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The New Politics of Debt in the Transition Economy of Vietnam

Hong-Kong T. Nguyen, Viet-Ha T. Nguyen, Thu-Trang Vuong, Manh-Tung Ho, & Quan-Hoang Vuong

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This study reviews the rising household debt and nonfinancial corporation debt in Vietnam, a socialist-oriented, lower middle-income emerging economy. Vietnam has made huge strides in economic growth within three decades of reforms, lifting millions of people out of poverty thanks to better access to credit. At the same time, there are lending and borrowing practices that signal troubles ahead. Based on a thorough examination of the theoretical literature on indebtedness, the study sets out to identify the drivers of borrowing and over-borrowing in Vietnam in recent years. Particularly, the abundant financial and physical resources have given rise to consumerism and the boom of the super-rich. These are two of the four factors that have shifted Vietnamese culture from one that traditionally condemned debt as a vice to one that now tolerates indebtedness. The other two factors can be found at the corporate level where there is an over-reliance on debt financing and rampant rent-seeking. Here, a kind of 'resource curse' threatens sustainable corporate growth – businesses rely too much on borrowing to fuel their operations, but in fact are overlooking the innovation factor. The new politics of debt, we suggest, have created a toxically pro-consumption, debt-tolerant society.

Keywords: Consumerism; Corporate Debt; Culture of Indebtedness; Emerging Market; Household Debt; Vietnam

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INTRODUCTION

From as early as the 1990s, economists began to note the shift in attitudes towards debt that had taken place in the course of the 20th century, such that debt was no longer abhorred but had gained acceptance as part of a modern consumer society, laying ground for the growing "culture of indebtedness" (Lea, Webley, & Levine, 1993; Lea, Webley, & Walker, 1995). The level of indebtedness is an important measure of economic health, whether that be for an individual consumer, a household, a business, or a whole nation. A chronically indebted household, especially those with low income or limited financial literacy, can become trapped in long-run poverty (Barbier, López, & Hochard, 2016). The problem of financial debt is more acute at the macro level in developing countries: the financial crises in, for example, Nicaragua, Morocco, Pakistan, and India, were linked to the uncontrolled expansion of microfinance (Chen, Rasmussen, & Reille, 2010; Lascelles, Mendelson, & Rozas, 2012). Given its severity, numerous

studies have sought to explicate the causes and challenges of debt, particularly at the microfinancing level, in developing economies, such as in Thailand and Vietnam (Chichaibelu & Waibel, 2017, 2018), Cambodia (Liv, 2013), Nepal (Risal, 2018), Bangladesh (Godquin, 2004), South Africa (Meniago, Mukuddem-Petersen, Petersen, & Mongale, 2013), and Ghana (Schicks, 2013b). In most cases, over-indebtedness is found to be accompanied by poor economic and social conditions, a high incidence of poverty, multiple borrowing, and low financial literacy (Grohmann, 2018; Gutiérrez-Nieto, Serrano-Cinca, & de la Cuesta González, 2017; Lea et al., 1993; Schicks, 2013a). In an attempt to explain both the causes and consequences of over-indebtedness in Spain, Gutiérrez-Nieto et al. (2017) applied a comprehensive explanatory model that takes into account both the borrower aspects, such as propensity to indebtedness and financial illiteracy, and the borrower circumstances, such as adverse external shocks, borrower's sudden job loss, and pressure from financial institutions. This holistic framework allows for an integration of psychological, behavioral, and economic theories in tracing the roots of excessive borrowing. Driven by the need to understand the lending and borrowing habits in Vietnam, this study uses a similarly combined framework to make sense of this emerging economy where more than half of its population still lives in rural areas, are yet to rely on formal financial channels, but have a huge demand for credit. As borrowing and lending behaviors vary across sectors, this study focuses on debt problems in a sectoral manner, systematically separating consumer debt from nonfinancial corporate debt.

The inquiry starts with the question of how just three decades after Vietnam began transitioning to a market economy taking out loans became so easy and popular. The first explanation is the country's stable and strong macroeconomic performance during this transition in comparison to that of most economies in Eastern Europe and of the former Soviet Union (Dollar, 1994). The decades of reforms have allowed the Southeast Asian country to overcome its triple-digit inflation rate (over 400% in 1988), brought in double-digit annual export growth, and revived the banking system from "the brink of collapse", in which it found itself in the early 1990s (Nguyen, 2008). Thanks to economic reforms, nearly 30 million Vietnamese people have escaped poverty since 1990, evidenced by the rise in GDP per capita from USD 100 in 1990 to USD 2,300 in 2015 (Oxfam, 2017; Vuong, 2019). In the past three decades, Vietnam's economic growth averaged 5% to 6% per year, with an average rate of 6.4% during the 2000s. Along with economic growth, though, came unbridled consumerism (Vuong, 2010, 2019; Vuong & Tran, 2011). While in economic terms, borrowing is a normal act for allowing an individual or institution to improve self-finance and support investment, to borrow past one's disposable income and become trapped in perpetual debt in a society like Vietnam nonetheless raises eyebrows. In Vietnamese culture, as in other Confucian cultures around the world, being in debt is considered a vice, and one ought to get out of debt as quickly as possible (Hansen, 2016; Kang, Matusik, & Barclay, 2017; Roiland, 2016; Tsai, 2006). This raises the question as to how Vietnamese people started to become more comfortable with debt. As previous studies have suggested, to give a fuller account of the behaviors of Vietnamese people, one should investigate the psychological and cultural dimensions (Vuong et al., 2018; Vuong & Napier, 2015; Vuong & Tran, 2009). What has changed so significantly that the culture, which has predominantly morally condemned being in financial debt

and praised frugality, could bring about a mindset tolerating exactly the opposite?

