



Australian Embassy

Vietnam



Ho Chi Minh National Academy
of Politics

Vietnam Avoids the Middle Income Trap: Opportunities, Challenges and Policy Measures

Hanoi, 21/3/2024



TRUNG TÂM VIỆT – ÚC

VIETNAM AUSTRALIA CENTRE

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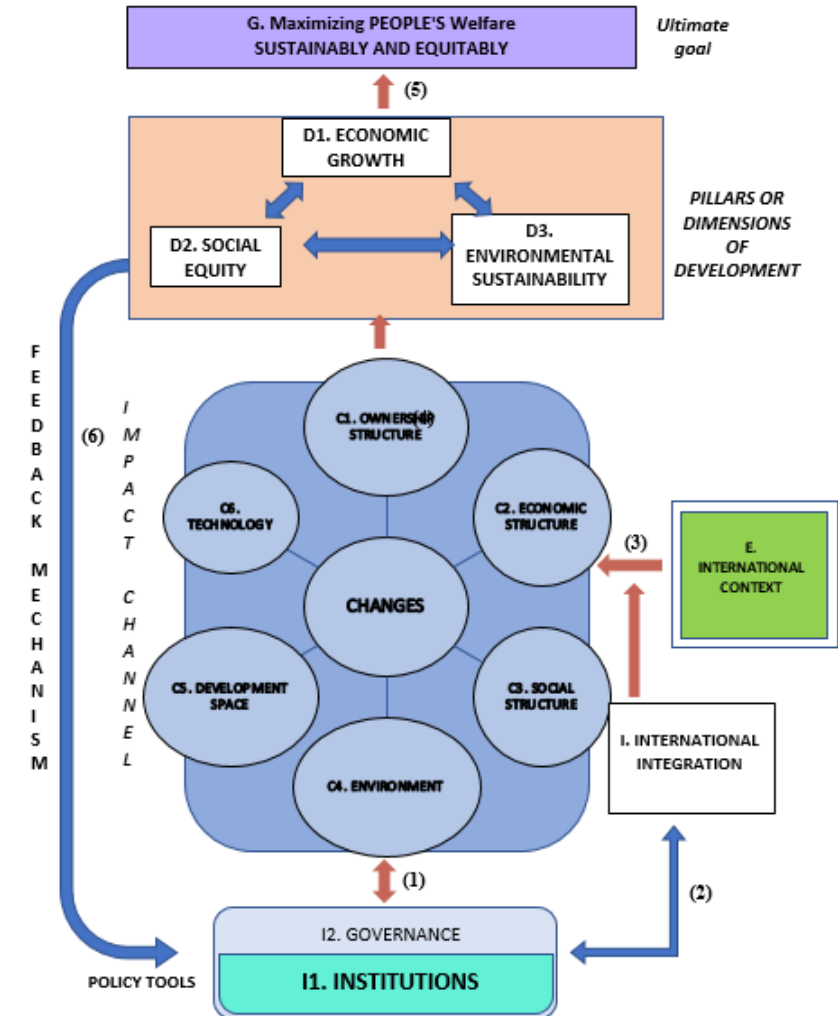
1. RATIONALE

- A goal set by the 13th Party Congress: **Becoming a high-income country by 2045**
- Achieving this goal requires Vietnam to **overcome the middle-income trap, which is a significant challenge**
 - According to the World Bank, between 1960 and 2022, only **23 economies out of 101 middle-income countries** in 1960 have escaped the middle-income trap.
 - One of the important reasons pointed out by experts is that **middle-income countries are stuck between poor low-wage countries on the one hand and technologically rich countries on the other.**

2. ANALYTICAL FRAMEWORK: Three Pillars of Development—Economic Prosperity, Social Equity, Environment Sustainability

“We need economic development coupled with social equity and progress, reducing the rich-poor gap and social inequality. We need a society of compassion, solidarity, mutual support, towards progressive and humane values, not unfair competition, "big fish eat small fish" for the selfish benefit of a small number of individuals and groups. We need sustainable development in harmony with nature to ensure a healthy living environment for current and future generations, not to exploit and appropriate resources and limitless material consumption, thus avoiding environmental degradation. And we need a political system where power truly belongs to the people, by the people and serves the interests of the people, not just a wealthy few.”

