

Chapter 4

Vietnam's Competitiveness Agenda: From Analysis to Action

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It is much easier to describe and assess a country's competitiveness than to improve it. Yet improving competitiveness is the only way in which the assessment has an impact on the standard of living that the people of Vietnam will be able to enjoy. This chapter therefore aims to provide guidance on the policy recommendations to be drawn from the assessment in chapters 2 and 3.

Competitiveness is, as was discussed in the introduction, the result of a large number of factors, actions, and policies. An exhaustive list of recommendations that address all of these areas is neither feasible, nor effective. What is needed – and what is lacking in many countries that fail to make sustained economic gains – is a clear prioritization that helps policy makers to identify those specific action areas that at this point of time are the most powerful levers to improve their country's competitiveness.

Action priorities are not simply the result of an identification of strengths and weaknesses as in chapter 2 and 3; they are a reflection of the choices that a country makes about where it wants to go. Once such a strategic direction is set, an action agenda becomes the logical set of policies necessary to move a nation from where it is to where it aims to get to.

Where does Vietnam want to go? Ultimately, this is a question that only the Vietnamese can answer. The Ten-year strategy currently under discussion defines the ambition for Vietnam to become a middle-income country by 2020. The strategy identifies human resources, infrastructure, and institutions as three critical action areas that government policy has to focus on to reach this target.

The Ten-year strategy is, in its structure of ambitions and actions, quite typical for similar documents in other countries. While this structure provides some useful orientation, a complete national strategy would need to identify the specific value that Vietnam aims to offer to companies that operate in the country, rather than simply set ambitions and indicators. It would need to define more specifically the type of activities for which this offer would be most attractive. For example, the specific sectors/clusters or operations targeted at specific markets. In turn, it would then be able to deduce from this value proposition the action priorities to guide implementation.

The Vietnam competitiveness agenda outlined in this chapter does not describe such a complete strategy. This

would go far beyond the mandate of an external academic analysis. Instead, the report in its entirety aims to make a contribution in two ways that are important steps towards a strategy. First, it provides – especially in the previous chapters 2 and 3 – many of the facts that are necessary to have an informed debate about a national economic strategy for Vietnam that is both feasible and in line with the country's ambitions and nature. Second, it identifies – here in chapter 4 – a set of principles and actions that are fully consistent with the long term strategic ambitions for Vietnam outlined in the ten year strategy. Any value proposition that Vietnam decides to adopt would most likely be consistent with the ten-year strategy but there will be a need to specify the strategy further. The competitiveness agenda outlined here is thus a foundation that can be further specified once a national value proposition is in place.

The competitiveness agenda developed in this chapter contains three parts: First, three critical tasks that require the focused attention of policy makers in Vietnam are identified based on the analysis in chapters 2 and 3. The ability of Vietnam to come to grips with these three tasks is going to be fundamental to its ability to deal with the opportunities and threats ahead. Second, action recommendations on what Vietnam should do to approach these tasks are identified. General principles are discussed that should guide policy making across the three tasks as well as for economic policy making in general. Specific sets of actions are then identified within each of the three tasks. Third, an implementation strategy is outlined that can provide orientation for how Vietnam can turn these action plans into reality. This strategy covers both an approach for the sequencing of different types of actions and the organization of a governance structure that can oversee and manage progress.

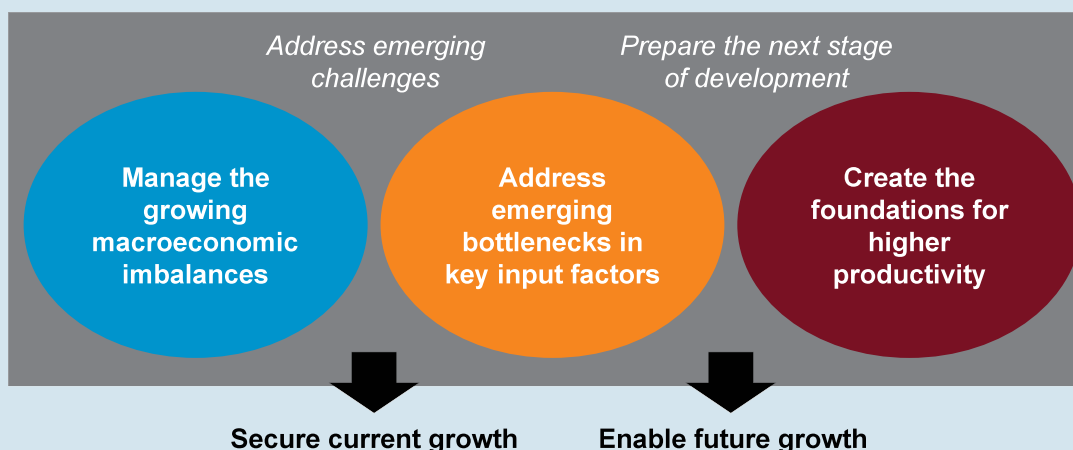
The competitiveness agenda outlined in this chapter has the ambition to be a useful starting point for Vietnamese leaders to discuss the actions to take. In this process, many of the details proposed here will inevitably be changed. The Vietnamese will have to design an action agenda that reflects their own values, objectives, and preferences. The structure and specific action recommendations presented here will hopefully make this task easier and enable the Vietnamese to engage in a more informed discussion about their competitiveness priorities. At the end of this discussion, Vietnam will have more than a clear action agenda. It will also be able to elevate its strategy to the next level and define a clear value proposition in terms of what Vietnam is offering as a place to do business.

Critical tasks facing Vietnam

Vietnam has – as chapter 2 has documented – achieved one of the most impressive global growth stories of the last twenty-five years. The analysis also indicates that the fundamental drivers of this growth continue to be in place: Vietnam has the opportunity to stay on its current growth path for the next few years. This positive outlook

Critical Tasks for Vietnam

- Vietnam can remain on a robust growth path for the next few years, if it avoids **emerging challenges** ahead
- Vietnam can move to the **next stage** of development, if it creates the foundations now to move beyond middle income status



and the complacency it can easily foster is the most difficult challenge facing Vietnam.

The tasks that Vietnam is facing fall into two categories: First, there are two groups of emerging challenges that threaten to undermine the current growth dynamics if they remain unchecked. Second, there is a group of fundamental changes in Vietnamese competitiveness that are necessary for the country to move beyond the limitations of the current growth model. While different in nature, these two groups are connected and in part overlapping: The threats to current growth are, at their core, symptomatic of the growing fragilities of the current growth model. These fragilities are an important impetus for the need to enter a new stage of development. In turn, all progress on creating the foundations for higher productivity growth will also provide relief to the macro- and microeconomic pressure visible today.

Macroeconomic imbalances

Vietnam has registered impressive GDP growth over the last few years and decades, enabling a rise in standards of living and lifting millions of Vietnamese out of poverty. However, beneath this surface of strong overall GDP growth, Vietnam faces significant macroeconomic imbalances:

- Trade and current account balances; Vietnam is facing an increasing deficit in its trade balance. While widely perceived as a typical export-led economy, Vietnam is systematically importing more than it is exporting. If imports contribute towards the upgrading of the capital stock and therefore create opportunities for future exports, a trade deficit is temporary and justified; the data is not conclusive but suggests that fuels, raw materials,

components and supplies for exports, and increasingly also consumption goods dominate.

- The flip side is a growing savings-investment imbalance; while such an imbalance is again normal for a country with a low capital stock on a fast catch-up path, the low efficiency of the investment is worrying. The external deficit has to be covered through capital inflows, from foreign investment, remittances, development aid, or through other sources. The increasing concerns about Vietnam's ability to finance the external deficit, fuelled by rising external debt¹ and a significant drop in foreign reserves², create uncertainty about the country's future economic outlook.
- Inflation and exchange rate; Vietnam's inflation rate has in the last few years become increasingly volatile, with the trend rate of inflation ratcheting upwards. Large unsterilized capital inflows and rapid growth in domestic credit have created inflationary pressure. Under an exchange rate policy that is oriented towards stable nominal rates, this has led to increasing real exchange rates and has forced Vietnam into repeated devaluations. The high level of dollarization in the economy adds to difficulties in managing inflation and exchange rate fluctuations.

The analysis in chapter 3 has revealed that the current policy approach plays a crucial role for these imbalances. The public sector accounts for a disproportional share of investment and is financing it through public sector deficits that increased quickly from 2.8% of GDP in 2001 to 8.9% of GDP in 2009 (IMF). Despite a relatively high tax to GDP ratio³, public sector revenues are not only insufficient to

cover expenditures but also overly reliant on revenue sources that are either highly volatile (oil and gas taxes) or bound to fall due to policy commitments in the AFTA and WTO context (import tariffs). Given the still shallow local capital markets, the government is forced to finance its budget through donor assistance or the global capital market.

These imbalances are costly and could turn out to become seriously dangerous. At the minimum, they lead investors to require a higher risk premium to invest in Vietnam. This slows down the rate of growth. And it reduces the benefits that the Vietnamese can derive from foreign capital that is naturally needed in an economy on a rapid catch-up path. But the consequences could be much more painful. Vietnam's macroeconomic imbalances could culminate in a crisis should sentiments shift so that Vietnam loses access to external financing. This would require a painful adjustment process with severe exchange rate changes, public expenditure cuts, and possibly years of lost growth.

The current policy response has recently received international praise, which noted that the Vietnamese government had responded to the concerns about macroeconomic imbalances. While Vietnam has taken such positive steps, the policy response falls short of a coherent strategy to address these challenges in a more comprehensive way. There is virtually no publicly announced strategy for reducing external and government financing deficit. Recent price controls in response to inflation have addressed the symptoms but not the root causes. Changes in the nominal exchange rate have been reactive and failed to outline a clear future path that financial markets can rely on. The government's pressure exerted on commercial banks to reduce interest rates doesn't take into account the market situation. In particular, interest rates have remained high because the public does not want to hold Dong balances at lower rates. The emerging imbalances described above will continue to grow, or even become chronic, unless the government changes course.

Vietnam needs a more prudent macroeconomic policy approach that addresses the root causes of the emerging imbalances. Monetary policy should be more transparent and forward looking. Fiscal policy should be more prudent in managing budget deficit, public investment, and public debt. In addition, monetary and fiscal policies will need to be well-coordinated to achieve macroeconomic stability.