To answer this question, the article investigates the volume of rising debt in Vietnam at the household and corporate levels. By contextualizing the lending and borrowing practices in this transition economy in the theoretical literature the study is able to identify the drivers of borrowing and the risks of over-borrowing in Vietnam.

The article is structured as follows. We first present a brief overview of Vietnam's financial system. After that we review the scholarship on the economic and psychological theories that help explain debt and over-indebtedness. This section serves as the foundation for an in-depth examination of personal and nonfinancial corporate debt in Vietnam. The qualitative approach aims to shed light on the attitudes towards and practices of borrowing and lending, offering insights for other emerging economies at risk of over-borrowing and falling into over-indebtedness.

OVERVIEW OF THE VIETNAMESE FINANCIAL SYSTEM

Like most developing countries, Vietnam marks the co-existence of the formal and informal sectors, plus a semi-formal sector comprising lenders that do not exactly fit into the first two groups, as summarized in Figure 1. This is in line with the literature on credit markets in the developing world (Hoff & Stiglitz, 1993, p. 33).

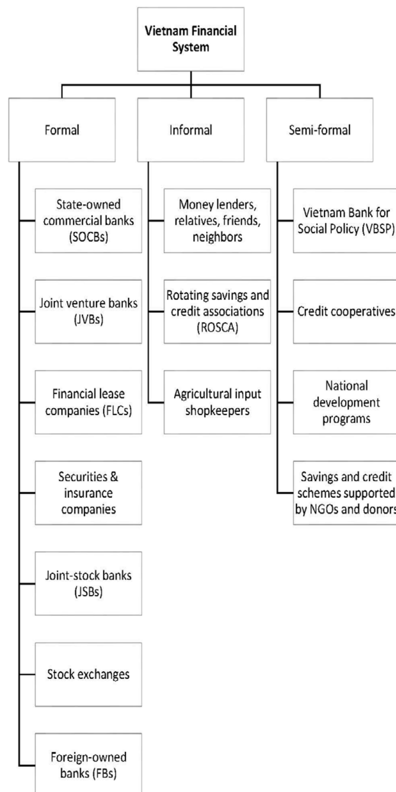

Figure 1: An overview of the Vietnamese financial system (Pham & Lensink, 2007, 2008).

The informal sector increases credit accessibility for the rural population in Vietnam, which accounts for about 66% of the total population of over 93 million (General Statistics Office of Vietnam, 2017). Rural households, however, obtain credit through both formal and informal lenders, drawing on the former allegedly for production and asset accumulation and the latter for consumption (Barslund & Tarp, 2008).

Informal lenders dominate the rural credit market due to their low requirements for collateral (Pham & Lensink, 2007; Ruddle, 2011). While the size of the black credit or shadow banking market is not known, estimations have put this at between 22% and 30% of the total credit provided by commercial banks, equivalent to about USD 50 billion, a very high figure by international standards (Le Phu Loc et al., 2016; Nguyen, 2016). The accessibility of borrowing from informal lenders is most evident in the ubiquity of pawn shops in cities as well as in the prevalence of money lending advertisements on almost every power pole. Students, low-income earners, or those in need of quick cash can go to pawn shops to get a fast loan, putting up one of their belongings, such as a motorbike, car, laptop, mobile phone, or an ID card, as collateral (Barslund & Tarp, 2008; Hoang, 2018).

As in other emerging economies, Vietnamese businesses finance their operations either through external debt or internally retained earnings (Hoang, Biger, & Nguyen, 2007; Nguyen, Diaz-Rainey, & Gregoriou, 2012). For external debt, two options exist: a firm can take out loans by contacting the formal and semi-formal sectors or by issuing bonds. Though corporate bonds have long been a popular type of debt finance around the world, they appeared in Vietnam only in the early 1990s and were not widely discussed in academic circles and under-utilized by the business sector (Vuong, 2000; Vuong & Tran, 2011). In their research, Vuong and Tran (2009) pointed out that the government not only intervenes in the bond markets with its budget and policies but also competes directly with enterprises. There were only 12 'corporate' bond issuances between 1992 and 2003 that were considered notable in terms of size and socioeconomic effect. Until 2017, this number remained modest (Noonan, 2017). Since late 2017, the Vietnamese have become more interested in the debt market as the government announced a 2030 vision to enhance the bond market by strengthening the legal framework and improving transparency in the market.

From a macroeconomic viewpoint, Vietnam has nonetheless witnessed a dramatic surge in credit over the years of reforms. The credit supply multiplied a factor of 13.7 between 2000 and 2010, while the GDP doubled during the same period (Vuong & Napier, 2014). Figure 2 shows the rising loans to the private sector with respect to GDP. The line was not continuous in 1994 because there was no data (by World Bank) for that year. Domestic credit to the private sector peaked in 2010, with the rate reaching 114.72% of GDP before dropping down to 94.83% in 2012 and rebounding to 123.81% in 2016.

