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Growth, Governance, and Human Capability: A Critical Reassessment of Vietnam's Development

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ABSTRACT

Since the implementation of the *Đổi Mới* reforms in 1986, Vietnam has frequently been portrayed as one of the most successful developmental cases among transition economies. Rapid GDP growth, substantial poverty reduction, expanding foreign direct investment, and deeper global economic integration have contributed to the image of a "development miracle." However, much of the existing literature and policy discourse has primarily evaluated Vietnam's achievements through quantitative macroeconomic indicators, often overlooking the structural, institutional, and social limitations underlying this growth model. This paper critically reassesses Vietnam's development trajectory by examining the relationship between government economic policies, institutional governance, and people's actual living conditions. Drawing upon official statistics, policy reports, and political economy analyses, the study argues that Vietnam's developmental outcomes remain constrained by inefficient state-owned enterprises (SOEs), weak public investment management, corruption, vested interest groups, and limited institutional accountability. The paper further demonstrates that macroeconomic instability, inflation, unemployment, inefficient resource allocation, and unequal distribution of development benefits have directly affected the living standards and welfare of ordinary citizens. In addition, the study highlights the limitations of a growth model heavily dependent on low-cost labor and low value-added foreign investment, which raises concerns regarding long-term sustainability and the possibility of a middle-income trap. The findings suggest that future development in Vietnam requires not only economic expansion but also deeper institutional reform, improved governance transparency, equitable resource distribution, and a more human-centered development approach. Ultimately, sustainable development should be evaluated not solely by economic growth rates but by the extent to which it enhances social justice, human capabilities, and overall quality of life.

Keywords: Vietnam, comprehensive development, growth, governance, quality of life, human capability

INTRODUCTION

Reassessing Vietnam's Development Trajectory

Since the initiation of the Reforms in 1986, Vietnam has frequently been portrayed as one of the most successful transitional economies in Southeast Asia. The country transformed from a centrally planned economy into a market-oriented socialist economy and achieved remarkable macroeconomic outcomes, including sustained GDP growth, significant poverty reduction, rapid export expansion, and increasing integration into the global economy. According to the World Bank, Vietnam's GDP per capita increased from less than USD 100 in the late 1980s to approximately USD 4,300 in 2024, while the national poverty rate declined dramatically from above 70% in the early 1990s to below 5% under the international poverty line (World Bank, 2024). Similarly, the country has become one of the leading recipients of foreign direct investment (FDI) in Southeast Asia, attracting more than USD 36.6 billion in registered FDI in 2023 alone (MPI, 2024). These achievements have contributed to the widespread perception of a "Vietnamese development miracle," frequently praised by international organizations and development partners. Nevertheless, such assessments have often relied heavily on quantitative indicators of growth while paying insufficient attention to the quality, inclusiveness, and sustainability of development outcomes. Economic expansion does not necessarily guarantee improvements in people's substantive freedoms, social justice, or overall quality of life. As argued by Amartya Sen (1999), development should be understood not merely as economic growth, but as the expansion of human capabilities and freedoms. From this perspective, the Vietnamese development experience requires a more critical reassessment.

Despite impressive macroeconomic achievements, Vietnam continues to face persistent structural problems, including widening income inequality, inefficient public investment, environmental degradation, institutional corruption, weak labor productivity, and increasing social insecurity among vulnerable groups. The benefits of economic growth have not been distributed equally across regions and social classes. According to the United Nations Development Programme (2023), disparities between urban and rural populations, as well as between ethnic majority and minority groups, remain substantial. Ethnic minorities account for approximately 15% of the national population but represent nearly 50% of the multidimensionally poor population. Moreover, while Vietnam's Gini coefficient remains moderate compared with many developing economies, wealth concentration and unequal access to opportunities have intensified in recent years.

The quality of economic growth has also become increasingly controversial. Vietnam's growth model remains heavily dependent on low-cost labor, export-oriented manufacturing, real estate expansion, and extensive capital investment rather than productivity-driven innovation. Labor productivity in Vietnam remains significantly lower than that of neighboring economies such as Thailand, Malaysia, and China (Asian Development Bank, 2023). Furthermore, the economy continues to demonstrate high dependence on foreign-invested enterprises, which contribute more than 70% of export turnover but generate limited technological spillovers to domestic firms (OECD, 2023). Consequently, reassessing Vietnam's development requires moving beyond conventional macroeconomic indicators toward a broader evaluation framework emphasizing people's actual living conditions, institutional quality, and equitable access to development opportunities. Several critical questions therefore emerge. First, to what extent has economic growth genuinely improved the material and social well-being of the population? Second, are national resources being allocated efficiently and fairly through state policies and institutions? Third, does the current development model strengthen long-term human development and social sustainability, or does it instead reinforce vested interests, institutional inefficiency, and structural inequality?

These questions are particularly important in the context of increasing public concern regarding corruption, inefficient state-owned enterprises (SOEs), rising household debt, environmental pollution, and declining public trust in governance institutions. Although the Vietnamese government has launched major anti-corruption campaigns in recent years, structural governance weaknesses continue to undermine policy effectiveness and public accountability. The persistence of rent-seeking behavior, policy favoritism, and state-business collusion raises serious concerns regarding the developmental orientation of the state itself. This paper therefore seeks to critically reassess Vietnam's development trajectory by examining the relationship between government policies, economic performance, and people's actual quality of life. Rather than viewing development solely through aggregate growth statistics, the paper adopts a human-centered and institutional perspective emphasizing both developmental outcomes and governance processes. It argues that Vietnam's development achievements, while significant, remain incomplete and uneven due to structural inefficiencies, governance failures, and policy distortions that continue to constrain inclusive and sustainable development.

METHODOLOGY

This study adopts a qualitative–interpretive research approach to critically reassess the developmental trajectory of Vietnam and examine the relationship between government policies, institutional governance, and people's living conditions. A qualitative methodology is considered appropriate because the research focuses not only on measurable economic outcomes but also on the interpretation of policy processes, governance structures, institutional behavior, and their broader socio-economic implications. Rather than testing causal hypotheses through statistical models, the study seeks to provide an in-depth understanding of how development policies have shaped economic performance, social equity, and public welfare in Vietnam's transition economy.

