The 2010 Vietnam Competitiveness Report

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Harvard Business School

Vietnam Competitiveness Report Launch
Hanoi, Vietnam
November 30, 2010
The Vietnam Competitiveness Report

Objectives

• Provide policy makers and external observers with a **data-rich assessment** of Vietnam’s competitiveness, using a comprehensive internationally-accepted methodology

• Develop an integrated set of **policy recommendations**, supported by a transparent logic and data

• Engage decision makers from different constituencies in a **dialogue** on the future of Vietnam’s competitiveness

Partners
The 2010 Vietnam Competitiveness Report

• Vietnam’s Economic Position and Development Model

• Assessing Vietnam’s Competitiveness

• A Competitiveness Strategy for Vietnam
Vietnam’s Position in 2010

- Significant **growth** over the last two decades
- Widespread **reduction in poverty**
- **Resilience** in the face of the global economic crisis
Vietnam’s Long-Term Prosperity Growth
1975 - 2009

GDP per Capita, PPP adjusted in 1990 US$

<table>
<thead>
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<th>Year</th>
<th>GDP</th>
<th>CAGR</th>
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<td>2009</td>
<td>$500</td>
<td>+2.47%</td>
</tr>
</tbody>
</table>

Source: Groningen Growth and Development Centre and The Conference Board (2010)
Vietnam’s Position in 2010

• Significant growth over the last two decades
• Widespread reduction in poverty
• Resilience in the face of the global economic crisis

BUT

• Still low level of prosperity and productivity
• Growing concerns about the economic sustainability of Vietnam’s current development model
Prosperity Performance
Selected Countries, 1999 to 2009

PPP-adjusted GDP per Capita, 2009 ($USD)

United States
Hong Kong
Australia
Singapore
Taiwan
Japan
South Korea
New Zealand
Malaysia
Thailand
China
Indonesia
Philippines
India
Vietnam
Laos
Cambodia

Source: EIU (2010), authors calculations
Vietnam’s Labor Productivity

PPP-adjusted GDP per Employee, 1990-$USD

Source: Groningen Growth and Development Centre and The Conference Board (2010)
Vietnam’s Current Development Model

- **Structural change**, fuelled by Vietnam’s **integration into the global economy**, has been the key driver of Vietnam’s growth.

- **Foreign investors** have combined capital with Vietnamese labor and imported inputs to serve global markets, and increasingly also domestic demand.
Drivers of Structural Change: Economic Openness

### Openness to Trade

Change in Exports as % of GDP (1989-2009)

- Vietnam
- China
- India
- Indonesia
- Malaysia
- Thailand
- Myanmar

Total Exports as % of GDP, 2009

### Openness to Investment

Change in net flows of inward FDI as % of GDP (1989-2009)

- Vietnam
- India
- Indonesia
- China
- Thailand
- Philippines
- Malaysia
- Singapore

Net flows of inward FDI as % of GDP, 2009

Source: EIU (2010)
The Growth of the FDI Sector

Source: Data from General Statistics Office, Vietnam.
Structural Change and Vietnamese Growth
Decomposing Vietnamese Labor Productivity Growth, 2000 - 2008

Productivity growth within sectors, 32.8%

Shift towards higher-productivity sectors, 67.2%

Source: General Statistics Office, Vietnam; ACI calculations
Vietnam’s Current Development Model

- **Structural change**, fuelled by Vietnam’s integration into the global economy, has been the key driver of Vietnam’s growth.

- **Foreign investors** have combined capital with Vietnamese labor and imported inputs to serve global markets, increasingly also domestic demand.

- Despite increasing exports of processed goods, value added and productivity in Vietnam’s export sector remains low.

- Vietnam’s strongest export market position is in labor- and natural endowment-driven clusters with little direct linkages between them.

- Vietnam’s attractiveness to investors is almost solely the result of the low prevailing wages.

