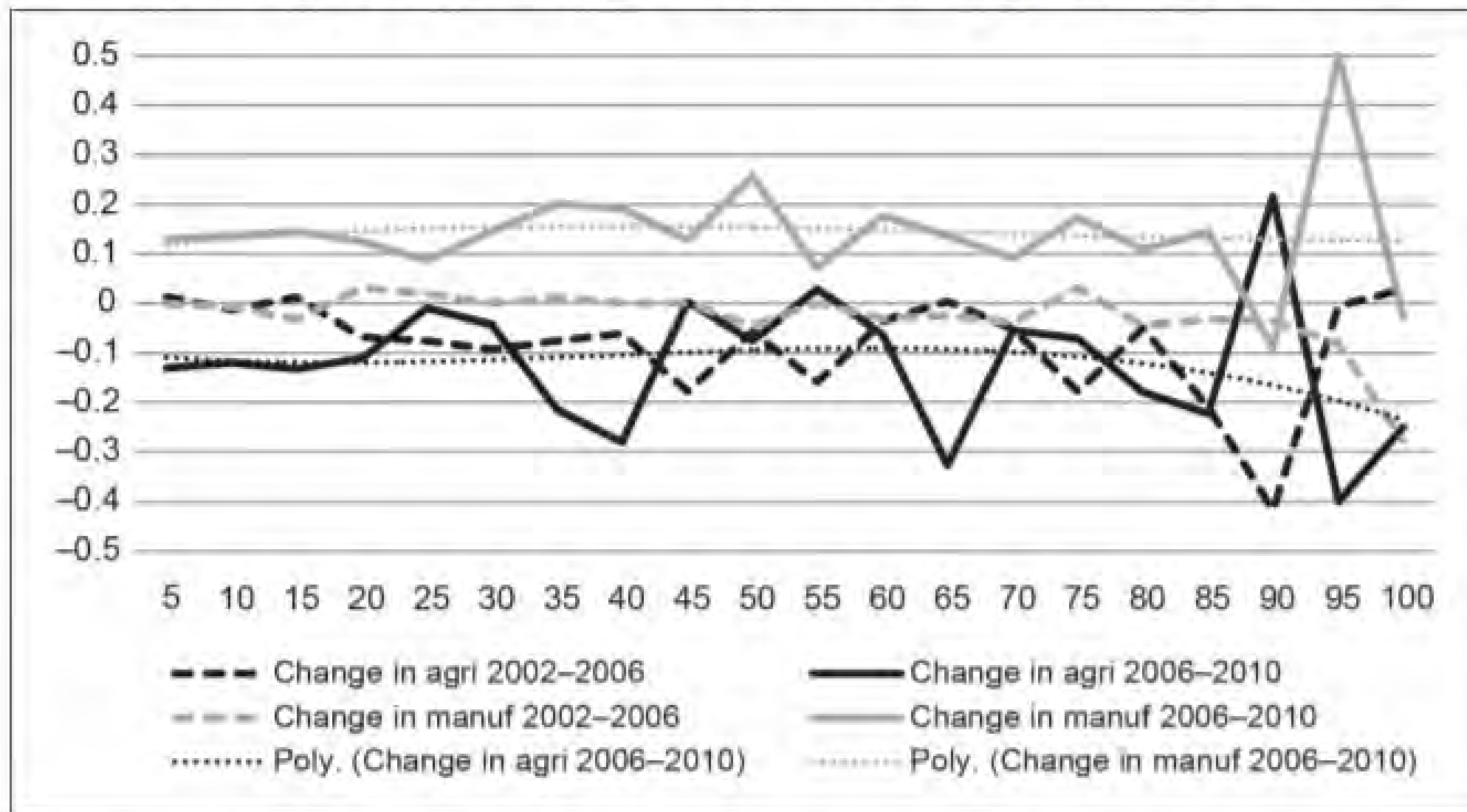
Figure 3: Sectoral Participation by Income Quantile



Source: Authors' calculations based on VHLSS 2002, 2006, and 2010.



