



#Vietnam2035

Vietnam 2035: Toward Prosperity, Creativity,
Equity, and Democracy
with *Bui Quang Vinh*

Institute for
International
Economic Policy

THE GEORGE WASHINGTON UNIVERSITY



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Vietnam 2035 Report: TOWARD PROSPERITY, CREATIVITY, EQUITY, AND DEMOCRACY



VIETNAM 2035

**Toward Prosperity, Creativity,
Equity, and Democracy**

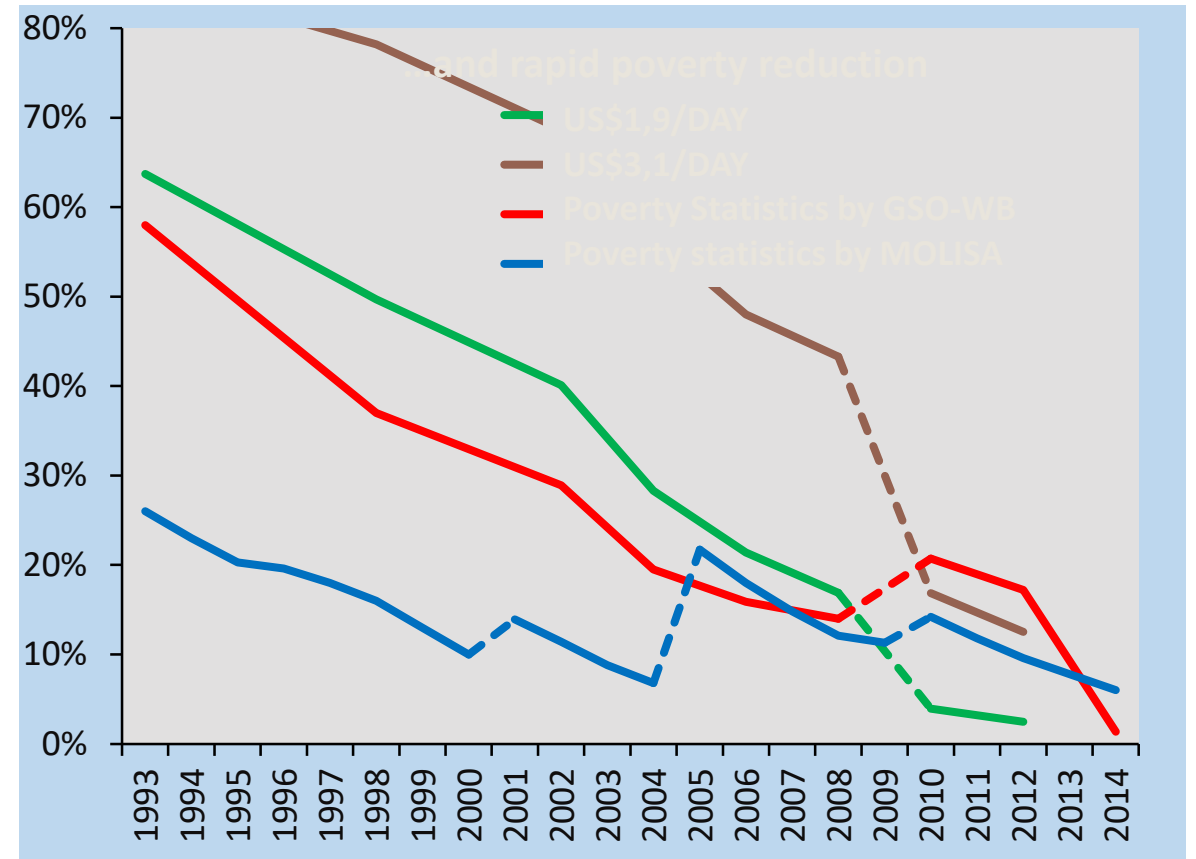
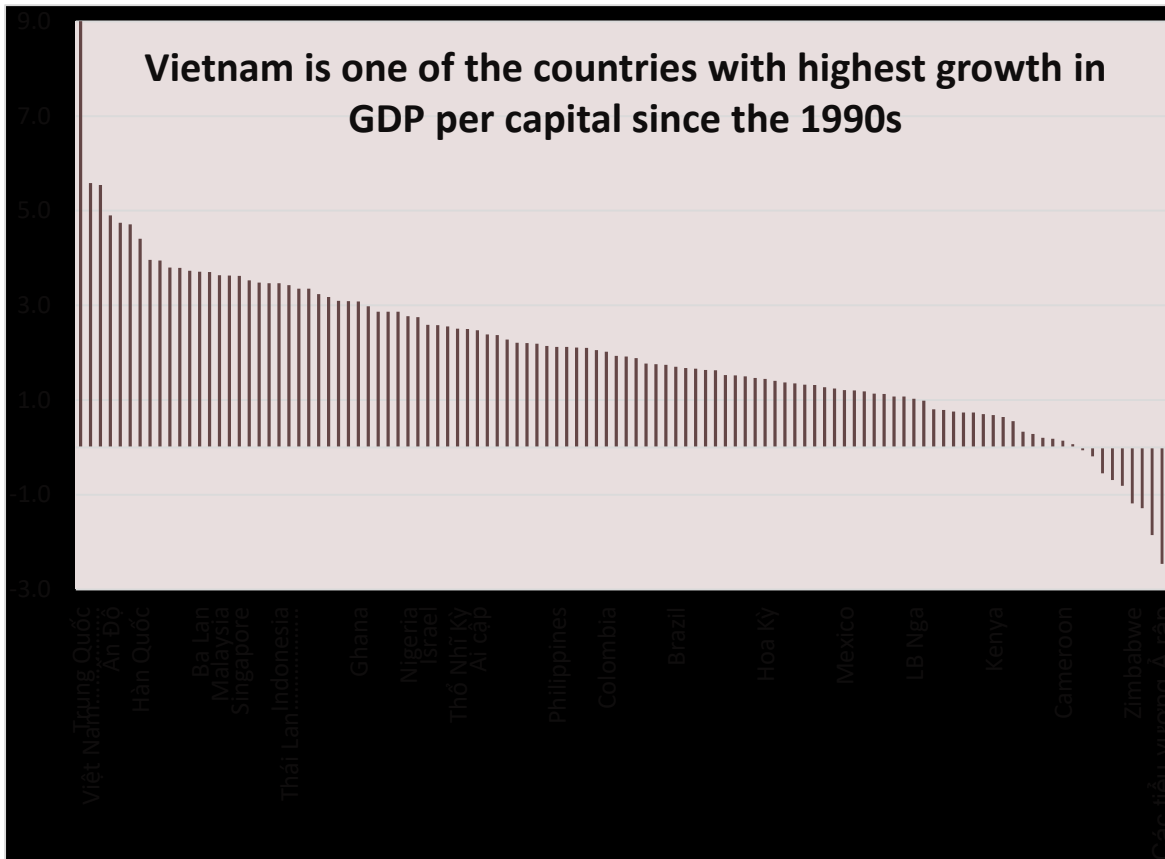


VIETNAM 2035 REPORT



Vietnam is a success story in the world in the recent past

Rapid growth and comprehensive development. bringing about prosperity and remarkable poverty reduction achievements



Outstanding Achievements

1. GDP per capita has been growing at an average rate of 5,5% in the last two decades (1990-2015: GDP growth rate was 6,6%), In 1990. the value of the economy was US\$ 6 billion. and in 2015. the figure was US\$ 193,4 billion (31 times the size of the economy in 1990)
2. In 1990. Vietnam's GDP per capita was US\$ 100. and in 2015. the figure was US\$2.109, Vietnam officially became a middle-income country in 2009, More impressively. the income of the bottom 40% of the population has been increasing at the rate of 9%/year, Poverty rate has gone down substantially. with strong declines in various poverty indicators
 - Vietnam's lower secondary education has reached world standards,
 - Life expectancy has increased from 65 to almost 74 in 2 decades
 - The electrification rate is 97% nationwide. and the figure is 95% for rural areas, Food production: from food shortage to food export

...but Vietnam has been lagging behind in terms of income and size of the economy

1. After 15 years. Vietnam's income per capita increased to US\$ 1.600, Thailand US\$ 3.600; Malaysia US\$ 6.500; South Korea US\$ 16.000

2. After 15 years. Vietnam's GDP only increased to US\$ 160 billion, Thailand: US\$ 270 bn; Malaysia: US\$ 200; Indonesia: US\$ 700; South Korea: US\$ 850,

Country	Average income per capita in 2000 (in US\$)	Compared with Vietnam (times)	Average income per capita in 2015 (in US)	Compared with Vietnam (times)
Vietnam	433	1.0	2,109	1.0
Thailand	1,969	4.5	5,620	2.7
Malaysia	4,005	9.2	10,570	5.3
Philippines	1,043	2.4	3,540	1.4
Indonesia	790	1.8	3,440	1.7
South Korea	11,948	27.6	27,440	13.6