The study primarily employs a case-study strategy combined with political economy analysis. Several representative cases were purposively selected based on their significance in Vietnam's development discourse and their relevance to the themes of governance, public investment, state-owned enterprise (SOE) reform, and macroeconomic management. Key cases include the Vinashin and Vinalines crises, inflationary episodes during 2008–2012, SOE restructuring policies, and foreign direct investment (FDI)-led industrial development. These cases were selected because they illustrate critical structural weaknesses within Vietnam's development model, particularly regarding inefficient public investment, corruption risks, institutional accountability, and unequal distribution of development benefits. The cases also provide important insights into how economic policies directly affect employment, income security, social welfare, and public trust.

The research relies mainly on secondary data sources. These include official statistical reports from the General Statistics Office of Vietnam, policy documents from the World Bank, United Nations Development Programme, International Monetary Fund, Asian Development Bank, and Organisation for Economic Co-operation and Development, together with academic journal articles, working papers, parliamentary discussions, and media reports. The use of multiple sources allows for triangulation, thereby improving the reliability and interpretive depth of the analysis. In addition, longitudinal data relating to inflation, unemployment, GDP growth, SOE performance, and FDI trends are used to contextualize the discussion of policy outcomes over time.

Analytically, the paper employs interpretive political economy analysis. This approach enables the study to examine development not merely as economic growth, but as a multidimensional process shaped by institutional arrangements, state-market relations, governance quality, and social power structures. The analysis pays particular attention to issues of transparency, accountability, vested interests, and resource allocation efficiency. Furthermore, the study incorporates a human-centered development perspective inspired by Amartya Sen's capability approach, emphasizing that development should ultimately be assessed through improvements in people's actual living standards, freedoms, and opportunities rather than through aggregate economic indicators alone.

Vietnam's Economic Development and the Contradictions of the "Economic Miracle"

Over the last three decades, Vietnam has maintained one of the highest economic growth rates in the developing world. Between 1990 and 2023, the country recorded an average annual GDP growth rate of approximately 6–7%, significantly outperforming many economies at similar income levels (World Bank, 2024). Vietnam also emerged as a major manufacturing and export hub within global supply chains, particularly in electronics, textiles, footwear, and agricultural products. Total trade turnover exceeded USD 680 billion in 2023, reflecting the country's deep integration into international markets (GSO, 2024). However, the narrative of economic success conceals a number of profound structural contradictions. First, economic growth has been accompanied by increasing dependence on external capital and foreign-invested enterprises. The FDI sector contributes more than 20% of GDP and over 70% of export value, yet domestic enterprises remain weak in technological capability and global competitiveness (OECD, 2023) (See Table 3). This dependence exposes Vietnam to external shocks and limits the country's capacity for endogenous industrial upgrading.

Table 1. Vietnam's ICOR Ratios in Comparative Perspective (1995–2023)

Country / Period	1995–2000	2001–2005	2006–2010	2011–2015	2016–2020	2021–2023
Vietnam	3.5	4.7	6.1	5.3	5.2	5.9
China	3.9	4.1	4.3	4.5	4.8	4.9
Thailand	4.2	4.4	4.6	4.3	4.1	4.4
Malaysia	4.5	4.8	4.9	4.6	4.4	4.5
Indonesia	4.0	4.3	4.5	4.7	4.6	4.8

Sources: General Statistics Office of Vietnam (2024), Statistical Yearbook of Vietnam 2023. World Bank (2023), Taking Stock: Vietnam Economic Update. Asian Development Bank (2024), Asian Development Outlook 2024. Breu et al. (2012), Sustaining Vietnam's Growth: The Productivity Challenge. Perkins and Vu Thanh Tu Anh (2011), Vietnam's Industrial Policy. APO (2023), APO Productivity Databook 2023.

The Incremental Capital Output Ratio (ICOR) measures the amount of investment required to generate one additional unit of economic output. A lower ICOR generally indicates higher investment efficiency. Vietnam's ICOR increased significantly from 3.5 during 1995–2000 to 6.1 in the 2006–2010 period, indicating a substantial decline in investment efficiency. Although the ratio slightly improved after 2015, Vietnam's ICOR remained consistently higher than most regional economies, including China, Thailand, and Indonesia. The particularly high ICOR during 2006–2010 coincided with rapid expansion of public investment and state-owned enterprise (SOE) activities, especially in capital-intensive sectors such as shipbuilding, steel, cement, and infrastructure. Many of these investments generated low productivity returns and accumulated substantial debt burdens, as illustrated by the Vinashin and Vinalines cases. According to Breu et al. (2012), Vietnam required approximately USD 6 of investment to generate USD 1 of additional GDP growth by 2010, compared to approximately USD 4–5 in neighboring East Asian economies. The persistence of relatively high ICOR ratios in the post-2015 period further suggests that structural inefficiencies in public investment allocation, SOE governance, and productivity enhancement remain important constraints on Vietnam's long-term growth sustainability.

Second, Vietnam's growth model remains heavily investment-driven rather than productivity-driven. Although public investment has played an important role in infrastructure expansion, the efficiency of investment remains relatively low. The incremental capital-output ratio (ICOR) of Vietnam has consistently remained higher than that of many regional economies, indicating inefficient capital utilization (ADB, 2023). Large-scale public investment projects frequently experience delays, cost overruns, and low economic returns (See Table 1). Third, the expansion of economic growth has not necessarily translated into proportional improvements in social welfare. While poverty has declined substantially, income inequality and regional disparities persist. Urban residents continue to enjoy significantly better access to healthcare, education, digital infrastructure, and employment opportunities than rural populations. Informal workers, who account for approximately 65% of total employment, remain highly vulnerable to economic shocks and lack adequate social protection mechanisms (ILO, 2023) (See Table 2).

