Chapter 5: National Competitiveness of Vietnam

In the previous chapter, we empirically tested the determinants driving national competitiveness of Vietnam, including production resources, technology development, market conditions, international economic and business activities, government role, and company’s strategy and operation.

In this chapter, we will analyze the state of Vietnam’s competitiveness relying on six above identified determinants by a combination of hard and survey data. We also evaluate Vietnam’s national competitiveness progress in the last two decades and the remaining weaknesses compared to some other selected regional countries. Some main indicators are used to illustrate this analysis and assessment. This chapter is fundamental to point out some emerging key issues and to propose some solutions enhancing Vietnam’s national competitiveness in coming years in the next chapter.

In order to understand the competitiveness of the Vietnamese economy, we analyze in this section the determinants of national competitiveness and compare its determinants with selected regional countries, particularly China and Thailand. This analysis is argued by collected hard data and survey data. The analysis result shows the competitiveness’s assessment and the remaining weaknesses as well as its causes in Vietnam.

5.1 Production Resource and Competitiveness

5.1.1 Infrastructure Development and Competitiveness

Infrastructure development considered as a critical part of the economic growth has been invested at a high level in Vietnam over the last decade. Around 9-10% of the GDP has been invested on transport, energy, telecommunications, water, and sanitation in recent years (World Bank 2006a). Microeconomic studies provide evidence of a strong link between this investment and Vietnam’s productivity, competitiveness and growth (Ibid, pp xvii). Our study shows that infrastructure is the most crucial factor which determines Vietnam’s productivity and competitiveness.

63 Some selected regional countries include China, Thailand, Malaysia, The Philippines, Indonesia.

64 See section 2 chapter 4
The road network has more than doubled in length, from 96,100 km in 1990 to 205,782 km in 2002, and its quality has improved substantially. National level roads expanded from 15,100 km with 36.6% in good condition in 1997 to 17,300 km with 44.8% in good condition in 2002 (Ibid, pp xviii). All urban areas in Vietnam are electrified. In the rural areas, electrification grew from 51% in 1996 to 88% in 2004. The number of fixed and mobile phones per 1000 people have multiplied eighteen-fold, from 10.3 in 1990 to 183.6 in 2004. Access to improved water grew from 26% of the population to 85% between 1993 and 2004. During the same time access to hygienic latrines grew from 10% to 31% of the population, with rural access at 16% and urban access at 76% of the population in 2004. Vietnam’s performance of improved sanitation and water was higher than China’s, with 92% and 85%, compared to 69% and 77% respectively. However, the infrastructure has not yet met needs of the current and future economic growth, and it lags behind China and Thailand. For example, in 2004 Vietnam had 183.59 fixed line and mobile phone subscribers per 1000 inhabitants, compared to 536.79 in Thailand and 498.84 in China; in Vietnam 19% of the roads were paved, compared to 98% and 81% in Thailand and China respectively (Table 5.1)

Table 5.1: Access to Infrastructure Services (2004)

<table>
<thead>
<tr>
<th></th>
<th>Telephone (1)</th>
<th>Electricity (2)</th>
<th>Sanitation (3)</th>
<th>Water (4)</th>
<th>Road (5)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vietnam</td>
<td>183.60</td>
<td>501.45</td>
<td>92</td>
<td>85</td>
<td>19</td>
</tr>
<tr>
<td>Thailand</td>
<td>536.79</td>
<td>1864.58</td>
<td>98</td>
<td>99</td>
<td>98.5</td>
</tr>
<tr>
<td>China</td>
<td>498.84</td>
<td>1585.12</td>
<td>69</td>
<td>77</td>
<td>81.03</td>
</tr>
<tr>
<td>Malaysia</td>
<td>765.56</td>
<td>3165.52</td>
<td>95</td>
<td>99</td>
<td>81.32</td>
</tr>
<tr>
<td>Philippines</td>
<td>445.66</td>
<td>597.06</td>
<td>80</td>
<td>85</td>
<td>21.64</td>
</tr>
<tr>
<td>Indonesia</td>
<td>185.34</td>
<td>478.20</td>
<td>73</td>
<td>77</td>
<td>58</td>
</tr>
<tr>
<td>World</td>
<td>468.84</td>
<td>2522.04</td>
<td>79.63</td>
<td>82.75</td>
<td>n.a</td>
</tr>
</tbody>
</table>

Note: (1) Fixed line and mobile phone subscribers (per 1,000 people)
(2) Electric power consumption (kWh per capita)
(3) Improved sanitation facilities, urban (% of urban population with access)
(4) Improved water source (% of population with access)
(5) Roads, paved (% of total roads); data of the year 2002 for Indonesia, and 2003 for the Philippines

Some costs of infrastructure services were high, compared to some regional countries. The study of the JETRO (Japan) showed that the costs in Vietnam, in general, were higher than the costs in ASEAN-4 countries and China, while income in Vietnam is lower than in those countries, especially the costs of an international telephone call, office rent and transportation. Almost all prices of infrastructure service are regulated by the government. In fact, infrastructure enterprises have no
right to set price themselves. They propose tariffs of infrastructure service and the government decides the prices.

5.1.2 Human Resource and Competitiveness

Vietnam has abundant human resources as compared to its neighbors. This advantage has attracted FDI inflow in the last decades. By 2005, Vietnam’s population was estimated at 83.12 million, an average annual increase of 1.57% between 1990 and 2005. 43.6 million people joining the labor force accounted for 52.45% of the population. Labor force grew at an annual average rate of 2.4% in the duration between 1998 and 2005, compared to 2.24% in China and 1.05% in Thailand (Table 5.3). The table indicates that the average unemployment rate in Vietnam was the lowest among selected countries (except Thailand) in the last decade, at rate 2.83%. With such labor force, Vietnam avoids the shortage of labor force that is challenging some developed and fast-growth developing countries.

Table 5.2: A Comparison of Infrastructure Service-Related Cost among Asia Cities

<table>
<thead>
<tr>
<th></th>
<th>Hanoi</th>
<th>Bangkok</th>
<th>Beijing</th>
<th>K.lump</th>
<th>Jakarta</th>
<th>Manila</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial Estate Rent (Monthly per Sq.m)</td>
<td>0,21</td>
<td>4,60</td>
<td>3,62-7,25</td>
<td>3,8-4,1</td>
<td>4,5-5,0</td>
<td></td>
</tr>
<tr>
<td>Office Rent (Monthly per Sq.m)</td>
<td>21</td>
<td>10,13</td>
<td>37</td>
<td>15,58-17,00</td>
<td>14-20</td>
<td>7,49</td>
</tr>
<tr>
<td>Telephone Installation Fee (US dollar)</td>
<td>84,75</td>
<td>85,16</td>
<td>28,39</td>
<td>48,68</td>
<td>49,94</td>
<td>65,54</td>
</tr>
<tr>
<td>Telephone Charge per Minute (US dollar)</td>
<td>0,003-0,008</td>
<td>0,07</td>
<td>0,01</td>
<td>0,01</td>
<td>0,01</td>
<td>0</td>
</tr>
<tr>
<td>International Call Charge, 3 Minutes to Japan (US dollar)</td>
<td>6,93</td>
<td>2,07</td>
<td>2,9</td>
<td>1,42</td>
<td>3,76</td>
<td>1,2</td>
</tr>
<tr>
<td>Mobile Phone Subscription Fee (US Dollar)</td>
<td>39,11</td>
<td>23,01</td>
<td>9,67</td>
<td>95,53</td>
<td>15,54</td>
<td>0</td>
</tr>
<tr>
<td>Mobile Charge per Minute (US dollar)</td>
<td>0,12-0,17</td>
<td>0,07-0,28</td>
<td>0,05</td>
<td>0,08</td>
<td>0,17</td>
<td>0,12-0,13</td>
</tr>
<tr>
<td>Electricity Rate for Business Use (Charge per kWh)</td>
<td>0,05-0,07</td>
<td>0,04</td>
<td>0,05-0,09</td>
<td>0,05</td>
<td>0,04</td>
<td>0,03-0,04</td>
</tr>
<tr>
<td>Water for Business Use (Charge per Cu.m)</td>
<td>0,08-0,1</td>
<td>0,04-0,07</td>
<td>0,22</td>
<td>0,06</td>
<td>0,07</td>
<td>0,03-0,06</td>
</tr>
<tr>
<td>Container Transport (40-foot Container to Yokohama) (US dollar)</td>
<td>1470</td>
<td>1304</td>
<td>734</td>
<td>884</td>
<td>820</td>
<td>700</td>
</tr>
</tbody>
</table>

Source: Jetro Survey 2003
Table 5.3: Population and Labor Force

<table>
<thead>
<tr>
<th>Economies</th>
<th>Total population (million)</th>
<th>Average population annual change, %</th>
<th>Labor force (million)</th>
<th>Average labor force annual change, %</th>
<th>Average labor force participation rate, %</th>
<th>Average unemployment rate, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vietnam</td>
<td>66,02 83,12 1,57 36,9* 43,60 2,40** 50,98** 2,83**</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>1143,3 1307,6 0,93 653,23 768,23 2,24 n.a 3,19</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Thailand</td>
<td>55,84 64,76 1,00 31,75 36,80 1,05 73,59 1,86</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Malaysia</td>
<td>18,10 26,13 2,44 7,04 10,41 2,67 65,11 3,40</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Philippines</td>
<td>60,94 85,24 2,24 24,53 36,64 2,73 65,64 9,21</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indonesia</td>
<td>179,38 219,9 1,46 77,8 105,8 2,14 65,63 6,05</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: ADB, Key Indicator 2006; Note: * Data of the year 1998; ** an average of duration 1998 and 2005

Vietnam’s human resources are at relatively high skill, compared with equivalent development level countries (low income), due to its basic educational accomplishments. One rough but ready measure of the stock of human resource is the literacy of the adult population (Table 5.4). The table reveals, typically more than 90 per cent of the adult populations of Vietnam was literate in 2004. This rate is equivalent to richer neighbors such as Thailand, China and Philippines, and even higher than Malaysia. This progress emanates from high primary school and secondary enrollment rates in Vietnam: by 2004 around 98% of children attended primary schools, compared to 98.5% in Thailand and 117.62% in China. In China the enrollment rate stood at 117.62% which indicates that a number of students were older people returning to school; the enrollment rate at the secondary level of education in Vietnam (74.35%) is higher than that in China (72.53%) and in Indonesia (64.12%), lower than in Thailand (77.34%), and nearly equal to that in Malaysia (75.78%) (Table 5. 4). This is a testament to the government’s efforts to provide primary education for Vietnam’s children. A recent study assessed the secondary education system of Vietnam against an international benchmark (World Bank 2007a). On most counts, the findings are encouraging. The study found that teachers are well-educated and have at least two years of training. They prepare their lessons and are assiduous in teaching the prescribed curriculum. Textbooks are the most part adequately supplied. Buildings and equipments are not characterized by standards, but most schools have the basics, including librar-
ies and a reasonable range of teaching aids. Class size is well within the normal range.