THE ECONOMICS AND PSYCHOLOGY OF INDEBTEDNESS

The extensive literature on the economic and psycho-social factors associated with indebtedness serves as the foundation for this article to examine the drivers of borrowing and over-borrowing in Vietnam in recent years.

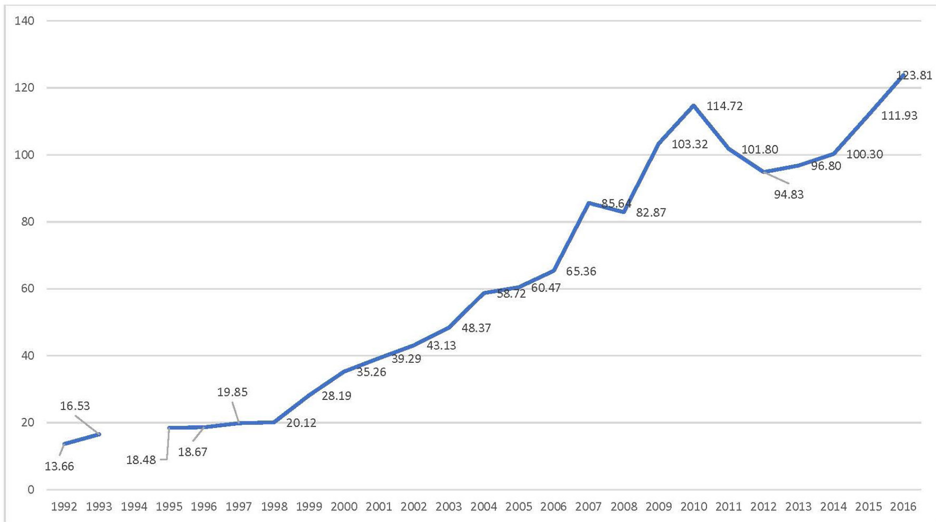

Figure 2: Domestic credit to the private sector in percentage to GDP (World Bank).

In terms of economic theories, the amount of actual debt observed is the result of both demand and supply factors, both of which affect consumers' decisions to enter the debt market (Chen & Chivakul, 2008; Schicks, 2013a). On the demand side, the probability of joining the credit market is determined by the consumers' desire to borrow. On the supply side, the lender decides whether and how much to lend upon considering the consumers' capacity to repay the loans. Credit constraint happens when the consumer is unable to obtain the desired loan, either due to credit rationing or the high price of borrowing, whether that be costly collateral or high interest rates (Chen & Chivakul, 2008). Borrowing is eased when such barriers are removed, which would help consumers to meet their credit demand, but also drive up consumption, and potentially threaten individuals' financial sustainability in the long run if easy borrowing persists. In a study on the implications of credit constraints for risk behavior in less developed countries, assuming that individuals are risk-averse, Kotwal and Eswaran (1990) showed that those with access to more credit will have greater capacity "to absorb random shocks in income" (p. 480).

From a theoretical perspective, studies on household debt and credit constraints often start with the life-cycle model of Modigliani (1986), Ando and Modigliani (1963), and Friedman's (1957) permanent income hypothesis. The models analyze the spending and saving habits of people over the course of their lives, assuming that individuals value stable lifestyles. The assumption of the basic life cycle model is that in a perfect capital market, households will be able to borrow to their desire to smooth their consumption. As such, current consumption is independent of current income (Chen & Chivakul, 2008). Put differently, indebtedness is the result of a planned and rational decision as it supports the inter-temporal redistribution of consumption (Ando & Modigliani, 1963). By comparison, the behavioral life-cycle theory of Shefrin and Thaler (1988) has three additional important behavioral features that are often absent in economic analyses: self-control, mental accounting, and framing. Through the lens of behavioral

economics, mental accounting, as opposed to discount rates, takes central stage in an individual's decisions about whether to spend and borrow (Shefrin & Thaler, 1988).

It is worth noting that there is a lack of a comprehensive framework uniting the fields of economics, sociology, and psychology in the study of over-indebtedness and its causes, possibly because there is no universal definition of personal over-indebtedness (Schicks, 2013a). While over-indebtedness is clearly an undesirable consequence for both the borrower and lender and should not exist in perfect markets, there are outside influences such as external shocks, personal shocks, and the behavior of both lender and borrower that ultimately result in hazardous lending and borrowing practices (Schicks, 2013a). In terms of the external factors, Meniago et al. (2013) confirmed that rising household debt was heavily affected by positive changes in the consumer price index, GDP, and household consumption. Negative changes in income also affected household borrowing (Meniago et al., 2013). In sum, most cases of severe indebtedness mark the coexistence of poor socio-economic conditions, vulnerability to destitution, multiple borrowing, financial illiteracy (Grohmann, 2018; Gutiérrez-Nieto et al., 2017; Schicks, 2013a), lack of home ownership, and having more children or being single parents (Lea et al., 1993). Additionally, the demand for debt, especially in developing-country settings, may be driven by household income, the age of household head, and level of education (Chen & Chivakul, 2008), poor health conditions, gender, and ethnicity (Godquin, 2004).

