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SOME CURRENT ECONOMIC ISSUES IN VIET NAM

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Abstract: *The paper examines three issues of particular importance in Viet Nam and, more generally, in a market transition economy: privatisation of state-owned enterprise (SOE), growing inequality and the threat of environmental damage in a country which is ecologically fragile. First, while Viet Nam has greatly reduced the number of SOEs, the state's share in total output has not diminished. Moreover, the dividing line between state and private is blurred by SOE joint ventures with foreign investors. Secondly, the country's recent rapid economic growth, while lowering absolute inequality, will increase relative inequality; although Viet Nam has made progress in reducing poverty incidence and fostering balanced regional development, an unaddressed area is that of maintaining favourable terms of trade for agriculture. Thirdly, environment has become a particularly important issue because of industrial growth, urbanisation and the spillover effects these have had on rural areas; but is Viet Nam doing too little too late?. The paper includes a summary of recent macroeconomic performance.*

I. Introduction

Viet Nam's recent record of economic growth, averaging over 8 percent per annum since 1990, is impressive even by East Asian standards and certainly by the standards of the world's low income countries. In the words of one observer, Vietnam is now firmly "on the trail of the tigers".¹ But high growth is not a panacea; there are problems growth cannot resolve and new ones that it creates (which obviously does not mean growth is undesirable). The present paper highlights aspects of three such problems as they apply to a market-transition economy (MTE): the controversial role of privatisation; the increase in inequality which often accompanies the shift to a market-based economy and the sustainability of rapid market-led growth in relation to its environmental consequences.

The conventional wisdom embodied in neo-classical economics tells us that the market gives correct allocation signals in all but a few exceptional cases. It follows that the State should not need to run productive enterprises; that although growth may produce inequities (about which an economist may have some value judgement) no income distribution is more efficient than any other; and that although growth may entail external diseconomies, these are unlikely to be of central concern. Such a characterisation, albeit slightly exaggerated for emphasis, can probably be applied to most mainstream academic textbooks on development. Of course, for many years, a significant minority of economists disagreed with such positions arguing that the state did indeed have an important role to play in the industrial sector and that income distribution was of prime importance; more recently, environmental questions have

¹ See Riedel (1994) quoted in Dollar, D. And B. Llungren (1995).

received growing attention as economists (and non-economists) have taken note of the threat to 'sustainable' development posed by growth-induced resource depletion and pollution. Today, however, these themes are being taken up by some of development economics' major players; eg, the multilateral and major bilateral lending institutions.

In this paper, we examine these three themes in relation to the recent experience of Viet Nam, particularly that of the past five years after the "break out to the market" of 1989-90. The experience of Viet Nam is important for at least three reasons. First, it is one of the few ex-centrally planned economies to have effected rapid market transition *with* macroeconomic stability; its transition to the market, somewhat like China, has emphasised stability through a phased strategy of agricultural and trade liberalisation without rapid privatisation of state-owned enterprise (SOE) and with no apparent impairment of micro efficiency. Indeed, some would argue that the opposite is more likely to be true; ie, in the absence of the necessary administrative and judicial framework, rapid privatisation probably jeopardises micro-efficiency. Second, like a number of other East Asian countries, Viet Nam's market-led industrialisation has benefited from prior land reform in the sense that an egalitarian distribution of land assets enhances the efficiency of food agriculture making wage goods relatively cheap. How far, though, will growth lead to growing inequality or, put another way, how far is growing inequality sustainable? Now that growth is firmly under way, this too is a new topic for concern. Finally, the paper examines the related issue of growth and environmental sustainability. There is strong evidence—again from East Asia—that early preventative measures to deal with environmental hazards are far more cost effective and far cheaper than curative measures to combat the disease of environmental degradation in its virulent stage. Again, the case of Viet Nam is instructive because it is a latecomer to rapid growth; ie, there is still room ample scope for investing in low-cost prevention. Prior to examining these issues, it will be instructive briefly to review the country's economic performance over the period 1990-95.

II. Macroeconomic Performance

Viet Nam's recent macroeconomic record is impressive in combining high GDP growth, high investment underpinned by increased domestic savings, stronger public finances and relatively low inflation. Growth has been led by a dynamic and increasingly diversified export sector, and while the current account remains in deficit, long-term

official development assistance (ODA)and foreign direct investment (FDI) commitments have produced a healthy basic balance without producing a significant appreciation in the real exchange rate. Sectorally, industry and services have grown most rapidly while agricultural growth has remained well above that of population; regionally, the main urban centres, Hanoi and Ho Chi Minh City (HCMC) have done considerably better than the rest implying an increase in inter- and intra-regional income differences; nevertheless, rapid growth with macrostability has ensured that the overall incidence of poverty has diminished.²

For the period 1992-95, Viet Nam's reported average growth rate is nearly 9 percent annually, and an 8 percent rate of growth is expected to be sustained until the year 2000 and beyond (GOV, 1995).³ Construction has expanded at an annual rate of 18 percent since 1993 overall (and at a higher rate in the major urban centres); industrial output has grown at nearly 13 percent annually while the figures for the services sector and agriculture are 9 percent and 3.5 percent respectively. Contrary to earlier predictions,⁴ state-owned enterprises (SOEs) have proved particularly dynamic experiencing rapid output growth while streamlining their workforce; SOE employment is estimated to have fallen by 40 percent since 1990 (IDB, 1995). The rapid growth of the service sector reflects the expansion of trade, finance and communications as well as the rapid growth of tourism which reached 1.3 million in 1985, a level close to that of the Philippines.⁵ Exports have grown by nearly 20 percent annually and their composition is diversifying. Although inflation surged briefly in 1990-91 and 1994, the 1995 annual figure is put at just below 8 percent. Nevertheless, Viet Nam remains a very poor predominantly agricultural economy with 80 percent of the population living in the rural areas; per capita income is still only USD 220 at 1989 prices and, assuming the current growth rate is maintained, will reach USD 300 by the year 2000.⁶

² Two good review of recent macroeconomic performance are Dollar and Llungren (1995) and Le Dang Doanh (1994).

