

Term Paper



Final Report :

The urban development of Vietnam : infrastructure development.

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Background

The Vietnam War, which ended in 1975 with the fall of Saigon, had a devastating impact on Vietnam's economy and infrastructure. The war lasted for over two decades, and the country was heavily bombed by both the United States and South Vietnamese forces, causing significant damage to its infrastructure and environment. The war had a significant impact on the country's economy. Agricultural production, which was the backbone of Vietnam's economy, was severely disrupted by the war. Large areas of farmland were destroyed or contaminated by bombs and chemicals such as Agent Orange, which had long-lasting environmental and health effects. This led to food shortages and widespread famine, and the government had to implement rationing programs to address the scarcity of basic necessities.

In the 1980s, Vietnam underwent significant economic reforms, which have created a more favorable environment for foreign investment and private enterprise. This has led to a surge in economic growth, particularly in industries such as manufacturing, services, and tourism. As a result of this economic growth, there has been a significant inflow of capital into the country. This has enabled the government to invest in infrastructure projects, such as building new roads, bridges, and public transportation systems, as well as developing new commercial and residential areas. One of the key drivers of urbanization in Vietnam has been the growth of its major cities, particularly Ho Chi Minh City and Hanoi. These cities have experienced a significant increase in population in recent years, due to both natural population growth and migration from rural areas.

The rapid urbanization caused widening gap in urban infrastructure refers to the unequal distribution of infrastructure and services between different urban areas or groups within urban areas. There are several causes of this phenomenon, including:

- 1.Economic inequality: Unequal distribution of wealth and income can result in disparities in infrastructure development. Wealthier areas can attract more investment in infrastructure, resulting in better-quality roads, public transportation, and other essential services.
- 2.Political factors: Political decisions can also contribute to the uneven distribution of infrastructure. In some cases, certain areas may receive more investment due to political factors, such as their proximity to government institutions or the influence of powerful individuals or groups.
- 3.Historical legacy: In some cases, disparities in urban infrastructure can be traced back to historical factors, such as the legacy of colonialism or past discriminatory policies.
- 4.Geography: Physical geography can also play a role in the distribution of infrastructure. Some areas may be more difficult or expensive to develop due to their location or topography, resulting in a lack of infrastructure.
- 5.Limited resources: In some cases, limited resources may prevent the government or private investors from developing infrastructure in

certain areas. This can result in a lack of basic services such as water, electricity, and sanitation.

In this report we will mainly focus on the urban development of Vietnam, especially in infrastructure, in the post-world war II period, since November of 1967. Vietnam, in contrast to many other countries at war, has considerable structural economic strength thanks to better port facilities, wartime infrastructure improvements, a freshly trained labor force, and the lack of significant foreign war debts that must be carried into the postwar period. Not all wartime consequences are negative; for example, an improved economy due to wartime efforts might help mitigate the hardships of the postwar period. Both the suggestions and the top priorities take these into account. In the years following World War II, Vietnam's economy suffered greatly due to the conflict and its aftermath. The French had colonial sovereignty over the country and ruled the economy, using its resources to their advantage. The country's economic stability rested largely on the success of its agricultural sector, particularly the exportation of rice. Due to the war and its aftermath, Vietnam's economy suffered considerably in the years following the end of hostilities. As colonial rulers, the French exploited the country's wealth and controlled the economy. The prosperity of the agriculture sector, especially the exportation of rice, was crucial to the country's economic stability. Nevertheless, until the 1980s, when the government instituted economic reforms to promote market-oriented policies and encourage foreign investment, Vietnam's economy remained underdeveloped and highly dependent on agriculture. The economy of Vietnam has expanded significantly since then, making it one of the region's most dynamic markets. These days, Vietnam has a diverse economy that relies significantly on exports and has risen to the middle income bracket thanks to its efforts.

Key issue challenges

By examining the article, the aftermath of World War II left Vietnam in ruins in both infrastructure and the economy. Vietnam later encountered several issues in rebuilding the country.

The first key issue is the repair of infrastructure from war damage. After World War II, Vietnam was left with severe damage to its infrastructure due to the bombings by both the Japanese and the Allied forces. The process of repairing this damage was slow and difficult, and was made even more challenging by the limited resources and lack of investment in infrastructure development during the colonial period. The Ministries considered the requirement for development in infrastructure which include: transportation, sanitation, telecommunications, power and housing. In fact, in some sectors, ports and airports for example, the capacity of the facilities developed by the military, when added to existing civil

facilities, probably exceed immediate post-war requirements. The total repair was VN \$30,410 million. In this paper we will examine the post-develop problems of infrastructure, which is highways. The highways are well developed in all parts, still their geometric and structural standards are not enough for moderate traffic use. Also, in some areas are lack of security which has low maintenance, as well as the extensive damage caused by military operations. In 1968, 3,195 bridges and culverts had been sabotaged and many wholly destroyed.

The second key issue is that Vietnam had limited resources in both human and materials. Vietnam faced significant difficulties in obtaining sufficient financial resources and skilled labor to rebuild its infrastructure after World War II. During World War II, the Japanese army exploited Vietnam's resources; they seized rice and other food supplies, leaving the population starving and impoverished. The Japanese also forced Vietnamese laborers to work on building infrastructure for the Japanese military, which depleted the workforce and left many people injured or killed. During the colonial period, France did not invest in developing the country's infrastructure or economy. Instead, they exploited Vietnam's natural resources, such as rubber, rice, and coal, for their own benefit. The French focused on exporting these resources back to France, rather than building up Vietnam's own industries. This resulted in a lack of industrialization and technological development, leaving the country with few resources to work with after the war. The government had a limited budget to invest in skilled labors and materials to improve infrastructure since Vietnam used to be one of the poorest countries in the world. Also, there are plenty of abandoned lands after World War II; most lands were destroyed and left unmanaged by the war.