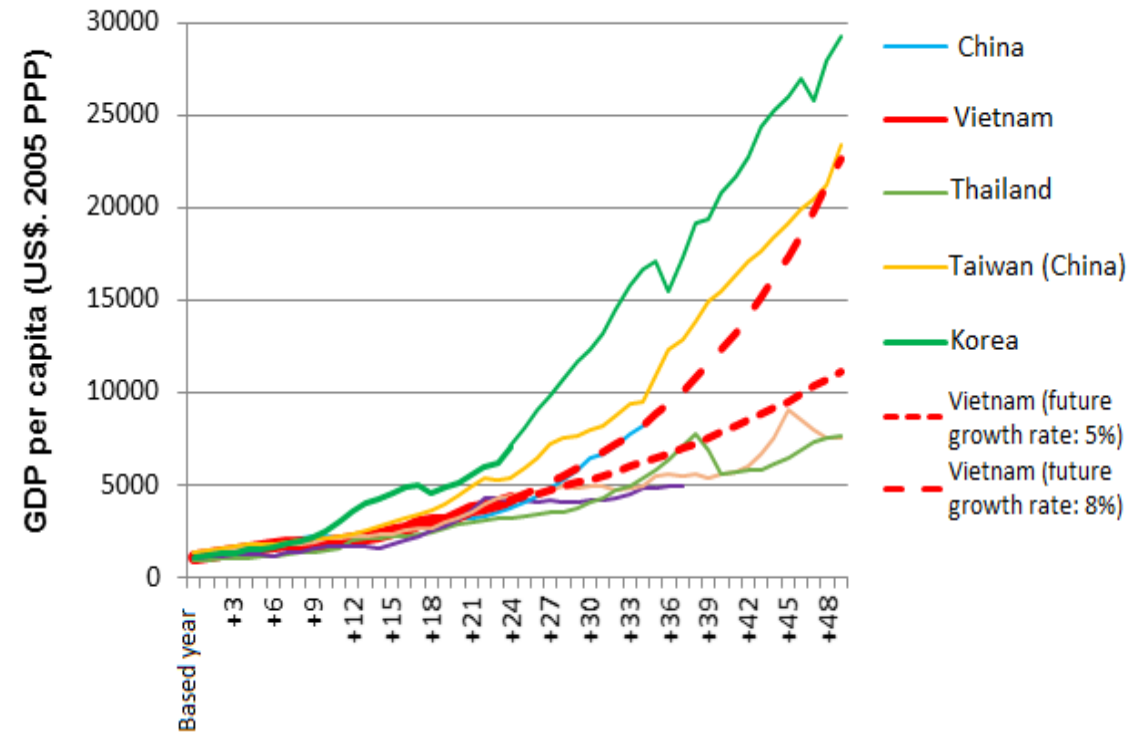
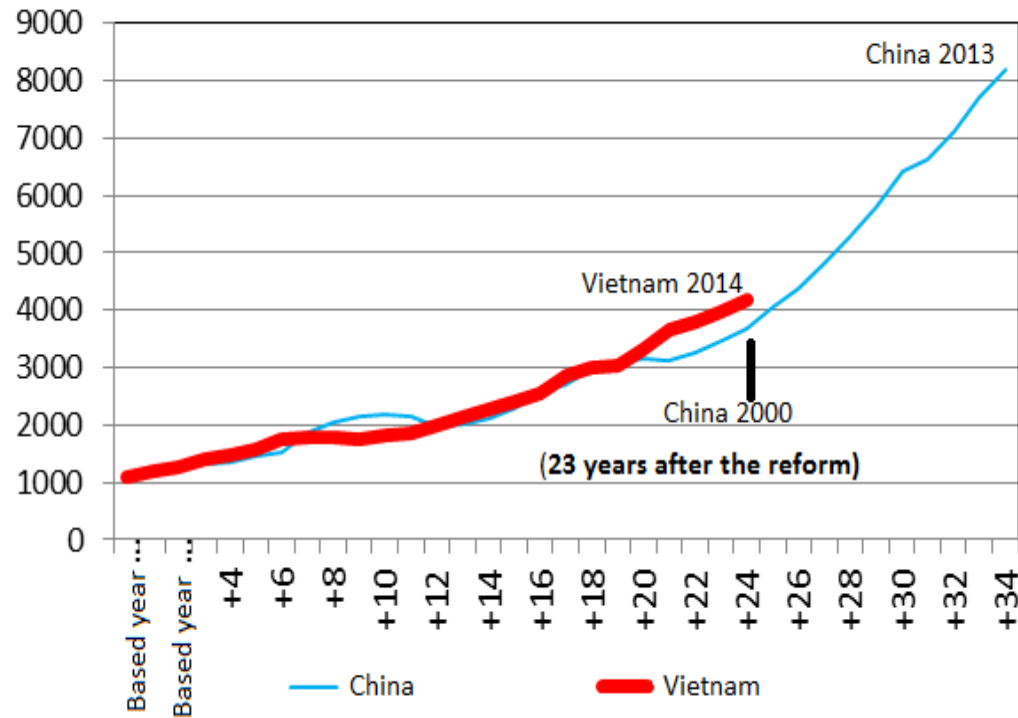
Country	GDP in 2000 (US\$ bn)	Compared with Vietnam (times)	GDP in 2015 (US\$ bn)	Compared with VN (times)
Vietnam	33.6	1.0	193.6	1.0
Thailand	122.7	3.6	395.2	2.0
Malaysia	93.8	2.8	296.2	1.8
Philippines	81.0	2.4	291.9	1.5
Indonesia	165.0	4.9	861.9	4.8
South Korea	561.6	16.7	1377.8	7.6

Source: For International statistics – World Bank; For statistics on Vietnam: General Statistics Office (GSO)

Compared with countries in the region and in the world: Vietnam is lagging far behind

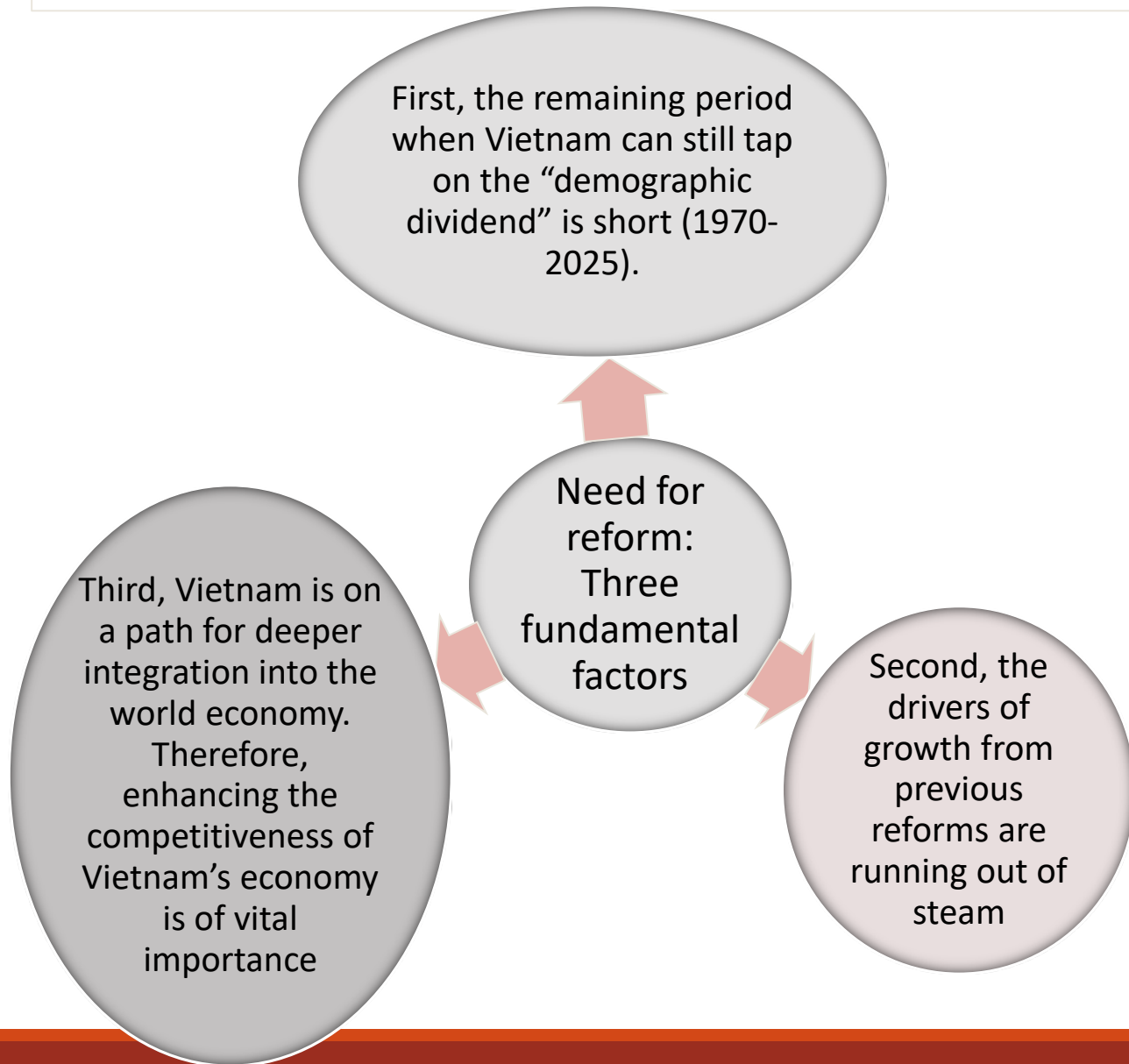
Keeping on course for catch-up: Vietnam and global comparators:

1. Vietnam has been on a GDP growth path that is quite similar to that of China, and in 2014, Vietnam reached the GDP per capita level that China achieved in 2000;
2. Experience from some other countries shows that in order to “catch up with comparators”, Vietnam has to maintain a high growth rate (up to 8%/year)¹