Microeconomic bottlenecks

Vietnam's current growth trajectory is driven by the nature of its microeconomic fundamentals, essentially the presence of a large pool of low cost labor that has become more and more accessible for integration into the global economy. While these factors continue to hold, there are increasing signs that the microeconomic growth model is hitting bottlenecks:

- Skill and infrastructure shortages; Investors are increasingly reporting problems in getting sufficiently skilled employees, especially middle managers and

technicians. There are also growing concerns about the capacity of the logistical and electricity infrastructure. These problems are locally concentrated in regions that have received the lion's share of export-oriented investment inflows, especially in the Ho Chi Minh City region.

- Profile and implementation rate of FDI; foreign investment is increasingly focused on real estate projects and labor-intensive activities. There is less upgrading from the induced imports of capital goods; already before, there was little, if any, evidence of positive spillovers from foreign owned activities to local companies. FDI firms use cheap labor in Vietnam to produce for their own global value chains and have shallow roots in the local economy. While the announced FDI projects continue to be strong, there is an increasing gap between these announcements and actual investments. While part of the gap might be explained by an interest to "over-report" FDI attraction at the regional level, part of it is likely to be driven by increasing problems in implementing FDI projects in line with initial plans or by speculative behavior of some investors who register projects to "reserve a seat" and later resell their licenses for profit.
- Deteriorating ratio of investment to growth; as an accounting measure, the incremental capital to output ratio (ICOR) gives a sense of how investment relates to GDP growth. Notwithstanding the fact that ICOR is often criticized for its conceptual validity, it is still notable that relative to its investment, Vietnam achieves lower GDP growth than China and India. State-owned enterprises account for the lion's share of capital investment, accentuating the low overall investment efficiency.

These emerging bottlenecks are signs of the gradually decreasing level of dynamism that the current growth model is able to generate. While they are unlikely to result in any immediate crisis, they will slow down growth and with it, the rate of improvement in the standard of living of the Vietnamese people. And these bottlenecks are likely to become more cumbersome as the economy expands.

The policy response so far has been based on a largely accurate identification of the bottlenecks – all three main elements of the ten-year strategy are highly relevant. However, the impact of the steps taken in response, has so far, been clearly insufficient.

In the area of workforce skills, the educational system is in a transition. Relative to its GDP, Vietnam is spending more on education than many of its peers: According to the World Bank, Vietnam's public spending on education as a percentage of GDP in 2009 was about 5.2% - higher than most of its ASEAN peers (Malaysia – less than 5%; Thailand – 4%; Indonesia – 3.5%). But the education system is inadequate in responding to the needs of companies, in terms of quality, quantity, and content of education.

Private institutions have entered the market to fill some of this gap, but providers vary highly in their quality. Their effectiveness is hampered by the lack of a modern regulatory framework as current government oversight tends to impose administrative and operational control, but has been ineffective in implementing transparent quality standards. Barriers still exist and restrict competent, especially foreign, education providers from entering the market.

In physical infrastructure, the government has – with the strong support of foreign donors - made significant investments over the last few years. However, here too, spending has been less effective than in peer countries: The average cost of building one km of railroad between Hanoi and Vinh (200km/h) is double than that of the road between Beijing and Shanghai (300 – 350km/h) (Fulbright Economics Teaching Program 2008). Foreign donors provide much needed financing, but their financing is conditional and is tied to their interest. Regional governments request projects that in sum lead to an inefficient duplication of infrastructure assets. National government allocates funding for such projects as compensation for regions with lower growth, not with a view to achieve the highest possible overall development impact. Private sector infrastructure investment remains limited due to the lack of regulatory framework and commercially viable mechanism for profit sharing. These challenges will only get more complex as Vietnam moves from a stage where the most pressing infrastructure needs were obvious to a situation where the prioritization of projects becomes more intricate.

In regulatory processes, the government and foreign donors have, through Project 30⁴, engaged in a wide-ranging effort to simplify administrative procedures. The many simplifications that were successfully identified by Project 30 now need to be implemented. A critical challenge that will need to be addressed is the highly heterogeneous application of rules and regulations across the country and across different government agencies. Many foreign companies report that while the national laws are solid given Vietnam's overall state of development, their application across the country creates high levels of uncertainty and costs.

Vietnam needs microeconomic policies that can effectively address these emerging bottlenecks. In the short term, ways need to be found in which the government can ensure such action without having to wait for a fundamental reform of government institutions.

Foundations for middle-income status and beyond

Vietnam's current growth is based on an economic logic that ultimately has limited potential. At its core, it raises prosperity by moving Vietnamese workers from agriculture into more capital-intensive manufacturing activities. This structural change then induces further growth as an emerging middle class starts to demand a broader range of consumption goods and services. The highest level of prosperity that Vietnam can reach given this approach is defined by the level of productivity that unskilled workers

can reach in manufacturing. If Vietnam is not able to move beyond this model, it will be stuck at lower middle income level, with poorer economies threatening its position. There are many signs that Vietnam currently remains trapped in this dangerous position:

- Low value added exports; export-oriented manufacturing activities in Vietnam rely almost exclusively on imported supplies. The only local content provided is the work of low- or semi-skilled Vietnamese employees, using machinery and materials imported from abroad. The only exceptions are exports of natural resources and agricultural produces, where local endowments rather than imports provide the critical inputs.
- Eroding cost competitiveness of Vietnam; the high growth in Vietnam has fuelled inflation and raised cost levels. While productivity has improved only marginally as infrastructure has been upgraded, costs have gone up. Vietnam's cost position is gradually eroding relative to other countries that either also provide a large pool of low-cost labor or have increased their productivity more dynamically.
- Low productivity of Vietnamese products versus imports; as Vietnam is opening up to the global economy and as its domestic market is growing, it is also becoming a more attractive market for foreign exporters. In a number of industries, there are clear signs that these companies, for example from China, are able to out-compete local producers. While foreign companies generally face higher cost levels, they more than compensate for this with higher productivity levels and better logistical networks.

These observations are typical for an economy that is growing quickly based on the combination of domestic low-cost labor and foreign capital. While they do not signal an imminent crisis, they provide clear evidence that unless Vietnam moves to a new economic policy approach, it will be stuck at the current level of prosperity and might even lose some ground to new competitors. This task is getting more urgent given rapid changes in the international economic environment.

The current policy response is based on the widely shared view that Vietnam needs to move beyond the current economic growth model, which is based on low labor cost and intensive capital investment rather than on productivity and competitiveness. But there is no clarity or consensus on the policy implications to draw and on the new strategy and growth model to implement. The challenge is that moving to a new model requires interrelated changes in many policy areas. Such a fundamental transition is challenging for any administration and is particularly daunting for Vietnam given its widely acknowledged institutional weaknesses. The only way to deal with these weaknesses is a competitiveness strategy that sets clear priorities and focuses the government's limited institutional capacities at a few truly critical tasks

Three Guiding Principles

*From a **broad-based** shift towards **market-oriented** economic activity to a **targeted** approach of upgrading **productivity***

*From a Government **Controlling** a Transition Economy to a Government **Creating** Competitive Advantages in a Market Economy*

*From **Dominance** of SOEs and Foreign MNCs to a **Market-driven Mix** of private firms, SOEs, and Foreign MNCs*

at any point in time. At the moment, Vietnam is trying to upgrade too many things at the same time, without a clear strategy that could align and sequence these activities towards a coherent new goal. The lackluster success in many if not most of the initiatives to fundamentally upgrade Vietnam's competitiveness is the logical consequence.

Improving Vietnamese competitiveness: What to do?

Vietnam needs an action agenda that accomplishes the three main tasks identified in the preceding section. Vietnamese leaders have to design the many specific policy programs and activities required in this context. Companies, local and foreign, international donors, and others will also have to be involved. The dialogue between these important stakeholders will provide the basis for future work on defining a comprehensive national economic strategy.

This section contributes to their work in three steps. First, it outlines some general principles on how the nature of Vietnamese economic policy will have to evolve in this new stage of the country's development. Second, it will identify specific actions recommended for early implementation in each of the task areas discussed. Third, it will define important general rules for how to align ongoing government policy changes with the overall competitiveness agenda.

Guiding principles: How does Vietnamese policy action need to change

Vietnam's economic policy approach since 1986 has, in many ways, been an enormous success. Standards of living have gone up and many people in Vietnam have seen their livelihoods transformed. This is a source of well deserved pride. Changing the policy approach now is by no means

an indication that the policies of the past were mistaken. It is a sign that both Vietnam and the international economic environment in which the country operates have been dramatically transformed over the last two decades: what worked well in the past is not necessarily what will work best in the future.

Moving from one policy approach to another is not just a matter of refining current policies. It is driven by the need to adopt a new set of principles that can then guide the multitude of individual changes that are required. These principles describe the direction and underlying logic of change. Clarity on these principles enables the many individual policy makers and implementers to align their actions with an overall strategy. While this happens naturally in a steady-state economy within a given growth paradigm, it becomes a critical condition for effective action when many things need to be changed in parallel.

The following three principles outline critical dimensions of the Vietnamese economic transition- the economic policy goals, the role of government and the private sector profile

Growth drivers

Vietnam's growth since the mid-1980s has been driven by transition and structural change. Transition has transformed the governance of the economy from plan to market, opening up Vietnam for integration with the global economy. Structural change has transformed the composition of the economy, moving millions from subsistence agriculture into manufacturing and services. These macroeconomic "systemic" changes have enabled underlying competitiveness, essentially the presence of low cost labor, to be revealed.

Vietnam's future growth has to move beyond providing

access to and leveraging existing economic fundamentals. It needs to be based on a consistent upgrading of these fundamentals. This will require changes on a wide range of macroeconomic and microeconomic conditions driving productivity.

The current policy debate in Vietnam has not quite made the transition to this new vision. Much of the focus is on short-term growth rates rather than on sustainable productivity growth. While these objectives do not need to be in conflict, they easily can be. Many macroeconomic policies that fuel short-term growth have no or even negative impact on the longer-term productivity potential of the economy. This is particularly true for attempts to provide SOEs with easy access to capital in order to keep up their investment activities.