- In a changing global market environment, this is unlikely to be sufficient for sustained growth.
Relative Wages: Selected Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Avg. monthly wage (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>$1,809.91</td>
</tr>
<tr>
<td>Singapore</td>
<td>$1,146.47</td>
</tr>
<tr>
<td>South Korea</td>
<td>$829.71</td>
</tr>
<tr>
<td>Taiwan</td>
<td>$540.45</td>
</tr>
<tr>
<td>Malaysia</td>
<td>$336.04</td>
</tr>
<tr>
<td>Philippines/Metro Manila</td>
<td>$166.95</td>
</tr>
<tr>
<td>Thailand/Bangkok</td>
<td>$156.19</td>
</tr>
<tr>
<td>China/Shenzhen</td>
<td>$117.15</td>
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<tr>
<td>Indonesia/Jakarta</td>
<td>$82.29</td>
</tr>
<tr>
<td>Vietnam</td>
<td>$48.72</td>
</tr>
<tr>
<td>Cambodia</td>
<td>$47.36</td>
</tr>
</tbody>
</table>

Source: Philippines Department of Labor and Employment (2010)
Vietnam’s Cluster Export Portfolio
1997 - 2009

Exports of US $2 Billion =

Share of World Exports by Cluster
Vietnam, 2008

Note: Clusters with overlapping borders have at least 20% overlap (by number of industries) in both directions.
The External Environment in 2010

Opportunities

• Opportunities to **serve new demand**
  – Emergence of Asia
  – Increasing market of consumers with similar needs as in Vietnam

• New opportunities as a **supply base**
  – Cost pressure on global companies
  – China + 1 strategy of MNCs

Threats

• Disruptions that could **limit demand**
  – Rising protectionism
  – Overheating in China; sluggish growth elsewhere
  – Climate change

• Competition that could **reduce Vietnam's attractiveness**
  – From other low-wage locations
  – From within the increasingly open ASEAN region
Vietnam’s Current Development Model

Emerging Weaknesses

• Low sophistication in the export sector coupled with strong domestic demand drive growing trade deficit
Vietnam’s Balance of Trade
1995 – 2008

Source: Data from General Statistics Office, Vietnam.
Vietnam’s Current Development Model
Emerging Weaknesses

• Low sophistication in the export sector coupled with strong domestic demand drive growing **trade deficit**

• **Real appreciation of the Dong** further contributes to the deficit
Vietnam’s Currency Valuation

Index (2000 = 100)

CPI VN/CPI USA

Exchange Rate Index VN

Source: 2000-2008 data – WDI; 2009 data – EIU
Vietnam’s Current Development Model
Emerging Weaknesses

• Low sophistication in the export sector coupled with strong domestic demand drive growing trade deficit

• Real appreciation of the Dong further contributes to the deficit

• Significant capital inflows fuel domestic demand growth and inflation

• Expansionary fiscal and monetary policies worsen inflation, rather than control it
Rate of Inflation
Selected Countries, 2000 - 2009

% change in CPI

Source: EIU 2010
Vietnam’s Current Development Model
Emerging Weaknesses

- Low sophistication in the export sector coupled with strong domestic demand drive growing **trade deficit**
- **Real appreciation of the Dong** further contributes to the deficit
- Significant **capital inflows** fuel domestic demand growth and inflation
- **Expansionary fiscal and monetary policies** worsen inflation, rather than control it
- **Falling ratio of GDP growth to investment** increases the need for **capital inflows** to maintain the growth rate
- Demand growth is outstripping the existing **microeconomic capacity** in terms of skills and infrastructure
Ease of Worker Recruitment

Percentage of Firms that report Difficulty in Recruiting

<table>
<thead>
<tr>
<th>Year</th>
<th>Engineers or Technicians</th>
<th>Middle managers</th>
<th>General workers</th>
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<tr>
<td>2003</td>
<td>40%</td>
<td>55%</td>
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<td>2004</td>
<td>42%</td>
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<td>2005</td>
<td>45%</td>
<td>60%</td>
<td>15%</td>
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<tr>
<td>2006</td>
<td>47%</td>
<td>62%</td>
<td>10%</td>
</tr>
<tr>
<td>2007</td>
<td>49%</td>
<td>64%</td>
<td>7%</td>
</tr>
</tbody>
</table>