Table 5.4 also shows that the enrollment rate for higher education in Vietnam increases sharply from 1.98% in 1990 to 10.16% in 2004. There was an impressive expansion in higher education under way. It reflected the increasing household demand and increasing returns to education, and also a result of the rapid growth in secondary school enrollment. At present, 230 Institutions accommodate more than 1.3 millions higher education standards. This growth in supply has occurred to a large extent through private sector provision and the introduction of cost-recovery mechanism. Not surprisingly, enrollment is highly skewed, with participation by the richest population quintile being four times that of the poorest quintile. The government tries to influence the quality of higher education mainly through administrative means. For instance, it controls the entrance examination and sets admission quotas. However, in-service students are not strictly required to take entrance tests and enrollment above the authorized quotas common among institutions seeking to increase their income.

### Table 5.4: Literacy and Enrollment Rate

<table>
<thead>
<tr>
<th>Economies</th>
<th>Literacy rate, total (adult % of people 15+)</th>
<th>Gross enrollment rate (%), primary, total</th>
<th>Gross enrollment rate (%), secondary, total</th>
<th>Gross enrollment rate (%), tertiary, total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vietnam</td>
<td>90.28</td>
<td>97.97</td>
<td>32.22</td>
<td>1.98</td>
</tr>
<tr>
<td>China</td>
<td>90.92</td>
<td>117.62</td>
<td>72.53</td>
<td>2.94</td>
</tr>
<tr>
<td>Thailand</td>
<td>92.65</td>
<td>98.51</td>
<td>72.34</td>
<td>17.68*</td>
</tr>
<tr>
<td>Malaysia</td>
<td>n.a</td>
<td>93.71</td>
<td>56.33</td>
<td>7.43</td>
</tr>
<tr>
<td>Philippines</td>
<td>91.73</td>
<td>112.36</td>
<td>85.86</td>
<td>27.81</td>
</tr>
<tr>
<td>Indonesia</td>
<td>90.38</td>
<td>116.96</td>
<td>64.12</td>
<td>9.46</td>
</tr>
<tr>
<td>World</td>
<td>n.a</td>
<td>106.76</td>
<td>65.06</td>
<td>23.68</td>
</tr>
</tbody>
</table>

Source: Edstats Data Query, WB, 2006; Note: * Data of the year 1991; ** Data of the year 2003

### 5.1.3 Capital Resource and Competitiveness

Vietnam’s financial sector has expanded rapidly in recent years, mostly supplying banking loans to the private sector. In the banking sector, the credit to the economy rose from 35% of the GDP in 2000 to 66% of the GDP in 2006. The ratio of bank deposits to GDP stands at 57%. The extension has taken place at an even faster pace in the case of joint stock banks, whose total charter capital has almost
tripled over the last years. Access to finance has increased substantially, with the number of savings accounts standing close to 25 millions. So far, there are more than 1,100 ATMs in Vietnam and 2.1 million credits and debit cards in circulation. The most spectacular development is the surge of the stock market. With the VN-Index doubling in one year (2006) since its creation at the beginning of the year 2001, the stock market’s capitalization reached $4 billion or almost 8% of GDP.

**Figure 5.1: Gross Domestic Capital Formation (% of GDP)**

![Graph showing Gross Domestic Capital Formation (% of GDP) for Vietnam, China, Thailand, Malaysia, Philippines, and Indonesia.](image)

Source: ADB, 2006

State owned commercial banks (SOCBs) dominate Vietnam’s financial sector, accounting for approximately 75% total bank credit in the economy and engaging in non-commercial or politically-preferred lending, especially in rural areas. This leads to prevent market-oriented credit allocation as well as equity base reinforcement of Vietnamese industries. Historically, Vietnam’s financial system depended heavily on the State Bank of Vietnam (SBV) and SOCBs, for providing almost all services in the country. In 1988, the government set up an additional commercial bank system so that the SBV could specialize in the monetary policy and supervision as a central bank. While allowing the private sector to set up joint-stock commercial banks in 1991 and foreign banks to open local branches in 1992, the Development Assistant Fund (DAF), which was intended solely for pol-

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65 The above explained data is cited from World Bank 2006b and 2007a
icy finance, was added to the state-owned financial facilities in 2000 (WB 2006b, p.18).

The Vietnamese banking system has played a significant role in allocating capital resource. For example, the money supply (M2) of Vietnam has expanded annually, a rise from 27.1% of GDP in 1990 to 82.4% in 2005, higher than that of the Philippines (38.1%) and Indonesia (44.1%). However, the rate is still far lower than China and Malaysia (Figure 5.2).

**Figure 5.2: M2 as a Percentage of GDP**

![Graph showing M2 as a percentage of GDP for Vietnam, China, Malaysia, Thailand, Philippines, and Indonesia from 1990 to 2005.](image)

Source: ADB, Key Indicator, 2006

**Capital Market** The securities market expanded beyond expectations in 2006. The number of listed companies rose to 193 from 41, and total market capitalization increased almost 20 fold from 2005 levels, to $14 billion, or 22.7% of the GDP. The main index of share price soared from 307.5 at the end of 2005 to 751.8 one year later, and climbed further to 1,138 points at the end of February 2007 (ADB 2007, pp 238). There are concerns that speculators using funds borrowed from banks may face repayment difficulties if stock prices dropped precipitously. Big fund flows could cause problems for the implementation of monetary and foreign exchange policies. With this in mind, the central bank warned commercial banks of the risk of increasing securities-backed loans and requested commercial banks to report on such loans. Moves were made to improve corporate governance and market regulation. A law on securities and securities markets was approved, and came into force in January 2007. It provides a legal base for investor protection and market transparency, including disclosure requirements for publicly held...
companies. The maximum foreign ownership in listed companies was lifted from 30%-49%. The stock market boom also encouraged more state-owned enterprises (SOEs) to issue shares to investors. Subsidiaries of several major SOEs in areas such as hydropower made successful initial public share offerings (IPO). In December 2006, the Prime Minister approved a list of state firms to be equitized during 2007-2010, including major ones such as Vietnam airlines (Ibid., pp 239).

Figure 5.3: National Saving Rate (% of GDP)

![Figure 5.3: National Saving Rate (% of GDP)](image)

Source: ADB, Key Indicator, 2006

Figure 5.4: Capital Resource

![Figure 5.4: Capital Resource](image)

Source: WEF, Survey 2004-05

Over the last decades Vietnam has expanded its national saving rate and investment to 27% of the GDP in 2004 from -3.5% in 1990 due to sustainable economic
growth. Notwithstanding, this rate remains far lower than that in China and Malaysia, and nearly equal to Thailand and the Philippines (Figure 5.3)

5.1.4 Production Resources' Assessment

**Infrastructure** An enormous progress has been made in Vietnam’s infrastructure over the last decade. Annual investments in order of 9 to 10 per cent of GDP led to a significant increase in paved roads, telephone lines, port capacity and power supply. However, the quality of infrastructure is still poor and its price remains high when compared to neighbors. The survey from WEF also shows that in general, the quality of infrastructure is considered to be poor and not yet satisfied. It marked 2.4, compared to 3.2 for China and Thailand, on a scale that runs from 1 (low satisfaction) to 7 (Figure 5.5). Our survey conducted in early 2007 indicates that the quality of land and ship transportation in Vietnam is considered to be poorest with 2.26 points, on the same scale from 1 to 7, while the telephone system and power supply is considered to be more reliable and better. The details are revealing, and are described in Appendix 6. The significant point here is that there is considerable room for improvement in creating an infrastructure that is favorable to business growth. We have interpreted this as reflecting poorer services in Vietnam, but it is also possible that firms there are more demanding, and expect better service than is considered adequate elsewhere in the region. Thus it leads to increase business cost, reduce competitiveness and attract less foreign direct investment.