Source: General Secretary Nguyen Phu Trong "Some theoretical and practical issues about socialism and the path to socialism in Vietnam"

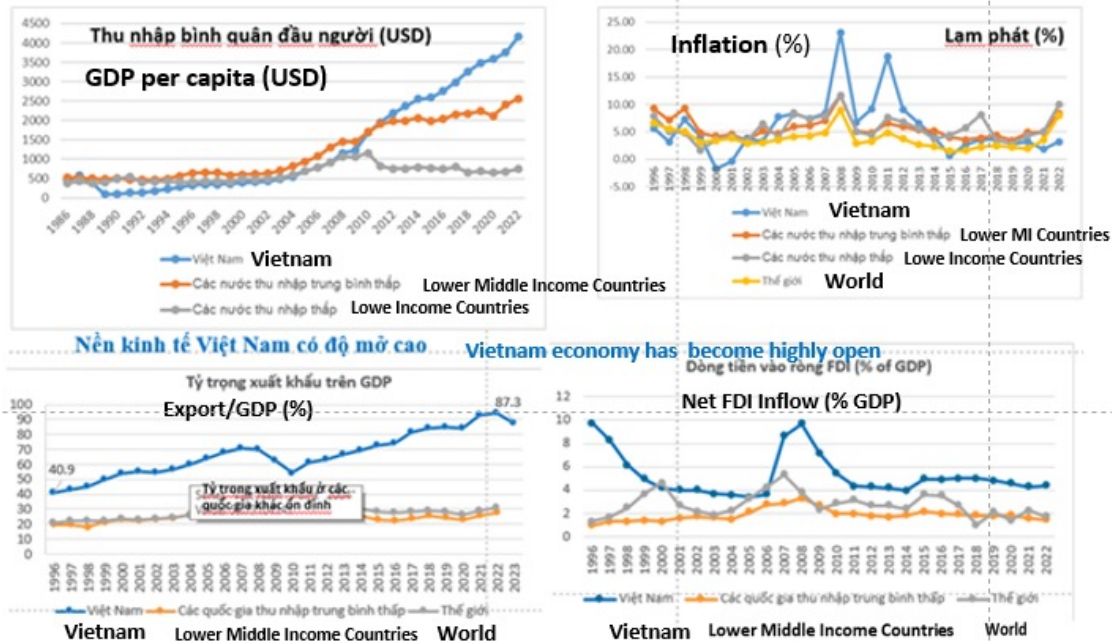


Sources: Constructed by the Research4Team

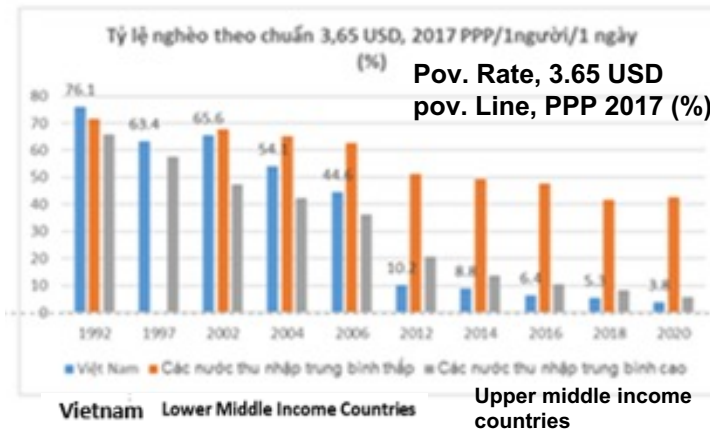
3. Doi Moi: Looking back on the 40-year journey

Vietnam has outstanding results compared to countries with the same level of development in terms of growth, macro stability, exports, and FDI attraction