The base year is the year when growth was accelerated in each economy: 1977 for China; 1990 for Vietnam; 1962 for South Korea; 1958 for Thailand, 1951 for Taiwan (China) and Brazil, and 1969 for Greece

Need for reform and opportunities



1. **Bilateral, regional, and supra-regional trade agreements** - AEC, TPP, EU-VN FTA, and maybe RCEP and FTAAP
2. An **emerging China**, there are expected to be 1 billion people in the affluent middle class in 10 years – besides, the pressure from rapid wage increase will drive industrial production activities at the low end of the value chains to be moved to other countries.
3. New technological and business **innovations** globally such as solar energy, 3D printing, robot, next-generation genome sequencing, are presenting Vietnam with opportunities and challenges
4. **Vietnam’s rapidly emerging middle class**: More than half of Vietnam’s population are projected to join the ranks of the **global middle class** by 2035
5. **Unfinished economic modernization agenda** will present the opportunity for further reforms led by the private sector, with a focus on productivity improvement

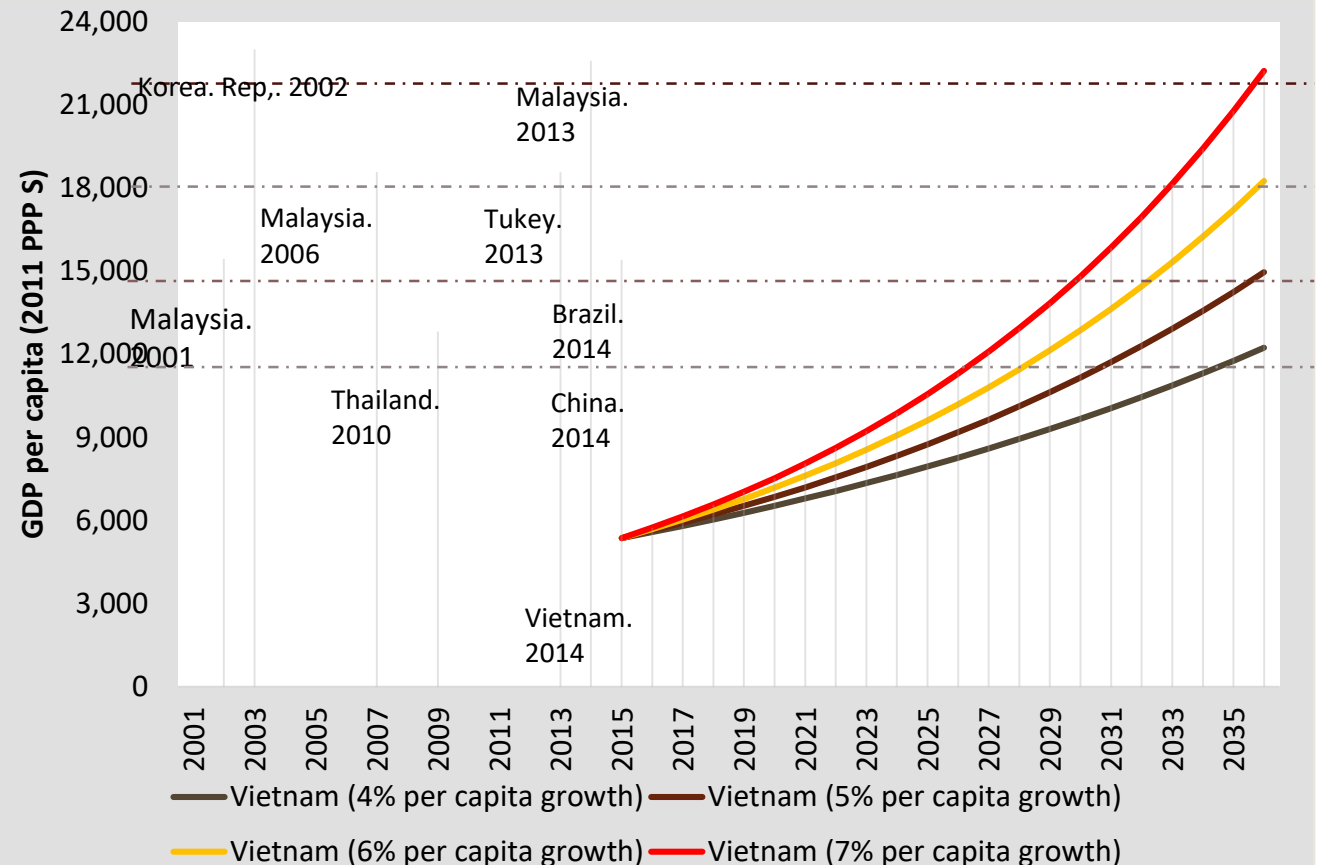
So the questions are...

- **What will be the future of Vietnam in 20 years' time**
- **What are Vietnam's aspirations for 2035?**
- **What needs to be done to achieve the aspirations by 2035?**

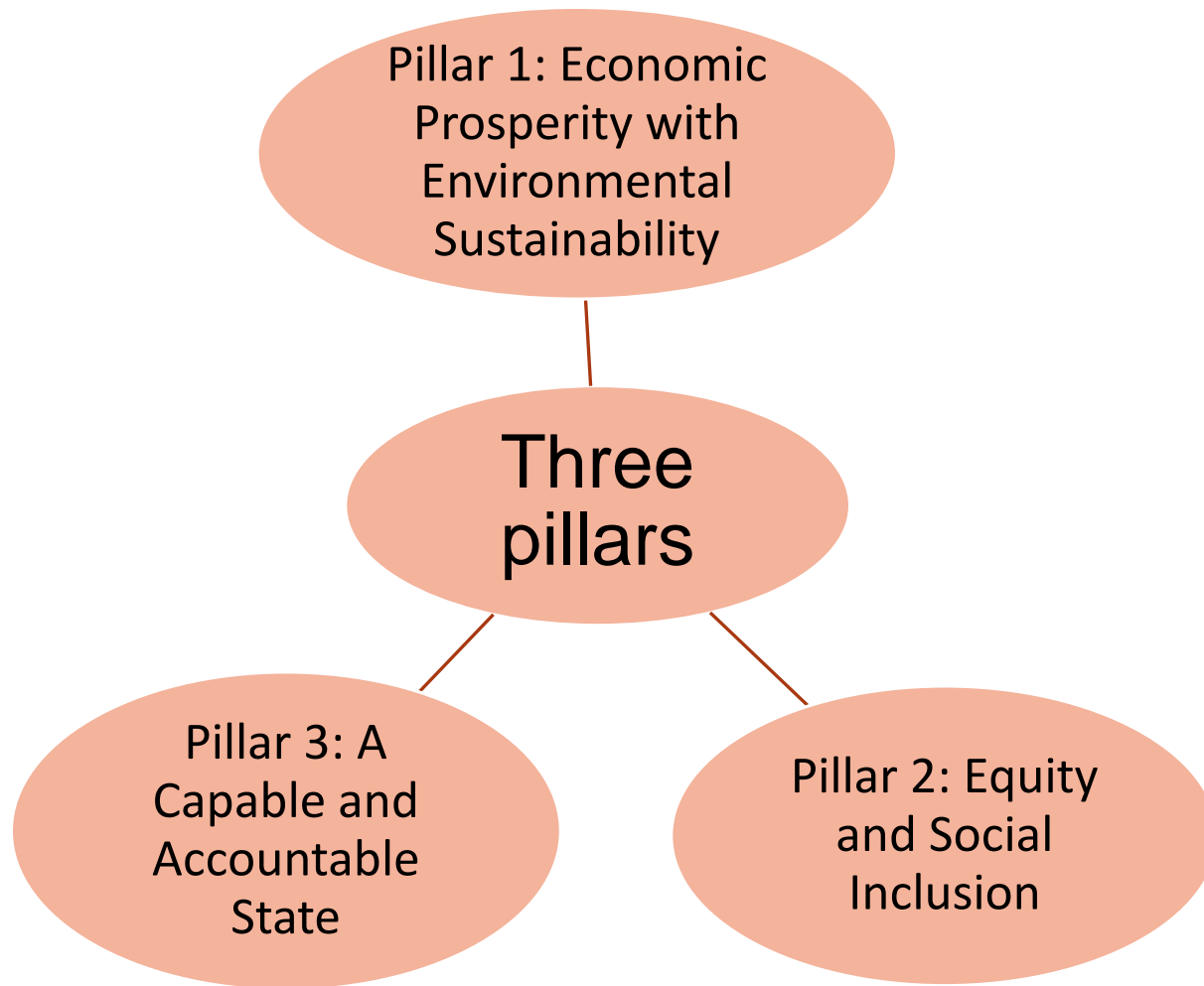
Vietnam's Aspirations and Recommendations on Reform Measures

By 2035, Vietnam will be a higher-end middle income country (with GDP per capita PPP ranging from US\$ 15,000 to US\$ 22,000, corresponding to the different scenarios for GDP per capita growth, to become a prosperous, creative, equitable, and democratic society.

- The US\$ 22,000/person scenario shall be realised with the following conditions: GDP growth PPP is at 8%/year PPP, with an average increase of 7%/year,
- The US\$ 18,000 /person shall be realised with GDP growth PPP of 7%/year, with an average increase of 6%/year,
- The base scenario of US\$ 15,000/person shall be realised with GDP growth PPP of 6%/year, with an average increase of 5%/year.
- In the scenarios with reforms measures not being effectively implemented, only US\$ 12,000 can be achieved, which is lower than the desired figure (as in scenario 1)



Vietnam 2035: Three pillars with 6 major transformations



1. Modernising the economy, and enhancing the competitiveness of the private sector
2. Developing innovation capacity, Placing enterprises at the center of innovation
3. Enhancing effectiveness of urbanization, and improving connectivity between cities and surrounding areas
4. Ensuring environmentally sustainable development and building climate resilience
5. Ensuring social equity and inclusion for vulnerable groups as the middle-class society emerges
6. Building a modern rule of law with a full and integrated market economy and an advanced democratic society.