Government role

Vietnam has experienced a significant transformation in the role of government in the economy since the mid-1980s. The basic institutions of a market economy, including free price setting, making decisions on buying, producing, and selling, and so forth, have been created. Government remains an important factor in the economy, but the nature of its involvement has clearly changed. Government is now reeling under the strains of finding its new role within the more complex market economy that has developed. The government's instinctive reaction remains, too often, one of control. But the public sector's ability to exercise this control is not keeping pace with the changes in the environment. This breeds an environment in which inefficiency, corruption, and weaknesses in the rule of law develop almost naturally.

Vietnam's government needs to define a new role, in line with the demands of an emerging, dynamic market economy. This role is defined by the roles that government needs to play to allow the market to function. Government needs to provide a transparent and effective regulatory environment in which companies can compete on equal terms. Government needs to have an effective approach towards providing public goods, including infrastructure, education, and regulation, in ways that reflects both its political will and the needs of companies and the broader public. In short, it needs a plan for how government actions are contributing towards the emergence of a business location with clear and distinct competitive advantages.

The current policy debate in Vietnam is too often focused on the size and the direct power of government, rather than on its ability to provide the functions needed. But size and effectiveness do not necessarily go hand in hand. Government that aims to directly control many actions is finding itself overburdened, even if it is large. Government that focuses on setting and implementing clear rules of the game can have much stronger impact, even if it is smaller.

Structure of the economy

Vietnam has in the process of transition moved from an economy in government ownership to an economy

dominated by SOEs and foreign companies, with the local private sector playing a significant but overall still small role. The process of "equitization" has been challenging, and the financing of SOEs remains non-transparent. Efforts to create national champions have not met with much success and in some cases, like Vinashin, seems to have provided an environment where leading executives exploited their position for private gain. Foreign companies have been able to grow and operate successfully in Vietnam despite these challenges. Yet the local private sector has for the most part been relegated to small companies, largely serving local demand.

Vietnam needs to provide an environment in which a more balanced mix of state-owned, private, and foreign companies characterizes the economy. Competition between these groups needs to be on equal terms, enabling those that make the strongest contribution to Vietnamese prosperity to gain ground.

The current policy debate in Vietnam too often gets hung up on political views about ownership. Academic research clearly indicates that market structure, i.e. the exposure to competition, is more critical than ownership per se in determining productivity levels within companies. Vietnam can combine SOEs with a market economy and rising levels of prosperity. However, it can only do so if the governance of the SOEs is transparent, the role of the government as an owner clearly separated from its role as a regulator, and SOEs are exposed to the same market rules and incentives as their foreign and local rivals.

Specific action proposals: Addressing the three critical tasks

Guiding principles for economic policy need to be translated into specific actions. Ultimately these actions need to be designed and implemented by Vietnamese institutions and individuals to gain real traction. The remainder of this section provides examples of key actions to take, organized by the three key tasks defined earlier, for upgrading Vietnamese competitiveness. These actions are meant to provide useful input for Vietnamese policy makers, not to constitute a fully comprehensive list or a readily implementable action plan.

Macroeconomic imbalances

As a small-open economy with a quasi-fixed exchange regime, Vietnam's ability to stimulate growth through macroeconomic policy is limited. Monetary policy relaxation doesn't guarantee higher economic growth since a large portion of the increased demand (i.e., investment and consumption) will be satisfied by imports. It may also cause inflation, asset bubbles, and dollarization as Vietnam experienced during 2009 as the result of the stimulus package⁵. Fiscal policy, too, faces significant limitations in Vietnam: The budget deficit is very high and has become almost chronic. And any fiscal stimulus will attract more capital inflows that under the quasi-fixed exchange regime will force the central bank to increase money supply and thus push up inflation. Instead of using expansionary fiscal and

monetary policy to stimulate the economy, the government should follow a prudent long-term policy approach and improve its macroeconomic management capability to maintain sound macroeconomic foundations⁶.

The overall macroeconomic policy mix has to achieve a number of objectives: Monetary policy needs to create an environment in which inflation, interest rates, and nominal exchange rates develop in a transparent, market-driven process that sends clear signals to market participants. Fiscal policy needs to ensure transparency and discipline in balancing government revenues and expenditures in a way that is consistent with the public sector's long-term budget constraint. Macroeconomic management needs to align short-term monetary and fiscal policies with these long-term goals while reducing short-term cyclical fluctuations of the economy. Macroeconomic management also needs to monitor and if necessary manage the build-up of unsustainable bubbles in the economy, for example in the real estate, credit or equity markets, and to strengthen the soundness of financial market institutions.

The following policy actions are examples of the steps Vietnam needs to take to move towards a macroeconomic policy environment in which imbalances are less likely to occur and can be mitigated:

- Transparency of fiscal position of the government and SOEs; uncertainty about the economy's fiscal conditions, such as budget deficit, public debt (including debt of SOEs), foreign reserve holdings, etc. undermines the trust of market participants. Vietnam should establish an effective and independent reporting body in charge of providing transparent and robust data in line with international norms on the state of the economy. SOEs need to be subject to stringent information disclosure requirements, especially on their economic efficiency, financial performance and financial relations with the government.
- Strengthen budget discipline; Transparency and discipline in state budget management need to be enforced to minimize off-budget spending items and maintain a sustainable fiscal balance. Quality and effectiveness in public debt management need to be enhanced. Public debt management should be considered as an organic part of the overall macroeconomic management and should be coordinated among Ministry of Finance and other policy agencies. Transparency and independent monitoring in public investment need to be enforced.
- Consistent and predictable monetary policy; Monetary policy needs to be driven by a transparent policy objective and has to be consistent and predictable over time. According to Vietnamese laws, monetary policy decisions involve the National Assembly, the government, and the SBV. We recommended a clear assignment of roles among these three entities: The National Assembly could set the ultimate objective for monetary policy (for instance, an inflation target

rate), the government together with the SBV set the intermediate targets (for example, money supply and/or credit growth), and the SBV is given complete autonomy in setting the operational targets. SBV then needs to send clear signals on its main monetary target, namely inflation, and the corresponding money supply and credit growth targets. Over time, it is critical that the central bank's independence, competence, and capability are strengthened.

- Financial market regulation; weak regulatory frameworks and immature financial markets are a recipe for speculative bubbles and overheating. Vietnam needs to develop a robust regulatory framework in which the room for speculation is reduced while the financial system is gradually deepened. SBV needs to prudentially oversee the financial system to ensure the soundness of financial markets and institutions. Transparency and fair competition should be enforced to ensure that credit is allocated to the firms and the areas where it can be used most efficiently. Regulatory framework should also support effective surveillance of financial institutions and risk management to ensure soundness of the system and reduce systemic risks.
- Coordination of overall macroeconomic policy over time; a short-term focus and a lack of coordination among different macroeconomic policy instruments undermine the effectiveness of policy. The Central Committee for Financial and Monetary Policies can play an important coordinating role to enhance alignment of efforts across different ministries. Its operation and mandate should be upgraded and formalized to manage a medium- to long-term agenda rather than to seek ad-hoc solutions to immediate crises and problems.

Microeconomic bottlenecks

Vietnam needs microeconomic policies that can effectively and quickly react to bottlenecks in the regions and clusters where they are most pressing. As discussed previously, these bottlenecks are related to workforce skills, physical infrastructure (including electricity) and administrative procedures.

While a fundamental solution to these challenges requires broader-based changes in policies and institutions, there is a need to find effective answers more quickly. This can happen in public - private partnerships where the companies affected by the bottlenecks, the government agencies in charge of the respective issues, and – where relevant – the institutions that provide relevant products and services, launch target activities together. Such partnerships will provide useful learning and experimental experience to convince people to embark on broader national-level policy measures.

BOX 4.1:
EXAMPLES OF
CLUSTER-BASED
INITIATIVES

- Garment and textile cluster in Ho Chi Minh City's surrounding area (Ho Chi Minh City, Binh Duong, Dong Nai provinces); the garment sector is facing a serious challenge of low value-added and low productivity. The project will roll out a study and some action initiatives to enhance the competitiveness of the cluster. For example, skills training programs for technicians, engineers and line managers; capacity building for design and branding; facilitating linkages among garment factories and local textile suppliers and developing material supply zones in collaboration with industry players.
- Electronics and engineering cluster in the Red River Delta (Hanoi, Vinh Phuc, Bac Ninh, Hai Duong); building up the local supplier base (supporting industries) is critical to increasing the value-added of this cluster. The initiative will collaborate with flagship FDI companies to map out a database of potential local suppliers; identify areas of potential linkages and promote partnership; build capacity and provide incentives for local suppliers to meet the requirements of FDI clients. Any generalizable lessons could assist government in formulating policy on developing supporting industries in other clusters.
- Logistics cluster in the neighborhood of Ho Chi Minh City; an efficient logistics sector is critical for all firms regardless of whether they are serving a domestic or foreign clientele. An industry assessment could be launched to identify factors impeding the sector. This can be followed up with focus group discussions with all stakeholders – public, private and institutions for collaboration so as to seek workable solutions and formulate coherent policies which remove bottlenecks and enhance both the quality and efficiency of the provision of multi-modal logistics services.
- Tourism cluster in the Central region (Da Nang, Hue and Quang Nam province); of late there has been an influx of FDI in tourism-related real estate projects in the region however, there is a lack of coordination among provinces to develop a sustainable tourism cluster. The initiative will develop an integrated concept and strategy for the region; prioritize and attract investment in supporting industries such as transportation, recreation and healthcare; facilitate linkages and coordination among cluster participants.
- Agro-processing cluster in the Mekong Delta region; most agricultural exports comprise unprocessed or semi-processed goods which have low value-added. The initiative will connect the relevant stakeholders such as farmers, traders, processing factories, supermarkets and exporters, quality standard regulators, agricultural extension service providers and conduct focus groups to promote business linkages and find ways to improve both the quality and value-added of agricultural products.