³ See GOV (1995); according to World Bank estimates, shown in Figure 4, the average growth rate for the period since 1990 is closer to 7%, but all sources agree that economic activity is under-reported..

⁴ See for example Truong and Gates (1992).

⁵ The 1994 level for the Philippines was 1.7 million while that for Thailand was close to 6 million. Viet Nam's master plan for the tourist sector envisaged a figure of 1 million by the turn of the century; tourist growth has been far greater than expected.

⁶ The 1995 per capita income level is reported on an exchange rate basis: the World Bank estimates that on a PPP basis it is \$1250.

For 1995, gross domestic investment is estimated as 24.5 percent of GDP while the figure for gross domestic savings is 18 percent.⁷ There is some evidence that domestic savings and investment continues to be underestimated given the importance of informal sector activity and of large non-registered capital transfers from abroad (largely from the overseas Vietnamese community); it has been argued (Fforde, 1993) that domestic savings and investment may be underestimated by as much as 5% of GDP implying a higher ICOR than that implicit in the above figures. Nevertheless, the difference between domestic savings and investment by definition must match the current account deficit of 6.5 percent regardless of under-recording.

Figure 1: Viet Nam; selected Economic Indicators

Indicator					(est)	(projected)	
	1991	1992	1993	1994	1995	1996	2000
GDP (% change)	6.0	8.6	8.1	8.8	8.5	8.0	8.0
Gross Domestic Investment (% GDP)	15.1	17.0	20.5	24.2	24.5	25.7	27.2
Gross National Savings (% GDP)	13.1	16.3	12.2	17.0	18.0	19.2	21.0
Primary Budget Balance ^a	-0.7	-0.8	-3.5	-0.4	-0.3	-	-
Accrued Government Deficit (% GDP) ^b	-3.8	-3.7	-6.2	-2.6	-1.7	-	-
Current Account (% GDP)	-0.2	-0.7	-8.3	-7.2	-6.5	-6.5	-6.2
Inflation (% change)	3.1	37.8	8.3	9.5	7.8	-	-

a/ The primary balance is simply the accrued balance (next line) before interest charges.
b/ To the extent that government pays less than the total accrued interest, the deficit will be smaller, ie, will be shown on a "cash" basis.

Source: GSO (1995) and WB (1995)

The current account gap is in part driven by inflows of official development assistance (ODA) and foreign direct investment (FDI). Commitments of FDI in the first 9 months of 1995 are reported as being around USD 6 billion⁸ or nearly 60 percent higher than for the whole of 1984. Since the enactment of a liberal Foreign Investment Law in 1987, total FDI commitments have grown to USD 18 billion.⁹ However, disbursement

⁷ Truong and Gates (1994) estimate that domestic private savings was only 2 percent in 1989.

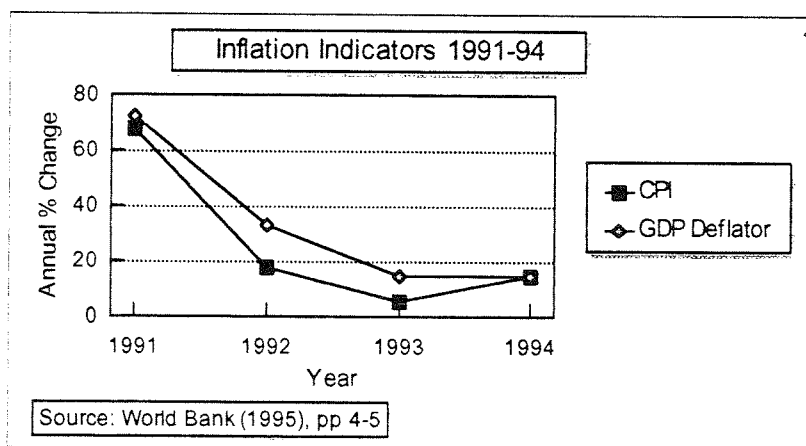
⁸ The US definition of 1 billion equal to a thousand million is used throughout this paper.

⁹ Viet Nam has approved six export processing zones (EPZs), four of which are currently under construction: Tan Thuan and Linh Trung in the HCMC region, Hai Phong EPZ in the North and

rates were initially constrained at a low level by the country's limited absorptive capacity and cumbersome bureaucratic procedures; cumulative FDI disbursements at the end of 1994 were reported as USD 3 billion by the State Committee for Co-operation and Investment (SCCI). The situation has improved significantly in recent years and the 1995 disbursement figure is reported as USD 1.5 billion, in part because of the reorganisation of investment approval procedures under the recently unified Ministry of Planning and Investment (MPI).¹⁰ Sectorally, while over half of FDI goes to the oil and gas sector and another quarter to hotels and tourism, the share of industry has risen to 10 percent. Future flows of FDI are likely to increase significantly since at present Viet Nam's level of FDI per capita is one of the lowest in the region.¹¹

Macrostability, which was threatened in 1991 when inflation rose to over 60

Figure 2: Inflation



percent, now seems assured as a result of tighter controls on government current spending and an impressive rise in revenues, equivalent to 24 percent of GDP

in 1994; these measures combined to reduce the budget deficit to 2.6 percent of GDP in 1994 although inflation blipped in that same year.¹² As administrative streamlining helps boost the disbursement rate of ODA and FDI commitments and as fiscal and

Can Tho EPZ in the Mekong Delta. For an excellent review of FDI in Viet Nam, See Truong and Gates (1994).

¹⁰ The SCCI figure of USD 1.5 billion does not appear to match the (lower) Balance of Payment estimate; why this is so is discussed in Dollar and Llungren (1995:24).

¹¹ China, Indonesia and the Philippines receive about 2.5 times as much per capita FDI as Viet Nam, Thailand 8 times as much and Singapore over 50 times as much.