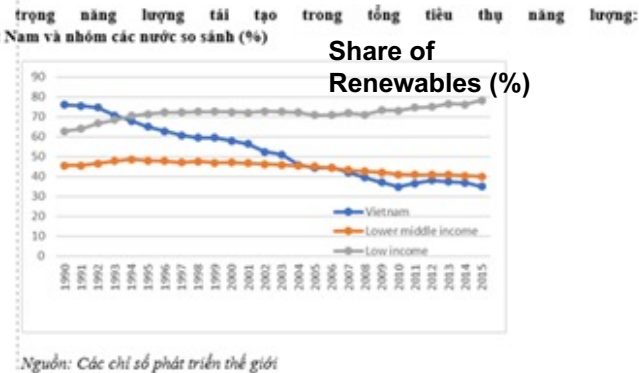
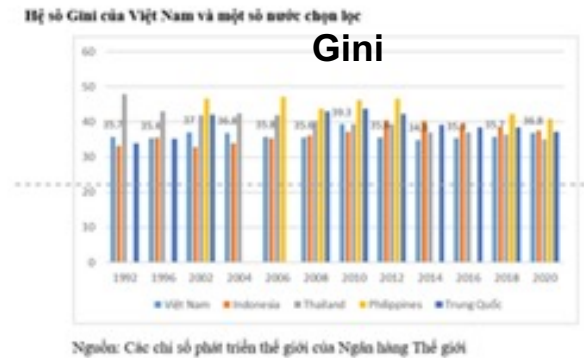
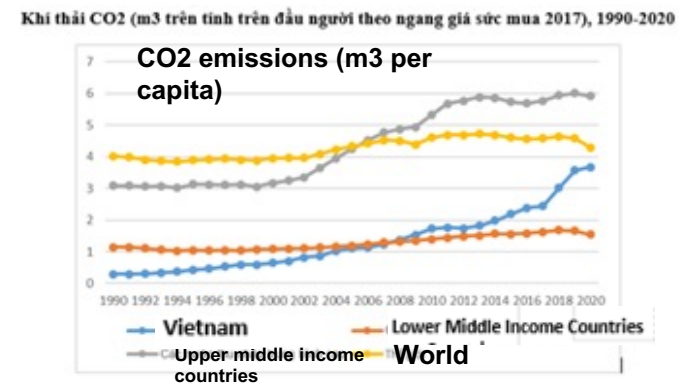
Poverty reduction is impressive, inequality is kept at a level similar to other countries with the same level of development



Source: World Bank's World Development Indicators



Environmental quality declines



4. Vietnam towards 2045: Opportunities and challenges

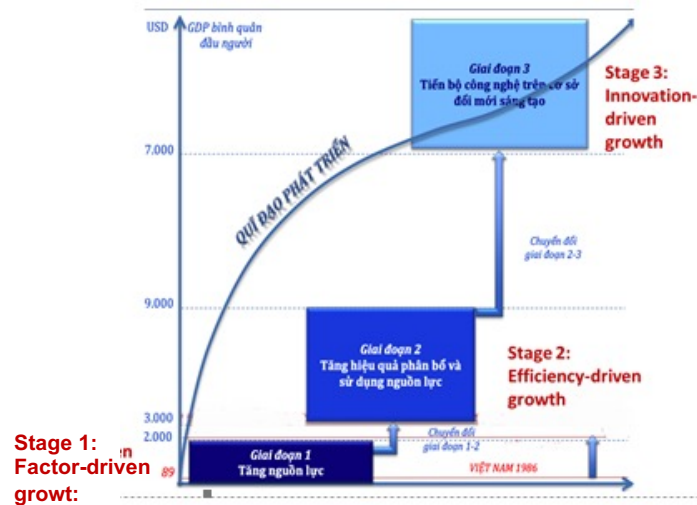
Challenge 1: Accelerate growth as climbing up the development ladder

According to the World Bank, to achieve the goal of becoming a high-income country by 2045, Vietnam's labor productivity will have to reach 6.6% in the period 2018-2045 while only reaching 4.85% during the period 1991-2018.

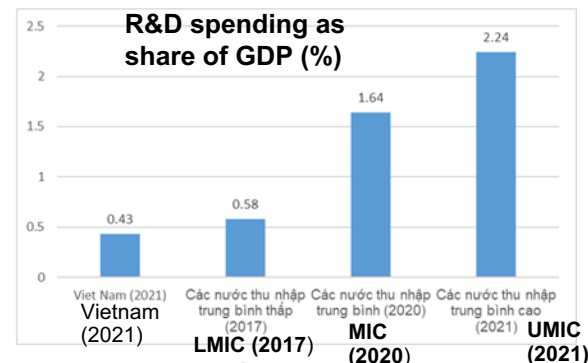
This is a difficult task because, typically, **as the size of the economy grows, the growth rate of labor productivity slows, following the mountain climbing principle: the higher you go, the slower the speed becomes.**

Rapid Growth: Opportunities and Challenges

Challenge 2: Activate the growth driver associated with technology and innovation to increase labor productivity, which is Vietnam's weakness.