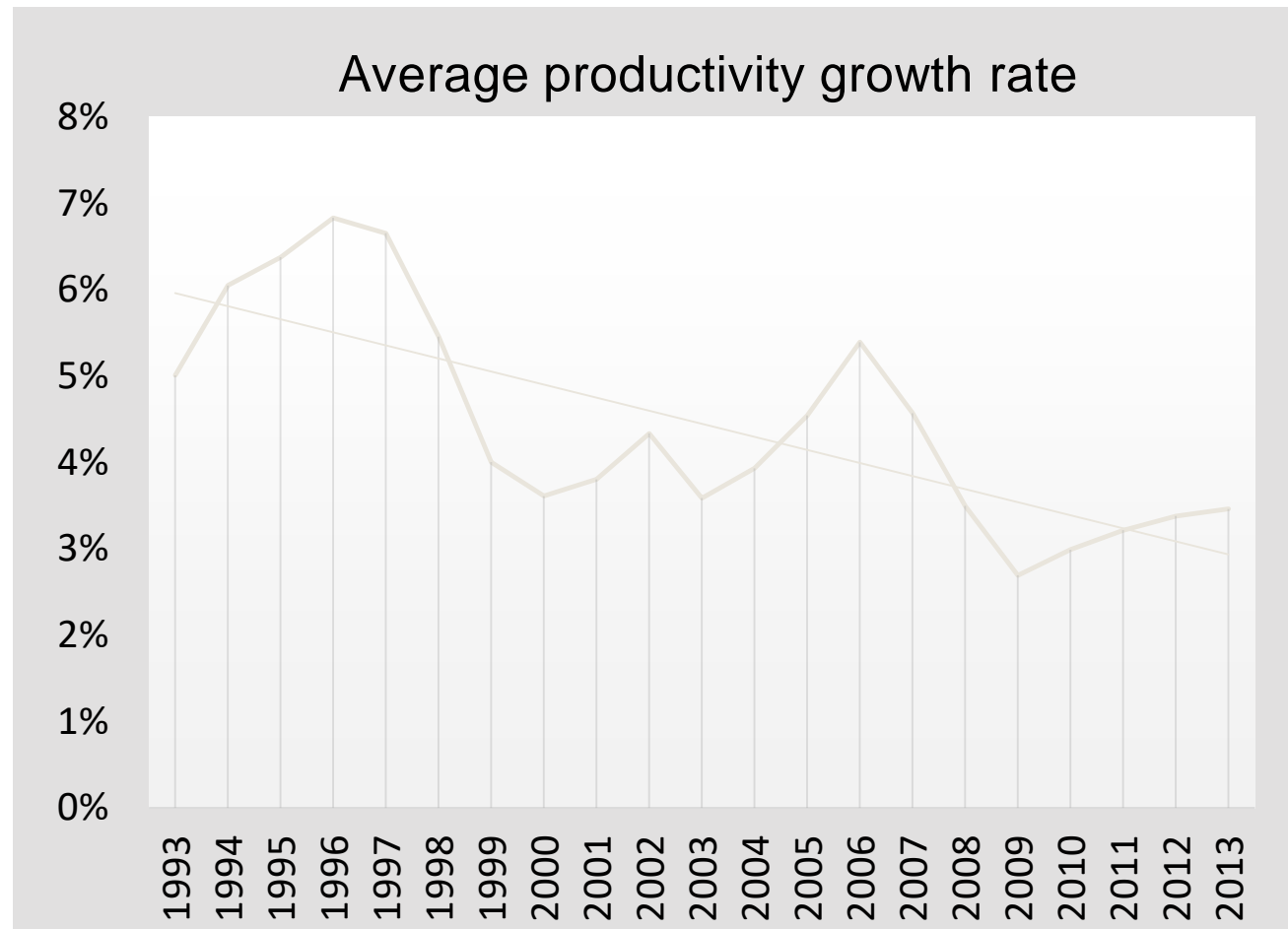
Pillar 1

Economic Prosperity with Environmental Sustainability



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Since the 1990, labor productivity growth has been on the declining trend, bringing about challenges for growth and employment in the period leading to 2035



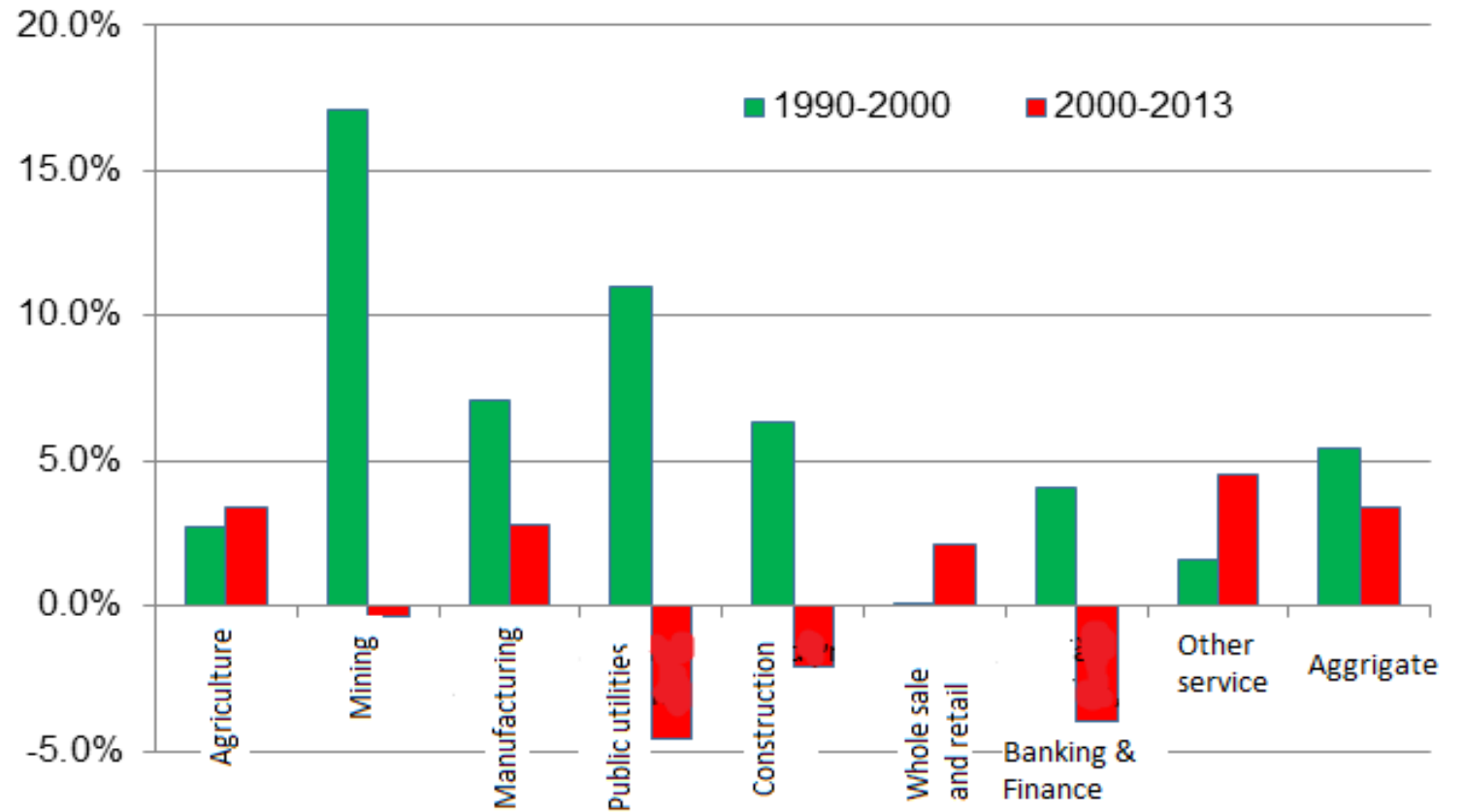
1. The labor productivity growth rate has gone down from around 5.4% in the 1990s to 3.4%/year
2. Therefore, GDP growth rate has been declining, as follows:
 - 1991-1995: 8.2%
 - 1996-2000: 7.0%
 - 2001-2005: 6.9%
 - 2006-2010: 6.3%
 - 2011-2015: 5.8%

Productivity growth in many sectors has been declining substantially

1, Aggregate labor productivity growth as well as labor productivity growth in many sectors have been declining substantially, from an average rate of 5.4% in the 1990-2000 period to only 3.4% in the 2000-2013 period,

2, Banking and finance, construction, public utilities have even been experiencing negative labor productivity growth, at -4.0%; -2.1% và -4.6% respectively

Productivity growth rate



Source: General Statistics Office

Factors leading to the decline in labor productivity growth

- 1. There are no institutional foundations** for an advanced market economy :
 - The policy framework for competition and enforcement mechanism are weak;
 - The legal framework for protecting private property rights is unclear.
- 2. The land and capital markets** are under-developed with allocations being likely influenced by arbitrary administrative decisions and connections,
- 3. Labor productivity in the agriculture sector is low:**
 - The land markets are malfunctioning, and policies for land consolidation for large-scale production are not in place;l
 - The State has been intervening too deeply, taking the place of the market. There has been a too heavy focus on rice production, hindering innovations and the emergence of agricultural value chains
- 4. Supply chain linkages** between domestic and FDI enterprises is weak, with limited transfer of technology and business know-how from FDI sector

Factors leading to the decline in labor productivity growth (cont.)