**Human resource** Over the last decade, Vietnam has enjoyed relatively high skilled and abundant human resources thanks to initial reform of the education system, particularly primary and secondary education. In order to fill the demand for higher-quality education, the government introduced full-day schooling at the primary level. Pupils in full-day classes received 35 periods of instruction per week, compared to 23 periods in half-day classes. In fact, the 20% of Vietnamese teachers who are already in full-day schools have a similar workload to that of their Korean counterparts (around 820 hours of teaching per year). The additional instruction is not financed by the government, but through parents’ contributions. This arrangement allows for better quality of primary education, but only for children whose families can afford it. This system therefore put children from poorer families at a disadvantage in accessing quality education. To ease the burden of schooling for the most needful households, Vietnam implements a fee exemption policy.
For higher levels of education, the main challenge facing Vietnam is to balance the competing demands of enrolling a larger number of students and achieving a better quality than in the past. Vietnam’s tertiary rate (10.16%) was far lower than that of Thailand (40.98%) and China (19.1%) in 2004 (Table 5.4). Additionally, the quality of higher education remains a great concern to the public. The quality of the education remains lower compared to neighbors and the country’s economic development. The survey we conducted shows most respondents stated that the education system has not yet met the needs of a competitive economy and they complain about the shortage of a skilled workforce, especially business leaders (Appendix 6). Hence they stated that investing and improving in vocational education and training programs are urgent priorities (Appendix 6). However, some respondents expressed a relatively high degree of satisfaction with the overall quality of the education system from kindergarten through to the end of high school.

Similar findings were reported by WEF survey conducted in 2004-5. This survey indicated that meeting the needs of a competitive economy in Vietnam was lacking compared to that in China and Thailand (Figure 5.5). This means that Vietnam will need to pay more attention to reforming and improving education system in a new context.

5.2 Technology Development

Vietnamese government has affirmed that Science and Technology development (S&T) in line with education and training development are the national policy
priorities and foundation and motivation for speeding up the country’s industrialization and modernization process. Although the country is still poor, in recent time, Vietnam has especially improved efforts and endeavors of S&T professional personnel nationwide, S&T potentials have been strengthened, and S&T have had significant contributions to improve national productivity and competitiveness.

5.2.1 Technology Progress

Technology transfer and diffusion by import and FDI has operated strongly. Specifically, the technology transfer through FDI has had an increasing role in the improving of national productivity, competitiveness and living standards of citizens. In line with policy on building an open market economy, Vietnam has eliminated unnecessary regulations to facilitate technology transfer process from foreign countries under foreign direct investment (FDI). In fact, the foreign investment sector has not only contributed to technology development and management skill, but also created pressures on domestic companies that have been forced to apply advanced technology in production to maintain their market share.

The Figure 5. 6 indicates that FDI has been playing a significant role in technology transfer in Vietnam, ASEAN countries and China as well. However, Vietnam obtained a relatively low mark against China and Thailand. It is possible that Vietnam has not taken advantages of FDI. Our survey also shows that most respondents do agree FDI has been playing a significant role in technology transfer and diffusion, by which productivity and competitiveness have improved (Appendix 6).

Technology diffusion and computer use have improved rapidly in recent years. For example, year 2004 the number of personal computers per 1000 people reached 12.7, compared with 0.14 in 1992. Nevertheless, the computerization has been solely concentrated on some areas of the economy such as Banking, Telecommunication and Aviation. Internet users have increased sharply, from 2.55 per 1000 people in 2000 to 128.86 in 2005. This rate is higher than in any ASEAN-4 countries and China (except Malaysia). The rapid increase in internet users facilitates process of technology diffusion and transfer.

66 World Bank, Edstats Data Query, Oct 2006
67 World Bank, country data, 2006
Technology development potentials have been strengthened and developed. In the past decades Vietnam has trained more than 1.8 million in the workforce from college and tertiary levels with more than 30 thousands personnel of post-graduate level (over 14 thousand doctors and 16 thousand masters) and about 2 million technical workers; of these, around 34 thousands work directly in S&T fields under the State-owned sector\textsuperscript{68}. This is an important human resource for the country’s technology development. The reality shows that this group is able to catch up relatively quickly and master the knowledge and modern technologies in some branches and fields\textsuperscript{69}.

In addition, a network of S&T organizations has been set up with more than 1,100 S&T organizations under every economic sector, of which nearly 500 are non-State organizations; 197 are universities and colleges, including 30 non-public schools\textsuperscript{70}. Infrastructure of institutions, research centers, laboratories, S&T information centers and libraries have been strengthened and upgraded. Some good associations between scientific research, technology development and production – business have appeared.

\textit{Policy on technology development} Vietnam has made effort to strengthen technology development by issuing different policies such as policy on eliminating the
monopoly of scientific research; policy on extent right of signing research contracts; policy on diversity of funding S&T investment. The total investment of S&T has increased 16% annually since 1996. The rate of S&T investment as a percentage of the total GDP has increased from 0.41 in 1996 to 0.47 in 2000. Although the State budget is still limited, with the State’s great efforts, the State budget allocation for S&T field has reached 2% since 2000, marking an important milestone in the Party and State’s implementation process of policies on investing in the S&T development. Additionally, Vietnam has initially formed legal framework, which protects intellectual property right. Specifically, the industrial intellectual department was established and regulations of intellectual rights registration and transfer were carried out. However, the legal system of property right protection remains weak and the enforcement of the legal document has been inefficient.

Technology development policy has contributed an important part in effectively acquiring, mastering, adjusting and exploiting technologies imported from foreign countries. As a result, technology capacities in some production and service branches have been significantly improved and many products and goods have higher competitiveness. Especially, in the agriculture field, S&T development has produced many plants and animals with high quality and productivity, contributing to the shift in agricultural economic mechanisms, changing our country from importing foods to becoming one of the first exporters of rice and the second one of coffee in the world, i.e.

Science and Technology management mechanisms have been step by step renovated. The State management mechanism of S&T organized from the central to local level has sped up the S&T development, contributing to the implementation of socio-economic objectives of branches and localities. Operations of S&T organizations have been expanded from research – development to S&T production and service. The autonomy of organizations and individuals in the S&T field has initially strengthened. The autonomy in international cooperation of organizations and individuals working in S&T field has been extended.

The implementation of Law on Science and Technology, programs, themes and projects on S&T has closely focused on the socio-economic development tasks. The mechanism of selecting organizations and individuals to be in charge of S&T tasks has initially been managed with principles of democracy and publicity. In addition, capital sources mobilized for S&T from contracts signed with production – business sectors, bank credits, international funds and other sources have been significantly increased thanks to policies on diversifying capital invested in

71 Op.cit
S&T. The budget allocation for scientists has been improved one step by reducing intermediate phases.

The assignment and decentralization in the State management in terms of S&T have gradually improved through regulations on functions, tasks and responsibilities of Ministries, ministerial agencies, the People’s Committee of provinces and cities under the Central government.

Figure 5.7: High-Technology Exports as % of Manufactured Exports

![High-Technology Exports as % of Manufactured Exports](chart)


5.2.2 Technology Development’s Assessment

Vietnam has gained significant achievements in technology development in last decades. However, the country’s technology development level is generally low as compared with that of other countries in the region. For example, according to US Patent and Trademark Office, the number of US utility patents granted to Vietnam per million population in 2003 is zero, compared to 0.2, 0.4, 0.3, 2.0, 99.3 in China, Thailand, Philippines, Malaysia and Singapore respectively. The high-tech product exports of Vietnam remain far lower than that of the neighboring countries. The high-technology exports of Vietnam accounted for an average 7.7% of the manufactured exports from 2000 to 2005, whereas the rate of China, Thailand, and Philippines is 24.99, 30.4, and 71.17 respectively (Figure 5.7). Notably while China’s high-technology exports increased rapidly to 30.6% in 2005 from 18.6% in 2000, Vietnam declined sharply from 11.03% to 5.6% in the same period. These countries have succeeded in taking advantage of technology devel-

72 US Patent and Trademark Office, March 2004
opment to produce high-tech export products in recent years and now they are among 30 the top high-tech exporters in the world.

5.3 Market Conditions

Market conditions are frameworks that create a competitive environment in which firms can compete and operate to reach their goals. Market conditions have played a critical, if not decisive, role in improving a firm’s competitiveness as well as a nation’s. A nation does not remain competitive unless it creates good market conditions (Section 3.3 chapter 3).

5.3.1 Competitive Environment

*Changes in perception on competition in Vietnam* Before the beginning of the reform, competition was thought to be ugly and immoral because it caused economic crisis, bankruptcy, unemployment and so on. It was even criticized by some mass media agencies for causing social evils such as fraud and corruption, although this was not created by competition but rather by humans. Since the opening of the economy, perception of competition has changed positively. The Government, entrepreneurs and citizens have recognized the important role of competition in the economy. Many aspects of a positive impact of competition on the economy such as accelerating the reform, re-allocating resources and selecting viable businesses have been recognized. Companies themselves and the economy in general, are considering competition as a fundamental principle of the market economy.

This change in perception has also had a positive impact on the enterprises' performance and the content of the Government policy in laying the foundation for a healthy competitive environment in Vietnam. Many firms have invested in new technology to improve their productivity and competitiveness. The Government has made efforts to build a framework of market-oriented economy. Many policies and legal documents as well as regulations have been issued to create a legal framework conducive to the setting up of a competitive environment such as the Enterprise Law, the Anti-Trust Law etc.

*Monopoly and regulating monopolies* in Vietnam monopoly goes closely with the issue of the definition of the role of State in the economy and this definition clearly affects the state intervention with in it. The monopolistic companies were set up via administrative decisions rather than through competition. Hence, there were sole state monopolies and no private or foreign invested monopolies. Many industries have a status of monopoly artificially because they are regarded as natu-
eral monopolies. For instance, electricity and water production and distribution are currently essentially state monopolies although they can be contracted out to the private sector. While a market-oriented economy has been officially introduced into Vietnam over the past decades, the monopoly and oligopoly of SOEs still exist in almost all industries such as coal mining, metal production, electricity, water, telecommunication, finance, railway, airline, banking and so on.