Chỉ cho R&D ở Việt Nam và một số nhóm nước chọn lọc (% GDP)



Nguồn: Các chỉ số phát triển thế giới của Ngân hàng Thế giới

Opportunities

Favorable External Factors:

- Established comprehensive strategic partnerships with numerous countries, including economic powers
- Has become an attractive destination for foreign investment capital flows

Advantageous geo-economic position:

International and domestic connectivity has improved considerably in recent years

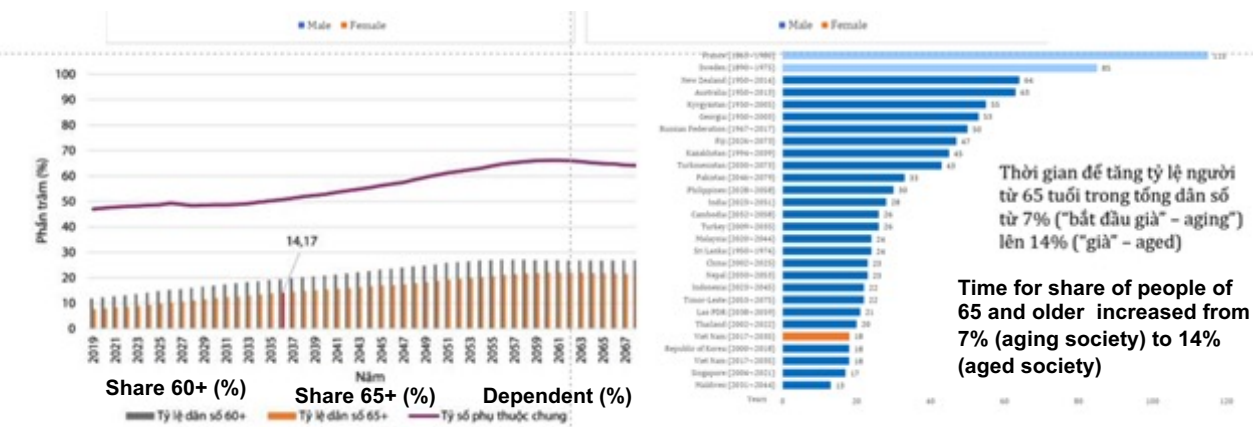
Favorable Internal Factors:

- Political and social stability
- High determination to implement three strategic breakthroughs

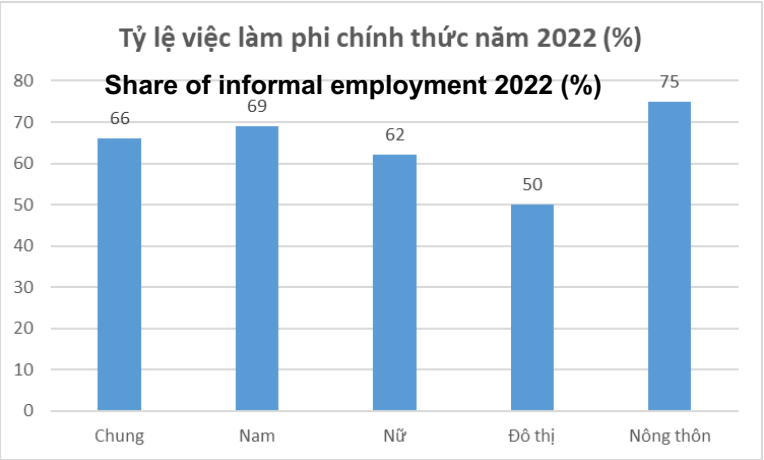
Vietnam towards 2045: Opportunities and challenges (2)

Inclusive Growth: Opportunities and Challenges

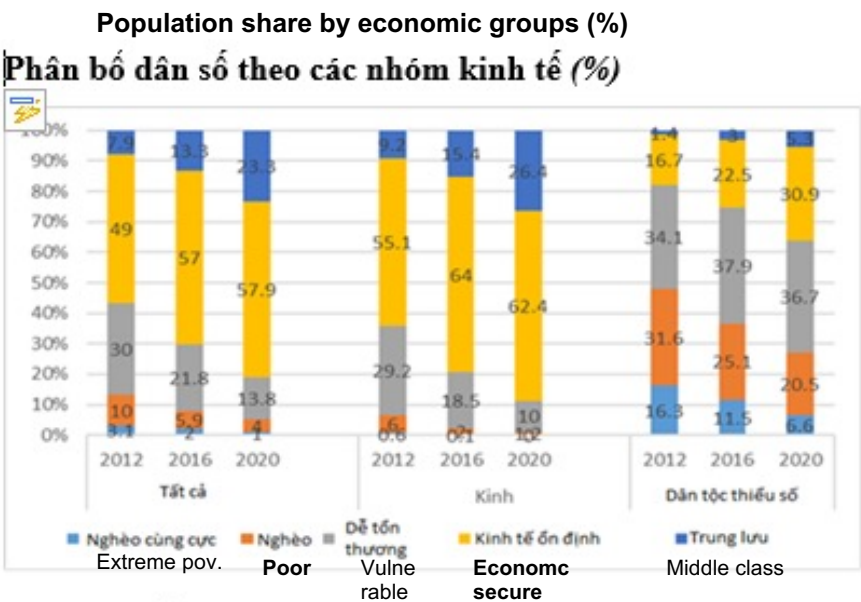
Challenge 1: Getting old before getting rich



