

TRANSFORMATION OF SOCIO-ECONOMIC STRUCTURE OF HO CHI MINH CITY UNDER THE DOI-MOI POLICY AND THE ACCOMPANYING GLOBALIZATION PROCESS

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Abstract

Vietnam, and in particular Ho Chi Minh City (HCMC), have experienced rapid socio-economic change echoing the global economy since 1986, when the central government started to implement the Doi-Moi policy, an overall economic reform. This study aims to clarify (1) how the socio-economic structure of HCMC has been changing under the Doi-Moi policy and the globalization process of Vietnam, and (2) what the mechanism of these changes is, including the relevant government policies. We can see the positive results of industrialization in terms of economic growth, modernization and formalization of industries. The favorable economic cycle of increasing foreign direct investment (FDI) and trade, Gross Regional Product (GRP) growth, emergence of private sectors, formalization of the economy and expansion of the local population and market has been formed gradually as part of the economic development of HCMC. These changes are due to a reciprocal impact process between the macro legal framework reform conducted by the central government and the development policies mapped out by the HCMC local government. Under the globalization process together with the local industrialization, there have obviously been transformations of HCMC society. The transformation of society has been revealed in the form of (1) formalization of society, (2) improvement in income and consumption and expansion of disparity, and (3) urbanization with massive migration.

KEY WORDS : Globalization process, Doi-Moi Policy, Transitional economy, Industrialization, Ho Chi Minh City, Vietnam

1. Introduction

1.1 Background

Economic globalization is an indispensable tendency that has been occurring in many countries and cities in the world. Through articulation of the global economy with open economy policies, many developing countries have been promoting the industrialization and modernization of their societies. This has been particularly true in East and Southeast Asia. A World Bank report entitled *The East Asian Miracle*, presented several such success stories¹⁾. Ya Ping Wang also stressed that an important indicator of recent global connections is foreign direct investment (FDI) in China, which grew exponentially after 1991. As a result of FDI, many cities along the coastal areas have been “globalized”²⁾. Of course, articulating the global economy will not guarantee success in industrialization and modernization. Success relies on how a respective state wisely incorporates the global economy in its own contexts. The globalization process has positive and negative aspects,

and governments must extend the positive aspects and mitigate the negative impacts.

In this study we examined the globalization of Vietnam as one of the Asian transitional economies and looked for an association between the globalization and the transformation of Vietnamese socio-economic structure and urban society, taking government intervention into account. Large cities, as typical FDI destinations, play an important role in linking the national and global economy. In this study, we selected Ho Chi Minh City (HCMC) as a case study area. HCMC is recognized as one of the engines driving Vietnam’s economic growth.

Although there have been studies of the development process at the national level and in HCMC, they mainly focused on economic development rather than the transformation of society in HCMC. The book *Economics of Ho Chi Minh City – 30 Years of Construction and Development*,³⁾ issued in 2005 by the Institute for Economic Research of HCMC (IER), mainly focused on successful enterprises in HCMC in manufacturing and the service sector between 1975 and 2005, without mentioning the transformation of society. Dinh

Son Hung (IER, 2006), in the paper titled “Impact assessment of FDI on the labor market in HCMC,”⁴⁾ when examining the relation between FDI investment and the HCMC labor market in 2006, pointed out the qualified labors in some foreign enterprises without analyzing the shifting structure of labor under globalization. Nguyen Van Quang, in the paper titled “Impact assessment on socio-economic changes in HCMC after 2 years accessing to WTO in Vietnam,”⁵⁾ assessed the changes of labor, employment, education and health care status, but in a rather fragmented manner. Authors outside of Vietnam have also dealt with globalization in the broader scope of Southeast Asia, such as Peter A. Coclanis and Tilak Doshi (2000),⁶⁾ but they did not include data at the city level.

Our goal was to study the process of societal transformation in HCMC associated with the legal reforms of Doi-Moi policies and the globalization process. We aimed to clarify (1) how the socio-economic structure of HCMC has been changing under the Doi-Moi policy, and (2) what the mechanism of these changes is, including the relevant government policies. By exploring these questions, we hope to gain a comprehensive understanding of the globalization of HCMC and Vietnam and its impact on the socio-economic transformation. Such knowledge could assist the government in its policymaking geared toward further integration into the global economy.

1.2 Analytical Framework and Methodology

We used longitudinal data analysis based on a chain of secondary data from 1990 to 2008 to examine the impact on society of regional and global economic integration in Vietnam and HCMC. We focused on aspects of the transitional

economy during globalization in relation to the changes of socio-economic development in HCMC. Through analyzing the process of legal framework reform, we are also able to address the changes of some socio-economic indicators such as FDI, trade, economic growth, employment structure, income, educational backgrounds and the like. We hope our findings will lead to a more comprehensive understanding of the impact of globalization on the Vietnamese transitional economy. The analytical framework of the paper is shown in Fig. 1.

2. Economic Reform and Articulating the Global Economy in Vietnam

The Doi-Moi policy in Vietnam was initiated in December 1986, when the 6th Party Congress mapped out an economic reform policy for Vietnam³⁾. The economic reform has conspicuously accelerated socio-economic development in Vietnam. The most important reform policy was that the Vietnamese government decided to shift from the centrally planned economy to a market-based economy through the initial establishment of a multi-sector economy that was operated under the market mechanism and followed a socialist orientation. Concurrently, the government decided to promote economic reform by opening the Vietnamese economy regionally and globally. To achieve successful economic reform, the government has implemented several relevant institutional reforms, including the introduction of capital and technologies by promoting inward FDI, developing a multi-economic sec-