5. SOE sector (low productivity growth:

- There are still overlaps and fragmentation in “State management” of SOEs, with a lack of coordination;
- SOEs are inefficient in their business and production operations; wastefulness and leakages are still common in SOE sector.

6. Domestic private sector (low and rapidly declining productivity growth rate:

- The private sector has yet to be seen as the main driving force; There remain many areas of inequality between SOEs and the domestic private sector, which undermines the competitiveness of the private sector;
- Allocations in factor markets (capital, land, natural resources) are not market-based but mainly based on administrative decisions, and one of the reasons leading to that is **commercialization** of the State.

Recommended Measures:

1. *Create an enabling environment for domestic enterprises.* The immediate emphasis has to be on ensuring more competitive and productive domestic enterprises;
2. *Spurring learning and innovation:* Building the foundations of an functioning **national innovation system**, placing enterprises at the center of innovation, *and promoting entrepreneurship;*
3. Reshaping policies and investments to amplify *economic density* in and around large metropolitan areas; Promoting the role of **cities** in driving growth in the future;
4. **Sustaining the environment** and ensuring climate resilience in the face of global climate change

Agenda for reforms: short-to-medium-term

1. Give immediate priority to productivity in the **domestic private sector** by focusing on:

- Strengthening markets institutions
 - **Property rights**
 - **Competition** policy and its enforcement
 - **Macroeconomic institutions:** Budget management, and Central bank
- Liberalizing **factor markets** – markets for land and labor in particular
- Restructuring SOE sector: pursuing the equitization agenda, eliminating privileges, levelling the playing field, and strengthening governance

Agenda for reforms: short-to-medium-term

2. Strengthen participation in **global value chains**

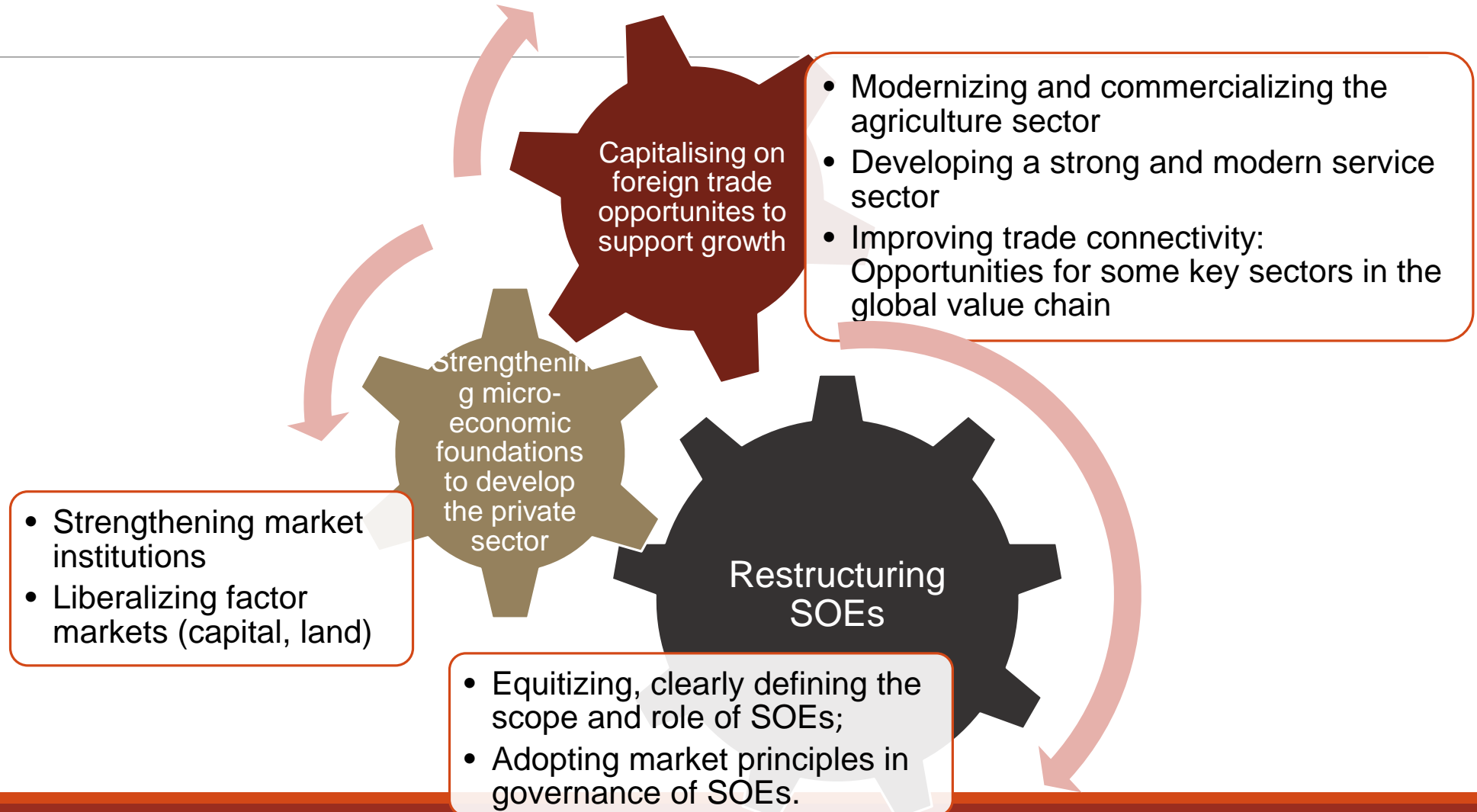
- Need to build **backward linkages** between FDI and domestic private firms
- Need more proactive approach to get FDI companies to **transfer technology and capacity** to local firms
- Look for Vietnamese companies to be at the **head of some global value chains by 2035**: Global examples – Samsung (Korea), Huawei (China), Tata (India).
- Need for **modern services sector**: important input for manufacturing exports, currently a critical gap
- Need dynamic, innovative, and competitive domestic firms

Agenda for reforms: short-to-medium-term

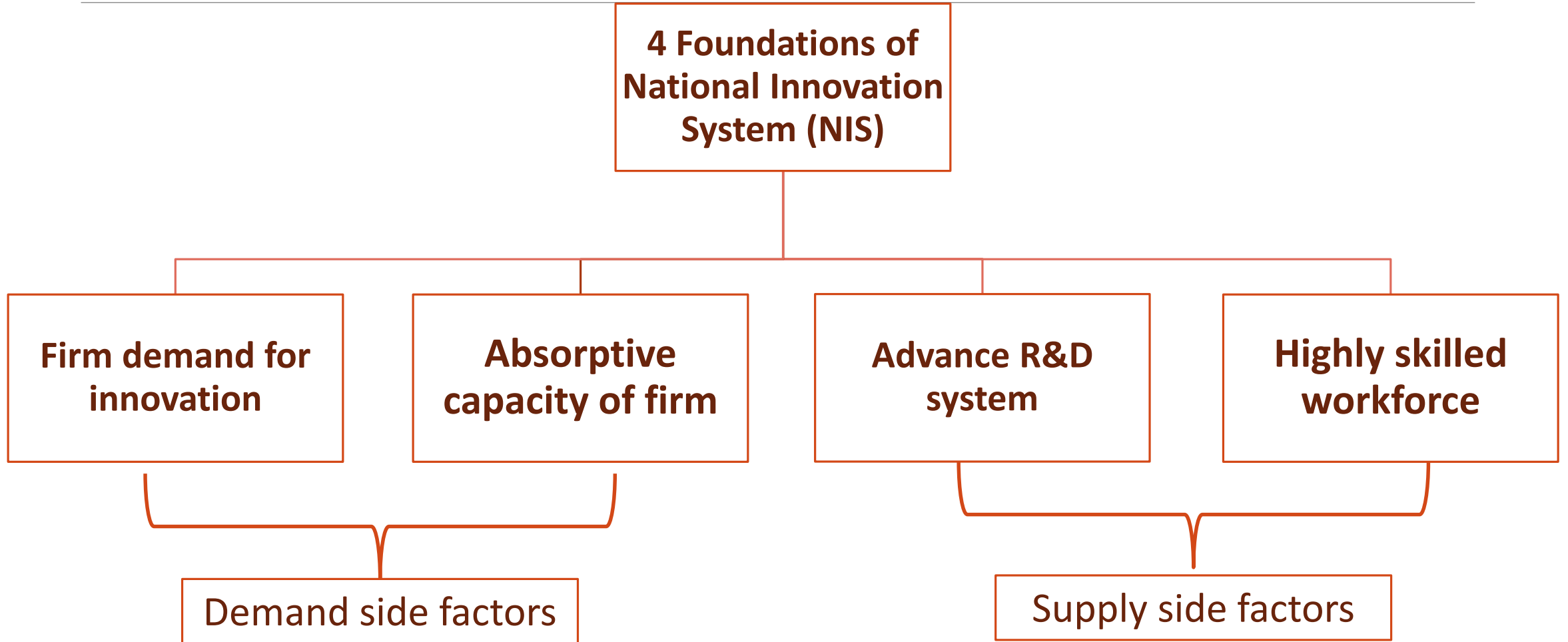
3. Modernize agriculture to generate 'more from less'