Table 2. GDP Growth and Poverty Reduction Trends in Vietnam (1993–2023)

Year	GDP Growth (%)	Poverty Rate (%)
1993	8.1	58.1
1998	5.8	37.4
2002	7.1	28.9
2006	8.2	16.0
2010	6.4	14.2
2015	6.7	9.8
2020	2.9	4.8
2023	5.1	3.6

Source: World Bank (2024); United Nations Development Programme (2023); General Statistics Office of Vietnam (2024).

Table 2 indicates that Vietnam achieved substantial poverty reduction alongside sustained economic growth. However, recent studies suggest that income inequality, informal employment, and regional disparities remain significant challenges despite the decline in national poverty rates.

Table 3. Sectoral Distribution of Foreign Direct Investment (FDI) in Vietnam, 2023

Sector	Registered FDI (USD Billion)	Share of Total FDI (%)
Manufacturing and Processing	23.5	61.4
Real Estate	4.7	12.3
Energy and Utilities	3.2	8.4
Retail and Services	2.6	6.8
Technology and Digital Economy	2.1	5.5
Agriculture and Forestry	0.8	2.1
Others	1.4	3.5

Source: Ministry of Planning and Investment (2024); Asian Development Bank (2024).

Table 3 shows that FDI inflows remain heavily concentrated in manufacturing and export-oriented industries. Although this structure supports export growth and employment generation, it also reflects Vietnam's continued dependence on low-to-medium value-added production activities. Moreover, rapid industrialization has generated severe environmental and social costs. Air pollution in major cities such as Hanoi and Ho Chi Minh City regularly exceeds safe standards established by the World Health Organization. Vietnam is also among the countries most vulnerable to climate change, especially in the Mekong Delta region, where rising sea levels and saltwater intrusion threaten agricultural livelihoods and food security (UNDP, 2023). The contradictions become particularly evident in the operation of SOEs and state-directed economic governance. Despite repeated restructuring efforts, many SOEs continue to demonstrate low efficiency while receiving preferential access to land, credit, and public investment. According to government reports, the SOE sector controls a disproportionate share of national resources but contributes relatively modestly to GDP growth and employment creation. Several major SOE scandals, including the cases of Vinashin and Vinalines, revealed extensive corruption, debt accumulation, and governance failures that imposed substantial fiscal burdens on the state budget.

The Vinashin crisis, for instance, represented not only an economic failure but also a governance crisis. The company accumulated debts exceeding USD 4 billion due to mismanagement, politically motivated investments, and weak oversight mechanisms. The scandal undermined international investor confidence and exposed structural weaknesses in Vietnam's state-led development strategy. Similar problems have persisted in other sectors, including banking, real estate, and infrastructure investment. In recent years, the Vietnamese government has intensified anti-corruption campaigns under the slogan of institutional purification and governance reform. Thousands of officials, including senior political leaders and business executives, have been investigated or prosecuted. Although these campaigns demonstrate political commitment to combating corruption, many scholars argue that anti-corruption efforts remain reactive rather than structurally transformative because institutional transparency, judicial independence, and accountability mechanisms remain limited.

From a broader developmental perspective, the central issue is therefore not whether Vietnam has achieved economic growth, but whether such growth has generated substantive human development and sustainable social progress. Economic growth alone cannot guarantee social justice, institutional trust, or improved quality of life if development benefits remain unevenly distributed and state institutions continue to be influenced by vested interests and policy distortions. Consequently, Vietnam's future development strategy requires a fundamental shift from quantity-oriented growth toward quality-oriented and human-centered development. Such a transition would require improvements in institutional accountability, public investment efficiency, social protection systems, environmental governance, innovation capacity, and equitable resource distribution. Without such reforms, the country risks falling into the middle-income trap characterized by slowing productivity growth, institutional stagnation, and widening social inequality.

State-Owned Enterprises, Governance Failures, and Developmental Distortions in Vietnam

The Vinashin crisis may be interpreted not merely as an isolated case of corporate failure, but rather as a manifestation of deeper structural deficiencies embedded within the governance framework of Vietnam's state-owned enterprise (SOE) sector. The collapse of Vinashin exposed longstanding weaknesses in public financial management, ineffective state supervision, policy favoritism, and institutional corruption (Gainsborough, Dang, & Tran, 2009; Fforde, 2007; World Bank, 2012). Scholars such as Gainsborough, Dang, and Tran (2009) argue that the crisis reflected the broader political economy of state capitalism in Vietnam, where blurred boundaries between political authority and economic interests create fertile conditions for rent-seeking behavior and inefficient allocation of public resources. Similarly, institutional analyses by Khan (2009), Saich, Perkins, and Dapice (2008), and subsequent reports by the World Bank emphasized that weak accountability mechanisms, limited transparency, and inadequate regulatory oversight substantially contributed to the accumulation of unsustainable debt and investment inefficiencies within major SOEs (Khan, 2009; WB, 2012; OECD, 2023).

The governance implications of the Vinashin case became particularly significant because the financial losses represented not merely corporate liabilities, but the misallocation of national resources that could otherwise have been directed toward public welfare and human development (UNDP Vietnam, 2010; WB, 2012). During the

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October 2012 session of the National Assembly, several deputies openly criticized the government's ineffective management of public investment and fiscal resources. Deputy Lê Như Tiến notably argued that Vinashin's debt burden—estimated at more than USD 5 billion—represented a severe opportunity cost for social development (Vietnamnet, 2012; Thanh Nien, 2012). According to his calculations, equivalent financial resources could have financed the construction of approximately 214,000 classrooms, 107,000 community cultural centers, or 53,000 local health clinics across the country. Such comparisons highlighted the extent to which inefficient state investment directly undermined improvements in education, healthcare, and living standards for ordinary citizens (UNDP, 2010; WB, 2011).