Source: Junichi Mori, Nguyen Thi Xuan Thuy, and Pham Truong Hoang (2009) – data drawn from Japanese-Affiliated Manufacturers in Asia, JETRO. Note: Surveys in 2003-2004 did not include questions about recruitment of general workers.
Vietnam’s Current Development Model

Emerging Weaknesses

• Low sophistication in the export sector coupled with strong domestic demand drive growing trade deficit

• **Real appreciation of the Dong** further contributes to the deficit

• Significant capital inflows fuel domestic demand growth and inflation

• Expansionary fiscal and monetary policies worsen inflation, rather than control it

• **Falling ratio of GDP growth to investment** increases the need for capital inflows to maintain the growth rate

• Demand growth is outstripping the existing microeconomic capacity in terms of skills and infrastructure

• The gap between announced and implemented FDI is rising
Foreign Direct Investment in Vietnam
1988 - 2008

Source: General Statistics Office, Vietnam
The 2010 Vietnam Competitiveness Report

- Vietnam’s Economic Position and Development Model
- Assessing Vietnam’s Competitiveness
- A Competitiveness Strategy for Vietnam
Determinants of Competitiveness

Macroeconomic Competitiveness

- Quality of the National Business Environment
- State of Cluster Development
- Sophistication of Company Operations and Strategy

Microeconomic Competitiveness

- Social Infrastructure and Political Institutions
- Macroeconomic Policies

Endowments

- Macroeconomic competitiveness creates the potential for high productivity, but is **not sufficient**
- Productivity ultimately depends on improving the **microeconomic capability** of the economy and the **sophistication of local competition**
Macroeconomic Competitiveness

Social Infrastructure and Political Institutions

- **Human development**
  - Basic education
  - Health system

- **Political institutions**
  - Political freedom
  - Voice and accountability
  - Political stability
  - Government effectiveness
  - Centralization of economic policymaking

- **Rule of law**
  - Security
  - Judicial independence
  - Efficiency of legal framework
  - Business costs of corruption
  - Civil rights

Macroeconomic Policies

- **Fiscal policy**
  - Government surplus/deficit
  - Government debt

- **Monetary policy**
  - Inflation
Determinants of Competitiveness

Microeconomic Competitiveness
- Quality of the National Business Environment
- State of Cluster Development
- Sophistication of Company Operations and Strategy

Macroeconomic Competitiveness
- Social Infrastructure and Political Institutions
- Macroeconomic Policies

Endowments

Sophistication of Company Operations and Strategy

- The internal skills, capabilities, and management practices needed for companies to attain the highest level of productivity and innovation possible
Determinants of Competitiveness

- The external business environment conditions that allow companies to reach high levels of productivity and innovation
Quality of the National Business Environment

Context for Firm Strategy and Rivalry

- Local rules and incentives that encourage investment and productivity
- Open and vigorous local competition

Factor (Input) Conditions

- Access to high quality business inputs

Demand Conditions

- Sophisticated and demanding local customers and needs

Related and Supporting Industries

- Availability of suppliers and supporting industries

Many things matter for competitiveness

Successful economic development is a process of successive upgrading, in which the business environment improves to enable increasingly sophisticated ways of competing.
Determinants of Competitiveness

- A geographic concentration of firms, specialized assets, and institutions in particular fields.

