

## Summary

### **Symposium on Avoiding the Middle Income Trap: Opportunities and Challenges for Vietnam**

*Nikko Hotel, Hanoi, 18 March 2010*

On 18 March 2010, Vietnam Development Forum (VDF), a joint research project between National Economics University (NEU) and National Graduate Institute for Policy Studies (GRIPS), organized a symposium on “Avoiding the Middle Income Trap: Opportunities and Challenges for Vietnam,” chaired by Associate Prof. Pham Quang Trung (Vice Rector, NEU) and Prof. Kenichi Ohno (VDF Research Director/GRIPS Professor).

More than hundred participants attended from administrative organizations such as the Government Office, the National Assembly Office, MPI, MOIT, MOF, MOLISA, academic institutions, universities, international organizations such as the World Bank JETRO, JICA, GTZ, and press agencies.

Three presentations discussed development policies, social changes, and environmental problems under the middle income conditions. Prof. Kenichi Ohno warned that Vietnam would sooner or later fall into the middle income trap, unless policy formulation was renovated, and that Vietnam should learn selectively from successful experiences from high income countries in the region such as Korea and Taiwan, as well as from positive and negative lessons from Malaysia and Thailand that seemed to be stuck in the middle income trap. Prof. Ohno urged Vietnam to identify its vision and targets for the next five to ten years and even for a longer term, and design and implement comprehensive and realistic policies to realize them. Emphasizing on industrial development as a pillar of economic growth, Prof. Ohno proposed proactive industrial policy and a technocrat group as two measures that could help Vietnam to avoid the middle income trap.

The second presentation by Dr. Giang Thanh Long, an NEU lecturer and a VDF researcher, discussed a new challenge of aging population that would emerge from 2010. Analyzing demographic, living, healthcare and economic situations of the aged, Dr. Long said that current policies on social protection had not adapted to the reality of the aging population. He also noted that aging was not a burden if Vietnam had policies and strategies that could guarantee good health, a low risk of disease and disability, an active engagement with life, and high mental and physical functioning for the old people. Otherwise, Vietnam would face many serious socio-economic consequences. To prepare for such a demographic trend, policy measures were proposed, including (i) reform of the current pension scheme, (ii) diversification of insurance provisions, (iii) conversion of social assistance towards a universal scheme, and (iv) diversification of economic activities and living arrangements for the elderly. Vietnam would enter a “demographic bonus” period for 30 years from 2010, a period in which the ratio of working to total population would rise, which should be utilized to implement these policies.

The third presentation by Dr. Le Ha Thanh, also an NEU lecturer and a VDF researcher, pointed to the challenge of environmental pollution by analyzing Decree No. 67 on industrial wastewater fee. The Decree contributed much to raising enterprises' awareness on environment protection, but not so much to changing their behaviors. A main reason was the complicated implementation mechanism that did not create economic motives for the enterprises. The case of the Decree No. 67, according to Dr. Thanh, suggested that more attention should be paid in policy formulation to the involvement of all stakeholders, especially enterprises, the drafting of a transparent implementation roadmap, and a strict monitoring mechanism to guarantee the policy's feasibility.

In the Q&A session, participants discussed actively on the three topics. Ms. Pham Chi Lan, a senior economist, stated that avoiding a middle income trap must mean moving to a higher income level. If Vietnam did not have appropriate policies, it might even regress back to a low income level. Current policies were influenced by some interest groups and did not encourage dynamism of the private sector, which should be the main driving force for Vietnam to overcome the middle income trap. Regarding the demographic issue, Ms. Lan mentioned that, besides aging, Vietnam was currently entering a "demographic bonus" period, which would be a golden opportunity if Vietnam could take advantage of its huge labor force, implement proper training and education policy to improve labor quality. The demographic change, otherwise, would be a country's burden that might cause high unemployment and the waste of youth and energy of the young generation.

Ms. Vu Xuan Nguyet Hong, a vice director of CIEM, stated that Vietnam already had a long-term vision, and ten-year strategies, five-year plans, and sectoral master plans to realize the vision. However, these strategies and plans did not always have the same orientation or purpose, being affected by different interest groups. Even today, the concept of industrialization was not clearly defined, causing difficulties in formulating strategies and plans. Besides that, Vietnam needed not only one strategic partner but many in order to mobilize strengths of all partners. In her opinion, forming a technocrat group in Vietnam as Prof. Ohno proposed was not a simple task, because this group could hardly deal with all issues of the economy. It might be better to have flexible groups, whose members were changeable according to specific issues, to support the government in policy formulation. Regarding population, Ms. Hong suggested that the government budget should focus on labor and population groups that were vulnerable to economic changes, rather than spread out to all aged people; and that the elderly group should be seen as country's driving force and asset rather than a burden. On environment, Ms. Hong thought that it was necessary to have a progressive fee scheme applied to all enterprises rather than a fixed rate that covered only large enterprises with high pollution intensity.

Prof. Nguyen Dinh Cu, the Director of Institute for Population and Social Issues of NEU, supplemented information on opportunities and challenges of Vietnam's population. He affirmed that Vietnam could take many advantages from the demographic bonus, which would last 30 years from 2010. To implement industrialization, Vietnam should direct population structure in line with industrialization, generate more job opportunities, strengthen capacity of young labor in industrial and service sectors, and improve population quality. To do these, education and training were essential.

Dr. Martin Rama, a World Bank representative, noted that policy implications from advanced countries were very little. Few countries successfully overcame the middle income trap, such as Korea, Taiwan, and Chile. Moreover, each country had different strategies that made it difficult for latecomers to learn common lessons. Industrial policy and SME support were essential for Vietnam to avoid the middle income trap. However, the preconditions for these policies were abolishing subsidies for certain enterprises and improving transparency in policy design and implementation. On the population issue, Dr. Rama agreed that pension reform was important since it affected long-term sustainability of the social security system, which played a crucial role in supporting the aging population to overcome risks of social and economic vulnerability. However, reform method should be selected carefully to avoid fiscal shocks. He suggested Vietnam to improve operations of the social security fund by adjusting the retirement age and contribution/benefit rates and increasing the fund's investment efficiency.

Dr. Vu Dinh Anh, Vice Director of Market and Prices Institute of MOF, emphasized that human resource must be the driving force in the coming time since other resources such as lands and natural resources would become scarcer and scarcer. Government and policy makers had to decide which human resource should be developed, which direction the economic structure should follow, and which economic sector was the main pillar. Dr. Anh fully agreed that policy makers as well as all people had to pay more attention to factors that affected economic growth and the quality of life, such as demographic changes and environment.

Besides these comments, many participants also actively expressed their opinions on the issues on economic growth, population as well as environment. In general, all shared a common view that research institutes must play a role in translating research results into actual formulation of development policies; Vietnam's growth up to now had been mainly based on high investment and limited resources; and the importance of human resource as a main driver of growth that was reproducible had not been fully recognized or effectively utilized. Vietnamese labor force was abundant but low in quality. The essence of strategy for sustainable development must be to improve labor quality and people awareness.