AmCham
Renaissance Riverside Hotel, September 12 2013

Vietnam’s Economy at the Cross-Road: Reforms Actions are needed

Le Dang Doanh
Vietnam’s Economy faces the longest decline since ĐỘI MỚI

Real GDP Growth rate (in %)

Collapse of the Soviet Union

East Asia Financial Crisis

Global Financial Crisis

????
Growth Rate of GDP, Industry, Agriculture, Services
GNI Per Capita (PPP), at current international $ for selected Asian Economies

Source: ADB and World Bank websites; for Myanmar, Ash Center estimates
Real GDP Growth, 2006-2013, Vietnam and Indonesia

Source: ADB and projections from the World Bank
Total Investment (2012: 33.5%, 2013: ~30% of GDP)
Đóng góp của các nhân tố tội tăng trưởng kinh tế 1991-2009 (%)
Credit growth rate (%/year) 2001-2012 (8 months 2013 + 5.41%)
Inflation Rate (GDP Deflator), 2006 - 2012

Source: ADB and official data
CPI in August + 0,83%, + 3.53 to the end of 2012 and + 7.5% on year to year basis
Some macroeconomic stabilization but…

**Headline, food and core inflation rate (yoy, %)**

- **Headline**
- **Food**
- **Core**

**VND: USD exchange rate**

- **Parallel market (mid)**
- **Official rate (SBV)**
- **Official upper band**

**International reserves (in months of imports)**

**Sovereign risks (bsp)**

- **Sovereign spreads**
- **CDS, 5 years**
But Confidence is declining

Consumer Confidence

Producer Confidence

Retail Sales and Services

HSBC’s Purchasing Managers Index

Real growth (%)  Nominal growth (%)

Contraction  Expansion
HSBC Vietnam PMI

50 = no change on previous month

Increasing rate of growth

Aug 2013 (49.4)

Increasing rate of contraction
Economic Growth and Poverty Reduction in Vietnam

Per capita GDP (Thousand Jan. 2010 VND)

Poverty headcount (%)

1996-2000 SEDP
2001-2005 SEDP
2006-2010 SEDP

$1.25/day 2005 PPP HCR
$2.00/day 2005 PPP HCR
GSO-WB poverty line HCR
Per capita GDP
But widening income disparity

<table>
<thead>
<tr>
<th>Năm</th>
<th>Gini-Coefficient</th>
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<tbody>
<tr>
<td>1993</td>
<td>0,34</td>
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<tr>
<td>1998</td>
<td>0,37</td>
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<td>2002</td>
<td>0,38</td>
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<td>2008</td>
<td>0,43</td>
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<tr>
<td>2010</td>
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</tbody>
</table>
Implications for Vietnam

- Social Capital 35
- Entrepreneurship & Opportunity 73
- Governance 61
- Economy 39

- Personal Freedom 99
- Safety & Security 55
- Education 80
- Health 80

- opening of markets
- rule of law
- provision of public goods
- democratization
Global Competitiveness Index

<table>
<thead>
<tr>
<th>Component</th>
<th>Rank (out of 148)</th>
<th>Score (1-7)</th>
</tr>
</thead>
<tbody>
<tr>
<td>GCI 2013–2014</td>
<td>70</td>
<td>4.2</td>
</tr>
<tr>
<td>GCI 2012–2013 (out of 144)</td>
<td>75</td>
<td>4.1</td>
</tr>
<tr>
<td>GCI 2011–2012 (out of 142)</td>
<td>65</td>
<td>4.2</td>
</tr>
<tr>
<td>Basic requirements (60.0%)</td>
<td>86</td>
<td>4.4</td>
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<tr>
<td>Institutions</td>
<td>98</td>
<td>3.5</td>
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<tr>
<td>Infrastructure</td>
<td>82</td>
<td>3.7</td>
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<tr>
<td>Macroeconomic environment</td>
<td>87</td>
<td>4.4</td>
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<tr>
<td>Health and primary education</td>
<td>67</td>
<td>5.8</td>
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<tr>
<td>Efficiency enhancers (35.0%)</td>
<td>74</td>
<td>4.0</td>
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<tr>
<td>Higher education and training</td>
<td>95</td>
<td>3.7</td>
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<tr>
<td>Goods market efficiency</td>
<td>74</td>
<td>4.3</td>
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<tr>
<td>Labor market efficiency</td>
<td>56</td>
<td>4.4</td>
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<tr>
<td>Financial market development</td>
<td>93</td>
<td>3.8</td>
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<tr>
<td>Technological readiness</td>
<td>102</td>
<td>3.1</td>
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<tr>
<td>Market size</td>
<td>36</td>
<td>4.6</td>
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<tr>
<td>Innovation and sophistication factors (5.0%)</td>
<td>85</td>
<td>3.4</td>
</tr>
<tr>
<td>Business sophistication</td>
<td>98</td>
<td>3.7</td>
</tr>
<tr>
<td>Innovation</td>
<td>76</td>
<td>3.1</td>
</tr>
</tbody>
</table>