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<table>
<thead>
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<th>Macroeconomic Competitiveness</th>
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<tbody>
<tr>
<td>Social Infrastructure and Political Institutions</td>
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<td>Macroeconomic Policies</td>
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<th>Microeconomic Competitiveness</th>
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<tr>
<td>Quality of the National Business Environment</td>
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<tr>
<td>State of Cluster Development</td>
</tr>
<tr>
<td>Sophistication of Company Operations and Strategy</td>
</tr>
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</table>

State of Cluster Development

Endowments
```
The Thai Automotive Cluster

Assemblers

Motorcycles
Passenger Cars
Pickup Trucks

Components and Module Makers (1st tier)
Engines, Drivetrains, Steering, Suspension, Brake, Wheel, Tire, Bodyworks, Interiors, Electronics and Electrical Systems

Parts (2nd & 3rd tiers)
Stamping, Plastics, Rubber, Machining, Casting, Forging, Function, Electrical, Trimming

Government
Education and Technical Institutions
Associations

Source: Sasin-team analysis, 2003 study
• Clusters increase productivity and operational efficiency

• Clusters stimulate and enable innovations

• Clusters facilitate commercialization and new business formation

• Clusters reflect the fundamental influence of linkages and spill-overs across firms and associated institutions in competition
Stages of National Competitive Development
Shifting Policy Imperatives

- **Factor-Driven Economy**
  - Low Cost Inputs
    - Macro, political, and legal stability
    - Improving human capital
    - Efficient basic infrastructure
    - Lowering regulatory costs of doing business
  - Productivity
    - Increasing local rivalry
    - Market opening
    - Advanced infrastructure
    - Incentives and rules encouraging productivity
    - Cluster formation and activation
  - Unique Value
    - Advanced skills
    - Scientific and technological institutions
    - Incentives and rules encouraging innovation
    - Cluster upgrading

Vietnam’s Competitiveness Profile

Position Relative to Current Prosperity

Overall Competitiveness

Macroeconomic Competitiveness
- Political Institutions
- Rule of Law
- Human Development

Microeconomic Competitiveness
- Macroeconomic Policy
- National Business Environment
- Company Operations and Strategy

Significant advantage
Moderate advantage
Neutral
Moderate disadvantage
Significant disadvantage
Corruption Perception Index, 2009

Note: Ranks only countries available in both years (91 countries total)
Source: Global Corruption Report, 2009

Change in Rank, Global Corruption Report, 2009 versus 2001

Note: Ranks only countries available in both years (91 countries total)
Source: Global Corruption Report, 2009
Vietnam’s National Business Environment

Context for Firm Strategy and Rivalry

High level of openness to foreign investors
- WTO/ASEAN liberalization commitments but remaining important barriers
- Weak competition policy and enforcement
- Unequal competition among companies, with SOEs receiving special treatment
- Competition focused on price, not quality
- Unclear separation of government role as a regulator from that as an owner
- Equitization of SOEs not oriented towards improving performance

Factor (Input) Conditions

- Basic physical infrastructure in place; low effectiveness of the significant ongoing further investments
- Solid communication infrastructure as a result of liberalization and competition
- Growing but still shallow financial system; highly volatile and speculative, with limited access to credit for new private companies
- Education system is expanding but provides largely insufficient quality; serious shortage of skilled labor
- Modest performance on administrative infrastructure, but major reforms (e.g. Project 30) under way
- Poor innovation infrastructure

Demand Conditions

- Sizeable and growing market
- Low, yet improving, sophistication of local customers
- Weak regulatory quality standards and enforcement

Related and Supporting Industries

- Natural emergence of clusters, but focus on narrow activities with weak presence of local suppliers and service providers
- Shallow roots of FDI in the local economy
- Sector-oriented policies ineffective and not systematically focused on clusters
Regulatory Quality: Selected Countries

Composite Measure of Regulatory Quality

Sophistication of Vietnamese Companies

- High levels of **flexibility** and **responsiveness** to market opportunities
- **Short-term, opportunistic** company strategies
- Compete primarily on **cost**, not quality
