

**Envisioning 2030: Visit of NPC Delegation to Vietnam  
December 11-15, 2016**

**A Brief Report**

**Submitted to:  
National Planning Commission  
Singhdurbar, Kathmandu  
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## **1. Background**

As part of Envisioning Nepal 2035, a study visit to the Socialist Republic of Vietnam was organised by the Economic Management Division of the National Planning Commission Secretariat in collaboration with the Asian Development Bank. The visit lasted for five days, inclusive of travel time, December 11-15, 2016. The visit was tightly scheduled. The Nepalese delegation spent 3 working days with Vietnamese officials in different ministries, departments and agencies and was intensively engaged in deliberations trying to get insights from their development frameworks, institutions as well as overall experience of record economic development, one of the fastest in the world. Thanks to the impressive facilitation of ADB country offices in Nepal and Vietnam, the Nepalese delegation was well received and provided with the information sought. This brief report attempts to bring together the impressions of the members of the study visit team about the Vietnamese development performance and experience. It also highlights some of the lessons from Vietnamese experience that can be useful in preparing the vision document for Nepal.

## **2. Objectives of the Visit**

The study visit had set following objectives:

- To engage with planners, senior government officials and social researchers to understand the policies, mechanisms and processes which have driven the Vietnam's journey to economic prosperity and social development over the last 30 years;
- To learn about the content and process of Vietnam's vision document i.e. Vietnam Report 2035;
- To draw some lessons to impress on our own envisioning 2030/35 process.

## **3. Composition of the Delegation**

Honorable Dr. Swarnim Wagle, Member, National Planning Commission  
Honorable Prof. Dr. Geeta Bhakta Joshi, Member, National Planning Commission  
Honorable Prof. Hirendra Man Pradhan, Member, National Planning Commission  
Honorable Dr. Kripasindhu Prasad, Member, National Planning Commission  
Mr. Sanjaya Kumar Khanal, Joint Secretary, National Planning Commission Secretariat  
Mr. Sharad Bhandari, Senior Economist, Asian Development Bank, Country Office Nepal  
Ms. Sangeeta Gurung, Asian Development Bank, Country Office Nepal

## **4. Key Observations**

Thirty Years of economic renovation agenda (*Doi Moi*) has transformed Vietnam beyond recognition. *Doi Moi* began a process of macroeconomic stabilization, relaxed state controls over economy and gradually but steadily engaged with the global economy. More durable foundations for a market economy were built over time. The reform agenda had four facets:

- *Pragmatism and flexibility* both in the sequencing and the pacing of reforms. It relied on incremental reform based on consensus which was flexible enough for required course correction;
- It rightly identified and utilized its strengths i.e. *focus on labor-intensive production and agriculture* returning a hungry country into a major exporter of agricultural produce in 30 years.
- *It emphasised on building human capital.* Vietnam already had relatively high levels of literacy and life expectancy. This human-capital base was further expanded enhancing the returns on the market-oriented reforms.
- *It used external trade agreements and international commitments to forge national consensus and to usher in some of the more difficult and complex enterprise reforms.*

The Vietnamese officials feel these four aspects of the approach relevant and important for the next generation reforms— a major theme of this report.

**4.1 Never waste a “good” crisis:** After Soviet Union began the reform process in 1986 under Chairman Gorbachev, Vietnam, a dependent ally also embarked upon *DoiMoi* (economic renovation). This transformed the country through a process of macroeconomic stabilization, relaxed state controls and integration with the world economy. A combination of factors has contributed to this transformative process. A strong leadership, good governance, a sense of common purpose, a reliance on markets to allocate resources, thrifty, disciplined, and hard working people, respect for social norms and the rule of law, and the authority of elders and teachers among others have been instrumental in this success.