Structural Change among Ethnic Minorities by Income Quantile

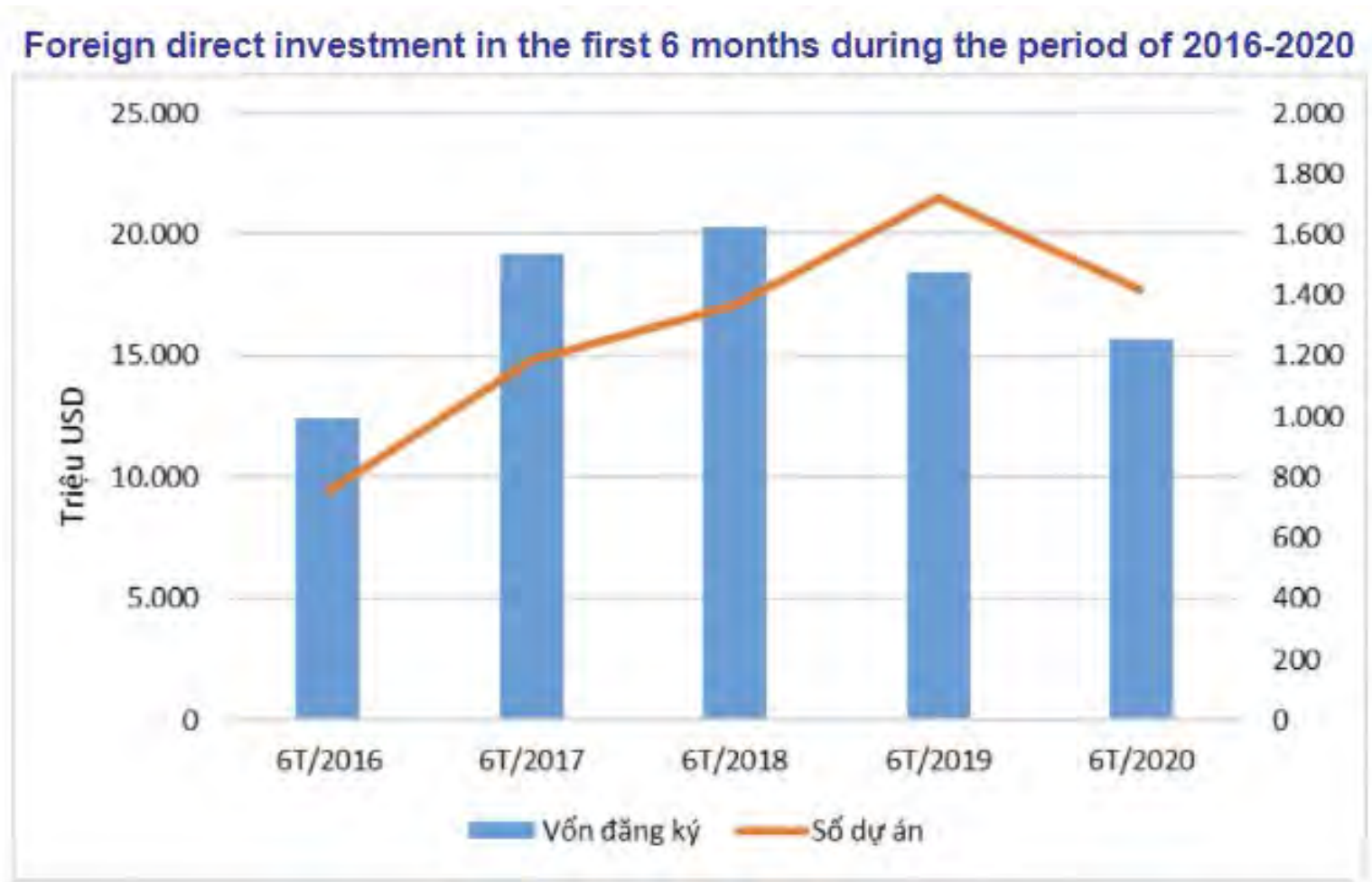


Source: Authors' calculations based on VHLSS 2002, 2006, and 2010.