- a. Need to install flexible land markets to solve the problem of **land fragmentation** which is a recipe for low productivity.
- b. Consolidate role of the state and take more **market-driven approaches**:
 - Strengthen technical and regulatory services
 - Fix inefficiencies in public investment targeted to rural infrastructure
 - Foster a private-sector oriented agribusiness environment
- c. Need more **flexibility on land use**: balance between national food security and commercial interest of farmers could be rethought
- d. Need to fix **fragmentation of supply chain organization**:
 - Improve vertical coordination in the supply chain
 - Support collective action at farmer level

Short- to long-term: Spurring entrepreneurship, Promoting development of private sector as a driving force, and capitalising on trade opportunities for growth



Short- to long-term: Developing innovation capacity – Building a demand-driven innovation system



Developing Innovation Capacity – Switching Focus to the Demand Side

On the demand side – Placing enterprises at the center

1. Making most enterprises dynamic:

The key priority is to create a critical mass of dynamic and innovative firms that provides the demand side for innovation;

→ The State should put in place policies to eliminate barriers specific to each **type of enterprises** to enhance productivity, and there should be appropriate support from the Government;

2. And... improving innovation capacity of enterprises through: Adoption of technologies from foreign countries, and improvement of the quality of management

On the supply side

1. Accruing resources to the best and most productive researchers

- Investing more in producing research, knowledge, and advanced human capital;
- Rewarding the best and most productive researchers through merit-based allocation and awarding them enough resources;
- Uniting the research and university-based graduate education systems;
- Accessing the global knowledge frontier through international linkage.

2. Removing restrictions on higher education to move towards a modern education system, which meet the demand of students

Enhancing Economic Efficiency of Urbanization

Reshaping policies and investments

Reshaping policies and investments to amplify economic density in and around large metropolitan areas and prospective secondary cities;

Reducing the distance to markets to enable specialization;

Equalizing access to services between migrants and urban residents to encourage human capital development; and enhancing positive economic impacts thanks to population density

Two main groups of policies

Upgrading institutions

Enabling the land market;

Strengthening coordination in planning;

Strengthening urban planning capabilities;

Enhancing physical connectivity

Mainstreaming integrated transport and logistics planning;

Improving road quality and logistics;

Expanding the level and quality of urban transport services

Policies to Put Development on a Sustainable Path

Build climate resilience into economic planning and infrastructure investments

Restoring and sustaining the water resources and air

Restoring and sustaining the land resources

Calculating costs accurately

Formulating further policies on pricing

Ensuring that the needed financial resources are always readily available

Managing transformations so that the changes do not affect the poor adversely

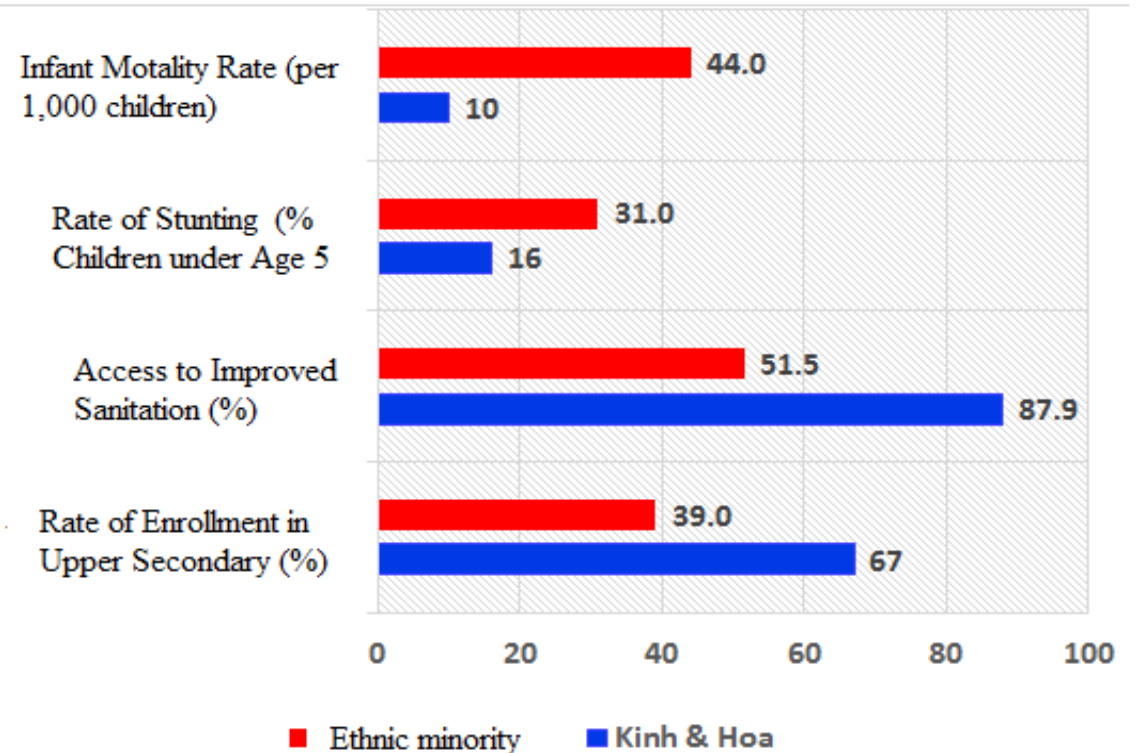
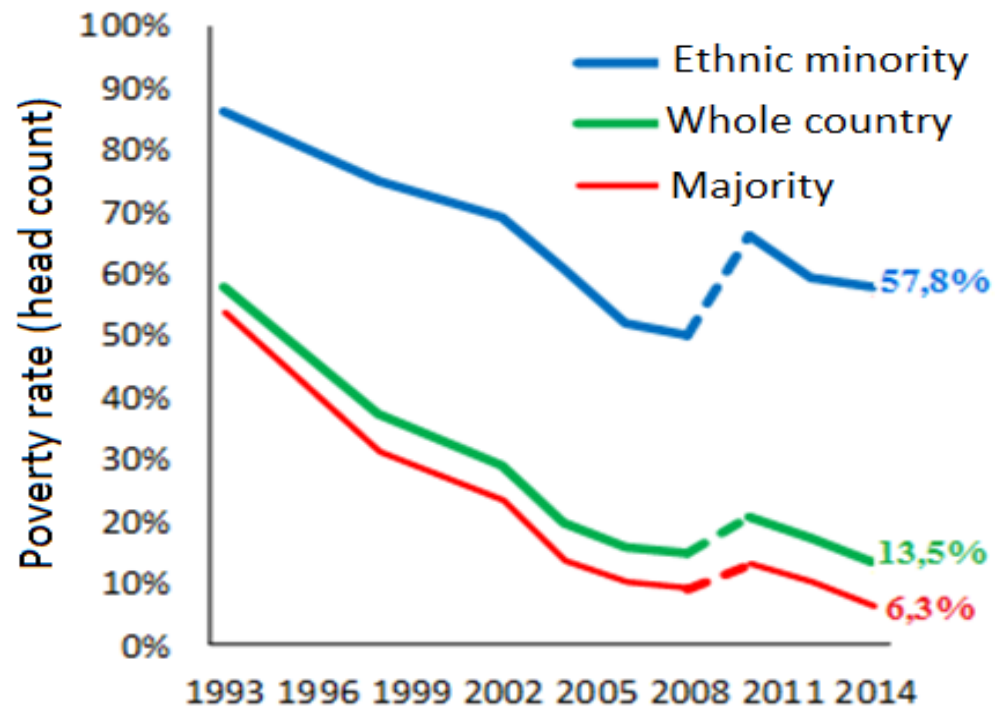
Pillar 2

Equity and Social Inclusion

Remaining and emerging issues

The 2014 statistics show considerable inequality of opportunity between ethnic minority groups and majority groups :

