

FINANCING VIETNAM'S GROWTH

Domestic and Foreign Sources of Development

*Edited by: Nguyen Ngoc Son
Tran Thi Thanh Tu*

© Vietnam Development Forum, 2007

All rights reserved. No part of this publication may be reproduced or translated into another language in any form or by any means, including photocopy or website uploading, without permission in writing from the Vietnam Development Forum.

The responsibility for facts and opinions expressed in this publication rests exclusively with the authors, and their interpretations do not necessarily reflect the views or policy of the Vietnam Development Forum, and other institutions and individuals mentioned in this publication.

TABLE OF CONTENTS

About the author	5
Acknowledgement	6
Introduction and Summary	7
<i>Nguyen Ngoc Son and Tran Thi Thanh Tu</i>	
Chapter 1: Saving – Investment Balance and Economic Growth in Vietnam.....	9
<i>Nguyen Ngoc Son, PhD</i>	
Chapter 2: Managing Capital Inflows: The case of Vietnam	49
<i>Vo Tri Thanh, PhD and Pham Chi Quang, MA</i>	
Chapter 3: The Economic Growth and Foreign Direct Investment	111
in Vietnam: An Empirical Analysis	
<i>Nguyen Phi Lan, PhD</i>	
Chapter 4: On Empirics of Effectiveness of Official Development Assistance	134
(ODA) in Growth in Vietnam	
<i>Nguyen Hoang Phuong, MA</i>	
Chapter 5: Roadmap for Official Development	151
Assistance (ODA) Mobilization and Utilization in Vietnam	
<i>Le Quoc Hoi, PhD</i>	
Chapter 6: Equitization in Vietnam: Corporate Governance Perspective.....	165
<i>Quach Manh Hao, PhD</i>	
Chapter 7: Development of Corporate Bond Market in Vietnam	186
<i>Tran Thi Thanh Tu, PhD</i>	

LIST OF ABBREVIATION

ADB	Asian Development Bank
APEC	Asia - Pacific Economic Co-operation
ASEAN	Association of South East Asia
BOP	Balance of Payment
DAC	Development Assistance Committee
SOE	State Owned Enterprises
EU	European Union
EVN	Electricity Corporation of Viet nam
GDP	Gross Domestic Products
FIEs	Foreign Investment Enterprises
FTAs	Free Trade Areas
GNI	Gross National Income
HOSTC	Ho Chi Minh Stock Trading Center
HASTC	Ha Noi Stock Trading Center
IBRD	International Bank for Reconstruction and Development
ICOR	Incremental Capital Output Ratio
IDA	International Development Association
IPO	Initial Public Offering
FDI	Foreign Direct Investment
LIC	Low Income Country
MIC	Medium Income Country
NGOs	Non Government Organization
SOCB	State Owned Commercial Bank
SOE	State Owned Enterprises
ODA	Official Development Association
OECD	Organization for Economic Co-operation Development
WTO	World Trade Organization

ABOUT THE AUTHORS

NGUYEN NGOC SON is currently a lecturer of Planning and Development Faculty, National Economics University, and also a researcher of Vietnam Development Forum. His research topics relate to economic growth and development such as hungry elimination and poverty reduction, inequality and justice. Mr Son has done many researches and papers relating to this field. He got PhD in Moscow Management Institute.

VO TRI THANH is the Head of Department for trade policy international Intergration studies Economic Integration Department, Central Institute of Economic Management, Ministry of Investment and Planning. His research interest focuses on finance and economic integration issues. He is well-known as a specialist in these fields and publish many reports as well as papers in the high ranking journals. He held PhD in Australia National University.

PHAM CHI QUANG is a candidate PhD in Heriot-Watt University, Edinburgh, Scotland.

NGUYEN PHI LAN is a lecturer of National Economics University. His research topics deal with growth and growth sources. He got PhD in the University of South Australia.

NGUYEN HOANG PHUONG is a specialist of International Relationship Department, Ministry of Planning and Investment. His research interest includes attracting and using ODA. He earned Master degree in Japan and currently is PhD candidate in Australia.

LE QUOC HOI is a lecturer of Economics Faculty, National Economics University and a researcher of Vietnam Development Forum. His research focuses on macro issues such as growth, inflation and growth resources. He has published many discussion papers and articles in specialization journals. He got PhD in Adelaide University, Australia.

QUACH MANH HAO is a lecturer of Banking and Finance Faculty, National Economics University and a senior advisor of Thang Long Security Company. He held PhD in Birmingham University, England and used to be an exchange scholar of Fullbright Program. His particular research topics are finance and security market.

TRAN THI THANH TU is a Banking and Finance Faculty, National Economics University and a researcher of Vietnam Development Forum. She is interested in finance, banking and intensive corporate finance. Series of her papers and articles were published in specialization journals. She earned PhD in finance from National Economics University and Master of International Accounting from Swinburne Technology University, Australia.

ACKNOWLEDGEMENT

This book is a collection of papers written by researchers from Vietnam Development Forum, Central Institute for Economic Management, National Economics University and Ministry of Planning and Investment. These papers were presented in international and national conferences. On behalf of the authors, we would like to express our special thanks to institutions and individuals who gave valuable supports for them on doing researches. This book could have never printed without these supports.