¹² After the credit squeeze of 1989, relaxation caused inflation to rise again in 1990-91 and a new credit squeeze was imposed. In 1993, Government overestimated the disbursement rate of ODA inflows and the budget deficit rose (reflected in the 1994 inflation figure), a problem subsequently corrected by improved budgetary management and an increase in the disbursement rate.

monetary institutions are strengthened, it seems likely that Viet Nam will not fall too far short of its USD 50 billion target for cumulative foreign savings by the year 2000. Business confidence has been further helped by the restoration of diplomatic relations with the United States and by Viet Nam's membership of ASEAN, which both occurred in July 1995. At the same time, one must not assume that the promise of high growth will continue to attract foreign savings at the current rate unless the institutions of a dynamic market economy are put in place. The period of relatively easy gains in economic growth from increased rice output, oil and natural gas and other sources will eventually come to a close. In the words of a recent ADB Report, "as the economy diversifies into light industry, modern services and more value-added export products, the policy, regulatory and institutional framework so essential to an efficient market system will become increasingly complex and sophisticated. The reform process must be deepened and broadened in order to facilitate this" (ADB, 1995: 6).

III. Institutional Changes

Doubtless the above view is shared by Government, else the pace of reform would not have been so impressive in the past five years. Since 1990, Viet Nam has carried out a wide-ranging set of changes affecting the nature of political and economic life, the structure of government and its administrative capacity at national and regional level and the economic environment in which domestic and overseas companies operate. Most significantly perhaps, under the leadership of the current Prime Minister, Congress in late 1996 when the Prime Minister, the head of state, Le Dun Anh, and the General Secretary, Do Muoi, retire opening the way for a younger generation of politicians to assume power.¹³

In 1990, the National Assembly approved two key pieces of legislation: the Law on Private Business and the Law on Companies which laid the formal basis for the development of a private sector. This was accompanied by the wholesale restructuring of State enterprises, with the dissolution of loss making enterprises or else their merger with the more efficient ones reducing the total number of SOEs by half. Prior to re-organisation only about one-third were reported to be viable (Le Dang Doanh, 1990); by 1994, the government estimated that only 10 percent were making losses. Trade

¹³ The contrary view is to be found in a piece entitled 'Dim new stars', The Economist, 3 June 1995.

relations were broadened; Viet Nam put out feelers towards ASEAN and a broad economic strategy was developed which made it clear that rapid growth would only be achieved and sustained by fomenting private enterprise at home and opening its markets fully to foreign competition and investors—the Socio-economic Development Strategy to the Year 2000 published in 1991. Foreign exchange trading was developed by the establishment of major trading floors in Hanoi and HCMC which the State Bank of Viet Nam (SVB) used to determine the official exchange rate. Equally important, the practice of monetising the budget deficit through SVB borrowing was eliminated.

The years 1992-93 were marked, in the initial instance, by the adoption of a new Constitution widening democratic freedoms, defining stable property rights and entrenching the right to form a private business. A series of decrees concerning the reorganisation of SOEs were promulgated which included provisions for their lease, sale, merger or liquidation. All SOEs were obliged to reregister (Decree 388, Seventh Plenum, 1991), enabling the authorities to identify loss-making enterprises, substantially reduce their number by half—from 12000 in 1990 to 6000 by 1993 and "harden" the soft-budget constraint. To deal with the rise in inflation, tight fiscal and monetary policies were adopted and real positive interest rates were introduced for all borrowers, a measure chiefly designed to stem SOEs' preferential access to credit. At the same time, the State Banking sector underwent further transformation, specialised Banks were set up for industry and agriculture, state commercial banking was put on a more independent footing and foreign banks were licensed to operate in Viet Nam for the first time.¹⁴ A new round of fiscal reform was undertaken to broaden the fiscal base which included the introduction of a land user tax. A new salary scale was also established for public enterprise workers and for civil servants; this measure, although inflationary, was necessary in order to recruit and retain better personnel. A law on the Settlement of Disputes was enacted.

¹⁴ A detailed discussion of the banking system appears in World Bank (1994a) while an interesting overview is Román (1995). Some 21 foreign banks operate in Viet Nam and currently account for over 12 percent of the country's loan capital according to the Saigon Daily Times (Feb 2, 1996).

Perhaps the most important measure enacted during this period, however, was the 1993 Land Law enacting principles set of in the 1992 Constitution; the law extended land use right for peasants from seven to between 20 and 50 years—in effect creating long, transferable leaseholds—and defined the right of individuals and firms to construct and use fixtures on the land. The Law provided for issuing land lease certificates for both rural and urban land which can be sold, leased, inherited, mortgaged or used as collateral. Although the process of registering titles has proved slower than expected and, in consequence, the application of the law has been uneven between urban and rural areas and between regions, this piece of legislation is of fundamental importance to the development of a market economy. The end of 1993 and beginning of 1994 saw the establishment of a Bankruptcy Law governing all enterprises and the setting up of special courts to hear bankruptcy cases. More recently, a new labour code has been adopted governing labour contracts and wage bargaining; further legislation on SOEs has helped establish a non-discriminatory regime for public and private enterprise; a Copyright Law has been enacted; an interbank foreign exchange market has been set up, the first bond market has opened and a new legal framework has been established for protecting the environment. Foreign investors have benefited from the merger in March 1995 of the State Planning Commission (SPC) and the State Committee for Co-operation and Investment (SCCI) into the Ministry of Planning and Investment (MPI), providing a "one stop shop" for registration and authorisation to operate. The tariff regime and import-export licensing system has been simplified and only 7 "strategic" goods are still subject to import quotas. The Party's Eighth Plenum (January 1995) was devoted to the question of broadening institutional reform.¹⁵ In short, the past five years have been characterised by rapid and accelerating institutional reforms designed to underpin and accelerate the transition to a market economy. It is not the purpose of this section to discuss the relative merits of particular reforms so much as to emphasise that laying the institutional basis for a market economy takes time. Viet Nam cannot be accused of foot-dragging in this area. In the words of Truong and Gates (1994:14), "... Vietnam's reform process has gone further [than China's] in a shorter period to stabilise the macroeconomic and microeconomic environments - i.e.,

¹⁵ Not only was the Plenum concerned with economic legislation required for a market economy, but also the adoption of the country's first Civil Code (Dollar and Llungren, 1995: 24).

by controlling inflation, removing constraints on private sector activities [and] reducing restrictions on trade and finance."