Post COVID-19 Notes



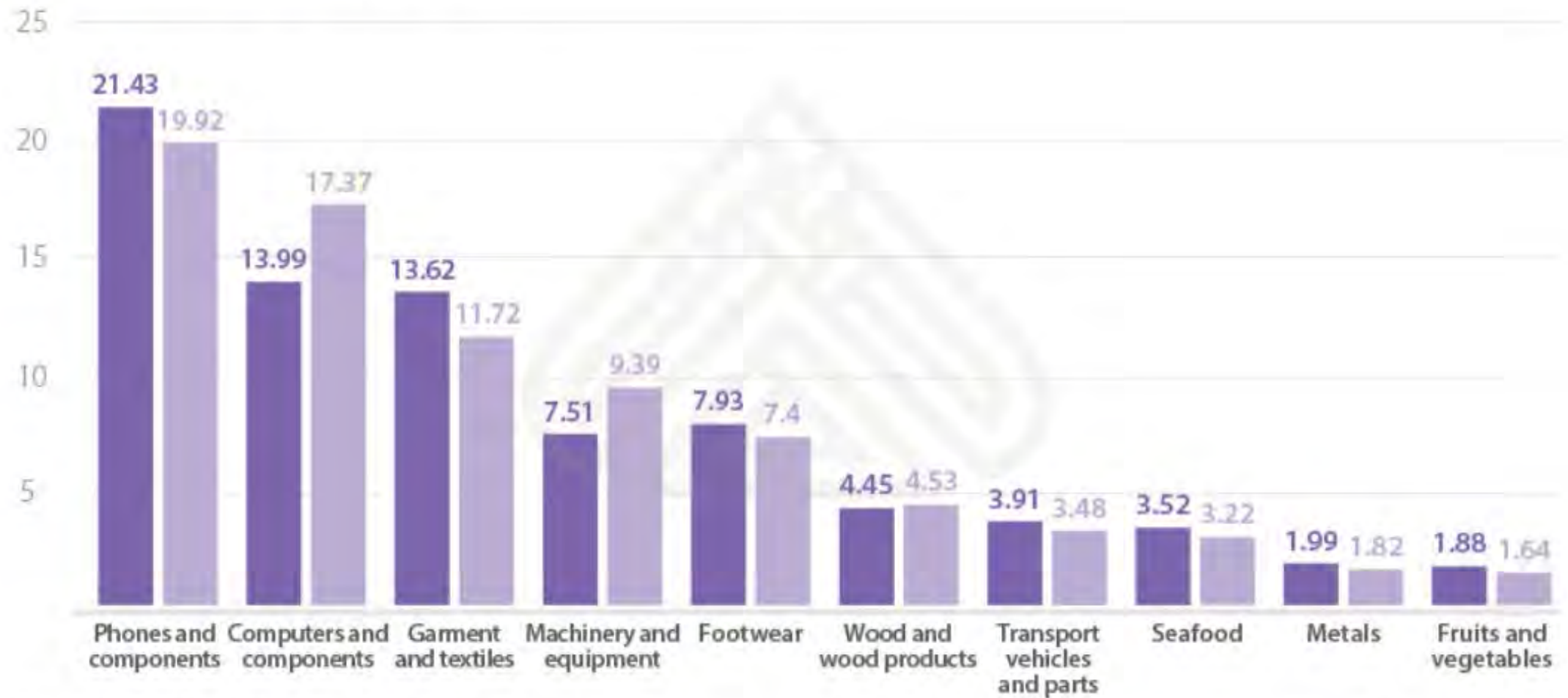
FDI growth rates were sustained by continued interest in Vietnam's industrial zones and the approval of major projects





Export Value of Vietnam's Ten Largest Commodities (billion US\$)

■ Jan-Jun 2019 ■ Jan-Jun 2020



Source: Vietnam Customs

Graphic © Asia Briefing Ltd.



World Economic Outlook: April 2020

Real GDP Annual Percent Growth