- Low level of **operational sophistication**
- Large SOEs operating as corporate groups with little **synergy**
- Huge **gap in operational effectiveness and productivity** between Vietnamese SOEs, Vietnamese private companies, and foreign MNCs
Vietnam’s Competitiveness in 2010: Summary

• Vietnam’s key current competitive advantages are based on inherited endowments, especially its geographic location and demographic profile

• Government has realized these advantages through market opening and investments in basic infrastructure

• Vietnam has not created new, distinctive competitive advantages

• Government efforts to meet the infrastructure and regulatory needs of a growing economy are hampered by a regulatory approach focused on control

• While the development model has been successful, signs of its fragility are increasing

• Vietnam needs an economic strategy based on a new development model
The 2010 Vietnam Competitiveness Report

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Towards a New Strategy: Three Guiding Principles

A new orientation towards competitiveness

• From a focus on macroeconomic drivers of structural change to upgrading macro- and microeconomic foundations of productivity

Structural transformation in the role of the private sector

• From a focus on SOEs and foreign MNCs to a market-driven combination of private firms, MNCs, and transformed SOE’s

A new role for government

• From a government controlling a transition economy to a government creating competitive advantages in a market economy
Vietnam’s Competitiveness Agenda
Strategic Action Priorities

Address emerging challenges

Manage the growing macroeconomic imbalances

Address emerging bottlenecks in key input factors

Create the foundations for higher productivity

Secure current growth

Enable future growth

Prepare for the next stage of development
Manage Macroeconomic Imbalances

Key Action Proposals

• Increase transparency of fiscal position of the government and SOEs
  – Create central entity with mandate to report on fiscal position of all
government entities and of SOEs and on the current state of the economy

• Enhance budget discipline
  – Establish regular monitoring/auditing of public spending
  – Strengthen quality and effectiveness of public debt management

• Pursue a consistent and predictable monetary policy
  – Clarify roles of the National Assembly, the government, and the Central
  Bank
  – Set clear monetary policy goals

• Improve financial market regulation
  – Enhance regulatory oversight of the financial system through the Central
  Bank

• Coordinate overall macroeconomic policy over time
  – Strengthen mandate and operations of the Central Committee for
  Financial and Monetary Policies
Address Microeconomic Bottlenecks

Key Action Proposals

- Microeconomic bottlenecks are emerging in **physical infrastructure** (transport, energy), **workforce skills**, and **administrative capacity**
- The government has identified all of these areas as **action priorities**
- However, current policies **lack effectiveness**, despite sometimes significant financial commitments

Outlines of a new approach

- Identify and alleviate problems in established regional **clusters**
- Focus individual cluster efforts on the **most pressing bottlenecks**
- Create **cluster-based task-forces** with the mandate and power to take action
- Learn from cluster problems about general issues and **possible nation-wide solutions**
Possible Cluster Initiatives

Electronics & engineering cluster in Hanoi and neighboring regions: *Local supplier capacity*

Tourism cluster in the Central Region: *Concept and related services*

Garment cluster in Ho Chi Minh Region: *Workforce skills*

Logistics cluster in Ho Chi Minh City region: *Infrastructure*

Agro-processing cluster in the Mekong Delta region: *Value-added Activities*
Create the Foundations for Higher Productivity

Key Action Proposals: Policies

• Enhance education and workforce skills
  – Develop a national workforce strategy with rigorous studies on the type of skills and competencies required for future growth
  – Reform the regulatory framework for the education sector
  – Promote vocational training
  – Set up a National Productivity Fund to support cluster-based initiatives in skill upgrading efforts

• Improve physical infrastructure
  – Create a centralized planning mechanism to coordinate, oversee and evaluate infrastructure development
  – Strengthen the system for managing public procurement
  – Provide viable market-based financing options for infrastructure investment
  – Address electricity shortages through a utility action package of investment, market regulation and technological measures
Create the Foundations for Higher Productivity

