

SOCIOECONOMIC STATUS INDICATORS OF ECONOMIC  
DEVELOPMENT IN VIETNAM - POST-*DOI MOI* PERIOD

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ASIA e UNIVERSITY

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SOCIOECONOMIC STATUS INDICATORS OF ECONOMIC  
DEVELOPMENT IN VIETNAM – POST-*DOI MOI* PERIOD

**ESWARANATHAN A/L EHAMBARANATHAN**

A Dissertation Submitted to the School of Management,  
Asia e University in Fulfilment of the  
Requirements for the Degree of  
Doctor of Business Administration

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## ABSTRACT

Vietnam is a densely- populated nation located in South East Asia that in the last three decades has recovered from the ravages of war and its aftermath. The country has transformed from a centrally-planned economy to a market economy. Consequently, the *Doi Moi* (renovation) policy has been introduced and implemented since 1986 and it has progressed Vietnam's economy effectively with positive and consistent Gross Domestic Product (GDP) growth as well as with high influx of Foreign Direct Investment (FDI).

The literature review section explores the geographical and historical backgrounds and economic development of Vietnam chronologically since the pre *Doi Moi* period, but with the greater focus on the post *Doi Moi* period and its policy implementations, especially on Vietnam's economic advancement. Significantly, the literature search indicates that research on the effect of individual factor of SES mainly on employment and education indicators which have proven its significance on Vietnam's economic development is in its infancy and inadequate.

Thus, the purpose of this research is to primarily focus on the Socioeconomic Status (SES) that explores the level of education and the employment determinants towards the growth of Vietnam's economic development after the introduction of *Doi Moi* program. In particular, the thesis examines the concept of Socioeconomic Status (SES) as the key determining factors contributing to Vietnam's economy as well as evaluates the *Doi Moi* policy and its economic renovation programs from 1986 up until the year 2010. The post *Doi Moi* studies have revealed that despite enjoying remarkable economic growth over the recent years, Vietnam still possesses a low competitive

capacity, productivity, and quality. Currently, Vietnam still faces low GDP per capita, high poverty, high inflation rate and unstable currency.

This study aims to provide guidance as well as reveals the strengths and weaknesses

of the policy including providing possible solutions on Vietnam's SES level for the local, foreign investors and the Vietnamese government. Therefore, this research employs a qualitative case study research methodology to evaluate the SES determinants towards Vietnam's economic

advancement during the post *Doi Moi* period. Both quantitative and qualitative data collection methods were also used. The results of this study have revealed that education and the employment level have transformed and improved tremendously since 1986 in Vietnam. However, there are several issues that have been identified by the researcher that could be a disruption to the Vietnam's continuing economic growth such as the increase in the poverty rate in urban areas, poor education quality system and the shortage of highly skilled employees in Vietnam.

Overall, the researcher recommends the education quality must be improved through teaching, reward, facilities and international collaboration as improving education quality can solve the current problems of the shortage of highly skilled employees in the relevant industries and employment markets. Significantly, human capital investment should be regarded as a national agenda as education is the key tool for human resource development of the nation.

**APPROVAL PAGE**

I certify that I have supervised / read this study and that in my opinion it conforms to acceptable standards of scholarly presentation and is full adequate, in quality and scope, as a dissertation for the fulfillment of the requirements for the degree of Doctor of Business Administration.

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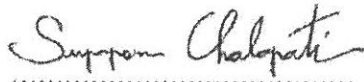
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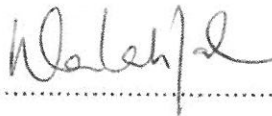
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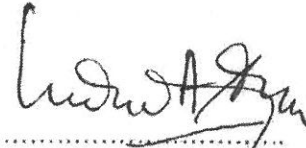
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## DECLARATION

I declare that the material stated in this dissertation is original and does not present work of any other scholar or research study conducted in the past. Material in this study is not partially or completely published elsewhere and collected only for the purpose of this study. I also acknowledge that I have complete understanding of the requirements, guidelines, regulations and procedures of the University with respect to the endowment of higher education degree and my research work. Here, I would also like to take the opportunity to declare that I have exclusively followed the requirements, guidelines, regulations and procedures of the University regarding this research study.