IV. The fall and rise of State Enterprise

Most observers including the multilateral lending agencies have considered Viet Nam to be making satisfactory progress in building a market economy and, until recently, the pace of privatisation has not been a contentious issue. Hence, the attack on SOEs mounted in the most recent World Bank report on Viet Nam (WB, 1995) has given rise to considerable discussion. Broadly speaking, the Bank's argument is that not that all SOEs should be privatised; rather, it is that the Government, having laid the legislative and administrative basis for development of the private sector, has failed to establish a level playing field between public and private enterprise in the formal sector, a failure which at the current juncture is slowing down the process of market transition. In light of what has been said above, this argument has not gone down very well with the government which sees itself as having accomplished as much as could reasonably be expected in the past five years. The Bank's case can be outlined as follows.

A serious gap in the transition to a market economy is the relatively weak state of the private sector, the principle components of which are agriculture and services. Although private firms in the formal industrial sector have grown and their number now exceeds SOEs by a factor of three, most are small and individually or family owned and operated; there are few incorporated enterprises. SOEs dominate heavy industry where they account for nearly half of total output. The oil and natural gas industry is dominated by foreign capital, as is the case in food processing and light manufactures where, typically, foreigners form joint ventures with SOEs rather than private firms, largely because of SOEs privileged access to land and credit.

Although it is true that the total number of SOEs has been halved since 1990, their contribution to GDP remains nearly the same (about 29%). Several factors account for SOEs ability to crowd out the private sector: notably, their privileged access to: (a) land of which they own prime sites, particularly in urban centres; (b) import-export permits and quotas of strategic goods; (c) technology through their ability to attract FDI for joint ventures; (d) ODA through government channels, and (e) credit. SOEs still account for more than half the credit extended by the domestic banking system reflecting their continuing close relationship with Government as well as the pre-reform

tradition. Moreover, the distinction between the public and private sectors has become increasingly blurred in some areas; some 700 "non-state" enterprises exist which although nominally private belong to ministries or Party organisations. Although Government has accepted "equitisation"¹⁶ of SOEs in principle, in practice only three SOEs, all located in HCMC, have issued shares and come under private ownership since 1993. More generally, the multilateral donors are pressing hard for the reform of public administration arguing that Government remains overcentralised, reflecting the heritage of central planning. Provincial governments have little discretion in matters of taxation and expenditure and incentives to mobilise additional revenues are weak. Administrative procedures remain cumbersome and lack transparency; central government continues to intervene directly in the resource allocation process despite the lack of a proper institutional basis for managing a market economy. For example, when Government tightened credit in the face of renewed inflation in 1993, the SVB, unable to resort to open market operations, resorted to imposing bank-by-bank credit ceilings.

Such criticisms doubtless contain a strong element of truth; the SOE sector remains relatively large, procedures for establishing domestic private enterprises remain cumbersome, Viet Nam's administrative and judicial structure is weak relative to Asian NIEs and incentives for rent-seeking are still high.¹⁷ Nevertheless, it is open to question whether such characteristics are likely to remain pervasive or permanent. First, one must remember that Viet Nam has given priority to the de facto privatisation of agriculture in which, thanks to land reform, assets are equitably distributed; this has proved a key enabling factor for development through most of East Asia.¹⁸ Second, the Bank's argument is empirically suspect; the relatively high share of SOEs in GDP is due in part to the fact that for SOE joint ventures, the enterprise is counted as part of the state sector even where most of the capital is provided by the private partner; were such joint ventures reclassified as private, the share of SOEs in GDP would be significantly reduced. Third, it seems probable that the overly enthusiastic privatisation of SOEs at this stage might diminish rather than enhance micro-efficiency as the experience of

¹⁶ "Privatisation" is still a suspect term so "equitisation" is used (*co phan hoa*), meaning both the issuing of shares and coming under company law; see Probert and Young (1995:24) for a good discussion of the need for and obstacles to more rapid privatisation.

¹⁷ In the words of Dollar and Ljungren (1995:23), "High transactions costs are encountered due to cumbersome procedures and the tendency of underpaid officials to put a price on "access".

¹⁸ This is of course one of the main arguments put in the East Asian Miracle; see World Bank (1993).

many Eastern European countries and the former Soviet Union (FSU) suggests. The Vietnamese, like the Chinese,¹⁹ have quite sensibly given priority to macroeconomic stability, privatisation in agriculture, opening the economy to trade and acquiring new technology through state-owned joint ventures with foreign capital while cautiously building the institutional foundations for private enterprise development in modern industry. Passing the necessary legislation to establish these foundations is in the end a political process, one requiring the establishment of new alliances and carefully negotiated consensus, something which outsiders tend to overlook particularly where their view of Vietnamese politics is obscured by the notion of a monolithic party immune to pressure from civil society or even from its own rank-and-file.

The success of this strategy is borne out by not only by the country's impressive macroeconomic performance, but equally by the fact that since 1990 the labour productivity of the SOE sector has more than doubled. Most important, this has been possible precisely because SOEs have served as the primary conduit for the acquisition of new technology. To argue both that private sector institutions are weak and that more rapid privatisation would have enhanced effective technology acquisition is a *non-sequitur*. Moreover, to point to the poor record of privatising SOEs through equitisation as evidence of the government's bias in favour of state enterprise is to forget that Viet Nam does not yet have a stock market in which company shares can be traded. What seems more important is to ensure that enterprises, whether privately or state owned, operate within the framework of mature market institutions and, in consequence, increasingly are subject to those competitive forces ensuring technological absorption, innovation and adaptation to production standards extant in the region. The 1995 Law on State Enterprises establishes SOEs and corporations as limited liability companies, lays down specific requirements relating to corporate governance including the need to publish annual reports and undergo independent external audits; equally, new bankruptcy procedures, laws on copyright and labour contracts, the development of improved banking and insurance services, the expected phasing out of import and export licences, the upgrading of managerial skills through training—all these are part of an intensive effort by Viet Nam to establish a market institutional framework in a relatively short period. To the present author, the "level playing field" argument, while

¹⁹ For an interesting comparison of the Vietnamese and Chinese strategies with respect to private enterprise, see Fforde (1995).

valid in general, seems to obscure the point that in present circumstances Viet Nam will be better off concentrating on the modernisation of SOEs and of its "business culture" than debating the matter of how best to effect the transfer of a large number of small SOEs to the private sector.