In reviewing the literature on the cognitive and psychological biases that can lead to over-borrowing, Schicks (2013a) listed bounded rationality, financial illiteracy, overconfidence bias, and habit persistence as some major causes of over-consumption and underestimation of indebtedness risk. Gutiérrez-Nieto et al. (2017) agreed that the propensity to indebtedness concerns the borrower's financial attitudes, which could be explained through behavioral economics and psychology. For instance, the prospect theory of Kahneman and Tversky (1979), which argues that people are risk-averse in gains and risk-takers in losses, may explain the pursuit of a highly materialistic lifestyle as well as over-borrowing. Several studies have provided evidence for the association of materialism with lack of financial well-being and personal debt (Garðarsdóttir & Dittmar, 2012; Nepomuceno & Laroche, 2015), in addition to a positive association between the lack of self-control and self-reported excessive financial burdens of debt (Gathergood, 2012; Strömbäck, Lind, Skagerlund, Västfjäll, & Tinghög, 2017). As part of the theory of economic socialization (Lunt & Furnham, 1996), when looking at the social support for debt, Lea et al. (1993, 1995) found a crucial predictor of debt status was whether an individual knew other people around them who were indebted. Similarly, the attitude of debt tolerance could arise from social comparisons – one may compare oneself to other people who have more economic resources, and, thus, want to have the same goods and services enjoyed by others, risking overspending one's income (Lunt & Livingstone, 1991).

DEBT, DEBT, MORE DEBT

On the basis of the economics and social-psychology of indebtedness, this section delves into (a) the severity of the debt problem at the household and corporate levels in Vietnam and (b) the underlying causes of these problems.

Rising Personal Debt

This section first looks at Vietnam's rising personal debt, which includes household and consumer debt. According to Le et al. (2016), Vietnam does not have official household debt statistics in line with OECD definition – which covers "all liabilities that require payment or payments of interest or principal by household to the creditor at a date or dates in the future" (OECD, 2018). The available data from the banking system only allow us to evaluate household debt through the outstanding loans to individuals and outstanding loans to production and business households. Despite the limitation in unifying the data, we note the rapid growth in household debt in Vietnam between 2000 and 2016. Debt grew by an average of 28.58% per year, a 51-fold surge from VND 41.3 trillion in 2000 to VND 2,116.2 trillion in 2016 (Le et al., 2016). In terms of household debt-to-GDP ratio, the figure hovered around 12% from 2000 to 2006, but rose sharply to 30.2% by 2011, then hit 47% in 2016 (Le et al., 2016). This is significantly higher than the median household debt-to-GDP ratio in emerging market economies, which was 21% in 2016 (International Monetary Fund, 2017). Economists have cautioned that if this figure surpasses 65% it could jeopardize the financial stability of both the households and the nation (Alter, Feng, & Valckx, 2018; International Monetary Fund, 2017). Given the rapid surge of the household debt-to-GDP ratio in recent years and the well-documented incidence of multiple borrowing and over-indebtedness among microcredit borrowers in developing countries (Chichaibelu & Waibel, 2018), the risk of over-borrowing is of legitimate concern.

When looking at household indebtedness in rural Vietnam, one study has noted a high incidence of indebtedness in the period between 2007 and 2011 such that up to 76% of Vietnamese households had taken out at least one loan, and the trend of taking out multiple loans rose steadily and peaked in 2011 (Chichaibelu & Waibel, 2018). However, household over-indebtedness in rural Vietnam, which is counted in terms of a household's ratio of debt service to income (above 50%), was found to be a less persistent problem than in rural Thailand due to the social monitoring of debt status and repayment by the rural communities (Chichaibelu & Waibel, 2018; Okae, 2009). As discussed in the literature on over-indebtedness, unexpected shocks to income and expenses are seen to be important causes of over-borrowing in Vietnam, although its effects, whether transitory or long-term, depend on community support and social ties (Chichaibelu & Waibel, 2018). A potential explanation for why indebtedness in rural Vietnam is not yet problematic is the recent development of rural credit, which means rural financial institutions still rely on customary norms and peer pressure within local communities to facilitate loan repayment (Chichaibelu & Waibel, 2018). In most cases, the high transaction costs and complex procedures at formal credit institutions would drive low-income Vietnamese consumers toward informal sources, such as *họ/hụi*, a rotating savings and credit association (ROSCA), to meet their financial needs (Vietnam Microfinance Working Group, 2014). While microfinance is often hailed as an alternative channel that improves credit accessibility for low-income clients (Vietnam Microfinance Working Group, 2014, p. 101), two problems remain: (a) low-interest rate loans are not available to everyone because semi-formal lenders tend to seek out borrowers who meet their criteria (Pham & Lensink, 2008, p. 243), and (b) the lack of effect on the income components of ethnic

minorities and households with less favorable economic conditions (Do & Bauer, 2016). Even worse, Schicks (2013a) has argued that microfinance, whose initial goal is to promote poverty reduction rather than consumption smoothening, actually risks pushing borrowers further into poverty as they may have no choice but to borrow continuously from microfinance institutions for both consumption and repayment purposes.

In the larger picture, particularly concerning consumer loans, which were equivalent to 22.4% of GDP as of the first half of 2018 (StoxPlus, 2018), studies have noted the locals' large appetite for shopping, whether for household goods or luxury goods, which means there are consumer finance providers working to meet the demand of low to average income earners (Breu, Salsberg, & Tu, 2010; Iwase, 2011; Nguyen, Özçaglar-Toulouse, & Kjeldgaard, 2018). Given that 48% of the Vietnamese population is either unbanked or has a low income (StoxPlus, 2018), they will not be able to meet the banks' stringent requirements for collateral, such as land use certificates or house ownership certificates. It is arguable that the high consumption in Vietnam is backed by the consistently high expenditure-to-income per capita ratio, at 70% and above between 2002 and 2016, as Figure 3 shows.