Key Action Proposals: Policies (continued)

• Improve governance of State-Owned Enterprises (SOEs)
  – Separate the role of the government as an owner from that as a regulator
  – Define and enforce modern governance standards for SOEs
  – Ensure competition and market discipline in the markets in which SOEs operate
  – Improve the equitization process and define policy for effective management of divestment proceedings

• Enhance the approach to Foreign Direct Investment (FDI) Attraction
  – Develop a new FDI attraction strategy for Vietnam
  – Strengthen the capacity of the Foreign Investment Agency (FIA)
  – Set up outreach initiatives with foreign MNCs to build the local supplier base and clusters around foreign investments
Create the Foundations for Higher Productivity

Key Action Proposals: Policies (continued)

• Pursue a Cluster-Based Development Model
  – **Re-organize existing policies around clusters**, especially in areas linked to investment attraction, workforce skill development, industrial parks, and SME/private sector-development.
  – Conduct a **national cluster mapping project** to identify and assess clusters across the country
  – Encourage the launch of pilot cluster initiatives through the creation of a **Vietnamese Cluster Initiative Fund**
The Role of Government in Cluster Initiatives

<table>
<thead>
<tr>
<th>Government should</th>
<th>Government may</th>
<th>Government should not</th>
</tr>
</thead>
</table>
| • Support *all* existing and emerging clusters  
• Participate  
• Enable data collection and dissemination at the cluster level  
• Be ready to implement recommendations | • Initiate/Convene  
• Co-Finance | • Pick favored clusters  
• Pick favored companies  
• Subsidize or distort competition  
• Define cluster action priorities |
## Industrial Policy versus Cluster-Based Policy

<table>
<thead>
<tr>
<th>Industrial Policy</th>
<th>Cluster-Based Policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Target areas of perceived <em>market demand</em> or <em>attractive technology</em></td>
<td>• Leverage <em>existing assets, history, and geographic location</em></td>
</tr>
<tr>
<td>• <strong>Intervene</strong> in competition (subsidies, protection, etc.)</td>
<td>• <strong>All</strong> clusters are good</td>
</tr>
<tr>
<td>• Favor <em>domestic</em> companies</td>
<td>• Enable competition to be more <em>productive and sophisticated</em></td>
</tr>
<tr>
<td>• Require sustained <em>financial commitment</em> by the public sector</td>
<td>• Neutral on ownership</td>
</tr>
<tr>
<td>• Centralize decisions at the <em>national level</em></td>
<td>• Require sustained <em>participation</em> by all actors</td>
</tr>
<tr>
<td>• Has a high <em>failure rate</em>; short term impact but low sustainability</td>
<td>• Encourage initiative at <em>all</em> geographic levels</td>
</tr>
<tr>
<td></td>
<td>• Has rising impact over <em>time</em>; some quick successes are possible</td>
</tr>
</tbody>
</table>

### Distort and impede competition

### Enhance and upgrade competition
Organize Public Policy around Clusters

- Clusters provide a framework for **organizing the implementation** of many public policies and public investments directed at economic development.
Clusters, Growth, and Diversification

- Grow activities in related clusters
- Grow activities in new industries within existing clusters
- Upgrade the quality of activities in existing clusters
Create the Foundations for Higher Productivity

Key Action Proposals: Architecture

• Professionalize the Policy Process
  – Creation of a central **Regulatory Impact Assessment (RIA) unit** to review existing and a new laws and regulations
  – Establishment of an **institutionalized review process** for draft laws and regulations that invites stakeholders to comment
  – Development of a **medium-term budget planning process** with rolling updates

• Enhance Public Sector Capacity
  – Establishment a **Prime Minister’s Policy Unit**
  – Launch an **anti-corruption campaign**
  – Review of the current **training system for public officials**, starting with pilot agencies
  – Develop comprehensive **civil service reform program** with modernization of organizational structures and HR practices, including hiring, pay, promotion, etc.
The Process of Economic Development
Shifting Roles and Responsibilities

Old Model
- **Government** drives economic development through policy decisions and incentives

New Model
- Economic development is a **collaborative process** involving government at multiple levels, companies, teaching and research institutions, and private sector organizations

• Competitiveness is the result of both **top-down** and **bottom-up processes** in which many individuals, companies, and institutions take relevant decisions