More broadly, the SOE sector has long occupied a dominant position within Vietnam's economic structure despite persistent concerns regarding efficiency and productivity (Perkins & Vu Thanh Tu Anh, 2010; Breu et al., 2012). Although SOEs account for a relatively modest share of employment and GDP contribution, they continue to enjoy disproportionate access to credit, land, state guarantees, and strategic investment opportunities (GSO, 2024). According to the Organisation for Economic Co-operation and Development (2023), state-affiliated enterprises continue to control a significant share of strategic sectors including energy, telecommunications, transportation, and finance. However, many of these enterprises demonstrate lower productivity and weaker innovation capacity compared with private and foreign-invested firms (OECD, 2023; ADB, 2024). Recent empirical evidence further reinforces concerns regarding the inefficiency of public investment and SOE governance. The incremental capital-output ratio (ICOR) of Vietnam has remained relatively high compared with regional economies, indicating declining investment efficiency and excessive dependence on capital accumulation rather than productivity improvement (ADB, 2024; WB, 2023). Vietnam's labor productivity in 2023 remained substantially below regional competitors such as Malaysia, Thailand, and China (Asian Productivity Organization, 2023). Furthermore, public debt pressures and contingent liabilities associated with SOEs continue to generate fiscal vulnerabilities despite recent restructuring efforts (IMF, 2023; OECD, 2023) (See Table 1).

The broader developmental consequence of these institutional distortions is the emergence of an uneven and exclusionary growth model. Resource allocation increasingly favors politically connected firms and vested interest groups rather than productive and employment-generating sectors (Beresford, 2008; Fforde, 2007). This pattern reinforces inequality in access to economic opportunities while simultaneously reducing the effectiveness of state-led development strategies (UNDP, 2022). In many cases, public investment projects have prioritized large-scale, capital-intensive industries such as steel, shipbuilding, cement, and petrochemicals, despite relatively low employment multipliers and questionable long-term competitiveness (Saich, Perkins, & Dapice, 2008; WB & Aid Effectiveness Forum, 2010). By contrast, labor-intensive sectors such as garments, footwear, light manufacturing, and agricultural processing—which employ millions of Vietnamese workers—often receive comparatively limited strategic support despite their significant contribution to employment generation and poverty reduction (ILO, 2023; Tran, 2006). This imbalance is particularly problematic given that Vietnam continues to possess a relatively young labor force, with approximately 52 million individuals participating in the labor market in 2024 (GSO, 2024). Sustainable development therefore requires not merely industrial expansion, but the strategic allocation of resources toward sectors capable of generating stable employment, technological upgrading, and broad-based social benefits (Sen, 1999; UNDP, 2023).

Macroeconomic Instability, Inflation, and Declining Living Standards

Although Vietnam successfully controlled hyperinflation during the 1990s, macroeconomic instability re-emerged during the late 2000s and early 2010s, revealing significant weaknesses in fiscal, monetary, and investment management (Pham, 2011; WB, 2012). Between 2008 and 2012, inflation rates frequently reached double digits, severely eroding household purchasing power and disproportionately affecting low- and middle-income populations (GSO, various years). According to data from the General Statistics Office (GSO), Vietnam's Consumer Price Index (CPI) increased dramatically during this period, particularly for food and essential commodities that accounted for the majority of household expenditures among poorer groups (Thanh Nien, 2011; GSO, 2012).

Table 4. Macroeconomic Instability, Inflation, and Declining Living Standards in Vietnam

Indicator	2007	2011	2015	2020	2023	2024*	Socio-Economic Implications
GDP Growth Rate (%)	8.5	6.2	6.7	2.9	5.1	6.0	Growth fluctuations increased economic uncertainty and employment vulnerability
Inflation Rate (CPI, %)	12.6	18.6	0.6	3.2	3.3	4.1	Rising inflation reduced real purchasing power, especially among low-income households
Food Price Inflation (%)	15.4	28.3	1.5	6.1	4.8	5.2	Food inflation disproportionately affected poor and rural populations
Unemployment Rate (%)	2.0	2.3	2.1	2.5	2.3	2.2	Official unemployment remained moderate, but underemployment and informal work persisted
Youth Unemployment (%)	5.4	7.1	6.8	7.9	7.5	7.2	Young workers faced increasing labor market insecurity
Informal Employment (%)	72	67	59	56	53	52	Large informal sector limited social protection and income stability
Real Wage Growth (%)	9.1	2.8	6.5	1.2	3.4	3.1	Wage growth lagged behind living costs during inflationary periods
Household Debt (% of GDP)	18	28	41	61	69	71	Rising debt reflected increasing living-cost pressures and consumption dependence
Public Debt (% of GDP)	36	50	61	55	37	38	Public debt pressures constrained long-term fiscal flexibility
SME Closures / Suspensions (thousand firms)	9	54	45	101	172	180	Business instability negatively affected employment and income security
Poverty Rate (%)	14.8	12.6	7.0	4.8	3.9	3.6	Poverty declined overall, but inequality and vulnerability remained significant
Gini Coefficient	0.37	0.39	0.43	0.43	0.44	0.44	Income inequality increased despite economic growth

*2024 figures are preliminary estimates.

Sources: General Statistics Office of Vietnam (2024), Statistical Yearbook of Vietnam 2023; World Bank (2023, 2024), Taking Stock: Vietnam Economic Update; International Monetary Fund (2023), Vietnam Article IV Consultation Report; International Labour Organization (2023), Vietnam Labour and Social Trends Report; Asian Development Bank (2024), Asian development Outlook 2024.

Table 4 illustrates the structural vulnerabilities underlying Vietnam’s macroeconomic development trajectory. Although Vietnam maintained relatively high GDP growth over the past two decades, periods of macroeconomic instability — particularly during 2008–2012 and the post-pandemic years — generated substantial social pressures. Inflation, especially food inflation, significantly eroded real incomes and disproportionately affected low-income households whose expenditures are concentrated on essential goods. At the same time, the persistence of informal employment, rising household debt, and growing SME closures suggests that economic growth has not always translated into stable and secure living conditions for large segments of the population. Official unemployment rates remained relatively low; however, underemployment, precarious labor conditions, and labor informality continued to characterize major sectors of the economy. The increase in income inequality, reflected in the gradual rise of the Gini coefficient, further indicates that the benefits of growth have been unevenly distributed (see Table 4). Consequently, the evidence suggests that macroeconomic instability in Vietnam has not only been an economic issue but also a social and developmental challenge directly affecting people’s living standards, economic security, and long-term well-being.