Due to limitation of competition, the above industries have not provided good services to customers, but usually high price. Therefore, the Government must supervise and regulate monopolistic companies to prevent them from abusing their monopoly power and harming the benefits of customers. The remedy includes the supervision of prices and quality of goods and services. However, capability to supervise prices is weak and ineffective due to poor and undeveloped information systems. As a result, the effectiveness of anti-trust policy in Vietnam remains much lower compared to China and Thailand (Figure 5.8).

It appears that the Chinese Government has made progress against state monopoly power during this transition period.

Unhealthy and unfair competition

The survey we conducted indicates that competition is unfair and unhealthy. The indicator scored an average of 2.7 point, on a scale from 1 to 7 where 7 is equivalent to the best. It means that most respondents did not agree that competition in Vietnam is fair and healthy (Appendix 6). It appears there is a lack of an appropriate legal framework for healthy competition and a dominance of state monopolistic companies in Vietnam. Unhealthy competition is, generally speaking, an action which competes by using illegal tools or immoral measures (Tran 2003). Recently, these unhealthy competitive actions have appeared more frequently with increasingly sophisticated tricks used by the companies concerning fake goods, dishonest advertisement, fake promotion, slandering to damage images of rivals and dumping.

Unfair competition (in this case) is understood to be unequal chances to access the market and resources by SOEs, and private and foreign invested firms. In recent years, the Government has made efforts to build a level playing field such as eliminating dual-price regime and issuing the Unified Enterprise Law\(^{73}\) and the Common Investment Law\(^{74}\). However, in fact, SOEs receive preferential treatment and have advantages compared to all other firms such as access to land, capital, human resources, and even to the market. Many governmental agencies regard private firms as dishonest businesses. This attitude possibly explains why government inspection agencies visit private firms more frequently than the state ones.

\(^{73}\) A combination of the Enterprise Law and the SOE Law

\(^{74}\) A combination of the Domestic Investment Law and the Foreign Investment Law
Moreover, banks also hesitate in lending to private firms because they think there is a probability of being tracked down. The discrimination has negatively affected the competitive environment, and more importantly, it affects the people's confidence in the policy of the reform.

Startups and bankruptcy The Enterprise Law, which promulgated in 1999, and came into effect on January 1st 2000, was a breakthrough for eliminating almost all administrative barriers to market entry, and has created a new atmosphere for the business community. For the first time, the rights of the people in doing business, which were regulated in the Constitution, were institutionalized. People can do business in all fields that are not legally prohibited. As a result of the law, in 2000, 14,400 new firms were established, an increase of 350 percent from 1999 (Tran 2003). The survey result of WEF also indicates that starting a new business in Vietnam is quite easy and not time consuming. It appears that the reform of administrative registration has succeeded (Figure 5.8). As a result, during the period 2000-2005, 72,337 new firms were set up, an increase of 500% compared to 2000. In contrast with easy startup, bankruptcy (an elimination process of the free market) is difficult, complicated, and time consuming. Although the Bankruptcy Law was issued in 1993, due to many different reasons, the Law has not yet been effectively implemented. The weak effectiveness of the Bankruptcy Law has had a negative impact on the competitive environment and the economy. It has been claimed that the Law maintains viable firms, hence slowing down the process of re-allocation and economic restructuring. At the moment, many “dead” firms are still “fed” by the banks with the hope that these banks can collect their loan repayments. This leads to reduce the efficiency of the economy by which the competitiveness of the economy is weakened.

5.3.2 Assessment of Competitive Environment

In line with the reform process, a competitive mechanism has been set up and has been operated in Vietnam in the sense that the number of firms in the market has increased, prices of goods and services are set through the demand and supply conditions in the market, the rights of doing business have been expanded, and so on. Competition has positively impacted the economic reform in accelerating economic restructuring, pressuring firms to innovate to increase their competitiveness, and increasing economic growth and living standard of the country’s population.

75 Data was collected from Vietnam General Statistics Office (GSO)
76 Bankruptcy is in fact a factor to speed up economic restructuring, to re-allocate efficiently resources, and to increase the competitiveness of the economy as a whole
In addition to the Anti-Trust Law being promulgated in January 2005, a number of regulations have been issued to regulate activities relating to competition, such as the Common Investment Law, the Unified Enterprise Law, the Commercial Law. Nevertheless, enforcement of these laws still remains weak. This causes unhealthy and unfair competition. Moreover, attitudes toward the non-state sector have been an obstacle for creating a healthy and fair competitive environment.

Figure 5.8: Competitive Environment

![Competitive Environment Diagram]

Source: WEF Survey, 2004-05

5.4 International Business and Economic Activities (IBEA)

The impressive economic growth of Vietnam over the last fifteen years has been due in part to considerable international business and economic activities. Through international trade and FDI activity, the IBEA has brought new technology (technology transfer), design and management skill, skilled employment, capital, foreign currency and so on by which national productivity and competitiveness as well as living standard have been improved.

5.4.1 Foreign Direct Investment (FDI) Activity and Competitiveness

Vietnam has been successful in attracting inward FDI since it began economic reforms. FDI has been an important part of the economic transition, business liberalization and improvement of the national productivity as well as economic growth and living standard in Vietnam over the last decades. From the early years of the reform, Vietnam’s leadership attached prime importance to FDI as a way to
mobilize external resources for achieving national development objectives\(^{77}\). The Law on Foreign Investment, passed in 1987\(^{78}\), formed legal frameworks and facilitated a foreign investment wave to Vietnam from developed and NICs countries in 1990s. A number of positive attributes were recognized in Vietnam, including the abundant cheap labor force, the relatively high levels of education, plentiful resources, and so on. Waves of foreign investors entered Vietnam, seeking to harness different areas of business potential (Figure 5.9). The figure shows that Vietnam has been one of the most attractive destinations of inward FDI in the region.

**Figure 5.9: Inward FDI (% of GDP)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Vietnam</th>
<th>China</th>
<th>Thailand</th>
<th>Malaysia</th>
<th>Philippines</th>
<th>Singapore</th>
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<tbody>
<tr>
<td>1985</td>
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<td>1987</td>
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<td>2003</td>
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<td>2005</td>
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</tbody>
</table>

Source: UNCTAD 2006

*FDI has played an important role in restructuring the economy.* At the same time, there have been significant shifts in the destination of FDI by sector. Be-

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\(^{77}\) The emphasis was partly a result of Vietnam's recognition that it had been left further behind from other fast-growth economies in the region, which had been using FDI successfully for their development objectives (Le Dang Doanh, 1996)

\(^{78}\) Its later amendments in November 1996 and 2000
Between 1988 and 1992, oil and gas and real estate accounted for more than half of actual inflows, while the share of the manufacturing sector was only about 15% (Jenkins 2006). However, over time, the share of manufacturing has risen significantly. At the end of 2006, the manufacturing sector accounted for 69% of the total registered capital. As a result, the manufacturing by the foreign-invested sector accounted for 37.5% of total manufacturing value, an increase from 18.1% in 1995, while the share of oil and gas and real estate has fallen to between a quarter and a third of the total. Agriculture, which provides the bulk of employment in Vietnam, has not attracted much FDI and accounted for only 1.41% of total investment registered capital in 2006. There has also been a shift in the motivation behind manufacturing FDI. In the early years of Vietnam’s reform, almost all of the projects were oriented toward the domestic market. Between 1991 and 1997, there was a significantly higher share of export-oriented projects but their share fluctuated from year to year. By 2006, the majority of new projects were export-oriented due to the Government’s export-oriented policy.

Foreign-invested sector has been considered a major source of technology transfer and R&D in Vietnam in recent years. To improve technology transfer through FDI, Vietnam has been trying to attract FDI into high-technology sectors and to promote foreign investors to bring state-of-the-art technology by using tax incentives. For example, FDI in new materials, high technology and R&D fields will be granted a preferential corporate income tax rate of 10% for a ten-year period; a four-year tax holiday of corporate income tax from their profitable operation and 50% reduction of corporate income tax for the following four years shall be applicable.

In Vietnam, technology transfer differs among sectors and industries (Nguyen 2004, p112). In services (such as banking, insurance, tourism etc.), technology transfer is the clearest. Foreign investors in finance area, in hotels and restaurants have brought and used their managerial skills in conducting service activities which are similar to that in their home countries. In the manufacturing area, technology transfer does occur, as there is a gap in technology brought by foreign investors and that is currently used in Vietnam. Generally speaking, most technology used in foreign-invested firms is at the medium level of the world (Bui 2000, pp. 63). In agriculture, fishery and forestry areas, technology transfer has been under the form of demonstrating and diffusing new seeds, new cultivation and production methods and new kinds of activities (Nguyen 2004, pp. 114).

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79 Own calculation using statistics data from GOS, Vietnam
In general, the technology level in foreign-invested firms is higher than that in domestic companies and its level is equal to regional average level. The presence of foreign investors has brought the spillover of the economy such as increasing productivity and competitiveness, learning management experiences, designing products, marketing strategy, etc. The current survey of 154 respondents we conducted early in 2007 also indicates that FDI has been a significant source of new technology in Vietnam (Annex 6)

*FDI has contributed to expanding export markets.* FDI has been playing a leading role in bringing rapid export-based growth. Strongly rising exports have fuelled the region's highest growth of the Vietnamese economy. The correlation between export growth and FDI inflows is often relatively strong (Figure 5.10). Vietnam would probably not have experienced the rapid acceleration of exports in the past decade without the presence of foreign investors. Through export-oriented FDI, Vietnam has been shifting toward a manufacturing-based economy in which economic growth has been driven by rapidly expanding exports.