Create the Foundations for Higher Productivity

Key Action Proposals: Architecture (continued)

• Strengthen Regional government
  – Launch funding competition for development of regional economic development strategies
  – Develop a knowledge and skill infrastructure for regional development
  – Review the current structure of authority delegation between the central and regional governments
Geographic Levels Influencing Competitiveness

- **World Economy**
- **Broad Economic Areas**
- **Groups of Neighboring Nations**
- **Nations**
- **States, Provinces**
- **Metropolitan and Rural Areas**

**WTO**

**South-East Asia**

**Greater Mekong Region**

**Vietnam**

**Vietnamese provinces**

**Hanoi region**

- The business environment at a given location is the cumulative outcome of policy at all levels of geography.
- Microeconomic competitiveness raises the importance of lower levels of geography.
- The allocation of responsibilities across levels of geography is a crucial policy challenge.
Regions and Competitiveness

- Economic performance **varies significantly** across sub-national regions (e.g., provinces, states, metropolitan areas)
- Many essential levers of competitiveness reside at the **regional level**
- Region’s **specialize** in different sets of clusters
- **Cluster strength** directly impacts regional performance
- Each region requires its own distinctive **competitiveness agenda**
- Improving competitiveness requires **effective policy collaboration** between regions and the national government

- **Decentralization** is important to foster regional specialization, internal competition, and greater government accountability
- Effective decentralization requires clarity on roles and responsibilities, and sufficient administrative **capacity at local and regional level**
Implementation Model
Creating a National Competitiveness Council

National Competitiveness Council

- Coordinate
- Monitor
- Report

Task Forces

Agencies

Public

Government
Sequencing Microeconomic Reforms

- National Institutional Reforms
  - Upgrade quality of policy design through institutional reforms

- National Policy Reforms
  - Translate cluster experience into better national policies

- Regional Cluster Efforts
  - Develop local solutions in regional clusters

A bottom-up approach with gradually increasing scope is more likely to engage all relevant constituencies than traditional top-down efforts.
Creating a National Economic Strategy for Vietnam

National Value Proposition

- What is the **distinctive competitive position** of Vietnam given its location, legacy, existing strengths, and potential strengths?
  - What unique value as a business location?
  - For what types of activities and clusters?
  - And what roles with neighbors, the region, and the broader world?

Developing Unique Strengths

- What **elements of the business environment** can be unique strengths relative to peers/neighbors?
- What **existing and emerging clusters** represent local strengths?

Achieving and Maintaining Parity with Peers

- What **weaknesses** must be addressed to remove key constraints and achieve parity with peer countries?

- **Priorities** and **sequencing** are necessity in economic development
Role of a National Value Proposition

• The value proposition should be an inspiration to the Vietnamese population

• The value proposition is a signal to companies from abroad and at home about what assets and conditions can expect to find in Vietnam

• The value proposition is a signal to policy makers in Vietnam of what type of improvements are most critical in order to make the value proposition a reality
Towards A Value Proposition for Vietnam

<table>
<thead>
<tr>
<th>What is <strong>Unique</strong> about Vietnam?</th>
<th>What is Vietnam’s <strong>Value Proposition</strong>?</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Location</td>
<td>• Access to a growing market and region</td>
</tr>
<tr>
<td>• Demographics</td>
<td>• Second manufacturing location</td>
</tr>
<tr>
<td>• Legacy of influence from China, Europe, US</td>
<td>• Integration/access to ASEAN</td>
</tr>
<tr>
<td>• Natural resources</td>
<td>• Strong clusters in areas like footwear, apparel, coffee, and seafood products with potential to upgrade sophistication</td>
</tr>
<tr>
<td>• Established positions in selected global markets (footwear, apparel, coffee, and seafood products)</td>
<td>• Others</td>
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<tr>
<td>• Others</td>
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</tbody>
</table>
Vietnam’s Competitiveness Challenge: From Ambition to Action

Provide access to existing comparative advantages

Enable emergence of new competitive advantages

*Low labor costs*
*Natural endowments*

*Productivity*