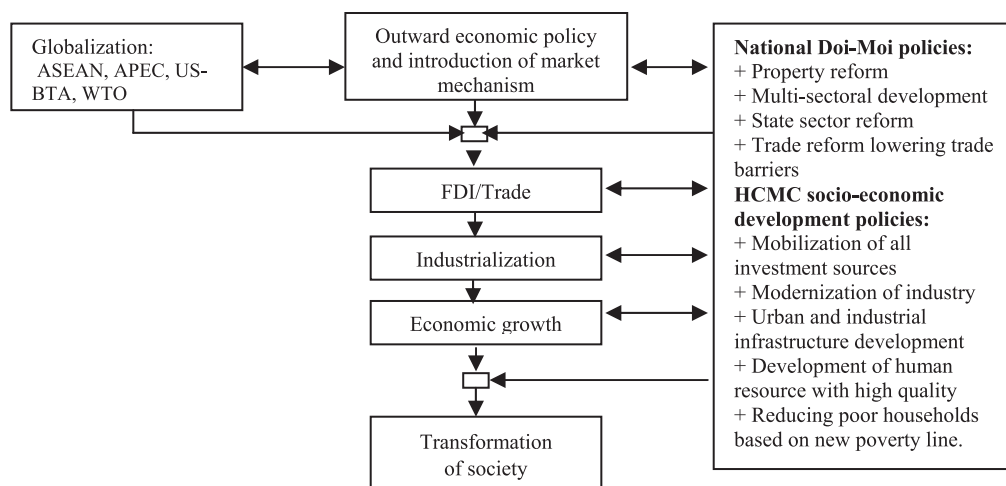


Fig. 1: Analytical framework

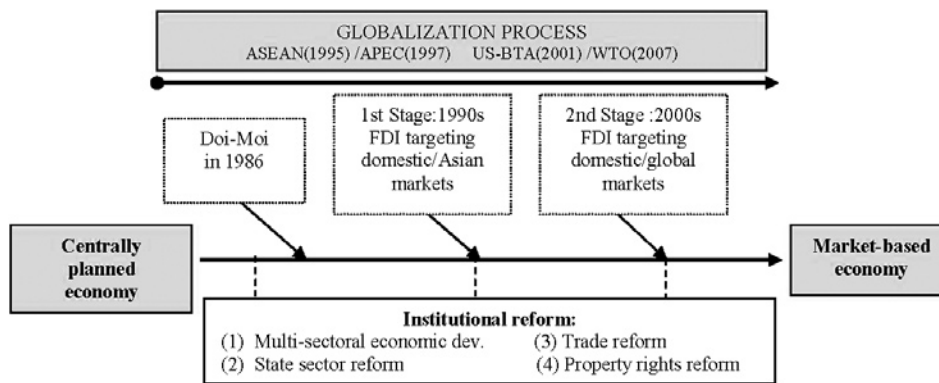


Fig. 2: The process of economic reform as related to the global economy

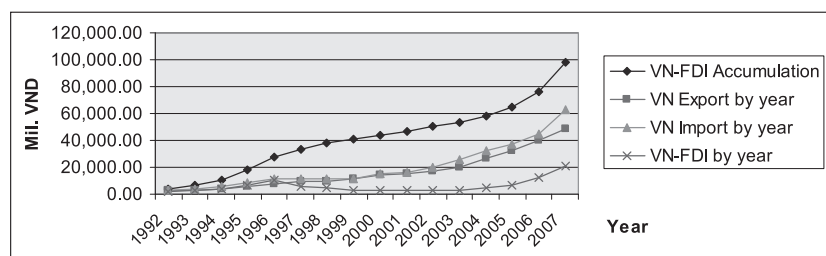


Fig. 3: Registered FDI capital accumulation, export, import turnover and yearly FDI capital in Vietnam

Source: HCMC Statistical Office; graph created by the authors

tor, reforming the state sector, promoting international trade and instituting land law reform. The opening economy policy has impacted the globalization of Vietnam. The government enacted relevant laws step by step such as the Foreign Investment Law in 1987 and the first Private Enterprise Law in 1990 and renewed or adjusted them in the process of global integration.

The Doi-Moi policy has been practically implemented since the beginning of the 1990s. The period of 1986 to 1990 was regarded as a preparation period. In around 1990, many socialist countries that supported Vietnamese economy, including the former Soviet Union and Eastern European countries, collapsed, so that Vietnam faced much more pressure to make its own economic reform. Since then, the government has been coping with reform in not only the legal setting, but also at administrative levels. Under the emerging Asian market, this resulted in massive FDI to Vietnam during 1991–97. Joining ASEAN in 1995 and APEC in 1998 also enhanced international linkage with Vietnam.

The US-Bilateral Trade Agreement (US-BTA), signed in 2001 and calling for the full satisfaction of the ASEAN Free Trade Agreement (AFTA) obligation by 2006, and the affiliation with the WTO in 2007 led Vietnam to deeper integration of the global and regional economy as the second stage. The US-

BTA provided Vietnam with much better access to the US market, so that Vietnam could consolidate its export base for domestic and foreign affiliates, while Vietnam in the 1990s attracted FDI targeted for domestic and Asian markets. For the target of joining the WTO, many important Vietnamese laws such as the common investment law, enterprise law and trade law were renewed to make them suitable for the new situation. These actions resulted in positive economic development in Vietnam, and affected the country's economic recovery after the Asian financial crisis during 1997–1999. The GDP growth rate and FDI capital were recovered to the same level as before 1997 by the beginning of the 2000s.

3. Transformation of the Economy of HCMC under the Doi-Moi Policy and Globalization

3.1 Change in Economic Structure of HCMC under the Doi-Moi Policy

Under the Doi-Moi policy associated with the globalization process, the economic structure of HCMC has been changing since 1990. The transformation of the economy can be recognized as occurring in two stages, namely (1) industrialization led by massive FDI in the 1990s and (2) overall modernization

of industry with emergence of the private sector after 2000.

