

Welcome to the East Asian Bureau of Economic Research (EABER). EABER aims to be the premier East Asian economics research forum and provide a single point of reference for the economics, finance and governance research community throughout the region and beyond. Through building research capacity and partnering initiatives, EABER facilitates the creation of high-level analysis and forward thinking on issues of importance to the East Asian economy.

Analysis

Institutions and Private Sector Development in Vietnam

Vo Tri Thanh *

There have been social and economic changes in Vietnam since the introduction of the Doi Moi (Renovation) reforms in 1986 and their extension in 1989. After Doi Moi there has been sustained economic growth of 7 to 8 per cent per annum, and the incidence of poverty has been reduced from about 70 per cent of the population at the end of 1980s to less than 20 per cent in 2005. Foreign trade has expanded rapidly, from US\$5.2 billion in 1990 to US\$69.4 billion in 2005. Industrial production also went up sharply, rising from 18.8 per cent of GDP in 1990 to 34.7 per cent of GDP in 2005. And investment has jumped from 14.4 per cent of GDP in 1990 to 38.9 per cent in 2005.

These macroeconomic successes have in large part been driven by the continued expansion of the private sector, which has been making an increasing contribution to Vietnam's development. Central to the success of the private sector has been what is going on in the micro-economy.

The micro-economic foundations of strong macro-economic performance included first formal recognition of private property rights, the rights of doing business and the right of competition. Following the Sixth Party Congress in 1986, a majority of administrative barriers to private sector activities and to domestic trade were gradually removed. In 1992, the National

Assembly approved the new Constitution, laying the ground for the private sector to compete with the state sector. In 1999 Vietnam promulgated an Enterprise Law, which officially acknowledged the right of doing business ('Citizens are free to do business in all areas of business not prohibited by Law') and brought about a fundamental shift in the approach of, and tools for, the Government's management of enterprises. Facing more pressures for reform, the Government later promulgated a (unified) Enterprise Law and (common) Investment Law in 2005.

Second, major restrictions on freedom of entry to the market have gradually been relaxed. Vietnam has made enormous efforts to simplify administrative procedures for business registration, and clearly define the rights of investors and enterprises in relation to the State, abolishing 159 business licences which were causing unreasonable administrative burdens on private enterprises. Vietnam has also made a large effort to reform its State Owned Enterprises (SOEs), to give them more autonomy and to make them more efficient. Since 2005, several new dimensions of SOE reform have begun. These include the acceleration of equitization, transforming big SOEs and General Corporations (GCs) into so-called 'holding-subsidiary' companies, as well as the establishment and development of business groups on the foundation of GCs.

Third, the legal frameworks for investment in Vietnam have been strengthened. In addition to the Enterprise Law 1999, the unified Enterprise Law 2005 and the common Investment Law of 2005, a number of other laws have also been

Paper of the Month

The paper of the month for September was **Marginal Intra-industry Trade, Trade-induced Adjustment Costs and the Choice of FTA Partners** by Dr. Chan-Hyun Sohn and Prof. Hyun-Hoon Lee.

Latest News

The 32nd PAFTAD Conference, The Impact of International Arrangements and Organizations on Development in Asia and the Pacific, will be held on 17-19 December, 2007 in Hanoi, Vietnam.

EABER supports the annual All China Economics International Conference (ACE International Conference), held on December 12-14, 2007, in the City University of Hong Kong.

EABER Supporters



Ministry of Finance,
Japan



Australian Government
AusAID



CRAWFORD SCHOOL

approved, enacted, amended and replaced. These reforms have been aimed at making the investment environment more transparent and facilitating the entry of more efficient enterprises into the market as well as creating a more level playing field for enterprises of all ownership types.

For example, the Competition Law reforms in 2004 laid the ground for making a more competitive environment for enterprises to operate in, while the more recent Law on Intellectual Property was aimed at better protection of intellectual property rights and creating incentives for enterprises to innovate.

These improvements in the legal environment for economic activity resulted in part from an open dialogue between the business community and government agencies. To match domestic policies with international commitments, especially those made in accession to the WTO, 29 new pro-market laws were approved in 2004-05. This has enabled Vietnam recognition as having fundamentally established the necessary 'legal' institutions for a market economy.

Despite these successes Vietnam currently faces considerable challenges in promoting the further development of its private sector.

To begin with, there is concern that the growing private sector is not being associated with a normal distribution of firms by size. Thriving firms are either small (in the case of the domestic private sector) or quite large (in the case of the FDI sector), with limited positive spillover effects in the economy.

** Vo Tri Thanh is the Head of the Policy Analysis and Development Research Department, Central Institute for Economic Management (CIEM), Hanoi, Vietnam.*

Private firms also still have inadequate access to key factors of production, particularly finance and land. Private sources of finance from retained earnings, and family and friends remain crucial, while bank loans, if any, only take the form of short-term credit, primarily for working capital or trading needs. Recent studies show that the majority of time spent by Vietnamese entrepreneurs to prepare for starting a new business is spent on acquiring land.

Finally, the recent reforms to Competition Law are beginning to show signs of losing public confidence, particularly in regard to enforcement. The 'collision' in telecommunications interconnection between the Military Telecommunication Company (Viettel) and Vietnam's Post and Telecommunication Corporation (VNPT—a giant SOE) in 2005 is a typical case. Also, Vietnam's institutions dealing with bankruptcy are currently very weak and ineffective, thereby hindering the effective implementation of Competition Law or competition policy.

What are the key lessons from Vietnam's experiences with private sector development?

Firstly, effective reforms require clear political recognition of the importance of private ownership and rights of doing business to all enterprises. This includes facilitating the access of all, and not just state owned, enterprises to each of the factors of production. Secondly, enlarging business choices and opportunities, via both domestic market reform and integration, has proven to be a successful direction of reform. Finally, and perhaps most importantly, designing and applying a good combination of microeconomic and macroeconomic measures is a must, with a large part of Vietnam's recent macroeconomic success deriving from its robust microeconomic reform agenda.

EABER Members

China Center for Economic Research, China

The Central Institute for Economic Management, Vietnam

The Center for Strategic and International Studies, Indonesia

City University of Hong Kong, Hong Kong

Economic Institute of Cambodia, Cambodia

The Energy Research Institute, China

The Fiscal Policy Research Institute - Ministry of Finance, Thailand

The Institute of Asia-Pacific Studies, China

The Institute of Energy Economics, Japan

Institute of World Economics and Politics, China

Japan Center for Economic Research, Japan

The Japan Policy Research Institute, Japan

The Korea Energy Economics Institute, South Korea

The Korea Institute for International Economic Policy, South Korea

The Malaysian Institute of Economic Research, Malaysia

The Philippine Institute for Development Studies, Philippines

The Renmin University School of Finance, China

Singapore Center for Applied and Policy Economics, Singapore

The SMERU Research Institute, Indonesia

Singapore Management University, Singapore

The Thailand Development Research Institute, Thailand

The Australia-Japan Research Center, Australia

Crawford School of Economics and Government, Australia

EABER would also like to thank the following for their support:



Bulletin of
Indonesian
Economic Studies



DPU
Dhurakij Pundit University
Nurturing Academic Excellence with Business Knowledge