- Cluster-based action initiatives; the lack of dialogue between the government agencies regulating workforce skills or providing infrastructure and the companies using these services is one of the most critical barriers towards removing the bottlenecks for growth. A range of targeted pilot initiatives can be launched in clusters where there is sufficient critical mass for actions to affect a meaningful number of companies and willingness of both companies and the relevant public sector agencies to collaborate. Central government could provide special authority to such efforts, where needed. Such initiatives will showcase how different stakeholders – public and private, central and local, industries and academia – can work together to address issues of common concern. Issues could be picked and initiatives could be designed in a way so that the government and business people could learn how to formulate a holistic policy mix to address not only individual issues but also a complex set of inter-related problems which is often the case in reality. International agencies with relevant

experience could provide technical support. Success will ultimately depend on the willingness of the Vietnamese stakeholders to take ownership and translate such experimental experience into broad-based policy actions.

New competitiveness strategy

Vietnam needs an overall economic strategy that provides a coherent approach for upgrading competitiveness and moving the country to the next level of development and competitive advantage. This strategy is also dependent on how Vietnam intends to position itself in the global economy. To achieve this, Vietnam will need to change many of its policies as well as the way policies are designed and implemented. While, the task of repositioning Vietnam in the global economy is beyond the scope of this report, the following are key policy areas and policy processes where change is most critical.

1. Education and workforce skills

Skills are critical to enable the emergence of a higher value-added economy in Vietnam. While education alone is not sufficient, there is no way forward that does not require a work force that is better trained and educated for the tasks required in a more sophisticated modern economy. There is little if any controversy about this fact in Vietnam; the question is how to get it done.

The current approach is not delivering. It fails on quantity, quality, and relevance of education and workforce skills. Public sector institutions have proven unable to provide the right skills and to extend their capacity in line with the growing needs of the Vietnamese economy. This is the result of ideological and state centric governance system in education combined with the lack of collaboration between educational institutions and the business community. Few foreign institutions have entered the market under the watchful and often constraining oversight of government agencies. There is a recent rapid expansion of local private sector institutions which has added to capacity but their track record in terms of the quality of education has been highly heterogeneous. The market is not transparent enough to provide guidance to customers seeking high-quality and relevant educational programs. Regulators focus on entry barriers and administrative control of operational issues (e.g. how many students to enroll, how much instructors are paid, etc.) rather than on strategic control of quality. The policy focus on expanding access to basic education has come at the cost of lower quality and less relevant education.

A new approach towards education and in particular workforce skills development needs to focus on the role of education as a central enabling condition for higher productivity. Entry of private sector training providers, especially of competent foreign players, needs to be simplified. Government should focus on its role as a regulator for public and private training providers that implements quality standards and enforces transparency through a combination of incentives, controls, and investments.

The collaboration between companies, training providers, and regulators at the level of clusters needs to be actively encouraged to align education content with market needs. Government investments should be directed to areas where, based on the dialogue in clusters, the potential for increasing value-added is the highest.

Specific actions and mechanisms can build on the efforts previously mentioned as a response to local bottlenecks, and provide a pathway towards rolling them out nationally. Examples to consider include:

- Develop a national workforce strategy with rigorous studies on the type of skills and competencies required for future growth. This strategy should be developed in close consultation and implemented in coordination with industry and educational institutions rather than

solely by the government. It is necessary to have a central government body to champion and oversee the strategy and all efforts related to human capital upgrading. This body will coordinate various issues which are currently being split among different ministries, namely the education portfolio of the Ministry of Education and Training, the vocational training and labour issues of the Ministry of Labor, Invalids and Social Affairs and industry-specific skill issues of line ministries. A Central Taskforce on Education Reform under a broader competitiveness watchdog agency can help coordinate and streamline efforts. Another institutional example is the Workforce Development Agency (WDA) in Singapore.

- Reform the regulatory framework for the education sector. Instead of focusing on administrative control, the regulator needs to develop effective quality standards to control the quality, not quantity, of instructors, students and curriculum. Entry barriers need to be simplified towards smarter regulation to allow most competent players to enter the market. Educational institutions need to have more autonomy to decide their own operational and organizational issues. A merit-based system needs to be strengthened to encourage most talented instructors and students, and also to alleviate corruption and fraud. Funding allocation should be tied to performance rather than size of the institutions. Transparency needs to be enforced to provide clear guidance for the customers who are seeking education services. Government needs to mobilize the dynamics of the market process in order to enhance the quality of education supply, instead of working against market forces.
- Promote vocational training: The social preference for university education (especially business and management education) over vocational and technical training has led to a serious shortage of capable engineers and technicians in the market. The government's administration in this area need to be streamlined into a single focal agency (instead of divided among three different ministries as currently). Vocational training programs needs to be developed and managed in close coordination of educational institutions, local government, and the business sector, including foreign investors. An interesting foreign example is the WIRED program in the US, where groups of regional government agencies, educational institutions, and companies proposed joint workforce skills development plans for specific clusters for funding to the federal government.
- Set up a National Productivity Fund to support cluster-based initiatives in improving productivity through upgrading workforce skills, technology, production management system, etc. The Fund should embrace a much broader portfolio than the current Vietnam Productivity Centre (under the Ministry of Science and Technology) which is merely an ISO accreditation agency. A national productivity fund needs to be put

at the centre of the system to coordinate productivity upgrading efforts in different sectors and to have deep industry-specific knowledge and expertise. Examples of structure and operation of such a fund can be found in Korea, Singapore and Hong Kong.

2. Physical infrastructure

Transportation, communication, and energy infrastructure are another critical condition for emergence of a higher value-added economy in Vietnam. Again, there is little if any controversy about this fact in Vietnam; the question is how to get it done.

The current approach has delivered a significant upgrading of the absolute level of physical infrastructure available in Vietnam. But the costs of these investments have been high compared to similar projects in peer countries, and their impact on competitiveness is not visible. Corruption and inefficiencies have been a significant burden. And the demands of the economy have grown even faster than infrastructure capacity has been added. In many cases, infrastructure projects have been used as a tool of regional policy, compensating regions not fully benefiting from the brisk growth in, especially, Ho Chi Minh-City and its surroundings. The Vietnamese government has now plans to massively upgrade infrastructure nationwide. Foreign donors have provided capital, but in many cases such projects are tied to their conditions or interests. Serious concerns have, for example, been voiced about the plans to build a high-speed rail link between Hanoi and Ho Chi Minh City.

A new approach for infrastructure investment needs to systematically evaluate public infrastructure projects by their contribution to competitiveness, not by their roles as demand drivers or compensation to regions. The overall budget control should be centralized, with decision making on national projects centralized and other budgets for regional projects allocated to region. PPP should be used as an instrument to enhance the effectiveness of investments, not just to mobilize private capital. Relevant proposals have been discussed in the recent past, for example at the Vietnam Business Forum. It is now time to move beyond the pilot phase and start a larger scale roll out.

The major part of infrastructure investment is currently financed and implemented by the public sector. Enhancement of transparency, efficiency and accountability in public procurement and construction is critical not only to reduce costs and enhance quality, but also to strengthen the country's creditworthiness with creditors.

Policies need to focus not only on building "hardware" infrastructure like roads, ports, airports, etc. but also on developing the complementary "software" solutions and services, e.g. logistical networks and services to ensure seamless and efficient connection of infrastructure hardware. As an export economy, Vietnam should place great importance on improving logistical and custom service efficiency where it is currently underperforming other regional peers. Electricity shortage is also emerging as

a serious impediment for growth.

Specific actions and mechanisms can build on the efforts previously mentioned as a response to local bottlenecks, and provide a pathway towards rolling them out nationally. Examples to consider include:

- Create a centralized planning mechanism to coordinate, oversee and evaluate infrastructure development. A transparent and enforceable system for prioritizing, selecting, managing and evaluating projects (e.g. set of criteria, procurement system for public infrastructure projects) is critical. Investment decisions need to be based on rigorous assessments of public benefits and costs. The planning mechanism does not necessarily centralize all decision making, but should play a central role in developing and overseeing the implementation of the master plan for infrastructure investment, monitoring the alignment of individual projects with the master plan and evaluating the projects' efficiency and impact. It would provide a framework and transparent rules and processes for other agencies and lower levels of government to follow. An example for such a mechanism is Singapore's Ministry of National Development, which is the country's lead agency that oversees physical infrastructure development (MND 2010).
- Strengthen the system for managing public procurement, including streamlining procurement procedures with those of international agencies, development of an e-procurement system and creation of an independent supervisory agency which reports to the National Assembly and which has power and authority to monitor, inspect and evaluate major projects. In Singapore all infrastructure tenders, other public sector opportunities, and awards can be readily accessed online through GeBIZ, the government's one-stop-shop e-procurement portal. The Government e-Procurement System (GePS) is a similar initiative in South Korea that centralizes public sector procurement through a dedicated portal.
- Provide viable market-based financing options for infrastructure investment (i.e. greater private sector participation, financially viable, more efficient, etc.). The PPP model for infrastructure investment is an option, but scrutiny is required to ensure that it is not abused as a tool to provide privileges for some well-connected private groups in getting access to land (as a return for their co-investment) and cheap ODA credit or in overcharging the end-users of infrastructure. Besides a transparent legal framework, an effective and enforceable competitive bidding system with a monitoring and evaluation mechanism is key to ensuring the impact of the PPP model.
- Address electricity shortages through a combination of investment, market regulation and technological measures. Gradually liberalize electricity prices to attract investment in the sector. Create a competitive market and put EVN subject to market disciplines.

Enforce quality control and technology standards and measures to reduce electricity consumption ratios of key industries, especially steel, cement and chemicals. Develop and gradually commercialize new and more sustainable energy sources.

3. SOE Governance

State-owned enterprises remain an important part of the Vietnamese economy and are likely to remain so in the near future. Enhancing the capabilities of SOEs is critical to increase value-added, to remove the drain on public sector resources their financing needs impose, and to create opportunities for competitive private companies to emerge.