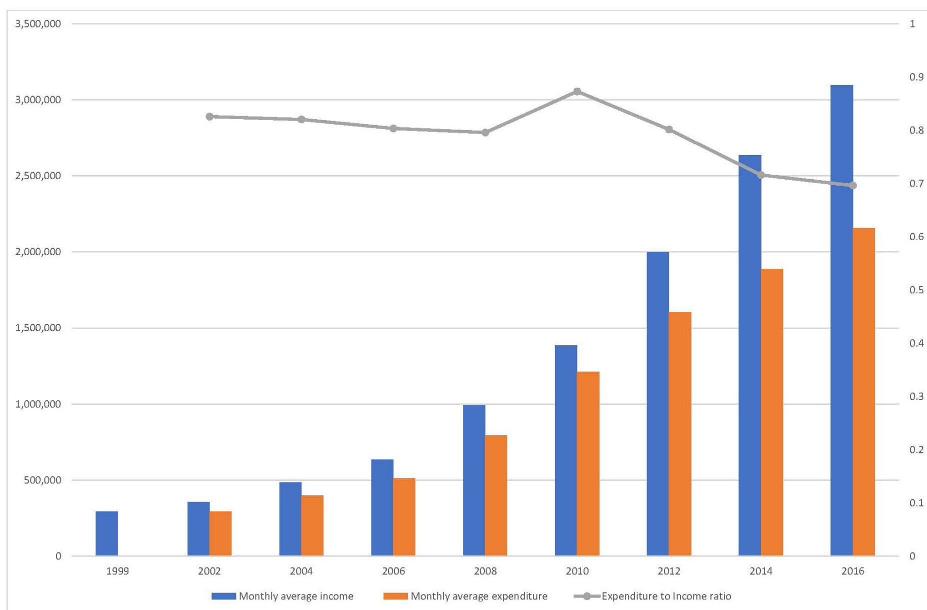

Figure 3: The monthly average income and expenditure per capita in Vietnam 1999-2016; Unit: VND (General Statistics Office of Vietnam).

A Debt-Tolerant Pro-Consumption Society

As much of the literature has noted, among the psycho-social factors driving over-borrowing are pressures from consumer society and materialism as well as widening inequality and social comparison (Lunt & Livingstone, 1991; Schicks, 2013a).

Various sources have pointed out the rising economic inequality in the country in the past two decades, evidenced in the gap between the incomes of the highest-earning and the lowest-earning groups. For example, an individual working in the agricultural sector earns an average of VND 2.63 million (USD 125) a month, while another working in the banking-finance-insurance sector earns 2.5 times as much, at VND 7.23 million (USD 344) a month (Oxfam, 2017). By comparison, agricultural wages in the European Union are lower by less than half of the average wages in all other economic sectors (European Union, 2018, p. 15). Moreover, in 2014, data showed that Vietnam had 210 ultra-high-net-worth individuals (UHNWI), which are defined as persons worth USD 30 million or more, with a combined asset value of USD 20 billion, equivalent to 12% of Vietnam's GDP, or half of the GDP of the country's southern economic hub of Ho Chi Minh City (Oxfam, 2017).

The middle-class population in Vietnam, defined as those earning enough to cover basic daily needs, being able to save, and spending over USD 5.5 a day per capita, has also been growing at a remarkable rate. From 2012 to 2016, the number of people meeting the above criteria rose by 20% to approximately 75 million people, creating a class of emerging consumers ("VN Middle Class Booms", 2018). Even by more conservative estimations, the Boston Consulting Group in 2016 projected Vietnam's "middle and affluent class" to double to 33 million people by 2020 ("Vietnam's Growing Middle Class", 2016).

Such a rapid surge in private wealth, especially in urban prosperity, has undoubtedly helped the country's transition toward a more robust consumer society. In observing the patterns of Vietnamese consumers switching to higher quality products just because others are using them, Unilever Vietnam's chairman, Marijn van Tiggelen, has used the word "leapfrog" to describe this behavior (Breu et al., 2010). In a recent study on young Vietnamese consumers, Nguyen et al. (2018) revealed a link between everyday consumption practices and a rejection of the communist identity – a kind of "individualization through self-emancipation, self-enrichment, and self-actualization" (p. 490). From a theoretical approach, the contributors to an edited volume by Nguyen-Marshall, Welch, and Bélanger (2012) have suggested not to define the "middle class" in terms of income or political liberalism but instead in terms of consumption, social distinction, and modernity. The underlying reason is a changing attitude towards consumer behaviors in the market reform period. While Marxism condemns bourgeois consumption, which is measured in terms of 'needs', contemporary Vietnamese society, despite its socialist propaganda, is moralizing middle-class consumption as "modern, civilized, and patriotic" (Nguyen-Marshall et al., 2012, p. 21). Yet, the act of depoliticizing and normalizing consumption in Vietnam is nonetheless political as its goal is to ensure the economic needs of the citizens, thereby, preserving political stability (Vann, 2012). This casts the nascent middle class as "modern citizens" who are both economically successful and partly aligned with the socialist state's definition of progress: "wealthy people; strong country; democratic, just, and civilized society" (Le, 2016).