3.1.1 The 1990s : Industrialization led by FDI

Based on Doi-Moi Policy, HCMC's economy grew rapidly

with a pace of more than 10% annually in the 1990s. The gross regional product (GRP) growth rate of the industry was 14.8% per year in the period of 1991–1999, while the growth of the service sector obtained 10.3% annually. The manu-

Table 1: The process of legal framework reform articulated in the periods of economic integration in Vietnam

| REFORM | 1986–1989 (preparation) | 1990–1999 (the first global integration) | 2000–2008 (the second global integration) |
|---|---|---|--|
| I. PROPERTY RIGHTS REFORM | <ul style="list-style-type: none"> ○ The first Land Law, issued in 1987, did not recognize the price of land and did not permit for official transaction (land belongs to population under management of govt.). ○ The market of land use right was not acknowledged and all land transactions were implemented by informal contract and legalized later. | <ul style="list-style-type: none"> ○ The second Land Law, issued in 1993, regulated land prices as a basis to collect taxes, land use fees or compensation costs upon acquisition of land (30% market price) ○ The market of land use is initially acknowledged by defining 5 rights of a land user (transaction, rental, inheritable, mortgage and pooling). | <ul style="list-style-type: none"> ○ The supplementation to the Land Law in 2001 emphasized the right of land users to mortgage their land use right at the banks. ○ The Land Law of 2005 regulated that land prices must be based on market prices when the govt. assigns land use rights or compensation for acquisition purposes. The government can re-evaluate the value of land use right in the case of investing on public infrastructure. The regulations of international treaties signed by the national government will be replaced by this law (if different regulations). |
| II. MULTI-SECTORAL ECONOMIC DEVELOPMENT (Domestic inv.) | | <ul style="list-style-type: none"> ○ The Domestic Investment Law of 1994 indicated favored conditions for new business establishments, such as reduction of income tax (50%) from the first 1 to 2 years. ○ The supplementation to the Domestic Investment Law in 1998 indicated more favored conditions, such as reduction of land use fees or rental fees or land tax by 50%; enterprise receives favored credit. | <ul style="list-style-type: none"> ○ The Common Investment Law of 2005 (for both foreign and domestic investors) regulated many types of investment, including indirect investment (stock market, bonds, shares and other values papers). The government treats all kinds of investors equally and facilitates equally good conditions for all investors. The time of land use right of a project is only 50 years and maximum 70 years for all investors. |
| (Foreign investment) | <ul style="list-style-type: none"> ○ The Foreign Investment Law of 1987 indicated joint-venture and 100% foreign capital types. ○ Encouraged fields got favored conditions such as exemption of income tax, max. 2 years, and reduced income tax (50%) for 2 additional years. ○ Supplement to the Foreign Investment Law in 1990 added type of Export Industrial Zone, BOT and the time of project operation (50 – 70 years). | <ul style="list-style-type: none"> ○ The second Foreign Investment Law of 1996 regulated the types of BOT, BTO, BT and operation of projects. ○ This law increased the favored conditions for encouraged fields such as exemption of income-tax for a max. 4 years and reduction of income tax by 50% for 5 more years. | |
| (Enterprises) | <ul style="list-style-type: none"> ○ The Private Enterprise Law of 1990 indicated complex procedures for obtaining an establishment license and registering with local authorities (after 60 days), published in the newspaper (after 30 days). | <ul style="list-style-type: none"> ○ The supplementation to the Private Enterprise Law in 1994 modified the requirement to be “registration paper” instead of “establishment license”. It regulated a simpler procedure by feeding back within max. 30 days. ○ The new Enterprise Law of 1999 regulated limited companies, sharing companies, collective name companies and private companies. | |
| III. STATE SECTOR REFORM | | <ul style="list-style-type: none"> ○ The State Enterprise Law of 1995 regulated independent enterprises and corporations established by state capital. ○ Prime Minister or Ministers, chairman of PC of big city decide for establishment | <ul style="list-style-type: none"> ○ The Law of State Enterprise of 2003 indicated 2 types of state enterprise: (1) 100% state capital and (2) dominant share of a state capital as stock or limited company. ○ The minister/chairman of a big city could issue a decision to establish a new state company. ○ The Enterprise Law of 2005 regulated all forms of companies (state companies must transfer into limited companies or sharing companies). The regulations of international treaties signed by the government will be replaced by this law (if different regulations). |
| IV. LOWERING TRADE BARRIERS | | <ul style="list-style-type: none"> ○ The Law of Trade of 1997 regulated six basic principals in commercial activities by treating all traders equally and protecting consumers' rights. ○ The AFTA tariff has the tax rates of 0% and 5% (compulsory reduced). | <ul style="list-style-type: none"> ○ The Law of Trade of 2005 regulated more details (basic principles) and foreign traders, business promotion, advertisement, intermediates, logistic service, franchising and establishment of a Trade Association. |

Source: Vietnam Laws Online Database, Synthesized by the authors

facturing sector was the leading sector for economic growth of HCMC in the 1990s, which was facilitated by FDI. The industrial sector grew more than 17% annually in 1992–1996. As HCMC had advantageous conditions for foreign investors in terms of (1) industrial infrastructures such as roads, ports, airport facilities and electric supply, (2) early establishment of industrial estates, (3) market friendliness and (4) a wealth of urban services, more than two-thirds of FDI to Vietnam was concentrated in HCMC and the surrounding provinces⁷. The HCMC government promoted the development of an export processing zone (EPZ) and an industrial zone (IZ) to welcome FDI by issuing government decrees in 1991 and 1994. Starting with the establishment of Tan Thuan EPZ in 1993, a total of 3 EPZs and 12 IZs were developed or were under construction by 2002. The total rentable area of these zones is 5,600 ha⁸. Since issuing the Foreign Investment Law of Vietnam in 1987, HCMC has been regarded as the leading place in Vietnam to absorb FDI capital.

