

Unequal regional development in Vietnam

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Unequal socio-economic development in Vietnam means that companies will continue to invest mainly in regions with robust economic growth whilst consumers there will also enjoy greater purchasing power, leaving less developed regions behind.

Issue

Economic growth in Vietnam is uneven between regions, leading to large-scale rural-urban migration, putting strains on urban infrastructure and pushing up property prices in large cities. Unequal regional development means that the consumer market in major cities such as Hanoi and Ho Chi Minh City are the largest and fastest growing due to their higher disposable incomes and lower unemployment as compared to the national average. Importance

Economic growth in Vietnam has been robust in recent years:

In 2006, real GDP growth reached 8.2% over a year earlier, driven mainly by strong investment and private consumption; In 2006, inflows of foreign direct investment reached US\$9.9 billion, up from US\$2.0 billion in the previous year; With the average gross income per capita in 2006 rising by 11.0% in real terms over a year earlier, the poverty rate in Vietnam has been lowered from 22.2% in 2005 to 18.0% in 2006. The national poverty line is based on a monthly per capita disposable income of VND80,000 for islands and rural mountainous areas, VND100,000 for rural plain areas and VND150,000 per month in urban areas.

However, economic expansion in Vietnam is uneven between regions:

The country comprises eight regions: the Red River Delta (encompassing the capital city Hanoi), the Northeast, the Northwest, the North Central Coast, the South Central Coast, the Central Highland, the Southeast (encompassing Ho Chi Minh City) and the Mekong River Delta; In 2006, Ho Chi Minh City accounted for 17.0% of national output, 30.0% of foreign investment and 40.0% of exports – far in excess of its 9.0% share of population. This has made the Southeast the most prosperous and dynamic region in the country, followed by the Red River Delta; Economic success in the Southeast (and to a lesser extent the Red River Delta) is largely attributed to the region's infrastructure, streamlined business procedures and increased investment incentives; According to national statistics, in 2004 (the latest available year), the average monthly income per capita in the Southeast stood at VND833,000, far exceeding the other regions.

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Average income per capita per month by region: 2004 VND ~000 Source: National statistics Implications

Unequal regional socio-economic development has impacted consumers and companies as well as the economy:

Stronger economic expansion in the Southeast and Red River Delta means that the majority of economic activities and job opportunities concentrate in these regions, particularly large cities such as Ho Chi Minh City and Hanoi. In 2006, Ho Chi Minh City attracted US\$2.3 billion in FDI inflows, accounting for 23.2% of inflows of FDI into the whole country; The consumer market in major cities in the Southeast and Red River Delta are the largest and fastest growing in the country due to their higher disposable incomes and lower unemployment compared to the national average. In 2005, consumer expenditure stood at US\$8.7 billion in the Southeast and US\$7.6 billion in the Red River Delta, representing a combined share of 48.7% in consumer expenditure for the whole country;

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Regional consumer expenditure as a percentage of total consumer expenditure: 2005 Source: Euromonitor International from national statistics The unequal income distribution between different regions and lack of job opportunities in poorer rural areas such as those in the Northeast and the Northwest are main factors driving the population from rural to urban areas. The average annual growth rate of the urban population during 1997 and 2006 was 3.9% while it was 0.6% for the rural population; Large-scale urban-rural migration puts severe strains on infrastructure in urban areas, causing problems such as road congestions, inadequate sanitation facilities and deteriorating living standards in poorer quarters of the cities; Rapid population growth and rising demand for housing and business facilities will also push up property prices in regions with robust economic growth. High and rising property prices can enhance consumer confidence and encourage

private consumption due to an increase in the wealth effect, but they can also reduce the disposable income of those who buy at the height of the property market; Regional inequalities in income and employment opportunities can cause social and political discontent, potentially threatening the overall business environment and economic growth in Vietnam. This will also necessitate the government to spend more on rural development programmes such as education, health, rural infrastructure improvements, and job creation schemes. Overall government expenditures will consequently be pushed up, putting a strain on the budget. In 2006, government expenditure on education stood at VND37,285 billion, up 72.9% in real terms over 2001. Future scenarios

The government aims to achieve annual average economic growth of 7.5-8.0% during 2006-2010 on the back of buoyant investment. The challenge remains to reduce unequal regional socio-economic development which has discouraged investment in poorer regions.

Among government measures that could help boost economic growth in poorer regions are those that gear towards greater diversification of rural incomes, particularly through a growth in non-agricultural production and employment. Local and foreign companies have been offered tax breaks and tax reductions as well as being exempted from land rent taxes when setting up factories in less developed areas to help create manufacturing jobs for farm labour.

The government will also invest significant funds in improving access to information, communications and transport, which could enhance economic expansion in the poorer and remote regions. For example, the Hanoi municipal authority will be investing US\$12.7 billion during 2007-2020 on a range of infrastructure projects, including the construction of high speed roads and the upgrading of inter-regional railway networks connecting the capital city and other cities and towns in the Northeast and Northwest regions. Print this page E-mail a friend For further detail about this article and other related findings, please visit [Euromonitor International](#) by clicking here.