*Figure 5.10: Export Growth and Inward FDI Inflows*

![Graph showing export growth and inward FDI inflows from 1991 to 2005.](image)

Source: ADB and UNCTAD 2006
Figure 5.11: FDI Inflow as a Percentage of Fixed Capital Formation

Source: UNCTAD and IMF

Figure 5.12: Inward FDI Stock (US dollar million)

Source: UNCTAD 2006
FDI inflow has become a significant capital resource of economic growth in Vietnam in the beginning period of the reform process. In the early 1990s, the FDI inflow share of fixed capital formation increased sharply from 0.64% in 1989 to 49.22% in 1994. The FDI share accounted for an average 30.8% of the fixed capital formation in the period 1990-1999 and declined only to an average 12.06% of the capital formation in the period 2000 and 2005. The share reached to the highest, 49.22%, in 1994 (Figure 5.11). The declined trend of FDI capital can be explained by strongly increasing domestic capital resource due to a high national saving rate.

5.4.2 International Trade Activity and Competitiveness

Over the past 15 years, international trade of Vietnam has been liberalized. Although the foreign trade is still considered to be restrictive to protect specific industries, almost all companies have rights to carry international trade activities. Non-tariff import restrictions which create trade distortions have been gradually abolished. The most favorable mechanism has been applied to exports. Various export promotion measures have been introduced such as allowing private rice exports, the auctioning of garment export quotas, the provision of financial incentives to exporters, the removal of restrictions on foreign invested enterprises to export, the elimination of many export taxes, and the establishment of the Trade Promotion Department, etc. Trade reform helps the private sector by enhancing its access to imported inputs and to export outlets. Liberalized trade, as well as easier domestic and foreign private entry, would increase competitiveness and create incentives for increasing efficiency. Obviously trade reform not only increases competitiveness and transparency, but also raises returns to export agriculture products and encourages investors to move into more productive areas in Vietnam. As a result, Vietnam has performed well in international trade. Total value of imports and exports reached $84.2 billion in 2006, compared with $5.15 billion in 1990. Exports increased from $US2.4 to $US39.8 billion between 1990 and 2006. An average growth of exports and imports between 1990 and 2006 was highest among ASEAN-4 countries and China, 20.2% in export and 19.8% in import, compared to 14.6% and 12.9% for Thailand, and 19.2% and 17.3% for China respectively (Table 5.5). Vietnam has been considered one of the most open economies in the region. The openness of the Vietnamese economy increased steadily from 0.5 to 1.39 between 1990 and 2006 (Figure 5.13). The openness in

81 Circular No 57/CĐ 31.7.1998 and amendment 46/2001 turned point foreign trading rights, under the Circular all firms have rights to implement international trade activity following listed areas

82 The openness of economy (simple method) is calculated as the ratio of the total value of exports and imports to Gross Domestic Product (GDP)
Vietnam is far higher than in China, in Indonesia and in the Philippines. It figures that the Vietnamese economy become more open and more liberal over time.

**Figure 5.13: Openness of Economy**

![Bar chart showing openness of economy](chart.png)

Source: Own calculation using data from ADB and IMF 2007

**Table 5.5: Growth of Foreign Trade in Selected Countries, 1990-2006**

<table>
<thead>
<tr>
<th></th>
<th>Average Growth Export (1990-2006)</th>
<th>Average Growth Import (1990-2006)</th>
<th>Export as % of GDP</th>
<th>Import as % of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vietnam</td>
<td>20.15</td>
<td>19.76</td>
<td>37.15</td>
<td>65.30</td>
</tr>
<tr>
<td>Thailand</td>
<td>14.57</td>
<td>12.94</td>
<td>27.96</td>
<td>63.28</td>
</tr>
<tr>
<td>China</td>
<td>19.2</td>
<td>17.3</td>
<td>16.01</td>
<td>48.2</td>
</tr>
<tr>
<td>Malaysia</td>
<td>13.91</td>
<td>13.56</td>
<td>69.04</td>
<td>107.80</td>
</tr>
<tr>
<td>Philippines</td>
<td>11.57</td>
<td>10.24</td>
<td>18.53</td>
<td>39.97</td>
</tr>
<tr>
<td>Indonesia</td>
<td>9.72</td>
<td>9.80</td>
<td>20.42</td>
<td>27.64</td>
</tr>
</tbody>
</table>

Source: Own calculation using data from ADB, Key Indicators (2007) and IMF (2007)
Trading rights before 1989 were essentially characterized by the state monopoly in foreign trade. Since 1989, in line with the market oriented reforms, the entry into trading activities has been gradually relaxed. However, up to 1997 the conditions for entry were still very restrictive. In 1992, for example, firms were required to have foreign contract, shipment license, sufficient working capital, business license, and trade experience. In 1997, the conditions were reduced to having sufficient working capital, business license, and trade experience. The monopoly position of the SOEs in foreign trading activities has been gradually weakened and the abolishment of trade license in 1998 was a most significant step forward in trade liberalization. Further relaxation can be observed in 2001 (Decision 46/2001/QD-TTg). Under the decision all domestic enterprises have been allowed to trade commodities or items freely, except those prohibited or under specialized management. The number of enterprises registered for trading activities increased from 2,400 in early 1998 to about 18,000 in early 2004. Since 2002, the foreign invested enterprises have also been granted the right to export goods other than those they produce.

Tariff and non-tariff system The import tariffs were first implemented in 1988, but with the simple duties system covering only 130 commodity categories with the
tariff rates of 0 per cent to 60 per cent. Since then, frequent changes in the tariff system have been taking place. In 1989, the maximum tariff increased to 120 per cent for some luxury goods and tariff coverage was reduced to eighty commodities. In December 1991, the (new) Law on Export and Import Duties was approved. The new law distinguishes the normal tariffs from the preferential ones. The preferential rates with lower tariff levels (50 per cent of normal rates) have been applied to exported or imported goods to or from countries that have signed trade agreements with Vietnam.

In recent years, while the trading rights have been liberalized to a very significant extent and the coverage of non-tariff barriers (NTBs) has been reduced substantially, the tariff structure has not changed significantly (Table 5.6). Since 2000 there has been an increase in the average tariff rate due to the tariff rate of some goods that had been subject to quantitative restrictions (Vo 2005, pp. 76). Though the average rate of all tariff lines is not high compared to China and Thailand, and the low tariffs cover a big share of imported items, the imported items and the state budget revenue from tariffs have been mainly concentrated in the items with the rates of 20 per cent or more (Ibid., pp. 77). Moreover, the tariff structure has been characterized by the heterogeneity and high dispersion, in which the high tariffs have been generally applied on several finished or consumer goods.

In order to promote exports, Vietnam has implemented several measures such as zero export duty, tax exemption, export credit, and especially the duty drawback scheme. Under the duty drawback scheme, exporters pay duty on their inputs and are reimbursed for the share of imports used to produce exported goods.

### Table 5.6: Nominal Tariffs Rates and Dispersion in Selected Asia Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Total lines</th>
<th>Tariff bands</th>
<th>Range tariff</th>
<th>Average tariff</th>
<th>Dispersion rate (CV)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vietnam (Sep 2003)</td>
<td>10,689</td>
<td>16</td>
<td>0-150</td>
<td>18.53</td>
<td>120.78</td>
</tr>
<tr>
<td>China (2001)</td>
<td>5,098</td>
<td>57</td>
<td>1-122</td>
<td>17.48</td>
<td>71.3</td>
</tr>
<tr>
<td>Thailand (2002)</td>
<td>5,110</td>
<td>45</td>
<td>0-80</td>
<td>18.48</td>
<td>84.4</td>
</tr>
<tr>
<td>Malaysia (2001)</td>
<td>5,106</td>
<td>45</td>
<td>0-1195</td>
<td>10.2</td>
<td>340.3</td>
</tr>
<tr>
<td>Philippines (2001)</td>
<td>5,112</td>
<td>38</td>
<td>0-60</td>
<td>7.6</td>
<td>93.9</td>
</tr>
<tr>
<td>Indonesia (2001)</td>
<td>5,056</td>
<td>56</td>
<td>0-170</td>
<td>8.42</td>
<td>127.8</td>
</tr>
</tbody>
</table>

Source: Jurgen Wiemann, 2006, p177

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84 The preferential rates are applied for about eighty countries that cover about 75 percent of Vietnam’s total imports.
Non-Tariff barriers to trade (NTBs) exist in Vietnam in the following categories: Quantitative restrictions (QRs) Import quotas and licenses Vietnam has reduced the use of QRs substantially. At present, only petroleum products and sugar are still subject to licensing while the government has committed itself to lifting quotas on sugar imports by 2005. SOE dominate in imports that are regulated by QRs due to only a few private enterprises which are able to pass the strict procedures.

Foreign exchange regulations: Foreign exchange control has been loosened in recent years. The foreign exchange surrender requirement for trading businesses came down from 80% in 1998 to 40% in 2001. Foreign investment enterprises now can purchase foreign currency from domestic banks to repay loans obtained from offshore banks. Notwithstanding, although officially all firms are enabled to buy foreign currency from banks, in fact, only large companies, most SOEs, receive foreign exchange from state-owned commercial banks.