Stage of development

1. Factor driven
2. Efficiency driven
3. Innovation driven

- Vietnam
- Factor-driven economies
Comparision with ASEAN

WEF: score in 12 GCI indicators, 1-7 (7 is highest)

- **Vietnam**
- **ASEAN (excl. VN)**
- **Singapore**

**Ranking:** 7 / 144 economies

- **Institutions**: 89
- **Innovation**: 81
- **Infrastructure**: 95
- **Macroeconomic environment**: 106
- **Health and primary education**: 64
- **Higher education and training**: 96
- **Goods market efficiency**: 91
- **Labor market efficiency**: 51
- **Financial market development**: 88
- **Technological readiness**: 98
- **Market size**: 32
- **Business sophistication**: 100

**WEF: score in 12 GCI indicators, 1-7 (7 is highest)**
The most problematic factors for doing business

- Access to financing: 18.4%
- Policy instability: 11.4%
- Inadequately educated workforce: 10.0%
- Inflation: 9.9%
- Inadequate supply of infrastructure: 8.5%
- Tax regulations: 8.5%
- Corruption: 8.2%
- Tax rates: 6.0%
- Poor work ethic in national labor force: 6.0%
- Inefficient government bureaucracy: 4.8%
- Foreign currency regulations: 2.7%
- Government instability/coups: 2.2%
- Insufficient capacity to innovate: 1.4%
- Crime and theft: 0.8%
- Restrictive labor regulations: 0.8%
- Poor public health: 0.2%

Note: From the list of factors above, respondents were asked to select the five most problematic for doing business in their country and to rank them between 1 (most problematic) and 5. The bars in the figure show the responses weighted according to their rankings.
The perceived levels of public sector corruption.

68% score below 50

Top: New Zealand
Bottom: Afghanistan, Korea (North)

The 2012 Corruption Perceptions Index measures the perceived levels of public sector corruption in 176 countries/territories around the world. To see the full results go to: www.transparency.org/cpi
Internet Penetration (October.2012)

Vietnam

- **Total Population**: 91,519,000
- **Internet Users**: 30,858,742
- **Users on Top Social Network**: 8,525,000
- **Urban Internet Penetration**: 31%
- **Rural Internet Penetration**: 69%
- **Internet Penetration**: 34%
- **Social Networking Penetration**: 9%
Vietnam’s Economy at the crossroad

• High NPL and cross-ownership in banking system. The size of NPL is not known exactly (8.6% or 10% or 18% of total credit?). Companies could de-facto own a bank and use the bank to supply credit for their investment. High inventories and low domestic demand lead to under performing business. Growth rate of credit supply to the end of April 2013 increased by +2.11% only. Freezing Real Estate market with 1 million billion VND. (Report on 3.5 trillion VND (USD billion 168 outstanding asset is less reliable).

• Low efficiency of SOEs, outstanding debts reached 1.33 trillion VND.

• Low efficiency of public investment: too many projects too high cost, highly decentralized investment system.

• Low value-added economy, low competitiveness.

• Rent-seeking behavior from both sides: public administration and business communities.
Fluctuation in Real Estate Price

Hình 5: Thay đổi Giá thu cấp (theo Quỹ)
Total Credit/GDP (Percent)
Tín dụng ngân hàng/GDP (%)

Sự mở rộng nhanh chóng của khu vực ngân hàng ở VN

<table>
<thead>
<tr>
<th>Year</th>
<th>Trung Quốc</th>
<th>Thái Lan</th>
<th>Việt Nam</th>
<th>Ma-lai-xi-a</th>
<th>Án Đổ</th>
<th>Phi-lip-pin</th>
<th>In-dô-nê-xi-a</th>
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Nguyên: Chỉ báo Phát triển Thế giới (WDI) của NHTG.
The Third Plenum of the Central Committee of the CPV (October 6-10. 2011)