For Vietnam Development Forum, we sincerely thanks Professor Kenichi Ohno from National Graduate Institute for Policy Studies (GRIPS, Japan) as well as Associate Professor Pham Hong Chuong, General Manager of VDF for their supports in the producing of this book. We also would like to give special thanks to our colleagues in VDF for their comments and contributions in all stages of works.

For National Graduate Institute for Policy Studies (GRIPS), we are grateful to the board of managers and assistants of GRIPS Development Forum (GDF) and Tokyo - VDF, especially Ms Azko Hayashida.

Finally, we would like to thank the authors for their excellent contributions. Their enthusiasm efforts and papers help us to publish this book as planned. Moreover, these papers focus on analyzing and examining urgent financial issues which are much concerned by policy makers as well as practitioners in the “difficulty period” of Vietnam economy with low economic growth, high inflation and signs of economic crisis.

Editors

Nguyen Ngoc Son
Tran Thi Thanh Tu

INTRODUCTION AND SUMMARY

Vietnam officially launched the Economic Renovation, so called “Doi moi” in Viet nam. However, not until 1989 a series of mandatory comprehensive measures began, aiming at stabilizing and opening the Vietnamese economy to the world. Thanks to reforms and global integration, Vietnam has been achieving a great deal of impressive economic success, which has been highly appraised by the international community.

During the last twenty years, Vietnam has obtained the relatively high economic growth rate, specifically at the average of 7.4 percent in the period of 1990 to 2007. This high economic growth was supported by the increase of state and private investment and savings. The growth was oriented mainly by domestic investment while the domestic share of the total investment experienced a slight decrease in 2000. Thus, the gap between saving and investment has thereafter been widening, caused by the raising of investment ratio in parallel with a decline of saving ratio over GDP. Foreign saving has played a key role and contributed more and more to total investment in Vietnam.

After a series of encouraging success, the Vietnamese economy has recently been faced with more serious obstacles. In 2007 and early 2008, some unstable economic outlook pushed the Government to reduce the targeted economic growth from between 8.5 and 9 percent of GDP to 7 percent, and implement a policy package to stabilize the economy. The downturn of the Vietnamese economy lately raised many concerns about the stability and efficiency of the financial sector, especially in the context of global financial crisis.

Many recent studies show that sustaining a sound financial development, while mitigating possible financial crisis, is required for sustainable economic growth and effective poverty reduction. Globalization will create more challenges for the whole financial sector: foreign providers will be substituted for the domestic ones in some services sooner or later, and constrain the role of the government. This book focuses on analyzing and examining the hot issues in the Vietnamese financial sector, from sources of saving to managing capital inflows and the operations of the financial markets in the Economic Renovation, as well as evaluating the impacts of these funds to the economic growth and development in Vietnam.

Chapter 1 “ Saving - Investment Balance and Viet nam economic growth” written by Nguyen Ngoc Son discusses the role of saving – investment in the Viet nam economic development in the period of 1995 – 2007. The author analyzes the three main sources of saving and investment such as: Government, enter-

prises and households, as well as the rotating of savings and investment among these sectors. Moreover, the author also evaluates the impact of external fund (ODA, FDI) on Vietnam economic growth since 1995 up to now and examines the roles of financial systems in mobilizing saving for investment.

Chapter 2 “Managing capital inflow: the case of Viet nam” written by Vo Tri Thanh and Pham Chi Quang focuses on the most important problem in Vietnam now: how to maintain the sustainable economic growth and financial development as well as reducing the financial risks. This study introduces some reform measures including solving the problems raising in the economy currently such as: the weaknesses of economic institutions, infrastructure and human resources, modernization State Bank of Vietnam, improving the risk management capacity in banking activities and financial control system.

Chapter 3 “Economic growth and foreign direct investment in Viet nam: an empirical analysis” provide an analysis of correlation between FDI and economic growth in 61 provinces in Vietnam from 1996 to 2005. The empirical results show that the correlation between FDI and economic growth in all provinces is positive. However, the positive impact of FDI on provincial economic growth depends much on the absorption of the economy.

Chapter 4 “Roadmap for the mobilization and utilization of ODA in Viet nam ” by Nguyen Quoc Hoi explains the current situation of mobilization and utilization of ODA in Viet nam in the period of 1993-2007 and suggests some measures and solutions to improve the effectiveness of ODA utilization.

Chapter 5 “On the empirics effectiveness of Official Development Assistance (ODA) in economic growth in Vietnam” by Nguyen Hoang Phuong provides the empirical results of the contribution of ODA to Vietnam economic growth in the period of 1993 - 2006.

In Chapter 6 “Equitization in Vietnam: corporate governance perspective”, Quach Manh Hao reviews some relating researches in corporate governance first, and then propose some recommendation for the post-equitization in Vietnam. This paper implies that a best practice in corporate governance will become more important for the equitization. The State - SCIC should behave as larger shareholder in the process of equitization aiming at improving the effectiveness of SOEs.

Tran Thi Thanh Tu analyzes the development of corporate bond market in Vietnam **in Chapter 7** “Development of corporate bond market in Vietnam”. The author examines the limitations of this bond market as well as proposes some policy recommendations to enhance the development of this bond market, especially the solutions to improve the liquidity, create incentives for market makers and set up the independent credit rating agency.