As a *pro-consumption society* becomes ever more normalized people will increasingly find it normal to borrow past their income and be indebted so long as everyone around them is also indebted. According to the social support theory of debt (Lea et al., 1993, 1995), indebted Vietnamese consumers are less likely to think that their

acquaintances or relatives would disapprove if they knew these other people were also in debt. A debt tolerant attitude may arise out of social comparison, as Lunt and Livingstone (1991) showed: one may end up overspending one's income and over-borrowing because of the desire to have the same goods and services enjoyed by others. Although researchers have noted the social monitoring of debt in Vietnam (Chichaibelu & Waibel, 2018), one must take into account that in most industrialized countries there is a tendency for community and familial ties to wither (Harari, 2014; Miguel, Gertler, & Levine, 2003; Wellman, 2018). This study calls for increased attention to the expansion of consumer lending, the ease to borrowing, and the ever-rising costs of pursuing "middle class and affluent" lifestyles, for these factors may push debts to spiral out of control.

Corporate Debt and Rent-Seeking

The corporate sector also contributes to the rising debt in the country due to a combination of rampant rent-seeking and inefficient corporate governance. Studies on capital structure in Vietnamese corporations have noted some key elements to firms' borrowing behavior such as cash flow, fixed capital intensity, business risk, leverage, and firm size (Phan & Phan, 2013); or asset growth, ratio of sales to tangible assets, profit, liquidity (Vo, 2017). For instance, in examining data of public listed firms on the Ho Chi Minh City Stock Exchange (HOSE) from between 2006 and 2015, Vo (2017) noted a tendency among larger, profitable firms to take out long-term loans and among smaller firms to opt for short-term loans to finance their investments. Most studies also noted how the capital structure of Vietnamese firms is still dominated by the use

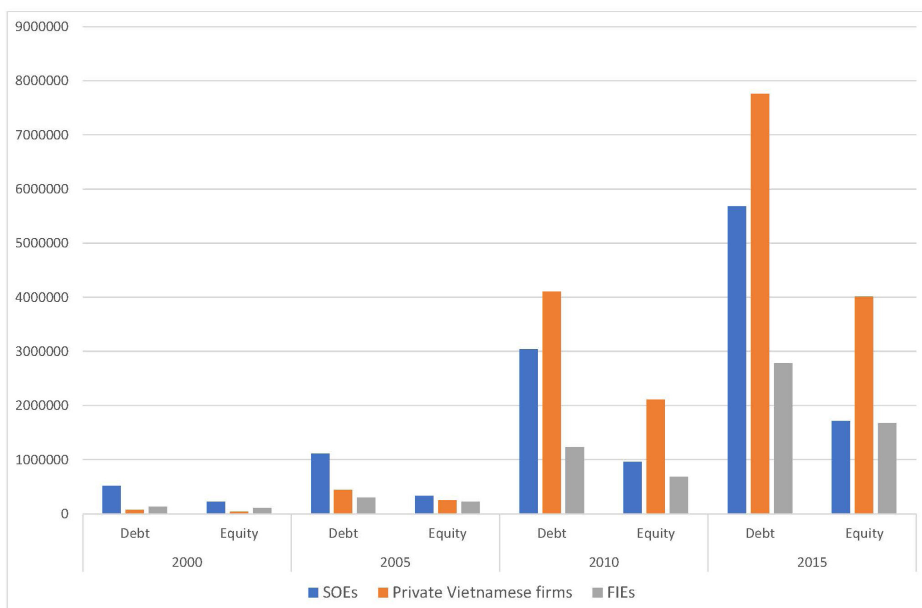

Figure 4a: The changes in debt and equity in Vietnam's state-owned enterprises (SOEs), private domestic firms, and foreign-invested enterprises (FIEs) 2000-2015 (Unit: Billion VND); (General Statistics Office of Vietnam).

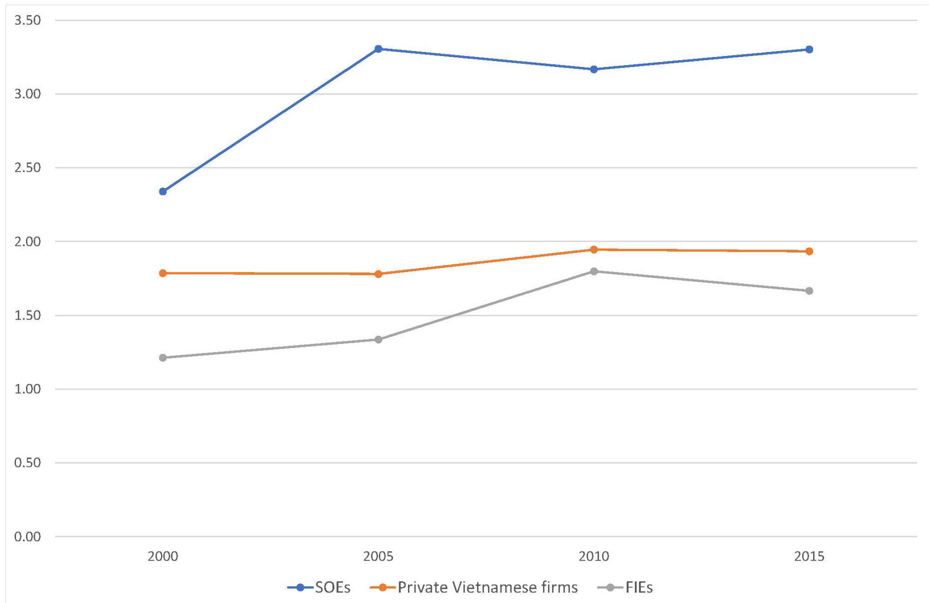

Figure 4b: The changes in the debt-to-equity ratio in Vietnam's SOEs, private domestic firms, and FIEs 2000-2015 (General Statistics Office of Vietnam).

of short-term financing sources (Nguyen et al., 2012; Vo, 2017). With regard to the debt-to-assets ratio, many Vietnamese firms have a rate above 0.5, even though economists suggest keeping the ratio below 0.5 to prevent financial distress (Vo & Ellis, 2017).