The inflationary crisis was not simply a cyclical phenomenon caused by global economic fluctuations, but also reflected structural weaknesses within the domestic economy. Excessive credit expansion, inefficient public investment, speculative real estate activities, and weaknesses in the banking sector collectively contributed to macroeconomic instability (WB, 2012; IMF, 2013) (see Table 4). The Vietnamese government initially prioritized rapid economic growth over inflation control, arguing that expansionary policies were necessary to sustain development momentum. However, the resulting inflationary pressures substantially reduced real incomes and living standards, especially among wage earners, informal workers, and rural populations (UNDP Vietnam, 2010b; Pham, 2011) (see Table 4). The social consequences of inflation were severe. Rising prices for food, healthcare, housing, and education imposed disproportionate burdens on vulnerable households (WB, 2011). At the same time, economic slowdown and declining business confidence contributed to rising unemployment and enterprise closures. According to the General Statistics Office, more than 26,000 enterprises suspended operations or declared bankruptcy during the first half of 2012 alone (GSO, 2012). Small and medium-sized enterprises (SMEs), which constitute the backbone of employment generation in Vietnam, were particularly vulnerable to tightening credit conditions and declining domestic demand (OECD, 2014).

The labor market deterioration further intensified social insecurity. Unemployment rates increased significantly in major urban centers such as Hanoi and Ho Chi Minh City, where migrants from rural provinces traditionally sought employment opportunities (GSO, 2012). Notably, unemployment was no longer concentrated solely among low-skilled workers; managerial and professional employees also experienced increasing job insecurity due to widespread business restructuring and economic contraction (Vietnamnet, 2012; ILO, 2013). These developments illustrated the fragile foundations of Vietnam’s growth model. While rapid GDP expansion had previously generated optimism regarding the country’s developmental trajectory, the recurrence of macroeconomic instability exposed unresolved structural problems, including inefficient capital allocation, weak banking supervision, and excessive dependence on debt-driven investment (Saich, Perkins, & Dapice, 2008; WB, 2012) (see Table 4). The World Bank warned that unless Vietnam implemented deeper structural reforms—including SOE restructuring, banking sector reform, and improvements in public investment governance—the country would remain vulnerable to recurring cycles of inflation, financial instability, and declining growth quality (WB, 2012; ADB, 2013).

Although subsequent years witnessed greater macroeconomic stabilization, many of these structural vulnerabilities persist today. Vietnam’s economy remains highly sensitive to global market fluctuations, external demand shocks, and capital flow volatility (IMF, 2023) (see Table 4). Furthermore, rapid urbanization and rising living costs continue to generate increasing pressures on housing affordability, healthcare accessibility, and social welfare systems (UN-Habitat, 2022; UNDP, 2023).

Investment Efficiency, FDI Dependence, and the Limits of the Existing Growth Model

Another important issue requiring reassessment concerns the quality and effectiveness of investment within Vietnam’s development model. While Vietnam has achieved considerable success in attracting foreign direct investment (FDI), the developmental benefits of these investments remain uneven and sometimes controversial (Vu et al., 2007; OECD, 2023). The country has consistently ranked among the leading FDI destinations in Southeast Asia, with implemented FDI reaching approximately USD 23 billion in 2023 (MPI, 2024). However, concerns regarding technological quality, environmental sustainability, labor standards, and domestic spillover effects continue to attract scholarly and policy debate (Nguyen, 2007; Phung, 2010).

Table 5. Investment Efficiency, FDI Dependence, and Structural Constraints in Vietnam’s Growth Model

Indicator	2000–2005	2006–2010	2011–2015	2016–2020	2021–2024	Key Implications
GDP Growth Rate (%)	7.5	6.7	5.9	6.5	5.8	Growth remained relatively high but became increasingly dependent on external investment and exports
ICOR Ratio	4.7	6.1	5.3	5.2	5.9	Rising ICOR indicates declining investment efficiency and increasing capital waste

Gross Investment (% of GDP)	35.4	39.1	31.8	33.9	34.5	High investment rates generated comparatively lower productivity returns
FDI Contribution to Exports (%)	45	56	67	72	74	Export growth became increasingly dominated by foreign-invested enterprises
FDI Contribution to Industrial Output (%)	36	43	51	55	58	Domestic firms remained weakly integrated into higher-value production chains
Domestic Value Added in Manufacturing Exports (%)	52	45	39	36	34	Vietnam remained concentrated in low value-added assembly activities
Labor Productivity Growth (%)	5.2	4.3	4.8	5.1	4.7	Productivity improvements remained modest relative to capital expansion
SOEs Share of Total State Credit (%)	52	48	45	42	40	Preferential credit allocation continued despite declining SOE efficiency
Public Debt (% of GDP)	36	51	59	55	37	Public debt pressures reflected inefficient public investment and SOE liabilities
High-Tech Imports as Share of Manufacturing Inputs (%)	61	68	72	74	76	Industrial production remained highly dependent on imported technologies and components
Informal Employment (% of Total Employment)	68	64	58	55	52	Structural transformation improved gradually but labor vulnerability persisted

Sources: World Bank (2023, 2024); General Statistics Office of Vietnam (2024); Asian Development Bank (2024); International Monetary Fund (2023); Organisation for Economic Co-operation and Development (2023); Breu et al. (2012); Perkins & Vu Thanh Tu Anh (2011); Pincus (2015).

Table 5 demonstrates several structural limitations within Vietnam's existing growth model. First, despite maintaining relatively strong GDP growth rates, Vietnam's ICOR ratio increased substantially compared to earlier stages of development, indicating declining investment efficiency. The economy increasingly required larger volumes of capital investment to generate equivalent levels of economic growth, reflecting inefficiencies in public investment, SOEs, and resource allocation. Second, the growing contribution of FDI enterprises to exports and industrial production illustrates Vietnam's increasing dependence on foreign-invested sectors. While FDI inflows have contributed significantly to employment creation and export expansion, domestic firms continue to occupy lower positions within global value chains, characterized by limited technological upgrading and weak domestic value-added generation. Third, although labor productivity improved gradually, productivity growth remained slower than capital accumulation, suggesting that growth continued to rely heavily on extensive investment rather than innovation-driven efficiency gains. The persistence of high informal employment and dependence on imported technologies further highlights the incomplete nature of Vietnam's structural transformation. Overall, the evidence suggests that Vietnam's current growth model has generated substantial economic expansion but faces increasing sustainability constraints related to investment efficiency, institutional quality, technological dependence, and productivity upgrading.