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## TABLE OF CONTENTS

TITLE PAGE .....	ii
ABSTRACT .....	iii
APPROVAL PAGE .....	v
DECLARATION PAGE .....	vi
COPYRIGHT PAGE .....	vii
ACKNOWLEDGEMENT .....	viii
CHAPTER 1: INTRODUCTION .....	1
1.1 Introduction.....	1
1.2 Background of the Problem .....	7
1.3 Significance of Study.....	15
1.4 Statement of the Problem.....	16
1.5 Research Question.....	18
1.6 Scope of Study and Limitation.....	18
1.7 Framework .....	19
1.8 Structure of Dissertation .....	20
1.9 Rationale .....	24
1.10 Dissertation Statement .....	25
CHAPTER 2: LITERATURE REVIEW .....	26
2.1 Introduction.....	26
2.2 Vietnam's Geographical Background.....	27
2.3 The Importance of History towards Economic Development .....	31
2.3.1 The Stone Age.....	34
2.3.2 Chinese Influences (938-1802) .....	35
2.3.3 French Invasion (1803-1940).....	36
2.3.4 The Birth of Vietnam (1940-1975) .....	41
2.3.5 Pre- <i>Doi Moi</i> (1975-1986).....	43
2.4 <i>Doi Moi</i> Program (Year 1986).....	47
2.4.1 The Introduction of <i>Doi Moi</i> Program .....	47
2.4.2 The Pillars of <i>Doi Moi</i> .....	51

2.5	Socioeconomic Development Plan (2001-2010) .....	55
2.6	Post- <i>Doi Moi</i> (1986-2010) .....	557
2.6.1	The Policy and Legal Reform Process .....	57
2.6.2	The Economic Transition .....	58
2.6.3	Remarkable Economic Development .....	59
2.6.4	Gross Domestic Product (GDP) .....	62
2.6.5	GDP Per Capita .....	74
2.6.6	Foreign Direct Investment (FDI) .....	76
2.6.7	Exchange Rate .....	82
2.6.8	Inflation Rate .....	84
2.6.9	Trade Balance .....	87
2.7	Socioeconomic Status (SES) .....	92
2.7.1	Definitions of Socioeconomic and Socioeconomic Status (SES) .....	92
2.7.2	Previous Research Studies on SES .....	94
2.8	The Current SES Level in Vietnam .....	96
2.8.1	Education .....	97
2.8.1.1	Literacy Rate .....	98
2.8.1.2	Primary Education .....	99
2.8.1.3	Tertiary Education .....	102
2.8.1.4	Vietnamese Government's Effort .....	107
2.8.1.5	Issues in the Education System .....	110
2.8.2	Employment .....	114
2.8.2.1	Employment Growth .....	114
2.8.2.2	Employment Issues .....	118
2.8.3	Other Factors Influencing SES in Vietnam .....	117
2.8.3.1	Vietnam's Income Disparities .....	124
2.8.3.2	Vietnam's Demographics .....	126
2.8.3.3	Work Ethics .....	128
2.8.3.4	Religion .....	129
2.9	Socioeconomic Status Indicators .....	131
2.10	The Special Case of Transition Economies .....	132

2.11	Other Socioeconomic Status Studies .....	135
2.11.1	Country Studies .....	139
2.12	Summary .....	151
CHAPTER 3: RESEARCH METHODOLOGY .....		153
3.1	Introduction.....	153
3.2	Research Design .....	155
3.2.1	Research Style .....	162
3.2.2	Conceptual Framework .....	163
3.2.3	Analytical Framework.....	163
3.3	Research Questions.....	164
3.3.1	Research Question 1 .....	165
3.3.2	Research Questions 2 and 3 .....	167
3.4	Participants .....	167
3.5	Method of Study .....	168
3.6	Sources of Data.....	171
3.6.1	Primary Source of Data from Interviews and Observations .....	172
3.6.2	Secondary Source of Data is from Published Documentation.....	174
3.7	Ethical Considerations .....	175
3.8	Analysis of the Data.....	175
3.9	Research Limitations .....	178
3.10	Conclusion .....	178
CHAPTER 4: FINDINGS .....		153
4.1	Introduction.....	153
4.2	Part 1 .....	155
4.2.1	Education .....	162
4.2.2	Employment .....	163
4.3	Part 2.....	155
4.3.1	School Facilities .....	162
4.3.2	Teaching Methods.....	163
4.4	Part 3.....	164
4.4.1	Question 1 .....	162