The current approach of SOE governance is not delivering the strong, competitive Vietnam-based companies that are the objective of policy makers. The hope was to achieve high performance through creating economies of scale. SOEs receive special treatments and privileges in forms of access to land, subsidized and preferential credit through state-owned banks or government guarantees, etc. They also enjoy monopoly positions and strong connections to the sectoral regulators who are also their direct reporting line in most cases. The SOEs are also not required to adhere to the governance standards which apply to almost all public companies such as information disclosure, independent audit, recruitment of professional management, competitive bidding, etc. It is getting increasingly obvious that low efficiency persists in large SOEs, growth is achieved by entering into other fields, and corruption and personal enrichment remain difficult problems. While it is tempting to see such failings as the result of individual misbehavior, the experience of many other countries suggests that it is systemic. The current policy approach not only fails to provide an environment in which SOEs improve their competitiveness and productivity. It also crowds out more productive players and erodes confidence in a transparent and equal playing field.

A new approach needs to separate the roles of government as an owner from that as a regulator. Government needs to define a clear owner policy in terms of what it expects as returns from its SOEs. Government's measures to improve SOEs' performance need to focus on enhancing productivity rather than increasing short-term profitability. SOEs need to be subject to the same competitive pressure as their foreign and local private sector rivals. It is crucial to ensure that SOEs compete on equal terms to other companies on all markets, including those for capital, and are subject to full market discipline. While equitization needs to remain on the policy agenda, it is more pressing to enforce modern corporate governance standards in SOEs, especially standards related to information transparency, risk management, and the transparent operation of the Board of Directors and management team.

Specific actions and mechanisms to consider include:

- Separate the role of the government as an owner from that as a regulator. This requires the government to delegate its ownership to an independent, strong body which operates purely as a commercial corporate and independently from any political agenda. All major state-owned conglomerates are still reporting either directly to the Prime Minister or to the line ministries that ultimately also regulate their markets. Ownership of smaller SOEs is managed through the Vietnamese State Capital Investment Corporation (SCIC). But SCIC has an unclear mandate, ownership policy, and does not effectively separate regulation and control. Singapore's Temasek is an example of clear separation between the government and its linked companies.
- Define and enforce modern governance standards for SOEs, especially those related to information disclosure, risk management, independent financial audit, and appointment and operation of the Board of Directors (BOD) and the management team. The BOD and the management team of the SOEs have to be accountable for the enterprise's performance. At the minimum, SOEs need to be subject to the same governance standards and regulations as other public companies. An interesting foreign example is the initiative of the Baltic Institute of Corporate Governance. In collaboration with the Lithuanian government, it has developed governance principles for SOEs that have now been implemented.
- Ensure competition and market discipline in the markets in which SOEs operate. All the current non-market subsidies and special treatments for the SOEs need to be removed. The government can still support the SOEs but only under the same rule as it provides support to privately-owned companies. The support needs to go to those who can use it most efficiently and contribute the most to competitiveness and it needs to focus on sustainable upgrading of productivity rather than increasing short-term profitability. SOEs, therefore, should be discouraged from expanding into non-core areas, especially into speculative financial and real estate ones as this is creating systemic risks for the economy. State resources (land and real estate, equipment, credit, etc.) which have been and will be allocated to SOEs need to be duly revaluated by independent, competent agencies to protect those from leaking to individual pockets. Competition framework and disciplines need to be strengthened, e.g. strengthening the capacity and separating the operation of Vietnam Competition Administration Department (VCAD) from sectoral regulators; enforcing competitive bidding in government contracts, allowing private sector players to enter the currently monopolized markets, etc.
- Improve the equitization process and define policy for effective management of divestment proceedings. Equitization needs to be used as a tool for adopting

technology and know-how transfer, applying good governance and creating exposure pressures, rather than just for mobilizing private capital. As major state conglomerates and enterprises will be equitized over the next few years, the amount of divestment proceedings may be huge which requires careful and effective management of the money.

4. FDI attraction

The attraction for foreign direct investment, especially Greenfield investments, has been a critical driver of recent Vietnamese growth. Given the weakness of the local company base, FDI will continue to be a critical driver of growth. It will possibly start to include more takeovers of Vietnamese companies, including SOEs, alongside further Greenfield investments.

The current approach towards FDI attraction is reactive and oriented towards high announcements of FDI inflows. The value that this generates for Vietnam is insufficient. FDI attraction is essentially focused on the process of dealing administratively with investors that have already decided to come to Vietnam. This process is distributed across a number of national and regional agencies, with little coordination or alignment between them. Regions tend to race for FDI by offering excessively preferential incentives in terms of land or tax, rather than by positioning themselves to offer unique factors and advantages to investors. There is no proactive approach towards contacting those investors that might have the most to offer in terms of adding towards Vietnamese competitiveness. There is no systematic work to integrate the foreign investments with the local economy once they have materialized. There is also little if any follow-up in working with investors to attract their suppliers and service providers to Vietnam. There is little linkage and coordination between FDI policy and other policy areas to work out what to offer for investors as a package of solutions, and then provide feedback from investors about what needs to be developed as new competitive advantages for Vietnam. As a result, Vietnam gets mostly investments that create a very short-term return but are highly mobile in terms of moving to other locations. Luckily, Vietnam also gets investments from long-term oriented companies like Intel or recently Boeing, that are looking at the future outlook of the region and the country. But these investments are the result of economic fundamentals, not of a successful FDI attraction policy.

A new approach needs to focus on actual FDI, not announcement and more effective monitoring and follow up. FDI attraction needs to be separated from regulation and permitting. Investment attraction needs to evaluate FDI projects as tools to strengthen Vietnam's competitiveness. The needs of MNCs to improve business environment conditions need to be leveraged to enhance the environment for all companies. Clusters need to be developed around MNCs, attracting/developing other MNCs, SOEs, and local private sector companies and creating incentives for encouraging FDI spill-overs. The roles and responsibilities

of regional and national agencies in attracting and regulating FDI need to be clarified and coordinated.

Specific actions and mechanisms to consider include:

- Develop a new FDI attraction strategy for Vietnam which needs to build on Vietnam's strategic positioning and its strategy for the local economy. The strategy should identify and prioritize what sorts of FDI Vietnam wants to attract; how it will add value to the local economy; what can be done next to it to move up the value chain. It should also discuss who Vietnam has to compete with to attract such FDI and so what it can offer to get the deal. The current FDI management system needs to be reformed, from target prioritization, attraction, coordination to follow-up, oversight and evaluation. This includes strengthening of the current mechanism of delegating authority to provincial governments. A centralized coordinating and supervisory mechanism needs to be put in place to ensure that provinces do not "fence-break" to attract any type of FDI at any price and the licensed projects are in line with the overall master plan of each sector or industry.
- Strengthen the capacity of the Foreign Investment Agency (FIA) under the MPI as the central coordinating agency for attracting and managing FDI. FIA needs to be transformed from a purely policy making agency to become an active gateway agency who provides "one-stop" innovative package of investment solutions and services for investors. In this role, FIA will not only deal with new coming investors but also follow up closely with existing ones to attract their suppliers or subcontractors to Vietnam and also to get their feedback on strengthening Vietnam's competitive advantages as a business destination. FIA should be well-equipped and empowered to undertake the strategic and central coordinating tasks as mentioned above.
- Set up outreach initiatives with foreign MNCs to build local supplier base and clusters and to create incentive system to encourage technological spillovers and linkages between FDI and local economy. In order to successfully leverage the MNCs as anchor firms to build local supplier base around and improve overall productivity, it is neither sufficient nor effective to merely use financial incentives or impose local-content requirements. Policy measures need to tackle a number of important issues, such as: (i) absorption capacity of the local economy, e.g. technology level of local firms, workforce skills, quality standard system, linkages with research institutes, etc. (ii) a strong and enforceable IPR protection system to eliminate the risk of appropriation when MNCs share their technology secrets with local suppliers; (iii) level of competition among firms and sophistication of customers in the local market – when such factors encourage firms to compete by innovation and adopting new technology rather than by reducing costs; (iv) characteristics of sectors, etc. Especially in a

small and newly emerging market, when the risks are too high for both the FDI and the local firms to invest in creating forward and backward linkages, there is a role for the Government to match the risk gap by providing appropriate incentives, e.g. credit risk sharing, labor training or land provision, etc.

A new FDI policy needs to be put in the context of broader competitiveness policy framework and connect to other policy areas. Land management policy is important to redirect FDI from real estate into more fundamental value-creation manufacturing areas. Provision of workforce skills and infrastructure also need to be targeted towards serving the sorts of FDI which contribute the most to competitiveness.

An interesting foreign example is Singapore's Economic Development Board (EDB). Creating jobs through labor-intensive industries was once the top priority of the government when the city-state gained independence from British rule. The EDB was then formed to take on the challenge of attracting investors to do business in Singapore. EDB strategically charted the direction of policies that are coherent with the nation's overall development goals and it set-up overseas offices to spearhead FDI attraction initiatives (EDB 2010).

5. Cluster development/Industrial policy

Higher competitiveness requires specialization in areas where the presence of related and supporting activities can support a level of productivity that any individual company finds hard to achieve. The actual specialization is the result of the specific assets and capabilities available in a location, shaped by the way comparative and competitive advantages have dynamically evolved over time. Government does not create specialization that drives higher productivity but it controls many policies that have a significant impact on the specialization dynamics.

The current approach of the Vietnamese government towards specialization and industrial policy is based on creating national champions from SOEs, providing cheap credit to individual companies, and creating dedicated infrastructure (industrial parks). There is a plethora of sectoral and industry plans at different levels, but no integration and no effective follow-up or implementation. A systematic dialogue with the clusters that have emerged in the Vietnamese economy is lacking. There are little if any linkages between the narrow attempts of industrial policy based on intervention and subsidies with related policies like FDI attraction, skill development, or infrastructure investment.

A new approach needs to focus on clusters and value chains, not individual companies or narrow industries. The objective needs to be improving productivity, not private profitability. For existing clusters, collaboration and cluster dynamics have to be enhanced to move them beyond the current state of mere co-location. Alongside with strengthening linkages within clusters, it is necessary to build beyond-cluster

external linkages along the value chains in which firms are participating. Clusters which are built around MNCs could serve as the platform for local firms to participate in the global value chains. Policy priorities should focus on creating an environment in which meaningful linkages and positive spill-overs can emerge in a market process. Modern cluster policies are fundamentally different from traditional interventionist policies targeting specific companies or industries through subsidies or protection: they are open to all existing clusters that have the ability and willingness to upgrade, and are based on enabling companies in clusters to compete on a higher level, not shelter them from competition. Several government policies (regional development, workforce skills, infrastructure spending, FDI attraction, regulatory reform, etc.) can be organized around clusters to provide more coherent policy packages aligned with the specific needs of an individual cluster. The orientation towards clusters provides higher effectiveness of government spending while minimizing distortions.

