



Some Thoughts about Doi Moi 2

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Thank you to all the organizers of this event for encouraging this kind of constructive dialogue to take place.

Every six months since 1997, we have gathered in this forum to hear suggestions on how Vietnam can live up to its full potential. As I look around the room I have to believe that the presence of everyone here, the event itself, and the venue is the result of Vietnam's decision to pursue Doi Moi.

There is widespread consensus that Doi Moi was the catalyst for a special period in Vietnam's history: a time of prosperity, cultural development and widespread social wellbeing unlike any other in Vietnam's modern history. It was a period of rising prominence and significance in the global economy, during which Vietnam was the darling of international investors, including many overseas Vietnamese who saw their homeland as the new land of opportunity. In retrospect, it was a kind of "golden age" in Vietnam's development.

The economic sluggishness of the past several years raises some very important questions regarding Vietnam's development path:

1. Did we all make the best of the unique opportunity created by Doi Moi, or could we have done better?
2. Is the social and economic progress from Doi Moi a singular period that has run its course, destined to be followed by slower growth and muted optimism?
3. Most importantly, what are the lessons we have learned from Doi Moi and how can we apply them to policy initiatives and a policy-making mindset that will provide a renewed sense of optimism, economic growth and social development?

First, have we made the best of the Doi Moi opportunity? There appears to be widespread consensus that recently we have not. While Vietnam has achieved so much since the first VBF meeting in 1997, the list of requests and issues that remain unresolved remains too large. General issues like corruption and excessive regulation, and specific issues like the

visa waiver are still prominent agenda items. All act as economic drags that stifle Vietnam's development.

The effects of these "drags" are increasingly apparent, and Vietnam's recent performance relative to its ASEAN neighbors suggests it can and should do better. Most ASEAN countries posted GDP in excess of 6% in 2012: Cambodia (6.5%), Indonesia (6.2%), Myanmar (6.3%) and the Philippines (6.6%), Thailand (6.4%), Laos (8.3%).

So, does Vietnam's current economic slowdown mean that the growth phase unleashed by Doi Moi has run its course - a one-time opportunity whose time has passed?

We don't believe so. Vietnam's role in an emerging ASEAN, as a manufacturing alternative to China, and more importantly, its favorable demographic, and large consumer base provide, in effect, a second chance. But making the best of this opportunity will require a dramatic and fundamental refresh. Vietnam needs a second Doi Moi- a Doi Moi 2.

In launching Doi Moi 2, we should draw from the lessons of Doi Moi 1, four of which we highlight below.

LESSON 1: THE POWER OF PRIVATE ENTERPRISE: Doi Moi 1 established private enterprise in Vietnam and tapped into the entrepreneurial talent of the Vietnamese people, creating millions of jobs and a new sense of optimism. It in effect created a new economy.

Doi Moi 2 should continue to promote and protect private enterprise through a level playing field where rules are fairly enforced, and companies compete on their merits, including for access to capital, land and opportunities.

Amcham encourages the National Assembly to augment the rights of private businesses under Vietnam's constitution such that private enterprises will be treated no less favorably under the law than SOE's

LESSON 2: THE BENEFITS OF TRADE AGREEMENTS: Under Doi Moi Vietnam signed numerous free trade agreements including the BTA with the US, membership in the ASEAN trade area, and it joined WTO. These agreements helped boost U.S. bilateral trade from \$1 billion to 26 billion in just 11 years.

The increased trade and its related foreign investment created jobs and income, tax revenues, exports and foreign exchange, and technology transfer. It also provided better access to capital,, technology, and management experience, and contributed to Vietnam's strategic drive to industrialize, modernize and globalize.

The Trans-Pacific Partnership is now another such opportunity for boosting growth through increased trade. Studies have shown that Vietnam has the most to gain from this agreement, with export and GDP growth potentially greater than for any other partner country. If Vietnam is able to take full advantage, TPP could enable the private sector greater access into key markets, stimulate competition, attract additional foreign investment, and help build key supply chain infrastructure, thus creating opportunities for Vietnam businesses, and jobs and higher incomes for Vietnamese workers.

Global trade has worked for Vietnam, and joining the TPP would reinvigorate the Vietnamese economy and boost investor confidence at the right time.

Joining the TPP is perhaps the most important single act in launching Doi Moi 2.

LESSON 3: ENABLE RATHER THAN RESTRICT: Doi Moi, was characterized by steady and continuous easing of restrictions on activities and movement of people, businesses, goods and capital. Not surprisingly, the movements of all increased through increased trade, investment and tourism respectively. The scale and speed with which these changes took place created a major boon to the economy and a renewed sense of freedom and optimism. This experience reinforced what the architects of Doi Moi understood: that restriction stifles and freedom stimulates.

These lessons are reinforced by observations of other countries. Compare the following country rankings:

- World Bank's "ease of doing business index"
- Transparency.org's corruption index
- World Bank's per capita GDP ranking
- World Bank's GINI index of income equality

You will notice an extraordinarily high correlation between ease of business on one hand and clean government, high incomes and income equality on the other. This also suggests a clear connection between excessive regulation and corruption.

In spite of such strong evidence of the benefits of a simplified business environment, the pace of regulatory reform seems to have slowed.

Doi Moi 2 should embark on a renewed regulatory reform initiative based on transparency, advance notification (in line with its WTO commitments), coordination, and capacity building.

LESSON 4: THE IMPORTANCE OF ACTION: Doi Moi was embarked upon with extraordinary courage and political will. At the time, the outcome to many seemed uncertain; but there was conviction and commitment to see it through. And on the whole, Doi Moi worked. It was a brilliant, courageous bet.

Under Doi Moi 2 we need a renewed sense of leadership and follow through. We need extraordinary determination to address the lingering issues of corruption, SOE reform, and modernization within state institutions. For example, most immediately, the economy needs the NPL situation addressed, not only discussed

These challenges are not unique to Vietnam. We have other countries' experience to learn from. But real progress relies not on the design of the solutions; it relies on the implementation, and implementation requires leadership and political will. Vietnam has talented leadership - what the system lacks is the ability to bite the bullet and take action.

Reform and positive change renews confidence. We have seen this in the rising interest in Myanmar and the recent successes of Indonesia and the Philippines. Most importantly we have experienced this through Vietnam's own success with Doi Moi. On the whole, Doi Moi worked, but we're far from through with this process.

A new round of reforms, a Doi Moi 2, that provides further encouragement and protection of private enterprise; that fosters increased trade and investment through free trade initiatives like TPP; that establishes renewed, real emphasis on and commitment to regulatory reform and global best practices, could quickly restore confidence in Vietnam's economy and enable it to realize the potential that was so evident to those of us who gathered in this forum in 1997 in the midst of Vietnam's bold and wonderful experiment with Doi Moi. May it continue afresh.

I wish good health to the leaders and distinguished guests here today, and I thank you for this opportunity to address the Vietnam Business Forum.

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