4.4.2	Question 2 .....	190
4.4.3	Question 3 .....	162
4.4.4	Question 4 .....	163
4.4.5	Question 5 .....	162
4.4.6	Question 6 .....	163
4.4.7	Question 7 .....	162
4.4.8	Question 8 .....	163
4.4.9	Question 9 .....	162
4.5	Conclusion .....	153
CHAPTER 5: ANALYSIS AND DISCUSSIONS .....		153
5.1	Introduction.....	153
5.2	Education .....	153
5.3	Employment.....	200
5.3	Conclusion.....	164
CHAPTER 6: RECOMMENDATION AND CONCLUSION.....		203
6.1	Introduction.....	203
6.2	Assessment of Research Objectives .....	204
6.2.1	The Education Determinant .....	162
6.2.1.1	Improve the Teaching Quality.....	205
6.2.1.2	Curriculum.....	206
6.2.1.3	Rewards .....	207
6.2.1.2	Facilities .....	209
6.2.1.2	International Collaboration Via ICT .....	210
6.2.2	The Employment Determinant.....	21163
6.2.1.1	Training Programs for Fresh Graduates .....	212
6.2.3	Other Recommendations.....	213
6.2.3.1	Improving Housing Facilities .....	213
6.2.3.2	Implement More Tax Exemption on Social Programmes .....	213
REFERENCES .....		218
APPENDIXES 1.....		242
Appendix 1 - Milestones in the Vietnamese reform process .....		242

APPENDIXES 2.....246

## LIST OF TABLES

2.1 Vietnam's Pre <i>Doi Moi</i> Economic Growth .....	47
2.2 Real Gross Domestic Production Growth For ASEAN Countries .....	64
2.3 Average GDP And GDP Per Capita For ASEAN Countries .....	65
2.4 Selected Macroeconomics Indicators For Vietnam .....	66
2.5 Vietnam's Economic Growth .....	68
2.6 Average Annual Rate of GDP Growth from 1975 to 2005 .....	70
2.7 2009 GDP Per Capita By Nations At Nominal Value .....	75
2.8 Balance Of Trade Of Vietnam, 2001 – 2010 .....	90
2.9 Literacy Level in Vietnam in 2009 .....	99
2.10 Higher Education Students In Vietnam .....	103
2.11 Number Of Universities And Colleges In Vietnam Since 2000 to 2008 .....	104
2.12 Percentage Of Graduates Compared With Total Candidates .....	107
2.13 Number Of Teachers In Vietnam From 2000 Until 2008 .....	108
2.14 Vietnam Demographics .....	127
6.1 Percentage Qualification Targets .....	208

## LIST OF FIGURES

2.1 Map Of Vietnam .....	29
2.2 Map Of Indochina .....	38
2.3 Growth Rate Of GDP Of Vietnam From 1985 – 2009 .....	63
2.4 Average Annual Rate Of GDP Growth From 1975 – 2005 .....	70
2.5 FDI In Vietnam, 1988 – 2008 .....	78
2.6 Exchange Rate Between Vietnam Dong And United States Dollar 2005 to 2010 .....	83
2.7 Inflation Rate From 2000 – 2008 .....	86
2.8 Vietnam Export Flows, 1986 – 2006 .....	89
2.9 Literacy Level in Vietnam in 2009 .....	99
2.10 Vietnam Government Expenditure Towards Education In Percentage .....	109
2.11 Government Expenditure And GDP In Vietnam Towards Education in 2010 .....	109
2.12 Unemployment Rate In Vietnam From 2000 To 2009 .....	117
3.1 Types of Data .....	158
3.2 Research Central Question And Research Questions .....	165
3.3 The Selection Criteria For Quantitative And Qualitative Studies .....	171
4.1 Primary, Secondary And Tertiary Enrolment .....	181
4.2 Total Population And Total Students Enrolment .....	182
4.3 Literacy Rate .....	182
4.4 Unemployment Rate .....	183
4.5 Employed Population In State Sector .....	184
4.6 Differences Between Vietnamese And Expatriates Interviewees .....	188
4.7 Proportion Of The Interviewees Based On Professions .....	188