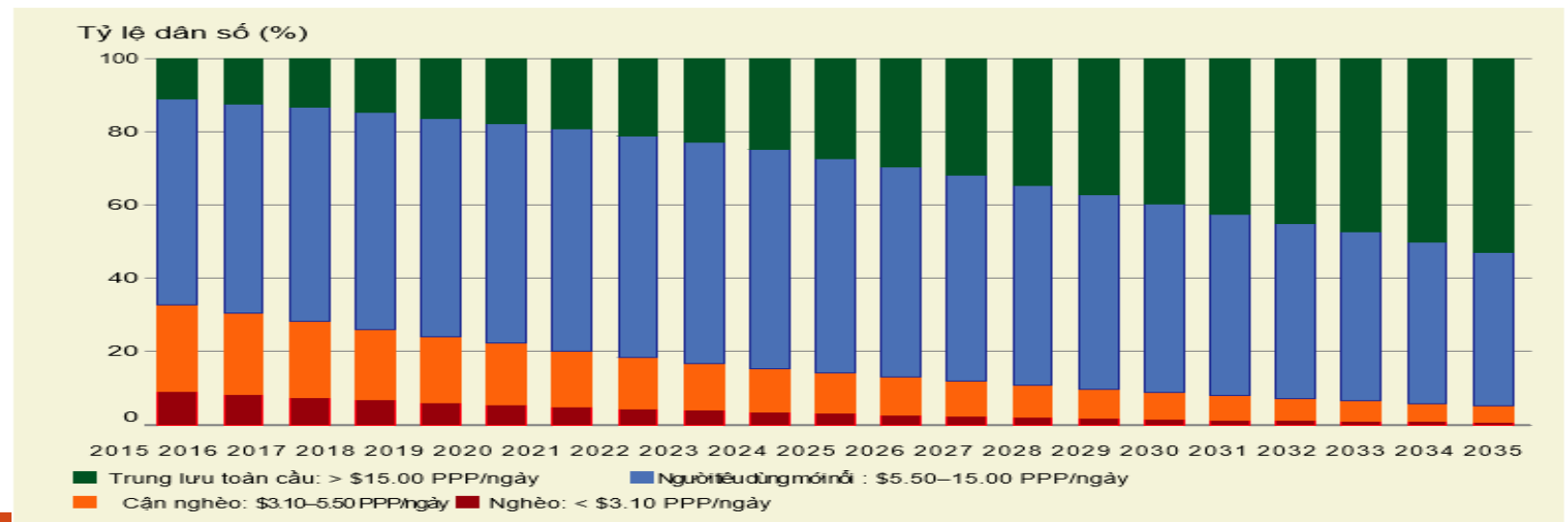
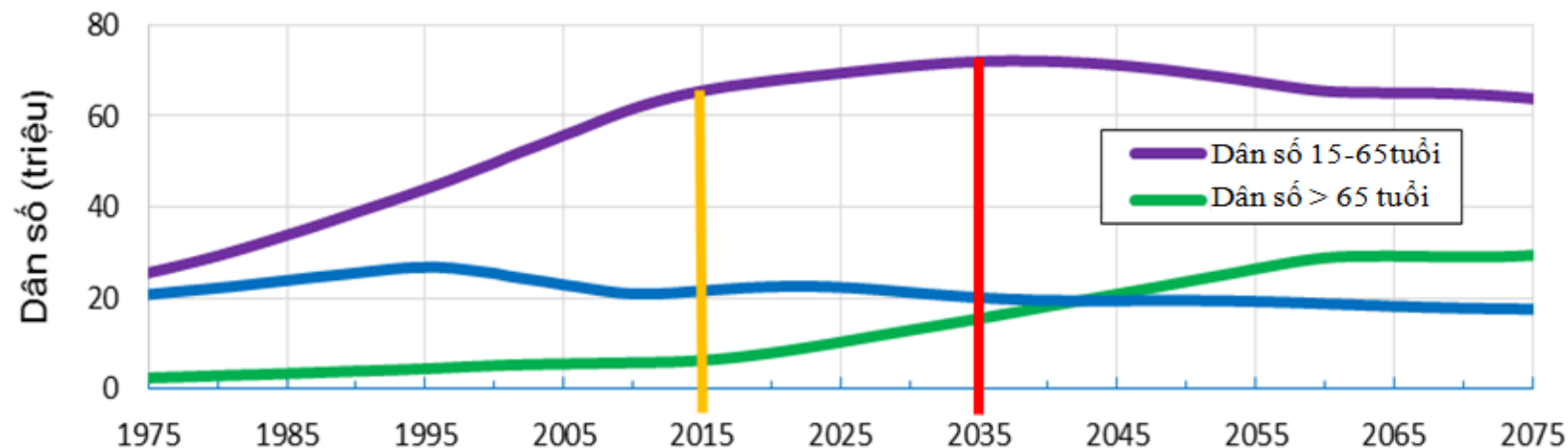
- The poverty rate of ethnic minority groups is much higher than the national average (57.8% vs. 13.5%);
- Ethnic minority children face higher inequality of opportunity (infant mortality rate among minority ethnic groups is 4.4 times higher than that of majority groups, while the upper secondary enrollment rate is much lower, only 39% vs 67%,,,).



Remaining and emerging issues

Aging population and the emerging middle class ...

- By 2035, Vietnam will have nearly spent its demographic dividend
- The share of population above 65 years of age will have doubled by 2035 (6.5 million by 2015, accounting for around 7.1% of the population)
- By 2035, more than half the population of Vietnam will join the global middle (compared with 10% at present)

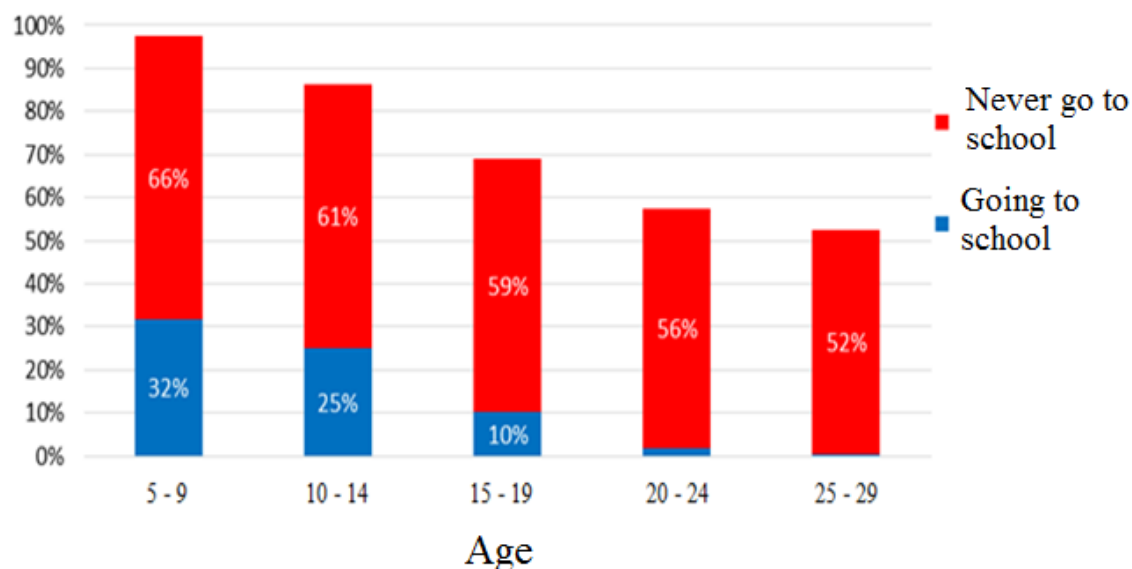


Remaining and emerging issues

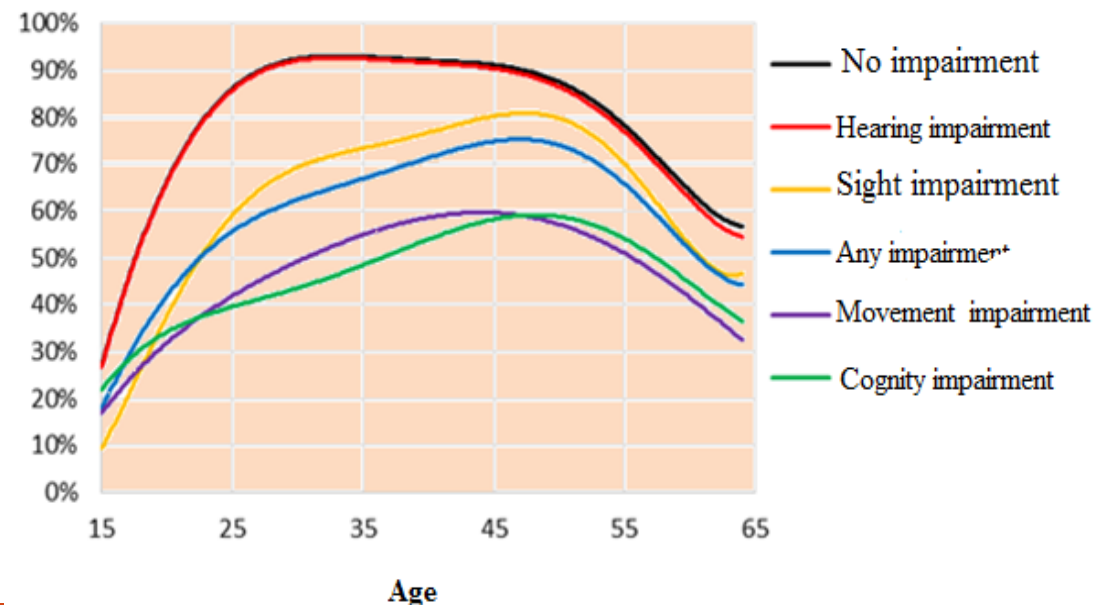
People with disabilities have yet to receive due attention:

- Most children with disabilities never go to school: 60% among children aged 5-14, and over 50% among children aged 15-29;
- People with disabilities tend to face obstacles in seeking employment, due to discrimination on the part of employers and inappropriate working environments and poor employment support

