

# **Post Crisis Growth and Poverty Reduction In Low-Income Asia**

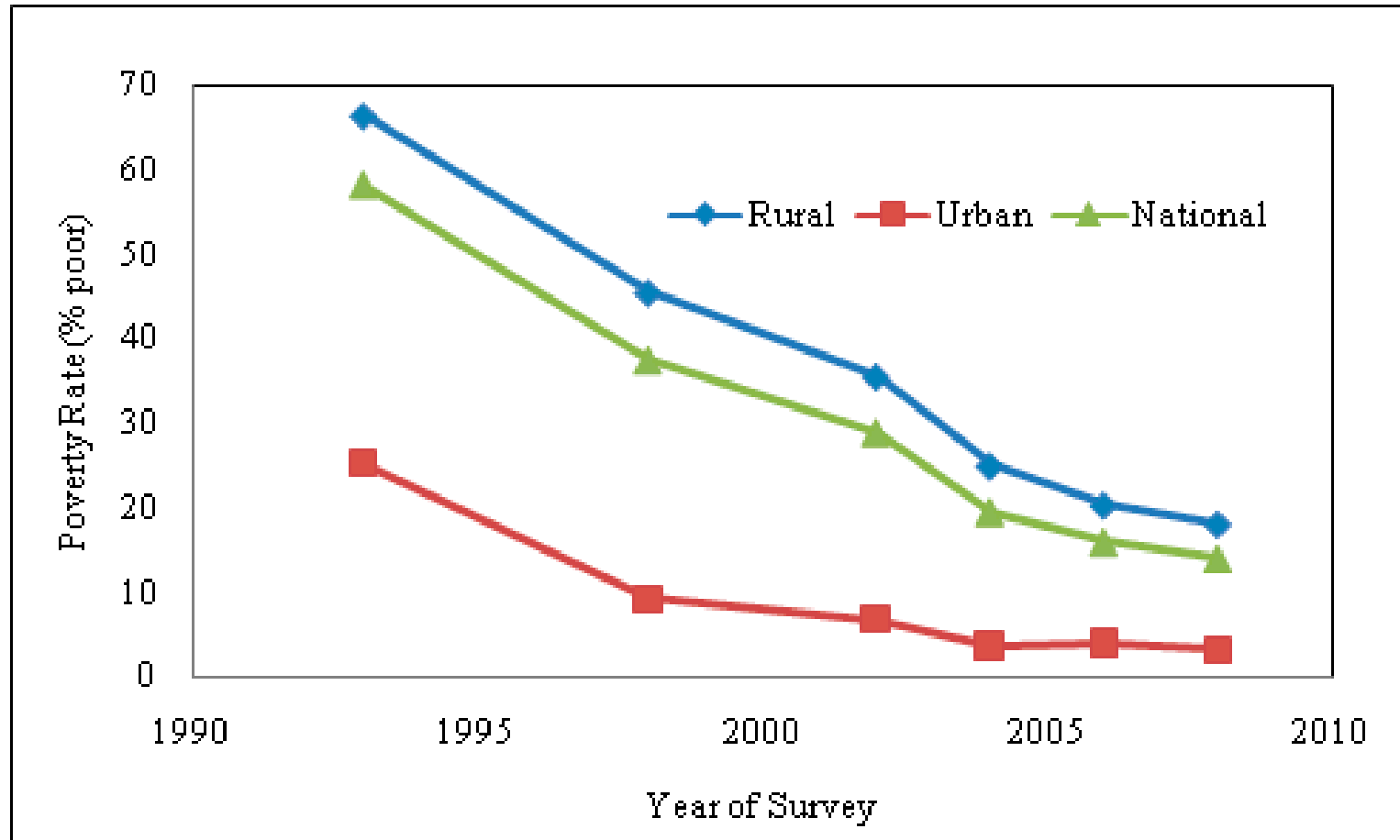
## **Achieving Emerging Market Status Improving the Business Environment: The case of Vietnam**

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# Significant reduction in poverty