## LIST OF ABBREVIATIONS

<b>Abbreviation</b>	<b>Meaning</b>
ADP	Asian Development Bank
APEC	Asia Pacific Economic Cooperation
ASEAN	The Association of Southeast Asian Nations
ARVN	Army of Republic of Vietnam
BTA	Bilateral Trade Agreement
BPO	Business Processing Outsourcing
CIA	Central Intelligence Agency
GDP	Gross Domestic Product
GNP	Gross National Product
FDI	Foreign Direct Investment
FIE	Foreign Invested Enterprise
GSO	Vietnam's Government Statistics Office
ICT	Information and Communication Technology
IT	Information Technology
NGO	Non-Governmental Organization
RM	Ringgit Malaysia
SES	Socioeconomic Status
SEDP	Vietnam's Socioeconomic Development Plan
SME	Small Medium Enterprises.
SOE	State Owned Enterprises
SRV	Socialist Republic of Vietnam
UN	United Nations
UNDP	United Nations Development Programme
UNICEF	United Nations International Children's Emergency Fund
UNESCO	United Nations Educational, Scientific and Cultural Organization
USD	United States Dollar (currency)
VCP	Vietnamese Communist Party
VLSS	Vietnamese Living Standard Survey
VND	Vietnamese Dong (currency)
WTO	World Trade Organization

## CHAPTER 1: INTRODUCTION

### 1.1 Introduction

This dissertation examines the socioeconomic status (SES) as determining factors contributing to the Vietnam's economic advancement during the post *Doi Moi* period (1986 to 2010). The SES is comprised of the education and employment. Thus, the purpose of this chapter is to provide an understanding of research intent of this study. This chapter further provides a conceptual framework to serve as a foundation to illustrate the SES determinants towards economic development in Vietnam between 1986 until 2010.

Vietnam is a nation located strategically in South East bordering China to the north, Laos and Cambodia to the west and South China Sea to the east. Geographic advantage and decades of hard work, commitment and continued reformation upon the launch of *Doi Moi* (meaning "reformation") programme by the Communist Party and the Vietnamese Government since 1986 has transformed Vietnam into one of the most dynamic emerging markets in the world. Vietnam's recent 7 percent successive in Gross Domestic Product (GDP) has made her the second fastest growing in Asia after China. Vietnam is also one of the largest recipients of foreign direct investment (FDI) in the world relative to the size of its GDP in recent years. The post *Doi Moi* has marked economic and social transitions in the Vietnam development. The SES levels in Vietnam have already met the United Nations' Millennium Development goals especially eradicating extreme poverty and poor education. The education and employment in Vietnam have been highly prioritized by the Vietnamese government since her post *Doi Moi* period to bring Vietnam out of underdevelopment and to lay the foundations to be

an industrialized country by 2020.

The introduction of *Doi Moi* has actually been inspired from her series of historic events. Historically, the country had been through different stages of war until the early 1990s. The influences and attacks from the Chinese dynasties between 207 BC until 2858 BC have actually made Vietnam to have similar but unique culture with the Chinese. The French invasion and colonization in 1887 to 1954 led Vietnam towards the formation of Indochina. The French colonization also has led to the first Indochina War that affected Vietnam's socioeconomic environment negatively from 1946 to 1954.