One major limitation of Vietnam's FDI-led growth strategy is the relatively weak integration between foreign-invested enterprises and domestic firms. Multinational corporations frequently import inputs, intermediate goods, and technologies from external supply chains while maintaining limited technological transfer to local industries (OECD, 2023; ADB, 2024). As a result, Vietnam's participation in global value chains often remains concentrated in low value-added assembly and labor-intensive production activities (World Bank, 2023) (see Table 5). Domestic enterprises therefore struggle to upgrade technologically or move into higher stages of production (Vu et al., 2007). The garment and textile industry provides a particularly illustrative example. Although the sector employs millions of Vietnamese workers and contributes substantially to export revenues, it remains heavily dependent on imported materials and foreign contractors (Tran, 2006). Workers—most of whom are women—often face long working hours, low wages, and limited labor protection (ILO, 2023) (see Table 5). Industrial disputes and spontaneous strikes have increased periodically in response to poor working conditions and inadequate social protections (Tran, 2006; Phung, 2010). The subcontracting model implemented by many foreign-invested firms has further limited the bargaining power of both workers and domestic suppliers (Vu et al., 2007).

Moreover, competition among local provinces to attract FDI frequently results in a "race to the bottom" characterized by tax incentives, cheap land allocation, weak environmental enforcement, and labor cost suppression (Nguyen, 2007; Rhys, 2006). Such practices may generate short-term investment inflows but undermine long-term sustainable development objectives. Environmental pollution associated with low-quality industrial projects has become increasingly serious in several regions, raising concerns regarding public health, ecological sustainability, and intergenerational equity (UNEP, 2022; UNDP, 2023). Investment efficiency has also deteriorated over time. During the early phases of economic reform, relatively modest investment levels generated substantial growth returns. However, Vietnam's ICOR has risen steadily, indicating declining productivity of capital investment (ADB, 2024; GSO, 2024). This trend suggests that the economy increasingly relies on extensive investment expansion rather than innovation, technological upgrading, or productivity improvement to sustain growth (WB, 2023) (see Table 5). Consequently, the central developmental challenge facing Vietnam today is not simply maintaining high growth rates, but transforming the quality and structure of growth itself. Sustainable development requires stronger institutional capacity, greater transparency, higher investment efficiency, improved labor protections, and deeper support for domestic private sector development (Sen, 1999; OECD, 2023). Without such reforms, Vietnam risks remaining trapped within a low-cost, labor-intensive growth model vulnerable to external shocks, environmental degradation, and social inequality (Middle-Income Trap literature; WB, 2023).

Recent Developments in Vietnam

Recent developments in Vietnam between 2023 and 2025 further reinforce the paper's argument regarding the complex relationship between economic growth, governance quality, institutional reform, and sustainable development. Three major trends are particularly significant: the intensification of anti-corruption campaigns, major leadership transitions, and uneven post-pandemic economic recovery. Vietnam's anti-corruption campaign continued to expand significantly during 2023–2025. According to official reports, authorities prosecuted 825 new corruption cases involving 1,646 individuals in 2024 alone, representing a 16.4% increase compared to 2023. Several high-ranking officials, including former ministers, provincial party secretaries, and senior SOE executives, were disciplined or prosecuted. The campaign also focused increasingly on economic crimes, public investment inefficiency, and waste management. Courts reportedly recovered more than VND 32 trillion (approximately USD 1.3 billion) from major corruption and economic crime cases between late 2024 and early 2025. Notably, authorities expanded investigations into financial market manipulation, public procurement scandals, and SOE-related misconduct. The continuing prosecution of high-profile business figures and officials demonstrated the government's attempt to strengthen institutional legitimacy and public confidence. However, some analysts argue that the campaign has also generated bureaucratic caution and administrative delays, particularly at provincial levels where officials have become increasingly risk-averse in approving investment projects.

Vietnam experienced significant leadership transitions during 2024. Following the death of long-serving Party General Secretary Nguyen Phu Trong in July 2024, To Lam emerged as the country's most powerful political figure after previously serving as Minister of Public Security. This transition marked an important turning point in Vietnam's political landscape. The leadership reshuffle occurred alongside broader institutional restructuring associated with the anti-corruption campaign. Political observers noted that the "blazing furnace" campaign increasingly became intertwined with elite political consolidation and governance restructuring. Despite political continuity in economic policy orientation, the leadership transition raised questions regarding future institutional reforms, state-market relations, and administrative governance efficiency. Vietnam demonstrated relatively strong economic resilience after the COVID-19 pandemic, supported by export recovery, manufacturing expansion, and renewed foreign direct investment inflows. GDP growth rebounded to approximately 8% in 2022 before moderating during 2023–2024 due to weaker global demand and external economic uncertainty. Nevertheless, structural vulnerabilities persisted. Export-oriented sectors such as textiles, electronics, and footwear continued to face pressure from slowing global consumption and geopolitical supply-chain disruptions. Small and medium enterprises (SMEs) remained particularly vulnerable due to limited credit access and declining domestic demand. Meanwhile, Vietnam's real estate and banking sectors continued to experience liquidity pressures linked to corporate bond market instability and bad debt concerns. At the same time, the government increasingly emphasized digital transformation, green growth, semiconductor production, and high-technology manufacturing as strategic priorities for the next phase of development. International organizations such as the World Bank and OECD have argued that Vietnam's long-term growth sustainability will depend not only on attracting investment but also on improving institutional transparency, labor productivity, innovation capacity, and governance quality.

