

VIETNAM'S ECONOMIC DEVELOPMENT



PRIVATE SECTOR GROWTH, PROVINCIAL COMPETITIVENESS, AND BEST PRACTICES IN ECONOMIC GOVERNANCE

With the advent of the policy of renovation (*doi moi*) in 1986, Vietnam has been able to achieve a consistently high level of GDP growth in the past decade (8.4 percent in 2005) and effectively address the problem of poverty. Much of this explosive economic growth is a direct result of the government's practical economic reforms to encourage private sector growth. Since the implementation of the Enterprise Law in 2000, Vietnam has registered more than 120,000 formal private companies, six times the number registered in the nine years before the law's enactment. Yet, the benefits of Vietnam's rapid economic growth have not been spread evenly across the country. Private sector activity remains concentrated in a handful of the nation's 64 provinces – those whose leaders have established a regulatory environment that encourages intelligent risk-taking by private entrepreneurs. In response, The Asia Foundation's economic programs in Vietnam have focused on improving the environment for private sector competitiveness and economic growth, as the country continues its ongoing decentralization process.

PROVINCIAL ECONOMIC GOVERNANCE

The Asia Foundation and the Vietnam Chamber of Commerce and Industry (VCCI) have worked together since the early 1990s to promote international economic integration and business development in Vietnam, especially the growth of small and medium enterprises (SMEs). Building on the success of an earlier project that conducted a series of monthly business forums in Hanoi and Ho Chi Minh City from 2000 to

2002, the Foundation and VCCI shifted focus to examine ways that improved provincial governance can further encourage broad-based private sector growth.

Initiated in 2002, the project, titled "Spreading Best Practices of Provincial Economic Governance in Vietnam," sought to address the problem of why economic success and the ability to attract private sector investment remained concentrated in only a handful of provinces. The project set out to understand what the high performing provinces were doing right to achieve a business environment conducive to private sector performance, and to pass these lessons onto the underperforming provinces. The first component of the project identified the key determinants of economic governance and also developed a governance index for 14 non-metropolitan provinces based on more than 400 enterprises. The index focused on provincial performance on registration, land, inspections, integrated planning, transparency, transaction costs in time and money, and provincial attitude and proactivity toward the private sector. The second component of the project examined economic governance case studies to draw out lessons for both provincial authorities and businesses to use in the process of finding optimal economic solutions.

PROVINCIAL COMPETITIVENESS INDEX

The economic governance above provided the basis for the subsequent development of the Provincial Competitiveness Index (PCI) by The Asia Foundation as the main partner with DAI in



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The Provincial Competitiveness Index provides an assessment and ranking of provincial governments' performance, capacity, and willingness to develop business-friendly environments.

the USAID-funded Vietnam Competitiveness Initiative (VNCI). Implemented by the Foundation in 2005 in partnership with the VCCI, the PCI extended the initial work from 14 to 42 provinces (including Hanoi and Ho Chi Minh City) that account for approximately 90 percent of economic activity in Vietnam. Using the same survey instrument developed by the Foundation and VCCI earlier and incorporating the previous data on 14 provinces, the PCI ranked provinces based on nine economic governance indicators: business entry costs; access to land; transparency and access to information; time costs of regulatory compliance; informal charges; implementation and consistency of policies; state sector bias; proactivity of provincial leadership; and private sector development policies.

The survey showed that initial endowments (such as human resources, infrastructure, and geographic advantages) are not enough to account for why the private sector flourishes in some provinces but not in others. The attitudes of local officials and the policies they adopt are key determinants of success or failure. For example, private sector investment is stronger in provinces that keep business registration and paperwork requirements to a minimum, facilitate access to land, and have transparent rules and procedures. The more successful provinces do not tilt the playing field in favor of Vietnam's state-owned firms, which despite their relative inefficiency, continue to dominate the economy even as the nation's small but dynamic private sector quickly expands.

The release of the PCI generated enormous media interest, which included newspaper features, television reports, and a nationwide cover story in the *Saigon Economic Times*. Officials immediately responded to the PCI results by contacting VNCI for advice and guidance on ways to improve their

performance. VNCI staff and researchers visited a number of provinces, holding workshops to encourage local officials to minimize red tape and maximize transparency. In Ha Tay province, the lowest-ranked province in the PCI, officials promptly carried out an evaluation of regulations and procedures that hinder the local business environment and subsequently approved a range of reforms and initiatives intended to rectify the problems uncovered. The Foundation and VCCI will produce a second PCI in 2006.

SELECTED POLICY STUDIES

Under the VNCI project, The Asia Foundation is also working with international and local experts to conduct a series of policy studies intended to shed light on key niche market areas that have remained mostly unexplored, in order to build upon the rich information coming out of the PCI research. This work will include studies on telecom reform; business licensing procedures; domestic transport costs; efforts to promote the software and technology sectors; and provincial-level lending, which may be inefficiently steering investment opportunities away from Vietnam's increasingly effective joint stock banks.

BUSINESS-MEDIA RELATIONS

Recognizing that the media plays an important role in the country's economic development, under the VNCI project The Asia Foundation collaborated with local partners to convene media-business workshops in 2005. The workshops, organized in Hanoi by the Hanoi Unions of Associations of Industry and Commerce and in Ho Chi Minh City by the Young Business People Association, brought members of the media and the business sector together to discuss the current state of business-media relationship and the impact the media can have on the business environment.

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The Asia Foundation

HEADQUARTERS

465 California Street,
9th Floor
San Francisco, CA 94104 USA
Tel: (415) 982-4640
Fax: (415) 392-8863
info@asiafound.org

WASHINGTON, DC

1779 Massachusetts Ave., NW
Suite 815
Washington, D.C. 20036 USA
Tel: (202) 588-9420
Fax: (202) 588-9409
info@asiafound-dc.org

VIETNAM

#10-03 Prime Center
53 Quang Trung Street
Hanoi, Vietnam
Tel: (84-4) 943-3263
Fax: (84-4) 943-3257
info@asiafound.org.vn

www.asiafoundation.org

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