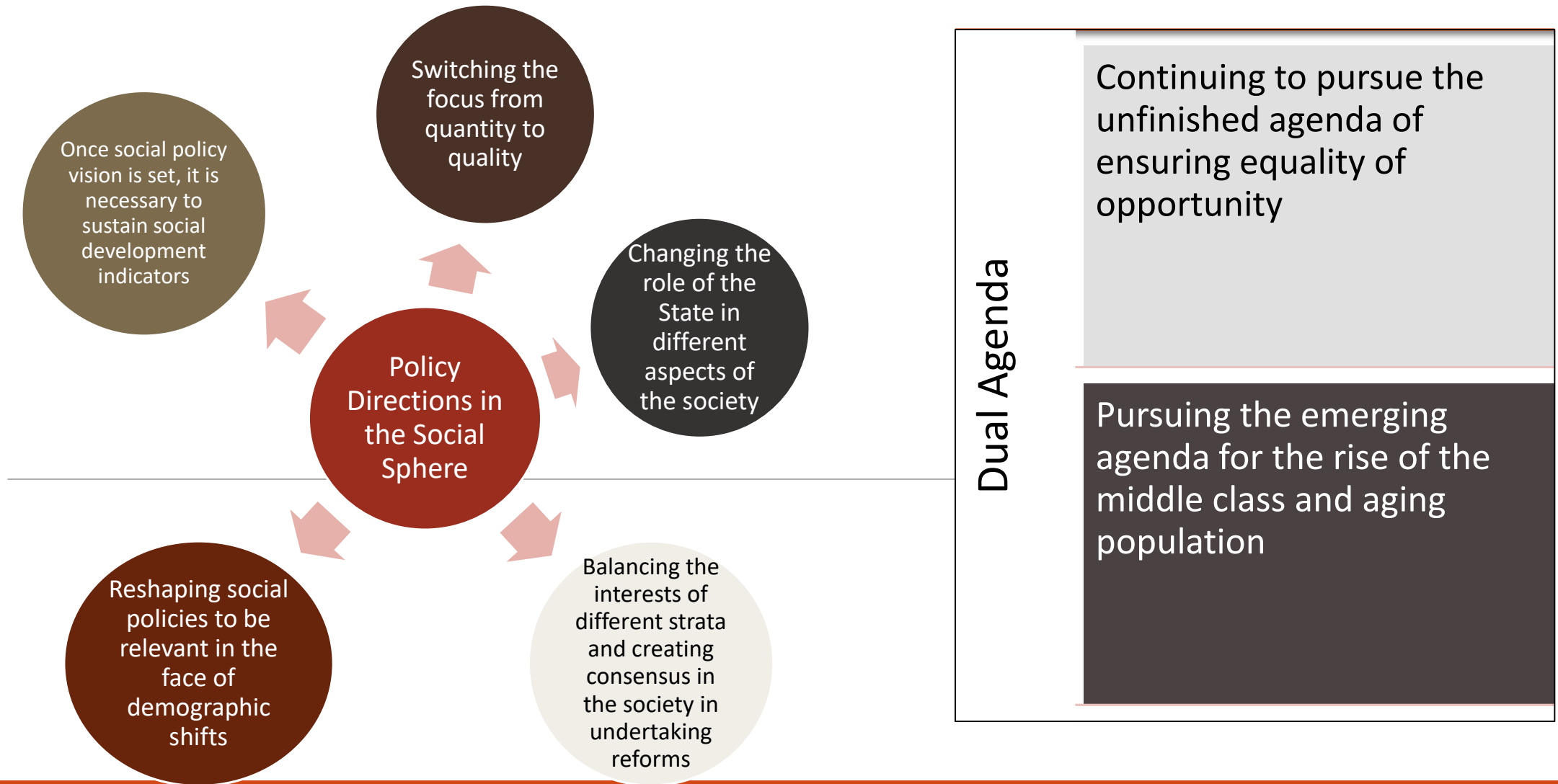
Share of children with disabilities going to school in Vietnam by age group



Share of individuals with employment by age group and type of impairment



Promoting Equity and Social Inclusion – Policy Directions



Programs to Ensure Equality of Opportunities

1. Ongoing programs to ensure equality of opportunities need to be continued

- Reduce the barriers to opportunity for ethnic minorities;
- Make people with disabilities full participants in the society;
- Delink the household registration system from access to public services;
- Reduce gender gaps;
- Continue to implement the program for sustainable poverty reduction based on multi-dimensional poverty indicators (quickly narrowing the rich-poor gaps between disadvantaged and ethnic minority areas with the rest of the country).

2. Supporting the middle class

- Expand the pension system to cover a majority of the population;
- Ensure that nearly all children complete upper-secondary school with job-relevant skills;
- Establish effective representation of workers through independent unions and organisations representing workers;
- Achieve universal health coverage.

Pillar 3

A Capable and Accountable State



MINISTRY OF
PLANNING AND
INVESTMENT



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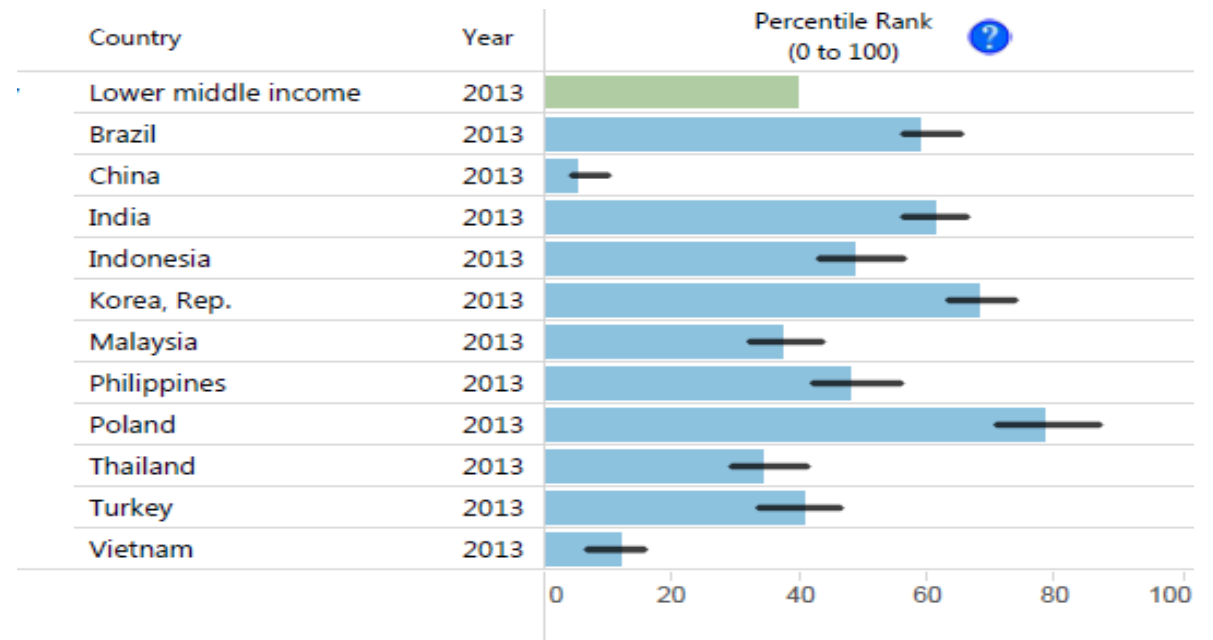
Governance in Vietnam at Present

1. Vietnam's ranking on governance is low for its level of income: On all indicators, Vietnam's rankings are equal to or lower than those of lower-middle-income countries;
2. On voice and accountability, Vietnam remains in the bottom tenth of all countries;
3. Enforcement of laws is weak and inconsistent.

Worldwide Governance Indicators



Rankings of some countries on voice and accountability



Source: Worldwide Governance Indicators Report (World Bank)



Measures to Help Achieve the Goal

1. Strengthening the capacity of the State

- Applying market rationality in State's decision: Clearly defining the role of the State and the role of the market; Enhancing the security of property rights; Enforcing competition; Reducing direct interventions; and Enhancing the effectiveness of State regulation of economic activity.
- Reforming central-local relations; Reforming relationships between the Prime Minister and Ministries and central-level agencies to increase autonomy, accountability, and performance in each agency and in the whole system.
- Strengthening the coordination between the Prime Minister, Ministries and central-level agencies, and localities to achieved the common goal.

Measures to Help Achieve the Goal

2. Improving public administration

- a. Reforming the civil service can reorient it in line with the changing role of the state from producer and owner to regulator, facilitator, and service provider; Broadening the participation of all actors in delivering public services.
- b. Enhancing capacity for public service delivery :
 - Based on the demand of citizens and enterprises to design the apparatus to build a developmental/facilitating government;
 - Building a disciplined, meritocratic bureaucracy;
 - Upgrading the compensation system for civil servants to attract and retain the required talent.

Measures to Help Achieve the Goal:

3. Enhancing checks and balances

- Developing the National Assembly into a professional body (consisting of fulltime deputies with oversight of all the state's operations);
- Enhancing independence and professionalism of the judiciary system;
- Enhancing the roles of specialized oversight agencies such as State Audit of Vietnam, the Government Inspectorate, and Ministerial and Subnational Inspectorates;
- Putting in place mechanisms to control use of power and to abuse of power in the legislative, executive, and judiciary systems.

4. Ensuring citizen's voice in law-making and governance

- Broadening the space for social organisations that represent citizens; Enhancing the legal framework to allow establishment of associations;
- Establishing mechanisms to ensure timely access to accurate information by citizens and enterprises; Enhancing accountability by the State;
- Ensuring independence and transparency of the mass media.

Vietnam2035: Conclusions

The Vietnam 2035 Report is a report on Vietnam's issues, examined by national and international experts in an effort-intensive and serious manner, to help come up with major transformations to embark on for Vietnam's development in the next 20 years.

Vietnam is at a turning point on its development path. There are tremendous opportunities on offer, as well as major challenges and difficulties. To achieve the aspirations to move toward a prosperous, creative, equal and democratic Vietnam, the only viable choice is for the country to carry out a bold program of reforms that is consistent with the three pillars. We are confident that current and future generations of Vietnamese people have the strong will, the spirit, and the capacity to implement the reform agenda successfully and to move toward a prosperous, creative, equal and democratic Vietnam.

THANK YOU VERY MUCH!



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