However, the socioeconomic status crisis in Vietnam did not begin until the start of the second Indochina war which was also known as the Vietnam War from 1954 to 1975. The Vietnam War destroyed the nation's social and economic prosperity and brought back Vietnam to the 'dark age'. After the Vietnam War, the GDP growth was at negative growth and at lowest level. According to the Vietnam General Statistics Office (GSO), the Vietnamese Five-Year Economic Plan (1976 – 1980) which was set in 1975 after the Vietnam War became ineffective as the nation had failed to meet her economical goals (GSO, 1988). Thus, as stated by Tran (2004) this led to many Vietnamese migrated legally and illegally to other countries. Most of them seek refuge status in many developed nations such as United States of America and Australia.

“In the spring of 1978 the flood of Vietnamese boats with people became a massive world problem, and, for many a human tragedy. As the flood of refugees increased, several of the governments in the area became alarmed and refused to accept future arrivals” (Tran, 2004, p.1).

However, the economy was not at critical stage until the Vietnam government began to invade Cambodia in 1978. The Vietnam government had to pay huge price

such as allocating a huge number of cost and manpower to serve long occupation in Cambodia. At the same time, Vietnam had to challenge with a short border war with China in 1979 (Tran, 2004).

As a result, Vietnam faced a huge economical loss and the country had to confront condemnation from the international community. The international community placed embargoes towards Vietnam and this led Vietnam to face a significant cut in the foreign financial aids and assistances from the World Bank and International Monetary Fund. This action impacted Vietnam tremendously as the nation was heavily depended on foreign resources prior to the embargoes. Thus, there was an increase in the money supply and the prices of goods and services raised up throughout the country. At the same time, the government embarked on a mass campaign of collectivization of farms and factories based on the communism ideology. The Cambodian-Vietnamese War lasted until 1989 and the Sino-Vietnamese War which is between Vietnam and China in 1979 led the Vietnamese government to face a huge problem in reconstructing the nation. The reconstruction of a war-ravaged country was slow, and serious humanitarian and economic problems confronted the communist nation. So, this caused an economic collapse and resulted in triple-digit inflation. Harvie and Tran (1997) reported that the inflation rate rose to 700 percent between September 1985 and September 1986.

In 1986 while participating in the Vietnam's Sixth National Party Congress, a high ranking Soviet official spoke out that there was an urgent need for Vietnam to reform and he offered the example of his own country's reformation efforts (Perestroika) as a model for the Vietnamese program (Cima, 1989). At that time, the Perestroika economic model is known as a model that allowed more independent actions from the

various ministries in Soviet Union and had successfully introduced some market-like reforms across Soviet Union. The intention of Perestroika was not to dismantle socialism but rather to make socialism work more efficiently to better meet the needs of Soviet consumers (Tran, 2004).

Cima (1989) also reported that at the Party's Second Plenum in April 1987, a new reformation oriented leadership proposed measures that would give a greater freedom to the private sector to reduce the deficit and boost the output of the agriculture and consumer goods in order to raise more market surpluses and exports. Meanwhile, this proposal also suggested the government to seek prices to appear more responsive to market forces and agreed to permit farmers and industrial producers to make profits. According to Tran (2004), the barriers to trade were lowered as the checkpoint inspection system that had required goods in transit to be frequently inspected was abolished, and regulations of the flow of money, goods and tourist from overseas were relaxed. Thus, this plan was a great opportunity for the Vietnamese government to improve the current social and economic situation in the nation. The plan itself was seen to be vibrant and effective towards encouraging Vietnam in achieving a new height.

At the Sixth National Party Congress of the Communist Party of Vietnam in December 1986, reformers appointed a new Vietnam leadership. The reformers were led by 71 year-old Nguyen Van Linh, who became the party's new general secretary. Nguyen Van Linh led and implemented free-market reforms known as *Doi Moi* or better known as renovation, which carefully managed the transition from a planned economy to a socialist-oriented market economy (Geoffrey, 1997). Thus, officially the Socialist Republic of Vietnam (SRV)'s centrally planned economic system was replaced

in 1986 by a market economy when the Vietnamese government introduced the *Doi Moi* which meant a new change in the Vietnamese language. As a result, the state-owned sector was restructured and the government allowed and facilitated the private sector to participate in the more market-oriented economy nationally and regionally (Ngoc, 2008).