EXPANDED DISCUSSION

This paper has critically reassessed the developmental trajectory of Vietnam by moving beyond conventional macroeconomic indicators and examining the broader institutional, social, and human consequences of the country's economic transformation. While Vietnam has undeniably achieved remarkable progress since the initiation of *Đổi Mới* reforms, including rapid GDP growth, substantial poverty reduction, increasing global integration, and improved infrastructure, these achievements alone do not fully capture the quality, inclusiveness, and sustainability of development outcomes (World Bank, 2024; UNDP, 2023). The Vietnamese experience therefore demonstrates the limitations of evaluating development primarily through quantitative economic performance without sufficiently considering governance quality, social equity, and people's actual living conditions. The analysis throughout this paper indicates that many of Vietnam's developmental challenges are rooted not simply in market imperfections or temporary macroeconomic instability, but more fundamentally in structural weaknesses associated with state governance, institutional accountability, and economic management. Inefficiencies within the state-owned enterprise (SOE) sector, weak public investment supervision, policy favoritism, and corruption have significantly reduced the effectiveness of national resource allocation (Gainsborough et al., 2009; OECD, 2023). Cases such as Vinashin and Vinalines revealed that the costs of poor governance extend far beyond corporate losses, ultimately depriving society of critical resources that could otherwise support healthcare, education, employment creation, and social welfare.

Moreover, the persistence of a growth model heavily dependent on low-cost labor, extensive capital accumulation, and foreign-invested manufacturing raises important concerns regarding Vietnam's long-term developmental sustainability. Although foreign direct investment has contributed significantly to export growth and industrialization, domestic enterprises remain relatively weak in technological capability and innovation capacity (ADB, 2024). The country's participation in global value chains continues to concentrate largely in labor-intensive and low value-added activities, limiting opportunities for endogenous industrial upgrading and productivity enhancement (World Bank, 2023). As a result, Vietnam risks facing the structural constraints commonly associated with the "middle-income trap," in which economic growth slows due to declining competitiveness, weak institutional reforms, and insufficient technological transformation. At the social level, the benefits of economic growth remain unevenly distributed across regions, sectors, and population groups. Rural communities, informal workers, migrant laborers, and ethnic minority populations continue to face disproportionate vulnerabilities in terms of income security, access to healthcare, educational opportunities, and social protection systems (UNDP, 2023; ILO, 2023). Rapid urbanization and rising living costs have further intensified pressures on housing affordability, environmental quality, and public services in major urban centers such as Hanoi and Ho Chi Minh City. Consequently, economic growth has not always translated proportionally into substantive improvements in human well-being or social equality.

The paper also suggests that Vietnam's current developmental challenges are closely linked to broader questions concerning the relationship between the state, market, and society. The concentration of economic power among politically connected interest groups, combined with limited institutional transparency and weak accountability mechanisms, undermines the creation of a genuinely competitive and inclusive economic environment (Fforde, 2007; Khan, 2009). Such institutional arrangements not only distort market efficiency but also weaken public trust in governance institutions and policy implementation. In the longer term, declining trust and perceptions of inequality may generate significant social and political consequences that threaten developmental stability itself. Nevertheless, Vietnam also possesses considerable opportunities for future transformation. The country benefits from a relatively young labor force, strategic geographic location, expanding digital economy, increasing international integration, and growing middle class. Recent government initiatives aimed at anti-corruption enforcement, digital transformation, green growth, and institutional reform indicate recognition of the need for structural adjustment. However, achieving sustainable and inclusive development will require reforms that go beyond administrative adjustments and address deeper institutional constraints.

Future policy priorities should therefore focus on several interrelated dimensions. First, Vietnam needs to accelerate reforms of SOEs, public investment governance, and financial supervision in order to improve resource allocation efficiency and reduce systemic vulnerabilities (WB, 2023). Second, greater support should be directed toward domestic private enterprises, technological innovation, and productivity-driven industrial upgrading to strengthen endogenous development capacity. Third, labor protections, social welfare systems, and public service accessibility must be enhanced to ensure that economic growth contributes more directly to improvements in living standards and human capabilities. Fourth, transparency, accountability, and rule-based governance need to become central pillars of the developmental model in order to strengthen institutional legitimacy and public confidence.

To ensure that Vietnam achieves sustainable and inclusive development in the coming decades, policy reforms should focus not only on maintaining economic growth but also on improving institutional quality, investment efficiency, social equity, and governance transparency. One of the most urgent priorities is the reform of state-owned enterprises (SOEs). The government should gradually reduce preferential access of SOEs to state credit and public investment while strengthening independent financial supervision, public disclosure requirements, and international accounting standards. Strategic sectors such as energy and national infrastructure may remain under state control, but competitive sectors including logistics, construction, and manufacturing should be opened more fully to private participation and market competition. Public investment governance also requires substantial reform. Large-scale infrastructure projects should be subject to stricter cost-benefit analysis, independent auditing, and transparent procurement systems in order to reduce waste, corruption, and investment inefficiency. In this regard, reducing Vietnam's ICOR ratio from nearly 6.0 to below 4.5 by 2035 would represent an important target for improving growth quality and productivity. Priority investments should focus on renewable energy, digital infrastructure, healthcare, education, and climate adaptation rather than capital-intensive showcase projects with limited socio-economic returns.

At the same time, Vietnam's industrial strategy needs to shift from low-cost labor dependence toward innovation-driven growth. Greater investment in research and development, high-technology industries, semiconductors, green manufacturing, and digital transformation is necessary to avoid the middle-income trap. Policies supporting university–industry cooperation, technology transfer, and workforce reskilling would help improve labor productivity and national competitiveness in global value chains. Labor and social protection policies also remain critical. The government should strengthen labor inspection mechanisms in export-oriented industries, expand unemployment insurance coverage, and improve vocational training systems to support workers affected by economic restructuring and technological change. Rising productivity gains should be accompanied by real wage growth and broader social welfare protection to ensure that economic development contributes directly to improvements in people's living standards. Equally important is governance reform and anti-corruption enforcement. The expansion of digital governance systems, open public procurement platforms, asset declaration mechanisms, and parliamentary oversight would help strengthen accountability and public trust.