De-facto NTBs: Vietnam has made the first steps through the new Law on Customs Valuation. It introduces the internationally required Transaction Value as a basis for the valuation of imported items according to WTO law. So far, the new law lacks some important specifications. Since six additional valuation categories have been introduced as alternative means of valuation instead of valuation standards with different priorities, the Vietnamese valuation system has not yet complied with WTO standards. As necessary transparent valuation rules and procedures have not yet been implemented, customs offices still provide fertile ground for arbitrary classifications. In theory, the Law on Customs Valuation sets solely one tariff rate for a certain item. But in practice, different tariff levels are applied to the same product in different provinces due to the fact that customs offices in the provinces work rather “independently”. The problems of customs valuation were discussed at length at the meetings of the Working Party on Vietnam’s access to the WTO. Some members noted that Vietnam’s customs procedures have been complicated and at times unpredictable depending on the discretion of customs officials. Therefore, a predictable environment for investment in international trade activities is missing (Wienmann 2006, pp. 75). However, Vietnam has applied for an extended transitional period to fully implement the Custom Valuation Agreement (CAV) due to the required experience, expertise, knowledge, technical facilities, and equipment.

5.4.3 Assessment of International Business and Economic Activities

Inward FDI attracting activities Vietnam has performed well in attracting FDI inflow since 1990. The FDI inflow to the country has been higher than the Philippines and Indonesia due to the abundant low-cost labor and the reform policy of the economy. Nevertheless, the strategy to rely solely on low-cost labor is risky and fleeting. Investors are likely to shift their production sites to other destinations as their wages become higher compared to other countries. This is especially likely if the host country lacks other factors that are particularly attractive to foreign investors, such as a huge market potential, good infrastructure, as in the case of China, or solid domestic industrial base, which would offer the advantage of agglomeration for foreign investors.

In practice, the investment environment in Vietnam has been less attractive than in China and Thailand. The Figure 5.12 shows clearly that FDI inflow to China and Thailand has been far higher than that to Vietnam over time. Undoubtedly China has been the most attractive destination because of the huge market potential and low-cost labor. Notwithstanding, Vietnam is still attractive for locating skill-incentive processes. The skill-incentive processes seem to be the most plausible way for Vietnam to take part in the division of labor in East and Southeast Asia, which is emerging in some of the most dynamic industries (Ohno and Nguyen 2005).

International trade activities In recent years, the government has acted to codify practices in law and greatly supported increased transparency of the trade regime. Only fifteen years ago it could be said that there was virtually no trade regime in Vietnam, as most trade decisions were centrally determined. Incentives, taxes and conditions for trade such as licenses and quotas were irrelevant in shaping responses because individuals and firms had no capacity to respond. In recent years, Vietnam’s trade regime has been completed as a basis for trade activity needs. It could be argued that conventional trade barriers as they are understood in a modern economy now exist and are relevant as an indication of just how far Vietnam has come in liberalizing trade. The Government has implemented its commitments to push the scheme of trade policy reform and liberalization further. First, as trading rights are further liberalized and private firms get a larger share of export quotas, there has been greater competition among trading firms and much greater access to the domestic private small and medium-sized enterprises (SMEs) to imported inputs and to export outlets. Second, as non-tariff import barriers, like import-licensing, are improved, the import regime has been more transparent, access to imports by firms more equal, and tradable goods more price-responsive. Third, state-owned enterprises have been exposed to more discipline and competitiveness. Fourth, lower import protection and lower implicit and explicit taxes on
exports have improved incentives for investors to move toward processed agriculture and manufactured exports. These steps have improved transparency, reduced rents to state enterprises, expanded access to international markets from all importers and exporters, as well as increased competitiveness of the firms and the economy. Nevertheless, Vietnam’s trade regime has still operated within a rather comprehensive framework of trade barriers with efforts to promote exports as well as to protect import-substitution products. This kind of trade regime has some problems associated with the efficiency in resource allocation. Administrative rigidities and delays in the customs administration have continued to remain an important de-facto NTBs. It takes time to do customs procedures and hence raise transaction costs of enterprises. These costs arise not only through delayed customs procedures but also through unofficially required extra payments, which seem to be a common practice (Wienmann 2006, pp. 70). Cumbersome customs procedures have been an obstacle for doing international trade in Vietnam. High administrative costs for delayed and opaque certification and licensing procedures are still a difficulty, especially for private and foreign invested firms. The survey conducted by WEF shows that the customs regime in Vietnam lags behind Thailand and China (Figure 5.15). The indicator, Vietnam’s openness of customs regime, scores 2.6 compared to 4.0, 3.9 and 4.7 in China, Thailand and Malaysia respectively. The survey we conducted indicates a consistent result that customs procedures are emerging as an obstacle in international trade activities (Appendix 6). These restraints represent a considerable disadvantage for Vietnamese firms in term of competitiveness on international markets and hinder the development of the private business sector (Ibid., pp 73).

Figure 5.15: Customs and Hidden Barriers

![Graph showing customs and hidden barriers]

Source: WEF Survey, 2004-05
5.5 Company’s Strategy and Operation (Competitiveness)

An economy cannot maintain competitiveness unless companies operating there are competitive, whether they are domestic firms or affiliates of foreign companies (Porter 2004, pp. 21). Since Vietnam began its reform process, its economy has become a multi-stakeholder one, from the entire dominance of SOEs to the emerging of private and foreign invested firms. In line with the decline of inefficient SOEs, private and foreign invested firms have been playing an increased role in improving productivity and competitiveness because of their efficient operation. As a result, they have been as an engine of economic growth and living standards.

5.5.1 Company’s Development and Contribution

*Private Enterprise* The reform process in Vietnam has provided its private companies a robust energy. Private firms started expanding and formalizing, and the process has accelerated in recent years. As of December 2005, there were about 105,169 private firms, accounting for 18.6% percent of total value of production in manufacturing and 24.94 percent of total capital in all enterprises. Between 2000 and 2005 private investment increased from 12 percent of GDP to over 17 percent, with the domestic private sector being specially buoyant in recent years. As a result, it has created a massive amount of jobs, allowing for the absorption of 1.4 to 1.5 million entrants to the labor market every year, accounting for 47.74% of the total labor force in enterprises (an increase from 29.42% in 2000)86.

The implementation of WTO commitments, as well as greater integration into ASEAN, will bring domestic firms on increasingly equal footing with foreign firms. Because domestic firms differ in their ability to withstand and benefit from greater competition, the gradual leveling of the playing field will have different consequences across sectors. The government is only now starting to build a capacity to analyze industrial linkages and value chains within Vietnam, and across national borders, in order to identify the influences on various industries and strategize the liberalization process and steps.

The impressive performance of private enterprises is partly due to a radical simplification of bureaucratic procedures. The Enterprise Law 2000 (now Unified Enterprise Law) has been protecting the right of citizens to establish and operate private businesses without needless official intervention. Notwithstanding, admin-

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86 The above collected data is available at http://www.gso.gov.vn/default_en.aspx?tabid=491
Administrative procedures at both national and local levels still leave inconsistencies, gaps and overlaps in authorizing an investment and a new business.

The weak legal framework for bankruptcy and insolvency does not promote the restructuring of the SOEs and SOCBs and prevents valuable resources such as land from being released for use by other businesses. A typical bankruptcy process in Vietnam takes five years, costs up to 15 percent of the property value and has a recovery rate of only 18 percent of the redeemable value. The Civil Law permits creditors to foreclose on debtor’s collateral as it has an event of default. As a result, there have been very few cases of formal bankruptcy brought to court (World Bank 2007b, pp. 74-77).

The development of long-term capital markets possibly does not do much to improve the access to finance by small and medium enterprises (SMEs). One of the distinctive features of Vietnam’s business activity is precisely its “missing middle”, meaning that the overall distribution of enterprise by size is skewed toward either very large ones (mainly SOEs and foreign firms) or very small ones. Nevertheless, the missing middle is being filled through entry of bigger enterprises and growth of existing small ones (World Bank 2006c, p.15-17).

*State-Owned Enterprises (SOEs)* In hand with the reform process in 1986, autonomy was given to SOEs to formulate and implement their own long-term, medium-term and short-term operating plans. In 1991, SOEs deemed inefficient or lacking capital and technology or not having sufficient demand for their products were forced to dissolve or merge with other units and the number of SOEs had been reduced to 6,264 by 1994 (Ibid., pp. 9). By 2005, Vietnam still had an unusually large number of SOEs compared to other countries in the region (except China), around 4,086 firms and these enterprises account for 54.96% of total capital in all enterprises (a slight reduction from 67.13% in 2000).

From an initially slow start, ownership transformations sped up in 2003. The reduction of SOEs has been mainly through equitization by which the SOEs after IPO (initial public offer) operate under the Enterprise Law rather than the SOE law. The equitization of larger companies and the auctioning of their shares have succeeded in attracting outside investors. On average, the state holds roughly 46 percent of capital in equitized firms, employees own 30 percent, and outsiders 24 percent (World Bank 2007a).

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87 General Statistics Office (GSO), Enterprise Survey
88 Equitization is, in the case of Vietnam, understood to be privatization.
SOEs enterprises have made progress compared to the previous phase as they are given more autonomy to decide their business activities. Empirical evidences show that equitized SOEs have been doing business better than before they were equitized\textsuperscript{89}. It appears that SOEs have operated inefficiently. Not surprisingly, when we conducted our survey in early 2007, most of the respondents stated that SOEs' performance is poor. That is somewhat surprising that respondents from enterprises are evaluating lower compared to officials and scholars. Perhaps they have recognized their weaknesses of business activity in new context (Appendix 6).

Many of the SOE managers gaining control through this process are engineers by training with a specialization in their particular industry. This professional background enables them to master new technology as transferred by foreign investors to a joint venture and to implement it in production processes. Notwithstanding, they often lack business education and management skills, which limit their capacity to engage in fundamental management change, including the reorganization of work processes and the delegation of decision-making authority.