V. Poverty

According to the Viet Nam Living Standards Survey (VLSS, 1994), half the total population lives in poverty.²⁰ The author has discussed this subject in a previous paper (Irvin, 1995) so that little more than a sketch of the issues is presented below. The accompanying Figure indicates the magnitude of the problem. At the time of the survey, annual per capita consumption was about VND 1.4 million (or USD 140 at the official exchange rate); although the survey shows about 60 percent of consumption expenditure devoted to food, average calorie consumption is only 2075 per day. The World Bank (1994) uses a poverty line for Viet Nam on the basis of a basket of consumption containing food items equivalent to 2100 calories per day.²¹ On this 'headcount' basis, 51 percent of the total population falls below the poverty line, a figure roughly twice that of China when measured on a roughly comparable basis.²² On an urban/rural basis, the countryside accounts for 90 percent of the poor and over half of rural dwellers count as poor compared to only just over a quarter of urban dwellers. On a regional basis, the North Central Coast and Northern Uplands regions are the poorest (between 60-70 percent of the total population counts as poor) and the Southeast is richest with only one-third of the population falling below the poverty line; the Southeast stretches from Song Be province in the west to HCMC to Vung Tau on the coast. Although an earlier unofficial Government study (GSO, 1993) used a lower poverty line (resulting in an overall poverty incidence of 21 percent), the broad result is the same: the poor are overwhelmingly rural and the incidence of poverty varies significantly according to region. Moreover, since the richer regions are also those which grow most quickly,

²⁰ See VLSS (1994); the study was joint funded by Swedish SIDA and UNDP and conducted by the SPC and the GSO.

²¹ Note from Figure 2 that 2100 calories a day implies an annual per capita expenditure of just above USD 100 which would place the equivalent income level at about USD 160, rather higher than the USD 100 used for international comparisons. The World Bank poverty line for Viet Nam has been the subject of dispute, particularly as the GSO survey carried out the previous year estimated the poverty incidence to be about half this level.

²² Some difficulties of such comparisons are pointed out in Irvin (1996).

one can expect the urban-rural gap to widen and an increase in the influx of peasants to the urban areas. Finally, the study shows that within the 13 percent of the population which constitute 53 minority ethnic groups, some of the main groups (eg, the *Tay*, *Doa*, *Hmong* and *Nung* peoples but not the *Hoa*) are 50-250 times more likely to be poor than the Vietnamese *Kinh*.

Figure 3: Summary Indicators of Per Capita Consumption 1992-93 and Poverty Incidence

Quintile	Per capita Consumption (USD/year)	Food Share (%)	Calories/day	Poverty Incidence (%)
Poorest	56	70	1591	
II	82	65	1655	
III	108	60	2020	
IV	147	54	2160	
Richest	294	47	2751	
Region				
Northern Uplands	100	68	2054	59
Red River Delta	135	62	2062	49
North Central Coast	97	64	1991	71
Central Coast	146	55	1867	49
Central Highlands		59	1982	50
Southeast	201	53	2154	33
Mekong Delta	151	54	2226	48
Urban	220	51	2124	26
Rural	117	61	2062	57
Vietnam	137	59	2075	51

Source: VLSS (1995) quoted in ADB (1995: 48)

These rather depressing results are mitigated by several factors. First, there is good evidence that rapid economic growth has already significantly increased the standard of living of both the urban and rural populations; UNDP (1995) reports that the poverty incidence as measured by the World Bank was probably 70 percent in the mid-1980s, and the World Bank (1995a) projects the 1993 figure of 51 percent to fall to 29 percent by the year 2000 if an 8 percent rate of GDP growth is maintained. Indeed, poverty will diminish faster if specific measures are taken to target the most disadvantaged groups and regions. Moreover, gender appears not to be a poverty

issue. After controlling for age, education, location, household composition and land area cultivated, UNDP (1995b) concludes that "... the head of household being a woman has no adverse consequences for the economic welfare of its members ". (p 21) UNDP (1995a) speculates on why this is so; female-headed households have an older age-structure so that more adults contribute to household income, and female-headed households appear to have more sources of income than male-headed households.

Antipoverty programmes require that the poor be protected by a system of targeted transfers and safety nets which complement high-growth policies. Broad-based growth, investment in rural infrastructure and measures which create off-farm employment for the rural poor are part of this package as is increased expenditure on primary health care, free access to primary education and targeted credit programmes. For example, while Viet Nam's major road and bridge projects will help the poor gain access to markets, it is vital that these be complemented by community level infrastructure. Giving local and commune-level authorities greater autonomy in raising and using tax revenues and central government support funds can help ensure that opportunities for small-scale rural investment are identified and implemented. Government and donors will also need to fund investment in rural roads, irrigation and extension services. But as pointed out in ADB (1995), many of the poor—especially in the highland and rural areas—will be unable to benefit from new economic opportunities because of illiteracy, lack of skills, poor health and remoteness from markets.

... Targeted and adequate social services, especially primary education, basic health care, family planning and nutrition are areas where [ADB] could potentially intervene in reducing poverty. (ADB, 1995:52)