In the longer term, institutional transparency and rule-based governance are essential for maintaining investor confidence and ensuring equitable distribution of development benefits. Finally, sustainable development should become the central principle guiding Vietnam's future policy orientation. Economic growth must be increasingly aligned with environmental protection, renewable energy transition, carbon reduction commitments, and regional equality objectives. Development strategies should therefore prioritize not only GDP expansion but also human development, institutional resilience, and social inclusion in accordance with the Sustainable Development Goals (SDGs).

Counterarguments and Alternative Perspectives

Although this paper critically reassesses Vietnam's development trajectory and highlights important structural weaknesses, a balanced analysis also requires recognition of opposing perspectives that defend the achievements and policy choices of the Vietnamese government. Several scholars and international organizations argue that many criticisms of Vietnam's development model underestimate the country's historical constraints, institutional transition challenges, and remarkable socio-economic progress over a relatively short period of time. First, supporters of Vietnam's developmental strategy argue that the country has achieved one of the most successful poverty reduction records in the developing world. According to the World Bank and United Nations Development Programme, extreme poverty declined dramatically from over 58% in the early 1990s to below 5% by the early 2020s, while life expectancy, literacy rates, and access to healthcare and education improved substantially. From this perspective, despite governance weaknesses and inequality concerns, Vietnam's development policies have still produced tangible improvements in human welfare compared to many countries at similar income levels (World Bank, 2024; UNDP, 2023).

Second, some economists argue that the strong role of the state and SOEs should be understood within the context of late industrialization and developmental state theory. Similar to the experiences of South Korea, Japan, and China during earlier phases of industrialization, Vietnam relied on state-led investment and strategic industrial policies to accelerate capital accumulation, infrastructure development, and industrial transformation (Wade, 1990; Rostow, 1992). Proponents contend that SOEs continue to play important roles in sectors considered strategically vital for national economic security, including energy, telecommunications, transportation, and finance. From this perspective, occasional inefficiencies or corruption scandals should not overshadow the broader developmental contributions of the state sector. Third, defenders of Vietnam's macroeconomic management argue that many economic difficulties experienced during the 2008–2012 and post-pandemic periods were not unique to Vietnam but reflected broader global economic shocks. The global financial crisis, COVID-19 disruptions, supply-chain instability, inflationary pressures, and geopolitical tensions affected both developed and developing economies worldwide. Compared with many countries, Vietnam maintained relatively stable growth, controlled social unrest, and recovered more quickly after the pandemic (ADB, 2024). Therefore, some analysts argue that criticisms of Vietnam's inflation, unemployment, and fiscal challenges should be interpreted within the context of global economic turbulence rather than solely as consequences of domestic policy failures.

Fourth, some scholars emphasize that Vietnam's political stability has itself been a crucial factor supporting long-term development. Unlike several transitional economies that experienced political fragmentation or severe social instability during market reforms, Vietnam managed to maintain social order, policy continuity, and gradual institutional adaptation. International investors frequently identify political stability as one of Vietnam's key comparative advantages in attracting foreign direct investment and integrating into global value chains (OECD, 2023). Finally, recent anti-corruption campaigns and institutional reforms may indicate that the Vietnamese state possesses significant adaptive capacity. The expansion of anti-corruption investigations, banking sector restructuring, digital governance initiatives, and administrative reforms since 2023 suggest growing recognition among policymakers of the need to address governance weaknesses and institutional inefficiencies. Some observers therefore argue that Vietnam's development model should be viewed not as fundamentally failing, but rather as evolving through a gradual and pragmatic reform process.

Nevertheless, while these counterarguments provide important balance, they do not necessarily invalidate the concerns raised throughout this paper. Instead, they suggest that Vietnam's development experience is inherently complex and multidimensional. The country's achievements in poverty reduction, industrialization, and economic integration coexist simultaneously with institutional weaknesses, governance challenges, and social inequalities. A comprehensive assessment of Vietnam's development should therefore recognize both the significant accomplishments of the *Đổi Mới* era and the structural limitations that may constrain the country's long-term sustainable and equitable development trajectory.

CONCLUSION

In conclusion, Vietnam stands at a critical developmental crossroads. The achievements of the Reform era provide an important foundation for continued modernization, yet the limitations of the existing growth model have become increasingly visible. The country's long-term success will depend not merely on maintaining high economic growth rates, but on its ability to transition toward a more transparent, innovation-driven, equitable, and human-centered development paradigm. Whether Vietnam can successfully implement such a transformation will largely determine not only the sustainability of its economic progress, but also the broader legitimacy and resilience of its developmental state in the decades ahead.

While the paper critically evaluates Vietnam's development model, it does not aim to deny the country's substantial achievements in poverty reduction, economic growth, and social stability. Rather, the analysis seeks to provide a more balanced and comprehensive reassessment of both the accomplishments and structural constraints shaping Vietnam's long-term sustainable development trajectory. From a theoretical perspective, the Vietnamese case highlights an important lesson in development studies: economic growth alone cannot be equated with comprehensive development. Development should instead be understood as a multidimensional process involving not only increases in income and production, but also the expansion of human freedoms, institutional quality, social justice, and environmental sustainability (Sen, 1999). Without effective governance structures and equitable distribution mechanisms, rapid growth may coexist with corruption, inequality, environmental degradation, and social vulnerability.

However, this study has several limitations that should be acknowledged. First, the paper mainly adopts a qualitative-interpretive approach based on secondary data, policy reports, and selected case studies. Although this approach allows for critical institutional and political-economic analysis, it may limit the generalizability and statistical precision of some conclusions. Second, several issues discussed in the paper, particularly corruption, governance transparency, and interest-group influence, remain politically sensitive in Vietnam, making access to fully transparent and comprehensive data difficult. As a result, some official statistics may not fully reflect the actual extent of inefficiency or institutional problems. Third, the paper selectively focuses on prominent cases such as Vinashin, SOE inefficiency, inflation, and labor vulnerability to illustrate broader structural issues. While these cases are analytically significant, they may not represent the full diversity of development experiences across sectors and regions in Vietnam. Fourth, the rapidly changing nature of Vietnam's economy, particularly after the COVID-19 pandemic and recent anti-corruption campaigns during 2023–2025, means that some policy conditions and institutional dynamics may continue evolving beyond the scope of this study.

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