# Strong fundamentals

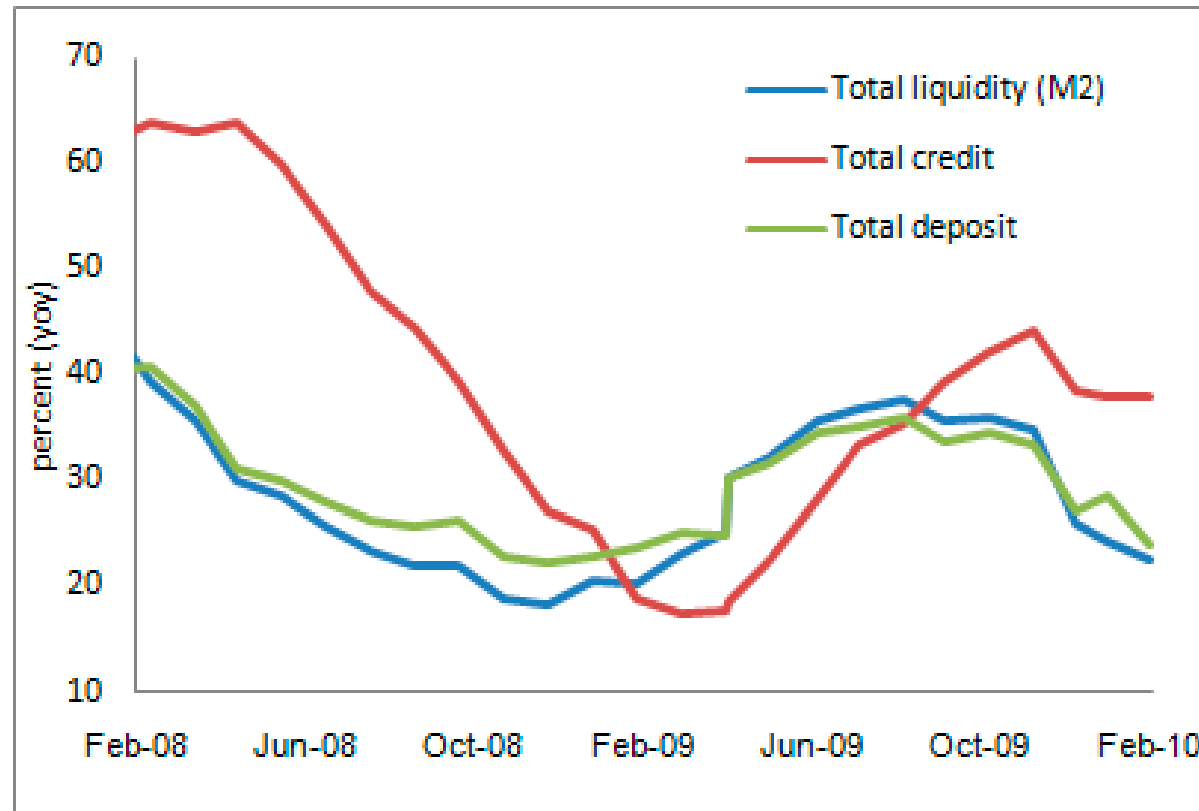
- A very rapid **demographic transition**, from an average age of 27 years today to a Japan-like age pyramid by 2040
  - The number of working people per capita is growing so that productivity per person would grow even if productivity per worker remained stagnant
- A very high **savings rate**, partly influenced by culture but also by the phase of the life cycle a majority of the population is in.
  - With a savings rate close to a quarter of GDP, and capital inflows for about a tenth, Vietnam can sustain one of the highest investment rates in the world
- Sustained **productivity gains** from the systematic reliance on market mechanisms and global integration.
  - Absolute levels of productivity may not be particularly high yet, but they are growing fast and accelerated by the sectoral shift from rural to urban
- A change in **relative prices**, as labor and non-tradables become more expensive in dollar terms (the so-called Balassa effect)
  - Vietnam was one of the “cheapest” countries in the world in the early 1990s, and as it becomes more expensive GDP increases even faster (see China or Turkey...)

# A commitment to reform

Over the last decade:

- Signed major agreements paving the way to **global integration**, including competition in services (AFTA, USBTA, WTO)
- Approved an Enterprise Law facilitating **business registration** and supporting the emergence of a thriving private sector.
- Passed a State Budget Law leading to **fiscal decentralization**, strong inter-provincial redistribution and increased transparency.
- Adopted a **banking sector reform** roadmap including bringing strategic investors into all SOCBs
- Is implementing a roadmap for the development of a **competitive market for electricity**.
- Has **equitized thousands of SOEs** and is transferring remaining state ownership rights from ministries and provinces to a for-profit organization

# Improved macroeconomic management



Over a mere two years government had to go from stabilization to stimulus to re-balancing. Some times it relied on heterodox measures, but it was successful in the end.

# But important improvements needed for business environment

- On the labor side, the capacity to **upgrade skills** will be critical to move up the value added ladder
  - Importance of tertiary education reform, with the agenda for public universities resembling the agenda for SOE reform (competition, standards, freedom to recruit...)
- On the capital accumulation side, there is little room to raise the investment rate, so the **quality of investment** becomes critical.
  - And in particular for public investment, with problems related to coordination, appraisal, environmental management, procurement, and implementation
- On the productivity side, **Economic Groups** benefit from economies of scale but they are becoming too powerful and may create systemic risk.
  - Separating state ownership from regulation is key in their case, as are improving their governance and increasing their transparency.
- On the relative prices front, the economy is very open and capital markets are thin, which results in **dangerous volatility** of asset prices.
  - Completing the equitization of large SOEs, consolidating government bond series, completing the issuance of land use right titles... are needed.