• First priority is controlling inflation, macroeconomic stabilization.
• Restructuring the economy, changing growth model.
• Three priorities:
• Restructuring investment, mainly restructuring public investment. Eliminating “term mandate thinking” and “interest groups” in public investment planning.
• Restructuring the finance sector, mainly focusing on restructuring the commercial banks.
• Restructuring the SOEs, mainly focusing on restructuring the state-owned Economic Groups and Corporations.
Bà Nguyễn Thị Kim Ngân
Bà Trương Thị Mai
Ông Trương Tấn Sang
Ông Nguyễn Sinh Hưng
Ông Ưng Chu Luru
Ông Phùng Quang Thành
Bà Tống Thị Phượng
Ông Phan Trung Lý
Bà Nguyễn Thị Nương
Ông Phùng Quốc Hiên
Ông Nguyễn Hạnh Phúc
Ông Nguyễn Văn Giàu
Ông Trần Đại Quang
Ông Nguyễn Kim Khoa
Bà Nguyễn Thị Đoan
Ông Ksor Phước
Ông Trần Văn Hạng
Ông Huỳnh Ngọc Sơn
Ông Nguyễn Xuân Phúc
Ông Đào Trọng Thi
Ông Phạm Bình Minh
Ông Phan Xuân Dũng
Ông Bùi Quang Vinh
Ông Vũ Đức Đam
Ông Nguyễn Văn Hiền
Ông Nguyễn Tấn Dũng
Ông Nguyễn Hòa Bình
Ông Nguyễn Thiên Nhân
Ông Trương Hòa Bình
Ông Hoàng Trung Hải
Ông Đình La Thăng
Ông Cao Đức Phát
Ông Hà Hùng Cường
Ông Vũ Văn Ninh
Ông Huỳnh Phong Tranh
Ông Giang _SEC_ Phú
Ông Nguyễn Quân
Ông Trịnh Đình Dũng
Ông Nguyễn Thái Bình
Ông Nguyễn Bác Sơn
Ông Vũ Huy Hoàng
Bà Nguyễn Thị Kim Tiên
Bà Phạm Thị Hải Chuyên
Ông Hoàng Tuấn Anh
Ông Nguyễn Văn Bình
Ông Phạm Vũ Luận
Ông Nguyễn Minh Quang

[Tình nhiệm cao]  [Tình nhiệm]  [Tình nhiệm thấp]  [Vàng mắt hoặc phiếu không hợp lệ]
International Integration in Asia-Pacific Region

APEC (FTAAP?)

REGIONAL CEP

ASEAN

Cambodia

Laos

Myanmar

Indonesia

Philippines

Thailand

China

Japan

Korea

Singapore

Brunei

Vietnam

Malaysia

Australia

New Zealand

Hong Kong China

Chinese Taipei

Russia

Papua New Guinea

Chile

Peru

United States

Canada

Mexico

International Integration in Asia-Pacific Region
Tariff Reduction Scheme of Vietnam according to various FTAs
ASEAN ECONOMIC COMMUNITY (AEC)

• Main objectives until the end of 2015:
  • Comprehensive Investment Area.
  • Trade in Services
  • ASEAN Single Aviation Market by end 2016

  • single market and production base
  • highly competitive economic region
  • region of equitable economic development
  • region fully integrated into the global economy
Four Policy Priorities in our fast changing time

- Resilience
- Sustainability
- Inclusiveness
- Competitiveness
Some economic policies

• Credit package of 30,000 billion VND for low-income families to purchase “social housing”. Allowing foreigner to buy house and apartment Vietnam.

• Widening room for foreign investors to buy shares in commercial banks, including non-voting shares.

• Establishment of VAMC with a chartered capital of 500 billion VND to solve NPLs. Still many questions remain on the operation of VAMC: the role of foreign investor, the role of independent consulting firms, legal issues etc.

• Accelerating of equitization of SOEs, including some more interesting SOEs in telecommunication etc.

• Restructuring agriculture and rural development.

• Institutional reforms?
Restructuring the Economy and Reform the Institutions: Second Doi Moi?

• Vietnam has adopted some rescue operations and now implementing the Restructuring Project, restructuring the banking system and solve NPLs, restructuring the SOEs and Public Investment.

• Reform the education and health care system. Reform the institutions, increasing transparency and openness, reducing corruption, reducing poverty and monitor the inequality.

• Amendment on the Constitution, on the Land Law, the State Budget Law is on the agenda. Vietnam is negotiating to join TPP, Vietnam-EU FTA, Vietnam-EFTA and RCEP, opening new opportunities for institutional reforms like the entry into WTO in 2007. A Second Doi Moi is an imperative to implement international commitments as well as tackling domestic issues.
Opportunities for Investor

• Vietnam’s economy has huge potentials (labor forces, natural resources, strategic location) and still attractive for foreign investors (Japan, Korea etc.) (Grant Thornton Survey). Efficient reforms could unfold these potentials quickly.

• Vietnam needs investment and technology. Investing into health, pharmaceutics, education bring high return.

• Equitization of SOEs and M&A offer various opportunities for investors as strategic partners in banking, industries, services like telecommunication, tourism and others. New wave of Japanese investment in Vietnam.