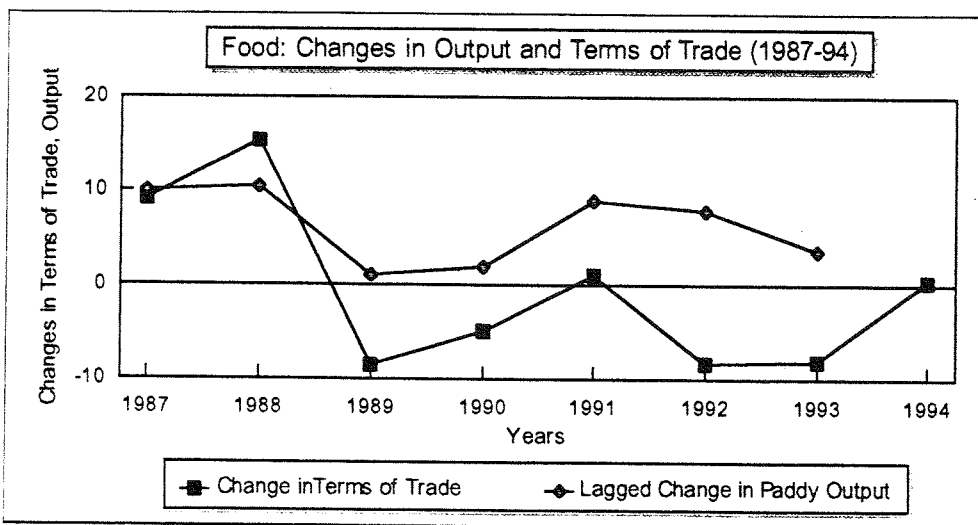
In 1990, 3.9 percent of annual public expenditure went to health and 4.6 percent to education; by 1994 these figures had risen to 4.2 percent and 8.4 percent respectively and Government could argue that it was more channelling resources to these areas. Nevertheless, it is estimated that one-third of the educational budget goes to the primary level, and nearly half of all educational expenditure is financed by parents through fees and charges for uniforms and books. Primary schooling and health care deteriorated particularly sharply in the rural areas after 1989 and, although this process appears to have been arrested,²³ half of rural health care expenditure is reported to be private, rural

²³ According to World Bank (1995a), primary school enrolment after falling seriously in the early 1990s has now returned to its 1986 level.

clinics and schools are generally poorly maintained and a shortage of primary teachers has led to the provision of only 25 hours a week of teaching, far below the international standard. Because all higher education is in the public sector, finances are thinly stretched to cover this as well—the per capita cost of which is considerably higher. Hence it is estimated that the richest quintile of households capture nearly 40 percent of the benefits state education spending while only 11 percent goes to the poorest quintile. Much the same is true of primary and preventative health care; at present commune-level health facilities receive only 5 percent of the budget while curative health, concentrated in urban and regional hospitals, receive 90 percent.

These problems are now being addressed by Government and by the donor community. UNICEF is assisting at the primary school level while Japan (the largest bilateral donor) is funding primary school rehabilitation. A proliferation of small NGO programmes involving funds of USD 3-4 millions, focus on non-formal training for disadvantaged groups. The World Bank has recently made available a major loan for primary education which is to be followed by a similar programme targeted at secondary education and non-formal vocational skills training. The Bank is also preparing a major National Health project and a project for the rehabilitation of provincial hospitals and clinics while UNICEF and Japan together are funding major improvements in rural water supply and sanitation. The ADB, in co-operation with KfW, are preparing a major family planning and health programme worth USD 50 million with UNFPA providing technical assistance. However, it is clear that much more could be done in this area; a key constraint in all targeted projects of this sort is the fact that they are relatively expensive since they involve administering many small projects. For its part, Government's reform of local finance promised in the new Organic Budget Law being discussed by the National Assembly in 1986 will be crucial in providing greater flexibility for the targeting of local resources. Equally, the establishment in August, 1995, of the Poor Peoples' Bank (PPB) with an initial capital subscription of USD 40 million offers evidence that the problem of access to rural credit for the poorest is being addressed.

Figure 4: Terms of Trade and Paddy Output



Source: World Bank (1995: Appendix Tables 2.1b, 2.2b and 7.1) and author's calculations

Although the problem of poverty in Viet Nam is discussed extensively in the current literature, a crucial and largely neglected dimension is that of the terms-of-trade between food-agriculture and industry, or what Lipton (1977) characterised the "terms of trade twist"; ie, the poor stay poor in part because industrialisation requires that food (the urban wage good) remains cheap in order to create a reinvestible industrial surplus. A comprehensive programme of poverty targeting is of little value if the purchasing power of a kilo of rice is in secular decline. At current growth rates, it is likely that domestic demand will overtake supply at the end of the decade eliminating, or at least significantly reducing, the exportable surplus); under inelastic supply conditions, rice imports might become necessary in order to stem inflation (Van Arkadie *et al*, 1995). For the time being, though, supply is relatively price elastic so that Government need not fear an accelerating inflationary response from tipping agricultural terms-of-trade in favour of peasant producers; indeed there is a good argument for using part of the large inflow of foreign savings to support rice prices. An additional advantage of such a policy is that it cannot easily be contested by major foreign donors whose subsidies to their own farmers tend to keep world food prices artificially low.

The above Figure plots two measures: annual changes in the domestic terms of trade²⁴ and annual changes in the quantity of paddy produced, the latter lagged by one year. (The reader should consult Figure 2 for the corresponding trend in inflation as measured by the CPI and the GDP deflator.) While the evidence is not decisive, rice output does appear to respond to terms-of-trade improvements without setting off inflationary pressures. This argument does assume implicitly that improved terms-of-trade correlate closely with improved farm-gate prices for rice, a point meriting further study. Nonetheless, the debate on poverty alleviation seems unsatisfactory without some reference to the terms-of-trade issue.

VI. Environment

Viet Nam has a unique ecology; it has very long coast line (3300 km), hill and mountain areas account for three-quarters of total land area leaving only 20 percent of the land area arable (7 million hectares). With a rural population of some 55 million, cultivable land per capita is 0.13 hectares, one of the lowest figures in the world. Viet Nam faces a combination of environmental problems associated with population, other pressures on the natural resource base and stresses due to accelerated industrialisation and rising real incomes. With eighty percent of the population in the rural areas, over two thirds of the country's inhabitants depend on agriculture, fishing, forestry and other resource-based activities. Deforestation, soil erosion and degradation, drought and flooding, dwindling fish stocks are all potential threats to rural dwellers. The adverse effects of agent orange and other defoliants, a significant cause of ecological damage during the American war, are still being felt. Forest coverage decreased from 65 percent in the mid-1940s to 40 percent in the 1960s and is now put at 27 percent, one of the lowest figures in East Asia (excluding Singapore and Hong Kong). Overuse of fertilisers and pesticides appears to be leading to the accumulation of dangerous levels of toxic substances in the soils of the Mekong Delta and threatens to affect crop production. The clearing of mangrove forrests, pollution of freshwater habitats and unsustainable fisheries practices have damaged the fisheries industry. With rapid economic development and a rate of population growth still in excess of two percent per annum, the pressures on a dwindling resource base will intensify. The country has a man-land

²⁴ The terms of trade are approximated by dividing the GDP deflator for agriculture by the GDP deflator for industry.

ratio three times that of China. Viet Nam is therefore not a resource-rich country in relation to population, which makes it all the more important not to deplete resources if development is to be sustained.