From a poor, closed, war- ravaged, centrally planned economy to a globally integrated, socialist-oriented market economy. It is now a transformed, dynamic, middle- income economy. Its economic growth has been not only rapid but also stable and inclusive, translating into strong welfare gains for the vast majority of the population. Its growth since the early 1990s has been among the fastest in the world and the pace of poverty reduction almost unprecedented. GDP growth per capita has averaged 5.5 percent over the last two decades. In 1990 GDP per capita was US\$ 100 whereas in 2015 it has reached to US\$ 2109. Growth also has benefited from the strong external orientation of the economy. External trade has been a major driver of growth combined with foreign investment portfolios currently standing at 292 billion US\$ which has brought in a diverse group of companies from over a hundred countries.

Growth has been inclusive, as seen in a fairly small increase in the Gini coefficient and the faster income growth of the bottom 40 percent. As a result, poverty has fallen rapidly. The \$1.25-a-day poverty rate fell from 50 percent in the early 1990s to 3 percent today. Social outcomes have improved significantly across the board. Not only are incomes higher, but

the Vietnamese population is better educated and has a higher life expectancy than most countries having similar per capita income. Education has improved both in terms of quantity and quality. The maternal mortality ratio has fallen below the upper-middle-income country average, while under-five mortality has fallen by half. Access to basic infrastructure has also improved substantially. Electricity is now available to almost all households, up from less than half in 1993. Access to clean water and modern sanitation has risen from less than 50 percent of all households to more than 75 percent.

**4.2 Long-term roadmap is necessary: Vietnam 2035.** This was led by the Ministry of Planning and Investment with the support of donors (“ideological confluence”). In July 2014, the Government of Vietnam and the World Bank Group jointly initiated the Vietnam 2035 exercise. The final report is credible and detailed. It paints 20-year development horizon along three pillars and 6 major transformations. It focus on vision and incentives rather than on concrete investment plan or estimates. It is not a legal document, only a “scientific” basis for future direction. (Major highlights of the vision are given in the next section).

**4.3 Large, modern infrastructure is transformative.** Vietnam’s longest (NoiBai-Lao Cai) expressway, built in 8 packages, 245km; features 120 bridges, including two large ones spanning the Hong and Lo Rivers. It also has a 530-meter long tunnel, 13 toll collection stations and five rest stations. Additional features:

- a. The new facility helped ease traffic density and reduce traffic accidents (by 80%).
- b. More than 2,000 hectares of land were cleared, and over 25,000 households were relocated to 99 resettlement areas.
- c. The expressway is part of the China’s Kunming–Vietnam’s HaiPhong Transport Corridor and belongs to the Greater Mekong Sub region (GMS) cooperative program linking Vietnam, Laos, Cambodia, Thailand, Myanmar, and China.
- d. ADB assistance of at least \$1.2bn.
- e. Cut travel distance from 9 hours to 3 hours, shifted traffic by 96% for lorries and 80% normal traffic; spurred regional growth by 20%.
- f. Toll is 7 cents per kilometer.
- g. Vietnam Expressway Company operates the expressway following international standards.

**4.4 Export orientation and fast growth need foreign direct investment.**

- \$292 billion capital is so far approved for 22,280 projects. Key strengths are business climate, infrastructure and human resources. Manufacturing is the major sector (54%) followed by real estate, construction, and ICT.
- FDI originates from 112 countries, but it is spatially concentrated in large cities, and is not evenly distributed across 63 provinces.
- Leading investors are from South Korea; Japan; Singapore; Taiwan, China; British Virgin Islands; Hong Kong; Malaysia; USA; Thailand (Mostly Asians).

- Almost all leading global companies (Fortune 500 members) have invested, from Samsung and Intel to Canon and LG, Toyota to Sumitomo.
- Why is VN attractive? The answer is rapidly growing domestic market; connectivity and strategic location in SE Asia; able human resources; politically stable; open economy and global economic integration; favorable taxes and incentives.

**4.5 Multilateral trade policy and industrial policy need to be coordinated, for which independent, scholarly inputs from an academic institution add credibility.**

- Nation conscious of regional balance through industrial policies (6 regions with distinct specialization).
- Graduation strategy in place from labor-intensive to innovation-intensive sectors by 2035.
- Clear alternatives and contingencies worked out; e.g., if TPP is not ratified by US, go with RCEP and China's leadership on regional trade.
- Vietnam Academy of Social Sciences (VASS), 60 years old, hosts 2000 staff across 34 research institutes.
- Party demands policy studies and advice; VASS feeds its work through different layers of government and parliament.