A better illustration of firm financing via debt is the rise in the debt-to-equity ratio (a firm's total debt divided by its total equity) in all three corporate sectors in Vietnam, as Figures 4a and 4b show. While the optimal debt-to-equity ratio for any corporation is 1.0, the data show that in Vietnam, not only were the ratios for all three types of enterprises, namely state-owned, privately-owned, and foreign-invested, above 1.0 during the 2000 to 2015 period, they also increased over the years. State-owned enterprises (SOEs) have the highest debt-to-equity ratio, which increased from under 2.5 in 2000 to nearly 3.3 in 2015. This is about 1.7 times higher than that of private firms and foreign-invested enterprises (FIEs). In terms of the absolute number (Figure 4a), the drastic surge in both debt and equity in the private domestic sector is attributable to the increase in the number of new businesses during the 2000 to 2015 period. Yet, by contrast, although the number of SOEs actually fell to 2,836 in 2015 from 5,591 in 2000 (General Statistics Office Vietnam, 2017), the debt-to-equity ratio in the state-run sector remained the highest, signaling inefficient restructuring as well as inadequate corporate governance.[1]

1 While increased use of debt financing is found in both developed and developing countries during the period of the financial crisis (Qureshi, Ahsan, & Azid, 2017), the continual dependence on debt in Vietnam during normal economic periods signals serious corporate debt vulnerability. To put this in perspective, the average debt-to-equity ratio in the five countries that went through the Asian crisis in 1997, namely Indonesia, Malaysia, Philippines, South Korea, and Thailand, was close to 1.45, whereas the average for emerging markets was 0.8 (Alfaro, Asis, Chari, & Panizza, 2017).

One of the reasons for the higher cost of borrowing is widespread rent-seeking in the economy (Beeson & Pham, 2012; Ngo & Tarko, 2018; Ngo, 2016; Wong, 2011). Interest groups (Vuong, 2014) or powerful business/political elites (Wong, 2011) heavily influence the creation and allocation of rents. This feature, combined with the liberalization of the financial market in Vietnam, has contributed to the increase of debts nationwide.

The close relations between SOEs and state-owned commercial banks (SOCBs), which enable the former to borrow capital for state-led development projects, have worsened the debt situation. By official data, SOEs contribute 30% of the economic output (Tung, 2017) but also hold over half of the whole banking system's loans (Tran, Ong, & Weldon, 2015). SOCBs owned approximately 90% of SOEs debts in the construction and transportation sectors (Beeson & Pham, 2012). A study done by Nguyen and Freeman (2009) on the effects of SOEs on private companies in 42 out of 64 provinces finds that indeed state-owned companies are more favored in accessing bank loans and lands.

The problem of heavy indebtedness and borrowing extends to the real estate sector. A study by Nguyen, Nguyen, and Dang (2017) on the capital structure of real estate companies listed on the Ho Chi Minh Stock Exchange from 2010 to 2015 showed that companies tend to use debt to finance their projects. Moreover, since 2012, the credit growth in the real estate sector has been steadily over 10% (Do, Nguyen, & Le, 2017). In the most recent report, the total outstanding loans of credit institutions in real estate have reached VND 471 trillion (USD 20.72 billion), and lending to this sector for some major banks is higher than 10% of their total outstanding loans; in some cases, such as for Sacombank and Techcombank, the figure is 17.6% and 12.6% respectively ("Real Estate Loans Remain", 2018). Many experts have raised concerns over this rising figure, fearing another housing bubble similar to the one that burst in 2011 (Cameron, 2018). To prevent this gloomy scenario, the government has issued two circulars that aim to reign in the excessive growth of credit in this risky market. Specifically, the central banks' Circular No. 6 from 2016 adjusted the risk weighting of real estate loans to 200%, while its supplemented Circular No. 19 from 2017 lowered the banks' proportion of short-term capital to be used for medium- and long-term lending in 2018 from 50% to 45%, and to 40% in 2019 (Cameron, 2018).

The 'Resource Curse'

A question worth asking, then, is whether corporate financing via debt has been efficient or turned into a kind of resource curse – an excessive reliance on physical and financial resources that is detrimental to long-term productivity and creativity. To evaluate the severity of the debt problems in Vietnam's corporate sector, researchers have suggested looking at the value of the capital being used by the sector, whether the huge resources helped to finance growth or was used inefficiently (Fforde, 2017; Pham, 2018; Tran, 2013; Vuong & Napier, 2014). One of the important indicators is the incremental capital-output ratio (ICOR), which is the increase in capital needed to produce higher output. Researchers have noted a sharp increase in Vietnam's ICOR from about 2 in the late 1980s to between 4 and 5 in the period 1997 to 2006, after which the figure kept increasing to 6 or higher (Fforde, 2017; Tran, 2013). Pham (2018)

noted Vietnam's ICOR fluctuated at around 5.5 during the period 2013 to 2017. And when compared with other developing countries such as China, India, and other Southeast Asian economies, Vietnam's figure is substantially higher, which suggested that there was a propensity to over-investment and economic inefficiency (Pham, 2018; Tran, 2013; Vuong, 2016).