The industrial environment is under similar threat. Viet Nam's industrial sector currently accounts for just under a quarter of GDP. In absolute terms and relative to population, this sector is small—industrial output is about a tenth that of Thailand—so that pollution loads are far from reaching the alarming levels observed in Bangkok. But industry is growing rapidly: MPI projections suggest that by the year 2010, the share of industry in GDP will reach 35 percent. Although the opening up of the economy has led to the introduction of newer industrial technology which is generally less ecologically harmful than that inherited from the former CMEA countries, this does not mean that pollution will diminish. The bulk of the industrial sector uses older technology, and the lack of emission standards for pollutants combined with the country's limited capacity to enforce regulatory measures suggest that the industrial pollution problem will grow. According to the World Bank (1995b), most new industries have not installed waste treatment facilities and in 1994, the country had only one urban water treatment plant in operation. Moreover, as the industrial structure shifts from simple industrial processing and assembly to more complex manufactures, the composition of industrial waste will tend to shift towards less biodegradable and more toxic substances.

A further problem is that industry is geographically concentrated. Although the majority of the population is rural, about 15 million Vietnamese live in urban areas and about half of this lives in three cities: Hanoi, Hai Phong and HCMC. Recent economic reforms are expected to cause urban growth rates to accelerate from the current 4-5 percent level to at least 7 percent by the year 2000. Thus, the environmental risks associated with industrial activities in urban centres will reflect the compound effect of high rates of industrialisation and urbanisation. To mitigate the problem of urban concentration, the government has designated three regions as "growth triangles" or poles of development: HCMC/Dong Nai/Vung Tau in the South; Quang Nam/Da Nang in the Central region and Hanoi/Hai Phong/Quang Ninh in the North. These regions will require close monitoring, but the regionalisation of growth will help avoid the "Bangkok syndrome".

Figure 5: Mangrove Degradation and Aquaculture in Hai Minh Province

Minh Hai province in the Mekong Delta is facing serious socio-economic and environmental problems which threaten the long-term livelihood and future of a large segment of its 1.2 million population. In the mid-1940s the province had about 437,000 hectares of wetland forests, half of which were mangroves and the other half were subtidal of 'black' mangroves. Hardly any untouched mature mangrove forest now exists. Population pressure and the two Indo-China wars resulted in only about 61,000 ha of mangroves remaining by 1975; and these have largely been cut down despite a large scale reforestation program which restored Minh Hai's mangrove area to about 110,000 ha by the early 1980s. Transmigration, fuelled by shrimp agriculture opportunities saw an increase in agricultural households at a rate of 3.7% p.a. from 1985-1991 (compared to the national rate of 2.5% p.a.). Area under shrimp farming expanded at an average annual increment of 15,000 ha/yr from barely 11,000 ha in 1984 to about 132,000 ha by 1992. Mangrove forest in this period was more than halved – from about 110,000 ha to 50,000 ha – most of which were for shrimp farming by individual state enterprises and army units; and for charcoal production. In the early years, the hitherto larvae-rich coastal waters easily supported extensive low cost earth dike systems which let in the tidal waters through wooden gates for harvesting about seven times per year. But at the fast and concentrated rate of development, and given the acid sulphate nature of the soils, the poor management and often improper diking (leaving large sections of the acid sulphate pond bottoms inundated and thus prone to acidification), the shrimp farmers have found their yields declining and supplementation with purchased shrimp larvae and some supplementary feeding have been necessitated. However, after about three years, the acidity of the ponds are so high that, in many such cases, even mangrove trees cannot be grown. Pond abandonment (i.e., idling of shrimp farming in previously designated areas) are now starting to be significant (from perhaps 3,000 ha in 1988 to about 8,000 ha in 1992), leaving only about 100,000 ha of functioning ponds. Extrapolating from developments in the recent past, abandonment could reach 30,000 ha/year by the end of the 1990s resulting in a cumulative loss since 1984 of nearly 160,000 ha compared to an expected cumulative development of 182,000 ha. If the shrimp farming areas had adopted sustainable extensive systems when shrimp farming began in earnest (in 184), by 1994, the net present value obtained from such a scenario [(US\$256 million (in 1994 dollars))] would have exceeded by US\$140 million the estimated net income of US\$116 million (1994 dollars) from 1984-93. If the trend continued through the year 2003, 87 percent of the area converted to shrimp aquaculture would have been abandoned and a further US\$249 million (1994 dollars) would be foregone if sustainable systems were not adopted from 1994-2003...²⁵

Source: World Bank (1995b), p28.

Viet Nam has abundant and diversified resources of fauna and flora; industrial pollution is already causing damage to ecosystems and species. Effluents from industry threaten mangrove and other coastal ecosystems along the coastline. Industrial waste water's contribution to siltation in the coral reefs is increasingly common.²⁶ Industrial pollution also causes losses to other economic activities such as aquaculture, agriculture and tourism. Shrimp farming has become increasingly popular and is widespread along the coast, and can be devastated by industrial effluents as shown by the experience of Thailand and Indonesia. Oil and chemicals are regularly dumped into rivers, reducing agricultural productivity and the quality of water supplies.²⁷ Pollution of water streams in Viet Nam is mainly due to the lack of adequate treatment facilities. At present, it is estimated that human waste accounts for 70 percent of total organic load and industrial waste for the remaining 30 percent (World Bank, 1995: 159). The fact that industrial effluents are discharged without treatment is of particular concern. According to World

²⁵ This text box, taken from a recent World Bank report, shows quite clearly how costly ecological degradation can be. Doubtless, some readers will be alarmed too at the damage done to the language of the Bard.