The period 1988–1989 is considered an exploitation time of foreign investors with average registered FDI capital only modestly absorbed as 230 million USD per year. However, in the later period from 1990–1999, total registered FDI capital in HCMC impressively increased with total accumulated FDI capital attracted as 13,482 million USD (average annual FDI

capital was 1,348 million USD)⁹. It is obvious that the foreign sector contributed in large part to the rapid economic growth rate of HCMC during the 1990s. The statistical data of HCMC shows that the foreign sector accounted for only 1.3% of the GRP in 1990, but it soared to 11% of the GRP in 1995 and 18.3% of the GRP in 1999. Most foreign enterprises invested in HCMC under the form of joint-venture or 100% foreign capital, and the average growth rate was significantly over 20% annually in 1995–1998. The important role of the foreign sector could also be seen by its contribution as 4.3% of the annual average GRP growth rate for a total of 12.6% overall economic growth per year during 1991–1995¹⁰. Although the Asian financial crisis during 1997–1999 resulted in a slight reduction of FDI and export turnover in HCMC, it did not have a serious impact on the city's economy compared to other cities or countries in Asia. The annual GRP growth rate of HCMC was 9.0% in 1998 and 6.0% in 1999, and has been recovering since 2000.

3.1.2 The period beginning in 2000: Overall modernization of industry with emergence of the private sector

The period beginning in 2000 has witnessed many legal system reforms in Vietnam such as enactment of the new Investment Law, the new Enterprise Law and the new Land Law in 2005 to facilitate the mobilization of many resources

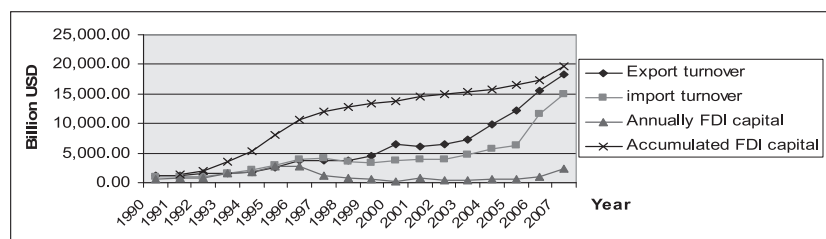


Fig. 4: Distribution of export, import turnover, yearly FDI capital and accumulated FDI capital in HCMC

Source: HCMC Statistical Office; graph created by the authors

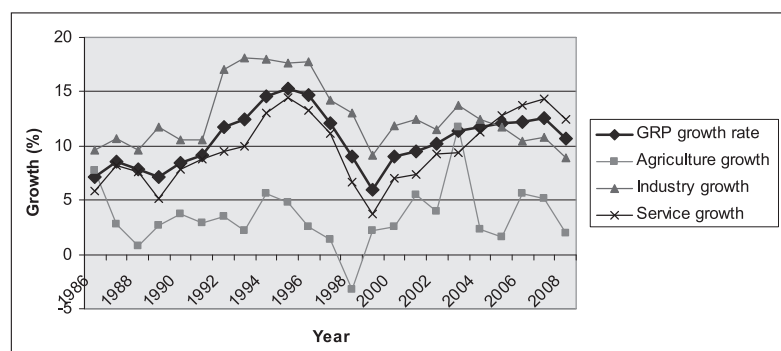


Fig. 5: GRP and economic sector growth rate in HCMC

Source: HCMC Statistical Office; graph created by the authors

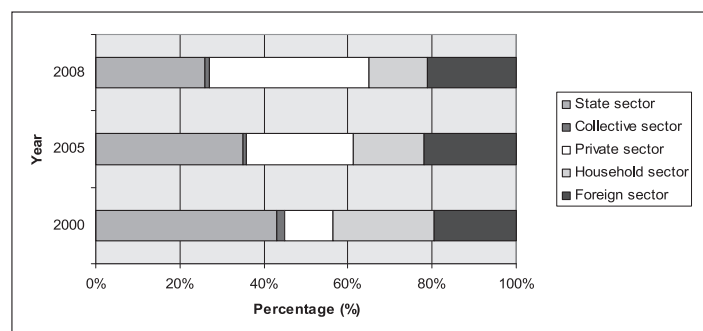


Fig. 6: GRP structure by economic ownership in HCMC

Source: HCMC Statistical Office; graph created by the authors

for development. Therefore, HCMC's economy continuously obtained high economic growth with an average annual GRP growth of 11.3% during 2000–2008. In this period, the trade and service sector became a driving force for economic growth, in addition to the manufacturing sector. Since 2005, the growth rate in the trade and service industry has been greater than that in manufacturing. As new investment in manufacturing has shifted to the surrounding provinces, HCMC is increasingly becoming a center for regional business and consumption.

The significantly greater emergence of the private sector compared with the foreign sector can be seen very obviously during this period. The growth of the private sector in total GRP was very significant, as seen by its average annual growth rate of 28.3%, while the growth of the foreign sector was 12.3% per year during 2001–2008. This has resulted in a shift of ownership structure in GRP value, which is characterized by the rapid increase of the private sector in GRP from 11.5% in 2000 to 38.0% in 2008. In contrast, this figure for the foreign sector increased only slightly from 19.4% and 21.0%, and there was a reduction of the household sector from 24.2% in GRP to 14.0% in GRP. In fact, the growth of the private sector in manufacturing and trade & services was due to a boom of starting businesses in response to the new Enterprise Law in 1999, which made it easier to establish several types of companies. During 2000–2008, the total number of private establishments increased 7.3-fold in the trade and service sector, while the manufacturing sector showed a 6.6-fold increase of establishment. This illustrates the process of formalization and modernization of industry and labor structure in HCMC in terms of GRP structure, resulting in the increased labor productivities.

Economic growth with expansion of FDI and exporting, which creates much more business opportunity, and the

spread of market based economy are also fundamental factors in the expansion of the private sector. Furthermore, the regional accumulation of capital with economic growth in the 1990s was mobilized to support private business. The total mobilized capital in HCMC increased rapidly from 56,204 billion VND in 2000 to 585,339 billion VND in 2008, a 10.4-fold increase. The capital accumulation of HCMC relied on savings deposits (50.3%) and deposits of enterprises (47.6%). Deposits made by foreigners accounted for only 2.2% of the accumulated capital. The role of private commercial banks, therefore, has also gradually been confirmed in the provision of financial service.