## II. Vietnam in 2035

### 1. Three Pillars and Six key Areas of Transformations

Vietnam is aspiring to be a modern and industrialized nation moving toward becoming a prosperous, creative, equitable, and democratic society by 2035. To realize this aspiration in July 2014, the Government of Vietnam and the World Bank Group jointly initiated the Vietnam 2035 report.

This report envisions *a reform agenda with three key pillars*:

- balancing economic prosperity with environmental sustainability;
- promoting equity and social inclusion; and
- enhancing the capacity and accountability of the state.

The report identifies six key areas for transformation:

- (1) economic modernization with a *competitive private sector* in the lead;
- (2) improved technological and *innovation capacity*;
- (3) urban policies and investments geared to *more dynamic cities*;
- (4) *environmentally sustainable development* with increasing adaptation and resilience;
- (5) *equality and inclusion* leading to a harmonious middle-class society; and
- (6) modern *rule-of-law* state and a democratic society.

**Pillar I: To unleash strong and sustainable economic growth, it has four essential elements in its toolkit:**

- *Create an enabling environment for domestic enterprises* to make them more competitive and productive. This calls for:
  - restructuring and equitizing state owned enterprises (SOEs);
  - fixing the weak domestic private sector;
  - strengthening the institutional foundations of the market economy, with emphasis on property rights and enforcement of competition policies;
  - stable, well- regulated, and inclusive financial sector;
  - transparent and functioning land markets;
  - transfer of technology and know-how;
  - more rewarding participation in global value chains;
  - more connectivity, a more market-driven and commercial approach to agriculture.
- *An aggressive agenda to enhance learning and innovation*
  - develop a national innovation system;
  - encourage firms to seek out the best available knowledge and strengthen the technical and financial support to facilitate their learning;
  - help build the skills of the workforce beyond its current proficiency levels;
  - raise the quality and relevance of research and advanced training in universities and institutes.
- *Reshape urban policies and investments.*
  - develop cities that nurture private enterprise and innovation;
  - support the growth of industrial clusters integrated with global value chains;
  - reshape policies and investments to amplify economic density in and around large metropolitan areas;
  - develop a network of dynamic secondary cities;
  - reduce the distance to markets to enable specialization;
  - equalize access to services between migrants and urban residents;
  - improve functioning of land markets; and
  - improve connective infrastructure.
- *Sustain the environment.*

For this purpose it underlines three core elements of the reform:

  - protect the quality of natural resources (air, land, and water);
  - build climate resilience in economic planning, sectoral policies, and infrastructure investments; and
  - find ways to tap more clean energy sources, including through regional power trade.

It also calls for strong policies and institutions to coordinate actions and investments, smart investments (with private participation) that internalize environmental and climate costs, and more accessible data and information for decision making.

**Pillar 2: Elements of the equality of opportunity and social inclusion agenda**

1. Reduce the barriers to opportunities for ethnic minorities through targeted initiatives in education, nutrition, and sanitation so as to close the large gaps in opportunities for ethnic

minority children. It will also be accomplished by developing effective interventions and giving greater voice for ethnic minorities.

2. *Make people with disabilities full participants in society.* There are strong commitments to the inclusion of people with disabilities but they lag severely in implementation. In future these promises will be realized by regularly monitoring commitments and by creating opportunities for people with disabilities and their families to be their own advocates through social organizations.
3. *Delink the household registration system from access to public services.* At least 5 million Vietnamese lack permanent registration in their place of residence and thus have limited access to public services, including schooling, health care, and such administrative services as registering a vehicle and applying for a birth certificate. It remains a source of inequality of opportunity and a potent barrier on the way of promoting universal health coverage, effective labor market institutions and strong social protection system.
4. *Reduce gender gaps.* More opportunities for women in public leadership roles will be created by eliminating gender discrimination in the retirement age and using affirmative action as a short-term measure. *Also critical is reducing the imbalance in the sex ratio at birth, now one of the world's highest, with 114 boys born for every 100 girls.* The preference for sons would be reduced through expanding the pension system, reforming the population policy, and campaigning to highlight the value of daughters.