²⁶ See Cheung (1991).

²⁷ See World Bank (1993).

Bank estimates, in the North at Viet Tri, for example, pulp and paper, textile, food and chemical factories discharge an estimated 35 million m³ of such effluents estimated to contain 100 tonnes of sulphuric acid and 4000 tons of hydrochloric acid. The Thai Nguyen industrial zone, also in the North discharges some 5 million m³ of high concentration ammonia. In the Lakes in and around Hanoi, some 240 SOEs and a large number of non-state enterprises are discharging suspended solids and nitrates which appear to be threatening fish populations. In the South, the HCMC University of Technology reports that none of the nearly 700 sizeable enterprises located within and around the city has treatment facilities; the same is true of the Bien Hoa-Dong Nai industrial zone where all effluent is discharged into the Dong Nai River without treatment.

Pollution has an important effect on human health which has measurable costs.²⁸ As pointed out in the World Development Report (WDR, 1992), polluted water leads to illnesses of the digestive tract while high concentrations of air pollutants can exacerbate and cause respiratory diseases. The mortality and morbidity profile in Viet Nam is characterised by diseases linked to water supply and sanitation: excreta-related and water borne diseases such as gastro-enteritis, dysentery, typhoid cholera and viral hepatitis are important sources of morbidity especially amongst children. Nearly half the urban population is thought to obtain its water from shallow wells, tanks and rivers that are unprotected and contaminated. Air pollution is a further hazard: a 1991 survey by the Ministry of Health found that 27 percent of the sample surveyed in local high-risk areas suffered from acute respiratory infections. Industrial waste, unlike human waste, is often highly acidic and may contain corroding and toxic elements that can damage the piping and pumping systems of treatment plants; hence the importance of combating industrial pollutants at the point of emission.

As the case of Thailand suggests, the growth of industrial pollution can rapidly overwhelm the capacity of the ecosystem to absorb it unless preventative action is taken at an early stage of development; in this sense, industrial pollution tends to be more damaging than the misuse of resources in agriculture and forestry. Industrial pollution prevention (IPP), moreover, is far cheaper than repairing the damage once it is done. Experience from other countries suggests that 60-80 percent of industrial pollution can

²⁸ For example, a World Bank study on Indonesia found that in 1990, Jakarta's population of 8.2 million suffered an estimated total cost of USD 500 million (nearly USD 10 per capita) as the avoidable health cost of air and water pollution; see World Bank (1994b).

be prevented with a relatively small increase in industrial costs at an early stage; thereafter the marginal cost of IPP rise steeply per unit benefit.²⁹

The Vietnamese government has taken the environmental question seriously. Starting in 1976, a massive campaign of highland and wetland reforestation was carried out, supplemented in the 1980s by Swedish aid. In 1989, it published a National Plan for the Environment (GOV-UNDP, 1989). It showed an early concern for damage caused by shifting cultivation and took steps to limit migration in affected areas. Since the late 1980s, the Department of Science, Technology and Environment (DOSTE) in both Hanoi and HCMC have taken various initiatives to deal with environmental hazards; these include the adoption of environmental impact assessments (EAs), a pollution improvement programme aimed at location-specific hazards, the formulation of anti-pollution legislation with accompanying fines and the creation of a public ombudsman system. The MPI (previously State Planning Commission) has incorporated environmental planning into its Sustainable Development Programmes for the periods 1996-2000 and 2000-2010, an abridged version of which was presented to the Consultative Group Meeting in Paris in November, 1995 (GOV, 1995). One of the most important components of this plan is the National Environmental Action Plan (NEAP) under preparation by MOSTE. The MPI envisages an increase in environmental expenditure from about 0.3 percent of GDP in 1995 to 0.5 percent in 2000, the ultimate target being 1 percent. As part of the overall strategy, emphasis will switch from natural resource protection (eg, reforestation) towards the prevention of industrial pollution.

In sum, Viet Nam's rural ecology is fragile and has already been seriously damaged by population pressure on limited arable land resources, serious deforestation and twenty years of war. The combination of rapid industrialisation and urbanisation means has added the new threat of extensive urban pollution, part of which spills over into the rural and coastal areas. Because urban pollution in Viet Nam is not yet as serious as in other population centres of the region, relatively low cost remedies are still available. Government has diagnosed the threat and amended its strategy accordingly. In principle, the sizeable sums of money envisaged should contain the problem; however, administrative resources are scarce and thinly stretched such that enforcing regulatory measures will be difficult. The same is true for the use of price incentives in an

²⁹ See WDR (1992).

economy where full market-orientation is incomplete. In some areas (eg, water treatment facilities), the problem will be alleviated as infrastructure investment gets under way while in others (eg, provision of extensive infrastructure for a rapidly growing urban informal sector) it is too early to say whether the problem can be contained.

VII. Conclusions

Rapid economic growth does indeed solve some problems but create new ones. Because of Viet Nam's relatively low stage of economic development and weak institutional structure, it must rely disproportionately on development assistance and, particularly, on the policy advice of the major international donor organisations. In one case, that of the balance between state and private enterprise, we have argued that the road followed by the government is probably more sensible than that being urged upon them by the major donor organisations led by the World Bank. In the second case, that of poverty alleviation, there is broad agreement on the need to act and on some of the modalities to be adopted; it is clear that resources will need to be targeted at poorer regions and that considerable scope exists for redistributing current levels of social spending in a more efficient and equitable manner. Nevertheless, both sides appear to give insufficient attention to "terms of trade" twists which are of fundamental importance to the prosperity of peasant farmers in the rice growing areas who constitute the majority of the population. On the environmental issue, both Government and the donor community appear to be addressing the right issues in a timely manner, hence lowering the future costs of growth. On balance, therefore, even if there is less than complete agreement about the solutions, the problems are firmly established on Viet Nam's development agenda. Given Viet Nam's apparent success in moving to a market-based, high-growth economy, the country has become something of a "test case" for other low income countries. The set of issues discussed in this paper is sufficiently important to merit the continued attention not merely of Viet Nam specialists but of the development aid lobby as a whole.

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