Challenge 2: Ensuring social security for those who do not participate in social insurance



Opportunity 1: The middle class is growing rapidly, both as a result and as a driving force for inclusive growth



Opportunity 2: Many people can benefit from a knowledge-based economy thanks to a good educational foundation

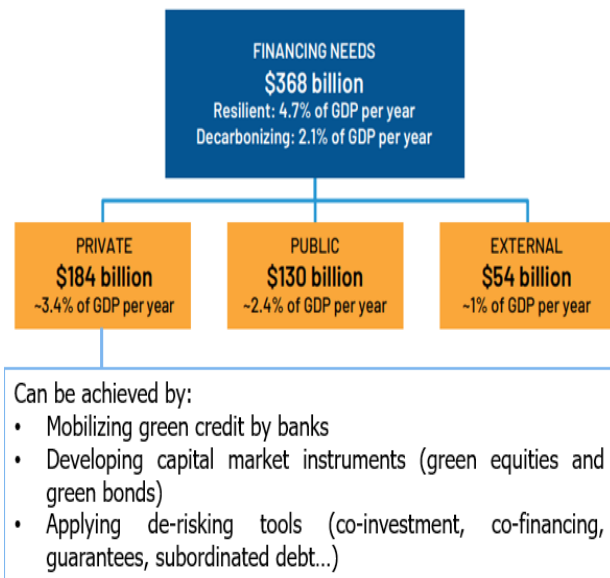
In October 2018, the World Bank published the Human Capital Index, which ranked Vietnam 48th out of 157 countries. Vietnam ranks 27th in terms of harmonious learning outcomes, exceeding the regional average.

Vietnam towards 2045: Opportunities and challenges (3)

Sustainable Growth: Opportunities and Challenges

Challenge 1: Financial needs to respond to climate change are huge

Financing needs and potential sources of funding, 2022–2040



Estimates of incremental financing needs for adaption measures, 2022–2050

	Average per year (% of GDP)	Accumulated value (\$ billion in NPV terms)
Incremental financing needs	4.5–5.4	342.3–410.7
Total financing needs	6.3–7.2	479.2–547.6
- Investment needs for resilient private assets	3.0	228.2
- New and retrofitting investments for resilient infrastructure	3.0–3.5	228.2–266.2
- Financial support to affected people and businesses	0.3–0.7	22.8–53.2
Existing financing	1.8	136.9

Source: World Bank

Opportunity 1: Green growth receives great attention and is a top priority in many countries around the world

Opportunity 2: There are rapid advances in a number of fields related to green growth such as renewable energy, circular economy, digital economy...

Challenge 2: The period of ultra-low interest rates is over, high capital costs are a big barrier, especially for developing countries

5. Vietnam towards 2045:

High-level policy framework to promote rapid, sustainable and inclusive growth

Rapid growth

- *Maintaining macro stability*
- *Deepening global integration, prioritizing high quality trade and FDI*
- *Accelerating structural transformation*
 - Increasing share of high-tech manufacturing, high value services
 - Enhancing firm international competitiveness
- *Developing ecosystems for technology, innovation, digital transformation*
 - Are industrial policies needed, if yes, what are conditions and principles
 - How Vietnam can leverage GenAI for rapid, sustainable and inclusive growth

Sustainable growth

- Promulgate and effectively enforce environmental standards suitable for Vietnam based on international experience
- Ensure full costing of pollution-generating activities
- Promote the development of circular economy, encourage the development of renewable energy and green technology projects

Inclusive growth

- Promote equality of opportunity to access basic social services by universalizing education, with the goal of universal access at the upper secondary school level.
- Accelerate the process of reforming the social security system from the current pay-as-you-go model to a fully funded system.
- Slow down and reverse the population's aging process with appropriate solutions.
- Improve the income tax system appropriately to curb income inequality; curb asset inequality with a roadmap for applying property tax, inheritance tax, etc. based on other countries' experiences
- Design and effectively implement programs to assist a number of ethnic minority groups, people with disabilities, and other disadvantaged groups in participating in and benefiting from the development process.

THANK YOU!

TRÂN TRỌNG CẢM ƠN!