3.2 Formation of a Favorable Economic Cycle

The favorable economic cycle experienced by HCMC was formed gradually in the process of economic development that linked the outcomes of each development phase. Under the Doi-Moi policy, HCMC could promote the manufacturing sector by attracting FDI, which resulted in increased exporting and high economic growth. Expansion of HCMC's local markets made the trade and service sector very active. In particular, the emergence of the private sector generated more employment and improved industrial productivity. These changes attracted urban migration to HCMC. The annual social population increase rate in HCMC jumped from 0.68–1.09% in the 1990s to 1.99–2.61% after 2000, resulting in rapid population increase from 5.25 million in 2000 to 6.81 million in 2008. During the same period, the net increase in the labor population was over 1 million persons, and most of them were absorbed by the manufacturing and trade & service sectors. The increasing regional population and improvement in household income expanded regional markets, resulting in growth in trade and services again. The favorable economic cycle in HCMC is depicted in Fig. 7.

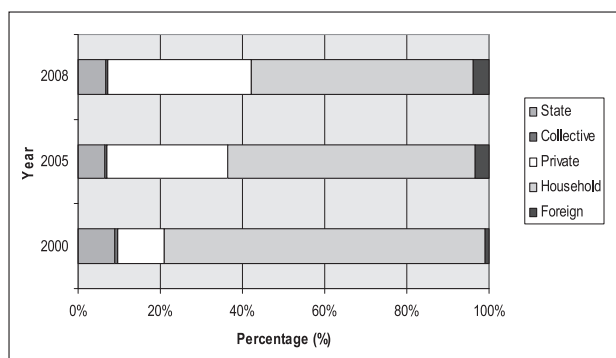


Fig. 8: Labor structure in the trade and service sector by ownership

Source: HCMC statistical yearbooks ; graphs created by the authors

same period. For the trade and other service sector, the share of labor in household businesses also declined from 78.2% to 53.9% with labor shifting to the private sector. Because it could be easier for individuals or households to start small business in trade and other service sector, the percentage of laborers working in household businesses remains a high proportion of the total laborers in this sector.

This quick formalization was made due to not only modernization of HCMC's industries but also the massive inflow of younger laborers into HCMC. Since the share of unregistered workers was 27.2% in 2008, however, formalization is still in progress.

4.1.2 Improving educational level

Educational level can be one of the indicators to measure human development and formalization in society. Based on the result of mid-term population census in HCMC in October 2004, the distribution of educational level of the whole HCMC population by age groups is shown in Fig. 10. Under the socialistic system, the HCMC government has provided basic education for people age 45–49 or younger, resulting in higher numbers of people obtaining a secondary education. The pro-

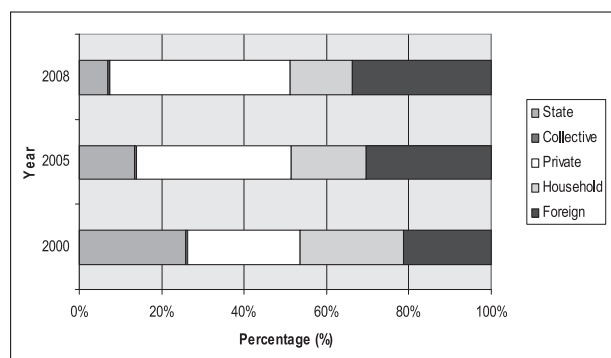


Fig. 9: Labor structure in the manufacturing sector by ownership

portion of people who stopped school after the primary school level in the total HCMC population declined from 23.5% for age 45–49 to 10.4% for age 20–24. This illustrates that HCMC achieved a remarkable result from the compulsory education program for junior high school level by reducing the proportion of persons leaving school after completing primary school.

The demand for enhancing human resources from the labor market rose continually under the industrialization and modernization of the economy. Consequently, the tendency of positive change in the educational level structure in HCMC is closely allied to the process of globalization. The education level of people age 30–34 or younger continues to improve, and it is especially noticeable in the number of people age 20–24 obtaining tertiary education and higher secondary education. Obtaining a higher education will help these people to get better jobs under the modernization of industry.

There is an intersection of the line indicating senior high school level and that indicating junior high school level in the 24–25 age group that is regarded as a noteworthy milestone indicating a shift from completion of junior high school to completion of high school being true of the dominant proportion of the population. Such achievements, in fact, rely on

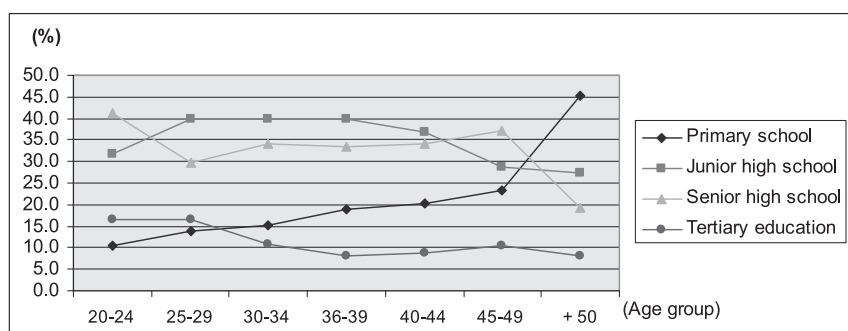


Fig 10. Distribution of education level of the HCMC population by age group

Source: HCMC Mid-term Population Census 2004; graph created by the authors

an appropriate policy for education development of the city. HCMC is ranked as one of the first cities in the whole country to make primary school completion compulsory in 1995 and junior high school completion compulsory in 2002³⁾. In 2007, HCMC had 457 primary schools, 243 junior high schools and 118 senior high schools. The statistical data in HCMC shows that the number of pupils of junior and senior high school increased by 0.9% per year in 1999–2006, while the number of teachers increased by 2.6% per year; the number of schools increased 1.2% per year and the budget for education increased by 24.7% per year as well. Therefore, the facilities of education have been improved remarkably, helping to reduce the number of pupils per class and enhance the quality of teaching. All of these efforts have impacted the shift in educational structure in HCMC in a positive way. This tendency is similar among the Asian NIES¹³⁾. At present, the HCMC government plans to set the compulsory education level at senior high school in 2010.