Reform agenda in view of aging population:

1. *Expand the pension system to cover a majority of the population including the informal sector.* It will be possible only through a diversified system and a major reform to make it financially sustainable, including raising the retirement age.
2. *Ensure that nearly all children complete upper-secondary school with job-relevant skills.* to continuously improve the quality and relevance of what students learn, to help them develop the noncognitive and complex problem-solving skills they need for a competitive labor market.
3. *Establish effective representation of workers through independent unions.* It also needs to move toward an industrial relations system suited to a mature market economy, where the interests of workers, employers, and the state are more properly represented in a true bargaining process. It also calls for better balance between the protection of workers and labor flexibility.
4. *Achieve universal health coverage with a rebalanced delivery system.* *Reforming insurance regime* without imposing financial hardship and shifting health care from its current focus on hospitals toward high- quality primary care.

### **Pillar 3: Agenda of reform to improve state effectiveness and accountability**

Many early achievements were enabled by strong state capacity, which was unusually strong for its level of income. Vietnam's unique history produced state institutions that are commercialized and fragmented and are often free from the scrutiny by citizens. There is strong and direct engagement of the state in economic activity through SOEs and indirectly through very close links with an exclusive segment of the domestic private sector i.e. influential vested interests.

The vision puts forward three-point agenda for state effectiveness:

1. *Develop a more rationally organized government structure with a meritocratic bureaucracy.*
  - a. *Rationalize government organization* with greater coherence on roles and responsibilities among its institutions. It will involve decentralization embodying clearer functional assignments for the different levels of government; adjustments in the intergovernmental financial framework that clarify and improve accountability and overcome inefficiencies in resource use; strengthening central government for improved policy coordination and oversight of execution of policies; greater effectiveness and accountability; and meritocracy in public administration to bring in the best available workforce.
  - b. *Apply market rationality to economic policy making.* This is characterized by a clearer division of tasks between the public and private spheres. The government agencies involved in economic regulation should not engage in business of any kind, to avoid the appearance and reality of conflicts of interest. State's role in the economy will need to be transformed from a producer to an effective regulator and facilitator providing a level playing field for private sector; enforcement of free and fair competition and more secure and transparent property rights. The implication is that the state will not only significantly reduce its SOE portfolios and strengthen corporate governance of the remaining SOEs but also stop giving preferential treatment to SOEs. It will also require an independent and more capable, trained, and meritocratic judiciary to enforce rules and provide the level playing field along with reduced state control over business and professional organizations.
  - c. *Strengthen accountability systems* by enhancing checks and balances; promote people's social organizations; and ability of citizens to hold states accountable; improving the access of citizens to information, and enhancing the independence of media.

### Major Challenges facing Vietnam

- *Rapidly aging populations* to be countered by the hard work of the working age population;
- *Public investment insufficiently efficient* and perpetuate the weak productivity trends across the economy;
- Inefficient SOEs;
- *Steady erosion in the productivity growth of the domestic private sector* leaves it just as inefficient as the state sector—for two reasons.
  - First, the *institutional foundations for an advanced market economy are insufficiently developed*, undermining private property rights and competition in product markets.
  - Second, *factor markets are governed by an unclear mix of allocation by markets and by commercialized state institutions*. State is directly involved in economic activity through SOEs which often is influenced by vested interests, do ensure that land and capital allocations are guided as much by arbitrary administrative decisions as by efficient market signals.
- Growth in the past 25 years has imposed *significant environmental costs*. Rapid depletion of natural resources; environmental pollution from urban and industrial wastewater leaves waterways toxic, while urban water and air pollution are beginning to pose serious health

hazards. Vietnam is also one of the countries most vulnerable to climate change. The settlements and economic activity in the Mekong Delta are at especially heightened risk. Exacerbating the risks is rapidly growing energy consumption, increasingly reliant on coal-powered electricity generation. In recent years, Vietnam's increase in greenhouse gas emissions has been one of the world's fastest.