Specific actions and mechanisms to consider include:

- Re-organize existing policies around clusters, especially in areas linked to investment attraction, workforce skill development, industrial parks, and SME/private sector-development. In these areas cluster-based efforts can raise the level of effectiveness and play a crucial role in implementing strategic plans in public-private collaboration. Pilot efforts to develop clusters/supplier networks around large foreign investors and/or large SOEs could be among the first of these projects. Taiwan's Hsinchu Science Park (HSP) is a good example of how cluster thinking can be used to enhance the effectiveness of an industrial park. The government built the park in close proximity with leading academic institutions (Chiaotung and Tsinghua) and Taiwan's Industrial Technology Research Institute (ITRI), offered attractive financial terms, and focused investment attraction on a set of related industries with high potential linkages.
- Conduct a national cluster mapping project to identify and assess clusters across the country. The resulting database of clusters can then be matched with instruments like a Vietnam Regional Competitiveness Index (RCI) to provide a strong factual basis for the design of cluster- and region-specific policies. Such an RCI can be designed to assess comprehensively macroeconomic and microeconomic competitiveness fundamentals of provinces in the context of regional linkages. This would complement the current Provincial Competitiveness Index (PCI) which focuses on assessing governance quality and proactivity of provincial governments in creating a conducive business environment for private sector businesses. Over time, the knowledge infrastructure created through the cluster mapping effort should be matched by a training initiative focused on education for cluster initiative managers. The European Cluster Observatory⁷ and Harvard's course on Microeconomics of Competitiveness⁸ are international examples.

- Encourage the launch of pilot cluster initiatives through the creation of a Vietnamese Cluster Initiative Fund that would allocate funds for strategy development to cluster initiatives based on a competitive process with an international review committee. Cluster efforts should be evaluated on their current abilities and on their willingness to improve. Initial funding would cover only the analysis and strategy design, with implementation of efforts to be covered through existing government programs opened up for clusters.

Institutional architecture

1. Policy process

More effective policies, in the specific areas mentioned above as well as in others that will rise in importance over time, are more likely to emerge, if a robust process of policy design and implementation is in place. Competitiveness is not achieved through the one-time creation of a good policy. It requires an inherent ability to systematically upgrade and improve policies over time.

The current policy design and implementation process in Vietnam has significant flaws. Policy design is often based on limited if any data. While the policy quality at higher levels (Central Government, National Assembly) has been improved, especially after WTO accession, the quality and application of policies at lower levels (rules and regulations issued by ministries or provincial governments) are highly heterogeneous. The inclusion of experts or affected groups from outside of government is often insufficient. The Vietnam Business Forum has been rated as one of the most effective public-private dialogue structures internationally (World Bank 2009). But even here there are concerns about systematic follow-up and the integration of this structure into policy planning. In general, there is no lack of policy plans in Vietnam, but these plans are often set up in isolation, leading to a multitude of conflicting guidelines. The presence of many aid organizations with their individual focus areas and objectives might contribute to this situation. Long-term plans exist in separation from short-term action agendas, leaving the long-term “strategic” plans without real impact. There is little systematic follow-up on whether policies were implemented and had their desired impact.

A new approach needs to provide data for fact-driven policy making and clear procedures to monitor the relevance and quality of policy. Planning efforts have to be consolidated and connected. Policy planning needs to be connected to budgeting and implementation; short-term budgets/plans need to be integrated in rolling updates of long-term plans. There has to be an institutionalized impact assessment for policies. The coordination among different government agencies in design and implementation needs to be strengthened. Dialogue between government and external stakeholders in the policy design process needs to be systematized. In its work with donors, the government needs to be driven by a clear national economic strategy, leveraging the specific capabilities of individual donors

where they can contribute the most to the overall objectives set by the Vietnamese.

Specific actions and mechanisms to consider include:

- Creation of a central Regulatory Impact Assessment (RIA) unit to constantly review existing laws and assess new laws and regulations based on effectiveness, clarity, consistency, relevance, etc. Project 30 on the Simplification of Administrative Procedures has achieved significant momentum in reviewing the existing stock of rules and regulations in term of their administrative efficiency. The Law on Promulgation of Normative Legal Documents (Law on Laws) was issued to require all the new laws and regulations to go through a systematic RIA process. This is a major movement in the legal reform process and is compliant with international practices. However, the Law doesn't provide for a central RIA agency to be established and for the RIA process to be applied to lower level laws and regulations, leading to a loophole for new regulations to skip the requirements. The Law should also legalize the requirements for laws and regulations to be developed based on clear facts and data. The new centralized RIA Agency will need to streamline and coordinate different portfolios of laws and regulations currently divided among different agencies (Ministry of Justice, Office of the Government and Ministry of Home Affairs, etc.). Placing it under the National Assembly like the Congressional Budget Office (CBO) in the United States might be an option.
- Establishment of an automatic formal review process that invites relevant government agencies and other stakeholders, including private sector associations, to comment on draft laws and regulations within a given time frame. There need to be a clear mechanism and scorecards to follow-up and evaluate how the comments were integrated in the new policies. An administrative appeal mechanism also needs to be set up to allow businesses and citizens to appeal improper or illegal policies and regulations.
- Development of a medium-term budget planning process with rolling updates. The planning process needs to integrate annual budgets into medium-term planning. The current budget needs to be design with a view towards longer-term fiscal policy objectives, especially over the business cycle. Medium-term budget plans need to reflect changes made in current budgets. One option would be to invite the OECD's Working Party of Senior Budget Officials (SBO) to undertake a review of Vietnam's budgeting system; similar reviews have been conducted for Thailand and the Philippines.

2. Capacity

More effective policies require a more capable public sector. Well trained public officials and an effective organization and management structure of public agencies are crucial to enable government to operate more effectively.

The current approach in Vietnam reflects a very traditional public sector organization. There are numerous training and capacity building initiatives being offered, but the lack of a merit-based and performance-driven system has limited their impact. There is a lack of appropriate incentive system to encourage good performance (salaries are well below market levels, advancement and remuneration are not driven by performance, individual accountability is not enforced, etc.). Leadership is often dispersed and coordination mechanisms across government agencies are weak. Good governance principles and code of conduct system are not in place, giving way to corruption and misbehavior. Government officials are often over-occupied with administrative and operational work, leaving little time for strategic management and professional work.

A new approach needs to be based on an integrated efforts providing modern solution in leadership, training, incentives, and organizational structures.

Specific actions and mechanisms to consider include:

- Establishment of the Prime Minister's Policy Unit with high-quality staff and sufficient resource to provide action oriented analysis and to develop implementable policy proposals. The Unit should have significant powers to draw on data and collaboration from all parts of government. It could be charged with following up on the implementation of tasks allocated to individual ministries, and provide a central role in coordinating activities across different ministries and agencies. Several countries, like the Strategy Unit in the Prime Minister's Office in the UK, provide useful examples.
- Launch anti-corruption campaign; corruption is a systematic problem, not a case of individual misbehavior. Effective action against corruption requires an integrated set of activities, and a long-term perspective. Reducing the benefits of corruption by both stricter punishment and higher, more market- and merit-based wages for public employees are important elements of the strategy. Strong examples in behavior and rhetoric from the political leadership are another. Reducing the number of situations in which corruption can occur, for example through the simplification and transparency of administrative procedures and the use of e-government tools, is a further element. There needs to be an effective institutionalized mechanism like an independent agency under the National Assembly to lead anti-corruption programs. Interesting foreign examples of successfully implemented anti-corruption mechanisms include Hong Kong's Independent Commission Against Corruption (ICAC) and Singapore's Corrupt Practices Investigation Bureau (CPIB). ICAC has investigative,

preventive, and communicative functions while CPIB focuses on the investigative functions complemented with rigorous use of deterrent measures (Heilbrunn 2004, 3-6). Both agencies have gained recognition for successfully combating corruption both in the public and private spheres.

- Review of the current training system for public officials, starting with a number of pilot agencies. Regulatory Impact Assessment (RIA) is a good example; numerous technical training courses are available on law making techniques, but little training is offered on the approach and process of developing and implementing demand-driven and market-oriented rules and regulations. Apart from designing appropriate courses, a key issue is the selection of staff for training. This needs to be based on ability and the profile of the position; training is not primarily a benefit. Singapore's experience in improving the public sector's human resources is another interesting case. Every year the government awards several scholarships to top-notch students transitioning to higher education level. This initiative ensures that the government is able to absorb potential leaders of the public service. Meritocracy and performance-based evaluation are considered key principles in human resources development. The Public Service Division under the Prime Minister's Office has a specialized research and strategic planning unit to plan scenarios as well as generate, test and realize ideas on improving the civil service system. They also conduct researches on new skills needed in the civil system and launch policy venture projects to seek innovative approaches in delivering public services.
- A comprehensive civil service reform program is crucial to ensure success of all other reform efforts. A strategy for public service reform needs to be developed, specifying measures to build up elements of a modern civil service system. Performance and transparency need to be key principles for recruitment, salary, and advancement in the organization.

3. National – regional structure

Given Vietnam's size and geographic profile, the effective allocation of roles and responsibilities between national, regional, and local authorities is particularly important. Companies always locate in specific regions within a country, so the cumulative effect of government from all levels as it materializes in a specific place is what matters for their performance.

The current structures in Vietnam suffer from significant weaknesses. The lack of coordination between national and regional agencies leads to high variability in the way that rules and regulations are being implemented. Regional governments often follow me-too economic strategies that copy the plans of other regions instead of developing a unique strategy based on local circumstances. Regions also compete by "fence-breaking" central rules or offering

inherited endowments like land to attract investment. Provincial strategies and plans are not put in the context of inter-regional linkages. Regional policy from the central government is often taking the form of large infrastructure investments “compensating” those regions not growing at the same level as Ho Chi Minh City and Hanoi.