4.2 Improvement in Income and Consumption and Expansion of Disparity

4.2.1 Improvement in income and expansion of disparity

Many developing countries have experienced expanded economic disparity in the process of economic development, because it is easier for advantaged social groups, in terms of higher education, social network, resources to be mobilized, to seize opportunities. According to the survey data of the HCMC Statistical Bureau, the average monthly income per capita in HCMC changed from 547,000 VND in 1995 to 2,263,000 VND in 2008, a four-fold increase in 13 years. The income data is also divided by the quintiles of income groups, and each group accounted for 20% of the total households

in HCMC from the bottom to the top quintile. The 1st group has the lowest monthly average income per capita, and the 5th group is regarded as the highest income household group. Monthly average income per capita of the 1st group (bottom quintile) changed from 219,000 VND in 1995 to 839,000 VND in 2008, a 3.8-fold increase during 1995–2008, while the 5th group (top quintile) changed from 1.19 million VND in 1995 to 5.29 million VND in 2008, a 4.4-fold increase.

As Table 3 shows, the disparity ratio of income between group 5 (top quintile) and group 1 (bottom quintile) was gradually widened over time from 5.46 times in 1995 to 5.58 times in 1999, 6.19 times in 2004 and 6.37 times in 2008. However, the disparity level in HCMC is not so high in comparison with that in Asian Newly Industrial Economies (Asian NIES) such as Malaysia, Thailand and China. Moreover, the tendency in income increase ratio during 1995–2008 among groups 1–4 is quite similar. This is due to the government's socio-economic policy as a socialistic country, as indicated by the equitable educational policy and the poverty alleviation policy described in the next section.

4.2.2 Poverty alleviation

In 1992, the HCMC government defined the poverty line as a yearly income per capita of less than 3 million VND in urban areas and 2.5 million VND in suburban areas. The share of the households below the poverty line accounted for 20% in 1992. In 2004, the HCMC government established a new poverty line as a yearly average income per capita of less than 6 million VND, which was double the previous amount. Based on the new poverty line, the number of poor households reached 7.5% in 2005. Assuming the principal definition for both of the poverty lines was the same, but taking the inflation rate during

Table 3: Disparity between average monthly income per capita by income group

| | Average capita income (1,000 VND/month) | Of which (1,000 VND/month) | | | | | Disparity between Group 5/ Group 1 (times) |
|-----------------------------|---|----------------------------|-----------------|-----------------|-----------------|-----------------|--|
| | | Group 1 (20%) | Group 2 (20%) | Group 3 (20%) | Group 4 (20%) | Group 5 (20%) | |
| 1995 | 547 | 219 | 327 | 424 | 569 | 1,196 | 5.46 |
| 1999 | 891 | 348 | 528 | 688 | 948 | 1,942 | 5.58 |
| 2002 | 905 | 316 | 525 | 722 | 1,009 | 1,952 | 6.17 |
| 2004 | 1,165 | 431 | 635 | 870 | 1,219 | 2,668 | 6.19 |
| 2006 | 1,465 | 552 | 826 | 1,081 | 1,490 | 3,448 | 6.24 |
| 2008 | 2,263 | 839 | 1,276 | 1,673 | 2,232 | 5,298 | 6.37 |
| Change in income, 1995–2008 | 4.1-fold | 3.8-fold | 3.9-fold | 3.9-fold | 3.9-fold | 4.4-fold | — |

Source: Statistical Office in HCMC, from 1995 to 2008

the same period into account, the share of households under the poverty line declined from 20.0% to 7.5% in this time. This is because of not only real income increases under economic growth but also implementation of a set of poverty reduction policies of the HCMC government.

HCMC is regarded as a pioneer in Vietnam in the implementation of a poverty reduction program. From 1992 to 2004, HCMC provided direct support for 100,000 poor households to be able to get out of poverty¹⁴⁾. The HCMC government strongly supports the urban poor through diversified measures. First, the government improved infrastructures of some of the poor villages or wards in and around the city. In the period of 1992–2003, over 20 villages received benefits from this program. Second, the HCMC government provided job and economic support for poor households by offering micro credits with a very low interest rate, facilitating some small production projects for unskilled labors and offering re-training skills and training without fees, giving priority to recruiting for overseas working programs. The 0.7% interest rate per year

was also applied in cases of borrowing capital for agriculture production. Third, social welfare and education programs were made available to poor households, such as provision of social insurance and exemption of schooling fees. Such programs and projects for the poor have had a strong impact on reducing the proportion of poor households in HCMC. At present, a new poverty line of 12 million VND per year is projected for the third phase of the poverty reduction program for 2009–2012.

4.2.3 Improvement in household expenditure and consumption trends

Household expenditures and consumption in HCMC changed along with the improvement of household income. Based on the survey of living standard of the HCMC Statistical Bureau, the average monthly expenditure per capita increased from 400,420 VND in 1995 to 1,739,530 VND in 2008. In particular, the rapid expansion of household income and expenditure during 2006–2008 shows the trend of HCMC