## **Lesson Learned**

Following elements from Vietnamese experience are very relevant in the Nepalese context as well:

- Pragmatism and flexibility are important. Ideology should be replaced by pragmatism.
- Incremental approach to mitigate or prevent unsettling impacts of economic modernization with a focus on political and social stability and avoidance of destabilizing shocks. Vietnam made deliberate efforts to avoid creating losers.
- Central level policymaking based on evidence and national consensus on fundamentals of reform agenda became instrumental in change management along with decentralized implementation giving provinces opportunity for experimentation.
- Reforms were mainly homegrown. External expertise and advice was accepted based on judgment and merit. This enhanced legitimacy of reform process. Vietnam learned from the mistakes of Soviet Union and internalized the success of China.
- Framed and sequenced reforms to build on national strengths. The country's main endowments were underused fertile land and a literate workforce, although skill levels were still low. Land reform and focus then shifted to household business and labor-intensive manufacturing (for example, garments, footwear, and electronics) where most new jobs were being created.
- Gender and rural–urban gaps were contained and further investments were made in human development combined with improved social services.
- Vietnam used international commitments to forge domestic consensus to enhance acceptance of reforms. Participation in the TPP, EU–Vietnam FTA, and other international agreements provided opportunities to implement reforms in sensitive areas such as the environment, labor relations, intellectual property rights, and government procurement.
- A vision document defining a longer term direction is useful.
- Strong state institutions and leadership can make a difference.
- Highly motivated, law abiding, hardworking and disciplined human resource is an asset for the nation.

## **Annex-1: List of Person Met**

### **Site Visit to Noi Bai – Lao Cai Project**

1. Mr. Mr. Le Quang Hao, Deputy General Director, Viet Nam Expressway Corporation (VEC)
2. Mr. Dao Quang Tuan, Director of Northern EPMU, VEC.

3. Mr. TranNgoc Hai, DeputyDirector of VECO&M.

**Meeting withDevelopmentStrategiesInstitute (DSI) and ForeignEconomic Relations Department (FERD), Ministry of Planning and Investment (MPI)**

4. Mr. Bui Quang Vinh, Former Minister, MPI
5. Mr. Cao Viet Sinh, Former Vice Minister, MPI
6. Mr. Nguyen Van Vinh, Vice President, DSI
7. Mr. Dao Xuan Nang, Expert, FERD

**Meeting with Department of National Economic Issues**

1. Ms. Cao Thi Minh Nghia, DDG
2. Mr. Ly Hoang Nhat Anh, Expert

**Meeting withForeignInvestment Agency**

1. Mr. Le Minh Hien, Director
2. Mr. Nguyen Van Dung, DeputyDirector

**Meeting with Institute for Industrial Policy and Strategy, Ministry of Industry and Trade (MOIT)**

1. Mr. Pham Ngoc Hai, DDG
2. Mr. Do Tuan Linh, Expert

**Meeting with Multilateral Trade Policy Department and Trade Promotion Agency**

1. Mr. Tran Ba Cuong, Head of Multilateral Trade Policy Department
2. Mr. Tong Ba Luan, Deputyhead of the Trade Promotion Agency
3. Ms. Dinh Thi Hoang Yen, Expert, Department of InternationCooperation, MOIT

**Meeting with Viet Nam Academy of Social Sciences (VASS)**

1. Mr. Dang Nguyen Anh, Vice President
2. Mr. Chu Duc Dung, Director, Institute of WorldEconomics andPolitics
3. Mr. Nguyen Xuan Trung, Director, Institute for Indiaand SouthwestAsiaStudies
4. Mr. Nguyen Thanh Ha, DG, International CooperationDept (ICD)
5. Mr. Nguyen Chien Thang, DeputyDirector, Institute of Vietnam Economics
6. Mr. Vu Tuan Hung, Deputy Head of Science Management Department
7. Mr. Hoang Xuan Sang, Expert, ICD
8. Ms. Doan Thu Huong, Expert, ICD