A new approach needs to review the current mechanism of responsibility delegation and strengthen oversight and quality control by the central government. Regions need to be motivated to develop their competitiveness based on a unique positioning. It should encourage collaboration and leveraging through the cluster approach rather than competition among regions.

Specific actions and mechanisms to consider include:

- Funding competition for development of regional economic development strategies. Instead of compensating regions with infrastructure or financial support for poor performance, central government could incentivize regions to develop their own economic strategies. Such strategies would have to be based on the unique combination of assets each region possesses, not on copying the concept of others. Despite the significant differences in economic and political context, Denmark’s Regional Growth Fora could provide an interesting example for Vietnam to review.
- The national government could support this process by developing a knowledge and skill infrastructure for regional development. This would include region-specific data – a Regional Competitiveness Index (RCI), as mentioned in the Cluster Policy section above, is clearly a key source - as well as training programs for regional decision makers.
- Review the current structure of authority delegation between the central and regional governments and strengthen the oversight and quality control by the central government. Consider centralized mechanisms in certain policy areas (e.g. regulatory review, infrastructure, etc.) to help coordinate, prioritize, monitor and evaluate regional policies and implementation. The OECD in particular has done significant work on this topic in recent years that Vietnam could draw on⁹.

Policy action in other areas

The policy areas and institutional changes identified in the previous sections are critical for Vietnam to address its short- and medium-term competitiveness tasks. But government clearly has to be active in many other policy areas as well.

Policy action in these other areas needs to be informed by the overall competitiveness agenda as well. Decision makers across government need to understand the country’s overall strategy. For each of their actions, they need to consider a sequence of three questions:

- Is the planned policy or program undermining efforts on the competitiveness agenda?

- Can the activity be designed in a way that it can take advantage of activities that are part of the competitiveness agenda?
- Is the activity contributing towards creating the competitive advantages that the competitiveness strategy aims to establish?

For these questions to provide effective guidance for policy makers and administrators across the public sector, it is crucial that the key elements of the competitiveness strategy are widely published and discussed. Alignment with the strategy cannot be achieved by fiat; it requires the free decision of many individuals to use their decision power in a way that is consistent where the country aims to go overall. This is easier than it sounds – individuals will find it in their and their entities interest to take decisions that leverage in the best possible way the decisions taken in other parts of government and by other private and public entities.

Improving Vietnamese competitiveness: How to get it done?

Many of the recommendations covered in the preceding parts of this report have been made in one form or another by others before. Still, as the analysis has revealed, the issues that they aimed to address persist. This lack of effective follow-through is not unique to Vietnam. What are possible reasons for it, and how can they be overcome?

- Lack of urgency; after many years of solid growth with a corresponding rise in standards of living for millions of Vietnamese, there is little pressure to change the economic policy approach.

The analysis in this report reveals that such complacency would be dangerous. The three critical tasks identified all reflect dangers ahead if left unaddressed. The first – macroeconomic imbalances – could precipitate a major crisis. The second and third will progressively lead to decreasing growth rates in the short- to medium-term. The political leadership in Vietnam needs to resist the temptation of ignoring the warning signs. These are not an indication of failure, but in many ways a natural result of the huge success that Vietnam’s economic policy over the last 25 years has delivered. These warning signs should instead be used to give impetus to change.

- Limited individual incentives for change; for any particular institutional structure, there are always entrenched interest groups who would be disadvantaged by change. This is not unique to Vietnam, but a particular problem when more fundamental economic reforms are needed. It is therefore important to create incentives and willingness strong enough to sacrifice individual interests of a small number of groups for broader common interests of the whole country and its people.

This report provides no magic formula to overcome the complexities of political economy that exist. But it tries to provide data and analysis to support the reforms which are most needed for Vietnam and the Vietnamese people. And it provides in the following section some thoughts on an implementation strategy that is designed to systematically align policy initiatives with a gradually increasing impetus for reforms.

- Weak logic behind recommendations; many action proposals are made without a clear analysis of the specific challenges in Vietnam that they are designed to address. They are instead proposed as policies that are viewed as generically beneficial for any country. This reduces their ability to convince policy makers in Vietnam of their relevance to the specific situation their country is facing.

Unlike many other reports, this report provides full transparency of the data and assessments that drive the recommendations. It develops recommendations that are specific to Vietnam and mutually reinforcing in their impact. And it provides a holistic view on how targeted efforts in a specific set of policy areas can be leveraged to create a maximum combined effort. It does not purport that reform in any individual policy area alone is sufficient, nor does it argue that everything needs to change at once.

- Insufficient focus on implementation; external advisors, especially if they come from an academic institution, are naturally focused on the analytical task of identifying what is wrong or not optimal. They then identify targets for what a better situation would look like. But they are usually much less focused on (or trained) to understand how to achieve these targets. And they also usually are not experts in understanding why these steps have not been taken in the past.

This report provides some initial thoughts on how an implementation strategy might look like. The remainder of this chapter discusses first how the action recommendations developed above can be sequenced to increase the odds of their success. It then provides some thoughts about an institutional structure to govern the implementation. These recommendations are not a full implementation plan, nor are they based on a detailed analysis of the political economy of reform in Vietnam. This would be far beyond the scope of this report. But it takes the concerns about implementation seriously and aims to provide a useful starting point for Vietnamese decision makers to address them.

Finally, Vietnamese policy makers have sometimes been skeptical about the motives of external advisors that they see more beholden to the institutional interests of their organizations than to Vietnam. This report has been prepared in collaboration of a Vietnamese and a Singaporean research institutions as a neutral partnership with no other interest than to achieve maximum impact for Vietnam by providing decision-relevant data, assessment, conceptual frameworks, and action ideas. Any remaining bias is related to the subjective views of the individual researchers, and not

a consequence of institutional interests.

Sequencing of activities

The sequencing of activities in a competitiveness agenda is a crucial task and not just a matter of technicality. First, governments cannot upgrade all dimensions of competitiveness in parallel. This overstretches their ability to achieve change and results in most cases in failure. This challenge is even more acute when, as is the case in Vietnam, an economy needs to transition from one set of competitive advantages and policies to the next level. Second, the impact of individual reforms often depends on other policy steps taken in parallel or even before. Without the right sequencing, results will take much longer to materialize. In the meantime, the political willingness to pursue reforms can wane if there are no positive results to point towards. Getting the sequence of reforms right is thus a critical dimension of a sustainable competitiveness agenda.

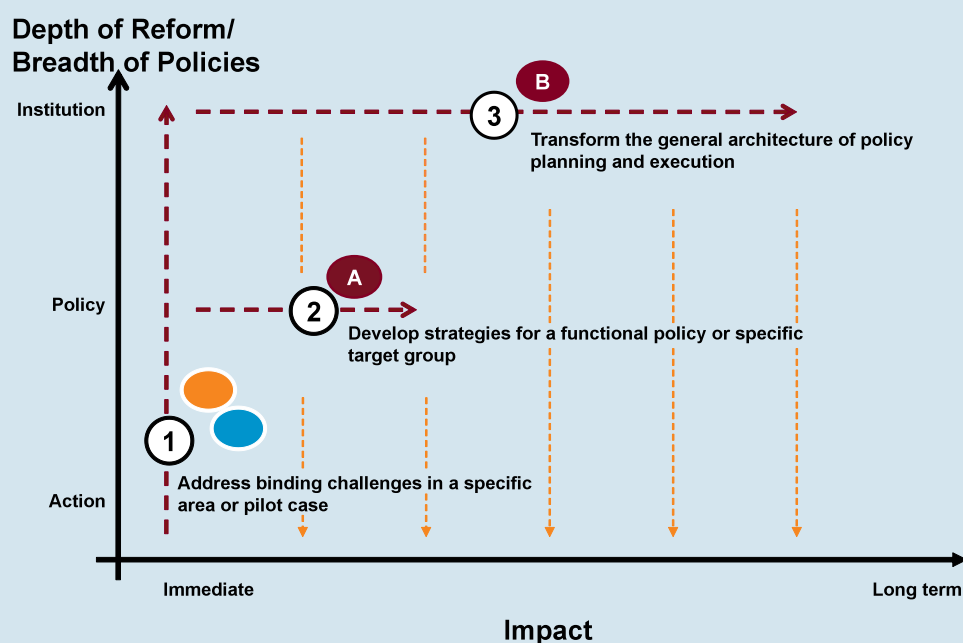
For Vietnam, we suggest an evolutionary reform process. Changes in competitiveness will initially be driven by narrow activities in well-defined pilot cases. Over time, these new solutions will then be rolled-out nationally and across a broader set of policy areas. In the last stage, the institutional architecture of policy making will be upgraded.

The only exception to this bottom-up approach is the set of activities needed to defuse the increasing risk of macroeconomic imbalances. Here an effective response will require changes at all levels – individual measures, changes in policy, reform of institutional structures – within a relatively short time frame.

There are two main reasons for taking a bottom-up approach to the overall competitiveness strategy. First, in the absence of a ‘clear and present danger’ to Vietnamese prosperity, it is hard to mobilize support for a wide-ranging reform agenda. Reforms are more likely to happen if the positive results of changes at a lower level can over time create the motivation to attempt changes on the next higher level, where the resistance to change will be higher. Second, given Vietnam’s overall profile and political structure, a competitiveness strategy will have to convince decision makers across many different parts and levels of governments. A top-down strategy process by fiat is unlikely to be effective in such an environment. A gradual process has a better chance of over time winning support and alignment.

A bottom-up approach also has disadvantages. A national strategy in terms of a set of specific competitive advantages to position Vietnam in the global economy cannot emerge bottom-up; it requires a top-down decision that then provides guidance to the many individual policy decisions that have to be made. The recommendations in this report by-pass the lack of such an overarching national strategy. The actions suggested are consistent with a broad range of more specific strategies that seem most likely to be options for Vietnam. A national strategy process can follow once the actions suggested here have successfully come under way.

