FOREIGN INVESTMENT IN VIETNAM IN POST ECONOMIC CRISIS PERIOD

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1. Mr. Chairman, let me first thank the organizers for inviting me today to this highly topical workshop. I am delighted to be here. I have to be frank though, looking at the expertise assembled in this room, I wonder whether my slot might not have been better used listening to the views of the experienced market players gathered here today. However, it's an honor for me to speak to this gathering and I will try and use my time to present a "macro" perspective of this topic; a view from 20,000 feet so to speak.

2. When I arrived here in Hanoi in late 2007, Vietnam was on a "high". Foreign investment was rushing in, and domestic investors were also excited by the opportunity to invest in Vietnam. The source of this excitement was not difficult to discern. A series of events—the APEC meeting in 2006, the accession to WTO that same year, Vietnam's appointment to the UN Security Council in 2007—had played a role by putting Vietnam on global investors radar screen. But the more fundamental reason for the excitement was a recognition—a delayed recognition—of the reforms that Vietnam had put in place earlier in the decade to reorient the economy towards the private sector. These reforms, which were spearheaded by 2000 Enterprise Law, were spectacularly successful in unleashing the potential of the private sector in Vietnam. The pickup in foreign direct investment and remittances in the second half of the decade were a testament to that success.

3. However, I think that it is fair to say that over the last couple of years, some of the high optimism that we saw in 2007 has faded a bit. The macroeconomic turbulence in 2008 and 2009 has taken its toll, as has the global economic crisis, which has made investors generally more cautious and selective in their investments.

4. This is a good time then to take stock of Vietnam's economic strategy. The Government is preparing a new 10 year socio-economic strategy (SEDS), which will accompany the next 5 year socio economic development plan (SEDP). The global economy is also entering into a more favorable phase after the recent crisis, the recent turbulence in Europe notwithstanding. This is especially true in Asia, where the regional economy is on a health upswing and attracting capital in large volumes. It is timely then for policy makers to assess how Vietnam can best position itself to take advantage of this more favorable external environment.

5. Before going into our assessment of the priorities ahead, let me first say that we remain bullish on Vietnam's long-term potential. Vietnam's strong fundamentals—it's location, its demographics, and above all the dynamism of its people—all suggest that Vietnam has the capacity to sustain rapid development over an extended period of time. The Government's ambition to get promoted to the division of modern emerging market economies in Asia by 2020 is therefore entirely appropriate.

6. The key question is how to realize this potential and sustain the remarkable progress that Vietnam has enjoyed over the past two decades. Here the draft SEDS and SEDP offer some valuable insights: (a) the wave of development over the last decade, which rested primarily on shifting low cost rural labor to higher productivity work in urban centers, may be running out of steam; (b) consequently there is a need for a shift to a development strategy in which productivity growth is generated through the development of higher valued added activities; and (c) that this requires Vietnam to become more plugged into regional and global production networks and, more importantly, to rise up the value chain within those production networks.

7. Let me offer a few preliminary thoughts on some of the "macro-level" issues that need to be addressed to achieve the transition to this new model. I think these fall into three groups:

Modernizing Vietnam's institutional architecture

8. Much of the analysis of the macroeconomic turbulence in the past 2 years has focused on technical issues—for example, the appropriate stance of monetary and fiscal policy—but at a more basic level what we witnessed was the outcome of a mismatch between an economy that has evolved rapidly over the past decade and an institutional framework whose evolution has proceeded more slowly. This has left many of the tools of economic management (e.g., monetary policy, fiscal policy, and banking supervision) a bit outdated.

9. This suggests that there is a need to give new momentum to the ongoing review of key institutions, to ensure that they stay "fit for purpose" in Vietnam's rapidly evolving economy. In this regards, we are watching with particular interest the debates surrounding the new State Bank of Vietnam Law, the new Budget Law, as well as the reforms in the area of financial sector supervision. The same institutional reform process is also likely to be necessary in other areas, e.g., in the legal system and judiciary, dispute settlement mechanism, and broader administrative reforms.

10. This call for "fit for purpose" reviews is not a criticism of existing institutions. Rather it is part of the organic process of any rapidly evolving economic system. For instance, if one considers the global financial system, there is now a clear consensus that the supervisory architecture that had been in place prior to the crisis was not "fit for purpose", in the sense that it didn't address adequately the build up of risks in the financial system. There is now an intensive debate on how to reform this architecture so that it performs its function more effectively. The need to keep reforming global institutions to ensure they stay up to speed with global economic conditions, applies equally to institutions in individual economies, especially ones that are developing rapidly.

Financing Vietnam's Infrastructure Needs

11. It is clear that Vietnam will require substantial investment in both physical infrastructure and human capital if it is to achieve its ambition to become a modern emerging market economy. One of the key challenges facing Vietnam is how to fund these investment needs in a fiscally sustainable manner. The outlook for Vietnam's public debt doesn't raise pressing concerns, provided that Vietnam maintains relatively high rates of growth and reduces its budget deficit to the historically prudent levels maintained before the global crisis.

12. However, this doesn't resolve the tension inherent between fiscal prudence and large public investment needs. Part of the answer lies in continuing ongoing efforts to mobilize revenue. Keeping donors engaged now that Vietnam has graduated out of low income status will also be important. However, these efforts will have to be complimented by rigorous discipline in the selection of public investment projects, as there will be little room for wasting resources on low priority projects. Careful thought will also be needed on the respective roles of public and private sector funding of infrastructure projects to reduce the burden on public debt financing.

Role of the State in the Economy

13. Some reconsideration of the role of the state in the economy may also be needed. I would like look at this issue from two angles:

a. The first angle is to look at the "balance sheet" of the public sector and consider whether it is still appropriate to have such a large share of state resources invested in industrial assets. There is a trade off here. In many modern market economies, the share of the public sector as a percent of GDP is as large, if not larger, than in Vietnam. In the UK for instance public expenditure accounts for close to 50 percent of GDP. However, these countries choose to invest in public goods (infrastructure, education, health, social safety net) rather than industrial assets. With resources likely to be scarce relative to investment needs, some reconsideration of the "shape" of Vietnam's public sector balance sheet may be desirable, as this might allow resources currently invested in industrial assets—where the private sector may have a comparative advantage—to be released for investment in priority public goods. The government's equitization program would be the vehicle for achieving such a rebalancing.

b. The second angle relates to the role of the large state industrial conglomerates. There are several issues involved here. One issue concerns whether the development of state-owned industrial conglomerates remains appropriate in a modern globalized economy characterized by production networks and supply chains. Such a global economy puts greater premium on speed, efficiency, and innovativeness rather than economic size. A second relates to the topic discussed above, namely whether large scale state investments in industrial assets are an optimum use of public resources. However, perhaps the most important issue is the governance of these conglomerates, if Vietnam does decide to continue down this route. Putting in place a robust governance structure, which preserves a level playing field for the private sector—in terms of access to markets, finance, and industrial assets—will be essential if Vietnam is to sustain a rapid pace of development.

14. Mr. Chairman, I hope these remarks have been useful for today's discussion. As I said earlier, we remain bullish on Vietnam's long-term potential, and hope that we can continue to assist her in her efforts to realize that potential.

Thank you.