Another indicator that has been proposed is the 'investment-to-GDP' ratio – the higher the ratio, the less efficient the output productivity of the economy becomes. Figure 5 illustrates the fluctuation in the capital investment-to-GDP ratio of Vietnam from the reform era of 1986 to 2017.

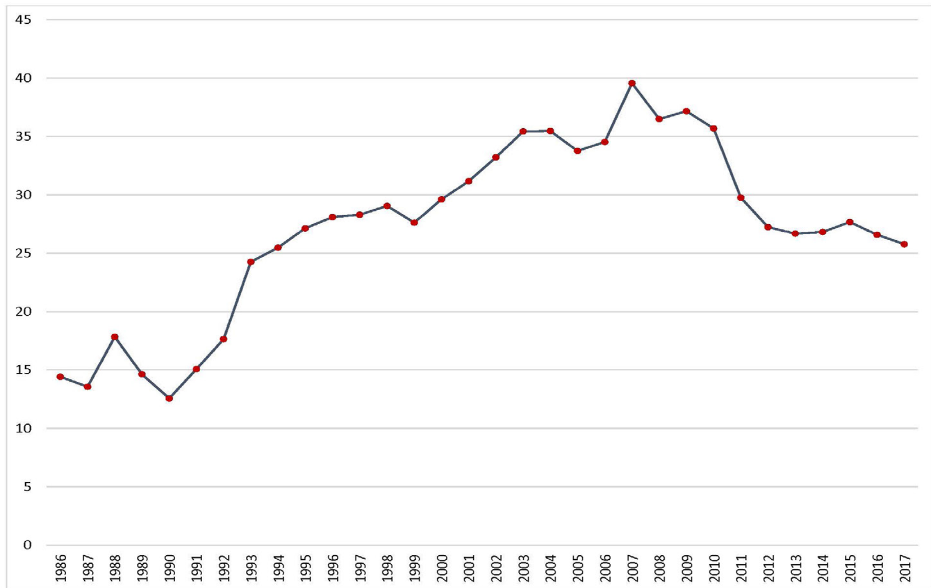

Figure 5: Total capital investment as percentage (%) of GDP in Vietnam 1986-2017 (World Bank).

The investment-to-GDP ratio climbed steadily from 25% in 1993 to its peak at 39.56% in 2007 before falling to 29.75% in the crisis year of 2011. The figures hint at the country's continuous use of scarce resources to finance and support its growth. Two recent empirical studies have confirmed the heavy reliance of Vietnamese companies on physical and capital assets in lieu of using creative processes, especially in times of turmoil (Vuong, 2016; Vuong & Napier, 2014). This tendency is counter to the "creative destruction" that Schumpeter (1942) describes – a process in which firms continuously destroy old economic structures from within and create new ones, resulting in innovations. In the case of Vietnam, however, there appears to be a kind of corporate 'destructive creation' instead, that is, companies appear to use abundant resources to fuel their operations, but, in fact, have neglected innovation, thus, missing the chance to improve productivity. Such behavior is especially dangerous when firms face increasing economic complexities in the age of computational entrepreneurship (Vuong, 2019). A vicious circle of multiple borrowing may arise out of the corporate sector's addiction to resources – poor performance would call for

consumption of more resources, including financial resources, which do not necessarily bring about better performance if no new values are created. The absence of innovation at the corporate level, driven by an over-reliance on debt financing, in a transitioning economy like Vietnam is worthy of concern for it risks a misallocation of resources and threatens sustainable growth.

CONCLUSION

This review article has brought attention to the rising personal and corporate debt in Vietnam, one of the fastest-growing economies in the world. Contrary to the traditional culture that condemns being in debt and highly values frugality, this article has discussed the transformation into a more debt-tolerant society, which is fueled by the rise of consumerism and the emergence of the super-rich. This transformation has entailed a sharp increase in the household debt-to-GDP ratio from 12% in the 2000s to 47% in 2016, which is four times as much as the median of emerging market economies. Many experts have warned that this trend, if it persists, will jeopardize the financial stability of both households and the country. In terms of corporate debt, the article has highlighted the predominance of short-term financing in the capital structure of Vietnamese firms, in addition to a high debt-to-assets ratio as a cause for concern. Similarly, the data show that the debt-to-equity ratio of Vietnamese firms, whether state-owned, privately-owned, or foreign-invested, has hovered well above the optimal 1.0 ratio and continued to increase during the 2000 to 2015 period. Empirical studies on the association between debt and the creative performance of Vietnamese firms point to the potentially negative effect of an over-reliance on equity and debt capital to promote growth, which amounts to a resource curse, rather than also seeking innovation to produce new value.

In the well-known folk story in Vietnam, ("Nợ như Chúa Chổm [In Debt Like Lord Chom]", n.d.), a man was so indebted and insolvent that all his creditors could not do anything but continue to let him have his way – to eat on credit. While it is true that borrowing is not necessarily a negative thing, borrowing one's way into the resource curse dynamic is the kind of behavior individuals, firms, and nations alike would be wise to avoid.

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