Implementation Strategy: Actions



Management of the competitiveness agenda

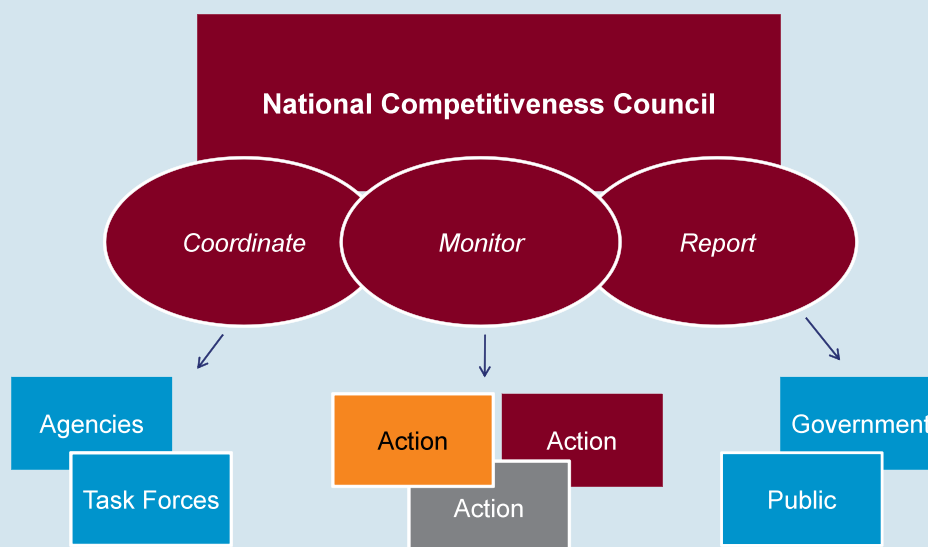
Competitiveness upgrading is a multi-faceted, cross-sectoral process that requires coordinated efforts across different policy areas and levels of government. In many dimensions, especially in the design and implementation of microeconomic reforms, it also requires engagement with different stakeholders from outside of government. Progress on implementing the competitiveness agenda requires the assignment of clear responsibilities at two levels. First, for each specific initiative there needs to be an institution or group in charge of driving the process. Second, there needs to be an overarching structure that can manage the portfolio of activities, ensuring that the most critical efforts are being undertaken and mobilizing new efforts at the appropriate time.

Over the last few years, national competitiveness councils have been launched in many countries to deal with these challenges. Competitiveness councils differ in their mandate and in their organizational structure. Most of these councils have been charged with developing action proposals that are then submitted to government. They have a membership of public and private representatives and tend to be chaired by either a high-ranking official or by a cooperation of public and private sector leaders¹⁰. These councils are usually supported by a small secretariat that facilitates operations, sources analysis from government agencies and outside researchers, and integrates the findings into reports and draft action proposals.

Councils that follow this general model exist in, for example, Croatia, Egypt, Peru, and Sweden¹¹. While councils of this type often have been useful in raising the quality of the

national debate on competitiveness issues, their overall impact on policy tend to be limited. Other countries have implemented structures that connect their competitiveness councils more directly with the policy process. This has been achieved through a direct or indirect connection of the council with the highest level of government, or through the integration of the Council into the administrative structure. Korea has through its Presidential Council of National Competitiveness (PCNC) created a structure that reports directly to the President. This has given the Council much more political relevance and a direct entry point into the policy process. PCNC is also charged with reviewing progress on initiatives launched as a consequence of its recommendations. The National Competitiveness Council in the Philippines has also a direct link to the Presidency, but is less directly integrated in the policy design and implementation process. Conversely, the Council of National Competitiveness (CNC) in the Dominican Republic has been explicitly designed in order to oversee the country's National Competitiveness Program. Denmark's Globalization Council and Finland's Science and Technology Policy Council (renamed Research and Innovation Council in January 2009) are both chaired by their country's Prime Ministers and include all relevant ministers, alongside representatives from business, academia, and trade unions. In both countries, the Cabinet members in the councils use these fora to discuss and design policies that are then directly turned into draft laws. The Irish National Competitiveness Council is integrated into the administrative structure of the government, but also includes members from outside the public sector. It is tasked with providing the government with objective data, analysis, and advice on competitiveness issues. Singapore's more ad-hoc process of competitiveness

Implementation Strategy: Indicative Structure



assessments, most recently through the Economic Strategies Committee, follows a similar approach.

Based on this international experience, Vietnam needs to choose a structure that is most aligned with its specific economic policy needs and the realities of its political process. Our analysis in this report identifies a number of key needs: Vietnam needs to improve the quality of its dialogue about policies in the design phase; Vietnam needs to make individual policy choices based on a strategic perspective on where the country wants to go, and what is critical to get there; and Vietnam needs to systematically integrate policy planning with implementation and follow-up.

We suggest creating a Vietnamese National Competitiveness Council to assume this role.

Mandate:

The Vietnamese Competitiveness Council should focus on three main tasks:

- Coordinate across the government agencies and public-private project groups that are engaged in specific activities that are launched in the context of the competitiveness agenda. While the Council would not need to control significant own budgetary resources, it should help to mobilize the necessary funds and capabilities when needed. The members of the Council would also provide mentoring and guidance to the individual project groups.
- Monitor progress on individual activities and the overall portfolio of activities. The Council should discuss where projects should be realigned, discontinued, or where new activities should be encouraged. This would require

the Council to have robust competences to request information from government ministries and agencies. It would also require a solid internal monitoring capacity within the Council or its secretariat, potentially in collaboration with other government agencies in charge of auditing, policy analysis, and budget management.

- Report to the Party, the Government, and the general public on the progress of the competitiveness agenda. This would include regular updates, reviews, assessments as well as public events, including an annual Vietnamese Competitiveness Conference and dissemination of annual (or bi-annual) Vietnam Competitiveness Report.

Structure and Operational Mechanism:

To perform these tasks, the Council should be comprised of leading government and business leaders, including leaders of the Vietnamese operations of foreign companies. Given the complexity and comprehensiveness of the Council's mission, it is essential for the Council to be led by the top leader(s) of the government. We propose that the Council to be chaired by the Prime Minister, and be comprised of working groups of members interested in specific parts of the overall competitiveness agenda.

The Council would be supported by a full-time secretariat with the resources to draw on competent experts and practitioners in different policy areas as needed. The secretariat operates independently from governmental agencies but has direct link to the government leaders. It should have its own budget. The Council should collaborate closely with the Prime Minister's Policy Unit.

As a first step, the government of Vietnam could create a steering group to manage the pilot projects emerging

out of the Vietnam Competitiveness Report. This group could be composed of high-level officials from the relevant ministries as well as representatives from companies and other institutions involved in the projects. The group could, for example, report to a Deputy Prime Minister, who would assign the responsibility for providing secretarial support to the group. This steering group could provide initial experience with the public-private, cross-agency format. It could become the nucleus for a Competitiveness Council with broader mandate and membership.

Conclusion

Vietnam's dynamic growth since the mid-1980s has been one of the most impressive success stories in the global economy and has transformed the livelihoods of millions of Vietnamese people. Growth has been fueled by the transition to a market economy, integration with the global system and a structural shift from subsistence agriculture to manufacturing and services. More recently, the policy response has been focusing on capital investment to maintain growth momentums. These drivers have enabled underlying competitiveness, essentially the presence of low-cost labor, to be revealed.

However, this growth trajectory ultimately has limited potential hurdled by the low level of productivity and

structural imbalances facing the economy. Vietnam will need to move beyond the current model if it does not want to get stuck at lower middle income level and face stiffer competition from newly emerging economies. This will essentially require Vietnam to put competitiveness and productivity at the core of its growth. Vietnam will need to constantly upgrade existing competitiveness fundamentals and create new advantages to move up to the new stage of development.

There is currently a widely shared consensus and willingness among different stakeholder groups in Vietnam to bring these issues into serious discussion and follow up with decisive actions. The Vietnam Competitiveness Report was developed with the hope to provide comprehensive fact-based analyses and concrete action proposals to inform such an important discussion. It is unrealistic to expect that the Report could offer a panacea that could quickly remedy all the outstanding issues and challenges. The success of enhancing competitiveness will ultimately depend on the determination and efforts of the Vietnamese government, business community and the public. Yet our ambition is to provide a widely accepted foundation for policy debate and the follow-up action agenda. This is the first in its series of periodical National Competitiveness Reports for Vietnam and we intend to pursue our commitment to supporting Vietnam in this important endeavor over the course ahead.

Endnotes

¹Vietnam's total public debt by the end of 2009 was about 44.7% of GDP (Ministry of Finance). Public debt per head rose nearly four times, from US\$ 144 to US\$ 548, during the 2001 – 2009 period, or 18% annually, while GDP per capita growth was only 6% during the same period (EIU).

²The foreign exchange reserves fell sharply from 4.6 months of imports by the end of 2007 to less than 3.0 months of imports by the end of 2009 (IMF, International Financial Statistics).

³Vietnam has the highest fiscal revenue as a percentage of the GDP during the 2004 – 2009 period vis-à-vis its comparators in the region (averaging 26.8%) – EIU.

⁴More information on Project 30 can be found at <http://thutuchanhchinh.vn>.

⁵For a more detailed discussion on the implications of the “impossible trinity” to Vietnam's fiscal and monetary policy, see Harvard/FETP (2008a, b).

⁶Important aspects of Vietnam's macroeconomic management have been discussed elsewhere. For comments on the transparency and coordination of macroeconomic policy, see Harvard/Fulbright (2008b) and IMF (2009); for the discussion of the SBV's independence, see Vu Thanh Tu Anh (2010c); for an examination of the SBV's supervision and oversight of financial institutions, see Rosengard et al (2010).

⁷See European Cluster Observatory, <http://www.clusterobservatory.eu/>.

⁸See Professor Porter's competitiveness course, www.isc.hbs.edu/moc.

⁹See http://www.oecd.org/departement/0,3355,en_2649_34413_1_1_1_1_1,00.html.

¹⁰Exceptions at the Council of Competitiveness in the US and the Private Council of Competitiveness in Colombia. Both are private sector only and perceive themselves as discussion partners for the government.

¹¹The Swedish Globalization Council was operational between 2007 and 2009, when it ended its operation with the presentation of its final report. See <http://www.sweden.gov.se/sb/d/9299/a/84844> (accessed October 13, 2010).

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