The third key issue is the rapid pace of urbanization, which strained already scarce resources and resulted in housing shortages and insufficient transportation systems. A lack of adequate housing contributed to the growth of informal settlements and slums. A lack of housing subsidies and affordable housing options exacerbated the problem. This was exacerbated by the fact that the country's economic growth was concentrated in urban areas, resulting in significant disparities in wealth and access to services between urban and rural areas. Housing conditions for the population including poor quality housing: Most of the pre-war homes were severely damaged and a significant portion of the post-war homes were poorly constructed. The government had to build new homes to accommodate the displaced population. However, due to various reasons, such as rapid urbanization, weak enforcement of building standards, and corruption, some of the houses provided were of low quality, making them unsafe for the inhabitants.

Government Policy

Referring to the key issues and challenges, they needed a good mix of both monetary policies and fiscal policies. The first issue that the government needs to be concerned about is the cost of repairing the infrastructure from the war damage which is incredibly high, so they need to implement fiscal policy to address the problems. Therefore, the government introduced the tax system to facilitate economic growth. Based on **Figure 1**, the government spending went to the military more than a half while they spent on investment merely 5%. In order to make it effective, the taxation must allocate resources from private consumption to public investment.

Table 4.2

Budget Expenditures by Economic Character

| <u>Category</u> | <u>Percent</u> |
|--------------------------|----------------|
| 1. Wages and salaries | 68.5 |
| a. Civil | 17.1 |
| b. Military | 51.4 |
| 2. Supplies and services | 10.8 |
| 3. Transfers | 14.5 |
| 4. Investment | 5.0 |
| 5. Other | 1.2 |
| TOTAL | 100.0 |

Figure1: Budget Expenditure by Economic Character

The second issue is the lack of resources which they need monetary and fiscal policies to solve this problem. The war caused a refugee crisis, as over 1.4 million refugees were left without homes and a land to provide for themselves. About half of the refugees primarily reside in the five Northern provinces, which would cost an estimated \$80 million dollars for the resettlement and \$250 million dollars for further movement of the refugees to cultivate and improve the lands in the economic aspect.

The third issue is the rapid pace of urbanization which caused the growth of informal settlements and slums. The government came with the function in contributing toward a better distribution of income with implementing fiscal policy. However, the experience illustrates that government expenditure policy contributes more towards the instrument for 'redistributive purposes' than 'taxation'. The long term effect of progressive tax structure in the market makes the distribution of income more equitable. In which only a few

development countries have not managed to form a strong progressive system of direct taxes on income.

Given the limitation of the budget on each policy above due to the war. The national budget comes from 3 main resources: National Resources, Counterpart Funds and Deficit Financing. The national resources come from taxes and administrative income. Counterpart funds or known as foreign aid which came from the U.S. The loan from National Bank appeared as deficit financing. They allocated 4.5% of the national budget for the capital investment.

TABLE 4.7
NATIONAL BUDGET EXPENDITURE 1967

| <u>Revenue</u> | (VN\$ Billion) | | <u>Expenditure</u> | | |
|-----------------------|----------------|--------------------------------------|--------------------|-----------------|--------------|
| | | | <u>Civil</u> | <u>Military</u> | <u>Total</u> |
| 1. National Resources | 28.00 | 1. Personnel Emoluments | 13.25 | 32.50 | 45.75 |
| 2. Counterpart Funds | 30.00 | 2. Recurrent Expenses | 6.25 | 8.25 | 14.50 |
| 3. Deficit Financing | 17.00 | 3. Capital Investment | 1.40 | 1.10 | 2.50 |
| | | 4. "Aid" chapter & unallocated Funds | 12.25 | - | 12.25 |
| | <u>75.00</u> | | <u>33.15</u> | <u>41.85</u> | <u>75.00</u> |

Figure2: National Budget and Expenditure

Based on the National Budget and Expenditure, the government should allocate the budget more effectively in order to improve their overall economic performance. For example, the government spends more than the half of the total personnel emoluments towards the military sector. So, they could adjust this spending on capital investment. Along with the help of private sectors such as state owned enterprise, FDI and private enterprise. To conclude, effective budgeting processes together with private sector funds would help in the acceleration of economic growth through wise and carefully analyzed use of resources.

Conclusion

To summarize, although there was a conflict and the huge damages from the war, Vietnam was able to thrive in several sectors especially economy and infrastructure development. As the economic reform of Vietnam in the 1980s, it has contributed to a significant rise in economic growth and industrial development. Therefore, it also enhanced the inflow of capital into the country as a foreign investment. As a result, the infrastructures such as roads, bridges, and public transportation systems were built and people in rural areas tended to move to urban areas. This enabled Vietnam to become more urbanized.

According to what we have discovered about infrastructure development, there are three key issues and challenges that need to be addressed by government policies or regulations in order to cultivate the country and people productively. The first challenge is a repair of infrastructure from war damage including transportation, sanitation, telecommunications, power and housing slums. This problem can be solved by using fiscal policy with tax system introduction and allocating resources effectively. The second one is limited human and materials resources from land abandonment and destruction of World War II. Thus, monetary and fiscal policies can be used in this case by improving the land in the economic aspects. Lastly, the rapid pace of urbanization issue resulted in housing shortages and insufficient transportation systems which lead to an increase in informal settlement and slums. Hence, the government should implement the fiscal policy as a tax structure in the market allows helping equitable income distribution.

Overall, Vietnam has the best potential growth in CLMV groups of countries in terms of agricultural, economic, infrastructure, urbanization, and other developments. The rapid growth and recovery attracts the foreign investment which authorizes Vietnam to be prosperous and progress well.