Table 4: Structure of expenditures of the HCMC population by years

| | Structure of expenditure items (%) | | | | | |
|--|------------------------------------|--------|--------|--------|----------|----------|
| | 1995 | 1999 | 2002 | 2004 | 2006 | 2008 |
| Expenses for the whole HCMC population | 100.0 | 100.0 | 100.0 | 100.0 | 100 | 100 |
| 1. Food & beverages | 63.5 | 51.1 | 50.8 | 49.8 | 46.2 | 46.8 |
| 2. Clothing | 5.0 | 4.0 | 3.6 | 3.6 | 4.0 | 3.7 |
| 3. Accommodation | 6.1 | 6.8 | 6.8 | 6.3 | 6.6 | 6.2 |
| 4. Family equipment | 4.3 | 7.5 | 6.7 | 7.1 | 9.0 | 7.0 |
| 5. Health and fitness | 3.7 | 5.2 | 6.5 | 7.0 | 5.6 | 5.2 |
| 6. Transportation and post office | 6.1 | 11.6 | 11.7 | 12.0 | 13.9 | 17.6 |
| 7. Education | 4.8 | 6.0 | 6.1 | 6.5 | 6.2 | 6.1 |
| 8. Culture, sports, entertainment | 3.4 | 3.1 | 2.9 | 2.6 | 3.4 | 4.1 |
| 9. Others | 3.1 | 4.8 | 4.9 | 5.1 | 5.2 | 3.4 |
| Average monthly expenditure per capita (1,000 VND) | 400.42 | 595.90 | 665.98 | 802.17 | 1,025.04 | 1,739.53 |

Source: Statistical Office in HCMC, from 1995 to 2008

Table 5: Proportion of households having amenities

| | Units | 1995 | 1999 | 2002 | 2004 | 2006 | 2008 |
|---------------------|---------------------------------|-------|-------|-------|-------|-------|-------|
| 1. Television sets | % HH | 84.10 | 88.20 | 89.10 | 95.80 | 96.00 | 99.00 |
| 2. Video sets | % HH | 55.80 | 60.10 | 63.70 | 64.30 | 62.33 | 55.33 |
| 3. Cassette radios | % HH | 74.00 | 81.10 | 36.10 | 26.50 | 20.33 | 8.00 |
| 4. Refrigerators | % HH | 38.10 | 42.00 | 50.90 | 61.20 | 69.33 | 78.33 |
| 5. Air-conditioners | % HH | 5.50 | 7.30 | 10.30 | 14.30 | 17.00 | 21.67 |
| 6. Washing machines | % HH | 12.70 | 16.20 | 22.20 | 27.00 | 44.67 | 52.00 |
| 7. Telephones | % HH | 14.60 | 32.30 | 43.30 | 52.60 | 78.00 | 92.67 |
| 8. Motorcycle | % HH | 71.90 | 75.70 | 73.80 | 79.60 | 84.33 | 91.67 |
| 9. Cars | Number of cars per 1,000 people | — | 24.5 | 27.6 | 36.4 | 45.7 | 54.0 |

Source: Statistical Office in HCMC, VN, from 1995 to 2008

as a consumption society. The proportion of expenditure for food and beverage declined from 63.5% in 1995 to 46.8% in 2008, while the proportion of expenditure for transportation and communication, family equipment, health and welfare, and education increased during the same period. The increase in expenditure for transportation and communication was especially noticeable, from 6.1% to 17.6%. It is notable that the proportion of expenditure for education did not increase so much, even though the level of education improved, because the education policy of the HCMC government was to contain the cost of obtaining an education. These are positive trends in the household expenditure structure.

Expansion of consumption capability increased the ownership ratios of goods in HCMC, such as television sets (99.0%), motorcycles (91.7%), telephones (92.7%), refrigerators (78.3%) and washing machines (52.0%). These goods improve the quality of life of the people, in terms of enhancing home entertainment, providing access to information, raising mobility and communication, and reducing the workload for housekeeping respectively. However, only a limited number of households could purchase air-conditioners or cars, which are recognized as typical goods for new members of the middle

class, indicating that HCMC is at the early stage of becoming a consumption society.

4.3 Urbanization with Migration

The urbanization of HCMC has been intrinsically related to the process of industrialization since 1990. During 1986–2008, the population of HCMC increased from 3.78 million to 6.81 million persons. The current population is almost double that of 1986, the first year of the Doi-Moi policy. In coping with increasing urban land demand, the HCMC government decided to expand the urban boundary and established 5 new districts (Districts 2, 7, 9, 12 and Thu Duc) in 1997 and another new district (Binh Tan district) in 2003. Due to the establishment of the 6 new urban districts, the total urban area in HCMC increased from 142.15 km² to 494.00 km², which resulted in rapid suburbanization. The suburb became a frontier of industrialization and housing for factory workers, migrants and new members of the middle class. Many industrial estates and export processing zones were established at that time. A total of 15 industrial parks with 5,600 ha were established in suburban areas including the new districts during 1991–2004.