Due to political patronage from their respective authority, SOEs tend to be exposed to conflicting interests, including those of the state in general, their direct authority and their employees. This conflict leads them to pursue not only profits, but also a broader set of objectives, reflecting the interests of their various stakeholders. Obviously, there are crucial weaknesses hidden behind the relatively solid performance of SOEs in Vietnam. The most obvious one is the implicit transfer many of them receive from the rest of the society, by operating in sectors sheltered by tariffs and barriers to competition, by getting access to considerable amounts of land at low cost, and also by getting their bad debts rolled over or even written off. The profitability of SOEs would be lower if these costs, which are very real to society, were factored in.

\textit{Foreign invested enterprises} By 2005, there were about 3,697 foreign firms, accounting for a large share of the value of production in some industries, including oil and gas (almost 100 percent), automobile assembling (84 percent), electronics (45 percent), textile and garments (41 percent), chemicals (38 percent), steel (32 percent) cement (30 percent). They accumulatively accounted for around 57.8\% (2006) of the country's exports, 43.7\% of the country's total industrial output and 20.10\% (2005) of total capital in all enterprises, and they constituted almost 17.02\% of Vietnam's GDP.

\textsuperscript{89} A survey of 550 equitized SOEs conducted by World Bank in 2005, following a similar one undertaken two years earlier indicates that almost 90\% of those sampled reported an improvement in their financial performance.
The size of FDI enterprises have also changed over time. In 1996, the average size was about 23 millions dollars. But it declined to 5 millions in 2000, and to 2.5 millions in 2003. This said the size of FDI projects in Vietnam were relatively small by international standards. It is worth noting that only about 80 of the 500 biggest multinational corporations in the world have established a presence in Vietnam, compared to roughly 400 in China (World Bank 2006c).

Up to 1998, roughly two thirds of total FDI commitments were under joint venture, often with an SOE as the Vietnamese partner. There are several reasons for this bias. In the early years of the economic reform, SOEs were the only possible legal partners for foreign investors. And domestic private firms were still very weak anyway. Moreover, the privileged position of SOEs also made the joint venture modality more attractive, compared to green-field investments. SOEs have better access to commercial land, as well as good political contacts, which are essential in areas where the rule of the law is not fully established.

5.5.2 Assessment of Company’s Competitiveness

In order to assess the companies’ competitiveness, we can evaluate some indicators such as the company’s competitive advantage, value chain, and capacity of innovation.

*Competitive advantage* Companies are on the front line of international and domestic competition. They must increasingly compete regionally and globally. In Vietnam firms’ competitive advantage is based on business costs due to taking advantage of low price labor and natural resources. Export of seven principle commodities accounting for 40% of total exports (non-oil) are extracted mostly from natural resources and uses abundant labor force (Figure 5.16). The survey of WEF indicates that enterprises’ competitiveness in Vietnam is far lower than that in China and any other ASEAN-4 countries (Figure 5.17). A relatively similar finding we conducted shows that most respondents stated that Competitiveness of Vietnam’s firms in international markets is not primarily due to unique products and processes. The indicator scored an average of 2.95, on a scale from 1 to 7 where 7 is equivalent to the best (Appendix 6). Obviously, Vietnam’s companies need a strategy to compete in the long term as its economy is moving to the next stage of competitive development because low labor and natural resources based on competitiveness is fleeting.

*Value chain system*The value system is the entire array of activities involved in a product’s creation and use, encompassing the value chains of companies, suppliers, channels and buyers. Close and ongoing interchange with suppliers and channels is integral to the process of creating and sustaining competitiveness. Com-
petitiveness frequently comes from perceiving new ways to configure and manage the entire value system. Companies restructure or integrate their activities with suppliers, modify the strategies of channels, and recombine or integrate activities with buyers.\textsuperscript{90}

**Figure 5.16: Export by Principle Commodities (2006)**

- Textile products
- Marine products
- Wood and wood products
- Rice
- Rubber
- Coffee
- Coal

Source: ADB, Key Indicators 2007

Deeper insights can be gained by analyzing the way in which Vietnam’s companies actually operate and participate in the global and regional economy, either directly and indirectly. Those analyses show that Vietnam’s pattern of integration in world trade is faster than that of China and ASEAN-4 countries. But they also reveal a still insufficient integration of domestic companies in global and regional value chains (Ibid., pp. 29). Being consistent with the result by the World Bank, the outcome conducted by WEF indicates that value chain employing by enterprises in Vietnam is lower than China and any ASEAN-4 countries (Figure 5.17). It appears that exporting companies in Vietnam primarily is involved in resource extraction and assembling, and less in designing, producing and marketing sale as well as after-sale service.

One relevant question is whether Vietnamese enterprises can compete in global and regional markets or not while the vast majority of them is not directly involved in international trade. If it does not, then it would be difficult to claim that the Vietnamese economy as a whole is competitive. The emerging private sector is still, to a large extent, inward-oriented; only 9 percent of the sales correspond to direct exports (Ibid., pp. 34). This inward orientation is worrisome, given that the

\textsuperscript{90} See section 3.5 chapter 3
labor productivity of the average exporting enterprise is nearly twice as high as the average productivity of SMEs.

**Figure 5.17: Company's Strategy and Operation**

![Company’s Strategy and Operation Diagram](image)

Source: WEF Survey, 2004-05

A stronger involvement of private sector in the supply chains could help identify new overseas partners and establish higher quality standards. A small survey of enterprises conducted by the World Bank shed some light on the relationship between contractors and suppliers in Vietnam. The result shows that for a third of the contractors, the value of the inputs purchased was equivalent to more than half of their total revenue. The process typically involved a large number of sub-contracts with many different parties. The commercial relationship was even more important when seen from the suppliers’ end. On average, suppliers generated two thirds of their total turnover out of the business-to-business transaction (Ibid., pp 35).

**Capacity for innovation** Companies gain competitiveness over international competitors because they perceive a new basis for competing, or find new and better means to compete in old ways. It means that they must recognize the central role of innovation (Porter 1990). Innovation, in strategic terms, is defined in its broadest sense. It includes not only new technologies but also new methods or ways of doing things, which sometimes appear quite mundane. Innovation can be manifested in a new products design, a new production process, a new approach to marketing, or a new way of training or organizing. It can involve virtually any activity in the value chain. In a comparison with other indicators, the indicator of capacity for innovation was evaluated relatively high. In this regards, Vietnam’s
capacity for innovation was higher than that of Thailand and the Philippines, but still lower than China. Undoubtedly, Vietnam lags behind China in innovation, not only in technological innovation but also management and process innovation (see further in section technology development).

5.6 Government Role and Competitiveness

The Vietnamese government has been playing a significant role in robust economic growth as well as improvement of productivity and competitiveness through its policies since its beginning of the economy reform.

5.6.1 Development of Institution and Government Policies

Legal System Framework  In line with economic growth and productivity, Vietnam has been also going through a process of wider and deeper social and institutional transformation. Supporting this high-pace change demands adjustments in the legal framework and the judicial system. Over the two decades since the beginning of “Doi moi” process, Vietnam has made enormous progress in terms of developing its legal framework. Economic and civil relations have gradually become regulated by law and market practices instead of the administrative orders and disciplines of the former centrally planed economy. International commitments such as the US Bilateral Trade Agreement (BTA) and accession to the WTO, as well as the signing of numerous international conventions and agreements, have resulted in the accelerated issuance of the most important legal normative documents needed for the conduct of business. The currently promulgated new Unified Enterprise Law, Law on Common Investment, Law on Accession, Completion and Implementation of International Treaties have made a positive contribution in this respect, by establishing a procedure for the transformation of commitments into legislation. The last few years have been a particularly intensive legislative agenda. The number of laws passed by National Assembly increased from 8 in 2004 to 22 in 2005. Also, much has been accomplished in terms of increasing legal transparency. However, the progress in filling legal gaps remains uneven. The current legal framework reflects to a large extent Vietnam’s transition from plan to a market-oriented economy, less so the ongoing changes in relationship between state and society. On the positive side, there are now clear guidelines for the collection of comments from stakeholders directly affected by legal normative documents. On the negative side, the legal framework for activities of civil society organizations, including their involvement in the delivery of social services, can not be considered satisfactory.
In spite of carrying out later economic reform, Vietnam has had significant progress in changing public institution. The survey conducted by WEF in 2005 indicates that public institution in Vietnam is relatively higher than the Philippines, equal to China and Indonesia, and somewhat lower than Thailand (Figure 5.18). It reflects the improvement of efficiency of legal system and the independence of judicial system as well as the effectiveness of law-making bodies in Vietnam in recent years.

**Public Financial Management** Over the past decades Vietnam has made sustained efforts to establish a sound public financial management system. A first organic budget law was passed in 1996 and revised in 2002. A centralized treasury system was set up, with branches extending in 2002 from the central to all provinces and districts, to provide basic essential financial services to all government agencies. Steady progress was achieved in making the budget more predictable and the budgeting process more transparent. There is increased disclosure of information on detailed government spending as well as on expenditure policies, regulations and procedures. And a relatively prudent fiscal policy has been maintained throughout.

The implementation of the revised Law on the State Budget, which became effective in 2004, was one of the cornerstones of this reform process. The law clearly delineated the roles of the National Assembly and Provincial People’s Councils in budgets approvals and supervision. It also assigned the Treasury Department as the agency responsible for budget execution and for financial management infor-
In 2005 the entire State Budget Plan was disclosed for the first time, including an aggregate amount for defense expenditures. The trend toward disclosure was reinforced by Prime Minister’s Decision 192, which mandates that details of budgets at all levels of government be published within a stipulated time period, for all units using budgetary resources. Importantly, this decision introduces financial transparency in public investment projects. Allocation of funds to such projects must be based on approved investment plans, and details of the bidding process need to be made publicly available. Decision 192 also covers the disclosure of information on the financial situation of SOEs. The more recent Decision 232 extends disclosure to external debt levels twice a year.