The *Doi Moi* marked economic and social transitions in the country's development. GSO (2010) reported that the GDP since 1986 until 2010 has been observed as positive rate. Evidently, it is notable in 1995 the GDP was recorded at highest rate with 9.5 percent. Meanwhile, the price inflation declined drastically in 1995 to around 12.5 percent from hyperinflationary rate in 1985. Exports also expanded rapidly, increasing at an average annual rate of over 30 percent since 1988, with rice production reaching at a historical increase in 1994 enabling the country to maintain its position since 1989 as the world's largest exporter of rice. Currently, based on the Food and Agriculture organization (2011), Vietnam lies at the fifth world's largest producers of rice. Consequently, Vietnam's economy and citizen's standard of living have improved significantly. Since then, Vietnam has transformed herself into a competitive nation economically in the region. The globalization of markets and production has brought Vietnam as a player into the new economic competitive world. According to the New York Times (2009), Vietnam has begun to surpass many of its neighboring countries. Vietnam is also currently Asia's second-fastest growing economy with a 6 to 8 percent growth in recent years.

This economic growth has certainly been boosted further after the joining of Vietnam on the World Trade Organisation (WTO) in 11<sup>th</sup> January 2007 including the

Association of South East Asian Nations (ASEAN) since 1995 (GSO, 2010). Another key success of Vietnam's economic growth has been because of the high influx of FDI into the country. Almost 70 percent of her GDP in 2008 was mainly from the FDI (Suiwah, 2009). This is a very clear indication that Vietnam has strong factors that is encouraging investors, mainly foreign investors into the nation. There are various factors that have been associated on the recent success of Vietnam's economy.

Socioeconomic status factors have been one of significant factors which contribute towards Vietnam economic development. Many reports published by GSO suggested that the success of the *Doi Moi* program was resulted from the improvement on the education and employment standards of Vietnam. According to Nguyen (2008) the achievements of Vietnam economic reform is best manifested in the key indicators from the socioeconomic status factors. Over the recent years, the education standards have improved tremendously with the increase in the numbers of academic institutions and academicians. The academic transformation in Vietnam has generated more graduates into the market. At the same time, the income level of the Vietnamese people also has risen and this has boosted the consumption and saving activities in Vietnam. In fact, the reduction of poverty in Vietnam has shifted many Vietnamese people into the middle class and this has increased Vietnam's domestic purchasing power. Due to the quantities of the labor force and stability of the market the unemployment rate over the recent years in Vietnam has been positive and at low level. The cheap labor factor also has captured many multinational companies to invest in Vietnam. So all these factors have actually promoted and advanced Vietnam's economy into a new dimension.

Based on the current statistics from GSO (2010), despite strong economic growth

regionally and internationally, Vietnam still faces serious economic threat. The benefit of high GDP growth since 1986 has not trickled down to the vast majority of the Vietnamese people. For example, according to the GSO (2011), the GDP per capita in Vietnam is still low at USD 1,104 compared to the highest GDP per capita nation in the South East Asia which is Singapore at USD 43,117. This is a clear indication that Vietnam is still falling far behind its neighboring countries such as Singapore, Brunei, Malaysia, Thailand, Indonesia and Philippines on the total gross domestic product and gross domestic product per head. Meanwhile, Central Intelligence Agency (CIA) reported that in 2010 the inflation rate was high in Vietnam in the year of 2008 and was at 23.1 percent. This reviews that many Vietnamese people are still lack behind in attaining their basic needs. It has been evident that the SES has been an important dominating factor of the recent economic success of Vietnam but current crucial issues such as low GDP per capita and high inflation rate is also currently imposing threat to the Vietnam's future economy. The low educational quality and lack of skillful labors are the major concern and threat for the government in advancing Vietnam's economic further.

## **1.2 Background of the Problem**

This study aims to primarily focus on the SES where the education and employment level in Vietnam is determining the growth of Vietnam's economic development. Prior to 1986 Vietnam was in disastrous stage with economic imbalance and with high poverty and unemployment rate. In addition, many Vietnamese people were suffering due to the country's unpleasant history and rulings. Vietnam made