Under the rapid economic growth, HCMC has attracted

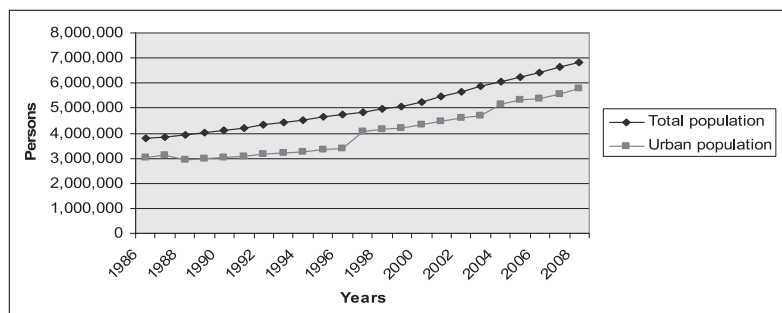


Fig. 11: Population trends by total HCMC population and urban population

Source: HCMC Statistical data and created by the authors

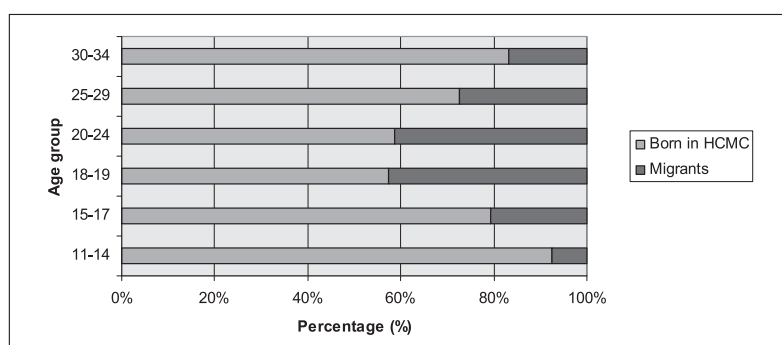


Figure 12: The proportion of migrants by age group of HCMC population in 2004

Source: HCMC Statistical data; graph created by the authors

many migrants from other provinces, attracted by the job opportunities, especially in industry and construction. The population census data also indicate that the population growth by migration has been dominant since the end of 2000. In the mid-term population census (1999–2004), about 196,000 migrants per year were coming to HCMC. The majority of migrants lives in the new districts accounting for 43.1%; in the surrounding central districts accounting for 30.5%; whereas only 15.4% of migrants lived in the inner city and 11.0% lived in the outskirt areas (rural districts). The urban population rate of HCMC increased from 71.2% in 1995 to 85.3% in 2008. The proportion of non-agriculture population also rapidly rose from 84.3% in 1986 to 96.5% in 2008.

The migrants from other provinces coming to HCMC accounted for 28.9% of the total HCMC population, or nearly 1.8 million persons, from nearly 63 cities and provinces in Vietnam. About 36.9% of the migrants came from the Mekong Delta, 14.8% came from the Red River provinces, 14.8% came from the Central North provinces and 13.9% came from the South Eastern provinces¹¹⁾. The migrants mostly were quite young with high proportion of working-age individuals. Over 40% of the migrants were 18–24 years old, and 33.8% of them were 15–29. Females accounted for 55% of the migrant population. Migrants also included some students from other provinces coming to study in the universities in HCMC, but mostly they were laborers from other provinces recruited by industrial companies or under the form of free migrants.

There are two types of migrants to HCMC based on the duration of time they were registered with the authorities in 2004. The first type was long-term registered migrants whose registration periods averaged 6 month per time. They accounted for 50% of the total migrants in 2004 and were mainly engaged in the private sector or the manufacturing sector. The second type was short-term registered migrants whose registration periods were 1–3 months per time. They often engaged in seasonal work such as unregistered jobs or informal situations. The nature of urbanization is that a certain level of informality and temporality exists.

5. Conclusion

5.1 Major Findings

We examined the process and outcomes of industrialization and transformation of society in HCMC under the Doi-Moi policy. We could see the positive achievement from indus-

trialization in terms of economic growth, modernization and formalization of industries. A favorable economic cycle formed gradually in the process of economic development of HCMC that linked the outcomes of all of the development phases. HCMC could promote the manufacturing sector by attracting FDI, resulting in increased exporting and high economic growth. The expansion of HCMC's local markets made the trade and service sectors very active. In particular, the emergence of the private sector generated more employment and improved industrial productivity. The massive job opportunity attracted urban migration to HCMC. The increasing regional population and improvement in household income expanded regional markets, resulting in growth in trade and services again. These are due to a reciprocal impact process between the macro legal framework reform conducted by the central government and the development policies mapped out by the HCMC government, utilizing the city's advantageous positions in terms of the infrastructure, urban services and the size of regional markets.

Under the globalization process together with local industrialization, HCMC's society has obviously gone through a transformation. The transformation of society has been revealed under the form of (1) formalization of society, (2) improvement in income, consumption and expansion of disparity, and (3) urbanization with migration.

The formalization of society in HCMC was facilitated by the changes in labor structure that happened as a result of shifting laborers from unregistered sectors (including informal sectors) to formal sectors and from household-based businesses to private enterprises. Improvement in education in HCMC also contributed to these trends. This transformation brought increased income and expansion of consumption capability, which increased the ownership of television sets, motorcycles, telephones, refrigerators and washing machines. These goods improve the quality of life of the people, in terms of enhancing home entertainment and access to information, increasing mobility and communication, and reducing the housekeeping load. HCMC is in the early stage of becoming a consumption society. However, the economic disparity of HCMC's population is expanding under the economic growth, although its level is not so high in comparison with other Asian Newly Industrial Economies due to the HCMC government's social development policy such as poverty alleviation and educational upgrading.

Urbanization of HCMC has been intrinsically related to the process of industrialization since 1990. HCMC has attracted

many young migrants with of its wealth of job opportunities. Most migrants settle in the suburbs of HCMC, which have thus become the frontier of industrialization and housing. There are two types of migrants, namely, long-term registered migrants and short-term registered migrants. The former mainly engaged in jobs in the private sector or the manufacturing sector, while the latter often engage in seasonal work at unregistered jobs or in the informal sector. Urbanization usually brings a kind of informality and temporality to some sectors of the job market.

5.2 Policy Implications

For the economic cycle of HCMC to be developed in a positive way, the economy and society will have to change continually. The local government will need to implement policy changes in a number of areas.

First, the educational level has been closely linked with the process of formalization of society as well as the changes in labor structure. Hence, the policy of priority investment in education should be continuously upgraded by increasing its proportion in the city's budget, together with implementation of the contracting-out policy to spur the private sector to open more high-quality private schools. In addition, the demand for workers with a high level of education has also been increased in the process of integrating HCMC's economy with the world economy, especially after Vietnam joined the WTO in 2007. The proportion of laborers obtaining the tertiary level of education should, therefore, be increased in the next phase of the government's program.

Second, the socio-economic structure of HCMC has been formalizing rapidly, and it has been brought to this point by younger citizens, who have a higher level of education. However, many laborers still engage in informal economies, and many of the informal laborers suffer from lower and unstable income and lower social security benefits. This is one of the reasons why the income disparity in HCMC is widening. The informal economies are lagging behind the national economic growth. On the other hand, the informal economy provides job opportunities for relatively lower educated migrants and non-migrants. The sector also provides many cheaper goods and services for both the general public and business sectors. Thus, the role of government is very important in terms of creating business environments for informal economies and empowering informal laborers by providing micro credits and skill and business training. The government should continue to fund the existing poverty reduction programs and extend

its target group to low income migrant households who are excluded from the current social security services.

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