Another important development was the transformation of the State Audit of Vietnam (SAV) into an independent institution reporting to the National Assembly. The Auditor General is now appointed and dismissed by the National Assembly and the audit report has to be made public. Annual auditing and the disclosure of the audit reports will also apply to SBV. The SAV audit reports were made public for the first time recently, triggering serious debates on the use of public resources. Auditing capacity remains weak, however, which makes it difficult to manage the increased scope of its tasks, including the compulsory audit of all SOEs, and precludes checking value for money.

The integration of capital and recurrent expenditures into a single budget, one of the main weaknesses of Vietnamese public financial management, has gradually improved. These two components of the budget are prepared by MPI and MOF respectively. The collaboration between these two ministries has been strengthened recently. The introduction of forward-looking budget plans as the background for annual submission to the National Assembly, together with the adoption of budget allocation norms for both capital and recurrent expenditures, have also led to greater coherence. But the separate preparation of the two components still hampers the effective management of resources. As a result, the composition of public expenditure remains unbalanced; in some sectors it could be argued that the share devoted to capital accumulation is too high. Processes for prioritizing expenditures remain ineffective, as they are conducted for capital and recurrent spending.
Administration Reform Vietnam has been implementing public administration reform (PAR). The PAR refers to improving the ways in which the civil service works, by better delineating the competencies and responsibilities of various government agencies, streamlining the steps and procedures required to make decisions, improving the mechanism by which the individuals in charge are selected, promoted and remunerated, and improving the relationship between government agencies and the rest of society (World Bank 2007a). Such is the meaning given to a better business climate by which the productivity and competitiveness of the country are enhanced.

The process of fundamental economic renewal has been carried out in Vietnam. Public administration under the new orientation is bound to differ considerably from the central planning model and consequently, its roles and functions need to be redefined. PAR, as an integrating concept, started to become prominent in the early 1990s; it was officially endorsed in 1995 at the Eighth Plenum of the Party Central Committee. The Master Program further specified its objective as building an effective and efficient public administration system in which cadres and civil servants have capacity to contribute to the country and to meet requirements of managing a market economy.
Since then, action has been taken to reorganize government functions, streamline administrative processes and strengthen accountability. Because these reforms are necessarily gradual, and nationwide implementation is still ongoing, actual impacts are still limited. But there have been incremental improvements in important aspects of public administration and public service delivery, and very negative developments.

Considering functional reorganization, several ministries and agencies have undertaken a comprehensive overhaul of their internal structure, adapting it to their new roles in the steering of a market economy. Importantly, service delivery units that have been separated from administrative reform, have increased the efficiency of limits such as hospitals. It has also made it possible to formalize and to some extent monitor undocumented payment. At the same time, this reform has led to some neglects of the services to be provided for free, and it may have resulted in excessively high fees where public providers do not face competition. Both developments have impacted negatively on the poor.

There has been clear progress in relation to the streamlining of government processes. The adoption of the one-door model has reduced red-taped and enhanced transparency. The intention is for the one-door model to be the main mechanism for citizens and business to interact with the public administration. As a result, transparency of the Vietnamese government is equal to Thailand and Indonesia, and still lower than China (Figure 5.21). In general, they have provided an accessible and recognizable entry point for people in need for administrative services. Procedures have been published and fees have been made more transparent. So
far, all 64 provinces have established the one-door model in at least one of their departments, as have 98 percent of all districts and 88 percent of all communes (Ibid., pp. 161-163). However, many locations or units that reported implementation are in fact only partially operational or apply the model in a perfunctory manner. There are also issues of financial viability and budgets, organization affiliation, and staff status and remuneration.

Better policies relating to government employment and pay have been developed, with the aim of providing adequate incentives while keeping the payroll affordable. The size of the administrative civil service in Vietnam is not particularly large. In spite of the limited size of the administrative civil service, a downsizing initiative was introduced by the PAR Master Program. Its objective was to remove poor performers and those who would become redundant as a result of functional reorganization. Retrenchment was accompanied by a severance package, but its design was not based on an assessment of earnings alternatives of the retrenched staff. In practice, the package did not seem attractive enough, judging by the reluctance of civil servants to leave. The dominant mechanisms for retrenchment became early retirement and reassignment to other non-civil service units promotions remain to a large extent based on seniority91. But a rotation policy was introduced for leaders, with a successful public management experience in the provinces becoming an important step toward advancement to positions of senior leadership.

Several measures have been undertaken to increase government accountability. Administrative courts, introduced in 1996, represent a major effort to protect the rights of citizens and businesses in relation to administration. However, after a decade in existence, their impact is well below expectations. Barely one thousand cases are processed every year, compared to more than one hundred thousands complaints submitted. The promotion of grassroots democracy was another important step toward increased government accountability at the commune level. The corresponding decree moved the reform focus away from the internal workings of the administration itself to involving the general population, as summarized in the slogan “The people know, the people discuss, the people implement, and the people monitor”. The decree is quite specific on the rights and responsibilities of citizens and officials, as it clarifies the areas and context where “knowing”, “discussing”, “implementing” and “monitoring” are to be a significant change in the way public administration relates to the public. But there is substantial variation in the actual implementation of the grassroots democracy decree.

The recent decree 43 aims at making service delivery units, for example hospitals, more accountable. One of the measures it introduces is the administrative monitoring of the services provided, so as to make sure that those supposedly free of charge are indeed delivered. The decree also reduces the incentive to charge excessively high fees, by capping the salaries of personal working for these units. Importantly, the decree introduces the notion of mandatory user feedback as a tool to access the performance of service delivery units. In principle, citizens and businesses should be consulted in relation to their satisfaction with services provided, including timeliness, quality, cost, and, potentially, unofficial payments. How this decree will be implemented in practice remains to be seen.

Figure 5.21: Government Transparency and Burden of Regulation

![Graph showing government transparency and burden of regulation](Image)

Source: WEF Survey, 2004-05

### 5.6.2 Government Role’s Assessment

The Vietnamese government has been playing a crucial role in enhancing its national competitiveness. The central goal of government policy toward the competitiveness of the Vietnamese economy is to deploy the nation’s resources with high and rising levels of productivity. It is not surprising when the government policies and forming public institution influence strongly on productivity and competitiveness within firms and industries because Vietnam still stands in the initial stage of economic development. In the last fifteen years, Vietnamese government has reached some remarkable achievements in establishing legal frameworks and public financial management as well as administration procedure reform. Nevertheless, the Vietnamese government management continues to have
many problems which create obstacles for economic development, especially for doing business.

**Legal system** Despite the significant progress of the legal framework, the legal system is still complex and inconsistent. Admittedly, the situation is nearly similar to most developing countries. But in Vietnam there is a clear need to improve the enforceability and the consistency of legal documents. Legal documents issued at different stages in the transition process coexist and in some cases overlap. The intense legislative activity of the last few years has resulted in the promulgation of around 200 implementation decrees, which in turn has led to a large number of guiding circulars, decisions and other regulations being issued by line ministries and local governments (Ibid., pp. 110).

Limited consideration of how legal provision will be implemented has also resulted in unrealistic laws and over-burdened service delivery. In this respect, there is a need for improved dissemination of laws to the lower levels of government, along with clearer guidelines on the interpretation, application and enforcement. This need is made even more pressing by the accession to the WTO, which will confront local authorities with a much changed environment for the product of business.

**Public financial management** Vietnamese government has made its efforts to manage its public financial system efficiently. Notwithstanding, there are many existing weaknesses. The lack of a fully consolidated budget makes it difficult to monitor total revenues and expenditures, as well as the true fiscal position. Extra-budgetary funds, on-lent official development assistance are not consolidated into the budget. Financial reporting with lacking and inaccurate data contributes to the poor flow of budgetary information between ministries, provinces, donors and the public.

The stability of government revenue has become an important concern, as a result of the trade liberalization commitments made to accede to the WTO. However, the impacts of these commitments will not be felt in the immediate future, as they do not entail the dramatic reductions in tariffs that could actually lead to increased revenue through a surge in imported volumes. Moreover, WTO commitments allow imposing low tariffs on a range of goods which are duty-free at present. With the emergence of small and medium enterprises, which are more difficult to tax, sustaining the same ratio of revenue to GDP will require increased efficiency in tax administration. The efficiency of tax system in Vietnam remains lower than in neighbors, scored 2.9 compared to 3.6 (China), 4.2 (Thailand) and 5.0 (Malaysia) (Figure 5.20).
Administration reform  In practice, progress on the narrower civil service reform agenda has been considerable. But it needs to be taken forward. Functional reorganization has allowed various ministries and agencies to adapt their structure to their new stewardship role in a market economy; it has also led to the separation of administrative bodies from service delivery units. In the future it could move in the direction of better coordinating policy making across ministries and agencies. Simplification of procedures has relied, to a large extent, on the introduction of the one-door model, which has proven successful. Looking forward, the introduction of common standards for information technology (IT) applications within the government should facilitate the introduction of e-government, and help move in the direction of a single identification number for enterprises and a single social insurance number for individuals. Pay policies have brought remuneration in the civil service closer to the relevant market alternatives; overall, civil sector salaries have caught up and have been decompressed. The next step should be to de-link the civil service remuneration scale from minimum wage applying to the business sector. The current link may result in unwarranted adjustments to government pay, especially at a time when the minimum wage must increase rapidly, due to WTO commitment. Progress in term of increasing accountability has been more limited. Both the introduction of administrative courts and grassroots democracy decree were promising steps.